



## Longitudinal Small Business Survey: SME Employers (businesses with 1-249 employees) – UK, 2021

31 August 2022

Official Statistics

- The 2021 survey was conducted towards the end of the period of trading restrictions and measures associated with the coronavirus (COVID-19) pandemic. During the Autumn and Winter of 2021/22, businesses in some sectors were operating within an environment in which social restrictions were imposed, which impacted customer volumes and opening times. The requirement to self-isolate on testing positive with coronavirus (COVID-19) only came to an end in late February 2022 in England, late March 2022 in Wales and at the end of April 2022 in Scotland and Northern Ireland. The 2021 survey ended on 1 April 2022.
- 34% of SME employers reported higher levels of employment than a year ago, reversing the trend in 2020 when for the first time since 2010, a higher proportion of SME employers reported a decrease than an increase in the number employed.
- SME employers' plans for employment were in line with expectations of employment in previous years and employment growth rather than decline was more likely to be anticipated; 30% expected to increase their number of staff in the next year (25% in 2018, 28% in 2019, 26% in 2020) while 8% expected to employ fewer people in a year's time (9% in 2018, 16% in 2019, 10% in 2020).
- Some recovery following the very challenging trading conditions during the coronavirus (COVID-19) pandemic was reflected in the 39% of SME employers that reported an increase in annual level of sales (turnover) in the last 12 months (18% in 2020). SME employers continued to be positive about growth in the next 12 months, with 46% expecting to be reporting an increase in sales in 12 months' time.
- This was further reflected in businesses' aims for growth in the next three years, with 76% of SME employers aiming to increase sales over the following three years.
- 73% of SME employers generated a profit or surplus in their last financial year – an increase of six percentage points on the 2020 survey, which had reported the lowest figure since the survey began.
- One in six SME employers (18%) exported goods or services abroad in 2021. This proportion is similar to 2020. It varied by business size, from 16% of micros to 23% of small to 29% of medium-sized SMEs. In the next few years 45% of exporters expect to increase their level of exporting, although for most SME exporters, domestic customers account for the majority of their sales.
- Around three-quarters of SME employers (74%) were using some form of external finance at the time of the survey. This compared with 72% in 2020, and 63% in 2019. Although no longer the most commonly used form of external finance, government or local grants or schemes directly related to coronavirus measures were still a factor for around a quarter of SME employers.
- Although there was little change in the propensity for SME employers to use technologies or web-based software over the last 12 months (50% used it to manage the business; 23% used it to sell to customers online, compared with 49% and 24% respectively in 2020), 12% of those that commenced online sales started doing so as a result of the coronavirus (COVID-19) pandemic.
- There was little change in the propensity of SME employers to innovate – introduce

new and improved processes, goods or services – with 19% innovating processes, 14% innovating goods and 26% innovating services in 2021.

- In 2020 the main reported obstacle to growth for SME employers was the coronavirus (COVID-19) pandemic. In 2021, it remained a significant concern, although mentioned by fewer (66% in 2021, compared with 71% in 2020). Staff recruitment and skills, and competition were the next most frequently mentioned obstacles (45% and 44% respectively), with staff recruitment and skills increasing significantly as a concern (up from 26% in 2020). Other major obstacles included regulations and red tape (42%), taxation (36%), the UK's exit from the European Union (EU) (34%) and late payment (26%).
- SME employers that cited the UK's exit from the EU as a major obstacle were most likely to be concerned about an increase in the cost of EU imports (69%, up 36 percentage points on 2020).
- Businesses with plans to increase export sales or begin selling to new overseas markets were most likely to have reported that these plans had been affected by the UK's exit from the EU (43%), while 19% of those whose plans include recruiting new staff in the UK reported that these plans had been affected by the UK's exit from the EU.
- Of those planning to recruit new staff in the UK, 50% reported these plans had been affected by the coronavirus (COVID-19) pandemic, and 42% of SME employers with plans to increase the skills of the workforce reported that the pandemic had affected these plans
- There was an increase in home-based businesses in 2021 compared with 2020 (29%, compared with 20%), with the increase most prevalent in micro and small businesses.
- 19 per cent of SME employers were women-led – an increase of three percentage points on 2020. The sectors most likely to have women-led businesses were health, education, other services and accommodation and food, with arts and entertainment joining them in 2021.
- 6 per cent of SME employers were led by a management team with at least half of its members from minority ethnic groups (MEG-led).

## What you need to know about these statistics

The Longitudinal Small Business Survey (LSBS) is a telephone survey of UK businesses in the private sector with fewer than 250 employees. (This definition treats full-time and part-time employees equally.) This report summarises key findings from the 2021 survey (Year 7). It focuses on those businesses with between 1 and 249 employees ('SME employers'), with a separate report on businesses without employees. There is some guidance at the back of the report on the **uncertainty** that arises because we are using a sample of the UK SME population rather than collecting data from all of them.

We refer to **micro businesses** which have 1-9 employees; **small businesses** which have 10-49 employees; and **medium-sized businesses** which have 50-249 employees.

In this report when we refer to business size this is defined entirely in terms of number of employees. Levels of turnover (sales) or assets are not part of our definition, though there are other definitions of business size which include these.

'SMEs' stands for 'small and medium enterprises' – but this is always taken to include micro businesses and non-employers too. The LSBS covers all SMEs, not just small businesses, though this report only covers SME employers.

This is a longitudinal survey as we try to re-interview businesses each year – 845 businesses have taken part in all seven years of the survey so far ('panellists'), and 5,484 of the businesses in 2021 had taken part in at least one previous survey. In addition, there were 3,841 businesses new to the survey ('top-ups').

Throughout the report, where figures sum to less than 100% when you expect them to sum to 100% (because they cover all possibilities) the shortfall will be due to businesses saying they did not know the answer, refusing to answer, or might be due to rounding of estimates to the nearest whole percentage.

Our respondents were each randomly assigned to one of three cohorts and some questions were only asked of one cohort (though most questions went to all three cohorts). The underlying data tables that accompany this report group cohort questions separately, so the report and charts make clear when they are covering cohort questions, to allow you to find the corresponding data table if required.

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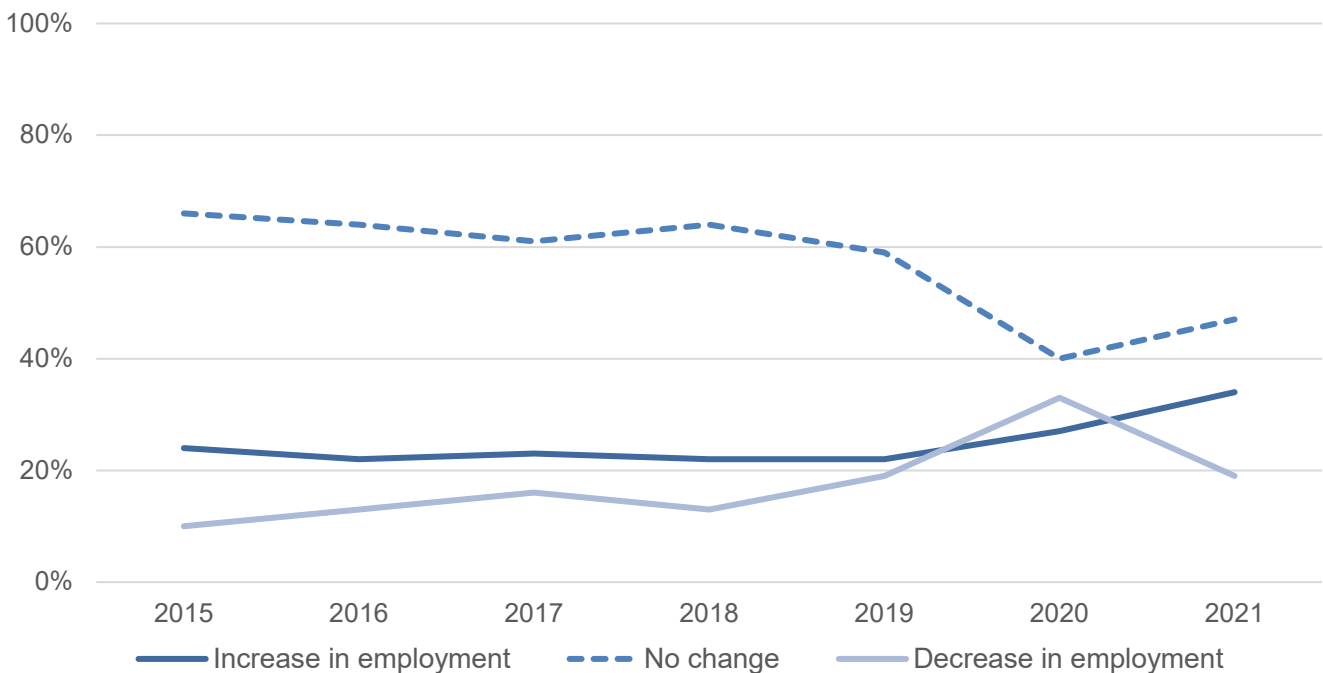
# Business performance

## Changes in the levels of employment

In the [data tables](#) accompanying this publication, table 36 shows how many employees the business had on the payroll 12 months ago across all UK sites.

In 2021 34% of SME employers employed more people than a year previously, a higher proportion than in 2020 (up seven percentage points) and 2019 (up 12 percentage points); 19% reported a decrease in employment, a lower proportion than in 2020 (a reduction of 14 percentage points), and on a par with 2019. Forty-seven per cent stated they had made no change, a higher proportion than in 2020 (up seven percentage points), but lower than in 2019 (a reduction of 12 percentage points).

**Figure 1: Change in employment compared to 12 months previously (2015 to 2021<sup>1</sup>; based on all SME employers trading for at least one year)**



<sup>1</sup> In the 2016-17 LSBS reports figures were only shown for 'panellists' (those that had taken part in the previous year's survey), based on the actual number of employees reported in the survey year, and the previous year. This was because those who did the survey for the first time in these years ('top ups') tended to approximate employment numbers more, and the datasets were not compatible. Between 2018 and 2021, as in 2015 and before, the 'perceived' change in employment question was asked of all respondents.

Looking at micro businesses, compared with a year ago, 32% had increased employee numbers<sup>2</sup>, 19% had fewer employees, and 49% had approximately the same number. For small businesses, 42% had more employees, 23% had fewer, and 34% had the same. For medium-sized businesses, 53% had more employees, 19% had fewer and 27% had the same number.

By sector<sup>3</sup>, those in information and communication (44%) and professional and scientific (41%) were the most likely to have increased employee numbers. Those in accommodation and food (28%), education (28%) and transport and storage (26%) were more likely than average to have reduced employee numbers.

In England, 34% of SME employers had more employees (an increase of eight percentage points from 2020), 20% had fewer (a reduction of 14 percentage points on 2020, but an increase of one percentage point on 2019), and 46% had the same number. In Scotland the proportions were 30% increased (as in 2020), 18% decreased (down 11 percentage points on 2020) and 52% the same. In Wales the proportions were 31% increased (up two percentage points), 17% decreased (down 17 percentage points) and 52% the same; and in Northern Ireland they were 32% increased (up nine percentage points), 16% decreased (down 12 percentage points) and 52% the same.

In the [data tables](#) accompanying this publication, table 37 shows the extent to which SME employers considered the coronavirus (COVID-19) pandemic a factor in the reduction of staff

When SME employers that reported fewer employees, this year compared with last were asked if the coronavirus (COVID-19) pandemic had been a factor in the reduction of staff, 32% perceived the pandemic being the main factor (a reduction of 11 percentage points on 2020), with a further 22% stating it to be one of many factors (an increase of seven percentage points on 2020).

Medium-sized businesses were more likely than small and micro businesses to attribute the reduction in staff to the coronavirus (COVID-19) pandemic (62%, compared with 58% and 54% respectively cited it as a main factor or one of many factors).

By sector, the proportions of SME employers that reported a reduction in staff over the last 12 months mainly due to the pandemic were highest in accommodation and food (76%; 46% the main factor, 30% one of many factors) and administration (61%; 42% the main factor, 19% one of many factors). It was least likely to have been perceived as a factor at all in finance and real estate sectors (31%; 8% the main factor; 23% one of many factors).

By nation, 33% of SME employers that reported a reduction in staff within England reported the coronavirus (COVID-19) pandemic as the main factor, compared with 30% in Northern Ireland, 25% in Wales and 24% in Scotland. In terms of it being one of many factors, the proportion was highest among SME employers in Northern Ireland and Wales (both 34%), compared with 22% in England and 20% in Scotland.

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<sup>2</sup> Businesses with between one and nine employees are classified as 'micro' businesses, those with between ten and 49 employees are classified as 'small' businesses, and those with between 50 and 249 employees are called 'medium-sized' businesses. These definitions exclude owners and partners but include casual or temporary staff.

<sup>3</sup> See notes section for further definitions of sector.



## Expectations for employment growth

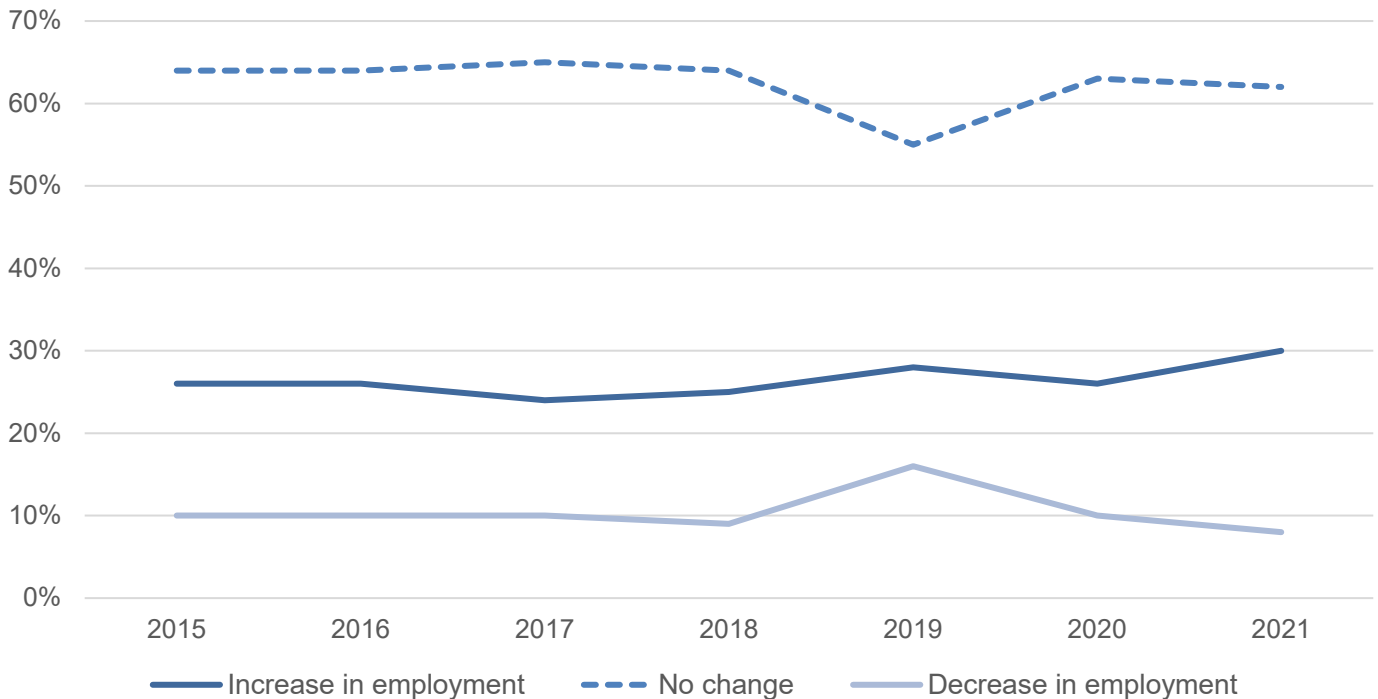
In the [data tables](#) accompanying this publication, table 39 shows how many employees the business expects to have on the payroll in 12 months' time.

Looking ahead, 30% of SME employers expected to employ more people in a year's time (up four percentage points on 2020), 62% expected to employ the same number and 8% expected to employ fewer people (a reduction of two percentage points on 2020). By size, 26% of micro businesses expected to increase the number of employees, compared to 47% of small businesses and 57% of medium-sized businesses. The percentages expecting to have decreased employment did not vary greatly by size, although micro businesses were more likely than small and medium-sized businesses to expect a reduction in the number of employees (8%, compared with 5% of both small and medium-sized businesses).

By sector, expectations for employment growth were most likely in health (42%), accommodation and food (40%) and administration (37%). Those in administration were also more likely than average to think employment levels would decline (11%). The sectors in which SME employers were more likely than average to expect no change included primary (77%), finance and real estate (73%) and other services (70%).

By nation, SME employers in Wales (33%) and Northern Ireland (33%) were more confident that employment numbers would increase than those in Scotland (31%) and England (30%).

**Figure 2: Expectations for employment in 12 months' time, by year**



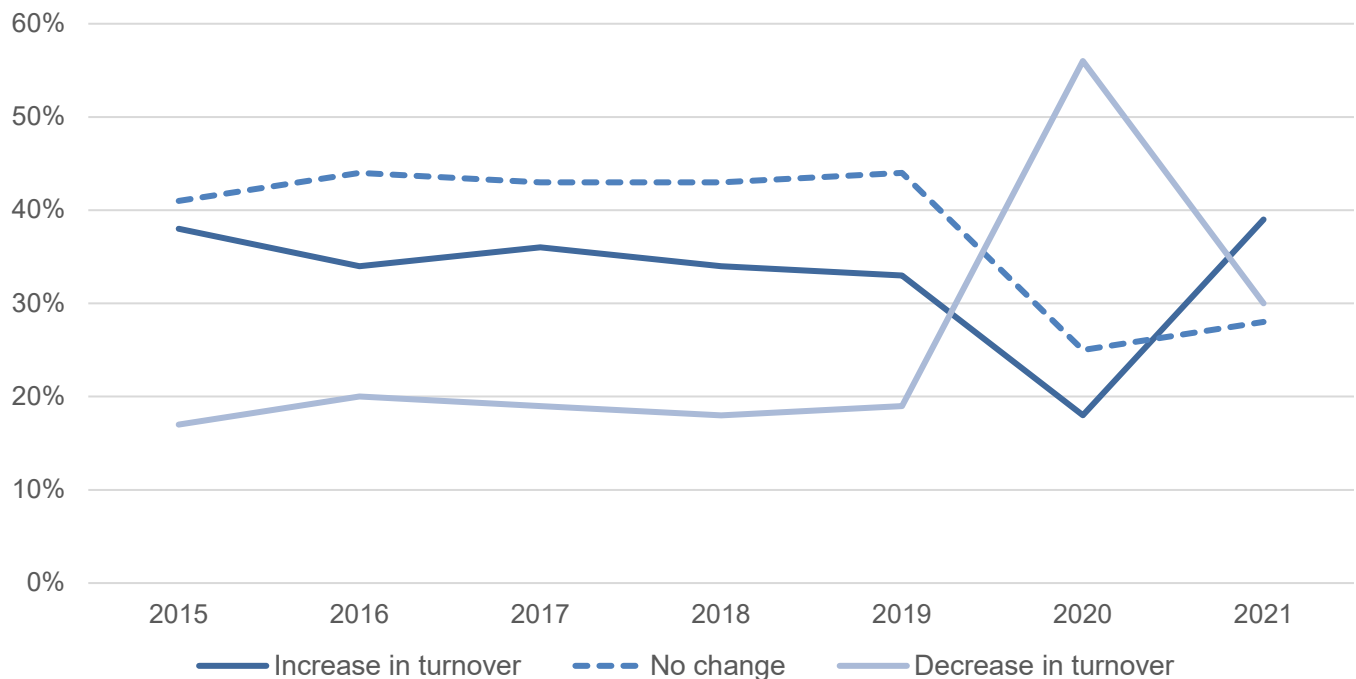
## Changes in levels of turnover

In the [data tables](#) accompanying this publication, table 133 shows the change in turnover compared with 12 months ago.

Compared with 2020, a significantly higher proportion of SME employers reported turnover growth over the previous 12 months (39% - 21 percentage points higher than in 2020). This reflects difficult trading conditions due to the coronavirus pandemic in 2020 and during some of 2021, when some businesses paused trading, with some recovery since. Fewer SME employers than in 2020 reported a decrease in turnover (30% - 26% percentage points lower than in 2020), but this proportion remained at higher levels than between 2015 and 2019, reflecting the survey timing, which included periods of continued restrictions because of the coronavirus pandemic. The proportion of SME employers that reported the same level of turnover compared with 12 months previously was higher than in 2020 (28% - three percentage points higher than in 2020).

Micro and small businesses were more likely than medium-sized businesses to have experienced a decrease in turnover in the last 12 months (31%, 27% and 20% respectively). The corresponding figures reporting an increase were 38%, 44% and 52% respectively.

**Figure 3: Current turnover compared to 12 months previously, by year (based on SME employers trading for at least one year)**



The sectors most likely to report turnover growth were information and communication (48%), manufacturing (45%) and professional and scientific (43%), while those most likely to report a fall in turnover were arts and entertainment (40%), accommodation and food (38%), other services and education (both 38%).

By nation, SME employers in England (40%) and Scotland (39%) were more likely to have reported a growth in turnover than those in Wales (33%) and Northern Ireland (32%). SME employers in Wales (32%) and England (30%) were more likely than those in Scotland (28%), and Northern Ireland (27%) to have reported a fall in turnover, while SME employers in Northern Ireland (39%) were the most likely to have reported no change in turnover over the last 12 months.

## Expectations of turnover in 12 months' time

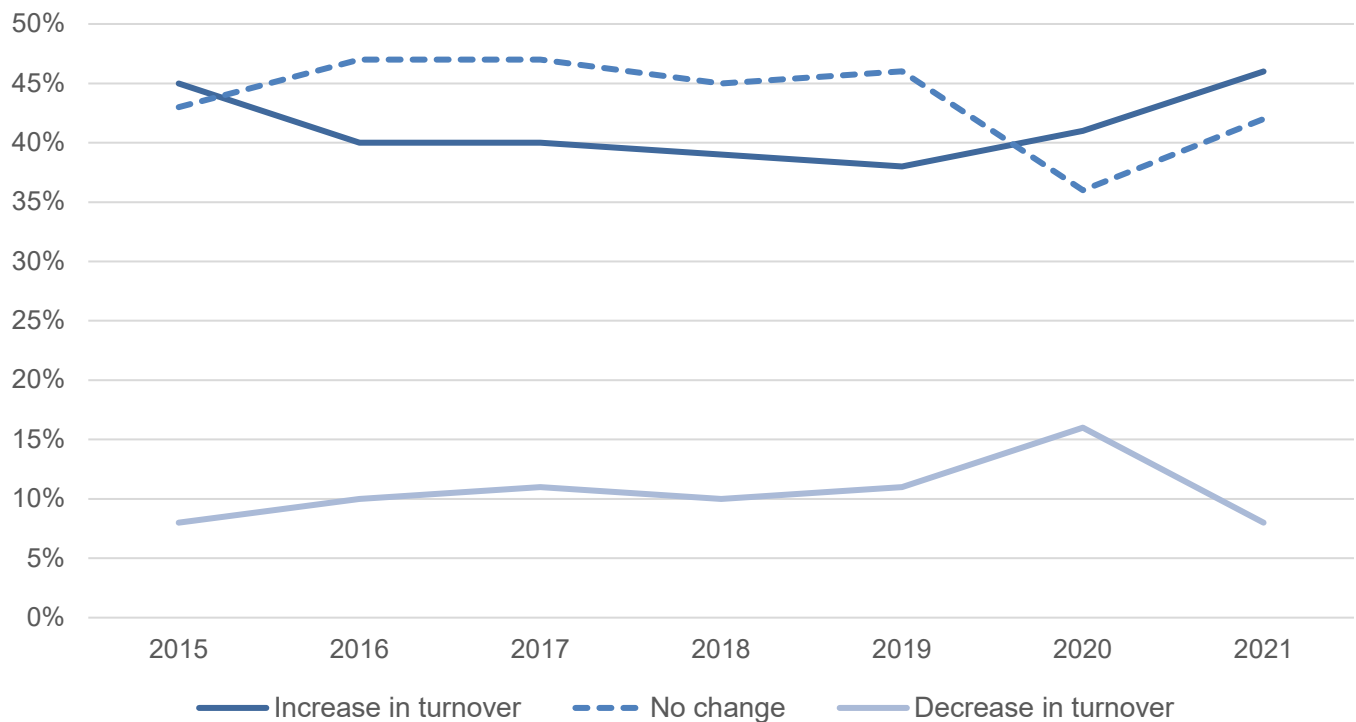
In the [data tables](#) accompanying this publication, table 137 shows the expected change in turnover in 12 months' time.

Expectations of turnover increasing in 12 months' time increased by five percentage points compared with those reported in 2020. Most of the remaining SME employers expected turnover to stay the same over the next 12 months (42% - a six percentage points increase on 2020), while a minority expected turnover to decrease (8% - an eight percentage points decrease on 2020).

By size, 44% of micro businesses expected turnover to increase, compared with 56% of small businesses and 62% of medium-sized ones.

The sectors most likely to think that turnover would increase were accommodation and food (58%), administration (57%), arts and entertainment (54%) and manufacturing (50%).

**Figure 4: Expectations of turnover in 12 months' time, by year**



By nation, 52% of SME employers in Scotland and 49% of those in Wales expected turnover to grow, compared with 45% of SME employers in England and 43% of those in Northern Ireland.

