MID-SIZED BUSINESSES IN SCOTLAND 2010-18

Dr. Paul Hopkins, SE Economic Research Team

December 2018

Economic Research Paper #9

What is this about?

This note presents the latest analysis of the extent and shape of Mid-Sized Businesses (MSBs) in Scotland[1]. It covers the period of 2010-18 and presents breakdown across sector, employment and nation of ownership. Please note the data relates solely to *activity* within Scotland therefore overseas and rUK owned enterprises will be headquartered outside of Scotland.

Why is this important?

Evidence demonstrates MSBs to be more productive, more innovative and to disproportionately contribute to economic growth. Therefore, increasing the numbers and size of Scotland's mid-market is critical to achieving sustained economic growth.

However, recent analysis has identified a slowing since 2014 of the rate of new business creation across Scotland[2], as well as a weakening of high-growth firm (HGF) performance[3]. Additional analysis has identified the existence of two bottlenecks to growth in Scotland – firstly, amongst companies achieving growth, and secondly, of these, those that go on to sustain further growth, and especially high-growth[4]. This is weakening the pipeline of potential future Scottish MSBs.

This makes understanding the extent and shape of current MSBs important for two reasons:

1. To lay out the impact of these bottlenecks and the overall performance for business creation and growth in Scotland, on the number and performance of these companies which are key to growth.
2. To identify how appropriate and relevant policy measures to boost the levels and performance of MSBs in Scotland. A forthcoming research note will outline the dimensions of MSBs in Scotland by geography, and these combined with other evidence should stimulate the development of place-based policy based on robust and reliable evidence.

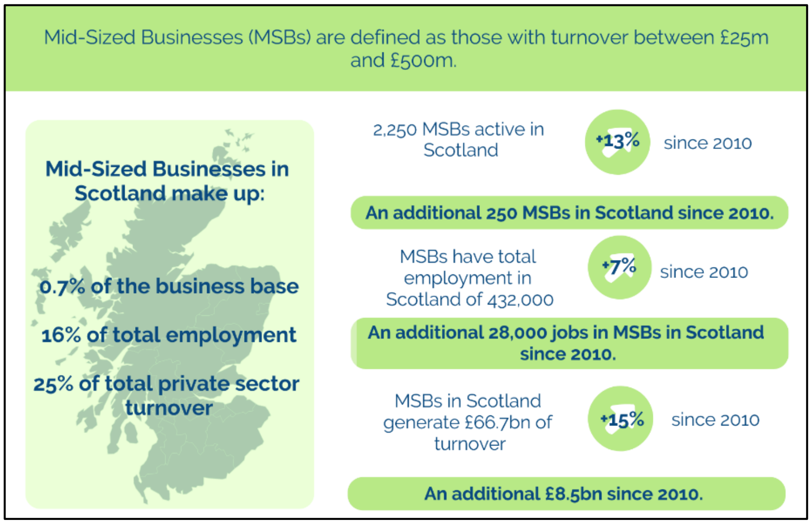
Five things you need to know

1. Since 2010, the number and impact of MSBs in Scotland has increased.
2. Despite increasing in total number, the average Scottish MSB is smaller now than eight years ago.
3. The growth in MSB activity in Scotland has been driven by the activities of foreign-owned MSBs; they are responsible for 80% of the growth in active MSBs, 79% of the total turnover growth and 122% of total employment growth (the presence of rUK MSBs declined over the period).
4. Among Scottish MSBs, turnover is greatest in the wholesale and retail industry ahead of manufacturing and then construction. By a substantial margin, the greatest employer in MSBs is education, health and social work.
5. Overseas owned MSBs are less likely to operate in locally traded industries, although a significant proportion of the growth in foreign-owned MSBs has been driven through these industries, such as administrative and support, as well as accommodation, food, information and communications as well as real estate. There was also significant growth in foreign-owned manufacturing MSBs, particularly their turnover.

Scotland needs to develop more new and more larger Mid-Sized Businesses

[1] There are several definitions used across research, but the most common is businesses with a turnover of between £25m and £500m.
[2] New Business Creation in Scotland 2010-17, Scottish Enterprise (2018)
[3] Performance of high-growth firms in Scotland, Scottish Enterprise (2018)
[4] Maximising the growth potential of Scotland's businesses, Scottish Enterprise (2018)

The size of Scotland's MSBs



Sources: SE analysis of Inter-Department Business Register data, ONS Labour Market Statistics November 2018, Businesses in Scotland (Nov 2018).

