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EXECUTIVE SUMMARY

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Digital readiness, Digital adoption and Digitalisation of UK SMEs Amidst the Covid-19 crisis

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Digital technologies are widespread and spreading fast. Here, based on new ERC Business Futures survey data, we examine the diffusion of digital technologies among UK SMEs in 2020, explore the factors driving digital adoption and reflect on the role that digital technologies played in helping UK SMEs to address the challenges of Covid pandemic crisis. First, we develop a measure of 'digital technology readiness' which refers to a propensity of a firm to embrace new digital technologies and capture internal and external enablers and motivators. Second, we explore the relationship between digital readiness, perceived barriers and digital adoption across ten different digital technologies. Third, we examine how digitalisation relates to business performance during the Covid crisis. Our analysis reveals that established digital technologies are well diffused among UK SMEs and that emerging digital technologies are becoming increasingly more common in 2020. This suggests a narrowing digital gap. We also find strong evidence that digital readiness is associated with the probability of digital adoption. This implies that different policy instruments and business support encouraging networking, information sharing to improve technology awareness and knowledge may result in increased digital readiness and, therefore, in increased probability of digital adoption. On the contrary, we find (surprisingly) only little evidence that barriers to digital affect the probability of technology adoption. This is not to suggest that UK SMEs do not encounter any barriers on their digital journey. Some barriers such as lack of digital skills, access to finance and broadband capacity are important impediments to digital transition. However, our analysis suggests that barriers do not prevent firms from adopting new technologies provided strong levels of digital readiness. Finally, we provide new evidence that more digitalised SMEs were better equipped to weather the storm of Covid-19 pandemic and maintain the same turnover or grow if they introduced digital technology in operations which resulted in increased innovative activity.