
Small Business Survey Scotland 2015

Topic Report: Urban/Rural Businesses

Office of the Chief Economic Adviser



Summary

- 820 SMEs with employees in Scotland took part in the Longitudinal Small Business Survey (LSBS) in 2015. Of these 820 SMEs, 20 per cent were located in accessible rural areas, 10 per cent were located in remote rural areas and 69 per cent were located in the rest of Scotland¹.
- Family-owned businesses were more prevalent in rural areas than in urban areas.
- The proportion of SMEs that exported outwith the UK is higher in accessible rural areas and the rest of Scotland than in remote rural areas.
- Home-based businesses accounted for a higher proportion of SMEs in rural areas than in urban areas.
- Majority-led by women businesses were more prevalent in urban areas than in rural areas.
- A higher proportion of SMEs were innovators in urban areas than in rural areas. However, within the rural category, a higher proportion of SMEs are innovators in remote rural areas than in accessible rural areas.
- A higher proportion of SMEs in urban areas had their own website than in rural areas.
- A marginally higher proportion of SMEs located in urban areas were aware of business support providers than those located in rural areas.
- A higher proportion of SMEs in rural areas applied for finance (30 per cent) than SMEs in urban areas (15 per cent).
- The proportion of SMEs reporting employment and turnover growth was higher in rural areas than in urban areas. Moreover, a lower proportion of rural SMEs reported a decrease in employment and turnover compared to urban SMEs.
- A higher proportion of urban SMEs planned to grow sales over the next three years compared to rural SMEs.
- Regulations/red tape was the most commonly reported major obstacle to business success in both rural and urban areas.

¹ Weighted percentages. This analysis uses the standard Small Business Survey weights, which weights responses by legal status, size band, sector and nation. Percentages may not add up to 100 per cent due to rounding.



Urban/Rural Businesses

Small Business Survey Scotland 2015

69%

Urban

20%

Accessible rural

10%

Remote rural



Family-owned

79% Remote rural
77% Accessible rural
68% Urban



Exporters

8% Remote rural
14% Accessible rural
12% Urban



Home-based

17% Remote rural
43% Accessible rural
40% Urban



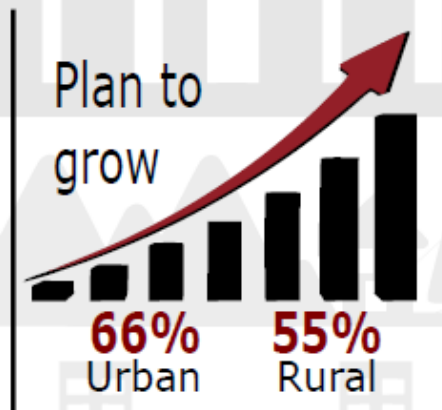
Innovators

41% Remote rural
28% Accessible rural
45% Urban



Applied for finance

30% Rural
15% Urban



85% Urban
87% Rural

Grew or maintained **employment** levels in the past 12 months

71% Urban
78% Rural

Grew or maintained **turnover** levels in the past 12 months



Introduction

- 1.1 To accompany the main [Small Business Survey Scotland 2015 report](#), a number of short topic reports have been prepared examining particular aspects of interest.
- 1.2 This short report draws on data from the 2015 Longitudinal Small Business Survey to examine the main findings for small and medium enterprises (SMEs) in Scotland disaggregated by rural and urban location². It outlines the key characteristics of urban and rural SMEs in Scotland and provides a picture of the perceptions of urban and rural SMEs on issues including innovation, business support, access to finance and obstacles to business success. Where appropriate³, findings for rural areas are further disaggregated into 'accessible rural' and 'remote rural' areas⁴.
- 1.3 Consistent with the main report, findings from the LSBS presented here relate to **SMEs with employees only** - enterprises with no employees have been excluded from the dataset on which this report was based.
- 1.4 In 2015, **820 SMEs with employees** in Scotland took part in the Longitudinal Small Business Survey. Of these 820 SMEs, 134 (20 per cent⁵) were located in accessible rural areas, 76 (10 per cent) were located in remote rural areas and 610 (69 per cent) were located in the rest of Scotland.

