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Understanding micro-businesses: Evidence from the Longitudinal Small Business Survey 2015-2023

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Understanding micro-businesses: Evidence from the Longitudinal Small Business Survey 2015-2023

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

Micro-businesses with 1-9 employees accounted for 81.4 per cent of all UK employer firms in 2024 and employed approximately 4.2 million people, making up 18.0 per cent of the UK's private sector workforce. Despite their significance for jobs, growth, and innovation, micro-businesses are often excluded from official surveys. Consequently, our understanding of what happens within these businesses remains limited. For example, what challenges do micro-businesses encounter? How are they responding to climate change and managing uncertain international conditions? What skills or digital barriers do they face?

One important source of insights on micro-businesses is the Longitudinal Small Business Survey (LSBS). Conducted annually since 2015, this large-scale survey provides reliable information on the full range of firms with 1-249 employees. Annual reports are produced on firms with and without employees and cover a longitudinal panel of businesses. Both offer some evidence on micro-businesses compared to other SME size bands.

In this report, we focus on these comparisons and examine micro-businesses with 1-9 employees, small firms with 10-49 employees, and medium-sized firms with 50-249 employees. We analyse trends from 2015 to 23 and assess how broader environmental challenges – such as COVID-19 and Brexit – affected micro-businesses. Our focus remains on businesses with employees, excluding sole traders.

Growth Drivers

Micro-businesses are less likely to engage in R&D and innovation compared to larger SMEs. In 2023, 13% of micro-businesses included in the LSBS had invested in research and development (R&D) over the previous three years. Additionally, 32% of micro-businesses reported introducing new or significantly improved goods or services in the past three years. Notably, the proportion of micro-businesses reporting innovation (32% in 2023) is considerably higher than that of those reporting investment in R&D (13% in 2023). This suggests that most micro-businesses that innovate do so without reporting R&D, perhaps relying instead on innovations developed elsewhere or through purchased technology.

Since 2015, SME engagement in exporting has either stagnated or declined. The proportion of micro-businesses exporting experienced a brief 2 percentage point increase in 2020 but reverted to 17%, their 2015 level, by 2023. In 2023, 18% of micro-businesses imported either from the European Union or non-EU countries. A small proportion – around a fifth – of micro-businesses are involved in international markets, either exporting, importing, or both. Because engagement with international markets has been closely linked to productivity improvements, gaining a better understanding of how and why micro-businesses participate in international trade would be valuable.

Micro-businesses are more likely to indicate a need for external finance but are less likely to utilise it compared to their larger counterparts. In 2023, 13% of micro-businesses used external finance. However, in the same year, 19% of Welsh micro-businesses used external finance, with Scotland following at 15%. Levels of external finance use by micro-businesses in Scotland and Wales have been notably higher over the last five years. It is not clear why this divergence has occurred or what implications it may have for future micro-business growth.

In 2023, 24% of micro-businesses used external advice in the past 12 months, down from 31% in 2015. It is difficult to estimate the effect of this decline in business advice use, however,

as we have little recent data on the impact of external support on UK micro-businesses. We also have little understanding of the contrasting benefits of digital versus face-to-face advice. Early evidence suggests that while online support can be cost-effective, face-to-face interaction may offer higher satisfaction levels for firms.

Micro-businesses consistently had the lowest training provision rates compared to small and medium-sized firms (Figure 16), declining from 50% in 2015 to 37% in 2022, with a slight recovery to 39% in 2023. While there are well-rehearsed arguments about why micro-businesses are hesitant to invest in training, these often relate to the poaching of trained staff by larger enterprises. In the UK, the apprenticeship programme can support training in micro-businesses with significant potential benefits, although concerns have been raised regarding the accessibility of the skills system to smaller firms. No specific data is published on micro-businesses' engagement with the apprenticeship system; instead, figures are provided for 'small businesses' with 0-49 employees. These figures show a 13% fall in small employers' engagement with apprenticeships between 2021/2 and 2022/3. It would be useful to break down these figures in more detail.

Micro-businesses consistently demonstrate lower levels of digital technology adoption compared to small and medium-sized enterprises. In 2023, 60% of micro-businesses utilised digital technology in their operations, a 12pp increase from 2022. Recent research has concentrated on how digital technologies support the green transition and facilitate effective data-driven strategy development. This draws attention to the barriers hindering the effective use of digital technology in micro-businesses.

In 2023, just over one-third of micro-businesses had a business plan, 1 percentage point (pp) lower than in 2022 and 13pp below 2016. The gap between micro and medium-sized businesses has remained significant, averaging around 35pp. While we have good evidence on the antecedents of business planning (both as an activity and formal documentation) in SMEs generally, we have little specific information on micro-businesses. Moreover, we know little about whether (or how) business planning contributes to growth in micro-businesses.

Growth and performance

Although regional differences in the growth rates of micro-businesses (both in turnover and employment) are minor, micro-businesses have lagged behind larger firms in their growth over the past decade. Why is this the case? Are certain types of micro-businesses particularly falling behind in growth, or is this growth shortfall related to any of the specific business characteristics mentioned earlier? Future research could examine the distribution of growth among micro-businesses in more detail and seek to identify the factors and drivers behind this trend.

Other studies of the business population have emphasised the rarity of growth in both employment and productivity (turnover per employee) in the same company. How does the concept of 'productivity heroes' manifest among micro-businesses?

Leadership

The proportion of micro-businesses with at least 50% women in their leadership teams was 20% in 2023—7 percentage points (pp) higher than medium-sized firms (13%). This gap has remained relatively stable over time, showing consistently higher female representation in the leadership of smaller SMEs. The share of SMEs with Minority Ethnic Group (MEG) management averaged around 4% between 2015 and 2023 highlighting persistently lower

MEG representation in smaller firms. While this bio-demographic information on the leadership of micro-business firms is useful we know very little else about the leadership characteristics of micro-businesses.

Future ambition

Growth ambition among micro-businesses has stayed lower than that of other SMEs. In 2020, growth ambition among micro-businesses increased by 8 percentage points (pp) compared to 2015, but it fell by 3pp by 2023, reflecting the overall SME trend. The highest point was in 2020, with 75% of micro and 88% of medium-sized businesses expressing growth ambition—probably driven by optimism before the UK's COVID-19 lockdown.

Among micro-businesses, only 19% planned to seek external finance within the next three years in 2023, a 2 percentage point (pp) increase from 2021, but still 5 pp below 2015. Medium-sized firms are more likely to seek external finance.

Towards a micro-business research agenda

The micro-business sector is vital both for its role in creating jobs and as a source of future high-growth enterprises. However, the exclusion of micro-businesses from many official surveys, combined with the provisions of the Companies Act, results in some significant gaps in our knowledge. These include:

(1) We know relatively little about the process of innovation in micro-businesses. The LSBS provides some suggestion that innovation in micro-businesses differs in nature from that in larger firms – much more dependent on bought-in technologies.
(2) LSBS suggests that around a fifth of micro-businesses are engaged in international markets, either exporting, importing, or both. As engagement with international markets has been strongly linked to productivity gains, a better understanding of how and why micro-businesses engage internationally would be valuable.
(3) LSBS data suggests that levels of external finance use by micro-businesses in Scotland and Wales has been notably higher over the last five years than that in other parts of the UK. It is not clear why this divergence has occurred or what implications it may have for future micro-business growth.
(4) There is little recent evidence on the impact of external support on UK micro-businesses and in particular on the contrasting benefits of digital and face-to-face advice.
(5) LSBS data suggests that micro-businesses are less likely to provide training than larger SMEs and issues have been raised about the accessibility of the apprenticeship system to smaller firms. No specific data is published on micro-businesses' engagement with the apprenticeship system. Instead, figures for 'small businesses' with 0-49 employees are published. It would be useful to break down these figures in more detail.
(6) Recent studies have focused on the enabling role of digital technologies in supporting the green transition and enabling effective data-based strategy development. This highlights the barriers to effective digital technology use in micro-businesses.

SECTION 1: INTRODUCTION

Micro-businesses with 1-9 employees made up 81.4 per cent of all UK employer firms in 2024 and employ around 4.2 million people, accounting for 18.0 per cent of the UK's private sector workforce. The micro-business sector is diverse. Although most micro-businesses start small and remain that way, some are high-street shops and service businesses serving local markets. Others might be creative industries working internationally through partnerships or networks. For firms experiencing rapid growth, their time as micro-businesses may be short, as increased employment shifts their focus from local and national markets to international trade. Many equity-backed firms in digital technologies and life sciences could belong to this latter group.

Despite their importance for jobs, growth, and innovation, micro-businesses are often left out of official surveys, although the ONS has made some progress in including micro-businesses in its population surveys. For example, the Business Register and Employment Survey and the Business Population Estimates (based on the Inter-departmental Business Register) both include micro-businesses and help to understand the size and makeup of the micro-business sector. However, because micro-businesses are excluded from surveys such as the UK Innovation Survey and the Management and Expectations Survey, our understanding of what occurs within these businesses remains limited. For instance, what challenges do micro-businesses face? How are they responding to climate change and navigating uncertain international conditions? What skills or digital barriers do they encounter?

It is also notable that Companies House data offers limited insight into the growth and performance of smaller companies because of the provisions in the Companies Act 2006. Although 'micro-entities' with fewer than 10 employees are legally required to prepare accounts that include a balance sheet and profit and loss account, only a small portion of this information currently needs to be filed at Companies House. However, this situation is set to change, as from 1 April 2027, micro-entities will be required to submit a copy of their profit and loss account to Companies House.[1]

One important source of insights on micro-businesses is the Longitudinal Small Business Survey (LSBS). Conducted annually since 2015, this large-scale survey provides reliable information on the full range of firms with 1-249 employees. Annual reports are produced on firms with and without employees and cover a longitudinal panel of businesses. Both offer some evidence on micro-businesses compared to other SME size bands.[2]

In this report, we focus on these comparisons and examine micro-businesses with 1-9 employees, small firms with 10-49 employees, and medium firms with 50-249 employees. We analyse trends from 2015 to 23 and assess how broader environmental challenges – such as COVID-19 and Brexit – affected micro-businesses. Our focus remains on businesses with employees, excluding sole traders.

The need for this report arose from discussions at a joint Enterprise Research Centre (ERC) – National Enterprise Network (NEN) meeting held in June 2025. The workshop focused on the gaps in the evidence base concerning micro-businesses – especially those with 1-4 employees – and the potential importance of this type of data in informing both local business support and the new Business Growth Service. Our aim is to determine what we currently know about micro-businesses and to highlight existing data gaps.

[1] See https://www.gov.uk/government/publications/life-of-a-company-annual-requirements.
[2] See https://www.gov.uk/government/collections/small-business-survey-reports.

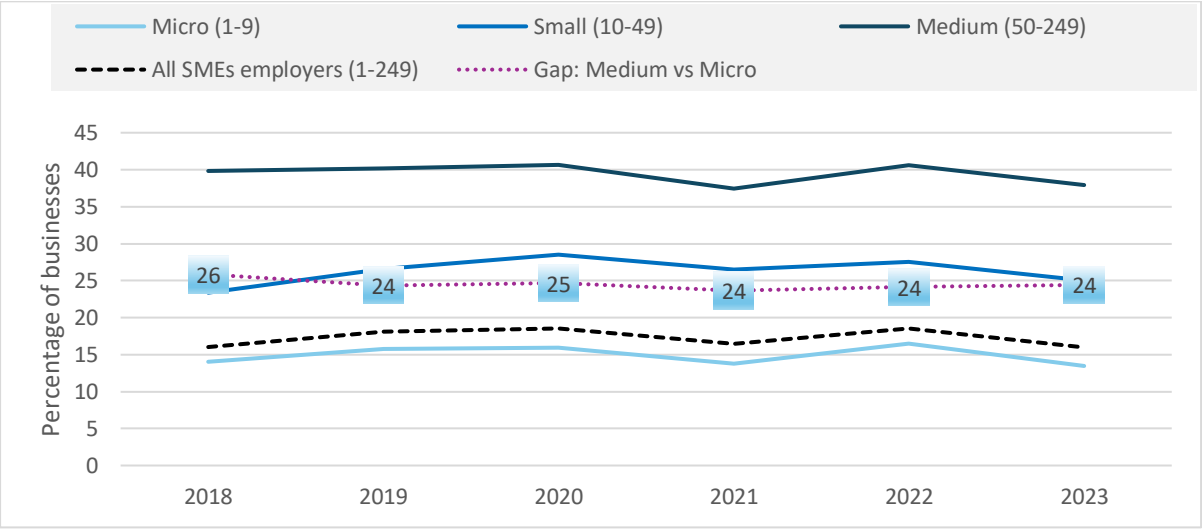
SECTION 2: TRENDS IN THE DRIVERS OF SME GROWTH

2.1 R&D and innovation

In 2023, 13% of micro-businesses included in the LSBS had invested in research and development (R&D) over the previous three years. This represents a 3 percentage point (pp) decline from 2022 and a 1pp decrease compared to 2018 (Figure 1). R&D investment grew with business size: small businesses were twice as likely to invest in R&D as micro-businesses, while medium-sized businesses invested at three times the rate.

