Small Business Survey Scotland 2015

Topic Report: Innovation

Office of the Chief Economic Adviser

Scottish Government
Riaghaltas na h-Alba
gov.scot

Summary

- 820 Small and Medium-sized Enterprises (SMEs) with employees in Scotland took part in the Longitudinal Small Business Survey (LSBS) in 2015. Of these 820 SMEs, 41 per cent had introduced **new or significantly improved goods and/or services** over the last three years, while 59 per cent had not introduced any new or improved products[1].

- A slightly lower proportion of innovative SMEs were family-owned than non-innovative SMEs.

- Innovative SMEs were more likely to export outwith the UK than non-innovative SMEs[2].

- Innovative SMEs were less likely to be home-based than non-innovative SMEs.

- A slightly lower proportion of innovative SMEs were majority-led by women than non-innovative SMEs.

- Innovative SMEs were more likely to have their own website than non-innovative SMEs.

- A marginally higher proportion of innovative SMEs were aware of business support providers than non-innovative SMEs.

- The proportion of SMEs that applied for finance was broadly the same for innovative and non-innovative SMEs.

- The proportion of SMEs reporting employment and turnover growth was slightly higher for innovative SMEs than for non-innovative SMEs. However, a higher proportion of innovative SMEs reported a decrease in employment levels than non-innovative SMEs. The proportion of SMEs reporting a decrease in turnover was the same for innovative and non-innovative SMEs.

- A higher proportion of innovative SMEs planned to grow sales over the next three years compared to non-innovative SMEs.

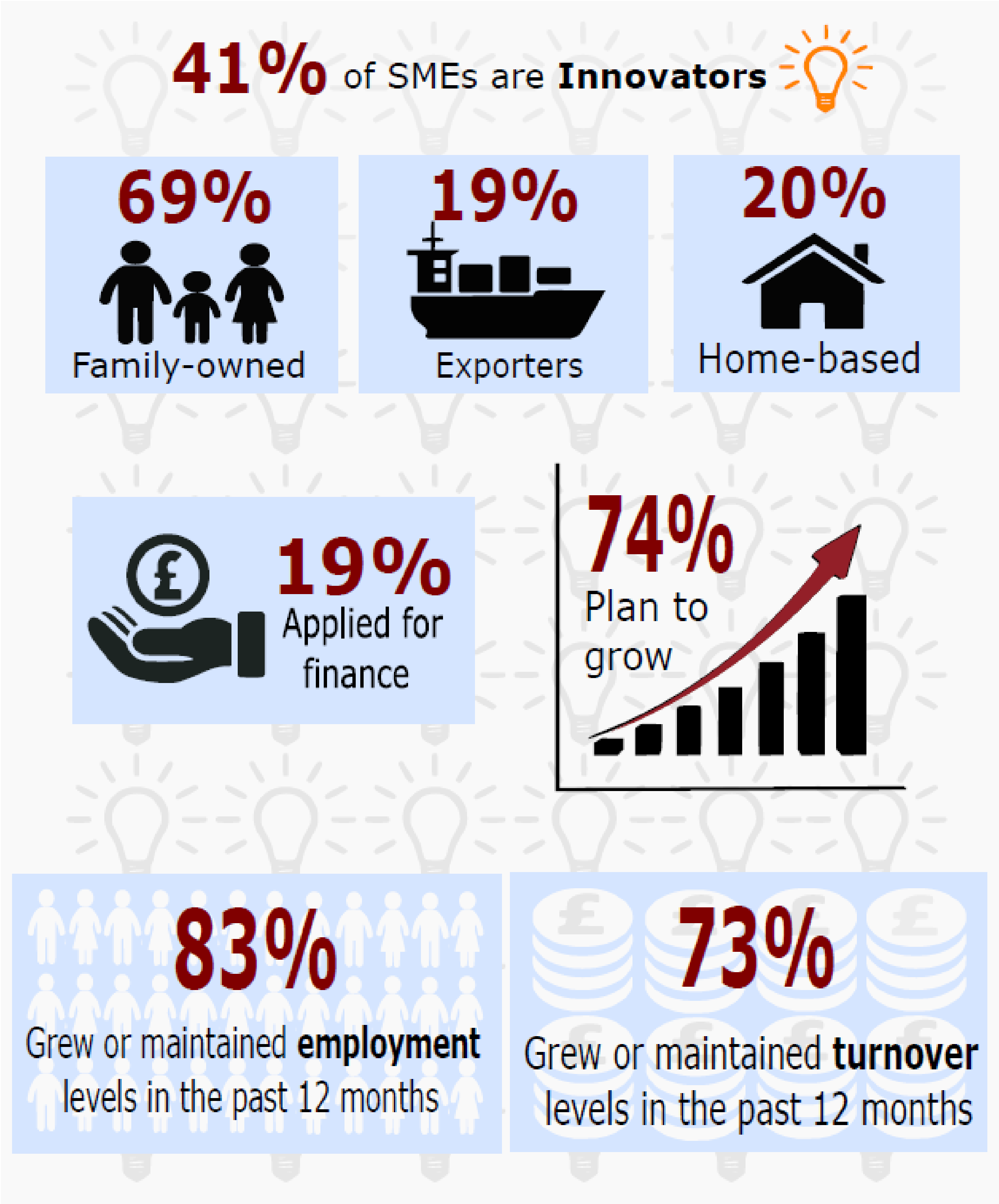
- The most commonly reported obstacles to business success by both innovative and non-innovative SME were regulations/red tape and competition in the market.

