

Research Paper No. 107

EXECUTIVE SUMMARY

July 2023

(full paper link: <http://enterpriseresearch.ac.uk/publications/erc-research-papers/>)

SME performance in core and peripheral UK regions: Exploring the role of innovation and firm networks during times of financial distress

George Saridakis

University of Kent

G.Saridakis@kent.ac.uk

Yazid Abubakar Abdullahi

University of Sharjah

yabdullahi@sharjah.ac.ae

Bochra Idris

Özyeğin University

bochra.idris@ozyegin.edu.tr

Tapas Mishra

University of Southampton

T.K.Mishra@soton.ac.uk

Mamata Parhi

University of Roehampton

mamata.parhi@roehampton.ac.uk

The Enterprise Research Centre is an independent research centre which focusses on SME growth and productivity. ERC is a partnership between Warwick Business School, Aston Business School, Queen's University School of Management, Leeds University Business School and University College Cork. The Centre is funded by the Economic and Social Research Council (ESRC); Department for Business and Trade (DBT); Innovate UK, the British Business Bank and the Intellectual Property Office. The support of the funders is acknowledged. The views expressed in this report are those of the authors and do not necessarily represent those of the funders. The authors would like to thank Ian Drummond for help with the interviews conducted as part of this research.

ABSTRACT

Purpose: The global financial crisis triggered by the Covid-19 pandemic sparked the closure of many small and medium sized enterprises (SMEs) across the globe. Given that innovation and networking can be used as strategies to improve firm performance, this study examines their (i) direct effects, and (ii) interaction effects with the Covid-19 recession, on the performance of SMEs in the UK.

Design/methodology/approach: We carried out panel data analysis on firm-level data from the '*UK Longitudinal Small Business Survey 2015-2021*', collected by the Department for Business, Energy, and Industrial Strategy (BEIS). The survey provides rich information on firm characteristics up to and including the Covid-19 pandemic period.

Findings: Our study generates several interesting results. First, we find that both networking and financial obstacles are associated with firm performance. However, the former is positively associated with financial turnover whereas the latter is found to be negatively associated with it. These results are robust across different estimations. No significant interaction effects are found between these variables and the Covid-19 recession dummy. Second, we find the interaction effect between innovation and the Covid-19 recession dummy to be positive and statistically significant. This may suggest that innovation can be an important resilience strategy for SME performance during periods of economic downturn. Third, we find significant regional differences between the SMEs that operate in peripheral regions and those operating in core regions (i.e., London and South East). Fourth, we find significant associations between a number of other variables (e.g., exporting, firm size, firm age, type of firm) and firm performance.

Originality/value: The paper contributes to the theoretical and empirical literature on pandemic-driven/financial crisis and the resilience of SMEs. We generate our findings by empirically testing the direct link between innovation, networking, financial obstacles, and several other variables, and SME performance, and by examining the potential interaction effects of the key explanatory variables with a Covid-19 recession dummy.

Keywords: Covid-19 financial crisis, SME performance, innovation, networking, regions.