

Small Business Survey Scotland 2015

Office of the Chief Economic Adviser

Small Business Survey Scotland 2015

71%



Family-owned

12%



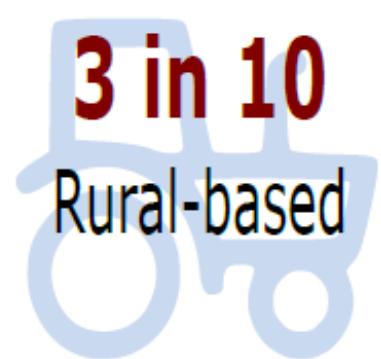
Exporters

24%



Home-based

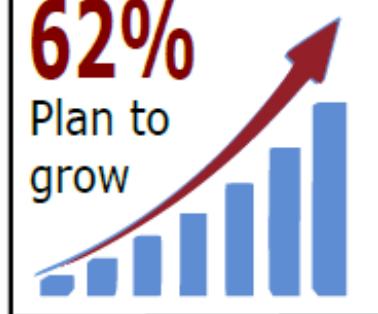
3 in 10



Rural-based

62%

Plan to grow



4 in 10



Innovators

19%

Applied for
finance



1 in 2



Social media profile

Micro



17%

Small



33%

Medium



55%

Increased **employment**
over the last 12 months

31%



41%



46%



Micro Small Medium

Increased **turnover**
over the last 12 months

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1. Introduction and Key Results

Introduction

- 1.1. This publication reports on the findings of the Small Business Survey (SBS) 2015 for Scotland. It outlines the key characteristics of small and medium-sized enterprises (SMEs) in Scotland and provides a picture of the perceptions of SME businesses on issues including innovation, business support and obstacles to business success.
- 1.2. As at March 2015, there were an estimated 359,050 SMEs in Scotland, of which those with employees represented 29 per cent, or just over 105,000¹. SMEs with employees accounted for 42 per cent of total Scottish employment and 35 per cent of turnover.
- 1.3. The survey is part of a UK-wide large-scale telephone survey commissioned by the Department of Business, Innovation and Skills (BIS) and was conducted between July 2015 and January 2016.
- 1.4. The survey sample was stratified by business size and sector (SIC 2007). The sample breakdown for Scotland is shown in Figure 1 below:

Figure 1: Sample Breakdown, Small Business Survey 2015, Scotland				
Sector (SIC 2007)	Micro (1-9)	Small (10-49)	Medium (50-249)	Total
ABDE Primary²	13	8	5	26
C Manufacturing	18	35	24	77
F Construction	21	30	12	63
GHI Transport/Retail/Distribution³	113	105	46	264
J Information and communication	17	10	7	34
KLM Business services⁴	60	38	23	121
N Administrative services	19	27	18	64
PQRS Other services⁵	48	59	64	171
Total	309	312	199	820

- 1.5. The data have been weighted to ensure that the results are representative of the overall Scottish SME population.

¹ Registered and unregistered businesses, *Businesses in Scotland 2015*.

² 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).

³ Wholesale and retail trade (G); repair of motor vehicles and motorcycles (H); Transportation and storage; and Accommodation and food service activities (I).

⁴ Financial and insurance activities (K); Real estate activities (L); and Professional, scientific and technical activities (M).

⁵ Education (P); Human health and social work activities (Q); Arts, entertainment and recreation (R); and Other service activities (S).

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- 1.6. It should be noted that the findings from the Small Business Survey presented in this report relate to **SMEs with employees only** - enterprises with no employees have been excluded from the dataset on which this report was based. This procedure is consistent with the reporting of the 2014 Scottish Government Small Business Survey. However, in 2012, the publication included all SMEs.
 - 1.7. It should be noted that 2015 questionnaire contains a substantial number of alterations (additions and deletions of questions) compared to the 2014 questionnaire. These changes may affect the reliability of comparative analyses against the 2014 Small Business Survey. Therefore, comparisons are only made when it is assured that data has not been affected by such variations. Some sections of the 2014 report have been removed in order to focus on more topical areas. Therefore, the structure of the SBS 2015 differs to the SBS 2014.

Key Results

Business Demographics

- 71 per cent of SMEs were **family-owned**.
- The proportion of SMEs that stated that they **exported** goods or services **outside of the UK** in 2015 has remained steady since the 2014 survey, at 12 per cent.
- 69 per cent of SMEs were based within an **urban** area, while 31 per cent were based within a **rural** area. Micro businesses were more likely to be located in a rural area, while medium-sized businesses were more likely to be located in an urban area.
- 24 per cent of SMEs were **home-based**, not having a separate business premises to their home address.
- 20 per cent of SMEs were **majority-led by women**.
- Two per cent of SMEs were **Minority Ethnic Group (MEG)-led**.

Business Practice

- 41 per cent of SMEs introduced **new** or significantly improved **goods or services** over the past three years and 23 per cent introduced a new or significantly improved process.
- There has been an increase in the percentage of SMEs which had arranged or funded **training or development** for employees in the past 12 months, between the 2014 (51 per cent) and 2015 surveys (61 per cent).
- 94 per cent of SMEs reported that they had access to the **internet** for work purposes and 68 per cent had their own **website**.
- 53 per cent of SMEs in Scotland had their own **social media profile**.
- The most common reason (20 per cent of SMEs) for **seeking advice** was legal issues, which replaced business growth in 2014.
- 75 per cent of SMEs in Scotland paid all their employees aged 18 or over (excluding volunteers, apprentices and interns) at or above £7.85 per hour, the **living wage** defined by the Living Wage Foundation at the time of the survey.

Access to Finance

- Only seven per cent of SMEs reported having very poor capabilities at accessing **external finance**, compared to 15 per cent in 2014.
- 19 per cent of SMEs had **applied for finance** in the last 12 months, with eight per cent applying more than once.
- The **most common reason** for applying for finance was for acquiring working capital/cash flow (56 per cent of SMEs).
- The **main type of finance** SMEs applied for was bank overdraft (46 per cent).
- Nine per cent of SMEs were **discouraged borrowers**, stating that they had a need for finance but did not apply. Of those SMEs that were discouraged borrowers, 30 per cent reported that the main reason that they did not apply for finance was that they did not want to take on additional risks.
- 83 per cent of SMEs that applied for **finance obtained** at least some of the finance sought, while only six per cent did not obtain any.

Business Performance and Outlook

- 65 per cent of SMEs maintained the same **employment** levels over the past 12 months. 21 per cent of SMEs reported employment growth whilst 15 per cent reported having fewer employees in 2015 than they did in 2014.
- The Administrative services sector was the most likely to report a reduction in the number of employees in 2015 compared to 12 months previously whilst the Information and Communication sector was the most likely to report an increase in the number of employees.
- The majority of SMEs (65 per cent) expected to retain existing staff levels over the coming year. 23 per cent of SMEs expected employment growth, while 12 per cent expected a reduction.
- 33 per cent of SMEs experienced an increase in **turnover** over the past 12 months, while 22 per cent reported a fall. 40 per cent of SMEs experienced no change to turnover. The sector most likely to report an increase in turnover was Construction (52 per cent).
- 42 per cent of SMEs expected to maintain existing turnover levels over the next 12 months. 38 per cent were optimistic about future turnover trends, expecting turnover growth while 14 per cent of SMEs expected a decrease.
- 62 per cent of SMEs planned on **growing** their sales over the next three years.

2. Business Demographics

Size

- 2.1 In 2015, the vast majority (82 per cent) of SMEs in Scotland were micro employers (1-9 employees), 16 per cent were small employers (10-49 employees) and two per cent were medium-sized employers (50-249 employees). This profile is very similar to the 2014 results where 82 per cent of respondents were micro employers, 16 per cent were small employers and three per cent were medium employers.

Sector

- 2.2 Figure 2 below provides a breakdown of SMEs in the 2015 SBS by sector:

Figure 2: SMEs by sector (%)				
<i>Base minimum: Medium-sized businesses, 199</i>				
Sector (SIC 2007)	Micro 1-9 (%)	Small 10-49 (%)	Medium 50-249 (%)	Total (%)
ABDE Primary	9	4	5	8
C Manufacturing	5	9	20	6
F Construction	13	10	10	12
GHI Transport/Retail/Distribution	32	41	30	33
J Information/Communication	4	3	2	3
KLM Business services	19	12	12	18
N Administrative services	7	6	9	7
PQRS Other services	12	15	13	13

- 2.3 The largest sector, with 33 per cent of SMEs, was Transport, Retail & Distribution, while the smallest sector was Information & Communication, with three per cent of SMEs.

