



2014

Quarterly Survey of Small Business in Britain

Special topic: competing in the European Union



Quarterly Survey of Small Business in Britain

2014 Q3 Vol 30 No 3

Special topic: goals, success and values

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Original design by Siân Cardy and Peter Devine

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September 2014

Acknowledgements

The research team would like to thank the many SME owners and managers who invested time and effort in completing our questionnaire. Our aim in this report is to represent their views and experiences as accurately as possible. In doing so, we hope to provide a useful, timely and objective source of evidence about small and medium-sized firms that can be used to inform future policy and practice. We also wish to acknowledge the support provided by The Open University Business School for this report. The *Quarterly Survey* is editorially independent and any opinions expressed may not reflect those of The Open University or other organisations.

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Summary

SMEs and the UK economy

Our analysis of a number of prominent SME research studies and UK macroeconomic data indicates broadly similar messages from these varied sources, with output and employment continuing to grow. However, there are suggestions that the *rate* of growth is beginning to slow, with increasing concerns relating to export performance and skills shortages. All regions are exhibiting signs of growth, with some indications of increasing confidence in the North and Western regions.

Special topic: competing in the European Union

This quarter, we examine the key decisions made by owners and managers of small and medium-sized business as they seek to compete in national and international markets. The first part of the report reviews recent exporting trends and documents the experiences of current, potential and former exporters. We also ask about future intentions and how smaller businesses might be better supported. Lastly, we examine the implications for smaller businesses of the Scottish independence referendum, the constitutional changes that are now anticipated in its wake, and continuing uncertainty over the UK's membership of the European Union. Responses from our online survey respondents are complemented by three in-depth case studies. The key findings include:

- Just under a quarter of the firms in this survey (22%) are already exporting products or services on a regular basis, while almost one in five (18%) say that they export from time to time; overall, 40% of firms are therefore currently exporting.
- Approximately half of the firms (52%) report that they, 'have no intention of exporting' and a further 6% say that they exported in the past, but are no longer doing so. Only one in a hundred (1%) say they intend to start exporting in the next 12 months.
- The European Union is by far the most important export market, with nine out of ten of the current exporters (91%) reporting that they are trading with other EU countries. Just over a half (55%) export to North America and a similar percentage (51%) export to countries in the Asia Pacific region, including China.
- Government agencies, including UKTI, are the most popular sources of export support services, used by just over a quarter (26%) of exporting firms over the last three years. Non-government organisations such as the British Chambers of Commerce and industry trade associations are both used by 15% of current exporters.
- The main reason for not exporting is that a firm's products and/or services are not suitable for this purpose; one third of respondents (33%) identify it as their 'top priority' and more than half (59%) as one of three main reasons. Fewer than one in ten exporters (8%) see 'lack of information on export markets' as a reason, and only 6% identify 'lack of export finance'.
- More than one third (35%) of respondents see Scotland's membership of the UK as having either a 'good' or very good' impact on their own business. Furthermore, 40% regard the UK's membership of the European Union as either 'good' or 'very good' for their business.
- The accompanying **case studies** explore the recent experiences of three UK businesses and include the reflections of their owners on key issues raised in this report.

*The Quarterly Survey of
Small Business in Britain*
2014 Quarter 3
Special topic:
Competing in the European Union

Contents

SMEs and the UK economy	4
The UK economy and SME performance	4
Review of other SME survey findings	5
Conclusion	7
Competing in the European Union	8
Introduction	8
Exporters: past, present and potential	10
Exporting patterns	12
Supporting exporters	14
Reasons for not exporting	16
Scotland's membership of the UK	17
The UK's membership of the European Union	20
Conclusion	22
Case studies	23
Appendix	30
How the survey is carried out	30
Survey questionnaire – Q3 2014	32
Recent special topics	35
Next quarter's report	36

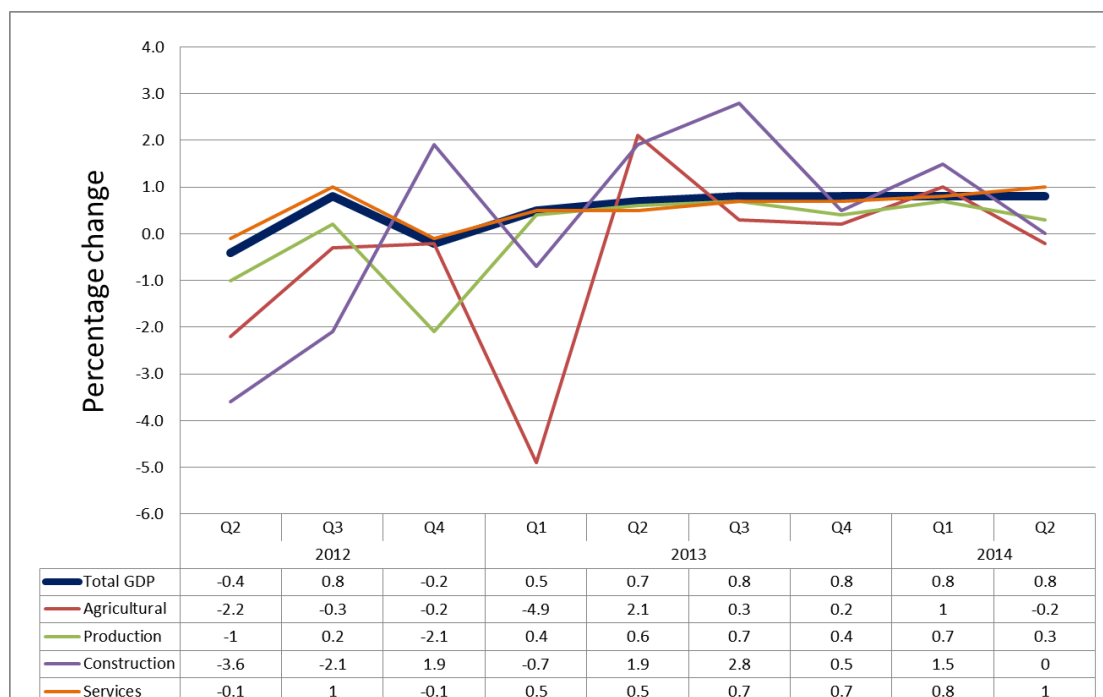
SMEs and the UK economy

This section reviews the current state of the UK economy and the performance of its small and medium-sized firm population over the period covered by this report. It is based on our analysis of a number of prominent SME research studies and UK macroeconomic data. These varied sources present broadly similar messages, with output and employment continuing to grow. However, there are suggestions that the *rate* of growth is beginning to slow, with increasing concerns relating to export performance and skills shortages. All regions are exhibiting signs of growth, with some indications of increasing confidence in the North and Western regions. It should also be borne in mind that summary statistics of this kind necessarily mask large differences in the experiences of individual firms.

The UK economy and SME performance

Our review begins with GDP figures, which provide an indicator of the UK's overall economic performance. The second estimate for UK GDP, released 15th August 2014¹, indicates a 0.8% increase for the second quarter (Chart 1). This represents the sixth quarter of positive growth, with the UK economy finally growing to 0.2% above its pre-recession peak (Q1, 2008). The recent performance of the services sector has been strongest, growing by 1% in Q2, as compared to 0.3% growth in production, no change in construction and a decline of -0.2% in agriculture.

Chart 1: UK Gross Domestic Product (GDP by sector - quarterly second estimate)



¹ Office of National Statistics GDP second estimate release 15th August, 2014. Available at: http://www.ons.gov.uk/ons/dcp171778_373879.pdf

The latest ONS UK labour market statistics, published on September 17th 2014², point to a further net increase of 74,000 jobs over the quarter from May to July 2014. This is the smallest quarterly increase during the last year, but it means that there are now 774,000 more people recorded as in employment compared to one year ago. The employment rate for those aged 16-64 is 73%, similar to the previous quarter and matching the pre-recession peak of late 2007 to early 2008. Unemployment fell by 146,000 in the last quarter to 2.02 million, while the annual decline of 468,000 represented the greatest fall in this statistic since 1988.

Review of other SME survey findings

The **Federation of Small Business 'Voice of Small Business Index'**³ for the third quarter of 2014, published on 15th September, reported that their measure of small business confidence, the Small Business Index (SBI), is at a record high for the third consecutive quarter. Although the index is at its highest point, it is notable that the rate of increase has slowed down, with the most recent Q3 rise on Q2 being a modest +1.3. Taking the size of year on year increase, this quarter's gain of +7.5 is well below the previous quarter's gain of +23.7.

The report predicts a period of consolidation, with more moderate, growth in future quarters: *"These results add to evidence that peak growth has arrived, and the UK will move toward a more measured rate of expansion over the next few years, following the bounce-back boom seen thus far in 2014."* This is borne out by evidence of entry into a more stable period of business investment with a net balance of +25% forecasting investment over the next 12 months, a similar level to the previous two quarters. There is also a slightly lower proportion of 61% of small businesses seeking at least moderate growth over the next 12 months in Q3 than at the start of the year when it was 63%. Moreover, for the second consecutive quarter 29% also indicate that a skills shortage is a potential barrier to their growth.

The SBI indicates that confidence in Q3 was at +41%, marginally above the previous highest level of +39.7% recorded in the last quarter. There is now a balancing of confidence across the regions, with all regions except London recording higher levels of confidence than one year ago and with higher levels of increased confidence occurring in the previously lagging regions, notably in the North East. However, Wales remains least confident and there are concerns in this more public sector dependent economy over future job cuts in this sector.

With regard to sector, all sectors presented a positive net balance in Q3, with financial services +62%, personal services +54% and business services +52% exhibiting most confidence. Year on year records indicate that personal services and construction sector small businesses are now considerably more confident, whilst the real estate, motor vehicle and primary sectors exhibit considerably less confidence. The SBI also indicates that there has been five consecutive quarters of small businesses reporting positive net balance scores for sales revenue growth, with a positive balance of +20% for Q3 2014, and there have now been two consecutive quarters of positive net balance for gross profitability. Looking forward, a net balance of +33% of small businesses expect their revenue to increase during the next quarter and a net balance of +17% predict increased gross profitability. The net balance for those experiencing rising exports was +3%, down from +7.3% in the last quarter, and from +9% in the first quarter of the year. Despite this decline, the rising strength of Sterling and the stagnant Eurozone market, the reported prospects for increasing exports in Q4 was

² Labour Market Statistics, May to July (published 17th September), Office for National Statistics at: <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/september-2014/statistical-bulletin.html>

³ FSB Voice of Small Business Index, Q3 2014, published 15/09/2014: http://www.fsb.org.uk/policy/assets/sbi_q3_2014.pdf

+23%, slightly up on the last quarter's projections. Alongside a reduction in the proportion of firms reporting spare capacity, there has been a continuation in the rising trend in recruitment, with a record Index net balance score of +5% increasing employment and a record forecast of +7% seeking to do so in the next quarter.

The **CBI Manufacturers Survey**⁴, established in 1958 is the longest running monthly and quarterly private tendency survey of UK businesses, covering 38 sectoral divisions of manufacturing at chief executive level. The most recent monthly survey of 488 UK manufacturers, undertaken between 20th August and 10th September and published on 18th September 2014, indicated that: "...output growth remained solid in the last quarter and is expected to strengthen further in the coming three months. But firms saw total order books fall below 'normal' levels, and export order books worsened significantly, and are now at their weakest since January 2013."

34% of firms reported increased volume of output over the last three months, with 19% reporting it was down, giving a balance of +15%. This was down from a net balance of +17% in the previous quarter, but remains significantly above the long-run average of +2%. The outlook for output growth over the next three months is good, with 36% predicting growth, and 9% a decline, giving an overall balance of +27%. This is down from +32% in the previous quarter, but remains considerably above the long-run average of +7%.

Output price inflation remained muted, with 8% of firms expecting output prices to rise over the next three months and 7% expecting them to fall, giving a net balance of +1%. 16% of firms reported that their present stocks of finished goods were more than adequate whilst 6% reported them as inadequate, giving a net balance of +10%. Some 14% of firms reported that their export order books were above normal, with 38% reporting that they were below normal, giving a rounded balance of -24%. This is considerably below the previous quarter's balance of -2% and below the long run average of -20%.

