

**Scottish Investment Bank  
Financial Readiness Service  
Strategic Review**

**FINAL REPORT TO**

**SCOTTISH ENTERPRISE**

13<sup>th</sup> September 2018

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## A EXECUTIVE SUMMARY

### A1 Scope

This document summarises the process, conduct, findings and recommendations from a Strategic Review of the Scottish Investment Bank (SIB) Financial Readiness Service (FRS). The Review was commissioned by Scottish Enterprise (SE) and conducted by Malcolm Watson Consulting (MWC) between March 2017 and September 2018 and covered the provision of the Service between April 2014 and 31<sup>st</sup> March 2017.

### A2 Review Objectives and Process

The main **objectives** of the Review were to:

- Consider the current rationale, based in market failure and economic performance constraints, for the provision of the FRS programme by SIB.
- Assess the effectiveness and efficiency of the service processes.
- Estimate the sources and scale of economic benefits which can be attributed to the specific FRS activities – both individually and in aggregate.
- Assess the Value for Money (VFM) provided by FRS given these attributable benefits and the internal and any third party costs of FRS delivery.
- Establish any continuing rationale for the delivery of FRS by SIB in the context of the current accessibility of finance to Scottish SMEs.
- Suggest, (given a continuing rationale for provision), any evidence-based evolution of the service to: enhance provision; expand the service base; increase attractiveness to potential users; facilitate benefits measurement and attribution; and improve VFM.

These objectives have been addressed through a research **process** consisting of:

- A review of management information on the delivery of the FRS.
- Consultations with Stakeholders, FRS executives, and FRS internal clients.
- Consultations with grant assisted and non-grant assisted business clients of FRS.

### A3 SERVICE RATIONALE AND DELIVERY

The concept of Financial Readiness has influenced SE and SIB business support activities over a period since the inception of SE in 1991 (and has been variously described as Investor Readiness and Financial Readiness over that period). The Financial Readiness Service currently sits within the SIB team in SE.

The FRS is focussed, at the highest level, on:

***"Addressing information failures which prevent businesses from presenting their case for securing finance in an optimal form to meet the requirements of a range of potential providers"***

Over the period of this Review the FRS has been delivered by a team of up to 8 SIB Specialists reporting to a Team Leader. The team consists of a mix of full and part-time executives and the average commitment over the Review period has been 6.24 Full Time Equivalent (FTE) Staff per annum.

The Service is delivered through a combination of face-to-face meetings with client businesses alongside telephone and e-mail support as required. One-to-many events were added to the service portfolio in 2016-17 in order to reach greater numbers and to enhance inclusion.

SIB categorise the activities of the Service around 5 key lines of support:

- Investment Readiness
- Funding Options
- Corporate Governance
- Systems and Support Network
- Distressed Engagement

SIB has been actively developing a digital platform over the period of the Review, but implementation was not sufficiently advanced at the time of the Review to allow for its inclusion in our research.

## **A4 SERVICE ACTIVITY AND PERFORMANCE**

An analysis of FRS activity was prepared based on data provided by SIB. Although presenting a substantial body of indicative management information, the FRS Activity Log is subject to inconsistencies in recording practice and gaps in data, as data collation is not a focus of the service or team. Key observations based on the data provided are:

- In 2014-15 the team identified a total of 725 cases which had increased 15.5% to 838 cases in 2016-17. Within these totals, there was a significant decline over the Review period in the number of grant cases, but this was more than offset by advisory cases recorded. Over the Review period, low intensity advisory cases have represented close to half of all cases recorded.
- Over the three years, variation in logged hours from the average was no more than 5% indicating a fairly consistent level of effort.
- The number of distress cases more than doubled between 2014-15 and 2016-17, with total hours allocated to these cases remaining constant. Average hours declined from 15 to 7 hours; with very few in excess of 20 hours.
- The combination of fairly consistent total hours and a fall in the average hours per case may be consistent with the service operating at capacity and advancing targets being met through dilution of support.

- The number of grant cases declined 69% between 2014-15 and 2016-17, and the total value of recorded grants fell 62%. Grants in excess of £6000 increased as a proportion of the total.
- FRS support is fairly concentrated by sector with three sectors, Food and Drink, Manufacturing and Technology accounting for more than half of the grant and the non-grant-assisted cases over the Review period.

## A5 STAKEHOLDER FEEDBACK

Stakeholder feedback was collected from consultations with those who deliver, manage and have a strategic interest in the FRS Service. The findings from these consultations are reported in relation to four core aspects of the Service delivery: Rationale; Service Delivery; Performance Measurement; and Service Evolution. The feedback on each of these aspects is summarised in **Table A1**.

**Table A1: Stakeholder Feedback**

### **Rationale**

- Stakeholders and service providers perceive a rationale for FRS in addressing information failures, capacity and financial constraints affecting businesses seeking to gain access to the finance they need to develop. Information failures were linked to evolution in the financial offer to include crowd funding, peer-to-peer and asset finance mechanisms in recent years.
- Stakeholders and service providers see a continuing need for the service with the finance market in Scotland continuing to display a shortfall in quality demand and in supply.
- While stakeholders considered that accountants and corporate finance specialists possessed some of the capabilities to provide similar services, they had no incentive to do so for smaller and pre-revenue businesses.
- FRS was found to be well respected by users and perceived to possess a range of skills which complemented those available from the users.
- Account Managers and Business Gateway use FRS in distinctly different ways. Within SE, in addition to the standard financial readiness model, FRS is used as a general finance knowledge resource and is used to bolster support teams in situations where SE is required to respond to financial distress in an economically significant business. BG uses FRS in line with the standard model: advising and providing access to grant in support of BG clients' financial readiness.

### **Service Delivery**

- There is significant diversity of opinion among stakeholders on the appropriate targeting, scaling and resourcing of FRS. Nevertheless, stakeholders were generally of the view that there is an excessive focus on SE Account Managed Businesses and perceive that promotion to potential clients in Business Gateway and the wider company base is not adequate.
- Inflation of FRS targets without commensurate growth in resource is producing dysfunctional target-driven behaviour among service providers, notably an emphasis on exiting enquiries that are not expected to qualify as an "assist" rather than fully addressing the needs of these businesses.
- Service providers noted a marked change in their mode of working with less intensive involvement.
- Service providers see an opportunity for FRS to better align its objectives, delivery and success measures with those of SE, focusing on high growth innovation and export focussed

businesses, including Business Gateway growth pipeline businesses; servicing businesses outside this target group required a differentiation of the service.

- Service providers perceived the growing use of the FRS team as a resource to service businesses in financial distress as placing additional stress on the service, due to the time commitment arising from these cases over a short time period and alongside other work.
- User groups were positive about the service provided by FRS in terms of responsiveness and knowledge.
- Account Managers and BG executives tend to form strong working relationships with locally-based FRS Team members; conversely, geographic separation from FRS experts with experience in a particular sector or finance solution could impede access to this resource.
- There has been a reduction in the number of businesses on BG growth pipeline and hence eligible for FRS grant; BG executives acknowledge the existence of businesses outside growth pipeline that could benefit from education and support for financial readiness; a range of initiatives is run by BG operators to address this but availability varies by area.
- Some AMs perceived FRS having become focused on servicing BG to achieve targets; analysis of the Activity Log shows a reduction in access by BG clients.

### **Performance Measurement**

- All groups of consultees recognised the limitations of the available performance indicators for FRS – activity measures do not capture the effectiveness; finance raised is subject to many other factors than FRS support; effects on business performance from finance raised can be remote from FRS support and unlikely to be attributable.
- Some stakeholders expressed concern about delivery of the service objectives being distorted by targets.

### **Service Evolution**

- All groups of consultees saw a continuing need for public sector activity in this arena, if not via FRS then by other means. Some perceived an increasing need as banks continued to remove relationship managers from their operations.
- Service providers saw potential for digital delivery to filter low-level enquiries and to reduce pressure on FRS. Stakeholders and users were more cautious perceiving digital to have potential for provision of general information only; it could not substitute for 1-2-1 dialogue needed to respond to the specific needs of businesses.
- Digital delivery was seen to have most potential in relation to businesses that cannot access FRS; it was not perceived to have relevance to SE Account Managed Businesses.

## **A6 FRS CLIENT FEEDBACK**

Consultations were conducted with 28 grant-assisted FRS client businesses, a further 14 interviews were conducted with non-grant assisted businesses and 108 FRS Service users responded to a web-survey. The results of these three exercises are reported in detail in the main report. The collated findings from the client consultation and survey findings are presented below in relation to FRS Effectiveness & Additionality and FRS Service Quality.

### **Effectiveness and Additionality**

Amongst **Grant Assisted** FRS clients:

- Some 85% of grant respondents had gone on to apply for finance following the FRS support. Almost all had been successful in raising some finance at the time of the survey.

- Some 85% of those surveyed would have proceeded with fund-raising in the same timescale in the absence of the FRS grant. However, some quality or timing additionality accruing to the grant was identified by 70%.
- Just under 50% of the businesses that had raised finance, considered FRS Support (through a combination of FRS advice and grant-assisted advisory services) as essential or important to their *success*.

Amongst **Non-Grant Assisted** FRS clients receiving **more than 4 Hours** of assistance:

- Over 70% Non-Grant Assisted Businesses surveyed had gone on to apply for finance after implementing the FRS support. 90% of these had been successful in securing all the finance targeted.
- 43% of those surveyed would have proceeded with fund-raising in the same timescale in the absence of FRS Support. Some quality or timing additionality was identified in 36% of cases.
- Just 7% of the Non Grant Assisted Businesses raising finance considered FRS support to be essential or important to *the success* of their applications for finance.

Amongst **Non-Grant Assisted FRS clients** responding to our **web-survey**:

- 44% of respondents had proceeded to make an application for finance in the period after receiving advice from FRS.
- Over 80% of respondents making applications for finance considered FRS support to have been "Essential" or "Important" to *progressing* their application.

**Overall we note that significant proportions of the FRS clients we engaged with in each research exercise had gone on to make successful applications for finance after using the FRS Service.**

The additionality of the FRS in *securing* finance was assessed where we had direct client contact with the grant assisted and more intensively assisted clients. There was a significant variation in attribution of finance-raising success to FRS between these groups – **with 50% of grant-assisted businesses considering it to be important or essential to securing finance** – compared to just 7% of non grant-assisted businesses. We interpret this in part as being a confirmation of the greater effectiveness of intensive support. However, it is also likely to be a result of the use of the grant to employ advisors on more specialist or technical aspects of an application for finance.

Our web-survey research asked about the FRS contribution to the *progression* (not success) of applications for funding. **80% of funding applicants found FRS support important or essential in progressing funding applications**

### **FRS Service Quality**

Our consultations and surveys asked the FRS clients about key aspects of the Service delivery. The responses are detailed in the main report in Tables 5.7 (grant assisted), 5.12 (intensively assisted) and 5.22 (less intensively assisted).

Collectively we noted trends in all of these responses which consistently assigned the highest ratings to

- FRS understanding of requirements at the outset of the process,
- The knowledge and experience of FRS advisors and
- Speed of response to initial contact

**Overall we assess the Service as being well regarded by the majority of its clients with no significant shortfalls in the quality of service as assessed by the key criteria included in our research materials.**

## A7 ACTIVITIES AND OUTCOMES MEASUREMENT

In the process of analysing the data, and interrogating it to use in our consultation and survey programmes, we noted a number of issues in relation to **activity** logging. These were:

- Inconsistencies in recording the recipient of the advice given – for example by logging assistance to a business client which was provided by an FRS advisor to the SE Account Manager of that business.
- Logging activity in administration of grants as advice provided to the business.
- Absence of contact details (e-mail or telephone) for clients – preventing future contact to facilitate monitoring progress of the case in securing access to finance.

There may have been for sound operational issues such as client reluctance to provide contact details. However, different interpretations on what constitutes an assist or differentiating between internal SE and direct to client advice mean MIS cannot be relied upon to correctly assign resource to priorities or targets. They can also impede monitoring and Review activity where MIS is central to measuring effectiveness and efficiency and, in the case of contact details, conducting research into quality of service and post-service outcomes.

The main **outputs** recorded for the FRS Service are assists to businesses and FRS grants awarded. Time spent with each case is used as a proxy for the intensity of assistance to each client. We noted that, because assists are recorded independently for each financial year, assists to the same client business can be separately recorded in multiple years.

The attribution of **outcomes** to FRS activity is constrained by a myriad of factors detailed in Section 6.4 of the main report. These include:

- The adoption of a low profile and lack of branding of FRS support.
- Low intensity of support received, particularly amongst non-grant-assisted clients.
- The provision of advice and support by a FRS grant-assisted third-party advisor.
- The passage of time between receiving FRS support and application of Finance.
- The provision of FRS in tandem or close configuration with more intensive support (including finance) from SIB, SE or a third party – causing its presence and effects to be subsumed by the more intensive support

Taken together, these pre-existing characteristics of the FRS, and our experience in securing survey and consultation responses, suggest that whilst research into motivation, opinions and



behaviour change can generate useful results, it **will not provide reliable evidence of attributable economic impact as a direct result of FRS activity.**

## **A8 CONCLUSIONS AND RECOMMENDATIONS**

**The main conclusions from the Review research are set out below. Our reflections on the research evidence for each of the following conclusions is detailed in Section 7.2 of the main report.**

### **C1 FRS SERVICE RATIONALE**

The rationale for the provision of finance-raising information and support by the public sector in general, and SE in particular, needs to be re-visited and clearly stated as the basis for an agreed strategy for future FRS Service provision. This should include a full consideration of the policy and intervention environment within which FRS will be delivered in future alongside complementary sources of advice and support provided by others to the wider SME base in Scotland. It will be important to engage stakeholders in this process to ensure that the FRS rationale reflects the role of SE in working with businesses which are most likely to generate net economic benefits at the national level.

### **C2 FRS SERVICE OBJECTIVES**

We consider the establishment of SMART objectives for FRS Support within SIB, in the context of an agreed understanding and segmentation of the wider requirements for financial readiness provision across the SME base, to be essential for prioritising the future delivery of the Service.

### **C3 FRS SERVICE DELIVERY AND CAPACITY**

FRS in isolation, and with its present level of resourcing, cannot effectively meet the divergent aspirations of its stakeholders to service the broad base of Scottish SMEs. Its presence within SIB suggests it should be aligned with the particular priorities of SE and its focus on generating net economic benefits. We consider that FRS is not positioned or resourced to provide whole of market financial readiness education and support. Were it to attempt to do so, it would also duplicate similar provision elsewhere.

### **C4 FRS PERFORMANCE MEASUREMENT**

We conclude that MIS should be re-visited and re-configured to align with, and reliably record, activity and output measures established to monitor progress in achieving SMART objectives for the Service. We consider that the primary measure of activity should continue to be hours of FRS Specialist time assigned to individual cases, although refined to specify if this is provided direct to the business or through an intermediary. In more intensively-assisted cases, where clients are most likely to respond to survey research, the output measure should continue to be finance raised by scale and source. We consider that analysis of the application of finance raised might also provide insight to achievement of any SMART objectives focussed on priority sectors and young, innovative businesses.

**Based on our conclusions we recommend that consideration be given to the following actions:**

- The rationale for and scope of FRS should be set taking account of the involvement of other organisations and resources supporting financial education.
- Whole of market education, information and support should be addressed on a coordinated basis alongside other providers.
- The specialised resources within SIB FRS Team should be targeted on the segments of the SME base where there are identified aspirations to grow businesses through the use of external private finance in sectors that are associated with a high level of additionality at the Scottish level i.e. principally the SE Account Managed and High Growth Ventures and Business Gateway Growth Pipeline Companies.
- Quantified objectives should be set on the basis of the appraised need of the target market and the scale and balance of FRS resources should be modulated to be compatible with the objectives set. In quantifying objectives priority should be given to scaling activity and intermediate outcomes such as funding applications progressed and value of funding raised. The focus on intermediate outcomes reflects the difficulties in attributing economic impact to the Services provided by FRS. Quantification of objectives might be further refined to reflect any priority sectors or geographic focus.
- Training and guidance should be provided for the FRS team on the consistent and complete maintenance of the FRS management information, as the FRS now looks to record and monitor information as part of the FRS.
- All relevant fields of the FRS activity log should be completed in full for both intensive and less intensive cases and in line with definitions where appropriate.
- Low value grants, which have been progressively reduced in the period of the Review, should be discontinued; consideration should be given to increasing the intervention rate and supporting cash flow for start-up and smaller businesses where greater additionality can be expected to accrue.

# 1. INTRODUCTION

## 1.1. General

This document reports the process, conduct, findings and recommendations of a Strategic Review of the Scottish Investment Bank (SIB) Financial Readiness (FRS) service.

The Review was commissioned by Scottish Enterprise (SE) and conducted by Malcolm Watson Consulting (MWC) between April 2017 and September 2018 and covered the provision of the service over the period between April 2014 and 31<sup>st</sup> March 2017. This is referred to in the remainder of the report as the Review Period.

## 1.2. The SIB Financial Readiness Support Service

FRS, as a support service for eligible Scottish Businesses, has operated within Scottish Enterprise for a period of c.15 years. Responsibility for the operation of the service currently rests with SIB, who took over the service in 2012. SIB was responsible for the delivery of the FRS over the entire Review Period.

FRS delivers a range of advisory support through a SIB team of specialists and grant-assistance for third party<sup>1</sup> support to businesses. The support provided is focused on equipping FRS clients to better assimilate and present the information required for consideration by potential funders of their businesses. The support is provided to businesses at all stages of development, including young, growing businesses, established businesses seeking to re-finance and on occasion businesses facing financial challenges. Whilst advisory services are available to any business approaching the service, grant assistance for third party support is available only to SE Account Managed Businesses or Business Gateway clients identified as being in the Growth Pipeline.

FRS is provided by a dedicated in-house SIB team of 8 specialists, plus a team leader, reporting to a SIB Head of Investment Management. Grant assistance is provided up to a maximum of £10k and is required to be match-funded by the assisted business at a rate of 70% of the eligible cost of the service procured. On an exceptional basis the matched funding can be reduced to 50%. Grant assistance is claimed in arrears, requiring the recipient to cash flow the full cost of the third party provision.