[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.

[2] The evidence is not clear around causality (i.e. whether exporting firms are more likely to innovate, or innovative firms are more likely to export).

Innovators

Small Business Survey Scotland 2015



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 (LSBS) to examine the main findings for small and medium-sized enterprises (SMEs) that had introduced new or significantly improved goods and/or services over the last three years. It outlines key characteristics of these businesses and provides a picture of their perceptions on issues including business support, access to finance and obstacles to business success.

1.3 In 2015, **820 SMEs** *with employees* in Scotland took part in the Longitudinal Small Business Survey. Of these 820 SMEs, 41 per cent had introduced **new or significantly improved goods and/or services** over the last three years, while 59 per cent had not introduced any new or improved goods and/or serveces.

1.4 Of these innovators, 66 per cent introduced innovations that were all just new to the business. 32 per cent introduced at least some products that were new to the market, higher than the equivalent figure in the UK as a whole (30 per cent).

1.5 23 per cent of SMEs had introduced **new or significantly improved processes** for producing or supplying goods or services in the last three years, compared to 25 per cent in the UK as a whole.

1.6 Of these, 76 per cent introduced processes which were all just new for the business, while 24 per cent introduced at least some processes that were also new to the industry. This proportion is higher than that for the UK as a whole (21 per cent).

Figure 1: SMEs introducing new goods and/or services in the last 3 years

	Micro (1-9 employees)	Small (10-49 employees)	Medium (50-249 employees)	All
Any new or significantly improved goods and/or services	127	152	92	**371**
None	182	160	107	**449**
All	**309**	**312**	**199**	**820**

