

SMEs in the COVID-19 Recovery: Which SMEs Faced Most Pressing Challenges?

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1 Introduction

Small and medium-sized enterprises (SMEs) play a central role in the European economy: in 2021, 99.8% of all enterprises in the EU-27 non-financial business sector (NFBS) were SMEs, employing 83 million people or 64% of total employment in the NFBS, and generating 52% of the total NFBS value added.¹ In addition, growing SMEs can help drive innovation and competitiveness.²

Since the beginning of the COVID-19 pandemic and into 2021, SMEs have experienced challenging economic circumstances due to lockdowns and social distancing measures, supply chain constraints, and a tight labour market.³

This paper first investigates the relative importance of various problems that SMEs have faced in the recovery period following the COVID-19 pandemic, as well as recent trends in the importance of these issues (section 2). Section 3 explores the types of businesses more likely to experience these problems, and section 4 concludes.

The paper uses data from the EC/ECB Survey on the access to finance of enterprises. Drawing on microdata from the survey, econometric analysis was used to investigate how various firm characteristics were associated with SMEs' likelihood of rating different problems as extremely important to their firm in the six-month period between April and September 2021.

2 Problems faced by European SMEs up to 2021

To provide context for the econometric analysis, this section explores the relative importance of various problems faced by SMEs in 2021 as well as trends in the importance of these problems across the 2018-2021 period.

The analysis of problems in 2021 considers both the average importance of different problems, measured on a 1-10 scale (increasing with importance)⁴ (Figure 1),⁵ and the share of SMEs that perceived a given problem as being the most important one they were facing (Figure 1 and Figure 2). In the interest of concision, the analysis of trends only considers the latter measure as both metrics suggest broadly similar trends.

¹ Muller, P., Ladher, R., Booth, J., Mohammed, S., Gorgels, S., Priem, M., Blagoeva, T., Martinelle, A. and Milanese, G. (2022). SME Performance Review. Available at: https://single-market-economy.ec.europa.eu/smes/sme-strategy/sme-performance-review_en.

² OECD (2019) *Strengthening SMEs and Entrepreneurship for Productivity and Inclusive Growth: OECD 2018 Ministerial Conference on SMEs*, OECD Studies on SMEs and Entrepreneurship, OECD Publishing, Paris, <https://doi.org/10.1787/c19b6f97-en>.

³ Muller, P., Ladher, R., Booth, J., Mohammed, S., Gorgels, S., Priem, M., Blagoeva, T., Martinelle, A. and Milanese, G. (2022). SME Performance Review. Available at: https://single-market-economy.ec.europa.eu/smes/sme-strategy/sme-performance-review_en.

⁴ With 1 and 10 respectively denoting 'not at all important' and 'extremely important'.

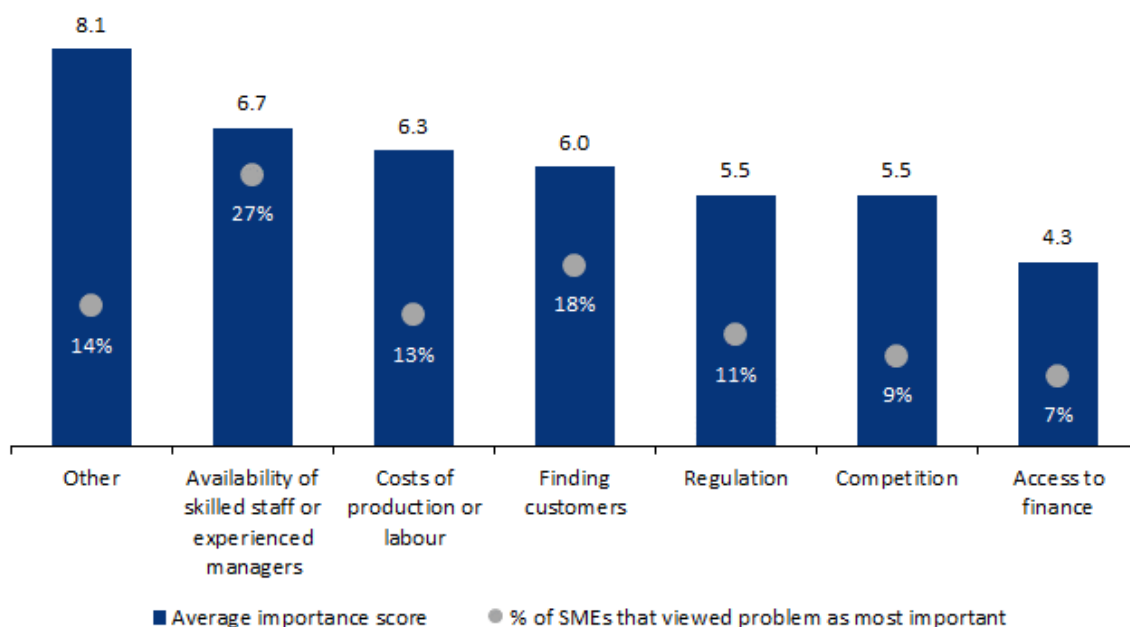
⁵ This refers to the weighted mean importance score taken across SMEs in the EU.

