

ECONOMY, ENERGY AND FAIR WORK COMMITTEE**COVID-19 – impact on Scotland’s businesses, workers and economy****SUBMISSION FROM**

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The early impact of COVID-19 on UK entrepreneurial firms

This study is the first to examine the impact of COVID-19 on UK entrepreneurial firms. These ambitious high growth or scaling businesses are critical to the country’s economy. They represent just 6 per cent of UK firms but generate about 50 per cent of all new jobs and provide much of the country’s export and productivity growthⁱ. If they do not survive the COVID-19 pandemic, this will have very damaging consequences for our future economic prosperity.

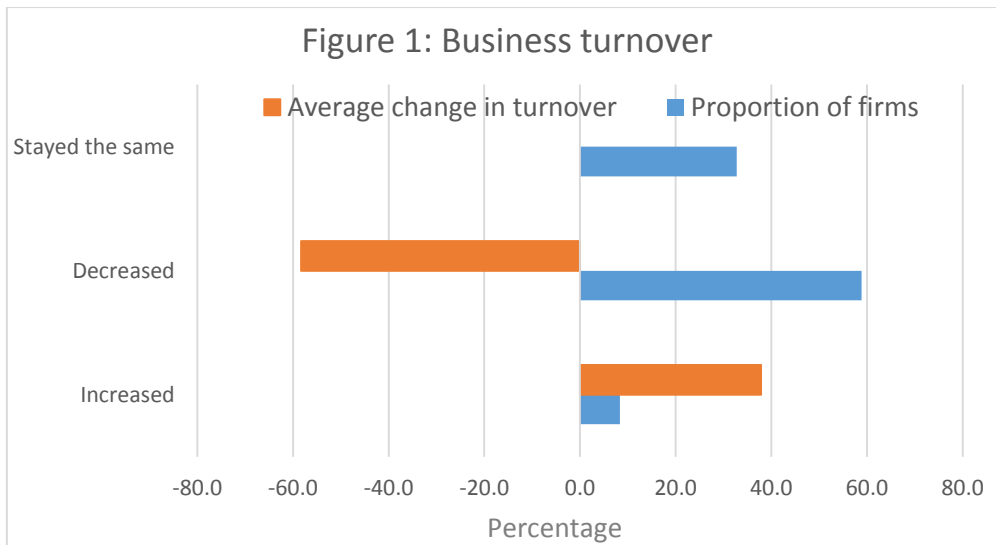
In the first half of April 2020, we surveyed 565 scaling firms to learn how their business performance has changed due to COVID-19ⁱⁱ. The headline findings show that:

- 68%** of firms have cashflow concerns
- 59%** are seeing a significant fall in business turnover
- 51%** are experiencing supply chain issues
- 47%** of exporters have declining revenues
- 37%** of entrepreneurs are experiencing higher stress levels
- 6%** expect to close their business

Dramatic declines in financial performance

The 2008 financial crisis demonstrated entrepreneurial firms are resilientⁱⁱⁱ. Still, we anticipated that the coronavirus pandemic would have an immediate negative financial impact on many of these firms. We predicted most would experience declining turnover. However, some would be unaffected, and some would actually grow. Figure 1 shows that around 60 per cent of firms experienced a decline in turnover. What surprised us is the depth of the decline: the *average* fall in turnover was 59 per cent.

COVID-19 has equally affected Business to Business and Business to Consumer companies. About two-thirds of B2B and B2C firms saw a reduction in their turnover levels between 2019 and April 2020.



