

Small Business Survey Scotland 2016

Office of the Chief Economic Adviser

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Small Business Survey Scotland 2016

73%



Family-owned

35%



Rural-based

19%



Women-led

38%



Innovators

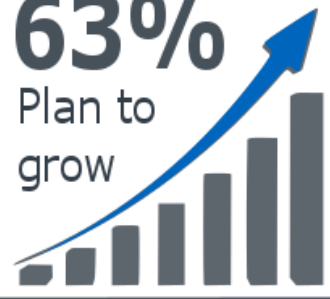
7 in 10



Pay the Living Wage

63%

Plan to grow



Exporters

44%



Rest of the UK

16%



Rest of the World

16%



Applied for external finance

34%



Increased **turnover** over the last 12 months

29%

believed that **leaving the EU** would be detrimental to their business

1. Introduction and Key Results

Introduction

This report sets out the findings from the Longitudinal Small Business Survey (LSBS) 2016 for Scotland. It outlines the key characteristics of small and medium-sized enterprises (SMEs) with employees in Scotland and provides an overview of the perceptions of SMEs on a range of themes including innovation, fair work and access to finance. In addition, the report provides an insight into business performance and outlook, including perceptions of the impact of the UK exit from the European Union (EU).

As at March 2016, there were an estimated 348,045 SMEs operating in Scotland, of which those with employees represented 30 per cent (104,800 enterprises)¹. SMEs with employees accounted for 42 per cent of total Scottish employment and 36 per cent of turnover.

Survey method and reporting

The survey for Scotland is part of a UK-wide large-scale telephone survey of 9,248 owners and managers of SMEs, commissioned by the Department for Business, Energy and Industrial Strategy (BEIS) and was conducted between August 2016 and January 2017.

The survey is the latest of a series of annual and biennial Small Business Surveys dating back to 2003. From 2015 onwards, the survey introduced a longitudinal tracking element and is now carried out on an annual basis².

This report provides a snap shot of the state of all SMEs **with employees** (defined as businesses with between one and 249 employees) surveyed in Scotland in 2016. Enterprises with no employees have been excluded from the dataset on which this report is based. This is consistent with the reporting of the survey in 2015.

In 2016, 779 SMEs with employees took part in the survey in Scotland. The survey sample is stratified³ by business size (micro businesses with 1-9 employees, small businesses with 10-49 employees and medium-sized businesses with 50-249 employees) and by sector (defined by Standard Industrial Classification (SIC) 2007). The sample breakdown is presented in Table 1 below:

¹ These figures include registered and unregistered businesses (*Source: Businesses in Scotland 2016*) and exclude central and local government.

² The longitudinal element of the survey established a 'panel' of businesses that might be resurveyed in subsequent years. This is to allow for analysis of how combinations of factors affect business performance over time.

³ A stratified sample is drawn from a number of separate smaller groups (strata) of the population, rather than at random from the whole population, in order to allow for a more representative sample.

Table 1: Sample Breakdown, Longitudinal Small Business Survey 2016, Scotland

Sector (SIC 2007)	Micro (1-9)	Small (10-49)	Medium (50-249)	Total
ABDE Primary⁴	29	13	4	46
C Manufacturing	27	35	15	77
F Construction	36	22	7	65
GHI Transport/Retail/Distribution⁵	139	123	32	294
J Information and communication	19	15	2	36
KLM Business services⁶	63	21	10	94
N Administrative services	29	24	14	67
PQRS Other services⁷	35	32	33	100
Total	377	285	117	779

The data have been weighted to ensure that the results are representative of the overall Scottish SME population. Because of changes in terms of sampling and additions to the questionnaire in 2016, data cannot always be compared with previous editions of the Small Business Survey.

Where possible, the report provides disaggregated results by size band (micro, small and medium-sized businesses) and sector and provides comparisons with the UK as a whole and prior year findings. Where comparisons are drawn between sub-groups (e.g. size band), findings are reported in terms of differences between a particular sub-group (e.g. micro firms) and the overall finding (SMEs as a whole). Due to smaller sample sizes for sub-groups, the survey's estimates may be affected by sampling errors and therefore apparent differences of a few percentage points between sub-samples may not reflect real differences in the population. Therefore, sub-group comparisons (e.g. Scotland vs. UK; 2016 results vs. 2015 results; size band; and sector) in the report are displayed only when the difference with the overall finding is statistically significant at 95 per cent confidence level⁸.

⁴ 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).

⁵ Wholesale and retail trade (G); repair of motor vehicles and motorcycles (H); Transportation and storage; and Accommodation and food service activities (I).

⁶ Financial and insurance activities (K); Real estate activities (L); and Professional, scientific and technical activities (M).

⁷ Education (P); Human health and social work activities (Q); Arts, entertainment and recreation (R); and Other service activities (S).

⁸ If the difference between two estimates is said to be statistically significant, it means that only in exception circumstances (1 in 20 times) would we expect the true difference to be not significant.

Key results

Business Demographics

- 73 per cent of SMEs were **family-owned**.
- 19 per cent of SMEs were **women-led**.
- Three per cent of SMEs were **Black and Minority Ethnic (BME)-led**.
- 28 per cent of SMEs were **home-based**.
- 65 per cent were **urban-based** while 35 per cent of SMEs were **rural-based**.

Trade Activities

- 16 per cent of SMEs had **exported goods or services outside of the UK** in the last 12 months, a four percentage points increase from 2015.
- The proportion of SME *exporters* **exporting to EU countries** (76 per cent of SME exporters) and **non-EU countries** (74 per cent) was broadly similar. 19 per cent of SME *exporters* **exported to EU countries only**.
- 44 per cent of SMEs had **sold goods or services to the rest of the UK**.
- 17 per cent of SMEs had directly **imported goods or services** from countries outside the UK in the previous 12 months.
- A higher proportion of SME *importers* **imported from EU countries** (86 per cent) than **non-EU countries** (54 per cent). 46 per cent of SME *importers* **imported from EU countries only**.

Business Practice

- 38 per cent of SMEs **had innovated** (i.e. introduced new or improved goods, services or processes) in the last three years, a nine percentage points decrease from 2015.
- 70 per cent of SMEs paid all their employees aged 18 or over (excluding volunteers, apprentices and interns) *the **Living Wage** as defined by the Living Wage Foundation*.
- One per cent of SMEs were aware of and signed up to the **Scottish Business Pledge**. 12 per cent of SMEs were aware of it but not signed up.

Access to External Finance

- 16 per cent of SMEs had **sought external finance** in the last 12 months.

- The most common **reason for applying for finance** was to acquire working capital or for cash flow reasons (65 per cent of SMEs that had applied for finance).
- The most common **forms of external finance applied for** were bank overdraft facilities (34 per cent of SMEs that applied for finance) and loans from banks and other financial institutions (32 per cent of SMEs that applied for finance).
- 68 per cent of SMEs that applied for external finance were **successful in obtaining at least some of the finance sought** while 12 per cent did not obtain any.
- 11 per cent of SMEs were **discouraged borrowers** (i.e. they had a need for external finance in the last 12 months that they did not apply for).

Business Performance and Outlook

- 48 per cent of SMEs that had been interviewed in both 2015 and 2016 **employed more people** than was the case 12 months earlier. 26 per cent employed the same number and 26 per cent employed fewer.
- 21 per cent of SMEs **expected to employ** more people in 12 months' time, 65 per cent expected to employ about the same number and 14 per cent expected to employ fewer.
- Of all SMEs that had been trading for at least one year, 34 per cent increased their **turnover** over the past year. 40 per cent had approximately the same turnover and 24 per cent had lower turnover.
- 37 per cent of SMEs **expected turnover** to increase in the next 12 months, 48 per cent expected turnover to stay approximately the same and 12 per cent expected turnover to decrease.
- The most commonly reported **obstacle to the success of the business** was *regulations/red tape*, reported by 45 per cent of SMEs. *UK exit from the EU* was noted as an obstacle by 22 per cent of SMEs.
- 63 per cent of SMEs **aimed to grow sales** over the next three years.

Effect of UK exit from the EU

- 29 per cent of SMEs believed **exiting the EU** would be detrimental for their business, whilst 10 per cent believed it would be beneficial. 48 per cent believed that it would make no difference.
- 24 per cent of SMEs stated that the **result of the EU referendum** had impacted (positively or negatively) on plans that they previously had.



2. Business Demographics

Size

In 2016, of all SMEs with employees surveyed in Scotland, 82 per cent were micro businesses (1-9 employees), 16 per cent were small businesses (10-49 employees) and three per cent were medium-sized businesses (50-249 employees). Micro businesses therefore dominated overall findings for all SME employers. These proportions are in line with 2015.

Sector

Table 2 below shows the breakdown of SMEs that took part in the survey in 2016, by sector.

Table 2: SMEs by sector (%)				
<i>Base: all SME employers, 779 – Base minimum: Information/Communication, 36</i>				
Sector (SIC 2007)	Micro 1-9 (%)	Small 10-49 (%)	Medium 50-249 (%)	Total (%)
ABDE Primary	9	4	4	8
C Manufacturing	5	9	19	6
F Construction	13	10	10	12
GHI Transport/Retail/Distribution	32	40	31	33
J Information/Communication	4	2	3	4
KLM Business services	19	12	12	18
N Administrative services	7	6	10	7
PQRS Other services	12	15	12	13

The largest sector was Transport/Retail/Distribution, with 33 per cent of SMEs, while the smallest was Information/Communication, with four per cent of SMEs.

Charity status

Eight per cent of SMEs in Scotland stated that they were registered as charities. This proportion was consistent across business size.

Family-owned businesses

In 2016, 73 per cent of SMEs surveyed in Scotland were family-owned⁹, broadly in line with the figure in 2015 (71 per cent) and with the figure in the UK as a whole (71 per cent).

Small (62 per cent) and medium-sized businesses (52 per cent) were less likely than average to be family-owned.

⁹ Family-owned businesses are defined as majority owned by members of the same family.



Family-owned businesses were more prevalent in the Primary (87 per cent), Construction (86 per cent) and Transport/ Retail/Distribution (84 per cent) sectors. They were less prevalent in the Information/ Communications (52 per cent), Business services (62 per cent) and Other services (38 per cent) sectors.

Urban/rural location

In 2016, 65 per cent of SMEs were located within an urban area¹⁰, while 35 per cent were based within a rural area. Compared to SMEs as a whole, a lower proportion of rural businesses were medium-sized (13 per cent), whereas, a greater proportion of urban businesses were medium-sized (87 per cent).

Home-based businesses

In 2016, 28 per cent of SMEs in Scotland did not have a separate business premises to their home address, broadly in line with the proportion in 2015 (24 per cent) and the proportion in the UK as a whole (27 per cent).

Home-based businesses were less likely than average to be small (12 per cent) or medium-sized firms (nine per cent).

Home-based businesses were more common in the Primary (50 per cent) and Construction sectors (47 per cent) and less common in the Transport/ Retail/Distribution (19 per cent) and Other services sectors (eight per cent).

Women-led businesses

Women-led businesses are defined as controlled by a single woman or having a management team of which a majority were women.

In 2016, 19 per cent of SMEs in Scotland were women-led, broadly in line with the proportion in the UK as a whole (20 per cent). 43 per cent of SMEs in Scotland were entirely male-led, broadly in line with the figure in the UK as a whole (46 per cent).

Minority Ethnic Group (MEG)-led businesses

Minority ethnic Group (MEG)-led businesses are defined as having a person from an ethnic minority in sole control of the business or having a management team with at least half of its members from an ethnic minority. Three per cent of SMEs in Scotland were MEG-led in 2016, lower than the proportion in the UK as a whole, at five per cent.

¹⁰ Urban/rural locations are based on the Scottish Government Urban Rural Classification 2013-2014.

3. Trade activities

International exports

This section relates to exports to countries outside of the UK only.

16 per cent of SMEs in Scotland reported that they had sold goods or services (including commissions, royalties and licences) *outside of the UK* in the last 12 months, an increase of four percentage points from 2015 (12 per cent)¹¹. In the UK as a whole, 18 per cent of SMEs had exported goods or services in the last 12 months, broadly in line with the figure in 2015 (19 per cent).

