Small Business Survey Scotland 2012

Office of the Chief Economic Adviser
http://www.scotland.gov.uk/Topics/Economy/

The Scottish Government

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1 Survey Aims, Methodology and Key Results

Introduction

1.1 This publication reports on the findings, for Scotland, of the Small Business Survey 2012. It sets out the key characteristics and profile of small and medium-sized (SME) enterprises in Scotland, and provides a comprehensive insight into the perceptions of business owners on issues affecting enterprise, such as exporting, business support and constraints, and outlook.

1.2 The report is an update to the 'Survey of Small Businesses', which was last fully conducted in Scotland in 2007/08.

Aims of the survey

1.3 As at March 2012, there were an estimated 341,360 private sector enterprises operating in Scotland. Approximately 339,100 were small and medium sized enterprises (SMEs)[1] in Scotland, comprising 99.3% of all businesses.[2] These businesses are central to the Scottish economy, accounting for 55% of private sector employment and 38% of turnover.

1.4 The Small Business Survey for Scotland provides a profile of the business base in Scotland including information on self-employed businesses, women-owned, ethnic minority and family-led businesses. In addition, it captures the views and perceptions of SMEs in Scotland, covering a range of issues such as exporting, use of technology, business outlook and constraints on business growth.

1.5 The most recent survey was conducted during a time when most advanced economies were in the process of a fragile recovery from the global recession. Output has yet to return to pre-recession levels in many countries and a great deal of uncertainty remains as to the pace and sustainability of the recovery. As such, the Small Business Survey is a valuable source of information on SMEs in Scotland.

1.6 This report sets out the headline results in Scotland from the Small Business Survey 2012. The research involved a large-scale telephone survey of 1,002 SMEs based in Scotland, conducted by an independent market research company, BMG Research, between June and September

[1] Defined here as having fewer than 250 employees.
[2] Businesses in Scotland 2012: http://www.scotland.gov.uk/Topics/Statistics/Browse/Business/Corporate/KeyFacts

2012. The data analysis and report have been compiled by the Office of the Chief Economic Adviser within the Scottish Government.

1.7 The main aims of the survey were:

- To monitor key enterprise indicators and how these have changed in comparison to previous surveys, the 2007/08 SBS in particular. The survey measures:
  - The characteristics of Small and Medium-sized Enterprises (SMEs) such as their type (size, sector, legal status and so on);
  - The characteristics of their owners and leaders;
  - Recent turnover and employment growth;
  - Capabilities (in terms of their ability to innovate, export, train staff, etc.);
  - Experience of accessing finance;
  - Use of business support;
  - Intentions to grow turnover and employment;
  - The needs and concerns, and the obstacles that prevent SMEs fulfilling their potential.
- The survey creates a database that can be used for follow-up studies among the general SME population, and sub-groups within it.

Survey method

1.8 The survey is part of a UK-wide survey commissioned by the Department for Business, Innovation and Skills (BIS)[3]. The core UK sample contained 287 interviews with businesses based in Scotland. In addition to this, the Scottish Government commissioned a further 715 interviews as a boost to the Scottish sample. The purpose of the boost was to allow for a Scottish-specific dataset to be obtained for the purposes of analysing the profile and perceptions of small businesses that are based in Scotland.

1.9 The 2012 survey questionnaire was largely based on the previous UK-wide small business surveys conducted on a regular basis to allow for consistency in assessing trends and to allow for comparisons to be made against the overall UK SME population[4]. In 2012 new sections were also added to the survey design to enhance understanding of particular types of businesses, equality issues, and to account for changes in the business operating environment such as access to finance, environmental impact

[3] https://www.gov.uk/government/organisations/department-for-business-innovation-skills

[4] The UK BIS Small Business Survey was last conducted in 2010 and compares previous years data against the BIS Business Barometer. However, the last Scottish-boosted survey was the 'Annual Survey of Small Business Opinions 2007/08' published in 2009. The series was temporarily replaced by the Scottish Government 'SME Access to Finance Survey' which focused specifically on issues of access to finance for small businesses.

and technology. Additional questions were asked of Scottish-based businesses relating to specific Scottish business support initiatives.

1.10 Within Scotland the survey sample was stratified. Targets were set according to business size, and within those targets, for sector (SIC 2007). Approximately one sixth of interviews were conducted with enterprises with no employees; one third with micro businesses (1-9 employees); one third with small businesses (10-49 employees); and one sixth with medium-sized businesses (50-249 employees). The sector targets, set within size bands, were intentionally disproportional with some over sampling of sectors of particular interest. The sample for Scotland was drawn, according to these size and sector targets, from the Dun & Bradstreet database. Survey findings have been weighted to the 2012 Business Population Estimates published by BIS. The achieved sample is given in the table below:

Achieved sample size by sector and size band, Scotland, 2012

	Self-employed (0)	Micro (1-9)	Small (10-49)	Medium (50-249)	Total
ABDE Primary[1]	14	26	17	8	65
C Manufacturing	7	25	39	35	106
F Construction	18	44	25	16	103
GHI Transport/Retail/Distribution	27	92	93	45	257
J Information/Communication	16	26	13	3	58
KLM Business services	38	62	51	11	162
N Administrative services	12	13	19	18	62
PQRS Other services[2]	35	44	78	32	189
Totals	**167**	**332**	**335**	**168**	**1,002**

1. Primary industries in SBS contains 'Agriculture, forestry and fishing', 'Mining and quarrying', 'Electricity, gas steam and air conditioning supply' and 'Water supply; sewerage, waste management and remediation activities'.

2. Other services in SBS contains 'Education', 'Human health and social work activities', 'Arts, entertainment and recreation' and 'Other service activities'.

1.11 Throughout the analysis, weighting has been applied to the data by size and sector to ensure that the results are representative of the overall Scottish SME population. Some sectors are excluded from the sampling in the 2012 survey, including the public sector.[5]

[5] The following sectors were excluded from the sampling: The public sector (O), the private household and extra-terrestrial SICs (SIC 2007 97-99), and businesses with 250+ employees.

1.12 The size of the samples in both the 2007/08 and 2012 surveys means that the findings can be reported with a relatively high degree of statistical reliability. For instance, a finding of 50% at the overall level (all businesses included) has a statistical error of ±3.1% at the 95% confidence level.

1.13 The headline results are presented in the report below. Where applicable, comparisons are made against results from previous Scottish data relating to 2007. A more detailed analysis of specific topics will be published in a series of short, separate bulletins.

Key results

Business demographics

- 50% per cent of SMEs were **registered for VAT**, down on the 65% reporting that they were VAT-registered in the 2007 SBS.

Type of business

- Exporting businesses accounted for 13% of all SMEs in 2012, where an **exporter** is defined as a business which sold goods or services or licensed products outside of the UK. This figure is down from the 16% of businesses that were exporters in the 2007 SBS.

- 15% of SMEs were defined as a **start-up**, that is a business trading for less than four years or has changed ownership in the last three years The comparable figure for the 2007 SBS was 16% for Scotland. 14% of the self-employed and 16% of micro employers were start-ups, compared to 10% of small and 8% of medium sized employers.

- Businesses that had been trading for less than four years were asked about their **motivation to start-up**; whether they started up to take advantage of a business opportunity or because there were no better choices for work. 46% of these new-start SMEs were motivated to start-up in business to take advantage of a business opportunity. Whereas 29% reported that it was because there were no other choices for work. The remaining 25% of new-start SMEs reported that they were motivated to start-up in response to a combination of both opportunity and no other choice for work.

- Using BIS's definition, 5% of SMEs were considered to be **social enterprises**[6]. This compares to 6% in the 2007 SBS.

1.1 [6] The Department for Business, Innovation and Skills definition of a social enterprise is such that it requires the enterprise to consider itself a business that has mainly social or

- 63% of SMEs were **family-owned**. This figure is down from the 74% of businesses that were family owned in the 2007 SBS. A higher proportion of self-employed and micro employers (both 64%) were family-owned than small or medium sized employers (both 52%).

- 43% of SMEs have at least 50% **female leadership**. The Scottish figure remains unchanged from the SBS 2007.

- 3% of SMEs were **MEG-led**, defined as being led by a member of a minority ethnic group or a management team with at least half of its members from minority ethnic groups. The Scottish figure has remained unchanged from the 2007 SBS.

- 56% of SMEs use their **home** as their main business or work premises.

Business practice

- A third of SMEs had introduced new or improved **products or services** in the last 12 months. 29% of SMEs had introduced new or significantly improved **processes** in the same period.

- 62% of SMEs had taken steps to reduce their **environmental impact**. The likelihood of SMEs taking steps to reduce environmental impact increases with size of business.

- There has been an increase in the percentage of SMEs who had funded or arranged **training or development** for employees in the past 12 months, between the 2007 SBS (62%) and 2012 SBS (73%).

- 87% of SMEs reported that they had **broadband** in 2012. Small and medium sized employers were more likely to have broadband; 99% of small employers and 98% of medium sized employers had broadband. 85% of the self-employed and 93% of micro employers had broadband. Least likely to have broadband were those in the 'Construction' sector (65%).

- The majority of SMEs had neither expressed an interest in, or bid for, **contracts advertised by the public sector** (84%). 7% expressed an interest but did not bid and 9% bid for public contracts in the 12 months

environmental aims, it should not pay more than 50 per cent of profit or surplus to owners or shareholders, it should not generate more than 25 per cent of income from grants and donations and, therefore, should not have less than 75 per cent of turnover from trading. In addition, they have to think themselves a very good fit with the statement 'a business with primarily social or environmental objectives, whose surpluses were principally reinvested for that purpose in the business or community rather than mainly being paid to shareholders and owners'.

prior to the survey, up from the 2007 SBS figures; 2% expressed an interest but did not bid and 6% bid for public contracts.

Business performance and outlook

- Nearly a quarter of all SMEs (24%) reported that they employed fewer staff than they did 12 months ago, while 14% reported that they had increased employment and 62% managed to retain the same level of employment.

- By size of business, however, a greater proportion of small and medium sized enterprises increased employment over the past 12 months compared against the proportion that reduced employment within these business sizes – leading to a net balance of employment growth businesses of 11 percentage points for small businesses and 23 percentage points for medium-sized businesses. Therefore the overall net reduction in employment was driven by micro businesses.

- By sector, those in the Construction (34%), Administrative Services (28%) and Transport/Retail/Distribution (26%) were most likely to state that they employed fewer staff now than 12 months ago.

- Expectations of employment growth over the next 12 months appear to be fairly optimistic, with 25% of all businesses stating that they intend to take on more staff than they currently employ.

- 28% of all SMEs in Scotland experienced an increase in turnover over the past 12 months. However, 33% reported a fall in turnover, and a further 37% stated that turnover levels had remained the same.

- Smaller businesses, such as the self-employed and micro businesses, were more likely to report a fall in turnover than small and medium sized businesses.

- The sectors in which the highest percentage of businesses experienced a decrease in turnover were Transport/Retail/Distribution (47%), Administrative Services (43%) and Construction (35%). However, a high proportion of businesses in Administrative Services (47%) also reported an increase in turnover, as did businesses in Information Communication (37%) and Manufacturing (36%) sectors.

- Overall, businesses were more optimistic about changes to turnover in the next 12 months, with 34% of all businesses stating that they expected to see an increase in turnover, and with only 16% expecting to see a decrease in turnover. The expectation of increased turnover increases

with business size, with just over half of all medium-sized businesses (51%) expecting turnover levels to increase over the next 12 months.

- Turnover increase expectations for the year ahead were highest in those sectors which experienced the greatest reduction in turnover levels over the previous 12 months.

- Just over half of all businesses (51%) reported that they had no plans to grow their business over the next two to three years. However, this figure is largely driven by the 58% of self-employed businesses that have no ambitions for growth.

- **SME employers** (i.e. those excluding self-employed), on the other hand, were considerably more likely to state that they had ambitions for growth – with 66% of all SME employers had plans to grow over the next two to three years. Within this, 64% of micro businesses stated that they aim to grow, compared to 76% of small businesses and 82% of medium sized businesses. However, only 42% of the self-employed had ambitions to grow.

- 26% of businesses with growth ambition stated that it was 'likely' or 'very likely' that they would seek external finance to grow their business. Small businesses (43%) appeared to have a greater need for external finance to grow than micro (34%) or medium-sized (39%) businesses.

- The greatest proportion of businesses planned to achieve growth by increasing the skills of their workforce (77%), by exploiting new markets (68%) and/or by developing and launching new products or services (66%).

- The most commonly noted factor to be considered as an obstacle to the success of businesses was 'the economy' in 2012, with 78% of all businesses reporting this as one of the obstacles to their success.

- Similarly, when asked to pick just one obstacle, the economy was stated to be the **single biggest obstacle to success**, with 46% of all businesses believing this to be the case. This was followed by regulation and taxation issues, for which 10% and 9% of all SME businesses respectively, said this was the single biggest obstacle to their business success.

- Late payment was considered to be a problem for 43% of all SMEs, with larger businesses more likely to state that late payment was a problem than those businesses with fewer employees. 62% of medium-sized businesses stated that this was a problem compared to 41% of self-employed businesses reporting this to be the case.

