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Lessons from Recent Global Shocks: Financial Performance and Competitiveness of SMEs (2020–2026) A Conceptual and Narrative Review

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Abstract
The three operating global shocks of the COVID-19 pandemic, the war in Ukraine and a 2025–2026 war in Iran that affected maritime traffic through the Strait of Hormuz battered SMEs over the period 2020–2026. This paper is a comprehensive review of existing literature and institutional data on the impact of this cascade of shocks on SME financial performance and competitiveness. We use a narrative review approach to discuss peer-reviewed studies and institutional sources, such as the OECD's SME Scoreboard series, World Bank Enterprise Surveys, the European Bank for Reconstruction and Development (EBRD) and firm-level econometric studies.
Drawing on these diverse sources, we build a conceptual 'three pillars' framework- innovation, energy diversification and sustainability- to illustrate the strategic responses associated with better SME performance across the three crises.
While common themes are liquidity pressures, increasing borrowing costs and supply-chain disruptions across all three crises, geopolitical events-such as wars and sanctions and the interruption to trade via maritime routes caused by a conflict-appear to inflict more persistent damage than the pandemic alone based on current evidence. Because the 2025–2026 war in Iran only occurred very recently, our firm-level evidence to date consists of an account of its economic context and potential market impacts rather than formal academic studies, with all conclusions cautiously framed. We conclude with a discussion of the relevant policy implications regarding financing, digital and energy transition and market diversifications, acknowledging that our three-pillars framework serves as a conceptual synthesis and does not represent an empirically tested model.

Keywords: SMEs; global shocks; financial resilience; competitiveness; geopolitical risk; energy diversification; dynamic capabilities

1. Introduction
Small and medium-sized enterprises are often called "the backbone of most economies," but most structurally tend to be inherently frail – the thinness of their cash reserves, limited ability to attract external financing, and vulnerability to disruptions in local demand leave SMEs susceptible when something goes wrong. And from 2020 through 2026, instead of something going wrong once, three things were going wrong – namely, COVD-19, the Russia-Ukrainian conflict and most recently, a major U.S.-led military

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coalition to fight a conflict in Iran with Iran that in 2025-2026 caused major disruptions to maritime shipping via the Strait of Hormuz resulting in a sharp increase in crude oil prices (Thomson Reuters Institute, 2026; World Economic Forum, 2026). In response, a growing number of researchers now refer to such a sequence and overlap of crises as an environment of "poly-crisis" or "permacrisis" for firms (Koporcic et al., 2025).

The first shock, COVID-19, had both demand and logistical effects as it choked demand while essentially paralyzing the world over just weeks, resulting in SMEs fighting over working capital (Bartik et al., 2020; Gourinchas et al., 2025). The second shock, the Russia-Ukraine war, introduced a supply-side disruption: sharply increasing the costs of and fueling inflation in an increased supply of energy inputs to businesses, particularly in Europe (OECD, 2022). The most recent shock, the 2025-2026 Iran conflict, already triggered global markets and trade routes – its impacts on individual SMEs have as yet not made it to scholarly, peer-reviewed literature, though this can be discussed via market data and macroeconomic reporting.

This paper provides an examination of what is now understood as the impact of this 'twin-double-shock'-the three seismic events that occurred in rapid-fire succession- on the financial performance of SMEs. This paper does not present any primary new data - quite the contrary: the task of this paper is one of review of secondary data from a wide array of scientific as well as technical literatures to provide a preliminary conceptual framework for better understanding why SMEs that emerged from such a period "unscathed" and which did not, based on criteria of investment in innovation, the diversification of their energy inputs and a commitment to the promotion of sustainable practices. Throughout, it must be cautioned where evidence is "slim" – again the recent crisis – and caution offered accordingly as appropriate.

2. Methodology

In this paper, we used a descriptive literature review and conceptual synthesis. It is not an empirical study, and nor is it a systematic review (in the PRISMA tradition, for example). In doing so, it appropriately characterizes the evidence the paper uses, which relies upon non-original, secondary aggregated data available from both academic and institutional sources; it does not follow a formal systematic search protocol in the conventional sense.

2.1 Sources consulted

Sources employed the three categories of data employed in this study were: Academic literature derived from targeted searches of journals indexed within Scopus and Web of Science databases (e.g. Review of Managerial Science, Economic Modelling, Journal of the European Economic Association, Proceedings of the National Academy of Sciences and Strategic Management Journal); data and reports by institutionally based data gathering agencies, including (i.e.): the OECD (with its "SME Scoreboard" series); World Bank (Enterprise Surveys); EBRD (European Bank for Reconstruction and Development); European Commission,; as well as from the International Energy Agency (IEA); on contemporary macro and market evidence of events leading up to, and occurring, around the 2025-2026 Iran conflict.

(Used purely to denote the nature of the macro-shock, not to buttress or underpin any firm-level SME statement or claim, not having yet accumulated such, nor being able,

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without systematic search protocols, to do so from primary or secondary studies on the Iran case).