Figure 1: 3 fold Urban/Rural categorisation from postcode

	Micro (1-9 employees)	Small (10-49 employees)	Medium (50-249 employees)	All
Rest of Scotland	212	235	163	610
Accessible rural	63	44	27	134
Remote rural	34	33	9	76
All	309	312	199	820

² The Scottish Government 2 fold Urban Rural Classification 2013-2014 defines: urban areas as settlements of 3,000 or more people; and rural areas as settlements of less than 3,000 people.

³ Findings are disaggregated into urban rural and accessible rural where sample sizes permit.

⁴ The Scottish Government 3 fold Urban Rural Classification 2013-2014 defines: accessible rural areas as settlements of less than 3,000 people and within 30 minutes' drive of a settlement of 10,000 or more; remote rural areas as settlements of less than 3,000 people and with a drive time of over 30 minutes to a settlement of 10,000 or more; and rest of Scotland as settlements of 3,000 or more people.

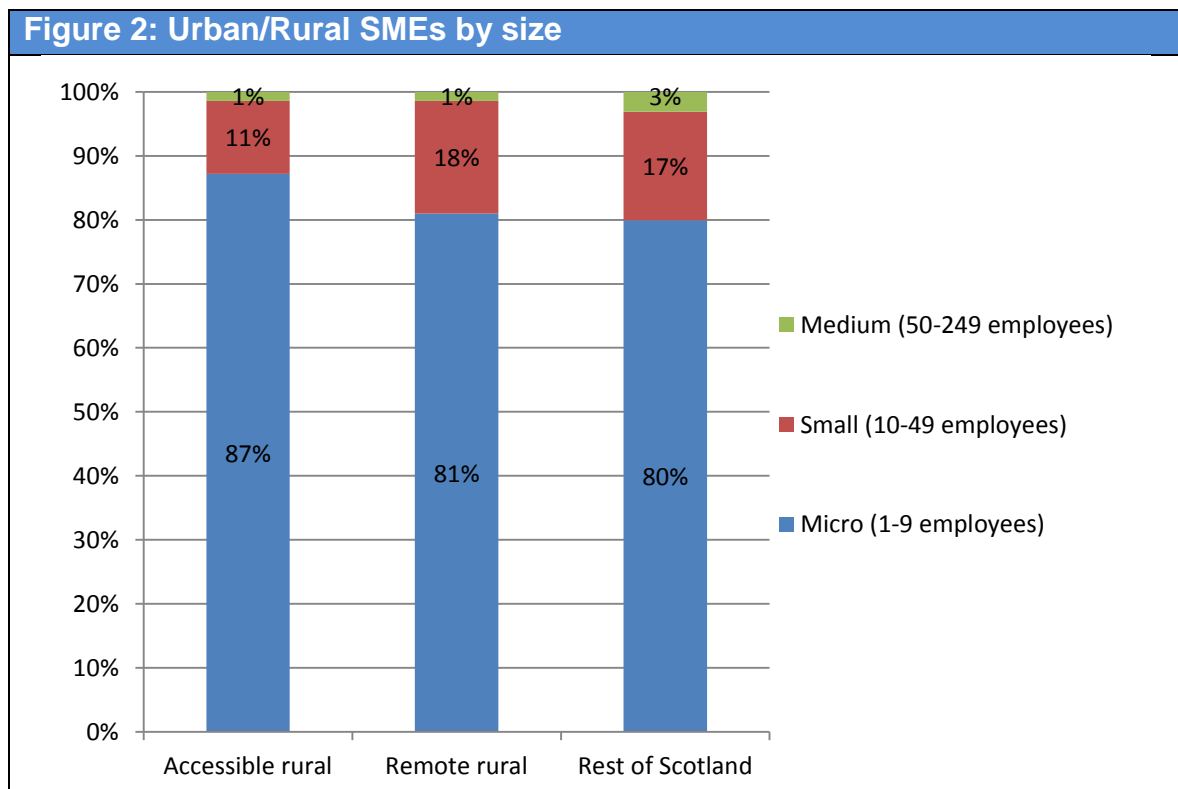
⁵ Weighted percentages. This analysis uses the standard Small Business Survey weights, which weights responses by legal status, size band, sector and nation. Percentages may not add up to 100 per cent due to rounding.



Business demographics

Size

- 2.1 As shown in Figure 2, a higher proportion of SMEs in accessible rural areas were micro and a smaller proportion were small, when compared to SMEs in remote rural areas and the rest of Scotland.



