ACQUISITIONS IN SCOTLAND (2003-21) – PART OF ACHIEVING GROWTH

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A report for Scottish Enterprise

Acknowledgements

Sincere thanks go to those individuals who gave any time to consider the research and offer views and their experiences. Particular thanks go to those businesspeople who spoke about their experiences to help others learn from this knowledge. Without their time, this story would not come to life.

Finally, if it needs stating, any views inferred, or explicitly stated, are those of the author/researcher, not of any organisation.

Contents

Introduction

This report builds on three previous studies specific to acquisitions, their links to wider evidence around the economy, entrepreneurship, and business growth, and adds to this with new evidence from across Scotland, to consider if there remains a rationale for a policy intervention in this area.

Since the study was first undertaken, Scotland has gone through an independence referendum, a vote to leave the European Union which was finally acted upon in 2020, and most recently a global pandemic and unprecedented policy responses, sparking the current soaring rate of inflation. At the time of writing, large scale warfare has returned to continental Europe for the first time in decades, adding to inflation as well as causing wider uncertainty. Plus, there is the small matter of a transition to a low carbon economy to tackle.

Amid this ever-rapid global change, revisiting and considering this subject with a view to action, not just generating knowledge, is timely.

The findings strengthen the findings of the prior studies in this space.

Scotland has an acquiring, not an acquired business, problem. Acquisitions have enabled, and do enable, Scottish businesses to grow, to internationalise, and succeed – but not enough use it. The number of acquisitions of Scottish businesses is in line with other nations, regions, and countries. The number of acquisitions made by Scottish businesses is low, very low in some comparisons.

Scotland has slightly more young growth businesses using acquisition, reflecting their stronger early-stage growth compared to others. It also continues to be the best nation at keeping inward acquired businesses active in the nation, reflecting success in anchoring businesses and in businesses implementing a successful acquisition strategy.

Interviews continue to highlight how the main, over-riding reason to make acquisitions (buying or selling), and sometimes the only reason, is to achieve growth, corroborating why and how younger Scottish businesses are using acquisition – and doing so successfully.

There is a link between acquisitions and sustained growth, with higher acquisition levels among younger businesses aligned to with higher and more sustained growth. A link also exists between less activity and less sustained growth performance over time.

This means these growth challenges are both impacting *and* reflecting the low acquisition levels, demonstrating acquisition is one tool through which to break the growth challenge. The lack of acquisition activity also leads to a lack of recycling which further hinders growth.

It is among older businesses in particular where the challenge lies. Scotland has considerably fewer businesses aged over 10 acquisition active. Not enough consider acquisition as part of a route to growth (or are indeed pursuing a growth strategy).

The opportunity lies in stimulating and supporting more businesses to consider and deliver on growth strategies and using acquisitions where it is appropriate. Interviews and examples highlight the opportunities and the challenges, and how to make it part of a viable and successful growth strategy.

Preparation is key, being clear of goals and vision for the business; taking in the right advice at the right time, and being nimble enough to seize on strategic opportunism, particularly in a rapidly changing world. A strong vision, effective culture and clear communications drive success and reduce (but can never eliminate) the potential pitfalls.

There is a strong rationale to raise the profile of acquisition, setting out a clear explanation as to how it can drive growth, generate value, and positively impact the business, and signpost to businesses what to consider, and make the most of the experience and knowledge of others.

Scotland needs more acquisition, but it also needs the right businesses to consider it. Addressing this starts with driving more growth businesses.

The evidence continues to strongly demonstrate that *Scotland needs to embrace the potential of acquisition in economic growth*.

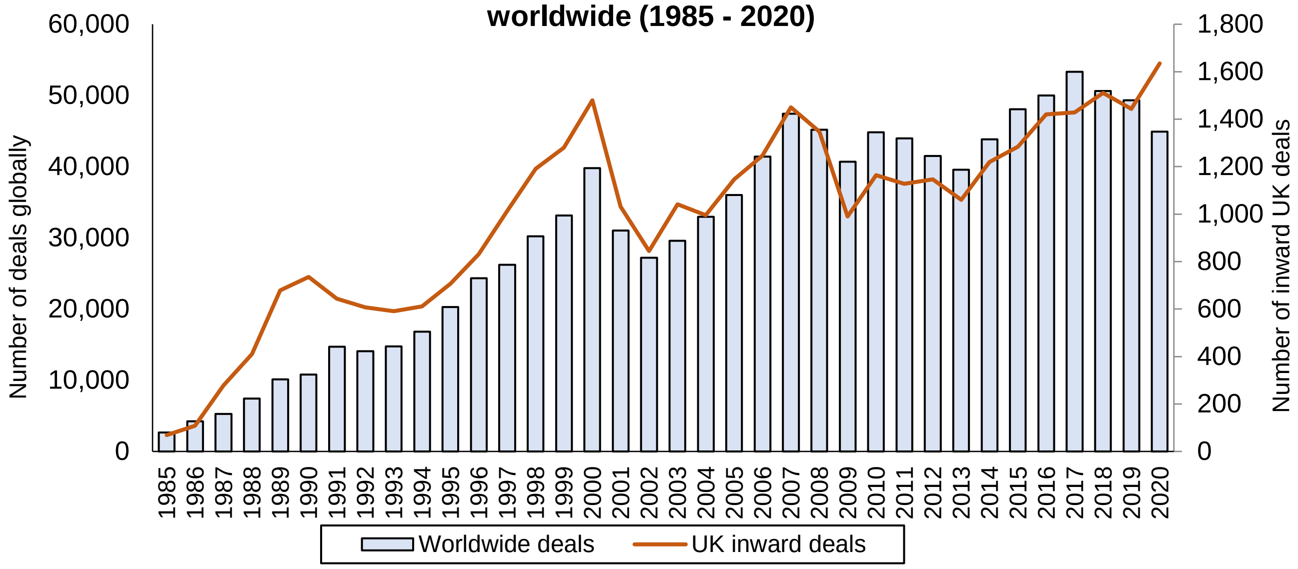
PART I – WHAT THE DATA SHOWS

The following gives an overview of the global landscape and its trends, and given the turbulent external environment over recent years, a sense of how acquisition was seen as we move out of the pandemic. It then provides the detail on Scotland's acquisition market from original data analysis spanning 2003 to December 2021.

The acquisitions landscape entering 2022

In 2022 acquisitions are a reality of the global economy. Figure 1 highlights how acquisition has risen rapidly across the globe in recent decades, with the growth of activity flowing into the UK growing in a similar trend.

Figure 1 - Number of merger and acquisition (M&A) transactions worldwide (1985 - 2020)

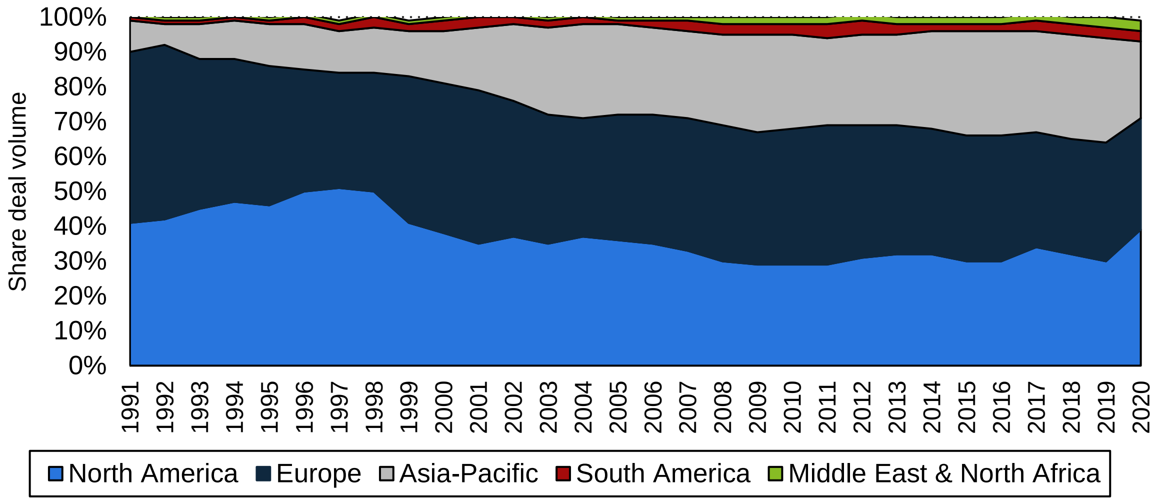


Source: Statista, *Global Mergers & Acquisitions* (2021), and *Mergers & Acquisitions in the UK and Ireland*; Institute for Mergers, Acquisitions and Alliance (IMAA).

But whilst levels of acquisition have continued to rise since the 1980's, the global share of deals has changed (both in number, and value[1]). Figure 2 highlights over time, the most significant trend has been the rise of Asia-Pacific, at the expense of North America. Although, as a result of the pandemic, 2020 saw an uptick for North America, taking a dent out of Asia-Pacific's market share.

Europe's share has seen a slight decline since the turn of the Millennium, and as Figure 1 shows the UK's deal numbers have (cyclical undulating aside) increased over time, this suggests some European nations have seen sharper declines.

