



The impact of Covid-19 on Northern Ireland SMEs: Evidence and comparison with the rest of the UK

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The impact of Covid-19 on Northern Ireland SMEs: Evidence and comparison with the rest of the UK

Dr Hoang Minh Luong¹, Dr Lee Hopley² and Professor Nola Hewitt-Dundas¹

¹ Queen's University Belfast

² Aston Business School

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EXECUTIVE SUMMARY

The Northern Ireland economy experienced a severe impact as a result of the Covid-19 pandemic. The NI Composite Economic Index (NICEI), a broadly equivalent measure to GDP, has shown that economic output in NI fell by 14 per cent in the second quarter of 2020, the largest fall in the NICEI since it began records back in 2006. Even though it has increased by 15.5 per cent in quarter 3 of 2020, it is believed that the third national lockdown at the beginning of 2021 will deepen the impact. As claimed by a recent BBC report, the NI economy is expected to experience a challenging first quarter of 2021.¹

It is crucial therefore to have a better understanding of how the economy has coped with this uncertain and challenging period, especially for the part that is considered to be most severely affected: small and medium enterprises (SMEs). As reported by Enterprise Northern Ireland (ENI) in December 2020, 85% of small, micro and self-employed businesses have been negatively impacted by the Covid-19 pandemic.²

In this report, we provide some insights into how Northern Ireland's SMEs have responded to the Covid-19 pandemic, based on data from the latest wave of ONS BICS and the new ERC Business Futures Survey. The latter aims to understand the experiences of SMEs over the past 12 months, including the impact of Covid-19, with the survey undertaken across the UK at the end of 2020. Six key findings arise from the research:

1. Data from ONS BICS wave 19 (released on 17 December 2020) confirms that the effects of the Covid-19 pandemic have been much more severe for small and medium-sized enterprises, with higher proportions of SMEs reporting very low cash reserves as well as low confidence in their survival in the near future. Yet these effects vary across sectors with enterprises in the accommodation and food services, arts, entertainment and recreation and the other service sectors, being the most affected.
2. With government employment support, such as the furlough scheme, the effects of the Covid-19 pandemic on employment are reported to be less severe than that on business turnover in the ERC Business Futures survey. To support that position, several SMEs expressed high levels of satisfaction with government

¹ [BBC - NI economy expected to stall after record growth](#)

² [Newsletter - NI Enterprise Barometer reveals sobering findings due to Covid-19](#)

support in their responses. Nevertheless, concern remains about Covid-19 restrictions in the next period and over the next few years.

3. Despite Northern Ireland SMEs being more likely than SMEs across the UK to express serious concern about both the impact of the pandemic and Brexit on their businesses, our findings suggest that they are coping slightly better in terms of both turnover and employment. This might be attributable to the fact that our data reveals that more NI SMEs have increased their use of digital technologies, in an attempt not only to follow the social distancing and trading restrictions, but also to 'catch-up' with the latest technologies, in which they have historically been considered to be lagging behind UK peers. In due course, this might increase their productivity and subsequently reduce the financial impact of the pandemic.
4. Reducing cost or introducing new processes or new digital technologies are considered to be important for NI SMEs in responding to the pandemic. This is consistent for SMEs from both Northern Ireland and the rest of the UK.
5. Consistent with the crucial issue about skill shortages in Northern Ireland, NI SMEs in our data expressed that the lack of digital skills is their main concern in adopting and implementing additional digital technologies.
6. While the Covid-19 pandemic is a major obstacle for NI SMEs' environmental protection plans, other factors such as the lack of information on low carbon technologies, or the cost of meeting regulations and standards, are also mentioned by one third of businesses as major challenges. At the same time, more than 80 per cent of NI SMEs agreed that businesses should spend more on environmental protection.

1. Introduction

January 2021 and Northern Ireland, as well as almost the whole UK, have been under the third national lockdown to stop the spread of the coronavirus. The first part of this year is set to look very different from common expectation even just a month ago.

As the Financial Times editorial board stated on the 5th January 2021: “The darkest hour, it is said, is always before the dawn. Just when vaccines had brought hope of a gradual loosening of restrictions and return to some kind of normality within months, the emergence of at least two more contagious variants of coronavirus means many populations instead face tighter lockdowns – with all the human and economic damage they bring”.³

Undoubtedly, the situation brings the UK economy into a more severe crisis. According to a report from TUC in December 2020⁴, the figures for quarter three (July – September) of 2020 show the UK economy is still 9.7 per cent below its pre-pandemic levels, more than double the decline seen in the US and the EU. The Northern Ireland economy has also experienced a severe impact of the pandemic. The NI Composite Economic Index (NICEI), a broadly equivalent measure to GDP, has shown that economic output in NI fell by 14 per cent in the second quarter of 2020, the largest fall in the NICEI since it began in 2006. Even though it increased by 15.5 per cent in quarter 3 of 2020, the current lockdown has, no doubt, increased the severity of the impact.⁵

The Covid-19 pandemic has had a bigger impact on small and medium-sized enterprises (SMEs), due mainly to their lack of cash reserves and the nature of their businesses that is often heavily dependent of face-to-face contact with customers. In a recent article on BBC News, the Federation of Small Businesses (FSB) warned that: “Without further government help to cope with the effects of the pandemic, a record 250,000 small businesses could be lost in the next 12 months”.⁶

³ [Financial Times - The pandemic's biggest tests still lie ahead](#)

⁴ [TUC - Impact of Covid-19 and Brexit for the UK economy](#)

⁵ [BBC - NI economy expected to stall after record growth](#)

⁶ [BBC - 'I'm one of those people who's been left out'](#)

In this report, using data from wave 19 of the ONS Business Impact of Covid-19 Survey (BICS) and the new major survey of UK SMEs undertaken by the Enterprise Research Centre (ERC) at the end of 2020, we present some insights into how the Covid-19 pandemic has affected SMEs. In particular, our data shows that there have been some important changes in SMEs' strategies, use of digital technologies, as well as their attitude towards environmental protection. Some of our main findings are:

- The Covid-19 pandemic has had a huge impact on the UK economy. However, the effect seems to be much more severe for small and medium-sized enterprises, with higher proportions of SMEs reporting very limited cash reserves as well as low confidence in survival in the near future. At the same time, these effects vary across sectors, with businesses in the accommodation and food services, arts, entertainment and recreation and the other service sectors being most affected.
- With government employment support, such as the furlough scheme, the effects of Covid-19 on employment are reported to be lower than the effects on business turnover.
- SMEs in Northern Ireland seem to have coped slightly better with the pandemic as compared to SMEs across the rest of the UK, in terms of both turnover and employment. It might be attributable to the fact that the pandemic has forced more NI SMEs to adopt or improve their use of digital technologies, something which they have lagged behind on. This digital transformation, in turn, might increase their productivity and potentially lessen the impact of the pandemic.
- Even though many SMEs in Northern Ireland reported high level of satisfaction with government support, concern remained about the consistency of guidance and regulations in the next period.
- Reducing cost, introducing new processes or new digital technologies are considered more important in NI SMEs' strategies in coping with the pandemic.
- The COVID-19 crisis has had a huge impact on digital transformation of NI SMEs, with many businesses adopting digital technologies they have never used before or increasing the use of previously adopted technologies.
- Lack of digital skills is the main concern for NI SMEs' use and adoption of digital technologies.
- While the Covid-19 pandemic is confirmed to be a major obstacle for NI SMEs' environmental protection plan, other factors such as the cost of meeting regulations and standards, or the lack of information on low carbon technologies, are mentioned by more than one third of the sample as other major challenges.
- Despite the challenges presented by the pandemic, more than 80 per cent of SMEs in Northern Ireland agreed that businesses should spend more on environmental protection.

