

The Power of Productivity

Measuring, understanding and
improving productivity for SMEs

Foreword

Adrian Sainsbury

Close Brothers Banking Division Managing Director

Nobel Prize winning economist Paul Krugman's declaration that "while productivity isn't everything, in the long run, it is almost everything", will resonate strongly with the economists, politicians and business leaders who are tasked with improving the UK's productivity.

The UK's productivity in the decade since the financial crisis has not been strong. We currently lag 16% behind the other six members of the G7 group of industrial nations. Given the country's immediate future involves leaving the European Union, the productivity gap with our neighbours is being put under increasing scrutiny.

There are many fine business minds turning their attention to this issue, and there are some tangible outcomes starting to come out of initiatives such as the Mayfield review. But the issue won't be solved overnight. A vital component of any solution is the role of UK SMEs. SMEs make up 99.9% of businesses and have a combined turnover of £1.8 trillion. Increasing their productivity could make a huge difference to the total economic output of the UK.

To understand how this can be achieved, it is first important to gauge what productivity measures SMEs have already put in place and how they are tracking output.

As Britain prepares to leave the European Union, there is also good cause to look at our closest G7 neighbours – France and Germany – to see whether there are any learnings we might take from them. Throughout this report we explore some of the reasons why productivity output might differ, by analysing the political, economic and regulatory landscape across the UK, France and Germany as well as examining SMEs' understanding of and attitude towards productivity.

While we share many common traits, we unearth some interesting differences when it comes to measures affecting productivity. Some are based in deep-rooted historical practices. For example labour practices in France or Mittelstand apprenticeships in Germany. Some go beyond these ingrained practices or cultural working variations to reveal attitudinal differences when it comes to investment in measures designed to boost productivity, for example technology and innovation, or upskilling staff.

As we prepare to navigate away from the EU, this report has been designed to add to the conversation, providing insight to better understand the intricacies of SME productivity. We hope that by sharing insight, we can help to unlock SME potential and ensure the nation's smallest businesses not only survive the uncertainty ahead but thrive in post-Brexit Britain.

Methodology

In August 2017, Censuswide surveyed 1,008 financial decision makers in UK SMEs, 204 in French SMEs and 205 in German SMEs, across all sectors. The sample was comprised of 10% micro SMEs (2-10 employees), 30% small (11-50), 30% small medium (51-150) and 30% larger medium (151-250) enterprises

16%

The rate by which the UK lags behind the G7 in productivity.

£1.8 trillion

The combined turnover of the UK's SMEs.

Introduction – The productivity backdrop

The term productivity describes the measurement of how efficient production is, comparing a company or a country's output against its input. It is therefore a vital factor in both companies' performances, and countries' economic growth. The UK continues to lag behind its G7 peers in terms of productivity. When measuring productivity by output per hour (GDP per hour worked), ONS figures show the UK was 15.9% below the average for the rest of the G7 advanced economies in 2015. In fact, the UK has the largest gap with its closest neighbours – France and Germany.

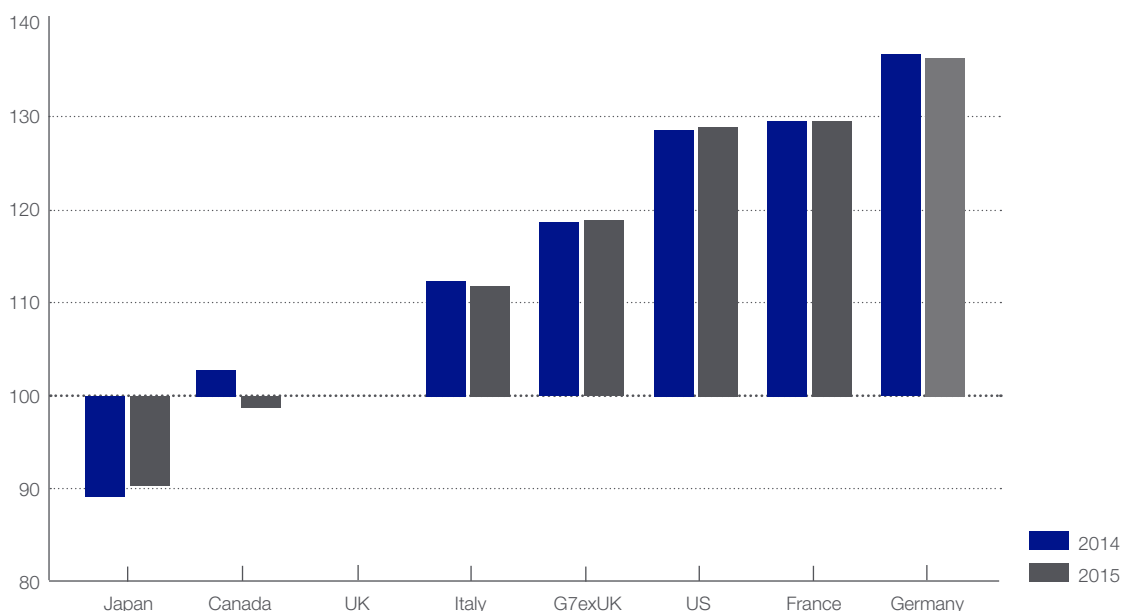
Another way of examining productivity is to look at the difference between post-downturn performance and pre-downturn trend and here the UK has the largest gap across the G7. At 15.2%, it is double the 7.5% group average.

15.2%

The gap in productivity pre and post downturn.

Figure 1¹: Gross domestic product per hour worked, G7 countries, 2014 and 2015

Index UK = 100



SMEs in UK, France and Germany

If we consider the discussion around productivity, there has been comparatively little focus on SMEs, despite them making up 99.9% of UK businesses. Analysing the SME contribution to UK productivity becomes more essential, particularly given the UK's productivity disparity with France and Germany. If SMEs are struggling with their productivity, then given the number of SMEs in each country, it is important to analyse just how big an effect this could be having.

