

What is this about?

This note presents the latest analysis of the extent and shape of Mid-Sized Businesses (MSBs) in Scotland¹. It covers the period of 2010-19 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, analysis has identified a slowing since 2014 of the rate of new business creation across Scotland², as well as a weakening of high-growth firm (HGF) performance³. 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-growth⁴. 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 number, the average Scottish MSB is smaller in 2019 than 2010.
3. The growth in MSB activity in Scotland has been driven by the activities of foreign-owned MSBs; they are responsible for 81% of the growth in active MSBs, 77% of the total turnover growth and 148% of total employment growth (both Scottish and rUK MSB saw a decline in MSB employment since 2010).
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 prioritise the development of more and more, larger MSBs and address the blockages preventing more companies continuing to grow to ultimately become MSBs.

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) *The intention is to update this analysis shortly.*

³ [Performance of high-growth firms in Scotland](#), Scottish Enterprise (2018)

⁴ [Maximising the growth potential of Scotland's businesses](#), Scottish Enterprise (2018) *Again, the intention is to update this analysis shortly.*

The extent and influence of Scotland's MSBs (2019)

Mid-Sized Businesses (MSBs) are defined as companies with turnover between £25m and £500m.



2,320 MSBs active in Scotland

+12% since 2010

An additional 320 MSBs in Scotland since 2010.

MSBs have total employment in Scotland of 436,730

+7% since 2010

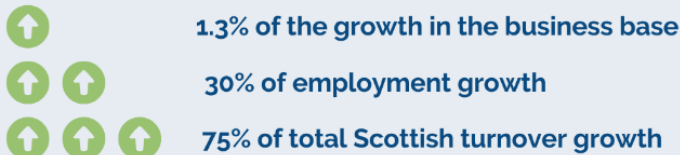
An additional 32,610 jobs in MSBs in Scotland since 2010.

MSBs in Scotland generate £70.8bn of turnover

+15% since 2010

An additional £12.7bn since 2010.

Since 2010, MSBs have contributed:



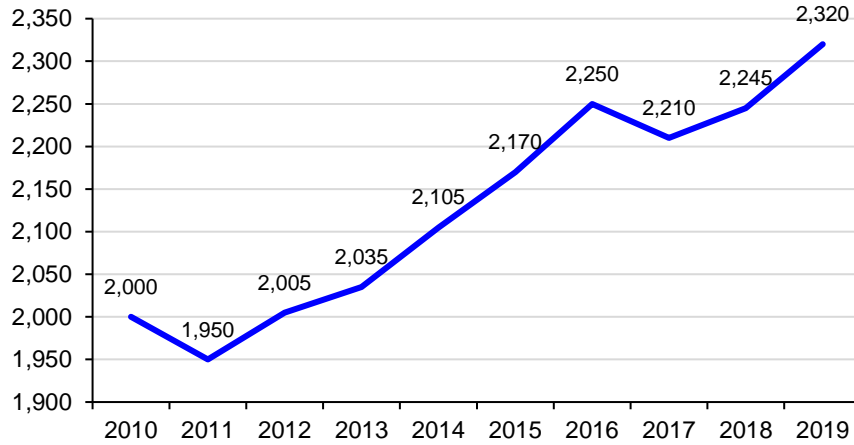
Source: SE analysis of IDBR data, *Businesses in Scotland (2019)*, Table 2. Number of registered private sector businesses in Scotland and their total Scottish employment and turnover by sector and country of base.