Over the Review period the FRS has been shaped by an SE and Scottish Government priority agenda to widen the availability of the Service to all SMEs in Scotland. Using pre-existing levels of resources, the FRS has sought to address this agenda by adapting the Service over the period to:

- include more one-to-many and one-to-one activities;
- initiate the development of an online offering; and
- work more efficiently with companies.

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<sup>1</sup> Third party support refers to support provided to SME's by an entity external to SE and the SME

Over the Review period increasing amounts of monitoring data has been collated on the service, its delivery and outcomes. However, the Service retains its focus on providing added value services working with and spending time with companies.

Delays in the development of the FRS digital service has resulted in key Service development aspects not being implemented, to date.

In this context, the Strategic Review provides an opportunity to consider the implications of the evolving SE and SG ambitions for FRS. It can inform FRS on its future focus and operations including: which companies should be the focus for the Service; what elements of service provision should be the focus; and monitoring data requirements as the FRS looks to capture and monitor more data as part of its core service.

### 1.3. Strategic Review Objectives

The Objectives of the Strategic Review were detailed in the Review Brief and in summary they were to:

- Consider the current rationale, based in market failure and economic performance constraints, for the provision of the FRS programme by SIB.
- Assess the effectiveness and efficiency of the service processes.
- Estimate the sources and scale of economic benefits which can be attributed to the specific FRS activities – both individually and in aggregate.
- Assess the Value for Money (VFM) provided by FRS given these attributable benefits and the internal and any third party costs of FRS delivery.
- Establish any continuing rationale for the delivery of FRS by SIB in the context of the current accessibility of finance to Scottish SMEs.
- Suggest, (given a continuing rationale for provision), any evidence-based evolution of the service to: enhance provision; expand the service base; increase attractiveness to potential users; facilitate benefits measurement and attribution; and improve VFM.

These objectives have been addressed through research consisting of:

- A review of management information on the delivery of the FRS.
- Consultations with Stakeholders, FRS executives, and FRS internal clients.
- Consultations with grant assisted and non-grant assisted business clients of FRS.

### 1.4. Review Report Structure

The remainder of this report is structured as follows:

- **Section 2** outlines the Review approach and method.
- **Section 3** traces the rationale for the FRS, its establishment, operation and performance over the Review Period.

- **Section 4** summarises the findings of our consultations with Stakeholders, the FRS Service Providers and Service Users within SE and Business Gateway.
- **Section 5** presents the findings from our primary research amongst the clients of the FRS.
- **Section 6** provides a commentary on measuring FRS Service activities and outcomes based on the findings from our research programme.
- **Section 7** sets out our conclusions and recommendations.

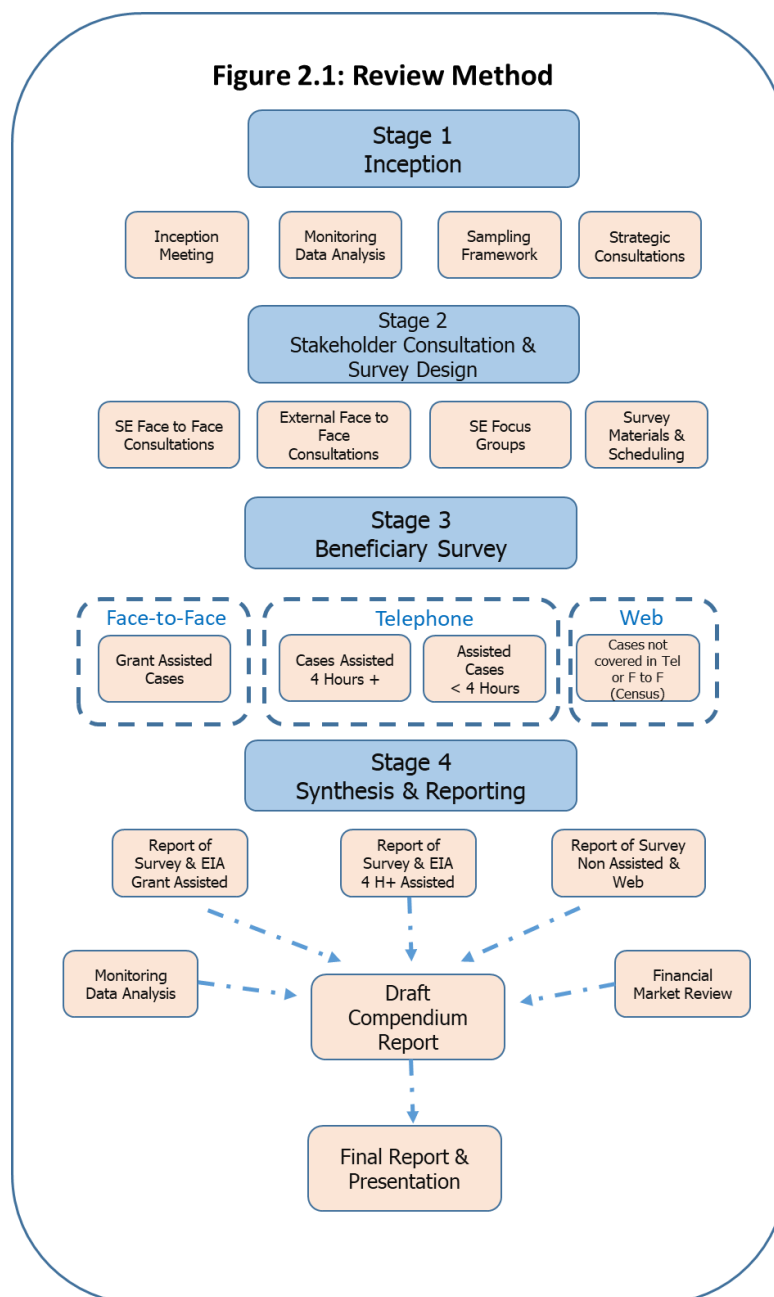
## 2. REVIEW METHOD

### 2.1. General

In this section of the report we summarise the method used to conduct the Review. This was set out in our response to the Review Brief and subsequently adopted without amendment at the Review inception meeting.

### 2.2. Proposed Method

Our proposed method consisted of four stages and is summarised in **Figure 2.1**.



The Proposed Method incorporated the following core tasks:

- An inception process to refine the method, conduct initial analysis of management information and devise a sampling framework.
- The conduct of Strategic Consultations and the design of research materials to facilitate consultation and survey of FRS stakeholders and clients.
- Consultation with stakeholders and internal FRS customer groups.
- A programme of FRS client research amongst grant-assisted, intensively and less intensively assisted users of the Service.
- Synthesis of the collective research findings to produce the draft final report. Refinement of the draft report following feedback from SIB and SE to produce the final report.

### 2.3. Refinement of Proposed Method

In the course of the Review process the Proposed Method was refined on a number of occasions. These refinements had been provided for at inception, where it was agreed that the Method may require adjustment to provide for an optimal volume of responses from the various users of the service.

At inception the potential to derive reliable economic impact assessments was also discussed - given the relatively low intensity of assistance (except perhaps in the case of grant-assistance) – and it was agreed this might be re-visited if consultation responses showed low levels of attribution of business performance improvement to the FRS advice received.

Refinements to the Proposed Method in the course of conducting the Review included:

#### **A movement away from attempting to secure a representative sample.**

The Consultants were successful in producing a broadly representative sample frame of the population of users for the purposes of consultation. However, it quickly became apparent, in the course of arranging the grant-assisted consultations, that quotas could not be achieved. This was as a result of beneficiaries either failing to respond to requests for consultation (despite warm-up e-mails and several attempts at contact by the Consultants) or declining to engage in the Review process. At this point it was agreed that the entire population of grant-assisted businesses with verifiable contact details should be utilised to secure the highest potential number of respondents.

**Acceptance, given the above departure from securing a representative sample, and low levels of attribution of quantifiable changes in business performance from survey responses, that reliable quantification of economic impact would not be achievable.** Instead, information on intermediate outputs – such as the role of FRS in assisting businesses to secure funding and qualitative assessments from service users should form the basis of the assessment of service effectiveness.

In light of the foregoing and emerging deliberations over key aspects of the future delivery of the service (including the development of a digital Financial Readiness service channel) consideration was to be given to application of the Review findings to re-focusing the service and its resources to best meet any re-defined objectives.

## 2.4. Review Research Sources

In the course of the research MWC were variously provided by SIB and SE with:

- Background papers on the development, approval and previous evaluations of the FRS.
- Monitoring Data on the delivery of the FRS Service to clients over three full operational years (2014-15, 2015-16 and 2016-17)

MWC conducted a total of 17 non-client consultations in the course of the research as detailed in **Table 2.1**.

<b>Consultee Group</b>	<b>Focus Groups</b>	<b>Face to Face</b>	<b>Total</b>
SIB and FRS Specialists	-	3	3
SE and SIB Users of the Service		6	6
External Stakeholders	-	4	4
FRS Specialists	1	-	1
SE Account Managers	2		2
Business Gateway Advisors	1	-	1
<b>All</b>	<b>4</b>	<b>13</b>	<b>17</b>



## 3. FRS RATIONALE & CURRENT OPERATION

### 3.1. Introduction

This section of the report considers the rationale and objectives of the FRS, outlines its operation and analyses its activities in the period between April 2014 and March 2017.

### 3.2. Rationale and Approval

The concept of Financial Readiness has influenced SE and SIB business support activities over a period since the inception of SE in 1991 (and has been variously described as Investor Readiness and Financial Readiness over that period). The Financial Readiness Service currently sits within the SIB team in SE.

As an ongoing *service*, FRS is not subject to the same approval processes as stand-alone SE projects or SIB investment funds. It is, however, required to meet published activity and outcome targets which are continuously monitored and subject to regular review and audit. The service is resourced from a budget within the SE Operational Plan. As a consequence, the underlying rationale and objectives for the Service are not formally recorded in an approval paper.

Our knowledge of public sector rationale for intervention in business finance market suggests that the FRS is focussed, at the highest level, on:

***"Addressing information failures which prevent businesses from presenting their case for securing finance in an optimal form to meet the requirements of a range of potential providers"***

Below this overarching information failure lies a wide range of occurrences which can contribute to it. These may include, but are not limited to:

- Uncertainty over where to look for specialist and impartial advice on preparing a case for securing funding.
- Limited knowledge of the types of finance available to and best suited to a business at a particular stage in its development.
- Lack of technical skills, or the resources to procure such skills, to identify the specific funding requirements in the short and longer term and to demonstrate the current and projected performance of the business to service the required returns on any finance provided to it.
- Lack of resources to respond to the legal or diligence requirements of a potential funder of the business.
- Shortfalls in capacity to present and pitch the investment opportunity to potential funders of the business.
- Lack of technical capacity to prepare and submit applications for capital investment from public sector providers of funding (e.g. Regional Selective Assistance).

- Lack of experience on how to manage a business through a period of financial distress and provide assurance on survival to existing finance providers.
- User concerns about the impartiality or costs associated with obtaining advice from private sector providers.
- Perception amongst companies that any application for funding will be unsuccessful, resulting in lower numbers and/or values of applications.

As a consequence of one or more of the above, individual businesses may require FRS assistance to help them secure or retain finance. Advice received through FRS may also result in a business:

- Deciding to defer its use of finance to a more appropriate time, for example, once greater commercial traction is demonstrated.
- Identifying alternative funding options, for example, through improved working capital or asset management.

SIB provide financial readiness support to companies to ensure that they have a fundable proposition and can effectively present that proposition to appropriate funders. The Service seeks to address information asymmetry between companies and potential funders, thereby unlocking funding.

In the course of our consultation programme amongst FRS Specialists, Stakeholders and the FRS service provision team we have sought feedback on what they considered to be the underlying and continuing rationale for the provision of the service. In drawing our conclusions we will use these findings, alongside our own initial assessment of the Service rationale presented above, to arrive at an assessment of any continuing rationale for FRS provision. This will also reflect responses from FRS clients on their alternative courses of action in the absence of being able to access FRS.

### 3.3. FRS Service Delivery

Over the period of this Review the FRS has been delivered by a team of up to 8 SIB Specialists reporting to a Team Leader. The team consists of a mix of full and part-time executives and the average commitment over the Review period has been 6.24 Full Time Equivalent (FTE) Staff per annum.

The Service is delivered through a combination of face-to-face meetings with client businesses alongside telephone and e-mail support as required. One-to-many events were added to the service portfolio in 2016-17 in order to reach greater numbers and to enhance inclusion.

SIB categorise the activities of the Service around 5 key lines of support:

- Investment Readiness
- Funding Options
- Corporate Governance
- Systems and Support Network
- Distressed Engagement

SIB provided us with a summary description of the content of each these lines of support, which is reproduced below.

**Investment readiness** – the process of ensuring that a company has a robust and fundable proposition and is able to articulate that proposition, to be of interest to one or many types of funders. Traditionally this concept was thought only relevant for companies seeking equity investment. But with the evolution of the debt markets, it is now of particular pertinence for investment readiness to be considered when approaching Banks and other debt providers for finance. SMEs in particular require material support to develop their business plan, financial projections and business model to be able to articulate their funding proposition. For SME's seeking equity they in particular also require pitching support and support to articulate a credible and compelling exit plan.

**Funding Options** – Companies require funding for many reasons, including for example start up finance, growth finance, expansion finance and for corporate transactions. The increasing diversity of funding supply means smaller businesses should be able to exercise more choice when considering financing. Although research shows businesses are becoming increasingly aware of their options, many others are still hampered in their ability to invest, grow and create jobs due to a lack of such awareness, understanding of their choices and limited funding networks. Demystifying the sphere of finance can be a major enabler in an individual's decision to expand on a concept and take the first steps towards seeking external finance, and putting in place a robust funding plan. Those companies that have a robust funding plan in place for the capital lifecycle of their business will be better placed to secure appropriate funding.

**Corporate Governance** – this is the direction and control of a company, primarily to ensure accountability and transparency. Often, companies can fail in growing their business because the company lacks appropriate corporate governance. Whether this is in robust policies and procedures, or detailed and timely management information, the ramifications for failing to install appropriate corporate governance controls and culture are material. All funders require comfort that a company has appropriate corporate governance in place.

**Systems and support network** – It continues to be notable that Scottish SMEs, regardless of age or size, can often be operating in isolation from both appropriate systems and a robust professional network, including corporate finance advisors and accountants. FR can help companies understand the benefits of both, where to look to find them and how to engage with them.

**Distressed engagement** – an unfortunate aspect of any mature, commercial environment is that companies will from time to time enter into periods of financial pressure or even crisis. Early engagement and proactive measures are key to providing a framework for restructuring and survival. Often, even before any professional advisory is consulted, the public sector is asked to intervene.

Clients access the service through referral from SE Account Managers, SE Sector and specialist support teams and Business Gateway. There is also provision for direct client approach to the Service through normal SE marketing channels and through referral by private sector business advisors.

The intensity<sup>2</sup> of support provided is regulated by a combination of client needs and the experience of the FRS advisor in providing or signposting a solution.

In addition, FRS grant support is available to businesses which have pre-qualified either through being Account Managed or part of the Growth Pipeline (businesses which have a Business Gateway relationship but are identified as having the potential to be SE Account Managed in the future). This grant can cover *up to* 50% of the cost of a third party advisor (although the normal SIB contribution is 30% of the cost) subject to a ceiling of £10,000, to assist the business in the technical aspects of preparing a case for funding. There are variations in the administration of FRS grant. In most cases, the FRS Specialist assists eligible businesses in making applications, sometimes in concert with a Business Gateway adviser. In some instances the application is initiated by SE Account Managers. SE contract management verify the output at claim stage although may not apply comparable quality control as was the case when the outputs were routinely signed off by FRS staff.

The Review method reflected the potential of grant support, as a generally more intensive intervention, to generate attributable economic outcomes through a more detailed consultation, conducted face-to-face where this could be arranged.

### 3.4. FRS Service Activity Analysis 2014/15 to 2016/17

SIB provided us with management information for the delivery of the FRS Service in the financial years 2014/15, 2015/16 and 2016/17. We have undertaken an analysis of this data, which is presented below.

#### 3.4.1. Limitations on Analysis

It should be noted that this analysis is presented on the basis of the data provided to us which we have not subjected to any form of verification. We have utilised the information contained in the Activity Log to provide an assessment of overall trends in delivery of the service. While the FRS specialists record information related to the companies that they work with, data recording is not the focus of the service, and only certain items of information are recorded on a mandatory basis for the purposes of evidencing measures of performance. While other elements of information are recorded, this will therefore not always be complete or recorded consistently. This has therefore been taken into account when completing the review.

Our examination of these data has revealed:

- Some inconsistencies in the recording of data by FRS specialists; for example, one team member reported only recording enquiries that they expected to become an

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<sup>2</sup> Public sector assistance for business development ranges from low intensity measures (e.g. access to advice of limited duration and information) through medium intensity measures (e.g. support for training) through to high intensity measures (e.g. substantial investment contributions; financial and technical support for research and development). In general, it is usually easier to secure attribution of changes in business performance to medium and high intensity interventions; evaluation of low intensity interventions tends to emphasise customer satisfaction and qualitative aspects of delivery. The lowest intensity measures are often not recorded as an assist (as is the case with FRS support less than 4 hours duration).

assist of more than four hours and also recording of time administering grants towards the target for advisory assists.

- Incomplete data, limiting the base for analysis.

These caveats aside, the Activity Log is sufficiently substantial to provide an assessment of overall trends in delivery of the service.

### 3.4.2. Overall Activity

Data on activity over the Review period is presented in **Table 3.1**.

Year / Type	Values				Percentages			
	2014-15	2015-16	2016-17	Total	2014-15	2015-16	2016-17	Total
Grant Assisted	132	80	41	253	18.2	11.0	4.9	11.0
Non Grant Assisted >4hrs	251	327	376	954	34.6	44.8	44.9	41.6
Non Grant Assisted < 4 hours	342	323	421	1086	47.2	44.2	50.2	47.4
Distress Cases <sup>3</sup>	22	35	47	104	3.0	4.8	5.6	4.5
Total	725	730	838	2293	100.0	100.0	100.0	100.0

Over the three years of data, the overall number of cases recorded increased by 113 (15.5%). Within the total, there was a major decline in the number of grant cases, but this was more than offset by advisory cases recorded. The number of non-grant cases of four hours or more (which qualify as an "assist") increased by 125 (49.8%). Taken together, the number of grant cases and advisory cases over four hours increased by 8.8% indicating a modest uplift in activity.