We believe these understandings are crucial in shaping policy implications for the next months or years, as the Northern Ireland economy transitions from the pandemic and towards a more sustainable future.

2. The effect of COVID-19 on the UK private sector in 2020

The ONS Business Impact of COVID-19 Survey (BICS) is a fortnightly survey of businesses asking questions around the health of the business. Wave 19 (16th to 29th November 2020, data released on 17 December 2020) is used in the following charts, the most recent wave available when conducting this analysis.

Figures 1 and 2 show data on how long businesses think their cash reserves will last by sector and by size, respectively. From Figure 1, it can be seen that over 50 per cent of businesses in the accommodation and food services, arts, entertainment and recreation and the other service sectors stated that they only expect cash reserves to last for up to six months. Over 15 per cent of businesses in the accommodation and food service sector had either no cash reserves or less than one month of cash reserves. When looking at all industries, just under 30 per cent had up to three months of cash reserves.

Looking at the breakdown by business size in Figure 2, the highest percentage of firms with no cash reserves, at nearly 10 per cent, are the smallest firms (0-9 employees) and over 50 per cent of what we categorize as small firms in this report (with less than 50 employees) have six months or less cash reserves.

Figure 1: Business cash reserves by sector

Source: ONS BICS Wave 19

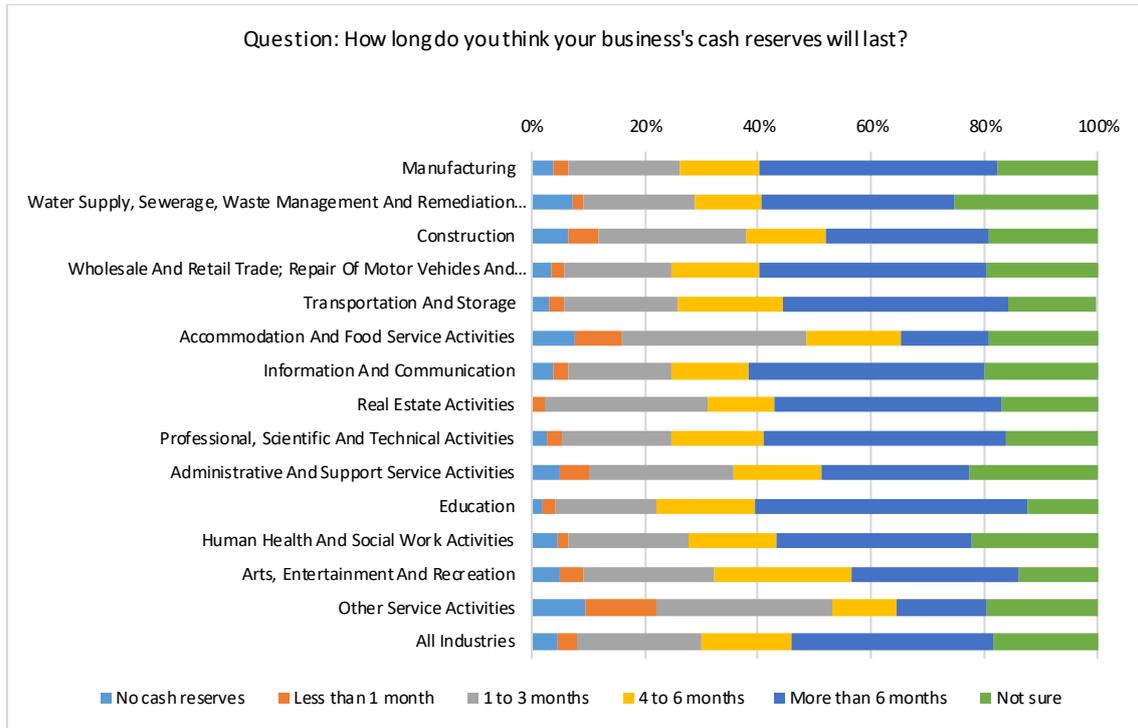
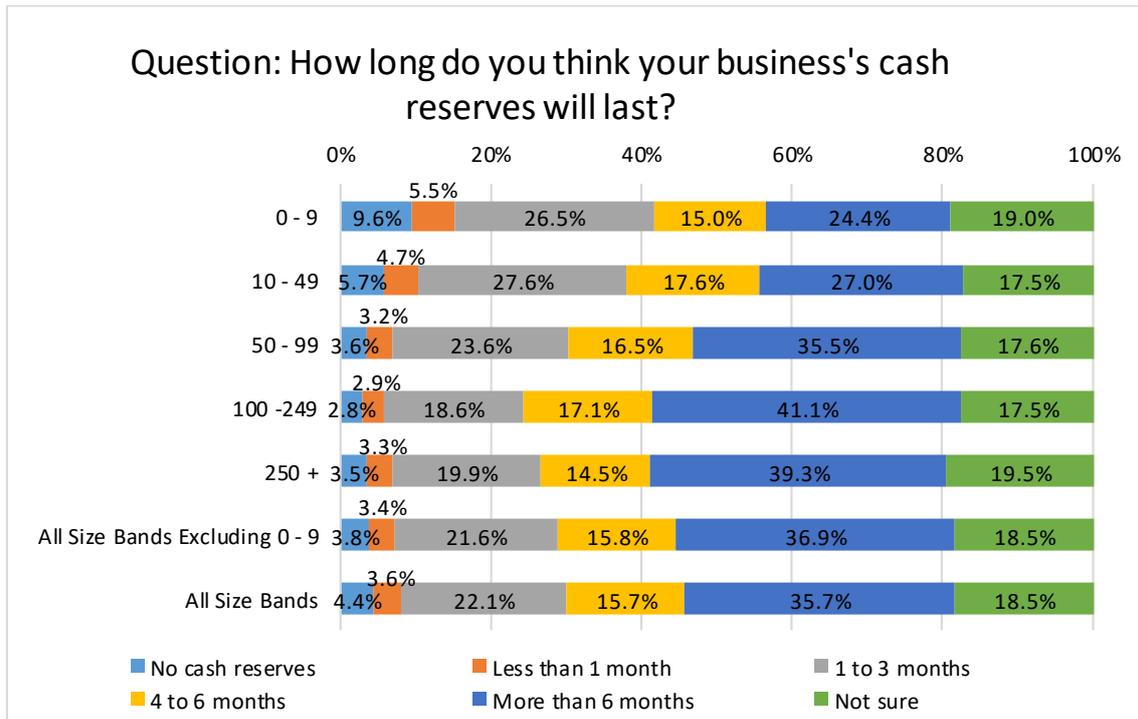


Figure 2: Business cash reserves by firm size

Source: ONS BICS Wave 19



BICS also captures data on how much confidence businesses have that they will survive the next 3 months. Figure 3 shows this by sector that both the accommodation and food service sector and other services sector show the least confidence in surviving. The accommodation and food service sector also had the highest percentages, at more than 7 per cent, of those stating that they had no confidence in survival and approximately 21 per cent of those stating low confidence in surviving in the next three months. In contrast, real estate, human health and social work sectors showed the highest levels of confidence.

