



The Scottish
Government

The Annual Survey of Small
Businesses' Opinions 2006:
Scotland (ASBS 2006)

Business and Industry



social
research

**The Annual Survey of Small Businesses'
Opinions 2006: Scotland (ASBS 2006)**

Summary report of findings among
SME employers in Scotland

IFF Research Ltd

This report is available on the Scottish Government Social Research website only www.scotland.gov.uk/socialresearch.

It should be noted that since this research was commissioned a new Scottish government has been formed, which means that the report reflects commitments and strategic objectives conceived under the previous administration. The policies, strategies, objectives and commitments referred to in this report should not therefore be treated as current Government policy.

© Crown Copyright 2008

Limited extracts from the text may be produced provided the source is acknowledged. For more extensive reproduction, please write to the Chief Researcher at Office of Chief Researcher, 4th Floor West Rear, St Andrew's House, Edinburgh EH1 3DG

CONTENTS

1	Summary
2	Survey method and report structure
2.1	Aims of the survey
2.2	Survey Method
2.3	Report Structure
3	Size and structure of the SME sector and characteristics of business owners
3.1	Size and Structure of SME sector
3.2	Characteristics of Business Owners
3.3	New Businesses
3.4	Gender
3.5	Minority Ethnic Groups (MEG)
3.6	Disability
3.7	Age
3.8	Family businesses
3.9	Working from home
4	Growth performance and ambitions
4.1	Growth in the past 12 months
4.2	Growth ambitions
4.3	Growth trajectories
5	Obstacles to business success
5.1	Biggest obstacle to achieving business success
5.2	Overall incidence of obstacles to business success
5.3	Competition in the market as an obstacle to business success
5.4	Regulations as an obstacle to business success
5.5	Managing cash flow
6	Factors associated with growth
6.1	Access to finance
6.2	Types of finance sought
6.3	Difficulties obtaining finance
6.4	Innovation
6.5	Exporting and competition from overseas
6.6	Training
6.7	Use of ICT
7	Business advice and contact with government
7.1	Seeking advice about business matters and regulations
7.2	General advice and information
7.3	Advice concerning regulations
7.4	Contact with and use of government services
7.5	Public procurement

1 Summary

- 1.1 **The Annual Small Business Survey.** This report presents findings in Scotland from the Annual Small Business Survey (ASBS), 2006. The survey was a large one including a total of 1,014 interviews in Scotland; 916 of them with businesses with employees. The report presents the survey findings relating to the 'SME employers' rather than for all businesses.
- 1.2 **Past growth.** One in five SME employers in Scotland (18 per cent) had grown in employment terms in the 12 months prior to the survey. Approximately one in seven SME employers (14 per cent) had reduced the size of their workforce. Two in five SME employers had increased their turnover (42 per cent) while half that proportion (19 per cent) had seen their turnover decrease.
- 1.3 **Growth ambitions.** Almost two thirds of SME employers were planning to grow over the next two to three years (64 per cent). The larger the business the more likely it was to aim for growth. A third of SME employers (33 per cent) anticipated closing down their business or transferring ownership in the next five years.
- 1.4 **Sustained growth.** The findings show an increase in the percentage of businesses experiencing sustained growth (that is, where they both increased their workforce during the past year and intended to increase staff numbers in the next twelve months). Nine per cent of businesses with employees reported sustained growth in 2006.
- 1.5 **Innovation.** Slightly more than half of SME employers (52 per cent) introduced new or significantly improved products or services in the past 12 months. Of these, three-quarters (74 per cent) introduced innovations that were new to their business with 25 per cent believing their innovation to be completely new. A third of SME employers (34 per cent) had introduced significantly improved or new processes to their business. Of these, three-quarters (78 per cent) had introduced processes which were simply new to their business and one fifth (20 per cent) had introduced completely new processes.
- 1.6 **Obstacles to achieving business success.** Most SME employers perceived at least some degree of challenge to their success; only three per cent did not report any obstacles. The most frequently reported biggest obstacles were: Tax/VAT/PAYE/NI (13 per cent of SME employers), competition in the market (12 per cent), regulations (11 per cent) and cash flow (nine per cent).

Recruitment problems and skills shortages were cited by seven and four per cent of respondents respectively. One per cent of respondents were most concerned about a lack of managerial skills and expertise.

- 1.7 **Competition from overseas.** A fifth (20 per cent) of SME employers felt threatened by overseas competition, with 16 per cent seeing this as a serious threat to their business.
- 1.8 **Regulations as an obstacle to success.** Almost a third (30 per cent) of the SME employers that reported regulations to be an obstacle cited Health & Safety regulations as the main area of difficulty. Tax, environmental and employment regulations were cited by 16 per cent, 14 per cent and 12 per cent of employers respectively.
- 1.9 **Managing cash flow.** The most common explanation given for cash flow problems was irregular or fluctuating patterns of income (71 per cent). However, close to half of the respondents that reported cash flow to be an obstacle to the success of the business cited late payment as being a key element of these problems.
- 1.10 **Access to finance.** A quarter of SME employers (25 per cent) had sought external finance for their business in the year prior to the survey. Most obtained all the finance they sought, but approximately one in four reported problems and approximately half of these were unable to secure any external funding. By far the most common type of finance sought was bank loans (46 per cent of those that had sought finance).
- 1.11 **Seeking business advice.** The use of business support across SME employers was not widespread. Only three in ten SME employers (29 per cent) had sought advice from external sources about the general running of their business in the 12 months prior to the survey.
- 1.12 **Contact with and use of government services.** The majority of SME employers (60 per cent) had some form of contact with government during the year preceding the survey. Respondents were generally satisfied with the way that government bodies handled this contact. The exceptions to this were contact relating to the planning permission process (where there was net dissatisfaction) and the processes for claiming grants/loans and regulation enforcement (where levels of satisfaction were only slightly more positive than negative).
- 1.13 **Characteristics of SME employers.**
- The vast majority of SME employers were run by men; only 18 per cent of them were run by a woman or by a management team mostly comprised of women. Women-led SME employers tended to be smaller than average.
 - Six per cent of SME employers were run by a member or mostly by members of a Minority Ethnic Group.
 - Six per cent of SME employers included at least one owner or director with a disability.