According to the Federation of Small Businesses, there are 5.4 million SMEs in the UK. They make up 60% of all private sector employment and their combined turnover is £1.8 trillion.

Germany has its famed Mittelstand, comprised of 3.6 million SMEs and considered to be the engine room of the economy. With strong growth, the Mittelstand is often hailed as a successful example of SME productivity in action. German industry benefits from vocational education, combining academic studies with training for apprentices and close ties between education and business, while the Mittelstand has its own longstanding funding vehicle, the KfW Development Bank, and is supported by the Fraunhofer-Gesellschaft, a long-established partnership between universities and companies which supports real-world application of research.

¹Source: Organisation for Economic Co-operation and Development, Eurostat and Office for National Statistics calculations

In France, there are 2.5 million SMEs and they account for 99.8% of all French companies. Nicolas Lecaussin, Head of the Institute for Research in Economic and Fiscal Issues, a pro-market think-tank, argues that French SMEs have in the past struggled due to France's centralised economy and civil service links with big firms². However, recent reforms signed into law by President Macron will shake up the labour market in France by handing more power to employers of all sizes. This is a huge step in a country traditionally very protective of worker's rights and the changes have been welcomed by SME representatives such as Alan Griset, Head of the U2P association comprising 2.3 million SMEs. According to Griset, SME employers have been heard on almost all of the points raised which is very satisfying³.

Tackling the problem

There have been calls from parliamentary parties to see a step-change in the productivity debate to include SMEs.

A government-backed review of the UK productivity problem, led by Sir Charlie Mayfield, resulted in the recent creation of an organisation called 'Be the Business', which aims to bring the topic of productivity out of reading rooms and into the boardrooms of small businesses⁴. The objective is to help "by encouraging sharing of best practice within communities of businesses across the UK as a catalyst to enable people to find out what's worked best for others seeking the same improvement"⁵.

A recent report by the University of Gloucestershire looked at how we could use SMEs to improve productivity and found that, overall, there is still a great deal to be done to convince some SMEs of the importance of improving productivity and its potential impact on business growth and profitability⁶.

Another recent report by Goldman Sachs called for greater nurturing of growth ambitions among SMEs, increased education to help build an entrepreneurial ecosystem for SMEs, and better access to capital so that SMEs could internationalise and innovate.

Over the next few chapters we seek to outline some of the productivity challenges for SMEs relating to government, regulation, access to finance and the economic landscape. We will also share learnings from the UK, France and Germany on how SMEs are tackling productivity through technology and innovation, upskilling staff, and changes to workforce practices.



An engineer of The Morgan Motor Company

²<https://www.ft.com/content/c248a776-eb63-11e5-bb79-2303682345c8>

³<http://www.lefigaro.fr/flash-eco/2017/08/31/97002-20170831FILWWW00177-ordonnances-travail-l-u2p-artisans-pleinement-satisfaite.php>

⁴<https://www.bethebusiness.com/news/top-business-leaders-call-on-the-uk-to-tackle-productivity-gap-at-the-launch-of-be-the-business/>

⁵<http://www.channel4.com/info/press/news/business-leaders-tackle-productivity-gap-at-launch-of-be-the-business>

⁶<http://www.glos.ac.uk/news/PublishingImages/201703/Improving%20Productivity%20in%20UK%20SME%20Mar%202017.pdf>

Chapter

1

Measuring Productivity

There is no index which tracks SME productivity in the UK or across G7 countries. A recent study from the University of Gloucestershire found that many UK SMEs are unsure whether their productivity has increased or decreased in recent years “for the simple reason that they don’t always have the mechanisms and the information needed to measure their productivity⁷”.

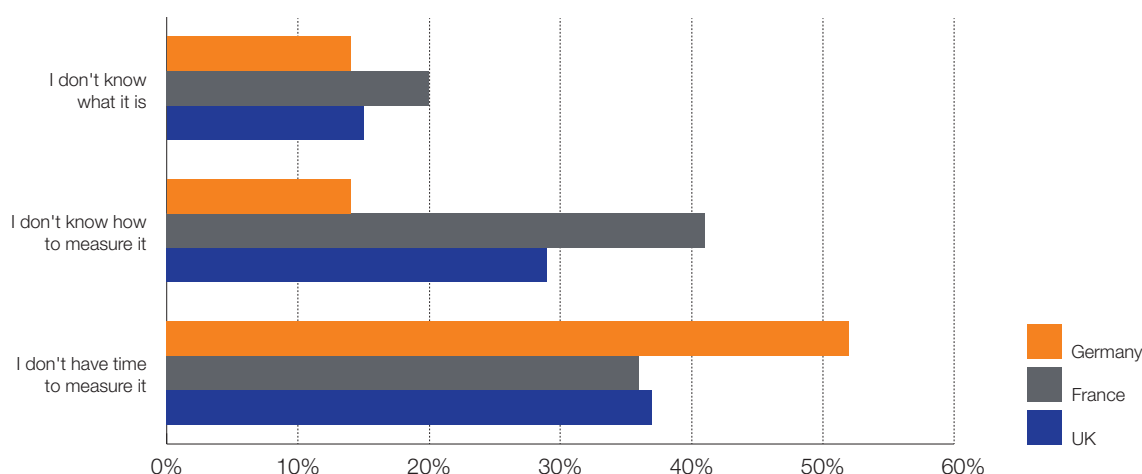
Our survey of over 1,400 SMEs across the UK, France and Germany, suggests there is a productivity measurement gap across all countries. Nearly three in ten are not measuring it all, while one in twenty SMEs don’t even know what productivity is. France fares slightly better with just a fifth of SMEs not measuring productivity.

