**Increasing the Number of Scottish International Businesses**

**Jonathan Slow, Scottish Enterprise**

**Margaret Fletcher, Adam Smith Business School, University of Glasgow[[1]](#footnote-1)**

**Introduction**

At ISBE 40 (Belfast) the authors presented a practitioner paper that outlined the framework that has been adopted in Scotland to increase the number of exporting businesses (Slow & Fletcher, 2017). This paper takes some of the elements of the previous one and develops them further to consider the practical steps used by Scottish Enterprise/Scottish Development International (SE)[[2]](#footnote-2) to increase the number of exporters and, more widely, the number of international businesses.

This latter distinction is important: exporters have a crucial role to play in economic development within a small open economy; however, an increasing number of businesses are considering or undertaking deeper forms of internationalisation (e.g. joint ventures, strategic alliances, M&A[[3]](#footnote-3), (hereafter known as deeper internationalisation (DI)) as a necessary part of their overall growth strategy. In a Scottish context, this has been made more acute by Brexit considerations. Evidence from SE account managed companies is now suggesting that they are, in some cases, considering setting-up facilities within the EU as a way of potentially circumventing potential Customs Union issues. Different approaches to the ‘Brexit Issue’ are increasingly being explored by account managers with the companies they work with; as more companies undertake their Brexit preparations further discussions are likely.

From a practitioner perspective, economic development agencies require to consider this ‘wider’ approach to international business growth. In Scotland, the ACE (Ambition & Awareness, Capacity & Capability, Expansion & Exploitation) framework, by design, encompasses both exporting and DI. Moreover, SE has a long history of working in both aspects of the international market (Slow & Fletcher, 2017, Slow & McDonald, 2017).

*This paper considers the situation in Scotland currently in terms of the number of exporting businesses, linking this to the kinds of support SE has provided.* It then outlines some refinements to this approach currently being implemented that has been designed foster a highly collaborative approach to company international development in the future.

1. **Policy Background Review**

The review covers two main elements:

* A summary of the factors driving exporting and the elements linking to company decisions to export and to continue, broaden and deepen its export base
* Consideration of relevant elements whereby a company will consider pursuing deeper forms of internationalisation; it will emphasise the key role played by management teams in both taking the decision and then acting on that decision.

This review builds on that provided for the ISBE 40 (Belfast) paper. It considers specifically the market failure rationale and positions this in the context of activities undertaken by SE to assist internationalisation.

In considering the importance of different characteristics influencing companies involved in the internationalisation process at Scottish Enterprise (SE) it is important to understand what these are.

Essentially, the drive towards being international often emerges from a degree of necessity: companies are forever facing a strong tide from:

* Changing markets
* Changing business processes
* Changing organisational structures
* Accelerating rates of change
* Uncertainty (particularly political uncertainty) impacting on the domestic economy

This leads to a range of strategic driving forces that underlie a decision as crucial as whether a firm gets involved in exporting or not (Slow, 2013a):

* New markets and niches (and the tighter the niche the wider global presence must be)
* Reduction in cyclical variability
* The chance to leverage resources on a world-wide basis for competitive advantage
* Increasingly open access to domestic markets
* Economies of scale and scope reducing production costs
* The ability to use niche strategies to erect barriers to entry
* The loss of domestic strength through mergers and acquisitions
* The de-regulation of markets is a spur to expand

These factors together provide an important context from which to expand. But they are not the key driver, which we find is more psychological: the fundamental driver behind being a successful exporter is that you must think globally to act globally. Having this ‘mindset’ which is a subset of ambition is often the key factor which differentiates international companies from those that are non-international. A specific trigger – e.g. a new management team or the loss of an important domestic customer – is also often present (Anderson, Evers and Griot, 2013).

Importantly, the role of the business base is important as well as its relative strength – for example in terms of growth rates. Scotland has a smaller company base than other parts of the UK and this has a negative impact on productivity (for example via lower levels of competition) (Hanna, Richmond and Slow, 2016). Scotland’s small business base means that many businesses lack exposure to strong competition, a key driver of innovation as well as exporting. Scotland would need 40,000 more businesses to have the same size of business base (relative to population) as the top quartile of UK regions (Richmond et al 2017).

