Small Business Survey Scotland 2017

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Small Business Survey Scotland 2017

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1. Introduction and Key Results

Introduction

This report sets out the findings from the Longitudinal Small Business Survey (LSBS) 2017 for Scotland. It outlines the key characteristics of small and medium-sized enterprises (SMEs) with employees in Scotland and provides an overview of the perceptions of SMEs on a range of themes including innovation, fair work and access to finance. In addition, the report provides an insight into business performance and outlook, including perceptions of the impact of the UK's exit from the European Union (EU).

As at March 2017, there were an estimated 363,235 SMEs operating in Scotland, of which those with employees represented 29 per cent (105,095 enterprises)[1]. SMEs with employees accounted for 41 per cent of total Scottish employment and 35 per cent of turnover.

Survey method and reporting

The survey for Scotland is part of a UK-wide large-scale telephone survey of 6,619 owners and managers of SMEs, commissioned by the Department for Business, Energy and Industrial Strategy (BEIS) and was conducted between August 2017 and January 2018.

The survey is the latest of a series of annual and biennial Small Business Surveys dating back to 2003. From 2015 onwards, the survey introduced a longitudinal tracking element and is now carried out on an annual basis[2].

This report provides a snap shot of the state of all SMEs ***with employees*** (defined as businesses with between one and 249 employees) surveyed in Scotland in 2017. Enterprises with no employees have been excluded from the dataset on which this report is based. This is consistent with the reporting of the survey from 2015 onwards.

In 2017, 739 SMEs with employees took part in the survey in Scotland. The survey sample is stratified[3] by business size (micro businesses with 1-9 employees, small businesses with 10-49 employees and medium-sized businesses with 50-249 employees) and by sector (defined by Standard Industrial Classification (SIC) 2007). The sample breakdown is presented in Table 1 below:

[1] These figures include registered and unregistered businesses (Source: Businesses in Scotland 2017) and exclude central and local government.
[2] The longitudinal element of the survey established a 'panel' of businesses that might be resurveyed in subsequent years. This is to allow for analysis of how combinations of factors affect business performance over time.
[3] A stratified sample is drawn from a number of separate smaller groups (strata) of the population, rather than at random from the whole population, in order to allow for a more representative sample.

Table 1: Sample Breakdown, Longitudinal Small Business Survey 2017, Scotland				
Sector (SIC 2007)	**Micro (1-9)**	**Small (10-49)**	**Medium (50-249)**	**Total**
ABDE Primary[4]	24	8	6	38
C Manufacturing	24	21	23	68
F Construction	38	28	10	76
GHI Transport/Retail/Distribution[5]	100	115	40	255
J Information and communication	20	4	4	28
KLM Business services[6]	64	30	12	106
N Administrative services	21	16	10	47
PQRS Other services[7]	55	38	28	121
Total	**346**	**260**	**133**	**739**

The data have been weighted to ensure that the results are representative of the overall Scottish SME population. Because of changes in terms of sampling and changes to the questionnaire in 2017, data cannot always be compared with previous editions of the Small Business Survey.

Where possible, the report provides disaggregated results by size band (micro, small and medium-sized businesses) and sector and provides comparisons with the UK as a whole and prior year findings. Where comparisons are drawn between sub-groups (e.g. size band), findings are reported in terms of differences between a particular sub-group (e.g. micro firms) and the overall finding (SMEs as a whole). Due to smaller sample sizes for sub-groups, the survey's estimates may be affected by sampling errors and therefore apparent differences of a few percentage points between sub-samples may not reflect real differences in the population. Therefore, sub-group comparisons (e.g. Scotland vs. UK; 2017 results vs. 2016 results; size band; and sector) in the report are displayed only when the difference with the overall finding is statistically significant at 95 per cent confidence level[8].

[4] Agriculture, forestry and fishing (A); Mining and quarrying (B); Electricity, gas, steam and air conditioning supply (D); and Water supply, sewerage, waste management and remediation activities (E).
[5] Wholesale and retail trade (G); repair of motor vehicles and motorcycles (H); Transportation and storage; and Accommodation and food service activities (I).
[6] Financial and insurance activities (K); Real estate activities (L); and Professional, scientific and technical activities (M).
[7] Education (P); Human health and social work activities (Q); Arts, entertainment and recreation (R); and Other service activities (S).
[8] If the difference between two estimates is said to be statistically significant, it means that only in exceptional circumstances (1 in 20 times) would we expect the true difference not to be significant.

Key Results

Business Demographics

- 68 per cent of SMEs were **family-owned**.
- 62 per cent were **urban-based** while 38 per cent of SMEs were **rural-based**.
- 35 per cent of SMEs were **home-based**.
- 21 per cent of SMEs were **women-led**.
- Three per cent of SMEs were **Minority Ethnic Group (MEG)-led**.

Trade Activities

- 14 per cent of SMEs had **exported goods or services outside of the UK** in the last 12 months, broadly in line with the prior year.
- The proportion of SME *exporters* **exporting to EU countries** (70 per cent of SME exporters) and **non-EU countries** (71 per cent) was broadly similar. 18 per cent of SME *exporters* **exported to EU countries <u>only</u>**.
- 31 per cent of SMEs had **sold goods or services to the rest of the UK**, lower than the proportion in the prior year (44 per cent).
- 19 per cent of SMEs had directly **imported goods or services** from countries outside the UK in the previous 12 months.
- A higher proportion of SMEs **imported from EU countries** (16 per cent) than **non-EU countries** (11 per cent).

Business Practice

- 40 per cent of SMEs had **innovated** (i.e. introduced new or improved goods, services or processes) in the last three years, broadly in line with the prior year.
- 51 per cent of SMEs had arranged or funded **training** in the past 12 months.
- 12 per cent of SMEs offered formal **apprenticeships.**
- 32 per cent of SMEs had **used external information** or advice on matters affecting their business in the past 12 months.
- 70 per cent of SMEs paid all their employees aged 18 or over (excluding volunteers, apprentices and interns) the **Living Wage** as defined by the Living Wage Foundation.
- 16 per cent of SMEs were aware of the **Scottish Business Pledge**.

Access to External Finance

- The most common forms of **external finance currently used** by SMEs were credit cards (33 per cent of SMEs) and bank overdraft facilities (31 per cent).

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

- Over half of SMEs that had applied for finance (53 per cent) did so for **working capital or cashflow reasons**.

- The most common **forms of external finance applied for** were bank overdraft facilities (35 per cent of SMEs that applied for finance) and loans from banks and other financial institutions (34 per cent).

- 78 per cent of SMEs that applied for external finance were **successful in obtaining at least some of the finance sought** while 15 per cent did not obtain any.

- 13 per cent of SMEs were **discouraged borrowers** (i.e. they had a need for external finance in the last 12 months that they did not apply for).

Business Performance and Outlook

- 33 per cent of SMEs that had been interviewed in both 2016 and 2017 **employed more people** than a year previously. 37 per cent employed the same number and 30 per cent employed fewer.

- 22 per cent of SMEs **expected to employ** more people in 12 months' time, 70 per cent expected to employ about the same number and eight per cent expected to employ fewer.

- Of all SMEs that had been trading for at least one year, 33 per cent increased their **turnover** over the past year. 44 per cent had approximately the same turnover and 21 per cent had lower turnover.

- 37 per cent of SMEs **expected turnover** to increase in the next 12 months, 50 per cent expected turnover to stay approximately the same and 10 per cent expected turnover to decrease.

- 80 per cent of SMEs generated a **profit** in their last financial year.

- The most commonly reported **obstacles to the success of the business** were *regulations/red tape (*47 per cent of SMEs) and *competition in the market* (43 per cent). *UK exit from the EU* was noted as an obstacle by 30 per cent of SMEs.

- Of those SMEs that reported **UK exit from the EU** as a major obstacle to business success, the most commonly reported reasons were *uncertainty about future regulatory changes* (80 per cent of SMEs reporting UK exit from the EU as a major obstacle), *uncertainty about future access to EU markets* (60 per cent) and *increasing import costs* (53 per cent).

- 60 per cent of SMEs **aimed to grow sales** over the next three years.

Effect of UK exit from the EU

- 32 per cent of SMEs believed **exiting the EU** would be detrimental for their business, whilst five per cent believed it would be beneficial. 48 per cent believed that it would make no difference.

- 32 per cent of SMEs in Scotland that believed EU exit to be either beneficial or detrimental to their business said they felt unprepared for it, whilst 29 per cent felt prepared. 36 per cent felt neither prepared nor unprepared for EU exit.

2. Business Demographics

Size

In 2017, of all SMEs with employees surveyed in Scotland, 82 per cent were micro businesses (1-9 employees), 16 per cent were small businesses (10-49 employees) and three per cent were medium-sized businesses (50-249 employees)[9]. Micro businesses therefore dominated overall findings for all SME employers. These proportions are in line with 2016.

Sector

Table 2 below shows the breakdown of SMEs that took part in the survey in 2017, by sector.

Table 2: SMEs by sector (%)
Base: all SME employers, 739 – Base minimum: Information/Communication, 28

Sector (SIC 2007)	Micro 1-9 (%)	Small 10-49 (%)	Medium 50-249 (%)	Total (%)
ABDE Primary	8	4	4	**8**
C Manufacturing	5	9	18	**6**
F Construction	13	10	10	**12**
GHI Transport/Retail/Distribution	32	41	32	**33**
J Information/Communication	4	3	3	**4**
KLM Business services	19	13	12	**18**
N Administrative services	7	6	9	**7**
PQRS Other services	12	15	12	**12**

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

Charity status

10 per cent of SMEs in Scotland stated that they were registered as charities. Small businesses (15 per cent) were more likely that average to be charities.

Family-owned businesses

In 2017, 68 per cent of SMEs surveyed in Scotland were family-owned[10], a decrease of five percentage points from 2016 (73 per cent) and broadly similar with the figure in the UK as a whole (69 per cent).

Small (57 per cent) and medium-sized businesses (54 per cent) were less likely than average to be family-owned.

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[9] In line with the rest of the findings reported in this report, these figures are weighted to be representative of the overall Scottish SME population.
[10] Family-owned businesses are defined as majority owned by members of the same family.

Family-owned businesses were more prevalent in the Transport/Retail/Distribution sector (82 per cent) and less prevalent in the Other Services sector (20 per cent).

Urban/rural location

In 2017, 62 per cent of SMEs were located within an urban area[11], while 38 per cent were based within a rural area. Medium-sized firms were more likely than average to be located in an urban area (82 per cent).

Home-based businesses

In 2017, 35 per cent of SMEs in Scotland did not have a separate business premises to their home address, up seven percentage points compared to 2016 (28 per cent) and higher than the proportion in the UK as a whole (29 per cent).

Small (17 per cent) and medium-sized (12 per cent) firms were less likely than average to be home-based.

Home-based businesses were more common in the Information/Communication (54 per cent), Construction (49 per cent) and Business Services sectors (46 per cent) and less common in the Transport/Retail/Distribution (27 per cent) and Other services sectors (22 per cent).

Women-led businesses

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

In 2017, 21 per cent of SMEs in Scotland were women-led, broadly in line with the proportion in the UK as a whole (19 per cent). 44 per cent of SMEs in Scotland were entirely male-led, broadly in line with the figure in the UK as a whole (48 per cent).

Minority Ethnic Group (MEG)-led businesses

Minority Ethnic Group (MEG)-led businesses are defined as having a person from an ethnic minority in sole control of the business or having a management team with at least half of its members from an ethnic minority. Three per cent of SMEs in Scotland were MEG-led in 2017, marginally lower than the proportion in the UK as a whole, at four per cent.

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

3. Trade activities

International exports

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

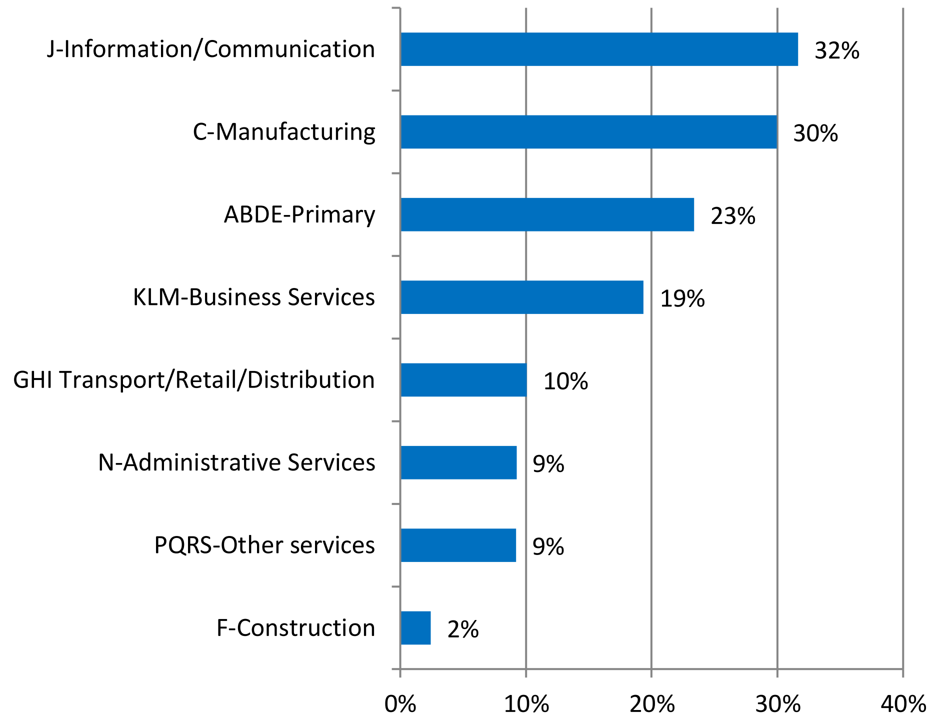
14 per cent of SMEs in Scotland reported that they had sold goods or services (including commissions, royalties and licences) *outside of the UK* in the last 12 months, broadly in line with the figure in 2016 (16 per cent). In the UK as a whole, a higher proportion of SMEs (20 per cent) had exported goods or services in the last 12 months, broadly in line with the figure in 2016 (18 per cent).