2 Business Demographics

Size

2.1 In the 2012 SBS, the majority of SMEs had no employees (72%). 23% of the SMEs were micro employers (employing fewer than 10 people), 4% were small employers (with between 10 and 49 employees) and 1% were medium sized employers (with between 50 and 249 employees). This profile is very similar to the 2007 SBS results: 71% self-employed, 24% micro employers, 4% small employers and 1% medium sized employers.

Sector

2.2 The table below provides a breakdown of SMEs in the 2012 SBS by sector:

SMEs by sector, 2012					
Sectors	**Self-employed (0)**	**Micro (1-9)**	**Small (10-49)**	**Medium (50-249)**	**Total**
ABDE Primary	6%	9%	4%	4%	6%
C Manufacturing	4%	5%	10%	21%	4%
F Construction	16%	13%	11%	9%	15%
GHI Transport/Retail/Distribution	19%	34%	38%	31%	23%
J Information/Communication	6%	3%	3%	2%	5%
KLM Business services	18%	16%	13%	12%	17%
N Administrative services	7%	6%	6%	9%	7%
PQRS Other services	25%	12%	15%	13%	22%

Base (unweighted): All SMEs n= 1002, Self-employed n=167, Micro n=332, Small n=335, Medium n=168

2.3 The largest sector, with 23% of SMEs, was the 'Transport/Retail/Distribution' sector. The smallest sector, with 4% of SMEs was the 'Manufacturing' sector.

2.4 The 'Transport/Retail/Distribution' sector was the largest sector of the micro, small and medium-sized employers. 31% of medium employers, 38% of small employers and 34% of micro employers were in the 'Transport/Retail/Distribution' sector. Of the self-employed, the largest sector was 'Other Services', with 25% of the self-employed being in this sector.

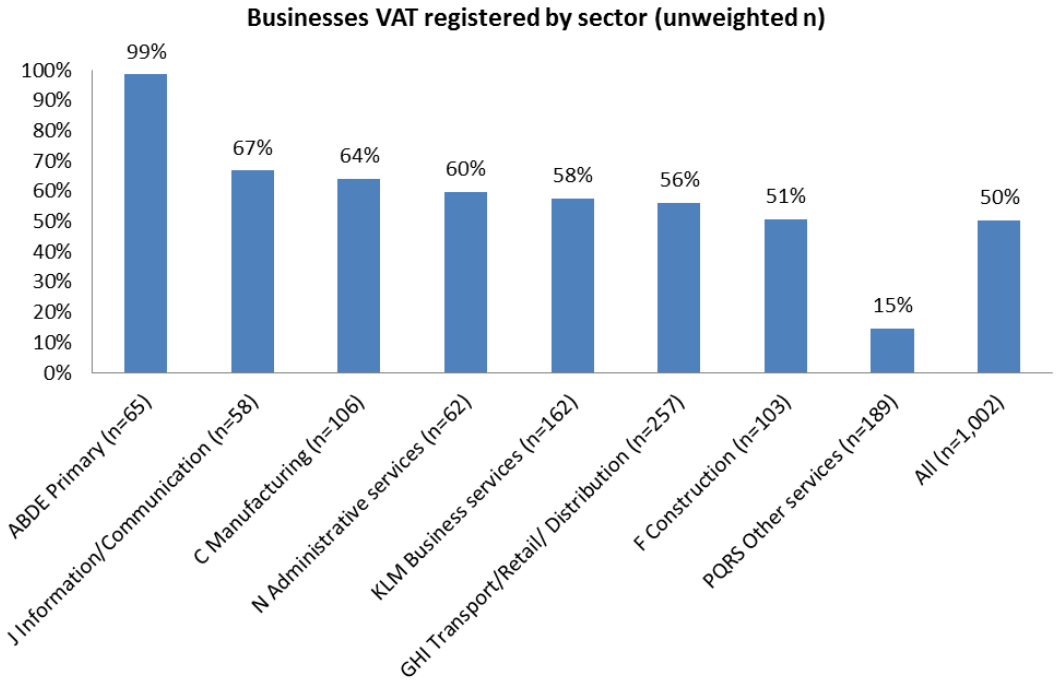
VAT-registered

2.5 50% of SMEs reported that they were VAT-registered, a decrease from the 65% reporting that they were VAT-registered in the 2007 SBS. All sizes of businesses (except medium) were less likely to report being VAT registered in 2012 than in 2007. However there was a particular drop in VAT registration amongst the self-employed:

Businesses reporting whether they were VAT-registered or not, 2007 and 2012					
	Self-employed (0)	**Micro (1-9)**	**Small (10-49)**	**Medium (50-249)**	**Total**
2012					
Business is VAT registered	39%	78%	88%	94%	50%
Business is not VAT registered	61%	21%	12%	6%	49%
Unwilling to answer	1%	1%	0%	0%	1%
2007					
Business is VAT registered	57%	83%	95%	94%	65%
Business is not VAT registered	43%	16%	5%	6%	35%
Unwilling to answer	0%	0%	0%	0%	0%

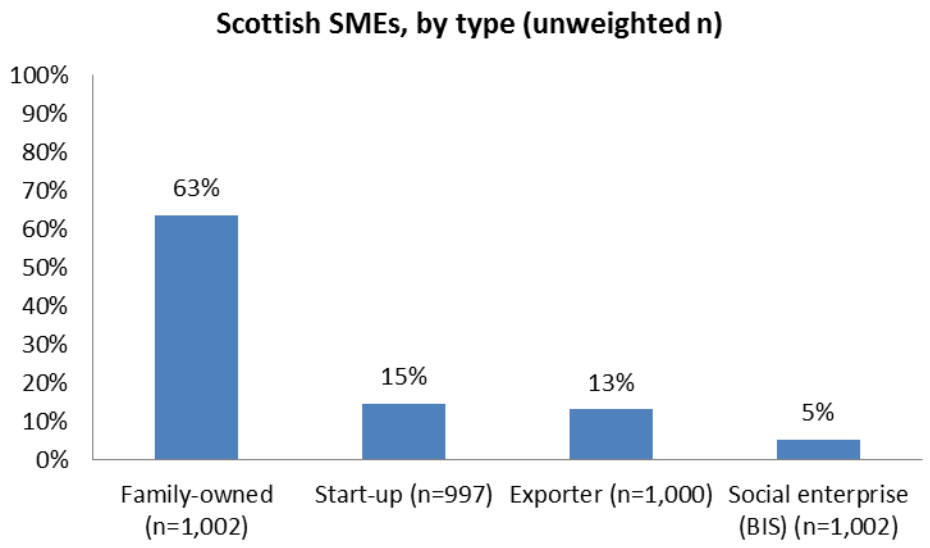
Base (unweighted): 2012: All SMEs n= 1002, Self-employed n=167, Micro n=332, Small n=335, Medium n=168
Base (unweighted): 2007: All SMEs n= 1032, Self-employed n=170, Micro n=387, Small n=336, Medium n=139

2.6 The likelihood of SMEs being VAT registered was highest in the 'Primary' Industries at 99%. It was lowest in the 'Other services' sector at 15%.



3 Type of Business

3.1 The chart below shows SMEs in the 2012 SBS, by type (family-owned, start-up, exporter and social enterprise) [7]:



Family-owned

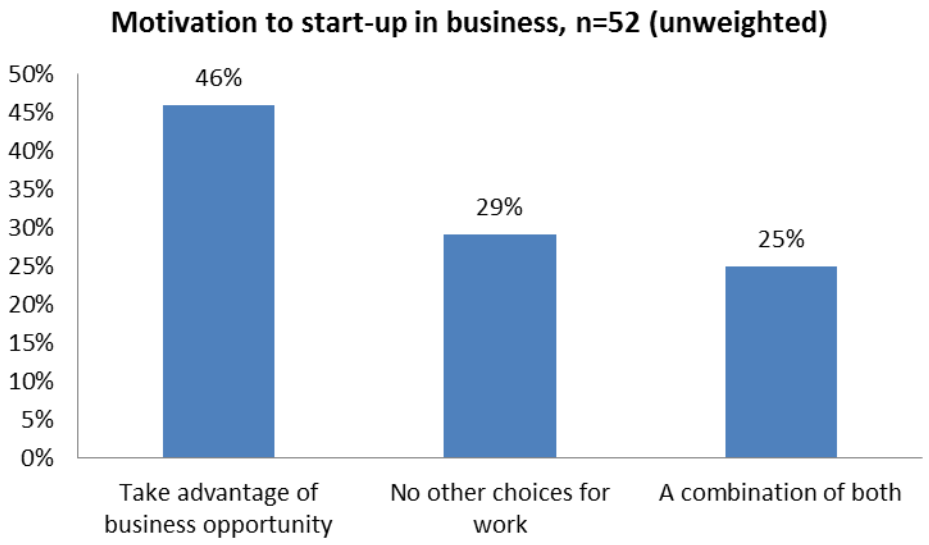
3.2 63% of SMEs were family-owned. This figure is down from the 74% of businesses that were family owned in the 2007 SBS. A higher proportion of self-employed and micro employers (both 64%) were family-owned than small or medium sized employers (both 52%).

3.3 The majority of businesses that described themselves as being family-owned were first generation (78%). 12% of family-owned businesses had been passed down into the second generation and 7% family-owned SMEs had been in the family for three generations or more.

Start-up

3.4 15% of SMEs were defined as a start-up[8]. The comparable figure for the 2007 SBS was 16%. 14% and 16% of the self-employed and micro employers were start-ups, compared to 10% and 8% of small and medium sized employers.

[7] It should be noted that these groups are not mutually exclusive.
[8] New businesses, referred to as start-ups, are businesses trading for less than four years or those which have changed ownership in the last three years.



3.5 Businesses that had been trading for less than four years were asked whether they started up to take advantage of a business opportunity or because there were no better choices for work. 46% of these new-start SMEs were motivated to start-up in business to take advantage of a business opportunity. Whereas 29% reported that it was because there were no other choices for work. The remaining 25% of new-start SMEs reported that they were motivated to start-up in response to a combination of both opportunity and no other choice for work.

Exporter

3.6 13% of SMEs were defined as an exporter[9]. This figure is down from the 16% of businesses that were exporters in the 2007 SBS.

3.7 The likelihood of being an exporter increased with the size of the business; only 12% of the self-employed and 13% of micro employers were exporters in 2012, compared to 22% of small-sized and 37% of medium-sized employers.

3.8 'Information and communication' was the SME sector most likely to export (39%), followed by 'Administrative services' (25%), 'Business services' (23%) and 'Manufacturing' (22%). 'Transport, retail or distribution' (13%), 'Primary' (5%), 'Other services' (5%) and 'Construction' (1%) were the SME sectors least likely to export.

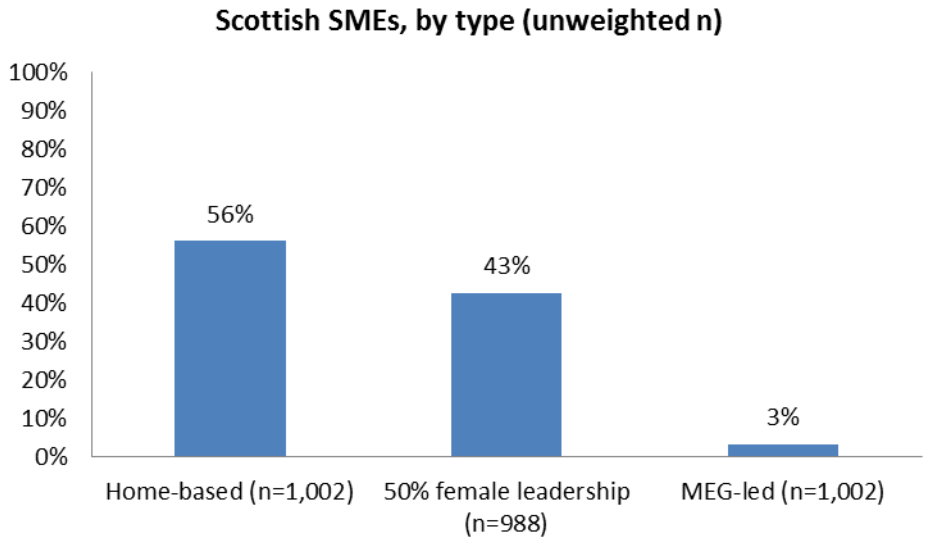
[9] An exporter is defined as a business which sold goods or services or licenced products outside of the UK.

Social enterprise

3.9 21% of SMEs thought of their business as a social enterprise[10], less than the 30% claiming this in the 2007 SBS.

3.10 The Department for Business, Innovation and Skills has a further definition of a social enterprise such that it requires the enterprise to consider itself a social enterprise as above and should not pay more than 50 per cent of profit or surplus to owners or shareholders, but also should not generate more than 25 per cent of income from grants and donations and, therefore, should not have less than 75 per cent of turnover from trading. In addition, they have to think themselves a very good fit with the statement 'a business with primarily social or environmental objectives, whose surpluses were principally reinvested for that purpose in the business or community rather than mainly being paid to shareholders and owners'. Under this definition 5% of SMEs could be considered to be social enterprises. This compares to 6% for Scotland in the 2007 SBS.