Figure 4 shows the confidence in survival by firm size with it being unsurprising that larger firms have higher levels of confidence than smaller firms. In addition, the smallest firms (0-9 employees) were the most uncertain about survival at 8.6 per cent.

The impact of the pandemic varies by sector and firm size. Based on BICS data, the accommodation and food service sector and other service sector appear to be most severely impacted by the pandemic, with low cash reserves and low confidence in survival. Concerning firm size, small firms (less than 50 employees) show the least confidence of surviving and have low cash reserves.

Overall, when we combine the evidence on cash reserves with the fact that 14 per cent of firms reported that their operating costs are currently exceeding turnover, then it is unsurprising that confidence levels are low. Businesses trading with diminishing cash reserves are at a clear risk of insolvency and bankruptcy. Grossing these figures up using the BEIS Business Population estimates we can calculate that around 200,000 private sector firms across the UK could be at risk. Although the vast majority will be micro-enterprises, the job losses associated with this scale of business closure will be considerable.

Figure 3: Business confidence in survival by sector

Source: ONS BICS Wave 19

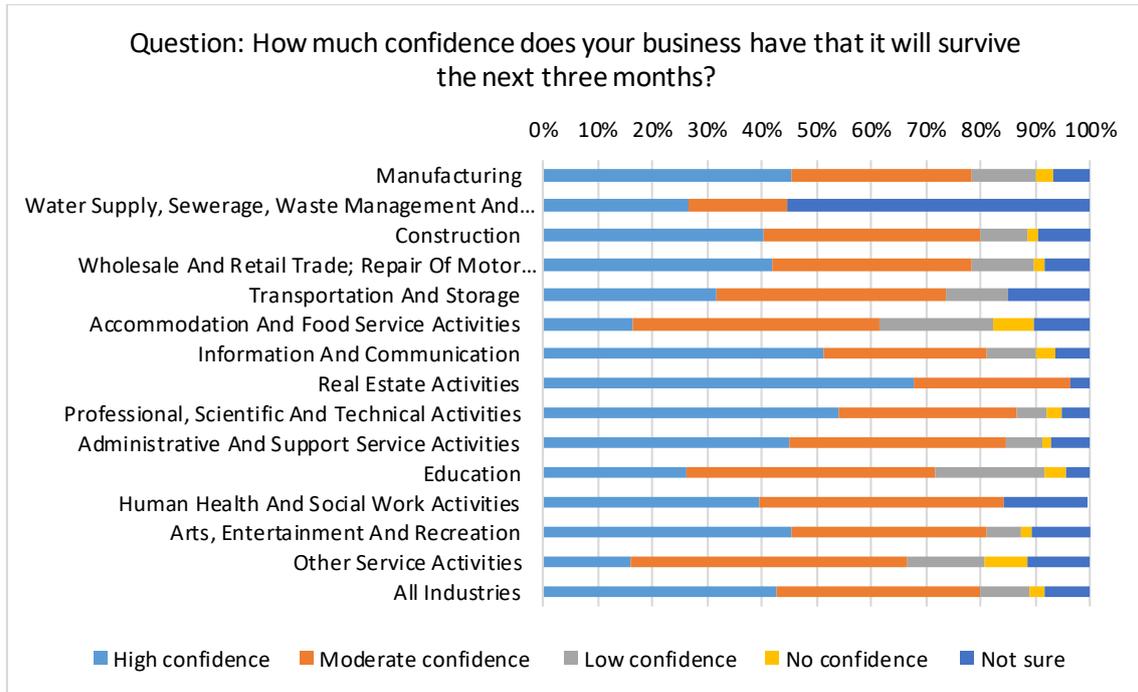
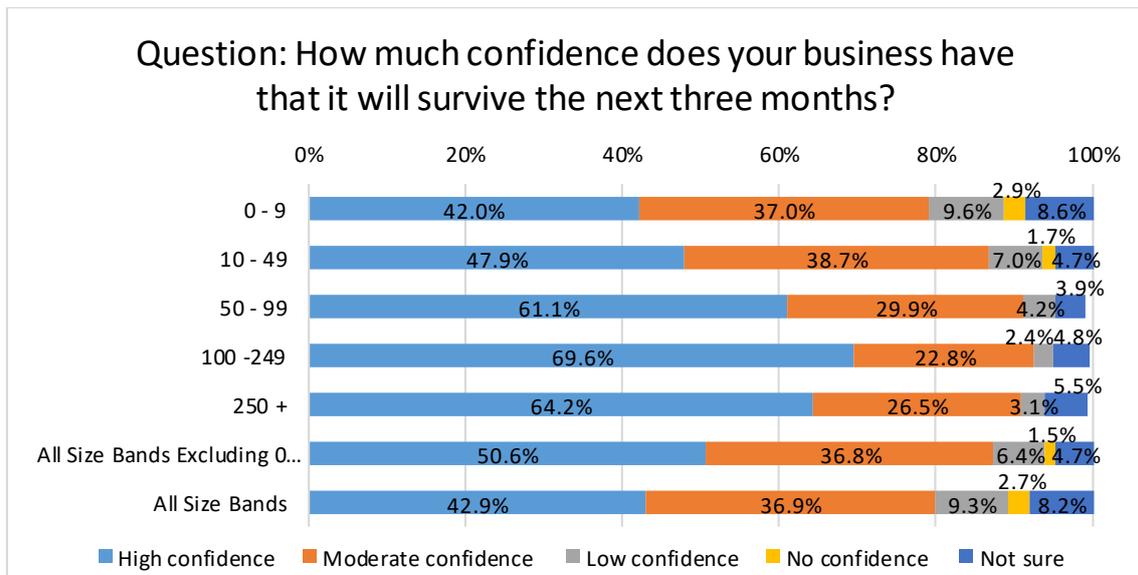


Figure 4: Business confidence in survival by firm size

Source: ONS BICS Wave 19



3. The impact on Northern Ireland's SMEs

In Autumn 2020 the Enterprise Research Centre (ERC) launched a new major survey of UK SMEs - the Business Futures Survey. This survey sought to understand the experiences of SMEs over the past 12 months and the impact on them of the COVID-19 pandemic. Data was collected from 1,000 SMEs across the UK.

3.1. Performance

Consistent with a range of other data sources (such as the ONS's BICS), the Business Futures Survey also finds that a balance of SMEs has seen a deterioration in both employment and turnover over the past year.

More businesses have experienced a decline in turnover than employment (likely a consequence of employment support provided through the Coronavirus Job Retention Scheme). Disaggregating this further, SMEs in Northern Ireland seem to have coped slightly better with the effects of the pandemic than SMEs from the rest of the UK, even though the trend is highly similar (Figure 5). For instance, data on turnover shows that 38 per cent of Northern Ireland SMEs reported decreasing turnover over the past 12 months, as compared to 45.5 per cent for SMEs from the rest of the UK. On the other hand, 32 per cent of SMEs in Northern Ireland reported an increase in turnover, compared to 28 per cent in the rest of the UK.

With regards to firm size, Figure 6 indicates that for Northern Ireland SMEs, a slightly higher proportion of small businesses (39 per cent of businesses with up to 49 employees) seeing a decline in their turnover compared with medium firms (36 per cent of businesses with 50 to 249 employees). Employment, in the past year, has fallen in approximately 25 per cent of both small and medium-sized enterprises.