The likelihood of exporting increased with business size. Both small (19 per cent) and medium-sized businesses (39 per cent) were more likely than average to export.

Exporting was most common in the Information/Communication (32 per cent) and Manufacturing (30 per cent) sectors. Exporting was least common in the Construction sector (two per cent) (Figure 1).

Figure 1: Exports by sector, 2017

Base: all SME employers, 739 - Base minimum: Information/Communication, 28
Don't know: 1% of SMEs



In Scotland, the proportion of SME exporters exporting to European Union (EU) countries (70 per cent) and non-EU countries (71 per cent) was broadly similar. In the UK as a whole, a higher proportion of SME exporters exported to EU countries (79 per cent) than non-EU countries (67 per cent).

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

The majority of SME exporters in Scotland (76 per cent) were established exporters, exporting for more than five years. 20 per cent had been exporting for five years or less[12].

Almost half (41 per cent) of SME exporters in Scotland reported that exports accounted for up to 10 per cent of their annual turnover. Eight per cent of SME exporters reported that exports accounted for more than 90 per cent of their annual turnover.

Of those SMEs that were already exporting, 61 per cent planned to increase their level of exports over the next few years. Of those SMEs that were not currently exporting to countries outside the UK (86 per cent), the majority (97 per cent) reported that they had no plans to start exporting. Of those SMEs that were not exporting and had no plans to start, the majority (83 per cent) believed their goods/services were not suitable for exporting.

Exports to the rest of the UK

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

31 per cent of SMEs in Scotland reported that they sold goods or services *to the rest of the UK* (i.e. England, Wales and Northern Ireland), lower than the proportion in the prior year (44 per cent). Medium-sized firms (50 per cent) were more likely than average to have exported to the rest of the UK.

By sector, SMEs in Information/Communication (85 per cent), and Manufacturing (58 per cent) were more likely than average to have sold goods or services to the rest of the UK. Whereas, SMEs in Construction (15 per cent) and Other Services (seven per cent) sectors were less likely than average to have sold to the rest of the UK.

Imports

19 per cent of SMEs in Scotland had directly imported goods or services from countries outside the UK in the previous 12 months, broadly in line with the proportion in the UK as a whole (21 per cent) and with the proportion in Scotland in the prior year (17 per cent). Medium-sized businesses (32 per cent) were more likely than average to import.

16 per cent of SMEs in Scotland had directly imported goods or services from the EU whilst 11 per cent had imported from non-EU countries. These proportions are broadly similar to those in the UK as a whole.

[12] 4 per cent of SME exporters did not know the number of years they have been exporting overseas.

4. Business Practice

Innovation

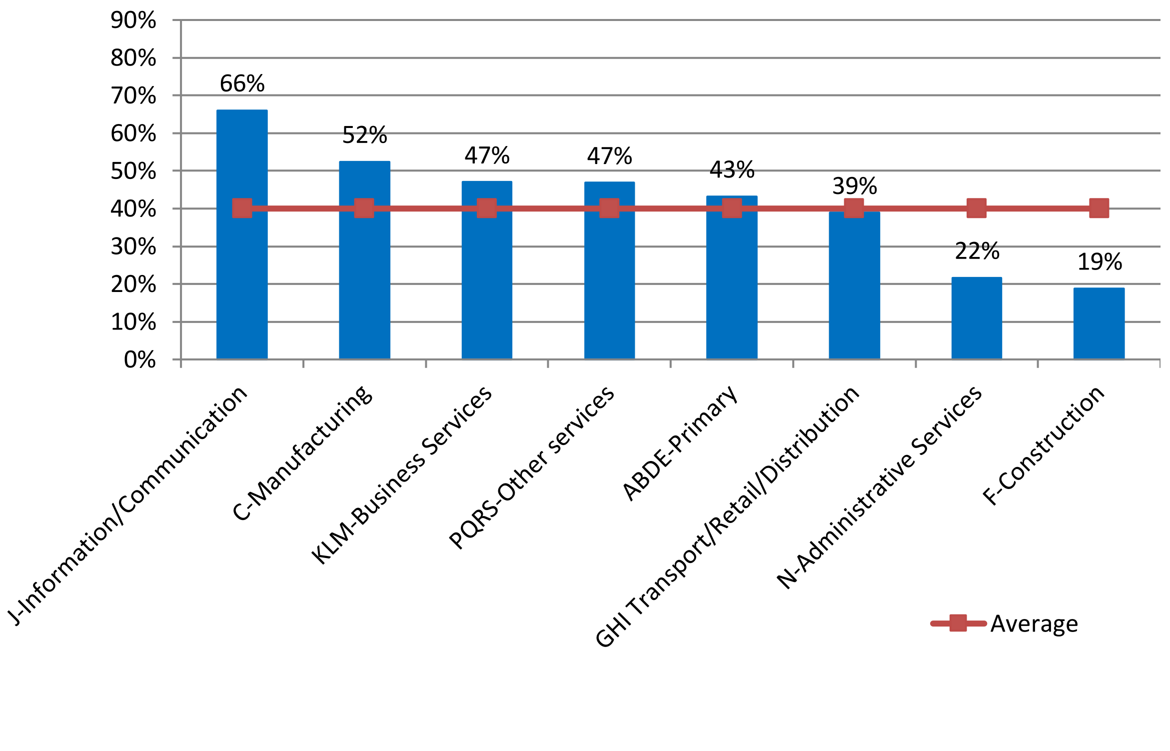
This section relates to SMEs that had engaged in any kind of innovation, i.e. good/service or process innovation.

40 per cent of SMEs in Scotland had innovated (i.e. had introduced new or significantly improved *goods, services or processes*) in the last three years, broadly in line with the UK as a whole (41 per cent). The proportion of SMEs that had innovated was broadly in line with the prior year in Scotland (38 per cent) and up marginally from the prior year in the UK as a whole (39 per cent)[13].

Innovation (good/service/process) was more common amongst medium-sized businesses (57 per cent) compared to SMEs as a whole. By sector, innovation (good/service/process) was more common in the Information/Communication (66 per cent) and Manufacturing (52 per cent) sectors and less prevalent in the Construction (19 per cent) and Administrative Services (22 per cent) sectors (Figure 2).

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

Base: all SME employers, 739 - Base minimum: Information/Communication, 28



[13] Whilst both Scotland and the UK as a whole saw a two percentage point increase in the proportion of SMEs with employees that had innovated between the 2016 and 2017 surveys, the increase in Scotland was not statistically significant whilst the increase in the UK was statistically significant.

Good/service innovation

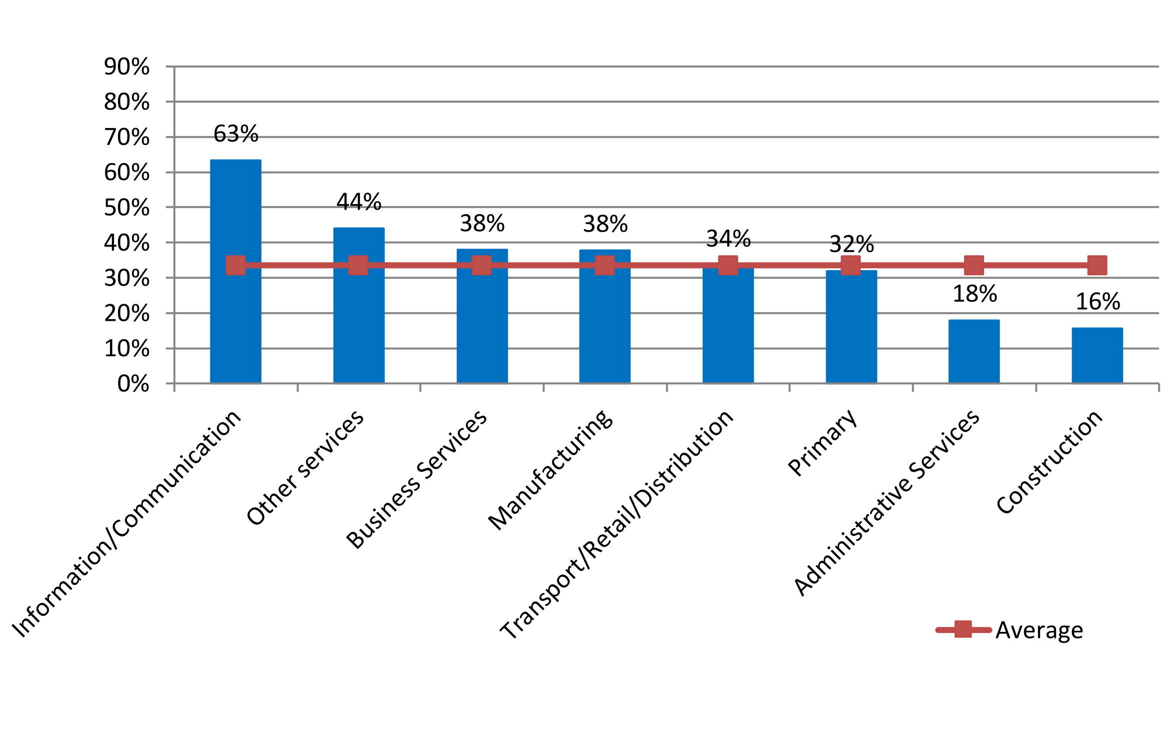
This section relates to SMEs that had engaged in good/service innovation.

34 per cent of SMEs in Scotland had introduced new or significantly improved *goods or services* in the last three years, broadly in line with the proportion in the UK as a whole, at 35 per cent. The proportion of SMEs that had engaged in goods/services innovation was broadly similar compared to the prior year in Scotland (32 per cent) and marginally higher than the prior year in the UK as a whole (33 per cent)[14].

Of those SMEs that had introduced new or improved goods or services, 72 per cent introduced innovations that were all just new to the business and 24 per cent introduced at least some innovations that were also new to the market.

Good/service innovation was broadly similar across all firm sizes (micro/small/medium). Good/service innovation was more prevalent in the Information/Communication (63 per cent) and Other Services sectors (44 per cent), while it was less prevalent in the Administrative Services (18 per cent) and Construction sectors (16 per cent) (Figure 3).

Figure 3: SMEs introducing new or improved goods/services in the last 3 years
Base: all that introduced new or improved goods/services, 273



[14] Whilst both Scotland and the UK as a whole saw a two percentage point increase in the proportion of SMEs with employees that had engaged in good/service innovation between the 2016 and 2017 surveys, the increase in Scotland was not statistically significant whilst the increase in the UK was statistically significant.

