

# SMEs in the Small Towns and the Rural Areas of Scotland



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Small and medium sized enterprises (SMEs) account for 99% of registered enterprises in Scotland, slightly more than half of private sector employment, and almost 40% of associated turnover. SMEs are key components in the ongoing process of diversification and structural adjustment of the rural economy.

This research note explores the changing economic fabric of rural Scotland, using the Inter-Departmental Business Register (IDBR). This is a database (Box 1) monitoring the population of enterprises, together with their employment and turnover. This analysis was made possible by the extraction of summaries according to the Scottish Government's (2011-12) six-fold urban-rural classification. This allows direct comparisons between large cities, small towns and rural spaces between them, and between accessible and remote locations.



## Key Points

Our analysis of the IDBR shows that:

- A substantial proportion (40%) of Scotland's SME population is located outside urban areas.
- Rural areas are home to a larger share of SMEs than small towns, and also the incidence of SMEs per head of population is greater there too.
- The SME population of accessible rural areas is growing at a faster rate than any other rural-urban category.
- SME growth across rural and small town Scotland is being driven by service sector activities. "Traditional" resource based activities play a relatively minor role in the expansion of the rural and small town SME population.

The IDBR dataset provides a clear picture of current patterns, but at the same time raises questions about explanation, and the processes of change responsible, which will require further research using a variety of data sources.

### Box 1: Key Definitions

#### 1. Which businesses are recorded in the IDBR?

The IDBR "population" comprises all businesses which are either VAT registered or which are submitting "Pay-as-you-earn" (PAYE) income tax returns. It excludes central and local government. It also excludes "sole trader" enterprises below the VAT threshold – which are generally assumed to be relatively numerous in rural areas. The majority of farms are registered for VAT, even if their turnover is below the threshold, in order to reclaim VAT where eligible.

#### 2. How SMEs are defined

In this analysis SMEs are defined as businesses employing fewer than 250 employees. According to Eurostat, enterprises with 250+ employees are classified as 'Large', with 50-249 as 'Medium', 10-49 as 'Small', and <10 as 'Micro'.

## What are the implications for policy?

Patterns of change in the SME population, and associated employment, seem to suggest the emergence of two kinds of rural economy in Scotland; an accessible rural economy which is expanding quite rapidly, powered by service sector SMEs, and a remote rural economy, in which change is more modest, and resource-based activities still play a significant role. This underlines the increasing need for carefully targeted rural policies, which are sensitive to both sectoral and local territorial contexts. In addition, the analysis of SME growth rates raises questions about spatially targeted interventions which assume small towns act as “growth poles” for surrounding rural areas.

## Economic importance of rural and small-town SMEs

About 40% of the Scottish SME population is based outside the larger urban centres (Fig 1). 30% operate from rural locations, and a little over 10% from small towns. The majority of these are within a half hour's drive of a town of 10,000 or more (i.e. they are in accessible rural areas or accessible small towns).

Rural firms are generally smaller, and as a result they account for only 23% of the Scottish SME employment (note 1), whilst small town enterprises account for just over half that figure. Non-urban businesses also tend to have relatively modest turnover, rural SMEs accounting for just 22%, and small town enterprises for 10%, of the Scottish total respectively.

*Note: Employment is expressed in jobs, rather than FTEs*

## SMEs in small towns compared with rural areas

Given the assumptions which are commonly held about the role of small towns as drivers for the surrounding rural economy, and as centres for entrepreneurship and innovation, it is striking to discover that they account for a smaller share of SMEs than rural areas of Scotland. It would be reasonable to dismiss this finding as simply a function of the fact that the rural SMEs are spread across a very large and relatively less populated territory, and that small town SMEs, although fewer in number, derive significance from their concentration and more rapid growth.

However, as Fig 2 (overleaf) shows, the ratio of SMEs per 1,000 adults in the population is actually higher in rural areas than in small towns, whether accessible or remote. Furthermore the ratio of SME employment to 1,000 adults is also higher in both accessible and remote rural areas, compared with their small town counterparts. The employment ratio is in fact higher in the remote rural areas than in any other urban-rural category. By contrast, the ratios in the accessible small towns, and the urban areas, are below the Scottish average.