The **Charterhouse Research Business Confidence Index (CRBCI)**⁵, representing 2,418 UK businesses ranging from start-ups to £1bn sales turnover surveyed between March and May 2014, presents mean scale scores on an index where higher scores represent a high percentage of businesses that are confident in terms of the state of the UK economy. This revealed the highest quarterly mean score in the survey of 63, up from 58 in the previous quarter, since the CRBCI Index began in the third quarter of 2011. There has also been a marked year on year rise in the index to the second quarter of the year, rising from 44 in Q2 2013 to 63 in Q2 2014.

More businesses continued to be positive than negative for the fourth successive quarter, whilst the proportion of businesses that remain uncertain about their outlook continued to fall, down this quarter to 23% from 26% last quarter and those reporting a negative outlook fell to 14% from 20% last quarter. There is a continuing trend for the larger surveyed businesses to be most confident. Larger businesses with over £1m sales turnover were most confident, with a mean score of 69, compared to a mean score of 63 for established SMEs and 61 for start-ups. All regions provided a positive mean quarterly balance, with confidence being greatest in London at 65, followed by the South East at 64 and Wales and the South West at 63. Furthermore, all sectors provided a positive quarterly mean balance, with businesses services highest at 67, followed by agriculture at 65 and production, construction and other services all at 63. The index continues to indicate that male owners at 64 are more positive than their female counterparts at 61.

⁴ CBI Manufacturers Survey, published 18th September, 2014: <http://www.cbi.org.uk/media-centre/press-releases/2014/09/uk-manufacturing-growth-holds-up-but-orders-weaken-cbi/>

⁵ CRBCI, published on 8th July 2014. Available at: <http://www.charterhouse-research.co.uk/Asp/uploadedFiles/file/Press/Business%20Confidence%20Q2%202014.pdf>

The latest quarterly **ICAEW, Grant Thornton UK Business Confidence Monitor (BCM)**⁶ presents an average balance score of business confidence for the next twelve months compared with the previous 12 months, based on quarterly surveys with 1,000 UK chartered accountants. The most recent quarterly survey exhibits a slight confidence dip in Q3 2014, standing at +32.3 compared with +37.3 in Q2 2014. The confidence Index still remains at a high level by historic standards but this result suggests that businesses are more realistic about their prospects over the next year.

This quarter's reading suggests that the economy will expand at a quarter-on-quarter rate of 0.9% in Q3 2014, broadly unchanged from the rates of growth seen in the first half of the year. Nonetheless, the BCM also indicates that growth may slow further ahead. Business performance is still strong, though projections of future turnover and profit growth have levelled off. While improved investment growth has been reported for the past year this is expected to slow over the next 12 months. Domestic sales rather than exports remain the main driver of growth, reflecting the fact that the UK economy is growing more strongly than its key export markets. The construction and business services sectors exhibit the greatest confidence for increasing sales. Growth in employee numbers shows no sign of slowing, with an average increase of 2.5% in employee numbers predicted over the next year. This could pave the way for over half a million extra private sector jobs over the next 12 months. Despite this strong job creation, salary growth expectations remain modest and skill shortage is becoming a greater challenge

Conclusion

Our review of the most recently available UK SME data indicates increasing and sustained business confidence, matching the continuing rise in national GDP and manifested in increased employment levels. This conclusion is underpinned by several indexes⁷, which are registering at their highest levels of confidence in recent years. However, there are signs that the rate of growth is slowing and increasing concerns over export performance and skills shortages suggest key potential barriers to future growth. There continue to be signs of positive output growth, with manufacturing firms showing positive growth and forecasts for the next quarter and with technology and business services continuing to performing well, and improvements in the construction and personal services sectors. From a regional perspective, there is a balancing of performance, with output growth and improved performance in all regions. There have been more marked improvements in Northern and Western regions in the last quarter, although Wales remains less positive. Larger businesses generally remain more positive than smaller businesses. Overall, the rate of growth does appear to be slowing and there are concerns that the strengthening of Sterling is contributing to a weakening in export performance. Also, whilst SME employment continues to grow and is forecast to continue to do so, the proportion of small businesses with skills requirements has come to the fore in the FSB survey in the last four quarters, representing a potential barrier to growth for almost one third of small businesses.

⁶ ICAEW, Grant Thornton UK Business Confidence Monitor, published 4th August. Available at: <http://www.icaew.com/~media/Files/About-ICAEW/What-we-do/business-confidence-monitor/2014/icaew-bcm-q3-2014-v1.pdf>

⁷ Another regular performance indicator, the British Chamber of Commerce (BCC) Quarterly Economic Survey's quarterly report was not available at the time this report went to press.

Competing in the European Union

This quarter, we examine the key decisions made by owners and managers of small and medium-sized business as they seek to compete in national and international markets. The first part of the report reviews recent exporting trends and documents the experiences of current, potential and former exporters. We also ask about future intentions and how smaller businesses might be better supported. Lastly, we examine the implications for smaller businesses of the Scottish independence referendum, the constitutional changes that are now anticipated in its wake and continuing uncertainty over the UK's membership of the European Union. Responses from our online survey respondents are complemented by three in-depth case studies.

Introduction

SME exporting and internationalisation have become priority issues for UK policy-makers. The country's smaller firms are thought to be under-performing in comparison with other European countries. The search is on to identify and convert what is seen as untapped potential within the wider SME population. A recent House of Lords Select Committee report expressed this perceived problem in the following terms:

*'The UK has a long tradition of trading worldwide and the inestimable advantages of the English language and a high proportion of our citizens with overseas links of every kind. Now in the digital age, as the world gets ever smaller, we have every opportunity to build on our strengths. Our great companies are already highly successful worldwide, but many are wholly or partly foreign owned and for a step increase in exports we must look to our SMEs. Many are exporting now but more could be done.'*⁸

We respond to the issue in this report by examining the ways that the UK's small and medium-sized firms compete in national and international markets. We focus on recent SME experiences of exporting, the main obstacles to doing business in new geographic markets, and how both current and potential exporters might be better supported. In doing so, we ask respondents to comment on the support services available from a variety of providers including: UKTI's 'Passport to Export' service, a free export assessment and support initiative for small and medium-sized enterprises; BCC's 'Export Britain' online information service; and commercial provision such as DHL's Small Business Export Advisors and 'Go Global' services⁹. While the primary focus of this report is on trading internationally, we also look at the ways that smaller firms are growing their businesses within the UK. Many firms do not have any reasonable prospect of exporting, while some of those in the 'potential' exporter category have no intention of growing their businesses in this way. However, there are plenty of examples of niche businesses that have expanded internationally, often through

⁸ From the Preface to: *Roads to Success: SME Exports*. House of Lords Select Committee on Small and Medium Sized Enterprises. Report of Session 2012-13. Available at:

<http://www.publications.parliament.uk/pa/ld201213/ldselect/ldsmall/131/13102.htm>

⁹ Further details on UKTI's Passport to Export initiative are available at: <https://www.gov.uk/passport-to-export-service>. BCC's 'Export Britain' service is at: <http://exportbritain.org.uk/> and the DHL Small Business Export Advisors and 'Go Global' services can be found at: <http://dhlguide.co.uk/going-global/>

online sales¹⁰. The report also addresses the broader theme of ‘competing in the European Union’. The research was conducted shortly before the referendum on Scottish independence on 18th September 2014. We therefore took the opportunity to ask respondents how important Scotland’s membership of the UK was for their own business. Similarly, given the prospect of a UK-wide referendum on the European Union (EU), we have examined the views of small and medium-sized firms on the UK’s membership of the EU.

The survey questions were developed in the light of recent reviews of academic research in this field¹¹, which suggest that managerial factors, firm-level capabilities and relationship strategies are critical to the export performance of UK firms¹². They were also informed by a review conducted by the Enterprise Research Centre, which identified a: ‘strong positive relationship between exporting and growth and between exporting and innovation activity.’¹³ The report’s authors noted that, while the UK has a similar proportion of exporters to other large EU countries, there is scope for improvement:

‘A survey of internationalisation among 9,480 SMEs in 33 European countries in 2009, for example, places UK SMEs 19th out of the EU27 in terms of the proportion of SMEs engaging in exporting activity (21 per cent against an EU average of 25 per cent). To some extent this reflects a market size effect – the proportion of exporting SMEs in the UK is comparable with other larger countries such as Germany and France – but still the figures suggest the potential for improvement. Exporting is more common among UK mid-market companies, but even here the evidence suggests that UK firms are losing market share to their EU competitors. Prospects for slow UK market growth over the next few years and the persistent UK trade deficit also emphasise the importance of strengthening export competitiveness in the UK to take advantage of international market opportunities.’¹⁴

The remainder of the report is structured as follows. We begin by reviewing the current picture, including the proportion of firms that are exporting on a regular basis, those that have exported in the past or that continue to export occasionally, and others that might begin to export in the near future. The next two sections summarise current patterns of exporting, potential export destinations, the kinds of products and services exported, the support services in current use and what exporters see as the most effective forms of support. This is followed by a review of the reasons why so many firms, and specifically those in the ‘potential exporter’ category, do not currently engage in exporting. The final sections address the implications for smaller businesses of major constitutional changes taking place in the United Kingdom and report on our respondents’ views on the UK’s continued membership of the European Union.

¹⁰ The survey questionnaire was designed to allow respondents to describe their experiences of, and views about, exporting. For example, they could indicate whether they had considered exporting in the past and indicate why they were either not exporting, or would not be increasing the volume of their exports; we also provided open text boxes so that respondents could express views in their own words.

¹¹ See, for example: Añón Higón, D. and Driffield, N. (2011) ‘Exporting and Innovation Performance: Analysis of the Annual Small Business Survey in the UK.’ *International Small Business Journal*, 29(1): 4-24; Wheeler, C., Ibeh, K. and Dimitratos, P. (2008) ‘UK Export Performance Research: Review and Implications.’ *International Small Business Journal*, 26(2): 207-239.

¹² See, for example: Wheeler *et al.* (2008: 228-231).

¹³ Love, J. and Roper, S. (2013) *SME Innovation, Exporting and Growth: A Review of Existing Evidence*. ERC White Paper No. 5 (April 2013). Warwick: Enterprise Research Centre. Available at:

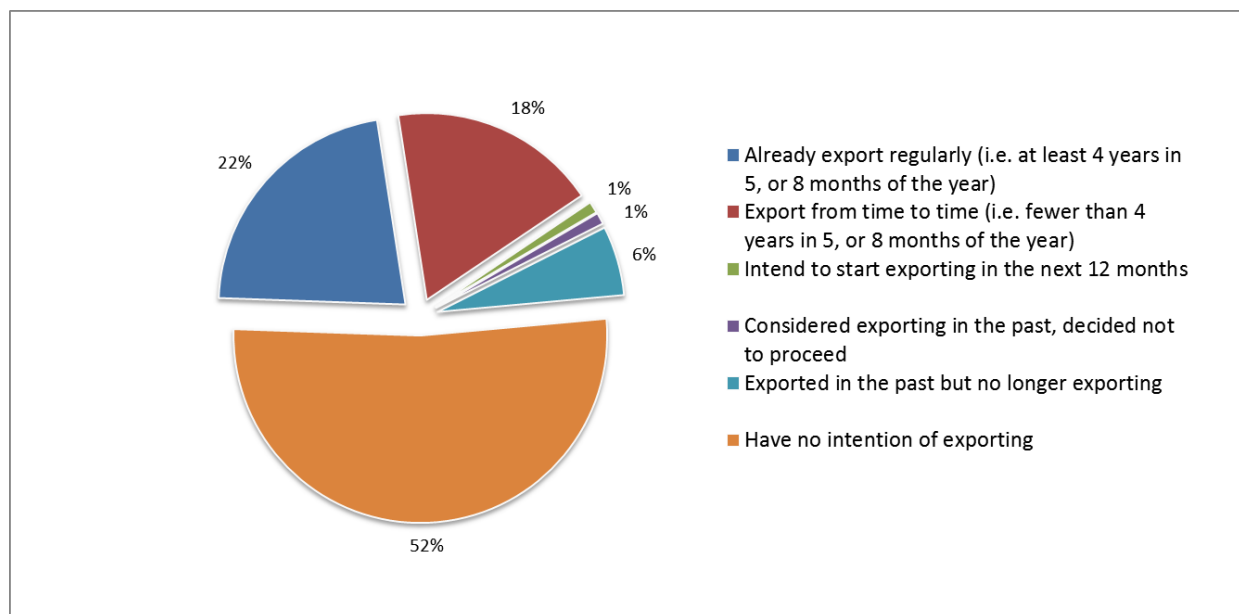
http://enterpriseresearch.ac.uk/wp-content/uploads/2013/12/ERC-White-Paper-No_5-Innovation-final.pdf

¹⁴ Love and Roper (2013) pp.7-8. The report referred to in this quotation is: European Commission (2010) *Internationalisation of European SMEs*. Brussels: DG for Enterprise and Industry. Available at: http://ec.europa.eu/enterprise/policies/sme/market-access/files/internationalisation_of_european_smes_final_en.pdf

Exporters: past, present and potential

Just under a quarter of the firms in this survey (22%) were already exporting products or services on a regular basis, while almost one in five (18%) said that they exported from time to time (Chart 2). The combined figure (40%) is broadly comparable with the results of a recent membership survey conducted by the British Chamber of Commerce (BCC), which indicated that 39% of respondents were actively exporting goods and services from the UK in 2013; the BCC recorded a slightly lower figure (32%) in the previous year¹⁵. Approximately half of the firms surveyed (52%) reported that they, 'have no intention of exporting' and a further 6% said that they had exported in the past, but were no longer doing so. Only one in a hundred (1%) say they intend to start exporting in the next 12 months. These findings suggest that, contrary to some recent policy pronouncements, the UK does not possess a large and previously untapped pool of potential SME exporters. However, it does appear to harbour a large number of firms in which exporting remains an occasional, and perhaps somewhat peripheral, activity.

