

Christa Larsen, Jenny Kipper, Alfons Schmid, Marco Ricceri (Eds.)

# The Importance of SMEs as Innovators of Sustainable Inclusive Employment

**New Evidence from Regional and  
Local Labour Markets**

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Rainer Hampp Verlag

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*Christa Larsen, Jenny Kipper, Alfons Schmid,  
Marco Ricceri (Eds.):*

## **The Importance of SMEs as Innovators of Sustainable Inclusive Employment. New Evidence from Regional and Local Labour Markets**

Rainer Hampp Verlag, Augsburg, München 2020, 358 S.  
ISBN 978-3-95710-280-5 (print), € 27.80,  
ISBN 978-3-95710-380-2 (e-book pdf), € 24.99

SMEs are the backbone of the European economy, but in regional and local labour market monitoring approaches their specificities are not yet well considered. As SMEs have to compete with larger companies for human resources, they develop creative strategies for recruiting and retaining employees. This overall flexible approach proves to be a good tactic for staying in business, e.g. during a pandemic.

This publication delivers insights on the statistical relevance of SMEs and their importance for the functioning of regional and local labour markets. Additionally, it offers an organisational perspective on specific conditions for human resource management within European, national, regional and local policy frameworks. Most of the contributions in this anthology show insights drawn from the current COVID-19 pandemic. This perspective leads to further discussions on how these insights can be used to develop new concepts for regional and local labour market monitoring beyond the pandemic.

**Key words:** SME, sustainable inclusive employment, innovative human resource management, covid-19 pandemic, regional and local labour markets, labour market monitoring



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**Bibliographic information published by the Deutsche Nationalbibliothek**

Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data are available in the Internet at <http://dnb.d-nb.de>.

ISBN 978-3-95710-280-5 (print)  
ISBN 978-3-95710-380-2 (e-book)  
ISBN-A/DOI 10.978.395710/3802  
First published in 2019

© 2020 Rainer Hampp Verlag Augsburg, München  
Vorderer Lech 35 86150 Augsburg, Germany  
[www.Hampp-Verlag.de](http://www.Hampp-Verlag.de)

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## Foreword

Analytical work of both researchers and international organisations has stressed evidence of increasing regional disparities within and between Member States as well as perceptions of a widening rural-urban divide. This concerns labour market outcomes and indicators of productivity and innovation, as well as social outcomes and subjective measures of life satisfaction and well-being.

At the same time, regional and local actors today are facing unprecedented challenges and responsibilities. Depending on the economic structures and skills profiles at regional and local level, firms and workers may find themselves disproportionately exposed not only to the direct effects on public health, but also to the massive demand shock that followed the outbreak of the pandemic. This holds in particular for regions with high employment shares in the tourism, hospitality and cultural sectors.

Moreover, regions are at the centre of the twin – green and digital – transition on which Europe has embarked and which is a cornerstone of our efforts to promote a fast and inclusive recovery. Support to regional strategies for a just transition will be a main focus of the EU policy agenda over the coming years, moving towards a more circular, climate-neutral and sustainable economy and society. Policy action at regional level further is central to the effective implementation of the European Pillar of Social Rights, including through enhanced access to essential services such as education, health, housing, energy and mobility. Last but not least, digitalisation, new forms of work and new modes of transport have a clear regional impact and can offer new opportunities in rural areas and peripheral regions.

Against this background, there is an increasing demand for timely and robust information on regional labour market developments. The European Network on Regional Labour Market Monitoring continues to play a significant role in this context, by bringing together and sharing widely the available analysis and intelligence at regional and local level, by promoting concrete activities and initiatives of regional and local labour market observatories at the European level and by furthering exchange and mutual learning between all relevant stakeholders.

**Loukas Stemitsiotis**

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## Changes in the Italian Labour Market

The labour market is essential to an economy, so much so that it determines its vital state. The Italian economic fabric, in terms of history and tradition, is mainly made up of small and medium-sized enterprises (SMEs). The model established in the 1970s, that of industrial districts, had its most widespread and successful period in the 1990s. Globalisation subsequently modified some of its characteristic aspects, especially in terms of work and territoriality. On the one hand, companies, with the opening of the global market, have experienced mostly positive effects. On the other hand, there has been a tendency to reduce labour costs, resorting to territorial areas where labour is underpaid. This has sometimes degenerated to the point of exploitation (even of minors). The risk posed by such behaviour would be to fall into the logic of an exasperated capitalism with the sole objective of profit maximization, debasing the noble and ideal part of SMEs. The definition of an industrial district, identified for the first time by the economist Alfred Marshall in the second half of the 19th century, was taken up by the Italian law according to which: industrial districts are defined as “local territorial areas characterized by a high concentration of small enterprises, with particular reference to the relationship between the presence of the enterprises and the resident population as well as to the productive specialization of all the enterprises”. This definition emphasizes the link between industrial and social reality. SMEs, highly specialised and appreciated at national and international level, present in the same geographical area, benefit from the advantages of closer relationships between themselves to reduce the costs of production of a single supply chain and to better engage with local authorities, institutions and policies. This structure creates not only economic but also socio-cultural development. A valuable aspect of a system conceived in this way is the interaction of labour with its reference market.

The presence of large companies in Italy remains small and is, for the most part, the result of the privatisation of public companies.

Another dimension of the economy and of the labour market in Italy is linked to the spread of cooperativism, enshrined in Article 45 of the Constitution. The sectors most affected by this legal form are those of agriculture and transport as well as those linked to the needs of the territories. Cooperative credit banks also have a very substantial presence in the Italian financial system.