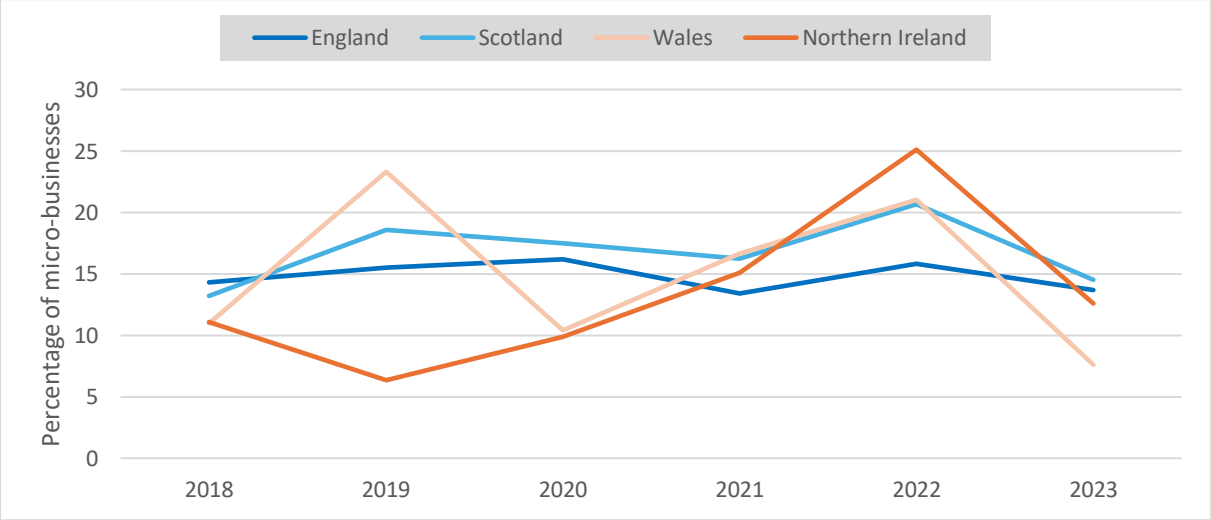
In 2023, Scotland had the highest share of micro-businesses investing in R&D at 15%, followed by England with 14%, Northern Ireland at 13%, and Wales at 8% (Figure 2).

Figure 1: Percentage of SME's investing in research and development (R&D), 2018 to 2023



Note: Produced with weighted sample. **Source:** LSBS survey, 2018 to 2023

Figure 2: Percentage of micro-businesses investing in R&D, by region, 2018 to 2023



Note: Produced with weighted sample. **Source:** LSBS survey, 2018 to 2023

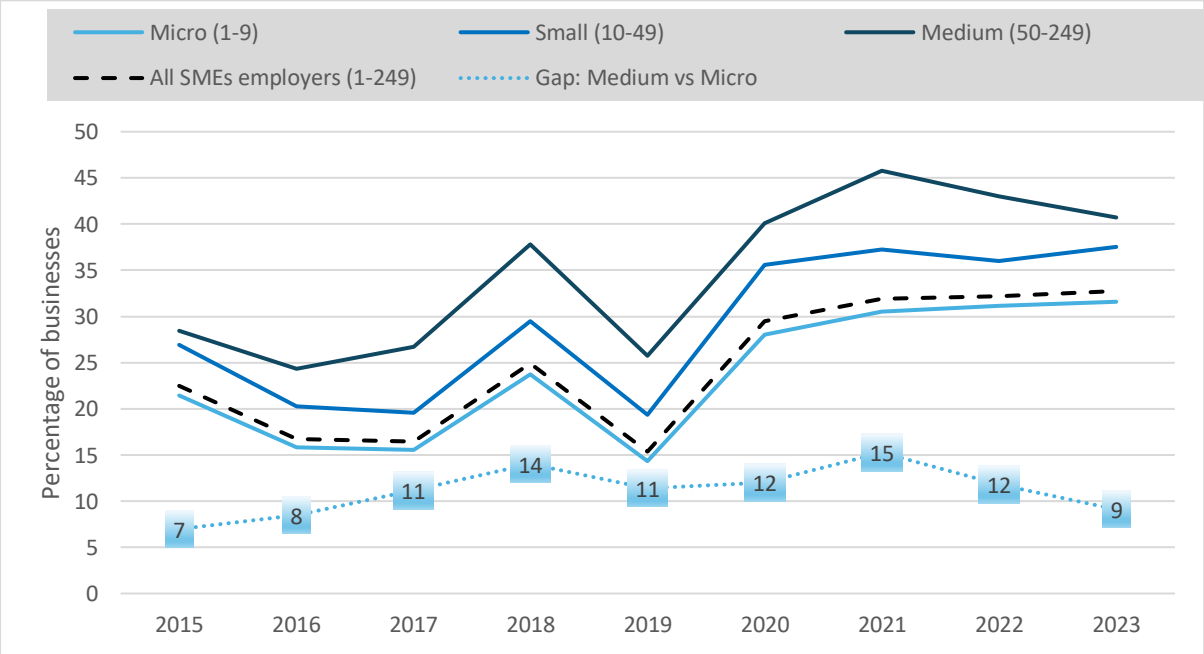
In 2023, 32% of micro-businesses reported introducing new or significantly improved goods or services in the past three years. This marks a 17 percentage point increase compared to the pre-COVID period (2019), and a 4 percentage point rise from 2020, during the height of the UK's COVID-19 lockdown (Figure 3). It is notable that the proportion of micro-businesses reporting innovation (32% in 2023) is significantly higher than the proportion reporting investing in R&D (13% in 2023). The implication is that the majority of innovating micro-businesses are undertaking innovation without R&D, so new products or services are based on R&D conducted elsewhere or bought in technology.

As with R&D, the likelihood of innovation rises with firm size. The gap in innovation rates between micro and medium-sized businesses ranged from a minimum of 1 percentage point in 2018 to a peak of 10 percentage points in 2020. By 2023, this gap had decreased to 6 percentage points (Figure 3).

Among the 32% of micro-businesses reporting innovation in goods and services in the three years prior to 2023 (Figure 3), 33% introduced innovations that were new to the market or industry, while the remaining 67% were only new to the business (Figure 4). Compared to previous reporting years, the proportion of innovations new to the market or industry among micro-businesses increased by 1pp from 2022, 7pp from 2020, and 3pp from 2015.

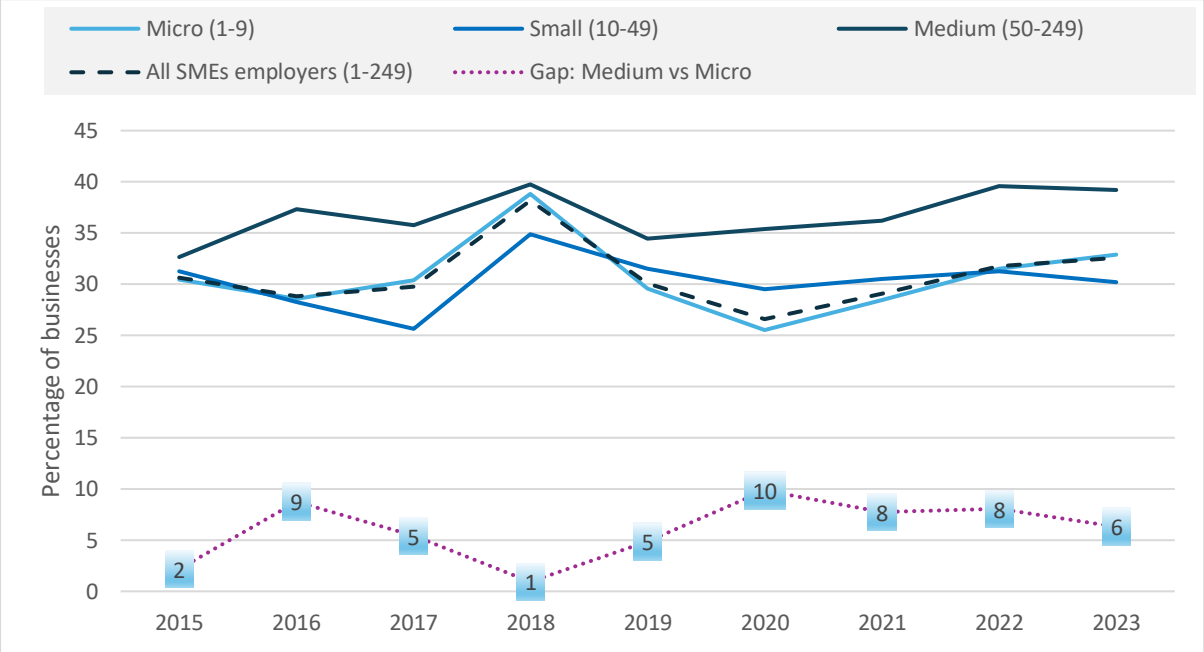
Scottish micro-businesses had the highest innovation rate in 2023, with 36% reporting new or improved goods or services, followed by England (31%), Wales (30%), and Northern Ireland (29%) (Figure 5).

Figure 3: Percentage of SMEs that introduced goods or service innovation, 2015 to 2023



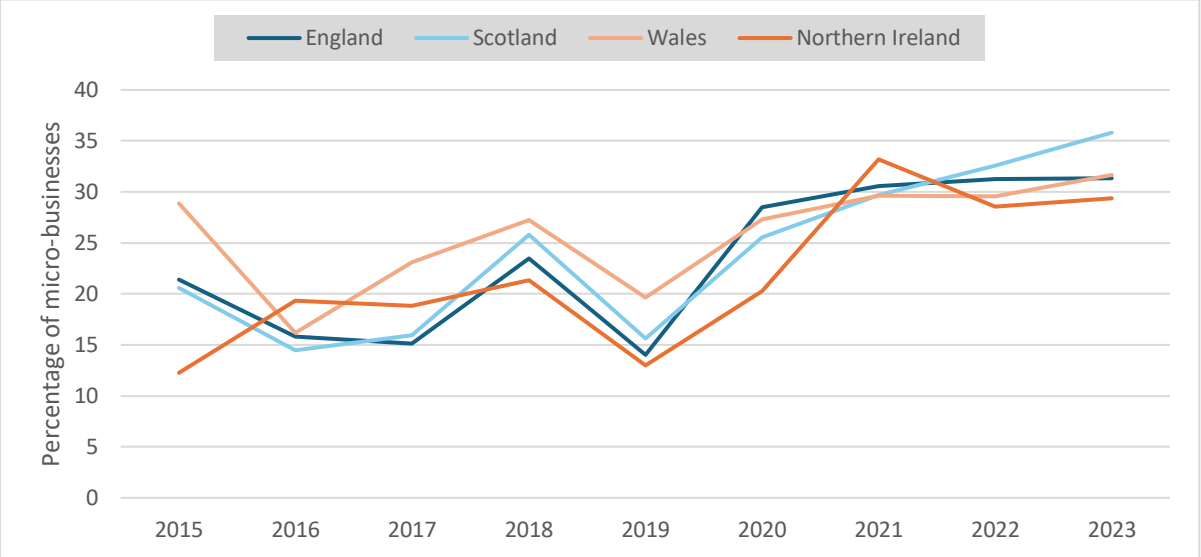
Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

Figure 4: Percentage of SMEs' innovations that were new to market or industry, 2015 to 2023



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

Figure 5: Percentage of micro-businesses with goods/services innovation, by nation (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

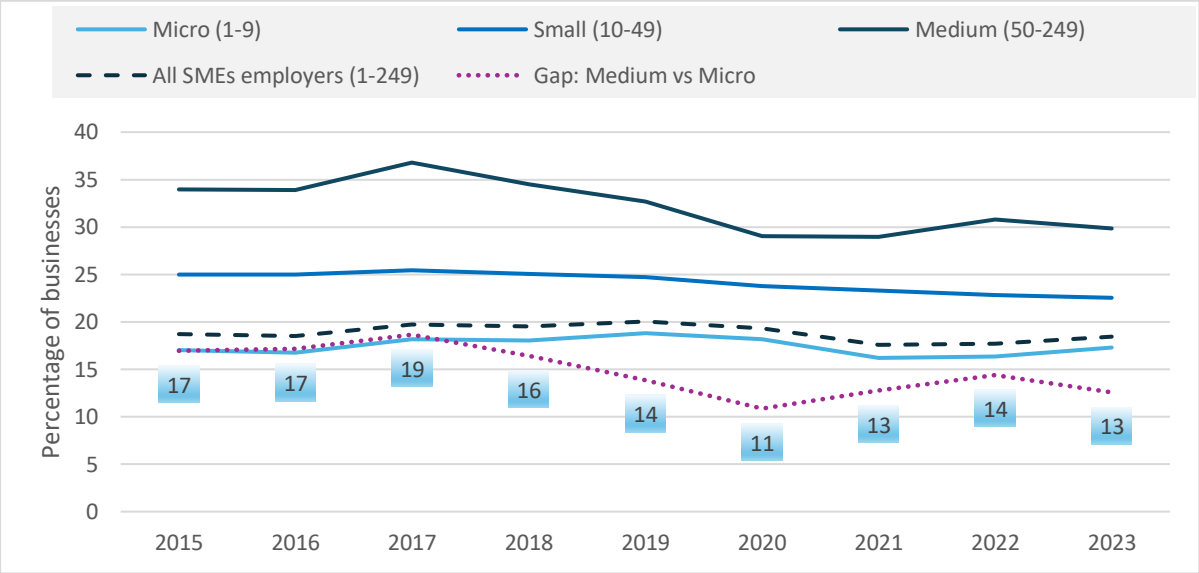
2.2 Exporting and importing

Since 2015, SME engagement in exporting has either stagnated or declined (Figure 6). The proportion of micro-businesses exporting saw a brief 2pp rise in 2020 but returned to 17%, their 2015 level, by 2023. A persistent gap remains between micro and medium-sized

exporters. This gap narrowed from 17pp in 2015 to 11pp in 2020 but widened again to 13pp by 2023.