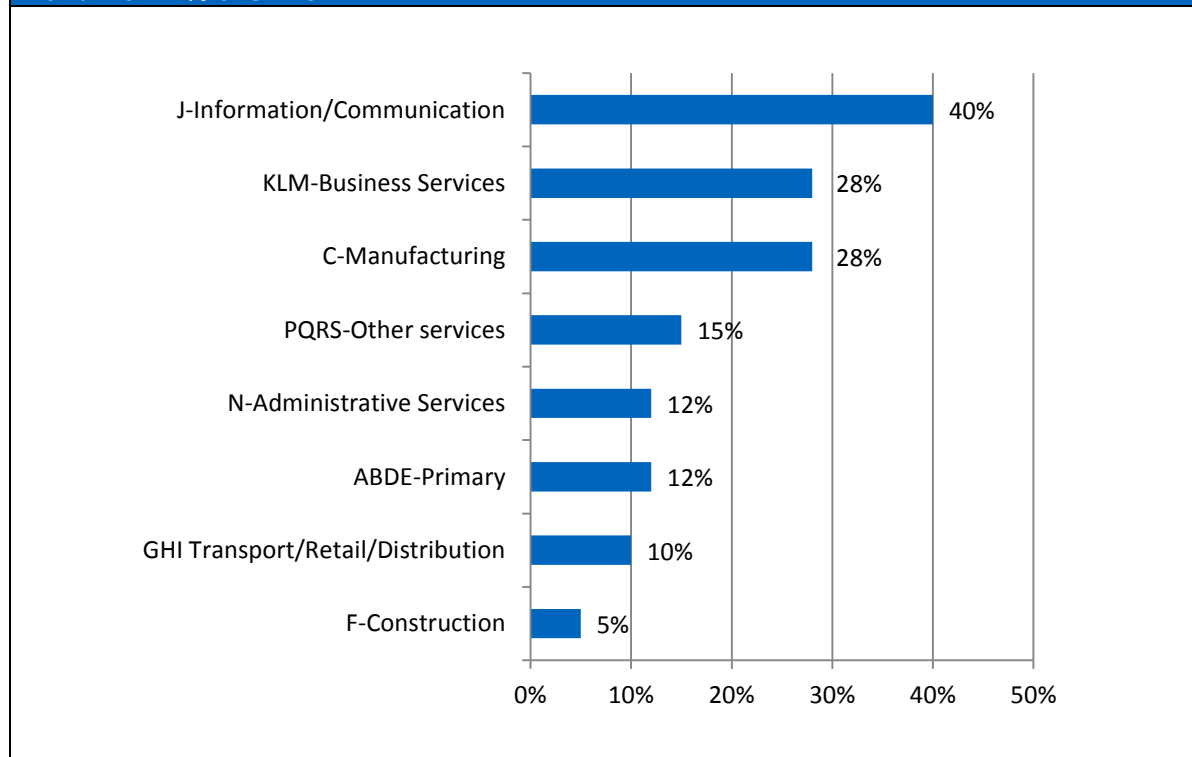
The likelihood of exporting increased with business size. Both small (21 per cent) and medium-sized businesses (33 per cent) were more likely than average to export.

Exporting was most common in the Information/Communication (40 per cent), Manufacturing and Business Services sectors (28 per cent of SMEs in each sector). Exporting was least common in the Construction (five per cent) and Transport/Retail/Distribution sectors (10 per cent). The prevalence of exporting by sector is presented in Figure 1 below.

Figure 1: Exports by sector, 2016

Base: all SME employers, 779 - Base minimum: Information/Communication, 36

Don't know: 1% of SMEs



¹¹ The number of SMEs exporting to countries outside the UK increased by approximately 3,600 between 2015 and 2016.



In Scotland, the proportion of SME exporters exporting to European Union (EU) countries (76 per cent) and non-EU countries (74 per cent) was broadly similar. In the UK as a whole, a higher proportion of SME exporters exported to EU countries (79 per cent) than non-EU countries (68 per cent).

19 per cent of SME exporters in Scotland exported to EU countries *only*. A higher percentage of SME exporters in the UK as a whole exported to EU countries only, at 27 per cent.

The majority of SME exporters in Scotland (83 per cent) were established exporters, exporting for four years or more. Eight per cent had been exporting for three years or less¹².

Almost half (48 per cent) of SME exporters in Scotland reported that exports accounted for up to 10 per cent of their annual turnover. Five per cent of SME exporters reported that exports accounted for more than 90 per cent of their annual turnover.

Of those SMEs that were already exporting, 62 per cent planned to increase their level of exports over the next few years.

Of those SMEs that were not exporting to countries outside the UK (84 per cent), the majority (97 per cent) reported that they had no plans to start exporting. Of those SMEs that were not exporting and had no plans to start, the majority (83 per cent) believed their goods/services were not suitable for exporting.

Exports to the rest of the UK

This section relates to exports to the rest of the UK only.

44 per cent of SMEs in Scotland reported that they sold goods or services to the rest of the UK (i.e. England, Wales and Northern Ireland), while 56 per cent did not.

By sector, SMEs in Business Services (75 per cent), Information/Communication (73 per cent) and Manufacturing (69 per cent) were more likely than average to have sold goods or services to the rest of the UK. Whereas, SMEs in Other services (31 per cent), Transport/Retail/Distribution (29 per cent) and Administrative services (26 per cent) were less likely than average to have sold to the rest of the UK.

Imports

17 per cent of SMEs in Scotland had directly imported goods or services from countries outside the UK in the previous 12 months, broadly in line with the proportion in the UK as a whole (19 per cent).

¹² 10 per cent of SME exporters did not know the number of years they have been exporting overseas.

The likelihood of importing increased with business size. Both small (25 per cent) and medium-sized businesses (37 per cent) were more likely than average to import.

A higher proportion of SME importers imported from EU countries (86 per cent) than non-EU countries (54 per cent). These proportions are broadly similar to those in the UK as a whole (82 per cent and 56 per cent respectively). 46 per cent of importers in Scotland imported *only* from the EU, broadly in line with the UK as a whole (44 per cent).

4. Business Practice

Innovation

This section relates to SMEs that had engaged in any kind of innovation, i.e. good/service or process innovation.

38 per cent of SMEs in Scotland had innovated (i.e. had introduced new or significantly improved *goods, services or processes*) in the last three years, broadly in line with the UK as a whole (39 per cent).

The proportion of SMEs that had innovated was down nine percentage points from the prior year survey in Scotland (47 per cent) and down 11 percentage points in the UK as a whole (50 per cent).

Good/service innovation

This section relates to SMEs that had engaged in good/service innovation only.

32 per cent of SMEs in Scotland had introduced new or significantly improved *goods or services* in the last three years (broadly in line with the proportion in the UK as a whole, at 33 per cent). These proportions are lower than those seen in 2015, when 41 per cent of SMEs in Scotland and 43 per cent in the UK as a whole had introduced new or significantly improved goods or services.

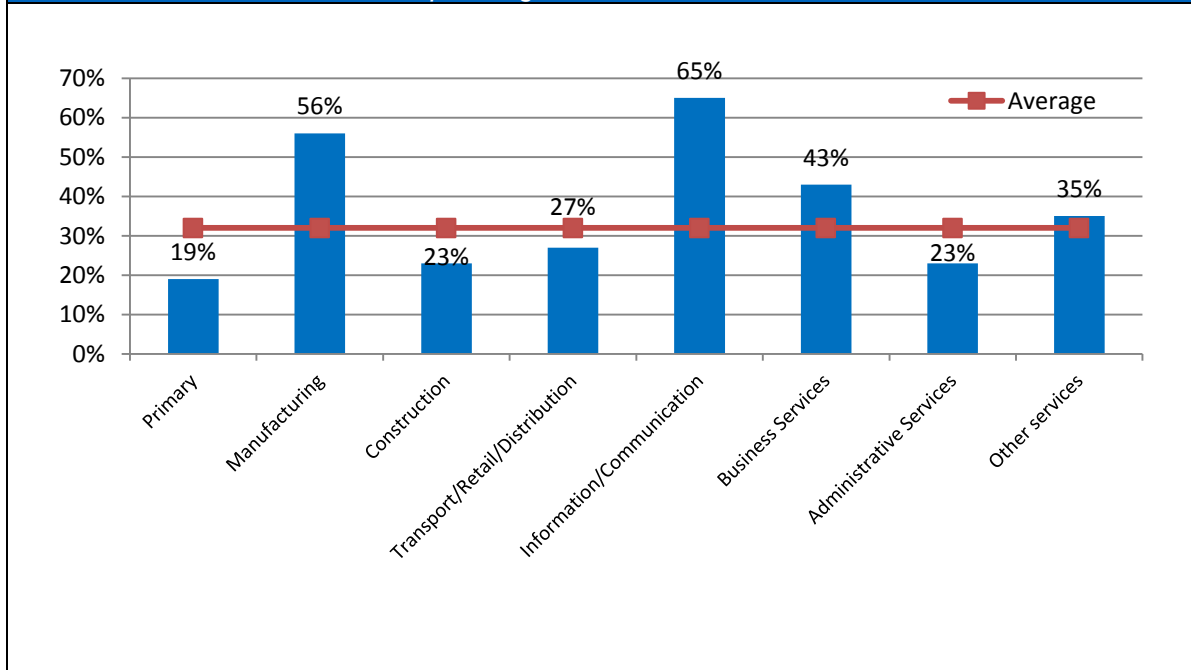
Of those SMEs that had introduced new or improved goods or services, 67 per cent introduced innovations that were all just new to the business and 31 per cent introduced at least some innovations that were also new to the market.

Innovation was more common than average amongst small businesses (43 per cent). Good/service innovation was more prevalent in the Information/Communication (65 per cent), Manufacturing (56 per cent) and Business Services sectors (43 per cent) (Figure 2).



Figure 2: SMEs introducing new or improved goods/services in the last 3 years

Base: all that introduced new or improved goods/services, 290



Process innovation

This section relates to SMEs that had engaged in process innovation only.

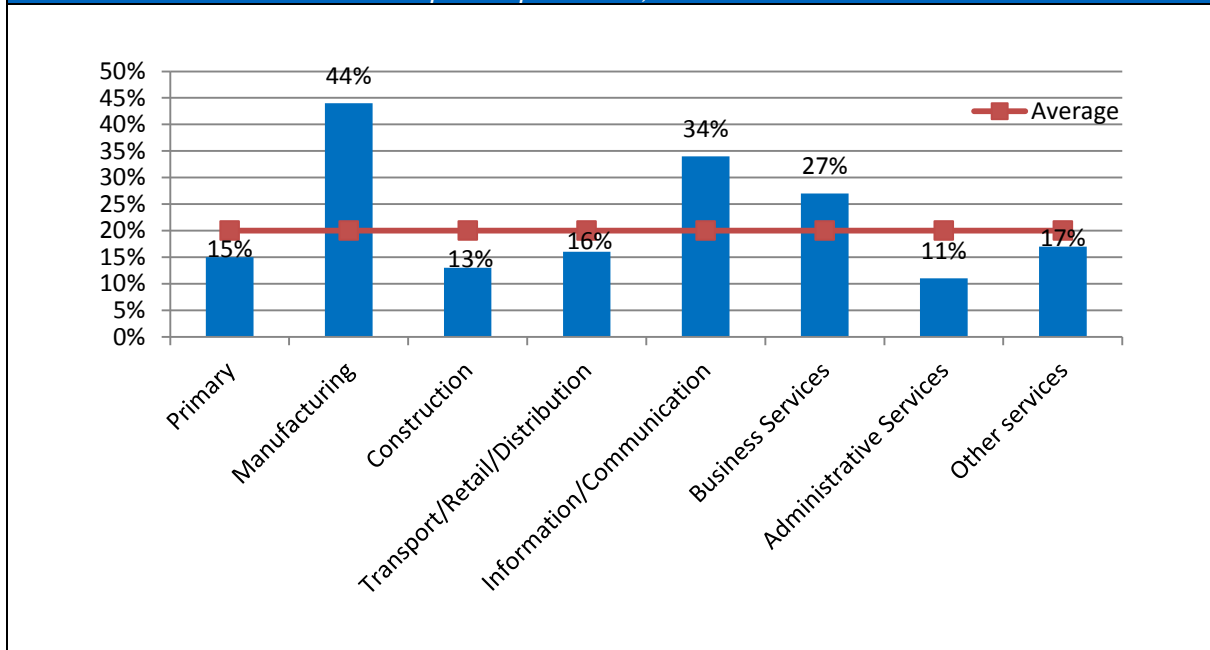
20 per cent of SMEs in Scotland introduced new or significantly improved *processes* for producing or supplying goods or services in the last three years (the same proportion seen in the UK as a whole).

Process innovation was more common amongst medium-sized (35 per cent) and small firms (28 per cent).

Of those SMEs that had introduced new or improved processes, 77 per cent introduced process innovations that were all just new to the business, while 20 per cent introduced at least some process innovations that were also new to the market.

Process innovation was higher than average in the Manufacturing (44 per cent) and Information/Communication sectors (34 per cent) (Figure 3).



