Stimulating Entrepreneurship in Scotland

PERSPECTIVES ON STRENGTHENING ENTREPRENEURSHIP IN EAST GERMANY

OECD Seminar
Berlin
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## Contents

- **Context**
  - Scotland’s economic geography and history
  - Scotland’s economic development strategy and approach
- **Measuring entrepreneurship**
- **Evolution of entrepreneurship strategy in Scotland**
- **Recent initiatives**
- **The rural dimension**
- **Conclusions**
• New devolved Parliament 1999
• New Government 2007 (SNP)
Scotland

- Area: 48,950 sq km
- Population: 5,062,011
- GDP: €115bn
- GDP (PPP) per capita: €22,700

Population density by area (Persons per km²):

- 0-9
- 10-99
- 100-999
- 100+

GVA per employee:
- £20,000-
- £20,000 - £24,999
- £25,000 - £29,999
- £30,000+
The legacy of history

Scottish Net Migration

In-migrants 4x more likely to start a business than life long residents - GEM

Average manufacturing plant size more than halved between 1973 and 2000
• **Purpose:** a sustainable and measurable impact on the Scottish economy

• **A network pursuing national priorities – building on local potential**

• **A catalyst for more/better/faster investment**
  – Finance
  – Knowledge/connections

• **Projects integrated for maximum impact**
Strategic Framework 2000 - 2007
‘A Smart Successful Scotland’

Growing Business
• a culture of enterprise and more businesses of scale
• increased innovation and commercialisation of research
• success in key sectors
• e-business to create business advantage

Global Connections
• increased involvement in global markets
• a globally attractive location
• connecting to the rest of the world
• more people choosing to live, study and work in Scotland

Skills & Learning
• improve the operation of the Scottish labour market
• the best start for all young people
• developing people in work
• narrow the gap in employment and reduce inactivity

‘Enterprise Strategy for Scotland’
• Aspiration - top quartile OECD
• Mutually reinforcing themes
• Cross cutting themes - Sustainable development - Closing the opportunity gap
• Industry approach - scale, focus for collaboration
Measuring Entrepreneurship in Scotland

Issues:

• VAT registrations - not necessarily new starts, company structure effects, misses very small businesses
• Scottish Clearing Bank accounts - only capture four big banks, multiple business accounts, use of personal accounts
• GEM (total entrepreneurial activity) - small sample size
• Self employment data - stocks not flows
• Measures quantity not quality
• Entrepreneurial attitudes within companies not captured
Cyclical influences on trends

VAT registration rate

UNITED KINGDOM

SCOTLAND

New Business bank accounts (new starts) in Scotland
Most new starts from small range of sectors

VAT registrations by sector - UK 2006

- Business services
- Wholesale, Retail
- Construction
- Hotels, restaurants
- Manufacturing
- Other services
- Agriculture
- Transport etc
- Finance
- Education, Health
- Other services
Significant variation within the UK

VAT Registration Rate 2006
(per 10,000 resident adults)
Significant variation within Scotland

VAT registration rate 2005
(per 10,000 adults)

Mainly rural/cities
Many old industrial
Total Early Stage Entrepreneurial Activity (TEA)
(the proportion of nascent and new business owner/managers in the population of adults aged 18 to 64)

“Scotland’s TEA rate in 2005 was exactly what one would expect it to be given its relative wealth per capita, population growth and stock of business owner/managers.”

“entrepreneurship programs must be adapted and tailored to prevailing national circumstances”
1993 Business Birth-rate Strategy - Priorities

1. **Unlocking the Potential**: persuading more people to set up businesses – including enterprise education

2. **Improving the Environment**: making Scotland a more encouraging place for entrepreneurs - improving formal and informal support networks.

3. **Improving Access to Finance**: including venture capital, business angel capital, and bank finance.

4. **Widening the Entrepreneurial Base**: unlocking the untapped potential among women, the under-35s and non-home owners

5. **Increasing Start-ups in Key Sectors**: more new starts in key industries, such as manufacturing, high-tech and business services.

