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**EXECUTIVE SUMMARY**

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# **Spatial disparities in SMEs productivity in England**

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## EXECUTIVE SUMMARY

Improving productivity is critical to increasing economic growth and prosperity in the long-run and a key objective for UK national, regional and local policy. However, a long tail of low productivity businesses and significant spatial variations in productivity characterise the UK economy. This report presents an analysis of the determinants of Small and Medium Sized Enterprise (SME) labour productivity, with a particular focus on how place and productivity interact. The analysis draws on data from the UK Government's Longitudinal Small Business Survey (LSBS) for the years 2015 to 2017. It employs a multilevel regression analysis to understand determinants in enterprise labour productivity in different localities and regions and effectively account for the contextual environment. We applied multilevel analysis to capture the nested structure of our data, modelling a fixed-effects part (at firm level or level one) and a random-effects part at Local Enterprise Partnership (LEP) level (or level two). This allows for the separation of the role of firms' determinants from LEP (sub-regional) effects. To the best of our knowledge, we are the first to apply multilevel analysis to the productivity of firms located in the UK.

Regarding firm-level factors, the results show that microbusinesses and sole traders tend to have lower productivity. In contrast, business capabilities to develop and implement business plans, and obtain external finance, as well as receiving external advice in the previous year, positively contribute to productivity. The sector in which a business operates also matters with health and social work generally associated with lower productivity. Digital capabilities, internal to the SME, as well as some types of network membership contribute to higher productivity. Regarding ownership, after controlling for other factors, the results reveal that family businesses are not more or less productive than non-family ones, but, women-led businesses record significantly lower productivity. At the LEP level, the findings reveal that firms located in LEPs with a more skilled and educated population tend to have higher labour productivity. Improved broadband speeds, in some models, are also associated with higher productivity. Taken together the results give credence, in terms of explaining variations in SME productivity, to industrial organisation theory, the Resource-Based View relating to business capabilities and institutional and network effects.

Not surprisingly, our analysis confirms previous findings from the ONS about the regional disparities in the UK, as we find that firms located in London and the South East demonstrate higher labour productivity. However, we find a lack of supporting evidence for agglomeration theories which stress the benefits of urban areas per se in stimulating higher SME productivity, since our analysis shows that firms located in rural areas perform as well as urban firms.