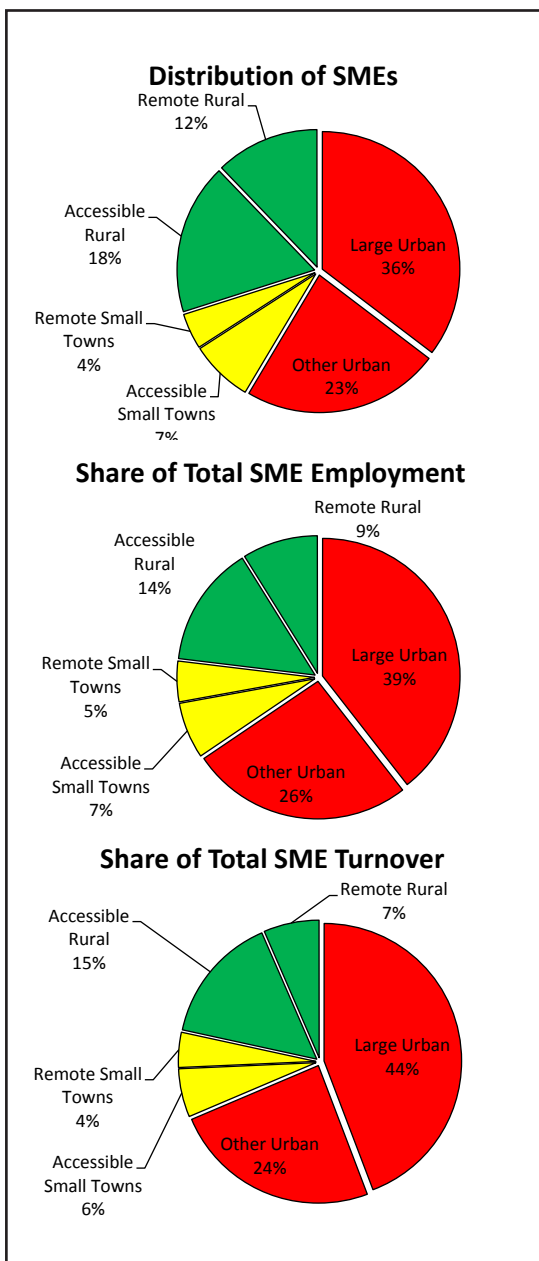


Fig 1: Distribution of SMEs, SME Employment and SME Turnover by urban-rural type, 2015. Source: IDBR

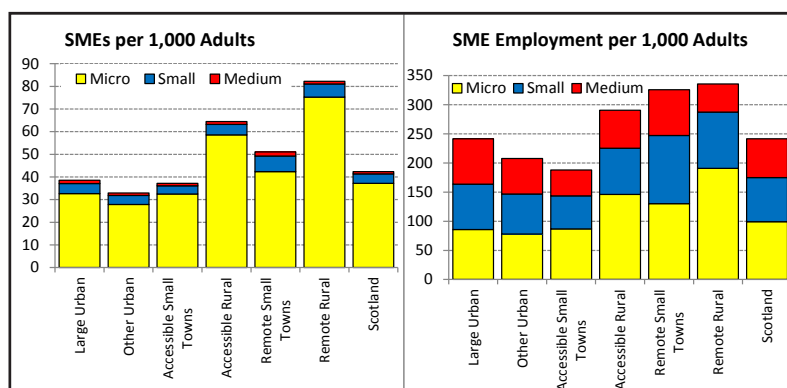


Fig 2: SMEs and SME Employment per 1,000 adults, by rural-urban type, 2015  
Sources: IDBR and 2011 Population Census

The significance of the pattern of employment ratios is underscored by the fact that the combination of a residential population denominator with the workplace SME employment numerator would be expected (as a consequence of commuting) to have the effect of reducing the ratio in the rural categories, and inflating it in the small town and urban areas.

## Changes 2010-15

IDBR data is currently available for the rural-urban areas of Scotland for the period 2010-2015. Although we should treat patterns of change over this short period with a degree of caution they may provide some pointers to the direction of travel in the post-financial crisis context.

Although the increase in the total number of SMEs was greatest in the **large urban areas** (Fig 3), the high proportion of micro-enterprises, without employees, result in much more modest increases in employment and turnover here.

**Accessible rural areas** are conspicuous in Fig 3, having a substantial increase in SMEs (9%), but also strong increases in employment (11%) and turnover (17%). **Accessible small towns**, by contrast, with a 7% increase in SMEs, had a smaller (4%) increase in employment, and a small reduction in turnover.

**Remote small towns** exhibit a broadly similar profile of change to the accessible rural areas, though the 17% increase in turnover is not easy to explain, since more than half of the increase took place between 2004 and 2005, in association with a 1% increase in the number of SMEs.

**Remote rural areas** show the smallest increase in SMEs (<4%), combined with a modest (6%) increase in employment and very little change in turnover.

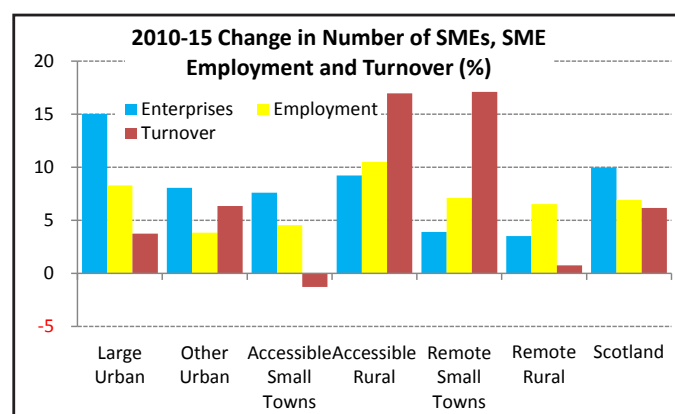


Fig 3: Percentage change in the number of SMEs, by rural-urban type 2010-2015. Source: IDBR