3.11 The chart below shows SMEs in the 2012 SBS, by type (home-based businesses, (at least) 50% female leadership and ethnic minority led):



Home-based businesses

3.12 56% of SMEs use their home as their main business or work premises.

[10] A social enterprise is a business that has mainly social or environmental aims. This question was not asked to those businesses that pay more than 50% of their profits to shareholders. For the 2012 SBS, 28% are not asked this question but are still included in the base population for Scotland.

Women-led

3.13 43% of SMEs have at least 50% female leadership. The Scottish figure remains unchanged from the SBS 2007.

SME leadership in Scotland by gender, 2012 and 2007		
	SBS 2012	**SBS 2007**
Majority-led by women	21%	22%
Equally-led	22%	21%
At least 50 per cent female leadership (majority-led by women & equally led)	43%	43%
Women in a minority	4%	5%
Entirely male-led	53%	52%

Base (unweighted): 2012 n= 988, 2007 n=1,027

Ethnic minority led

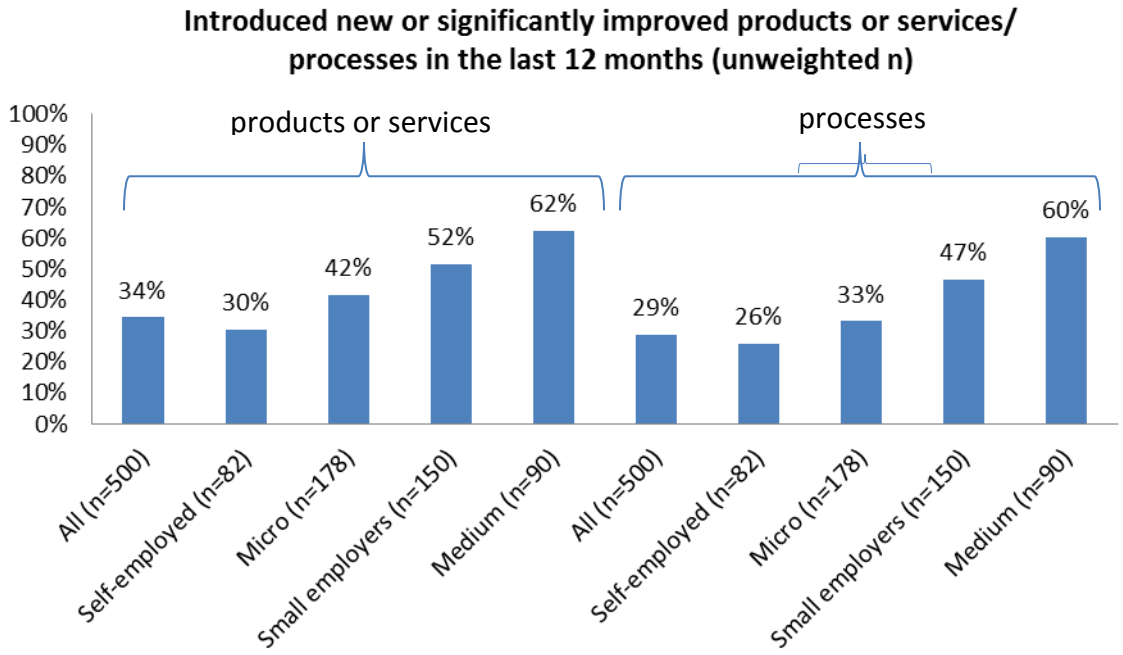
3.14 3% of SMEs were MEG-led, defined as being led by a member of a minority ethnic group or a management team with at least half of its members from minority ethnic groups. The Scottish figure has remained unchanged from the 2007 SBS.

4 Business Practice

Innovation[11]

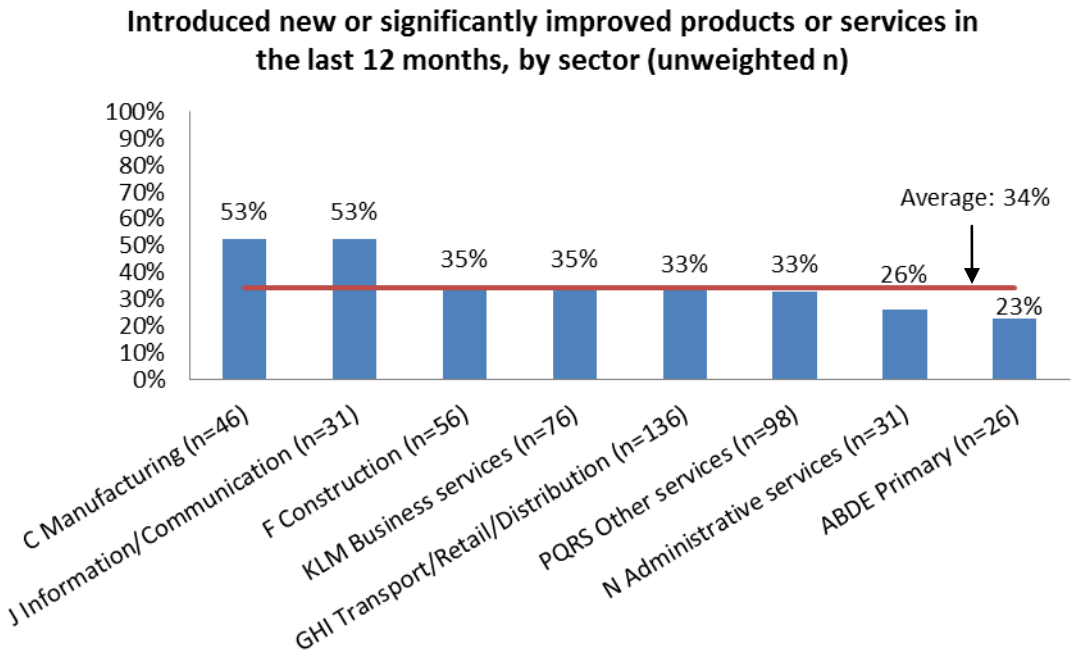
4.1 A third of SMEs had introduced new or significantly improved products or services in the past twelve months. Of these, 84% introduced innovations that were new to the business and 15% that were completely new. In the 2007 SBS, about the same percentage of SMEs (37%) had introduced new or significantly improved products or services in the past twelve months. Of these, 78% introduced innovations that were new to the business and 20% that were completely new.

4.2 The graph below provides a breakdown of innovation undertaken by SMEs in the 2012 SBS by size band:



4.3 The majority of small and medium sized employers had introduced new or significantly improved products or services in the past twelve months (52% and 62% respectively). 30% of the self-employed and 42% of micro businesses had undertaken product or service innovation in the last twelve months.

[11] In the 2012 SBS, approximately half of respondents were selected at random for this section.



4.4 The sectors that were more likely than average to undertake product or service innovation were 'Manufacturing' and 'Information/Communication' (both 53%). Product or service innovation was least likely to be undertaken in the 'Primary' sector (23%).

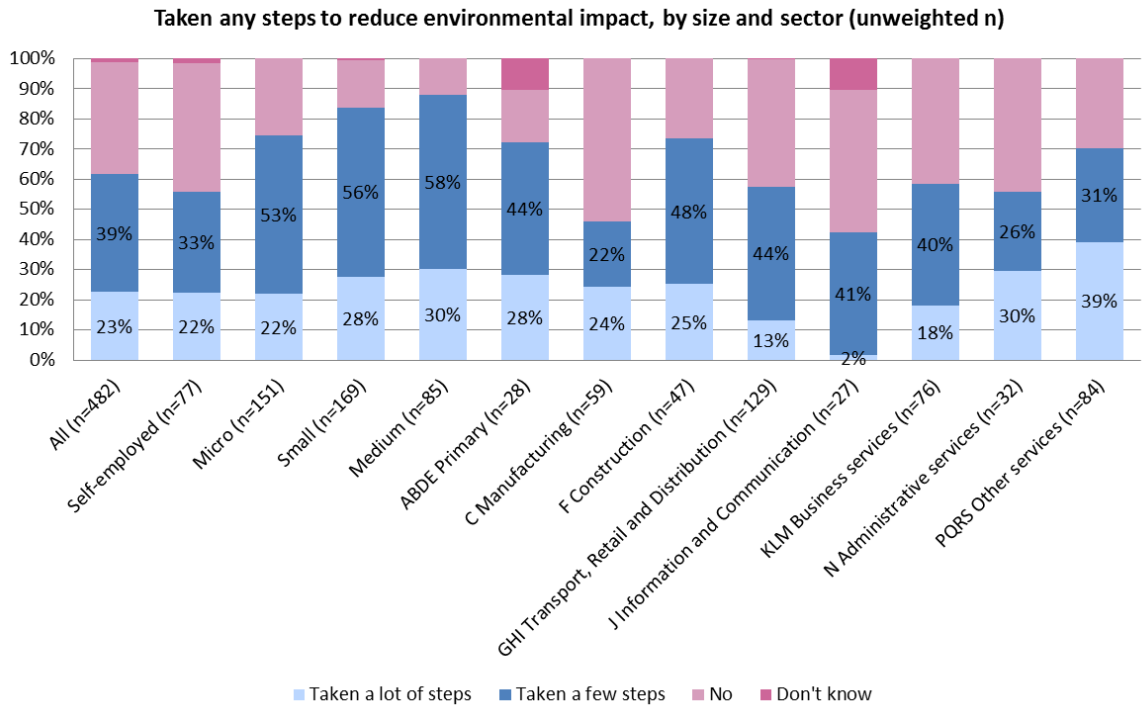
4.5 29% of SMEs had introduced new or significantly improved processes in the past twelve months. Of these, 82% introduced processes that were new to the business and 18% that were completely new. In the 2007 SBS, slightly less SMEs (21%) had introduced new or significantly improved processes in the past twelve months. Of these, 74% introduced processes that were new to the business and 23% that were completely new.

4.6 Medium and small sized employers were more likely to have introduced new or significantly improved processes in the last twelve months (60% and 47% respectively) than micro sized employers and the self-employed (33% and 26% respectively).

4.7 By sector, process innovation was most likely to have occurred in the 'Construction' sector (35%) and least likely in the 'Primary' sector (18%).

Environment[12]

4.8 The chart below shows whether SMEs had taken any steps to reduce their environmental impact in 2012, by size and sector:

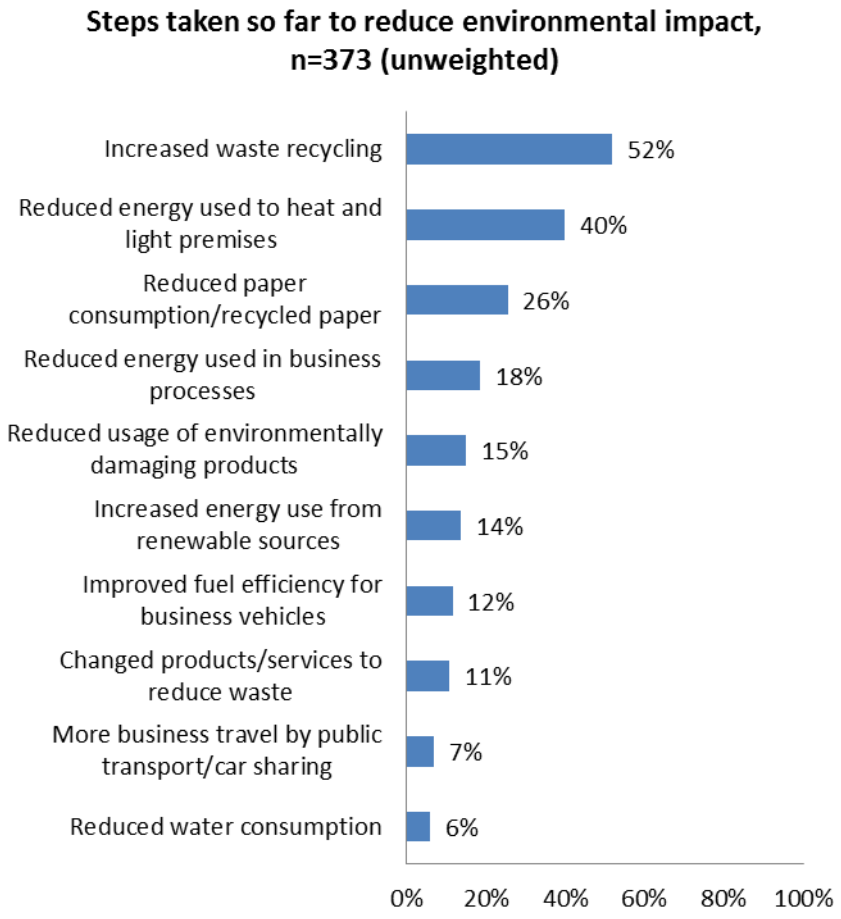


4.9 23% of SMEs had taken 'a lot' of steps and 39% 'a few' steps to reduce their environmental impact. SMEs taking steps to reduce their environmental impact increased by size.