Statistical headlines

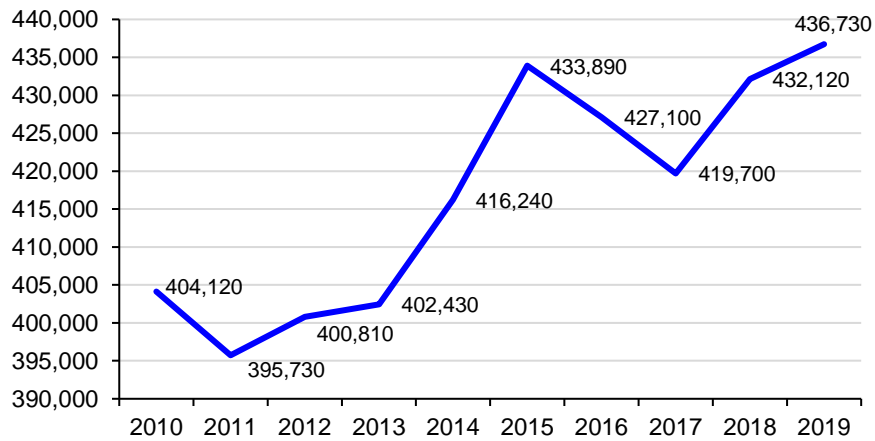
- There are 2,320 MSBs active in Scotland in 2019, an increase of +12% since 2010 and 2019 saw a new peak number of active MSBs.
- MSBs generated £70.8bn of total turnover, which is 25% of all private industry turnover in Scotland.
- MSBs have seen a 15% increase in turnover since 2010, and this represented 75% of all private sector turnover growth seen in Scotland since 2010;
- The total employment of MSBs in Scotland is 436,730, representing 16% of all Scottish employment.
- Employment amongst MSBs have grown +7% since 2010, contributing 30% of all employment growth seen in Scotland.
- Scottish-owned MSBs make up 21% of MSBs in 2019, accounting for 43% of all MSB turnover and 46% of all MSB employment in Scotland.
- Since 2010 Scottish MSBs' share of the overall number of MSBs has stayed around 20%, but Scottish MSBs' share of turnover and employment has fallen, and in 2019 were at their lowest percentage.
- Over the same period, overseas owned MSBs' footprint has increased in every measure, reaching a peak in 2019.
- 77% of the total turnover growth amongst the mid-market came from overseas owned MSBs despite accounting for 42% of the total number of companies, vs 15% from Scottish MSBs.
- 81% of the growth since 2010 in the number of MSBs were foreign-owned enterprises. Scotland contributed 20% of the growth, whilst the share from rUK fell -1%.

Trends in Scotland's Mid-Sized Businesses in three charts

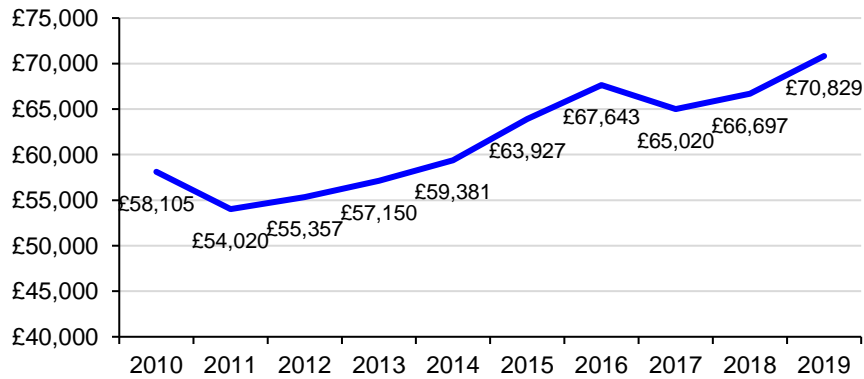
Number of MSBs in Scotland



Total Scottish Employment in MSBs



**Scottish Turnover of MSBs
(£ millions)**



Source: SE analysis of Inter-Department Business Register data

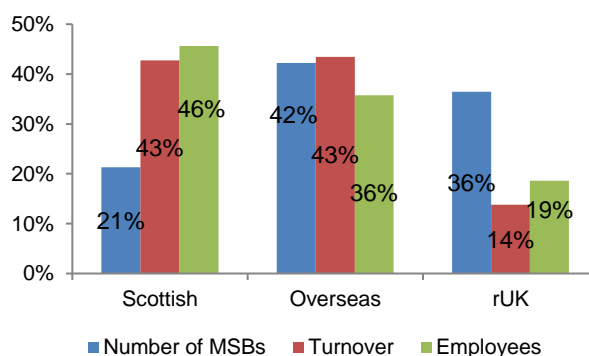
MSB performance in Scotland (2019) and change within sector (2010-19)