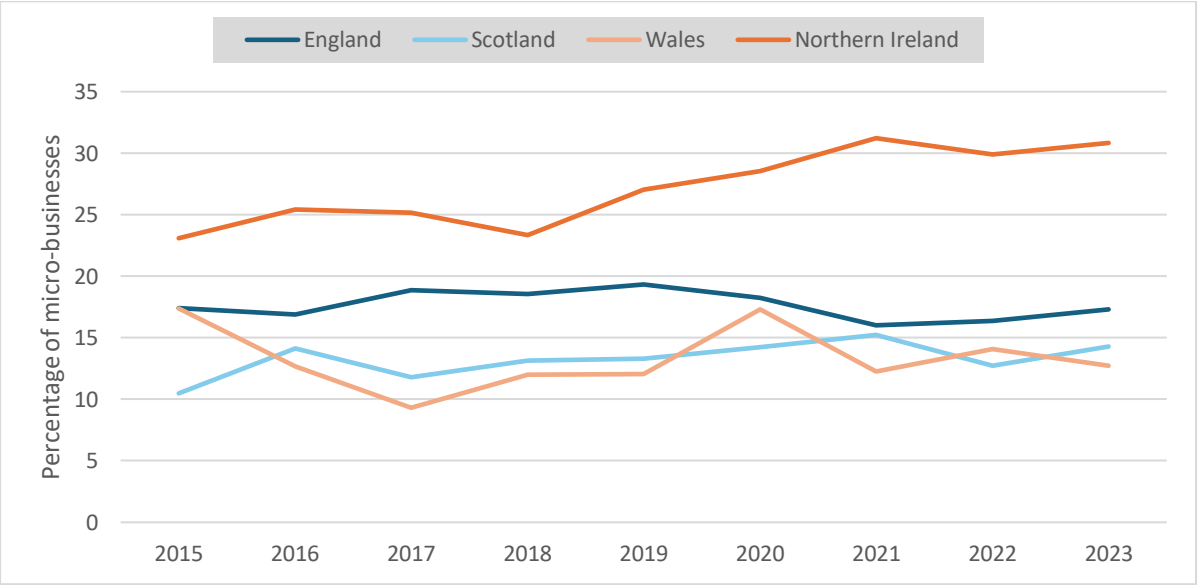
Proximity to the land border with the Irish Republic means that micro-businesses in Northern Ireland consistently outperform those in England, Scotland, and Wales in export activity (Figure 7). In 2023, 31% reported exporting in the past three years, an 8pp increase from 2015 and a 1pp rise from 2022.

Figure 6: Percentage of SMEs exporting, by size (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

Figure 7: Percentage of micro-businesses exporting, by region (2015 to 2023)



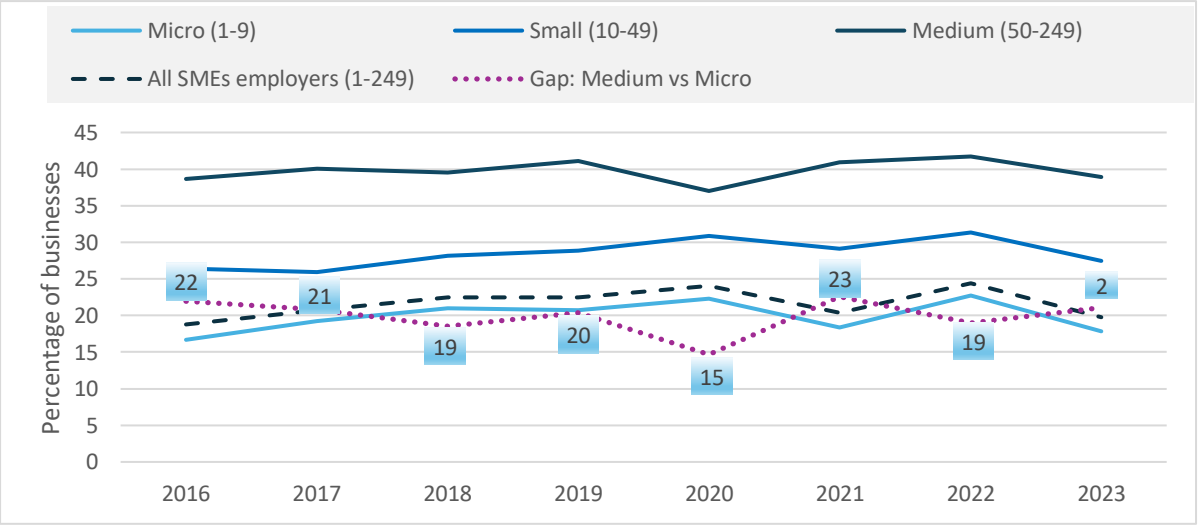
Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

In 2023, 18% of micro-businesses imported either from the European Union or non-EU countries. This marks a 5pp decline compared to 2022 and a 1pp increase compared to 2015 (Figure 8). Notably, the proportion of micro-businesses importing is very similar to those exporting, with trend lines following a similar trajectory. The suggestion is that a small proportion – around a fifth – of micro-businesses are engaged in international markets, either exporting, importing, or both. The vast majority of micro-businesses remain focused on the domestic market, though this is less the case in Northern Ireland. As engagement with international markets has been strongly linked to productivity gains, a better understanding of how and why micro-businesses engage internationally would be valuable.

As before with exporting, a persistent gap remains between the proportion of micro and medium-sized importers. This gap narrowed from 22pp in 2015 to 15pp in 2020 but widened again to 21pp by 2023.

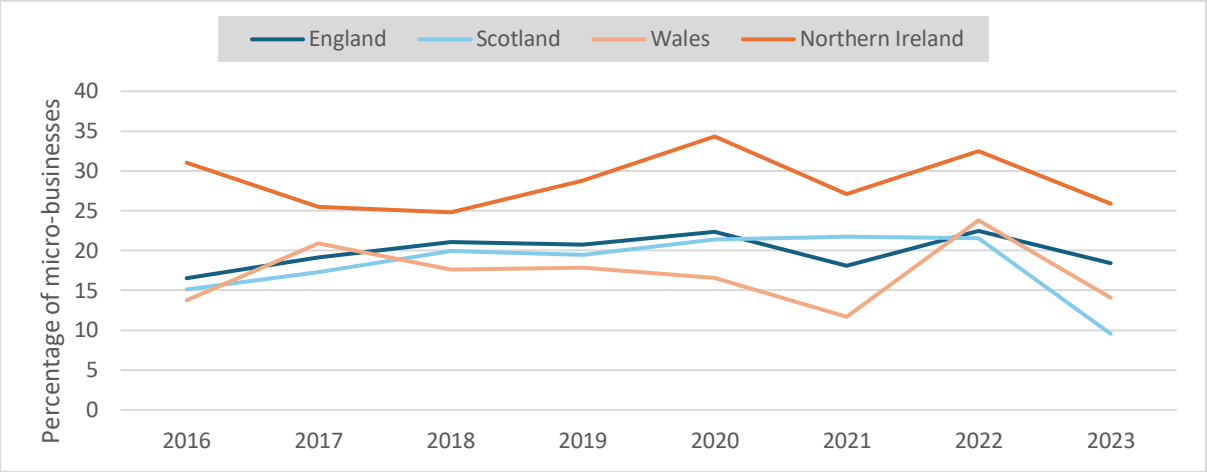
Again linked to the land border, micro-businesses in Northern Ireland are consistently more likely to import than those in England, Scotland, and Wales (Figure 9). In 2023, 26% reported importing from the European Union or non-European Union countries compared to England (18%), Wales (14%), and Scotland (10%). Compared to 2022 figures, these represent a 7pp drop for Northern Ireland, a 4pp drop for England, a 10pp drop for Wales, and a 12pp drop for Scotland.

Figure 8: Percentage of SMEs importing, by size (2016 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2016 to 2023

Figure 9: Percentage of micro-businesses importing, by region (2016 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2016 to 2023

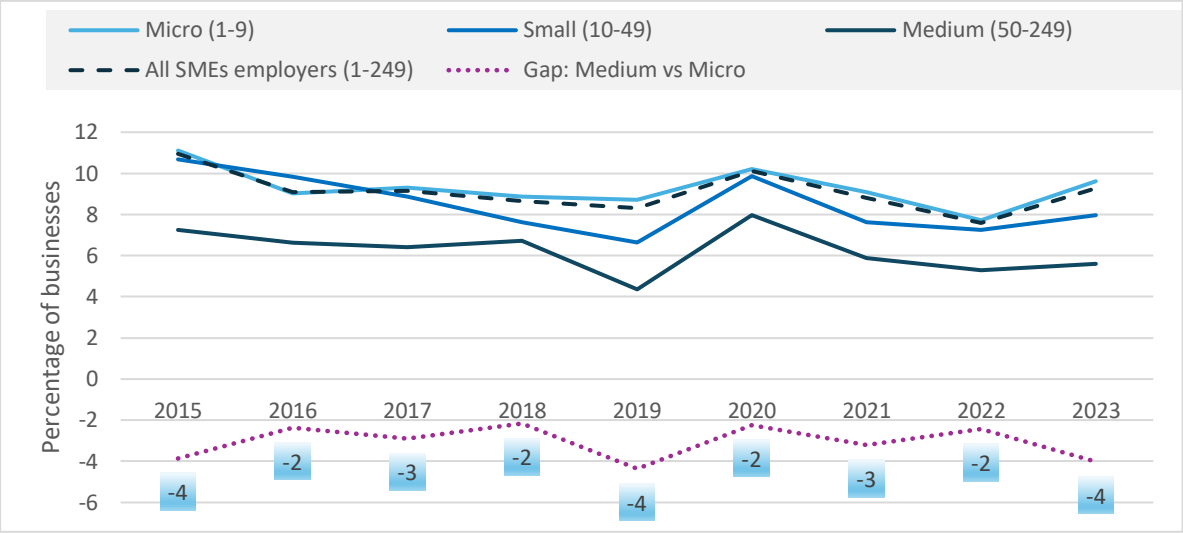
2.3 Finance

Micro-businesses are more likely to indicate a need for external finance but are less likely to utilise external finance compared to their larger counterparts. In 2023, 10% of micro-businesses reported a financial need, compared to 8% of small and 6% of medium-sized businesses (Figure 10). In contrast, 13% of micro-businesses used external finance, 3 percentage points lower than small and 9 percentage points lower than medium-sized businesses (Figure 11).

The proportion of micro firms using external finance steadily declined from 16% in 2015 to 7% in 2021, but has since increased year on year to 13% in 2023 (Figure 11).