Process innovation

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

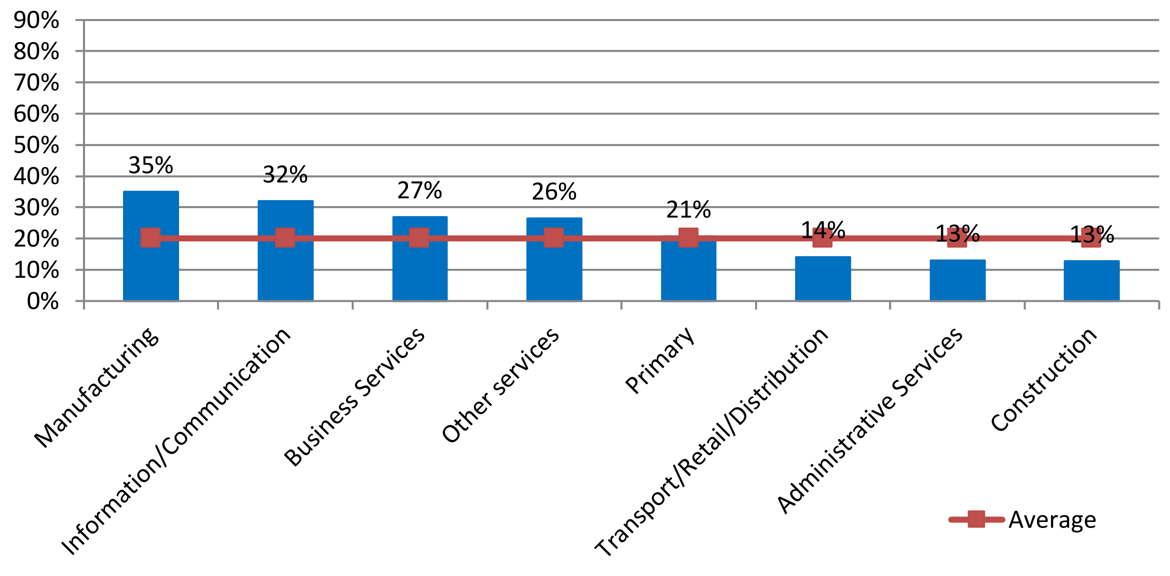
20 per cent of SMEs in Scotland introduced new or significantly improved *processes* for producing or supplying goods or services in the last three years, unchanged from the prior year and in line with the proportion in the UK as a whole (20 per cent).

Of those SMEs that had introduced new or improved processes, 77 per cent introduced process innovations that were all just new to the business, while 18 per cent introduced at least some process innovations that were also new to the market[15].

Process innovation was more common amongst medium-sized (42 per cent) and small firms (28 per cent). By sector, process innovation was higher than average in the Manufacturing sector (35 per cent). All other sectors were broadly in line with the overall SME average (Figure 4).

Figure 4: SMEs introducing new or improved processes in the last 3 years

Base: all that introduced new or improved processes, 185



Training

51 per cent of SMEs in Scotland had arranged or funded any training (off the job training[16] and/or on the job training[17]) in the past 12 months, broadly in line with the

[15] Five per cent of those SMEs that had introduced new or improved processes responded "don't know".
[16] Training away from the individual's immediate work position, whether on the same work premises or elsewhere.
[17] Activities that would be recognised as training by the staff, that relate not only to the sort of learning by experience which could take place all the time.

proportion in the UK as a whole (49 per cent). The figure in Scotland was broadly in line with the prior year when it stood at 54 per cent (in the UK as a whole, the proportion was lower than in the prior year when it stood at 55 per cent).

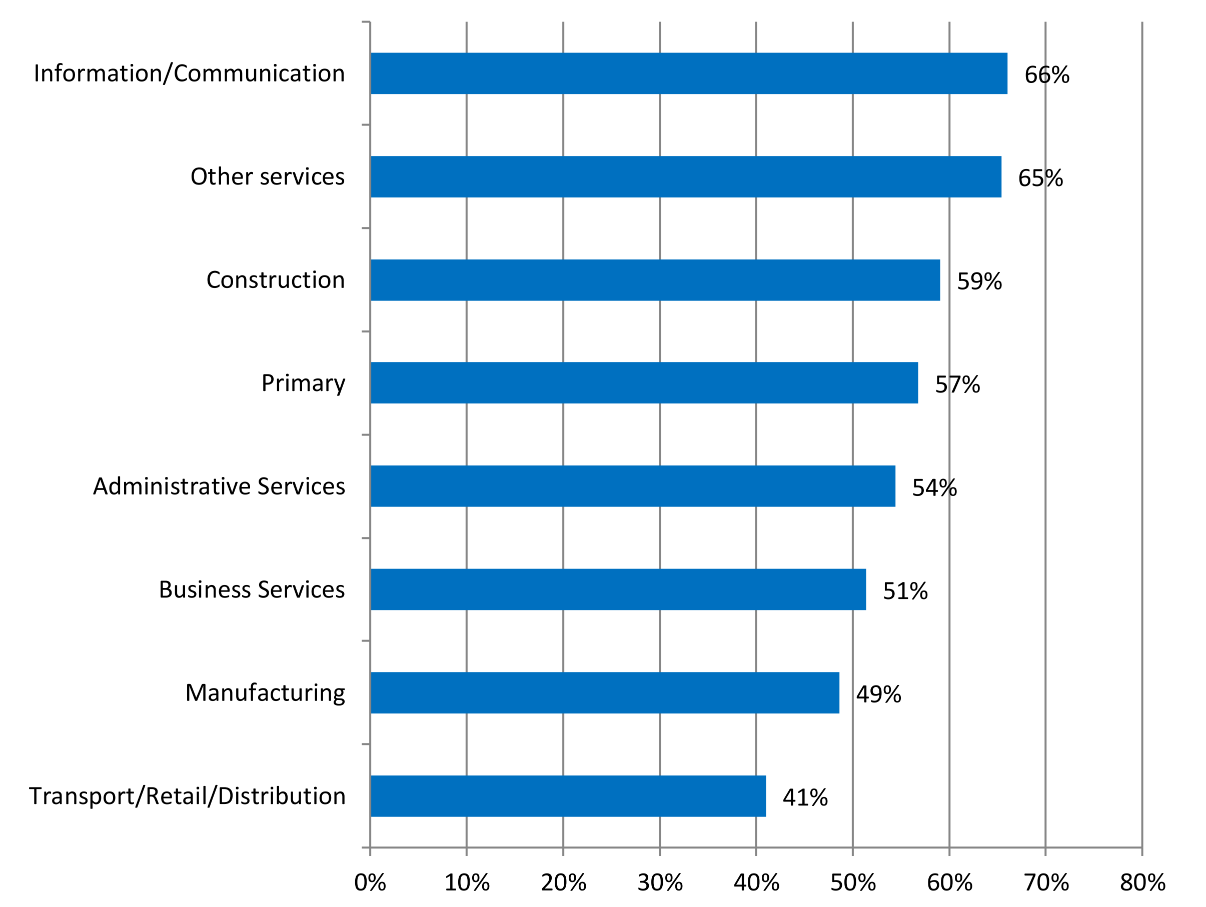
Table 3 below shows the proportions of SMEs in Scotland that had arranged or funded any training in the past 12 months. Medium-sized and small businesses were much more likely than average to have arranged or funded training.

Table 3: SMEs that had arranged or funded training in the past 12 months by size (%)
Base: all SME employers, 739

	Micro 1-9	Small 10-49	Medium 50-249	All
Any training	45	79	83	**51**
Off the job	37	65	73	**42**
On the job	29	65	68	**36**

Figure 5 below shows the proportion of SMEs in each sector that had arranged or funded any training in the past 12 months. Businesses in the Other services sector were more likely than average to have arranged or funded any training (65 per cent), while businesses in Transport/Retail/Distribution were less likely than average to have arranged or funded any training (41 per cent).

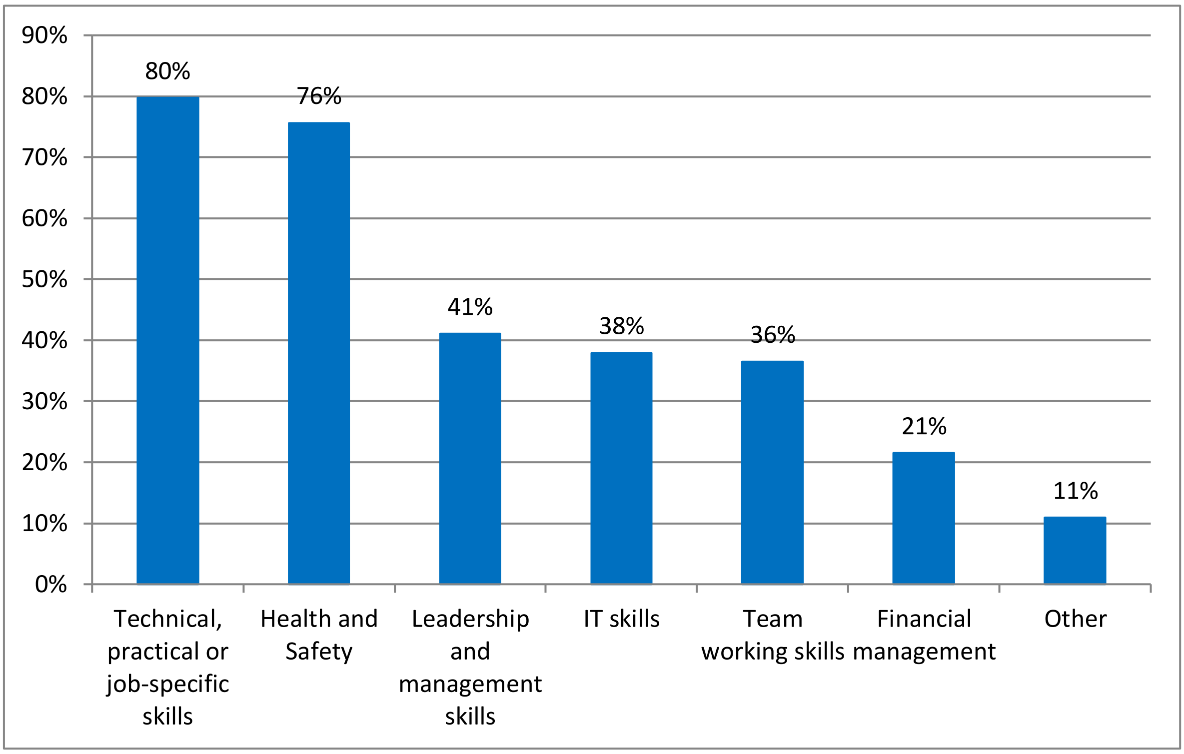
Figure 5: SMEs that had arranged or funded training in the past 12 months by sector (%)*Base: all SME employers, 739 – Base minimum: Information/Communication, 28*



33 per cent of SMEs in Scotland had arranged or funded any training (off the job training and/or on the job training) for managers in the business in the past 12 months, broadly in line with the proportion in the UK as a whole (32 per cent).

The most common forms of training that managers received were technical, practical or job-specific skills (80 per cent), health and safety (76 per cent) and leadership and management skills (41 per cent) (Figure 6).

Figure 6: Types of training for managers (%)
Base: all that offered training for managers, 351



Apprenticeships[18]

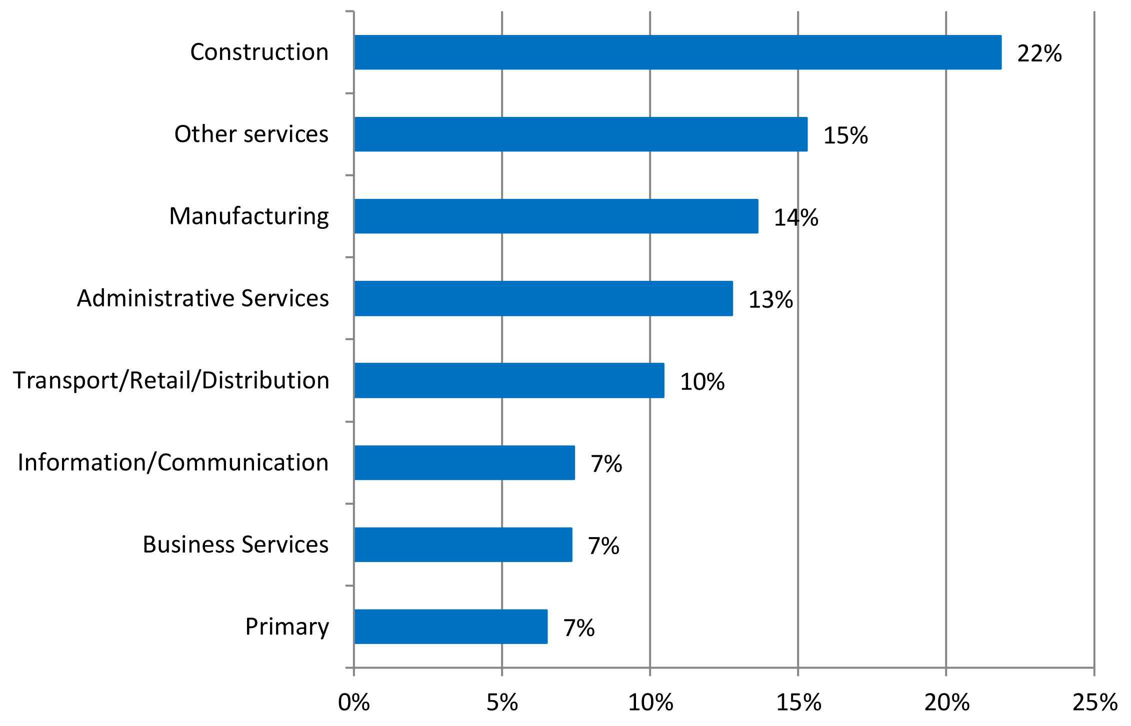
12 per cent of SMEs in Scotland offered formal apprenticeships (i.e. apprenticeships that lead to a recognised qualification) in the last three years. This was broadly in line with the figure in 2016 (14 per cent) and in line with the proportion in the UK as a whole (12 per cent).