When this is combined with a smaller proportion of businesses in traditionally ‘tradeable’ sectors, the issues are compounded. Overall, this suggests that currently Scotland has fewer potential exporters than other parts of the UK and the imperative to seek new markets is less acute due to lower levels of competition domestically; this may contribute to the low proportion of Scottish SMEs (3%) that were currently non-exporting but were considering exporting in the next period (see Slow and McDonald, 2017). It may also contribute to the cited perception that ambition levels may be lower in Scottish SMEs than the most dynamic parts of the UK (Slow and McDonald, 2017).

Another dimension is added when we consider that a company also needs to identify the overall strategic ‘model’ (or models) it will use to deliver its international growth. The increasing use of e-commerce and developing companies as an e-business multiplies the potential models further – thus making the specific approach needed more complex again. Our research (Slow, 2013b) suggests a wide range of models can co-exist, and whilst they may cross-over in part, there are specific elements in each that need considering by a company ambitious to export (and perhaps beyond exporting).

1. **Scotland’s International Businesses[[4]](#footnote-4)**

Although Scotland has seen an increase in the number of exporting businesses persistently since data became available in 2011, it still has a lower proportion of exporters than other GB regions at 6.8% (11,500 businesses) compared with a high of 12.4% in the South East. If Scotland were to match the GB average there would be an additional 5,600 exporting companies here (almost a 50% increase). International data also suggest that a lower proportion of Scottish SMEs are exporting compared with other OECD countries. Exports are also highly concentrated: an estimated 15 companies account for 30% of Scottish exports. Size also plays a part in whether a company exports, with large companies (over 250 employees) accounting for 54% of all Scottish exports. See Figure 1[[5]](#footnote-5). The dominance of a small number of companies in export totals in small open economies is not unusual, although the degree to which it is seen in Scotland – e.g. due to the importance of whisky exports, for example, might be a little abnormal.

We should also note that each year the number of exporting businesses is a ‘net’ figure – i.e.:

*Number of Exporters in Year X = Number of Continuing Exporters from Year X-1 + Number of New Exporters in Year X – Number of Non-Continuing Exporters from Year X-1* (Slow, 2013a, 2013b and 2014)

Therefore, increasing the total number of exporters can occur from several sources, but the focus is ensuring as many companies continue to export each year (sustained exporting) and increasing the stock of these businesses (new exporters). A balanced strategy to increase export value will therefore focus on both types of companies – the approach that Scotland has adopted.

**Figure 1: Total Number of Scottish Exporters of Goods and/or Services** **2011 to 2015**



**Source: Annual Business Survey 2016**

Scotland has an export survey run by the Scottish government. Although, under UK statistical regulations, the survey is not mandatory, over 1000 companies complete it each year. The companies that complete it form a significant proportion of Scottish exports[[6]](#footnote-6).

Therefore, Scotland is seeing more businesses looking internationally, but overall there remains work to do. Moreover, the position will not change overnight and for the Scottish Government to achieve its desired status of Scotland performing equivalently to the top OECD quartile, a long-term commitment is being made to achieving this. However, it is important to emphasise that an approach that just looked at export (and international) growth alone may bring some success, it is less likely to do so than a more integrated approach to stimulating company growth in general, especially when combined with productivity as the main mechanism to achieve sustainable success.

A growth-driven approach in the one being adopted by the Scottish Government: it has four ‘mission’ teams looking at specific areas that will drive higher productivity and therefore growth. Importantly, one mission is specifically considering exports; others look at business start-up and growth; business models; and skills, all of which are key to increasing the number of exporting businesses in the medium to longer term. Work on these is on-going and it is hoped that by the time of the conference more information may be available on the practical steps emerging. In many ways, the primary driver for a growth in exporting businesses is a vibrant number of sustained growth companies (See Appendix A).

1. **The Importance of Exporting and Sustained Growth**

Research studies across the globe have consistently shown that exporting has a positive effect on the sustained growth of firms (Paul, Parthasarathy and Gupta, 2017). Large firms have well developed resources and capabilities over time to support their internationalisation activities, e.g. managerial knowhow and export departments, and have advantages such as economies of scale and scope, financial and technological resources. Although these are lacking in SMEs, they however benefit from flexibility, quick decision-making, entrepreneurialism and motivation and are thus known to make significant contributions to employment and innovation in national economies. Exporting can help SMEs to perform better and succeed in the longer term and can have a positive effect on firm growth (Lu and Beamish, 2001; Coad and Tamvada, 2012).