MSB performance in Scotland (2019) and change <u>within</u> sector (2010-19)	Total number of MSBs	% of MSBs	% change since 2010	% of MSB turnover	% change since 2010	% of MSB employment	% change since 2010
Wholesale & Retail	650	28%	+11%	21%	+12%	14%	-4%
Manufacturing	310	13%	+7%	22%	+20%	15%	+7%
Accommodation, Info/Comms, Real Estate	255	11%	+28%	8%	+47%	12%	+15%
Administrative & Support	235	10%	+9%	7%	+13%	14%	+2%
Professional, Scientific, Technical	230	10%	+24%	7%	-1%	7%	-17%
Transportation & Storage	190	8%	+12%	8%	+27%	7%	+9%
Construction	170	7%	+13%	9%	+23%	6%	+4%
Primary Industries	110	5%	+57%	13%	+43%	5%	+19%
Education, Health & Social Work	100	4%	+54%	3%	+41%	16%	+31%
Arts, Entertainment & Recreation	70	3%	+0%	2%	+56%	3%	+45%

Trends in the ownership structure of Scotland's mid-market

The trends have remained constant over the decade. Whilst Scottish-owned MSBs account for around one fifth of all those active in Scotland, peaking at 23% in 2017, the story has been the growth in number, size and extent of foreign-owned MSBs active within Scotland.

MSBs in Scotland (2019). By nation of ownership.



Source: SE analysis of Inter-Department Business Register data

Foreign-owned MSBs have seen the biggest increase in the market: from 36% of all MSBs in 2010, to 42% in 2019; from 27% of all MSB employment, to 36% in 2019; and from 36% of all MSB turnover, to 43% in 2019.

	% change in MSBs 2010-19			% contribution to overall change in MSBs 2010-19		
	Scotland	Overseas	rUK	Scotland	Overseas	rUK
total number	-1%	+6%	-7%	+20%	+81%	-2%
turnover	-6%	+7%	-1%	+15%	+77%	+8%
employment	-5%	+9%	-4%	-17%	+148%	-30%

Source: SE analysis of Inter-Department Business Register data

Some of the change will invariably include acquisition, but as other evidence has shown, an acquisition of and by Scottish firms is a relatively rare occurrence.⁵

⁵ [Acquisitions in Scotland 2003-19](#), Scottish Enterprise (2019)

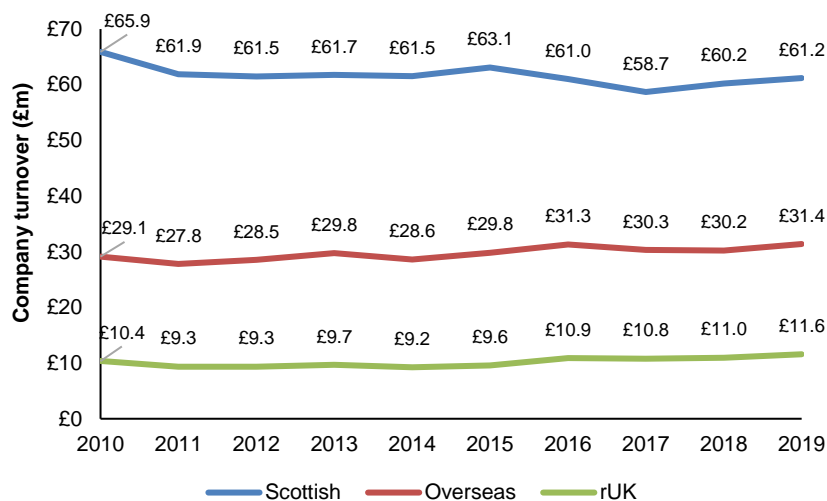
That the performance of Scottish MSBs is improving but being outpaced by growth in the number of overseas-owned MSBs coming into the Scottish market, and their subsequent growth and development, suggests these firms are doing something different, or better than Scottish MSBs.

Despite increasing in number to a high in 2019, Scottish MSBs have consistently become smaller (on average) since 2010. This has reversed since 2017 in average turnover size, yet the average employment has consistently declined since 2010 (except for growth between 2017 and 2018).

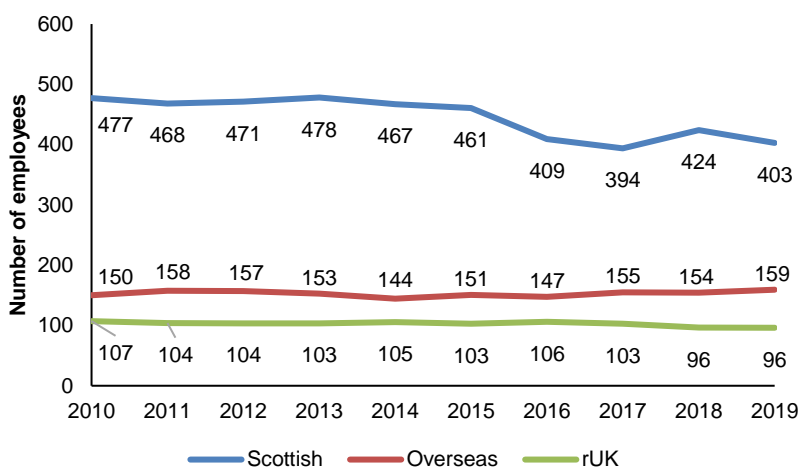
So, while there are more Scottish MSBs than ever, the average MSB is smaller than in 2010. In contrast, foreign-owned MSBs increased in all measures (based on activity in Scotland).