Chart 2: Current pattern of exporting activity – whole sample



Larger firms are more likely to be active exporters, as indicated when the figures are broken down by turnover band (Table 1)¹⁶. This finding is consistent with previous research. However, there are indications that a substantial minority of smaller firms are also exporting, particularly when those engaged on less regular basis are taken into account. The survey findings revealed characteristic variations by sector, with Manufacturing (50% regular; 20% occasional) and Wholesaling (27% regular; 37% occasional) reporting the highest levels of exporting activity. The sectors least engaged in exporting were Agriculture (0% regular; 14% occasional) and Construction, where no exporting activity was reported (n.b. the section 'Reasons for not exporting' summarises the views and experiences of non-exporting firms).

¹⁵ Summary factsheet available at: <http://www.britishchambers.org.uk/Annual%20Reports/13-07-05%20Trade%20Factsheet%20-%20Connections.pdf>

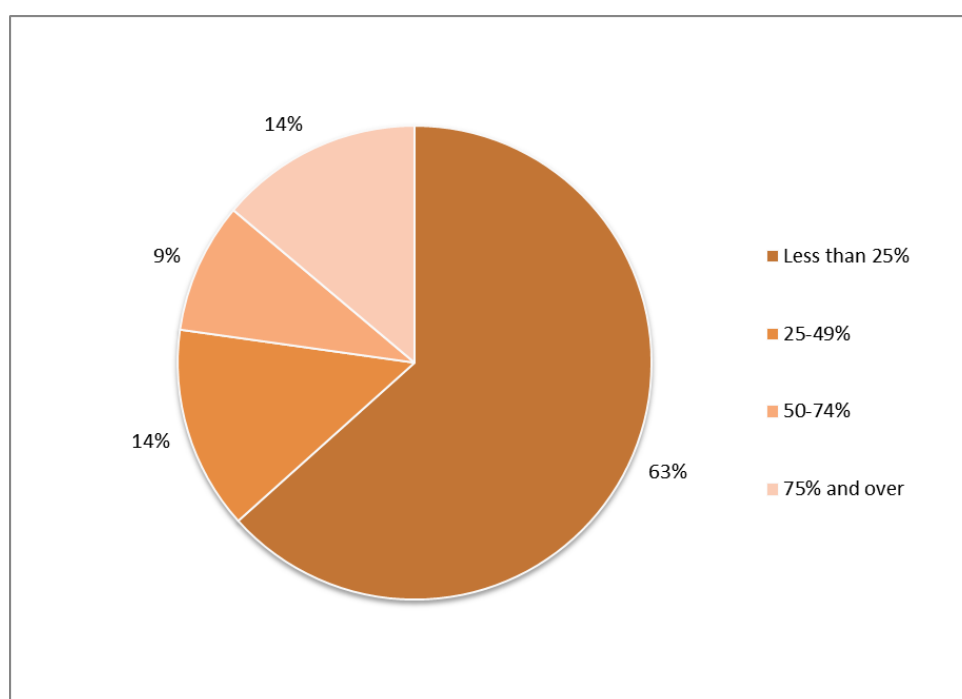
¹⁶ Non-exporters in the sub-sample of medium-sized enterprises comprised construction firms, retailers, transportation and business services firms. Most of these firms identified their products and/or services as not suitable for exports; some also relied on local trade and stated that existing business was sufficient.

Table 1: Current pattern of exporting activity – by turnover band

	<i>Already export regularly (i.e. at least 4 years in 5, or 8 months of the year)</i>	<i>Export from time to time (i.e. fewer than 4 years in 5, or 8 months of the year)</i>	<i>Intend to start exporting in the next 12 months</i>	<i>Considered exporting in the past, decided not to proceed</i>	<i>Exported in the past but no longer exporting</i>	<i>Have no intention of exporting</i>
Under £100,000	12%	15%	3%	0%	10%	60%
£100,000-£249,999	14%	31%	0%	0%	6%	49%
£250,000-£499,999	24%	12%	0%	0%	6%	58%
£500,000-£999,999	17%	30%	0%	0%	0%	52%
£1m-£5m	31%	16%	2%	4%	4%	43%
Over £5m	50%	0%	0%	0%	0%	50%
Total	22%	18%	1%	1%	6%	52%

We asked exporting firms to estimate the approximate proportion of their total sales turnover that was exported. Almost two thirds (63%) said that exported products or services accounted for less than 25% of their total sales (Chart 3). By contrast, just under a quarter of these firms (23%) reported that they were exporting more than half of their total sales. Larger firms also tended to report a higher proportion of export sales.

Chart 3: Percentage of total sales exported – exporting firms only

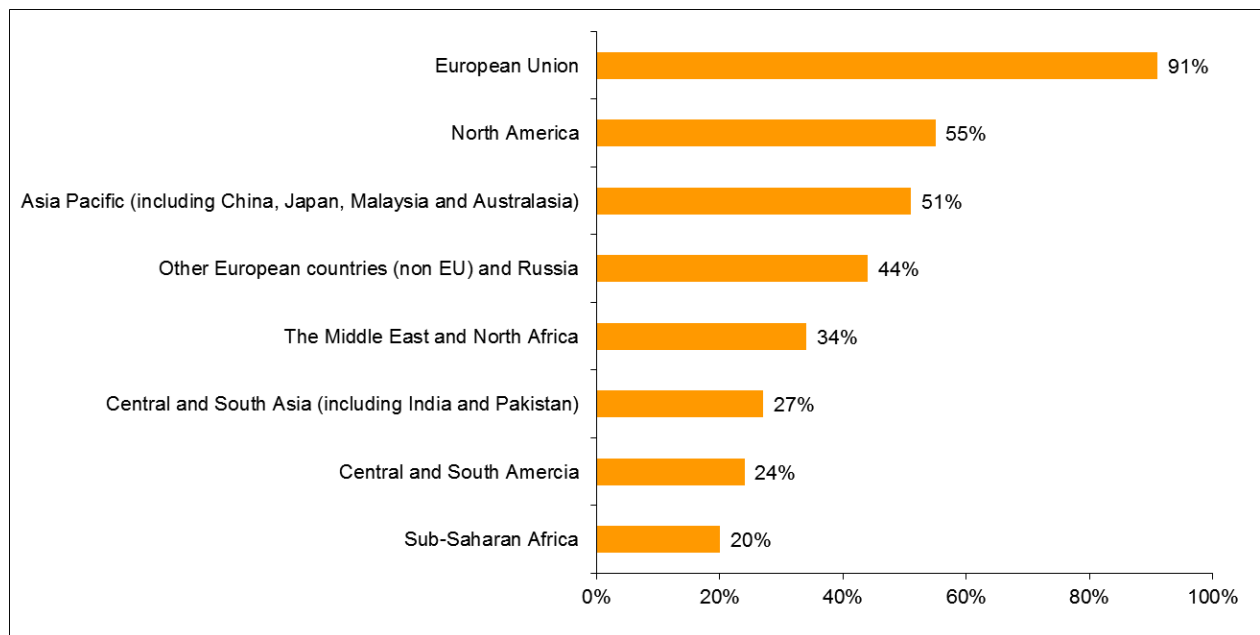


We also explored the theme of the rapidly internationalising or ‘born global’ firm¹⁷. There are several competing definitions of such firms, based on measures such as the extent of internationalisation of a new venture within a particular timeframe. Our question simply asked whether the businesses had been set up with a main aim of exporting goods and services¹⁸. The findings revealed that fewer than one in ten firms (9%) had been established with this explicit aim; perhaps unsurprisingly, the highest proportions of these were found in the Wholesaling, Transportation, Communication and Storage, and Manufacturing sectors.

Exporting patterns

The European Union is by far the most important export market for the UK’s small and medium-sized firms. In this survey, nine out of ten of the current exporters (91%) reported that they were trading with other EU countries. Just over a half (55%) were exporting to North America and a similar percentage (51%) identified countries in the Asia Pacific region, including China (Chart 4). Sub-Saharan Africa was the least commonly identified market (20%), perhaps reflecting the growing presence of Chinese businesses and other ‘Asian Tiger’ exporters in these countries¹⁹.

Chart 4: Current destinations for UK SME exporters – by broad region (multiple responses)



¹⁷ See, for example: Chetty, S. and Campbell-Hunt, C. (2004) ‘A Strategic Approach to Internationalization: A Traditional Versus a “Born-Global” Approach.’ *Journal of International Marketing*, 12(1): 57-81; Taylor, M. and Jack, R. (2013) ‘Understanding the Pace, Scale and Pattern of Firm Internationalization: An Extension of the ‘Born Global’ Concept.’ *International Small Business Journal*, 31(6): 701-721.

¹⁸ For a recent review of the many competing classifications of rapidly internationalising firms, see: Masden, T. (2013) ‘Early and Rapidly Internationalizing Ventures: Similarities and Differences Between Classifications Based on the Original International New Venture and Born Global Literatures.’ *Journal of International Entrepreneurship*, 11(1): 65-79.

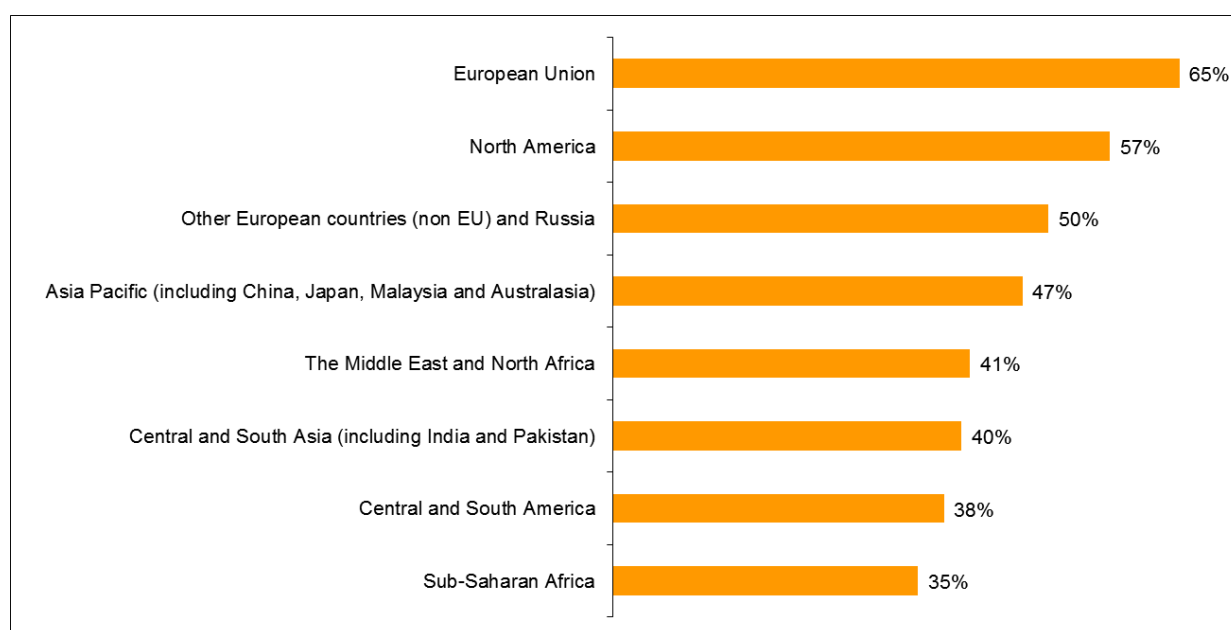
¹⁹ See, for example: Mohan, G. (2013) ‘Beyond the Enclave: Towards a Critical Political Economy of China and Africa.’ *Development and Change*, 44(6): 1255–1272.

