

Strategic evaluation of SDI international activities

Final report

23 May 2017

SQW

Executive Summary

Background and approach

1. In June 2016, SQW was commissioned to undertake an evaluation of the internationalisation activities of the Scottish Government (SG), Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE). This is delivered principally through Scottish Development International (SDI) which is Scotland's lead body for trade and investment support. Throughout this summary and the report, we refer to SDI rather than the three partner organisations.
2. The evaluation covers the support provided for international trade between 2012/13 and 2015/16 and for inward investment from 2011/12 to 2015/16. The aims of the research were to assess; the rationale for intervention; the performance against SDI targets; the effectiveness of the support provided to businesses; the types of support delivering greatest benefits; and the economic impact of the support. SQW carried out the primary research for the evaluation between June and December 2016.
3. The study involved the following main areas of research:
 - A desk-based review of relevant strategies, trade and investment performance data and SDI monitoring databases to inform the survey sampling approach
 - A survey of trade businesses which were categorised as having at least one 'International Project' (IP) (these are defined as having the potential to generate export sales of more than £1 million over three years). Over the evaluation period, 549 firms received support to progress these International Projects. The survey carried out by SQW received feedback from a sample of 84 businesses
 - A shorter telephone survey of the remaining trade businesses that did not meet the International Project threshold. This group covers a wide range of firms that typically received less intensive support, including Account Managed businesses that were not categorised as having an IP. The survey carried out by BMG Research achieved a sample of 343 businesses, out of a total population of 5,363
 - A telephone and face to face survey of inward investment businesses. The survey carried out by SQW received feedback from 62 businesses out of a total population of 370 businesses
 - Stakeholder consultations with 39 stakeholders based in the enterprise network (SE, HIE and SDI) and other partner organisations, and a workshop was also held with SE and HIE Account Managers.

Evaluation findings and recommendations

4. Scotland's recent trade performance has improved but there continues to be a shortage of exporting firms compared to other parts of the UK and other similar sized comparator countries. This issue

comes through clearly in Scottish Government strategies and, as a result, SDI has refined its services to provide more intense engagement with businesses with the greatest export potential, and lighter touch engagement with less experienced exporters. It has also shifted focus through a new High Growth Market Unit which offers additional support for businesses responding to opportunities in growth markets such as the Middle East, India and China.

5. Over the period covered, the evaluation found the SDI support to have been very effective in supporting both international trade and inward investment, particularly among existing exporters and investors. This was against a backdrop of a downturn in oil and gas (one of Scotland's strongest sectors), the long-term impacts of the global recession and financial crisis, and the more recent wider political and economic uncertainty associated with Brexit.
6. From April 2012 to November 2015, SDI provided international trade support to nearly 6,000 companies, delivering 18,500 interventions or products. This is twice as many businesses as were supported in the five-year period covered by the previous evaluation (2005 to 2009).
7. On trade, the feedback and economic impacts were much stronger among the businesses supported more intensively (and where most potential had been identified) than among those that had lighter touch support. The shift of emphasis toward working with more, new exporters is clearly important, but it is equally important to ensure that the quality of support does not suffer.
8. Scotland has tended to do well in attracting follow-on inward investment, helping firms expand or diversify. The analysis shows how these projects have driven the number of jobs, but in recent years SDI has increased focus on attracting "new to Scotland" investors. It is too early to know how effective these changes have been, but it puts more emphasis on the selling role of the overseas teams.
9. Together, the findings highlight the balance between the short-term economic benefits of working with existing exporters and investors and the importance of supporting a pipeline of new exporters and investors for the future. The latter provides the bigger challenge and should be the focus in the next few years.
10. The changes to the delivery models have been appropriate responses. Much of the evaluation evidence pre-dates these changes, but the feedback from businesses and stakeholders, as well as the economic impact analysis, generally support the actions that have been taken. The findings also point to an improving performance compared to the last evaluation in 2010. It is difficult to directly compare the impact ratios with the 2010 evaluation due to differing methodologies, but the evidence suggests that economic impact relative to the support costs has increased.

Rationale for intervention

11. The justification for providing support for international trade and investment is based on market failures, but it is also important that the benefits of the interventions exceed the costs. The standard market failure argument for international trade is that limited information, and uncertainty about the costs and benefits of exporting result in under-investment by businesses. Increasing competition for inward investment also strengthens the rationale for intervention, particularly in attracting new investors, but also building on investment that is already here.

12. The feedback from businesses and stakeholders indicated that there is a good understanding of the key areas of market failure and SDI is providing a spectrum of support that addresses the needs of businesses at different stages. If anything, stakeholders felt that the increased political and economic uncertainties increased the need for intervention and that there continues to be an important role in providing support.
13. The case for intervention is further strengthened by the business survey finding that additionality (the difference that the support made to business performance) has improved relative to the previous evaluation in 2010.

International trade

Activities

14. Over the period of the evaluation, April 2012 to November 2015, SDI provided international trade support to nearly 6,000 companies through the delivery of 18,500 interventions or products (assists). SDI has greatly increased the reach of its trade support compared with 2010, with far more companies engaged but with half of these companies receiving just one assist over the period. Whilst this volume-market will take time to generate the desired outcome, there is evidence that it is beginning to have an effect.

Effectiveness

15. The effectiveness of the trade support has improved. A broad comparison of the business survey results with the last evaluation in 2010 shows better results for firms with International Projects (IP)¹ in particular. The proportion of firms where support has directly helped to make new international sales was 41% in 2010. For the IP cases in the new survey this was 73%, and among the non-IP businesses 44% (Figure 1).

¹ Those firms identified as having the potential to increase overseas sales by £1m over a three year period

Table 1: Comparison with indicators reported in 2010 evaluation (results are unweighted)

Indicators	This report		2010 report
	Businesses with International Projects	Without International Projects	All cases
Number of businesses assisted	529	5363	2370
Percentage of cases reporting a major or moderate positive effect on exports	73%	44%	41%
Percentage of cases very satisfied or satisfied with support	90%	61%	73%
Percentage of cases where the effects would have occurred anyway, without support	7%	19%	24%
Percentage reporting an impact on export sales to date	63%	44%	43%

Source: SQW surveys (unweighted)

16. An underpinning theme from businesses is the importance of advisers “understanding their business”, or “getting it”. Support led through an Account Manager works well because they can use their relationship and knowledge of the business to understand how and where international trade fits. Where there were criticisms of international trade support it was where it was considered too generic and this included market research, provision of leads and contacts, strategy and advice, and even trade missions.
17. Effectiveness seemed to be less about the types of products, and more about the quality of the advice. The key point is that support is better where it is delivered with an understanding of the business as a whole, not in isolation. For most businesses, international trade is an integral part of their overall business and market development.
18. From the perspective of businesses, the most valuable products that SDI delivered were the overseas events and trade missions and the International Manager for Hire. Businesses tended to rate the support that was “closer to market” more highly (that is support that directly helps them get in touch with customers and make sales), rather than research and preparation. This may be because it is easier to see the difference it makes. Specifically, the International Manager for Hire (which provides funding to allow a firm to hire someone to take forward their international activities) makes a big difference.
19. Consultees and some businesses pointed to the success of the Food and Drink specialists that have joined some of the SDI overseas teams. These new staff are providing valuable advice and contacts for businesses travelling out to market. Whilst this sector is particularly well suited to this approach, because of the industry’s focus on exports, it is a model that could be used by some of the other key sectors.
20. The evidence from consultees and businesses indicates that SDI could and should be more ambitious in its promotional activity both domestically and in promoting its network of offices and services overseas. All the recent strategies have reinforced the need for Scotland to become more

international and to encourage more exporting businesses. There continue to be barriers around the risks of investing in export activities. However, consultees suggested that if Scotland is going to increase the number of exporters, new approaches to raising awareness and encouraging overseas trade should be developed. For example, this could include promoting more sector success stories (as food and drink have done) or local examples that new, non-exporting businesses can relate to.

21. Businesses exposure to the SDI field offices and the in-field staff was usually limited to attendance at events. Where there had been engagement, experiences had generally been very good, with a lot of praise for the enthusiasm and dedication of staff. A small number of businesses felt that overseas teams could be more effective in helping them identify contacts. There is also scope for Account Managers to encourage more direct contact. Related to this, several consultees suggested that the field offices could do more to raise their profile in Scotland with SE/HIE advisers and with businesses.
22. The surveys found differences in the levels of satisfaction between the more intensively supported IP businesses and the wider population that received lighter touch support. The main sources of dissatisfaction were: a lack of understanding of their business and the market place; a failure to reply or follow up on requests the business had made; a sense that they were treated as part of a box ticking exercise; and being unable to provide useful contacts and leads.
23. It is likely that the large increase in the number of businesses being supported has had some effect on satisfaction levels. More resources have been added to the teams working with these businesses, and new arrangements since April 2016 will help. However, the results reinforce the importance of balancing the need to grow numbers with the level and quality of support. Spreading activity too thinly risks reducing both satisfaction and its impact.
24. The large majority of the 'assists' to businesses is through one to one support and a combination of calls and meetings. Most businesses prefer this one to one support, but digital technology offers more cost effective and potentially more specialist support (for example, by providing access to a wider range of resources in Scotland and internationally). SDI will need to demonstrate to businesses what this can do, and that it goes beyond simple on-line toolkits or webinars.

Outputs and impacts

25. The support delivered to the businesses categorised as having high potential, International Projects (549), has had a significant impact on their international trade capability, and their ability to develop export plans. Almost three quarters improved or developed their strategy, half had taken on new staff and half had found new partners to work with. The survey found that the smaller businesses were more likely to report these benefits than larger ones.
 - As a result of the support, 73% of the IP businesses made international sales in new or existing markets, 71% had grown turnover and 66% increased employment.
26. Among businesses that did not have an International Project, one of the main findings was that of the 112 businesses interviewed that had not previously exported, 27% had become exporters and 51% planned to export in the future (28% within the next year). Figure 1 shows the change in export status among these non-exporters. After allowing for the structure of the survey (discussed in the

report) this suggests that in the population of assisted businesses as a whole this could mean around 300-400 new exporters.

Figure 1: Breakdown of what happens to non-exporters



Source: SQW analysis of BMG survey

27. The results also show differences between account and non-account managed businesses:
- Of the non-IP businesses that were Account Managed 70% reported an impact on their international sales
 - Among those that were *not* Account Managed this figure was 41%.
28. The economic impact analysis estimates that the impact of the trade support over the four-year period of the evaluation generated between £629 million and £987 million of new international sales (depending on the extent to which the expected international sales materialise) and between £466 million and £729 million of additional GVA². With associated costs of £114 million, the ratio of GVA to investment cost is between 1:4 and 1:6.

Inward investment

Activities

29. There were 423 inward investment projects with 374 firms between 2011/12 and 2015/16. Of the 423 projects 150 do not include financial assistance (although they can be with firms that received funding at another time). These supported a planned 39,000 jobs of which 24,000 are new and 15,000 safeguarded. The number of investment projects from England, particularly the number of

² Including an allowance for displacement and multiplier effects

new to Scotland cases, has grown significantly (a third of projects were new to Scotland, and of these a third came from England) along with growth in investment from North America.

Key factors attracting investment to Scotland

30. The survey found many reasons for inward investment including to grow capacity, improve productivity and develop new products and processes. In other cases, there were location specific reasons to be in Scotland (e.g. for whisky and renewables).
31. The feedback highlighted the links between investment, innovation and productivity. It also supports SDI's use of Account Managers (who bring a broader business development perspective) as the main contacts for existing inward investors.
32. Where it was awarded, finance was the most important element of the support. However, talent is increasingly critical for investors, particularly in technology investments. Without the right people, the financial support would not be effective. For 37% of firms the skills base was identified as the main reason for investing in Scotland.
33. A further important message was the role that the business support environment plays. Just under half (48%) said wider support from SE/HIE and SDI had played a part in their investment decision (for example, help with property, innovation support and advice). This was mentioned by businesses as valuable in itself, and also in signalling Scotland's commitment to business and to specific sectors.
34. There were mixed views on the impact of changes to RSA in 2014 (no longer available to large companies). Some consultees thought that this would directly reduce the number of large expansion projects. Others felt that factors such as access to talent and research are becoming more important and that the funding changes (which are Europe-wide) would have limited impact on the attractiveness of Scotland. The number of RSA approvals dropped sharply between 2014/15 and 2015/16. The number of applications from SMEs also dropped, even though they are still eligible, suggesting some confusion on the part of businesses.

Effectiveness

35. Overall, the findings from the business survey are very positive. Like trade, there are improvements from the previous evaluation in 2010. The number of firms assisted has risen and there has been some shift from cases that safeguard employment to an increasing number of new to Scotland investments.
36. Half of the firms interviewed had considered making their investment outside Scotland. This includes existing investors that used the support to make the case to their parent group for investment to be made in Scotland.
37. Satisfaction levels have also improved since the last evaluation study in 2010. At that point around 80% of firms were either satisfied or very satisfied with the support. This figure has now increased to 95%, with three quarters very satisfied. The high levels of satisfaction probably reflect that many firms were successful in securing funding.

38. There was similarly positive feedback on the roles of the Account Managers (facilitating support for existing investors) and the SDI advisers (supporting new investment). There were concerns from several stakeholders about the ongoing support for new investors where they did not qualify to become Account Managed.
39. The creation of Global Account teams is considered to be a real strength (by consultees and the majority of businesses). Internally, it was seen as encouraging greater integration of SE/HIE and SDI staff. As well as including SDI overseas teams, Global Account teams often involve input from DIT and in some cases, British Embassy staff. These new structures were put in place recently, and the effects will become clearer over time, but should help join up support and make use of new technology to work virtually.
40. A lot of the success of the last decade or so has been through follow-on investment and safeguarding. However, an increased focus on investors that are new to Scotland is likely to mean that the number of jobs involved will be smaller. The implications are that the enterprise agencies will need to work harder for new investments and SDI will need to be more targeted and smarter in their promotional activity and work with potential investors.
41. Managing the pipeline process and nurturing new investment leads is clearly critical to the role of the SDI teams overseas. Based on the consultations, it would seem that performance varies. Of the new to Scotland inward investors (24) in the sample there seemed to be relatively little contact with the overseas teams. This could be down to the profile of these projects (a third were from England and many reported already having contacts and connections in Scotland). However, it may also highlight an opportunity to improve inward investment selling activity overseas.
42. Given the importance of attracting new investment, this should be the subject of further research. We suggest comparing performance with other countries and assessing the effectiveness of the overseas selling activities.

Outputs and impacts

43. For nearly two thirds (65%) of businesses interviewed the investments have resulted in new physical developments, with 58% highlighting new training, and 55% new plant and equipment. In addition, more than half (53%) brought new technologies and new products to Scotland and half have increased their R&D activity because of the investment project.
44. The economic impact from 2011/12 to 15/16 is estimated to be £1,600 million increasing to £2,600 million if the jobs are assumed to last for a further two years. With total inward investment costs of £181 million, this gives a ratio of GVA to investment of between 1:9 and 1:15.

Partnerships

45. Almost all consultees agreed that progress had been made in developing a stronger “One Scotland” partnership approach. There is still more that can be done, but a lot of goodwill towards making it happen.

46. There are strengths across all the public and private sector partner organisations that could be used and levered more effectively. On the investment side, cities will play an increasing part in developing their own investment propositions, for example, around new major infrastructure projects. Some consultees felt that there was scope for SDI to work more collaboratively on these propositions.
47. The Chambers of Commerce are an important partner in terms of trade support and consultees thought that these networks could be leveraged more effectively, working alongside the SDI-led support. There could also be closer relationships with the universities that all have their own academic links with overseas partners and with the Councils that have civic and educational partnership arrangements. These wider links could be used more effectively to promote Scotland's international assets.
48. The relationship with DIT was generally considered to be good, although there are areas where maintaining relationships has proved difficult due to the scale of personnel and structure changes in DIT over the last couple of years. Overseas, the relationships can vary across markets. In some it is very strong and in others there is a lot less contact. From DIT's perspective, they suggested that there was scope for SDI to provide more briefings on Scottish activities and opportunities.
49. For inward investment, relationships between SDI and UKTI/DIT have improved in recent years. For example, there has been important work done looking at the recent investments in London to identify potential second round opportunities for Scotland. SDI consultees highlighted major opportunities to attract investment out of London in financial and business services and with technology firms. Inevitably there are some tensions between the two organisations, but based on our consultations, these have been well managed. That said, changing demands on DIT, for example in working with the devolved areas in England, and possibly Brexit, may add to the challenges in future.

Monitoring

50. There were three headline targets set for trade and investment support. These cover 2011 to 2015:
 - Increase international sales from supported businesses by between £1.2 billion to £1.7 billion
 - This relates to the support for businesses with International Projects. From the monitoring data, we know that there were 549 of the supported firms with International Projects between during the 2012/13 to November 2015 period. The economic impact section estimates that these businesses generated a total of £319 million in new sales over this period. This excludes 2011/12, but even if all these firms were to achieve their International Project target of £1 million per firm this would still fall well short of the original target, which seems to have been too optimistic.
 - Assist 8,000-10,000 companies to develop their capacity for exporting through initiatives like Smart Exporter.

- SDI monitoring data shows that 9,355 firms were assisted
 - Secure 25,000-35,000 planned jobs through the attraction of foreign investment – of which between 8,000 and 12,000 planned high value jobs
 - From 2011/12 to 2015/16, SDI has supported 423 inward investment projects with 39,000 planned jobs, of which 24,000 are new and 15,000 safeguarded. Over the five years, there have been just under 12,000 high value jobs.
51. There are a number of issues around the monitoring data. There were gaps and inconsistencies, exacerbated by the number of databases held across the three agencies. For inward investment in particular, a number of improvements have been identified. This has not just been an issue for the evaluation process, but a critical part of managing the performance of trade and investment support. We recommend that SDI should review how monitoring data is held, is accessed and is presented.
52. In relation to targets, SDI should consider using export targets *for firms* rather than markets, and on the investment side there should be a better system for easier reporting of actual jobs (in addition to what is planned), for RSA and the large grants.

Recommendations

53. Taking into account all the evaluation evidence, the main recommendations are provided below. These are primarily directed towards SDI but will also require the cooperation of other partner organisations involved in delivering a ‘One Scotland’ approach.
- **Further development and refinement of the international sector operating plans (including the more detailed prospecting plans)** - Develop clearer understanding of trade and investment opportunities and provide a clear steer on those markets which are best suited to Scotland’s key sectors and economic strengths, and invest in them. It will also require improvements in the monitoring data to be clearer on the high impact trade and investment activity.
 - **Promote trade opportunities to Account Managed firms not currently exporting.** To grow the number of Scottish exporters, there should be further encouragement provided to this group of businesses that have been identified as having growth potential. Account Managers should promote and adapt the support accordingly, acknowledging that for some selling internationally may not be appropriate to their product or service and also that selling to the rest of the UK may be a first step.
 - **Increase domestic marketing of international trade support, and the opportunities in overseas markets.** This could include more promotional activity through high profile campaigns and major showcase events bringing together exporters, non-exporters, intermediaries, GlobalScots, investors and public sector support. There was also feedback from stakeholders and businesses that there could be more promotion and leverage of the global network of SDI offices.
 - **Strengthen the ‘One Scotland’ approach.** The feedback indicates that links between SE/HIE/SDI and other agencies in Scotland involved in internationalisation have improved

in recent years. However, stakeholders and businesses acknowledged that more could still be done. This includes making more of the overseas networks of Chambers of Commerce and civic and educational partnerships already set up by local authorities, universities and SCDI. Strengthening partnerships could help add capacity to the support provided to the volume market of new exporters. On the investment side, there should be more support provided to the Scottish Cities Alliance and the city councils to develop their investment propositions around property and infrastructure. It is understood that a lot of this activity is being taken forward by SDI and partners.

- **Continue to improve working relationships with DIT.** The main feedback from consultees was that the relationship, particularly at a senior management level, has improved but there are sometimes occasions where operationally the two organisations are not fully aligned (largely down to the high turnover of staff at DIT). There were also business views suggesting closer cooperation on trade events would be beneficial. Clearly, there are some tensions between the remits of SDI and DIT but more could be done to maximise the use of DIT support and their overseas offices.
- **Ensure further integration of SDI and SE/HIE staff.** From the businesses' perspective, the integration of trade and investment support across the enterprise agencies is working well. However, some of the IP firms still felt internationalisation support sat slightly separately from the other business development support, provided by SE and HIE. Consultee feedback also indicated the level of integration varied across sectors and geographies. Although progress has certainly been made, more could be done through joint sector teams with SDI trade advisers and SE/HIE sector teams, co-locating where possible. More joint events could be organised to bring together SDI staff and Account Managers either on trade missions with the businesses or through more staff training events.
- **Undertake further research to understand the selling activities of overseas teams.** Based on the consultations, it would seem that performance varies. Within the sample of new investors there had been relatively little contact with the overseas teams. This may be an opportunity to improve inward investment selling activity, including comparing performance with other countries.
- **Recruit more sector specialists for the SDI overseas offices.** Consultees and businesses felt that adding more sector expertise to the overseas teams would help to identify and develop more specific trade opportunities. Building on the successful Food and Drink specialist model, this approach should be investigated for other priority sectors.
- **Ensure more flexibility in provision of trade support.** There was feedback from both businesses and some internal consultees that the internationalisation support involves more rules and less flexibility compared to other SE/HIE support. Whilst some of this may be more perception than reality (and there will be some State Aid rules to be considered), ensuring a more integrated account team approach (which is currently being developed) should help to provide tailored and flexible support to exporters.
- **Consider offering short term consultancy support for management capacity/expertise.** This would directly address the main barriers to exporting and help

businesses take forward their export plans. This could be a shorter version of International Manager for Hire.

- **Ensure clearer briefs for GlobalScots.** The evidence highlighted lots of good examples of businesses receiving useful advice and guidance, however, there were some occasions where the advice did not meet business expectations and more could be done to clarify expectations of both the business and the GlobalScot. The network is widely regarded as an important part of the support infrastructure and will soon be supplemented by the recently announced trade envoy scheme³.
- **Encourage FDI Account Managers to develop stronger links with SDI overseas teams.** More regular communication between the Account Managers and the overseas team (in relation to Global Accounts and other investors) should be encouraged to ensure closer relationships with the FDI company both in Scotland and abroad. Where appropriate, encouraging the Account Manager to regularly meet the parent company would also help.
- **Ensure FDI Account Managers and SDI advisers fully understand the financial incentives available for inward investors.** There have been some recent changes both in terms of the grants available to investors (most notably with RSA) and also in terms of the range of financial products available through the Scottish Investment Bank. Account Managers and SDI advisers need to be fully aware of what is available and to who. Then SE/HIE/SDI need to ensure the application process for relevant grants is as efficient as possible to be able to move quickly with investment projects (due diligence should be proportionate to the funding). Issues in applying for funding was one of the few areas for improvement identified by FDI companies.
- **Ensure ongoing support to first-time inward investors who do not qualify to be Account Managed.** Some consultees highlighted the potential for new investors to ‘fall between the cracks’ if they did not meet the growth criteria to become Account Managed. This is something which has been recognised by SE/HIE/SDI and they are currently reviewing the aftercare process for these investors, as part of the wider commitment to ongoing review of customer engagement.
- **Maximise digital technology to deliver trade support.** Digital technology offers more cost effective and potentially more specialist support (for example, by providing access to a wider range of resources in Scotland and internationally). SE/HIE/SDI need to demonstrate that digital support goes beyond simple on-line toolkits or webinars.
- **Improve monitoring systems.** There are a number of issues around monitoring data, including gaps and inconsistencies, exacerbated by the number of databases held across the three agencies. This has not just been an issue for the evaluation process, but is also a critical part of managing the performance of trade and investment support. We recommend that SE/HIE/SDI should review how monitoring data is held, is accessed and is presented.

³ A new trade envoy scheme was announced by the First Minister in October 2016 - https://www.snp.org/nicola_sturgeon_snp16_speech_key_points

- **Refine targets.** In relation to targets, SE/HIE/SDI should consider using export targets *for firms* rather than markets, and on the investment side there should be greater emphasis on tracking actual jobs, in addition to what is planned.

1. Introduction and methodology

- 1.1 This report presents the findings of an evaluation of the internationalisation activities of Scottish Enterprise's (SE)⁴, Highland and Islands Enterprise (HIE)⁵ and Scottish Development International (SDI)⁶. This is delivered principally through Scottish Development International (SDI) which is Scotland's lead body for trade and investment support. Throughout this summary and the report, we refer to SDI rather than the three partner organisations. The evaluation covers the support provided for international trade between 2012/13 and 2015/16 and inward investment from 2011/12 to 2015/16.
- 1.2 The last strategic evaluation of trade and inward investment activities was published in 2010⁷ and covered the period up to 2008/09. Since then, all the partners have developed their approach to trade and investment support to address a fast-changing policy context.
- 1.3 Over the last four or five years, there has been a relatively slow recovery following the global recession with particular challenges in the European economy, a key trading area for Scottish firms. In addition, there has been a major downturn in one of Scotland's key sectors and exporters, oil and gas. Wider economic uncertainty also exists following the Brexit vote and the US presidential elections in 2016, both of which will have an impact on patterns of global trade.
- 1.4 Throughout this period of economic uncertainty, SDI has been focused on supporting new exporters and bring in new types of investment, two of the Scottish Government's key economic objectives.
- 1.5 Although this report includes some analysis of export and inward investment performance, much of this analysis has been covered in the Scottish Government's Trade and Investment Economic Evidence Discussion Paper which provides a fuller overview of evidence on the contribution of trade and investment to Scotland's economy, and recent performance⁸, and the latest data provided through *Scottish Export Statistics* publications.

Evaluation objectives

- 1.6 The evaluation objectives and study requirements were set out in the research brief and are summarised here. The report provides:
 - An overview of the support provided including detail on the number of beneficiaries, the type and amount of support received and their status and sector;
 - The rationale for intervention based both on the review of existing evidence and the views of the beneficiaries;

⁴ <http://www.scottish-enterprise.com/>

⁵ <http://www.hie.co.uk>

⁶ <http://www.sdi.co.uk/>

⁷ SQW (2010), SDI Policy Evaluation

⁸ Scottish Government (2016), Trade and Investment Economic Evidence Discussion Paper

- A mapping of the rationale for intervention onto the activities that SDI delivers and associated commentary;
- An assessment of the support delivered, its effectiveness (including delivery arrangements) and the extent to which this is seen as having overcome (and is overcoming) the barriers to exporting experienced by Scottish companies;
- The net economic impact of support delivered to date and in the future;
- An assessment of what support and support combinations are seen as being most effective in delivering impacts;
- The extent to which the support has assisted with the attainment of SE/HIE's and SDI's targets and measures;
- Recommendations intended to improve the ability of Scottish companies to both enter the export market and increase their level of exports and to attract new investment into Scotland and expand existing investment.

Methodology

1.7 SQW carried out this evaluation between June and December 2016. The study involved the following main areas of research:

- A desk-based review of relevant strategies, trade and investment performance data and SE/HIE and SDI monitoring databases to inform the survey sampling approach
- Three business surveys
 - A telephone and face to face survey of trade businesses with 'International Projects' (IPs) each of which had the potential to generate export sales of more than £1 million over three years. Over the evaluation period, 549 firms received support to progress these International Projects. The survey carried out by SQW received feedback from a sample of 84 businesses
 - A shorter telephone survey of the remaining trade businesses that did not meet the International Project threshold. This group covers a wide range of firms that typically received less intensive support, including Account Managed businesses that were not categorised as having an IP. The survey carried out by BMG Research achieved a sample of 343 businesses, out of a total population of 5,363.
 - A telephone and face to face survey of inward investment businesses. The survey carried out by SQW received feedback from 62 businesses out of a total population of 370 businesses.
- Stakeholder consultations with 39 stakeholders based in the enterprise network (SE, HIE and SDI), and other partner organisations and a workshop was also held with SE and HIE Account Managers. A stakeholder list is provided in Annex A.

- Analysis and reporting – including presentations of draft results in January and February 2017.

Report structure

1.8 The report is structured as follows

- Chapter 2 – includes a summary of Scotland’s trade and investment performance
- Chapter 3 – provides an overview of the economic and policy context
- Chapter 4 – assesses the rationale and market failure addressed by the support
- Chapter 5 – has an overview of SDI’s internationalisation activity
- Chapter 6 – describes the survey approach and methodology
- Chapter 7 – provides the results and analysis of the trade survey of businesses with International Projects, based on a sample of 84
- Chapter 8 - provides the results and analysis of the trade survey of businesses with less intensive support, based on a sample of 343
- Chapter 9 – sets out the results and analysis of the inward investment survey, based on a sample of 62
- Chapter 10 – provides an analysis of the economic impacts
- Chapter 11 – summarises the feedback from stakeholders
- Chapter 12 – contains the conclusions and recommendations.

2. Scotland's trade and investment performance

Key messages - trade

- Scotland has fewer exporters than other parts of the UK as a % of active businesses
- However, Scotland has increased the number of exporting firms at a faster rate than most other parts of the UK over the last four years and there are now around 11,500 exporting firms
- There has been long term growth in the value of Scottish exports and in 2015 they were worth £28.7 billion to the Scottish economy
- Scotland's exports have traditionally been concentrated in a relatively small number of businesses and to a lesser extent sectors
- The value of Scotland's exports relative to overall GVA output is lower than the UK and other European countries

Key messages - investment

- According to EY, Scotland is one of the top destinations for FDI projects in the UK. Over the last 10 years, nearly 10% of FDI projects have come to Scotland
- The most important source of FDI into Scotland (and the UK as a whole) continues to be the United States
- Whilst FDI performance has been consistently positive throughout the past decade, one traditional challenge to long-term sustainability has been the prevalence of 'expansion' projects

- 2.1 This section presents the headline data on Scotland's trade and investment performance which provide the context for SDI's internationalisation activities and also link into the rationale for support, which is discussed in Section 4. This review of performance draws on data from the ONS Annual Business Survey, Small Business Survey, Export Statistics Scotland, and EY's Attractiveness Survey.

Trade performance

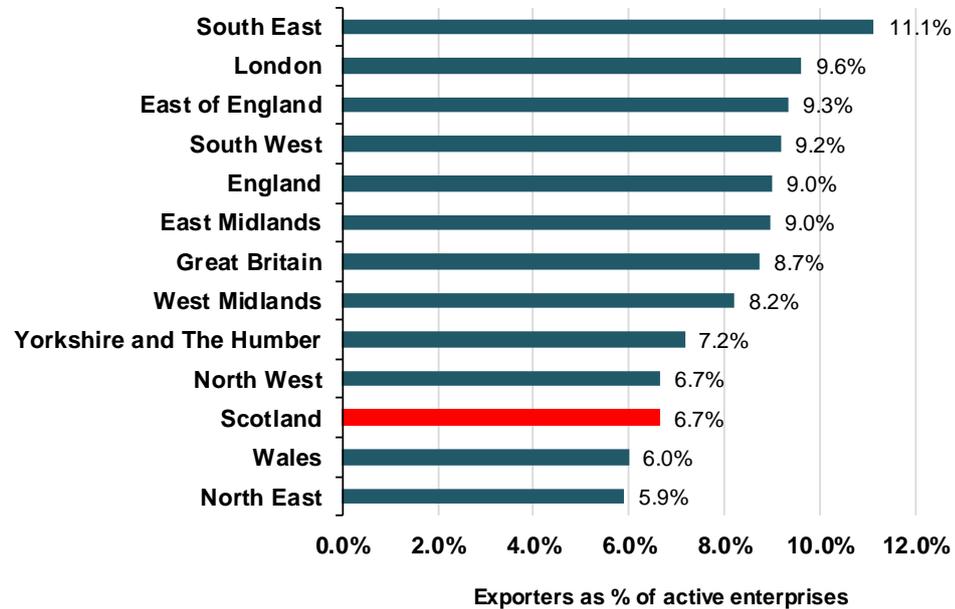
Number of exporters

- 2.2 Data on the number of exporting businesses⁹ across the different nations and regions in the UK are available from the ONS Annual Business Survey. **The latest figures for 2015 estimate that**

⁹ All export data in this section refers to international sales i.e. outside the UK

Scotland has fewer exporters than other parts of the UK (Figure 2-1). The ABS estimates Scotland has around 11,500 exporting businesses which represents seven per cent of the 173,000 active¹⁰ enterprises in Scotland. As shown below, this is below the GB average of nine per cent and below many other parts of the UK.

Figure 2-1: Proportion of businesses that export, 2015



Source: Annual Business Survey 2015, ONS Business Demography 2015

2.3 **However, the trend data from the last four years shows that Scotland has increased the number of exporting firms at a faster rate than most other parts of the UK** (Table 2-1). The number has risen from 9,300 exporters in 2011 to 11,500 in 2015, which represents an increase of 24% over the period.

¹⁰ ONS (2016) Business Demography – active businesses defined as those that had either turnover or employment at any time during that year

Table 2-1: Change in the number of exporting firms 2011-15

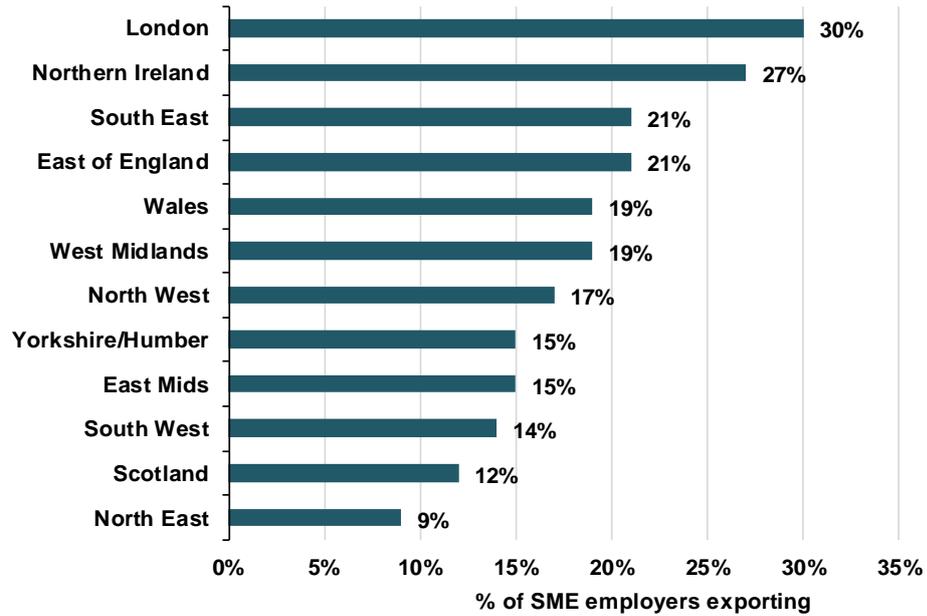
	2011	2015	Change	Change %
Wales	4,500	5,700	1,200	27%
East Midlands	12,500	15,800	3,300	26%
Scotland	9,300	11,500	2,200	24%
South West	17,300	20,400	3,100	18%
London	44,300	52,100	7,800	18%
North West	15,100	17,300	2,200	15%
Great Britain	201,900	228,700	26,800	13%
England	188,200	211,500	23,300	12%
South East	41,900	46,800	4,900	12%
Yorkshire and The Humber	12,000	13,200	1,200	10%
East of England	23,100	24,800	1,700	7%
North East	4,000	4,200	200	5%
West Midlands	17,800	17,100	-700	-4%

Source: Annual Business Survey 2011-15

- 2.4 Another source of data on the number of exporters is the UK Small Business Survey (SBS). In the UK, the SBS indicates that the proportion of SME employer exporters has fallen from 24% in 2007/08 to 19% in 2015. Looking at the sub-national data, **the level of SME exporting in Scotland dropped from 15% of SMEs in 2012 to 12% in 2015¹¹**.
- 2.5 Only three percent of non-exporting SMEs in Scotland plan to do so in the future (similar to other parts of the UK). Of those firms not planning to export this is either because they state that they do not have a product or service suitable for exporting or exporting is not part of their business plan.
- 2.6 **The regional breakdown of the 2015 data shows that the proportion of Scottish SMEs that are exporting is lower than most other parts of the UK** and highlights the highest level of SME exporting in London, Northern Ireland and the South East (Figure 2-2). So why is the Scottish figure lower? There is little difference between Scotland and the other parts of the UK in whether or not businesses consider their goods or services suitable for exporting. Scottish SMEs are more aware of the business support available than other parts of the UK, but few (2%) of Scottish SMEs sought information or advice on exporting (similar across the UK).
- 2.7 The reasons for lower exporting levels in Scotland are likely to include the geographic distance to international markets, its sectoral profile (i.e. fewer businesses in export-orientated sectors), and lower levels of entrepreneurship and innovation compared to other parts of the UK highlighting the need for fully integrated and aligned support.

¹¹ According to the SBS, the vast majority (81%) of these exporting businesses in Scotland are selling overseas every year

Figure 2-2: Proportion of SME employers that export, 2015

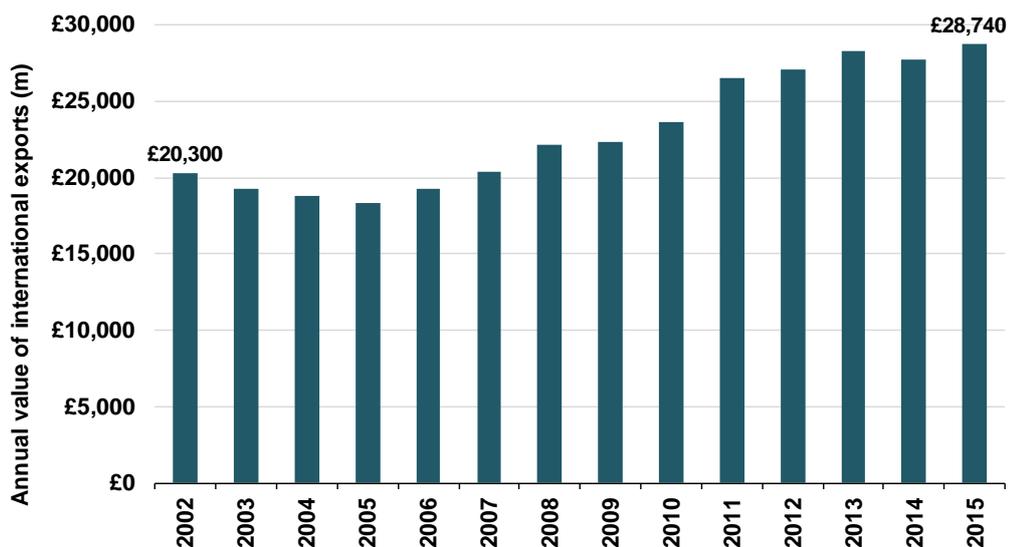


Source: UK Small Business Survey 2015

Value of exports

2.8 The best source of data on the value of exports is Export Statistics Scotland (previously Global Connections Survey). **These figures show that there has been long term growth in the value of Scottish exports** (Figure 2-3). According to the most recent data, exports have grown from £20.3 billion in 2002 to £28.7 billion in 2015 (in current prices). After a period of continuous growth from 2005-13, annual international sales decreased by 2% in 2014 but then bounced back with an increase of 4% in 2015.

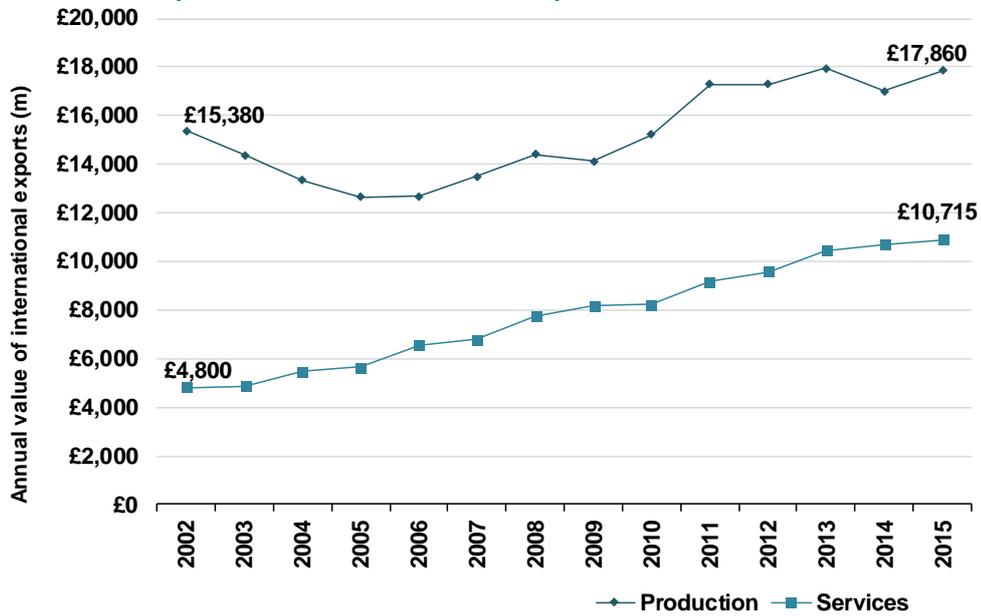
Figure 2-3: Value of Scottish exports 2002-15



Source: Export Statistics Scotland

2.9 **The growth has been fuelled almost entirely by service sector exports** which have grown by 127% between 2002 and 2015, compared with 16% growth in production exports over the same period (Figure 2-4).

Figure 2-4: Scottish production and service sector export trends 2002 to 2015

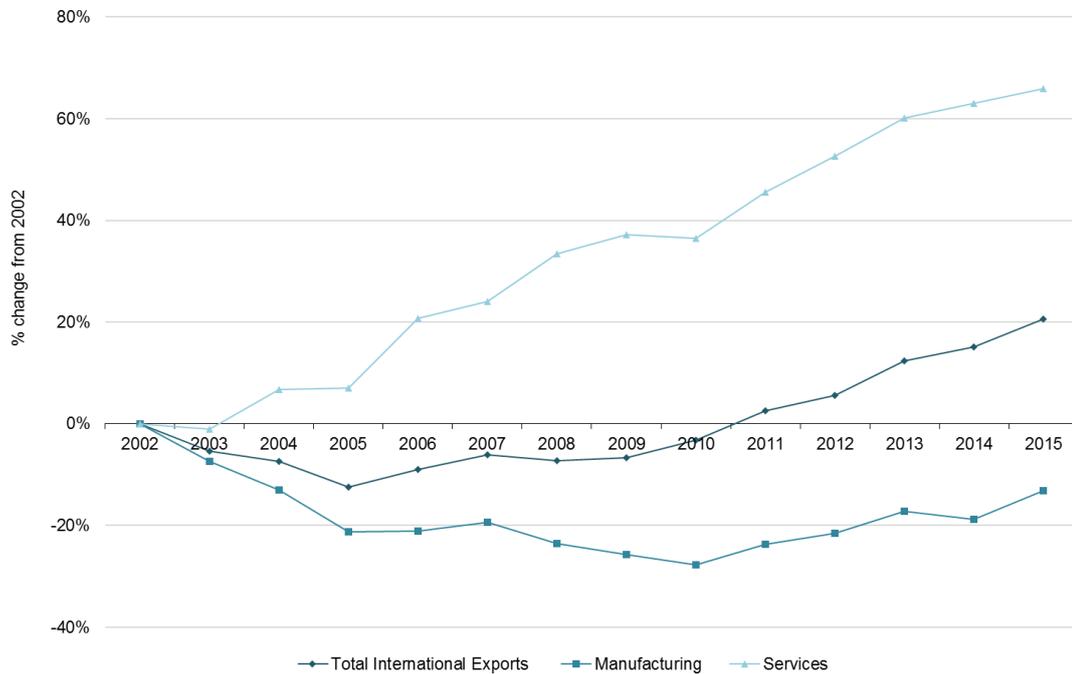


Source: Export Statistics Scotland

2.10 Presenting the Export Statistics Scotland figures in real terms¹², the difference is even more stark. While service exports have grown by 65%, production goods have fallen by 13% and the total value of exports, in real terms has risen by 21% (Figure 2-5).

¹²Using the Scottish Government Export Statistics Scotland 2015 - <http://www.gov.scot/Topics/Statistics/Browse/Economy/Exports/ESSPublication/ESSEExcel>

Figure 2-5: Change in manufacturing and service export value 2002 to 2015 in real terms (based on Export Statistics Scotland (Chain Volume Data))

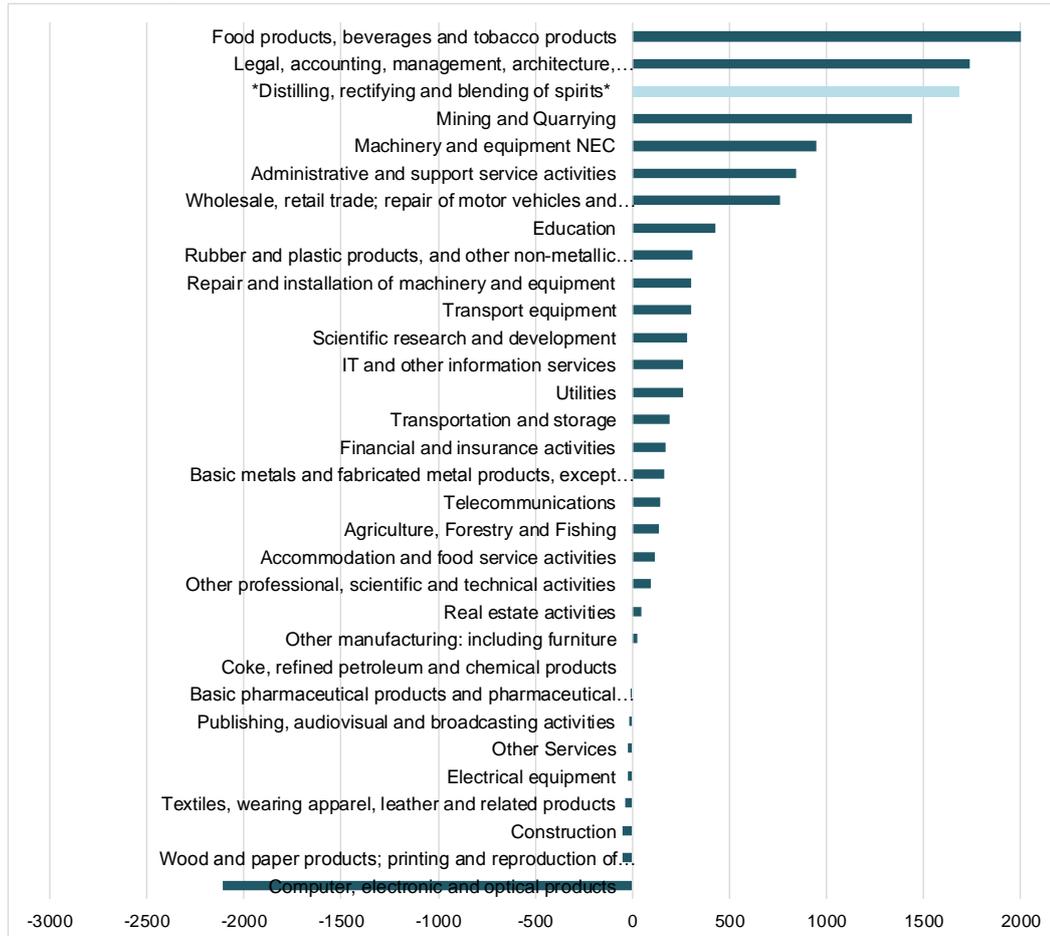


Source: Export Statistics Scotland (Chainlinked Volume Measure)

2.11 Figure 2.6 shows how the value of exports have changed by sector over a 10-year period, from 2004-14¹³. The main feature is the large reduction in electronics and computer related goods sold overseas. In 2004, this sector generated £3.2 billion in exports; in 2014 the figure was a third of this at £1.1 billion. This decline has been offset by the growth in food and drink manufacturing (specifically whisky). Over the decade, most growth in export sales has come from food and drink manufacturing; legal, accounting and other professional services; and mining and quarrying (which includes onshore oil and gas extraction activities).

¹³ The most recent Export Statistics Scotland 2015 dataset does not have the full sector breakdown over a 10 year period

Figure 2-6: Change in value of exports by sector 2004-14 (£m)



Source: SQW analysis of Export Statistics Scotland

2.12 **Scotland's exports have traditionally been concentrated in a relatively small number of businesses and to a lesser extent sectors.** It is estimated that half of international exports are generated by around 70 businesses, and 60% attributable to around 130 businesses¹⁴. In terms of sectors, the combined international sales from food and drink manufacturing (£4.8 billion) and petroleum and chemical products (£2.1 billion) account for a quarter of all Scottish exports.

