AGENDA

19th Meeting, 2010 (Session 3)

Wednesday 9 June 2010

The Committee will meet at 9.30 am in Committee Room 5.

1. **The public sector's support for exporters, international trade and the attraction on inward investment.** The Committee will take evidence from—

   Susan Haird, Deputy Chief Executive, UK Trade and Investment;

   and then from—

   David Smith, Interim CEO, and Frank Boyland, Director Asia, Scottish Development International.

2. **Subordinate legislation:** The Committee will consider the following negative instrument—

   The Arbitral Appointments Referee (Scotland) Order 2010 (SSI 2010/196)
The papers for this meeting are as follows—

**Agenda item 1**

Note by the clerk  
Scottish Development International Report

**Agenda item 2**

Note by the clerk  
**The Arbitral Appointments Referee (Scotland) Order 2010**
Economy, Energy and Tourism Committee

19th Meeting, 2010 (Session 3), Wednesday, 9 June 2010

The public sector’s support for exporters, international trade and the attraction of inward investment

Background

1. The Committee has received written submissions from UK Trade and Investment and Scottish Development International in response to the Committee’s request for written evidence. Scottish Development International have also sent an update to its original written submission.

2. The submissions and the update are attached in the annexe to this paper and Members are invited to take them into account in their deliberations when questioning today’s witnesses.

Stephen Imrie
Clerk to the Committee
June 2010
SUBMISSION FROM UK TRADE & INVESTMENT

UK Trade & Investment is grateful to the Committee for the opportunity to highlight its efforts on behalf of business to deliver crucial support and services to help them to grow globally and to overcome barriers to international trade.

As the UK and global economies recover, UKTI will continue to play a key role in UK business success. Our work helps UK companies exploit the benefits of exporting, ensuring they are best placed to make the most of the opportunities of globalisation and growth in some markets around the world. We also have an important role to play in attracting high quality investment to the UK.

To succeed we will continually showcase the excellence at the heart of UK business and the expertise we have to offer the world. The UK continues to be the preferred location in Europe from which businesses can grow, offering a diverse, knowledge-based economy, with strengths across a wide range of sectors and, with one of the most open economies in the world, the ideal place for high-quality overseas investment.

The 2010 House of Commons Business, Innovation and Skills Committee report “Exporting out of Recession” described UKTI as “a highly adept organisation whose services are valued by business. We are once again impressed by the dedication and professionalism of the staff that we met” and added that: “UKTI is a highly successful government agency which is well respected by business. The current financial situation has put UKTI at the heart of government economic policy. If the country is to be successful in exporting its way out of recession, UKTI will need to continue its vital role of bringing together the best of both the public and private sectors – and the rest of Government needs to become more aware of the opportunities for business in their own areas of operation.”

This important endorsement of our work is something to inspire the organisation as we continue to improve our services to business.
## How UKTI Operates

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OVERVIEW

UKTI is the Government organisation that helps UK-based companies succeed in international markets, assists overseas companies to bring high-quality investment to the UK and leads Government action to market the UK internationally.

OUR MISSION

To deliver maximum value for the UK economy and for business in an increasingly globalised and competitive world, and to market the UK as a springboard for global growth.

OUR AIM

To add value to the UK economy by helping business succeed internationally.

OUR VISION

To be the most successful trade and investment organisation in the world.

OUR ORGANISATION

UKTI is a joint department of the Foreign and Commonwealth Office (FCO) and the Department for Business, Innovation and Skills (BIS). This arrangement reflects the international business focus of our remit. Until 2008, the Ministry of Defence provided defence export support. In April 2008, that responsibility transferred to UKTI, which now incorporates the Defence & Security Organisation (DSO).

UKTI is an international organisation with 162 overseas offices in 96 markets, a network of local offices in the English regions, and headquarters – incorporating a range of customer facing activities – in London and Glasgow. In total, it employs 2,300 people many of whom have personal business experience. 1,300 of our staff are based outside the UK.

OUR PEOPLE

UKTI’s staff come from a wider range of backgrounds than is usual in the public sector. In the overseas network most staff are drawn from the FCO with a high proportion engaged locally, many with business experience. Local staff provide UK business people with expert knowledge of their country, its business culture and contacts. In the UK, UKTI’s people in London and Glasgow are mainly drawn from BIS. In the English regions, the majority of staff are from the private sector as well as the Government Office network.

OUR RESOURCES

UKTI’s annual budget is currently £347m. In addition, UKTI generates some £6m of operational revenue, which includes some £5m for charging for some of its trade services.

The split between spend on trade and investment is 77% and 23% respectively.
In total, 2,325 people work for UKTI. Of these, 1,300 are located overseas in 96 markets, 625 are in UK posts (London, Glasgow and Cambridge with 560 front line delivery services and 65 corporate support functions) and 400 in the English regions (of which c 300 are private contractors).

UKTI people are drawn from a variety of sources including Government departments (FCO, BIS and MOD), the private sector, the Government Office network and many are locally employed overseas.

**UKTI’S STRATEGIC OBJECTIVE**

“By 2011, deliver measurable improvement in the business performance of UK Trade & Investment’s international trade customers, with an emphasis on innovative and R&D active firms”

**TARGETS & RESULTS**

UKTI has an annual target to help at least 20,000 businesses to exploit overseas opportunities of which: at least 12,000 should be innovative and at least 50% of all business groups should improve their performance as a result of UKTI support.

The table below shows UKTI’s performance against these targets in the past two years:

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<td>50% should report improved business performance</td>
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Approximately 67% of UKTI’s clients report significant benefits to their productivity and competitiveness because of UKTI’s support. In 2008/09 British companies attributed an additional £3.6bn to their bottom line profits as a result of working with UKTI. In 2009/10 that figure has increased to £5bn. This represents a 19:1 return on UKTI’s investment.

**ENCOURAGING INWARD INVESTMENT**

UKTI is the UK’s national investment promotion agency. We lead on attracting high quality investment to the UK working in partnership with other Government departments, regional agencies and private sector partners.

We target new and existing investors with the greatest potential to deliver high quality investment projects ie those that involve additional R&D activity or which boosts the UK’s capability.

We offer bespoke advice to investors using the professional support of business specialists. We intensively relationship manage our highest value, strategically important, companies.

**KEY FACTS**
• In 2009/10 British companies attributed an additional £5bn to their bottom line profits as a result of working with UKTI, up from £3.6bn last year.

• This represents £19 for each £1 spent on UKTI trade services, up from £16:£1 for 2008/09. This reflects rising real productivity: UKTI helped 23,600 UK businesses during 2009/10, up from 20,700 the previous year, while increasing average impact.

• These benefits result from enabling businesses to up-grade their approach to overseas markets, and gain access to contacts and information not otherwise accessible, with 67% reporting significant business benefit.

• Many clients also improve their products and services as a result of gaining exposure to new contacts and new ideas through UKTI trade services. Over 2000 report additional investment in R&D, estimated by academic research to average £65k per client for key services.

• These benefits have lasting positive impact on business performance in both domestic and overseas markets, underpinning firms’ growth.

DEFENCE SALES

• The UK was the top defence exporter in Europe 2008 and second in the world behind the US.

• It won a £4.2 billion of new business, achieving a 17% share of the global market for defence exports, close to the longer-term target figure of 20%.

INWARD INVESTMENT

See page 21.
The UKTI Offer for Business

Channels to Business

Businesses access UKTI trade services through a range of channels ranging from the more traditional (enquiry lines etc) to new media (YouTube, Twitter etc).

The UKTI website [www.uktradeinvest.gov.uk](http://www.uktradeinvest.gov.uk) has over 5m page views and more than 4,000 business opportunities promoted to over 40,000 customers in 2009/10. To improve this service further, UKTI is updating and unifying its web presence and will, in future, offer customers a seamless customer experience resulting from improved design and navigation, streamlined content, more prominent contact information, fully integrated social media feeds and Improved functionality including online registration for events.

UKTI Trade Services

UKTI trade products and services are organised into two key groups:

Developing international trade potential: Businesses often find it tough to get started in international trade. UKTI services for developing international trade potential assist new and experienced exporters with training, planning and support to help them prepare to succeed overseas. The service portfolio includes:

- **Passport to Export**: International Trade Advisers (ITAs) review a company's readiness for international business and build their international trade capacity. Match funding of up to £1,500 is available for activities in the agreed action plan.
- **Export Communications Review**: In-depth advice on language and cultural issues to help businesses develop an effective communications strategy delivered through the British Chambers of Commerce (BCC).
- **Export Marketing Research Scheme**: Free advice and financial help to businesses for in-house research projects or to buy published market research.
- **Gateway to Global Growth**: Tailored strategic support which incorporates public and private sector expertise and skills development to help experienced exporters diversify into new overseas markets.
- **International Trade Advice**: International Trade Advisers provide advice and guidance to help companies access UKTI services to enable them to develop
their export potential. ITAs will also help companies to take full advantage of overseas business opportunities.

**Accessing International Markets:** Once the initial work is complete UKTI helps new and experienced exporters with information, help and advice as they enter overseas markets. The service portfolio includes:

- **Overseas Market Introduction Services (OMIS)** allows UK businesses to commission chargeable bespoke research and get advice, contacts and other help from our trade offices overseas.
- **Tradeshow Access Programme (TAP)** grant support for companies to exhibit overseas and additional funding for Accredited Trade Organisations to showcase the UK at Key events. In 2009/10 TAP supported more than 4,000 SMEs at some 420 trade fairs.
- **Fiscal Stimulus Initiative:** Help for UK based companies to tap into opportunities arising from major overseas spending programmes
- **Sector-based trade missions and access to major buyers, government and supply chains in overseas markets**
- **Market Visit Support (MVS):** provides guidance and financial support to help SMEs visit overseas markets and access key contacts and networks.
- **Business Opportunity Alerts:** Makes over 400 overseas opportunities per month available to UK business customers registered on our website.

**INWARD INVESTMENT**

UKTI provides information, advice and bespoke assistance for potential and existing inward investors to the UK, to help them with the decision to invest in the UK and develop their UK-based business.

This service is available to overseas companies, whatever their size and experience, to bring high-quality investment to the UK, but we have developed different mechanisms to engage with different companies to reflect their importance to the UK. Thus:

- Relationships with the top 15 investors have been led by ministers with support from a senior official;
- We provide complete client relationship management for the 200 most strategically important investors at a senior level in UKTI, BIS or another directly relevant Government Department; and
- Account management teams across Whitehall and our global network are constantly working with the 2,200 investment projects that are in the 18 month pipeline for the UK at any one time.

In FY 2009/10 we will have helped over half of all foreign direct investment projects which came to the UK.

Our services to investors are underpinned by:

- Access to our business and policy expertise (including R&D, skills, infrastructure, tax and financial specialists),
- State of the art tools to help investors assess high value investment potential, make quality and cost comparisons between different investment locations;
- Access to web-based comparative and basic investment information;
An investor development programme, including access to trade services to help investors grow from the UK globally whilst retaining investment in the UK; and

Tailored marketing information on both the UK and specific sectors, plus bespoke information to help clients make their decisions to invest in the UK.

UKTI’s investment network helps Government to develop a better understanding of investor concerns and ensure that investment is considered in all areas of policy development. We regularly lobby and inform Whitehall Departments on issues such as planning, transport infrastructure, migration, and skills availability.

The Global Entrepreneurs Programme – UKTI also operates the successful network of Dealmakers that helps entrepreneurs and early stage companies from around the world to globalise their businesses from the UK, attracting valuable Intellectual Property to the UK with world class talent. This work also makes a significant contribution to the “high value” Foreign Direct Investment targets as well as delivering innovation to the UK economy.

The R&D Programme – UKTI works alongside targeted overseas companies to persuade them to undertake, or increase their levels of R&D in the UK by linking them in to world-class sources of R&D expertise in the UK through the deployment of a team of R&D Specialists with detailed knowledge of technology and business experience. This Programme also works with UK-based R&D innovative companies seeking to compete on the global stage and increasing their R&D spend as a result.

SECTORS

UKTI has focused on those sectors where it can add most value: in knowledge driven high value sectors and R&D, which bring the greatest return to the UK economy. UKTI acts as a catalyst for the development of marketing strategies, working closely with businesses in the sector. These strategies aim to deliver a genuine partnership between business and government to build a collective marketing effort. The strategies speak as much to the overseas customer of UK products and services as they do to potential investors looking for a new location, partner or joint venture.

The sectors we have prioritised and key actions we have taken are summarised here. In all cases, we try to work closely with those Government Departments with lead responsibility for domestic policy for the sector.

Defence and Security: UKTI Defence and Security Organisation (DSO) supports UK industry export campaigns in the defence and security sectors. The UK is consistently the second most successful defence exporter in the world, securing 20% of the market, worth on average over £5 billion a year. We are the sixth most successful homeland security exporter, with 4% of the market worth £1.4 billion in 2008, but on an upward trend in a rapidly expanding sector. Overall the UK defence and security industry employs about 500,000 people, and roughly one sixth of this is attributable to export activity. DSO has a specific business model different from the rest of UKTI because of the political and strategic nature of defence exports and the military nature of the customer. They often require intensive government to government support for commercial campaigns, which DSO brokers from across other Departments or delivers direct.

Energy & Low Carbon: The energy sector contributes around £90bn in annual revenues to the UK including £20bn in exports in 2007. 600,000 people work in the sector, which incorporates oil and gas; power; nuclear and renewable energy. We work closely with BIS, DECC and DEFRA. The transition to a low carbon, resource
efficient global economy presents huge economic opportunities for the UK internationally and our aim is to position the UK as a leader in low carbon solutions and the destination of choice for low carbon trade and investment. Working with businesses in the sector we have developed an Energy Marketing Strategy. The Strategy has encouraged development of a focused website and improved marketing collateral and guidance on its uses by firms. We have a strong forward programme of events through which we will promote the sector.

**Advanced Engineering:** The Advanced Engineering sector crosses a number of traditional sector boundaries from aerospace, automotive and engineering, but has end-use application in many others such as energy, marine, and ICT. The UK is the sixth largest manufacturer in the world and EEF figures show that manufacturing generates 13.5% of GDP, which was worth £131 billion in 2009 and generated 53% of UK export earnings. UK aerospace remains second only to the USA, generating turnover of some £20 billion, almost 70% of which is exports. The Advanced Engineering International Marketing Strategy helps stakeholders and businesses to market UK capability in a more coordinated and coherent way. A marketing toolkit website providing access to UK advanced engineering marketing materials, evidence statements, showcase examples and images, communication plans for priority markets and a range of other marketing resources. A programme of events both within the UK and overseas helps promote the sector.

**Creative Industries:** The UK has the largest Creative Industries sector in the EU. Latest DCMS estimates show the sector grew by 4% between 1997 and 2007, with exports are worth £16bn annually – 4.3% of all UK goods and services exports. We have worked with industry and key departments to build a strategy that the production of marketing materials such as multiscreen films and exhibitions that we have used around the world to great acclaim to highlight messages and evidence about the strengths and capabilities of the sector. This is allied to a strong forward programme of showcase events and activities.

**Financial Services:** London remains the leading global financial centre, but faces increasing competition from other centres as they seek to attract more international business. Challenges include ensuring the UK remains competitive on regulation and tax, the UK’s ability to negotiate a proportionate regulatory deal in Europe and globally and by focusing on partnership with complementary international financial centres, rather than seeking to compete. We are leaders in financial innovation, for example, the UK is the leading centre for Islamic finance in the Western world.

Promotion of UK financial services has transferred to TheCityUK, an independent body, established with the support of the City of London Corporation and in consultation with Government and industry. TheCityUK brings together the UK wide promotion of the sector under a single umbrella. It will focus on domestic and international promotion and regulatory issues. UKTI will remain an equal partner, with business, in setting the strategy for overseas promotion in 2010 – 11.

**Life Sciences:** The Life Sciences sector was identified as one of strategic importance to the UK by the last Government with substantial activity through the cross Government Office for Life Sciences and also the industry-led UK Life Sciences Marketing Strategy Board , which is supported by the Life Sciences team in Sectors group.

_in support of Scottish companies_ UKTI and SDI, and indeed Scottish Enterprise, work closely together. For example in February 2010 UKTI and SDI organised a joint healthcare mission to Japan, led by a UKTI sector specialist, around 1/3 of the
delegation were Scottish companies. UKTI and SDI have also collaborated on some substantial exhibitions, for example the UK Pavilion and a joint reception hosted by UKTI and SDI at the Chinese Medical Equipment Fair in Shenzhen in April 2009.

Several Scottish Life Science companies are on record recommending the support of both UKTI and SDI and indeed showing that the two organisations work closely together.

A great example is Touch Bionics, a Scottish company who produce the world’s first fully articulating robotic hand. The technology originated in NHS Scotland and the company is now very successful with 95% of its products exported with users in 40 countries worldwide. UKTI and SDI have showcased Touch Bionics at a number of major international shows, most recently at Arab Health in Dubai 25-28 January 2010 where Lord Darzi, a UK Business Ambassador for Life Sciences, demonstrated their product to Sheikh Mohammed bin Rashid Al Maktoum, Ruler of Dubai, and gained considerable additional press coverage. In a Sky News interview on 2nd February 2010 Stuart Mead, CEO, Touch Bionics, specifically suggested companies should “Contact UKTI or Scottish Enterprise - there's a lot of people who can give you advice”.

Information & Communication Technologies: The last Government identified the ICT sector as one of strategic importance to the UK with substantial activity seen through support from the industry-led UK ICT Marketing Strategy Implementation Board, supported by the ICT team in Sectors group.

In support of Scottish companies UKTI and SDI have traditionally worked closely together, but the recent move by Scottish Enterprise to deliver their international services on a regional basis has resulted in challenges in disseminating information. However, we are working with SDI to improve the channels of communications.

In February 2010, Lord Davies attended Mobile World Congress in Barcelona and met with Stream Communications on the Scottish Pavilion and SDI was happy to facilitate. The Scottish group benefited from increased media attention as a result.

UKTI and SDI ICT leads meet, normally, once a quarter to discuss business planning and co-ordination of attendance at events.

Olympics and Sport: In the light of our Olympic win, UK companies, even those not obviously associated with sport, are ideally placed to become involved in other major international sporting events such as the FIFA World Cup 2010 in South Africa, the Commonwealth Games in New Delhi, future Olympiads and a host of other events. UKTI’s aim is to stimulate UK businesses to seize the export opportunities presented by major sporting events. UKTI is delivering a programme of major sports event focussed activities to raise awareness amongst international event holders, host and bid cities, of the UK’s commercial capabilities and experience. A particular focus has, and will be, opportunities arising from Brazil’s hosting of the Football World Cup in 2014, The Olympics in 2016, and Russia’s hosting of the Winter Olympics in 2014. These will be taken forward under the umbrella of ‘Host’Host’, a UKTI initiative to maximise the economic benefits of hosting the Games in 2012 by creating links and sharing best practice with previous and future host cities of the Games and other major sports events. It is estimated that UK companies secured over £2bn of business from the Beijing Olympics alone and PWC have previously estimated £250 million of increased exports from companies in London as a direct result of hosting the 2012 Olympics.
MARKETS

UKTI has a presence in 96 markets around the world, with some 1,300 staff deployed on UKTI work overseas, the bulk of whom are locally engaged for their market knowledge and business background.

Each of our overseas teams has a scorecard of targets. These include the number of trade services delivered, the number of Foreign Direct Investment project successes (in appropriate markets), the percentage of UK companies which improve their business performance as a direct result of the help we give, the revenue earned from charged services and challenging quality and customer satisfaction targets.

Principal Export Markets: The US and seven European markets are in the top 10 markets identified by companies seeking UKTI help to export. The US is the UK's largest export market, and our biggest source of foreign direct investment. We have eight UKTI offices in the US and look to the US to bring in 10% of UKTI's trade targets and 30% of our inward investment projects. Similarly Europe is a major market for the UK. We have staff in 42 European locations: our biggest markets are Germany, France, the Irish Republic, the Netherlands and Belgium.

High Growth Markets: Building strong trade and investment links with these markets is strategically important to the UK's future economic well-being and they offer significant opportunities for UK business. Across the board, emerging markets are expected to continue to grow more strongly than advanced economies.

Focusing more resources on high growth markets was therefore a key part of our 2006 Strategy, which identified 17 priority high growth markets:

Brazil China India Indonesia Mexico Russia
S.Africa Turkey Malaysia Singapore Qatar UAE
S.Korea Taiwan Thailand Vietnam Saudi Arabia

More of our resource has been moved to these markets and now 40% of our staff deployed overseas are in these markets. The need for UKTI help is greater in these markets because of market access issues and a higher need for government-to-government dialogue. Even in high growth markets, 85% of the companies helped by UKTI are SMEs. This reflects the importance of global markets to companies of all sizes.

The global recession has affected emerging markets in different ways and our focus will continue to be flexible to adapt to changes and challenges in the global economy. There are other countries that currently have higher growth rates than some of those on the list. Often, growth in these markets is dependent on or dominated by a single sector (notably energy) and, where this is the case, although the market isn't designated ‘high growth’ by UKTI, nevertheless we support activities in these specific sectors.

We set clear targets for UKTI Teams overseas that enable us to monitor closely performance in each of the markets where UKTI has a presence. Targets are linked closely to resource and, where resources are showing signs of stretch and we believe there is scope to do more for customers, we move some additional resource there. For example we have strengthened our cadre of Inward Investment officers in the US to capitalise on the potential within that market and we have directed additional resource to Bulgaria to reflect strong performance there. Where Posts are not delivering against their targets, and we believe this reflects a lack of customer
demand, we can and do shift resource elsewhere. Over the last two years we have moved resources from Guyana, Malta, Bolivia, Guatemala, Senegal and Mozambique.

Ministerial Visits to Markets: Ministerial visits to markets play a key role in promoting UK strengths. They encourage both trade connections and inward investment, and we strive to ensure a cross-Whitehall focus by ensuring that UK Ministerial and senior level visits, inwards or outwards, fully reflecting UK commercial and business interests and maximise the impact of official activities for the economy and for UK businesses.

Business Delegations: Ministerially led business delegations are of great value to UK business of all sizes, especially in markets where Government has a decisive influence over key commercial decisions, and in emerging markets whose business environment is sometimes less than transparent. Involvement of Ministers ensures that UK business can meet key decision makers within both Government and the private sector. Real value can be obtained through Ministerial involvement in a sectoral event and can lead to an enhanced, higher quality audience with whom UK business can engage.

UKTI will always aim to secure extensive media coverage whenever a Minister leads a high profile business delegation. This adds considerable credibility to the lines UKTI pushes linked to the reputation of the UK as an innovative nation and the partner of choice for businesses looking to Europe.

Marketing: Marketing is a key pillar of UKTI’s role, promoting the benefits of the UK to international investors as a springboard for global growth and encouraging UK firms to internationalise in order to grow their businesses. UKTI markets its services to UK businesses and showcases the strengths of the UK as a world-class source of produces and services, talent and creativity.

Our headline message, whether we are speaking to an international investor or a UK SME is that the UK is a springboard for global growth:

- The UK provides the best environment for companies to grow in;
- The UK is a recognised global leader in creativity and innovation; and
- UK businesses provide a unique gateway of international connections.

Our Strategy reflects the importance of compelling marketing with the inclusion of an annual objective to improve the UK’s reputation as the business partner of choice. The UK’s reputation is more important than ever; as our competitors take advantage of the current economic and political climate to promote their markets.

Building the UK’s global reputation: To mitigate the impact of the recession on the UK’s global reputation, UKTI has focused on a range of strategic activities to enhance perceptions of our economic standing overseas. Key workstreams include:

Sectoral Marketing Strategies: Working with leading businesses and government stakeholders we have developed international marketing strategies for priority key sectors. Led by a high-level business board, each strategy will build a strong partnership between the public and private sector. That partnership enables us to identify UK strengths and then to develop and roll out strong marketing messages founded on evidence and to focus activity on where we can make the most difference
and add most value. The marketing strategy sectors and the chairs of the business boards are:

- **Financial Services**  Robert Gray, HSBC Holdings plc;
- **Creative Industries** Sir John Sorell, The Sorrell Foundation;
- **ICT** Larry Hirst CBE, IBM EMEA;
- **Life Sciences** Chris Brinsmead, AstraZeneca plc;
- **Advanced Engineering** Mark Ridgway, Group Rhodes;
- **Energy** Samir Brikho, AMEC plc; and
- **Security** Stephen Phipson, Smiths Group.

- ‘GO UK’ - A new international communications campaign: to attract high value investors to the UK and encourage procurement of goods and services from UK suppliers.
- **Launch of a new integrated UKTI website**: to make it much easier for our customers to understand what we do, access our services and find information.
- **Greater use of a wide variety of online channels**: to build relationships with our customers and extend our reach, making use of existing and emerging social media channels to communicate with stakeholders and business clients, and exploring partnerships with third party digital service providers.
- **Conducting a one-off piece of media analysis**: to assess the most effective channels to communicate with exporting customers. This will ensure our services are better targeted and our reach extended, enabling more businesses to benefit from the UKTI support on offer.

**OUR PARTNERS**

**Partnerships with Business:** UKTI draws heavily on private sector partnerships in the development and delivery of its activities and services. We value these partnerships as the private sector provides a business perspective, credibility and innovation in the way we do things.

Key partnerships include:

- In UKTI’s English regional network, we have a contracted private sector delivery partner in each of the 9 regions. Together these partners employ more than 300 people in international trade teams - including International Trade Advisers – who are deployed on UKTI work;
- In addition to these core contracts, UKTI also works with private sector partners on specific activities or events for example to help market UK sectoral strengths to overseas audiences, to deliver support at trade fairs, or deliver events as lead or junior partner Some of these are funded by UKTI, others are sponsored by private sector partners; and
- UKTI has also agreed a range of concessions from companies to support trade activities eg British Airways to offer free seats to exporters, with Avis to offer car hire discounts, with Accor Hotels, Travelex, DHL, World First, Applied Languages and the Institute of Export.

**Partnerships within Government:** UKTI works with a number of other Government Departments and agencies.

Principal among them are:
• BIS – We work closely with the trade policy team in BIS to tackle market access difficulties and to shape the forward trade agenda. We also work with the BIS teams who shape domestic business/sectoral policy;
• FCO – We draw staff and resource from FCO. UKTI staff overseas are based in FCO’s network of embassies and consulates;
• MOD/DECC/DEFRA – We have a regular dialogue with MOD around the operation of the Defence & Security Organisation and with other departments that lead on domestic issues facing particular sectors;
• Treasury – HMT take a keen interest in the work of UKTI both as a spending department and as the organisation that promotes the UK economic offer internationally. Treasury teams are closely involved in our work for the financial services sector;
• The Export Credit Guarantee Department - ECGD provides Insurance to UK exporters against non-payment risks on overseas contracts, or guarantees to banks financing those contracts, and Insurance against political risks to UK firms investing overseas. We are currently examining options for developing a closer working relationship with ECGD, in order to deliver more coordinated and effective support to UK exporters; and
• Regional Development Agencies and the Devolved Administrations. UKTI works closely with the RDAs and DAs on inward investment and international trade, and they are key partners in identifying and securing inward investment projects to the UK. Within the 9 English regions, UKTI delivers support for international trade, but ensures that its activities are closely aligned with other business support delivered via the RDAs.

OUR CUSTOMERS

UKTI Customers:

The businesses we serve range from micro businesses to the largest global companies:

Over 90% are SMEs;
59% of our customers are services firms;
38% are in production;
2% are construction companies;
37% of our customers were established more than 20 years ago;
36% were born between 5 and 20 years ago; and
26% were set up in the last 5 years. (New communications technologies make it easier for firms to be ‘born global).

The overwhelming majority of companies we help are innovative (83%) and engaged in R&D or new product or service development.

With this customer base, UKTI needs to have a regular dialogue with business representative organisations including CBI, the Institute of Directors (IoD), the Chambers of Commerce (BCC) – who are also contracted to deliver some of our services - the Federation of Small Business (FSB) a regular dialogue with all business representative organisations including sector specific trade associations. Our sectoral teams have a regular engagement with key trade associations within their sectors.

A survey conducted by Ipsos Mori shows levels of awareness of UKTI are high and favourable: 84% feel they know about UKTI and 70% are favourable towards it with 17% highly favourable. We are determined to build on that assessment.
UKTI/SDI Relationship

ISSUE

Relations between UKTI and Scottish Development International (SDI).

KEY MESSAGES

• SDI is a key partner for UKTI in Scotland.

• Close joint working already exists to ensure the best possible outcome for businesses wherever they are located in the UK.

• Contacts are in place at all levels between the 2 organisations from Senior Management Team downwards [one of the ET - Brian Shaw is ex SDI and therefore UKTI has particularly strong links with SDI senior management].

• More formal mechanisms are in place such as the International Business Development Forum (SDI are an active participant of the IBDF), which acts as discussion forum for all trade & investment matters and importantly sets the guidelines on process. This includes promotion of the UK overseas, handling of FDI leads, etc; the National Investor Development Forum (for sharing information and best practice on foreign investor development and aftercare); and the annual UKTI DA and RDA Trade & Investment Summit, at Chief Executive level, to discuss issues of strategic concern.

• SDI is able to access the majority of UKTI services [but not Passport/Gateway to Global growth – see Trade Services section] but of course they have their own network of advisers (both at home and abroad) delivering their own programmes to local businesses.

KEY FACTS

• UKTI has lead UK responsibility for the provision of support and assistance to new and existing exporters of goods and services and outward investors both at home and overseas and for promoting the UK and all its constituent parts to foreign investors.

• The devolved administration in Scotland, through Scottish Development International (SDI), is responsible for devising and implementing additional programmes to meet the particular needs of companies based in Scotland, and for promoting Scotland to foreign investors.

• SDI is able to draw on the resources of UKTI Posts overseas and can access most of UKTI’s national services. As UKTI partners, they also have access to internal information on the UKTI website, e.g. the sales leads service.

• Both organisations consult each other regularly on policy developments and activities to avoid duplication of effort, including double funding of activities, and to avoid contradictory actions. SDI is also represented (alongside UKTI, the other Devolved Administrations and the RDAs) on the IBDF, which sets out guidelines for trade and inward investment activities e.g. promotion of the UK to foreign investors is co-ordinated through adherence of all parties to the International Investment guidelines agreed by IBDF.
POINTS OF CLARIFICATION

Q. Overseas Representation: Do SDI need overseas offices?

A. This is a matter for SDI and the Scottish Executive. [Unlike for the English RDAs, SDI and the other DAs do not need UK Ministerial approval through UKTI for new or expanded overseas representation.] However, a major Review undertaken by UKTI and the DAs and RDAs (one of the commitments under our 5-year Strategy), found that the current arrangements are effective and that they played a significant role in delivering FDI to the UK, particularly in providing the local knowledge and expertise essential to foreign companies when making decisions.

Q. Will the changes in the English Regions proposed by the Coalition Government affect FDI delivery?

A. UKTI will work closely with the RDAs to ensure that any changes affecting them over the next months and years are managed smoothly to ensure that the UK continues to make the most of foreign investment opportunities for the benefit of all of England as well as the rest of the UK.

FURTHER BACKGROUND

The Devolved Administration for Scotland is directly responsible for the provision of international trade support, for which their development agency, SDI, has its own funding (budget this year of approx £23.4m and 251 staff). SDI was formed in 2001 and is funded entirely by the Scottish Government (quoted as joint venture between the Scottish Executive, Scottish Enterprise, and Highlands and Islands Enterprise).

In addition to having their own networks of advisors (both at home and overseas) and support programmes, SDI also draw on the resources of UKTI posts in the majority of overseas markets and also can access most of UKTI’s national services (such as OMIS (Overseas Market Introduction Service), TAP (Tradeshow Access Programme), and ECR (Export Communications Review). As UKTI partners they also have access to internal information on the UKTI website.

UKTI Relations with SDI: SDI are active participants in IBDF and also participates in our other networks such as the National Investor Development Forum, R&D programme group etc. SDI is also represented at Chief Executive level (David Smith is interim CE) at the annual UKTI RDA DA Trade & Investment Summit meeting, involving Chief Executives from all the (R)DAs, to discuss strategic issues of mutual interest and concern (SDI hosted the Summit in 2008).

UKTI RDA DA Review of Overseas Presence: Following a comprehensive joint review published in March 2008, UKTI and the RDAs and DAs (as far as their devolved powers will allow) have agreed new arrangements for delivering inward investment promotion overseas. The report found that current arrangements are effective and have helped the UK succeed in winning an increasing amount of FDI. The RDAs and the DAs add significant value to UKTI’s activities overseas, providing the expertise and detailed regional knowledge essential to foreign companies when making their investment decisions. Significantly, the research found no evidence that potential investors thought the arrangements particularly confusing or duplicative. However, the review concluded that more could be done to strengthen existing arrangements and drive better co-ordination. As a result UKTI and the RDAs have put in place a new model for overseas representation which now sees UKTI lead the co-ordination of a fully integrated overseas network, including strategies, business planning, consistent branding across England and promotional activity.
Foreign Direct Investment

ISSUE

An overview of how UKTI’s directorate for investment helps to win foreign direct investment

The Directorate for Investment is the national investment promotion agency and leads on maximising Foreign Direct Investment (FDI) into the UK. Our aim is to ensure the UK remains the number one destination in Europe for FDI.

It works nationally and globally to achieve its targets. Interventions have substantial business impact, often affecting the decision to invest in the UK, and affecting the timing, scale and sustainability of such investments. Companies state that UKTI helps ensure investments are delivered with less risk, at lower cost and greater speed.

The five sectorally-focused investment Project Teams work in close collaboration with UKTI’s global operation, other Government Departments, the Devolved Administration, including Scottish Development International and English Regional Development Agencies and private sector experts to attract, retain and add value to inward investment for the UK. The Teams and their partners work with foreign-owned companies where the UK has a compelling proposition, focussing particularly on assisting the highest value inward investment to enter the UK. The work includes influencing the decision to invest in the UK, development of existing investors’ footprints in the UK and helping to grow existing investors into third markets.

Following rigorous segmentation, the Teams have developed a target list of 200 key existing inward investors for which they have built, and continue to develop, account plans and virtual teams. This is the hub of central government’s investor development programme. The virtual teams offer extensive bespoke business and policy expertise and advice (including skills, infrastructure, tax, financial, R&D and sector specialists). Bespoke propositions are developed to help companies make their location decision and to help them to grow within and from the UK internationally.

As noted elsewhere in this briefing, SDI is an active participant in the IBDF, alongside the other DAs and RDAs. IBDF acts as a Forum for all trade & investment matters and sets the guidelines for promotion of the UK to foreign investors, with the emphasis on transparency.

The guiding principles of the IBDF forum are:

1. That we make a priority of winning the business for the UK and acting in the national interest;
2. That we are Client-oriented, i.e. we put the Client first and adopt a true service ethic towards him/her;
3. That we focus on building long term relationships with Clients; and
4. That we maintain transparency across the network with prompt sharing of information whilst respecting Client confidentiality where appropriate in line with the IBDF Guidelines.
KEY MESSAGES

UK Investment:

• The UK is the fifth largest economy in the world.

• The UK has the most open and business-oriented economy in Europe (World Bank Doing Business Report).

• Every year, hundreds of firms, from high-tech start-ups to global brand leading businesses, receive substantial advice and support about locating in the UK.

• UKTI recorded FDI in 2008-09 rose by 11 per cent (total project wins = 1,744), with investment projects from India increasing by 44 per cent in the past year to become the UK’s second largest source. The US remains the UK’s first source of investment – rising by 30 per cent from 2007-08. Other nations providing increased investment into the UK this year were Italy (up 45 per cent), France (up 15 per cent), Canada (up 25 per cent) and The Gulf (up 25 per cent).

• UKTI recorded FDI in 2008-09 by project wins – USA (621), India (108), France (101), Germany (86), Canada (83), Japan (81), Australia (65) China (59), Ireland (57), and Switzerland (50).

• UKTI exceeded its 525 inward investment target for 2008/9, with significant involvement in 600 projects, of which 262 were high value.

• The UK remains the top location in Europe for Foreign Direct Investment.

• UKTI recorded for the UK as a whole, 2008/9 saw a 11 per cent increase in new investment projects and a record 1,744 UK investment projects won, marking a fifth consecutive year of growth.

INVESTMENT PROJECTS STATISTICS – UK and SCOTLAND

Introduction:

The figures in this section are based on:

• information provided by the company at the time of the announcement of the decision to invest in the UK; and

• the companies’ best estimates of capital expenditure and jobs created/safeguarded in the first three years. The figures do not take account of subsequent developments.

There is no requirement for investors to notify UKTI of new investment projects, and so the figures only include those projects where UKTI and/or a partner organisation such as SDI were involved, or which have come to our notice.

For information, we have included figures for Scotland for the past 25 years, see annex 1.
The 2009/10 figures are presently being finalised, and will be announced to parliament in a written statement in July.

There is no one simple method of measuring FDI, but the key measures are Financial measures and Project measures. Financial and Project measures have two forms: stock and flow.

Financial Stock measures the level of cumulative FDI of capital investment by foreign companies at a single point in time. Project Stock measures record the number of foreign owned companies at a single point in time.

Financial Flows are investments by foreign enterprises made during a period of time, either a calendar or tax year. Financial inflows are a notoriously volatile measure of FDI. Project Flows record investment decisions by foreign enterprises during a period of time.

These 4 different measures of FDI can lead to conflicting statements. For example, before the election, the opposition were claiming that FDI into the UK had fallen 90%, whereas the Government were claiming it had increased. Both were correct and credible, but they were using different measures. The opposition was using FDI flows, whilst the Government was using FDI Stock. Hence, the different figures, and different interpretations of what was going on.

Nevertheless, across the range of measures of FDI, the UK remains the most attractive destination for inward investment in Europe.

There is a good story to tell, but it needs to be told in two parts:

**Financial Measures:** Within Europe, the UK has traditionally been the preferred location for inward investment. Since records began it has attracted more FDI Stock than its main competitors, France and Germany. It is important to note that the latest UNCTAD figures for 2008 show the UK, in dollar terms, is in joint second with France. However, the decline is due to the devaluation of the pound against the dollar, and therefore not an indication of company flight from the UK. In terms of pounds and Euros, the UK remains the number one location for inward investment stock in Europe. Moreover, according to the Office of National Statistics, FDI Inward stock in 2008 to the UK increased to UK£672 Billion in 2008, up from the previous year of UK£620 Billion.

In 2008, global FDI flows were severely affected worldwide by the economic and financial crisis. UNCTAD forecast inflows to fall to below $1.2 trillion in 2009, with a slow recovery in 2010 (to a level up to $1.4 trillion) and gaining momentum in 2011 (approaching $1.8 trillion).

Within Europe, France was the biggest destination of FDI Flows in 2008, with US$117 Billion of FDI compared to the UK’s US$96 Billion. However, as the significant activity of the City of London capital markets are excluded, this under records activity in the UK. In addition, the fall is largely due to a decline in M&A activity in the UK for 2009. M&A deals into the UK fell by 82.5% in 2009. M&A activity in 2008 and 2009 has been at its lowest since the dot.com bubble.

**Project Measures:** According to Bureau Van Dijk, the UK has the highest concentration of foreign owned firms, with over 57,000 foreign owned firms compared to 20,000 in Germany, 7000 in Spain and just under 5000 in France. The historic openness of the UK to inward investment has given it time to attract a significant
number of foreign owned firms. Other European countries have only recently recognised the benefits of inward investment, and so have had less time to attract foreign companies.

According to independent data providers, Ernst and Young and the Financial Times (FDIMarkets.com), annual project flows have fallen throughout Europe. Projects into the UK fell from 686 in 2008 to 432 in 2009. Projects into France fell from 390 in 2008 to 136 in 2009. The UK remains the number one destination in Europe and has increased its market share from 18% in 2008 to 23% in 2009. This would suggest the UK has maintained and increased its competitive advantage. The relative ease to do business, stability of its business environment makes it's a relative safe haven for firms.

In 2009/2010, the largest investments by capital expenditure were to a variety of countries. France attracted the largest project, followed by the UK, Spain, Russia, Poland and Italy.

Overall, across the range of measures of FDI, the UK has been and remains the most attractive destination for inward investment in Europe, due to its openness to foreign business, ease of doing business, and stable business environment. However, the UK should not rest on its laurels, as the competition to attract investment is fierce.
UKTI Trade Services in Scotland

ISSUE

UKTI trade services in Scotland

KEY MESSAGES

UKTI has a number of services, available throughout the UK, which are used by Scottish companies on the same basis as companies in other parts of the UK. Usage of UKTI services in Scotland in 2009-10 was as follows:

- over 387 Scottish firms were helped by overseas posts through Overseas Market Introduction Service (OMIS);
- 4 missions to China, India, UAE and South Africa including 42 companies were run using market visit support (MVS) funding;
- 185 Scottish SMEs received grant support (group and Solo) from TAP;
- 7 Scottish companies (out of 25 UK participants) took part in the British Lifestyle showcase in Moscow in March;
- Scottish companies were offered 800 complimentary business class tickets through a British Airways/UKTI initiative of which they took up 386;
- Three research projects, total value £12,726. were supported under the Export Marketing Research Scheme (EMRS); and
- There was no take up by Scottish companies of the Export Communications Review (ECR) programme.

KEY FACTS

- OMIS is a web-based application that puts business directly in touch with staff in UKTI offices abroad to provide focused business advice and in market support.
- It is a chargeable service, based on a series of clear price bands depending on the time taken to do the work requested. OMIS activities can include market advice, analysis of market entry strategies, identification of possible business partners, arranging meetings with key contacts in market, support during overseas visits, video and WEBex conferencing and help with events such as product launches.
- UKTI has an established relationship SDI on the delivery of OMIS in Scotland and has delivered OMIS training to all Scottish Trade Advisers.
- SDI commission OMIS for help from UKTI's overseas teams in organising missions and events in markets on the same basis as English organisers as well as reports on key sectors to increase Scottish companies' knowledge of them.
- MVS provides assistance, including financial, to new to export or new to market SMEs, engaged in trade development activity, who need to visit overseas markets either as part of an organised group, or individually. Monies can be used for grant and/or to pay an organisation to run missions on the region’s or DA’s behalf. SDI contracts SCDI, the Scottish Council for Development and Industry to run MVS-funded missions on their behalf.
• All TAP applications from companies based in Scotland have to be approved by SDI (just as in England the applications are routed through UKTI regional teams). Scotland’s ‘share’ of TAP grants was 4% of the total last year. This was lower than could be expected from Scotland’s share of UK exports, and the TAP team and SDI are co-operating to promote TAP to businesses beyond SDI existing client base. Links from the SDI website to UKTI pages and the TAP team’s participation in Scottish promotional events will assist in this.

