Behaviour and Motivation of Businesses in Scotland

Qualitative Insights

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BEHAVIOUR AND MOTIVATION OF BUSINESSES IN SCOTLAND: QUALITATIVE INSIGHTS

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Executive Summary

The aim of this research was to understand why SME owners and potential SME owners in Scotland were either not partaking in growth-related behaviours, or did not have the ambition or desire to grow their business. Among the key research questions were:

- What factors influence why Scottish SMEs do or do not pursue growth, and how do attitudes' towards pursuing various growth activities develop over time?
- Have growth aspirations of Scottish SMEs changed over various life stages, and, if so, what is driving this change?
- Why are Scottish entrepreneurs averse to some growth behaviours? Are there any barriers that are blocking growth aspiration, and do these change over time?
- How can the business support system in Scotland intervene to encourage growth behaviour and aspiration?

The research was conducted in two main phases.

- Phase one comprised a total of 75 in-depth interviews among SMEs based in Scotland, the majority of which were carried out by telephone, with around one third conducted face-to-face.
- Phase two comprised a series of workshops among key stakeholder groups aimed at exploring the implications of the phase one findings and identifying possible interventions to promote growth behavours among Scottish SMEs.

Phase one fieldwork was carried out between August 2018 and October 2018, and phase two workshops were carried out in October and November 2018.

The research was developed with reference to the "COM-B" model of behaviour change, which holds that for any behaviour to occur, a person must have the Capability, the Opportunity and the Motivation. This model facilitates interpretation of what is driving a given behaviour and the identification of related evidence-based interventions.

Growth behaviour among SMEs: Underlying motivations

Participants' reasons for starting a business were multifaceted but, in broad terms, fell into one of three main categories: unplanned or opportunistic reasons ("falling into" business ownership); work-life balance considerations; and more material motivations (desire to build a successful, sizeable business that could generate substantial income).

It was clear that the first two types of reasons were by far the most common. In other words, a considerable proportion of participants did not go into business with

the *primary* intention of being very successful in growth terms. This is not to say that they did not want to grow their business – indeed, some had grown and some had aspirations and or/plans to do so – simply that this was commonly not a strong driver for them.

Reflecting this, businesses segmented broadly into three main groupings: The 'Growth Averse' (those who did not want to grow); the 'Ambivalent' (those who wanted to grow but slowly and not too much); and the 'Ambitious' (those who actively wanted to grow their business). Encouraging growth among businesses in the Averse group will be challenging given the number and nature of barriers to growth reported. The focus of the report is therefore on the Ambivalent and Ambitious groupings, and how they might best be encouraged to grow their businesses.

Growth enablers and barriers: environmental and contextual factors

Businesses commonly reported that their growth had been impacted by a generally unfavourable financial climate in recent years, including the 2007 recession, which had caused them to hold back on pursuing particular growth behaviours. Other economic factors that had had an impact included the weakness of the pound and competition from other businesses. Running alongside these challenges was a sense of uncertainty around how the economy might be impacted by political and constitutional changes in the future, which had left businesses feeling insecure about their own future and therefore added to their caution about taking steps to grow.

Having ready access to finance when needed was commonly regarded as essential to business growth. While some businesses had secured bank loans to invest in their business, others had experienced difficulties securing finance from banks, particularly during the recession. The importance of finance from other external sources was also noted, including government or council-backed start up loans, and grants from support agencies. Grant funding from such sources was seen as favourable to taking out loans from banks, reflecting a reluctance towards getting into debt.

Policy and legislation were identified as both enablers and barriers to growth. In terms of the enabling dimension, there was reference to grant schemes or government-backed loans for start up businesses, and other more targeted grant schemes which had helped businesses in specific sectors such as agriculture and energy. In terms of barriers, some businesses were put off by the time, effort, and expense associated with compliance with legislation, including that relating to the minimum wage, workplace pensions, and health and safety regulations.

In terms of recruitment, a commonly cited challenge, particularly among rural businesses, was finding enough people with the requisite skills to fill positions, including both junior and more senior positions. This was compounded by competition from larger businesses offering higher salaries.

Retention challenges were particularly highlighted by businesses in the tourism and food and drink sectors, where work was often seasonal and tended to have high staff turnover. Businesses in remote rural locations highlighted further structural barriers that posed challenges for retaining staff; specifically a lack of affordable accommodation in their area for staff.

The availability and suitability of physical assets; specifically, premises and equipment, had also impacted on business' ability to grow. Several commented that available premises were too small for their purposes or too expensive. The specific location of available premises was highlighted as an additional challenge, particularly by retail businesses, for whom footfall and passing trade were important drivers of sales.

The ability to acquire new or upgraded equipment had been a similarly important factor in some participants' growth journey, either by allowing them to work on a larger scale, or by reducing their costs and making their practices more efficient.

Finally, though not a widely held view, in certain circumstances participants felt their growth had been hampered by the existence of "small town mindsets". This manifested in resistance from local communities on account that they had not felt adequately informed or consulted about development of businesses, or simply because they were hostile to 'incomers' setting up businesses locally. A small number of participants also attributed their lack of growth in part to a lack of collective effort on the part of their community to promote the area positively and encourage new visitors

Growth enablers and barriers: behavioural factors

Business plans

Business owners who took part in the research were fairly evenly split in terms of whether or not they had had such a plan during the initial stage of their development. At the time of interview, fewer than half had an up to date plan.

Among business owners who had developed business plans from the outset, several factors had influenced their decision to do so. These ranged from the plan having been a prerequisite for applying for financial or other support; to being encouraged by others (particularly support agencies) to create it; and personality factors (for example, describing how they "liked structure", were "business driven" and keen to understand the business' potential) or previous business experience.

It was relatively uncommon for participants to have maintained formal business plans in the long term, reflecting the fact that initial funding and support applications emerged as the main drivers for creating plans. In the absence of such external impetus, participants tended to prefer to review performance and make business decisions in less formal ways.

Businesses that operated *without* business plans did so for a number of reasons. Firstly, many businesses had lacked the external impetus to develop a business plan – for example, in the form of funding or grant application requirements – that has been so crucial for others. Equally, participants had often set up their business without a clear idea or aspirations of what they wanted to achieve, which meant that proactive planning had simply not been part of the equation. Others described having felt no need to develop a business plan, as they had a vision for the business "in their head" which they felt sufficed to guide their activities.

Perceived uncertainties in market conditions and other external factors led some business owners to believe that a business plan could, by definition, only ever be a theoretical document and, as such, would be of limited use. Personality factors emerged as further barriers to business planning, among those that disliked being organised, or were not "detail- "or "paperwork-oriented'. Not having business experience or skills similarly emerged as a barrier.

Operational improvements and innovation

Almost all businesses that participated in the research had undertaken at least some operational improvements or innovations and most reported positive impacts of these. Nonetheless, they identified specific barriers they had encountered in implementing such changes, including: motivation (being risk averse, lacking the confidence to try new things, wanting to remain in control of operational aspects and being motivated more by enjoyment than growth); a lack of time and resources; and external factors (uncertainty of the market and economy in general, and being put off employing more staff due to the extra time and cost involved).

Networking and collaboration

Networking had been important in driving business' development and growth, through providing access to customers, allowing for the sharing of knowledge and the opportunity to learn from others, and opening avenues to sources of private sector funding. Businesses that did *not* engage in networking sometimes cited a lack of opportunities in their local area or commented that networking was just another task competing for their limited time, and therefore not a priority for them.

Many participants had engaged in some form of collaboration with other businesses; typically because this provided an efficient and cost-effective way for them to work around any skills gaps, to diversify, and to promote their business. Businesses that did *not* engage in any form of collaboration commonly reported having never needed to; for example, because they were content with their pace of growth.

Supplier relations

Virtually all participants described their relationships with any suppliers they worked with in positive terms. Several factors were identified as having been important in maintaining participants' good supplier relationships; in particular, the prompt payment of invoices; communicating regularly; and simply getting to know suppliers as people. Beyond these behaviours, however, very few participants had

consciously made efforts to try to build more effective relationships with suppliers or achieve better value from them.

Marketing and promotional activity

There was general recognition that marketing and promotional activities were important facilitators of growth. At the same time, it was clear that many participants, particularly sole traders and other smaller enterprises, were not always doing a great deal if anything in this regard.

Those in the earlier stages of their journey commonly said that they did not have the time or resources to put into marketing or promotion. Others felt that marketing and promotional activities were expensive, particularly as the returns generated were not always obvious or discernable. Other participants expressed uncertainty as to how to go about marketing or promoting their business to their target clientele, commenting that they were unsure about what particular marketing avenues would be most effective. Less commonly, there were participants who said they had never needed to advertise because they had been able to develop a satisfactory customer base through word of mouth or other informal means.

The role of support and advice

Awareness of available support services for SMEs varied. It was common for participants to have at least heard of Business Gateway, but awareness of other agencies providing support was lower.

Participants with little or no awareness of support services reported being unclear where to find out about this, and there was a sense in which they conceived of the support landscape as confusing. There also appeared to be some misconceptions on the *types of support* available, with some participants believing that engaging with support agencies was something they would only do if their business needed to borrow money or apply for a grant, or that support was only available for new businesses.

Among those that had engaged with support agencies and services, perceptions of the services they offered were mixed; some participants were pleased with the amount of support they had been offered while others described having looked for support via an agency or organisation only to find such support was not offered – either because the agency had not seemed ‘set up’ to help businesses like theirs, or because it was unable to offer a very specific type of support they had been seeking. More generally, there was a perception that the quality of support provided by agencies and services sometimes varied, either by geography or by individual advisor.

Future growth

Overwhelmingly, the main concern expressed about future growth was that of political and economic uncertainty, predominantly in relation to Brexit but also, to a lesser extent, the prospect of future Scottish independence.

Three further barriers to future growth were identified by participants: A lack of time, which was common to many businesses but particularly sole traders or those with a small workforce; skills gaps; and financial constraints – it was common for participants to say they lacked the necessary funding to invest in future growth activity.

Recommendations

The phase two stakeholder workshops led to the identification of a number of recommendations for addressing the barriers to growth outlined above[1]. These were discussed in relation to the five policy categories of the COM-B model

- **Legislation and regulation**. Stakeholders identified a need to review legislation or regulation that might inadvertently be impeding growth among SMEs (particularly 'micro' and 'small' businesses). There was also reference to the potential for *new* legislation that might help promote growth - the Small Brewers Relief Scheme was cited as an example – and to the importance of minimising barriers to international trade. Stakeholders also suggested legislation to mandate entrepreneurial education in schools.

- **Fiscal levers.** Stakeholders focused on measures that they felt would improve the financial situations of individual SMEs and thus help position them for growth. Recommendations included lowering the rate of Income Tax; introducing temporary tax exemptions or holidays for new business owners (for example in relation to Corporation Tax); and reducing business rates. Stakeholders working in rural areas also called for subsidised, affordable housing to help alleviate difficulties experienced by rural businesses in recruiting and retaining staff.

- **Environmental and social planning.** Recommendations in this area included measures to promote an evolution of working patterns/culture to create greater 'space' for individuals to develop businesses alongside existing employment or personal commitments; and efforts to change attitudes towards ambition and failure so that both are viewed in a less negative light Stakeholders also suggested increased efforts on the part of local authorities and their partner agencies to promote their respective areas and business communities.

- **Support and advice.** Stakeholders felt the support and advice landscape needed to be streamlined, with different agencies working in a more co-ordinated and joined up way. Specific solutions proposed included: creating a national or regional support hubs through which businesses could be triaged to appropriate agencies or forms of support; the development of shared targets and metrics across agencies; support; and the creation of an online support "hub" or an App through which businesses could access support 24

[1] A number of the recommendations identified by stakeholders involved measures which are outwith the remit of the devolved Scottish Government. Where the Scottish Government cannot enact a particular change, the recommendation is, instead, for the Scottish Government to encourage change at the EU/UK level.

hours a day. There were also suggestions for improvements to the *nature* of support and advice provided by agencies – in particular, an increased focus on individual/ company-centric support rather than on delivering support 'products'; and on the promotion of business growth mindsets and 'softer skills', such as risk-taking. In terms of financial support, suggestions included lending to businesses that, on the surface, may appear 'riskier' but that advisors feel have high ambition and potential; and offering 'bounce-back' funding to businesses that fail at their first attempt.

- **Communication and marketing.** Recommendations in this area were predominantly concerned with instilling a greater sense of ambition among current and potential business owners. There was suggestion of a large-scale campaign, involving the use of case studies and/or positive role models to inspire and enable businesses to initiate positive change. A broader suggestion was that the language in communications and marketing must be designed to instil ambition and must be accessible and free of jargon**.** Stakeholders also highlighted the importance of ensuring that the language was consistent across the ecosystem.

1 Introduction

1.1 Policy context

The Scottish Government is committed to increasing business growth in Scotland as part of a broader ambition for the country to rank among the top quartile of OECD nations in terms of productivity, equality, wellbeing and sustainability[2]. This ambition is supported by Scotland CAN DO (launched in 2013), a platform and statement of intent towards becoming a world-leading entrepreneurial and innovative nation, which recognises that *"if we are to achieve sustainable economic growth, and create opportunities for everyone in Scotland to flourish, then we must work together to accelerate entrepreneurship and innovation across Scotland".*[3] In addition, the Scottish Government has recently launched a wide-ranging Enterprise and Skills Review, aimed at ensuring Scotland's public agencies are delivering sufficient enterprise and skills support for the country's young people, universities, colleges, training providers, businesses and workers.

As is the case across the UK as a whole, Small and Medium Sized Enterprises (SMEs) account for 99% of all businesses in Scotland, and 50% of all private sector employment. However, SMEs in Scotland are less likely than those elsewhere in the UK to scale to over £50m/£100m turnover, and, as such, Scotland produces only half as many scaling starts ups on average[4].

Current evidence suggests a lack of ambition may be driving this absence of growth amongst Scottish SMEs, as opposed to a lack of potential. For example, data from the Community Innovation Survey showed Scotland is below the EU average with regards to medium-sized enterprises that engage in innovative behaviours[5]. Meanwhile, the Small Business Survey (2016)[6] revealed just under two thirds (63%) of Scottish SMEs planned to grow their sales within the next three years; a lower rate than in Northern Ireland (74%), England (66%) and Wales (64%).

Beneath such national level evidence, research conducted as part of the Scottish Government's Enterprise and Skills Review workstream highlighted some notable variation in growth trajectories among different SME types and different owner groupings in Scotland; in particular:

- younger firms were more likely to grow than more established ones

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[2] Scottish Government *Enterprise and Skills Review Phase 2 Report* Available from: http://www.gov.scot/Resource/0052/00521428.pdf

[3] http://www.cando.scot/about/

[4] Hunter Centre for Entrepreneurship (2018) *Entrepreneurial Ecosystem – Benchmark Research Final Report*

[5] Community Innovation Survey http://www.gov.scot/Resource/0052/00521465.pdf

[6] Hamilton, N. and Richmond, K. *Performance of Scotland's small and medium sized businesses: insights from the Small Business Survey 2016.* Scottish Enterprise 2016. Available at: https://strathprints.strath.ac.uk/62015/

- there was a low proportion of migrant entrepreneurs
- entrepreneurs under 30 years old were more likely to be growth orientated that older business owners
- female-led businesses had lower growth expectations than those led by men, but were less likely to experience any shrinkage in revenues.

Tackling these disparities, and the low level of growth among Scotland's SMEs more generally, requires an in-depth understanding of owners' motivations and attitudes to growth and growth activities (including innovation, internationalisation and productivity). To deliver this understanding, along with insights on how specific growth behaviours might be encouraged, the Scottish Government commissioned Ipsos MORI to undertake a large scale qualitative research study among a cross-section of SMEs.

1.2 Research aims and objectives

Previous research conducted by the Hunter Centre for Entrepreneurship has identified a number of behaviours that appear to contribute to growth among SMEs; namely, having a business plan; making operational improvements; introducing new business practices; building effective relationships with suppliers; and collaboration with other businesses – for example, in respect of innovation.

The aim of the present research study was to understand why SME owners and potential SME owners in Scotland were either not partaking in such growth-related behaviours, or did not have the ambition or desire to grow their business.

Among the key research questions were:

1. What factors influence why Scottish SMEs do or do not pursue growth, and how do attitudes' towards pursuing various growth activities develop over time?

2. Have growth aspirations of Scottish SMEs changed over various life stages, and, if so, what is driving this change?

3. Why are Scottish entrepreneurs averse to some growth behaviours? Are there any barriers that are blocking growth aspiration, and do these change over time?

4. How can the government intervene to encourage growth behaviour and aspiration?

1.3 Structure of the report

The following chapter of the report details the methodology used to conduct the research, and address the research questions outlined above. Chapter 3 sets out broad, underlying factors influencing business' growth-related behaviours (or lack thereof). Chapter 4 sets out the enablers and barriers towards growth experienced

by those interviewed, and Chapter 5 describes their future growth ambitions. Chapters 6 and 7 present the main conclusions and recommendations emerging from the research.

1.4 Acknowledgements

Ipsos MORI would like to thank the Scottish Government project team, and, in particular, Stephen Knox, for guidance and assistance in undertaking the research. We would also like to thank the 75 business owners who took part in the research, and the organisations that provided advice and helped with the recruitment of the research participants, including: Business Gateway, Scottish EDGE, Young Enterprise Scotland, the Princes Trust, the Sporting Chance Initiative, the University of Strathclyde, Women's Enterprise Scotland, Business Women Scotland and the Highlands and Islands Enterprise. Finally, we would like to thank the various stakeholder groups that took part in the workshops.