Figure 3: SMEs introducing new or improved processes in the last 3 years*Base: all that introduced new or improved processes, 190*

Training

54 per cent of SMEs in Scotland had arranged or funded training in the past 12 months, broadly in line with the proportion in the UK as a whole (55 per cent). The figure in Scotland was lower than in 2015 when it stood at 61 per cent (in the UK as a whole, the proportion was unchanged from 2015).

Table 3 below shows the proportions of SMEs in Scotland that had arranged or funded any training (off the job training¹³ and/or on the job training¹⁴) in the past 12 months. Medium-sized and small businesses were much more likely than average to have arranged or funded training.

Table 3: SMEs that had arranged or funded training in the past 12 months by size (%)*Base: all SME employers, 779*

	Micro 1-9	Small 10-49	Medium 50-249	All
Any training	47	83	88	54
Off the job	36	67	77	42
On the job	37	71	80	43

Figure 4 below shows the proportion of SMEs in each sector that had arranged or funded training in the past 12 months. Businesses in the Other services sector were more likely than average to have arranged or funded any training (69 per cent).

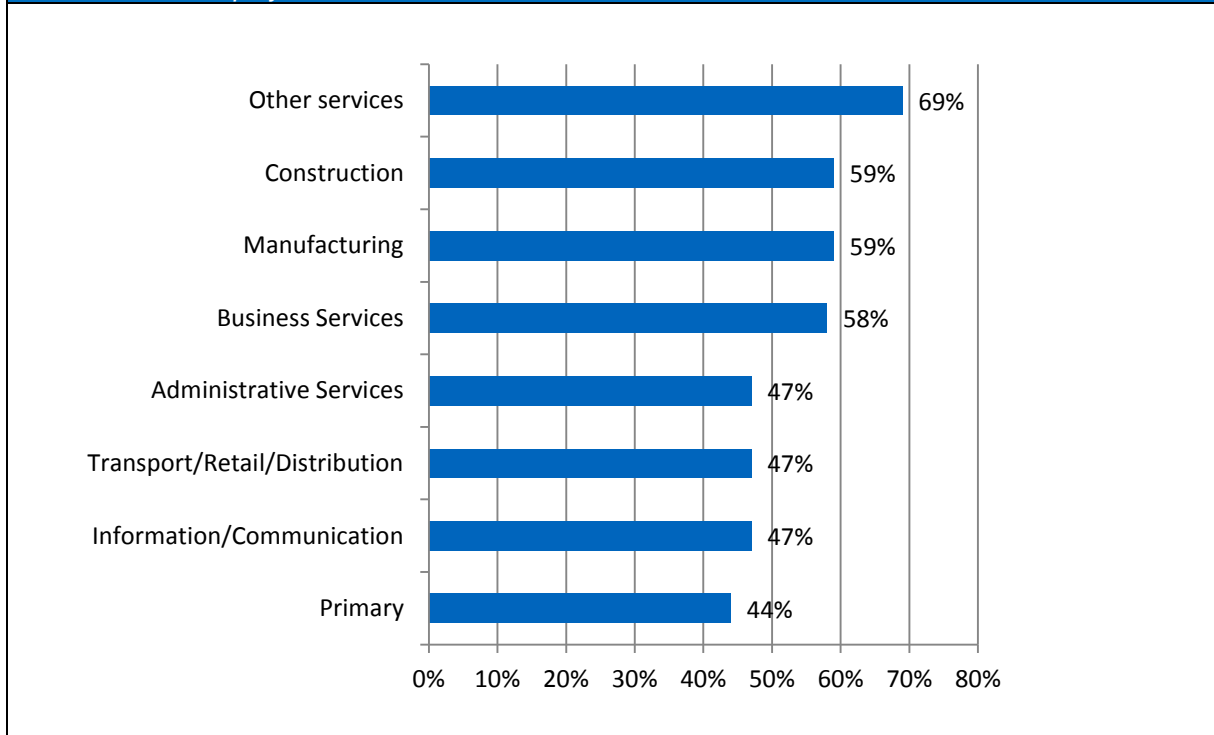
¹³ Training away from the individual's immediate work position, whether on the same work premises or elsewhere.

¹⁴ Activities that would be recognised as training by the staff, that relate not only to the sort of learning by experience which could take place all the time.



Figure 4: SMEs that had arranged or funded training in the past 12 months by sector (%)

Base: all SME employers, 779 – Base minimum: Information/Communication, 36



Apprenticeships¹⁵

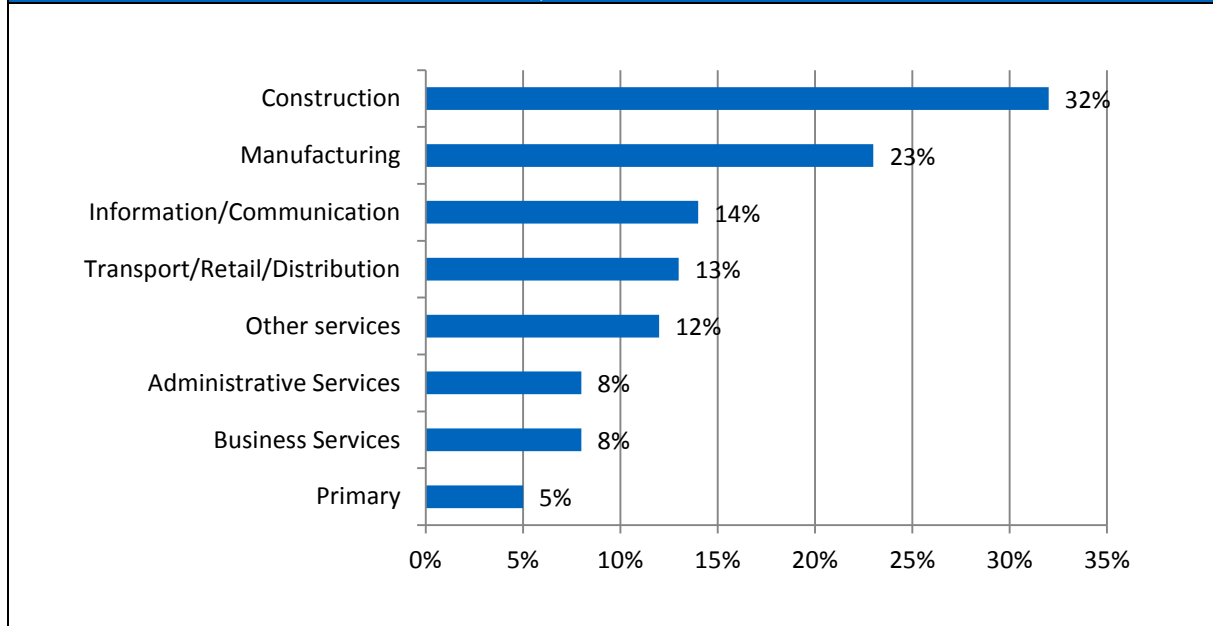
14 per cent of SMEs in Scotland offered formal apprenticeships (i.e. apprenticeships that lead to a recognised qualification) in the last three years. This was broadly in line with the figure in 2015, (16 per cent), and was lower than the proportion in the UK as a whole (17 per cent).

Small (26 per cent) and medium-sized businesses (36 per cent) were more likely than average to have offered formal apprenticeships in the last three years.

By sector, apprenticeships were most common in the Construction (32 per cent) and Manufacturing sectors (23 per cent) (Figure 5).

¹⁵ Apprenticeships are paid jobs which incorporate on and off the job training designed towards an approved apprenticeship standard or framework. This section does not specifically refer to Scottish Modern Apprenticeships, as funded by Skills Development Scotland.



Figure 5: Formal apprenticeships in the last 3 years by sector (%)*Base: all that offered formal apprenticeships in the last 3 years, 159**Base minimum: Information/Communication, 36*

Of those SMEs that were not offering formal apprenticeships, the vast majority (90 per cent) were not intending to have an apprenticeship start in the next 12 months.

Business plan

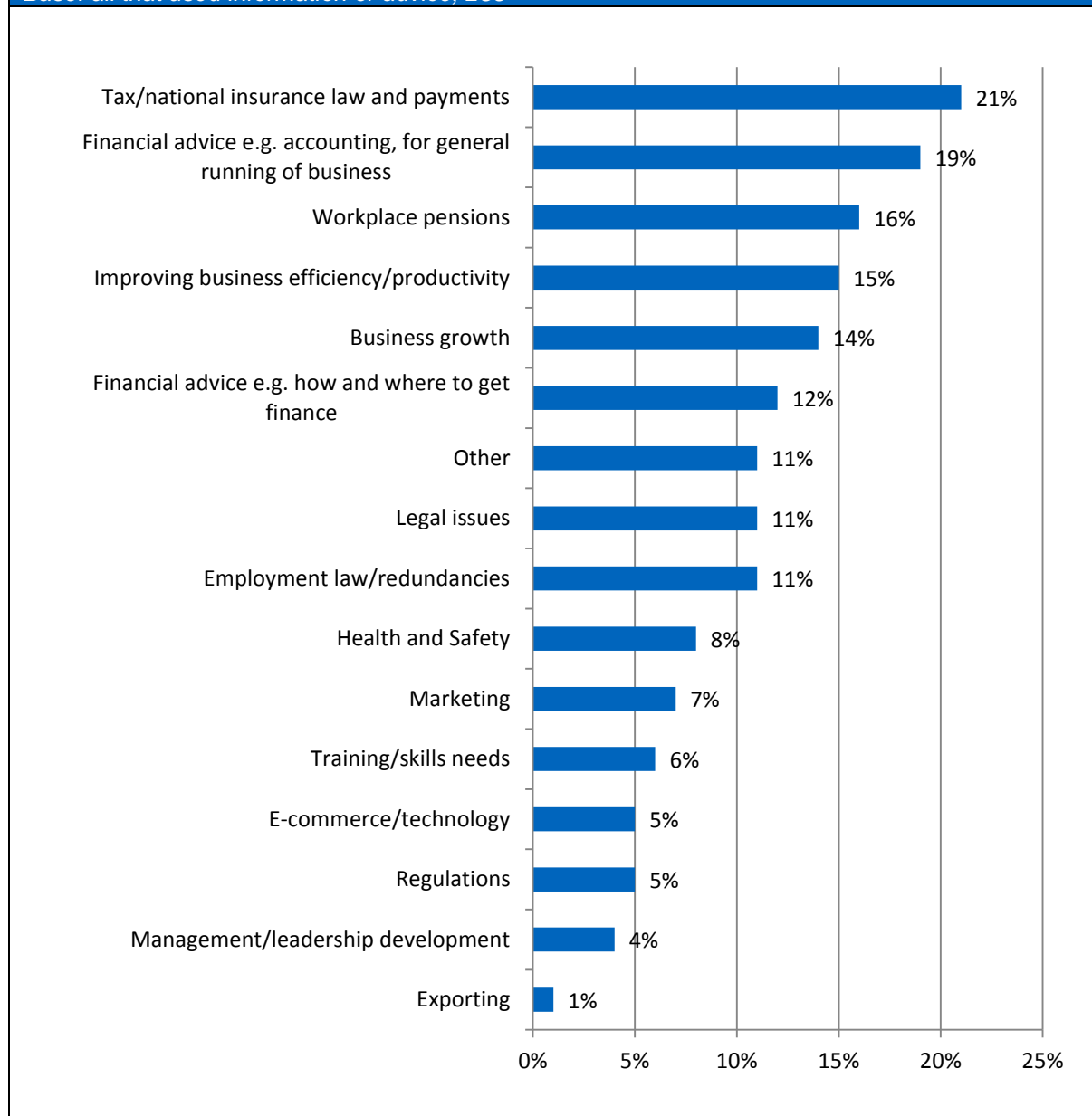
In 2016, 38 per cent of SMEs stated that they had a formal written business plan which was kept up-to-date (broadly in line with the proportion in the UK as a whole, at 39 per cent). Small (53 per cent) and medium-sized firms (66 per cent) were more likely than average to have an up-to-date business plan.

Business support

In 2016, 32 per cent of SMEs had used external information or advice on matters affecting their business in the previous 12 months, lower than the proportion of SMEs that reported doing this in 2015, at 37 per cent. SMEs in Scotland were more likely to have used external information or advice than SMEs in the UK as a whole (26 per cent).

The most common reason for using information or advice was tax/National Insurance law and payments, cited by 21 per cent of SMEs that used information or advice in 2016 (Figure 6).



Figure 6: Reasons for using information or advice (%)*Base: all that used information or advice, 255*

In 2016, the most common source of information or advice for SMEs was their accountant, cited by 46 per cent of SMEs that used advice in the previous 12 months and a consultant/general business adviser (27 per cent). Advice was mainly delivered face to face (63 per cent) or by email (21 per cent).