• The British Lifestyle showcase in Moscow in March 2010 brought together outstanding businesses in fashion, textiles, interiors and giftware, many of whom were new to the Russian market. Thanks to close co-operation between SG4 (Glasgow) and SDI, 7 Scottish companies including Harris Tweed Hebrides, Holland and Sherry (textiles), Johnstons of Elgin and Clock House Furniture took part. All have reported success in making new contacts and some have already obtained orders. As well as follow up in Russia, SG4 is devising another British Lifestyle event in Sao Paulo and SDI will again be closely involved.

• **EMRS** provides free advice on how to conduct marketing research plus the possibility of grant towards in-house research, use of a market research agency or purchase of published market reports for approved marketing research projects. This service is delivered for UKTI by the BCC under competed contract.

• **ECR** provides companies with objective advice on language and cultural issues to help them develop effective communications strategy with overseas customers and contacts plus a new in depth website review. This service is delivered for UKTI by the BCC under competed contract.

**POINTS OF CLARIFICATION**

• UKTI has two programmes, Passport to Export and Gateway to Global Growth that are only available in England. These are geographically based intensive assistance and capacity building programmes delivered by International Trade Advisers in the English regions. SDI has its own equivalents.

• Work done by posts overseas for all UK companies is chargeable with some exceptions such as political lobbying and basic group briefing for missions.

• Similar MVS funding of £50k, is devolved to SDI as to each English region.

• For 2010/11 British Airways has made a further flight offer for UK SMEs. Scottish companies will again be able to take advantage of this. UKTI has liaised closely with SDI about the BA offers.

• Considerable efforts have been made by UKTI and their contractor, the British Chambers of Commerce to encourage Scottish companies to use the EMRS and ECR programmes and we hope they will do so in the future.
## ANNEX1

### Cumulative List of Investment Project Successes in Scotland since 1985

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Projects</th>
<th>No. of New Jobs</th>
<th>No. of Safeguarded Jobs</th>
<th>Total No. of Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984/85</td>
<td>67</td>
<td>6,179</td>
<td>2,074</td>
<td>8,253</td>
</tr>
<tr>
<td>1985/86</td>
<td>52</td>
<td>4,905</td>
<td>5,517</td>
<td>10,422</td>
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<tr>
<td>1986/87</td>
<td>35</td>
<td>2,267</td>
<td>341</td>
<td>2,608</td>
</tr>
<tr>
<td>1987/88</td>
<td>56</td>
<td>5,514</td>
<td>4,378</td>
<td>9,892</td>
</tr>
<tr>
<td>1988/89</td>
<td>43</td>
<td>4,849</td>
<td>726</td>
<td>5,575</td>
</tr>
<tr>
<td>1989/90</td>
<td>35</td>
<td>7,828</td>
<td>569</td>
<td>8,397</td>
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<tr>
<td>1990/91</td>
<td>40</td>
<td>5,701</td>
<td>928</td>
<td>6,629</td>
</tr>
<tr>
<td>1991/92</td>
<td>38</td>
<td>3,884</td>
<td>891</td>
<td>4,775</td>
</tr>
<tr>
<td>1992/93</td>
<td>61</td>
<td>4,497</td>
<td>4,189</td>
<td>8,686</td>
</tr>
<tr>
<td>1993/94</td>
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<td>7,635</td>
<td>4,639</td>
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<td>1994/95</td>
<td>81</td>
<td>7,678</td>
<td>3,117</td>
<td>10,795</td>
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<tr>
<td>1995/96</td>
<td>71</td>
<td>9,067</td>
<td>2,538</td>
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<tr>
<td>1996/97</td>
<td>76</td>
<td>9,928</td>
<td>2,069</td>
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<tr>
<td>2000/01</td>
<td>72</td>
<td>9,274</td>
<td>4,231</td>
<td>13,505</td>
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<tr>
<td>2001/02</td>
<td>59</td>
<td>6,206</td>
<td>886</td>
<td>7,092</td>
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<tr>
<td>2002/03</td>
<td>49</td>
<td>3,599</td>
<td>1,724</td>
<td>5,323</td>
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<tr>
<td>2003/04</td>
<td>74</td>
<td>1,632</td>
<td>2,981</td>
<td>4,613</td>
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<td>2004/05</td>
<td>68</td>
<td>4,340</td>
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<td>2005/06</td>
<td>60</td>
<td>1,901</td>
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<td>2006/07</td>
<td>89</td>
<td>3,185</td>
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<tr>
<td>2007/08</td>
<td>91</td>
<td>4,366</td>
<td>1,646</td>
<td>6,012</td>
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<tr>
<td>2008/09</td>
<td>78</td>
<td>1,365</td>
<td>1,486</td>
<td>2,851</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,588</strong></td>
<td><strong>140,663</strong></td>
<td><strong>60,234</strong></td>
<td><strong>200,897</strong></td>
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</table>
Introduction
1. Scottish Development International (SDI) is pleased to submit this paper to the Economy, Energy and Tourism (EE&T) Committee as a combined submission on behalf of its joint venture partners: Scottish Government (SG), Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE).

2. To win investment Scotland faces intense international competition to demonstrate it is the best location to invest. SDI’s core competence is in the delivery of world class sales and marketing to both attract investment to Scotland and to encourage and support Scottish businesses to increase their international trade.

3. Critical to future success in attracting investment and increasing trade will be effective partnership working both at a Scottish and UK level, including:
   - alignment across the public and private sector to enhance the global competitiveness of the business environment in Scotland including: skills, research, transport, infrastructure, regulatory and fiscal environment.
   - harnessing the full potential of international networks and influencers and working with partners to actively co-ordinate the wider promotion of Scotland globally.

4. Both exports and inward investment are vital in supporting Scottish economic growth. For example, in 2008 Scotland exported £20.7bn of goods to overseas markets\(^1\), the ratio of overseas exports to total turnover in Scotland is around 10%. Exports to the rest of the UK were estimated to be £42.3bn. While the 1,825 foreign HQd enterprises in Scotland employed over 263,000 people (15% of total) with combined turnover in excess of £61 billion (28% of Scottish total). If companies owned elsewhere in UK are included there are 4,595 enterprises employing 628,000 people (35% of total private sector employment in Scotland) with turnover of £115 billion (52% of Scottish total)\(^2\).

5. Within this context the focus of SDI over the coming three years is to concentrate our resources on the generation of trade and investment opportunities for Scotland that help strengthen Scotland’s competitiveness within the global economy. More than ever we need to: understand the global economic environment we are operating in; benchmark ourselves against our international competitors; respond fast; and play to our strengths.

6. In our key sectors Scotland is/or has the potential to be globally competitive in both attracting overseas investment and talent and in Scottish businesses gaining market share overseas. For example, Scotland has both natural,

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\(^1\) Global Connections Survey 2008  
\(^2\) Government, ONS (IDBR), 2008
technical and research assets which give us significant international opportunities to be a world leader in developing a low carbon economy. SDI and our partner agencies can play a vitally important role in attracting investment to grow our renewable energy sector and in supporting the indigenous supply chain to maximise the global economic opportunities from clean technologies.

7. To do this, we must focus our efforts on helping Scottish businesses to become more globally competitive; and effectively communicating the benefits of investing in Scotland to companies around the world in an increasingly challenging environment. We remain responsive to the needs of our customers and continue to help them respond to the short term challenges they face in the current economic climate as well as supporting longer term growth.

8. A key priority is to work with SE, HIE and other partner organisations to encourage businesses to consider their international aspirations and look beyond Scotland for opportunities to grow their business.

9. If we are to maximise the impact we have in supporting Scotland to become a more globally competitive economy, then we need to nurture our existing partnerships and develop new alliances with both the public and private sector. We need all our partners to get behind the common purpose of internationalisation with everyone playing to their respective strengths so together we can deliver more for Scotland. SE, HIE and Business Gateway provide a seamless provision of customer focussed business support to companies while SDI focuses on specialist international business development support. SDI continues to be both an integral part of SE and HIE while aligning with other public and private sector partners to strengthen Scotland’s competitiveness and create a globally competitive business environment.

Global Context

10. The IMF forecast\(^3\) in January that most growth this year is likely to come from emerging economies including China (10%), India (8%) and the Middle East (5%) with developed nations showing slower growth e.g. US (3%), Eurozone and UK (1%) and Japan (2%).

11. The devaluation of Sterling, (which is 23% lower against the $ compared to June 2008, 12% against the Euro and 34% against the Yen) gives an advantage to Scottish exporters albeit against the backdrop of weak demand in most market sectors.

12. An increased level of uncertainty in the world and increased sophistication from competitor countries means Scotland and SDI need to further increase flexibility and agility to respond to international opportunities. All this sets out a tough and fragile global and domestic environment within which Scotland

\(^3\) IMF World Economic Outlook, January 2010
needs to compete to attract investment and support Scottish companies to internationalise.

13. Scotland, in a global context, is a very small market and tends to closely track UK performance\(^4\) which has slow growth forecast in the medium term\(^5\). Therefore overseas markets become even more critical in accelerating recovery through both increasing international trade and attracting further investment into Scotland.

**Structure of submission and key areas of focus**

14. For ease of the Committee’s considerations the paper has been structured around the questions asked. We have, wherever possible, explained the approach and then given examples to illustrate the approach.

15. In developing this submission we would in particular like to draw the Committee's attention to the three themes outlined below:

1) The opportunity and need to maximise investment as part of the transformation to a low carbon economy. This is a major feature of the Economic Recovery Plan and the Government Economic Strategy and as we have outlined will require support at Scottish Government, UK Government and by the EU to ensure we maximise the opportunity to secure investment particularly in relation to renewable energy. Our discussions to date with the private sector have been helpful in confirming that working in partnership there is an opportunity to secure substantial inward investment particularly in relation to the development of the supply chain which would help to optimise the economic benefits related to renewables.

2) To raise the aspirations of more Scottish businesses to actively consider entering international markets. At this time, more than ever, we need Scottish businesses to exploit international opportunities and capitalise on the low value of Sterling to accelerate Scottish economic growth. In the submission we detail how with SCDI and Scottish Chambers International we are taking a partnership approach to this.

3) To continue to push for all public and private sector players to actively consider the international dimension of their work and how in partnership Scotland's assets can both be developed and exploited globally to support the economic growth of Scotland. A good example of this is the Scottish Academic Health Sciences Collaboration highlighted in the submission.

**Q1. What is the economic rationale for trade development and promotion in Scotland and what have been the trends in international trade and inward investment?**

**Overview**

1. or (16) There is a considerable body of evidence highlighting the market failures and barriers to international trade and investment that amply justify

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\(^4\) Scotland’s Chief Economic Advisor, State of The Economy, Dec 2009
\(^5\) IMF World Economic Outlook January 2010, In 2011: World Growth 4.3%, UK Growth 2.7%
public sector intervention, particularly in positively addressing information gaps, developing international networks and internationalisation skills. This includes the Committee’s commissioned work through Cogentsi, as well as independent reviews commissioned by SDI in 2009 which looked at the present body of evidence on the economic rationale for government assistance. The key findings are summarised below:

The key barriers which impede internationalisation are:
- in general companies over estimate the risks involved in exporting and entry into new markets and as a consequence become risk averse
- for businesses wishing to trade overseas there are irreversible sunk costs involved with entry and exit being costly undertakings. This has a scale element. In particular smaller companies, lacking diversified management structures, do not have specialist resources (e.g. a marketing manager) which enable them to begin exporting. Such investment may be beyond many in the short term without public support
- in many cases businesses become locked into markets and courses of action and don’t consider exporting. An outside stimulus (e.g. attendance at a course or an event) can make a company change its direction and consider new markets.

The key barriers to attracting investment in Scotland are:
- potential investors are unaware of the benefits of locating in Scotland in terms of such things as skills, research base, infrastructure etc.
- the private sector alone cannot maintain adequate institutions and networks that support international linkages and knowledge flows

Governments also play a key role in providing access to contacts and key decision makers, and to some types of information, which private sector service providers cannot. Government reputation, in particular for impartiality and trust, is also an important aspect.

It should also be noted that the attraction of foreign investment is highly competitive and therefore Scotland needs to focus efforts on where it has a globally competitive proposition.

The role of government:
Governments and their agencies are well placed to address the barriers highlighted above. There is strong evidence that companies engaged in internationalisation or inward investment activity on average generate higher levels of labour productivity, pay higher wages and employ more people than their competitors who are not internationally active. Even more compelling is that companies who do enter new overseas markets further increase productivity as they are exposed to new ideas which they then adopt. The information, contacts and financial support made available through government and its agencies helps encourage greater investment and

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7 Inward Investment Evidence Review, June 2009, DTZ, and Internationalisation Review, May 2009, Professor Harris & Dr Cher Li
reduces the perceived risks to businesses. While the multiplier effect (e.g. inward investors will source a proportion of its products/services locally) means the benefits are spread wider through the supply chain.

**Global International Investment Flows**

Research by the OECD\(^8\) suggest that international investment flows dramatically reduced in 2009 by 50% with some sectors particularly affected e.g. automotive. This is forecast to stabilise in 2010 however further declines cannot be excluded. Overall the policy emphasis by countries has been to ensure free trade is not restricted. However there is a general concern that policies may be implemented in a way which supports ‘smart’ protectionism, this includes policies to support indigenous companies e.g. bailouts.

There has been a significant increase in Foreign Direct Investment (FDI) flows in emerging economies. In 2000 emerging economies in the G20 accounted for only 1% of G20 FDI outflows while in 2008 this had increased to 12%.

**Trends in Trade**

The WTO report for 2008\(^9\) shows that with the onset of the recession there was a weakening of demand for goods and services, and imports and exports quickly dropped. Trade has also been adversely affected by the lack of credit to finance imports and exports. As we can see from chart below, exports and imports began to fall sharply across the OECD economies during the third quarter of 2007 and throughout the remainder of the year, deteriorating markedly during the third and fourth quarters of 2008. This rapid contraction closely mirrored the reduction in GDP experienced across OECD economies during the final two quarters of 2008.

As we can see from Figure below, global exports rose sharply across the world during the early part of 2009 as the global economy emerged from recession. In fact, there has been a dramatic rebound in world trade.

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\(^8\) The global economy and the global investment agenda - an OECD perspective, remarks by Angel Gurría, OECD Secretary-General, USCh Global Investment Conference, Washington, 10 March 2010

Having fallen by as much as 40 percent during the second half of 2008, by the middle of 2009 growth in world exports had resumed. Some observers attribute this growth particularly to the demand for imports across Asia, especially the huge growth in China’s imports. In fact, China doubled its imports from $50bn to $100bn during 2009 which has obviously been a huge boast to the global trading system.

For Scotland the Global Connections Survey shows that estimated export sales from Scotland have steadily increased from £17.8bn in 2004 to £20.7bn in 2008 despite the onset of the worldwide recession. Scotland continued to grow its exports in all manufacturing and service areas but export growth slowed in areas such as electronics and instrument engineering, mining and agriculture. Scotland has managed to increase exports to European and North American economies during this period. The biggest reduction in exports was to Asia. Future export trends are difficult to assess, the present fragile state of the global economy means total demand is less while the relative low value of sterling presently makes Scotland more competitive.

**Trends in Investment**

The UN reported that overall FDI falling by 39% from $1,700bn to $1,000bn in 2009, with decreases across all major groups of economies. After severe declines in 2008, FDI flows in developed countries dropped by a further 41%, while transition and developing nations fared little better, with a slump of 39%. The US, the UK, France, Sweden and Spain all saw sharp dips.

In June 2009 Ernst & Young reported that inward investment into Europe was flat in 2008, demonstrating the global recession’s toll on investment projects into the region. The report, which examines figures for international investments into Europe, new projects or expansions, revealed that in 2008

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12 Global Connections Survey
13 United Nations Conference on Trade and Development (Unctad)
14 Ernst & Young’s annual Country Attractiveness Survey 2009
Europe secured over 3,700 investment announcements, the same as in 2007. The number of projects remained steady but the impact of the impending recession on new employment was severe. The number of jobs created fell 16% to 148,000, accelerating a downward trend underway since 2004.

**Longer Term Sectoral Trends**

In most cases trend data are used at a sector level and considers both investment and trade information. To illustrate this, the trends in Oil and Gas over the last 8 years are detailed below along with how this is used to target our efforts to support globally competitive companies to take advantage of these opportunities:
Oil and Gas Supply Chain Trends

The graph shows that the proportion share of international sales has increased from 28% to over 40% in the last 8 years.

This trend data is supported by looking at wider international data to understand SDI’s country focus. For Oil and Gas an analysis of 30 country markets which looked at capex and opex numbers, business risk and political and economic risk factors was conducted. From this countries were defined as:

- prime prospects included Houston, Brazil and China,
- stable opportunities included Malaysia, Norway, Abu Dhabi
- high risk opportunities included Russia, Nigeria and Iran. This was fed into a delivery strategy which was put together in 2001 and refreshed in 2005.

Based on these key strategic market opportunities, these markets were then matched to an assessment of Oil and Gas industry strengths and then further refined through a series of in-market research visits to assess the match between market opportunity and industry capability. On average SDI assist over 200 oil and gas businesses a year to successfully access these markets. Over the last ten years supported businesses have achieved in the region of £1bn in international sales from business development activities directly supported by SDI.
Q2. Are the current strategy, policy and type of public sector support programmes the right ones in terms of the needs of Scottish companies and other organisations? Is the support right in terms of the changing economic circumstances, particularly for key sectors such as manufacturing?

Developing SDI’s Strategic Direction
SDI working closely with SG, SE and HIE has just refreshed its Strategic Direction and Priorities for the next three years (2010-13). This has been developed taking into account: (1) SG, SE and HIE priorities e.g. key sectors (2) evaluation evidence; (3) customer demand; (4) changing global opportunities.

Flowing from this strategic direction, SDI’s objectives are to:
• attract investment and talent which builds on Scotland’s globally competitive sectors
• raise the aspirations and capabilities of more Scottish businesses to think, compete and trade globally
• actively work with others to increase the global competitiveness of the business environment in Scotland and to align the wider promotion of Scotland internationally

The main changes in emphasis in the strategic direction include:
• responding to the specific demands of each key sector with recognition of the growing opportunities particular sectors such as renewables given Scotland’s natural assets and technical competencies
• raising the aspiration of more Scottish companies to internationalise by working with others
• even deeper engagement with globally competitive companies who can add the most value to the economy.
• greater emphasis to be placed on exploiting emerging sectoral opportunities in growth markets particularly fast developing economies

Customer feedback and evaluation evidence demonstrate that the current products and services provided by SDI deliver real, tangible benefits and offer a balance of practical support, access to information, expertise and business networks. In particular SDI staff bring, specialist expertise across all key sectors, provide international market access through our overseas field operations, and remain close to customers through staff located in all parts of Scotland.

Just as importantly to support the efforts of Scottish companies to grow revenues from international markets is that SE, HIE and Business Gateway deliver a suite of other complementary interventions to increase the competitiveness of Scottish businesses. For example, innovation and leadership support are critical in raising competitiveness and enabling companies to exploit international opportunities.

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15 SDI Strategic Direction, Priorities and Approach, 2010-13
An example of this complementary support includes the Scottish Manufacturing Advisory Service (SMAS) delivered by SE. SMAS specialise in providing manufacturing firms of all sizes throughout Scotland with expert advice, one-to-one support, training and events including lean manufacturing and driving productivity improvements.

Scotland also has key strengths in advanced manufacturing e.g. photonics, imaging systems, sensors. The company base has extensive experience at providing end to end supply chain capability from research and design through to fulfillment and aftercare. This has been built up in Scotland over the last 60 years through the Electronics industry. The highly skilled workforce, world class university research base and support like SMAS make Scotland a very attractive location which SDI can sell to potential investors.

The Scottish Economic Recovery Plan: Accelerating Recovery
The role of internationalisation in accelerating recovery is one of the central priorities in the Government’s Recovery Plan. The Plan recognises that ‘we are likely to see a repositioning of individual economies in the global economy and restructuring of industrial sectors within these economies, Financial and trade flows will alter bringing new opportunities for Scotland to exploit its comparative advantage’

Within the Plan there is a firm commitment to scale up support for exports and emphasis on the central importance of internationalisation with a renewed strategy to target inward investment opportunities where Scotland has a strong global position.

Recent initiatives include:
- International Strategy support – helping companies deal with a changed economic environment;
- Export credit finance workshops – alerting the Department of Business, innovation and Skills (BIS) and UKTI on instances where access to credit insurance is cited as a constraint;
- Trade missions – offering practical support for internationalisation including an enhanced programme of trade missions, with the aim of supporting participating companies to generate in excess of £250 million in international revenue;
- Exhibitions and Missions programme – 490 companies received support to attend overseas exhibitions in the year to December 2009, helping to secure additional overseas business;
- Overseas Market Support – 554 companies in the year to December 2009 benefiting from market research and/or in-market support for their business development.

There has been a changing balance of inward investment activity recently to safeguard existing jobs while taking the opportunity to attract new investment.

HIE – http://www.hie.co.uk/
BG - http://www.bgateway.com/
where possible e.g. the success with Tesco PF in attracting 800 new jobs shows that opportunities do arise and a quick, co-ordinated response can result in positive outcomes.

Despite the very challenging global trading conditions, SDI has delivered many new projects to bring and retain jobs from overseas investors. Between 1 April 2009 and 28 Feb Jan 2010 SDI has secured 3,627 planned jobs through inward investment (of which 1,789 are planned high value jobs).

As a result of the highly developed approach to customer support and inward investor aftercare there is a high level of insight into the challenges facing businesses. By maintaining strong working relationships with company representatives we are able, in the vast majority of cases, to provide early warning of potential re-structures or closures and to work with the company and key stakeholders to ensure all avenues are explored before decisions are made e.g. Vestas/Skykon, Goldfish.

The internationalisation response going forward is fully reflected in SDI’s strategic direction articulated at the beginning of this question. As the economic situation evolves we remain committed to continually reviewing our activity and directing resources to areas of greatest opportunity.

Q3. Specifically in relation to Scottish Development International – the leading public sector body for trade promotion – how the international account management system operates, who gets access to it, what services they offer in market to support Scottish companies not account managed in Scotland, what does it cost to operate, how many companies are supported and to do what, and how is the return on investment of the public sector presence in overseas markets measured?

SDI’s support to all Scottish businesses
SDI is committed to supporting/working with any Scottish business that wants to trade internationally. It is also committed to raising the aspirations of more Scottish businesses to actively consider widening their target markets to include overseas markets.

SDI provides a range of products and services that can be accessed by companies at all stages of growth, development and international aspiration. Companies at the early stage of development who have perhaps some way to go before being in a position to engage in international markets can access a comprehensive catalogue of services and information via BusinessGateway.com including: online self help tools; practical guides to exporting; and industry overviews and regulations. In the last 3 months over 1,000 international enquiries have been handled by the enquiry service.

SDI can work with companies on a project by project basis based on the companies’ needs and the economic benefits for Scotland e.g. supporting

http://www.bgateway.com/bdotg/action/layer?site=202&topicId=1079717544
attendance at international trade show or can work with the business on a co-ordinated suite of activities to support market expansion. In 2008/09 SDI gave substantive assistance to over 1,000 businesses e.g. participate in a trade mission overseas.

We also work closely with UKTI and Enterprise Europe in supporting companies to access international markets; this is described in detail in Q7.

SDI is looking, with partners, to further expand its work in this area and raise the skill level and aspirations of many more Scottish businesses to actively consider trading internationally. The Intelligent Exporter initiative described below is intended to support 8,000-10,000 businesses over the next three years.

**Intelligent Exporter initiative**

To upskill the wider company base and maximise the potential of Scottish business growth SDI is currently developing a strategy to deliver services and support to a wider range of businesses. This will be achieved by:

- working with partners to deliver services
- delivery of new services
- delivery of services through web channels

It will encourage more SMEs to become exporters for the first time and will both reduce the risks and increase the benefits to them. The intention is to reach over 12,000 individuals over 3 years with support ranging from awareness raising to fully integrated international business skills training.

A joint ESF submission for £3.4m (total programme £7.5m) has been submitted by SDI, Scottish Chambers and SCDI to fund additional delivery of services to enhance management skills in Scottish companies to enable exploitation of growth opportunities in international markets.

**SDI support to growth companies (in partnership with SE and HIE account management)**

Growth Companies are account managed because of their potential for to achieve growth and economic impact. The objective with these companies is to raise turnover for each company by at least £1m per annum after 3 years\(^{18}\).

SDI’s work with growth companies varies depending on the specific needs and objectives of the company itself. Part of the SE/HIE process of working with business customers is to prepare a growth plan, setting out the milestones and objectives on the path to achieving growth. This plan contains actions for both the company and SE/HIE/SDI. Support to companies is then tailored to this growth plan and can include advice, networking opportunities, market research, and acting as a gateway to other agencies and providers of

\(^{18}\) or 10%+, if the baseline turnover is above £20m
specialist expertise. In 2008/09 of the 1,000 companies SDI supported over 800 were growth companies.

Prior to any engagement with a business, we address a number of criteria to ensure that the intervention meets our economic objectives, adds value and is appropriate use of budget. These include:

- would the activity happen without intervention?
- is it enabling the activity to happen more quickly or on a larger scale?
- is it helping to retain activity in Scotland; and what level of other funding is the intervention bringing to the project?
- compliance with all relevant regulations e.g. European State Aid Rules

**SDI support to attract investment and talent**

SDI has developed a world-class sales and marketing approach focussed on promoting the competitive advantage that Scotland’s globally competitive sectors can offer to existing and prospective investors. We promote Scotland as a place for businesses to invest, including the capabilities of Scottish based businesses and our research organisations as trade or investment partners. We also promote Scotland to globally mobile talent as a great place to further their career.

We ensure the sales and marketing approaches we choose to reach our customers are the most effective and represent good value for money. The power of face-to-face communication cannot be underestimated. Recognising the value of personal recommendation, we use Globalscots and other networks as advisors to Scottish business and as sources of new opportunities.

Scotland has a very positive image, although its business reputation is not always well understood. In a world where competition for investment is ever more intense, we, with partners, need to manage this reputation more effectively by increasing use of new channels (e.g. online) to both retain and improve our position and increase the return on investment.

In 2008/09, when global FDI was significantly down, SDI still managed to secure over 1,807 high value jobs of these:

- 90% were in key sectors, and
- 49% were R&D related (rising from just 12.5% in 2002).

In focussing on our key strengths we need to attract the type of investment which is sustainable and will make a long term difference e.g. Scotland has secured 22% of R&D inward investment projects into the UK in the last 3 years (up from 17% in 2004) with over 35 projects including PPD, Doosan Babcock and Chevron.

As well as new investment we need to ensure we continue to support and develop existing investors through effective aftercare. Last year, more than 80% of the high value jobs that were secured came from existing investors;

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19 European Investment Monitor
demonstrating both their commitment to Scotland and the globally competitive offering Scotland has.

SDI has built up its sales and marketing competencies over many years. This has been externally acknowledged through a number of awards won, including:

- Ranked 6th out of over 210 Inward Investment Agencies by the World Bank in 2009 (and top in UK).
- This year voted 8th top region in Europe out of 142 by the Financial Times in their fDi awards (with Edinburgh being voted 'Best Small City of the Future' for the 2nd time in a row and Glasgow being voted 2nd for 'FDI Strategy for Large Cities').

This capacity needs to be continually developed for SDI to maintain its world class standing and comparative advantage over other trade and investment agencies.

Deployment of Resources
Detailed below is a summary of the key activities carried out by SDI both in Scotland and in overseas markets. It should be noted that resources are used flexibly between trade and investment activities e.g. overseas staff have sector expertise which they will fully utilise to both work with potential investors to Scotland while also supporting Scottish businesses to find new markets overseas.

**Direct Customer Support Activity includes:**
- Overseas offices in 22 countries
- Co-location of customer facing staff with SE/HIE staff in local offices
- Overseas sales force targeting strategic inward investment opportunities and securing further investment for Scotland;
- Specific work for individual trade and investment customers, ranging from market research to reaching senior decision-makers;
- Networking, contact-building and opening doors for business – up to and including the highest levels of business and key government contacts;
- Building links to Scotland’s science and education base;
- Creating and providing platforms to showcase Scottish excellence and enhancing Scotland’s reputation globally through events
- Attraction of talent to Scotland through Talentscotland
- Influencing in Europe and supporting Scotland access EU funding through Scotland Europa
- Planned annual investment of £17.5m and 215 customer facing and delivery staff

*Marketing and selling of Scotland’s strengths, online services and support:*
- Focused on demand stimulation, developing an efficient ‘engine room’ to support the business and delivering and managing products to address the needs of Scottish businesses to grow internationally.
• Demand stimulation is driven by sector marketing strategies, focusing investment on key subsectors within key markets. Direct activity, including internet marketing, will continue to dominate SDI's activity. There will also be significant demand stimulation activity for key products such as strategy & preparedness support;

• Development of a world class website and extranet that will enable a smarter engagement with customers, prospects, partners and staff. We will continue to develop smarter and more focused propositions based on where Scotland has a competitive advantage.

• SDI’s product offering will be further enhanced through the development and delivery of solutions which address the needs for more strategy support, preparedness, sales and marketing and Internet marketing. There will be new web based solutions which will give all businesses access to support in these areas.

• Support functions including: performance management, ministerial briefing team, CEO's office

• Planned annual investment of £5.9m and 36 staff.

SDI - Return on Investment
The return on investment compares favourably against other business support evaluations and very favourably against Regional Development Agency evaluations of inward investment. The main factors considered in order to maximise ROI are:

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20 Based on looking at value for money comparisons between the different evaluations conducted and making an assessment of their comparability given the differences in the methodologies used.
<table>
<thead>
<tr>
<th>Factor</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Economic Strategy</td>
<td>sectors with greatest potential (the identification of key sectors)</td>
</tr>
<tr>
<td>SE &amp; HIE Board strategic direction</td>
<td>the focus on supporting companies to exploit their global competitive advantage (globally competitive companies)</td>
</tr>
<tr>
<td>Sector/Industry plans</td>
<td>helping to identify the nature of specific growth opportunities</td>
</tr>
<tr>
<td>Economic analysis</td>
<td>relatively longer term opportunities that have led us to invest more in China and shorter term opportunities such as trying to exploit changes in market conditions (e.g. opportunity to increase Scottish salmon exports)</td>
</tr>
<tr>
<td>Competitor analysis</td>
<td>the ability of Scotland to successfully compete against international competitors and understanding of the unique strengths of the Scottish proposition</td>
</tr>
<tr>
<td>Economic circumstances</td>
<td>the introduction of the sell now, pay later campaign, in quick response to the, then emerging recession</td>
</tr>
<tr>
<td>Current operations</td>
<td>understanding the relative relationships between investment made in different geographic markets and the return achieved in relation to the overall global sectoral opportunity. staff capabilities e.g. we have a small team covering a global geography and must maximise contribution each individual can make</td>
</tr>
<tr>
<td>Evaluation evidence</td>
<td>we learn both from the analysis of others (e.g. UKTI) and our own past activity</td>
</tr>
</tbody>
</table>

An independent comprehensive evaluation of SDI’s activities\(^{21}\) has just been completed and the full report is expected to be published by end April 2010. Some of the initial findings from the evaluation are detailed below:

**Internationalisation of Scottish Businesses – key findings**

- The overall capability of businesses has been improved by working with SE/SDI over a range of international capability measures as shown below, ranked from 1 (low) to 5 (high):

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\(^{21}\) The evaluation is being conducted by SQW Consulting and includes (1) econometric analysis using the Annual Business Respondents Database (2) customer surveys of both Scottish businesses assisted to internationalise and inward investors supported, and (3) in depth case studies.
International capability scores before and after working with SDI (1 to 5 score)

- Able to apply marketing skills to international opportunities
- Knowing what needs to be done to establish a local presence
- Ability to reach a target market overseas
- Understanding how to develop products for overseas markets
- Ability to develop a strategic international plan
- Understanding of our strengths and weaknesses in international operations
- Having a clear view of the advantages / disadvantages of international trade

- Businesses operating internationally had higher productivity
- SE/SDI assisted business have 19% higher productivity than those not assisted
- 60% of companies assisted had made or planned to make changes to their businesses as a result of working with SDI
- Overall companies had significantly improved their capability through working with SDI, this included: internationally marketing, understanding how to develop products for foreign markets, developing a strategic international plan etc
- Just under half of companies had already achieved sales in new overseas markets and 78% expected to achieve sales
- 16% had invested more in R&D this rises to 30% when those that expect greater investment are included.
- 49% of assisted business had been exposed to new ideas and of these 90% had adopted new ideas; most considered this had made them more competitive
- Within sample, impact on exports attributable to SDI assistance average £101,000 per case. Over the period under review the net effect overall is £174m
- Overall the support delivered between 2005/06 and 2008/09 is estimated to have generated £75m of additional GVA (as this only includes actual sales the real return is likely to be higher and in the order of an additional £50m to £150m)
- Every £1 invested in internationalisation generates an estimated return of £6.

Inward Investment – key findings
- SDI assisted inward investors pay higher wages and have higher labour productivity
- The majority surveyed consider SDI to have been important in ensuring their continuing presence in Scotland
- The majority have also increased their product range, R&D investment and
geographic markets and SDI have played a significant role in this

- 25% are carrying out more or higher quality R&D as a result of SDI assistance
- 25% consider their presence has had a positive effect on suppliers’ use of technology and productivity
- It is estimated that GVA associated with additional employment between 2002 and 2009 averaged £301m a year. Every £1 invested generates an estimated return of £12 (this takes into account costs of grant support e.g. RSA, R&D+)

Q4. What type of support would businesses and other organisations like to see being supplied and who should supply it?

Barriers and popular forms of assistance
The Global Connections Survey details the main barriers to exporting which companies have identified, the top ten barriers are detailed below:

14% products/services unsuitable for export
7% lack of market information
11% transport costs
6% legislation and standards
10% lack of resources/ management time
9% currency/ exchange rate
7% setting competitive prices
6% cultural barriers
4% lack of trained staff

Those marked * represent the main areas of focus where SDI directly support Scottish businesses to overcome these barriers and trade internationally.

With the most popular forms of assistance identified by companies to internationalise being:

12% Intro to potential overseas customers
10% Market research
9% Exhibiting at trade fair
9% Finding export agents/ distributors
9% International marketing
7% Finding joint venture partners
7% Entering new markets
6% Overseas trade missions
5% Developing an international trade strategy
5% Translation assistance and export training

SDI provides, with partners, all the types of assistance listed above.
A recent survey by the HSBC\(^{22}\), summarised the challenges in supporting businesses to consider international markets well:

‘The key finding of this study is that the reality of international trade is less expensive than domestic businesses currently perceive and the returns from setting up an international venture are actually greater than they expect. This dichotomy is one of the greatest hurdles that businesses need to overcome in order to take that first step abroad.’

**SDI working with Scottish partners to deliver seamless support**

If Scotland’s international ambitions are going to be achieved then there needs to be close collaboration of effort across the different public and private sector players to deliver this.

As referenced earlier, SDI and its partners provide a number of international products and services to support Scottish businesses and potential investors to achieve their international aspirations. These include training, R&D support as well as more direct financial assistance through RSA and other grants. Support will most often be delivered through a package of interventions to assist companies with their growth plans over a period of time.

In many cases businesses will need more than one type of assistance in order to pursue their international ambitions and aspirations. An example is given below, where a sequence of co-ordinated support was delivered over a ten-year timeframe in support of the company’s growth ambitions.

### Mackays - A globally competitive business based in Arbroath

Mackays, a family-run business, has been making world famous marmalades and preserves for over 70 years. The business has grown considerably over the past ten years and currently employs a team of 90 people. It has won a significant share of the international retail market and today export to 25 countries world wide. Support from SDI/SE includes:

- New Product Development Support
- Global Companies Development Programme
- International Market Development - Russia
- International Market Development – Middle East
- International Market Development - USA
- SMAS Manufacturing Review
- Emerging opportunities in China and India

Over the last ten years it has increased turnover from £1m to £8.5m with 35% of its products exported.

SDI works closely with both public and private sector partners to realise international opportunities. A sectoral example of this is our work with Scotland Food and Drink:

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\(^{22}\) HSBC Survey – Going International, August 2009
**Scotland Food and Drink – the international dimension**

SDI has worked in collaboration with Scotland Food and Drink since the leadership body's launch in 2007. SDI is represented on the Scotland Food and Drink Executive Group and on the Reputation Working Group.

The refreshed Scotland Food and Drink Strategy which was launched in December 2009 has an objective of increasing exports from £3.7bn to £5.1bn by 2017. SDI has worked very closely in collaboration with the Scotland Food and Drink Board and key partners to lead on the development of an international strategy and programme of market development activities that will deliver international growth for the industry.

Work has been done to prioritise international markets based on the size of growth opportunity for the Scottish industry e.g. Scottish salmon sales to the USA and programme of workshops/exhibitions put in place to enable companies to internationalise. This approach provides a cohesive and focused programme of support bringing all partners together with a clear international growth objective.

All international events, missions and exhibitions organised by SDI use the 'Scotland, Land of Food and Drink' branding. SDI have also introduced preferential rates for Scotland Food and Drink member companies on participation costs at all international food and drink exhibitions where SDI is organising a Scotland Food and Drink Pavilion. This benefit has been very successful in encouraging more companies to exhibit overseas and has also helped recruit new members to Scotland Food and Drink. Over the next 12 months, SDI will organise a Scotland Food and Drink stand at eight international food and drink exhibitions and provide international support to over 100 companies.

‘Through our attendance at ESE each year, SDI provides Seaproduces of Scotland with a fantastic platform, through the Scotland Food and Drink pavilion, to promote our business and products on a truly international stage. We use ESE to mainly service and build on our relationships with existing clients but it also gives us an opportunity to look to identify potential new business opportunities.

On a more strategic level, SDI has arranged on a number of occasions for our CEO, Bjorn Myrseth, to be introduced to Scottish Ministers where he has raised with them potential issues and thoughts around our continued expansion within Scotland.’ Willie Liston, Seaproduces.

We also work with pan-UK agencies, and UKTI in particular, to good effect and this is described in more detail in the Q7 response.
Q5. Do we have the correct balance between the attraction of a diverse range of inward investment and the type of support needed for exporting and international trade?

The activities of SDI are both demand and opportunity driven. Business customers look for assistance based on their own growth aspirations and the international opportunities which they can capture, while the key sectors in Scotland articulate the key strategic gaps where they can both expand overseas trade and attract new investment to fill gaps in the sector in Scotland.

Both inward investment and international trade are critical contributors to Scotland’s economic growth. The relative importance, and therefore resources that should be devoted to each, varies over time and across sectors. Inward investment and internationalisation are not mutually exclusive, for example inward investors are major exporters from Scotland (in many cases Scotland looks to attract the European base for both American and Asian corporates).

The challenge was described in the Fraser of Allander Economic Commentary Report from June last year:

‘The expansion in Scotland’s export base necessary to secure the desired increase in growth is unlikely to be achieved without significant successes in attracting inward investment. There are obvious difficulties in the attraction and retention of high quality foreign direct investment. But Scotland won’t make the transition from recovery to a higher growth path without it, given that Scotland’s domestic business birth rate remains stubbornly low and business R&D is amongst the lowest in the western world. The issue of how we can attract the required high value, inward investment to rapidly boost our export base should be a key topic of public debate in Scotland over the next few years.’

Summary of Opportunity (Demand) in Key Sectors
Detailed below is a summary of the specific demands placed on SDI by the key sectors for both trade and inward investment. Flexibility and the ability to respond quickly to new opportunities are critical given the dynamic global economic environment. Where the opportunity balance of activity is significantly skewed to one area of activity (e.g. trade rather than FDI) then this is indicated by a ✌️ (those not marked indicate that balance of activity is broadly the same).