Headlines

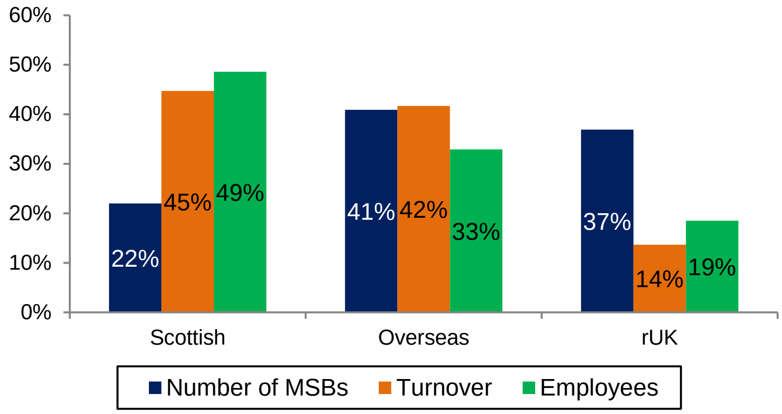
- There are 2,250 MSBs active in Scotland in 2017, an increase of 13% (+210) since 2010.
- 2018 saw a peak number of MSBs since 2010, a level also achieved in 2016.
- MSBs generate £66.7bn of total turnover in Scotland, an increase of 15% since 2010; and 25% of all private industry turnover in Scotland.
- In 2018 total turnover grew after a decline in 2017, but remains £1bn behind 2016s total.
- The total employment of MSBs in Scotland is 432,000 – 16% of all Scottish employment.
- MSB employment had been in decline since 2015, but regained most of this in 2018.
- Scottish-owned MSBs make up 23% of the market, accounting for around half of all turnover and employment in Scotland.
- Since 2010 Scottish MSBs' share of the overall number of MSBs has stayed around this level, but its share of turnover and employment has fallen.
- Overseas owned MSBs' footprint has increased in every measure.
- 79% of the total turnover growth amongst the mid-market came from overseas owned MSBs despite only accounting for 41% of the total number of companies, vs 19% from Scottish MSBs.
- 80% of the growth in the total of MSBs since 2010 were foreign-owned enterprises. Scotland contributed 26% of the growth, whilst the share from rUK fell -6%.

MSB performance in Scotland (2018)	Total number of MSBs	% of MSBs	% change since 2010	% of MSB turnover	% change since 2010	% of MSB employment	% change since 2010
Wholesale & Retail	610	27%	-2%	21%	-3%	13%	-2%
Manufacturing	310	14%	-1%	23%	No change	15%	No change
Administrative & Support	240	11%	No change	8%	No change	15%	No change
Accommodation, Info/Comms, Real Estate	235	10%	No change	7%	+1%	13%	+1%
Professional, Scientific, Technical	230	10%	+1%	8%	-1%	7%	-2%
Transportation & Storage	190	8%	-1%	7%	No change	7%	No change
Construction	175	8%	No change	9%	-1%	7%	No change
Primary Industries	100	5%	No change	12%	+1%	5%	No change
Education, Health & Social Work	95	4%	+1%	3%	No change	16%	+3%
Arts, Entertainment & Recreation	60	4%	-1%	1%	No change	3%	+1%

The shape of Scotland's mid-market

The structure has remained relatively constant over the decade. Scottish-owned MSBs account for around one fifth of all those active in Scotland, reaching a peak of 23% in 2017. The most significant shift has been the decline in rUK active MSBs, from 43% in 2010 to 37% in 2018.

MSBs in Scotland (2018). By nation of ownership.



Source: SE analysis of Inter-Department Business Register data

It is foreign-owned MSBs which have seen the biggest increase:

- from 36% of all MSBs in 2010, to 41% in 2018;
- from 27% of all MSB employment, to 33% in 2018; and
- from 36% of all MSB turnover, to 42% in 2018.

Because this is based on activity, it would be incorrect to speculate this is purely due to acquisition activity. Some of the changes over time will invariably be a result of this (and there is no indication in studying annual results to suggest this, i.e. where ownership, turnover and employment have moved in ownership from one category to another), but as other evidence has shown, an acquisition of and by Scottish firms is a relatively rare occurrence.[5]

That Scottish MSB performance – whilst improving – is lagging that seen amongst overseas-owned within Scotland, suggests these firms are doing something different, or better than Scottish MSBs can and are.

	% change in MSBs 2010-18		
	Scotland	**Overseas**	**rUK**
total number	+0%	+5%	-5%
turnover	-4%	+6%	-2%
employment	-2%	+6%	-4%

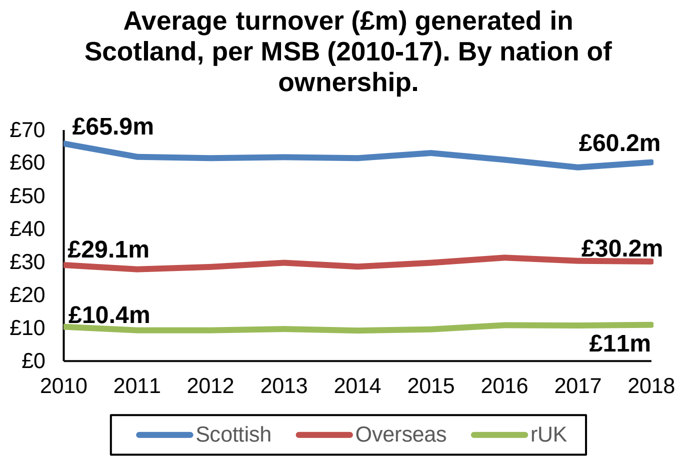
Source: SE analysis of Inter-Department Business Register data