## Profit

In the [data tables](#) accompanying this publication, table 58 shows whether SMEs generated a profit or surplus in the last financial year

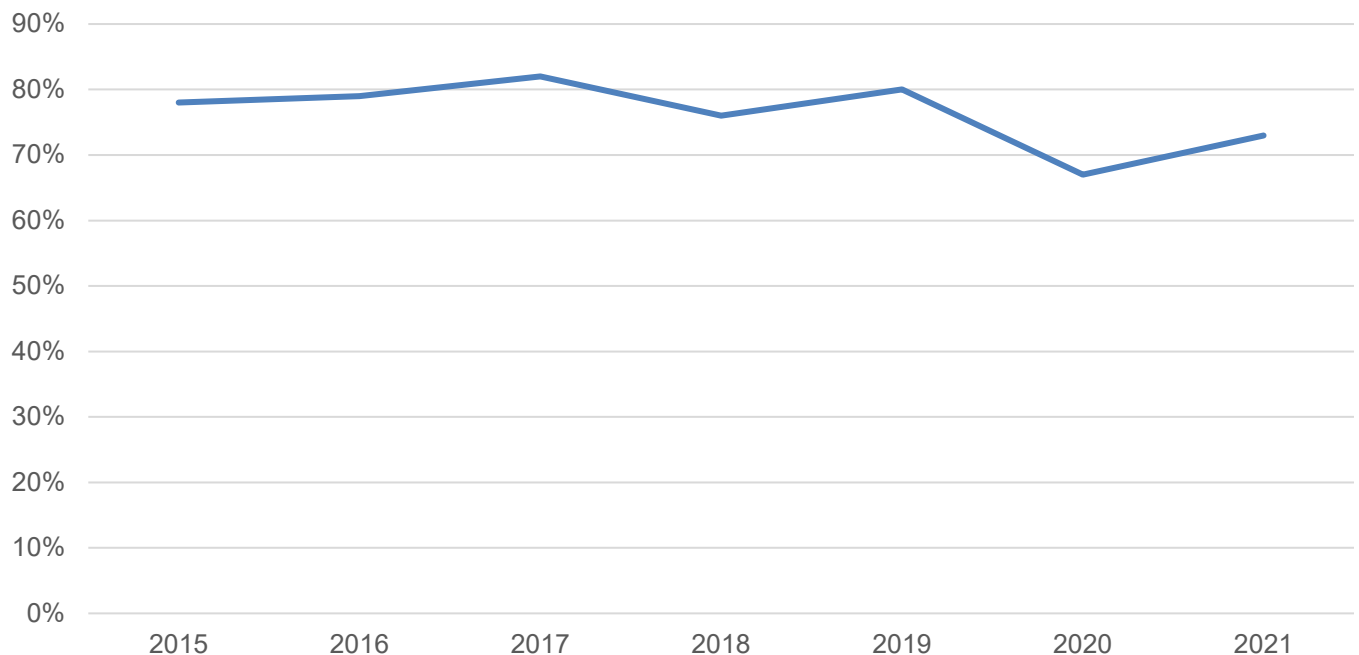
When asked about generating a profit or surplus, 73% of SME employers stated they had done so in their last financial year. This is six percentage points higher than in 2020.

As reported in previous years, the size of business had little impact on whether a profit or surplus was made; 72% of micros made a profit (up four percentage points on 2020), compared with 77% of small businesses (up 11 percentage points) and 79% of medium-sized businesses (up six percentage points).

By sector, those most likely to have made a profit or surplus were SME employers in professional and scientific (83%), primary (81%), finance and real estate (81%), information and communications (80%), construction (79%) and retail and wholesale (78%).

With a relatively high proportion of not-for-profit enterprises among their numbers, the sectors least likely to have made a profit or surplus were accommodation and food (55%), other services (54%) and education (46%).

**Figure 5: Generated a profit or surplus in the last financial year, by year**



By nation, 77% of SMEs have made a profit or surplus in Northern Ireland (an increase of four percentage points compared to 2020), compared with 75% in Wales (a 12 percentage points increase), 74% in Scotland (four percentage point increase), and 73% in England (six percentage points increase).

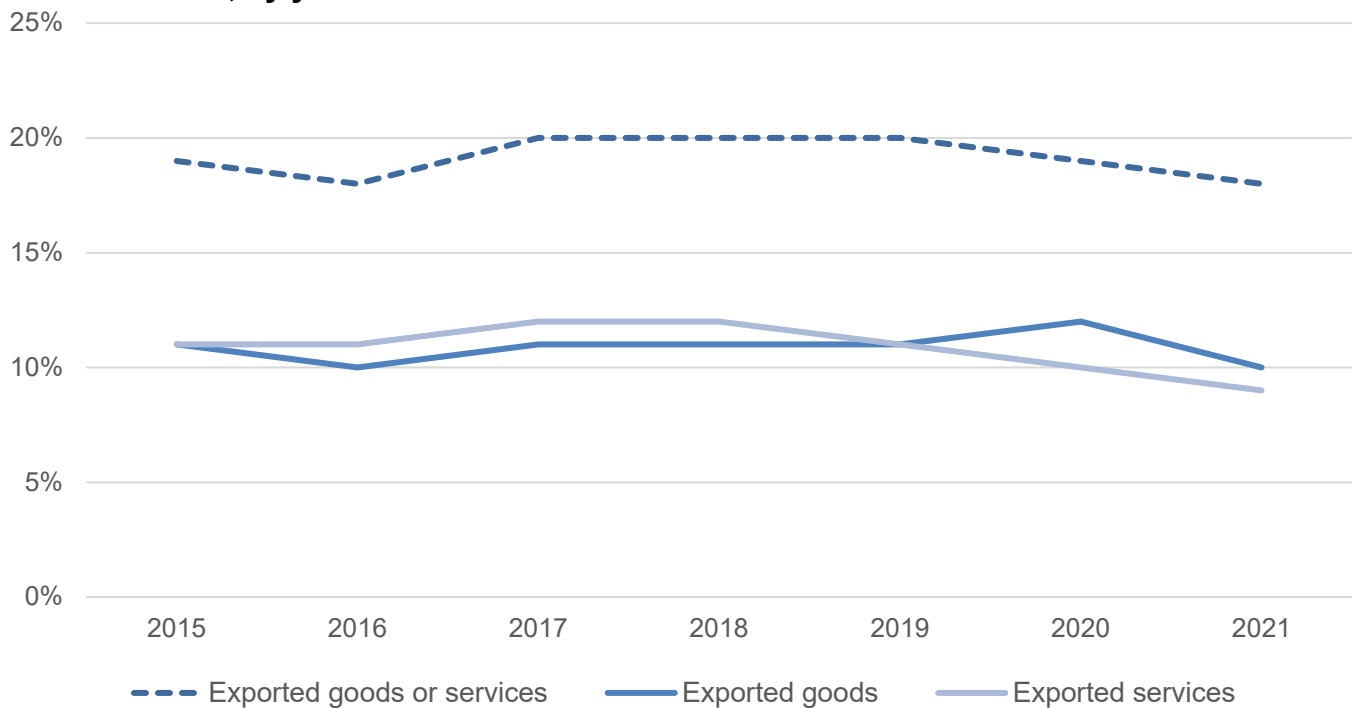
# Exporting

## Sales of goods or services outside the UK in the last year

In the [data tables](#) accompanying this publication, tables 40, 42, 44, 45 and 49 show whether they exported goods or services, and the extent to which exports contribute to total sales

Overall, 18% of SME employers exported goods or services in the last year. This compares with 19% in 2020, and 20% between 2017 and 2019. It suggests a slight downward trend in the proportion of SME employers that export since 2019.

**Figure 6: Whether sold goods or services, or licensed products outside the UK in the last 12 months, by year**



By sector, similarly to previous years, exporters were most likely in manufacturing (45%, a reduction of four percentage points on 2020), information and communication (39%, down four percentage points), professional and scientific (30%, an increase of one percentage point), and retail and wholesale (25%, down five percentage points). The sectors least likely to have exported were accommodation and food service (2%), construction (3%), health (3%), and other services (5%). Education (14%), administration (12%), arts and entertainment (10%), primary sectors (10%), and finance and real estate (8%) and were also less likely than average to export.

By employment size band, 16% of micro businesses were exporters, compared with 23% of small businesses and 29% of medium-sized businesses. These figures were similar to those reported in 2020 (18%, 24% and 29% respectively).

By nation, the highest proportion of exporters was found in Northern Ireland (33%, up two percentage points on 2020). The proportion of exporters was lower than average in Wales (13%, down four percentage points on 2020), Scotland (16%, up one percentage point), and England (17%, down two percentage points). Within English regions London has the highest proportion of its SME employers that are exporters (28%), with the other regions in the range 13% to 19%.

Of all SME employers, 9% exported services and 10% exported goods, less than in 2020 (down one percentage point and two percentage points respectively). Services exporters were most likely to be in the information and communications (32%) and professional and scientific (26%) sectors. Goods exporters were most likely to be in the manufacturing (42%), and wholesale and retail sector (24%).

Exports accounted for less than a quarter of turnover for 52% of exporters, between a quarter and half for 12%, between half and three-quarters for 7% and over three-quarters for a further 12%<sup>4</sup>.

When focusing specifically on exports to the EU, exports accounted for less than a quarter of turnover for 80% of all EU exporters (equivalent to 64% of all exporters), between a quarter and half for 10%, between half and three-quarters for 4%, and over three-quarters for a further 4%<sup>5</sup>.

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<sup>4</sup> 8% did not know

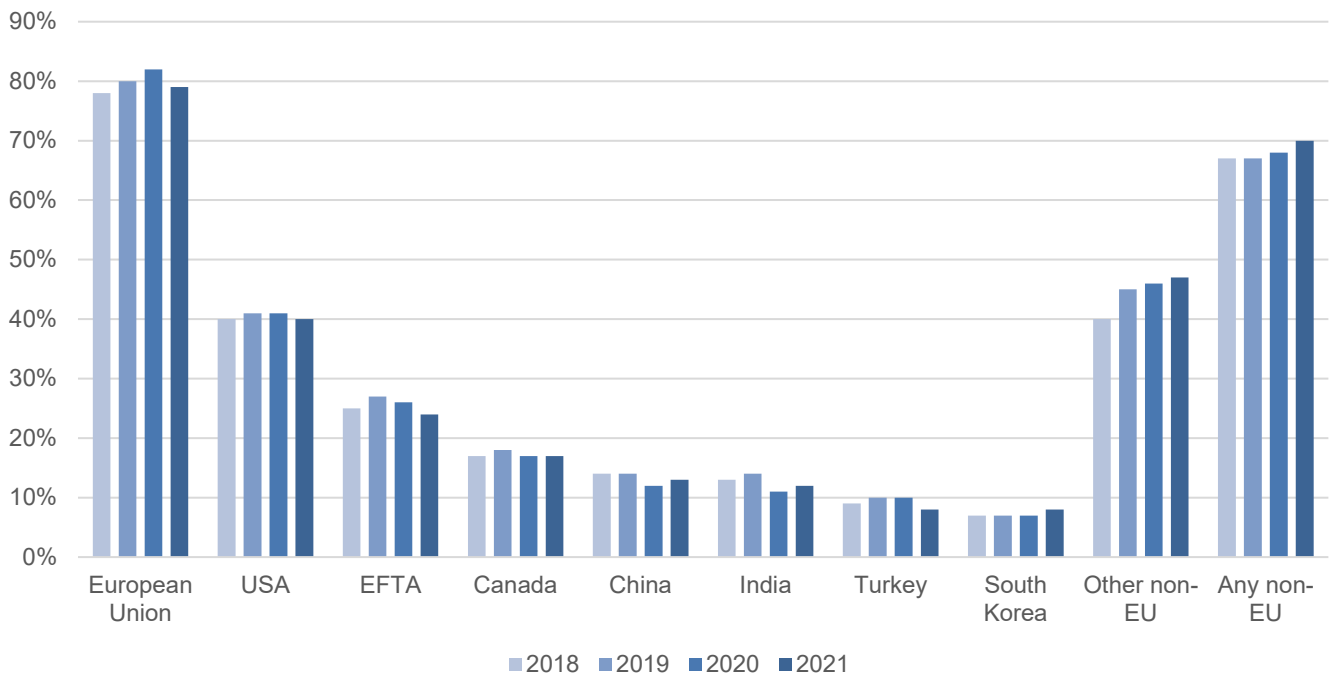
<sup>5</sup> 2% did not know

## Destinations of exports

In the [data tables](#) accompanying this publication, tables 47 and 48 show the destination of exported goods or services

Of UK SME employers that exported in the last year, 79% exported to European Union countries (a decrease of three percentage points compared to 2020) and 70% exported outside the EU (including to EFTA countries<sup>6</sup>), which was up two percentage points on 2020.

**Figure 7: Destination of exports in the last year, by year (based on SME exporters only)**



In terms of exports to non-EU markets, the USA was the most common, with 40% of exporters selling goods or services there, 24% sold to EFTA countries, 17% to Canada, 13% to China, 12% to India, 8% to Turkey, 8% to South Korea, and 47% to the rest of the world.

A large majority of those exporting to EFTA countries also sold to the EU 90%. Overall, 82% cent of exporters sold to either EU or EFTA countries, and 70% to countries outside the EU and EFTA.

<sup>6</sup> European Free Trade Association. This comprises the countries of Iceland, Liechtenstein, Norway and Switzerland

## Plans to increase levels of exports over the next few years (Cohort C)

In the [data tables](#) accompanying this publication, tables 5, 6 and 7 (cohort C) show plans to increase, or to start, exporting goods or services in the next few years

Of those UK SME employers that exported in the last year, 45% reported planning to increase their level of exports over the next few years (down five percentage points on 2020).

By employment size, 43% of micro businesses expected to increase their levels of exports, compared with 51% of small and 60% of medium-sized businesses.

Of those UK SME employers that did not export in the last year but have a product or service that is suitable for export, 28% reported planning to start exporting over the next few years (15% in the next 12 months; 13% further into the future). This equates to 3% of all UK SME employers. However, 70% of all UK SME employers reported that they did not have a product or service suitable for export.

## Purchases of goods or services from outside the UK in the last year (Cohort A)

In the [data tables](#) accompanying this publication, table 2 shows whether they directly imported goods or services

Overall, 21% of SME employers directly imported goods or services in the last year – 18% from suppliers based in the EU; 11% from suppliers based in non-EU countries. This compares with 24% in 2020 (20% from the EU; 13% from non-EU countries), and 22% in 2019 (19% from the EU; 12% from non-EU countries).



# Access to finance

## Types of external finance currently used

In the [data tables](#) accompanying this publication, table 70 shows the types of external finance currently being used.

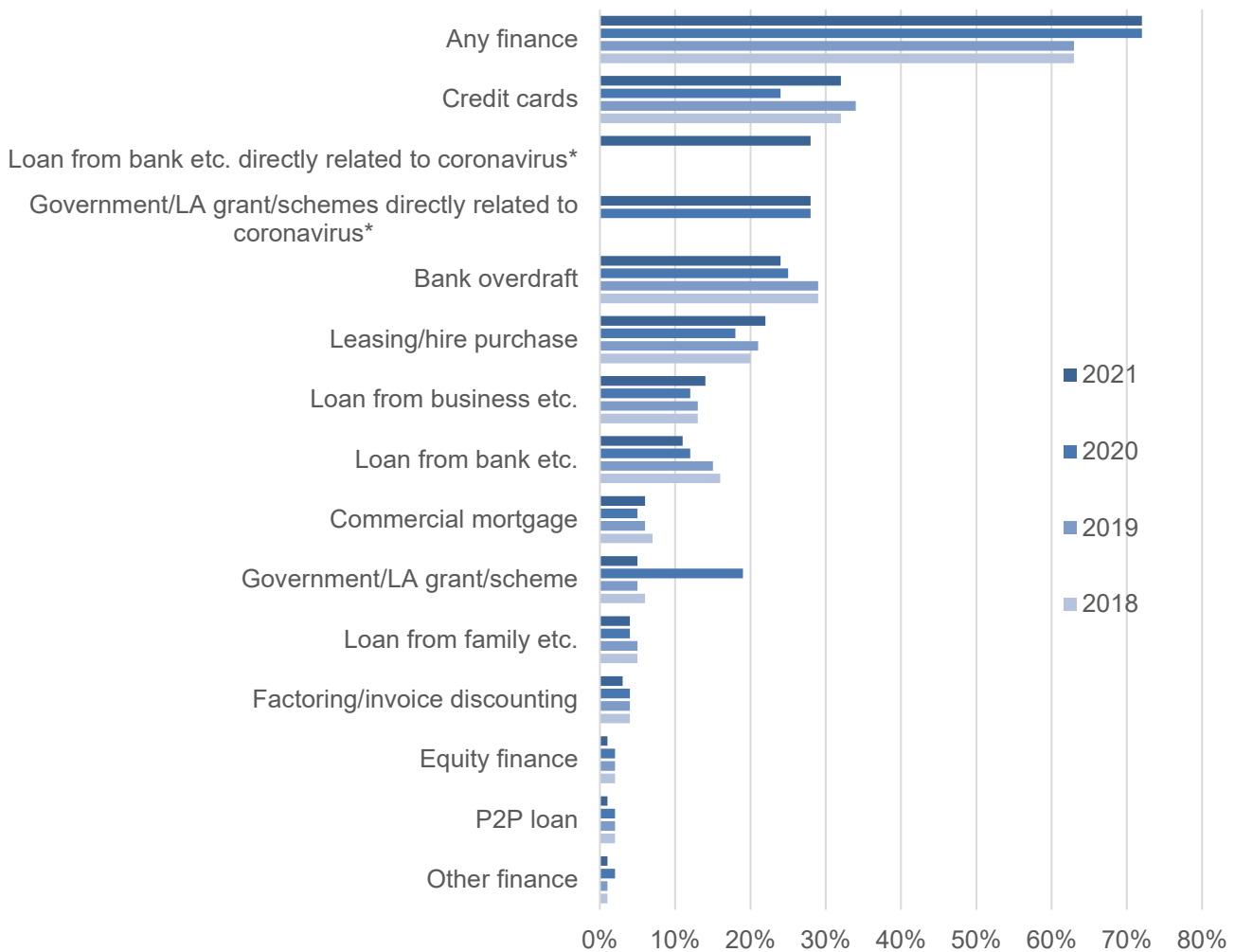
Overall, 74% of SME employers were using some form of external finance at the time of the 2021 LSBS interviewing. This was two percentage points higher than in 2020, and 11 percentage points higher than in 2019.

By employment size, 72% of micro firms used finance (up one percentage point on 2020 and 11 percentage points on 2019), compared with 83% of small businesses (up four percentage points on 2020 and 11 percentage points on 2019) and 86% of medium-sized businesses (up eight percentage points on 2020 and ten percentage points on 2019).

In terms of forms of external finance being used, in 2020, government or local authority grants or schemes directly related to coronavirus measures were the most common, and a similar proportion of SME employers used this form of external finance in 2021 (28% in both years). In 2021, this was matched with use of loans from a bank, building society or other financial institution directly related to coronavirus, also 28%.

However, the most used form of external finance in 2021 was credit cards (32%, an increase of eight percentage points compared to 2020). Next most used were bank overdrafts (24%, down one percentage point on 2020), and leasing or hire purchase (22%, up four percentage points). Government or local authority grants for schemes not directly related to coronavirus were being used by 5% of SME employers (down 14 percentage points compared to 2020), with loans from a bank, building society or other financial institution not directly related to coronavirus more common than non-coronavirus grants (11%, down one percentage point).

**Figure 8: Forms of external finance currently used by SME employers - percentages**



\* first year as a prompted response option. ‘Loan from bank etc. directly related to coronavirus’ was spontaneously mentioned by less than half a percent in 2020

Following the trend from previous years, the propensity to use many types of listed finance increased with SME size. The exception to this were bank overdrafts, Government or local authority grants and loans from a bank, building society or other financial institution directly related to coronavirus, and loans from peers or business partners/directors/owners, or family/friends.

By nation, 80% of SME employers in Wales used some form of external finance (a reduction of three percentage points on 2020), compared with 78% in Scotland (up three percentage points) and Northern Ireland (up 11 percentage points), and 74% in England (up two percentage points).

By sector, SME employers in transport and storage (85%), primary sectors (81%), manufacturing (80%) and construction (80%) were most likely to use external finance. Administration (78%) and arts and entertainment (77%) were also more likely than average to use finance. Use of finance was below average in finance and real estate (59%), other services (66%), education, professional and scientific (both 67%) and information and communication (68%).

Different sectors use different types of external finance to suit their needs:

- *government grants directly related to coronavirus* were most used in arts and entertainment (49%), accommodation and food (48%), health (38%), education (36%) and other services (34%), with lowest levels of these grants in finance and real estate (14%) and information and communication (17%)
- *government grants other than those related to coronavirus* were most used in health (19%), primary (14%) and education (13%), and to a lesser extent, although more than average, within other services (11%) and arts and entertainment (10%)
- *bank overdrafts* were particularly likely to be used in primary (51%), construction (31%), transport and storage (30%) and manufacturing (29%)
- *credit cards* were most likely to be used in manufacturing (43%), primary (39%), construction and transport and storage (both 37%)
- *leasing/hire purchase* was used most within primary (41%), transport and storage (36%), manufacturing (32%) and construction (31%)
- *bank loans directly related to coronavirus* were most likely to be used in accommodation and food (37%) and construction (36%)
- *bank loans not related to coronavirus* were most common within primary (33%)
- *factoring/invoice discounting* was most used in manufacturing and administration (both 9%)
- *Business partner/directors/owner's loans* were most used in information and communication (18%) and least used in health (6%), arts and entertainment and other services (both 7%)
- *Loan from family/friend* were most used in accommodation and food (9%)
- *Commercial mortgages* were most used in primary sectors (19%) and accommodation and food (14%)

The use of any form of so-called 'alternative finance', not originating from banks, the public sector, or people known to the business<sup>7</sup>, was reported by 7% of SME employers (down two percentage points on 2020).

By employment size, 5% of micro businesses used alternative finance, compared with 12% of small businesses and 21% of medium-sized businesses. Alternative finance was most likely to be used in manufacturing (13%) and administration (12%) sectors.

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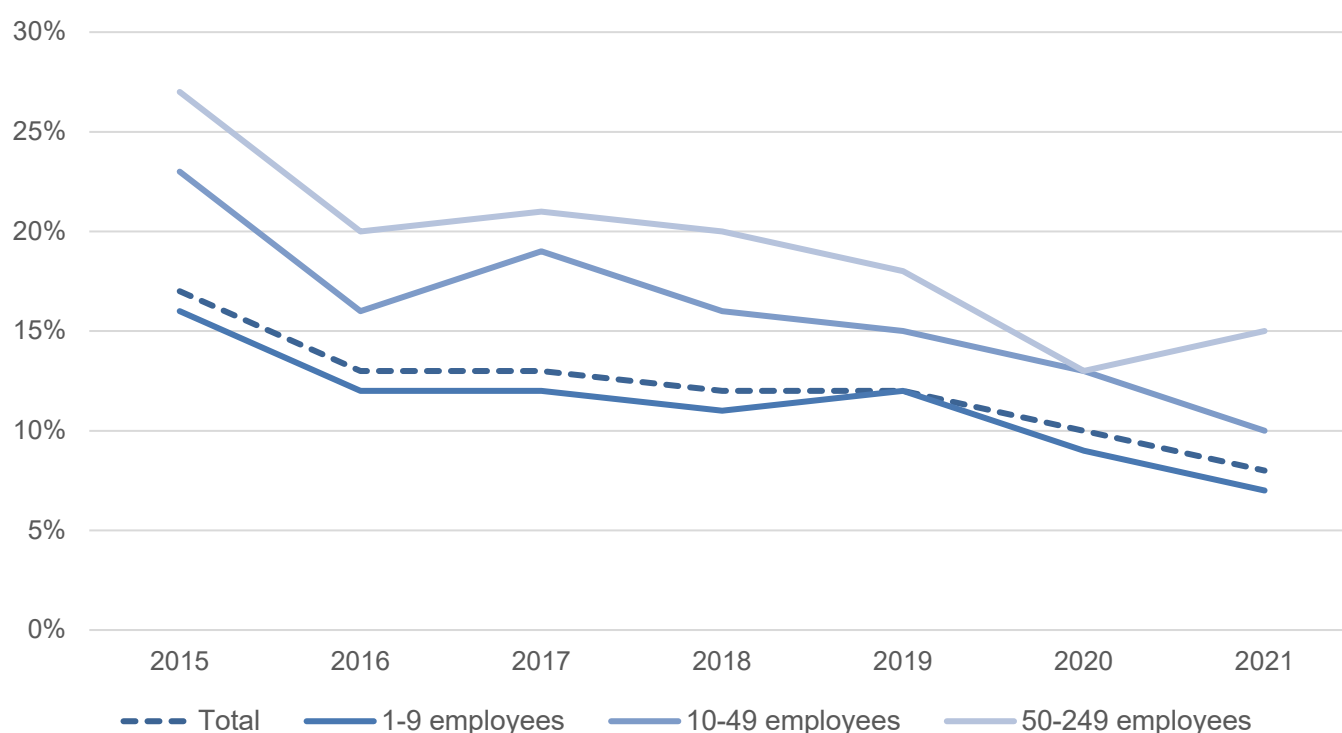
<sup>7</sup> In this instance, alternative finance refers to equity, factoring/invoice discounting, peer-to-peer (P2P) loans and some forms of 'other finance'.