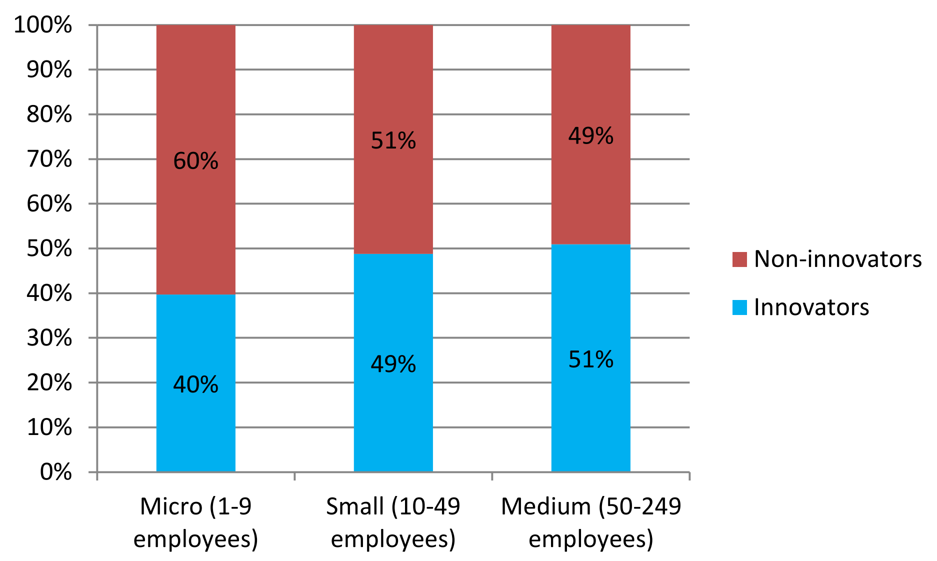
1.7 For the purpose of this report, SMEs that had introduced new or significantly improved goods and/or services over the last three years are referred to as "innovative SMEs" while SMEs that had not introduced any new or significantly improved goods and/or services are referred to as "non-innovative SMEs".

Business demographics

Size

2.1 A higher proportion of medium-sized (51 per cent) and small firms (49 per cent) introduced new or significantly improved goods and/or services in the last three years, than micro firms (40 per cent) (Figure 2).

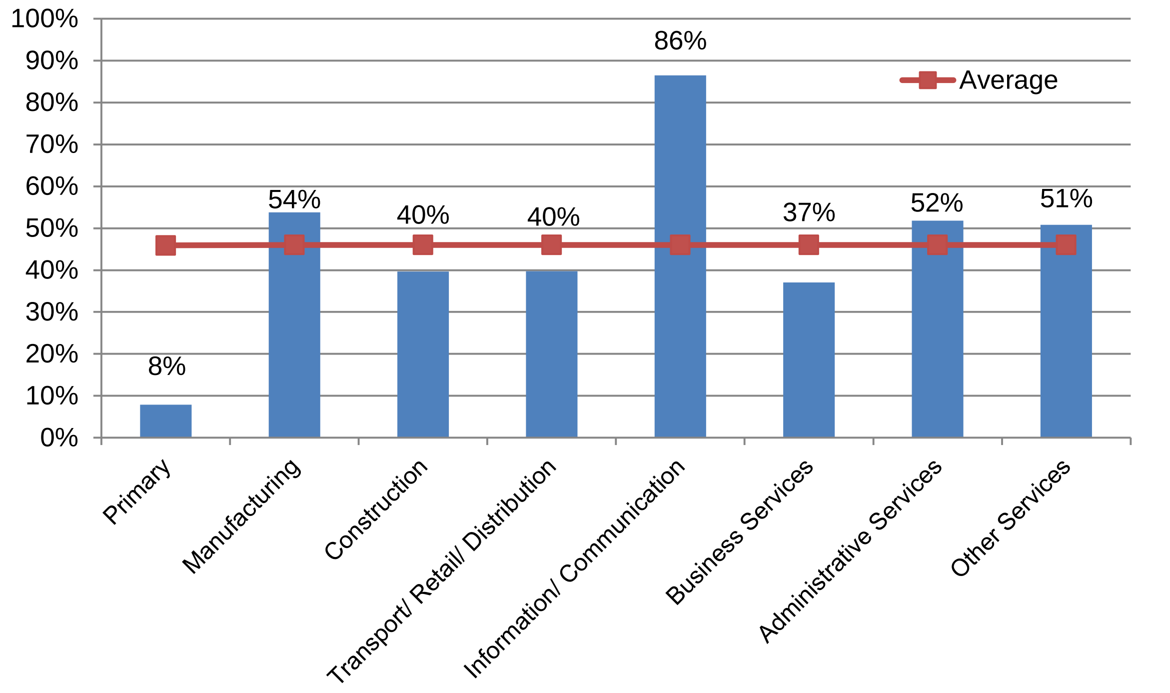
Figure 2: Proportion of SMEs that were innovators/non innovators by size (%)
Base minimum: Medium-sized SMEs, 199



