evidence BRIEFING

PUBLISHED JULY 2018

E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

UK Research and Innovation

HIGHLIGHTING RESEARCH AND RELEVANCE IN KEY POLICY AREAS

Supporting start-ups and local business

Start-ups are crucial to the growth of the UK economy, with nearly 600,000 companies established last year – but support is needed to sustain local businesses beyond the start-up phase.

About the research

Growth of small business is an important part of driving economic progress and rebalancing the UK economy. The UK now has a larger number of start-ups than ever before, but we know much less about how many survive and reach at least £1 million in revenue after an initial three years. Getting to the 'first million' is a milestone ambition for many entrepreneurs striving to sustain and expand their businesses.

Research shows that almost half of all start-ups do not make it to their third year. The *UK Local Growth Dashboard 2018* report, published by the Enterprise Research Centre, presents a set of growth metrics for start-ups and existing firms across the UK, particularly focusing on the 38 English Local Enterprise Partnership areas.

The report introduces the SHGF ('small high-growth firm') measure, adopted from the US Bureau of Labor Statistics, as a more comprehensive overview of growth in local businesses. The traditional measure of HGF ('high-growth firm') is too narrow, excluding firms with less than 10 employees in the first year of the three-year growth period.

London and the South East have the largest rate of start-ups, with the rate reducing towards the north and west. Start-up rates in Scotland, Northern Ireland and Wales are generally much lower than in England. London dominates on both HGF and SHGF measures, otherwise it is the more peripheral parts of England together with the Northern Powerhouse cities of Liverpool and Manchester that record above average shares of SHGFs.

Policy implications

- A single-minded focus on high-growth firms (as defined by OECD) is not the best approach for policymakers addressing growth and productivity challenges. It doesn't reflect the reality of growth for the majority of businesses, which is usually episodic over time and should not be measured over an arbitrary three-year period. Also, few of these high-growth firms experience any productivity growth.
- It would be more effective to concentrate on creating a 'pipeline' to develop business growth at local level, and monitoring its development over time.
- Cohorts of start-ups, along with other groups of established firms engaging in activities for future growth, should be tracked over time to gather richer data for policy development.
- Although there is evidence of strong business growth across the 'Northern Powerhouse' region, the lack of business growth in the West Midlands requires urgent attention for potential support interventions.

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Key findings

- Irrespective of measure, there are very few firms in the UK which can be categorised as high-growth or scaling up, or indeed contributing to productivity growth.
- This small group of fast-growing firms have had a disproportionate impact on job creation. They are crucial to the growth of the UK economy and re-balancing jobs away from London and the South East, but have had little impact on the 'productivity gap'.
- Apart from the border areas of Northern Ireland there is a clear concentration of high-growth firms around the arc from Cambridge to Bristol and the Local Enterprise Partnerships (LEPs) along the M4 and M3 corridors – a retreat to the south compared to previous years.
- There is evidence of strong business growth underpinning the development of the Northern Powerhouse, but weaker growth in the Midlands – especially in the West Midlands.
- The West of England, the North (Leeds City Region and Greater Manchester) and London have the highest proportions of firms with productivity growth. Outside of London, only Greater Cambridgeshire and Greater Peterborough LEP in the South had above average proportions of firms with productivity growth.

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BRIEF DESCRIPTION

The *UK Local Growth Dashboard* has been developed by the Enterprise Research Centre and builds on the LEP Growth Dashboard first launched in June 2014. Its purpose is to present a set of growth metrics for start-ups and existing firms across the UK with a specific focus on each of the 38 LEP areas.

Web: www.enterpriseresearch.ac.uk/publications/uk-local-growth-dashboard-2018

FURTHER INFORMATION

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Web: www.enterpriseresearch.ac.uk

The views expressed in this evidence briefing are those of the authors and not necessarily those of the ESRC.

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