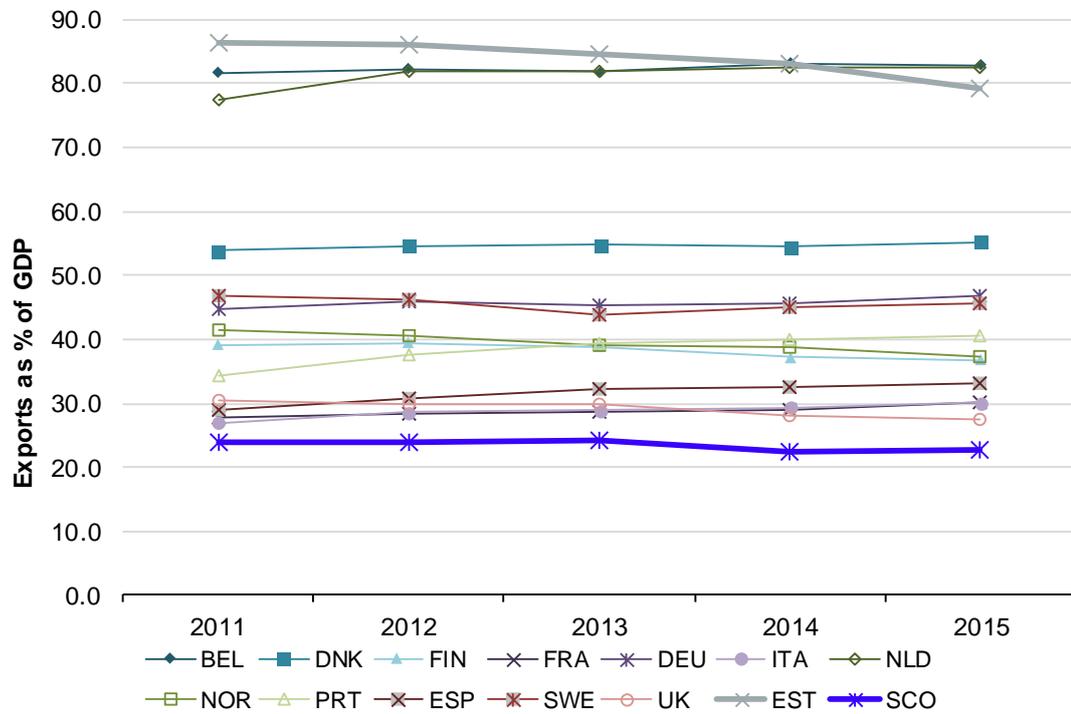
Benchmarking Scotland's export performance

2.13 In addition to having fewer exporters than other parts of the UK, **the value of Scotland's exports relative to overall GVA output is lower than the UK and other European countries.** This can be seen by comparing Export Statistics Scotland figures with OECD export statistics which show the UK (28%) and Scotland (23%) at the bottom of the list of European countries. The top three exporting countries shown in Figure 2-7 are Belgium, Netherlands and Estonia (although not included in the graph, Ireland is in fact higher with exports accounting for 120% of GDP). It should

¹⁴ Scottish Government (2016), Export Statistics Scotland 2014

be noted that the analysis only includes Scotland's international exports (i.e. does not include sales to the rest of the UK).

Figure 2-7: Benchmarking Scotland's export performance with European countries



Source: OECD, ESS

2.14 Analysis carried out by Scottish Enterprise reinforces Scotland's relatively poor export performance and illustrates the gap between Scotland and the top performing countries and UK regions (Table 2-2).

Table 2-2: Benchmarking Scotland's export performance

Indicator	Year	Compared to	Quartile	Size of gap	Description
Exporters	2015	EU	4	41,000	SMEs – increase in the number of SMEs that are exporters required to reach the EU top quartile performance (for % of SMEs that are exporters)
Exporters	2015	GB	3	5,680	Registered Businesses – increase in the number of registered businesses (all businesses) that are exporters required to reach GB regional top quartile performance (for % of businesses that are exporters)
Export Sales	2014	OECD	4	3.3	£bn – annual exports sales growth – increase required for Scotland to match OECD top quartile performance

Source: SE analysis

Conclusions - trade

It has traditionally been difficult to establish a clear picture on Scotland's export performance due to the various surveys providing slightly different data. However, the main messages are quite clear in terms of lower levels of exporting relative to other European countries and other parts of the UK, and too few exporters. For example, these issues were also highlighted in recent Scottish Enterprise research published by the Fraser of Allander Institute¹⁵.

The headline export data set out above indicate relatively strong growth in the value of Scottish exports over the last decade but there has been some recent slowdown in 2016 in key sectors such as whisky and petroleum and chemicals (significantly affected by the drop in oil prices). The recent challenges in these sectors have only highlighted the extent to which Scotland is dependent on a small number of businesses and sectors for its export sales. There is a need to both increase the international sales of existing exporters and encourage more businesses to sell overseas.

Scotland's inward investment performance

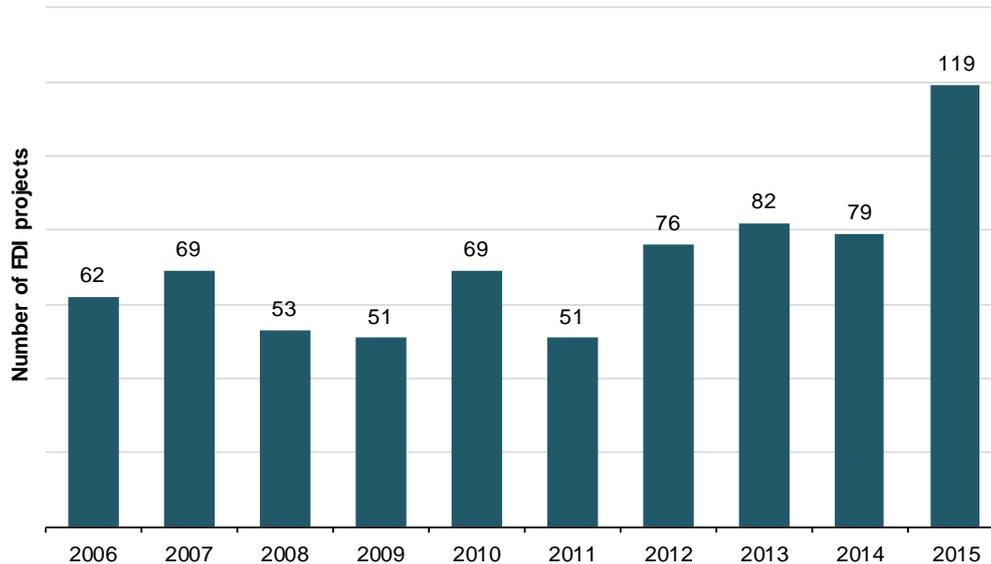
- 2.15 EY's UK Attractiveness Survey (2016)¹⁶ finds that **Scotland is one of the top destinations for Foreign Direct Investment (FDI) projects in the UK**. Between 2006 and 2015, there were 7,617 FDI projects in the UK. The vast majority were located in Greater London (3,179), with Scotland the third largest destination with 711 projects over this same period (9.3% of all UK projects).

¹⁵ Slow et al (2015), Scotland's export performance: some recent evidence. Fraser of Allander Economic Commentary Vol. 39 No.2

¹⁶ EY's attractiveness survey 2016

2.16 **Annual figures show that foreign inward investment into Scotland has grown markedly in recent years. Annual inward investments increased by 51% between 2014 and 2015, reaching 119, the largest annual figure since the European Investment Monitor Database began in 1997 (Figure 2-8). Over a third (41) of Scotland’s FDI projects were in Edinburgh and 22 were in Glasgow.**

Figure 2-8: Number of projects secured by Scotland 2006 to 2015

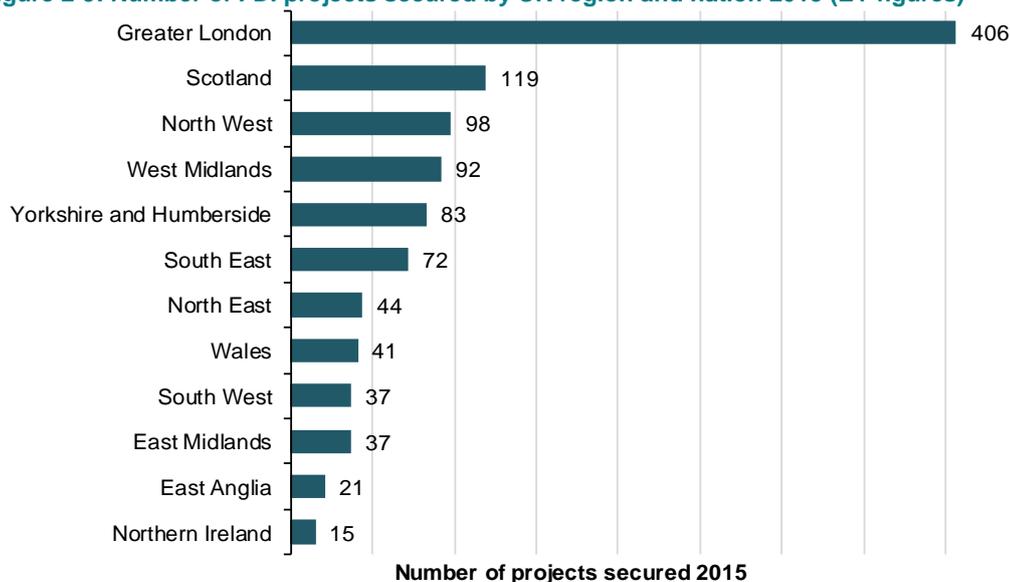


Source: EY’s attractiveness survey Scotland 2016

2.17 Notably, the growth of FDI projects in Scotland has outpaced the South East of England in five of the last six years, and in 2015 Scotland became the UK’s second largest destination for FDI behind Greater London for the first time (Figure 2-9). This high rate of growth means that Scotland’s share of all UK FDI projects increased from 9% to 11% between 2014 and 2015. Another positive aspect of Scotland’s performance in a UK context is the number of research projects attracted in 2015. Scotland had 23 research projects which was the highest of any part of the UK and represents 22% of the total number (105)¹⁷. It is likely that the expertise in Scottish universities are helping to attract these types of projects.

¹⁷ EY (2016) EY’s attractiveness survey UK 2016

Figure 2-9: Number of FDI projects secured by UK region and nation 2015 (EY figures)

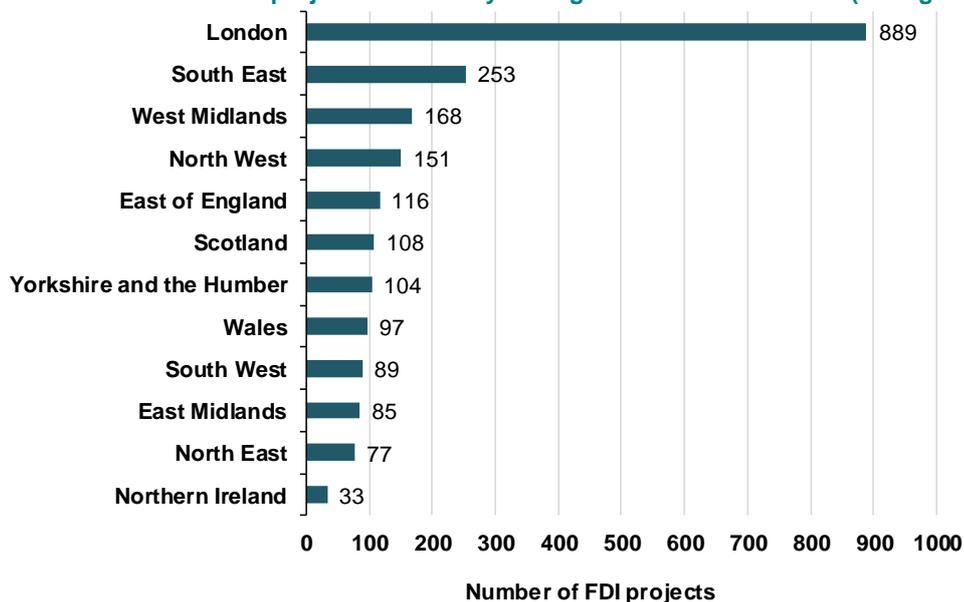


Source: EY's attractiveness survey UK 2016

- 2.18 High levels of inward investment have translated into strong employment figures. The EY survey finds that reported employment in Scotland generated through FDI projects was 5,385 jobs in 2015, an increase of 52% on the previous year, and a 12.7% market share of UK-wide FDI employment. However, whilst employment has grown, this market share is below the 14.3% average share recorded over the past decade.
- 2.19 As noted in the EY report, this may in part be down to the increasing levels of Sales and Marketing investments (which tend to support fewer jobs) which were the most common FDI activities in 2015 after an increase of 53% from the previous year. Following a decline in 2015, the largest function in 2014 – Manufacturing – fell into third place behind Contact Centres.
- 2.20 The greatest market share of FDI into Scotland is found in Business Services, accounting for 12.4% of all projects between 2006 and 2015, closely followed by Software (11.0%), and Machinery & Equipment (10.8%). Software's market share has been driven by rapid growth in the sector over the last few years, with projects in this sector accounting for 15.7% of all projects started between 2013 and 2015, higher than for any other sector.
- 2.21 **The most important source of FDI into Scotland (and the UK as a whole) continues to be the United States**, the origin of 43% of FDI projects into Scotland in 2015, in line with the average of 40.4% over the preceding ten years. However, outside of the United States, the profile of investment into Scotland differs to the UK as a whole, with the UK attracting greater investment from emerging economies such as India and China (6% of total UK projects 2015), and Scotland attracting more investment from the Scandinavian countries – Norway (6% of total Scotland projects 2015), Sweden (4%) and Denmark (3%). This is in part explained by the existing stock of inward investors and new projects coming from overseas-owned companies that are already located in Scotland and the sector breakdown of the projects themselves.

- 2.22 **Whilst FDI performance has been consistently positive throughout the past decade, one traditional challenge to long-term sustainability has been the prevalence of ‘expansion’ projects** (i.e. expansions of existing investments). Whilst it is encouraging that existing foreign-owned businesses are continuing to invest, there is clearly a risk in assuming this will continue indefinitely. The number of expansion projects outstripped ‘new’ projects every year from 2006-2012. However, in two of the last three years (2013 and 2015) this trend has been reversed, with 53% of all investments in 2015 ‘new’.
- 2.23 Another source of data on FDI projects is the Department for International Trade’s (the new UK Government department within which the former UKTI has been located) annual Inward Investment results. These figures include a wider range of investments, including mergers and acquisitions and also those which are not announced by companies. The latest published figures indicate that there were 108 FDI projects in Scotland in 2015/16 (Figure 2-10).

Figure 2-10: Number of FDI projects secured by UK region and nation 2015/16 (DIT figures)



Source: Department for International Trade inward investment results 2015 to 2016

Differing approaches to counting inward investment projects

- 2.24 It is important to note some key differences between the data on FDI projects reported by EY and DIT and the number of inward investment projects supported by SDI (which are monitored internally and summarised in Section 5).
- 2.25 EY includes FDI projects from outside the UK that have resulted in the creation of new facilities and new jobs, and excludes portfolio investments and Mergers & Acquisitions. DIT’s definition of FDI projects covers a range of investments into the UK (both those supported by the public sector and those that are not), including those projects which are not announced by companies. **Importantly, the SDI figures described later include the large number of investments coming to Scotland from other parts of the UK, which do not feature in the EY and DIT data.**

Conclusions - investment

Overall Scotland has performed well in attracting FDI in a UK context. However, a lot of this success over the last decade has been through expansion projects. These are obviously important but there is also a need to look for new areas of investment. Encouragingly there was an increase in the number of new projects in the most recent EY figures and this will need to continue for Scotland to retain its strong performance. Attracting and working with new investors will inevitably require more effort and most new projects are likely to have fewer jobs. However, initially securing an R&D investment or sales and marketing office could potentially lead to further investments in to Scotland. The key challenge for SDI is to identify and secure these new investments with high value and sustainable employment opportunities, at the same time as continuing to encourage investment from the existing inward investors.

3. Economic and policy context

Key messages

- The internationalisation activities of Scottish Enterprise's (SE), Highland and Islands Enterprise (HIE) and the Scottish Government are principally delivered through Scottish Development International (SDI) which is Scotland's lead body for trade and investment support.
- There have been significant changes in terms of the economic conditions in domestic and international markets
- The last five years has seen the downturn in oil and gas (one of Scotland's strongest sectors), the long-term impacts of the global recession and financial crisis, and wider political and continuing economic uncertainty
- The Scottish Government set the policy agenda for internationalisation support through various strategy documents including the Economic Strategy, Scotland's International Framework, and the Trade and Investment Strategy
- A key strategic objective over the last five years has been to encourage more exporters and investors to Scotland

3.1 For the inward investment support, the evaluation covers the period 2011/12 to 2015/16. For trade support, the study has looked at the support provided from 2012/13 to 2015/16. In these last four or five years, there have been significant changes in terms of the economic conditions in domestic and international markets. There have also been some important policy shifts both in terms of the strategic direction set by the Scottish Government and the approach to internationalisation taken by SDI.

Economic context

3.2 The following economic factors need to be considered when reviewing the internationalisation support provided over the last four or five years.

Major changes in the energy sector

3.3 The energy sector, particularly oil and gas, is a key driver of the Scottish economy, accounting for 15-20% of GVA over the last few years and a high proportion of Scottish exports. However, over the last four years there has been a dramatic downturn in the oil and gas sector caused by the drop in oil prices from over \$100 per barrel in 2011 to around \$30 per barrel in 2016. A drop in investment and production has seen North Sea public sector revenues decrease from £11 billion in 2011 to less than £1 billion in 2015¹⁸. The sector has been going through a process of restructuring and

¹⁸ Scottish Government (2016), Government Expenditure and Revenue Scotland 2015-16

consolidation which will have had an impact on the domestic and international performance of businesses in the oil and gas supply chain.

Long term impacts of the global recession and new markets

- 3.4 Europe accounts for over 40% of Scotland's exports and is also an important source of FDI projects. However, it has struggled to recover from the global recession with much lower growth rates compared to Asia, the Middle East and North America. Emerging markets in Asia and the Middle East present challenges in terms of competition for FDI projects but equally there are major opportunities in terms of trying to attract investment from these growing economies.

Wider political and economic uncertainty

- 3.5 Two events in 2016 have resulted in major political and economic uncertainty. The UK referendum vote to leave the EU by 2019 will have both trade and investment implications for Scotland. The UK Government's increased focus on establishing trade agreements with other countries may create new opportunities but there remains uncertainty about what new agreements will be in place with the EU and other countries and when they will actually be in place.
- 3.6 With the recent election of the new US President Trump, there is also the prospect of more protectionist trade policies which could have widespread implications for global trade. Both the 'Brexit' vote and the US election result happened beyond the period of the evaluation. However, they are important factors when considering some of the recent changes in SDI's internationalisation activity.

Policy context

- 3.7 During the evaluation period, there have been two Scottish Economic Strategies published by the Scottish Government which provide the overall direction for developing the economy. The **Government Economic Strategy (2011)**¹⁹ was focused around six strategic priorities including 'Supportive Business Environment' which covered trade and investment, linking directly into **Scotland's International Trade and Investment Strategy (2011-2015)**²⁰.
- 3.8 This strategy included the following objectives:
- 30% to 50% increase in the number of exporters over the next ten years with 8,000 to 10,000 more businesses with the skills to go international over the next 5 years
 - £1.2 billion to £1.7 billion increase in international sales from supported businesses
 - 25,000-35,000 planned jobs through the attraction of foreign investment (8,000-12,000 planned high value jobs)

¹⁹ The Scottish Government (2011), Government Economic Strategy

²⁰ The Scottish Government (2011), Scotland's Trade and Investment Strategy 2011-2015

- Embed foreign investors in Scotland and develop supplier links to increase Scottish inputs to 40-50% of total.
- 3.9 It highlighted the Government’s seven priority sectors of Energy, Financial and Business Services, Creative Industries, ICT and Electronic Technologies, Life Sciences, Education, Food and Drink and Tourism. Whilst these were seen as the most globally competitive sectors the Strategy also highlighted further international opportunities in Aerospace, Defence & Marine, Chemical Sciences, Construction, Enabling Technologies, Forest Industries, Healthcare and Textiles. The Strategy recognised that priority international markets vary from sector to sector and also vary between export and inward investment opportunities.
- 3.10 **Scotland’s International Framework** (2012)²¹ set out the wider approach to internationalisation not just in terms of trade and investment but also through promoting the country to attract new people to live, visit and study in Scotland. The Framework was updated in 2015, and outlines the ambition for Scotland, its people, businesses and institutions.
- 3.11 In policy terms, the internationalisation agenda in Scotland has become stronger over recent years and is more prominent in the new **Scotland’s Economic Strategy (2015)**²². The Strategy highlights four priorities for achieving sustainable growth, one of which is ‘Internationalisation’. This priority has three elements: trade and investment; international connectivity (including air routes and digital connectivity); and global outlook, influence and networks (e.g. maximising the Connected Scotland initiative, Globalscot network, and activities of partner agencies such as VisitScotland and Creative Scotland).
- 3.12 The updated **Trade and Investment Strategy (2016-21)**²³ is a core part of the Government’s Economic Strategy. Whilst encouraging more exporters and inward investment is at its core, the Strategy is now underpinned by, ‘*a much broader agenda for internationalisation*’, and the creation of a ‘Global Scotland’ and a ‘**One Scotland**’ approach. This aims to implement more of a partnership approach across all sectors to promoting Scotland and developing greater international links particularly around trade and investment. It sets out priority sectors and markets where the opportunities for increasing trade and inward investment are most apparent. These priorities are reflected in Table 3-1. It should be noted that this Strategy was published prior to the ‘Brexit’ vote in June 2016.

Table 3-1: Priority sectors and markets

Sectors	Markets
Premium consumer products and services	The European Union and Single Market
Digital, technology and high value manufacturing	North America
Skills, knowledge and innovation	Asia
Healthcare and wellbeing	Networks and global platforms (e.g. utilising the Edinburgh festivals, international conferences in Scotland, economic or cultural ties with particular countries/ cities, Scotland’s themed years etc.)
Low carbon	
Responsible business	

²¹ The Scottish Government (2011), Scotland’s International Framework

²² The Scottish Government (2015), Scotland’s Economic Strategy

²³ Scottish Government (2016), Scotland’s Trade and Investment Strategy 2016-2021

Boosting Scotland's Export Performance

- 3.13 The Scottish Government previously set a target of a 50% increase in the nominal value of international exports between 2010 and 2017. This new strategy notes that Scotland was broadly on track to hit this target prior to 2014, until a dip in international exports in 2013 and 2014. In order to meet this target, the Strategy outlines underlying barriers to an improved long-term performance, placing particular importance on the relatively low proportion of SMEs exporting, and the concentration of international exports amongst a small number of companies. It is therefore seen as crucial that Scotland's export base needs to be broader (with more SMEs exporting), and that Scotland needs to grow its exports beyond traditional markets.
- 3.14 The key objectives in relation to international trade are:
- To support business growth, and associated jobs and incomes across Scotland, through more businesses selling more goods and services to a wider range of international markets
 - Increase the proportion of businesses, especially SMEs trading outwith Scotland
 - In line with Scotland's Economic Strategy, increase the total value of international exports by 50% from 2010 – 2017 (and improve performance thereafter)
 - Grow exports to countries outwith the EU and North America at a faster rate than total international exports.

Attracting Inward Investment to Scotland

- 3.15 The Strategy notes that Scotland has traditionally had great success in attracting repeat investment from international investors. However, it recognises that this needs to be sustained and complemented by attracting a greater number of new investors to Scotland. In addition, Scotland is seen to need to respond to the changing scale and nature of FDI, with recent trends showing an increase in smaller scale projects with a strong emphasis on R&D and innovation, and investors placing an increasing emphasis on mergers & acquisitions and less on greenfield investments.
- 3.16 The main investment objectives are:
- To support sustainable economic growth across Scotland by attracting significant inward, capital and risk investment
 - Attract international capital investment to large scale projects
 - Focusing especially on Scotland's strengths in innovation and R&D, remain the top region for Foreign and Direct Investment (FDI) in the UK outside London
 - Enable businesses with high growth potential to access a wider range of international, institutional and VC risk capital investment.

- 3.17 Although not specifically mentioned in the Strategy, the changes to one of the main financial incentives for business investment, Regional Selective Assistance (RSA), in 2014 has potential implications for inward investment levels in the future. Since 2014, there have been new restrictions for large companies meaning they can now only apply for the RSA grants if investing in a new location or diversifying their activity in Scotland. SE data²⁴ show that the amount of RSA being approved has decreased over the period. In 2013/14 and 2014/15 over £50 million in RSA was awarded. This dropped back to less than £20 million in 2015/16. Whilst RSA can still be accessed by SMEs, SE and HIE have been promoting other types of financial incentives to encourage large inward investors.

New policy announcements

- 3.18 Following on from the EU referendum result, the Scottish Government announced new measures to try to safeguard trading relationships with the EU regardless of what new arrangements are set up by the UK Government. In her address to the SNP conference in October 2016, the First Minister outlined a four-point plan to boost trade and exports:
- Establishing a new Board of Trade in the Scottish Government, drawing on the best business expertise
 - Setting up a new trade envoy scheme, which will ask prominent and successful Scots to help boost Scotland's export effort
 - Creating permanent trade representation in Berlin - adding to investment hubs in Dublin, London and Brussels
 - Doubling the number of Scottish Development International staff working across Europe to support investment and trade opportunities for Scotland²⁵.

Trade and investment delivery and approach

Approach for increasing trade and investment activity

Broadening of trade support to create a pipeline of exporters

- 3.19 Trade support has been delivered at two levels. First there has been the more intensive support provided to firms with the potential to significantly increase their international export sales. Some firms that were identified as having the potential to generate £1 million additional exports over a three-year period (£0.5 million in the HIE area) were classified as 'International Projects'. Others that had the potential to generate £0.5 million over five years were categorised as 'Export Explorer'. This categorisation allowed SDI, SE and HIE to prioritise and tailor its support for those firms with greatest export potential, many of whom were already involved in overseas markets to some extent

²⁴ <https://www.scottish-enterprise.com/knowledge-hub/articles/publication/rsa-reports>

²⁵ https://www.snp.org/nicola_sturgeon_snpl6_speech_key_points

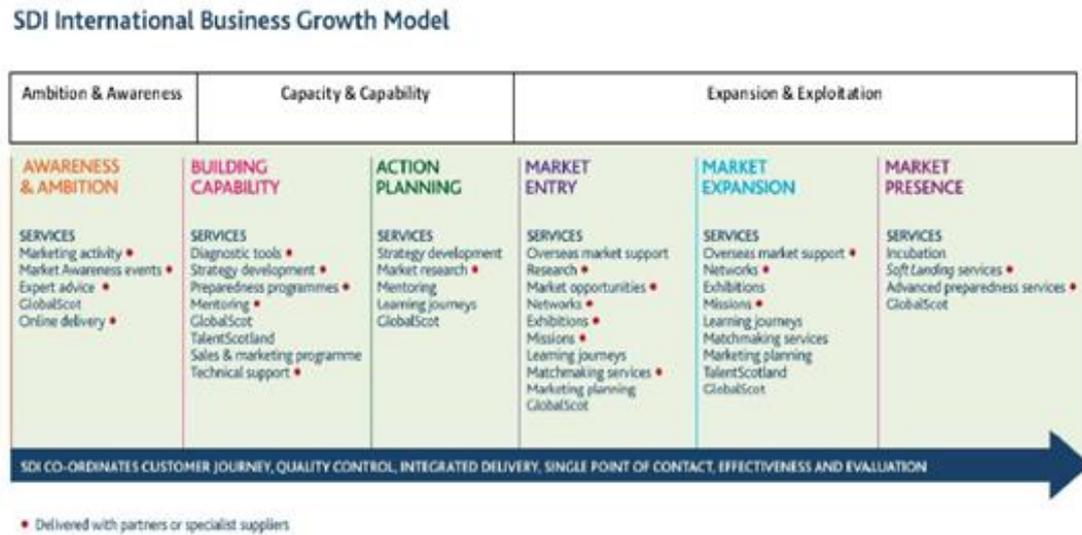
but needed further support. All of SE and HIE's Account Managed firms are offered trade support and most of those within this first tier are indeed Account Managed.

- 3.20 A second tier of trade support was introduced in 2010/2011, when SDI and Scottish Chambers International (SCI) launched a 'Smart Exporter' initiative to supplement the internationalisation programmes which were already available from HIE, SDI and SCI. The aim of the Smart Exporter initiative was to widen the availability of export services to target all Scottish companies, specifically by helping them to overcome some of the skills-related barriers to export. Since April 2016, there has been an increase in the number of advisers. As discussed later, adding this service for the volume market has significantly increased the number of businesses being supported by SDI.

ACE model

- 3.21 Over the last few years the support for international trade has been structured around SDI's International Business Growth 'ACE' model (Ambition & Awareness – Capacity & Capability – Expansion & Exploitation) which covers the exporting spectrum from a business becoming aware of the opportunity through to actually implementing plans and generating export sales (Figure 3-1).
- 3.22 The support to promote Ambition and Awareness involves providing businesses with information on markets and the exporting process, mainly through one-to-many events, knowledge sharing using overseas teams and local specialists, and market and sector reports and using digital platforms.
- 3.23 As businesses progress to the Capacity and Capability stage, there is more tailored support with the business to ensure it is fully prepared in terms of strategy, finance, contacts and understanding of its target market. The support also involves technical advice on taxation, logistics and export documentation. At this stage, a business is also allocated a dedicated SDI International Trade Adviser (for Account Managed companies, this is in addition to their SE or HIE Account Manager, often as part of the coherent "account team" model, to provide a fully integrated level of support around innovation, investment and internationalisation).
- 3.24 The Expansion and Exploitation stage involves support to attend overseas exhibitions, trade missions and learning journeys, market development visits, engagement with importers, distributors and potential overseas partners, and International Manager for Hire. For those looking to establish a market presence there are incubation and soft landing services provided by SDI's network of overseas offices.
- 3.25 The model involves accessing other SE/HIE support (e.g. innovation, skills, finance) to progress international plans. In addition, many of the different elements of trade support listed below are delivered alongside partners such as DIT, local councils, Business Gateway and Chambers of Commerce.

Figure 3-1: SDI International Business Growth ‘ACE’ Model



Source: SDI

Prioritisation of sectors and markets

- 3.26 Support for both trade and inward investment has been focused around priority sectors and markets. The 2013 SDI Business Plan highlighted the main areas of opportunities and planned activities for each of the growth sectors. In line with the 2016 SDI Business Plan, each growth sector now has an International Sector Operating Plan which identifies the main opportunities for sub-sectors in different geographies. There has been a recognition that, as the focus has shifted more towards generating more exporters and new investment, there needs to be a clearer understanding across the enterprise agencies of the trade and investment proposition for each sector. Developing a more sophisticated approach focusing mainly on new opportunities will take some time to fully implement. However, recognising the increased opportunities in key emerging markets, SDI have set up a High Growth Markets Unit to provide additional tailored support and advice to businesses looking to sell to the Middle East, India and China. The integrated approach across SDI to supporting trade and inward investment also acknowledges the correlation between trade and FDI.

Inward Investment activity

- 3.27 The approach to supporting inward investment is described in the SDI Business Plans covering the evaluation period. Over recent years there has been more of a focus on strategic inward investment which includes identifying and attracting more new investors, developing a pipeline of projects in key sectors, working with work with partners to attract international investment funds into Scottish companies, and promoting the Scottish Investment Bank (SIB) to foreign-owned companies.
- 3.28 Part of this strategic approach involves a consultative sales process whereby SDI advisers are being encouraged to think more carefully about prospecting (identifying leads), diagnosing customer needs, creating solutions, gaining access to key decision-makers, negotiating the final solution and then following up to ensure the project progresses as planned.

- 3.29 The other main strand of inward investment has been providing an integrated service to existing investors to embed these companies in Scotland, help them to expand and develop links with Scottish suppliers. Account teams have been developed for all Account Managed inward investors and for the larger more strategic companies this has been broadened out to Global Account teams involving SDI advisers based in the overseas office which has a relationship with the parent company.
- 3.30 Recent changes to inward investment activity have been monitored internally through the Inward Investment Improvement Plan. A small team within SDI is responsible for ensuring ongoing improvement to FDI products and services, financial incentives, prospecting plans to identify more specific opportunities (as part of the International Sector Plans), customer engagement and the sales process, developing digital services and the upskilling of advisers.

Targets and measures

- 3.31 The lead agency responsible for increasing Scotland’s trade and investment activity is SDI supported by Scottish Enterprise and Highlands and Islands Enterprise. The business plans of all three directly address the targets set out in the Trade and Investment Strategies. Table 3-2 sets out the priority measures included in the 2013-16 SDI Business Plan, and reflect the objectives of the Trade and Investment Strategy.

Table 3-2: Key targets and measures (2013-16)

Priority measure	Description
Over 2011-15, achieve a £1.2 billion to £1.7 billion increase in international sales from supported businesses	The growth in actual international (i.e. outwith UK) sales by supported companies based on International Projects (IP), defined below. This will capture the SE/HIE-supported contribution to the overall international sales growth of IP supported Account Managed (AM) companies (data to be gathered by Account Teams/ Managers)
In 2013-14, 220-330 companies projecting turnover growth from exporting ...including 150-210 projecting significant turnover growth of £1m+	This target includes a combination of ‘Export Explorer’ projects and ‘International Projects’ Export Explorer Projects are designed to stimulate a pipeline of clients for potential Account Management and generate a minimum of £500,000 of turnover from ex-UK sales over a 5-year period following the end of the total intervention. An Export Explorer Project consists of a group of activities will include one or more than one SDI-delivered activities although it is expected that the norm will be more than one. An International Project is an identified and agreed number of activities, aligned with the company’s strategy, with the focus on increasing the growth of the company. Specifically, the group of activities will include one or more than one SDI-delivered activities although it is expected that the norm will be more than one.
Over 2011-15, 8,000-10,000 companies assisted to develop their capacity for exporting through initiatives like Smart Exporter	This is the cumulative number of total unique companies assisted by SDI and partners (HIE, UKTI etc.) over the five-year period of 2011/12 to 2015/16 (note that SMART exporter delivers only a portion of this metric). These companies will have received a minimum of one product/service delivered to them by SDI or one of its partners relating to encouraging international activity.

Priority measure	Description
Over 2011-15, 25,000-35,000 planned jobs through the attraction of foreign investment – of which between 8,000 and 12,000 planned high value jobs	This measure captures all planned jobs through SDI inward investment interventions (all investment by organisations headquartered outside of Scotland). For total jobs this will include all the planned jobs noted in the project Success Form. For HVA (High Value Added) jobs more is required. As a minimum for planned jobs to count as HVA then need to meet one, or both, of two criteria: 1. Planned jobs in research, design and development (RD&D) 2. High Value planned jobs to be advertised at a basic salary of 20% or more above the current Scottish average salary, based on Scottish Government data.
In 2013-14, 5,000 – 9,000 planned jobs through the attraction of foreign investment... – of which between 1,800-2,500 are planned high value-added jobs	As above but for 2013/14 only

Source: SE (2013) Performance measures definitions and guidance for 2013-14 Business Plan

3.32 The revised measures included in the 2016 SDI Business Plan are as follows (Table 3-3):

Table 3-3: Key targets and measures (2016)

	Baseline (13/14)	15/16	16/17	17/18	Cumulative 3 yr.	Notes
No. of companies projecting significant turnover growth (>£0.5m) from exporting	320	200-275	300-400	200-275	700-950	Company only counted once in 3 year period
Companies assisted to become new or active exporters		200-250	250-300	300-350	750-900	Incl. non-exporter to passive exporter and passive exporter to active. Company only counted once in 3 year period
Planned jobs through attraction of foreign investment	7,446	7,000-9,000	7,250-9,250	7,500-9,500	21,750-27,750	
Planned HVA jobs through attraction of foreign investment	2,515	2,000-2,500	2,250-2,750	2,500-3,000	6,750-9,250	

Source: SDI (2016) SDI Business Plan 2016

Conclusions

This section demonstrates how the internationalisation support provided by SDI and the enterprise agencies directly contributes towards the strategic aims set by the Scottish Government. The Government's increased focus on developing a more international economy and society is clear through the publication of the International Framework and Trade and Investment Strategies.

There are various examples of how the internationalisation activity being delivered by SDI, SE and HIE has evolved and responded to a fast-changing policy context.

The strategies and trade data set out in the previous section highlight the need to encourage more businesses to export. As a result, SDI developed a two-tier service of more regular engagement with those with greatest export experience and potential, and lighter touch engagement with less experienced exporters.

Also on trade, the increased opportunities in emerging markets such as the Middle East, India and China have been recognised with additional support being provided through the High Growth Markets Unit.

In terms of inward investment, the increased level of competition for FDI has resulted in SDI trying to be more targeted in identifying investment opportunities through the International Sector Plans. Further, the main responsibility for coordinating support for existing inward investors has moved from SDI to SE/HIE Account Managers, leaving SDI advisers to focus on new investors.

The changes made to the delivery model have been an appropriate response to the changing market conditions. The feedback from businesses and stakeholders, as well as the economic impact analysis, also point to improved performance compared to the last evaluation in 2010, which again endorses the changes made to the approach.

4. Rationale for intervention & market failures

Key messages

- International trade is considered to be beneficial for both individual businesses and for the economy as a whole. It enables access to new, larger and potentially more profitable markets helping businesses to grow, create jobs, and increase productivity and income
- The economic case for encouraging inward investment is not only based on bringing new activity, but on improvements in productivity and the wider spillovers that non-domestic owned investment can bring especially to the supply chain
- However, there are also market failures which can prevent the achievement of these benefits, often around information asymmetries, uncertainty and risk
- The support delivered by SDI has directly addressed market failures through actions to help overcome access to information (provision of market research, advice, mentoring through Global Scots, International Manager for Hire, and support to visit markets) and the consequent uncertainties around the potential benefits.

- 4.1 The rationale for encouraging more international trade and investment is set out in the Scottish Economic Strategy and International Framework, and is widely accepted. The main questions here are about the role that SDI has in supporting this activity and understanding how it addresses the specific market failures that can act as a drag on the growth of international trade and investment. It is important to understand what the barriers are in order to consider the most appropriate interventions addresses them, and to judge how well they work.

International Trade

- 4.2 International trade is considered to be beneficial for both individual businesses and for the economy as a whole. It enables access to new, larger and potentially more profitable markets helping businesses to grow, create jobs and income. At a firm level, research shows a positive link between exporting, innovation and productivity^{26, 27, 28} through a combination of scale economies, learning from exporting and exposure to new ideas. It can also reduce dependence on a single or smaller number of markets.

²⁶ Golovko, E. and G. Valentini (2011). 'Exploring the complementarity between innovation and export for SMEs' growth', *Journal of International Business Studies*, 42, 3, p. 362-380.

²⁷ Love, J.H. and S. Roper (2013). SME innovation, exporting and growth: A review of existing evidence. In White Paper No. 5. Warwick Business School: Enterprise Research Centre.

²⁸ Harris, R and J. Moffat (2011), R&D, Innovation & Exporting in Britain: An Empirical Analysis. SERC/Urban and Spatial Programme Discussion Paper

Market failure

- 4.3 The BIS report on International Trade and Investment - the Economic Rationale for Government Support (2011) report concluded that:

The review of market failures suggests that there is likely to be under investment by potential exporters in seeking support to overcome barriers to exporting, and in gaining the skills and knowledge necessary to enter export markets. This is due to the underestimation of the benefits of exporting, the positive externalities for the wider economy of increasing skills and knowledge, and the spillovers for other firms when a firm in their industry or supply chain starts to export.

- 4.4 As a result, businesses will tend to underinvest in growing international trade. The main elements of the market failure arguments are discussed briefly below and then considered alongside the evidence from the interviews and SDI activities.

Information, uncertainty and risk

- 4.5 In considering investment in a new market, firms face greater uncertainty (compared with operating in markets in which they are already established) as to how profitable it will be. Businesses interviewed often described the support they received as helping to “de-risk” their investment. This could happen in a number of ways. The provision of advice and information reduces uncertainty and helps clarify the opportunities. This need not always be positive, but better information will then allow a business to consider the viability of investing resources in entering new markets. By reducing uncertainty, there is a greater chance of an investment going ahead.
- 4.6 In addressing this, businesses could consider paying for information and advice, but there may also be a lack of awareness of how or where to source information, and uncertainty about its quality (or impartiality). The combination of limited knowledge about new markets, uncertainty over the costs and benefits, and risk results in fewer firms exporting, and fewer of those who do export being willing to tackle new markets.
- 4.7 There are also significant economies of scale in gathering information about opportunities, markets and how to access them. It would be extremely costly for businesses to individually assemble information on new markets. Ideally businesses could work together to do this, or pay a private provider. However, the uncertainty and costs of setting up these arrangements, when the outcomes are unknown will deter potential exporters. Government agencies are well placed to provide international information and facilities.

Trusted intermediary

- 4.8 SDI also plays a role as a trusted intermediary which commercial providers may not be able to do. This encapsulates a role as a trusted source for buyers, agents and business partners in overseas markets. In new markets businesses lack the types of networks through which they might work in established markets. SDI is in a position to address this through their overseas offices, networks and contacts.

- 4.9 Secondly, the support also “de-risks” investment by providing a form of approval. The fact that SDI is supporting activity in a market, or through a particular event, provides both credibility (i.e. Government agency approved) and a sign of commitment that working on your own would not. There is no doubt from the surveys that working with SDI, Scottish Government and UKTI/DIT had provided confidence to businesses.
- 4.10 Government agencies are seen as being more impartial than private sector providers as they have to reflect national interests rather than commercial ones. Their involvement with a firm or in a market can carry some weight with potential customers. Diplomatic activity can also facilitate access to public sector networks in overseas markets, which could not be achieved by private sector providers.
- 4.11 Finally, there is political and diplomatic support that can only be offered through government and public agencies (not through a market), which can help identify and create opportunities for Scottish businesses (or help attract investment).

Spillover effects

- 4.12 Spillover effects are wider benefits or positive externalities that accrue to other businesses. A business would therefore be unwilling to pay the full costs when they do not receive all the benefits. For example, there can be demonstration effects where a business may follow another into a new market once it sees there are opportunities. In addition, international trade builds experience among staff, adding to the pool of knowledge and contacts in Scotland.
- 4.13 It is very difficult to identify these types of spillovers through business surveys as interviewees tended not to be aware of them, but intuitively the links that businesses make between having internationally experienced people and exporting, mean that growing that experience will, over time strengthen international activity.

Barriers

- 4.14 The challenges identified by businesses in the surveys can be described in terms of the ACE model.
- In relation to **Awareness** – there were uncertainties of the potential costs and benefits of trading in specific markets, and particularly in emerging markets (for example China, Iran, Russia) and understanding how business works there.
 - Even where the risks can be better assessed, there are challenges in having both the **Capability** and, particularly for small businesses, the **Capacity** to develop their approach. Investing in the appropriate capability is restricted by the difficulty of understanding the risks and secondly by finding people with the experience in their business area and in international trade.
 - In terms of **Exploiting** these opportunities, there remain barriers in finding distributors and agents, working in new cultures, legal and logistic challenges and adapting products and payment processes.
- 4.15 In our interviews, mainly with existing exporters, many businesses attributed their drive to export as coming from the international experience and attitude of management. The biggest barrier for

not investing in new markets was **management resource** in terms of both time and skills/knowledge. Uncertainty about the benefits of focusing on international trade prevented firms investing in additional management resource.

- 4.16 For small businesses, even if they consider that the benefits exceed the costs, they require significant resources to take forward a new market. From the exporters we interviewed there were challenges in “finding the time” to do this when there are competing pressures. This is where the International Manager for Hire in particular was useful. There is also a scale issue for small businesses where potentially the outlay of time and money would be too great relative to the size of the business. There are also wider barriers such as a limited pool of people with the skills, knowledge, and expertise relating to overseas markets.
- 4.17 For new exporters, the support enabled them to undertake the research and frequent trips to new markets that helped them understand how to do business internationally. Businesses and Account Managers emphasised the time and number of trips that are needed to build up an international business. The financial support contributions to overseas trips were often critical in allowing potential exporters to access information that allowed a better assessment of the opportunities.

Inward investment

- 4.18 Inward investment is an important part of Scotland’s economy, bringing capital, knowledge and new goods and services. There are over 2,300 foreign-owned companies with 317,000 employees and a combined turnover of £92bn²⁹.
- 4.19 Whilst research has shown that foreign-owned businesses are less labour intensive³⁰, it can have a positive effect on employment. Research reported by EY found an average of 3,700 jobs per year in Scotland associated with new FDI projects³¹. Evidence from BIS (2011)³² shows inward investment can increase demand for skilled labour (with a positive effect on wages), however there is some indication it can reduce demand for unskilled labour. Lower labour intensity has meant that increasing inward investment into the UK has significantly increased UK labour productivity growth. The same study also found total factor productivity amongst foreign-owned firms to be higher, which is likely to have a positive impact on average productivity across all UK businesses.
- 4.20 The research identified two channels through which inward investment can increase productivity amongst domestic businesses:
- Knowledge spillovers, enabling the recipient plants and firms to improve their products, processes, and productivity;
 - Improved management as a result of merger or acquisition by a foreign firm.
- 4.21 The case for encouraging inward investment is not only based on bringing new activity, but on improvements in productivity and the wider spillovers that foreign owned investment can bring

²⁹ Scottish Government – Businesses in Scotland 2016 <http://www.gov.scot/Topics/Statistics/Browse/Business/Corporate>

³⁰ BIS (2011), International Trade and Investment – the Rationale for Government Support

³¹ EY’s attractiveness survey 2015

³² BIS (2011), International Trade and Investment – the Rationale for Government Support

especially to the supply chain. There are however, ‘market failures’ that prevent the realisation of these gains.

- 4.22 For new investors there are some information failures. For example, there are cases where investors were not aware of the opportunities in Scotland, its strengths and also the business support available. Among inward investors already operating in Scotland and seeking to attract new investment to diversify or expand operations, the information failures are obviously less, as the investor has direct experience of working in Scotland. In these cases, the intervention is required to help compete with other parts of an international group. This can be through help in making the case for the investment, as well as financial support (although the rules on RSA awards have changed). Although not a market failure, there remains a strong justification for public sector support in order to keep the economic activity in Scotland.
- 4.23 An important part of the rationale for using public money to attract inward investment is the potential for a wider set of spillover benefits or positive externalities that go beyond direct employment. These can take many forms, such as bringing new products, processes, skills and knowledge that “spillover”, benefiting other indigenous businesses. These are hard to identify although the survey did find examples. For example, the airline that opened a base in Aberdeen, has effectively helped reduce costs and improved the service for businesses in the city. In addition, investment by software businesses in Edinburgh have each contributed to building a pool of experienced programmers in the city.
- 4.24 In trying to secure new investment in competition with other countries, the importance of a theoretical “market failure” becomes less of an issue as the aim is to secure the best outcome for the national economy. It could be argued that because competing locations offer various incentives, the market does not function effectively. The issue then becomes whether the net benefits of the project exceed the costs of supporting it. The evidence from the survey indicates that in most cases investments would not have happened at all, or as quickly, without the investment. The economic impact section estimates the net impacts from the sample of projects and the population.
- 4.25 The rationale for public sector involvement also includes its role in reassuring investors through its support and commitment to specific sectors. There were a number of examples in the renewables sector where the commitment of Government as well as SDI had been a factor in their decision to invest. This is not a role that the private sector can play.

Conclusions

The business surveys carried out for this evaluation provide evidence of market failures. For less experienced exporters, support helps bridge the gap in market information and uncertainty (in ACE terms, raising Awareness). For more experienced exporters, support also relates to reducing uncertainty and risk by enabling more management time to drive exporting strategies (International Manager for Hire), more specific market support (through Overseas Market Support) and overcoming some of the uncertainty of setting up operations through Market Presence support. This can be categorised as raising Capability and in some cases assisting market Exploitation.

