Economic and Social Research Council

ERC Enterprise Research Centre

Policy Briefing

COVID-19, business support and SME productivity in the UK

Research Paper 94

June 2021

In this paper we consider how UK COVID-19 emergency public support measures – Furlough funding and loan guarantees – during the pandemic have influenced firms' future investment intentions and employee well-being. Both provide an early indication of potential effects on future productivity. Overall, we find widespread positive short-term impacts of the government support schemes on investment planning and smaller positive impacts on employee well-being.

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Key findings

Our study uses survey data from the SME Finance Monitor for 2020Q3 and 2020Q4 and the Health and Well-being Survey 2021Q1 on around 12,000 SMEs. Instrumenting policy treatments, we estimate the effects of furlough, furlough plus loans and loans alone (Coronavirus Business Interruption Loan Scheme (CBILS)/Bounce Back Loans (BBLs)) on investment intention and employee well-being. Our key findings are:

- Firms receiving either Furlough support, guaranteed loans or a combination of the two have stronger investment intentions than non-recipients.
- We also find strong evidence that firms receiving either Furlough or Furlough and CBIL/BBL are less likely to experience issues with either sickness or mental health absence. Here, effects are smaller in scale and need to be regarded with some caution due to identification issues.
- Furlough-only has a consistently stronger effect on investment intentions in smaller firms although the effects of CBIL/BBLs only and the combination of support measures is less sensitive to firm size.
- Perhaps unsurprisingly, impacts very somewhat across sector. In terms of investment intentions the effects of each of the schemes are smaller in hospitality.

Early assessment of potential productivity effects

We draw on notions of behavioural additionality, which are common in the policy evaluation literature, to examine some of the early impacts of the Coronavirus Job Retention Scheme (CJRS) and CBILS/BBILs loan schemes. Behavioural additionality arguments suggest that policy interventions will lead to changes in the behaviour and attitudes of decision makers – here firm owner-managers – before having longer-term impacts on growth, productivity etc. The linkages between policy interventions, such behavioural changes and eventual outcomes are often represented in a logic model or theory of change.

Here, we focus on two mechanisms which might link policy interventions such as the Furlough scheme and CBILS/BBLs to future productivity. We focus first on firms' intentions to invest in capital equipment, innovation and workforce training. This analysis is based on data taken from the SME Finance Monitor for 2020Q3 and 2020Q4 which provides firm-level information on the receipt of government wage subsidies and loan support (CBILS and BBLs).

Second, we consider the effects of the Furlough scheme and CBILS/BBILs on employers' experience of employee well-being during the pandemic as it is reflected in employee mental health and sickness absence. This analysis is based on the second wave of the Mental Health and Well-being survey conducted in 2021Q1 and covering around 1500 SMEs across the East and West Midlands of England.

Implications for policy and further research

It is too early to draw particularly firm conclusions about either the impact of the pandemic on productivity or the final effects of government support measures. This first look suggests that we might have some positive expectations, however.

Policy responses to COVID-19 have varied internationally but many countries have implemented measures similar those implemented in the UK. Our analysis provides an indication of how these initiatives might be working elsewhere and their likely impacts on recipient firms of different sizes and in different sectors. Future analyses should consider both longer-term and comparative perspectives.

Full paper link: https://www.enterpriseresearch.ac.uk/our-work/publications/