

IfM-Podcasts

Transkript der Audiodatei “Covid 19: What can we learn from SME policy in other European countries”

Introduction:

What can we learn from the COVID crisis for the future? Susanne Schlepphorst IfM Bonn asked five entrepreneurship researchers.

Moderator:

What can we learn from the COVID crisis for the future? For this podcast, we ask the internationally renowned academics for their views.

Let now me introduce the experts to you. We talked to David Audretsch, professor from Indiana University in the USA, and to Alfredo De Massis, professor at Freie Universität in Bozen in Italy. We also interviewed Professor Arnis Sauka from Stockholm School of Economics that is located in Latvia, Ute Stephan, who is professor at King's College in the United Kingdom. And Professor Friederike Welter, head of the Institut für Mittelstandsforschung Bonn in Germany, she is also holding a chair at the University of Siegen in Germany.

The copyright for the sound recordings is held by the European Commission. Before we delve into the COVID crisis and its economic impact on SMEs, Professor Welter, could you please explain why do we need SME diversity?

Prof. Dr. Friederike Welter:

We know from research we've done, and we've said that again and again, diversity of SME matters. We have a tendency, and I do think that we academics are part of that conversation, to focus on what we call the one percenter. The gazelles, the high growth, the Silicon Valley models of entrepreneurship, et cetera, et cetera.

While our reality out there consists of the 99%, the micro-ones, the solo entrepreneurs, the medium-sized family businesses existing for 500 years and so and so on. This diversity is very much important, and it actually has gained importance throughout the COVID crisis. The others, these 99% matters. Let me just illustrate that with one quick example. Solo entrepreneurs are very often are seen as precariat. No. They are the new reality of what constitutes entrepreneurship. Because in my own country, in Germany,

roughly 60 % are solo entrepreneurs. They may not create many jobs, but what they do is that they add value to what constitutes entrepreneurship because they make it more commonly, they make it more every day, they make it more common to our lives.

SMEs are highly impacted by the crisis, but they do contribute to us overcoming this crisis as well. They contribute to economic stabilisation because they hold on to their employees as long as possible. They contribute to societal cohesion because they actually pronounce commitment, reliability by holding on to employees. And every entrepreneurial activity has a societal component directly that may be social entrepreneurship, but also indirectly, because by producing apprentices, by actually offering jobs, by actually offering goods and services, they do contribute to our society. The question I do have here, the crisis impact on SMEs goes far beyond economic figures, job loss, loss of SMEs. So, what do we actually lose in our society is when we lose the SME diversity, that will have a negative impact on how our societies develop and how we can actually take them towards sustainable and resilient societies and economies.

Moderator:

Professor Arnis Sauka, what effect of COVID-19 on SMEs have you observed in Latvia, it?

Prof. Dr. Arnis Sauka:

Looks like business has become more local. So especially during the COVID-19 crisis, perhaps there is a potential for the polymers to support local SMEs by creating platforms to deliver locally made goods to their local customers.

On the other hand, for sure, exporting still matters. So, supporting export growth for SMEs, all SMEs by the way, all those that are building or interested in or has potential to do exporting seem to remain amongst the top, especially in smaller countries where basically the growth way exporting is more or less the only way to grow. There also seems to be a potential to develop a circular economy that is via community-based giving and taking. Many goods can find second time users, which is important in the current context when it is not always easier and cheaper to produce new goods as compared to repairing and putting existing goods. So, more involvement of SMEs in circuit economy will most probably also lead to more of a green economy.

Further, with economic downturn that comes with COVID-19, we can expect increase of the sharp economy, especially in industries such as construction of aneurysm that are major contributors to many EU country GDPs and are also dependent on economic cycles. Many SMEs are directly or indirectly dependent on these industries as supportive

of products or services which are not the reason to support these industries. Then we also see that in some cases when support mechanisms are provided to SMEs, problems are in fact postponed, not solved. So, for instance, SMEs might be offered to take tax holiday for six to twelve months, but then should continue paying taxes as usual after this period, in addition also to pay these postpone payments. And we sort of probably predict assume that COVID-19 might not be over in twelve months, so we can expect problems with such approach.

Moderator:

What do crisis mean to SMEs? Do they render SMEs to become change makers, Professor Audretsch?

Prof. Dr. David B. Audretsch:

The crisis poses not just a threat, but also an opportunity. An opportunity to move into a future in a new way, a different way to meet the future. What research has found that I've been part of is that the response to the crisis there's really been three types of responses by SMEs. Some SMEs are drivers, they're kind of leading the way of change, some are maintainers, they don't do a lot different, and some are resisters. Well, you can guess which ones do better. It's better to be a driver than a maintainer and the worst is to be a resistor of change.

Moderator:

Drivers, maintainers, resisters. What did you find in your analysis, Professor Stephan?

Prof. Dr. Ute Stephan:

We found in all our various analysis was that one aspect was really important for predicting all sorts of positive outcomes, including longer expected survival of the SMEs, higher entrepreneurs' wellbeing and also higher job growth expectations. And that was when the SME actually started out in the crisis to look out for new opportunities. So, we already heard about the importance of opportunities, and here we see really robust evidence that that really matters. It's a coping mechanism, and it kind of seems maybe contrary to. We know that in a crisis, people try and focus on the here and now and on the survival. So, it's really good news that we saw quite a lot of entrepreneurs trying to engage with changing their business and seeing new opportunities.

Moderator:

Professor Welter, what is your impression? Have German SME's found their opportunities?