There is evidence that firms that are engaged in exporting are more productive than non-exporting firms in both developed and developing countries, whereby both *self-selection* (Helpman et al., 2004) and *learning effects* (De Loecker, 2013) are at play (EC, 2015). In the former for example, more productive firms can overcome costs of entry into international markets (Palangkaraya, 2012). In the latter, learning effects can arise from direct exporting, for example, from knowledge gained from contact with international customers and exposure to competitors (Mengistae and Pattillo, 2002).

Researchers have examined various factors influencing the internationalization and growth of firms. A key aspect is that of exporting and innovation, where studies have found a positive correlation (Palangkaraya, 2012), where entering international markets influences the adoption of innovation (Golovko and Valentini, 2011). Learning-by-exporting suggests that export market participation improves a firm’s performance through the stimulation of innovation which is an intermediate step on the relationship between international trade and productivity (Palangkaraya and Yong (2007; 2011)). In the self-selection theory, firms invest in innovative activities to become more innovative and productive before they decide to enter foreign markets (Palangkaraya, 2012). Furthermore, industry is important. The relationship between innovation and export may vary across industrial sectors and across different types of innovation. For example, there appears to be evidence that export market participation leads to a higher probability to have process innovation in the services sector (Palangkaraya, 2012).

1. **Export Assistance in Scotland**

Scotland does not have a large group of sustained growth companies. A detailed analysis of this is beyond the scope of this paper, but a short summary is outlined in Appendix A (interested readers may also wish to look at Hopkins, 2018b).

* 1. **What have we done about it to-date?[[7]](#footnote-7)**

The framework adopted in Scotland is unique. The ACE framework (see Figure 2 and Slow, 2014) was presented to ISBE (2017). The framework encompasses both export development and DI – the latter appearing in the ‘E’ section in the figure below.

**Figure 2: The ACE Framework for International Company Development**



**Source: Slow, 2014**

The ACE framework (hereafter abbreviated to ACE) reflects the key elements that are important at the pre-export stage of a business and post first export: Ambition and Awareness; Capacity and Capability; and Expansion and Extension. The first two are pre-export and the last is post-Export, although it should be noted that as a company extends its exporting activity and considers other mechanisms to further its internationalisation journey (like joint ventures or direct investment overseas) it will need to reconsider the A and C sections again, just in a different way.

Importantly, the delivery of this framework is collaborative – not just the link between SE, SDI, HIE and Scottish Government, but increasingly across other parts of the public and private sector in Scotland – e.g. VisitScotland on Tourism-related projects and as part of the overall marketing of Scotland; Skills Development Scotland on skills planning; Scottish Funding Council in terms of research grants; Universities Scotland on curricula developments, supporting spin-out companies and academic-industry links; business bodies and Sector Leadership Groups as a promotion and delivery mechanism for group level (‘one-to-many’) projects; and Scottish Business Gateway to link to entrepreneurial support and seeding the internationalisation message into companies from early in their growth path.

 A recent SDI evaluation (SQW, 2017; Perry, 2018) has examined how SE activities have impacted on those companies supported. A previous evaluation of SE activities (SQW, 2010) is also available as a reference point. Because the ACE framework was introduced after the previous SDI evaluation (SQW, 2010) but before the latest one (SQW, 2017) comparison between the two sets of figures will provide an assessment of the difference ACE has made.In figure 3 below it can be shown that changes in activity by SE brought about through the introduction of the ACE framework have increased overall impact; they also show that SE activity is highly additive (with higher additionality than the 2010 study).

* 1. **Difference in Activities**

Figure 3 below summarises the main differences between the reports.