When it comes to the reasons why, 28% of SMEs that do not measure productivity say they don’t know how to. German SMEs have a better understanding, with just 14% of them not understanding how to measure productivity but, conversely, Germans claim to have least time to measure productivity. 52% of German SMEs that don’t measure productivity cite this as a reason compared to just 37% of UK SMEs and 36% of French SMEs.

28%

of SMEs who don’t measure productivity say they don’t know how to measure it.

Figure 1: Reasons why SMEs are not measuring productivity



⁷<http://www.glos.ac.uk/news/PublishingImages/201703/Improving%20Productivity%20in%20UK%20SME%20Mar%202017.pdf>

Overall, German SMEs seem least concerned about productivity. They measure it least, despite a higher percentage knowing how to – and they are most likely to cite lack of time as an excuse. Surprising perhaps, given the Mittelstand's reputation for productivity. Earlier this year, in a display of their quest for greater productivity, Mittelstand companies gathered at the annual Hanover Fair in Germany – the world's largest industry fair – to try and get involved in using big data and the Internet of Things to boost productivity⁸. It seems from our recent findings that there are still companies that need be brought along on this journey.

In the UK, 95% of SMEs think it's important to improve productivity, yet three in ten are not measuring it currently. Of those who don't measure productivity, a third say they wouldn't consider doing so in future. This equates to nearly one in ten UK SMEs not interested in measuring productivity, which is concerning as without measuring productivity it is difficult to know what is working and which levers to pull to increase output. As the adage says, 'If you can't measure it, you can't manage it'.

These stats might seem to paint a slightly bleak picture. But, as we will examine later in the report, these figures don't give us the full story.



A welder at Piling Equipment Limited

⁸<https://www.ft.com/content/eef01b16-2b21-11e7-9ec8-168383da43b7>

Chapter

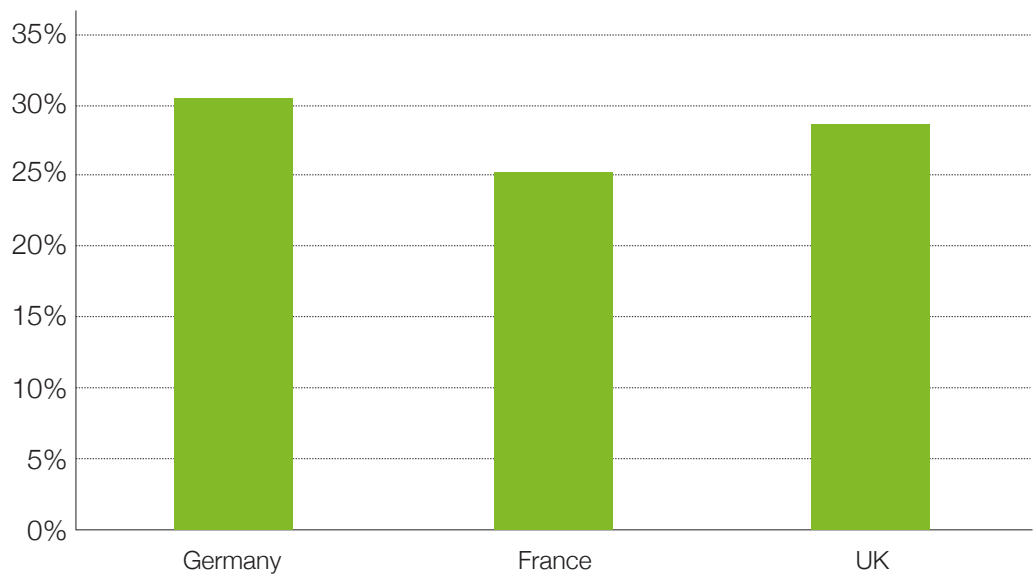
2 Government Support

Government support for SMEs is a topic of much debate. Of all the SMEs we surveyed across the UK, France and Germany, three in ten said their government does not support them while just 4% did not express an interest in having more governmental help.

However, the results varied by country and 31% of German SMEs said their government did not support them, compared to 29% of UK SMEs and 26% of French SMEs. These results are interesting given the assumption that a supportive government is a pre-requisite for SME productivity, something Germany is famed for.

29%
of SMEs feel their
government does
not support them.

Figure 2: SMEs that think their government does not support them

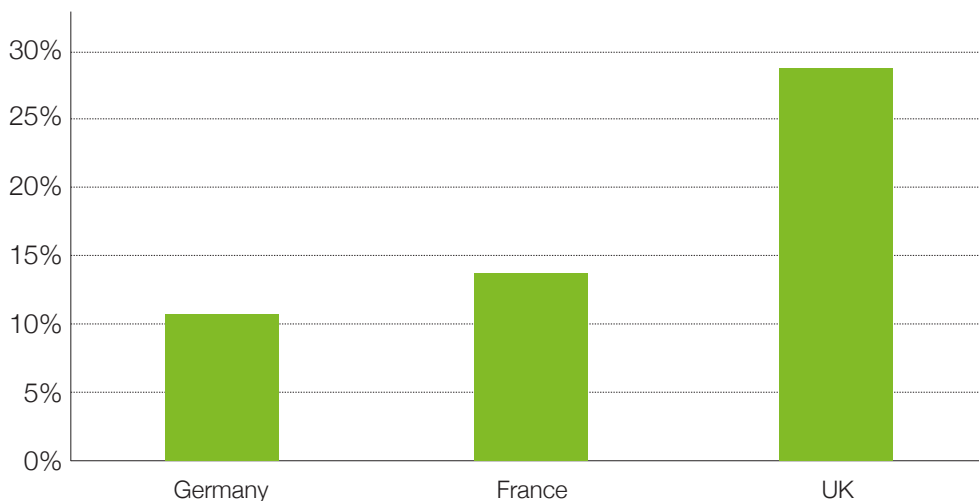


Across the three countries, financial incentives proved the most popular action SMEs would like to see from their government. French SMEs display the strongest desire for this, with 60% saying they'd like to see the government introduce tax breaks and business rate relief. This compares to 55% of UK and 53% of German SMEs.

