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Longitudinal Exploration of the Role of External Finance in Helping SMEs Achieve Growth, Higher Productivity and Potential in Relation to their Transition to Net Zero

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ABSTRACT

This report investigates the determinants of SME growth and productivity in the UK, drawing on data from the Longitudinal Small Business Survey (LSBS) from 2020 to 2023. The analysis identifies three interrelated domains that significantly influence SME performance: business capacity and strategic orientation, innovation access to external finance, and environmental engagement.

Firm size, age, sector, and planning practices are strongly associated with growth ambition and productivity. Firms with employees, formal business plans, and separate premises are more likely to pursue expansion and achieve higher output per employee. Sectoral differences are also evident, with production and construction firms outperforming service-oriented businesses.

Access to external finance plays a stabilising role in SME performance. Firms that secured finance were more resilient during economic downturns and more likely to maintain employment and turnover levels. However, finance was more often used to sustain operations than to drive growth, suggesting that financial support mechanisms must be better aligned with expansion objectives.

Environmental engagement is positively correlated with both growth ambition and productivity. Firms offering solutions to environmental challenges and prioritising sustainability goals tend to perform better. Nonetheless, the adoption of energy efficiency measures remains limited, and motivations are primarily economic rather than environmental. Awareness of energy-saving schemes is uneven, particularly among lower-productivity firms.

These findings underscore the need for integrated policy approaches that support SME growth, improve access to finance, and promote sustainability. Tailored interventions should address structural barriers, enhance strategic planning, and ensure that financial and environmental support mechanisms are accessible and impactful across the SME landscape.