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# ECONOMIC *Perspective*

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## THE NUMBERS OF SCOTTISH BUSINESSES AND ECONOMIC POLICY

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### INTRODUCTION

Recent constitutional changes in Scotland have not altered the emphasis on economic development, which is central to public policy. In common with the rest of the UK and the USA there has been an emphasis on small business policy for this purpose. In particular, there has been an attempt to improve the rate of business formation sponsored by Scottish Enterprise and Highlands and Islands Enterprise. As this policy has been in place now for seven years it is possible to look critically at the outcomes over five years of data to assess what progress, if any, is being made.

The sources of economic growth for an economy such as Scotland are much debated. Emphases on the provision of physical capital have given way, with the academic emphasis on endogenous growth theory, to a wider perspective in which education and training and entrepreneurship are given a greater weight. The policy of attracting multinationals pursued by Locate in Scotland reflects one approach. Alongside this effort it made sense to seek to encourage indigenous firms by encouraging entrepreneurship, and in general by creating an environment in which local enterprise could flourish. The form this took was the birthrate strategy enunciated by Scottish Enterprise in 1993. Scotland was identified as being relatively poor at creating new firms, and the goal was established by

Scottish Enterprise in particular of increasing the business birth-rate.<sup>1</sup>

In their recent book, "An illustrated guide to the Scottish economy", Jeremy Peat and Stephen Boyle put the argument succinctly:

"Successful modern economies are built on thriving companies. Much of the dynamism, growth and jobs in Western economies in recent years have come from new and small firms. So companies and a country's ability to generate them matter. If this aspect of Scotland's performance is poor we have a problem." (Peat and Boyle, 1999) p.72.

They go on to quote Crawford Beveridge, former chief executive of Scottish Enterprise, as follows: "for some years, perhaps decades, we in Scotland have been aware that as a nation we seem to have lost some of that entrepreneurial drive for which the Scots were once famed... it is apparent that we have a fundamental problem. That problem can be traced back to a simple lack of companies in Scotland." Peat and Boyle continue by agreeing with the general diagnosis - referring to the VAT statistics they adversely contrast registered businesses per 10,000 people in Scotland at 229 in 1997 with the equivalent figure of 274 for the rest of Britain.

The issue is still a current one. The conclusions of the Enterprise and Lifelong Learning Committee of the Scottish Parliament's Inquiry into the delivery of Local Economic Development Services in Scotland was published on 12 May, 2000. It advocates in Final Conclusion 21: "There is scope for providing a greater level of general advisory support to start-up companies, and to more of them. Support provided to start-up companies should also be longer term, and based more on enhancing the company's own development capacity (e.g. exporting, e-commerce and product development)."

Has the policy pursued in Scotland for the last seven years impacted on the situation? A definitive answer to this question is hard to give, as no matter what happens, the alternative scenario is unknown. However, insight can be gained from examining the record. Our tentative assessment is not encouraging. Throughout we use the VAT statistics as has been common in the discussion of this subject. (Though for a newer data series see Campbell and MacDonald, 1999, p38).

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<sup>1</sup> See Scottish Enterprise, *Improving Scotland's Business Birth Rate: A Strategy for Scotland* (1993)

## BUSINESS BIRTH RATE STRATEGY – AFTER 5 YEARS

The main objective of the Business Birth Rate Strategy (BBS) launched in 1993 was to equal the average UK business birth rate by the end of the century, generating 25,000 new businesses. The century has now ended and registration and deregistration figures are now available to the end of 1998 and stock figures at the beginning of 1999. (Department of Trade and Industry, URN99/111).

Two measures of the business birth rate will be used. BR1 is *new starts as a percentage of the stock* at the beginning of the year. BR2 is *new starts as a proportion of the adult population*. Likewise DR1 is *deaths of businesses as a percentage of the stock at the beginning of the year* and DR2 is *deaths of businesses as a proportion of the adult population*.

Progress has not been good, we would judge, though the Scottish business birth rate rose marginally on both counts. Between 1994 and 1998 BR1 rose slightly over the five years from 9.47% of the stock of businesses to 10%. BR2 rose from 27.35 per 10,000 of the adult (human) population to 28.5. Why is this not a satisfactory outcome for the strategy? In fact on both measures the birth rate in Scotland *diverged* rather than converged with the UK rate. In 1994 the difference between the BR1 rates for Scotland and the UK was 0.86 of a percentage point, by 1998 it was 1.49. On the BR2 measure the difference rose from 8.52 to 11.21.

In terms of new businesses generated there were nearly 58,000 new starts in Scotland over the period, but *by the beginning of 1999 the actual stock of businesses in Scotland had fallen from 119,825 at the beginning of 1994 to 119,160 at the beginning of 1999 - a net drop of 665 firms*.