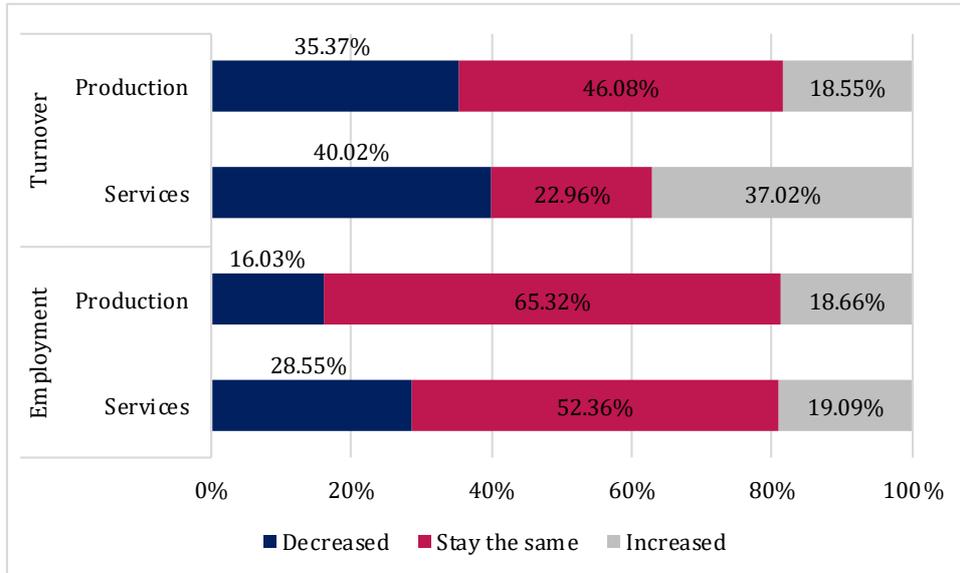
However, while it is clear from Figures 5, 6 and 7 that the net effect of events in 2020 have been negative for SME employment and turnover, some businesses have achieved growth, either as their sectors remained somewhat untouched by the effects of the pandemic or new opportunities emerged.

While the survey reveals relatively small differences in the change in business metrics by size, Figure 7 confirms the trends seen in other surveys of a somewhat larger impact on service sectors. The public health response to the COVID-19 pandemic has had a larger effect on consumer-facing industries such as accommodation, food service and recreation as businesses have responded to social distancing requirements and, in some parts of the country, prolonged shutdowns. In our survey, 40 per cent of service businesses in Northern Ireland had seen a fall in turnover compared with 35 per cent of production businesses. The figures for the rest of the UK sample are 48 and 39 per cent, respectively.

A more granular sector analysis shows the stark difference across sub-sectors, with less than 20 per cent of NI SMEs in health and social work reporting declining turnover compared with more than three quarters (77 per cent) of NI SMEs in accommodation and food service sector.

Figure 7: Change in Northern Ireland SME turnover and employment in the past 12 months: Firms in services sectors versus production sectors

Source: ERC Business Futures Survey 2020



Furthermore, ERC's Business Survey also give SMEs a chance to state their own concerns about different impact of the Covid-19 pandemic. Figure 8 and 9 present some of the main impacts distilled and grouped by SMEs' responses.

Figure 8: Northern Ireland SMEs' reflections on Covid-19 impacts (percentage of responses)

Source: ERC Business Futures Survey 2020

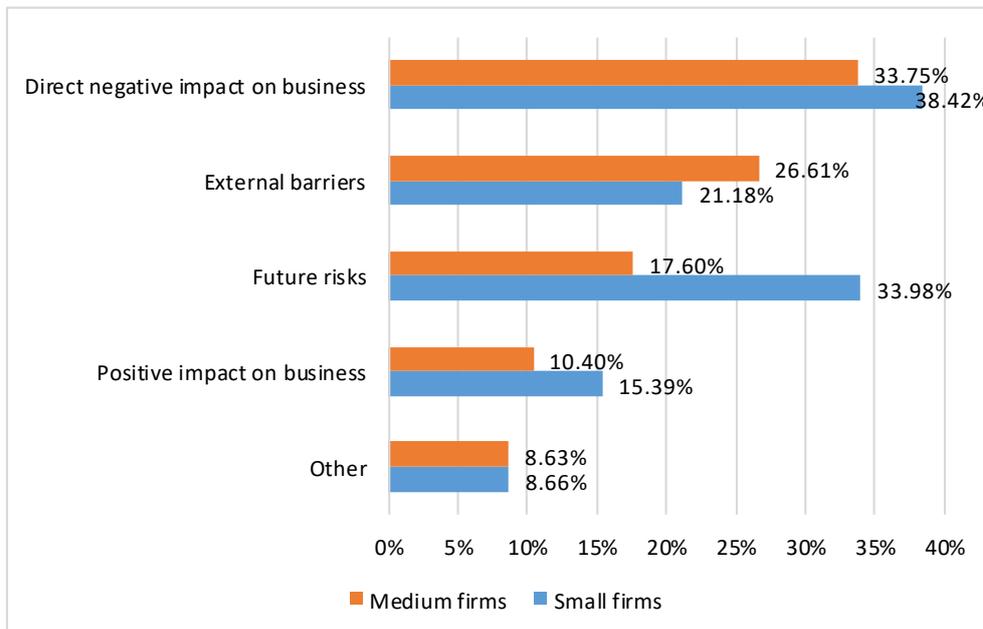
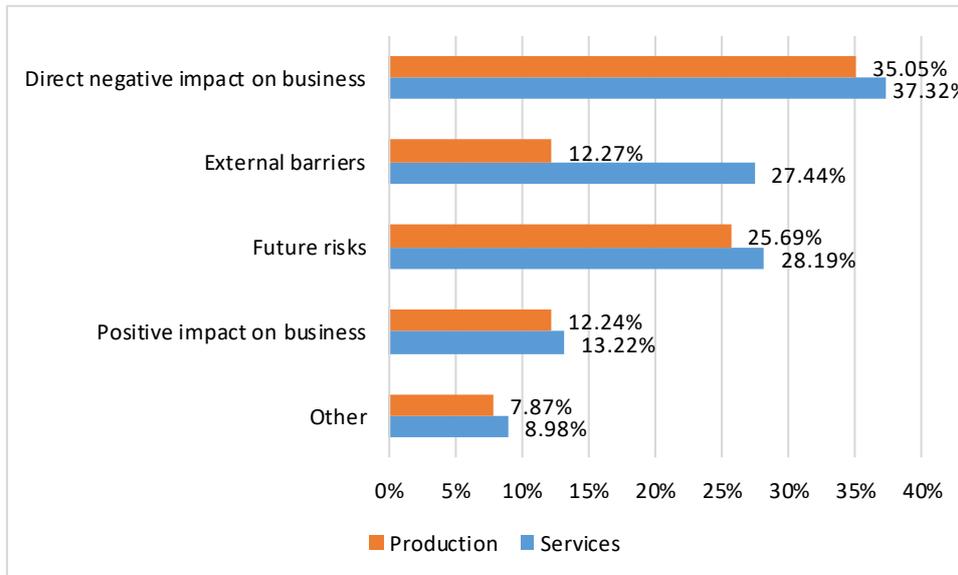


Figure 9: Northern Ireland SMEs' reflections on Covid-19 impacts (percentage of responses)

Source: ERC Business Futures Survey 2020



Unsurprisingly, around 35 per cent of NI SMEs stated their concern about the direct negative impacts of the Covid-19 pandemic, including general reduction/slowdown in business, extra expense due to PPE/shielding/social distancing measures, etc. The direct impact is slightly higher for small enterprises (less than 50 employees) or SMEs in service sectors.