2 Methodology

The research was conducted in two main phases. Phase 1 comprised a total of 75 in-depth interviews among SMEs based in Scotland, the majority of which were carried out by telephone, with around one third conducted face-to-face. Phase two comprised a series of workshops among key stakeholder groups aimed at exploring the implications of the Phase 1 findings and identifying possible interventions to promote growth behavours among Scottish SMEs.

2.1 Phase 1

2.1.1 Sampling and recruitment

To ensure interviewees represented a cross-section of SMEs in term of geography, business characteristics (for example, business size and sector), and owner characteristics (for example, age and sex), a mixture of sampling and recruitment methods were employed.

In the first instance, a sample was drawn from Experian's National Business Database (NBD), which includes data on small and medium sized businesses from multiple sources such as Yell, ThomsonLocal.com, Companies House, the Postal Address File, Payment Performance Data, Registry Trust and National Canvasse. The NBD also holds profile information about businesses, including their size, sector, location, length of operation, and annual turnover.

Recruitment of businesses from the NBD sample was undertaken by Ipsos MORI's in-house telephone centre, using a screening questionnaire to check business' eligibility against key quotas. The screening questionnaire was also utilised to identify the most appropriate person at each business to interview; in most cases, the company owner or director.

To ensure the inclusion of smaller subsets of SMEs – including female-led enterprises, entrepreneurs under the age of 34 and migrant owned businesses – supplementary recruitment was undertaken via gatekeeper organisations, such as Scottish EDGE and Highlands and Islands Enterprise (HIE). Ipsos MORI provided the gatekeepers with an email to send to relevant business owners within their networks. The email provided background information about the research and invited recipients to opt in, by contacting the Ipsos MORI research team directly.

In all, 56 of the 75 interviewees were recruited through the Experian Database, and 19 via gatekeeper organisations. The final achieved sample profile is presented in Tables 2.1 and Table 2.2 below.

Table 2.1. Profile of participating busineses

	Total interviews
Size of business	
1 (Sole traders)	19
2-49 (Small enterprises)	49
50-249 (Medium enterprises)	7
Sector of business	
Total growth sectors	31
Total non-growth sectors	44
Length of operation	
Less than one year	7
1 - 5 years	17
6 - 10 years	14
Over 10 years	37
Turnover of business	
Less than £50,000	23
£50,000 to £99,999	12
£100,000 to £249,999	19
£250,000 and over	18
Unknown/withheld	3

Table 2.2. Profile of participating business owners

	Total interviews
Age	
16-24	8
25-34	12
35-54	31
55+	24
Sex	
Female	28
Male	47
Location	
Central Scotland	3
Glasgow	14
Highlands and Islands	11
Lothians	10
Mid Scotland and Fife	11
North East Scotland	13
South of Scotland	9
West of Scotland	4

2.1.2 Structure of the interviews

All interviews were structured around a discussion guide, designed by Ipsos MORI in consultation with the Scottish Government. Topics covered included: the background to the business; business growth history and approach; barriers and enablers to business growth; growth and innovation specific behaviours; plans for growth and concerns about future growth; engagement with support services, and any further support needs.

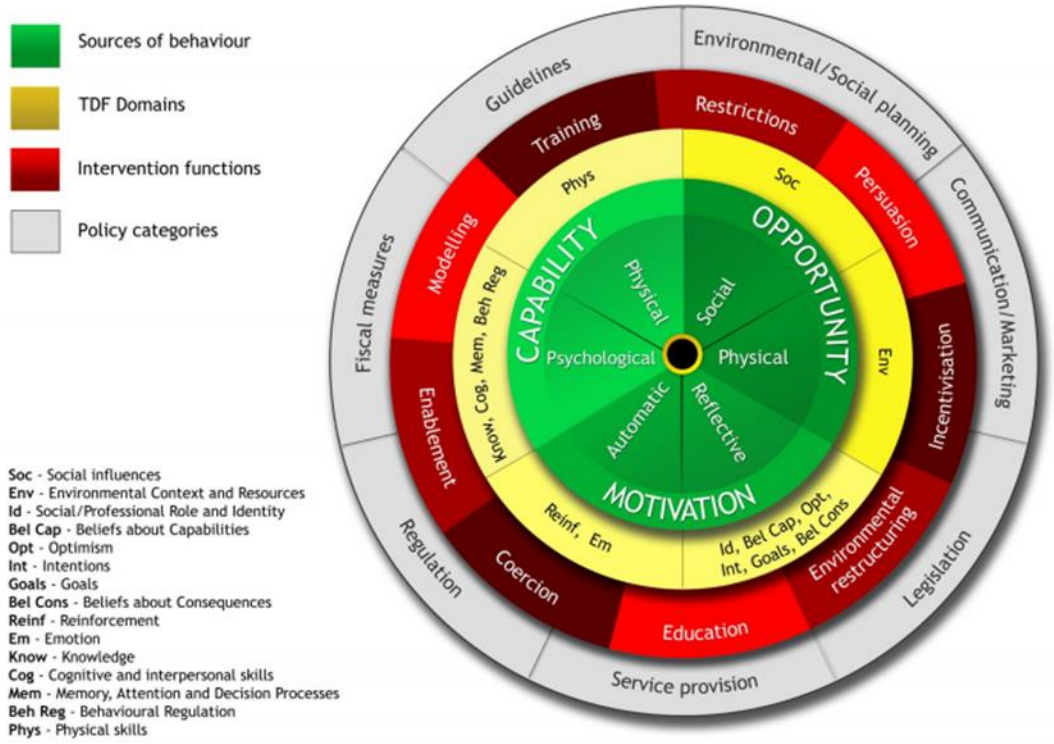
To ensure a structured approach and the systematic exploration of the specific growth behaviours of interest, the discussion guide was developed with reference to the COM-B model of behaviour change and the Behavioural Change Wheel[7]

[7] Susan Michie, Maartje M van Stralen and Robert West *The behaviour change wheel: A new method for characterising and designing behaviour change interventions* (2011) https://implementationscience.biomedcentral.com/track/pdf/10.1186/1748-5908-6-42

(Figure 2.1). COM-B facilitates interpretation of what is driving a given behaviour and the identification of related evidence-based interventions. It holds that for any behaviour to occur, a person must have the:

- Capability: Including the physical capability (for example, the skill, strength, stamina) and the psychological capability (knowledge or psychological skills to engage in the necessary mental processes)
- Opportunity: Including physical opportunity (as afforded by environmental factors such as time, resources, locations, cues) and social opportunity (as afforded by interpersonal influences, social cues and cultural norms that may influence the way we think)
- Motivation: Including reflective motivation (self-conscious intentions and evaluations) and automatic motivations (for example, emotional desires, impulses, inhibitions etc.)

Figure 2.1. The Behavioural Change Wheel



Applying this behavioural framework provided for a rich understanding of the enablers and barriers to growth under each source of behaviour, along with an indication of the trigger points that should be targeted in an intervention.

2.1.3 Fieldwork and analysis

Fieldwork was carried out between August 2018 and October 2018, by core members of the Ipsos MORI research team. All businesses that took part were offered an incentive payment of £50 (in the form of a direct payment, or a donation

to a charity of their choice), as a ‘thank you’ for their time and to cover any expenses incurred.

All interviews were audio-recorded (with participants’ permission), and a selection were transcribed to allow the incorporation of verbatim responses into the report.

To facilitate analysis of the qualitative data collected, the research team developed a code frame in Excel, in line with the COM-B model. This enabled them to systematically record and interrogate the data to identify the full range of views on each issue/experience; any differences in views and experiences (for example, by sector, business size, urbanity/rurality etc.); and to identify the relationships between particular views and experiences.

2.2 Phase 2

Phase two of the research comprised four half day workshops with key stakeholders from services and agencies active in providing advice or support to SMEs in Scotland. The purpose of the workshops was to share the research findings and, on the basis of that evidence, identify practicable interventions aimed at supporting the future growth of SMEs.

Each workshop was conducted in a different region of Scotland. The regions were: Highland, the North East, the Central Belt (including Edinburgh, Glasgow and Central Scotland) and the South of Scotland. In each case, around 15-20 stakeholders were invited by the Scottish Government to participate.

The workshops were facilitated, and the findings collated, by the Ipsos MORI research team, for incorporation into this report.

2.3 Interpreting qualitative data

Unlike survey research, qualitative social research does not aim to produce a quantifiable or generalisable summary of population attitudes, but to identify and explore the different issues and themes relating to the subject being researched. The assumption is that issues and themes affecting participants are a reflection of issues and themes in the wider population concerned. Although the extent to which they apply to the wider population, or specific sub-groups, cannot be quantified, the value of qualitative research is in identifying the range of different issues involved and the way in which these impact on people.

3 Growth behaviour among SMEs: Underlying motivations

The key aim of this study was to identify steps that could be taken to encourage business growth. Drawing on the COM-B model of behavioural change (see Chapter 2 above) the research considered growth enablers and barriers in relation to three key dimensions – motivation, capability and opportunity – the theory being that motivation, capability and opportunity are all required in order to achieve a desired behaviour; in this case, developing and growing a business. Where one or more dimension is lacking, the COM-B model can be used to identify appropriate targeted interventions.

This initial chapter focuses predominantly on the motivational dimension of the COM-B model, exploring underlying endogenous factors that caused participants to start and (where relevant) grow their business – whether or not a business has the capability and opportunity to grow is almost irrelevant if the internal motivation is lacking. The chapter first considers what motivated participants to go into business, before exploring why they wanted (or did not want) to try to grow the business. Towards the end of the Chapter, a growth typology is presented to summarise and facilitate understanding of the ways participants segmented along motivational lines.

3.1 Motivations and aspirations in starting a business

Participants' reasons for starting a business were multifaceted but, in broad terms, fell into one of three main categories:

1. **Unplanned or opportunistic reasons – typically articulated in terms of 'falling into' business ownership** by taking over an existing business from a family member, friend or employer; or by deciding on impulse to go into business, with little (if any) advance consideration or planning.

2. **Work-life balance considerations** – a desire for a **more flexible, more enjoyable and less stressful** job than they had had previously. Although these business owners wanted to make a success of their business, they tended to have fairly modest aspirations.

3. **More material motivations** – a desire to build a successful, **sizeable business** that could generate a **substantial income.**

It was clear that the first two type of reason described above were by far the most common among the business owners who took part in the research. In other words, a considerable proportion of participants did not go into business with the *primary* intention of being very successful in growth terms. This is not to say that they did not want to grow their business – indeed, some had grown and some had aspirations and or/plans to do so – simply that this was commonly not a strong driver for them.

3.1.1 Falling into" business ownership

Participants who had effectively fallen into business divided into two main groups – those who had inherited or taken over a family enterprise, or had been offered the opportunity to buy a business from a friend or employer; and those who had started a business in a very impulsive way, with little (if any) advance consideration or planning.

"Falling into" business ownership often meant the participants concerned were not particularly driven or growth-orientated. Those who had inherited or taken over a business commonly said that they were not the "type of person" who would have started their own business from scratch as they did not have the "confidence to take risks". Further, they tended to articulate their aspirations for the business in terms of wanting to stabilise or maintain its current position, as opposed to building it or making it more successful.

Those who had started a business on impulse, with little advance consideration, tended to be similarly unclear as to whether or how the business might grow and develop. They typically reported having decided just to "give it a go" – or as one person described it – to fly by the seat of their pants, and had not given any consideration to such issues as the likely market for their product or service.

> *"It was a shop previously that was closing down, so I thought 'right, okay, I'm going to give that a go to keep that business'. So I just went into the premises and opened one up that's almost identical".*
>
> (Sole trader, Wholesale, retail and repairs, North East Scotland, 1-5 yrs, F)

> *"The shop happened to come up for sale while I was thinking about what I wanted to do [after taking time out to have a family] and I just kind of bought it on the spur of the moment".*
>
> (Small enterprise, Manufacturing, Mid Scotland and Fife, 1-5 yrs, F)

3.1.2 Work-life balance considerations

Business owners motivated predominantly by work-life balance considerations tended to embark on business ownership in the hope that it would offer a more enjoyable, less stressful or more flexible option than employment (though they commonly reflected that this had not turned out to be the reality). Specific catalysts often took the form of:

- **family changes** – in particular, having children and wanting a greater degree of flexibility to fit work around childcare
- **'push' factors relating to their previous employment –** for example, being in a job that was stressful or unenjoyable, or being made redundant
- **difficulty finding employment in a role they wanted** – this was particularly true of recent graduates seeking careers aligned with their university degrees.

Older people who were at, or approaching, retirement age were another group that fell into the category of having been more motivated by work life balance considerations. They were typically looking for something to fill their free time and/or supplement their income rather than to start a business with the intention of growing it.

It was notable that participants motivated primarily by work life balance considerations had often started a business linked to an interest or hobby. Rather than deciding that they wanted to become a businessperson and identifying a gap in a market that had high revenue potential, they would consider whether they could 'make a go of' earning an income from an activity they enjoyed. That said, there were a small number of people who had set up in response to a market gap that they had experienced. For example, one participant had suffered skin problems and had been unable to find any products that helped. She started making her own products, which worked for her, and decided to start selling them.

3.1.3 Ambition and financial motivation

An appreciably smaller number of participants entered into business primarily because they wanted to be successful entrepreneurs. Specific motivators for this group were:

- the autonomy that business ownership offered to fulfil their potential and ambition
- the standing associated with being a successful businessperson
- seeing the positive impact of their business – for example in terms of providing a service or product that was highly valued by customers
- the potential financial rewards.

A key distinction between this group and those more motivated more by lifestyle factors was that they self-identified as "entrepreneurs" or "businesspeople", and often talked about having always wanted to have their own business, almost as if it was innate or 'in their blood'. Those more motivated by lifestyle factors in contrast tended to describe themselves by their profession, for example, as "a florist", "a farmer" or "a videographer".

While there were some in the ambitious group who started a business relating to a hobby or personal interest, their primary motivation was usually to have a viable, successful business, whatever the focus of this might be. In other words, success was the desired end in itself, not working in a specific field that interested or was important to them.

It was common for young business owners[8] to be particularly ambitious. Their desire to go into business had often been sparked by university projects requiring

[8] A number of young business owners at early stages in their journeys took part in the research. These were recruited via support agencies and thus by definition were very engaged with those

them to develop a product or other business idea which they had then been encouraged and supported – by the university and initiatives such as Sporting Change and Entrepreneurial Spark – to pursue.

> *"I wanted to be someone like Richard Branson, but younger."*
>
> (Sole trader, Administrative and support services, Glasgow, 6-10 yrs, M)

> *"I want to be a millionaire by 2020."*
>
> (Sole trader, Other service activities, Lothians, 1-5 yrs, M)

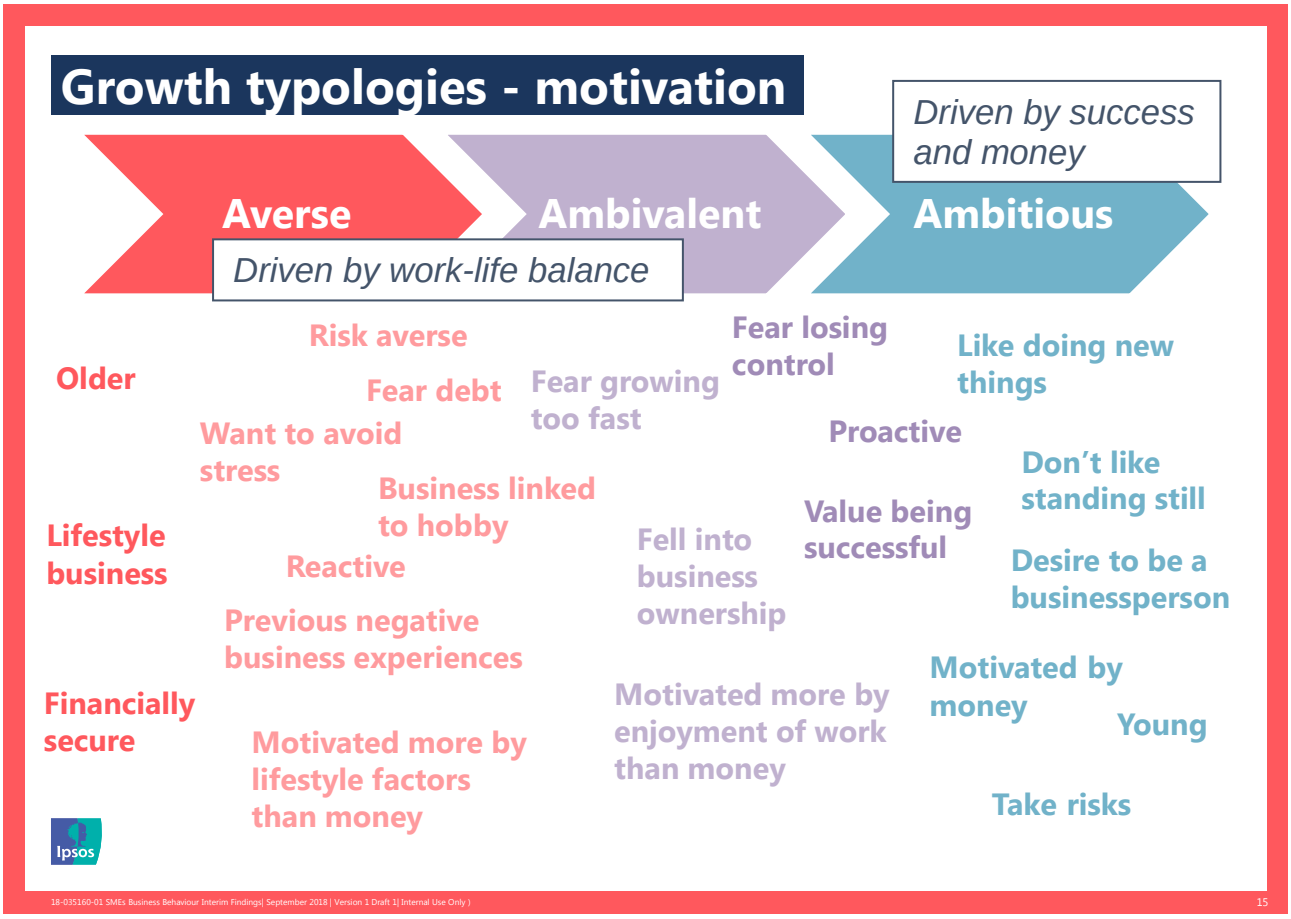
3.2 Attitudes towards business growth

As is implicit in the foregoing, participants' main reasons for entering into a business had implications for the extent to which they were motivated to grow the business. Other factors too were important in this respect, including their personality – for example, their willingness to take risks, their attitudes towards responsibility/being in control and debt, and the extent to which they derived enjoyment from trying new things and being challenged – their previous life or business experience; and their lifestage.