Sector

- 2.2 Typically, SMEs in the Primary sector are more prevalent in rural areas, while SMEs in the Business Services and Other services sectors are more prevalent in urban areas (Figure 3).



Figure 3: Urban/Rural SMEs by sector (%)*Base minimum: Primary, 26*

Sector (SIC 2007)	Urban	Rural	All
Primary (ABDE) ⁶	3	20	8
Manufacturing (C)	6	5	6
Construction (F)	12	13	12
Transport/Retail/Distribution (GHI) ⁷	32	36	33
Information/Communication (J)	3	4	3
Business Services (KLM) ⁸	20	12	18
Administrative Services (N)	8	4	7
Other services (PQRS) ⁹	16	6	13

Ownership

- 2.3 71 per cent of SMEs in Scotland were family-owned. A higher proportion of SMEs in remote rural (79 per cent) and accessible rural areas (77 per cent) were family owned than SMEs in in the rest of Scotland (68 per cent).

Exports

- 2.4 12 per cent of SMEs in Scotland reported that they exported goods or services *outside of the UK*. This proportion was higher for businesses in accessible rural areas (14 per cent) and the rest of Scotland (12 per cent) than in remote rural areas (8 per cent).

Home-based businesses

- 2.5 24 per cent of SMEs did not have separate business premises to their home address (i.e. home-based businesses). The proportion of home-based businesses was higher in accessible rural (43 per cent) and remote rural areas (40 per cent) than in the rest of Scotland (17 per cent).

Women-led businesses

- 2.6 Majority-led by women businesses are defined as controlled by a single woman or having a management team composed of a majority of women. 20

⁶ Agriculture, Forestry and Fishing (A); Mining and Quarrying (B); Electricity, gas, steam and air conditioning supply (D); and Water supply, sewerage, waste management and remediation activities (E).

⁷ Wholesale and retail trade (G); repair of motor vehicles and motorcycles (H); Transportation and storage; and Accommodation and food service activities (I).

⁸ Financial and insurance activities (K); Real estate activities (L); and Professional, scientific and technical activities (M).

⁹ Education (P); Human health and social work activities (Q); Arts, entertainment and recreation (R); and Other service activities (S).



per cent of SMEs in Scotland responded that they were majority-led by women. The proportion of majority-led by women businesses was higher in urban areas, at 22 per cent of SMEs, than in rural areas, at 15 per cent (Figure 4).

Figure 4: SME leadership by gender by urban/rural (%)

Base: all SMEs, 820

Broad urban/rural categorisation from postcode	Women only or in majority	Equally led	Women in minority	Entirely male-led	Don't know/refused
Urban	22	19	9	40	10
Rural	15	27	16	37	6
All	20	21	11	39	9



Business practice

Innovation

- 3.1 In Scotland, 41 per cent of SMEs had introduced new or significantly improved goods or services (i.e. innovators) over the past three years. A higher proportion of SMEs were innovators in urban areas, at 45 per cent, than in rural areas, at 33 per cent.
- 3.2 However, within the rural category, a higher proportion of SMEs located in remote rural areas were innovators (41 per cent), than in accessible rural areas (28 per cent).