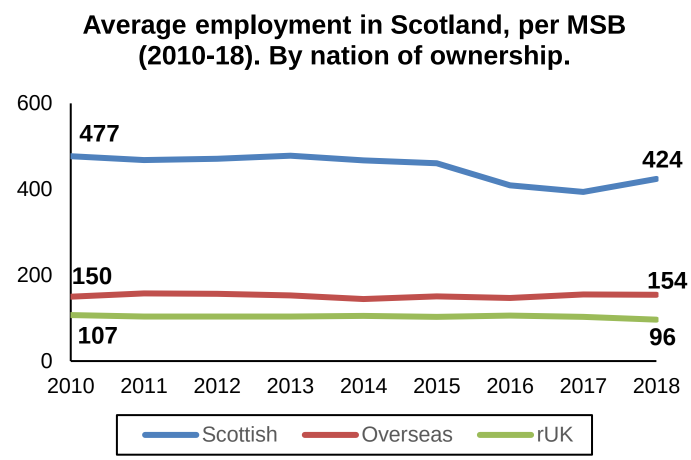
Despite increasing in number, Scottish MSBs had consistently become smaller (on average) since 2010, and this has accelerated since 2015. 2018 saw the first increase in average size for both measures in the last few years but ***the average MSB remains smaller than it was in 2010.***

In contrast, foreign-owned MSBs' activity in Scotland increased in all measures.

Again, the comparison to foreign-owned enterprises' activity is merely to provide a comparison by which to benchmark Scottish MSB performance, and highlight opportunities in Scotland that could be taken by Scottish MSBs – but ones they are losing out to foreign-owned enterprises, with the resulting consequence of the growing performance gap. These likely correlates to existing Scottish performance in exporting and innovation.

[5] Acquisitions in Scotland 2003-17, Scottish Enterprise (2018)