- 2.4 In the Manufacturing sector, medium-sized firms accounted for a greater proportion than overall, while in the Business Services sector, micro firms accounted for a larger proportion of SMEs than overall.

Age

- 2.5 69 per cent of SMEs were over 10 years old. Medium-sized firms were more likely to be older, with only six per cent trading for less than four years.

Figure 3: SMEs by age				
	Micro 1-9 (%)	Small 10-49 (%)	Medium 50-249 (%)	Total (%)
0-4 years	14	9	6	13
5-10 years	18	18	10	18
Over 10 years	68	72	84	69

Family-owned businesses⁶

- 2.6 71 per cent of SMEs which took part in the 2015 survey were family-owned. In the UK as a whole, 69 per cent of SMEs were family-owned.
- 2.7 SMEs were most likely to be family-owned in the Construction sector (90 per cent), while SMEs in the Other services sector were least likely to be family-owned (38 per cent).

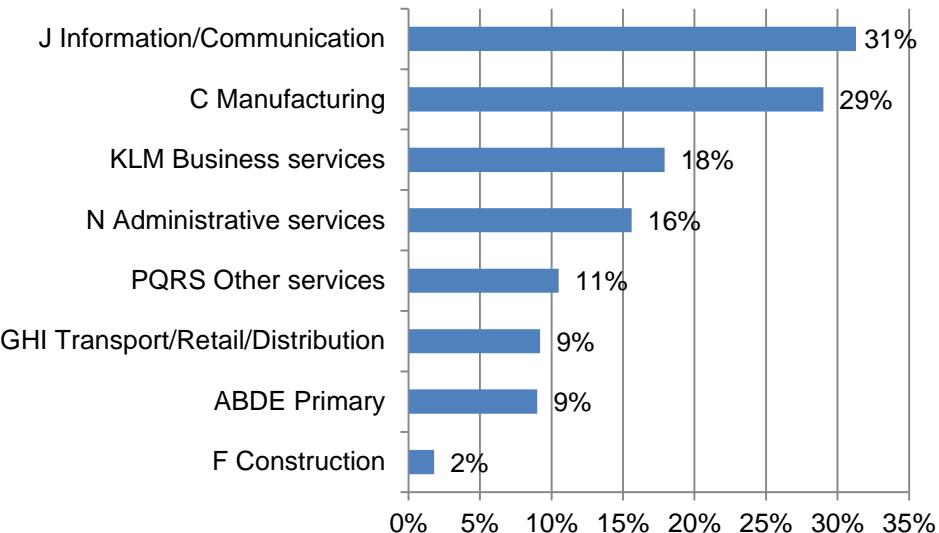
Exporters

- 2.8 12 per cent of SMEs in Scotland reported that they sold goods or services outside of the UK, compared to 19 per cent of SMEs in the UK as a whole. These figures have remained steady since the 2014 survey.
- 2.9 Of those SMEs that sold outside of the UK, 59 per cent planned to increase the levels of exports in the future. In addition, the vast majority (95 per cent) had been exporting for two years or more.
- 2.10 The vast majority (96 per cent) of SMEs that did not export in 2015 planned to continue this trend both during the next 12 months and further in the future. However, 82 per cent of them produced goods or services which they believe are not suitable for exporting.
- 2.11 The likelihood of exporting was related to the sector; firms in the Information & Communication sector were most likely to sell goods and services abroad (31 per cent), followed by SMEs in the Manufacturing sector (29 per cent). SMEs in the Construction sector were the least likely to export (2 per cent).

⁶ Due to changes in the way this question was asked in the 2015 questionnaire, 2015 results are not comparable with previous years.

Figure 4: Exports by sector

Base minimum: Primary, 26



Urban/rural location⁷

- 2.12 In 2015, 69 per cent of SMEs were based within an urban area, while 31 per cent were based within a rural area. Micro businesses were more likely to be located in a rural area (32 per cent vs. 17 per cent of medium-sized businesses and 26 per cent of small businesses), while medium-sized businesses were more likely to be located in an urban area (83 per cent vs. 68 per cent of micro businesses and 74 per cent of small businesses).

Home-based businesses⁸

- 2.13 In 2015, 24 per cent of SMEs in Scotland did not have a separate business premises to their home address, as in the UK as a whole. SMEs most likely to be home-based in Scotland were in the Primary sector, where 53 per cent of firms did not have separate business premises. Other sectors with high proportion of home-based firms were Information/Communication (33 per cent) and Business Services (32 per cent).

Women-led businesses⁹

- 2.14 Majority-led by women businesses are defined as controlled by a single woman or having a management team composed of a majority of women. In 2015, 20 per cent of SMEs in Scotland responded that they were only or

⁷ Urban/rural locations are based on the Scottish Government Urban Rural Classification 2013-2014.

⁸ Due to changes in the way this question was asked in the 2015 questionnaire, 2015 results are not comparable with previous years.

⁹ Due to changes in the way this question was asked, 2015 survey results are not comparable with previous years.

majority-led by women (compared to 21 per cent in the UK a whole). The proportion of entirely male-led businesses is lower in Scotland (39 per cent) than in the UK as a whole (42 per cent) (Figure 5).

Figure 5: SME leadership by gender (%)		
	Scotland	UK
Women only or in majority	20	21
Equally led	21	20
Women in minority	11	10
Entirely male-led	39	42
Don't know/refused	9	7

Ethnic minority-led businesses¹⁰

- 2.15 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. Two per cent of SMEs in Scotland were MEG-led in 2015. This figure is lower than the proportion in the UK as a whole (five per cent).

¹⁰ Due to changes in the way this question was asked in the 2015 questionnaire, 2015 results are not comparable with previous years.

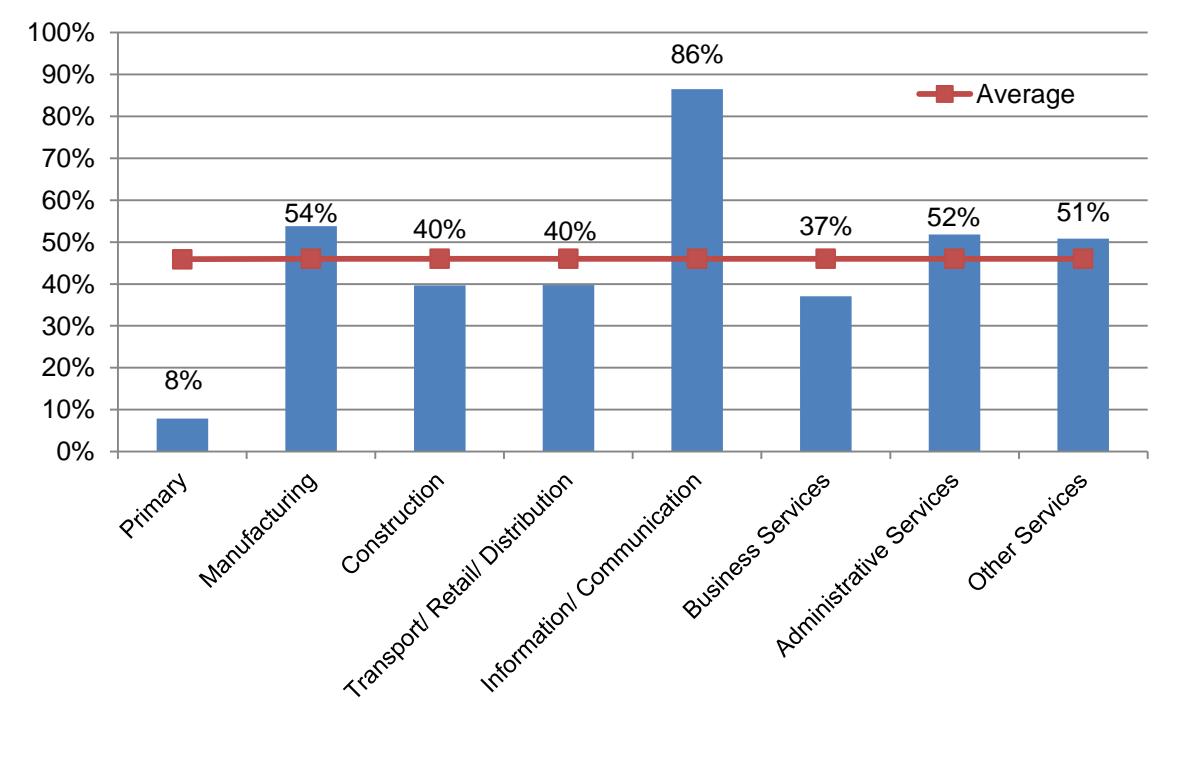
3. Business Practice

Innovation¹¹

- 3.1 In Scotland, 41 per cent of SMEs had introduced new or significantly improved goods or services over the past three years, compared to 43 per cent in the UK as a whole. Of these, 66 per cent introduced innovations that were new to the business. 32 per cent introduced at least some products that were new to the market, higher than the equivalent figure in the UK as a whole (30 per cent).
- 3.2 The sectors more likely than average to undertake product innovation during the past three years were Information & Communication (86 per cent), Manufacturing (54 per cent), Administrative Services (52 per cent) and Other Services (51 per cent). The Primary sector was the least likely to report having introduced new products in the past three years (eight per cent).

