

THE PUBLIC POLICY HUB

Policy Brief The Effect of COVID19- on the Human Capital Management in Start-ups in Egypt

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Executive Summary

Start-ups are institutionally fragile companies that deal with high degrees of risk and uncertainty, especially during short-term shocks, such as COVID-19.

This policy brief attempts to identify the needed development in the start-up supporting ecosystem under COVID-19 pandemic, with a special focus on human capital management (HCM), decent work and labour resilience in start-ups in Egypt.

The core question of the paper is: **How did COVID-19 pandemic affect the HCM practices in Egyptian start-ups and what is needed for start-ups in Egypt to recover from the crisis and sustain decent jobs and labour resilience?**

Start-ups faced external challenges from the ecosystem on the policy level and from the supporting agencies of start-ups, in addition

to challenges related to the effects of the online model on small businesses operations and on human capital management.

Regarding the operational level, some sectors closed, or stopped their operations for a period to convert their business model from scratch to adapt to the online model, adding new revenue schemes and changing their internal communication with customers. In addition, start-ups encountered shortage of cash that affected the human capital resilience.

Consequently, a lot of HR functions were affected from HR planning, recruitment and hiring, contracts and benefits, talent development, performance management and employee engagement and well-being.

This paper identifies three policy alternatives with two cross-cutting themes to support a resilient entrepreneurship ecosystem and human capital. The first theme is the **Access to funding and diversification of funds** to develop their business model and retain their employees. The second theme is the **support provided to different governorates from the ecosystem** to increase inclusiveness of talents. This paper calls for three policy alternatives: Policy alternative I suggests **establishing an association for start-ups by start-ups** to form a representative entity that enables them to work in synergies with

other entrepreneurship stakeholders to voice their needs and complaints; Policy Alternative II calls for **digitalization of governmental services for start-ups**, through capitalizing on Micro, Small and Medium Enterprises Development Agency (MSMEDA) Platform to serve as a link between the government and start-ups. Policy Alternative III focuses on **enhancing the support of business incubators and accelerators to start-ups** in their capacities in digitalization and telework skills, crisis and risk management preparation, HCM consultancies, and support of research and development (R&D)

2. Problem Statement

Egypt had issued several policy reforms to improve the entrepreneurial index. Consequently, it was ranked among the 60 highest emerging start-up ecosystems in 2021 (Whiteshield Partners, 2021). However, this progress was slowed down by labour management and resilience capabilities. Since COVID-19 mainly impacted human beings, it accentuated the importance of HCM during the crisis to balance between the work rhythm and employee's safety (Collings, Nyberg, Wright & McMackin, 2021)

labour market resilience is defined as the ability to avoid any fluctuation in labor market outcomes during economic disruption.

Consequently, this paper focuses on three resilient cyclical capabilities that are directly related to a more efficient management and resilient human resources during crisis. It focuses on the absorptive, adaptive, and transformative capacities of small businesses.

2.1. Effects from the ecosystem

a. On the policy level

1. Despite that the **SME new law no. 152** issued in 2020 defined entrepreneurial activities, the difference between start-ups and SMEs is still not fully realized in terms of tax incentives, bureaucratic conditions and fees, and funding access for start-ups (S&P, 2021). This weakens the adaptive capabilities of start-ups to focus on operations and their human resources during external shocks.

2. Given that local businesses can form 40% of governmental bids, the chances in landing these bids are low according to startups founders. Consequently, it affects their business operations and retaining their employees.

b. On the supporting agencies of start-ups Level

Many incubators and accelerators provided capacity building opportunities, but many founders expressed their frustration from the lack of funding and how it affected their operations due to liquidity problems.