Figure 3.1 presents a typology of business owners' attitudes towards growth that takes these various factors into account. The typology comprises three main groupings: The **Growth Averse (those who did not want to grow their business); the Ambivalent** (those who wanted to grow their business but slowly/not too much, who were hoping that their business will simply grow organically or who were unsure about growing their business but could be persuaded); and the **Ambitious** (those who actively wanted to grow their business). While there was some overlap between the categories in terms of attributes, particular attributes were more or less strongly associated with one rather than the others.

services. Their views and experiences may therefore not be reflective of those of young business owners more widely.

Figure 3.1: Growth motivation typology



Averse

Both the Averse and Ambivalent categories predominantly comprised those participants who had been driven to start a business on the basis of work-life balance considerations and those who had "fallen into" business ownership. Being reactive, risk averse and wary of getting into debt were attributes associated with these business owners. In addition, their initial aspirations for their businesses tended to be fairly low and/or unfocused.

In terms of what distinguished the two groupings, the Averse, more so than the Ambivalent, tended to be affected by compounding factors that meant they actively did not wish to grow their business beyond its current position or what they considered necessary to deliver an acceptable income level. These factors included: being older; being financially secure and viewing the business as a means of supplementing income in retirement; and simply wanting 'something to do'. Negative effects of the recession – both financial (for example, being worried about borrowing money having previously experienced a decline in turnover or getting into debt) and psychological (not wanting to put themselves in a position that could cause them stress; for example, having to make staff redundant) – were also at play here.

Encouraging growth among businesses in the Averse group is likely to be challenging, given the number and nature of barriers to growth reported. For this reason, their experiences and views are not discussed further in the remainder of this report, and the focus is on the Ambivalent and Ambitious groupings, and how they might best be encouraged to grow their businesses.

Case study: 'Growth Averse'

Robert (62) retired from the army 10 years ago. He then worked in catering for a while but felt disillusioned working for someone else as he felt he could run the business better himself.

He decided that he would like to try owning a café and bought suitable premises in a small town eight years ago. **His motivation was primarily to have something to do** as he felt that he was just "waiting to die". **He was not financially motivated as he could live comfortably on his army pension**.

The business has achieved relatively slow and steady organic growth, reflecting the size of the local market. He has tried a small number of unsuccessful planned growth initiatives, including the introduction of 'slush drinks' machines, and he engaged with Business Gateway during the recession, who were able to reassure him that he was doing the right things. However, he feels the business's growth has plateaued.

He considers **his mindset to be the main barrier to further growth**. He enjoys owning the business and **treats it as a hobby**. He does not need the business to make a profit and is **therefore not driven to make changes**. He describes himself as being stuck in his ways and even less likely to make changes now he's getting "long in the tooth".

Ambivalent

The Ambivalent grouping accounted for the largest proportion of those who participated in the research. A defining characteristic of this group was that they wanted their business to achieve a level of growth but were so busy with its day-to-day operation that their growth (to the extent that they had experienced any) had largely been organic rather than planned.

Like the Averse, people who fell into the Ambivalent category were often people who had started a business based on a hobby or interest; a factor that appeared in part to account for low growth among the group: It meant a) they had knowledge and skills in the product or service but *not* in running (and, by extension growing) a business; and b) they were more motivated by their enjoyment of the product or service than by being successful so were not always inclined to step away from day-to-day operation activities to focus on growth activities.

Other barriers to growth among the Ambivalent included: being risk averse (for example, concerns about employing people and borrowing money/getting into debt); and a desire to remain in full control of all aspects of the business due to

concerns about a potential decline in the quality of the product or service were they to cede any control.

Encouragingly, and as is discussed more fully elsewhere in this report, there is likely scope to influence those in the Ambivalent group to grow their business. Indeed, there were business owners who had started off in this category but had become more motivated and able to grow their business substantially over time.

Case study: 'Growth Ambivalent'

Michael (34) was working in a job he didn't enjoy in the manufacturing sector. In 2011, the opportunity arose to buy a bike shop from a friend for a lower price than the business was worth. Michael's passion was for bikes so he decided to '**give it a go**'.

He had no previous business experience so he decided to put together a business plan - he'd read a few books which suggested he should do this. The business has grown steadily but slowly, and not in line with the trajectory set out in the business plan – which in retrospect Michel described as "nonsense" based on the fact he had no experience of running a business when he wrote it.

Growth has been largely organic although Michael has made a number of (reactive) operational changes aimed at increasing profits: changing opening hours, moving to larger premises, product changes and price increases.

Michael doesn't want to grow the business much further, just keep it going, as **he isn't really motivated by money and doesn't want any additional stress**. (He is about to add an additional service offer to the business – not because he thinks it will make a profit but to indulge a personal interest). A further barrier to growth for Michael is a flat rate growth scheme which saves him 3% of his annual turnover - if his turnover exceeds £280,000, he will no longer be eligible for it.

Ambitious

The Ambitious group comprised people who were very motivated to grow a highly successful business and tended to have started their business for this reason. Participants often talked about ambition as just part of who they were – for example, not being the "type of person who can just reach a goal and then stop", getting a "buzz" out of being successful, "having caught the business bug", and being "entrepreneurial'. They were also comfortable taking risks, an attribute they identified as being very important in business ownership.

Case study: 'Ambitious'

Gordon (47) started his first business when he was 24. He saw a **gap in the market** and started a fairly successful building company which he sold when he and his wife relocated. Five years ago, they relocated again and were looking for a new business venture. At that point he had been unable to imagine working for anyone else as he had worked for himself for such a long time.

He felt that a letting agency would be a good fit in terms of his previous experience and heard through word of mouth that a small but successful letting agency was up for sale. Gordon and his wife bought the business and had high growth aspirations. **Gordon describes himself as very ambitious and wants the business to make enough money in order that he doesn't have to 'work forever'.**

Since Gordon and his wife took over the agency it has **grown rapidly through acquisitions** and they have plans for further such acquisitions – Gordon has identified that there may be letting agencies up for sale when the new landlord registrations come in in October. **Gordon is comfortable taking risks and feels this is essential for business growth.**

Younger business owners tended to be particularly ambitious, often aspiring to grow their business quickly. Whether or not their ambition is sustained is another question, however. Indeed, there were examples of older business owners who described having had high growth ambitions for their business when they first set it up but having become less motivated over time due to changes in their circumstances, for example, because they started a family and so had less time to focus on work.

The following chapter moves beyond underlying motivational factors impacting on business' growth behaviour to explore enablers and barriers to growth associated with the 'capability' and 'opportunity dimensions' of the COM-B mode. As noted above, the focus of the chapter (and subsequent chapters) is on businesses that fell into the Ambivalent and Ambitious segments of the growth typologies, as it is among these segments that any interventions are most likely to have an impact.

4 Growth enablers and barriers

This chapter explores factors that had impacted on the growth-related behaviours of the SMEs that took part in the research. It first outlines the extent to which participants had experienced growth, before examining the factors that either enabled or restricted growth. These factors are outlined under three broad headings: environmental and contextual factors; behavioural factors; and the role of advice and support.

4.1 Extent to which businesses had experienced growth

Before considering participants' experience of growth, it should be noted that "growth" was conceived of in different ways by different businesses, ranging from sales and turnover, number of customers, size or number of premises, and size of workforce. Reference to growth and growth-related behaviour in this section encompasses all of these interpretations of the term.

The extent to which the businesses that took part in the research had experienced growth, in any form, varied. Some businesses did not have clearly defined growth targets, which often reflected their reasons for entering into business (for example, "fallen into" ownership, as described earlier). By definition therefore, these businesses found it difficult to comment on whether or not the business had grown in line with their aspirations. Of the businesses remaining, some had met or exceeded their growth ambitions, while others had failed to grow or observed a decline in their performance. There was some variation by size of business: all medium sized enterprises (50+ employees) said they had grown, while sole traders and small enterprises (2 to 49 employees) reported more mixed experiences.

Among those who had experienced any growth, the pace at which this had occurred had varied. For some, growth had been slow in the early stages, before picking up in later years. For others, growth had beeb rapid in the early years, before reaching a more steady level of performance or plateauing. The latter group included businesses that believed they had reached capacity, either in terms market demand, the size of their premises, or time and resources. Such businesses tended to report either having no intentions to grow further or putting their growth plans on hold until they were better placed to achieve them – though there was little evidence of their taking steps to get to arrive at such a position.

Other participants described their growth as "gradual" or "steady", and these businesses tended to be satisfied with this pace, regarding it as a fairly typical or normal.

> *"Businesses never grow as much as you would like them to, but I am relatively satisfied with how we have done – comfortable, and steady."*
>
> (Small enterprise, Financial and business services, Highland and Islands, Over 10 yrs, M)

As well as a varied pace of growth, participants reported a mix of both planned and organic growth. Broadly speaking, participants who reported planned growth tended to be older and to work in larger businesses that had operated for at least five years. Planned growth was characterised by such actions as developing and reviewing business plans or growth plans, updating these plans regularly, carrying out market research, and setting growth targets for coming years. Businesses who exhibited these types of behaviour tended to feel in control of their growth, though they also sometimes observed that businesses were "living and breathing things" and there was a limit to which growth could be controlled.

> *"You can only do so much planning, especially when you are starting out. But as soon as you open up the product to the public, so many things can go wrong or go right, and you can be blindsided. A start-up's forecast will always be a 'finger in the air' exercise to a certain extent."*
>
> (Small enterprise, Food and drink, Lothians, 1-5 yrs, M)

Participants who reported unplanned or organic growth – typically younger participants, working in smaller businesses – tended to explain this in terms of unpredictability in their market. It was common for them to say their approach was necessarily reactive, reflecting what was happening in their market at any one time; for example in terms of prices, level of customer demand, or competitor acitivity.

Businesses thay had not experienced growth often attributed this to their having set unrealistic targets at the outset, or not having planned adequately in the early stages.

> *"It hasn't gone as well as I would have liked...it is on a week by week basis at the moment…it was not a long thought out decision opening this business, I just fancied a bit of change. If it doesn't work, it doesn't work."*
>
> (Sole trader, Wholesale, retail and repairs, South of Scotland, 1-5 yrs, F)

> *"The number one lesson that I have learned is that it is all about focus… I think I really regret that we didn't do that market research sooner, I think I was just a bit scared just to pick up the phone and speak to people. If I had done that sooner and we had focused [our product off] that would have been helpful."*
>
> (Small enterprise, Wholesale, retail and repairs, Glasgow, Less than 1 yr, F)

Others attributed their slow growth to unforeseen obstacles or challenges that demanded changes to the way they had been operating. These participants had realised through "trial and error" and testing the market that they needed to make significant changes to business practices, such as moving from offline to online, from a consumer to business-to-business model, or from retail to wholesale distribution. Still, these participants often discussed such experiences in positive terms, describing how they had helped them to clarify the most appropriate

approach to delivering their business and ultimately placed them on a stronger footing.

4.2 Environmental and contextual factors affecting growth

4.2.1 The economy and market conditions

The impact of the economy has been felt on a number of levels by partipating businesses. Most broadly, they commonly reported that their growth had been impacted by a generally unfavourable financial climate in recent years. There was repeated reference to the recession in 2007, in response to which a number of businesses had decided to hold back on pursuing particular growth behaviours, such as employing more staff or expanding their premises; indeed one participant described this period as a "battle for survival", while another spoke of having gone into "batten down" mode. While such comments were made by a range of businesses, they were particularly prevalent among those in the construction, property, tourism and creative industries sectors.

> *"Prior to the financial crash I was looking at expanding because of the amount of work I was turning away, but the financial crash put a halt to that. Turnover dropped by 60 per cent within a short space of time."*

(Sole trader, Creative industries, North East Scotland, Over 10 yrs, M)

The weakness of the pound had also had an impact, but in different ways for different types of business. For tourism businesses, the low pound had increased the number of overseas visitors to Scotland and therefore boosted their sales. Among those trading internationally, however, the weaker currency had led to increased costs on imported goods and placed pressure on their cash flow.

Economic challenges were compounded by competition from other businesses. Competition took a range of forms, including other businesses offering the same or similar products or services (sometimes more cheaply), and larger providers dominating the market and being able to attract employees by offering higher wages. In some cases, businesses had actively taken steps to stand out from competitors, such as making sure their product or service was delivered to the highest possible standard. However, others reported being unsure about how to respond to competition and saw it as a stumbling block to their growth. There was no clear pattern in terms of types of businesses more or less likely to take either of these approaches.

> *"You're up against [companies like] Amazon and they are massive, huge, and to me are almost like a monopoly…. it's just getting bigger and bigger and is not a level playing field. It is a huge barrier to small, medium enterprises, these monster companies are just taking over."*

(Small enterprise, Wholesale, retail and repairs, West of Scotland, 6-10 yrs, F)

"It is highly competitive, you are dealing with larger companies, and people who are doing it as a 'homer' and getting paid cash, and you can't really compete with that. And there are Polish guys now doing it for a fraction of the cost."

(Sole trader, Construction, North East Scotland, 1-5 yrs, F)

Running alongside these challenges was a sense of uncertainty around how the economy might be impacted by political and constitutional changes in the future, including Brexit and the prospect of a second Scottish independence referendum. As is discussed more fully in Chapter 5, this uncertainty had left businesses feeling insecure about their own future and therefore cautious about taking steps to grow. Those in the construction and property sectors in particular felt that economic uncertainty had made customers less likely to spend, and therefore reduced demand for their services.

"If conditions are not there to help you flourish, you just have to wait and see. But confidences have been shaken among small and medium sized businesses, and people feel insecure."

(Small enterprise, Real estate activities, Lothians, Over 10 yrs, M)

"What does Brexit mean? We don't know yet, and how will that affect the property and construction industry? I don't know yet. So, if I don't know, I'm worried. The construction industry is pretty fickle, and uncertainty means people think more about what they do and maybe [put things off] until next year."

(Medium enterprise, PST[9], Mid Scotland and Fife, Over 10 yrs, M)

4.2.2 Access to finance

Having ready access to finance when needed was commonly regarded as essential to business growth. A number of businesses had secured bank loans to help them purchase equipment, or invest in and expand their premises, often highlighting these occassions as key stages in their growth journey. In contrast, others had experienced difficulties securing finance from banks, particularly during the recesssion when banks pulled back on offering loans to businesses. The closure of local bank branches was commonly identified as an added barrier, with participants observing that it had resulted in business banking becoming increasingly centralised and less grounded in an understanding of local businesses and business owners' needs.

[9] Professional, scientific and technical services

"During the recession the banks behaved abominably to small businesses. They were completely unhelpful, and you just didn't know where to turn to. In the end I had to sell one of my houses to find the money we needed instead."

(Small enterprise, Food and drink, Central Scotland, 5-10 yrs, F)

"They are shutting all these branches and losing a lot of the know-how in local places, the people who know their customers."

(Small enterprise, Food and drink, Mid Scotland and Fife, Over 10 yrs, F)

A small number participants noted the importance of finance from other external sources. This included government or council-backed start up loans, and grants from bodies such as Scottish Enterprise, HIE, Business Gateway, the Scottish EDGE Fund, and The Princes Trust. Grant funding from such sources was seen as favourable to taking out loans from banks, reflecting the reluctance towards debt noted in Chapter 3. The small number of participants who had received finance from the aforementioned sources felt it had had a significant impact on their growth; for example helping to fund the purchase of premises, equipment or stock. Nonetheless, they occasionally noted that the application process had been time consuming and therefore would potentially be off-putting for other businesses.

"If you're relying on a grant or funding packages you could find that you've done nothing but shuffle paperwork back and forth with the various organisations for six months before you get even the green light to progress things, so that can be frustrating."

(Small enterprise, Sustainable tourism, North East Scotland, Over 10 yrs, M)

A small number of participants felt there was a lack of finanical support available to established businesses, compared with start-ups. Another contented that there was less support for sole traders than for larger businesses, due to a reluctance on the part of lenders to finance very small businesses.