Sectors

2.2 The sectors more likely than average to undertake product innovation during the past three years were Information & Communication (86 per cent), Manufacturing (54 per cent), Administrative Services (52 per cent) and Other Services (51 per cent). The Primary sector was the least likely to report having introduced new products in the last three years (eight per cent) (Figure 3).

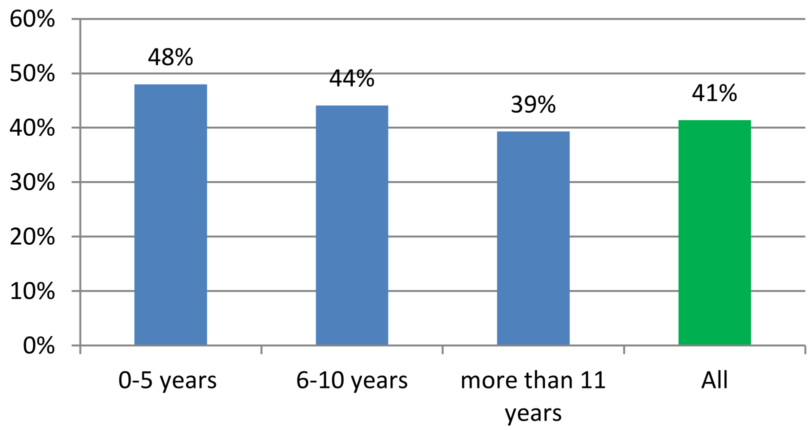
Figure 3: SMEs introducing new goods and/or services in the last 3 years
Base minimum: Primary, 26



Age

2.3 Younger firms are more likely to have introduced new or significantly improved goods or services in the last three years than older firms. 48 per cent of SMEs aged 0-5 years introduced new or significantly improved goods and/or services in the last 3 years (Figure 4).

Figure 4: Proportion of SMEs that were innovators by age (%)
Base minimum: 6-10 year old SMEs, 94



Ownership

2.4 71 per cent of SMEs in Scotland were family-owned. A slightly lower proportion of innovative SMEs were family-owned, at 69 per cent, than non-innovative SMEs, at 73 per cent.

Exporters

2.5 12 per cent of SMEs in Scotland reported that they exported goods or services *outside of the UK* in the last 12 months. The proportion of innovative SMEs that exported goods or services outwith the UK, at 19 per cent, was higher than the proportion of non-innovative SMEs that exported, at 8 per cent[3].

Home-based businesses

2.6 24 per cent of SMEs did not have separate business premises to their home address (i.e. they were home-based businesses). Innovative SMEs were less likely to be home-based (20 per cent) than non-innovative SMEs (28 per cent).

Women-led businesses[4]

2.7 20 per cent of SMEs in Scotland responded that they were majority-led by women. A slightly lower proportion of innovative SMEs were majority-led by women, at 18 per cent, than the proportion of non-innovative SMEs that were majority-led by women, at 21 per cent (Figure 5).

Figure 5: SME leadership by gender by innovative/non-innovative SMEs (%)
Base: all SMEs, 820

	Women only or in majority	Equally led	Women in minority	Entirely male- led	Don't know/refused
Innovative SMEs	18	16	13	45	7
Non-innovative SMEs	21	25	10	35	10
All	**20**	**21**	**11**	**39**	**9**

[3] The evidence is not clear around causality (i.e. whether exporting firms are more likely to innovate, or innovative firms are more likely to export).
[4] Majority-led by women businesses are defined as controlled by a single woman or having a management team composed of a majority of women.