4.10 By sector, 'Other services' were most likely to have taken 'a lot' of steps to reduce their environmental impact (39%) and 'Information and communication' were least likely to have taken 'a lot' of steps (2%).

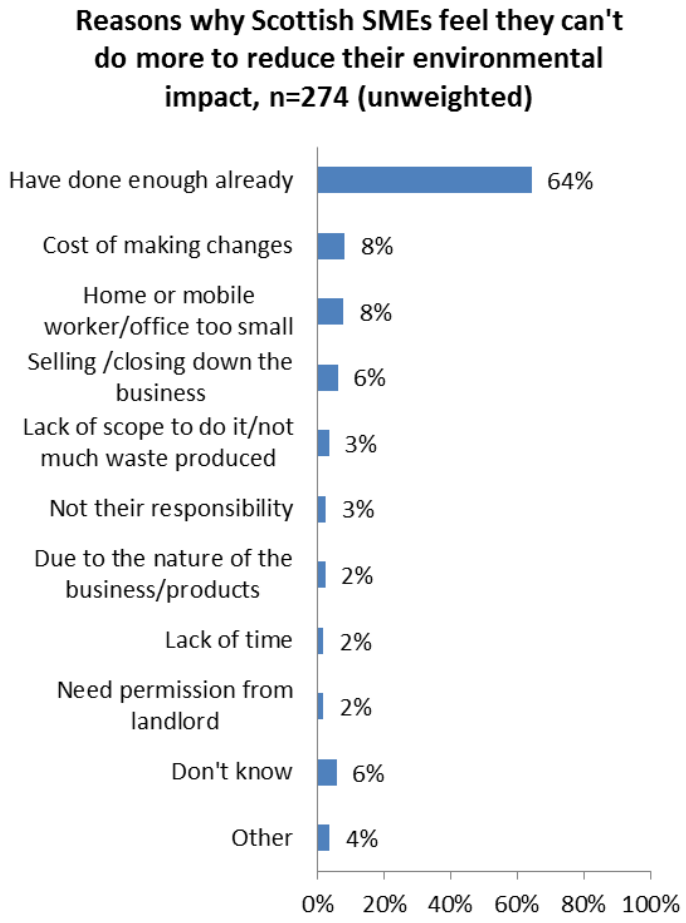
4.11 The chart overleaf shows that, of those who had taken steps to reduce their environmental impact, 52% had increased waste recycling and 40% had reduced energy used to heat and light premises:

[12] In the 2012 SBS, approximately half of respondents were selected at random for this section.



4.12 22% of those having taken steps to reduce their environmental impact had done so to comply with regulations. And of these, 71% had taken additional steps which were above those required by regulations.

4.13 66% of SMEs reported that they would not do more than they do currently to reduce their environmental impact. The chart overleaf shows that the overwhelming majority of those who said this felt they had done enough already to reduce their environmental impact (64%). Only 8% thought that the cost of making changes was prohibitive. Another less cited barrier was being a home or mobile worker or that their office was too small (8% thought this):



Training[13]

4.14 There has been an increase in the percentage of SMEs who had funded or arranged training or development for employees in the past twelve months, between the 2007 SBS (62%) and 2012 SBS (73%). The table below provides a breakdown of training by SMEs in the 2012 SBS, by size band:

Whether businesses have arranged or funded training or development for staff in the past 12 months or not, by size band, 2012				
	Micro (1-9)	**Small (10-49)**	**Medium (50-249)**	**Total**
Yes – formal off the job	17%	27%	13%	18%
Yes - informal on the job	17%	17%	18%	17%
Yes both	36%	48%	51%	38%
No	31%	7%	17%	27%
Don't know	0%	2%	0%	0%

Base (unweighted): Micro n=164, Small n=176, Medium n=81, Total n= 421

[13] In the 2012 SBS, approximately half of respondents were selected at random for this section.

4.15 Medium and small-sized employers were more likely to have funded or arranged training or development for employees in the past twelve months than the micro sized employers (83%, 92% and 69% respectively). This was similar in the 2007 SBS (96%, 86% and 57% for medium, small and micro employers respectively).

4.16 The sectors more likely to have provided training or development were 'Administrative services' (85%) and 'Other services' (84%). The sector least likely was 'Information/ communication' (46%).

4.17 Of those providing training or development, 40% said that most of it was designed to lead to a formal qualification, 16% that some of it was and 43% that none of it was. In the 2007 SBS, 32% said that most of it was designed to lead to a formal qualification, 22% that some of it was and 46% that none of it was.

4.18 Of the 73% of SMEs who had funded or arranged training or development for employees in the past twelve months, 54% said that managers received this training or development. This proportion increased as the size of the business increased (50% for micro, 68% for small and 87% for medium sized employers).

4.19 The main subject/ discipline of training for managers was technical, practical or job-specific skills (87%). The main external provider was a private training consultant or company (72%). The main source of funding for managers was the business itself (88%):

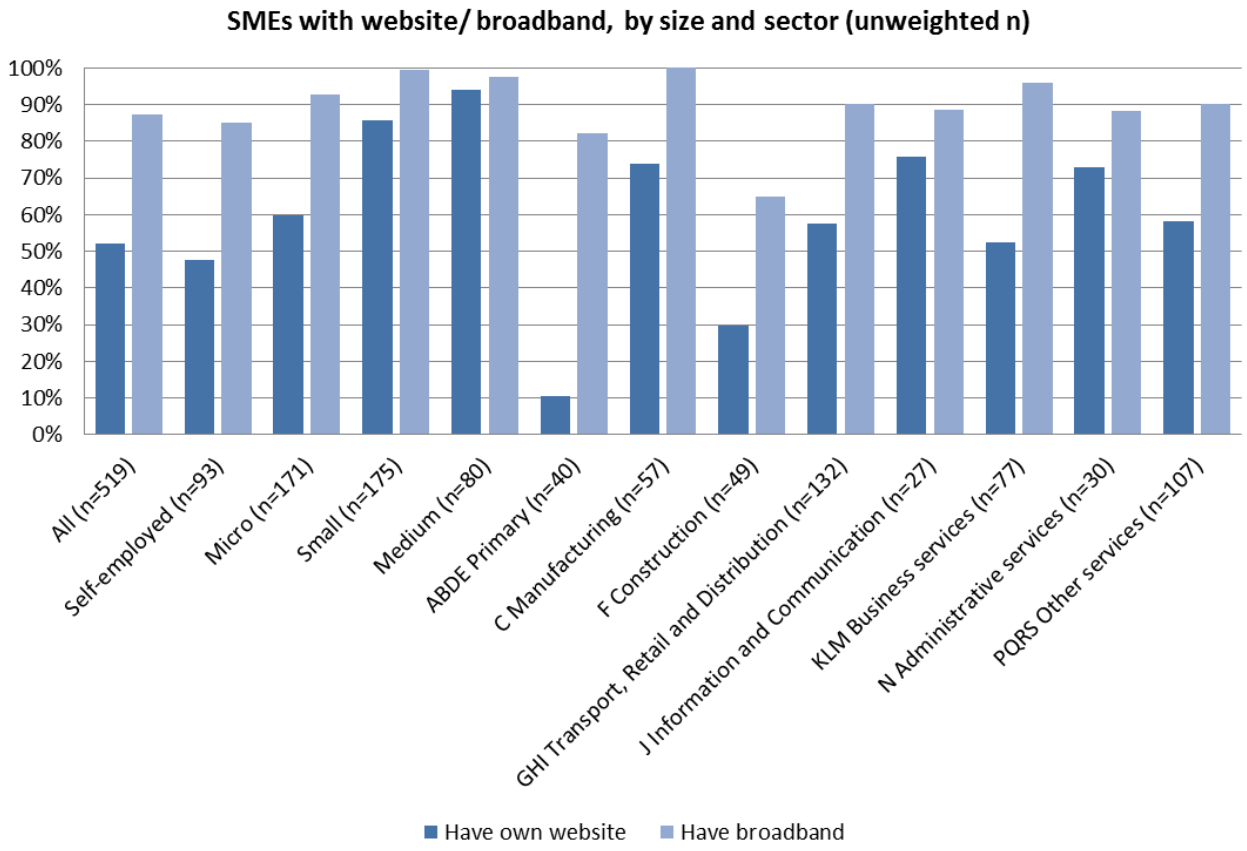
4.20 13% of those not providing training for managers in the twelve months prior to the survey have 'considered' providing some. This was more likely to be the case for larger employers (12% for micro, 20% for small and 30% for medium sized employers).

4.21 The chart overleaf shows that the main reason given for not providing training to managers was 'no need for training/ not a priority' (64%):

Technology[14]

4.22 The chart overleaf shows the percentages of SMEs with their own website or who had broadband, by size and sector:

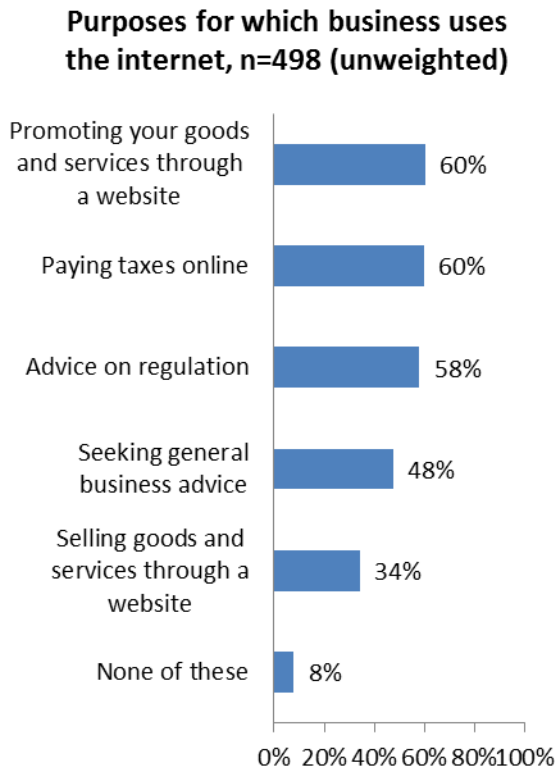
[14] In the 2012 SBS, approximately half of respondents were selected at random for this section.

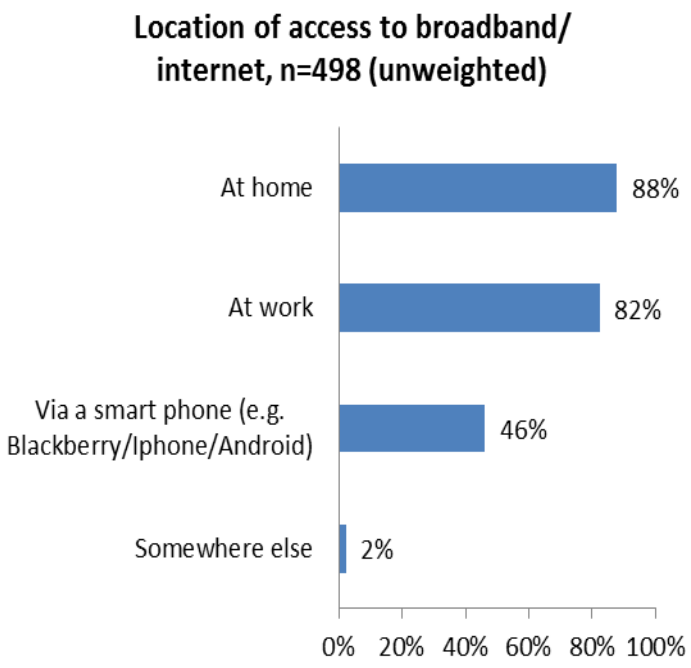


4.23 52% of SMEs had their own website. This increased with business size – for the self-employed 48% had their own website, 60% of micro employers, 86% of small employers and 94% of medium sized employers had a website.

4.24 87% of SMEs reported that they had broadband in 2012. Small and medium sized employers were more likely to have broadband; 99% of small employers and 98% of medium sized employers had broadband. 85% of the self-employed and 93% of micro employers had broadband. Least likely to have broadband were those in the 'Construction' sector (65%).

4.25 The charts overleaf shows the purposes for which SMEs used the internet and where they had broadband/ internet access:





4.26 The two most cited purposes for which the business used the internet were to promote their goods and services through a website or to pay taxes online (both 60%).

4.27 The most commonly reported location of access to broadband or internet for SMEs was at home (88%), followed by 82% with access at work and 46% with access via a smartphone. The most mentioned reason for not having broadband was lack of need (47%, n=25, unweighted).

Public sector contracts

4.28 The majority of SMEs had neither expressed an interest in, or bid for, contracts advertised by the public sector (84%). 7% expressed an interest but did not bid and 9% bid for public contracts in the 12 months prior to the survey, up from the 2007 SBS figures; 2% expressed an interest but did not bid and 6% bid for public contracts.

4.29 Medium and small sized employers were more likely to have expressed interest in or bid for public sector contracts in the last 12 months (35% and 33% respectively) compared to 16% of micro employers and 14% of the self-employed. This pattern was the same in the 2007 SBS; medium and small sized employers were more likely to have expressed interest in or bid

for public sector contracts in the last 12 months (31% and 19% respectively) compared to 10% of micro employers and 8% of the self-employed.