In addition, the survey data shows that it is not just the direct impact of a loss of sales and temporary closures that are affecting business owners. Almost a fifth of respondents cited external barriers to operating normally. This included access to finance, problems with supply chains and requirements to invest in business premises to make them COVID-secure. For example:

“A lot of people are on furlough and there have been some redundancies. Our debt risk has gone up. Also our late payments has gone up ... and there's just uncertainty.”

“Supply chains have broken down and it's difficult to get supplies. Prices are increasing.”

As noted above, depending on the nature of the crisis, some sectors are better positioned to weather downturns than others. Crises can also provide opportunities for businesses that are nimble and can pivot to take advantage of them. Just over a fifth of respondents said that they had something positive to take away from their experience of 2020. For example:

“Turnover has increased, the pandemic has impacted us positively.”

“We were affected first few months but then our business boomed.”

There was, nevertheless, a strong message of uncertainty about the future from a further fifth of respondents:

“We are unable to optimise the business to its full potential. We had to close for 4 months and now work with a reduced capacity. There is a lot of uncertainty about going forward and the future due to the pandemic.”

“Lockdown restricted movement and the ability to work. This resulted in a major negative impact on us. The future of the business will depend on how bad the pandemic is.”

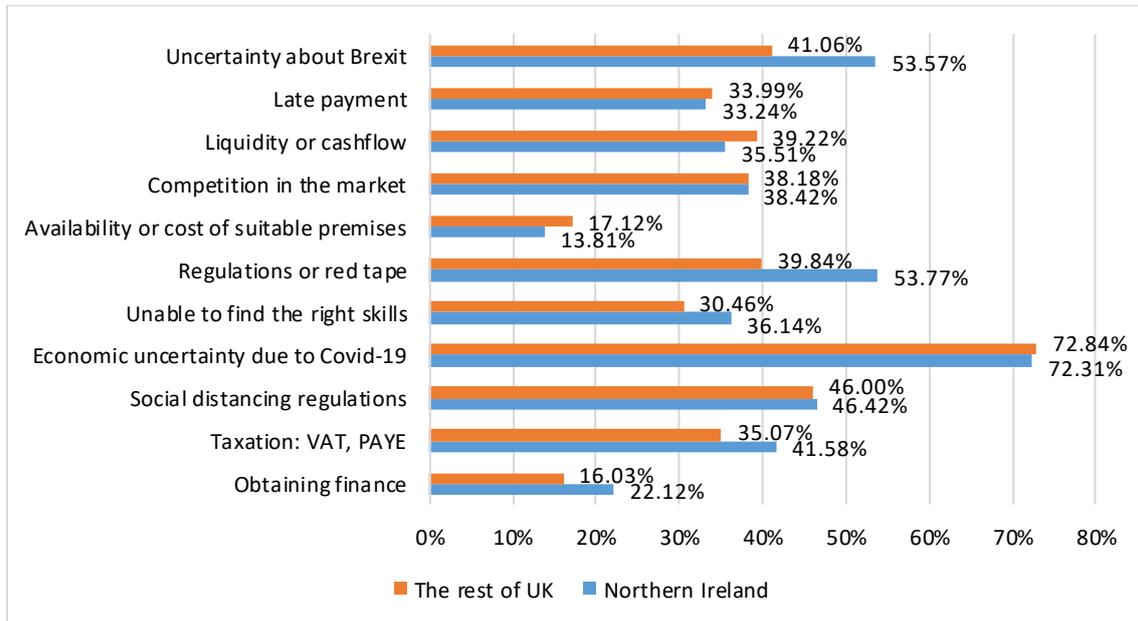
3.2. Additional business challenges

Inevitably, the impact of the COVID-19 pandemic has been the dominant headwind for many businesses in 2020. However, it is not the only challenge for SMEs. Our Business Future Survey also reveals that some related challenges in dealing with the virus, such as social distancing regulations, are also concerning businesses. For instance, approximately 46 per cent of SMEs in both Northern Ireland and the rest of the UK reported that social distancing regulations are another obstacle to business success. In addition, uncertainty due to Brexit and a related issue of regulations or red tape, are some of the other issues facing SMEs. Unsurprisingly, the most marked difference in Figure 10 relates to the uncertainty associated with Brexit, where more than half of Northern Ireland's SMEs (54 per cent) considered it as a major challenge, compared to 41 per cent of SMEs in the rest of the UK reported the same concern. A similar pattern is evident for regulations or red tape. As the ERC Business Futures survey was conducted prior to when the trade deal was agreed, these figures, no doubt, reflect

SMEs' serious concerns about the uncertainties of Brexit with all of its new arrangements.

Figure 10: Obstacles to business success (percentage of responses)

Source: ERC Business Futures Survey 2020



3.3. SMEs' responses about government support

Data from the ERC Business Futures Survey reports a number of positive responses with regards to government support, such as:

"... There's been an injection from the government which is brilliant. There's a new scheme coming in too and we think we'll be okay through the winter."

"Sales have decreased which has been assisted by government. Local government has helped with funding."

However, SMEs remained concerned about what will happen in the near future. For them, one of the key factors they worry about is the consistency of the government guidance and leading direction. For instance:

“It’s a very challenging time. As a healthcare business we would not stop, pandemic or not. It would be helpful if the government guidelines were consistent”

3.4. SMEs’ changes in business strategies

Undoubtedly, these obstacles have caused some changes in NI SMEs’ strategies, in order to cope with the uncertain and challenging environment and regulations. Figure 11 shows that NI SMEs consider the tasks of reducing costs (76 per cent), introducing new digital technologies (64 per cent) and introducing new processes (70 per cent) to be more the most important challenges. Notably, more than half of those surveyed SMEs in Northern Ireland stated that their strategies towards reducing environmental impact have remained the same, with only one fifth of the sample considering it to be a less important strategy in the context of the pandemic.

To break it down further, Figure 12 shows that more than 80 per cent of small enterprises (less than 50 employees) in Northern Ireland consider it is more important to reduce costs, while a strategy with the highest proportion of medium-sized enterprises considering to be more important is introducing new processes (nearly 75 per cent). It might be attributable to the fact that the more employees an enterprise has, the more they have to make changes to their processes, in order to comply with social distancing and other related guidelines. In addition, Figure 13 also indicates that SMEs in service sectors, which have been affected more severely by the Covid-19 pandemic, have placed a greater focus on strategies such as reducing costs, entering new markets or introducing new products or services.

