Small firms driving job creation

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

Research shows firms employing fewer than 100 workers accounted for 65 per cent of new jobs in the UK in the period from 1997 to 2008.

The finding is likely to reignite the debate over the role of small companies in sustaining the nation's economy — particularly in light of the Budget, which was widely regarded as favourable to them.

The prestigious Globalisation and Economic Policy Centre, based at The University of Nottingham, carried out the study.

Co-author Dr Peter Wright 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."

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

Researchers 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 per cent and 52 per cent of all workers and account for 65 per cent of jobs created and 45 per cent of those destroyed. Overall, the job-creation rate in the service sector was 15.6 per cent during the period studied, while the destruction rate was 13.6 per cent. Meanwhile, the struggling manufacturing sector declined each year, with a creation rate of 10 per cent and a destruction rate of 13.7 per cent.

Dr Wright, an associate professor of economics, said: "These relative rates reflect the continuing decline in manufacturing, which was shrinking every year. The difference in the growth rates of the two sectors is largely because of differences in the creation rate rather than destruction."

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.

Dr Wright 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.

"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."

GEP's economists have advised organisations including the Treasury, the Bank of England, the Commonwealth Secretariat and the World Bank. Last year they produced a study suggesting many Britons who lose their jobs through firm shutdowns still feel the impact half a decade later.

According to the research, the closure of a company leads to the average worker suffering a drop in income of around 50 per cent in the first year. Income recovers gradually thereafter, but even after five years it is significantly less than for those who have not lost their jobs.

Provided by University of Nottingham