DRAFT BUDGET 2015-16: INCREASING EXPORTS

SUBMISSION FROM ENTERPRISE RESEARCH CENTRE

The Enterprise Research Centre (ERC) is a research partnership between researchers at Warwick Business School, Aston Business School, Imperial College Business School, Strathclyde Business School and Birmingham Business School. ERC’s aim is to ‘undertake research which develops our theoretical and empirical understanding of the factors affecting business investment performance and growth’ and to develop ‘a robust evidence base on the barriers to businesses starting-up and growing’. The ERC is funded by the Economic and Social Research Council, the Department for Business, Innovation and Skills, the funding banks through the British Bankers’ Association and the Technology Strategy Board.

One of ERC’s six research themes focuses on innovation, exporting and growth in SMEs and our response draws on the work of this research theme. All documents referred to are accessible at www.enterpriserearch.ac.uk.

Has sufficient funding by the Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise been made available since 2012-13 to support the ‘increase exports’ National Performance Framework indicator?

Exporting matters for SMEs, and SME exporting matters for the economy. SMEs that export grow more than twice as fast as those that do not, while ‘internationally active’ SMEs are three times more likely to introduce products or services that are new to their sector than those which are entirely domestic in orientation.

Our research suggests the difficulty of a simple answer to this question, however. Exporting is a complex activity which relates strongly to other organisational capabilities and attributes such as ambition, skills, international experience and innovation. Public spending on enhancing business engagement in these activities or capabilities is also likely to have positive effects on exporting. The scale of these indirect effects remains uncertain, however, and is likely to vary strongly between sectors and firm sizebands.

Our own research and that of others suggests a particularly strong and reinforcing synergy between innovation and exporting. Exposure to export markets is important in realising the potential of innovative and high growth firms. The joint effects of innovation and exporting also lead to economy-wide productivity benefits as more productive exporting and innovating firms gain market share at the expense of lower productivity firms. This generates a ‘batting average’ effect, driving up UK productivity growth.

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The suggestion is that spending in one area is likely to have positive benefits for the other. Unified or combined support mechanisms may be particularly effective.

**What are your views on the extent to which Scottish Government policy and spend can lead to increasing exports?**

It is useful to begin an answer to these questions with a clearer view of the landscape of SME exporting (Figure 1). Our data here relates to the UK rather than Scotland only. In the UK from looking at the annual Small Business Survey (SBS) just under one-quarter of SMEs (with employees) indicated that they were exporters in 2012. Of these, the majority (17.3% of all SMEs) are persistent exporters (defined as continuously selling to overseas market for more than two years). Among the persistent exporters we can identify three sub-groups:

- Non-intensive exporters - SMEs for which exports account for less than 50% of sales – 11.7% of all SMEs;
- Intensive exporters – mature firms more than 5 years old for which exports account for more than 50% of sales); and,
- ‘Born globals’ a small group of export intensive SMEs no more than 5 years old and exporting more than 50 per cent of their sales.
- Unsurprisingly, export-intensive and born global firms are few in number, together making up less than 6% of all firms.

**Figure 1: The landscape of SME exporting in the UK (Source: Small Business Survey 2012)**

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6 The Small Business Survey (SBS) is a regular large scale telephone survey commissioned by the Department for Business, Innovation and Skills (BIS) on businesses employing fewer than 250 employees.
Our research suggests there are some key target groups of firms here with the potential to move up the exporting ladder - to switch from being non-exporters to being exporters, or from being intermittent to persistent exporters.

Based on a statistical analysis of the 2012 Small Business Survey, we identified firms which had the typical characteristics of exporters (in terms of size, innovation, formal business planning, location etc.) but which did not currently export. We describe these as ‘potential exporters’. We also performed a similar analysis of persistent and intermittent exporters, and identified a group of ‘potential persistent exporters’. On this basis we estimate that between 9% and 12% of non-exporting firms in the sample are potential exporters. Following a similar technique, we also predict the percentage of potential persistent exporters to be between 54% and 59% of intermittent exporters. These are UK figures but we would imagine the proportions are similar in Scotland.

What are your views on the type and level of public support being provided through the draft budget to increase exports? Is it being targeted in the right areas?

One of the key markers distinguishing potential exporters is that they are innovating (but not exporting). Overall, we find that SMEs that innovate are around 7 percentage points more likely to export than a non-innovator, rising to 10 percentage points where the firms are introducing new to the market innovations. It proves more difficult to distinguish markers for potential persistent exporters but other ERC research using different data sources suggests that previous international experience and having a clear overseas plan is important.

We must be clear that the identification of these markers is based on the observable characteristics of firms: we don’t have information on the attitudes of the owners or directors or detailed knowledge of the specific barriers the firms face, precisely the things that might determine whether an individual firm is able to – or wants to – become an exporter or a persistent exporter.

What alternative spend would you propose within the draft 2015-16 budget and from what area should such resources be diverted?

ERC research identifies and suggests the scale of two groups of firms – those with export potential and those with persistent export potential – who are support-ready and may benefit most from being offered support.

These two groups could also form a focus for more targeted marketing of export support services to SMEs. Innovation seems a key marker – particularly where this is new to the market; prior international experience also seems a key indicator for intermittent exporters. It may therefore not so much be a case of diverting support as linking up support provided for innovation and exporting.

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