**Figure 3: Analysis of Characteristics of Support – Comparison 2010 v 2017**

|  |  |  |
| --- | --- | --- |
| Reports: | 2010 (05/06 – 08/09) - 4 years | 2017 (12/13 / 15/16) – 4 years  |
| No of business assisted  | 2370  | 5912 |
| No of assists  | Average 4 assists per company  | Average 3 assists per company (over half received one assist – one to one advice)  |
| Type of support received  | Over half (53%) received Exhibition support or some form of market support The report notes an emphasis on encouraging travel to visit markets rather than broader planning | The majority (73%) received some form of one to one advice - half received one to one support combined with other support e.g.– 22% received Exhibition support |
| Type of support viewed as effective/driving impacts | 58% of those engaged in some form of preparationsupport reported an actual, or expected, major impact on exports (compared with 32%among those receiving support to attend exhibitions or travelling on missions) | 83% of companies who received it, cited close to market support i.e. overseas events and trade missions as effective83% of companies receiving International Manager for Hire also cited this as effective However, most of these companies also received one to advice suggesting it is the combination of these products with more strategic/preparatory support that is effective |

**Source: Perry, 2018**

The main differences between the results obtained in 2010 and 2017 are:

* The number of assists and companies supported has grown significantly – this is at all parts of the Framework, but especially at the ‘A’ stage.
* The average number of assists per company has not changed significantly over time
* However, the nature of the support has changed – moving from supporting companies to visit markets to a seemingly more planned approach with a broader range of products
* For intensively supported companies’ satisfaction levels are significantly higher
* There are higher levels of additionality overall

The most important point is the change in the type of support provided. Historically, support provided by trade support agencies can perhaps be classified as close-to-market – e.g. helping companies attend trade fairs or exhibitions where sales may be made directly. Such support can clearly help companies increase their exports. However, often those that benefit are already exporters or are well down the export ‘pipeline’ in SE terms already well into the ‘C’ stage. Whilst these sales are clearly important they do overcome some of the more deep-seated problems Scotland has; a high concentration of exports in a small number of companies and too few companies exporting (Slow & McDonald, 2017). Challenging this more ‘fundamental’ issue needs more a focus on having more exporting businesses and moving companies through the pipeline; this is one of the strengths of the ACE framework as it puts a structure in place for companies that have growth and aspiration (See Appendix A).

The changing nature of support has increased additionality according to interviewed companies; this suggests that having a differentiated type of support for the different stages of company international development makes a positive change to how the companies perceive support, the focus on strategic support makes a difference – not least by enabling support to be tailored to individual companies.

* 1. **Differences in outputs outcomes and impacts**

Figure 4 below summarises the changes in outputs, outcomes and impacts across the two evaluations. In the figure ‘IP’ refers to international project support with a higher intensity of support and Non-IP is a lower level of support. Support is decided on the ambition and needs/wishes of the company for SE support. Although this differential level of support has been used by SE for some time, it has been intensified in recent years, aligned with the roll-out of the ACE framework.

**Figure 4 Outputs/outcomes/impacts by ACE**

|  |  |  |
| --- | --- | --- |
|  | 2010  | 2017 |
|  | All companies | IP  | Non-IP  |
| Satisfaction % of companies satisfied/very satisfied with support | 73% | 90% | 61% |
| Deadweight/additionality% of companies where the effects would have occurred anyway without support  | 24% | 7% | 19% |
| **A (Ambition & Awareness)** |  |  |  |
| % of companies reporting new information on an overseas market/improved understanding of an overseas market | 43% | 79%  | Not directly reported  |
| **C (Capacity & Capability)** |  |  |  |
| % of companies reporting increased connections/customer/partner/collaboration  | 48% | 51%  | 32% |
| % of companies reporting new international trade skills/international trade capability | No comparable figure | 70% | 40% |
| **E (Expansion & Exploitation)** |  |  |  |
| % of companies reporting an impact on export sales to date | 43% | 63% | 44% |
| % of companies reporting a major or moderate positive effect on exports  | 41% | 73% | 44% |
| % of companies reporting export sales in new markets (to date) | 41% | 62% | 36% |
| % of companies reporting export sales in existing markets (to date) | 27% | 55% | 38% |
| % of companies reporting Increased R&D | 16% | 26% | N/A |
| *Annual* average net additional export sales  | £58m | £157m[[8]](#footnote-8) |
| *Annual* average additional export sales per company  | Account managed companies - £54k Non-Account managed companies - £14k | Account managed companies £174K [[9]](#footnote-9) | Account managed companies – £42kNon-account managed companies -£13K |
| *Impact Ratio* | 2:1 | 4:1 |