2 Survey method and report structure

2.1 Aims of the survey

This report sets out the key findings in Scotland from the Annual Small Business Survey 2006. The research involved a large-scale telephone survey conducted by IFF Research Ltd between November 2006 and February 2007.

The main aims of the survey were to:

- Monitor key trends in the characteristics and perceptions of small business owners and managers.
- Serve as a "listening exercise" among small businesses; gauging their intentions, plans, needs, concerns and the obstacles they face to fulfilling their potential.
- Act as a sounding board for possible government actions and interventions to support and assist small businesses.

2.2 Survey method

A total of 9,905 Small and Medium sized Enterprises (SMEs) were interviewed, of which 1,014 were located in Scotland. For the purposes of the survey, an SME was defined as any business with zero to 250 employees.

Interviews were conducted across the UK with a stratified random sample as follows:

- An initial target of 6,235 interviews was distributed evenly across the nine regions of the UK, Scotland, Wales and Northern Ireland.
- Boost samples were included for Scotland, Wales, Northern Ireland, the North West, East Midlands and the East of England.
- Within each country, targets were set for businesses with no employees (ten per cent) and for employers of different sizes (micro 36 per cent, small 36 per cent and medium 18 per cent). However, in those English regions that elected to boost, targets were fixed at the regional level to ensure that these regions would have sufficient sample of their own in each size band.
- The sample was randomly drawn across all commercial sectors of the economy.

The survey findings have been weighted to represent the population of SMEs in the UK at the time of the survey.

The size of the sample means that findings can be reported with a relatively high degree of statistical reliability. At the overall level, the statistical error for a finding of 50 per cent (the most statistically sensitive or unreliable level of finding) is ± 1.04 per cent; in Scotland it is ± 3.24 per cent (see Table 2.1).

Table 2.1 Statistical confidence in survey findings¹

	Sample size	S.E.
England	6915	± 1.18
Wales	907	± 3.25
Scotland	916	± 3.24
Northern Ireland	211	± 6.75

The data have not been weighted to represent the different sectors of the economy, although random selection across all sectors has delivered a sample which is broadly representative of the UK SME employer population across sectors.

2.3 Report structure

Although the survey questionnaire was very similar, the structure of this 2006 report differs to that of previous years. This reflects feedback from the users of previous reports which suggested that the document should be made more accessible and focus on the findings in which there is most interest.

The main differences in the presentation of findings compared to previous years are:

- The report has been reduced significantly in length and much of the detail underpinning the headline findings has been omitted².
- Only findings relating to SMEs with employees are reported. These are referred to throughout the report as SME employers. A total of 916 such employers were interviewed in Scotland³.
- In addition to documenting key characteristics of SME employers, the report focuses on growth performance, growth aspirations and obstacles to business success. Consideration is also given to a range of other factors associated with growth including: access to finance, innovation, exporting, training and seeking advice.

¹ The table presents the standard error, at the 95 per cent confidence level, associated with findings of 50 per cent.

² Previous reports caused confusion since they covered three sets of findings: (i) for all businesses, (ii) businesses with employees and (iii) businesses with no employees.

³ The remainder were with businesses with no employees.

The remainder of the report is set out as follows:

Section 3: Size and structure of the SME sector and characteristics of business owners.

Section 4: Recent growth performance and future growth ambitions.

Section 5: Perceptions of the obstacles to business success.

Section 6: Factors associated with growth:

- Financing the business.
- Innovation.
- Exporting.
- Training.
- Use of ICT.

3 Size and structure of the SME sector and characteristics of business owners

3.1 Size and structure of SME sector

There were an estimated 265,640 business enterprises in Scotland at the start of March 2006. SMEs (businesses with zero to 249 employees) accounted for 99 per cent of these businesses⁴.

The majority of SMEs have no employees; they are sole proprietorships, partnerships comprising only the self-employed owner-manager(s) or companies comprising only an employee director. Approximately a third (34 per cent) are SME employers. Of these, around 74 thousand are micro-employers (employing fewer than ten people), 13 thousand are small employers (with between ten and 49 employees) and 3.5 thousand are medium-sized employers (with 50 to 249 employees). It is on these 90 thousand SME employers that this report focuses.

In total, SMEs employ almost one million people (approximately 40 per cent of the total workforce of Scotland) and have an aggregate turnover of approximately £80 billion (approximately 40 per cent of the Scottish whole economy total of £196 billion).

3.2 Characteristics of business owners

Whilst the official SME Statistics are a valuable source of information on the size and profile of the UK's SMEs, they cannot tell us much about the characteristics of those who own, run and manage small businesses throughout the UK. The ASBS series has been designed, in part, to fill some of these gaps. Based on data from the 2006 survey, this section describes the proportion of business owners who ran new businesses in Scotland and the gender, ethnicity, disability status and age of Scottish business owners. It also reports on the prevalence of family-business and "home-working".

⁴ Scottish Corporate Sector Statistics 2006:
<http://www.scotland.gov.uk/Topics/Statistics/Browse/Business/Corporate/Q/editmode/on/forceupdate/on>

3.3 New businesses

ASBS defines new businesses (often referred to as start-ups) as businesses trading for less than four years or those which have changed ownership in the last three years. Based on this definition, new businesses accounted for slightly more than one in five SME employers in Scotland (22 per cent). The majority (86 per cent) of new businesses were micro-employers.

3.4 Gender

Table 3.1 summarises SME leadership in Scotland broken down by gender. Whereas elsewhere in the report the figures quoted are for employers only, Table 3.1 also presents data for all businesses including those without employees.

Table 3.1 Leadership by gender

Business Leadership	Businesses with employees	All businesses
Majority-led by Women	18 per cent	18 per cent
Equally-led	26 per cent	21 per cent
At least 50 per cent female leadership (majority-led by women & equally-led)	43 per cent	39 per cent
Women in a minority	6 per cent	7 per cent
Entirely Male-led	50 per cent	54 per cent

Base: Business with Employees in Scotland (weighted data); unweighted N-916. All businesses (weighted data); unweighted N-1,014

Most SME employers were owned by men, or led by a management team with a majority of men. Only 18 per cent of Scottish SME employers were women-led (defined as run by a woman or having a management team made up mostly of women).