Distress cases, which were highlighted by FRS specialists as a significant source of additional workload, more than doubled in the period, but still represented just over 10% of intensive assistance cases<sup>4</sup>.

Over the period of analysis, less intensive advisory cases have represented close to half of all cases recorded.

<sup>3</sup> Distress Cases are identified in the FRS activity log and are defined as situations where a company has an unplanned short-term cash need and limited available funding options.

<sup>4</sup> Intensive Assistance: FRS Grant Cases and FRS Advisory cases over 4 hours duration, both of which qualify as an "assist"; Less Intensive Assistance: FRS Advisory cases of less than 4 hours duration.

### 3.4.3. Trends in Advisory Activity

**Table 3.2** presents data on advisory hours covering 2092 of the 2293 FRS cases in the three years analysed.

Year / Type	Absolute Hours				Percentages of Hours			
	2014-15	2015-16	2016-17	Total	2014-15	2015-16	2016-17	Total
Grant Assisted	1065	507	321	1893	33.4	17.7	9.6	20.1
Non Grant Assisted	1786	2102	2693	6581	56.0	73.4	80.5	70.0
Distress Cases	340	256	330	926	10.7	8.9	9.9	9.9
Total Recorded Hours	3191	2865	3344	9400	100.0	100.0	100.0	100.0
Total Cases for Which Hours Recorded	629	686	777	2092				
Average Hours per Case	5.1	4.2	4.3	4.5				
Total FTE Employees in FRS	6.3	6.4	6.0					

The total number of advisory hours recorded reduced in 2015-16 and increased in 2016-17. Over the three years, variation from the average was no more than 5%, indicating a fairly consistent level of effort.

Within the total, advisory hours logged against grant-assisted cases declined significantly reflecting the smaller number of grants awarded.

Although the number of distress cases more than doubled in the three years analysed, the hours allocated to these cases remained relatively constant. The average time logged against distress cases declined from 15 hours in 2014/15 to 7 hours in 2016/17; only a very small number of distress cases accounted for more than 20 hours. While FRS specialists noted the unpredictability of these cases and the intensive response required, the administrative data do not reflect the perceived pressure on workload represented by these cases.

Overall, the combination of a fairly consistent total hours and a fall in the average hours per case may be consistent with the service operating at capacity and increasing targets only being met through dilution of support.

### 3.4.4. Trend in Grant-Assisted Cases

**Table 3.3** (overleaf) presents data covering 238 of the 253 grants awarded between 2014-15 and 2016-17.

As noted earlier, there was a significant decline in the number of grant cases (-69%) in the three years analysed. The total value of recorded grants fell less steeply (-62%) with the result that the average grant increased quite sharply.

Over the period of analysis, very small grants (i.e. less than £2000), where additionality might be questioned, were nearly eliminated. Grants in excess of £6000 increased sharply as a proportion of the total - although the absolute numbers declined.

Changes in the number and average size of grant have not been in response to policy changes. It was noted that the budget for FRS grant had been progressively reduced in response to reduced demand from businesses and / or failure of businesses to take up

grant which had been approved. Discussions within the FRS team had variously attributed this to:

- Companies struggling to cash flow the necessary work with the grant paid in arrears.
- Companies electing to proceed without third-party advisor support to save money.
- The shift to the contract management model which is perceived to involve less progress chasing.
- Changes within the FRS team, with some specialists making more use of grant than others.

<b>Year Value (£)</b>	<b>Numbers</b>				<b>Percentages</b>			
	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>Total</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>Total</b>
0-999	3	1	0	4	2.4	1.3	0.0	1.7
1000-1999	27	9	3	39	21.4	11.7	8.6	16.4
2000-2999	25	10	5	40	19.8	13.0	14.3	16.8
3000-3999	18	8	4	30	14.3	10.4	11.4	12.6
4000-4999	13	7	6	26	10.3	9.1	17.1	10.9
5000-5999	15	13	3	31	11.9	16.9	8.6	13.0
6000-6999	3	6	2	11	2.4	7.8	5.7	4.6
7000-7999	2	3	3	8	1.6	3.9	8.6	3.4
8000-8999	4	2	3	9	3.2	2.6	8.6	3.8
9000+	16	18	6	40	12.7	23.4	17.1	16.8
No of Grants Specified	126	77	35	238	100.0	100.0	100.0	100.0
Total Value of Grants Specified	£530,012	£424,233	£198,662	£1,152,907				
Average Value of Grant Specified	£4,206	£5,510	£5,676	£4,844				



### 3.4.5. Trends in Cases by Source Designation

**Table 3.4** presents data for 2067 of the 2293 FRS cases where the designation and, by implication, the source of referral is recorded.

Year / Designation	Absolute Values				Percentages			
	2014-15	2015-16	2016-17	Total	2014-15	2015-16	2016-17	Total
Account Managed	283	292	288	863	44.0	43.2	38.5	41.8
Non Relationship Managed	164	202	300	666	25.5	29.9	40.1	32.2
Business Gateway Growth Pipeline	196	182	160	538	30.5	26.9	21.4	26.0
Total Designated Cases	643	676	748	2067	100.0	100.0	100.0	100.0

The data show that support for Account Managed businesses remained consistent over the period and represented around 40% of the total cases. In contrast, the number of NRM businesses increased sharply, in part reflecting the introduction of one-to-many delivery in 2016-17. Business Gateway Growth Pipeline cases reduced both in absolute terms and as a proportion of the total over the period. This may reflect reported changes in criteria for Pipeline designation which has seen a reduction in the population of Pipeline businesses.

**Table 3.5** details the pattern of Grant Assistance cases alone.

Year / Designation	Absolute Values				Percentages			
	2014-15	2015-16	2016-17	Total	2014-15	2015-16	2016-17	Total
Account Managed	67	46	18	131	50.8	58.2	45.0	52.2
Non Relationship Managed	21	9	15	45	15.9	11.4	37.5	17.9
Business Gateway Growth Pipeline	44	24	7	75	33.3	30.4	17.5	29.9
Total Grant Cases with Designation	132	79	40	251	100.0	100.0	100.0	100.0

It is apparent that Account Managed businesses are highly represented in the total of grant cases and that their take-up of grants has remained relatively strong in a declining total. In contrast, use of grant by Business Gateway Growth Pipeline companies has experienced a particularly steep decline.

### 3.4.6. Trends in Cases by Location

Location was recorded in 76% of FRS cases in the database. **Table 3.6** (overleaf) presents an analysis of these cases by two-digit postcode. The distribution of FRS cases essentially follows that of the business base overall. However, businesses in Aberdeen, Glasgow and Edinburgh do appear to be somewhat over-represented.

There is a general increase in cases in all geographies except the Motherwell postcode which has seen a reduction in the provision of both grant and advisory services. This rate of change would appear to be systemic and suggests a need for further investigation. Fife, Ayrshire and Dundee postcode areas display some volatility in use over the period of analysis, which might raise questions about the consistency of referral. There is also a notable spike in grant

assistance cases in the Aberdeen postcode area against a declining trend elsewhere, which is attributed by FRS to the location of a team member in the area from 2015/16.

Postcode Area	Absolute Values								Percentages							
	Grant Assisted				Non Grant Assisted				Grant Assisted				Non Grant Assisted			
	2014-15	2015-16	2016-17	Total	2014-15	2015-16	2016-17	Total	2014-15	2015-16	2016-17	Total	2014-15	2015-16	2016-17	Total
AB	5	4	11	20	53	60	73	186	4.4	5.5	42.3	9.4	12.4	11.3	12.7	12.1
DD	3		4	7	17	25	18	60	2.6	0.0	15.4	3.3	4.0	4.7	3.1	3.9
DG	1	2		3	3	3	8	14	0.9	2.7	0.0	1.4	0.7	0.6	1.4	0.9
EH	18	26	3	47	74	133	137	344	15.8	35.6	11.5	22.1	17.3	25.0	23.7	22.4
FK	4	3	1	8	29	37	33	99	3.5	4.1	3.8	3.8	6.8	7.0	5.7	6.4
G	46	18	5	69	122	150	163	435	40.4	24.7	19.2	32.4	28.5	28.2	28.2	28.3
IV		1		1	3	5	8	16	0.0	1.4	0.0	0.5	0.7	0.9	1.4	1.0
KA	11	4		15	40	34	48	122	9.6	5.5	0.0	7.0	9.3	6.4	8.3	7.9
KW				0	1	2	3	6	0.0	0.0	0.0	0.0	0.2	0.4	0.5	0.4
KY	2	1	1	4	11	8	25	44	1.8	1.4	3.8	1.9	2.6	1.5	4.3	2.9
ML	21	10		31	24	21	6	51	18.4	13.7	0.0	14.6	5.6	3.9	1.0	3.3
PA	2	1		3	25	25	26	76	1.8	1.4	0.0	1.4	5.8	4.7	4.5	4.9
PH	1	3	1	5	6	8	14	28	0.9	4.1	3.8	2.3	1.4	1.5	2.4	1.8
TD				0	3	8	5	16	0.0	0.0	0.0	0.0	0.7	1.5	0.9	1.0
ZE				0			1	1	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1
Rest of UK				0	11	11	9	31	0.0	0.0	0.0	0.0	2.6	2.1	1.6	2.0
Overseas				0	6	2		8	0.0	0.0	0.0	0.0	1.4	0.4	0.0	0.5
Total Location Recorded	114	73	26	213	428	532	577	1537	100	100	100	100	100	100	100	100
Postcode Areas	AB - Aberdeen DD - Dundee DG - Dumfries EH - Edinburgh				FK - Falkirk G - Glasgow IV - Inverness KA - Kilmarnock				KW - Wick KY - Kirkcaldy ML - Motherwell PA - Paisley				PH - Perth TD - Galashiels ZE - Shetland			

Two digit postcode analysis does not allow for HIE area aggregation (which includes some AB, KA, PH and PA alongside IV, KW and ZE areas) SIB data shows a total of 14 HIE area assists by FRS in 2015/16, rising to 21 in 2016/17)

### 3.4.7. Trends in Cases by Sector

Sector was recorded for 89% of FRS cases over the three years analysed. The sectoral analysis is presented in **Table 3.7** (overleaf).

Support is fairly concentrated by sector. Just three sectors, Food and Drink, Manufacturing and Technology accounted for more than half of the grant and the non-grant-assisted cases.

Reflecting the overall decline in grant cases, the number of grants fell for all sectors except Life Sciences, which recorded a sharp increase.

For many sectors, the number of grant cases is small, and little can be read into their volatility. Of the larger sectors, Food and Drink and Life Sciences saw their proportional share of grant cases increase while Technology and, particularly, Manufacturing saw their share of cases decline.

Access to non-grant-assistance was relatively stable, with most sectors remaining within a tight range of proportional share of cases. Outliers were Creative Industries and Financial and Business Services which experienced a marked proportional decline. Textiles saw a proportional increase, but based on relatively few cases.

	Absolute Values								Percentages							
	Grant Assisted				Non Grant Assisted				Grant Assisted				Non Grant Assisted			
	2014-15	2015-16	2016-17	Total	2014-15	2015-16	2016-17	Total	2014-15	2015-16	2016-17	Total	2014-15	2015-16	2016-17	Total
Aerospace, Defence, Marine	3	1		4	5	8	5	18	2.3	1.3	0.0	1.6	1.0	1.4	0.7	1.0
Chemical Sciences	3			3	5	8	6	19	2.3	0.0	0.0	1.2	1.0	1.4	0.8	1.1
Construction	3	3	3	9	23	35	34	92	2.3	3.8	7.5	3.6	4.5	6.1	4.7	5.1
Creative Industries	18	10	5	33	56	33	47	136	13.8	12.8	12.5	13.3	11.0	5.7	6.5	7.5
Energy	3			3				0	2.3	0.0	0.0	1.2	0.0	0.0	0.0	0.0
Energy - Oil and Gas	5	1	2	8	34	38	39	111	3.8	1.3	5.0	3.2	6.7	6.6	5.4	6.1
Energy - Renewables	9	8	1	18	29	25	38	92	6.9	10.3	2.5	7.3	5.7	4.4	5.3	5.1
Financial and Business Services	2			2	17	17	10	44	1.5	0.0	0.0	0.8	3.3	3.0	1.4	2.4
Food and Drink	16	8	9	33	42	58	76	176	12.3	10.3	22.5	13.3	8.3	10.1	10.5	9.7
Forest and Timber Processing				0	2	2	2	6	0.0	0.0	0.0	0.0	0.4	0.3	0.3	0.3
Haulage and Distribution	4	1		5	8	6	9	23	3.1	1.3	0.0	2.0	1.6	1.0	1.2	1.3
Life Sciences	2	5	8	15	31	40	44	115	1.5	6.4	20.0	6.0	6.1	7.0	6.1	6.4
Manufacturing	25	13	3	41	74	68	109	251	19.2	16.7	7.5	16.5	14.5	11.8	15.1	13.9
Other	5	5	1	11	37	62	67	166	3.8	6.4	2.5	4.4	7.3	10.8	9.3	9.2
Technology	28	22	7	57	125	153	201	479	21.5	28.2	17.5	23.0	24.6	26.7	27.8	26.5
Textiles	3	1		4	6	14	20	40	2.3	1.3	0.0	1.6	1.2	2.4	2.8	2.2
Tourism	1		1	2	15	7	16	38	0.8	0.0	2.5	0.8	2.9	1.2	2.2	2.1
	130	78	40	248	509	574	723	1806	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

## KEY POINTS

- Although presenting a substantial body of indicative management information, the FRS Activity Log is subject to inconsistencies in recording practice and gaps in data, as data collation is not a focus of the service or team.
- Between 2014-15 and 2016-17, the overall number of cases recorded increased by 113 (15.5%). Within the total, there was a major decline in the number of grant cases, but this was more than offset by advisory cases recorded. Over this period, low intensity advisory cases have represented close to half of all cases recorded.
- Over the three years, variation in logged hours from the average was no more than 5% indicating a fairly consistent level of effort.
- The number of distress cases more than doubled between 2014-15 and 2016-17, but the hours allocated to these cases remained relatively constant. Average hours declined from 15 to 7 hours; with very few in excess of 20 hours. The administrative data suggest that while there is a temporary pressure on workload from these cases, they do not increase the workload overall during the year.
- The combination of fairly consistent total hours and a fall in the average hours per case may be consistent with the service operating at capacity and advancing targets only being met through dilution of support.
- While the number of grant cases declined sharply (-69%) between 2014-15 and 2016-17, the total value of recorded grants fell less steeply (-62%). Grants in excess of £6000 increased sharply as a proportion of the total.
- Support for Account Managed businesses remained consistent over the period; the number of NRM cases increased sharply, in part reflecting the introduction of one-to-many delivery in 2016-17; while Business Gateway Growth Pipeline cases declined.
- FRS support is fairly concentrated by sector with three sectors, Food and Drink, Manufacturing and Technology accounting for more than half of the grant and the non-grant-assisted cases in 2014-15 to 2016-17.
- The number of grants fell for all sectors except Life Sciences, which recorded a sharp increase. Access to non-grant-assistance was relatively stable for most sectors, although Creative Industries and Financial and Business Services which experienced a marked proportional decline.
- The distribution of FRS cases essentially follows that of the business base overall. However, businesses in Aberdeen, Glasgow and Edinburgh do appear to be somewhat over-represented.
- Between 2014-15 and 2016-17, there was a general increase in cases in all geographies except the Motherwell postcode where there was a material reduction in the supply of both grant and advisory services.

## 4. FRS STAKEHOLDER, PROVIDER AND INTERNAL USER FEEDBACK

### 4.1. Introduction

In this section of the report we summarise the findings from our consultations amongst those who deliver, manage and have a strategic interest in the FRS Service.

Our consultations, conducted in face-to-face meetings and in focus groups, were with:

- FRS Stakeholders, including Scottish Government, Business Gateway, and representatives of private sector advisors and investors.
- Those responsible for managing and delivering the FRS Service over the Review period.
- Those SE Account Managers and Business Gateway executives who regularly referred clients to FRS or dealt directly with FRS Executives.

The face-to face consultations were undertaken using a Topic Guide covering a series of core aspects of both the content and delivery of the FRS Service and its operating environment.

Focus groups were also facilitated amongst three groups. Two groups, SE Account Managers and Business Gateway Executives, were users of the Service. A third focus group was conducted with the FRS Executives who provide the service.

We have summarised the findings from these consultations around these core aspects of the FRS Service, specifically:

- Rationale and Operating Environment.
- Service Delivery.
- Performance Measurement.
- Evolution.

The individual consultations and focus group sessions were undertaken on a non-attributable basis, but to provide context to the opinions expressed we have reported findings under each of the above headings as coming from:

- Stakeholders.
- Service Providers (SIB Staff involved in delivering and managing the FRS).
- Users (SE and Business Gateway staff who refer to FRS or deal directly with it).

### 4.2. Rationale and Operating Environment

The consultations on rationale and operating environment were of particular importance given the status of the FRS as a continuing service and our previous statements on the Service rationale in **Section 3.2**.

#### 4.2.1. Stakeholder Perspective

Stakeholders were clear on the underlying rationale for FRS being rooted in assisting SME businesses gain access to the finance they required to operate and develop. It was suggested that the service had originally been focused on accessing equity funding - but that the emphasis had now shifted to the full range of business finance options. This was seen in part as being a reaction to the withdrawal of the banks from SME finance in the wake of the 2009 Global Financial crisis, but also a reflection of market evolution and the increasing importance of asset finance and crowd-funding as alternative sources.

There was consensus amongst stakeholders that the Service would need to continue to be provided by the public sector in the foreseeable future. They were unanimous in linking this to the current state of the SME finance market in the UK and Scotland where evidence continued to show a shortfall in provision and demand, particularly for debt finance from conventional sources.

Continued requirement for public sector provision was also considered to be a reflection of the lack of any private sector alternative – most particularly for those cases where private sector Corporate Finance advisors were unlikely to see a return on their investment of time including younger businesses and pre-revenue businesses. It was also pointed out that FRS works with, complements, and does not crowd-out the private sector. This is achieved both by part funding the work of private sector advisors through the FRS Grant and by signposting FRS users to a range of private sector funding advisors and sources.