Importantly, the findings from the surveys also indicate strong levels of additionality. They demonstrate that a significant proportion of the trade and investment activities reported happened

as a result of the support. This demonstrates SDI has a good understanding of the barriers for businesses and have provided the support to overcome the market failures.

One of the biggest barriers highlighted in the surveys for not investing in new markets was management resource in terms of both time and skills/knowledge. Uncertainty about the benefits of focusing on international trade prevented firms investing in additional management resource.

In relation to inward investment, activities to promote Scotland address the limited information that potential investors may have, while wider business support to encourage diversification and expansions, aim to directly generate net additional employment and R&D.

5. Activity overview

Key messages

- Between April 2012 and November 2015 international trade support was delivered to 5,912 unique firms. There were 18,473 assists delivered, although the distribution of support means that there was a smaller number that received a lot of support and a large number that had only one assist.
- There have been twice as many businesses supported than in the period covered by the previous evaluation (2005 to 2009) and double the number of assists
- The analysis compares the 549 firms that have International Project support (for those with the potential to grow international sales by £1 million over three years) and the 5,363 that have not
- Almost 3,000 of the total of 5,912 received just one “assist” over the period and around half of the firms supported in each year are new rather than repeat recipients.
- Specialist one to one advice was delivered to 4,349 unique firms, almost three quarters (73%) of all firms supported. By comparison 1,288 firms received support to attend exhibitions, missions and learning journeys. Compared with the previous evaluation there is a higher proportion receiving advice and a lower proportion receiving support to attend exhibitions, missions and learning journeys.
- Businesses have been supported to trade internationally with 168 countries. The USA is the main “opportunity” market accounting for 3,008 of the assists. This is followed by France, China, Germany and the UAE.
- Enabling technologies, food and drink, and oil & gas were the sectors receiving most assistance and the numbers have grown over the last four years. As a result of Smart Exporter, there was a big increase in the number of companies supported outwith the growth sectors in 2013
- There were 423 inward investment projects with 374 firms between 2011/12 and 2015/16
- They supported 39,000 planned jobs of which 24,000 are new and 15,000 safeguarded
- The number of investment projects from England, particularly new to Scotland, have grown significantly along with investment from North America.

- 5.1 This section provides an overview of the internationalisation activity delivered over the evaluation period. It considers the types of products delivered, the pattern of support by sector and over time and highlights the difference between the more intensively supported businesses and the rest. It also considers how the different products map to firms at different export development stages.

Databases

- 5.2 SDI provides a number of databases covering the range of businesses, and information on support for international trade and inward investment. International trade is defined as sales of goods and services produced in Scotland to customers outside the UK. Inward investment is investment made by businesses from outside Scotland to start new operations in Scotland or to expand, diversify or safeguard their activities here.
- 5.3 These databases form the basis of both the sample for interview and the populations used to extrapolate the overall results for the period covered by the evaluation. For trade this is between April 2012 and November 2015. For inward investment the data is from April 2011 to March 2016. This section provides an analysis of the activity recorded in these databases.

International trade support activity

- 5.4 Table 5-1 describes the main types of international trade support (or products) provided.

Table 5-1: Summary of main types of trade support

Assistance name in database	Simple name and description
International Specialist Engagement	One to one advice Specific strategic advice on internationalisation either as a stand-alone intervention or as part of a wider International Project. The engagement is likely to be focused on achieving one or more of the following: a new business case; a plan or actions to develop a new/existing opportunity; increased investment in international activity; or developing a wider International Project
Exhibitions, Missions & Learning Journeys	Support to participate in Exhibitions, Missions & Learning Journeys Range of support, including funding, to participate in exhibitions, missions and learning journeys that aim to strengthen international activity. Overseas events can include UKTI/DIT initiatives such as the Tradeshow Access Programme (TAP).
Export Technical Support	Technical support Specialist support to deal with more technical enquiries i.e. covering; export documentation, customs, legal/regulations, taxation, logistics.
International Strategy Forum and International Strategy Workshop	Strategy development Forum and workshop sessions facilitated by a consultant and delivered to a group of managers, to build awareness and skills to help businesses develop their own international plans. The General International Strategy Workshop is a session facilitated by a consultant, or an Account Manager if appropriate, and delivered to the Senior Management Team of an eligible company. Typically, sessions will consist of breakfast sessions lasting for around 2 hours and be delivered to (on average) 10 companies. On occasion the events might be sector or geography based
International Strategy Development Support	One-to-one strategy development Support to develop a robust international strategy and to build management team capability. The programme involves financial

Assistance name in database	Simple name and description
	contribution of up to 30% of eligible costs towards specialist one-to-one face to face consultancy support.
International Business Opportunities	<p>Support to bid for international opportunities</p> <p>Range of international business opportunity services for companies to consider in increasing their international business. Opportunities identified by both SDI and UKTI/DIT including</p> <ul style="list-style-type: none"> • Working with international organisations • The London 2012 Olympic & Paralympic Games • 2014 Commonwealth Games, Glasgow
GlobalScot	<p>Advice/mentoring from “GlobalScot”</p> <p>Advice/mentoring from leading Scottish business person overseas with experience of working in relevant international markets.</p>
Overseas Market Support	<p>Overseas Market Support/Research</p> <p>Tailored business support to enter new markets, develop business in existing markets and establish new international business relationships, including research, joint ventures, technology transfer, licensing agreements, strategic alliances and collaborative/contract research. It comprises:</p> <ul style="list-style-type: none"> • Funding Support • Field office research support • In-Country visit support • UKTI support including Overseas Market Introduction Service (OMIS) and Export Market Research Scheme (EMRS)
Marketing Expert Support	<p>Specialist marketing advice</p> <p>Specialist adviser support to deal with marketing issues faced in internationalisation.</p>
International Market Presence	<p>Market presence</p> <p>Helps Scottish based companies accelerate entry into key international markets where they are committed to locating facilities. SDI provides temporary office facilities in a number of locations.</p>
Smart Exporter E Commerce Module	<p>E-commerce skills/training</p> <p>Undertaking training modules around the development of international e-commerce.</p>
International Manager for Hire	<p>International Manager for Hire</p> <p>Used to engage an experienced international business development resource for up to 24 months in order to accelerate international market development. Up to 30% funding (to a maximum of £60,000) can be given to companies wishing to hire an International Business Manager to undertake the following activities:</p> <ul style="list-style-type: none"> • Research purposes for example product customisation, distribution channels etc. • Setting up internal systems/ processes to deal with international markets • Market entry activities • Targeting new market opportunities

Assistance name in database	Simple name and description
Preparing to Export (intro/ intermediate/ advanced)	Preparing to export Sessions led by consultants/advisers to help businesses understand more about the opportunities and issues around exporting. There are a series of introduction, intermediate and advanced sessions

Source: SQW summary of SE product details

5.6 Between April 2012 and November 2015 there was international trade support to **5,912 unique firms**. This ranges from a single attendance at an event up to intensive work with advisers and multiple assists to attend exhibitions. An assist is defined as a single support action that is recorded by SDI. Overall there were **18,473 assists delivered** including a small number that received multiple assists and a large number that had only one. This is described in more detail later in this section.

5.7 For comparison, between 2005 and 2009, there were 10,700 assists delivered to 2,370 companies. **The later data indicates that there have been twice as many businesses supported between April 2012 and November 2015, compared with 2005 and 2009, and double the number of assists over a shorter timeframe.**

5.8 Given the range of intensity of support the data for the current evaluation analysis has been broken into two groups:

- **Firms that have International Projects (IPs)** - there are 549 firms that received support which was expected to generate more than £1 million of export sales over three years in a target country. According to SE/HIE guidance an IP is an agreed number of activities, aligned with the company's strategy, with the focus on increasing the growth of the company, and generating an estimated additional £1m of international sales or more over three years from the completion of the activities in the international project³³. The focus of the project will be primarily on a single market unless it refers to a group of markets where a single approach may be best given the scale and scope of opportunity.
- **Firms that do not have an IP** – the remaining 5,363 firms also received international trade support during this period, but typically fewer assists, and the scale and scope of opportunity was less than the IP threshold.

5.9 These two categories provide a useful basis for structuring the evaluation and the analysis.

Number of firms supported over time

5.10 Table 5-2 shows the number of businesses supported in each of the four years covering the period of the evaluation. The pattern of firms being assisted shows an increase from 2013 through to 2015 (the figure for 2015 only show the number of firms up to November 2015, the date when the most recent set of consistent data was available). The total number of firms in the final column is larger

³³ To increase the representation of HIE businesses this group includes five IP "Lites" (estimated additional international sales of between £500,000 and £1 million over 3 years) in the HIE area to allow a better distribution of interviews. Of the 552 firms 21 in the HIE area, 527 in the SE area and four that are in both areas.

than the sum of the number supported in each year, because the same firms are often supported in more than one year.

Table 5-2: Number of firms assisted by year

	2012-13	2013-14	2014-15	2015-16*	Total (unique firms assisted)
All firms receiving trade support	2,150	2,784	2,702	1,481	5,912
Firms with International Projects	388	376	350	213	549

Source: SQW analysis of SE/HIE/SDI data
*April-November 2015

- 5.11 The figures suggest that some of the same firms are supported over a number of years. However, of the 5,912 companies, **65% were supported in just one year over the last four**. Five per cent of the total were supported in each of the past four years (Table 5-3).

Table 5-3: Number of firms receiving assistance over the evaluation period

Number of years of support	Number of firms	% of all firms
1 year's support	3,841	65%
2 years' support	1,209	20%
3 years' support	586	10%
4 years' support	275	5%

Source: SQW analysis of SE/HIE/SDI data

- 5.12 As expected the 549 firms that have (or are planning) International Projects had received support over a much longer period. Nineteen per cent (105) had received assistance in each of the four years and a further 27% had received support in each of three years. In other words, among the most intensively supported firms, **around half received elements of support over three years or more**. This reflects a more intensive pattern of support and would be expected to generate stronger returns. In terms of market failure and why public support was required on multiple occasions, the survey feedback highlighted that the support would often relate to different markets (with different issues to address).

Turnover of support

- 5.13 It is also useful to understand this “churn” of support and how many *new* businesses are being supported. Are the same companies being supported each year? We looked at the proportion of the 1,481 firms that were supported for the first time in 2015/16 and this is shown in Table 5-4. Of all the firms supported, 40% (580) had not received international support before (or at least since 2012). 448 had been supported since 2014/15 and 255 were first assisted in 2012/13. **It is encouraging to note that, broadly, around half of the firms supported each year are likely to be new recipients.**

Table 5-4: How many of the firms supported in 2015 were being assisted for the first time?

Year when first assisted	Number of firms
Total supported in 2015/16	1,481
...of these the number first assisted in 2012/13	255
The number first assisted in 2013/14	198
The number first assisted in 2014/15	448
The number first assisted in 2015/16	580

Source: SQW analysis of SE/HIE/SDI data

Products delivered

- 5.14 Table 5-5 provides an overview of all the trade support products delivered over the period of the evaluation. Most assists (43%) were advice through International Specialist Engagement (including through Smart International Specialist Engagement). This one to one advice was delivered to 4,349 unique firms, almost three quarters (73%) of the total. Just over a quarter (26%) of firms had received Overseas Market Support, which includes funding to visit markets, in-market support and market research (including UKTI delivered research through OMIS). 1,288 firms had been on at least one exhibition, mission or learning journey (22% of the total).

Table 5-5: Products delivered (2012/13 to 2015/16)

Products	Number of assists	Percent of all assists	Number of firms	% of all firms
International Specialist Engagement	7,209	43%	4,349	73%
Overseas Market Support (incl research)	3,643	21%	1,550	26%
Exhibitions Missions and Learning Journeys	2,701	16%	1,288	22%
Preparing to Export	878	5%	764	13%
Technical support/e-commerce	600	4%	500	8%
Strategy Development & Workshops	575	3%	513	9%
GlobalScot	418	2%	310	5%
International Business Opportunities	393	2%	320	5%
International Manager for Hire and placements	390	2%	300	5%
International Market Presence	82	0%	68	1%
Marketing support	64	0%	58	1%

Source: SQW analysis of SE/HIE/SDI data

- 5.15 For comparison, in the 2010 evaluation, 80% of companies supported had received support to attend an exhibition, mission or learning journey support. **Overall, there has been a marked growth in the number of firms supported, much of this has been through the Smart Exporter programme with larger numbers of firms receiving one to one advice and research.**

- 5.16 Table 5-6 shows the difference in the pattern of support between the firms categorised as having International Projects and those that do not. Among the IP firms, there is a much higher proportion receiving support to attend events (64% of IP firms versus 17% of non-IP firms) and receiving Overseas Market Support (78% versus 21%). There are also higher proportions receiving International Manager for Hire (31% versus 2%). Both groups are equally likely to receive advice, but the non-IP firms are more likely to participate in Prepare to Export activities. The different support provided to IP and non-IP firms reflects their experience and knowledge of export markets. Thinking back to the ACE model, most IP firms will typically be somewhere between “C” and “E” whereas most non-IPs will be between “A” and “C”.

Table 5-6: Product delivery by firms receiving IP and non-IP support

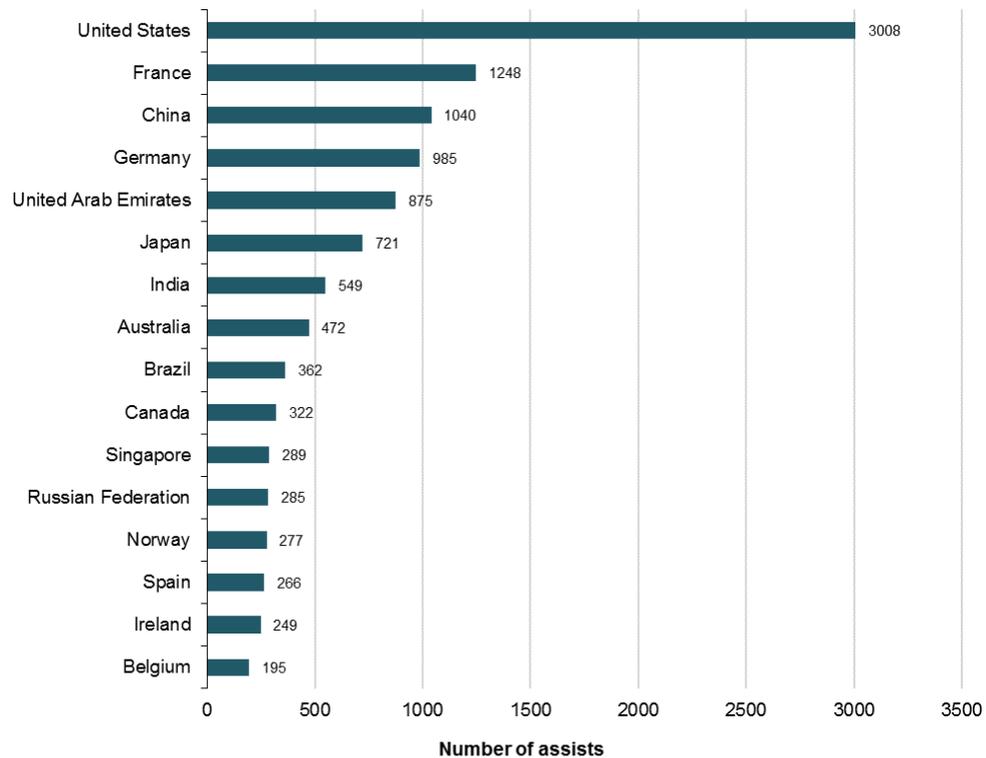
	IPs	Non-IPs
Overseas Market Support (incl research)	78%	21%
International Specialist Engagement	73%	73%
Exhibitions Missions and Learning Journeys	64%	17%
International Manager for Hire and placement	31%	2%
GlobalScot	21%	4%
Strategy Development & Workshops	15%	8%
International Business Opportunities	13%	5%
Preparing to Export	11%	13%
Technical support/e-commerce	9%	8%
International Market Presence	5%	1%
Marketing support	2%	1%

Source: SQW analysis of SE/HIE/SDI data

Main markets

- 5.17 **Over the past four years, businesses have been developing trade opportunities with 168 countries.** The USA is the main “opportunity” market with 3,008 of the assists related to support to export there (Figure 5-1). This is followed by France, China, Germany and the UAE. Over the period of the evaluation there has been a significant rise in the number of projects focussing on the USA, France and China, but little or no growth in interest in Germany, Brazil and Canada.
- 5.18 These figures differ considerably from the national pattern of exporting which shows that almost 50% of Scottish exports go to the EU vs 14.5% to USA. The data here describe the new opportunities rather than where they currently export to. It points toward the support encouraging more exploration of the US in particular, but also China and the Middle East. This fits with Scotland’s Trade and Investment Strategy 2016-2021, which prioritises North America, EU and Asia (see Table 3.1) and also the new High Growth Markets Unit set up by SDI which focuses on opportunities in the Middle East, India and China.

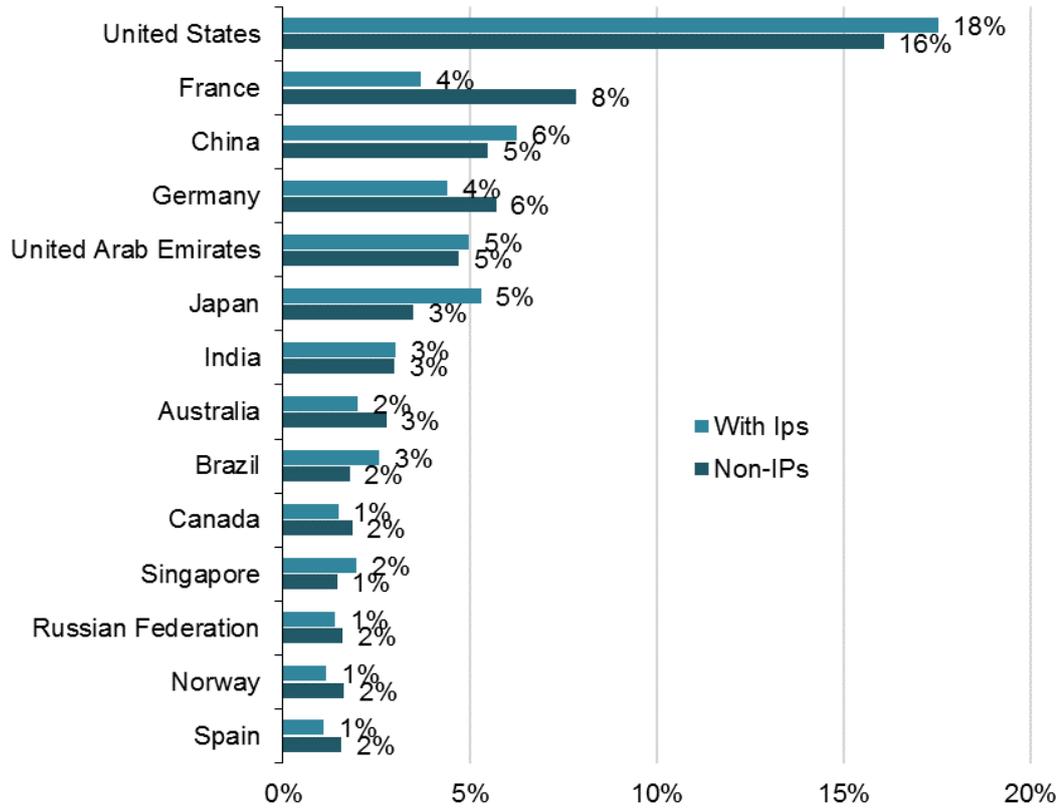
Figure 5-1: Main opportunity markets for all trade support (2012/13 to 2015/16)



Source: SQW analysis of SE/HIE/SDI data

- 5.19 Figure 5-2 shows the proportion of assists that are targeted on each country for both the more intensively supported IP businesses, and the non-IPs. Overall the main target countries were the USA, France, China and Germany. There were slightly fewer assists to support trade with the UAE and Japan. There are some differences in the target countries where there has been more support. For example, the IPs tended to focus more on the USA, China, Japan and the UAE. The less intensive support was more likely to focus on potentially more accessible markets in Europe, where there are fewer transport barriers. and on the USA and Australia, where there are no language barriers.
- 5.20 The pattern supports the hypothesis that the support is being targeted more on harder to reach markets and reflects additional efforts in China in particular. This is important because it also relates to the market failures discussed later. There is a stronger market failure in new and emerging markets where access to information is harder and support can make a bigger difference.

Figure 5-2: Opportunity countries for IP and non-IP firms



Source: SQW analysis of SE/HIE/SDI data

Sectors

- 5.21 By sector, Table 5-7 shows the difference in focus between those with and without International Project support. Across all firms, the largest number are categorised as “other sector”, while those without an IP are more likely to be, food and drink and tourism. The more intensively supported IP cases, tend to be in enabling technologies, oil and gas, life sciences and renewables.

Table 5-7: Sector breakdown of supported businesses

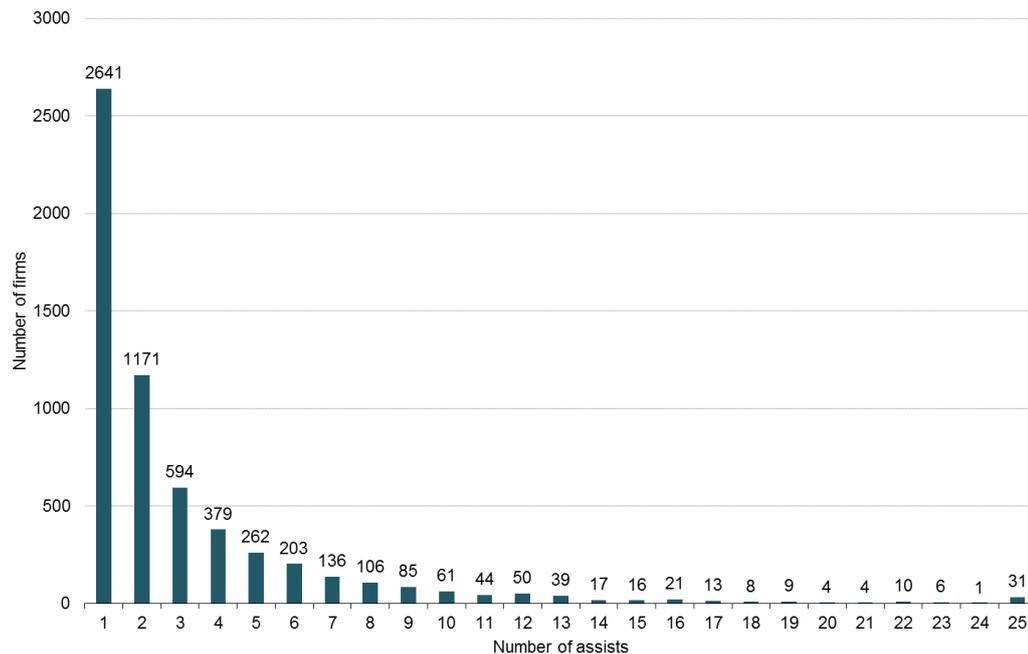
	Without IP	With IP	All
All firms	5363	549	5912
Other Sector	21%	2%	19%
Enabling Technologies/ICT	13%	21%	14%
Food and Drink	13%	11%	13%
Energy - Oil & Gas	10%	23%	11%
Tourism	8%	3%	8%
Creative Industries	8%	6%	8%
Textiles	7%	5%	7%
Life Sciences	4%	9%	4%
Energy - Low Carbon/Renewables	3%	7%	3%
Financial Services	4%	1%	3%
Construction	3%	2%	3%
Further and Higher Education	2%	3%	2%
Aerospace, Defence and Marine	2%	2%	2%
Chemical Sciences	2%	3%	2%

Source: SQW analysis of SE/HIE/SDI data

Multiple products

- 5.22 Figure 5-3 shows how the assists are distributed across the population of 5,912 firms. **Almost half (45%) of the total received only one assist over the four years.** A further 20% received two assists. There is a long tail of businesses that received much larger numbers of repeated support, including 31 that received more than 25 assists.
- 5.23 Where a business received only one assist this was usually one to one advice (64% of all cases) which would be a call or meeting to discuss international opportunities and possible support.

Figure 5-3: Distribution of the products across firms



Source: SQW analysis of SE/HIE/SDI data

ACE model

- 5.24 The majority of the single assists were advice or attendance at events. The advice can cover a wide range of subjects from specific technical issues on products, marketing, advice on distributors, ecommerce, finance etc. It varies by the exporting stage of the company, but also across export development in different countries. Using feedback from the telephone survey of non-IP firms, we have been able to segment the businesses into experienced and less experienced exporters (Table 5-8). The pattern shows how the different support and tools are taken up by firms at different stages of the exporting development.
- 5.25 The key points are fairly intuitive. In the Table we have highlighted the products which are taken up by larger numbers of businesses in each exporting category. For example, the more experienced exporters (the columns to the left) are more likely to have received Overseas Market Support and support to attend Exhibitions, Missions and Learning Journeys. On the right hand side, the least experienced exporters were more likely to receive Strategy Development support, GlobalScot mentoring, specialist advice and Prepare to Export Sessions. The analysis shows a good spread of support matched to the range of experience among businesses. The data for the non-IP firms showed that there were only two of each of International Manager for Hire and Market presence support, and these are not shown.

Table 5-8: % of non-IP firms accessing different types of support, by level of exports (highest % for each product highlighted)

	Overall proportion of businesses by level of export activity					
	More than 50% of all sales were outside the UK	25% to 50% of all sales were outside the UK	15% to 24% of all sales were outside the UK	5% to 14% of all sales were outside the UK	1% - 4% of all sales were outside the UK	No sales outside the UK
All support	18%	12%	8%	13%	20%	30%
Overseas Market Support	19%	17%	12%	21%	15%	15%
Strategy Development	16%	11%	3%	11%	22%	32%
Exhibitions, Missions and LJs	28%	12%	15%	9%	14%	20%
Technical and marketing	18%	3%	10%	10%	35%	25%
Overseas business opportunities	17%	21%	13%	21%	4%	25%
GlobalScot mentoring	8%	8%	8%	25%	17%	33%
Specialist Advice	18%	11%	5%	11%	20%	34%
Prepare to export sessions	4%	15%	4%	13%	27%	38%

Source: SQW analysis of BMG survey and SE/HIE/SDI data

Conclusions

Between April 2012 and November 2015 international trade support was delivered to 5,912 unique firms through 18,473 assists. This is twice as many businesses supported than in the period covered by the previous evaluation (2005 to 2009) and double the number of assists over a shorter timeframe. Almost 3,000 of the total of 5,912 received just one “assist” over the period and, encouragingly, around half of the firms supported in each year are new rather than repeat recipients. It is clear from the monitoring data that SDI is spreading the support wider in an attempt to create a future pipeline of new or more regular exporters.

Inward investment support activity

Number of projects

- 5.26 These are firms that have created or plan to create jobs through SDI and UKTI inward investment interventions (all investment by organisations headquartered outside of Scotland, including the rest of the UK).
- 5.27 **The database from SE comprises 423 projects** that have received support between 2011/12 and 2015/16 (Table 5-9). Of these, 25 projects are in HIE and the remainder in the SE area. By financial year, the number of projects rose between 2011/12 and 2015/16. It should be noted that a firm may have had more than one project and the total number of firms in the final column is larger than the number supported in each year.

Table 5-9: Number of inward investment projects and firms supported by year

Year	2011/12	2012/13	2013/14	2014/15	2015/16	Total
Number of projects	69	83	84	91	96	423
Businesses supported	69	83	79	88	94	374 (unique firms supported)

Source: SQW analysis of SE/HIE/SDI data

- 5.28 Of the projects supported (Table 5-10) just over half are expansions of existing operations in Scotland, a third are new (investing in Scotland for the first time) and around 10% are safeguarding existing jobs in Scotland. The pattern suggests that there has been some increase in the number of New to Scotland cases over the period (from 23 to 36 in 2015/16), while expansions and safeguarding cases have remained fairly consistent. Linking back to the strategic priority around the need to bring in more new investment, it is encouraging that the increase in New to Scotland projects (57%) is higher than the increases in other projects. Overall, there was an increase of 39% in the number of inward investment projects.

Table 5-10: Type of projects supported by year

Type of project	2011/12	2012/13	2013/14	2014/15	2015/16	Total
Expansion	40	42	47	52	52	233
New to Scotland	23	34	23	30	36	146
Safeguarding	6	7	14	9	8	44
Total	69	83	84	91	96	423

Source: SQW analysis of SE/HIE/SDI data

Employment supported

- 5.29 Over the period covered by the evaluation the database records a total of 38,727 planned jobs including 23,730 new jobs and 14,998 jobs safeguarded (Table 5-11). Whilst the total number of planned jobs has varied year on year, there has been steady growth in the number of High Value Added jobs from 1,800 in 2011/12 to 2,211 in 2015/16.

Table 5-11: Planned jobs supported by 423 projects from 2011/12 to 2015/16

	2011/12	2012/13	2013/14	2014/15	2015/16	Total
Total Jobs	7,394	7,139	7,446	9,659	7,090	38,727
New Jobs	4,101	5,880	4,834	4,602	4,313	23,730
S/G Jobs	3,293	1,259	2,612	5,057	2,777	14,998
Total R&D jobs	960	838	1,044	1,214	684	4,740
Total HVA Jobs	1,800	2,145	2,515	3,192	2,211	11,863

Source: SQW analysis of SE/HIE/SDI data

- 5.30 Table 5-12 shows the pattern by type of project over time. It shows that the fall in jobs supported in 2015/16 was partly the result of a large decline in the number of safeguarded projects and jobs,

as well as a small number of new to Scotland projects, which fell back. These changes in job numbers are probably linked to the changes to Regional Selective Assistance in 2014 which restricted applications from large employers. Although the number of new to Scotland projects has grown over the past five years, these are smaller projects in terms of employment. The average number of jobs per project overall has fluctuated over the period from 107 in 2011/12 to 74 in 2015/16.

Table 5-12: Planned jobs supported from 2011/12 to 2015/16 by type of project

Type of project	2011/12	2012/13	2013/14	2014/15	2015/16	Total
Expansion	5,615	3,788	4,481	4,131	5,155	23,170
New to Scotland	1,221	2,770	1,621	1,771	962	8,345
Safeguarding	558	581	1,344	3,757	973	7,213
Total	7,394	7,139	7,446	9,659	7,090	38,727
Average jobs per project	107	86	90	106	74	

Source: SQW analysis of SE/HIE/SDI data

Origin of FDI project

- 5.31 England and the USA are the sources for around half of all the projects (Table 5-13), and the numbers have grown over the past five years. 2014/15 was generally a better year than 2015/16 for investment from most markets. The US and Canada were the only two that saw the number of projects increase in 2015/16.

Table 5-13: The number of projects supported in each year by nationality

Parent Nationality	2011/12	2012/13	2013/14	2014/15	2015/16	Grand Total
USA	25	27	26	26	32	136
England	16	17	25	28	24	110
Germany	5	7	2	5	3	22
Canada		1	7	2	5	15
France	4	3	1	5	2	15
Japan	5	3	4	1	2	15
Australia		4	2	3	1	10
China	2	4	2	1	1	10
India	1	4	1	2	2	10
Italy		2	4	1	1	8
Netherlands	2	2	2	1	1	8
Norway		1		4	2	7

Source: SQW analysis of SE/HIE/SDI data

- 5.32 The profile of projects nationality and type (Table 5-14) shows the importance of the New to Scotland investment from England, which represents around a third of all these projects over the last five years, and has been growing.

Table 5-14: The number of projects supported by nationality and type

Parent Nationality	Expansion	New to Scotland	Safeguarding	Total (11/12 to 15/16)
USA	88	30	18	136
England	54	45	11	110
Germany	15	7	-	22
Canada	6	9	-	15
France	9	5	1	15
Japan	9	2	4	15
Australia	1	9	-	10
China	3	7	-	10
India	6	4	-	10
Italy	5	1	2	8
Netherlands	5	1	2	8
Norway	4	2	1	7
Not available	28	24	5	57
Total	233	146	44	423

Source: SQW analysis of SE/HIE/SDI data

Conclusions

In total, 423 inward investment projects have been supported with 374 firms between 2011/12 and 2015/16. They supported 39,000 planned jobs of which 24,000 are new and 15,000 safeguarded. Over the last five years, there has been an increase in the number of inward investment projects reported by SDI. It is encouraging to see that the number of New to Scotland projects has increased faster than other types of investment projects. Although the total number of planned jobs has varied year on year, there has been steady growth in the number of High Value Added jobs from 1,800 in 2011/12 to 2,211 in 2015/16. Whilst there are major opportunities to encourage new investment into Scotland from England, it is perhaps surprising that it accounts for such a high proportion (31%) given the network of overseas teams located around the world.

Performance against headline targets

- 5.33 In Section 3 we set out the headline targets from the Trade and Investment Strategy which relate directly to the internationalisation activity delivered by SDI. Using our analysis of the monitoring data, we summarise performance against these targets in the Table below. **Whilst the activity has**

delivered against the high level inward investment targets, there has not been the same progress made against what seem to be very ambitious trade targets.

Table 5-15: Performance against headline targets

Priority measure	Performance
Over 2011-15, achieve a £1.2 billion to £1.7 billion increase in international sales from supported businesses	<p>According to Export Statistics Scotland, the total value of Scotland's international exports has increased from £26.6 billion in 2011 to £28.7 billion in 2015, an increase of £2.1 billion.</p> <p>From the monitoring data, we know that 549 of the supported firms were designated as International Projects during the 2012/13 to November 2015 period. Even if all of these firms were to achieve their targets (£1 million growth over 3 years) this would fall well short of the original target which seems to have been too optimistic</p>
Over 2011-15, 8,000-10,000 companies assisted to develop their capacity for exporting through initiatives like Smart Exporter	From 2012/13 to Nov 2015, just under 6,000 companies have been supported with trade support. However for the 2011-15 period, SDI monitoring data shows that 9,355 firms were assisted which means the target was met
Over 2011-15, 25,000-35,000 planned jobs through the attraction of foreign investment – of which between 8,000 and 12,000 planned high value jobs	From 2011/12 to 2015/16, SDI has supported 423 inward investment projects with 39,000 planned jobs, of which 24,000 are new and 15,000 safeguarded. Over the five years, there have been just under 12,000 high value jobs. The targets for planned inward investment jobs have been met

Source: SQW analysis of SE/HIE/SDI data

6. Survey approach and profile of samples

Key messages

- The evaluation collected feedback from 427 trade businesses: 84 International Project (IP) firms (those with the potential to grow international sales by £1 million over three years) and 343 non-IP firms. The inward investment survey included a sample of 62 firms. Overall, these samples are broadly representative of the types of businesses supported and the type of support provided.
- For the survey of IP firms, the main difference between the sample and population is the sample firms have had slightly more support, as measured by the number of assists. The type of support provided to the sample is broadly in line with the overall pattern of support for these IP businesses.
- The larger number of assists means that these businesses are more engaged with the support and better able to comment on it. In applying the results to the population as a whole we assume that if the support is effective, more support is likely to mean greater impact.
- For the non-IP survey, there are several significant differences. The sample had received a higher number of assists on average, and support was more recent. The difference in the average number of assists is explained by the response bias as a large proportion of those that did not take part had only been assisted once.
- The sample also included fewer Account Managed businesses than the population. There is some difference in the pattern of support, but this is not likely to be significant given the broad nature of the Overseas Market Support category. Overall, we would expect the slightly higher number of assists that resulted from the response bias to lead to a proportionately higher economic impact within the sample, than in the population.
- The sample of inward investors covers a high proportion of the overall financial support awarded to the population. This should be the main factor to consider when extrapolating the results from the sample to the population.

- 6.1 This section describes the elements of the methodology and examines the samples that were achieved in the business surveys, comparing them with the available information on the population (which was used in the analysis of management data in Section 5).

Approach

- 6.2 The evaluation was structured to provide both a breadth of coverage (through a shorter telephone survey conducted by BMG Research) and depth (using a smaller number of face to face or telephone interviews with businesses that had received more intensive trade support). With a smaller number of more complex inward investor cases, these were more appropriately carried out through face to face or telephone interviews carried out by SQW.

- 6.3 There are three important groups within the population of businesses supported in international trade. These are defined based on whether businesses were categorised as having an International Project (businesses considered to have the potential to increase exports by more than £1 million over three years), Account Managed businesses and do not have an International Project, and those that are not Account Managed and do not have an International Project.
- 6.4 Our approach was to carry out a series of meetings and more detailed telephone interviews with a sample of these businesses. The larger number of non-IP businesses were covered using a shorter telephone survey.
- 6.5 There were three business surveys:
- Depth interviews were carried out with 84 firms that have been supported with at least one International Project
 - Telephone interviews with 343 businesses that have received international trade support but which do not have an International Project
 - Depth interviews with 62 Inward investors.
- 6.6 A summary of the populations and samples is shown in Table 6-1. These are the main sources of information on the effectiveness of support.

Table 6-1: Survey approach

Category	Total supported	Survey method	Target	Completed	Confidence interval at 95%
International Projects (Significant trade support)	549	Depth Interview (mix telephone & face to face)	80	84	+/- 9.8%
Non-IP projects (Lighter touch trade support)	5,370	Telephone Interview	350	343	+/- 5.1%
Inward investors	374	Depth Interview (mix telephone & face to face)	65	62	+/- 11.4%

Source: SQW and SE/HIE data

- 6.7 Questionnaires were designed and agreed with the Steering Group. The first interviews were conducted as pilots with a small number of amendments made as a result. The interviews were conducted over September and October 2016.

Trade survey with firms with International Projects

- 6.8 There are 549 firms that have had support in relation to an International Project. These are the firms that tend to have the greatest amount of support with the potential for the highest exports. From the SDI databases SQW identified a random list of 120 cases. This was increased during the study to allow for businesses that were not available, or could not be contacted (see Table 6-2).

- 6.9 Given the investment in carrying out longer interviews, with many face-to-face, it was agreed with the Steering Group that these should exclude cases that had just one assist, or where the support only took place in 2012/13. There was a likelihood that they would be less likely to recall any effects and that there would be less to learn from these examples. SDI sent out an introductory email explaining the purpose of the research.
- 6.10 SQW contacted all the businesses with an initial email and, if there was no response, this was followed up by telephone calls. The outcomes of all the contacts made are shown in Table 6-2. The main reasons for failing to arrange meetings was either no response after leaving messages, or the relevant contact being unavailable to speak at that time, on leave or out of the country over the next few weeks.

Table 6-2: SQW IP business call outcomes

Outcome	Number	% of contacts
Completed	84	39%
Contact left	15	7%
Do not contact	4	2%
Email bounce back	2	1%
Live (initial agreement but then postponed)	8	4%
Messages left (no response)	45	21%
No reply on number	8	4%
Not available	28	13%
Number not recognised	5	2%
Refused	18	8%
Total	217	100%

Source: SQW interview outcomes

Trade survey with non-IP businesses

- 6.11 The source of data for the non-IP firms was a database of firms prepared by Ashbrook Consulting in 2015 as part of their review of trade support. This provided contact names and numbers for 1225 businesses that had received support.
- 6.12 All the businesses on the database were emailed by SDI. Although there were initially quotas set to ensure a representative number of cases by geography and sector, in practice BMG required the full list to maximise the number of interviews.
- 6.13 The outcomes of the telephone survey are shown in Table 6-3. From an initial set of 1,225 contacts, 343 were completed, 244 refused and 196 were unobtainable on the number provided. A further 234 claimed that they had not been assisted.
- 6.14 The outcomes are important in understanding how representative the sample is. One of the key points in the Table is the proportion (19%) that claim not to have been assisted. Further analysis of

this indicates that this was greater among businesses that had only one assist (217 of the 234). Further analysis shows that around a third of the cases that claimed not to have been assisted were outwith the Growth sector category. This is helpful in extrapolating the results to the overall population. Ordinarily, a situation where one in five beneficiaries cannot recall the support might be of concern. However, the fact that for so many the support may only have involved one event or meeting makes this less of an issue. The numbers of contacts that were unavailable, unobtainable or could not recall the support are broadly in line with other similar large-scale business surveys. Normally, three or four contacts are required to achieve one interview.

Table 6-3: BMG non- IP business call outcomes

	Number	% of contacts
Completed	343	28%
Refusal (too busy, not company policy)	244	20%
Still live	208	17%
Answer phone/ engaged/ no reply	173	14%
Call back (don't know when in)	33	3%
Claim not to have been assisted	234	19%
Unobtainable	196	16%
Not available in fieldwork period	4	0%
Unobtainable (dead line)	58	5%
Wrong number/person unknown	134	11%
Total	1,225	

Source: BMG Market Research survey of non-IP businesses

Inward investment survey

- 6.15 From the database of 423 projects and 374 unique companies, SQW selected an initial sample of 100. It was agreed with the Steering group that this sample should over-represent the New to Scotland investments since it is recognised that this is a priority policy area. It was also agreed that it should include more recent cases (for more insightful feedback) and an over-representation of HIE cases (to ensure sufficient interviews to provide analysis for the HIE area).
- 6.16 Emails were sent out to the agreed contacts by SDI. Once the first sample was exhausted a second was prepared and contacted by SDI. Each contact was emailed and telephoned to set up interviews face to face or by telephone. The outcomes of the process are shown in the table below (6-4).

Table 6-4: SQW Inward investment survey outcomes

	Number	% of contacts
Completed	65	39%
Contact left	9	5%
Email bounce back	6	4%
Messages left (no response)	29	17%
No reply on number	8	5%
Not available (in meetings)	21	13%
Not aware of support	2	1%
Number not recognised	8	5%
Refused (too busy, not company policy)	18	11%
Total	166	100%

Source: SQW survey data

Profiles of trade survey samples

- 6.17 The sampling approach is likely to mean that the survey includes a higher proportion of businesses with more recent and more intensive support. This can be checked by comparing the profile of the sample with the population data. Table 6-5 shows the sample and population by sector. The biggest difference among the IP sample is the slightly higher representation of projects with Technology sector firms. Within the non-IP survey, the most obvious variations are in food and drink and in the “Other sector” group.

Table 6-5: Sample profile by sector

	IP population	IP interviewed	Non-IP population	Non-IP Interviewed
Aerospace, Defence and Marine	2%	1%	2%	1%
Chemical Sciences	3%	0%	2%	1%
Construction	2%	1%	3%	3%
Creative Industries	6%	7%	8%	8%
Enabling Technologies/ICT	21%	25%	13%	15%
Energy - Low Carbon/Renewables	7%	12%	3%	4%
Energy - Oil & Gas	23%	20%	10%	13%
Financial Services	1%	1%	4%	1%
Food and Drink	11%	11%	13%	17%
Further and Higher Education	3%	1%	2%	2%
Life Sciences	9%	10%	4%	3%
Other Sector	2%	1%	22%	15%
Textiles	5%	6%	7%	8%
Tourism	3%	2%	8%	8%

Source: SE and HIE databases/ SQW survey/ BMG survey

- 6.18 Looking at the profile of support by year, both samples over represent the more recent years. This is particularly true of the telephone survey sample which was based on the Ashbrook database, which itself focused on businesses that had received more recent support.

Table 6-6: Population and sample profile by year

	IP population	IP interviewed	Non-IP population	Non-IP Interviewed
2012-13	33%	29%	24%	13%
2013-14	28%	31%	31%	19%
2014-15	28%	27%	32%	41%
2015-16	11%	13%	13%	27%

Source: SE and HIE databases/ SQW survey/ BMG survey

- 6.19 Comparing the average number of assists (Table 6-7) shows that the firms interviewed in both surveys tended to have received more assists. Among the firms that had International Projects the average was 6.8 assists compared with an average of 9.1 in the sample interviewed. For the Non-IP businesses, the figures were 2.6 in the population and 3.3 in the sample.

Table 6-7: Population and sample profile by number of assists

	IP population	IP interviewed	Non-IP population	Non-IP Interviewed
Average number of assists	6.8	9.1	2.6	3.3

Source: SE and HIE databases/ SQW survey/ BMG survey

- 6.20 Nearly three quarters (74%) of the businesses receiving support for an IP are, or have been, Account Managed businesses (Table 6-8). The proportion in the sample interviewed is similar (75%). Among the non-IP businesses, the sample has fewer Account Managed businesses than in the population (8%). This reflects the basis of the Ashbrook database (which was set up as a basis for interviewing Non-Relationship managed businesses). The small number that are Account Managed are the result of the additional company details provided by SDI used to supplement the telephone interview sample.

Table 6-8: Population and sample profile by Account Managed and non-Account Managed

	IP population	IP interviewed	Non-IP population	Non-IP interviewed
Number (%) that are or have been Account Managed businesses in 2012-2015	406 (74%)	63 (75%)	1,388 (25%)	28 (8%)

Source: SE and HIE databases and SQW survey

- 6.21 Finally, Table 6-9 shows the profile by the types of support provided. While the profile of types of support among the IP population and sample is almost identical, there is some difference in the non-IP sample which has a higher proportion of Overseas Market Support and a lower proportion of Specialist Engagement.

Table 6-9: Population and sample profile by types of products

	IP population	IP interviewed	Non-IP population	Non-IP interviewed
Overseas Market Support	28%	29%	47%	54%
International Specialist Engagement	29%	27%	19%	12%
Exhibitions, Missions & Learning Journeys	25%	25%	13%	15%
International Manager for Hire/placements	5%	5%	1%	0%
GlobalScot	4%	4%	2%	2%
Strategy Workshops/training	4%	3%	6%	4%
International Business Opportunity	2%	2%	2%	3%
Technical and E-commerce	2%	2%	4%	5%
Preparing to Export	1%	1%	4%	4%
International Market Presence	0%	1%	0%	0%
Marketing expert support	0%	0%	0%	1%

Source: SE and HIE databases and SQW survey

Profiles of inward investment survey sample

- 6.22 A random sample of 120 businesses was selected from the database. This was then refined to ensure that there was a larger number of HIE firms and also, as discussed with the Steering Group, a higher proportion of New to Scotland investments, given that this has become a greater policy priority (Table 6-10). The sample was also structured to exclude cases that only had support in 2011/12, given that many of the original contacts for the businesses are likely to have changed.

Table 6-10: Type of investment profile

Type of investment	Interviewed	Population
Expansion	52%	55%
New to Scotland	39%	35%
Safeguarding	10%	10%

Source: SE/HIE data

- 6.23 The profile of the completed sample is shown below (Table 6-11). The sample is reasonably representative of the sectors, although it over-represents Life Science firms and under-represents tourism.

Table 6-11: Inward investment sector profile

Sectors	Interviewed	Population
Aerospace, Defence & Marine	5%	3%
Creative	3%	2%
Energy	6%	11%
Financial & business services	13%	16%
Food & Drink	8%	8%
Life Science & Chemicals	18%	12%
Renewables	10%	9%
Technology	32%	29%
Textiles	3%	2%
Tourism	2%	9%

Source: SE/HIE data

- 6.24 Almost two thirds of the businesses interviewed have been in Scotland for more than 5 years, and half more than 10 years (Table 6-12).

Table 6-12: Time invested in Scotland

Time	Number interviewed
More than 10 years	30
5-10 years	10
2012	5
2013	5
2014	7
2015	4
2016	1

Source: SQW survey

Conclusions

Overall, these samples are broadly representative of the types of businesses supported and the type of support provided, and provide a robust basis for assessing the effectiveness of the trade and investment support provided by SDI. Where there are significant differences this is generally a reflection of decisions made by the Steering Group to oversample some categories of company.

7. Trade survey analysis - International Project support

Key messages

- SDI has supported 549 firms with International Projects between 2012/13 and 2015/16. The analysis is based on interviews with 84 (15%) of these businesses
- Most (75%) are or have been Account Managed and have received an average of 9 assists during the evaluation period
- Overall satisfaction levels with Account Managers and SDI advisers were very high with around half stating they were very satisfied with the way in which the support was delivered, and another 40% saying they were satisfied
- The most valuable elements of the support were Overseas Events & Trade Missions and International Manager for Hire
- There have been relatively low levels of engagement with overseas teams, but those firms that did have experience of working with these teams highlighted examples of useful logistical support and expert advice
- The main suggested areas for improvement were generally the provision of more tailored support in terms of the market intelligence, one-to-one advice, trade missions and information of specific opportunities to follow up and more flexibility in how the support was delivered
- The main additionality was driven by the funding which helped firms take forward export activity (e.g. market visits, overseas exhibitions) and the knowledge and advice from SDI advisers and specialists to guide them along the way
- The support has had a significant impact on businesses' international trade capability, particularly their ability to develop export plans and knowing what needs to be done to reach target markets
- Those businesses receiving more support tended to report higher impact in terms of international sales.