Figure 2 - Share of merger and acquisition (M&A) deal volume worldwide from 1991 to May 2021, by region

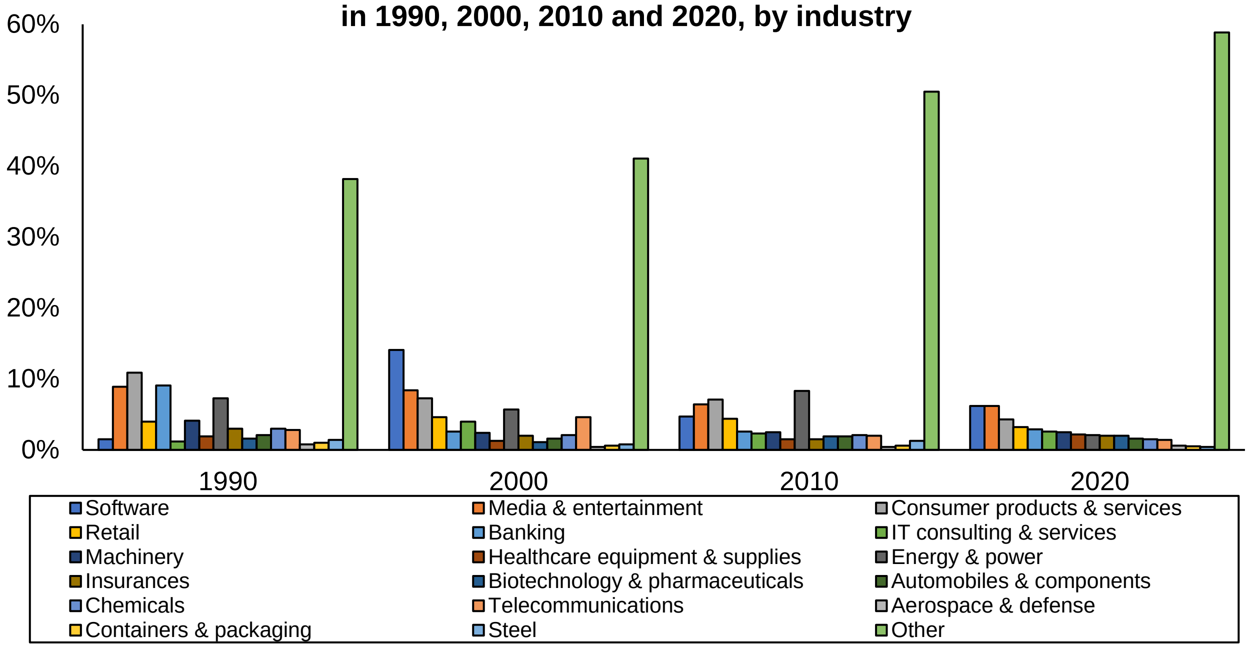


Source: Statista, *Global Mergers & Acquisitions* (2021); Institute for Mergers, Acquisitions and Alliance (IMAA).

[1] Analysis including deal values can be risky since mega deals of huge values can skew figures.

Figure 3 shows how the industry mix of acquisition deals has changed. The most significant finding is the growth in industries classified in official statistics as ‘Other’, highlighting acquisition has spread across more and more industries over time. In 2020, the highest percentage share of deals took place in the software industry, but this had seen a percentage decline (even as the number of deals *increased*). In 2000, 14.1% of deals took place in the software industry, but by 2020 this had more than halved, to 6.2%.

Figure 3 - Share of merger and acquisition (M&A) deal volume worldwide in 1990, 2000, 2010 and 2020, by industry



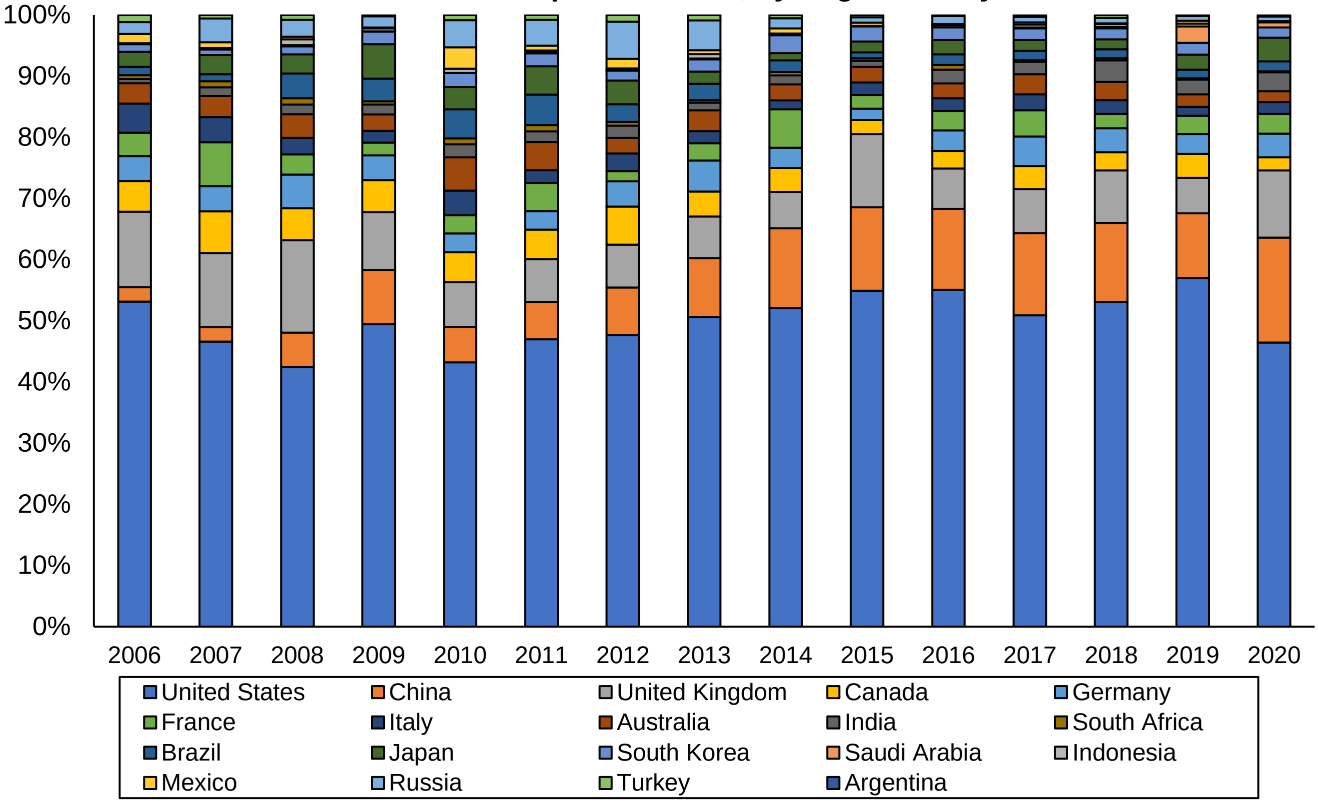
Source: Statista, *Global Mergers & Acquisitions* (2021); Institute for Mergers, Acquisitions and Alliance (IMAA).

Figure 4 shows the deal *value* share across nations[2]. It shows:

- The United States continues to attract around 50% of global deal values.
- But China’s inward share has quadrupled over the last fifteen years.
- The UK’s share fluctuates as the prior evidence has shown but continues to be third (by a considerable margin) behind the USA and China.
- Despite these shifts, the global position and trends appear relatively stable. The deal values fluctuate over time depending on specific activity or global economic trends, but the shape of acquisition activity is set, as the number of transactions continues to rise.

[2] Please note the deal values over time by acquiring nation is not available for this timeframe via the source listed. Nor is the above information by deal totals.

Figure 4 - Percentage value of merger and acquisition deals worldwide from 2006 to September 2021, by target country



Source: Statista, *Global Mergers & Acquisitions* (2021); Institute for Mergers, Acquisitions and Alliance (IMAA).

The impact of Covid-19 and lockdowns

Prior to March 2020 the volume (and the value of deals[3]) across the globe was declining[4]. But as the global economy began to emerge from its lockdown-induced state, so did interest in acquisition.

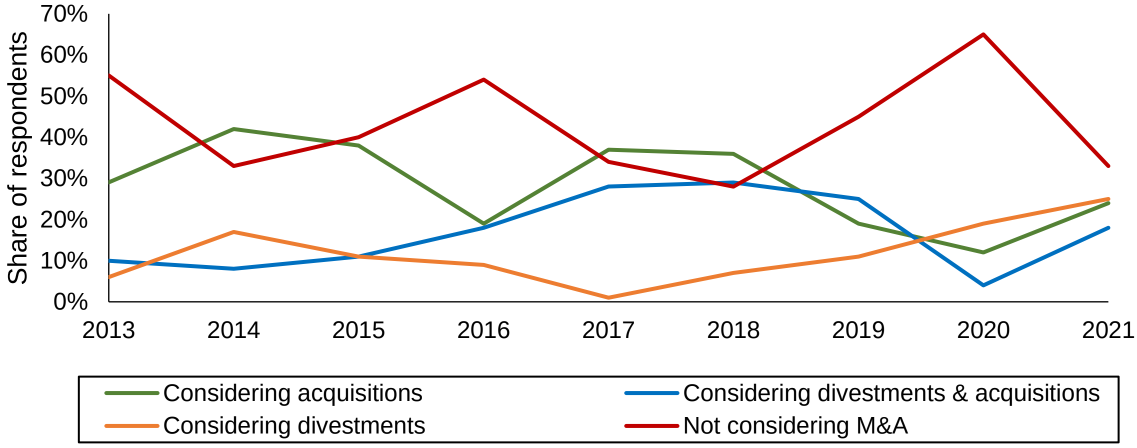
Figure 5 plots how intentions towards acquisition have been seen by businesses across Europe since 2013:

- The percentage planning/not planning acquisition has fluctuated over time, reflecting the overall pattern in activity (Figure 1).
- 2019 and 2020 saw acquisition intentions at their lowest, with over 60% not expecting to use it as part of their growth strategy.
- While 2021 has seen increases in the percentages anticipating acquisition (and/or divestment), the percentages expecting to use acquisition are lower than over the term of the chart, likely reflecting many still emerging from the effects of 2020, as well as the other uncertainties not related to the pandemic.
- Worth highlighting in Figure 5 is the continued rise year-on-year since 2017, of those expecting to divest, which could lead to a spike in acquisition activity.

[3] Statista, *Global Mergers & Acquisitions* (2021); Institute for Mergers, Acquisitions and Alliance (IMAA).
[4] See Figure 1.

Figure 5 - Where does M&A currently fit into your corporate strategy?