"Banks, mortgage lenders, any of these people are an absolute nightmare to get any sort of finance if you're self-employed."

(Sole trader, Creative industries, North East Scotland, Over 10 yrs, M)

4.2.3 Policy and legislation

Policy and legislation were identifed as both enablers and barriers to growth. In terms of the enabling dimension, there was reference to grant schemes or government-backed loans for start up businesses, including support from HIE, Business Gateway, the Scottish EDGE Fund, and local authorities. Participants often reported that such funding had helped them to start and sustain their business, enabling them to invest in premises, equipment or product development, or simply to meet general operating costs. Other more targeted grant schemes were discussed in similarly positive terms, including schemes to help with the installation of biomass boilers, or with the conversion of petrol vehicles to LPG

(liquified petrolium gas), which participants in the agricultural and energy sectors respectively highlighted as haaving been helpful.

In terms of barriers, there was frequent reference to legislation being restrictive for businesses. This included legislation designed to protect employees and customers, such as the minimum wage, workplace pensions, and health and safety regulations. A number of sole traders, in particular, were put off by the time, effort, and expense associated with compliance with these measures. While these participants did not necessarily disagree that it was important to protect employers and customers, they felt that the costs associated with compliance were prohibitive.

> *"There is more legislation now, which can hold you back from moving forward. We would like to employ more staff, but we are held up by minimum wages and workplace pensions, which mean costs would be higher."*
>
> (Small enterprise, Energy, Glasgow, Over 10 yrs, F)

> *"I do everything myself. I'm not looking to employ anyone, because of things like PAYE law and pension provision."*
>
> (Sole trader, Accommodation and food, Highlands and Islands, 6-10 yrs, M)

> *"I was actually building houses for a company and we were getting £3,000 to erect a house and finish it. Then health and safety regulations kicked in, so we then had to erect a scaffolding ourselves around the house, free of charge."*
>
> (Sole trader, Manufacturing, Mid Scotland and Fife, 6-10 yrs, M)

Other, more sector-specific policy and legislative requirements were similarly identified as barriers to growth. Among businesses working in the property rental market, reference was made to the recent changes to laws governing the landlord and tenant relationship, under the Private Housing (Tenancies) Act 2016. This legislation was seen as having changed a number of aspects a landlord's obligations, including requiring additional qualifications, registration and accreditation, making it more difficult for landlords to terminate a tenancy and reducing the amount of notice that tenants were required to give. As well as placing incrased practical demands on landlords, the changes had caused some of those interviewed to worry about an increased likelihood of their experiencing disputes with tenants and potentially being taken to court as a consequence. One landlord reported that, for these reasons, he had decided to close his very successful lettings agency.

> *"The Council and the Scottish Government will always protect the tenant over the landlord, always. The new legislation says it all, these private residential tenancies that the Scottish Government has given us, means we can effectively no longer get rid of bad tenants."*
>
> (Small enterprise, Sustainable tourism, South of Scotland, Over 10 yrs, M)

Agricultural businesses had other policy-related concerns. In particular, they noted that farming subsidies were too short term, making it difficult to plan ahead. Some also commented that the future of subsidies was uncertain, thus posing a risk to the future growth – and, indeed, the future sustainability – of some farms. On the other hand there were some in the sector who saw farming subsidies as a tool which could discourage growth, as they were given to businesses regardless of how well they were performing.

> *"[The government] are presently subsidising the cost of food by paying farmers to grow certain things. There is no forward planning beyond two to three years at the moment…because the government is only in for five years at a time or less."*
>
> (Small enterprise, Food and drink, Mid Scotland and Fife, Over 10 yrs, F)

> *"At the moment we face Armageddon in 2022, if they take away the single farm payment we will be losing north of £50,000 a year, and I will have to make decisions whether to just do a running jump and let the whole lot become scrub. You can't go on losing £50,000 a year for ever."*
>
> (Small enterprise, Sustainable tourism, South of Scotland, Over 10 yrs, M)

4.2.4 Recruitment, retention and skills

The ability to recruit and retain staff was seen as a further factor impacting on growth, particularly in rural areas. In terms of recruitment, a commonly cited challenge, was finding enough people with the requisite skills to fill positions, including both junior and more senior positions. This was seen as a challenge in a range of sectors, but was especially prevalant among those working in tourism and food and drink. One participant attributed recruitment challenges in the former sector to a widely held perceptions that the hospitality industry is poorly paid, making it unattractive to potential employees even though her business offered competitive wages.

Competition from larger businesses offering higher salaries was noted as specific recruitment challenge by business across a number of sectors. They described finding it difficult to offer a comparably attractive package for potential new recruits.

> *"The biggest problem that we had is actually employees and finding the right people for the roles. The JP Morgan's of the world can just grab all the new talent as it comes out, offer really high pay checks that start-ups just can't compete with. So, that slowed our development because we just couldn't get the right resource in."*
>
> (Small enterprise, Wholesale, retail and repairs, Glasgow, Less than 1 yr, F)

In terms of retention challenges, these were particularly highlighted by businesses in the tourism and food and drink sectors, where work was often seasonal and tended to have high staff turnover. Further, those in remote rural locations

highlighted structural barriers that posed challenges for retaining staff, specifically the lack of accomodation in their area for staff.

> *"The [high] staff turnover we suffer on the island is often as a result of people not being able to find anywhere to live, because there is a lack of affordable accommodation."*
>
> (Medium enterprise, Accommodation and food, West of Scotland, Over 10 yrs, F)

However, there were examples of businesses taking active steps to try to retain their staff, such as one manufacturing business who had put in place longer term contracts for trainees as a means of keeping them in ther business, having previously suffered from employees leaving as soon as they had received their training.

Concern over recruitment and retention of staff were heightened by uncertainty over the future ability to employ non-UK EU nationals, reflecting the general sense of insecurity arising from Brexit (outlined in more detail in Chapter 5). Again, these concerns were particularly prevalent among those in the tourism and food and drink sectors, who tended to rely on overseas workers. These concerns were even more pronounced in more remote rural locations, where populations were small and declining and businesses were therefore dependent on in-migration to fill positions.

> *"The number of people [here] that are of working age is far below the Scottish average, which makes our issues of getting staff even harder, and [more so] with Brexit, because we need our Eastern European staff to keep this business afloat."*
>
> (Medium enterprise, Accommodation and food, West of Scotland, Over 10 yrs, F)

4.2.5 Physical assets

The availability and suitability of physical assets; specifically, premises and equipment, had also impacted on business' ability to grow. While some had been able to find any premises they needed in the right place and at the right time, others had faced difficulties in these respect. Several people, commented that available premised were too small for their purposes – this was particularly the case in rural areas – or too expensive.

The specific location of available premises was highlighted as an additional challenge, particular by retail businesses, for whom footfall and passing trade was an important driver of sales. Business located in quieter area, with low footfall, felt this has been a reason for poor performance. Conversely, businesses that considered themselves well-located, highlighted this as an enabler to growth. Indeed, one participant described being reluctant to move locations for this reason, even though her operations were somewhat constrained by the size of her premises.

> *"I'm in really, really small premises, but at this moment in time I would just be happier if there was an increase in footfall."*
>
> (Sole trader, Wholesale, retail and repairs, North East Scotland, 1-5 yrs, F)

> *"One of the things that stops us moving forward is that we have such a small shop. But I wouldn't want to move because the shop is so nice and our location is so good. If you move to the wrong part of the high street, that can be a risk."*
>
> (Small enterprise, Wholesale, retail and repairs, South of Scotland, Over 10 yrs, F)

The ability to acquire equipment had been a similarly important factor in some participants' growth journey – especially those in the agricultural and manufacturing sectors, who gave examples of having invested in equipment which allowed them to work on a larger scale. Further, those who had invested in new or updated equipment (such as forklifts and biomass boilers) and automated their processes noted that this had helped to reduce their costs and make their practices more efficient.

However, other businesses were reluctant to upgrade their equipment, preferring to remain "traditional". In part this was due to a perceived risk that a more industrial, mass production approach could affect the quality of their product. For others, it reflected a perception that traditional manufacturing approaches were part of their "USP", which would be at risk if they were to modernise.

4.2.6 Culture and mindset

Though not a widely held view, in certain circumstances participants felt their growth had been hampered by the existence of "small town mindsets". This point tended to be made by businesses in rural locations, who described having facing resistance from the local community on account that it had not felt adequately informed or consulted about the development of the business, or simply because it was hostile to 'incomers' setting up businesses locally.

> *"There is a small community ideology here, which is not always the best way of giving individuals encouragement to do something different. When we set the business up, even though I have been living here for 40 years, there was one section of the community who wanted to prevent this business by any means."*
>
> (Small enterprise, Accommodation and food, Highlands and Islands, 6-10 yrs, M)

In a similar vein, a small number of participants attributed their lack of growth in part to a lack of collective effort on the part of their community to promote the area positively and encourage new visitors. Reinforcing this view, other participants who felt such efforts *had* taken place or were in process in their areas stressed the positive impact these has had on their business.

> *"The attitude here is the biggest barrier. People are very negative, and it comes from all angles. If people were promoting the more positive side of the town, rather than constantly talking about what we haven't got, then that would make a big difference."*
>
> (Sole trader, Creative industries, South of Scotland, 6-10 yrs, F)

“There is a lot of work going on in the background to promote the area to attract tourists… we get involved in anything that puts [the town] on the market and lets people know that we're here.”

(Small enterprise, Wholesale, retail and repairs, West of Scotland, 6-10 yrs, F)

4.3 Behavioural factors

4.3.1 Business plans

As described in Chapter 1, quantitative research on growth aspirations, conducted as part of the Scottish Government's Enterprise and Skills Review[10], found that having a business plan to be positively associated with business growth. Business owners who took part in the research were fairly evenly split in terms of whether or not they had had such a plan during the initial stage of their development. At the time of interview, fewer than half had an up to date plan.

As is discussed more fully below, certain groups of participants were more likely to report having a business plan than others, including those representing larger enterprises and younger people.

Factors influencing the development of business plans

Among business owners who had developed business plans from the outset, several factors had influenced their decision to do so. These ranged from the plan having been a prerequisite for applying for financial or other support; to being encouraged by others (particularly support agencies) to create it; and personality factors or previous business experience.

Business plans as a prerequisite for support

Application processes for available business funding (for example loans and grants) or support (for example, entry onto programmes such as Accelerator and Sporting Chance) tended to require the provision of a detailed business plan. Less commonly, suppliers requested them as a condition of stocking their products.

Such requirements were the main, and in some cases only, reason business owners had created a business plan in their early days. The extent to which owners had subsequently referred to and utilised the plans varied, with some having continued to refer to and update them regularly, and others seeing them as having been merely an initial means to an end, with limited long-term value.

Personality factors and previous business experience

Some business owners explained their decision to create an initial business plan with reference to their personality – for example, describing how they "liked structure", were "business driven" and keen to understand the business' potential. The extent of participants' previous business experience, whether considerable or limited, acted as a further motivator: there were those who had become aware of the importance of a business plan through their previous role(s), and others who created one precisely *because* they lacked business experience and felt a plan would help focus their activities. Those with little business experience has also

[10] Scottish Government *Enterprise and Skills Review Phase 2 Report* Available from: http://www.gov.scot/Resource/0052/00521428.pdf

commonly been influenced to create a plan by others around them (friends, family, other business people) and/or by business books.

Such participants who had proactively decided to created business plans had typically done so in order to clarify for themselves what the business was trying to achieve and able to be able to describe it to others; create a means of identifying potential revenue sources; help maximise profits; and help ensure that the business was operating in line with relevant legislative and regulatory requirements.

> *"That was one of the first tools I used to try and get all my thoughts in some kind of sensible structure; to think how it could potentially work as a business, so all my costs, what that looked like from operations, what I was going to do for my marketing - just having it all on one page was the start of it."*
>
> (Small enterprise, Wholesale, retail and repairs, Glasgow, Less than 1 yr, F)

Support creating business plans

Business support agencies and related bodies played a role both in encouraging businesses to create business plans and assisting them in doing so. Participants spoke mainly about the latter of these functions – for the most part in positive terms.

Younger business owners and those with little business experience in particular has often lacked the skills required to create a business plan so had very much valued the support they had received from agencies and other third parties with this part of their journey. Their was specific reference to support provided by Business Gateway, the Princes Trust, Entrepreneurial Spark, the Scottish Institute for Enterprise, business mentors, universities and local organisations such as Jobs and Business Glasgow.

Existing business plan templates offered by some of the aforementioned agencies were considered useful. At the same time, there was a perception that plans had to be long and detailed, which was off-putting for some. A participant engaged with Entrepreneurial Spark noted that the organisation's 'one sheet' approach was less intimidating than other templates she had encountered. In a similar vein, another participant described how his company had taken the decision to distill its previously lengthy business plan into one page which had helped it focus on key activities.

> *"We came away from writing, you know, a business plan that was 30 pages long and really now our template for our plan is just one...always try to get it down on to one page."*
>
> (Medium enterprise, PST, Mid Scotland and Fife, Over 10 yrs, M)

Maintaining business plans

It was relatively uncommon for participants to have maintained a formal business plans in the long term, reflecting the fact that initial funding and support applications emerged as the main drivers for creating plans. In the absence of such external

impetus, participants tended to prefer to review performance and make business decisions in less formal ways. That said, those representing larger enterprises were a little more likely than sole traders and small business owners to have formal plans that they maintained and referred to regularly as they saw these as a necessary part of running their business.

> *"We work a five year plan [looking at our] sustainability, improving facilities, making the whole customer experience better, and enhancing our facilities in order to generate further revenue."*
>
> (Medium enterprise, Sustainable tourism, North East Scotland, Over 10 yrs, M)

Seeing positive results from having a plan had served as a motivator to maintaining one for some. For example, one participant described how using a plan to break his ambitions down into more tangible targets and specific aims had helped him to achieve growth.

> *"It's dead easy to say, 'let's grow a million pounds', but actually how do you grow a million pounds if you don't break it down and tick things off on the journey, you will never get there."*
>
> (Medium enterprise, PST, Mid Scotland and Fife, Over 10 yrs, M)

Barriers to having a business plan

Business owners operating *without* business plans did so for a number of reasons and, broadly, these mirrored the motivators, outlined above.

Firstly, it was clear that many businesses had lacked the external impetus to develop a business plan – for example, in the form of funding or grant application requirements – that has been so crucial for others. Equally, and as described in Section 3.1, participants had often set up their business without a clear idea or aspirations of what they wanted to achieve; in other words, with a 'see how it goes' mindset, which meant that proactive planning had simply not been part of the equation – and, in some cases, not something that even later, had so much as occurred to them:

> *"[A business plan] just never crossed my mind, I just thought there is an opportunity here, I will just go and give it a go and that's really what I did."*
>
> (Sole trader, Wholesale, retail and repairs, North East Scotland, 1-5 yrs, F)

> *"Our approach is very much based on the day-to-day. We look at what is happening in the market and respond to any changes."*
>
> (Small enterprise, Energy, Glasgow, Over 10 yrs, F)

Others, though aware of the notional benefits of business planning, described having felt no need to develop one for their business. They talked about having a vision for the business "in their head" which they felt sufficed to guide their

activities. They also often commented that, when starting out in business, time is limited and best spent just "getting on with it"'.

> *"They are a waste of time. It is more important to put the effort in to the business yourself."*
>
> (Small enterprise, Accommodation and food, Highlands and Islands, 6-10 yrs, F)

Perceived uncertainties in market conditions and other external factors led some business owners to believe that a business plan could, by definition, only ever be a theoretical document and, as such, would be of limited use. Indeed, there was a view that "working day-to-day, looking at what is happening in the market and responding to any changes" as necessary was a more beneficial approach. This perspective was particularly common among businesses that were weather dependent – for example those in the farming and horticultural sectors.

Personality factors emerged as further barriers to business planing. For some business owners, the idea of working to a structured business plan simply did not 'sit well' with them – for example, because they disliked being organised; preferred to "take it as it comes" and not be 'tied up' with plans; were not "detail-" or "paperwork-oriented'. Not having business experience or skills was similarly reported as a barrier. One business owner described how she had looked into developing one but found the "jargon" used in business planning difficult to understand even after seeking some support. She concluded that she just did not "have [the] kind of a brain" needed to put together a plan. Others who felt they lacked the capability to create a business plan reported knowing that relevant support was available but not having actively sought it out due to a lack of time.

Equally, however, there were participants with business degrees and/or substantial business experience who had not created business plans. This was because they felt they already knew enough about running a business and therefore did not need one.

4.3.2 Operational improvements and innovation

The current study reinforces the positive association between operational improvements and business growth, identified in previous research[11]. Indeed, even before being asked about any such measures they had implemented, participants often spontaneously cited particular improvements or innovations as having been key to their growth.

More generally, almost all businesses that participated in the research had undertaken at least some operational improvements or innovations and most reported positive impacts of these. The extent and nature of changes mentioned varied, to some extent in line with business size: larger enterprises tended to be continually reviewing processes and practices, whereas sole traders had often

[11] Hunter Centre for Entrepreneurship (2018) *Entrepreneurial Ecosystem – Benchmark Research Final Report*

undertaken just one specific change (if any), for example changing the focus of the business, changing opening hours or purchasing higher quality tools. The main types of changes businesses had implemented are summarised in Table 4.1.