Women-led businesses tended to be smaller than other businesses. Nine in ten Scottish women-led SME employers were micro-businesses (91 per cent compared to 83 per cent overall). Women-led SME employers were more likely to be new businesses than SME employers led by men. Approximately one in three (31 per cent) was a new business compared to 22 per cent of SME employers that were led by men.

3.5 Minority Ethnic Groups (MEG)

Six per cent of Scottish SME employers were MEG-led; that is led by a member of a minority ethnic group or a management team with at least half of its members from minority ethnic groups.

3.6 Disability

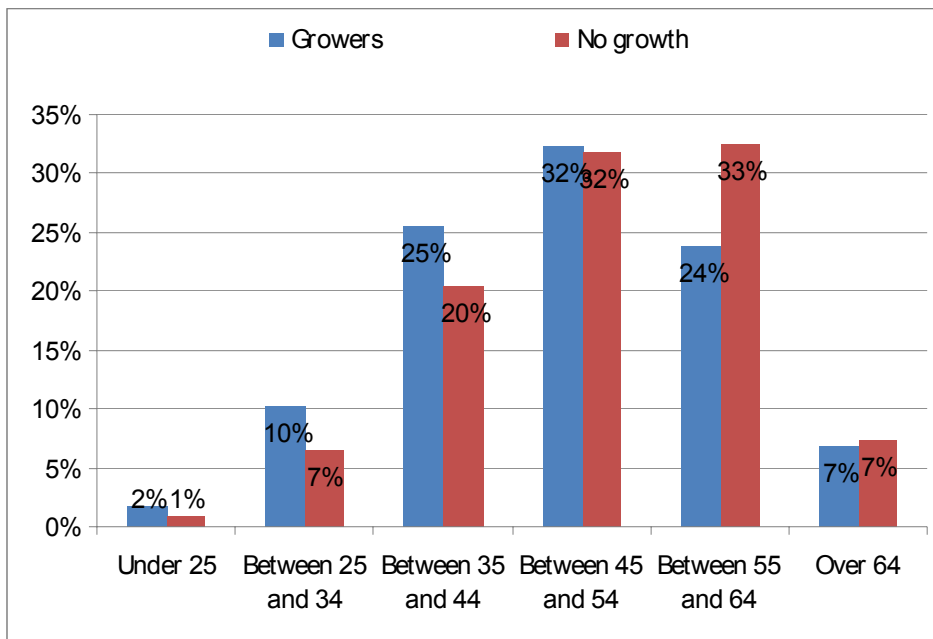
Six per cent of Scottish SME employers had partners or directors with a long standing disability. Seven per cent of partnerships and nine per cent of companies had partners or directors with a long standing disability. Two per cent of sole proprietors had a long standing disability.

3.7 Age

The majority of SME employer owners and co-owners in Scotland fall in the 35 and 44 (22 per cent), 45 to 54 (32 per cent) and 55 to 64 (29 per cent) age categories. The proportions in younger and older cohorts are much smaller; just nine per cent were aged under 35 and seven per cent over 65.

Chart 3.1 shows the distribution of growing and non-growing Scottish businesses by age of business owner (growers are businesses that either grew in the previous year or which aspire to grow in the next twelve months, non-growers are those that have neither grown nor plan to grow over this period). The data show that growing businesses tend to have younger owners.

Chart 3.1 Age of business owner and business growth



Base: all businesses with employees in Scotland (weighted data); unweighted N-916

3.8 Family businesses

Family-owned businesses accounted for three quarters (75 per cent) of the total population of Scottish SME employers. A higher proportion of micro-sized businesses (76 per cent) than small or medium-sized businesses (70 per cent and 50 per cent respectively) were family-owned.

Nine out of ten partnerships were family-owned businesses (93 per cent) as were almost three quarters of sole proprietorships (72 per cent) and two thirds of companies (66 per cent).

The majority of businesses that were family-owned (72 per cent) were "first generation", 16 per cent had been passed down into the second generation. Just over one in ten family-owned SME employers had been "in the family" for three generations or more (12 per cent).

3.9 Working from home

One quarter (26 per cent) of Scottish businesses used someone's home as the main business or work premises when the business first started up.

4 Growth Performance and Ambitions

This section reports the extent to which SME employers had grown in the previous twelve months and their ambitions for future growth.

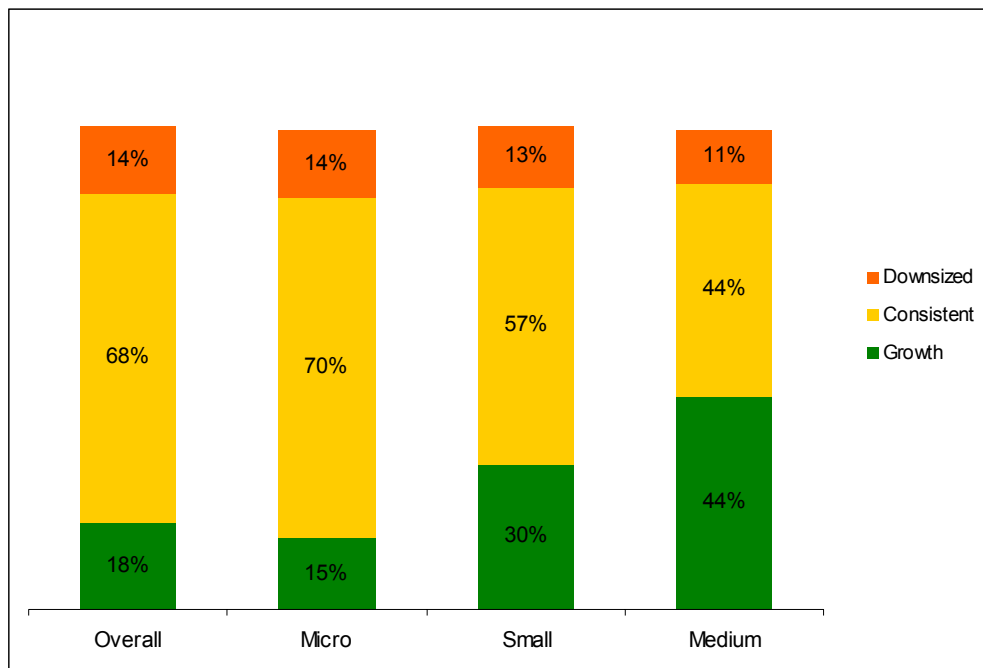
4.1 Growth in the past 12 months

The survey explored the extent to which SME employers had experienced growth in the previous 12 months in terms of both employment and turnover.