## Whether sought external finance in the last 12 months

In the [data tables](#) accompanying this publication, tables 72 and 73 show whether the business tried to obtain external finance in the past 12 months.

In 2021, 8% of SME employers had sought external finance in the preceding 12 months; two percentage points lower than reported in 2020 and four percentage points lower than in 2019. Thus, there continues to be a decline of applications for external finance since 2010.

**Figure 9: Percentage of SME employers that sought external finance in the preceding 12 months, by number of employees and year**

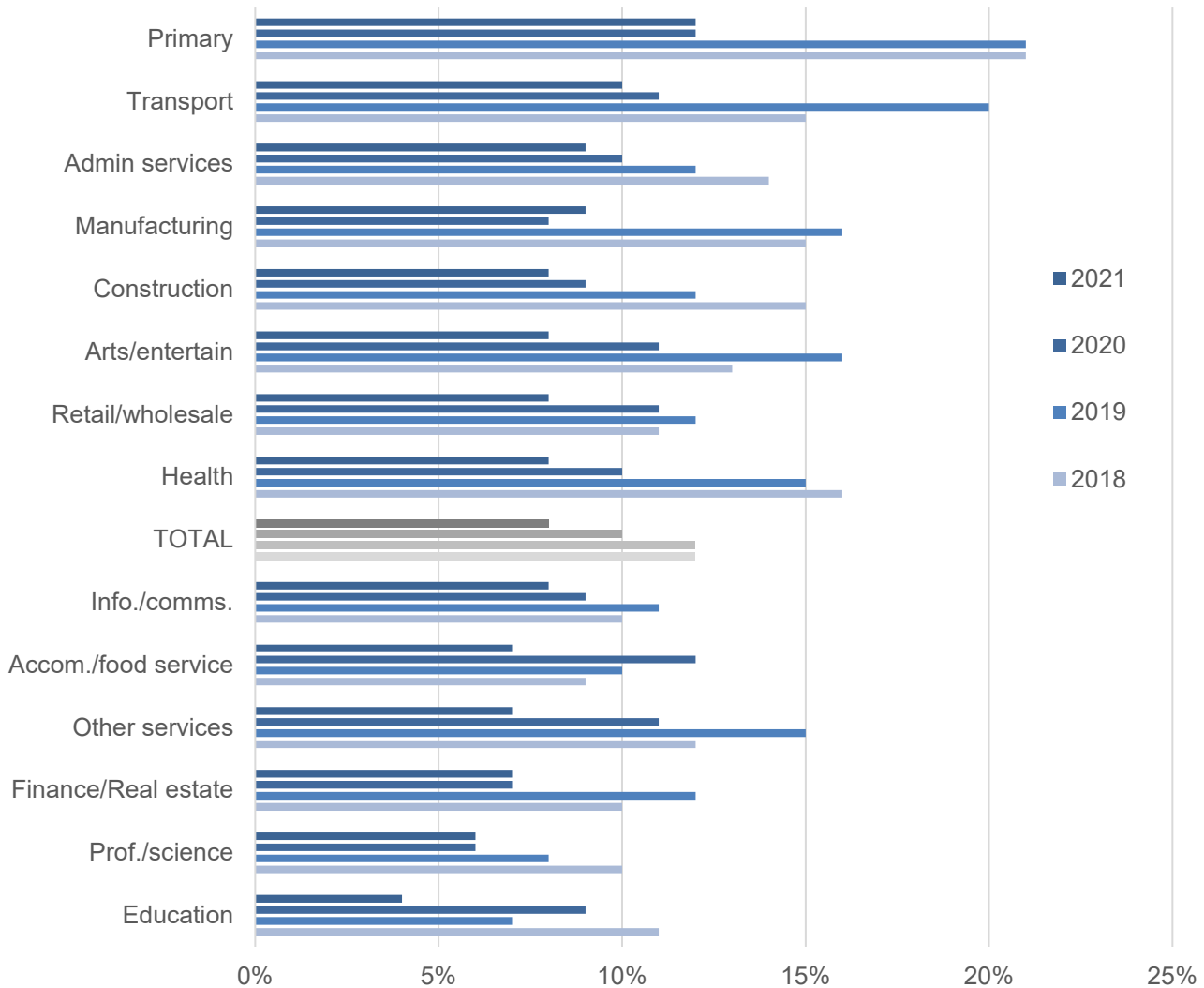


The propensity to have sought external finance increased with business size, from 7% of micro businesses to 10% of small and 15% of medium-sized businesses. Compared with 2020, only medium-sized businesses were more likely to have sought finance in the previous 12 months (an increase of two percentage points on 2020), with three percentage points fewer small businesses and two percentage points fewer micro businesses having sought finance in the previous 12 months.

By nation, 11% of SME employers in Scotland and Wales sought finance in the preceding 12 months, 9% in Northern Ireland and 7% in England. When SME employers that only sought coronavirus loans and grants are excluded from these figures, there is one percentage point decrease in Wales, but no change across England, Scotland and Northern Ireland.

SME employers in the primary (12%) and transport and storage (10%) sectors were most likely to have applied for finance in the last year.

**Figure 10: Percentage of SME employers seeking external finance in the preceding 12 months, by sector and year**



Compared to 2020, SME applications for finance fell in education (4% in 2021, a decrease of five percentage points), other services (7%, down four percentage points), accommodation and food services (7%, down five percentage points), arts and entertainment and wholesale and retail (8% in both cases, each down three percentage points) and health (8%, down two percentage points).

Of those SME employers that sought finance, five per cent sought it once in the previous 12 months, and two per cent sought it more than once. SME employers in health were most likely to have sought it more than once (5%).

## Type of external finance sought

In the [data tables](#) accompanying this publication, table 75 shows the types of external finance sought in last 12 months,

The types of external finance that were sought in the previous 12 months were as follows:

- *bank overdraft* (34% of those that applied, an increase of two percentage points on 2020)
- *bank loans* (34%, an increase of four percentage points)
- *leasing/hire purchase* (23%, an increase of ten percentage points)
- *credit cards* (11%, an increase of two percentage points)
- *government or local authority grant or scheme* (10%, down one percentage point - excludes COVID-19 specific grants)
- *loan from family/friend* (9%, an increase of one percentage point)
- *loan from business partner/director* (9%, an increase of two percentage points)
- *commercial mortgage* (5%, an increase of one percentage point)
- *loan from a Peer to Peer (P2P) platform* (4%, an increase of one percentage point)
- *factoring/invoice discounting* (4%, an increase of two percentage points)
- *equity finance* (2%, no change from 2020)

As in 2020 SME employers were asked not to include COVID-19 related finance when thinking about external finance sought. In determining the types of finance sought, coronavirus (COVID-19) Government-backed accredited loans or finance agreements and coronavirus (COVID-19) business grants funded by government/local authorities were not included in the list read out to respondents but were nevertheless mentioned by 10% and 4% of SME employers who had sought external finance respectively.

In 2021, less than one per cent of all SME employers only sought external finance relating to the impact of the coronavirus (COVID-19) pandemic.

The mean amount of finance sought<sup>8</sup> was £523,000. This mean was £191,000 for micros, £1.0 million for small businesses, and £4.2 million for medium-sized businesses. It should be noted that the mean can be affected by a relatively small number of large values and so might not be very reliable as an estimate.

The median, which better represents the amount that the typical business sought, was £50,000. This was £35,000 for micros, £150,000 for small businesses, and £500,000 for medium-sized businesses.

By nation, the median for businesses in Northern Ireland was £60,000, £50,000 for businesses in England and Wales, and £40,000 for Scottish businesses.

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<sup>8</sup> For those that sought bank overdrafts, this includes the size of the overdraft facility, even if it was not used.

## Coronavirus (COVID-19) government-backed loans and grants

In the [data tables](#) accompanying this publication, tables 70 and 75 show the types of external finance currently used, and sought in last 12 months, including those directly related to the coronavirus (COVID-19) pandemic

At the time of interview, 28% of SME employers were making use of a coronavirus (COVID-19) government-backed accredited loan or finance agreement such as the Coronavirus Business Interruption Loan and Bounce Back Loan, and the same proportion were using a government or local authority grant or scheme directly related to coronavirus. Further details on the support are available from the House of Commons library <https://commonslibrary.parliament.uk/research-briefings/cbp-8847/>.

Small and micro businesses were more likely than medium-sized businesses to be making use of loans directly related to coronavirus (29%, 29% and 23% respectively). By sector, SME employers in accommodation and food were also most likely to be making use of loan from a bank, building society or other financial institution relating to coronavirus (37%), with those in construction also particularly likely to be doing so (36%).

With regard to grants directly related to coronavirus, small businesses were more likely than micro and medium-sized businesses to be making use of these (32% of small, 28% of micro and 30% of medium-sized), while SME employers in arts and entertainment (49%) and accommodation and food (48%) were most likely to be using a government or local authority grant or scheme directly related to coronavirus.

Loans from a bank, building society or other financial institution relating to coronavirus were more likely to be used in Wales (33%) and Northern Ireland (31%), than in Scotland (29%) or England (28%), while SME employers in Wales were also more likely to be using government or local authority grants or schemes relating to coronavirus (37%), compared to Northern Ireland (34%), England (28%) and Scotland (27%).

In terms of finance sought in the last 12 months, 10% of SME employers applied for a Coronavirus Business Interruption Loan and Bounce Back Loan, while 4% of SME employers applied for a coronavirus (COVID-19) business grant funded by government or a local authority.

Applications for these loans did not differ significantly by business size (10% of micro, 11% of small, and 6% of medium-sized businesses), while SME employers in the administration sector (18%) were most likely to have applied for a loan.

With regard to a coronavirus grant, there was little difference by size of business (4% of micro, 5% of small and 6% of medium-sized businesses sought one), while those in the health sector (15%) were most likely to have applied for one.

Applications for financial support relating to the coronavirus (COVID-19) pandemic was higher in Northern Ireland (16% for loans; 6% for grants), than in Wales (11% for loans; 7% of grants), England (10%; 4%) and Scotland (6%; 3%).

## Intentions to apply for external finance in the next three years

In the [data tables](#) accompanying this publication, table 145 shows the likelihood that the business will approach external finance providers in the next 3 years.

When asked whether they would approach external finance providers in the next three years, 18% of SMEs said it was likely they would do so (7% very likely, 11% fairly likely). These proportions have changed little since 2018 but are each one percentage point lower than in 2020.

By employment size, 31% of medium-sized businesses said they would be likely to approach external finance providers, compared with 24% of small businesses and 17% of micro businesses.

## Trade credit and late payment (cohort A)

In the [data tables](#) accompanying this publication, table 19 (cohort A) shows whether they gave their customers trade credit. Table 22 (cohort A) outlines whether they have a problem with customers paying later than expected business terms.

This year we find that 48% of SME employers give their customers trade credit, this was a decrease of two percentage points compared to 2020, and one percentage point higher than that reported in 2019 figure.

Larger SMEs were more likely to give customers trade credit: 65% of medium-sized businesses gave trade credit, compared with 55% of small businesses, and 46% of micro firms.

Whether credit was given varied considerably according to sector, ranging from 78% of businesses in manufacturing, 63% in information and communications, 59% in transport and storage, 57% in construction, 55% in both professional and scientific and administration sectors to just 18% in health and 19% in accommodation and food.

Late payment was considered a problem by 56% of those that gave trade credit (or 26% of all SME employers). There was very little difference by size of business, with 57% of medium-sized employers considering late payment a problem, compared to 60% of small firms and 55% of micro businesses (as proportions of those that gave trade credit).

By sector, late payment was most likely to be considered a problem by those that gave trade credit in health (81%), education (70%), administration and professional and scientific (both 61%) and transport and storage (58%) sectors.



# Innovation activity

## New or significantly improved processes in the last three years (cohort C)

In the [data tables](#) accompanying this publication, table 17 (cohort C) shows whether the business has introduced any new or significantly improved processes in the last three years.

It is estimated that 19% of SME employers, the same proportion as in 2019 and 2020, had innovated processes for producing or supplying goods or services in the last three years.

The proportion was higher for medium-sized businesses (36%) than small (25%) and micro (17%) businesses.

SME employers in information and communication (39%) and manufacturing (34%) were also most likely to have introduced new or significantly improved processes.

By nation, the proportion was similar across Scotland (28% - a six percentage points increase on 2020), Northern Ireland (27% - a 16 percentage points increase) and Wales (27% - a 13 percentage points increase on 2020), but lower in England (18% - a two percentage points decrease).

## New or significantly improved goods or services in the last three years

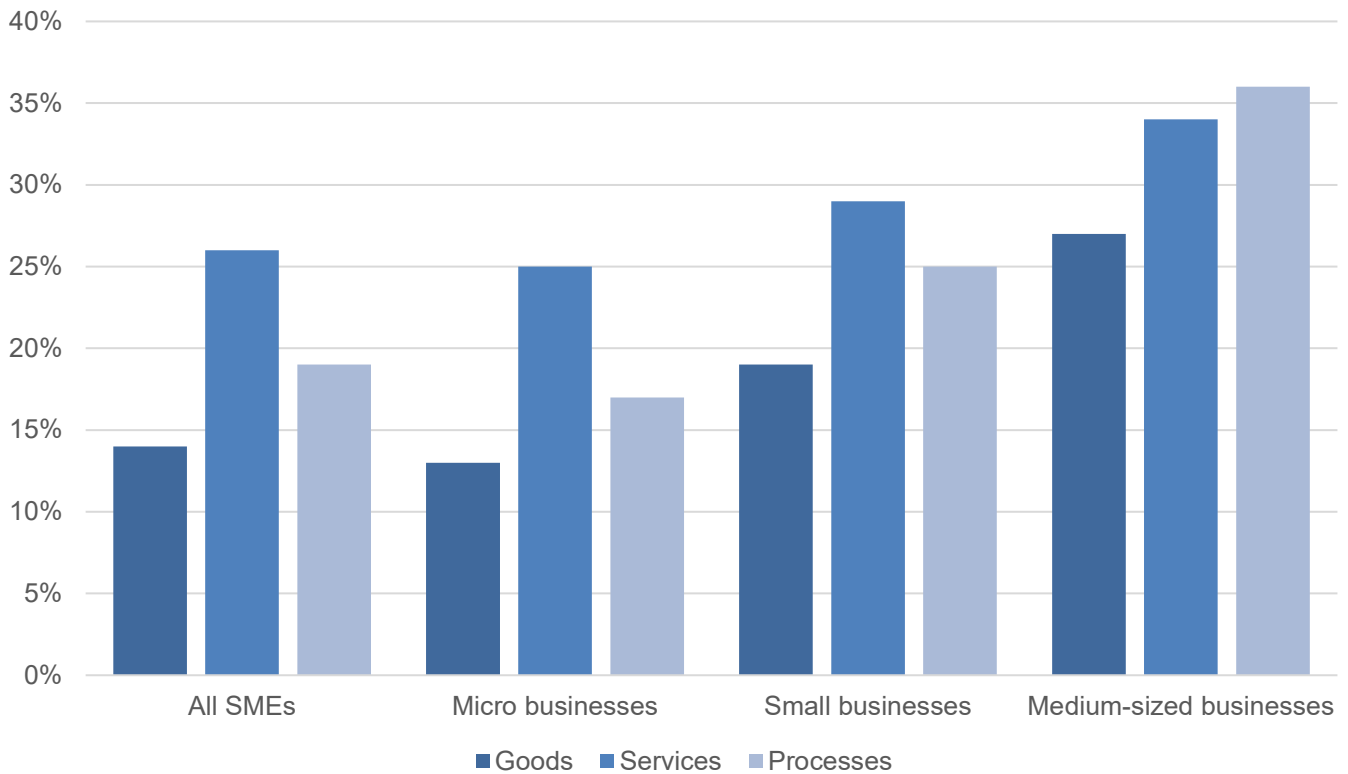
In the [data tables](#) accompanying this publication, tables 98, 99 and 100 show whether the business has introduced any new or significantly improved goods or services in the last three years.

In the last three years, 14% of SME employers had introduced new or significantly improved goods – an increase of one percentage point on 2020, but one percentage point lower than in 2019. This proportion increased with employment size, from 13% of micro businesses to 19% of small businesses, and to 27% of medium-sized businesses.

The equivalent figure for the introduction of new or significantly improved services was 26% - a two percentage points increase on 2020, but the same as reported in 2019. Again, the propensity to have done so increased with employment size: 25% of micro businesses, 29% of small businesses and 34% of medium-sized businesses had innovated in this way.

Overall, 32% of SME employers had innovated goods or services in the last three years. This was an increase of three percentage points on 2020, and the same as reported in 2019.

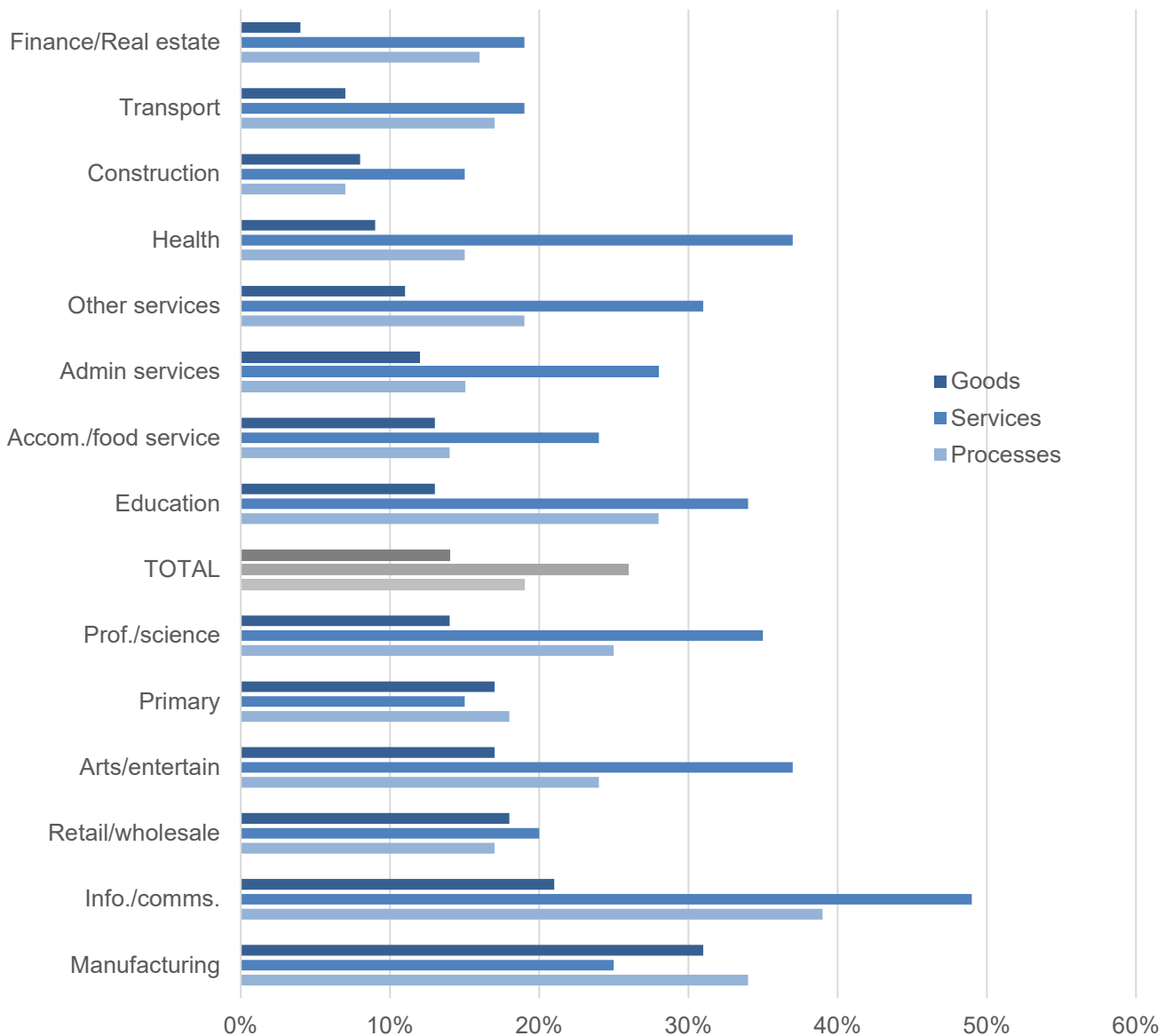
**Figure 11: Percentage of SME employers which have introduced new or significantly improved goods, services or processes in the last three years - by size of business**



Innovation for goods was similar across nations, 15% in Wales (a five percentage points increase on 2020) and 14% in England, Scotland (a one percentage point increase in each case) and Northern Ireland (a two percentage points increase).

However, innovation for services was highest in Northern Ireland (29%, a nine percentage points increase on 2020), and Scotland (27%, a six percentage points increase), compared with England and Wales (26% in each case – two percentage points and one percentage point increases respectively).

**Figure 12: Percentage of SME employers which have introduced new or significantly improved goods, services or processes in the last three years - by sector**



By sector, SME employers in manufacturing (31%) and information and communication (21%) were the most likely to have innovated goods.

Those in information and communication (49%), health, arts and entertainment (both 37%), professional scientific (35%) and education (34%) sectors were the most likely to have innovated services.

## Processes innovations which were new to the industry (cohort C)

In the [data tables](#) accompanying this publication, table 18 (cohort C) shows if the processes were new to the industry or business

Of those SME employers that had innovated processes in the last three years, these processes were new to the industry for 20% of them, with the remainder introducing processes that were new only to the business (77%). By employment size, medium-sized businesses were more likely than micro and small businesses to have introduced processes that were new to the industry (23%, 21% and 17% respectively).

Compared with 2020, the proportion of SME employers introducing processes that were new to the industry was higher (18% in 2020).

## Goods and services innovations which were new to the market or industry

In the [data tables](#) accompanying this publication, table 101 shows whether the goods or services innovations were new to the market or business

Of those SME employers that had innovated goods and services in the last three years, these were new to the market (or industry) for 29%, with the remainder new only to the business (70%). Compared with 2020, the proportion introducing goods and services that were new to the industry increased by three percentage points.

By size, the proportion of SME employers introducing goods and services new to the industry was higher in medium-sized businesses (36%) than in small (30%) and micro (28%) businesses.

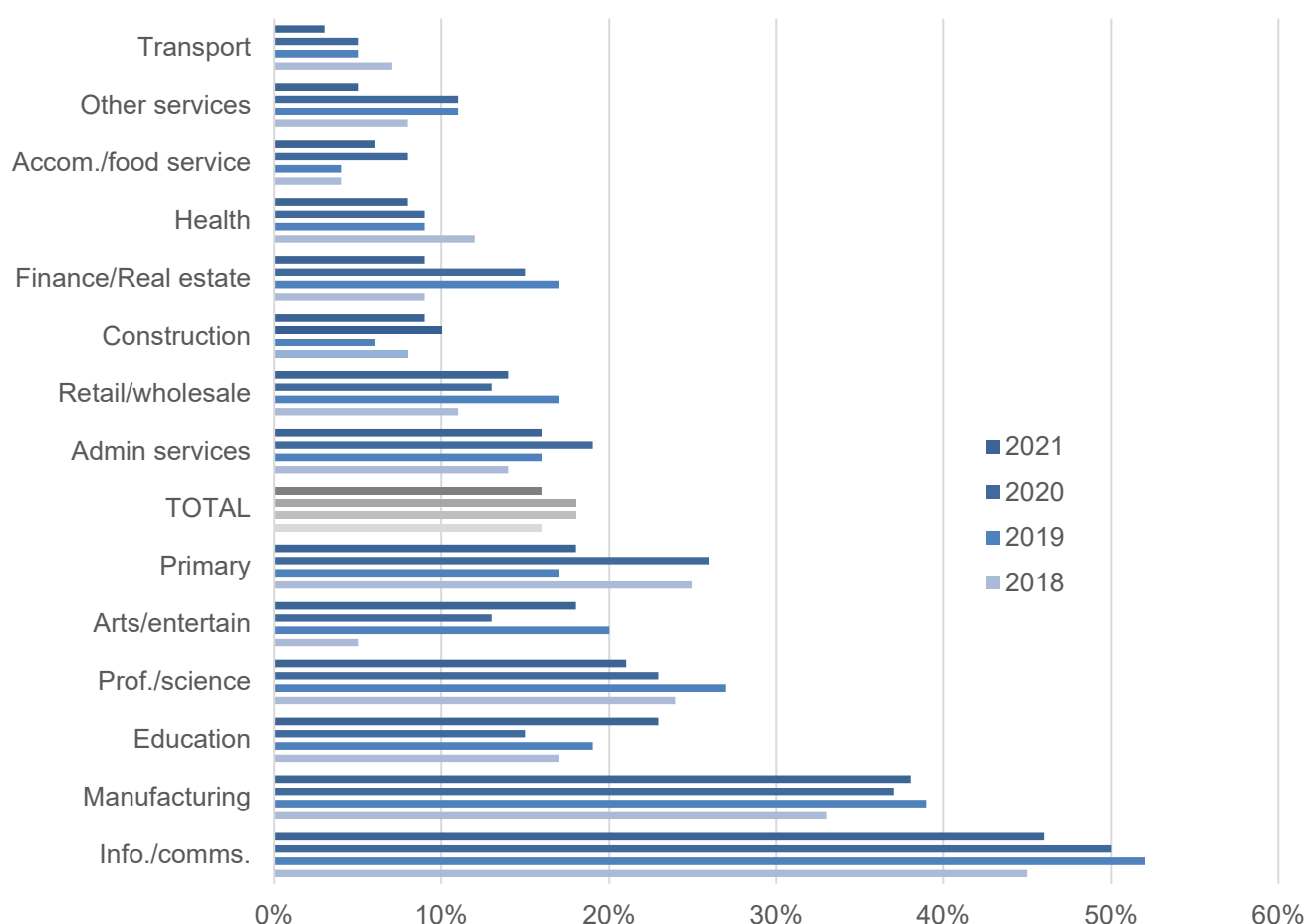
Based again on those SME employers innovating new goods and services, these were most likely to be new to the industry in manufacturing (45%) and information and communication (44%) sectors.