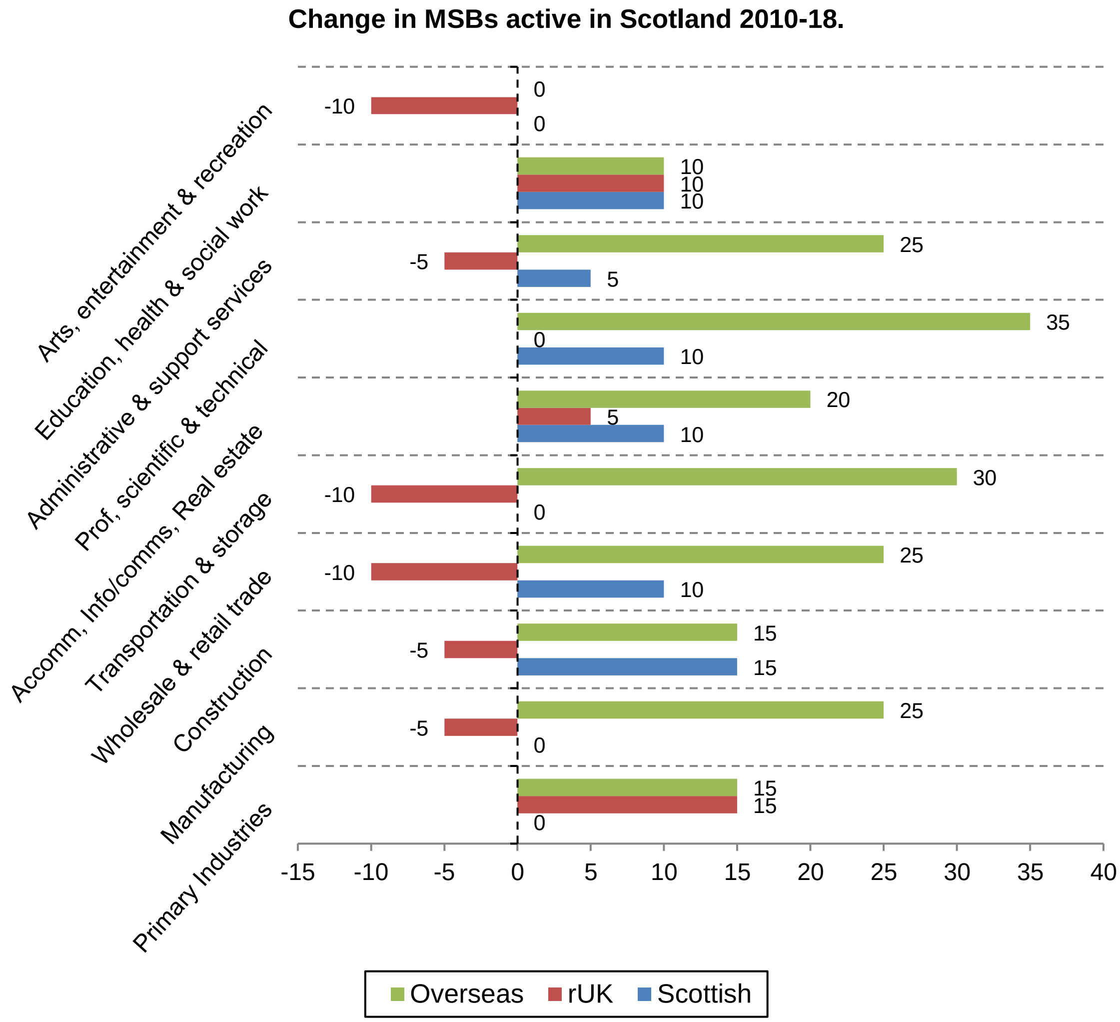




Source: SE analysis of Inter-Department Business Register data

Trends in sector and the number of MSBs

The below chart highlights the extent to which growth in overseas owned has outpaced Scottish-owned (in addition to a decline in rUK MSBs), and this is across all industries of the economy, including locally-traded. Manufacturing aside, the growth in the number of foreign-owned MSBs has been greatest in these locally-traded industries.



Source: SE analysis of Inter-Department Business Register data

The spider diagrams in the appendices highlight the strong presence of wholesale and retail MSBs in Scotland across all three nations of ownership.

Among Scottish MSBs, turnover is greatest in the wholesale and retail industry ahead of manufacturing and then construction. However, in manufacturing as previous notes have highlighted, it is foreign-owned enterprises which dominate; ahead of primary industries (which saw significant growth in the last 12 months) and wholesale and retail.

This means Scottish MSBs:
- tend to be found in locally traded industries, and rely on these industries for substantial percentage of Scottish MSB employment.
- There is a significant number of manufacturing MSBs which are major employers and generators of turnover. However, their performance is overshadowed by the substantial growth in foreign-owned manufacturing MSBs since 2010.
- ***By a substantial margin, the greatest employer in MSBs is education, health and social work within Scottish owned companies.***

Overseas owned MSBs are:
- less likely to operate in locally traded industries, although the growth in the number of foreign-owned MSBs has been driven through these industries, such as administrative and support, as well as accommodation, food, information and communications as well as real estate, where employment has grown strongly.
- Wholesale and retail (11%), and manufacturing (7%) aside, foreign-owned MSBs in Scotland per industry are around 3-4% of all MSBs in Scotland.
- Despite being a very small number of primary industry MSBs (with a similarly low level of employment), foreign-owned primary industries account for nearly 8% of all MSB turnover in Scotland.

Trends in turnover, employment and nation of ownership

Since 2010, the growth in MSB turnover has been driven by:
1. Manufacturing (+24% of all turnover growth 2010-18)
2. Primary Industries (+21%)
3. Accommodation, Food, Information & Communications; Real Estate (+14%)
4. Construction (+11%)
5. Administrative and Support (+5%)

No industries saw a decline in its turnover over the period.

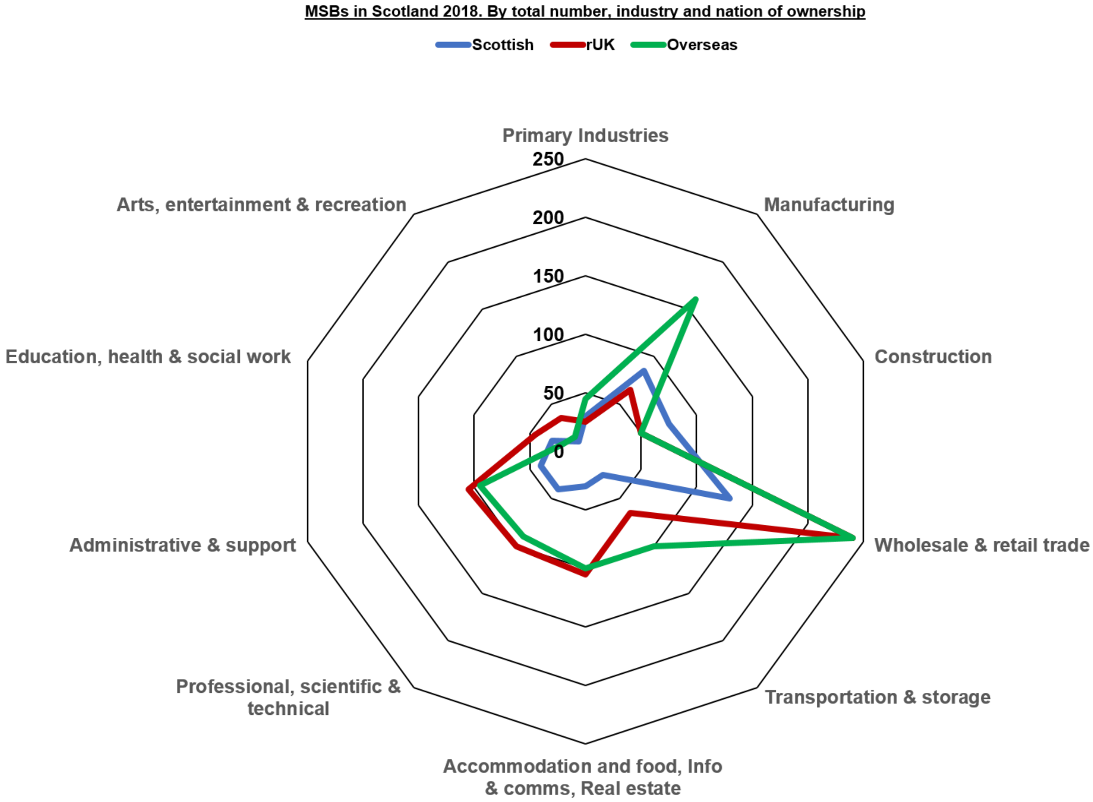
In employment terms, the growth amongst MSBs in Scotland was driven by:
1. Education, Health and Social Work (+54% of all employment growth 2010-18)
2. Accommodation, Food, Information & Communications; Real Estate (+28%)
3. Manufacturing (+19%)
4. Administrative and Support (+12%)

