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**The Role of Innovation in Small Business
Performance: A Regional Perspective**

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ABSTRACT

The small and medium sized enterprise sector is seen as the engine of growth for an economy, in terms of generating innovation and employment growth. Firm entry can create pressure on incumbent firms and yet research on the transmission mechanisms, as they apply to small firms is less well understood, in part because of small firm 'churn' but also because they are less well represented in firm level survey data. The advent of the Longitudinal Small Business Survey (LSBS) goes a considerable way in allowing us to address this knowledge gap. This paper presents evidence using the latest waves of the LSBS data (2015-2017) combined with data on the regional environment in which small firms are located. We argue that city regional factors influence firm growth and performance and in particular the innovative environment of the firm. We find evidence of City Regional level effects but weak evidence in relation to specific channels for these effects, specialisation agglomerations appear to be positively associated with higher levels of labour productivity. Our findings suggest that more work is needed to understand what it is about the regional environment that fosters productivity improvements in small firms particularly in relation to innovation.