## Investment in R&D in the last three years (cohort C)

In the [data tables](#) accompanying this publication, table 19 (cohort C) shows whether the business invested in R&D in the last three years, and table 20 (cohort C) shows how much has been invested. Table 132 in the main tables shows annual turnover for those who invested in R&D in the last three years and was used to calculate the percentage of turnover invested.

Among SME employers 16% had made any investment in R&D in the previous three years (a two percentage points decrease compared to 2020). This was the case for 14% of micros, 27% of small businesses and 36% of medium-sized businesses. There has been little to no change over the last two years.

**Figure 13: Investment in R&D in the preceding three years by sector and by year - percentages**



Investment in R&D was most likely in the information and communications sector (42%) and manufacturing (38%), and also more likely than average in education (23%) and professional and scientific (21%) sectors.

When compared with 2020, the education sector reported the largest increase (eight percentage points), while the largest decrease was within primary and information and communication

sectors (eight percentage points in both cases).

Of those investing in R&D, the mean amount spent over the previous three years was £166,000. Means are affected by high values and can be misleading as a measure of the investment in R&D by a typical SME employer. This figure has been calculated only using responses with the exact amount of R&D spending stated, so it excludes the respondents who gave an estimated figure within a range. The amount spent by a typical SME is better reflected by using the median.

The median amount invested over the previous three years was £30,000. This was £20,000 for micro businesses, £100,000 for small businesses, and £120,000 for medium-sized businesses.

The mean annual sales turnover for SME employers that invested in R&D was just under £2,300,000. The mean amount spent on R&D per year was around £55,000<sup>9</sup>. Assuming constant sales turnover over three years, this suggests that the average SME employer that invests in R&D spends 2% of its annual turnover on R&D. This proportion was higher for micro and small businesses (both 4%) than medium-sized businesses (1%).

## Applications for R&D tax credits in the last three years (cohort C)

In the [data tables](#) accompanying this publication, table 21 (cohort C) shows whether the business applied for or received R&D tax credits in the last 3 years

Seven per cent of SME employers had applied for R&D tax credits in the previous three years (as in 2020). This proportion was higher for medium-sized businesses (23%), than for small businesses (17%) and micro businesses (5%). By sector, applications were most likely in information and communication (22%) and manufacturing (21%).

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<sup>9</sup> Calculated by dividing the mean amount spent on R&D over three years (£166,000) by three.

## Social enterprises<sup>10</sup>

In the [data tables](#) accompanying this publication, tables 51 and 52 show whether SME employers consider various business goals as important, and the relative importance of social or environmental goals. Table 62 presents how SMEs are classified with regard to social enterprise.

When asked about a variety of business goals, 90% of SMEs stated that financial goals were important to them.

The propensity to consider financial goals as important increased slightly with business size: 89% of micros, 90% of small and 94% of medium-sized business.

Offering solutions to environmental problems, such as climate change or food waste was reported as of high importance by 36% of all SMEs. This proportion is highest in primary sectors (68%), as well as being higher than average in the accommodation and food sector (53%).

Working to enhance civic and community engagement was important for 36% of SMEs. The sectors most likely to rate this as important were arts and entertainment (71%), health (69%), education, other services (both 59%) and accommodation and food (52%).

Fighting economic and/or social exclusion was reported as important by 31% of all SMEs, and particularly within health (73%), education (58%), arts and entertainment and other services (both 53%) sectors.

Offering solutions to problems of health and/or aging was important for 24% of all SMEs, particularly, again, those in health (64%) and, to a lesser extent, arts and entertainment (39%) and other services (35%) sectors.

Serving members or organisations (such as in a mutual, a social or a sports club) was deemed the least important of all goals; 17% of all SMEs stated this as important. Sectors most likely to report this as important to their business goals were arts and entertainment (47%) and other services sectors (38%).

Of those SMEs who cited goals other than financial ones as important, 3% considered social or environmental goals as their only concern, 11% considered these goals their primary concern, 31% considered them to be equal to financial or other goals and 47% considered them to be secondary to financial or other goals.

Where social or environmental goals were important to SME employers, those in health, other services (both 40%), education, arts and entertainment and primary (all 35%) sectors were most likely to report that these goals were equal to financial and other goals.

Questions asked in this year's survey sought to determine whether SME employers could be classified as social enterprises. A social enterprise<sup>11</sup> is defined as a business (not a charity)

<sup>10</sup> Section D relating to social enterprises and social or environmental goals is included in the survey every other year.

<sup>11</sup> Social enterprises are defined as: clear social or environmental mission that is set out in its governing documents; are independent and earn more than half its income through trading (or are working towards this); are controlled or

which trades for a social or environmental purpose and reinvests its profit or surplus in that social or environmental purpose. To distinguish it from a charitable organisation, it must obtain at least half its income from trading activity.

Thus, based on whether social and environment goals were important, whether those social and environmental goals were at least as important as financial goals, and whether at least half of profits or surpluses were invested to further these non-financial goals, 7% of all SMEs were classified as 'social enterprises'. This proportion is highest within health (24%), arts and entertainment (20%), education (15%), primary (13%) and other services (12%) sectors.

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owned in the interests of their social mission; reinvest or give away at least half their profits or surpluses towards their social purpose; are transparent about how they operate and the impact that they have

Source: <https://www.socialenterprise.org.uk/what-is-it-all-about/>



# Major obstacles to the success of the business

## Overview of main obstacles (cohort B)

In the [data tables](#) accompanying this publication, table 1 (cohort B) shows the major obstacles to the success of the businesses interviewed.

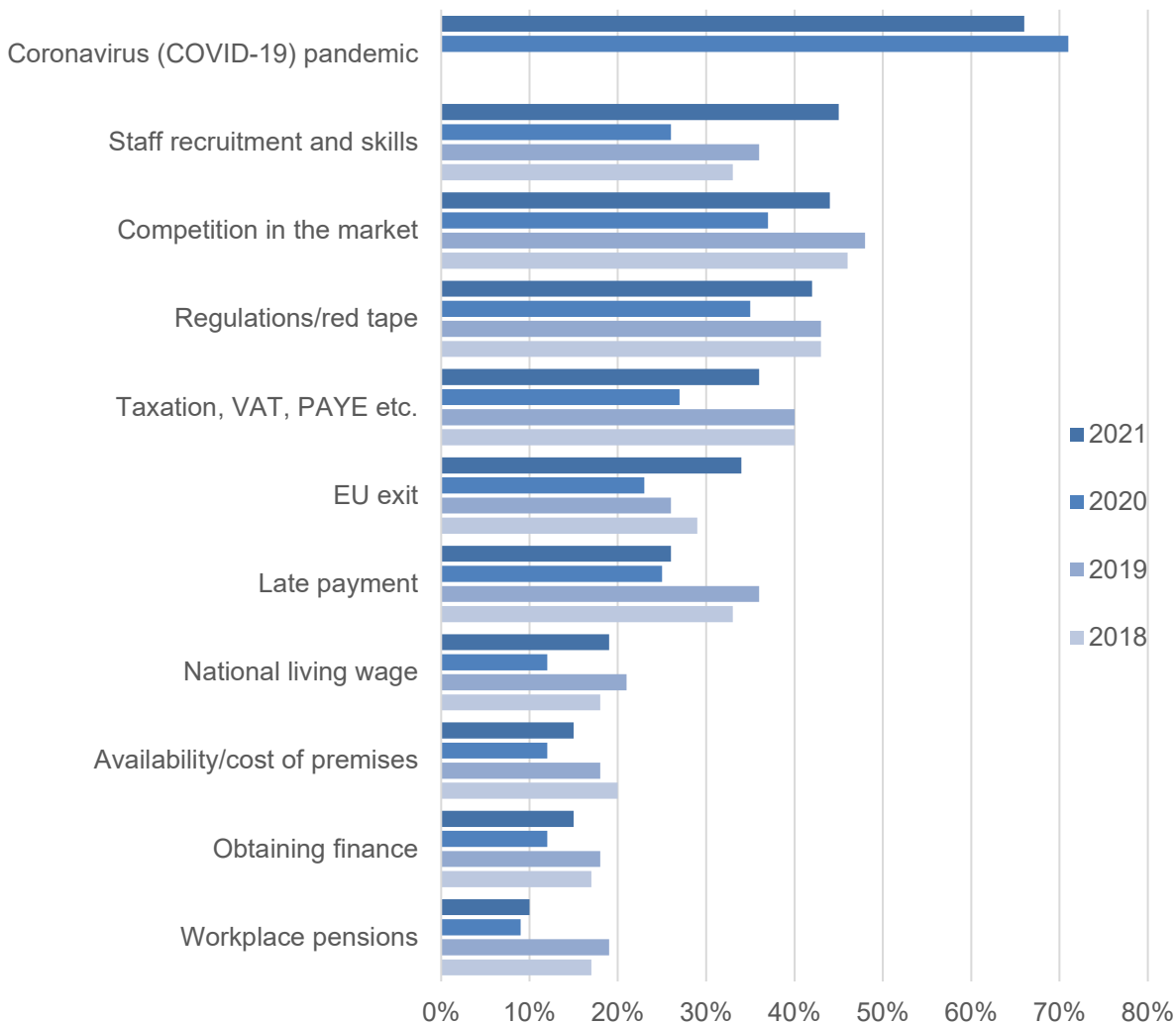
In 2020, the coronavirus (COVID-19) pandemic was added to the list of potential obstacles that SME employers may have faced, and this was retained for 2021 survey, as it remained a significant concern in the global trading environment into the first Quarter of 2022. Reflecting this, it was the most frequently mentioned obstacle in 2021, as it was in 2020 (66%, compared to 71% in 2020).

Staff recruitment and skills and competition were the next most frequently mentioned potential obstacles (45% and 44% respectively). Compared with 2020, there was an increase of seven percentage points in SME employers mentioning competition as an obstacle to business success, while there was a 19 percentage points increase in SMEs mentioning staff recruitment and skills in this respect, which was particularly significant as it has resulted in staff recruitment and skills overtaking competition as an obstacle to business success for the first time since the survey began

Other major obstacles included regulations and red tape (42% - a seven percentage points increase on 2020), taxation (36% - a nine percentage points increase), the UK's exit from the EU (34% - 11 percentage points increase) and late payment (26% - one percentage point increase).

Following a slight reduction in reports of obstacles other than the coronavirus (COVID-19) pandemic in 2020 compared with 2019, these obstacles were in greater evidence again in 2021, with the coronavirus (COVID-19) pandemic still impacting businesses but to a lesser extent than in the previous 12 months.

**Figure 14: Percentages of SME employers citing each major obstacle to the success of the business (cohort B only)**



With a larger number of staff to accommodate, obstacles relating to employment are of greater concern to medium-sized employers than micro and small employers. Staff recruitment and skills were mentioned by 76% of medium-sized businesses (up 33 percentage points on 2020), compared with 66% of small (up 27 percentage points) and 40% of micro (up 17 percentage points) businesses. Furthermore, the National Living Wage was mentioned by 30% of small (up ten percentage points on 2020) and 32% of medium-sized businesses (up 15 percentage points), compared with 17 per cent of micro businesses (up seven percentage points).

Medium-sized businesses were more likely to mention regulations and red tape (47%, up 11 percentage points on 2020) than small (44%, up five percentage points) and micro (41%, up 7 percentage points) businesses. A similar pattern by size was evident with regard to the UK's exit from the EU, as an obstacle: mentioned by 38% of medium-sized businesses (up 7 percentage points), compared with 36% of small (up 11 percentage points) and 33% of micros (up ten percentage points).

There was some sectoral variation in the obstacles SME employers cited:

- *the coronavirus (COVID-19) pandemic was most likely to be considered an obstacle in accommodation and food (88%), education (83%), other services (81%), health (80%) and arts and entertainment (79%). It was least likely to be considered an obstacle to business success in the primary sector (38%), and less likely than average to be mentioned by SME employers in information and communication (52%) and finance and real estate (also 52%) sectors*
- *competition* was most likely to be an obstacle for those in transport and storage (55%), finance and real estate (53%) and education (50%)
- *staff recruitment and skills* were most likely to be considered an obstacle in health (67%), accommodation and food (55%), manufacturing and construction (both 54%) and administration (51%)
- *regulations* were most likely to be considered an obstacle in the primary sector (71%), finance and real estate (59%), health (55%) and transport and storage (53%)
- *taxation* was most likely to be an obstacle in accommodation and food service (62%), transport and storage (46%), and construction (41%)
- *late payment* was most likely to be viewed as an obstacle in construction (36%), administration (34%) and professional and scientific (31%) sectors
- *the UK's exit from the EU* was most likely to be considered an obstacle in primary sectors (52%), retail and wholesale (46%) and transport and storage (42%) sectors
- *the availability and cost of suitable premises* was most likely to be viewed as an obstacle in arts and entertainment (32%) and education (29%)
- *the National Living Wage* was most likely to be viewed as an obstacle in accommodation and food service (49%) and health (41%)
- *workplace pensions* were most likely to be viewed as an obstacle in health (14%), accommodation and food (13%), construction (13%) and transport and storage (13%)
- *obtaining finance* was most likely to be considered an obstacle in health (32%), education (28%), transport and storage (21%) and accommodation and food (19%) sectors

SME employers in Northern Ireland were more likely to mention:

- *Late payment* - Northern Ireland (30% - an increase of four percentage points on 2020), compared with England (27% - a one percentage point increase), Wales (25% - a six percentage points increase in Wales) and Scotland (21% - up five percentage points)

SME employers in Scotland were more likely to mention:

- the *coronavirus (COVID-19) pandemic* (76% - an increase of 12 percentage points on 2020) compared with Wales (70% - also up 11 percentage points), England (65% - a six percentage point decrease) and Northern Ireland (65% - down 15 percentage points).

As well as workplace pensions and taxation, SME employers in Wales were more likely than those located elsewhere in the UK to mention some obstacles including:

- *the national living wage* – Wales (32% - a ten percentage point increase on 2020), compared with Scotland (23% - up 11 percentage points), Northern Ireland (23% - up one percentage point) and England (18% - up seven percentage points)

While SME employers in England were more likely than those located elsewhere in the UK to mention:

- *Competition in the market* – England (45% - up seven percentage points on 2020), compared with Wales (42% - up nine percentage points), Northern Ireland (39%, as in 2020) and Scotland (36% - up six percentage points)

Other significant obstacles by nation include:

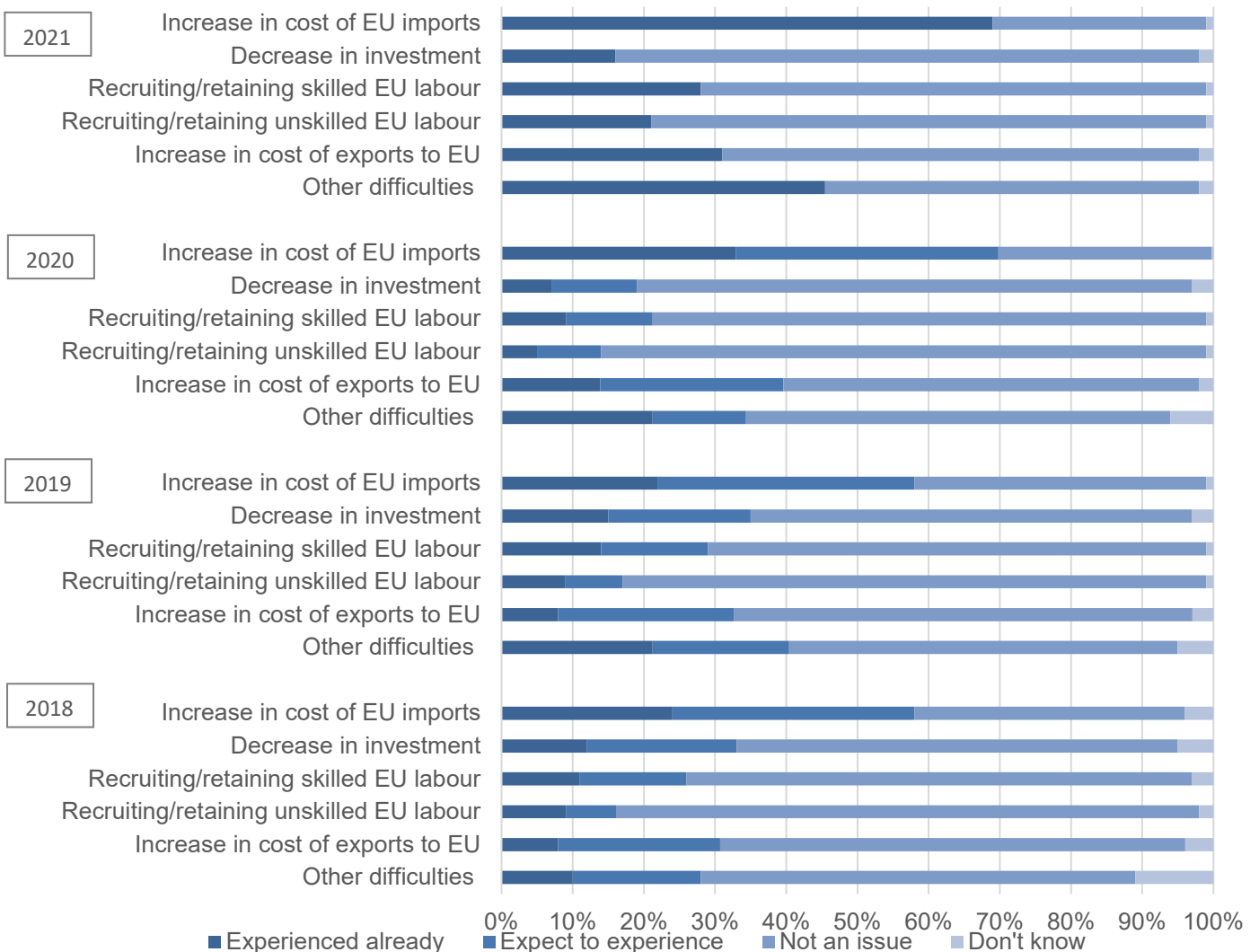
- *Staff recruitment and skills* – England (45% - a 19 percentage point increase on 2020), Scotland (43% - up 21 percentage points), Northern Ireland (43% - up five percentage points) and Wales (41% - up three percentage points)
- *Taxation* – Wales (43% - an increase of 19 percentage points on 2020) and Northern Ireland (42% - as 2020), compared with England (36% - up ten percentage points) and Scotland (31%, as 2020)
- *The UK's exit from the EU* – Scotland (40% - up 14 percentage points on 2020) and Northern Ireland (39% - a decrease of 13 percentage points), compared with England (33% - up 11 percentage points) and Wales (30% - up six percentage points)

## Whether experienced difficulties as a result of the UK’s exit from the EU

In the [data tables](#) accompanying this publication, tables 2-7 (cohort B) show the specific major obstacles relating to the UK’s exit from the European Union (EU) to the success of the businesses interviewed.

Since 2018, those SME employers that considered the UK’s exit from the EU a major obstacle to the success of their business have been asked if they had experienced a number of specific difficulties.

**Figure 15: Whether experienced difficulties as a result of the UK’s exit from the EU (cohort B only)**



Please note: 2021 response options reduced to ‘experienced already’, ‘not an issue’ and ‘don’t know’

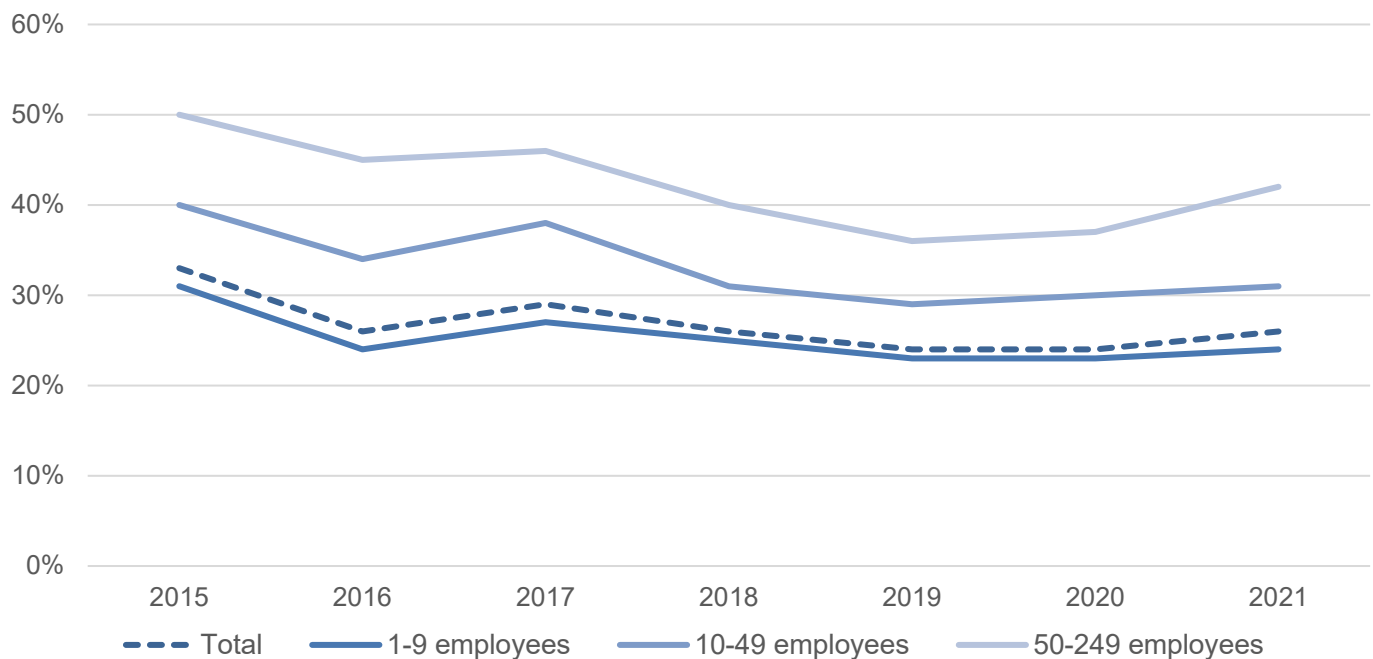
In terms of difficulties that SME employers were most likely to have experienced already, 69% of SME employers that cited the UK’s exit from the EU as a major obstacle mentioned an increase in the cost of EU imports, an increase of 36 percentage points compared to 2020.

# Business Support

In the [data tables](#) accompanying this publication, table 103 shows whether information or advice was used in the last 12 months

In 2021 26% of SME employers reported seeking external information or advice in the preceding 12 months - defined as more than just a casual conversation. This was two percentage points higher than in 2020.

**Figure 16: Percentage of SME employers that sought external information or advice in the last year, by employment size and year**



Larger SMEs were more likely to have sought external information or advice, 42% of medium-sized businesses sought it (an increase of five percentage points on 2020), compared with 31% of small businesses and 24% of micro businesses (up one percentage point in both cases). There has been very little change in the propensity of businesses within each size band to have sought external information or advice since 2018.

By nation, 29% of SME employers in Northern Ireland sought external information and advice (an increase of five percentage points on 2020), compared to 26% of SME employers in England (up two percentage points), 24% in Scotland (down three percentage points) and 22% in Wales (down two percentage points).