Still on the subject of analysis of the labour market, a great process of social transformation is underway in Italy. In this context, the public debate, first economic



and then legislative, has highlighted how the third sector has taken charge of welfare between the State and the private sector. Through the recourse to regulations derived from other legislations, an autonomous legal system has been emanated. This reform, transversal to the entire economy, is generating profound changes also in terms of taxation and labour law. The Third Sector has been identified as the protagonist of a new economic model: the third pillar of development as part of the objectives set out in the UN 2030 Agenda. In Italy, the expression of this network is also represented by the National Forum of the Third Sector. The Forum, which followed the genesis of the reform, is a privileged observatory and contributes to the decisions of the Government by being part of the control room established at the Presidency of the Council of Ministers. The reform has introduced themes of the highest ethical content, especially in the world of work. Inclusion, reduction of the social gap, reduction in the range of salaries between different levels, personal care, are the vocation of all the realities that work to meet the needs of people and communities. The system of the Third Sector and volunteering represents a key factor in the evolution and identification of new paradigms of sociality. In this context, the theme of social enterprises and businesses dedicated to communities and territories intertwine with the future of SMEs and more generally with the concept of the Green Economy that will be at the heart of European policies.

The Italian experience, in the context of the meeting between demand and supply of labour, has been built both with the help of public instruments and private assets. An acceleration on labour policies was introduced with the Legislative Decree n.150 of 14 September 2015 “Jobs Act”. which provides for a series of general regulatory interventions in the field of labour. Within this process of renewed attention to the world of labour, a predominant role is now played by ANPAL (National Agency for Active Labour Policies). ANPAL, whose statute was approved by the Council of Ministers in April 2016, acts to prepare new active labour policies both for the placement of workers seeking their first job and for the relocation of the unemployed. ANPAL, structured on a regional basis, coordinates with INPS, INAIL, the Employment Agencies and all accredited training bodies, including Italia Lavoro and INAPP (formerly ISFOL), Chambers of Commerce, Industry, Crafts and Agriculture, universities, and other secondary school institutes. It has among its tasks: - Manage and define the type of services for employment, placement of disabled people and activation policies for unemployed workers; -coordinate the activities

of the EURES network; -produce new ways of profiling workers; -promote and support the use of European Social Fund programmes and national funds; -coordinate the information system of employment policies; managing the national register of subjects accredited to carry out functions in the field of active labour policies; -governing the national operational programmes and projects co-financed by the Community Funds; -creating new incentives for mobility; -favouring the management of the critical aspects of company crises in relations between workers and companies so as to limit the possible negative effects on employment data.

The coordination with INPS allows the Ministry of Labour to have feedback on the training and retraining of unemployed workers and on the methods of repositioning in the labour market. Another important element is the file that traces the path of each worker, which can be consulted by all stakeholders including Regions, Provinces and by the worker himself. A network has been set up to prepare an annual report on the labour market. It is the result of the collaboration developed within the context of the Framework Agreement between the Ministry of Labour and Social Policies, ISTAT, INPS, INAIL, and ANPAL, aimed at collecting harmonised, complementary and consistent information on the structure and dynamics of the labour market in Italy.

The element that creates added value to the labour market is given by active policies that take charge of the worker avoiding that, while waiting for placement or relocation, he remains unemployed. The new needs related to innovation, internationalisation and digitalisation are at the centre of training projects for workers to meet the needs of SMEs. The speed required to change economic system for it to become sustainable and not produce waste and inequality is too fast for SMEs to adapt alone. Enterprises are calling for continuous training and higher specialisation. The State favours and accompanies these pathways but, at the same time, it requires respect for each worker so that it can have a satisfactory and adequately remunerated work without undermining the fundamental rights of individuals.

Among employment policies, the debate on citizenship income (reddito di cittadinanza) has taken on an important role. With this measure, which is intended to be an instrument for increasing employment, the Government wanted to fill a gap. It is intended to guide, for a limited period of time, the unemployed towards finding a job. For them, the choice must not be weighed down by reasons related to the need for economic subsistence but there must be consistency between the employer's offer and their specific skills, training and acquired skills. There is no doubt

that the citizenship income measure is in an experimental phase, especially regarding the job offer and the professionals who take care of its implementation. The value to be recognized to this legislative measure is that of having saved a group of citizens from a state of pre-poverty, which would have put thousands of people in a situation of "invisibility" with the risk of a very serious social and cultural crisis. Time and corrections will offer possibilities for the improvement of the measure in the sole interest of the economy, the well-being and happiness.

The Italian economic framework and its most recent evolution from the welfare state, towards the welfare society, are the mirror of a thought that focuses on the person, relational goods and the common good. Thus, also the labour market is part of this process. The meeting between labour supply and demand is enriched by new actors, new visions, and new tools. It is no longer a limiting space, delimited between the boundaries of an exasperated idea of profit for the company and the needs of mere survival of the worker, but rather a path of growth of entire communities towards an ethical and sustainable economy. In this way, tools are born that connect the evolutionary phases of each person in their work training. This must be consistent not only with the demands of businesses but with European and global challenges. All this to generate good globalisation, good economics, and good practices; focused on a reciprocal relationship between work and business that has as its objective the sustainable development of the planet.