Business practice

Training

3.1 Innovative firms were more likely than non-innovative firms to have arranged or funded training or development (on the job or off the job) for employees in the past 12 months. 74 per cent of SMEs that had introduced new or significantly improved goods or services offered training for employees, compared to 53 per cent of non-innovative SMEs that did so.

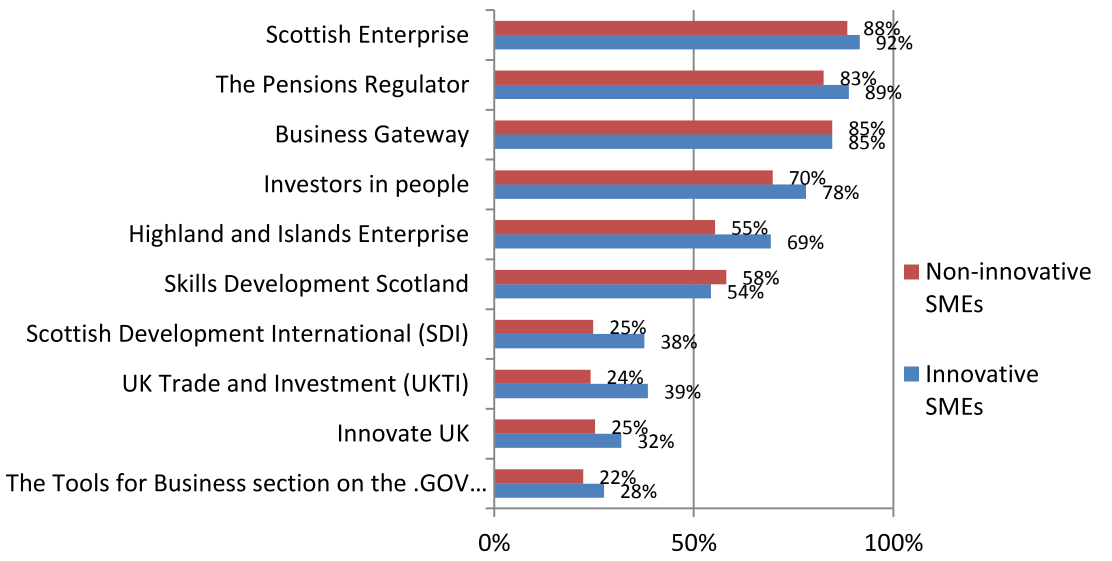
Website

3.2 68 per cent of SMEs had their own website in 2015. A higher proportion of innovative SMEs had their own website, at 80 per cent, than non-innovative SMEs, at 59 per cent.

Awareness of business support

3.3 In 2015, almost all (98 per cent) SMEs in Scotland were aware of business support providers. A marginally higher proportion of innovative SMEs were aware of business support organisations, at 99 per cent, than those businesses that were not innovators, at 97 per cent. Figure 6 below shows the business support organisations that innovative and non-innovative SMEs were most aware of in 2015.

Figure 6: Awareness of business support organisations by innovative/non-innovative SMEs: Top 10 responses
Base: all SMEs, 820



3.4 Innovative SMEs were broadly more aware of business support organisations than non-innovative SMEs. However, innovative and non-innovative SMEs were equally aware of Business Gateway (both 85 per cent) and non-innovative SMEs were more aware than innovative SMEs of Skills Development Scotland (58 per cent vs. 54 per cent).