The comparison to foreign-owned enterprises' activity highlights (an assumption) that opportunities exist yet Scottish MSBs appear to be losing out on these to foreign-owned enterprises, with the resulting consequence in the performance gap.

Average turnover generated in Scotland, per MSB (2010-19). By nation of ownership.



Average employment in Scotland, per MSB (2010-19). By nation of ownership.

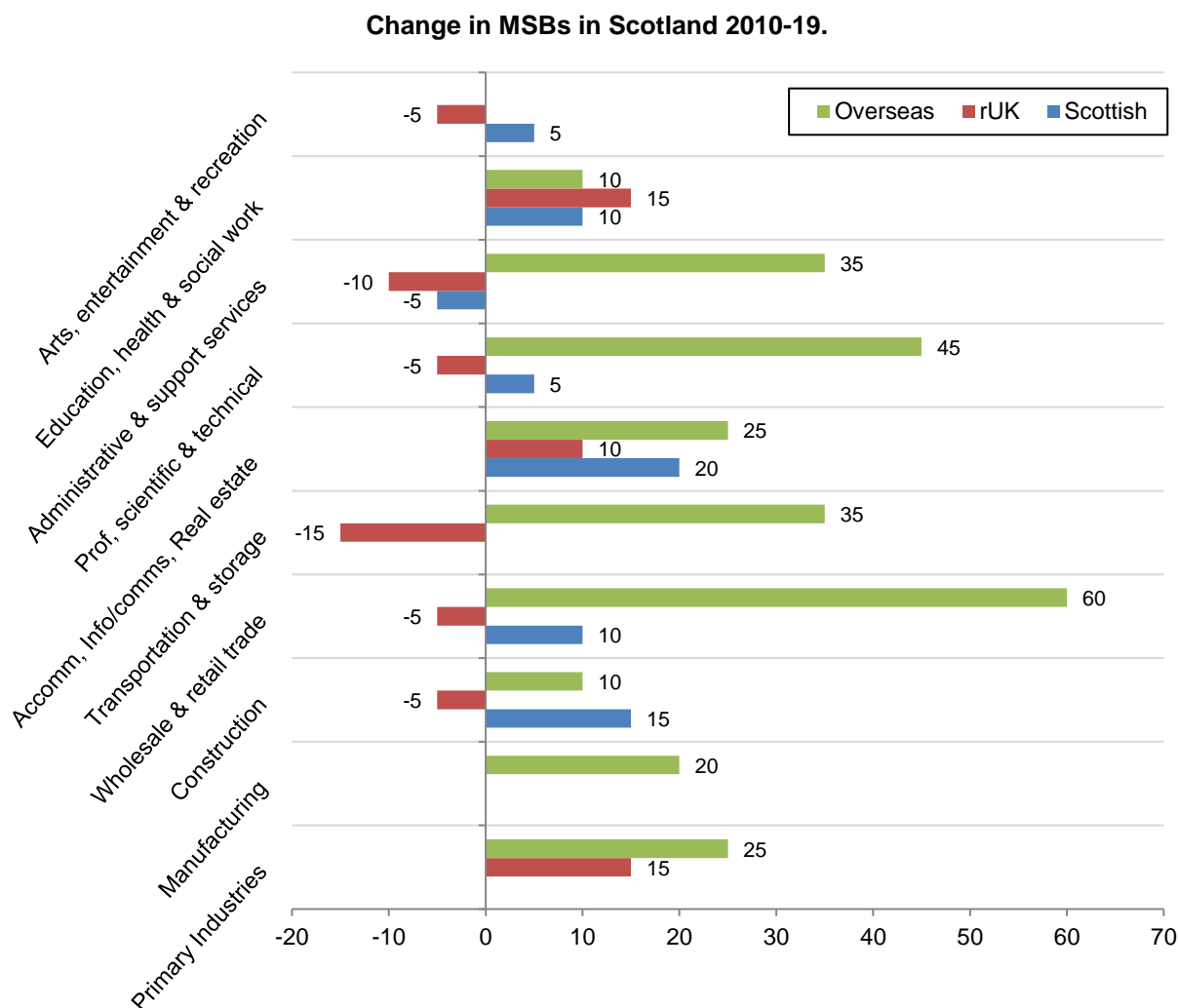


Source: SE analysis of Inter-Department Business Register data

For more details on the performance and structure of MSBs by nation of ownership, sector, and its change since 2010 please see the appendices.

Sector trends

The below chart highlights the extent to which growth in overseas owned has outpaced Scottish MSB growth, and this is across all industries of the economy, except for construction where the greatest increase in total number has been in Scottish MSBs.