Small (24 per cent) and medium-sized businesses (34 per cent) were more likely than average to have offered formal apprenticeships in the last three years.

Apprenticeships were most common in the Construction sector (22 per cent) (Figure 7).

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

Figure 7: Formal apprenticeships in the last 3 years by sector (%)
Base: all that offered formal apprenticeships in the last 3 years, 135
Base minimum: Information/Communication, 28



Of those SMEs that were not offering formal apprenticeships, the vast majority (87 per cent) were not intending to have an apprenticeship start in the next 12 months.

Business plan

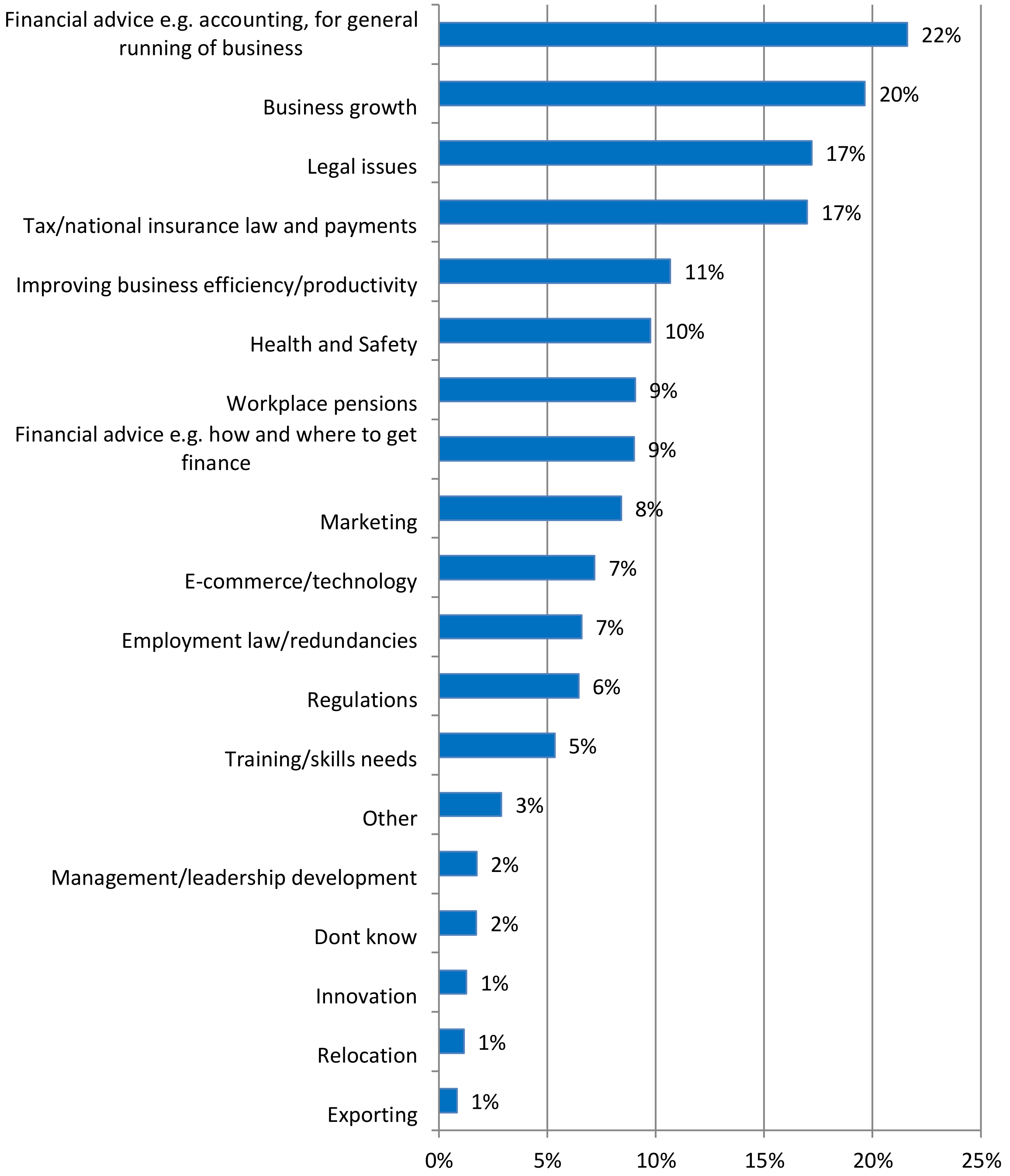
In 2017, 34 per cent of SMEs stated that they had a formal written business plan which was kept up-to-date (broadly in line with the proportion in the UK as a whole, at 35 per cent). Small (46 per cent) and medium-sized firms (61 per cent) were more likely than average to have an up-to-date business plan.

Business support

In 2017, 32 per cent of SMEs had used external information or advice on matters affecting their business in the previous 12 months, in line with the proportion in 2016 (32 per cent), and broadly in line with the proportion in the UK as a whole (29 per cent).

The most common reason for using information or advice was financial advice e.g. accounting or general running of business, cited by 22 per cent of SMEs that used information or advice in 2016 (Figure 8).

Figure 8: Reasons for using information or advice (%)
Base: all that used information or advice, 261



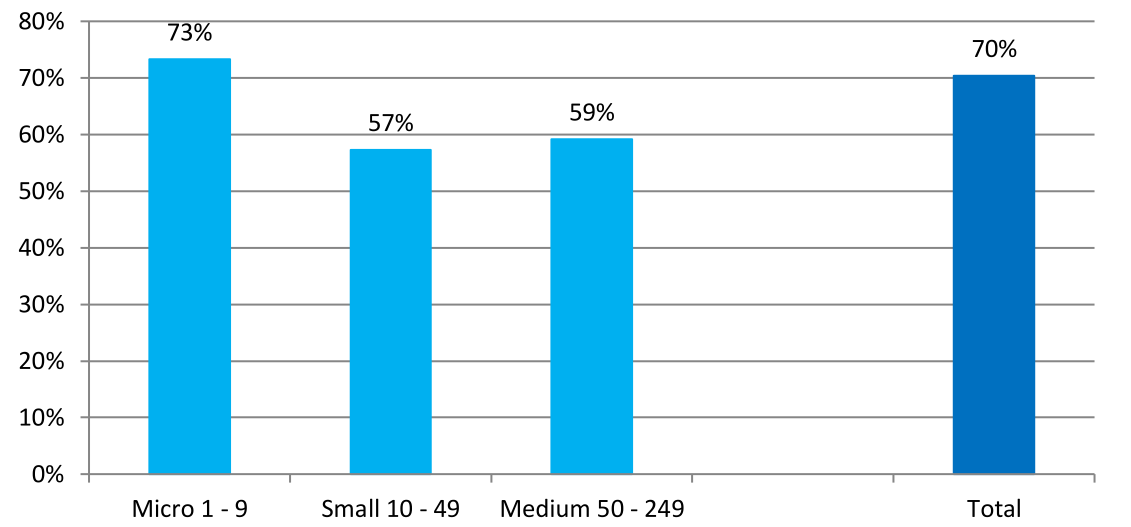
In 2017, the most common source of information or advice for SMEs in Scotland was their accountant, cited by 41 per cent of SMEs that used advice in the previous 12 months and business networks/trade associations (27 per cent).

Living Wage

This section examines issues related to the payment of the Living Wage, as defined by the Living Wage Foundation. Businesses can choose to pay the Living Wage to all their directly employed staff, aged 18 or above, on a voluntary basis. At the time the 2017 survey began, the Living Wage was set at £8.45 per hour outside London and rose to £8.75 from November 2017. It should be noted that the Living Wage, as defined by the Living Wage Foundation, is different from the National Living Wage which is the legal minimum wage for employees in the UK.

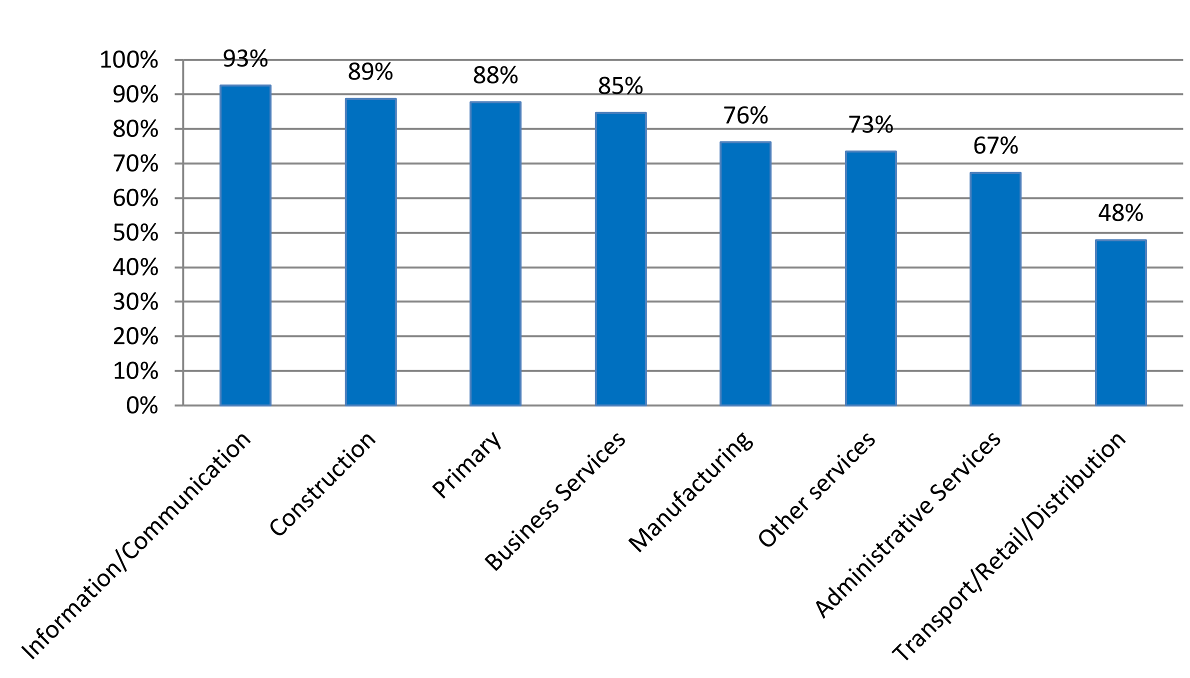
In 2017, 70 per cent of SMEs in Scotland paid all their employees aged 18 or over (excluding volunteers, apprentices and interns) at or above £8.45 per hour, the Living Wage as defined by the Living Wage Foundation at the time the survey began. 28 per cent of SMEs did not pay the Living Wage to all their employees and two per cent did not know. These proportions are broadly in line with the previous year. Small (57 per cent) and medium-sized firms (59 per cent) were less likely than average to pay the Living Wage (Figure 9).

Figure 9: SMEs paying the Living Wage as defined by the Living Wage Foundation (%)
Note: the Living Wage stood at £8.45 per hour for the 2017 survey.
Base: all SMEs employers, 739



By sector, SMEs in the Information/Communication (93 per cent), Construction (89 per cent), Primary (88 per cent) and Business Services (85 per cent) were more likely than average to pay the Living Wage. Businesses in the Transport/Retail/Distribution sector (48 per cent) were less likely than average to pay the living wage. Figure 10 shows the proportions of SMEs paying the Living Wage by sector.

Figure 10: SMEs paying the Living Wage by sector (%)
Base minimum: Information/Communication, 36



Three per cent of SMEs surveyed in Scotland stated that they received accreditation as a living wage employer from the Living Wage Foundation, broadly in line with the proportion in the prior year (two per cent). 91 per cent stated that they had not and five per cent did not know.

Awareness of Scottish Business Pledge

In 2017, 16 per cent of SMEs in Scotland were aware of the Scottish Business Pledge, while the vast majority were not aware of it (83 per cent)[19].