23 Fraser of Allander Economic Commentary June 2009
<table>
<thead>
<tr>
<th>Sector</th>
<th>Trade</th>
<th>Foreign Direct Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Energy</strong></td>
<td><strong>Renewables</strong> enable supply chain to capture more UK, European and Global business including: Offshore Wind and Marine</td>
<td>target new opportunities and supply chain development including Offshore wind, Bioenergy, Hydrogen &amp; Fuel Cells, promote Saltire Prize, attraction of technical talent</td>
</tr>
<tr>
<td></td>
<td><strong>Thermal, Carbon capture &amp; storage</strong> Work intensely to promote Scottish capability and expertise in CCS technologies worldwide</td>
<td>Targeted inward investment to support development of the sector in Scotland.</td>
</tr>
<tr>
<td></td>
<td><strong>Oil &amp; Gas</strong> increase value of international activity from Scotland supply chain by £5bn by 2012 (baseline of £5.6bn in 2007)</td>
<td>targeted R&amp;D centres, Enhance Scotland as a key centre in oil &amp; gas subsea, attraction of technical talent</td>
</tr>
<tr>
<td><strong>CI &amp; ET</strong></td>
<td><strong>Creative Industries</strong> increase levels of international collaboration, encourage start up companies to be 'born global', exploit IT</td>
<td>focus on activity which supplements present strengths e.g. R&amp;D in ICT, major games company, attraction of creative talent</td>
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<tr>
<td></td>
<td><strong>Enabling Technologies</strong> assist companies in key product markets e.g. sensors, modelling &amp; simulation, informatics to access global markets</td>
<td>utilise international networks to increase the potential for job creation via specific inward investment, attract talent</td>
</tr>
<tr>
<td></td>
<td>support the international growth aspirations of organisations located in Scotland including stem cells, regenerative medicine, clinical and translational medicine, drug discovery and medtech</td>
<td>stem cells and translational medicine a priority, attract anchor tenant for Edinburgh Bioquarter, attraction of senior management talent. Explore emerging potential for telehealthcare and natural products in Highlands &amp; Islands.</td>
</tr>
<tr>
<td><strong>Life Sciences</strong></td>
<td>Focus on key sub-sectors e.g. helping asset managers to access markets where government support is important to make high level connections, for example China &amp; Japan</td>
<td>protect Scottish based operations, exploit expansion opportunities, maintain and grow high value FS &amp; BS operations in Scotland, homeworking opportunities in rural areas, attraction of talent</td>
</tr>
<tr>
<td><strong>Financial Services</strong></td>
<td>Working with Scotland Food &amp; Drink exploit premium growth market opportunities building on the industry's role as a premium player, promote opportunities &amp; embed international action planning into companies</td>
<td>functional food/nutritional health offers good medium to long term potential. String focus on supporting existing investors.</td>
</tr>
<tr>
<td><strong>Food &amp; Drink</strong></td>
<td>working in collaboration with VisitScotland and limited AM companies particularly for markets not covered by VisitScotland network</td>
<td>deliver higher value new developments within Scotland e.g. 5 star city centre hotels and golf resorts</td>
</tr>
<tr>
<td><strong>Tourism</strong></td>
<td>international business development support for the universities (and colleges), key markets are India, China and the Middle East with a focus on new business</td>
<td>attract business investment which compliments the research being developed in universities</td>
</tr>
<tr>
<td><strong>Universities</strong></td>
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</table>
SDI also continues to support the international opportunities in other growth sectors including: Chemicals, Textiles, Aerospace, Defence and Marine, Forest Industries, Healthcare, Education and Construction. See below a short summary of the scale of opportunity in the chemical sector.

**Chemicals Sector: Scale and Opportunity**

Chemicals is a hugely important sector to the Scottish economy generating around £3.5 billion of manufacturing exports in 2008 (top export sector from Scotland). From a revenue stream worth £9.3 billion it has the second highest GVA per employee of any industry in Scotland (£182k). It accounts for 25% of Scottish manufacturing by turnover and 6% of Scottish manufacturing employment. It directly employs 14,000 skilled staff, many of them graduates with 70,000 jobs in Scotland directly dependent upon it.

There are approximately 150 chemical companies in Scotland, including many of the world's leading chemical/pharma companies such as INEOS, DSM, BASF, GSK, Dupont, Organon, Syngenta and Dow Chemicals. The sector accounts for 50 per cent of all industrial R&D in Scotland (including Pharmaceuticals). Scotland’s highly-rated universities produce around 1,000 graduates per annum, with EastChem (St. Andrews & Edinburgh universities) RAE rated as No. 1 in the UK, ahead of Oxford, Cambridge and Manchester.

Speciality chemicals is a particular area of focus as it operates at the high end of the value chain, has higher margins and high growth potential. Growth areas in this sector include specialist organics and inorganics, additives, pesticides, paints and dyes.

With 25% of Europe’s wind and wave resource and 10% of the tidal potential the present international opportunities for Scotland in renewables are significant and are described in more detailed on the next page.
Case study: Renewables sector

Market opportunity: Scotland is renewable resource rich with 25% of Europe’s wind and wave resource and 10% of tidal potential.

Government Policy: The SG has set stretching targets across a broad range of Renewable Energies and published the Renewables Action Plan. Targets are:

- 31% of power from Renewables by 2011 & 50% by 2020 (currently 22%)
- Carbon Emission reduction target of 42% by 2020

International opportunities include: influencing regulatory environment to be pro-investment e.g. FREDs.

Offshore Wind (market 2010 – 2020):

- UK Round 3, 9 zones 32GW offshore developments estimated £70-80bn market.
- Offshore wind developments in Scotland will amount to capital expenditure estimated from £25bn to £30bn on offshore wind projects. Scottish projects include 2 UK Round 3 zones (Firth of Forth 3.5GW and Moray Firth 1.3GW) and 10 Scottish Territorial Waters projects 6.4GW.
- European Offshore Wind market: estimated further £75bn capital exp by 2020.

International opportunities include: attraction of turbine manufacturers, sell offshore engineering expertise (built up through Oil & Gas Industry)

Marine Energy:

- the Crown Estates have launched a licensing round for the Pentland Firth with the target of achieving 700MW of wave and tidal energy generation by 2020. Marine Renewables have been identified by the Government as the key area in which Scotland already has a world lead in technology development
and the potential to create an industry from scratch.

International opportunities include: promotion of Saltire Prize, develop leading edge expertise which can them exploited globally, R&D challenge to attract technology innovation, attraction of talent.

Infrastructure Investment:

- Ports and Harbours: an estimated expenditure of c £250m required
- European SuperGrid: an EU strategic priority but a longer term opportunity - potential capital expenditure of up to £150 - 200bln by 2030-35.

International opportunities include: attract cable suppliers, develop supply chain and maintenance functions.
Q6. Should we prioritise where we target the public sector resources and intervention in terms of specific sectors of the economy, a geographic focus, on a specific type of company (i.e. those more interested in exporting and trade or those already active in that regard), on opportunities of a particular scale etc?

SDI fully agrees with the need to prioritise resources and interventions in relation to opportunity and impact on economic growth. We have outlined in our response to earlier questions and in particular Q6. The approach that is undertaken to try to achieve the optimal balance between short term and longer term considerations. In addition we believe it is helpful to inform the Committee of the following:

**Key sectors and other growth sectors**
SDI will continue to work with its partners to focus efforts on key sectors and areas of opportunity (e.g. technologies) where Scotland is/can be globally competitive. A summary of opportunities for each key sector is given in Q5.

**Assessment of opportunity determines geographic coverage**
As the world economic map evolves, Scotland needs to re-assess global opportunities to take advantage of the shift in international economic activity towards developing markets. Work is underway to evaluate the criteria to be applied in the future identification and selection of key fast developing markets. These criteria are likely to include:

- Market match with the profile of Scotland’s globally competitive sectors
- Market size and potential for growth
- Strategic economic importance
- Strength of the scientific, technical and research base
- Performance of Scottish businesses relative to competitors
- The additional impact SDI can have in supporting firms

The results of this work will inform future demand generation activity and the SDI market awareness raising programme. Where SDI has no direct local presence then we work closely with UKTI staff to deliver for Scotland.

**SDI Overseas Locations**
Broader Engagement with more companies
SMEs will continue to be a key client group. SDI will focus on particular customer groups that have the greatest potential to add value to the economy, notably innovative companies and companies in specialised sub-sectors. To raise the overall ambitions and aspirations of businesses to internationalise SDI is enhancing its online products and use ‘one to many’ events to engage with more organisations. This will be done collaboratively with Business Gateway, Scottish Chambers and other partners.

Those with greater ambition will be encouraged towards SE and HIE’s business growth support. We will also influence others to raise the ambition of leaders of the future through initiatives like the Saltire Foundation. SDI will increase the effective use of on-line products/services to support customers and will maximise the use of e-marketing and other innovative channels for communication.

The impact of these activities will be felt in the medium to long term as more companies develop the skills and confidence to successfully expand into overseas markets.

Deeper Engagement with those businesses that can have the greatest impact
To realise short term economic benefits SDI will work more intensively with globally competitive businesses which, with its support, can have the greatest impact on the Scottish economy. Our evaluation work to date also suggests that working deeper with companies in getting them ready for internationalisation e.g. international strategy workshops has more impact. SDI will increase its concentration on working with:

- innovative companies;
- those with high R&D intensity (commercialising R&D);
- high value potential investors;
- ambitious growth companies;

SDI continue to seek out those companies where our support can have the most impact and tailor support to the requirements of our customers.

Q7. Do we have the right amount of co-operation and a joined up approach within the public sector in Scotland, between the public sector and the trade and promotion agencies run by other bodies, and also between the agencies in Scotland and those at a UK level that also carry out related activities on behalf of Scottish companies? This should also cover how the public sector could facilitate business-to-business mentoring, within industries and from successful industries (e.g. oil and gas, and whisky) to other industries and, specifically, a review of what
the Globalscot Network delivers and whether it could be used more effectively in order to maximise its potential?

**Joined up working across the public sector**

SDI’s Strategic direction includes increased emphasis on ensuring alignment of internationalisation work and supporting the wider promotion of Scotland. There is recognition of the much wider collaboration with both public and private sector partners e.g. VisitScotland, Skills Development Scotland, Scottish Funding Council, industry bodies, universities SEPA, Historic Scotland, etc., as well as collaboration with other players outwith Scotland, particularly UK agencies e.g. UKTI, FCO, BTU to support internationalisation of Scottish businesses and the attraction of investment to Scotland.

Through the Strategic Forum, SDI has been working with SG and partner agencies to strengthen overseas collaboration. Four general areas have been identified by the partners where future collaboration has the greatest potential to reap significant benefits. These are:

- Promotion of Scotland
- Innovation & Commercialisation
- Major Events
- Wider Business Engagement (e.g. industry/private sector)

In all these areas significant collaboration already happens and the desire of partners was to assess how this could be further strengthened. Work is now ongoing to develop approaches in all four areas. For example, in the areas of science, technology and innovation several bodies contribute valuable expertise, notably Chief Scientific Officer, Scottish Funding Council, Universities and industry bodies. We need to promote and support further commercialisation from our strong knowledge-generating capacity and ensure Scotland reaps the global dividend from this asset base.

**UK level co-operation**

SDI works in partnership with UKTI to ensure that companies based in Scotland benefit from an integrated package of SDI and UKTI Trade and Investment services. We extend our combined resources to support success in international markets for Scottish businesses.

UKTI provide the market intelligence and, in some geographies, access to markets where SDI do not have a physical presence. UKTI staff based in UK embassies and High Commissions overseas offer SDI both economic and business insights, often with commercial implications.

Some typical examples of joint working include:

- Olympic & Commonwealth Games – joint conferences and the UKTI / BIS sponsored Compete-For web portal
- UKTI business opportunities have been incorporated into SDI’s International Business Opportunities product e.g. tailored sales leads, fiscal stimulus opportunities
• UKTI Professional Advisors Network – SDI encourages Scottish professional advisor companies to engage in the UK’s network and is establishing a Scottish Advisors Network to mirror UK approach
• Ongoing cooperation on high profile market awareness events e.g. the recent Asia Taskforce event at Murrayfield stadium
• Co-location of SDI staff in a number of Embassy/Consulate offices

SDI in partnership with UKTI also offer:
• information on local regulations
• advice on local partners, commercial services (lawyers and accountants), and on setting up joint ventures or local investments, and
• market research, ranging from simple checks on whether a market exists for a particular product through to more complex work supporting product launches or significant investments in global markets by businesses

European Co-operation
Through Scotland Europa, SDI continues to ensure Scotland’s voice is heard in Europe through networking and influencing. It increases the positive perception of Scotland as a place to do business. Scotland Europa also supports access to EU funding opportunities.

Enterprise Europe Scotland (EES), delivered by SE, also plays a key role for Scottish business, supporting Europe’s largest technology and business network, connecting knowledge know-how and people across Europe. The Enterprise Europe Network spans more than 40 countries, has over 600 partner organisations, 4,000 advisors and thousands of companies interested in doing business in Europe.²⁴

Wider industry and private sector engagement
The role of Industry Advisory Boards is critical in articulating the demands of industry and the international elements of this to allow SDI and other partners to prioritise and respond to this demand.

SDI works closely with partners involved in each key sector to ensure the international opportunities are fully exploited. An example of this approach in the attraction of investment to Scotland is given below:

Translational Medicine Research Collaboration (TMRC), and the Scottish Academic Health Sciences Collaboration (SAHSC)
It was recognised that Scotland had a competitive global advantage in Translational Medicine as a result of expertise and systems in the NHS in Scotland and in Scotland’s major universities. SDI and SE worked with these organisations and developed a very compelling proposition which was presented to global top 10 pharmaceutical company, Wyeth. This resulted in 2006 in the establishment of a major multi-centre collaboration with Wyeth in

Scotland.

To take the initiative forward the Translational Medicine Research Collaboration was formed. The TMRC involves 4 of Scotland’s universities, NHS Scotland and SE. SDI’s specific role was in helping facilitate a coherent plan with the pan-Scotland ‘team’, facilitating the front end selling of our proposition to the company.

In terms of drug development timescales it is still comparatively early days, but to date 68 research projects have been initiated and Wyeth (subsequently acquired by Pfizer) have invested approx £33m in the initiative. Wyeth themselves made clear that if there hadn’t been the genuine depth of collaboration between the various public sector organisations they wouldn't have come to Scotland, and the opportunity for significant economic and health benefits would have been lost.

To capitalise further on Scotland’s expertise in this area, the Scottish Academic Health Sciences Collaboration was established in 2009. The SAHSC created a world leading platform for patient oriented research that will contribute significantly to Scotland's reputation as a centre of excellence in Translational Medicine. This new initiative built on the close existing collaboration between SDI, SE, NHS Scotland and academic partnerships already existing in Aberdeen, Dundee, Edinburgh and Glasgow, and through these to other Scottish Health Boards and Universities. SDI and SAHSC are currently undertaking joint international marketing to major global pharmaceutical and med tech companies to attract further investment to Scotland.

The collaborative approach is just as important for supporting businesses to trade internationally. For example in Food & Drink a major effort has been undertaken by a range of public and private sector partners in the last two year to fully exploit the increased opportunity to export salmon from Scotland.

**Farmed Salmon – Exploiting Opportunities**

Currently Scotland is the world’s 3rd largest producer of farmed salmon. The second largest producer, Chile, has recently encountered serious disease issues and as such production there is set to drop significantly. This has created an increase in global demand for Atlantic salmon, especially in North America.

The Scottish salmon industry has identified a market opportunity, over the next five years, for production of an additional 60,000 tonnes of Scottish farmed salmon. This would help to meet the worldwide demand for salmon, capitalise on the market gaps and provide more than 400 new farming and processing jobs and an extra £110 million to the Scottish economy.

SE and key partners including: Scottish Government, Scottish Salmon
Producers’ Organisation (SSPO) and HIE have worked closely over the last two years to engage with the Norwegian owners of Scottish based salmon companies to encourage increased investment and production in the Scottish salmon industry. During the European Seafood Expo in April 2009 and at AquaNor in August 2009, SDI facilitated meetings between the Minister for Environment and the key partners and the CEO’s of all 6 Norwegian companies who have salmon farming interests in Scotland.

SDI facilitated in August 2009 a meeting hosted by the Cabinet Secretary for Finance and Sustainable Growth between the LA Directors of Planning and the industry to discuss perceived issues around the sustainable development of aquaculture and in the last month the Scottish Government has launched Delivering Planning Reforms for Aquaculture.

Significant work is also being conducted at a company level. For example, the Lakeland Group and Loch Duart are both regular exhibitors on the Scottish Pavilion at the European Seafood Show and have been for several years. Hjatland and Scottish Seafarms visit ESE and are active participants in the meetings and receptions which SDI organise. A workshop in Perth on 15th of April will detail opportunities for fresh and smoked salmon in the USA.

Figures out this month (March 2010) confirm that export sales of Scottish Salmon increased by 24% in 2009 to £220million.25

‘Loch Duart export 65% of their salmon into 12 different countries. SDI offer support in key sales arenas (e.g. ESE, Gulffood) and most importantly, have staff with a deep knowledge of the main players in our market.’ Andy Bing, Loch Duart

**GlobalScots**

GlobalScots are a unique and powerful resource for Scotland. The network is made up of exceptional individuals whose intellectual and network capital has been built up over decades of success in international business. Businesses in Scotland have unparalleled access to world class advice and expertise in all our key geographies and sectors.

The GlobalScot Network continues to grow in strength and the membership has been aligned to support sector (including sub-sector) priorities and overseas markets of strategic importance to Scotland.

The use of GlobalScots is an immensely powerful tool for supporting trade and investment in Scotland. The most recent evaluation of the GlobalScots Network took place in 2007. This demonstrated that net GVA figure attributable to the Network was extremely positive at £28m with anecdotal

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25 Scottish Salmon Producers’ Organisation, March 2010
evidence that this is likely to rise over time as unquantified outcomes and impacts become further embedded and generate quantifiable impacts.

Work is ongoing to look at ways of ensuring the GlobalScots are more visible, more accessible and are used in the most effective way for Scotland. An example of this is the ‘Pitch for Success’ approach where Scottish businesses ask specific questions of GlobalScots.

Aquamarine Power’s ‘Pitch for Success’ with GlobalScots

Aquamarine Power is a wave energy company, with head offices in Edinburgh, Scotland and further operations in Ireland and Northern Ireland. The company is currently developing its flagship technology, an innovative hydro-electric wave energy converter, known as Oyster®. Aquamarine Power’s goal is to develop commercial Oyster® wave farms around the world.

Martin McAdam Aquamarine’s Chief Executive recently took part in the Pitching for Success Video Campaign, which was circulated to the GlobalScot community. The video campaign has been a great success and resulted to date in 10 GlobalScots offering assistance to Aquamarine Power.

Aquamarine has had advice from GlobalScots in marketing its business, market entry advice and obtaining investment. To view the video Campaign of Aquamarine Power please visit: http://www.youtube.com/watch?v=SGwvsbr0d58

Q8. Are sufficient resources being made available for such activities and do the various public sector support organisations have the necessary skills and expertise to best support Scottish companies to internationalise and to attract inward investment from within a very competitive market?

Resources
The resources for SDI are prioritised as part of SE, HIE and SG planning process. It is an objective led approach that looks at the value trade and investment can deliver to the sustainable economic growth of Scotland and how this complements other strategic priorities e.g. innovation, business growth, and investment.

It is a dynamic process, if opportunities arise during the year e.g. a major inward investment opportunity, then SDI work with partners to try and secure the investment. Where resources are a potential constraint then this is discussed with Government as needed.

It should be noted that significant resources for supporting the attraction of investment come from partners e.g. RSA delivered through SE, vocational training delivered through Skills Development Scotland. SDI work closely with
partners to provide a package of support which meets the investors needs and delivers economic impact for Scotland.

A key factor in our success will be enhancing the business environment. Our overseas market intelligence can give us a key insight into how our sectoral strengths are viewed across the globe and where we should focus more or less.

For inward investors some of the key issues overall when considering locations include:

- Quality and availability of labour and skills (e.g. graduates)
- Tax, government incentives and political risk
- Costs (e.g. labour, energy, real estate)
- Communications infrastructure

Other issues mentioned are quality of government/regulations, direct travel links and quality of inward investment support. Government needs to continue to prioritise these assets to ensure Scotland strengthens its globally competitive position. SDI can then support the marketing of these to attract new investment to Scotland.

**Efficiency**

SDI will continue to challenge how costs can be further reduced, while the effectiveness of our work can be increased and have a greater impact on the Scottish economy.

The support service model of SE is essential to enable SDI to drive down internal costs (e.g. HR, IT, finance, procurement, facilities, and research). This also ensures we have the competencies to draw on when we need them e.g. the present evaluation has used both the SG, SE and HIE economics and research expertise.

SDI’s approach to FDI is a blend of public and private sector resources. For example, RSA grants are fully dependent on agreed levels of investment by the companies concerned.

**Skills and Expertise**

SDI already has a strong skills and knowledge base both at a geographical and a sector level. Over 75% of SDI staff have relevant direct private sector business to business sales and marketing experience while around 80% of staff employed in overseas locations are local nationals with relevant experience and qualifications in business development.

Through SE’s Learning & Development team we have focussed on competency based training for many years and provided professional development based on the present and future needs of the business. Recognising the increasingly competitive global environment for FDI and supporting Scottish companies to internationalise we have recently taken steps with the support of SE Learning & Development Team to put in place the SDI Academy which focuses on enhancing consultative selling
competencies of SDI staff and ensure SDI staff maintain the specialist skills necessary to support the business development efforts of Scottish companies (e.g. Institute of Export level qualifications).

Many of the skills required to internationalise can be provided by the private sector. SDI work to strengthen existing relationships with private sector bodies (e.g. trade associations, international legal firms, accountants, specialist employment agencies and others) to help ensure these skills are matched with the businesses which could benefit from them.

Q9. Are there any lessons we can learn from the approaches taken by other countries for their trade promotion and international trade schemes?

SDI is always looking to benchmark itself against other competitor investment bodies around the globe and there are certainly lessons to be learned. We monitor Scotland’s competitor agencies and as appropriate use this knowledge to develop or enhance products and services. A recent review by The World Bank ranked SDI sixth in the world among investment bodies for its ability to bring new investment to a region and boost a local economy. The review compared over 210 international development bodies to assess their performance in attracting inward investors - and rated SDI above all other UK agencies.

‘SDI has proven to be very effective in facilitating foreign investment projects, further building on Scotland’s reputation as a successful global investment location’ World Bank quote

SDI, in particular, was recognised for its work in the areas of customer care and follow-up, as well as attracting inward investment and knowledge to Scotland. This benchmarking exercise helps us identify where we can improve the way we operate. For example in the 2007 report our website scored 76% (just in the top quartile), from this we focused on developing the site based on both customer feedback and learning from ‘best in class’ organisations. Subsequently the website scored 86% in 2008. After the latest report we have focussed particularly on improving our enquiry handling processes.

A sectoral example of how benchmarking is used to improve the way SDI and partners work strategically, operationally, and for the benefits of business customers is given below:

**Food and Drink – Benchmarking Examples**

**Scotland Food and Drink Model**

Prior to its inception, studies were carried out on models used by other countries to promote economic growth within the food and drink industry including Australia, Denmark and New Zealand. Models and structures were studied in these markets before deciding on a model which was in the view of the Scottish food and drink industry, most appropriate for providing
leadership, setting strategic priorities and providing a strong industry voice.

**Food & Drink Strategy**

To support the development of the Scotland Food and Drink Strategy, studies were also carried on approaches taken by other countries to stimulate economic growth in food and drink. This work included analysing how New Zealand promote lamb, the success of Halal hubs in Malaysia and the success achieved by Italia Del Gusto, a producer consortium in Italy.

**Learning Journeys**

SDI has also in recent years organised learning journeys for Scottish food and drink companies to the 'Food Valley' in the Netherlands which has a world class reputation for excellence in food research, food innovation and is the location of choice for some of the world's top food manufacturing businesses. We have collaborated with the East of Netherlands Development Agency to support this activity.

**Best Practice**

SDI monitors closely best practice in the promotion of food and drink at international exhibitions. During the last two years have organised a Scotland Food and Drink Stand at an increasing number of international exhibitions, supporting 30% more companies to promote their products on an international stage. A programme of support is available before, during and after each exhibition to ensure Scottish companies are well prepared to exploit new international opportunities.

Q10. Do we have in place the necessary data collection and statistical system that is needed to provide our policy makers with a detailed understanding at a Scottish level of our export, international trade and inward investment performances? This could include views on the Global Connections Survey and what it is used for and whether there are more opportunities to distribute evidence from this survey more widely and more meaningfully.

**Global Market research**

We have good data on how the Scottish proposition in key sectors is perceived in comparison to competitors, but we need to keep this constantly up to date by refreshing our market data through access to secondary research e.g. Financial Times FDI competitiveness database, and through listening and acting on customer feedback. We will conduct fresh market research, for example, in under-research sectors.

We know the characteristics of the overseas businesses we want to attract as investors and the characteristics of those Scottish businesses where targeted trade support can most benefit the economy. We have good market intelligence on what these potential investment and trade partners are looking
for, though more work remains to be done on the priorities for particular sectors (and sub-sectors) in particular geographical markets.

**UK and Scottish level research**
The Global Connections Survey provides a useful snapshot of Scotland's export activity and is particularly useful in understanding the barriers to trade experienced by Scottish businesses, this is used to help design future interventions. It collects detailed information about export values and destinations of goods and services across the economy as a whole (not just manufactured goods). It also includes exports to the rest of the UK - used as a Scotland Performs indicator. It is, however, a sample survey and completing it is not a mandatory requirement for companies.

The index of manufacturing exports provides a useful more up-to-date picture, although this is limited to manufacturing and to overseas sales volumes and provides less detailed information than the Global Connections Survey.

**SDI (SE and HIE) research**
SDI continues to build its evidence base to help better understand the impact of its activities. This includes working with both SE and SG colleagues to ensure a good fit with the Government’s performance framework and the SE performance measurement systems.

SDI with the joint venture partners is just completing one of the most comprehensive evaluations trade and investment activities and the impact these activities have had on the Scottish economy. The research included secondary research to learn from the present academic literature, this was then used to support the design of the primary research. Key findings from this are given in Q1 and Q3. More detailed work is being conducted to ensure we fully gain the learning from this and apply this going forward. This work has been used to inform our strategic direction and will help us in both the prioritisation and design of future interventions to ensure they deliver more economic benefit for Scotland.

SE conducts regular surveys of the companies they work with and the results are analysed monthly. This information gives up to date information on their present and forecast growth and whether they expect exports to increase/decrease. This helps us indentify where we should focus efforts.

SDI Overseas Offices collect market intelligence on a continual basis and feed this back to help inform decision making Scotland.

Scottish Development International on behalf of joint venture partners; Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise  
March 2010
Introduction
This second short supplementary submission is to update the Committee on recent developments of relevance to current Inquiry into the public sector's support for exporters, international trade and the attraction of inward investment.

This includes information relating to:
1. SDI Evaluation Results - published 27 May 2010
3. 2009/10 SDI Performance (provisional)
4. Follow up meetings with interested parties
5. Support available to businesses

Independent Evaluation of SDI
The report was carried out by SQW Consulting to assess the effectiveness of the support offered by SDI and make suggestions for future SDI strategy. The committee has been sent a copy of both the Executive Summary and the full report. Key findings include:

- Scottish Development International (SDI) contributes £325 million annually to the Scottish economy through its inward investment and internationalisation activities
- SDI has created around 19,000 jobs to date, demonstrating its importance in supporting employment. SDI assistance has led to an additional £58 million average exports per annum
- SDI assistance has had a strong and significant impact on company performance, with businesses assisted to internationalise nearly 19% more productive than ‘matched’ cases with no assistance
- Almost 50% of all businesses interviewed reported that because of the support received from SDI, they had met customers/partners that they would have otherwise not have been able to meet
- 41% have achieved sales in new overseas markets and 80% expect to achieve overseas sales as a result of the supported internationalisation activities
- Analysis shows that there are higher wages, higher employment and higher labour productivity in SDI-assisted inward investor companies
- 73% of inward investors working with SDI consider SDI to have been very or fairly important in ensuring the continuing presence of the business in Scotland
- Most SDI-assisted inward investment companies are employing more people than planned, doing more R&D and have broadened their product range

Applying the Learning
The findings have provided us with new evidence to help us further develop and refine our services to ensure we offer the right kind of support to help Scottish companies become more globally competitive and really transform Scotland’s economy. We have already started to take the learning from this, for example:

Supporting more businesses to internationalise
The evaluation confirms the market failure which exists in relation to the provision of information and support to help companies tackle international markets. This demonstrates the importance of raising understanding of the benefits of going international, despite the challenges, and shows the greater impact of improving the international skills of companies.
• SDI aims to address these issues by undertaking in partnership with others a more comprehensive internationalisation and market awareness raising programme in addition to the SMART Exporter initiative which is focussed on raising the international skills for a wider population of Scottish businesses.

Providing more intensive support
• We intend to undertake even deeper engagement with high growth companies in conjunction with the SE and HIE account management functions in light of the findings that the companies that reported strongest impact on internationalisation were those that received more strategic support and are account managed.

Inward Investment
• We recognise that inward investment activities targeted at safeguarding employment remain vitally important to support economic recovery and this will remain a focus in the foreseeable future. In addition, we will take further steps to deepen our understanding in relation to investments which will enhance the long term competitiveness of the economy. Based on the insights we currently have our inward investment targeting will focus on projects which have the highest potential multiplier benefits in sectors with the greatest long term sustainable advantage potential.

The National Economic Forum
The focus of the last National Economic Forum on the 19 May was ‘Scotland’s International Trade and Future’. SE and SDI highlighted key opportunities for Scotland as noted below:

• International mindset: developing an overall culture within Scotland which supports an international mindset. SDI in partnership with SCDI and Chambers International are working on an initiative (Smart Exporter) to develop the skills and capabilities of more Scottish businesses to actively consider international markets. At this time, more than ever, we need Scottish businesses to exploit international opportunities and capitalise on the low value of Sterling.

• Wider public sector policies to support key sectors: through a sectoral approach we can ensure the broader range of public sector support is directed at global opportunities, e.g. the present opportunity to increase salmon production including a supportive planning environment. It could be argued that most public sector interventions should be seen through the lens of trade and developing a globally competitive business environment

• Low Carbon economy: we need to focus on this emerging opportunity. Discussions to date with the private sector have been helpful in confirming that working in partnership there is an opportunity to secure substantial inward investment particularly in relation to the development of the supply chain which would help optimise the economic benefits related to renewables.

• Leadership (and sales and marketing skills): will allow Scotland to increase competitiveness and exploit this through international markets, in particular one of the key barriers to international trade is the lack of sales and marketing resource and capability in addressing overseas markets. The more complex the business, the more sophisticated the sales approach has to be. From new venture formation or growth of companies of scale - sales is the key to revenue. Supporting greater provision through Scotland’s business schools, the private sector and GlobalScots is necessary.
• **Innovation and Commercialisation:** The quality and volume of Scotland’s academic research base makes a crucial contribution to our global position, particularly those with a technology focus, examples include:

  - Academic medical research strengths have underpinned the development of the Life Sciences sector with, for example, universities, health boards and SE combining to attract the leading pharmaceutical company Wyeth to pioneer its advances in Translational Medicine.
  - Scotland’s progress in Renewable Energy is dependent on the strength of the research base, where the Energy Technologies Partnership brings together the universities to provide one-door access to their significant capabilities.

**SDI’s 2009/10 performance (provisional)**
SDI results for 2009/10 are presently still being validated however we are confident that on both the ‘Supporting Businesses to Internationalise’ and the ‘Attraction of Investment’ our performance shows an improvement compared to 2008/09.

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<tr>
<th>2008/9 Actual</th>
<th>Measure Description</th>
<th>2009/10 Provisional</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,807</td>
<td>Planned jobs through inward investment (of which at least 1,600 will be high value) Description: Planned jobs of a high value nature secured for Scotland from inward investment. - of which 144 were recorded in Highlands and Islands</td>
<td>2,111</td>
</tr>
<tr>
<td>835*</td>
<td>Number of businesses assisted to internationalise Description: The number of businesses assisted to participate internationally. - of which 100 were assisted in Highlands and Islands</td>
<td>909</td>
</tr>
</tbody>
</table>

*in 2008/09 this was not a published measure

**Follow up Meetings with Interested Parties**
SDI has carried out a series of follow up meetings to better understand some of the issues raised during evidence sessions to the Committee which related to SDI’s work. This has included meetings with:

- Boyd Tunnock (Thomas Tunnock Ltd)
- Consulate of Mongolia
- Consulate of Iceland

All meetings were positive with firm actions now being taken forward.

**Support available to businesses**
Attached in Appendix A is a summary diagram showing the internationalisation journey businesses undertake (from awareness to market presence) and the support available from SDI and our partners.

4 June 2010
SDI International Business Growth Model

**AWARENESS & AMBITION**
- SERVICES
  - Marketing activity
  - Market Awareness events
  - Expert advice
  - GlobalScot
  - Online delivery

**BUILDING CAPABILITY**
- SERVICES
  - Diagnostic tools
  - Strategy development
  - Preparedness programmes
  - Mentoring
  - GlobalScot
  - TalentScotland
  - Sales & marketing programme
  - Technical support

**ACTION PLANNING**
- SERVICES
  - Strategy development
  - Market research
  - Mentoring
  - Learning journeys
  - GlobalScot

**MARKET ENTRY**
- SERVICES
  - Overseas market support
  - Research
  - Market opportunities
  - Networks
  - Exhibitions
  - Missions
  - Learning journeys
  - Matchmaking services
  - Marketing planning
  - GlobalScot

**MARKET EXPANSION**
- SERVICES
  - Overseas market support
  - Networks
  - Exhibitions
  - Missions
  - Learning journeys
  - Matchmaking services
  - Marketing planning
  - TalentScotland
  - GlobalScot

**MARKET PRESENCE**
- SERVICES
  - Incubation
  - Soft Landing services
  - Advanced preparedness services

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SDI CO-ORDINATES CUSTOMER JOURNEY, QUALITY CONTROL, INTEGRATED DELIVERY, SINGLE POINT OF CONTACT, EFFECTIVENESS AND EVALUATION

- Delivered with partners or specialist suppliers
SDI Policy Evaluation

Final report

May 2010
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Executive Summary

Introduction

1. International activity, both inward investment and internationalisation, is extremely important for relatively small and open economies such as ours. Indeed, the recession has focused even more attention on the role of exporting in particular as offering an effective route to economic growth. With a weaker currency and reduced domestic demand, exporting and other international activity present exciting new opportunities for Scottish companies. Scotland also has a strong reputation in attracting inward investors which can bring new jobs, higher levels of productivity and new technologies.

2. This report sets out the findings of an evaluation of Scottish Development International (SDI) activities. The study was undertaken in late 2009 and early 2010. It uses several different methodologies to provide an overview of past performance and to make suggestions for the future development of SDI’s operations.

3. The report covers two areas of SDI activity; internationalisation, relating to the international activities of Scottish-based businesses, and inward investment, relating to investment in Scotland by foreign-owned companies. The main elements were:
   - interviews with 305 companies that had benefited from inward investment or internationalisation support\(^1\). 250 interviews were undertaken for internationalisation and 55 for inward investment.
   - econometric analysis of inward investment and internationalisation activities carried out by Professor Richard Harris\(^2\)
   - consultations with SE, SDI, Highlands and Islands Enterprise (HIE), the Scottish Government and external partner organisations.

4. Overall, the report provides some very positive findings for SDI; these are evidenced by the results of the econometric analysis and by the impacts reported by the assisted companies in the surveys. Both of these sources demonstrate that the support provided by SDI has had a significant and positive impact on the businesses worked with.

5. There is a strong consensus in Scotland in support of internationalisation activity, both inward and outward; businesses and partner organisations concur in this. Looking forward, the evaluation also raises a number of important points that SDI should consider in order to further improve its performance.

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\(^1\) Interviews with businesses were carried out by IBP Strategy and Research as a subcontractor to SQW for this assignment

\(^2\) Professor Richard Harris, Alec Cairncross Chair of Applied Economics and Director of the Centre for Public Policy for Regions, Department of Economics, Glasgow University
Activities

Internationalisation

6. The analysis of this element of SDI’s activities covers the period 2005/06 to mid 2009. In total, the SDI data indicate that there were around 9,000 business ‘assists’ between 2006 and mid 2009, with the annual figure increasing each year. These assists were provided to an estimated 2,370 companies.

Inward investment

7. The analysis of this element of SDI’s activities covers the period 2001/02 to 2007/08. SDI provides access to both financial and non-financial assistance to non-Scottish firms when they set up, maintain or expand their operations in Scotland. The main sources of financial assistance offered to inward investors are Regional Selective Assistance (RSA), R&D Grants and Training Plus.

8. From 2001/02 to 2007/08, SDI data reports 440 assists to 328 companies. Between 46 and 65 companies were assisted each year over that period.

Econometric analysis

9. This was carried out by Professor Richard Harris using econometric techniques and data from the Annual Business Inquiry to estimate the correlation between business performance and SDI support. The analysis is separated into two parts, internationalisation and inward investment. Both sections used a technique known as ‘matching’. Using ‘matched’ data means that in the absence of SDI assistance, the average performance of assisted and non-assisted businesses should be the same and any statistical difference between the two can be attributed to the ‘treatment’ effect (that is, the assistance provided).

Internationalisation results

10. The econometric analysis has demonstrated that

- higher productivity companies are the ones that are more inclined to enter international markets
- businesses that enter international markets gain from significant post-entry ‘learning-by-exporting’ and outward investment effects. The former resulted in a boost to productivity of around 16-18%

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3 For this evaluation, we have used Total Factor Productivity (TFP) as the principal indicator of productivity. TFP is the level of output that is not attributable to factor inputs (employment, intermediate inputs and capital). Rather it measures the contribution to output of other influences such as technological progress and/or changes in efficiency (factors which are more susceptible to the beneficial effects of internationalisation or of SDI support). This measures the productivity of all factors of production (and not labour alone).
• specifically, SDI assistance has had a strong and significant impact with assisted businesses nearly 19% more productive than ‘matched’ cases with no assistance

• SDI assisted businesses also had lower employment of between 13-19% when compared to non-assisted businesses (based on using the full data set and ‘matched’ cases).

Inward investment results

• generally, average labour productivity, wages and levels of employment are higher among SDI assisted businesses than among other firms in Scotland

• SDI assisted businesses had higher employment (than comparable unassisted plants) of around 10%

• SDI assisted businesses also paid higher real wages (around 15%) when compared to non-assisted plants.

11. In these cases SDI assistance has supported employment, provided higher wage jobs and raised the average of Scotland’s labour productivity. That said, SDI-assisted businesses had lower Total Factor Productivity (see footnote 3) than non-assisted inward investment cases, this may be due to SDI support safeguarding jobs, where without it, the business would have to reduce the scale of operations.

12. Securing employment and higher value jobs were SDI’s objectives over the period covered by this evaluation. However, in moving forward, the use of Total Factor Productivity could encourage a fresh look at the nature of inward investment. It also raises questions about how we attract higher productivity businesses in the future and the balance between supporting/safeguarding employment and longer-term competitiveness of the Scottish economy.

Business survey results

Internationalisation survey

13. The business survey results have been based on telephone interviews with 250 Scottish companies assisted by SDI to develop their international activities. The sample was chosen from a total population of 2,228 companies that have been assisted. The main results were as follows:

• 35% of assisted businesses reported that SDI had had some positive influence on their decision to trade internationally at all (this represents almost 800 companies)

• the most significant barrier to internationalising their business was finance (32%), followed by management time and establishing dialogue with prospective customers

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4 This is the number of assisted companies that are estimated to be trading at the time of the survey

5 This sample and the population give a margin of error of +/- 6% (at a 95% confidence level).
or partners. The top three barriers are all areas that SDI/SE/HIE can, and do, influence

- 60% of those interviewed had made or planned to make changes of some kind as a result of working with SDI
- in a ‘before and after’ comparison (Fig. 1) businesses showed significant improvements in perceptions of their internationalisation capabilities following support from SDI, particularly in relation to ‘knowing what needs to be done to establish a local presence’, ‘ability to develop a strategic plan’ and ‘having a clear view of the advantages and disadvantages of international trade’.

![Figure 1: Changes to businesses’ internationalisation capabilities as a result of working with SDI. Average values based on scores of 1 (= very weak) to 5 (= very strong)](image)

Source: SQW internationalisation survey 2009

14. Consequently:

- 41% have achieved sales in new overseas markets and 80% expect to achieve this as a result of the SDI supported internationalisation activities
- 36% of the sample had adopted new ideas following SDI support and this had led, in their view, to improved competitiveness
- for 74% of the businesses interviewed, the SDI support has or is expected to impact on their export sales (in 43% of cases this impact is considered to be “major”).

15. The principal difference that SDI support has made is in helping to speed up and increase the scale and quality of firms’ international plans rather than through making non-international firms international. This is important in relation to the ‘ladder’ of internationalisation support that will be complemented by the Smart Exporter programme which focuses more on raising the awareness of internationalisation opportunities with businesses, broadening the number of
companies undertaking international activity and developing the skills to successfully trade internationally.

What generated the strongest impacts?

The profile of the companies that reported that SDI had the strongest impacts on internationalisation were those that:

- received more strategic support - 58% of those engaged in some form of preparation support reported an actual, or expected, major impact on exports (compared with 32% among those receiving support to attend exhibitions or travelling on missions)
- are in the energy or food and drink sectors – these, along with the digital and enabling technologies sector, were more likely to report stronger impacts while manufacturing, education and life sciences were less likely
- are account-managed by SE/HIE (these were more likely to participate in the more strategic elements of support).

Inward investment survey

16. The results have been based on telephone interviews with 55 foreign-owned companies that have received SDI inward investment support from a population of 265 companies that are trading.6 The main results were as follows:

- around half of all the cases supported relate to the location of new operations in Scotland, with others relating to safeguarding activity (40%) and expanding sites (38%)
- 56% of cases reported employment/activity safeguarded as a result of the support and 55% reported that they had set up new premises or plant in Scotland
- the most commonly identified barrier was recruitment of staff; the second, identifying local suppliers, indicates that there is an important role for SDI to play in embedding these investments in local economies
- as a result of SDI support, 53% of companies had increased their investment at an existing site, 44% had increased training, 38% had improved their access to Scottish universities, 25% had increased R&D activity and 25% had increased their use of local suppliers
- 35% of companies are producing new products (described as new to the world) and 50% are using business models, ways of working or technical processes at their site that are considered new to Scotland
- 70% of the sales made by these companies were made outside Scotland, with over 40% made outside the UK
- 73% considered that their site produced goods or services that could be described as 'hi-tech' or 'highly innovative' to Scottish customers, business or otherwise, and 30% believed that their presence in the market had encouraged Scottish customers to introduce new technologies themselves

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6 The sample of 55 from a population of 265 gives a margin of error of +/- 12% (at a 95% confidence level).
• half of the businesses interviewed had grown since arriving in Scotland while only 7% had contracted.

17. Overall, 73% of the businesses considered SDI to have been very or fairly important in ensuring the continuing presence of the business in Scotland, this includes 39% who said the support had been very important.

