

RESEARCH ARTICLE

Navigating uncertainty: The resilience of third-sector organizations and socially oriented small- and medium-sized enterprises during the COVID-19 pandemic

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Abstract

This paper investigates the impact of the COVID-19 pandemic on U.K. third-sector (nonprofit organizations and social enterprises) and socially oriented small- and medium-sized enterprises (SMEs), and provides insights regarding their organizational resilience. Using data from the Longitudinal Small Business Survey, the results of an extensive empirical analysis suggest that relative to commercial (for-profit) SMEs, social enterprises were less likely, and socially oriented SMEs more likely to perceive the pandemic as an obstacle to business success. Third-sector and socially oriented SMEs were more likely to increase their activities compared to commercial SMEs. Moreover, the COVID-19 pandemic appears to have had a differential impact on the future plans of third-sector and socially oriented SMEs relative to commercial SMEs. Third-sector organizations were less likely to use government-backed loans, suggesting a need for alternative forms of support or financing to weather economic disruptions. Overall, our analysis suggests a resiliency and versatility among third-sector and

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socially oriented SMEs in dealing with unexpected and significant external shocks.

KEYWORDS

COVID-19 pandemic, organizational resilience, small- and medium-sized enterprises, social enterprises, third sector

1 | INTRODUCTION

Third-sector organizations (TSOs; such as nonprofit organizations and social enterprises) and socially oriented small- and medium-sized enterprises (SMEs) are crucial components of the U.K. business ecosystem. They play a vital role in promoting sustainable and responsible business practices, and addressing ongoing societal challenges. In contrast to mainstream commercial SMEs that focus solely on financial goals, TSOs and socially oriented SMEs pursue dual social and financial goals.¹ This study provides new evidence regarding the impact of the COVID-19 pandemic on the behavior, resilience, and future plans of TSOs and socially oriented SMEs.

As a unique form of business, TSOs and socially orientated SMEs have attracted the attention of academics, practitioners, and policy makers in recent years. These organizations operate across a wide range of industries, and are characterized by a focus on addressing social and environmental challenges through innovative business models, which strike a balance between making a profit and creating a positive social impact. Traditional nonprofit enterprises, also known as charitable organizations, are one of the most well-known types of organizations that operate for the benefit of society, rather than simply for profit. These organizations typically rely on grants, donations, and government funding to support their activities, which include providing essential services in areas such as healthcare, education, and the arts. Social enterprises have also attracted special attention, given their dual mission of financial sustainability and social purpose. Doherty et al. (2014) identify hybridity as the defining characteristic of social enterprises. These organizations are driven by a social purpose and reinvest any profits back into local communities. Given their ability to integrate features of private, public, and nonprofit organizations, these hybrid organizations play a critical role in addressing societal issues; the provision of valuable services; and enhancing the resilience of the economy (Liu & Ko, 2012; Murphy & Coombes, 2009). Socially oriented SMEs are for-profit businesses that prioritize social and environmental responsibility in their operations. These businesses aim to balance financial goals with a commitment to creating positive social and environmental impacts. Together, these three types of organizations play a significant role in promoting sustainable business practices, addressing social and environmental challenges, and creating positive outcomes for the economy and society.

While TSOs and socially oriented SMEs have demonstrated an ability to create positive social impact, they remain vulnerable to sudden external shocks and crises that can threaten their very survival. For instance, the COVID-19 pandemic exposed the vulnerabilities of many social enterprises (hospitality and tourism industries) that rely on face-to-face customer interactions. Given the significant disruptions brought about by COVID-19 (and the implementation of various public policy interventions to slow the spread of the virus), it is important to understand the impacts on the behavior and resilience of TSOs and socially oriented SMEs. Studying their organizational resilience not only fills an important evidence gap, but also informs policy and practice toward effective responses to external shocks and crisis events.

In order to investigate the impact of the COVID-19 pandemic on the behavior, resilience, and future plans of TSOs and socially oriented SMEs, we rely on data compiled by the 2019–2020 Longitudinal Small Business Survey (LSBS) commissioned and published by the U.K. Department of Business, Energy and Industrial Strategy² (Department for Business Energy and Industrial Strategy, 2022). The main advantage of using the LSBS as an information source is that the sample of SMEs is representative of the population of 5.5 million U.K. SMEs and follows a consistent classification methodology of firms based on their social and environmental goals.

In order to provide a comprehensive understanding of the challenges and responses of TSOs and socially orientated SMEs during the COVID-19 pandemic, our empirical research design utilizes probit and multinomial probit (MNP) models across four areas. Specifically, we investigate (1) the extent to which TSOs and socially oriented SMEs view COVID-19 as a major obstacle to business success; (2) the impact of lockdown restrictions on their business operations; (3) the impact of the pandemic on their future business plans; and (4) their use and access to U.K. Government COVID-19 funding.

By way of preview, the results of our empirical analysis provide a number of important insights. First, social enterprises (socially focused SMEs) were less (more) likely to view the pandemic as a major obstacle to business success compared to commercial SMEs. Second, TSOs and socially oriented SMEs were more likely to increase their activities during the period where government-imposed lockdown restrictions were in force. Third, the pandemic had a differential impact on the future plans of TSOs and socially oriented SMEs compared to commercial SMEs. While traditional nonprofits and socially oriented SMEs were less likely to need to adjust workforce development and leadership plans, they were more likely to face significant challenges in continuing with plans for capital investment and recruitment of new staff in overseas markets. Social enterprises, on the other hand, were less likely to have plans for introducing new working practices and developing and launching new products or services impacted by the pandemic, but more likely to face challenges in executing plans for R&D investment, and selling to new overseas markets. Fourth, traditional nonprofit and social enterprises were less likely to use COVID-19 government-backed accredited loans or finance agreements compared to commercial SMEs. This suggests that traditional nonprofit and social enterprises require alternative forms of finance to weather the economic disruptions caused by the COVID-19 pandemic. Socially oriented SMEs were more likely to use COVID-19 business grants funded by government or local authority compared to their commercial SME counterparts.

This paper makes several contributions to salient literature. First, our findings regarding the differential impact of the COVID-19 pandemic on TSOs and socially oriented SMEs provide valuable insights to the role of organizational structure in driving resilience, flexibility, and adaptability in business models in the face of unexpected challenges like the pandemic (Bacq & Lumpkin, 2021; Belitski et al., 2022; Hyndman, 2020; Kober & Thambar, 2021; Magrizos et al., 2021; Plaisance, 2022; Weaver, 2020; Weaver & Blakey, 2022). To the best of our knowledge, this is the first attempt to explore this area from a multiorganizational perspective using a nationally representative sample of organizations and businesses operating in the United Kingdom. Second, we contribute to the literature exploring the adaptability and flexibility of TSOs and socially oriented businesses in the context of future strategic planning (Dickerson & Hassanien, 2018; Mathibe et al., 2023; Weaver & Blakey, 2022). The results on the impact of the pandemic on future business plans highlight the need for TSOs and socially oriented SMEs to adapt their plans to ensure long-term viability in a context of crisis management. Third, we contribute to the literature on the financing of organizations and businesses with a social aim along with the need for targeted support during periods of economic uncertainty (Davies et al., 2019; Doherty et al., 2014; Green et al., 2021; Lee & Cowling, 2013; Lyon & Owen, 2019; Pape et al., 2020). More precisely, the empirical findings regarding the impact of the pandemic on future business plans suggest the need for specific targeted support and interventions to help TSOs and socially oriented SMEs overcome the challenges posed by the pandemic. Moreover, the results on the use of coronavirus COVID-19 government-backed accredited loans or finance agreements suggest that TSOs and social enterprises may require alternative forms of support or financing to weather economic disruptions arising from the pandemic. For example, targeted grants or subsidies, streamlined administrative processes for accessing specific types of funding, or other forms of financial assistance could be more suitable for these organizations.

Overall, the findings of this paper suggest that third-sector and socially oriented organizations have shown remarkable resilience despite the challenges faced during the COVID-19 pandemic. Some TSOs and socially oriented SMEs have successfully responded to changing needs and demands, while others have leveraged their own resources to address challenges. The ability of social enterprises to adapt in response to crisis is important not only for survival, but also for their potential to contribute to broader social and environmental goals. These results have important implications for current and future policy toward organizations and businesses with a social mandate in the context of

the COVID-19 pandemic (Bacq & Lumpkin, 2021). The findings also inform and guide stakeholders, including social enterprises, investors, policy makers, and the public, in making informed decisions and supporting the growth and impact of this important part of the U.K. SME ecosystem.