The reflections made so far keep Italy on a path of profound change that puts the individual at the centre of its transformation. Unfortunately, however, 2020, which despite a temporary stagnation of the economy and uncertain forecasts on GDP, confirmed levels of employment growth in comparison to the trend of the last decade, has shocked the entire world population with the COVID-19 pandemic. Man, in his most fragile aspect, that of the disease, suddenly found himself defenceless and vulnerable. Health systems have revealed peaks of inadequacy due to short-sighted policies that had undermined their tools. Skills, on the other hand, have shown that, embodied in men and women of value, are able to deal with catastrophic events resolutely and promptly. Italy found itself having to move at the same time from observing the epidemic to taking measures to combat it and activating them. With an intuition that left little time for second thoughts, it immediately implemented a lockdown, at first in some regions and a few days later the whole national territory. The labour market suffered a painful impact already in the first month of lockdown. A series of decrees were immediately implemented to

activate passive labour policies to face the liquidity crisis of the companies. A dialogue with the countries of the European Union was set up which, today more than in the past, shows the need for shared community policies. The pandemic has caused a shock to the global economy with effects that, it is assumed, will also have repercussions in the coming years. It will be necessary to develop further instruments to support the labour market and to overcome the crisis caused by the pandemic. These include co-planning between the State, social partners and employers who work mainly alongside SMEs and very small businesses.

Some productions have slowed their pace, others have stopped their cycles for over a month, others have not restarted. Labour seems to have changed its face during this period. To deal with the emergency, there has been both a use of passive policies and a massive increase in the use of smart working. But, despite the immediate response of the Italian Government, the indicators give us very worrying signals. The most at risk are the precarious workers, young people, and women. There has been a significant increase in the demand for unemployment benefits (Naspi). Once again, the workers with the lowest wages and those with fixed-term contracts are affected the most.

What future should we envision? The idea of a time that projects itself into the months and years to come cannot ignore concepts such as resilience and generativity. A healthy economy, like any organism, is characterized by the ability to draw new energy for its own recovery from a crisis. If the health disaster has not spared our best heritage, that of the older generations, it is our task and duty to support the new generations on the difficult path to recovery. It will be essential to identify the weaknesses of the economic systems that in the labour market identified the person with the hours worked. Respect for adequate and favourable conditions for the performance of one's tasks must play a priority role, given the fact that in Italy 49 per cent of workers must carry out their work in relation to and in the places of production. Agencies and Services of public and private nature will have to equip themselves with organizations that are even more efficient and appropriate to the challenge of digitalization, to offer expertise and effective actions. Training, both online and offline, must be the key element, not only for the unemployed but also for workers placed in redundancy funds. Better pathways will be created where people will be remunerated, valued and rewarded in relation to the projects carried out and the objectives achieved. Employment levels will increase if the needs of the person are taken into account, not only in relation to their working life, but also

in relation to their personal life in a community that they welcome and share. Businesses, and especially SMEs, because of their social concern, will thus be able to implement production logics that meet the real needs of consumers. No more resources used to produce goods and services that do not correspond to real needs and requirements. No more a slave market of profit maximisation rules that creates boxes of debt. No more exploitation and destruction of the environment. No more levels of pollution beyond the permitted thresholds. History has confirmed how fragile these systems are and how cyclically they collapse causing incontrovertible crises.

Therefore, the future can only be declined in the sense of sustainability and ethics that respect the environment and man.

**Senator Stanislao Di Piazza**

State Secretary  
Ministry of Labour and Social Policies  
Italy

## Homage: What Patrizio Di Nicola Has Left Behind

*Renato Fontana*

Since its very inception, Patrizio Di Nicola was one of the key figures of the European Network on Regional Labour Market Monitoring (EN RLMM). He passed away too early. He has left a void that cannot be filled. In these brief notes, I will try to outline the research paths on which he ventured and, at the same time, to understand how to gather and continue the very considerable contributions he left behind.

Patrizio delivered many studies, contributions, and suggestions that are difficult to put in order (because he was not a “tidy” researcher). The leaps he made were numerous and important. His contributions can be summed up in three key topics:

- The first concerns flexibility and precariousness in the labour market;
- The second has to do with his interests in the business world and in particular with the organisational dimensions in which the factors of production are combined;
- The third is the one that absorbed Patrizio's energies more than any other, namely, his studies on teleworking and smart working.

The topics are contained within a larger framework that recognises the sensitivity that the scholar Patrizio had for the social, political, and historical inequalities that have been growing dramatically in recent years. Before examining these three topics one at a time, it should be noted that it was very important to him to constantly compare his scientific work to everyday reality; a reality marked by social complexity that makes it complicated to define a clear boundary between the exploited and the exploiting subjects and hard to grasp the responsibilities. In times of “surveillance capitalism” (Zuboff 2018), it is quite easy to identify the exploited, weak, and poor subjects who pay the heaviest consequences according to this specific development model; but it is far less easy to discern the subjects responsible for the very serious injustices that split Europe and, for example, Italy in rich and poor. In fact, they do not have a face: they are corporations, companies, network enterprises; they are virtual places where responsibilities always belong “to others”, or, at least, “to the system”. I get the feeling that Patrizio fought against this elusive nebula of social and economic responsibilities.

***The militant researcher.*** It is almost impossible not to grasp the militant nature of his studies, especially when he first faced the issue of flexibility and precariousness in the labour market. Patrizio's latest editorial was a jointly authored book entitled "Storie precarie: Parole, vissuti e diritti negati della generazione senza" ("Precarious Stories: Words, Experiences, and Denied rights of the 'Without' Generation") (Di Nicola et al. 2014).

As everyone knows, flexibility is a disaster that has hit the labour market since the second half of the Seventies and that continues to disrupt acquired rights, working conditions, and the lives of younger and older women and men. On the back cover can be read: "Being part of the 'without' generation means not being able to afford life plans, having no elementary rights, being worse off than one's parents despite having studied more: in a few words, workers live on the edge of the labour market, seeing themselves denied an important part of their own identity". The book collects the stories of 470 respondents and their message of complaint is very strong. In fact, this is not a book for academics but a book for everyone, even for those who have no academic experience or knowledge. For the purpose of putting this on public record, here is what a young woman with a postgraduate degree living in a region of central Italy complains about to the interviewer: "To be precarious means working six years without a contract, but having to do it to pay the rent. To be precarious is to obscure your life, but having to do it in order to study [...]. Precariousness is a way of life. Because if you know that today you work, but maybe not tomorrow, you have to design your choices, your needs, your desires not on the basis of what you have today, but on the basis of what tomorrow you may need to have. Precariousness is exhausting, it wears out your self-esteem. Building precariously means digging by the sea" (Di Nicola et al. 2014: 140). This is the life of many female and male workers who suffer the sad experience of precarious work. Everyone seems to be against precariousness, but there are also those who promote it, namely, hundreds of thousands of firms in Europe.