Chart 4.1 shows that approximately two thirds of SME employers in Scotland (68 per cent) maintained the same size workforce throughout the previous year. Close to one in five SME employers had seen the size of their workforce grow over the year (18 per cent) and 14 per cent per cent had downsized.

The larger the employer, the more likely they were to have grown over the previous 12 months. It was not the case, however, that smaller employers were particularly likely to have downsized.

Chart 4.1 Employment growth in past 12 months



Base: All SME employers in Scotland (weighted data); unweighted N-916

SME employers in Scotland were somewhat more likely to have seen their turnover increase over the year (42 per cent) than stand still (33 per cent). One in five (19 per cent) had experienced a fall in their turnover (the remainder were either unable or unwilling to answer). As with employment trends, medium-sized employers (66 per cent) were more likely to have seen turnover growth than small or micro employers (53 per cent and 40 per cent respectively).

4.2 Growth ambitions

As well as exploring recent performance, the survey sought to understand the future growth aspirations of employing SMEs. In order to assess growth intentions, a general question was asked about whether or not the businesses aimed to grow over the next two to three years. Two thirds of Scottish SME employers were aiming to grow their business (64 per cent).

The larger the business the more likely it was to have aspirations for growth. 91 per cent of medium-sized employers were aiming to grow, as were 76 per cent of small employers. Only 61 per cent of micro-employers had growth ambitions.

New businesses were much more likely to anticipate growth (76 per cent) than the overall population of businesses.

Overall, approaching nine in ten SME employers (87 per cent) were registered for VAT. These businesses were asked at what stage they registered. Most commonly they did so at start-up, or as soon as possible afterwards (55 per cent), with a total of 87 per cent registering within the first four years of their existence.

A third of SME employers anticipated closing down or transferring ownership of their business in the next five years (33 per cent). A further six per cent did not know whether the business would close or transfer ownership in that timeframe.

The smaller the business, the more likely was its imminent closure or transfer. Micro-sized employers were more likely than small or medium-sized employers to anticipate sale or closure (35 per cent compared to 25 per cent and 20 per cent respectively).

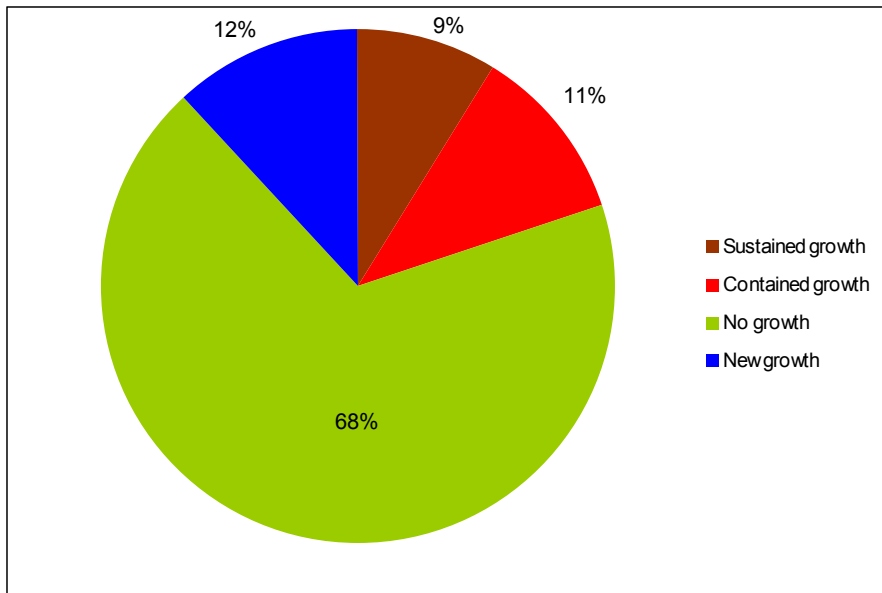
4.3 Growth trajectories

By combining measures of past employment growth and ambitions for future growth, it is possible to define four categories that broadly describe the extent of dynamism amongst SME employers. These are:

- **Sustained growth** - those with more employees than they had 12 months previously which also anticipated increasing staff numbers in the next year.
- **Contained growth** - those with more employees than 12 months previously but which did not anticipate further growth in their workforce in the next 12 months.
- **New growth** businesses - those that had not experienced employment growth in the previous 12 months, but which anticipated growth during the next year.
- The remainder of businesses that show **no growth**.

Chart 4.2 illustrates that the majority of SME employers in Scotland fell into the no growth category (68 per cent). Almost one quarter of all SME employers (23 per cent) either have grown or plan to grow over the two year period spanning the survey. Almost one in ten (9 per cent) are growing on a sustained, year-on-year, basis.

Chart 4.2 Growth trajectories (percentage of all employers)



Base: All SME employers in Scotland (weighted data); unweighted N-916

5 Obstacles to business

However they define success, businesses tend to encounter a range of obstacles as they work to achieve their objectives. As in previous ASBS surveys, respondents to the 2006 survey were first asked to spontaneously cite obstacles and then read a list of potential obstacles and asked to indicate if any of these were also relevant to their business. Respondents who cited more than one obstacle were subsequently asked to identify the biggest obstacle to their business success.

This section first considers the biggest obstacles to business success and then the overall incidence of reported obstacles. This is followed by further discussion of the most cited obstacles.

5.1 Biggest obstacle to achieving business success

Table 5.1 shows the survey findings relating to the biggest reported obstacles to business success.