The rest of this paper is structured as follows. Section 2 examines relevant literature on the challenges for TSOs and socially oriented SMEs during uncertainty periods, including COVID-19. Section 3 describes the data set used and the research methodology. In section 4, we present the results of our empirical analysis and discussion. Section 5 presents the main conclusions of the paper.

2 | LITERATURE

This section reviews literature exploring the challenges faced by the TSOs and socially oriented SMEs during the COVID-19 pandemic. The social enterprise sector in the United Kingdom contributes roughly 3% to the country's GDP, making it one of the fastest-growing forms of businesses. With over 100,000 organizations, the sector generates £60 billion for the economy and provides employment to over 2 million individuals (Social Enterprise UK, 2018). Social enterprises conduct a variety of commercial activities across economic sectors and contribute to job creation (Haugh et al., 2022). The U.K. charity sector is crucial for the country's well-being, there are over 200,000 registered charities with a combined estimated annual income of almost £80 billion, which employ 800,000 people and rely heavily on volunteers (Hyndman, 2018, 2020). The sector provides a wide range of public services that in turn are a reflection of the overall well-being of the United Kingdom (Hyndman, 2018). Considering the significant role these organizations play in supporting communities, reducing poverty, and serving vulnerable groups, there are strong economic and social development reasons to conduct research on this important cohort of organizations. TSOs and socially oriented SMEs are an important part of the U.K. ecosystem, but they are particularly vulnerable to volatile demand patterns, funding pressures, and a lack of volunteer support during times of crisis. As a result, this has implications for their organizational viability and sustainability.³

The COVID-19 pandemic has placed the SME sector under immense pressure, arguably much more acute than that experienced by larger businesses (Hurley et al., 2021). Given widespread economic uncertainty, job losses, decreased demand for goods and services, and financial losses, many businesses have been forced to close temporarily or significantly scale back activities, leading to significant financial losses. Kalemli-Ozcan et al. (2020) estimate the impact of the pandemic on SME failures across 17 countries. The authors find an increase in failure rates of approximately 9 percentage points in the absence of government support. Accommodation & Food Services, Arts, Entertainment & Recreation, Education, and Other Services are among the most affected. Based on survey data from 2500 U.S. SMEs, Bloom et al. (2021) find a substantial negative impact of the COVID-19 pandemic on sales. This peaks in the second quarter of 2020, with an average loss of 29%. Other evidence suggests that the COVID-19 has a significant detrimental impact on commercial SMEs and entrepreneurial activities (Belitski et al., 2022; Hurley et al., 2021). However, to date there remains a paucity of evidence regarding the impacts of the COVID-19 pandemic on TSOs and socially oriented SMEs. Consequently, there is an urgent need to fill this evidence gap in order to understand the ability of these organizations to respond quickly and effectively to emerging challenges, and thus fulfil their mission of creating positive change in society.

Despite a paucity of evidence, several recent studies are of note in this regard. Plaisance (2022) investigates the resilience of French arts and cultural nonprofit organizations during the COVID-19 crisis. The authors find that the primary financial challenge faced by nonprofit organizations is a decline in income derived from membership fees. Moreover, 31% of nonprofit organizations lost touch with volunteers, while 24% altered their overarching mission. Despite significant disruptions in activities (compared to other sectors), nonprofit organizations show high resilience via an ability to respond quickly to customer needs and other changing circumstances. Kober and Thambar (2021) apply the Barbera et al. (2020) financial resilience framework to investigate the importance of accounting in shaping the financial resilience of charities during the COVID-19 pandemic. The authors highlight the importance of having

slack resources in organizational adaptation, and how accounting practices (such as budgeting, forecasting, and financial and nonfinancial performance reporting) are crucial for a charity's ability to adapt and cope with the financial challenges posed by the COVID-19 pandemic. The COVID-19 pandemic has significantly impacted the charity sector, leading to a crisis brought about by decreased income and increased demand for services. A study by Pro Bono Economics (2020) reveals the presence of a £10.1 billion funding gap for U.K. charities as a result of COVID-19, with projections indicating a decrease in income by £6.7 billion and an increase in demand for their services of £3.4 billion. Hyndman (2020) characterizes the impact of COVID-19 on the U.K. charity sector as a "perfect storm" with substantial loss of income and increased demand for services.

In the context of social enterprises, limited research has been conducted on the role of these organizations during pandemics and crises. Bacq and Lumpkin (2021) emphasize the importance of reassessing the role of social entrepreneurs in light of major societal issues such as the COVID-19 pandemic, and propose that their function be expanded from being sole agents of change to orchestrators of collective resources. Another challenge that social enterprises may encounter during the COVID-19 pandemic is to balance their social and economic goals (Weaver, 2020). This could result in "mission drift", whereby social enterprises prioritize economic goals over social ones (Cornforth, 2014), or the need for "mission agility" (Bacq & Lumpkin, 2021), where the organization can adapt its mission in response to societal needs.

Recent research explores the impact of the COVID-19 pandemic on the survival of (CSR-oriented) socially oriented SMEs. Magrizos et al. (2021) suggest that SMEs that are skilled in stakeholder management benefit from implementing CSR strategies, improving their financial performance during a crisis (such as the COVID-19 pandemic). This study is of particular significance given that it highlights the potential positive effects of CSR during crisis periods, and thus contributes to the limited research in the area of CSR in countries undergoing economic crisis. Wellalage et al. (2022) use data from 6597 firms in 13 developing countries to investigate the relationship between environmental efficiency and financing for SMEs during the pandemic. The results suggest that being environmentally conscious can enhance trust and financial stability during times of crisis. Environmentally responsible firms enjoyed better access to external (bank, nonbank, and trade credit) finance during the COVID-19 pandemic.

The impact of COVID-19 on TSOs and socially oriented SMEs is a complex topic that requires further research, taking account of the varied contexts and business models of these organizations. Our research aims to contribute to the literature in this area and provide valuable insights into the resilience of these organizations during the pandemic, informing future policy decisions on supporting them during crises. Despite the challenges brought about by the pandemic, these organizations have demonstrated adaptability and a continued positive contribution to society. However, to date empirical research on the resilience of these organizations during the COVID-19 pandemic (or other stressed periods) is somewhat limited.

3 | DATA AND METHODOLOGY

3.1 | Mapping the socially responsible SME ecosystem

The LSBS is a large-scale telephone survey of owners, proprietors, managing directors, and senior directors of SMEs based in the United Kingdom. The survey combines cross-sectional and longitudinal data and categorizes SMEs into four types: traditional nonprofit, social enterprises, socially oriented, and commercial SMEs. For the purposes of this study, we often refer to social enterprises and traditional nonprofits collectively as TSOs. However, in our empirical analysis, we will analyze social enterprises and traditional nonprofits separately. In doing so, we gain a deeper understanding of the unique characteristics and challenges of each organizational type and thus provide tailored insights and recommendations pertaining to social enterprises and traditional nonprofits. Moreover, this approach allows us to draw systematic comparisons across different types of organizations with varied levels of social objectives, and differential resilience to unexpected external shocks.