**Source: Perry, 2018**

The main differences between the two evaluations are relevant to the adoption of ACE are:

* The percentage of companies of reporting an impact on export sales to date has increased overall, despite a lower proportion of support being towards close-to-market activity – this suggests that time spent developing a good strategy and action plan (the transition from ‘A’ to ‘C’) and then putting in place the specific elements to achieve it (‘C’) makes a definitive positive difference to export sales
* The percentage of companies reporting a major or moderate positive effect on exports to date has increased overall – suggesting a deepening of impact in individual companies
* The percentage of companies reporting an increased in export sales in new markets to date has increased amongst intensively-supported companies. These companies are the ones with whom SE has an account managed relationship in the main and are the ones therefore more likely to have strategic, developmental and market-sales support – for new markets this is particularly important
* The percentage of companies reporting export sales in existing markets to date has increased
* Companies appear to be using close-to-market products more effectively than before. This type of in market/closer to market support is perceived as particularly effective by companies – most likely because they can see the direct benefits in terms of market information, contacts and customers and in some cases additional export sales
* The change in the pattern of support is likely tobe one of the factors contributing to an increase in the annual additional export sales from £58m to £157m between the 2 periods.

However, it is important to note that although this approach has led to an increase in the number of Scottish exporters and international businesses. SE is only able to assist approximately 20% of the number of new exporters over the period 2012/13-2015/16[[10]](#footnote-10).

The success of the above ACE framework when combined with a focus on sustaining growth in Scottish high growth companies (Hopkins, 2018b) suggests that more is possible; indeed, more is necessary if Scotland is to increase its relative position internationally in line with government strategy and use this as a springboard for higher economic growth. However, the gap is still wide and a long-term commitment and resource to change is needed to close it.

Therefore, because of wider changes to the economic development landscape in Scotland, changes are being implemented that may start this longer-term process. They build on the current levels of collaboration and take them further.

* 1. **What are we going to do about it next?**

Collaboration and partnerships are already important in supporting internationalisation in the Scottish economy. They are essential for SE to deliver the optimal support and to ensure the greatest returns to Scotland are achieved. The Scottish Government’s Enterprise and Skills Review (Scottish Government, 2017) outlined an explicit role for SE in the emerging formal Regional Economic Partnerships. As Scotland’s Trade and Investment agency SE retains national and international reach and a remit focussed on growth.

In responding to the challenge from the review, SE is striving to play to its strengths and broaden its engagement across Scotland. In seeking to maximise the impact of the Regional Economic Partnerships on Scotland’s trade performance the initial focus will be on:

* Maintaining as the core overriding priority, the focus on growth explicitly set out in Scotland’s Economic Strategy (Scottish Government, 2015) while also building a deep partnership approach able to respond to a variety of regional opportunities and demands as appropriate – with a sectoral focus and an approach driven by raising productivity.
* Considering how SE establishes the necessary operational flexibility capable of delivering appropriate trade support in response to the regional priorities across the country as they emerge. This will involve SDI in reviewing how it delivers operational support with explicit consideration of regional variations as well as greater emphasis on how we support and build partnership capacity across the full range of our trade priorities.

In addition to the support above, (trade service support co-ordinated through Scottish-based specialists), to ensure trade development activities to promote Scotland and Scottish-based companies as trading partners, co-ordinated through overseas or London based specialists, takes place. This combination of Scottish and overseas expertise provides a depth to our activities which few others can match. Government commitment to SDI’s activities has recently been strengthened an announced doubling of trade support across the EU.

1. **Examples of collaboration across Scotland for internationalisation support**

SE has offices in 41 locations globally and more opening during 2018 as part of the government’s commitment to double European representation. Field offices are there to help both internationalisation activities and the attraction of inward investment. For Scotland to get the maximum benefit from activities they often become the fulcrum for collaborative activities with partners. Three examples of this working in practice are shown in box below:

**Box 1: Examples of collaborations in Practice**

I. SDI works closely with the local authorities in NE Scotland ahead of and during delivery of the Scotland Pavilion at the Offshore Technology Conference (OTC) in Houston. Both Aberdeenshire and Aberdeen City Councils liaise with SDI to ensure that they are reaching out to companies from their area and maximising the support available to them. During OTC week, each of the organisations assist with developing, promoting and delivering each other’s and joint networking and industry engagement events aimed at raising the profile of the Scottish delegation at OTC and fostering collaboration with local partner organisations in Houston such as the Houston Grampian Association, World Energy Cities Partnership and British American Business Council.