Figure 6: SMEs introducing a new product in the past 3 years

Base minimum: Primary, 26



- 3.3 23 per cent of SMEs had introduced a new or significantly improved process in the past three years, compared to 25 per cent in the UK as a whole. Of these, 76 per cent introduced processes which were all just new for the business, while 24 per cent introduced at least some processes that were also new to the

¹¹ Due to changes in the way these questions were asked in the 2015 questionnaire, 2015 results are not comparable with previous years

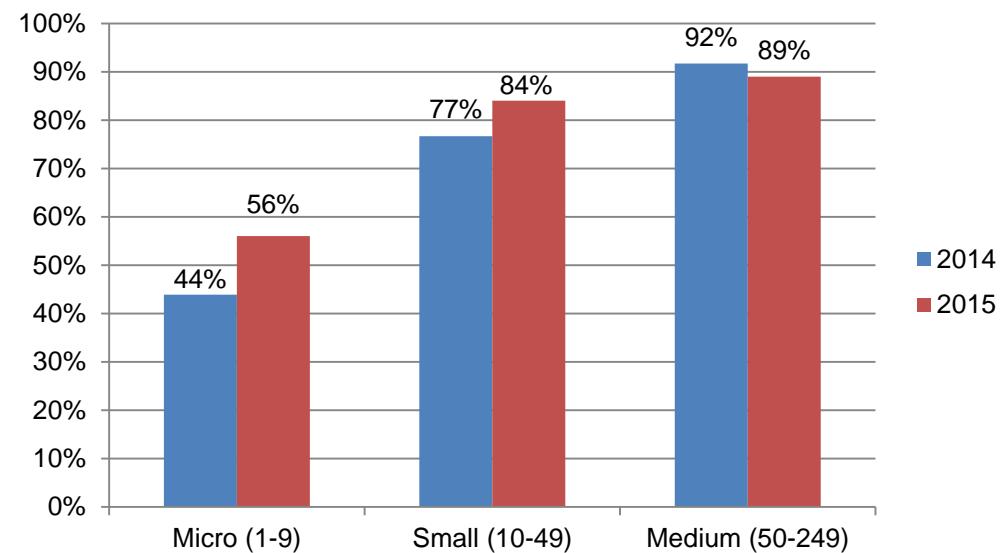
industry. This percentage is higher than that for the UK as a whole (21 per cent).

Training

- 3.4 There has been an increase in the percentage of SMEs that had arranged or funded training or development (on the job or off the job) for employees in the past 12 months, from 51 per cent in 2014 to 61 per cent in 2015. This figure is also higher than the equivalent figure for the UK as a whole (55 per cent).
- 3.5 Medium and small-sized enterprises were more likely to have funded or arranged training or development for their employees in the past 12 months than micro-sized enterprises. However, the number of micro firms that provided staff with training or development increased from 44 per cent in 2014 to 56 per cent in 2015 (see Figure 7 below).

Figure 7: Training or development by firm size

Base minimum: Medium-sized businesses 2014, 77



- 3.6 The 2015 survey shows an increase in the number of SMEs reporting that most training or development was designed to lead to a formal qualification (28 per cent in 2015 compared to 25 per cent in 2014). The percentage of firms stating that only some of the training and development activities were designed to lead to formal qualifications has remained steady since the 2014 survey, at 25 per cent.
- 3.7 Of the 61 per cent of SMEs which had arranged or funded training and development for staff in the past 12 months, 75 per cent answered that managers received this training and development. This figure has remained steady since 2014.

Business plan

- 3.8 In 2015, 36 per cent of SMEs stated that they had a business plan which was kept up to date (32 per cent in the UK as a whole), while nine per cent had a business plan which was not kept up to date (10 per cent in the UK as a whole); 45 per cent of SMEs therefore had some sort of business plan in place, slightly higher than the proportion in 2014 (43 per cent).
- 3.9 Medium-sized businesses were more likely to have an up to date business plan (57 per cent), than small (51 per cent) or micro enterprises (32 per cent).

Technology

- 3.10 94 per cent of SMEs reported that they had access to the internet for work purposes in 2015 (96 per cent in 2014). 68 per cent (65 per cent in 2014) of businesses had their own website compared to 76 per cent in the UK as a whole (77 per cent in 2014). 63 per cent of micro firms had their own website, 86 per cent of small and 92 per cent of medium.
- 3.11 In 2015, 53 per cent of SMEs in Scotland had their own social media profile (55 per cent in the UK as a whole). Of these, 18 per cent used the social media profile to enable customers to order or buy goods or services from them as in the UK a whole. In addition, 15 per cent of all SMEs used a third party (e.g. Amazon, Ebay, Etsy) website to promote or sell their goods or services (19 per cent in the UK as a whole).

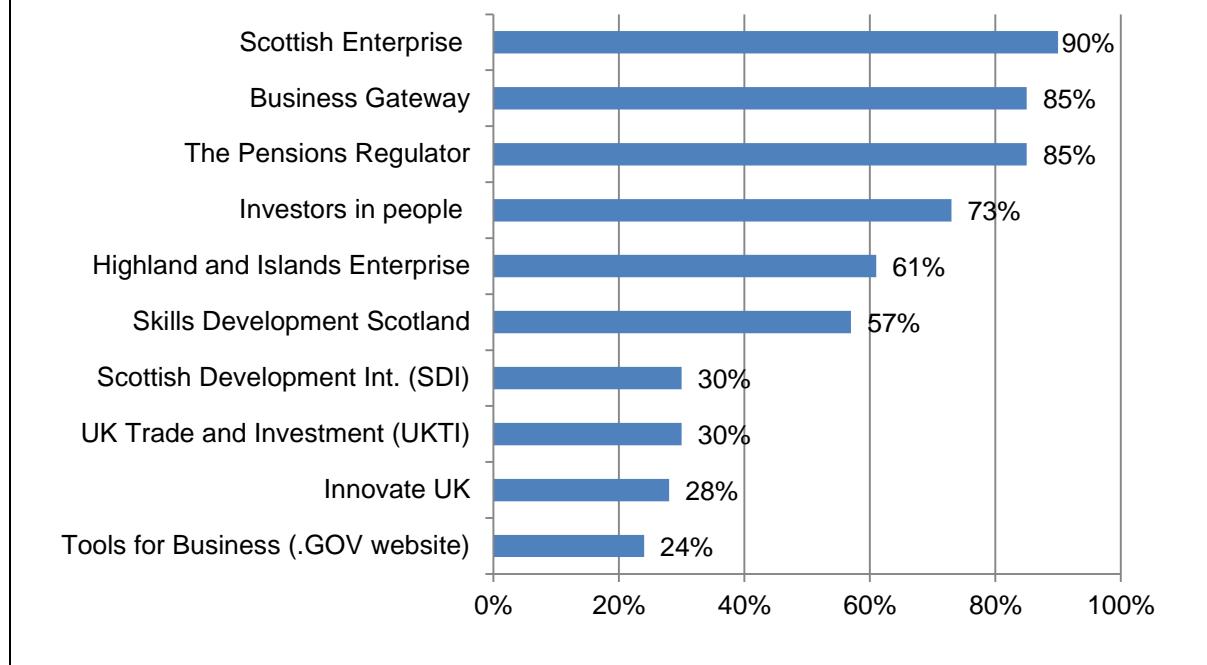
Awareness of business support¹²

- 3.12 In 2015, almost all (98 per cent) SMEs were aware of business support providers. Figure 8 below shows the business support organisations that firms were most aware of in 2015.