2.2. Effects from the online model on startups operations and HCM

a. Operations

Some start-up sectors found in this digitization process an opportunity to boost their growth. While other sectors closed, or stopped their operations for a period to convert their business model from scratch to adapt to the online model.

| High Performing Sectors | Low Performing Sectors |
|---|---|
| Start-ups depending on digital platforms to provide their services: medical supplies and services, food processing and retail trades, personal and healthcare, ICT, and e-commerce. | Start-ups depending on human interactions to provide their services: Cultural, travel, tourism, and education for disadvantaged groups. |

1. Virtual challenges faced by start-ups during COVID-19:

- Logistical, changing their communication with customers/target groups to online mode,
- Digital illiteracy,
- Low digital infrastructures.

2. Start-ups encountered shortage of cash that affected their operations and the human capital resilience.



b. HCM

1. Human Resources Planning:

- Working from home overwhelmed some staff with tasks and unloaded others, which created an imbalance in the organizational structure.

2. Hiring and recruitment:

- On a side, high performing sectors faced an online hiring boom and on-boarding plans online, which made the newly hired do not know their colleagues, and impacted the organization's culture. While on the other side, many start-ups refrained from hiring at the beginning of the crisis.
- Talent acquisition varied during the pandemic where founders were looking for employees who have excellent communication skills via online tools, and resilience and adaptability.

3. Contracts and Benefits:

- Freelancing and outsourcing contracts replaced full time jobs.
- The majority of employees do not have any health or social insurance, which reduces the decent work approach.

4. Talent Development:

- The shortage in cash affected training needs, from technical to mental health sessions.
- Start-ups lack crisis management training.
- Low score in employment and skills performance and entrepreneurial education at academic institutions.
- Low scale of research and development (R&D) transfer.

5. Performance:

- Remote work affected some employees' performance and productivity, which raised questions on assessing their performance remotely.

6. Employee's engagement:

- Start-ups struggled at the beginning to keep the coherency of the team, where they experienced a decrease in face to face communication with their colleagues
- It was hard to offer engagement activities virtually as they were very costly as opposed to start-ups budgets.

7. Employee's protection and well-being:

- There was a division between those who can work from home versus those whose nature of job does not allow it.
- Working remotely raised questions about gender equality indicators, and the rise of anxiety levels.

Cross-cutting topic between operations and HCM which are the effects on start-ups operating in different geographical areas in team synergies and talent acquisition.

The relationship between start-up operations and HCM are schematically presented in Figure 1.

