

Research Paper No. 105

EXECUTIVE SUMMARY

July 2023

(full paper link: <http://enterpriseresearch.ac.uk/publications/erc-research-papers/>)

The impact of Brexit on the internationalisation, innovation and turnover of UK SMEs: Implications for the UK's industrial strategy and the 'levelling up' agenda

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The Enterprise Research Centre is an independent research centre which focusses on SME growth and productivity. ERC is a partnership between Warwick Business School, Aston Business School, Queen's University School of Management, Leeds University Business School and University College Cork. The Centre is funded by the Economic and Social Research Council (ESRC); Department for Business and Trade (DBT); Innovate UK, the British Business Bank and the Intellectual Property Office. The support of the funders is acknowledged. The views expressed in this report are those of the authors and do not necessarily represent those of the funders. The authors would like to thank Ian Drummond for help with the interviews conducted as part of this research.



NON-TECHNICAL SUMMARY

This study evaluates the impact of the UK's departure from the European Union (Brexit) on the internationalisation, innovation, and turnover of small and medium enterprises (SMEs). SMEs, defined as businesses with fewer than 250 employees, form an integral part of the UK economy, accounting for more than 99% of registered firms and 60% of total private sector employment. Notwithstanding their inherent agility to adapt to changing circumstances, these SMEs have been subject to increased uncertainty following the 2016 Brexit referendum and formal departure in of the UK from the EU in 2020. This has created a myriad of challenges that have been compounded by global disruptions such as the COVID-19 pandemic, inflation, and various geopolitical conflicts.

The study utilises data from the Longitudinal Small Business Survey (LSBS) to investigate the impacts of Brexit on SMEs' internationalisation, innovation, and financial performance. Moreover, the varying consequences of Brexit on SMEs across different industries and UK regions is presented.

Findings suggest that Brexit has indeed led to an intricate matrix of implications for SMEs. While Brexit presents potential hurdles such as new barriers for trading with EU member states, it also offers opportunities for bespoke UK-focused regulations aimed at fostering growth, innovation, and competition.

This report not only presents a comprehensive investigation into the effects of Brexit on the performance of UK SMEs across industries, sectors, and regions, but also contributes to ongoing discussions on the UK government's 'levelling up' agenda. As such, the insights gleaned from this research are significant for shaping future industrial strategies and regional development policies in the UK's post-Brexit era.

By way of preview, the key findings are as follows:

- Between 20.3% and 24.5% of SMEs identify Brexit as a significant business obstacle over the period 2018 through 2021, with an upward trend observed in 2021. Transport, Retail, and Food Service/Accommodation sectors were most impacted.
- Impacts of Brexit, such as increased import/export costs and curtailed investment, vary widely by sector (ranging from 9.6% to 76.9% of SMEs that regard Brexit as a significant business obstacle)
- Approximately 33% of SMEs consider Brexit a factor in projected turnover reduction, with geographical and sectoral disparities observed.

- For future capital investment plans (in premises, machinery etc.), between 12.7% and 15.7% of SMEs with plans in place acknowledge Brexit's influence from 2018 to 2021, with the most pronounced impacts in the production and construction industries.
- For development plans of new products or services, between 13.7% and 20.9% of SMEs with plans in place identify Brexit as an influence from 2018 to 2021, with the most significant impact in the production and construction industries.
- For R&D investment plans, an oscillating trend is observed from 2018 to 2021, with a surge in 2021. The sector-specific impact was uniform, with the most significant impact in the transport, retail, and food service/accommodation sector.
- For export/market expansion plans, 30.2% of SMEs with plans in place cited Brexit's influence in 2018, decreasing to 25.7% by 2020, but escalating to 34.7% in 2021. The most significant influence was in the production and construction sector.
- Brexit's perception as a major obstacle negatively impacts various aspects of SMEs' future operations, including a potential 15% reduction in their aim to grow sales, and a 20% decrease in future capital investments.
- Innovative SMEs perceive greater challenges due to Brexit, including decreased investment, increased capital raising difficulties, and shifts in import/export costs.
- Both innovative and export-oriented SMEs link expect changes in their turnover to Brexit, albeit to varying degrees, highlighting the complex nature of Brexit's influence on the financial expectations of SMEs.
- The relationships between 'levelling-up' metrics, such as Gross Value Added (GVA) per hour worked (£) and the Index of Multiple Deprivation (IMD), and the potential impacts of Brexit on internationalization, turnover, and innovation of SMEs underlines the diverse and intricate impacts of Brexit on different UK regions. This highlights the need for tailored policy initiatives to address the unique challenges faced by SMEs in each region.