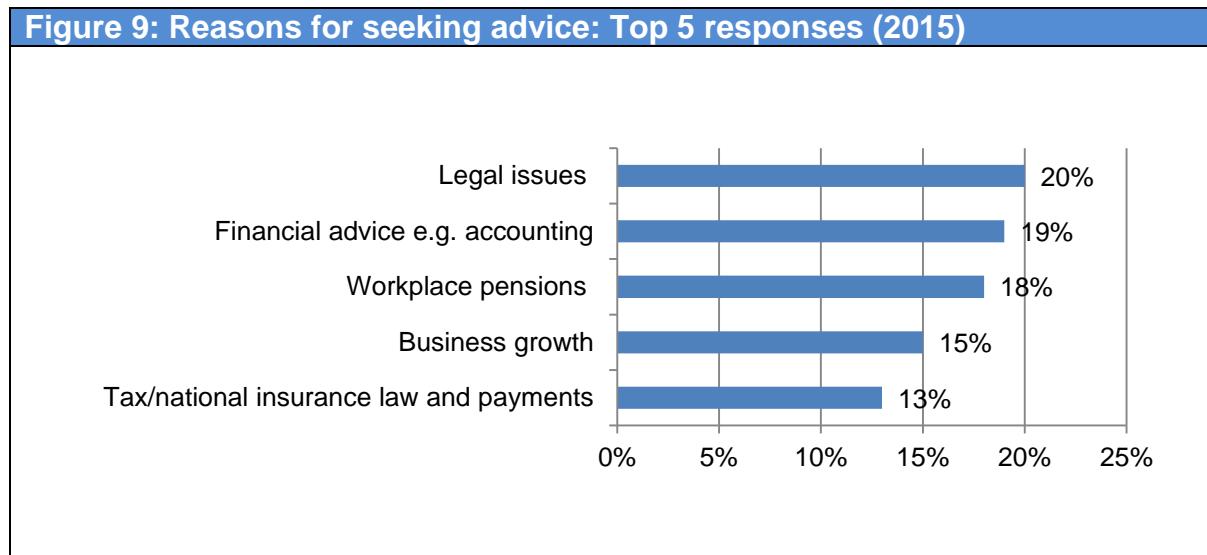
¹² Due to a change in the business support provider categories within the 2015 survey questionnaire, it is not possible to compare the 2015 results with previous years.

Figure 8: Awareness of business support organisations: Top 10 responses

Base: all SMEs, 820



- 3.13 37 per cent of SMEs in 2015 used information or advice in the previous 12 months. The most common reason for seeking advice in 2015 was legal issues. This replaced business growth, which was the most common reason in 2014¹³.

Figure 9: Reasons for seeking advice: Top 5 responses (2015)

¹³ The category *workplace pensions* was not available in the 2014 survey. The 2015 survey results are therefore not directly comparable with 2014.

- 3.14 In 2015, the most common source of advice for SMEs in 2015 was their accountant (31 per cent) followed by business network/trade associations (26 per cent)¹⁴.

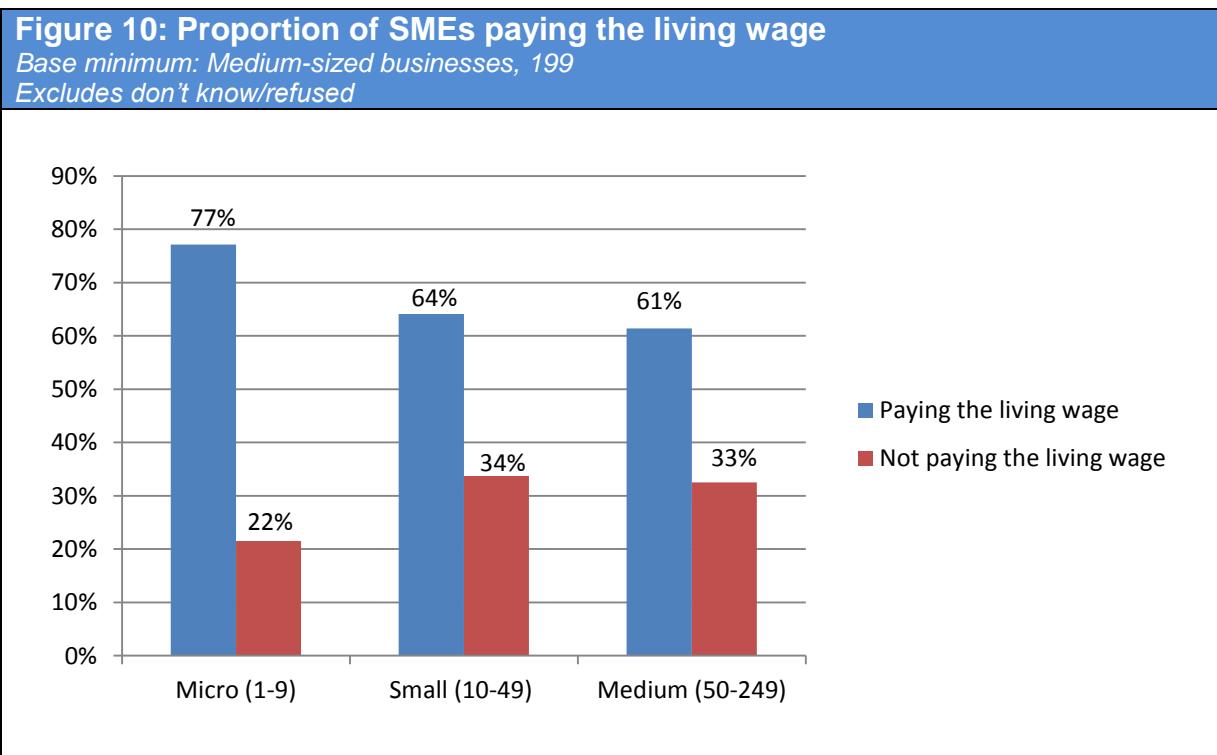
Fair work¹⁵

- 3.15 In 2015, 75 per cent of SMEs in Scotland stated that they paid all their employees aged 18 or over (excluding volunteers, apprentices and interns) at or above £7.85 per hour, the living wage defined by the Living Wage Foundation at the time of the survey in 2015¹⁶. 24 per cent of SMEs in Scotland stated that they did not pay all their employees at or above £7.85 per hour and one per cent did not know. The proportion of SMEs paying their employees at or above £7.85 per hour was higher for micro businesses (77 per cent) than for small (64 per cent) and medium-sized businesses (61 per cent).

Figure 10: Proportion of SMEs paying the living wage

Base minimum: Medium-sized businesses, 199

Excludes don't know/refused



- 3.16 Eight per cent of SMEs stated that they were signed up to the Living Wage Foundation's living wage campaign. 87 per cent were not signed up and five per cent did not know. The proportion of businesses that had signed up was higher for medium-sized businesses (12 per cent) than for micro (8 per cent) and small businesses (6 per cent).

¹⁴ Due to a change in the source of advice categories within the survey questionnaire, it is not possible to compare the 2015 results with 2014.