II. SDI has also been working closely with Scotland Food & Drink for several years. As part of that collaboration jointly funded positions in Germany and France have been supported. In addition, a further post in Dubai is currently being developed.

III. In the autumn of 2016, SE worked in collaboration with Edinburgh University Informatics Ventures and other Scottish partners including *We are the Future* and the *Power of Youth*, along with the City of Edinburgh Council, to host, in China, the ‘Engage, Invest, Exploit’ showcase for early stage technology companies. This event enabled the companies to pitch to potential investors in Hong Kong and Shenzhen. It was a highly imaginative, successful approach to put some of Scotland’s most innovative companies on the world stage.

**Source: SE internal case studies**

**Appendix A: Too Few Growing Businesses Limits the Number of Exporting Businesses[[11]](#footnote-11)**

The paper has already noted the relatively low number of exporting businesses in Scotland and that we are seeking to increase this figure as part of increasing Scottish exports. However, not all companies can be exporters. Traditionally, it was the view that non-exporting was ‘sectoral’ in nature – e.g. locally traded sectors and some areas of services were not ‘exportable’. But over time, and particularly with advances in technology, more previously ‘non-tradeable’ sectors have become ‘tradeable’. Two of the growth areas in Scottish Exports in recent years have been Professional Services and Retail (the latter, it is believed, linked to Tourism), even sectors like residential care are considering selling their expertise (through skilled staff) overseas.

Whilst some sectoral limitations still apply, another pertinent issue is around growth and sustained growth as a driver of international potential and achievement. It is, therefore, reasonable to expect that only a proportion of companies will start the internationalisation process, and fewer companies achieving sustained growth will limit overall potential.

The basic framework within Scotland in terms of an economic development perspective can be summarised in the stylised figure A1 below:

**Figure A1: Growth Companies and the ACE Framework**



**Source: Slow, 2018**

The key point is only a small proportion of companies will show sufficient sustained levels of growth to being ‘able to’ become successful sustained exporters. There are many parts of the growth journey where growth rates may slow (see left hand side of the figure above). Without sufficient levels of sustained growth companies will struggle to generate sufficient impetus to consider exporting a realistic option, or may move towards a more lifestyle operation or potentially fail. They may be able to export, but the chances of sustaining and growing export sales are limited. The ACE framework (see Slow & Fletcher, 2017 for more detail) – the right hand upper quadrant of figure A1, is the mechanism through which SE-related export support is delivered, and for companies to achieve this realistically they need to grow well for a period prior to exporting in most cases. Some companies are ‘born global’ or need to be exporting from inception; however, these companies are the exception rather than the rule: within a Scottish context they tend to be

So, having more companies that achieve sustained levels of high growth is important. SE analysis shows Scotland’s number of sustained high growth firms (SHGF) is well below the UK average and has a performance different to other UK regions (Hopkins, 2018b). **This lack of sustained growth companies directly impacts negatively on the number of exporting businesses.**

However, the evidence we have suggests that Scotland has a strong entrepreneurial environment. A recent refresh of the GEDI (Global Entrepreneurship Development Index) analysis for Scotland by Strathclyde University showed Scotland possessed many criteria that would be expected to be observed in a dynamic entrepreneurial environment. Moreover, the research suggested an overall improvement in terms of a balanced set of criteria than a previous review covering the period 2008-11. However, one weakness identified is a lack of high growth companies: basically, elements of the seed-corn for exporters may have been lacking in Scotland.

Scottish companies do grow, but struggle to sustain it beyond one year. Figure A2 below shows this, based on FAME data[[12]](#footnote-12).