2.2 Scope and selection

Sources were identified by their direct relation to SME financial performance, SME competitiveness, or SME robustness, against the three shocks above. The papers reviewed were either published (or contained statistics) between 2016 and 2026, and are evidenced.

2.3 Method Limitations

As this is a narrative, and not a systematic, review, the source search cannot be comprehensive, nor is the risk of selection bias wholly excluded. Geographic bias is also a major factor-it goes without saying that there are many more SME statistics on the US, the EU and the Ukraine than on the Global South. The point is revisited in section 7 below.

3. SME Financial Performance across the Three Shocks

In tracing the trend in SME financial performance between 2020 and 2026, three periods of the phenomenon stand out: an initial urgent phase of liquidity, an inflation-and-interest-rate driven phase triggered by war-induced energy shortages, and an emergent systemic-risk-driven phase of Middle East conflict 2025–6.

3.1 The pandemic liquidity phase (2020–2022)

United States micro data offer just how direct and dramatic the COVID-19 shock was for small companies: in a large survey among the owners of small businesses in spring 2020 many temporary and permanent shutdowns and falls were registered for workers' employment projections (Bartik et al., 2020). Based on structural modelling, the shock of COVID-19 is estimated to have increased the failure rate for SMEs by 9.1 percentage points (which corresponds to about 4.6% of private-sector employment) on average across 17 countries in the absence of public credit support (Gourinchas et al. 2025); for sure, emergency programs tempered the projected impact of COVID19. Besides, in Europe, micro firm-level data on European SME found the average risk for insolvencies increased to 21% compared to prior pandemic levels as a result of consumer demand decreases plus increased production and costs of labor and the more innovative firms had relatively better survival capacities (Kaya, 2022). About the entire literature one conclusion is that firm-level public guarantees and credit lines are set out mainly to prevent insolvency in the short run, and did not plan to foster transition or increase innovation (OECD, 2020).

3.2 Inflation and War-triggered energy phase (2022–2024)

Following the outbreak of the war between Russia and Ukraine, a second different set of pressures came to SMEs in Europe in the form of high energy prices, inflation, and credit tightness (OECD, 2022). SMEs that are more exposed to conflict faced bigger challenges than illustrated above as (2023 ,EBRD)surveyed Ukrainian SMEs 57% continued the pre -war activity rate, 37% reduced production and 6% stopped it down completely while the output average registered a decrease up to 43% and number of employees equaled 22% according to all respondents (EBRD, 2023); even in Ukraine a recent large World Bank study found an obvious destruction for production factors within the war- affected region and early evidence of recovery (World Bank, 2023).

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This is coherent with another argument in literature, that war shock has tend to disrupt international relations more persistent compared to health one, this is the reason to mention the disruptions it has caused in global value chains, global trades etc.; it should be pointed that this point, is a qualitative argument and derived by case experience, not a rigorous statistical comparison on a balanced set of firms.

3.3 The developing systemic-risk phase (2025-2026)

Most recently, this sequence of shocks includes the US/Israel/Iran conflict in 2025-2026 that led to disruption of traffic across the Strait of Hormuz and rapid escalation of the oil price – with Brent crude gaining as much as 13% in a session after warnings of more volatility (Thomson Reuters Institute, 2026). The World Economic Forum's 2026 Energy Transition Index also reports marked deterioration in energy security as a result of reduced energy supply diversity and increasing energy instability globally, and of wider dislocation of financial market conditions in many regions (World Economic Forum, 2026). As of this writing, there is no robust firm-level, peer-reviewed empirical work on the implications of this particular conflict for SMEs simply as it hasn't passed yet, but, as previously described, similar dynamics could be anticipated for trade- and energy-dependent SMEs; however, this is an educated guess rather than a fact-based conclusion and a subject that would require future research.

4. Implications for Market Competitiveness

The literature consistently highlighted competitiveness under these overlapping shocks would be determined less by pre-shock cost position, but more by a company's adaptability – its ability to withstand disruption and continue serving its clients in rapidly changing times (Koporcic et al. 2025). Companies that previously adopted digital tools, more flexible supplier relationships, and localize supply chains already seemed to stand a better chance to respond and navigate successfully – these are firms with dynamic capabilities (Teece, Pisano, & Shuen, 1997; Pisano, 2015).

Digitalization came to fore since companies embracing online delivery channels and remote working had a greater resilience during the Covid pandemic and, after that had relatively fewer issues to embrace the ensuing market disruptions (OECD, 2020; 2023). Yet, a cautionary note from Koporcic et al (2025) is that empirically there remains very little supporting evidence directly linking the best practice-based resilience approaches with firm performance outcomes- something which cannot be addressed herein.

5. A Conceptual Framework on innovation, Energy Diversification and Sustainability:

With the dynamic capabilities perspective in hand (Teece, Pisano & Shuen, 1997; Pisano, 2015) and inspired by the review of resilience literature presented herein, we develop an innovation-driven-yet not yet empirically validated -framework illustrating three integrated strategizing behaviors related to improved SME performance across the period of shock (2020-2026). This framework may offer a lens for future research on this subject-matter.