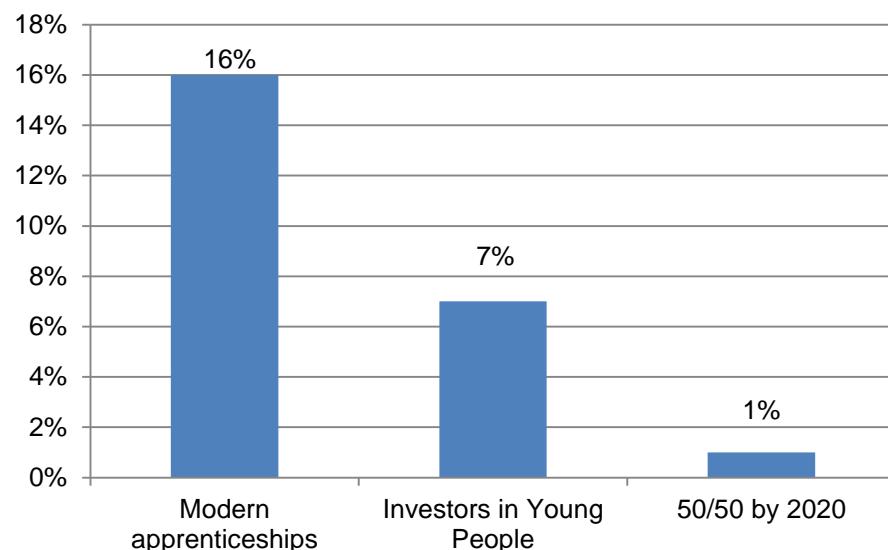
¹⁵ Questions in this section are new section to the 2015 survey questionnaire. It is therefore not possible to compare the results for 2015 with previous years

¹⁶ Please note that the Living Wage as defined by the Living Wage Foundation has since increased to £8.25 an hour.

- 3.17 In 2015, only 9 per cent of SMEs in Scotland were aware of the Scottish Business Pledge and 5 per cent were aware of the Prompt Payment Code.
- 3.18 Figure 11 below shows SMEs awareness of key schemes for employees in 2015. 16 per cent of SMEs in Scotland were aware of modern apprenticeships, while just seven per cent were aware of the Investors in Young People framework. Just one per cent of SMEs were aware of the '50/50 by 2020' boardroom diversity agenda.

Figure 11: Awareness of schemes for employees

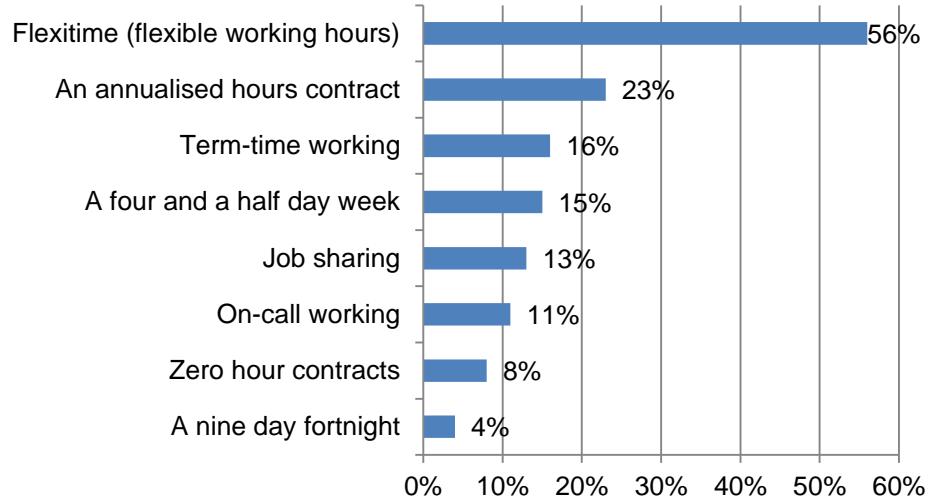
Base: all SMEs, 820



- 3.19 Figure 12 below shows the proportion of SMEs in Scotland offering a range of working hours arrangements to their employees in 2015. The most common working hours arrangement offered was flexitime (56 per cent of SMEs). Eight per cent of SMEs in Scotland offered zero hours contracts. 26 per cent of firms offered none of these arrangements to their staff.

Figure 12: Working hours arrangements available to employees

Base: all SMEs, 820



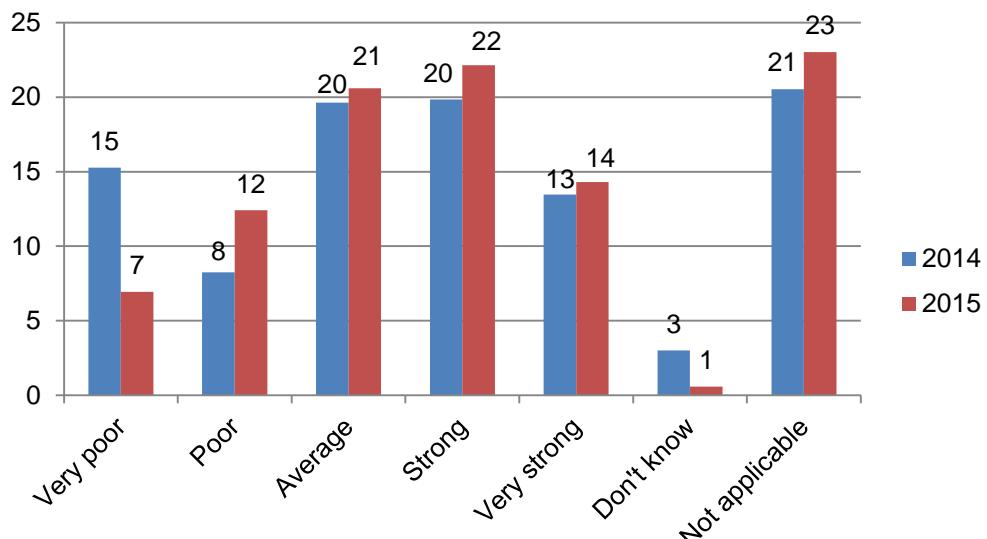
4. Access to Finance

Access to external finance

- 4.1 In 2015, seven per cent of SMEs answered that they had very poor capabilities at accessing external finance, compared to 15 per cent in 2014. 21 per cent felt they had average capabilities and 22 per cent had strong capabilities, both broadly in line with the figures in 2014.

Figure 13: Capability for accessing external finance (%)

Base minimum: 2015, all SMEs, 820



Banking

- 4.2 The vast majority (95 per cent) of SMEs in Scotland used a current account in the name of the business as their main bank account and only a very small proportion (one per cent) used a personal current account for business purposes.
- 4.3 The SME banking sector in Scotland is heavily concentrated among a small number of banks. Excluding those businesses that refused to answer or did not know, the greatest proportion of SMEs banked with Royal Bank of Scotland Group (41 per cent) and 22 per cent had an account with Lloyds Banking Group. Compared to 2014, the proportion of SMEs that used Lloyds Banking Group has decreased (22 per cent in 2015 vs. 27 per cent in 2014), while there has been an increase in the proportion of SMEs that banked with Santander (10 per cent in 2015 vs. 6 per cent in 2014).

Figure 14: Main banks used by Scottish SMEs with employees (%)

Base: refused and don't know excluded, 719

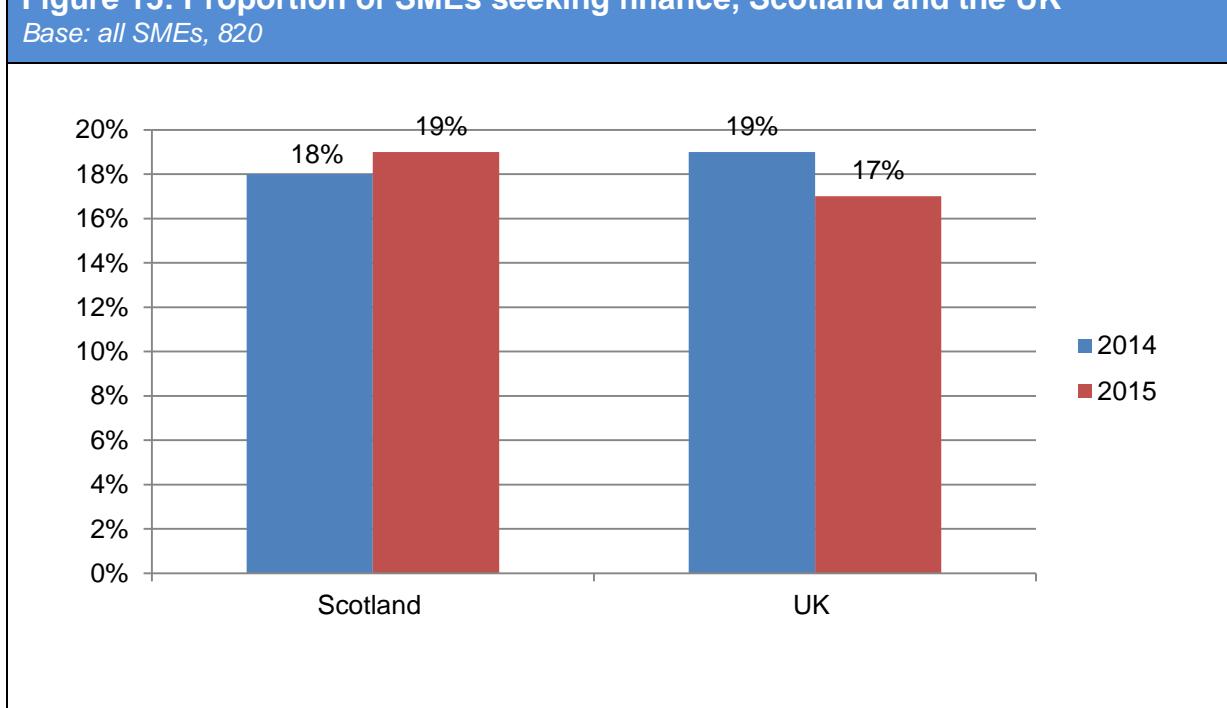
Bank	2015	2014
Royal Bank of Scotland Group	41	42¹⁷
RBS	39	40
NatWest	2	1
Lloyds Banking Group	22	27
Bank of Scotland (HBOS)	21	25
Lloyds Bank	1	1
Halifax	0	1
Clydesdale Bank	14	13
Santander	10	6
HSBC	4	4