The French government's involvement in the labour market is a topic that is never far from the news agenda. Traditionally very supportive of workers' rights, the new reforms President Macron has signed into law will hand more power to employers to hire and fire workers and negotiate flexibility on working hours in some cases. Given that French SMEs already think their government is most supportive of them, it will be interesting to see whether this employer sentiment only increases in the wake of the reforms which hand them more power.

UK SMEs, for their part, are more concerned with apprenticeships than their European counterparts. One in five UK SMEs said they would like government help in this area, compared to just one in ten German SMEs.

Figure 3: SMEs that would like to see their government help more with apprenticeships



It is possible that this is down to the fact we have seen so much political and media noise in the UK on apprenticeships in recent years, or indeed that apprenticeships are so deep rooted in Mittelstand history that government support is not required. Vocational education in Germany is a dual system which combines academic studies with on-the-job training and has resulted in very successful apprenticeship results for Mittelstand companies.

In fact, a professor of management at the University of Mannheim, credits the Mittelstand's strong apprenticeship system with Germany only having 7.8% unemployment for 25 year olds or under⁹. This compares to a recent UK drop in youth unemployment to 11.9%, after years spent struggling with youth unemployment¹⁰. Manufacturing SMEs in the UK are most keen to see government help for apprenticeships. If Germany is anything to go by, this may help reduce youth unemployment overall, given that youth employment saw its biggest fall – 28% – in the manufacturing sector from 2004-2015¹¹.

With research from the CEBR suggesting that a typical apprentice can deliver productivity gains of over £10,000 per annum¹², improving the UK's apprenticeship system is an important step in closing the productivity gap.

⁹<https://www.economist.com/news/business/21606834-many-countries-want-mittelstand-germanys-it-not-so-easy-copy-german-lessons>

¹⁰<http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05871>

¹¹<http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/youth-unemployment-in-the-uk>

¹²<https://cebr.com/reports/uk-to-gain-18bn-from-apprenticeships/>

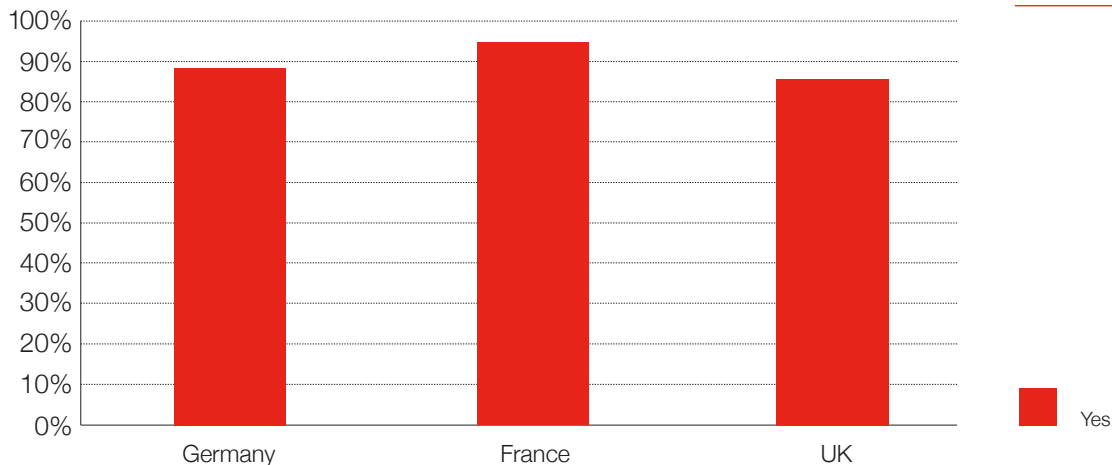
Chapter

3

Regulatory Environment

Across the UK, France and Germany, the bigger the SME, the more likely they are to have had issues with red tape. This is a real issue for productivity – the resource required to navigate these issues could be better deployed elsewhere. The scale of the problem is surprising. 87% of SMEs say red tape has been a problem for them when growing their business. The French in particular find red tape to be a hindrance. A third (33%) persistently suffer from red tape issues compared to just a fifth of German (22%) and UK (21%) SMEs.

Figure 4: SMEs that have experienced problems with red tape while growing



Manufacturing (8%) and engineering (6%) SMEs in all three countries are among the least likely to have had no issues with red tape, possibly due to the fact they are more likely to import and export materials and goods and face bureaucratic delays or trade tariffs.

Recent research in the UK which looked at the challenges of setting up a business found that more than a third (37%) of SME owners had experienced concerns over understanding all of the legislation around how to set up a business¹³. The same research conducted the previous year found that 16% of SMEs specifically cited red tape as a barrier to future growth¹⁴.

1/3

of SME owners had concerns about understanding regulations around setting up a business.

¹³<http://smallbusiness.co.uk/cost-red-tape-biggest-struggles-2540883/>

¹⁴<http://smallbusiness.co.uk/small-companies-strong-income-growth-2534823/>

A study of UK SMEs found that they were losing an average of ten hours a week dealing with HR compliance forms, pension paperwork and health and safety regulations and some of the SMEs interviewed believed EU restrictions impacted them in the UK more than anywhere else¹⁵.

The demands of red tape have been associated with productivity loss for some time. A CIPD study in 2002 found that in the case of HR professionals, complex legislation hindered productivity, as managers were preoccupied with navigating red tape at the expense of concentrating on competitiveness and productivity through better development and management of people¹⁶.

There have been many arguments made about how red tape might change for UK SMEs after Brexit. Much of the speculation on whether red tape will be reduced centres on whether the UK remains in the single market and customs union. Beyond that, there is some debate around how effective the UK government has been in its attempts to reduce red tape for businesses and whether in fact the problem is the UK or the EU.

