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**Impact of COVID-19 pandemic on enterprises in Italy**

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Elisabetta Pontello<sup>1</sup>

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1- Founder and CEO of YUMI, incubation and support for social enterprises  
Senior Consultant for Goodpoint Srl, strategic consulting  
Vice-president of ACRA Foundation, international cooperation

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**Corresponding Author:** Elisabetta Pontello

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The Covid-19 pandemic and the measures that have been adopted to try and contain it have had a deep impact on the Italian economy, the scope of which cannot be perfectly gauged as yet. The consequences of Covid-19 crisis have affected Italian enterprises' operating in different sectors. Most of enterprises have been obliged to change their technical ways. Thus, new specific trends and actions have been adopted during this challenging period.

Keywords: COVID-19, Business Challenges, Enterprise, Production, Digitalization.

**General trends**

Asymmetry

While other crisis and shocks that have hit Italy in the past decade, such as the financial crisis of 2008/2009 and 2011/2012, have had widespread, although varying, effects in all sectors of the economy, the COVID-19 crisis has been highly asymmetrical, hitting sectors in different ways and degrees, with extremely

serious effects for some and, paradoxically, growth opportunities for a limited number of others (El-Chaarani, 2021).

This is because while some consequences have been across the board, such as a decrease in consumer confidence and purchase power, liquidity constraints for families and businesses and subsequent stress

on the financial sector, others have been a direct consequence of the limitations put in place to contain the spread of the virus. Said consequences have therefore hit harder activities that were forced to close, for weeks or months on end. For the same reasons, increase in turnover and income has been achieved by the sectors that have not been affected by the restrictions or by those working in health care, pharmaceuticals, and Personal Protection Equipment.

Asymmetry of the economic impact of the pandemic is not limited to sectors, but extends to people; the consequences of the crisis have been defined as a she-session<sup>1</sup>, more than a recession, given that in Europe the high majority of jobs that have been lost have been held by women. The reasons for this are different: on one hand many of the most severely hit sectors employ higher number of female workers, on the other the fact that schools have been closed for long periods have forced working mothers to stay home.

In Italy twice as many women lost their job due to the pandemic compared to males; in Europe female unemployment increased by

20.4%, against 16.3% for men (Fernandes and Kerneis, 2021). So far, the measures that have been adopted do not address this issue and neither do, from what can be seen as of today, the further ones that will be part of the Recovery Fund, the set of financial measures and loans that the European Union is offering to Members States to support them through these times; if not addressed these imbalances will have relevant social impacts in the short and long term.

#### Production

On average, forecasts made a few months into the pandemic for Italian enterprises were of a -12% decrease in turnover in 2020 and the data available as of today are in line with these projections. Given the increase registered in the first months of 2021 and forecasts of a +2,7% increase by year end vs 2019 production, most Italian enterprises are expected to go back to pre-pandemic turnover levels in 2022 (CRIF, 2020).

#### Sector specific dynamics

Among the sectors that have been severely hit worldwide by the pandemic crisis are some of the most strategic and relevant for the

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<sup>1</sup> The term “she-cession” was coined by C Nicole Manson, President and Chief Executive of the Institute for Women’s Policy Research.

Italian economy, especially tourism and transportation, for which the consequences of the pandemic have been particularly severe. Air transport, accommodation services and travel agencies will continue to have a turnover that is approximately 20% lower than the pre-crisis situation in 2022. Aside from health care and pharmaceuticals, other sectors that will enjoy positive prospects are those that have intercepted and fulfilled the needs that emerged from the pandemic, including e-commerce, postal services and couriers, web services and those related to telecommunications, all of which are expected to show double-digit growth rates in 2021, as compared to 2019 (CRIF, 2020).

#### Credit appetite and risk ranking

According to forecast from the CRIF Pulse Business Observatory, enterprises in most sectors will continue to show negative free cash flows, due to the contraction in turnover and operating margins, which can only be partially offset by cutting costs or reducing investments. This, combined with the fact that most enterprises have underwritten new debt to manage the crisis, will create for many sectors and companies the need to access new finance in 2022, notwithstanding the system of State backed guarantees and moratoria on debt repayment that have been

devised and implemented. An alarming data is that pertaining to credit merit of SMEs in Italy; on average, the credit scoring of SMEs has severely deteriorated: over 55% of SMEs are classified as risky CCC compared to 10% in 2019 (Modefinance, 2020).

#### Investments and labour

Production aside, the crisis has de facto temporarily paralyzed investments, with limited exceptions connected mainly to digitalization efforts and congealed the labour market. The measures that the Government has put in place to support employment have consisted in prolonged access to furlough and severe limitations on employment terminations, which have been suspended until December 2021, thus making the effect of the pandemic on employment impossible to evaluate at this time.