In terms of satisfaction with advice or information received, 56 per cent of SMEs that used information or advice reported to be very satisfied and 35 per cent reported to be fairly satisfied. Only three per cent reported being fairly dissatisfied and two per cent being very dissatisfied.



Living Wage

This section examines issues related to the payment of the National Living Wage and the Living Wage as defined by the Living Wage Foundation. The National Living Wage is the legal minimum wage for employees in the UK. It was set at £7.20 per hour for employees aged 25 and over at the time the survey was conducted, and rose to £7.50 from April 2017. The Living Wage, as defined by the Living Wage Foundation, is different from the National Living Wage. Businesses can choose to pay it to all their directly employed staff, aged 18 or above, on a voluntary basis. At the time the 2016 survey began, the Living Wage was set at £8.25 per hour outside London and rose to £8.45 from November 2016.

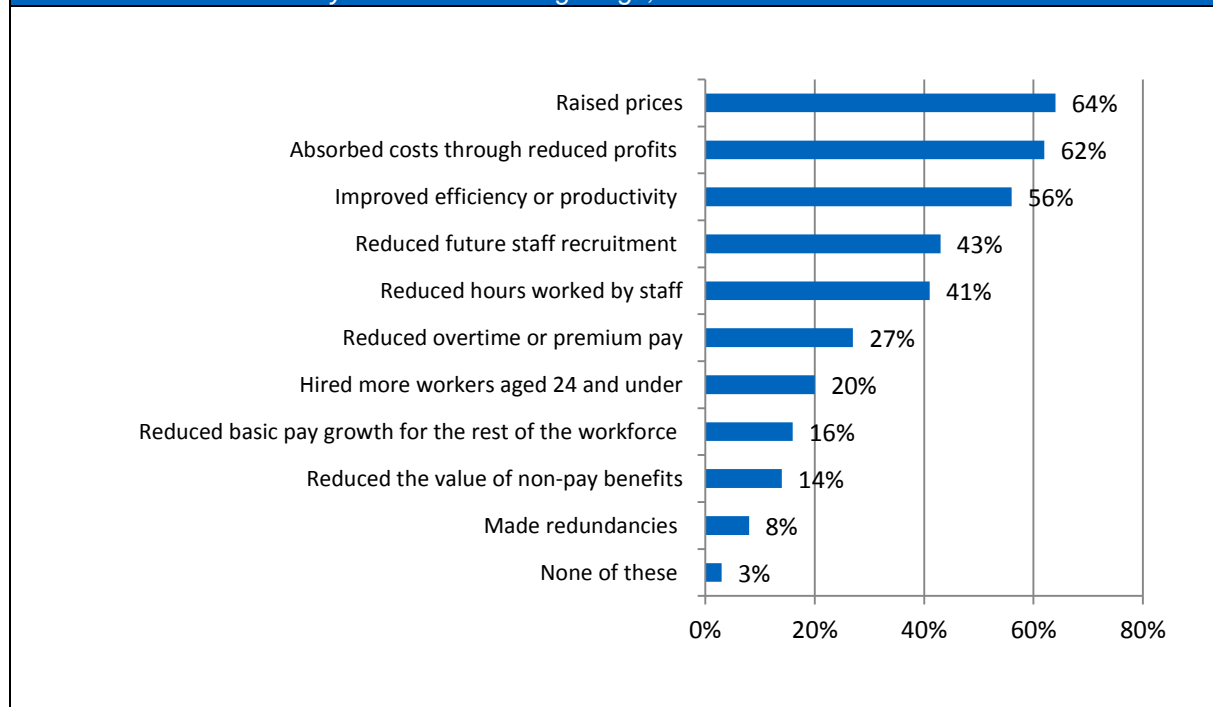
This section examines issues related to the payment of the National Living Wage (i.e. the minimum wage).

17 per cent of SMEs in Scotland reported that paying the **National Living Wage** had an effect on their organisation's wage bill. Small (35 per cent) and medium-sized businesses (41 per cent) were more likely than average to report that paying the National Living Wage effected the firm's wage bill.

Amongst those SMEs facing additional wage costs as a result of the *National Living Wage*, the most common way of managing these costs was raising prices and absorbing costs through reduced profits (Figure 7).

Figure 7: Ways in which additional wage costs have been managed so far (%)

Base: all SMEs affected by the National Living Wage, 210



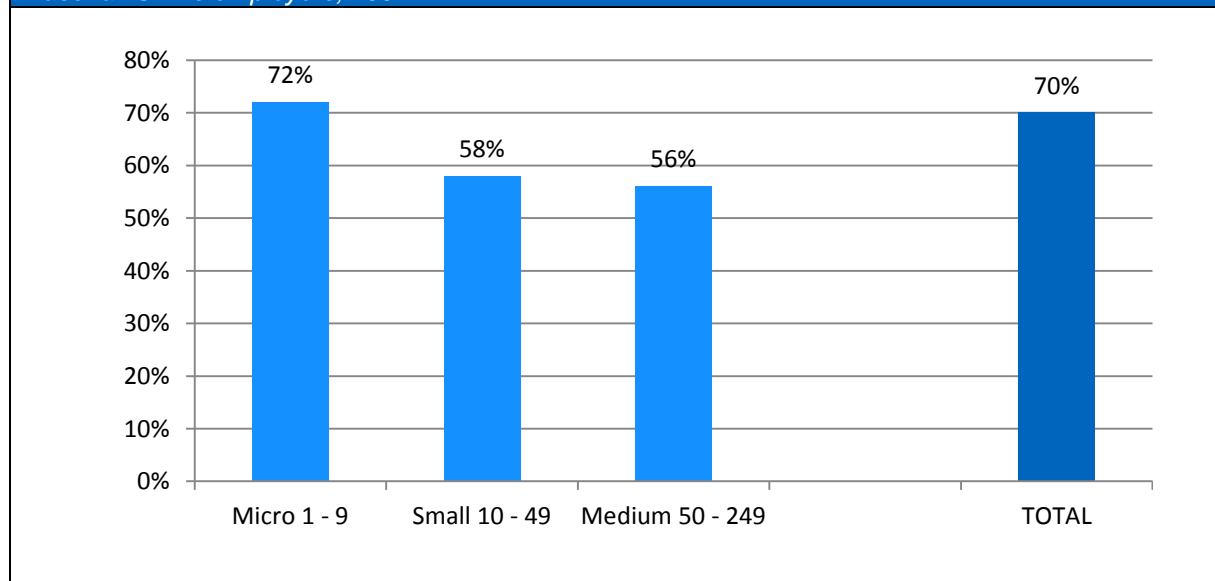
This section examines issues related to the payment of the Living Wage as defined by the Living Wage Foundation.

In 2016, 70 per cent of SMEs in Scotland paid all their employees aged 18 or over (excluding volunteers, apprentices and interns) at or above £8.25 per hour, **the Living Wage as defined by the Living Wage Foundation** at the time the survey began. 29 per cent of SMEs did not pay the Living Wage to all their employees and one per cent did not know (Figure 8).

Figure 8: SMEs paying the Living Wage as defined by the Living Wage Foundation (%)

Note: the Living Wage stood at £8.25 per hour for the 2016 survey.

Base: all SMEs employers, 799

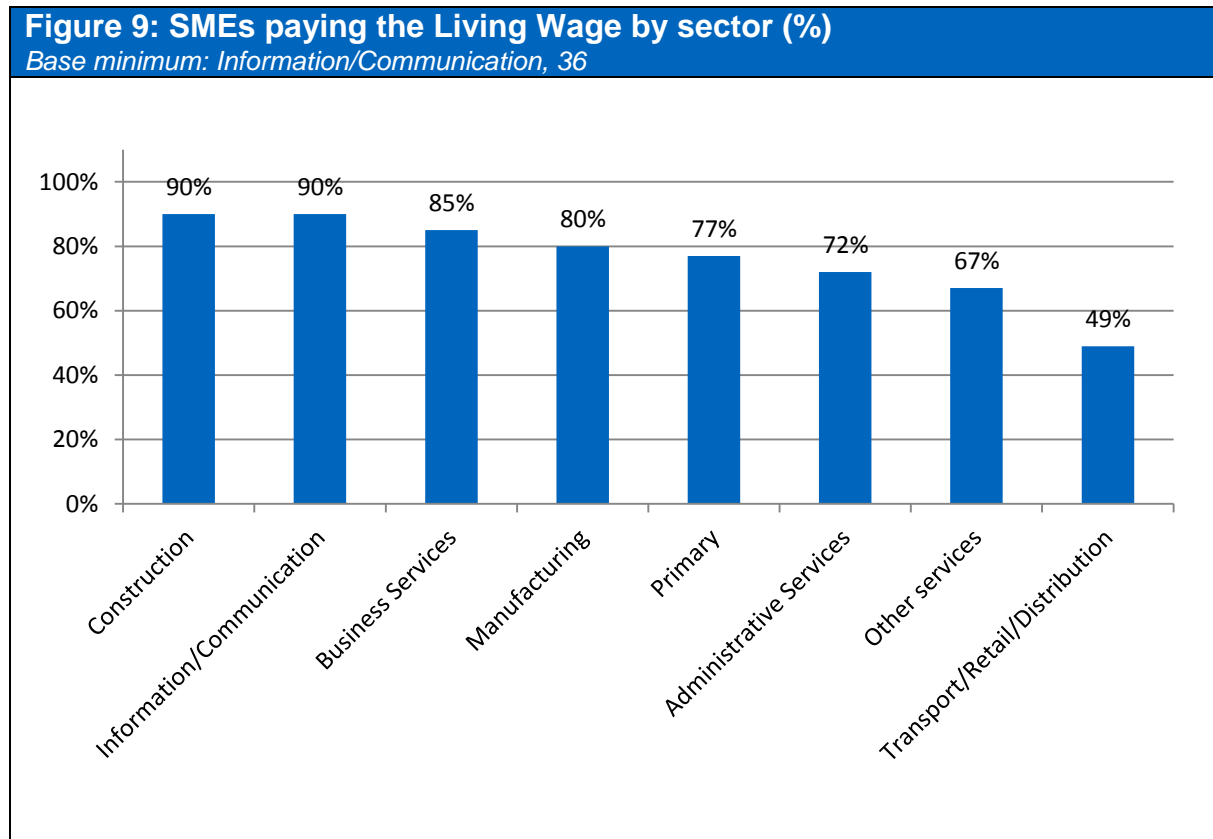


Small (58 per cent) and medium-sized firms (56 per cent) were less likely than average to pay the Living Wage.

By sector, SMEs in the Construction (90 per cent), Information/ Communications (90 per cent) and Business services sectors (85 per cent) were more likely than average to pay the Living Wage. Businesses in Transport/ Retail/ Distribution were less likely than average to pay the living wage (49 per cent).



Figure 9 below shows the proportions of SMEs paying the Living Wage as defined by the Living Wage Foundation in 2016, by sector.



Only two per cent of SMEs surveyed in Scotland stated that they received accreditation as a *living wage employer* from the Living Wage Foundation. 94 per cent stated that they had not and three per cent did not know.

Scottish Business Pledge

In 2016, one per cent of SMEs in Scotland were aware of and signed up to the Scottish Business Pledge. 12 per cent were aware of it, but not signed up and the vast majority (86 per cent) were not aware of it¹⁶.