According to Ian Cass, Managing Director of Forum of Private Business, a business support group, despite successive governments promising to deregulate, his members are still spending the maximum amount of time and resources they can afford on red tape and regulation¹⁷. While employers dedicate time to navigating legislation and red tape, they are losing time which could be spent improving business output.



Precision engineering tools of Matsuura

¹⁵<https://www.instantprint.co.uk/printspiration/be-inspired/small-business-census-2017>

¹⁶<http://www.personneltoday.com/hr/hr-claims-excessive-red-tape-slows-uk-productivity/>

¹⁷<https://www.theguardian.com/small-business-network/2016/apr/12/would-vote-brexit-help-reduce-red-tape-vat-moss-smes>

Chapter

4

Technology
& Innovation

Having analysed government support and the regulatory environment, we now want to look at the measures SMEs are taking themselves which impact their productivity. We will look at the effects, both positive and negative, and assess what the measures translate to when it comes to output and productivity expectations.

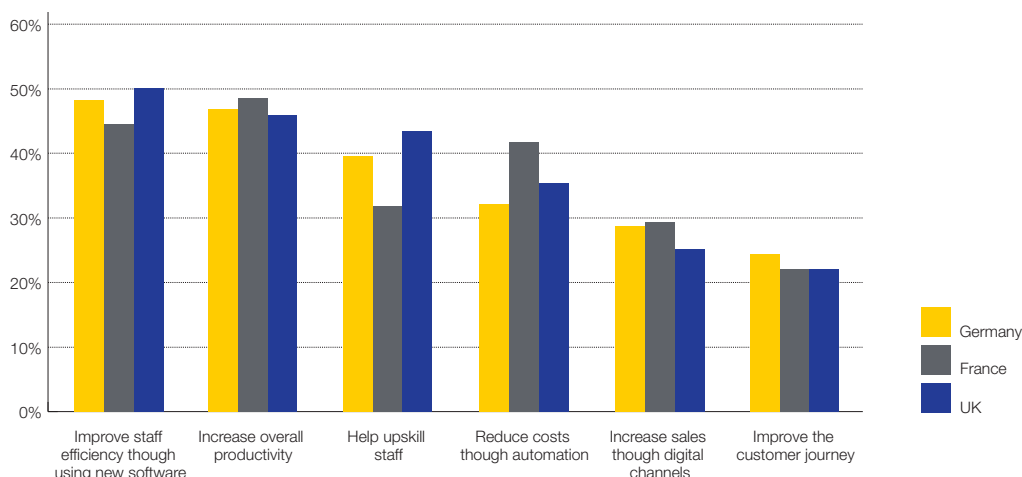
Technology and innovation are important measures for improving SME productivity, creating opportunities for growth – and crucially – more efficiency in businesses. The SMEs we surveyed across the UK, France and Germany were all positive about technology, with half of SMEs saying new technology would improve staff efficiency (49%) and increase overall productivity (46%). This aligns with the number of SMEs saying they would use technology in future as a specific measure to improve productivity.

Over half of all UK SMEs (55%) have invested in new technology and software and one in four plan to invest in the future in this area. It is UK SMEs who are most positive about technology's ability to improve staff efficiency (50%) and help upskill staff (43%).

French SMEs meanwhile are most likely to link improved technology with the ability to reduce costs through automation. 42% see this as a benefit compared to 32% of German SMEs and 35% of UK SMEs. When we consider France's historical protection of workers' rights, the high social security employer tax rates¹⁸ and the frequency of strikes, the response suggests that French SME employers may be looking to automation and technology to resolve some of the issues they face with the labour market. Such an adoption may also improve efficiency, boosting productivity.

49%
of SMEs say
new technology
will improve staff
efficiency.

Figure 5: What benefits do you think new technology could bring your company



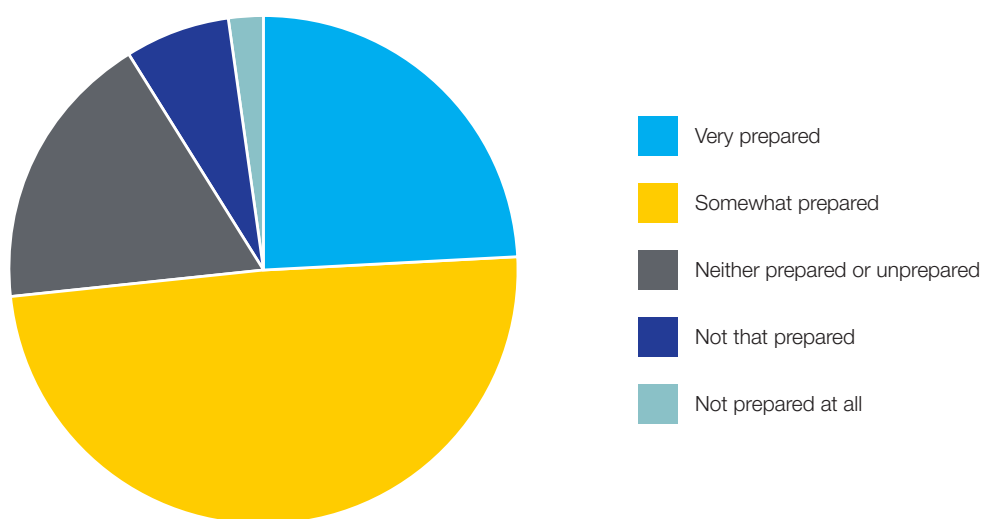
¹⁸<https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/social-security-employer-tax-rates-table.html>

Cyber security

Poor cyber security can inhibit a business' productivity, resulting in data loss, fraud and IT systems to fail. So when it comes to technology planning and investment, cyber security is increasingly on the agenda for all businesses. The European Commission is currently reviewing the EU Cybersecurity Strategy to align it to the new EU-wide framework on cybersecurity¹⁹.