Source: SE analysis of Inter-Department Business Register data

Among Scottish MSBs, turnover is greatest in the wholesale and retail industry ahead of manufacturing and then construction. However, despite a substantial growth in manufacturing, the growth seen in foreign-owned manufacturing MSBs dwarfs this; ahead of primary industries (which has seen significant growth in the most recent years) 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, and therefore 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.

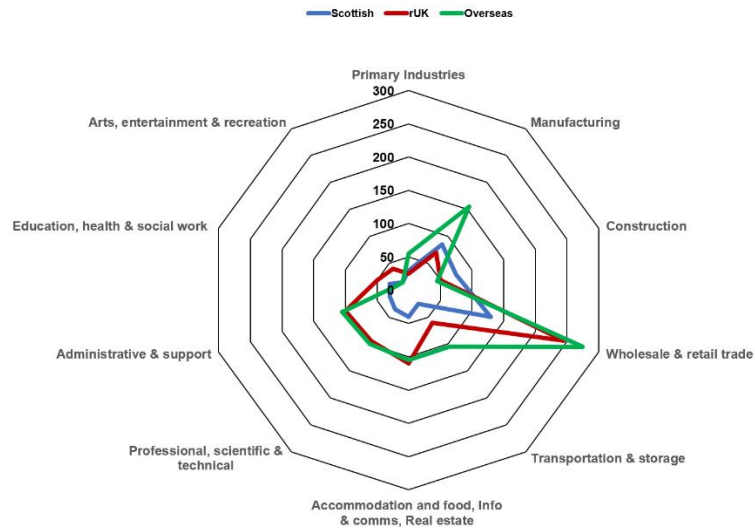
- Wholesale and retail (11%), and manufacturing (7%) aside, foreign-owned MSBs in Scotland per industry are around 3-4% of all MSBs in Scotland.
- Despite being a very small number of primary industry MSBs (with a similarly low level of employment), foreign-owned primary industries account for nearly 8% of all MSB turnover in Scotland.