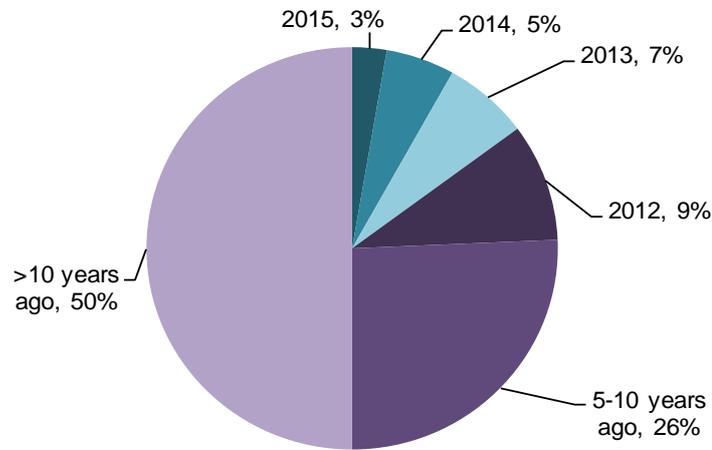
International profile

- 7.1 **The majority (81%) of businesses interviewed regard themselves as regular exporters³⁴.** A further 13% export intermittently and the remaining six per cent do not export yet. Most of the businesses are well-established exporters. Half started trading overseas between five and 10 years ago (Figure 7-1). A further 26% started between five and 10 years ago. For the businesses already

³⁴ A 'regular' exporter was defined in terms of generating a significant proportion of their sales from overseas markets each year

involved in exporting, the rationale for support has primarily been around helping them to increase their levels of exports including helping them into new markets.

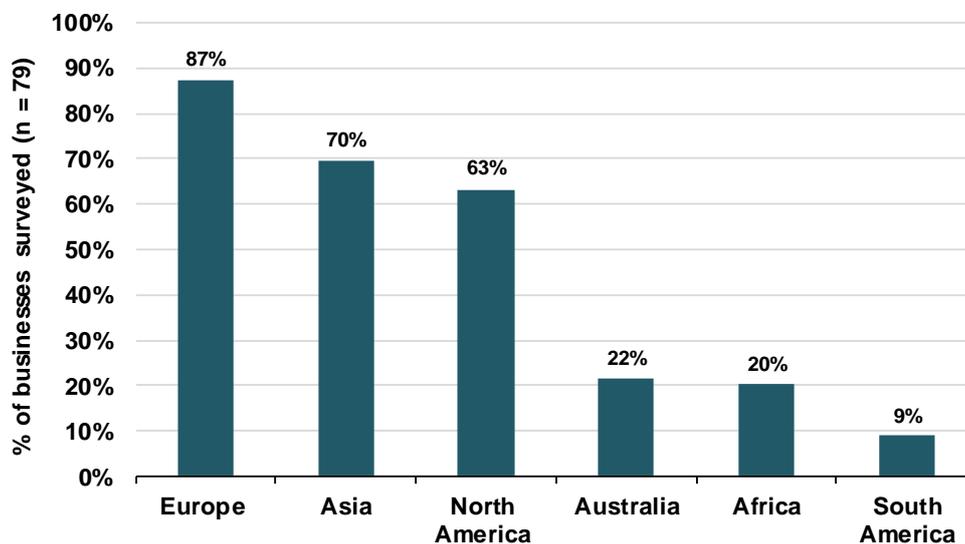
Figure 7-1: If you are trading internationally when did you start?



Source: SQW trade survey

7.2 These firms are active across different geographic markets. Nearly 90% are active in Europe, 70% in Asia and 63% in North America (Figure 7-2). In Europe, the most common markets are France, Germany, Netherlands, and Scandinavia. The activity in Asia tends to focus on Japan, China and South Korea. In terms of the High Growth Markets identified by SDI³⁵, 27% of exporters are selling in the Middle East, 22% in China and six per cent in India.

Figure 7-2: Which countries or areas do you currently generate income from?

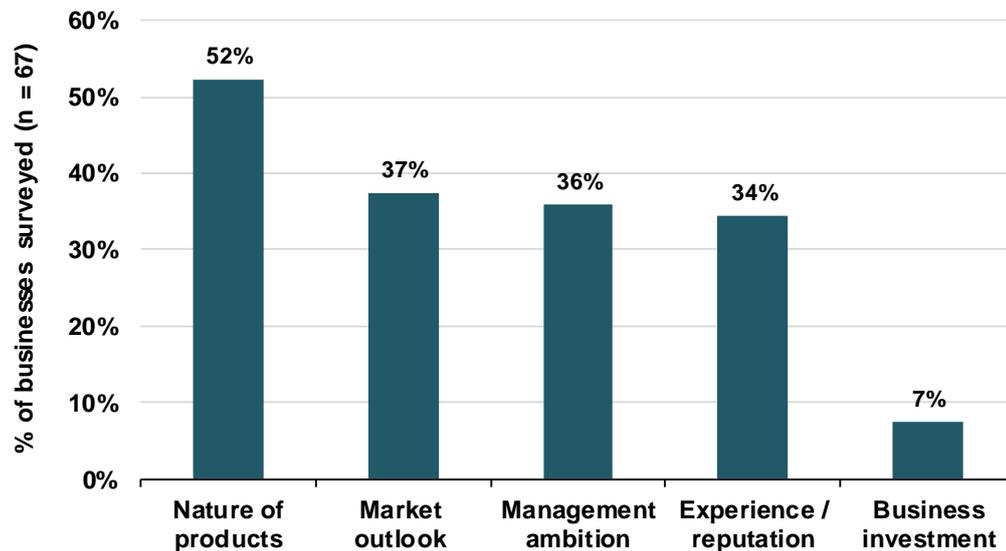


Source: SQW trade survey

³⁵ Middle East, India and China

- 7.3 As shown in Figure 7-3, the main reasons these companies export (compared with others that do not) are that their product/service is suitable for export markets (52%), market outlook (i.e. the market/ sector they are involved in is international, 37%), ambitions of their management teams (36%) and their international experience (i.e. managers have brought international contacts from previous jobs, 34%).

Figure 7-3: Why does your firm trade internationally and others do not?



Source: SQW trade survey

- 7.4 Most of the non-exporting firms operate in the renewables and life sciences sectors and are still in the product development phase. Only one of the six non-exporters surveyed stated that it was not planning to export in the foreseeable future. The support and advice they received, coupled with the downturn in the oil and gas sector, highlighted the risks in trying to sell its product internationally at the current time.

Feedback on the support provided

Objectives

- 7.5 As would be expected, the main objective for firms accessing support was to grow the level of exports either in existing or new markets. Some businesses provided more detailed examples of what they were looking to achieve through the support. These included identifying in-country contacts, accessing market reports, building knowledge on exporting and generally raising the profile of the business through attending international events. The additionality of support provided to existing exporters is discussed later in this section.

Most effective support

- 7.6 **Overseas Events and Trade Missions were highlighted as the biggest strength of the trade support package.** Linking back to earlier discussions on market failures, this support addresses

issues around businesses uncertainty about committing to new markets when they do not know who to contact and whether the returns will be worth the investment of time and money to go on these trips.

- 7.7 Of the 60 businesses supported to go on these trips³⁶, 50 stated that they were the most important part of the trade support. This type of activity covers a range of events and trips and businesses identified different benefits. The funding contribution towards the travel costs for trade shows or missions either encouraged them to go on the trips or provided additional resource so they could bring more people to a particular trade show.
- 7.8 Business were also positive about being part of the SDI stand or Scottish Pavilion at events. It was felt that this helped the businesses to showcase their product, learn from other Scottish businesses and provide a good platform to meet distributors and buyers. Some highlighted that being part of the Scottish Pavilion ensured a better location within the conference centre than they could have otherwise afforded. Logistical and organisational support at events and overseas trips was also highly valued.

“The events are well organised by SDI with good locations in the exhibition hall next to the major players e.g. Sony, Microsoft. GDC (Game Developers Conference) is the biggest developers conference and a great opportunity to show off new technology. There are definitely spikes in income around these events”

“Being part of the Scottish Pavilion at the OTC (Offshore Technology Conference) - this was well organised and provides an opportunity to be in the centre of the conference. If attending as an individual company, you would end up with a stand on the periphery. Attending the OTC provides profile, credibility and helps with access to important clients and GlobalScots”

- 7.9 A smaller number of businesses have been on trade missions. These trips involved groups of businesses going out to market to meet SDI, DIT, British Embassy and consular staff, and potential customers and partners in-market. These were seen as being well organised and generally well targeted for businesses in certain sub-sectors. Businesses could point to specific examples of winning new work as a result of meetings held as part of these missions.

“The best experience we have had to date was on a recent interiors mission to New York. A number of face to face meetings were set up with local architects and designers for before and after the event. In the past, attending events has almost been like cold-calling potential clients. By having the meetings set up beforehand, we were able to build up a rapport which could then be carried through the entire event”

“The targeted nature of the missions we have taken part in to date have been extremely effective – this helps to identify the main players in this part of the industry. The breakfast one-to-one meetings organised as part of these missions were also beneficial, allowing us to develop working relationships with potential partners”

³⁶ 60 businesses from the IP survey sample of 84 received support through Overseas Events and Trade Missions

- 7.10 A key aspect of all of these organised events and trips is providing businesses with networking opportunities with other Scottish businesses, intermediaries (e.g. local professional and business support providers, trade organisations, GlobalScots) with knowledge and expertise in the overseas market, and actual buyers or distributors.

“The GlobalScot support in Dubai (event at the Emirates Golf Club) and in Brazil have all provided useful advice and importantly provided us with access to major customers such as Woodside Energy, Petrobras, Schlumberger”

- 7.11 **International Manager for Hire was also seen as a key strength;** 26 of the 31 businesses receiving this support stated it was the most effective type of assistance. Being able to bring in additional dedicated resource to develop overseas markets was valued by businesses and in many cases the new employee was taken on permanently by the business. In terms of addressing market failure around information deficiencies, the support helped to encourage businesses to take on a dedicated member of staff and then after seeing the benefits they were more willing to pay for the employee themselves. In a few cases, there were examples where the new person had influenced the wider business in terms of pushing the development of new products or processes, and encouraging a more international mind-set within the management team. It was important that businesses could select this person based on the knowledge of the sector, market and sales experience.

“Without a doubt the most effective form of support was the International Manager for Hire. The key to having success internationally is knowing the intricacies of each target market (regulations, legal issues etc.). The support allowed us to obtain this knowledge by employing a Polish-speaking manager with in-depth knowledge of the country. Although based in Glasgow, this manager for hire regularly travelled out to Poland and having someone on-the-ground to build relationships really helped”

“As a result of International Manager for Hire we now have a database of over 4000 potential customers around Europe and an established social media presence”

- 7.12 **The quality of advice was highlighted as being an important part of the support.** Many commented on the vital role of the Account Manager in understanding the business and helping to shape the international support it required. One firm described their role as being an additional director. Others referenced the high-quality advice provided by SDI advisers (both in Scotland and overseas) and the support provided through the International Strategy Workshops.

“The expertise of SDI advisers is the most valuable thing - providing advice and guidance both when the company attends exhibitions or trade shows or responding to queries via email or telephone”

“The SDI manager we dealt with overseas was by far the most effective element of the support. His knowledge of the market and key players was second-to-none. He was very effective at knowing when we needed a bit of “hand-holding” and when he need to “step back and let us get on with it”

Less effective support

- 7.13 On balance, the feedback from firms with International Projects was very positive. However, all were specifically asked if they could identify any weaknesses in the support package. Around half of businesses struggled to find any weaknesses. However, for those that could, **the weakest elements of support are where events, consultancy support, or market information are considered to be pitched at the wrong level, specifically where the support is considered to be too generic.** This type of feedback was received from 19 out of the 84 companies. In addition, there were a number of comments on the short notice given for events and that businesses do not have the time to prepare or set up meetings, losing some of the benefit as a result. Examples were provided where events had not generated leads or where missions were not providing introductions to the right types of contacts (e.g. sector or size of business).
- 7.14 There were some views that SDI advisers did not know enough about the business' specific sector (but some acknowledged that this was probably not realistic). There was also the suggestion that SDI advisers could be more proactive at identifying opportunities and 'match-making' for Scottish companies. This would involve SDI doing more groundwork to connect businesses with the opportunities to drive international trade. One consultee gave the example of SDI advisers (or contractors) undertaking a project on behalf of the business to go to a specific market for a few weeks to identify the right partners and then pass this information on to the business to follow up.
- 7.15 Other more critical feedback related to occasions where a referral from SDI overseas had not worked out well either in terms of a business partner or an unsatisfactory experience with a GlobalScot. Clearly in some cases these outcomes are not necessarily within the control of SDI.
- 7.16 One business suggested that the various elements of support are not well enough integrated in a coherent strategy and another consultee highlighted the main weakness being the modest scale of support offered (primarily around the level of funding available for trips and International Manager for Hire).
- 7.17 **The feedback on SE Research Services was quite mixed.** These services include: competitor insights; global market intelligence; credit rating checks; industry trends and forecasts; and access to supplier databases. This service is provided to firms in the HIE area too. Around half of the businesses surveyed had received this service and within this group the opinion was split evenly.
- 7.18 There were some positive examples of businesses using research to identify potential partners in markets or using market intelligence to inform strategies or business plans. Others used the support to carry out due-diligence on potential partners.

"This support was very useful - it has allowed us to access reports and journals which would usually cost to purchase. The research provided on the Chinese market has been very informative and has helped us shape activity"

"Very useful - SE has provided ongoing advice, statistics and figures to assist in determining the feasibility of markets"

- 7.19 However, a similar number of businesses were more sceptical about the value of the research services support stating it was too generic and often the data was out-of-date. Whilst the research can often provide an overview of markets and sectors, some businesses felt it was difficult to access

data on their specific sub-sector. Overall, the effectiveness of this element of the support depended on the type of business. Inevitably, for the more niche businesses, or those interested in less developed geographic markets, the feedback was less positive.

Role of overseas teams

- 7.20 **Businesses were slightly unclear about their engagement with SDI overseas teams³⁷**, but the feedback indicates the engagement has been quite low. A quarter (25%) of businesses in the survey have had good levels of engagement with SDI overseas teams³⁸. This support has included one-to-one advice, signposting, and facilitation of meetings with agents and potential customers and events. Generally, the feedback on the support provided was very good in terms of the logistical support provided by “very helpful”, “enthusiastic” and “responsive” SDI staff and there were some good examples of specific advice.

“We’ve met the overseas teams a few times - always very helpful and accessible. We received some invoicing/ tax advice provided by the team in Pakistan and always good at signposting to relevant experts. The SDI team attending the OTC events have been fantastic”

- 7.21 Just under half (44%) of businesses have had more limited engagement with overseas staff, mainly meeting them at events, and the remaining 31% have had no dealings with these teams. From those with less experience of working with the overseas teams there were some frustrations that they were not able to provide more specific advice and leads.

“Often the overseas teams lack the expertise in a particular sector as they are regional rather than sectoral specialists”

“There has been limited contact with overseas teams. The staff are friendly but not really specialist enough to be effective. They do not understand the markets and would typically refer us to the same large businesses that we already know. Too much focus on big players and not enough on niche markets”

- 7.22 **Given the large network of overseas teams and advisers, the level of engagement with individual businesses in Scotland seems quite low. Businesses should perhaps be encouraged to make more effort to contact these teams with specific export enquiries, and the overseas staff should be more proactive in providing export advice.**

Integration and overall satisfaction

- 7.23 **For those businesses that have received support in one particular market the support has been well-coordinated.** There was evidence of businesses progressing through different types of support and advice, in some cases taking on an International Manager for Hire, and building the necessary knowledge to form new business relationships and trade opportunities. This would indicate that the ‘ACE’ model is generally working for specific markets.

³⁷ In some cases businesses had been contacted by SDI advisers but were not sure if they were based in Scotland or overseas

³⁸ Business were asked what role was played by the SDI overseas teams in the support provided. Based on their feedback SQW categorised the engagement by ‘good’ engagement, ‘limited’ engagement and no engagement

7.24 There were a small number of examples where businesses could describe their engagement in the full suite of trade products including Smart Exporter services, International Strategy Workshops, events, International Manager for Hire through to practical advice in setting up operations in overseas markets.

7.25 Around a quarter of businesses viewed each area of trade support as being quite separate. Some of these firms stated the support was quite fragmented or ad-hoc across different markets (although they appreciated the flexibility to seek support as and when opportunities arose).

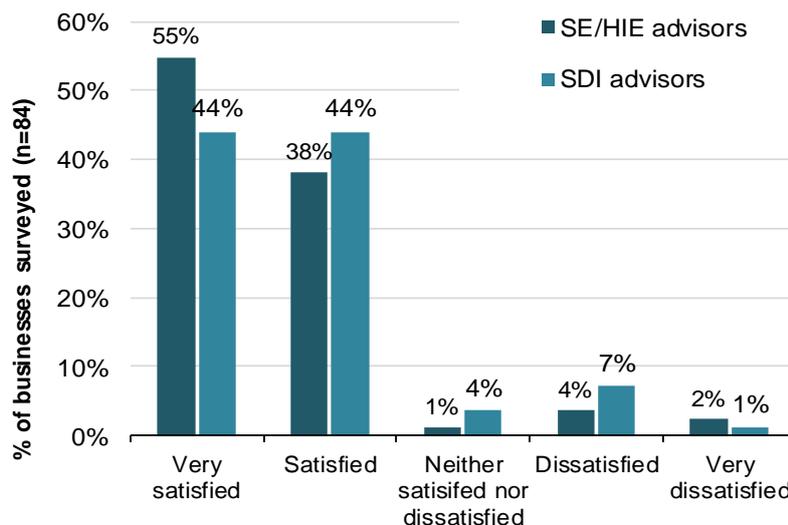
“The support to date has been around trade shows and given that each one tends to take place in a different geographic location, they are very much treated as separate projects and work independently”

“We have found that there is very little in terms of 'look back' from each of the types of support we have received. By this I mean that although a lot of the support we have accessed is linked to the Malaysian market, not enough is done to tie these together. It should be treated more as a market journey with progressive steps along the way (e.g. step 1 is one-to-one advice on the marketplace, step 2 may be a trade mission and so on). This would allow companies to take learning from one stage to the next and tie all elements of the support together”

7.26 **Overall satisfaction levels were very high with around 90% saying they were satisfied (including around half stating they were very satisfied) with the way in which the support was delivered** (Figure 7-4). Feedback was slightly more positive in terms of the businesses’ Account Managers in SE and HIE (55% very satisfied) compared to SDI advisers (44% very satisfied).

7.27 The comments highlighted the importance of relationship-building and trust. Many businesses have had the SE or HIE same Account Manager for some time and have developed a close relationship. The fact that they do not have the same level of engagement with SDI advisers is probably a factor in the slightly different scores.

Figure 7-4: How satisfied were you with the way the support was delivered?



Source: SQW trade survey

Areas for improvement

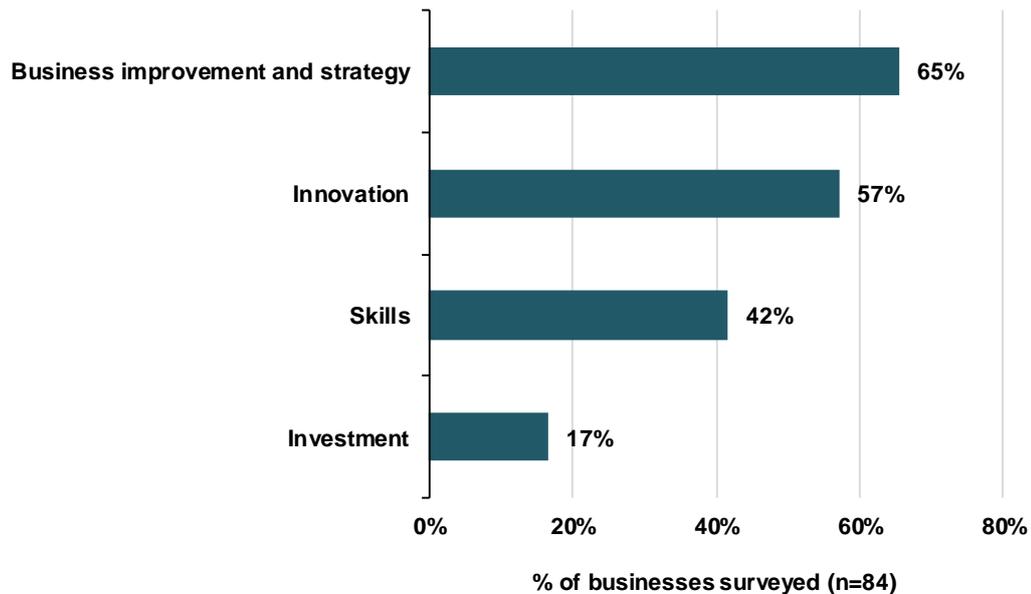
7.28 Businesses were asked for views on the main areas for improvement. The first two suggestions were highlighted by 10-15 businesses with the others typically suggested by around five businesses:

- More financial support for overseas trips and events – many of the smaller businesses stated that the funding plays a key role in encouraging firms to go global and helps to address the high levels of risk in trying to target new markets. More or longer term funding for International Manager for Hire was another recommendation to ensure a more sustainable export strategy
- Clearer integration with other support being received from SE/HIE – some businesses questioned why the internationalisation support was treated slightly differently from other areas of support (e.g. with innovation and skills support being brought in by the Account Manager and trade support being organised by an SDI adviser). These consultees believed trade support should be more integrated into the toolbox of support offered by Account Managers
- More flexibility and less paperwork – there was a reasonably consistent perception that there are more rules and criteria associated with the trade support. Some examples were highlighted where firms pulled out of the International Manager for Hire initiative due to the paperwork involved and questioned the value to attending events because of the time spent on completing forms
- More facilitation of one-to-one meetings with key potential partners and customers in-market – either directly or through the use of consultants if more appropriate (this suggestion links back to the desire for more pro-active ‘match-making’)
- Greater networking of like-minded businesses in Scotland to help build up knowledge and capacity before going out to market
- Generally, more tailored support in terms of the market intelligence, one-to-one advice, trade missions and information on specific opportunities to follow up in-market (some businesses did admittedly say this may be difficult given the niche area they operate in)
- In terms of preferred delivery model, many businesses highlighted a desire for more face to face interaction with SDI advisers and specialists. They pointed to the strong and effective relationships with their Account Managers which have been built up through regular meetings. Some businesses stated they would like to see a similar relationship with the SDI advisers, meeting on a more regular basis to better understand the business needs; “working for the business in their interests, not simply providing support”.
- There was limited interest in more content being delivered through digital platforms – most believed that digital support tends to involve more generic support (which they found less useful)
- Clarify roles of GlobalScots so that everyone is clear on the type of support they will provide, and to avoid any misunderstandings.

Integration with other forms of SE/HIE support

7.29 The majority (85%) of firms have received other forms of support from SE or HIE over the last four years, perhaps not surprising given the tendency for the businesses to be Account Managed. This other support has included investment, skills, innovation and strategy support. The most common examples of other support were in terms of business improvement and strategy support (65%)³⁹ but links with innovation support were also common applying to well over half (57%) of firms (Figure 7-5).

Figure 7-5: Other SE and HIE support received



Source: SQW trade survey

7.30 The general view from businesses was that internationalisation is an important part of business growth alongside skills development and innovation. Around 80% of businesses (including those receiving innovation support) were quite clear on the important linkages between innovation and internationalisation. There were numerous examples of businesses stating that innovation helped them to be successful overseas, adapting products and services for different markets and staying ahead of the competition. Others also recognised the benefits of international experience in developing these new products and services.

“The link is extremely important - without the ongoing R&D and innovation we conduct we would fall behind in terms of international competitiveness”

“Most of our success comes from making our products relevant to the customer. This isn't possible without conducting some form of R&D. Therefore, without R&D there would be no successful products which in turn, means no international activity”

³⁹ Including one to one specialist advice and workshops with management consultants

“It is absolutely crucial - the stage we are at involves getting the product to market, receiving feedback and making the necessary tweaks needed to make the product a success. Without ongoing R&D, we would not be able to create a product that meets customer needs and therefore would not sell internationally”

“R&D 'is the gateway' to international trade - more the company innovates the more it can sell”

Partnerships

- 7.31 A majority (56%) of businesses have accessed trade support from other agencies. Forty percent had received some support from UKTI/DIT, either through attending events (including some held at UK embassies) and trade missions or receiving market information through OMIS (Overseas Market Information Service) reports. In addition, 10% of businesses had received support from the local Chamber of Commerce, and there were a small number of cases where businesses had been supported through UK Export Finance, Innovate UK, CBBC (China Britain Business Council) and local authorities.
- 7.32 Focusing mainly on the linkages between the SE/HIE/SDI trade support and UKTI/DIT, there was a real mix of views on how well the two main trade organisations for Scottish businesses are working together. Some businesses had experience of attending jointly funded events or exhibitions and the relationship appeared to be working well, including SDI leveraging UKTI/DIT resources in areas where it does not have a presence.

“Our experience of public sector partners working together is split. In Hong Kong, UKTI and SDI had a shared office and this was extremely beneficial for linking up different forms of support. However, in Korea, the two offices were very much separate and in different parts of the country. This made it very difficult to coordinate activity and meant our experience was less positive”

- 7.33 However, others stated that more needs to be done to ensure each organisation is fully aware of what the other is doing.

“UKTI recently got in touch to let us know that an Indian company in our industry would be visiting the UK and invited us to attend some meetings in London. We have since developed a close working relationship. However, we would have been unaware of this visit if it was not for the contact from UKTI - no mention of it was made by SE or SDI. We found out later that this was because they simply weren't aware”

Additionality

- 7.34 Businesses were asked why they needed public sector support for exporting. Nearly all businesses highlighted that they were looking for two key things – funding to de-risk attempts to grow exports; and the knowledge and advice from SDI advisers and specialists to guide them along the way. As highlighted earlier, the main market failures being addressed were uncertainty about where to find the right information on new markets and the financial risks of increasing export activity. Four out of five businesses in this survey sample were already exporting and were using the support to increase levels of exporting or move into new markets.

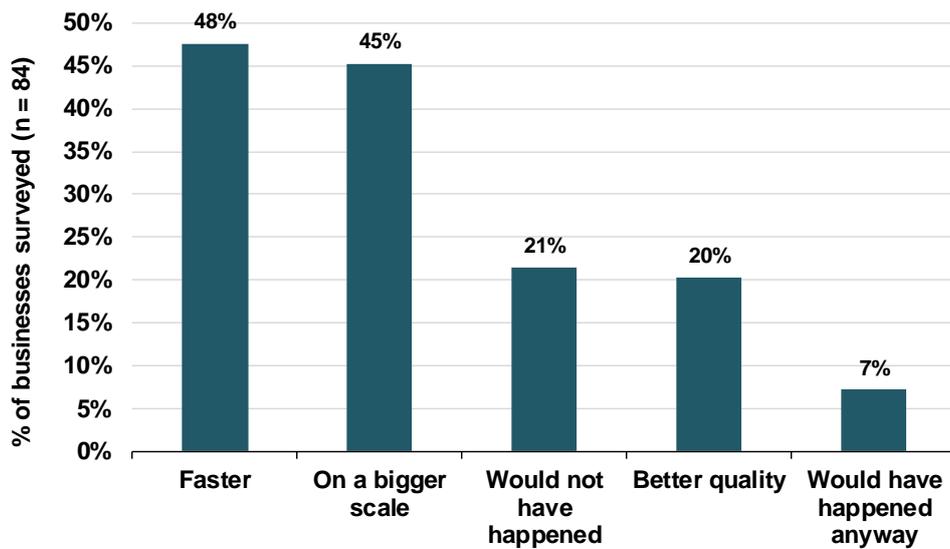
- 7.35 Many firms stated that they did not have the time or resources to properly research new markets. The funding and advice provided them with the confidence and reassurance to increase export activity. As well as being put off by the costs of using private sector providers, businesses also saw the public sector as providing more impartial export advice. Some firms felt that although they were experienced in some markets, they needed extra help in new export markets where there were different issues around taxation, tariffs, and legal requirements.
- 7.36 Nearly all businesses (93%) stated that there was some level of additionality from the trade support provided by SE/HIE/SDI. Only seven percent of businesses stated they would have done the same activity regardless of the support, which is encouragingly low and certainly much lower than the 24% reported in the previous SDI evaluation.
- 7.37 Over fifth (21%), suggested that the activities they have been involved in would not have happened without the support. For example, one firm operating in the oil and gas sector highlighted it would not have set up its new offices in Houston and Rio de Janeiro without the support from SDI. Also, a number of businesses stated that they would not have been able to afford the International Manager for Hire without the 30% funding contribution from SDI.
- 7.38 Just under half reported that the support either accelerated their attempts to increase exporting (48%) or improved the quality of what they were doing (45%), which could include the quality of their export strategy and the partners/ distributors they were working with (Figure 7-6). The scale of impact on sales in new and existing markets is discussed later under business outcomes and impact. There were numerous examples of businesses saying that they may have still gone on some overseas trips but they would not have been as useful or they would not have been able to afford to take as many staff (the assumption from businesses was that taking more staff allowed them to do more promotion and networking).

“We might have still gone to the events but with fewer people which would not have been as effective. With these types of events you need to have the capacity and sufficient presence to do them justice”

“Without the support from SE/SDI, we would probably have done most of the conferences but we wouldn't have gone on any missions. The financial support allows us to do more”

“Without the support, we would be in a downward spiral in terms of our sales. It really has helped us get noticed and build our international activity. We are much further ahead than where we would be without it”

Figure 7-6: Nature of additionality of trade support



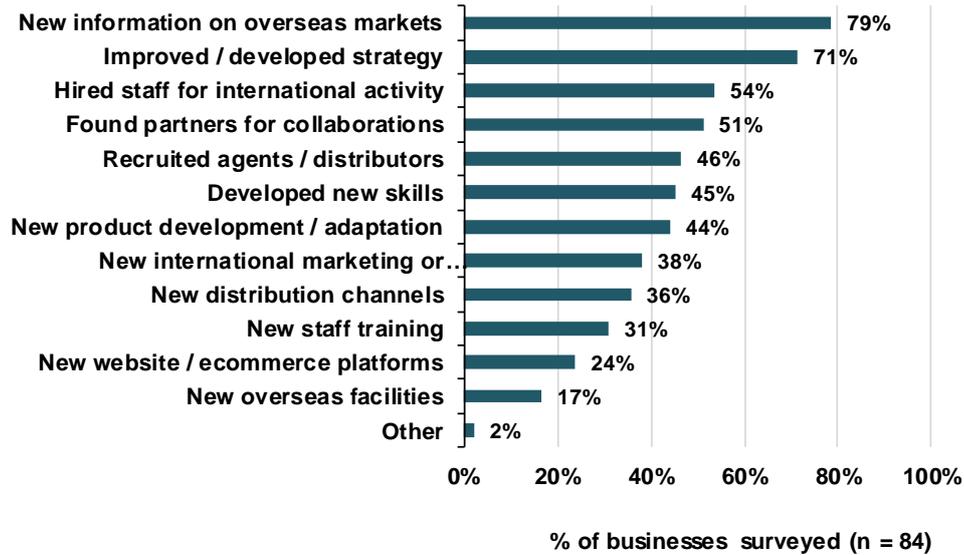
Source: SQW trade survey

- 7.39 When asked about accessing support in the future, most businesses said that it would depend on the market and the type of support being offered. Most the businesses believed that although their export knowledge and experience has grown there will still be a need for more support from SDI. This applies to new and existing exporters since each geographic market has its own challenges and specific issues. For existing exporters, most demand was for ongoing support in the emerging markets such as the Middle East and Asia. Overall, this feedback would indicate that the market failures can only be addressed at the level of individual geographic markets.

Outputs

- 7.40 Nearly four out five businesses (79%) reported that the support resulted in new information on overseas markets (Figure 7-7). The other most common outputs were improved or new export strategy (71%), hiring staff to take forward international activity (54%), and finding partners or collaborators (51%). Just under half (46%) have recruited agents or distributors following on from the support.

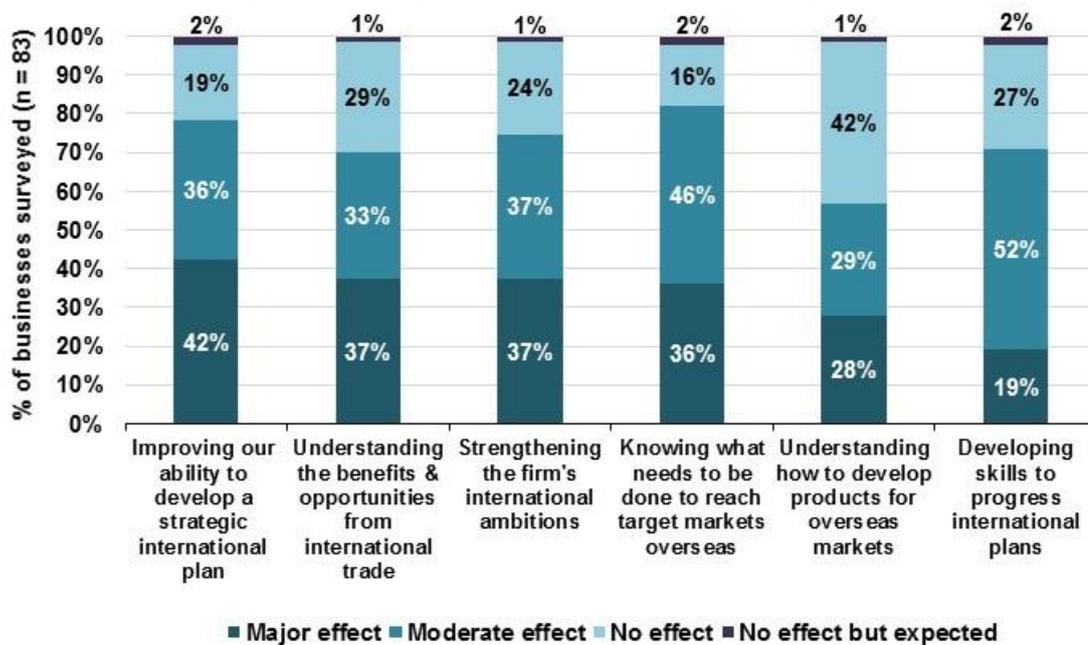
Figure 7-7: What have been the results of the activities supported?



Source: SQW trade survey

7.41 Businesses were asked how the support has had an impact on international trade capability based on a set of pre-defined categories (Figure 7-8). This is a key area in relation to SDI's 'ACE' model of engagement (Ambition and Awareness; Capability and Capacity; Expansion and Extension). The most positive feedback was in relation to the support improving the ability to develop a strategic international plan, where 42% of businesses stated that the support has had a major effect. Considering those that stated both major and moderate effect, typically around 70% of businesses reported effects on these different aspects of international trade capability. Although the feedback on how to develop products for overseas markets was slightly lower than the others.

Figure 7-8: Has the support had an impact on your international trade capability?



Source: SQW trade survey

- 7.42 These effects are having a significant impact on smaller businesses in particular. Across nearly all aspects of international trade capability, a higher proportion of micro-businesses (zero to nine employees) reported a major effect compared with the larger firms (Table 7-1). The results highlight a common challenge in allocating resources between smaller businesses (where it can have more influence, but on a smaller scale) and larger businesses (where there is less influence but where they can generate bigger impacts).
- 7.43 Nonetheless, the results for all sizes of business show the value of the support in developing the strategic capability of these firms to grow overseas.

Table 7-1: Businesses stating 'major' effect, by size of business

	0-9	10-49	50-99	100+	All
Improving our ability to develop a strategic international plan	56%	48%	21%	22%	42%
Understanding the benefits and opportunities from international trade	44%	39%	36%	22%	37%
Strengthening the firm's international ambitions	38%	43%	21%	33%	37%
Knowing what needs to be done to reach target markets overseas	50%	32%	36%	33%	36%
Understanding how to develop products for overseas markets	44%	23%	21%	33%	28%
Developing skills to progress international plans	25%	16%	14%	33%	19%

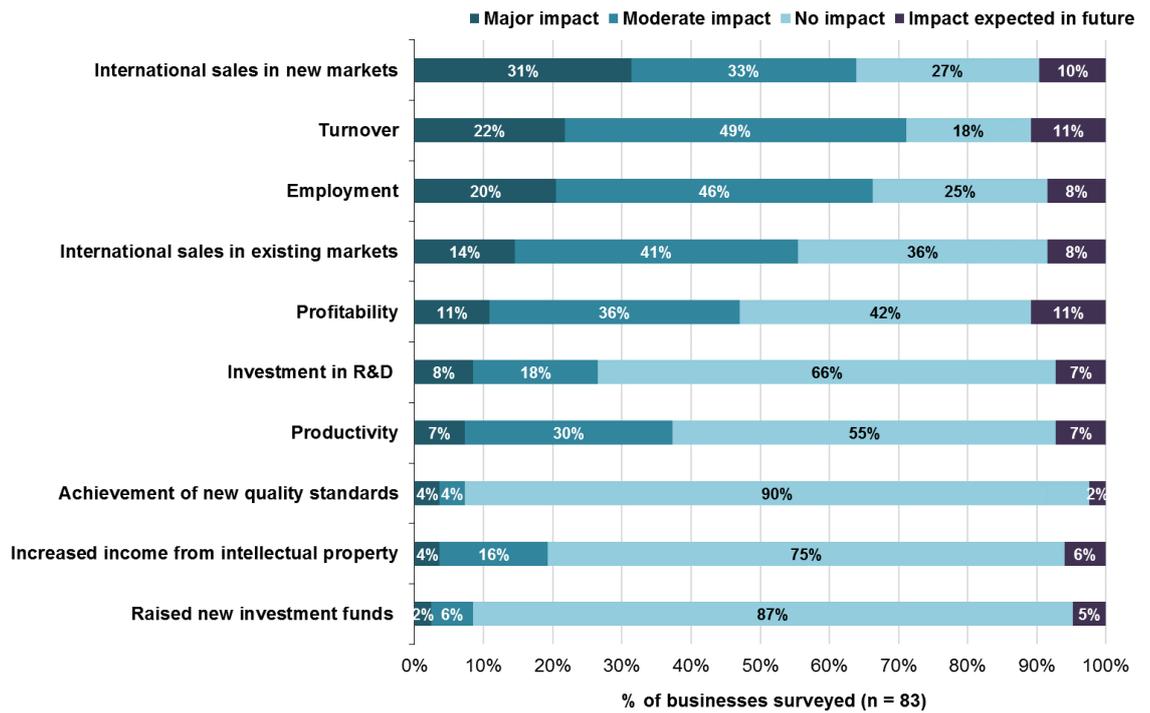
Source: SQW trade survey

Business outcomes and impact

- 7.44 Over half of businesses stated that the support has had either a moderate or major impact⁴⁰ on their performance in terms of international sales to new and existing markets, turnover and employment (Figure 7-9). Clearly, the objective of the trade support is to increase international sales. For new markets, 31% of businesses reported a major impact on sales in new markets, with a further 33% stating a moderate impact. In terms of the existing markets, 14% highlighted major impact and 41% for moderate impact. **Around three quarters (73%) of businesses reported that the support had either a major or moderate impact on international sales in new or existing markets.** Across the full range of impacts, 13% of businesses stated no business impact has been achieved or is expected.

⁴⁰ The definition of 'major' or 'moderate' impact was based on the perception of the business

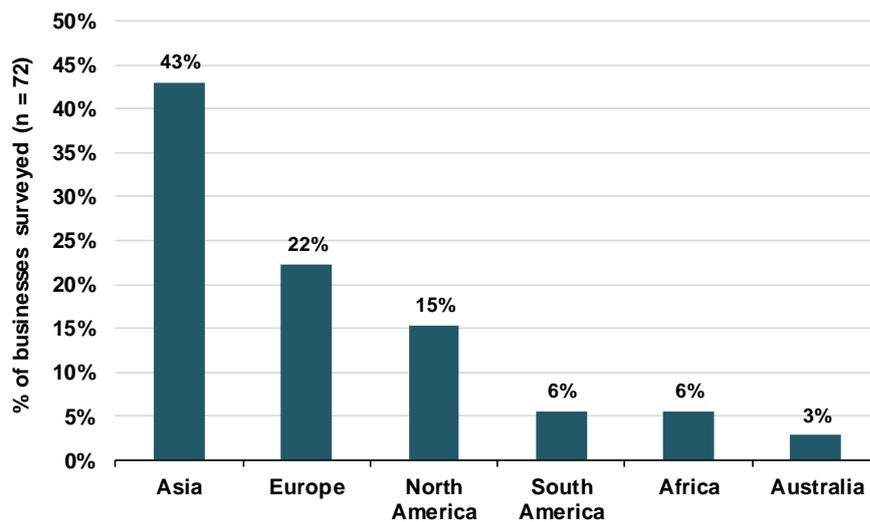
Figure 7-9: What impact did the support have on the performance of the business?



Source: SQW trade survey

7.45 Of the businesses reporting an impact on new markets, 43% have started to sell to new markets in Asia (including the Middle East), as shown in Figure 7-10. Over a fifth have started new exports to countries in Europe and a further 15% are exporting to new markets in North America. It is worth highlighting the differences here with Figure 5-1 which highlights location of new IP opportunities rather than where the business is entering a new market.

Figure 7-10: If selling in new markets, which ones?



Source: SQW trade survey

Types of support delivering most impact

- 7.46 Over a third of businesses (35%) reported that the support had a major impact on international sales in new or existing markets (Table 7-2). A higher proportion (42%) of the businesses supported with International Manager for Hire reported major impact and 50% of those attending five or more overseas events (exhibitions, trade missions, learning journeys) during the evaluation period also saw a major impact in the overseas sales.

Table 7-2: Support delivering major impact on international sales in new or existing markets

Combination	% reporting major impact
All businesses	35%
Businesses with International Manager for Hire	42%
Businesses attending overseas events	37%
Businesses attending 5+ overseas events	50%

Source: SQW

Performance against revenue targets

- 7.47 All the businesses interviewed were identified by SDI as having International Projects. This is where it was agreed that a business had the potential to increase exports to a specific market by £1 million over a three-year period (£0.5 million in the HIE area) following on from SDI support.
- 7.48 Businesses did not recognise the figures included in the monitoring systems and the fact that the database often included different revenue targets for the same geographic market made this very difficult to test out with the businesses (e.g. in 2012/13 a company has one revenue target for China linked to ‘International Manager for Hire’ and another target for ‘Overseas Market Development’ also in China).
- 7.49 For 40 out of the sample of 84 businesses, it was possible to compare the IP target for different markets with what the business had generated in sales since first receiving the support⁴¹. Just over a fifth (22%) of the IP revenue target had been achieved to date. For some businesses, this will be down to the timing of the support and the target (i.e. three years have not passed since the target was set). In other cases, businesses stated that due to external factors they decided to target a different geographic market. However, overall it would appear that in many cases the targets have been overly optimistic.

Wider recommendations

- 7.50 Finally, IP businesses were asked for wider policy recommendations on how Scotland and its enterprise agencies could improve the international competitiveness of their sectors. The main examples (where a few businesses highlighted similar issues) are provided below.

⁴¹ The other 44 businesses were not able to provide a detailed breakdown of their export performance broken down by priority markets

- More political support for new technologies (e.g. low carbon/ renewables) which then showcases new products and services for overseas markets
- Encourage SDI to work more closely with HE/FE sector to ensure Scotland has the necessary skills for internationalising
- Attract more international industry conferences to promote Scottish knowledge and expertise
- More overseas marketing campaigns and promotion of our key sectors – this should include the premium product sectors but also be broadened out to cover Scotland’s engineering and technology expertise
- More activity to help develop Edinburgh as an international hub for attracting fin-tech companies (trade companies were asked for wider views on internationalisation including inward investment)
- Develop a stronger international selling culture across all parts of Scottish society and demonstrate the positive effects of exporting to increase export ambition
- De-clutter and improve promotion of existing trade support so that all small and new businesses are aware of the help they can get to export (i.e. providing a clear route through the support offered by councils, chambers, SE/HIE and SDI)
- Clearer strategy for embracing Industry 4.0 (i.e. the next phase in the digitisation of the manufacturing sector) and advanced manufacturing so that Scotland has more tradable products
- Create a Scottish based mentoring network for SMEs to learn from each other on exporting
- Increase investment in advanced technical skills and technology skills to help differentiate Scottish firms overseas.

Conclusions

This group of businesses which have been supported to take forward International Projects are broadly very happy with the support provided. Overall satisfaction levels with Account Managers and SDI advisers were very high with around 90% saying they were satisfied (including around half stating they were very satisfied). The most valuable elements of the assistance were the practical support to identify customers in new markets; Overseas Events & Trade Missions and International Manager for Hire were highlighted as the most effective. There was evidence of a range of additional business outcomes and impacts on performance. The main areas for improvement were in better tailoring of overseas support, and closer strengthening links between firms and the overseas teams themselves.

8. Trade survey analysis - Non-International Project support

Key messages

- Between 2012/13 and 2015/16, SDI supported around 5,300 firms that did not qualify as an International Project. The analysis is based on interviews with 343 of these businesses
- This group ranges from Account Managed companies receiving multiple support to firms receiving very light touch Smart Exporter type support
- The majority (67%) of businesses were trading internationally prior to receiving support – this increased to 73% following the support
- Of the 112 firms that were previously non-exporters, 30 (27%) are now exporting and 57 (50%) now plan to take forward their exporting, while 25 have no plans
- Applying this to the population of 5,370 would suggest around 1,800 businesses were non-exporters with around 350 now exporting
- Satisfaction with the support was slightly lower than among the IP businesses, with just under two thirds of businesses surveyed reporting that they were either very satisfied (32%) or satisfied (30%)
- For over half the businesses, the support was genuinely quite light touch – the average number of assists was 2.6 with 38% receiving just one type of international trade support and 20% receiving two assists. (This is even higher in the population where almost 50% have received just one assist)⁴²
- One-to-one advice (31%), funding (14%) and overseas exhibitions and missions (10%) were seen as the main strengths of the support
- The quality of in-market contacts and form-filling were regarded as the main frustrations
- There was mixed feedback on progress of trade activity with a quarter (26%) of businesses feeling that they were making slower progress than expected, and 23% not making any progress
- There was some limited evidence of impacts on the performance of supported businesses with seven per cent reporting a major positive impact on international sales in existing markets and 31% reported moderate impact.

⁴² Section 10 explains how the grossing up for economic impact addresses this bias

Introduction

- 8.1 This section contains feedback from those businesses that have received lighter trade support over the last four years. To capture this information, BMG carried out 343 telephone interviews with firms who have been supported to raise awareness, build capacity and start exporting.

Business profile

- 8.2 Although these firms are not categorised as having support for International Projects, some have still received a number of products and assists, and they also include a number of Account Managed firms.
- 8.3 Over two-thirds (69%) of businesses interviewed are micro firms employing fewer than 10 people, with a quarter (24%) small businesses with 10-49 employees. Only ten respondents currently employ more than 100 people. Around half (51%) of the businesses are relatively new to exporting, having only started in the last five years. A further third (31%) started trading overseas between five and 10 years ago.

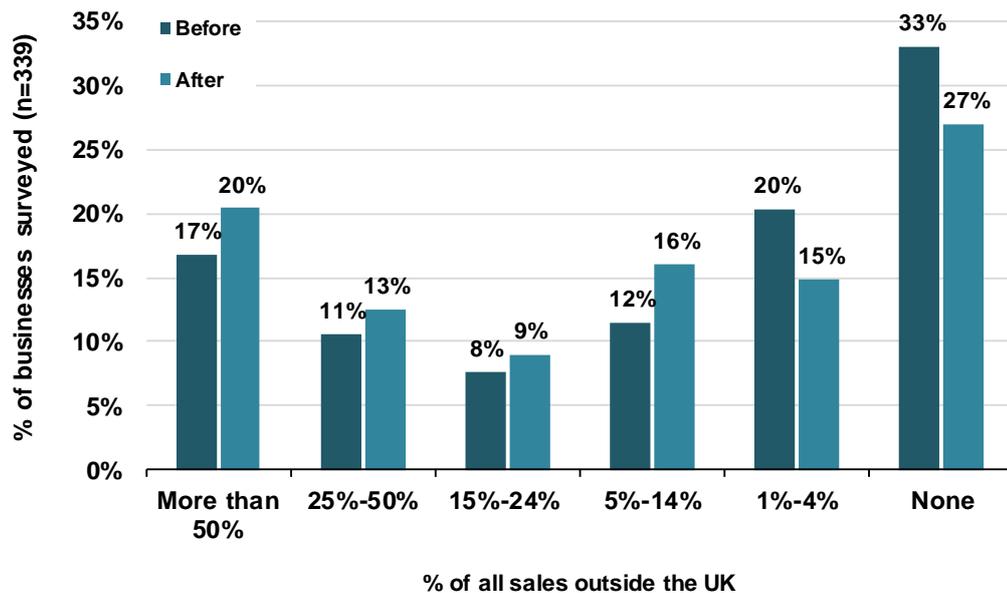
Table 8-1: If you are trading internationally, when did you start?