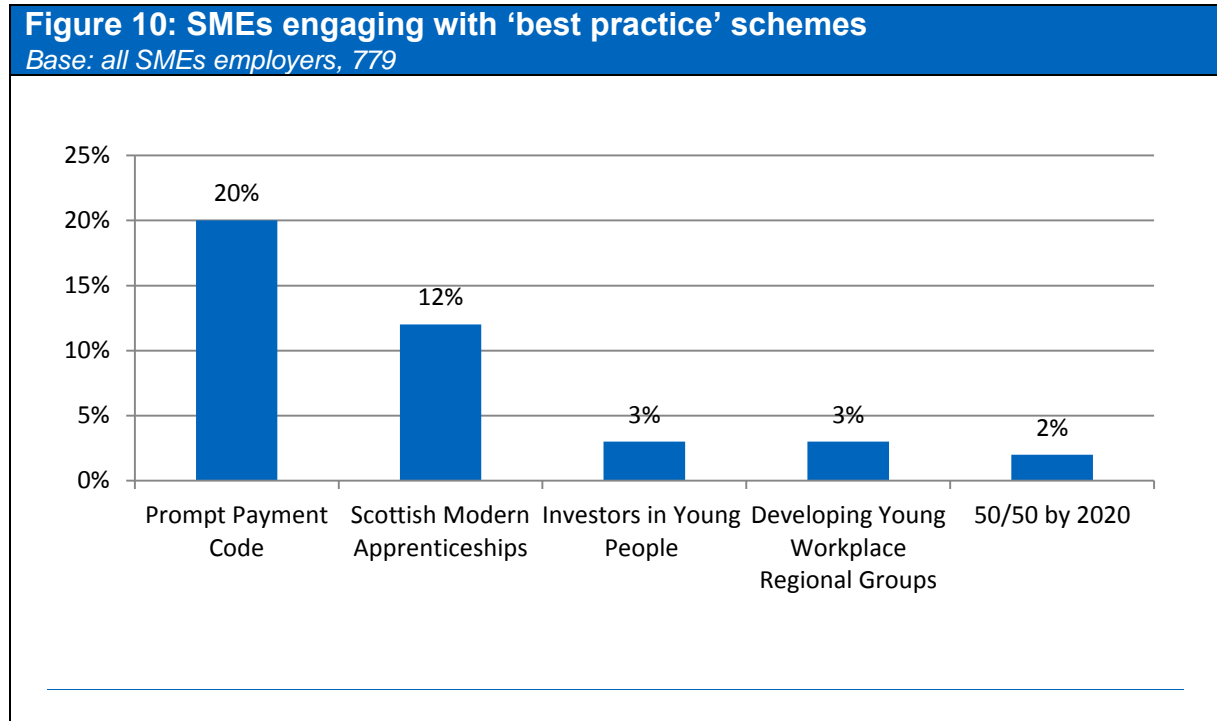
Engagement with local community

68 per cent of SMEs in Scotland considered their business to be actively involved in their local community, while 32 per cent did not. Small firms were more likely than average to consider their business to be actively involved in their local community (75 per cent).

¹⁶ It is not possible to compare to 2015 results due to a change in the way the question was asked in 2016.

Engagement with 'best practice' schemes

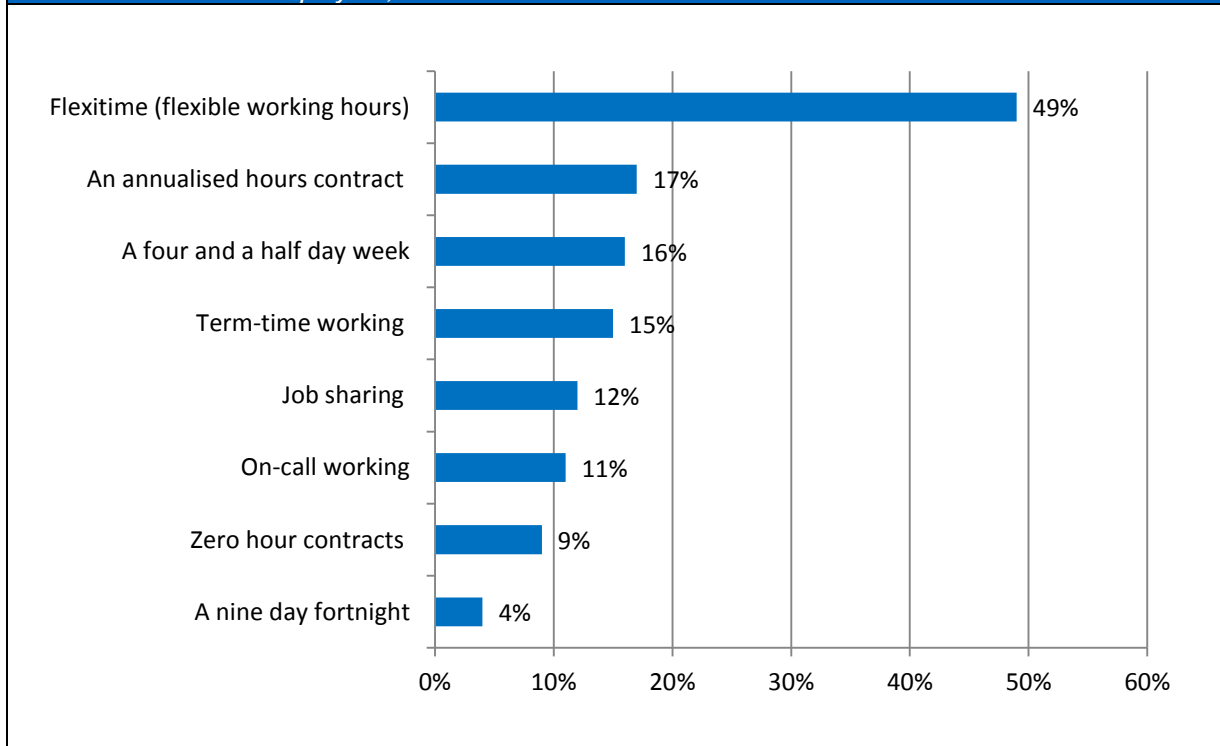
Figure 10 shows the proportions of SMEs that engaged with a range of 'best practice' schemes.



20 per cent of SMEs engaged with the Prompt Payment Code and 12 per cent with Scottish Modern Apprenticeships. Just two per cent of SMEs were engaged with the 50/50 by 2020 gender balance commitment.

Working hours arrangements

Figure 11 below shows the proportion of SMEs offering a range of working hours arrangements to their employees. The most common working hours arrangement was flexitime, offered by 49 per cent of SMEs. Nine per cent of SMEs offered zero hours contracts. 34 per cent of firms offered none of these arrangements to their staff.

Figure 11: Working hours arrangements available to employees (%)*Base 2016: all SME employers, 779*

Working with the Public Sector

This short section looks at whether SMEs have bid for public sector contracts and/or worked for the public sector.

30 per cent of SMEs had worked for the public sector in the previous 12 months, higher than the proportion in the UK as a whole, at 23 per cent. Small (39 per cent) and medium-sized businesses (47 per cent) were more likely than average to have done work with the public sector.

In the past 12 months, 12 per cent of SMEs had bid for a contract advertised by the public sector, while four per cent had expressed an interest in a contract advertised by the public sector, but had not bid.

When work had been done for the public sector, the main customer was Local Authorities (58 per cent), followed by Health Service (including Primary, Secondary trusts etc.) (11 per cent) and the Scottish Government (10 per cent).



5. Access to external finance

Banking

The vast majority of SMEs (96 per cent) used a current account in the name of the business as their main bank account and only a very small proportion of SMEs (two per cent) used a personal current account for business purposes.

Bank account switching rates amongst firms surveyed are low. Five per cent of SMEs had switched their main bank account used for business purposes in the previous 12 months, while 94 per cent continued banking with the same bank account.

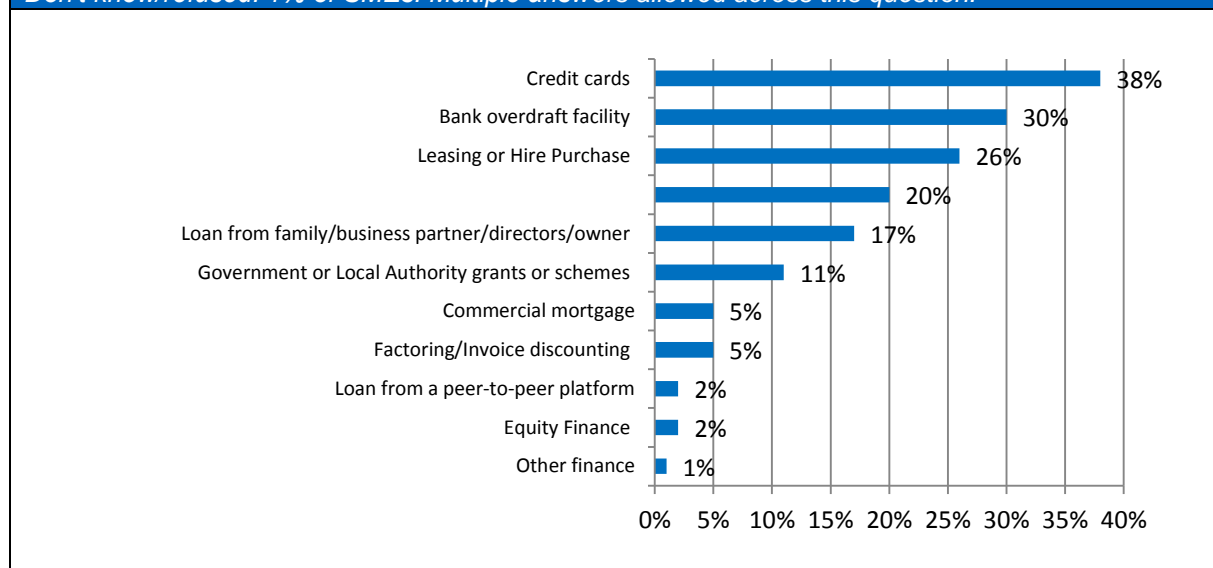
Types of external finance currently being used¹⁷

Figure 12 below shows the types of finance SMEs were using in 2016. The most common forms of external finance used were credit cards (38 per cent), bank overdraft facilities (30 per cent) and leasing/hire purchase (26 per cent). 27 per cent of SMEs used none of these types of finance.

Figure 12: Types of external finance currently used

Base: all SME employers, 779

Don't know/refused: 1% of SMEs. Multiple answers allowed across this question.



¹⁷ This question was asked differently in 2015, so comparisons cannot be made.



Whether sought external finance in the last 12 months

16 per cent of SMEs had sought external finance in the last 12 months (13 per cent in the UK as a whole). This is broadly in line with the proportion seeking finance in 2015 and 2014 (19 per cent and 18 per cent respectively).

11 per cent of SMEs sought external finance just once, while five per cent sought it more than once.

The sectors with the highest proportion of firms seeking external finance in the previous 12 months were Primary (26 per cent), Administrative Services and Manufacturing (24 per cent in each sector). Businesses in the Transport/ Retail/ Distribution sector were less likely than average to seek external finance (11 per cent).

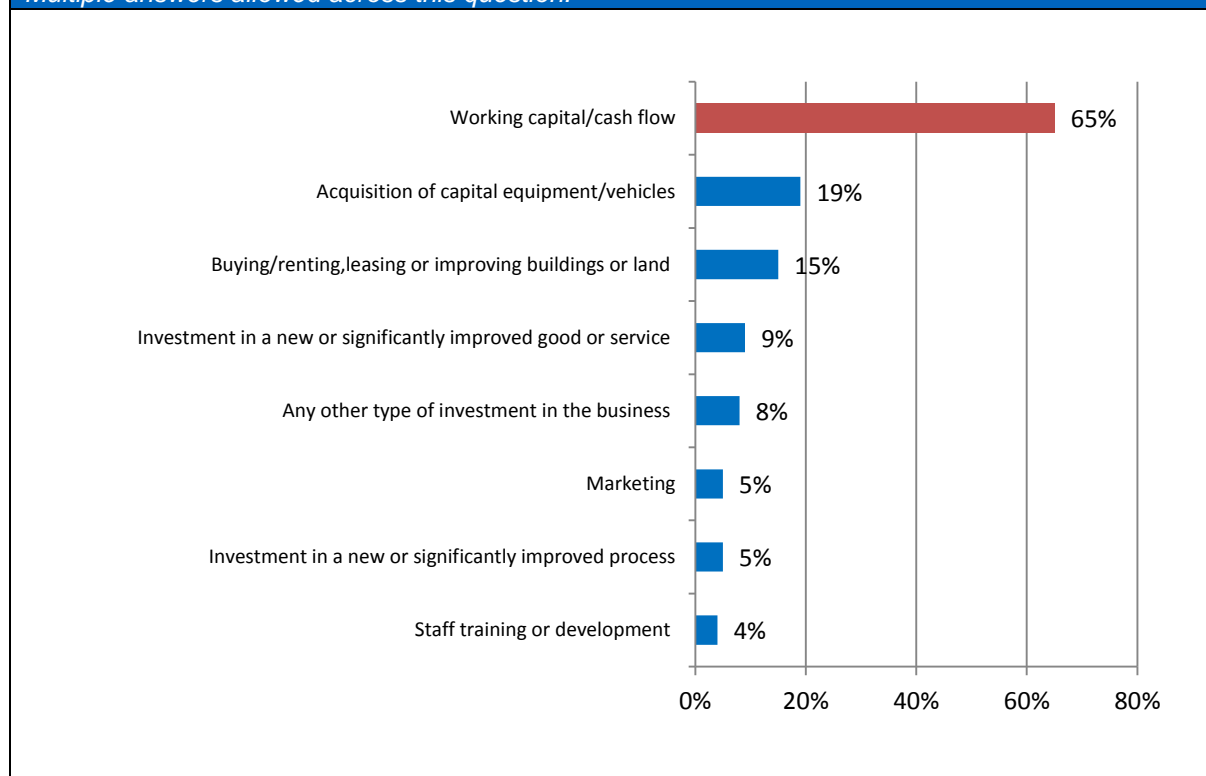
Reasons for applying for external finance¹⁸

Of those SMEs that had applied for finance in the last 12 months, 65 per cent had done so to acquire working capital or for cash flow reasons. Figure 13 below shows the main reasons for seeking external finance in the last 12 months.