Relative importance of problems faced by SMEs in 2021

Based on the average importance score, the most important problems faced by EU-27 SMEs during the recovery period of the pandemic – specifically, between April and September 2021 – were 'other' problems not listed in the standardised options, which received an average score of 8.1 (Figure 1).⁶ The second most important problem faced by SMEs was the availability of skilled staff or experienced managers, with an average score of 6.7. SMEs highlighted costs of production or labour as the third most important problem to them, rating this problem with an average score of 6.3.

Around 1 in 4 SMEs (27%) considered the availability of skilled staff or experienced managers as the most important problem they faced – the highest proportion across all problems. Almost 1 in 5 firms (18%) reported finding customers as their most important problem. The third type of problem(s) most frequently selected as most important were 'other' problem(s), which were rated as the most important problem(s) by 14% of respondents.

Figure 1 Importance of problems faced by SMEs in 2021



Note: Average importance scores refer to the average (mean) scores calculated from responses to question Q0b. in the SAFE survey: "Q0b. How important have the following problems been for your enterprise in the past six months? Please answer on a scale of 1-10, where 1 means it is not at all important and 10 means it is extremely important.". The % of SMEs that viewed problems as most important refer to the proportion of respondents who considered a given problem to be the most important problem faced in the past

⁶ Despite 'other' problem(s) having the highest average score, this average was calculated over a smaller proportion of SMEs: for instance, less than 40% of respondents provided a score for this problem category in wave 25 of the survey, whereas over 90% of respondents gave a score to the problems included in the standardised list (e.g., finding customers, competition etc.). Furthermore, in the case of 'other' problem(s), interviewers were instructed to read out the following question if necessary: "Is there anything else which has been a problem for your enterprise in the past six months?", which suggests that respondents that answered 'No' may not have attributed a score to 'Other' problems (an equivalent question was not asked for the problems in the standardised list). This suggests that SMEs which did not consider 'other' problems to be particularly relevant may have not provided a score (rather than providing a low score), meaning that the sample over which the average is computed potentially comprises only those SMEs which considered 'other' problem(s) to be particularly important. Therefore, the relative importance of 'other' problems should be interpreted with caution, as only a minority of respondents attributed a score to this category of problem(s).

six months and are also derived from responses to question Q0b. Both the averages and proportions are weighted (using calibrated weights) and taken across all SMEs in the EU that responded to wave 25 of the SAFE survey. The calibrated weights aim to restore the proportions of employment of different size classes, economic activities and countries (see ECB, 2022). The results refer to the period between April and September. Figures in the chart are based on published results which can be found at: https://single-market-economy.ec.europa.eu/access-finance/data-and-surveys-safe_en. Methodological information can be found in ECB (2022) *Survey on the access to finance of enterprises: Methodological information on the survey and user guide for the anonymised micro dataset*.