Year	% of businesses surveyed
2016	8%
2015	14%
2014	13%
2013	8%
2012	8%
5-10 years	31%
More than 10 years	19%

Source: SQW analysis of BMG trade survey

- 8.4 The majority (67%) of businesses were trading internationally prior to receiving support, with 17% noting that more than half of their sales were outside the UK. One in ten businesses (10%) had international sales of between 25%-50% of total sales. Around 8% of respondents reported export sales of between 15%-24%, with a third (31%) stating that international activity accounted for less than 14% of all sales.
- 8.5 Respondent businesses were also asked how their exporting activity has changed after receiving assistance. Just under three-quarters (73%) of businesses are now trading internationally – an increase of six percentage points. Most of this increase is concentrated in the Food and Drink, Energy, and Textiles sectors. Figure 8-1 outlines how the level of international sales for respondent businesses has changed following support.

Figure 8-1: Which best describes your firm before and after the support?

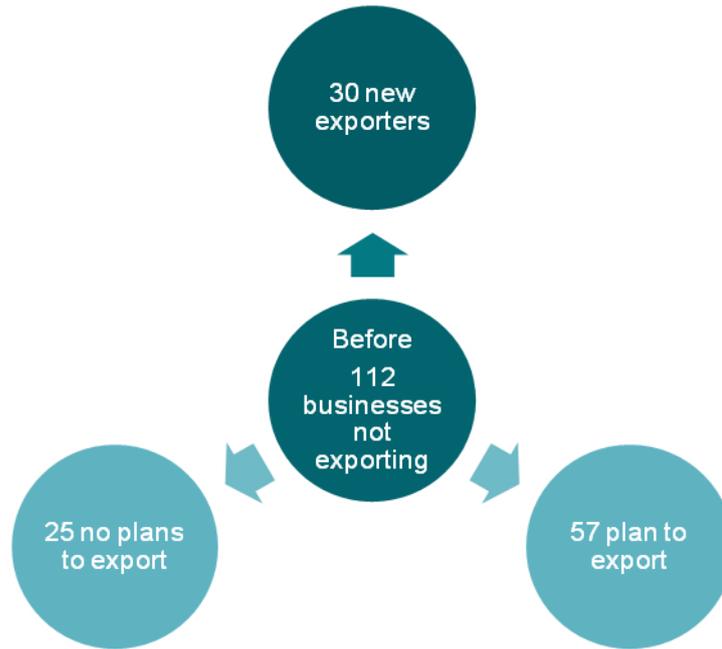


Source: SQW analysis of BMG survey

- 8.6 One of the key points is the number of non-exporters that have started exporting since they received support. This is shown more clearly in Figure 8-2. Of the 112 that received support, 30 (27%) are now exporting and 57 (50%) now plan to take forward their exporting, while 25 have no plans.
- 8.7 The 112 that were not exporters represents a third of the survey sample. Applying this to the population of 5,370 means that 1,772 businesses are likely to be non-exporters. **The survey suggests that 27% will start exporting after the support. Applying this to the wider population and taking into account non-response bias⁴³, this would represent 300-400 businesses starting to export following the support. This is a significant number in the context of the 2,000 new exporting firms highlighted by the Annual Business Survey (see para 2.3).** As highlighted in Section 6, it is our view that the businesses interviewed provide a reasonably representative sample to scale up these results and provide an indication of the scale of new exporters following support from SDI.

⁴³ Non-response bias occurs in statistical surveys if the answers of respondents differ from the potential answers of those who did not answer. This can happen in this case where non-respondents may no longer be trading or do not respond because there has been no impact from the support. We have adjusted for this in the economic impact section, but the estimate of those moving from non-exporting to exporting should also be adjusted.

Figure 8-2: Breakdown of what happens to non-exporters

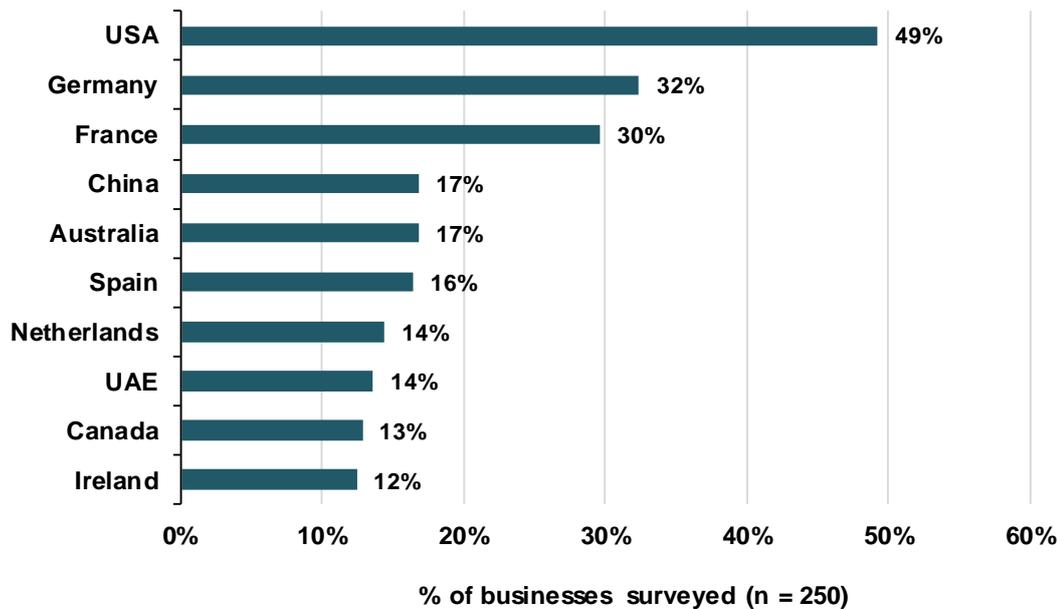


Source: SQW analysis of BMG survey

Markets

8.8 These sales are spread across different geographic markets, the top ten of which are contained in Figure 8-3. Half (49%) of firms are active in the United States, with a further third (32%) in Germany. Other common European markets include France (30%), Spain (16%), Netherlands (14%) and Ireland (12%). In terms of the High Growth Markets identified by SDI, 17% of exporters are selling in China and 14% in the United Arab Emirates.

Figure 8-3: Which countries do you currently generate international income from?



Source: SQW analysis of BMG trade survey

- 8.9 Of those businesses that are not currently exporting, around 68% reported that they are planning to become an exporter in the future. Over a third (38%) of these firms are planning to start trading internationally within the next six months, with a fifth (20%) likely to commence exporting in the next six months to a year. Approximately 28% of respondents felt it would take between one and two years, and 15% noted that it would take over two years to reach their target international markets.

Table 8-2: When do you plan to start exporting?

	Number	% of businesses surveyed
Within the next 6 months	23	38%
6 months to a year	12	20%
A year to 2 years	17	28%
More than 2 years	9	15%
Total⁴⁴	61	100%

Source: SQW analysis of BMG survey

- 8.10 Those firms (29 in total) who did not have any plans to export in the future were asked why this was the case. Six reported that their product was not appropriate for sales outside of the UK, whilst a further six stated that a decision of this nature is ultimately taken by their parent company. Four businesses felt that after consideration there was no need to begin exporting internationally as the UK market is sufficient for their needs.

Feedback on support

Support provided

- 8.11 Over a third (38%) of businesses surveyed received one type of international trade support. A further 20% received two assists; 12% three assists; nine per cent four assists and six per cent obtained five forms of assistance. Only three per cent of respondents received more than 11 assists between 2011/12 and 2015/16.

Table 8-3: Number of assists of survey sample

	Number	% of businesses surveyed
1	132	38%
2	69	20%
3	42	12%
4	31	9%
5	22	6%
6-10	37	11%
11-15	5	1%

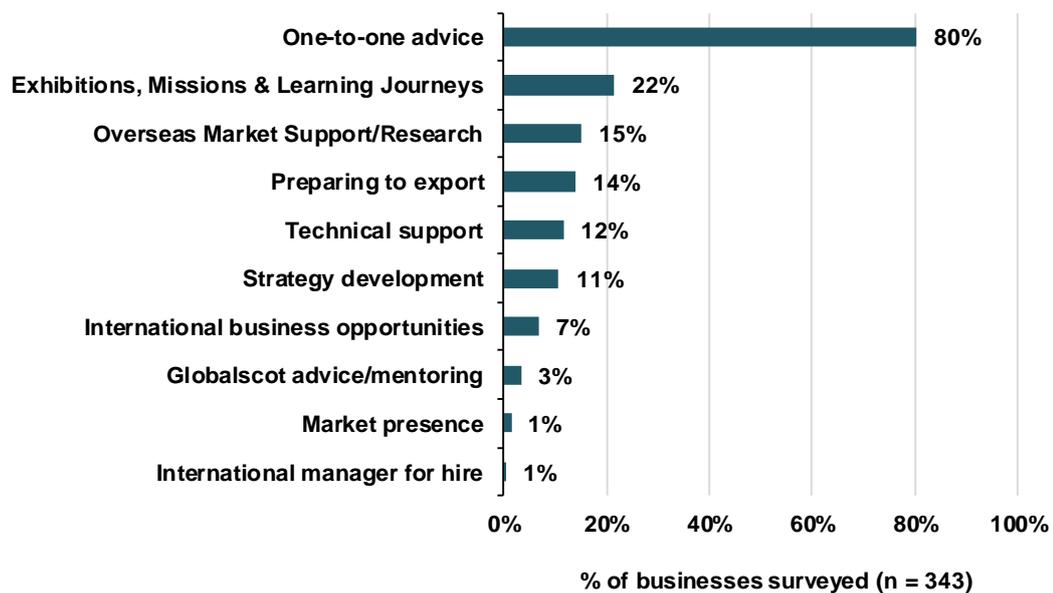
⁴⁴ Four businesses that were previously exporting but now are not are included here

	Number	% of businesses surveyed
16-20	4	1%
20-25	1	1%
Total	343	100%

Source: SQW analysis of SDI data

- 8.12 Figure 8-4 shows the different types of international trade support received by those businesses surveyed. As would be expected, the most common form of support was one-to-one strategic advice (80%). Around 22% of firms had received exhibition, mission and learning journey related support, with 15% benefitting from overseas market support or research. Other popular types of assistance included preparing to export introductions (14%), technical support (12%), strategy development (11%), and international business opportunities (7%).

Figure 8-4: International trade support of survey sample by type

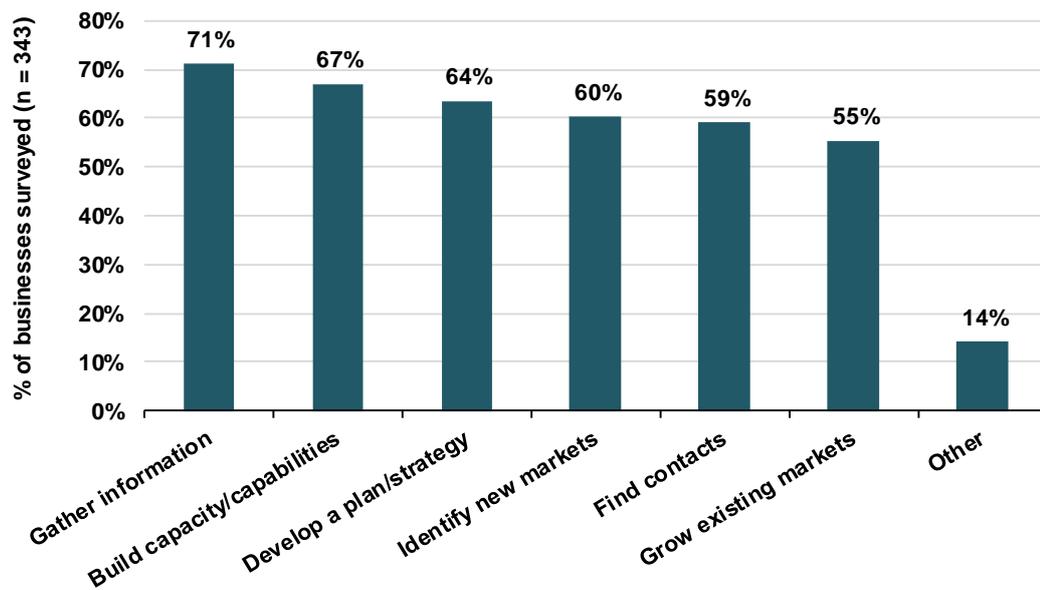


Source: SQW analysis of SDI data

Objectives of the support

- 8.13 The overarching objective for firms accessing support was to grow the level of exports either in existing or new markets. In terms of specific objectives, 71% wanted to find out more about international markets and understand the best way to export to these markets. Two thirds (67%) accessed support to improve the capacity of their business to sell internationally, and 64% were looking for help to develop a strategy to take advantage of these new capabilities.

Figure 8-5: Which of these were the objectives of the support you received?

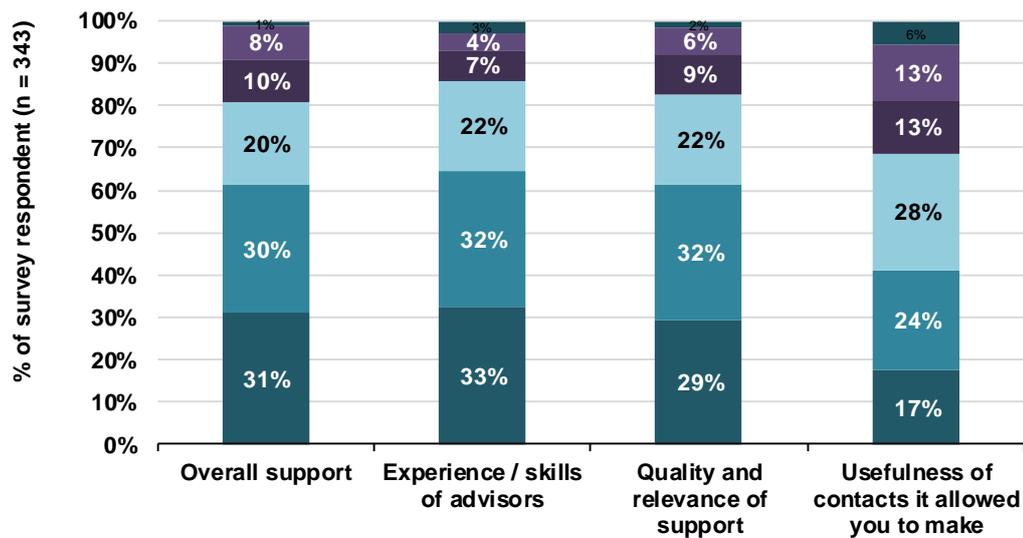


Source: SQW analysis of BMG survey

Satisfaction with support

- 8.14 Overall, the feedback on international trade support was quite mixed, with just over six out of 10 businesses surveyed reporting that they were either very satisfied (31%) or satisfied (30%). One in five (20%) were neither satisfied nor dissatisfied and 10% were dissatisfied with the overall support they had received. Just under one in 10 (eight per cent) reported that they were extremely dissatisfied.
- 8.15 This spread was representative of the feedback received on the experience and skills of advisers, and the quality and relevance of support. However, respondents were much less positive about the usefulness of contacts that the support allowed them to make. Over a quarter of businesses reported that they were dissatisfied (13%) or very dissatisfied (13%) with this element.

Figure 8-6: How would you rate the quality of support you have received from SDI?



■ Very satisfied ■ Satisfied ■ Neither satisfied nor dissatisfied ■ Dissatisfied ■ Very dissatisfied ■ Don't know

Source: SQW analysis of BMG survey

8.16 Although over 60% of businesses were satisfied with the support provided, this level of satisfaction is some way lower than for the 90% of International Project businesses as outlined in the previous section. The main sources of dissatisfaction were:

- Advisers' lack of understanding of their business and the market place
- Advisers' failure to reply or follow up on requests the business had made
- A sense that they were treated as part of a box ticking exercise by the advisers
- Inability of the advisers to provide useful contacts and leads.

8.17 Looking into the results in more detail, there is some correlation between level of support and satisfaction levels. Two thirds of businesses receiving more than three assists were satisfied, which is higher than the 61% across all businesses.

Table 8-4: Satisfaction levels by number of assists

	% of businesses that were satisfied or very satisfied	No. of businesses in sample
All businesses	61%	343
1 assist	57%	132
2 assists	59%	69
3-5 assists	66%	95
6+ assists	66%	47

Source: SQW analysis of BMG survey

Most effective support

- 8.18 **The quality of one-to-one advice and information on offer was a key strength by nearly a third (31%) of businesses.** Many commented on the research tools available to gather information on international markets, stating that this was extremely useful in shaping business activities. Others referenced the characteristics of SDI staff, noting that the proactive nature, flexibility and willingness of advisers to assist was crucial in making the support work. Most of the businesses in the sample received support through the Smart Exporter initiative which specifically aimed to increase export skills and knowledge about export markets. This would explain why advice and information was highlighted as a key strength of the support.

“It allowed us a fresh objective and prospective, allowing us to see a clear path into the market and set a target and progress in a clear direction. It also allowed us to consolidate our business model and confirmed a lot of what we were already discussing and made it very black and white and made it apparently clear”

“The adviser was proactive and the advice provided was good. They were knowledgeable and tried to do things on a timely basis”

- 8.19 **As most firms surveyed are micro businesses employing between 0-9 people, it is understandable that the funding for activities including consultancy, market research, website or e-commerce grants and overseas trips, was a critical part of the support.** A number of businesses reported that prior to the support they were unable to effectively develop their international activity due to a lack of resource. The funding provided helped tackle this, allowing firms to increase their capacity and capability to grow through exporting activity. With this in mind, several businesses suggested making more funding available when asked what additional support would help drive export activity.

“The financial support allowed us to progress projects that would have had to wait had the support not been available”

“The grants we received allowed us to recruit additional staff to excel and grow the business”

- 8.20 **Businesses also highlighted the specific benefits of attending overseas exhibitions and missions.** Out of the 74 businesses to attend these events, over half (55%) stated that they were the most important element of the support. This represents around 10% of all firms in the sample. Again, it was felt that the funding contribution towards travel costs was crucial in allowing them to attend these events. Several businesses also commented on the usefulness of this support in allowing them to gather information, raise their profile in international markets and provide an opportunity to meet with potential agents, distributors and buyers.

“The exhibition and mission support allows us to explore options ourselves and getting this support is helping us to do things that we wouldn't otherwise do”

“It allowed us to have personal presence amongst people we wanted to know of our existence in an international sense”

- 8.21 **Around one in 10 also highlighted the various workshops, seminars and training courses run as an important part of the support.** Being able to explore the intricacies of trading internationally

through these sessions was valued by businesses and in many cases, allowed them to develop their international activity thereafter. A few firms also emphasised the networking benefits of these events and the ability to share experiences with like-minded businesses.

“Before attending the ‘New to Export’ workshop I didn’t know much about exporting and importing, but after the training I was able to build on my knowledge”

“The seminars organised by SDI provided an opportunity to network with others exporting and speak to people who are experienced trading in other countries”

Less effective support

- 8.22 Under a half of businesses surveyed identified less effective elements of support. There were a number of comments on the quality of events, market information and advice available, with some views that what is on offer is too generic and not tailored enough to the business’ specific needs. For a small number of cases, this stemmed from the quality of advisers and their lack of knowledge of the business and sector in which it operates.

“We felt that the consultant did not understand our business or market and it was therefore a distraction”

“It was very general and just wasn’t specific enough to help me”

- 8.23 There were 20 businesses that felt that the ability of SDI to link them up with potential agents, distributors and clients in overseas markets was lacking. Two businesses commented specifically on the failure of the GlobalScots to provide relevant contacts. This weakness was reflected in suggestions provided by businesses on what SDI could offer to help Scottish businesses increase their level of exports, emphasising the need for improved assistance in linking up with appropriate contacts.

“We were given a list of contacts, and because we are a niche market, the contacts weren’t relevant”

“The people I was introduced to through the GlobalScot programme were not very well matched to my company”

- 8.24 It was also felt that the process for receiving support is too bureaucratic and time consuming. One firm stated that the application forms for receiving support are still of a “tick box” nature and as such, are not flexible enough for many companies. Several firms thought that whilst there was a great deal of activity before receiving support, more could be done in terms of follow-up (e.g. following workshops, events or one-to-one meetings with advisers). Overall, there were 18 businesses that believed there should be improvements to timescales, bureaucracy and follow-up.

“Small businesses need to move quickly in order to be able to achieve things, whereas the government departments move slowly and can sometimes hinder progress”

“It would have been good to allow the information I’ve been told to sink in and then discuss how to effectively apply it to the business afterwards”

Progress

- 8.25 **There was mixed feedback on progress of trade activity with a quarter (26%) making slower progress than expected, and 23% not making any progress.** On the positive side, over half of businesses surveyed were either making good progress (22%) or reasonable progress (29%) in their international trade development since receiving support. In considering these results, we do need to remember the high numbers of businesses that have only been assisted once or twice.
- 8.26 Together, just over half (51%) of all businesses reported good or reasonable progress. For those receiving one or two assists, this figure was lower at 44% and higher at 57% for those receiving three or more assists.

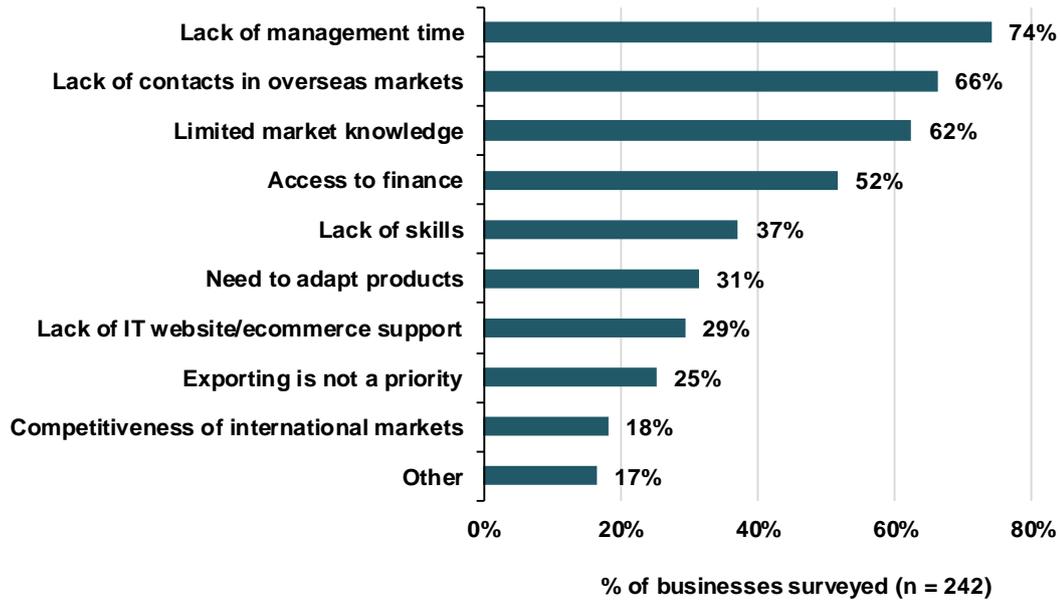
Table 8-5: How would you describe progress in your international trade since the support?

	Number	% of businesses surveyed
Making good progress	67	22%
Making reasonable progress	90	29%
Making slower progress than anticipated	81	26%
Not making progress	71	23%
Total	309	100%

Source: SQW analysis of BMG survey

- 8.27 Those businesses who reported making slow or no progress were also asked what factors were limiting their development. The main reasons behind this were a lack of management time (74%), a lack of contacts in overseas markets (66%), limited market knowledge (62%) and limited access to finance (52%).
- 8.28 In total, this means that around half of the businesses are not progressing as quickly as they would like, and that for many it is management time and contacts that are the main barriers. This reinforces some of the conclusions around the importance of SDI's roles in supporting management time (International Manager for Hire) and overseas market support which provides in-market help in finding contacts. There is also a lot of value from the organisational support around the exhibitions which saves management time.

Figure 8-7: Which of these factors, if any, are limiting progress?

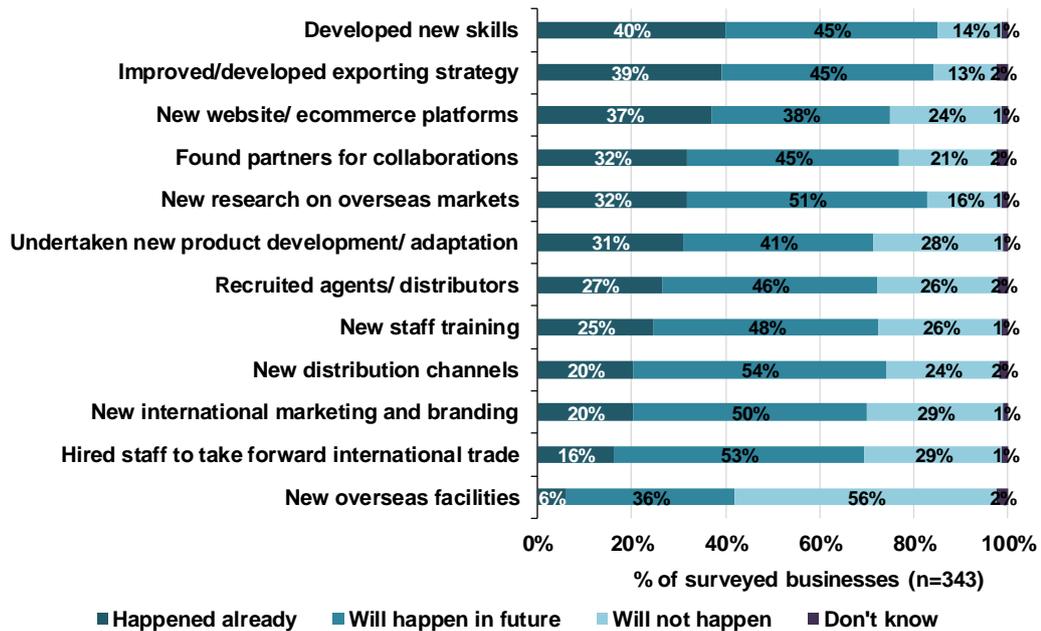


Source: SQW analysis of BMG survey

Outputs

- 8.29 **The most common output from the support provided has been the development of new trade skills, which was highlighted by 40% of businesses.** A further 45% stated they expect the support to lead to improved skills in the future.
- 8.30 The other main outputs reported were an improved or new export strategy (39% of businesses), the development of new website or ecommerce platforms (37%), and finding partners for collaboration (32%). In each case, the same proportion again expect these outputs to happen in the future.
- 8.31 Most progress has been reported against preparatory steps, with lower numbers of businesses reporting progress against the actual implementation of export plans (i.e. in terms of recruiting agents, taking on new staff and setting up overseas facilities).

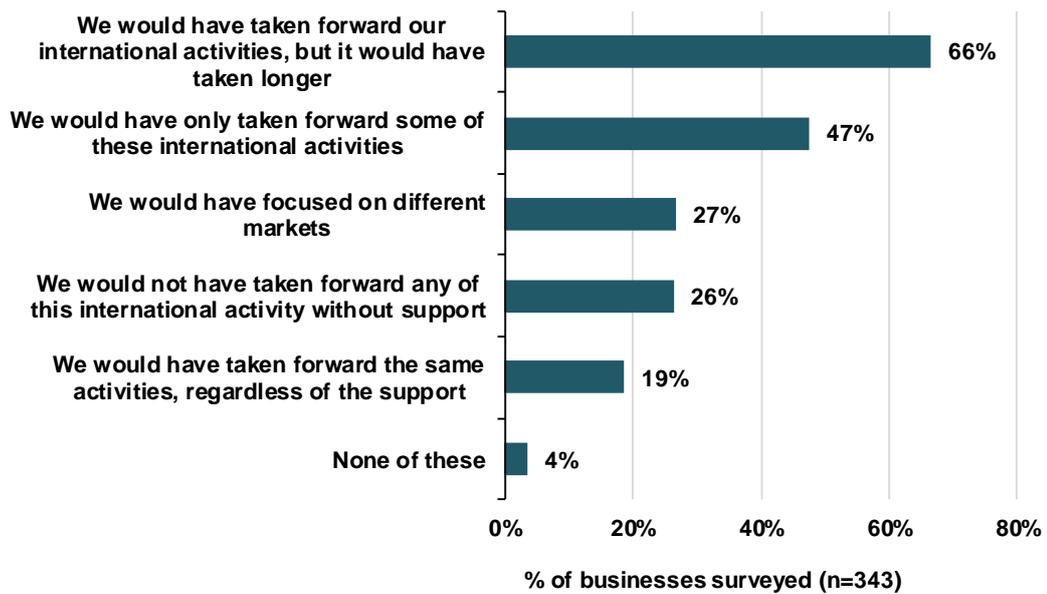
Figure 8-8: Which of the following have happened following support or which do you expect to happen in the future?



Source: SQW analysis of BMG survey

- 8.32 Overall, some type of additionality was reported by 81% of businesses in terms of taking forward trade activities, meaning 19% of firms would have undertaken the activity regardless of the support. This is lower than the equivalent figure of 24% reported in the previous SDI evaluation.
- 8.33 Over a quarter of businesses (26%) stated that they would not have taken forward these activities without the support. Two-thirds (66%) stated that the additionality of the support was around timing and just under half (47%) said that some of the activity would still have happened. One in five (19%), believed that these things would have happened regardless of the assistance. For those that said they would have taken forward their activity anyway, the support was primarily used to confirm their existing export plans (which is still a positive outcome for those firms).

Figure 8-9: Would you still have developed your trade activities without the support



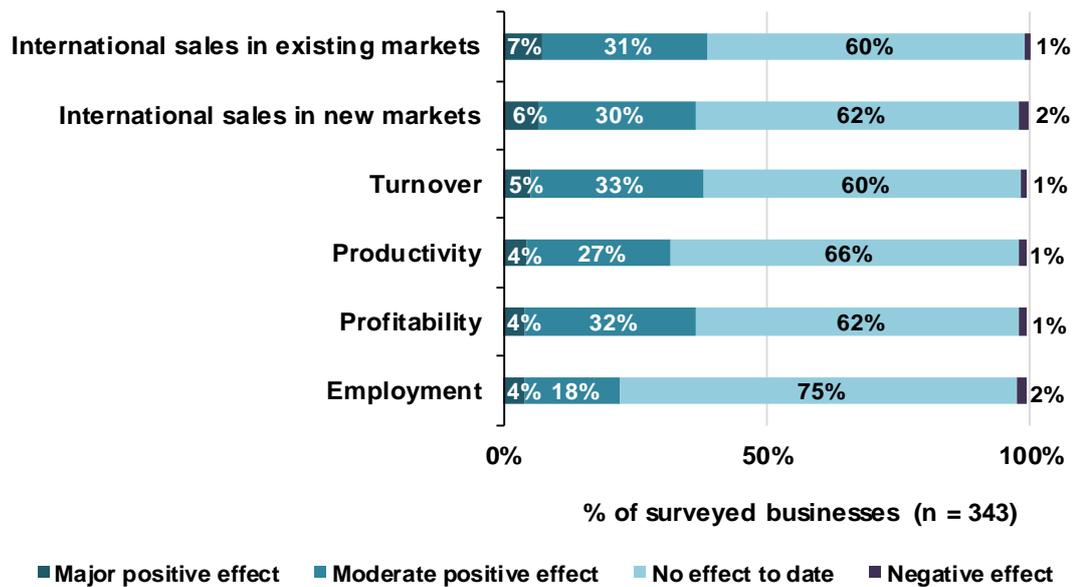
Source: SQW analysis of BMG survey

- 8.34 In a small number of cases (4%), businesses stated that as a result of the support they decided not to progress with their export plans. This is likely to have been because the advice recommended that the business or product was not yet suited for overseas markets.

Business outcomes

- 8.35 **There have been impacts on the performance of supported businesses.** Whilst seven per cent of businesses stated the support has had a major positive effect on international sales in existing markets, 31% reported moderate impact. Similar numbers of businesses highlighted major and moderate impacts on international sales in new markets and overall turnover. In line with the earlier findings on satisfaction levels, the more support provided the higher numbers of businesses apportioning business impact. There is little difference when looking across the larger sectors within the sample.
- 8.36 As shown below, around 60% of businesses reported no impact to date in terms of international sales (either existing or new). This feedback is not surprising given the high numbers of businesses that have been supported with one assist (just under half of the sample). Also, it should be noted that although half of these businesses reported no impact to date, they do still expect an impact in the future.

Figure 8-10: Has the support impacted on the performance of the business in any of these areas to date?



Source: SQW analysis of BMG survey

8.37 **Around 44% of businesses reported that the support has had either a major or moderate impact on international sales in new or existing markets.** As shown below, two-thirds (66%) of respondents who received support to attend overseas events and exhibitions reported either a major or moderate impact. In contrast, just a third (34%) of businesses who benefited from one-to-one advice noted either a major or moderate impact on sales in existing or new international markets. These findings are perhaps unsurprising given that **those businesses that are closer to generating export sales, and are being helped to accelerate this through events and trips, are more likely to be in a position to attribute impact.**

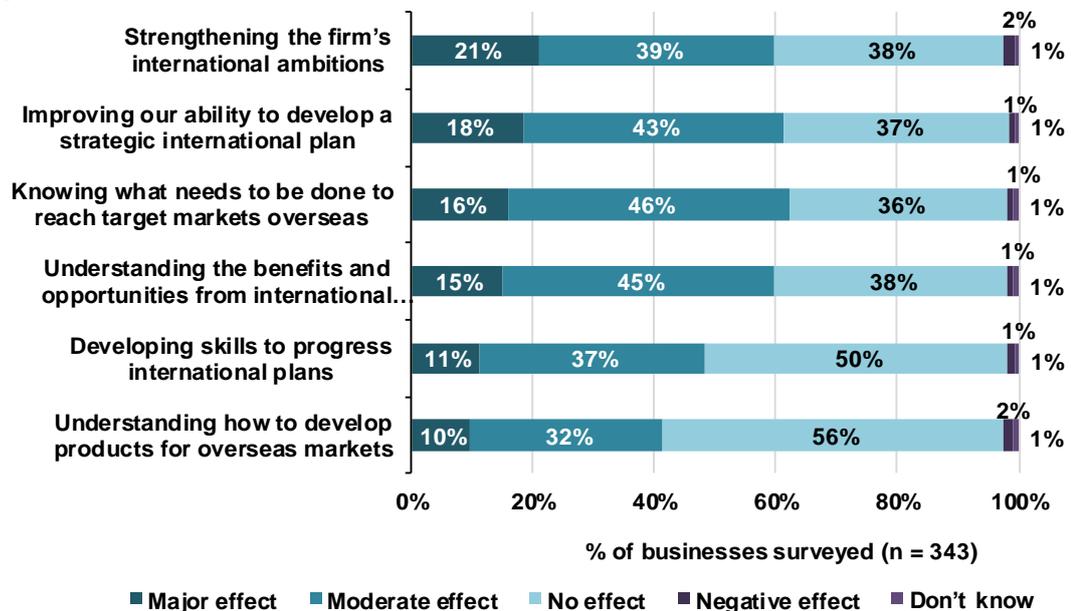
Figure 8-11: Proportion of businesses reporting a major or moderate impact on sales in existing/new markets by product type



Source: SQW analysis of BMG survey* varying bases for different products

8.38 **In terms of international trade capability, most impact has been in strengthening international ambition and improving businesses' ability to develop strategic international plans.** One in five businesses (21%) stated the support has had a major effect on international ambition, with an additional 39% saying there was moderate effect. Similar numbers of businesses reported major and moderate effects on their ability to develop export plans. Again, the relatively large number reporting no impact to date reflects the light touch support for many firms.

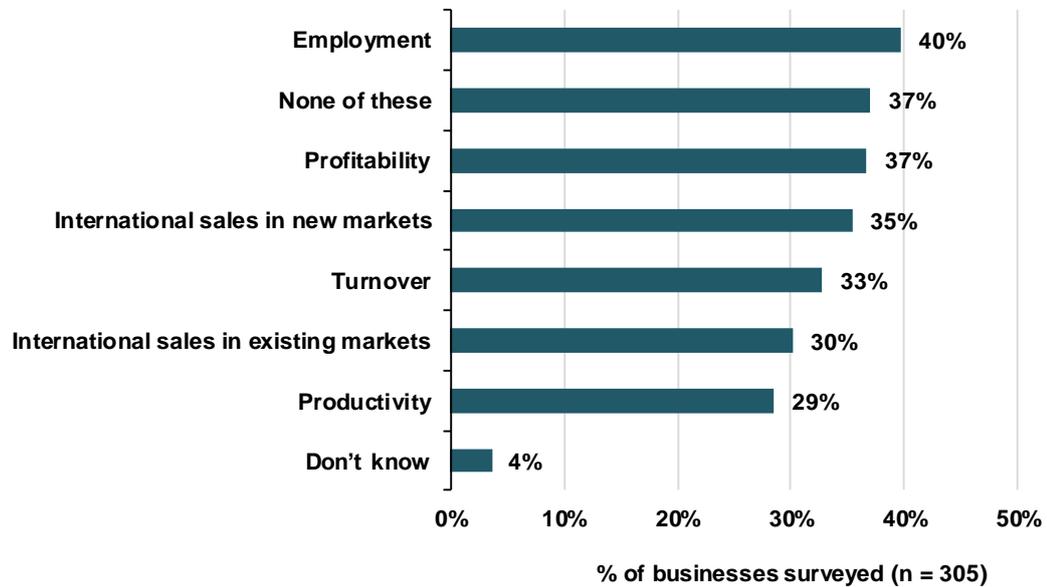
Figure 8-12: Has the support had an impact on your international trade capability?



Source: SQW analysis of BMG survey

8.39 Around 40% of businesses felt that the support they have received to date would have an impact on their employment levels in the future. 37% of firms do not expect any further impacts. For a similar proportion (37%) the support is likely to influence profitability in the coming years. Around a third of respondents predicted that the support would impact their international sales in new markets (35%), turnover (33%) and international sales in existing markets (30%), productivity (29%) and international sales in existing markets (30%).

Figure 8-13: Do you expect the support to have an effect on any of these in the future?



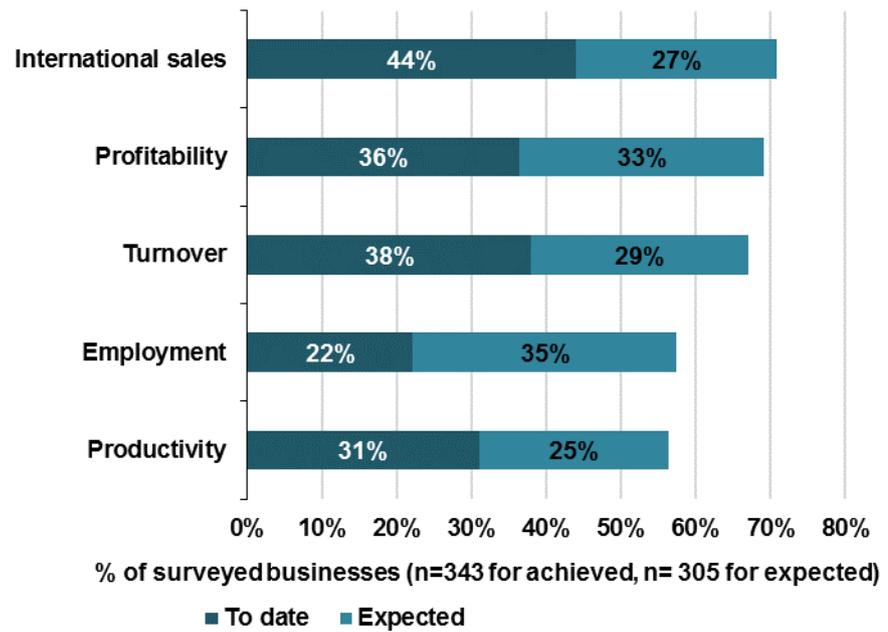
Source: SQW analysis of BMG survey

8.40 Businesses were also asked whether they were now selling into new markets following the support. A fifth (22%) of the firms stated this was the case while just under half (46%) reported that they plan to sell to new international markets soon.

To date and future impacts

8.41 The proportion of businesses that reported effects to date and expected can be combined to give an overall indication of the impacts. The results are shown in Figure 8-14. The bar chart shows the proportion that reported an impact on international sales, turnover, employment etc. so far, and the second part of the bar shows those that have not had any impact to date, but expected to in the future. Forty four percent of businesses have already benefited from an increase in international sales, with a further 27% expecting an impact in the future – a total of 71%. Almost 70% also expect this to translate into turnover and profitability, but a slightly weaker effect on employment.

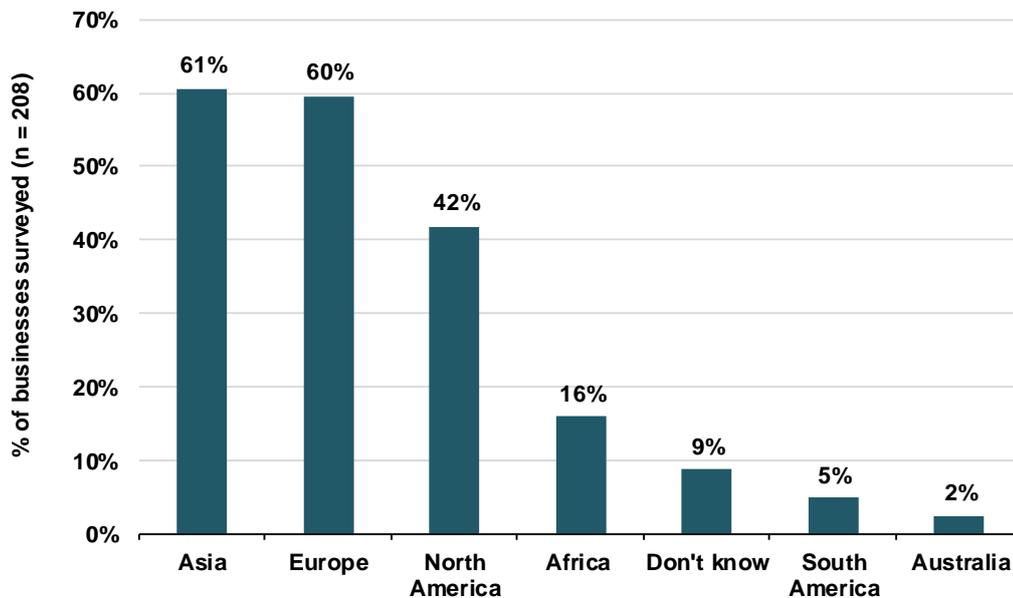
Figure 8-14: To date and expected impacts combined among non-IPs



Source: SQW analysis of BMG survey

8.42 **The main new markets were Asia (61%), Europe (60%), North America (42%) and Africa (16%).** This graph shows only the new markets (compared with the earlier analysis in Figures 5.1 and 5.2 which show target markets. The strong performance of Asia in terms of new markets, is important in light of the additional resource allocated to encouraging exports to the Middle East, India and China through the High Growth Markets Unit.

Figure 8-15: Which new international markets are you selling or expect to be selling to?



Source: SQW analysis of BMG survey

Conclusions

Previous sections have highlighted that the number of businesses engaged and the volume of assists has increased significantly in recent years. There are now a lot more businesses receiving quite light touch support (e.g. many just receiving one or two assists). This may well be a factor in the lower satisfaction levels compared to the IP firms (62%) and the 49% who were progressing their plans more slowly than they would like (Table 8-5). Having said that, the proportion that feel the support has impacted, and will impact, on new export sales is relatively high. Broadening support is clearly important in addressing the strategic objective of increasing the number of exporters, but it is also important to make sure that the level of support is sufficient to take forward export plans.

9. Inward investment survey analysis

Key messages

- SDI has supported 370 firms investing in Scotland between 2011/12 and 2015/16. The analysis is based on interviews with 62 (17%)
- Overall the firms interviewed were very positive about the experience, the knowledge and expertise of the SDI teams and the wider support infrastructure
- The Account Managers in particular are given a lot of praise for their work in their understanding and engagement with the firms
- Without the support around half of the projects would not have taken place in Scotland, 40% were brought forward or increased in scale, and 7% would have gone ahead in the same way
- Almost two thirds, involved new physical developments, 58% new training, 55% new plant and equipment. More than half brought new technologies and new products to Scotland. Half brought new R&D activity
- The support through SE/HIE and SDI was considered well integrated, but there is still a need for the current landscape to be simplified
- The main areas for improvement are around flexibility (in financial and non-financial support), improving transparency of the RSA process/awards and faster decision making processes, particularly in relation to R&D grants
- Inward investment is closely integrated with other forms of business development support, particularly innovation. Many of the examples of both new to Scotland investments and expansions related to R&D, and should be seen in this context
- Where it was awarded, finance was the most important element of the support. However, talent is increasingly important for investors, particularly in technology investments. Without the right people, financial support would not be effective
- The wider, ongoing, SE/HIE and SDI support structure is seen by investors as a real strength that could be promoted more effectively.

Introduction

- 9.1 As part of the evaluation, SQW undertook a programme of interviews with 62 firms that have been assisted to make inward investments between 2011/12 and 2015/16. These are firms that have created or plan to create jobs through SDI and UKTI inward investment interventions (investment by organisations headquartered outside of Scotland).

- 9.2 **The database provided by SDI identifies 373 firms** that received inward investment support between 2011/12 and 2015/16. This covers SE and HIE areas. Of these 25 are in HIE and the remainder in the SE area.

Decision to invest

- 9.3 In most cases the investment decisions are made in the HQ of the parent company's home country, although in a small number of cases this had been agreed by a regional HQ in London. With expansions the process is relatively consistent; the site develops an investment plan which is agreed with regional management (UK or Europe) before final agreement from the firm's parent company HQ. In some cases, there would be threshold levels for authorisation (one example was that investments of more than £200,000 would have to be approved in the US).
- 9.4 The internal rate of return on project investment was considered the main measure of feasibility for expansion projects, although not always. The examples given varied, but were typically expected to deliver around 15% to 30%. Others used criteria such as developing technical capabilities/skills or product development, rather than financial measures in making their investment decision. There were examples of an investment made with a plan to make a profitable exit (sell the company) after two or three years, while another felt it was able to take a much longer term view because of its private ownership. The expected pay back periods for these investments ranged from two to ten years.
- 9.5 Increasingly, for smaller technology businesses, getting the right people was often a greater influence than short term financial measures in their decisions to invest in Scotland. The examples of attracting software and informatics projects to Edinburgh in particular were related to accessing talent from the universities as well as links to their research.

Reasons for investment

- 9.6 The reasons for investment usually cover a number of related factors. These include investing to grow capacity, improve productivity and develop new products and processes. In other cases, there were location specific reasons to be in Scotland (e.g. for whisky and renewables). **The feedback highlights how inter-related investment, innovation and productivity are and how these investments do not happen in isolation of wider business development.** Securing new investments requires demonstrating the strength of the business in Scotland. Having access to people, strong innovation and the research base are all related. There is a clear role for SE/HIE and the Account Managers in providing an integrated business development support package to encourage new and follow-on investment.
- 9.7 In examples of new R&D activity, talent and universities were important, but in several other R&D cases moving to Scotland was driven by senior managers' desire to return home, primarily from other parts of the UK. Those that did this were already aware of the skills and research strengths available.
- 9.8 **Half of the firms interviewed had considered making their investment outside Scotland.** These are cases where Scotland (or a firm in Scotland) is bidding to secure an internationally mobile project (for example to bring product development or R&D activity to the site, or to produce a new

product). Where the firm is not considering locations outside Scotland, it is usually where the site is making the case for a specific investment for expansion or to improve productivity. In some cases, there are geographic reasons why it could not go elsewhere (whisky, renewables, or where there are already facilities at a site). The decision here is whether to invest or not and the decision is more likely to hinge on funding incentives.