Table 5.1 Biggest obstacles to business success

Obstacle	Per cent
Taxation, VAT, PAYE, National Insurance, business rates	13
Competition in the market	12
Regulations	11
Cash flow	9
The economy	7
Recruiting staff	7
Availability / cost of suitable premises	4
Obtaining finance	4
Shortage of skills generally	4
Transport issues	2
Shortage of managerial skills/expertise	1
No obstacles	3
No opinion	2

Base: All SME employers (weighted data); unweighted N-916

The most frequently reported biggest obstacle among Scottish SME employers was taxation, followed closely by competition in the market and regulations (13, 12 and 11 per cent of all SME employers respectively). Roughly one in 10 of SME employers (nine per cent) felt cash flow was their biggest obstacle to success. An equal proportion of SME employers felt the economy and recruiting staff were their biggest problem (seven per cent each). Lower proportions reported problems with availability / cost of suitable premises, obtaining finance and a general shortage of skills. Only three per cent felt they had no obstacles while 2 per cent had no opinion on the matter.

5.2 Overall incidence of obstacles to business success

Combining the responses from the unprompted and prompted questions on barriers to business success provides a measure of the overall incidence of such obstacles. The four most frequently reported obstacles in response to these questions were: regulations and taxation/VAT/PAYE/National Insurance/business rates (61 per cent of all SME employers each), competition in the market (52 per cent) and the economy (46 per cent).

5.3 Competition in the market as an obstacle to business success

Competition in the market was the second most frequently cited biggest obstacle to business success. However, although this is clearly a concern for individual businesses, relatively high levels of competition can be interpreted as a positive finding in relation to the economy as a whole. Indeed, the existence of quite widely experienced competition is consistent with the positive findings relating to growth reported in Section 4.

5.4 Regulations as an obstacle to business success

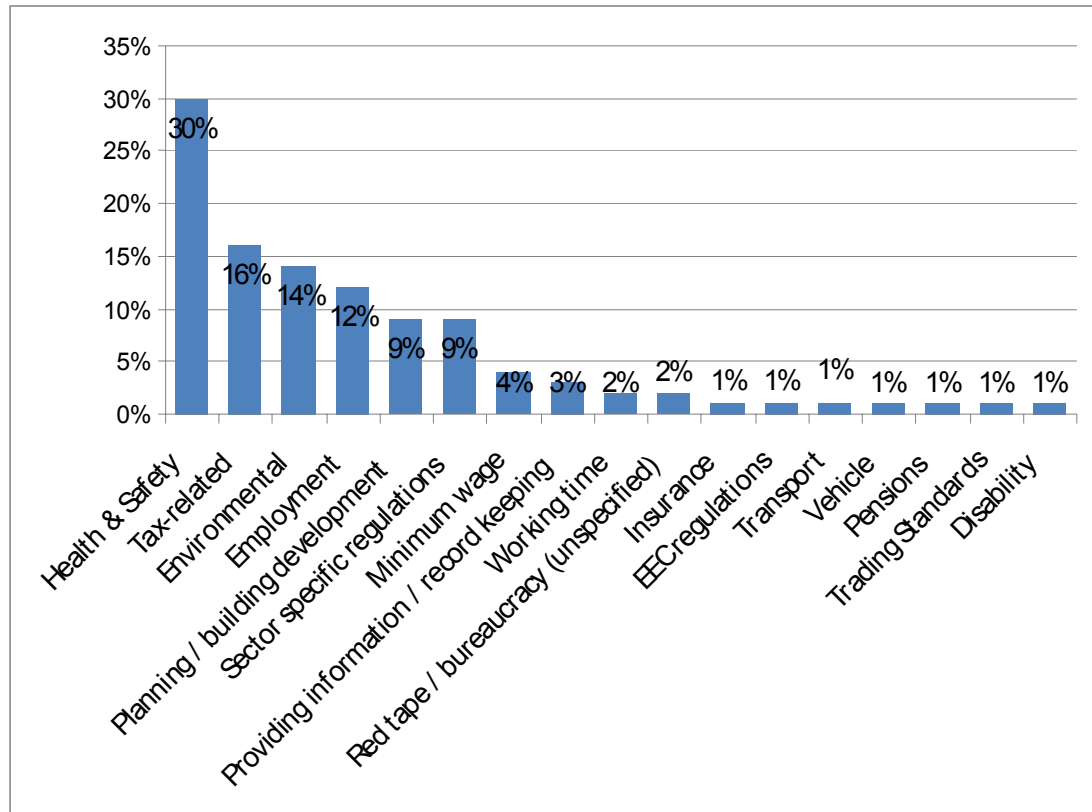
Respondents who cited regulations as an obstacle to the success of their business were asked which specific regulations they considered to be an obstacle, and in what ways.

Chart 5.1 shows that Health & Safety regulations are the aspect of regulation that cause the most widespread concern. These were identified by 30 per cent of the SME employers in Scotland who perceived regulations to be an obstacle to business success (this equates to 18 per cent of all SME employers).

Of less concern, but still cited by as many as 16 per cent and 14 per cent, respectively, were tax regulations and environmental regulations. One in eight (12 per cent) identified employment regulations as an obstacle and both planning/building developments and sector specific regulations were identified by nine per cent.

There were few differences in the frequency with which different types of regulation were reported by different sizes of business. As might be anticipated, one exception to this was that larger businesses were more likely to report employment regulations; 28 per cent of medium-sized businesses saw employment regulations as an obstacle, compared with 20 per cent of small businesses and just 10 per cent of micro-sized businesses.

Chart 5.1 Regulations which are considered to be obstacles to business success (unprompted)



Base: All SME employers in Scotland that consider regulations to be obstacles to business success (weighted data); unweighted N=606

Respondents were also asked how the first regulation they reported acted as a barrier. The responses to this question are summarised in Table 5.2. These data suggests that for most SME employers the majority of difficulties with regulation fall into three categories: (i) understanding what is required and deciding how to respond, (ii) the administrative burdens associated with compliance and (iii) the compliance costs involved.

5.5 Managing cash flow

Managing cash flow was perceived as an obstacle to success by 41 per cent of SME employers in Scotland.