#### 4.2.2. Service Provider Perspective

The providers of the FRS articulated the rationale for the service as being to assist its client businesses in presenting a robust case for financing and to signpost them towards a range of potential providers of the most appropriate form of finance. There was also, in the case of grant-assisted provision, a need to identify those cases which would benefit from the service of a third-party advisor and to provide financial support where necessary.

The FRS Team identified a common theme in their varied caseload of businesses – they all had a requirement for an injection of funding and needed to secure this for their business as a priority.

Others likened FRS to a matching service between businesses seeking finance and potential providers of a range of finance options – signposting was an important function for the Service.

There was also a perception of a lack of quality demand<sup>5</sup> for finance amongst SMEs and FRS was perceived as a means of stimulating demand and also improving the quality of demand. An increase in the quality of demand might also stimulate investor interest in placing funds in SMEs given the potential for greater returns from fast-growing businesses.

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<sup>5</sup> (Demand from ambitious innovative SMEs for resources to develop products, services and markets rather than re-financing of ongoing operations)



There was also strong consensus on the overall state of the SME finance market in Scotland with continuing shortfalls in both supply and demand.

On the supply side there were particular views on the supply of debt finance with banks retrenching to safer propositions and having lending restrictions on certain sectors. There is perceived to be little net lending by debt providers with most of the activity being the reassignment of debt within and between providers. There are also structural changes in the market with increasing use of asset finance options and the growth of peer-to-peer lending platforms.

Demand for finance was also considered to be suppressed – which was variously ascribed to lack of ambition by businesses, reluctance to commit by businesses given uncertainties in their own markets, and an expectation of rejection of proposals – particularly from traditional sources of debt.

This was interpreted by all as a reinforcement of the requirement for the FRS service and its focus on getting businesses to a stage where they can best present a strong case to investors and lenders. The skill-set and experience of the FRS was considered to be a strong asset in fulfilling this role and the Team were described as being the closest-to-market staff resource within SIB. The previous roles of many members of the Team as relationship managers within debt providers was considered to help them navigate businesses through the processes of case presentation.

There was no expectation amongst the providers of the FRS Service of it being taken up in its current form in the absence of public sector provision. This was because there was no perceived self-interest amongst intermediaries to stimulate and address this demand – particularly in relation to higher risk propositions or pre-revenue businesses, due to their limited ability to deliver this work profitably

#### 4.2.3. User Perspective

Users' perspective on the rationale and operating environment were confined to their identification of the specific roles within which they used individual members of the FRS Team. For both Account Managers and Business Gateway, FRS Team Members were perceived as a set of additional, better informed eyes and minds to look over the financial health of businesses seeking finance.

AMs used FRS to sense-check a wide range of propositions and provide insight to particular issues including, for example, company valuations and the terms requested by finance providers to business.

Business Gateway executives tended to comply more closely to the concept of using FRS for considering and augmenting financial readiness – which is perhaps a consequence of all of their clients being within the Growth Pipeline.

All considered the FRS Team to have a range of skills and experience which augmented their service provision to client businesses.

### 4.3. Service Delivery

Consultations on Service Delivery were tailored to the roles of the consultees in providing and using the FRS Service. The consultations demonstrate subtleties in these varying perspectives on what the service is delivering and should deliver. We have reported what the consultees stated – but any reconciliation of variances is considered in the concluding sections of this report.

#### 4.3.1. Stakeholder Perspective

Stakeholder comments were focussed on the client base for the Service.

Stakeholders were generally of the opinion that the FRS in its current delivery was overly focused on providing enhanced services to SE Account Managed businesses. One commented that businesses which had secured Account Managed status should already be equipped with the skills and resources to ensure sound financial management – which is the foundation of financial readiness.

Stakeholders considered that there was a need to broaden the accessibility of the Service beyond their current perceived focus on SE Account Managed and Business Gateway growth pipeline clients. One commented that the service should be available to the entire SME base and another that many more Business Gateway clients (not in the Growth Pipeline) might benefit.

It was recognised that FRS would need to be adequately resourced to deal with this broad base of potential demand, particularly as one stakeholder considered that any business should have access to up to 4 days of 1 to 1 support if the case merited it. Indeed it was suggested that FRS was under-resourced to address even its current workload and that expansion of the service base would need significant additional resource.

Another stakeholder suggested that promotion to potential clients in Business Gateway and the wider company base was not adequate to ensure potential clients had the necessary awareness of the Service.

#### 4.3.2. Service Provider Perspective

Service providers had generally consistent views on the current delivery of the Service. It was considered that the Service was becoming overly focused on targets which were inflating to reflect stakeholder desires to widen the service base. This was being pursued without a proportionate increase in resources. Concern was expressed that over-focussing on (increasing) activity targets was diminishing the depth of the service provided. It was suggested that the objective of the Service at present was to meet the targets.

An insight to the nature of the case profile of the Service was provided – with around 40% of case load coming from Account Managed businesses, and a further 250 referrals per annum from the SE enquiry fulfilment and referral service. Cases where FRS was called in to deal with financial distress were considered to absorb a disproportionate amount of time. These

distress cases also required the intensive input of those FRS team members with experience particularly relevant to distress and turn-round situations.

The Team perceive their market as being divided into internal customers (mostly account managed and Business Gateway growth pipeline cases) and external customers from market referrals to which they are required to respond.

The providers also reported a marked change in their mode of working with less intensive involvement and a focus on exiting from a case where they consider the scale of involvement is impacting on their capacity to generate their target levels of 4 hour assists. It was clear from the consultations that targets were driving service delivery behaviour amongst the team.

It was stated by several providers that the Service needed to derive a series of strategic objectives and that these should reflect provision to a range of client bases with distinctly different requirements. This differentiation of the service across market segments was considered by many as a pre-requisite for effective and efficient operation of the Service.

It was further suggested that the Service needed to further align its objectives, delivery and success measures with those SE. This required a focus on high growth innovation and export focussed businesses – which offered greatest potential for net additional economic impact but conversely had a risk profile which challenged many finance providers. This would require a continued focus on Business Gateway growth pipeline businesses.

If the FRS Service was required to provide assistance to a broad base of businesses this would require a differentiation of service – with an interactive client-initiated information and signposting service for general enquiries. This would free up FRS advisor time currently spent on servicing these enquiries to deal with cases aligned with organisational priorities requiring 1 to 1 service.

The service providers all confirmed that FRS was not actively promoted at present and that this was a conscious decision based on concerns of raising expectations among the wider SME base that could not be serviced with existing resources and ongoing service commitments.

The current use of the FRS Team as a resource to service businesses in financial distress cases was a concern. The flow of such cases was unpredictable and by their nature they required immediate allocation of resources – impacting negatively on time available to deal with the core service of the Team. There was also a concern that distress cases from Account Managed businesses tended to arise at a late stage in their progression – limiting the options available for rectification. This was not perceived as a monitoring issue by Account Managers but a reluctance on the behalf of the businesses to face up to issues until they impacted on day-to-day running and survival.

### 4.3.3. User Perspective

The Account Manager and Business Gateway focus groups were facilitated to explore these users' personal experiences of the service they received from the FRS Team members they had worked with.

Account Manager and Business Gateway users of the Service considered that the FRS service providers were very responsive, accessible and knowledgeable - notwithstanding the range of areas they were requested to advise on. None of the attendees at our focus groups aired any issues over the service they had received from FRS.

Account Managers considered that there was a tendency for FRS to become focused on servicing the Business Gateway client base – because by doing so they could better respond to the activity targets they had been set.

Account Managers appeared in some cases to use the FRS service in ways which might exclude knowledge of FRS input from the client business. This included referring issues to FRS Specialists without involving them directly in discussions with the business, and applying for FRS assistance grants directly. Whilst this may not be an issue from the perspective of the business it can have implications for:

- Consistent FRS recording of assists to end users; and
- Effective oversight and quality assurance of third party outputs using the FRS grant.

It was observed that Account Managers tended to form strong working relationships with FRS Team members who were co-located with them – particularly when seeking informal input to emerging issues in their portfolio of businesses. Conversely, geographic separation from FRS experts with experience in a particular sector or finance solution could impede access to this resource.

Business Gateway users were observed to be using a mix of FRS advisory and grant services. They reported seeing the FRS as an open-access service with no impression of any differentiation in the response and service they received compared to internal SE clients. Indeed the FRS was cited as one of the best examples of SE(SIB)/Business Gateway integration. In cases where they considered a grant was not the most appropriate current route for their business, the Business Gateway executives reported going direct to an FRS Team member for input and advice.

Given that access to finance becomes most critical to businesses when they are in a growth phase, the Business Gateway executives considered that the current focus of FRS on Growth Pipeline cases was rational and appropriate. Nevertheless, it was noted that Business Gateway has been restricting access to Growth Pipeline, to some extent to ensure businesses are readier to meet Pipeline demands, but this has had the effect of reducing the number of potential FRS clients.

It was, however, considered that Business Gateway clients outside the Pipeline would also benefit from greater financial education and support for financial readiness and there is a range of initiatives being run by Business Gateway operators to provide this. Business Gateway Edinburgh has been operating a one-to-many programme which may become rolled out elsewhere; Local Authorities may provide grant support for businesses that cannot access FRS grants, but provision varies from area-to-area.

It was noted that both Account Managers and the Business Gateway executives considered there to be a high level of awareness of the FRS Service amongst their peers.

Consultations with other internal users and observers of the FRS suggested a perception of a service which was meeting its targets within the constraints of available resources. They did share the perception that the Service was increasingly being engaged in distress cases. There was also a perception that FRS advisors were more time-constrained than in the past and assumed this was a consequence of target-inflation.

One consultee considered that SIB was unsure as to what it wanted from FRS and that the Service was being pulled in several directions – undermining potential effectiveness. They

considered more focus was required for the Service. Several also expressed concern about under-utilisation of the FRS Team skills and experience if they were providing a re-active and un-focused service to clients

Several of the consultees considered that there was a cohort of businesses outside the core FRS targets of Account Managed and Growth Pipeline, which could benefit from assistance to improve their financial readiness. They did suggest that there were potential issues in identifying these non-core users – and that they might be served by a less-intensive form of FRS assistance.

#### 4.4. Performance Measurement

Given one of the Strategic Review objectives is to consider success measures for the FRS Service we considered it important to canvass opinion on success measurement amongst the consultees. Given their role in delivering the service we got most feedback on this topic from the Service Providers.

##### 4.4.1. Stakeholder Perspective

Stakeholders were aware that FRS monitored activity in the form of assists – but considered this to be an activity measure and not a measure of the effectiveness of the Service. The Suggested measure for effectiveness was the translation of assistance into finance raised, and this has been captured since the year 2015/16..

Impact of the Service was ultimately considered to be reflected in enhanced performance of the businesses using the finance secured.

Stakeholders did not expect that the Service should be distorted through setting of activity targets, and that FRS resources and activity should be effectively managed to deliver Service objectives.

##### 4.4.2. Service Provider Perspective

It was recognised that there were issues in attribution of economic benefits to FRS – in particular because significant resource was committed to signposting activity which only served to move the client business to the next stage. It was also the case that the process from deciding to seek finance to securing finance could be prolonged and subject to breaks or pauses. This could mean that eventual securing of finance, and generation of business benefits using that finance, was far removed from the FRS assistance.

It was noted from consultations that whatever measures were chosen to monitor FRS activity and outcomes they needed to maintain consistency with the overall SIB and SE performance measures.

Service providers also pointed to finance raised and economic benefits from the application of finance raised as potential measures of effectiveness and impact.

There was also a suggestion that there needed to be provision for recording of customer feedback.

### 4.4.3. User Perspective

Internal SE and SIB users of the FRS recognised that there were real difficulties in measuring the effectiveness of the Service. This stemmed from the focus of the Service on activity and the detachment of that activity from potential downstream benefits.

It was suggested that a measure of effectiveness could be an assessment of the scale and trends of referrals to the Service from the internal customer base (and Business Gateway).

Another observed that there was potential for frustration amongst the FRS Team as they engage in a lot of activity which does not get picked up in measures including informal input, and opinion on a business's financial situation.

It was suggested that there needed to be greater emphasis on collecting quantitative and qualitative data. It was further suggested that, as a minimum, a condition of service should be a requirement to engage in a follow up discussion 12 months after FRS support to assess progress in securing finance.

## 4.5. Evolution of FRS Service

We asked the consultees about what they considered the future priorities and focus of the FRS Service should be – and specifically about the potential for digital delivery of aspects of a FRS Service.

### 4.5.1. Stakeholder Perspective

Stakeholders generally saw evolution of the Service as requiring greater engagement with those businesses outside their perceptions of current FRS focus – specifically those other than Account Managed or Business Gateway Growth Pipeline.

Whilst acknowledging that extension would require additional resources and new methods of service delivery, all stakeholders were cautious about the use of digital platforms to achieve this.

It was suggested that digital platforms should be limited to general information provision and administration of the service. Key inputs, including signposting and advice were considered to be more client-specific and only to work effectively on a person-to-person basis.

### 4.5.2. Service Provider Perspective

Service providers considered that the FRS would need to continue to be delivered into the foreseeable future. One commented that if FRS were to be withdrawn by SIB then support for financial readiness might emerge as a SE Product offering similar grant-assisted support to Account Managed businesses.

It was observed that the need for an FRS-type service was probably increasing amongst the business base as banks continued to remove relationship managers from their operations. One consultee suggested that whilst the Private Sector was engaging in the incubation of new enterprises (for example through E Spark and Codebase) the interventions were primarily

focused on accommodation and early stage equity rather than preparation for subsequent funding rounds.

Digital delivery was considered to be a key component of any future delivery and expansion of the client base. However it was also stated that current core FRS services would need to continue to be delivered on a 1-to-1 basis. Digital delivery could play an important role in information provision and also act as a filter – allowing FRS expertise to be focused on cases which aligned with FRS, SIB and SE objectives. One consultee suggested that only a small proportion of the services currently provided by FRS could be switched to a Digital Platform.

It was also anticipated that a non-digital one-to-many delivery approach would need to be continued to assist businesses navigate the financial landscape and understand the underlying principles of financial readiness.

#### 4.5.3. User Perspective

Internal users and observers of the FRS Service considered that there would continue to be a need for the service. Suggestions that it might be replaced by the private sector were considered possible – but any service would be reduced in scope. Moreover, private sector providers would avoid situations of high risk and low potential reward, excluding pre-revenue and newer business, from their services. In addition, the need for a return (perhaps through a charge for advice or commission on finance raised) would impact on independence and objectivity of any signposting and advice. The Private Sector would also be unlikely to engage with distress cases.

Digital delivery was seen as an opportunity to speed up the Service delivery process and also as a way of freeing up valuable FRS advisor time to focus on priority cases. A digital platform would provide a means of extending the reach of the Service without adversely affecting core provision or impacting heavily on budgets. However digital delivery should be confined to the delivery of “entry level” information – for businesses at the start of the finance-investigation process. This could include general information and simple tools such as topic-based videos.

Our Business Gateway focus group considered a digital platform could provide a roadmap for businesses travelling towards securing finance. They further suggested that digital could perform the role of an educator, gateway or filter – but that the process should end in a conversation with a person where that was desired by the client.

SE Account Mangers did not consider that a digital platform would add any particular value to their interaction with FRS – given that they had established one-to-one relationships with their client businesses – and were effectively the gatekeepers for FRS services to their client base.

## 4.6. Key Points from Consultation Programme

### KEY POINTS

#### Rationale

- Stakeholders and service providers perceive a rationale for FRS in addressing information failures, capacity and financial constraints affecting businesses seeking to gain access to the finance they need to develop. Information failures were linked to evolution in the financial offer to include crowd funding, peer-to-peer and asset finance mechanisms in recent years.
- Stakeholders and service providers see a continuing need for the service with the finance market in Scotland continuing to display a shortfall in quality demand and in supply.
- While stakeholders considered that accountants and corporate finance specialists possessed some of the capabilities to provide similar services, they had no incentive to do so for smaller and pre-revenue businesses.
- FRS was found to be well respected by users and perceived to possess a range of skills which complemented those available from the users.
- AMs and BG use FRS in distinctly different ways. Within SE, in addition to the standard financial readiness model, FRS is used as a general finance knowledge resource and is used to bolster support teams in situations where SE is required to respond to financial distress in an economically significant business. BG uses FRS in line with the standard model: advising and providing access to grant in support of BG clients' financial readiness.

#### Service Delivery

- There is significant diversity of opinion among stakeholders on the appropriate targeting, scaling and resourcing of FRS. Nevertheless, stakeholders were generally of the view that there is an excessive focus on SE Account Managed Businesses and perceive that promotion to potential clients in Business Gateway and the wider company base is not adequate.
- Inflation of FRS targets without commensurate growth in resource is producing dysfunctional target-driven behaviour among service providers, notably an emphasis on exiting enquiries that are not expected to qualify as an "assist" rather than fully addressing the needs of these businesses.
- Service providers noted a marked change in their mode of working with less intensive involvement.
- Service providers see an opportunity for FRS to better align its objectives, delivery and success measures with those of SE, focusing on high growth innovation and export focussed businesses, including Business Gateway growth pipeline businesses; servicing businesses outside this target group required a differentiation of the service.
- Service providers perceived the growing use of the FRS team as a resource to service businesses in financial distress as placing additional stress on the service, due to the time commitment arising from these cases over a short time period and alongside other work.
- User groups were positive about the service provided by FRS in terms of responsiveness and knowledge.
- Account Managers and BG executives tend to form strong working relationships with locally-based FRS Team members; conversely, geographic separation from FRS experts with experience in a particular sector or finance solution could impede access to this resource.
- There has been a reduction in the number of businesses on BG growth pipeline and hence eligible for FRS grant; BG executives acknowledge the existence of businesses outside growth pipeline that could benefit from education and support for financial readiness; a range of initiatives is run by BG operators to address this but availability varies by area.
- Some AMs perceived FRS having become focused on servicing BG to achieve targets; analysis of the Activity Log shows a reduction in access by BG clients.



### **Performance Measurement**

- All groups of consultees recognised the limitations of the available performance indicators for FRS – activity measures do not capture the effectiveness; finance raised is subject to many other factors than FRS support; effects on business performance from finance raised can be remote from FRS support and unlikely to be attributable.
- Some stakeholders expressed concern about delivery of the service objectives being distorted by targets.