Source: EC/ECB Survey on the access to finance of enterprises

Availability of skilled staff or experienced managers and ‘other’ problem(s) were among the top 3 most important problems based on both the average importance score and the proportion of EU-27 SMEs which considered these to be the most important problems. In contrast, finding customers and costs of production or labour were among the top 3 most important problems based on only one of these two measures (but among the top 4 according to both measures).

Trends in problems faced by SMEs in the 2018-2021 period

The proportion of respondents that reported ‘other’ problem(s) as the most important issue(s) they had experienced increased from 8% to 14% over the 2018-2021 period (Figure 2).

This proportion more than doubled in the first year of the pandemic to reach 18% (up from 8% in 2019), before falling to 14% in the recovery period (2021) but still remaining substantially larger than in the pre-pandemic period. This increase in importance of ‘other’ problem(s) may reflect the pandemic having caused a range of problems not captured by the six problems from the standardised list .

The availability of skilled staff or experienced managers was selected as the most important problem by the highest proportion of SMEs in all years except 2020, when it was selected by the second highest proportion of SMEs.

The proportion of respondents that selected costs of production or labour as the most important problem they faced was fairly stable across all four years (12-13%). This proportion rose slightly to 13% in 2021, up from 12% in the 2018-2020 period. This small increase may be an early reflection of inflationary pressures – one may expect costs of production or labour to further increase in importance in 2022.

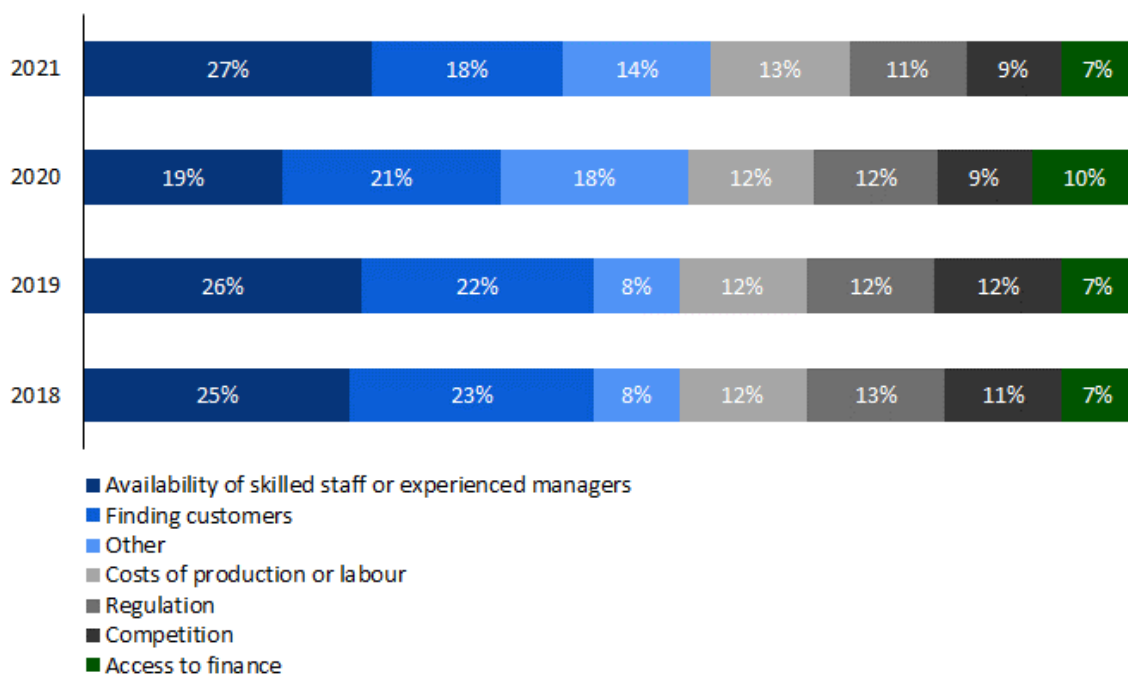
Finding customers was most prevalent as the most important problem faced by SMEs in 2020 and the second most prevalent in all other years. The proportion of firms that selected finding customers as their most important problem gradually fell from 23% in 2018 to 18% in 2021.