The most commonly reported cause of cash flow problems was irregular patterns of income generally (71 per cent)⁵. Over half of the respondents who reported cash flow to be an obstacle cited working capital required from business (51 per cent). Similar proportions cited late payment from businesses and individual customers (48 per cent and 47 per cent respectively). Possibly because of the size of unpaid invoices, late payment by businesses was more commonly cited as the biggest challenge in cash flow terms (25 per cent).

All SME employers were subsequently asked a question relating to late payment. Two fifths of respondents said that late payment was not a problem for their business (43 per cent) or not relevant as the business did not provide customers with credit (14 per cent). More than four in ten SME employers (43 per cent) reported late payment as a problem and one in six SME employers (15 per cent) reported it to be a major problem. Smaller businesses were more likely to report that late payment was not a problem than larger businesses (44 per cent of micro-sized businesses compared with 28 per cent of medium-sized).

More than two-thirds of Scottish SME employers that provide credit to customers were aware of the legislation dealing with late payment (68 per cent). Fewer than one in ten (eight per cent) of these had actually taken legal action against anyone under the late payment legislation in the past 12 months.

The timing of tax payments contributed to the cash flow difficulties of two in five SME employers (39 per cent of those who perceive cash flow as an obstacle to the success of the business, with six per cent citing this as the biggest cash flow challenge).

⁵ The data in this section relates to those citing cash flow as an obstacle at start up as well as in relation to business success.

6 Factors associated with growth

This section looks at factors associated with growth, in particular:

- Access to finance.
- Innovation.
- Exporting.
- Training.
- Use of ICT.

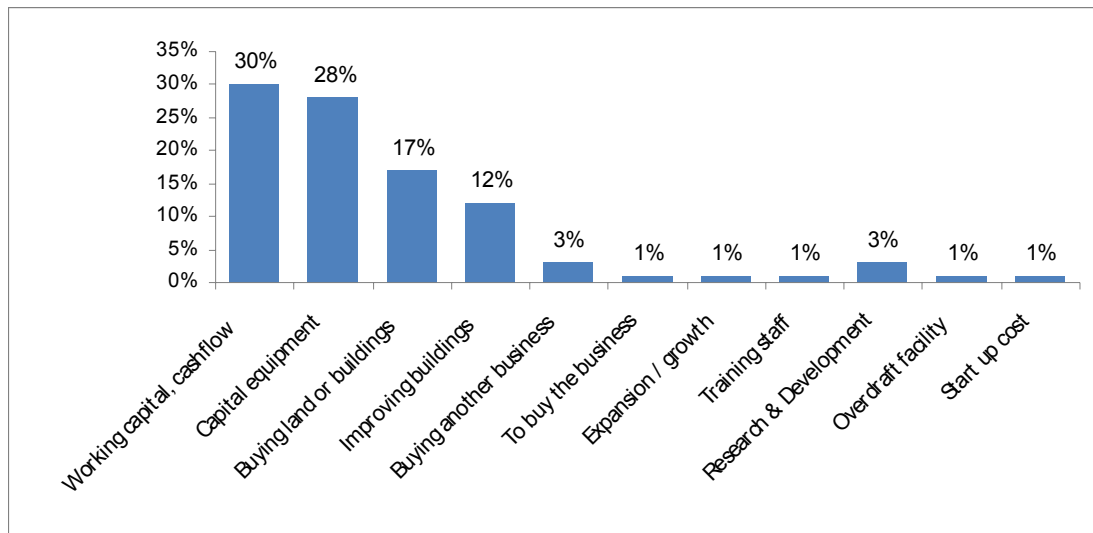
6.1 Access to finance

A quarter of Scottish SME employers (25 per cent) had tried to obtain finance for their business in the 12 months prior to participating in the survey. 14 per cent had tried once only and nine per cent more than once.

Medium-sized employers were more likely to have sought finance (46 per cent) than small businesses (38 per cent) and micro-employers (22 per cent).

The main reasons that SME employers looked for finance were the need for working capital or cash flow (30 per cent) and to acquire capital equipment and vehicles (28 per cent). One in six (17 per cent) sought finance for the purchase of land or buildings.

Chart 6.1 Reasons for seeking finance in the past 12 months



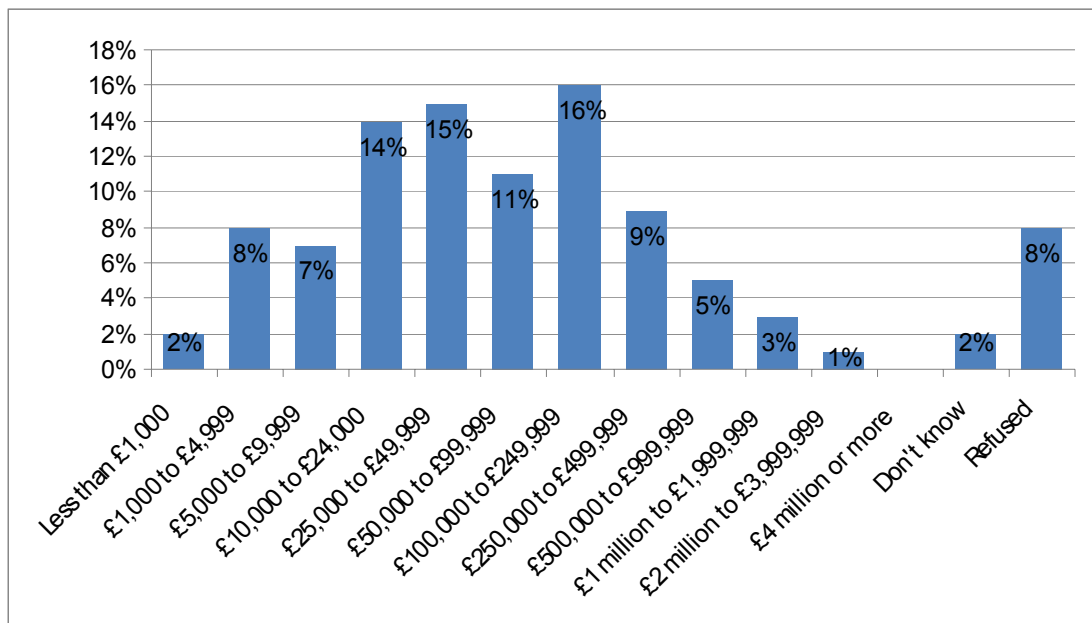
Base: SME employers in Scotland that tried to obtain finance in past 12 months (weighted data); unweighted N-282

6.2 Types of finance sought

The most common type of finance sought was bank loans (46 per cent of SME employers who had sought finance). Slightly less than a quarter of SME employers had sought to negotiate bank overdrafts (23 per cent) with about half that proportion using leasing or hire-purchase agreements (10 per cent).