Figure 13: Main reasons for seeking external finance in the last 12 months

Base: all that sought external finance in the last 12 months, 134

Multiple answers allowed across this question.



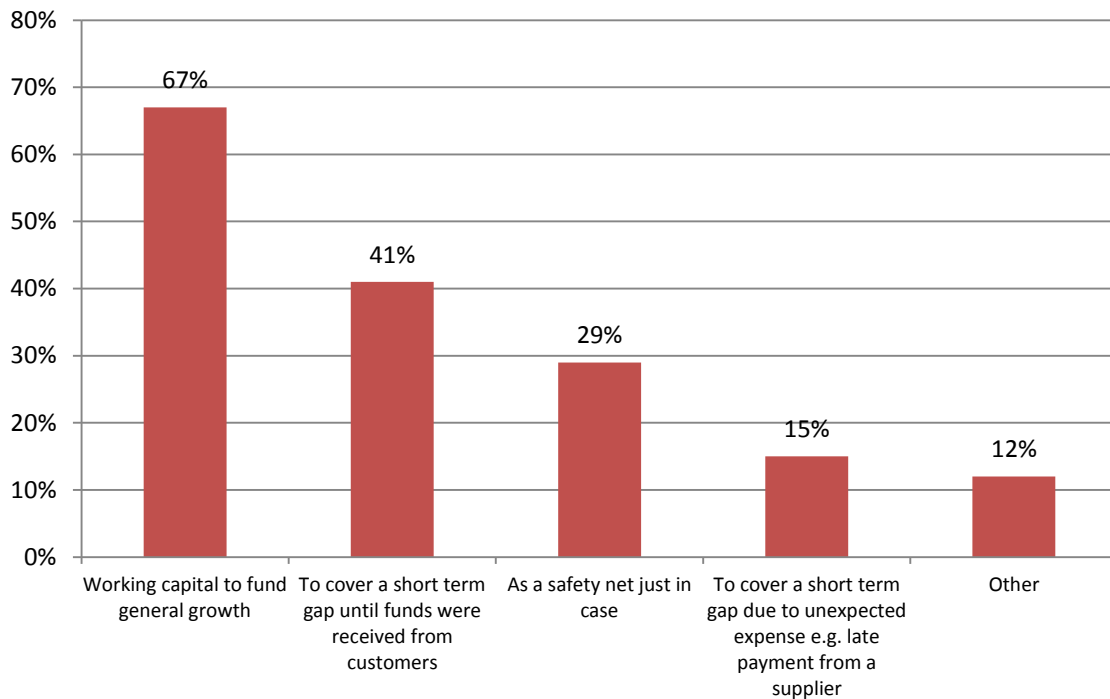
¹⁸ The way this question was asked changed in 2016, therefore comparisons with previous years cannot be made.

The most common reason for seeking external finance for working capital/cash flow was *to fund general growth*, reported by 67 per cent of those SMEs that applied for this type of external finance. (Figure 14).

Figure 14: Reasons for seeking external finance for working capital/cash flow

Base: all that sought external finance for cash flow, 82

Multiple answers allowed across this question.



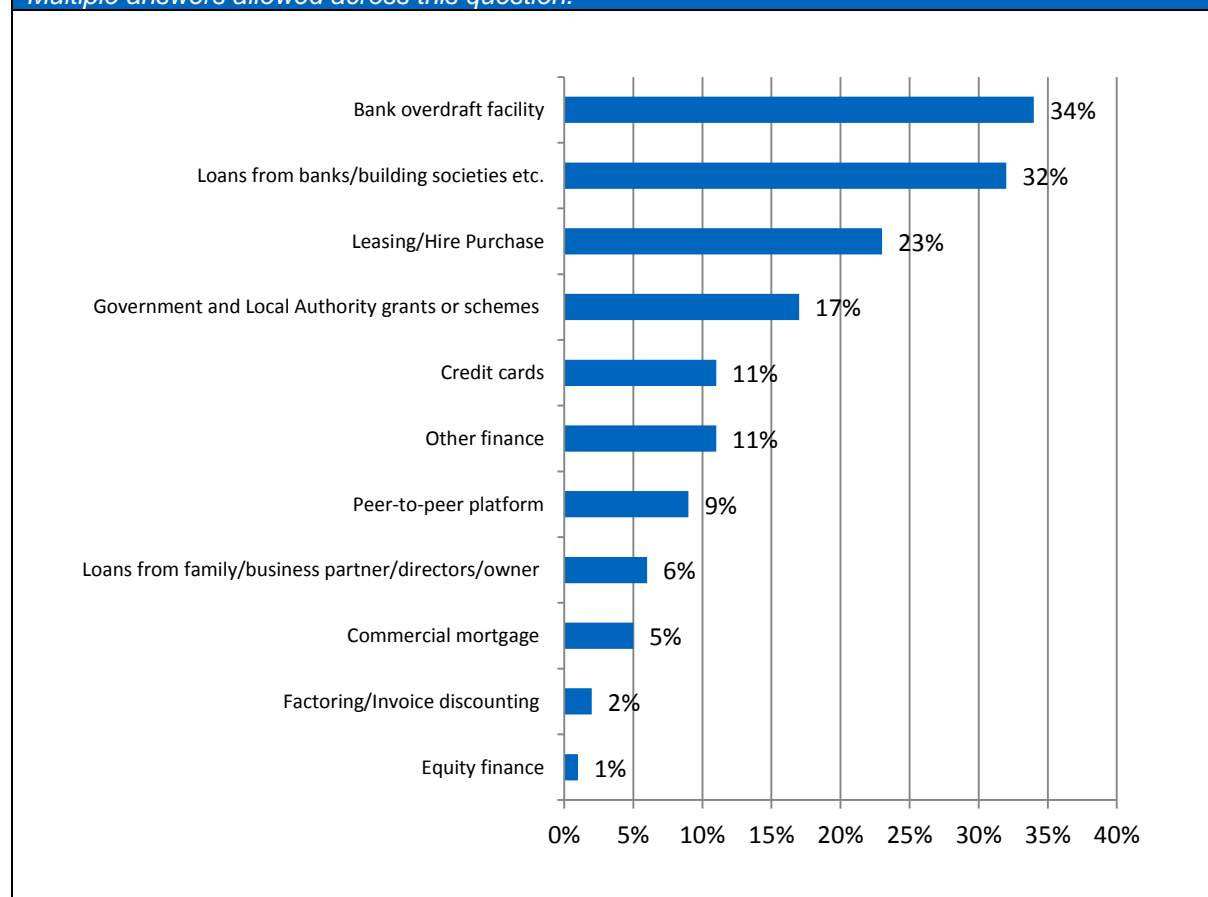
Type of external finance applied for in the last 12 months¹⁹

The most common forms of external finance applied for was bank overdraft facilities (34 per cent of SMEs that applied for finance) and loans from banks and other financial institutions (32 per cent) (Figure 15).

Figure 15: Types of finance applied for in the last 12 months

Base: all that applied for finance in the last 12 months, 134

Multiple answers allowed across this question.



Success in obtaining external finance

Regarding the final outcome of applications for finance, in 2016, 68 per cent of SMEs that applied for external finance in the previous 12 months were successful in obtaining at least some of the external finance sought, while 12 per cent did not obtain any. For the remaining 21 per cent the outcome of the applications was still pending at the time of the interview.

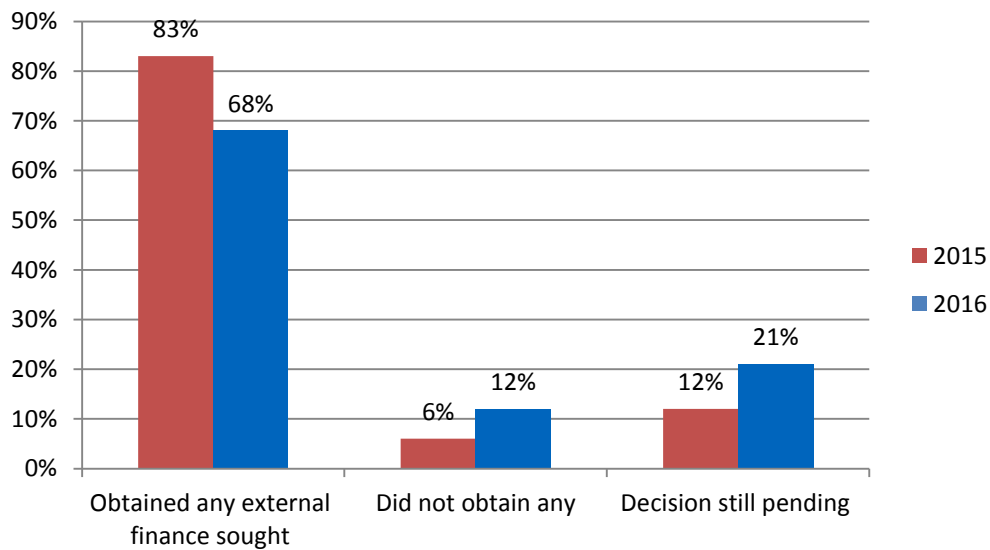
It appears that the success rate in obtaining external finance was lower than in 2015. However, a higher proportion of applications were still pending in 2016 and therefore it is not possible to make a direct comparison (Figure 16).

¹⁹ Because of differences in the way the question was asked, data is not comparable with the 2015 survey.

Figure 16: Outcome of applications for external finance (%)

Base 2016: all that sought external finance in the last 12 months, 134

Base 2015: all that sought external finance in the last 12 months, 193

**Amount of external finance obtained**

The most common amounts of finance obtained in the last 12 months was in the range '£50,000 to £99,999' (18 per cent) and 'less than £10,000' (17 per cent) (Table 4).

Table 4: Amount of external finance obtained in the last 12 months (%)

Base: all SMEs obtaining finance, 100

Less than £10,000	17%
£10,000 to £24,999	8%
£25,000 to £49,999	16%
£50,000 to £99,999	18%
£100,000 to £249,999	12%
£250,000 to £999,999	14%
£1 million or more	8%
Don't know/Refused to answer	6%



Discouraged borrowers

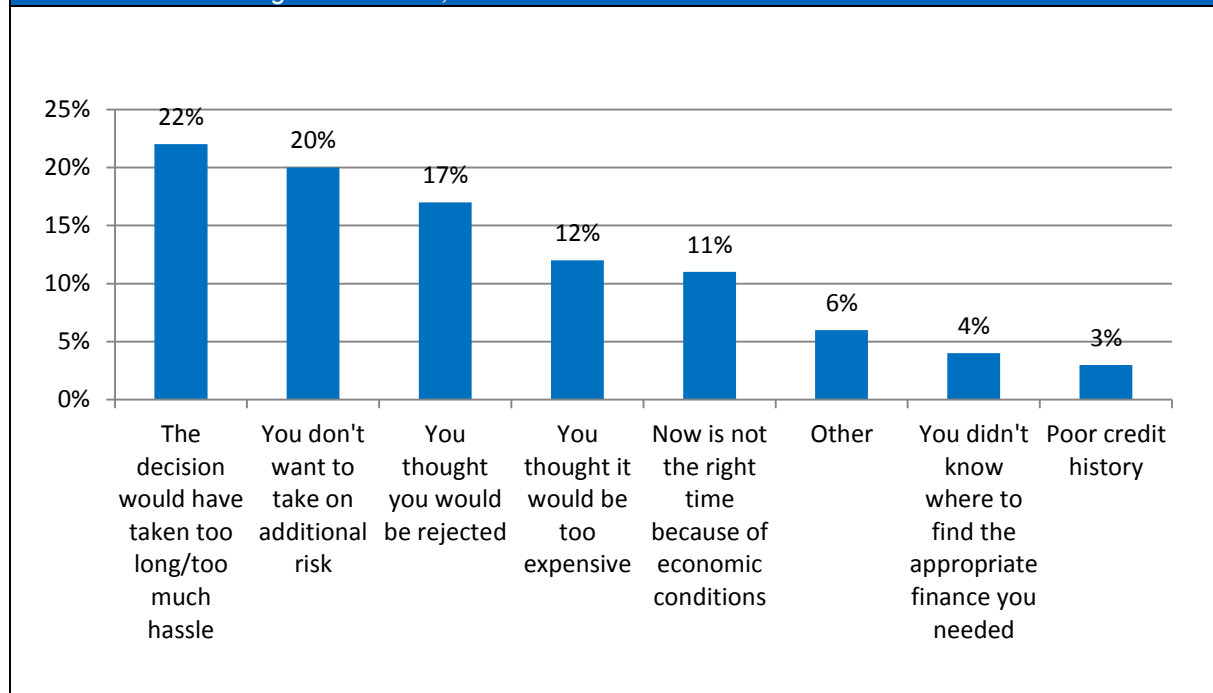
Discouraged borrowers are businesses that would like to borrow but do not apply.