The figure for EU exports is similar to that reported in the British Chambers of Commerce (BCC) International Trade Survey (May 2014), which found that more than eight in ten of its exporters (87%) were trading into EU markets, a figure that was unchanged from the previous year²⁰.

Given the tendency to focus on the exporting activities of large industrial companies, it is also worth acknowledging the sheer diversity of products and services that are exported by the UK's small and medium-sized firms. In addition, exporting SMEs often serve highly specialised market niches – as illustrated by the following extracts from our respondent's verbatim descriptions: *'Dental hygiene hand instruments; Machinery spares for combing yarn; Insurance services; Records / CDs / magazines; Gas tight suits, protective work wear, electrical and chemical safety boots; Unusual and rare items, mainly books, documents etc.; Colour sample books; Consultancy services; Specialist mechanical equipment used in the exploration and production of oil and gas; High quality stainless steel handrails; Educational toys; Rough sawn timber and semi manufactured parts; Tea and coffee; Freezer baskets and dog cages; Electronic components; Demountable stages for use in schools and churches; Fly fishing rods and salmon, sea trout and trout landing nets; Consultancy, instructional design, and specialist editorial services; Dairy engineering products and services; Map data and map artwork, map software; Products for caravans and motorhomes; Marble and construction materials; Specifically designed word sculptures and carved garden inscriptions; Information about UK corporates; Heat applied transfers; Educational science kits and power semiconductors; Metallurgical certified reference materials; Online revision for UK medical exams; Jams and chutneys.'*

We also asked respondents²¹ to identify where they might consider exporting in future. The overall pattern was broadly similar, with the European Union as the most popular destination, identified by almost two thirds (65%), followed by North America (57%). However, in this instance other (non EU) European countries and Russia took third place (50%), slightly ahead of the Asia Pacific region (47%), while more than one third (35%) would consider exporting to Sub-Saharan Africa (Chart 5).

Chart 5: Potential destinations for UK SME exporters – by broad region (multiple responses)



²⁰ BCC (2014) *International Trade Survey: Market Opportunities*. Available at: <http://www.britishchambers.org.uk/policy-maker/policy-reports-and-publications/2014-international-trade-survey-market-opportunities.html>

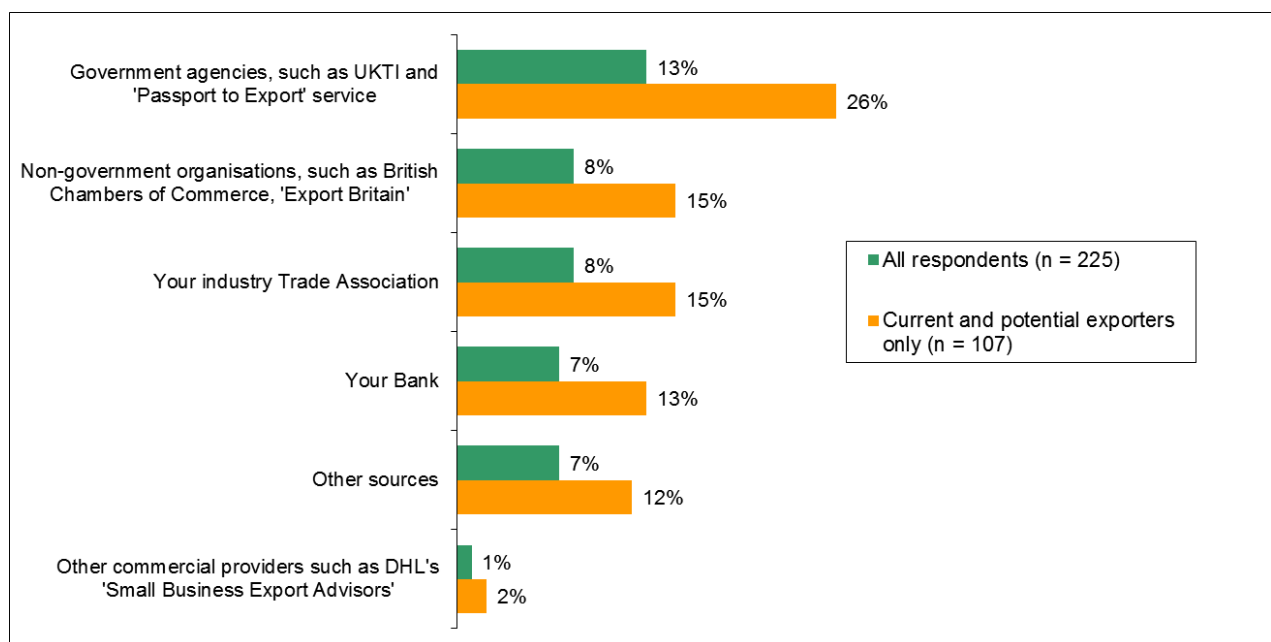
²¹ This sub-sample comprised existing exporters, with a small number of potential exporters.

The figure for those who would consider exporting to the EU is somewhat lower than the 88% of potential exporters reported in the British Chambers of Commerce (BCC) International Trade Survey (May 2014). However a similar proportion (40%) of potential exporters in the BCC survey said that they would consider exporting to Asian countries²².

Supporting exporters

Current and prospective exporters have access to a variety of support services from wide range of public sector and commercial providers. Just under a quarter of all respondents (23%) stated that they had used at least one of these services over the last three years, whilst 13% used two or more services in this period. These figures suggest that almost half of active SME exporters are operating for extended periods without any specialist support²³. Government agencies such as UKTI are the most commonly used sources, and have been accessed by just over a quarter (26%) of exporting firms over the last three years. Non-government organisations such as the British Chambers of Commerce and industry trade associations were both used by 15% of current exporters, closely followed by banks (13%). Very few exporting firms (2%) identified other types of commercial service provider (Chart 6).

Chart 6: Types of export support service used in the last three years (multiple responses)



Verbatim comments about respondents' experiences with export support services suggest that current non-users have either not found them relevant to their specific needs, or were simply not seeking to develop their existing exporting arrangements at the present time:

'Our product is so specialised that only the agents that we currently work with are competent to deal with it.'

²² The BCC report suggested that the economic slowdown in this region had diverted attention to Africa and the Middle East, which was experiencing faster growth. See footnote 20 for further details.

²³ Given that 40% of these firms are exporting on a regular or occasional basis (n.b. one third of the firms intending to export in next 12 months also reported that they had used one or more export support services but the relevant sub-sample is too small to draw firm conclusions).

'I have an established business with my current distributors within the EU. Years ago I came to the conclusion that my situation as a very small exporter in a very specialised niche in a market dominated by large multi-nationals meant that my chances of finding new EU opportunities would be remote.'

'Most sources I have used to export services have not been very helpful or not been aware of any of the relevant regulations. It was much easier to do it myself.'

Amongst those using export support services, several respondents referred to UKTI as a particularly useful source of information and advice:

'UKTI are pleased to support our export efforts in new and existing markets because we are successful in our markets and we are respected in the area. This is especially true when they have not fully spent their budgets and need to find good home for the funds.'

'UKTI is always helpful. We do not feel the need to use the other services at present.'

The following comments from current exporters²⁴ highlight the practical challenges they face, including the additional time commitment, cost and the sheer complexity of operating in multiple geographic markets:

'We are already exporting extensively. It takes time to train our own staff and then for them to find new distributors and train them and for them to become effective. Markets are also restricted by non-tariff barriers to trade such as certifications. Typically it takes 2-5 years to establish the product in a market.' (Regular exporter)

'We do export, but mainly to EU countries, as the paperwork is less complicated. We know how to ship outside the EU and also do this, but it can get complicated.' (Occasional exporter)

'We export everywhere, but the shipping/postage costs are prohibitive for small companies.' (Regular exporter)

'Paperwork and legislation is too time consuming and complex for our small business. If I use an agent then costs become prohibitive. We have tried. Note: exporting to the States means that our insurance premium doubles - yet another reason not to export.' (Occasional exporter)

'We have contacts within most industrialised countries and the main handicap to further sales is finding good informed local agents/distributors.' (Regular exporter)

'Dealing with unhappy buyers in the UK takes enough effort. While I can get by in a couple of European languages, I worry that the buyers themselves may misunderstand my terms and conditions, or not read item descriptions accurately, causing more problems.' (Occasional exporter)

'We would love to export more but it is expensive to do the research, re-write your website and take the time off to visit the markets.' (Regular exporter)

When asked for their suggestions as to how existing support arrangements might be improved, our respondents emphasised the need for more customised services, based on in-depth knowledge, and designed to meet the specific needs of smaller businesses:

'Some serious, experienced advice from people who have already done it and – needless to say – with minimal costs. Almost like having a non-executive director who specialises in helping export.' (Regular exporter)

²⁴ These respondents self-identified as either 'regular' or more 'occasional' exporters; see the section 'Exporters: past, present and potential' and Chart 2 for a more detailed explanation of these categories.

'UKTI is excellent however their strategy has altered to only support large businesses – very difficult to understand as they probably get more bang for their buck with smaller businesses while larger organisations have more resources to do the job themselves.' (Regular exporter)

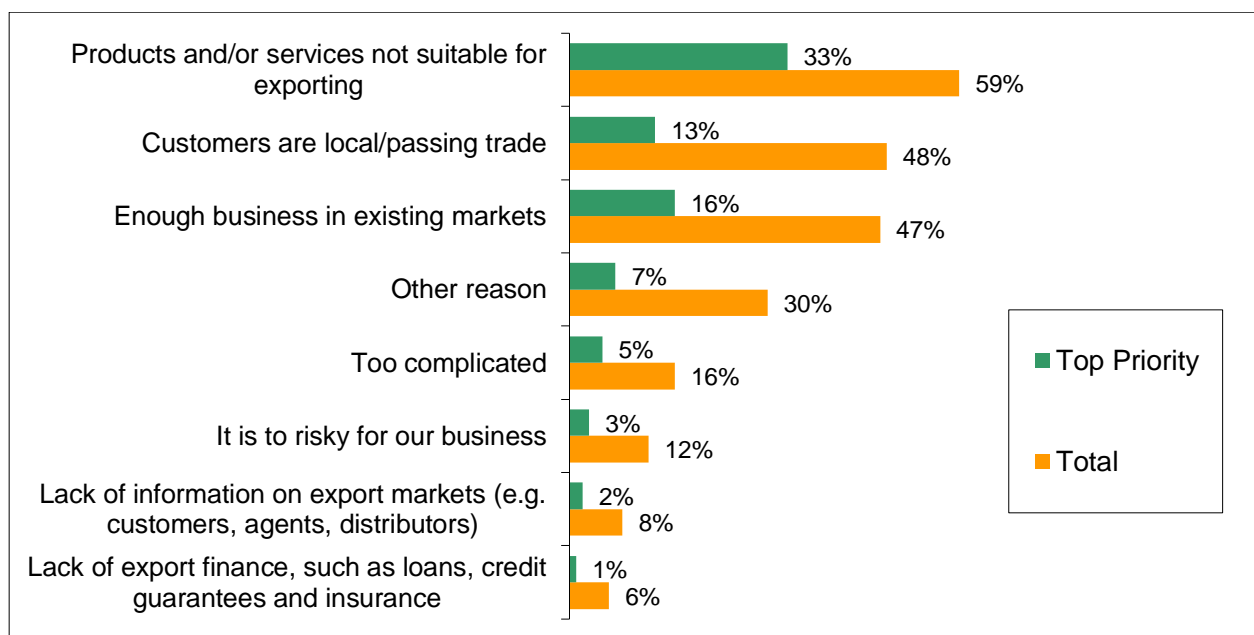
'Greater understanding of businesses of our size.' (Regular exporter)

'More face to face communication.' (Occasional exporter)

Reasons for not exporting

The main reason for not exporting is that a firm's products and/or services are not suitable for this purpose. This is to be expected, and can best be illustrated by verbatim explanations such as *'Because we are a café'* and *'It's difficult to export buildings.'* This reason was identified by one third of respondents (33%) as their 'top priority' and by more than half (59%) as one of three main reasons (Chart 7). It is an explanation that, along with 'customers are local/passing trade' (13% 'top priority'; 48% amongst three main reasons), is characteristic of many smaller firms, which serve local markets – other obvious examples including hairdressers, bicycle repair businesses and corner shops. The third reason, 'enough business in existing markets' might be seen as indicating scope to engage in some exporting activity. However, it is striking that relatively few respondents identified obstacles that might readily be addressed through policy initiatives to support new exporters. For example, fewer than one in ten firms (8%) selected 'lack of information on export markets' and only 6% identified 'lack of export finance'²⁵.