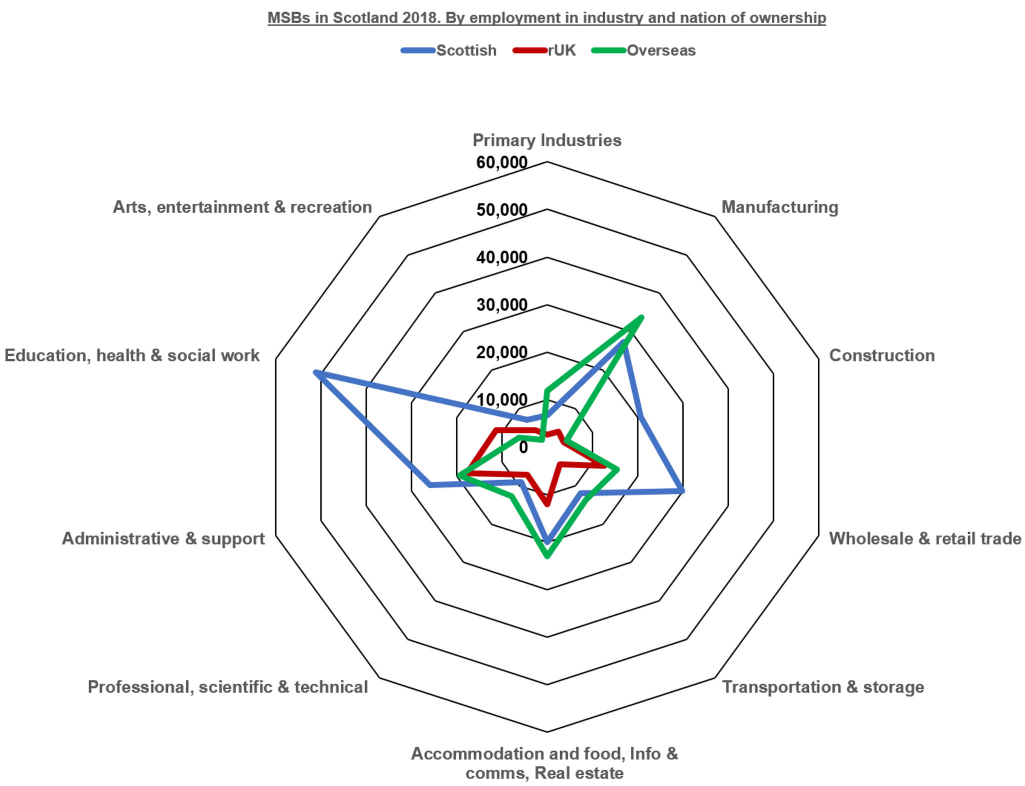
There were significant declines in employment totals in wholesale and retail (-13% in 2018 from 2010's total) and professional, scientific and technical (-29%).