- 9.9 The reasons for investing in Scotland are summarised in Table 9-1 from the descriptive responses given by the interviewees. Among the specific factors that the businesses mentioned, the skills base was the most frequently given (by more than a third). Interviewees commented that skills, or talent, was becoming increasingly important and this is particularly true where inward investment focuses on more technology and R&D projects. For expansions, a successful existing plant is clearly also important. Almost one in five also mentioned the wider SE/HIE and SDI support infrastructure.
- 9.10 There is no single reason for these investments, but there is a hierarchy. There needs to be a certain level of skills and suitable infrastructure to even be considered for investment. Once this has been identified, there are various factors that go into the equation. The funding is always important in a project's economics, but will not be enough on its own.

Table 9-1: Main reasons for investing in Scotland

Reasons given	% of businesses interviewed
Skills base	37%
Successful existing operation	24%
Wider SE/HIE and Scot Gov support and funding	19%
Space/facilities/logistics	11%
Part of cluster	11%
Owners have existing connection to Scotland	6%
Language	5%
Access to R&D/universities	5%
Quality of Life	3%

Source: SQW survey

- 9.11 Some examples of the reasons for the investment are given below and illustrate how the availability of funding, the wider support, skills, universities and past R&D support helped these investments to happen.

“Because the RDAs have been closed down in the rest of the UK, Scotland was the most attractive option given the support available from SE, SIB, SDI more generally and the RSA. At the start, we had a lot of support from various people”

“We already had a R&D facility in Scotland focused on this area (for which they had received a R&D grant support in 2005/6 to grow this team) which meant there was a base of expertise”

“The funding was important, but also quality of life and the ability to attract and recruit software designers”

“The support that was available from SE and SDI really stood apart from the assistance that was on offer elsewhere - this was certainly an important factor in making the investment in Scotland”

“Support for the project, the training plus grant, guidance from SE and SDI and interaction with the US HQ were important factors”

“The primary reason is talent. In Glasgow, we are able to tap into Universities with a strong pedigree (e.g. University of Glasgow, Strathclyde, Edinburgh) and recruit individuals with the desired skill-sets”

Feedback on support

Financial support

- 9.12 The main source of financial support over the period has been RSA grants. Among the businesses interviewed, 61% had been awarded RSA grants, which totalled £34 million. This compares with a total of £138 million awarded to all inward investment projects between 2011/12 and 2015/16. Not all the grants offered are fully drawn down yet, either because they have not been claimed (where it has not yet met the employment targets), or where they are still in the process of developing the project and is only part way through claiming RSA.
- 9.13 In addition, eleven of the 62 cases had also received other support in relation to the investment. This includes examples of grants from Innovate UK, Carbon Trust, Energy Savings Trust, seed funding from Dundee University, local authorities (there were several that had support from Glasgow City Council), DECC (as was), UKTI/DIT, New Lanarkshire Start Programme, and for larger investments, support from the Scottish Investment Bank and Renewable Energy Investment Fund (REIF).
- 9.14 In the impact section (Chapter 10) we use three categories of support:
- Active RSAs to date, where there remains funding for the firm to draw down
 - Completed RSAs, where 100% of funding has been drawn down
 - Other support, where there is no RSA but includes R&D, training grants and any other financial or non-financial assistance received.

Joined-up partners

- 9.15 The firms' links to SE/HIE and SDI reflected the types of investment. Almost all those supported for expansion or to safeguard activity reported longer term relationships with the agencies, while the new investments had only more recent contact. For new investors, this was typically led by the firm approaching SE or HIE initially. Where existing investors have had a longer-term relationship (in 61% of the cases), projects would involve discussions between the firm and usually an Account

Manager. There were also six cases (10%) where it had been SDI that approached the firm or individual managers first and offered support.

- 9.16 The overriding impression from the inward interviews is that the support delivered is for the most part joined-up, and where it works well, the Account Manager role is critical. The good examples have the Account Manager leading an account team and bringing in experts where they are needed.

“From our experience, all agencies in Scotland seem to work well with one another and are very joined up. It is clear what the different roles are of each public body are but a concerted effort is made to bring these together”

“The relationship between SE and SDI is very good. Both entities seem to have discussions about the firm away from me and work well together in the background”

“Very good from the point of view that if one adviser didn't have the answers we needed they would actively bring other people into the discussion”

“SE and SDI are absolutely joined up. However, the wider landscape of public agencies is "horrendously complex" for a country of our size. This needs to be simplified”

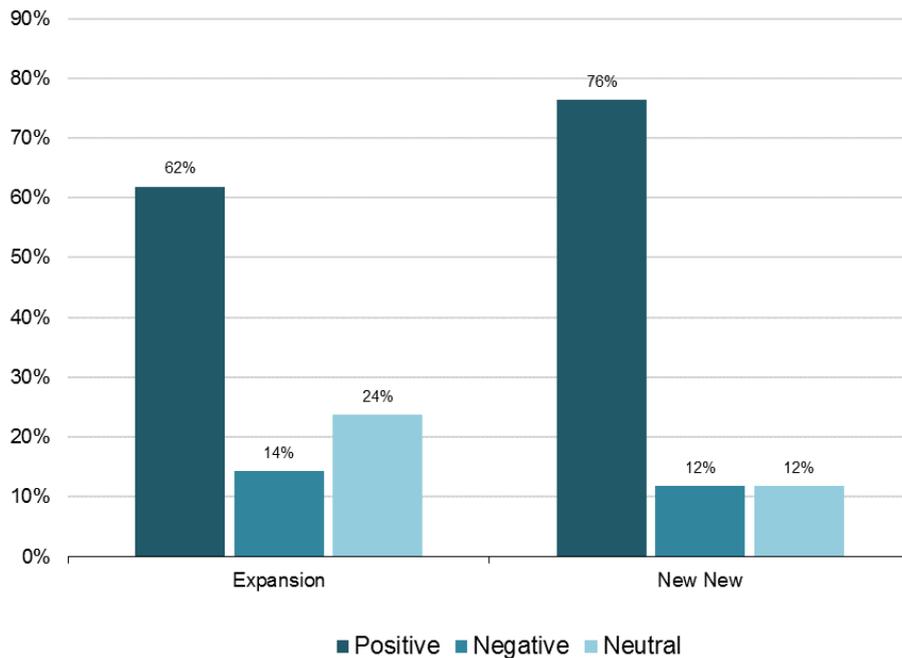
- 9.17 There are also around 14% of cases that were more critical of how effectively agencies are joined-up. Examples of comments include:

“If you are unable to explain the landscape of support in one page, then it is broken - I feel this is the case in Scotland. It is extremely difficult to understand who does what, how they work, who to contact etc. The current structure is not effective and there is a lack of coherent execution between all agencies in Scotland”

“There are many different organisations to deal with and we have had different contacts from SE, including Account Managers, and SDI”

- 9.18 Figure 9-1 shows the balance of views on how effectively the agencies worked together. It excludes those that said they had only worked with one agency or organisation. New investors were slightly more positive than those expanding existing operations.

Figure 9-1: Do you feel that the support from all the agencies in Scotland was joined-up



Source: SQW interviews

Most important elements of support

- 9.19 Although having a suitably skilled labour market is a key factor in considering investment in Scotland, the package of support is then important in comparing the offer in Scotland with alternatives.
- 9.20 The funding was by far the most important element of the support provided. Given that many of the firms received significant RSA grants this is understandable. For almost half, the combination with wider SE/HIE support was also important.
- Of the 62 cases, 83% considered the finance to be the most important part of the support offered
 - 48% also said the wider advisory role of SE/HIE had played a part in their investment decision (often in combination with the funding)
- 9.21 Feedback on the wider role included comments on the high quality of advice (e.g. property, recruitment, logistics), support to develop their supply chain, help to understand the business environment, export support, the value of having a third party to bounce ideas off and the commitment of the Scottish Government to supporting particular industries.
- 9.22 One firm felt that the support had led to their development of stronger networks. Another reported that having “top people from SE and SDI meeting the Management of the company in London” had been the most effective part of the support.

- 9.23 One business commented on the importance of having a single point of contact in cases where the investment related to confidential new technologies – they would not have been willing to deal with several agencies. Another firm reported that completing the RSA form had helped them to be clearer about their objectives. Examples of other comments include:

“Funding was the most important, but other advisory services have also been beneficial. The quality of people dealt with has been high”

“The financial support was definitely the most important in assisting with the investment, it would have not gone ahead in Scotland at this time otherwise. Other elements of the support which were particularly important include supply chain assistance, advice & guidance on political changes, and various discussions related to export targeting”

“Grant funding gave credibility for the plan, unlocked potential for further investment. Informal advice from SE for applications was also important - SDI opened doors with potential investors and gave credibility to them in conversations (more intangible impact)”

Less effective elements of the support

- 9.24 There were very few firms that identified less effective elements of support. The main examples were in relation to the administration burden. Perhaps the most frustrating being a “slow no”. The following are examples:

“The application can take some time to get approved. It is understandable that SE need to do all the checks but internal business decisions here move a lot quicker”

“The forms to claim grant money are a little outdated”

“A lot of the paperwork was irrelevant - e.g. turnover, data for regional activity etc. But failed to identify the more important social and wider economic benefits that we feel we brought”

“The overall process was far too complicated. Completing the RSA application was "horrible" and took up a great deal of resource, both in terms of time and finance”

“The rules of the grant were a bit "last century" and has very little flexibility”

- 9.25 There were a small number of other comments more widely on the support. One considered that SE was constrained by internal structures and organisation. Another found the whole process of accessing support difficult:

“If you want to spark entrepreneurial activity, you have to be willing to provide finance. Banks in Scotland are hesitant to lend so the onus falls on public bodies to be able to assist new start-ups. I found the process of trying to access support quite challenging”

- 9.26 Another firm considered that the amount of grant available was just too small compared with the amounts being offered elsewhere. They claimed to have received around 11% of the total project costs, compared with countries like Poland and Germany which offer upwards of 30% towards project costs. Despite this the IRR for the project was still superior and they plan to make the

investment. The comparison was given as an illustration of how competitive the market will be in maintaining the business here.

- 9.27 Finally, several firms considered that SDI should do more to 'blow their own trumpet' by highlighting case studies and success stories to show what the support can do.

Satisfaction with support

- 9.28 The satisfaction with the support overall is very high with 95% satisfied, including three quarters being very satisfied (Table 9-2). The feedback is extremely positive, perhaps reflecting that many of these are firms that were successful in securing funding. Even so, there is very little criticism of delivery. In the last evaluation from 2010, satisfaction was around 80%.

Table 9-2: Satisfaction with support

Type of project	Very satisfied	Satisfied	Dissatisfied	Total
Expansion	66%	28%	6%	100%
New to Scotland	83%	13%	4%	100%
Safeguarding	100%	0%	0%	100%
All projects/firms	75%	20%	5%	100%

- 9.29 From existing investors, most of the positive feedback is for the work done by the Account Manager in working through the processes with them. It is also interesting that the interviewees from outside Scotland all praised both the experience and the ongoing support that is available. The feedback commented on the quality of people and the variety of services offered by SE/HIE. There is also an indication that support has improved.

“Extremely satisfied - all individuals interact strongly, expertise and knowledge of the support available has been crucial to growth”

“Account Manager is excellent (SE). Less satisfied with SDI (have worked with them for 2 years to try to fill empty space on site and have brought 'nothing of value')”

“The only criticism I have is that the timescales from application to actually receiving the investment are a little too long. The paperwork was manageable but once submitted it was a while before we heard anything back. I think more could be done to improve and increase the timeliness of communication”

“Whole process was 'pretty slick', with good communication throughout the whole process”

“The process and amount of paperwork involved with getting support is extremely time-consuming and cumbersome. This needs to be improved”

“Very satisfied with SE and SDI advisers. Less satisfied with HIE advisers: they seem to fixated on supporting small businesses in the area rather than working with larger, more established companies”

“There has been a marked improvement in the service level over the last 3-4 years”

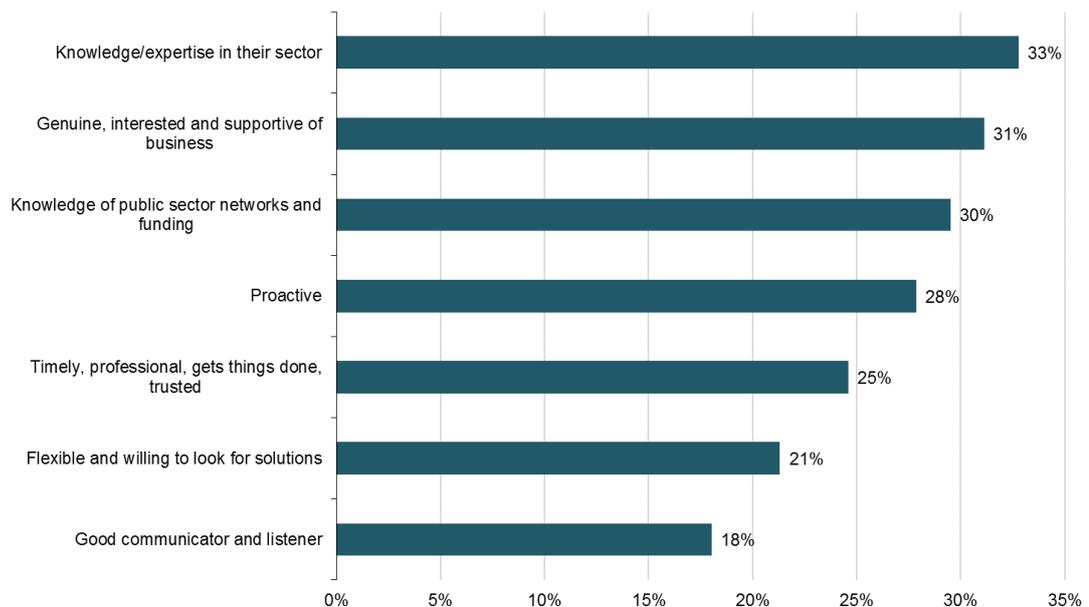
“Extremely satisfied, our interaction with SE advisers has been “absolutely first class”. We have a fantastic relationship with our adviser, who is very proactive and always keeps in contact with the business. It almost feels like these advisers are an extended part of our team”

“Very good - in fact, having worked in a number of countries I’ve found the Scottish support to be by far the best”

Skills of advisers

9.30 The skills that firms described as being the most valuable are shown in Figure 9-2. The ones that were most frequently mentioned are a good indicator of what businesses value. Perhaps the one that stood out most was how important it is for advisers to develop a real connection with business, and seen as really “batting for them”, rather than acting as an auditor or selling products. This reflects a wider point identified in the Trade interviews about the importance of being committed and finding solutions for the business.

Figure 9-2: Skills that firms consider most important for advisers (% of firms mentioning each)



Source: SQW interviews

Interaction with SDI overseas

9.31 Of the 62 interviewees, **40 had no connection, or were unaware of any contact, with SDI overseas.** This is often not necessary for expansion projects, or in some cases the manager in Scotland may not be aware of it. Eleven had a little contact and eleven had more regular contact. There are examples where contact has been helpful. One business was aware that there was a meeting between an SDI adviser in India and the business owners, which helped to reinforce the support for the Scottish site. Another reported there were annual meetings between the SDI team

in the US and the parent company. This was really appreciated by the parent company and builds the relationship with SE and the Scottish Government.

- 9.32 For another firm, SDI in the US have regular meetings with the parent HQ and SE prepare briefings for these meetings, which sets out options for potential support. The firm actually uses this as an example of good practice in other countries. The SDI team also had ongoing contact with a firm's HQ in Texas and another has regular contact with SDI in California. This had an influence on the supported project going ahead.
- 9.33 There were very few suggestions of potential improvements to the support from SDI overseas. One interviewee suggested that it was "luck" that they managed to find out about SDI and the support they provide and suggested that *"They should do more to raise awareness of SDI in the US. SDI do not do a good enough job to market their presence. They need to raise their profile"*. The same business also suggested that SDI and SE staff could be a bit more "proactive" in offering assistance. Other suggestions, by other businesses, were also around raising profile specifically of the research base and universities in Scotland.
- 9.34 The other area mentioned was the potential to do more to bring young technology start-ups from London to Edinburgh. The interviewee felt that while many people overseas do not consider Edinburgh a possible location, they do once they are operating in London. For technology businesses Edinburgh can offer many of the advantages of London without the costs.
- 9.35 Overall, there was quite limited feedback and evidence on the role played by the overseas teams in bringing in new inward investment to Scotland. Many existing investors have little requirement for contacting the overseas teams as they are supported by their SE/HIE Account Managers. Even amongst the 24 new inward investors interviewed, there was little if any contact. This could be down to the profile of these projects (a third coming from England, many already aware of the support available) but **given the increasing importance of bringing in new investors to Scotland it would seem that the network of overseas offices should have a higher profile and greater influence in generating new investment leads.**

Improvements to delivery

- 9.36 Given the discussion of the package of support, all the businesses were asked to identify areas that they felt could be improved. Not all the businesses provided examples and the list below summarises the issues that were raised.
- 9.37 It is recognised that many of the suggested improvements are currently being addressed through the SDI Inward Investment Improvement Plan, particularly around improving the funding application process and enhancing the skills of SDI advisers.
- Joining up support more effectively:
 - A single source of information that sets out where businesses can access support (this would also be a source for current investors to find additional sources of support)

- Linking up public partners so the different types of assistance are clearer to businesses
- Better link up of export with inward support – ensuring inward investors are provided with information on the trade support opportunities
- SE could be more proactive in pointing businesses to other types of support - this could be through Account Managers or perhaps a travelling roadshow to keep companies in the loop
- Enhancing SDI expertise:
 - More specific sectoral expertise within both SE/HIE and SDI (SDI expertise was described as more focused on international geographies than sectoral)
 - Better connections within the UK in order to attract more investments from other areas notably the South East of England. It is well known that SDI have good contacts overseas but the equivalent is often overlooked closer to home.
 - Need to ensure that advisers become more knowledgeable about the business they are working with – developing a more collaborative approach.
- Improving the funding application processes:
 - More should be done to speed up the application process. There should be less paperwork and more flexibility on the R&D grants. One company has had some discussions with SE about R&D grants, but the timing relies on SE giving that quick feedback, but this is not always available.
 - Improving the transparency of the RSA process/awards was also highlighted. Companies need a "faster decision" so they can make commitments to a specific project. One firm suggested a heads of terms agreement, which we understand is being used more often now.
 - For the R&D grants, it was suggested that there should be more of a focus on technology milestones rather than job creation and greater degree of flexibility. Some also felt application forms were too generic.
- As tailored an approach as possible:
 - Several comments related to a sense that the support is too often "one size fits all", and that more could be done to make sure it is tailored to specific businesses. Investment needs to be more flexible in terms of the types of support offered (financial and non-financial).
- More extensive promotion of SE/HIE and SDI support and success stories.
- Balance of support

- While some interviewees felt that SDI needs to balance its start-up support with more help for medium/large companies, others suggested the opposite, that support was focused *too much* on medium and larger firms. The fact that these were evenly balanced suggests that the current position is reasonable.
- Another interesting view was that one business that has worked on both trade and inward investment found that the companies he has worked with received better support from SDI when he is trying to do work overseas (trade internationally or establish operations overseas) than he has had when trying to bring investment into the country.

9.38 However, most interviewees were very satisfied and the improvements are at the margins of what is being done. One interviewee, who has worked internationally, considered that:

“Interaction with Scottish Government [SE and SDI] is as good as with any Government I’ve worked with”

Other business development support

9.39 Two thirds of the supported firms also received other forms of support (Table 9-3). This was slightly more likely among the firms supported for expansion than the new investments. A fifth also had support for innovation (frequently a Smart grant) and a similar proportion had received support for other business development including leadership training, or property advice. The Leadership training received very good feedback.

9.40 Just under 10% had received support for international trade, which included one with a Manager for Hire, others were to attend exhibitions and events internationally.

Table 9-3: % of businesses receiving other forms of SE/HIE support

	No other support	Business dev/property/ leadership	Environment	Innovation	International	Workforce	Don't know
Expansion	28%	19%	3%	22%	3%	13%	13%
New to Scotland	42%	21%	0%	17%	13%	8%	0%
Safeguarding	33%	0%	17%	17%	17%	17%	0%
All Cases	34%	18%	3%	19%	8%	11%	6%

Source: SQW interviews

9.41 This wider support was typically seen as an integral part of the investment. One firm said that:

“The two forms of support go hand-in hand - have to compete for investment from the parent company, and the support from SE strengthens your case. Support is viewed with some envy by sites down South”

9.42 The innovation support in particular is part of the case for (usually) expanding the activities at the site in Scotland. They also were seen as enabling future projects in Scotland. One reported that the

availability of R&D grants is likely to have a significant bearing on whether the company increases its R&D presence in Scotland.

- 9.43 Another business felt that investing in staff at this site with SE support shows a commitment to remain here and adds to the argument for further investment at the site. Another identified the growth in the R&D team, again with SE support, as a strong element in their business pitch to secure an International Project from their parent.
- 9.44 One business felt it was good to be able to demonstrate to the parent company that the support from SE/HIE and SDI is there if it wants it. Another manager summed up the availability of wider assistance as *“part of a very supportive package, which encourages the business to stay in Scotland”*.
- 9.45 In another industry, a firm described the close relationship with senior managers in SE and SDI as demonstrating that there is a commitment to their sector and potentially support for the future investment plans at the site.
- 9.46 The wider business support therefore plays an important role in supporting and attracting investment. Innovation support in particular underpins productivity and the performance of operations in Scotland.

Additionality

- 9.47 Firms were asked to consider what the alternative outcome would have been if the support had not been available. The results are summarised in Table 9-4. **Across all the support just under half of the projects supported (44%) would not have gone ahead in any form, in Scotland.** In 28% of cases they would have been later (more than two years was the most frequent estimate of any delay). 23% would have been on a smaller scale and 8% would have been poorer quality (this is in cases where the R&D support allowed better quality equipment and training grants enabled a better trained workforce). In just 7% of cases the project would have proceeded in the same form regardless of the support. This figure implies low levels of deadweight and is significantly lower than the equivalent figure of 33% reported in the 2010 evaluation.
- 9.48 The proportion of cases that would not have gone ahead at all was slightly higher among the new investments and lower among the expansions. For the expansion projects, the support was more often associated with bringing an investment forward.
- 9.49 In the cases where the support made no difference (7% of the 61 that responded), these included one where the SDI contact had visited them after they had invested (and only involved a couple of meetings to see whether there was scope to do more). Another involved support from SDI in London to find suitable premises, but this did not impact on their decision (although they are now looking at other types of support). A third related to SDI contact after an acquisition, and now they are now working with SDI on exporting. A final example reported that they were committed to the investment anyway, regardless of the support they received.
- 9.50 The feedback shows that in 93% of cases the support has had some impact on the shape of investment, its timing and scale.

Table 9-4: What would you have done if the support from SDI had not been available

	Investment would not have been made at all	Investment would have taken longer	Investment would have been on smaller scale	Investment would have been poorer quality	The support made no difference
Expansion	34%	41%	34%	0%	3%
New to Scotland	57%	17%	0%	13%	13%
Safeguarding	50%	0%	50%	33%	0%
All firms	44%	28%	23%	8%	7%

Source: SQW interviews
Total greater than 100% because of multiple responses

- 9.51 Examples that support the data are shown in Table 9-5. The feedback is helpful in highlighting some of the possible implications of the investment not happening without support, or being delayed. The comments also show how the failure to invest in a Scottish operation at a particular time can then put it at a disadvantage in the future. A lack of investment reduces productivity relative to the operations of the group elsewhere which one described as a “slippery slope”.
- 9.52 These one off or project investments are not only about the jobs that are secured in the short term, but in most cases involve an increase in productivity, or development of new capabilities that help underpin the growth of the business in the future. The alternative is not just missing out on the immediate investment, but also falling behind others in the group over the longer term.

Table 9-5: Detailed examples of additionality comments

Timing examples	Scale and other examples
Without the support, the same investments would have probably still have gone ahead. However, it is likely that it would have taken much longer to do so - the support most definitely accelerated our timescales of delivery.	The scope of the R&D project would have been reduced, which would have meant they would not have been able to secure the commitment of a key customer.
Would still have started the company, but feels that the support from SIB/SDI and SE has doubled the pace of growth and that they would be a year to 18 months behind where they are now. We are an express train, as opposed to a little regional railway	Would have moved to Scotland but would have been smaller scale. May also have failed as one of the core members of the team in Scotland left shortly after the investment. However, under the terms of the RSA the company had a commitment to Scotland which they wanted to follow through on.
Without the support from HIE and SDI, it is very unlikely that the investment would still have gone ahead. I feel that we would have had to push back our timescales significantly, looking at 2018 onwards.	Would like to think that the case for the project would still have been made, but the funding made it easy to justify (became a key part of their pitch). Has certainly impacted the scale of the project, as purchased larger version of the machinery as a direct result of the funding.
We would have probably gone ahead with the investment project anyway - it was the language base in Scotland which swung things rather than the support provided by SE and SDI. It may however have taken longer to reach the point of delivery without the support.	The investment in Scotland would not have gone ahead at the time it did. Without the support we would have probably have expanded the site at the Isle of Wight and looked at moving to Scotland much further down the line.

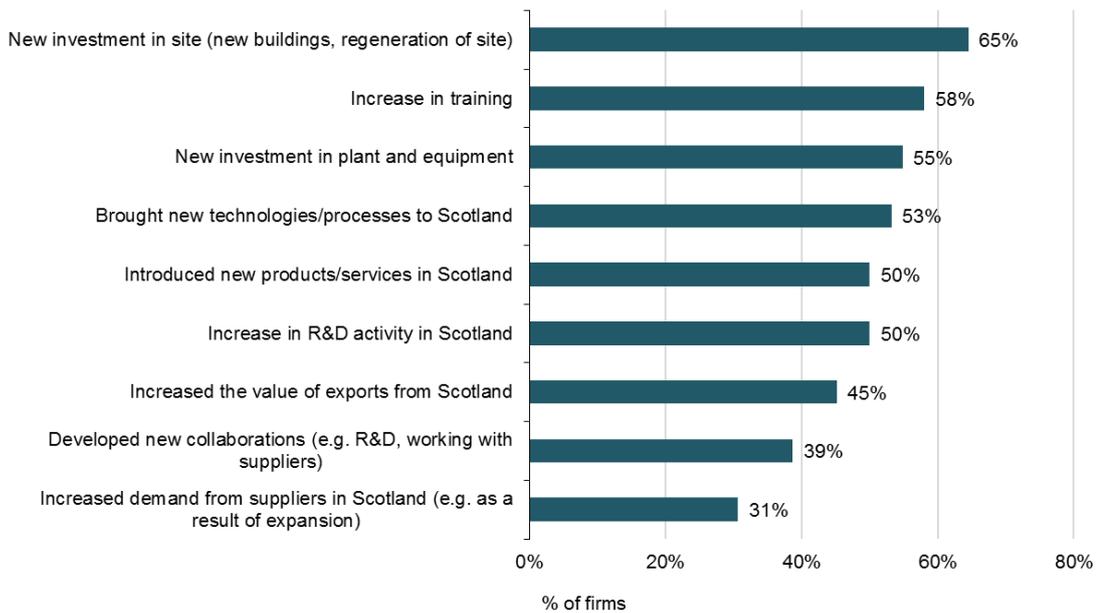
Timing examples	Scale and other examples
<p>The investment would still have gone ahead but would have happened much further down the line i.e. around five years later. The support certainly accelerated timelines.</p> <p>With no funding, I suspect the parent company may have deferred their decision to invest for a year. This would have given our Italian competition extra time to improve their offering and I believe this would have ultimately led to the investment being made in Italy.</p>	<p>Without the support from SE, we wouldn't have been able to carry out the expansion and introduce new technologies to develop our products. It may have been the case that the investment would have happened elsewhere which would have stunted our growth significantly.</p> <p>Project would still have gone ahead in some form, but would have also included some investment in China. As such, the total value of the investment in Scotland would be 50% smaller.</p> <p>Thinking of the R&D grant, it was critical to being able to proceed with the project in Dundee. Without the RSA grant they would not be able to make the same scale and quality of improvements to facilities which would then impact on future performance</p> <p>Without the support, we certainly wouldn't have made such a big investment and it would have probably have been the beginning of a "slippery slope" to moving operations elsewhere.</p> <p>The grant meant that the IRR of this project was around 7%-10% higher. Without this increase, the decision would have been marginal and the investment may not have got the go-ahead.</p>

Source: SQW interviews

Outputs and outcomes

- 9.53 Figure 9-3 sets out the outputs generated by the investments made by the firms interviewed. Almost two thirds developed new physical developments, 58% new training and 55% new plant and equipment. More than half brought new technologies and new products to Scotland. Half brought new R&D activity. There was less impact on suppliers.

Figure 9-3: Investment outputs



Source: SQW

Employment

9.54 Within the sample, total employment at the start of support e was 8,395. At the time of the interviews this had risen to 12,146, an increase of 3,751. In the New to Scotland investment cases employment started as zero. In 55 cases employment had risen over that period.

Impact on productivity

9.55 Of the firms that could comment (52), 60% believed the new investment had impacted positively on productivity. The source of these improvements was the adoption of new technology, new processes or training. In cases where productivity had not improved, this was either because the project had not developed far enough yet, or in some cases where the investment was purely in R&D.

9.56 In our previous work for SDI, the econometric analysis of inward investments found that the investment had relatively small effects on productivity. In part this was shaped by a larger proportion of support being provided for safeguarding employment (possibly in less productive operations).

9.57 The evidence here suggests that much of the investment being made is improving productivity, and that without the support most this would not have taken place at all, or within the same timescale. Most investment for expansion or even safeguarding, involved investment in new plant, or increases in scale that businesses reported had or would lead to improvements in productivity.

- 9.58 It is interesting that the econometric results in the previous study⁴⁵ suggested that the support did not have an impact on productivity (measured as Total Factor Productivity⁴⁶). It is not possible to directly compare the two approaches.
- 9.59 For example, some of the improvements in productivity will be part of an international production chain. Investment in new platforms to join up international software design or back office activities for global financial and business services will improve productivity at the group level, but would be difficult to capture through standard econometric techniques. Investment in productivity in whisky production or renewables is likely to take time to show up in statistics. More generally, many of the cases interviewed were also in the process of introducing new products and improving productivity.
- 9.60 Finally, it is also likely that the types of firms supported have changed as have the conditions of the grants. RSA criteria now restricts the large-scale safeguarding of employment (which arguably could have supported less productive employment) and there is more use of R&D and training grants which are directly associated with productivity improvements.

Customers and exports

- 9.61 Businesses were asked to estimate the proportion of their revenue derived from customers in Scotland the rest of the UK and the rest of the world (Table 9-6). On average, more than 50% is from international customers, 30% from within the UK and 19% in Scotland. In practice, the *value* of the international sales is likely to be even higher than this implies, given that it is the larger firms that tended to generate a higher proportion of income from overseas.
- 9.62 Calculating specific values is difficult because only some of these firms can provide sales figures for their operation. Some are parts of larger supply chains, cost centres, contributing to the value of goods or services delivered from elsewhere. For example, mid or back office activities for large international firms, or international call centres.
- 9.63 The interviews highlight how important inward investors are in generating international sales for Scotland, and that participation in international supply chains means that the export value of some of these services may be underestimated in Scotland.

Table 9-6: What proportion of your sales are made to customers in Scotland, rest of the UK and overseas?

	Scotland	rest of the UK	rest of the world
Average % of turnover from customers	19%	30%	53%

Source: SQW interviews

- 9.64 Most firms were unable to quantify the change in the value of exports that could be attributed to the support, but of those that did, one reported an increase in exports from \$10m to \$50m, and another

⁴⁵SQW, SDI Policy Evaluation Final report, May 2010 for Scottish Enterprise

⁴⁶TFP measures the productivity of all factors of production (and not labour alone).

from around £9m to £15m as a result of the investment. Others indicated either exports of smaller amounts, or in some cases, it was too early in the project to value them.

New products and processes

- 9.65 A large majority of the firms interviewed had introduced or developed new products or processes as part of their investment.
- 37 firms (67%) reported that they had introduced or developed new products or processes as part of their investment (this is the proportion that had done at least one of these)
 - Of these, 15 were introducing products or processes that were new to Scotland and 21 that were new to the world.
 - Examples of these new products and processes were software, pharmaceuticals, distilling and bottling processes, business service innovations, medical devices, renewable energy generation and food processing.
- 9.66 Foreign-owned firms contribute to a large proportion to R&D. Among those that do invest in R&D in Scotland the median value was £500,000 a year, but the values ranged up to £25 million in one case. 26 of the firms also considered the support to have had an impact on their R&D activities.

Scottish universities, Research & Technology Organisations (RTOs) links

- 9.67 Related to the contribution to R&D, foreign-owned firms may also work with Scottish Universities and other industry groups (See below). This can benefit both parties through knowledge exchange. Of the 62 firms interviewed 30 knew of specific links they have with universities or RTOs.
- 9.68 These mainly related to R&D activities (24) and 6 related to workforce development. Of the R&D activities, half had been enabled or strengthened by the inward investment support. Examples included:
- Being part of industry groups including Decom North Sea and Oil & Gas UK and in the process of developing this further especially with Scottish universities.
 - Links with Dundee University and use of their lab facilities as well as collaborating on research papers for the Protein Protection Unit, and with Heriot Watt Brewing Department
 - R&D links with the Strathclyde, Glasgow Caledonian and Heriot-Watt Universities.
 - Undertaking projects with Renewable Energy Catapult and Dundee University
 - In discussions with Computer Science departments of Edinburgh and Strathclyde Universities in relation to recruitment and research projects
 - Working extensively with Edinburgh University informatics department as well as supporting Women in Computer Science.

- In discussions over a data lab project with the University of Edinburgh, a project initiated by SDI
- Supports PhD studentships at Glasgow University and others. This has helped to build the capacity and credibility of the company in Scotland.

9.69 There were also six firms that worked with universities in relation to their workforce development, specifically for recruitment to support the new investment.

Competitors

9.70 Understanding where these firms compete helps indicate whether there is likely to be any displacement (from other Scottish firms) or whether their output will contribute to Scottish exports.

9.71 By definition the firms interviewed are international and are mostly competing globally, or at least within Europe. It is not a straightforward question for those who are part of a supply chain. Others may be trading in Scotland but competing with other international businesses. From the interviews, half of the firms did not compete with any businesses operating in Scotland. A further quarter compete with a minority of businesses operating in Scotland. Eleven per cent were competing with other firms in Scotland.

Table 9-7: Where are your competitors based?

	Thinking about your main area of business, which of the following applies?
None of the businesses I compete with are based in Scotland	50%
A minority of the businesses I compete with are based in Scotland	24%
Around half of the businesses I compete with are based in Scotland	2%
The majority of the businesses I compete with are based in Scotland	8%
All the businesses I compete with are based in Scotland	3%
I have no direct competitors	5%
Don't know	8%

Source: SQW interviews

9.72 Only two of the firms could identify competitors in Scotland that had adopted similar products or processes. Most interviewees either did not think that there were any relevant competitors in Scotland at all, or where there were, they were not aware of any spillover effects. This suggests very little product market displacement from other firms in Scotland.

Market conditions

9.73 Investor businesses were also asked about market conditions, to help set reported growth in context. Despite what has been a period of slow growth and the more recent uncertainties, the feedback on the past five years among the managers interviewed was relatively positive. A total of 44% believed trading conditions had improved, compared with 28% that felt it had deteriorated.

9.74 The pattern over the past five years is shown more clearly by sector. The past five years have seen significant growth for the firms in food and drink, life sciences and technology sectors. Firms in renewables, ADM, and energy (oil and gas) have had a more challenging period (Table 9-8).

Table 9-8: Market conditions over the last five years by sector

Sector (number)	Declined strongly	Declined moderately	Are about the same	Improved moderately	Improved strongly
ADM (3)	33%	33%	33%	0%	0%
Creative (1)	100%	0%	0%	0%	0%
Energy (4)	100%	0%	0%	0%	0%
Fin & bus (6)	0%	0%	33%	33%	33%
Food & Drink (5)	0%	20%	20%	20%	40%
LS & Chem (9)	11%	11%	11%	22%	44%
Renewables (6)	33%	33%	17%	0%	17%
Tech (20)	5%	5%	30%	35%	25%
Textiles (2)	0%	0%	50%	50%	0%
Grand Total	19%	11%	23%	23%	25%

Source: SQW interviews

Embedding the firm

9.75 The feedback from firms on the effect of the support on their connections within Scotland were almost all very positive. 74% of all the firms considered that the support they received had made them more embedded in the Scottish economy. It is difficult for these sites to know whether this embeddedness has helped ensure they remain in Scotland or helped to win further investment. Those that were interviewed did feel that these connections helped the business and its performance which made further investment more likely. This was described in several ways:

- The support has **levered further funding into property and equipment** which is a commitment from the parent. This in itself helps secure their presence and strengthens the operation's position within the company group, for the future.

By building a larger footprint (and longer term commitment) in Scotland - 'the more you invest, the more you embed'. The equipment and infrastructure at the site is the main factor for the company continuing in Scotland. The support we received helped ensure we were able to acquire and make use of this commitment.

- In some firms there is a critical mass which provides greater sustainability. For example, for an airline investor, the investment in a base made it harder to cut routes. Another said that reaching this critical mass had positioned them for further expansion, which would not have been possible otherwise.
- In some cases, the security of the investment has a limited shelf life. One firm estimated that the investment has given their factory 10-15 years of sustainability.

- It has enabled **more training, investment in skills and increased employment**
 - One firm reported that the main reason for deciding to stay in Scotland was the workforce. The support has allowed them to develop premises and invest further in growing their pool of employees. This strengthening of the workforce has in turn helped embed the company in Scotland.
 - Another felt that the support has helped make the case for continuing with operations in Scotland against some strong competition internationally.

This has allowed us to grow our workforce even more, which is the factor that contributed to keeping our operations here in the first place.

- **Stronger although limited links with suppliers**
 - The support helped one firm work with new Scottish suppliers
 - Another was supported to use Scottish suppliers and engage with Scottish universities. It is not just being committed to this project, but also having future plans which will further embed them in Scotland

9.76 There were 12 firms that did not consider the support to have helped further “embed” the company. These indicated they would have been here anyway, or where they believed they were already well embedded in the Scottish economy, regardless of the support.

Future investment

9.77 New investors to Scotland were more positive about future growth than either those that had been funded for expansion or safeguarding. More than half of the New to Scotland investors considered there to be a high likelihood of further investment. The overall picture was of most firms having plans for future growth despite the uncertainties around Brexit. This was raised as a challenge in relation to access to the Single Market and the potential impact on labour markets, but even so, firms continued to be upbeat about the prospects for further investment. By sector, the most optimistic firms were in technology, renewables and financial and business services.

Table 9-9: Likelihood of future investment

Row Labels	High likelihood	Reasonable likelihood	No plans	Don't know
Expansion	28%	50%	9%	13%
New to Scotland	54%	42%	4%	0%
Safeguarding	33%	50%	17%	0%
All cases	39%	47%	8%	6%

Source: SQW interviews

Wider policy issues

- 9.78 Behind some of the comments and the analysis is a perception that talent is increasingly the driving force in location decisions for technology and software firms in particular. No level of financial support is going to overcome a lack of talent. It will continue to be important in the future and some of the suggested issues were around how to create more (through education).
- 9.79 There were a number of other policy and infrastructure issues that firms raised. Like the international trade businesses, Brexit was seen as creating uncertainty and could have a big impact. There were suggestions that SDI should provide guidance on how best to deal with impending changes.
- 9.80 There were also issues raised about a lack of entrepreneurial activity in Scotland generally, but also the scope to make more use of mentoring support (by existing investors) for new, small investors. This is potentially an important idea as the agencies try to attract more, new, smaller technology businesses. In fact, for these firms, the importance of the Scottish support infrastructure provides a real strength. The issue raised by several of these businesses was the potential to offer a mentoring programme, linking new inward investors with more experienced companies. Another suggested the public sector could create a network of businesses, providing an accessible knowledge bank of businesses that can be 'tapped into'.
- 9.81 Finally, there were several ideas for improvements to infrastructure, including broadband, the quality of industrial premises and investment in facilities for Film and TV production in Scotland.

Conclusions

The findings from the survey of inward investors were generally very positive with improvements from the 2010 evaluation in terms of satisfaction levels and additionality. The support package provided by SE/HIE and SDI was highly valued and Account Managers were given a lot of praise for their work with firms and in particular in “finding solutions”. There was a perception that support is well ahead of other agencies in the UK. In cases where interviewees were familiar with operating in other countries they were also very positive. Although the feedback on the support was very positive, there appear to be some improvements that could be made in term of the application process for the main types of grants being provided to investors.

10. Economic impacts

10.1 This section reviews the economic impact of the trade and investment support provided by SE/HIE/SDI. This is based on the responses from the businesses that were interviewed. The results are applied to the population of all the businesses assisted over the period covered by the evaluation. The analysis is divided into two sections;

- Trade, which is divided into:
 - Firms that have International Projects (they are expected to increase international sales in a specific market by £1 million over three years)
 - Firms that are Account Managed, but do not meet the International Project threshold
 - Firms that have had trade support but are not Account Managed and do not meet the International Project criteria.
- Inward investment projects.

Approach

10.2 The evaluation was structured to primarily allow a more qualitative understanding of what drove changes in international trade and inward investment. However, to provide a quantitative assessment of the support provided, the surveys included questions that asked businesses to try and quantify the effects on their international sales and employment.

10.3 Following a discussion about the support they received, each business was asked to report their international sales and employment and *what these figures would have been without the support*. We then confirmed that this value could be attributed to the SDI assistance. The results are used to derive the impacts in this section.

10.4 In methodological terms this cannot produce results as strong as quasi-experimental approaches (that use some form of control group) but it can produce a useful guide to the scale of the impact that the support is having. The results should therefore be seen in this context and treated as indicative.

10.5 The methods used for trade and for inward investment are also different. The assessment of trade support has been measured in terms of its contribution to international sales (either in new markets or existing ones), while the impact of support for inward investors has been based on changes in employment. Most inward investors are part of a larger group and their operations in Scotland often contribute to goods or services that are sold elsewhere, which makes using sales data more difficult. Using employment in these cases was easier for firms.

10.6 There are a number of further caveats in interpreting the results. In the case of the trade support we found that many of the businesses interviewed had participated in 10 or more international trade activities (assists) over the four years of the evaluation. It was difficult for them to recall all the

different assistance they have had. Each interview was done with a list of the support provided to address this as far as possible. Businesses naturally tended to focus on the activities that they considered to have been most effective, and this should ensure that the main impacts were captured.

- 10.7 For inward investment there are also challenges in understanding the “counterfactual”. In most cases it was relatively clear how the support had contributed to investment decisions, however in some cases the managers themselves may not have been aware of the difference it made (for example, where a manager joined after the decision had been made, or where decisions were made in other parts of the business, overseas). There is often a judgement needed in interpreting the responses to provide as fair an assessment as possible.

Trade impacts

- 10.8 The trade impacts are estimated from two surveys, in three categories:
- A survey of firms that have been categorised by SDI as having **International Projects** (the potential to grow export sales by more than £1 million over three years).
 - **A survey of non-International Projects (non-IPs). These are disaggregated in the analysis into:**
 - **Account Managed companies** that did not meet the International Project threshold, and
 - **Non-Account Managed that do not have an International Project.** These tended to receive lighter touch support.
- 10.9 These groups closely reflect the levels of intensity of support. Those with International Projects received the greatest number of instances of support (or assists), while the non-Account Managed firms (with no International Project) received the least.
- 10.10 Table 10-1 shows the average number of assists in each of these groups using the full SDI data set. International Projects have most support, but even without an International Project, Account Managed firms received almost twice as many assists as non-Account Managed businesses.

Table 10-1: Average number of assists; Account Managed and non-Account Managed firms

	With International Project	Non-IP
Account Managed	7.9	4.2
Non-Account Managed	4.6	2.2

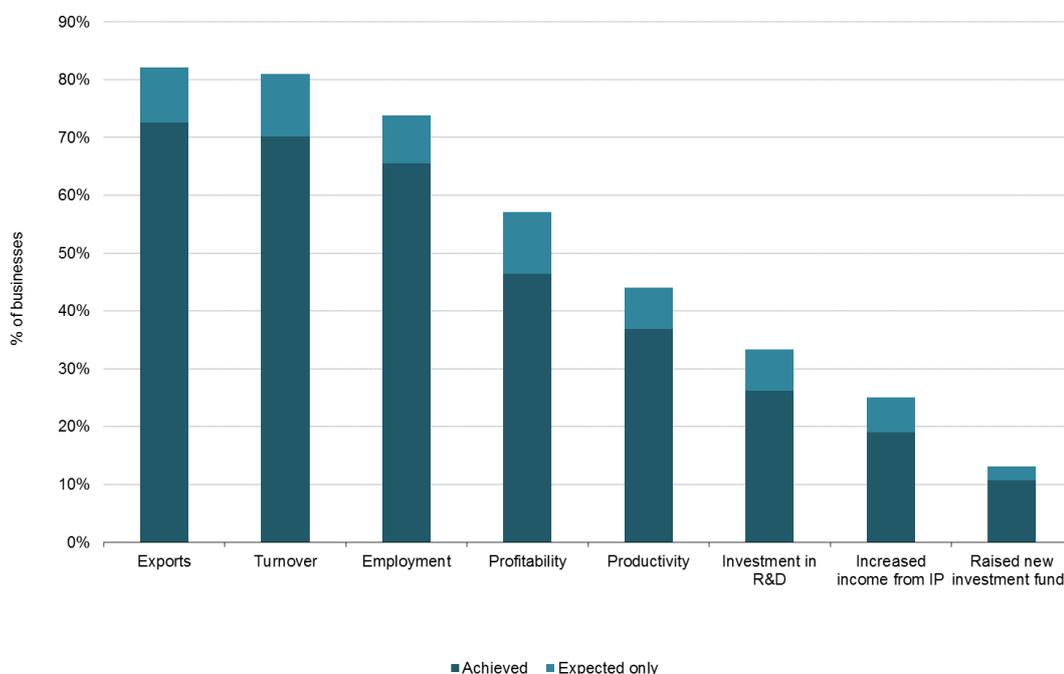
Source: SE/HIE/SDI database of all assisted cases

- 10.11 For each of these groups we have used the surveys to calculate an average value of additional sales resulting from the trade support, and after adjusting for non-response bias, applied this to the population of businesses.

International Projects

- 10.12 84 businesses that are categorised as having an International Project were interviewed by telephone or face to face.
- 10.13 As part of the survey businesses were asked to consider whether the international trade support they received had any impact on a range of performance variables, including sales to new and existing international markets, employment and turnover. They were initially asked to rate these effects as major, moderate, no impact or negative. **The results for the combined major and moderate impacts**, along with the proportion that expect impacts are shown in Figure 10-1. The expected impacts are where there has been no effect to date, but the business expects an impact in the future
- 10.14 The support has had greatest impact on turnover, international sales and employment. This has led to improvements in profitability and productivity in slightly fewer cases, and fewer again reported impacts on investment, income from IP and in expenditure on R&D.

Figure 10-1: Impact of support on key financial measures (firms with International Projects)



Source: IP sample interviews

- 10.15 Where businesses indicated a **major or moderate effect** they were then asked to:
- quantify the value of international sales in each year, and then
 - the value they *think they would have achieved without the package of trade support*.
- 10.16 In the interviews, the interviewer confirmed that the difference between the actual international sales and the value that *would have been achieved* without support could be attributed to the package of trade support received. This was completed for each year in which the support was considered to have had an effect.

- 10.17 Including the businesses that reported “no effect”, which are treated as having a zero value, this provided values for 68 of the 84 businesses. Among businesses that reported a major impact on international sales, this was, on average equivalent to 31% of the most recent annual value. For those reporting a moderate impact the average uplift was 19%.
- 10.18 We have used these responses to calculate estimates for the 16 firms that were not able to quantify the effects, but reported a moderate or major impact. Where a business indicated a major impact, we have assumed a 20% impact and used 10% for a moderate impact.
- 10.19 The value of the average international sales attributed to the SDI support in the sample is shown in Table 10-2. The total value of these additional sales in the sample over the period 2012/13 to 2015/16 is estimated to be just under £53 million.
- 10.20 Of the 84 cases, 77 provided estimates of the difference that the support had made to the value of international sales between 2012/13 and 2015/16. The average value of the sales attributed to the support, across these 77 cases is shown along with the number of times the firms have been assisted (Table 10-2). This also shows that the average value of the impact increases as the number of times a business is assisted rises.