The reason for this net loss was that although, as noted above, the business birth rate rose, on both measures death rates in 1994 were higher than the birth rates and although the death rates fell over the period, on average over 1994-98 (calendar years inclusive) they were higher than the birth rates (Tables 3 and 4). In the UK birth rates on average were slightly higher than the death rates resulting in a net gain of 22,400 businesses.

It seems self-evident that, if the desired outcome is to increase the stock of companies, then concentrating on birth rates is not sufficient, cognisance of the death rate is also important i.e. it is the *difference* between the two measures, which is important. (For this reason the emphasis in the *Inquiry Report*, cited

above, on ongoing support for small business start-ups seems particularly apt.) This can be illustrated by examining the changes in the twelve economic regions of the UK.

## THE UK CONTEXT

The ranking of the twelve regions of the UK in terms of per capita stock barely changed over the five-year period 1994-99 (Table 1). Scotland remained steadfastly in 11th place and experienced the smallest (negative) change in stock. Only four regions increased their stock. They were London, the South West, the South East (three of the four component parts of what had been called *Southern England* in earlier analysis, though two of the names have changed<sup>2</sup>) and Northern Ireland. Scotland did not do as badly as the *Rest of the UK* (RUK), defined as the UK minus Southern England and Scotland {i.e. Scotland's absolute, per capita and percentage drop in stock was lower}, because the RUK's gap (BR-DR) was greater than Scotland's (Tables 3 and 4).

In 1994 and 1999 the London economic region had the highest stock of companies per head of the adult population, followed by Northern Ireland. (Table 1). As noted above these two regions also experienced the biggest increases in per capita stock over the period (Table 2). However their performance on birth and death rates were very different. London had the highest birth and death rates of all the regions on both measures. Northern Ireland had very low birth and death rates. (It was the lowest on BR1 and DR1 and at 9th and 11th on BR2 and DR2 respectively was near the bottom.)

The gap is what is important here. So although these two regions had very different birth and death rates, their performance in terms of stock per head and stock growth was better than the other regions because of the positive gap between the average birth and death rates in their region. Only four regions had a positive gap between average birth and death rates on *both* measures and they experienced the biggest per capita and percentage changes in stock.

## WITHIN SCOTLAND

Within the 32 unitary authorities in Scotland the different birth rate measures ranked the areas differently. Only two areas appear in the top 10 of both measures, the cities of Aberdeen and Edinburgh. Fifteen areas feature above the Scottish average on BR1 including all four city areas and their hinterlands, except Dundee. There are twelve areas with BR2 above the Scottish average. This measure

<sup>2</sup> Southern England includes East of England, London, the South East and the South West.

is topped by the 'oil related' areas of Shetland Islands, Orkney Islands, Aberdeen City and Aberdeenshire, but also includes a predominance of rural areas such as Eilean Siar, Highland, Perth and Kinross and Argyll and Bute. Although the Orkney Islands are second top on this measure, they are bottom of the BR1 measure possibly due to the fact that they already have a very high number of firms per capita, making it more difficult to increase the stock as a proportion of itself (Table 6).

The difference between the two measures may also be due to the lower stock of firms per head in cities, making it easier to increase the stock as a proportion of itself, but not per head of population. Meanwhile the higher BR2 rates in the 'oil related' areas may be an indication that business activity is affecting the wider community and there is an engine of growth operating. European Objective One status may also have stimulated activity in the Highlands and Eilean Siar (Table 6).

There was little change in the ranking of areas in terms of the stock of firms per capita over the five year period (Table 5). The top seven ranked areas did not change, and maintained per capita stock levels above the UK average. The Shetland Islands had the biggest per capita increase in firms while the Orkney Islands had one of the biggest drops.

A comparison between Glasgow and Orkney illustrates the difference between the two birth rates. Glasgow had a low per capita stock of companies, just over 200. Orkney had more than 900. It is easier to increase the birth rate as a proportion of a small per capita stock than it is when the stock is proportionately higher. Both areas experienced a five per cent drop in stock because in both cases and on both measures the death rates were higher than the birth rates. Once again it is the gap between the rates rather than the level of the rates that matter.

## CONCLUSION

In conclusion the first five years of the Business Birth Rate Strategy (BBRS) launched by Scottish Enterprise in 1993 has not made much discernible difference to either the birth rate of firms in Scotland, or the absolute or per capita stock of Scottish companies. There has been little change in the ranking within Scotland of the areas with high per capita stocks, and the top ones seem to be related to oil activity, or possibly the EU's Objective One status. The city areas tend to have high birth rates as a proportion of their own stock but do not have high per capita birth rates or stocks.