6. **Increasing the Number of Fast-Growing New Starts**: increasing the number of starts that achieve substantial growth

**Ambitious target to close the gap in the business birth-rate between Scotland and the rest of the UK by the year 2000.**
Impact of the strategy:
- target unrealistic - but 3% increase in the business birth rate over what would otherwise been achieved by 1999
- more positive attitudes to enterprise (particularly within education and among young people)
- some evidence of an increase in the quality of new starts
- development of new business networks such as the Entrepreneurial Exchange
- an improvement in the availability for funding for new business

Recommended Improvements:
- greater focus to supporting start ups that were less likely to displace other activity e.g. high growth
- improving the consistency of support services across Scotland
- better targeting the participation rate among women and socially excluded groups
Updated approach 2002

- More innovative high-growth new starts
  - including start-ups in technology-based sectors - new, specialist unit

- More people starting businesses
  - quality 'volume' business support services, mainly through the Business Gateway
  - specific support for more start-ups by women, the young and socially excluded

- Increasing the contribution of education
  - promoting and supporting enterprise among young people, school and university students
The business growth pipeline

PRE-START

16,000 SMEs employ 50-100
74,000 employ 1-9
Small Businesses 240,000 SMEs
120,000 VAT-Registered
The Self Employed c150,000 firms with no employees

START-UP

240,000 SMEs
120,000 VAT-Registered
The Self Employed c150,000 firms with no employees

Scotland’s ‘TEA’ 5.8%
c275,000 ‘thinking’ about starting a business
16-20,000 start-ups
11,000 VAT Registrations
50-60 grow to 15+ people after 3yrs
3,500 growing businesses (annual sales up £1m+ in 3 yrs)
c20 university spin-outs

START-UP

16,000 SMEs employ 50-100
74,000 employ 1-9
3,500 growing businesses (annual sales up £1m+ in 3 yrs)
50-60 grow to 15+ people after 3yrs
11,000 VAT Registrations
16-20,000 start-ups

THE BUSINESS BASE

Focus on those with potential to grow
More high growth
More volume
Improving attitudes
Increasing interest + increased conversion

“Businesses of Scale”
750 employ 250-499
1,500 with 500+

“Businesses of Scale”
750 employ 250-499
1,500 with 500+

More companies of scale based in Scotland

The Self Employed c150,000 firms with no employees
Small Businesses 240,000 SMEs
120,000 VAT-Registered

‘THE ENTERPRISE ECONOMY’

Attitudes to entrepreneurs
Interest in entrepreneurship
Enterprise education

c275,000 ‘thinking’ about starting a business
Scotland’s ‘TEA’ 5.8%
Many elements of business growth

- **Business growth**
  - **Start-up**
    - Pre-Start
    - Volume Start
    - High-Growth Starts
  - **Innovation**
    - Product & Process
    - Research & Development
    - ICT & e-business
    - Commercialisation
  - **Efficiency**
    - Productivity
    - Lean Management
    - Workforce Development
    - Sustainability
  - **Leadership**
    - Strategy Development
    - Management & Leadership Development
  - **Macros**
    - Seed-Funding
    - Co-Investment
    - Venture Funding
  - **Markets**
    - Sales
    - Marketing
    - Internationalisation

Many elements of business growth
A cumulative, self reinforcing system
- provides context for interventions

The Virtuous Cycle

- More Start-ups
  - More Role Models
  - Better Informal Networks
- Better Support Networks
  - Specialisation
  - Better Understanding by Advisers, Banks
- More Serial Entrepreneurship
  - More High Growth Starts
  - More Equity Finance
- Better Social Attitudes
  - More Interest in Start-up
  - Better Informal Support
A single point of entry

- one stop shop
- business inquiry service/start-up advice
- consistent provision (BG office network, web, national number)
- national marketing campaign (media, roadshows)
- one-to-one & group assistance (seminars/workshops)
- aftercare
- increased use of web based services
Technology based high growth
- an integrated portfolio

**Proof of Concept**
- Grants to help technology emerging from Universities
- Awarded after robust due-diligence by an Awards Panel
- 201 projects (£36m) 1999-2007
- 153 completed
- 38 spin-outs, 35 licence deals
- £200m+ investment levered