### **Service Evolution**

- All groups of consultees saw a continuing need for public sector activity in this arena, if not via FRS then by other means. Some perceived an increasing need as banks continued to remove relationship managers from their operations.
- Service providers saw potential for digital delivery to filter low-level enquiries and to reduce pressure on FRS. Stakeholders and users were more cautious perceiving digital to have potential for provision of general information only; it could not substitute for 1-2-1 dialogue needed to respond to the specific needs of businesses.
- Digital delivery was seen to have most potential in relation to businesses that cannot access FRS; it was not perceived to have relevance to SE Account Managed Businesses.

## 5. FRS CLIENT CONSULTATIONS AND SURVEYS

### 5.1. Introduction

In this section we present the results of each of the consultation and survey exercises we undertook within the population of FRS Service users over the Review period. We have presented these as three individual Reports of Survey covering:

- Face to Face and telephone consultations with the Grant Assisted FRS clients
- Telephone Consultations with intensive assists (4 Hours or more) made by the Service
- A web survey of a wider constituency of users over the Review period.

The populations available to us for these exercises were restricted from the overall count of users analysed in Section 2 by a combination of:

- Exclusions by SE Survey Control and Company Growth where businesses had been recently surveyed by SE on another topic, or was in ongoing discussion with SE.
- Not having any e-mail addresses to allow contact to arrange consultation or deliver the web-survey.

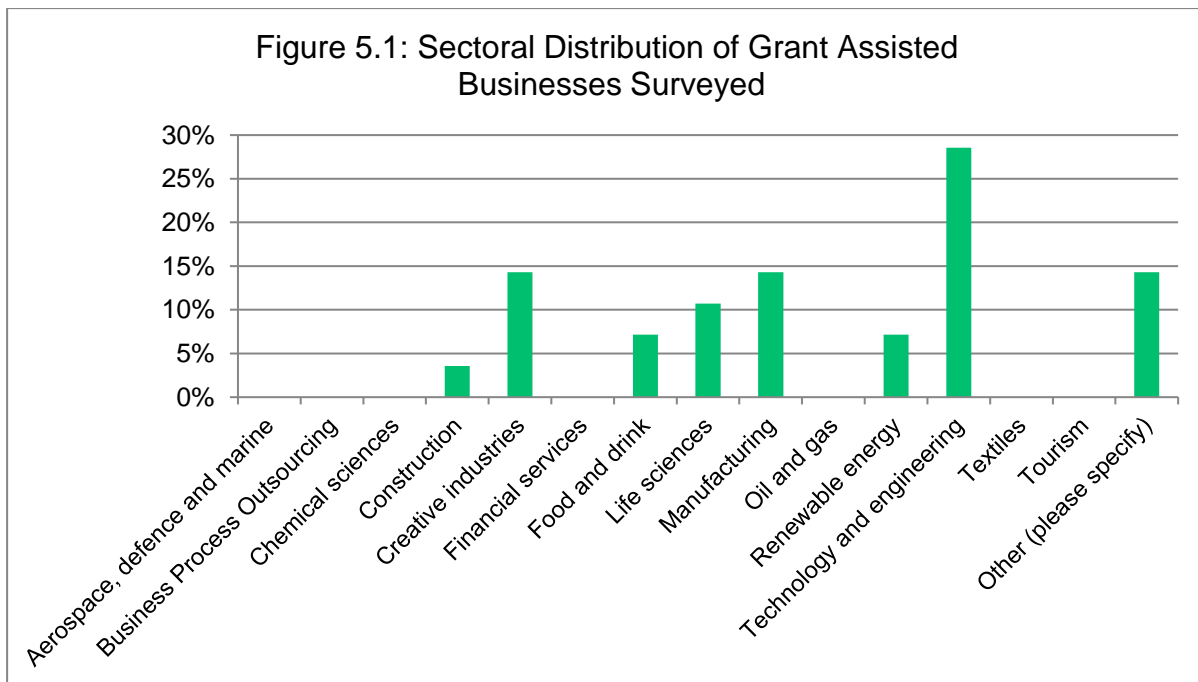
### 5.2. Report of Findings – Grant Assisted FRS Client Consultations

#### 5.2.1. Respondent Profile

Interviews were completed with 28 businesses (24 CEOs; 4 Other Directors / Owners) which were targeted having been identified as grant assisted through the FRS Activity Log. It transpires that some businesses identified as having received advisory input only had also received grant assistance towards professional costs associated with raising finance. This could be a more recent FRS grant or a different grant applied to these purposes.

These interviews were offered and in most cases conducted face-to-face. The interview was conducted by telephone in a few instances where this was more convenient for the respondent or the respondent had failed to keep an appointment.

The intention had been to sample on a stratified basis with quota control taking account of sector, scale of finance sought and location. This sampling strategy was compromised by a low response rate unusual among recipients of intensive business support. Nevertheless, the sectoral distribution of the interviews secured, as shown in **Figure 5.1**, may be seen to broadly follow that in the population as a whole.



The grant-assisted businesses surveyed were mainly micro and small business both at the time of their engagement with FRS and the time of the survey. Four businesses experienced employment increases in excess of 10 FTEs in the interim; one outlier added in excess of 250 FTEs.

Some thirteen businesses were pre-revenue at the start of their engagement with FRS; of these six expected to be pre-revenue at the end of their 2016-17 Financial Year.

Consistent with the eligibility criteria for support, most businesses surveyed were highly oriented towards or aspired to develop rest of UK and international markets. However, seven of the 22 reporting a spatial distribution of turnover, currently derived 50% or more of their turnover from the Scottish market.

### 5.2.2. Engagement Intensity with FRS Service

Interviewees were asked about the different forms of assistance that they had received from FRS; the responses obtained are shown in **Table 5.1**.

Respondents reported varying depth of engagement with FRS advisers. In two cases a Business Gateway or Scottish Enterprise Account Manager had completed the grant application and the recipient was unaware of any advisory input from FRS.

Two Grant Assisted Businesses reported only having short telephone contact with FRS advisers. Most had a combination of telephone contact and one meeting or multiple meetings with the FRS adviser.

Two respondents had not been employed by the company at the time of the engagement with FRS and were unable to comment on the soft assistance received; they were able to confirm receipt of grant support towards the costs of engaging a third party adviser, however.

The substance of the contact between businesses and FRS varied quite widely. In around half of the cases the nature of the input was more grant administration – assessment of eligibility; assessment of professional input required; signposting to consultants; agreement to support with grant - than advice. Nevertheless, review of the FRS activity log suggests this activity was being logged by FRS as the advisory product as well as the grant product.

In those cases where there was more extensive engagement with FRS, rather more advisory input was reported, including: advice on financing options; critical review of business plans; advice on positioning of key issues within plans; advice on pitch to financiers.

**TABLE 5.1: GRANT ASSISTED BUSINESSES: REPORTED ASSISTANCE FROM FRS**

<b>Response (Multiple Response Possible; 28 respondents)</b>	<b>Frequency</b>	<b>Frequency (%)</b>
No contact with FRS	2	7.1
One Telephone Discussion with an FRS advisor	1	3.6
Two or more Telephone Discussions with an FRS advisor	7	25.0
One Face to Face meeting with an FRS advisor	6	21.4
Two or more Face to Face meetings with an FRS advisor	15	53.6
Attendance at a One-to-Many FRS event with others	0	0.0
Receipt of a Grant from FRS to employ a third party advisor to improve your Financial Readiness	26	92.9
Unaware of receiving any other assistance from FRS other than a grant for a third party advisor	2	7.1
Unaware that the grant received was from the FRS	0	0.0
Other	2	7.1

Source: Survey of Grant Assisted Businesses

**5.2.3. Assessment of Grant-Assisted Advisors**

Respondents were asked to assess the relative value of the grant-assisted professional input compared to the other services, including advisory, that they obtained from FRS.

**TABLE 5.2: GRANT ASSISTED BUSINESSES: ASSESSMENT OF RELATIVE VALUE OF GRANT ASSISTED ADVISOR AND OTHER FRS SERVICES IN CONTRIBUTING TO FINANCIAL READINESS**

<b>Response</b>	<b>Frequency</b>	<b>Frequency (%)</b>
The grant-assisted advisor was much more important	10	41.7
The grant-assisted advisor was more important	6	25.0
The grant-assisted advisor and FRS services were equally important	5	20.8
The grant-assisted advisor was less important	1	4.2
The grant-assisted advisor was much less important	2	8.3
	24	100.0

Source: Survey of Grant Assisted Businesses

For those that saw the grant assisted advisor as much more or more important than other FRS services most were aware in advance of the availability of grant to support work they knew to be necessary to progressing their project. Engagement with FRS was a necessary step to accessing the grant. Some of these saw the FRS input as essentially administrative; others perceived more value in the process, e.g. “in holding a mirror up to the business” or noted that the FRS input was good but of much shorter duration.

Among those who said they valued the third party and FRS inputs equally little clear reasoning was offered. One noted that the inputs were qualitatively different and difficult to compare.

Interesting responses were obtained from businesses who rated the FRS input as more or much more important:

- One highlighted a poor experience with an external advisor perceived as being “more interested in becoming an investor and promoting early disposal of business”.
- Another saw the involvement of the FRS advisor as “bringing the dialogue with SE/BG under control when no-one else had taken ownership in the previous 6 months; helped identify players in market who might be interested (although funds are actually coming from high net worth individuals recruited through our own networking)”.
- Two considered that the third party advisor input would have been the same whether grant assisted or not and, accordingly, viewed the FRS advisory input as the added value.

While generally positive, two respondents highlighted what they perceived to be limitations in the FRS offering:

- “FRS could add more value – we were referred to the grant and left to select an advisor. FRS was not involved in the process of briefing the third party advisor”.
- “FRS contributed useful soft input on the presentation and this was the added value. They don't have connections into growth capital funding. Initial seed funding is not hard, but the next stage is a real problem. It is about relationships. There are about 10-15 people taking decisions on growth capital investments. If you are not connected to them it doesn't matter how good your proposition is. Unless you have a reference from their network you are wasting your time”.

#### 5.2.4. Applications for Finance

At the time of their initial engagement with FRS, some 85% clients seeking grant support were looking to apply for finance within three months.

In the event that they hadn't received an FRS grant, all responding reported that they would have continued with the process of raising finance, 85% within the same timescale.

The findings detailed in **Table 5.3** point to substantial quality additionality in the form of involvement of third-party professional input and some timing additionality (i.e. faster) accruing to grant assistance. It was apparent that some recipients did not need grant support in order to proceed; in a small number of cases, e.g. a relatively large award to a well-established subsidiary of a substantial Glasgow-based holding company, it was surprising that the eligibility criteria were deemed to have been met. The grant was clearly

most useful to new starts and smaller businesses contemplating a significant growth project and for whom the preparatory costs represented a significant outlay. Although in most of these cases resources would have been prioritised to support the financial readiness exercise this would have been at the expense of other aspects of business development:

- “in the early stages when a business is cash-strapped any grant is valuable and takes off some pressure”.
- nothing we did in terms of financial readiness would have changed, but the grant bought us a little extra time”

<b>Response</b>	<b>Frequency</b>	<b>Frequency (%)</b>
Not continued the process of raising finance for the business	0	0.0
Continued the process without engaging the third party financial readiness advisor	8	30.8
Continued the process in the same time frame and paid in full for the third party financial readiness advisor	8	30.8
Continued the process in the same time frame, but with less third party advisory input paid for in full	6	23.1
Continued the process at a later date when resources became available to pay for a third party financial readiness advisor	4	15.4
	26	100.0

Source: Survey of Grant Assisted Businesses

### 5.2.5. Finance-Raising Outcomes

Some 23 (82%) of the Grant Assisted Businesses surveyed had gone on to make one or more applications for finance after implementing the FRS support. Almost all had been at least partially successful with 22 of the 23 (96%) reporting that they had secured some form of finance at the time of the survey.

<b>Type</b>	<b>Applied For</b>			<b>Awarded</b>		
	<b>Total</b>	<b>Cases</b>	<b>Average</b>	<b>Total</b>	<b>Cases</b>	<b>Average</b>
Debt	10,500,000	11	954,545	9,835,000	10	983,500
Equity	9,155,000	16	572,188	3,205,000	13	246,538
Grant	855,000	10	85,500	692,000	7	98,857
Crowd	80,000	1	80,000	0	0	0
Other	1,540,000	3	513,333	240,000	2	120,000
<b>Total</b>	<b>22,130,000</b>	<b>41</b>		<b>13,972,000</b>	<b>32</b>	

Of 41 applications for finance made by these 23 companies, some 32 applications (78%) totalling £14m had been successful at the time of the survey. Across the main types of finance – debt, equity and grant – the success rates were between 70 and 90% with a small number of applications yet to be determined. However, the average equity award was less than half of the average sum applied for; larger applications for equity were notably less successful.

Of those that had not applied for finance:

- One was still in the pre-application stage for RSA.
- One had experienced a change in its operating environment which had stalled the project.
- One reported having received varying and conflicting advice (including from FRS) on when to proceed - from being too far of market and revenue to being too close to market and postponing until revenue-generating.
- Two had found ways to pursue their planned development without the need to raise finance.

Businesses were asked about the importance of financial readiness support to the success of their applications. Some caution is needed in interpreting the findings as they are not necessarily a straightforward attribution of additionality to FRS support (i.e. advice and grant inputs). From the supporting comments it is apparent that some assessments relate to the importance of the preparatory work carried out with FRS support in the success of the application (e.g. "Clydesdale Bank might have accepted our own projections, maybe not").

<b>TABLE 5.5: GRANT ASSISTED BUSINESSES: ASSESSMENT OF "FRS SUPPORT" IN THE OUTCOME OF APPLICATIONS</b>		
<b>Response</b>	<b>Frequency</b>	<b>Frequency (%)</b>
Essential - we would not have secured any finance if we had not had the support from FRS	2	9.5
Important - we might have been successful in securing some finance but not to the scale achieved	8	38.1
Contributory - it was of assistance but ultimately we would have secured all of the finance over a longer timescale	4	19.0
Not important - we could have secured all of the finance in the same timescale without the FRS support	3	14.3
Other	4	19.0
	21	100.0

Source: Survey of Grant Assisted Businesses

This caveat notwithstanding, 10 of 21 businesses which had raised finance make a strong positive association of the outcome of their applications and their engagement with FRS.

### 5.2.6. Third Party Advisor Assessment

Grant Assisted Businesses were asked about their experiences with third party advisors whose work was part-funded through an FRS grant. Most businesses engaged accountants or corporate finance advisors to prepare financial projections; others required assistance with legal or intellectual property issues as a prerequisite to their financial readiness.

Just over 40% used one or more existing suppliers to the business. A quarter used advisors that had been signposted by FRS while around 30% used advisors that were new to the business and had not been suggested by FRS as a potential supplier. A small number reported that they had been obliged to use advisors from an approved list, notwithstanding that FRS does not operate a framework or other approved list.

Businesses were asked whether they had continued to work with the third party advisor after completion of the work undertaken using the grant from FRS. Just over 60% confirmed that this was the case; another 12% considered that they may work with the advisers in the future.

Five out of the seven respondents who did not intend to work with the FRS-supported adviser attributed this to disappointing performance or poor value for money:

- “We did not obtain the desired outcome and were given incorrect advice from the advisor that was suggested by FRS”.
- “The advisor’s experience and understanding was inappropriate for a small businesses like ours”.
- “As regards the business plan, they only edited material we had already produced; retained on £2000 per month to look for investors they didn’t deliver”.
- “We were obliged to use approved providers; the legal provider was very good and put time into understanding the proposition, the accountants less so; the benefits were outweighed by high cost and inflexibility; we have gone back to a smaller practice that works closely with us”.
- “Rip-off merchants; it is ridiculous to charge £20k for accounts for a £470k turnover company”.

Businesses were also asked to rate different aspects of the service they have received from third party advisers relative to their experience with other business advisers. The findings are presented in **Table 5.6**.

<b>Aspect of Service / Rating</b>	<b>Much better</b>	<b>Better</b>	<b>About the same</b>	<b>Worse</b>	<b>Much Worse</b>
Understanding of our requirements at the outset of the process	19.2%	42.3%	23.1%	11.5%	3.8%
Responsiveness to our comments and suggestions	23.1%	38.5%	26.9%	7.7%	3.8%
Understanding of our financial position and aspirations for raising additional finance	29.2%	33.3%	33.3%	0.0%	4.2%
Knowledge of the finance sources and providers we were interested in approaching	20.8%	33.3%	29.2%	8.3%	8.3%
Provision of practical advice on how to present our financial proposition to potential providers	18.2%	40.9%	22.7%	9.1%	9.1%
Value for money	7.7%	23.1%	42.3%	11.5%	15.4%
Delivering agreed outputs on time and on budget	12.0%	24.0%	52.0%	8.0%	4.0%

Source: Survey of Grant Assisted Businesses

The responses suggest that for the most part the advisers selected were suitable to their role. More than 60 percent of respondents rated their advisers above average in relation to understanding of their requirements, aspirations, responsiveness and advice on presenting the proposals. A lower percentage rated their advisers as above average in relation to knowledge of finance sources, echoing comments obtained during the strategic consultations concerning technical competence not necessarily being matched by networking with the finance market. Compared with other attributes, third party advisers were scored less well in terms of value



for money, with 26% of respondents considering them expensive relative to other sources of business advice.

**5.2.7. FRS Service Assessment**

Finally we also asked the respondents to assess the relative performance of key aspects of the FRS Service relative to other support they had received. The responses we received are set out in **Table 5.7**. These responses demonstrate highest levels of endorsement for key aspects of the Service – in particular over 75% of respondents considered the knowledge of the third party advisors employed using the grant, and the FRS understanding of their requirements at the outset of the process to be better or much better than other services they had used. The knowledge of the FRS advisors and the speed of response to initial contact were also highly rated.