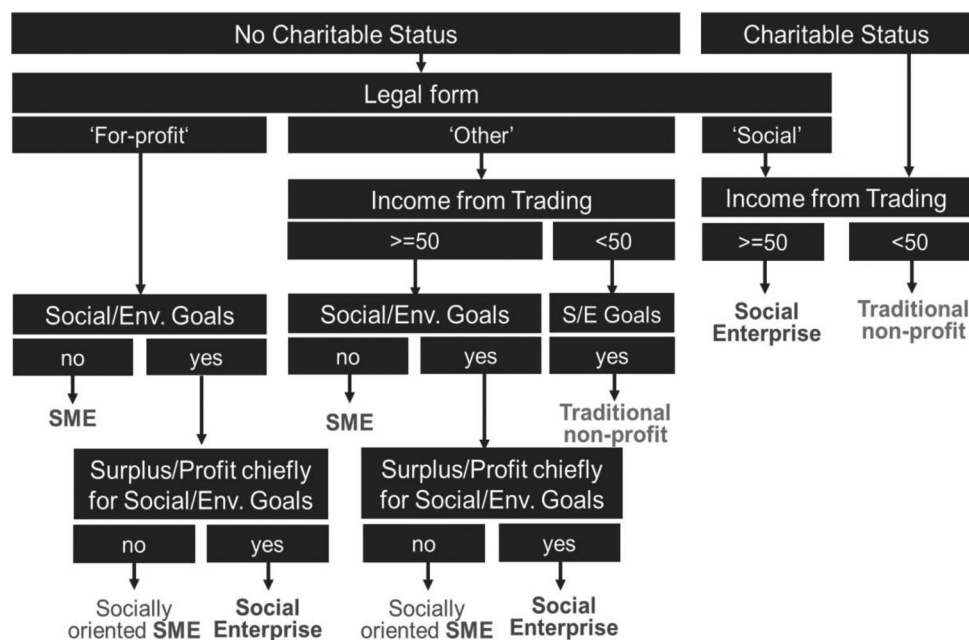


FIGURE 1 Decision tree to identify socially responsible SMEs. Source: Longitudinal Small Business Survey Year 3 (2017): Technical Report. Note: “For-profit” legal forms include sole proprietorship/trader, private limited company (by shares), public limited company, private unlimited company, and foreign company. “Other” legal forms include partnerships, limited liability partnerships, private company (limited by guarantee), co-operative, “other,” do not know, and refused answers. “Social” legal forms include community interest company (limited by guarantee or shares), friendly society, industrial and provident society, trust, unincorporated association, community benefit society, and charitable un/incorporated organization. Env., environmental; S/E, social or environmental. For the purposes of this study, we will refer to social enterprises and traditional nonprofits as third-sector organizations (TSOs). However, we will analyze them separately. By analyzing each type separately, we can gain a deeper understanding of the unique characteristics and challenges of each organization and provide tailored insights and recommendations for each group.

Social enterprises include organizations that have identifiable social/environmental goals; generate income chiefly from trading activities (i.e., engage in entrepreneurial activity); and use surplus/profit to further social/environmental goals. Social enterprises also include organizations that pursue social goals and generate more than 50% of income from trading activities. *Traditional nonprofits* are organizations that pursue social goals but generate less than 50% of income from trading activities.⁴ *Socially oriented SMEs* are enterprises that have social/environmental goals and generate income chiefly from trading activities, but do not use their surplus/profit to further those social/environmental goals. Finally, *Commercial SMEs* have clear commercial and financial goals, and this is the key characteristic that makes them different from socially oriented SMEs. Figure 1 provides a more detailed overview of the classification.

3.2 | Longitudinal Small Business Survey

The LSBS contains detailed information regarding the characteristics of our sample, ranging from basic demographic data to various economic variables, including business social/environmental orientation. Table 1 provides a detailed definition of all variables used in the empirical analysis.

Table 2 presents descriptive statistics of our overall sample. Seventy percent of our sample considered COVID-19 as a major obstacle for their business. Regarding the impact of lockdowns on businesses, figures suggest that 78%

TABLE 1 Variable definition.

Variable	Definition	LSBS code
<i>Major obstacle</i>	Which of the following would you say are major obstacles to the success of your business in general?	G2K
COVID-19	COVID-19 as a major obstacle for the business	
<i>Business impact during lockdown</i>	Which of the following statements best describes how your [ANSWER AT A-2] adapted during the lockdown restrictions from the end of March to the middle of June 2020?	GC1
Closed down or reduced operations	Closed down completely (temporarily) or operations were reduced	
Unaffected	Unaffected by COVID-19 restrictions	
Increased operations	Operations were increased	
<i>Future plans affected by COVID-19</i>	Have plans [over the next 3 years] been affected by the coronavirus COVID-19 pandemic? If Yes: Which plans?	R4A(A-J)
	Increase the skills of the workforce (*), increase the leadership capability of managers (*), capital investment (in premises, machinery, etc.) in the United Kingdom, capital investment (in premises, machinery, etc.) in overseas markets, develop and launch new products/services, introduce new working practices, invest in R&D, increase export sales or begin selling to new overseas markets, recruitment of new staff in the United Kingdom (*), recruitment of new staff in overseas offices (*). Note: (*) Only asked to business with employees.	
<i>Use of COVID funding</i>	Has your company used any ...?	H100A_1 and H100A_2
COVID-funding (loans)	Coronavirus COVID-19 government-backed accredited loans or finance agreements such as Coronavirus Business Interruption Loan and Bounce Back Loan	
COVID-funding (grants)	Coronavirus COVID-19 business grants funded by government or local authority	
<i>SME classification</i>		SOCENT
Commercial SMEs (base category)	See Figure 1. For the purposes of this study, we will refer to social enterprises and traditional nonprofits as third-sector organizations (TSOs). However, we will analyze them separately. By analyzing each type separately, we can gain a deeper understanding of the unique characteristics and challenges of each organization and provide tailored insights and recommendations for each group.	
Traditional nonprofit		
Social enterprise		
Socially orientated SME		
<i>Aims to grow</i>	Aim to grow sales over the next 3 years.	R1
<i>Size</i>		A2SPSS1
<i>Zero employees (base category)</i>	Zero employee business had no employees on their payroll (excluding owners and partners) at the time of the interview.	

(Continues)

TABLE 1 (Continued)

Variable	Definition	LSBS code
Micro	1–9 employees.	
Small	10–49 employees.	
Medium	50–249 employees.	
<i>Business age</i>	Age of the firm.	A6SUM and A6, missing values for 2016 are completed with values from 2015
0–5 years (base category)		
6–10 years		
11–20 years		
20+ years		
<i>Turnover change</i>	Turnover in the past 12 months, compared with the previous 12 months.	P2
Decreased (base category)		
Stayed roughly the same		
Increased		
Profit	Firm generates a profit or surplus after considering all sources of income in the last financial year.	P12
Urban area	Broad urban/rural categorization from postcode.	URBRUR2
Female led	Business is women led.	WLED
Minority ethnic led	Business is MEG led.	MLED
Family owned	Business is a family-owned business (i.e., one that is majority owned by members of the same family).	A12
Business plan	The business has a formal written business plan.	F5
<i>Region</i>	Region where the firm has its headquarters.	NATION
England (base category)		
Scotland		
Wales		
Northern Ireland		
<i>Broad sector</i>	Industry sector	SECTOR
Manufacturing sector (base category)	Production and construction (SIC 2007: ABCDEF).	
Transportation and retail services	Transport, retail, and food service/accommodation (SIC 2007: GHI).	
Business services	Business services (SIC 2007: JKLMN).	
Other services	Other services (SIC 2007: PQRS).	

Note: This Table shows variable names and definitions of our dependent and explanatory variables. All variables were gathered from the Longitudinal Small Business Survey, 2019–2020.

TABLE 2 Summary statistics.

	Mean	SD	N
MAJOR OBSTACLE			
COVID-19	0.704	0.457	2516
BUSINESS IMPACT DURING LOCKDOWN			
Closed down reduced operations	0.785	0.411	7596
Unaffected	0.156	0.362	7596
Increased operations	0.060	0.237	7596
SMEs WITH PLANS AFFECTED BY COVID-19			
A: Increase the skills of the workforce	0.424	0.905	1270
B: Increase the leadership capability of managers	0.389	0.966	874
C: Capital investment (in premises, machinery, etc.) in the United Kingdom	0.507	0.614	764
D: Capital investment (in premises, machinery, etc.) in overseas markets	0.613	0.589	125
E: Develop and launch new products/services	0.552	0.521	892
F: Introduce new working practices	0.477	0.579	1024
G: Invest in R&D	0.428	0.639	629
H: Increase export sales or begin selling to new overseas markets	0.540	0.565	388
I: Recruitment of new staff in the United Kingdom	0.498	0.688	1279
J: Recruitment of new staff in overseas offices	0.498	0.660	116
USE OF COVID FUNDING			
COVID-funding (loans)	0.276	0.615	7462
COVID-funding (grants)	0.312	0.629	7445
TYPES OF ORGANIZATIONS AND BUSINESSES			
Commercial SME (base category)	0.680	0.467	10,883
Traditional nonprofit	0.042	0.201	10,883
Social enterprise	0.082	0.274	10,883
Socially orientated SME	0.196	0.397	10,883
CONTROL VARIABLES			
<i>Entrepreneur orientation</i>			
Aims to grow	0.585	0.493	18,621
<i>Size</i>			
Zero employees (base category)	0.759	0.427	18,621
Micro (1–9)	0.198	0.399	18,621
Small (10–49)	0.036	0.187	18,621
Medium (50–249)	0.006	0.077	18,621
<i>Business age</i>			
0–5 years (base category)	0.136	0.343	18,559
6–10 years	0.184	0.387	18,559
11–20 years	0.298	0.458	18,559
20+ years	0.382	0.486	18,559