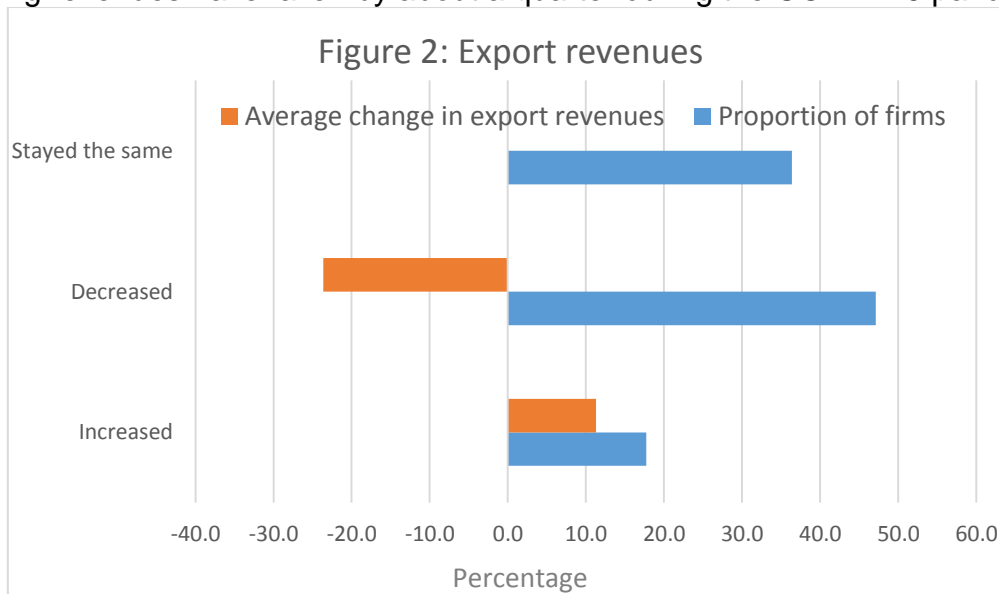
This falling turnover affected entrepreneurs' satisfaction with their cashflow. Only about a quarter of them expressed dissatisfaction with their cashflow situation before COVID-19. Subsequent to the outbreak, 68 per cent of them were dissatisfied.

“There is a very real risk that the UK scale-up sector is about to be (or is already being) decimated - causing untold damage to the future of the national economy and wiping out the next Deliveroo or Revolut before they even have a chance to grow.”^{iv}

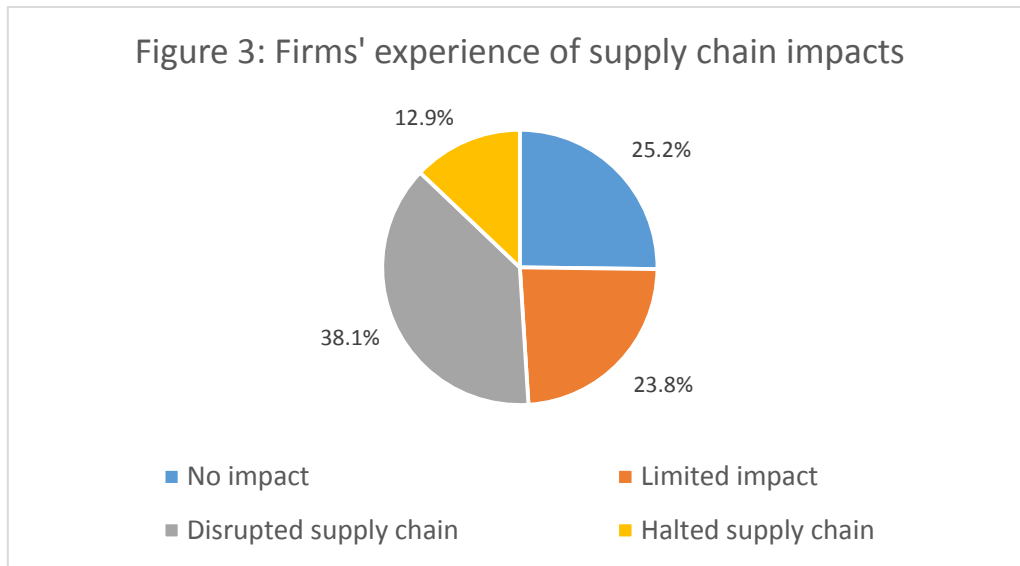
Disruptions in markets

Entrepreneurial firms are much more likely to export than the average SME. Around half of the UK businesses we surveyed export. Their most common markets are the European Union and North America.

Nearly half of exporters experienced a decline in their revenues from exports and exporting revenues have fallen by about a quarter during the COVID-19 pandemic.