Prof. Dr. Friederike Welter:

We also have seen that the crisis pushes very many entrepreneurs out of their comfort zone. They proactively and creatively search for solutions, change business models, create new communities where they help each other, the kind of offer solidarity, and they get solidarity from the society. SMEs with unique products. For example, we've seen here Mittelstand businesses offering worldwide products. They kind of remodelled their business and kind of looked for where is the opportunity within that? So what we see is Schumpeterian entrepreneurship as its best.

Moderator:

What can we and what can SME policy learn from crisis like the COVID-19 crisis, professor Audretsch?

Prof. Dr. David B. Audretsch:

If you go back to the previous crisis, the financial crisis of 2007, 2008, it hit all countries in the west, in Europe, really hard. But one country did a little bit better than quite a bit better, really, than some of the others, and that was Germany. And we've done research on this and found that it was partly reflected the policies of helping the SMEs in particularly the coveted Mittelstand that we do referred to. And helping them to get through the crisis. And this was through a series of specific instruments to enable them to be more flexible in terms of workforce, in terms of wages, in terms of technology adoption. And this flexibility enabled the SMEs, the Mittelstand, to weather the storm of that crisis. And therefore, the country to really come out of the crisis stronger than it had gone into the crisis.

Well, this storm, this crisis is a different crisis, but it's still a storm. There's a lot that policy can do. And one is to enable and facilitate digitalisation, and the other is to facilitate resilience in the SMEs. So let me conclude by echoing what we've heard, which is SMEs are the backbone of every European country. They're the backbone of every European society, therefore they're the backbone of Europe.

Moderator:

Professor Audretsch referred to SMEs as the backbone of Europe. Would you agree, Professor De Massis? What does this mean for SME policy?

Prof. Dr. Alfredo De Massis:

We know in Europe that SMEs, as David Audretsch has just reported, harder than the backbone of the economy. We know that in Europe, more than 60% of the of the companies of the workforce is employed by SMEs.

We know at the same time that business leaders, SMEs leaders are pretty old, actually, almost half of them are over 60. And we know that generational transitions are becoming an issue due to a number of the aging crisis and a number of factors.

Now what happens is that, so far, we have been used to think about succession as a long process that requires time and needs to be methodically planned and executed. This pandemic, unfortunately due to demographic challenge, due to the heightened awareness of mortality experienced by business leaders, has somehow accelerated succession. So, we will be facing a massive wave of generational transitions, and this transition will be rapid and, in many cases, will be unexpected. So, I think it will be important for policymakers to focus their attention on how to best support such generational transition.

Another important aspect refers to internal and external relationships so within and among SMEs. Now here, as has already been anticipated by my distinguished colleagues, we know that typically SMEs have a local business model. We know that the competitive advantage of an SMEs is very often lies in their superior capacity of building up long lasting personal relationships with external and internal actors. Now again, this pandemic has brought some challenge because we know that we have been experiencing social distancing. We know that we have been exposed to working from home. Smart working. And all these smart working routines lead to a potential risk of demonising such relationships. And demonising these unique relationships that are at the herd of the competitive advantage of the mesne risks to jeopardise their distinctive social capital and also to destroy somehow a potential source of competitive advantage.

So again, I think that policy making attention is needed in order to understand how in the new normality we can redesign the working activities of SMEs so as to ensure that on the one hand we can leverage on digitalisation and on smart working practices while at the same time preserving this unique personal capacity of building social relationship of SMEs.

Moderator:

So, what kind of SME policy do we need, Professor Welter?

Prof. Dr. Friederike Welter

I can see different stages of policy making we need to help SMEs achieve their future building. First, phase one business relief measures. Second, economic recovery policies

very often demand oriented. Third phase and that's the most important phase, structural change policies and accompanying that are regulatory policies because there is so much which can be done by regulatory adjustments.

What we see in this crisis is that this is not a policy cycle where one stage builds on the other, but actually there is a cycle of going back between the different phases. But what we also see is that policymakers very often get stuck in phase one policies like the immediate business relief measures. Why? Because we also come to recognise that there is a staggered crisis impact. So initially healthy businesses and initially healthy sectors are all of a sudden now impacted by the COVID crisis. Which means that policies all of a sudden has to go back and actually think up new business relief measures. While their task also should be like offering a longer-term blueprint.

We also see that the crisis is a catalyst for structural change. And the crisis is speeding up structural change. And I think here is a task both for academics, because we need to know much more about what's happening here with the speeding up structural change. We have discussions around globalisation versus renationalisation SME value change. Do we really want that? I don't think we can draw back, actually put back the clock, but we need to acknowledge what will happen if we do this, because it will impact SMEs in another region of the world, and it might actually also impact local suppliers in our own countries. The solo-entrepreneurship I touched upon at the beginning versus bigger small businesses, kind of, we need to tailor, maybe support more to Solo entrepreneurship. But we need to acknowledge that solo-entrepreneurship is not, as I said, upfront precarious entrepreneurship, but it's more modern face of entrepreneurship. But the COVID crisis as catalyst for structural change, I think is way more important if we want to achieve a blueprint for a new society and new economy where we can basically realise the full potential of what SMEs can contribute, not only today, but after the COVID crisis. So, what we need to make sure is that we can actually capitalise on the Schumpeterian entrepreneurship, but that we don't introduce a pickle winner strategy. Because I'm coming back to my first point. All SME's measures and SME diversity matters a lot.

Moderator:

Thank you very much to all of you for your interesting contributions. We do look forward to your future research findings on SMEs and entrepreneurship.