5.1 Innovation as an everyday capacity

Innovation is beyond R &D work here. For many firms in the business resilience field, the notion that better performance implies integrating innovation as part of the day-to-day capabilities, not solely as the specialization of a few individuals but transforming

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workflows, introducing online channels of distribution or redesign of product features, proved to be fruitful under challenging circumstances (Kaya, 2022; Koporcic et al., 2025).

5.2 Energy Diversification

The war-driven and now-war-driven economic and energy shocks discussed in Section 3 suggest the second of the responses we highlight above is energy diversification. Small and medium firms that are not exposed to over-reliance on a single energy input or provider are, theoretically, less vulnerable to the price hikes discussed previously (International Energy Agency, 2023; World Economic Forum, 2026). This makes intuitive sense as a business strategy and has empirical backing at the aggregate level, but the empirical basis for this at the firm level is weak.

5.3 Sustainability Provides Financial Insurance

Perhaps last among the suggestions we identified from across the selected literature is that investing in greener production and resource efficiency has, the logic goes, reduced long run exposure to the costs of production inputs (OECD ,2023,2024). Thus, sustainability should not just be about environmental goals or compliance, it can also be a method for managing risk.

It is anticipated that these three points will complement one another to better serve small and medium firm. Innovation provides more agile flexibility, diversification helps negate the shock to operating costs, while sustainability works longer and provides more price stability at that juncture. We pull together concepts observed throughout the selected literature. We do not test the model. The purpose is only a model, a preliminary starting place upon which future, tested work can build and grow.

6. Comparing Different Types of Shocks Across Literature

There is a general and recurrent consensus, (not rigorously evaluated in a statistically valid manner across sources), that conflict-based shocks (the current crisis in Russia-Ukraine and the prospective Iran conflict) have left longer term structural impediments to SME competitiveness than the current pandemic, principally through their impact on trading chains, markets and the supply of energy (OECD, 2022; EBDR, 2023). We make these claims in this section purely on judgement made based on the existing available research and not as definitive conclusions drawn from controlled research. No one piece of existing research compares the type of structural impacts of these differing crises systematically with an established method applied across them all. Recoveries across the crises varied significantly, especially in the post-pandemic versus war period, whereby advanced and exporting sectors and small firms recovered from the crisis far quicker than less advanced non-exporting and informally organized small and medium businesses (OECD, 2023;EBDR, 2023). Those varying outcomes suggest that the concept of 'an average SME' does not work so well when identifying just what the least resilient small and mediums enterprises need from policy measures.

7. Limitations

While weighing its conclusions readers should bear in mind several limitations of this review: It is based entirely on secondary aggregated data rather than the collection of original firm-level data. It did not draw on a formal protocol for systematic search (e.g. PRISMA), so there is some small risk of selection bias in the sources consulted. The evidence is patchy geographically; the United States, the European Union and Ukraine are much more intensively covered than the global south. There is no firm-level, peer-reviewed evidence on how the 2025–26 war between Iran and its neighbors may have affected SMEs specifically, given the recency of this episode; conclusions about the damage caused by this shock are therefore more tentative than in the cases of the pandemic or the war between Russia and the Ukraine Comparing the impacts of different kinds of shock: qualitative arguments can be derived from case-study and survey data, but not from a controlled comparison.

The three-pillars framework developed in Section 5 above is analytical; it has not been tested with the help of firm-level data.

8. Policy implications

Notwithstanding these limitations, this literature review suggests some general policy directions aligned with much of the OECD and World Bank literature concerning SMEs support (OECD, 2020, 2022, 2023; World Bank, 2022). Instead of making emergency cash-grants time-limited, turning towards long-term commitments to specific results (e.g. Matching loans linked to digitization or energy-efficiency milestones; guarantees) Moving SMEs beyond reliance on just one market/ supplier, reducing the risk to specific individual customers, regions or supply-chain segments Combining the financial incentives for investments in modernization with technical assistance (e.g. Skills development) or energy efficiency in order to ensure that high cost pressure translates into modernization rather than cost reductions Supporting the SMEs least protected from prolonged shocks: these tend to be the non- exporters and less technologically advanced companies.

5 Conclusion For small and medium enterprises (SMEs)

The period from 2020 to 2026 has proved to be a period of exceptional, interconnected shocks: a pandemic, Europe's most significant conventional land war since 1945, and more recently still, a conflict in the Middle East with ripple effects for the global energy markets. The evidence surveyed here points unequivocally to across all three events a prevalence of liquidity stress, increased funding costs, and hindered access to markets, with firms that came into events with previous digital investment, diversified global access and energy inputs, and resource-efficient practices usually more resilient. However, in the spirit of what the paper is (and is not) saying, comparative differences between the impact of shock types remain qualitative rather than causally estimated; the three-pillars framework is explanatory rather than evidentially proven, and the firm-level data has not yet come in to evaluate the most recent episode. Future micro-empirical study – hopefully combining firm-level data and cross-shock comparisons – is essential to assess some of the correlations drawn across the literature in this survey.

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