***The academic researcher.*** Patrizio taught for years at Sapienza University in Rome and held courses and conferences around the world, particularly in the United States of America (USA). His contributions, above all, have underlined the consequences of the organisational and technological transformations that have gradually taken place in the business world. In the book "Visioni sul futuro delle organizzazioni: Persone e imprese nell'era della complessità" ("Visions on the Future of Organisations: People and Businesses in the Era of Complexity") (Di Nicola 2009), together with a team of young collaborators, he focused on the organisation and

reorganisation of businesses, outlining the signs of a process that he calls “the great mutation”, and which clearly draws its inspiration from Karl Polanyi’s wonderful contribution, “The Great Transformation” (1974).

In his book, Patrizio wonders about the consequences of the crisis that started in 2008 and he is convinced that the same economic crisis and financial instability accelerate the change of modern businesses by bringing up new economic, psychological, anthropological, and philosophical skills. Looking at what he wrote, we can observe that the following lines can also be applied to the very serious current crisis caused by the COVID-19 pandemic: “Companies will have to rethink their organisational paradigms quickly. In fact, to deal with the difficulties, some basic rules should be applied. First of all, when production is reduced, companies must try to lay off as little staff as possible. Mass layoffs have the defect of striking indifferently, alienating even the most critical and indispensable professionals from the production cycles. In this way, in an attempt to survive in times of crisis, companies risk collapsing in the recovery phase, when they will no longer be able to resume production. Needless to say, those nations that avoid these mass layoffs within their workforce and those who maintain the social contract with the labour force and its unions, will have more chance of survival” (Di Nicola 2009: 17-18). His reasoning continues with the belief that time freed from work should be reserved for training as a driver towards more suitable forms of professionalism to face the risk of unemployment and towards the possibility of creating innovative products. Who can blame him? In my opinion, the suggested path is also very topical for the crisis that we are experiencing or that we are close to experiencing. I also observe how these prospects have not been pursued by businesses at all, but this opens a front that goes beyond these brief notes.

***The committed researcher.*** In my opinion, the most important contribution of studies and reflections that Patrizio bequeaths to our scientific community concerns the thematic area of remote work, a research journey that could be summarised with “from teleworking to smart working”. In 1997, Patrizio published one of the first books on the subject in question in Italy. Its title is “Il manuale del telelavoro: Nuovi modi di lavorare nella Società dell’Informazione” (“The Handbook of Telework: New ways of Working in the Information Society”) (Di Nicola 1997). It is an important text that explains the spread of these forms of work and, at the same time, points out their advantages and disadvantages. This book is a sort of panegyric of the topic addressed. However, it does not hold-back from denouncing the main limits concerning “the isolation and reduction of external relational life” (Di Nicola



1997: 21), together with the workaholic syndrome, namely that syndrome suffered by “those who tend to get drunk on work by losing the distinction between productive activity and free time” (Di Nicola 1997: 23).

As a further evidence of the obstinacy with which Patrizio studied telework, the following year, he edited a new book entitled “Telelavoro tra legge e contratto” (“Telework Between Law and Bargaining”) (Di Nicola 1998), which took the form of a guide to legislation, national and corporate bargaining, the design of workstations, the use of technology, and the areas of labour union relations. Clearly, it has been very useful both for workers and unionists.

In his paper “Dal telelavoro allo smart work: Una innovazione che fa bene a tutti?” (Di Nicola 2016), Patrizio focused on the transition from telework to smart work, carefully identifying and defining the similarities and differences between telework, smart work, and agile work. Then he had to stop his work, for reasons of *force majeure*. In this paper, Patrizio explains very well that the three terms teleworking, smart working, and agile work do not refer to the same activities and are not synonyms, even if, in common language, they are often confused. The curiosity remains as to what he would have written about remote work, now that millions of Italian and European workers practice it. What everyone calls smart working today is only a way to work from home, since it is not possible to go to the office; that is all. It does not open new horizons. It does not outline epochal organisational changes. It is not the sign of an enlightened management. It is a response to the pandemic. More precisely, it constitutes an improvised reaction that, once again, can be interpreted in terms of social and political stratification; I think that certainly would not have escaped Patrizio. The internal layering of the workforce becomes evident in the fact that, on the one hand, there are those who are able to stay at home to work, while on the other hand, many workers are pushed to go to the factory or to the office because they are an integral part of the “essential” production services.

I am convinced that Patrizio would have had something good to say, being motivated, as he was, by the propensity to fight social inequalities and claim a more participatory role for those classes dominated by profit and rampant capitalism. Now, all we can do is enhance his cultural heritage, with the certainty that new generations will want to gain from his teachings, both in studies and life.