Figure 11: Change in Northern Ireland SMEs' priorities due to Covid-19 (percentage of responses)

Source: ERC Business Futures Survey 2020

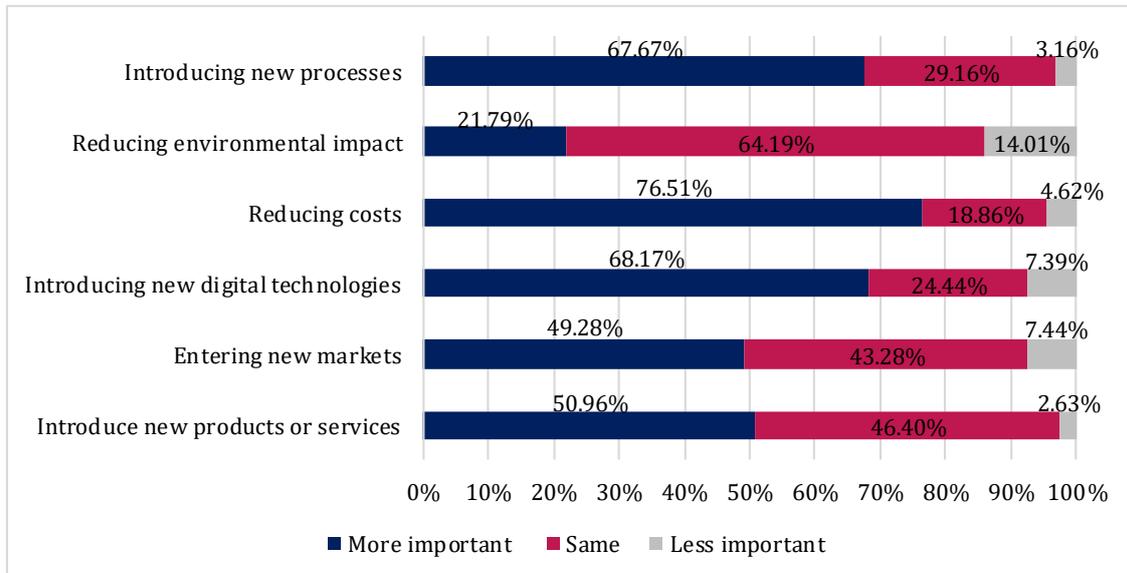


Figure 12: Change in Northern Ireland SMEs' priorities due to Covid-19: Small firms (<50 employees) compared to medium firms (50-250 employees)

Source: ERC Business Futures Survey 2020

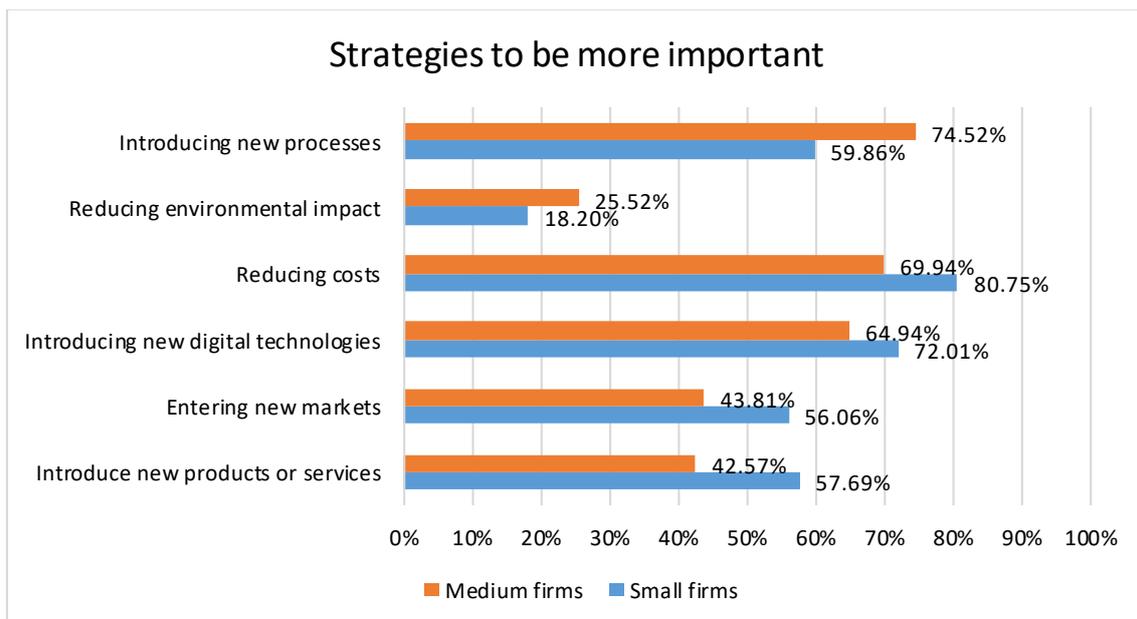
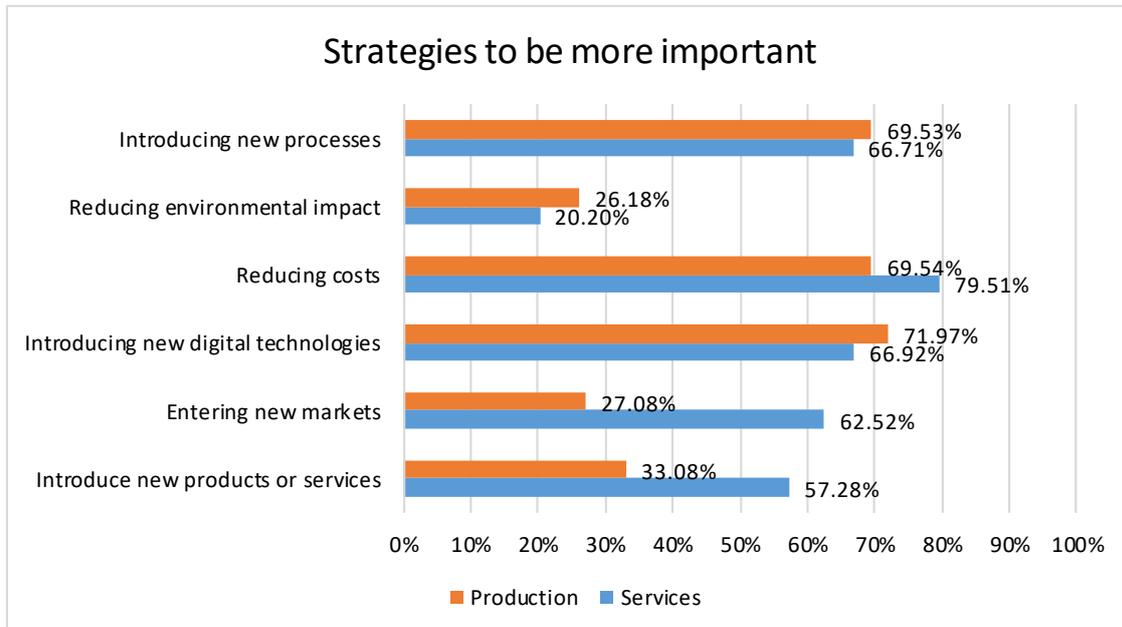


Figure 13: Change in Northern Ireland SMEs’ priorities due to Covid-19: Production versus service sectors

Source: ERC Business Futures Survey 2020



3.5. SMEs’ digital responses to the Covid-19 pandemic

The Fourth Industrial Revolution⁷ and new digital technologies are often seen as enablers of productivity growth. Prior to the COVID-19 pandemic, small businesses, because of their constrained resources - financial and human - were lagging behind their larger counterparts in the rates of adoption of digital technologies. There is little doubt, as we have indicated above, that the COVID-19 crisis has already had an important impact on digital transformation of SMEs, with many businesses adopting digital