The relatively high proportion SMEs that perceived finding customers as the most important problem in 2020 could perhaps be explained by the reduction in consumer spending due to economic uncertainty caused by the pandemic.⁷ Additionally, the lockdown restrictions in

⁷ It should be noted that this proportion actually decreased to 21% in 2020, down from 22% in 2019. However, in 2020, finding customers was highest-ranked in terms of the proportion of SMEs that considered it to be the most important problem they faced, compared to second highest-ranked in other years (Figure 2).

place across Europe impacted the ability of SMEs to continue providing their goods or services to consumers as normal, leading to greater emphasis on providing services online. Some SMEs may have struggled to provide online services or find customers able to adjust to using these services.

Figure 2 Most important problem faced by European SMEs (% of SMEs)



Note: Values refer to the proportion of respondents who considered a given problem to be the most important problem faced in the past six months and are derived from responses to question Q0b. in the SAFE survey: “Q0b. How important have the following problems been for your enterprise in the past six months? Please answer on a scale of 1-10, where 1 means it is not at all important and 10 means it is extremely important.”. Proportions are weighted (using calibrated weights) and taken across all SMEs in the EU that responded to a given wave of the SAFE survey. The calibrated weights aim to restore the proportions of employment of different size classes, economic activities and countries (see ECB, 2022). Results for 2018 (wave 19) and 2019 (wave 21) refer to the EU-28 countries, whilst results for 2020 (wave 23) and 2021 (wave 25) refer to the EU-27 countries. The results refer to the period between April and September. Figures in the chart are based on published results which can be found at: https://single-market-economy.ec.europa.eu/access-finance/data-and-surveys-safe_en. Methodological information can be found in ECB (2022) *Survey on the access to finance of enterprises: Methodological information on the survey and user guide for the anonymised micro dataset*.

Source: EC/ECB Survey on the access to finance of enterprises

Access to finance was selected by 7% of firms as the most important problem they had faced in all years, except for 2020, when this proportion rose to 10%. This relatively low proportion in all years is consistent with the period following the global financial crisis being characterised by low interest rates and ‘cheap money’ more generally. The increase from 7% to 10% in 2020 could potentially be explained by reluctance from banks to lend to firms during heightened economic uncertainty caused by the pandemic, despite the introduction of Government support schemes (e.g., loan guarantee schemes) – the latter may nevertheless explain the relatively low prevalence of access to finance as the most important problem in 2020 (only one other problem – competition – was less prevalent).

3 Key findings from the econometric analysis

Drawing on econometric analysis, the rest of this paper aims to add granularity to the above findings, by exploring which types of firms are more (less) likely to consider various problems as extremely important (i.e., give them an importance score of 10 out of 10) in the last six months (i.e., between April and September 2021). Models are estimated using logistic regressions.

This section summarises key statistically significant findings from this analysis, focusing on firm characteristics which were associated with a higher (lower) likelihood of considering a majority of the seven problems (i.e., four or more) as extremely important. Detailed results outlining statistically significant findings for each problem are presented in Annex 2.

It should be noted that the characteristics associated with a lower or higher likelihood of the above outcomes should not be interpreted as causal. Indeed, other factors may be at play, or the particular problem faced by an SME (e.g., access to finance) may be a determinant of a given firm characteristic (e.g., growth). This analysis should therefore be considered exploratory in nature.

Types of firms more likely to consider a problem as extremely important...

- SMEs experiencing problems due to late payment
- SMEs whose outlook on their sales and profitability or business plan had deteriorated
- SMEs carrying out services activities
- SMEs that had reorganised management
- SMEs that introduced a new way of selling their goods or services

SMEs experiencing problems due to late payment from customers were more likely to consider most of the problems (accessing finance, competition, costs of production or labour, regulation, availability of skilled staff or experienced managers) as extremely important.