Demand for finance

- 4.4 Many SMEs do not use or seek external or formal sources of finance. In 2015, 19 per cent of SMEs had applied for finance in the last 12 months, with eight per cent applying more than once. This is slightly higher than the proportion of SMEs seeking finance in the UK as a whole in 2015 (17 per cent) and marginally higher than the 2014 Scotland figure (18 per cent).

Figure 15: Proportion of SMEs seeking finance, Scotland and the UK

Base: all SMEs, 820

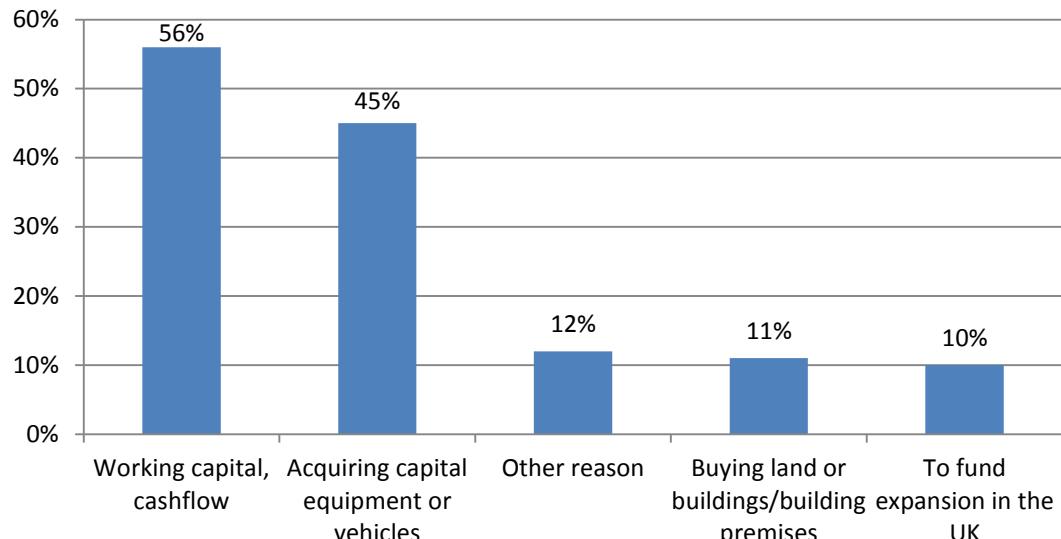


- 4.5 As shown in Figure 16¹⁸, in 2015, the most common reason for applying for finance was to acquire working capital or for cash flow reasons (56 per cent)¹⁹.

¹⁷ Figures may not sum to total due to rounding.

Figure 16: Reason for applying for finance: Top 5 responses

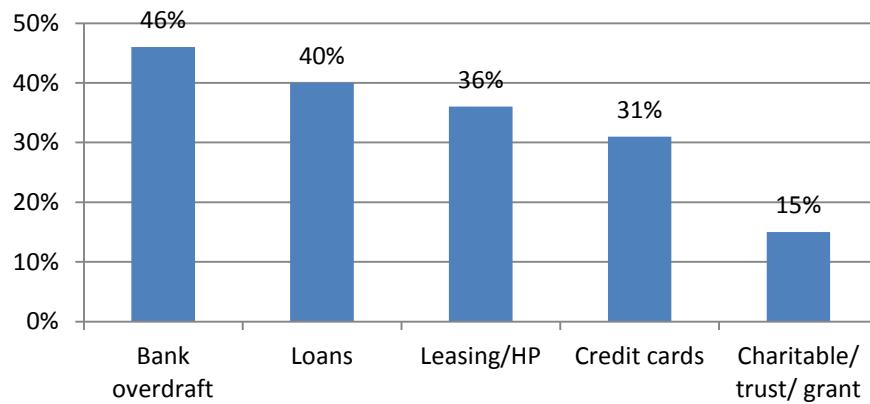
Base: 193 SMEs applying for finance



- 4.6 The main type of finance SMEs applied for in 2015 was bank overdraft (46 per cent), followed by loans (40 per cent)²⁰. 15 per cent of SMEs applied for charitable/trust/grant, compared to seven per cent in the UK as a whole²¹.

Figure 17: Type of finance applied for – Top 5 responses

Base: 193 SMEs applying for finance. Including obtained the finance, still in the process of applying and unsuccessful applications.



¹⁸ Updated on 5th August 2016 to reflect multi-coding of variables rather than single-coding of variables.

¹⁹ Due to a change in the categories offered in the 2015 survey questionnaire, it is not possible to compare the results for 2015 with previous years.

²⁰ Due to a change in the categories offered in the 2015 survey questionnaire, it is not possible to compare the results for 2015 with previous years.

²¹ Updated on 5th August 2016 to reflect multi-coding of variables rather than single-coding of variables.

- 4.7 The most common amount of finance obtained by SMEs in 2015 was in the range 'less than £10,000' (16 per cent) followed by the ranges '£10,000 - £24,999' and '£25,000 to £49,999' (each 15 per cent)²². Eight per cent of SMEs obtained finance over £1 million.

Figure 18: Amount of finance obtained (%)	
Base: SMEs obtaining finance, 164	
Less than £10,000	16
£10,000 to £24,999	15
£25,000 to £49,999	15
£50,000 to £99,999	11
£100,000 to £249,999	7
£250,000 to £999,999	7
£1 million or more	8
Don't know/Unwilling to answer	21

