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SUMMARY

By international standards, the UK's post-recession productivity performance has been poor. This 'productivity problem' is particularly acute in the north of England, and for the smaller businesses that make up over 99 per cent of the northern business population. Boosting the productivity of small businesses in the Northern Powerhouse could add as much as £23 billion per annum to the economy.

Policy for productivity must target advanced industries and high-tech sectors, and also the 'everyday economy' in which many small and medium-sized enterprises (SMEs) provide employment and support communities and places. This is important if productivity gains are to translate into higher wages and better living standards.

Northern SMEs are not a homogeneous group. They need support that is tailored to their local contexts and individual needs. This means strategically coordinated opportunities that are rigorously assessed for efficiency, relevance and effectiveness, delivered by experts and well-resourced. Signposting services are also essential to allow busy SME leaders to navigate what is inevitably a complex landscape.

SMEs need support to help them respond to wider challenges and opportunities in the UK economy. These include:

- skills shortages and models for skills provision
- connectivity: physical and digital
- the cost of running a business
- Brexit.

Business support should also make sure that SME leaders can apply well-evidenced productivity-boosting measures to their specific contexts and needs, such as:

- high-quality management and leadership skills
- digital and technological development, supported by appropriate employee skills
- innovation, both sector-specific and generic; this is relevant both to high-tech and advanced businesses and right across the 'everyday economy'
- opportunities for exporting and internationalisation
- employee health and wellbeing.

Funding for business support in recent years has been very modest, and may be further reduced as the UK loses access to key EU sources. In addition, the business support landscape is highly complex, and businesses' trust in the quality and relevance of some provision is cautious. Much support, including access to finance, is targeted at a small subset of 'high growth' businesses, meaning that SMEs which add different kinds of value can miss out on opportunities to grow and to work productively.

We recommend the following measures to boost northern SME productivity.

1. Funding should be increased for the British Business Bank and the Northern Powerhouse Investment Fund, commensurate with the size of the northern SME population and the potential gains from increased productivity. In the long-term, this should be developed into a full-scale regional investment bank structure.
2. Support for businesses that add value in ways other than 'high growth' should be improved, and small-scale support should be made more accessible.
3. Government should create long-term financial settlements for LEPs to fund growth hubs, increasing funding from £12 million per year to £60 million per year. Growth hubs should take on strategic responsibility for shaping local support landscapes.
4. Support should prioritise areas that are proven to support productivity, including management and leadership training and digital skills development. This should include face-to-face support and mentoring.
5. Northern Local Enterprise Partnerships should consider increasing small business representation in their decision-making.
6. Universities should be funded to develop and extend current good practice in knowledge transfer (to advanced *and* everyday sectors) and skills support, in ways that are relevant to SMEs.
7. Government should commit to a full redesign of business rates, alongside a review of how local government is funded.

The progressive policy think tank

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Institute for Public Policy Research

IPPR North, 20th Floor, City Tower, Piccadilly Plaza, Manchester M1 4BT | www.IPPR.org/north |  @IPPRNorth