Chart 7: Reasons for not exporting (percentages reported for 'top priority' and three main reasons)



These findings can be compared to the British Chambers of Commerce (BCC) International Trade Survey (May 2014), in which more than half of non-exporters (58%) said that, 'not having a suitable product or service' was the principal reason for not exporting. The BCC survey also reported a relatively low percentage (6%) of non-exporters identifying limited knowledge of commercial aspects of exporting and difficulties in finding overseas customers, agents and/or distributors as reasons for

²⁵ This may, in part, be a product of the question format, which required three reasons to be selected in rank order, one of which could be an open text response under the 'other reasons' category.

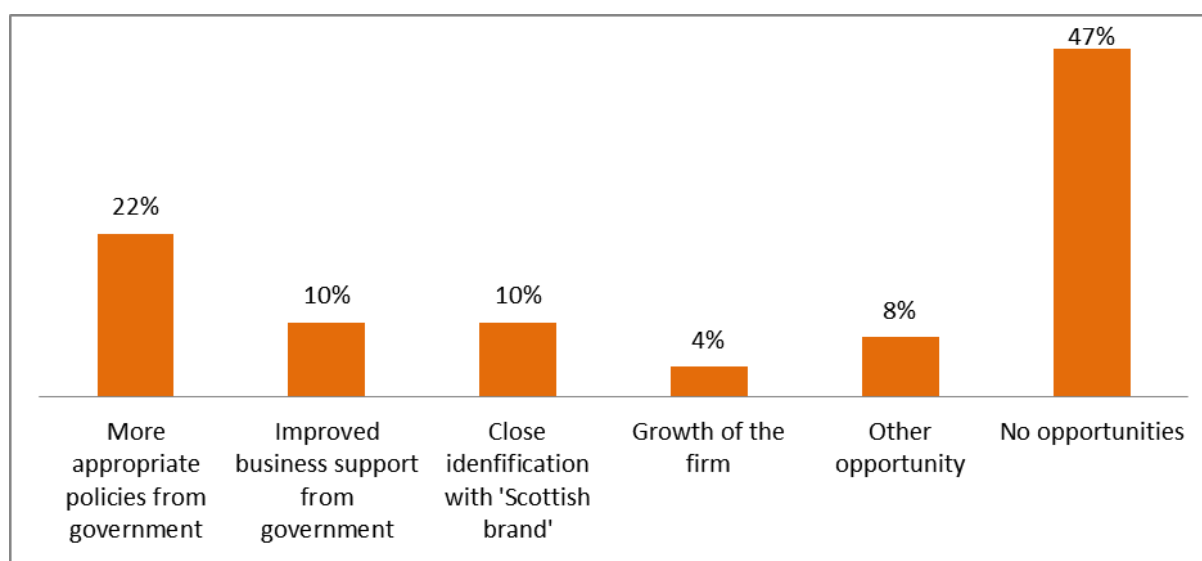
not exporting goods or services²⁶. Almost a third (30%) of non-exporters gave 'other reasons', but there was no clear pattern in their verbatim explanations. Most of these echoed one or more of the reasons listed in Chart 7, though a few identified constraints imposed by professional bodies, trade associations, distribution franchisors and other commercial agreements as an additional factor.

Scotland's membership of the UK

We now turn our attention away from exporting in order to consider recent constitutional developments in the United Kingdom. According to the latest government statistics²⁷ Scotland has a population of 340,840 micro, small and medium-sized businesses, which represent 99.3% of its private sector enterprises. In this section, we review recent published data relating to these Scottish businesses, before moving on to consider the views of SMEs across the rest of the UK (rUK). It is important to note that all of the evidence reported in this section was collected prior to the independence referendum which took place on Thursday 18th September 2014.²⁸

Opinion remained divided within Scotland's business community in the run-up to the referendum. However, in May 2014, a large membership survey, commissioned by the Scottish Chambers of Commerce, yielded interesting findings on the main perceived risks and opportunities of independence²⁹. While more than half (53%) of its respondents identified a way in which their business could benefit, 47% selected the option, 'no opportunities' (Chart 8). The authors of the report describe this sentiment as being, 'particularly acute' amongst those firms trading mainly with the UK.

Chart 8: Main business opportunities associated with independence (Source: Stirling University and the Scottish Chambers of Commerce)



²⁶ BCC (2014) *International Trade Survey: Market Opportunities*. Available at: <http://www.britishchambers.org.uk/policy-maker/policy-reports-and-publications/2014-international-trade-survey-market-opportunities.html>

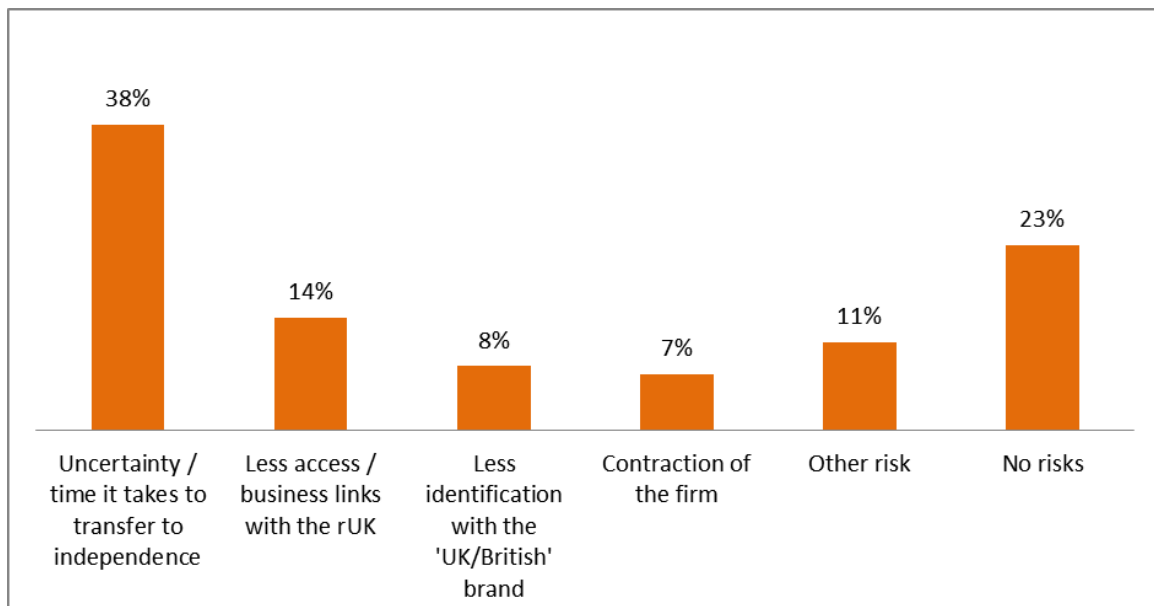
²⁷ Scottish Government (2014) *Businesses in Scotland*. Available at: <http://www.scotland.gov.uk/Resource/0043/00437279.pdf>

²⁸ Some of the material presented in this section appeared in an article published in *The Conversation* on 11th September 2014. The original version is available at: <https://theconversation.com/hard-evidence-what-do-smes-think-about-indyref-in-scotland-31545>

²⁹ Bell, D.N.F. and McGoldrick, N (2014) *Business attitudes to Constitutional Change*. University of Stirling and the Scottish Chambers of Commerce. Available at: <http://www.scottishchambers.org.uk/userfiles/files/SCC%20Constitutional%20Survey.pdf>

The most commonly-cited risk was uncertainty (38%), yet almost a quarter (23%) did not identify any risks for their businesses (Chart 9).

Chart 9: Main business risks associated with independence (Source: Stirling University and the Scottish Chambers of Commerce)



Argument raged over the consequences of a 'yes' vote for particular industries within Scotland. On 27th August, 130 chief executives, board members and entrepreneurs penned a widely-reported open letter to *The Scotsman* in support of the Union. The next day, another letter appeared in *The Herald*, in which 200 similarly distinguished business leaders made the case for independence³⁰. Much less attention had been paid to the implications for businesses in England, Wales and Northern Ireland, but there was evidence of a similar divergence of view from business leaders across the rest of the UK. Some argued that independence would benefit businesses and communities in the rest of the UK. For example, Professor Nathu Puri, a co-signatory of the pro-independence letter, has stated that, 'Scottish independence will be a major step forward towards that goal [of rebalancing the British economy] in the interests of not just Scots but business and jobs in Wales, Northern Ireland, the Midlands and the north of England.'³¹ Others remained more sceptical. A report by the UK Parliament's cross-party Business Innovation and Skills Committee raised concerns around trade, EU membership, tax and regulation and asserts that, 'The benefits to business of a single UK Market should not be underestimated'³². The CBI's response to the Scottish Government's 2013 White Paper on Independence also highlighted the, 'highly interconnected' of the UK's constituent nations³³. It concluded that breaking up this internal market would increase costs for businesses and consumers, citing as examples the need to create new cross-border arrangements in relation to issues like tax, employment and company pensions.

³⁰ The full text of these letters is available at: <http://www.scribd.com/doc/237805123/Letter-to-the-Scotsman-Wed-27-Sep-2014> and: <http://www.heraldsotland.com/politics/referendum-news/200-businesses-sign-up-to-say-yes-to-independence.25171171>

³¹ Full statement available at: <http://www.yesscotland.net/news/top-business-leader-says-yes-vote-will-be-good-scotland-and-rest-uk>

³² House of Commons Business, Innovation and Skills Committee (2014) *The Implications of Scottish Independence on Business; Higher Education and Research; and Postal Services*. Available at: <http://www.publications.parliament.uk/pa/cm201415/cmselect/cmbis/504/504.pdf>

³³ CBI (2014) *The Scottish Government's plans for independence: an analysis from business*. Available at: http://www.cbi.org.uk/media/2631703/cbi_analysis_-_scottish_government_s_independence_white_paper.pdf

So what did the owners and managers of the UK's smaller businesses think about this important constitutional argument? Rather than seeking personal opinions on the prospect of Scottish independence, we opted for a more concrete, business-specific question as a better indicator of the practical importance of this issue. Over half (58%) thought that Scotland's membership of the UK made little difference to their own business. This result suggests lower levels of concern at a business level, as compared to those reported in a British Chambers of Commerce (BCC) membership survey, which was published in May 2014. In the BCC survey, 85% of respondents stated that Scotland should remain within the UK, a similar figure to that recorded in general surveys of the UK population³⁴. However, our survey findings indicate a sizeable minority of small and medium-sized firms (35%) who see Scotland's membership of the UK is having a significant – either 'good' or very good – impact on their business (Table 2).