11 per cent of SMEs had a need for external finance in the last 12 months that they did not apply for (broadly in line with the UK as a whole, at nine per cent)²⁰. This proportion is broadly consistent amongst SMEs of all sizes and is broadly in line with the figure in 2015 (nine per cent).

Of those SMEs that had a need for finance but did not apply, 22 per cent reported that the main reason for not applying was because they thought '*the decision would have taken too long/too much hassle*'. This was followed by '*you did not want to take on additional risk*' (20 per cent), The proportion that reported the cost of finance as their main reason for discouragement stood at 12 per cent.(Figure 17).

Figure 17: Main reason for discouragement

Base 2016: Discouraged borrowers, 83 Don't know 2016: 4%



Credit granting and late payment²¹

46 per cent of SMEs gave their customers trade credit. Small (56 per cent) and medium-sized businesses (71 per cent) were more likely than average to have given their customers trade credit.

²⁰ This proportion includes those who had already applied for external finance in the last 12 months but who wanted more external finance that they did not apply for, as well as those that had a need for finance but did not apply at all.

²¹ These questions are not comparable with 2015 results.



By sector, businesses in the Manufacturing (78 per cent) and Construction sectors (66 per cent) were more likely than average to give their customers trade credit. Whereas, firms in the Transport/ Retail/ Distribution (37 per cent) and Other services sectors (32 per cent) were less likely to give credit.

Of those SMEs that granted trade credit to their customers, 40 per cent reported *no problems* with customers paying later than required them to, 44 per cent reported *small problems* and 15 per cent reported *big problems*.

65 per cent of SMEs *received* trade credit from their suppliers. Small (79 per cent) and medium-sized businesses (83 per cent) were more likely than average to receive trade credit from their suppliers.

Firms in the Manufacturing (91 per cent), Construction (83 per cent) and Transport/ Retail/ Distribution sectors (75 per cent) were more likely than average to receive trade credit from their suppliers. Whereas, businesses in the Information/ Communication (38 per cent), Business Services (51 per cent) and Other services sectors (39 per cent) were less likely than average to receive trade credit.

Future intentions in approaching external finance

SMEs were asked how likely it was that they would approach external finance providers in the next three years.

24 per cent of SMEs said it was likely (12 per cent very likely and 13 per cent fairly likely) that they would approach external finance providers in the next three years. Medium-sized businesses were more likely than average to report that were likely to approach external finance providers in the next three years (33 per cent). 73 per cent of SMEs said that it was not likely that they would approach external finance providers in the next three years (25 per cent not very likely and 48 per cent not at all likely).



6. Business Performance and Outlook

The survey captures the opinions of SMEs on how they performed in the past 12 months and what they expect for the coming year, in terms of changes in employment size and turnover.

Changes to employment in the last 12 months

This section reports findings for SMEs with employees that are panellists (i.e. were first interviewed in 2015 and then re-interviewed in 2016).

48 per cent of SME *panellists* employed more people than was the case 12 months earlier. 26 per cent employed the same number and 26 per cent employed fewer. These figures are broadly in line with those for the UK as a whole.

Table 5 below shows the net balance of employment growth by business size. The net balance is described as the overall proportion of businesses that increased employment, minus the proportion of businesses that decreased employment, compared to 12 months ago. Therefore, a positive figure indicates that more businesses within that category increased employment levels than decreased.

In 2016, SMEs of all sizes showed a positive net balance²² of employment growth.

Table 5: Numbers employed compared to 12 months ago (%) by size				
<i>Base: all SME employers panellists, 449 – Base minimum: Medium-sized businesses, 85</i>				
	Has more employees now	Same number	Has fewer employees now	Net balance - growth (% points)
Micro 1-9	48	29	23	24
Small 10-49	47	18	35	12
Medium 50-249	55	10	35	20
All	48	26	26	22

Table 6 below shows the net balance of employment growth by sector. All sectors showed positive net balances except Administrative Services.

²² Net balances may not sum to total due to rounding.

Table 6: Numbers employed compared to 12 months ago (%) by sector*Base: all SME employers panellists, 449 – Base minimum: Information/Communication, 15*

	Has more employees now	Same number	Has fewer employees now	Net balance - growth (% points)
Primary	42	51	7	35
Manufacturing	45	20	35	10
Construction	68	8	23	45
Transport/Retail/Distribution	43	31	26	17
Information/Communication	48	28	24	25
Business Services	48	19	33	14
Administrative Services	29	36	35	-6
Other services	54	28	18	35
All	48	26	26	22

Expectations of employment in the next 12 months

In terms of the numbers of people in employment in the next 12 months, 21 per cent of SMEs in Scotland expected to employ more people in 12 months' time, lower than the proportion in the UK as a whole, at 26 per cent. 14 per cent of SMEs in Scotland expected to employ less people, (10 per cent in the UK as a whole) and 65 per cent expected to employ about the same number (broadly in line with the figure in the UK as a whole, at 64 per cent).

Changes to turnover in the last 12 months

Of all SMEs that had been trading for at least one year, 34 per cent increased their turnover (value of sales) over the past year, as in the UK as a whole. 40 per cent had approximately the same turnover (44 per cent in the UK as a whole). A greater proportion of SMEs in Scotland (24 per cent) had seen their turnover decrease over the past year compared to SMEs in the UK as a whole (20 per cent).

Table 7 below shows the net balance of turnover growth by business size²³.

Table 7: Changes to turnover compared to 12 months previously (%) by size*Base: all SME employers trading for at least one year, 766 – Base minimum: Medium-sized businesses, 116**SMEs that answered Don't know/Refused: 3%*

	Increased	Decreased	Stayed the same	Net balance - growth (% points)
Micro 1-9	34	23	41	10
Small 10-49	35	26	36	9
Medium 50-249	40	21	37	20
All	34	24	40	10

²³ The net balance is described as the overall proportion of businesses that experienced turnover growth, minus the proportion of businesses that experienced turnover reduction, compared to 12 months ago. Therefore, a positive figure indicates that more businesses within that category experienced turnover growth than those that experienced turnover reduction.



SMEs of all sizes showed a positive net balance of turnover growth (i.e. higher proportions of firms experienced turnover growth than those that experienced turnover reduction).

Table 8 below shows the net balance of turnover growth by sector. All sectors with the exception of Business Services (-6) and Primary (-2) reported positive net balance (i.e. higher proportions of SMEs reported to have experienced turnover growth than those that have experienced turnover reduction).

SMEs in the Manufacturing sector were more likely than average to report increased turnover (48 per cent). Whereas, businesses in the Business Services sector were more likely to report decreased turnover (33 per cent).

Table 8: Changes to turnover compared to 12 months previously (%) by sector				
<i>Base: all SME employers trading for at least two years, 766</i>				
<i>Base minimum: Information/Communication, 36</i>				
<i>SMEs that answered Don't know/Refused: 3%</i>				
	Increased	Decreased	Stayed the same	Net balance - growth (% points)
Primary	29	31	40	-2
Manufacturing	48	24	28	24
Construction	33	18	44	16
Transport/Retail/Distribution	36	21	40	15
Information/Communication	36	19	43	17
Business Services	27	33	38	-6
Administrative Services	42	28	23	14
Other services	30	16	52	15
All	34	24	40	10

Expectations of turnover growth in the next 12 months

37 per cent of SMEs in Scotland expected turnover to increase in the next 12 months, broadly in line with the figure in the UK as a whole (40 per cent). 48 per cent expected turnover to stay approximately the same (47 per cent in the UK as a whole) and 12 per cent expected turnover to decrease (10 per cent in the UK as a whole).

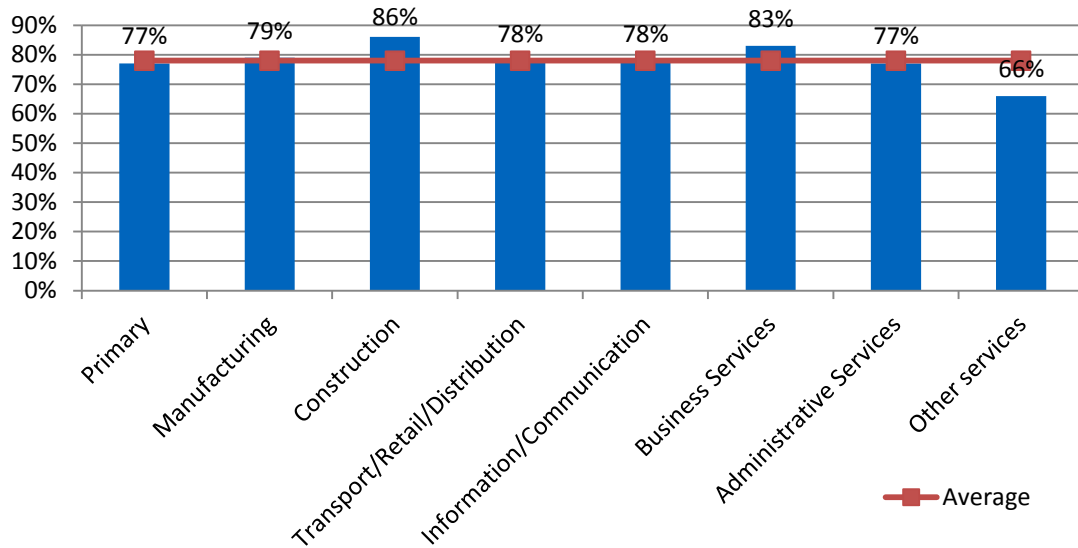
Profit

78 per cent of SMEs in Scotland generated a profit in their last financial year, broadly in-line with the UK as a whole (79 per cent).

Businesses in the Other services sector were less likely than average to have made a profit (66 per cent).

Figure 18: Whether generated a profit or surplus in the last financial year by sector

Base: all SME employers, 779 – Base minimum: Information/Communication, 36
SMEs that answered Don't know/Refused to this question: 5%



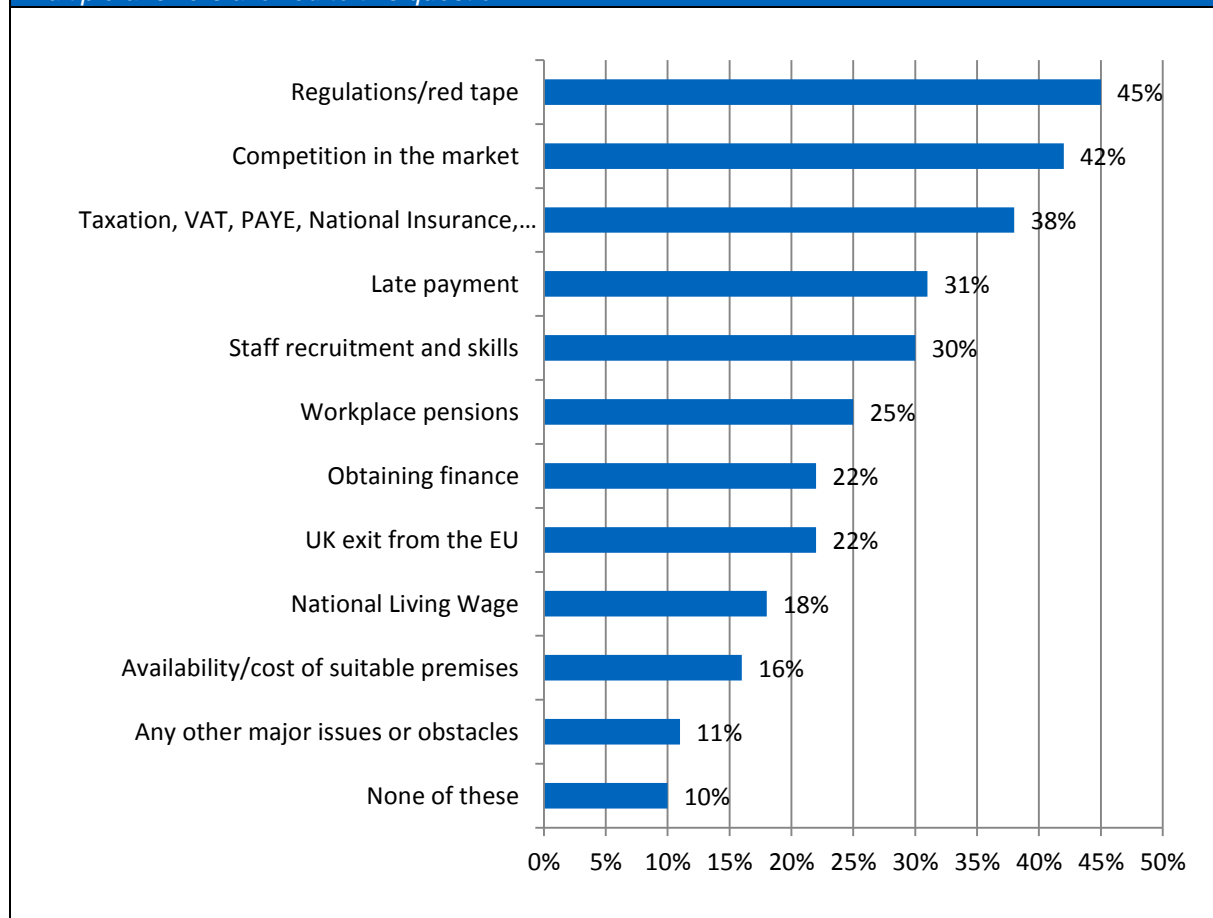
Major obstacles to the success of the business