<b>Table 5.7: Grant Assisted businesses - Users' Relative Assessment of Key Aspects of the FRS (n=23)</b>					
	Much Better	Better	The Same	Worse	Much Worse
Accessibility and Depth of Information on the Service in advance of first contact	0.0%	18.2%	59.0%	22.7%	0.0%
Ease of making initial contact with the service	0.0%	45.5%	54.5%	0.0%	0.0%
Speed of response to initial contact	18.2%	40.9%	36.4%	4.6%	0.0%
FRS Understanding of Your requirements at the outset of the Process	14.3%	61.9%	9.5%	14.3%	0.0%
Knowledge and Experience of the FRS Advisor	28.6%	47.6%	9.5%	4.8%	4.8%
Communications with FRS through the period of engagement with the service	4.6%	22.7%	40.0%	54.6%	18.2%

<b>KEY POINTS</b>
<ul style="list-style-type: none"> <li>▪ With a small number of exceptions, the recipients of FRS grant surveyed were micro and small businesses, including numerous developing technology assets where revenue is only foreseen in the medium term.</li> <li>▪ Businesses are seeking grant support for financial readiness close to the point of applying for finance. Their need for advice at that point, if any, tends to be around feedback on their business plan, targeting and pitching their proposals.</li> <li>▪ FRS grant recipients are often being double-counted as benefiting from both the FRS grant and the FRS advisory products, including in instances where the input of the FRS specialist is reported to be primarily administrative.</li> <li>▪ Two-thirds of those surveyed viewed the contribution of the third-party advisor as more important or much more important than the other FRS services. Most of this group viewed the primary purpose of the engagement with FRS as being to access the grant rather than advice, although conversations with the FRS advisor were generally viewed as useful.</li> <li>▪ For around half of those surveyed the advisory input was substantive and valued; a small number of respondents viewed it as the core value-added in the exercise.</li> </ul>

- Some 85% of those surveyed would have proceeded with fund-raising in the same timescale in the absence of the FRS grant. However, some quality or timing additionality accruing to the grant was identified by 70%.
- Some 85% of grant respondents had gone on to apply for finance following the FRS support. Almost all had been successful in raising some finance at the time of the survey.
- FRS support was strongly associated with success in raising finance by around half of the businesses that had done so. However, in some instances this appears to be reference to the grant-funded work by the third party advisor rather than the grant or advice provided by FRS per se.
- Most grant-assisted businesses report positive experiences in working with their third-party advisers, particularly in relation to understanding and responsiveness to their needs. However, a quarter noted concerns variously with the quality of work and advice, suitability to small business needs and value for money, including in some cases where the adviser had been signposted by FRS.

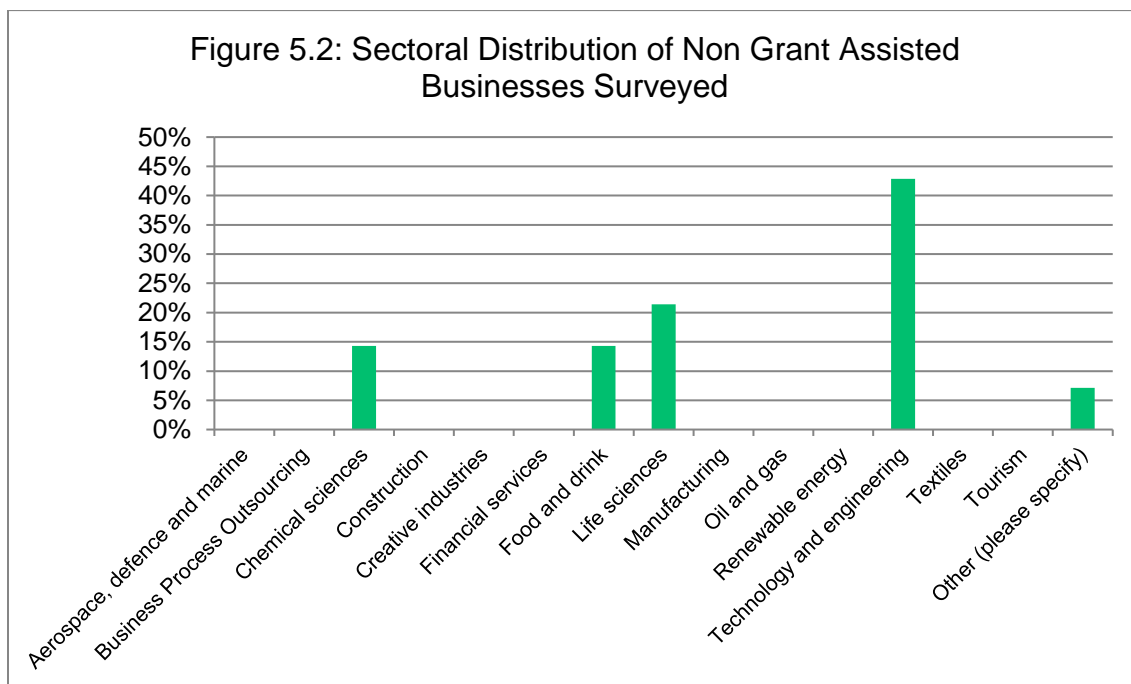
### 5.3. Report of Findings - Non-Grant Assisted Intensive Assistance Clients

#### 5.3.1. Respondent Profile

Interviews were completed with 14 businesses (13 CEOs; 1 Non-executive Directors) which were targeted having been identified as recipients of the advisory product through the FRS Activity Log.

These interviews were targeted on 120 cases selected as being likely to respond by SIB and had indicated their willingness to participate following warm-up e-mails from SIB and MWC and following telephone contact by MWC to arrange a suitable appointment. The interviews were carried out by telephone.

As may be seen in **Figure 5.2**, the small number of responding businesses do not cover all sectors supported. Rather, they come from some of most heavily supported sectors. Notably, there are no cases from the manufacturing sector which is one of the most heavily supported in the population.



The non grant-assisted businesses surveyed were all micro and small business both at the time of their engagement with FRS and the time of the survey. Eleven of the fourteen businesses experienced employment increases in the interim; only one added more than 10 FTEs.

Nine of the fourteen businesses were pre-revenue at the start of their engagement with FRS; of these six expected to be pre-revenue at the end of their 2016-17 Financial Year.

### 5.3.2. Engagement Intensity with FRS Service

Interviewees were asked about the different forms of assistance that they had received from FRS; the responses obtained are shown in **Table 5.8**.

<b>Response (Multiple Response Possible; 13 respondents)</b>	<b>Frequency</b>	<b>Frequency (%)</b>
One Telephone Discussion with an FRS advisor	0	0.0
Two or more Telephone Discussions with an FRS advisor	3	21.4
One Face to Face meeting with an FRS advisor	9	64.3
Two or more Face to Face meetings with an FRS advisor	4	28.6
Attendance at a One-to-Many FRS event with others	0	0.0
Receipt of a Grant from FRS to employ a third party advisor to improve your Financial Readiness	5	35.7
Unaware of receiving any other assistance from FRS other than a grant for a third party advisor	0	0.0
Unaware that the grant received was from the FRS	0	0.0
Other	0	0.0

Source: Survey of Non Grant Assisted Businesses

Where engagement with FRS was limited to telephone, a minimum of two contacts was recorded. The most common engagement was a single meeting with an FRS advisor. Just under 30% of respondents reported two or more meetings.

In terms of advice, the scope of engagement with FRS variously comprised:

- prerequisites of financial readiness, including management capacity and market appraisal.
- potential sources of finance and deals on offer, including from SIB.
- review of business plan and projections.
- advice on pitching to financiers.
- informal introduction to third party advisors.

In the course of the interviews it emerged that five of these businesses believed they had also received grant assistance towards the cost of professional work on their financial readiness from FRS. This may have included awards in 2017-18. However, the focus of the interview remained on the advisory support

Two noted that they were engaged with SIB at the same time on possible investment; it could be difficult to differentiate the assistance from FRS and SIB.

### 5.3.3. Assessment of FRS Service Provision

Respondents were asked to assess the relative value of the services they obtained from FRS.

Five of the fourteen reported particular value from the advisory input, despite its limited duration (2-6.5 hours logged), highlighting contribution from:

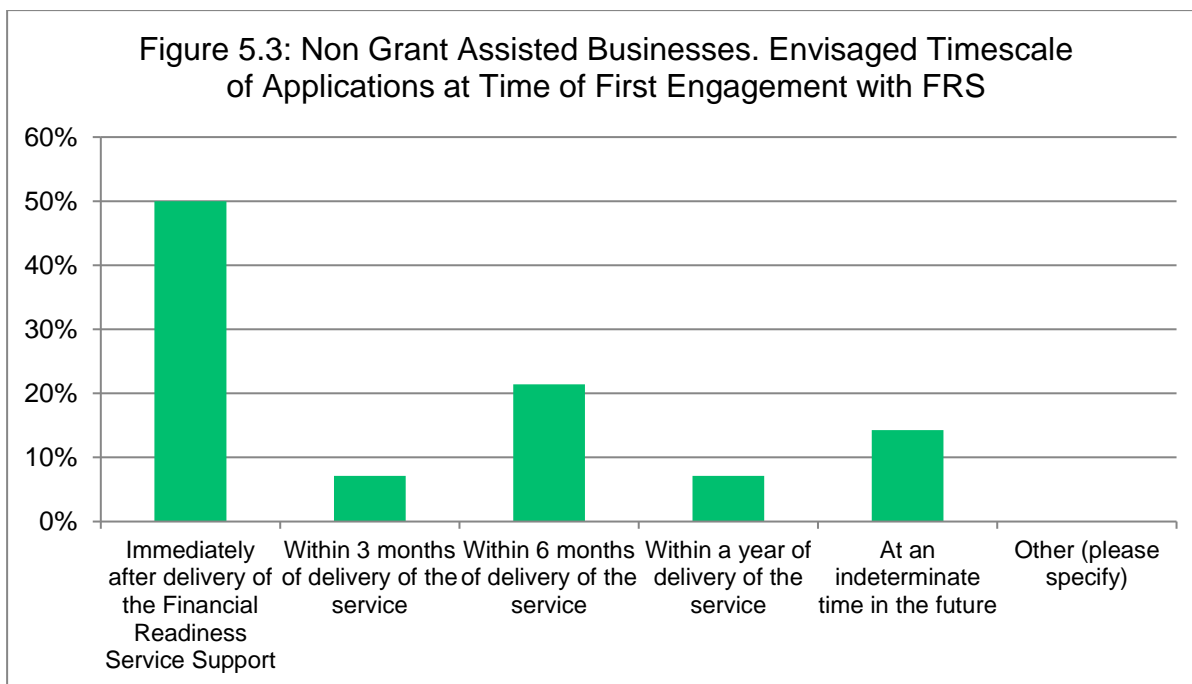
- "sensible and well informed discussion on how banks would look at a proposal; responsive to our requests and requirements"
- "the knowledgeable FRS advisor; their ability to assess the situation and plot a route to financing; the bespoke response, not a standard process - more bespoke".
- "knowledge of potential investors in the business"
- "identification of ways to improve our business plan"
- "fine tuning of our plan to what investors would be looking for"

Three of the fourteen considered the provision of a grant as being the most valuable service from FRS; one of these highlighted previous experience in raising finance and, consequently, no need for advice.

Three of the fourteen were less positive, highlighting the short time of engagement and the basic information exchanged with the FRS advisor.

### 5.3.4. Applications for Finance

At the time of their initial engagement with FRS, some 57% clients seeking grant support were looking to apply for finance within three months.



The responses were more distributed than for the grant-assisted businesses, almost all of which were close to the point of applying for finance.

In the event that they hadn't had access to FRS services, 6 (43%) would have made applications for finance in the same timescale. A further four, (29%) reported that there would have been no change to their financing strategy or decisions.

**TABLE 5.9: NON GRANT ASSISTED BUSINESSES: ALTERNATIVES IN THE ABSENCE OF FRS SERVICE**

Response	Frequency	Frequency (%)
Proceeded to make an application for finance in the same time period	6	42.9
Delayed your application for up to 6 months	4	28.6
Delayed your application for up to 1 year	0	0.0
Postponed your application indefinitely	0	0.0
Decided not to raise any finance in the foreseeable future	0	0.0
Ceased to operate	0	0.0
Other	4	28.6
	14	100.0

Source: Survey of Non Grant Assisted Businesses

FRS involvement among this group was said to have produced some timing additionality in four cases (29%). A further respondent highlighted some qualitative benefit in the form of opportunity to meet with signposted financiers and the learning that goes with it.

### 5.3.5. Finance-Raising Outcomes

Some 10 (71%) of the Non Grant Assisted Businesses surveyed had gone on to apply for finance after implementing the FRS support. Nine (90% of those applying) had been successful at the time of the survey and one reported that it had been unsuccessful.

Type	Applied For			Awarded		
	Total	Cases	Average	Total	Cases	Average
Debt	825,000	3	275,000	825,000	3	275,000
Equity	6,625,000	6	1,104,167	6,325,000	5	1,265,000
Grant	3,426,000	5	685,320	3,426,000	5	685,320
Crowd	0	0	0	0	0	0
Other	800,000	1	800,000	800,000	1	800,000
<b>Total</b>	<b>11,586,090</b>	<b>15</b>		<b>11,676,000</b>	<b>14</b>	

Between them, the 10 companies reported making 15 applications for finance. Some 14 applications (93%) totalling £11.7m had been successful at the time of the survey. In addition, one business reported that the equity it had raised was the first tranche from a corporate investor and that further resources were expected on a drip feed basis. The only unsuccessful application was for £300,000 in equity.

Of those that had not applied for finance:

- One had concluded it did not need to raise finance.
- Two were still working towards an application for finance, one of which was about to start.
- One, on the basis of FRS input alongside numerous other consultations, had decided to hold-off from finance-raising until it had more commercial traction.

Again, businesses were asked about the importance of financial readiness support to the success of their applications.

Response	Frequency	Frequency (%)
Essential - we would not have secured any finance if we had not had the support from FRS	0	0.0
Important - we might have been successful in securing some finance but not to the scale achieved	1	11.1
Contributory - it was of assistance but ultimately we would have secured all of the finance over a longer timescale	3	33.3
Not important - we could have secured all of the finance in the same timescale without the FRS support	4	44.4
Other	1	11.1
	9	100.0

Source: Survey of Non Grant Assisted Businesses

The non-grant assisted businesses recorded less in the way of positive association between FRS support and the success of their applications for finance. This is despite the fact that several of this group turned out to have received grant support. The “other” respondent reported that “FRS provided no relevant assistance to our grant application”.(referring to an application for grant funding for their business and not their FRS Grant)

Finally we also asked the respondents to assess the relative performance of key aspects of the FRS Service relative to other support they had received. The responses we received are set out in **Table 5.12**. Strongest endorsement was for 2 key aspects of the Service – Knowledge and experience of the FRS advisors and FRS understanding of the client’s requirements at the outset of the process. In both cases half or more of respondents rated this as better or much better than their experiences of other assistance.

**Table 5.12: Non Grant Assisted Businesses - Users’ Relative Assessment of Key Aspects of the FRS (n=14)**

	Much Better	Better	The Same	Worse	Much Worse
Accessibility and Depth of Information on the Service in advance of first contact	0.0%	7.7%	69.2%	23.1%	0.0%
Ease of making initial contact with the service	0.0%	28.6%	71.4%	0.0%	0.0%
Speed of response to initial contact	16.7%	8.3%	66.7%	8.3%	0.0%
FRS Understanding of Your requirements at the outset of the Process	14.3%	42.9%	35.7%	7.1%	0.0%
Knowledge and Experience of the FRS Advisor	7.1%	42.9%	50.0%	0.0%	0.0%
Communications with FRS through the period of engagement with the service	10.0%	30.0%	40.0%	20.0%	0.0%

- KEY POINTS**
- The Non Grant Assisted Businesses surveyed were all micro and small businesses; the responding businesses were skewed towards life sciences and technology. This sectoral composition was associated with a substantial number of businesses at a pre-revenue stage.
  - Some 55% of Non Grant Assisted Businesses were planning to apply for finance within 3 months; markedly fewer than the sample of Grant Assisted Businesses. The longer tail included businesses that were at the “toe in the water” stage.
  - Opinions on the value of the FRS advisory input were mixed. Five of the fourteen reported benefit from it, despite its limited duration; three of the fourteen were less positive, highlighting the short time of engagement and the basic information exchanged with the FRS advisor.
  - Five of the businesses reported having received an FRS grant, notwithstanding that this sample was supposed to be non-grant assisted. Three of these considered the grant to be the most valuable service from FRS.
  - Only limited additionality in applications was attributed to FRS. Some temporal additionality was reported in 29% of cases; some qualitative benefits were highlighted in 7%.
  - Ten of the fourteen Non Grant Assisted Businesses surveyed had gone on to apply for finance after implementing the FRS support. Nine had been successful in securing all the finance targeted.
  - Only one (7%) of the Non Grant Assisted Businesses surveyed reported a strong positive association between FRS support and the success of their applications for finance.

## 5.4. Report of Findings – Web Survey

### 5.4.1. Conduct and Response

We adopted a census approach to our web-survey of FRS clients. The web-survey link was e-mailed to 664 businesses which were available for consultation and had contact e-mail addresses available from the FRS management data. A total of 34 invitations bounced and a further 19 of recipients opted out of surveys hosted by the web survey platform. We received a total of 102 responses to this invitation – a response rate of 16.7% allowing for bounces and opt-outs.

In addition 61 clients who did not take up an invitation to participate in the telephone survey were provided with a link to the web-survey as an alternative. This elicited a total of 6 responses – a response rate of 10% allowing for one bounced e-mail.

We have merged the responses for the purposes of analysis which is therefore based on 108 responses from 671 delivered invitations – a response rate of 16%. This is in line with response rates we have received to census-based surveys of lower intensity interventions - which typically range between 10 and 20% of total beneficiaries identified.

### 5.4.2. Identification with FRS Service

We first sought to test recognition of the support received as being provided through the SIB FRS Service.

<b>Table 5.13: Recognition of Nature and Source of Support</b>	<b>Percent</b>	<b>Number</b>
I have received advice and support on raising finance which I know has been provided by the Scottish Investment Bank Financial Readiness Support Service.	48.1%	52
I have received advice and support on raising finance from Scottish Investment Bank and/or Scottish Enterprise but was not aware that it had been provided through the Financial Readiness Support Service.	20.4%	22
I have not received, or cannot recall receiving, any advice and support on raising finance from the Scottish Investment Bank or Scottish Enterprise.	31.5%	34
All Responses	100%	108

It is notable that almost one-third of the respondents considered they had not received or could not recall receiving advice or support in raising finance. This is despite the fact that they have been recorded by FRS as a client of the service. There could be a number of reasons for this including:

- The client business has been assisted indirectly through a third party who sought advice from FRS – this could include an SE or Business Gateway executive.
- The contact has been light-touch and has not made a lasting or memorable impression on the identified recipient.
- The contact e-mail address was for an individual other than the individual who actually received the assistance.
- The contact e-mail address was for an individual who has now left the client business and the invitation was re-directed to an individual who did not receive the advice or support.