Training

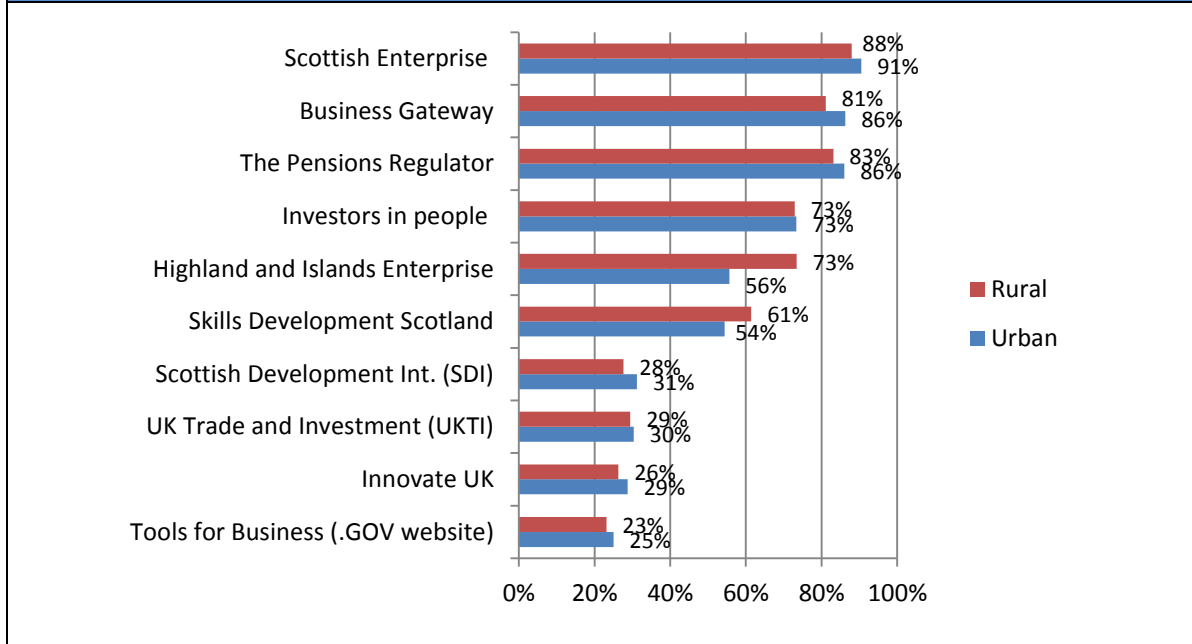
- 3.3 61 per cent of SMEs arranged or funded training or development (on the job or off the job) for employees in the past 12 months. A higher proportion of SMEs in accessible rural areas offered training to employees (69 per cent), than SMEs in the rest of Scotland (60 per cent) and in remote rural areas (52 per cent).

Website

- 3.4 In 2015, 68 per cent of SMEs in Scotland had their own website. SMEs in the rest of Scotland were more likely to have their own website (70 per cent) than SMEs in accessible rural areas (63 per cent) and in remote rural areas (57 per cent).

Awareness of business support

- 3.5 In 2015, almost all (98 per cent) SMEs in Scotland were aware of business support providers. A marginally higher proportion of SMEs located in urban areas were aware of business support providers, at 99 per cent, than those located in rural areas, at 96 per cent.
- 3.6 Figure 5 shows the business support organisations that SMEs were most aware of in 2015, by urban/ rural location. Awareness of business support amongst SMEs is broadly similar in urban and rural areas. However, urban businesses are slightly more aware of Business Gateway than rural businesses, while rural businesses are more aware of Highlands and Islands Enterprise and Skills Development Scotland than urban businesses.

Figure 5: Awareness of business support by urban/rural: Top 10 responses*Base: all SMEs, 820*

Access to finance

Demand for finance

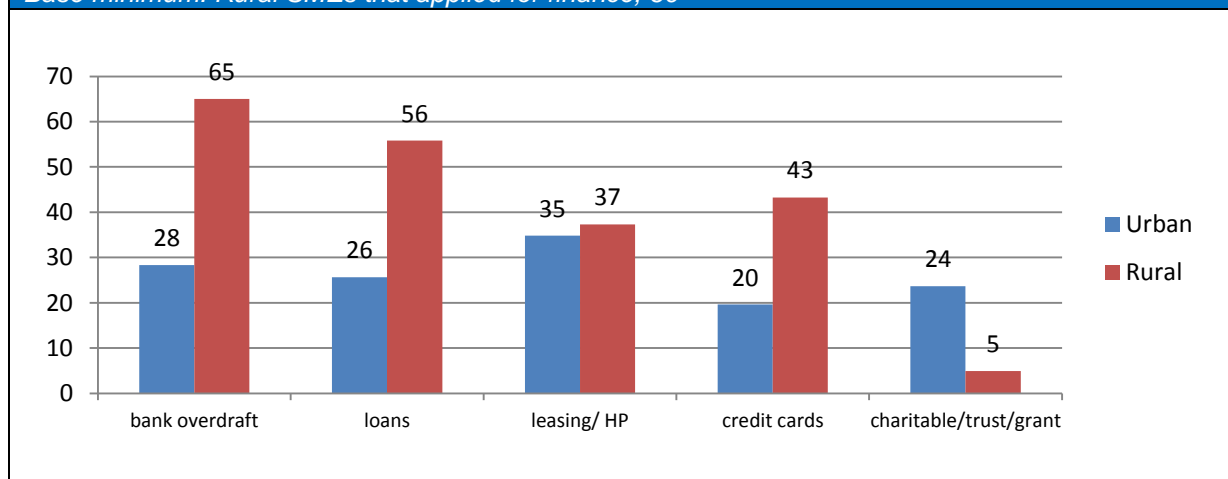
4.1 In 2015, 19 per cent of SMEs in Scotland had applied for finance in the previous 12 months. The proportion of SMEs that applied for finance was higher for rural SMEs, at 30 per cent, than for urban SMEs, at 15 per cent.