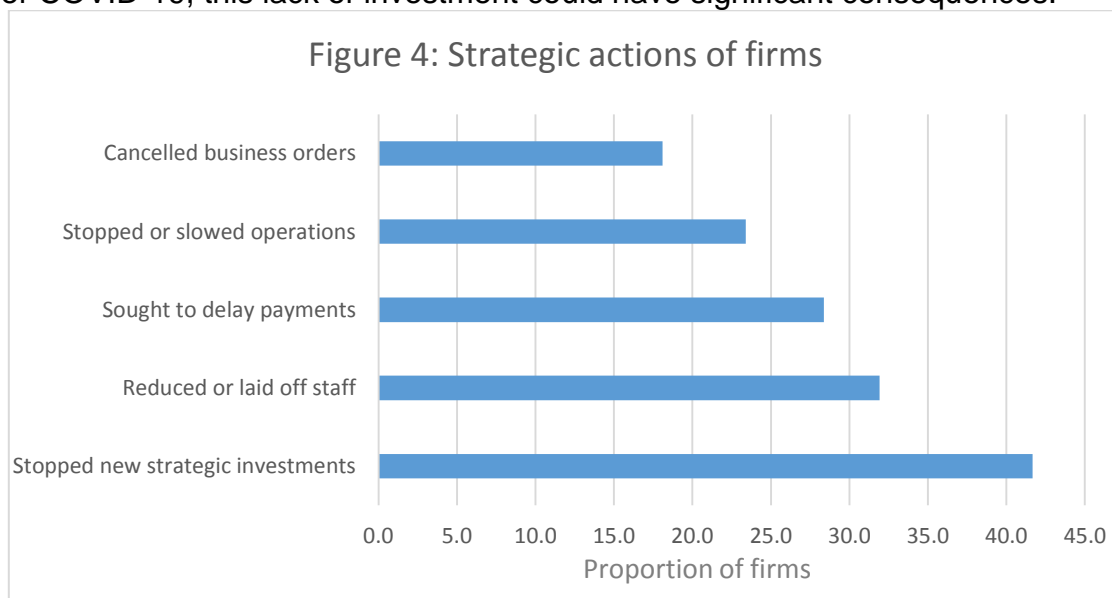
Still, some exporters have seen an increase in exports, while others have stayed the same (Figure 2). However, this hides the lag effects of COVID-19. The economic impacts of the pandemic on exporting firms are likely to increase over time. Supply chain disruption is a good indicator of the challenges to come. Around half of the exporting firms we surveyed had experienced delays, obstruction and even a complete halt to their supply-chain (Figure 3).



“Essentially my business will be brought down not by a lack of customers, but by the supply chain shutting down, rendering us unable to manufacture product at the point of our peak sales window.”

How have firms responded?

Figure 4 shows the main strategic actions firms have taken so far in response to worsening cashflow position. Two results stand out. First, four out of ten businesses have stopped strategic investments. Given the crucial role these scaling firms will have in injecting the entrepreneurial dynamism necessary to repair the UK economy after COVID-19, this lack of investment could have significant consequences.



Second, firms have also taken action to change their staffing levels. Firms are twice as likely to shed freelancers, contractors and agency workers than permanent staff. While 90 per cent of businesses plan to keep their core employees, around one third have furloughed staff. Others have cut hours, pay or asked staff to take unpaid leave during the crisis.

What do the entrepreneurs think of the UK government's response?

In March 2020, the UK government introduced an unprecedented £330 billion business support package, which equated to 15 per cent of the country's GDP.^v However, the devil is often in the detail. Gaps in provision are likely to exist which some businesses will fall through, either because they are unaware of available support or feel it is inappropriate for their needs.

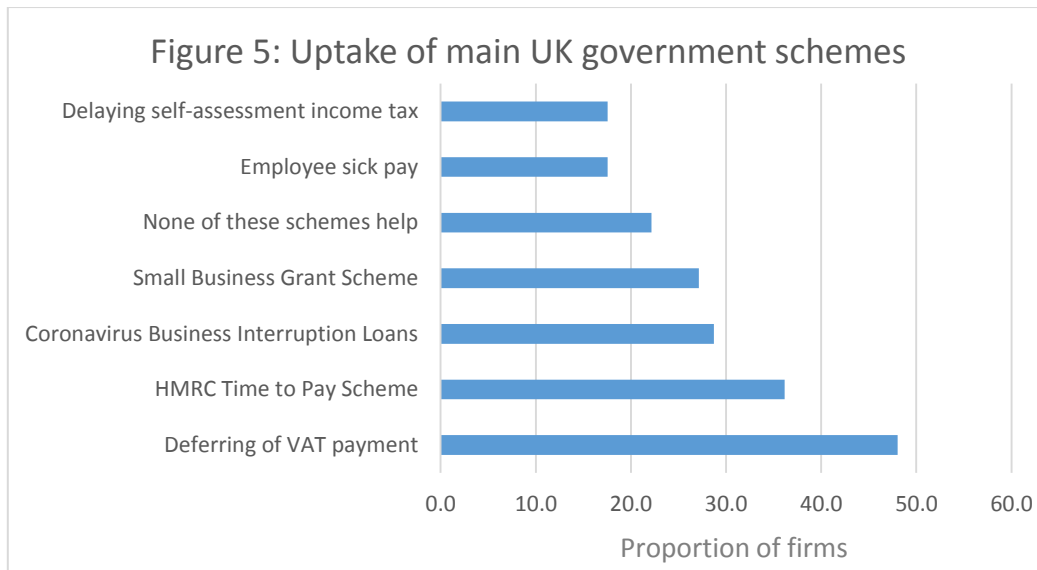
Table 1 shows that there was some support for the UK government's job retention scheme, which provides employers with cash grants to furlough employees worth up to 80 per cent of wages, capped at £2,500 each month per worker. However, many expressed concerns about the scheme and around one-third of firms said it was not likely to benefit them.