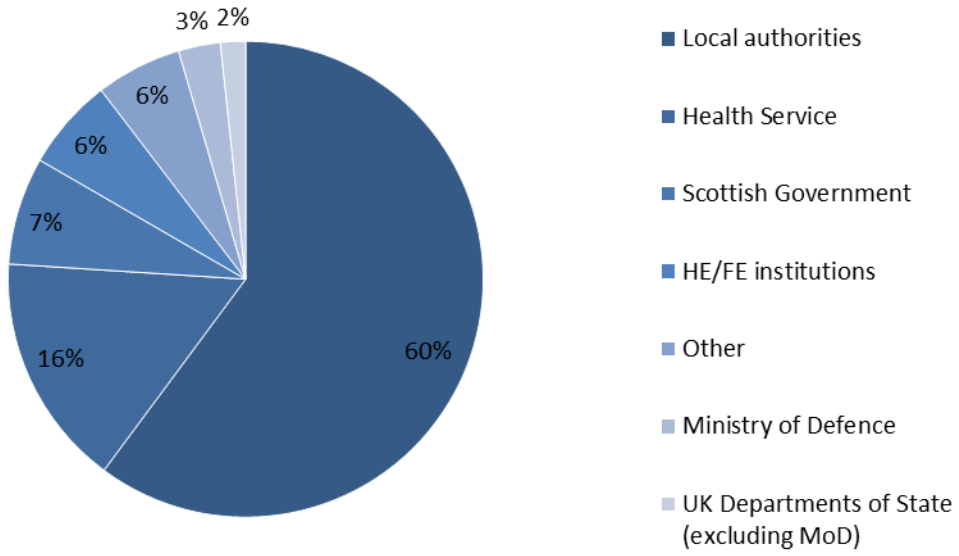
4.30 'Administrative services' and 'Construction' were the sectors most likely to have expressed interest in or bid for public sector contracts in the last 12 months (29% and 26% respectively).

4.31 26% of SMEs had done work for the public sector during the course of the 12 months prior to the survey. Medium and small sized employers were more likely to have done this (47% and 46% respectively) compared to 29% of micro employers and 24% of the self-employed. These figures are generally higher than the 2007 SBS percentages; 22% of SMEs had done work for the public sector during the course of the 12 months prior to the survey. Medium and small sized employers were more likely to have done this (55% and 41% respectively) compared to 27% of micro employers and 19% of the self-employed.

4.32 Businesses in the 'Information/ Communication' sector were most likely to have done work for the public sector in the last 12 months (42%).

4.33 Where business has been carried out for the public sector, it was equally likely to have been as part of a larger supply chain or the business acting in capacity of prime contractor (both 49%).

Main customer within public sector, Scottish SMEs, n=374 (unweighted)



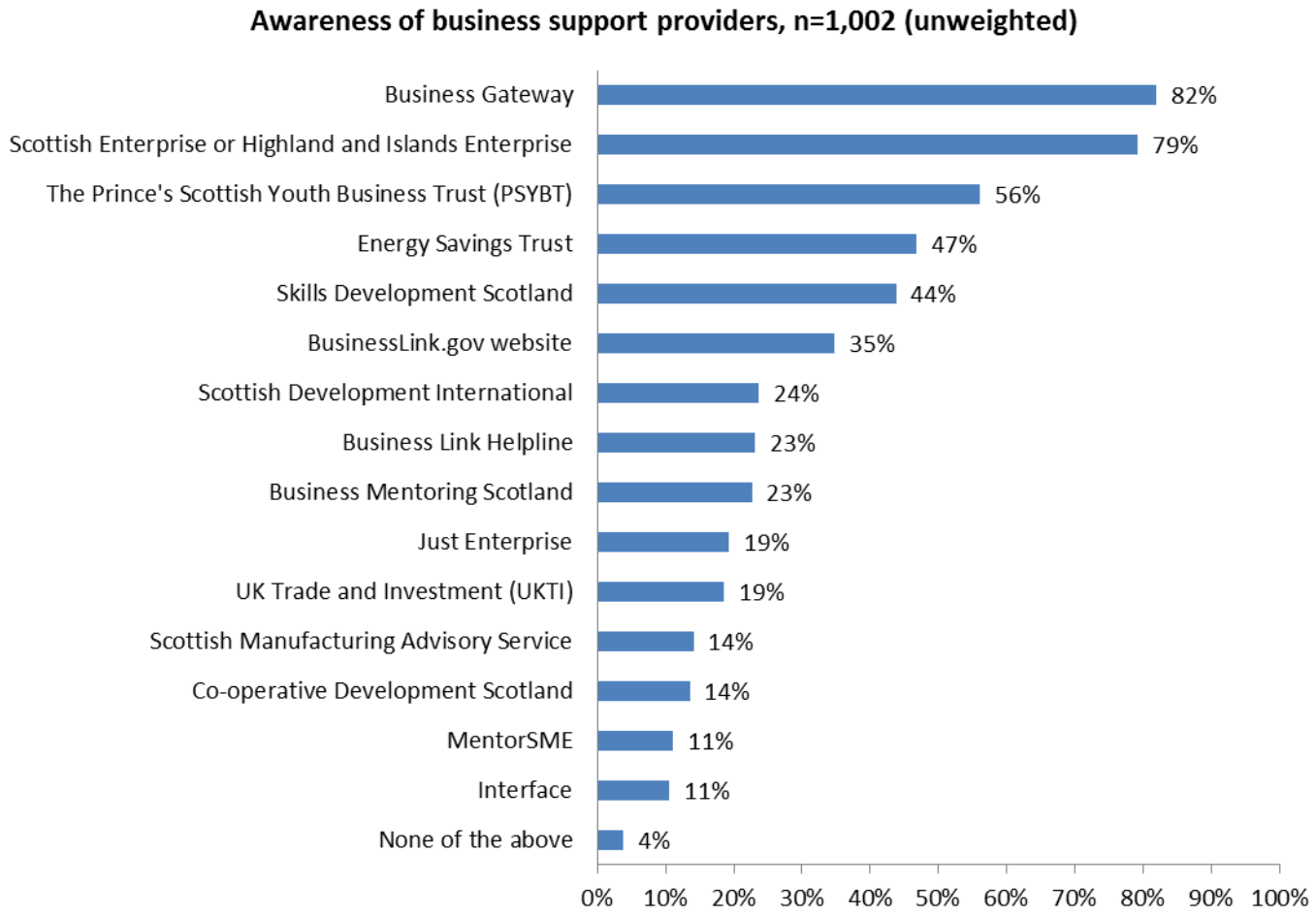
4.34 Where work had been done for the public sector, the most frequent customer was the local authorities (60%). 16% had done work for the

Health Service, and 7% for Scottish Government. In the 2007 SBS, the most frequent customer was also the local authorities (58%), followed by Higher Education/ Further Education (13%) and the Health Service (8%).

4.35 Around a third (37%) of SMEs were aware of the Public Contracts Scotland website, which is used to advertise public sector tender opportunities. Medium and small sized employers were more likely to be aware of this website (54% and 53% respectively) compared to 38% of micro employers and 35% of the self-employed. All SMEs who were aware of the website had used it in the 12 months prior to the survey.

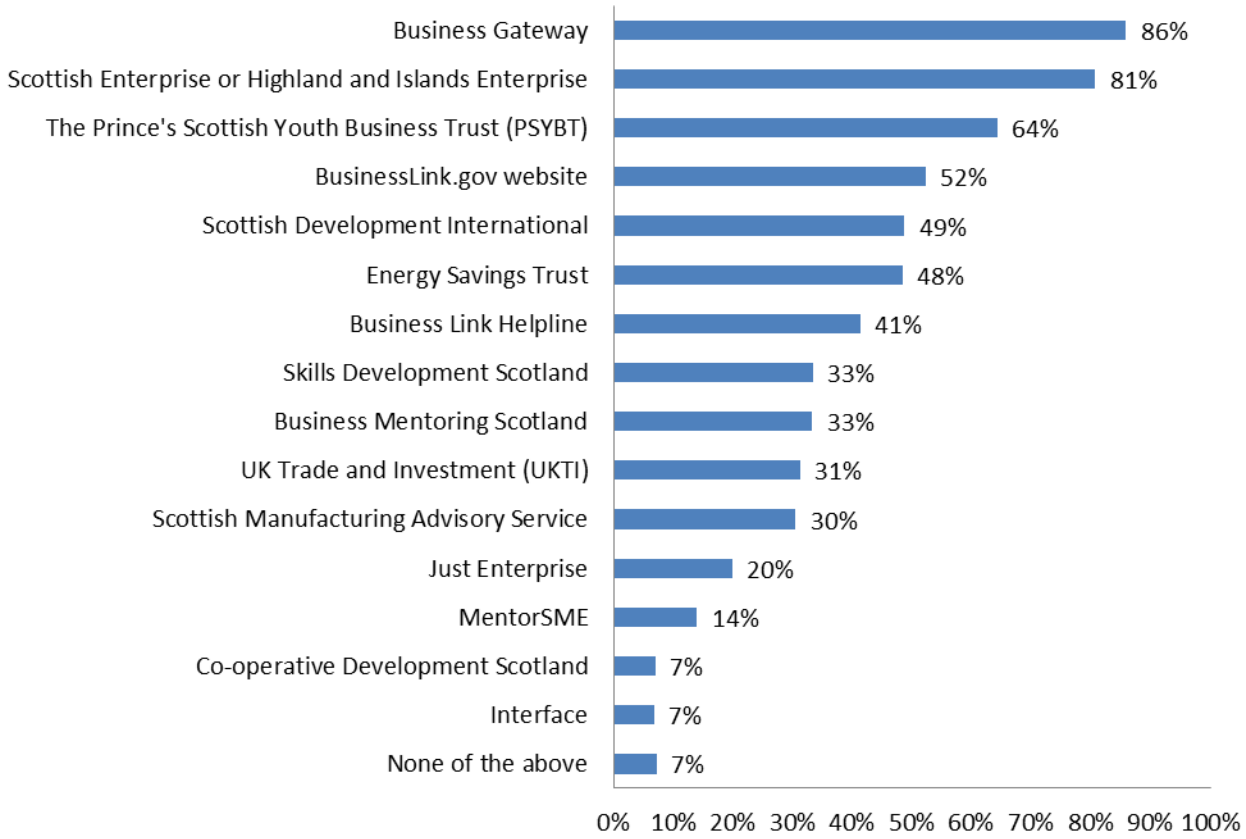
Awareness of business support

4.36 The majority (96%) of SMEs were aware of business support providers. The following chart shows the areas of business support that SMEs were most aware of in the 2012 SBS:



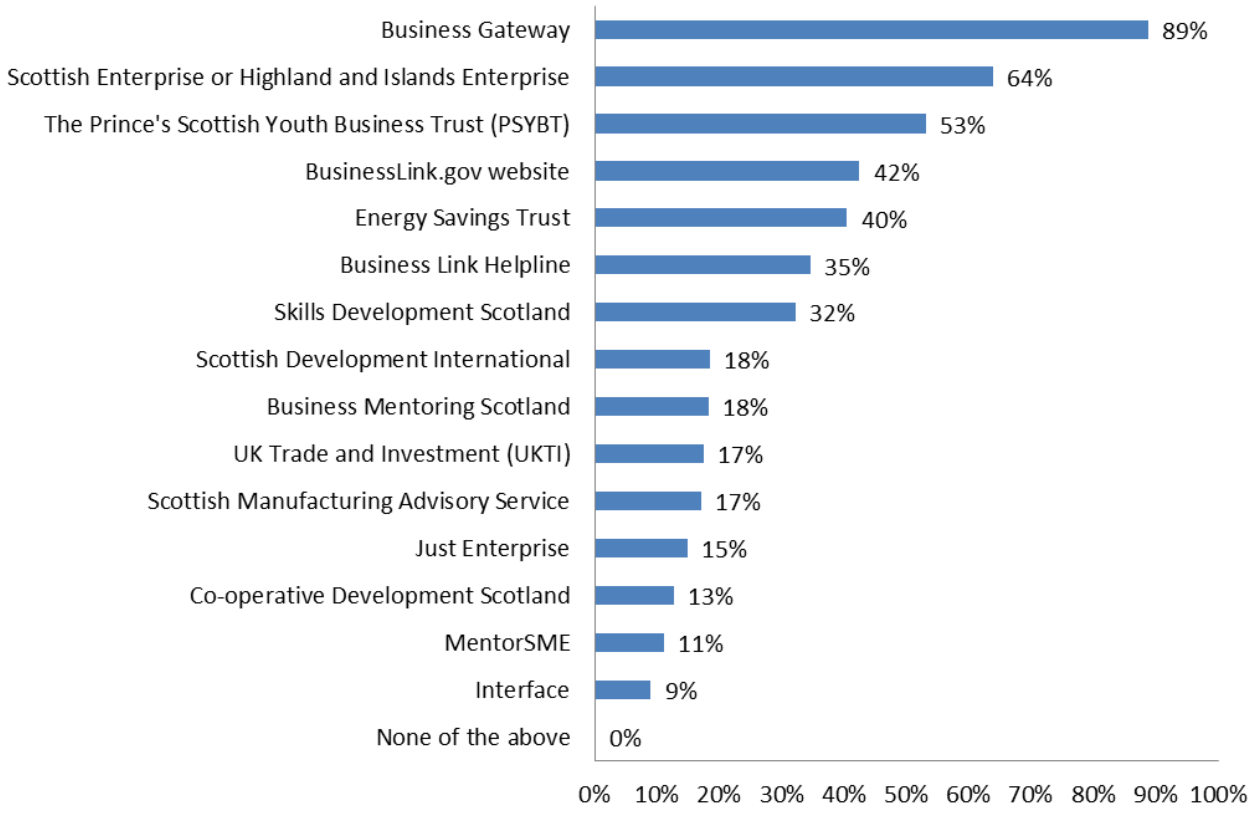
4.37 The majority (93%) of **exporter** SMEs were aware of business support providers. The following chart shows the areas of business support that SMEs **who were exporters** were most aware of in the 2012 SBS:

Awareness of business support providers by exporters, n=208 (unweighted)



4.38 All of the **new-start** SMEs were aware of business support providers. The chart overleaf shows the areas of business support that SMEs **who were new-starts** were most aware of in the 2012 SBS:

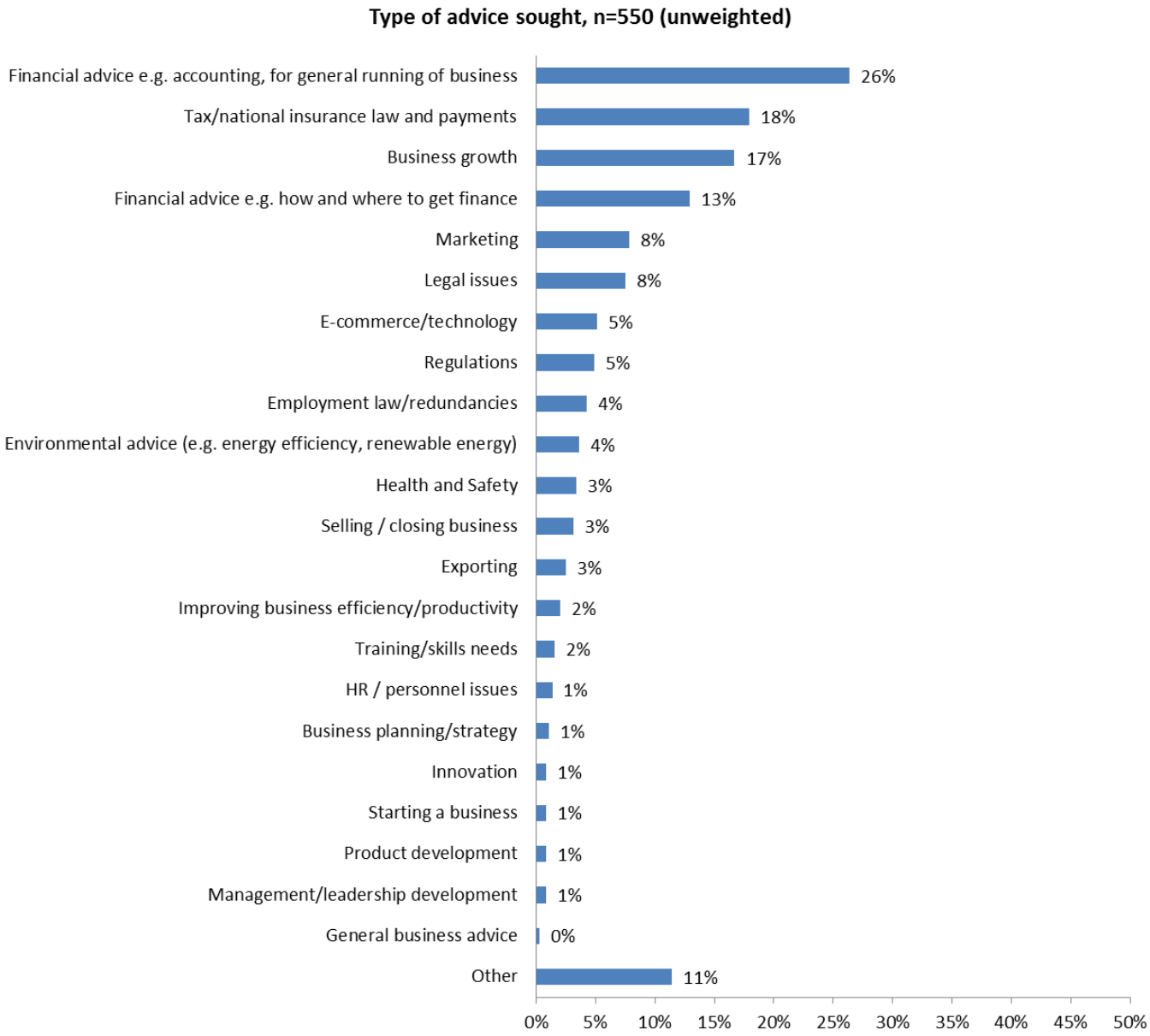
Awareness of business support providers by new-starts, n=119 (unweighted)



4.39 38% of SMEs had sought general advice and information about running their business in the 12 months prior to the survey. Medium and small sized employers were more likely to have sought advice (65% respectively) than micro employers and the self-employed (49% and 32%).

4.40 By sector, businesses in the 'Primary' and 'Transport/Retail/Distribution' sectors were most likely to have sought advice (57% and 50%). Those in the 'Construction' sector were least likely to have sought advice (19%).

4.41 The chart overleaf shows the type of information sought in the year prior to the survey. The most common information sought was financial advice, e.g. accounting, for general running of the business (26%):



4.42 In the 12 months prior to the survey, 5% of SMEs had used a business mentor, i.e. somebody with business expertise who provides ongoing support with the development and running of their business.

5 Business Performance and Outlook

5.1 The survey on small and medium sized enterprises in Scotland captures the opinions of businesses on their performance and outlook over the past 12 months and looking forward. Overall economic conditions remained poor in 2012, characterised by with weak demand and uncertainty. In this survey, businesses were asked to report on their perceptions regarding changes in employment patterns and turnover, obstacles faced by businesses, and on growth expectations.

Changes to employment levels

5.2 Whilst the majority of SMEs (62%) managed to retain employment levels over the past 12 months, nearly a quarter of all businesses (24%) reported having fewer staff now than they did 12 months ago. Only 14% of businesses reported employment growth. This compares against a buoyant economy in 2007, where only 12% of employers reduced staff numbers over the previous 12 month period, and where 19% of businesses reported increasing staff numbers.

5.3 Looking at employers, and by size of business, the smallest employer group were more likely to reduce employment numbers than bigger businesses, with micro businesses driving the overall reduction in employment levels. 26% of micro businesses downsized over the past 12 months in 2012. On the other hand, small and medium sized enterprises were more likely to be reporting employment growth (27% and 37% respectively) than the micro businesses (11%) with the proportion of growth businesses increasing with size.

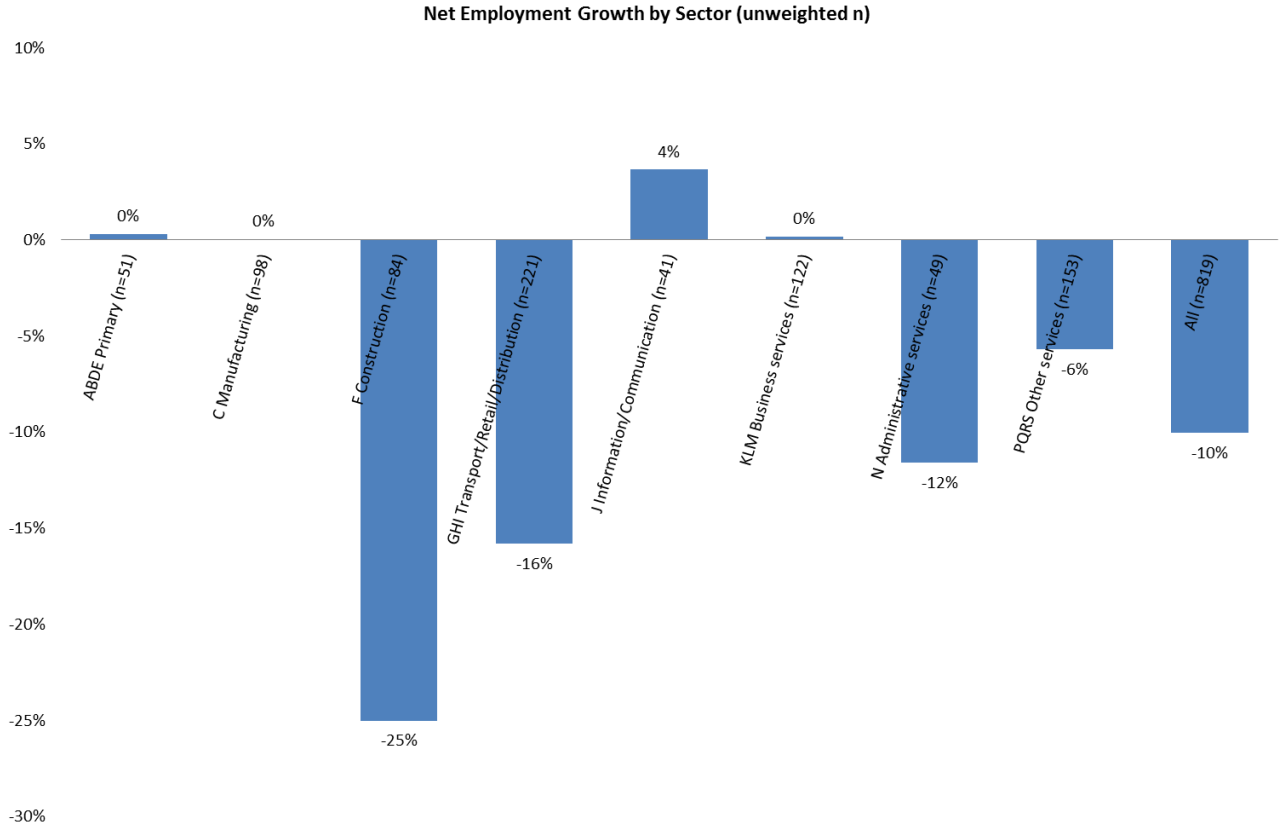
5.4 The table below shows the **net balance of employment growth businesses by size,** where the net balance growth is described as the overall proportion of businesses which increased employment minus the proportion of businesses which decreased employment levels compared to 12 months ago. A negative figure therefore, indicates that more businesses within that category reduced employment numbers, than increased it.

Numbers Employed Compared to 12 months Ago				
	Employ More People Now	**Employ the Same Numbers**	**Employ Fewer People Now**	**Net balance - growth (% points)**
SME Employers	14%	62%	24%	-10%
Micro	11%	63%	26%	-15%
Small	27%	57%	16%	11%
Medium	37%	48%	14%	23%

Base (unweighted): Employers trading for more than one year: All SME n=819; Micro n=324; Small n=329; Medium n=166

5.5 By sector, Construction businesses were most likely to report a reduction in staffing levels (34% stating they had fewer employees than 12 months ago), followed by Administrative services (28%) and Transport/Retail/Distribution sector (26%). On the other hand, sectors most likely to report employment growth compared to 12 months ago were Manufacturing (20%), Business Services (19%) and Other Services (19%).

5.6 Reporting on net balance of employment growth by sector shows the overall direction of employment change reported by businesses within those sectors. This can be seen from the chart below. A negative figure indicates that more employers within that sector reported a fall in employment numbers than employment growth. A positive balance indicates that more businesses within that sector reported employment growth than those reporting a reduction in employment. Overall, businesses in five sectors reported a negative balance indicating that a greater proportion of employers had fewer staff compared to 12 months ago.



	Primary	Manufacturing	Construction	Transport/Retail/ Distribution	Information/ Communication	Business services	Administrative services	Other services	All
Growth in Employment	12%	20%	9%	11%	18%	19%	16%	19%	14%
Reduction in Employment	12%	20%	34%	26%	15%	19%	28%	25%	24%

5.7 Nevertheless, **expectations of employment growth over the next 12 months** appear to be fairly optimistic, with 25% of all businesses stating that they expect to take on more staff than they currently employ. 57% of businesses expect to retain existing levels of staffing, with 17% of businesses expecting to reduce employment numbers. This compares against 2007 where only 21% expected to increase employment, 63% expected levels to remain the same and 15% thought they would employ fewer staff in the next 12 months.

Changes to turnover

5.8 28% of all SMEs in Scotland experienced an increase in turnover (value of sales) over the past 12 months. However, 33% of all SMEs reported a reduction in turnover, while 37% stated that value of sales had stayed the same.