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

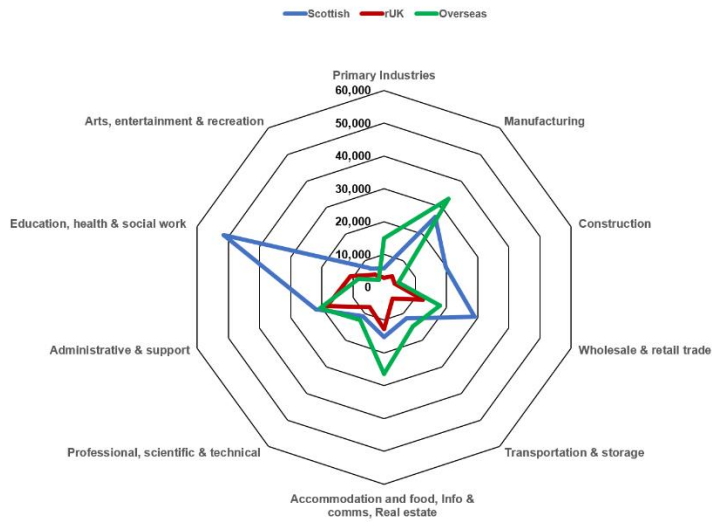
Appendices

Share of MSBs in Scotland by nation of ownership

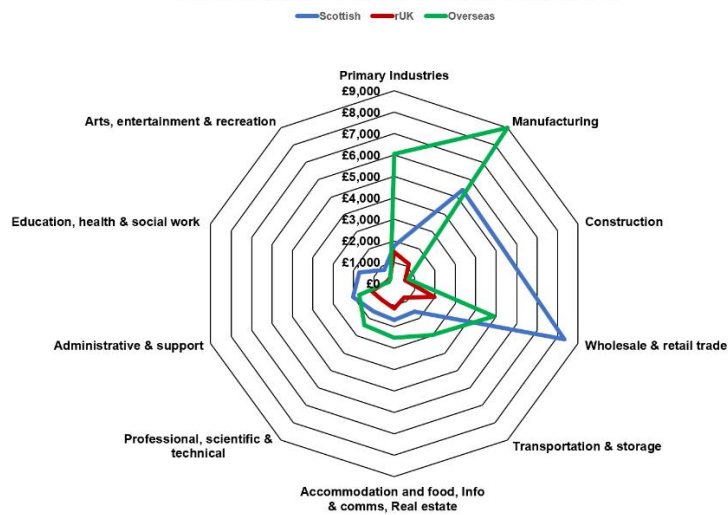
MSBs in Scotland 2019. By total number, industry and nation of ownership



MSBs in Scotland 2019. By employment in industry and nation of ownership



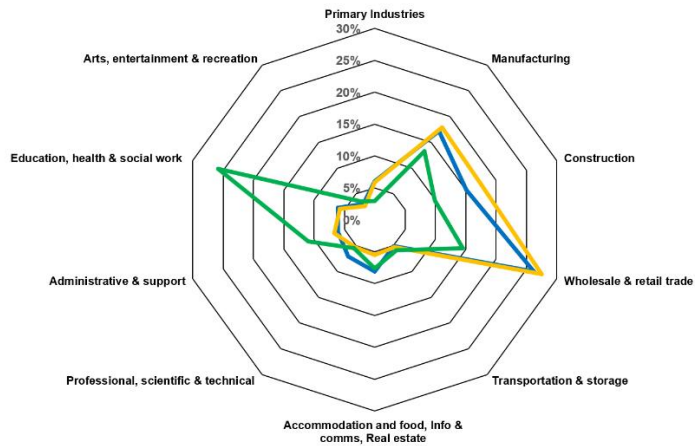
MSBs in Scotland 2019. By turnover in industry and nation of ownership (£000m)



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

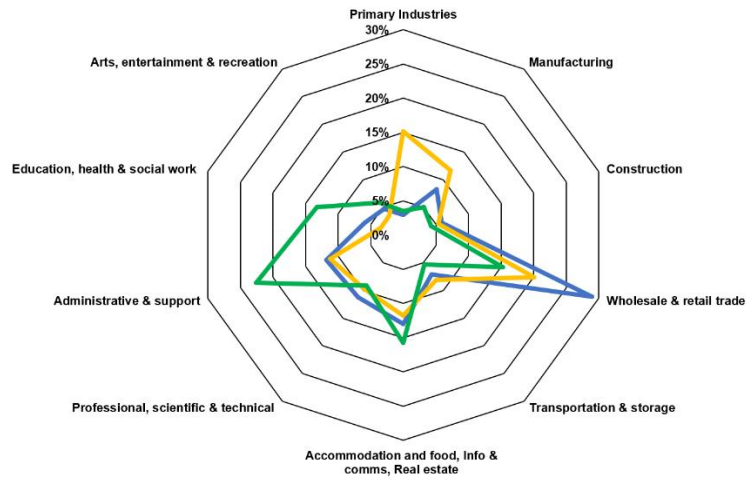
Scottish owned MSBs (2019) (% of all MSBs active in Scotland).