(Continues)

TABLE 2 (Continued)

	Mean	SD	N
<i>Turnover change</i>			
Decreased (base category)	0.383	0.486	17,897
Stayed the same	0.392	0.488	17,897
Increased	0.226	0.418	17,897
<i>Profitability</i>			
Profit	0.764	0.425	17,648
<i>Business characteristics</i>			
Urban area	0.686	0.464	18,100
Family owned	0.858	0.349	18,573
Business plan	0.283	0.451	17,966
Female led	0.186	0.389	17,757
Minority ethnic led	0.045	0.208	17,258
<i>Region</i>			
England (base category)	0.884	0.320	18,621
Scotland	0.059	0.236	18,621
Wales	0.035	0.183	18,621
Northern Ireland	0.022	0.148	18,621
<i>Broad sector</i>			
Manufacturing sector (base category)	0.248	0.432	18,621
Transportation and retail services	0.188	0.391	18,621
Business services	0.337	0.473	18,621
Other services	0.227	0.419	18,621

Note: This table reports the summary statistics using data from the Longitudinal Small Business Survey, 2019–2020. Cross sectional survey weights applied to represent the population of SMEs in the United Kingdom. Respondents who answer “I do not know” or refused to answer are not included in the analyses. Variable definitions are reported in Table 1.

of our sample had to either close or reduce their operations. Only 15% of our sample were not affected, and a mere 6% experienced an increase in their operations. As for the effect of COVID-19 on future plans, 42% of our sample had their plans to increase the skills of their workforce affected, while 38.9% saw plans to enhance their leadership capabilities impacted. Half of the sample reported that their capital investments in the United Kingdom were affected, while 61% said that their investments in overseas markets were impacted. In addition, more than half of sample experienced challenges in their plans to develop and launch new products or services, while nearly half saw plans affected to introduce new working practices and recruiting U.K. or international staff. Plans to invest in research and development and to increase export sales or begin selling abroad were also affected for 42% and 54% of the sample, respectively. Twenty-seven percent of the sample had access to COVID-19 government-backed accredited loans or finance agreements, such as the Coronavirus Business Interruption Loan and Bounce Back Loan, for funding related to the pandemic. Additionally, 31% of the sample were able to access COVID-19 business grants funded by the government or local authorities.

Commercial SMEs represent 67% of our sample, followed by socially oriented SMEs (19.6%) and TSOs (which comprise social enterprises [8.1%] and traditional nonprofits [4.2%]). Fifty-eight percent of the organizations and businesses in our sample are growth oriented, and therefore aim to grow sales over the next 3 years. Firm size is measured by the number of employees reported by the company to be currently on the payroll, excluding owners and partners,

across all sites of the firm. The majority of our sample belong to the category of zero employees (75.9%) followed by micro-sized (19.8%), small-sized (3.6%), and medium-sized (0.6%) business. To control for the age, a set of binary variables covering from start-ups (0–5 years) to mature business (20+ years) are included. The distribution across age categories is relatively homogenous, although the majority of our sample are classified in the 20+ years category (37.7%).

The base category of “Decreased” in turnover change indicates that 38.27% of our sample experienced a decrease in turnover, while 39.17% maintained the same level, and 22.56% observed an increase. The majority of our sample, 76.37%, were profitable, while 68.60% were located in urban areas and 85.82% were family owned. A minority of our sample, 18.55% and 4.52%, were female led and minority ethnic led, respectively. The majority of our sample, 88.38%, were based in England, while 5.91%, 3.47%, and 2.24% were located in Scotland, Wales, and Northern Ireland, respectively. In terms of broad sector, the largest proportion of observations in our sample, 33.68%, belonged to business services, followed by other services (22.68%), transportation and retail services (18.81%), and the manufacturing sector (24.84%).

Table 3 shows the correlations between the explanatory variables to assess multicollinearity. The highest correlation is 0.33 (between size and business plan dummy). Hence, multicollinearity does not appear to present a critical concern for our analysis.

3.3 | Methodology

The present study utilizes the two most recent waves (2019–2020) of the LSBS. The LSBS survey allows us to exploit the longitudinal nature of the data collected, and thus deal with endogeneity concerns by using lagged variables. We rely on two empirical approaches (comprising multinomial probit (MNP) and probit models) in order to investigate how the pandemic has affected TSOs and socially oriented SMEs in terms of operations and business plans.

3.3.1 | Multinomial Probit (MNP) model

We use an MNP regression to investigate how TSOs and socially oriented SMEs have adapted their business operations during the lockdown restrictions imposed by the U.K. government following the onset and spread of the COVID 19 pandemic. The MNP model is used with discrete dependent variables that take on more than two outcomes that do not have a natural ordering (Cameron & Trivedi, 2005).

j, ij The utility of alternative j how your business TSOs and socially oriented SMEs i adapted its their business operations during the lockdown restrictions closed down/reduced operations unaffected/increased operations is a function of firm-level characteristics and a stochastic error and therefore modeled as

$$U_{ij} = x'_{ij}\beta + \varepsilon_{ij}, \quad (1)$$

where x'_{ij} is a vector of covariates and the errors are assumed to be normally distributed, with $\varepsilon \sim N(0, \Sigma)$, where $\varepsilon = (\varepsilon_{i1}, \varepsilon_{i2}, \varepsilon_{i3})$. The probability that alternative j is observed is

$$p_{ij} = \Pr(y_i = j) = \Pr\left\{\varepsilon_{ik} - \varepsilon_{ij} \leq (x_{ij} - x_{ik})'\beta\right\}, \text{ for all } k, \quad (2)$$

where y_i is a random variable that indicates how SMEs TSOs and socially oriented SMEs have adapted their business operations during the lockdown restrictions. The MNP model is an extension of the binary probit model that allows the coefficients of the explanatory variables to vary across alternatives and allow us to assess whether specific characteristics are associated with higher probabilities of observing alternative j .

TABLE 3 Correlation matrix.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) Social enterprise	1.000												
(2) Aim to grow	0.027*	1.000											
(3) Firm size	0.051*	0.246*	1.000										
(4) Firm age	-0.020	-0.091*	0.179*	1.000									
(5) Turnover change	0.017	0.075*	0.131*	-0.055*	1.000								
(6) Profit	-0.067*	-0.002	0.056*	0.020*	0.250*	1.000							
(7) Urban	-0.016	0.058*	0.079*	-0.027*	-0.014	-0.026*	1.000						
(8) Family business	-0.067*	-0.060*	-0.256*	-0.078*	-0.073*	0.055*	-0.130*	1.000					
(9) Business plan	0.112*	0.177*	0.328*	-0.013	0.070*	-0.034*	0.053*	-0.206*	1.000				
(10) Women led	0.035*	-0.019	-0.028*	-0.046*	-0.040*	-0.051*	-0.002	0.059*	0.004	1.000			
(11) MEG led	0.041*	0.032*	0.013	-0.078*	-0.007	-0.032*	0.096*	0.002	0.030*	-0.002	1.000		
(12) Region	0.027*	0.003	0.016	-0.027*	0.011	0.022*	-0.099*	0.020*	0.003	-0.004	-0.055*	1.000	
(13) Broad Sector	0.092*	-0.060*	-0.063*	-0.040*	-0.019	-0.079*	0.133*	-0.185*	0.084*	0.172*	0.043*	-0.067*	1.000

Note: This table reports the correlation matrix between all variables used in this study.

*Statistical significance at the 1% level.

All results associated with these models are presented in terms of average marginal effects (AMEs), given that we are interested in the change in the probability associated to changes in business characteristics and/or specific organizational forms. Standard errors are clustered at regional level to allow for individual correlations within the same geographic area.

3.3.2 | Probit model

Probit models are used to investigate the impact of COVID-19 on business operations (e.g., major obstacle to business success), future plans and access to COVID-19 funding. In this case, the dependent variable is equal to 1 if the SME i exhibit a specific consequence derived from the COVID-19 pandemic, and 0 otherwise.

$$\Pr (\text{Obstacles}/\text{Future Plans}/\text{COVID} - 19\text{Funding}_i = 1) = \Phi (X_i\beta + v_i), \quad (3)$$

where v_i are independent and identically distributed (i.i.d., $N(0, \sigma_v^2)$), and Φ is the standard normal cumulative distribution function. We include a wide range of independent variables, which are expected to affect their perceptions about COVID-19, future business plans and access to COVID-19 funding. These include organizational form, size, age, various firm-level characteristics, and industry and regional fixed effects. In addition, our empirical approach (where appropriate) uses lagged independent variables for growth ambition, changes in turnover, and profitability to mitigate endogeneity concerns arising from reverse causality. All results associated with these models are presented in terms of AMEs and errors are clustered at the regional level to allow for individual correlations within the same geographical area.