Table 2: 'Do you think that Scotland's membership of the United Kingdom is, on balance, a good thing for your business?' – all respondents

	%
Very good	19%
Good	16%
Makes no difference	58%
Bad	2%
Very bad	1%
Don't know	4%

In order to probe for underlying reasons, we asked respondents for practical examples to show how Scotland's membership of the UK had an impact on their own businesses. The following verbatim comments from rUK firms who saw Scotland's membership as a 'good thing' highlight three main concerns: (1) potential barriers to cross-border trade; (2) higher transaction costs; and (3) a more general sense of uncertainty.

'We trade to a significant degree in Scotland. Anything that makes this harder would potentially be negative.'

'The prospect of having to treat deliveries to Scotland as exports horrifies me, especially if Scotland does not continue as a member of the EU.'

'I would hate to add any complexity to my Scottish sales. I sell a lot to Scottish buyers ... Scotland leaving worries me a lot. I think it will be a disaster.'

'[Our] pensions are held in a group scheme headquartered in Scotland. Were Scotland to break away the fund would have to be split, with the possibility that economics of scale fall for both sections. It would be lose-lose.'

We need stability. Any large upheavals will produce uncertainty and interrupt workflow. Splitting up the UK will be a nightmare and we will be poorer for the split.

³⁴ The British Chambers of Commerce conducted a membership survey across the UK on business opinion in relation to Scottish Referendum. A summary of the main findings is available at: <http://www.britishchambers.org.uk/press-office/press-releases/bcc-publishes-leading-business-survey-on-scottish-independence-debate.html>

The Scottish business owners and managers in this sample also referred to cross-border trade and currency as practical issues affecting their businesses:

'Most of our clients are down south and I just don't know how they will feel dealing with a 'foreign' country.'

'Most supplies come from outwith Scotland. Currency union and lack of trade restrictions are absolutely necessary.'

These findings indicate that Scotland is an important trading partner for many small and medium-sized businesses across the rest of the UK. Many of the concerns raised by respondents to this survey are likely to diminish following the 'no' vote in the independence referendum. However, given that more radical devolution proposals are expected over the next few months, it seems likely that more change is on the way for firms on both sides of the border.

The UK's membership of the European Union

The UK joined what was then the European Economic Community (EEC) in 1973. Since that time, there have been substantial changes, including the creation of the Single European Market in 1987, the reunification of Germany following the events of 1989, the Maastricht Treaty, which was signed in 1991, the formation of the European Union in 1993, and the introduction of the Euro in 2002. Throughout this period, there has been a continuing expansion of EU membership, which currently comprises 27 countries. There has been one previous referendum on the UK's membership of this organisation, which took place almost 40 years ago, in June 1975. On that occasion, there was a two thirds majority (67%) in favour of remaining part of the EEC. With the UK facing the prospect of another referendum on its membership of the European Union, questions remain over the potential impact of independence on the country's small and medium-sized firms. As with the Scottish independence question, our survey questions focused on how respondents saw the EU impacting on their own businesses.

We found that 40% of respondents saw the UK's membership of the EU as having either a 'good' (24%) or a 'very good' (16%) impact on their business (Chart 10). There was a similar proportion (43%) for whom the issue 'makes no difference', leaving a relatively small minority (12%) who see it as having either a 'bad' (8%) or 'very bad' (4%) impact. This finding is consistent with other recent surveys of small business opinion³⁵. Interestingly, it also reflects polling evidence amongst the wider population. For example, in a recent poll by YouGov (June 2014) 44% of respondents said they would vote to stay in the EU, while 36% said would vote to leave. This eight percentage point lead was the largest recorded since the question was first asked in September 2010³⁶.

Perhaps unsurprisingly, firms that are exporting have the most positive view of EU membership. More than half (57%) of current exporters see it as having either a 'good' (30%) or a 'very good' (27%) impact on their business (Table 3). By contrast, just over a quarter (29%) of those firms not currently exporting regard the UK's membership of the EU as beneficial to their business. The popularity of EU membership amongst these owners and managers, contrasts sharply with the 'Eurosceptic' position of some political groupings, notably UKIP. As the Federation of Small Business notes, the European Economic Area is 'by far' the most popular export region for the UK's

³⁵ See for example, coverage of the Quoted Companies Alliance membership survey, published in May 2014 – summary available at: <http://www.forbes.com/sites/davidprosser/2014/05/23/british-small-businesses-reject-ukip-eu-withdrawal-policy/>

³⁶ YouGov (2014) 'EU referendum: record lead for staying in Europe.' Available at: <http://yougov.co.uk/news/2014/06/17/eu-referendum-record-lead/>

smaller businesses, and reports that it is seen as a 'key' market by 87% of the exporters amongst its membership³⁷.

Chart 10: Overall impact of the UK's membership of the European Union on your business

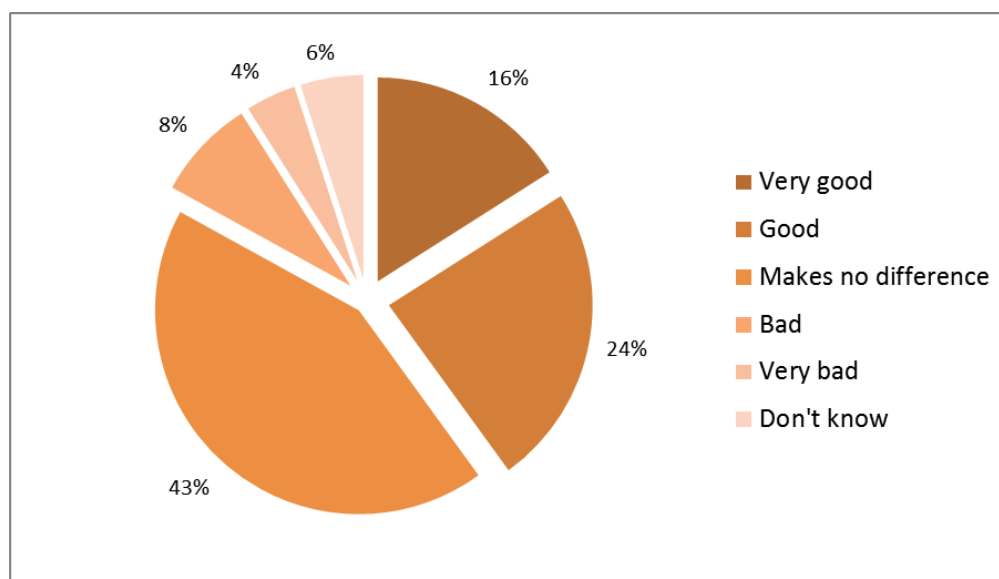


Table 3: Overall impact of the UK's membership of the European Union on your business (current exporters and firms not currently exporting)

	<i>Very good</i>	<i>Good</i>	<i>Makes no difference</i>	<i>Bad</i>	<i>Very bad</i>	<i>D/K</i>
Current exporters	27%	30%	34%	4%	2%	2%
Not currently exporting	8%	21%	49%	10%	4%	9%
Total	16%	24%	43%	8%	4%	6%

We asked respondents to elaborate on how the EU impacted on their business. The only reasons given for the EU having a negative impact were regulatory burdens on business and the overall cost of membership:

'Ever demanding EU codes and standards that the UK seems to zealously over-apply can be crippling.'

'Mountains of red tape, rules and restrictions imposed on business by nameless bureaucrats who have no knowledge or experience of business, but think that they know it all! Local government and Westminster is bad enough, but to add Brussels to the pot, makes doing business almost impossible.'

³⁷ A summary of the FSB's current campaigning activity around European Union is available at: <http://www.fsb.org.uk/business-issues/european-union#> The interests of smaller businesses are also represented by pan-EU organisations including The European Small Business Alliance (ESBA) (<http://www.esba-europe.org/>) and The European Association of Craft, Small and Medium-sized Enterprises (UEAPME) (<http://www.ueapme.com/>).

'The overall cost of EU membership to the UK is a dead weight on the economy. Membership of EFTA would give us all the economic benefits without the regulatory and financial burdens, and independence from the EU would increase our voice with institutions like the World Trade Organisation.'

Those seeing the EU's impact as largely positive emphasised trade-related issues, including the EU's capacity to 'level the playing field'. There were also a few references to other issues, such as the EU's capacity to influence working conditions and respondents' wider political concerns:

'My product moves freely within the EU. Entry into non-EU countries can be most difficult, especially for a small one-man company such as mine.'

'EU is the biggest market for UK. If UK goes out EU the advantage in terms of taxes will not be there anymore. Also the funding that UK Universities get for research; ERASMUS Scholarships will not be available anymore. I think for business, education and research to be out of the EU might be a disadvantage for UK.'

'Many specialist construction materials and tools are developed in Europe, particularly in Germany, the ease of import, use and specialist assistance would simply not be possible without the EU. The majority of motivated labour comes from EU countries.'

'Most of our clients are large organisations with substantial EU connections - it would not be good for them, and hence not for us.'

'Overall I think that being part of the EU is good for business. Big is best when competing in world markets and the EU is a strong trading block. The negative aspects are the OTT rules and regulations that pour out of the EU. Our world competitors in the main do not have all this bureaucracy, it is time that some of this was removed. I do not want to see sensible standards removed.'

'Policymakers tend to forget that whilst I'm a manager, I'm also an employee. Things like Minimum Wage and Working Time; as well as all the myriad Food Regulations, mean that my business is on a more even footing with the bigger boys who can now only cut so many corners. If I pay anyone I take on a wage they don't starve on, I don't do myself out of business, if everyone else has to as well.'

'EU membership is important to retain some sort of social justice in the UK. Without it we would be even more prey to Cameron and his cronies.'

Conclusion

This report has examined some of the ways that the UK's small and medium-sized firms are competing in Europe, and farther afield. As noted in the Introduction, the recent House of Lords Select Committee report highlighted the importance of exporting in their opening statement that: *'[F]or a step increase in exports we must look to our SMEs. Many are exporting now but more could be done.'*³⁸ In this report, we have examined current patterns of exporting and shown that, while there may be a pool of 'potential exporters', more than half of the UK's SMEs have no intention of pursuing this route. There is certainly scope to 'do more', but it is essential to take into account the very diverse and often context-specific needs of smaller firms when developing new interventions. We also saw that many SME owners and managers regard Scotland's continuing membership of the UK, and the UK's continuing membership of the European Union, as beneficial to their businesses.

³⁸ From the Preface to: *Roads to Success: SME Exports*. House of Lords Select Committee on Small and Medium Sized Enterprises. Report of Session 2012-13. Available at: <http://www.publications.parliament.uk/pa/ld201213/ldselect/ldsmall/131/13102.htm>

Case studies

Introduction

These case studies are based on a series of interviews conducted by Deneise Dadd of The Open University. They examine in greater depth issues discussed in our special topic section on networking trends. The interviews were conducted during September 2014 and are based on a sub-sample of respondents to the *Quarterly Survey of Small Business in Britain*. The interview material has been complemented by additional evidence related to the organisations and their industry context. We are grateful to all of our interviewees and to other members of the online panel for taking the time to be involved in this project. This case material can be reproduced for non-commercial educational purposes provided that the source is fully acknowledged.

- **Case A: The Aziz Corporation**
- **Case B: Russell's Country Store Ltd**
- **Case C: CL Hawley Books**



Case study A: The Aziz Corporation

In October 1983, following a twelve-year career at the BBC, Khalid Aziz set up his own communications business, the Aziz Corporation. At first, he ran the new venture alongside his regular job at the broadcaster ITV, but after about seven years he decided to concentrate on the business full-time. Since then, he has built up a team of people with complementary skills in specialist areas of communication, including, *'presentation content and structure, business psychology, voice development, image consultancy, handling the media and presentations skills.* There are currently ten employees and almost 60 associates, who work from the company's Hampshire and London offices. They provide leadership communications support, executive coaching, and media training to middle and senior executives in the UK and other parts of the world. Their focus is to help business leaders communicate more effectively with their employees, customers and other stakeholders.

We asked Khalid about his experience doing business internationally. He explained that the export side of the business tends to come from companies that are headquartered in Britain but have divisions across the world. He added that occasionally they get requests from companies in developing countries, which usually come through referrals. These referrals are usually for them to provide mainly their leadership communication service. Khalid said that the export side of the business represents about 20% of their business. Their consultants have worked in many countries including Hong Kong, Japan, Singapore, and Brazil. However, he described the pattern of trade as *'patchy... [It] tends to be opportunistic rather than anything else'*. Although the company has carried out work in the European Union (EU), this has reduced in recent years and these days they are, *'more likely to do work in Egypt than the EU'*. Khalid explained that, *'for this kind of management development activity, most established EU countries are relatively behind the UK in terms of outlook on how necessary it is.'* In addition, the current economic situation in the Eurozone means that it is seen by many businesses as discretionary spending.