Engagement with local community

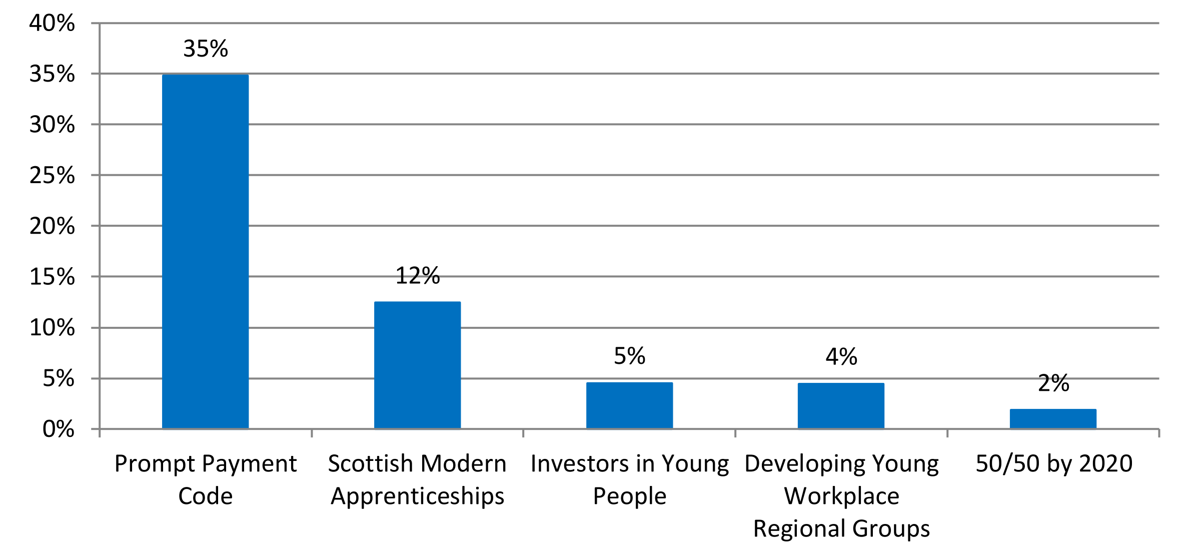
65 per cent of SMEs in Scotland considered their business to be actively involved in their local community, while 34 per cent did not. These proportions are broadly in line with the prior year. Small firms were more likely than average to consider their business to be actively involved in their local community (74 per cent).

Engagement with 'best practice' schemes

Figure 11 shows the proportions of SMEs that engaged with a range of 'best practice' schemes.

[19] It is not possible to compare to the 2016 results due to a change in the way the question was asked in 2017.

Figure 11: SMEs engaging with 'best practice' schemes
Base: all SMEs employers, 739

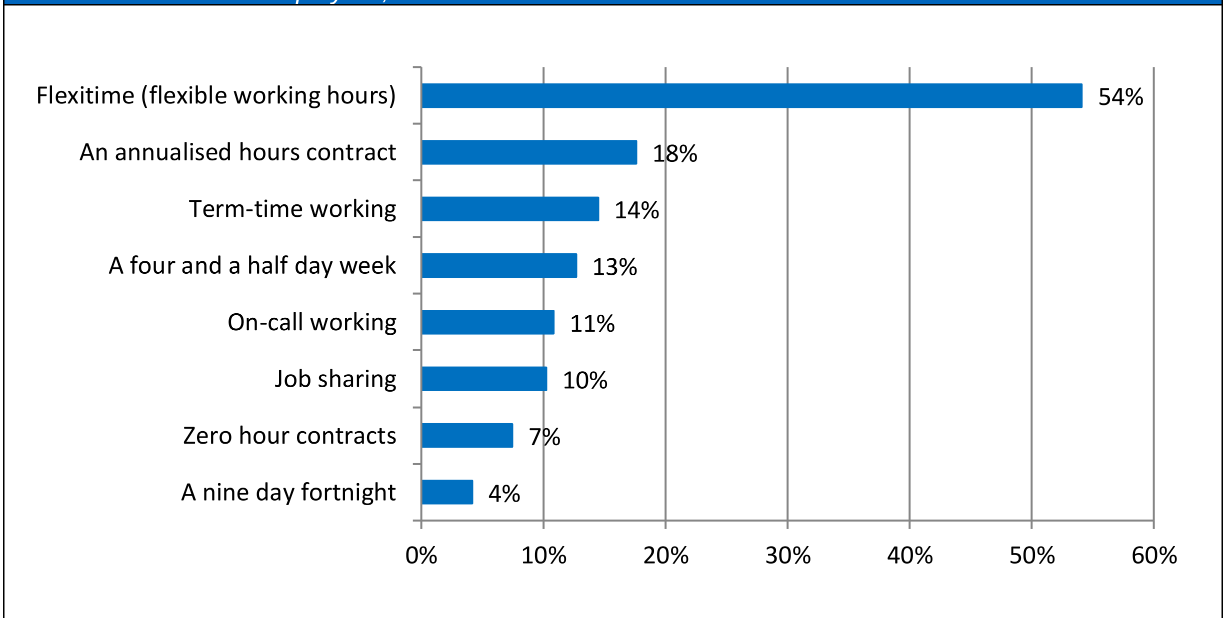


35 per cent of SMEs engaged with the Prompt Payment Code, a higher proportion than the previous year (20 per cent). 12 per cent of SMEs engaged with Scottish Modern Apprenticeships, in line with the proportion in the previous year. Just two per cent of SMEs were engaged with the 50/50 by 2020 gender balance commitment.

Working hours arrangements

Figure 12 below shows the proportion of SMEs offering a range of working hours arrangements to their employees. The most common working hours arrangement was flexitime, offered by 54 per cent of SMEs. Seven per cent of SMEs offered zero hours contracts. 31 per cent of firms offered none of these arrangements to their staff.

Figure 12: Working hours arrangements available to employees (%)
Base 2017: all SME employers, 739



5. Access to external finance

Banking

The vast majority of SMEs in Scotland (95 per cent) used a current account in the name of the business as their main bank account and only a very small proportion of SMEs (two per cent) used a personal current account for business purposes. These proportions were in line with those in the UK as a whole and those in the prior year.

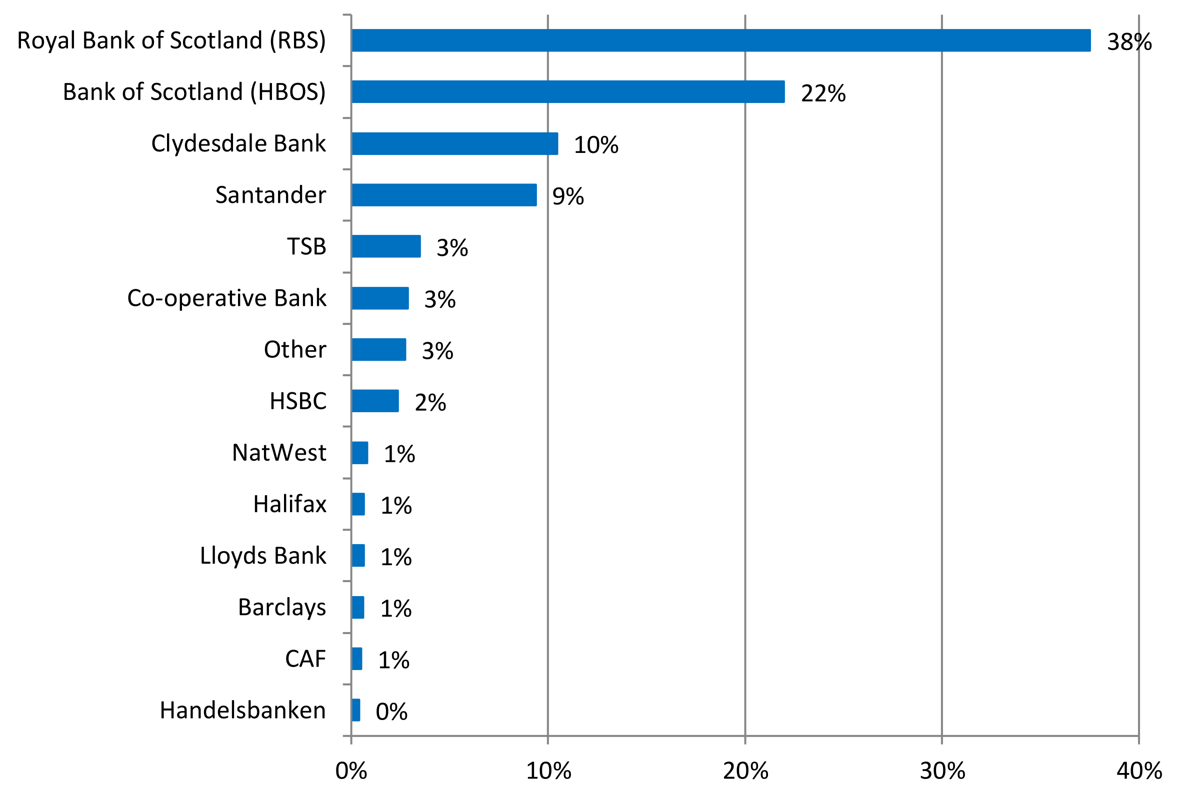
Bank account switching rates amongst firms surveyed are low. Six per cent of SMEs had switched their main bank account used for business purposes in the previous 12 months, while 94 per cent continued banking with the same bank account. These proportions were broadly in line with those in the prior year.

Figure 13 shows the main bank or financial institution SMEs in Scotland were using for their current account in 2017. 60 per cent of SMEs in Scotland cited either the Royal Bank of Scotland (38 per cent) or Bank of Scotland (HBOS) (22 per cent) as their main bank.

Figure 13: Main bank or financial institution used for current account

Base: all SME employers, 779

Don't know/refused: 6% of SMEs.



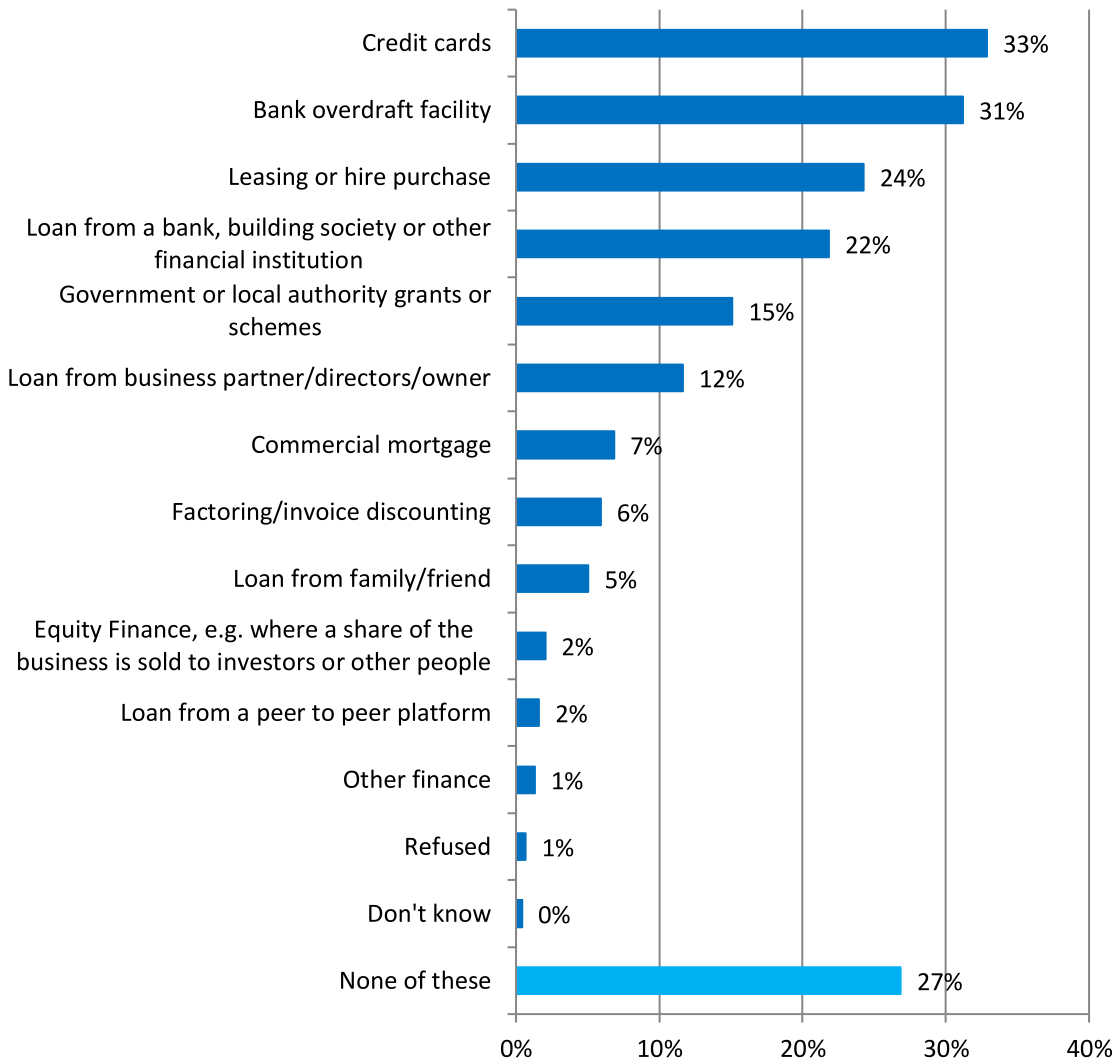
Types of external finance currently being used

Figure 14 below shows the types of finance SMEs in Scotland were using in 2017. The most common forms of external finance used were credit cards (33 per cent) and bank overdraft facilities (31 per cent), in line with findings for SMEs in the UK as a whole. 27 per cent of SMEs used none of these types of finance.