As a consequence of these qualifying responses the maximum number of potential respondents for the remainder of the survey is reduced to 74 – as 34 had no recollection of FRS support - and therefore no basis upon which to provide feedback on the Service. Not all of these 74 respondents provided responses to each of the questions in the survey – and in the following analysis the number of respondents to each question is recorded.

**5.4.3. Respondents by Sector**

We asked the respondents to self-identify the sectors within which their business operated. Their responses are summarised in ascending order of frequency in **Table 5.14**.

Of note is the predominance of respondents in the Life-sciences and Technology sectors – which together accounted for 40% of our responses.

<b>Table 5.14 Web-Survey Respondents by Sector (n=62)</b>		
Sector	Percent	Number
Aerospace, defence and marine	0.00%	0
Business Process Outsourcing	0.00%	0
Construction	0.00%	0
Tourism	0.00%	0
Textiles	1.61%	1
Chemical sciences	3.23%	2
Financial services	3.23%	2
Renewable energy	4.84%	3
Creative industries	8.06%	5
Food and drink	9.68%	6
Manufacturing	9.68%	6
Oil and gas	9.68%	6
Other (please specify)	9.68%	6
Life sciences	16.13%	10
Technology and engineering	24.19%	15
All Responses	100.00%	62

The “Other” responses provided were:

Professional Services	Leadership & Management development
Camera manufacturer	Bioeconomy
Media	Travel Tech

#### 5.4.4. Respondents by Size Band

We asked the respondents about the number of full time employees in their businesses at the time they engaged with FRS and at the time of our survey. The responses, detailed in Table 5.13, demonstrate that all of the businesses (setting aside one outlier) using the service had less than 50 employees and a significant proportion of employment was within businesses with less than 10 employees.

Full Time Employees				
Band	When Approached FRS		At Time of Survey	
	No.	%	No.	%
1-10	80	22.4%	86	19.5%
11-20	16	4.5%	46	10.4%
21-50	136	38.1%	135	30.5%
51-100	0	0.0%	0	0.0%
101-150	125	35.0%	0	0.0%
151-200	0	0.0%	175	39.6%
201-250	0	0.0%	0	0.0%
>250	0	0.0%	0	0.0%
All	357	100.0%	442	100.0%

#### 5.4.5. Awareness of FRS Service

Respondents were asked if they could recall how they first became aware of the availability of the services provided through FRS. We received the responses in **Table 5.16** which have been ordered by frequency of response.

Answer Choices	%	No.
Referred to the service by a Business Gateway Advisor.	44.1%	26
Referred to the service by a Scottish Enterprise Account Manager.	33.9%	20
Referred to the service by another SE or SIB staff member.	6.8%	4
Referred to the service by an advisor to the business (Accountant, lawyer etc.).	5.1%	3
Referred to the service by another business or individual who had previously used it.	3.4%	2
Through navigation from a search engine enquiry.	1.7%	1
Referred to the service by an existing provider of finance to the business.	0.0%	0
Through browsing the Scottish Enterprise website.	0.0%	0
Through browsing the Business Gateway website.	0.0%	0
Through clicking a link on another website.	0.0%	0
I do not recall how I first became aware of the FRS Service.	1.7%	1
None of the above.	3.4%	2
Totals	100.0 %	59

It is notable that:

- The most often cited referral source is Business Gateway advisors.
- No respondent accessed the service directly from a website.
- Only one respondent found the service through a search engine query.

#### 5.4.6. Awareness of FRS Service

We next asked the respondents to identify the reason why they first approached the FRS Service. The responses are recorded in **Table 5.17**.

Response	%	No.
You were contemplating raising finance and you needed information.	45.8%	27
You had recently tried to raise finance and had been unsuccessful.	6.8%	4
You were contemplating raising finance and considered you needed to improve your chances of success.	23.7%	14
You had been advised by a third party to consider using the service in advance of raising finance.	20.3%	12
Your business was in financial distress.	1.7%	1
None of the above.	1.7%	1
All Responses	100.0%	59

Just over two-thirds of respondents were contemplating raising finance when they approached FRS – and had done so to access more information or improve their chances of success. Most of the remainder had been referred to the service by a third party.

#### 5.4.7. Engagement with FRS Service

We then asked the respondents to provide us with an indication of their extent of engagement with the FRS Service. We provided a range of options for the respondents and the responses they logged for each are detailed in **Table 5.18**.

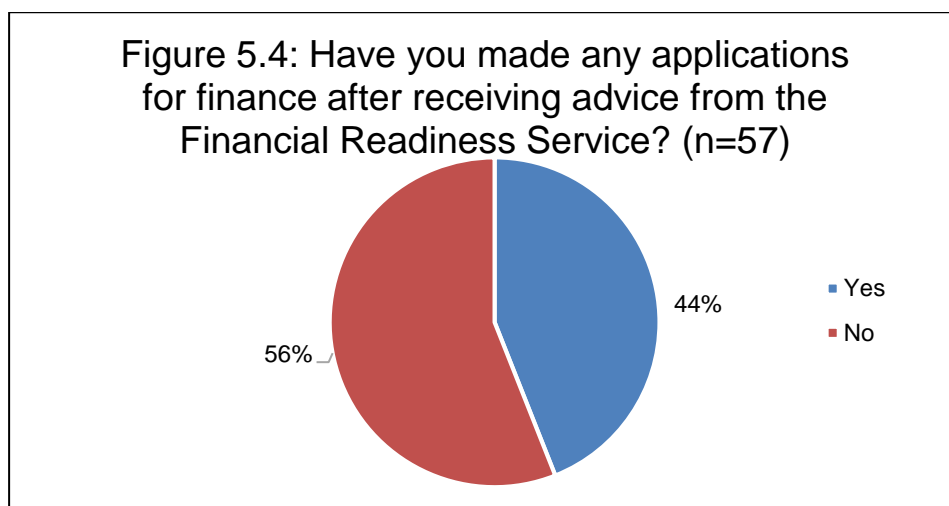
	%	No.
One Telephone Discussion with an FRS advisor	8.6%	5
Two or more Telephone Discussions with an FRS advisor	15.5%	9
One Face to Face meeting with an FRS advisor	34.5%	20
Two or more Face to Face meetings with an FRS advisor	39.7%	23
Attendance at a One-to-Many FRS event with others	10.3%	6
None of the above	15.5%	9
Totals*	100.0%	72

\* Totals reflect respondents selecting more than one option.

Of note is the fact that the most frequent response was also the option with the most intensive level of assistance (two or more face-to-face meetings) – and that less than 10% had just one telephone conversation with an FRS advisor. Together the responses we received tend to suggest a quite intensive interaction with the FRS Service.

### 5.4.8. Applications for Finance

We then asked those who had used the FRS Service if they had subsequently proceeded to apply for finance for their business. Their responses are illustrated in **Figure 5.4** which shows that just under 44% of those responding had proceeded to make applications for finance.



Before exploring the finance-raising activity of those who had applied for finance we asked those respondents who had not applied for finance to elaborate on their reasons for not doing so. Their responses are presented in **Table 5.19**.

Response	%	No.
Changes in the business' market or operating environment.	13.3%	4
Change in the operating model of the business (no longer need the finance).	20.0%	6
Specific advice from the Financial Readiness Support Service not to proceed with applications for finance.	0.0%	0
Specific advice from the Financial Readiness Support Service to postpone applications for finance.	3.3%	1
Not yet at the point where I had envisaged an application when accessing the FRS Service	30.0%	9
Other	40.0%	12
Totals		32

\* Totals reflect respondents selecting more than one option.

For almost one third of the respondents the reason for not yet applying for finance was because the business was not, at the time of the survey, at the point where it had anticipated doing so in advance of using the Service. It is also notable that the FRS had not advised any of our respondents not to proceed to make an application for finance and advised only one to postpone an application.

Amongst the "other" responses we received, several advised that the business had been partially or wholly acquired providing access to internal development resources, several were on the cusp of launching funding applications following preparation of business planning and

regulatory compliance work, and several others were in initial discussions with potential funders.

Together this suggests that a significant proportion of those identifying as not yet applying for finance after receipt of FRS Service advice are likely to move towards doing so in the near future.

**5.4.9. Role of FRS in Progressing Finance Applications**

We asked those 25 respondents who had progressed to apply for finance about the role of their FRS Service experience in progressing their efforts to secure finance for their businesses. We received 21 responses which are set out in **Table 5.20**.

<b>Table 5.20: Role of FRS Support in Progressing Application for Finance (n=21)</b>		
Answer Choices	%	No.
Essential - we would not have progressed at all if we had not had the support from FRS	52.4%	11
Important - we might have made some progress but not to the extent we have	28.6%	6
Contributory - it was of assistance but ultimately we would have got to where we are now	4.8%	1
Not important - we could have got to where we are now and at the same time without FRS	14.3%	3
Totals	100.0%	21

These results present a strong endorsement of the FRS Service – with a majority of respondents considering the support received essential to making any progress on their application and over 80% considering the support to have been “Essential” or “Important” to making progress towards their application for finance.

We further investigated the finance-raising activity of those businesses which had considered the FRS support to have been essential or important to progressing their applications for finance. We cross-tabulated data on finance raising activity from those respondents who had classed the FRS service as essential or important to progressing applications. A total of 18 respondents provided information on their finance raising activity and of these 14 ascribed values to that activity.

This quantitative data, on cases where FRS was considered essential or important in progressing finance-raising activity, is presented in **Table 5.21** (overleaf).

This identifies a total of £2.26m of finance raised where FRS input was considered essential to the progressing of applications, and a further £900k where the input was considered important to progressing applications.

**Table 5.21: Fund Raising Activity - Respondents Providing Finance Values & Identifying FRS as Essential or Important to Progressing Their Financing**

<b>FRS Support Identified as <i>Essential</i> in Progressing Application (n= 9 )</b>					
	Debt	Equity	Grant	Crowd	All Sources
Application Approved at or Above Level of Application (Funds Available)	£ 35,000	£ 1,553,000	£ 477,000	-	£ 2,065,000
Application Approved at Lower Level than Application (Funds Available)	-	-	£ 194,000	-	£ 194,000
<b>Total Funds Raised</b>	<b>£ 35,000</b>	<b>£ 1,553,000</b>	<b>£ 671,000</b>	<b>£ -</b>	<b>£ 2,259,000</b>
Application in Preparation	-	£ 200,000	£ 100,000	-	£ 300,000
<b>Total Funds Pending</b>	<b>£ -</b>	<b>£ 200,000</b>	<b>£ 100,000</b>		<b>£ 300,000</b>
Application Rejected	-	£ 630,000			£ 630,000
<b>FRS Support Identified as <i>Important</i> in Progressing Application (n= 5)</b>					
	Debt	Equity	Grant	Crowd	All Sources
Application Approved at or Above Level of Application (Funds Available)	£ 467,500		£ 256,000	£ 150,000	£ 873,500
Application Approved at Lower Level than Application (Funds Available)	-	-	£ 14,500	£ 17,000	£ 31,500
<b>Total Funds Raised</b>	<b>£ 467,500</b>	<b>£ -</b>	<b>£ 270,500</b>	<b>£ 167,000</b>	<b>£ 905,000</b>
Application in Preparation		£ 12,000,000			
<b>Total Funds Pending</b>	<b>£ -</b>	<b>£ 12,000,000</b>	<b>£ -</b>		<b>£ 12,000,000</b>
Application Rejected	-	-	-	-	-

#### 5.4.10. Assessment of FRS Service Provision

We asked the respondents to make a relative assessment of a number of aspects of the FRS Service compared to other sources of assistance and support to their businesses. The results are detailed in **Table 5.22**.

This is a strong endorsement of key aspects of the content and delivery of the FRS Service. Of particular note is the 58.8% of respondents who rated the knowledge and experience of their FRS advisor as Very Good – the highest use of this rating across all of the aspects. This is of particular importance given that the advisors are central to the content and delivery of the Service. No more than 6% of the respondents rated any aspect of the service as less than OK when compared to other services they had used.

#### 5.4.11. Suggested Improvements

Finally, we asked the respondents if they had any suggestions for improving the delivery of the FRS Service. We received comments from 19 respondents which could be summarised around a number of themes, suggesting

- More general promotion and awareness-raising of the availability of the FRS Service – in particular to ensure businesses engage with the service at an early enough point in the finance raising process.
- More co-operation with business incubators across Scotland.
- More information and advice on crowdfunding.
- Use of web-based document-sharing services for documentation.

	Very Good	Good	OK - Neither Good nor Poor	Poor	Very Poor
Accessibility and Depth of Information on the Service in advance of first contact	34.6%	28.9%	30.8%	3.9%	1.9%
Ease of making initial contact with the service	40.4%	34.6%	19.2%	3.9%	1.9%
Speed of response to initial contact	43.1%	39.2%	13.7%	2.0%	2.0%
FRS Understanding of Your requirements at the outset of the Process	46.0%	32.0%	18.0%	2.0%	2.0%
Knowledge and Experience of the FRS Advisor	58.8%	25.5%	11.8%	2.0%	2.0%
Communications with FRS through the period of engagement with the service	42.3%	30.8%	21.2%	5.8%	0.0%



## KEY POINTS

- The web-survey businesses were in the main small and micro businesses; the responding businesses were skewed towards life sciences and technology.
- Two thirds of the web-survey respondents had approached FRS because they were contemplating raising finance and were either looking for information or to improve their chances of success.
- Amongst the web-survey respondents, the most often cited referral source was Business Gateway advisors. None of the respondents had accessed the service directly from a website and only one respondent found the service through a search engine query.
- 44% of respondents had proceeded to make an application for finance in the period after receiving advice from FRS.
- Over 80% of respondents making applications for finance considered FRS support to have been "Essential" or "Important" to progressing towards their application.
- A total of £2.26m of finance was raised where FRS input was considered essential to the progressing of applications, and a further £900k where the input was considered important to progressing applications.
- There was strong endorsement of the content and delivery of the FRS Service. 58.8% of respondents who rated the knowledge and experience of their FRS advisor as Very Good.
- Suggested improvements related to greater promotion to facilitate earlier engagement with FRS and greater co-operation with business incubator facilities.

### 5.5. Consolidation of Client Consultation and Survey Findings

We have combined the findings from our three research streams amongst each of the client groups to arrive at a series of key points in relation to:

- The Effectiveness and Additionality of FRS.
- The quality of service provided by the FRS .

#### 5.5.1. FRS Effectiveness and Additionality

Amongst Grant Assisted FRS clients:

- Some 85% of grant respondents had gone on to apply for finance following the FRS support. Almost all had been successful in raising some finance at the time of the survey.
- Some 85% of those surveyed would have proceeded with fund-raising in the same timescale in the absence of the FRS grant. However, some quality or timing additionality accruing to the grant was identified by 70%.
- Just under 50% of the businesses that had raised finance, considered FRS Support (through a combination of FRS advice and grant-assisted advisory services) as essential or important to their *success*.

Amongst Non-Grant Assisted FRS clients receiving more than 4 Hours of assistance:

- Over 70% Non-Grant Assisted Businesses surveyed had gone on to apply for finance after implementing the FRS support. 90% of these had been successful in securing all the finance targeted.

- 43% of those surveyed would have proceeded with fund-raising in the same timescale in the absence of FRS Support. Some quality or timing additionality was identified in 36% of cases.
- Just 7% of the Non Grant Assisted Businesses raising finance considered FRS support to be essential or important to *the success* of their applications for finance.

Amongst Non-Grant Assisted FRS clients responding to our web-survey:

- 44% of respondents had proceeded to make an application for finance in the period after receiving advice from FRS.
- Over 80% of respondents making applications for finance considered FRS support to have been "Essential" or "Important" to *progressing* their application.

Overall we note that significant proportions of the FRS clients we engaged with in each research exercise had gone on to make successful applications for finance after using the FRS Service.

The additionality of the FRS in *securing* finance was assessed where we had direct client contact with the grant assisted and more intensively assisted clients. There was a significant variation in attribution of finance raising success to FRS between these groups – with 50% of grant-assisted businesses considering it to be important or essential to securing finance – compared to just 7% of non grant-assisted businesses. We interpret this in part as being a confirmation of the greater effectiveness of intensive support. However, it is also likely to be a result of the use of the grant to employ advisors on more specialist or technical aspects of an application for finance.

Our web-survey research asked about the FRS contribution to the *progression* (not success) of applications for funding. We consider the 80% of funding applicants who found FRS support important or essential in progressing funding applications to be a reflection of the more facilitative nature of the less intensive FRS support received by most of these respondents. This has included signposting and providing relevant information on types and sources of finance which has assisted the business to move towards identification of potential funders and preparation of cases aligned with these sources.

### 5.5.2. FRS Service Quality

Our consultations and surveys asked the FRS clients about key aspects of the Service delivery. Grant assisted and recipients of more intensive advisory support were asked to provide a relative assessment of the Service in comparison to other business support services they had received. The predominantly less intensively-assisted businesses consulted through our web survey were asked to rate the service they received in absolute terms (i.e. not relative to other assistance they had received). The responses are reported in Table 5.7 (grant assisted), 5.12 (intensively assisted) and 5.22 (less intensively assisted).

Collectively we noted trends in all of these responses which consistently assigned the highest ratings to

- FRS understanding of requirements at the outset of the process,
- The knowledge and experience of FRS advisors and

- Speed of response to initial contact

Overall we assess the Service as being well regarded by the majority of its clients with no significant shortfalls in the quality of service as assessed by the key criteria included in our research materials.

## 6. FRS ACTIVITIES AND OUTCOMES MEASUREMENT

### 6.1. Introduction

In this section of the Report we review current provision for performance measurement of the FRS Service and consider any potential for enhanced measurement of FRS activities outputs and attribution of economic impact. This review is based upon:

- Our analysis of the FRS activity log presented in Section 2
- Our consultations on performance management undertaken with stakeholders, providers and internal users reported in Section 4
- The findings from our consultations and surveys amongst FRS end-users in Section 5

The review is undertaken in the context of SE appraisal and Review guidance and our own experience in evaluating economic development interventions.