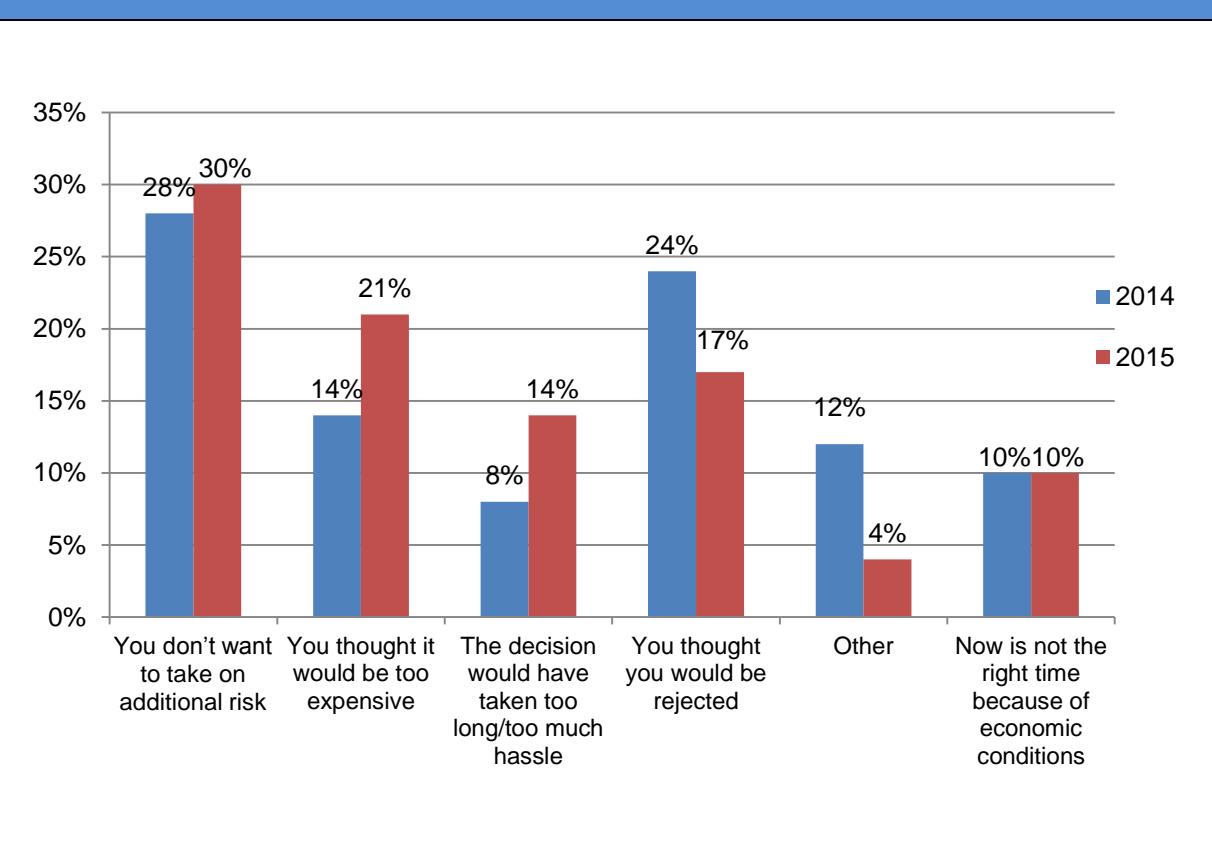
Discouraged borrowers

- 4.8 Discouraged borrowers are businesses that would like to borrow but do not apply for bank finance because they either believe that they will be turned down (indirectly discouraged) or they began informal discussions but do not proceed because the bank seemed reluctant to lend (directly discouraged).
- 4.9 Nine per cent of SMEs had a need for finance in the previous 12 months but did not apply. Of those that had a need for finance but did not apply, 71 per cent reported that there were factors that stopped their applications.
- 4.10 Of those SMEs that had a need for finance but did not apply, 30 per cent reported that the main reason they did not apply was that they did not want to take on additional risks. Other common reasons were that SMEs thought that it would have been too expensive (21 per cent) and that SMEs thought that they would have been rejected (17 per cent). However, as shown in Figure 19, there has been a decrease in the proportion of SMEs reporting the worry of being rejected (17 per cent in 2015 vs. 24 per cent in 2014) as the main reason for not applying for finance. In contrast, there has been an increase in the proportion of SMEs reporting that they thought it would be too expensive (21 per cent in 2015 vs. 14 per cent in 2014) and the proportion reporting that they felt the decision would have taken too long or would have been too much hassle (14 per cent in 2015 vs. 8 per cent in 2014).

²² In the 2014 survey, SMEs were asked the amount of finance *sought* rather than the amount of finance *obtained*. Therefore, comparisons between the two years are not possible.

Figure 19: Main reason for not applying for finance, 2014 and 2015

Base minimum: discouraged borrowers 2015, 83



Supply of finance

- 4.11 Regarding the final outcome of applications for finance, in 2015, 83 per cent of SMEs in Scotland (81 per cent in the UK as a whole) that applied for finance obtained at least some of the finance sought, while six per cent did not obtain any. This is lower than the proportion in the UK as a whole (eight per cent)²³.

Future intentions

- 4.12 44 per cent of SMEs reported that they were not at all likely to approach external finance over the next three years whilst 29 per cent said that it was fairly or very likely that they would approach external finance providers. These proportions reflect other evidence, which suggest that most SMEs prefer to self-fund their work rather than use external finance providers²⁴.

²³ Due to a change in the categories offered in the 2015 survey questionnaire, it is not possible to compare the results for 2015 with previous years.

²⁴ See for example “BDRC – SME Finance Monitor” <http://bdrc-continental.com/products/sme-finance-monitor/>

5. Business Performance and Outlook

- 5.1 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 and turnover and obstacles to success.

Changes to employment

- 5.2 65 per cent of SMEs maintained the same employment levels over the past 12 months, while 15 per cent of firms reported having fewer employees in 2015 than they did in 2014.
- 5.3 21 per cent of Scottish SMEs reported employment growth (17 per cent in 2014). Employment growth was highest for medium-sized businesses, with 55 per cent having more employees in 2015 than in 2014.
- 5.4 Compared to 2014, the proportion of SMEs reporting employment growth is higher (21 per cent in 2015 vs. 17 per cent in 2014). This is mainly due to an increase in the number of medium-sized businesses reporting an increase in staff numbers (55 per cent in 2015 vs. 35 per cent in 2014). In addition, the proportion of SMEs reporting a reduction in employment is marginally lower in 2015 (15 per cent in 2015 vs. 16 per cent in 2014). This is mainly due to a decrease in the proportion of medium-sized businesses reporting a decrease in staff numbers (10 per cent in 2015 vs. 15 per cent in 2014).
- 5.5 Figure 20 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. A positive figure therefore indicates that more businesses within that category increased employment levels than decreased. In 2015, SMEs of all sizes showed a positive net balance of employment growth, with medium-sized businesses showing the highest positive net balance and micro firms showing the lowest.

Figure 20: Numbers employed compared to 12 months previously by size (%)

Base minimum: Medium-sized businesses, 199

	Employ more people now	Employ the same number	Employ fewer people now	Net balance – growth (% points)
Micro (1-9)	17	68	15	2
Small (10-49)	33	53	13	20
Medium (50-249)	55	32	10	45
Total	21	65	15	6

- 5.6 Figure 21 shows the net balance of employment growth by sector. SMEs in Other services, Construction and Administrative services sectors reported a negative net balance of employment growth, while SMEs in all other industries (i.e. Primary, Manufacturing, Transport/Retail/Distribution,

Information/Communication and Business Services) reported a positive net balance.

- 5.7 Administrative services was the sector was most likely to report a reduction in the number of employees (with 25 per cent stating they had fewer employees now than 12 months ago). Overall, the Information & Communication sector reported the highest positive net balance, with 44 per cent of firms having more employees in 2015 than they did 12 months previously. Just three per cent reported having fewer employees.

Figure 21: Numbers employed compared to 12 months previously by sector (%)
Base minimum: Primary, 26

	Employ more people now	Employ the same number	Employ fewer people now	Net balance – growth (% points)
Primary	22	72	7	15
Manufacturing	30	55	14	16
Construction	20	56	24	-4
Transport/Retail/Distribution	16	70	14	2
Information/Communication	44	53	3	41
Business services	27	65	8	19
Administrative services	24	51	25	-1
Other services	11	70	19	-8
Total	21	65	15	6

- 5.8 **Expectations of employment growth** over the next 12 months appear to be broadly positive. In 2015, 23 per cent of SMEs stated that they expect to employ more people in one year's time, although this was lower than the proportion in 2014 (28 per cent). 12 per cent expected to reduce the number of employees, although this was higher than the proportion in 2014 (5 per cent). The majority of firms (65 per cent) expected to retain existing staff levels over the coming year.

Changes to turnover

- 5.9 In 2015, 33 per cent of SMEs in Scotland experienced an increase in turnover over the past 12 months while 22 per cent reported a reduction. However, the proportion reporting an increase was marginally lower than in 2014 (34 per cent) and the proportion reporting a decrease was higher (18 per cent in 2014).
- 5.10 Medium-sized businesses were more likely to report an increase in turnover, with 46 per cent of medium firms doing so (54 per cent in 2014). 24 per cent of micro businesses reported a decrease in turnover (19 per cent in 2014).

Figure 22: Changes to Turnover compared to 12 months previously by size (%)

Base minimum: Medium-sized businesses, 197

	Increase in Turnover	No Change to Turnover	Decrease in Turnover	Net balance – growth (% points)
Micro (1-9)	31	41	24	7
Small (10-49)	41	39	15	26
Medium (50-249)	46	30	16	30
Total	33	40	22	11

- 5.11 Figure 23 below shows the net balance of turnover growth by sector. The sector with the highest proportion of firms reporting an increase in turnover was Construction (52 per cent), a significant change from 2014, when the sector was most likely to report a decrease in turnover. SMEs in Transport/Retail/Distribution and Administrative Services sectors were most likely to report a decrease, with 27 per cent of firms in both sectors reporting a reduction in turnover in 2015.