Figure 14: Types of external finance currently used

Base: all SME employers, 779

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



Whether sought external finance in the last 12 months

17 per cent of SMEs in Scotland had sought external finance in the last 12 months, higher than the proportion in the UK as a whole (13 per cent) but broadly in line with the proportion seeking finance in 2016 (16 per cent).

10 per cent of SMEs sought external finance just once, while six per cent sought it more than once[20].

The proportion of SMEs that sought finance was broadly consistent across business size band. SMEs in the Primary sector were more likely to have sought external finance in the past 12 months (31 per cent), while SMEs in the Business Services sector were less likely than average to seek external finance (nine per cent).

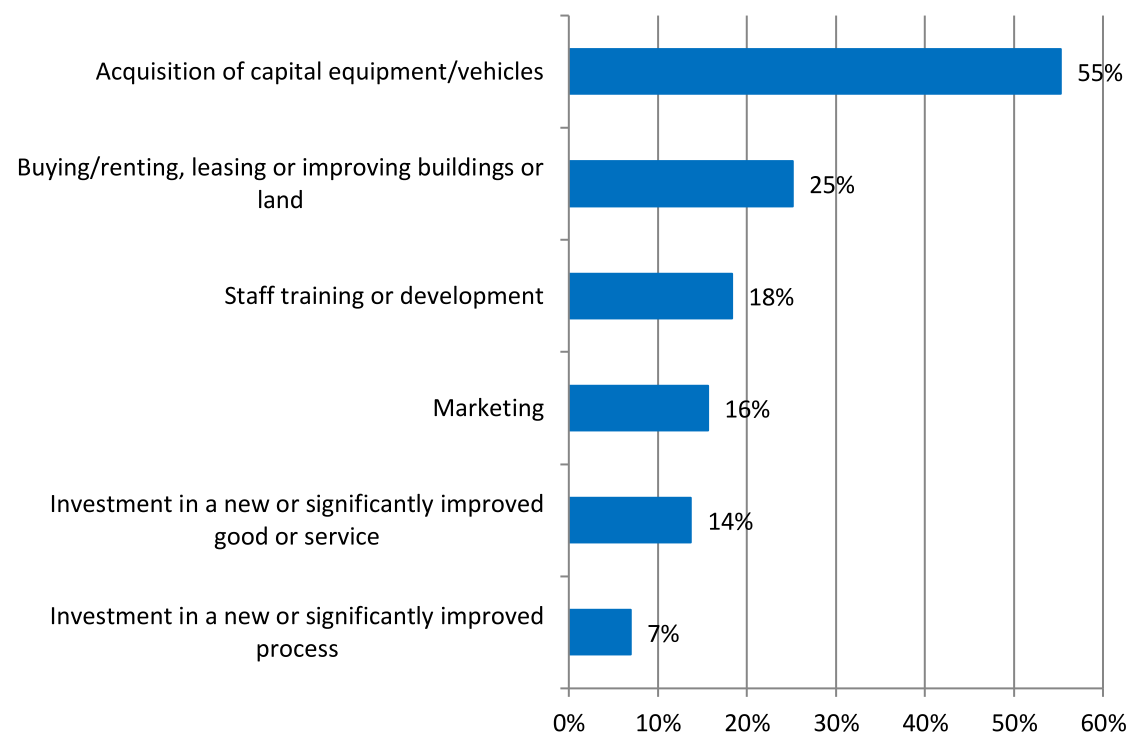
Reasons for applying for external finance[21]

Of those SMEs that had applied for finance in the last 12 months, 53 per cent had done so for working capital or cashflow purposes whilst 48 per cent had done so for other reasons. Of those SMEs that had applied for finance for other reasons, the most common reason was to acquire capital equipment or vehicles (55 per cent). Figure 15 below shows the reasons for seeking external finance for those SMEs that sought finance for reasons other than working capital or cashflow.

Figure 15: Reasons for seeking external finance in the last 12 months other than working capital/cashflow

Base: all that sought external finance in the last 12 months for reasons other than working capital/cashflow, 69

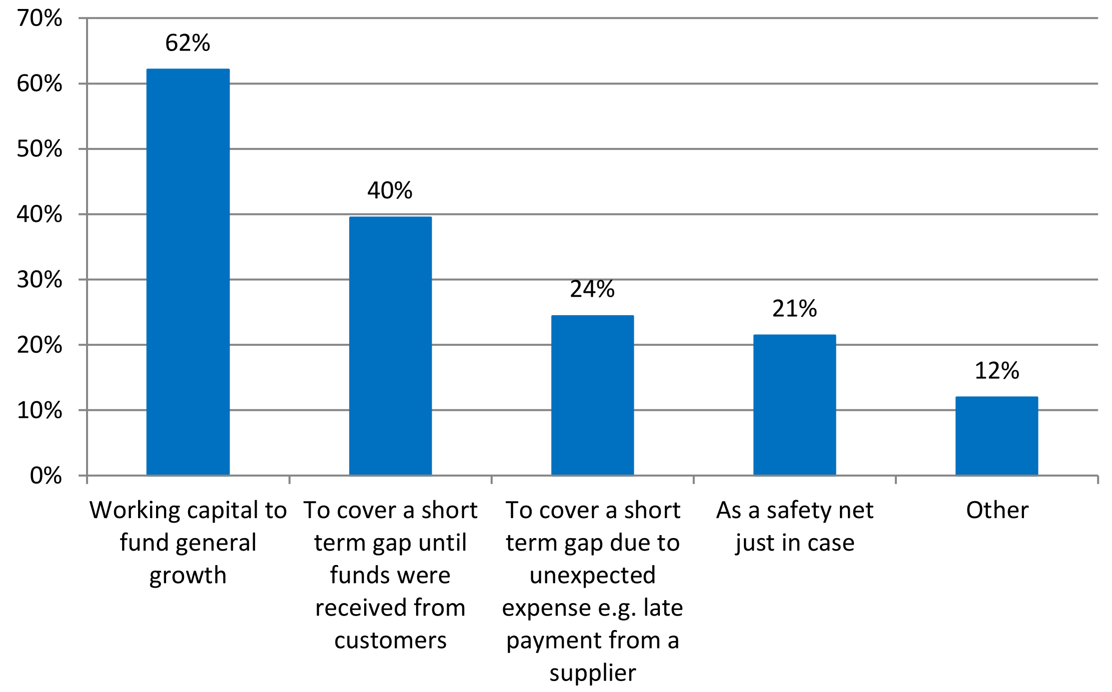
Multiple answers allowed across this question.



[20] Figures do not sum to the total (17 per cent) due to rounding.
[21] The way this question was asked changed in 2017, therefore comparisons with previous years cannot be made.

The most common reason for seeking external finance for working capital/cashflow was *to fund general growth*, reported by 62 per cent of those SMEs that applied for this type of external finance (Figure 16).

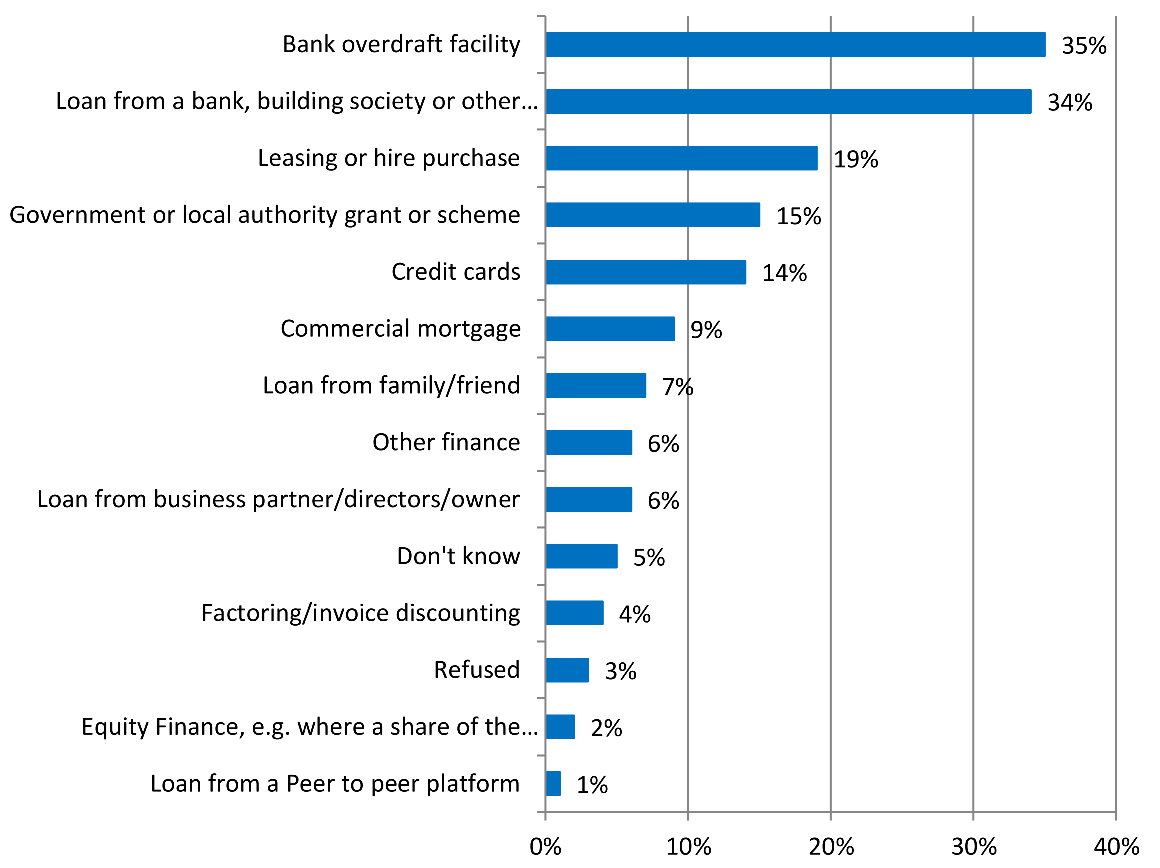
Figure 16: Reasons for seeking external finance for working capital/cash flow
Base: all that sought external finance for cash flow, 75
Multiple answers allowed across this question.



Type of external finance applied for in the last 12 months

In line with the prior year and with findings for the UK as a whole, the most common forms of external finance applied for in 2017 were bank overdraft facilities (35 per cent of SMEs that applied for finance) and loans from banks and other financial institutions (34 per cent) (Figure 17).

Figure 17: Types of finance applied for in the last 12 months
Base: all that applied for finance in the last 12 months, 133
Multiple answers allowed across this question.

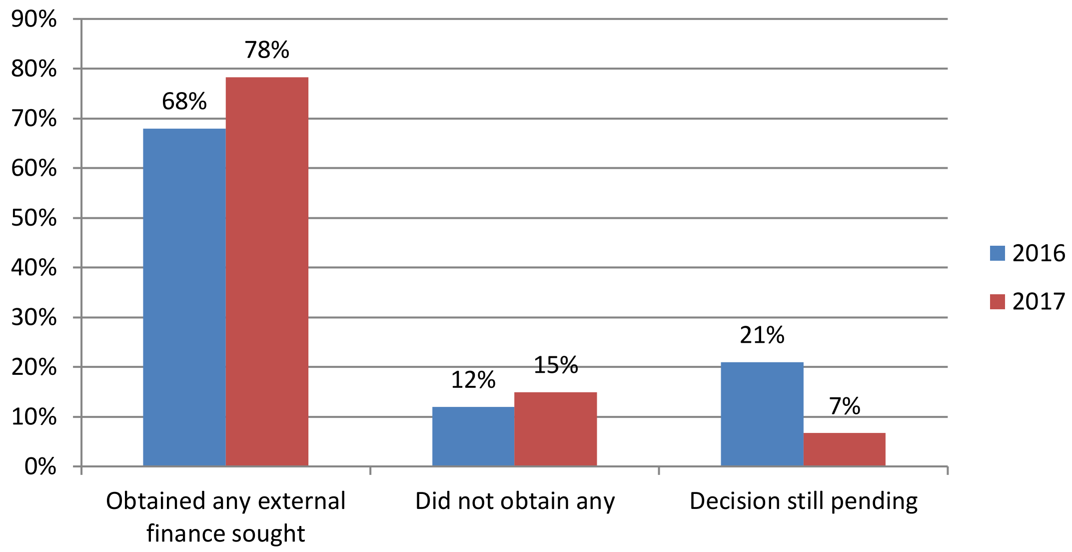


Success in obtaining external finance

Regarding the final outcome of applications for finance, in 2017, 78 per cent of SMEs that applied for external finance in the previous 12 months were successful in obtaining at least some of the external finance sought, while 15 per cent did not obtain any. For the remaining seven per cent, the outcome of the application was still pending at the time of the interview. The success rate in Scotland was broadly in line with that in the UK as a whole, at 77 per cent. Success rates in Scotland were broadly similar across business sizeband.