Table 1: Impact of Coronavirus Job Retention Scheme

	%
It will mean that we are able to retain staff	34.8
It will have no impact on my business	29.3
Welcome the Scheme but worried about how it will work in practice	22.7
Too early to say	12.9
It is already too late to support my business	0.4
Total	100.0

“As a new business that needed capital to grow. I've re-invested all profit from this year. This means that I have not made a profit and so am entitled to no help from the government at all. If I had used loans to support my business I could've taken a wage and then the government would have helped me now.”

Figure 5 shows many businesses are keen to take advantage of other sources of government support. However, around one-in-five firms feel that this support package was not going to meet their needs.



“Adding debt to the business right now is not a real solution to the loss of income, so why bother when there are so many strings attached to the loans.”

“Government support is helpful but my business fits just outside of a number of the schemes (office slightly too big for rates relief) which is very frustrating, a sliding scale would be much fairer.”

These results point to two **recommendations** for government.

1. Continue to work with businesses to improve the effectiveness of the business support package while the UK is still in lockdown.
2. The economic effects of COVID-19 will only become more fully apparent once the lockdown is over. Many firms will have little or no revenues. The government should identify ways it can support firms as they attempt to build up their sales. Otherwise, there will be a dramatic increase in business closures and job losses.

What are the business costs of COVID-19?

More than half of the firms we surveyed anticipate that their business will shrink. However, despite the dramatic decline in financial performance, many entrepreneurs are upbeat about their survival prospects. Less than one-in-ten (6 per cent) of them think that they will have to close their business. Fifteen per cent expect they will continue to grow while a quarter will stay the same.

“Although we're seeing short term disruption and loss of revenues, I remain optimistic in the longer term.”

However, this optimism needs to come with an understanding of the financial and emotional costs for the entrepreneur struggling to survive the economic tsunami caused by the pandemic.

Around 40 per cent of entrepreneurs have used personal savings or retained earnings to keep their business afloat during the financial crisis.

We also asked entrepreneurs about their levels of stress before COVID-19 and their current levels of stress using a scale, where 0 equals not stressed, and 10 is extremely stressed.

The baseline reflects the fact entrepreneurship is intrinsically stressful as entrepreneurs seek to juggle competing and difficult tasks, often with limited information and resources. Before the outbreak, the average score was 5.7.

However, since COVID-19, average rose to 7.8, an increase of 37 per cent. This points to the wider – often uncoded – challenges entrepreneurs face in running a business in a time of crisis.

“Selling more in the light of reduced supply is the only choice open to us, increasing the risk on the company substantially. Supply chains have to be reinforced and sales pipelines need triage instead of maximising. New behaviours, new process, new risks - hence the stress.”

“Running a business is extremely stressful and takes a toll on your family and relationships.”

What are the ways forward?

This report presents the headline figures from the survey. As we analyse the results going forward, we will look for patterns such as how prior growth impacts on performance and whether exporters have different performance profiles to other entrepreneurial firms. We will share these findings with the firms in our study.

We will also use this report as a launch pad to influence the governments of each of the four nations of the UK to better understand and support what is a key group in the country’s economy.

Finally, although the early impacts of COVID-19 are dramatic, the full toll will only likely become apparent during summer 2020 and beyond. We therefore intend to follow up with our entrepreneurial firms.

“I believe that the actual impact of COVID-19 is not yet visible and will only become clear over the summer - which means that I think you should probably plan to repeat this survey.”

ⁱ Greene, F. J. (2020) *Entrepreneurship: Theory and Practice*, Macmillan: London.

ⁱⁱ We sent out an internet survey between 1st and 15th of April to 776 high growth potential firms.

ⁱⁱⁱ NESTA (2011). *Vital growth: The importance of high-growth businesses to the recovery*. London: NESTA.

^{iv} All quotes are taken from the comments of entrepreneurs who took part in the survey. We would like to thank them for their assistance and the work of our research assistants, Dr Owais Golra and Matjaz Vidmar.

^v <https://www.gov.uk/government/news/coronavirus-business-support-to-launch-from-today>