Three quarters of SMEs we surveyed said they were very or somewhat prepared for a cyberattack and just 9% of SMEs admitted they were unprepared. Even 61% of micro SMEs – with under ten employees – across the UK, France and Germany said they were prepared in some way.

Figure 6: How prepared is your company to defend against a potential cyber-attack in future? (UK, French and German SMEs)



However, evidence suggests there might be a perception gap in terms of preparedness. A recent study found that 68% of SMEs believed they were well equipped to deal with a security crisis but their planning and insurance protection levels showed otherwise²⁰.

There is, however, a willingness to invest in cyber security and preparedness, with the average UK SME planning to spend between £5,000 and £10,000 on this in the next year and the average French and German SME €5,000 – €10,000. Whether this will be sufficient to fully protect against cyber crime is for debate, but investment in this area will help protect against issues like data loss or systems failure that can drag on productivity.

¹⁹<https://ec.europa.eu/digital-single-market/en/cyber-security>

²⁰<http://www.ajginternational.com/news-insights/articles/news/2017/survey-reveals-uk-smes-under-prepared-to-respond-to-rising-security-threats/>

Chapter

5

People
& skills

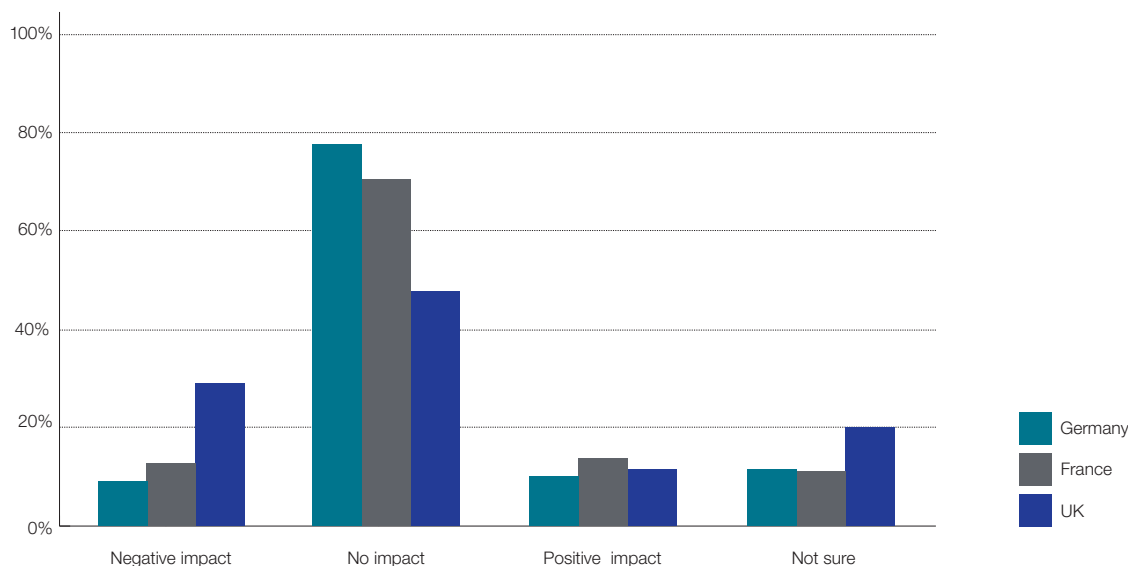
Productivity hinges on a company's ability to retain the right staff. Recruitment is therefore paramount and there is much speculation around how Brexit might affect this. Our research showed SMEs believe Brexit will hit UK recruitment hardest. 27% of UK SMEs say Brexit will have a negative impact on their ability to hire the right skilled staff, compared to just 8% of German and 12% of French SMEs. In fact, over two thirds of French and German SMEs say Brexit will have no impact on recruitment, compared to under half of UK SMEs (44%).

Within the UK, it is businesses within professional services, and those in sales, media and marketing that are among the most pessimistic about the impact of Brexit on their ability to hire skilled staff. However, it is not just the potential shortage of skilled workers that may impact businesses' performance and productivity, but unskilled or low-skilled workers too, depending on the future trading relationship with the EU. This will likely impact some sectors more severely than others, including food production, retail catering and leisure, and building.

27%

of UK SMEs believe Brexit will negatively impact recruitment.

Figure 7: What impact will Brexit have on your ability to hire the right skilled staff?



Given that two thirds (64%) of UK SMEs think they already have a skills shortage and over a quarter (26%) say they are very concerned by this shortage, the negative impact they perceive Brexit will have on their ability to hire is far from negligible. We may see greater automation in some sectors to compensate for a changed labour market, or indeed, upwards pressure on wages as companies compete more intensely for particular skilled roles. However, for many companies, an ongoing skills shortage may simply result in reduced output from the business.

However, it is not all gloomy predictions from UK SMEs when it comes to staff: nearly half (44%) of UK SMEs are upskilling employees through training, education and workshops, a move that can boost employees' productivity. Half of all UK SMEs state that they plan to invest in training, compared to just a third of French SMEs. Interestingly, upskilling staff takes priority over investing in new technology which allows for more automation (29%) or buying new machinery which is more automated (22%).

“The labour market is already changing, and will almost certainly change further after Brexit. A reduced supply of labour is likely to support demand for automation and investment in technology, as companies seek to compensate. However, automation is not the only solution. Many business, especially in the service sector, need to retain the human touch, and upskilling current workers will become even more prominent in business planning, a move which will boost productivity.”

Adrian Sainsbury, Close Brothers Banking Division Managing Director

When it comes to working practices linked to productivity, presenteeism – employees who are at work but not engaged in productive work – is a well-known cause of productivity loss.

