SME Support in Scotland

**IN BRIEF**

**NAME:**
Scottish Enterprise (SE)

**ROLE:** Government-supported initiative to strengthen SMEs in Scotland

**HOW IT WORKS:** Operates 13 autonomous business centers offering customized SME support services throughout Scotland, including assistance with business plans, financing and leasing of incubator space

**RESULTS:** Carried out 22,190 projects with businesses and organizations in the past year, work that is expected to result in increased sales of around £820 million ($1.2 billion) over the next three years.

David Crichton
Chief Executive, Scottish Enterprise Edinburgh & Lothian

Established in 1991, the Scottish Enterprise (SE) network is Scotland’s principal means of promoting economic development. It has a broad mission to promote jobs, prosperity and quality of life, achieved through activities that include:

- business development
- attracting foreign investment
- skill development for employed and unemployed people
- physical regeneration.

SE has an annual budget of approximately £820 million ($675 million) allocated by the new Scottish government and operates through a devolved structure. It has a central organization based in Glasgow, which retains responsibility for setting national strategy and priorities and for delivering Scotland-wide initiatives. But 80% of its budget is allocated to a series of 13 Local Enterprise Companies (LECs). These are constituted as independent corporations, with a Board of Directors representing local interests and always with a private sector majority. Each LEC must work consistently within the national strategy set by SE, but has the discretion to adjust its “menu” of activities to meet local needs and opportunities.

While the SE network is the principal economic development vehicle, there are of course other players in this field in Scotland. For example, local government has a role in economic development through planning,

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1 The legal structure of the LECs is currently being reviewed and is likely to change, but the principle of local Boards with private sector leadership will be retained.
Scottish Enterprise maintains 13 regional offices throughout lowland Scotland and works closely with sister agency Highlands and Islands Enterprise.
transport, education and, in some areas, business support services. There are a few private sector organizations providing business advice to small and medium enterprises (SMEs), such as the Chambers of Commerce. And of course there is the banking system, venture capital providers, law firms and other professional services, all with an interest in business formation and growth. Nevertheless, the network is unique in the extent to which it draws so many of the functions of economic development under one organization and this degree of integration is envied internationally.

Further, part of the skill and responsibility of the SE network is to ensure strong partnerships with these other players, and to minimize the degree of confusion facing SMEs seeking support.

Our approach to SMEs

Support for SMEs is very much at the heart of what we do. However, it is not a stand-alone activity: our work with SMEs stands alongside our other responsibilities, for example in training and physical development. We work hard to align this range of activities and to ensure that our client companies can benefit from the whole package, whether directly or indirectly. With that in mind, the following sections summarize our SME support role.

Promoting enterprise

In Scotland, and no doubt in many other countries, there are cultural and educational barriers to enterprise. Setting up a business is not generally seen as a “natural” career option, there is a high degree of risk aversion, and neither secondary nor higher education have taught or promoted enterprise as a core skill. As a result, the rate of new business formation is low: recently about 20-25,000 new starts each year from a national population of 5 million. This was particularly the case in Edinburgh, where careers in the financial and professional institutions were traditionally preferred to self-employment.

We work on the premise that increasing the rate of new business formation is in itself a benefit for the economy. The Scottish government has set ambitious targets for increasing the rate of new business formation and we have undertaken a number of initiatives to promote the culture of enterprise and to open the idea of self-employment to school and college students.

At this stage of the pipeline, we are not selective in the types of business being encouraged, other than to reinforce the need for sensible business planning and long-term viability. We see enterprise worthy of promotion in and of itself.

Business information

One of the market failures facing both new startups and existing SMEs is limited access to, and knowledge of, information. Also, the fragmentation of information sources can make it difficult for the small entrepreneurs to find their way through the system. We take a very broad view of these information gaps, from ways to access finance, market data, sources of supply, property needs, etc.

Our principal means of addressing this failure is a national “Small Business Gateway” network funded and managed primarily by the SE network though often involving other local partners. The Gateway network generally has town center locations, but most of their business is transacted by telephone and increasingly over the Internet. A free phone number is advertised, and trained information providers deal with callers. A range of customized and proprietary databases is accessed either through the telephone operator or on-line. Caller surveys show that the great majority of inquiries are either handled well or passed on to the appropriate source. The information provided is usually of a basic level, with more advanced enquiries being referred on to specialist sources. The Gateway sets and maintains national, consistent quality standards. The service is clearly capable of moving to a more interactive, web-based system and this is now being designed.