Table 4.1: Common operational improvements

Change type	Common examples of changes/improvements
Technology/IT	Investment in software (e.g. a farm machinery company had introduced GPS tracking for vehicles, a letting agency had introduced industry specific software) Automating processes (e.g. booking systems)
Diversification and product/service changes	Improving and expanding facilities (in particular, hotel and leisure facilities expanding accommodation and adding new facilities) Introducing new strands (e.g.an adults clothes store introducing childrenswear) Introducing a new way of obtaining business (e.g. a florist joining Interflora, a café joining JustEat or a skincare range being stocked in a department store) Changing the focus of the business (e.g. from predominantly selling products to predominantly servicing or repairing products)
Premises	Moving from home working to office/production space Moving to larger premises
Equipment (particularly in manufacturing and construction industries)	Purchasing new equipment (e.g. farm machinery, manufacturing machinery, biomass boilers, construction tools, high quality optometry/pharmacy equipment)
Production/manufacturing changes	Review and refinement of manufacturing processes Improvements to product/packaging
HR/staffing changes	Employee attraction and retention initiatives (See 4.1 for more detail - e.g. hotels paying staff Living Wage, introducing retention clauses into contracts) Changing employee roles Employing more staff Making redundancies Changes to payroll (e.g. moving from paying employees weekly to monthly in line with pensions regulations) Employee engagements (e.g. introducing memos to improve communication, staff surveys)
Operating hours	e.g. a gallery and a café reducing the number of days they were open to reflect times where business was quiet and a shop opening longer hours to allow customers to visit on their way to and from work

Participants discussed the benefits they had achieved or hoped to achieve as a result of undertaking the specific types of change listed. Changes such as the introduction of new IT/software systems, the purchasing of higher quality equipment and the refinement of production/manufacturing processes HAS been implemented with the goal of improving both the efficiency of processes and the quality of products or services. At the same time, such changes were considered important in “keeping up” with the rest of the industry. Improving the customer experience was a further motivator for certain types of IT changes; for example, offering the opportunity to make online bookings.

Diversification or changes to service or products was primarily motivated by a desire to increase sales or profits. Businesses hoped that these changes would increase their customer base and/or give them a competitive edge. Changes to physical premises and staffing were similarly undertaken with the ultimately aim of increasing sales – though there were businesses that felt they needed to make cost savings to improve their financial position by making redundancies and reducing their opening hours.

Other improvements were made with the ultimate aim of attracting and retaining staff (and therefore spending less time and money on recruitment); namely improving employee conditions (for example by paying them the Living Wage), putting measures in place to retain them (e.g. retention causes in contracts) and improving employee engagement (e.g. through communications and staff surveys). Some participants also noted that improvements they had made to manufacturing processes and equipment were in part done with view to ensuring the health and safety of staff.

Finally, participants had undertaken some improvements with the primary motivation of complying with regulations such as pension requirements or those which were specific to their industry. These changes had, however, often resulted in incidental benefits such as efficiency savings through improved processes or systems.

CASE STUDY

Hugh is a director working at a medium enterprise, specialising in farm machinery, which was established more than 200 years ago. **In the past 10 years, the company had experienced rapid growth which they attributed in part to a number of successful operational changes.**

Most significantly, they had changed their business model to being more of a specialist supplier stocking a smaller number of lines. This allowed them to improve their product knowledge and thus better advise customers, and also meant that the suppliers concerned viewed them in a very positive light.

Other operational improvements had resulted in more cost-efficient processes. These included:

1) Moving from paying employees weekly to paying them monthly. While this change had been necessitated by reforms to Work and Pensions Law, Hugh was pleased the company had been given the “excuse” to do it as it made the payroll process more efficient. Knowing that the move would likely not be popular among employees, they eased the transition by offering all staff an upfront loan of a month’s pay which would be drawn back over the subsequent 12 months.

2) The use of GPS technology to organise staff in the field and prioritise which staff visit which customers, depending on their current locations. This change was expensive to implement, involving the recruitment of two full-time staff to manage the process. However, it had proved to be significantly more efficient and has helped set the company apart from their competitors.

Staff recruitment and retention was a particular issue for the business, not least as it was located in a more rural area. To address this, they implemented contracted training programmes to retain staff, under which they provide employees with substantial training on the condition that they remain at the company for an agreed number of years thereafter. They also introduced a staff survey which had helped point towards small improvements they could make to increase employee satisfaction.

The company had not used external support agencies for advice or financial support in implementing these changes. They described themselves as "quite traditional" and had just never thought to approach anyone for support.

Barriers to making operational improvements/innovating

Although businesses had made a range of operational improvements, they nonetheless identified specific barriers that they had encountered this respect. These broadly reflected those discussed in relation to achieving growth more generally, and related to participants' motivation, time and resources and skills, as well as specific external factors.

Motivational barriers predominantly comprised attributes that effectively defined the Averse and Ambivalent categories of owners, as set out in the growth typology (See Chapter 3) – being risk averse, lacking the confidence to try new things, wanting to remain in control of operational aspects of the business and being motivated more by enjoyment than growth.

In terms of resources, participants talked about having to weigh up the cost of undertaking improvement against the likely benefits, which they felt was complicated by the fact that both elements were difficult to predict. They also reiterated challenges relating to accessing finance, often commenting that they did not have the capital to make changes, and to time pressures; both in terms not being able to step back from the day to day operation of the business to identify potential changes and to actually implement these. Time appeared to be a particular barrier among smaller businesses who often talked about wanting to take on additional employees to free themselves up but not being able to afford to do so.

A lack of general business knowledge acted as a further barrier to implementing change. A small number of participants, who were doing very little in the way of operational improvements or innovation, appeared to lack awareness of the potential benefit of making such changes. These tended to be people representing the smallest businesses and those not doing as well as they would have liked. One example was a retail business owner who attributed her poor sales to macro-level factors (e.g. the financial climate generally).

> *"I suppose the challenge for me is getting people to come in and spend money and because there has been a downturn, but things are slowly picking up again, but I feel it kind of out of my control, I just have to maybe sit tight and see what happens."*
>
> (Sole trader, Wholesale, retail and repairs, North East Scotland, 1-5 yrs, F)

Others knew that there were changes they *could* make, but commented that they would not know where to start.

> *"It's the know how… I'm sure there would be someone who… has worked in operations and warehousing that could probably come in and completely turn things around and tell me how we should be doing things differently, but I just don't have that knowledge at the moment."*
>
> (Small enterprise, Wholesale, retail and repairs, South of Scotland, 1-5 yrs, F)

IT-related change was an area in which participants particularly felt they lacked necessary knowledge and skills. This has often made them reluctant to adopt new technologies which could improve their businesses. Those who *had* undertaken IT-related changes often reported having faced the same barrier but overcoming these by undertaking training, working with consultants or outsourcing – albeit they also mentioned the time and/or financial outlay involved.

> *"This online shopping thing has obviously been there since the inception, and is something that we have kind of thought we will have to do at some point, and [my business partner] actually did attend a course to help us get our website built but it didn't really materialise, because it was quite complex. We are not IT people...So, in the end it just kind of subsided and we never ever went down that route.*
>
> (Small enterprise, Wholesale, retail and repairs, West of Scotland, 6-10 yrs, F)

In terms of external factors impeding operational changes and innovation, participants again cited: the uncertainty of the market and economy in general – there was a view that a stable financial climate that supports growth is required to make changes, otherwise the risk it too high. They also reiterated challenges presented by – in particular, being put off employing more staff due to the extra time and cost involved in relation to meeting health and safety regulations.

4.3.3 Networking and collaboration

Participants had engaged in networking to varying degrees. Some had joined formal networking organisations, such as the Federation of Small Businesses, or attended formal networking events, such as those run by Business Gateway or Business Network International. Others described being involved in more informal networks of likeminded business owners in their local area, who would share knowledge and experience of running their businesses.

Networking had been important in driving business' development and growth, through providing access to customers, allowing for the sharing of knowledge and the opportunity to learn from others, and, in the case of more formal

networking, opening avenues to sources of private sector funding, such as Angel investments.

> *"There is the likes of the BNI network…I've got a relationship [with them] so I could pretty well pick up the phone to people now and bounce ideas off them and ask questions".*
>
> (Small enterprise, Sustainable tourism, North East Scotland, Over 10 yrs, M)

Businesses that did not engage in networking sometimes cited a lack of opportunities in their local area. In addition, some commented that networking was just another task competing for their limited time, and, whilst they recognised potential benefits, it was not a priority for them at present.

Beyond networking, many participants had engaged in some form of collaboration with other businesses, whether formal or more informal in nature. Formal collaboration largely took the form of businesses partnering with companies with differing skillsets or specialisms to their own to develop new products or services. One participant, a hotel owner, had partnered with a Scottish distillery, to produced gin and whisky from his hotel grounds. He planned to offer a visitor experience incorporating a tour of the distillery, believing this would provide his business with a new USP and thus competitive edge in the hotel market.

Another participant, whose business involved handmaking organic skincare, wanted to include soaps in her range, but thought it would take her a long time to learn how to make them. She therefore contacted a local soap maker via Twitter and asked her to make the product on her behalf. She had recently secured a grant from the University of Strathclyde, which provided her with the capital to invest in the collaboration.

For participants who had engaged in it, collaboration represented an efficient and cost-effective way for them to work around any skills gaps within their business, or to diversify. Some noted that it also provided important promotional opportunities – they intentionally collaborated with companies with a good reputation or strong customer base as a means of maximising their exposure to potential new customers and markets.

> *"We are really trying to [collaborate] more and more. One example is [a company in London]. We realised they would be a really good route to market for us. There are different ways that we could work with them, either they can licence our platform or they can work with us on a commission basis."*
>
> (Small enterprise, Wholesale, retail and repairs, Glasgow, Less than 1yr, F)

In term of other formal types of collaboration, there were participants from rural areas who were involved in establishing and maintaining initiatives aimed at promoting local businesses generally. For instance, a hotel based in the West of Scotland was involved in establishing an industry board with the aim of getting businesses in the community to work together to encourage tourists to the area. Perceptions of such initiatives among those who had engaged in them were generally positive: participants reported that the initatives had helped improve local business' offerings and promoted growth. At the same time there was some concern about the ongoing sustainablity of such ventures in the absence of any financial support from agencies.

> *"… we all put money [in to the community initiative] every year, varying amounts depending on the size of our business … it's all about getting businesses working together… it's all about improving the product on the island as well and making sure visitors are well looked after."*
>
> (Medium enterprise, Accommodation and food, West of Scotland, Over 10 yrs, F)

More *informal* types of collaboration similarly took a variety of forms. In the main, participants discussed the sharing of resources, such as equipment, stock or skills, in the interests of cost-efficiency. Such collaboration occurred across a range of sectors, though most notably in the retail and farming sectors:

> *"If somebody has got a new tractor, a new machine and you haven't got it, you don't think twice, you'll get [them to help you]. That happens a lot, and then you may have to do labour in exchange or something like that."*
>
> (Small enterprise, Food and drink, Mid Scotland and Fife, Over 10 yrs, M)

> *"We have this young girl that's 16 and wants to be a hairdresser who started working with me [in the florist] … then an opportunity came up at [a local] hairdressers, but [there's] not enough [work there] for this girl at the moment, so we now share her. I'm supposed to have this girl on Saturdays and if [the hairdresser] needs her she [says] will it be okay if next Saturday I have her?"*
>
> (Small enterprise, Wholesale, retail and repairs, West of Scotland, Over 10 yrs, F)

Additionally, participants reported recommending other local businesses to their customers, or sharing workloads with other businesses, at times where they themselves did not have the required skills or capacity themselves.

> *"All the guesthouses and hotels in this particular area all help each other out. If I'm full and someone comes looking for a*

room, I'll send them to [another hotel]. If they are full and they have someone else looking for a room, they'll send them to me. So we help each other out."

(Sole trader, Accommodation and food, North East Scotland, 6-10 yrs, M)

Businesses that did *not* engage in any form of collaboration commonly reported having never needed to; for example, because they were content with their pace of growth. At the same time, it was clear that many businesses had simply never considered collaboration and had little sense of what it might involve in their particular case or benefits it might bring.

Less commonly, there were participants who felt they did not have the time or resources to devote to collaboration. This was often based on an assumption that collaboration would necessarily take them away from the day-to-day running of the business, and thus potentially undermine their ability to grow.

"The barriers to [collaboration] would be time and money… one, the firm is busy doing our day to day jobs, and secondly, [the firm] can't really afford for somebody to go off and do something and not be earning, the answer to that would probably be, no."

(Medium enterprise, PST, Mid Scotland and Fife, Over 10 yrs, M)

A few participants were sceptical about the idea of collaborating with other businesses. They felt protective of their business and ideas, and worried that collaboration could result in a competitor being able to glean important information about their product, service or ways of working that might ultimately benefit that competitors at their expense.

Others reported experiencing scepticism about collaboration on the part of other businesses. For example, a florist in the South of Scotland, recalled how trying to organise a local Christmas market took her many years, due to resistance from other local businesses, who could not see any worth in the venture.

Overall, there was no clear pattern indicating that collaboration was more or less prevalent amongst particular types of business: those choosing not to collaborate represented a spread of locations, sectors, length of operation and engagement with support services.

4.3.4 Supplier relations

Virtually all participants described their relationships with any suppliers they worked with in positive terms. They commonly observed that "if you are good to suppliers, they are good to you", or stated that their supplier relationships were long-standing which had fostered the development of mutual understanding and trust.

> *"…We see them regularly, we speak to them regularly, and if there are issues, if we need their support to extend credit terms or something like that we talk to them. [There is] a lot of trust, because we have known them for a long period of time."*
>
> (Small enterprise, Wholesale, retail and repairs, West of Scotland, 6-10 yrs, F)

Several factors were identified spontaneously as having been important in maintaining participants' good supplier relationships; in particular, the prompt payment of invoices; communicating regularly; and simply getting to know suppliers as people, for example by visiting them in person (though a couple of participants noted that developing friendships with suppliers had occasionally made it difficult for them to raise issues with them). Further, it was common for people to say that they tried to use local suppliers where possible, both because doing so was more convenient than dealing with people further afield, and because the were keen to support other local businesses.

Beyond the aforementioned behaviours, very few participants had consciously made efforts to try to build more effective relationships with suppliers or achieve better value from them – though a small number reported having switched suppliers with the aim of getting a better or cheaper service; or negotiating trade credits with them to help manage their cash flow.

4.3.5 Marketing and promotional activity

There was general recognition that marketing and promotional activities were important facilitators of growth. Indeed, it was common for participants to identify specific such activities – typically setting up a website or social media accounts; advertising in the press or leafleting; or involvement in initiatives aimed at promoting local businesses generally – as key points in their growth journeys.

At the same time, it was clear that many participants, particularly sole traders and other smaller enterprises, were not always doing a great deal if anything in the way of marketing or promotion.There appeared to be four main reasons for this. Firstly, those in the earlier stages of their journey commonly said that they did not have the time or resources to put into marketing or promotion as their entire focus was on "getting their ducks in a row" and the day-to-day running of the business. It was common for these people to comment that marketing and promotion was something they would focus on at some (often unspecified) point in the future when they had the capacity to do so. Significantly, this included some people who were struggling to establish a customer base and/or break even.

"The first year I was working till 11, 12 o'clock at night but for no return, because the shop had [so many] expenses…so we didn't advertise the framing [service] here because I couldn't cope with the volume of [work]."

(Small enterpries, Manufacturing, Mid Scotland and Fife, 1-5 years, F)

"That first 12 months was less about 'let's put a plan together for marketing, business development and growth'…I think over the next year, it's going to be [these things] that we are going to concentrate on, because I think we have got ourselves into a position where we can now do that well."

(Medium enterprise, PST, Mid Scotland and Fife, 6-10 yrs, F)

Secondly, there were participants who felt that marketing and promotional activities were expensive, particularly as the returns generated were not always obvious or discernable. This led them to conclude that such activities did not represent a worthwhile investment for them. In some cases, such views were based on personal past experience but in others, simply on proxy experience or word of mouth.

"I have thought about advertising and getting a web page up and running, but most of my mates who are sort of one-man bands, they're just saying that basically it's expensive, they don't get enough work from it."

(Sole trader, Manufacturing, Mid Scotland and Fife, Over 10 yrs, M)

Other participants expressed uncertainty as to how to go about marketing or promoting their business to their target clientele, commenting that they were unsure about what particular markteting avenues would be most effective. Reflecting this, they commonly identified information and advice on such activities as the type of support they most needed to help grow their business in the future. There was specific mention of information and advice on social media marketing, which was commonly regarded as more effective than more traditional approaches such as advertising in newspapers and leafletting. At the same time, several participants commented on a need for local agencies, such as tourist boards and local authorities, to do more to promote their local business communities generally. Indeed, in the absence of locally-based support, some participants had taken it upon themselves to try to promote their local business community – for example, one person had produced a flyer incorporating a map of local businesses that she shared with other businesses for dissemination to customers.

Less commonly, there were participants who said they had never needed to advertise because they had been able to develop a satisfactory customer

base through word or mouth or other informal means. In the main, these were people whose businesses were located in smaller communities and/or whose target market was very locally-based or their product or service very niche.