**Investment Readiness Scheme**
- Financial Help to help growth companies access investment - matching funding (up to £10k)
- 100+ Grants per annum (£600k+)
- 74% to start-up and early-stage

**SE High Growth Start-up Unit**
- Support for technology Based Starts with potential to reach a £5m valuation after three years
- Intense, high-value support - focus on IP, fund-raising, leadership, routes to market
- Strong links to external networks
- 70 start-ups assisted - 52 trading
- Average valuation £4m-7.4m
- Increased rate of formation of high-growth starts by 13%; potential to raise it by 30% by 2010
- £16m GVA to date (£2.5m cost)

**Investment Funds**
- The Scottish Seed Fund – £20k to £100k, to early-stage businesses, as equity investments/loans, matched by private sector. Annual value £3m.
- The Scottish Co-Investment Fund – £45m equity fund (EU support) - £50k—£500k deals of up to £2 m in fast-growing SMEs - JV with selected co-investment partners. £20m invested in 150 deals over 4 years - £50m levered from the private sector
- The Scottish Venture Fund – a new £20m fund supporting deals of £2m+, with deals with private sector at least matching SE’s investment
Tapping unrealised potential

- Personal Enterprise Shows
  - high profile exhibitions to increase awareness of starting a business - 50,000 visitors over 5 years
- ‘Women into the Network’
  - tailoring support for female entrepreneurs plus a dedicated network
- Young people & education
  - Young Enterprise Scotland - training for 5-25 year olds
  - Scottish Institute for Enterprise - encouraging an enterprising spirit in students
  - Determined to Succeed - helps school pupils develop self-confidence, self-reliance and ambition - e.g. Enterprise Week 2007
  - PSYBT promotion of enterprise to young people - unsecured finance and grants - tailored local support
Key issues for HIE:

- Fewer business of scale - few spin-outs - importance of University of Highlands and Islands Millennium Institute
- Focus on genuinely commercial business - sustainable, with high growth potential
- Contribution of lifestyle business - quality of environment
- More opportunities for non location constrained firms
- Connection to VC/Angel finance - generating interest in the Highlands - e.g. ‘speed dating’ in Perth
- HIE Ventures (early stage & development capital) - JV with private sector
- Investor readiness critical
- Generating critical mass to build ‘innovation system’ and connect to others e.g. Fusion
Concluding thoughts

- Focus on stimulating investment to realise potential and add value
- ‘Churn’ v growth focus? - quantity + quality
- No ‘silver bullet’ - systemic approach - link to innovation
- Be flexible - adapt to change and chance - ‘strategic opportunism’
- Keep a broad mind
- Long term approach
- Collaborate to succeed
Annex

Additional Background Material
Strategic issues for Scottish economy

**Strengths**
- world class firms
- high potential industries
- research base
- graduate output
- world cities + environment
- international recognition
- small networks

**Opportunities**
- technological advance
- global markets & partners
- more demanding consumers
- new business models
- response to climate change
- pace of change

**Weaknesses**
- productivity
- business stock
- business R &D
- start ups
- infrastructure gaps
- wasted human potential
- market scale

**Threats**
- more intense competition
- new competitors
- demography
- global uncertainty e.g. energy
- fragmentation of effort
- insufficient urgency