Type of finance sought

4.2 The main type of finance SMEs applied for in 2015 was bank overdraft (46 per cent), followed by loans (40 per cent). Figure 6 below shows that a higher proportion of rural SMEs applied for bank overdraft and loans (65 per cent and 56 per cent respectively) than urban SMEs (28 per cent and 26 per cent respectively).

Figure 6: Type of finance sought: Top 5 responses by urban/rural (%)

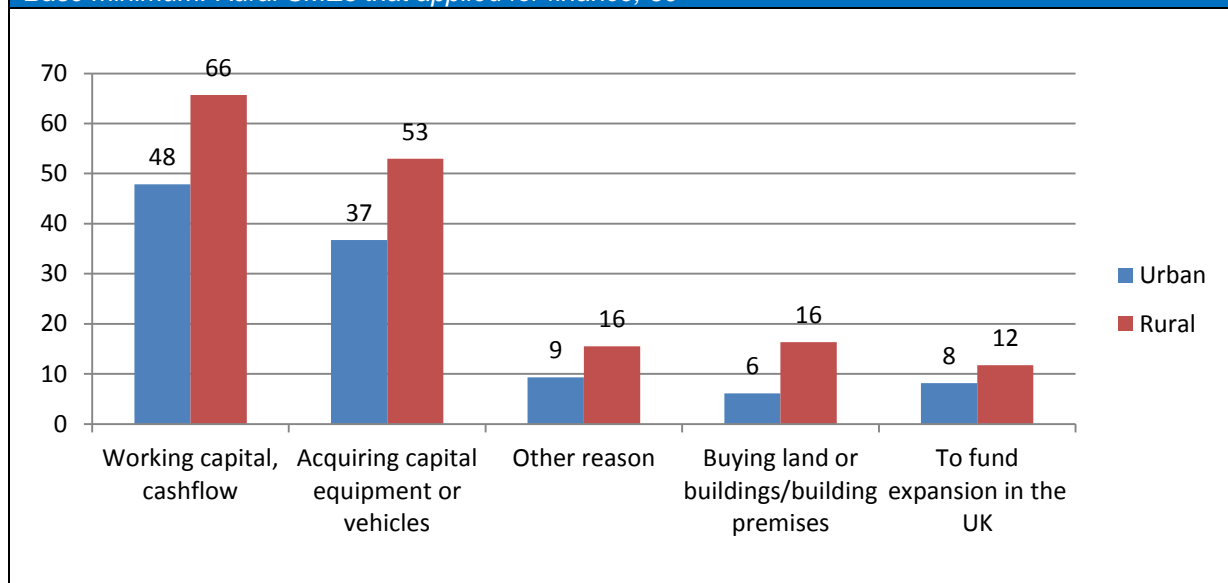
Base minimum: Rural SMEs that applied for finance, 60



Reasons for applying for finance

4.3 The most common reason for applying for finance was for working capital/cash flow (56 per cent). A higher proportion of rural SMEs reported this as a reason for seeking finance (66 per cent) than urban SMEs (48 per cent).



Figure 7: Reason for applying for finance: Top 5 responses by urban/rural (%)*Base minimum: Rural SMEs that applied for finance, 60*

Supply of finance

4.4 Regarding the final outcome of applications for finance, 83 per cent of SMEs in Scotland that applied for finance obtained at least some of the finance sought, while six per cent did not obtain any. This outcome was very similar in both urban (83 per cent obtained some finance while six per cent did not obtain any) and rural areas (82 per cent obtained some finance while six per cent did not obtain any).