Figure 23: Changes to Turnover compared to 12 months previously by sector (%)

Base minimum: Primary, 26

	Increase in Turnover	No Change to Turnover	Decrease in Turnover	Net balance – growth (% points)
Primary	29	45	26	3
Manufacturing	39	42	17	22
Construction	52	29	9	44
Transport/Retail/Distribution	29	38	27	2
Information/Communication	27	52	19	8
Business services	32	45	20	12
Administrative services	35	34	27	8
Other services	26	46	22	4
Total	33	40	22	11

- 5.12 SMEs were more optimistic about **future turnover growth** than future employment growth, with 38 per cent of SMEs anticipating turnover growth in the next 12 months. 42 per cent of firms expected to maintain existing turnover levels while 14 per cent of firms expected turnover to decrease. Compared with 2014, a lower proportion expected turnover growth (44 per cent in 2014) and a higher proportion expected a turnover reduction (eight per cent in 2014).

Future intentions

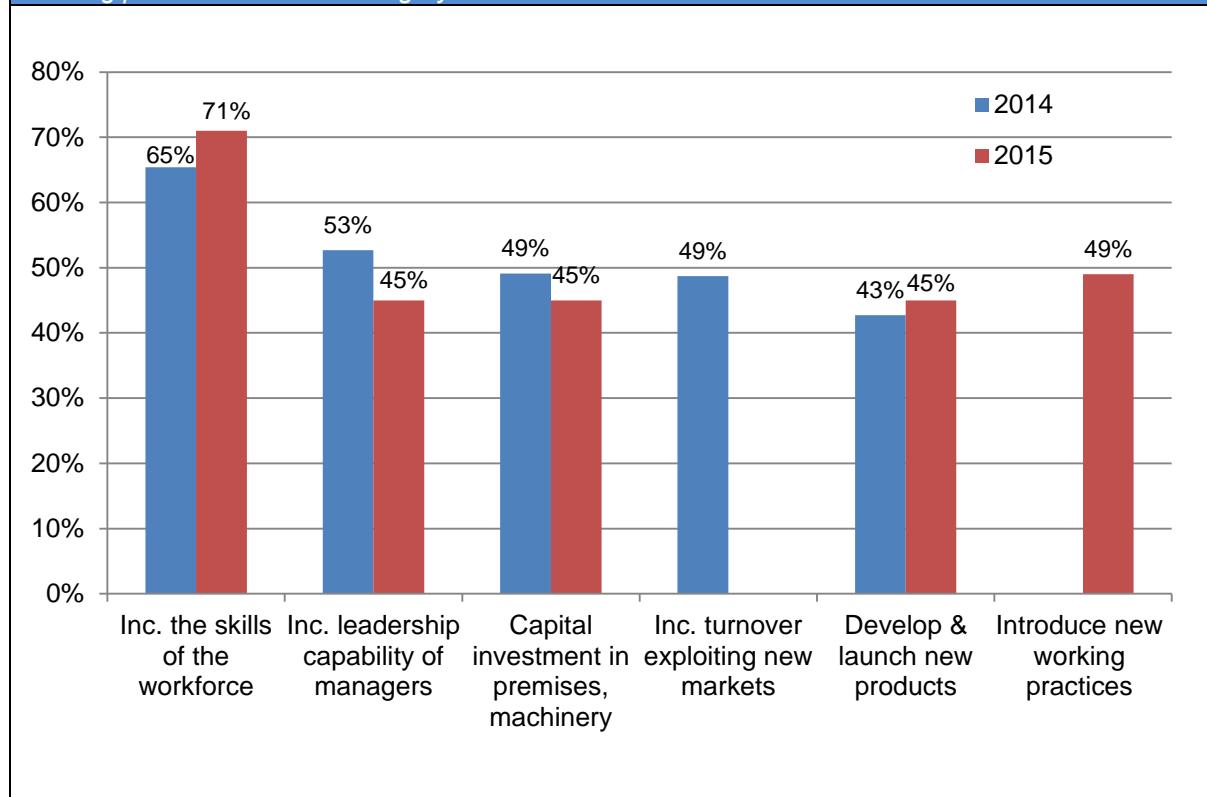
- 5.13 62 per cent of SMEs planned on growing their sales over the next three years. The trend is similar to 2014, when 65 per cent of SMEs reported that this was one of their goals in the future.
- 5.14 The most frequently cited activity which SMEs would undertake in order to increase growth in the next three years was to increase the skills of the

workforce, cited by 71 per cent of the SMEs. This was followed by introducing new working practices (49 per cent)²⁵.

Figure 24: Activities undertaken to increase growth in the next three years

Base minimum: all SMEs 2015, 820

Note: 'Increasing turnover exploiting new markets' is not an option in 2015, while 'Introducing new working practices' is a new category in 2015.



Obstacles to success²⁶

- 5.15 In 2015, regulation/red tape was the most commonly reported major obstacles to business success, with over half (53 per cent) of SMEs reporting this as the key issue²⁷. This was followed by 'competition in the market' (48 per cent) and taxation, VAT, PAYE, National Insurance, business rates (42 per cent).

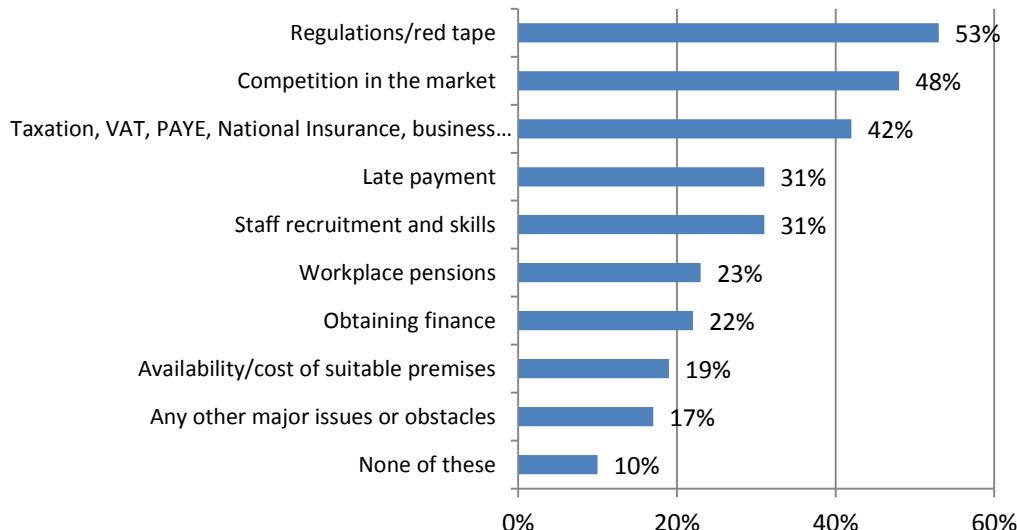
²⁵ The category 'increasing turnover exploiting new markets' was not an option in the 2015 survey, while 'introducing new working practices' was a new category in 2015.

²⁶ Updated on 5th August 2016 to reflect multi-coding of variables rather than single-coding of variables.

²⁷ In 2014, the economy was the most commonly reported major obstacle; however, this category was not available in the 2015 survey. For this reason, the 2015 findings are not comparable with the 2014 findings for this question.

Figure 25: Major obstacle to the success of the business: Top 10 answers

Base: all SMEs, 820



Late payment

- 5.16 Trade credit allows customers to purchase goods or services, paying the supplier at a later date. In 2015, 52 per cent of SMEs provided their customers with trade credit, while 69 per cent of SMEs received trade credit from their suppliers. Of those SMEs who gave trade credit to their customers, 43 per cent had a 'small problem' with customers paying later than required, 35 per cent had 'no problem' and 22 per cent had a 'big problem'.
- 5.17 Late payment seemed to be less of an issue for medium-sized businesses (47 per cent reported 'no problem'), while micro businesses seemed to experience the greatest problems (33 per cent reported 'no problem').

Small Business Survey Scotland 2015

Office of the Chief Economic Adviser