## A word of caution...

The above analysis suggests that the SME population of accessible rural areas has grown particularly strongly in the last five years, perhaps, as in the North of England (Bosworth 2010), as a consequence of a boost to entrepreneurial activity associated with counter-urbanisation. However recent Nordic research (Amcoff 2006, Grimsrud 2011) has shown that apparent counter-urbanisation can be an artefact of the failure of settlement boundaries to keep pace with the expansion of built up areas. A similar effect may be associated with the boundaries of the Scottish rural-urban classification.

In the final section of this note we will consider what the IDBR can tell us about the sectoral structure of the SME population, and how this relates to patterns of growth.

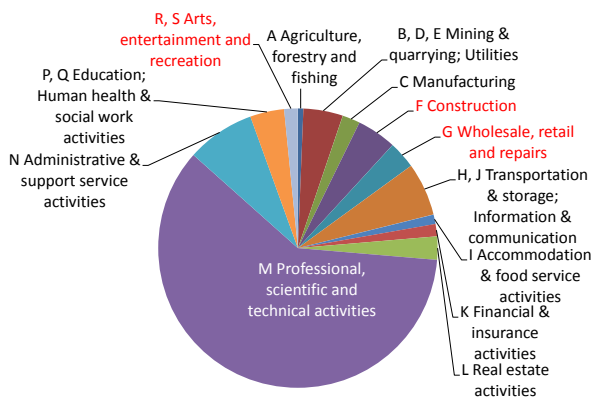


# Activities driving SME growth in rural areas and small towns

Agriculture, forestry and fishing are of course distinctively rural activities. They account for about a quarter of SME enterprises in the accessible rural areas, and more than one third in remote rural areas (Table 1). In small towns their share falls to less than 7%, and less than 3% in urban areas. Their shares of employment and turnover are lower in all urban-rural categories, reaching a maximum of around 20% in remote rural areas.

Other “resource-based activities”, such as mining, quarrying and utilities account for about 1% of enterprises in rural areas and less than that in the small towns.

Despite its relatively large share of enterprises, the agricultural sector is locked into a long-established restructuring process and cannot be expected to make a direct contribution to the increasing SME population of the accessible rural areas of Scotland. Less than



**Fig 4: Net change in enterprises (2010-2015) in Accessible rural areas, by SIC Section**  
*Source: IDBR Note: Includes large enterprises in addition to SMEs*

**Table 1: Agriculture Forestry and Fishing in the SME population**

	Enterprises	Employment	Turnover
	Percent of Total (2015)		
Large Urban	0.59	0.30	0.31
Other Urban	2.94	1.35	1.91
Accessible Small Towns	5.31	2.89	3.21
Remote Small Towns	6.83	2.80	6.15
Accessible Rural	24.96	17.69	15.05
Remote Rural	34.57	20.76	19.05
<b>Scotland</b>	<b>10.33</b>	<b>5.08</b>	<b>4.51</b>

*Source: IDBR. Note: the data above includes large enterprises, in addition to SMEs*

1% of the net gain in the number of enterprises between 2010 and 2015 was in Agriculture Forestry and Fishing, whilst about 6% was in mining, quarrying and utilities.

The pattern of SME population growth in accessible rural areas has instead been driven by SIC Section M – (Professional, scientific and technical activities), which accounted for three quarters of the overall net gain in enterprises, and increased its share of the business population between 2010 and 2015 from 12% to almost 18%. No other SIC section contributed more than 10% of the net change in enterprise population, but all those which accounted for more than 5% were in the service sector. Manufacturing accounted for just 2.5%.

In remote rural areas the primary activities (SIC sections A-E) accounted for approximately 30% of the net change in enterprise population. Otherwise the industry mix of the enterprise population change was broadly similar. Small towns showed a similar pattern of change overall, with the primary sector at a level intermediate between that of the accessible and remote rural areas (5-7% of net change), and service activities, especially Section M, contributing strongly to overall growth.

## Further information

Amcoff, J., (2006) Rural Population Growth in Sweden, in the 1990s: Unexpected Reality or Spatial-Statistical Chimera? *Popul. Space Place* 12, 171–185  
 Bosworth, G., (2010) Commercial counterurbanisation: an emerging force in rural economic development. *Environment and Planning A*, 42, 966-981.  
 Grimsrud G., R., (2011) How Well Does the 'Counter-Urbanisation Story' Travel to Other Countries? *The Case of Norway. Popul. Space Place* 17, 642–655.

The IDBR data which forms the basis of this Research note is now available at:  
<http://www.gov.scot/Topics/Statistics/Browse/Business/Corporate/UrbanRuralTables>

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