A report last year found that presenteeism and absenteeism – with the former far more of an issue than the latter – meant British employers were losing on average 27.5 days of productive time per employee each year. Translated into monetary terms this costs the UK economy £73 billion a year in lost productivity²¹.

Despite its high cost to the economy, British SMEs are least likely to have taken measures to improve presenteeism. Just 19% of UK SMEs have taken steps to lower presenteeism compared to 26% of German SMEs and 29% of French SMEs. They are also least likely to have implemented shorter working hours for staff as a means to improve productivity per employee, with 14% citing this compared to 19% of German and 20% of French SMEs.



A Priestly distribution warehouse

²¹<https://www.vitality.co.uk/media/britains-healthiest-workplace-unhealthy-employees-cost-economy-73-billion/>

Chapter

6

Accessing Finance

Access to capital, growth and productivity are intrinsically linked. The IMF has estimated that a lack of funding could be responsible for as much as a 0.4 per cent decline in UK productivity²². In downturns and beyond, SMEs can often be hardest hit by any withdrawal of lending in the sector and this can jeopardise growth and productivity.

Despite nearly a decade of reform in the lending space since the financial crisis, with more types of finance than ever before, we found that SMEs across the UK, France and Germany say they are struggling to access the finance they need to invest and grow in their business. Just four in ten (41%) on average say they are able to access all finance they need from their preferred source. 16% can't access enough capital at all, from any source and 5% of SMEs don't even know where to access the capital they need to invest in and grow their business.

French SMEs are struggling most, with just a third (33%) able to access finance from their preferred source and a fifth (21%) unable to access enough capital to grow or invest in their business. UK SMEs are more positive about their ability to access finance from their preferred source, with 41% stating this is possible, but a further 23% say that while they can access the capital they need, it is not from their preferred lender.

It may not all come down to bank lending though. European Investment Bank (EIB) financing in France came to a total of €8 billion last year, 15% of which went to supporting SMEs²³. Meanwhile in the UK, investment came in lower at €6.9 billion, with just 3% going to SMEs²⁴.

However, the British Business Bank in the UK provides over £3.1 billion to UK SMEs and participates in a further £4.4 billion of finance to SMEs²⁵, and in Germany the well-established KfW Mittelstandsbank provided over €20 billion to SMEs in 2015²⁶.

A lack of understanding among SMEs of their financial options and a lack of bespoke guidance from lenders may be part of the issue. In our previous report *Banking on Growth: Closing the SME funding gap*, we illustrated that two fifths of financial decision makers in UK SMEs go to high street banks for information and advice, yet just 19% of SMEs say that the advice their bank gives them always meets their needs. This can result in SMEs accessing unsuitable financial products. Germans, for instance, are quickest to use personal savings to fund their business growth. However, they also look at longer-term products like asset finance which is used by a third (32%) of SMEs compared to just 13% of SMEs in France and 17% in the UK.

33%
of SMEs rely on
overdrafts to finance
their business.

²²<http://www.growthbusiness.co.uk/time-money-smes-quick-access-finance-2537511/>

²³<http://www.eib.org/projects/regions/european-union/france/index.htm>

²⁴<http://www.eib.org/projects/regions/european-union/united-kingdom/index.htm>

²⁵http://british-business-bank.co.uk/wp-content/uploads/2016/07/British-Business-Bank_Annual_Report_2016.pdf

²⁶<https://www.kfw.de/Presse-Newsroom/Pressetermine/Jahresauftakt-Presserferenz-2016/KfW-Foerderzahlen-per-2015.pdf>

Figure 8: Types of finance used by SMEs

Meanwhile in the UK, overdrafts are also heavily relied upon and a third of all SMEs (33%) are using this type of finance to grow their business.

In our 2016 report, *Banking on Growth: Closing the SME funding gap*, we analysed the extent to which UK SMEs were utilising the wrong type of finance, and the impact this can have on their growth. Not only does securing the wrong financial product often prove costly, it often means SMEs do not have the long-term financial security they need to invest in boosting their productivity.

“Overdrafts are often wrong for SMEs. They are a short term, costly product, which could be pulled at any time, and are therefore not conducive to any SME planning for a longer term future. If SMEs are not able to access the right type of finance, they aren’t able to fund productivity measures in the right way, harming their efficiency and growth. Moreover, potential productive time is lost from trying and failing to access the right type of capital.”

Adrian Sainsbury, Close Brothers Banking Division Managing Director

Chapter

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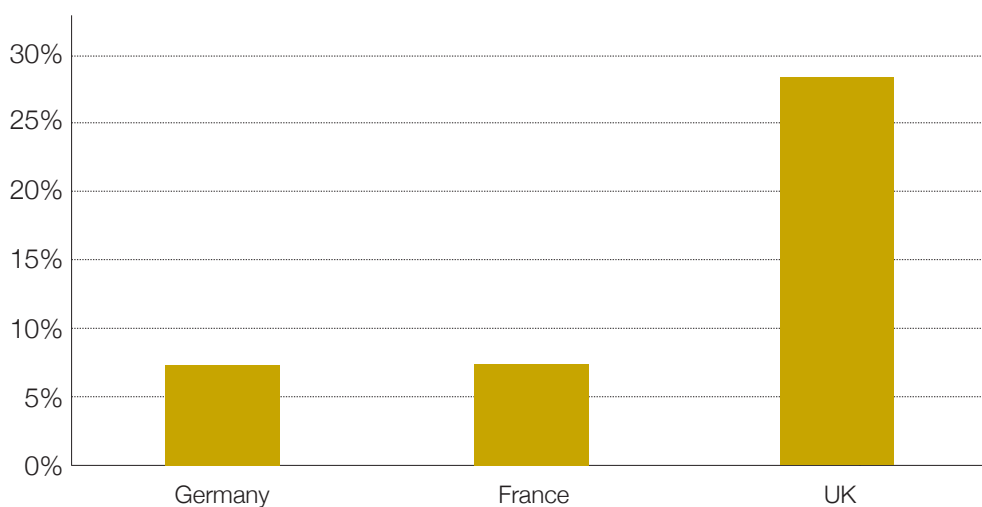
Brexit and the Future

When it comes to looking at the future challenges that lie ahead, Brexit is inevitably on the minds of UK SMEs in particular. For UK SMEs, Brexit brings uncertainty, which can weigh on investment decision-making and long-term business strategy. For instance, three in ten UK SMEs (28%) see planning for Brexit as one of their biggest challenges, compared to just 7% of French and German SMEs.