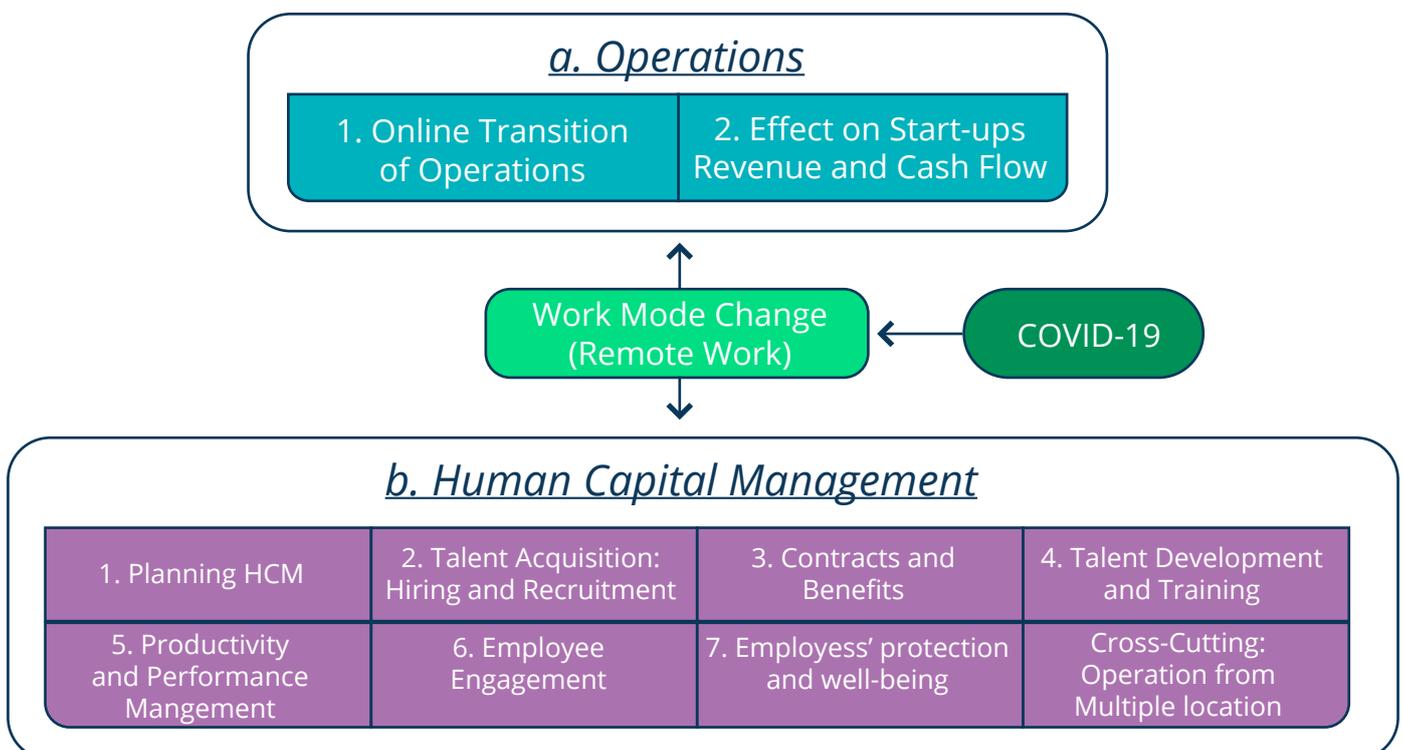


Figure 1: Relationship between operations and Human Capital Management (El Dabbagh, Fouda & Walid, 2021)

Policy Recommendations

Based on the findings, the paper presents three policy alternatives aiming at enhancing the performance of the start-ups ecosystem, focusing on HCM. In addition, the policy alternatives also suggest two cross-cutting themes with the three policy options. These main themes are **Access to funding and diversification of funds**, as start-ups rely heavily on funding to develop their business model and retain their employees. The second cross cutting theme is the **support provided to different governorates from the ecosystem**. This theme focuses on supporting other governorates than Cairo and Alexandria to increase inclusiveness of talents. The data further reveal that it is also useful to highlight the importance of one of the policy alternatives within the previously submitted policy paper on human capital management issued in 2020, which suggests **upgrading and linking vocational training and higher education curriculum to meet entrepreneurship market needs**.

Labour Market Recovery Policy through Entrepreneurship: India's Experience

To deal with the pandemic, the Indian Ministry of Science and Technology was working on supporting R&D efforts that could support its entrepreneurs to provide scalable technologically innovative solutions, specifically in medical areas, that could help fight the COVID-19 pandemic or mitigate its negative impact on the economy and society. To better support start-ups, the Ministry conducted an assessment to find out that start-ups could design products by the required technology, but they lack access to that diversified financial resources, decentralization and women inclusion, mentorship and guidance for start-up founders and employees, and finally, building their talents in soft skills as well as for marketing to scale-up their products.

- Policy alternative I suggests **establishing an association** for start-ups by start-ups that will support them in having a representative entity that enables them to work in synergies with other entrepreneurship stakeholders to voice their needs and complaints.
- Policy Alternative II calls for **digitalization of governmental services for start-ups**, through capitalizing on the Micro, Small, and Medium Enterprises Agency (MSMEDA) platform to serve as a link between the government and start-ups. This platform includes business regulations and registrations services, in addition to, announcing funding or training opportunities for start-ups, and publishing bidding processes for start-ups to apply.
- Policy Alternative III focuses on **enhancing the support of business incubators** and accelerators to start-ups based on the changes in the ecosystem due to COVID-19. The business incubators and accelerators are main start-up supporters in the ecosystem, which they need to build their capacities in digitalization and telework skills, in addition to crisis and risk management preparation, HCM consultancies and advisory services for start-ups during short term shocks. It is also crucial to support the R&D to support innovation and technological transformation for more resilient labour market.

