

White Paper No.5

EXECUTIVE SUMMARY April 2013

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SME INNOVATION, EXPORTING AND GROWTH: A REVIEW OF EXISTING EVIDENCE

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SMEs which have a track record of innovation are more likely to export, more likely to export successfully, and more likely to generate growth from exporting than non-innovating firms. Both internal and eco-system factors are important in shaping SME innovation and exporting. For SMEs specifically, however, the evidence base remains limited in some areas.

Internal enablers - there is strong evidence for the importance of skills, R&D, capital investment and liquidity in shaping SME innovation and exports. The evidence base is weaker - particularly for SMEs – in terms of the value of design, intellectual property management, people management, employee engagement, workforce diversity and other firm characteristics such as family ownership.

External enablers – ‘openness’ - purposive links formed between SMEs and their partners – play a positive role in innovation and export growth, particularly in strong eco-systems. Targeted supply-side and demand-side policies have also proven effective in promoting SME innovation and exporting. Less is known about which eco-system characteristics are most important in influencing SMEs’ innovation and export success.

For firms of all sizes there is a strong positive association between innovation, exporting and productivity and/or growth. Innovation and exporting work jointly to improve business performance. Evidence on the inter-relation between innovation and exporting in SMEs specifically, however, is limited.

Evidence on the internal drivers of innovation and exporting reinforces the importance of a number of key UK policy initiatives. Measures such as the recently extended Employer Ownership Pilot, Innovation Vouchers, Smart Awards, Knowledge Transfer Partnerships, and the Design Leadership Programme are all likely to have significant performance benefits.

Many aspects of the UK business eco-system are also strong. Key issues remain about access to finance and strengthening the demand-side. The Business Bank proposals and suggestions for expanding Small Business Research Initiative (SBRI) are therefore welcome. Local initiatives – perhaps through the City Deals – may also help SMEs build productive partnerships with other firms and organisations such as universities.

Synergies between SME innovation and exporting suggest the value of co-ordinated support mechanisms. Responsibility for supporting exporting and innovation are, however, divided between UKTI and TSB. Close collaboration is necessary to ensure SMEs are provided with timely and accessible support for innovation and exporting.