— Total — Turnover — Employment



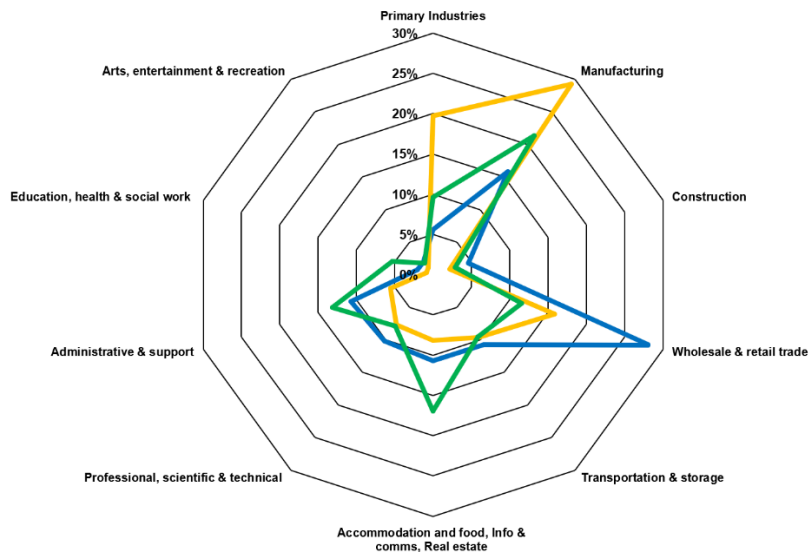
rUK owned MSBs in Scotland (2019) (% of all MSBs in Scotland).

— Total — Turnover — Employment



Overseas owned MSBs (2019) (% of all MSBs in Scotland).

— Total — Turnover — Employment



Change in MSB performance 2010-19

Turnover change in MSB (2010-19) by industry	Total turnover 2019 (£m)	% change	Turnover growth 2010-19 (£m)	% of total growth
Manufacturing	£15.6bn	+20%	£2.6bn	+20%
Wholesale & Retail	£15.1bn	+12%	£1.6bn	+12%
Primary Industries	£9.3bn	+43%	£2.8bn	+22%
Construction	£6.5bn	+23%	£1.2bn	+10%
Transportation & Storage	£5.3bn	+27%	£1.1bn	+9%
Accommodation, Info/Comms, Real Estate	£5.3bn	+47%	£1.7bn	+13%
Professional, Scientific, Technical	£4.9bn	-1%	£38m	0%
Administrative & Support	£4.8bn	+13%	£554m	+4%
Education, Health & Social Work	£2.3bn	+41%	£672m	+5%
Arts, Entertainment & Recreation	£1.4bn	+56%	£522m	+4%

Source: SE analysis of Inter-Department Business Register data

Employment change in MSB (2010-19) by industry	Employment 2019	% change	Employment growth 2010-19	% of total growth
Education, Health & Social Work	70,500	+31%	16,670	+51%
Manufacturing	64,060	+7%	4,150	+13%
Administrative & Support	60,840	+2%	1,010	+3%
Wholesale & Retail	59,360	-4%	-2,250	-7%
Accommodation, Info/Comms, Real Estate	54,350	+15%	7,240	+22%
Transportation & Storage	30,810	+9%	2,610	+8%
Professional, Scientific, Technical	30,770	-17%	-6,300	-19%
Construction	27,790	+4%	1,090	+3%
Primary Industries	23,600	+19%	3,800	+12%
Arts, Entertainment & Recreation	14,660	+45%	4,530	+14%

Source: SE analysis of Inter-Department Business Register data

Total change (2010-19) <i>(ranked top to bottom by number of MSBs)</i>	Number of MSBs			MSB turnover (£000m)			MSB employment		
	Scottish	Overseas	rUK	Scottish	Overseas	rUK	Scottish	Overseas	rUK
Wholesale & Retail	+10	+60	-5	+£1.3m	+£582m	-£326m	-200	+3,040	-5,090
Manufacturing	0	+20	0	+£343m	+£2.3bn	-£129m	+180	+6,800	-2,830
Accommodation, Info/Comms, Real Estate	+20	+25	+10	+£203m	+£1.3bn	+£188m	-2,610	+8,940	+910
Administrative & Support	-5	+35	-10	+£236m	+£531m	-£213m	-2,020	+10,150	-7,120
Professional, Scientific, Technical	+5	+45	-5	-£479m	+£319m	+£122m	-6,890	+310	+280
Transportation & Storage	0	+35	-15	-£223m	+£1.2bn	+£130m	-5,590	+7,740	+460
Construction	+15	+10	-5	+£1.2bn	+£117m	-£137m	+2,120	+540	-1,570
Primary Industries	0	+25	+15	-£1.3bn	+£3bn	+£1.1bn	-4,220	+7,080	+940
Education, Health & Social Work	+10	+10	+15	+£475m	+£59m	+£139m	+10,790	+2,360	+3,520
Arts, Entertainment & Recreation	+5	0	-5	£224m	+£226m	+£72m	+2,720	+1,120	+690

Source: SE analysis of Inter-Department Business Register data