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# The Importance of SMEs as Innovators of Sustainable Inclusive Employment: New Evidence from Regional and Local Labour Markets

*Christa Larsen and Jenny Kipper*

## Introduction

### Reflections on SMEs and Their Function for Securing Skilled Labour

In October 2019, the Scientific Committee of the European Network on Regional Labour Market Monitoring decided that in the following 12 months, its thematic focus would be on small and medium-sized enterprises (SMEs) and, more specifically, on their function as innovators of sustainable inclusive employment. This was based on the belief that SMEs are more than just a small version of larger companies. Approaches in recent years have shown many indications that SMEs – in the context of skilled labour shortages due to demographic changes – are particularly successful in the recruitment and retention of skilled labour. This stems from the following factors: (i) their particular, often family-oriented culture; (ii) an orientation towards their local and regional labour markets; (iii) their distinctive expertise of niche products and niche target groups, and (iv) an awareness of having to offer more customized working conditions to offset the lure of financial incentives found in larger companies. They succeed by offering individually tailored and flexible working conditions and career paths for their employees. They are also able to adapt to an employee's specific needs, which will change over time. It is about people and their interaction with their environment, their families, and their locality. Accordingly, creative and diverse solutions for the reconciliation of work and family, flexible working time models and much more are implemented. Employees for whom work-life balance is very important, especially many young workers, appreciate these framework conditions of SMEs and show high loyalty to their employers in the form of retention.

However, SMEs are not only highly adaptable and responsive to their employees, but also to their product or service markets in which they operate. Fast adaptation to emerging product or service requirements is a major advantage for SMEs. Short



internal decision-making processes and often very close contacts with customers allow for high transparency and quick readjustment. In comparison, large companies with standardised processes and structures prove to be much more cumbersome when confronted with the need for fast and customised personnel and product/service solutions.

These observations by members of the Scientific Committee led to the question of whether SMEs offer good and contemporary solutions for securing skilled workers but also for the inclusion of target groups remote from the labour market. If so, they can be regarded as “modern” companies, as hidden champions. To grapple with this question, Network members were asked to contribute to this anthology.

### SMEs in the COVID-19 Pandemic

During the preparation of the articles for this anthology, the COVID-19 pandemic broke out and sharpened our focus on the flexibility and possibilities of SMEs, especially with respect to the changed framework conditions. The current work context has been particularly affected by health-related measures across their respective labour markets. We wonder whether the characteristics of SMEs, such as flexibility (adaptivity and responsiveness), their orientation towards local conditions and the loyalty of their employees will prove to be factors that help these companies survive the crisis well, or even come out stronger.

The authors of the articles in this anthology show that there are no simple and, above all, no conclusive answers at this moment. Rather, they raise awareness that SMEs represent a heterogeneous group of companies. There are fundamental differences between a medium-sized company with up to 250 employees and a corresponding capital stock or a self-employed person. The latter in particular is affected far more severely and existentially by the pandemic in most regions of Europe. It is also clear that the company’s industrial affiliation plays an important role. For example, while tourism, hospitality, culture industry and vocational training are extremely affected by the pandemic, this is hardly the case for most craft businesses. In many cases, SMEs may succeed by converting their production to protective equipment or disinfectants, or by offering their services online. In many cases, particularly SMEs that focus primarily on local and regional raw materials and sales markets are more stable through the crisis than those that depend on global supply and service chains. And, of course, it is a fundamental factor how politics acts in the individual states and regions. Here specifically, to what extent

are support programmes available (wage replacement benefits, loans, and bridging funds) to assist endangered SMEs.

The articles of our Network members show that it is currently hardly possible to draw a precise picture of the SMEs' situation in Europe. This is not only due to the fact that the developments are still ongoing and that changes are occurring very quickly. Because SMEs are strongly embedded in heterogeneous local socio-cultural and economic structures and processes, they find both positive and negative framework conditions for their future development. Thus, their developments cannot yet be described with generalised statements. A systematic monitoring of the factors listed is not yet available in any country. In order to obtain the information necessary for political decision-makers to, for example, act more precisely in a crisis such as the current one, it requires a bottom-up perspective from the localities and regions. This can create a transparency that enables precise assessments of how SMEs are impacted by a crisis, the types of support that they need, and how the aid already provided is working. This requires continuous monitoring of local events and systematic feedback to the policy process. This can be done through the almost 700 regional and local labour market observatories in Europe. To this end, the authors of this year's anthology provide initial approaches and insights.

#### Importance of Regional and Local Labour Market Observatories in Supporting Evidence-Based Policy Making During the Pandemic

Since the start of the pandemic, transparency and orientation have been more important than ever for the political decision-making process. Evidence-based policy-making, long advocated, has been quickly implemented. For a long time, virologists, successively followed by economists and sociologists, have set the topics and politicians have made decisions and installed programmes based on their information. This top-down process has dominated in almost all countries. It is gradually becoming clear that local and regional decision-makers need more appropriate evidence for their political decisions, especially in the important area of the labour market and employment. The regional and local labour market observatories across Europe are already established within networks of stakeholders and policy makers and can take on the important task of continuously creating transparency.

Most regional and local labour market observatories have little specific information on SMEs. To a large degree, information from SMEs concern only the number employees or their affiliation with certain industries. The internal heterogeneity of

SMEs is not yet sufficiently mapped, due also to the limits of official statistics. In view of the current requirements, these also have the disadvantage that there is often a time lag of one year or more between the data generation and its accessibility, rendering such data hardly useful. Much of the Public Employment Services (PES) routine data is rather useful, due to their topicality and their small-scale mapping. Further qualitative information is required from the expert discussions already established in many observatories. Surveys of companies and their managements certainly contribute to exploring the ways in which public support programmes are effective and where further action is needed. Data from the internet (BIG DATA) may also be another source. The contributions in this anthology provide a variety of references to this data. They also provide various concepts and definitions for thematic focus ideas by region and need, with which the respective status quo can be provided to local decision-makers.