Access to finance

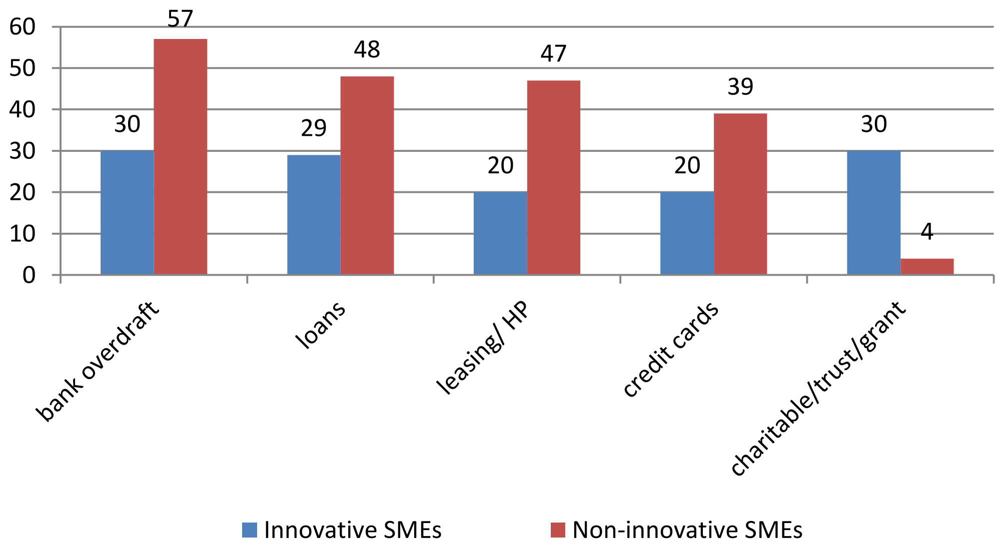
Demand for finance

4.1 In 2015, a marginally lower proportion of innovative SMEs had applied for finance in the previous 12 months, at 19 per cent, than non-innovative SMEs, at 20 per cent.

Type of finance sought

4.2 The main type of finance SMEs applied for in 2015 was bank overdraft (46 per cent). However, the main type of finance innovative SMEs applied for in 2015 was charitable/trust and grant, reported by 31 per cent of innovative SMEs. Only four per cent of non-innovative SMEs reported this as a type of finance they applied for (Figure 7).

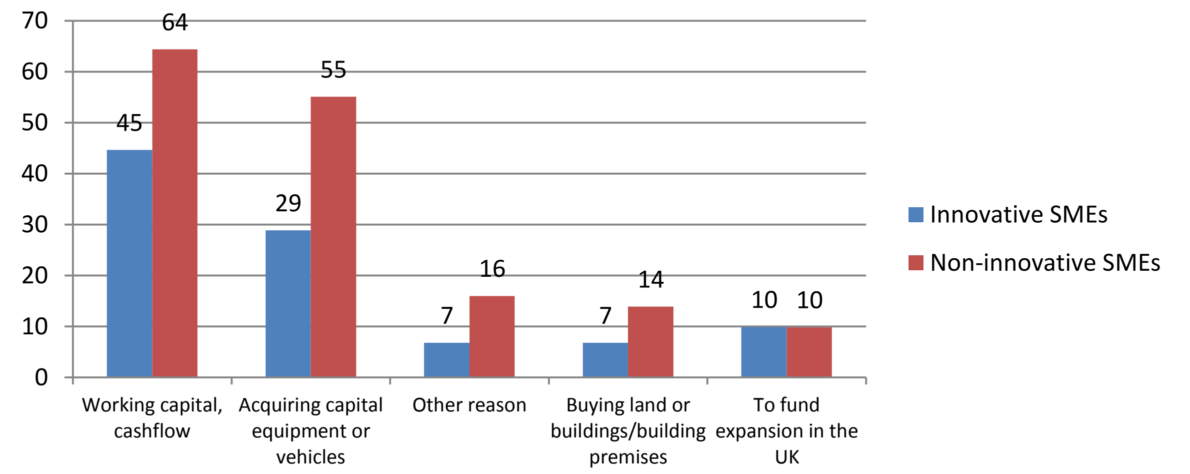
Figure 7: Type of finance sought by innovative/non-innovative SMEs: Top 5 responses (%)
Base minimum: Innovative SMEs that applied for finance, 87



Reasons for seeking finance

4.3 The most commonly reported reason for applying for finance for both innovative and non-innovative SMEs was for working capital/cash flow (cited by 45 per cent of innovative and 64 per cent of non-innovative SMEs). The second most commonly reported reason was for acquiring capital equipment or vehicles, citied by 29 per cent of innovative SMEs and by 55 per cent of non-innovative SMEs (Figure 8).