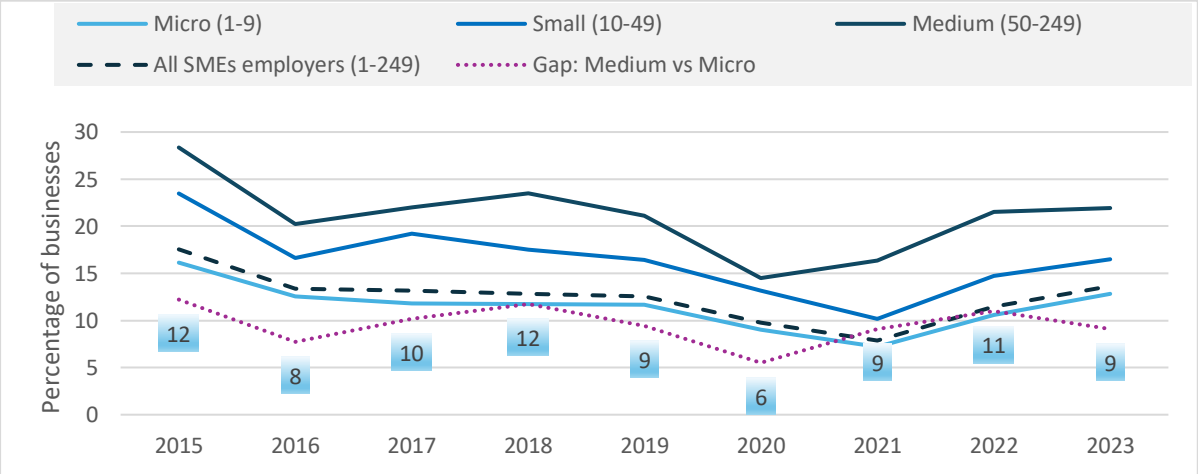
Over the years, a consistently higher proportion of medium-sized businesses used external finance compared to micro-businesses. The gap between medium and micro firms remained significant, averaging 10–12 percentage points—highlighting ongoing size-related disparities in the access to finance (Figure 11).

Figure 10: Percentage of SMEs that needed finance, by size (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

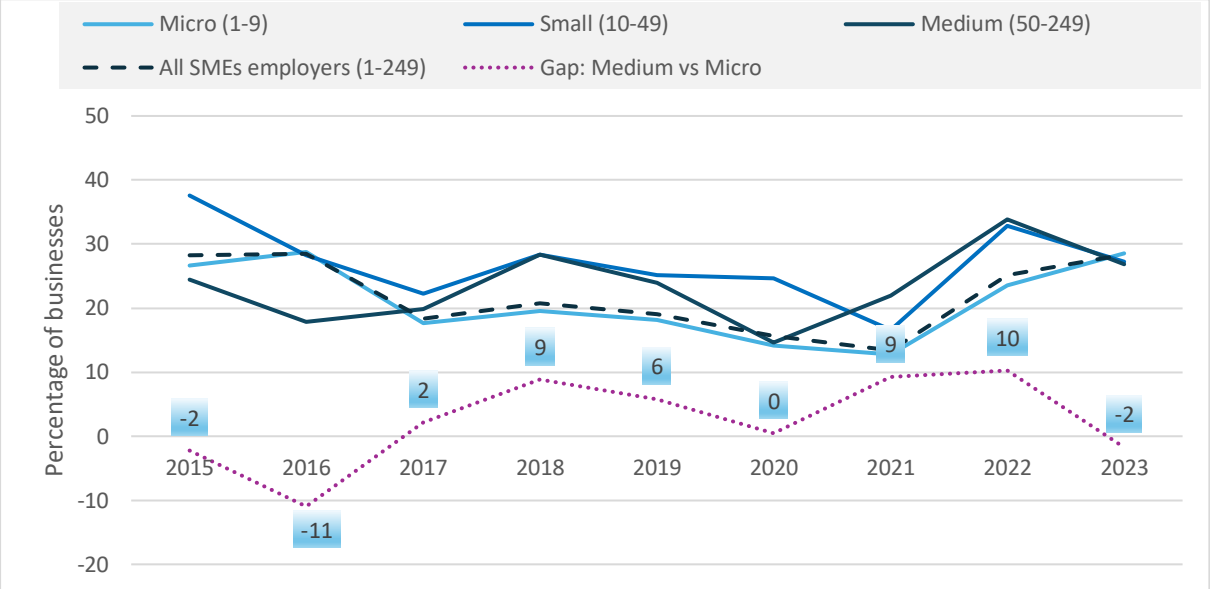
Figure 11: Percentage of businesses using external finance, by size (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

Over the period from 2015 to 2023, an average of 10% of micro-businesses reported needing external finance in the previous 12 months (Figure 10). Of these, fewer than a third actually used external funding (Figure 12). The percentage of micro-businesses that required financial support and sought external finance fell from 27% in 2015 to 13% in 2021, then rose again to 29% in 2023.

Figure 12: Percentage of SMEs that needed and used external finance, by size (2015 to 2023)

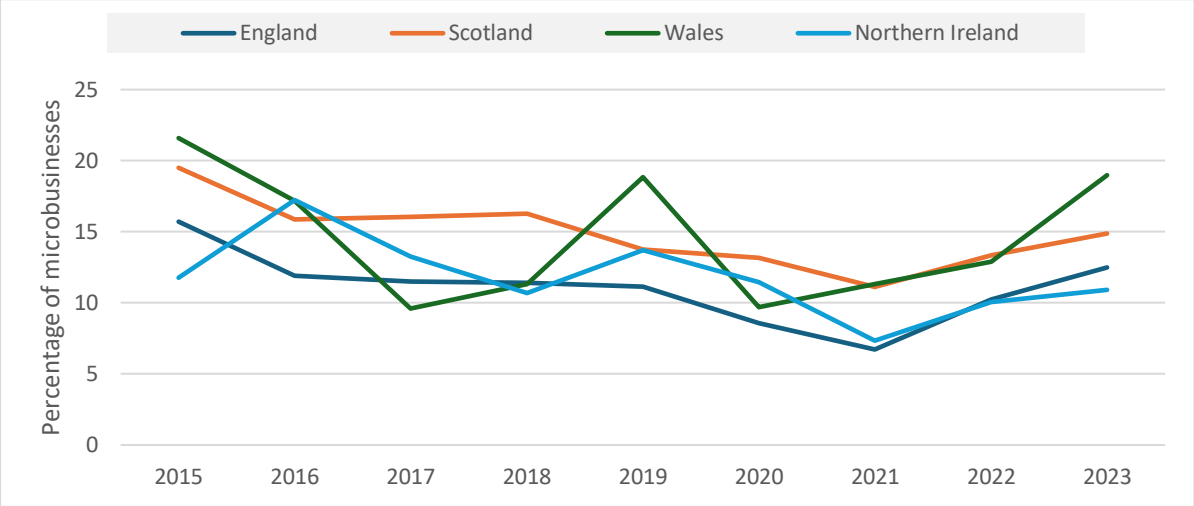


Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

Across all four UK regions, micro-businesses saw a decline in the use of external finance from 2015 to 2021, followed by a rise through 2023. Wales was the only region to begin recovering after 2020, while the others (Scotland, England, and Northern Ireland) saw increases starting in 2021 (Figure 13).

In 2023, 19% of Welsh micro-businesses used external finance, an increase of 9 percentage points (pp) from 2020 (10%), though still below 2015 levels (22%). Scotland followed with 15% in 2023, a 2pp rise from 2021. England saw a 12pp increase, and Northern Ireland an 11pp increase, both indicating modest recoveries from earlier declines. Levels of external finance use by micro-businesses in Scotland and Wales has been notably higher over the last five years. It is not clear why this divergence has occurred or what implications it may have for future micro-business growth.

Figure 13: Percentage of Micro-businesses using external finance, by nation (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

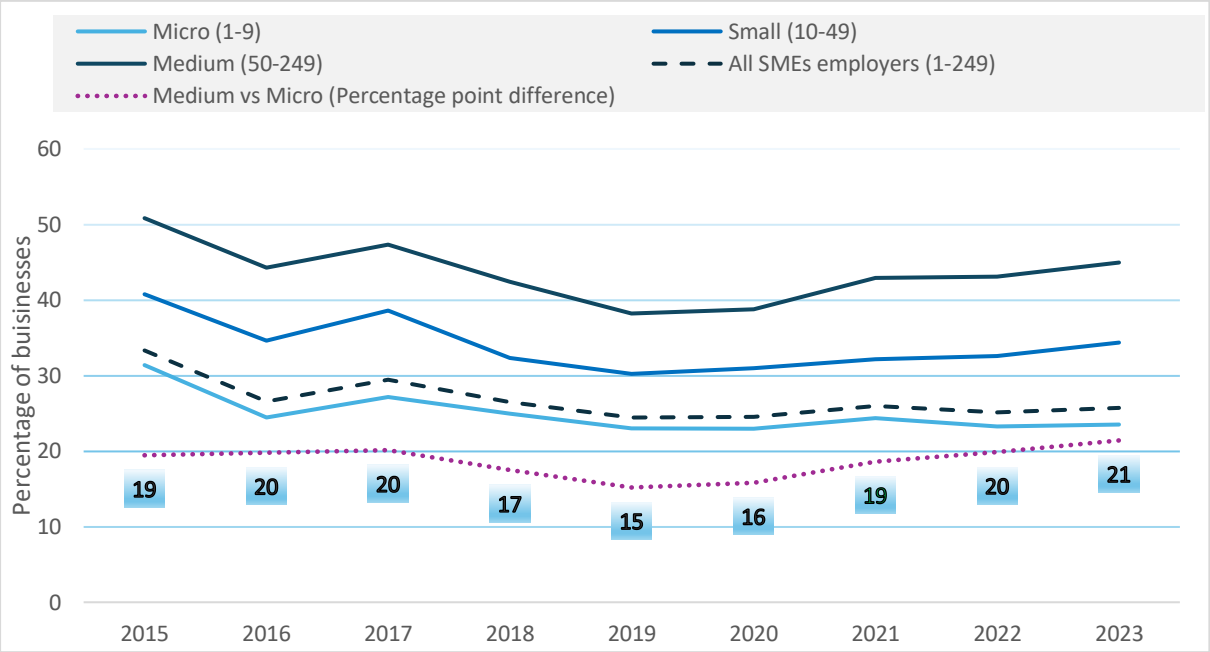
2.4 Business support

In 2023, only 24% of micro-businesses used external advice in the past 12 months, down from 31% in 2015 (Figure 14). They remain less likely to seek external support than small (34%) and medium-sized businesses (45%). The gap between micro and medium-sized firms has consistently been around 20 percentage points since 2015.

Regionally, Scottish micro-businesses were most likely to use external support (28% in both 2022 and 2023), followed by England (23% in 2022, 24% in 2023), Wales (20% in both years), and Northern Ireland, which saw a decrease from 20% in 2022 to 14% in 2023 (Figure 15).

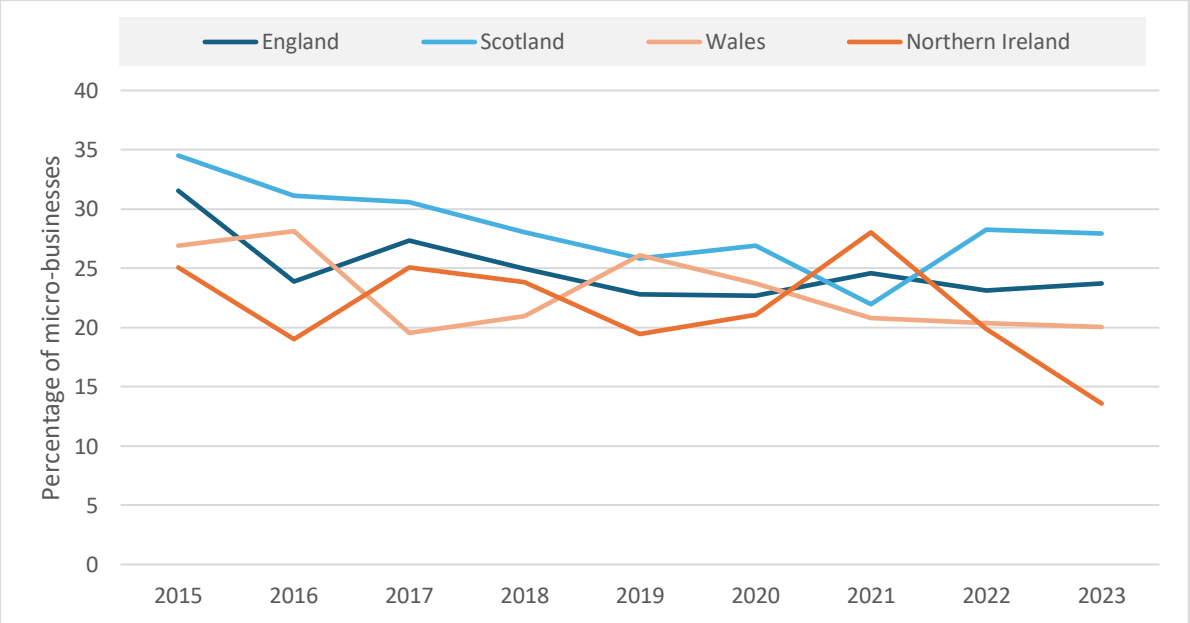
There is consistent evidence of the growth and productivity benefits to SMEs of using external advice (Mole et al. 2008, 2011; Berry et al., 2006). However, recent international studies of the benefits of business advice for micro-businesses suggest that the source of advice strongly impacts its benefits. In a study of financial advice to Italian micro-businesses, Soana et al. (2025) suggest that working with professional business financial advisors has the strongest benefits for micro-businesses. There is little recent evidence on the impact of external support on UK micro-businesses and in particular on the contrasting benefits of digital and face-to-face advice. Early evidence suggests that while on-line support can be cost effective, face-to-face interaction may provide higher satisfaction levels for firms (Mole et al., 2014).