4 | RESULTS AND DISCUSSION

In this section, we present the main results. Specifically, our results cover four key areas with a special focus on TSOs (nonprofit organizations and social enterprises) and socially oriented SMEs: (1) the extent to which these organizations and businesses view COVID-19 as a major obstacle to their success; (2) the impact of lockdown restrictions on business operations between March and June 2020; (3) the effect of the pandemic on future business plans across 10 key categories; and (4) the use and access of COVID-19 funding from the U.K. government, including grants and loans. By examining these areas, we aim to provide a comprehensive understanding of the challenges faced by TSOs and socially oriented SMEs during the COVID-19 pandemic and their responses therein.

4.1 | COVID-19 as a major obstacle to business success

Table 4 presents results on whether TSOs and socially oriented SMEs perceived the COVID-19 pandemic as a major obstacle to their business success. Model 1 includes a comprehensive range of business characteristics as control variables, while Model 2 incorporates two more variables that relate to the firm's management: whether the business is led by women and/or whether it is MEG led. Results suggest that social enterprises are less likely to consider the pandemic as a major obstacle for their business compared to commercial SMEs. This is in contrast to socially focused SMEs, which were approximately 3.8% more likely than commercial SMEs to view the COVID-19 pandemic as a significant obstacle to their business. Overall, this result suggests that social enterprises may be more resilient in the face of unexpected challenges like the COVID-19 pandemic as they can be more flexible and adaptive in their business models, while socially focused SMEs may face greater challenges in maintaining their social and environmental objectives in times of crisis as they have specific commercial targets to achieve.

TABLE 4 COVID-19 pandemic as major obstacles to the success of your business in general.

	Model 1	Model 2
Traditional nonprofit _{t-1}	0.035 (0.75)	0.063 (1.33)
Social enterprise _{t-1}	-0.025*** (-11.41)	-0.033*** (-10.39)
Socially oriented SME _{t-1}	0.042*** (3.17)	0.038*** (4.34)
Aims to grow _{t-1}	-0.044* (-1.80)	-0.049** (-2.28)
Size: Micro	0.026*** (3.65)	0.021*** (3.03)
Size: Small	0.010 (0.48)	0.022 (1.36)
Size: Medium	-0.013 (-0.33)	-0.007 (-0.13)
Business age: 6–10 years	-0.179*** (-3.09)	-0.185*** (-3.71)
Business age: 11–20 years	0.013 (1.18)	0.016*** (5.18)
Business age: 20+ years	-0.129** (-2.34)	-0.117** (-2.52)
Turnover change (stayed the same) _{t-1}	-0.008 (-0.68)	-0.031*** (-4.47)
Turnover change (increased) _{t-1}	-0.048*** (-3.23)	-0.071*** (-4.44)
Profit _{t-1}	0.000 (0.02)	0.016 (0.97)
Location _t : Urban area	0.067*** (3.29)	0.075*** (3.66)
Family owned	0.018 (0.45)	0.032 (0.70)
Business plan	0.051 (1.63)	0.052 (1.61)
Female led _{t-1}		0.066 (1.19)
Minority ethnic led _{t-1}		0.007 (0.33)
Fixed effects		
Regional FEs	Yes	Yes

(Continues)

TABLE 4 (Continued)

	Model 1	Model 2
Industry FEs	Yes	Yes
Observations	1424	1317
Log pseudo-likelihood	-836.401	-798.935
R ²	0.067	0.067
AIC	1676.801	1601.869
BIC	1687.324	1612.236

Note: This table shows average marginal effects (AMEs) from a probit model of SMEs' characteristics on the probability of considering COVID-19 as a major obstacle for their businesses. All regressions include a constant term. The base categories for categorical variables are as follows: zero employees (size), 0–5 years (business age), 18–30 years old (owner's age), and decreased (turnover change). Commercial SME is the base category for comparing organizational forms. For the purposes of this study, we will refer to social enterprises and traditional nonprofits as third-sector organizations (TSOs). However, for the purposes of our empirical analysis, we will analyze them separately. All models include industry and regional fixed effects. Survey weights applied to represent the population of SMEs in the United Kingdom. Z-statistics adjusted for clustering at regional level are reported in parentheses. Statistical significance at the 10%, 5%, and 1% levels are showed by *, ** and ***, respectively.

4.2 | Impact of government-imposed lockdown restrictions on business operations

Table 5 provides additional information regarding how TSOs and socially oriented SMEs adapted their operations during the lockdown restrictions compared to commercial SMEs. The results suggest that traditional nonprofits, social enterprises, and socially oriented SMEs were more likely to see their operations increased as a results of lockdown restrictions from the end of March to the middle of June 2020 compared to commercial SMEs. This suggests that these organizations have shown some level of resilience during the economic downturn and has been able to adapt to the changing market conditions caused by the pandemic by pivoting their operations to meet the evolving needs of their local communities.

4.3 | Impact of the COVID-19 pandemic on future business plans

The LSBS allows us to analyze how plans to pursue specific activities over the next 3 years have been affected by the COVID-19 pandemic (see Tables 6 and 7). Table 6 presents results on the impact of the COVID-19 pandemic on future plans for TSOs and socially oriented SMEs compared to commercial SMEs. Results suggest that traditional nonprofit organizations and socially oriented SMEs were 23% and 3% less likely, respectively, to have their workforce development plans impacted by the pandemic compared to commercial SMEs. Social enterprises and socially oriented SMEs were 14.3% and 10.7% less likely, respectively, to have their plans to increase the leadership capability of managers impacted by the pandemic compared to commercial SMEs. Social enterprises and socially oriented SMEs were 31.4% and 7% less likely, respectively, to have their plans for capital investment (in premises, machinery, etc.) in the United Kingdom impacted by the pandemic compared to commercial SMEs. However, social enterprises and socially oriented SMEs were 58.6% and 54.7% more likely, respectively, to have their plans for capital investment (in premises, machinery, etc.) in overseas markets impacted by the pandemic compared to commercial SMEs. Compared to commercial SMEs, traditional nonprofits were 9.6% more likely to have their plans to develop and launch new products or services

TABLE 5 Which of the following statements best describes how your business adapted during the lockdown restrictions from the end of March to the middle of June 2020?

	Your business closed down completely (temporarily) or Operations were reduced	Unaffected by COVID-19 restrictions	Operations were increased
Traditional nonprofit _{t-1}	0.029 (0.71)	-0.099*** (-3.89)	0.070*** (4.52)
Social enterprise _{t-1}	-0.021 (-1.15)	-0.016 (-0.69)	0.037*** (5.60)
Socially oriented SME _{t-1}	-0.016 (-0.96)	-0.004 (-0.25)	0.020*** (18.50)
Aims to grow _{t-1}	0.044*** (2.84)	-0.057*** (-5.22)	0.013** (2.48)
Size: Micro	-0.006 (-0.58)	-0.009 (-0.73)	0.015*** (2.66)
Size: Small	-0.008 (-0.51)	-0.021 (-1.31)	0.030*** (7.99)
Size: Medium	-0.040* (-1.92)	-0.007 (-0.42)	0.047*** (12.90)
Business age: 6–10 years	-0.012 (-0.86)	0.026** (2.34)	-0.014*** (-4.29)
Business age: 11–20 years	0.007 (0.40)	0.014 (1.05)	-0.021*** (-4.79)
Business age: 20+ years	-0.037* (-1.94)	0.065*** (4.32)	-0.028*** (-6.83)
Turnover change (stayed the same) _{t-1}	-0.086*** (-3.55)	0.088*** (4.18)	-0.002 (-0.39)
Turnover change (increased) _{t-1}	-0.107*** (-83.31)	0.096*** (19.69)	0.011* (1.90)
Profit _{t-1}	0.044*** (5.92)	-0.044*** (-6.89)	0.001 (0.51)
Location _t : Urban area	0.031*** (4.50)	-0.040*** (-9.69)	0.009** (2.02)
Family owned	0.014 (1.22)	-0.055*** (-3.60)	0.041*** (8.12)
Business plan	0.007 (1.25)	-0.024*** (-2.92)	0.018*** (3.84)
Female led _{t-1}	0.101*** (64.77)	-0.096*** (-14.33)	-0.005 (-0.98)
Minority ethnic led _{t-1}	-0.088*** (-3.39)	0.041** (1.96)	0.047*** (9.36)