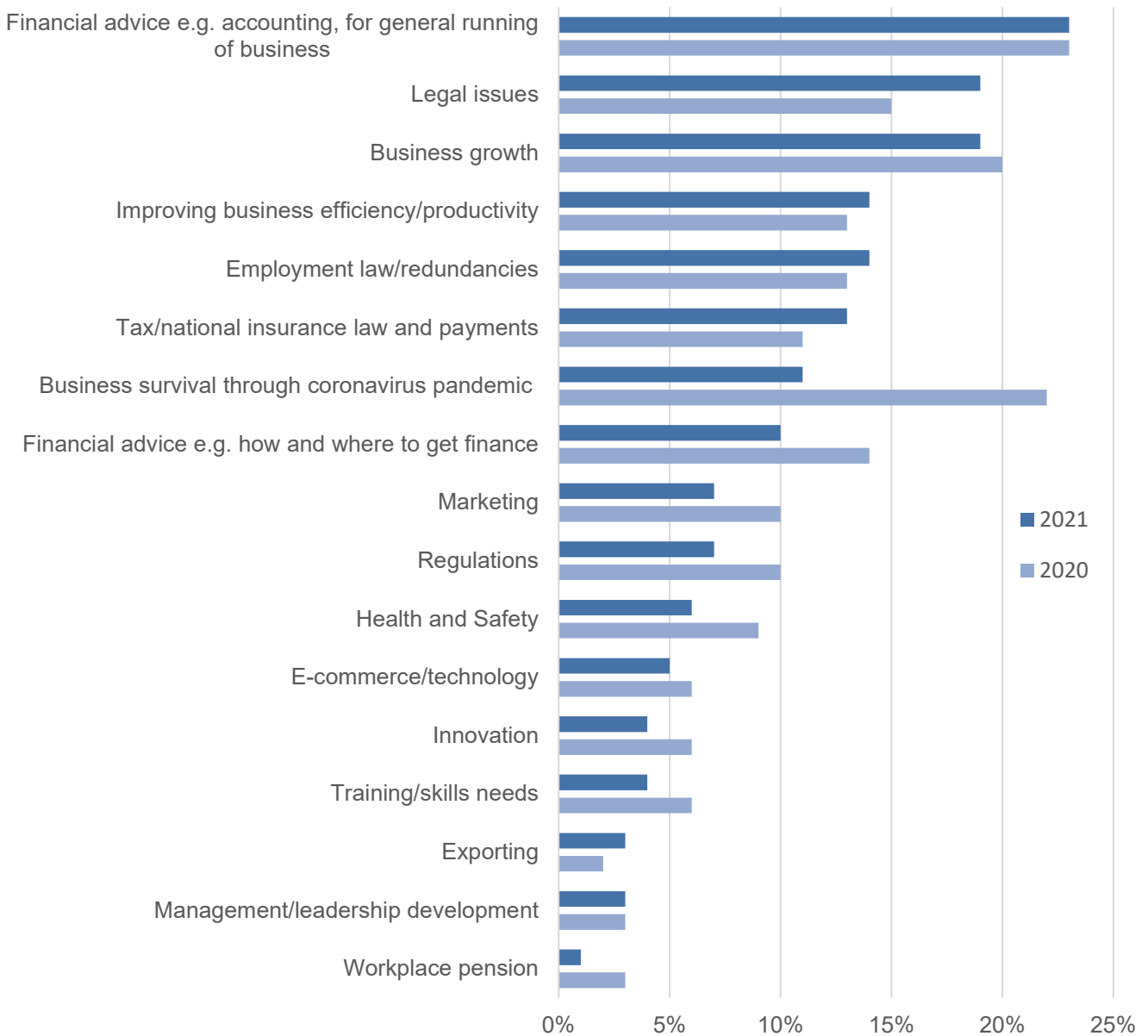
By sector, businesses which sought information and advice were most likely to be in primary (39%), arts and recreation (36%), education (34%), information and communications (33%), finance and real estate (33%) and health (31%) sectors. SME employers in retail and wholesale (18%) and construction (20%) sectors were least likely to have sought information and advice.

## Purpose of information and strategic advice sought

In the [data tables](#) accompanying this publication, table 105 shows the purpose of information and advice sought

The most common reason for seeking information and/or advice cited by those that had sought it was advice on finance, specifically accounting, for the general running of the business (23%, as in 2020), followed by legal issues and business growth (both mentioned by 19%). In 2020, business survival or operation through the coronavirus (COVID-19) pandemic was the second most commonly cited reason for seeking information and/or advice after advice on finance, but in 2021 other reasons are more common. The coronavirus (COVID-19) pandemic was mentioned by 11% in 2021 (an 11 percentage points decrease on 2020).

**Figure 17: Purpose of information and advice in the last year**



Some differences in the type of information and advice sought by size and sector, are as follows:

- *financial advice for the general running of the business* was more likely to be sought by micro (24%) than small (20%) and medium-sized (18%) businesses, while also most commonly sought within the education sector (35%)
- similarly, advice on *business survival or operation through the coronavirus (COVID-19) pandemic and beyond* was more likely to be sought by micro and small (both 10%) than medium-sized (6%) businesses, while also most commonly sought within other services (20%), health, arts and entertainment (both 16%) sectors
- advice on *employment law and redundancies* was more likely to be sought by small (24%) and medium-sized (23%) businesses than by micro businesses (11%), and within health (29%) and other services (27%) sectors
- advice on *health and safety* was more likely to be sought by small (11%) and medium-sized (10%) than by micro (5%) businesses, and within construction (11%).
- advice on *business growth* was more likely to be sought by medium-sized (24%) and small (22%) businesses than by micro businesses (18%), and those in arts and entertainment (39%) and health (25%) sectors
- *legal advice* was most likely to be sought by medium-sized businesses (29%) than by small (21%) and micro (19%) businesses, and within finance and real estate (31%), transport and storage and other services (both 27%) sectors
- advice on *business efficiency and productivity* was more likely to be sought in primary sectors (37%)
- advice on *tax and national insurance law and payments* was less likely to be sought by small (8%) than medium-sized (11%) and micro (14%) businesses, and more likely to be sought within the professional and scientific (25%) and information and communication (19%) sectors
- *financial advice for how and where to get finance* was more likely to be sought by medium-sized and micro (both 10%) businesses than by small businesses (6%), and within accommodation and food (20%) and administration (14%) sectors
- advice on *e-commerce and technology* was more likely to be sought within the information and communication sector (14%)
- advice on *regulations* was more likely to be sought within the finance and real estate sector (27%)

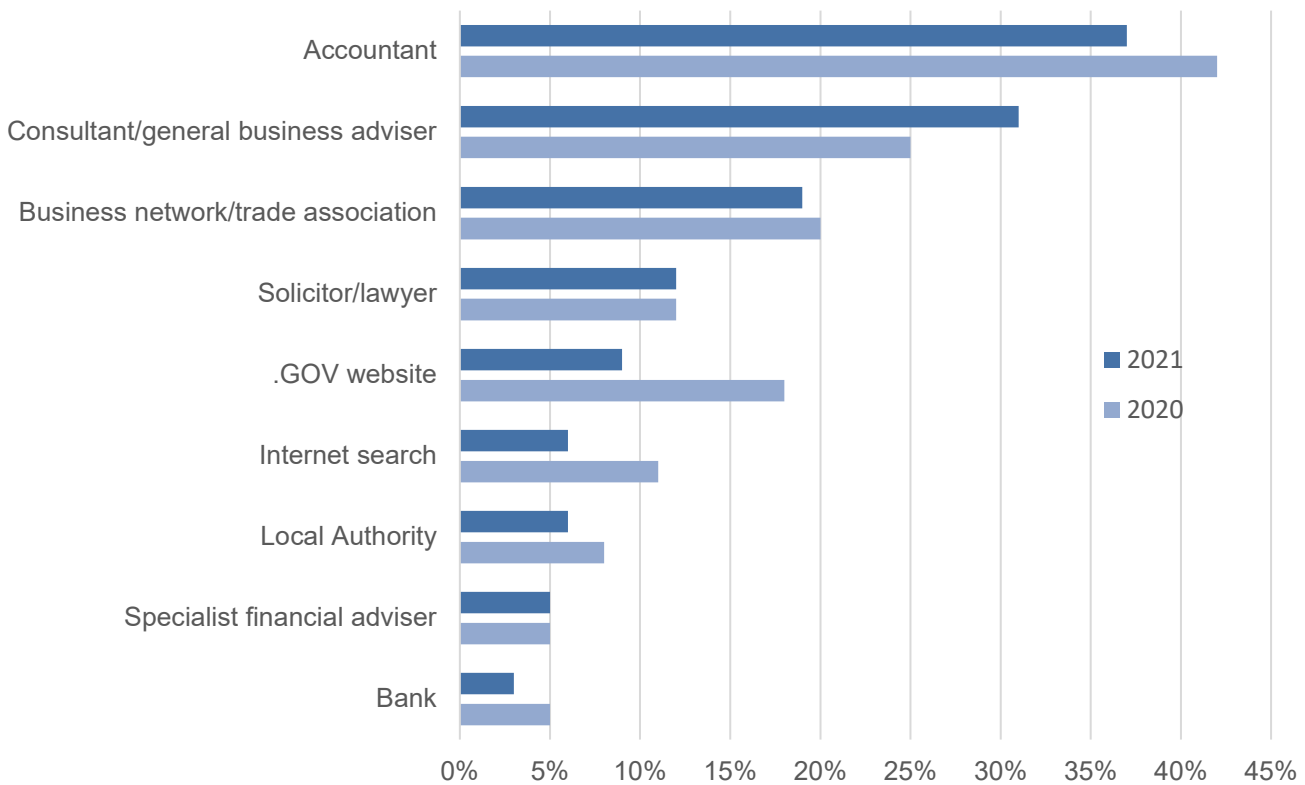


## Sources of external information and strategic advice

In the [data tables](#) accompanying this publication, table 107 shows sources of external information and strategic advice

SME employers that sought information and advice were most likely to have approached accountants (37% - a reduction of five percentage points on 2020), while 31% approached consultants and business advisers (an increase of six percentage points), 19% sought information and strategic advice from business networks (down one percentage point), 12% sought information and advice from a solicitor or lawyer (as in 2020), and 9% from the .GOV website (down nine percentage points).

**Figure 18: Who provided information and strategic advice in the last year**



Micro businesses were more likely than small and medium-sized businesses to have sought information and advice from an accountant (39%, compared with 30% and 29% respectively). Medium-sized and small businesses were more likely to have sought information and advice from consultants or general business advisers than micro businesses (45%, 41% and 28% respectively), and more likely than micro businesses to have sought it from solicitors and lawyers (27% and 18% respectively, compared to 10%). Compared to medium-sized businesses, micro businesses that sought information and advice were more likely to have sought it from business networks and trade associations (20% compared to 13%).

By sector, SME employers that sought information and advice in construction were most likely to have sought it from accountants (51%), while those in primary sectors were most likely to have used consultants or general business advisers (54%). The local council or authority were particularly likely to have been the source of information and advice for SME employers within health (24%), education (22%) and arts and entertainment (16%) sectors. SME employers that sought information and advice in the other services sector were more likely than average to have sought it from business networks or trade associations (29%). Those in finance and real estate were most likely to have sought information and advice from solicitors/lawyers (29%).

## How information and strategic advice was delivered

In the [data tables](#) accompanying this publication, table 109 shows how the information and strategic advice was delivered

The most common way of receiving information and advice was face-to-face (28%), and this increased by six percentage points compared with 2020. It was still a lower incidence of face-to-face delivery compared with 2019, when, although there is no direct comparison available<sup>12</sup>, it was reported that 71% of those that received strategic advice and 58% of those that received information in England and Wales had this mainly delivered face-to-face. The 2021 fieldwork was undertaken at a time when the coronavirus (COVID-19) pandemic was still impacting businesses, and this no doubt reflects this, but may also suggest a longer-term impact on the delivery of information and advice of the pandemic.

Email was the next most frequently mentioned mode of delivery of information and advice in 2021 (26% - a two percentage points increase on 2020), with fewer reporting that it had been delivered on the phone (21% - two percentage points decrease).

By sector, face-to-face delivery was most common in primary (51% - up 18 percentage points on 2020) and email was most common in finance and real estate sectors (35% - up 16 percentage points).

SME employers who sought information and advice in Wales were more likely than average to have received it face-to-face (36% - up 12 percentage points on 2020), while those in Scotland were more likely to have received it by email (44% - up 14 percentage points).

## Paying for information and advice (England and Wales only)

In the [data tables](#) accompanying this publication, table 119 shows if SMEs had ever paid for external information or advice

Of SME employers in England and Wales that received information or advice in the last 12 months, 64% paid for it. This was a four percentage points increase on the proportion that paid for information or advice in 2020.

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<sup>12</sup> Prior to 2020 SME employers in England and Wales were asked about strategic advice and information separately. This year strategic advice and information were combined, as they have been in Scotland and Northern Ireland in survey from 2015 to 2019. This prevents direct comparisons with previous surveys.

Medium-sized businesses were more likely to have paid for information and advice (81%, a six percentage points increase on 2020) than small businesses (72%, a four percentage points increase on 2020) and micro businesses (62%, up four percentage points on 2020).

By sector, those in the finance and real estate (80%) and professional and scientific (73%) sectors were most likely to have paid for information and advice; while those in the sectors of education (47%), accommodation and food (48%) and health (49%) were the least likely.

## Awareness of organisations offering business support – England (cohort A)

In the [data tables](#) accompanying this publication, tables 17 and 18 (cohort A) shows the awareness and usage of organisations offering business support

SME employers in England were asked if they had heard of their Local Enterprise Partnership and their local Growth Hub<sup>13</sup>. They were also asked if they had sought information or advice from them, or otherwise engaged with them, in the last 12 months. This question was asked of cohort A only.

Of all SME employers in England, 43% had heard of Local Enterprise Partnerships (a one percentage point increase on 2020) and 29% had heard of Growth Hubs (a two percentage points decrease). Of those aware of these organisations, 9% had used their Local Enterprise Partnership (down one percentage point on 2020) and the same proportion had used a Growth Hub (down two percentage points).

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<sup>13</sup> Businesses were given the actual name of their local LEP and Growth Hub, which was determined through the postcode that appeared on the database. In cases where they could be located in two LEPs or Growth Hubs, the primary LEP or Growth Hub was chosen

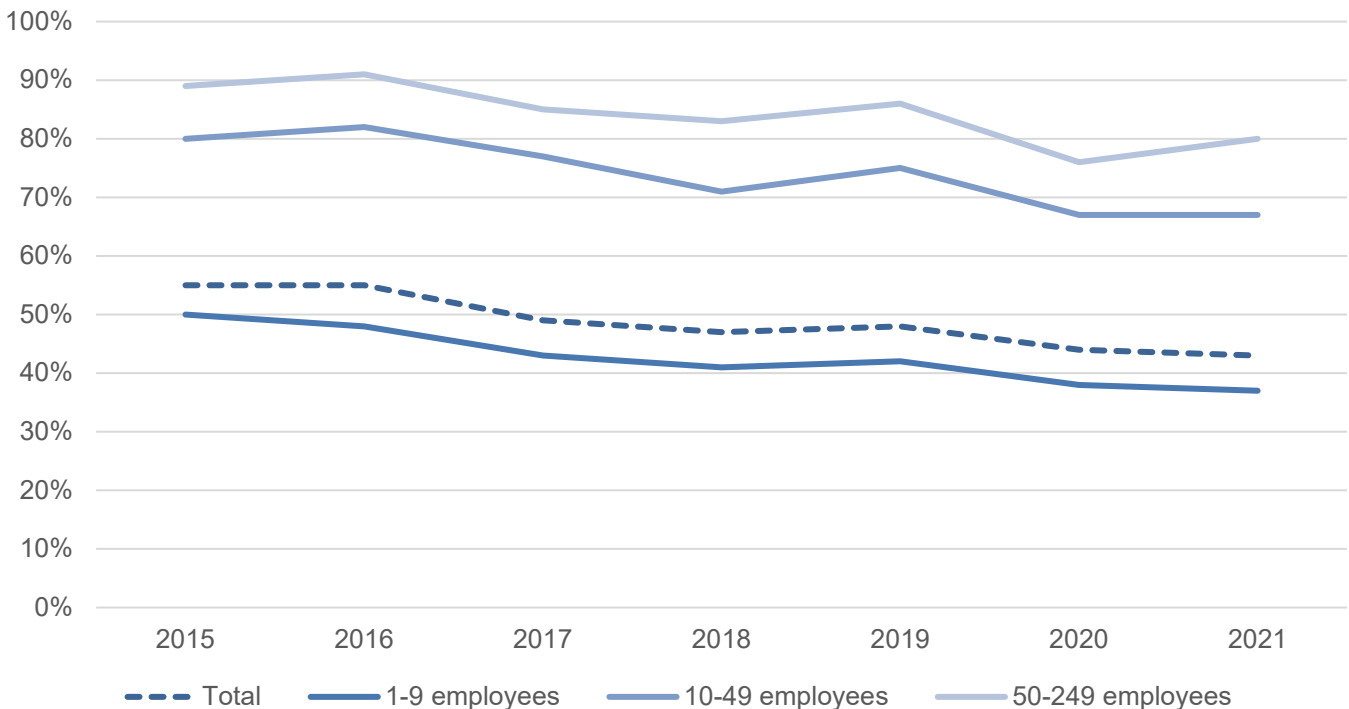
# Training

## Arrangement or funding of staff training and development

In the [data tables](#) accompanying this publication, table 128 shows training or development offered for employees

Some 43% of SME employers had arranged or funded training in the previous year, one percentage point lower than in 2020.

**Figure 19: Percentage of SMEs that arranged or funded training or development for staff in the year, by year and employment size**

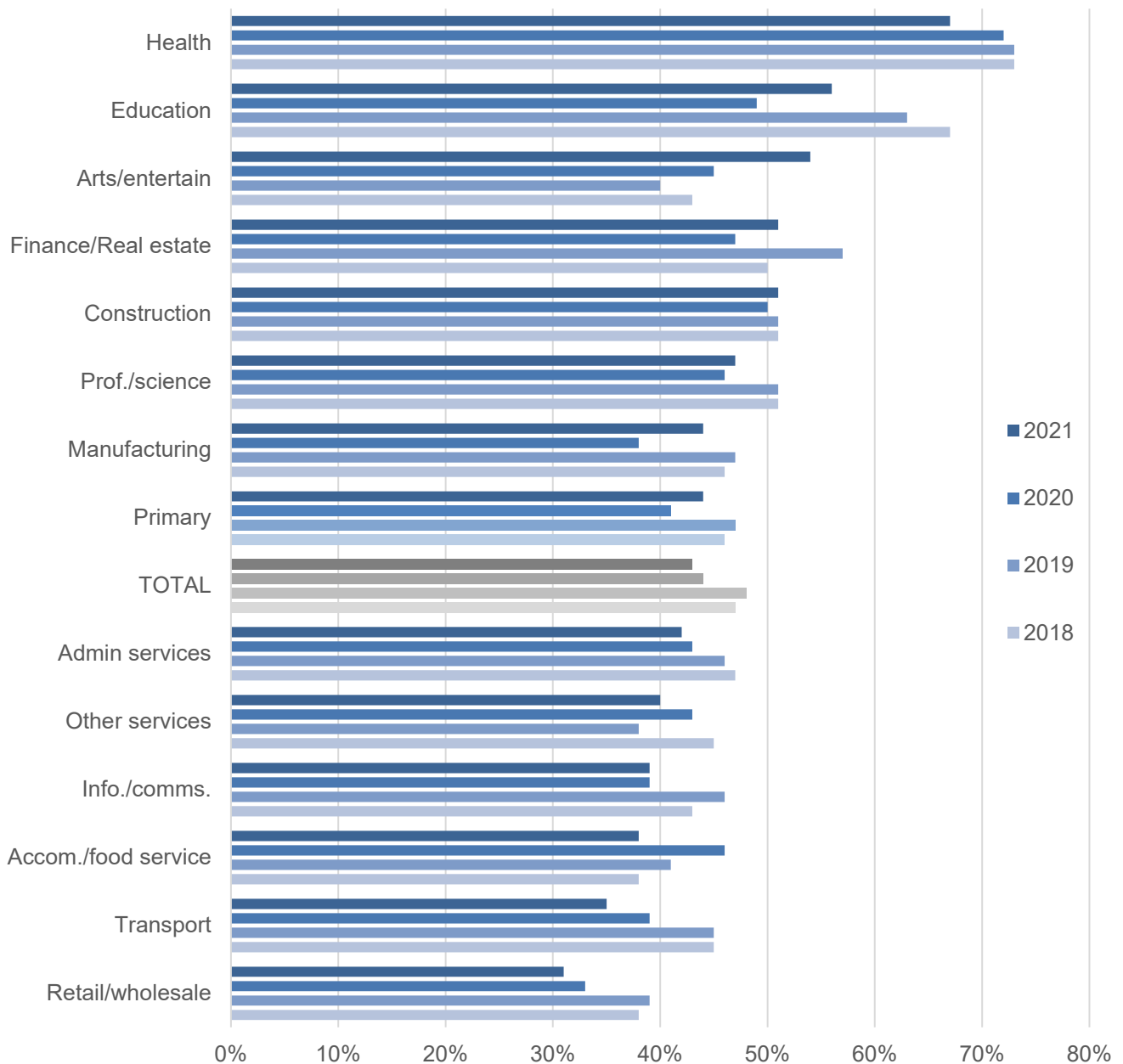


Provision of any training is much more likely for larger organisations with 80% of medium-sized businesses provided training in 2021, compared with 67% of small businesses, and 37% of micro businesses.

Training provision across all size bands were at similar levels to last year. Medium-sized businesses have seen an increase of four percentage points, small businesses, no change, and micro businesses a decrease of one percentage point in provision of training since 2020.

In 2021, 11% of SME employers offered formal ‘off-the-job’ training only, and the same proportion offered informal ‘on-the-job’ training, which represents no change since 2020. Some 20% offered both (an increase of one percentage point on 2020).

**Figure 20: Percentage of SMEs that arranged or funded training or development for staff in the year, by sector**



The most likely sectors to have provided training were health (67%), education (56%), arts and entertainment (54%) and construction (51%).

Training was least likely to be provided in retail and wholesale (31%), transport and storage (35%) and accommodation and food (38%).

By nation, training was most likely to have been provided by SME employers in Scotland (47% a decrease of three percentage points from 2020), compared to Wales (43%, up one percentage point), England (42%, down one percentage point) and Northern Ireland (40%, up one percentage point on 2020).

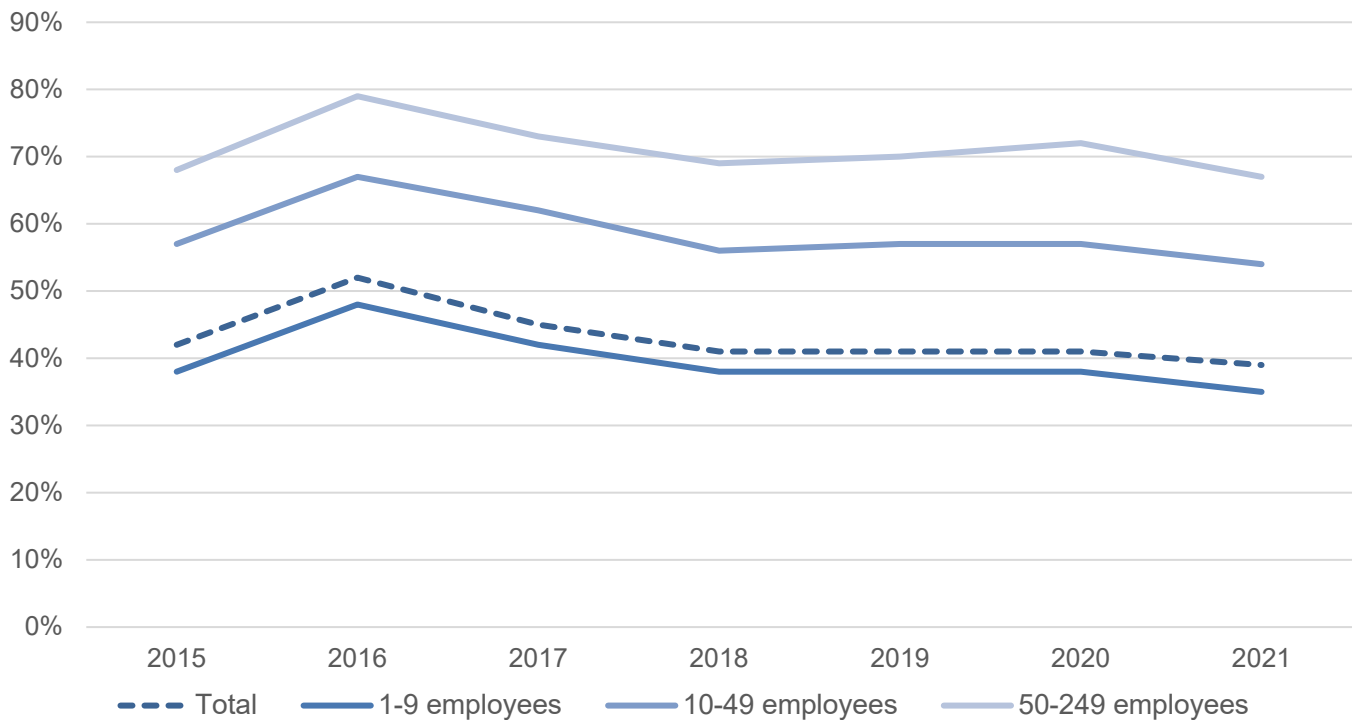
# Business practices

## Business plans

In the [data tables](#) accompanying this publication, table 63 shows whether businesses have a formal written business plan.

Fewer SME employers had a business plan than reported in 2020 (and 2019), with 39% overall reporting that they had business plan (41% in 2020 and 2019). This proportion increased with business size from 35% of micros to 54% of small to 67% of medium-sized businesses had a business plan.

**Figure 21: Whether have a business plan, by year and number of employees**



By sector, business plans were most common in education (65%), health (61%), arts and entertainment (56%) and finance and real estate (51%). They were least likely to be used in the construction (30%) and retail and wholesale (31%) sectors.

By nation, 39% of SME employers in England (a two percentage points decrease on 2020) and Wales (a four percentage points increase) had a business plan, compared with 36% of SME employers located in Scotland (a seven percentage points decrease) and 35% of those located in Northern Ireland (a five percentage points decrease).

Around 74% of SME employers with a business plan reported keeping it up to date, which was a three percentage points decrease on 2020.

## Dispute resolution (cohort A)

In the [data tables](#) accompanying this publication, table 21 (cohort A) shows whether they feel they can satisfactorily resolve a payment dispute with a larger business

SME employers in cohort A were asked if they felt they could satisfactorily resolve a payment dispute with a larger business (that is, one with 50 or more employees). The question was only asked if they gave or received credit and had less than 50 employees themselves.