It appears that the success rate in obtaining external finance was higher than in 2016. However, a higher proportion of applications were still pending in 2016 (21 per cent) and therefore it is not possible to make a direct comparison (Figure 18).

Figure 18: Outcome of applications for external finance (%)
Base 2017: all that sought external finance in the last 12 months, 133
Base 2016: all that sought external finance in the last 12 months, 134



Amount of external finance sought

The most common amount of finance sought in the last 12 months was in the range '£10,000 to £24,999' (26 per cent) (Table 4).

Table 4: Amount of external finance sought in the last 12 months (%)
Base: all SMEs applying for finance, 133

Less than £10,000	10%
£10,000 to £24,999	26%
£25,000 to £49,999	15%
£50,000 to £99,999	14%
£100,000 to £249,999	12%
£250,000 to £999,999	7%
£1 million or more	6%
Don't know/Refused to answer	10%

Amount of external finance obtained

The most common amounts of finance obtained in the last 12 months were in the ranges '£10,000 to £24,999' (24 per cent) and '£25,000 to £49,999' (20 per cent) (Table 5).

Table 5: Amount of external finance obtained in the last 12 months (%) *Base: all SMEs obtaining finance, 109*	
Less than £10,000	15%
£10,000 to £24,999	24%
£25,000 to £49,999	20%
£50,000 to £99,999	12%
£100,000 to £249,999	8%
£250,000 to £999,999	6%
£1 million or more	6%
Don't know/Refused to answer	9%

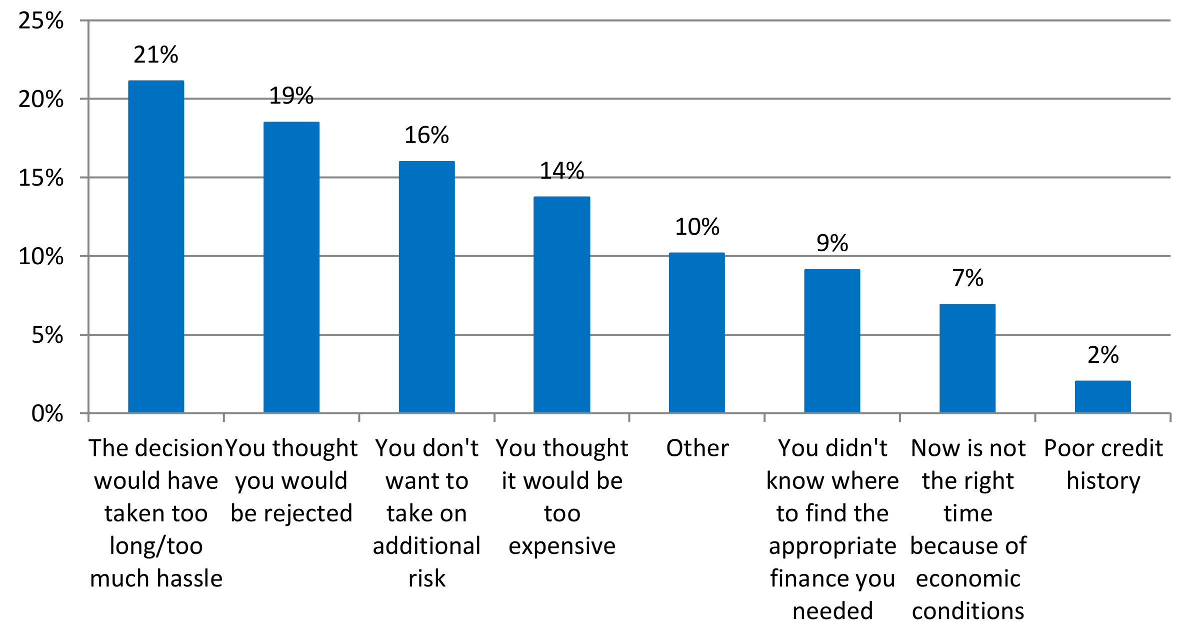
Discouraged borrowers

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

13 per cent of SMEs in Scotland had a need for external finance in the last 12 months that they did not apply for (higher than the proportion in the UK as a whole, at nine per cent)[22]. This proportion is broadly consistent amongst SMEs of all sizes and is broadly in line with the figure in 2016 (11 per cent).

Of those SMEs that had a need for finance but did not apply, 21 per cent reported that the main reason for not applying was because they thought '*the decision would have taken too long/too much hassle*'. This was followed by '*you thought you would be rejected* (19 per cent). The proportion that reported they *'thought it would be too expensive'* as their main reason for discouragement stood at 14 per cent (Figure 19).

Figure 19: Main reason for discouragement
Base 2017: Discouraged borrowers, 80



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

Credit granting and late payment

In 2017, 48 per cent of SMEs in Scotland *gave* their customers trade credit, broadly in line with the proportion in the prior year (46 per cent) and the proportion in the UK as a whole (50 per cent). Small (60 per cent) and medium-sized businesses (68 per cent) were more likely than average to have given their customers trade credit. By sector, businesses in the Manufacturing (86 per cent) and Construction sectors (68 per cent) were more likely than average to give their customers trade credit. SMEs in Administrative Services (29 per cent) and Other Services sectors (24 per cent) were less likely to give credit.

Of those SMEs that granted trade credit to their customers, 54 per cent considered late payment to be a problem (40 per cent reported it was a small problem whilst 14 per cent reported it was a big problem). 45 per cent reported no problems with late payment.

64 per cent of SMEs *received* trade credit from their suppliers, broadly in line with the proportion in the prior year (65 per cent) and the proportion in the UK as a whole (66 per cent). Small (74 per cent) and medium-sized businesses (82 per cent) were more likely than average to receive trade credit from their suppliers. Firms in the Manufacturing (85 per cent), Construction (83 per cent) and Transport/ Retail/ Distribution sectors (74 per cent) were more likely than average to receive trade credit from their suppliers. Businesses in the Business Services (48 per cent), Administrative Services (46 per cent), Other Services (44 per cent) and Information/Communication (33 per cent) sectors were less likely than average to receive trade credit.

Future intentions in approaching external finance

SMEs were asked how likely it was that they would approach external finance providers in the next three years. 27 per cent of SMEs said it was likely (12 per cent very likely and 15 per cent fairly likely) that they would approach external finance providers in the next three years, higher than the proportion in the UK as a whole (22 per cent) and marginally higher than the proportion in the prior year (24 per cent). Medium-sized businesses were more likely than average to report that they were likely to approach external finance providers in the next three years (38 per cent). 71 per cent of SMEs said that it was not likely that they would approach external finance providers in the next three years (25 per cent not very likely and 46 per cent not at all likely).

6. Business Performance and Outlook

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

Changes to employment in the last 12 months

This section on changes to employment in the last 12 months is based on findings for panellists only (i.e. businesses that were interviewed in both 2016 and 2017)[23].

33 per cent of SME *panellists* employed more people than a year previously. 37 per cent employed the same number and 30 per cent employed fewer. The proportion that employed more people than a year previously was significantly lower than in 2016 (48 per cent).

Table 6 below shows the net balance of employment growth by business size. The net balance is described as the overall proportion of businesses that increased employment, minus the proportion of businesses that decreased employment, compared to a year ago. Therefore, a positive figure indicates that more businesses within that category increased employment levels than decreased. In 2017, micro and medium businesses showed a positive net balance of employment growth, while small businesses showed a negative net balance[24] of employment growth.

Table 6: Numbers employed compared to 12 months ago (%) by size
Base: all SME employers panellists, 442 – Base minimum: Medium-sized businesses, 73

	Has more employees now	Same number	Has fewer employees now	Net balance - growth (% points)
Micro 1-9	33	41	26	***7***
Small 10-49	31	24	45	***-14***
Medium 50-249	46	13	42	***4***
All	**33**	**37**	**30**	***4***

Expectations of employment in the next 12 months

22 per cent of SMEs in Scotland expected to employ more people in 12 months' time, broadly in line with the proportion in the UK as a whole (24 per cent) and with the proportion in the prior year (21 per cent). Eight per cent of SMEs in Scotland expected to employ less people, broadly in line with the UK as a whole (10 per cent) but lower that the proportion in the prior year (14 per cent). 70 per cent of SMEs in

[23] The results for the question on employment growth differ between panellists (those businesses interviewed in both 2016 and 2017) and top-ups (those businesses interviewed for the first time in 2017). For panellists, the number of employees given in the previous year is used to make the comparison with the current number of employees. Top-up respondents were asked how many employees they had 12 months previously and were more likely to perceive that they had the same number of employees as before. For this reason, it is not possible to combine figures for the two groups, as overall results are dependent upon the ratio between panellists and top-ups within each survey.
[24] Net balances may not sum to total due to rounding.

Scotland expected to employ about the same number, higher than the proportion in the UK as a whole (65 per cent) and in the prior year (65 per cent).

Medium-sized firms (38 per cent) were more likely than average to expect to employ more people in 12 months' time.

Changes to turnover in the last 12 months

Of all SMEs that had been trading for at least one year, 33 per cent increased their turnover (value of sales) over the past year. 44 per cent had approximately the same turnover and 21 per cent had seen their turnover decrease over the past year. These proportions were broadly in line with those in the UK as a whole.

Table 7 below shows the net balance of turnover growth by business size[25]. SMEs of all sizes showed a positive net balance of turnover growth (i.e. higher proportions of firms experienced turnover growth than those that experienced turnover reduction).

Small and medium-sized businesses were more likely than average to have seen their turnover increase over the past year and less likely than average to have seen their turnover stay the same. The proportions seeing their turnover decrease over the past year were broadly similar across business sizeband.

Table 7: Changes to turnover compared to 12 months previously (%) by size
Base: all SME employers trading for at least one year, 736 – Base minimum: Medium-sized businesses, 133
SMEs that answered Don't know/Refused: 7%

	Increased	Decreased	Stayed the same	Net balance - growth (% points)[26]
Micro 1-9	31	22	46	***10***
Small 10-49	41	19	36	***22***
Medium 50-249	44	16	33	***28***
All	**33**	**21**	**44**	***12***

Expectations of turnover growth in the next 12 months

37 per cent of SMEs in Scotland expected turnover to increase in the next 12 months. 50 per cent expected turnover to stay approximately the same and 10 per cent expected turnover to decrease. These proportions were broadly in line with those in the UK as a whole.

Medium-sized SMEs were more likely than average to expect turnover to increase (57 per cent).

[25] The net balance is described as the overall proportion of businesses that experienced turnover growth, minus the proportion of businesses that experienced turnover reduction, compared to 12 months ago. Therefore, a positive figure indicates that more businesses within that category experienced turnover growth than those that experienced turnover reduction.
[26] Net Balances may not sum to total due to rounding.

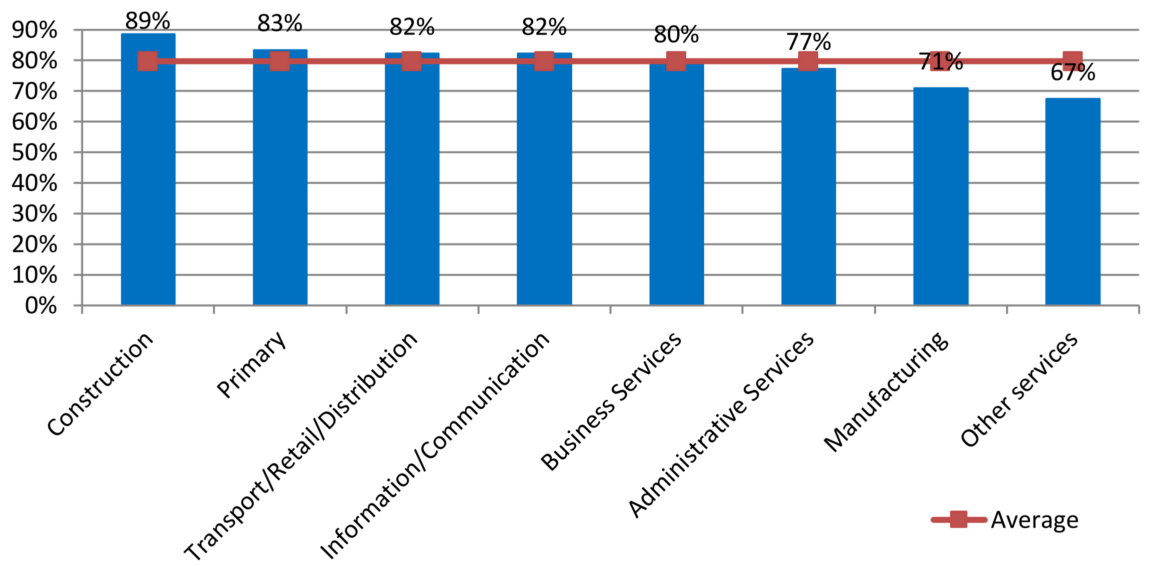
Profit

80 per cent of SMEs in Scotland generated a profit in their last financial year, broadly in-line with the UK as a whole (82 per cent). The proportion of SMEs generating a profit was broadly consistent across business sizeband.