> *"I'm a good joiner, so it was a case of word of mouth and then I didn't need to advertise. Once I could prove to the members of the public that I could do a good job, you know, brothers, sisters, aunties, uncles, it just took off."*
>
> (Sole trader, Manufacturing, Mid Scotland and Fife, Over 10 yrs, M)

> *"We do do marketing, but actually our kind of sales drive is just personal business development, it's just knowing the people in your local markets."*
>
> (Medium enterprise, PST, Mid Scotland and Fife, Over 10 yrs, M)

Nonetheless, there was a clear sense that some of these businesses had the potential to grow were they to undertake marketing – for example, they talked about having had to turn away customers in the past. However, in several such cases, they were struggling to meet current demand or otherwise keep on top of things, so did not feel it made sense for them to market themselves at present.

4.4 The role of support and advice

4.4.1 Awareness of support services

Awareness of available support services for SMEs varied. On the one hand, it was common for participants to have at least heard of Business Gateway, whether or not they had had any engagement with the organisation. Awareness of other agencies providing support was lower, particularly amongst business that had be in operation for over ten years. In general, very few participants were aware of the Scottish Investment Bank or the Scottish Growth Scheme.

Participants who were aware of support agencies or services tended to have become so via their existing business networks, including other agencies they had engaged with, other business owners, or contacts from previous employment. Others noted that word of mouth from their personal networks played a role in informing their awareness of services.

Some young entrepreneurs had come to know of support agencies or services though their universities. In such cases, their institutions had introduced them to external support services as part of their course (for example, product design, or business management), or the participants had directly asked their unversity who to appeoach when they were thinking about setting up a business.

Case study

Susan (30) started her own business after having studied business management at university. She was keen to start a business, and spotted a gap in the market for a safety device that would help protect people who worked alone or travelled alone for work. After carrying out a lot of market research to shape her product and identify potential clients, she successfully launched her business and it has grown in line with her aspirations.

Susan feels that **external support was instrumental in helping her to start and grow the business**. After having carried out an internship with the **Scottish Institute for Enterprise** during her time at university, she was exposed to several avenues of advice and support. She approached **Business Gateway** for advice, who awarded her a **£1,000 start-up grant**. She also entered a number of competitions for funding including **Scottish EDGE**, for which she was successful.

As a result of engaging with **Gabriel Business Angels**, she was aligned with a **business mentor** who provided advice and support on areas in which she was less experienced. She says that she would not have been able to get to the stage she is at now at without the range of support that was available to her as an entrepreneur.

Participants with little or no awareness of support services reported being unclear where to find out about this. There was a sense in which they conceived of the support landscape as confusing, and felt it would take a lot of time to identify the range of agencies that existed and the right one to engage with in their particular case. Some participants reflected that they would welcome being approached by agencies or services, instead of having to do the 'leg work' themselves.

> *"…I will welcome any [support] to either help the club financially or develop as an organisation…We don't get fliers or mail shots or emails or anything like that."*

(Small enterprise, Sustainable tourism, North East Scotland, over 10 yrs, M)

A corollary of low awareness of support services was limited understanding of the *types of support* available. Indeed, there appeared to be some misconceptions on this matter. Some participants believed that engaging with support agencies was something they would only do if their business needed to borrow money or apply for a grant. Others felt that support was only there for new businesses, not more established ones.

"I didn't think I needed help…I didnae know that [support services offered financial support] … we did need money when we were doing certain things [but] we went to the bank… I didnae know where else to go."

(Small enterprise, Real estate activities, Lothians, over 10 yrs, F)

"[I believed] that a lot of funding [was] available to new starts as opposed to companies that have been going for a while. So, probably at the back of my mind, [I was] thinking they're just for new start-up businesses."

(Small enterprise, Real estate activities, Lothians, 1-5 yrs, M)

Still others expressed a view that support services were geared towards certain types of businesses, such as IT or online businesses, and were less interested in "dirty industries", such as construction or haulage, or perceived "high-risk" industries, such as food and drink. On this basis they commented that services were "not for them."

Less commonly, engagement with support services was something participants were just not willing to countenance; either because the idea of doing so did not 'sit' with their conception of how a business should be grown, or because they felt they already had strong business accumen and/or the resources they needed to run their business.

"That is not really in our business philosophy. We think if you build up a business, you should have a good idea and do it the old fashioned way".

(Small enterprise, Accommodation and food, Highlands and Islands, 6-10 yrs, M)

4.4.2 Use and perceptions of support services

Although most had had at least some form of contact with support agencies or services, around a third reported having had none.

Among those who had had such contact, the number of agencies or services they had been in touch with varied. Some had engaged with just one support service, in the early stages of setting up their business, and sought no further support thereafter. Others had engaged with multiple services, including Scottish EDGE, Business Gateway and Scottish Enterprise. Amongst participants who had engaged with two or more support services, this tended to have snowballed from the initial contact (in cases where the initial experience had been a positive one).

Young entrepreneurs were among the most engaged with support services[12] and typcially had been since the inception of their businesses, following signposting by their university and/or wider networks (such as friends and other young business owners). Those who had been involved in entrepreneurial schemes or competitions, such as the Sporting Chance Initiative, or Entrepreneurial Spark, reported seeing first-hand how engagement across multiple agencies could make a difference to the growth of their business.

> *"Without Entrepreneurial Spark, that would have been a huge barrier, because we wouldn't have known where to go. They are really good in terms of providing guidance and setting you on the right path. They provide you with the tools and the skillset you need, so that you then just have to go and find the cash and the resource."*
>
> (Small enterprise, Wholesale, retail and repairs, Lothians, 1-5 yrs, M)

As is evident in the above quotation, the main reason participants had engaged with support agencies or services was for help with the initial set up of their business. The types of assistance commonly sought at this time predominantly related to grant funding or other external finance, training to address a skills gap, assistance with business and growth planning, or access to business networks.

Perceptions of support agencies and services were mixed; some participants were pleased with the amount of support they had been offered and consequently considered Scotland to offer a positive environment for new entrepreneurs.

> *"Scotland is an incredible place to start a business and we have had such phenomenal help from all the different organisations, and it is people that genuinely care and they really want to see you do well… I couldn't ask for a more supportive eco system to be part of."*
>
> (Small enterprise, Wholesale, retail and repairs, Glasgow, Less than 1 yr, F)

Such participants reflected on reaching out to support services as a first step into making the idea of their business a reality- taking it beyond being just an idea, and starting the process of making it into something tangible. They felt

[12] It should be borne in mind that young participants were recruited via support services and therefore may be more engaged with services than the young entrepreneur population as a whole.

services had understood what their business was trying to achieve, and given them confidence in their business ideas.

Such views were especially common amongst those who had applied for grants or funding schemes early in their businesses journey. Acceptance onto a scheme, or winning a grant, served as an affirmation that their idea could translate into a successful business, and showed that someone else believed in it. Such schemes also provided support when participants' were taking active steps to grow, for example, enabling them to take on a first employee, through an internship or wage subsidy programme.

Participants who had not been successful in such applications, sometimes reported finding the process of applying useful nonetheless, as it had offered them the opportunity to talk about their business, giving them valuable feedback and a clearer view of their weak points.

> *"I've applied for [Scottish EDGE] four times so far. I've found the process to be really beneficial… being able to take a good step back and a thorough look at your business… its really good for giving you a clear view of your weak points."*

(Small enterprise, Wholesale, retail and repairs, Glasgow, 1-5 yrs, F)

Beyond funding, another type of support that was discussed in particularly positive terms was the provision of shared office space under schemes such as Entreprenuerial Spark or the Sporting Chance Initiative. Participants commented that this had not only provided them with a professional setting in which to work, but enabled them to interact, network and share ideas with other entrepreneurs.

> *"[Strathclyde Entrepreneurial Network] give you office space with all the other start-ups that are there. So, we built up a bit of a community we would all like share what competitions we were entering or what start-up events was going on. That was just a really motivating place to be part of everyday."*

(Small enterprise, Wholesale, retail and repairs, Glasgow, Less than 1 yr, F)

Support with marketing and advertising – for example, in the form of access to expert advice – was similarly valued.

> *"[Bridge 2 Business] did give us an initial £100 to get some marketing stuff [including] business cards… and [our advisor] with them was really good… really knowledgeable because she's been through it all herself."*

(Small enterprise, Wholesale, retail and repairs, South of Scotland, Less than 1 yr, F)

Amongst those who had experienced the support of mentors – whether arranged through an agency or via less formal means – such experiences were described in generally positive terms. Participants reported that their mentor had understood the industry their business they were operating in, and accordingly had been able to provide relevant advice and insights. Conversely, a small number of participants reported having been allocated a mentor they felt did had not understand their concept or product, resulting in a much less helpful experience.

> *"When I was with the Princes Trust my mentor must have been at least 70. I don't think he had played a video game in his life… when I tried to pitch my game it was almost impossible to pitch it, to explain why this game was so much better than anything else."*
>
> (Small enterprise, Creative Industries, Lothians, Less than 1yr, M)

Other participants who reported more negative experiences of receiving support expressed a view that agencies and services "make a lot of noise", but ultimately offered nothing helpful. Typically, they described having looked for support via an agency or organisation only to find such support was not offered. There were two dimensions to this: some participants said that the agency they had engaged with had not seemed 'set up' to help businesses like theirs – for example, a tradesman who had approached his local Business Gateway said the support on offfer had appeared more orientated to people with online or tech-based start ups than to people like him. Others, said that the agency they had approached has been unable to offer a very specific type of suport they had been seeking; for example advice on how to comply with regulations when taking on a first employee, or advice on setting up a franchise.

> *"We had contacted Business Gateway a couple of times, when we first wanted to employ someone. We actually found them really unhelpful. I think we were just unlucky… We had a series of meetings with people who said 'oh that's not my area of expertise'…one woman told us to go home and try a search engine on the internet."*
>
> (Small enterprise, Food and drink, North East Scotland, Over 10 yrs, F)

More generally, there was a perception that the quality of support provided by agencies and services sometimes varied depending on the advisor. Some also felt there was geographical-based variance: in more rural areas

contended that there were more, or better quality, funding and networking opportunities available to business in larger towns and cities.

Among those who had not engaged with any agencies or services providing support – and indeed some of those who had – time was identified as a key barrier to doing so. They commented that the conditions of accessing some forms of support, such as writing business plans, were too onerous, and would take them away from the day to day running of their business for longer than they could afford. Grant applications were seen as a similarly high-effort endeavour, that could result in no return. In short, there was a feeling among these participants that enterprise agencies were “too bureaucratic” and their decision making “too slow”.

5 Future growth

This chapter outlines business owners' views on their future growth potential. Specifically, it considers the extent to which they felt prepared for growth; any concerns they had about embarking on growth; and support they felt would help them to grow in the future.

5.1 Preparedness for future growth

In the language of the COM-B model, preparedness for future growth was considered in terms of having the *capability* to grow and having the *opportunity* to do so.

Capability

Broadly speaking, participants who felt they had the capability to grow were typically those representing larger businesses and young entrepreneurs. They mainly fell within the 'Ambitious' grouping of the growth typology (see Chapter 3). Conversely, those who felt they did not have the capability to grow tended to represent smaller businesses and/or to be older, and mainly fell into the 'Ambivalent' group.

Capability was most commonly conceived of in terms of skills: those who felt able to grow often commented that they had the necessary knowledge and expertise to do so, either personally or within their business. Such knowledge and expertise was often described in fairly broad terms: participants talked about generally understanding their product, understanding their market, and being confident that they "knew what they had to do" to achieve their goals.

In contrast, businesses that felt they lacked the capability to grow often identified specific skills gaps within their business that they felt required to addressed. These gaps commonly related to general IT skills, website and app development, financial management, and marketing. Notably, the businesses concerned tended not to have a plan in place to acquire these skills at any point in the near future.

> *"Any future plans for the business would centre around getting an online presence. [But] building the website and social media, we don't have a lot of technical expertise in that area. So we could benefit from help with that."*

(Small enterprise, Wholesale, retail and repairs, West of Scotland, 6-10 yrs, F)

Beyond skills-related issues, the capability to grow was also discussed in financial terms. On the one hand, some participants commented on being fortunate enough to have sufficient finance in place to support their future

growth, either in the form of income generated through the business or external investment. More commonly, however, businesses reporting lacking the resources to grow, including for staff recruitment. Financial constraints of this nature were particularly prevalent among small enterprises that had been operating for over ten years.

> *"Going forward, if we want to develop something, we will have to throw a huge chunk of money at it to make it work, and that in itself is a deterrent."*
>
> (Small enterprise, Sustainable tourism, North East Scotland, Over 10 yrs, M)

Time also emerged as a key capability factor influencing future growth potential. Even among those who felt they had adequate skills and/or resources to achieve growth, a lack of time was often cited as preventing them from delivering on their aspirations, particularly among sole traders and those in small businesses. This lack of time tended to be a symptom of balancing multiple demands, both inside and outside the business. Participants often commented that more hiring staff would help to address capacity issues, but the availability of suitable staff and the cost of employing them presented further hurdles, as noted above.

> *"We know what we have to do, but it is down to me not having enough time. We could grow more if I had time to be more proactive and find new business opportunities for the company – but I just don't have that time."*
>
> (Small enterprise, Energy, Glasgow, Over 10 yrs, F)

Opportunity

The opportunity dimension of preparedness was primarily discussed in relation to market demand. Businesses that saw opportunities for growth often anticipated strong future demand for their products or services, based on either having had a strong performance in existing markets or from research into opportunities presented by new markets, including other countries. Businesses that were less confident in the level of market demand tended to see this as potentially restricting their future growth, notwithstanding their sometimes strong motivation and capability to grow. This sense of pessimism was similarly based on efforts to review current performance and research potential new markets.

> *"It's really down the market - as long as the market is busy you can continue to grow and find other things, but if the market stalls then growth will stall."*
>
> (Small enterprise, Manufacturing, Glasgow, Over 10 yrs, M)

"I've got the products and I've got the skill to grow if I wanted to grow. But there just doesn't seem to be the demand."

(Sole trader, Manufacturing, Mid Scotland and Fife, Over 10 yrs, M)

Challenges related to market demand were particularly prevalent among businesses in more rural locations, who stressed that their potential to grow was undermined by such factors as local population decline, reliance on seasonal tourism-related income, as well low levels of investment in the local economy. These factors were seen to be very much outside the control of individual businesses, meaning that all they could do was concentrate on making sure they delivered their services to a high standard to maintain as much of their existing customer base as possible.

"We're in a rural remote location...we can't do anything about the population size, we can't do anything about the money that's available in the local economy… [all we can do is] make their visit to our store as pleasant as it possibly can be."

(Small enterprise, Wholesale, retail and repairs, West of Scotland, 6-10 yrs, F)

5.2 Concerns about future growth

Beyond the issues cited above, participants raised a number of specific concerns about future growth – including some of those who were clearly motivated to grow their business and felt capable of doing so. Overwhelmingly, the main concern expressed was that of political and economic uncertainty, predominantly in relation to Brexit but also, to a lesser extent, the prospect of future Scottish independence. While a minority of participants felt that independence would be positive for Scottish businesses, constitutional uncertainty was generally seen as presenting possible risks to future growth, predominantly due to uncertainty over factors such as: the future cost of importing and exporting goods, the ease of trading in international markets, the free movement of workers, and general confidence in the economy as a whole. Participants from the farming sector spoke, in addition, about uncertainty over the future of subsidies post-Brexit. Overall, participants felt cautious about taking steps towards growth until they felt more certain about how the constitutional picture might play out.

"Politics, including the independence question, is creating uncertainty and this is not helping [businesses]. The vast majority of [businesses] are already doing as good a job as they could be, but we could be achieving even more if this air of uncertainty was removed. If there was more certainty, growth could be limitless."

(Small enterprise, Financial and business services, Highlands and Islands, Over 10 yrs, M)

"Brexit [is a concern]. No matter what happens it is going to be bad. I have got a real mix of people working here, of different nationalities, and without these people we can't service the industry."

(Medium enterprise, Sustainable tourism, Mid Scotland and Fife, Over 10 yrs, M)

In terms of other concerns, there were businesses that were worried about potentially negative financial implications of growth. Specifically, they commented that increasing the size or scale of their business would inevitably increase costs, something that posed a risk if they were not able to generate sufficient income to cover these costs. Such concerns were sometimes grounded in past experiences of having struggled to cover costs, particularly during the recession, and were reflected in a very cautious, conservative approach to the setting of growth targets.

"Because our profitability is so low there is a high risk [that we] get little return on investment. So there is always the worry about whether we are going to get enough back, and will we be able to afford the ongoing investment."

(Medium enterprise, Accommodation and food, West of Scotland, Over 10 yrs, F)

Participants also reiterated their concerns about the future impact of regulation on their business should they reach a certain size. Specifically, they referred to new obligations for employers in relation to pension provision and wage levels - though it was clear that many did not know what the specific implications of these changes would be for their business.

As noted previously, some participants, mainly those who fell into the category of 'Ambivalent' in the growth typology, worried further that increasing the size of their business might result in their losing control over the decision-making process or the quality of the product or service. Consequently, their preference was for a gradual, steady level of future growth.

"We have got to make sure that we don't lose control…I think if we're trying to target ten per cent a year that's not exactly stratospheric, so if we stick to that sort of level, that's reasonably controlled and it shouldn't be a problem because we have the structure in place."

(Medium enterprise, PST, Mid Scotland and Fife, Over 10 yrs, M)

"I wouldn't be looking to grow it massively, it would just be a little bit at a time and see how it goes… I'm not somebody that is going to jump in there and like, you know, not be sensible about it."