SMEs whose outlook on their sales and profitability or business plan had deteriorated were more likely to view all issues as extremely problematic.

Compared to SMEs operating in industry⁸, those mainly carrying out services⁹ activities were more likely to consider finding customers, competition, availability of skilled staff or experienced managers, and regulation to be extremely problematic.

⁸ 'Industry' includes firms from mining and quarrying (NACE Rev. 2 section B), manufacturing (C), and electricity, gas, steam and air conditioning supply, and water supply (D), sewerage, waste management and remediation activities (E).

⁹ 'Services' includes enterprises in transport and storage (NACE Rev. 2 section H), accommodation and food service activities (I), information and communication (J), real estate activities (L), professional, scientific, and technical activities (M), administrative and support service activities (N), arts, entertainment and recreation (R) and other service activities (S).

SMEs that had reorganised management were more likely to report all problems, except for ‘other’ problems, as extremely important. SMEs that introduced a new way of selling their goods or services were more likely to view finding customers, access to finance, regulation, as well as ‘other’ issues as highly problematic.

Types of firms less likely to consider a problem as extremely important...

- SMEs with higher turnover
- SMEs that grew between 2018 and 2020
- SMEs carrying out trade activities
- SMEs owned by public shareholders

SMEs with higher turnover were less likely to consider most of the problems as extremely important (access to finance, costs of production or labour, finding customers, availability of skilled staff or experienced managers, and ‘other’ problem(s)).

Growing SMEs were also less likely to view a majority of problems as extremely important (access to finance, finding customers, competition and costs of production or labour).¹⁰

Compared to SMEs operating in industry, firms operating in the trade¹¹ sector were less likely to have considered the majority of problems as highly important (access to finance, costs of production or labour, availability of skilled staff or experienced managers, and ‘other’ problems).

SMEs owned by public shareholders were less likely to consider the majority of issues as highly problematic (access to finance, costs of production or labour, availability of skilled staff or experienced managers and regulation).

Other types of firms

A number of characteristics did not have a statistically significant relationship with the likelihood of viewing the majority of problems as extremely important. However, these may still display a statistically significant relationship with that outcome measure in the case of one or more specific problems, and therefore be relevant to certain specific issues. These findings, as well as the ones discussed above, are summarised in Table 1.

¹⁰ Conversely, SMEs with negative growth were more likely to have experienced these problems, as well as ‘other’ problems.

¹¹ ‘Trade’ includes wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods (NACE Rev. 2 section G).

Table 1 Likelihood of considering a problem as extremely important given different SME characteristics