European M&A: corporate strategy plans 2013-2021



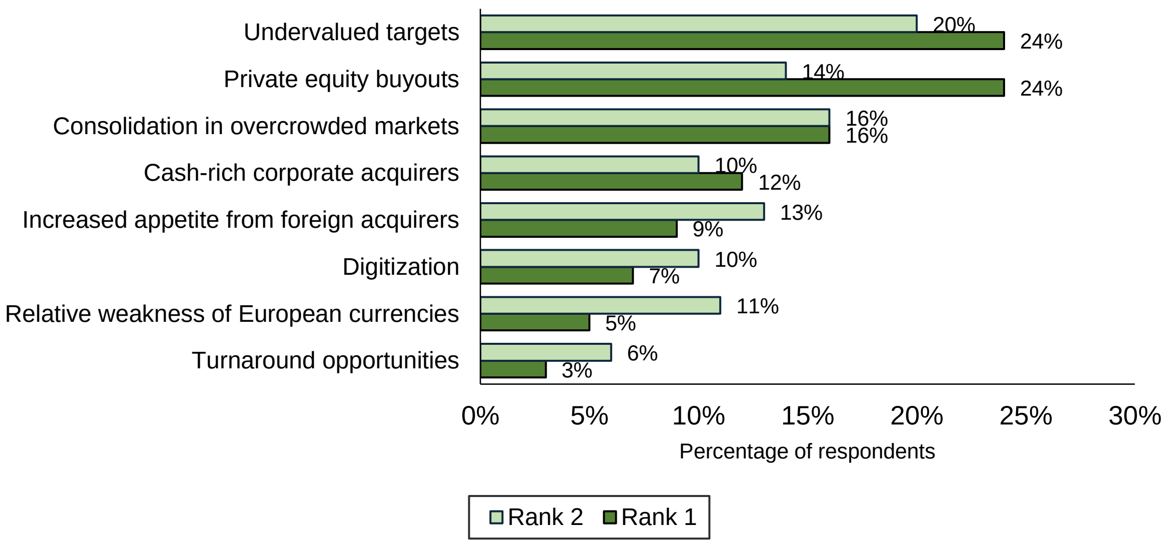
Source: Statista, *Global Mergers & Acquisitions* (2021); CMS Cameron McKenna; Acuris Global, *European M&A Outlook 2022*.

This anticipated increase in activity, is borne out in other findings. For example, a survey by Numis found growing boardroom confidence, with many businesses retaining strong financial positions despite the challenging climate of the last two years. The survey found 86% of FTSE 250 directors expected to undertake some form of acquisition activity this year and shareholders would be supportive of this[5].

Figures 6 and 7 demonstrate what is expected to be driving activity, both from an acquiring and a divesting point of view. The need for returns to private equity features strongly in both, as are signs of the pandemic's impact. For example, the high percentage expecting undervalued targets being a driver of acquiring, and distress driven activity from the sell side.

Other elements which are expected to contribute to an uptick in activity, including via cash-rich acquirers but also valuations picking up. Overall, it gives a picture of increasing confidence in a landscape fundamentally changed over recent years.

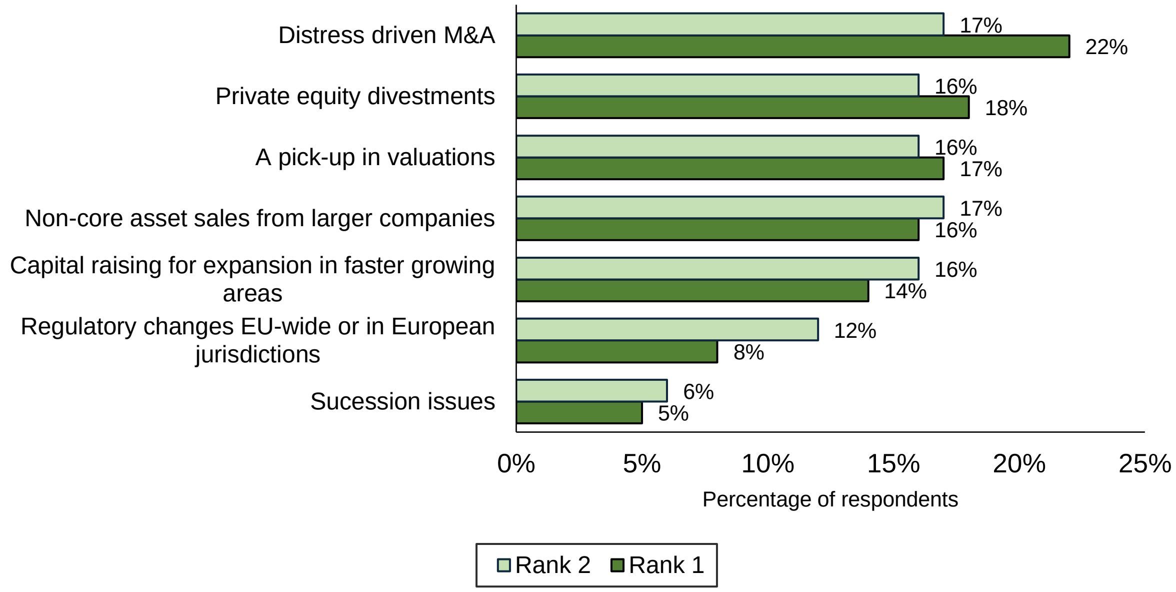
Figure 6 - What do you believe will be the greatest buy-side drivers of M&A activity in Europe over the next 12 months?



Source: Statista, *Global Mergers & Acquisitions* (2021); CMS Cameron McKenna; Acuris Global, *European M&A Outlook 2022*.

[5] *'UK Businesses set sights on M&A spree'*, Financial Times, 6 March 2022.

Figure 7 - What do you believe will be the greatest sell-side drivers of M&A activity in Europe over the next 12 months?

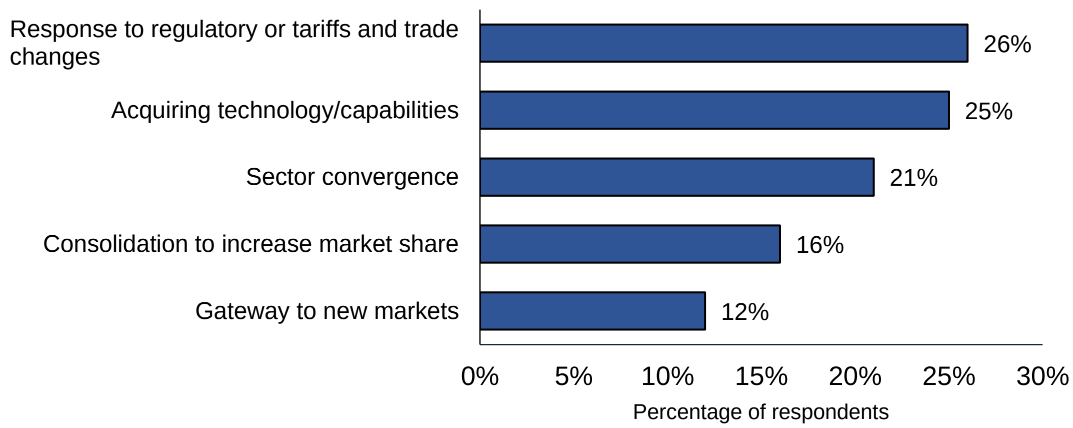


Source: Statista, *Global Mergers & Acquisitions* (2021); CMS Cameron McKenna; Acuris Global, *European M&A Outlook 2022*.

It is clear activity has increased post-pandemic and signs suggest this is likely to continue. Figure 8 shows what, coming out of the pandemic businesses were expecting to be the key strategic drivers of activity. Adapting to change, unsurprising given some of the trade battles in recent years involving the USA and China, and for the UK, leaving the EU, is the main driver.

The rise of technology continues to feature. This reaffirms previous iterations of this research, which have highlighted securing capabilities as a driver of activity, and this includes skills and talent. Increasing market share and using acquisition to access new markets, in a much speedier way than through organic means, have been cited before as drivers of Scottish acquisition activity.

Figure 8 - Main strategic drivers for deals according to C-suite executives worldwide (January 2021)

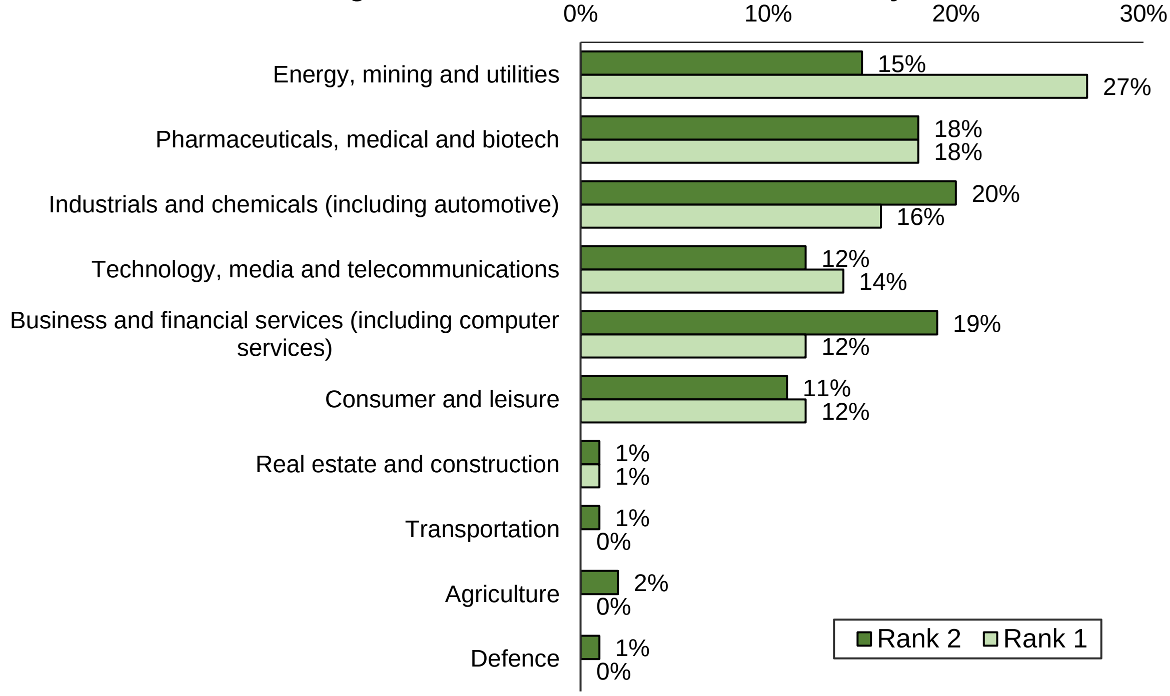


Source: Statista, *Global Mergers & Acquisitions* (2021). E&Y Global Capital Confidence Barometer

From a sector standpoint, the energy, mining, and utilities sector is expected to experience the highest growth post-pandemic, according to 42% of respondents. An additional 36% of respondents expected the pharma, medical and biotech and the industrials and chemicals sectors to each experience the most growth.