Figure 8: Reasons for applying for finance: Top 6 responses by innovative/non-innovative SMEs (%)
Base minimum: Innovative SMEs that applied for finance, 87



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 for both innovative SMEs (83 per cent obtained some finance while three per cent did not obtain any) and non-innovative SMEs (82 per cent obtained some finance while seven per cent did not obtain any).

Future intentions

4.5 The proportion of innovative SMEs that were not at all likely to approach external finance providers (39 per cent) was lower than the proportion of non-innovative SMEs (48 per cent). However, a higher proportion of non-innovative SMEs reported to be fairly or very likely to approach external finance in the next three years (29 per cent), than innovative SMEs (27 per cent) (Figure 9).

Figure 9: Likelihood of approaching external finance in the next 3 years (%)
Base: All SMEs, 820

	Innovative SMEs	Non-innovative SMEs	All
Very likely	16	13	**15**
Fairly likely	11	16	**14**
Not very likely	31	20	**25**
Not at all likely	39	48	**44**
Don't know	2	2	**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.

5.2 A higher proportion of innovative SMEs reported employment growth (23 per cent of SMEs) than non-innovative SMEs (19 per cent). However, a higher proportion of innovative SMEs also reported employment reduction (17 per cent of SMEs) than non-innovative SMEs (13 per cent).

5.3 Figure 10 shows the net balance of employment growth by innovative/non-innovative SMEs. 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. Both innovative and non-innovative SMEs presented net balances.

Figure 10: Numbers employed compared to 12 months previously by innovative/non-innovative SMEs (%)

	Employ more people now	Employ the same number	Employ fewer people now	Net balance (% points)
Innovative SMEs	23	60	17	**6**
Non-innovative SMEs	19	68	13	**6**
All	**21**	**65**	**15**	**6**

5.4 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.

5.5 Innovative SMEs seemed to be more optimistic than non-innovative SMEs regarding employment growth in the next 12 months. As shown in Figure 10, the proportion of innovative SMEs that expected employment to grow (33 per cent) was twice the proportion of non-innovative SMEs that expected so (16 per cent). In addition, a marginally higher proportion of non-innovative SMEs anticipated employment reduction (13 per cent) compared to innovative SMEs (11 per cent).The proportion of SMEs expecting to retain existing staff levels stood at 56 per cent for innovative firms and at 71 per cent for non-innovative SMEs (Figure 11).

Figure 11: Employment expectation in the next 12 months by innovative/non-innovative SMEs (%)			
	Employ more than currently	**Employ the same numbers**	**Employ fewer than currently**
Innovative SMEs	33	56	11
Non-innovative SMEs	16	71	13
All	**23**	**65**	**12**

Changes to turnover

5.6 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.

5.7 The proportion of SMEs that reported an increase or decrease to turnover levels was similar for innovative and non-innovative SMEs. 34 per cent of innovative and 32 per cent of non-innovative SMEs reported an increase in turnover, while 22 per cent of both innovative and non-innovative firms reported a decrease in turnover levels (Figure 12).

5.8 Figure 12 below shows the net balance of turnover growth by innovative/non-innovative SMEs. 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. Both innovative and non-innovative SMEs presented net balances.

Figure 12: Changes to turnover compared to 12 months previously by urban/rural (%) *Don't know/Refused not displayed.*				
	Increase in turnover	**No change to turnover**	**Decrease in turnover**	**Net balance (% points)**
Innovative SMEs	34	39	22	**12**
Non-innovative SMEs	32	41	22	**11**
All	**33**	**40**	**22**	**11**

5.9 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. Innovative SMEs appeared more optimistic than non-innovative SMEs on future turnover levels. Specifically, 50 per cent of innovative SMEs reported to expect an increase in turnover in the next 12 months, compared to 30 per cent of non-innovative SMEs. In addition, a slightly lower proportion of innovative SMEs reported to expect a decrease in turnover (13 per cent) compared to non-innovative SMEs (16 per cent) (Figure 13).