Figure 14: Percentage of SMEs using business support, by size (2015 to 2023)



Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

Figure 15: Percentage of micro-businesses using external advice, by nation (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

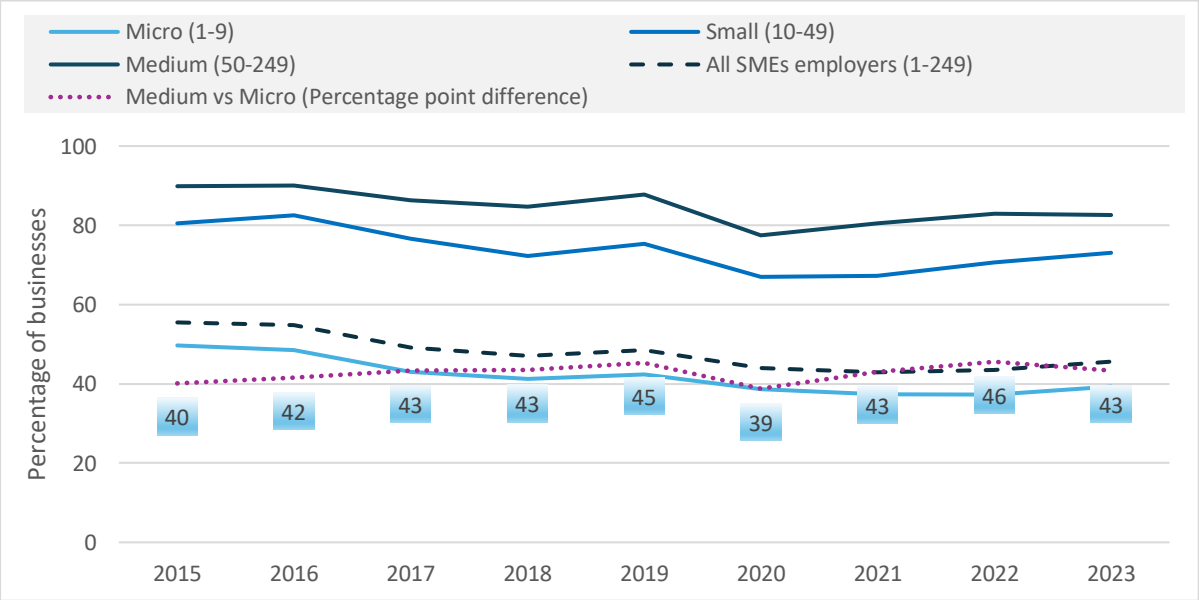
2.5 Training

Micro-businesses consistently had the lowest training provision rates compared to small and medium-sized firms (Figure 16), declining from 50% in 2015 to 37% in 2022, with a slight recovery to 39% in 2023. The gap between micro and medium-sized businesses remained persistent, averaging around 40 percentage points from 2015 to 2023.

Regionally, Scottish micro-businesses led in training provision, with rates of 48% in 2019 and 46% in 2023. Wales followed with a 40% average from 2019 to 2023, England at 39%, and Northern Ireland at 35% (Figure 17).

There are well-rehearsed arguments around why micro-businesses are reluctant to invest in training linked to the poaching of trained staff by larger enterprises. In the UK, the apprenticeship programme can support training in micro-businesses with significant potential benefits[3] although concerns have been raised about the accessibility of the skills system to smaller firms.[4] No specific data is published on micro-businesses' engagement with the apprenticeship system. Instead, figures for 'small businesses' with 0-49 employees are published.[5] It would be interesting to break down these figures in more detail.

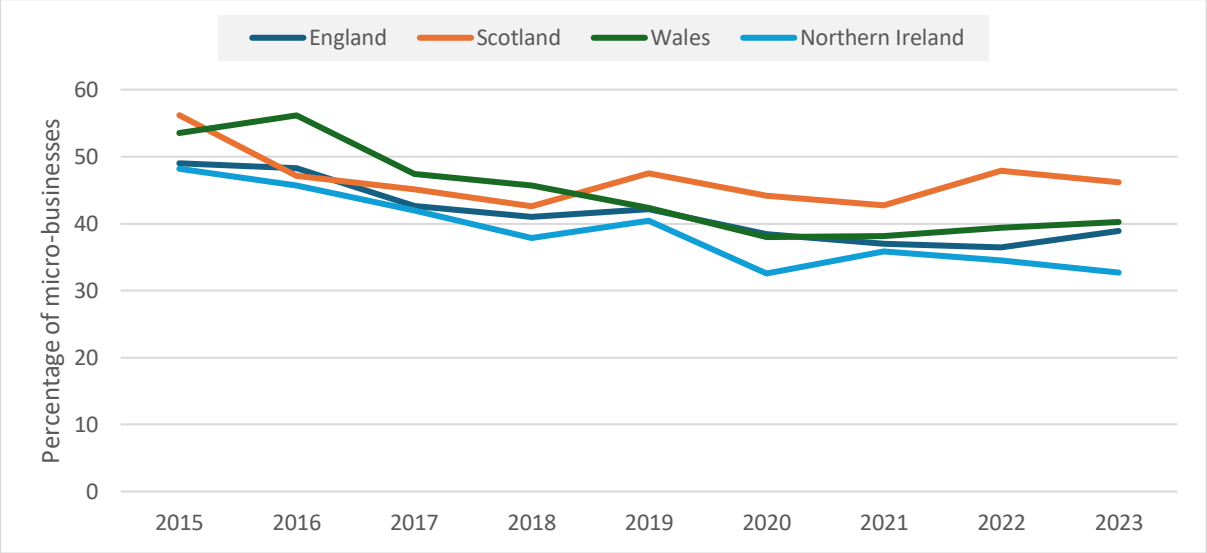
Figure 16: Percentage of SMEs providing training, by size (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

[3] See https://www.fsb.org.uk/resources/article/apprenticeships-for-small-businesses-a-smart-investment-MCWPVMXAUNPRFPHBEV2PBZLBJOUU.
[4] See https://www.cipd.org/uk/about/press-releases/apprenticeship-starts-england-smes-plummet-since-apprenticeship-levy-introduction/.
[5] See https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships-in-england-by-industry-characteristics/2022-23.

Figure 17: Percentage of micro-businesses providing training, by nation (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

2.6 Digital technology use

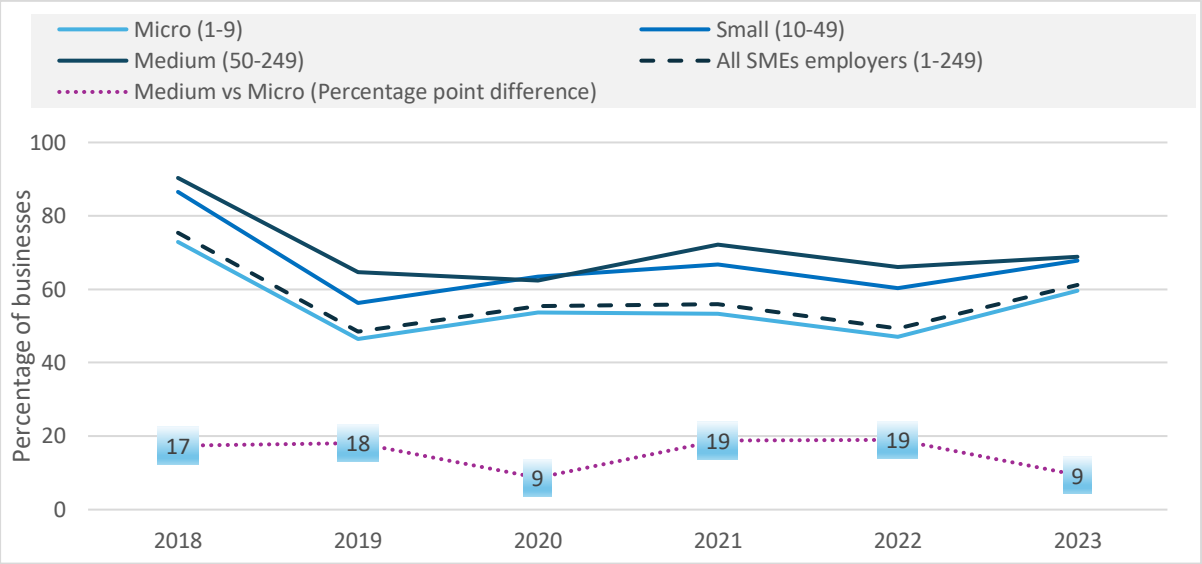
Micro-businesses consistently show lower rates of digital technology use compared to small and medium-sized firms (Figure 18). In 2023, 60% of micro-businesses used digital technology in their business operations, a 12pp rise from 2022. By comparison, 68% of small and 69% of medium-sized businesses used digital technology in 2023.

The gap between micro and medium-sized firms narrowed from 17pp in 2018 to 9pp in 2020 during the UK COVID-19 lockdown, widened to 19pp in 2021–2022, and narrowed again to 9pp in 2023.

Across regions, Wales led micro-business digital technology use in 2023 at 67%, followed by England (60%), Scotland (50%), and Northern Ireland (49%) (Figure 19).

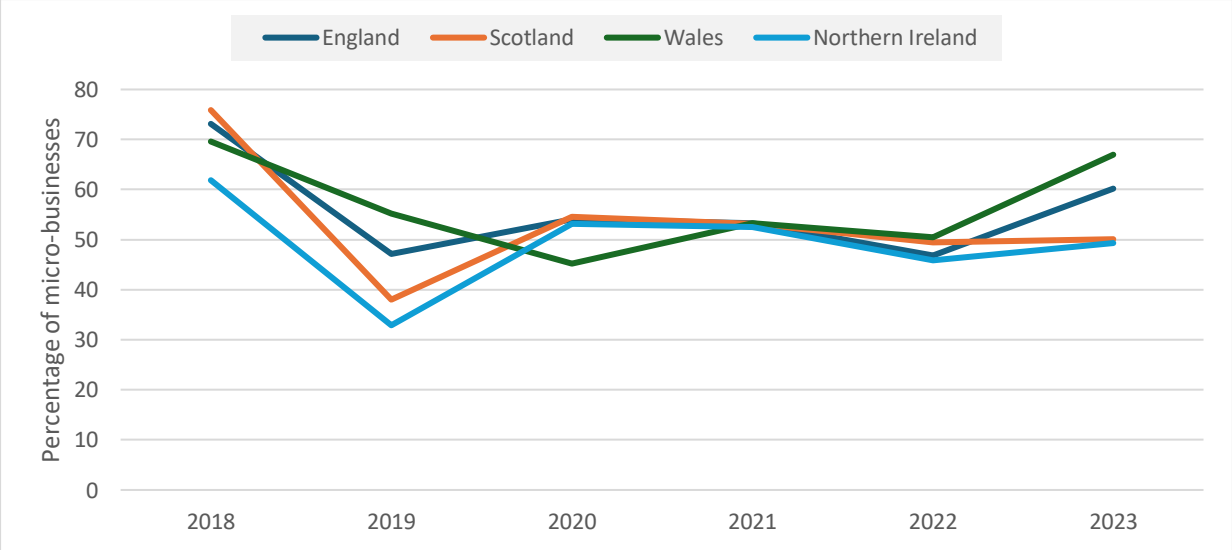
Recent studies have suggested the potential value for micro-businesses of second-mover strategies in terms of their adoption of some digital technologies (Nafizah et al., 2024). In this sense, lower adoption rates among micro-businesses of some digital technologies may not be a particular concern. However, other recent studies have focused on the enabling role of digital technologies in supporting the green transition and enabling effective data-based strategy development. This focuses attention on the barriers to effective digital technology use in micro-businesses.

