

Policy Briefing

Mapping Schumpeterian Outcomes in the UK Small Business Population over Time – The Effect of Social Orientation on Innovation, Exporting & Growth

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Small businesses are the backbone of the UK economy and can improve it through Schumpeterian business activities, namely *innovation, exporting, and job creation (employment growth)*. A growing number of small businesses are socially orientated, that is placing high importance on the attainment of social goals that contribute to societal wellbeing. In the UK, around 30% of businesses are socially orientated. These businesses are key to developing an economy which is simultaneously competitive and inclusive by addressing social objectives such as the narrowing economic and social disparities. In this research, we examine how business' social orientation shapes their Schumpeterian outcomes, how these change over time, whether they are impacted by location (relative deprivation) and by the COVID-19 pandemic. Understanding Schumpeterian outcomes across time can offer insights on how to navigate future crises. This report analyses the Longitudinal Small Business Survey (LSBS) waves 2017, 2019, and 2021 to develop policy-relevant robust evidence about the economic behaviour of small firms and the role of their social orientation.

Key findings

Findings suggest that social and financial business goals are both beneficial for innovation, but only financial goals stimulate exporting in UK small businesses over time. Specifically, goal alignment, that is, businesses prioritising both high levels of social and financial goals, benefits innovation. In contrast, goal misalignment —high levels of financial and low levels of social goals — increases the likelihood of exporting. The effect of social and financial goals on Schumpeterian outcomes was impacted by the COVID pandemic. For businesses negatively affected by COVID, social and financial goals no longer have a significant effect on their likelihood of innovation. Additionally, the COVID pandemic suppressed the likelihood of socially orientated businesses to engage in radical innovation and exporting. In terms of employment growth, 2017 – 2021 has been a period of stagnation or even relative degrowth for UK small businesses. Both external shocks (Brexit, Covid) as well as an increase of new entrants which increase competition may be possible reasons for the shrinkage of existing firms. Results show that socially orientated businesses shrink less but also grow more slowly than commercially orientated businesses.

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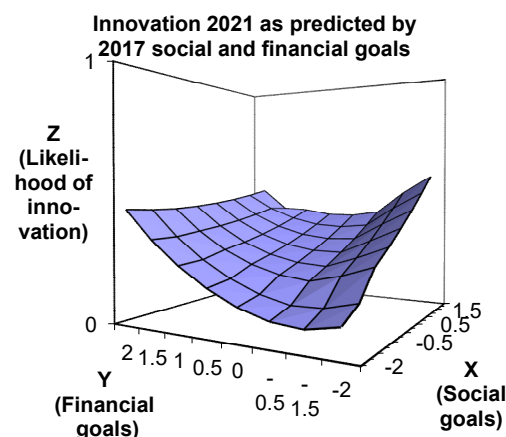
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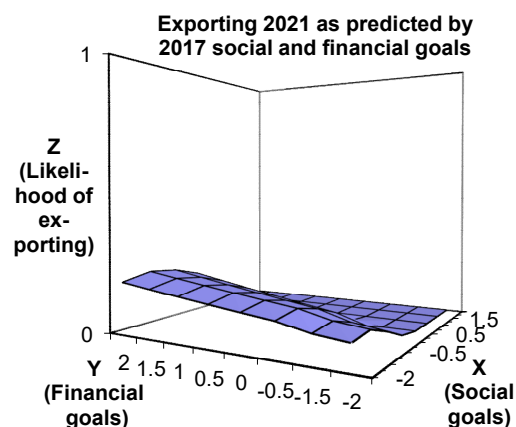
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Findings for Each Schumpeterian Outcome

Innovation. The pursuance of joint social and financial goals can enhance a business' pace of innovation and innovation performance (Stephan et al., 2019). Our findings show that UK small businesses with strong social and financial goals show the highest levels of innovation (see graph), both cross sectionally and over time. The effect of social and financial goals differs for radical innovation, as we find that socially oriented small businesses are not more likely to introduce radical innovations. This may be due to radical innovation being typically more resource intensive and socially oriented small businesses often face higher resource constraints. For instance, we find socially oriented businesses to be more often than commercially oriented businesses located in the most deprived areas of the UK. COVID disrupted and depressed UK small business innovation activities in general. Moreover, the positive effects of social and financial goals on innovation only exists for UK small businesses that were not negatively affected by COVID. For businesses negatively affected by COVID, social and financial goals no longer have a significant effect on those business's likelihood of innovation.



Exporting. There have been several attempts to support the exporting activity of socially orientated businesses. For instance, the 2015 *Exporting is Great* programme included a section dedicated to support the exporting of UK social enterprises (Gov.uk, 2015). Our findings show that socially orientated businesses may operate more at the local domestic level and are less likely to export. UK small businesses with strong financial but low social goals were most likely to export as the graph illustrates.



The COVID pandemic suppressed exporting in UK small businesses overall. This effect was more pronounced for businesses with social goals.

Employment growth. In terms of employment growth, 2017 – 2021 has been a period of relative stagnation across UK small businesses. External socio-economic shocks such as Brexit and the COVID pandemic likely have posed barriers to grow business. Socially orientated businesses shrank less but also grew more slowly than commercially orientated businesses over the 5-year period from 2017-2021.

Overall, we find little evidence that local deprivation impacts the relationship of small businesses' social and financial goals with Schumpeterian outcomes, innovation, radical innovation, exporting and growth.

Policy implications

The findings presented in our report have important policy implications for interventions to support UK small businesses.

- We find a general decline in Schumpeterian outcomes between 2017 and 2021. That is, UK small businesses innovated less, exported less, and stagnated in terms of employment in this period. This is a concerning finding and suggests that the UK small business population has suffered from the external shocks and crises (Brexit and Covid) that mark this period. As small businesses form the backbone of the UK economy and play an important role in its productivity, our findings are worrying for the UK economy and suggest that UK small businesses are in need of multifaceted policy support.
- The social orientation of UK small businesses on its own and *in concert with* their commercial orientation strengthens innovation. Thus, we find synergies between social and commercial orientation resulting in greater innovation. Socially oriented businesses seek to enhance societal wellbeing and our findings suggests that these businesses are an important source of new ideas for a competitive inclusive economy, and hence warrant continuous policy attention and support.
- Socially oriented businesses are often located in deprived areas and appear to grapple with resource constraints especially to innovate radically. Thus, resource-support for those businesses may yield particularly high dividends in terms of radically new and socially inclusive offerings.
- Results highlight the need for export support policies specifically targeted at socially orientated businesses. More research to understand the specific barriers to exporting in socially oriented business would be useful. Future policy may need to adapt interventions to fit to the needs of this group of small businesses.
- COVID —despite support measures— constrained the innovation of social and commercially oriented businesses alike, but particularly negatively impacted the exporting activities of socially oriented business.
- A policy mix supporting both growth in existing firms and new entrants may help lower the relative shrinkage rates in existing businesses and hence counteract relative stagnation among the small business population.

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