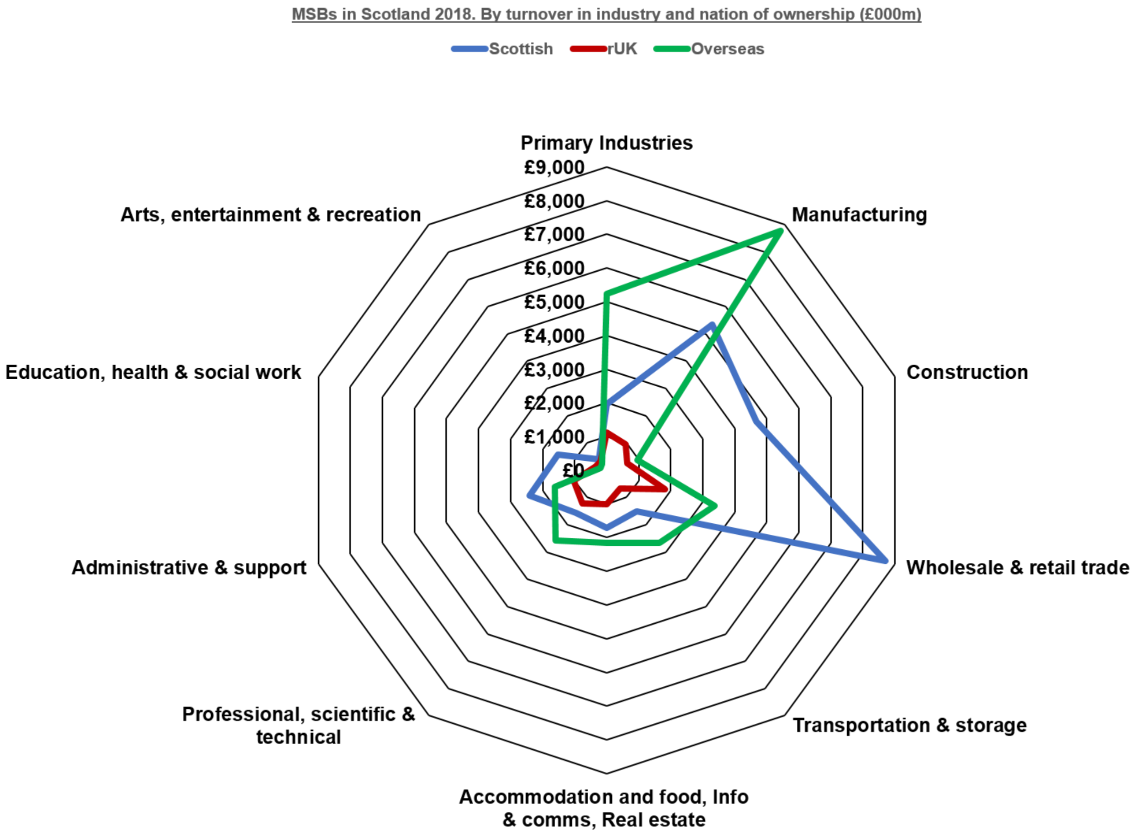
Growth in MSBs in Scotland in recent years has been driven by locally traded industries, except for manufacturing, and the growth – in total number of MSBs, in total turnover and total employment has been driven by overseas owned MSBs

Appendices

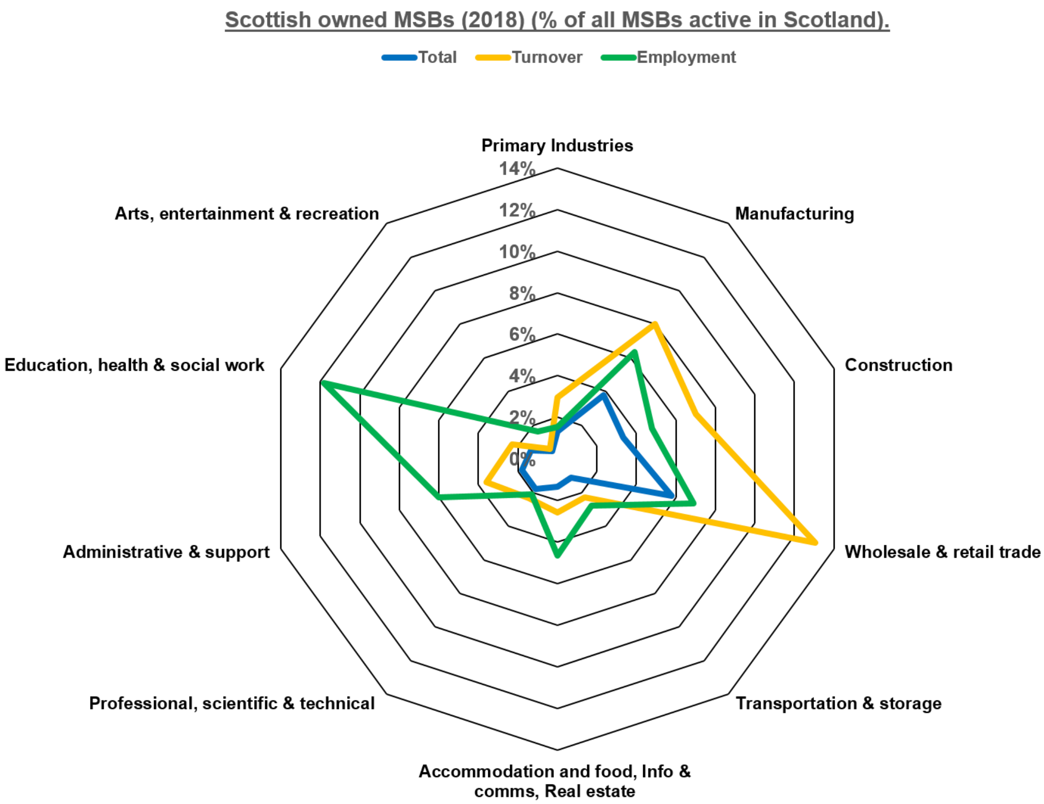
Share of MSBs in Scotland by nation of ownership