#### **Enterprise pivoting to tackle the crisis**

Most enterprises have been forced to change the way they worked, albeit temporarily; this has meant in some cases revisiting the business model, or the production system, or client base (El Chaarani et al., 2021). Most of these changes will be temporary, but for some this has been an opportunity to fine tune their operations.

### Client and product pivoting

Most enterprises have tried to pivot to address the challenges of the pandemic, either by addressing a new client base, or by partially revisiting their business model; examples are that of restaurants switching the delivery, or of clothing manufacturers producing face masks and protective garments.

### Smart working

With limited exceptions, almost all enterprises have experimented with smart working, to a lesser or bigger extent, depending on onsite production requirements and restrictions. Opinions on how transient this phenomenon is vary greatly, from those who claim nothing will be the same again, to the opposite range of the spectrum that believes that the natural wish to cooperate in the same space will slowly recreate the kind of working environment that existed before the pandemic. Studies have been published criticizing the effects that extended smart working can have on productivity and employee's wellbeing or underlining that it is bound to favour high earning and male employees (Bonacini, et al., 2021), while

most employees state that they would like to keep a certain degree of flexibility in their working schedule.

### Digitalisation

In the past decade, Italy has been one of the countries in Europe with the lowest of level of digitalization; although 34%<sup>2</sup> of companies are already actively digital and excel at that, there are a number of critical factors in Italy path to a more diffuse bridging of the digital devices, namely the persistence of remote areas not reached by fibre and the relative lack of digital skills in people, especially in the Public Administration and manufacturing sectors. The pandemic has forced a digital transformation that required relevant efforts and investment, but that will contribute to an increased efficiency and ability to compete of Italian enterprises in the short and long term.

### **Italy specific trends**

#### Timing of the pandemic surge

Italy has been the first European country to be hit by the pandemic and, when other countries were just beginning to have sporadic cases, the first to choose to adopt restrictive measures to contain the virus.

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<sup>2</sup> Annual Report by Osservatorio Innovazione Digitale nelle PMI of Politecnico di Milano and TeamSystem S.p.a., June 2020.

Therefore, Italian companies have been hit first and for a longer time.

### Demographic

Italy is, on average, an older country compared to the rest of Europe; this meant that sadly the death toll of the pandemic has been higher but also that the Government chose to implement stricter measures, for longer periods.

### Characteristics of the economic sector: prevalence of SMEs and family-owned businesses and enterprises

A research conducted by Fabula, the Family Business lab of LUIC University, shows that family businesses have fared better than other businesses during the pandemic, notwithstanding the fact that 60% of them have registered a significant decrease in turnover (Finotto, 2021). The reasons for this higher resilience are to be found in several factors: given the nature of the working relationship, there have been less need of restructuring of labour and less smart working. In general family business have experience less need to pivot and change their client base, probably due to a deeper relationship with their clients and the nature of the businesses. Because of this and of their higher degree of flexibility, family

businesses have experienced less severe cash constraint.

### Active role of the Government

As in most other countries affected by the pandemic, the Italian Government has taken an active role, devising and implementing a number of measures to support enterprises, with a varying level of success and efficiency. Most relevant measures have consisted in:

- Financial support in the form of cash compensation;
- Support to access to credit, by providing Government backed guarantees for new loans to be underwritten by enterprises;
- Access to extended furlough for most sectors;
- Moratoria to debt reimbursement negotiated with the banking sector.

### **Conclusion**

Some of the challenges and, to a lesser extent, opportunities that Italy is currently facing are common to all other countries that have been affected, some are strictly connected to the specific characteristics of the Italian economic sector. These latter have and will require tailored responses and measures to be overcome or taken advantage of. The Italian Government has taken an active role in

tackling the effects of the crisis, with results that are still difficult to be evaluated correctly. Although the measures adopted have for sure had positive effects, they have been criticized on a number of points: the cash support has been seen as dispersed and not focused on sectors and individuals with the greatest needs. Access to credit has meant some enterprises have taken on more debt that they will be able to manage once the worst of the pandemic is over. The implementation of the measures has been often considered too slow, compared to the severity of the crisis. Finally, the fiscal pressure on companies has not been eased.

All in all, the COVID-19 pandemic crisis has put Italian enterprises to an extremely severe test, the extent of which is not completely clear yet. With all probability, the support provided by the government and by the EU in the form of the Recovery Fund will be able to offset part of it. But in the coming months, if not years, the effects of increasing unemployment and of the number of enterprises that will not be able to make it will be felt and will have to be dealt with, both at national and European level.

Notwithstanding these sober perspectives, some actions that have been taken, such as the acceleration in digitalisation, the restructuring of enterprises and the

investments that will be decided and funded in the coming months, might sow seeds that will have relevant positive impacts on Italian enterprises and the national economy.

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