

## **Effects of Brexit on Small Businesses in the United Kingdom**

Small and Medium Sized Enterprises (SMEs) are an important part of the UK economy, accounting for 99 percent of all businesses and 60 percent of all private-sector employment (Lampadarios, 2016). Given their limited resources and lower tolerance to unexpected shocks, SMEs have faced the biggest impacts after the UK voted to leave the European Union (EU). SMEs, especially those with high investment levels, are disproportionately impacted by uncertainty. Brexit has been a major source of uncertainty, especially regarding tariffs, quotas, and new laws governing the conduct of business within the UK territory. Uncertainty has been shown to play a significant role in influencing firms' decision-making processes. As a result, Brexit has had a tangible impact on SMEs' performance and state of health across the UK. This analysis will outline the effects of Brexit on SMEs in the UK, focusing on costs, new laws governing the conduct of business, human capital, and the financial health of these SMEs. In addition, the analysis will highlight the effect of Brexit on SMEs' trade and Foreign Direct Investments

### **Rising Operational Costs**

The UK's current trading partnership with the EU in the wake of Brexit has a disproportionate effect on small businesses across the country. Rising operational costs have been cited as one of the major negative effects of Brexit (Holland & Prickett, 2021). SMEs that are primarily engaged in the export of goods and services, particularly to the EU member countries, have been faced with increasing cases of bureaucratic red tape. Following Brexit, a series of new regulatory requirements came into force as the UK was now considered a “third country” that now had to fulfill compliance with EU laws on export (Larik, 2021). For instance, red tape issues have occurred in areas where new certifications are needed for the export of goods from the UK into the EU, covering virtually all business sectors while requiring that the SMEs uphold requirements in conformity with health, safety, and environmental protection standards. For SMEs, this means additional costs that were initially absent pre-Brexit. While large multinationals can easily shoulder these costs, SMEs are faced with the dilemma of increasing their prices or slashing their profits to remain competitive within the European market.

Soaring cross-channel freight rates have disproportionately led to a rise in operational costs for SMEs in the UK. These rising costs are largely due to new administrative costs introduced following the departure of the UK from the EU single market and customs union. It is estimated that there has been up to a 700% rise in freight administrative costs following Brexit (Douch & Edwards, 2021). The rising costs have not been confined to shipping alone but have extended to European road freight charges that UK firms have to pay. Following Brexit, there was over 50% jump in road freight charges, with many drivers citing bureaucracy as a major cause for this jump in freight charges. Therefore, the UK SMEs are then forced to shoulder these costs leading to increase in prices of UK-produced goods.