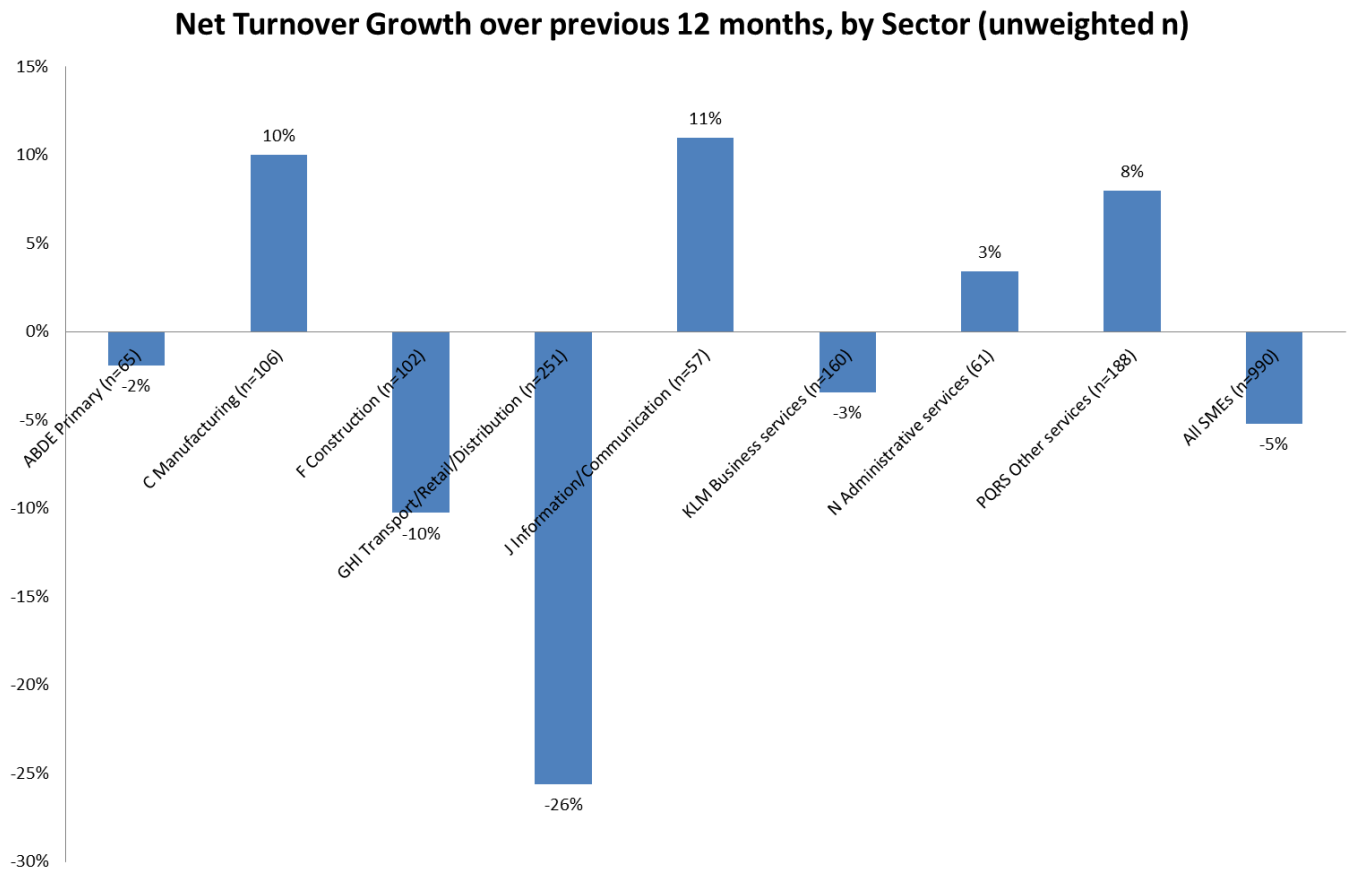
5.9 In terms of size, smaller businesses, that is, those with fewer than 10 or no employees were much more likely to experience a fall in turnover than larger businesses. Around a third of self-employed (33%) and micro businesses (34%) experienced a decrease in turnover during the previous 12 months compared to 24% for small and 16% for medium-sized enterprises. The likelihood of experiencing a rise in turnover increases with business size. The majority of medium sized enterprises saw an increase in turnover (51%) or reported that turnover levels had stayed the same (33%).

Changes to Turnover compared to 12 months previously				
	Increase in Turnover	**No Change to Turnover**	**Decrease in Turnover**	**Net balance Turnover (% points)**
All SMEs	28%	37%	33%	-5%
Self Employed	25%	39%	33%	-8%
Micro	33%	31%	34%	-1%
Small	37%	36%	24%	13%
Medium	51%	33%	16%	35%

Base (unweighted): Businesses trading for more than a year; All SMEs n= 990; Self Employed n=166; Micro n=325, Small n=331; Medium n=168

Note: Where columns do not sum to 100%, this is because businesses either reported that the 'did not know' or were 'unwilling to say'.

5.10 The sectors in which the highest percentage of businesses experienced a decrease in turnover were in Transport/Retail/Distribution (47%), Administrative Services (43%), and Construction (35%). Sectors where a higher proportion of businesses reported an increase in turnover were Administrative Services (47%), Information/Communication (37%) and Manufacturing (36%). The chart below shows the overall direction of turnover change reported by businesses within each sector, where an overall positive figure indicates that a greater proportion of businesses were reporting an increase in turnover compared to the proportion reporting a decrease, and a negative balance shows a greater proportion of businesses within that sector reporting a decrease in turnover.



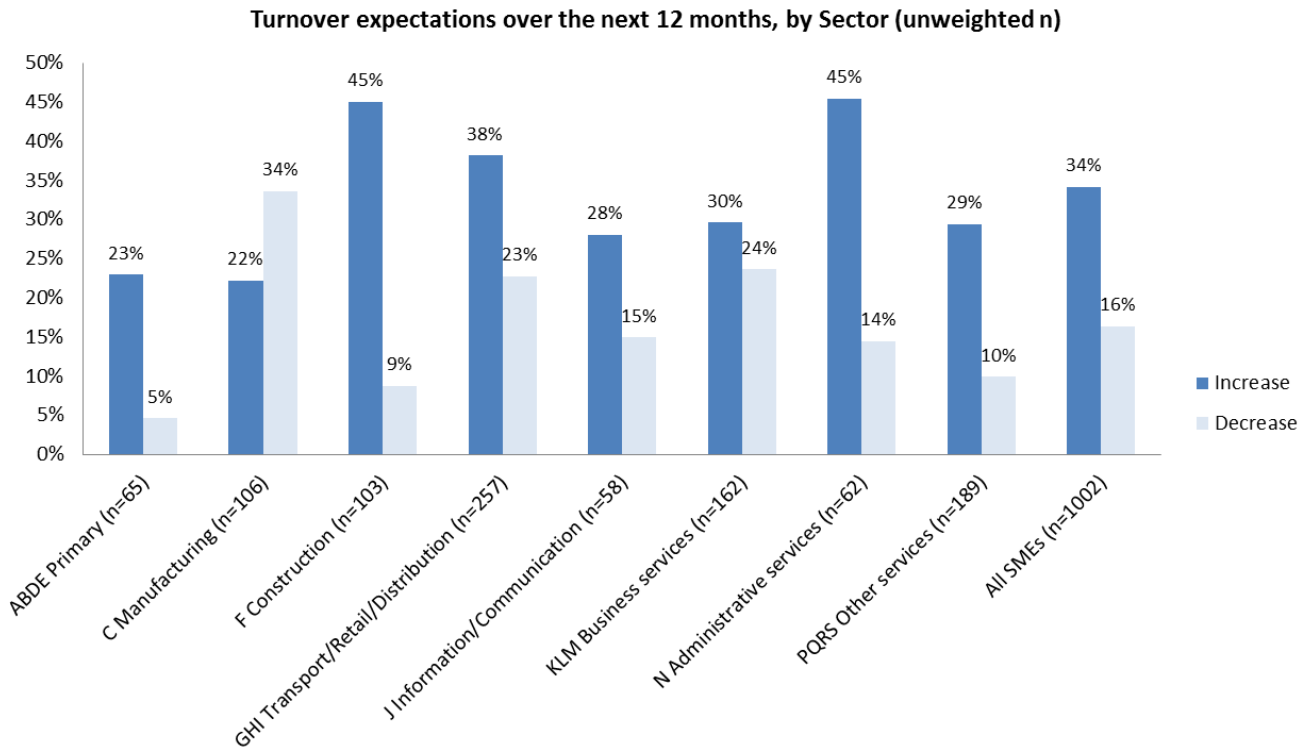
	Primary	Manufacturing	Construction	Transport/Retail/ Distribution	Information/ Communication	Business services	Administrative services	Other services
Increase in Turnover	29%	36%	25%	22%	37%	24%	47%	29%
Decrease in Turnover	31%	26%	35%	47%	26%	27%	43%	21%

5.11 Businesses were slightly more optimistic about changes to turnover in the next 12 months than they had experienced in the previous 12 months, with a greater proportion expecting turnover to increase or stay the same. 34% reported that they expected to see an increase, with only 16% expecting to see a decrease and 45% stating that they expected turnover levels to stay the same. Expectations about turnover growth are linked to size of business, with larger businesses having a greater tendency to be more optimistic about future turnover expectations.

Turnover expectations over the next 12 months			
	Increase in Turnover	**No Change to Turnover**	**Decrease in Turnover**
All SMEs	34%	45%	16%
Self Employed	33%	47%	16%
Micro	37%	40%	19%
Small	46%	37%	12%
Medium	51%	34%	13%

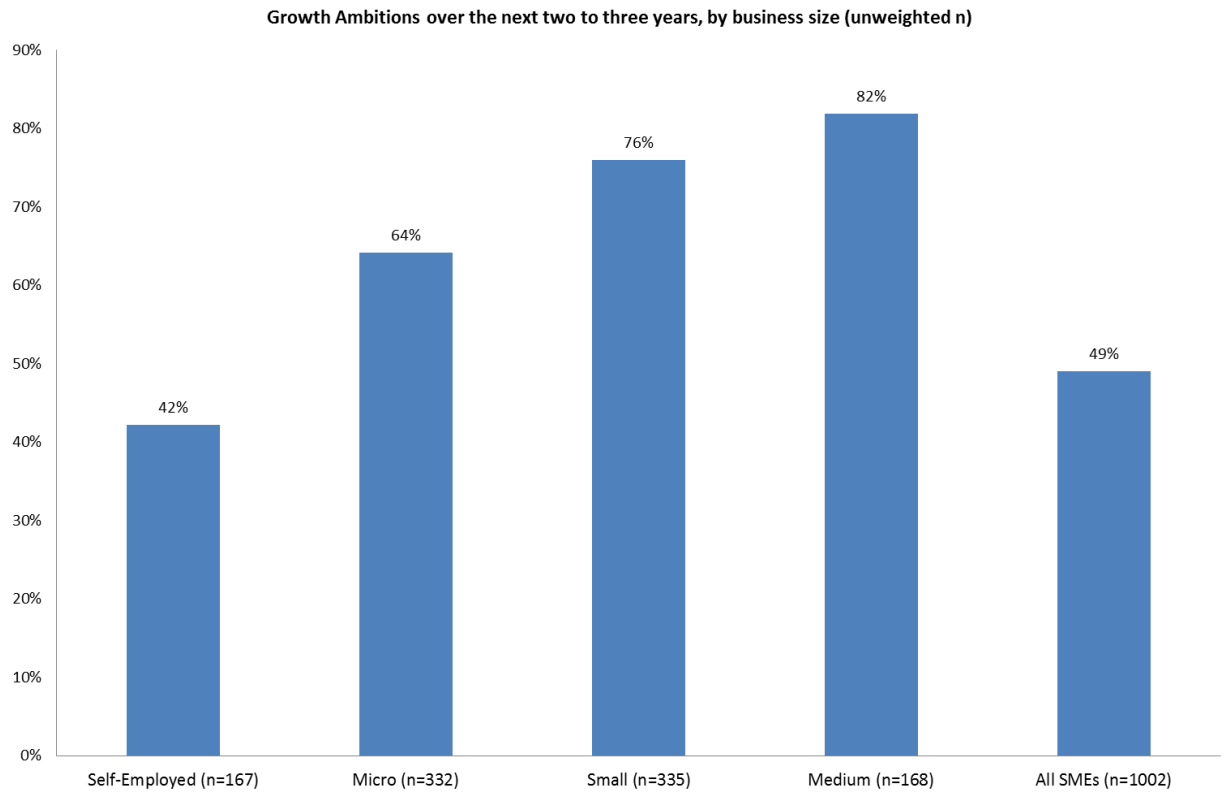
Base (unweighted): All SMEs n= 1002; Self-Employed n=167; Micro n=332; Small n=335; Medium n=168
Note: Where columns do not sum to 100%, this is because businesses either reported that the 'did not know' or were 'unwilling to say'.

5.12 Among sectors the proportion of businesses expecting their turnover to increase was higher than the national average for Administrative Services (45%), Construction (45%) and Transport/Retail/Distribution (38%). Manufacturing businesses (34%) were far more likely to report that they expected to see a decrease in turnover than any other sector.