(Small enterprise, Wholesales, retail and repairs, West of Scotland, Over 10 yrs, F)

5.3 Support needed for future growth

Finance – whether in terms of private investment, grants, or revenue generated by the business itself – emerged as one of the factors businesses felt would most help them to grow in the future. While some businesses had taken steps to actively seek out external financial support (by applying for grants, or approaching investors), this was not common. Indeed, some were pessimistic about their ability to source external financial support, either due to having been unsuccessful in the past, or because they were put off by what they perceived as lengthy application processes. Others felt restricted by what they saw as a lack of financial support avenues available to SMEs.

"I find that self-employed people are like the dregs according to the government. Everybody else seems to get help here, there, everywhere. Self-employed people they just do not get anything, as far as I see…there is just no help out there."

(Sole trader, Creative industries, North East Scotland, Over 10 yrs, M)

It was commonly felt that the government should provide more financial support for small businesses to help them grow; though, as described elsewhere in this report, participants generally demonstrated low awareness of existing such provision.

Various other potential forms of support from government were suggested including: making procurement procedures less time-consuming and therefore easier for sole traders to manage; providing longer term subsidies for farming businesses (discussed in more detail in Chapter 4); offering VAT reductions for the hospitality industry to encourage consumer spending; and providing more rates relief for new businesses. These types of actions, it was suggested, would help make businesses more financially secure and therefore more confident in investing in future growth.

"Businesses need access to trouble free finance. The banks won't do that anymore, so government should step in and help fill that gap."

(Small enterprise, Real estate activities, Lothians, Over 10 yrs, M)

> *"I don't think [government] takes hospitality seriously as an industry. Some party manifestos do not even mention it and considering it is Scotland's biggest industry, that is a real shame. We are campaigning for VAT reductions on hospitality [which] encourage people to spend…I don't understand why politicians don't see the value in that."*
>
> (Medium enterprise, Sustainable tourism, Mid Scotland and Fife, Over 10 yrs, M)

Support with marketing and promotional activity was also identified as a need. As noted earlier, businesses felt they would benefit from more information and advice on marketing activity, particularly social media marketing. They also felt that local agencies could do more generally to promote their local business communities.

Increased networking opportunities were identified as another means of supporting future growth. Those who saw the value of networks had already taken steps to increase their contact with other businesses, though some noted that time remained a challenge in doing so. Echoing the positive views of organisations such as Entrepreneurial Spark outlined earlier, it was suggested that businesses would benefit from a structured approach to networking, for example, fora that brought together businesses from similar sectors to share resources and provide each other with advice, or else "portals" through which businesses could share information.

6 Conclusions

The research identified a range of reasons why SME owners were either not partaking in growth-related behaviour, or did not have the ambition or desire to conduct certain entrepreneurial or innovative behaviours.

Most fundamentally, participants' propensity to want to grow their businesses was heavily dependent on their original motivations for starting the business, which tended to fall into one of three broad groupings: unplanned or opportunistic reasons ("falling into" business ownership); work-life balance considerations; and more material motivations. The first two groupings dominated, effectively meaning that the majority of participants did not go into business with the primary intention of being very successful in growth terms – indeed, some were actively seeking an easier life with limited work-based pressure.

A range of other motivational factors had an impact on participants' growth aspirations and behaviours. These included aspects of their personality, previous experiences, and life stage. On the basis of this range of factors, they segmented broadly into three main groupings: The 'Growth Averse' (those who did not want to grow); the 'Ambivalent' (those who wanted to grow but slowly and not too much); and the 'Ambitious' (those who actively wanted to grow their business). Among the Growth Averse, the number and nature of motivational barriers at play were such that interventions to encourage growth are unlikely to have a significant impact on them. Instead, interventions may best be focused on the Ambivalent and Ambitious groupings.

Beyond motivational influences, a range of environmental and contextual factors had impacted on businesses' capability and opportunity to grow. These included: the economy and market conditions; having ready access to finance; the policy and legislative environment; the ability to recruit and retain staff; access to physical assets such as premises and equipment; and the culture and mindset that existed within local communities. Further, and confirming the findings of previous research, a number of behavioural factors were at play, including the extent to which participants had: prepared and used business plans; made operational improvements; collaborated with other businesses; sought to establish more relationships with suppliers; and taken steps to market and promote their products or services.

In other words, and without exception, there was no single driver or even common clearly discernible set of drivers than accounted for participants' growth behaviour but rather a myriad of exogenous and endogenous factors that came into play to varying extents, depending on their particular circumstances, past and present.

The research further highlighted that participants' growth aspirations had often changed over time, and over various stages of their lives. Business owners appeared to be particularly ambitious when they were young, with aspirations to grow their business quickly. By comparison, there were cases of older business owners having had high growth ambitions when they first started, but having become less motivated over time due to changes in their circumstances, such as having children, become ill, or caring for a family member. Indeed, older participants who were towards the end of their careers predominantly fell into the 'Growth Averse' category: they were unlikely to aspire to future growth, favouring instead a steady state for their business.

Beyond life stage factors, those who had worked in business for long enough to have experienced the impacts of the 2007 recession felt this had changed their perspective on growth somewhat, causing them to be more conservative in their aspirations and planning, and more reluctant to take risks.

In addition to the factors outlined above, a number of key barriers to *future* growth emerged. Firstly, a lack of time, which was common to many businesses but particularly to sole traders or those with a small workforce, who saw themselves as juggling multiple roles and responsibilities. Secondly, skills gaps: those that felt they lacked capability to grow often identified specific skills gaps within their business that they felt required to addressed if they were to move beyond their current position. And thirdly, financial constraints – it was common for participants to say they lacked the necessary funding to invest in future growth activity.

Overwhelmingly, however, the main concern expressed about future growth was that of political and economic uncertainty, predominantly in relation to Brexit but also, to a lesser extent, the prospect of future Scottish independence. While a minority of participants felt that independence would be positive for Scottish businesses, constitutional issues were more commonly seen as presenting possible risks to growth, predominantly due to uncertainty over such issues as the future cost of importing and exporting goods, the ease of trading in international markets and the free movement of workers. Overall, participants felt cautious about taking steps towards growth until they felt more certain about how the constitutional picture might play out.

In terms of possible interventions to promote increased growth behaviour among SMES in Scotland, the research raised a number of questions for consideration in this regard. In particular:

- how can the potential benefits of business planning be communicated to businesses, and how can businesses be supported to create and maintain plans, taking into account their existing reservations about the process?

- how can government, and other agencies, encourage awareness of, and engagement with, existing support services? And is there scope for greater signposting between agencies in the event that one of them is unable to help a client with a particular issue or query?
- what new forms of support could government and other agencies introduce in order to complement that which already exists and address perceived gaps in provision – particularly in terms of support for sole traders, those in service-based industries, and more established businesses?
- how might businesses be encouraged to engage in more known growth behaviours including the more effective development of supplier relationships, collaboration, and marketing and promotional activity; and how can they be supported to do so?
- to what extent and how, can businesses be supported and reassured about the impact of constitutional change?
- how might the government adapt its approach for the different groups in the growth typology (such as the Ambivalent and the Ambitious), taking into account the differing motivations driving their behaviour?
- to what extent and how might the government's approach to business engagement vary by sector, size, and location (including for those in more rural areas)?

7 Recommendations

As detailed in section 2.2, four half day workshops were conducted with key stakeholders from services and agencies active in providing advice or support to SMEs in Scotland, to faciliate the identification of practical recommendations flowing from the research.

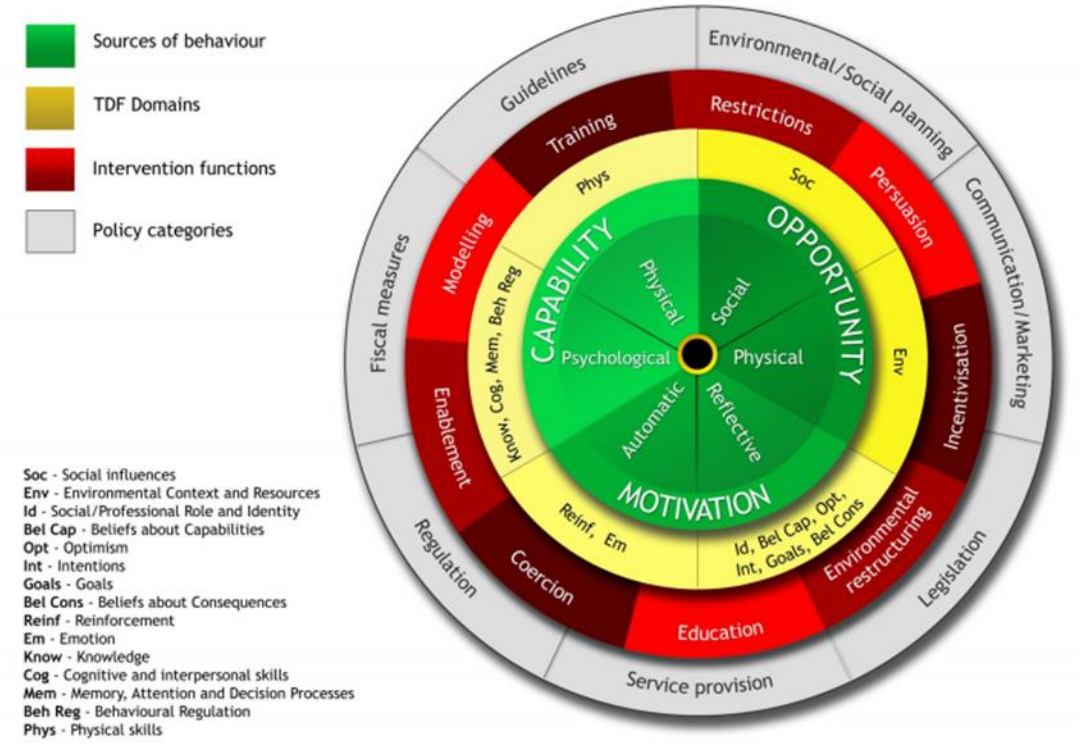
Each workshop began with a presentation of the key research finding by Ipsos MORI. The presentation was followed by a series of group-based exercises, also led by Ipsos MORI, designed to elicit a progressively nuanced shortlist of recommendations.

As described in Section 2.1.2, the research employed the COM-B model of behaviour change (Figure 7.1). The model classifies different drivers of behaviours into Motivational, Capability and Opportunity dimensions, and links these to specific 'intervention functions'[13] which, in turn link to broader 'policy categories'. Accordingly, stakeholders were asked to consider potential recommendations in relation to the policy categories; namely:

- Legislation and regulation: making or changing law, or establishing rules or principles of behaviour or practice
- Fiscal levers: using the tax system to affect behaviour
- Environmental and social planning: changes to the physical or social environment
- Support and advice: delivering or changing a service; or creating documentation that recommends or mandates practice
- Communications and marketing: using print, electronic, telephonic or broadcast media

[13] Application of the COM-B Model is also illustrated in Table A.1 (Appendix A), which summarises the key insights emerging from the research, the associated behaviour, and the intervention functions that might be used in response to these types of behaviour.

Figure 7.1: COM-B Behaviour Change Wheel



Having identified an initial long-list of potential recomendations for each of the policy categories, the stakeholders were invited to work in small groups to consider how realistic and achievable these were and, on that basis, to develop a more nuanced list of recommendations that might be taken forward. This included giving consideration to:

- Who would or should be responsible?[14]
- Any barriers or enablers?
- What resources or support would be required?
- Timescales – how long would the recommendation take to implement?

The final recommendations proposed for each policy category are summarised in sections 7.1-7.5 below. More detail on on the recommendations, including stakeholders' thoughts on who might lead on taking them forward and associated timescales (where suggested), is provided in tabular format in section 7.6.

[14] A number of the recommendations identified by stakeholders involved measures which are outwith the remit of the devolved Scottish Government. Where the Scottish Government cannot enact a particular change, the recommendation is, instead, for the Scottish Government to encourage change at the EU/UK level.

7.1 Legislation and regulation

The recommendations falling under this category primarily related to UK or EU legislation. While the Scottish Government does not have the devolved power to enact these recomendations, it can adopt a role in encouraging and influencing review.

Across the workshops, stakeholders repeatedly identified a need to review legislation or regulation that might inadvertently be impeding growth among SMEs (particularly 'micro' and 'small' businesses) and that might be outdated or unnecessary. There was a specific focus on the current cost and time-burden of compliance with some legislation/regulation – for example, in relation to financial reporting, PAYE and pension provision – with some stakeholders suggesting exemptions where possible for 'micro/small' or 'young' companies. More broadly, there was also reference to the importance of minimising barriers to international trade.

At the same time, there was reference to the potential for *new* legislation that might help promote growth – stakeholders referenced the example of the Small Brewers Relief Scheme, which they felt had been key in the expansion of the brewing and distilling industries.

The post-Brexit period was identifed as an opportune time to undertake a review of legislation and regulation – though stakeholders acknowledged that this could not happen until the outcome of Brexit was known.

On a different point, stakeholders suggested legislation to mandate entrepreneurial education in schools. They went on to outline several alternative delivery models for such education, which included: its being a) taught as a separate subject or b) weaved through different parts of the curriculum; and its being delivered by a) by the current teaching workforce or b) specialist visiting professionals.

7.2 Fiscal levers

Under the fiscal policy heading, stakeholders focused on measures that they felt would improve the financial position of individual SMEs and thus help position them for growth. Recommendations included lowering the rate of Income Tax; introducing temporary tax exemptions or holidays for new business owners (for example in relation to Corporation Tax); and reducing business rates. On the latter point, there was specific suggestion that current rates meant that businesses with physical premises were significantly disadvantaged compared to online businesses. Again, some of these changes are outwith the remit of the devolved Scottish administrations so the role of the Scottish Government would be one of supporting change at the UK Government level.

In addition to these suggestions, stakeholders working in rural areas called for

subsidised, affordable housing to help alleviate difficulties experienced by rural businesses in recruiting and retaining staff – which they felt were, in part, caused by a lack of housing options locally. More specifically they contended that the Scottish Government should subsidise the cost of house purchases and construction, and that local authorities should be able to fund the development of new housing through low cost or low interest borrowing.

7.3 Environmental and social planning

Environmental and social planning was conceived of in fairly broad terms across the workshops. Indeed, in discussing this policy category, stakeholders repeatedly identified a need for general increased efforts on the part of policy makers to enable and encourage entrepreneurial mindsets and activities. A range of measures were suggested but, in particular, measures to promote an evolution of working patterns/culture to create greater 'space' for individuals to develop businesses alongside existing employment or personal commitments; and efforts to change attitudes towards ambition and failure so that both are viewed in a less negative light – and do not ultimately serve as barriers to growth.

There was also a significant focus on a perceived need for environmental restructuring at a local level – specifically for increased efforts on the part of local authorities and their partner agencies to promote their respective areas and business communities. Some stakeholders felt that local partners should also do more to promote business growth.

Alongside these suggestions, stakeholders highlighted a need for both national and local agencies to create more opportunities for businesses to interact, network and share experiences and ideas.

7.4 Support and advice

Across the workshops, the stakeholders agreed with the view advanced by businesses that the existing support and advice landscape was too "cluttered." They felt the situation was exacerbated by the fact that different agencies had different areas of interest, and worked to different priorities and targets. There was a consensus that the landscape needed to be streamlined, with different agencies working in a more co-ordinated and joined up way. Some stakeholders also felt that support needed to be made more accessible, including outwith office hours. Stakeholders generally agreed that the Scottish Government had an important role to play in such changes. At the same time, some suggsted that this role should be a primarily facilitative one, with the Government stepping away from directly providing support, in the interests of further streamlining the ecosystem.

Specific solutions proposed included the creating of a national or regional support hubs through which businesses could be triaged to appropriate agencies or forms of support – though, in one of the workshops, this idea was taken a step further, with stakeholders suggesting the consolidation of existing support agencies into a single body – and the development of shared targets and metrics.

Beyond these structural changes, there were calls for changes to criteria for accessing support and, specifically, for tieing these more to business' level of ambition rather than their turnover. Stakeholders also favoured the creation of an online support "hub" or an App through which businesses could access support 24 hours a day. A perceived potential subsidiary benefit of such a digital resource was the freeing up of advisors' time to work with the most ambitious and higher potential businesses.

There were also various suggestions for improvements to the *nature* of support and advice provided by agencies – in particular, an increased focus on individual/ company-centric support rather than on delivering support 'products'; and on the promotion of business growth mindsets and 'softer skills', such as risk-taking. Stakeholders in the Inverness workshop highlighted, in addition, a need for more tailored support for family businesses, and for efforts to encourage potential young entrepreneurs to remain in the region rather than going elsewhere to set up a business.

Finally, a number of recommendations were made in relation to the *financial* support available to businesses in the form of loans and grants. As well as identifying a general need to increase awareness of current funding streams, stakeholders suggested changing the approach to the provision of finance to address difficulties businesses experienced in this area and wider, cultural issues such as aversion to risk and fear of failure. Their suggestions included: lending to businesses that, on the surface, may appear 'riskier' but that advisors feel have high ambition and potential; and offering 'bounce-back' funding to businesses that fail at their first attempt.

7.5 Communication and marketing

Stakeholders' recommendations in relation to communication and marketing were predominantly concerned with instilling a greater sense of ambition among current and potential business owners. They felt there was a need for a large-scale campaign, involving the use of case studies and/or positive role models to inspire and enable businesses to initiate positive change – and, in the process, to become less reliant on external agency support.