Seventy-seven per cent of SME employers felt that they could resolve such a dispute. This was a five percentage points increase compared with 2020. This proportion varied slightly by employment size: 76% of micros thought they could resolve the dispute (up six percentage points on 2020), compared to 82% of small businesses (up one percentage point).

By nation, 78% in both Scotland and England felt that they could resolve such a dispute, compared with 73% in Northern Ireland and 69% in Wales.

## Taxation (cohort C)

In the [data tables](#) accompanying this publication, tables 8-12 (cohort C) show how businesses with employees keep records for taxation

When asked about methods for managing records specific to VAT, 78% of SME employers that paid VAT stated that they used record keeping software (an increase of one percentage point on 2020), 39% used spreadsheets (an increase of ten percentage points) and 40% used paper-based records (up nine percentage points).

The larger the company, the greater likelihood of using record keeping software, with 76% of micros having reported using it, compared to 87% of small businesses and 90% of medium-sized businesses.

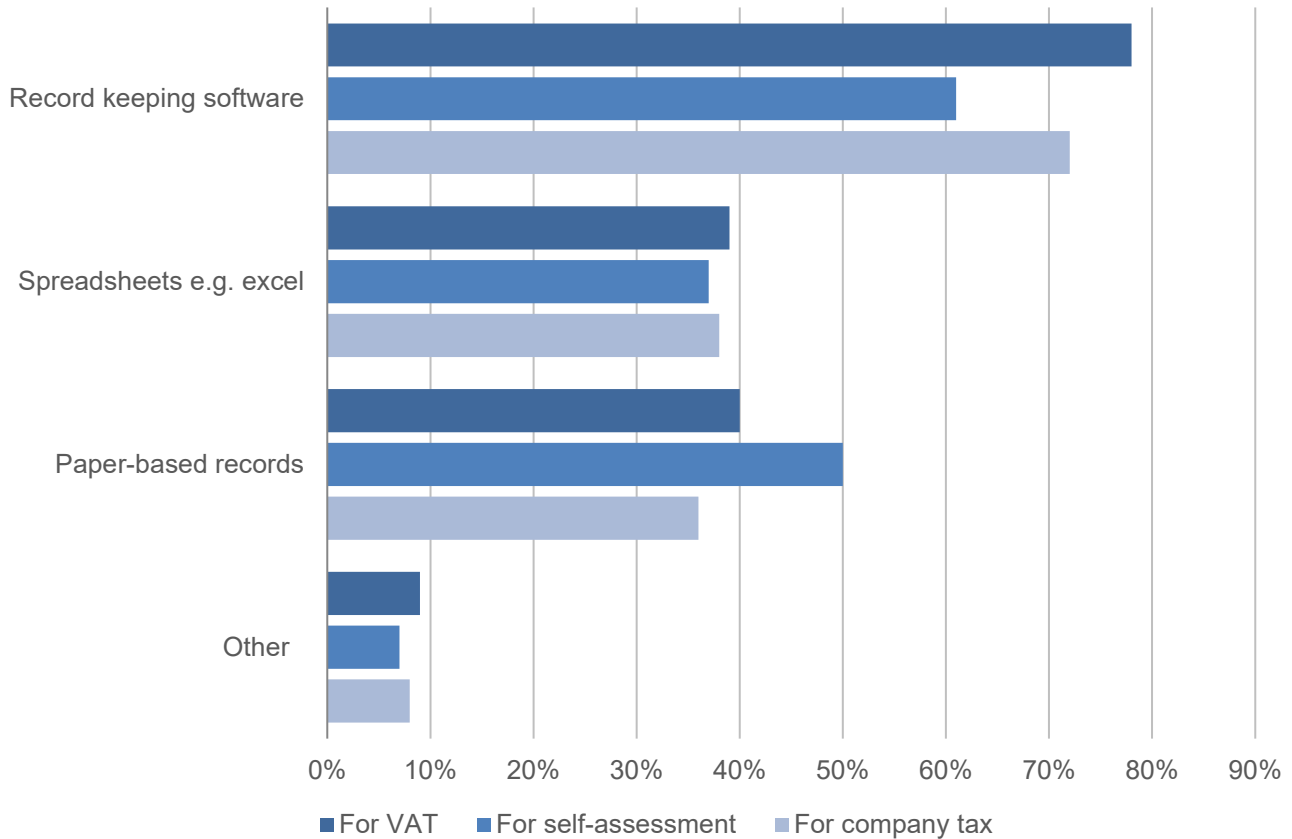
With respect to managing records relating to income tax self-assessment, 61% of all SME employers that pay income tax through self-assessment (an increase of eight percentage points on 2020) reported using record keeping software, 37% used spreadsheets (an increase of nine percentage points) and 50% used paper-based records (an increase of 11 percentage points).

Small businesses were more likely than micro businesses to report using record keeping software for income tax self-assessment (68% compared to 60%), but both were less likely to do so than medium-sized businesses (90%).

For keeping records of company tax, 72% of all SME employers reported using record keeping software (as in 2020), 38% used spreadsheets (an increase of nine percentage points on 2020) and 36% used paper-based records (up six percentage points).

Micro businesses (69%) were less likely to report using record keeping software for company tax, than small (83%) and medium-sized businesses (87%).

**Figure 22: Ways in which SME employers keep records (2021)**





## Technology (cohort C)

In the [data tables](#) accompanying this publication, tables 13-15 (cohort C) show which businesses use technologies or web-based software to sell to customers or to manage the business, and which technologies they use

Just over a half of all SME employers (55%, one percentage point down on 2020) used technologies or web-based software to sell to customers or to manage the business, whereas 43% did not<sup>14</sup>.

Small (67%) and medium-sized (73%) businesses were more likely to than micro businesses (53%). There was little change in the propensity to use technologies or web-based software since 2020.

SME employers in Northern Ireland (52%, an increase of four percentage points on 2020) were less likely to use technologies or web-based software to sell to customers or to manage the business than businesses in England (56%, down one percentage point), Wales (56%, up six percentage points) and Scotland (54%, up one percentage point).

SME employers in the information and communications sector (77%) were most likely to use technologies or web-based software, particularly to manage the business (70%). Businesses in the construction (38%) and primary (43%) sectors were least likely to use them.

More specifically, SME employers were more likely to use technologies or web-based software for managing the business than for selling to customers online (50% and 23% respectively). There was little change compared with 2020 (49% and 24% respectively then).

SME employers in wholesale and retail and information and communication sectors were most likely to use technologies or web-based software to sell to customers online (both 38%), and 35% of accommodation and food businesses reported selling to customers online.

Of those that reported selling to customers online, 12% started doing so as a result of the coronavirus (COVID-19) pandemic, while 82% did so prior to the pandemic.

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<sup>14</sup> 1% did not know

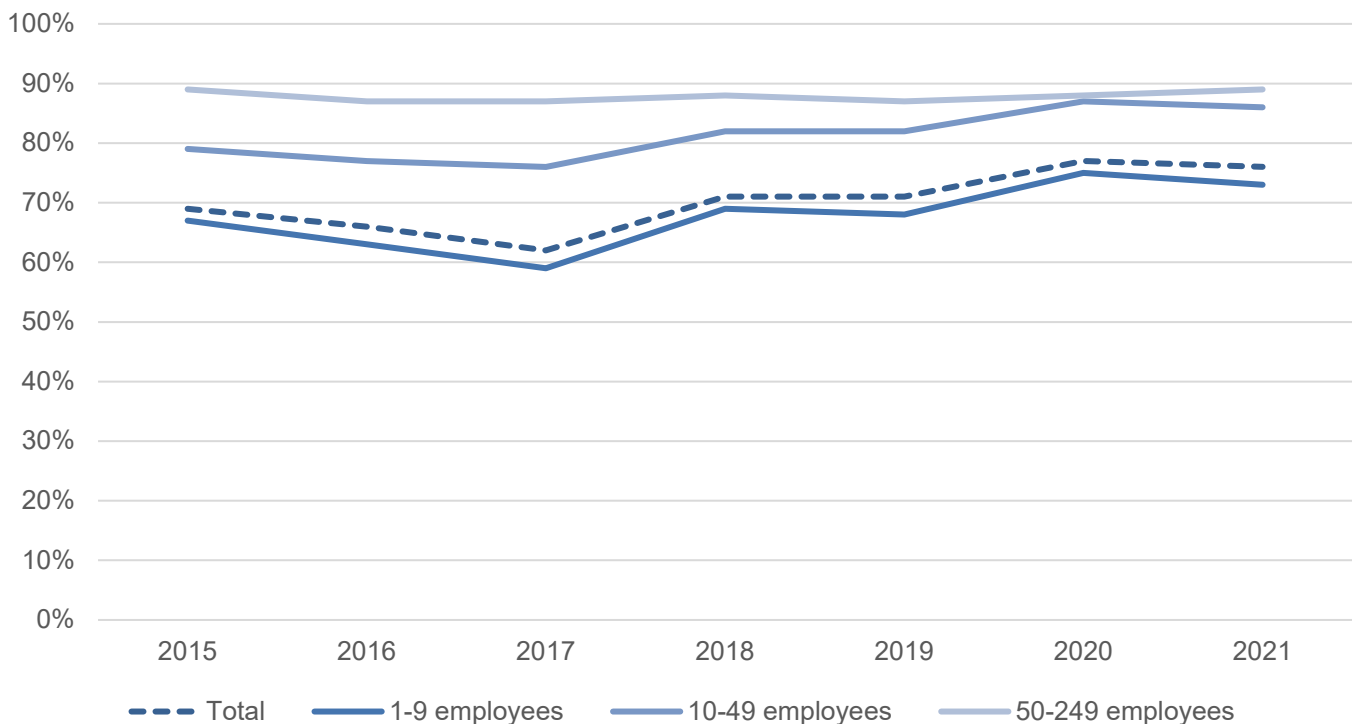
# Future plans

## Growth ambitions

In the [data tables](#) accompanying this publication, table 143 shows whether or not SME employers aim to grow sales over the next three years

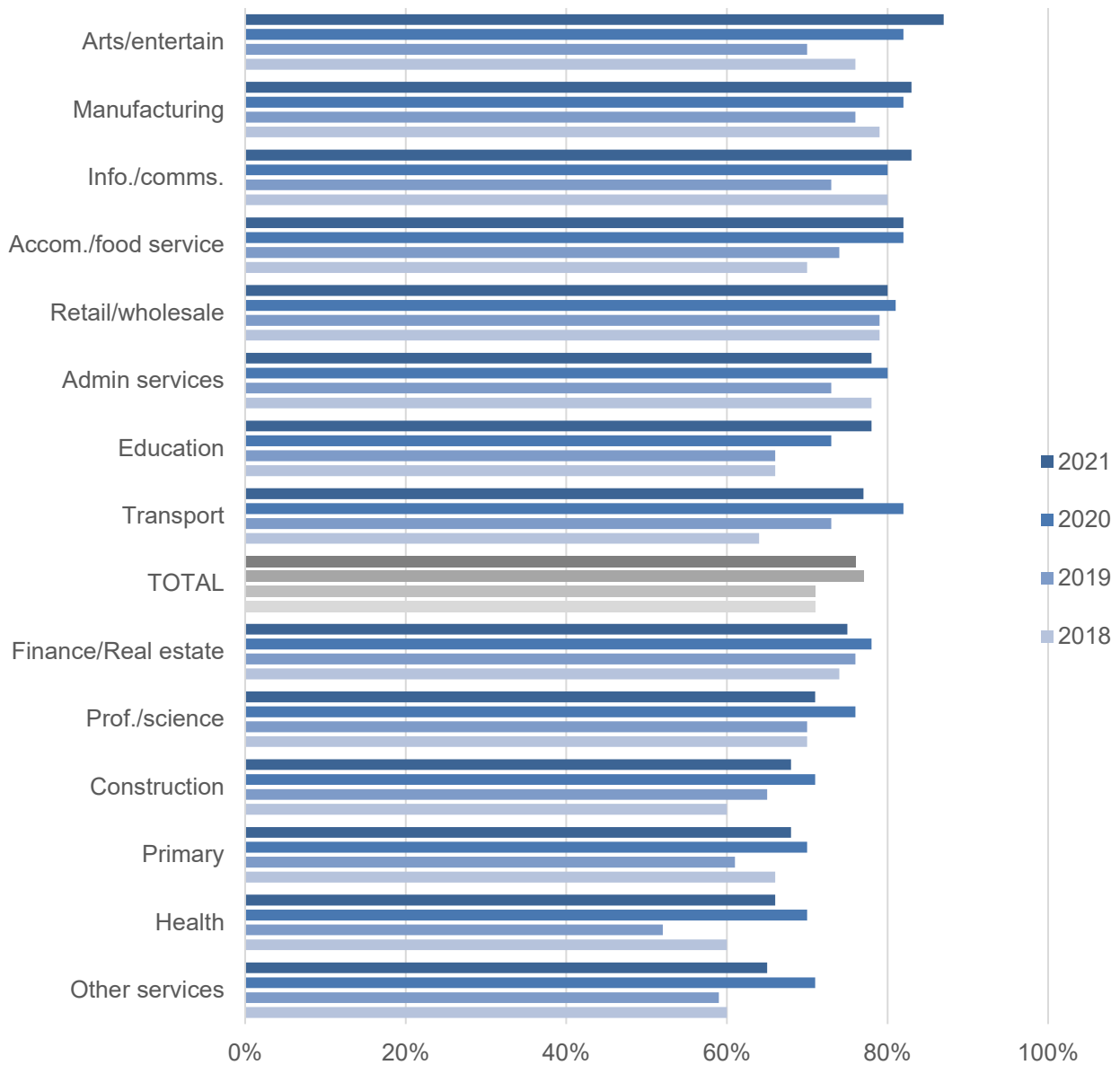
Seventy-six per cent of SME employers aimed to grow sales over the next three years, a one percentage point decrease on 2020. Small and medium-sized businesses were more likely to report this intention (86% and 89%), than micro businesses (73%). There has been little change in this respect compared to 2020 (87% of small, 88% of medium-sized and 75% of micro businesses in 2020).

**Figure 23: Percentage of SME employers that aim to grow sales of the business over the next three years, by employment size and year**



SME employers in arts and entertainment (87%), manufacturing, information and communication (both 83%) and accommodation and food (82%) sectors were most likely to aim to grow. Those in other services (65%), health (66%), primary (68%) sectors were least likely to be aiming to grow.

**Figure 24: Percentage of SME employers that aim to grow sales of the business over the next three years, by sector**



By nation, growth ambition was higher in Northern Ireland (80%) than in Scotland, Wales (both 77%) and England (75%). Compared with 2020 there was a two percentage points increase in Northern Ireland and Wales, a three percentage points increase in Scotland, and a three percentage points decrease in England.

By English region, growth ambition was strongest in London at 79%, and lowest in Yorkshire and the Humber at 70%.

Of those intending to grow, 15% aimed to grow sales by between one and nine per cent in three years' time, 40% by between 10 per cent and 24 per cent, 19% by between 25 per cent and 49 per cent, and 21% of businesses intended to grow by 50 per cent or more, while 5% were not able to provide an estimate.

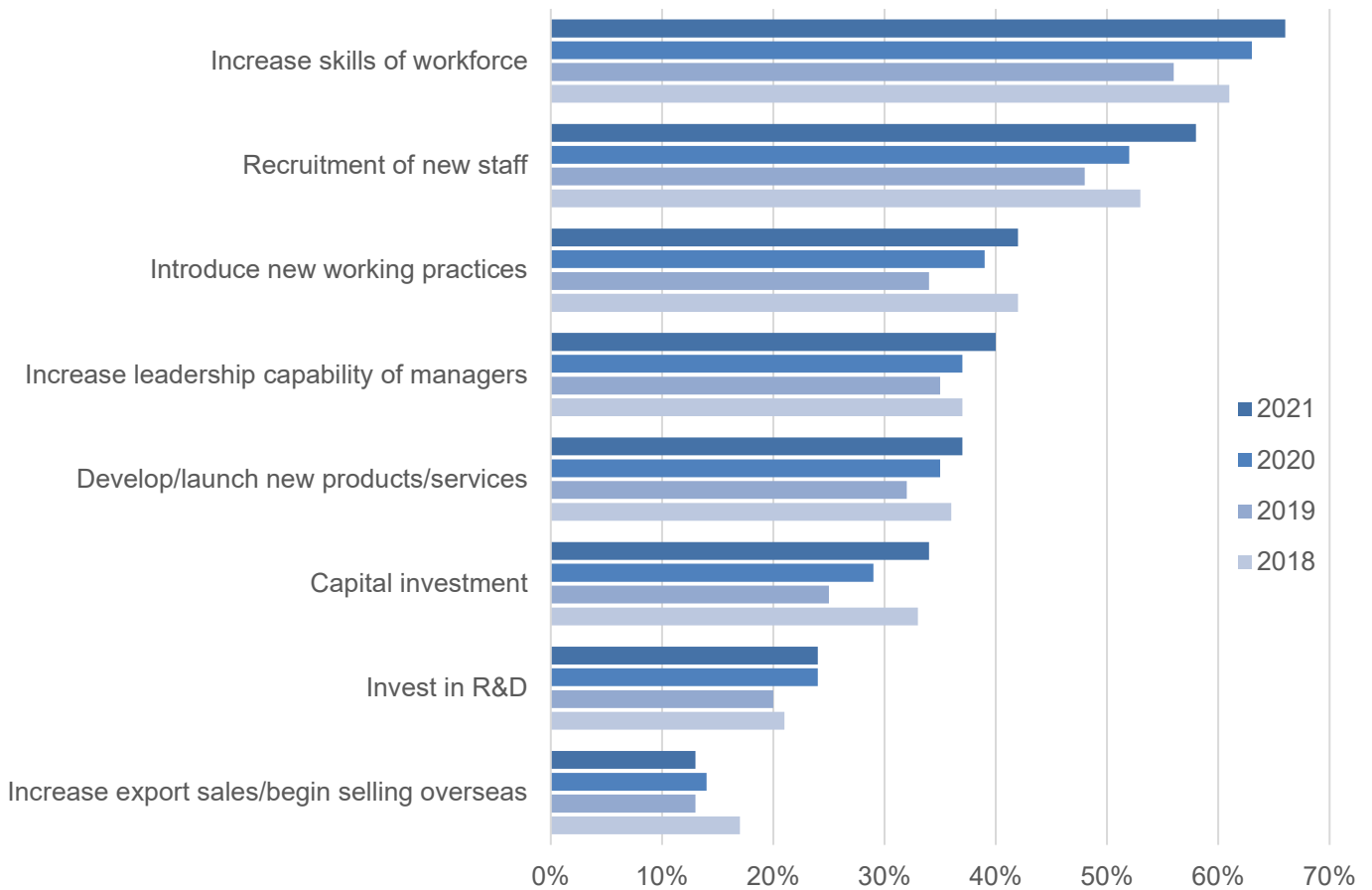
## Plans to undertake growth-related activities over the next three years (cohort B)

In the [data tables](#) accompanying this publication, table 8 (cohort B) shows what plans SME employers have for the business over the next three years

SME employers were asked about plans to implement various growth-related activities over the next three years. We found:

- 66% planned to increase workforce skills (three percentage points up on 2020)
- 58% planned to recruit new staff in the UK (six percentage points up on 2020)
- 42% planned to introduce new working practices (three percentage points up on 2020)
- 40% planned to increase the leadership capability of managers (three percentage points up on 2020)
- 37% planned to develop and launch new products or services (two percentage points up on 2020)
- 34% planned to invest in premises, machinery or other types of capital investment in the UK (five percentage points up on 2020)
- 24% planned to invest in R&D (as in 2020)
- 13% planned to increase export sales or begin selling to new overseas markets (one percentage point down on 2020)
- 3% planned capital investment overseas (two percentage points down on 2020)
- 4% planned to recruit new staff in overseas offices (as in 2020)
- 2% planned to decrease export sales or reduce the number of overseas markets they sell to (one percentage point down on 2020)
- 1% planned to transfer staff from the UK to overseas offices (as in 2020)

**Figure 25: Percentage of businesses undertaking growth-related activities, by type of activity (cohort B only)**



Micro businesses were less likely to plan any type of growth-related activity than small and medium-sized businesses.

There was some variation in the intentions of SME employers across sectors:

- Those in arts and entertainment (86%) and health (80%) were most likely to plan to *increase the skills of the workforce*
- Those in arts and entertainment (77%), health (72%) and information and communication (70%) were most likely to plan to *recruit new staff*
- Those in manufacturing (50%) were most likely to plan to *introduce new working practices*
- Those in health (53%) were most likely to plan to *increase leadership capability*
- Those in information and communication (65%) and manufacturing were more likely than average to plan to *develop and launch new products/services*
- Those in the primary sector (59%), manufacturing (55%) and arts and entertainment (52%) were most likely to plan to *make capital investments*
- Those in information and communication (55%) and manufacturing (48%) were most likely to plan to *invest in R&D*
- Those in manufacturing (30%), information and communications (28%) and professional and scientific (20%) were most likely to plan to *increase export sales or begin selling to new overseas markets*

## Whether plans for growth-related activities have been affected by UK exit from the EU (cohort B)

In the [data tables](#) accompanying this publication, table 24 (cohort B) shows whether plans have been affected by the UK's exit from the EU

The following section concerns SME employers that planned to undertake specific growth-related activities. Only cohort B were asked these questions.

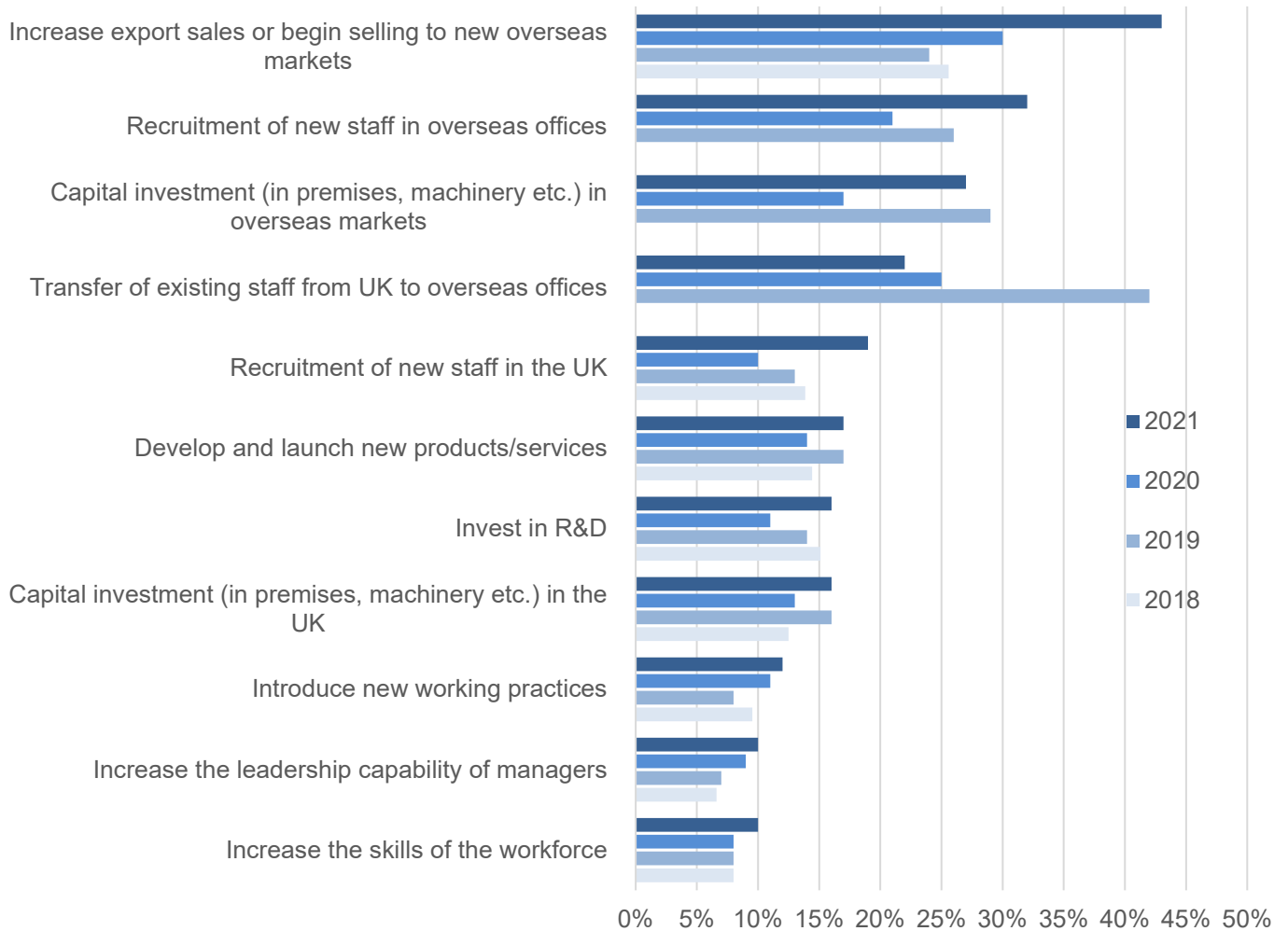
Of those with plans to *increase export sales or begin selling to new overseas markets*, 43% reported these plans had been affected by the EU exit (30% in 2020, 24% in 2019 and 26% in 2018), while those with plans to *reduce export sales or the number of overseas markets they sell to* also reported that their plans had been affected (53% - a three percentage points decrease on 2020).