Economic impact summary

18. In addition to the econometric analysis, a more common way to assess the economic benefit of the support is to ask the assisted businesses themselves to provide estimates of the contribution that SDI assistance has made to sales (exports) and employment. The following figures are based on the businesses’ estimates of the additional sales and employment adjusted to reflect the full population of businesses that SDI has worked with on internationalisation and inward investment. Both sets of analysis (econometric and business survey) produce results that reinforce one another and that are favourable in comparison with the main estimates produced for all English Regional Development Agency activity and spending.

Internationalisation

19. The net investment in internationalisation by SDI was £19.3 million (2005/06 to mid 2009); an average of around £5 million per annum.

20. For internationalisation, businesses indicated that the support provided by SDI between 2005/06 and 2008/09 has led to:

• an additional cumulative value of exports of £174 million (an average of £58 million per annum to date – taking full account of displacement, deadweight and including the application of the multiplier effect)

• net additional Gross Value Added (GVA) of £75 million to date

• around 1,100 additional jobs (net) to date

• the ratio GVA : per £ invested is 7:1

• net cost per job to date is £11,000.

The methodology used is consistent with the evaluation of SE Account and Client Managed Companies.

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7 Impact of RDA spending, PwC, on behalf of BERR March 2009 – the report found that every £1 of RDA spend added £4.50 to regional GVA.

8 The equivalent figures without the addition of multiplier values are; ratio of GVA : £ invested to date, 4:1; net cost per job to date, £18,000; GVA : £ invested including future benefits is 8:1 and net cost per job figures including future benefits is £13,000.

21. Businesses were also asked to estimate the value of additional sales the support would lead to in the future. These are more uncertain and the values have been reduced to reflect any “optimism bias”. Businesses’ estimated potential effects amounting to:

- a further £72 million over the next three years (including the application of the multiplier effect)
- including these future estimates, the GVA : £ invested ratio doubles to 13:1
- there would be a further 380 jobs created on the basis of expected future effects\(^\text{10}\)
- including future estimates, net cost per job becomes £8,000.

**Inward investment**

22. Between 2001 and 2008, investment by SDI averaged £6 million a year, with RSA and other public sources providing an annual average investment of £29 million per annum; a total of £35 million a year.

23. For inward investors, the results relate to the support provided in the period 2001-2008. Businesses were asked to estimate the number of jobs that they would attribute to the package of SDI support that they received (i.e. how many more jobs are there than would have been the case without assistance). These figures were adjusted to reflect the impact over the population as a whole and indicate:

- net additional employment supported including multiplier effects was 18,000\(^\text{11}\)
- net cost per job was £14,000
- consequent ratio of GVA to investment was 11:1.

24. Even assuming 100% labour market displacement (i.e. all the jobs created through inward investment might have existed anyway in Scottish-owned businesses) the higher GVA per employee generated by foreign-owned firms would mean that the ratio of GVA to investment would still be 4:1 (including multiplier effects).

**Conclusions**

25. The results of the business survey and econometric results provide reassurance that SDI support is delivering significant benefits to businesses and the Scottish economy. The analysis provides new insights into the ways in which this support is working and highlights a number of areas where better intelligence could help strengthen the delivery of support, for example in working with exporters to maximise productivity through learning generated by internationalisation.

\(^{10}\) This is based only on the cases that reported no impact on exports to date but expected an impact in the future. These results are reduced by 50% to allow for optimism bias. The associated employment is calculated using the same ratio of export value to jobs found in the survey.

\(^{11}\) Excluding multiplier effects, the number of jobs was 13,000; cost per job was £19,000; and the ratio of GVA to investment was 8:1.
26. A further set of conclusions is around raising the profile of internationalisation among Scottish companies and making it a more central part of SE’s and HIE’s work. The econometric analysis in particular highlights the importance in tackling productivity as the main determinant in encouraging international activity and in seeing exporting not as an end point but as an integral part of helping Scottish companies becoming more competitive.

27. The route to this is both through the work of SE/HIE account managers and aligned with SDI’s increasing role in much of what SE and HIE do. A stronger focus on internationalisation should be led by an emphasis on capacity-building within companies. The survey results suggest that support for international strategies and preparation has the strongest effect on business performance and this should be extended. Finally, with a sharper focus by SDI, SE and HIE on key sectors and on emerging markets, businesses will expect increasingly specialist expertise.

28. A final set of conclusions is around building from a stronger rationale. This should be at the heart of strategy as it shapes the way in which SDI operates, the way it allocates resources and the tools and programmes it develops. A lot of good work has been done by SDI recently in developing the recent *Internationalisation: Strategic Direction, Priorities and Approach* paper and subsequent consultation. Follow-up work could be done to explain and develop the rationale for intervention, the allocation of resources, the options and priorities that have been chosen and the way in which these will contribute to productivity improvements.

29. Demonstrating the contribution to businesses’ performance requires good monitoring and evaluation which must then be translated into learning. A central part of this is a performance measurement framework and the resources (and support) to use it effectively. This ranges from more robust management of data on client businesses through to specific evaluation or impact work on some of the larger inward investments.

**Summary points**

30. Overall, we can reiterate that the report provides some very positive findings for SDI, evidenced by the results of the econometric analysis and by the impacts on the Scottish economy reported by the assisted companies in the surveys, both of which show that the support provided has had a significant and positive impact on the businesses worked with. Businesses report improvement in relation to internationalisation capabilities and performance and inward investing companies report influence on their decisions to invest in Scotland and to remain here. Operationally, there have also been positive developments in recent years in relation to:

- strategic background - within SE and SDI, the Industry Demand Statements are seen as providing direction for activity, for example in identifying key target businesses or business types or those that might fill supply chain gaps in Scotland

- this has been augmented by the *Internationalisation: Strategic Direction, Priorities and Approach* paper which sets out in more detail than previously SDI’s plans for delivery and the evidence which guides it. It has been developed following consultation with partners and describes the overarching objectives, the global
landscape and the implications for Scotland. It also describes SDI’s contribution, how it will be delivered and how SDI will work with others

- there is now more joined-up activity between the inward and outward-facing work of SDI, confirmed by the consultations
- there is also more effective joint working with businesses between SDI, SE and HIE. The single main point of contact with the main assisted companies for all SE/HIE/SDI matters is the account manager, supported by an account team which will include SDI staff as appropriate
- there are good relationships with external partners. All of the external partner organisations consulted reported a generally good working relationship with SDI

31. The conclusions of the evaluation suggest some areas that SDI can build on.

<table>
<thead>
<tr>
<th>Rationale and strategy</th>
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</thead>
<tbody>
<tr>
<td>- There continues to be a strong rationale for supporting international activity. There are significant benefits that can be achieved and ‘market failures’ that assistance can help overcome.</td>
</tr>
<tr>
<td>- Development in strategy has been positive; this could be taken further to demonstrate the rationale for priorities.</td>
</tr>
<tr>
<td>- SDI’s strategic thinking should be communicated to partners on a regular basis.</td>
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<table>
<thead>
<tr>
<th>Balance of resources</th>
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<tbody>
<tr>
<td>- It would be helpful for SDI to explain how the balance of resources between the two main activities is arrived at, although we note that in relation to the take-up of RSA, SDI has little control.</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Operations</th>
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<tbody>
<tr>
<td>- Internationalisation should have a higher profile within SE and HIE business support and especially among account managed companies.</td>
</tr>
<tr>
<td>- The route to achieving this is through continuing to strengthen relationships between the account manager/account team role and SDI.</td>
</tr>
<tr>
<td>- SDI, SE and HIE should consider how the support that account managers need can be provided, for example, by giving internationalisation a higher profile within its guidance.</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Focus of support</th>
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<tbody>
<tr>
<td>- In relation to internationalisation, SDI should consider expanding its activities to support preparatory or strategic work with companies.</td>
</tr>
<tr>
<td>- Many of SDI’s customers are likely to look for increasingly sophisticated support in the future. SDI should ensure that this can be delivered by, for example, flexible arrangements with specialists or working with partner organisations where appropriate.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Learning, monitoring and evaluation</th>
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<tbody>
<tr>
<td>- More analysis and learning from past investments would help shape future activity. SDI and SE could consider how best to capture learning from investments that proved not to be sustainable in Scotland.</td>
</tr>
<tr>
<td>- SDI should continue to develop a full performance measurement framework and ensure that this reflects strategy, objectives and the underpinning rationale…</td>
</tr>
<tr>
<td>- Specifically, we would suggest introducing productivity and the potential for positive spillover effects into the framework.</td>
</tr>
<tr>
<td>- Monitoring data on inward investment cases in particular should be collected and kept up-to-date.</td>
</tr>
</tbody>
</table>
• The scale of support for some inward investments merits a more thorough evaluation in specific cases. A rolling programme of evaluation of projects over a certain size could be carried out.
• Evaluations should be planned to ensure that gaps in timing between them are reasonable and to allow proper preparation for future studies.
• Having undertaken the econometric analysis for SDI for the first time, there is an opportunity to repeat the exercise in later years as new Annual Business Inquiry data becomes available.
1: Introduction

1.1 This draft report sets out the findings from an evaluation of Scottish Development International (SDI) activities. It reports from a number of perspectives using different methodologies to provide an overview of past performance and to make suggestions for the future development of SDI’s operations. The work covers a very large range of activities including both support for internationalisation and inward investment. In this report internationalisation relates to the international activities of Scottish-based businesses whereas inward investment relates to investment in Scotland made by foreign-owned companies.

1.2 International activity, both inward investment and internationalisation, is extremely important for relatively small, open economies like Scotland. Indeed the recession has focused even more attention on the role of exporting in particular as offering an effective route to economic growth. With a weaker exchange rate and reduced domestic demand, exporting and other international activity present exciting new opportunities for Scottish companies. Scotland also has a strong reputation in attracting inward investors which can bring new jobs, higher levels of productivity and new technologies.

1.3 The Foreword to the Scottish Economic Recovery Plan: Accelerating Recovery, emphasises both the opportunity internationally and Government support:

In rapidly developing global markets, Scotland’s competitive exchange rate brings the prospect of developing larger international markets for Scottish goods and services. We will deliver additional support for Scottish businesses to internationalise. Building on the success of Homecoming, we can also capitalise on the current conditions to bring new visitors and new inward investment to Scotland.

1.4 As the Scottish Government’s international economic development arm, SDI is the main body responsible for encouraging inward investors to come to Scotland and encouraging Scottish companies to internationalise.

1.5 This evaluation looks at the activities in both areas. It builds on previous work undertaken in 2009 by Professor Richard Harris\textsuperscript{12} of the Department of Political Economy at Glasgow University and DTZ\textsuperscript{13} which reviewed the rationale for internationalisation and inward investment and the market failures that were being addressed. It aims primarily to assess the effectiveness of the support delivered by SDI and to consider, in the light of the findings, how this might be improved.

Research Objectives

1.6 The key objectives of the research were set out in the brief and were primarily to gather evidence to allow assessments to be made of the following:

\textsuperscript{12} Internationalisation evidence Review, 2009, Professor Richard Harris & Dr. Cher Li
\textsuperscript{13} Inward investment evidence Review, 2009, DTZ
• **Impact of SDI support** – assess and estimate through quantitative and qualitative research the impact of SDI support (internationalisation and inward investment support). The key focus of this should be an estimation of productivity improvements and GVA impacts, but consideration should also be given to “softer” outcomes such as enhancement of firms’ capabilities which may lead to future “harder” impacts.

• **What works** – assess what works best in terms of SDI support and how we can reconfigure our activities to improve our impact.

1.7 The brief also highlighted a number of research areas to be covered:

• strategic rationale and market failures
• benefits achieved
• economic impact
• management and delivery processes
• management information and monitoring
• customer satisfaction
• linkages and dependencies
• contribution to the equity and equality agenda.

**Methodology**

1.8 The methodology has been developed in conjunction with Scottish Enterprise (SE) and SDI; the majority of the survey work took place between late 2009 and early 2010, a period when the UK was approaching the end of the recession. This section summarises the main strands of the research describing their aims, the numbers involved, broad topics covered and the timescale. The main elements, described in Figure 2.1 were:

• interviews with 300 companies that had benefited from inward investment or internationalisation support\(^{14}\)
• econometric analysis of inward investment and internationalisation activity carried out by Professor Richard Harris
• ten case studies
• consultations within SE/ Highlands and Islands Enterprise (HIE) and SDI; with external partner organisations; and with the Scottish Government.

\(^{14}\) These interviews were carried out by IBP Strategy and Research as a subcontractor to SQW for this assignment.
Econometric analysis

1.9 The part of the work was carried for the study by Professor Richard Harris. This used econometric techniques to estimate the correlation between business performance and SDI support. It is separated into two reports, one on internationalisation and one for inward investment. The internationalisation report addresses two questions:

- do firms that export generally have higher levels of productivity than similar firms that do not export, and

- do firms that are assisted by SDI have higher levels of productivity than similar firms that have not been assisted?

1.10 The inward investment analysis asked two similar questions:

- do inward investing firms generally have higher levels of productivity than similar domestic firms

- do inward investing firms that are assisted by SDI have higher levels of productivity than other inward investing firms that have not been assisted?

1.11 The analysis uses company information available through linked data in the Government’s Inter-Departmental Business Register (IDBR). This means that, at the time our analysis took place, the most recent data available related to 2006. The results therefore cover the period 2001 to 2006. The internationalisation analysis also uses the Scottish Government Global Connections Survey (GCS) to provide data on the exporting activity of specific companies. This is required to ensure that assisted and unassisted companies are accurately matched, but
it also means a more complex process with the assisted companies being identified initially in the GCS and then also in the IDBR.

1.12 Total Factor Productivity (TFP) is used as the main indicator of performance. A definition of TFP is set out at the start of the appropriate chapter, although it is important to note that during the period covered by the econometric analysis, the objectives and targets for SDI related to creating employment and exports rather than productivity.

1.13 Finally, the nature of this approach means that it identifies correlations between performance and the receipt of assistance. This does not necessarily prove that the changes in performance were caused by the support. This is discussed later in the report.

Survey work

1.14 The survey work with supported companies was a major part of the study. Two surveys were conducted:

• telephone interviews with 250 companies assisted by SDI to develop their international activities
• telephone interviews with 55 companies that have received SDI support as part of their inward investment into Scotland.

1.15 The contact details for both surveys were provided by SDI and were checked by SE’s survey control unit. The questionnaires were designed in collaboration with SE’s Appraisal and Evaluation Team and included input from the full client Steering Group for this job.

1.16 The findings of both surveys are reported later in the report. This tracks the type of support, the effect it has had on the firms’ activities and the resultant effects on performance. For the internationalisation survey the cases cover all businesses supported since 2005/06. The inward investment survey covered cases that have been supported since 2001/02.

Consultations

1.17 Consultations were conducted with the partners (Scottish Government, SE, Highlands and Islands Enterprise) and within SDI itself. A small number of representatives from other important stakeholders were also consulted - Scottish Chambers International, SCDI, Scottish Local Authorities Economic Development and UKTI. These consultations provided views on the way in which SDI operates and the way forward. A summary of the feedback from these consultations is provided in the later chapter.

Case studies

1.18 Case studies were undertaken with ten businesses. These explored in more detail some of the issues that could not be covered in the telephone survey. For the internationalisation cases this considered the way in which the support has impacted on performance, learning from exporting and potential future areas of support. The case studies are used throughout the report to highlight specific parts of the analysis.
2: Background

Context

2.1 There is little disagreement that internationalisation should be a central part of generating economic growth in Scotland. Over the past decade, economic growth has been led by a combination of consumer spending, increased access to credit, rising house prices and higher levels of public spending. Over the next few years these sources of growth will be weaker. This will mean weaker domestic demand in the short term making faster growing overseas markets more important if Scottish companies are to thrive. At the same time, a weaker exchange rate makes Scottish products and services more affordable in other currencies (or provides opportunities for higher margins).

2.2 The Scottish Government is already committed to supporting increased internationalisation activity both in terms of the number of businesses that are supported and the intensity of the support.

Scottish Development International (SDI), and its partners, will boost its international activity with a focus on raising the international aspirations of more Scottish businesses to trade globally, a broader engagement with Scottish businesses and a more intense focus on helping Scottish firms to understand international market opportunities in their sector. This is accompanied by a renewed strategy to target inward investment opportunities where Scotland has a strong global position.\(^{15}\)

2.3 The conclusions of this evaluation strongly support this and the results will be valuable in shaping how this increased support is delivered and in renewing the inward investment strategy.

SDI background

2.4 SDI is the Government’s international economic development arm. It is a joint venture between the Scottish Government (SG), Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE), providing services to support inward investment and internationalisation for the whole of Scotland. SDI sets out its inward investment and internationalisation objectives in its 2009/10 business plan. These are summarised under two headings:

- enabling Scottish companies to increase their internationalisation either through increasing export sales or other international activities (e.g. joint ventures or overseas acquisitions)
- encouraging overseas-based companies to set up and expand within Scotland.

\(^{15}\) The Scottish Economic Recovery Plan: Accelerating Recovery, March 2010
2.5 Under the *internationalisation* objective, SDI provides a wide range of bespoke and programme-based support which covers:

- preparing to do international business
- developing international strategy
- international mentoring
- overseas market support
- support to take part in exhibitions, missions and learning journeys
- international accommodation packages.

2.6 For *inward investors*, SDI is able to offer access to a range of financial incentives including Regional Selective Assistance (RSA), R&D grants and tax credits and Training Plus. The financial support is only part of the package that SDI provides. Activities cover marketing and promotion, relationship building, market intelligence gathering, handling referrals, developing propositions, organising visits to Scotland, signposting to other specialist advice - then continuing to work with the company once the investment in Scotland has taken place.

2.7 SDI’s sales force is organised as follows:

- international offices are split into three regions:
  - Americas
  - Europe, Middle East and Africa
  - Asia-Pacific
- sector teams, which are located across Scotland
- Scotland Europa, located in Brussels
- Group Services covering Ministerial support, planning and reporting.

**Targets then and now**

2.8 Over time SDI targets have changed, although they have always been primarily related to the creation of new employment (in the case of inward investment) and exporting (for internationalisation assistance). The most recent business plan outlines the targets for 2009/10 and achievements in the last couple of years.

2.9 Over the past four years SDI has worked with a growing number of companies, although the 2009/10 figure is still to be confirmed.
Table 2-1: Numbers of Scottish based companies working with SDI

<table>
<thead>
<tr>
<th>Scottish based companies assisted</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006/07</td>
</tr>
<tr>
<td>2007/08</td>
</tr>
<tr>
<td>2008/09</td>
</tr>
<tr>
<td>2009/10</td>
</tr>
</tbody>
</table>

Source: SDI Business Plan 2009/10

2.10 For internationalisation the target in 2009/10 is to work intensively with between 600 and 700 companies to support internationalisation efforts. A new target is for 200 – 300 account managed companies to have agreed international revenue goals with support identified from SDI/SE/HIE.

2.11 For inward investment the main target measure has been High Value Added (HVA) jobs. These are split between safeguarded and new employment. The figures show that over the past four financial years, the total numbers reported by SDI have been from 1,800 to almost 2,600 in 2007/08. The target for 2009/10 is to secure between 1,600 and 2,400 HVA jobs.

Table 2-2: Number of High Value Added (HVA) jobs supported by SDI supported inward investors

<table>
<thead>
<tr>
<th>Safeguarded HVA jobs</th>
<th>New HVA jobs</th>
<th>Total HVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006/07</td>
<td>876</td>
<td>898</td>
</tr>
<tr>
<td>2007/08</td>
<td>787</td>
<td>1791</td>
</tr>
<tr>
<td>2008/09</td>
<td>776</td>
<td>1031</td>
</tr>
<tr>
<td>2009/10</td>
<td>1221</td>
<td>945</td>
</tr>
</tbody>
</table>

Source: SDI Business Plan 2009/10

Fit with Scottish Government Economic Strategy (GES)

2.12 The principal objective of the GES\(^{16}\) is:

_To create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth._

2.13 It has five overarching strategic objectives of which the most relevant to SDI is:

- **Wealthier & Fairer** – Enable business and people to increase their wealth and more people to share fairly in that wealth.

2.14 And focuses on seven key sectors:

- Creative Industries (including digital content and technologies)
- Energy (with a particular focus on renewables)
- Financial and Business Services
- Food and Drink (including agriculture & fisheries)

• Life Sciences (including biotechnology and translational medicine)
• Tourism
• Education.

2.15 The GES also sets out a number of strategic targets. The four below (Table 2-3) are those that SDI can most obviously contribute to. The evaluation draws conclusions on SDI’s contribution in the final chapter.

<table>
<thead>
<tr>
<th>Table 2-3: Main Government strategic targets that SDI can contribute to</th>
</tr>
</thead>
<tbody>
<tr>
<td>• To raise the GDP growth rate to the UK level by 2011</td>
</tr>
<tr>
<td>• To rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017</td>
</tr>
<tr>
<td>• To maintain our position on labour market participation as the top performing country in the UK and close the gap with the top 5 OECD economies by 2017</td>
</tr>
<tr>
<td>• To narrow the gap in participation between Scotland’s best and worst performing regions by 2017</td>
</tr>
</tbody>
</table>


2.16 The GES also sets out a specific target in relation to exports: to grow exports at a faster average rate than GDP. The strategy argues:

if we are to deliver improved productivity and sustainable economic growth, we will need to place greater emphasis on exports. The Scottish economy is already open to world markets. However, further integration with the world economy offers Scotland a greater opportunity to tap into new and larger markets around the world, giving increased access to capital flows, new technology, cheaper imports and larger export markets

2.17 In 2008, the most recent year that data is available, the gap between GDP growth (3.0%) and export growth (0.6%) was 2.4%. By contrast in 2007, export growth exceeded GDP growth. Scottish exports in 2008 were provisionally estimated to be £20,660 million.

Resources

2.18 The two strands of support are evaluated over different periods of time. The Internationalisation survey used cases that had received support between 2005/06 and mid 2009. This was the time period for which full contact details were available from SE’s Customer Relationship Management system. The inward investment survey and analysis had to go further back to ensure a sufficient sample size. This therefore included cases from 2001/02 up until 2007/08.

2.19 The estimated net internationalisation costs provided by SDI were:

• 2006/07: £3 million
• 2007/08: £5.5 million (the net cost after taking account of income of £0.581 million)
• 2008/09: £5.7 million (the net cost after taking account of income of £0.962 million).

2.20 The figure for 2005/06 was estimated to be the same as reported in the following year, i.e., around £3 million. For 2009/10 we have allocated a third of the total (£6.3 million) to cover
the period up to the time the list of client companies was provided (i.e., £2.1 million). This gives an overall total of £19.3 million.

2.21 The following estimates of expenditure on *inward investment* were provided by SDI. These were:

- 2006-07: £7.101 million

2.22 The evaluation survey of beneficiaries covered 2001/02 to 2007/08 so estimates have been made for the previous years. We have assumed that SDI inward investment costs from 2001/02 to 2005/06 averaged £5 million in each year giving total of £44 million.

2.23 In addition, over the period covered by the survey from 2001, RSA of £216 million was awarded to the supported companies, R&D grants of £18 million, £4.7 million of training support; and £5.1 million “other” public sector funds. However, the 2008 RSA evaluation (Hart et al) found that on average only 80% of grants approved are actually claimed. Using this would give an RSA figure of £172.8 million and total public support over the evaluation period of £200.6 million.

2.24 In total over the seven years covered this gives an average of just under £35 million a year. This compares with an average of around £5 million a year for internationalisation support.
3: Activities overview

3.1 This section provides an overview of the main SDI activities and pattern of company assistance. This is based on data provided by SDI and analysed by SQW and Professor Richard Harris.

Internationalisation

SDI products

3.2 The range of SDI products is summarised below:

- **Exhibitions, Missions & Learning Journeys.** Encompasses SDI exhibitions, missions and learning journeys. Most of the activities supported are designed to allow firms to attend overseas trade events in order to make contacts, research markets, sell products and look for partners. The main exception is Learning Journeys, which assists senior managers to visit (for usually a week) world leading companies to gain knowledge on best-practice in these companies.

- **Overseas Market Support.** Comprises SDI funding for companies to undertake research, market entry activities and designing new promotional material for overseas markets.

- **Readiness to Internationalise.** Targeted at companies inexperienced in international trade (12 modules covering theory and practice in such areas as: market identification & research, production and financing issues, advertising & distribution, sales negotiation, and producing an International Action Plan); and more experienced firms looking for deeper internationalisation (6-8 modules in-depth covering such areas as: finance, distribution, communication/marketing skills, licensing/franchising/joint ventures, acquisitions, presenting an International Market Development Plan). Modules are delivered by set of approved companies (including Chambers of Commerce).

- **International Business Opportunities.** Provide information to companies on projects available through UN, World Bank, EU, DfID, Regional Development Banks, PERA (covering inward FDI inquiries from firms needing local suppliers, etc.), Enterprise Europe Scotland, and London 2012 Olympic Games. Most of the first set of organisations are involved in overseas development activities.

- **Flexible Financial products.** Available as last resort when no other product fits. Cover such areas as strategic planning for internationalisation, innovation activity which assists with new product & process development. Generally companies can get assistance in hiring consultants, temporary specialist staff, training costs, or obtaining innovation advice. Note, this is a joint product covering all DRM products.
• **International Strategy Workshop.** Workshop delivered by an approved consultant to senior management to help develop a coherent international strategy and associated action plan; there are three elements comprising: pre-workshop ‘brainstorming’ to agree key issues and objectives; one-day interactive workshop; and post-workshop to commit to action plan.

• **International Mentoring.** Two key components (1. international business manager for hire; 2. access to Scottish Networks International - SNI). Aims to address knowledge, skills and funding gaps to overcome barriers to growth. The first product sees the hiring of a highly qualified international business professional from within or outwith Scotland to help with ‘trouble-shooting’ activities, market research, product customisation, etc. The SNI product links high calibre, overseas-based, young business people to the firm, which can then utilise their experience.

• **Global Companies Development Programme**\(^{17}\). Purpose is to increase number of global companies in Scotland (defined as company >£5 million turnover, operating on at least 2 continents, 5 years turnover growth, controlled from Scotland) through employing external consultant for up to 20 days to delivery in-depth programme over 6-9 month period covering: individual management team interviews (to cover strategy & planning, international operations, marketing & service, operations & technology, R&D, organisation & HR management, governance & responsibility, and finance) leading to Action Plan and Implementation Plan.

• **International Market Presence.** Temporary office facilities available in SDI key locations in three US cities, and access to office space consultants Regus covering 950 worldwide centres (including virtual offices).

3.3 There are three other elements of internationalisation support delivered by SDI but not covered in the evaluation; TalentScotland, GlobalScot and Scotland Europa.

**Take-up of Internationalisation support**

3.4 A breakdown of the types of assistance provided is shown in Table 3-1. The table is dominated by two categories; overseas exhibitions and missions and other market support which includes Graduates for Business, International Business Opportunities, Learning Journeys, Overseas Market Support other market-focused SDI support. The analysis is based on our own allocation of support under these headings as Programme names have changed over time.

3.5 **In total the SDI data indicate that there were around 9,000 assists between 2006 and mid 2009. On average each company has been assisted four times in this period although in some cases it has been 10 or 11 times.**

3.6 Around 53% of companies receiving assistance have been supported to attend exhibitions or missions. Fifty percent were supported to travel on learning journeys or received the other forms of market support described above. In fact 80% of companies supported over this period have received either one or both of these categories of support. The remaining 20%  

\(^{17}\) This is now the International Strategy Development Programme
received other forms of support. **This suggests that the emphasis has been very much on encouraging travel to visit markets rather than broader planning for international activities in general.** This pattern is reflected in the internationalisation survey reported later.

| Table 3-1: SQW analysis of SDI data – types of support received by assisted companies (2006 – 2009) |
|---------------------------------------------|------------------------------------------------------------------|
| International strategy workshop | 6% |
| Readiness to internationalise | 4% |
| International preparedness programme | 1% |
| International strategy workshop | 6% |
| Global Companies | 2% |
| Developing Strategy – Other | 1% |
| International business mentoring service | 2% |
| Flexible financial product | 6% |
| Market support – Other | 50% |
| Overseas Exhibitions / missions | 53% |
| Overseas accommodation | 1% |

*Source: SQW analysis of SDI data 2006 -2009*

3.7 A similar breakdown by broad product and year was assembled in the Internationalisation Evidence Review produced by Professor Richard Harris et al (2009) for SE. This was carried out separate to the evaluation currently being undertaken, but the overall pattern is clear. This shows how the number of assists delivered has grown year on year, but most noticeably in relation to exhibitions, missions and learning journeys and in overseas market support Figure 3-1:.
Figure 3-1: Pattern of assists 2005 - 2008

Source: Internationalisation Evidence Review, Richard Harris, 2009
Inward investment

Types of SDI support

3.8 SDI provide both financial aid and non-monetary assistance to those non-Scottish firms they support when they set-up, expand or maintain their operations in Scotland.

Regional Selective Assistance (RSA)

3.9 RSA is used much more extensively than any other form of help to secure inward investment projects. It is generally the largest business support scheme operating in Scotland, with £87.4 million of expenditure in 2007/08 (RSA, 2009). It provides grants to plants undertaking capital investment projects in economically lagging EU designated ‘Assisted Areas’ and it is principally designed to safeguard and generate employment, especially through supporting inward (mostly foreign) direct investment; RSA is now also required to improve productivity. To see the extent to which RSA is used to support inward investment, of the £87.4 million allocated to new projects in 2007/08, some £46.1 million (just over half) went to 48 inward investment projects. The remaining £41.3 million went to 116 indigenous companies. This pattern of a small number of large inward investment projects receiving a significant proportion of all RSA assistance is typical both historically in Scotland, and in the rest of the UK (see Wren, 2005).

3.10 RSA is likely to be available to most inward investment projects at the lower rate of a maximum of 15% of their investment costs, since such projects tend to be larger in scale. Medium- and smaller-sized firms can receive up to a maximum of 25% and 35% of costs respectively, depending on location (lower amounts are available in ‘Tier 3’ assisted areas). To be eligible, recipient firms must be able to demonstrate that the project is financially viable but would not have proceeded without assistance (although there is scope for flexibility here, as grants can be awarded in cases where the grant increases the size of the project, improves the project in some way or accelerates the project; RSA cannot be awarded if the project would go ahead in the same form regardless of whether a grant is provided). Thus, it can be surmised that provision of RSA is at least in part designed to offset some of the (sunk) costs of the investment that is associated with the greater risk and uncertainty of undertaking capital investment in Scotland.

R&D Grants

3.11 The next most popular form of assistance to inward investors is R&D grants under the R&D+ scheme. Generally R&D grants are available to firms of all sizes, unlike innovation grants (e.g., SMART). Clearly the main rationale for such assistance is to increase R&D expenditure, which is subject to significant (sunk) costs that have to be overcome and met when firms invest in such riskier intangible assets.

Note the RSA Annual Report (Scottish Government, 2009) states that 59 non-Scottish owned companies received RSA grants, amounting to £63.3 million. The figures reported in the main text on RSA assistance are taken from the SDI database provided for this project. Presumably the difference between the two sets of figures is related to SDI’s role in supporting new inward investment.
Training Plus

The other major scheme available is Training Plus. This is an initiative that provides funding to help with the cost of staff development and training. Grants can be awarded for up to 50% of expenditure on training for generic skills, or up to 25% if the training is company-specific. DTZ (2009) provide more information, stating that Training Plus is available to businesses that are considered mobile and contestable (i.e. involving competition from outside Scotland), and which therefore may be susceptible to relocating outwith Scotland.

Volume of inward investment activity

The analysis is based on information provided by SDI for the period 2001 to 2008 on those companies that received assistance in support of their investment in Scotland. The pattern in Figure 3-2 shows that

Between 46 and 65 companies were assisted each year, with an average level of grant offered of £738,000; however, with a standard deviation of £1.6 million, it can be seen that the range of assistance was considerable. The average grant attached to the 234 RSA, 26 R&D, and 30 Training products provided was £1.1 million, £1.3 million, and £264,700 respectively. Of the companies assisted, 123 (or 31%) received only information products; 241 companies (around 60%) received either an RSA, R&D, Training or Other financial grant; 35 companies (nearly 9%) received more than one type of grant; and two companies received three different types of grant-aid as part of the SDI inward investment project.

The following charts provide more detail on the number of inward investment companies assisted, where they were located, their country of origin and which industries benefited. Note in what follows that for each SDI project we distinguish between companies assisted and the products (i.e. types of assistance) received; a number of companies received more than one type of assistance as part of the project (comprising RSA, R&D, Training, other financial products, and information products involving no monetary assistance).19

19 There were at least 440 products because information is provided each time a company received RSA, R&D, Training and Other grants; some companies received none of these monetary grants and yet are included in the SDI database which means they received only ‘information-based’ products. However, companies that received financial assistance may also have been receiving information similar to those that just received ‘information-based’ products (we have no separate data on when this occurred); hence the reason for noting that there were at least 440 products provided to firms.
Figure 3-2: Number of assisted inward investment plants by year, 2001-02 to 2007-08

Source: SDI

3.16 Figure 3-3 shows the distribution of plants by their destination region; Glasgow received 133 projects (around one-third of the total), with Edinburgh receiving 71 (or nearly 18%). The composition of products for the two cities was different, with some 60% of the 133 products in Glasgow being RSA grants, while the comparable figure for Edinburgh was around 40%. In contrast, Edinburgh received 12.5% of all its products as R&D grants (the comparable figure in Glasgow was 2%).

Figure 3-3: Number of assisted inward investment plants by destination region, 2001-02 to 2007-08:

Source: SDI
3.17 As to where the projects originated from, Figure 3-4 shows that just over one-third originated from USA-owned companies; 25% from the rest of the UK; 24% from other EU countries; 8% from the rest of the world; and 7% from SE Asia. When comparing destination region by country of origin, the SDI database shows that a relatively high proportion of US projects went to Motherwell, followed by Kilmarnock, Paisley, Edinburgh and then Glasgow; in contrast Kirkaldy and then Falkirk received relatively higher proportion of projects originating from the rest of the UK; Aberdeen was a ‘favoured’ location of Other EU projects (although projects from this source were much more likely to be distributed throughout the rest of Scotland – the ‘Other’ category in Figure 3-3); Falkirk and Kirkcaldy received relatively higher proportions of projects from the rest of the world; and lastly Glasgow and Paisley were relatively more likely to received projects from SE Asia.

![Figure 3-4: Number of assisted inward investment plants by country of origin, 2001-02 to 2007-08](image)

Source: SDI

3.18 Figure 3-5 shows the distribution of companies assisted by industry classification. Unfortunately, SIC data was not available for 2001-02 and 2002-03 (hence some 28% of the companies are included in the ‘NA’ sub-group), but if the spread across industries was similar in those missing years to 2003-04 to 2007-08, then the information available in the diagram should still be applicable. Thus, those industries with at least double-digit numbers of assisted companies comprise a relatively small sub-group, led by Other Business activities (nearly 11% of companies), the R&D sector (9.4%), manufacturing of TV’s, etc. (8%), chemicals (7.3%), computer services (7%), financial intermediation (5.6%), extraction of minerals (5.2%), precision instruments (4.9%) and other transport equipment (4.2%). Other manufacturing industries (covering another 15 industry sub-groups at the 2-digit SIC92 level) covered nearly 23% of all assisted companies, while other non-manufacturing sectors (covering 17 other sectors) accounted for 15% of the assisted companies.
Lastly, Figure 3-6 shows the distribution of the 440 products by value across the financial years available. As stated in Section 2, RSA dominated both in terms of numbers of grants and overall value (accounting for some 83.7% of the £295.9 million awarded during this period); R&D grants accounted for 26 products and £32.7 million (or 11.1% of the total); Training grants amounted to £7.9 million (2.7%); while the 27 Other financial assistance products amounted to £7.5 million (or 2.5% of the total).

Non-RSA grants were particularly important in 2003-04 and 2005-06, accounting for around 40% of all financial assistance in both years. But the dominance of RSA re-emerges in later years, showing that SDI still concentrates on helping inward investment companies through providing employment-related capital grants to defray the (sunk) costs of new investment. Glasgow received nearly 39% of total RSA spending, with Kilmarnock and Paisley both receiving around 13.8% of the total, and Edinburgh receiving 8.8%. In contrast, Edinburgh received 56.2% of all R&D grant-aid allocated, Paisley 15%, and Glasgow nearly 9%. In terms of Training expenditure, Glasgow companies received 47.3% of all training grants (by value), followed by Motherwell (15%), Edinburgh (13.3%), and Kilmarnock (12.8%). The Other financial grants went mostly to the ‘other’ regions of Scotland as listed in Figure 2.2 (accounting for nearly 45% of all expenditure), with companies in Motherwell receiving some 23% of the total.
Figure 3-6: Assistance given to inward investment plants by type, 2001-02 to 2007-08

Source: SDI
4: Rationale for intervention

4.1 The report builds on two earlier pieces of research commissioned in 2009 by SE to analyse the rationale for investment in internationalisation and inward investment support. The two studies were:

- Internationalisation Evidence Review (Professor Richard Harris and Dr Cher Li)
- Inward Investment Evidence Review (DTZ)

4.2 Both concluded that there were potentially significant economic benefits from both forms of international activity and a strong case for using public intervention to overcome specific market failures. The conclusions from these reports on the rationale for supporting both activities is summarised below. This is important as it relates directly to the analysis in later chapters which use some of the theory developed here and in drawing conclusions around SDI strategy development.

Internationalisation

4.3 The following are key points from the Internationalisation Evidence Review produced by Professor Richard Harris and Dr Cher Li. The bold text is our emphasis.

4.4 Engagement in exporting and/or outward FDI is generally perceived as being beneficial to individual firms and the economy as a whole. The benefits brought about by ‘going international’ are varied, as pointed out by Bernard and Jensen (1999), including faster growth of shipments and productivity, diversification of risk, increased innovation, better investment opportunities leading to improved survival prospects and gains for workers in terms of higher pay and better future employment opportunities.

4.5 Moreover, outward FDI may be associated with additional advantages normally unattainable when merely serving a domestic market, such as a relocation of production to lower cost countries, agglomeration economies associated with international locations (for example, enabling links with key businesses, research organisations and other services within their sector) and scale/scope economies associated with an expanded foreign market size (especially in light of the recent trend towards offshoring in the service sector). Recent evidence documented in a BERR (2009) report indicates that the UK has particularly benefited from increased international competitiveness and openness to international trade and investment.

4.6 A strong theme running through all the literature is that firms need to possess productivity advantages so as to serve global markets via exporting; moreover, to engage in foreign production through outward FDI requires an even higher productivity threshold.

4.7 While there is almost universal evidence substantiating the self-selection proposition – i.e. higher productivity leads to export-market entry – evidence for ‘learning-by-exporting’ is less
well established in the literature. In order to achieve post-entry productivity gains, exporters need to invest in more R&D and human capital to successfully acquire foreign technologies and enhance their absorptive capacity.

4.8 The House of Commons report “Exporting out of Recession” comments:

For companies, investing and selling overseas tends to improve productivity, innovation and financial performance. Selling overseas helps businesses achieve economies of scale and levels of growth and revenue not otherwise possible; reduce their dependence on a single or small number of markets; and increase the commercial life span of their products or services, with raised returns on investment. These companies are more likely to have capital to invest in innovation and product development in the UK, and to maintain or create jobs.20

4.9 The literature also stresses the link between exports and innovation, but there is less certainty about the direction of causation. Empirical studies have emphasised the role of technology and innovation as major factors contributing to facilitating entry into global markets, and thereafter maintaining competitiveness and boosting export performance. However, counterarguments on causality, from exporting to innovation, also exist: primarily, being exposed to a richer source of knowledge/technology that is often unavailable in the home market, exporting firms could well take advantage of these diverse knowledge inputs and enhance their competency base, and hence such learning from global markets can foster increased innovation.

**Case for intervention**

4.10 This is mostly predicated on the basis that more internationalisation results in greater productivity improvements (linked to innovation activities and improvements in efficiency), and that there are ‘market failures’ that prevent the realisation of these gains. The main ‘market failure’ usually cited is that there is imperfect information in product markets which impedes internationalisation since potential buyers and sellers need access to the identity and location of potential suppliers and customers, and information about the prices and quality of the goods and services that may be traded. Thus there is a rationale for government intervention, assuming that this leads to a direct increase in economic benefits from more firms gaining information and thus acting on that information (e.g., by internationalising.).

4.11 Searching for information is costly, and when firms do not engage (fully) they only have a partial knowledge about the market, and thus may underestimate the potential benefits of internationalisation (both private benefits to themselves and the social benefits that greater trade may bring to the wider economy). The government helps to ‘complete’ the market through the provision of relevant information.

4.12 Indeed it would be costly and wasteful of resources for individual firms to undertake sub-optimal, high cost information gathering, when government has a particularly well-placed role to provide such information as a public good. **There is therefore a role for government to facilitate access to networks of business contacts in overseas markets (especially for**
SMEs); while publicly financed expenditure on knowledge-generating export promotion activities is further justified if networks act as an informal barrier to market entry (if they limit the extent to which information is made available to outsiders).

4.13 Overall, it would seem that there is a clear case for government intervention to help firms overcome barriers to internationalisation that are mostly linked to information costs that individual firms would (or could) not meet without government assistance.

4.14 As to the government response to such market failures, a recent review of how governments’ intervene in this area stated that the basic role is:

“... to help (potential) exporters find markets for their products, as well as provide them with a better understanding of products demanded in different export markets”

4.15 Others have provided a wider description of government intervention (which includes a more general view of internationalisation extending beyond just increasing the volume of exports); there is a recognised need for firms:

- to learn about exporting (which markets, finding customers, advice on business plans, logistics and finance)
- to grow their international business (those with some experience require assistance to plan entry into new markets, obtain growth finance, networking with new customers, and finding new partners)
- to become globally competitive (more experienced firms requiring high-level market and strategic insights and assistance to access partners and use more sophisticated business models involving outward FDI-type activities).

4.16 Thus in relation to government responses to ‘market failures’, it would seem that current thinking has moved beyond just considering such ‘failures’ as mostly information needs, and thus potentially indicative of resource-gaps faced by (especially smaller) firms; rather, there are potential capability-gaps that need to be addressed.

