

Boosting UK productivity with SME growth

Contributing 47 per cent of revenue to the UK economy, small and medium-sized enterprises (SMEs) have a key role in boosting productivity – but need support to expand business and increase impact.

Policy recommendations

- The overall entrepreneurial ecosystem needs to be nurtured to encourage greater growth ambition among SMEs. This could be supported through the establishment of public-private partnerships delivering high-quality SME business support.
- The role of national and local government is crucial in supporting and encouraging SMEs. Initiatives such as the Government's Business Growth Service and UK Trade & Investment have had a positive impact and could be expanded further.
- Practical and effective business education for SMEs is fundamental to help them expand internationally and to innovate. Successful support programmes, such as business school schemes and peer-to-peer networks, could be supported through targeted public funding.
- A long-term education strategy is needed to build the next generation of entrepreneurs, incorporating training across the education system – including business placements, management apprenticeships, and skills training for SME support.

- Access to capital is a critical factor for SME growth. A continued focus on providing programmes to help SMEs scale up, such as the British Business Bank's Help to Grow and the ENABLE programme, is recommended.

About the research

UK productivity levels are currently lower than other major European economies, and significantly behind the US. Since 2008, the UK's productivity performance has weakened compared to the rest of the G8 economies, although recently it has shown increased signs of revival.

Improving the UK's low productivity is a key challenge to generate growth in the economy. SMEs are a vital part of the economy, accounting for 60 per cent of all private sector jobs and 47 per cent of revenue.

A report published jointly by the Enterprise Research Centre (ERC), Goldman Sachs *10,000 Small Business* and the British Business Bank shows that SMEs are a key underused resource for increasing productivity. With the UK lagging behind many G8 competitors in the share of high-growth SMEs, the report, based mainly on ERC research, explored the structural barriers limiting SME growth. Innovation and international expansion (internationalisation) were identified as key factors to stimulate growth.

Key findings

- SMEs comprise a large part of the UK economy, and boosting SME productivity growth would have a significant impact on overall UK productivity.
- Innovation and expansion to international markets are fundamental drivers in boosting productivity among UK SMEs, but have been relatively underexplored. Estimates suggest that an improvement in exporting alone would add £1.15 billion to annual gross value-added.
- Internationally active SMEs are three times more likely to introduce innovative products or services than those focusing entirely on the domestic market.
- Currently only one in five SMEs are exporters. However, estimates suggest that between nine and 12 per cent of non-exporting firms within the UK could become exporters.
- UK SMEs are less 'growth-inclined' and ambitious than in other G8 economies. The Global Entrepreneurship Monitor has pointed to a 17 per cent growth aspiration in the UK among entrepreneurs, compared to 27 per cent in the US.



BRIEF DESCRIPTION

The report *Unlocking UK Productivity* has been co-authored by the Enterprise Research Centre (ERC), Goldman Sachs *10,000 Small Businesses* and the British Business Bank. It identifies ways of using internationalisation and innovation as key drivers for growth among SMEs – in turn boosting UK productivity.

Web: www.enterpriseresearch.ac.uk/our-work/publications

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The Enterprise Research Centre (ERC) focuses on exploring the drivers of SME growth, consolidating research, knowledge and expertise on SME entrepreneurship and growth. It is funded by the ESRC, the Department for Business, Innovation & Skills, Innovate UK and the British Business Bank.

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