Figure 13: Turnover expectation in the next 12 months by innovative/non innovative SMEs (%)
Don't know/Refused not displayed.

	Increase in turnover	No change to turnover	Decrease in turnover
Innovative SMEs	50	32	13
Non-innovative SMEs	30	48	16
All	**38**	**42**	**14**

Future intentions

5.10 In 2015, 62 per cent of SMEs in Scotland planned on growing their sales over the next three years. Innovative firms seemed to be much more likely to plan on growing their sales than non-innovative SMEs. 74 per cent of innovative SMEs planned on growing compared to 54 per cent of non-innovative SMEs.

5.11 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, followed by introducing new working practices and developing and launching new products. As shown in Figure 14, higher proportions of innovative SMEs reported these activities to increase their growth than non-innovative SMEs.

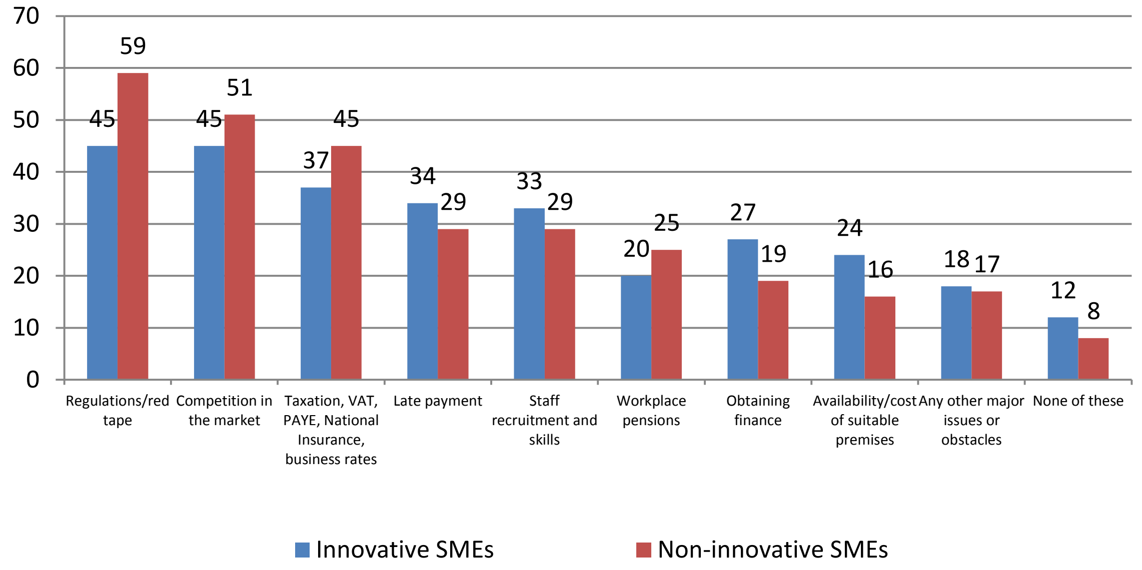
Figure 14: Most cited activities to increase growth by innovative/non-innovative SMEs (%)

	Innovative SMEs	Non-innovative SMEs	All
Increase the skills of the workforce	80	65	**71**
Introduce new working practices	64	38	**49**
Develop and launch new products/services	68	29	**45**

Obstacles to success

5.12 The most commonly reported obstacles to business success by innovative SMEs were regulations/red tape and competition in the market, both cited by 45 per cent of SMEs. These were also the most commonly reported major obstacles by non-innovative SMEs, cited by 59 per cent and 51 per cent of SMEs respectively (Figure 15).

Figure 15: Major obstacles to business success (%)



Small Business Survey Scotland 2015

Topic Report: Innovation

Office of the Chief Economic Adviser

Scottish Government
Riaghaltas na h-Alba
gov.scot