### 6.2. Activity Measurement

FRS data was provided to us for analysis in the form of spreadsheets. We understand that a stand-alone spreadsheet is used to record and collate management information for the FRS Service.

In the process of analysing the data, and interrogating it to use in our consultation and survey programmes, we noted a number of issues. These were:

- Inconsistencies in recording the recipient of the advice given – for example by logging assistance to a business client which was provided by an FRS advisor to the SE Account Manager of that business.
- Logging activity in administration of grants as advice provided to the business.
- Absence of contact details (e-mail or telephone) for clients – preventing future contact to facilitate monitoring progress of the case in securing access to finance.

There may have been for sound operational issues such as client reluctance to provide contact details – or there being no alternative provision for logging time administering grants or advice to Account Managers. However, different interpretations on what constitutes an assist or differentiating between internal SE and direct to client advice mean MIS cannot be relied upon to correctly assign resource to priorities or targets.

They can also impede monitoring and Review activity where MIS is central to measuring effectiveness and efficiency and, in the case of contact details, conducting research into quality of service and post-service outcomes.

### 6.3. Outputs Measurement

The main outputs recorded for the FRS Service are assists to businesses and FRS grants awarded. Time spent with each case is used as a proxy for the intensity of assistance to each

client. We noted that, because assists are recorded independently for each financial year, assists to the same client business can be separately recorded in multiple years.

FRS Grants are counted by FRS as outputs, regardless of whether they have been initiated by a member of the FRS Team or an SE Account Manager. In cases where the FRS Grant is initiated by the Account Manager it was also the case that the FRS Team did not retain oversight of the third party advisor output – raising potential issues over quality control and consistency of output.

#### 6.4. Outcomes from FRS Activity

Our research amongst FRS clients, service providers and stakeholders has provided us with an insight to the opportunities and constraints to assessing outcomes from FRS activity and on the potential limitations to primary research amongst FRS clients.

##### 6.4.1. Establishing Outcomes Through Primary Research Amongst FRS Clients

In the course of our research for this review we have undertaken three separate survey exercises designed to assess the outcomes from client engagement with FRS. The results of the collective efforts of SIB and ourselves to secure contributions from clients have been below expectations, perhaps with the exception of the web survey. The web-survey secured a 16% completion rate - which is beyond the typical response rates of 10%-15% cited for web surveys of audiences external to an organisation.<sup>6</sup>

The lower response rates amongst the more intensively-assisted businesses consulted both face-to-face and by telephone were despite efforts to “warm up” potential respondents by SIB and to identify those particular cases which SIB considered might be most likely to engage with the research programme.

We consider that the failure of FRS clients to engage with our research programme reflected a number of characteristics of the Service and how it was accessed by or delivered to clients. These were:

- The low profile of FRS and the lack of branding of the Service – it is possible that clients did not identify support received as coming from FRS. This was anticipated, and our introductory and research materials included a full description of the Service and what it might have provided to the client.
- The (relatively) low intensity of the support received - meaning that it did not resonate with the potential respondents. In addition some of the assistance logged comprises desk-based work by the specialist which is not visible to the recipient.
- The delivery of the support through a third party (e.g. an Account Manager or Business Gateway Advisor) meaning the FRS source of support was not always visible to the client.
- The passage of time since the delivery of the Service to clients in the early part of the Review Period meant that it had simply been forgotten.

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<sup>6</sup> <https://www.surveygizmo.com/resources/blog/survey-response-rates/>

- The absence of a person-specific e-mail address with which to establish contact with the individual in the client who had received the Service.
- The person identified as the recipient of the Service having moved on from the position they were in when the Service was provided to them as the representative of the client.
- The provision of FRS support in tandem or close configuration with a more intensive form of support (including finance) from SIB, SE or other provider – causing its presence and effects to be subsumed into the more intensive support.

Taken together, these pre-existing characteristics of the FRS, and our experience in securing survey and consultation responses, suggest that whilst research into motivation, opinions and behaviour change can generate useful results, it will not provide reliable evidence of attributable economic impact as a direct result of FRS Support. Research might be extended to record finance-raising activity and success following engagement with FRS, particularly where more intensive assistance has been provided.

It is also the case that where increasing proportions of current FRS activity targets are achieved through one-to-many activities, this lower intensity assistance:

- May not qualify as assistance.
- Is less likely to lead to participants engaging in post event research.
- Is unlikely to generate attributable outcomes.

#### 6.4.2. Other Perspectives on Outcome Assessment

Our consultations with stakeholders confirmed their awareness that FRS monitored activity in the form of assists – but they considered this not to be of help in assessing the *effectiveness* of the Service. The measure they suggested for effectiveness was the translation of assistance into finance raised.

As noted previously the number of companies successfully fund raising has been a target during the 3 year target period (2015/16-2017/18). The FRS team MIS templates provide for updates on the progress of assisted businesses in securing finance. While the specialists seek to record funds raised data for those companies that they work with, the collection of data for all cases is not facilitated or achieved. More comprehensive data collection would be dependent upon an automated information request system which retained contact information and prompted data collection. However, our experience in securing input from FRS clients to our survey work for this Review, would suggest that only a small proportion of assisted businesses would respond to contact to trace their journey to and beyond securing finance.

We do, however, consider that, in cases where more substantive assistance is provided through an FRS grant, there is greater incentive and potential for SE to pro-actively track the finance-raising activity of the grant recipient. This can be facilitated by provisions in the grant agreement to provide updates, and through the ongoing SE or Growth Pipeline relationship, through their relationship manager.

FRS Service Providers recognise the issues of attributing FRS outputs to economic outcomes and fed this back to us in the course of our consultations. Their responses, as summarised by us in Section 3, suggested that activity measures do not capture their effectiveness; finance

raised is subject to many other factors than FRS support; effects on business performance from finance raised are remote from FRS support - and unlikely to be attributable.

### 6.5. Attribution of Economic Benefits

Our experience in conducting primary research amongst FRS clients detailed in S6.4.1, combined with our experience in evaluating a wide range of economic development interventions, suggests that there is a number of factors which mitigate against attributing economic benefits to the activities of the FRS Service. In summary these are:

- FRS advisory services provide a relatively low intensity of assistance which takes the form of advice, information, signposting or financial support for advice.
- FRS grant assistance is more intensive and the intermediate outcome of finance secured can be readily tracked.
- However, both FRS advisory and grant assistance, are several stages removed from the securing of finance which in turn needs to be effectively applied within the business to generate economic benefits. This is further complicated by the fact that the finance may be only one of several factors which leads to enhanced performance in the business.
- There can be discontinuities in the chain of effects from receiving FRS assistance through to securing finance which can diminish the influence of the FRS assistance on securing finance.
- Conversely, FRS advice, or FRS grant-assisted advice, can run in parallel with applications for funding (including SIB finance) and clients find it difficult to distinguish between support for the process of finding finance and the securing and applying that finance.

The foregoing leads us to conclude that there is no merit in attempting to establish an intervention logic chain from FRS activity through to attributable economic impact. Moreover, even if this were possible, the additional resources required to trace client fund-raising activity several years after their engagement with FRS would place additional strains on the Service staff and budget.

## 7. CONCLUSIONS AND RECOMMENDATIONS

### 7.1. Introduction

In this section we draw together and interpret the Review research streams to draw a series of conclusions on three key aspects of the current FRS Service:-

- Rationale and Objectives
- Service Delivery
- Performance Measurement

We then draw on these conclusions to present a series of recommendations to be considered in providing for the future delivery of the Service.

### 7.2. Conclusions

#### 7.2.1. FRS Service Rationale

The FRS has existed for a significant period of time as a service, within SE, being part of the SIB team in particular since 2010. To the extent that it is formally documented, its rationale is based upon assertion of information market failures. Based on our experience of similar interventions we constructed a more formal rationale at the outset of the Review process.

***"Addressing information failures which prevent businesses from presenting their case for securing finance in an optimal form to meet the requirements of a range of potential providers"***

We sought to test this statement of rationale in the course of our consultations and both stakeholders and service providers referred, without prompting, to information failure as a basis for public sector intervention to deliver FRS. Reference was also made to capacity and financial constraints within businesses seeking development finance – and in particular amongst young and pre-revenue businesses. There was also reference to perceived more generic failures in the wider business finance market in Scotland citing risk aversion amongst providers and lack of ambition amongst those seeking finance for the development of their businesses.

Our research amongst client companies revealed that a significant proportion (85%) of the grant-assisted businesses we consulted would have proceeded with raising finance in the same timescale in the absence of receiving the FRS grant. However this does not mean that these businesses would have identified and engaged appropriate advisors – and just under 50% of these grant-assisted businesses that had raised finance considered the grant-assisted advisor to have been essential or important to their success in securing that finance. Similarly, a large proportion (80%) of the respondents to our web-survey considered FRS to have been essential or important to progressing their applications for finance. We consider that together these findings suggest that there have been information failures in investigating and progressing applications for finance which were addressed by FRS over the Review Period.

However, over the period that FRS has operated there has been considerable change in the information environment surrounding financial readiness. There is now a large volume of online material from sources other than FRS relating to finance raising and financial markets; executives are networked on social media and it is apparent from this research that there is



considerable informal peer support on the topic. Beyond this there have been evolutions in the finance marketplace with debt finance remaining constrained and willingness amongst businesses to explore alternatives including asset finance, peer-to-peer lending and crowdfunding.

**Overall this leads us to conclude that the rationale for the provision of finance-raising information and support by the public sector in general, and SE in particular, needs to be re-visited and clearly stated as the basis for an agreed strategy for future FRS Service provision. This should include a full consideration of the policy and intervention environment within which FRS will be delivered in future alongside complementary sources of advice and support provided by others to the wider SME base in Scotland. It will be important to engage stakeholders in this process to ensure that the FRS rationale reflects the role of SE in working with businesses which are most likely to generate net economic benefits at the national level.**

### 7.2.2. FRS Objectives

As an ongoing service, FRS has not historically been required to establish a series of SMART objectives around which to organise and manage service delivery and performance measurement.

In the course of our research we found endorsement amongst SIB managers of a requirement for the establishment of revised objectives for the Service. In particular there was a perceived requirement for FRS objectives to be aligned fully with SIB and SE organisational objectives. By implication this would require a focus of FRS Team resources on working with priority sectors and high growth businesses.

However, such an approach would mitigate against using FRS Team resources to provide a more broadly based service to SMEs, which is the expectation of key stakeholders. Resolution of this expectancy gap is key to the future direction of the Service and we perceive will require:

- Complementarity of provision and resourcing between SE/SIB and Business Gateway and others in the business incubation and financing landscape.
- Adoption of shared digital platforms to facilitate financial readiness education, information and signposting to be conducted without consuming large amounts of FRS Team resource.
- Recognition by all stakeholders and service providers that financial readiness support needs to be provided to a wide constituency of potential users with varying needs and expectations.

**We consider that the establishment of SMART objectives for FRS Support within SIB, in the context of an agreed understanding and segmentation of the wider requirements for financial readiness provision across the SME base, to be essential for prioritising the future delivery of the Service.**

### 7.2.3. FRS Additionality

The FRS advisory service in general is a low to medium intensity intervention when compared with the spectrum of business support services. Our research amongst FRS clients shows it to demonstrate a high level of additionality in *progressing* businesses towards applying for finance, It demonstrates a much lower level of additionality in successful outcomes (raising finance). These findings are consistent with a service that is essentially facilitative in nature.

The FRS Grant is a medium to high intensity intervention when compared with the spectrum of business support services. Our research amongst FRS grant-assisted clients demonstrates low additionality in the decision to proceed with raising finance as the grant tends to be applied late in the process. The grant and the third party services they purchase are associated with substantial additionality in the success of the outcome of applications; this needs to be tempered with the understanding that around 30% of recipients surveyed would have engaged the same third-party support in the event that grant was unavailable.

### 7.2.4. FRS Service Delivery and Capacity

Currently FRS is largely reactive and responsive to a range of emerging client requirements. Its targeting and resourcing are not based upon a current analysis of the potential market and its needs. Concerns around over-commitment of available resources have seen the Service not engage in general promotion and it has a high dependence on a contained referral system. Lack of awareness amongst the SME base and need for promotion were identified in our user surveys, which also showed that referrals from Business Gateway and SE Account Management were the dominant sources of client introduction.

It is clear that the establishment of objectives for FRS, in line with our recommendations in **Section 7.2** above, is a pre-requisite in establishing future priorities and resources for the Service.

The efficiency of FRS Service requires further consideration. Over the period of analysis the FRS recorded between 2865 and 3344 advisory hours per annum with variation from the average of no more than 5%. Cases rose from 725 – 838 per annum, most of the increase occurring in the most recent year driven by the one to many approach (67 assist from this in 2016-17). The combination of fairly consistent total hours and a fall in the average hours per case may be consistent with the service operating at capacity and advancing targets only being met through dilution of support, as argued by some consultees. However, this performance, the effective utilisation and value-for-money that it represents needs to be considered against the resources applied in terms of staff time and costs.

FRS includes provision of advisory services and grant support for financial readiness.

- FRS advisory services are a relatively low intensity intervention with a logged average of between 4.3 and 5.1 hours per case over the period of analysis;
- FRS grants are medium-high intensity support. They play a more direct role and are typically applied more closely to the point of application for finance.

Over the period 2014-15 to 2016-17 the balance of the FRS Service between grant and advisory provision changed markedly.

- The number of grant cases declined by 69% and the total value of recorded grants by 62%. Grants in excess of £6000 increased sharply as a proportion of the total. In the context of a declining grant budget, use of grant by Account Managed businesses has represented an increased proportion whereas use by Business Gateway Growth Pipeline companies has seen a particular decline.
- As regards FRS Advisory Services, support for Account Managed businesses remained consistent over the period; the number of NRM cases increased sharply; while Business Gateway Growth Pipeline cases declined.

The reasons for the reduction in the use of grant are not fully understood by FRS. Process factors – change in administration; reduction of budget, reduced use by advisors attempting to husband a reduced budget, companies struggling to pay for the grant upfront – may be in play.

Together, our end-user consultation and surveys demonstrated high levels of satisfaction with the service received from the FRS Team, particularly in relation to their responsiveness and knowledge.

The skills within the FRS team are distinctive within the Scottish economic development community, with many previously having been lending or investment decision makers within private sector finance providers. The value of this experience is seen, not just in the end-user feedback, but also in the informal use made of them by Account Managers in SE. These skills also lead to their introduction into financial distress cases. It is also clear that they represent skills not widely available within the Business Gateway network. Whether these specialist skills are being effectively used in servicing low-intensity enquiries is questionable.

**FRS in isolation, and with its present level of resourcing, cannot effectively meet the divergent aspirations of its stakeholders to service the broad base of Scottish SMEs. Its presence within SIB suggests it should be aligned with the particular priorities of SE and its focus on generating net economic benefits, We consider that FRS is not positioned or resourced to provide whole of market financial readiness education and support. Were it to attempt to do so, it would also duplicate similar provision elsewhere.**

Dependent on the future direction of the Service established through the objective-setting process we consider there may be some merit in aligning the particular skills of FRS Team members with more specific financial readiness requirements in relation to:

- Industry sectors and in particular SE sectoral focus
- Company growth stage (e.g. pre-revenue, second round equity)
- Financial distress situations
- Types of finance (e.g. Peer-to-Peer, crowdfunding)

### 7.2.5. Performance Measurement

The structure of the FRS activity log potentially provides much useful information to support informed management, enhanced accountability and monitoring. At present its value is constrained by incompleteness and inconsistency in data entry.

Greater clarity is however needed in the counting of assistance. Administrative activity associated with grants is in some cases being logged as advice in order to inflate progress against targets for the advisory service.

The tracking of finance-raising outcomes in cases where an FRS grant is awarded is not consistent or universal, based on the data provided to us.

Participation in one-to-many events, while potentially valuable, is not comparable to one-to-one tailored advice in either its content or intensity. Accordingly, it should be logged separately.

We provided specific commentary in Section 6 on FRS activity and outcomes measures and the potential for attribution of economic effects to the Service. We conclude that direct attribution of economic effects to FRS activity is unlikely in all cases, given the intensity of assistance, discontinuity in the logic chain from activity to output, and the predominance of finance secured as a driver of business performance and consequent economic effects.

**We conclude that MIS should be re-visited and re-configured to align with, and reliably record, activity and output measures established to monitor progress in achieving SMART objectives for the Service. We consider that the primary measure of activity should continue to be hours of FRS Specialist time assigned to individual cases, although refined to specify if this is provided direct to the business or through an intermediary. In more intensively-assisted cases, where clients are most likely to respond to survey research, the output measure should continue to be finance raised by scale and source. We consider that analysis of the application of finance raised might also provide insight to achievement of any SMART objectives focussed on priority sectors and young, innovative businesses.**

### 7.3. Recommendations

**Based on our conclusions we recommend that consideration be given to the following actions:**

- The rationale for and scope of FRS should be set taking account of the involvement of other organisations and resources supporting financial education.
- Whole of market education, information and support should be addressed on a coordinated basis alongside other providers.
- The specialised resources within SIB FRS Team should be targeted on the segments of the SME base where there are identified aspirations to grow businesses through the use of external private finance in sectors that are associated with a high level of

additionality at the Scottish level i.e. principally the SE Account Managed and High Growth Ventures and Business Gateway Growth Pipeline Companies.

- Quantified objectives should be set on the basis of the appraised need of the target market and the scale and balance of FRS resources should be modulated to be compatible with the objectives set. In quantifying objectives priority should be given to scaling activity and intermediate outcomes such as funding applications progressed and value of funding raised. The focus on intermediate outcomes reflects the difficulties in attributing economic impact to the Services provided by FRS. Quantification of objectives might be further refined to reflect any priority sectors or geographic focus.
- Training and guidance should be provided for the FRS team on the consistent and complete maintenance of the FRS management information, as the FRS now looks to record and monitor information as part of the FRS.
- All relevant fields of the FRS activity log should be completed in full for both intensive and less intensive cases and in line with definitions where appropriate.
- Low value grants, which have been progressively reduced in the period of the Review, should be discontinued; consideration should be given to increasing the intervention rate and supporting cash flow for start-up and smaller businesses where greater additionality can be expected to accrue.