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**Table:**

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<thead>
<tr>
<th></th>
<th>Quartile</th>
<th>Trend since 1999</th>
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<tbody>
<tr>
<td><strong>Overall</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP per head</td>
<td>2</td>
<td>▲</td>
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<tr>
<td>CO2 emissions</td>
<td>3</td>
<td>▲</td>
</tr>
<tr>
<td>Productivity</td>
<td>2</td>
<td>▲</td>
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<tr>
<td>Employment</td>
<td>1</td>
<td>▲</td>
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<tr>
<td><strong>Growing Business</strong></td>
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<tr>
<td>Entrepreneurial activity</td>
<td>2</td>
<td>▲</td>
</tr>
<tr>
<td>Online trading</td>
<td>1</td>
<td>▲</td>
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<tr>
<td>Business R&amp;D</td>
<td>3</td>
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<tr>
<td>Knowledge industry GDP</td>
<td>2</td>
<td>▼</td>
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<tr>
<td><strong>Global Connections</strong></td>
<td></td>
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<tr>
<td>Broadband coverage</td>
<td>1</td>
<td>▲</td>
</tr>
<tr>
<td>Exports (% GDP)</td>
<td>1</td>
<td>▲</td>
</tr>
<tr>
<td>Graduates in workforce</td>
<td>2</td>
<td>▲</td>
</tr>
<tr>
<td>Migration</td>
<td>1</td>
<td>▲</td>
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<tr>
<td><strong>Learning and Skills</strong></td>
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<tr>
<td>Working age NEET (UK)</td>
<td>2</td>
<td>▲</td>
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<tr>
<td>16-19 NEET</td>
<td>3</td>
<td>▲</td>
</tr>
<tr>
<td>Workplace training (UK)</td>
<td>2</td>
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Smart Successful Scotland Measurement Framework – 2006
NB trend relative to OECD Q1 average
Achieving strategic objectives requires genuine collaboration and alignment.

Private Investment
(Individuals, Companies, Industry groups, Trades Unions, voluntary organisations etc)

Public Investment
(Government, Local Government, public agencies, EU Partnerships etc)

- Increasingly recognised elsewhere.
- A key feature of Finland’s innovation system and the Irish ‘miracle’.
- Often emerges from extreme adversity.

Sustainable Development – Equal Opportunities

Skills

International & Infrastructure

Business Development

Development agency - catalyst for more/better/faster investment
Industry focus to provide coherence, scale and focus for collaboration

- Global growth
- Significant Scottish strength and/or potential
  - corporate/research
  - other e.g. NHS
- Industry leadership
- Innovation system
- More focussed demand

<table>
<thead>
<tr>
<th>Industry</th>
<th>Economic potential</th>
<th>Project examples</th>
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</thead>
<tbody>
<tr>
<td>Life sciences</td>
<td>• commercialising research&lt;br&gt;• attracting global research &amp; manufacturing</td>
<td>• ITI Life Sciences and IMI&lt;br&gt;• Translational research medicine and collaboration</td>
</tr>
<tr>
<td>Financial services</td>
<td>• Skills and infrastructure to strengthen global position of both existing and new companies&lt;br&gt;• innovation for new products and markets</td>
<td>• International Financial Services District&lt;br&gt;• Supplier development</td>
</tr>
<tr>
<td>Food and drink</td>
<td>• greater value added to Scotland&lt;br&gt;• new market opportunities, e.g. health</td>
<td>• Premium Markets&lt;br&gt;• Health Enhancing Foods</td>
</tr>
<tr>
<td>Tourism</td>
<td>• high-value growth markets, activities etc.&lt;br&gt;• culture, heritage and environment</td>
<td>• tourism framework for change&lt;br&gt;• Skills development</td>
</tr>
<tr>
<td>Energy</td>
<td>• building on global oil and gas capability&lt;br&gt;• developing renewable assets and technology</td>
<td>• Marine Energy (wave, tidal, offshore wind)&lt;br&gt;• Fuel Cells</td>
</tr>
<tr>
<td>Electronic markets</td>
<td>• commercialising research&lt;br&gt;• content generation</td>
<td>• Digital media campus&lt;br&gt;• Digital co-investment fund</td>
</tr>
<tr>
<td>Enabling technologies</td>
<td>• commercialising research&lt;br&gt;• attracting research and design from overseas</td>
<td>• High performance computer alliance&lt;br&gt;• Electronic supply chain development</td>
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[Logos of ITI Scotland, Proof of Concept, Translational Medicine Research Collaboration, bioQuarter]
Strategic Targets

By 2011
• Raise GDP growth to UK level
• Reduce greenhouse gas emissions

By 2017
• Match GDP growth of small independent EU countries
• Top quartile productivity amongst our key OECD trading partners
• Maintain labour market participation rank in UK (top) - close gap with OECD top 5
• Match EU15 population growth - increase healthy life expectancy
• Increase overall income and proportion of income earned by lowest 30%
• Narrow gap in participation between best and worst performing regions

Longer term
• Reduce greenhouse gas emissions by 80 per cent by 2050