With regard to recruitment and skills, 19% of SME employers with plans to *recruit new staff in the UK* (up nine percentage points on 2020) and 10% of those with plans to *develop skills among existing UK employees* (up two percentage points) and those planning to *increase leadership capability of managers* (up one percentage point) reported plans being affected by the UK's exit from the EU.

One in five SME employers with plans for the *transfer of existing staff from UK to overseas offices* reported that these plans were affected by the UK's exit from the EU (22%, down three percentage points on 2020), while 32% of those with plans for *recruitment of new staff to overseas offices* reported these plans had been affected (up 10 percentage points), but these figures are based on very low sample bases.

Other planned growth-related activities were reported to have been affected to a lesser extent by the UK's exit from the EU. More than one in four SME employers with plans for *capital investment in overseas markets* reported that these plans have been affected by the UK's exit from the EU (27%, up ten percentage points on 2020), which was higher than reported by those planning *capital investment in the UK* (16%, up three percentage points). Of those SME employers with plans to *develop and launch new products and services*, 17% (up three percentage points), and a similar proportion of those with plans to *invest in R&D* (16%, up five percentage points) reported plans affected by the UK's exit from the EU. Fewer of those with plans to *introduce new working practices* (12%, up one percentage point) reported that these plans had been affected by the UK's EU exit.

**Figure 26: Plans affected by EU exit activity (based on SME employers that plan to undertake each growth-related activity, cohort B only) – UK-based activities, where an unweighted base >50 only**



## Whether plans for growth-related activities have been affected by the coronavirus (COVID-19) pandemic (cohort B)

In the [data tables](#) accompanying this publication, table 10 (cohort B) shows whether plans have been affected by the coronavirus (COVID-19) pandemic

Again, the following section concerns SME employers that planned to undertake specific growth-related activities, and only cohort B were asked these questions.

Focusing on whether growth-related activities were affected by the coronavirus (COVID-19) pandemic, 50% of SME employers planning to *recruit new staff in the UK* reported that these plans were affected (an increase of six percentage points on 2020). Although small bases, plans to *transfer and recruit new staff to overseas offices* were also affected (56% and 45% of those with these plans, increases of six and three percentage points on 2020, respectively). Also relating to recruitment and skills, 40% of SME employers planning to *increase the leadership capability of managers* reported that these plans had been affected by the coronavirus (COVID-19) pandemic (just one percentage point up on 2020).

Of those with plans to *introduce new working practices*, 46% reported these plans had been affected by the coronavirus (COVID-19) pandemic (an increase of three percentage points on 2020), while 49% reported plans to *develop and launch new products/services* affected by the coronavirus (COVID-19) pandemic (up three percentage points).

Of those with plans for *capital investment in the UK*, 48% reported that these plans had been affected by the coronavirus (COVID-19) pandemic (up three percentage points on 2020), while plans for *capital investment in overseas markets* were less likely to have been affected (32%, a decrease of 13 percentage points on 2020). Of those SME employers with plans to *invest in R&D*, 41% reported these plans affected by the coronavirus (COVID-19) pandemic (up two percentage points on 2020).

Of SME employers with plans to *increase export sales or begin selling to new overseas markets* 48% reported that these plans had been affected by the pandemic (as in 2020).



## Profiles of SMEs

This section provides a snapshot of SME employers in terms of their characteristics and ownership.

### Changes in the organisation in the last 12 months (panel only)

In the [data tables](#) accompanying this publication, table 5 outlines the changes in the business in the last 12 months.

SME employers that were panellists - that is those that had taken part in 2020, including some that first took part in either 2017 or 2018 and have taken part in each survey since - were asked whether a number of changes had occurred in the last 12 months. The changes and the percentage of respondents reporting such changes had occurred are given here:

- 5% had gained or lost directors in day-to-day control of the organisation
- 4% had opened or closed a new branch, site or office
- 3% had changed their ownership structure
- 1% had moved their head office
- 1% had changed their legal status
- 1% had changed the principal activity of their business
- <1% became VAT registered for the first time; <1% had de-registered for VAT
- for 87%, none of these changes had occurred

### Number of sites

In the [data tables](#) accompanying this publication, table 7 provides detail on the number of sites operated from by SME employers.

The majority of SME employers reported operating from a single site (88%) and 11% reported operating from multiple sites. The percentage of SME employers operating from a single site was two percentage points higher than in 2020, and one percentage point lower than in 2019.

Unsurprisingly, the proportion of SME employers operating from multiple sites increases as the number of employees within the enterprise increases, with 51% of medium-sized businesses reporting multiple sites, compared with 22% of small and 8% of micro businesses. These were similar proportions to 2020 (52%, 24% and 10%, respectively).

SME employers operating in the health sector were most likely to have multiple sites (15%).

## Business premises in residential settings

In the [data tables](#) accompanying this publication, table 21 shows whether they have a separate business premises or work from home premises.

Twenty-nine per cent of SME employers have business premises in their home or the home of the business owner. This is a nine percentage points increase compared with 2020.

By employment size, 34% of micro businesses worked out of a domestic address (a ten percentage points increase on 2020), compared to 9% of small businesses (a seven percentage points increase) and 3% of medium-sized businesses (a two percentage points increase).

By sector, the proportions of SME employers that work from a domestic address are highest in primary (61%), construction (46%), information and communication (41%), professional and scientific (38%) and accommodation and food (35%) sectors.

Those in health (20%), retail and wholesale (12%), manufacturing (11%) and other services (16%) sectors were least likely to be home based.

Home-based businesses were at similar levels in Wales (31%), Northern Ireland (30%), England (29%) and Scotland (28%).

## Age of business

In the [data tables](#) accompanying this publication, table 17 shows the summary age of the business.

Amongst all SME employers, 11% had started trading within the preceding five years, that is between 2015 and 2020 (a one percentage point increase on 2020). As has been the case since 2018, 17% had started trading between 6 and 10 years previously, and 27% had started trading between 11 and 20 years previously. Some 45% have been established 21 years or more (unchanged since 2018).

Small and medium-sized businesses tended to be older than micro businesses. Some 12% of micro businesses were aged between zero and five years (11% in 2020), compared with 8% of small businesses (7% in 2020) and 6% of medium-sized ones (5% in 2020). At the other end of the scale, 43% of micro businesses were aged 21 or more years (as in 2020), compared with 53% of small businesses (54% in 2020), and 60% of medium-sized businesses (63% in 2020).

By sector, those most likely to be aged between zero and five years were in accommodation and food services (24%) and administration (14%). Those most likely to have been trading 21 years or more were in the primary sector (73%).

By nation, SME employers in Northern Ireland (21%) and Wales (19%) were more likely to be aged between zero and five years than those in Scotland and England (both 10%).

## Legal status<sup>15</sup>

In the [data tables](#) accompanying this publication, tables 15 and 16 show the legal status of the SME employer.

Sixty-seven percent of SME employers in our survey were private limited companies, limited by shares (a three percentage points decrease on 2020), 11% were sole proprietors (a one percentage point increase), 7% were partnerships (a one percentage point decrease), 5% were private companies limited by guarantee (CLGs) (as in 2020), and 1% were limited liability partnerships (LLPs) or charitable incorporated organisations (CIOs).

Micro businesses were more likely than larger businesses to be sole proprietorships. Around 13% of micros were sole proprietorships, compared with 3% of small and 1% of medium-sized businesses. Small (72%) and medium-sized (76%) businesses were more likely than micro (66%) businesses to be private companies limited by shares.

Not-for-profit enterprises often had alternative legal statuses, tending not to be limited by shares, sole proprietors, or any form of partnership. They were mainly CLGs, although others were IPS (Industrial and Provident Societies), CIOs, CBS (Community Benefit Society), CICs (Community Interest Company) or described themselves as trusts, friendly societies, co-operatives, royal charter companies or unincorporated associations. Overall, 8% of SME employers had these alternative legal statuses (9% in 2020, 12% in 2019, 9% in 2018).

These alternative legal statuses were most common in other services (30%), health (22%), arts and entertainment (20%) and education (18%) sectors.

## Registered charity status

In the [data tables](#) accompanying this publication, table 6 shows if the SME employer is a registered charity.

It is estimated that 5% of SME employers in 2021 were registered charities (a one percentage point decrease on 2020) and this differed little by size. Some 5% of micro businesses were registered charities, compared with 7% of small and 6% of medium-sized businesses.

Of those with alternative legal statuses, as described above, 34% had charitable status. Of those with more common legal statuses (sole proprietorships, companies, partnerships), less than 3% were registered charities.

Charitable status was most common in the health (42%), education (26%), other services (30%) and arts and entertainment (22%) sectors.

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<sup>15</sup> Note that in 2019 the legal status questions were amended in an effort to simplify and improve understanding for participant to answer. Therefore, there is limited comparability with figures from 2018 on specific counts on IPS, CBS, CICs, trusts, friendly societies, co-operatives, royal charter companies or unincorporated associations.

## Number of owners/partners/directors

In the [data tables](#) accompanying this publication, tables 10, 24, 25 and 26 provide the number of owners, partners and directors.

Overall, 80% of SME employers were majority-owned by the person or family who set it up. In 98% of these businesses, the person or family who majority-owned the business was actively involved in managing it.

The majority of SME employers (81%) had no directors in day-to-day control of the business who were not owners or partners, while 9% reported having one director, 5% had two directors, 2% had between three and five and 2% had six or more.

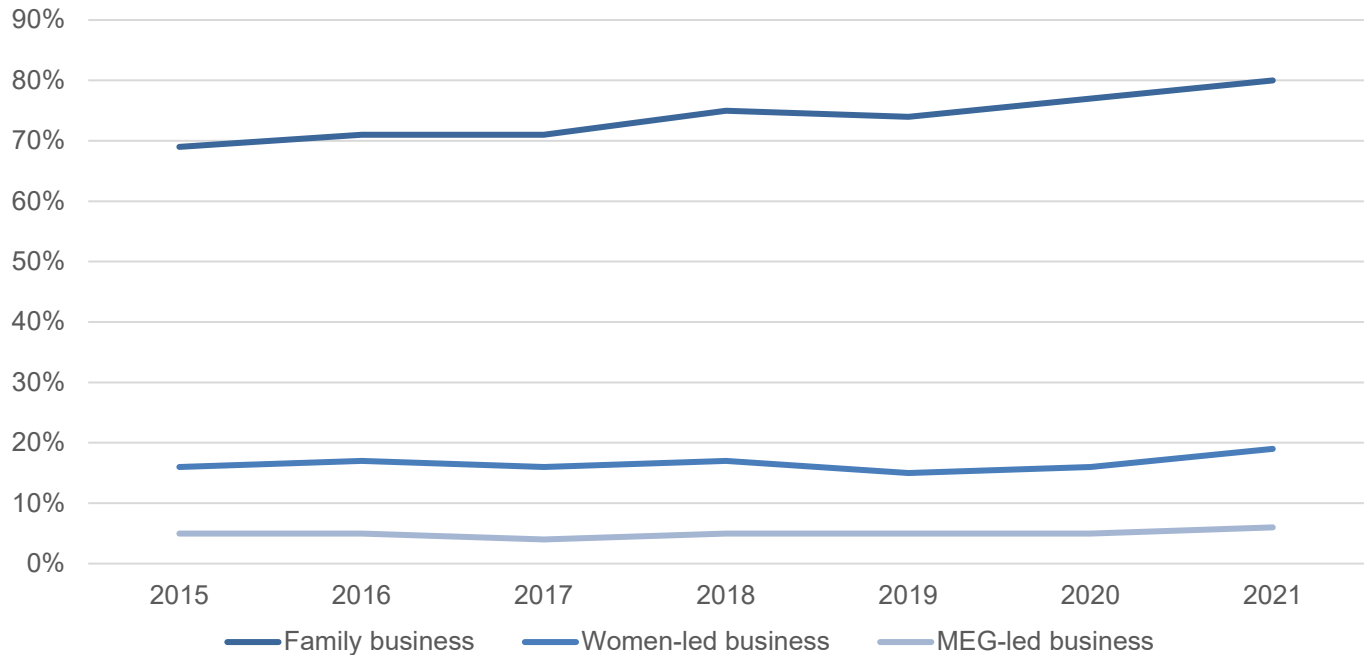
Around 39% of SME employers reported having one owner, partner or director, 39% reported having two, 18% reported having between three and five and 5% having six or more.

In 2021, the number of owners, partners and directors increases with employment size, with 42% of micros having one owner, partner or director compared with 24% of small and 18% of medium-sized businesses.

## Family-owned businesses

In the [data tables](#) accompanying this publication, table 22 shows whether the business is classified as family owned.

**Figure 27: Ownership of organisation, by year**



Eighty per cent of SME employers were defined as family-owned businesses (a three percentage points increase on 2020). Note that we classify businesses with just a single owner or partner as family businesses, but not those without any owners.

Family-owned businesses were more common among smaller enterprises, comprising 82% of micro businesses, 69% of small businesses and 57% of medium-sized businesses.

By sector, family businesses were most likely in primary (90%), construction (89%), retail and wholesale (87%) and accommodation and food (83%).

## Women-led businesses

In the [data tables](#) accompanying this publication, table 32 shows whether the business is classified as women-led, table 33 provides more detail on the proportion of women owners and directors

Women-led businesses are defined as those majority-led by women, that is controlled by a single woman or having a management team of which a majority are women. In 2021, 19% of SME employers were women-led. This was a three percentage points increase on 2020.

There were fewer women-led medium-sized businesses (14%), compared with small and micro businesses (20% and 19% respectively). This was also the case in previous surveys.

Women-led businesses were most likely in education (44%), health (37%), arts and entertainment (31%), other services (30%), accommodation and food (29%) and administration (22%) sectors. (It is worth noting that, except for accommodation and food and administration, there were relatively large numbers of businesses in these sectors – about one in seven – for which respondents were unable to provide sufficient information in order to identify them as women-led or not.)

While 19% of SME employers were women-led, a further 24% were 'equally-led', with an equal number of men and women in the management team. This was the same proportion as in 2020.

A further 10% of SME employers had women in the minority in the management team (one percentage point lower than in 2020), and 44% were entirely male-led (down one percentage point).

Overall, it was not possible to classify 3% of all SME employers as women-led or male-led, as there was insufficient information provided for these businesses (uncertainty regarding owners/partners' gender or refusal to supply the information).

## Minority Ethnic Group-led businesses

In the [data tables](#) accompanying this publication, table 34 shows whether the SME employer is classified as led by people from minority ethnic groups

Six per cent of SME employers were minority ethnic group led (MEG-led), defined as having a person from an ethnic minority in sole control of the business or having a management team with at least half of its members from ethnic minority groups. There was no statistically significant difference in the overall proportion of MEG-led businesses between 2015 and 2021, nor in the proportions of MEG-led SME employers by employment size.

MEG-led SME employers were more likely in health (10%), administration (9%), information and communication, accommodation and food and transport (all 8%) sectors. They were less likely in primary (1%), education (2%), manufacturing, arts and entertainment (both 3%) and construction (4%) sectors.

MEG-led SME employers were most common in London (20%, up four percentage points on 2020) and least common in the North East and the South West (both 2%); at 7% overall in England (as in 2020), 4% in Scotland (up two percentage points), 3% in Wales (up one percentage point) and 2% in Northern Ireland (as in 2020).

Overall, 1% of all SME employers could not be classified as either MEG-led or non-MEG-led as there was insufficient information provided for those businesses (uncertainty regarding owners/partners' ethnicity or a refusal to provide it).

## Accompanying tables

The following tables are available in Excel format on the department's statistics [website](#) for this publication:

- Longitudinal Small Business Survey 2021: SME employers – data
- Longitudinal Small Business Survey 2021: SME employers – data – cohort A
- Longitudinal Small Business Survey 2021: SME employers – data – cohort B
- Longitudinal Small Business Survey 2021: SME employers – data – cohort C

The survey microdata will be deposited with the ONS [Secure Research Service](#) and the [UK Data Service](#) during the Autumn of 2022. This will be available to approved researchers.

## Technical information

### Aims of the survey

This report sets out the key findings for the 2021 Longitudinal Small Business Survey (LSBS), a large-scale telephone (CATI<sup>16</sup>) survey of 9,325 UK small business owners and managers, commissioned by the Department for Business, Energy and Industrial Strategy (BEIS). This survey is the latest in a series of annual and biennial Small Business Surveys (SBS) dating back to 2003. The 2021 survey was conducted between September 2021 and April 2022 by BMG Research Ltd.

The 2021 survey follows surveys conducted annually since 2015. Sample bases for each year from 2015 to 2021, are summarised in Table 1. The 2015 survey was the largest SBS yet undertaken. The main reason for this large sample size was to allow the survey to have a longitudinal tracking element, establishing a 'panel' of businesses that might be re-surveyed in subsequent years, enabling a detailed analysis of how combinations of factors affect business performance through time. Any panel has an element of attrition, hence the need for a large sample size in 2015.

**Table 1**

	<b>Sample size</b>
2021	9,325
2020	7,636
2019	11,002
2018	15,105
2017	6,619
2016	9,248
2015	15,502

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<sup>16</sup> Computer Assisted Telephone Interviews

In 2021, 3,841 top up interviews were conducted. This was in addition to 5,484 interviews with enterprises that had already completed at least one LSBS survey between 2015 and 2020. Top-ups were needed for the following reasons:

- to represent sections of the SME population that were not active in the 2020 (businesses less than one-year old)
- to represent sectors in the raw data that may be under-represented due to businesses in the panel closing, or being hard to secure an interview with (e.g., in cases where businesses work away from their main offices)
- to increase the sample size in Northern Ireland, to allow for meaningful analysis on a nation basis

All interviews were conducted with owner/proprietors, Managing Directors or other senior directors in UK-based enterprises. For the top-ups, named contact details were not supplied and it was necessary to screen to find an appropriate respondent. The average interview length was 24.4 minutes (20.5 minutes for panellists, 26.9 minutes for top-ups).

The main aim of the survey is to collect a range of information on SMEs. The survey measures:

- recent turnover and employment growth
- capabilities (in terms of their ability to innovate, export, train staff, etc)
- experience of accessing finance
- use of business support
- expectations of growing turnover and employment
- the major obstacles that prevent SMEs fulfilling their potential
- the characteristics of SMEs such as the number of sites they occupy, the number of owners, whether they have separate business premises, whether or not they are a social enterprise (or a socially oriented SME) etc
- the characteristics of their owners and leaders

There are three main reports based on the 2021 LSBS:

- a **cross-sectional report** based on **SME employers**. A cross-sectional report is a snapshot of the state of SMEs at any particular stage in time, this one being the latter quarter of 2021 to the end of the first quarter of 2022
- a **cross-sectional report** based on **businesses with no employees**
- a **longitudinal report** based on those businesses that responded in the last four years of the survey. This looks at the main changes that apply to the 'panellists' from year to year, and what appears to influence these changes

17 of the 9,325 interviews were with large employers with 250 or more employees. The reason for interviewing these is that these businesses were SMEs when first interviewed but have grown since. They form a part of the longitudinal analysis, but not the cross-sectional.



## Survey method

Of the 7,636 interviews conducted in 2020, 6,692 (88%) agreed to a follow-up interview. The objective was to obtain the highest possible number of repeat interviews with these panellists. 4,132 were interviewed between September 2021 and April 2022 (61% response rate, up from 51% in the 2020 survey; 53% in the 2019 survey, although still lower than the 68% achieved in the 2018 survey). Of these, 946 had no employees, 11 were large businesses with 250+ employees, and the remainder (3,186) were SME employers. This group is known as the ‘full panel’.

In addition, 7,359 businesses interviewed from 2015 to 2019 but not in 2020 could be re-approached for interview (they had given permission for re-interview and had not refused to take part between 2015 and 2019 and had not ceased trading). 1,352 of these were interviewed in 2021, a response rate of 18% (up from 13% in 2020, but still lower than the 21% achieved in 2019), of which 193 had no employees, 1,159 were SME employers, and 6 were large businesses with 250+ employees. This group is known as the ‘past panel’.

In addition to these, 3,841 ‘top-up’ interviews were conducted, of which 651 had no employees and 3,190 were SME employers. As a result, the total sample size in the 2021 survey was 9,325, of which 1,790 had no employees and 7,535 were SME employers.

The top-ups were sampled using a method consistent with the 2015 to 2020 surveys:

- The sample was stratified within each of the four UK nations.
- Targets were set according to the employment size of enterprises and, within those targets, by 1-digit sector (using [SIC 2007](#)).
- The targets over-represented businesses with 5 to 249 employees substantially in comparison to their actual numbers within the business population.

For registered businesses, the [Inter Departmental Business Register](#) (IDBR) was used as the sample source. For unregistered businesses with no employees, a database from the commercial database provider Experian was used. These contacts were screened out if they either had employees on their payroll or paid VAT, as these would have duplicated contacts found within the IDBR.

The IDBR is a record of all UK enterprises that pay VAT or PAYE, which contains around 2.7 million unique entries for enterprises. The BEIS Business Population Estimates (BPE) publication 2020 estimated around 6 million enterprises in the UK in total. The difference in the figures is explained by the number of unregistered enterprises that do not pay VAT or PAYE, estimates of which derive from the Labour Force Survey (LFS). This is the reason why an alternative database was retained as the source for top-up businesses with no employees, as it contains records for both registered and unregistered businesses.

The targets within the sample stratification matrix were informed by the 2020 BPE<sup>17</sup>, the latest available at the start of fieldwork. However, survey findings were weighted to the 2021 BPE<sup>18</sup> which were published a few months into the fieldwork period. The 2021 BPE was used for weighting as it more accurately represented the IDBR contacts used for the survey, as well as

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<sup>17</sup> <https://www.gov.uk/government/statistics/business-population-estimates-2020>. The figures were drawn from a combination of the Inter Departmental Business Register (IDBR) which contains all businesses operating VAT or PAYE schemes or which were registered at Companies House, and the household survey-based Labour Force Survey (LFS) which is the main source for estimating the number of the self-employed and very small businesses.

<sup>18</sup> <https://www.gov.uk/government/statistics/business-population-estimates-2021>. Method of data collection as above.

providing a more up-to-date picture of UK small businesses than the 2020 BPE.

A 336-cell sample stratification matrix was devised, the targets within each cell informed by the 2020 BPE. These cells were defined by cross classifying the following three categories:

- 14 'one digit' [SIC 2007](#) categories (ABDE, C, F, G, H, I, J, KL, M, N, P, Q, R, S)
- 6 size categories (unregistered zero employees, registered zero employee, 1-4 employees, 5-9 employees, 10-49 employees, 50-249 employees)
- 4 nations (England, Scotland, Wales, Northern Ireland)

Once the sample was drawn, with sample sizes informed by differential likely tele-matching success rates for each cell (based upon experience from the previous surveys), no quotas were employed on size, sector or any other criteria except for country, where Northern Ireland had a guaranteed minimum sample size set.

A review of the 2020 questionnaire was undertaken through consultations with stakeholders. This resulted in a number of alterations to existing questions from previous surveys, new question additions and deletions. The changes were informed by the requirement to balance stakeholders' latest needs with the desire to exploit the longitudinal power of the survey. The consultation was followed up by a 'live' pilot of 100 interviews of the adjusted year seven questionnaire.

Based on the whole sample, the response rate for full panellists was 62%, 11 percentage points higher than in 2020. For past panellists the response rate was 18%, five percentage points higher than in 2020. For IDBR top-ups the response rate increased by two percentage points to 5%. For unregistered top-ups, the response rate was 3%, as in 2020. There is more detail in the technical report, which includes tele-matching rates and other forms of non-response.

## Note on this report

Please note that the findings presented in this report relate to SME employers only - enterprises with no employees, and large employers, have been excluded from the dataset on which this report is based. This procedure is consistent with reporting of previous surveys. The overall sample size for SME employers across the UK in 2021 was 7,518.

## Sample cohorts

One of the main reasons given by respondents who do not want to participate in LSBS is that the interview length is too long. In 2018, BEIS made a commitment to bring down the average interview length and introduced 'cohort questions', which we used again in 2021.

Three cohorts (A, B and C) were created. Each cohort was exclusively asked a series of non-key questions. For example, only cohort A was asked questions on business energy usage. Cohorts were chosen for respondents at random during their interview.

There were approximately 2,500 employers in each 2021 cohort: 2,443 in cohort A, 2,519 in cohort B and 2,556 in cohort C. Each respondent is part of one cohort only. Where a business is in each of the 2018, 2019, 2020 and 2021 datasets, its cohort for 2021 is entirely independent of its 2018, 2019 and 2020 cohorts (knowing a business was in cohort A in 2018 or 2019 or 2020 tells you nothing about which cohort it is in in 2021). Because of the different respondents answering questions for different cohorts, we have calculated separate cohort weights for analysing responses to the cohort questions. To analyse questions asked of cohort A in 2018, analysts should use the 2018 cohort A weights, for questions to cohort C in 2019 they should use the 2019 cohort C weights, and so on.

## Sector definitions

Throughout this report, data tables show sectoral analysis by one-digit [SIC 2007](#) codes. Because of relatively small numbers in the business population and survey sample, some of these sectors are grouped together: ABDE, labelled as 'primary', comprises (A) agriculture, fishing and forestry, (B) mining and quarrying, (D) electricity and gas, and (E) water, sewerage and waste management; KL, labelled as 'financial and real estate', comprises (K) finance and insurance, and (L) real estate.