Future intentions

4.5 44 per cent of SMEs in Scotland reported that they were not at all likely to approach external finance providers over the next three years, whilst 29 per cent said that it was fairly or very likely that they would approach external finance providers. The proportion of urban and rural SMEs that were not at all likely to approach external finance providers was aligned with the figure for Scotland as a whole (45 per cent of rural SMEs and 44 per cent of urban SMEs). However, a higher proportion of SMEs in rural areas reported to be fairly or very likely to approach external finance in the next three years (33 per cent), than SMEs in urban areas (27 per cent) (Figure 8).

Figure 8: Likelihood of approaching external finance in the next 3 years (%)*Base: all SMEs, 820*

	Urban	Rural	All
Very likely	12	19	15
Fairly likely	15	13	14
Not very likely	27	21	25
Not at all likely	44	45	44
Don't know	2	1	2



Business performance and outlook

Changes to employment

- 5.1 65 per cent of SMEs in Scotland maintained the same employment levels over the past 12 months, 21 per cent reported employment growth while 15 per cent reported having fewer employees in 2015 than they did in 2014. Changes to employment levels over the past year were marginally more positive for rural SMEs than urban SMEs. The proportion of SMEs reporting employment growth was marginally higher in rural areas (22 per cent), than in urban areas (20 per cent). Moreover, a lower proportion of rural SMEs reported a decrease in employment (13 per cent) compared to urban SMEs (16 per cent).
- 5.2 Figure 9 shows the net balance of employment growth by urban/rural location. The net balance is described as the overall proportion of SMEs that increased employment, minus the proportion of SMEs that decreased employment, compared to 12 months previously. Positive figures indicate that more SMEs increased employment levels than decreased, in the last 12 months.

Figure 9: Numbers employed compared to 12 months previously by urban/rural (%)

Broad urban/rural categorisation from postcode	Employ more people now	Employ the same number	Employ fewer people now	Net balance – growth (% points)
Urban	20	65	16	4
Rural	22	65	13	9
All	21	65	15	6

- 5.3 In 2015, 23 per cent of SMEs in Scotland stated that they expect to employ more people in one year's time, 12 per cent expected to reduce the number of employees, while the majority of firms (65 per cent) expected to retain existing staff levels over the coming year. Urban SMEs appear to be more optimistic regarding employment growth than rural SMEs. A higher proportion of urban SMEs (26 per cent) expected employment growth when compared to rural SMEs (17 per cent) and a lower proportion of urban SMEs expected to reduce employment (11 per cent) compared to rural SMEs (15 per cent). The proportion of SMEs expecting to retain existing staff levels stood at 63 per cent in urban areas and at 68 per cent in rural areas (Figure 10).



Figure 10: Employment expectation in the next 12 months by urban/rural (%)

Broad urban/rural categorisation from postcode	Employ more than currently	Employ the same numbers	Employ fewer than currently
Urban	26	63	11
Rural	17	68	15
All	23	65	12

Changes to turnover

- 5.4 40 per cent of SMEs in Scotland experienced no change to turnover over the past 12 months, 33 per cent reported an increase in turnover, while 22 per cent reported a reduction. Changes to turnover levels were more positive for rural SMEs than urban SMEs. The proportion of SMEs reporting an increase in turnover was higher in rural areas (41 per cent), than in urban areas (30 per cent). In addition, a lower proportion of rural SMEs reported a decrease in turnover (18 per cent) compared to urban SMEs (24 per cent).
- 5.5 Figure 11 below shows the net balance of turnover growth by urban/rural location. The net balance is described as the overall proportion of SMEs that experienced an increase in turnover, minus the proportion of SMEs experienced a reduction in turnover, compared to 12 months previously. Positive figures indicate that more SMEs reported an increase in turnover than a reduction, in the last 12 months.

Figure 11: Changes to turnover compared to 12 months previously by urban/rural (%)

Don't know/Refused not displayed

Broad urban/rural categorisation from postcode	Increase in turnover	No change to turnover	Decrease in turnover	Net balance – growth (% points)
Urban	30	41	24	6
Rural	41	37	18	23
All	33	40	22	11

- 5.6 42 per cent of SMEs expected to maintain existing turnover levels over the next 12 months, 38 per cent of SMEs anticipated turnover growth, and 14 per cent expected turnover to decrease. Urban SMEs appear to be marginally more optimistic than rural SMEs regarding future turnover levels. As shown in Figure 12 below, a marginally higher proportion of urban SMEs (40 per cent) expected turnover to increase than rural SMEs (36 per cent) and a lower proportion of urban SMEs (12 per cent) expected turnover reduction than rural SMEs (19 per cent).