Figure 18: Percentage of SMEs using digital technology, by size (2018 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2018 to 2023

Figure 19: Percentage of micro-businesses using digital technology, by nation (2018 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2018 to 2023

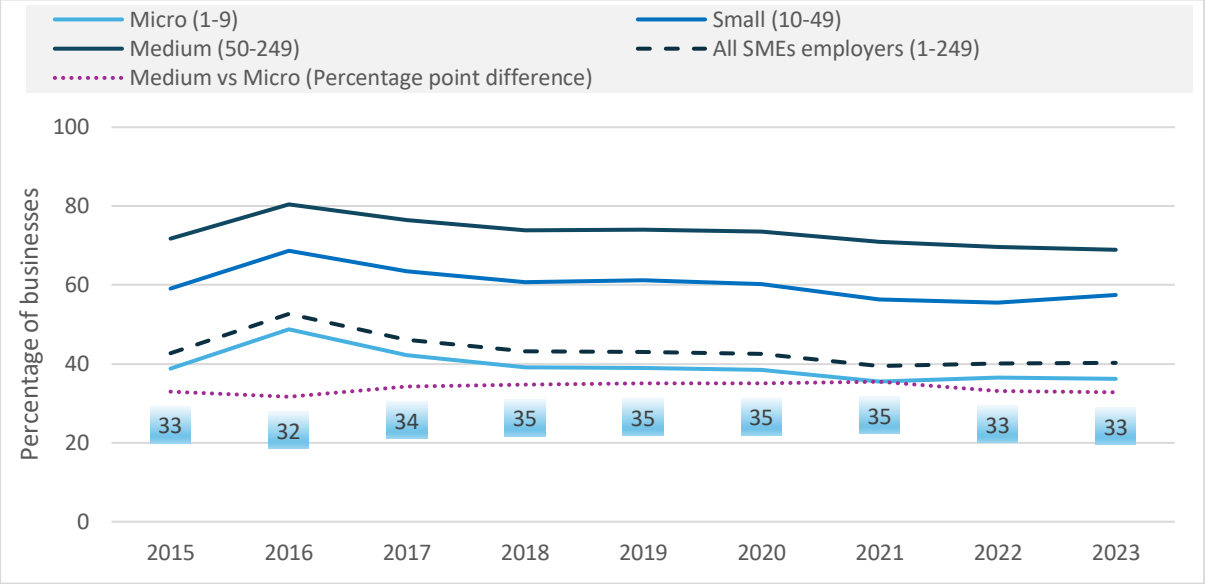
2.7 Business Planning

A written business plan helps SMEs grow by providing strategic direction, improving access to finance, and enhancing operational efficiency (Burke et al. 2010). It equips businesses to identify opportunities and make informed decisions for sustainable growth. However, the proportion of SMEs with a written plan has declined steadily since 2016 (Figure 20). In 2023, just over one-third of micro-businesses had a plan, 1 percentage point (pp) lower than in 2022 and 13pp below 2016. The gap between micro and medium-sized businesses has remained significant, averaging around 35pp.

Regionally, Scottish micro-businesses reported the highest rate in 2023 (40%), followed by England, Wales, and Northern Ireland, each at 36% (Figure 21).

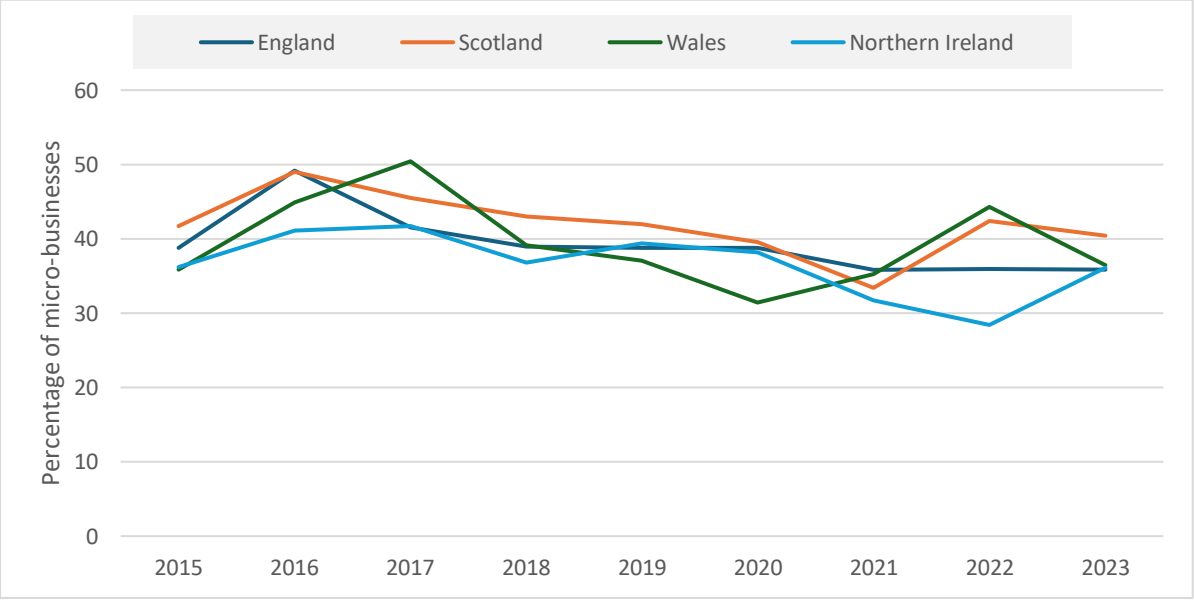
While we have good evidence on the antecedents of business planning (both as an activity and formal documentation) in SMEs generally we have little specific information on micro-businesses (Block and Petty, 2023). Moreover, we know little about whether (or how) business planning contributes to growth in micro-businesses.

Figure 20: Percentage of SMEs with a business plan, by size (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

Figure 21: Percentage of micro-businesses that have a business plan, by nation (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

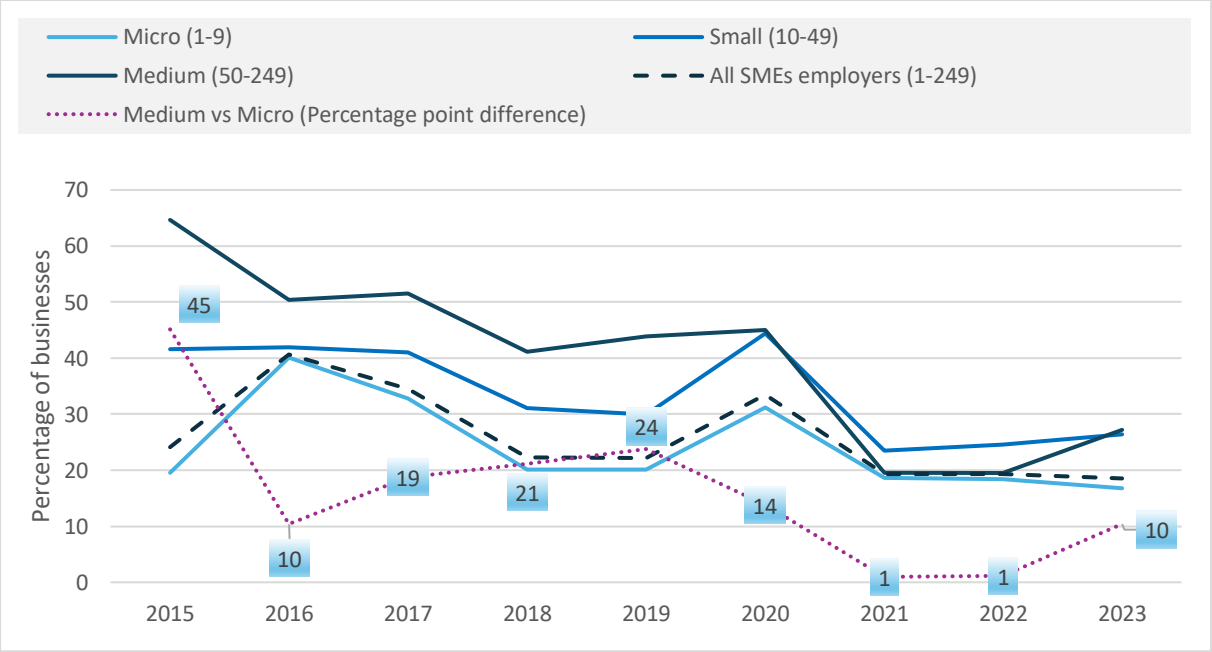
SECTION 3: GROWTH AND PERFORMANCE

3.1 Employment growth

The proportion of SMEs reporting employment growth decreased markedly from 2015 to 2023, with a sharp decline after 2020 (Figure 22). In 2023, 17% of micro-businesses reported employment growth, a 3 percentage point (pp) reduction from 2015 and a 14pp decline from 2020. Although medium-sized firms consistently led in growth, they experienced the greatest decrease, dropping from around 65% in 2015 to less than 27% in 2023. The gap between medium and micro firms narrowed from 45pp in 2015 to just 1pp in 2021 and 2022, before widening again to 10pp in 2023.

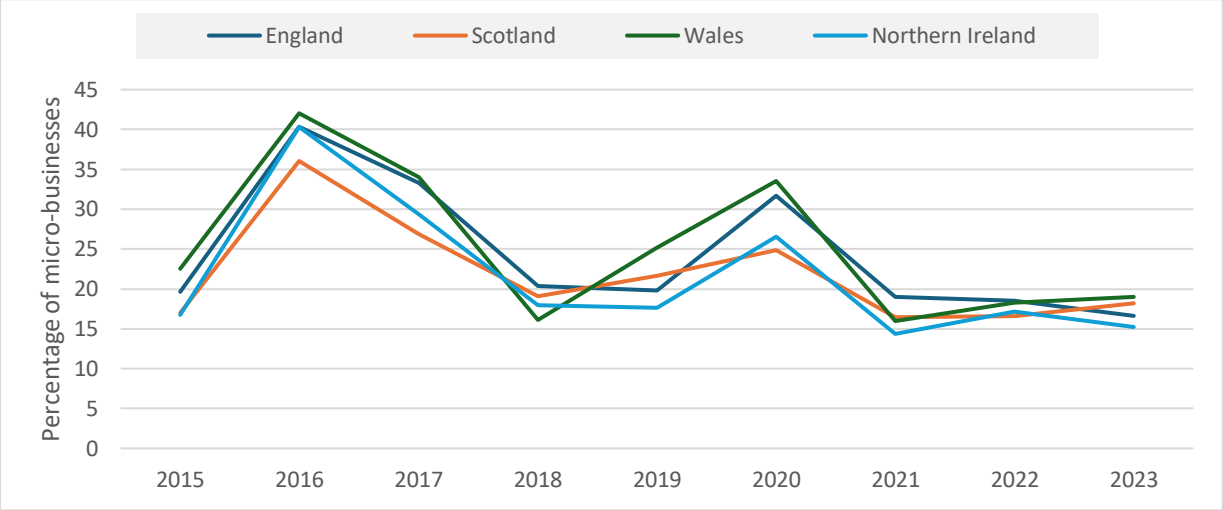
Regional differences among micro-businesses were minimal, with all showing a general decline over the period (Figure 23).

Figure 22: Percentage of SMEs experiencing employment growth, by size (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

Figure 23: Percentage of micro-businesses experiencing employment growth, by nation (2015 to 2023)



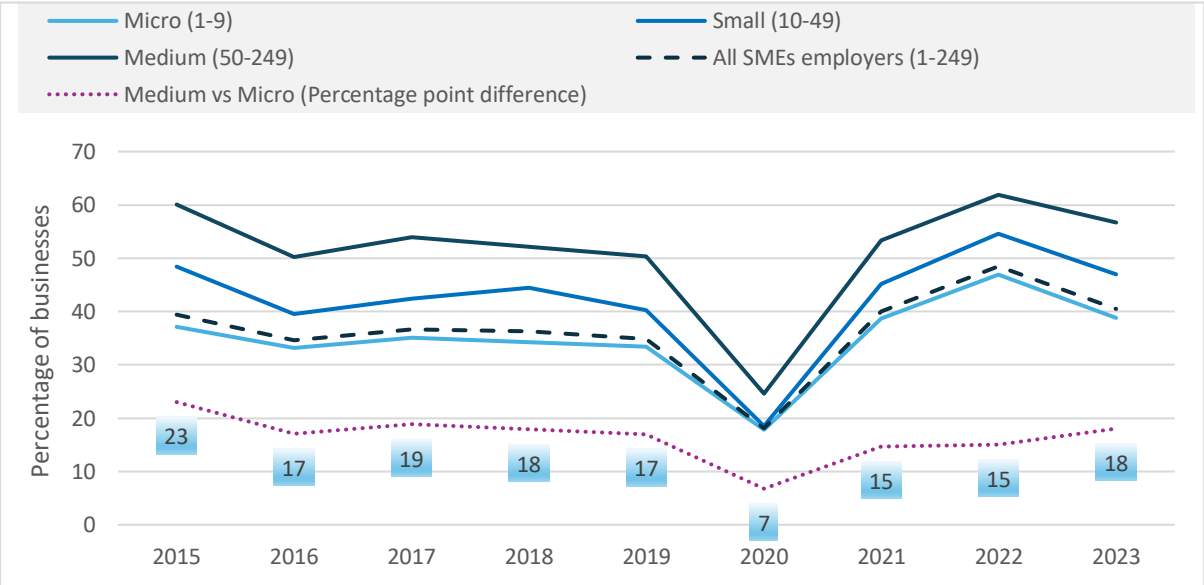
Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

3.2 Turnover growth

SMEs' sales growth fluctuated from 2015 to 2023, with a sharp dip in 2020 followed by a recovery, then a decline in 2023 (Figure 24). That year, 39% of micro-businesses reported sales growth, an 8 percentage point (pp) decrease from 2022 and lower than the rates for small (47%) and medium-sized businesses (57%) in 2023. The gap between micro and medium-sized firms remained considerable, ranging from 7 to 23 percentage points.