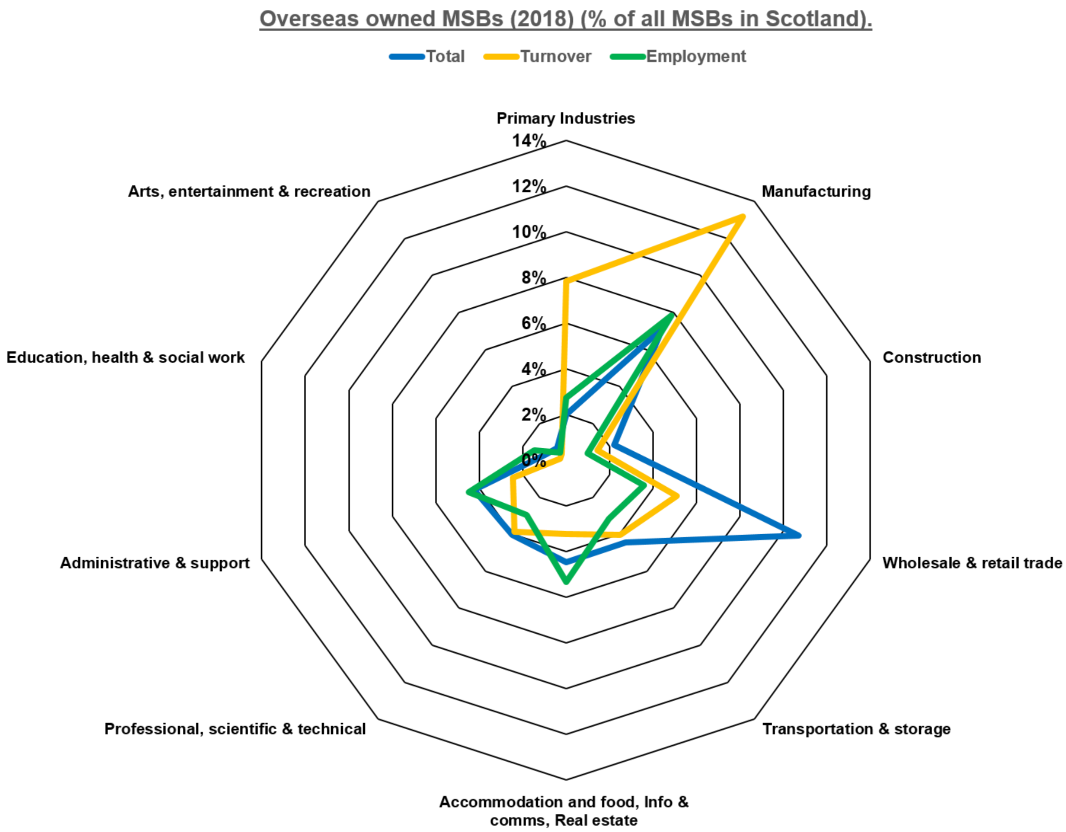


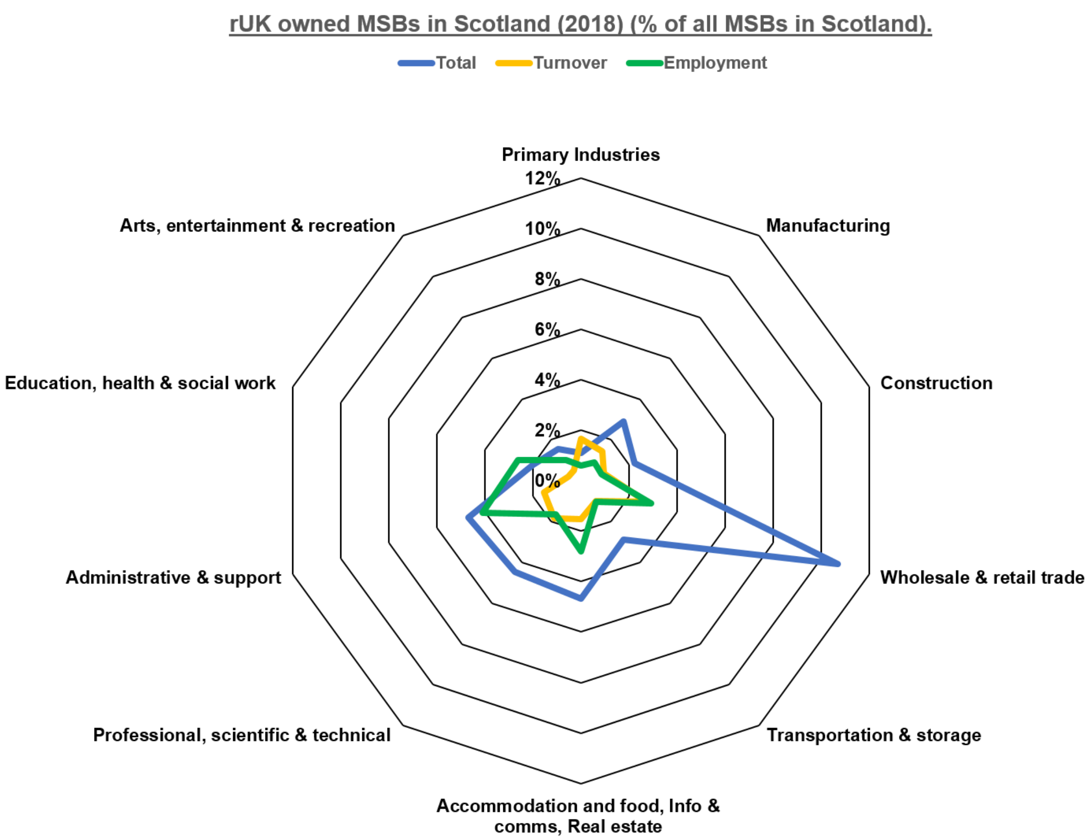




Share of MSB and MSB performance in Scotland 2018 by nation of ownership




Overseas owned MSBs (2018) (% of all MSBs in Scotland).
Total
Turnover
Employment
Primary Industries
14%
12%
10%
8%
6%
4%
2%
0%
Manufacturing
Construction
Wholesale & retail trade
Transportation & storage
Accommodation and food, Info & comms, Real estate
Professional, scientific & technical
Administrative & support
Education, health & social work
Arts, entertainment & recreation


rUK owned MSBs in Scotland (2018) (% of all MSBs in Scotland).
Total
Turnover
Employment
Primary Industries
12%
10%
8%
6%
4%
2%
0%
Manufacturing
Construction
Wholesale & retail trade
Transportation & storage
Accommodation and food, Info & comms, Real estate
Professional, scientific & technical
Administrative & support
Education, health & social work
Arts, entertainment & recreation

Change in MSB performance 2010-18

Turnover change in MSB (2010-18) by industry	Total turnover 2018 (£m)	% change	Turnover growth 2010-18(£m)	% of total growth
Manufacturing	£15bn	+16%	£2.1bn	+24%
Wholesale & Retail	£13.9bn	+2%	£2.8bn	+3%
Primary Industries	£8.3bn	+28%	£1.8bn	+21%
Construction	£6.3bn	+18%	£957m	+11%
Professional, Scientific, Technical	£5.3bn	+7%	£371m	+4%
Administrative & Support	£5bn	+18%	£766m	+9%
Transportation & Storage	£4.9bn	+15%	£625m	+7%
Accommodation, Info/Comms, Real Estate	£4.9bn	+34%	£1.2bn	+14%
Education, Health & Social Work	£2bn	+25%	£420m	+5%
Arts, Entertainment & Recreation	£960m	+3%	£27m	+0%

Source: SE analysis of Inter-Department Business Register data

