

Research Paper No. 106

EXECUTIVE SUMMARY

July 2023

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

Brexit and Digital Technology Adoption of UK SMEs

Martina Pardy

London School of Economics and Political Science
m.l.pardy@lse.ac.uk

David Ampudia

Innovation Growth Lab, Nesta
david.ampudia@nesta.org.uk

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.



ABSTRACT

This paper examines the impact of the Brexit referendum on digital technology adoption by small and medium-sized enterprises in the UK from 2013-2019. Combining existing survey measures from the Longitudinal Small Business Survey with novel data on digital technology adoption from firms' own websites, we provide detailed and timely measurements to gain deeper insights into SMEs' reactions to a major policy shock. Leveraging the Brexit referendum as a trade policy uncertainty shock, we employ a difference-in-differences approach to investigate the response of SMEs. We find that SMEs adjust to this shock by scaling back their adoption of e-commerce-related technologies, along with other digital technologies. These effects cut across multiple sectors, extending beyond those traditionally associated with the trade of goods to also include service sectors. Overall, these findings provide novel insights into the strategies SMEs adopt in response to significant policy-led disruptions, highlighting their decision to significantly reduce the use of digital technologies. This change could potentially influence their long-term productivity levels, suggesting an important area for further investigation and policy focus.

JEL classification: F13, L25, O47

Brexit, SMEs, digital technology adoption