(Continues)

TABLE 5 (Continued)

	Your business closed down completely (temporarily) or Operations were reduced	Unaffected by COVID-19 restrictions	Operations were increased
Fixed effects			
Regional FEs		Yes	
Industry FEs		Yes	
Observations		3892	
Log likelihood		-2443.91	
AIC		4891.835	
BIC		4904.368	

Note: This table shows average marginal effects from multinomial probit regressions predicting business adaptations during lockdown. All regressions include a constant term. The base categories for categorical variables are as follows: zero employees (size), 0–5 years (business age), 18–30 years old (owner's age), and decreased (turnover change). Commercial SME is the base category for comparing organizational forms. For the purposes of this study, we will refer to social enterprises and traditional nonprofits as third-sector organizations (TSOs). However, for the purposes of our empirical analysis, we will analyze them separately. All models include industry and regional fixed effects. Survey weights applied to represent the population of SMEs in the United Kingdom. Z-statistics adjusted for clustering at regional level are reported in parentheses. Statistical significance at the 10%, 5%, and 1% levels are showed by *, **, and ***, respectively.

impacted by the pandemic. On the other hand, social enterprises were 3.3% less likely than commercial SMEs to have their plans affected by the pandemic in terms of developing and launching new products or services.

Results in Table 7 suggest that, compared to commercial SMEs, social enterprises were 18.6% less likely to have their plans to introduce new working practices impacted by the pandemic. Compared to commercial SMEs, traditional nonprofits were 6.8% less likely to have their plans to invest in R&D impacted by the pandemic. On the other hand, social enterprises and socially oriented SMEs were 18.6% and 17.4%, respectively, more likely than commercial SMEs to have their plans affected by the pandemic in terms of plans to invest in R&D. Social enterprises and socially oriented SMEs were 53.5% and 4.7% more likely, respectively, to have their plans to increase export sales or begin selling to new overseas markets impacted by the pandemic compared to commercial SMEs. Social enterprises and socially oriented SMEs were 4.2% and 10.6% more likely, respectively, to have their plans of recruitment of new staff in the United Kingdom impacted by the pandemic compared to commercial SMEs. Compared to commercial SMEs, social enterprises were 12.1% less likely to have their plans of recruitment of new staff in overseas offices impacted by the pandemic. On the other hand, socially oriented SMEs were 24.2% more likely than commercial SMEs to have their plans affected by the pandemic in terms of recruitment of new staff in overseas offices.

Results in Tables 6 and 7 show that the COVID-19 pandemic has had a differential impact on the future plans of TSOs and socially oriented SMEs compared to commercial SMEs. While traditional nonprofits and socially oriented SMEs were less likely to have their workforce development and leadership plans impacted by the pandemic, they were more likely to face challenges in capital investment and recruitment of new staff in overseas markets. Social enterprises, on the other hand, were less likely to have their plans for introducing new working practices and developing and launching new products or services impacted by the pandemic, but more likely to face challenges in R&D investment and increasing export sales or selling to new overseas markets. These findings highlight the need for targeted support and interventions to ensure that TSOs and socially oriented SMEs can overcome the challenges posed by the pandemic and continue to contribute to social and economic development.

TABLE 6 SMEs with future plans over the next 3 years affected by COVID-19 pandemic.

	Increase the skills of the workforce	Increase the leadership capability of managers	Capital investment in United Kingdom	Capital investment in overseas market	Develop and launch new products/services
Traditional nonprofit _{t-1}	-0.237*** (-7.90)	-0.122 (-1.43)	0.043 (0.68)	<i>n.e.</i> (.)	0.096** (2.30)
Social enterprise _{t-1}	0.020 (0.87)	-0.143*** (-4.95)	-0.314*** (-30.00)	0.586*** (907.06)	-0.033* (-1.80)
Socially oriented SME _{t-1}	-0.030* (-1.92)	-0.107** (-1.99)	-0.070* (-1.70)	0.547*** (21.76)	0.051 (0.99)
Aims to grow _{t-1}	-0.064*** (-4.84)	0.042** (1.97)	0.140*** (31.50)	-0.147*** (-16.21)	0.106** (2.19)
Size: Micro	<i>n.e.</i> (.)	<i>n.e.</i> (.)	0.081*** (2.59)	0.017 (0.90)	-0.112*** (-5.48)
Size: Small	0.014 (0.62)	0.002 (0.06)	0.151*** (2.66)	-0.097*** (-30.95)	-0.058* (-1.69)
Size: Medium	0.106*** (4.09)	0.127*** (3.99)	0.143*** (3.58)	0.064** (2.22)	-0.101 (-1.30)
Business age: 6–10 years	-0.128*** (-27.26)	0.100*** (4.54)	-0.114** (-2.51)	0.531*** (49.75)	-0.267 (-1.45)
Business age: 11–20 years	-0.108*** (-3.43)	-0.089 (-1.15)	-0.102*** (-10.74)	0.575*** (14.44)	-0.082 (-0.62)
Business age: 20+ years	-0.068*** (-7.46)	0.066 (1.58)	-0.269*** (-5.61)	-0.124*** (-6.81)	-0.220** (-2.48)
Turnover change (stayed the same) _{t-1}	-0.076* (-1.66)	-0.090*** (-2.95)	-0.031*** (-3.90)	-0.387*** (-19.01)	-0.042 (-1.26)
Turnover change (increased) _{t-1}	-0.085*** (-3.92)	-0.098*** (-6.48)	0.033 (1.15)	-0.278*** (-68.73)	-0.033*** (-4.06)
Profit _{t-1}	-0.147*** (-18.86)	-0.103** (-2.14)	-0.060 (-0.79)	-0.060*** (-3.64)	0.205*** (6.02)
Location _t : Urban area	0.002 (0.07)	-0.015 (-0.55)	0.012 (0.18)	-0.230*** (-3.11)	0.006 (0.24)

(Continues)

TABLE 6 (Continued)

	Increase the skills of the workforce	Increase the leadership capability of managers	Capital investment in United Kingdom	Capital investment in overseas market	Develop and launch new products/services
Family owned	0.090*** (8.51)	-0.028 (-1.17)	0.077*** (4.24)	-0.431*** (-20.06)	0.017 (0.72)
Business plan	0.052*** (141.83)	-0.074*** (-4.94)	-0.002 (-0.21)	-0.090*** (-5.36)	0.137*** (41.32)
Female led _{t-1}	0.037* (1.92)	0.047 (0.53)	0.121 (0.95)	0.282*** (3.54)	0.115*** (5.78)
Minority ethnic led _{t-1}	0.141*** (15.26)	0.151*** (22.90)	0.005 (0.28)	-0.863*** (-32.28)	-0.050** (-2.36)
Fixed effects					
Regional FEs	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes
Observations	672	451	399	58	456
Log pseudo-likelihood	-142.109	-77.933	-148.533	-8.296	-283.218
R ²	0.043	0.065	0.166	0.666	0.072
AIC	288.219	159.866	301.067	18.591	570.435
BIC	297.239	168.089	309.045	20.652	578.680

Note: This table shows average marginal effects from probit regressions. All regressions include a constant term. The base categories for categorical variables are as follows: zero employees (size), 0–5 years (business age), 18–30 years old (owner's age), and decreased (turnover change). Commercial SME is the base category for comparing organizational forms. For the purposes of this study, we will refer to social enterprises and traditional nonprofits as third-sector organizations (TSOs). However, for the purposes of our empirical analysis, we will analyze them separately. All models include industry and regional fixed effects. Survey weights applied to represent the population of SMEs in the United Kingdom. Sample is restricted to SMEs with future plans (stated in columns in the Table below) over the next 3 years. Z-statistics adjusted for clustering at regional level are reported in parentheses. The term “n.e.” stands for “not estimable.” This condition arises when the outcome variable can be perfectly predicted from a subset of the data, or when there are insufficient observations to compute the marginal effects. Statistical significance at the 10%, 5%, and 1% levels are showed by *, **, and ***, respectively.

