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**EXECUTIVE SUMMARY**  
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**Productivity of the UK's small and medium sized enterprises: insights from the Longitudinal Small Business Survey**

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## EXECUTIVE SUMMARY

### Purpose

Since the 2007-08 Global Financial Crisis (GFC), the UK's aggregate productivity growth, as measured by output per worker, has deteriorated. This deterioration is not only significant when compared to the UK's previous experience, but also when compared to the performance of other advanced nations, such as the G7 nations, of which the UK is a member. Improvements in productivity performance are therefore a major economic challenge, especially in the context of ensuring the nation's long-run wellbeing [1].

Inspired by the UK's recent productivity experience, in this study we seek to derive productivity insights from the firm-level micro data in the two waves of the UK's Longitudinal Small Business Survey (LSBS).

### Aim

The aim of this analysis is to understand the factors underpinning productivity gains and shortfalls in small and medium sized enterprises (SMEs). SMEs are defined as those firms with less than 250 employees. We undertake econometric analysis of the LSBS data and explore the heterogeneity of effects across sectors. The panel data from such a large sample, with access to a large number of variables collected in 2015 and 2016, allows us to identify the explanatory factors at play in affecting productivity, especially variables such as strategic management, management capability, skills, collaboration and networks, amongst others, as these potentially affect productivity improvements. The longitudinal nature of the data allows us to examine both contemporary and lag economic effects, enabling us to better understand some of the contested matters affecting productivity.

### Design/Methodology/Approach

We use the firm-level longitudinal data in the LSBS and examine changes in measured labour productivity (as proxied by turnover per unit of labour) in UK firms through an Ordinary Least Square (OLS) modelling approach to estimate the models.

### Findings

We find:

- A significant and positive correlation between measured labour productivity and measures of strategic management, business capability, business network, training and the technology intensity of firms.

- Among different explanatory variables, Strategic Management Practices, Training and Management Capability (Model 2) show a positive and significant influence on labour productivity.
- Among different specific capabilities (Model 5), strategic planning, as measured by a plan to improve leadership capability and a plan to sell goods to new overseas markets (a measure of innovation), significantly affects labour productivity.
- Management capability to access external finance and training to improve IT skills has significant and positive effects on productivity.
- Having their own website significantly affects productivity in firms positively as compared to firms without a website.
- Across the different industry sectors, firms in wholesale/retail and construction have greater and significant positive effects on productivity as compared to the reference category (primary sector in this case). While finance/real estate does have positive effects on productivity, the coefficients are not significant. In manufacturing the effect is mixed and in all other sectors the impact is lower than the reference category.
- Firms more than 20 years of age are more productive than firms in other age cohorts. Medium sized firms are found to be more productive than micro and small firms.
- The trade coefficient is positive and significant, which means that firms with higher intensity of international trade show better productivity performance.

### **Practical Implications**

A range of practical implications arise, most pertinent being:

- To improve firm-level strategic management practices, managerial capability and training to restore productivity performance of UK firms;
- To improve IT skills and innovation capability of firms;
- To encourage firms to go global; and
- To assist younger and smaller firms to improve managerial and strategic capabilities.