New company formation

As potential entrepreneurs move through the SE pipeline and actively pursue their interest, we then provide more tailored support for the emerging new startups. This broadly revolves around business planning—how to test the market potential, how to identify funding needs and approach funders, recruitment, property, sales and marketing. This advice is given on a more one-to-one basis by experienced advisors, though shared seminars and training are also available.

We do have the ability to provide some funding support at this stage, in the form of weekly allowances of around $30 per week for a maximum of 26 weeks.
However, our experience has shown that the sums involved, and even the general principle, are not central to the entrepreneur’s decision. In most cases, we do not in fact apply these subsidies though other partners such as the local authorities may have start-up grants available. The decision on such funding can be a source of controversy, with entrepreneurs not always being clear why they may or may not receive it, or why they might get it in one part of the country and not another. Scottish Enterprise is currently resolving these inconsistencies, so that a standard, nation-wide set of criteria will apply.

There are two points to stress at this stage of the pipeline. Again, our approach is essentially non-selective. Provided the business has a good prospect of viability, we do not seek to favor particular business models or sectors. Evidence in the Edinburgh area shows that 80% of the 1400 or so businesses we help get started annually are still operating two years later. Second, even in a small area like ours, we further decentralize the provision of new startup advice to local agencies such as Chambers of Commerce or local authorities. The imperative is to deliver the advice as closely as possible to the entrepreneur’s location.

**Commercialization**

From this point, the pipeline narrows and our approach is to home in on those SMEs that show fast growth and value added potential. One increasingly important element of this is the commercialization of research and development activity going on in our universities and research institutes. Success in this area has been a defining characteristic of the Silicon Valley and Massachusetts experience, as well as in Cambridge, England. But traditionally Scotland has not been good at capitalizing commercially on its research base. This is doubly frustrating given that we have some genuine areas of world-class expertise, in for example electronics, software, medicine and biotechnology.

We are therefore working more closely with the universities and institutes to find ways of exploiting their research work. This has a number of dimensions. We work on the cultural barriers that inhibit academics and students from considering commercial activity. For example, academics may be unwilling to take the risk of leaving a tenured position to set up a business. Also, research and teaching skills don’t necessarily correspond to entrepreneurial or business management skills. We can provide seed funding to test and pilot commercial ideas. We can also help build linkages between the academics and the wider business community where their work might find application. When it comes to the point of a serious funding need, we can get involved in loan or equity arrangements, but more likely we will partner with the banks, other financial institutions, venture capitalists and business angels in establishing special risk funds. These are managed commercially, with a clear drive to find exit routes for the successful ventures and use the returns to reinvest in the fund.

**Incubator space**

Availability of commercial property on short leases and flexible terms can be a major barrier to new and growing SMEs, especially those in emerging technology sectors. Within the Lothians, we have funded the provision of a number of incubator units, in software, opto-electronics and biotechnology in particular, where young SMEs, often research spin-offs, can get access to space, specialized advice and like-minded co-tenants. These are not generally provided at subsidized rates. Rentals will usually be at market value and service charges will be set to ensure at least breakeven in the management of the property. The benefits to tenants come through access to good business advice in a supportive environment, and not through a financial subsidy. This pattern is replicated across Scotland, sometimes in specific sectors, sometimes more generally targeted. In some cases, we have been able to sell the property on to the private sector, or joint venture with them, once a sufficiently attractive throughput of tenants is established.

**Company growth**

As an economic development agency, we ultimately want and need to see our client SMEs grow, creating more jobs and wealth, exporting and “going global.” Our interventions therefore become much more selective at this stage, supporting a relatively small number of companies in a more intensive, long-term way. There is no entirely objective means of making this selection: the SMEs in many cases are self-selecting and come to us. We are essentially looking for what we call “innovative, far-sighted organizations”. These will be SMEs that are committed to growth, have the capacity to bring forward new products or services, to adopt new business models and to take themselves into the global market. They need not be from emerging technology sectors, and some of our most innovative SMEs have mature products and services: it is their ambition and method of doing business that stand them apart.
RESULTS

Scottish Enterprise’s estimate is that, in aggregate, its work during 1999-2000 will help create more than 25,000 new jobs in Scotland over the next three years and help add an extra £900 million ($1.3 billion) a year to Scottish GDP over the same period. Among other key results of the last year:

• 2,949 export projects with individual companies that are estimated to result in approximately £445 million ($637 million) of additional export sales over the next three years. The assistance helped 567 companies to become exporters for the first time.

