



Leverhulme Centre
for Research on Globalisation and Economic Policy

Small firms driving UK job creation

Job Creation, Job Destruction and the Role of Small Firms

By Peter Wright, Richard Upward and Alexander Hijzen

Britain's small businesses are likely to create almost two thirds of the country's new jobs in an average year, a major new study has revealed.

Firms employing fewer than 100 workers accounted for 65% of new jobs in the UK in the period from 1997 to 2008.

GEP economists used data from the Office for National Statistics' Inter-Departmental Business Register, which records all businesses in the UK.

They discovered that on average a total of 47,000 private-sector jobs are destroyed every week – equal to 2.35 million a year.

But another 53,000 a week – in other words, some 2.6 million a year – are created as part of the relentless "churn" in the job market.

Small firms employ between 38% and 52% of all workers and account for 65% of jobs created and 45% of those destroyed.

Overall, the job-creation rate in the service sector was 15.6% during the period studied, while the destruction rate was 13.6%.

Meanwhile, the struggling manufacturing sector declined each year, with a creation rate of 10% and a destruction rate of 13.7%.

A study of regional results found manufacturing suffered the most rapid shrinkage in the North East, the West Midlands and London.

The North West, Scotland, the East of England, Yorkshire and Northern Ireland enjoyed the fastest expansion in the service sector.

Key findings

- Small firms account for almost two thirds of the new jobs created in the UK in an average year – and 45% of those destroyed.
- A better understanding of why many small businesses fail could have a significant impact on the overall job-creation rate.
- A total of 47,000 private-sector jobs are destroyed in Britain every week – equal to 2.35 million a year.
- Another 53,000 a week – 2.6 million a year – are created.
- The service sector accounts for 70% of job turnover and is growing, whereas the manufacturing sector is in decline.

Research basis

Researchers used firm-level data from the Inter-Departmental Business Register (IDBR), a live register of all businesses in the UK, for the period from 1997 to 2008.

Covering an estimated 99% of business activity in the UK, the IDBR is held by the Office of National Statistics and uses inputs from Customs and Excise (for VAT-registered businesses) and the Inland Revenue (for PAYE-registered businesses).

Comments and implications

The findings are likely to reignite the long-standing debate over the role of small companies in sustaining the UK economy – particularly in light of the Budget, which was widely regarded as favourable to them.

Co-author Dr Peter Wright, an Associate Professor of Economics, said: “There has always been a discussion about whether small entrepreneurial firms or large firms are more important in terms of job creation.

“It’s clear from this research that small companies employ a significant proportion of the workforce and account for most new jobs.

“Although their failure rates are higher, they certainly have more of a role to play than many economists have previously recognised.

“Therefore if the government could identify why so many of these firms fail then it could have a significant impact on net job creation.”

He added: “People might be surprised by our overall figures, but they show how dynamic the UK employment market really is.

“It’s not necessarily a bad thing for the economy, but it does mean there are likely to be many people changing jobs involuntarily.

About GEP

Based at the University of Nottingham and substantially funded by grants from the Leverhulme Trust, GEP is the major centre in Europe studying the impacts of globalisation and economic policy.

In January 2008 it opened GEP in Malaysia at the University of Nottingham’s purpose-built Semenyih campus, 30km from Kuala Lumpur. In November 2008 it launched GEP in China at the University of Nottingham, Ningbo, China.

GEP is keen to promote its research work and is committed to communicating its expertise. Its academics have advised the Treasury, the OECD, the World Bank and the WTO.

Website: www.gep.org.uk

“That may involve considerable adjustment costs and also has important implications in terms of training provisions.

“Many workers will need to change or update their skills regularly to stay in work and maintain income levels in such a dynamic market.”

Study authors

Peter Wright

Dr Peter Wright is an Associate Professor and Reader in Economics. He has been a member of staff at the University of Nottingham since 1993. His primary research interests are labour market adjustment (particularly in response to globalisation), the labour market impact of mergers and acquisitions and the market for executive labour. Peter is co-ordinator of GEP’s Globalisation and Labour Markets programme..

Richard Upward

Dr Richard Upward joined the University of Nottingham in 1998 as a Research Fellow, became a Lecturer in 2001 and was promoted to Associate Professor in 2004. He previously worked as a Research Associate in the economics department at Manchester University, where he also completed his PhD. Richard is a Research Fellow at GEP, where his work includes studies of worker displacement and the effects of offshoring.

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Alexander Hijzen works in the Employment Analysis and Policy Division of the Organisation for Economic Co-operation and Development. He was awarded an ESRC Post-Doctoral Fellowship with GEP in 2005/2005 and retains an External Research Fellowship with the Centre.

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