Khalid recalled when they first did business overseas. They were surprised at the variety of ways that withholding tax was handled. He gave the following example: *'Let's say a piece of work is worth £10,000 and you found that there was a 20 percent withholding tax made under a double taxation agreement between the country and the UK, which meant that although we had submitted an invoice for £10,000, we only got paid £8,000, with the view that we could claim that back when we did our tax returns some time later.'* This would impact their cash flow and was also administratively complex and costly. In addition, before claiming that money back they had to prove that they could claim it out of the profits they had made from that particular business. As a result, they now adjust their prices when dealing with countries that have this withholding tax situation, which makes their service less attractive. Khalid added, *'[This] is not an encouragement to export. What it is, if I'm being cynical, is politicians grandstanding when they go on overseas development trips and saying we'll do this, this and this, and of course it's the poor business that pays for this.'*

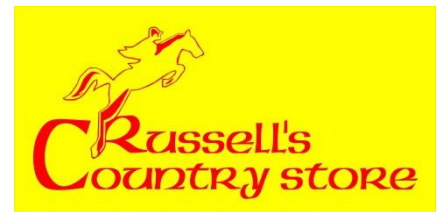
Although Khalid has attempted to use support services, particularly UK Trade & Investment (UKTI), he described it as, *'a less than brilliant experience'*. He explained that the person he was to meet did

not turn up for their appointment, while the person he ended up seeing, *'was a nice chap but a retired naval officer, who gave the impression he didn't know anything about business anyway.'* Khalid's view, based on his own experience, was that, *'the real support for exports works well for medium sized businesses and large businesses but not for small businesses like us, even though we have the potential to do some quite significant work.'* Khalid said that he would love to increase the export side of the business but it was not the main focus at the moment since the business was still recovering from the recession. This was the fourth recession he had experienced over 30 years and although the company had survived, it was, *'the longest and deepest I can ever remember. And we're still watching the cash flow carefully, so we don't feel inclined to spend vast amounts of money on trying to develop export markets. If opportunities were genuinely there, we'd do it but we'd have to be very careful about it.'*

We spoke with Khalid just before the referendum on Scottish independence. He believed that an Independent Scotland would have had no effect on their business. However, he thought that the company would be more impacted by any potential referendum on the UK's membership in the EU. Khalid expressed his doubts about the benefits of EU membership. He felt that, since the UK joined the EU, *'We've had all sorts of things that have added costs to our operation and all these added costs make us less and less competitive. I don't think there is much that has come out of the EU that has been very business friendly.'* He was also glad the UK is not part of the Euro and concluded that coming out of the EU and, *'renegotiating a trade agreement along the lines of Switzerland or Norway would be a better thing for us'.*

We asked Khalid for his advice to other small businesses that might be considering expanding overseas. He advised them to take be cautious: *'Be very careful, be doubly careful than you would be in home markets. Always expect the unexpected and understand that not everyone in overseas markets follows the same business norms as you do'.* He expanded on his advice by sharing an experience that had occurred about ten years ago. Someone wanted them to do a significant amount of work in Tripoli, Libya. He made it clear to his colleagues that they ensured that all the travel arrangements were to be made by this contact. As they got closer to the due date no tickets had been booked, *'and in the end we got a week out and we kept saying, "well what's happening, what are the arrangements," and so on, and the person we were dealing with just disappeared and we never heard from him since ... So had we booked hotels and airfares to send consultants there, we would have been in all sorts of problems.'* Khalid also advised any small businesses new to exporting to, *'check the taxation situation and do consult your accountants about it,'* as this would prevent unforeseen and potentially costly challenges for the business.

Company website: www.azizcorp.com



Case study B: Russell's Country Store Ltd.

In 1985, William and May Russell established Woodside Farm Feeds and supplied animal feeds to small farmers, pet owners and equestrians. Originally, they were set up as a farm diversification project on the family's farm near the town of Linlithgow, West Lothian. In 2001, they acquired a business in Larbert, Stirlingshire and expanded their product line to include hardware products, feed supplements, and country clothing, while specializing in equestrian goods. They became Russell's Country Store Limited in 2006 and still operate at both locations. Russell's currently employs 16 people, three of whom are part-time. In 2011, Russell's Country Store was awarded the title, 'Small Business of the Year' by the Falkirk Herald.

Recently, we spoke with William about the family's experience doing business locally, nationally and internationally. He explained that they do not export their products overseas for logistical reasons: *'We deal in quite bulky feeds, quite bulky products and the quantities wouldn't be feasible for export'*. However, Russell's also sell medicines for animals, smaller and higher-value products that could have export potential. However, though William recognised this opportunity, he did not see it as a high priority for the business. *'To be honest it wouldn't be something that we really would put a lot of effort into, I think. Our main core business is our local area, the central belt of Scotland'*. He felt that Russell's was, *'really just shopkeepers who buy and sell'*. In other words, the business was likely to remain primarily a retailer and wholesaler serving the local area.

The referendum on Scottish Independence was to take place just after we spoke, so our questions on how an independent Scotland would have affected his business were highly topical. William's view was that independence would have had a negative effect on the business. This was because, *'most of our products come from England and other parts of the UK'*. He anticipated that the main impact would have resulted from a change in currency. Without a currency union, he believed Scotland would have needed their own currency, or have been forced to join the Euro, *'either of which would be very bad for my business – and most businesses as well'*. William felt using the Euro would mean the business, *'would be tied into a currency that is not as necessarily geared to our local needs'*. In addition, since Russell's main suppliers are located in the UK the business would have needed to contend with currency exchange issues. However, following the 'no' vote on 18th September, this is no longer an issue they will need to deal with.

We also asked William about his views on the potential referendum on the UK's membership in the European Union (EU). He told us that he is a very strong believer in the EU and thinks, *'the EU as a single trading block is a good thing'*. He added that originally he was also very much in favour of adopting the Euro. This was, *'back in the day when [the idea of a common currency] was first mooted'*, but his views changed when the criteria for being able to join the Euro were relaxed. In his view, this allowed *'countries like Greece and Italy and Spain [that were] not meeting the criteria to still join the Euro. That's when I came against it and I think I have been proven right in that, in that these are the countries that have been experiencing extreme difficulties because they didn't meet the fiscal rules'*. He also believed that these developments had made the Euro, *'a much weaker currency'*.

Though William felt that, *'the EU is not as important in my business as it would be to [exporting] businesses'* EU regulations that are set in Brussels did have an impact on his business. He commented that the EU bureaucracy is, *'not necessarily all bad but there are things that affect my business directly'*. William provided us with two examples, the first relating to pharmaceuticals and the second to transportation. Russell's sell animal medicines and these, *'are becoming more and more regulated, unnecessarily, in my opinion, through the EU'*. In addition, they run a number of lorries, which he thinks are also over-regulated. He explained, *'The regulations in the haulage industry are more geared towards long distance, overnight freight; I run a very localised service and the bureaucracy I have incurred is totally unnecessary'*. However, despite these criticisms, William still thought the UK was better off in the EU and would like it to remain that way.

Company website: www.russellscountrystore.co.uk

Case study C: CL Hawley Books

Since 2000 Catherine Hawley has been supplying recently out of print and hard to find books to academics, collectors and readers through her online store CL Hawley Books. She stocks a wide range of books on topics such as history, philosophy, politics, psychology, theology, biblical languages, and linguistics, as well as dictionaries, children's fiction and poetry. The literary books are in a wide range of areas covering English, Welsh, Scottish, Irish literature and texts on African, Australian, European, North America and the Caribbean. She stocks books mainly in English but also have some texts in Russian, French, Greek and Latin. Catherine buys directly from private and public sellers, large and small. Her customers come from all across the world. CL Hawley Books is a member of the Provincial Booksellers Fairs Association (PBFA), Independent Booksellers' Network (ibooknet), and the Federation of Small Businesses (FSB).

When we spoke with Catherine a short time ago, she began by explaining how the idea for the business came about. While pursuing her MA in English Literature at the Open University (OU), she found it difficult to find the books she needed for her studies, *'and I thought if I am, everybody else must be'*. At the time, she had also read in the OU's 'Sesame' student newsletter about the experience of a recent OU graduate, Stuart Baldwin. Stuart had taken a record 28 years to complete his degree because he kept stopping to pursue business ideas that he came up with while studying for his qualification. One of Stuart's ideas was to open a second-hand science bookstore. Catherine started CL Hawley while she continued her studies and placed her first advertisement in 'Sesame'. Her first suppliers were academics in the OU's English Department. A week or two after she began trading, Catherine got her first order from overseas. At that point, she had not really considered export sales and her initial reaction was surprise, *'I was a bit stunned. I thought, "now what – what do I do"'*. The order was for a small paperback, so she simply packaged it in a box and sent it through her local Post Office. Catherine acknowledged that it took a while for her to fully understand the complexities of posting products abroad, *'One of the problems is that quite often Post Office counter staff do not understand the rules either, so they often can't advise you'*. In her experience, this is especially true if you are sending a package to a part of the world that they are not accustomed to dealing with. Royal Mail rules governing the costs and weight limits for printed-paper are also different to those for other types of products, such as toys, and for specific countries. She explained, *'You can't send more than two kilograms of books to Canada and Cambodia through Royal Mail, but you can to anywhere else in the world.'* She has not had to use any export support services since most of her books are inexpensive and she has rarely needed to apply for export licenses.

Catherine uses Royal Mail as her first choice for delivery to most parts of the world. *'I send books to just about anywhere anybody wants them sent. I have one or two places I'm a little bit wary about because of high incidence of fraud but mostly I will send books almost anywhere.'* She continues to specialise in English Literature and, though almost all of her books are English language editions, her customers come from all over the world: *'Russia, China, lots of the former eastern block countries, Japan, South Korea, Israel, as well as places you'd expect like the States, Canada and Australia, where they are English speaking'*. Catherine explained that her business is direct to the customer, *'it's single books generally, or a small box of books on an academic specialism heading off to foreign parts'*. One of the main challenges in the second hand book trade, and especially regarding overseas trading, is being able to predict supply and demand for books, *'anything about*

my business is unpredictable. I might have a week where every book I sell is going abroad and then I might go a month without selling any abroad. Therefore, Catherine takes a long view and buys and sells as the books are supplied and demanded. Although it is possible to increase overseas business, e.g. through attending international trade fairs, it would be too expensive and not worth it because of the value of the books she trades.

Transparency of bank charges is a very important issue facing small online traders. Catherine was very concerned about the transparency of bank fees during international bank transfers. She explained that quite often there is a fee added, usually because the transaction was routed through a third bank and this was not foreseen. She felt that banks needed to be more transparent with their charges *'so the customer and I both knew whether there is a fee at their end, whether there is a fee at my end and whether it's worth the transaction going through'*.

The referendum on Scottish independence was being held just after we spoke with Catherine so we asked her how an independent Scotland would have affected her business. She explained that she has a number of customers in Scotland and therefore any changes would have impacted her business. These related mainly to any changes to the currency used as well as postal costs and regulations. Fortunately, this is no longer an issue. We also asked Catherine how her business would be impacted if the UK withdrew from the EU. She did not think this would affect her negatively.

As we wrapped up our conversation, we asked Catherine for any advice she could offer to other small businesses that are considering trading in overseas markets. She thought that the Royal Mail for delivery service was a safe and easy option for small business-to-customer enterprises, and had found that, *'they take things most places'*. Catherine distributes thousands of books each year and in the last 14 years she had probably lost fewer than 20 books. She also added that small businesses should be willing to trade in areas that may appear difficult. However, she cautioned that the risks must be assessed, *'every risk I take posting something abroad is only possibly one or two books: if you're selling something with a greater value or a greater potential for theft and resale then it might be different'*.