To gain a better picture of the types of businesses that fall into each sector category, the following gives the most populous sub-sectors for SME employers at the three-digit level:

- **ABDE (primary).** There were 58,760 UK SME employers in this sector in 2021. The sector is dominated by farming. The three most populous sub-sectors within the category were animal production (38%), growing of non-perennial crops (22%) and mixed farming (13%)
- **C (manufacturing).** There were 87,210 UK SME employers in this sector in 2021. Manufacturing is the most classified sector, with 95 three-digit SIC codes. The most populous sub-sectors within the category were treatment and coating of metals (10%), manufacture of wood, cork, straw products and plaiting materials, printing, and repair of fabricated metal products, machinery and equipment (each 7%)
- **F (construction).** There were 181,860 UK SME employers in this sector in 2021. The most populous sub-sectors within the category were electrical and plumbing (29%), building completion (24%) and building construction (19%)
- **G (retail and wholesale).** There were 240,215 UK SME employers in this sector in 2021. The most populous sub-sectors within the category were retail sale of other goods in specialised stores (16%), maintenance and repair of motor vehicles (14%), and retail sale in non-specialised stores (12%)
- **H (transport and storage).** There were 53,905 UK SME employers in this sector in 2021. The most populous sub-sectors within the category were road freight transport (55%) and other passenger land transport (mainly taxi businesses, 14%)
- **I (accommodation and food service).** There were 140,035 UK SME employers in this sector in 2021. The most populous sub-sectors within the category were restaurants (62%) and beverage serving activities (pubs and bars - 20%)
- **J (information and communications).** There were 80,875 UK SME employers in this sector in 2021. The most populous sub-sector within the category was computer programming and consultancy (72%)

- **KL (financial and real estate).** There were 71,275 UK SME employers in this sector in 2021. The most populous sub-sectors within the category were estate agents (33%), property rentals (30%) and auxiliary financial services (15%)
- **M (professional and scientific).** There were 193,100 UK SME employers in this sector in 2021. The most populous sub-sectors within the category were management consultancy (29%), architecture and engineering (20%) and accountancy (13%)
- **N (administrative services).** There were 127,745 UK SME employers in this sector in 2021. The sector was dominated by 'business support services not elsewhere classified' (43%). This is a miscellaneous category. Sector N also included house and business cleaning (13%) and landscaping (9%), and employment placement agencies (8%)
- **P (education).** There were 20,445 UK SME employers in this sector in 2021. The most populous sub-sector within the category was 'other education' (59%, e.g., driving schools and sports coaches). The next most populous was pre-primary education (14%)
- **Q (human health and social work).** There were 58,995 UK SME employers in this sector in 2021. The most populous sub-sectors within the category were medical and dental (41%), non-residential social work activities (28%) and other human health activities (17%)
- **R (arts and entertainment).** There were 26,580 UK SME employers in this sector in 2021. The most populous sub-sectors within the category were sports activities (46%), creative and arts (33%) and amusement and recreation (16%)
- **S (other services).** There were 67,320 UK SME employers in this sector in 2021. The sector was dominated by 'other personal service activities' (87%). This includes hairdressing and beauty, funeral directors and dry-cleaning

Much more detail on the sectors is available in the BEIS [Business Population Estimates](#).

## Uncertainty

Since the LSBS questioned a sample of UK SMEs, rather than all of them, there is inevitably a level of uncertainty around the estimates we derive from the survey and how close they will be to the true values.

## Coverage and representativeness

Users might wonder if the sample we have used is adequately representative of the target population (the UK SME population). We have used two sampling frames to draw our sample from. One is the IDBR from the Office for National Statistics (ONS), which has excellent coverage of registered businesses in the UK, as it is regularly updated with information from HMRC and ONS surveys. We use the commercial database provider, Experian, to provide us with a sample of unregistered businesses.

The coverage of the unregistered business population is less well understood. It is likely that the Experian frame is good for well-established businesses that advertise their presence in trade directories for example. You can imagine a small business owner that relies on word of mouth and a few repeat customers and has no wish to expand the business for the moment (for example, there are people who make birthday cakes and other cakes in their own kitchens at home, who might have at most a Facebook page or Instagram account to advertise themselves). Neither of our sampling frames is likely to list this kind of small business.

Our sample is deliberately unrepresentative in the sense that it overrepresents larger SMEs, and also over-represents non-English businesses. This is to ensure that we have reasonable sample sizes for medium-sized businesses, Scottish businesses etc., otherwise we would not be able to obtain robust estimates for important subgroups. A truly proportionate sample would otherwise contain just a handful of medium-sized businesses. We produce survey weights so that analysts can nevertheless arrive at estimates that take due account of the actual distributions in the population – the micro businesses have larger weights than the medium-sized businesses for example.

Another way that our sample might be unrepresentative is that the businesses that take part in the survey (which is after all voluntary) are different from the businesses that we sample but do not agree to take part, with respect to the various questions we ask. This is known as non-response bias. For example, if struggling businesses are more likely to refuse to take part than thriving ones, then our final achieved sample will underrepresent struggling businesses, and estimates of things like future ambition, that might differ considerably between struggling and thriving businesses, might be biased.

It is hard to quantify non-response bias. We have taken a number of standard steps to try to minimise its risk. The research company that conducted our interviews made multiple attempts for each sampled business for which we could obtain a telephone number, so that we can get more of the reluctant businesses, and we did not have hard quotas for each of our 'target cells' (quotas for a target cell, for example 25 interviews of micro businesses in finance and real estate in Wales, can encourage an interviewer to give up quickly on reluctant businesses and focus on snapping up as many easier businesses as possible in order to meet their quota as quickly as possible). Sampled businesses were also given contact details for government officials so they could confirm the survey was genuine and official.

## Sampling uncertainty

It is possible to quantify the amount of uncertainty that arises from using a sample instead of interviewing the entire population. There are a number of ways of doing this, but we will focus on using a statistical tool known as confidence intervals.

In order to run our survey, we drew a random sample. This means that on another day we would have drawn a different sample. With our actual sample, we estimated that 73.2% of SME employers in 2021 made a profit or generated a surplus in the previous financial year. But it is possible that another random sample might have found that number to be within +/-1% even though the actual true figure is unchanging. This is known as sampling variability.

What we can do is produce a 95% confidence interval around an estimate. The interval is calculated using a method that, for 95% of the possible random samples we could have drawn, will produce an interval that contains the true value of this profitability measure. Each different random sample would have a different confidence interval, but 95% of the time the interval produced will contain the true value. So, our actual survey estimate is 73.2%, and we are 95% confident that the true value is in the range 72.2% to 74.2%.

Our survey contains hundreds of measures and it is not practical to produce confidence intervals for each one of them. Instead, Table 2 summarises the sampling uncertainty for the key measures reported in this publication.

Most of the estimates from this survey are presented as proportions or percentages (such as 10%). If this was an estimate relating to all UK SME employers, then we look at the 'all UK' row and the column for estimates at 10%. The confidence interval is given as +/- 0.9%. So our confidence interval around the 10% estimate is 10% +/- 0.9%, that is, from 9.1% to 10.9%. We are 95% confident that the true figure is between 9.1% and 10.9%.

If the estimate had been closer to 30% or to 70%, then our interval would have used +/-1.4% according to Table 2. When estimates are close to 50%, that is the 'worst case scenario' in the sense that the confidence intervals are at their widest. They narrow more as the estimate moves away from 50% (in either direction). So, the intervals are slightly narrower for 30% or 70% estimates, and narrower still for 10% and 90% estimates.

Confidence intervals get narrower when you have larger sample sizes too. If our 10% estimate is for medium-sized SME businesses employers rather than for all UK SME employers, we use a different row of the table, and find the confidence interval to be 10% +/- 1.9%. If we have an estimate of 65% for the construction sector, that is close to 70% so we use that column of the table and arrive at an approximate confidence interval of 65% +/- 4.9%.

Table 2 is useful for estimates of proportions but cannot be used for other measures. For example, we have estimated a mean amount of external finance sought for by SME employers as £523,000. Table 2 cannot be used to produce a confidence interval for this estimate, though it can be done (it is +/- £206,000)<sup>19</sup>.

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<sup>19</sup> The underlying data tables published alongside this report contain something called 'standard errors' for estimates that are not proportions, such as amount of finance sought, or number of employees. Standard errors are another way of quantifying the sampling variability. As a rule of thumb, twice the standard error gives you the '+/-' for a 95% confidence interval, which is how we calculated the +/- £206,000 figure above

**Table 2**

	<b>Sample size</b>	<b>Confidence interval for an estimate of 10% or 90%</b>	<b>Confidence interval for an estimate of 30% or 70%</b>	<b>Confidence interval for an estimate of 50%</b>
All UK	7,518	+/-0.9	+/-1.4	+/-1.5
England	5,648	+/-1.0	+/-1.5	+/-1.7
Scotland	677	+/-3	+/-4.8	+/-5.7
Wales	585	+/-3.3	+/-5.0	+/-5.4
Northern Ireland	608	+/-3.2	+/-4.7	+/-5.1
Micro businesses (1-9 employees)	3,593	+/-1.1	+/-1.7	+/-1.8
Small businesses (10-49 employees)	2,818	+/-1.2	+/-1.8	+/-1.9
Medium-sized businesses (50-249 employees)	1,107	+/-1.9	+/-2.9	+/-3.1
ABDE. Primary sector	241	+/-4.7	+/-7.6	+/-8.1
C. Manufacturing	786	+/-3.1	+/-4.5	+/-5.0
F. Construction	699	+/-3.2	+/-4.5	+/-4.9
G. Retail and wholesale	1,326	+/-2.1	+/-3.1	+/-3.4
H. Transport and Storage	267	+/-5.9	+/-8.0	+/-8.9
I. Accommodation and Food	820	+/-2.9	+/-4.6	+/-5.0
J. Information and communication	350	+/-3.5	+/-5.5	+/-6.0
KL. Finance and real estate	312	+/-4.0	+/-6.2	+/-7.6
M. Professional and scientific	920	+/-2.4	+/-3.7	+/-4.0
N. Administration and support	591	+/-3.1	+/-4.8	+/-5.3
P. Education	154	+/-6.3	+/-9.9	+/-10.7
Q. Human health	559	+/-3.8	+/-5.6	+/-6.4
R. Arts and entertainment	200	+/-5.4	+/-9.1	+/-10.0
S. Other services	293	+/-4.1	+/-6.3	+/-6.8

*For cohort questions, the margins of error increase by about 70% - for example +/- 2.0% becomes +/- 3.4% (to increase a number by 70%, multiply it by 1.7)*

*This table applies to estimates of proportions*

## Which differences are statistically significant?

Generally, throughout this report where we talk about differences (between the estimate for a subgroup and the total, say, or between two subgroups) we mean they are different even after taking account of the sampling variability. This is often described as statistically significant. Where we simply list numbers that are different (for example 'England (41%), Scotland (38%), Wales and Northern Ireland (both 36%)') this does not necessarily mean that they are statistically significantly different from each other. Where we draw attention to some estimate being 'higher', or a subgroup being 'most likely', or single out a sector as higher than the rest, this is a statistically significant difference.

For example, suppose we have stated the following: By sector, SME employers within manufacturing (49%) and information and communications (43%) were most likely to have exported in the last 12 months, while those in health (1%), construction and accommodation and food (both 2%) were least likely to have done.

This does not mean that manufacturing businesses were statistically significantly more likely to have exported than those in information and communication, but both sectors were statistically significantly more likely than the rest of the SME employers to have done so, i.e., they are more likely than average. Similarly, we are 95% confident that the three other sectors mentioned were less likely than average, even though there is some uncertainty over those specific figures of 1% and 2%.



## Definitions

<b>Business, enterprise, firm</b>	In this report these terms all mean the same – they are interchangeable.
<b>Cohort</b>	We use this term to describe the way the survey samples since 2018 are divided into three separate groups (the cohorts) and answer some questions that are for their cohort only. This was done to increase the number of questions asked in the survey without increasing the average length of interview.
<b>EFTA</b>	European Free Trade Association. This comprises the countries of Iceland, Liechtenstein, Norway and Switzerland. The three countries apart from Switzerland are part of the European Single Market as members of the European Economic Area.
<b>EU, the UK's exit from the EU</b>	The EU is the European Union. During the fieldwork period for the 2019 survey the UK left the EU (informally but widely referred to as 'Brexit') and entered into a <a href="#">transition period</a> which lasted until the end of 2020. The 2021 survey is the first during which the UK has been wholly outside the EU. Usually in this report when we refer to the EU we actually mean the EU members apart from the UK as we are talking about international trade – a British business 'exporting to the EU'
<b>Exports</b>	In this report this means a British business selling goods or services to a customer outside the UK. An English business selling to a Northern Irish business is not exporting, but a Northern Irish business selling to a customer in the Republic of Ireland is exporting.
<b>Family-owned business</b>	This means a business where a majority of the owners are in the same family. A business with a single owner is automatically a family-owned business, although a business with no owners is not. 'Majority' means more than half, but ultimately, we require the respondent to the survey to interpret this: where a business has more than one working owner or partner, they are simply asked if the business is family-owned and this is defined in the questionnaire as 'majority-owned by members of the same family'.
<b>Finance</b>	In this report when we talk about businesses accessing finance or applying for finance, we usually mean borrowing money for business reasons. This might be from banks or other financial institutions or might be less formal arrangements such as money borrowed from friends and family.
<b>Health sector</b>	The health sector in this report is more accurately described as the 'human health and social work sector'. It does not include veterinary services (which fall under the professional and scientific sector). As this survey covers the private sector, the National Health Service (NHS) does not come under the health sector for this survey; but private sector healthcare providers do.

<b>Imports</b>	In this report this means a British business buying goods or services from a business outside the UK. A Northern Irish business buying from a Welsh business is not importing, but a Northern Irish business buying from a business in the Republic of Ireland is importing.
<b>Innovation</b>	This refers to a business implementing a new or significantly improved product or process (which can also include new marketing methods or organisational methods). The international manual on collecting data about innovation is known as the <a href="#">Oslo Manual</a> .
<b>Longitudinal</b>	A longitudinal study is one which collects data from the same unit at different times. We call this survey longitudinal because each year we try to re-interview businesses that took part in the survey in previous years. Analysts have specific methods for analysing longitudinal data. This report focusses on cross-sectional analysis – even when we refer to results from earlier years of the survey, we take no particular account of the fact that some businesses will have contributed to both years of the survey (in other words, the analysis is <i>not</i> longitudinal). We have longitudinal analysis in the panel report which we publish separately, and the dataset is available to approved researchers to perform their own longitudinal analysis if they wish.
<b>Mean</b>	A measure of the average which takes the total of whatever is being measured and divides it by the number of units being measured. (For example, mean turnover of micro businesses in 2021 is the total turnover of micro businesses in 2021 divided by the total number of micro businesses in 2021.) As the LSBS is a sample survey, the mean is estimated, as we can only estimate the relevant total for example. The mean is a common and well-known statistical measure, but it can be affected by extreme values which make it poor as a measure of the ‘typical’ value of whatever is being measured. This is often a problem with business statistics as there are often many ‘extreme’ values.
<b>Median</b>	The median is an alternative measure of the average which is not affected by extreme values in the way that the mean can be. As such it is often a better way of finding a ‘typical value’ of whatever is being measured. The median is the middle value of what is being measured if all the measured values are put into order from smallest to largest value. As with the mean, in the LSBS we can only estimate the median as we are working from a sample.

<b>Medium-sized business</b>	A business which has between 50 and 249 employees (whether they are full-time or part-time). These are the largest SMEs, since businesses with 250 or more employees are defined as large businesses in this survey. Alternative definitions of business size are sometimes used by other studies (which might include consideration of annual turnover or total assets belonging to a business).
<b>MEG-led business</b>	A business where at least half of the leadership team comes from minority ethnic groups (as this is a UK survey, minority ethnic groups are those that are not of any White background, including White British, White Irish, White Gypsy or Irish Traveller, or any other White background). The leadership team comprises the directors and working owners. We can include members of several ethnic groups and can include people who describe themselves as mixed ethnicity where any White background is one of those ethnicities.
<b>Micro business</b>	A business which has between one and nine employees (whether they are full-time or part-time).
<b>National Minimum Wage, National Living Wage</b>	The National Minimum Wage has been in operation in the UK since 1999. This sets a minimum value for the hourly rate of pay that employers must pay, though this level depends on the age of the employee and differs for apprentices. It does not depend on the size of the employing business. It is usually updated once a year following a (non-binding) recommendation by the Low Pay Commission but ultimately determined by the UK Government. The National Living Wage is a minimum wage that applies to workers from the age of 25 and has been in place since 2016. It was extended to 23 and 24 year olds on 1 <sup>st</sup> April 2021. As it is higher than the National Minimum Wage it effectively supersedes it for employees aged 25 or more.
<b>PAYE</b>	This stands for ‘pay as you earn’ and describes the system where employees’ taxes on income are deducted automatically from their pay before they are paid. If this is done accurately then the employee does not face an annual tax bill for these taxes. The relevance for this survey is that businesses that we describe as ‘unregistered’ will not be registered for PAYE with the UK tax authorities – so if a business is registered for PAYE we know that it ought to be included in our sampling frame for registered businesses, the IDBR.
<b>Private sector, public sector</b>	The survey is one of private sector businesses, which are businesses where the government ‘does not exercise significant control over the general corporate policy’ of the business. The Office for National Statistics follows international guidance to determine whether something is in the public sector, and have more information on their process <a href="#">here</a> . Note that the private/public sector distinction is not the same as the market/non- market distinction, and in particular note that charities and social enterprises can be in the private sector (in fact the majority of these are). The ONS page has more detail on this.

<b>R&amp;D</b>	This stands for ‘research and development’ and in this survey is usually referred to in the context of ‘R&D spending’, meaning spending on creative and systematic work to increase the stock of knowledge or to devise new applications of existing knowledge. The international manual on collecting data about R&D is known as the <a href="#">Frascati Manual</a> .
<b>Red tape</b>	This is an informal term used to refer to regulations or requirements that are imposed on a business or person. In this survey it is sometimes cited by businesses as an obstacle. Different businesses may have different ideas as to what counts as red tape, and the ultimate source of regulations that are perceived as red tape could be governmental or non- governmental.
<b>Registered business</b>	In our survey we use ‘registered’ businesses to mean those that are registered for PAYE (and so are employers) or registered for VAT (and so have an annual turnover above a certain <a href="#">threshold</a> set by the UK Government). In either of these cases such businesses ought to be included in our sampling frame for registered businesses, the IDBR. Some unregistered businesses do appear in the IDBR but we use a separate sampling frame for unregistered businesses which has better coverage of them.
<b>Sector</b>	In this report businesses are classified into one of a number of non-overlapping sectors. We use the Standard Industrial Classification but have combined some of the categories to make them more practical for our survey. See the ‘sector definitions’ section of this report for more detail.
<b>SIC 2007</b>	This is the specific version of the Standard Industrial Classification that is used for this survey, in common with most official statistics in the UK. <a href="#">This</a> is a useful page from the Office for National Statistics website for more detail on SIC 2007.
<b>Small business</b>	A business which has between 10 and 49 employees (whether they are full-time or part-time). In some contexts, people use the term ‘small business’ to refer to all businesses that are smaller than large and medium- sized businesses (in other words all businesses with fewer than 50 employees) but in the LSBS we always use the narrower definition when referring to small businesses specifically.
<b>SME</b>	This stands for ‘Small and Medium Enterprises’, but this is commonly meant to refer to all businesses, firms and enterprises that have fewer than 250 employees, including those that have no employees at all. This means that in the LSBS ‘SMEs’ actually comprise business with no employees, micro businesses, small businesses and medium-sized businesses.

<b>Surplus</b>	Our survey includes not-for-profit enterprises and for many of these it is more appropriate to use the term 'surplus' to refer to an excess of revenue (money coming in, from all sources) over expenditure (money going out, for all reasons).
<b>Trade credit</b>	Trade credit is typically used to refer to when a business receives goods or services from another business but does not pay for it in full at the time of delivery. We ask about it in the survey in the section on finance, but we do not treat it as a form of external financing – rather, it is contrasted with late payments, so it is better thought of as a form of agreed delayed payment, with late payments a delayed payment that has not been agreed.
<b>Turnover</b>	In the LSBS this term is usually synonymous with 'sales'. Although for the purposes of preparing accounts 'turnover' may be defined differently from 'revenue' or 'sales' we do not specify a particular definition in our questionnaire and assume that respondents interpret it to mean revenue from sales which do not take account of costs.
<b>VAT</b>	Value-added tax is tax which businesses are liable to pay if their annual turnover is above a certain threshold. Businesses which are registered for VAT with the UK tax authorities are considered to be 'registered' businesses for this survey and ought to be included in our sampling frame for registered businesses, the IDBR.
<b>Women-led business</b>	Women-led businesses are defined as those majority-led by women, that is controlled by a single woman or having a management team of which a majority are women. 'Majority' here means more than 50%.

# Further information

## Future updates to these statistics

BEIS intends to continue the survey for at least one further wave. The delay to field start date that occurred in 2020 impacted in turn on the 2021 fieldwork dates. Interviewing which was planned to commence in July 2020 and continue to February 2021 was delayed to September 2020 and continued to April 2021 because of the uncertainty and upheaval caused by the coronavirus (COVID-19) pandemic. Interviewing for the 2021 survey took place between the 13<sup>th</sup> September 2021 and the 1<sup>st</sup> April 2022. At this stage we cannot confirm when the 2022 survey will start.

## Related statistics

The related publication of statistics relating to [SMEs with no employees](#) is on the same day as this publication. BEIS will also publish a panel report in September 2022 which focuses on businesses that have taken part in several waves of this survey and associated longitudinal analysis. On the same day as the panel report we will publish the technical report which will include the questionnaire used for the 2021 survey.

The Scottish Government usually produces its own publication based on the same data but focused on Scottish businesses.

BEIS publishes the [Innovation Survey](#) which covers the topic of innovation in much greater detail, and covers large businesses (which the LSBS excludes) but not micro businesses and non-employers (which the LSBS includes). As outlined elsewhere in this report BEIS also publishes the [Business Population Estimates](#) (BPE) which details the structure of the UK's business population (and which the LSBS uses for determining sample sizes and for weighting). The BPE contains information about employment and turnover in different sectors and includes information at regional level as well as nationally.

The Office for National Statistics conducts many surveys of businesses, many of which cover topics that the LSBS examines too. A good starting place is the [Annual Business Survey](#), which does not cover all the sectors of the economy but has very good coverage of large businesses.

The Department for Digital, Culture, Media and Sport (DCMS) publishes [Social Enterprise Market Trends](#), which takes a deeper look at the social enterprises that are identified in the LSBS. BEIS and DCMS worked to improve the survey questions used to identify social enterprises, with the new questions being used in the 2017, 2019 and 2021 surveys.

The Department for Education (DfE) conducts the Employer Skills Survey. The [2019 Employer Skills Survey](#) brought together the previous Employer Skills Survey and the Employer Perspectives Survey into a single large survey with over 80,000 respondents. DfE also publishes statistics about [apprenticeships by industry characteristics](#) in England based on administrative data.

## Uses of these statistics

As a wide-ranging survey of SMEs, the LSBS is of interest to many Government departments and agencies. BEIS makes use of the questions on energy use by SMEs to develop policies on business energy such as non-domestic smart meters. Statistics are used by the Government Equalities Office to monitor rates of women-led businesses in the SME population. The figures for MEG-led SMEs are published by the Government's Race Disparity Unit as part of its [Ethnicity Facts and Figures](#) service. Government also uses the LSBS data to understand more about the export and import behaviour of UK SMEs and the operation of the UK internal market. As mentioned above DCMS makes use of the social enterprises data and the Scottish Government uses the data for evidence and analysis on a broad range of policy areas.

In the past the Department for the Environment, Food and Rural Affairs (Defra) has analysed rural SMEs, and the Low Pay Commission has looked at what businesses say about the National Minimum Wage and National Living Wage. HM Revenue and Customs has sponsored questions looking at SME preparedness for the Making Tax Digital Programme. Innovate NI looks at Northern Irish companies and their innovation activities. The British Business Bank is a major sponsor of the survey and makes use of the data on access to finance.

The LSBS is increasingly widely used in the academic and research community, in the UK and abroad. We will run a mini competition later in 2022 for research teams to apply for small grants to conduct research using the latest LSBS data, and the data will continue to be made available by the ONS [Secure Research Service](#) and the [UK Data Service](#) for approved researchers. The [Institute for Family Business](#) makes use of the survey in its 'State of the Nation' reports, and the Federation for Small Businesses has used the LSBS in its research work, for example the Unlocking Opportunity report <https://www.fsb.org.uk/resource-report/unlock.html>

## User engagement

Users are encouraged to provide comments and feedback on how these statistics are used and how well they meet user needs. Comments on any issues relating to this statistical release are welcomed and should be sent to [business.statistics@beis.gov.uk](mailto:business.statistics@beis.gov.uk).

The BEIS statement on [statistical public engagement and data standards](#) sets out the department's commitments on public engagement and data standards as outlined by the [Code of Practice for Statistics](#).

## Revisions policy

The [BEIS statistical revisions policy](#) sets out the revisions policy for these statistics, which has been developed in accordance with the UK Statistics Authority [Code of Practice for Statistics](#).

## Pre-release access to statistics

Some ministers and officials receive access to these statistics up to 24 hours before release. Details of the arrangements for doing this and a list of the ministers and officials that receive pre-release access to these statistics can be found in the [BEIS statement of compliance](#) with the Pre-Release Access to Official Statistics Order 2008.

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