

DIGITALIZATION OF SMEs IN TIMES OF CRISES IN EUROPE

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Abstract: Digitalization is used by businesses of all sorts, large and small, to grow and stay resilient. SMEs are a powerful economic force that employ a large number of people and add considerable value to the economy, hence these businesses constitute the backbone of the European Union's economic and innovative potential, thus their economic development and stability are critical. The COVID-19 epidemic is a global calamity that has placed tremendous pressure on SMEs, mandating their capacity to respond swiftly and effectively to the crisis. To cope with the present crisis, SMEs have adopted a number of digital technologies.

Keywords: Digitalization, SME's, Economy, Europe, Crises.

Introduction

SMEs are small and medium-sized companies in Europe with up to 245 employees or alternatively less than € 50 million turnover or a balance sheet total of less than € 45 million p.a. and have an important role in fostering technological innovation, boosting employment, and maintaining social stability. Due to a lack of resources, SMEs, on the other hand, are significantly more vulnerable to public crises than other enterprises. The literature has looked at the role of production recovery, corporate social responsibility, and community engagement in reducing the risk of public crises affecting SMEs.

In this article, we argue that digitalization has the potential to help SMEs respond more effectively to public crises by activating their dynamic talents [1]. Digitalization is the use of digital technology such as information, computer, communication, and linking technologies to support organizational transformation. In the context of the COVID-19 outbreak, extensive research has indicated that the usage of digital technologies is critical in crisis response. In China, the government has pushed for the use of big data, artificial intelligence (AI), cloud computing, and other forms of digitalization in pandemic monitoring, viral tracking, illness treatment, and return to work. Big data technology, for example, might be very valuable in pandemic monitoring and tracking in real time. Thanks to the adoption of online office software, employees may work from anywhere and at any time [2].

At the end of 2019, a new coronavirus illness (COVID-19) arose unexpectedly and swiftly spread to become a worldwide pandemic. By late June 2020, COVID-19 had infected over 8 million individuals globally, including over 80,000 in China. The public health crisis affected small and medium-sized businesses especially hard, posing considerable difficulties to their survival and growth. The COVID-19 outbreak has been economically destructive in numerous ways. To begin with, as more countries seal cities in order to battle the epidemic, the global supply system has been badly affected, with both imports and exports being halted. Second, delays in the start of work have lowered enterprises' output capacity dramatically, but fixed expenditures such as wages and rent have remained constant, producing major cash flow concerns. Third, as a result of the outbreak's decreased demand, service businesses like catering, hotel, and cultural tourism are in peril. Worse, the COVID-19 epidemic is predicted to have long-term ramifications and a halt to global economic progress [3].

The current state of SMEs

SMEs are viewed as economic development engines and are the backbone of Europe's economy. They also help to foster entrepreneurial endeavors by using innovative business tactics. Approximately 100 million people are employed by them, they generate about half of the GDP of Europe, and they add value to all aspects of the economy. Small businesses employ new technology to expand their market reach, providing a wide range of goods and services to fulfil local and worldwide demand.

Traditional SMEs in Europe

The following are some of the challenges that traditional Europe SMEs are facing in adapting to the new environment:

Infrastructure issues: These may need government or private-sector engagement and are usually disregarded owing to a lack of proper financing. The majority of SMEs are ignorant of the multiple financing choices accessible to them via non-bank financial institutions (NBFIs) and banks, and they lack the digital literacy necessary to gather data online.

Low productivity: Because digitization automates all manual work in innovative businesses, there is no doubt that productivity has increased in these businesses as a result of digitization. Traditional SMEs, on the other hand, are slower to respond and their employees frequently lack basic programming skills or are not open for new technology and new ways of working. This has a negative impact on the performance.

Inadequate funding: Additionally, funds are required for the promotion and advertising of the goods and services provided by

conventional SMEs, in addition to the enhancement or improvement of facilities. Moreover, because of a lack of digitization, the revenue stream is not rigorously controlled, and SMEs are unable to undertake a cost–benefit analysis of their operations. To make matters worse, traditional SMEs cannot afford the higher costs of conventional advertising compared to digital advertising.

Unwillingness to innovate: Classical SMEs with a lack of digital literacy are unable to devise innovative ways to reach out to customers. Despite the fact that the majority of clients presently purchase online or through a smartphone or tablet, conventional SMEs are unable to provide them. They are unable to accept online payments or submit electronic invoices due to technical difficulties.

Increased risk: As a consequence of the high chance of human errors in terms of quantity sold, number of transactions completed, net revenue, and overall cost, among other factors, traditional SMEs face less accuracy and more risk when selling their goods online.