4.17 This is considered as part of the internationalisation survey which specifically looks at the capability of firms to operate internationally and the role that SDI has played in strengthening a number of capability areas.

**SDI interventions**

4.18 SDI offers a wide range of products to help firms internationalise, broader than that offered by most export promotion agencies across the globe. These range from products to help firms increase export volumes to those that also have a stronger element linked to improving productivity. It is recognised that SDI operates within the wider SE account or Designated Relationship Management (DRM) framework designed to improve productivity.

Nearly two-thirds of SDI products between 2005 and 2008 went to help firms attend exhibitions, go on missions, and obtain market intelligence on overseas locations. Delivery of other products related to preparedness and strategy was significantly lower.

Inward investment

Support to inward investors (particularly but not exclusively inward FDI) is mostly predicated on the basis that such firms will result in productivity improvements for the economy (linked to innovation activities and improvements in efficiency)\(^{22}\), and that there are ‘market failures’ that prevent the realisation of these gains from greater inward investment. Such productivity improvements can occur because it is assumed that inward investment is undertaken by firms that have innate advantages (resulting in them having higher productivity which, ceteris paribus, will result in a higher ‘batting average effect’ if nothing else\(^{23}\)); however, there may also be spillovers from these better plants to other indigenous plants who can benefit from the externalities that become available (e.g., through supply chains and knowledge transfer\(^{24}\)). Of course, if inward investors have lower productivity there are unlikely to be either significant spillover effects or improvements in aggregate performance for the host economy.

The case for using public money to support this intervention is also based on market failure.\(^{25}\) The evidence is described in detail in DTI Economics Paper no 18. The latter (and the evidence reviews undertaken for internationalisation and inward FDI – see DTZ, 2009, and Harris and Li, 2009) provide strong cases for government intervention in these areas.

The main ‘market failure’ usually cited is that there is imperfect information in product markets which impedes internationalisation (including inward investment) since potential buyers and sellers need access to the identity and location of potential suppliers and customers, and information about the prices and quality of the goods and services that may be traded. Thus there is a rationale for government intervention, assuming that this leads to a direct increase in economic benefits from more firms gaining information and thus acting on that information (e.g. through investing overseas). Casson (1999) argues that in this situation the government has a comparative advantage in information, and it is on this basis (not any narrow interpretation of market failure) that it can justify intervention.

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\(^{22}\) The Scottish Government’s GES focuses on productivity, population growth and increased labour market participation, as the key drivers of growth. It has been argued that it is the first that ‘matters most’ (see CPPR, 2008), and as such the case for supporting internationalisation is overwhelmingly linked to productivity improvements.

\(^{23}\) Higher productivity, leading to higher growth, is not the only benefit from inward investment (although it can be argued that ultimately productivity is the key factor determining long-run success – e.g., an oft quoted line from Krugman’s (1997) book is “productivity isn’t everything, but in the long run, it is almost everything” (p.11).

\(^{24}\) DTZ in their Inward Investment Evidence Review (2009) for Scottish Enterprise summarise the types of spillovers that can arise; for example see their Table 4.1 (which is based on Harris and Robinson, 2004). They also set out some of the wider direct (as opposed to indirect spillover) benefits of inward investment, including additional employment and associated wage income (including premiums on these variables if inward investors employ relatively more people and pay relatively higher wages).

\(^{25}\) Strictly speaking market failures are usually justified on the basis of a very restrictive view of the way the economy works (the neoclassical approach) and this is set out – along with its limitations – in Harris and Li (2009, Chapter 3). Rather than take a narrow theoretical of market failure, there is a more general policy orientated usage, which refers simply to circumstances in which there are significant potential economic benefits which the private sector unaided would be unable, or unlikely, to achieve.
4.23 Searching for information is costly, and when firms do not engage (fully) they only have a partial knowledge about the potential host market, and thus may underestimate the potential benefits of investing in that market (both private benefits to themselves and the social benefits that spillovers may bring to the wider economy). It is a moot point whether this is a market failure *per se*, but anyway there would appear to be a robust case for government intervention because it has a potential advantage in the provision of information that can boost transactions in the market resulting in a net gain to all those involved (i.e., the government helps to ‘complete’ the market through the provision of relevant information).

4.24 Indeed it would be costly and wasteful of resources for individual SMEs to undertake sub-optimal, high cost information gathering, when government has a particularly well-placed role to provide such information as a public good. There is therefore a role for government to facilitate access to potential industrial sites or buildings, and networks of business contacts in the host economy; however governments and their agents (SDI in Scotland) usually go further and provide financial assistance to inward investors presumably in part to offset any perceived greater risk and uncertainty associated with investment outside the firm’s home economy.

4.25 Overall, it would seem that there is a clear case for government intervention to help potential inward investors to overcome barriers to setting up capacity in a location such as Scotland, with such barriers mostly linked to information costs that individual firms would (or could) not meet without government assistance.
5: Internationalisation econometric analysis

Introduction

5.1 This section and the next present the results of a detailed econometric analysis carried out to investigate the productivity, employment and wage impacts associated with internationalisation and inward investment activity and then to look specifically at whether there was a difference between the performance of companies assisted by SDI and comparable companies that were not.

5.2 Before presenting the results it is important to understand the main measure of productivity used in both this and the next section. **Total Factor Productivity (TFP)** has been used to measure productivity in both the internationalisation and inward investment reports. TFP is measured as the level of output that is not attributable to factor inputs (employment, intermediate inputs and capital). Rather TFP measures the contribution to output of all other influences, capturing such determinants as technological progress and/or changes in efficiency. This therefore measures the productivity of all factors of production (not just labour).

5.3 This section looks at the results from the internationalisation analysis and addresses the following questions:

- whether those plants that exported and/or engaged in outward foreign direct investment (FDI) achieved better performance in terms of total factor productivity (TFP) and employment during 2002-2006 than those that did not

- whether those plants that received assistance from SDI to help with internationalisation achieved better performance in terms of total factor productivity (TFP), and/or employment during 2003-2006 than those that did not

- based on ‘matched’ samples of exporters/non-exporters and assisted/non-assisted plants, whether those plants that exported and/or received assistance from SDI achieved better performance in terms of total factor productivity (TFP) and employment during 2003-2006 than those that did not export/receive support from SDI.

Approach

5.4 This section considers the impact of SDI support through assistance to firms to internationalise (either through exporting and/or outward FDI), using quantitative (econometric) methods. It uses data on those which received help between 2003-2006 merged into the Global Connections Survey (GCS) for Scotland (2002-2006) and the Annual Business Respondents Database (ARD), the latter comprising the returns to the Annual Business Inquiry carried out annually by the Office for National Statistics (ONS). As such, it is based on an analysis of financial returns made by firms to the Scottish Government and the ONS as part of the data collected for National Accounts statistics; therefore this study
comprises an independent review (using appropriate econometric methods) of whether productivity and employment in assisted firms were influenced by policy instruments designed to impact on firm growth and employment

5.5 The analysis considers whether those plants that exported and/or engaged in outward FDI achieved better performance in terms of TFP and employment during 2002-2006. Following these baseline estimations, a variable representing whether the plant received assistance from SDI (and in which year this occurred) is introduced, to test if plants engaged in internationalisation experienced any change in their TFP and employment performance once they are assisted. However, a problem with this approach is that performance is likely to be (causally) linked to the characteristics of the plant before it received assistance. It might be expected that performance would be better in plants that export and/or receive assistance irrespective of whether they receive help from SDI – i.e., there is the econometric issue of self-selection that needs to be taken into account, whereby internationalising businesses are likely to have productivity advantages in the first place that provide the motivation for ‘overseas’ investment. Thus, even in the absence of government help, these plants are likely to achieve performance paths that are not the norm, and so comparing them to plants that have very different characteristics would lead to biased outcomes in terms of whether exporting and/or SDI assistance impacted on performance.

5.6 It is therefore necessary to use the technique known as ‘matching’ whereby exporters and/or policy-assisted plants are only compared to other plants that have (where possible) exactly the same set of characteristics as the exporters and/or assisted plants (e.g., in terms of size, ownership, sector, and all other factors that effect performance). Using such ‘matched’ data means that in the absence of assistance the average performance of exporters and non-exporters, or assisted and non-assisted plants, should be the same, so if any statistical difference is detected for the exporters and/or assisted plants then we can confidently link this to a ‘treatment’ effect, brought about because of exporting/receiving assistance rather than because of ‘self-selectivity’. Hence, a third set of results are produced based on the model estimated using only the ‘matched’ data. If these show that assisted plants experienced different levels of performance, then we can be more confident that this is an unbiased estimate of a ‘learning-by-exporting’ effect or the policy-induced impact of assistance (given that matching is intended to neutralise the impact of selection bias).

Overview of data

5.7 A list of 2,678 companies that had received help during 2003-2006 was merged into the ONS ARD by finding their (company) inter-departmental business register (IDBR) code, since the latter is the basis for identifying enterprises in the ARD and therefore can be used to identify which companies were assisted by SDI. IDBR codes were not initially available in the list provided regarding which firms were assisted, and thus these had to be obtained. Once the SDI data is merged into the ARD, and the latter is linked to the Global Connections Survey (GCS), some of the characteristics of those that exported and/or received assistance could be compared to non-exporters and non-assisted plants operating in Scotland.

5.8 Table 5-1 shows the success achieved in merging the SDI data into the ARD. Note that from the initial list of companies supplied by SDI, 855 could not be found. This could be because
of changes in name over time or alternative versions of company names being recorded by SE or within the ARD. For this type of work this is a reasonably good match.

<table>
<thead>
<tr>
<th>Table 5-1: Merging of SDI assisted companies into ARD 2003-2006a</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number</strong></td>
</tr>
<tr>
<td>Outward investment assisted products in SDI database supplied 2003-2006</td>
</tr>
<tr>
<td><em>Cannot be found in IDBR</em></td>
</tr>
<tr>
<td>Linked by ONS statisticians to IDBR</td>
</tr>
<tr>
<td><em>Assistance provided more than once to same company in any given yearb</em></td>
</tr>
<tr>
<td>Uniquely linked on a year basis to IDBR</td>
</tr>
<tr>
<td><em>Cannot be found in ARDb</em></td>
</tr>
<tr>
<td><strong>Linked to ARD</strong></td>
</tr>
</tbody>
</table>

a Data supplied by SDI gave the actual date when first assisted. This was converted into the annual equivalent year.

b None of the information on the 160 assists was lost, but amalgamated with other assistance provided to the same company in the same year.

c Cannot be found because company belonged to an industry outside the scope of the ARD data used.

5.9 Therefore in total, 1,480 companies were successfully merged into the ARD and form the basis of the merged SDI-ARD database used in this study. This gives an overall success rate of 69% of eligible companies being merged. While all non-merged companies presumably existed and are wrongly located in the ‘non-assisted’ part of the ARD, we do not believe (given the high level of success in merging and the small numbers of non-merged compared to non-assisted) that this will result in any significant bias to the econometric results obtained.

5.10 The SDI-ARD database is not sufficient for the needs of this project, as information is required on the internationalisation activities of enterprises in order to assess the impact of SDI assistance. That is, since it is expected (given previous studies) that exporters and outward FDI companies have higher productivity, it is necessary to control for the impact of internationalisation on productivity; otherwise, SDI assistance (given its link to exporting and outward FDI) is likely to be spuriously associated with higher productivity, unless the link between exporting and productivity is controlled for. So to account for internationalisation activities, panel data for Scotland, *covering 2002-2006*, from the Scottish GCS has been merged into the ARD.

**Analysis of firms’ characteristics**

5.11 The results for exporting show that:

• plants were nearly 68% more likely to sell overseas if they had previously engaged in exporting

• over 29% more likely to export if they had engaged in outward FDI in the past

5.12 Exporters were significantly larger than non-exporters; although they were less intermediate goods intensive (i.e. intermediate goods make up a smaller proportion of the overall output value of the plant). Plants that were US-owned (especially through ‘brownfield’ acquisition)
were much more likely to export, whereas ‘brownfield’ plants owned by other foreign countries were less likely to engage in exporting. Those located in assisted areas were 3.4% less likely to export, while **those operating in districts with significant industrial clusters and/or in more competitive industries were more likely to export.** Plants located in the City of Dundee were 8.8% more likely to export; and certain industry sectors had a stronger link to exporting (e.g., other transport equipment, chemical products, water transport and radio & communications equipment).

5.13 In all the results the plants that export overcome the barriers to exporting through increasing their productivity (which is positively associated with such factors as previous export activity, engaging in outward FDI, undertaking R&D, larger size, being US-owned and benefiting from agglomerations – all ‘learning’ activities associated in the literature with higher TFP).

5.14 As to which plants received SDI assistance, plants that export were 3.3% more likely to be assisted, while those with a positive R&D stock were 2.5% more likely to receive SDI help. The impact of being engaged in outward FDI on being assisted was lower given the small number of plants engaged in such international activities.

5.15 Larger plants were more likely to receive assistance. This effect is linked to higher TFP, suggesting that assisted plants are not a random sub-group of the population of all plants in terms of productivity.

5.16 Surprisingly, assistance to internationalise was lower in assisted areas, and higher in areas where clustering/agglomeration and greater diversity existed (e.g., more urbanised areas). Firms belonging to less competitive industries, single-plant firms, and older plants were less likely to receive SDI help for internationalisation. Certain industries were more likely to receive help (e.g., hotels & restaurants, post & telecoms, food products & beverages, and radio, TV & communications equipment manufacturers), while plants located in Edinburgh were less likely to benefit from SDI internationalisation products.

### Econometric analysis

5.17 Econometric models were developed that tested:

- whether those plants that exported and/or engaged in outward FDI achieved better performance in terms of TFP and employment during 2003-2006

- whether those plants that received assistance from SDI to help with internationalisation achieved better performance in terms of TFP, and/or employment during 2003-2006

- based on ‘matched’ samples of exporters/non-exporters and assisted/non-assisted plants, whether those plants that exported and/or received assistance from SDI achieved better performance in terms of total factor productivity (TFP) and employment during 2003-2006.

5.18 Given the successful merger of a significant majority of the SDI-assisted plants into the ARD, we are confident that the models estimated will not be subject to any problems associated with the misclassification of assisted plants to the non-assisted sub-group.
5.19 The productivity results obtained establish that as well as needing to become more productive pre-entry, plants that enter international markets gain from significant post-entry ‘learning-by-exporting’ and outward FDI effects. The former results in a boost to TFP of around 16-18%, while plants engaged in outward FDI have an additional productivity advantage of around 7-8%. Plants that invest in R&D have higher TFP of around 38%.

5.20 Other important results include the importance of foreign-ownership in determining TFP, with ‘brownfield’ US-owned plants having 29-36% higher productivity (while ‘greenfield’ plants owned by the other foreign-owned sub-group have around 19% lower TFP).

5.21 Plants located in districts with higher levels of diversification, and those operating in assisted areas, also had a productivity advantage while those that operated in less competitive industries were also able to exploit higher levels of TFP (presumably because there are links between higher levels of concentration and firm innovativeness). Lastly, TFP was higher for plants located in Aberdeen, Stirling, Edinburgh and Dundee (but not Glasgow).

5.22 When matched data is used (based on matching a ‘treatment’ group of plants that received assistance with a ‘control’ group of plants with similar characteristics except that they did not receive help), SDI-assistance has a strong and significant impact with such plants being nearly 19% more productive.

5.23 As to employment impacts, overall SDI-assisted plants had lower employment of somewhere between 13-19% when compared to non-assisted plants (based on using the full data set and ‘matched’ data).

5.24 Unfortunately, there were too few observations on plants that were assisted by means other than export promotion, and therefore it has not been possible to establish if more intensive assistance (such as belonging to the Global Companies Development Programme) had a larger productivity impact vis-à-vis less intensive export promotion. Given the importance of building absorptive capacity and knowledge assets (in order to benefit from longer-term operations in overseas markets), there is an expectation that SDI products that are linked to these more intensive activities would have a larger (and more long-term) benefit. Hopefully with more data becoming available over time, this hypothesis can be tested in future econometric analyses.

Summary and conclusions

5.25 The econometric analysis provides evidence along two lines; the links between performance and exporting and also the characteristics of the companies where the effect is strongest. The key results are:

- Those located in assisted areas were less likely to export, while those operating in areas with significant industrial clusters and/or in more competitive industries were more likely to export
• Firms belonging to more competitive industries, larger and newer plants and those in non-assisted areas were more likely to receive SDI help for internationalisation. These are also firms with stronger TFP.

• Plants that enter international markets gain from significant post-entry ‘learning-by-exporting’ and outward FDI effects. The former results in a boost to TFP of around 16-18%

• **SDI-assistance has a strong and significant impact with such plants being nearly 19% more productive**

• SDI-assisted plants had lower employment of somewhere between 13-19% when compared to non-assisted plants (based on using the full data set and ‘matched’ data)

5.26 The results demonstrate the link between stronger productivity, the likelihood of exporting and that this “learning” then further boosts productivity, generating a virtuous spiral. SDI support also has a significant effect associated with 20% higher TFP.

5.27 The analysis also finds SDI assistance more likely among companies that tend to have higher productivity already and among businesses that are already likely to be exporters. This fits with the later survey evidence that suggests that the assistance helps businesses that are already exporters to make more of the opportunities rather than by encouraging businesses to internationalise. It highlights the current role that SDI plays and the contrast with the role of the proposed Smart Exporter programme - mostly awareness raising. This finding helps shape our conclusions on SDI products later in the report.

5.28 The results also emphasise that the ultimate objective of the support is *productivity* and that exporting is a critical part of this. It supports the view that support for companies to strengthen productivity is a necessary precursor to international activity.

5.29 The provision of support should be seen in this light. Where productivity is already strong, provision of information, help to find management time, and access to finance can help companies exploit international opportunities, and has been doing. For other companies with less international experience there should be support to overcome a slightly different set of barriers around perceptions of the complexities of exporting. SDI can do this, but this is where links with Business Gateway, Scottish Chambers International and others could help to extend their influence.
6: Inward investment econometric analysis

6.1 This is the second section of two that summarise the econometric work and results. This section covers the analysis of the inward investment data. The introduction to the previous section set out a description of TFP which is used here as the main measure of productivity.

6.2 This section looks at the results from the inward investment analysis and addresses the following questions:

- Whether those plants that are owned by foreign-owned multinational corporations, or whether those that belong to UK enterprises operating in more than just Scotland, achieved better performance in terms of TFP, employment and/or wages during 1997-2006
- Whether those plants that received assistance from SDI achieved better performance in terms of TFP, employment and/or wages during 2001-2006
- Based on a ‘matched’ sample of assisted and non-assisted plants, whether those plants that received assistance from SDI achieved better performance in terms of TFP, employment and/or wages during 2001-2006.

Approach

6.3 Using 1997-2006 annual (panel) data from the Scottish sub-set of the ARD, this study first estimates whether those plants that are owned by foreign-owned multinational corporations, or whether those that belong to UK enterprises operating in more than just Scotland, exhibit better performance in terms of total factor productivity (TFP), employment and/or wages. As will be shown later, the econometric results generally show that this is indeed the case (although it can depend on where the headquarters company is based, a result also found in Harris and Robinson, 2003).

6.4 Following such baseline estimations, we then introduce variables into our model that represent whether the plant received assistance from SDI (and in which year this occurred), including separate tests of the different types of assistance made available (e.g., RSA or R&D grants, or indeed assistance with no monetary value attached). Given that we only have data on assistance covering 2001-2006, it is useful to compare the results based on the shorter period (but which include variables measuring whether assistance was provided) with those obtained for the full 1997-2006 period.

6.5 Introducing such policy variables allows us to determine if plants engaged in inward investment experience any change in their performance once they are assisted. Since a significant number of assisted plants are ‘greenfield’ enterprises (i.e., assistance coincides with the plant opening), the results show not so much if the plants changed direction in terms

26 TFP is measured as the level of output that is not attributable to factor inputs (employment, intermediate inputs and physical capital.)
of their performance, but whether SDI were supporting plants with different levels of performance. This is an important point, because given the short time period over which the analysis is conducted – at most 6 years for plants operating throughout 2001-2006 – there is a need to be careful in attributing different levels of performance to the post-assistance period. Of course, with longer time series of (panel) data it would be possible to make a greater distinction between pre- and post-assistance performance levels.

**Analysis of characteristics of all foreign-owned plants**

6.6 The initial analysis covers 401 assisted companies between 2001/02 and 2007/08. By identifying these companies in the Annual Business Respondents Database (ARD), which comprises the returns to the ABI carried out annually by ONS, the analysis is able to use the financial returns collected for National Accounts statistics. Once the assisted firms have been flagged in the dataset, it is possible to carry out direct comparisons of performance with similar, unassisted firms.

6.7 Using the ABI data we can show that employment in the plants that received assistance from SDI amounted to some 68,000 in total over 2001-2006. These jobs cannot be linked solely to the level of assistance provided but it does give an indication of the absolute size of the SDI-assisted sector.

6.8 Compared with the full population of unassisted businesses, the SDI-assisted plants:

- pay higher wages than non-SDI plants
- employ more people than others
- have higher labour productivity

6.9 The analysis also identifies other characteristics of both manufacturing and non-manufacturing SDI-assisted plants. These are:

- significantly larger than non-assisted plants (especially in manufacturing)
- more intermediate intensive (i.e. intermediate goods make up a smaller proportion of the overall output value of the plant).
- less likely to be located in Aberdeen or Glasgow, and more likely to be in Edinburgh (if they are manufacturing) and they are more likely to be in Dundee (if non-manufacturing)
- more likely to be in an Assisted Area, and/or a single-plant enterprise, and/or belonging to a multi-region enterprise is associated with SDI-assistance in manufacturing
- certain industry sectors have a stronger link to SDI-assistance (e.g., radio & communications equipment in manufacturing, and computer & related services in non-manufacturing) while only food and beverages actually has a lower probability of SDI-assistance.
Econometric analysis

6.10 The analysis uses a sophisticated model to measure the output, employment and wages that can be attributed specifically to SDI support. The technique known as 'matching', described in the Internationalisation section, was used again. Using such ‘matched’ data means that in the absence of assistance the average performance of assisted and non-assisted plants should be the same. Any statistical difference would then reflect the 'treatment' effect. Details of the methodology are contained in the full appended report.

Results

6.11 The analysis found that among both manufacturing and non-manufacturing plants, SDI-assisted businesses had higher employment (than comparable unassisted plants) of somewhere between 10-11%. SDI-assisted plants paid higher real wages (around 15%) when compared to non-assisted plants. Manufacturing businesses that received Training Plus grants had the highest wage levels (somewhere between 32-44% higher) than similar plants that did not.

6.12 TFP has again been used to measure productivity. ‘Greenfield’ EU-owned manufacturing plants had the highest levels of TFP (13.8% higher than UK-owned plants); followed by ‘brownfield’ US-owned plants (10.3% higher). However, SDI-assisted manufacturing plants had lower TFP of somewhere between 13-19% when compared to non-assisted plants and for non-manufacturing, SDI-assisted plants had lower TFP of around 13%. This was true for plants receiving RSA and R&D grants, but, by contrast, plants that received Training grants had higher productivity.

Summary and conclusions

6.13 The main findings are:

- SDI-assisted companies had employment of around 10% higher than matched unassisted companies and paid higher wages, but

- SDI-assisted companies had lower TFP of between 13% and 19%.

6.14 One reason for this lower productivity is likely to be that SDI support is restricted to working with firms that would not be investing as much (or at all) in Scotland otherwise. The plants in receipt of government grants and other forms of assistance must demonstrate ex-ante that the investment would not go ahead without assistance, and therefore to some extent these are likely to be riskier projects (or perhaps weaker companies). It could be argued that projects that are expected to generate high productivity would not require assistance. A significant part of SDI support has been in safeguarding jobs where, without it the plant would have to reduce the scale of its operations. These plants, at least at the time of the intervention, are unlikely to have very high productivity. It could be that the result is a combination of these weaker productivity cases together with some high productivity greenfield projects.

6.15 The analysis is clear that these cases have supported employment, provided higher wage jobs and raised the average of Scotland’s labour productivity. These were SDI’s objectives over that period. In moving forward, the TFP analysis provides a fresh look at the nature of these
past investments and raises questions about how we attract higher productivity businesses in future.

6.16 It also raises issues about the nature of supporting employment and productivity – or short term employment impact versus longer term competitiveness. This is not entirely straightforward as maintaining or attracting jobs to areas with high unemployment can have significant positive wider effects. Even where it is clear where the emphasis should lie, it is difficult, in advance, to determine the potential TFP of a project.
7: Internationalisation survey

Introduction

7.1 The next two sections set out the results of the direct surveys of samples of businesses that had been supported by SDI, based on telephone interviews carried out specifically for the purposes of this evaluation.

7.2 The survey was structured to cover:

- business characteristics
- exporting patterns and experience
- finance and the recession
- motivation and barriers to internationalisation
- support received from SDI and satisfaction
- the benefits and impact on performance.

7.3 An initial database of 10,700 records of business assists was initially provided by SDI. This was restructured to form a new database of 2,370 companies. The analysis covers all companies recorded as receiving SDI assistance on Scottish Enterprise’s CRM database, which in effect means that it includes all cases from 2005 through to September 2009 when the data was provided.

7.4 This was used as the basis for the company survey and for weighting the overall results. From this database 430 companies were removed from the sample by SE survey control, because they had been interviewed for other work within the past six months.

7.5 A sample of 1,195 companies was selected to be representative of the population on the basis of geography and sector. These companies were sent a letter from SE and then contacted to arrange a telephone interview.

7.6 In carrying out the telephone interviews, we found:

- 31 that had ceased trading
- 13 that were duplicates
- 61 had incorrect contact details and could not be traced
- 26 went straight to answer phones
- 28 cases the main contact had left
- 80 straight refusals to participate.
**Survey sampling error**

7.7 The survey interviewed 250 businesses from a population of around 2,370. For the straightforward questions, the margin of error is +/- 6%.²⁷ In interpreting the results we should put less weight on smaller differences between results. Where the results are disaggregated for different groups, the margin of error increases as the effective sample size is reduced and more care needs to be taken with interpretation.

**Sample**

7.8 This section sets out the structure of the sample of responses on the basis of geography, Designated Relationship Managed (DRM) status, and sector. By geography, the sample is well balanced with a slightly higher proportion of Highlands and Islands businesses, but slightly under representing the East and South of Scotland (Table 7-1).

**Geography**

<table>
<thead>
<tr>
<th>Table 7-1: Location of survey responses and full assisted population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Survey responses</td>
</tr>
<tr>
<td>------------------</td>
</tr>
<tr>
<td>Aberdeen City &amp; Shire</td>
</tr>
<tr>
<td>East of Scotland</td>
</tr>
<tr>
<td>H&amp;I</td>
</tr>
<tr>
<td>South of Scotland</td>
</tr>
<tr>
<td>Tayside</td>
</tr>
<tr>
<td>West of Scotland</td>
</tr>
<tr>
<td>Grand Total</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

**DRM status**

7.9 SDI works with both DRM companies and non-DRM companies. In the population of assisted companies 38% were DRM companies compared with 50% within the sample, which indicates an oversampling of these companies. This is important because we would expect DRM companies, who tend to have received more substantial support, to report a more positive impact than non-DRM companies. While the sample is representative of the population in relation to turnover figures (the average is just under £14 million), DRM companies have an average turnover twice the size of non DRM companies. There is a broadly similar pattern with median values.

²⁷ This margin of error is based on a 95% confidence level and for responses that are split 50:50. The margin of error falls where responses are less evenly divided e.g. 75:25.
Table 7-2: DRM status in sample responses and population

<table>
<thead>
<tr>
<th>Status</th>
<th>DRM</th>
<th>Non-DRM</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number in sample</td>
<td>124</td>
<td>126</td>
<td>250</td>
</tr>
<tr>
<td>% of sample</td>
<td>50%</td>
<td>50%</td>
<td>-</td>
</tr>
<tr>
<td>% of population</td>
<td>38%</td>
<td>62%</td>
<td>-</td>
</tr>
<tr>
<td>Average turnover in sample</td>
<td>£18.5 million</td>
<td>£8.6 million</td>
<td>£13.7 million</td>
</tr>
<tr>
<td>Average turnover in pop</td>
<td>£19.9 million</td>
<td>£9.5 million</td>
<td>£16.7 million</td>
</tr>
<tr>
<td>Median population</td>
<td>£2.6 million</td>
<td>£93,000</td>
<td>£2.0 million</td>
</tr>
<tr>
<td>Median sample</td>
<td>£2.4 million</td>
<td>£875,000</td>
<td>£1.6 million</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

7.10 Table 7-3 shows the structure of the sample and the population by sector. This uses the SE key sectors and the Government Economic Strategy Growth Industries. There was a good match between the sample and population in relation to industry sector.

Table 7-3: Responses and population by sector

<table>
<thead>
<tr>
<th>Sectors</th>
<th>sample</th>
<th>population(^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>14%</td>
<td>16%</td>
</tr>
<tr>
<td>Financial services</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Food and drink</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Life sciences</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>Tourism</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>Digital markets and enabling technology (DMET)</td>
<td>18%</td>
<td>22%</td>
</tr>
<tr>
<td>Education</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>Creative industries</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Other manufacture</td>
<td>9%</td>
<td>6%</td>
</tr>
<tr>
<td>Textiles</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Aerospace, defence and marine</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Chemical sciences</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Construction</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Other business services</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

\(^a\) Only includes records where data was available
It is also useful to consider whether some sectors are more likely to be DRM companies. Generally the pattern follows the overall sample with 50% of the companies in each sector managed through SE’s DRM process and 50% not. The only exceptions are in energy where DRM companies are more strongly represented and business services where there are fewer (Table 7-4).

<table>
<thead>
<tr>
<th>Sector analysis</th>
<th>DRM</th>
<th>Non-DRM</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business services</td>
<td>36%</td>
<td>64%</td>
<td>36</td>
</tr>
<tr>
<td>DMET</td>
<td>47%</td>
<td>53%</td>
<td>45</td>
</tr>
<tr>
<td>Education</td>
<td>53%</td>
<td>47%</td>
<td>19</td>
</tr>
<tr>
<td>Energy</td>
<td>61%</td>
<td>39%</td>
<td>36</td>
</tr>
<tr>
<td>Food and drink</td>
<td>52%</td>
<td>48%</td>
<td>33</td>
</tr>
<tr>
<td>Life science</td>
<td>50%</td>
<td>50%</td>
<td>14</td>
</tr>
<tr>
<td>manufacturing</td>
<td>59%</td>
<td>41%</td>
<td>22</td>
</tr>
<tr>
<td>other</td>
<td>47%</td>
<td>53%</td>
<td>45</td>
</tr>
<tr>
<td>Grand Total</td>
<td>50%</td>
<td>50%</td>
<td>250</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

Half of the sample started up their business within the last ten years. There was no significant difference between DRM and non-DRM companies, but companies supported in the Highlands and Islands tended to be older than in the SE area.

**Exporting patterns**

Nearly all respondents are now active in international markets as regular exporters (Table 7-5). Ninety percent of respondents had undertaken some international activity in the past three years and for 60% of cases international activity had started in the past 10 years. This trade is most frequently described as “regular” rather than one-off. Slightly more ad-hoc sales are reported by the non-DRM cases rather than the DRM ones.

<table>
<thead>
<tr>
<th>Pattern of international trading</th>
<th>DRM</th>
<th>Non-DRM</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular exporting</td>
<td>79%</td>
<td>75%</td>
<td>77%</td>
</tr>
<tr>
<td>Value varies from year to year</td>
<td>11%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Ad hoc - none in some years</td>
<td>6%</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>One off to date</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>No international revenue yet</td>
<td>3%</td>
<td>1%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

The destination of sales made by the companies in the sample is shown in Table 7-6. Overall, nearly 40% of sales by the companies were made outside the UK, with nearly 30% in the rest
of the UK. DRM firms were more active in the rest of the UK than non-DRM firms. Firms in the manufacturing and energy sectors were the most active outside the UK.

Table 7-6: Destination of sales

<table>
<thead>
<tr>
<th>Sector</th>
<th>% in Scotland</th>
<th>% in rest of UK</th>
<th>% outside the UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business services</td>
<td>27</td>
<td>28</td>
<td>39</td>
</tr>
<tr>
<td>DMET</td>
<td>16</td>
<td>35</td>
<td>41</td>
</tr>
<tr>
<td>Education</td>
<td>38</td>
<td>21</td>
<td>31</td>
</tr>
<tr>
<td>Energy</td>
<td>31</td>
<td>21</td>
<td>44</td>
</tr>
<tr>
<td>Food and drink</td>
<td>39</td>
<td>26</td>
<td>29</td>
</tr>
<tr>
<td>Life science</td>
<td>18</td>
<td>32</td>
<td>36</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>17</td>
<td>38</td>
<td>45</td>
</tr>
<tr>
<td>Other</td>
<td>31</td>
<td>29</td>
<td>36</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>27</strong></td>
<td><strong>29</strong></td>
<td><strong>38</strong></td>
</tr>
<tr>
<td>HIE</td>
<td>23</td>
<td>31</td>
<td>42</td>
</tr>
<tr>
<td>SE</td>
<td>28</td>
<td>29</td>
<td>37</td>
</tr>
<tr>
<td>DRM</td>
<td>25</td>
<td>33</td>
<td>38</td>
</tr>
<tr>
<td>Non-DRM</td>
<td>30</td>
<td>24</td>
<td>38</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

7.15 Exports represent around 60% - 70% of sales across all the sectors with relatively little variation between DRM and non-DRM companies.

7.16 The main reasons for engaging in international activity at all were “that it had always been relevant” (55%) and to help achieve growth aims (54%). Just over a third did so to reduce dependency on a small number of markets and just under a third to generate higher profit margins from markets outside the UK. Overall the results reinforce a later finding that SDI is working with companies that already have international experience.

Table 7-7: Motivation for engaging in international activity (250 cases)

<table>
<thead>
<tr>
<th>Motivation</th>
<th>% of sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>International markets have always been relevant</td>
<td>55%</td>
</tr>
<tr>
<td>To achieve our growth aims</td>
<td>54%</td>
</tr>
<tr>
<td>Reduces dependency on small number of markets</td>
<td>35%</td>
</tr>
<tr>
<td>Higher profit margins outside UK</td>
<td>29%</td>
</tr>
<tr>
<td>Utilise existing capacity</td>
<td>19%</td>
</tr>
<tr>
<td>Opportunity to keep abreast of developments</td>
<td>19%</td>
</tr>
<tr>
<td>Other</td>
<td>17%</td>
</tr>
<tr>
<td>Part of an international group set up to trade outside the UK</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey
7.17 Across the sample 35% reported that SDI had some influence on their decision whether or not to trade internationally at all. This impact was stronger among DRM companies where this rose to 44% (Table 7-8).

<table>
<thead>
<tr>
<th>Table 7-8: Did SDI play any role in motivating your decision to consider trading internationally?</th>
</tr>
</thead>
<tbody>
<tr>
<td>DRM</td>
</tr>
<tr>
<td>-------------------</td>
</tr>
<tr>
<td>Yes, strong influence</td>
</tr>
<tr>
<td>Yes, some influence</td>
</tr>
<tr>
<td>No influence</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey

7.18 The single most cited market was the EU from where 63% of the companies interviewed generate international revenue. The rest of the UK is second and North America third. Within the sample 21% of companies generated income from China and a similar number from Africa. The single biggest markets by value are even clearer with the EU, rest of the UK and North America considerably ahead of other regions.

<table>
<thead>
<tr>
<th>Table 7-9: Current international markets and single biggest one</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage that indicated they currently generate international income from…</td>
</tr>
<tr>
<td>European Union, outside UK</td>
</tr>
<tr>
<td>England / Wales / Northern Ireland</td>
</tr>
<tr>
<td>North America</td>
</tr>
<tr>
<td>Europe outside the European Union</td>
</tr>
<tr>
<td>Middle East</td>
</tr>
<tr>
<td>Japan and South East Asia (including Taiwan &amp; Hong Kong)</td>
</tr>
<tr>
<td>Australia and the Pacific</td>
</tr>
<tr>
<td>China</td>
</tr>
<tr>
<td>Africa</td>
</tr>
<tr>
<td>Russia or Central Asia (including Turkey)</td>
</tr>
<tr>
<td>South America</td>
</tr>
<tr>
<td>Indian subcontinent (including India, Pakistan &amp; Sri Lanka)</td>
</tr>
<tr>
<td>Don’t know</td>
</tr>
<tr>
<td>Other (specify)</td>
</tr>
<tr>
<td>None</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey

7.19 Most international activity involves selling existing products into new markets (81%). More than a third was selling new products into new international markets. Ten percent had acquired a foreign business and 14% had engaged in a joint venture Table 7-10.
Table 7-10: Type of international activity

<table>
<thead>
<tr>
<th>Type</th>
<th>% of sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>New markets for existing products</td>
<td>81%</td>
</tr>
<tr>
<td>New products for international markets</td>
<td>36%</td>
</tr>
<tr>
<td>Joint venture/partnership</td>
<td>14%</td>
</tr>
<tr>
<td>Acquisition of foreign business</td>
<td>8%</td>
</tr>
<tr>
<td>Don’t have any international activity</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey

Access to finance

7.20 This section was designed to help understand any difficulties that businesses were having in accessing finance during the recession and the effect that this might be having on international activity.

7.21 Thirty four percent had found it more difficult to get or maintain borrowing from their bank over the past year Table 7-11. There was a slightly greater proportion among DRM companies.

Table 7-11: Over the last year, have you found it more difficult to get or maintain borrowing from your bank?

<table>
<thead>
<tr>
<th>short sectors</th>
<th>No</th>
<th>Yes</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIE</td>
<td>59%</td>
<td>32%</td>
<td>9%</td>
</tr>
<tr>
<td>SE</td>
<td>58%</td>
<td>34%</td>
<td>8%</td>
</tr>
<tr>
<td>DRM</td>
<td>56%</td>
<td>38%</td>
<td>6%</td>
</tr>
<tr>
<td>Non-DRM</td>
<td>60%</td>
<td>29%</td>
<td>11%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>58%</td>
<td>34%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

7.22 The numbers by sector are fairly small, but manufacturing businesses were more likely to report difficulties than other sectors (Table 7-12).
Table 7-12: Over the last year, have you found it more difficult to get or maintain borrowing from your bank?

<table>
<thead>
<tr>
<th></th>
<th>Grand Total</th>
<th>Energy</th>
<th>Food and drink</th>
<th>Life science</th>
<th>Other business services</th>
<th>Digital and enabling technology</th>
<th>Education</th>
<th>manufacturing</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cases</td>
<td>250</td>
<td>36</td>
<td>33</td>
<td>14</td>
<td>36</td>
<td>45</td>
<td>19</td>
<td>22</td>
<td>45</td>
</tr>
<tr>
<td>Don't know</td>
<td>8%</td>
<td>3%</td>
<td>15%</td>
<td>7%</td>
<td>11%</td>
<td>2%</td>
<td>11%</td>
<td>14%</td>
<td>9%</td>
</tr>
<tr>
<td>No</td>
<td>58%</td>
<td>61%</td>
<td>61%</td>
<td>71%</td>
<td>50%</td>
<td>58%</td>
<td>79%</td>
<td>45%</td>
<td>53%</td>
</tr>
<tr>
<td>Yes</td>
<td>34%</td>
<td>36%</td>
<td>24%</td>
<td>21%</td>
<td>39%</td>
<td>40%</td>
<td>11%</td>
<td>41%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

7.23 For the third of the sample that has had difficulties accessing or maintaining finance, 33% reported that it had caused them to delay internationalisation plans. A further 27% have reduced the scale of their plans, but only 4% have abandoned plans altogether. Taken as part of the full 250 sample, this represents around 20% in total that has had to limit their internationalisation activities because of difficulties accessing finance (Table 7-13:).

Table 7-13: If YES, has this affected your plans for international development?

<table>
<thead>
<tr>
<th></th>
<th>Of those that have difficulty</th>
<th>Of full sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abandoned international plans</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>Has delayed internationalisation plans</td>
<td>33%</td>
<td>11%</td>
</tr>
<tr>
<td>Reduced scale of our international plans</td>
<td>27%</td>
<td>9%</td>
</tr>
<tr>
<td>No effect on international plans</td>
<td>21%</td>
<td>7%</td>
</tr>
<tr>
<td>Not answered</td>
<td>10%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Cases 84 250
Source: SQW internationalisation survey 2009

7.24 The following additional questions were also added at the request of the Scottish Government, to consider more specifically the types of finance that companies were seeking and in what form. The questions were added during the survey and were used in 164 interviews.

7.25 The first asked whether the business had applied for a various forms of finance in the past six months and been turned down. In total 13% reported that they had. Of these, overdrafts were the largest (7%) of the sample, with smaller numbers reporting other forms of finance (Table 7-14).
Table 7-14: During the past 6 months have you applied for any of the following types of finance and been turned down?

<table>
<thead>
<tr>
<th>Cases</th>
<th>Grand Total</th>
<th>Energy</th>
<th>Food and drink</th>
<th>Life science</th>
<th>Other business services</th>
<th>Digital enabling technology</th>
<th>Education</th>
<th>Manufacturing</th>
<th>other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>164</td>
<td>21</td>
<td>22</td>
<td>11</td>
<td>25</td>
<td>31</td>
<td>12</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>Overdraft</td>
<td>7%</td>
<td>5%</td>
<td>0%</td>
<td>9%</td>
<td>4%</td>
<td>10%</td>
<td>8%</td>
<td>7%</td>
<td>14%</td>
</tr>
<tr>
<td>Secured loan</td>
<td>1%</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td>Unsecured loan</td>
<td>1%</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Asset finance</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Credit cards</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>3%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Don’t know / none of these</td>
<td>87%</td>
<td>86%</td>
<td>91%</td>
<td>91%</td>
<td>96%</td>
<td>84%</td>
<td>83%</td>
<td>93%</td>
<td>79%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>3%</td>
<td>8%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

7.26 Businesses were then asked to specify the amount they were turned down for. In the sample there were nine cases between £10,000 - £49,999 and a further four of between £100,000 and £499,999 (Table 7-15).