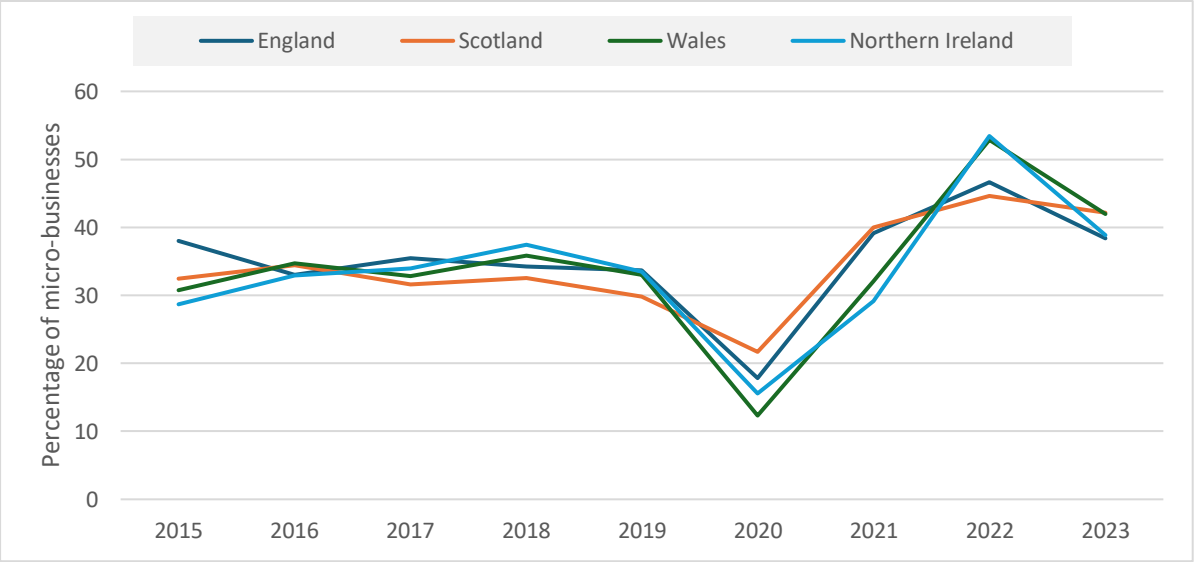
Regional variation among micro-businesses was minimal. All regions experienced a general decline from 2015 to 2020, followed by a strong rebound in 2021–2022, and a subsequent drop in 2023 to levels just above those observed from 2015 to 2019 (Figure 25).

Figure 24: Percentage of SMEs experiencing sales growth, by size (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

Figure 25: Percentage of micro-businesses that experienced sales growth, by nation (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

3.3 Summary

While regional differences in the growth rates of micro-businesses (both in turnover and employment) are minor, micro-businesses have fallen behind larger firms in their growth over the past decade. Why is this? Are specific types of micro-businesses particularly lagging in growth, or is this growth shortfall connected to any of the specific business characteristics mentioned earlier? Future research could explore the distribution of growth among micro-businesses in more detail and aim to identify the factors and drivers behind this growth.

Other studies of the business population have emphasised the rarity of growth in employment and productivity (turnover per employee)[6]. How does the notion of 'productivity heroes' manifest among micro-businesses?

[6] See https://www.slideshare.net/slideshow/productivity-heroes-moving-on-from-the-vital-6/272244079#12.

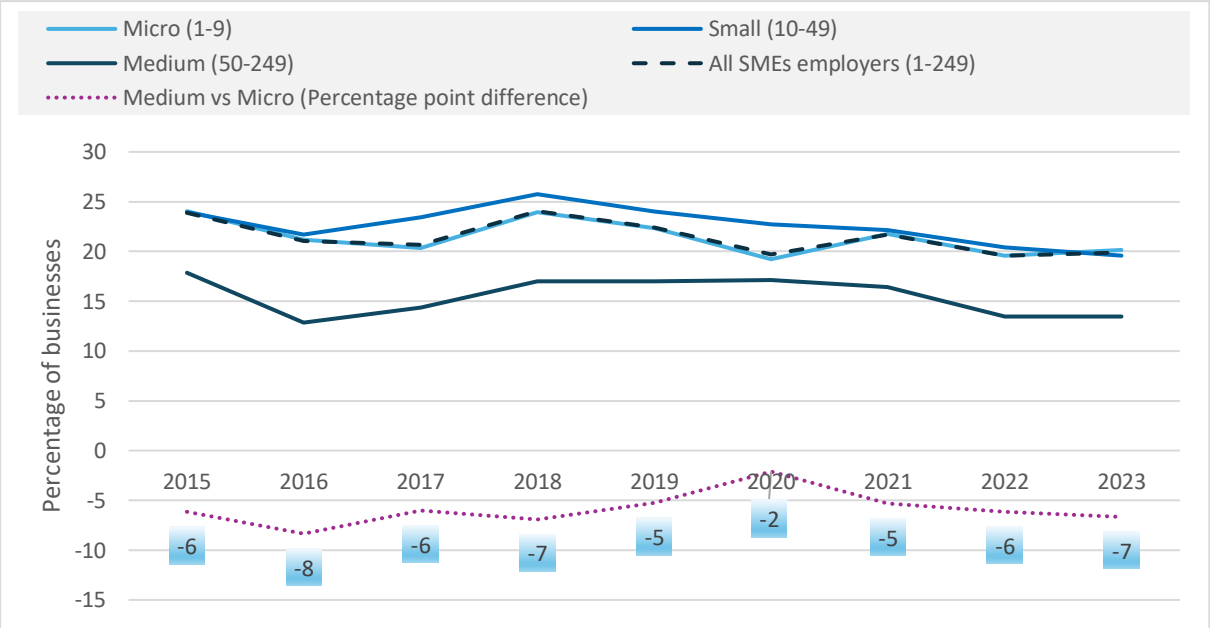
SECTION 4: WOMEN-LED AND ETHNIC-MINORITY LED BUSINESS REPRESENTATION

4.1 Women-led firms

The proportion of SMEs with at least 50% women in their leadership teams declined modestly from 24% in 2015 to 20% in 2023 (Figure 26). After reaching a peak of 24% in 2018, the decline was gradual, indicating a slight but steady decrease in female representation in management. Micro-businesses reflected this trend, with 20% reporting majority female management in 2023—7 percentage points (pp) higher than medium-sized firms (13%). This gap has remained relatively stable over time, showing consistently higher female representation in the leadership of smaller SMEs.

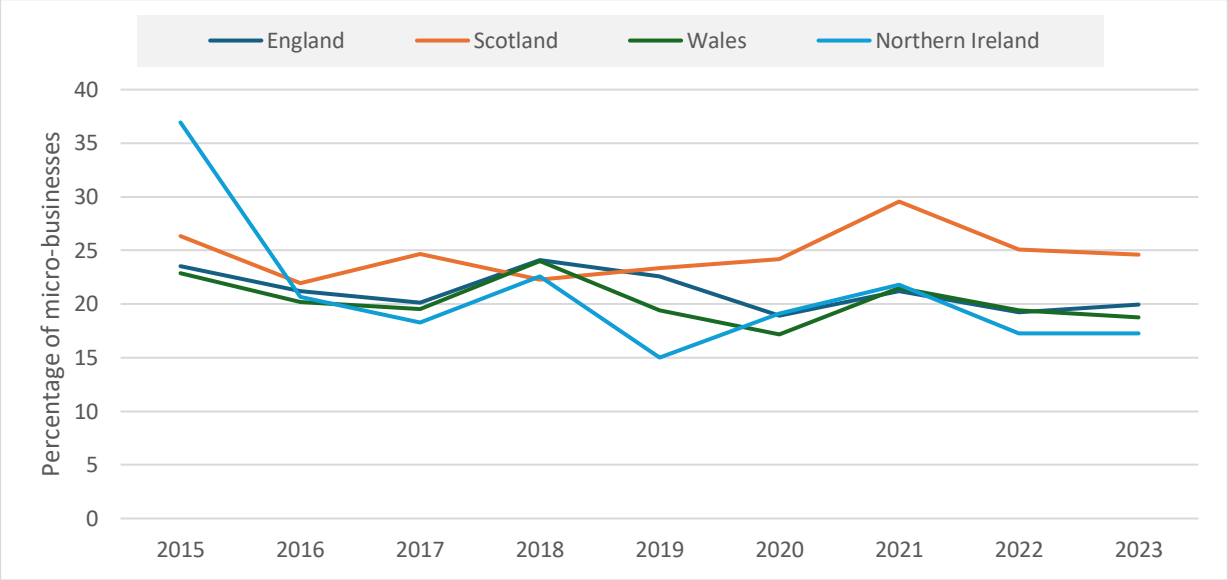
Regionally, Scottish SMEs reported the highest female representation in 2023 (25%), followed by England (20%), Wales (19%), and Northern Ireland (17%) (Figure 27).

Figure 26: Percentage of SMEs with 50% or more women-led, by size (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

Figure 27: Percentage of micro-businesses with 50% or more women-led, by nation (2015 to 2023)

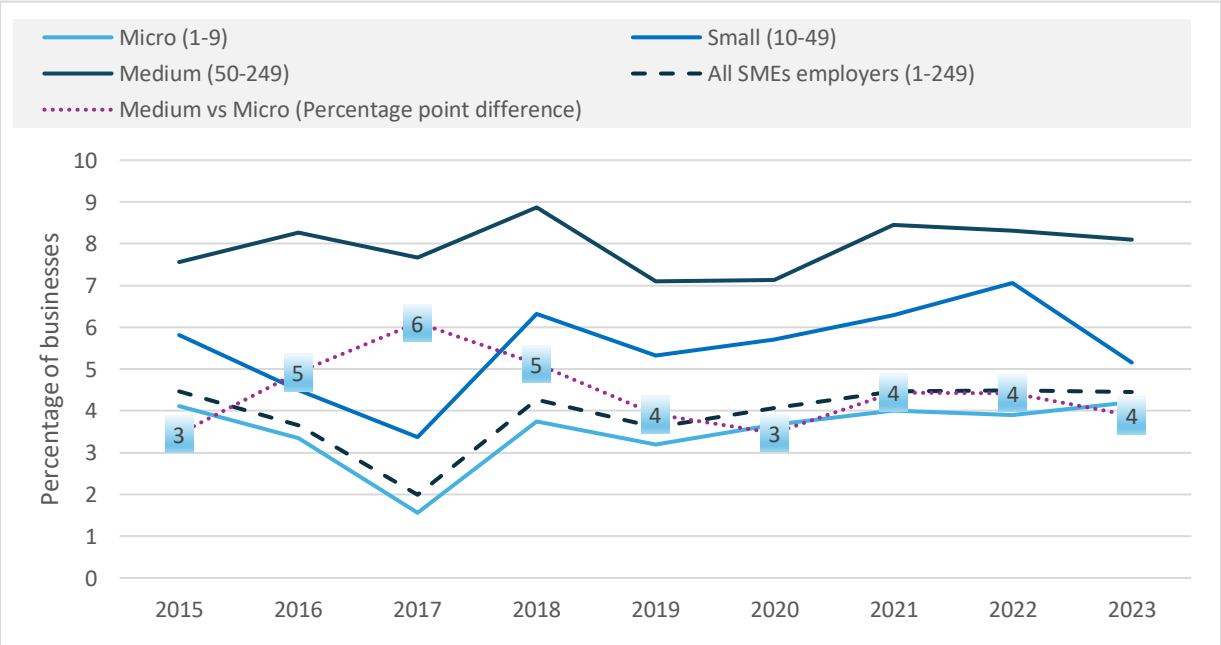


Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

4.2 Minority Ethnic Group-led businesses

The share of SMEs with Minority Ethnic Group (MEG) management averaged around 4% between 2015 and 2023 (Figure 28). Micro-businesses mirrored this rate, while medium-sized firms consistently reported 4 percentage points (pp) higher. This gap has remained steady throughout the period, highlighting persistently lower MEG representation in smaller firms.

Figure 28: Percentage of SMEs with ethnic minority-led leadership, (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023

4.3 Summary

The proportion of micro-businesses with at least 50% women in their leadership teams was 20% in 2023—7 percentage points (pp) higher than medium-sized firms (13%). This gap has remained relatively stable over time, showing consistently higher female representation in the leadership of smaller SMEs. The share of SMEs with Minority Ethnic Group (MEG) management averaged around 4% between 2015 and 2023 highlighting persistently lower MEG representation in smaller firms.

