Policy Briefing

An Investigation of UK SME Access to Finance, Growth and Productivity, 2015-2017

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This paper summarises findings from a pilot study exploring UK SME access to external finance, growth and productivity, addressing three key research questions:

- What are the characteristics of SMEs that determine their funding and discouragement?
- What are the impacts of external finance on SME performance and productivity?
- What are the implications for policy?

The study primarily draws on quantitative data analysis of the UK Longitudinal Small Business Survey (LSBS) 2015-2017, supported by qualitative interviews with senior staff from Oxford Innovation who work with innovative and potential high growth SMEs, and St John's Innovation Centre (Cambridge).

Key findings

Key firm characteristics of financed firms: Large SMEs (50-249 employees), more likely to use general business support and specialist access to finance advice, more partner/directors, better perception of ability to access finance, and apply for funding every year (2015-2017). The smallest (self-employed) and youngest SMEs (<6 years established) were significantly less successful in their finance applications.

Key firm characteristics of non-financed firms: Discouraged non finance seeking SMEs were significantly more likely to be smaller SMEs (<50 employees) and more likely to possess poor perceived capabilities to access finance, and have no business plan and be younger (<6 years established). Finance seekers not receiving any finance (2015-17) were significantly more likely to be younger, innovative and have used specialist access to finance advice and general business support, but have no business plan - suggesting lack of preparation and irregular use of support.

Impacts of external finance on SME performance and productivity: Only half the SMEs increased productivity (i.e. sales turnover per employee 2015-17), with two-fifths declining. There was no significant difference in the employment and sales growth of externally financed and non-financed SMEs. Access to external finance can lead to improved productivity – where frequently accessed and above £100k. Conversely, poor management resources such as fewer managers, poorer perceived ability to accessing external finance and lack of business planning are associated with lack of external finance and lower productivity growth. Regression analysis revealed three overriding factors: (i) younger firms established up to 9 years are most likely to exhibit productivity growth; (ii) smaller firms with less than 50 employees are less likely to exhibit productivity growth; (iii) employment increase is negatively correlated with productivity growth (within the 3 year study period).

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Regression analysis, controlling for management resource and financing, reveals that access to external finance is not in itself a predictor of enhanced productivity.

A likely key is business support. Business planning is correlated with higher productivity increases, whilst specialist finance support and perceived good management capabilities to access external finance mitigate against poorer productivity performance.

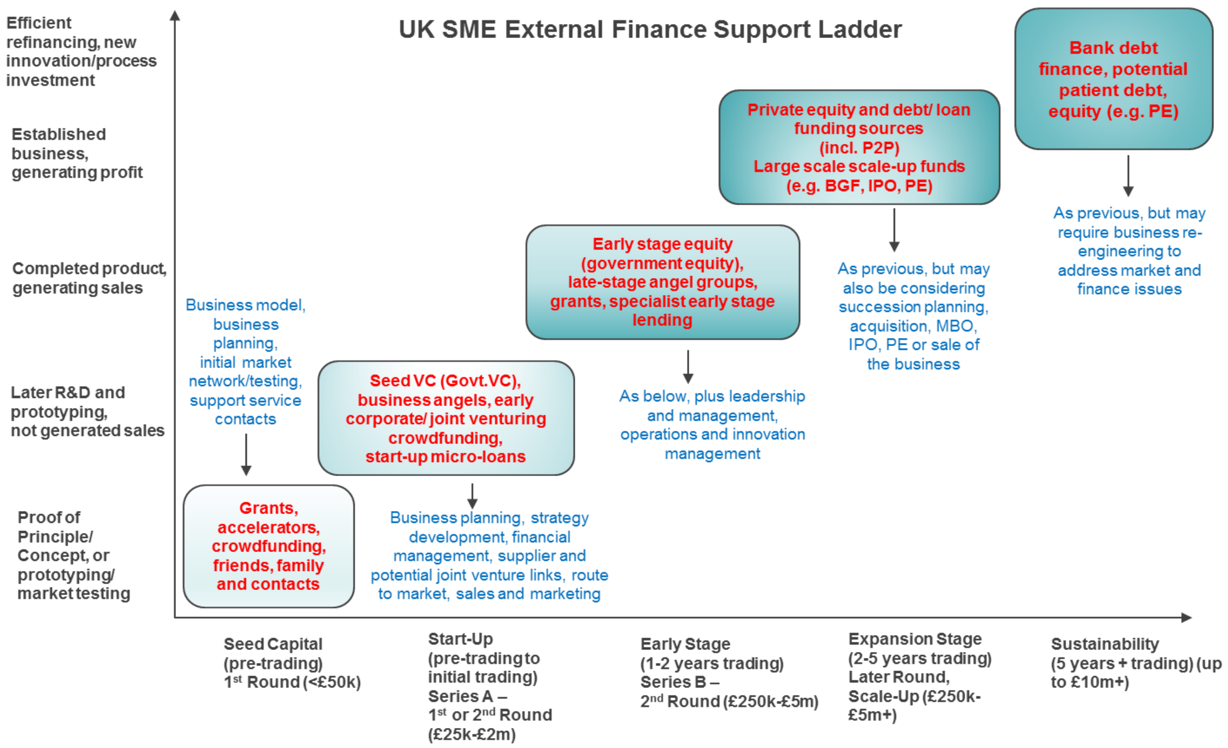
Policy implications

Whilst external finance can assist SME growth and productivity growth, such impacts are highly nuanced, appear strongly related to larger and younger SMEs, particularly where there is ongoing, more frequent use of external business support services.

Policymakers should be cognisant of the difference in objectives between employment and productivity growth, given that shorter-term changes, captured in this study, demonstrate that smaller SMEs struggle to deliver productivity change. They may take on more staff for R&D and develop new skills and experience lagged sales impacts, whilst larger SMEs may offer more rapid productivity change through equipment and work practice efficiencies, but at the expense, in the shorter term, of job creation and permanent job status.

An important finding is that business finance advice is a key to SME development and a significant factor in enabling timely access to appropriate types of finance. However, SME finance advice is likely to be most effective when it is ongoing, regular and integrated with mentoring and management skills development. This can enable optimal financial investment and management activities. In turn, this will provide greater access to follow-on funding, growth and business sustainability.

The following graphic is a suggested model for complementary business finance support to enhance productivity (Sources: Oxford Innovation and Owen et al (2019), adapted by SQW and CEEDR).



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