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Small businesses need more support as growth slows 40 per cent during difficult decade, report warns

Small business growth in the UK has slowed over the last decade hindered by Brexit, Covid-19, and geo-political tensions, a new report by the Enterprise Research Centre reveals.

The proportion of small firms that were expanding their workforce fell 40 per cent between 2012 and 2022. [1]

The report also warns the support available to small and medium-sized enterprises (SMEs) is also currently insufficient and too fragmented.

In particular, SMEs need more investment and support on exports, innovation, achieving net zero, and supporting employees with their mental health.

The huge challenges that SMEs face were revealed in the 10th annual *State of Small Business Britain* report, which draws on a decade of research to create a manifesto for helping small businesses to grow.

Stephen Roper, Director of the Enterprise Research Centre (ERC) and Professor of Enterprise at Warwick Business School, said: "It is often stated that small businesses are the backbone of the UK economy, and rightly so. Small businesses make up more than 99 per cent of the business population and account for around 50 per cent of jobs.

"Our research underlines the enormous changes these small businesses have had to deal with over the last decade.

"We have seen rapid advances in technology and growing pressure for action on net zero alongside the substantial challenges posed by Brexit, the Covid-19 pandemic, and cost of living rises.

"All of this has placed tremendous pressure on small businesses.

"As we move into a General Election year, we need a coordinated effort from government and business organisations to help small businesses face the future with confidence."

Key findings from the report include:

- Business crises are common, with a third of small businesses experiencing a threat to their survival within the last five years. Despite this, fewer than half of firms sought external advice or support in the last year to help them plan how to cope with a crisis.
- The Covid-19 pandemic took a heavy toll on SMEs, as nearly half suffered a hit to their turnover and three in turn were forced to cut jobs. The pandemic also saw an increase in the number of company dissolutions, with you firms the most vulnerable, and prompted one in five small firms to pivot to a completely new business model.

- The cost of doing business has risen. The ERC's Small Business Price Index (SBPI) showed that costs rose faster during the first half of 2022 than they had since 2008.
- International trade has become increasingly challenging following Brexit and the Covid-19 pandemic, with nearly one quarter of small firms viewing Brexit as a major business obstacle between 2018 and 2021 as the UK struggled to bounce back as quickly as other countries.
- Innovation among small businesses declined between 2017 and 2021. Those firms that did innovate continued to experience significant disruption in 2022.
- Small businesses have been hit by an increase in 'presenteeism' with 37 per cent of firms in 2023 reporting that employees continued to work while unwell or beyond their contracted hours. This was accompanied by an increase in the rate of mental health-related sickness.
- Although there have been positive long-term trends in the number of people setting up their own businesses, not enough small businesses are investing in growth.

The report reveals that SMEs have shown remarkable resilience throughout the many challenges they have faced and a small number have achieved impressive growth and increased productivity as they identified opportunities in the midst of uncertainty.

However, it warns that the government should not concentrate on a small proportion of exceptional high growth firms or celebrating the number of new businesses entering the market.

Instead it should focus on creating a framework that helps more small businesses to achieve growth, sustainability, and resilience.

Mark Hart, Deputy Director of the Enterprise Research Centre and Professor of Small Business and Entrepreneurship at Aston University, said: "Amid all the challenges, we have seen plenty of evidence that small businesses can be adaptable in a crisis.

"The UK government spends a significant amount of money on interventions to help small businesses each year.

"It is vital that these funding decisions are based on solid evidence, such as those outlined in our report, to ensure policymakers provide small businesses with the tailored support they need."

NOTES TO EDITORS

For more information, to receive a copy of the report, or to request an interview with the authors from the Enterprise Research Centre contact:

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The Enterprise Research Centre (ERC) is the UK's leading independent research institute on productivity and innovation in small and medium-sized enterprises (SMEs).

It is funded by the Economic and Social Research Council (ESRC), the Department for Business and Trade, the Department for Science, Innovation and Technology, Innovate UK, The Intellectual Property Office (IPO), and the British Business Bank (BBB). Its research helps to shape better policies and practices that enable SMEs to thrive.

The Centre is based at Warwick Business School and Aston University Business School and is led by Professor Stephen Roper, Professor Mark Hart, and Dr Vicki Belt.

The State of Small Business Britain report is the ERC's annual review of trends and issues affecting small businesses in the UK. It draws together the Centre's research to give a picture of the current landscape for the UK's small businesses.

To coincide with the 10th anniversary of the ERC, this year's report uses insights from a decade of research on small business growth and productivity to produce a manifesto for small business growth and productivity.

[1] The proportion of firms expanding the number of people they employed declined from 20 per cent in 2012 to 12 per cent in 2022. This data was drawn from the Office for National Statistics.