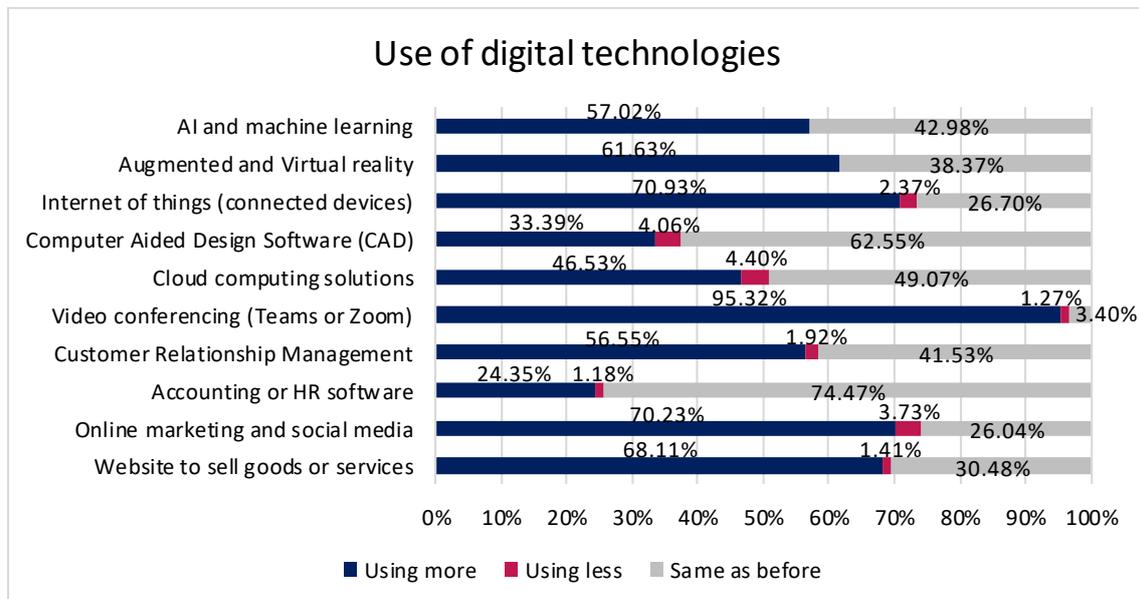
⁷ The Fourth Industrial Revolution is characterised by a fusion of technologies – such as artificial intelligence, gene editing, and advanced robotics – that is blurring the lines between the physical, digital and biological worlds. More information can be found in: [DBEIS - Regulation for the Fourth Industrial Revolution](#)

technologies they have never used before or increasing the use of previously adopted technologies.

Figure 14 below displays the change in NI SMEs' use of technologies due to the Covid-19 pandemic. Unsurprisingly, the necessity of video conferencing tools such as Zoom or Microsoft Teams dominated, with more than 95 per cent of our sample confirming that they have used more of these technologies. Other technologies that have been used much more due to the Covid-19 pandemic according to our survey data are the Internet of things; online marketing and social media; and a website to sell goods and services.

Figure 14: Northern Ireland SMEs' change in their use of digital technologies (percentage of responses)

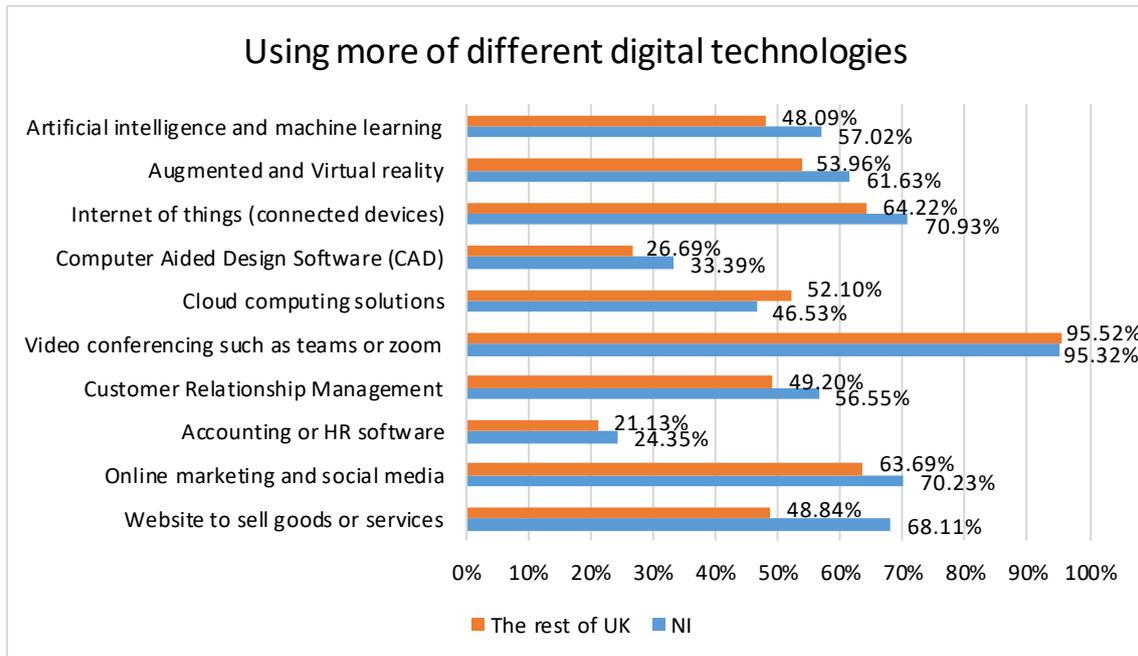
Source: ERC Business Futures Survey 2020



Comparing NI SMEs to SMEs in the rest of the UK, Figure 15 below indicates that the proportions of Northern Ireland SMEs using a broad range of digital technologies, with adoption among Northern Ireland SMEs tending to be higher than SMEs in the rest of the UK. This is most stark with regards to the use of a website to sell goods or services, in which nearly 70 per cent of Northern Ireland SMEs confirmed that they are using this technology more in response to the Covid-19 pandemic, compared to less than 50 per cent of SMEs in the rest of the UK.

Figure 15: Using more of different digital technologies: NI compared to the rest of the UK

