The hotspots of British industry

The uneven spread of industry across Britain limits productivity and innovation in low-performing areas, with London productivity 32% higher than the UK average in 2015. A new analysis highlights patterns of industry distribution and business performance across the country.

Policy implications

- The UK has good quality firm-level data, and it is crucial that this is put to best use in guiding policy. A key component here would be the publication of an annual ‘Industrial Strategy Report’ on the state of British business, akin to other regular publications such as the Inflation Report, the Financial Stability Report and the Economic and Financial Outlook.

- To provide more detailed data for analysis there should be more standardisation of Office for National Statistics datasets (particularly on productivity) allowing comparisons over time, and further improvements in accessing and linking microdata.

- Policies targeted at particular regions or sectors are likely to involve trade-offs and claims from competing stakeholders. The UK needs a new institutional framework to help make these tough decisions, preferably modelled on politically independent bodies such as the Bank of England and competition authorities.

- Greater local control is important to provide more space for local authorities to experiment with different types of policy. This, together with improved data collection and evaluation, should help increase policy effectiveness.

About the research

While UK employment is at record levels, British workers are far less productive than their counterparts in countries such as France and Germany, growth in real wages has been poor, and there are marked disparities in economic activity and opportunity across the country. In terms of productivity, London had a 32% higher productivity than the UK average in 2015, with the South East the only other region above the UK average for the same year (according to the House of Commons briefing paper Productivity in the UK, September 2017).

A productive company can have considerable economic benefits for the local community, including well-paid jobs, opportunities for suppliers of goods and services, and a boost to local retailers. But despite the rising political interest in addressing the UK’s uneven distribution of economic performance, no-one has published an extensive analysis setting out the latest facts on the location and performance of British firms.

A new analysis from the ESRC Centre for Economic Performance has used data on firms to create a map of UK industry – including firm location, geographic measures of employment, productivity, and innovation. The research has revealed a number of findings that challenge the prevailing wisdom.

Around 99% of UK firms are classified as ‘small’. Firms where the owner-manager is the only worker make up around three-quarters of firms in all regions.
Key points

- There are three patterns of industry: fairly evenly spread around the country (uniform); concentrated in a number of locations (scattered); or concentrated in only one location (single hub).
- The creative and information/communication technology sectors, both industries with high growth potential, are mainly concentrated in one area – the South East, including London.
- Science and technology sectors are relatively scattered across multiple hubs. The financial services industry is also in this category, and is much less London-centric than assumed.
- UK industry is dominated by small firms, with around 99% of firms being classed as ‘small’ (0-49 employees). Firms where the owner-manager is the only worker are the largest category, making up around three-quarters of firms in all regions.
- The output per hour of a worker in the UK varies considerably by location, with mid-Wales at the bottom of the scale and Aberdeen, Greater Manchester and the London-M4 corridor at the top.
- London and the South East account for nearly a third of business spending on R&D, but in terms of R&D investment as a percentage of GDP the East of England stands out. At a smaller-scale level Britain’s most innovative regions are East Anglia, Cheshire and Hertfordshire.
- Only just over one in 10 firms export, and those that do export are most likely to be based in London, the South East or the East of England. The North East has the lowest share of exporters at fewer than 6%.
- Firms located near the coast are more likely to go out of business than those further inland. Coastal areas tend to specialise in accommodation and food services, which typically are low productivity industries with a high churn of businesses.
- In some parts of the country, single high-productivity firms dominate the local area – for instance BAE Systems in north Lancashire and Rolls Royce in Derby. The local impact of losing or gaining a large company can be substantial.

- The UK’s best performing regions (with the exception of Central London) are far behind the German average. Germany stands out as a multi-hub country, while in the UK the South East region dominates the national economy.

BRIEF DESCRIPTION

The report Industry in Britain – An Atlas, published by the ESRC Centre for Economic Performance (CEP), has analysed the geography and distribution of British businesses, exploring trends in performance, productivity and innovation across different regions.

Sandra Bernick, Richard Davies and Anna Valero: Industry in Britain – An Atlas
Web: cep.lse.ac.uk/pubs/download/special/cepsp34.pdf

FURTHER INFORMATION

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The CEP is an interdisciplinary research centre at the LSE Research Laboratory and one of the leading economic research groups in Europe. Centre researchers study the factors that determine economic performance at company, national and global levels, by focusing on the links between globalisation, technology and institutions. Web: cep.lse.ac.uk

The Economic and Social Research Council is the UK’s leading agency for research funding and training in economic and social sciences.

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