

## Policy Briefing

# 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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Using data from the Longitudinal Small Business Survey (LSBS), this report analyses the impact of Brexit on the internationalisation, innovation, and turnover of UK Small and Medium-sized Enterprises (SMEs). The multifaceted implications of Brexit, encapsulated in perceptions of business obstacles, investment hurdles, and expectations of turnover growth, are investigated. Additionally, the research examines the differential impacts of Brexit across industries and regions, enriching the understanding of the sectoral and geographical heterogeneity in Brexit's consequences. The findings contribute significantly to debates surrounding Brexit's aftermath, while providing new evidence of relevance for the UK's industrial strategy and the 'levelling up' agenda. By shedding light on the complex realities of Brexit's impact on SMEs, the study offers a foundation for future policy interventions aimed at supporting UK SMEs.

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### Key findings

This policy brief highlights the key results of our study on the impact of the UK's departure from the European Union, commonly known as the Brexit, on the internationalisation, innovation, and financial performance of Small and Medium-sized Enterprises (SMEs). SMEs account for more than 99% of registered firms and 60% of total private sector employment, and are a crucial component of the UK economic landscape. The substantial change introduced by Brexit has engendered a significant degree of uncertainty and posed various challenges for these businesses. Using longitudinal data from the Longitudinal Small Business Survey (LSBS), this investigation provides valuable insights into the heterogeneous impacts of Brexit on SMEs across various industries and regions, which are relevant for policy considerations and strategies aimed at supporting these businesses in the post-Brexit era. The key findings are summarized as follows:

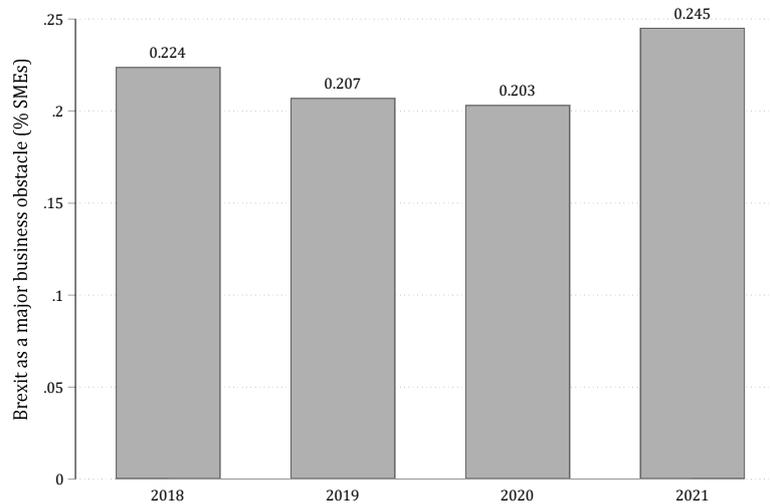
1. **Brexit as a Business Obstacle:** The research reveals that between 20.3% and 24.5% of UK SMEs perceive Brexit as a major business obstacle from 2018 to 2021 (See Figure 1), especially in the Transport, Retail, and Food Service/Accommodation sectors.



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**Figure 1: Brexit as a major business obstacle by survey wave**

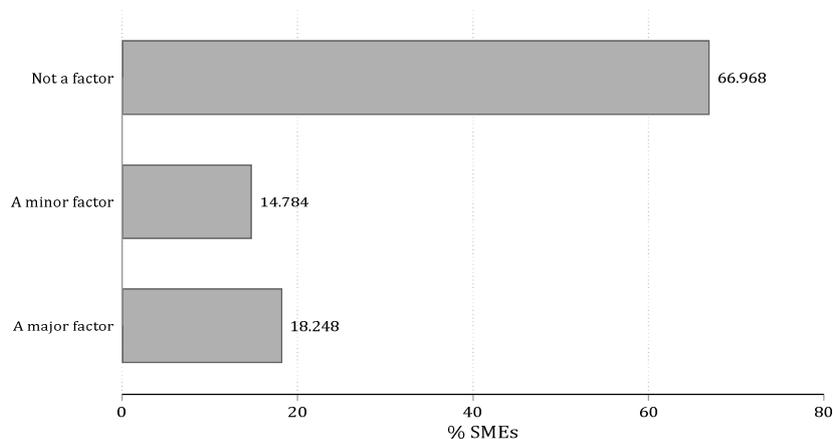
This Figure reports the % of SMEs that perceive Brexit as a major business obstacle. Cross-sectional survey weights applied to represent the population of SMEs in the UK.