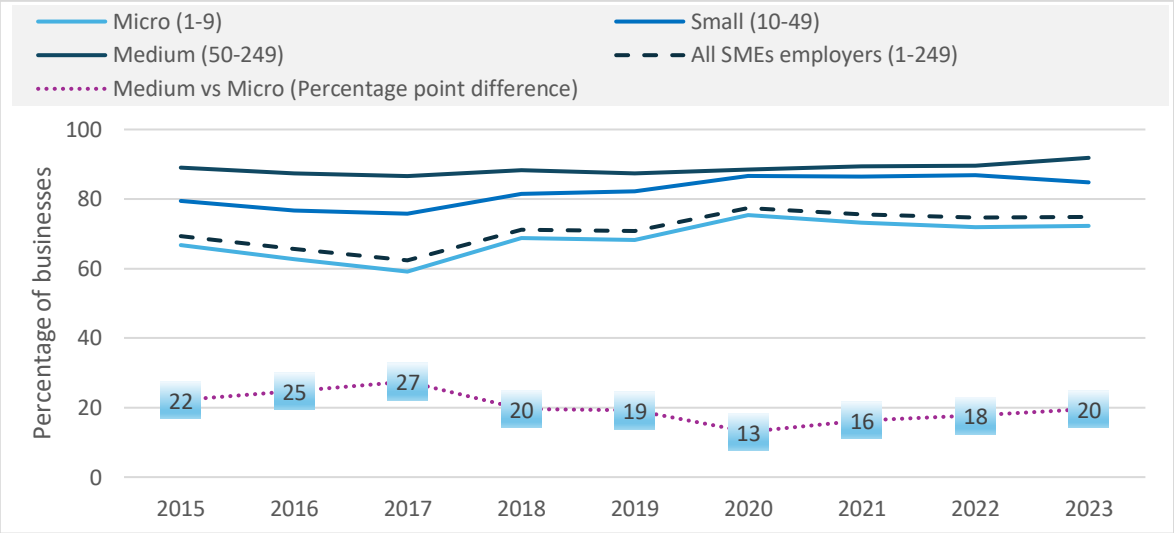
SECTION 5: FUTURE PLANS

5.1 Growth Ambition

Growth ambition among micro-businesses has stayed lower than that of other SMEs (Figure 29). In 2020, growth ambition among micro-businesses increased by 8 percentage points (pp) compared to 2015, but it fell by 3pp by 2023, reflecting the overall SME trend (Figure 29). The highest point was in 2020, with 75% of micro and 88% of medium-sized businesses expressing growth ambition—probably driven by optimism before the UK's COVID-19 lockdown.

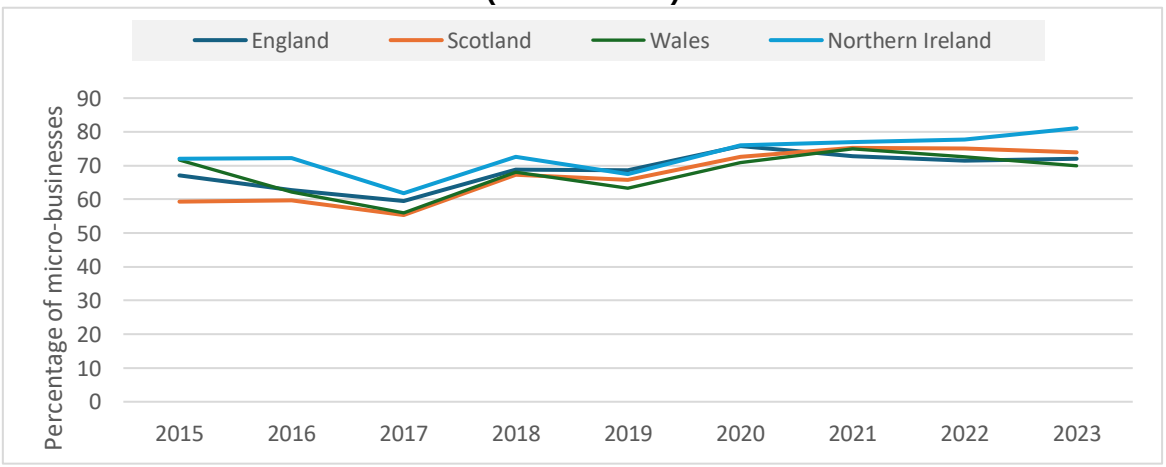
The gap between micro and medium firms, which ranged from 19 to 27 percentage points between 2015 and 2019, narrowed to 13 percentage points in 2020 but widened again to 20 percentage points by 2023. Regionally, differences were minimal, although Northern Ireland led in 2023 with 81% of micro-businesses reporting growth ambition, followed by Scotland (74%), England (72%), and Wales (70%) (Figure 30).

Figure 29: Percentage of SMEs with growth ambition, by size (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023.

Figure 30: Percentage of micro-businesses with growth ambition, by nation (2015 to 2023)



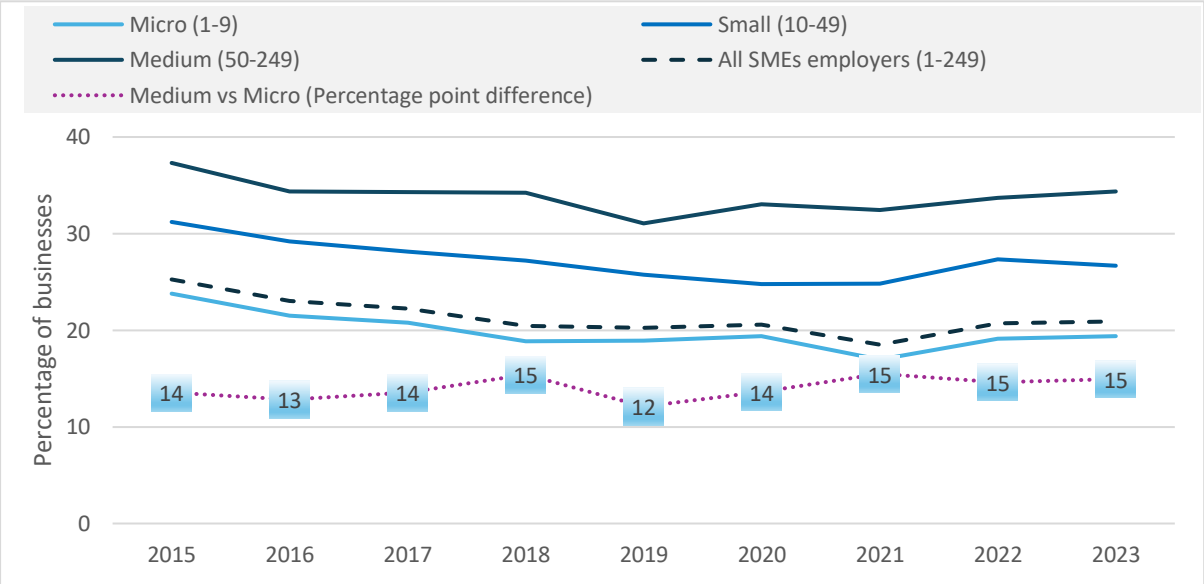
Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023.

5.2 External finance

The proportion of SMEs planning to seek external finance within the next three years decreased from 25% in 2015 to 21% in 2023 (Figure 31). Among micro-businesses, only 19% indicated this intention in 2023, a 2 percentage point (pp) increase from 2021 but still 5pp below 2015. Medium-sized firms consistently demonstrated a higher intent compared to micro-businesses, maintaining a persistent gap of 12–15pp throughout the period.

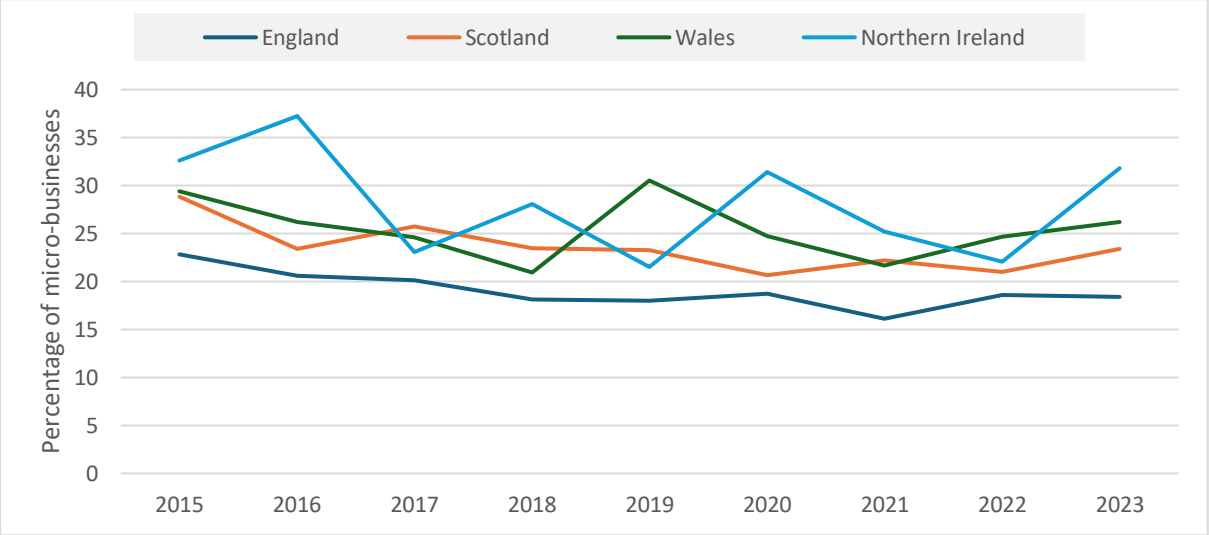
Regionally, micro-businesses in England recorded the lowest intention rates from 2015 to 2023. In 2023, Northern Ireland led with 32%, followed by Wales (26%), Scotland (23%), and England (18%) (Figure 32).

Figure 31: Percentage of SMEs planning to use external finance, by size (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023.

Figure 32: Percentage of micro-businesses planning to use external finance, by nation (2015 to 2023)



Note: Produced with weighted sample. **Source:** LSBS survey, 2015 to 2023.

5.3 Summary

Growth ambition among micro-businesses has stayed lower than that of other SMEs. In 2020, growth ambition among micro-businesses increased by 8 percentage points (pp) compared to 2015, but it fell by 3pp by 2023, reflecting the overall SME trend. The highest point was in 2020, with 75% of micro and 88% of medium-sized businesses expressing growth ambition—probably driven by optimism before the UK's COVID-19 lockdown.

Among micro-businesses, only 19% were planning to seek external finance within the next three years in 2023, a 2 percentage point (pp) increase from 2021 but still 5pp below 2015. Medium-sized firms are more likely to seek external finance.

SECTION 6: TOWARDS A FUTURE MICRO-BUSINESS RESEARCH AGENDA

Evidence from the LSBS indicates that micro-businesses consistently differ from their larger SME counterparts across nearly all key metrics—often in predictable ways. They report lower levels of R&D investment, innovation, exporting, training, technology use, and external finance engagement. However, they also demonstrate resilience and distinct patterns, such as higher growth ambitions in certain regions and a stronger presence of female ownership compared to medium-sized firms. These differences highlight the importance of recognising micro-businesses not merely as scaled-down versions of larger SMEs, but as a separate segment of the business population with unique characteristics and challenges.

While the Longitudinal Small Business Survey (LSBS) effectively captures performance and strategic indicators, it falls short in reflecting what truly defines micro-businesses. Critical dimensions such as the role of the business owner(s), family involvement, non-growth ambitions, home-based or gig-economy models, and ties to local communities are largely absent. To fully understand and support the micro-business sector, and unlock its growth potential, future research and policy must go beyond traditional metrics and capture the lived realities and diverse motivations of micro-business leaders.

Other significant knowledge gaps are also suggested by our analysis, knowledge gaps which could form the basis for a future micro-business research agenda. These include:

(1) We know relatively little about the process of innovation in micro-businesses. The LSBS provides some suggestion that innovation in micro-businesses differs in nature from that in larger firms – much more dependent on bought-in technologies.
(2) LSBS suggests that around a fifth of micro-businesses are engaged in international markets, either exporting, importing, or both. As engagement with international markets has been strongly linked to productivity gains, a better understanding of how and why micro-businesses engage internationally would be valuable.
(3) LSBS data suggests that levels of external finance use by micro-businesses in Scotland and Wales has been notably higher over the last five years than that in other parts of the UK. It is not clear why this divergence has occurred or what implications it may have for future micro-business growth.
(4) There is little recent evidence on the impact of external support on UK micro-businesses and in particular on the contrasting benefits of digital and face-to-face advice.
(5) LSBS data suggests that micro-businesses are less likely to provide training than larger SMEs and issues have been raised about the accessibility of the apprenticeship system to smaller firms. No specific data is published on micro-businesses' engagement with the apprenticeship system. Instead, figures for 'small businesses' with 0-49 employees are published. It would be useful to break down these figures in more detail.
(6) Recent studies have focused on the enabling role of digital technologies in supporting the green transition and enabling effective data-based strategy development. This highlights the barriers to effective digital technology use in micro-businesses.

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