4.4 | Access and use of COVID-19 funding

Finally, Table 8 presents results on the use of COVID-19 government-backed accredited loans or grants funded by government or local authority by TSOs and socially oriented SMEs. Models 1 and 3 include a comprehensive range of business characteristics as control variables, while Models 2 and 4 incorporate two more variables that relate to the firm's management: whether the business is led by women and/or whether it is MEG led. Results suggest that, compared to commercial SMEs, both traditional nonprofit and social enterprises were 18.8% and 4.4%, respectively, less likely to use COVID-19 government-backed accredited loans or finance agreements such as Business Interruption and Bounce Back Loans. This in turn suggests that these organizations may need alternative forms of support or financing to weather economic disruptions such as the COVID-19 pandemic. This could include targeted grants or

TABLE 7 SMEs with future plans over the next 3 years affected by COVID-19 pandemic.

	Introduce new working practices	Invest in R&D	Increase export sales or begin selling to new overseas markets	Recruitment of new staff in the United Kingdom	Recruitment of new staff in overseas offices
Traditional nonprofit _{t-1}	-0.135 (-0.87)	-0.068*** (-4.12)	<i>n.e.</i> (.)	0.038 (0.81)	-0.013 (-0.18)
Social enterprise _{t-1}	-0.186*** (-6.28)	0.186*** (6.60)	0.535*** (12.95)	0.042*** (4.09)	-0.121** (-2.46)
Socially oriented SME _{t-1}	0.089 (1.48)	0.174*** (5.78)	0.047* (1.70)	0.106*** (9.26)	0.242** (2.43)
Aims to grow _{t-1}	0.102** (2.55)	0.032 (0.92)	0.003 (0.04)	0.066*** (5.36)	-0.060 (-0.56)
Size: Micro	-0.035 (-1.03)	-0.040 (-0.88)	0.070* (1.87)	-0.109*** (-6.86)	0.467*** (5.82)
Size: Small	-0.058 (-0.51)	-0.032 (-0.85)	0.078 (0.99)	-0.148*** (-7.38)	0.236*** (2.99)
Size: Medium	0.074 (0.64)	-0.006 (-0.09)	-0.018 (-0.26)	-0.077*** (-2.89)	0.336 (1.62)
Business age: 6–10 years	0.110 (0.97)	-0.453*** (-12.41)	-0.239*** (-25.06)	-0.147*** (-9.22)	0.012 (0.20)
Business age: 11–20 years	0.092** (2.46)	-0.270*** (-35.09)	0.026 (1.56)	-0.091*** (-14.94)	0.143*** (3.22)
Business age: 20+ years	0.048*** (3.07)	-0.259*** (-5.96)	-0.170*** (-3.23)	-0.138*** (-28.14)	-0.010 (-0.08)
Turnover change (stayed the same) _{t-1}	0.003 (0.06)	-0.111*** (-36.09)	-0.217*** (-145.77)	-0.110*** (-9.91)	-0.293*** (-39.07)
Turnover change (increased) _{t-1}	-0.078* (-1.80)	-0.193*** (-10.50)	-0.232*** (-7.62)	-0.167*** (-33.18)	-0.206*** (-27.35)
Profit _{t-1}	-0.090** (-1.98)	0.085*** (2.59)	-0.005 (-0.20)	-0.039*** (-4.73)	0.190*** (7.88)

(Continues)

TABLE 7 (Continued)

	Introduce new working practices	Invest in R&D	Increase export sales or begin selling to new overseas markets	Recruitment of new staff in the United Kingdom	Recruitment of new staff in overseas offices
Location: Urban area	0.137*** (3.10)	0.045 (1.21)	0.052*** (49.96)	-0.052*** (-8.16)	0.139* (1.85)
Family owned	0.030*** (3.39)	0.085*** (5.16)	-0.028** (-1.98)	0.072*** (8.33)	-0.062** (-2.22)
Business plan	0.020 (0.70)	0.129*** (12.28)	-0.090*** (-6.19)	0.138*** (17.39)	-0.016*** (-2.84)
Female led_{t-1}	0.034 (0.23)	-0.170*** (-15.32)	-0.053*** (-8.56)	-0.066*** (-3.94)	0.131*** (2.70)
Minority ethnic led_{t-1}	-0.130** (-2.51)	0.043*** (3.22)	-0.182*** (-15.97)	-0.155*** (-23.41)	0.014** (2.30)
Fixed effects					
Regional FEs	Yes	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes	Yes
Observations	511	333	207	658	66
Log pseudo-likelihood	-243.464	-108.114	-91.832	-220.690	-7.739
R ²	0.153	0.228	0.205	0.072	0.649
AIC	490.928	220.228	187.665	445.381	17.479
BIC	499.401	227.844	194.330	454.359	19.668

Note: This table shows average marginal effects from probit regressions. All regressions include a constant term. The base categories for categorical variables are as follows: zero employees (size), 0–5 years (business age), 18–30 years old (owner's age), and decreased (turnover change). Commercial SME is the base category for comparing organizational forms. For the purposes of this study, we will refer to social enterprises and traditional nonprofits as third-sector organizations (TSOs). However, for the purposes of our empirical analysis, we will analyze them separately. All models include industry and regional fixed effects. Survey weights applied to represent the population of SMEs in the United Kingdom. Sample is restricted to SMEs with future plans (stated in columns in the Table below) over the next 3 years. Z-statistics adjusted for clustering at regional level are reported in parentheses. The term "n.e" stands for "not estimable." This condition arises when the outcome variable can be perfectly predicted from a subset of the data, or when there are insufficient observations to compute the marginal effects. Statistical significance at the 10%, 5%, and 1% levels are showed by *, **, and ***, respectively.

subsidies, streamlined administrative processes for accessing specific type of funding, or other forms of financial assistance. Results for COVID-19 business grants funded by government or local authority indicate that socially oriented SMEs were more likely to use the grants, with a range of 0.6%–1.9%, compared to commercial SMEs. The findings for traditional nonprofit organizations and social enterprises were less clear. The significance of the coefficients varies across different models, but the results suggest that social enterprises were 2.1% more likely to use the grants in Model 3, while traditional nonprofits were 5.3% less likely to use the grants in Model 4, compared to SMEs.

TABLE 8 Use of coronavirus COVID-19 government-backed accredited loans, finance agreements, or grants funded by government or local authority.

	Coronavirus COVID-19 government-backed accredited loans or finance agreements such as Coronavirus Business Interruption Loan and Bounce Back Loan		Coronavirus COVID-19 business grants funded by government or local authority	
	Model 1	Model 2	Model 3	Model 4
Traditional nonprofit _{t-1}	-0.188*** (-37.56)	-0.204*** (-26.04)	-0.079 (-1.23)	-0.053*** (-5.97)
Social enterprise _{t-1}	-0.044** (-2.51)	-0.041** (-2.19)	0.021** (2.25)	0.026 (1.59)
Socially oriented SME _{t-1}	-0.007 (-0.77)	-0.006 (-0.68)	0.019** (2.46)	0.006*** (4.56)
Aims to grow _{t-1}	0.124*** (26.63)	0.126*** (34.62)	0.093*** (6.09)	0.055*** (3.26)
Size: Micro	0.153*** (4.97)	0.151*** (4.65)	0.174*** (293.09)	0.209*** (23.54)
Size: Small	0.181*** (5.20)	0.169*** (4.82)	0.117*** (7.94)	0.142*** (10.66)
Size: Medium	0.131*** (5.80)	0.120*** (5.60)	-0.039*** (-2.99)	-0.003 (-0.59)
Business age: 6-10 years	0.010 (0.65)	0.026 (1.44)	-0.060 (-1.61)	0.003 (0.35)
Business age: 11-20 years	-0.011 (-1.21)	0.003 (0.35)	-0.032 (-0.78)	-0.012 (-0.97)
Business age: 20+ years	-0.075*** (-4.00)	-0.057** (-2.51)	-0.022 (-0.43)	-0.027*** (-6.56)
Turnover change (stayed the same) _{t-1}	0.004 (0.30)	0.008 (0.54)	-0.053*** (-2.88)	0.015 (0.54)
Turnover change (increased) _{t-1}	-0.012 (-0.86)	-0.006 (-0.41)	-0.049 (-1.58)	-0.006 (-0.37)
Profit _{t-1}	-0.001 (-0.14)	-0.010** (-1.99)	0.019 (0.61)	-0.044*** (-8.61)
Location _t : Urban area	-0.003 (-0.20)	-0.008 (-0.48)	-0.021 (-1.40)	0.010 (0.62)