Figure 12: Turnover expectation in the next 12 months by urban/rural (%)*Don't know/Refused not displayed*

Broad urban/rural categorisation from postcode	Increase in turnover	No changes to turnover	Decrease in turnover
Urban	40	42	12
Rural	36	41	19
All	38	42	14

Future intentions

- 5.7 62 per cent of SMEs in Scotland planned on growing their sales over the next three years. A higher proportion of urban SMEs planned to grow sales (66 per cent) than rural SMEs (55 per cent).
- 5.8 The most frequently cited activity which SMEs said they would undertake in order to increase growth in the next three years was to increase the skills of the workforce, cited by 71 per cent of SMEs in Scotland. This was cited by 72 per cent of urban SMEs and by 70 per cent of rural SMEs. Introducing new working practices (49 per cent in Scotland) was cited by 50 per cent of urban firms and by 45 per cent of rural firms. Developing and launching new products (45 per cent in Scotland) was cited by 46 per cent of urban firms and by 43 per cent of rural firms (Figure 13).

Figure 13: Most cited activity to increase growth by urban/rural (%)*Base: all SMEs, 820*

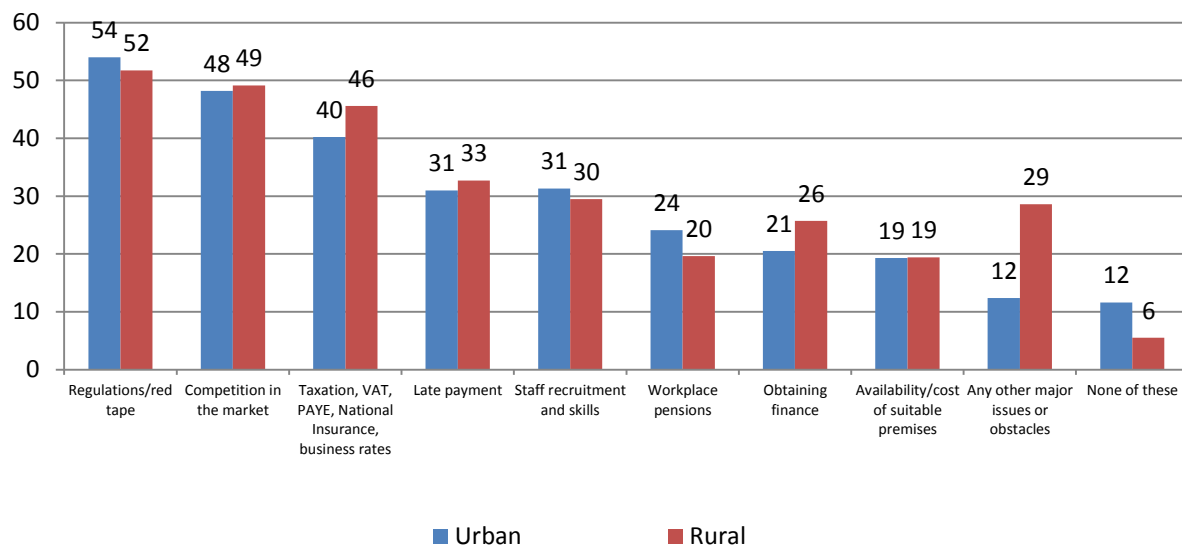
	Urban	Rural	All
Increase the skills of the workforce	72	70	71
Introduce new working practices	50	45	49
Develop and launch new products/services	46	43	45



Obstacles to success

Figure 14: Major obstacle to business success by urban/rural (%)

Base: all SMEs, 820



- 5.9 As shown in Figure 14 above, regulations/red tape was the most commonly reported major obstacle to business success in both rural and urban areas, with 54 per cent of urban SMEs and 52 per cent of rural SMEs reporting this as a key issue. 'Any other major issues or obstacles' was reported by a much higher proportion of rural SMEs (29 per cent) than urban SMEs (12 per cent). Rural SMEs reported various answers within this category with the most common including location/cost of travel/logistics, weather conditions, and poor broadband speeds.



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