Company website: www.clhawley.co.uk

How the survey is carried out

This is the 120th survey report completed since the *Quarterly Survey of Small Business in Britain* was created in 1984. The online survey continuously recruits new members to reflect the national distribution of small firms but also seeks to retain respondents over the longer term in order to support the more in-depth questions and case studies, and to provide insights into the changing experiences of SME owners and managers over a more extended period.

This survey is based on questionnaire responses from our regular online sample (i.e. owners and managers of small businesses who had previously volunteered to take part). It does not, on this occasion, include a larger telephone survey sample³⁹. The link to the online questionnaire was emailed to regular respondents on 24th July, 2014 and a reminder email was sent to non-respondents on 14th August, 2014. The survey closed on 31st August 2014 and generated a total of 225 valid usable responses. The online survey was conducted using *Qualtrics* survey software and analysed using the *SPSS* statistical package.

Commentary on the survey sample

The Quarter 3 survey sample differs from those presented in recent *Quarterly Survey* reports, the main difference being that it does not include the usual sub-sample drawn from a telephone omnibus survey. The overall sample size is therefore substantially lower at 225 responses, as compared to our typical sample of approximately 1,100 responses. In order to ensure that the data collected for Quarter 3 were sufficiently representative to support the analysis conducted in this report, we have compared them with the most recent UK national business population estimates (BIS 2013). BIS estimated a total UK business population of 4.9m of which 99.8% of businesses were classified as SMEs with less than 250 employees. The comparative breakdowns are presented in Table 4.

Overall, we observe that our Quarter 3 survey sample is broadly representative of the UK SME population, reflecting the range of size bands, industry sectors and geographic regions (with the exception of Northern Ireland in this instance). With regard to employment size, the apparent underrepresentation of zero employee businesses (self-employed and sole trader) and overrepresentation of medium sized businesses (with 50-249 employees) is explained by the practical requirement (for a relatively small-scale survey) to obtain sufficient interviews in the larger size category, whilst avoiding being swamped by responses in the smallest size band. It is still the case that when all micro enterprises are considered (i.e. those with 0-9 employees), the vast majority (70%) of the Quarter 3 sample relates to firms in this size band. With regard to broad sector our survey is overrepresented by Manufacturing and underrepresented by Construction, but overall, the balance between primary and secondary sectors and the tertiary services industries is in line with the UK population figures (i.e. 29% of our sample compared to 28% for the UK overall).

It is also notable that our survey contains a high proportion of established businesses, with 86% trading for 10 or more years and only 7% trading for less than five years. Additionally, a very high proportion of our sample respondents define themselves as owning or managing family businesses (87%). In addition, more than one third of these businesses (35%) are based at home and almost one in ten (9%) are mostly or wholly female-led.

³⁹ In previous surveys, the sample has included small and medium-sized firms that have been obtained via a shorter telephone omnibus survey, which omitted the more open-ended questions. These results were then combined with those from the online survey. We are currently reviewing our survey methodology with a view to introducing a new approach for 2015.

Table 4: Comparison between the characteristics of the Quarterly Survey Quarter 3 online sample and UK SME population statistics (*Source: BIS 2013*)⁴⁰

	Q3 survey %	UK SME population* %
Size band		
Zero employee	14	75
1-9 employees	56	20
10-49 employees	23	4
50-249 employees	7	1
Industry sector		
Agriculture, Forestry, Fisheries	3	4
Construction	6	18
Manufacturing	20	6
Transport, Storage &	4	6
Retail & Wholesale	23	10
Business Services	34	32
Hotels & Restaurants	3	3
Health, Education, Leisure, Other	8	21
Geographic region		
Scotland	7	7
North East	3	3
Yorkshire & the Humber	8	7
North West	12	10
West Midlands	7	8
East Midlands	5	6
East of England	11	10
Wales	3	4
South West	10	10
London	10	17
South East	23	16
Northern Ireland	0	2
Total (n=)	225	4.9m

Source: BIS (2013) UK business population estimates

For tables by number of employees, we have adopted the BIS definition of a firm with no employees. This is where a self-employed sole proprietor or partners work on their own with no employees, or where a limited company has a single employee director (n.b. a firm with one sole proprietor and one employee is counted as a one employee firm; a company with two employees is counted as a two employee firm). A full set of historical tables is available on request, and will continue to be available as a resource for researchers.

For more information on the survey, please contact **oubs-enterprise@open.ac.uk**.

⁴⁰ Department for Business, Innovation and Skills (2013) UK business population estimates. Available at: <https://www.gov.uk/government/collections/business-population-estimates>

Survey questionnaire – Q3 2014

USE OF DATA: The details requested are for the purpose of carrying out research into small firms and will not be passed to third parties for the purpose of unsolicited advertising or any other unauthorized purpose. The Open University strictly adheres to the Data Protection Act, and this information will be treated in confidence.

1 What is the legal status of your business?

Private (limited) company; Partnership; Self-employed sole trader / sole proprietorship; PLC; Other

2 In which of the following ranges is your firm's annual turnover (excluding VAT):

Less than £50,000; £50,000 - £99,999; £100,000-£249,999; £250,000-£499,999; £500,000-£999,999; £1m-£5m; Over £5m

3 Are the owners of the business..?

Mostly male; Mostly female; roughly equal male/female ownership

4 Including yourself, how many people work in the business including both full and part-time workers?

5 How many years has your present business been trading?

6 What is the main activity of your business?

7 What county or large city is your business located in?

8 Please enter your Business Postcode:

9 Entrepreneurial firms are more competitive, growth-minded and innovative than other firms. Where would you put your firm on a scale of 1 to 10 - 1 = 'Not at all entrepreneurial' and 10 = 'Extremely entrepreneurial'?

10 Is your business wholly or largely owned and controlled by members of one family?

Yes; No; Don't Know

11 Is your business based at home and primarily operated from your home?

Yes; No

In the following questions, we are interested in your current experiences of doing business in local, national and/or international markets, plus your views on future developments. We will also be asking what the forthcoming referendum on Scottish independence and the possible future referendum on the UK's membership of the European Union might mean for your business.

12 Which ONE of the following best describes the current position of your business?

1. Already export regularly (i.e. at least 4 years in 5, or 8 months of the year)
2. Export from time to time (i.e. fewer than 4 years in 5, or 8 months of the year)
3. Intend to start exporting in the next 12 months.
4. Considered exporting in the past decided not to proceed.
5. Exported in the past but no longer exporting.
6. Have no intention of exporting.

- 13 Did you set up your business with the MAIN aim of exporting and / or operating internationally?**
Yes; No; Don't know.
- 14 How much (approximately) do exports contribute to your total sales turnover?**
Less than 25%; 25% to 49%; 50% to 74%; More than 75%; Don't Know
- 15 Which of the following geographic regions do you export to?**
The European Union (EU); Other European countries (not EU) and Russia; The Middle East and North Africa; Sub-Saharan Africa; North America; Central and South America; Central and South Asia (including India and Pakistan); Asia Pacific (including China, Japan, Malaysia, Australasia)
- 15a Please tell us about the products or services you are exporting to one (or more) of these regions.**
- 16 Which of the following regions would you consider exporting to?**
The European Union (EU); Other European countries (not EU) and Russia; The Middle East and North Africa; Sub-Saharan Africa; North America; Central and South America; Central and South Asia (including India and Pakistan); Asia Pacific (including China, Japan, Malaysia, Australasia).
- 17 Have you used export support services from any of the following sources during the last three years? Yes / No.**
Government agencies, such as UK Trade and investment (UKTI) 'Passport to Export' service; Non-government organisations, such as the British Chambers of Commerce 'Export Britain'; Your bank; Other commercial providers such as DHL's 'Small Business Export Advisors'; Your own industry or trade organisation; Other sources.
- 17a Please tell us about your recent experience with one of these support services and / or your reasons for not using them.**
- 17b What changes would you recommend to improve EXISTING export support services for businesses like yours?**
- 17c Are there any NEW services that you would like to see to support firms that are considering exporting to new countries?**
- 18 What are the TOP THREE reasons why your business EITHER: (a) does not export (at all); OR does not export more (than it does currently)? RANK 1 to 3:**
It is too complicated and / or involves too much paperwork; It is too risky for our business; Lack of information on export markets (e.g. customers, agents, distribution); Lack of skills in languages and / or cross-cultural working; Lack of export finance, such as loans, credit guarantees and insurance; Enough business in existing markets; Products and / or services not suitable for exporting; Customers are all local / passing trade; Other (Please specify)
- 18a Please comment on your responses to the last question.**
- 18b Have you considered expanding your geographic markets within the United Kingdom?**
Yes; No.
- 18c What kind of support services (if any) would you like to see to help businesses like yours expand beyond their local markets?**
- 19 Do you think that the UK's membership of the European Union is, on balance, a good thing for your business?**
Very good for my business; Good for my business; Makes no difference to my business; Is bad for my business; Very bad for my business; Don't know.
- 19a Please give one or more practical examples of what you see as the most important impacts on your business of the UK's membership of the European Union (i.e. your responses can include both positive and negative impacts).**
- 20 Do you think that Scotland's membership of the United Kingdom is, on balance, a good thing for your business?**

Very good for my business; Good for my business; Makes no difference to my business; Is bad for my business; Very bad for my business; Don't know.

20a Please give one or more practical examples of what you see as the most important impacts on your business of Scotland's membership of the United Kingdom (i.e. your response can include both positive and negative impacts).

21 Please enter any comments you have on the issues raised in the questionnaire

Publicity opportunity

If you would welcome the publicity of being featured as a small business case study in a press release or web article for this or future surveys then please give your name and telephone number and we may contact you: Title; First Name; Last Name; Email address

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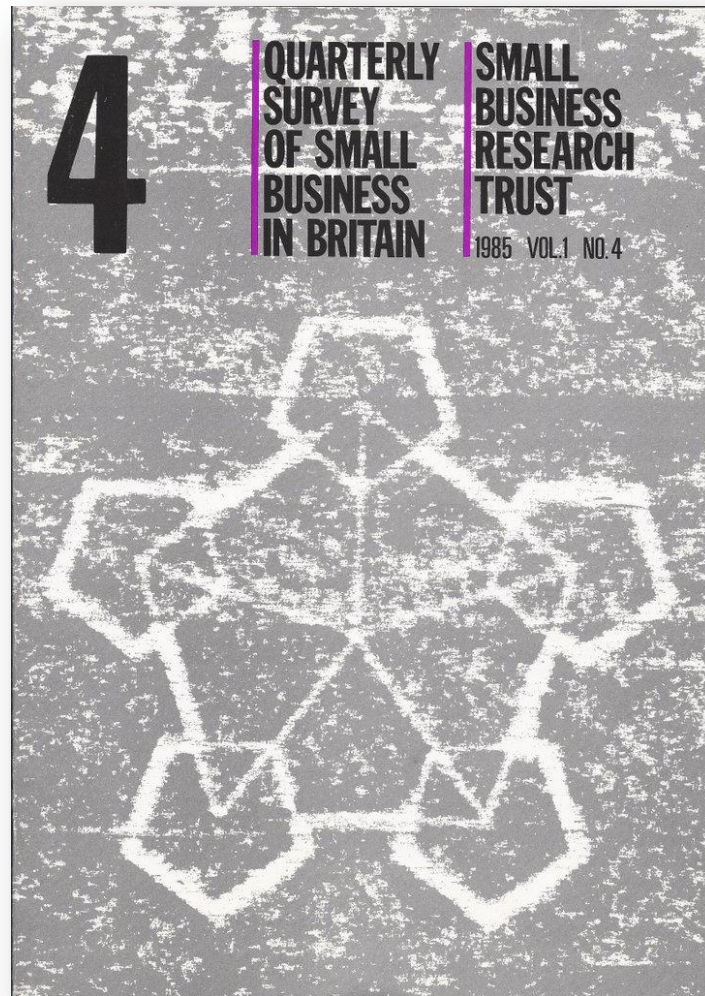
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- Q4 Post-recession trends



Next quarter's report is our 30th anniversary special issue with contributions from the original editorial team, small business specialists and members of our panel

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Quarterly Survey of Small Business in Britain

Published by
The Open University Business School
Michael Young Building
Walton Hall
Milton Keynes
MK7 6AA

ISSN 2046-7990 (Online)

ISSN 1756-1658 (Print)

www.open.ac.uk/quarterly-survey