(Continues)

TABLE 8 (Continued)

	Coronavirus COVID-19 government-backed accredited loans or finance agreements such as Coronavirus Business Interruption Loan and Bounce Back Loan		Coronavirus COVID-19 business grants funded by government or local authority	
Family owned	0.038 (1.58)	0.021 (0.69)	-0.049*** (-4.17)	0.052*** (12.58)
Business plan	0.026*** (4.45)	0.031*** (4.49)	-0.005 (-0.76)	0.014* (1.70)
Female led _{t-1}		-0.054*** (-4.67)		0.025*** (2.74)
Minority ethnic led _{t-1}		0.058*** (2.79)		0.034*** (7.17)
Fixed effects				
Regional FEs	Yes	Yes	Yes	Yes
Industry FEs	Yes	Yes	Yes	Yes
Observations	4229	3870	4227	3868
Log pseudo-likelihood	-2134.441	-2018.242	-2405.890	-2332.768
R ²	0.081	0.082	0.078	0.089
AIC	4272.882	4040.485	4815.780	4669.536
BIC	4285.581	4053.007	4828.479	4682.057

Note: This table shows average marginal effects (AMEs) from a probit model of SMEs' characteristics on the probability of using COVID-19-related funding. All regressions include a constant term. The base categories for categorical variables are as follows: zero employees (size), 0–5 years (business age), 18–30 years old (owner's age), and decreased (turnover change). Commercial SME is the base category for comparing organizational forms. For the purposes of this study, we will refer to social enterprises and traditional nonprofits as third-sector organizations (TSOs). However, for the purposes of our empirical analysis, we will analyze them separately. All models include industry and regional fixed effects. Survey weights applied to represent the population of SMEs in the United Kingdom. Z-statistics adjusted for clustering at regional level are reported in parentheses. Statistical significance at the 10%, 5%, and 1% levels are showed by *, **, and ***, respectively.

5 | CONCLUSIONS

The COVID-19 pandemic has led to unprecedented challenges for TSOs (nonprofit organizations and social enterprises) and socially oriented SMEs, impacting their operations and finances, and posing a threat to their very survival. Despite limited research on the resilience and adaptability of these types of organizations during the pandemic, it is crucial to understand their capacity to respond to emerging challenges, maintain their mission, and bounce back from a crisis quickly and effectively. By being agile and adaptive, these SMEs can take advantage of new opportunities, secure support, and ensure their long-term sustainability.

This paper seeks to shed light on the challenges faced by TSOs and socially oriented SMEs as a result of the pandemic, with the goal of identifying key factors and business characteristics that have enabled these organizations and businesses to adapt and maintain their operations. Using the most recent waves (2019–2020) of the LSBS survey, we first assess whether these organizations have perceived the pandemic as a major obstacle. Second, we evaluate the impact of lockdown measures implemented in the United Kingdom, exploring whether they have negatively

affected the ability of SMEs to conduct business and potentially hindered their operations. We also examine whether the COVID-19 pandemic affected a number of future plans in place for these organizations, and forced them to adjust their strategies and priorities. Finally, we examine the ability of these organizations to obtain COVID-19-related funding through government-backed loans and grants. Such financial support has been crucial for many organizations and businesses during the pandemic, and this study assessed the extent to which SMEs have been able to access these resources.

By employing probit and MNP models to investigate the impact of COVID-19 on businesses across four key areas, we offer a comprehensive understanding of the challenges faced by businesses during the pandemic and their responses. Our results suggest that social enterprises were less likely to view the pandemic as a significant obstacle compared to commercial SMEs, while socially focused SMEs were more likely to perceive it as a major obstacle. Additionally, compared to commercial SMEs, TSOs and socially oriented businesses were more likely to increase their operations during the lockdown restrictions. The pandemic had varying impacts on the future plans of TSOs and socially oriented SMEs compared to commercial SMEs. Traditional nonprofits and socially oriented SMEs were less likely to have their workforce development and leadership plans affected by the pandemic, but they faced more significant challenges in their plans for capital investment and recruitment of new staff in overseas markets. Social enterprises, on the other hand, experienced fewer impediments to their plans for introducing new working practices and developing and launching new products or services, but they faced more significant obstacles in their plans for research and development investment and increasing export sales or selling to new overseas markets. Finally, the study revealed that traditional nonprofit and social enterprises were less likely to use coronavirus COVID-19 government-backed accredited loans or finance agreements compared to commercial SMEs, indicating the need for alternative forms of support or financing to address the economic disruptions caused by the pandemic. Socially oriented SMEs were more likely to use coronavirus COVID-19 business grants funded by the government or local authorities compared to commercial SMEs.

The empirical results bring forth several insights that are imperative for public policy implementation, particularly from the perspective of TSOs and socially oriented SMEs during the COVID-19 pandemic. Among the foremost findings is the diminished usage of COVID-19 government-backed accredited loans or finance agreements by traditional nonprofit organizations and social enterprises as compared to commercial SMEs. This suggests a strong need for alternative financial support mechanisms suitable for these organizations during periods of increased uncertainty, such as the COVID-19 pandemic. This finding has significant implications for public policy, hinting at the potential necessity to diversify and enhance financial support mechanisms that are not just accessible, but are also appropriate for these organizations. Such mechanisms could take the form of grants, subsidies, low-interest loans, or other types of support targeted to organizations with a social mission.

The resilience and adaptability of business models, especially during crises, emerged as another significant point of consideration. Our study shows that social enterprises demonstrate a higher level of resilience during the pandemic, perceiving it as less of a major obstacle to business success. On the contrary, socially oriented SMEs were more likely to see the pandemic as a considerable challenge. This insight might call upon public policy to offer enhanced support to socially focused SMEs, possibly in the form of resilience-building measures or strategies to enable these businesses to adapt their models effectively and weather crises more efficiently.

The effect of the pandemic on future business plans was another critical area of focus. The results indicate that traditional nonprofit organizations and socially oriented SMEs are less likely to adjust their workforce development and leadership plans. However, they face significant challenges in pursuing capital investment and recruitment plans. In contrast, social enterprises encounter fewer challenges in implementing new working practices and launching new services, but are more likely to face difficulties in R&D investment. These insights may warrant targeted support measures designed to facilitate these specific areas of future business planning. In addition, both socially oriented SMEs and social enterprises are to be more likely to increase their activities during the pandemic. This suggests that these organizations have the potential to adapt and maintain operations during crises and therefore are deserving of public support and investment. Finally, the utilization of COVID-19 business grants by socially oriented SMEs is pronounced

compared to their commercial counterparts. This suggests that grant funding can be an effective tool in supporting these organizations during crises.

Overall, these findings suggest that public policy should strive to provide a diverse range of support mechanisms, including financial and operational support, tailored to the unique challenges and opportunities confronted by TSOs and socially oriented SMEs. This involves creating new or expanding existing financial support programs, offering targeted assistance for strategic planning and business model adaptation, and providing resources to aid these organizations in increasing their resilience and sustaining or extending their operations during times of crisis. By doing so, public policy can facilitate the continued success and impact of TSOs and socially oriented SMEs.

NOTES

¹ TSOs encompass a diverse range of organizations such as registered charities, cooperatives, social enterprises, or companies limited by guarantee. They share the goal of pursuing social, environmental, or cultural objectives, are independent from government, and reinvest surpluses to achieve these objectives (Bourne, 2005). A detailed discussion of the different organizational forms used in the present study is included in Section 2 and Figure 1.

² In February 2023, the Department of Business, Energy and Industrial Strategy was divided into three constituent departments, comprising: the Department for Business and Trade; the Department for Energy Security and Net Zero; and the Department for Science, Innovation and Technology.

³ Resilience (as described in recent studies such as Barbera et al. [2020], Kober & Thambar [2021; and Plaisance [2022]) is defined as the ability of organizations to bounce back from crises.

⁴ Some (but not all) social enterprises have charitable status. The distinguishing feature of a social enterprise is the proportion of turnover derived from trading being above 50%. Therefore, for this study, the term “traditional nonprofit” is used to indicate a charity that earns under 50% of its revenue from commercial activity. The definition used in this paper is close to the OECD’s (1999) definition, where social enterprises are characterized by a special organizational form and serve a distinct function as follows: ‘...any private activity conducted in the public interest, organized with an entrepreneurial strategy, whose main purpose is not the maximization of profit but the attainment of certain economic and social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment.’

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DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

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