However, this approach is probably insufficient. The pandemic and the onset of a recession are causing massive short-term political interference through immense economic stimulus packages intended to minimize or even avoid the economic downturn. The immense financial support offers opportunities to “re-engineer” the economy and the labour market. The political target horizons for this can include the sustainable and inclusive growth approach of the Organisation for Economic Co-Operation and Development (OECD) and the International Labour Organization (ILO). In connection with this, the green economy concept, including digitisation, from the European Commission can serve as inspiration. For monitoring of the labour market, employment, and the economy in regions and localities, this means that the observed developments can also be assessed and classified by the extent they lead to sustainable and inclusive development. Labour market and local economy stakeholders, as well as the local policy makers, can leverage their decisions and actions to significantly enable SMEs, often local and regional, to pursue sustainable and inclusive strategies for their employees. Unlike large companies, SMEs are significantly more dependent on a local and regional support structure and corresponding networks. This close interdependency promotes the stability of companies and thus the regional economy, and it improves the quality of life within regions and localities.

How can regional and local labour market observatories adapt to the new challenges? And, what can they do to act as central players in a transformation process? This initially addresses the information content observatories make available and their roles and involvement in local networks. A strong focus on SMEs is essential.

It is highly likely that in most regions and localities, well over 90% of companies are SMEs. These are the promoters of the transformation process. For this reason, it is necessary to have differentiated information about these companies, their business and their personnel policies. Unmet needs and support structure gaps should be clearly identified. To generate such information, additional paths can be forged by involving new actors. For example, a standing group of experts could be established from representatives of local businesses, local training providers, local business development agencies, public employment services, and business advisors of the Chambers of Commerce and Crafts to assess the current situation. Estimates of the degree of transformation would also be relevant. The observatory could support this group by moderating discussions and contributing new knowledge, when necessary. The information stand can be prepared by the observatory for stakeholders and policy makers. The now widespread use of digital communication in SMEs, especially video conferences, can be intensified by the observatories. This enables more scheduling flexibility. It would also be important for observatories to provide tightly packed current information (real time) at short intervals, and to be thematically flexible, in accordance with the needs of the decision-makers. The increased use of information technologies can help to better reach decision-makers individually and in real time. As observatories succeed in becoming a reliable and central provider of information in the regions and localities, the more central and significant the role of the observatories in transformation processes will become.

In many European countries, the regional and local observatories are interconnected. This structure enables them to communicate findings between regions easily and efficiently and across regions to national decision-makers. The European Network on Regional and Local Labour Market Monitoring will also continue to monitor the transformation process in the future and bundle relevant findings. Appropriate measures to achieve this will be defined at this year's annual meeting.

#### Strategic Decisions Planned for the 15th Annual Meeting of the European Network on Regional and Local Labour Market Monitoring (EN RLMM)

For the first time in the Network's 15-year history, the Annual Meeting will not be held as a face-to-face event. The circumstances of the COVID-19 pandemic lead to the choice of a virtual format. This will enable Network members to gain experience with digitally supported exchanges and possibly receive new impulses for their work in the observatories. Two thematic focuses are planned to empower Network members for the challenges of the transformation.

The foundations of this empowerment are provided by the contributions in this anthology.

*Focus 1: Assessing the Complex World of SMEs in the Pandemic and Beyond*

It will be discussed how, according to Network members, SMEs are currently positioned in their regions to survive the pandemic. In particular, five thematic dimensions are under consideration:

- Differentiated according to various types of SMEs (different sizes, industry affiliations, locations, degrees of innovation and digitisation, qualification levels of employees), it can be determined which of these types are particularly well suited to the challenges of the crisis and what are the decisive factors.
- A focus is also on the extent to which specific concepts such as corporate social responsibility, employability, life-long learning, and green production can help to promote sustainable and inclusive employment and how these concepts can best be implemented by SMEs.
- It should be discussed how the digitisation implemented out of necessity by many SMEs in work, production, and marketing processes in recent months can be stabilized and sustainably anchored or expanded. Further, what can the companies achieve on their own and where would they need help from third parties.
- It will be discussed how local and regional policy frameworks should be designed to promote the existence and transformation of SMEs and their employees.
- Finally, the integration and networking of SMEs in their regions is of central importance, since they are often dependent on support from third parties for the recruitment, retention, and training of their employees due to limited resources. An exchange should take place about which actors are indispensable for such networks and how these networks should be designed as part of the regional governance structure.

For each of these thematic stands, it is also important to explore how relevant information on the respective topics can be mapped into a continuous regional and local labour market monitoring.

*Focus 2: Preconditions and Functions of Regional and Local Labour Market Observatories During the Pandemic and Beyond*

During the pandemic and its consequent transformations, the best possible transparency is continuously required so that companies (the majority of which are

SMEs), actors in their support structures (Public Employment Services, VET provision, innovation, and technical support, and so on), and policy makers are well-oriented and are able to make suitable decisions. The situation in most regions and localities is currently still characterised by non-transparency. Accordingly, there is a high need for action. If this need is met, evidence-based labour market and economic policies can be implemented. As mentioned above, regional and local labour market observatories form a solid basis for creating optimal local transparency. However, most observatories are not currently set up to do this job adequately. Against this background, it should be discussed where there is a need for action and which solutions and support can be used to improve it. Discourses must be conducted along four thematic dimensions:

- It is important to clarify the topics on which information needs exist in the regions and localities. In addition, it has to be discussed how this information can be made available at short intervals – if possible, in real time – and which actors not yet addressed should be involved in the generation and use of this information.
- It will also be discussed how observatories can become visible as competent and central actors locally and how they can systematically use the interface with the policy makers in particular. However, access to other information user groups, such as companies, should also be discussed.
- For observatories which have so far been operating in (regional) isolation, it is important to determine whether a support structure can be established or activated with the help of the European Network on Regional Labour Market Monitoring and how this structure should be designed.
- Finally, it can be discussed whether, and if so, how observatories in their regions and localities can influence the initiation and implementation of sustainable, inclusive, and innovation-oriented development.