• Achieving 91 investment decisions worth a total of £650 million ($944 million), creating or safeguarding 19,300 jobs.

• Enabling 23,277 young people to begin training programs. Based on past experience, more than half are expected to achieve desired qualifications and nearly 60% will be placed in full-time jobs.

• Helping 7,013 new businesses to start up. It is estimated that these companies will provide 14,700 new jobs within 3 years.

In Edinburgh and its surrounding area, we work with about 300 SMEs on this basis at any one time (from a business base in our territory of over 20,000). Our period of engagement with each will be time bound, rarely exceeding three years. At the start of the relationship, we will enter into a “contract” (not legally enforceable) that defines the objectives of our relationship with the company and is based upon a jointly-determined business improvement plan. Each company will have an individual point of contact with us drawn from a pool of around 20 business managers. These are experienced business people, mostly hired on a fixed-term contract. Where appropriate, these business managers will act as a route into other advice that we or the rest of the SE network can provide.

The range of work we do with these SMEs is extensive and includes:

• Management development, both formal training and less formal “learning” such as collaborative visits to national and international examples of best practice.

• Staff development, promoting a culture of training in the SME as well as specific help to acquire key skills, for example in software or marketing.

• Product development, assisting the SME to source expertise in developing and introducing new products and services.

• Export support, assisting with export plans and market entry through trade missions, exhibitions or distributor searches.

• Financial access, assisting with the preparation of submissions for private finance or for national government assistance.

• Advice in the adoption of e-commerce and other new business models.

We are not seeking to supply a range of standard, off the shelf “products” to these SMEs, but instead, to establish a relationship with them that is based on a clear business improvement plan and an agreed, time-bound program of support. Through this relationship, we can then select the appropriate package of advice and support from our extensive “menu” of services. It should be noted that while we do have the resources to make loans or take equity in these SMEs, we rarely if ever exercise this option. We believe that financial participation is the province of the private sector, and we do not wish to distort that market. We do, however, provide financial contributions to help SMEs access specialist consultancy support that we cannot provide in-house.

Key points

The above is intended only as a broad overview of our approach to SME development, and any aspect of it could be explored in more detail. In conclusion, there are a number of points to highlight:

• In Scotland, support for SMEs is delivered as part of a wider economic development package incorporating,
for example, training and regeneration. Properly aligned, this enables a more complete environment of support to be provided.

• Much emphasis is placed on promoting the culture of entrepreneurship, increasingly so at the school and college level.

• In promoting new startups, little selectivity is applied in the early stages, by size or sector. New firm formation is seen as a legitimate objective in itself.

• Further down the pipeline, however, a much greater degree of selectivity is applied and only SMEs with real growth and value-added potential are supported. Selection is based on that potential, rather than on current size or sector.

• Direct financial support is rarely part of the public sector package, and where it is, it is normally provided alongside the private sector, for example to meet small equity needs or to support commercialization.

• In virtually all cases, support and advice are delivered at as local a level as possible. This is especially important in the early stages of business formation, and obviously is dependent upon the existence of local capacity.

Finally, and looking to the future, the SE network has embarked upon a major drive to promote the adoption of e-business in Scotland. This will be the key driver of our services to SMEs in the future, with two main elements: first, to encourage Scottish businesses to embrace e-business, not just for marketing and sales purposes but in all aspects of their business processes; and second, to deliver as much of our own services to business over the internet, thus enabling a wider reach and greater consistency of our activities.

Part of the national Scottish Enterprise network (www.scottish-enterprise.com), Scottish Enterprise Edinburgh and Lothian is responsible for all aspects of economic development in the Edinburgh area, from start-up businesses to skills development and regeneration projects. Before becoming its CEO in 1998, David Crichton led the Alba Centre project, an initiative to establish Scotland as a global center for semiconductor design. His career has also included spells in the academic world, private sector consulting and the public sector, all in the field of economic development.