2. Sectoral Impact: The impact of Brexit, including increased import/export costs and curtailed investment, differed widely across sectors. These effects were noted by 9.6% to 76.9% of SMEs that identify Brexit as a significant obstacle.
3. Projected Turnover Reduction: Approximately one-third of SMEs consider Brexit a contributing factor in projected turnover reductions (See Figure 2), with geographical and sectoral variations.

**Figure 2: Extent to which SME considers the UK's exit from the EU to be a factor in the decrease in turnover that is expected in the next 12 months (% of SMEs)**

This Figure reports the % of SMEs that perceive Brexit SME considers the UK's exit from the EU to be a factor in the decrease in turnover that is expected in the next 12 months. Data is only available in the 2021 survey wave. Sample only includes SMEs with an expected decrease in turnover in the next 12 months. Cross-sectional survey weights applied to represent the population of SMEs in the UK.



4. Capital Investment and Product/Service Development: Brexit influences future capital investment plans (12.7% to 15.7% of SMEs with plans in place) and the

5. development plans of new products/services (13.7% to 20.9% of SMEs with plans in place) between 2018 to 2021, particularly in production and construction industries.
6. Research & Development (R&D) Investment: A fluctuating trend was observed in R&D investment plans influenced by Brexit, with a spike in 2021. The transport, retail, and food service/accommodation sectors are the most affected.
7. Export/Market Expansion Plans: Brexit's influence on SMEs' export/market expansion plans decreased from 30.2% in 2018 to 25.7% in 2020 but increased to 34.7% in 2021. The production and construction sector felt the most significant impact.
8. Impact on Future Operations: Brexit's perception as a significant obstacle has negative implications on various aspects of SMEs' future operations, including a potential 15% reduction in growth objectives and a 20% decrease in future capital investments.
9. Challenges for Innovative SMEs: Innovative SMEs perceive greater challenges due to Brexit, which include decreased investment, increased capital raising difficulties, and shifts in import/export costs.
10. Brexit's Influence on Financial Expectations: Both innovative and export-oriented SMEs associate expected changes in their turnover following Brexit, albeit to varying degrees.
11. Regional Disparities and 'Levelling Up': The diverse and intricate impacts of Brexit on SMEs in different UK regions underscore the necessity for tailored policy initiatives to address unique regional challenges. This is crucial in aligning with the 'levelling up' agenda, particularly when considering metrics such as Gross Value Added (GVA) per hour worked and the Index of Multiple Deprivation (IMD).

The broader ramifications of these findings could ultimately contribute to policy discussions and initiatives that aim to facilitate the development and success of SMEs, further solidifying their role as a driving force of the UK economy.

## Policy and practice implications

The post-Brexit economic landscape offers challenges and opportunities for UK SMEs. To mitigate the negative impacts, strategies should consider sectoral and regional disparities. Prioritising support for the most impacted sectors—Transport, Retail, and Food Service/Accommodation—is crucial. Policies fostering domestic and international trade and compensating for increased import/export costs may alleviate Brexit-induced obstacles. Strategies encouraging innovation, addressing capital raising difficulties, and bolstering investment, particularly in production and construction sectors, are essential. Moreover, regional development policies need to be tailored to the specific needs and potential of SMEs in each region, aligning with the 'levelling up' agenda. SME resilience and competitiveness should be at the forefront of these efforts.

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