Within the UK context, the per capita stock of firms

in Scotland is still lower after five years of the birthrate policy regime. Compared with the 'Rest of the UK', though the per capita stock is lower, the gap is closing, not because Scotland is improving, but because the 'Rest of the UK' is becoming worse. So after five years Scotland has a minimal increase in its business birth rate, and fewer firms. We would repeat that this does not seem an encouraging outcome as far as the first five years of the Scottish birthrate strategy is concerned.

## REFERENCES

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**TABLE 1: REGIONS – PER CAPITA STOCK (PER 10,000)**

(Ranked : 1994 and 1999)

REGION	STOCK: 1994	REGION	STOCK: 1999
London	428.61	London	477.77
Northern Ireland	422.25	Northern Ireland	437.88
South West	388.53	South East	397.79
South East	382.58	East Of England	382.29
East of England	374.72	South West	380.51
Wales	341.64	East Midlands	335.56
East Midlands	337.37	West Midlands	324.24
West Midlands	328.65	Wales	323.43
Yorkshire and the Humber	306.36	Yorkshire and the Humber	294.60
North West	299.72	North West	294.50
Scotland	288.84	Scotland	287.23
North East	213.83	North East	203.53
Rest UK	315.48	Rest UK	309.08
UK	345.67	UK	352.14

**TABLE 2: REGIONS – PER CAPITA STOCK**

(Ranked by Absolute Change and % Change)

REGION	CHANGE 1994-99	REGION	% CHANGE 1994-99
London	49.17	London	11.47
Northern Ireland	15.63	South East	3.98
South East	15.21	Northern Ireland	3.70
East Of England	7.58	East Of England	2.02
Scotland	-1.60	East Midlands	-0.54
East Midlands	-1.81	Scotland	-0.55
West Midlands	-4.41	West Midlands	-1.34
North West	-5.23	North West	-1.74
South West	-8.02	South West	-2.06
North East	-10.30	Yorkshire and the Humber	-3.84
Yorkshire and the Humber	-11.76	North East	-4.82
Rest UK	6.39	Rest UK	-2.03
UK	4.79	UK	1.38

**TABLE 3 - REGIONS – BIRTH (BR1) AND DEATH RATE (DR1) and GAP**

[Five Year Average: 1994-99]

	BR1 (%)	DR1 (%)	GAP (% points)
London	14.21	12.00	2.21
South East	11.60	10.81	0.79
Northern Ireland	6.90	6.16	0.73
East Of England	10.67	10.26	0.41
East Midlands	10.15	10.26	-0.11
Scotland	9.79	9.89	-0.11
West Midlands	10.15	10.41	-0.27
North West	10.78	11.12	-0.34
South West	9.64	10.15	-0.41
Yorkshire and the Humber	9.68	10.46	-0.78
North East	9.83	10.80	-0.98
Wales	8.02	9.10	-1.08
<i>Rest UK</i>	9.71	10.12	-0.40
<i>UK</i>	10.78	10.50	0.28

**TABLE 4 - REGIONS – BIRTH (BR2) AND DEATH RATE (DR2) and GAP**

(Events per 10,000 adults)

[Five Year Average: 1994-99]

	BR2	DR2	GAP
London	62.32	52.49	9.83
Northern Ireland	29.33	26.20	3.13
South East	44.25	41.22	3.04
East Of England	39.66	38.15	1.51
Scotland	27.92	28.24	-0.32
East Midlands	33.82	34.19	-0.37
West Midlands	32.79	33.68	-0.89
North West	31.49	32.53	-1.04
South West	36.50	38.12	-1.61
North East	20.36	22.42	-2.06
Yorkshire and the Humber	28.87	31.22	-2.35
Wales	26.44	30.08	-3.64
<i>Rest UK</i>	0.00	31.27	-1.28
<i>UK</i>	7.06	36.11	0.96

**TABLE 5: SCOTTISH STOCK AND STOCK CHANGE BY AREA.**

(Ranked by Stock per 10,000 in 1994, Stock per 10,000 in 1999 and by % Change in Stock, 1994-99)