At the Annual Meeting, the results of the virtual exchange will be documented and serve as a knowledge base for the network members, which can and should be updated by further exchanges.

## Contributions in this Anthology

The 31 Network members, who have written 17 articles this year, show that dealing with SMEs can have many different facets. Basically, there are two main perspectives to be differentiated. On the one hand, some of the articles in Chapter 2 focus on the relevance of SMEs with the help of structural data and thus demonstrate

their importance for regional and local economic areas. These descriptions are mostly linked to necessary policy frameworks. This shows how important the targeted support of SMEs is, so that they can secure sustainable and inclusive employment and at the same time maintain their economic stability. On the other hand, this anthology contains a number of articles in Chapter 3 that approach SMEs from an organisational perspective. The main focus is on human resource management and its specific conditions. These two groups of articles are framed by contributions in Chapters 1 and 4, which present definitions and concepts and localise the position of SMEs in the major development lines of international organisations such as the OECD and the European Commission and thus create an important basis to specify perspectives beyond the pandemic.

The chapters and the articles are described in more detail below.

In the introductory Chapter 1, Ronald McQuaid and Aleksandra Webb introduce the general topic of SMEs. They show different definitions and concepts in order to be able to grasp the diversity of SMEs. They also argue that SMEs are of central importance for the transformation of economy and labour, especially in times of pandemic. They speak of a necessary re-engineering that can be pursued with the aim of sustainable and inclusive employment. Finally, they summarise the thematic lines under which SMEs can be taken into account in regional and local labour market monitoring. In the second contribution of this chapter, Renato Fontana, Ernesto Dario Calò, and Milena Cassella open up a rather qualitative perspective on the subject of SMEs by historically deriving that the socio-cultural substance of SMEs (they particularly consider start-ups), are anchored deep in Italian society. This impressively shows that this is a special quality criterion of SMEs and that this anchoring at a local and regional level can bring about particular sustainability in employment and at the same time innovations.

Chapter 2 focuses on the policy framework that SMEs need for sustainable and inclusive employment and economic growth. First, various policy fields and their relevance for the support of SMEs are discussed in Chapter 2.1. It starts with Gábor Mélypataki, Michał Baránski, Zoltám Muszinki, and Katalin Lipták, a consortium of scientists from Hungary and Poland, who interdisciplinarily examine from an economic and legal perspective to what extent the legal framework can meet the special conditions of SMEs so that they can implement sustainable employment. Their finding is clearly negative. They point out, however, that the concept of corporate social responsibility can be provided. Martine Gadille, Karine Guiderdoni-Jourdain,

and Robert Tchobanian take a different perspective by focusing on the field of economic policy. They show that cluster policy in particular cannot adequately do justice to SMEs. Rather, according to their findings, so-called meta organisations are needed, which have independent resources and can support SMEs very efficiently as a local service provider. Irina V. Novikova, Olesya V. Dmitrieva, and Roman I. Antonenko argue similarly with regard to support for digitisation. Using various examples from China and Russia, they show that a targeted digitisation policy, which in addition to technology also focuses on training people in SMEs, can lead to growth of SMEs. However, their results further show that systematic and sustainable support is needed to anchor digitisation well in SMEs. An appropriate policy framework is particularly important in times of digitisation, which is often implemented ad hoc. While in the first three articles the focus is on a policy field, Borja Pulido Orbegoza demonstrates for the Basque Country how different policy fields can be interrelated under a regionally defined and future-oriented strategy. This promotes SMEs specifically but also simultaneously promotes inclusive employment. Thereby, the policy areas economy, labour market, and education are directly connected with each other. Pulido Orbegoza makes it clear that integrated or collaborative approaches can only be successfully aligned if they are supported by a common vision or objective.

In Chapter 2.2, the authors show that when designing policy frameworks for the promotion of SMEs, challenges can arise in the implementation, which have a clearly limiting effect on the efficiency of the support. In her article, Nina Oding shows that, unlike in many European Union (EU) countries, there is no historical and socio-cultural line in Russia that would support the establishment of SMEs. She argues that in the Post-Soviet states, SMEs play only a marginal role given the large corporate and production conglomerates. This also means that transitions into grey and black economies are smooth. Incentives from the policy framework to promote SMEs are difficult to grasp here since the grey market has established itself as a social practise. Ciprian Panzaru and Cosmin Enache outline another challenge in their article to the situation in Romania. They deal with employment growth in SMEs, which is promoted by a corresponding policy framework. However, their research shows that there is a kind of marshalling yard between individual industries. Employment growth in the services and construction sectors is to the detriment of employment in production. In his article, Daniel Porep from the Brandenburg region in Germany proves with elaborated and much differentiated data analyses that SMEs' funding does not automatically function as a job engine. This means that



incentives for employment growth in SMEs embedded in policy frameworks cannot always achieve the intended effect. Therefore, research and evaluation, as in the articles presented here, is required to measure the effectiveness of policy measures.