Table 10-2: Average aggregate value of the change in international sales, per firm (2012/13 to 2015/16) (firms with International Projects)

Number of assists	Average values
1 to 4	£501,700
5 to 9	£652,700
10 to 20	£750,600
More than 20	£1,108,600
All cases	£695,100

Source: SQW estimates

Applying the results to the population

- 10.21 The analysis in Chapter five concluded that the main difference between the population of businesses with International Projects and the sample interviewed is the number of assists received. Among the cases interviewed the average number of assists was higher compared with the population. However, the profile of the *types* of assistance was similar.
- 10.22 In applying the results to the population, we have made several adjustments to reflect the biases in the sample. **Simply extrapolating the results to the population would risk over-estimating the impacts.**

Adjusting for non-response

- 10.23 The nature of the survey means we can only interview firms that are trading currently, and are prepared to be interviewed. However, within the population there may be cases of businesses that have ceased trading. There may also be some bias in the businesses that respond to the survey. For example, those that refused to be interviewed may be less likely to have benefited from the support.

Within the population of 549 firms identified as international projects, SE identified eight that had ceased trading, were currently in administration or in dispute with SE.

10.24 The process of setting up interviews has also been used to adjust for cases where impacts are likely to be smaller or zero. We contacted 213 businesses to achieve the sample of 84 and have used the outcomes of these initial calls to adjust the population. It is assumed that a business is no longer trading in cases where:

- there was no reply and no ability to leave voicemail (8)
- the telephone number is not recognised (5)
- emails have bounced back (2)

10.25 In addition, we have excluded 50% of those that refused to participate (9). In total, we have removed 24 or 11% of the population when we extrapolate from the sample. This is assumed to include the eight cases identified by SE. **Removing 11% of the population of 549 subtracts 60 cases (removed for these various reasons) and leaves 489 cases.**

Adjusting for the varying intensity of support

10.26 We know from the sample data that the impact increases with the number of assists and that the sample over-represented cases with a higher number of assists. To take this into account the population is disaggregated into four groups based on the number of assists. The average attributable change in international sales can then be applied to the appropriate number of cases in each of these groups.

Population impact

10.27 We estimate that the IP projects supported at some time between 2012/13 and 2015/16 generated an additional £319 million of international sales. The results are shown in Table 10-3.

Table 10-3: Increase in international sales in population attributed to SDI trade support 2012/13 to 2015/16

	Number in population	Average international sales attributed to SDI from survey sample	Total increase in international sales over four years (£s million) population
1 to 4 assists	177	£501,700	£89.0
5 to 9	162	£652,700	£106.0
10 to 19	116	£750,600	£87.2
More than 20	33	£1,108,600	£36.4
All projects	489	£695,100	£318.6

Source: SQW estimates

10.28 To test the robustness of the results, **the analysis was also carried out using an additional group so that we could separate out the cases that had received only a single assist. Applying this**

produced a similar result of £308 million. Carrying out the analysis using the years in which the firms were first assisted (rather than using the number of assists) produced a total impact of £315 million.

Estimating GVA for IP cases

- 10.29 We have assumed that any change in international sales represents a similar change in turnover. We can then use ratios of GVA to turnover derived from the Scottish Annual Business Survey. This has been done for each sector and we have used an average ratio from the four years, 2011 to 2014 (the most recent data are from 2014, but we have used an average of the ratios over the last four years). The reported increase in sales from each firm can then be multiplied by the ratio for the appropriate sector. This gives an attributable GVA estimate for each firm. The total GVA generated to date among the population of IP firms is estimated to be £151 million (Table 10-4).

Table 10-4: Calculation of attributable population GVA 2012/13 to 2015/16

Row Labels	Number in population	Average attributable GVA per firm	Total GVA attributable to SDI trade support (£ millions)
1 to 4 assists	177	£225,300	£40
5 to 9	162	£317,000	£51
10 to 19	116	£346,100	£40
More than 20	33	£612,300	£20
All projects	489	£334,500	£151

Source: SQW estimates

Displacement

- 10.30 The interviews indicated that there was little product market displacement. **Of the 84 cases, only nine considered that any of their additional international sales would displace other Scottish businesses.** The estimates of these nine cases were each around 10%. Although this would indicate an overall estimate of 1%, to err on the side of caution, we have used a more conservative 5%. Applying this to the total of £151 million gives a net increase in GVA of £143 million.

Multiplier effects

- 10.31 Multiplier effects are used to include the knock-on economic activity generated through the supply chain, and as a result of an increase in wages, salaries and profits that are re-spent within the Scottish economy. The Scottish Input-Output tables provide multiplier values for each industry and these can be used to demonstrate the effects of an increase in output. GVA multiplier values have been applied to the net GVA estimated for each of the cases in the sample and used to produce an average value for each of the categories of assists.
- 10.32 The average Type II multiplier value across the sample is 1.64. Table 10-5 shows the results of applying these to each group of firms. **The total GVA attributable to the support for International Projects, after multipliers, is £236 million.**

Table 10-5: Population GVA impacts after applying multipliers 2012/13 to 2015/16

Row Labels	Number in population	Average attributable GVA per firm including multiplier effects	Total GVA after multipliers (£ millions)
1 to 4 assists	177	£344,400	£61
5 to 9	162	£492,600	£80
10 to 19	116	£515,300	£60
More than 20	33	£1,071,700	£35
All projects	489	£522,200	£236

Source: SQW estimates

Expected future impacts

- 10.33 There were several examples of support intended to help position businesses for international trade in the future rather than immediately (some of the renewable energy businesses, for example). For existing exporters, as well, the support will have an impact over the next few years. Businesses were asked to estimate whether or not there would be future benefits, how much this might be each year and how long it would last. The average annual impact was estimated to be £144,000 per case for the total sample (taking account of the companies that reported no future impacts and the ones that were unable to give an estimate) (Table 10-6).

Table 10-6: If you anticipate that there will be an impact on international sales in the future, can you provide an estimate of the annual value that can be attributed to the support?

	Number of responses	Average annual value
Yes, future impacts	40	£354,400
No future impacts	34	£0
Don't know	10	£0
Total sample	84	£143,900

Source: SQW estimates

- 10.34 Of the 40 cases that reported an impact in the future, 23 provided an estimate of the number of years this will continue for. These ranged from 18 months to 10 years. The average was 3 years and this has been applied to the number of cases within each group (Table 10-7).

Table 10-7: Estimate of international sales Impacts over the next three years (population)

	Number in population	Annual value	Future expected impact of international sales (£s million)
1 to 4 assists	177	£42,700	£23
5 to 9	162	£82,700	£40
10 to 19	116	£229,700	£80
More than 20	33	£383,500	£38
All projects	489	£143,900	£181

Source: SQW estimates

- 10.35 We have assumed that the £181 million of potential impact would produce a net GVA estimate in the same proportions as calculated for the achieved impacts (based on the GVA: turnover ratios and the relevant multipliers). This gives a future GVA impact estimate of £134 million.

Non-IP support

- 10.36 Non-IP firms are those that were not categorised as having an International Project. This includes both Account Managed and non-Account Managed businesses. Because we know that the Account Managed businesses received more support and reported bigger impacts, we have analysed the results in separate groups.

Impact within the sample

- 10.37 The survey of 343, non-IP businesses asked respondents to consider whether the support they received has had any impact on a range of performance variables, including new sales to new international markets and in existing international markets. They were asked to rate the effect as major, moderate, no impact or negative impact, to date.
- 10.38 The results in Table 10-8 show that, overall, 44% of the firms reported a positive impact on international sales, but there is a much stronger effect among the Account Managed firms (70%). This reflects the greater levels of support identified in the previous section.

Table 10-8: Impact of support on new international sales among sample non-IPs

	Account Managed	Non-Account Managed	Total
Major positive effect	19%	9%	10%
Moderate positive effect	51%	32%	34%
No effect	30%	58%	56%

Source: SQW estimates

Applying the results to the population

- 10.39 In applying the results to the population, we have made several adjustments to allow for firms that may have ceased trading. Again, we differentiate between Account Managed and non-Account Managed firms.
- 10.40 BMG, contacted 1,225 companies and the outcomes are shown in Table 10-9 below. Of those contacted, 20% (244) refused to participate, 19% (234) claim not to have been assisted, 16% (196) were unobtainable and 17% (208) were still live, but an interview had not been arranged.
- 10.41 The results of these contacts have been used to adjust the population of the non-Account Managed businesses for response bias. We have removed 50% of the businesses that refused to participate (it is an indicator that any impacts are likely to be weaker) and 75% of those that claimed not to have been assisted (on the basis that there will still be some cases where personnel have changed or were not aware of the support). All those that were unobtainable are removed from the population. Applying these assumptions to the non-Account Managed businesses leaves an effective population of 60% of the original figure.

Table 10-9: Non-IP survey outcomes (applied to non-Account Managed businesses only)

Outcome	Number contacted	Adjustment factor (% removed from population)	% of number contacted multiplied by the adjustment factor
Completed	343	0%	343
Refusal	244	50%	122
Claims not to have been assisted	234	75%	59
Unobtainable	196	100%	0
Still live	208	0%	208
Total	1,225	-	732 (60%)

Source: BMG Technical Report Summary

- 10.42 For the Account Managed firms, we have assumed a lower level of non-response bias, and have used the feedback from the outcomes of the IP survey (which is more reflective of these businesses, and indicates an adjustment of 11% (Paragraph 10.26)).
- 10.43 Excluding the businesses with IPs there are 1,388 Account Managed cases and 4,030 others in the population. After adjusting for the non-response analysis, this gives totals of 1,180 and 2,418 respectively.

Table 10-10: Population of non-IP firms adjusted for non-response bias

	Account Managed	Non-Account Managed
Total supported	1,388	4,030
Adjustment for non-response	11%	60%
Effective population	1,235	2,418

Source: SE/HIE/SDI database of all assisted cases and SQW estimates

- 10.44 The second stage is to adjust for the bias in the sample towards cases with more assists and firms that have been assisted more recently. We know from Section 5 that the average number of assists in the sample is higher than in the population.
- 10.45 Like the analysis of the IP businesses, there is a link between the number of assists and the value of the impact on international sales. There is a similar pattern when the analysis uses the year when the business was first assisted. Businesses that were first assisted in 2012, for example, report the highest *aggregate* impact (over the period of the evaluation) and those first supported in 2015 the lowest. Logically, newer businesses have had fewer years of support and less time for this to have an effect. The number of assists is a good proxy for the intensity of support and reflects its duration. The average impact on international sales is shown in Table 10-11.
- 10.46 The impact on Account Managed businesses is noticeably higher than among non-Account Managed businesses.

Table 10-11: Non-IP firms' average additional international sales per case (sample data, £s per case) 2012/13 to 2015/16

Level of assistance	Account Managed	Non-Account Managed	Total impact for population
1 assist	£42,400	£23,300	£24,500
2 to 5 assists	£69,300	£35,800	£44,400
More than 5	£317,800	£142,400	£161,000
Average	£170,300	£51,600	£60,200

Source: BMG survey of 343 trade businesses

- 10.47 Applying the number of businesses for each level of assistance to these estimates gives the totals shown in Table 10-12. Overall the support has generated £310 million of additional international sales among the businesses that are not categorised as having an International Project. Of this £215 million is through the Account Managed cases and £95 million from the non-Account Managed cases.

Table 10-12: Non-IP firms' total additional international sales population 2012/13 to 2015/16

Level of assistance	Account Managed (£s million)	Non-Account Managed (£s million)	Total impact for population (£s million)
1 assist	£17	£30	£47
2 to 5 assists	£75	£32	£107
More than 5	£122	£33	£155
Total	£215	£95	£310

Source: BMG survey of 343 trade businesses

- 10.48 As a check, we have also run the same analysis using the year in which the business was first assisted. This gives a broadly similar result (£292 million).

Estimating GVA for non-IP cases

- 10.49 We have calculated GVA to turnover ratios for each sector using the Scottish Annual Business Survey (the most recent data are from 2014, but we have used an average of the ratios over the last four years). These have then been applied to each firm in the sample to produce an attributable GVA estimate. The results are again shown to reflect the Account Managed companies and the number of assists. The total GVA generated to date among the non-IP firms is £158 million (Table 10-13).

Table 10-13: Non-IP firms' calculation of attributable GVA population 2012/13 to 2015/16

Level of assistance	Account Managed (£s million)	Non-Account Managed (£s million)	Total impact for population (£s million)
1 assist	£10	£15	£25
2 to 5 assists	£39	£16	£55
More than 5	£65	£13	£78
Total	£114	£44	£158

Source: SQW estimates

Displacement

- 10.50 The interviews indicated little product market displacement from other businesses. Of the cases that reported additional sales, 83 (55%) reported no displacement. Table 10-14 shows the number of businesses reporting each level of displacement.

Table 10-14: Non-IP firms' displacement responses

Proportion of additional sales displacing other Scottish sales	Number of businesses
None	83
0% to 25%	18
25% to 49%	8
50% to 74%	9
75% to 99%	1
All of them	8
Total	127

Source: SQW estimates

- 10.51 We have applied the displacement estimates to each of the firms reporting an impact. Table 10-15 presents the GVA impact after adjustment for displacement. This reduces the total from £158 million to £140 million.

Table 10-15: GVA after displacement effects (£ millions) population 2012/13 to 2015/16

Level of assistance	Account Managed (£s millions)	Non-Account Managed (£s millions)	Total impact for population (£s millions)
1 assist	£10	£14	£24
2 to 5 assists	£36	£14	£51
More than 5	£57	£9	£66
Total	£103	£37	£140

Source: SQW estimates

Multiplier effects

- 10.52 We have applied multiplier values in the same way as described in the previous section for the IP businesses, using the Scottish Input-Output tables. GVA multiplier values have been applied to the net GVA estimated for each of the cases in the sample and used to produce an average value for each of the categories of assists.
- 10.53 The average multiplier value across the sample is 1.64. Table 10-16 shows the results of applying these to each group of firms and then to the population. The total GVA attributable to the support, after multipliers, is £230 million.

Table 10-16: Non-IP firms' calculation of attributable GVA with multiplier effects population 2012/13 to 2015/16

Level of assistance	Account Managed (£s millions)	Non-Account Managed (£s millions)	Total impact for population (£s millions)
1 assist	£ 15	£ 25	£ 40
2 to 5 assists	£ 63	£ 24	£ 87
More than 5	£ 89	£ 14	£ 103
Total	£ 167	£ 63	£ 230

Source: SQW estimates

Future impacts

- 10.54 Although the telephone survey of non-IP firms did not ask about the future impacts of the support to date, the evidence from the IP survey indicates that there is likely to be some further effect over the next three years. This is among firms that have reported an impact to date and/or expect an impact in the future. We know that 66% have benefitted from a positive impact, or expect to in the future.
- 10.55 An increasing amount of the work with the non-IP businesses has been related to building awareness and increasing knowledge about international markets. Estimating the future impact of this support is difficult and depends very much on market conditions over the next few years.
- 10.56 Among the IP businesses the uplift for future impacts was estimated to be around 57% of the total over the next three years, and we have assumed a similar value here. This means that the future

impact will add a further 57% or (£177 million) in international sales over the next three years. This is optimistic but reflects the *maximum* point in the range of possible impacts.

- 10.57 Using similar assumptions to the main analysis, the £177 million of international sales would produce a net GVA estimate after displacement and multipliers of £129 million.

Trade impact summary

Table 10-17: Summary of headline trade impacts to date and including expected impacts population 2012/13 to 2018/19

	GVA impacts to date 2012/13 to 15/16 (£s millions)	Future impacts (next three years - 2016/17 - 18/19) (£s millions)	Total Including expected impacts (2012/13 to 18/19) (£s millions)
IP firms	£236	£134	£370
Non-IP firms	£230	£129	£359
Total	£466	£263	£729

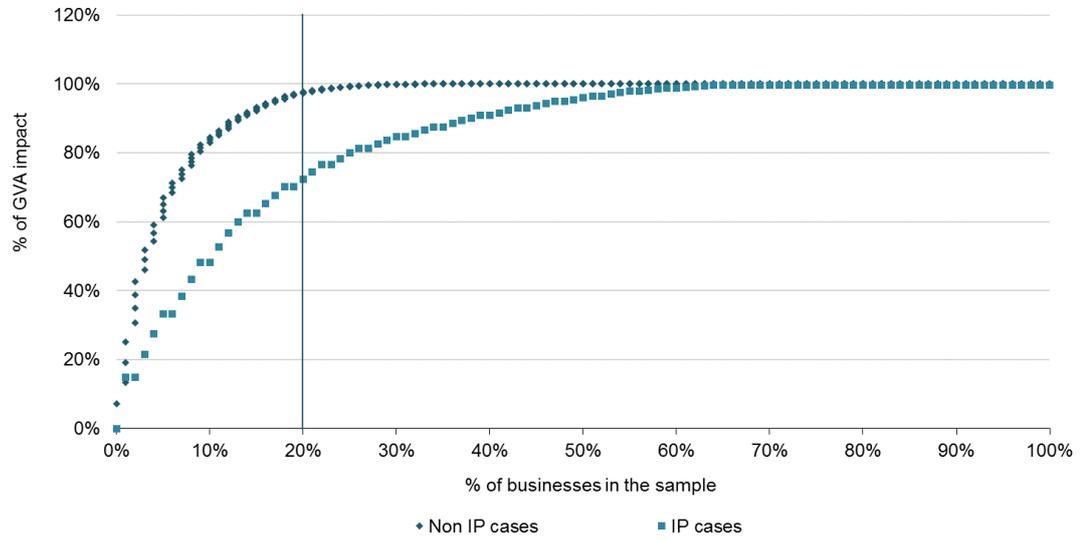
Source: SQW estimates

Distribution of impacts

- 10.58 Figure 10-2 shows the distribution of the trade support GVA impacts. It shows the difference between the distribution of impacts among the IP and non-IP cases. It excludes 20 cases that reported an impact but were not able to quantify it.
- 10.59 The Pareto principle, which 80% of the benefits accrue in 20% of the beneficiaries, is typical in the field of economics and business support interventions⁴⁷. The line in the diagram shows that for the sample of firms with International Projects, 20% of the cases produced around 70% of the GVA impact (a better distribution than 80:20). Among the non-IP cases 20% of the businesses produced 97% of all the GVA impact.
- 10.60 The difference reflects the intensity of support and the types of businesses assisted. Much of the work with non-IP is awareness raising or early-stage support which is not expected to have an immediate impact on GVA. The level of support is also a factor. Among the IP cases 75% led to an increase in sales and GVA, compared with 41% among the non-IP cases.

⁴⁷ <http://www.sqw.co.uk/insights-and-publications/the-pareto-principle>

Figure 10-2: Distribution of impacts – the percentage of additional GVA produced by the percentage of businesses



Source: SQW surveys of IP and non-IP cases

Inward investment

- 10.61 The impact of inward investment support is calculated in a slightly different way. Many of the firms receiving support do not have turnover figures, for example where they are part of global supply chain or even part of a larger UK operation. In the sample, we found many cases that did not have a turnover figure for a specific site. Instead we have used employment data and then converted this to GVA using the ratios of employment to GVA produced by the Scottish Government and ONS.
- 10.62 In assessing the support of inward investment we have included all the SDI and SE support provided, and not just the large grants. This is reflected in the full costs that are included at the end of this section and in the calculation of the ratio of GVA to investment.

Structure of the assessment

- 10.63 The approach follows these steps:
- a) Gathering the employment data from the survey sample (which attributes impacts to SDI support)
 - b) Identifying the planned jobs in the population of inward investment projects from SDI records (which are used to gross up the sample)
 - c) Adjust the planned jobs in the population (b) to allow for cases that don't go ahead (this is done using the data on Regional Selective Assistance cases)
 - d) Adjusting for sample bias (using the planned jobs data). This takes account of differences in the grants received by firms in the sample and in the overall population
 - e) Apply “attribution” rates from the sample to give an estimate of the number of jobs that can be attributed to the SDI support
 - f) Use the attributable jobs to calculate the job years which is necessary for GVA to be estimated given that GVA is a cumulative metric and head count jobs are not
 - g) Adjust for displacement estimates
 - h) Estimate GVA from net job years
 - i) Adjust for multiplier effects
 - j) Estimate future employment

a) Gathering impact data

- 10.64 To gather estimates of the employment attributable to the support, businesses were asked to report the *current level of employment at the site*, and then to estimate what this would have been if there had been no support from SDI. The interviewer then confirmed that the difference was a fair estimate of the number of jobs that could be attributed to the support. If the support had made no difference, there would be no attributable jobs. Where the support has had a short-term impact (for example if employment had risen and then fallen back) this was recorded and is used in the

calculations of the number of job years. Equally, if the effect was to bring forward the investment then the additional employment is only included for the number of years the project is advanced. If the investment would not have been made in Scotland at all, or if a business would not have survived without the support, then we attribute all their employment to it.

b) Planned jobs in the population of projects

- 10.65 The population of cases includes firms that have had various combinations of different forms of support. This includes RSA, R&D and training grants, as well as a wide range of other support related to such things as innovation, business improvement and skills, provided through SDI.
- 10.66 There were 423 inward investment projects with 374 firms between 2011/12 and 2015/16. Of the 423 projects 150 do not include financial assistance (although these include cases with firms that received funding at another time).
- 10.67 Throughout this section we have disaggregated the results into three categories of support:
- Active RSAs to date, where there remains funding for the firm to draw down
 - Completed RSAs, where 100% of funding has been drawn down
 - Other support (where there is no RSA). This includes R&D, training grants as well as support without funding. Some of these cases are ongoing while others are completed.
- 10.68 Where a case includes RSA, even among a mix of sources, they are included in the RSA categories rather than in “other support”, which covers those that have received other large grants.
- 10.69 Table 10-18 shows the number of planned jobs associated with all the inward investment cases between 2011/12 and 2015/16, from the SDI monitoring data. This includes cases that have not yet started (i.e. no funding has been drawn down), those that are not proceeding or where the funding is being recovered. This gives an overall, planned jobs total of 37,232 across all the cases⁴⁸.

Table 10-18: Planned jobs by status

Category	Planned jobs in population
RSA active (including not yet started)	10,284
RSA complete	2,522
<i>RSA not proceeding</i>	3,447
<i>RSA in recovery</i>	1,249
Other support	19,730
Total	37,232

Source: SE/HIE/SDI data

⁴⁸ We have excluded two cases where we know the firms are no longer trading

c) Adjusting for cases that haven't proceeded

- 10.70 The interviews in the sample can only cover examples of projects that proceeded, but we know from a review of all the RSA projects that there is a proportion that do not go ahead. (Table 10-19). The findings from the sample are only representative of the cases that go ahead. This means we must remove the cases and planned jobs that are not going ahead.
- 10.71 To do this SDI provided details of the status of RSA, R&D and training grant cases. A summary of 166 RSA cases is shown in Table 10-19. It shows that 52 of the cases are “complete”, 60 “active and started”, 14 had not started, 30 were not proceeding and 10 are in a process to recover part of the funding. More detailed research would be required to understand the reasons why projects did not proceed as they are not covered within the sample. In the cases which are part of a recovery process, there has been some employment created, but on the basis that this may only be short term we have excluded them.
- 10.72 The RSA figures provide a basis for calculating the proportion of projects (and jobs) that are likely to have proceeded (or not proceeded) across the population as whole. **Overall, 27% of the planned jobs were in cases that were not proceeding or were in a process to recover funding ((1,249+3,447)/17,502 x100).**

Table 10-19: RSA planned jobs and cases

	Planned jobs	RSA cases
Complete	2,522	52
Active and not started	10,284	74
Recovery cases	3,447	10
Not proceeding	1,249	30
Total	17,502	166

Source: SQW estimates

- 10.73 This information is only available for the firms supported with RSA rather than all inward investment. In the absence of any other information, we have assumed that there is a similar level of cases that do not proceed among those that received other forms of funding.
- 10.74 We have adjusted the total number of planned jobs in the population (37,232- Table 10-19) by:-
- taking out the planned jobs in the cases that have not gone ahead (3,447)
 - Taking out those that are in a recovery process (1,249).
- 10.75 The planned jobs in the “other support” category (19,730) are reduced by 27% as an estimate of the number of cases that do not proceed (Para. 10.69). This reduces the number in this category from 19,730 to 14,435, leaving a total of 27,241 planned jobs in projects that have, or are proceeding (Table 10-20).

Table 10-20: Planned jobs in population after adjustment

Category	Planned jobs in population
RSA active and not yet started	10,284

Category	Planned jobs in population
RSA complete	2,522
Other support (adjust to assume 27% not proceeding)	14,435
Total	27,241

Source: SQW estimates

d) Adjusting for bias in the sample

- 10.76 An analysis of the average number of planned jobs and funding awards shows that the values for the firms in the sample are higher than in the overall population. Table 10-21 uses data from SDI to show that the average number of planned jobs within the cases interviewed was 99 compared with 88 in the population.

Table 10-21: Average number of planned jobs and funding award per project in the sample and population

	Sample	Population
Planned jobs	99	88

Source: SE/HIE/SDI inward investor database and SQW estimates

- 10.77 Because the planned job data is available for all the cases (including ones where there has been no funding) we can use this as **a benchmark variable to extrapolate the results from the sample to the population. This allows the findings from the sample to be applied to population while taking account of the bias towards the slightly larger cases.**

e) Use attribution rates to estimate the jobs attributable to support

- 10.78 The next step is to calculate the ratio between the planned jobs and the number of jobs that we can attribute to the support (the “attributable jobs”).
- 10.79 Table 10-22 shows the number of jobs in the survey sample that were attributed to the support provided by SDI, alongside the number of planned jobs in the same cases. In the 62 cases covered by the survey there are 2,674 jobs attributed to the SDI support. The total planned jobs for these projects is 6,911 jobs (40%).
- 10.80 **The planned jobs figures are only used here as a benchmark to gross up to the population. The attributable jobs are the estimates of the number of jobs created or safeguarded to date, within the period of the evaluation, as estimated by the surveyed companies.**
- 10.81 The attributable employment (to date) represents 39% of the planned total in these cases. Among the completed RSAs this is higher (69%) because there has been more time for the jobs to be created and all the funding has been drawn down. It is lower among the active cases (37%) many of which are still at an early stage, and have not drawn down all the funding. The “other support” category includes a mixture of both completed and active cases.

Table 10-22: Comparison of planned jobs and attributable jobs within the sample

	Jobs attributable to support among the 62 cases in sample OVER THE EVALUATION PERIOD	Long term planned jobs in the same cases	% of attributable jobs to date vs projected employment
Active RSA (to date)	1,089	2,953	37%
Complete RSA	359	518	69%
Other support	1,226	3,440	36%
Total	2,674	6,911	39%

Source: SQW estimates

- 10.82 The ratios of “attributable jobs to date” to “planned” jobs provides the basis for grossing up the sample to the population. To calculate the number of net attributable jobs (the jobs that are attributable to the SDI support) we have multiplied the number of planned jobs in the population (as calculated in Table 10-20). This gives an overall estimate of 9,578 jobs attributable to the support to date (Table 10-23).
- 10.83 The results are shown by “type of support” (completed or active RSA, or other support), but the following tables also show the results using the year in which they were first supported (Table 10-24) and by the type of investment (Table 10-25). The results using these different variables produce slightly higher estimates. Using the type of investment in particular gives a higher number of attributable jobs (10,842), because the sample under-represents safeguarded jobs which reported a higher attributable impact.

Table 10-23: Calculation of attributable employment to date using type of support (population)

Type of support	Planned jobs in population	Attributed jobs to date as % of planned jobs	Estimated attributable jobs in population
RSA active and not yet started	10,284	37%	2,684
Complete RSA	2,522	69%	1,748
Other support	14,436	36%	5,146
Total	27,241		9,578

Source: SQW estimates

Table 10-24: Calculation of attributable employment supported to date, using first year of support (population)

First year of support	Planned jobs in population	Attributed jobs to date as % of projected jobs	Estimated attributable jobs
2011/12	4,495	31%	1,411
2012/13	5,223	34%	1,763
2013/14	5,310	52%	2,745
2014/15	7,027	41%	2,860
2015/16	5,184	32%	1,642
Total	27,240		10,420

Source: SQW estimates

Table 10-25: Calculation of attributable employment using type of investment (population)

	Projected jobs in population	Attributed jobs to date as % of projected jobs	Estimated attributable jobs
Expansions	13,575	34%	4,561
Expansion and safeguarded	1,982	30%	591
New	6,373	39%	2,500
Safeguarded	5,277	60%	3,190
Total	27,208*	39%	10,842

Source: SQW estimates

*excludes 32 jobs that were not linked to a type of investment

10.84 **Based on these results, a conservative estimate would be around 10,000 net additional jobs** attributable to the support over the five years. However, we have continued to use the slightly lower figure of 9,578 in the later calculations (Table 10-23).

f) Calculating job years

10.85 The employment estimates are based on employment at the time of the interview in 2016. It does not capture the number of **job years** that may have been supported up to that point (or will be supported in the future). A firm that creates a new job for two years, is creating two job years. Using job years rather than jobs is important in deriving GVA estimates in the next section as GVA is cumulative, but jobs are not.

10.86 A further complication is that some of the impacts reported relate to timing – bringing forward investment by a year or two. In these cases we have attributed just one year of impact, regardless of when the support was made.

10.87 We have also assumed in all cases that half of the number of current jobs were achieved in the first year of support and the current level is then assumed for the subsequent years. For example, businesses that were supported in 2013/14 would achieve half of their current total in 2013/14 and the current total by 2014/15 and the same in 2015/16.

- 10.88 Table 10-26 compares the number of job years within the sample against the single year estimate reported above. This gives a ratio of jobs to job years which can then be applied to the population. Overall, the number of job years is 2.35 of the single year estimate. This takes into account adjustments for timing additionality. Applying the proportions from the sample to the estimates for the population gives a total number of 22,959 job years.

Table 10-26: calculation of aggregate job years (population)

	Number of jobs attributable to the support in sample	Number of job years attributable to the support in sample	Ratio of job years to jobs	Jobs estimate for population	Estimated aggregate job years (after applying ratio)
Active RSA (to date)	1,089	2334	2.14	2,684	5752
Complete RSA	359	917	2.55	1,748	4465
Other support	1,226	3036	2.48	5,146	12742
Total	2,674	6287	2.35	9,578	22,959

Source: SQW estimates

g) Adjusting for displacement

- 10.89 There is more likelihood of inward investment displacing other Scottish business activity than there was with trade support as these businesses can offer goods and services to domestic markets. Even so, the survey found that in most cases inward investors were exporting a large proportion of what was produced. Relatively few compete with domestic businesses.
- 10.90 Each business was asked to estimate the proportion of their sales that would be taken by competitors if they had not made their investment. These responses were applied to each case individually. This produced an average value of 17%. There is potential for some bias in these responses, for example, where businesses are not necessarily aware of domestic competition or where other businesses, not currently in Scotland could relocate here.
- 10.91 Although the focus is on product market displacement, there may also be some labour market displacement. In tighter labour markets, perhaps around higher value technical jobs for example, inward investors could reduce the labour pool for domestic firms or increase wages.
- 10.92 Given the challenges of displacement we have used a higher estimate of 30% in the impact calculations. Applying this to the population reduces the number of attributable job years over the period of the evaluation from 22,959 (Table 10-26) to 16,071.

h) Estimating GVA

- 10.93 GVA is estimated using industry ratios for GVA to employment sourced from the Scottish Annual Business Survey. This has been done for each sector and we have used an average ratio from the four years, 2011 to 2014. These ratios are applied to the number of job years attributable to each business in the population.

- 10.94 The results in Table 10-27 show the estimated job years and this is multiplied by the GVA per job for each category of project. In total, GVA is estimated to be around £1,026 million. As in the previous tables, the number of job years in the completed projects is much lower than in the active cases, which reflects the much larger RSA cases that are still active.

Table 10-27: Calculation of GVA from job years by types of support 2011/12 to 2015/16 (population)

	Job years	Average GVA per job (£s)	Total GVA from job years (£ millions)
Active RSA (to date)	4,026	£65,872	£265
Complete RSA	3,125	£72,784	£227
Other support	8,920	£59,754	£533
Total	16,071	£64,748	£1,026

Source: SQW estimates

- 10.95 Very similar results are found when the data is categorised by type of investment (Table 10-28). Expansion and safeguarded projects make the biggest contribution to the impact. This is partly because more of these are older projects, which have been supported over a longer period and therefore have supported more job years than newer investments. By contrast, the more recent emphasis on new to Scotland projects has tended to support smaller projects, and they have typically not supported employment for as long.

Table 10-28: Calculation of GVA from job years by type of investment 2011/12 to 2015/16 (population)

	Job years (after displacement)	Average GVA per job (£s)	Total GVA from job years (£ millions)
Expansions	7,343	£64,469	£473
Expansion and safeguarded	1,841	£66,518	£122
New to Scotland	2,808	£63,540	£178
Safeguarded	4,346	£67,068	£291
Total	16,336	£64,067	£1,066

Source: SQW estimates

i) Multiplier effects

- 10.96 Multiplier effects are used to include the knock-on economic activity that is generated through the supply chain and as the wages, salaries and profits that are re-spent within the Scottish economy. The Scottish Input-Output tables provide multiplier values for each of the industries in the economy and these can be used to demonstrate the effects of the increase in demand initiated by net new investment.
- 10.97 Multiplier values have been applied to the net GVA estimated for each of the supported cases. In other words, multipliers been used for each case in the population based on the sector it is in. The average values for each type of support are shown in Table 10-29 and applied to derive the additional

GVA attributable to SDI support. This is estimated to be £1,644 million over the evaluation period of 2011/12 to 2015/16.

Table 10-29: Applying multipliers to GVA 2011/12 to 2015/16 (population)

	Total GVA to date from job years (£ millions)	Average GVA multiplier values	Total GVA (£ millions)
Active RSA (to date)	£265	1.52	£403
Complete RSA	£227	1.55	£352
Other support	£533	1.67	£890
Total	£1,026	1.61	£1,644

Source: SQW estimates

j) Future employment

10.98 There are two types of future employment:

- The future, planned jobs, which are expected to be created in the future, but would also be associated with further drawdown of grants
- Secondly, it would also be reasonable to expect the attributable jobs that have been created to continue over the next few years, and continue to contribute to GVA.

Further employment among active RSAs

10.99 We know from the earlier analysis that the attributable employment to date associated with active RSA projects is lower (36% of the full term planned jobs) than for completed ones (69%). Over the next few years we would expect these active projects to increase employment (although this will also require further grant drawdown up to the approved amount). There are also projects that have been awarded but have not yet not started.

10.100 **If the active projects achieved the same level as the completed cases (69%), this would generate a further 2,387 jobs in the future. However, because they would also continue to draw down funding, these jobs are not considered to be a result of support provided over the evaluation period, and the funding that has been made to date.**

10.101 **The impact calculations, therefore, do not include these future jobs which are dependent on support and funding which has not yet been delivered.**

Persistence of supported employment

10.102 The continuation of the jobs that have been attributed to the SDI support during the evaluation period (“persistence”) should be included. It is difficult to gauge how many years these will last for and it will depend on economic conditions and sector performance in the future. However, a simple assumption is useful in understanding the potential scale of the impacts over time.

- 10.103 The net additional GVA from inward investment attributable to the SDI support in 2015/16 is £681 million, after allowing for displacement and multiplier effects. This includes cases where the support has brought forward a project (rather than it being entirely new). These “timing” impacts are only relevant for a short time (we have assumed one year). In the sample, the timing effects account for 19% of the total GVA value generated in 2015/16. The timing effects are “one-off” benefits, providing an additional year of employment within the evaluation period, and should be excluded from the future impact.
- 10.104 To allow for this we have removed 19% from the £681 million leaving a net additional GVA in 2015/16 of £552 million.
- 10.105 To estimate the number of years that the jobs will continue it is useful to consider the grant conditions. The RSA conditions (Aid for Job Creation (SMEs)) require a SME job to last for three years from when it is created. For non-SMEs, this is five years from when each of the jobs is created. For Aid for Initial investment jobs are conditioned for 18 months after completion of project. If the jobs do not last for the stipulated times then the grant is clawed back.
- 10.106 The analysis indicated that the number of job years created was 2.35 times the number of jobs in 2015/16. To allow for possible optimism bias, we have assumed that across the population, these jobs continue for a further two years each. In practice, many will go on for much longer.
- 10.107 **On this basis, the support would generate another £1,104 million (£552 million X 2). This is in addition to what has been achieved to date (£1,644 million), and gives a total of £2,748 million (Table 10-30).**

k) Summary of inward investment GVA impact

- A.1 The impact to date is estimated to be £1,644 million. Using the assumptions above (that the attributable jobs will last a further two years) this would add a further £1,104 million by 2017/18 – a total over the whole period of £2,748 million.

Table 10-30: Summary inward investment GVA impact

	GVA impacts to date 2011/12 to 2015/16 £ millions	Including future impacts 2011/12 - 2017/18 £ millions
Inward investment GVA	£1,644	£2,748

Costs

- 10.108 SDI has provided a detailed analysis of the costs associated with the delivery of the support for international trade and for inward investment cases.

Trade costs

- 10.109 SDI has carried out a detailed review of all the costs associated with delivering trade services. This includes all Trade Products and services, SE/HIE staff costs, SE marketing staff, International travel

of Scotland-based staff overseas, trade marketing costs and an allocation for the costs of field offices.

- 10.110 The survey of businesses focussed only on the impacts of these international trade products, rather than all SE/HIE support, so the responses relate to the impacts of this support rather than anything else. However, it is important to recognise that other forms of business development support, such as leadership training, innovation or access to finance, may also have helped improve performance and, in turn, provided a platform for improving productivity and increasing sales.
- 10.111 In total, the costs of delivering these international trade services is estimated to be an average of £33 million a year between 2012/13 and 2015/16 and £130 million in total.

Inward investment support costs

- 10.112 The review included all the direct costs associated with the support of inward investment activity. It covered SE/HIE staff costs, SE marketing staff costs, international travel by field staff, RSA (SE and HIE), Training Plus (SE), R&D Grants (SE), De Minimis costs⁴⁹ (SE), inward investment support costs, SE inward marketing costs, HIE grant costs (De Minimis, EnVironmental Aid, Training Scheme, Aid for Job Creation) and field office costs.
- 10.113 For inward investment, impact is measured in terms of the overall employment attributable to the package of SDI support received (Paragraph 10.62) and consequently, there are also a set of wider costs associated with the other support that these businesses have received over the past five years. Specifically, the survey found that the wider package of support (account managers, R&D and innovation grants, access to finance etc. was a factor in attracting and retaining investment, as well as the direct support. This is different to the support for international trade which focused only on the value of increased exports and the impact of the direct trade support.
- 10.114 The additional costs of this have been provided by HIE and SE for each of the businesses and include Scottish Investment Bank funding, activities to support business improvement, innovation, investment, strategy, workforce and skills development and market development.
- 10.115 Overall, the direct inward investment costs are estimated to be £31.8 million per year (£159 million in total over the evaluation period) and the costs of the wider support have been an additional £4.4 million per year (£22 million in total). This gives a combined cost of £181 million or £36 million a year, over five years).

Table 10-31: Summary of costs

	International trade support (2012/13 to 2015/16)	Inward Investment (2011/12 to 2015/16)
Annual average (£ million)	£33 million	£36 million
Total over evaluation	£130 million	£181 million

Source: SE/HIE

⁴⁹ De minimis aid is used to describe small amounts of state aid that do not require European Commission approval. The total de minimis aid which can be given to a single recipient is €200,000 over a 3-year fiscal period.

Summary impacts

10.116 Table 10-32 summarise the impacts associated with the international trade and inward investment support delivered over the period of the evaluation.

Table 10-32: Summary of Trade and Inward investment GVA impacts to date and future (£s million)

Trade	Total net impacts to date 2012/13 - 2015/16 £ millions	Future potential impacts 2016/17 - 2018/19 £ millions	Total 2012/13-2018/19 £ millions
IP	£236	£134	£370
Non IP AM	£167	£94	£261
Non IP NRM	£63	£35	£98
Total Trade	£466	£263	£729

Inward Investment	Total net impacts to date 2011/12 - 2015/16 £ millions	Future potential impacts 2016/17 - 2017/18 £ millions	Total 2011/12-2017/18 £ millions
Total inward investment	£1,644	£1,104	£2,748

Source: SQW estimates

Comparing costs and net GVA

10.117 The detailed analysis of costs allows a direct comparison of the GVA impacts generated and the investment made. **The impacts calculated for trade range from £466 million and £729 million depending on the extent to which the expected international sales materialise.** Although the costs for the full period are estimated to be £130 million, in practice the analysis has only been able to apply the results to cases supported up to November 2015. Reducing the costs by £16 million in this year, gives a total of £114 million.

- **The ratio of investment cost to GVA is between 1:4 to date and 1:6 when the estimate of future impacts is included.**

10.118 For inward investment, the impacts range from £1,644 million to £2,748 million if the jobs are assumed to last for a further two years.

- **With total inward investment costs of £181 million, this gives a range of between 1:9 to date and 1:15 when an estimate for future impacts is included.**

10.119 The results are summarised in Table 10-33.

Table 10-33: Cost to GVA ratio estimates to date and including estimated future impacts

	To date 2012/13 to 15/16	Including future impact 2012/13 to 18/19
Trade support	1:4	1:6

	To date 2012/13 to 15/16	Including future impact 2012/13 to 18/19
	To date 2011/12 to 15/16	Including future impact 2011/12 to 17/18
Inward investment	1:9	1:15

Source: SQW estimates

Conclusions

This analysis is intended to provide an estimate of the scale of impact that the international support is having. It is based on the perceptions of the businesses themselves about the level of additional sales and employment that they would attribute to the support. It means that the results are dependent on interviewees being able to recall the support and provide estimates of what would have happened without it.

With the international projects and inward investment cases the interviews were carried out by consultants who were able to follow up these questions in more detail, and each case involved consideration of the role the support has played. This is more difficult in shorter telephone surveys.

The results represent a significant increase in the overall activity and the impact delivered compared with the results of the evaluation in 2010. This is against a background of a downturn in oil and gas (one of Scotland's strongest sectors), the long-term impacts of the global recession and financial crisis. The future impacts are likely to be affected by the more recent, wider political and economic uncertainty associated with Brexit.

On the face of it the results indicate a stronger return on the investment in inward investment than trade. However, there are differences in the methodology and the nature of the types of firms may contribute to the variation in results. For example, it is easier to attribute jobs directly to the receipt of large grants (particularly when you are required to report on them to draw down the grants), than trying to attribute international sales to strategy support which may have been delivered three or four years ago. It is also more difficult to recall the impact of as many as ten different trade events, advice, missions etc.

Even within the trade support there is a significant difference between the returns from the international projects, the Account Managed businesses and the other cases. There are really three distinct groups, which also reflect the intensity of support. In part, this reinforces SDI's focus on firms that offer the greatest potential. It also suggests that the support continues to work well with the firms that SDI works more intensively with. This includes the Account Managed firms.

The lower return among the non-IP firms suggest that it has been harder to generate tangible impacts among cases that receive less support, or are at an earlier stage in considering international trade.

A similar pattern is apparent in inward investment with the greatest impacts coming from the larger expansion and safeguarding projects, rather than new to Scotland investors. Again this is not surprising. Investors that have experience here are more likely to make bigger investments.

The impacts reinforce the main themes of the report. Over the last four or five years, support has been very effective in supporting international trade and inward investment among the firms that

are worked with most intensively. International strategy is now more focused on attracting new to Scotland investment and in broadening the exporting base. Both are important over the medium term, but the analysis suggests that this could mean weaker economic impact in the short term.

11. Stakeholder perspectives

- 11.1 The evaluation included consultations with a range of stakeholders based in the enterprise network (SE, HIE and SDI) and also those based in other organisations such as Scottish Government, Department for International Trade (DIT, formerly UKTI), VisitScotland, Scottish Council for Development and Industry (SCDI), local Councils, Business Gateway, Chambers of Commerce, the China-Britain Business Council (CBBC) and banks. A total of 39 stakeholder consultations were undertaken as well as a focus group with Account Managers from SE and HIE. A stakeholder list is provided in Annex A.
- 11.2 The following sections present a summary of the feedback provided on different aspects of the trade and investment support provided over the past four years. In some areas, the analysis makes the distinction between the views of internal and external stakeholders. Inevitably, internal stakeholders were able to draw on much more detailed knowledge of the products and processes in SE, HIE and SDI. External stakeholders provided a more strategic perspective on the support, with particular focus on how the enterprise agencies work with other partners.

Rationale for support

Trade

- 11.3 Consultees were clear on the need for trade support, often citing the evidence of Scotland's low number of exporters compared to other parts of the UK and internationally. Most stakeholders agreed that the market failure and case for trade support is getting stronger, particularly following the Brexit referendum result in June 2016. With increasing levels of competition in both mature and emerging markets, it was felt that there needs to be proactive support in promoting the opportunity and helping businesses to realise additional overseas sales.
- 11.4 It was highlighted that there is still a large part of the business base who have never seriously considered exporting. Part of this may be down to the nature of their product/ service or the fact that they are performing well in domestic markets. However, the sense is that there remains significant untapped potential in Scottish businesses to grow internationally. Some consultees pointed to research which indicated that another 10,000 Scottish businesses⁵⁰ have the potential to become exporters, effectively doubling the current total.
- 11.5 Many stakeholders suggested that there is no shortage of support available; the main objectives need to be making sure all businesses know about the support that is available, encouraging businesses to have a more international outlook and developing the knowledge to access new markets. However, it was also acknowledged that increasing the number of exporters in Scotland will take some time.

⁵⁰ http://www.parliament.scot/S4_EconomyEnergyandTourismCommittee/Inquiries/Enterprise_Research_Centre.pdf

Inward investment

- 11.6 Stakeholders highlighted Scotland's strong FDI performance over the last decade, particularly in the UK context which is reported in the E&Y FDI reports. Whilst the overall number of projects and jobs have been a major positive, it was pointed out that this performance has been largely driven by existing inward investors (through expansion projects).
- 11.7 With continuing emphasis in Scottish Government strategy on the total jobs secured through FDI, it was felt that the enterprise agencies have perhaps focused too much on the 'low hanging fruit' of repeat investments. SDI and partners need to be more proactive to secure new investment into Scotland with increasing competition from within the UK (e.g. Northern Powerhouse and Midlands Engine) and beyond.
- 11.8 The emergence of new FDI markets provides more competition for Scotland. There are now more smaller investment projects and fewer examples of major greenfield investments than ten or even five years ago. This means that Scotland must work harder for smaller FDI projects. However, the aim is to secure higher value added activities and jobs which will help to deliver better and more sustainable jobs, with the prospect of follow-on investment.

Delivery model

Overall approach

- 11.9 Within the resource available, the enterprise agencies have sought to provide as comprehensive a trade support structure as possible. SDI sector teams provide support to those businesses with strong export growth potential (many of these are SE or HIE Account Managed companies) and there is lighter touch trade support provided to other firms who are starting to explore export opportunities. This activity to support new exporters has received more focus in the last couple of years and particularly with the scaling up of cross-sector advisers and activities. Additional resource has also been put into the High Growth Market Unit with tailored support provided to companies looking to export to China, India and the Middle East.
- 11.10 During the evaluation period, SDI has tried to deepen support for those with greater export potential at the same time as trying to broaden support. Although covering all types of exporters, most resource continues to be focused on the deeper engagement and most consultees agreed this overall approach is the right one.
- 11.11 The focus on inward investment has also changed over the evaluation period with SDI staff now focusing primarily on new investments to Scotland ('New New') through the implementation of sector operating plans which help to target investors in specific sub-sectors in different geographic markets. This change in focus reflects the greater levels of international competition for FDI. The prime responsibility for Account Managed inward investors has transferred across to the SE and HIE Account Managers. Again, consultees saw these changes as logical, allowing SDI staff to be more focused on selling Scotland and for SE/HIE Account Managers to work with existing inward investors. There was some feedback that Account Managers had more responsibility to work with these businesses and identify the potential for further investment.