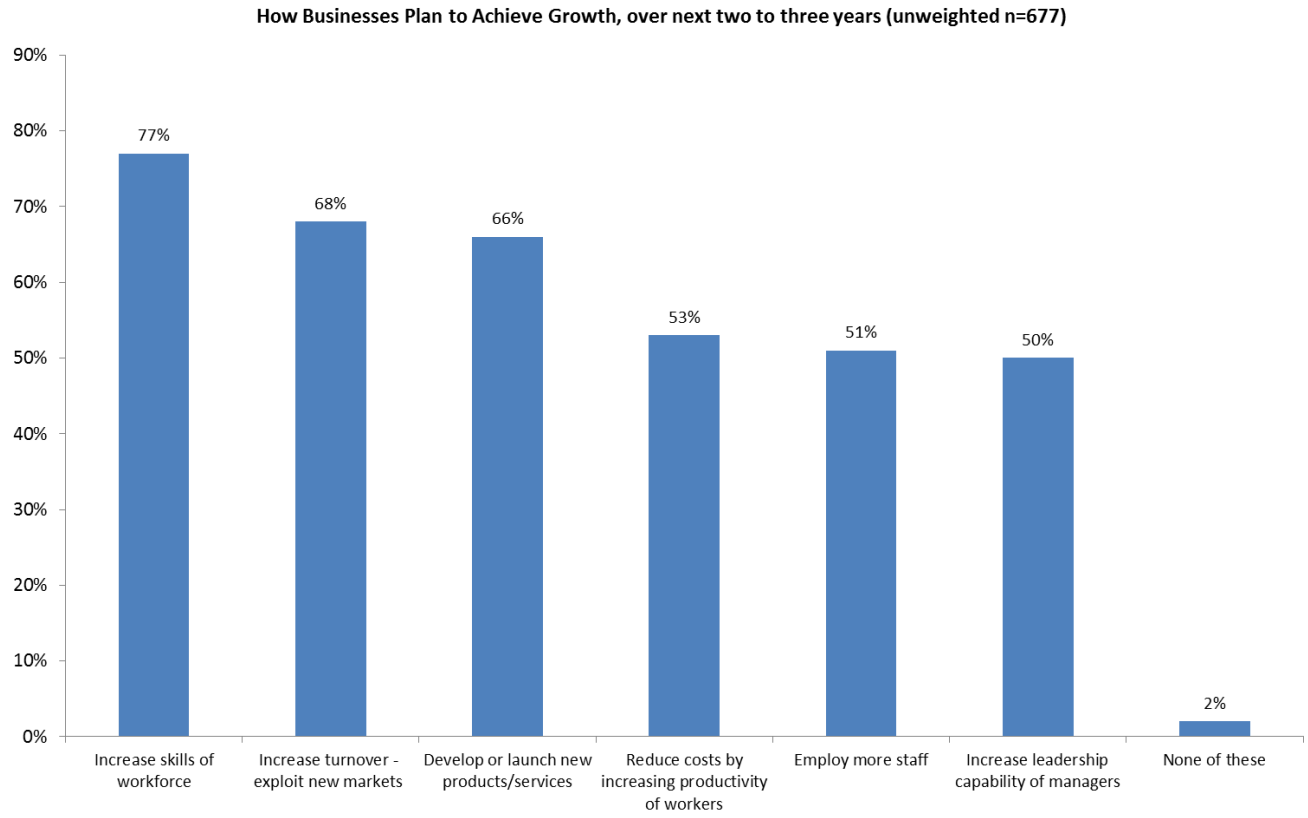
Growth ambitions

5.13 Just over half of all businesses (51%) reported that they have no plans to grow their business over the next two to three years. However, this is largely driven by 58% of self-employed businesses which have no ambition to grow over the next two to three years. Employers were considerably more likely to state that they had ambitions for growth – with 64% of micro businesses stating that they aim to grow, compared to 76% of small businesses and 82% of medium sized businesses. Overall, 66% of all SME employers (i.e. excluding self-employed) had plans to grow.



5.14 Of those businesses which had plans to grow, just over a quarter (26%) of all businesses said it was likely, or very likely that they would seek external finance to grow their business, with the largest proportion of small businesses (43%) stating that they would need finance to grow (compared with 20% of self-employed businesses, 34% of micro businesses and 39% of medium-sized businesses).

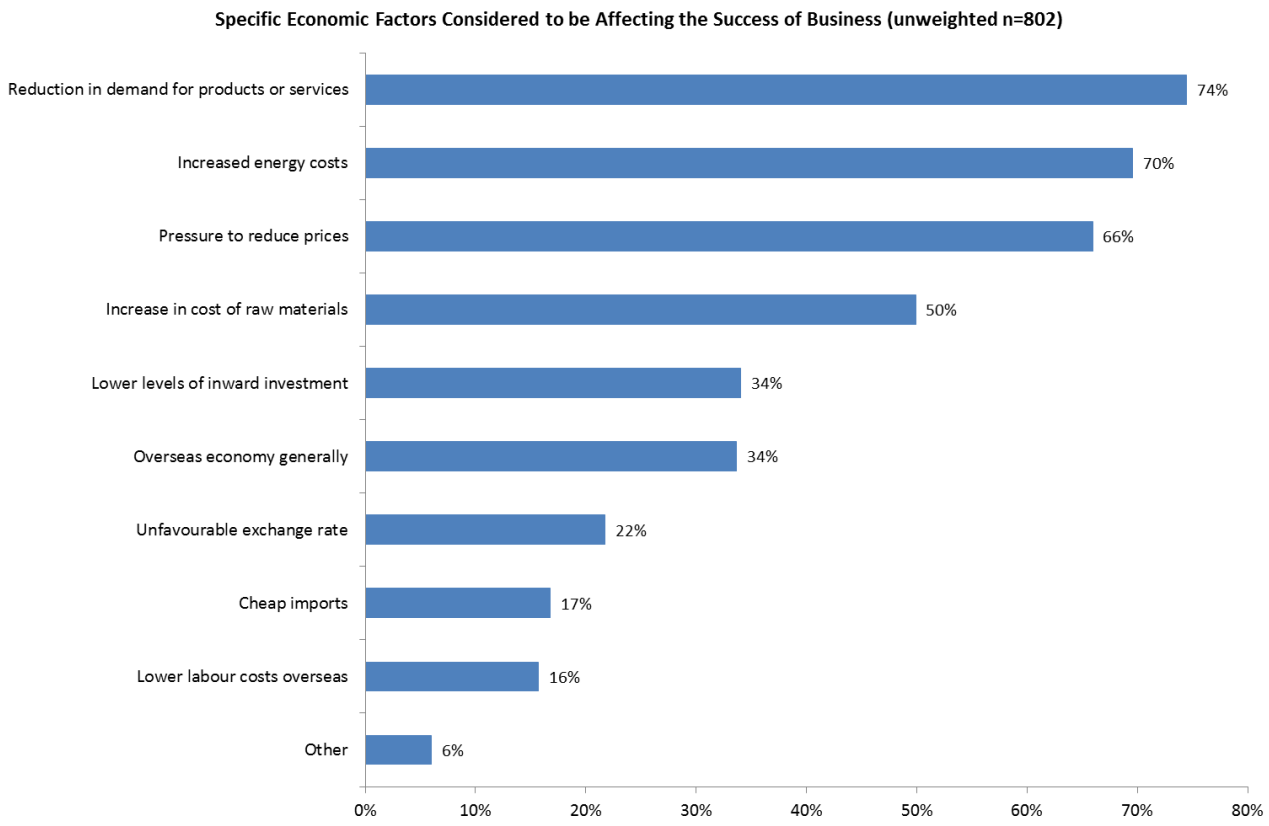
5.15 When asked how plans for business growth would be achieved over the next two to three years, the greatest proportion of businesses with growth ambition stated that they planned to increase the skills of their workforce (77%), or increase turnover by exploiting new markets (68%), followed by 66% of growth ambition businesses reporting that they would be developing and launching new products or services. Only 2% of businesses with growth ambition would not undertake any of the following activities shown in the chart overleaf:



Obstacles to success

5.16 Businesses were asked which factors (from a defined list) they considered to be an obstacle to the success of their business. Most cited a wide range of factors but the most commonly noted factor was considered to be the economy in 2012, with 78% of all businesses reporting this to be an obstacle to their success. Similar proportions of exporting businesses (77%) and start-ups (81%) reported the economy to be one of the factors affecting their success.

5.17 Of those businesses that considered the economy to be an obstacle to their success, the most frequently reported issue specifically relating to the economy was the reduction in demand for products or services, where just under three quarters (74%) of all businesses said this to be the case. Increased energy costs (70%) and the pressure to reduce prices of goods and services (66%) also featured as common economy specific issues among those enterprises. The chart below shows a breakdown of specific economic factors that businesses considered as an ‘economic’ obstacle.



5.18 Where cash flow issues were considered to be an obstacle (43% of all businesses citing this to be the case), much of the specific issues around this were around fluctuating income (83%) and problems with late payments from both customers and other businesses (61%) rather than any issues with banking.

5.19 When enterprises were asked to define which of the listed obstacles was the **single biggest obstacle to success**, the greatest proportion of businesses stated this to be the economy (46%). This was followed by regulation (10%) and taxation (VAT, PAYE, National Insurance and Business rates) for which 9% of all SME businesses reported this to be the single biggest obstacle to their success. The table below shows that the top six identified obstacles accounted for 81% of all responses for the single biggest obstacle. The perceptions of exporting and start-up businesses were broadly similar to those reported by all businesses.

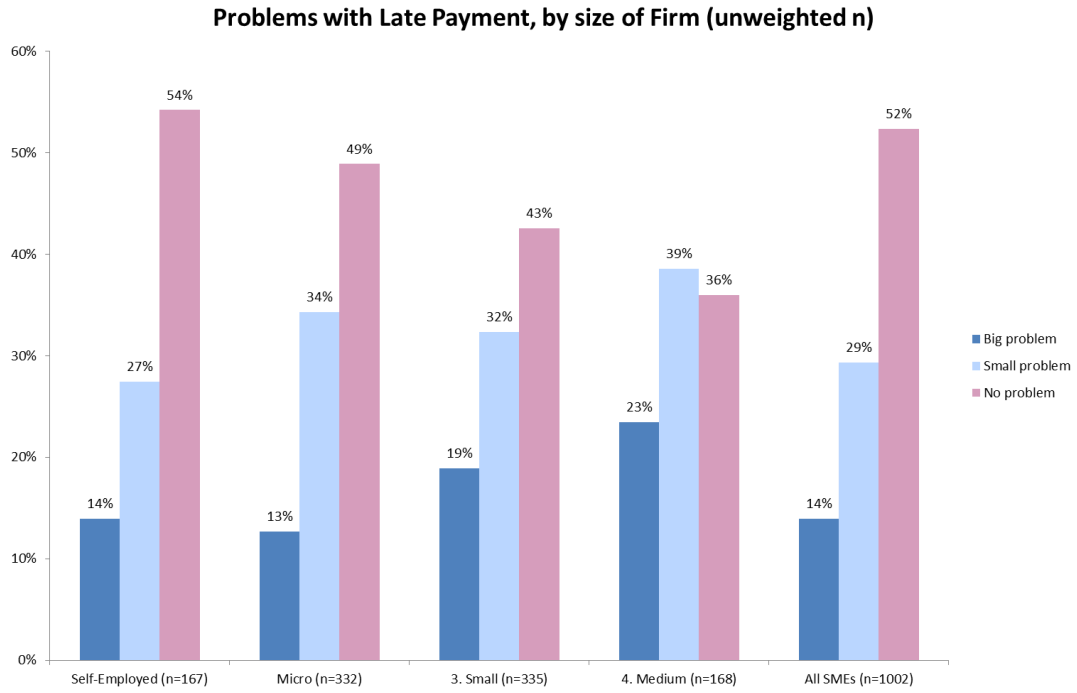
Factors which Businesses reported as being the Single Biggest Obstacle to their Success, in 2012			
	All SMEs	**Exporters**	**Start-Ups**
The Economy	46%	38%	45%
Regulations	10%	9%	6%
Taxation (VAT, PAYE, NI, Rates)	9%	11%	6%
Competition in the Market	7%	8%	8%
Obtaining Finance	3%	2%	8%
Cash Flow	7%	5%	12%
Other Factors	12%	24%	10%
No Obstacles	6%	2%	3%

Base (unweighted): All SMEs n= 1002, Exporters n=208, Start-Ups n=119

Late payment

5.20 Late payment was considered to be a problem for 43% of all SMEs. 14% of all businesses reported this as a 'big problem' compared to 29% of businesses stating that this was a 'small problem'. 52% of businesses said they had no problem with late payment, while a further 4% claimed it not to be relevant to their business.

5.21 Larger businesses were more likely to experience late payment as a problem than businesses with fewer employees. 62% of medium sized enterprises reported this to be a problem (either big or small). This compares against 41% of self-employed businesses reporting this to be the case.



Small Business Survey Scotland 2012

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The Scottish Government