Increased cost: Traditional SME operating expenses are generally higher than those of a digitalized SME in terms of promotional charges and growth costs.

High profitability: A digitalized SME has a higher profit margin than a conventional SME. Through the use of digital technology, you may generate money in any city or nation without having to establish a new facility or shop. In addition, as digitalization continues to advance, less investment in human resources will be required in the future and if so, then only for the technical maintenance of the systems.

Lack of proper training and Skills: Traditional SMEs struggle to be as effective as they may be due to a lack of expertise about system use, internet marketing, blogs, social networks, and web services. Nobody can keep track of income, benefit, and profitability on a day-to-day basis in this manner [4].

The advantages of going digital

Customer Acquisition: You may meet consumers in any nation for better exposure and interaction with your prospective customers by going digital banking. As a result of the many resources available, you will be able to better serve your customers. This enables us to effectively market the products and devise advertising plans.

Technical performance: Technology can automate fundamental operations for you as a digitally transformed small and medium-sized business, therefore enhancing your performance. We'll be able to exert greater control over logistics as a result of this.

Workforce enablement: It is possible to identify areas in need of professional development and skills shortages in the workforce by using digital resources. Keeping track of staff performance, training them, and educating them on the new Distributed Tasking principles would be easy.

Managing risk: You may protect your company's private data and financial records with the aid of security technologies when you implement a digital transformation. Automated monitoring may also help you keep an eye on property resources and improve logistics.

Increase efficiency: Employee productivity is improved due to the use of Distributed Tasking. They may also work from anywhere and at any time, in case of an emergency at the place of business.

Innovation: Customers may help the company's metrics analysis by using digital technology. Measures such as internet traffic, operational metrics such as sales and acquisitions, information metrics such as customer insights, and people metrics like job happiness may be used to quickly enhance many elements of the organization.

Cost Savings: By automating and simplifying fundamental procedures, digitization provides cost savings. In addition, you may do business in any nation in the area without paying any advertising fees.

Reduces the need for human resources: The utilization of labor will decline as more and more corporate processes are automated by digital platforms. As a result, there will be fewer possibilities for human error, and monitoring will be curtailed.

As more businesses and the government realize the need of bridging the digital skills gap for small and medium-sized enterprises, a new generation of digital training programmers, training, and free resources are developing. Traditional SMEs will need to embrace digital transformation with vigor in the future.

Challenges of SMEs digitalization in crises

Using the latest technology, businesses can save costs and speed up the development and delivery of new products and services. This enables small and medium-sized businesses to differentiate themselves from their competition, decrease costs, and compete worldwide with large organizations. SMEs in some countries confront substantial difficulties in obtaining and using modern digital transformation innovations. The absence of a setting that permits digital transformation transfer and interaction with experts is crucial, despite the fact that it continues to be hampered by a lack of finance as well as competence. The firm's discouraged owners may give up on the transformation before seeing any returns if the company fails to define a clear digitalization strategy and goal [5].

Insufficient awareness of technology-enabled services

A large number of SMEs are still unfamiliar with the benefits of technology-enabled services like e-commerce and social networking. Businesses are put off by a lack of knowledge about new technologies and skepticism.

Lack of understanding of the digital transformation effect

Many small companies are ignorant of the impact of digital transformation on company development and customer engagement and retention. A Digital Transformation journey is frequently avoided or postponed as a consequence of this.

Absence of inherent technical expertise

Developing a Digital Transformation Roadmap on your own will be difficult since SMEs lack in-house technical expertise. Because of this, hiring an external auditor or even deeming it essential may be difficult.

Inadequate resources and poor infrastructure

IFC research found that Europe's small and medium-sized enterprises had a financing demand deficit of 35 bn. Euro in 2016. The lack of adequate funding and infrastructure is another reason why SMEs struggle in Europe.

Ineffective regulatory system

Data security is made more problematic by a lack of sufficient technologies. The process of protecting data against illegal access, change, damage, or distribution to other parties without their authorization is referred to as "data security". Cyberattacks and malware are the most common causes of security concerns. SMEs are apprehensive of implementing new digital transformation because of lax cybercrime laws and regulations. Governments are not supportive in resolving cyberattacks either, due to the lack of specialists and the required technology to do so.

Challenges in governance

Improved efficiency and responsiveness may be achieved by better managing finances, accessing trustworthy data and extending the client base of any company. As a result of the organization's overall aim and strong governance, improved communication, and improved cooperation, these changes have occurred.

Digital technology's dynamic nature

As technology advances, customers will be able to manage their businesses in new, faster, and more efficient ways. SMEs are often wary of

quick change, which is why they are reluctant to use digital transformation to improve their operations. To add insult to injury, they have to spend a lot of money on smart gadgets and cloud-based service providers, as well as hire experts to oversee this change.