SMEs...	Finding customers	New competition	Access to finance	Costs of production	Availability of skilled staff or experienced managers	Regulation	Other Problems
...with higher turnover	Lower likelihood	Higher likelihood	Lower likelihood	Lower likelihood	Lower likelihood	Not statistically significant	Lower likelihood
...with a higher number of employees	Higher likelihood	Not statistically significant	Not statistically significant	Higher likelihood	Higher likelihood	Not statistically significant	Not statistically significant
...in the trade sector	Higher likelihood	Higher likelihood	Lower likelihood	Lower likelihood	Lower likelihood	Not statistically significant	Lower likelihood
...in the services sector	Higher likelihood	Higher likelihood	Not statistically significant	Not statistically significant	Higher likelihood	Higher likelihood	Not statistically significant
...in the construction sector	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant	Higher likelihood	Not statistically significant	Lower likelihood
...owned by public shareholders	Not statistically significant	Not statistically significant	Lower likelihood	Lower likelihood	Lower likelihood	Lower likelihood	Not statistically significant
...owned by venture capital enterprises	Higher likelihood	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant	Lower likelihood	Not statistically significant
...owned by a family or entrepreneurs	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant
...owned by other enterprises or business associates	Not statistically significant	Not statistically significant	Not statistically significant	Lower likelihood	Lower likelihood	Lower likelihood	Not statistically significant
...owned by ' other ' owner(s)	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant	Lower likelihood	Not statistically significant	Not statistically significant
...that are a subsidiary of another enterprise	Not statistically significant	Not statistically significant	Lower likelihood	Not statistically significant	Lower likelihood	Not statistically significant	Not statistically significant
...that are a branch of another enterprise	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant
...that are older	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant	Lower likelihood	Not statistically significant
...with higher export intensity	Not statistically significant	Lower likelihood	Not statistically significant	Unclear association	Lower likelihood	Not statistically significant	Not statistically significant
...with a positive growth rate	Lower likelihood	Lower likelihood	Lower likelihood	Lower likelihood	Higher likelihood	Not statistically significant	Not statistically significant
...with a negative growth rate	Higher likelihood	Higher likelihood	Higher likelihood	Higher likelihood	Not statistically significant	Not statistically significant	Higher likelihood
...with an improved outlook with respect to their sales and profitability or business plan	Higher likelihood	Not statistically significant	Higher likelihood	Not statistically significant	Not statistically significant	Lower likelihood	Not statistically significant
...with a deteriorated outlook with respect to their sales and profitability or business plan	Higher likelihood	Higher likelihood	Higher likelihood	Higher likelihood	Higher likelihood	Higher likelihood	Higher likelihood
...that introduced a new or improved product or service to the market	Higher likelihood	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant	Not statistically significant	Higher likelihood
...that introduced a new or improved production process or method	Not statistically significant	Not statistically significant	Not statistically significant	Higher likelihood	Higher likelihood	Not statistically significant	Not statistically significant
...that introduced a new organisation of management	Higher likelihood	Higher likelihood	Higher likelihood	Higher likelihood	Higher likelihood	Higher likelihood	Not statistically significant
...that introduced a new way of selling their goods or services	Higher likelihood	Not statistically significant	Higher likelihood	Not statistically significant	Not statistically significant	Higher likelihood	Higher likelihood
...experiencing problems with late payment	Not statistically significant	Higher likelihood	Higher likelihood	Higher likelihood	Higher likelihood	Higher likelihood	Lower likelihood

Lower likelihood
Higher likelihood

Unclear association
Not statistically significant

Note: The colour coding is intended to provide a simplified overview of results, and therefore cannot account for some of the more complex patterns (these are described in more detail in Annex 2). For instance, if coefficients on the indicators for ranges of a quantitative variable are negative but decreasing in magnitude (i.e., this suggests a potentially non-monotonic (i.e., decreasing, then increasing) relationship with the likelihood of the outcome variable, assuming that the base category represents the lowest range), the cell representing this variable will be coloured in green.

Source: *London Economics analysis of data from EC/ECB Survey on the access to finance of enterprises*

4 Concluding remarks

Based on two different metrics, the four most important problems experienced by EU-27 SMEs in the recovery period of the COVID-19 pandemic are the availability of skilled staff or experienced managers, finding customers, 'other' problems, and the costs of production or labour. Of note is the increase in the importance of 'other' problems since the pandemic, which suggests SMEs may have had to face new challenges. Research into the specific nature of these challenges could be of interest in order to gain a broader understanding the issues currently faced by SMEs.

Four main themes stand out from the econometric analysis. First, SMEs with healthy cashflow (e.g., high or growing turnover) were generally less likely to acutely experience a majority of the issues compared to SMEs with cashflow problems (e.g., SMEs experiencing problems due to late payment, or whose outlook on their sales and profitability or business plan had deteriorated).

Second, SMEs' sector also appears to be a strong predictor, with SMEs operating in the services and trade sectors being respectively more and less likely to view a majority of problems as extremely problematic.

Third, certain innovators – namely those that introduced a new organisation of management, or a new way of selling goods or services – were more likely to consider a majority of problems as extremely important.

Finally, SMEs owned by public shareholders were less likely to view a majority of the problems as extremely important.



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