Table 7-15: Which of the following bands best describes the total amount of new finance you have sought and been rejected for in the past 6 months? (Number of cases in sample of 164)

<table>
<thead>
<tr>
<th>Amount (band)</th>
<th>Asset finance</th>
<th>Credit cards</th>
<th>Overdraft</th>
<th>Secured loan</th>
<th>Unsecured loan</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>£100,000 - £499,999</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>£10,000 - £49,999</td>
<td>0</td>
<td>1</td>
<td>7</td>
<td>0</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>£5,000 - £9,999</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Less than £5,000</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Grand Total</td>
<td>1</td>
<td>1</td>
<td>12</td>
<td>2</td>
<td>2</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

7.27 A further question asked businesses how they planned to finance growth over the next three years. The majority (65%) planned to use funds generated by the business and a further 16% planned to find investors, while 14% planned to use loans or overdrafts (Table 7-16).
Table 7.16: If you are planning to grow your business over the next 6 months to 3 years, how are you planning to finance that growth? Are you planning to...

<table>
<thead>
<tr>
<th>Method</th>
<th>Number</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use funds generated by the business</td>
<td>107</td>
<td>65%</td>
</tr>
<tr>
<td>Look for investors in the business</td>
<td>26</td>
<td>16%</td>
</tr>
<tr>
<td>Extend or obtain a loan</td>
<td>14</td>
<td>9%</td>
</tr>
<tr>
<td>Obtain or extend an overdraft facility</td>
<td>9</td>
<td>5%</td>
</tr>
<tr>
<td>Use asset finance</td>
<td>6</td>
<td>4%</td>
</tr>
<tr>
<td>Sell assets to raise cash</td>
<td>3</td>
<td>2%</td>
</tr>
<tr>
<td>Use invoice discounting</td>
<td>1</td>
<td>1%</td>
</tr>
<tr>
<td>Something else</td>
<td>13</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

Impact of the recession

7.28 This section considers the impact of the recession on international activity. The survey found that for just over one third of businesses it had no effect. For another third it had reduced the scale of their plans and for the remainder (29%) it had delayed implementation (Table 7.17).

7.29 By sector, the pattern indicates that internationalisation plans in food and drink, manufacturing and education businesses have been less affected by the recession, although the numbers in each sector are small.

Table 7.17: How has the recession affected your plans to develop international activities?

<table>
<thead>
<tr>
<th>Impact of the recession</th>
<th>Grand Total</th>
<th>Energy</th>
<th>Food and drink</th>
<th>Life sciences</th>
<th>Other business services</th>
<th>Digital and enabling technology</th>
<th>Education</th>
<th>Manufacturing</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cases</td>
<td>250</td>
<td>36</td>
<td>33</td>
<td>14</td>
<td>36</td>
<td>45</td>
<td>19</td>
<td>22</td>
<td>45</td>
</tr>
<tr>
<td>No impact</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reducd the scale of our plans</td>
<td>35%</td>
<td>22%</td>
<td>58%</td>
<td>36%</td>
<td>22%</td>
<td>29%</td>
<td>47%</td>
<td>50%</td>
<td>33%</td>
</tr>
<tr>
<td>Increased the scale of our plans</td>
<td>34%</td>
<td>42%</td>
<td>30%</td>
<td>21%</td>
<td>44%</td>
<td>33%</td>
<td>32%</td>
<td>14%</td>
<td>36%</td>
</tr>
<tr>
<td>Changed focus to different markets</td>
<td>5%</td>
<td>3%</td>
<td>0%</td>
<td>21%</td>
<td>8%</td>
<td>7%</td>
<td>5%</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>Delayed implementation of plans</td>
<td>8%</td>
<td>8%</td>
<td>3%</td>
<td>29%</td>
<td>6%</td>
<td>7%</td>
<td>5%</td>
<td>5%</td>
<td>9%</td>
</tr>
<tr>
<td>Accelerated implementation of plans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decided not to go ahead with international plans</td>
<td>2%</td>
<td>3%</td>
<td>0%</td>
<td>7%</td>
<td>3%</td>
<td>4%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009
**Barriers to international trade**

7.30 The most significant barrier to internationalising the business was finance (32%), followed by management time and establishing dialogue with prospective customers or partners. The top three barriers are all areas that SDI/SE can and does influence, unlike a number of the other areas such as language and culture or exchange rates. Support to access finance and direct financial help is available, support to help plan and develop strategies is also available and SDI can help set up meetings with prospective customers and partners. The case studies also demonstrate the role that SDI can play in providing an incentive for managers to invest time in taking forward internationalisation plans. Companies will usually have ideas about the internationalisation, but may require an incentive or support to act on them.

7.31 A recent report by EU experts (EU, 2007) cites the main barriers to greater internationalisation for SMEs as: (1) insufficient managerial time and/or skills required for internationalisation; (2) lack of financial resources; and (3) lack of knowledge of foreign markets, mostly due to points (1) and (2). A very similar finding to this survey.

7.32 The range of SDI products broadly addresses these barriers. A lack of management time, for example, is about prioritising international activity. Helping businesses to understand the importance of international activity is part of much of the preparatory work that SDI supports. Experts for hire, preparing information on markets, identifying contacts, organising learning journeys and missions, mentoring and business development reviews are all intended to help businesses prioritise internationalisation and make it easier for management to take action.

7.33 However, the support products may need to focus more on strategic and preparation elements and, in tandem with the Smart Exporter Programme, offer more specialised help to establish dialogue with potential customers and partners. Further analysis of this is made later on in relation to the elements of support that lead to higher levels of impact.
### Table 7-18: Barriers to undertaking international trade

<table>
<thead>
<tr>
<th>Barrier</th>
<th>% of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>33%</td>
</tr>
<tr>
<td>Pressure on management time</td>
<td>28%</td>
</tr>
<tr>
<td>Difficulty in establishing a dialogue with prospective customers or partners</td>
<td>27%</td>
</tr>
<tr>
<td>Language/cultural differences</td>
<td>26%</td>
</tr>
<tr>
<td>Currency/exchange rates</td>
<td>26%</td>
</tr>
<tr>
<td>Preference by overseas customers to work with firms in their own country</td>
<td>24%</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>23%</td>
</tr>
<tr>
<td>Legislation / standards</td>
<td>22%</td>
</tr>
<tr>
<td>Obtaining information on an export market</td>
<td>17%</td>
</tr>
<tr>
<td>Transport costs</td>
<td>16%</td>
</tr>
<tr>
<td>Payment difficulties</td>
<td>14%</td>
</tr>
<tr>
<td>Setting competitive prices</td>
<td>12%</td>
</tr>
<tr>
<td>Export documentation</td>
<td>10%</td>
</tr>
<tr>
<td>Import tariffs</td>
<td>8%</td>
</tr>
<tr>
<td>Staff not trained for this</td>
<td>8%</td>
</tr>
<tr>
<td>No spare production capacity</td>
<td>6%</td>
</tr>
<tr>
<td>Warranty or service support</td>
<td>6%</td>
</tr>
<tr>
<td>Products unsuitable for export</td>
<td>5%</td>
</tr>
<tr>
<td>No response</td>
<td>4%</td>
</tr>
</tbody>
</table>

*Source: SQW internationalisation survey 2009*

7.34 Given that many of the companies already engage in some form of international activity, much of the SDI support relates to assisting companies in working in new markets. This has important implications for the fit with the Smart Exporter programme which will focus more on new exporters and requires different forms of support.

7.35 To address these barriers the companies had taken advice from a number of professional services, including SDI. The numbers using other services for advice was fairly modest. Just 8% had taken advice on overcoming these barriers from their bank while a third had not used any other services to help overcome the barriers.
Table 7-19: To help in overcoming barriers, did you take advice from? (unprompted)

<table>
<thead>
<tr>
<th>Support</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lawyers</td>
<td>18%</td>
</tr>
<tr>
<td>Accountants</td>
<td>14%</td>
</tr>
<tr>
<td>Consultants</td>
<td>13%</td>
</tr>
<tr>
<td>Expert staff that you hired</td>
<td>12%</td>
</tr>
<tr>
<td>Peer group</td>
<td>11%</td>
</tr>
<tr>
<td>Banks</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>15%</td>
</tr>
<tr>
<td>None</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

Working with SDI

7.36 At what stages do companies typically receive support from SDI? The majority started working with SDI when they saw the opportunity to internationalise but needed help to research or enter the market (Table 7-20). Only 15% of the businesses suggested that they had no international strategy at the time they started with SDI, but a reasonable proportion wanted help to refine a strategy. Importantly, only 10% wanted the financial assistance alone. The picture is of most businesses having thought through the internationalisation process or having experience, but then looking for help in researching and tackling specific markets.

Table 7-20: Stage at which businesses first started working with SDI

<table>
<thead>
<tr>
<th>Stage</th>
<th>DRM</th>
<th>Non-DRM</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Had no international strategy</td>
<td>13%</td>
<td>17%</td>
<td>15%</td>
</tr>
<tr>
<td>Had a strategy but wanted to refine it</td>
<td>28%</td>
<td>24%</td>
<td>26%</td>
</tr>
<tr>
<td>Saw opportunities but needed help to research the market</td>
<td>43%</td>
<td>29%</td>
<td>36%</td>
</tr>
<tr>
<td>Saw opportunities but needed help to enter the market</td>
<td>40%</td>
<td>41%</td>
<td>40%</td>
</tr>
<tr>
<td>Only wanted financial assistance to support international activity</td>
<td>10%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
<td>7%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

7.37 Most of the businesses had experience of international activities prior to SDI support. Three quarters had made sales outside Scotland and 64% had made sales outside the UK. A quarter had also secured agents or partners overseas (Table 7-21). This reinforces the profile of experience among the companies being supported. Only nine percent had done no form of international related activity prior to support from SDI.
Table 7-21: Activities undertaken prior to SDI support

<table>
<thead>
<tr>
<th>Activities undertaken prior to SDI support</th>
<th>% of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Made sales in UK outside Scotland</td>
<td>76%</td>
</tr>
<tr>
<td>Made sales outside UK</td>
<td>64%</td>
</tr>
<tr>
<td>Secured agents / partners outside UK</td>
<td>26%</td>
</tr>
<tr>
<td>Set up international partnership</td>
<td>11%</td>
</tr>
<tr>
<td>None of these</td>
<td>9%</td>
</tr>
<tr>
<td>Joint venture outside UK</td>
<td>7%</td>
</tr>
<tr>
<td>Acquired a business outside UK</td>
<td>1%</td>
</tr>
</tbody>
</table>

*Source: SQW internationalisation survey 2009*

7.38 The majority of businesses had received some form of support from SE in the past (75%). Almost half the sample (47%) had received business development support and 28% had received support for innovation or R&D. **There is a strong link between SE’s support activities (business development, innovation, skills) and the SDI support.**

7.39 Just over half (59%) of the businesses interviewed had received financial support with an average value of £5,300 (although the median value is £2,000). Financial support was more likely to be received by DRM companies than non-DRM ones. In the majority of these cases (64%) this was for travel and in a quarter for marketing and promotion (Table 7-22).

Table 7-22: Have you received financial assistance from SDI?

<table>
<thead>
<tr>
<th></th>
<th>DRM</th>
<th>Non-DRM</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>36%</td>
<td>46%</td>
<td>41%</td>
</tr>
<tr>
<td>Yes</td>
<td>64%</td>
<td>54%</td>
<td>59%</td>
</tr>
</tbody>
</table>

*Source: SQW internationalisation survey 2009*

**Support received**

7.40 The survey gathered information on the types of assistance, the number of times a company has been assisted and when. This provides a useful base when explaining the reported impacts of support later in the analysis. The results are grouped under six headings. **Two thirds of the businesses had support for some form of overseas mission or learning journey**, while a third had received other market support including standard and customised reports; 10% had received support to prepare for internationalisation and 17% strategic support. The majority of companies have been assisted to make overseas trips of some kind.

7.41 DRM companies were more likely to receive preparatory, strategic and market support such as reports, contacts, advice and guidance, while non-DRM companies were more likely just to participate in learning journeys and missions.
<table>
<thead>
<tr>
<th>Type of support</th>
<th>Categories covered</th>
<th>DRM</th>
<th>non-DRM</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparing</td>
<td>• Health check on readiness for international business</td>
<td>13%</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>• Business development review</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• International Preparedness Programme</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy</td>
<td>• Strategy advice through one-to-one meetings</td>
<td>18%</td>
<td>15%</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>• International strategy one-day workshop on</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Global Companies Development Programme</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mentoring</td>
<td>• International business manager for hire</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>• International graduate placement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market support</td>
<td>• Standard market reports</td>
<td>38%</td>
<td>27%</td>
<td>32%</td>
</tr>
<tr>
<td></td>
<td>• Customised overseas market support</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Other market support (contacts, advice, guidance)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overseas missions</td>
<td>• Support to attend exhibition</td>
<td>66%</td>
<td>72%</td>
<td>69%</td>
</tr>
<tr>
<td></td>
<td>• Support to attend learning journey</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Support to attend overseas mission</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Pre-mission in-country briefings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Identification of business contacts/partners</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• In-market promotion publicity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accommodation</td>
<td>• Virtual offices</td>
<td>6%</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>• Incubator offices</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Meeting/training rooms</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

7.42 There is overlap between the types of assistance but the data indicates that there are around 112 cases (44%) that received only support to attend an exhibition or travel on a mission without any other strategic or market support. This is reasonable where the business has strong international experience already but may be less effective where this is not the case. Of these, 70% had already made sales outside the UK prior to assistance (compared with 59% of those that had received other forms of assistance). Thirty percent of these (44 cases) were inexperienced in international trade. Companies that are receiving support only for learning journey, mission and exhibitions are slightly more likely to be experienced in international trade than those that receive other combinations of support.

7.43 The main target markets are the US and the EU. A fifth of cases were targeting Japan and South East Asia, the Middle East and China respectively (Table 7-24). Most of these cases reported targeting more than one of these areas. There are also some differences by sector. Support for education-related businesses and organisations was more likely to be related to the Chinese and Indian markets, while energy-related business focused on the USA and Middle East. Across most sectors a large proportion of the support was targeted at the USA and EU.
Table 7-24: Target markets related to the support provided, by sector

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>India</th>
<th>USA</th>
<th>EU</th>
<th>Middle East</th>
<th>Indian subcontinent (including India, Pakistan and Sri Lanka)</th>
<th>Japan and South East Asia (including Taiwan and Hong Kong)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grand Total</td>
<td>17%</td>
<td>12%</td>
<td>40%</td>
<td>33%</td>
<td>20%</td>
<td>12%</td>
<td>24%</td>
</tr>
<tr>
<td>Business services</td>
<td>22%</td>
<td>17%</td>
<td>31%</td>
<td>28%</td>
<td>28%</td>
<td>17%</td>
<td>25%</td>
</tr>
<tr>
<td>DMET</td>
<td>18%</td>
<td>0%</td>
<td>51%</td>
<td>36%</td>
<td>13%</td>
<td>0%</td>
<td>22%</td>
</tr>
<tr>
<td>Education</td>
<td>47%</td>
<td>32%</td>
<td>11%</td>
<td>5%</td>
<td>32%</td>
<td>32%</td>
<td>26%</td>
</tr>
<tr>
<td>Energy</td>
<td>8%</td>
<td>19%</td>
<td>42%</td>
<td>17%</td>
<td>28%</td>
<td>19%</td>
<td>25%</td>
</tr>
<tr>
<td>Food and drink</td>
<td>9%</td>
<td>9%</td>
<td>52%</td>
<td>42%</td>
<td>9%</td>
<td>9%</td>
<td>24%</td>
</tr>
<tr>
<td>Life science</td>
<td>21%</td>
<td>7%</td>
<td>43%</td>
<td>43%</td>
<td>7%</td>
<td>7%</td>
<td>36%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>23%</td>
<td>5%</td>
<td>27%</td>
<td>41%</td>
<td>18%</td>
<td>5%</td>
<td>27%</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
<td>11%</td>
<td>42%</td>
<td>44%</td>
<td>20%</td>
<td>11%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

7.44 However, these patterns have changed slightly over time. Table 7-25 uses the year in which the most recent SDI support was provided and the markets that were being targeted by the assisted business. The analysis compares two time periods (2005 - 2007 and 2008 – 2009). It shows the proportion of companies assisted in these time periods and the geographic markets they were targeting. For example, among the companies that were most recently assisted in 2005 – 2007 (134 cases) 11% reported that their support was related to the Chinese market. Among those that were assisted most recently in 2008 or 2009 (90 cases), 23% reported that the support was related to China.

7.45 Overall, the analysis indicates that where the most recent support was in 2008 or 2009, the companies were more likely to be considering international activity in China, India, the Middle East and South East Asia. Those whose most recent support was older (2005 – 2007) were more likely to be targeting more traditional markets in the rest of the UK and the EU. Because of the combination of multiple geographic markets and participation in a number of SDI supported activities over different years, the analysis can only provide a general indication of the shifts in focus of the support. However, the results do suggest that the more recent support has been more focused on emerging markets. This is probably a combination of demand for support to help engage in these markets and SDI’s own shift in focus.
Table 7-25: Changes in pattern of target markets and support over time

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of cases most recently assisted in this time period</td>
<td>134</td>
<td>90</td>
<td>-</td>
</tr>
<tr>
<td>China</td>
<td>11%</td>
<td>23%</td>
<td>12%</td>
</tr>
<tr>
<td>Indian subcontinent (including India, Pakistan and Sri Lanka)</td>
<td>8%</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>Middle East</td>
<td>16%</td>
<td>23%</td>
<td>8%</td>
</tr>
<tr>
<td>Japan and South East Asia (including Taiwan and Hong Kong)</td>
<td>21%</td>
<td>27%</td>
<td>6%</td>
</tr>
<tr>
<td>USA</td>
<td>34%</td>
<td>39%</td>
<td>4%</td>
</tr>
<tr>
<td>Africa</td>
<td>10%</td>
<td>13%</td>
<td>3%</td>
</tr>
<tr>
<td>Canada</td>
<td>10%</td>
<td>12%</td>
<td>2%</td>
</tr>
<tr>
<td>Australia and the Pacific</td>
<td>9%</td>
<td>10%</td>
<td>1%</td>
</tr>
<tr>
<td>Russia or Central Asia (including Turkey)</td>
<td>9%</td>
<td>9%</td>
<td>0%</td>
</tr>
<tr>
<td>England / Wales / Northern Ireland</td>
<td>12%</td>
<td>11%</td>
<td>-2%</td>
</tr>
<tr>
<td>Rest of European Union (other than UK)</td>
<td>37%</td>
<td>31%</td>
<td>-6%</td>
</tr>
<tr>
<td>Other European</td>
<td>24%</td>
<td>18%</td>
<td>-6%</td>
</tr>
<tr>
<td>South America</td>
<td>14%</td>
<td>9%</td>
<td>-6%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

**Satisfaction**

7.4.6 Table 7-26 shows the proportion of companies that were satisfied or very satisfied with various aspects of the support. The figures are the proportion of those that responded. There is relatively little difference between the categories although possibly the usefulness of contacts may be slightly lower than the provision of information and advice generally.

Table 7-26: Proportion reporting that they are satisfied or very satisfied with support

<table>
<thead>
<tr>
<th>Element of support</th>
<th>Satisfied or very satisfied</th>
<th>% unsatisfied or very unsatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall efficiency</td>
<td>73%</td>
<td>9%</td>
</tr>
<tr>
<td>Quality and relevance of information</td>
<td>72%</td>
<td>8%</td>
</tr>
<tr>
<td>Usefulness of advice</td>
<td>72%</td>
<td>10%</td>
</tr>
<tr>
<td>Understanding of your business needs</td>
<td>71%</td>
<td>10%</td>
</tr>
<tr>
<td>Practical support</td>
<td>69%</td>
<td>8%</td>
</tr>
<tr>
<td>Experience / skills of advisors</td>
<td>68%</td>
<td>10%</td>
</tr>
<tr>
<td>Usefulness of contacts it allowed you to make</td>
<td>66%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009
**Benefits from working with SDI**

7.47 Before considering the impact of the support, the survey asked businesses to report the ways in which SDI had helped the business to internationalise.

7.48 Almost half of the businesses interviewed reported that because of the support received from SDI, they had met customers/partners they otherwise would not have been able to meet (48%) and half also reported that they had improved the company’s profile overseas as a direct result of the support (Table 7-27). Less than 20% perceived no benefit.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>% of the sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved the company’s profile overseas</td>
<td>52%</td>
</tr>
<tr>
<td>Met customers / partners otherwise have been unable to meet</td>
<td>48%</td>
</tr>
<tr>
<td>Confidence to explore a new market</td>
<td>47%</td>
</tr>
<tr>
<td>Improved understanding of how to do business in an overseas market</td>
<td>43%</td>
</tr>
<tr>
<td>Improved knowledge of the competitive environment in an overseas market</td>
<td>40%</td>
</tr>
<tr>
<td>Improved overseas marketing strategy</td>
<td>37%</td>
</tr>
<tr>
<td>Improved market research skills</td>
<td>31%</td>
</tr>
<tr>
<td>None</td>
<td>18%</td>
</tr>
<tr>
<td>Improved prospects of raising international funding</td>
<td>16%</td>
</tr>
<tr>
<td>Resolved a problem with a foreign contract</td>
<td>3%</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>3%</td>
</tr>
</tbody>
</table>

*Source: SQW internationalisation survey 2009*

**Impact on businesses international capability**

7.49 These questions considered how the support had impacted on the business and how it operates. Sixty per cent of those interviewed had made or planned to make changes of some kind to their business as a result of working with SDI:

- 26% had or planned to undertake collaborations, partnerships or acquisitions
- 23% had made or planned organisational changes such as hiring specialist staff, training and strategy development
- 18% had made or planned changes to their products or processes including the development of new products for international markets
- 35% had made or planned changes to their marketing activities including undertaking new research.

7.50 The support had also helped 11% of the sample to temporarily or permanently decide *not* to enter a market.
7.51 Figure 7-1 shows the ratings that business gave themselves against a number of measures of international capability, before and after working with SDI. It shows a fairly consistent pattern of improvement in terms of skills, knowledge and capability.

7.52 Not all of this change can be attributed to SDI. Companies were asked how influential SDI support had been on achieving these changes. Sixty three percent considered SDI support to have been very or fairly important compared with 11% who considered it unimportant, while 25% did not know.

Figure 7-1: International capability scores before and after working with SDI:

![International capability scores chart]

Source: SQW internationalisation survey 2009

**Outputs**

Businesses were asked to report the “achieved” and “expected” effects resulting from working with SDI. Expected effects are defined as being over the next three years.

- forty one percent interviewed have achieved sales in new overseas markets and 80% expect to achieve this as a result of the internationalisation activities
- more than half expect the value of the company to increase (27% believe that this has already happened)
- sixteen percent have invested more in R&D and this rises to 30% when those that expect greater investment are included.

7.53 There are also impacts on output per employee (labour productivity) which reflects increased sales but a proportionately lower increase in employment (Table 7-28). To date 40% noted no impact on their business, but this fell to 11% that expected there to be no effect at all either to date or in the future.
Table 7-28: Percentage of businesses reporting actual and expected outputs as a result of working with SDI

<table>
<thead>
<tr>
<th>Outputs</th>
<th>Actual</th>
<th>Actual and expected within 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales in new overseas market</td>
<td>41%</td>
<td>80%</td>
</tr>
<tr>
<td>Increase in the overall value of the company</td>
<td>27%</td>
<td>56%</td>
</tr>
<tr>
<td>Increased sales in existing overseas markets</td>
<td>27%</td>
<td>54%</td>
</tr>
<tr>
<td>Increased domestic sales</td>
<td>14%</td>
<td>31%</td>
</tr>
<tr>
<td>Increased investment in R&amp;D</td>
<td>16%</td>
<td>30%</td>
</tr>
<tr>
<td>Improved ability to attract skilled staff</td>
<td>15%</td>
<td>28%</td>
</tr>
<tr>
<td>Improved output per employee</td>
<td>14%</td>
<td>26%</td>
</tr>
<tr>
<td>Increased income from intellectual property</td>
<td>11%</td>
<td>25%</td>
</tr>
<tr>
<td>Cost savings</td>
<td>16%</td>
<td>25%</td>
</tr>
<tr>
<td>Achievement of new quality standards (ISO, industry standards)</td>
<td>12%</td>
<td>24%</td>
</tr>
<tr>
<td>Raised new investment funds</td>
<td>6%</td>
<td>23%</td>
</tr>
<tr>
<td>No answer/no effect</td>
<td>40%</td>
<td>11%</td>
</tr>
</tbody>
</table>

*Source: SQW internationalisation survey 2009*

7.54 Again, some of these outputs *may have been achieved without SDI*. Around half the sample indicated that they could have achieved “some” of the outputs without assistance, and 16% indicated that they would have achieved “all” the outputs otherwise. There is very little difference between DRM and non-DRM companies (Table 7-29).

Table 7-29: Would you have achieved these benefits without SDI?

<table>
<thead>
<tr>
<th></th>
<th>DRM</th>
<th>non-DRM</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>No, none of them</td>
<td>3%</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>Yes, some of them</td>
<td>51%</td>
<td>43%</td>
<td>47%</td>
</tr>
<tr>
<td>Yes, most of them</td>
<td>23%</td>
<td>20%</td>
<td>22%</td>
</tr>
<tr>
<td>Yes, all of them</td>
<td>16%</td>
<td>17%</td>
<td>16%</td>
</tr>
<tr>
<td>Not answered</td>
<td>6%</td>
<td>13%</td>
<td>10%</td>
</tr>
</tbody>
</table>

*Source: SQW internationalisation survey 2009*

**Learning from exporting**

7.55 As a result of the *international experience* supported by SDI, 49% considered that they had been exposed to new ideas. Among these 91% indicated that these ideas had been adopted by the firm and of these 81% believed that this had made the firm more competitive. This equates to 36% of the sample as a whole learning and adopting new ideas *and* it leading, in their view, to improved competitiveness (Table 7-30).
Just over half of those that had become more competitive as a result attributed this to improvements in how they approach their sales and marketing activities. Almost 30% had developed ideas for new products. Across the full sample this represents around 13% of all cases.

### Table 7-30: Learning from exporting

<table>
<thead>
<tr>
<th></th>
<th>DRM</th>
<th>Non-DRM</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>46%</td>
<td>56%</td>
<td>51%</td>
</tr>
<tr>
<td>Yes</td>
<td>54%</td>
<td>44%</td>
<td>49%</td>
</tr>
</tbody>
</table>

If yes, has this knowledge or have these ideas been adopted by the firm?

<table>
<thead>
<tr>
<th></th>
<th>DRM</th>
<th>Non-DRM</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>10%</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>Yes</td>
<td>90%</td>
<td>93%</td>
<td>91%</td>
</tr>
</tbody>
</table>

As a result of new ideas and learning has the firm become more competitive?

<table>
<thead>
<tr>
<th></th>
<th>DRM</th>
<th>Non-DRM</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don’t know</td>
<td>8%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>No</td>
<td>12%</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>Yes</td>
<td>80%</td>
<td>83%</td>
<td>81%</td>
</tr>
</tbody>
</table>

Can you explain how?

- Sales and marketing: 60%
- Management: 35%
- New ideas for products: 29%
- Better use of capacity: 21%
- New processes: 18%
- New and more knowledgeable staff: 12%

*Source: SQW internationalisation survey 2009*

### Use of SDI in-market accommodation

The survey included eleven companies which used a virtual office service, incubator offices or meeting and training rooms overseas. Among the three that used the incubator facilities two had moved on to other premises in that country or region and one was still there. Of the five that used the virtual office service, three no longer operate in the market and one has moved into an incubator facility. Of the remainder that just used training facilities or meeting rooms two had since left the market and one was still active but without premises.

Where businesses have taken incubator space, the impacts are strong and from a relatively small sample, the firms indicate that they still have a presence in the market. The virtual
office requires less commitment, however, and a relatively high proportion of those using it have left the market.

**Deadweight**

7.59 The results of the survey are fairly clear about the pattern of deadweight associated with the support. While only a small proportion would not have undertaken any internationalisation project at all without SDI support (3%) the majority consider the SDI support to have helped bring projects forward (45%), made them larger (12%) or made them more effective (15%). Twenty three percent of the businesses consider that the support made no difference to their international activity (Table 7-31).

7.60 **Additionality does not seem to be achieved through making non-international firms international, but in helping improve the scale, timing and effectiveness of what firms planned to do.** This is important in relation to the “ladder” of internationalisation support that will be complemented by the proposed Smart Exporter programme which focuses more on raising the awareness of internationalisation opportunities within the broader business base29.

<table>
<thead>
<tr>
<th>Table 7-31: Deadweight of international projects: responses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category</strong></td>
</tr>
<tr>
<td>Not developed international trade at all</td>
</tr>
<tr>
<td>Paid someone else for the services we got from SDI</td>
</tr>
<tr>
<td>Been LESS LIKELY to undertake an international project</td>
</tr>
<tr>
<td>Undertaken a DIFFERENT internationalisation project</td>
</tr>
<tr>
<td>Undertaken an internationalisation project, but ON A SMALLER SCALE</td>
</tr>
<tr>
<td>Undertaken an internationalisation project, but LESS EFFECTIVELY</td>
</tr>
<tr>
<td>Undertaken an internationalisation project but it would have taken LONGER</td>
</tr>
<tr>
<td>Undertaken the SAME ACTIVITY AT THE SAME TIME</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

7.61 The effect of deadweight is captured within the business estimates of SDI’s impact, but SE are also interested in a single deadweight figure. To calculate this we have applied a series of assumptions to each case based on their response to this question in the survey. The assumptions about deadweight are set out in Table 7-32.

---

29 Smart Exporter has the objective of broadening business engagement in internationalisation. It will offer more light touch support to the broader base of businesses to contribute to Scotland’s export performance.
Table 7-32: Deadweight assumptions for international projects

<table>
<thead>
<tr>
<th>Category</th>
<th>Deadweight</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not developed international trade at all</td>
<td>0%</td>
<td>All additional</td>
</tr>
<tr>
<td>Paid someone else for the services we got from SDI</td>
<td>75%</td>
<td>A reasonable chance that they would not find similar services or would not have taken any action as a result</td>
</tr>
<tr>
<td>Been LESS LIKELY to undertake an international project</td>
<td>50%</td>
<td>Based on case studies, there is often a good chance that without the support action would not have been taken – assume 50%</td>
</tr>
<tr>
<td>Undertaken a DIFFERENT internationalisation project</td>
<td>75%</td>
<td>A reasonable chance that they would not have taken any action</td>
</tr>
<tr>
<td>Undertaken an internationalisation project, but ON A SMALLER SCALE</td>
<td>50%</td>
<td>Assumed that without support projects would have been around half the size</td>
</tr>
<tr>
<td>Undertaken an internationalisation project, but LESS EFFECTIVELY</td>
<td>75%</td>
<td>Usually combined with other responses, but assume that these would be a quarter less effective</td>
</tr>
<tr>
<td>Undertaken an internationalisation project but it would have taken LONGER</td>
<td>50%</td>
<td>From case studies, indication is that if delayed there would have been risks of it happening at all</td>
</tr>
<tr>
<td>Undertaken the SAME ACTIVITY AT THE SAME TIME</td>
<td>100%</td>
<td>All deadweight</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

7.62 Applying these assumptions to each case gives an overall, average deadweight of 60% (40% is assumed to be additional).

Impact of internationalisation support

7.63 Table 7-33 summarises the scale of impact that businesses reported against a series of performance criteria. There is a significant difference between the “to date” impacts and the “expected” impacts which reflects the view that some of the support has yet to take effect. The survey also found that 60% of businesses expect the benefits to last for more than three years and 35% expected them to last longer than 10 years.

7.64 The second point is that the impacts reported are much stronger on exports and turnover than employment, likely to increase labour productivity. Even so the employment effects still appear to be significant.

7.65 The support has, or is expected to, impact on the export sales of 74% of the businesses interviewed (in 43% of cases this impact is considered to be “major”).
Table 7-33: Summary of achieved and expected impacts as a result of working with SDI

<table>
<thead>
<tr>
<th></th>
<th>Major impact</th>
<th>Minor impact</th>
<th>No impact / insignificant</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>To date</td>
<td>Including expected</td>
<td>To date</td>
</tr>
<tr>
<td>Export sales</td>
<td>12%</td>
<td>36%</td>
<td>31%</td>
</tr>
<tr>
<td>Turnover</td>
<td>8%</td>
<td>34%</td>
<td>34%</td>
</tr>
<tr>
<td>Employment</td>
<td>2%</td>
<td>23%</td>
<td>16%</td>
</tr>
<tr>
<td>Other international income</td>
<td>5%</td>
<td>-</td>
<td>9%</td>
</tr>
<tr>
<td>Profit</td>
<td>6%</td>
<td>-</td>
<td>28%</td>
</tr>
<tr>
<td>Productivity</td>
<td>4%</td>
<td>-</td>
<td>16%</td>
</tr>
</tbody>
</table>

*Source: SQW internationalisation survey 2009*

7.66 Analysis of the impacts by type of assistance provides some evidence that it is the preparation work that is more likely to deliver impacts (Table 7-34).

7.67 Fifty eight percent of those engaged in some form of preparation support reported an actual, or expected, major impact on exports compared with 32% of those receiving support to attend exhibitions or travelling on missions. Generally, the more strategic work appears to offer stronger impacts, although the sample sizes are much smaller.

7.68 As important is the correlation between DRM companies and stronger impacts and these companies were also more likely to participate in the more strategic elements of support.

7.69 Finally, Table 7-34 also shows the proportion of companies that reported actual or expected major impacts by sector. Although sample sizes are again small it shows some interesting differences. Energy, food and drink and DMET sectors were more likely to report stronger impacts while manufacturing, education and life sciences were less likely.
Table 7-34: percent reporting a major impact on export sales to date or in future by types of support

<table>
<thead>
<tr>
<th>Category</th>
<th>% reporting major effect to date or in future</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparing</td>
<td>58%</td>
<td>26</td>
</tr>
<tr>
<td>Accommodation</td>
<td>45%</td>
<td>11</td>
</tr>
<tr>
<td>Strategy</td>
<td>45%</td>
<td>42</td>
</tr>
<tr>
<td>Mentoring</td>
<td>43%</td>
<td>7</td>
</tr>
<tr>
<td>Market support</td>
<td>43%</td>
<td>81</td>
</tr>
<tr>
<td>Overseas missions</td>
<td>32%</td>
<td>172</td>
</tr>
<tr>
<td>All DRM companies</td>
<td>42%</td>
<td>124</td>
</tr>
<tr>
<td>Non-DRM companies</td>
<td>23%</td>
<td>126</td>
</tr>
<tr>
<td>Energy</td>
<td>50%</td>
<td>36</td>
</tr>
<tr>
<td>Food and drink</td>
<td>42%</td>
<td>33</td>
</tr>
<tr>
<td>DMET</td>
<td>40%</td>
<td>45</td>
</tr>
<tr>
<td>Business services</td>
<td>33%</td>
<td>36</td>
</tr>
<tr>
<td>Other</td>
<td>24%</td>
<td>45</td>
</tr>
<tr>
<td>Education</td>
<td>16%</td>
<td>19</td>
</tr>
<tr>
<td>Life science</td>
<td>14%</td>
<td>14</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>14%</td>
<td>22</td>
</tr>
<tr>
<td>All</td>
<td>32%</td>
<td>250</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

7.70 There is a pattern that indicates that the profile of the companies that report the strongest impacts are those that have received more strategic support, are in the energy or food and drink sector and are working with SE as DRM companies. It raises an important question as to why these DRM companies appear to benefit more significantly than non-DRM ones.

7.71 A further analysis of the results also demonstrates how the different types of assistance build on each other. Of the businesses that had received only one type of support, 23% reported a major impact (to date or in the future) compared with 44% for those businesses that had received more than one type of support.

7.72 Target markets and the strength of impact are shown in Table 7-35. This relates those that have achieved, or expect to achieve a major impact, with the markets that the SDI support was intended to help them enter. North America and Africa are strongest, with the emerging economies Russia, China and non-EU Europe all appearing weaker.
Table 7-35: Target markets and proportion of cases reporting actual or expected major impact

<table>
<thead>
<tr>
<th>% reporting major effect to date or in future</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>48%</td>
</tr>
<tr>
<td>Africa</td>
<td>45%</td>
</tr>
<tr>
<td>USA</td>
<td>40%</td>
</tr>
<tr>
<td>England / Wales / Northern Ireland</td>
<td>38%</td>
</tr>
<tr>
<td>Indian subcontinent (including India, Pakistan &amp; Sri Lanka)</td>
<td>38%</td>
</tr>
<tr>
<td>Japan and South East Asia (including Taiwan &amp; Hong Kong)</td>
<td>38%</td>
</tr>
<tr>
<td>Australia and the Pacific</td>
<td>38%</td>
</tr>
<tr>
<td>Rest of European Union (other than UK)</td>
<td>37%</td>
</tr>
<tr>
<td>Middle East</td>
<td>37%</td>
</tr>
<tr>
<td>South America</td>
<td>33%</td>
</tr>
<tr>
<td>China</td>
<td>26%</td>
</tr>
<tr>
<td>Other European</td>
<td>22%</td>
</tr>
<tr>
<td>Russia or Central Asia (including Turkey)</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: SQW internationalisation survey 2009

Internationalisation conclusions

7.73 **Overall, 89% of the businesses supported considered the engagement with SDI to have been worthwhile.** Thirty five percent considered working with SDI to have had a positive impact on international revenue to date. If those that expect a positive effect in the future are included this rises to 77% of those assisted.

7.74 The survey also provides evidence on the number of cases where new ideas have been developed as a result of gaining international experience. **Thirty six percent of cases had become more competitive as a result of new ideas developed through international activities.**

7.75 **Sixty per cent of those interviewed had made or planned to make changes of some kind to their business as a result of working with SDI.** As a result the survey shows they are in a demonstrably better position to develop their international activities than before the interventions.

7.76 The analysis of those reporting major impacts shows that they are more likely to have been engaged in preparation or internationalisation strategy activities with SDI, more likely to be DRM companies, more likely to be in the energy or food and drink sectors and more likely to be targeting North America.
8: Inward investor survey

8.1 This section sets out the results of the direct survey of a sample of inward investor businesses that have been supported by SDI. These are based on telephone interviews carried out specifically for the purposes of this evaluation.

8.2 The initial database contained 353 cases supported by SDI. After excluding duplicates this was reduced to 328 cases. The interviewers attempted to call each of these companies. Based on the responses we estimate that:

- 210 are still trading
- 58 are no longer trading
- 60 could not be contacted.

8.3 The number of assisted cases assumed to make up the population is therefore 265. The 58 that are no longer trading in Scotland were identified through attempts to contact them directly, internet searches and subsequently checked by SDI. There were 60 companies that the interviewers were unable to contact. Our conservative estimate, for the purposes of constructing a population of assisted companies and based on discussions with SDI, is that perhaps half of those that cannot be found are no longer trading.

8.4 As a guide to whether this level of market exit is typical we can look at analysis carried out by Wren[30] which found that of 265 plants commencing in foreign ownership in the North East of England in 1985-98, 50 had exited by the year 2000 (19%) and 118 had exited by 2007 (45%). Wren also notes the acceleration in the loss of businesses post 2000 – the period covered by the SDI analysis. The figures indicate that in the North East 32% of these foreign-owned businesses trading in 2000 were no longer trading in 2007. This equates to 5% of the companies exiting the market each year.

8.5 Half the companies that SDI has worked with were already operating in Scotland prior to 2001/02 with the start dates of the others distributed fairly evenly across the following six years. Using an exit rate of 5% a year indicates that from the population of 328 cases we would expect to see around 20% or around 60 companies exiting over this period. This suggests that the level of known exits identified here is not unusual.

8.6 The list of the 60 companies that could not be contacted has been passed to SDI to follow up. We recommend that work is undertaken to find out what has happened to these companies and that future monitoring should be done to ensure that SDI is able to report on and learn from these projects.

Sample

Survey sampling error

8.7 The inward investment survey has a much smaller sample than the internationalisation survey, which means that the margin of error is larger. The sample of 55 from a population of 265 gives a margin of error of +/- 12%\(^{31}\). In interpreting the results we should put less weight on smaller differences between results. Where the results are disaggregated for different groups, the margin of error increases as the effective sample size is reduced and more care needs to be taken with these.

8.8 The population is shown in Table 8-1 based on summary SIC codes. Although this shows a good spread of cases within the sample, it is difficult to compare with the population; there were SIC codes for 215 from the database. With a relatively small sample it is more difficult to ensure it is fully representative. However with the exception of oil and gas extraction, where our sample classified more businesses as engineering, the coverage is good. Overall, within the sample of 55, 26 are manufacturing businesses and 28 in the service sector with one construction company (Table 8-1).

<table>
<thead>
<tr>
<th>Table 8-1: SIC–based classification (number of cases)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>Business services</td>
</tr>
<tr>
<td>Chemicals</td>
</tr>
<tr>
<td>Other manufacture</td>
</tr>
<tr>
<td>Food and drink</td>
</tr>
<tr>
<td>Oil and gas</td>
</tr>
<tr>
<td>Engineering</td>
</tr>
<tr>
<td>Construction</td>
</tr>
<tr>
<td>Transport</td>
</tr>
<tr>
<td>Computing</td>
</tr>
<tr>
<td>Retail/wholesale</td>
</tr>
<tr>
<td>Finance</td>
</tr>
<tr>
<td>R&amp;D</td>
</tr>
<tr>
<td>Education</td>
</tr>
<tr>
<td>Other services</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
</tr>
</tbody>
</table>

Source: SQW inward investment survey 2009 -328 cases

\(^{31}\) This margin of error is based on a 95% confidence level and for responses that are split 50:50. The margin of error falls where responses are less evenly divided e.g. 75:25.