Roadmap to Implementation

The paper recommends a mix of policy alternatives I and II. The two policy alternatives together will enable the start ups to communicate more effectively with the entrepreneurial stakeholders. These alternatives complement each other through focusing on the individual communication level and collective communication. Through the association start-ups will be able to inform their needs, challenges, and development with the rest of the ecosystem on a collective level. Through the MSMEDA portal start-ups will be able to communicate with MSMEDA and other public organizations to enhance their business regulation and better support their workers. Implementing both alternatives will support the start-ups to be more resilient and adaptive to the ecosystem changes. It will also support their recovery from the negative impacts caused by COVID-19 in addition to

developing further on the positive changes that they made in their businesses. Next, we recommend as a long-term goal to enhance the support given by incubators and accelerators, to better support start-ups in digital skills, crisis management, R&D technological transfer, and HCM consultancies.

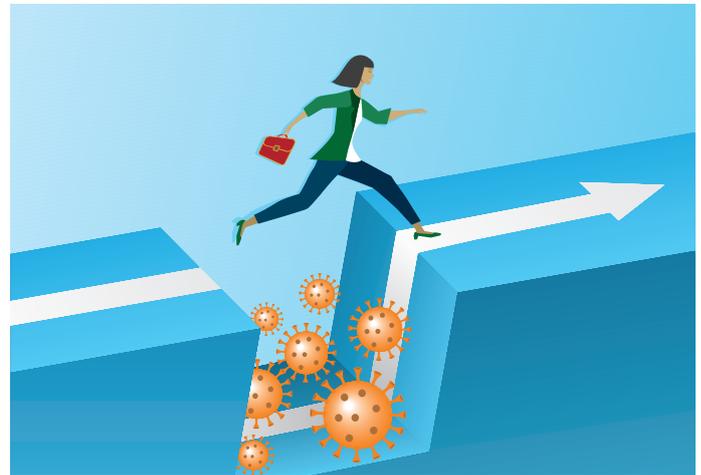


Figure 2 reflects the outcome of the policy recommendations

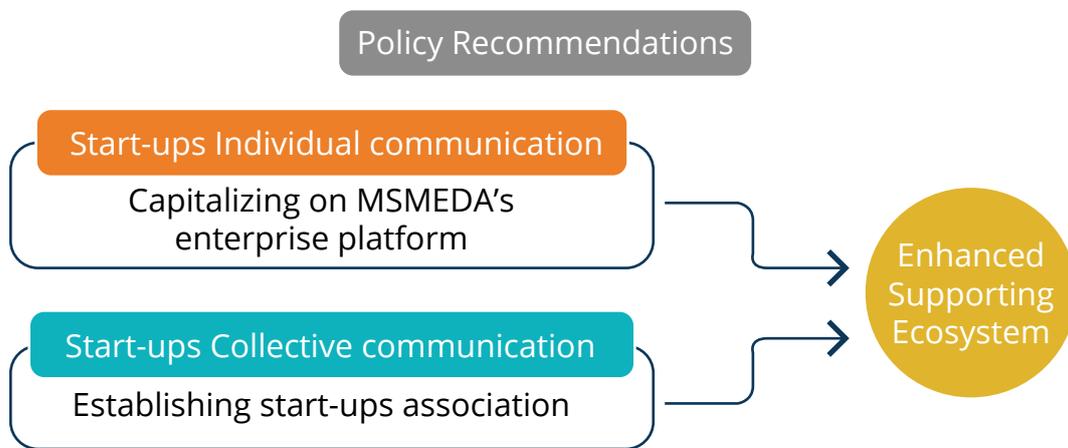


Figure 2: Outcome of Policy Recommendations (El Dabbagh, Fouda & Walid, 2021)

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«All the academic references used in this brief are mentioned in the policy paper.»

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