The new BBC Scotland channel, due to launch in February 2019, was identified as a possible platform for such a campaign, on the basis of its

national reach and the fact it would likely be looking for content. Stakeholders suggested that a campaign could combine advertising with a series of documentaries on successful and inspiring Scottish businesses.

A broader suggestion made in relation to communications and marketing aimed at SMEs was that the language used must instil ambition and must be accessible and free of jargon. Futher, stakeholders emphasised that, for mamixum effect, the language must be applied consistently across the business support community.

7.6 Detail of recommendations proposed

Table 7.1: Recommendations relating to legislation and regulation

Insight(s)	Intervention function(s)	Recommendation	Potential barriers	Lead agencies	Timeframe
SMEs growth has seen to have been impeded by the time and expense associated with compliance with legislation.	Enablement, Environmental restructuring	**Review of UK business legislation – e.g. that relating to financial reporting, PAYE and pensions.** **The review should involve consideration of the potential for exemptions for 'micro/small' or 'young' companies** **(A positive example of a change in legislation cited was the small Brewers Relief Scheme that facilitated the growth of the craft brewing and distilling industries)** **Any upcoming changes to legislation/regulation should be communicated in a timely manner to ensure businesses have ample opportunity to respond appropriately.**	Governments not prioritising such a review. Obtaining cross party support	UK Government and HMRC (Scottish Government to express support for/encourage review)	Post-Brexit
Perceived barriers to international trade	Enablement, Environmental restructuring	**Reduce perceived barriers to international trade e.g. the cost of importing and exporting**	Uncertainty around Brexit Complexity of the issues and the number of organisations that would need to be involved	EU and UK Government Scottish Government and SDI to express support for/encourage	Post-Brexit

Lack of business growth mindset among some businesses, coupled with an aversion to risk taking	Education, Training	**Implementation of mandatory entrepreneurial education in schools** **Preferred option was for such education to be weaved through existing curricular strands rather than being taught as an additional subject.** **In terms of who might provide the training, two options were suggested: training the existing workforce or developing an additional network of trained professionals to visit schools**	Requires complete reform to existing education system which has associated barriers; in particular: competing demands on the school curriculum; potential skills gap to deliver Financial investment to fund training	Scottish Government, working with local authority education departments	If delivered by teaching profession can be integrated into teacher training by 2020 and current workforce trained by 2022.

Table 7.2: Recommendations relating to fiscal levers

Insight(s)	Intervention function(s)	Recommendation	Potential barriers	Lead agencies	Timeframe
Many SME owners are very averse to financial risk. This aversity may also be reflected among potential SME owners Micro/small businesses sometimes struggle to grow as they cannot afford to take on additional employees	Enablement, Environmental restructuring	**Lower rate of Income Tax for business owners** **OR** **Tax holidays or exemptions for new business owners – for example, exemption from paying Corporation Tax on profits for first two years**	Associated loss of tax income	UK Government and HMRC (Scottish Government to express support for/encourage review)	Could be included in budget in any financial year
High business rates hampering growth	Enablement, Environmental restructuring	**Review and reduce business rates (including in relation to the fact that 'physical' businesses with premises may be disadvantaged compared to digital businesses due to the rates system not having been reviewed for a number of years)**	Tax intake reduction for local authorities who are already struggling financially	Scottish Government	Several government cycles
Recruitment and retention issues in rural areas linked to a lack of affordable housing	Enablement, Environmental restructuring	**Affordable housing interventions/ subsidies in rural areas** **Scottish Government should subsidise cost of house purchase and construction** **Local authorities should be able to take on debt to build houses.**	Finance Agreeing definition of 'affordable housing'	Scottish Government	

Table 7.3: Recommendations relating to environmental and social planning

Insight(s)	Intervention function(s)	Recommendation	Potential barriers	Lead agencies	Timeframe
Potential and prospective new business owners find it difficult to carve out the time necessary for business planning and entrepreneurship more generally	Environmental restructuring, Enablement,	**Efforts to change Scotland's working patterns/ culture with a view to making it easier for people to develop a business – e.g. promotion of a four-day working week and more flexible working generally.**		Scottish Government	10 years but with annual targets
Fear of failure can serve as a barrier to risk-taking – and to entrepreneurship more generally	Environmental restructuring, Persuasion, Enablement,	**Efforts to change general attitudes towards both ambition and failure in Scotland, including through education in schools *(see Table 7.1 and next row)*; effective marketing and communications (including the use of case studies - see Table 7.5); mentoring schemes; and change in the way banks/other investors deal with new businesses (see Table 7.4).**		Scottish Government – but all relevant agencies need to reflect this new mindset in their policies and communications	25 years (because there is likely a generation dimension to attitudes)
	Environmental restructuring, Education, Enablement	**More focus on entrepreneurship and business skills in schools – but not just 'hard' skills such as business planning – also meta skills such as the value of innovation/trying new things, and resilience in the face of setbacks**			
Some businesses, particularly those that are more locally based, have small markets that they struggle to grow themselves	Environmental restructuring, Persuasion, Enablement	**Better promotion of 'place' and local business communities to attract prospective customers**		Local authorities with input from Scottish Enterprise/HIE and Scottish Government	3 years

Lack of business growth mindset among businesses, low awareness, and perceived low availability of relevant support and advice	Environmental restructuring, Enablement	**Increased focus on, and promotion of, business growth by Community Planning Partnerships (CPPs) and local authorities Specifically, through:** **1) Community Planning partners pooling their respective skills and resources more rather than all providing their own version of the same support.** **2) Local partners developing more creative and efficient approaches to providing business support (e.g. in relation to licencing, health and safety, planning). The example was given of the ACTIVA model in Barcelona, under which business advisors are based in the same building as local authority staff, enabling them to easily signpost/introduce business owner to the relevant LAs as appropriate - e.g. if the business has encountered a barrier in relation to planning permission.**	Culture change within local government and partners Different political priorities in different LA areas, and between LAs and City regions, can prevent such 'local' actors from working together effectively where there is scope and for and potential benefit from them doing so.	Local authorities, Scottish Government to encourage	2-5 years
	Environmental restructuring, Enablement	**Local partnerships to regenerate public spaces so they can be used by fledgling businesses - for example, use of former public library spaces as business incubators**		Local authorities and partner agencies	
		Create wider opportunities for like businesses to interact with each other - whether face to face or online - to network and share experiences, learnings and ideas.		Local authorities and/or Scottish Enterprise/HIE	

Table 7.4: Recommendations relating to support and advice

Insight(s)	Intervention function(s)	Recommendation	Potential barriers	Lead agencies	Timeframe
Low awareness of existing support agencies (other than Business Gateway); a perception that the landscape is confusing; and misconceptions concerning types of support available	Environmental restructuring, Enablement	**A streamlined support landscape and improved join up between agencies via the creation of national or regional hubs through which businesses could be triaged to the most appropriate support or advice, and the development of shared targets/metrics.** **Or:** **Consolidation of existing agencies into a single body**	Complexity of the existing landscape. Unwillingness on the part of agencies to buy into the new system. Will take time for advisors to learn about the range of products and services available and where best to signpost businesses accordingly.	Scottish Government, working with Business Gateway, SE and HIE	2-3 years
	Enablement	**Change criteria for accessing certain strands of support so that level of ambition (rather than just minimum turnover) is taken into account.**	Possible resistance to change on the part of some agency staff	Local authorities and Business Gateway in discussion with SE	By 2020
	Environmental restructuring, Enablement	**Increase level of support for, and communication with. growth businesses below account management level e.g. automated CRM emails to remind them of the nature of support available to them, and to keep communication channels open**	Obtaining cross party support Governments prioritising it Establishing responsibility for		

			maintenance of the resource. Question around whether businesses will use it. Will they still want face-to-face contact?		
	Environmental restructuring, Enablement	**Creation of a self-service online platform or a Siri-style app offering 24/7 support. This would also help free up agency staff to work more closely with the most ambitious/high potential business.** **Stakeholders felt that a multimedia advertising campaign would be required to raise awareness of any new digital resource.**		Scottish Government or Scottish Enterprise working with support agencies	1 year
Business growth negatively affected by the time and expense associated with compliance with legislation	Environmental restructuring, Enablement	**An online support tool to streamline resources on business legislation and regulation – a 'one-stop shop'. Mygov online was cited as example of good practice – advice could be obtained from its creators – but there was also suggestion of creating a tool in pilot form initially to provide scope to innovate and experiment.** **In the Brexit aftermath, this could be supplemented with a VAT and tax 'helpdesk' specific to post Brexit queries**	As above	UK Government, with support from Scottish Government and business support agencies, FSB, Chamber of Commerce, industry bodies	2 years

Perceived inability of agencies to provide support that is sufficiently tailored/relevant	Enablement	**Increased focus on individual/ company-centric support rather than on delivering support 'products' – at the moment metrics/targets are linked to products**		Support agencies	2-3 years
Lack of business growth mindset among some businesses, coupled with an aversion to risk taking	Education, Enablement	**An increased focus on promoting business growth mindsets and 'softer skills' – e.g. risk-taking.**			5 years
Lack of business growth mindset/ambition specifically among people who have inherited a business –participants in the Inverness workshop felt this was particularly an issue in their region.	Education, Enablement	**Tailored support for family businesses to develop and grow – e.g. in the form of high quality and suitable mentors; executive education support; succession planning**	Level of appetite for such support among the business owners concerned.	Support agencies.	Needs to be started immediately
Perceived variation in the quality of advisors	Training	**Introduction of a 'Premier Advisor' qualification/ recruitment of advisors who have an entrepreneurial background to improve, and increase consistency of, the quality of support and advice provided.**	Cost	Local authorities	By 2020
A drain of potential and prospective young entrepreneurs from rural areas.	Enablement, Education	**Efforts to inspire potential young entrepreneurs to remains in their areas – e.g. through "bringing business into the classroom"; a mentoring network; technological solutions that connect young people to role models outwith their area.**		Parents, schools, local businesses (through the provision of mentors)	Needs to be started immediately

Difficulties accessing finance	Education, Enablement	**Increase awareness of available funding – e.g. smaller investment deals, business angels market, funding specifically for women**		Scottish Enterprise Financial Readiness Team	
	Enablement, Environmental restructuring	**Consider changing criteria for lending /providing grants to 'riskier' businesses rather than solely those who meet the current criteria. This might involve giving the advisor more autonomy to make a decision on the basis of 'getting a good feeling about a business'**	Mindsets of senior professionals involved in making this change Reputational risk	Public sector agencies and lenders	By 2020
	Environmental restructuring, Enablement	**Increase the available funding by creating a stronger venture capital base in Scotland**	Attracting Venture Capitalists to Scotland	All stakeholders	3-5 years
	Incentivisation	**More competitions for businesses to win funding,** **Funding would be the incentive but businesses would also learn from the application and pitch process and would also benefit from meeting other businesses/ networking**	Financial		
Fear of failure/aversion to financial risk	Enablement, Environmental restructuring	**'Bounce-back' funding for those whose business fail at the first attempt**	Finance Risk	Scottish Government	

Table 7.5: Recommendations relating to communication and marketing

Insight	Intervention function	Recommendation	Potential barriers	Lead agencies	Timeframe
Low aspiration	Education, Enablement, Modelling	**A campaign to encourage business growth/new businesses. As well as adverts. this could include documentaries on high profile, 'exciting' companies. The new BBC Scotland channel presents a possible platform for the campaign, given its national reach and the fact its creators and likely to be looking for content.**	Funding	A with coordinated approaches from key business agencies, working with BBC Scotland	6-12 months
Risk averse, fear of failure, low aspiration	Enablement, Modelling	**Publicise positive role models, case studies – rather than agencies doing things *for* businesses, this would encourage businesses to aspire to the success of others and empower them to make changes**		All agencies	2019
Low aspiration Jargon used in language off-putting		**Review of language used in communication and marketing to ensure it instils ambition and is sufficiently accessible. Ensure the language is applied consistently across the ecosystem**		All agencies	

Appendix A: Summary of insights and COM-B intervention functions

The table below provides a summary of the insights that emerged from the research, the associated behaviors, and the potential range of different types of intervention functions that could be applied to each using the COM-B model.

Table A.1: Summary of insights, behaviours and intervention functions

Activity/ attitude	Behavioural Insights	Source of Behaviour	Potential intervention functions								
			Education	Persuasion	Incentivisation	Coercion	Training	Restriction	Environmental restructuring	Modelling	Enablement
Overarching themes											
Restricted growth capability	Perceived lack of skills, knowledge and expertise	***Psychological capability***	✓				✓				✓
	Perceived lack of resources (financial and/or people)	***Physical capability***					✓				✓
Restricted growth opportunity	Growth impacted by market demand and performance, particularly in rural locations	***Physical opportunity***						✓	✓		✓
	Concerns around political and economic uncertainty	***Physical opportunity***						✓	✓		✓
	Perceived lack of time for growth related activity	***Physical opportunity***						✓	✓		✓
Ambivalent growth motivation	Reluctance to step away from day to day operational activities to focus on growth activities	***Automatic motivation***		✓	✓	✓			✓	✓	✓
	Lack of growth ambition due to being risk averse	***Automatic motivation***		✓	✓	✓			✓	✓	✓
	Lack of growth ambition due fear of failure	***Automatic motivation***		✓	✓	✓			✓	✓	✓

	Desire to remain in full control of the business	***Automatic motivation***		✓	✓	✓		✓	✓	✓
	Concerns that growth would lead to increase costs	***Reflective motivation***	✓	✓	✓	✓				
Environmental and contextual factors impacting on growth										
Economy and market conditions	Growth impacted by financial climate and market performance	***Physical opportunity***					✓	✓		✓
	Restricted by competition from larger companies	***Physical opportunity***					✓	✓		✓
	Caution due to uncertainty around political landscape	***Physical opportunity***					✓	✓		✓
	Restricted by small markets that businesses struggle to grow themselves	***Physical opportunity***					✓	✓		✓
Financial considerations	Growth impact by access to external finance, either from banks or grants	***Physical opportunity***					✓	✓		✓
	High business rates stifling growth	***Physical opportunity***					✓	✓		✓
Policy, legislation and regulation	Growth hampered by time and expense associated with compliance with legislation (e.g. minimum wage, health and safety)	***Physical opportunity***					✓	✓		✓
Recruitment, retention and skills	Challenge finding people to fill positions	***Physical opportunity***					✓	✓		✓

	SMEs unable to offer competitive wages to match larger companies	***Physical opportunity***	✓	✓	✓
	A lack of accommodation in rural areas	***Physical opportunity***	✓	✓	✓
	Uncertainty over ability to hire non-UK EU nationals	***Social opportunity***	✓	✓	✓
Physical assets	Growth encouraged or hampered by location of existing premises and/or availability of new premises	***Physical opportunity***	✓	✓	✓
	Growth impacted by availability of new equipment	***Physical opportunity***	✓	✓	✓
Culture and mindset	Small-town mindsets restricting opportunities for growth	***Social opportunity***	✓	✓	✓
	Lack of collective promotion of local areas	***Social opportunity***	✓	✓	✓
Behavioural factors					
Barriers to having a business plan	Lack of external impetus to have a business plan	***Physical capability***	✓		✓
	Do not have enough time for business planning	***Physical capability***	✓		✓
	The perception that it is a theoretical document	***Social opportunity***	✓	✓	✓
	Perception that business plans were structured and inflexible	***Social opportunity***	✓	✓	✓

	Jargon' used in business planning guidance off-putting	***Psychological capability***	✓				✓				✓
	Belief that they had enough experience that they did not need to form a business plan	***Automatic motivation***		✓	✓	✓			✓	✓	✓
Barriers to making operational improvements/ innovating	Perception that costs of making improvements may outweigh likely benefits	***Reflective motivation***	✓	✓	✓	✓					
	Lack of time to implement improvements	***Physical opportunity***						✓	✓		✓
	Lack of general knowledge and skilled required to make changes	***Psychological capability***	✓				✓				✓
Barriers to collaboration	Lack of awareness of potential benefits of collaboration	***Psychological capability***	✓				✓				✓
	Lack of time and/or resources	***Physical opportunity***						✓	✓		✓
Barriers to marketing or promotional activity	Marketing not seen as a priority for businesses in early stages of their journey	***Reflective motivation***	✓	✓	✓	✓					
	Costs seen as restrictive	***Physical opportunity***						✓	✓		✓
	Lack of knowledge about marketing avenues available	***Psychological capability***	✓				✓				✓
The role of support and advice											
Awareness and	Low awareness of existing support agencies	***Social opportunity***						✓	✓		✓

perceptions	Perception that the landscape was confusing	***Psychological capability***	✓				✓					✓
	Misconceptions around the types of support available (e.g. support only available for certain types of business)	***Social opportunity***						✓	✓			✓
	Perception that agencies were unable to provide tailored or relevant support	***Social opportunity***						✓	✓			✓
	Perceived variation in the quality of advisors from support agencies	***Psychological capability (of the advisors)***	✓				✓					✓
	Lack of time to engage with support agencies	***Physical opportunity***						✓	✓			✓
Communication and marketing												
Business mindset	Businesses with low aspirations and risk averse, could benefit from positive campaigns and role models	***Automatic motivation***		✓	✓	✓			✓		✓	✓
Language	Businesses put off by jargon used in communications	***Psychological capability***	✓				✓					✓

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