The uncertainty appears to be driving acquisition of secure goods. Healthcare also features prominently, also unsurprising given all the changes since 2020, although this was accelerating before the pandemic put even greater emphasis behind it. Technology continues to be a significant driver of activity, again (at least in part since many of these trends were already well-established) due to the changes seen in the last couple of years.

Figure 9 - Expected merger and acquisition (M&A) growth after COVID-19 according to senior executives worldwide 2021, by sector



Source: Statista, *Global Mergers & Acquisitions* (2021). E&Y Global Capital Confidence Barometer

Scotland

The Zephyr database[6] was used again to interrogate data relating to Scotland's acquisitions market, provide context via comparison to several European nations, and the regions and nations of the United Kingdom.

As a reminder, the three types of deals used in the analysis are as follows:

- ***Inward*** – an acquisition of a business by a business from another nation.
- ***Outward*** – an acquisition by a business of a business from another nation.
- ***Intra*** – an acquisition by a business of another business, both from the same nation.

To fully explore all available data, an interactive story board is available via this link.

[6] Zephyr has been used in this analysis since the first report of 2014. Operated by Bureau-van-Dijk, it is billed as the most comprehensive deals database available. In 2017, the Office for National Statistics began using Zephyr to inform its mergers and acquisitions analysis.

Figure 10 - Scotland's acquisitions market in summary

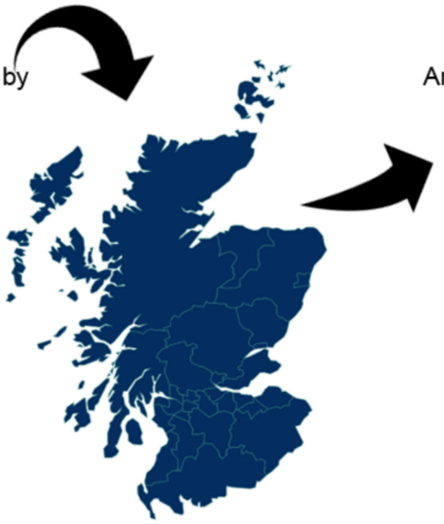
From 2003 through 2021, there were:

1,254	acquisitions of Scottish businesses by non-Scottish businesses	0.36%
851	acquisitions of non-Scottish businesses by Scottish businesses	0.19%
590	acquisitions of Scottish businesses by other Scottish businesses	0.17%

of the total business population.

Activity is aligned to geography and cultural ties, especially language. Most activity with Scottish businesses is as follows:

Inward
An acquisition of a Scottish company by a non-Scottish company



Outward
An acquisition by a Scottish company of a non-Scottish company

The main active sectors are:

- Non traditionally SE supported sector
- Technology & Engineering
- Financial & Business Services
- Energy (including renewables)
- Food & Drink

Most deals take place within the same sector.

Activity is largely undertaken by young businesses. The percentage of all activity involving Scottish businesses, aged under 10 years at the time of the deal, was:

- **44.4%** of Scottish inward acquired businesses
- **39.4%** of Scottish outward acquiring businesses
- **43.2%** of Scottish acquirers of other Scottish businesses
- **49.4%** of acquired Scottish businesses (by other Scottish businesses)

Following the acquisition activity, the post-deal active rate of businesses in Scotland (retaining activity in Scotland) are as follows:

- **66.6%** of Scottish inward acquired businesses remain active
- **85.4%** of Scottish outward acquiring businesses remain active
- **78.7%** of Scottish acquirers of other Scottish businesses remain active
- **60.8%** of acquired Scottish businesses (by other Scottish businesses) remain active

Source: Analysis of Zephyr data

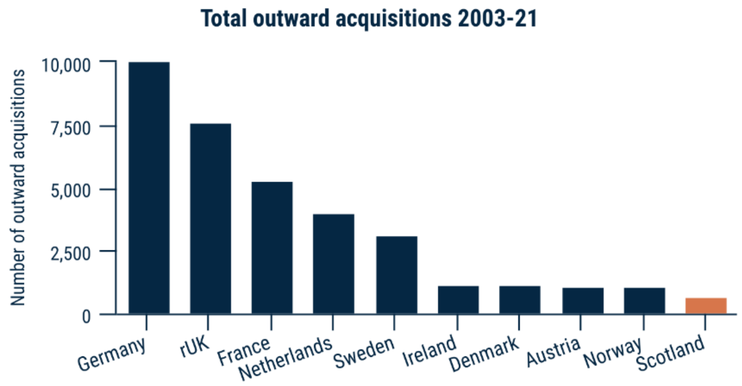
Figure 11 - European nations context across the three types of acquisition - Inward

Source: Analysis of Zephyr data

__Figure 12 - European nations context across the three types of acquisition - Outward__

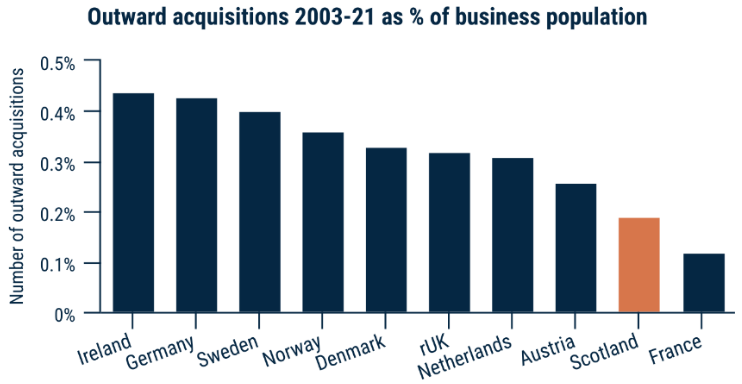
Outward acquisition - How does Scotland compare?

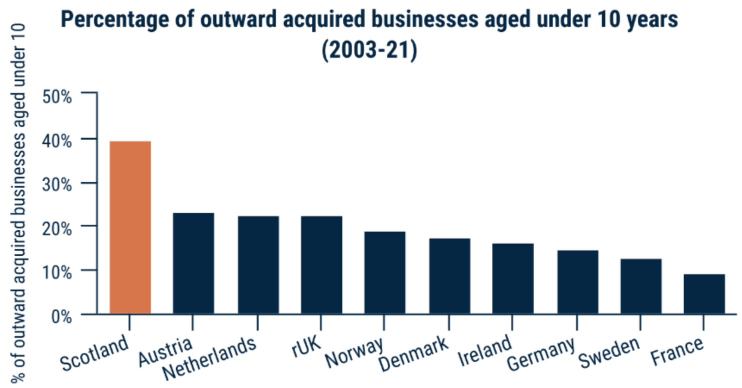
Outward acquisition - the acquiring by a native business of a business outside the nation



Scotland, by a considerable margin, is the least acquisitive nation in total number of deals.

No nation made fewer outward acquisitions than Scotland, and whilst France had a lower percentage rate of outward acquisition, it had a higher total number of acquisitions being made.

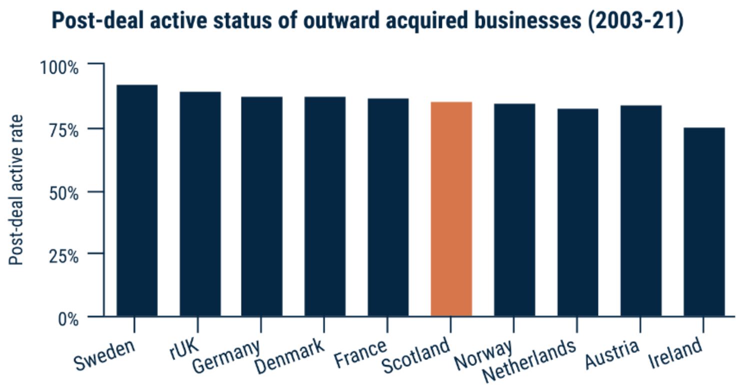




Scotland has the highest percentage of its outward acquiring businesses, aged under 10. But this is of a smaller number of deals made by Scottish businesses.

When the total and percentage of those aged under 10 years is combined, Scotland's total outward activity by young businesses becomes greater than four similar, small European nations.

Post-deal active rates are higher for businesses making outward acquisitions.
In this regard, Scotland comes slightly below average across the European nations, with its rate of 85%, which still remains high.

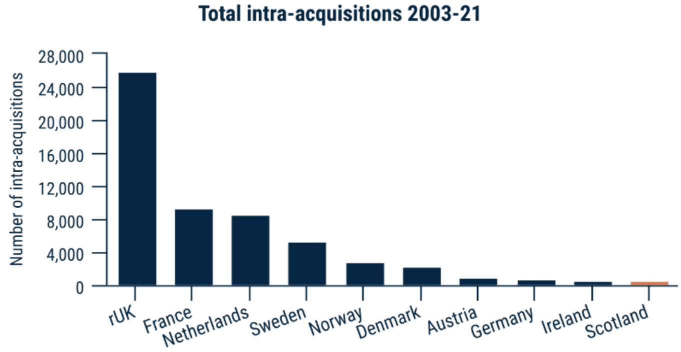


Source: Analysis of Zephyr data

Figure 13 - European nations context across the three types of acquisition - Intra

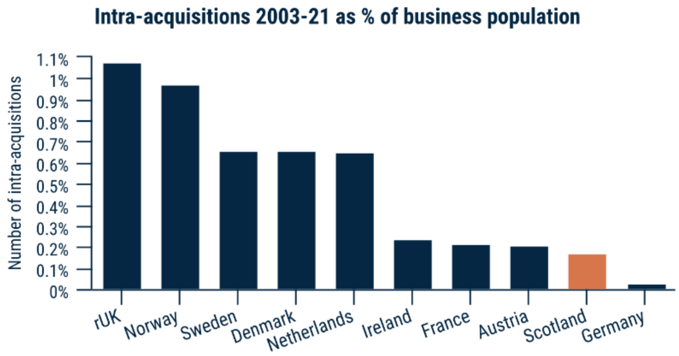
Intra-acquisition - How does Scotland compare?