\(^{32}\) Some companies in the population are not categorised by SIC
8.9 The sample is also reasonably representative by geography with most cases split between the West and East of Scotland. There are a smaller numbers in Aberdeen, Highlands and Islands and Tayside although none were from the South of Scotland (Table 8-2).

<table>
<thead>
<tr>
<th>Region</th>
<th>Population</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen City &amp; Shire</td>
<td>7%</td>
<td>4%</td>
</tr>
<tr>
<td>East of Scotland</td>
<td>28%</td>
<td>24%</td>
</tr>
<tr>
<td>Highlands and Islands</td>
<td>5%</td>
<td>11%</td>
</tr>
<tr>
<td>South of Scotland</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Tayside</td>
<td>6%</td>
<td>15%</td>
</tr>
<tr>
<td>West of Scotland</td>
<td>52%</td>
<td>47%</td>
</tr>
<tr>
<td><strong>Cases</strong></td>
<td><strong>286</strong></td>
<td><strong>55</strong></td>
</tr>
</tbody>
</table>

*Source: SQW inward investment survey 2009*

8.10 Almost half of the sample was engaged in manufacturing or production from the site and 27% were engaged in R&D (Table 8-3). There were few examples of distribution or sales and marketing operations. The proportion of businesses in the manufacturing sector was particularly marked.

<table>
<thead>
<tr>
<th>% of sample</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Production or manufacturing</td>
<td>44%</td>
</tr>
<tr>
<td>Research and development (including software and IT)</td>
<td>27%</td>
</tr>
<tr>
<td>Service delivery</td>
<td>20%</td>
</tr>
<tr>
<td>Distribution</td>
<td>7%</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>5%</td>
</tr>
<tr>
<td>Training and product support</td>
<td>2%</td>
</tr>
</tbody>
</table>

*Source: SQW inward investment survey 2009*

8.11 Most inward investment in the sample is made by companies from the USA, followed by the rest of the UK and the EU, with roughly 20% in each. The sample reflects the population fairly accurately although with a few more examples from Japan and South East Asia, Canada and others (Table 8-4).

---

33 Some companies in the population are not categorised by geography
Table 8.4: Country/region where company is headquartered

<table>
<thead>
<tr>
<th>Country region of HQ</th>
<th>% of sample</th>
<th>% of population</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>27%</td>
<td>29%</td>
</tr>
<tr>
<td>England / Wales / Northern Ireland</td>
<td>25%</td>
<td>28%</td>
</tr>
<tr>
<td>European Union (other than UK)</td>
<td>24%</td>
<td>28%</td>
</tr>
<tr>
<td>Japan and South East Asia (including Taiwan and Hong Kong)</td>
<td>13%</td>
<td>7%</td>
</tr>
<tr>
<td>Canada</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: SQW inward investment survey 2009

Motivation for investing in Scotland

8.12 The reasons for investment in Scotland were divided evenly between serving European markets, being close to customers who have also invested in Scotland and being close to centres of research. The strengths of Scotland are well known and the survey identified the main ones as the quality of the workforce, work ethic and cultural affinity (presumably with England and the US where most investment is from see Table 7.5). The importance of the location is interesting and was the most important reason for several of the businesses investing in Tayside (games and stem cell research), Aberdeen for oil and gas investment and in other cases it related to golf or transport where the business would serve existing customers.
Table 8-5: Factors that were "very important" in investing in Scotland

<table>
<thead>
<tr>
<th>Factors that were &quot;very important&quot; in investing in Scotland</th>
<th>% in sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledgeable and skilled workforce</td>
<td>56%</td>
</tr>
<tr>
<td>Workforce with strong work ethic</td>
<td>38%</td>
</tr>
<tr>
<td>Cultural affinity</td>
<td>31%</td>
</tr>
<tr>
<td>Important location for businesses in your sector</td>
<td>29%</td>
</tr>
<tr>
<td>Reputation for research and innovation</td>
<td>29%</td>
</tr>
<tr>
<td>International transportation and logistics</td>
<td>27%</td>
</tr>
<tr>
<td>Political and regulatory environment</td>
<td>27%</td>
</tr>
<tr>
<td>Sites and premises</td>
<td>25%</td>
</tr>
<tr>
<td>Environment for protection of intellectual property</td>
<td>22%</td>
</tr>
<tr>
<td>Ethical approach to business</td>
<td>20%</td>
</tr>
<tr>
<td>Stable economic environment</td>
<td>20%</td>
</tr>
<tr>
<td>Gateway to markets in Europe</td>
<td>18%</td>
</tr>
<tr>
<td>English spoken</td>
<td>16%</td>
</tr>
<tr>
<td>Communications infrastructure</td>
<td>13%</td>
</tr>
<tr>
<td>Grants</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: SQW inward investment survey 2009

8.13 One quarter of the businesses interviewed work largely independently of their parent company (Table 7-6), and in only 5% of cases, were most decisions made outside Scotland.

Table 8-6: Level of autonomy

<table>
<thead>
<tr>
<th>Scale</th>
<th>% of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 - business in Scotland works largely independently</td>
<td>25%</td>
</tr>
<tr>
<td>4</td>
<td>31%</td>
</tr>
<tr>
<td>3</td>
<td>25%</td>
</tr>
<tr>
<td>2</td>
<td>9%</td>
</tr>
<tr>
<td>1 - most decisions are made outside Scotland</td>
<td>5%</td>
</tr>
<tr>
<td>Not answered</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: SQW inward investment survey 2009

8.14 Finally, 23 of the 55 cases were already present in Scotland prior to the SDI support covered within the time frame of the evaluation.

**Barriers to investing in Scotland**

8.15 The barriers reported by inward investors are analysed in Table 8-5. The most commonly identified barrier was recruitment of staff. The second, identifying local suppliers, indicates that there is an important role for SDI in embedding these investments in the local economy. It is surprising, given the additional trade that this could generate locally, that this should be
seen as a barrier. It is possible that this could also include some concern about quality of local supplies. Identifying local suppliers was more likely to be a barrier for firms arriving in Scotland during the period of the evaluation (from 2001) rather than for investors who were already in Scotland.

### Table 8-5: Barriers encountered investing in Scotland

<table>
<thead>
<tr>
<th>Factor indicated as a barrier</th>
<th>Firms arriving in Scotland 2001 onwards</th>
<th>Firms in Scotland prior to 2001</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruiting suitable staff</td>
<td>24%</td>
<td>32%</td>
<td>27%</td>
</tr>
<tr>
<td>Identifying local suppliers</td>
<td>31%</td>
<td>16%</td>
<td>24%</td>
</tr>
<tr>
<td>Finding suitable sites and premises</td>
<td>17%</td>
<td>12%</td>
<td>15%</td>
</tr>
<tr>
<td>Understanding and implementing legal requirements such as company registration or tax</td>
<td>14%</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Retaining staff</td>
<td>14%</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>Protecting your intellectual property</td>
<td>10%</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>Obtaining visas</td>
<td>14%</td>
<td>0%</td>
<td>7%</td>
</tr>
</tbody>
</table>

*Source: SQW inward investment survey 2009*

8.16 Over time the responsibility of the Scottish sites has clearly changed (Table 8-6). Half of the businesses have grown since arriving in Scotland and only 7% have contracted. The range of products they offer has grown in 65% of cases and in half of the cases the amount of R&D being done has increased from the original plan at the time of investment. Although the autonomy of these plants has typically remained constant since their initial investment, almost half of have developed in scale and scope since investing in Scotland. A majority have increased product ranges, increased R&D investment and broadened their responsibility for geographical markets.

8.17 This provides a more dynamic view of inward investment than is usually available through snapshot surveys. Most of these businesses are employing more people than planned, doing more R&D and have broadened their product range. It seems likely that the scale of any benefits based on original plans would have been exceeded. However, if it would be helpful to know more about the investment cases that are most successful, then they would require to be monitored over time.

### Table 8-6: Has the role of this site changed from the original plan at the time of the investment

<table>
<thead>
<tr>
<th>Development of site over Site</th>
<th>Grown</th>
<th>No change</th>
<th>Reduced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>52%</td>
<td>43%</td>
<td>7%</td>
</tr>
<tr>
<td>Level of autonomy</td>
<td>19%</td>
<td>69%</td>
<td>13%</td>
</tr>
<tr>
<td>Range of products services offered</td>
<td>65%</td>
<td>30%</td>
<td>6%</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>50%</td>
<td>44%</td>
<td>6%</td>
</tr>
<tr>
<td>Markets</td>
<td>56%</td>
<td>33%</td>
<td>9%</td>
</tr>
<tr>
<td>Geographic responsibility</td>
<td>48%</td>
<td>48%</td>
<td>4%</td>
</tr>
</tbody>
</table>

*Source: SQW inward investment survey 2009*
SDI support

8.18 Around half of all the cases supported related to the location of new operations in Scotland with others relating to safeguarding activity (40%) and expanding sites (38%). In many cases the support was intended to provide a combination of these (Table 8-7).

<table>
<thead>
<tr>
<th>Purpose</th>
<th>% of cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Locating new operations in Scotland</td>
<td>55%</td>
</tr>
<tr>
<td>Safeguarding activity at an existing Scottish site</td>
<td>40%</td>
</tr>
<tr>
<td>Expanding an existing Scottish site</td>
<td>38%</td>
</tr>
<tr>
<td>Setting up a research agreement</td>
<td>9%</td>
</tr>
<tr>
<td>Setting up a business partnership</td>
<td>15%</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: SQW inward investment survey 2009

Types of assistance

8.19 Table 8-8 shows the types of support received that were considered important and the percentage of the sample reporting each as the single most important part of SDI’s package of support. The majority (58%) identified direction to public sector financial assistance as being important and 40% indicated this as the single most important element. Information provision was generally considered important but rarely the most important. Help to find sites and premises and developing business cases were also important parts of the support provided. The links to contacts at Universities and research centres were also valuable for a relatively high proportion of companies.
<table>
<thead>
<tr>
<th>Support provided</th>
<th>% considered important or very important</th>
<th>% reporting it as single most important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directed you towards public sector financial assistance</td>
<td>58%</td>
<td>40%</td>
</tr>
<tr>
<td>Providing information that you would otherwise have been unable to find</td>
<td>36%</td>
<td>6%</td>
</tr>
<tr>
<td>Help to find sites and premises</td>
<td>33%</td>
<td>15%</td>
</tr>
<tr>
<td>Help in preparing a business case to secure investment</td>
<td>29%</td>
<td>10%</td>
</tr>
<tr>
<td>Help to identify contacts at universities or research centres</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Help with recruitment</td>
<td>18%</td>
<td>4%</td>
</tr>
<tr>
<td>Help to access political support</td>
<td>16%</td>
<td>2%</td>
</tr>
<tr>
<td>Help to identify customers, suppliers, business partners</td>
<td>15%</td>
<td>8%</td>
</tr>
<tr>
<td>Help with planning applications or other permits</td>
<td>15%</td>
<td>2%</td>
</tr>
<tr>
<td>Help with understanding local legal or tax requirements</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>Regional tour</td>
<td>11%</td>
<td>0%</td>
</tr>
<tr>
<td>Tailored presentation or report</td>
<td>9%</td>
<td>0%</td>
</tr>
<tr>
<td>Presentation to your company in a group with other companies</td>
<td>9%</td>
<td>0%</td>
</tr>
<tr>
<td>Brochures, booklets or other ‘off-the-shelf’ publications</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>Help with material or presentation for you to give to your management</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>4%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: SQW inward investment survey 2009

**Satisfaction**

8.20 Table 8-9 shows the proportion of companies that were satisfied or very satisfied with various aspects of the support. There are three where the percentage falls below 70%: the usefulness of the contacts made, practical support on sites, premises recruitment etc. and aftercare service. Some attention should be paid to these, specifically around practical support and aftercare. Given the importance of maintaining these investments aftercare is extremely important, while the practical help (which includes recruitment) was reported earlier as being one of the most significant barriers that companies faced. It could be that in these more practical cases, scores are more neutral because SDI may not provide this advice directly.
Table 8-9: Proportion reporting that they are **satisfied or very satisfied** with support

<table>
<thead>
<tr>
<th>Element of support</th>
<th>% satisfied or very satisfied</th>
<th>% unsatisfied or very unsatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality and relevance of information</td>
<td>80%</td>
<td>5%</td>
</tr>
<tr>
<td>Usefulness of advice</td>
<td>80%</td>
<td>4%</td>
</tr>
<tr>
<td>Usefulness of contacts made</td>
<td>69%</td>
<td>11%</td>
</tr>
<tr>
<td>Experience / skills of advisors</td>
<td>76%</td>
<td>7%</td>
</tr>
<tr>
<td>Understanding of your business needs</td>
<td>71%</td>
<td>9%</td>
</tr>
<tr>
<td>Practical support on sites, premises, recruitment etc</td>
<td>53%</td>
<td>25%</td>
</tr>
<tr>
<td>Quality of aftercare service</td>
<td>56%</td>
<td>15%</td>
</tr>
</tbody>
</table>

*Source: SQW inward investment survey 2009*

**Results**

8.21 As a result of SDI support just over half of the cases reported that they have safeguarded activity, but SDI support was also reported to have supported new premises, employment, training and new R&D activity. Table 8-10 shows the breakdown of activity related to the support. The second column shows the proportion of businesses indicating that SDI support has been “important” or “very important” in the achievement of the results. This closely follows the first column. The influence of the support is far higher in relation to actually securing the investment than in encouraging the use of suppliers where this has occurred. A much higher proportion considered SDI to be important in increasing collaborative R&D in Scotland.

Table 8-10: Results of SDI supported projects

<table>
<thead>
<tr>
<th>Actions</th>
<th>% of sample achieving</th>
<th>% of firms that considered SDI support to be important or very important in achieving this</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment/activity safeguarded</td>
<td>56%</td>
<td>84%</td>
</tr>
<tr>
<td>Set up new premises or plant in Scotland</td>
<td>55%</td>
<td>87%</td>
</tr>
<tr>
<td>Increased the investment at an existing site</td>
<td>53%</td>
<td>79%</td>
</tr>
<tr>
<td>Increased the training at this site</td>
<td>44%</td>
<td>67%</td>
</tr>
<tr>
<td>Improved access to Scottish universities or research organisations</td>
<td>38%</td>
<td>52%</td>
</tr>
<tr>
<td>Increased the R&amp;D activity at this site</td>
<td>33%</td>
<td>67%</td>
</tr>
<tr>
<td>Increased the firm’s use of Scottish-based suppliers</td>
<td>25%</td>
<td>36%</td>
</tr>
<tr>
<td>Increased the firm’s involvement in collaborative R&amp;D in Scotland</td>
<td>25%</td>
<td>57%</td>
</tr>
<tr>
<td>No further activity</td>
<td>9%</td>
<td>0%</td>
</tr>
<tr>
<td>Acquired or merged with an existing firm in Scotland</td>
<td>4%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*Source: SQW inward investment survey 2009*
**Innovation**

8.22 The proportion of companies conducting R&D internally is high (64%) with a fifth undertaking no R&D at all. A quarter of the sample reported that SDI has had an effect on increasing the amount of R&D that they do.

<table>
<thead>
<tr>
<th>Type of R&amp;D</th>
<th>% of sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conduct R&amp;D internally</td>
<td>64%</td>
</tr>
<tr>
<td>Product development internally</td>
<td>51%</td>
</tr>
<tr>
<td>Commissioning external R&amp;D</td>
<td>18%</td>
</tr>
<tr>
<td>Commissioning external product development</td>
<td>5%</td>
</tr>
<tr>
<td>No R&amp;D and product development activities</td>
<td>20%</td>
</tr>
</tbody>
</table>

*Source: SQW inward investment survey 2009*

8.23 A series of questions were aimed at identifying the potential wider impacts of attracting and retaining these businesses. There is a high level of innovation; 35% of these inward investors are producing “new products described as new to the world” (Table 8-12). The survey does not allow more detail to be captured, but case studies could usefully provide examples of these and how they have been adopted.

<table>
<thead>
<tr>
<th>Response</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, completely new to the world</td>
<td>35%</td>
</tr>
<tr>
<td>Yes, new to your industry or sector</td>
<td>13%</td>
</tr>
<tr>
<td>Yes, new to the UK</td>
<td>7%</td>
</tr>
<tr>
<td>Yes, new to your business</td>
<td>7%</td>
</tr>
<tr>
<td>No</td>
<td>31%</td>
</tr>
<tr>
<td>Don't know</td>
<td>7%</td>
</tr>
</tbody>
</table>

*Source: SQW inward investment survey 2009*

8.24 In addition 50% are using business models, ways of working or technical processes at their site that are considered new to Scotland. Generally, higher levels of innovation and R&D are considered more likely to generate spillover effects.

**Suppliers**

8.25 The survey asked businesses to report the proportion of supplies, by value, from different countries. The average values show that Scotland remains the main source of supplies for most businesses, followed by the rest of the UK. On average the businesses interviewed reported 38% of their inputs purchased from outside the UK. This will vary significantly by sector and by size of operation.
There was some evidence from the survey that these inward investments were having some “spillover” effect on suppliers. They believe that they have contributed to raising standards among their suppliers, introducing new technologies and improving their productivity. These results are subjective but they point toward positive spillover effects that would be interesting to understand more fully.

SDI has also played some role in encouraging greater use of suppliers. Twenty percent of the sample considered that SDI had encouraged them to use Scottish suppliers more than they would have otherwise. For new investors, rather than those expanding operations this will be more effective, particularly given the early finding that identifying suppliers has been a barrier.

Exporting

Seventy per cent of the sales of these companies went outside Scotland, with over 40% made outside the UK (Table 8-16).
### Table 8-16: Sales destination

<table>
<thead>
<tr>
<th></th>
<th>Average % of sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>31%</td>
</tr>
<tr>
<td>Rest of the UK</td>
<td>21%</td>
</tr>
<tr>
<td>Overseas</td>
<td>43%</td>
</tr>
<tr>
<td>Average proportion of sales made to affiliates</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: SQW inward investment survey 2009

**Customers**

8.29 Seventy three percent considered that their site produced goods or services that could be described as 'hi-tech' or 'highly innovative' to Scottish customers, business or otherwise. There is the potential for inward investors to help improve productivity within Scottish businesses through access to improved intermediate products, higher quality goods and services or better value good than would be available otherwise. Table 8-17 indicates that the businesses surveyed believe that their presence in the market is having an impact on customers through a number of routes.

8.30 Thirty per cent believed that their presence in the market had encouraged Scottish customers to introduce new technologies. These potential spillover effects through suppliers, competitors, customers and networks are difficult to measure within a telephone survey but the survey is suggesting significant percentages. The case studies would provide a better method of understanding how these effects take place.

### Table 8-17: Impact on customers

<table>
<thead>
<tr>
<th>Impact on customers</th>
<th>% of sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encouraged them to introduce higher quality standards</td>
<td>33%</td>
</tr>
<tr>
<td>Encouraged them to introduce new technologies</td>
<td>31%</td>
</tr>
<tr>
<td>Reduced their costs</td>
<td>27%</td>
</tr>
<tr>
<td>Increased their costs</td>
<td>5%</td>
</tr>
<tr>
<td>No substantive effects</td>
<td>20%</td>
</tr>
<tr>
<td>No Scottish customers</td>
<td>16%</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: SQW inward investment survey 2009

**Suppliers**

8.31 Around 25% of inward investors reported that their use of Scottish suppliers has had a positive effect on the supplier’s own use of technology, raising quality standards and had also raised productivity. As a result of working with SDI, 17% of these businesses were using more Scottish suppliers than they would have otherwise. The fact that this was also given as a significant barrier for investors suggests that there is scope for this influence to be increased.
Deadweight

8.32 The survey collected on the views of businesses on what would have happened without SDI support. This includes both financial support and non-financial advice and assistance. A third of the businesses considered the SDI support to have made no difference to their decision to locate in Scotland (Table 8-18), while 16% would not have been in Scotland at all. The other cases considered SDI support to have helped accelerate their investment or increased its scale. Smaller proportions reported increases in R&D activity and skills.

<table>
<thead>
<tr>
<th>Table 8-18: What would have happened without SDI support?</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm would not be operating in Scotland at all without SDI support</td>
</tr>
<tr>
<td>The activities of the firm in Scotland would have taken longer to start</td>
</tr>
<tr>
<td>This activity would be less likely to be taking place in Scotland</td>
</tr>
<tr>
<td>Activities would have been on a smaller scale in Scotland</td>
</tr>
<tr>
<td>Activity in Scotland would have involved less R&amp;D activity</td>
</tr>
<tr>
<td>Activity in Scotland would have involved lower skills</td>
</tr>
<tr>
<td>The support made no major difference to our decision to locate operations in Scotland</td>
</tr>
</tbody>
</table>

Source: SQW inward investment survey 2009

8.33 The companies in the sample currently employ just over 19,000. From the survey these companies estimate that without SDI support there would be 3,438 fewer jobs (18%).

8.34 It is only possible to produce an estimate of deadweight for the inward investment cases that have set up new plants (30 cases). In each case the level of deadweight was probed by asking questions about how much faster the plant was able to set up as a result of the support, the increased scale etc. These responses have been used case by case to calculate the averages. The assumptions in Table 8-19 were applied.

<table>
<thead>
<tr>
<th>Table 8-19: Inward investment deadweight assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm would not be operating in Scotland at all without SDI support</td>
</tr>
<tr>
<td>The activities of the firm in Scotland would have taken longer to start</td>
</tr>
<tr>
<td>This activity would be less likely to be taking place in Scotland</td>
</tr>
<tr>
<td>Activities would have been on a smaller scale in Scotland</td>
</tr>
<tr>
<td>The support made no major difference to our decision to locate operations in Scotland</td>
</tr>
</tbody>
</table>

Source: SQW inward investment survey 2009

8.35 Using these assumptions gives average deadweight of 56%. This is the average for each case. To relate this to the sample, deadweight values were applied to the gross employment at the
plant. This gives a deadweight figure of 48\% (or 52\% of employment was attributed to SDI support).

8.36 Overall, 73\% of the businesses considered SDI to have been fairly or very important in ensuring the business’s *continuing presence in Scotland*. This includes 39\% who said it had been very important.
9: Economic impact

Introduction

9.1 This section is based on the results of the two business surveys and uses responses to gauge the contribution that SDI assistance has made to company performance. The methodology to estimate economic impact is based on businesses’ own views of the difference that SDI support has made to their performance.

9.2 The approach follows Scottish Enterprise guidance and is widely used as part of the Impact Evaluation Framework (IEF) which forms the basis for assessing the effectiveness of business development support for the Regional Development Agencies. Throughout the project the questions used, the data collected and analysis have been discussed in depth with the SE research and evaluation team.

9.3 This approach asks businesses to quantify the effect of SDI support in terms of the additional sales and/or employment. It assumes that the businesses are in the best position to judge what would have happened without the support (the counterfactual). By aggregating these estimates across the sample provides an estimate of the changes in output that can be attributed to the support. Further adjustment is made where this additional activity is considered to displace sales or employment that would have accrued to other Scottish businesses. These estimates are therefore based on the judgement of businesses and individual cases may well over or under estimate the effects, although collectively it provides a guide to the scale of impact achieved. Importantly using a similar approach to other SE evaluations means that the results can be compared with other forms of business development intervention.

9.4 The analysis is intended to supplement the econometric analysis which provides a more robust counterfactual by “matching” assisted and unassisted companies and also uses the ONS financial data which cannot be captured as accurately within a telephone interview.

Reliability of data

9.5 The reliability of these impact estimates is greater where the support is more recent, where the interviewee has a good knowledge of the support and where the effects are simpler and more direct (e.g. directly leads to new sales). The internationalisation support has been fairly recent, the interviewees are likely to have been directly involved in the support and the impacts can be measured directly in relation to additional exports. This means that while the impact estimates rely on businesses’ own estimates, the results are likely to be more reliable.

9.6 The estimates for the inward investment survey use a similar approach, basing the assessment of impact on the additional employment that the businesses attribute to SDI support. In this case, however, the conditions mean that this is likely to be more difficult estimate. The support was made up to nine years ago making it harder for interviewees to recall accurately and there will be fewer people employed who will recall it. Over time the effects and the
perceptions of the effects of the support will change as will other factors such as subsequent investments and market conditions, and employment will have changed over the period.

9.7 While the analysis of the survey questions provides a good indication of the businesses’ views of the support and its effects, quantifying the impacts over such a long period is more difficult. Figures have been constructed for SE (with appropriate caveats). However, for the reasons above these figures are considered to be less reliable than those for internationalisation.

9.8 If more robustness is required, it would be necessary to carry out a detailed review of individual inward investment businesses over the period. The scale of these investments in a lot of cases would merit individual impact studies.

Internationalisation economic impact

9.9 Where businesses reported that the support had a positive impact they were asked to quantify this. Specifically, they were asked for export figures in the last three years, the level of change and how much higher or lower this would have been without SDI’s support. We know that the majority of companies would be exporting anyway and this provides a measure of the marginal effect of the support on the total value of exports. Unlike the econometric analysis reported earlier these estimates are based on the businesses’ judgement of how much additional activity can be attributed to the support.

9.10 Care has been taken that where businesses have previously reported no significant impact, the effect of the support is assumed to be zero. Where there is an impact, but it cannot be quantified, we have effectively used the average value of those that have provided an estimate. Among businesses that were able to provide an estimate, half responded that between 1% and 10% of their increase in exports could be attributed to SDI support.

9.11 The analysis found that the DRM companies in the sample were more likely to report major and minor impacts and more likely to attribute increases in exports to SDI support. Because the sample slightly over represents the proportion of DRM companies, the data has been weighted to represent the population. Separate estimates for the average DRM and non-DRM companies have been calculated and then applied to the population.

9.12 On average (across all cases) the annual value of additional exports attributed to SDI support was:

- £54,000 for DRM companies
- £14,000 for non-DRM companies.

9.13 Within the sample, businesses estimate that the impact on exports, attributed to the SDI support, was £20.9 million or £101,000 per business assisted. This is the aggregate effect over three years, reported to date.

9.14 Businesses found it much harder to quantify the effect on turnover separately from international trade. The data that was provided gives an average value per business slightly higher than the export figure. However, given the more limited number of observations it is
more prudent to assume that the increases in export sales represent a direct increase in turnover.

9.15 Although there are a number of cases which involved international joint ventures or acquisition which may not generate exports, there were only two cases that reported an impact on international income but no export impact. Neither of these cases was able to quantify the effect. The impact to date of this is likely to be relatively modest compared with the impact on exports and is not included in the analysis.

**Displacement**

9.16 The survey focuses on product market displacement. Using SE’s standard approach, businesses were asked to indicate where their competitors are based. Although this provides some sense of displacement for **all** sales, we are more interested in displacement for the marginal exports that are stimulated through assistance. Businesses trading mainly outside Scotland report that around a quarter of their competitors are based in Scotland. Where higher values (for all sales) were reported these have been reduced to 25% to reflect the fact that we are concerned only with the marginal exports. The displacement factors have been subtracted from the sales impact case by case.

9.17 Applying this case by case reduces the average value of additional exports per business by £90,300 (cumulative over three years), a reduction of 11%.

**Leakage and substitution**

9.18 The analysis should also include consideration of leakage and substitution. Leakage occurs where the benefits accrue to businesses outside the interventions target area. We have assumed that all additional sales are secured by companies in Scotland. It could be argued that a proportion of the profit would subsequently be distributed more widely, but this would require a more detailed analysis of ownership. Substitution occurs where the intervention causes the business to replace an unsupported activity with a supported one. In this analysis we have assumed that the additional export sales add directly to turnover rather than being generated at the expense of domestic sales. This approach was borne out by the case studies and agreed with SDI and SE.

**Distribution of benefits**

9.19 The distribution of the reported impact that SDI has made to individual company annual export values is shown in Table 9-1. The average value is just over £100,000.
Extrapolating for the population

9.20 Between 2005/06 and 2008/09 there have been 2,370 companies assisted. Over this time a number will have ceased trading and could not have been interviewed. Based on an analysis of the telephone calls made in setting up the interviews around 6% were found to have closed. If this is true of the population, the number of live cases would be 2,228.

9.21 The biggest determinant of the scale of impact reported is whether or not businesses have DRM status. To allow for this, separate estimates of the average net impact for DRM and non-DRM businesses have been used and applied to the appropriate groups in the population. This gives a net estimate of cumulative additional sales of £174 million for all supported businesses.

9.22 SE also requires estimates of the net contribution made to GVA. Within the context of the telephone interview it is not possible to capture reliable data on the components of GVA. This is best done using the Annual Business Inquiry financial data which allows ratios of turnover to GVA to be calculated, by sector. For each case we have used the appropriate ratio for its sector. From this an average GVA per business has been calculated and used to produce an estimate for the population. This gives a net additional GVA estimate over the three years of £75 million.

Anticipated future impacts

9.23 Businesses were asked to *forecast* the effect of SDI support on the level of exports in three years time using percentages of the current level of export sales. The results have again been weighted to reflect the balance of DRM and non-DRM businesses in the population.
9.24 Quantifying the value of these effects is difficult for businesses and the results can only provide a broad indication of the pattern of longer term effects. Whether or not these are realised will depend heavily on global markets and future terms of trade.

9.25 Although it has been argued that the outturn could be even stronger than anticipated, we feel it is more appropriate to assume that these figures include a positive optimism bias. There is though a difference between the expectation of sustaining some of the new business that has been achieved and generating entirely new activity in the future. These two groups can be analysed separately:

- **Sustaining sales generated from past support** - Most of the businesses that had reported an impact expected the effect of the SDI support to continue for at least three more years. Applying the estimates of these existing sales over the next three years gives a further £47 million of GVA (as a result of past support). Given that many of these businesses expect exports to increase over the next three years this is a relatively conservative estimate.

- **Cases with no impact to date but expect future impacts** - in three years’ time this group estimate additional GVA (as a result of past SDI assistance) to be around £27 million. Assuming that this growth is linear to the third year, this would represent a cumulative GVA, over three years, of £54 million.

9.26 While the first figure for the sustained impact of achieved sales provides a reasonable balance between some of the ambitious expectations of future growth and sustaining export sales, the figure for those that have had no impact to date but expect future benefits is more uncertain. We have assumed in the latter case that optimism bias is 50%, reducing the figure to £27 million. Taken together these figures give a total expected future GVA impact of £78 million.

9.27 Bringing together the impacts achieved to date and the expected future impact of past support delivered between 2005/06 and 2008/09 gives an overall estimate of an additional £150 million of additional GVA.

**Multiplier effects**

9.28 The Scottish Enterprise Additionality & Economic Impact Assessment Guidance Note states that economic benefits of an intervention are multiplied because of knock-on effects within the economy. The multiplier effects for different Scottish industries are provided by the Scottish Government. The Type II multipliers give a composite or combined value combining direct, supply linkage and income effects. For this analysis we have applied the relevant Type II GVA multiplier to the additional GVA estimated by each company in the sample. In the evaluation of SE’s account management support, EkosGen provided an analysis of multiplier effects generated through DRM companies. They concluded that for this group a multiplier of 1.7 was appropriate. For consistency we have used a similar figure here.
**Sensitivity**

9.29 As is typical of most evaluations of this type the distribution of impacts shows a small number of high impact cases with a long tail of cases with lower impacts. The two highest impact cases report that annual exports were increased by between £900,000 and £1 million. Although high, this is not unrealistic given that this was between 5% and 10% of their annual sales. To demonstrate the sensitivity of the results we have also run the analysis excluding these two cases as well as with them.

9.30 Without the two highest cases, the results show that estimated total GVA impact to date falls from £75 million to £58 million and the ratio of expenditure to GVA falls from 4:1 to 3:1 without multiplier effects and from 7:1 to 6:1 with multipliers. The cost per job also rises slightly to £20,000 without multipliers and £11,000 with.

**Resources**

9.31 The estimated net investment in *internationalisation* provided by SDI was:

- 2006/07: £3 million
- 2007/08: £5.5 million (the net cost after taking account of income of £0.581 million)
- 2008/09: £5.7 million (the net cost after taking account of income of £0.962 million).

9.32 The figure for 2005/06 was estimated to be the same as reported in the following year, i.e., around £3 million. For 2009/10 we have allocated a third of the total (£6.3 million) to cover the period up to the time the list of client companies was provided (i.e., £2.1 million). This gives an overall total of £19.3 million.

**Summary**

9.33 The results relate to support provided from 2005/06 to 2008/09:

- an additional *cumulative* value of exports of £174 million (an average of £58 million a year to date – taking full account of displacement and deadweight)
- net additional GVA of £75 million to date
- the number of additional jobs (net) is estimated to be 1,100 to date
- GVA per £ invested (excluding multipliers) to date is 4:1 and including multipliers 7:1
- cost per job without multipliers to date is £18,000 and with multipliers is £11,000

9.34 Estimates of future impacts as a result of the support 2005/06 to 2008/09 are more uncertain but potentially add to the economic impact

- from the sample we estimate a further £72 million over the next three years (just under £150 million including GVA to date)
• including future estimates the GVA per £ invested doubles to become 8:1 without multipliers and 13:1 with multipliers

• there would be a further 380 jobs created on the basis of expected future effects \(^{34}\)

• including future estimates cost per job figures become £13,000 and £8,000.

---

\(^{34}\) This is based only on the cases that reported no impact on exports to date but expected an impact in the future. These results are reduced by 50% to allow for optimism bias. The associated employment is calculated using the same ratio of export value to jobs found in the survey.
**Table 9-1: Summary economic impacts - Internationalisation**

<table>
<thead>
<tr>
<th>Steps</th>
<th>Number</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample size</td>
<td>250</td>
<td>DRM (50%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non DRM (50%)</td>
</tr>
<tr>
<td>Population of cases</td>
<td>2,228</td>
<td>DRM – 847 (38%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non DRM – 1381 (62%)</td>
</tr>
</tbody>
</table>

**Impact to date**

<table>
<thead>
<tr>
<th>Impact on sales attributed to SDI to date (after deadweight)</th>
<th>£195 million</th>
<th>Grossed up results are based on profile of DRM/non-DRM profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Displacement</td>
<td>11%</td>
<td>Used to date and in future estimates</td>
</tr>
<tr>
<td>Substitution and leakage assumed to be 0</td>
<td>0%</td>
<td>Assumed that sales are generated by companies in Scotland and are additional to the firm</td>
</tr>
<tr>
<td>Net additional sales</td>
<td>£174 million</td>
<td>After allowing for additionality factors above</td>
</tr>
<tr>
<td>Net GVA over three years</td>
<td>£75 million</td>
<td>Ratio of sales to GVA for relevant sector for each case is used to produce GVA results</td>
</tr>
<tr>
<td>Additional jobs (net)</td>
<td>1,100</td>
<td>Based on survey responses</td>
</tr>
<tr>
<td>After multiplier</td>
<td>1,700</td>
<td>Assumed 1.7</td>
</tr>
<tr>
<td>SDI investment</td>
<td>£19 million</td>
<td>Based on net expenditure 2005/6 – mid 2009</td>
</tr>
<tr>
<td>Cost per job without multipliers</td>
<td>£18,000</td>
<td>Based on impact to date</td>
</tr>
<tr>
<td>Cost per job with multiplier to date</td>
<td>£11,000</td>
<td>Based on impact to date</td>
</tr>
<tr>
<td>GVA per £ invested (excluding multipliers) to date</td>
<td>4:1</td>
<td>Based on impact to date</td>
</tr>
<tr>
<td>GVA per £ invested (including multipliers) to date</td>
<td>7:1</td>
<td>Based on impact to date</td>
</tr>
</tbody>
</table>

**Future impacts**

<table>
<thead>
<tr>
<th>Expected GVA benefits in next three years from support already delivered</th>
<th>£72 million</th>
<th>Expected impact on GVA from businesses already reporting additional sales, over next three years (continuing benefits) is estimated to be £47 million. Expected impact on GVA from businesses that have not yet reported additional sales is £50 million adjusted for 50% optimism bias gives £25 million</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Total GVA impact</th>
<th>£147 million</th>
<th>To date plus future</th>
</tr>
</thead>
<tbody>
<tr>
<td>GVA per £ invested (including future but excluding multipliers)</td>
<td>8:1</td>
<td>Including both to date and future estimates</td>
</tr>
<tr>
<td>GVA per £ invested (including future and including multipliers)</td>
<td>13:1</td>
<td>Including both to date and future estimates</td>
</tr>
<tr>
<td>Cost per job without multipliers</td>
<td>£13,000</td>
<td>Assumes that future impacts create similar levels of employment as the “to date” estimates</td>
</tr>
<tr>
<td>Cost per job with multiplier to date</td>
<td>£8,000</td>
<td>Assumes that future impacts create similar levels of employment as the “to date” estimates</td>
</tr>
</tbody>
</table>

*Source: SQW internationalisation survey 2009*
Economic impact of inward investment

9.35 From the inward investment survey, the pattern of impact is strongest in employment where 57% considered the SDI support to have had an impact. The effects on profit and exports were considered to be weaker by the businesses (Table 9-2).

9.36 This includes several cases where it has made a significant difference. Interviewees found it much harder to provide estimates of the effect of SDI support on turnover. This is more difficult in part because of the global nature of these businesses and some will not report turnover for individual sites.

<table>
<thead>
<tr>
<th>Table 9-2: Economic impact estimates for inward investment businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Turnover</strong></td>
</tr>
<tr>
<td>Major impact</td>
</tr>
<tr>
<td>Minor impact</td>
</tr>
<tr>
<td>No impact / insignificant</td>
</tr>
<tr>
<td>Not answered</td>
</tr>
</tbody>
</table>

Source: SQW inward investment survey 2009

Quantifying the inward investment economic impact

9.37 Generating estimates for the inward investment support has been done to provide comparative figures for Scottish Enterprise, but for the reasons outlined earlier these have a number of significant caveats:

- each of these cases is likely to very complex, involving large businesses and their activities over a long period of time. These complexities cannot easily be reviewed within the scope of a telephone interview and are more suited to case study analysis

- assistance in some cases was provided up to eight or nine years ago. It is unlikely that interviewees will be able to recall accurately its impact now and in some cases may not have been in the same role that long ago.

- the impacts are further complicated by changing performance and market conditions over the past eight years. For example, employment in several of these cases has changed significantly over this time, but the impact has to be based on existing activity.

- finally, partly because of some of these complexities, businesses found it far easier to assess the impact of SDI assistance in terms of additional employment, rather than financial measures such as sales or productivity, which may be measured for the group or division rather than by site.

9.38 We have used the businesses own estimates of SDI’s impact on employment as the best measure of additionality. Of the 55 cases interviewed, 31 (57%) reported that SDI’s interventions had impacted on employment.
9.39 Within the sample these businesses estimated that 1,978 new jobs and 1,460 safeguarded jobs could be attributed to SDI currently, a total of 3,438. Allowing for the cases that reported a major or minor impact but could not quantify it, gives an average of 71 jobs per case.

**Displacement**

9.40 Displacement has been estimated using questions about the location of competitors and market conditions over the past three years. The reported additional employment is then adjusted in each case to reflect the amount of employment that has been at the expense of other businesses based on in Scotland. This is applied case by case and reduces the average jobs per business in the sample to 56, an overall displacement figure of 20%.

9.41 The jobs that are attributed to SDI support have lasted for a number of years given the period that has passed as many first received assistance. Although the survey could not cover changes in the pattern of employment over time, we understand that the associated employment is usually created shortly after funding has been awarded. From SDI records of the date when these cases were first assisted and assuming that the new and safeguarded employment has remained fairly steady since then which allows the calculation of the number of job years that have been supported. This has been done for each case. Within the sample this gives an estimate of 4,789 job years generated by the support in the eight years from 2001/02 (or 168 per case).

**Labour market displacement**

9.42 The estimates also do not include an allowance for labour market displacement. It is worth noting here that the large differential in labour productivity between foreign and Scottish-owned business means that the effect of labour market displacement is lower than if, for example, one Scottish job in a Scottish-owned firm displaced another.

9.43 Labour market displacement is not usually applied as part of SE evaluations and is not part of their guidance, or indeed guidance used for the regional development agencies in England.

9.44 To provide estimates of GVA that are based on full labour market displacement (assuming that the additional employment claimed is directly displaced from Scottish-based companies) we have used the difference in GVA per employee for Scottish owned companies and UK/overseas owned businesses.

9.45 On average, over the past five years the Scottish-owned manufacturing businesses have reported GVA of around 53% of the non-Scottish-owned values. For the service sector the equivalent value is 79%. We have used these percentages to recalculate the estimates of additional GVA.

9.46 The effect is to reduce the values to about a third of those where no labour market displacement is assumed. The estimate of additional GVA per £ invested falls from 8:1 to 3:1 without multipliers and from 11:1 to 4:1 with multipliers. With full labour market displacement there are no additional jobs assumed and so there is no cost per job figure.

9.47 This is clearly an extreme case (effectively this assumption is saying that these investments do not generate any new employment). In practice there will be some labour market
displacement associated with many inward investment cases, but this will vary depending on the state of local labour markets and the type jobs created. Estimating this requires more sophisticated modelling than could be undertaken within this assignment\textsuperscript{35}.

**Extrapolating for the population**

9.48 Extrapolating the results to the population of 265 supported cases that are still trading requires the sample to be representative. In practice, the sample slightly overestimates cases that received larger amounts of financial assistance. In the population the average total public grant is £0.88 million and in the sample, £1.03 million. There is a close correlation between the value of grants awarded and the number of jobs attributed to SDI by the businesses. The estimates have been adjusted to reflect the difference in average grant in the sample and population.

**GVA**

9.49 Because of the difficulties of gathering financial data directly on GVA from the businesses themselves we have used data from the ABI to construct employment/GVA ratios. It is important to differentiate between manufacturing and service sector jobs. Sixty percent of the net job years are in foreign-owned manufacturing which generates a significantly higher level of GVA per employee (£85,000 in 2007) than Scottish-owned manufacturers (£44,000)\textsuperscript{36}.