Respondents were read a list of issues and asked which, if any, represented major obstacles to the success of their business. The most commonly reported obstacles were *regulations/red tape*²⁴ (reported by 45 per cent of SMEs), *competition in the market* (42 per cent), *taxation/VAT/PAYE/National Insurance/business rates* (38 per cent), *late payment* (31 per cent) and *staff recruitment and skills*²⁵ (30 per cent). *UK exit from the EU* was noted as an obstacle by 22 per cent of SMEs (Figure 19).

Figure 19: Major obstacles to the success of the business

Base: all SME employers, 779

Multiple answers allowed to this question.



²⁴ Those SMEs that thought regulations and red tape represented a major obstacle were asked to name the regulations that particularly affected them. The most commonly reported categories were sector-specific regulations (19 per cent), other regulations not specifically defined (18 per cent) and health and safety (15 per cent).

²⁵ Those SMEs that considered staff recruitment and skills to be a major obstacle were asked to elaborate on the specific obstacles they faced in this area. 80 per cent of SMEs that cited staff recruitment and skills as a major obstacle, said that recruiting staff was an obstacle. 72 per cent said that shortage of skills within the external labour market was an obstacle and almost half (49 per cent) said that shortage of skills within the existing workplace was an obstacle.



Sales growth

63 per cent of SMEs stated that they aimed to grow sales over the next three years. Small (74 per cent) and medium-sized businesses (84 per cent) were more likely than average to have growth ambitions.

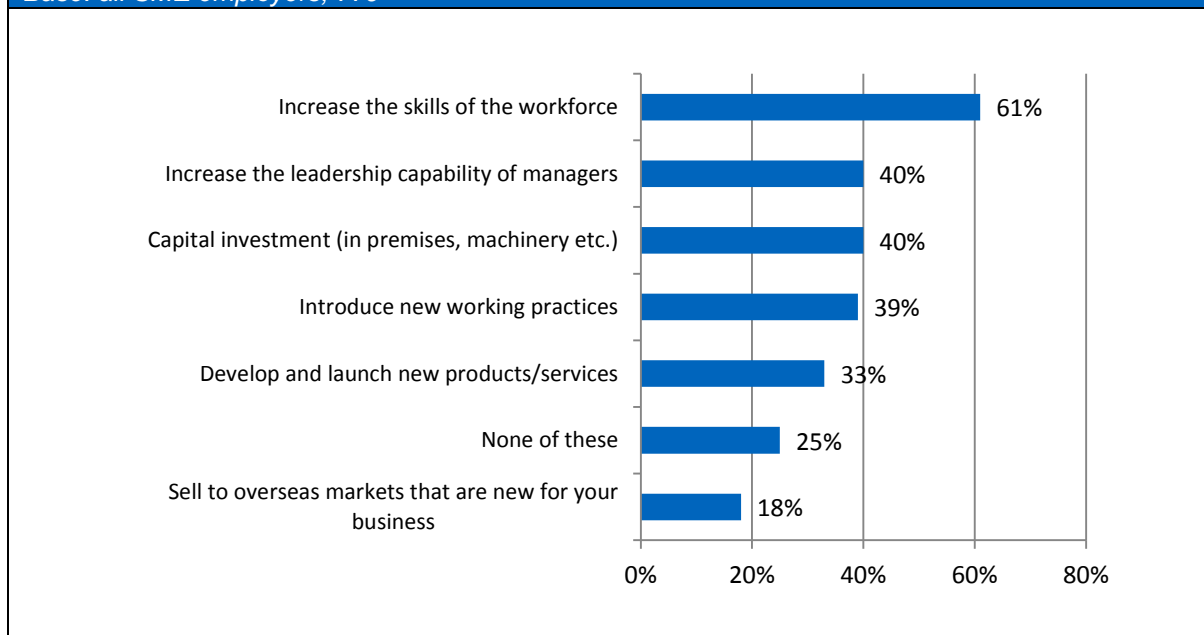
By sector, businesses in the manufacturing sector (83 per cent) were more likely than average to report growth ambitions. Whereas, firms within the Other services sector (51 per cent) were less likely than average to report that they aimed to grow future sales.

Ways in which businesses plan to grow over the next three years

SMEs were asked whether they planned to do any of five growth-related activities over the next three years. The most commonly reported activity was *'increase the skills of the workforce'*, cited by 61 per cent of SMEs. The least reported activity of the list was *'sell to overseas markets that are new for your business'*, cited by 18 per cent of SMEs (Figure 20).

Figure 20: Whether plans to do any of these growth-related activities

Base: all SME employers, 779



Closure or transfer of the business in the next five years

16 per cent of SMEs expected to either close or transfer the ownership of their business in the next five years²⁶. Small (10 per cent) and medium-sized businesses (seven per cent) were less likely than average to report that they expected to close or transfer the ownership of their business within five years.

²⁶ Seven per cent of SMEs anticipated the closure of their business while a further 9 per cent anticipated a full transfer of ownership.

7. Effect of UK exit from the EU

Whether UK exit from the EU is beneficial or detrimental to the business

SMEs were asked whether exiting the EU would be beneficial or detrimental to their business and whether it had impacted (positively or negatively) on plans they previously had.

29 per cent of SMEs in Scotland believed that exiting the EU would be detrimental for their business (19 per cent fairly detrimental, 11 per cent very detrimental) whilst 10 per cent believed it would be beneficial (three per cent very beneficial, seven per cent fairly beneficial). 48 per cent of SMEs in Scotland believed that exiting the EU would make no difference (i.e. it would be neither beneficial nor detrimental) to their business. 13 per cent of SMEs did not know.

In the UK as a whole, a lower proportion than in Scotland believed exiting the EU would be detrimental for their business, at 25 per cent, while broadly the same proportion believed it would be beneficial, at 11 per cent. A higher proportion believed it would make no difference, at 54 per cent. 10 per cent did not know.

The net balance (i.e. the proportion of SMEs reporting that exiting the EU would be beneficial minus the proportion of SMEs reporting that exiting the EU would be detrimental) was -20 percentage points in Scotland and -14 percentage points in the UK as a whole.

44 per cent of SME *international exporters* (i.e. firms exporting to countries outside of the UK) believed exiting the EU would be detrimental for their business (23 per cent fairly detrimental and 20 per cent very detrimental), 31 per cent believed it would make no difference and 12 per cent that would be beneficial (five per cent very beneficial, six per cent fairly beneficial). 14 per cent did not know. These proportions are broadly in line with those in the UK as a whole.

45 per cent of SME *importers* (i.e. firms importing from countries outside of the UK) believed exiting the EU would be detrimental for their business (24 per cent fairly detrimental, 21 per cent very detrimental), 31 per cent that would make no difference and seven per cent that would be beneficial (three per cent very beneficial, five per cent fairly beneficial). 17 per cent did not know. These proportions are broadly in line with those in the UK as a whole.

42 per cent of SME *innovators* (i.e. SMEs that had engaged in good/service or process innovation) believed exiting the EU would be detrimental for their business (26 per cent fairly detrimental and 16 per cent very detrimental), 37 per cent believed it would make no difference and nine per cent that it would be beneficial (three per cent very beneficial, six per cent fairly beneficial). 11 per cent did not know. SME innovators in Scotland were more likely to believe exiting the EU would be detrimental than SME innovators in the UK as a whole (32 per cent).



Effect of UK exit from the EU on business plans

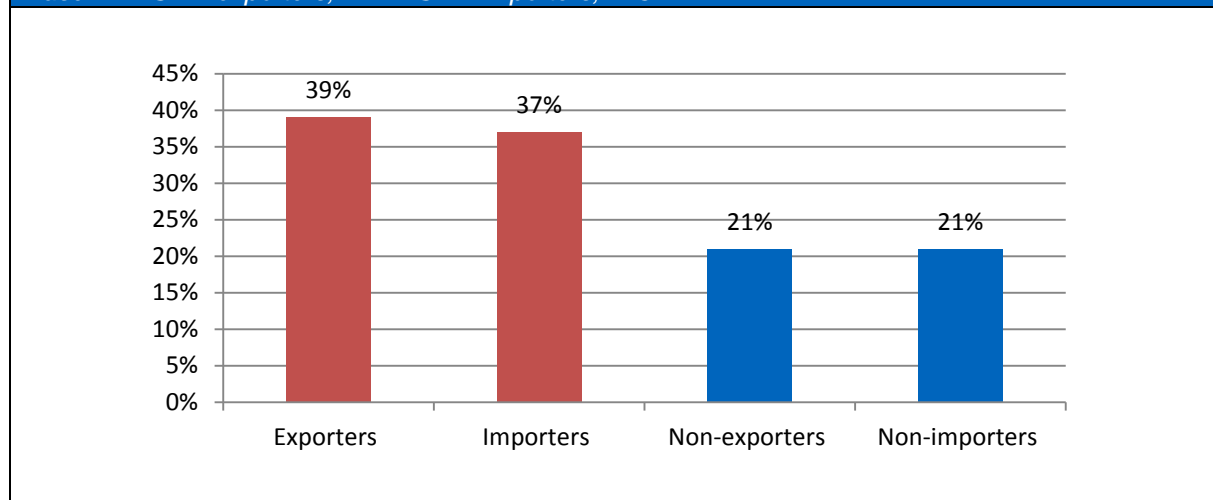
24 per cent of SMEs in Scotland stated that the result of the EU referendum had impacted on plans that they previously had (whether positively or negatively), the same proportion as in the UK as a whole.

By sector, businesses in the Information/ Communication sector (39 per cent) were more likely than average to report that the EU referendum had impacted on plans their business had. Whereas, firms in the Other services sector (12 per cent) were less likely than average to report that the result of the EU referendum had an impact on their business.

39 per cent of SME *international exporters* in Scotland reported being impacted by the EU referendum result, compared to 21 per cent of non-exporters (broadly in line with findings in the UK as a whole). This trend was similar for importers, with 37 per cent of SME *importers* in Scotland being impacted by the EU referendum result, compared to 21 per cent of non-importers (broadly in line with findings in the UK as a whole) (Figure 21).

Figure 21: Proportion of SMEs impacted by EU referendum result by trade activity

Base min: SME exporters, 144 – SME importers, 173



30 per cent of SME *innovators* in Scotland reported being impacted by the EU referendum result compared to 20 per cent of non-innovators (broadly in line with findings in the UK as a whole).

Of those SMEs in Scotland that reported being affected by the EU referendum, the areas in which plans have been affected were *overseas sales and future employment levels* (both 29 per cent), *development or launch of new products/services* (28 per cent), *capital investment in the business* (24 per cent) and *staff training* (12 per cent). 32 per cent of SMEs reported that *none of these areas* had plans in which the business was affected.



Of those SMEs in Scotland that reported having plans affected by the EU referendum, 54 per cent reported that plans were still on the same scale as before the referendum whilst eight per cent stated that plans were on a larger scale (similar to findings in the UK as a whole). 28 per cent reported their plans to be on a smaller scale (broadly in line with findings in the UK as a whole, 32 per cent). Five per cent stated that they had abandoned these plans altogether, lower than the proportion in the UK as a whole, at 10 per cent. Five per cent did not know.

Small Business Survey Scotland 2016

Office of the Chief Economic Adviser