Trade products and services

- 11.12 Over the last few years SDI has developed more products in order to offer a wide range of support for different types of businesses. Consultees could provide examples where products have been adapted to suit the business needs. For example, a shortened version of the International Strategy Workshop was developed for those businesses who are only able to spend two days rather than five. There is a strong commitment to the ongoing review of trade products, and consultees pointed to the higher take-up of trade products over the last four years as evidence that the agencies have widened as well as deepened support. This is supported by the management data which shows significantly more companies supported over the past four years (than identified in the previous evaluation in 2010). There were no obvious gaps identified in what was seen as a very comprehensive range of support programmes.

Investment support

- 11.13 Inward investment enquiries come to SDI from a number of sources including proactive outreach, networking events, referrals from personal networks of SDI staff or through direct enquiries into SE/HIE. For new investors, support is provided by a combination of SDI field teams and the relevant sector teams. The initial support provides the necessary information on Scotland's assets and the support available through the enterprise agencies including some financial incentives. Support to existing investors is handled by Account Managers. Overall, there was very positive feedback on the support provided to inward investors particularly around the responsiveness and professionalism of SDI staff and Account Managers.
- 11.14 There is a range of financial incentives available to inward investors including grant support (primarily through Regional Selective Assistance, R&D grants and Training grants) and different loan and equity finance products through the Scottish Investment Bank (SIB). There were some different views on the importance of finance to investors. Whilst most consultees felt they were of secondary importance after quality of skills and innovation support, others stated that there remains an expectation that investors will be able to access funding (because so many other areas provide this type of incentive). Certainly, for technology businesses (small and large) the availability of high level skills was central to their investment decision.
- 11.15 There were mixed views on the impact of changes to RSA in 2014 (no longer available to large companies). Some consultees thought that, so far, the changes have had a limited impact on the attractiveness of Scotland for inward investment. However, as mentioned earlier in the report the number of RSA approvals dropped sharply between 2014/15 and 2015/16. It was also highlighted that the number of RSA applications from SMEs has dropped even though they are still eligible, suggesting some confusion on the part of businesses. In terms of job numbers, the impact may start to become apparent in the next few years without any projects for large companies.
- 11.16 For those no longer eligible, SE has been promoting other forms of grant support. However, the wider point was made that SDI staff need to have a good understanding of exactly what financial support is available to investors. There was feedback that the process of appraising and approving funding applications should be more efficient, and this mirrors the views of the businesses. In particular, there was an acknowledgement that the type of information required in application forms should be updated and made more relevant. Small companies complain that they need to

demonstrate historic data that they don't have, while others don't have site level sales data. Consultees who work with these financial incentives felt that there was an increasing need to move more quickly in response to businesses.

GlobalScots

- 11.17 The GlobalScots network is an important part of the trade support in-market. It is designed to match firms with relevant experienced business leaders who have the knowledge and experience of a particular geographic market or sector. In some markets these individuals are also playing an important role in selling Scotland to attract new investment.
- 11.18 There has been a recent process to rationalise the network to focus on the more active GlobalScots and to provide more support to the network. There was mixed feedback on the effectiveness of the network with much depending on the individuals and their willingness to support firms. Consultees were able to highlight examples where individual businesses had benefited from this advice, using GlobalScots as a 'sounding-board'. However, there was a general acceptance that more could be done to maximise the resource and that the agencies need to be more specific in the requests of GlobalScots.

Delivery approach

- 11.19 There was no single "best mechanism" for engaging businesses. For those with higher export potential, it was important that the support is delivered on a one-to-one basis so that senior managers can build up a strong relationship with the trade adviser and/or specialists. For the volume market, there is more scope to deliver earlier stage 'one-to-many' sessions, although this changes at the point businesses then need more intensive support.
- 11.20 The use of digital technology is increasingly important in delivering support cost effectively. The work of the new digital team within SE was recognised in terms of the online tools to help companies with self-assessments, developing action plans and accessing market information. Although there is an initial sense that new digital platforms would be used in delivering support to the volume market, consultees also suggested there is scope to use video links to work with businesses, bringing advisers together more frequently and improving international communications. There is also the potential to use these platforms to tailor support and promote opportunities.

Integration with other SE/HIE support

- 11.21 Over recent years there has been a process of integrating SDI more into the wider structures of SE/HIE. The feedback from SE, HIE and SDI consultees reaffirmed the importance of this process, which is still ongoing. Internationalisation is just one aspect of business development alongside innovation, business investment and skills development.
- 11.22 Most of SE and HIE's support to businesses is based on the Account Management model which involves a designated Account Manager and account teams of specialists drawn in to support the firm's growth as and when required. The relationship between the Account Manager and the SDI international trade adviser is critical in the attempt to help more of Scotland's growth companies to internationalise. Many internal consultees highlighted this model as one of the main strengths of the

trade support as it allows resources to focus on those businesses that genuinely have the capacity and ambition (and the right product or service) to export.

- 11.23 That said, the feedback has indicated that the strength of this relationship varies quite significantly. For some consultees, there remains some confusion about the roles of the Account Managers and trade advisers in terms of appraising the export potential of the business and then organising the various supports (e.g. consultancy, events, International Manager for Hire). Generally, many of the consultees involved felt that there was still work to do in building closer relationships between Account Managers and the SDI trade advisers. There were suggestions including holding more joint events (e.g. external trade promotion/ showcase events or staff training) and for Account Managers to go on more trade missions.
- 11.24 There was a perception from SE staff that there are more rules around the trade products (compared to other SE support) in terms of intervention rates for funding support, how often a business can go to events or on trade missions. Account Managers would like to have more autonomy in recommending the most appropriate type of trade support and be able to package this alongside other products (e.g. innovation support). From SDI's perspective, there was a sense that the opportunities around exporting could be promoted more effectively by the Account Managers.
- 11.25 Some consultees commented on the recommendation in the Phase One report of the Enterprise and Skills Review for SDI to have a more distinct identity. Nearly all consultees expressed surprise at this suggestion and a number stated that this would be a backward step. Businesses often get frustrated by fragmentation and confusion in the business support landscape – several consultees suggested that greater integration rather than less would improve this. Perhaps more importantly for most businesses, international trade is part of their overall market and business development.

Global Account Teams

- 11.26 On the investment side, there would appear to be a more integrated model of support, particularly for Account Managed existing investors. As with other Account Managed companies, they have one point of contact based in SE or HIE that helps them to access a range of support. This was seen as a real strength (by consultees and the majority of businesses).
- 11.27 Over the last year, Global Account teams have been set up for 180 of the more significant inward investors which provides a structure for supporting the site in Scotland and the parent company overseas. These teams are still bedding in but in many cases encouraging a closer relationship between SE/HIE and SDI's overseas teams. As well as including SDI overseas teams, these teams often involve input from DIT and in some cases British Embassy staff. The effectiveness is determined by the attitude and approach of the Account Managers and SDI executives and the relationship between the site in Scotland and the parent company. It is too early to assess whether these new teams have been successful since this will be evidenced through further investments in Scotland.

Lighter touch trade support

- 11.28 In addition to the SDI trade advisers, there is a team of 17 export advisers sub-contracted by SDI to work with businesses interested in starting to export. These advisers work with Business Gateway

and some Chambers of Commerce to provide two levels of support to businesses: two or three days to explore their interest in exporting; and then working through an action plan with bootcamps, advice from GlobalScots, market information and potentially overseas visits. This team of 17 have only been in post since April 2016.

- 11.29 The early feedback from consultees was that this is working better than before (the previous Smart Exporter team had five contracted advisers) with high levels of attendance at workshops, although more difficult in rural areas where businesses are less willing to travel for this type of event. There was general agreement that the Smart Exporter programme had been too focused on delivering activity to large numbers of businesses (mainly to secure the match funding from ESF) and consequently the new approach has tried to be more flexible and focused on providing higher quality business support.

Skills of delivery staff

- 11.30 Most of the delivery staff are based in SDI's sector teams which have around 130 International Trade Advisers (ITAs) or in the network of 40 field offices with 120 staff (executives and administrative support). There is also the team of 17 export advisers working across sectors. As mentioned above, SE and HIE Account Managers also play a key role in brokering in trade support and supporting existing inward investors.
- 11.31 The balance of trade adviser activity can vary by sector (e.g. the Food and Drink team is primarily focused on trade, whereas the finance and business services teams are more focused on inward investment) but overall the majority of ITA time is spent on helping trade businesses. The feedback on the quality of the trade advisers was largely positive although some concerns were raised about the lack of specialist sector knowledge in export markets. SDI put all the advisers through Institute of Export training and encourage them to regularly visit the field offices.
- 11.32 The remits of the overseas teams again vary by market depending on where the main opportunities are to be found (i.e. in FDI or trade), but overall the focus of these teams has shifted to attracting new investment. This was seen by most consultees as important given the increasing competition and the fact that Scotland has been relying heavily on existing investors for FDI projects. SDI are currently in the process of developing a more proactive 'consultative sales' approach which uses the sector operating plans to target customers more effectively, understand exactly what they are looking for in terms of investment opportunities, then come up with a solution.
- 11.33 The overseas teams were regarded as doing a good job in terms of responding to trade enquiries, supporting events and missions, supporting ministerial visits and responding to inward investment queries. However, two main areas for improvement were highlighted: developing stronger sales skills to generate new investment leads; and developing more sector specific expertise to provide more tailored support to export companies.
- 11.34 Managing the pipeline process and nurturing new investment leads is clearly critical to the role of SDI advisers. Based on the consultations, it would seem that the performance in this area is varied and could be better across the board. Similar to the business feedback on engagement with the overseas teams, the consultee feedback was quite limited and would benefit from further specific research given the importance of this element of the support.

- 11.35 On the second point around sector expertise, several consultees highlighted the successful introduction in 2014 of Food and Drink specialists to 11 SDI offices through a joint initiative with Scotland Food and Drink. A recent review found that these specialists have made a significant impact on exports in these areas. This was a model that many of the consultees felt could be used for other sectors or sub-sectors, but also that it could be difficult to secure industry buy-in. The importance of a sector led approach to support was not questioned and the importance that advisers “understand their business” came across strongly in the surveys.

Marketing and promotion

- 11.36 Nearly all consultees highlighted the need for better promotion of the internationalisation support that is available. Domestically, businesses need to have a clearer picture of the range of export support provided by SE, HIE and SDI and this requires the agencies to work more effectively with partners. Some consultees suggested that to raise awareness of export opportunities, the agencies and partners need to be bolder in the way in which they are promoted. Suggestions included more use of social media, mainstream media marketing and showcase events. One consultee also suggested creating a TV documentary to promote the exporting journey.
- 11.37 Overseas, consultees felt that more resource should be invested in marketing Scotland and focusing on the areas where the country has genuine world-class assets. There was mixed feedback on the premium product approach to selling Scotland. Focusing on these recognisable products was seen as an appropriate marketing approach for Asia but less so in North America. There were some concerns raised about the branding of support and campaigns. Some questioned why there was a need for a separate SDI brand and suggested that businesses become confused about SE/HIE export support and SDI investment support.

Management

Resources

- 11.38 Resourcing for the SDI sector teams was considered to be appropriate, with trade advisers prioritising their time with those businesses deemed to have most export potential. Closer integration with the SE/HIE sector teams (some but not all sectors have the same team leader) helps with targeting and efficiency.
- 11.39 The scale and coverage of the SDI overseas teams was viewed by all consultees as a key asset of the trade and investment support. A number of stakeholders questioned whether the resource was being ‘spread too thin’ especially given the requirements to support an increasing number of Scottish Government ministerial visits. Some suggested it would be worth looking at a more flexible model, making more use of DIT and Embassy or Consulate offices.

Monitoring and performance measurement

- 11.40 Only a small number of internal consultees could comment on the metrics and targets used to monitor the performance on trade and investment.

- 11.41 In terms of measuring trade performance, some consultees questioned whether projected export sales was the right metric to use for measuring business outcomes due to the tendency for firms to be overly optimistic in their projections. There are also major difficulties in tracking the number of new exporters supported, and currently the metric used is the number of businesses supported to increase their capacity for exporting. A more robust monitoring system would help to measure the value of new exports achieved and the number of new exporters more accurately.
- 11.42 The headline metrics used to measure inward investment were judged to be the right ones. Although they are also based on projections, the planned employment is more closely linked to an investment business case. With the move towards smaller FDI projects, tracking the number of High Value Added jobs is becoming increasingly important. Total employment will also continue to be relevant specifically in relation to the Scottish Government's strategic objective around inclusive growth. With the changing nature of inward investments particularly from Asia, some consultees suggested some kind of tracking of the performance of indigenous businesses receiving overseas investment (e.g. through equity investments).
- 11.43 Consultees highlighted the difficult balance between tracking activities and outputs which are clearly attributable to the support, and business outcomes which could be influenced by a range of external factors. There was certainly a desire to see more real-time monitoring of trade data. Better monitoring data will be critical in helping the agencies allocate resource to the main opportunity areas i.e. focusing on certain markets, sectors and types of business for both trade and investment support.

Partnership approach

One Scotland approach

- 11.44 Consultees were asked about the effectiveness of the 'One Scotland' approach to supporting internationalisation (a genuine partnership approach across public and private sectors – see para 3.12 for more background). The last few years has seen more focus on a joined-up approach and while there has been progress, most consultees felt that there is still “some way to go”.
- 11.45 Internal consultees generally felt that progress has been made in developing more of a partnership approach and were enthusiastic about working more closely with other agencies. SDI has quarterly meetings with a range of intermediaries including SCDI, Chambers of Commerce, Business Gateway and the banks, and is developing closer links with local authorities to ensure a more systematic approach to export support.
- 11.46 Several examples of collaboration were highlighted including:
- SDI export advisers working with local chambers and Business Gateway to promote export opportunities and helping to develop a pipeline of new exporters
 - SE/HIE/SDI working closely with VisitScotland on the aviation strategy to prioritise new international connections for Scotland

- SE/HIE/SDI partnering with Scotland Food and Drink to recruit sector specialists to work in the SDI field offices
 - SDI hosting joint promotional events with VisitScotland and key tourism businesses in China
 - Bringing in Scottish Government Ministers to attend overseas business networking events or conferences – this was seen as very helpful for selling Scotland abroad.
- 11.47 However, all the consultees agreed that more needed to be done. There are strengths across all the organisations that could be used more effectively. There were several suggestions that the SE/HIE/SDI advisers could look more frequently at the potential roles that other partners might play. On the investment side, it was highlighted that the city councils and Scottish Cities Alliance have made progress in developing their investment propositions around major infrastructure projects but would benefit from closer relationships and support from SDI. Some external consultees felt that SDI was too protective regarding potential investment projects and should work more collaboratively with the city councils as they develop their own investment campaigns.
- 11.48 External consultees believed that there would need to be much more partnership working if Scotland is serious about its export targets. They felt that the enterprise agencies were becoming more collaborative but to achieve a step-change in the number and level of exporting required a different approach. For example, one stakeholder questioned the effectiveness of the support to new or potential exporters and suggested that more emphasis should be on developing a pipeline of future export businesses. This would require a realignment of the export support currently being provided by councils, Business Gateway, the chambers of commerce, SDI and individual trade organisations. This realignment could potentially include more joint planning and delivery of activity and more sharing of business data.
- 11.49 The Chambers of Commerce are important players in terms of trade support. Their services to members (and non-members) include international trade documentation, market research support, market entry action plans, and advice on the logistics of exporting. Some of the larger Chambers organise outward and inward trade missions and they also have access to a network of overseas British Chambers of Commerce which helps to facilitate business to business networking.
- 11.50 Many of the consultees thought that these Chamber of Commerce networks should be leveraged more effectively, to complement the SDI-led support. This is recognised by the Scottish Government and SDI and more support has been provided recently in helping some Chambers develop new agreements with overseas Chambers. For example, Glasgow Chamber of Commerce has recently signed new agreements with Manhattan Chamber of Commerce and British Chamber of Commerce for Italy to help bring together Scottish firms with overseas firms that may be interested in supply chain of joint venture opportunities. Due to the scale of export opportunities, it was believed that this type of networking activity provides additional benefits on top of the SDI-led overseas support.
- 11.51 There was also a consensus that there could be closer relationships with the universities that all have their own academic links with overseas partners. Similarly, the councils have civic and educational partnership arrangements which could be used to develop new trade or investment opportunities.

There were also further suggestions about the greater use of Scotland's diaspora and international alumni.

Other partners

- 11.52 One of the key partners for trade and investment is DIT (formerly UKTI). Consultees reported that this relationship has strengthened in recent years. SDI and DIT have delivered many joint events and missions and the two organisations also worked together on the Exporting is GREAT campaign. At a senior management level there are good relationships between SDI and DIT. At an operational level within the sector teams, maintaining relationships has proved more difficult due to the scale of personnel changes in DIT over the past two years.
- 11.53 SDI and DIT have also been working well in London to look at recent investors into London and the potential to target some of these for second round investments into Scotland (particularly where London is struggling to deal with demand in terms of access to skilled workers and space). SDI consultees highlighted major opportunities to attract investment out of London in financial and business services and with technology firms. This is part of the rationale for the new London Innovation and Investment Hub set up by the Scottish Government (with other hubs set up/being set up in Dublin, Brussels and Berlin).
- 11.54 Collaboration on the trade side has proved to be more straightforward with less scope for competition between Scottish businesses and exporters from other parts of the UK. In terms of inward investment, there can occasionally be some tension purely because DIT's remit is to bring investment into any part of the UK whilst SDI are focused solely on Scotland. Some internal consultees believed that DIT's investment activity was increasingly likely to be focused on the South East, the Northern Powerhouse and Midlands Engine areas (since these parts of the UK do not have their own trade and investment agency).

Conclusions

The main findings from the consultations were that both trade and investment support provided by SDI has improved in recent years, and where the agencies have existing relationships with companies then the support is working very well. In most cases the account team approach is proving to be effective, but there is a need to continue with the integration of internationalisation support along with skills and innovation support. The need to update and improve products and services, including making best use of technology, was highlighted and this is broadly being addressed through the implementation of improvement plans. The main areas for improvement are around broadening the support to new exporters and new investors. These are obviously more challenging areas and will require more sophisticated targeting of opportunities, more tailored support and stronger collaboration with partners.

12. Conclusions

Overview

- 12.1 Overall, the results of this evaluation provide evidence that the support provided through SDI has been effective in assisting a large number of businesses to start or grow their international trade. The evidence from the inward investment survey also finds that a combination of financial incentives and support through SDI has helped attract additional business to Scotland, increasing output and employment.
- 12.2 On both trade and investment, SDI are working effectively with existing exporters and inward investors. There are high levels of satisfaction, strong additionality and evidence of business impacts. This is the case particularly where a business is Account Managed and is receiving support as part of an integrated package. The challenge now is how the agencies can broaden this to a wider range of potential exporters and new investors coming to Scotland.
- 12.3 Support has been realigned to address these strategic objectives but it will take some time to make a serious step-change in Scotland's performance. More promotion of SDI, leveraging of the overseas network of SDI offices, continuing integration with SE/HIE support, and closer engagement with partners to add to the capacity on the supply-side, will all help to meet this challenge.

Changing policy context

- 12.4 There are various examples of how the internationalisation activity being delivered by SDI, SE and HIE has evolved and responded to a fast-changing policy context. The last five years has seen the downturn in oil and gas (one of Scotland's strongest sectors), the long-term impacts of the global recession and financial crisis, and wider political and continuing economic uncertainty.
- 12.5 Scotland's recent trade performance has improved but there continues to be a shortage of exporting firms compared to other parts of the UK and other similar sized comparator countries. This issue comes through clearly in Scottish Government strategies and, as a result, SDI has refined its services to provide more intense engagement with businesses with the greatest export potential, and lighter touch engagement with less experienced exporters. A new High Growth Market Unit has been set up to offer additional support for businesses responding to opportunities in emerging markets such as the Middle East, India and China.
- 12.6 In terms of inward investment, SDI has re-focussed on investment opportunities identified through the International Sector Plans. Further, the main responsibility for coordinating support for existing inward investors has moved from SDI to SE/HIE Account Managers, leaving SDI advisers to focus primarily on new investment.
- 12.7 **It will take time to see the effects of these changes, but the initial evaluation evidence indicates that these have worked well. There is a balance between working with established exporters to support growth in new markets and encouraging new, often smaller businesses to start**

selling internationally. In the short term, the more established businesses offer the most potential, but in the longer term it is important to grow the number of exporters.

- 12.8 The challenge is the same in inward investment where existing foreign investors continue to contribute most to jobs and economic impact, but we also know it is important in the medium and longer term to attract more “new to Scotland” investment.**

Rationale for intervention

- 12.9 The justification for providing support for international trade and investment is based on market failure, but it is also important that the benefits of the interventions can be shown to exceed the costs. The standard market failure for international trade is that limited information and uncertainty about the costs and benefits of exporting result in under-investment by businesses.
- 12.10 Although more experienced exporters understand the challenges and benefits of international trade better than non-exporters, new markets introduce new risks and uncertainties which can deter investment (e.g. around licensing, joint ventures, acquisitions). The business interviews found that the support helped businesses to take some of the uncertainties out of this by subsidising trips, providing research and contacts, and also providing a reassurance that these activities were supported by a public agency.
- 12.11 For less experienced or new exporters, the market failure arguments are similar, with firms facing the uncertainties of international trade, but go further in that they have less knowledge of the strength of their product or service in new markets and their own capabilities to sell it in new markets. In these cases, interventions such as Preparing to Export and strategy development are more relevant, along with one to one advice and, in some cases, the experience of a GlobalScot.
- 12.12 The surveys found that smaller businesses face greater barriers. Operating on a smaller scale they are less able to take the risks associated with new markets, and lack the resources to invest in dedicated international marketing expertise. They may also lack the capacity to produce and deliver sufficiently large quantities to make the most of opportunities. In contrast, larger businesses, often with more experience internationally, are better able to identify and exploit international opportunities, but there remain uncertainties in new markets. This conclusion is also supported by the higher proportions of small businesses that reported that the support had led to changes in the development of their plans.
- 12.13 Among inward investors the market failures are different. The case for encouraging inward investment is based on the creation of new activity, better productivity and the wider spillover effects that foreign investment can bring. For new investors, there are information failures. For example, there are cases where investors were not aware of the opportunities in Scotland, its strengths, and also the business support available. Among businesses that are seeking investment to diversify or expand operations in Scotland, the information failures are obviously less (as the investor has direct experience of working in Scotland). In these cases, the intervention is required to help compete with other parts of an international group or with other locations for the investment. This can be through help in making a case as well as financial support (although, as described earlier, the rules on RSA awards have changed).

- 12.14 The evidence from the survey indicates that in most cases these investments would not have taken place in the same way, or at the same time, without support. However, the interviews also highlighted a growing importance of skills and the quality of the business support infrastructure in investment decisions.
- 12.15 **The feedback from businesses and stakeholders indicates that there is a good understanding of the key areas of market failure and SDI are providing a range of support that addresses the differing needs of business along the internationalisation spectrum.**

Activities

- 12.16 **Over the period of the evaluation from April 2012 to November 2015, SDI provided international trade support to nearly 6,000 companies and around 18,500 assists were delivered. Twice as many businesses have been supported than in the period covered by the previous evaluation (2005 to 2009).** Almost half of these companies received just one assist over the period.
- 12.17 There has been a shift in the markets targeted by businesses. Analysis of the SDI data shows that those receiving most support were more likely to be considering opportunities in emerging markets. There has also been considerable growth in the number of businesses outwith the growth sectors that the agencies worked with, initially through Smart Exporter. This has been a response to the need to grow the number of companies engaged in international trade.
- 12.18 **SDI have greatly increased the reach of their trade support to stimulate a pipeline of new exporters. Whilst this volume-market approach will take some time to generate the desired outcome, there is some evidence that it is beginning to have an effect. Over a quarter of firms that were previously not exporting are now trading overseas following support. This could potentially mean 300-400 new exporters during a period when Scotland saw an increase of 2,000 additional exporters.**
- 12.19 **There were 423 inward investment projects with 374 firms between 2011/12 and 2015/16. These supported a planned 39,000 jobs of which 24,000 are new and 15,000 safeguarded.** The number of investment projects from England, particularly the number of new to Scotland investors, has grown significantly, along with investment from North America.
- 12.20 Overall, a third of projects were new to Scotland, and of these a third came from England. Whilst there are major opportunities to encourage new investment into Scotland from England, it is perhaps surprising that it accounts for such a high proportion given the network of overseas teams located around the world.

Overall promotion and reputation

- 12.21 **The evidence from consultees and businesses indicated that SDI could and should be more ambitious in its promotional activity both domestically and in promoting its network of offices and services overseas.** All of the recent strategies have reinforced the need for Scotland to become more international and to encourage more exporting businesses. There continue to be barriers which are often around the risk of investing in export activities. However, consultees suggested that if

Scotland is going to increase the number of exporters, there needs to be more effort to raise awareness and encourage overseas trade. This is becoming even more important as Brexit approaches in the next couple of years.

International trade

Effectiveness of support

- 12.22 **The effectiveness of the trade support has improved from the last evaluation in 2010.** A broad comparison of the business survey results shows better results for the International Project (IP) businesses⁵¹ compared with the 2010 evaluation, and similar feedback for the non-IP cases. **The proportion of firms where support has helped to make new international sales was 41% in 2010. For the IP cases in the new survey this was 73%, and among the non-IP businesses 44% in either new or existing international markets.** Given that the support has been broadened out to include more less experienced exporters, these are positive results. The anecdotal feedback from the business interviews (where they could comment over time) supported this as did most of the stakeholders and partners.
- 12.23 While there are areas for improvement, these are mainly around continuing to shift activity in a direction that it is already going in. For example, by continuing to integrate SDI's international trade support with other SE/HIE business development support, and making more use of external partners' strengths.
- 12.24 **An underpinning theme from businesses is the importance of advisers "understanding their business", or "getting it". Support led through an Account Manager works well because they use their relationship and knowledge of the business to see how and where international trade fits.** Where there were criticisms of international trade support it was often where it was considered too generic (this included market research, provision of leads and contacts, strategy and advice, and even trade missions).
- 12.25 **For most businesses, international trade should be part of overall business and market development. International trade is intertwined with innovation, skills and business leadership which enable exports and brings additional benefits to the firm such as exposure to new ideas and reducing dependency on a single or smaller number of markets.**

Most effective support

- 12.26 **From the perspective of the businesses, the most valuable parts of trade support were Overseas Events and Trade Missions and International Manager for Hire. Businesses tended to rate the support that was "closer to market" more highly (that is support that directly helps them get in touch with customers and make sales), rather than research and preparation.** This may be because it is easier to see the difference it makes. Specifically, the International Manager for Hire really seemed to make a big difference (although not in every case).

⁵¹ Those firms identified as having the potential to increase overseas sales by £1m over a three year period

- 12.27 The evidence suggests that effectiveness is less about the types of products, and more about the quality of the advice and the extent to which advisers understand the businesses they work with; whether they “get it”. Usually it was where an Account Manager and SDI adviser could work together with the business to identify activity. Even among those that received less support, satisfaction was higher where they had an Account Manager.

Delivery model

- 12.28 Although consultees often expressed the view that we should “get more” from GlobalScots, the feedback from businesses was that their engagement had been very helpful, and this is also reflected in the analysis of the impacts. GlobalScots has been reviewed recently and may change further. One of the key factors where engagement worked was ensuring that there was a specific brief and where it played directly to the GlobalScot’s skills and knowledge.
- 12.29 Businesses exposure to the SDI field offices and in-field staff was mainly limited to attendance at events. Where there had been some engagement, experiences had been very good, with a lot of praise for the enthusiasm and dedication of staff. A small number of businesses felt that overseas teams could be more effective in helping them identify contacts. There may also be scope for Account Managers to encourage more direct contact. Related to this, several consultees suggested that the field offices could do more to raise their profile in Scotland, both with SE/HIE advisers and potentially with businesses.
- 12.30 **Consultees and some businesses pointed to the success of the Food and Drink specialists that have joined some of the SDI overseas teams.** These new staff were seen as providing more valuable advice and contacts for businesses travelling out to market. **Whilst this sector is particularly well suited to this approach because of the industry’s focus on exports, it is a model that should be considered by some of the other key sectors.**
- 12.31 The large majority of the ‘assists’ to businesses is through one to one support and a combination of calls and meetings. There were fewer examples of one-to-many sessions or events. When asked, businesses tended to focus on the value of the one-to-one support. In line with the importance of the uniqueness of their business, they consider one to one support, or having an adviser, as the most effective method. Most businesses in the IP survey did not think that digital support would be as effective, but this was driven by a view that it would mean more generic information or toolkits. In practice, SE/HIE/SDI will need to demonstrate that digital support goes beyond simple on-line toolkits or webinars.
- 12.32 Business feedback suggested that support tended to more ad-hoc in practice, rather than working as a package. SDI advisers were then often more reactive to specific requests rather than working with the Account Manager and the businesses. This may be unavoidable where businesses are opportunistic, but more engagement would allow SDI advisers to add value and build relationships with the Account Managers. Among the non-IP projects most only received one form of assistance. **The research found that the ACE model⁵² is a useful framework in delivering trade support**

⁵² SDI’s International Business Growth ‘ACE’ model categorises support under Ambition & Awareness – Capacity & Capability – Expansion & Exploitation

but tended to relate to the stages of market development rather than to a business as a whole, which could be at different points.

- 12.33 **There were differences in the levels of satisfaction between the more intensively supported IP businesses and the wider population.** Among those that received the more intensive support, the levels of satisfaction were very high at around 90% (around half very satisfied and another 40% saying they were satisfied). Among the less intensive cases, the proportion that were satisfied or very satisfied was a combined 61% (with almost 18% dissatisfied (and 21% undecided)). There was no clear pattern to this, although the more experienced exporters were slightly more likely to be dissatisfied. The main sources of dissatisfaction were: a lack of understanding of their business and the market place; a failure to reply or follow up on requests the business had made; a sense that they were treated as part of a box ticking exercise; and support being unable to provide useful contacts and leads.
- 12.34 **It is likely that the large increase in the number of businesses being supported has had some effect on satisfaction levels.** We understand that there have been more resources added to teams working with these businesses, with new arrangements since April 2016, and this will help. However, **the findings demonstrate the need to balance the increase in numbers and the levels and quality of support.**

Outputs and outcomes

- 12.35 The survey of IP businesses found the support has had a significant impact on businesses' international trade capability, particularly their ability to develop export plans and knowing what needs to be done to reach target markets. Almost three quarters had improved or developed their strategy, half had taken on new staff and half had found new partners to work with. Smaller businesses were more likely to report these benefits than larger ones. **As a result of the support, 73% achieved new sales in existing or new markets, 71% had grown turnover and 66% increased employment.**
- 12.36 Among businesses that received lighter touch support, often just a single meeting or event, one of the main findings was that of the 112 businesses in the sample that had not previously exported, 27% had moved on to become exporters and 51% planned to export in the future (28% within the next year). **Almost 40% of the non-IP businesses reported an impact on their international sales, which is quite high given the relatively limited amount of support received. Overall, the businesses receiving more support tended to report most impact in terms of international sales.**

Additionality

- 12.37 **Additionality has improved from the 2010 evaluation** when around 24% of firms stated they would have taken forward export activity regardless of the support. In the new surveys, among IPs this was 7% and among non-IPs 19%. In most cases, the support brought forward activity. Typically, businesses described the support as de-risking their attempts to grow exports. The support did this mainly by enabling a better understanding of new markets, but also through support to develop and implement strategies and improving plans.

- 12.38 There is always a potential trade off in business development support between working with less experienced businesses where you can make a bigger difference, but with smaller returns, or with more experienced businesses where you can make less difference, but can produce larger returns. The ideal clients are larger businesses that are not yet exporters. This would include Account Managed companies that do not export.
- 12.39 A second related issue is the balance between the benefit of continuing to fund businesses to attend the same events over time. There were arguments that this was necessary to build up contacts. Account Managers in particular feel that this was important. However, a small number of the businesses interviewed indicated that they would travel to a number of the key exhibitions without support. There is scope to reduce some support for repeat trips after perhaps two or three years.

Partnerships

- 12.40 Almost all consultees agreed that progress had been made in developing a stronger “One Scotland” partnership approach. There is still more that can be done, but there is a lot of goodwill towards making it happen.**
- 12.41 There are strengths across all the public and private sector partner organisations that could be used and levered more effectively. On the investment side, cities will play an increasing part in developing their own investment propositions, for example around new major infrastructure projects. Some consultees felt that there was scope for SDI to work more collaboratively on these propositions.
- 12.42 Specifically, the Chambers of Commerce are an important partner in terms of trade support and external consultees thought that these networks could be leveraged more effectively, alongside SDI-led support. There was also feedback that there could be closer relationships with the universities that all have their own academic links with overseas partners and potentially with the Councils that have civic and educational partnership arrangements. These wider links could be used more effectively to promote Scotland’s international assets.
- 12.43 The relationship with DIT was generally considered to be good, although there are areas where maintaining relationships has proved difficult due to the scale of personnel and structure changes in DIT over the last couple of years. Overseas, the relationships can vary across markets. In some it is very strong and in others there is a lot less contact. From DIT’s perspective, they suggested that there was scope for SDI to provide more briefings on Scottish activities and opportunities.
- 12.44 In terms of promoting the capabilities of Scottish businesses, it was felt that SDI are generally doing a good job with the available resource. Whilst there is existing campaign activity to promote Scotland’s premium sectors (i.e. the more traditional sectors identified as being Scottish), some consultees and businesses thought more could be done to promote new/ cutting edge sectors such as enabling technologies/ digital/ academic research.

Net economic impact of support delivered to date and in the future

- 12.45 The economic impact analysis estimates that trade support over the period of the evaluation generated between £629 million and £987 million of new international sales and between £466**

million and £729 million of additional GVA (depending on the extent to which the expected international sales materialise). With associated costs of £114 million, the ratio of GVA to investment cost is between 4:1 and 6:1.

- 12.46 Within this there is a significant difference between the returns from the International Projects and the other cases, with the International Projects generating significantly more new sales than the non-IPs. However, the overall return is reasonable given the significant increase in the number of firms that have been supported and particularly the growth in the number of newer exporters. The results also reinforce the partners' focus on firms that offer the greatest potential. The lower return among the non-IP firms suggests that it has been harder to generate tangible impacts among cases that either receive less support, or are at an earlier stage in considering international trade.

Inward investment

Key factors attracting investment to Scotland

- 12.47 The survey found many reasons for inward investment including to grow capacity, improve productivity and to develop new products and processes. In other cases, there were location specific reasons to be in Scotland (e.g. for whisky and renewables). The feedback highlighted the links between investment, innovation and productivity. It also supports SDI's use of Account Managers (who bring a broader business development perspective) as the main contacts for inward investors.
- 12.48 **Where it was awarded, finance was the most important element of support.** However, talent is increasingly important for investors, particularly in technology investments. Without the right people, financial support would not be effective. **For 37% of firms the skills base was identified as the main reason for investing in Scotland.**
- 12.49 A further important message was the role that the business support environment plays. Just under half (48%) said wider support from SE and HIE had played a part in their investment decision (for example, help with property, innovation support and advice). This was mentioned by businesses as both valuable in itself, but also in signalling Scotland's commitment to business and to specific sectors.
- 12.50 There were mixed views on the impact of changes to RSA in 2014 (no longer available to large companies). Some consultees thought that this would directly reduce the number of large expansion projects. Others felt that factors such as access to talent and research are becoming more important and that the funding changes (which are Europe-wide) would have limited impact on the attractiveness of Scotland. However, the number of RSA approvals dropped sharply between 2014/15 and 2015/16. The number of RSA applications from SMEs has dropped even though they are still eligible, suggesting some confusion on the part of businesses.

Effectiveness

- 12.51 **Overall, the findings from the business survey are very positive, with improvements on the previous evaluation report in 2010.** The number of firms assisted has risen and there has been

some shift from cases that safeguard employment to an increasing number of New to Scotland investments.

- 12.52 Half of the firms interviewed had considered making their investment outside Scotland. Existing investors usually used the support to make the case to their parent group for investment to be made in Scotland.
- 12.53 There was positive feedback on the role of SE/HIE and SDI staff in supporting the investments, both through the Account Managers (facilitating support for existing investors) and SDI advisers (supporting new investment). There were concerns from several stakeholders about the ongoing support for new investors where they did not qualify to become Account Managed.
- 12.54 The creation of Global Account teams is considered to be a real strength (by consultees and the majority of businesses). Internally it was seen as encouraging greater integration of SE/HIE and SDI staff. As well as including SDI overseas teams, Global Account teams often involve input from DIT and in some cases, British Embassy staff. These new structures were put in place recently, and the effects will become clearer over time, but should help join up support and make use of new technology to work virtually.
- 12.55 A lot of the success of the last decade or so has been through follow-on investment and safeguarding existing activity. However, an increased focus on investors that are “new to Scotland” is likely to mean that the number of jobs involved will be smaller. The implications are that the enterprise agencies will need to work harder for new investments and SDI will need to be more targeted and smarter in their promotional activity and work with potential investors.
- 12.56 Managing the pipeline process and nurturing new investment leads is clearly critical to the role of SDI advisers. Based on the consultations, it would seem that performance varies. Within the 24 new inward investors in the sample there seemed to be relatively little contact with the overseas teams. This could be down to the profile of these projects (a third were from England and many reported already having contacts and connections in Scotland). However, it may also highlight an opportunity to improve inward investment selling activity overseas. **Given the importance of attracting new investment, this should be the subject of further research. We suggest comparing performance with other countries and assessing the effectiveness of overseas selling activities.**

Help in embedding companies in Scotland

- 12.57 The feedback from firms on the effect of the support on their connections within Scotland were almost all very positive with three quarters of all the firms stating that the support had made them more embedded in the Scottish economy. However, it is difficult for these sites to know whether this embeddedness has helped ensure they remain in Scotland or win further investment.
- 12.58 Existing investors highlighted various examples where the support has helped to secure the longer-term future of the business in Scotland, from improvements to factories to upskilling the local workforce, but there were few examples of supply chain links. In addition, the integration of the support between SE/HIE and SDI, and with other partners, was highlighted as a strength by 62% of existing investors and 76% of new investors.

Satisfaction

- 12.59 **Satisfaction levels have improved since the last evaluation study in 2010. At that point around 80% of firms were either satisfied or very satisfied with the support. This figure has now increased to 95%**, with three quarters stating they were very satisfied. The high levels of satisfaction probably reflect the fact that many firms were successful in securing funding.

Outputs and outcomes

- 12.60 **For nearly two thirds (65%) of businesses interviewed the investments have resulted in new physical developments, with 58% highlighting new training, and 55% new plant and equipment.** In addition, more than half (53%) brought new technologies and new products to Scotland and half have increased their R&D activity as a result of the investment project.

Additionality

- 12.61 **The additionality of the support has improved considerably compared to the last evaluation in 2010.** Last time round the proportion of businesses that would have invested in Scotland anyway was around 33%; the current evaluation found this to be less than 10%.

Partnerships

- 12.62 **As highlighted above, the relationships between SDI and UKTI/DIT have improved in recent years.** For example, there has been some important work done looking at the recent investments in London to identify potential second round investments into Scotland. SDI consultees highlighted major opportunities to attract investment out of London in financial and business services and with technology firms. However, inevitably there are some tensions between the two organisations around inward investment, but on the basis of our consultations, these have been well managed. That said, changing demands on DIT, for example in working with the devolved areas in England, and possibly Brexit, may further add to the challenges in future.

Net economic impact of support delivered to date and in the future

- 12.63 **For inward investment, the impact ranges from £1,600 million to £2,600 million, if the jobs are assumed to last for a further two years. With total inward investment costs of £181 million, this gives a ratio of GVA to investment of between 9:1 and 14:1.**
- 12.64 This is a high return, but is dependent on large impacts particularly from investments in plant expansions and safeguarding. The impact from new investors is smaller, but this is not surprising, given they are often smaller investments by businesses with less experience of Scotland. The support has made a significant difference to inward investment over the past five years, however, with more focus on attracting New to Scotland businesses it may be more challenging to achieve the same scale of impact in the future.

Monitoring

- 12.65 There were three headline targets set for monitoring trade and investment support. These cover 2011 to 2015:
- Increase international sales from supported businesses by between £1.2 billion to £1.7 billion
 - From the monitoring data, we know that there were 549 of the supported firms with International Projects between during the 2012/13 to November 2015 period. Even if all these firms were to achieve their targets, this would fall well short of the original target which seems to have been too optimistic.
 - Assist 8,000-10,000 companies to develop their capacity for exporting through initiatives like Smart Exporter
 - SDI monitoring data shows that 9,355 firms were assisted
 - Secure 25,000-35,000 planned jobs through the attraction of inward investment – of which between 8,000 and 12,000 planned high value jobs
 - From 2011/12 to 2015/16, SDI has supported 423 inward investment projects with 39,000 planned jobs, of which 24,000 are new and 15,000 safeguarded. Over the five years, there have been just under 12,000 high value jobs.
- 12.66 **There are several issues around the monitoring data including gaps and inconsistencies, exacerbated by the number of databases held across the three agencies.** This has not just been an issue for the evaluation process, but is also a critical part of managing the performance of trade and investment support. We recommend that SDI should review how monitoring data is held, is accessed and is presented.
- 12.67 **In relation to targets, SDI should consider using export targets *for firms* rather than markets, and on the investment side there should be greater emphasis on tracking actual jobs, in addition to what is planned.**

Recommendations

- 12.68 Considering all the evaluation evidence, the main recommendations are provided below. These are primarily directed towards SDI but will also require the cooperation of other partner organisations involved in delivering a ‘One Scotland’ approach.
- **Further development and refinement of the international sector operating plans (including the more detailed prospecting plans)** - Develop clearer understanding of trade and investment opportunities and provide a clear steer on those markets which are best suited to Scotland’s key sectors and economic strengths, and invest in them. It will also require improvements in the monitoring data to be clearer on the high impact trade and investment activity.

- **Promote trade opportunities to the Account Managed firms not currently exporting.** To grow the number of Scottish exporters, there should be further encouragement provided to this group of businesses that have been identified as having growth potential. Account Managers should promote and adapt the support accordingly, acknowledging that for some selling internationally may not be appropriate to their product or service and that selling to the rest of the UK may be a first step.
- **Increase domestic marketing of international trade support, and the opportunities in overseas markets.** This could include more promotional activity through high profile campaigns and major showcase events bringing together exporters, non-exporters, intermediaries, GlobalScots, investors and public sector support. There was also feedback from stakeholders and businesses that there could be more promotion and leverage of the global network of SDI offices.
- **Strengthen the ‘One Scotland’ approach.** The feedback indicates that links between SDI and other agencies in Scotland involved in internationalisation have improved in recent years. However, stakeholders and businesses acknowledged that more could still be done. This includes making more of the overseas networks of Chambers of Commerce and civic and educational partnerships already set up by local authorities, universities and SCDI. Strengthening partnerships could help add capacity to the support provided to the volume market of new exporters. On the investment side, there should be more support provided to the Scottish Cities Alliance and the city councils to develop their investment propositions around property and infrastructure. It is understood that a lot of this activity is being taken forward by SDI and partners.
- **Continue to improve working relationships with DIT.** The main feedback from consultees was that the relationship, particularly at a senior management level, has improved but there are sometimes occasions where operationally the two organisations are not fully aligned (largely down to the high turnover of staff at DIT). There were also business views suggesting closer cooperation on trade events would be beneficial. Clearly, there are some tensions between the remits of SDI and DIT but more could be done to maximise the use of DIT support and their overseas offices.
- **Ensure further integration of SDI and SE/HIE staff.** From the businesses’ perspective, the integration of trade and investment support across the enterprise agencies is working well. However, some of the IP firms still felt internationalisation support sat slightly separately from the other business development support, provided by SE and HIE. Consultee feedback also indicated the level of integration varied across sectors and geographies. Although progress has certainly been made, more could be done through joint sector teams with SDI trade advisers and SE/HIE sector teams, co-locating where possible. More joint events could be organised to bring together SDI staff and Account Managers either on trade missions with the businesses or through more staff training events.
- **Undertake further research to understand the selling activities of overseas teams.** Based on the consultations, it would seem that performance varies. Within the sample of new investors there had been relatively little contact with the overseas teams. This may be

an opportunity to improve inward investment selling activity, including comparing performance with other countries.

- **Recruit more sector specialists for the SDI overseas offices.** Consultees and businesses felt that adding more sector expertise to the overseas teams would help to identify and develop more specific trade opportunities. Building on the successful Food and Drink specialist model, this approach should be investigated for other priority sectors.
- **Ensure more flexibility in provision of trade support.** There was feedback from both businesses and some internal consultees that the internationalisation support involves more rules and less flexibility compared to other SE/HIE support. Whilst some of this may be more perception than reality (and there will be some State Aid rules to be considered), ensuring a more integrated account team approach (which is currently being developed) should help to provide tailored and flexible support to exporters.
- **Consider offering short term consultancy support for raising management capacity/expertise in businesses.** This would directly address the main barriers to exporting and help businesses take forward their export plans. This could be a shorter version of International Manager for Hire.
- **Ensure clearer briefs for GlobalScots.** The evidence highlighted lots of good examples of businesses receiving useful advice and guidance, however, there were some occasions where the advice did not meet business expectations and more could be done to clarify expectations of both the business and the GlobalScot. The network is widely regarded as an important part of the support infrastructure and will soon be supplemented by the recently announced trade envoy scheme⁵³.
- **Encourage Account Managers of inward investors to develop stronger links with SDI field teams, including London.** More regular communication between the Account Managers and the field team (in relation to Global Accounts and other investors) should be encouraged to ensure closer relationships with the inward investor both in Scotland and abroad/in the rest of the UK. Where appropriate, encouraging the Account Manager to regularly meet the parent company would also help.
- **Ensure inward investor Account Managers and SDI advisers fully understand the financial incentives available for inward investors.** There have been some recent changes both in terms of the grants available to investors (most notably with RSA) and also in terms of the range of financial products available through the Scottish Investment Bank. Account Managers and SDI advisers need to be fully aware of what is available and to whom. SDI need to ensure the application process for relevant grants is as efficient as possible to be able to move quickly with investment projects (due diligence should be proportionate to the funding). Issues in applying for funding was one of the few areas for improvement identified by inward investor companies.

⁵³ A new trade envoy scheme was announced by the First Minister in October 2016 - https://www.snp.org/nicola_sturgeon_snp16_speech_key_points

- **Ensure ongoing support to first-time inward investors who do not qualify to be Account Managed.** Some consultees highlighted the potential for new investors to ‘fall between the cracks’ if they did not meet the growth criteria to become Account Managed. This is something which has been recognised by SDI and they are currently reviewing the aftercare process for these investors, as part of the wider commitment to ongoing review of customer engagement.
- **Maximise digital technology to deliver trade support.** Digital technology offers more cost effective and potentially more specialist support (for example, by providing access to a wider range of resources in Scotland and internationally). SDI needs to demonstrate that digital support goes beyond simple on-line toolkits or webinars.
- **Improve monitoring systems.** There are a number of issues around monitoring data, including gaps and inconsistencies, exacerbated by the number of databases held across the three agencies. This has not just been an issue for the evaluation process, but is also a critical part of managing the performance of trade and investment support. We recommend that SDI should review how monitoring data is held, is accessed and is presented.
- **Refine targets.** In relation to targets, SDI should consider using export targets *for firms* rather than markets, and on the investment side there should be greater emphasis on tracking actual jobs, in addition to what is planned.

Annex A: Stakeholders

A.1 The following stakeholders were consulted as part of the evaluation.

Table A-1: Stakeholder list

Organisation	
Aberdeen Chamber of Commerce	1 consultee
CBI Scotland	1 consultee
China-Britain Business Council	1 consultee
Department for Trade and Investment	1 consultee
Dundee City Council	2 consultees
Ernst and Young	1 consultee
Glasgow Chamber of Commerce	1 consultee
Highland Council	1 consultee
Highlands and Islands Enterprise	1 consultee
HSBC	1 consultee
Inverness Chamber of Commerce	1 consultee
SCDI	1 consultee
Scotland Food and Drink	1 consultee
Scottish Chambers of Commerce	1 consultee
Scottish Development International	16 consultees
Scottish Enterprise	5 consultees
Scottish Government	1 consultee
Stirling Council/ Scottish Cities Alliance	1 consultee
VisitScotland	1 consultee