Businesses in the Other Services sector were less likely than average to have made a profit (67 per cent). The results for all other sectors were broadly in line with the overall SME average (Figure 20).

Figure 20: Whether generated a profit or surplus in the last financial year by sector

Base: all SME employers, 739 – Base minimum: Information/Communication, 28
SMEs that answered Don't know/Refused to this question: 3%



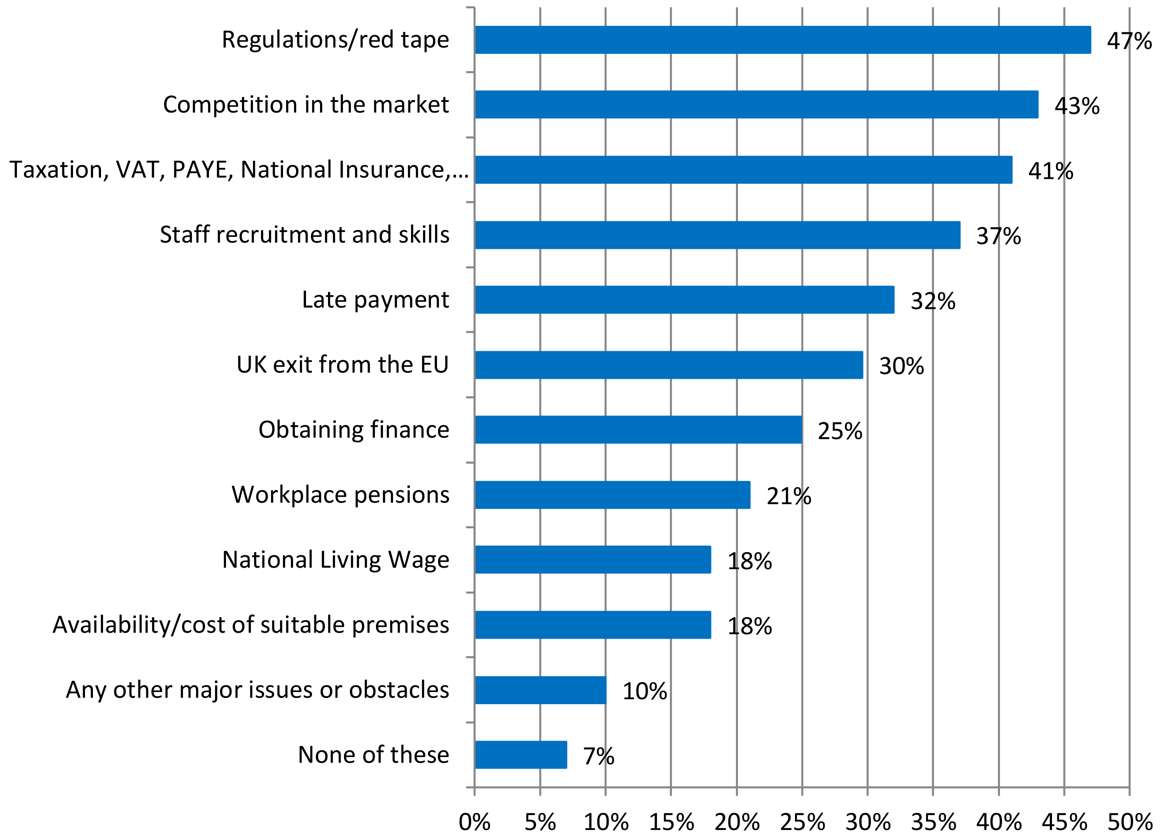
Major obstacles to the success of the business

Respondents were read a list of issues and asked which, if any, represented major obstacles to the success of their business. In line with the prior year, the two most commonly reported obstacles by SMEs in Scotland were *regulations/red tape*[27] *(*reported by 47 per cent of SMEs) and *competition in the market* (43 per cent). Other commonly reported obstacles included *taxation/VAT/PAYE/National Insurance/business rates* (41 per cent), *staff recruitment and skills* (37 per cent), *late payment* (32 per cent) and *UK exit from the EU* (30 per cent) (Figure 21). These issues were also the top six major obstacles noted by SMEs in the UK as a whole

[27] Those SMEs that reported regulations and red tape as a major obstacle were asked which regulations they considered to be major obstacles. The most commonly reported regulations were tax-related regulations (19 per cent), other regulations not specifically defined (17 per cent), employment regulations (14 per cent), sector-specific regulations (13 per cent) and health and safety (13 per cent).

but with *competition in the market* coming out on top rather than *regulations/red tape*.

Figure 21: Major obstacles to the success of the business
Base: all SME employers, 739
Multiple answers allowed to this question.



The proportion of SMEs in Scotland reporting UK exit from the EU as a major obstacle increased by eight percentage points from the prior year (22 per cent). The proportion of SMEs in the UK as a whole reporting this as a major obstacle also increased significantly over the latest year (six percentage points) from 21 per cent to 27 per cent.

Those SMEs that reported *UK exit from the EU* as a major obstacle[28] were asked which obstacles they faced because of the UK's forthcoming exit from the EU[29]. The most commonly reported obstacles were *uncertainty about future regulatory changes* (80 per cent), *uncertainty about future access to EU markets* (60 per cent) and *increasing import costs* (53 per cent). These were also the top three obstacles reported by SMEs in the UK as whole. Other obstacles noted by those SMEs in Scotland that cited UK exit from the EU as a major obstacle were *decrease in investment* (44 per cent), *difficulty in recruiting skilled labour* (31 per cent) and *difficulty in recruiting unskilled labour* (20 per cent).

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[28] 227 firms in Scotland reported UK exit from the EU as a major obstacle.
[29] This question was not asked in the prior year therefore it is not possible to draw comparisons with 2016.

Sales growth

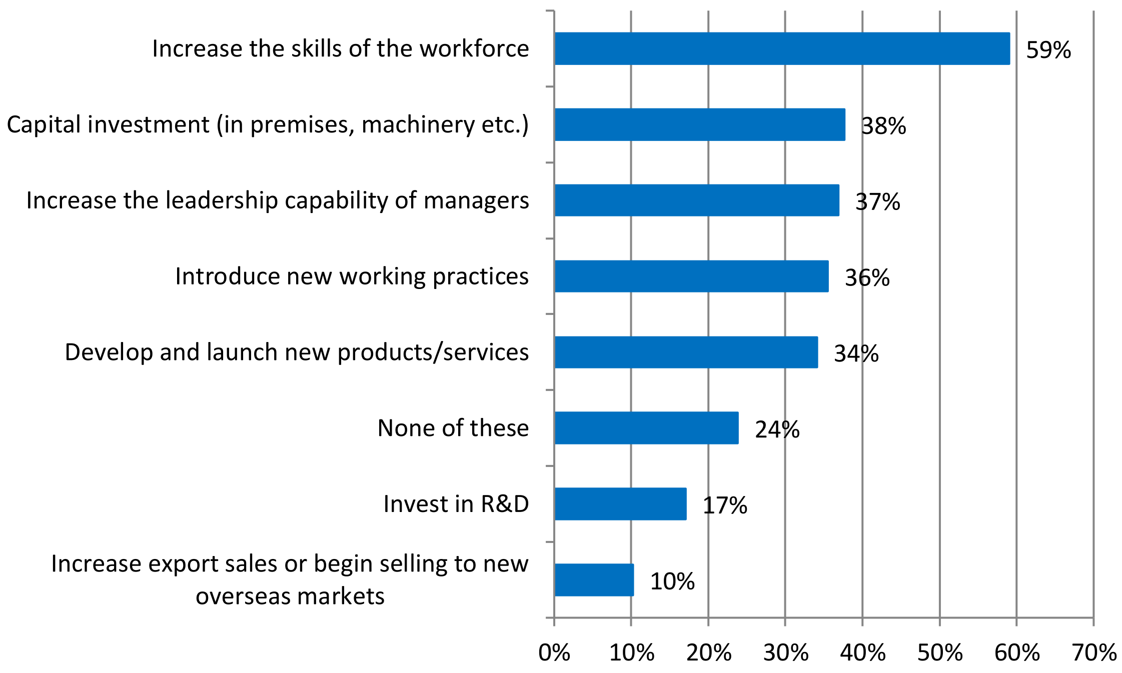
60 per cent of SMEs stated that they aimed to grow sales over the next three years, broadly in line with the proportion in the UK as a whole. Small (81 per cent) and medium-sized businesses (86 per cent) were more likely than average to have growth ambitions.

By sector, SMEs in the Manufacturing sector were more likely than average to report that they aimed to grow future sales (77 per cent), while SMEs in the Construction sector were less likely than average to report that they aimed to grow sales (48 per cent).

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

SMEs were asked whether they planned to do any of seven growth-related activities over the next three years. The most commonly reported activity was *'increase the skills of the workforce'*, cited by 59 per cent of SMEs. The least reported activity was '*increase export sales or begin selling to new overseas markets'*, cited by 10 per cent of SMEs (Figure 22).

Figure 22: Whether plans to do any of these growth-related activities
Base: all SME employers, 739



7. Effect of UK exit from the EU

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

Almost half (48 per cent) of SMEs in Scotland believed that exiting the EU would make no difference (i.e. it would be neither beneficial nor detrimental) to their business, broadly in line with the proportion in the previous year. Almost a third (32 per cent) of SMEs in Scotland believed that exiting the EU would be detrimental for their business (20 per cent fairly detrimental, 12 per cent very detrimental), broadly in line with the prior year. Five per cent believed it would be beneficial (two per cent very beneficial, three per cent fairly beneficial), a lower proportion compared to the prior year (10 per cent). 15 per cent of SMEs did not know.

In the UK as a whole, a lower proportion than in Scotland believed exiting the EU would be detrimental for their business (27 per cent) while a higher proportion believed it would be beneficial (eight per cent). A higher proportion believed it would make no difference, at 54 per cent. 11 per cent did not know.

The net balance (i.e. the proportion of SMEs reporting that exiting the EU would be beneficial minus the proportion of SMEs reporting that exiting the EU would be detrimental) was -27 percentage points in Scotland and -19 percentage points in the UK as a whole.

SME *international exporters* (i.e. firms exporting to countries outside of the UK) were more likely than SMEs as whole in Scotland to believe exiting the EU would be detrimental to their business (46 per cent) and less likely to believe it would make no difference (33 per cent). Four per cent of SME international exporters believed exiting the EU would be beneficial to their business, broadly in line with findings for SMEs as a whole, but lower than the proportion in the prior year (12 per cent). In the UK as a whole, a higher proportion of SME exporters believed exiting the EU would be beneficial to their business (10 per cent).

42 per cent of SME *importers* (i.e. firms importing from countries outside of the UK) believed exiting the EU would make no difference to their business, 39 per cent believed it would be detrimental and four per cent believed that it would be beneficial. These proportions are broadly in line with findings for SMEs in Scotland as a whole. In the UK as a whole, a higher proportion of SME importers believed exiting the EU would be beneficial to their business (eight per cent).

42 per cent of SME *innovators* (i.e. SMEs that had engaged in good/service or process innovation) believed exiting the EU would make no difference to their business, 35 per cent believed it would be detrimental and six per cent believed it would be beneficial. These proportions are broadly in line with findings for SMEs in Scotland as a whole and with findings for SME innovators in the UK as a whole.

Whether businesses are prepared for UK exit from the EU

29 per cent of SMEs in Scotland that believed EU exit to be either beneficial or detrimental to their business said they felt prepared for it (seven per cent very

prepared and 22 per cent fairly prepared), while 32 per cent felt unprepared for it (13 per cent very unprepared and 19 per cent fairly unprepared). 36 per cent of SMEs in in Scotland felt neither prepared nor unprepared for EU exit. Three per cent of SMEs did not know.

In the UK as a whole, a higher proportion than in Scotland felt prepared for EU exit (42 per cent) and a lower proportion felt unprepared (26 per cent). 29 per cent felt neither prepared nor unprepared and two per cent did not know.

Whether plans for growth-related activities have been affected by UK exit from the EU

SMEs were asked if they planned to undertake a range of growth-related activities[30] over the coming three years and if so, whether their plans had been affected by UK exit from the EU. Those SMEs in Scotland with plans to *increase export sales or begin selling to new overseas markets* were most likely to have had these plans affected by EU exit (35 per cent). 17 per cent of those SMEs in Scotland with plans to *develop and launch new products/services* had these plans affected by UK exit. 11 per cent of SMEs in Scotland with plans to *invest in R&D* and 11 per cent of those with *capital investment* plans stated that these plans had been affected by UK exit.

[30] SMEs were asked if they planned to undertake any of the following activities: increase the skills of the workforce; increase leadership capability of managers; capital investment; develop and launch new products/services; introduce new working practices; invest in R&D; increase export sales or begin selling to new overseas markets.

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