AREA	NOS. (1994)	AREA	NOS. (1999)	AREA	% CHANGE (1994-99)
Orkney Islands	956.7	Orkney Islands	906.5	Shetland Islands	14.2
Shetland Islands	611.9	Shetland Islands	698.6	Eilean star	13.9
Aberdeenshire	552.5	Aberdeenshire	549.1	West Lothian	10.2
Highland	492.8	Highland	482.7	Edinburgh City	5.9
Scottish Border	480.9	Scottish Border	467.1	Aberdeen City	4.8
Dumfries and Galloway	469.2	Dumfries and Galloway	450.6	Renfrewshire	4.6
Argyle and Bute	456.2	Argyle and Bute	439.4	Stirling	4.4
Perth and Kinross	447.4	Eilean Siar	439.1	Midlothian	3.9
Eilean Siar	385.5	Perth and Kinross	436.3	West Dunbarton	3.6
Stirling	381.9	Stirling	398.9	North Lanark shire	1.5
Moray	380.3	Moray	354.3	Clackmannan	1.3
Angus	337.6	Aberdeen City	336.3	South Lanark shire	1.1
Aberdeen City	321.0	Angus	319.8	Falkirk	0.8
South Ayrshire	291.1	Edinburgh City	285.9	East Lothian	0.0
Edinburgh City	270.1	South Ayrshire	277.3	Aberdeenshire	-0.6
East Lothian	262.3	East Lothian	262.3	East Dunbarton	-1.9
East Ayrshire	258.6	East Ayrshire	252.4	Highland	-2.1
South Lanark	234.7	West Lothian	241.0	East Ayrshire	-2.4
Fife	231.8	South Lanark	237.3	Perth and Kinross	-2.5
East Renfrew	228.4	Fife	225.2	Fife	-2.8
North Ayrshire	226.5	North Ayrshire	219.3	Scottish Borders	-2.9
Glasgow City	223.1	Renfrewshire	213.6	North Ayrshire	-3.2
West Lothian	218.8	Glasgow city	212.3	Argyle and Bute	-3.7
East Dunbarton	209.1	Falkirk	208.4	Dumfries and Galloway	-4.0
Falkirk	206.7	Midlothian	205.5	Dundee City	-4.6
Renfrewshire	204.2	East Dunbartonshire	205.2	South Ayrshire	-4.7
Clackmannanshire	202.3	Clackmannan	204.9	Glasgow City	-4.9
Midlothian	197.7	East Renfrew	200.7	Orkney Islands	-5.3
North Lanarkshire	178.0	West Dunbarton	169.0	Angus	-5.3
Dundee City	176.6	Dundee City	168.5	Inverclyde	-6.4
Inverclyde	167.5	North Lanarkshire	160.7	Moray	-6.8
West Dunbarton	163.1	Inverclyde	156.7	East Renfrew	-12.1
SCOTLAND	288.8	SCOTLAND	287.2	SCOTLAND	-0.6

**TABLE 6: BUSINESS BIRTH RATES IN SCOTLAND, 1994-99**

(Five Year Average)

AREA	BR1 (Births /Stock) %	AREA	BR2 (Births/10,000 adult pop.)
Glasgow City	13.1	Shetland Islands	57.6
Edinburgh City	13.0	Orkney Islands	39.5
West Lothian	12.2	Aberdeen City	39.5
Aberdeen City	12.2	Aberdeenshire	39.4
Renfrewshire	11.9	Stirling	37.3
North Lanarkshire	11.9	Eilean Siar	37.3
West Dunbarton	11.4	Highland	36.0
East Dunbarton	11.3	Edinburgh City	35.7
Dundee City	11.3	Perth and Kinross	34.9
East Renfrewshire	11.2	Argyll and Bute	31.4
South Lanarkshire	11.1	Scottish Borders	30.3
Falkirk	11.1	Glasgow City	29.0
Inverclyde	10.8	West Lothian	27.0
Clackmannan	10.8	Dumfries and Galloway	26.8
Midlothian	10.6	South Lanarkshire	25.8
Stirling	9.8	South Ayrshire	25.5
Fife	9.7	East Lothian	25.0
East Lothian	9.6	East Renfrewshire	24.4
North Ayrshire	9.4	Renfrewshire	24.4
Eilean Siar	9.2	Moray	23.3
Shetland Islands	9.1	East Dunbarton	23.3
South Ayrshire	9.0	Angus	22.9
East Ayrshire	8.7	Falkirk	22.5
Perth and Kinross	8.0	East Ayrshire	22.3
Highland	7.4	Fife	21.9
Aberdeenshire	7.3	Clackmannan	21.5
Argyll and Bute	7.0	North Lanarkshire	21.0
Angus	7.0	Midlothian	20.9
Scottish Borders	6.4	North Ayrshire	20.6
Moray	6.4	Dundee City	19.4
Dumfries and Galloway	5.9	West Dunbarton	18.3
Orkney Islands	4.3	Inverclyde	17.2
SCOTLAND	9.8	SCOTLAND	27.9

**SOURCE FOR TABLES 1-6:** Department of Trade And Industry, "Business start-ups and closures: VAT Registrations and de-registrations, 1989-98" URN 99/111.