

What Brexit? The SME take from our research

By Dr Jacob Salder, Centre for Enterprise, Innovation and Growth

As we wander – with renewed leadership – ever closer to the cliff edge, desperate to get a peek of just what the descent holds in store, it is worth bearing in mind that the crisis that is (pre)Brexit has to date been more social, political and cultural than economic. Admittedly, the paint is peeling on the façade and the general admission has been that short-term effects of leaving hold little threat to water supply and Mars bars rather than delivering a free trade utopia. Certain macro-level figures, such as employment[\[1\]](#) and FDI[\[2\]](#), the Brexit faithful remind us show there continues to be confidence in the UK.

My personal take on this is general scepticism, a reading of economy as the singularly aggregated phenomenon which alienated so many Brexit voters in the first place. At the same time, my take is largely irrelevant. From my unenviable vantage point in ‘BCU Heights’, I am detached somewhat from the everyday risk-taking and decision making which determines the continued state of the British economy.

It is therefore appropriate that questions on how Brexit might affect business investment, planning, and practice be deferred by we proclaimed experts to businesses themselves. This means not asking self-appointed leaders, be they Wetherspoon’s Tim Martin or Virgin’s Richard Branson, but engaging directly with the business community.

This is an activity we in the Centre for Enterprise, Innovation and Growth have been undertaking since 2018. We wanted to find out how businesses, and SME’s in particular, in the West Midlands were managing their growth and how this was affected by the external climate in Brexit Britain.

A small caveat needs declaration before we discuss our findings. The research we undertook was primarily about business processes and practices. Whilst this incorporated questions on opportunities for and barriers to growth, specific focus on Brexit was here left to the individual firm.

This approach was adopted for two reasons; first to provide us with a broader dataset to explore SME development, but more importantly to allow respondents the freedom to identify their hierarchy of issues rather than steer them toward Brexit.

A cursory analysis of both key opportunities and barriers our sample cited illustrates something of an ambivalence toward our forthcoming departure. In terms of it representing an opportunity, this was only recognised by 2% of the sample of 202 SMEs. Brexit representing a challenge was more accepted by the sample, but this still only accounted for 13% of respondents.

Of course, these responses raise questions about the sample itself and the extent to which Brexit is important given their stage of development and breadth of market. Our respondents were of varying ages, almost evenly divided between those trading for up to 3 years, between 4 and 10 years, and over 10 years.

Similarly, sectoral distribution was wide, with over-representation of those in information/communication and professional/technical trades and under-representation of wholesale and retail, of accommodation and food, and of transportation industries.

Where questions around the perceived relevance of Brexit to this sample can be raised is in terms of the number exporting. In this case the export active were comparably high, representing 25% of the sample against an aggregate figure for SMEs of around 11%. This figure includes 80% who exported to the EU, and also 80% exporting outside the EU.

Overall, this presents an interesting observation. Higher levels of export activity within our sample one would expect to be associated with higher awareness of the issues leaving the EU presents. Yet of those firms actively trading with EU countries, 71% did not identify Brexit as a barrier for future growth. Of those exporting outside the EU, only one respondent saw Brexit as an opportunity.

It is also worth noting the ongoing confusion around what Brexit actually means led to some rather ambiguous and even contradictory statements amongst those citing it an opportunity. These included one firm who simply wanted “successful Brexit negotiations”, the specifics

of which could be anyone's guess. One saw opportunity in "Brexit and trade wars", and another wanted "a good Brexit with no-deal so we have certainty of business conditions"(!).

Amongst the most confusing responses was the firm that saw "exit from the EU" as an opportunity whilst simultaneously stating "possible skills shortages, many of our staff are from the EU"; this same firm also stated the barriers they faced getting into markets outside the EU, as "many of our products are required in 24 hours. This we can meet in Europe but not in the rest of the world".

The real issue here of course is that Brexit isn't really about Brexit. It's about the outcome, leading to a fundamental and unpredictable change in trading and operating conditions which will extend beyond those firms actively exporting into or beyond the EU. The key purported negative impact of the EU – the onerous regulatory frameworks forced on business – was less cited as a barrier for firms than Brexit itself (8% of the sample).

Instead, the principal factors which firms saw as affecting their growth potential were more prosaic; access to finance and investment, availability of skills and skilled employees, continued demand and ongoing consumer confidence.

Each of these are widely recognised in SME research and amongst policy makers as integral to providing the right environment for continued development and growth amongst businesses. Each of these factors are similarly likely to be fundamentally dented as we leave the EU. And each will only be shored up through not the unfettering act of leaving the EU itself, but through the development of effective domestic policy designed to respond to such changing conditions.

[1] ONS: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/july2019>

[2] Trading Economics: <https://tradingeconomics.com/united-kingdom/foreign-direct-investment>