9.50 In the service sector, foreign-owned GVA per employee is £35,000 compared with £26,000 for Scottish-owned service businesses. The analysis applies the appropriate GVA ratio for each case and for each year.

9.51 This gives a cumulative total GVA associated with the additional employment of around £2,100 million between 2001/02 and 2008/09, an average of just over £300 million a year.

9.52 The figures exclude any valuation of potential “spillover” benefits that may occur as a result of the inward FDI or any estimate for the value of this additional employment in the future.

**Multipliers**

9.53 The Scottish Enterprise Additionality & Economic Impact Assessment Guidance Note states that economic benefits of an intervention are multiplied because of knock-on effects within the economy. Compared with the profile of internationalisation businesses, the inward investors are much more likely to purchase supplies from outside Scotland. This is partly because of their links to other global companies and also less autonomy over their use of suppliers. It may also be partly because of the scale of these businesses, which can make purchasing from overseas more cost effective. The survey suggested that inward investors purchase on average 37% of their bought in goods and services from Scotland compared to an average of 50% for internationalisation businesses.

\textsuperscript{35} Gillespie G et al, *The Displacement and Multiplier Effects of RSA: A computable General Equilibrium Analysis*, (2001). The paper estimated that taking labour market displacement, capacity and migration effects into account produced values that were around 50\% - 60\% of corresponding input-output based analysis.

\textsuperscript{36} Based on Scottish ABI data 2007 - [http://www.scotland.gov.uk/Topics/Statistics/16170/OwnershipbySector](http://www.scotland.gov.uk/Topics/Statistics/16170/OwnershipbySector)
As a result the multiplier effects are likely to be smaller. Our own analysis based on the survey responses relating to the proportion of bought in goods and services suggested a multiplier of around 1.3, but this may underestimate the value of bought in goods in services which according to the ABI data is around 70% of turnover (compared with an average of 42% in our survey). For the purposes of this analysis we have used a multiplier of 1.4.

**Resources**

The following estimates of expenditure on *inward investment* were provided by SDI. These were:

- 2006-07: £7.101 million

The survey of beneficiaries covered 2001/02 to 2007/08 so estimates have been made for the earlier years. We have assumed that SDI inward investment costs from 2001/02 to 2005/06 averaged £5 million in each year giving total of £44 million.

In addition, over the period from 2001, RSA of £216 million was awarded to the supported companies, R&D grants of £18 million, £4.7 million of training support; and £5.1 million “other” public sector funds. In the 2008 RSA evaluation (Hart et al) found that on average only 80% of grants approved are actually claimed. Using this figure gives an RSA investment figure of £172.8 million and total public support over the evaluation period of £200.6 million. Over the seven years this gives an average of just under £35 million a year.

**Summary**

The results relate to the support and benefits generated in the period 2001-2009:

- Net additional employment created 13,000
- After multiplier effects 18,000
- Estimate of annual GVA generated by employment over the period is £300 million
- Cost per job without multipliers £19,000 and with multiplier £14,000
- Ratio of GVA to investment excluding multiplier is 8:1 and including multiplier 11:1
- Even assuming 100% labour market displacement (i.e. all the jobs would have existed anyway in Scotland) the higher GVA per employee would mean that the ratio of investment to GVA would still be a third of this (3:1 without multipliers and 4:1 with).
### Table 9-3: Summary economic impacts – Inward investment

<table>
<thead>
<tr>
<th>Sample size</th>
<th>55</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population of cases</td>
<td>353 assisted (265 still trading)</td>
</tr>
<tr>
<td>Businesses assisted</td>
<td>2001/02 – 2007/08</td>
</tr>
</tbody>
</table>

**Impact to date**

<table>
<thead>
<tr>
<th>Estimated impact on employment at time of interview (after deadweight)</th>
<th>19,000 jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the sample:</td>
<td></td>
</tr>
<tr>
<td>• 37 new jobs per assisted case</td>
<td></td>
</tr>
<tr>
<td>• 33 safeguarded jobs per case</td>
<td></td>
</tr>
<tr>
<td>• 70 in total across 265 cases in population</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Displacement</th>
<th>20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on displacement analysis for each case in sample – product market displacement</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Substitution and leakage</th>
<th>0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>All activity in Scotland and considered additional within the firms</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net additional employment</th>
<th>13,000</th>
</tr>
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<tr>
<td>Current additional employment adjusted for sampling profile</td>
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<tr>
<th>After multiplier effect</th>
<th>18,000</th>
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<tr>
<td>Assumed around 1.4</td>
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<tr>
<th>Estimate of annual GVA generated by employment over period</th>
<th>£300 million</th>
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<tr>
<td>Based on GVA/employment ratios for foreign-owned manufacturing, services and construction categories and applied to each case.</td>
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<tr>
<td>Cumulative figure is calculated and then annualised for the 7 years of the programme</td>
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<tr>
<th>Annualised cost of investment</th>
<th>£35 million</th>
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<tbody>
<tr>
<td>Based on SDI reported public grant support over period 2001 – 2008 (estimate grants of £200 million and SDI expenditure of £44 million 2001/02 – 2007/8</td>
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<tr>
<th>Cost per job without multipliers</th>
<th>£19,000</th>
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<tr>
<td>Note that this does not include jobs that may have existed but subsequently lost over the past eight years or any estimate of the continuing benefits that there will be</td>
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<th>Cost per job with multipliers</th>
<th>£14,000</th>
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<tr>
<th>Ratio of GVA to investment (excluding multiplier)</th>
<th>8:1</th>
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<th>Ratio with multiplier</th>
<th>11:1</th>
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10: Consultations

Introduction

10.1 This section sets out a short report on the conclusions from the consultations undertaken for this review. Consultations only represent the opinions and impressions of those consulted; they are not direct empirical evidence of the form taken by the surveys or the econometric analysis (itself based on prior direct contact with businesses through ABI). However, they do reflect the experience and knowledge of the individuals spoken to and consequently can add to the overall conclusions. They also reflect how SDI is perceived as relating to other organisations (including the Scottish Government) and since support for internationalisation and inward investment essentially constitutes a partnership activity, the views of consultees on the shape of working relationships, as well as their impressions of SDI, are worth listening to.

10.2 As part of this review we spoke to eleven senior managers within SE and SDI and the following organisations external to SE/SDI:

- Scottish Government (three separate individual consultations)
- Highlands and Islands Enterprise (two individuals consulted)
- Scottish Council for Development and Industry (SCDI)
- UKTI (two individuals consulted)
- Scottish Local Authorities Economic Development (SLAED)
- Scottish Chambers of Commerce.

10.3 The information which follows represents a distillation of the views of those consulted (with no individual comments attributed). It reflects common themes of agreement as well as areas of differing views.

General impressions

10.4 Both inside and outside SDI, the consultations give an impression of a developing and improving situation in several important respects. The main areas where this is the case are as follows:

- **Development of a more explicit strategic background.** It is clear that within SE and SDI, the Industry Demand Statements are seen as providing more of a direction for activity (for example in identifying key target businesses or business types or those that might fill supply chain gaps in Scotland) than has been the case in the past.

- **More joined up activity between the inward and outward facing work of SDI.** It was the general impression that bringing together what had been two separate activities (though this took place some time ago) had promoted more effective
working and that the offices overseas had taken well to the joint role. Our consultation with the SDI office in the Far East confirmed this.

- **More joined up and effective joint working between SE, SDI and HIE.** Joint working between the three - and especially between SE and SDI - is now more prevalent, and explicitly expected, than has previously been the case. For example, in terms of relations with individual DRM companies, it is now clear that the single main point of contact for all SE/SDI matters is the account manager, supported by an account team which will include SDI staff as appropriate. While the approach may not be ‘seamless’ yet, it is moving in that direction. There are other questions to do with DRM companies which are covered later in this section.

- **Good relationships with external partners.** All of the external partner organisations reported a generally good working relationship with SDI; a few issues remain, covered later.

- **Changing performance indicators.** Performance indicators are very powerful influencers of behaviour. In recent years, inward targets in particular have developed from being purely job related to reflect performance in attracting ‘high value’ jobs. The main issue now is whether performance indicators need to be further refined.

10.5 In addition SDI has now produced an internationalisation strategy document, *Internationalisation: Strategic Direction, Priorities and Approach.* This was considered a useful document which sets out in more detail than before SDI’s plans for delivery and the evidence which guides it. It has been developed following consultation with partners. The document describes the overarching objectives, the global landscape and implications for Scotland, SDI’s contribution, how it will be delivered and how SDI will work with others. The strategy provides an overview of Scotland’s strengths and weaknesses, global trends and globally competitive sectors.

10.6 This paper was regarded positively by those that had seen it at the time of our interviews, although there were still a number of areas where consultees considered the document could in future be developed further. These questions are all covered in more detail in the reflections of consultees’ view under the following headings.

### Market failure

10.7 There was no debate at all amongst consultees about the existence of market failure both in relation to inward investment activity and internationalisation. The competition from other nations (inward) and the limited resources and knowledge available to SMEs (outward) were the two most significant reasons.

### Strategic direction

10.8 Inside SE and SDI, the Industry Demand Statements for the SE key sectors and the Scottish Government Economic Strategy are now seen to be the main strategic driving forces. If this is the case, two questions emerge:
how far they are a suitable means of making decisions about priorities (both for inward and outward activity) between industry sectors as well as within industry sectors

how far they have effectively permeated the whole organisation; for such documents to be effective, they have to influence the behaviour of those at the front line of company contact; the consultations suggested that this is not yet always the case

While those within SDI/SE can see a strategic background that drives forward activity, this is not always apparent to outsiders. It is important that SDI is able to demonstrate that it is ‘fleet of foot’ and responsive to good opportunities as they arise, but also that its broader activities are based on evidence and analysis. It may be that SDI needs to communicate further with partner organisations what its strategic thinking is and the assumptions that it is based on. Few external organisations were, for example, able to say how far SDI may have changed direction (or may have felt that it was not necessary to change direction) to accommodate the needs of the Scottish economy through the current recession.

One common theme articulated within SE/SDI, by Scottish Government and by external consultees was the possibility that in the current and expected economic circumstances facing Scotland, the balance of resources might be marginally shifted towards internationalisation (especially company preparedness for international activity) as being a potentially productive route. Up until now, inward investment has taken the lion's share of resources and a minor shift in direction might be appropriate. We note that a significant part of the resources allocated to inward investment projects is in the form of RSA, over which SDI has little control. It also depends on being able at the margin to make increasingly effective interventions on the internationalisation side.

How SDI relates to partner organisations

Relationships with partner organisations are generally very good. HIE in particular noted how far relationships with SDI had been transformed in recent years to the extent that they now formed a ‘single team’. Joint funding of staff between HIE and SDI had clearly been of great assistance in this. HIE suggested that as an organisation, they themselves possibly needed to articulate better to SDI the specific needs of the Highlands and Islands both in respect of inward and outward activity, and that this was something being worked on.

It was mentioned above that few external organisations appear to be aware of the strategic thinking lying behind SDI activity although this exists. More generally, partner organisations pointed to two areas where they believed SDI might benefit by better communicating its aims and activities, namely:

- letting others know more about SDI activities, what they entail and what is proposed
- agreeing protocols or clarifications about what SDI expects from others in relation to:
  - handling inward enquiries
  - clearing lines in relation to the support provided by others to internationalising companies.
10.13 Most consultees were very happy with the regular information provided by SE and the contact with SE; they were not sure, however, how far the specific SDI perspective always came through, given that SDI now works within a ‘one organisation’ approach with SE. An important issue for SDI is therefore communicating more about its activities to external organisations. With smaller amounts of resources likely to be available in future, the need for effective partnership working will become even more pressing. This was generally recognised.

10.14 The joint arrangements for coordination and working with UKTI appear to be working well.

The businesses that are worked with and what is done with them

**SDI Products**

10.15 The main products available to SDI to work with inward and outward companies were seen as more than adequate to do the job. Generally, however, there was support for the view (which has also emerged from the survey of businesses) that the balance of support had been too much towards the ‘tactical’ – venturing into export markets through exhibitions and missions etc – rather than the ‘strategic’ – for example, preparedness and the International Strategy Development Programme. We would support this as it is a significant finding from the survey. There was one comment (reflected in a case study) that the one-day workshops devoted to international strategy might not be of sufficient depth for some businesses and that more intensive forms of preparation should also be considered.

**Inward companies**

10.16 There was little comment about who actually should be targeted in relation to inward investment other than that the more sophisticated approach that is emerging with key target companies and sectors identified is the correct approach. This appears to be working well.

10.17 In relation to what is done when businesses are here, most consultees were keen to emphasis the need to embed inward companies in Scotland. This is already happening through the investor support teams, followed by the now-established account teams. The explicit process of embedding clearly needs to be supported and encouraged. That said, the survey analysis suggested that the forms of support in place several years ago were reasonably effective in the embedding and spinoff process, so there is good practice to build on.

**Internationalisation companies – DRM**

10.18 The key targets for SDI internationalisation activity are the 2,000 or so Designated Relationship Management (DRM) companies. In the new arrangements now in place, the account manager is the focal point for all SDI and SE activity with DRM companies. It is accepted within SE that the process where the lead account manager brings in others, including SDI wherever appropriate, is still bedding down, though all account managers should know that this is now the expectation.

10.19 This presents huge opportunities and challenges. Within SE it is now expected that account managers should challenge companies and encourage them to raise their horizons, rather than
being passive respondents to company-determined demands. We would support this. Furthermore, a strong undercurrent in the consultations was that with limited domestic demand, international markets were the best hope for many Scottish companies. That being the case, it should follow that account managers, in the right circumstances, should be encouraging companies to consider internationalisation – it should be high on the agenda in many cases. The evidence from the surveys for this review suggested that many companies are open to influence.

10.20 The consultations suggested that this is not yet present in enough instances and that some account managers might be uncomfortable with this subject or unaware of its importance. The Workbook that now guides account managers in their relationship with companies mentions internationalisation but does not provide it with any emphasis. Internationalisation is related very much to leadership within companies and this too might be an area deserving more emphasis.

10.21 Then main conclusion is that more might need to be done to:

- make account managers aware of the importance of internationalisation among DRM companies and encourage them to promote it in the right circumstances
- provide account managers with the knowledge and skills to assist SDI to engage effectively with appropriate companies.

10.22 This is not to say that every DRM company should be nudged or prodded to consider internationalisation but that the effort should be reorientated in that direction among suitable businesses. Consultees suggested that there may be many companies where this might be the right thing to do. There is other evidence to suggest that inexperienced companies overestimate the difficulties associated with international trade and underestimate the benefits.

**Internationalisation companies – non DRM**

10.23 All consultees were aware that the DRM companies represent only a very small proportion of Scotland’s company base; there was no questioning of SE’s and SDI’s overall approach in this respect. However, it was pointed out that it was not only consultees that felt that support to internationalise should go beyond the DRM companies; many non-DRM companies themselves are unhappy about perceived neglect in this area (through the evidence from our survey suggests that many non-DRM companies are indeed supported already by SDI). Fortunately, the emerging ESF-funded initiative between SDI, SE and Scottish Chambers International, *Smart Exporter* should go a long way towards allaying these concerns. It is timely and deserves a high profile.

10.24 Many of the above points are taken forward in the conclusions and recommendations section which follows and which draws on all the sources of evidence used for this evaluation.

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37 HSBC “Going International”, August 2009
11: Conclusions and recommendations

11.1 This chapter brings together the findings in the report to offer a summary and conclusions on the past performance of SDI’s business support and to identify elements which could be developed. The findings of the evaluation are generally very positive and consistent across the strands of analysis. This chapter summarises the findings first before bringing together the various sources and developing conclusions in the final section.

11.2 Internationalisation and inward investment are two very important contributors to Scotland’s economy and SDI’s role is central to both. Significant amounts of public money are invested in these areas and it is important to demonstrate that this is generating benefits and to ensure that SDI is continually learning and improving the way in which it delivers these services.

11.3 The evaluation finds that SDI’s support for internationalisation activity is having a significant and positive effect on business productivity and positive employment effects from activity to attract inward investment. As a result of SDI assistance, businesses themselves reported significant impacts on their international sales and employment as well as contributing to their capability to internationalise. The evaluation also raises a number of points looking forward. These are specifically around the use of learning, strategy development, integration with business support, leveraging SDI resource and future performance measurement.

Summary

Internationalisation

11.4 The econometric analysis produced a number of important findings in relation to internationalisation:

- higher productivity companies are the ones that are more inclined to enter international markets

- businesses that enter international markets gain from significant post-entry ‘learning-by-exporting’ and outward investment effects. The former results in a boost to Total Factor Productivity\(^{38}\) of around 16-18%

- more specifically, SDI-assistance has a strong and significant impact with assisted plants nearly 19% more productive than matched cases with no assistance

- SDI-assisted plants also had lower employment of somewhere between 13-19% when compared to non-assisted plants (based on using the full data set and ‘matched’ data)

11.5 These improvements in productivity are supported by the telephone business survey which found that 60% of the businesses reported making or planning to make changes in the way they operate as a result of SDI support. The survey also found significant improvements in

\(^{38}\) TFP is measured as the level of output that is not attributable to factor inputs (employment, intermediate inputs and physical capital.)
the capability of businesses supported to develop their international activities. Those reporting major impacts on export sales were more likely to be account managed by Scottish Enterprise and have been engaged in preparation or internationalisation strategy activities with SDI.

11.6 SDI had some positive influence on the original decisions to trade internationally of around a third of assisted businesses, while a ‘before and after’ comparison of the internationalisation capabilities of assisted firms indicates that working with SDI has had a positive impact. As a result 41% have achieved sales in new overseas markets and 80% expect to achieve this as a result of the SDI supported internationalisation activities.

11.7 The survey also provides new evidence on the number of cases where ideas have been developed. More than a third of those supported considered their international activities to have contributed to improved competitiveness (learning by exporting), a view underpinned by Professor Harris’s analysis and highlighted in the previous work on the rationale for internationalisation support. For 74% of the businesses interviewed the support has or is expected to impact on their export sales (in 36% of cases this impact is considered to be “major”).

11.8 The principal difference that SDI support has made is in helping to speed up and increase the scale and quality of firms’ international plans rather than through making non-international firms international. This is important in relation to the ‘ladder’ of internationalisation support that will be complemented by the Smart Exporter programme which focuses more on raising the awareness of internationalisation opportunities with businesses, broadening the number of companies undertaking international activity and developing the skills to successfully trade internationally.

**Inward investment**

11.9 On the inward investment side the econometric results show that although employment, wages and labour productivity are higher among the supported cases, Total Factor Productivity is lower. This reflects the nature of the support, its objectives and the situation of the businesses supported. The survey, for example, indicates that a high proportion of cases received support to safeguard employment which would not tend to be associated with the highest levels of productivity.

11.10 Over the period covered by the econometric analysis, the aim was to support investment that would create additional employment, which it has done. This analysis, however, helps emphasise the importance of productivity as the main determinant of long term economic competitiveness and it raises issues about how firms are targeted and how best to ensure that they will be competitive and contribute to economic growth.

11.11 The results provide evidence of the range of potential “spillover” benefits that these firms believe they bring to Scottish suppliers, customers, competitors and networks. Although based on a relatively small sample, the scale of the additional employment that was attributed to SDI’s interventions by the businesses was substantial, including several major cases where employment, R&D activity and output would be significantly lower without SDI intervention.
Economic impact summary

11.12 The economic impact results report businesses’ own perceptions of the contribution that SDI has made to their sales and employment. Both sets of data produce results that in comparison with the main estimates produced for all RDA spending\(^\text{39}\), are fairly strong.

11.13 For internationalisation the results of support provided from 2005/06 to 2008/09 are:

- an additional cumulative value of exports of £174 million (an average of £58 million a year to date – taking full account of displacement and deadweight)
- net additional GVA of £75 million to date
- 1,100 additional jobs (net) to date
- GVA per £ invested (excluding multipliers) to date is 4:1 and including multipliers 7:1
- cost per job without multipliers to date is £18,000 and with multipliers is £11,000

11.14 Estimates of future impacts as a result of the support 2005/06 to mid 2009 are more uncertain but based on businesses’ views of potential further effects:

- from the sample we estimate a further £72 million GVA over the next three years
- including future estimates the GVA per £ invested doubles to become 8:1 without multipliers and 13:1 with multipliers
- there would be a further 380 jobs created on the basis of expected future effects\(^\text{40}\)
- including future estimates cost per job figures become £13,000 and £8,000.

11.15 For inward investment the results relate to the support and benefits generated in the period 2001-2009:

- net additional employment of 13,000 jobs and after multiplier effects 18,000
- estimate of annual GVA generated by employment over the period is £300 million
- cost per job without multipliers £19,000 and with multiplier £14,000
- the ratio of GVA to investment excluding multipliers is 8:1 and including multipliers 11:1

11.16 Even assuming 100% labour market displacement (i.e. all the jobs would have existed anyway in Scotland) the higher GVA per employee would mean that the ratio of investment to GVA would still be 3:1 without multipliers and 4:1 with them.

\(^{39}\) Impact of RDA spending, PwC, on behalf of BERR March 2009 – The report found that every £1 of RDA spend will add £4.50 to regional GVA.

\(^{40}\) This is based only on the cases that reported no impact on exports to date but expected an impact in the future. These results are reduced by 50% to allow for optimism bias. The associated employment is calculated using the same ratio of export value to jobs found in the survey.
Consultations

11.17 Overall, consultees were supportive of SDI and its performance. It was recognised that there has been significant progress over the past few years. There is a more explicit strategic background driven by the Industry Demand Statements, more joined up activity between the inward and outward facing work of SDI and a more integrated approach in delivering support between SDI, SE and HIE.

11.18 However, looking forward, there were a number of issues raised in the consultations. For example, it may be that SDI needs to communicate better to partner organisations what its strategic thinking is and the assumptions that it is based on. Consultees also felt that internationalisation should have a higher profile generally and that there should be greater emphasis on developing the international capability among Scottish firms.

Conclusions

11.19 Overall, the report provides a lot of very positive findings which are underpinned by the results of the econometric analysis. There is a strong consensus in Scotland in support of internationalisation activity, both inward and outward; businesses and partner organisations concur in this. However, the evaluation also raises a number of important issues that SDI should consider in working to further improve its performance.

Strategy and rationale

11.20 There is no question that significant progress has been made refining and strengthening SDI’s strategy over the past few years. The consultations made clear that there has been a lot of good work done particularly through the focus on key sectors and the prominence given to the Industry Demand Statements. The recent paper, Internationalisation - Direction, Priorities and Approach, is a significant step forward.

11.21 However, there was a sense that more strategic thinking and analysis could be done, or that if it has been done, it could be communicated more effectively. While SDI must have sufficient flexibility to react quickly to opportunities it also needs to have a strong strategic direction articulating, from rationale onwards, its view of the world and how this shapes the things it does. For example, outlining the logic for the balance between resources allocated to inward investment and internationalisation, arguing how the specific tools and approaches have been chosen (as opposed to other options) and how SDI is responding to changing economic conditions around the world or global trends in investment/acquisition approaches. These are major changes which the Scottish Economic Recovery Plan\textsuperscript{41} refers to:

\begin{quote}
the rebalancing that has already begun across the global economy will bring new opportunities for Scottish businesses in new markets.
\end{quote}

11.22 It is also important to see this within the context of its wider contribution to Scottish business productivity rather than as a separate and specialist form of support. Internationalisation is not the end of the process but a stage which both reflects already strong productivity and

\footnotetext{\textsuperscript{41} The Scottish Government’s Recovery Plan: Accelerating Recovery, was updated in March 2010. It sets out a number of priorities for the coming months to accelerate economic recovery in Scotland and increase sustainable economic growth.}
indicates the potential for growth in the future. In practice the capability of firms to internationalise is dependent on strong productivity. Ensuring that barriers to productivity improvement are identified and addressed is clearly important if more firms are to have the capability to work internationally.

- there continues to be a strong rationale for supporting international activity. There are significant benefits that can be achieved and ‘market failures’ that assistance can help overcome
- development in strategy has been positive; this could be taken further to demonstrate the rationale for priorities
- SDI’s strategic thinking should be communicated to partners on a regular basis.

**Balance of resources**

11.23 The allocation of resources between inward investment and internationalisation is a much bigger question than can be answered in this evaluation. Based on the expenditure data provided (and including RSA, R&D and training grants) around seven times as much is invested in supporting inward investment than through SDI’s direct support of internationalisation. The view of a number of consultees was that more might be invested in supporting internationalisation. There are several reasons for this. Consultees saw internationalisation as offering the most effective way of supporting economic growth at a time when domestic demand is expected to remain weak. A more favourable exchange rate would also help. The econometric analysis of internationalisation activity also demonstrated the actual and potential improvements that can be made to TFP.

- it would be helpful for SDI to explain how the balance of resources between the two main activities is arrived at, although we note that in relation to the take-up of RSA, SDI has little control.

**Internationalisation**

11.24 There have been major improvements in the way in which SE and SDI are working together to deliver support to internationalising companies. The process works very well and it gives SDI and SE an excellent platform from which to deliver integrated internationalisation support.

11.25 Generally we believe that international activities should have a higher priority within the range of support provided to DRM companies. Account managers need to be aware of the benefits of internationalisation, the barriers and the support available to overcome them. They should be clear about the importance of encouraging internationalisation among their client businesses. This is likely to need greater support, changes to tools and more access to SDI staff through the account teams.

11.26 This is not just related to direct internationalisation support, but more generally it is about improving productivity. Professor Harris’s analysis identifies internationalisation as part of a virtuous circle which is driven by and then reinforces productivity. This means that many of
the SE DRM activities that aim to improve productivity are also necessary to underpin successful internationalisation.

11.27 The strands of evidence from this evaluation point toward the importance of international activity as a source of further productivity improvement. Professor Harris’s research provides the theoretical basis for anticipating “learning by exporting” effects, while the survey found that 36% of those interviewed had adopted new ideas and believed that this had led to improved competitiveness.

11.28 It is striking how DRM companies in particular report stronger impacts and produced considerably higher estimates of the difference that SDI support had made (approximately three times as high). It strongly suggests a link with the broader range of business development support provided by SE. It could be argued that this is having an effect on productivity and this, in turn, is helping to ensure that international activity is more successful. The results certainly suggest that working with more DRM companies, which are not operating internationally, would generate stronger benefits.

11.29 In summary:

- internationalisation should have a higher profile within SE and HIE business support and especially among account managed companies
- the route to achieving this is through continuing to strengthen relationships between the account manager/account team role and SDI
- SDI, SE and HIE should consider how the support that account managers need can be provided, for example, by giving internationalisation a higher profile within its guidance.

**Products**

11.30 Generally the products delivered through the internationalisation portfolio were considered to be right. However, the survey and the case studies have raised some useful points. Firstly the review of internationalisation evidence concluded that:

“while the range of products available from SDI is relatively broad, covering firms new to exporting as well as those wishing to become global companies, in practice much of its activities have been concentrated at the lower end of the productivity-enhancing spectrum.

11.31 The survey found that companies that received the more strategic or preparedness forms of support tended to report stronger impacts. This would suggest that more of this kind of support would be likely to increase outputs; although we would also caution that many of the firms that SDI works with are experienced exporters and could quickly grow out of preparedness-type support. This is probably more appropriate for companies newer to working internationally (of which SDI is planning to work with larger numbers), both DRM and non-DRM companies.
11.32 The introduction of the *Smart Exporter* programme\textsuperscript{42} will address some of the concerns raised about support only being available for a limited number of companies in specific sectors. The Programme will be a useful addition and will help raise the profile of internationalisation. However, it may also have implications for the balance of SDI products. It could potentially generate a great deal of interest from non-DRM companies which would then have to be considered for support by SDI. Depending on the quality of cases that are brought forward there may be a case of additional resources to provide support.

11.33 There may also be a case for a more sophisticated product. Many of the companies that SDI deals with are experienced exporters who require less generic assistance and more expert help in specific markets and sectors. This will be increasingly expected in the key sectors. Programmes like International Strategy development Programme could potentially work with more businesses.

11.34 A narrower focus on key sectors also raises expectations about the levels of expertise and support that can be provided both overseas and in Scotland. This has implications for the delivery of services which may have to move from broader generic support to narrower more specialist assistance. This would also mean that SDI should ensure that expertise available matches that needed by the key sectors in the appropriate markets.

- in relation to internationalisation, SDI should consider expanding its activities in supporting preparatory or strategic work with companies
- many of SDI’s customers are likely to look for increasingly sophisticated support in the future. SDI should ensure that this can be delivered by, for example, flexible arrangements with specialists or working with partner organisations where appropriate
- the introduction of the Smart Exporter Programme may have implications for SDI Programmes and for the resources needed to work with potentially a greater number of referrals.

**Inward investment**

11.35 The analysis, specifically the econometric work, focuses activity on attracting higher productivity inward investment. The difference between Total Factor Productivity, which is used in the econometric work (and is arguably the better measure of competitiveness) and labour productivity which is more frequently used, is important here. The econometric results show that although employment and wages were higher among the supported cases, TFP is lower. This reflects the nature of the support which includes a high proportion of cases receiving support to safeguard employment and this would not tend to be associated with high levels of TFP.

\textsuperscript{42} Smart Exporter has the objective of broadening business engagement in internationalisation. It was announced in March 2010 and is supported by SDI, Scottish Chambers International & SCDI to enhance internationalisation skills within Scotland's business community. It is a 3-year, £7.6 million programme that includes £3.4 million from the European Social Fund (ESF). It will offer light touch support to a broad base of businesses to contribute to Scotland’s export performance.
The results help to differentiate between potential objectives of inward investment support (employment and productivity). In some cases safeguarding employment will be the priority and would be justified in areas where the loss of jobs could have significant social costs or the attraction of new ones would be more likely to use unemployed labour rather than displace it from other productive activities. In other cases, the investment would be justified through increasing productivity, making better use of Scottish resources. A third case could be made in relation to the higher probability of spillover effects through for example the presence of higher levels of R&D.

A priori it is hard to identify the potential package of these effects that an investment could bring until well after the business has become established. This suggests several conclusions:

- more analysis and learning from past investments would help shape future activity. SDI and SE could consider how best to capture learning from investments that proved not to be sustainable in Scotland
- a better understanding would allow a stronger strategic approach to targeting types of inward investment and allow a more explicit set of objectives (e.g. spillovers, high productivity and employment). The distinction between jobs and high value jobs goes some way towards this and could be developed further

**Performance indicators**

Performance indicators and targets have a powerful effect on individual behaviour and they were seen by all the consultees as a key issue for SDI and for its partners. Work needs to be done to develop a more sophisticated performance measurement framework. Performance indicators should be derived from strategy, objectives and targets and in general terms it might be argued that any difficulties in deriving performance indicators often stem from the need to develop a clear strategy. Strategy and objectives should therefore provide the basis for performance management frameworks.

For example, UKTI use a fairly sophisticated rolling survey (PIMS) to assess the “quality” of the investments that they support. This type of approach provides a good base for understanding the actual and potential impact of investment.

The performance indicators should be led by productivity for both internationalisation and inward investment activity. Areas that could be considered in the framework on the basis of some of the outcomes of this study might include, for **inward investment**, measures of potential spillover effects, embeddedness and employment. Further indicators for activities might have to be developed to reflect the time invested in relationship building.

For **internationalisation**, increasing capability to internationalise, new international businesses, agreed international strategies (with DRM companies), value of exports, international income, learning from internationalisation and GVA should be covered.

Given the strategic focus on developing the key sectors, the measurement framework should be capable of reflecting progress in each of these separately as well as collectively.
• SDI should continue to develop a full performance measurement framework and ensure that this reflects strategy, objectives and the underpinning rationale

• specifically, we would suggest introducing productivity and the potential for positive spillover effects into the framework

**Monitoring**

11.43 There is scope for improvement in the collection, analysis and reporting of data on activity and performance in relation to both outward and inward activity. It is clearly important that monitoring data is kept up to date and maintained in a form that allows easy analysis. This helps in carrying out evaluation and will improve the quality of the research that can be done. Regular evaluation also makes it more likely that beneficiaries are able to recall the assistance they have received and comment on the benefits.

11.44 There are several points specific to inward investors. These cases are larger and more complex and some would merit more thorough evaluation in their own right. This could be done as part of a rolling programme to develop a better understanding of how different types of investment contribute to the economy.

11.45 This evaluation is one of the first examples of how data resources can be utilised to undertake econometric analysis. This is a valuable resource that aids understanding considerably. Having been through the process and with a stronger understanding of what is needed it could be repeated as new data becomes available.

• monitoring data on inward investment cases in particular should be collected and kept up-to-date

• the scale of support for some inward investments merits a more thorough evaluation in specific cases. A rolling programme of evaluation of projects over a certain size could be carried out.

• evaluations should be planned to ensure that gaps in timing between them are reasonable and to allow proper preparation for future studies.

• having undertaken the econometric analysis for SDI for the first time, there is an opportunity to repeat the exercise in later years as new Annual Business Inquiry data becomes available

**Partners and leveraging SDI expertise**

11.46 Some consultees believed that there was more scope for SDI’s partner organisations in Scotland to make more of a contribution to overseas activity. Within this evaluation we cannot comment on how accurate this is, but given the anticipated tightening of resources it is important that SDI is able to work closely with other agencies that have some form of overseas presence, for example, Scottish Chambers International has a strong international network with contacts across many markets that would be valuable to SDI. Other resources would come through the international work of universities and local authorities (through twinning relationships).
Although our analysis is limited to the contribution of SDI to business development, a number of consultees also raised the wider role that SDI’s overseas activities could play. Potentially it could bring a useful international perspective to a number of policy areas such as education, social policy, transport, as well as promoting Scotland in the business sphere. Even limited to business development, it is important that the experience that overseas staff have is transmitted through to the Scottish business base. This is happening, but consultees thought that this was an area that could be strengthened further.

Overall

Overall our conclusions fall into three parts. The results of the survey and econometric results provide reassurance that SDI support is delivering significant benefits to businesses. The analysis provides new insights into the ways in which this support is working and highlights a number of areas where better intelligence could help strengthen the delivery of support, for example in working with exporters to maximise productivity through learning generated by internationalisation.

A second set of conclusions is around raising the profile of internationalisation among Scottish companies and making it a more central part of Scottish Enterprise’s work. The econometric analysis in particular highlights the importance in tackling productivity as the main determinant in encouraging international activity and in seeing exporting not as an end point but as an integral part of helping Scottish companies becoming more competitive.

The route to this is both through the work of account managers and through SDI’s increasing role in much of what SE does. A stronger focus on internationalisation should be led by an emphasis on capacity building within companies. The survey results suggest that support for international strategies and preparation has the strongest effects on business performance and this should be extended. With a sharper focus on key sectors and on emerging markets businesses will expect more specialist expertise rather than generic assistance. This can partly be achieved by working more closely with partners.

The final set of conclusions is around building from a stronger rationale. This should be at the heart of strategy as it shapes the way in which SDI operates, the way it allocates resources and the tools and programmes it develops. A lot of good work has been done recently in developing the recent Internationalisation - Direction, Priorities and Approach paper and subsequent consultation, more could be done to explain the rationale for intervention, the allocation of resources, the options and priorities that have been chosen and the way in which these will contribute to productivity improvements.

Demonstrating this requires good monitoring and evaluation which must then be translated into learning. A central part of this is a performance measurement framework and the resources (and support) to use it effectively. This ranges from more robust management of data on client businesses through to specific evaluation or impact work on some of the larger inward investments.
Report annex
### Annex A: SE Additionality tables

**Additionality Calculator A (for sample survey data)**

Enter Project Name: SDI - internationalisation (to date impacts)  
Project Reference: 

<table>
<thead>
<tr>
<th>Intervention Option</th>
<th>Area of Benefit</th>
<th>Enter Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Impact</strong> GI</td>
<td>124,000,000</td>
<td><strong>Enter gross impacts e.g. 25 (jobs); £1m (turnover)</strong></td>
</tr>
<tr>
<td><strong>Leakage</strong> L</td>
<td>0%</td>
<td>All assumed to be captured within Scotland</td>
</tr>
<tr>
<td><strong>Displacement</strong> Dp</td>
<td>11%</td>
<td>Calculated through responses to survey question</td>
</tr>
<tr>
<td><strong>Substitution</strong> S</td>
<td>0%</td>
<td>Assumed that these additional export sales do not replace domestic sales</td>
</tr>
<tr>
<td><strong>Multiplier</strong> M</td>
<td>1.7</td>
<td>Same as DRM study</td>
</tr>
</tbody>
</table>

**Reference Case**

<table>
<thead>
<tr>
<th>Deadweight</th>
<th>Enter level of deadweight e.g. 35%</th>
<th>60%</th>
<th>Calculated from deadweight question in survey</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leakage</strong> L*</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td><strong>Displacement</strong> Dp*</td>
<td>11%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td><strong>Substitution</strong> S*</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td><strong>Multiplier</strong> M*</td>
<td>1.70</td>
<td>1.70</td>
<td></td>
</tr>
</tbody>
</table>

**Sampling Error**

| Enter margin of error from sample survey e.g. 5% | 6% | Based on sample and population |

**Additionality AI**

| Lower Limit of Range | 0 70,542,112 |
| Upper Limit of Range | 0 79,547,488 |

Based on GVA estimates

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43 These tables are set out in the format required by Scottish Enterprise. A more detailed discussion of the derivation of the additionality calculations is contained within the report.
### Additionality Calculator A (for sample survey data)

**Enter Project Name**
SDI - inward investment

#### Additionality Calculation

<table>
<thead>
<tr>
<th>Intervention Option</th>
<th>Area of Benefit</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Impact (GI)</td>
<td>Enter gross impacts e.g. 25 (jobs); £1m (turnover): 22,185</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leakage (L)</td>
<td>Enter levels of leakage e.g. 25%: 0%</td>
<td></td>
<td>Assumed that employment is in target area (Scotland)</td>
</tr>
<tr>
<td>Displacement (Dp)</td>
<td>Enter levels of displacement e.g. 10%: 20%</td>
<td></td>
<td>Product market based on survey responses</td>
</tr>
<tr>
<td>Substitution (S)</td>
<td>Enter level of substitution e.g. 15%: 0%</td>
<td></td>
<td>No substitution, net additional activity and employment supported</td>
</tr>
<tr>
<td>Multiplier (M)</td>
<td>Enter multipliers e.g. 1.32, 1.64: 1.4</td>
<td></td>
<td>Based on review of survey and analysis of input/output data</td>
</tr>
<tr>
<td><strong>Reference Case</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leak (L*)</td>
<td>Enter level of deadweight e.g. 35%: 48%</td>
<td></td>
<td>Based on survey cases setting up new premises</td>
</tr>
<tr>
<td>Displacement (Dp*)</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Substitution (S*)</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Multiplier (M*)</td>
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<td>1.40</td>
<td></td>
</tr>
<tr>
<td><strong>Sampling Error</strong></td>
<td>Enter margin of error from sample survey e.g. 5%: 12%</td>
<td></td>
<td>Based on survey sample size</td>
</tr>
<tr>
<td><strong>Additionality (AI)</strong></td>
<td>Lower Limit of Range: 0</td>
<td>11,370</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Upper Limit of Range: 0</td>
<td>14,471</td>
<td></td>
</tr>
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</table>

Based on employment estimates
SUBORDINATE LEGISLATION

<table>
<thead>
<tr>
<th>SSI title and number:</th>
<th>The Arbitral Appointments Referee (Scotland) Order 2010 (SSI 2010/196)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Instrument:</td>
<td>Negative – Standing Orders 10.4</td>
</tr>
<tr>
<td>Date Laid:</td>
<td>14 May 2010</td>
</tr>
<tr>
<td>Date circulated to Members:</td>
<td>4 June 2010</td>
</tr>
<tr>
<td>Economy, Energy and Tourism Committee deadline to report on SSI:</td>
<td>21 June 2010</td>
</tr>
</tbody>
</table>

Background

1. The power to make the Arbitral Appointments Referee (Scotland) Order (“the Order”) is conferred by section 24 of the Arbitration (Scotland) Act 2010 (‘the Act’). Under section 33(2) of the 2010 Act, it is subject to negative procedure.

2. This Order authorises eight people to act as arbitral appointments referees for the purposes of the Arbitration Rules set out in schedule 1 of the Arbitration (Scotland) Act 2010.

3. The Order authorises the following organisations to act as arbitral appointments referees:

   - Agriculture Industries Confederation Limited;
   - Chartered Institute of Arbitrators;
   - Dean of the Faculty of Advocates;
   - Institution of Civil Engineers
   - Law Society of Scotland;
   - Royal Incorporation of Architects in Scotland;
   - Royal Institution of Chartered Surveyors;
   - Scottish Agricultural Arbiters and Valuers Association.

4. Under rule 7 of the Scottish Arbitration Rules, an arbitral appointments referee can, on the application of one of the parties, appoint an arbitrator

1
where it is not possible to appoint a tribunal or arbitrator in accordance with
the parties’ arbitration agreement, or any other agreement between the
parties, or in cases of failure or refusal to make an appointment under rule 6
of the Scottish Arbitration Rules (method of appointment).

Financial Impact

5. The Scottish Government has stated that there will be no financial
effects arising from this Order. There is no change to parties applying to be
authorised as arbitral appointments referees. There may be savings to parties
who are unable to agree on an arbitrator to resolve their dispute by permitting
them to apply to an authorised arbitral appointments referee to make an
appointment. An arbitral appointments referee may charge a fee for so acting,
but the alternative would be to apply to the court to appoint and arbitrator
which is likely to be more time consuming and more costly.

Regulatory Impact Assessment

6. A Regulatory Impact Assessment was not carried out on this order.

Subordinate Legislation Committee Report

9. The Subordinate Legislation Committee (SLC) considered this
instrument and agreed that no points arose in relation to the instrument.¹

Action

10. The Committee is invited to consider whether it wishes to make
any recommendation in relation to the instrument.

Stephen Imrie
Clerk to the Committee
June 2010