The amount of finance sought by businesses varied widely (see Chart 6.2). The most frequently sought amount was between £100,000 and £249,999. A small minority of SME employers sought sums in excess of £1 million (four per cent of all SME employers).

Chart 6.2 Amount of finance sought in the past 12 months



Base: All SMEs in Scotland that sought finance in past 12 months (weighted data); unweighted N- 282

6.3 Difficulties obtaining finance

In the year preceding the survey, most Scottish SME employers who sought to raise finance had no problem obtaining it from the first source they tried (74 per cent), eight per cent obtained some or all of the finance they required with difficulty. One in nine (11 per cent) of businesses that sought finance were unable to obtain any finance. Just under two-thirds (63 per cent) of the businesses that reported difficulties accessing finance from the first source they approached, eventually went on to obtain the finance they needed.

SME employers that experienced difficulties in obtaining finance reported a wide range of reasons for this. The most cited reasons are shown in Table 6.1.

Table 6.1 Main reasons for difficulties obtaining finance

	per cent
No security	13
No reason given	11
Poor business performance / profit margins	11
Insufficient security	10
No credit history/not in business long enough	10
Time consuming with administrative procedures	8
Regulations	6
Wrong business sector	5
Provided insufficient application details	5
Business is too small	5
Funding reached available limit (competition for funding)	4
Inadequate business plan	4
Business sector too risky	1
Too many outstanding loans/mortgages	1
Applied for too little	1

Base: all SMEs in Scotland that had difficulty seeking finance in the past 12 months (weighted data); unweighted N- 66

6.4 Innovation

Slightly more than half of Scottish SME employers (52 per cent) had introduced new or significantly improved products and services in the past 12 months. Of these, 74 per cent introduced innovations that were simply new to the business and 25 per cent had introduced innovations that were completely new.

A third of SME employers (34 per cent) had introduced significantly improved or new processes to their business. Of these, three-quarters (78 per cent) had introduced processes which were new to the business, and one fifth (20 per cent) had introduced processes which were completely new.

Both product or service and process innovation tend to increase with firm size.

6.5 Exporting and competition from overseas

One in five SME employers in Scotland (20 per cent) exported their products or services.

Exporting activity increased with the size of the business; 19 per cent of micro-sized employers exported, compared to 22 per cent of small-sized and 43 per cent of medium-sized employers.

One in six SME employers (16 per cent) reported at least some competitive threat from overseas and eight per cent reported overseas competition to be a serious threat to their business. Medium-sized businesses were more likely to report competition from overseas as a threat at all, whether a serious or a slight threat (28 per cent, compared to 22 per cent of small employers and 15 per cent of micro-employers).

6.6 Training

Somewhat more than half of SME employers in Scotland (60 per cent) had funded or arranged staff training or development over the 12 months prior to their interview

The larger a business was, the more likely it was to fund or arrange staff training; just over half (55 per cent) of micro-sized businesses funded or arranged training, whereas over four-fifths of small and medium-sized businesses did so (82 per cent and 93 per cent respectively).

Only one per cent of SME employers which had tried to secure external finance in the past 12 months were doing so in order to fund training for their staff.

In 47 per cent of cases, at least some of the training taking place was designed to lead to a qualification. In 24 per cent of cases the training was mostly designed to lead to a qualification. Medium sized employers were more likely to fund or arrange training leading to a qualification than small or micro-sized employers.

Only 25 per cent of respondent businesses provided training for their managers and just 12 per cent of all SME employers trained all of their management team. Seven out of ten medium-sized employers provided leadership or management training for at least some of their managers (70 per cent) but rates were much lower in small and micro businesses.

6.7 Use of ICT

Nearly nine out of ten Scottish SME employers use computers in their business (88 per cent). Computers are almost universal among businesses with more than ten employees (98 per cent). Women-led and MEG-led SME employers were significantly less likely to use computer technology in their business (21 per cent of women-led businesses and 27 per cent of MEG-led businesses did not use computers).

More than three quarters of SME employers (78 per cent) make use of the Internet. The main things that the Internet is used for is communication (e-mail), purchasing and information (accessing business websites). Of those businesses that use the Internet, 95 per cent do so to access and send emails, followed by 64 per cent that use it for purchasing and 63% for accessing business websites. Transactional activity is common but less so. More organisations buy off the Internet (64 per cent of those who use the Internet) than sell (35 per cent).

7 Business advice and contact with government

7.1 Seeking advice about business matters and regulations

SME employers were asked a series of questions about the extent to which they sought advice. They were asked whether they had sought general advice about running their business and what organisations they had sought advice about regulations from.

7.2 General advice and information

Only three in ten SME employers in Scotland had sought general advice and information about running their business in the twelve months prior to the survey (29 per cent). Medium sized businesses were more likely to have sought advice (40 per cent) than micro and small size businesses (28 per cent and 29 per cent respectively).

New businesses were more likely than the business population as a whole to have sought general advice and information; 38 per cent had done so in the 12 months prior to being interviewed.

Local or government support agencies were approached for advice by 38 per cent of recently established SME employers. New businesses also sought advice at the time of start up from banks (11 per cent) and accountants (7 per cent). Seven per cent of SME employers who were involved in the business start-up used the Internet as a source of advice on getting the business up and running.

Much of the advice new start-ups sought at the time they were getting their businesses established was informal; 22 per cent of SME employers sought advice on an informal basis from friends or family at start up.

When recently established SME employers had sought advice, they had mostly found it. However, two in ten (18 per cent) experienced problems, most commonly because they did not know where to go to seek advice or the organisations or individuals they approached or the advice given were unhelpful.