**Figure A2: Percentage of growth companies achieving 20%+ growth (2011-16) in UK regions**

**Source: Hopkins (2018b) using SE analysis of FAME data. Figures have been rounded, and estimates have been excluded.**

Scottish companies, it appears can, and do grow, and they grow well. However, they struggle to do this on a sustained basis, limiting export potential. An ability to grow well for an extended period will prevent businesses developing many of the capabilities necessary to be a successful exporter; it may also limit overall levels of ambition and even the aspiration to even consider exporting. Some of the company level characteristics[[13]](#footnote-13) that may explain this are:

* **Productivity Levels**: Scotland overall has reasonable levels of company productivity in a UK context, but this is skewed by several high productivity sectors (e.g. whisky production) (Richmond & Turnbull, 2015). A relatively higher proportion of public sector activity in Scotland and a perceived greater than average ‘long tail’ suggest that this may have detrimental effects on other companies seeking to potentially internationalise. SE is currently undertaking research using ONS data to assess this.[[14]](#footnote-14)
* **Innovation Type:** Given the importance of the positive link between innovation and exporting (Love & Roper, 2014) we know from the UK Innovation Survey that Scotland’s innovation performance, although slightly above the UK average, is ‘made-up’ differently (Turnbull, 2017). Work is underway to understand whether this might impact on company performance and therefore a desire to internationalise[[15]](#footnote-15)
* **Business Investment & R&D**: Scotland’s performance is relatively poor in investment and R&D; this will have a negative impact on productivity and therefore the possibility of growing successfully internationally (Richmond et al. 2015, 2016, 2017)
* **Lack of Business Ambition**: It has been argued within Scotland that there is an ‘ambition issue’ in Scottish businesses. Material from the Small Business Survey shows that only 3% of Scottish SMEs that currently do not export are considering this. (Slow & McDonald, 2017)
* **Lack of Outward Investment**: Outward investment, particularly acquisition is a way to achieve growth ambitions, to access more funding, new clients and customers quickly and easily (compared to organic means) (Hopkins 2014). Moreover, Scotland’s outward levels are significantly lower than other nations (Hopkins 2018 a, c)

This list of factors is not unique to Scotland and can be applied to many parts of the UK and other countries. However, the specific combination of factors may explain a smaller pipeline of companies with export ambitions in Scotland when compared to other parts of the UK or internationally.

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2. Scottish Development International is a joint venture between Scottish Enterprise, Highlands and Islands Enterprise and the Scottish Government to cover international support: both trade and inward investment-related. For the purposes of this paper in what follows, rather than use a range of acronyms we have decided, for simplicity, to use ‘SE’ as an abbreviation [↑](#footnote-ref-2)
3. See Hopkins, 2018a [↑](#footnote-ref-3)
4. More detail on the exports picture can be found in Slow & McDonald (2017) [↑](#footnote-ref-4)
5. Data for 2016 exist. However, due to a change in methodology applied by ONS the figures are not comparable with earlier years. To avoid confusion, we have decided to use the comparable data which is why this chart finishes in 2015. [↑](#footnote-ref-5)
6. However, the survey also collects data on the mechanisms currently used and planned by Scottish businesses over and above exporting (e.g. joint ventures) overseas: these mechanisms are a proxy for DI: initial analysis suggests that the number of responding companies looking at DI is increasing and the types of relationships they are considering are broadening (building on Slow & McAllister, 2018). [↑](#footnote-ref-6)
7. Particular thanks are due to Sheila Perry for her advice on this section. [↑](#footnote-ref-7)
8. SE additional analysis based on data gathered by SQW (2017) [↑](#footnote-ref-8)
9. SQW (2017) Table 10-2 p124 [↑](#footnote-ref-9)
10. This is based on SE figures compared to ABS ‘new’ exporters data. This is not directly comparable and should not be considered as such but is a reasonable estimate we believe. [↑](#footnote-ref-10)
11. The authors would like to thank Paul Hopkins for his comments and observations on this Appendix [↑](#footnote-ref-11)
12. Further work is currently underway using ONS data to explore this further and corroborate the FAME findings [↑](#footnote-ref-12)
13. There are also several ‘macro’ level factors like low levels of business investment and R&D that may also have an impact, like too few medium-sized businesses (Hopkins 2018b) – however, a detailed assessment of these is beyond the scope of this paper [↑](#footnote-ref-13)
14. This work will not be completed by the time the paper is due to be submitted but may be ready for the time of the conference. If so, it will be mentioned at the presentation. [↑](#footnote-ref-14)
15. This work is on-going and will hopefully be complete by the time of the conference [↑](#footnote-ref-15)