3 in 10

UK SMEs see Brexit as one of their biggest challenges.

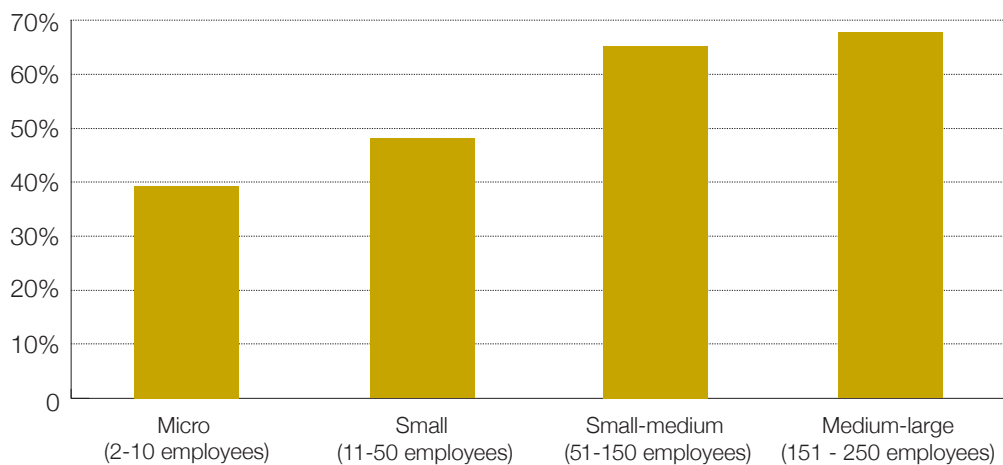
Figure 9: SMEs that think planning for Brexit is one of their biggest business challenges in the next year



The indirect economic impact of Brexit is also a concern for UK SMEs. A third (30%) state their worries about an economic slowdown, compared to 15% of German SMEs and 22% of French SMEs. Meanwhile French SMEs are the most likely to view the economy as an opportunity, with four in ten (41%) seeing an improved economy as the biggest opportunity for them in the coming year.

Unsurprisingly perhaps given their concerns over Brexit, UK SMEs are least bullish on growth, but the optimism is still high: 58% of them expect to grow in the next year compared to 66% of German and 63% of French SMEs.

UK SMEs also show positive sentiment around business growth. Half of UK SMEs, on average, expect their headcount to increase next year, with larger firms most optimistic about headcount growth.

Figure 10: UK SMEs that plan to increase headcount over the next year

It is vital that businesses do not let Brexit uncertainty hold them back from implementing specific measures that will increase their productivity, and by doing so, boost their growth. While the economy is a concern, currently, UK SMEs do not expect specific improvements to be impacted. Fewer than one in ten see either buying new machinery, providing better employee benefits, implementing better back office systems, securing a better property/ workspace or improving absenteeism, presenteeism and working hours as making up the biggest challenges they face.

It seems that although they may be unable to do much about the economic landscape, UK SMEs are ready to roll out productivity measures in order to help grow their business. In fact, UK SMEs are the least likely to see innovation as a big challenge. Just 13% of UK SMEs see focusing on innovation as a big challenge for their business over the next year, compared to 22% of French SMEs and 15% of German SMEs. This is very positive given a third (34%) said they intended to use innovation to improve productivity.

**The production line at The Morgan Motor Company**

Conclusion

Improving productivity is central to a business' growth, yet in the UK, while SMEs appreciate its importance, a worrying number are not even measuring their productivity. This, perhaps, is the first step towards cracking the productivity challenge.

Our analysis does also provide reason for comfort. While the concept of productivity may not been understood by all, many UK SMEs are taking – or are planning to take – steps to enhance their output and efficacy. In several areas, they are outperforming French and Germans SMEs, leading the way on technology and software investment and upskilling staff.

There is still more that can be done – and learnings we can take from where French and German SMEs perform particularly well. For example, French SMEs have taken positive steps to lower presenteeism levels and in turn reduce productivity losses. Investing in technology to improve automation where appropriate to the business, as the French have done, could be one way that UK SMEs look to improve their own productivity. Meanwhile, Germany's approach to apprenticeships has been rooted into SME culture and has resulted in a successful system combining academia with on-the-job training. The UK government has now recognised the importance of apprenticeships, implementing the Apprenticeship Levy, which enables employers whose payroll totals under £3 million to draw from an apprentice fund without having to pay into it²⁷.

UK businesses are operating within an environment of economic, regulatory and operational uncertainty as the country negotiates its exit from the EU. Analysing the results, it is clear how much of an impact these can have on productivity and planning. It is also important to acknowledge how quickly these elements can change.

Beyond the known unknowns which stand to affect productivity, one thing we are certain of is that by shifting the focus onto SMEs, the outcome for the UK as a whole can only be positive. The Mayfield review and subsequent creation of 'Be the Business' show the emerging desire to bring the debate into the SME sphere, where we hope it will have a positive and tangible impact. Helping the 5.4 million SMEs in the UK to understand, measure and improve productivity will be crucial to the future of the UK economy. Fortunately, and yet again displaying their resilience in the face of adversity, it seems UK SMEs are braced for the challenges that lie ahead and are already taking action.

²⁷<https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work>