7.3 Advice concerning regulations

The survey specifically explored the advice that SME employers sought and received concerning regulations. Approximately two thirds (61 per cent) of SME employers in Scotland had consulted some source of advice about regulations in the 12 months prior to being interviewed.

SME employers most commonly sought advice on regulations from private sector professionals and consultants (see Table 7.1). The most consulted sources of advice were accountants (12 per cent). One in ten consulted a Trade Association (11 per cent) and six per cent consulted published sources, (including resources on the Internet). Six per cent engaged consultants and four per cent solicitors.

Table 7.1 Sources of advice consulted on regulations

	All SME employers (per cent)	New Businesses (per cent)	Established businesses (per cent)
Accountant	12	12	12
Trade, business associations	11	11	11
Other regulators (HSE, Environment Agency, etc)	9	6	10
Business Link(or equivalent)	7	14	5
Internet, library, press	6	6	6
Consultant	6	3	7
Solicitor	4	1	5
Local authority	4	11	3
DTI, SBS, other government	3	5	3
Customers, suppliers, SME, friends, family	2	2	2
Bank	2	5	2
Chamber of Commerce	1	1	1
All government sources	28	41	24
None	38	30	40
<i>Base: all SME employers</i>	<i>916</i>	<i>180</i>	<i>734</i>

Just over a quarter consulted a government source of some kind (28 per cent). These included: DTI and SBS (now the Department for Business Enterprise and Regulatory Reform) and local authorities (three and four per cent respectively) and 'other regulators' (nine per cent).

7.4 Contact with and use of government services

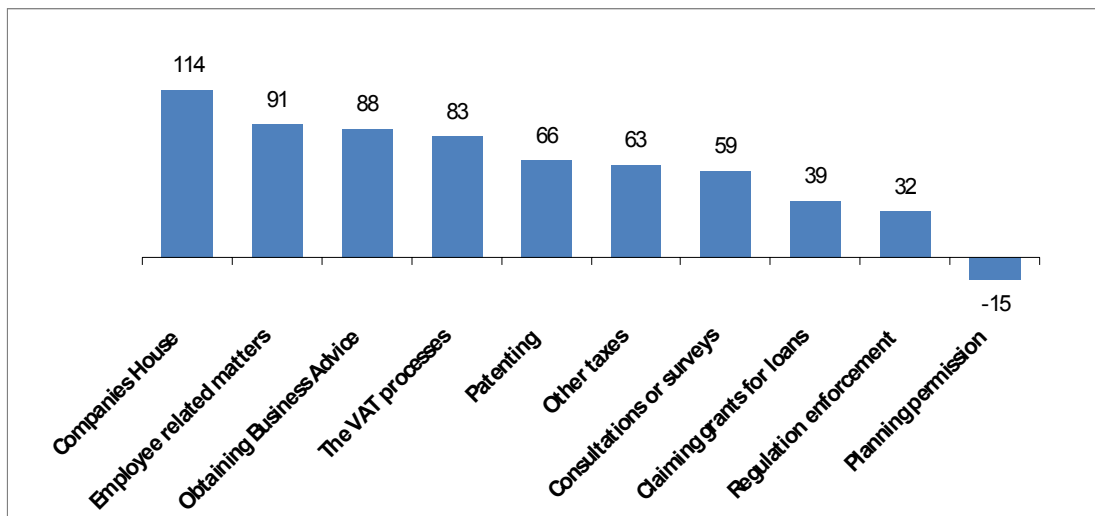
Six in ten SME employers (60 per cent) reported having contact with government departments or agencies in the 12 months prior to the survey. Medium-sized employers were more likely to have had such contact (84 per cent) than small and micro employers (68 and 57 per cent respectively).

Incorporated businesses were more likely to have had contact with government (68 per cent) than either Partnerships (61 per cent) or Sole Proprietorships (48 per cent).

Women-led businesses were less likely to have had contact with government departments or agencies (50 per cent).

There were marked variations in satisfaction with government and its agencies (see Chart 7.1). Companies House was viewed most positively (net satisfaction +114) and planning authorities were viewed most negatively (-15). The latter was the only service which registered a negative aggregate satisfaction score.

Chart 7.1 Satisfaction with government and its agencies



Base: all businesses in Scotland with employees who had contact with government agencies in the past 12 months (weighted data); unweighted N = 613

Employers were also asked to what extent they felt that government takes account of the concerns of small businesses. One in ten respondents (16 per cent) felt that government took their concerns into account "very much" or "quite a lot", with four in ten (37 per cent) believing that government takes "a little" account. Approximately one third (32 per cent) thought that government took no account at all of their concerns, and a further five per cent were not sure.

Medium-sized employers were more likely to believe the government takes account of the concerns of small businesses. The smaller the employer the more likely it was to state that government takes "no account at all" of small businesses' concerns.

7.5 Public procurement

The majority of SME employers (87 per cent) had neither expressed interest in or bid for public contracts. One in eight SME employers (12 per cent) had expressed an interest in or bid for public contracts in the 12 months prior to the survey (ten per cent having bid for public contracts and two per cent having expressed an interest but not bid).

One third of SME employers had done some work for the public sector in the previous 12 months (32 per cent). Half of medium-sized employers (49 per cent) had done so. The larger the SME, the more likely it was to have bid for a public contract. 27 per cent of medium-sized employers and 14 per cent of small employers had done so, but only nine per cent of micro-employers.

Among those who had done work for the public sector, the most frequent customer was local authorities. Two thirds of SME employers which had done some work for the public sector (65 per cent) counted local authorities as their main public sector client. More than one in ten had contracted to the Health Service (13 per cent), and a somewhat smaller proportion had contracted with Higher or Further Education establishments or Departments of State (seven per cent each).

SMEs looking to sell (or sell more) to the public sector reported few problems understanding the procurement process. Only two per cent described a lack of such understanding to be an issue.

ISSN 0950 2254
ISBN 978 0 7559 7117 6
{Web only publication}

www.scotland.gov.uk/socialresearch

RR Donnelley B56364 05-08

ISBN 978-0-7559-7117-6



9 780755 971176