Policy Briefing

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

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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. 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). We undertake econometric analysis of the LSBS data and explore the heterogeneity of effects across sectors.

Key findings

We use the firm-level longitudinal data in the LSBS and examine changes in labour productivity in UK firms through an Ordinary Least Square (OLS) modelling approach to estimate the models. Among our key findings are:

- A significant and positive correlation between 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 show a positive and significant influence on labour productivity.
- Among different specific capabilities 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.
- The trade coefficient is positive and significant, which means that firms with higher intensity of international trade show better productivity performance.

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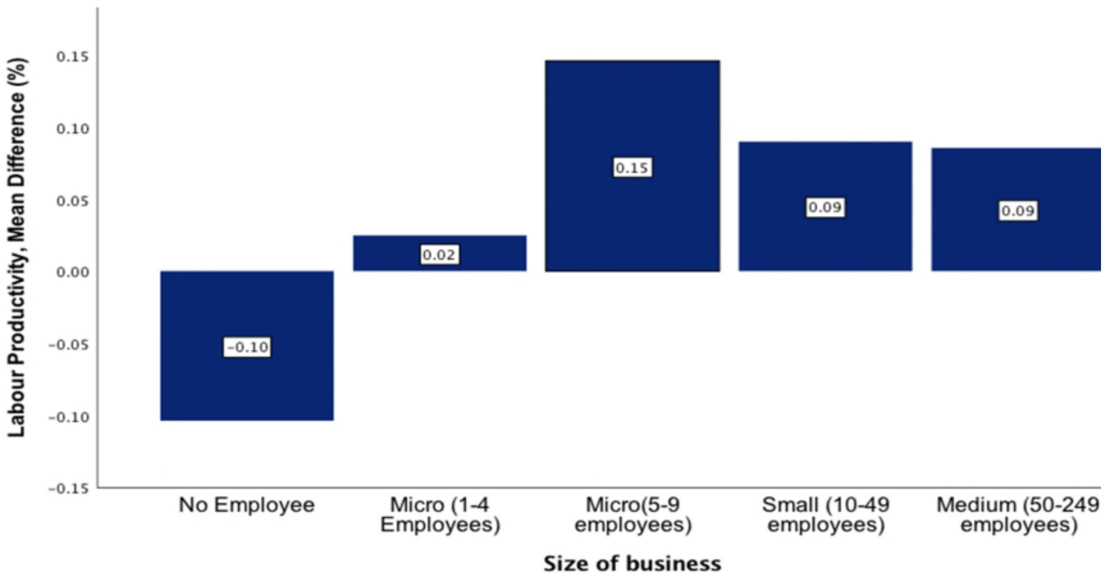
Productivity performance

Using the primary data on labour productivity, firm size, sector, intensity in international trade, management capability, training, networking and technology intensity for the 5,844 firms in the 2015 and 2016 panels (BEIS, 2017), we explore the determinant of labour productivity in UK small and medium sized enterprise (SMEs). This is important as we know that from 2015 to 2016 some 47% of firms experienced a decrease in productivity, while a significantly lower proportion (42%) of firms in the panel experienced a productivity increase (BEIS, 2017). The profile of productivity growth varied significantly between sectors and firm sizebands. Figure 1 shows the growth of labour productivity by firm size from 2015- 2016.

Figure 1: Growth of Labour Productivity in 2015-16 by firm size



Regression analysis suggests that strategic planning as measured by plans to improve leadership capability and plans to sell to new overseas markets (a measure of innovation) significantly affect labour productivity. Management capability in accessing external finance and training to improve IT skills arefound to have significant and positive effects on productivity. Having a website affects productivity positively compared to not having a website. Finally, trade intensive firms are found to be more productive than others.

Policy and practice implications

A range of practical implications follow from our analysis, the 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 their managerial and strategic capabilities.

Full paper link:
https://www.enterpriseresearch.ac.uk/our-work/publications/