Chapter 3 focuses on the perspective of SMEs as organisations and discusses how human resource management should be aligned in order to create sustainable and inclusive employment. Qualification and training seem to be of great importance. This is illustrated by the articles in Chapter 3.1. They show that, unlike in large companies, learning and training in SMEs is often carried out informally. This means that other than formal formats are applied. To grasp these precisely is an important task in regional and local labour market monitoring. Aline Valette-Wursthen conceptually introduces different types of SMEs. She particularly refers to the very small enterprises (VSEs), those are microenterprises with up to ten employees. She combines her descriptions of the different types of companies with the specification of the roles of the managers. According to her results, this has a significant influence on how training and learning are implemented in the company. In conclusion, she points out that the educational sector could still target some previously untapped educational potential in SMEs. Pirita Vuorinen and Cristina Mereuta from the European Training Fund (ETF) argue in a similar way. They argue that new training formats and learning pathways are required in order to significantly promote the ability to innovate as well as the relevant technology transfer in SMEs. It is also important to the authors that there is a systematic approach on how a skills upgrade is implemented for employees. Thus, significantly strengthening the employability of workers and securing sustainable employment. The topic of skills upgrade is also in the focus of the article written by Oliver Lauxen and Christian Müller. It deals with unskilled and semi-skilled workers in SMEs. Their upskilling is promoted in the state of Hesse in Germany so that practical work experience can be used as the basis for an external exam in order to obtain a formal vocational qualification degree. The results of the presented evaluation show that only certain types of SMEs are interested in such formal qualifications for their employees. Rather, it seems to be important for SMEs that the necessary knowledge and skills are available even without formal qualifications. To achieve this, companies use different strategies and approaches. In the following Chapter 3.2, Mattia Martini and Dario Cavenago show in a case study that maintaining employability is essential for SMEs. This also ensures the sustainability of employment. Employability is achieved or secured respectively by offering trainings. The authors show that employability is a

key prerequisite for sustainable employee loyalty to the company. Moreno Baruffini also demonstrates in three case studies from the border region between Switzerland and Italy that the strategic orientation of SMEs in relation to the development of products and services can be closely interrelated with human resource management. His findings make clear that innovations in recruitment and employment can represent a good potential for product and service innovation and vice versa. This means that innovative SMEs also have good prerequisites for innovative personnel management and, thus, for a sustainable and inclusive employment. The conclusion of this chapter is the contribution of Jenny Kipper, who uses the analysis of six SMEs in Hesse to clarify that the founders and managers of the SMEs are decisive for employee retention, recruitment, and dealing with crisis situations. Jenny Kipper works out which indicators should be included in a quality-oriented monitoring that can capture insights into the logic of action of small businesses.

In the last Chapter 4, Marco Ricceri outlines a perspective, based on central key documents of the OECD, the ILO, and the European Commission, in order to be able to identify objectives for the transformation of economy and employment. He analyses that, however, there is still a need for readjustment, in particular with regard to better intersectional integration, new tools for intensifying the relationships between the regions and their businesses and sound governance for new environmental and social policies.

As editors of this anthology, we would like to thank the authors who have often written their contributions this year under the difficult conditions of the pandemic. Their contributions enable a unique panoramic view of the topic of SMEs in a situation in which there are very good reasons to rely on SMEs when it comes to securing and sustainably strengthening regional and local economy and employment. Thank you very much.

Without the active and professional support of Amelie Schultze and Daniela Holler at the Goethe University in Frankfurt am Main in Germany, this anthology would not have been possible in such a short time. Thank you very much for this.

And last but not least, Marco Ricceri and Ludovico Semerari from EURISPES in Rome have given us great support over the past few weeks. They were flexible enough to postpone their Network member's invitation to Sardinia from 2020 to 2022 and are now helping significantly to make it possible for the first time to host the network's annual meeting as a virtual meeting. We are very grateful to Marco Ricceri and Ludovico Semerari.

We would also like to thank Renato Fontana, with whom we would like to further anchor the memory of the work of Patrizio di Nicola in the Network. He supports this greatly.

At the end of this introduction, we would like to speak again as editors of the Network's anthology. After 15 years of dealing with regional and local labour market monitoring and the many activities that were developed within the network to convince policymakers in regions and localities in particular that evidence-based policies can generate the best possible development impetus, we look at the current situation. In many countries, politics in recent weeks have been more evidence-oriented than ever before. This is an opportunity for the actors in the network to create transparency through their observatories, that is to help them advance the transformation of employment and the economy in the crisis and afterwards. The exchange in the Network can help us all.

Frankfurt am Main, June 2020

## 1. SMES: CONCEPTS AND RELEVANCE FOR REGIONAL AND LOCAL LABOUR MARKET MONITORING IN THE PHASE OF PANDEMIC AND BEYOND

### The Importance of SMEs as Innovators of Sustainable Inclusive Employment: Some Issues Resulting from Shocks to the Economy Imposed by the COVID-19 Pandemic

*Ronald McQuaid and Aleksandra Webb*

#### Introduction

This chapter briefly introduces some of the issues related to small and medium-sized enterprises (SMEs) in their roles as innovators of sustainable inclusive employment. There are multiple forms of SMEs that differ by size, reach and character, varying by industry and country. However, these enterprises are crucial to local and regional economies throughout the world, especially in terms of offering employment opportunities and contributing to economic growth (Acs and Audretsch 2010).

Adaptability and responsiveness are two commonly noted features of SMEs that provide business advantages in non-turbulent times as well as in times of crises (Drucker 1985). A flexibility in management policies and rules allows SMEs, firstly, to respond quickly to market opportunities by finding innovative solutions to existing or emerging problems, and secondly, to develop competitive advantages through niche organisational and strategic capabilities, which leads to increasing innovation and productivity (Audretsch and Thurik 2004). Utilising their know-how enables SMEs to respond to consumer needs, gain cost/strategic leadership and increase market-share. Such strategic leadership does not have to be limited to the market and financial success, as SMEs can also lead the work and employment innovation championing better work and creating more balanced, fairer and healthier workplaces (Schumacher and Gullingham 1979, Burchell et al. 2014).

Such roles seem to be of great value in the context of the health crisis caused by the COVID-19 pandemic. The pandemic has already altered some societal norms,