Government policies role in SME digitalization

In light of these issues, government initiatives are required to bridge the digital gap between businesses. In order to create a digital economy where everyone may participate and profit, certain regulations are being implemented [6]. The European Union's government could employ the following four-pronged approach to achieve this goal:

A low-cost, high-quality digital infrastructure is required. The cost of essential digital infrastructure for small and medium-sized businesses should be reduced through government and private sector collaborations. Increasing the scope of these efforts could result in more affordable and high-quality digital infrastructure and services being made available across the country.

Enable and encourage the digitization of more complex back-end procedures. When it comes to automating business processes, 72% of SMEs have no idea how to do it; and 42% have no idea how to use cloud computing to change their organizations. Employee training and up-skilling can help SME employees become more technologically savvy and encourage them to adopt a digital mindset, as well as raise awareness of the benefits of digitizing back-end operations.

As part of the discussion on government programmes and incentives, small and medium-sized businesses should be involved. Digitalization programmes and incentives may be unfamiliar to many small and medium-sized businesses. A recent survey found that 60% SMEs cited a lack of financial resources as a deterrent to going digital. Further outreach initiatives, such as reaching out to individual SMEs directly to inform them about skill based training programmes, could boost the digitalization rates of SMEs.

Make digitization incentives available to all small and medium-sized businesses that are interested. Public funding programs are an established instrument and are part of the financing mix of many companies. Federal and state governments thus exert a concrete and active influence on the development of companies and regions. They support digitization initiatives. Especially when it comes to setting up digital business models, they can minimize the financial risk by taking advantage of funding programs. Even for internal digitization – i.e. the rationalization and optimization of processes – most programs can be taken up.

SMEs must become digital if they are to remain viable in an increasingly digital economy. However, the digital gap that exists between SMEs creates significant problems. SME's are at danger of being left behind, even if Covid-19 has expedited digitization generally.

Europe's digital economy might grow from \$800 billion to \$1 trillion by 2025, according to estimates (or 18 % to 23 percent of its nominal GDP). As they follow the water's flow, small and medium-sized businesses will be able to take a piece of this damaging pie. The existing digital environment has the potential to contribute \$1 trillion to the digitization of small and medium-sized enterprises. More and more digital services, channels, applications, content and solutions will be needed to meet the predicted five-fold expansion in global GDP.

Discussion analysis

Following is a brief summary of the significant trends in small business digitalization during times of crisis:

It is easier for smaller businesses to be affected by a crisis than for bigger firms. SMEs may be vulnerable because of the absence of a financial safety net and the lack of influence that huge corporations have, among other things [7].

Smaller cities have a lower level of digital literacy, a poorer quality of living, and a lack or inadequate development of infrastructure that would enable citizens in the regions to utilize digital tools; a lack of a culture of utilizing digital tools in everyday life.

Business relationships and networks are more trusted than the government by people. Businesses will be more likely to benefit from the sharing of information and experience as well as networking opportunities and awareness-raising activities on digitalization concerns if they join these groups and networks.

The most significant barrier to effectively using digital technology in the workplace is a lack of knowledge on how to do so. Small and medium-sized businesses cannot afford to hire professionals to implement and manage the use of digital technology. Often SMEs lack the financial and human resources necessary to fully embrace digital transformation.

Digitalization may increase the likelihood of human rights violations. There is no understanding of the role of business in minimizing these risks in Europe. There is a lack of understanding of the role of business in minimizing these risks in Europe.

Conclusion

Both the epidemic and the financial situation are worldwide crises. Digitalization is a lifeline for many small and medium size businesses. The

COVID-19 outbreak is a public health problem that has posed substantial challenges to the survival and development of small businesses. In the battle against COVID-19, the epidemic has also highlighted the essential relevance of digital technologies. Furthermore, digitalization aids SMEs in improving their performance by using public crisis response strategies. To conclude the study, we looked at a number of digital technologies that link digitalization to crisis responses from the perspective of dynamic capabilities.

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Mostapha Bouyrakhen received his first Diploma 2004 from the University of Applied Sciences Frankfurt am Main in Computer Science and holds a Master of Business and Engineering (MBE) degree from the Steinbeis University Berlin. He gained 15 years of international B2B Sales experience in several positions within family-owned businesses as well as in corporate groups. Currently he is enrolled in the PhD program – Organization and Management of Information Processes at the University of Library Studies and Information Technologies in Sofia, Bulgaria. The focus of his research is digitalization of sales in SMEs.

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