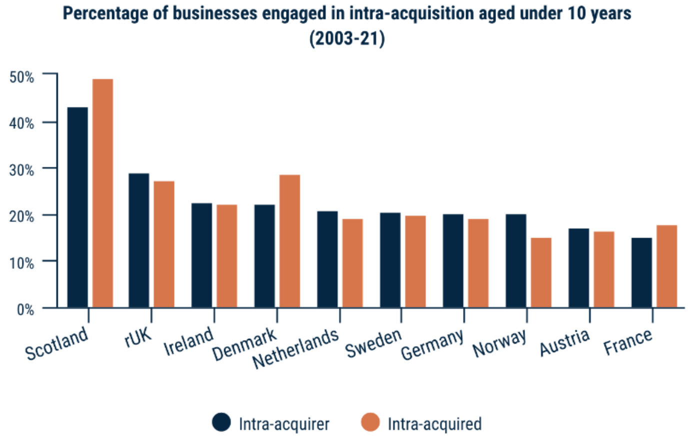
Intra-acquisition - the acquiring by a native business by another.



Intra-activity is very low in Scotland; the lowest across the European nations.

But the lower rate in Scotland is more comparable to other nations.

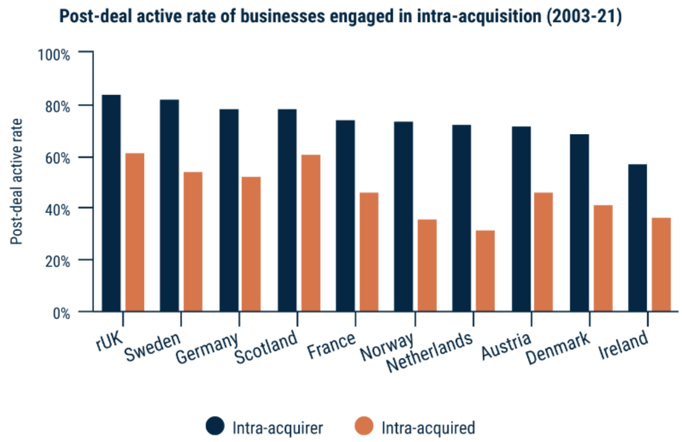




Once again, the trend is for a higher percentage of overall activity taking place amongst younger businesses compared to elsewhere. But of a lower overall total.
On the acquired side of the intra-acquisitions, Scotland again has a much younger percentage age profile.
For the acquirer and acquired, whilst activity as a percentage, among young businesses is higher, overall numbers of these are among the smallest across the European nations.

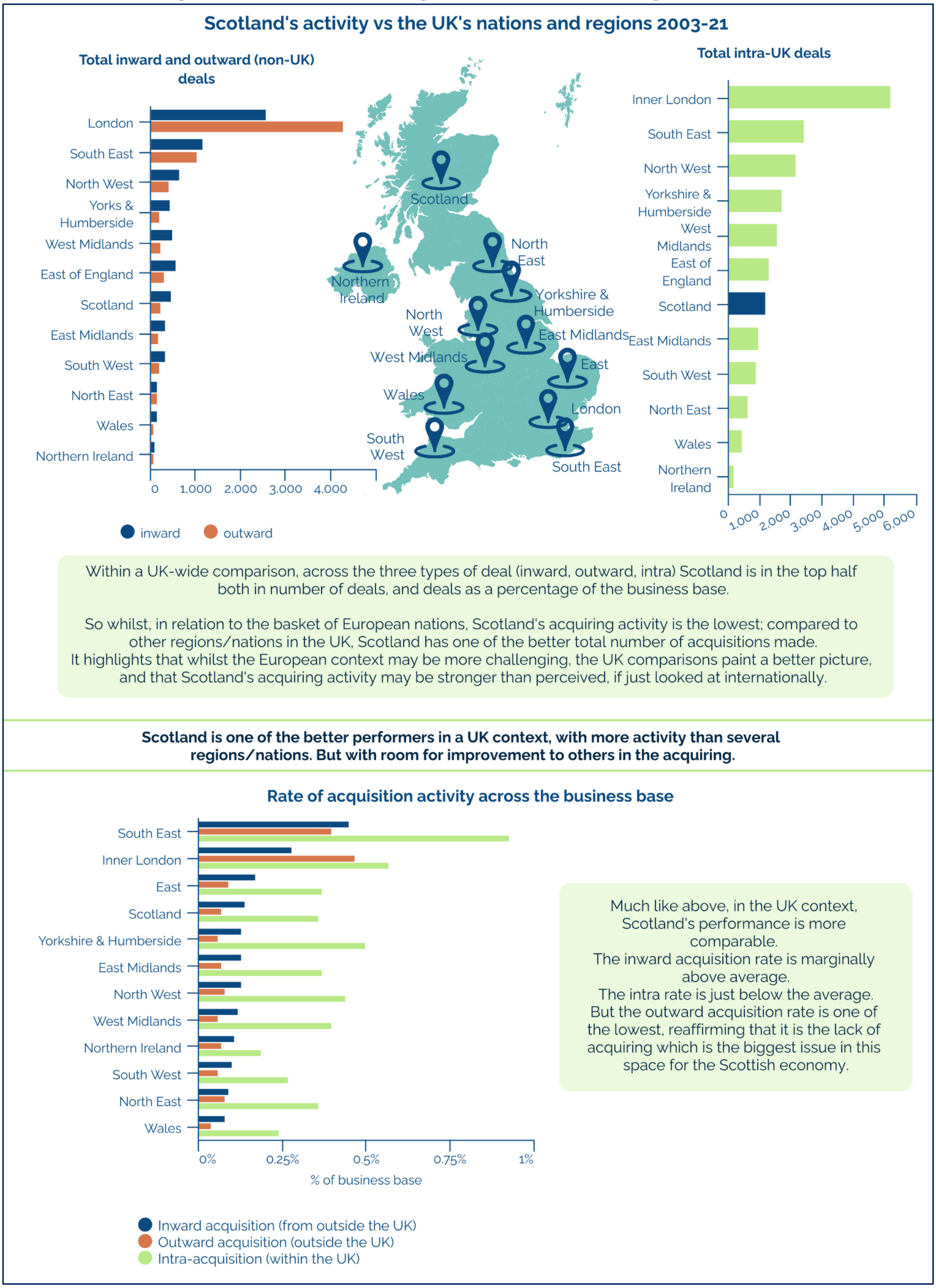
In terms of the intra-acquirers, the post-deal active rates across nations are marginally lower than the outward post-deal active rates. Scotland is one of the better performers in this regard.

Scotland's rate is lower, but ranking compared to the other European nations, is higher, for those intra-acquired businesses.



Source: Analysis of Zephyr data

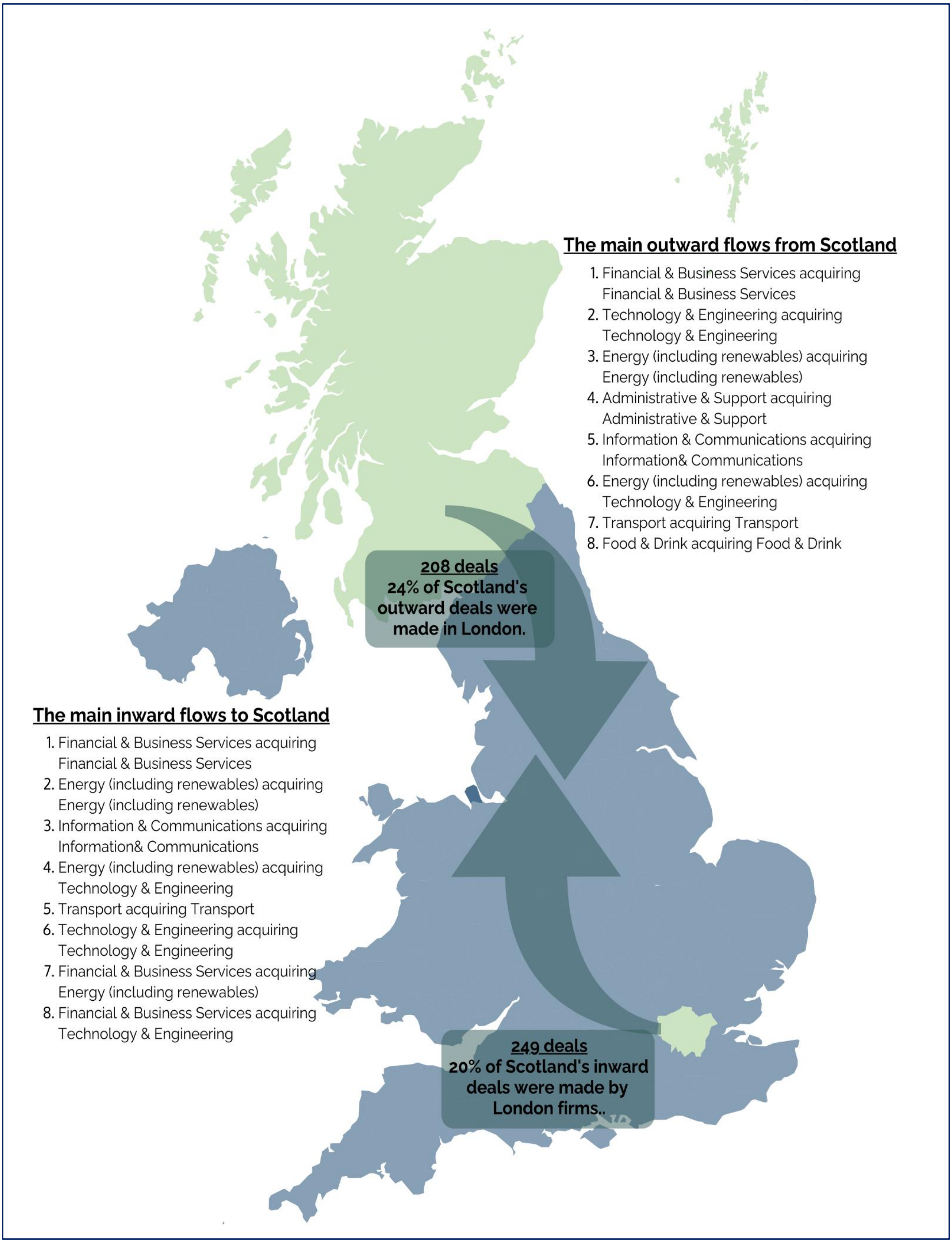
Figure 14 - Nations and regions of the United Kingdom context[7]



Source: Analysis of Zephyr data

[7] in these comparisons Scotland is not treat as a separate nation to the rest of the UK, it is treated as *part* of the UK. This enables these specific comparisons to be more insightful.