Source: ERC Business Futures Survey 2020



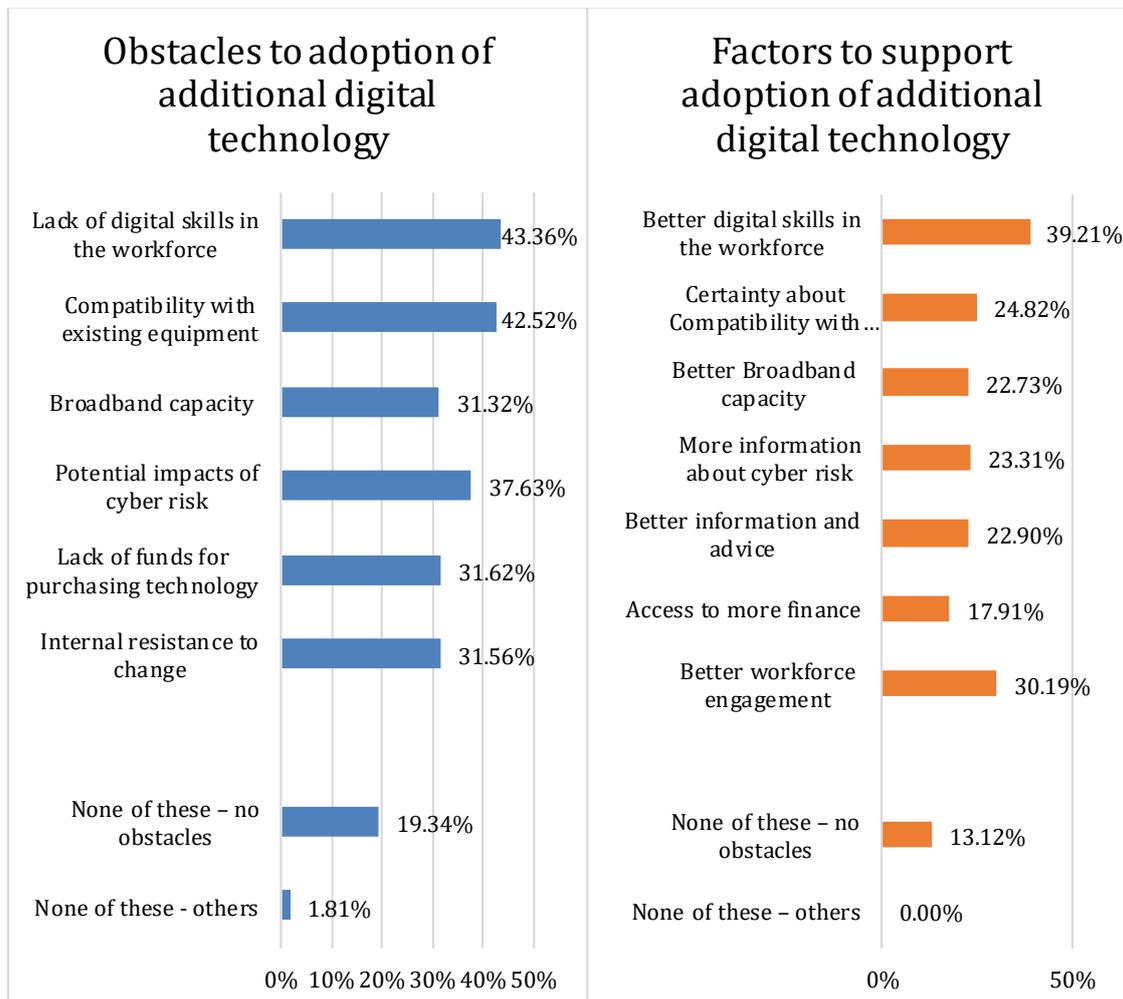
Obstacles to digitalisation

The Business Futures Survey also explored whether SMEs face any specific obstacles preventing them from introducing digital solutions. Businesses implementing three or more digital technologies were asked about the obstacles they had encountered in doing so, while those SMEs adopting two or fewer digital technologies were asked if there were factors that would encourage them to increase their digital use. From Figure 16 below, it can be seen that the main concern for both groups of NI SMEs was digital skills: 43 per cent of more digitised businesses considered the lack of digital skills as an obstacle, and 39 per cent of less digitised businesses said that better digital skills in the workforce would encourage them to use more digital technologies. This is in line with the well-known crucial issue about the lack of sufficient skills in Northern Ireland’s labour market. For instance, the CBI NI’s 2017 migration survey reported that 96 per cent of firms

believed that Northern Ireland is facing a growing skills shortage.⁸ Compatibility with existing equipment and potential impacts of cyber risk were rated almost equally important in terms of obstacles. Interestingly, a significant proportion of firms did not see any obstacles to their digitisation journey.

Figure 16: Digitalisation obstacles and enablers

Source: ERC Business Futures Survey 2020



⁸ [CBI - All Together Better: Accessible Labour: A Necessity for Regional Economic Prosperity](#)

3.6. SMEs' approach to 'Net-zero' target

Another major theme covered in the ERC Business Futures Survey is SMEs' approach to 'Net-zero' emissions target. The climate emergency is leading many countries to commit to various targets for reducing their carbon footprint.⁹ In 2019, the UK passed a Net-zero emissions law with targets to be attained by 2050. In one of the first pages of Energy White Paper published by BEIS in December 2020, the Department outlines the following: "As nations move out of the shadow of coronavirus and confront the challenge of climate change with renewed vigour, markets for new green product and services will spring up round the world. Taking action now will help ensure not just that we end our contribution to climate change by achieving our target of Net-zero emissions".

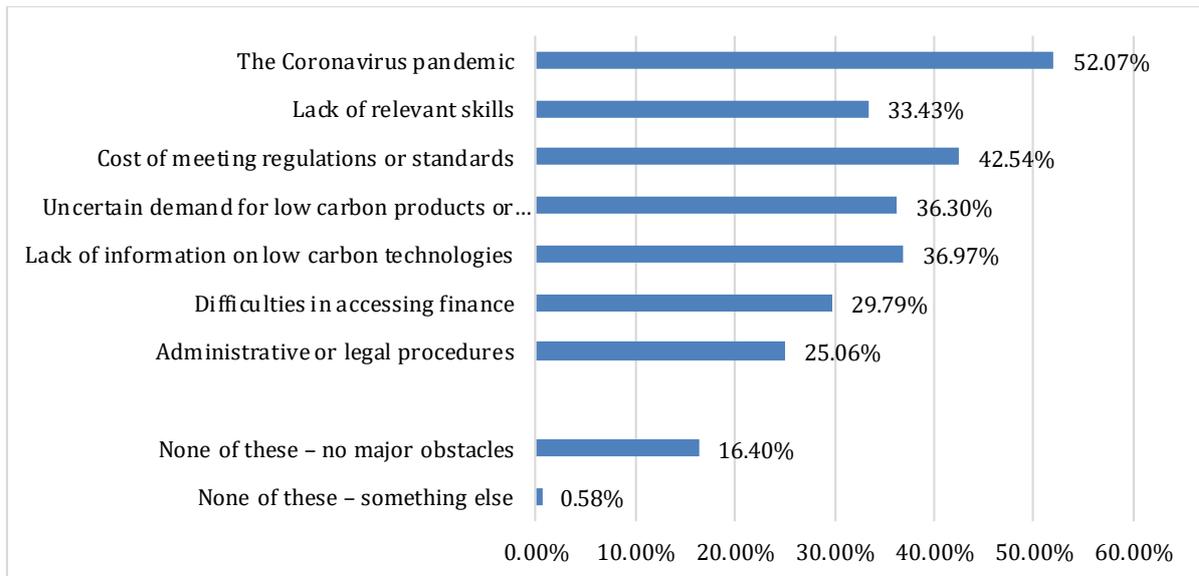
Accordingly, Northern Ireland has been advised by the UK Committee on Climate Change to cut its carbon emissions by at least 82 per cent by 2050.¹⁰ This is an ambitious target, especially with the severe impact of the Covid-19 pandemic. In addition, Figure 17 below indicates that the Covid-19 pandemic is not the only obstacle for SMEs in their environmental protection plan. While more than half of NI SMEs agreed that the uncertainty due to the Covid-19 crisis is currently the most concerning barrier for them in achieving their environmental plan, other factors such as the cost of meeting regulations and standards, or lack of information on low carbon technologies are identified by more than one third of businesses.

⁹ Carbon footprint refers to the total amount of greenhouse gases (GHG) produced directly and indirectly by human activities. It is calculated in tons, as the sum of all emissions of carbon dioxide (CO₂).

¹⁰ [BBC - NI 'should cut carbon emissions by 82% by 2050'](#)

Figure 17: Obstacles towards environmental protection for Northern Ireland SMEs

Source: ERC Business Futures Survey 2020



However, despite the Covid-19 pandemic and other obstacles stated strongly above, the importance of environmental protection is deep-rooted. Even in the midst of the pandemic more than 80 per cent of SMEs in Northern Ireland agreed that businesses should spend more on environmental protection (Figure 18). This perspective by businesses, combined with further government support and clear direction, suggests that achieving Net-zero emissions by 2050 may be a feasible objective.

Figure 18: Northern Irish SMEs' attitude toward environmental protection

Source: ERC Business Futures Survey 2020