Employment change in MSB (2010-18) by industry	Employment 2018	% change	Employment growth 2010-18	% of total growth
Education, Health & Social Work	68,790	+28%	14,960	+54%
Manufacturing	65,120	+9%	5,210	+19%
Administrative & Support	63,050	+5%	3,220	+12%
Wholesale & Retail	57,920	-6%	-3,690	-13%
Accommodation, Info/Comms, Real Estate	55,070	+17%	7,690	+28%
Construction	28,680	+7%	1,980	+7%
Transportation & Storage	30,220	+7%	2,020	+7%
Professional, Scientific, Technical	29,050	-22%	-8,020	-29%
Primary Industries	21,030	+6%	1,230	+0%
Arts, Entertainment & Recreation	13,200	+30%	3,070	+1%

Source: SE analysis of Inter-Department Business Register data

Total change (2010-18	Number of MSBs			MSB turnover (£000m)			MSB employment		
	Scottish	Overseas	rUK	Scottish	Overseas	rUK	Scottish	Overseas	rUK
Wholesale & Retail	+5	+25	-5	+£1,674m	+£918m	-£475m	-1,080	+2,010	-4,840
Manufacturing	0	+25	-5	+£271m	+£2,149m	-£318m	+1,510	+6,200	-3,010
Administrative & Support	+5	+20	-5	+£614m	+£443m	-£290m	-2,210	+7,890	-7,750
Accommodation, Info/Comms, Real Estate	+10	+20	+5	+£235m	+£953m	+£50m	+2,720	+2,600	+170
Professional, Scientific, Technical	+10	+35	0	-£528m	+£507m	+£391m	-8,280	-1,900	+70
Transportation & Storage	0	+25	-15	-£308m	+£934m	-£1m	-6,450	+5,630	+620
Construction	+15	+15	-5	+£589m	+£392m	-£24m	+1,840	+640	-1,350
Primary Industries	0	+15	+15	-£1,182m	£2,212m	+£775m	-2,290	+3,570	+720
Education, Health & Social Work	+10	+10	+10	+£278m	-£7m	+£149m	+4,370	-490	+4,080
Arts, Entertainment & Recreation	0	0	-10	-£174m	+£144m	+£57m	+3,620	+630	+280

Source: SE analysis of Inter-Department Business Register data