Figure 15 - The extent of London within Scotland's acquisition activity



Source: Analysis of Zephyr data

Data analysis findings

- Scotland has one of the lower number of inward acquisitions of businesses, but the rate across the business base, is slightly higher than some European nations.
- Scotland sees more inward deals than some similarly sized nations amongst its young business population, but not by a significant number. Despite this, Scotland's young acquired population makes up over 10% more than any other nation.
- This suggests *the number of deals* is a bigger issue than the acquisition rate of younger Scottish businesses.
- Scotland has the best percentage rate of keeping inward acquired businesses active post-deal, and the active rate is highest in those aged under 10 years at the date of acquisition.
- Scotland, *by a considerable margin*, is the least acquisitive nation in total number of deals, as well as by percentage of the business base.
- No nation made fewer outward acquisitions than Scotland. Whilst France had a lower percentage rate, it had a higher total number of outward acquisitions being made.
- Scotland has the highest *percentage* of its outward acquiring businesses, aged under 10. But this is of a smaller overall number of deals made by Scottish businesses.
- When the overall number, and percentage of those aged under 10 years are combined, Scotland's total outward young business activity becomes greater than four similar, European nations, suggesting more younger Scottish businesses are using acquisition.
- Post-deal active rates are higher for businesses making outward acquisitions. In this regard, Scotland comes slightly below average across the European nations, at 85%.
- Intra-activity is low in Scotland, but the lower rate and lower total in Scotland is more comparable to other nations.
- For the acquirer and acquired intra-acquisition businesses, whilst activity as a percentage, among young businesses is higher in Scotland, overall numbers are among the smallest across European nations.
- Among intra-acquirers, the post-deal active rates across nations are marginally lower than the outward post-deal active rates. Scotland is one of the better performers in this regard.
- Scotland's post-deal active rate is lower for intra-acquired businesses, but its ranking compared to the other European nations, is higher than for the intra-acquirers.
- Compared within the UK, Scotland is in the top half in number of deals and deals as a percentage of the business base, across each deal type (inward, outward, intra).
- Whilst in relation to European nations, Scotland's acquiring activity is the lowest; compared to other regions/nations in the UK, Scotland has one of the better total number of acquisitions made.
- Whilst the European context may be more challenging, the UK comparisons paint a better picture, and suggests Scotland's acquiring activity may be relatively stronger than perceived than if just looked at internationally.
- One of the most telling findings for acquisitions in the UK context is the dominant position of London. This may, in part explain why Scotland compares similarly (and slightly favourable) to rUK regions/nations but less so to European nations.

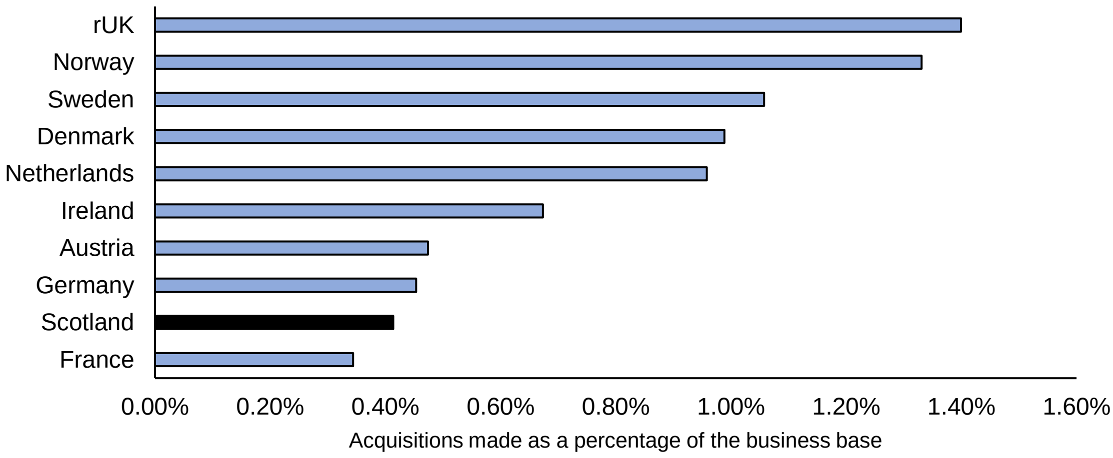
Key points emerging

1. Scotland has an acquiring, not an acquired business, problem.

- The number of acquisitions of Scottish businesses is in line with any comparisons available, across other nations, regions, and countries.
- The number of acquisitions made by Scottish businesses is low, very low in some comparisons across European nations.
- This gap between the acquired and acquired levels in Scotland, due to the lack of acquiring, is the biggest of any nation.

Scotland has the lowest acquiring rate (behind France, who has a much larger business population do not forget), and the biggest gap between the inward and outward rates.

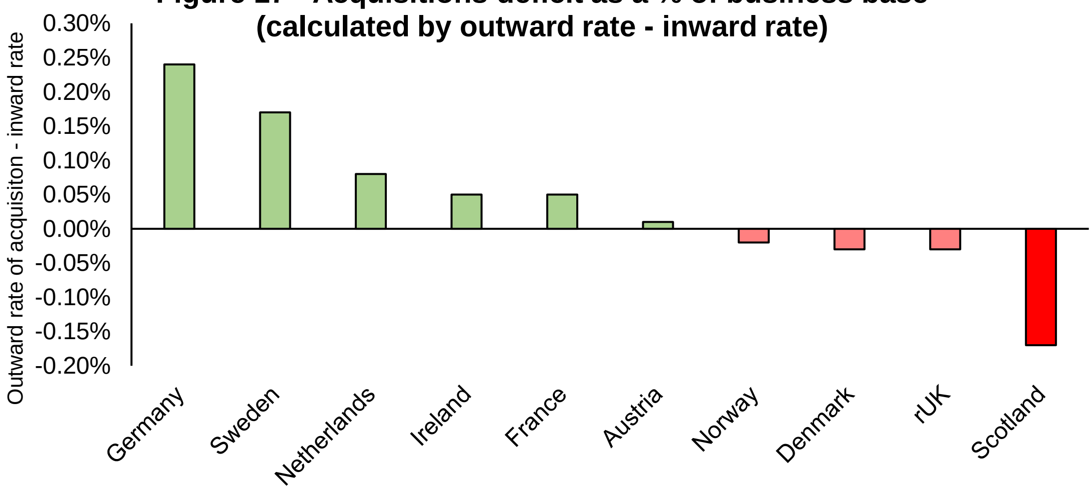
Figure 16 - Total acquisitions made as a percentage of the business base (2003-21)



Source: Analysis of Zephyr data

Whether you look at absolute totals or the percentage of the business base, Scotland has an acquiring problem. Nowhere is this more evident than in the deficit between the inward and outward rate across the European nations.

Figure 17 - Acquisitions deficit as a % of business base (calculated by outward rate - inward rate)

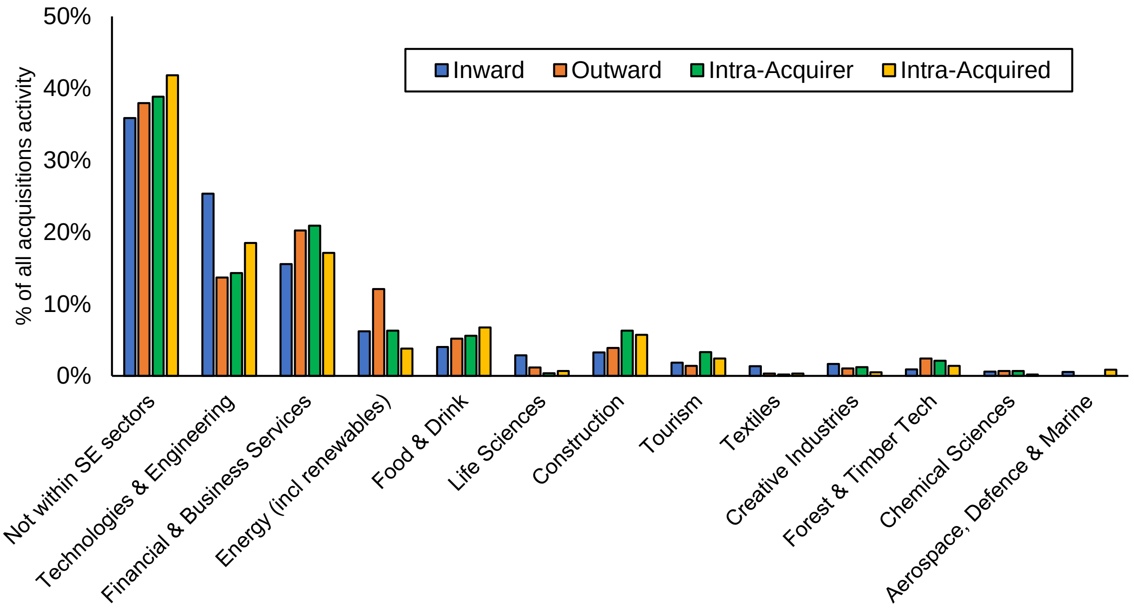


Source: Analysis of Zephyr data

The UK comparison in this regard, offers a crumb of comfort as Scotland's deficit is similar to other regions – although it remains one of the worst among these[8].

2. ***Activity spans all parts of the economy, with those industries outside the traditional support priority for economic development agencies, combining to be greater than any industry supported by agencies.***

Figure 18 - Sector breakdown of Scotland's acquisitions activity 2003-21



Source: Analysis of Zephyr data. Click here for a more detailed, interactive breakdown.

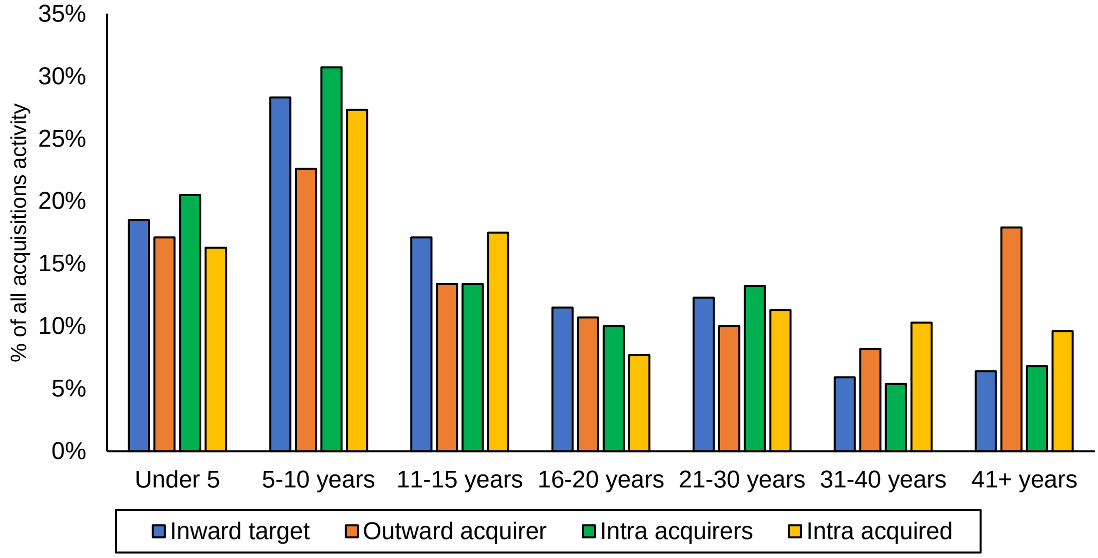
3. ***Activity in Scotland is being driven by younger businesses.***

This is where a greater difference emerges.

Figure 19 shows the age profiles of Scottish businesses engaging in acquisition (at the time of the deal being completed). It shows activity tends to occur early in business life cycles, before becoming less frequent post 10 years for acquiring, and post 15 years for being acquired.

[8] Acquisitions deficit (UK regions and nations, 2003-21)

Figure 19 - Age breakdown of Scotland's acquisition active businesses



Source: Analysis of Zephyr data.

The evidence suggests acquisition is undertaken by younger businesses everywhere[9]. Yet Scotland has the highest percentages aged under 10 across every type of acquisition, sometimes by double digit percentage points. But as Figure 20 shows for all types of deal, it is *not a higher number of businesses*, with Scotland seeing similar totals aged under 10 to other European nations[10].

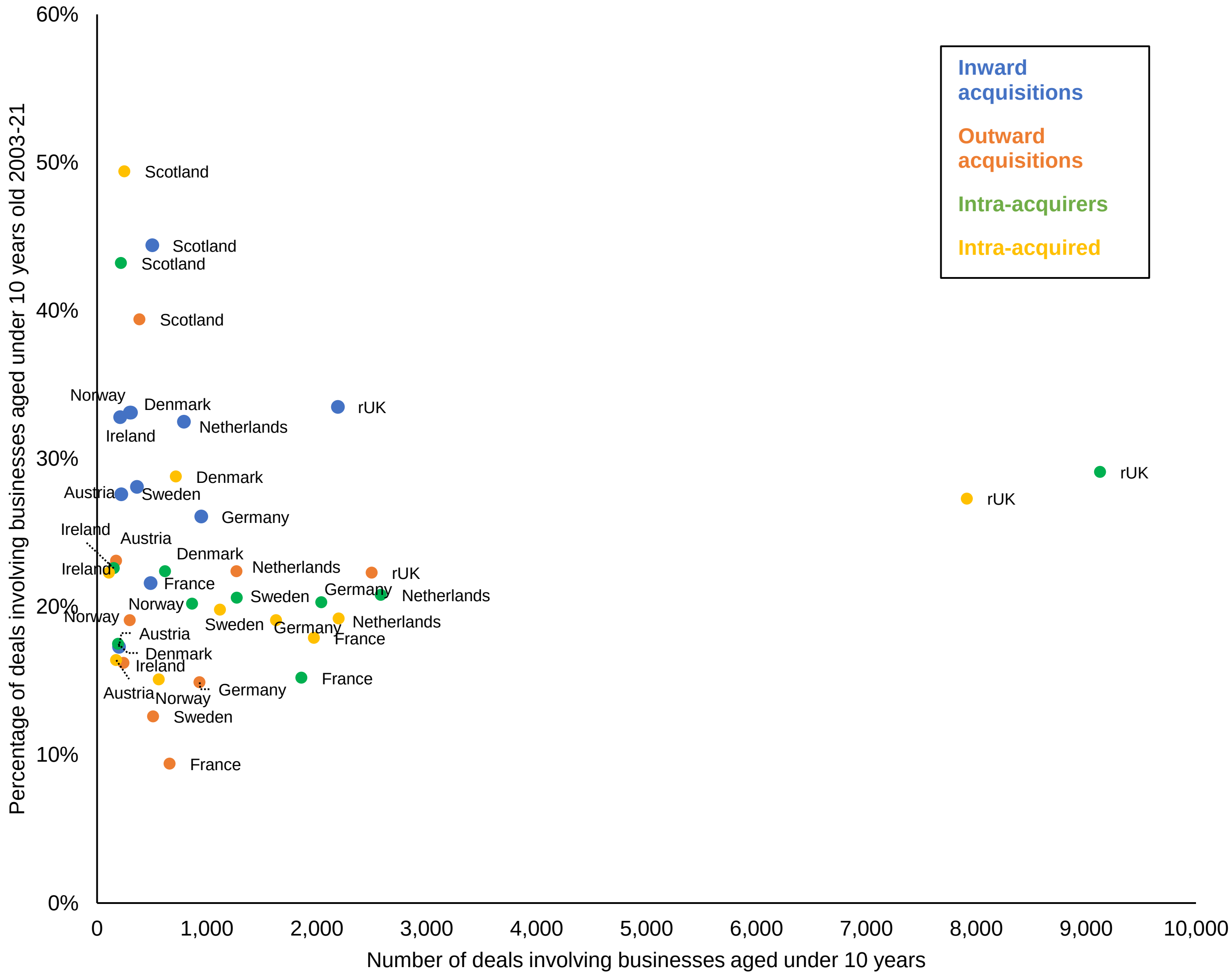
This suggests two things are emerging, leading to this higher younger percentage rate:

- Scotland has more young growth businesses using acquisition than other similar sized small European nations; and
- Scotland has fewer businesses aged over 10 engaged in activity than these nations.

Scotland's performance dominates the top left corner of Figure 20, where high percentages but low totals of under 10-year-old businesses feature. This shows the higher percentages for younger businesses in Scotland is *due to the lack of acquisition activity by older businesses in Scotland* (relative to elsewhere).

[9] More detail for inward, outward, intra-acquirers, and intra-acquired businesses, can be found at the relevant links.
[10] An interactive version of this chart can be found here. With individual ones for inward, outward, intra-acquirers and intra-acquired businesses.

Figure 20 - Percentage of deals involving businesses aged under 10 years - all deal types (2003-21)



Source: Analysis of Zephyr data. To see the same analysis but for those aged over 10 years see here. To interact with the data, see here.

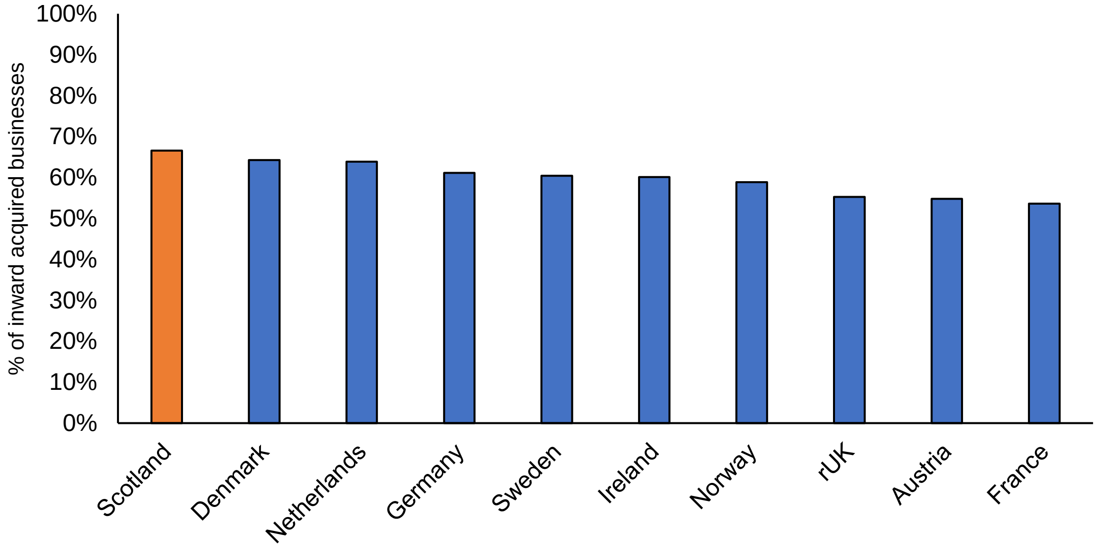
Two questions emerge from this:

1. The first is a policy question. Rather than focus on what small number of deals coming into Scotland, should the focus not be on the lack of deals going out of Scotland?
2. The second is answered immediately in the next section. With the signs being growth and growth potential young businesses are using acquisition early, this might lead to concern over what is happening to these younger Scottish businesses, particularly those being acquired from outside Scotland. But there is no evidence for this fear…

4. Scotland is the best nation at keeping inward acquired businesses active in the nation.

This was first highlighted in 2014 and has been the case with *every* update, since. Scotland out-performs all others in keeping businesses active in their own nation after an acquisition.

Figure 21 - Post-deal active rates of inward acquired businesses by nation (2003-21)



Source: Analysis of Zephyr data.

The above represents their status as of January 2022, and the active rate in Scotland is highest among inward acquired businesses aged under 10 years old.

Does this suggest these are acquisitions that are asset-stripping, closing operations, and so on, or are they are moves taken to continue growth; to secure faster access to new markets, investment, skills, technologies, market share, etc - in short, *grow the business*?

In this regard, the younger businesses being acquisition active in Scotland is a good thing and reflects their growth ambition *as well as* striving to achieve that ambition (as too often in policy circles, having ambition is spoken of as the same as taking actions to deliver on it, when they are very different).

Scotland having more (total) businesses aged under 10 engaged in acquisition despite smaller business populations in other nations, suggests Scotland's younger businesses are better at growth than peers in other European nations. Add in the best inward acquisition post-deal active rate and we see again the challenge is *not* the coming into Scotland.

This is important because it strengthens the argument about younger Scottish businesses using acquisition as part of a growth strategy rather than a *'sell up and get out'* approach.

Growth is what this is really about, not just having more acquisition for the sake of it. Continuing on this pivot into growth, *this will now become the dominant theme of this research report* – ***the role acquisition can play in growth***.

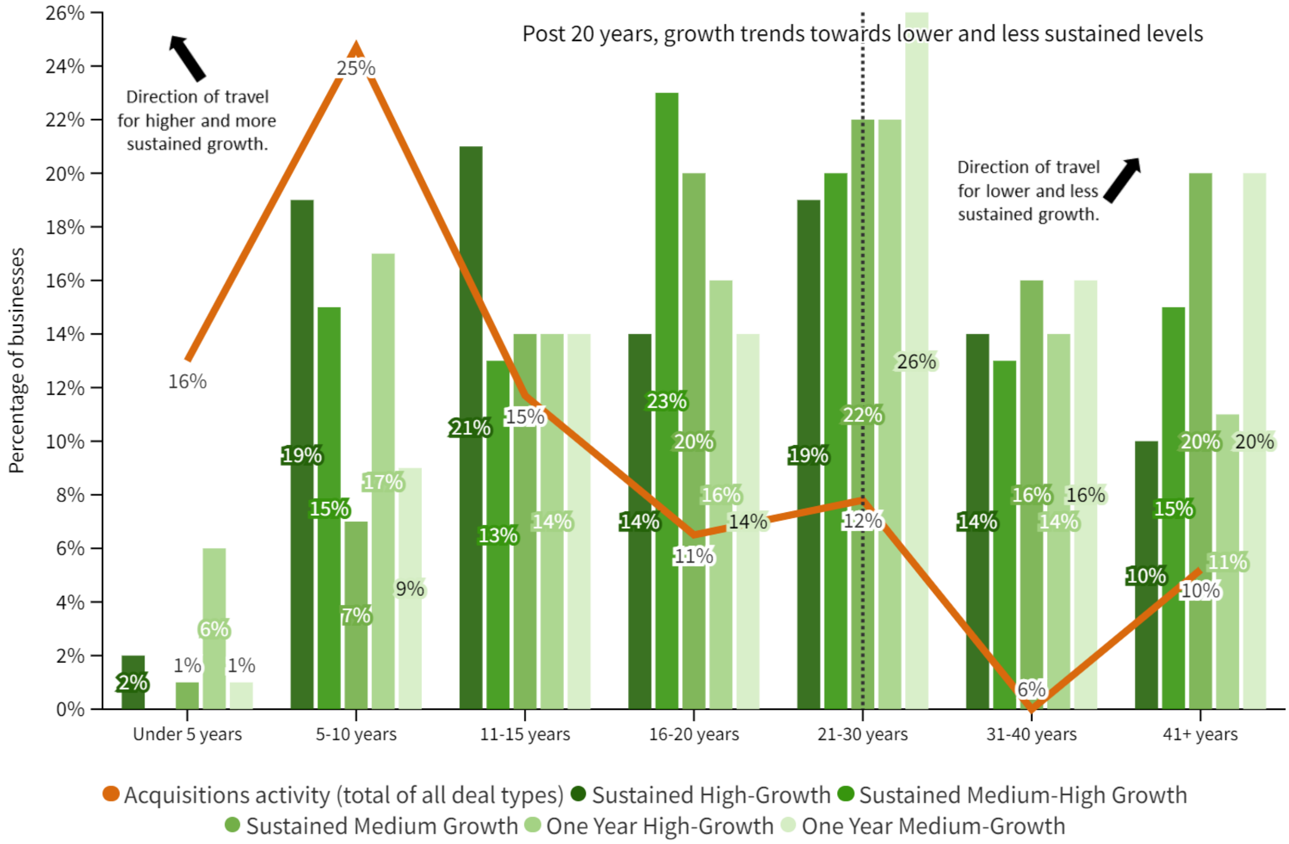
5. *There is a link between acquisitions and sustained growth.*

Scotland has the best performance for its post-deal inward acquisition businesses remaining active, and while the rates are higher for outward and intra-acquirers (as you would expect – and is seen across all European nations), Scotland's relative performance is not as strong, particularly in the outward acquisitions, where they have gone outside Scotland to make deals.

This may matter because it suggests some ambitious Scottish businesses making acquisitions are, by ultimately closing, perhaps finding difficulties in their post-acquisition phase. This cannot be proven by any definitiveness, because closure could be due to any number of reasons. However, Scotland having slightly lower rates than elsewhere is worth noting[11].

More widely, the acquisitions evidence allows us to visualise a link to sustained growth performance. The chart below plots by age, acquisition activity against growth businesses and their level of sustained growth performance.

Figure 22 - Growth business performance and acquisition levels in Scotland 2016-2020



Source: Analysis of Zephyr data. [Growth Businesses in Scotland (2016-20)]

Growth performance definitions:

Sustained High-Growth – Two of more years of 20%+ turnover growth.

Sustained Medium-High Growth – Two or more years of 10-20%, and one year of 20%+, turnover growth.

Sustained Medium Growth – Two or more years of 10-20% turnover growth.

One Year High-Growth – One year of 20%+ turnover growth.

One Year Medium-Growth – One year of 10-20% turnover growth.

The above chart, combining the Zephyr analysis with previous original research looking at growth dynamics in Scotland, begins to establish a link between acquisitions activity and higher levels of, and more sustained, growth performance.

If we assume the impact of an acquisition occurs in the years post-deal, with higher levels of acquisition activity (the orange line) in the under 5 years, 5-10 years, and 11-15 years, then growth performance in these and their subsequent age groups (shown by the higher levels of the darker green bars, and the direction of the bars for each group leaning towards the left, which is higher/more sustained growth) will determine with acquisition is leading to growth and sustained growth.

[11] It has been checked, and this is not a consequence of the then-acquired Scottish business being acquired themselves. Fewer than ten of these were found in the now closed former outward acquirers.

The chart suggests this is the case. Higher levels of activity coincide with the higher and more sustained levels of growth, and once acquisitions activity begin to fall (at 16-20 years), the growth pattern shifts towards seeing more lower and less sustained levels of growth.

Acquisition is just one avenue to achieve and sustain growth, so acquisition levels are not the only driver of sustained growth performance, but there is a link between higher acquisition levels and then (over the next age phase), higher and more sustained growth, and more importantly, a link between less activity and lower sustained growth performance over time.

This also helps understand the younger age profile of acquisition-active businesses in Scotland, and the lack of activity amongst older businesses (especially in relation to other European nations). This suggests the rate of acquisition and growth rates are linked, with the wider growth challenges impacting and reflecting the low acquisition levels in Scotland.

Evidence signifying a wider growth challenge, which impacts the acquisitions rate:

- HGF performance amongst the weakest in the UK, and performance is weakening in Scotland faster than elsewhere[12].
- Whilst we are seeing more Scottish Mid-Sized Businesses (MSBs), growth in Scottish MSBs has been outpaced by foreign owned counterparts[13].
- As a result, the average Scottish MSBs have become smaller since 2010[14].
- Scotland's start-up rate is one of the lower ones across the UK[15].
- The pandemic has particularly impacted the new business creation in Scotland's main driver of new businesses – the City of Edinburgh[16].

Growth business analysis from 2021[17] corroborated this in more detail as set out above in demonstrating a link between acquisition activity and growth performance:

- Whilst the gap is closing, Scotland has a higher percentage of its business base not achieving 10% growth in one year from 2016-20.
- It also has a higher percentage of its business base only achieving one-year medium growth (10-20%) over the 2016-20 period.
- Scottish businesses are less likely to achieve then sustain high growth then elsewhere in the UK

These findings sit within a context of Scotland having a smaller business base per 10,000 population than elsewhere.

Scotland appears to be in a mutually reinforcing cycle. A lack of higher and more sustained growth reflects and drives a lack of acquisition activity. And a lack of acquisition activity leads to lower and less sustained levels of growth across businesses.

This also limits the level of knowledge, experience, and skills, being recycled into the wider economy to help other businesses grow and take advantage of acquisition as a growth tool.

The question is, how to break this cycle?

[12] Analysis and Benchmarking of Business High-Growth Performance in Scotland (2020)
[13] Mid-Sized Businesses in Scotland 2010-19 (2020)
[14] Mid-Sized Businesses in Scotland 2010-19 (2020)
[15] Business births, business deaths and business survival rates analysis (2021)
[16] Net business creation across Scottish local authorities 2014-20
[17] Growth businesses in Scotland (2016-20)

Conclusions

The evidence shows ***the pressing issue in acquisitions is the lack of Scottish businesses using acquisition as part of their growth strategy***.

Taking a wider perspective, ***Scotland has a growth, not acquisition problem***; and acquisition should be seen as one tool to help address the growth challenge.

The evidence shows in Scotland ***many young businesses are using acquisition*** to achieve their growth ambitions, and this is slightly more relative to other European nations.

What is holding stronger trends and performance across Scotland back is ***the lack of activity across the board***, but ***particularly in the acquiring***, and ***particularly among businesses aged 10-15 years and older***.

When considering what measures could be adopted, ***policymakers should take confidence in Scotland outperforming all nations for embedding inwardly acquired businesses to remain post-acquisition, especially amongst the younger cohort***.

The second half of this research, drawing on the previous studies on this subject, combined with new consultations with businesses and individuals across Scotland, sets out how acquisition has been used, can be used, and the pitfalls navigated, to achieve success.

PART II – THE ROLE ACQUISITION CAN PLAY IN BUSINESS GROWTH

The following is based on interviews with leading businesspeople with experience of being part of acquisitions, from all sides. It draws on, where appropriate, the previous studies on this subject.

What drives acquisition activity?

Figure 23 - Summary of the main overlapping motivations

1. The main over-riding reason, and sometimes the only reason, is to ***achieve growth****:*

    - Reflecting an ambition to strive to achieve more, and finding acquisition was the quickest way to achieve this.
    - It allowed businesses to break through barriers and obstacles to growth they were beginning to experience or felt were unable to be overcome without this course of action. For example, new markets, especially internationally.
    - It provided businesses with a stronger financial position, enabling them to take on more work, and a greater range of work
    - To meet the growth ambitions set by investors who have come into the business, looking for sustained growth over time
    - A way of bringing new personnel into the business (or transitioning others out), be that in any number of roles from Board to Management, newly created positions, and even the types of roles which make the business work – e.g., engineers, sales, those needing a number of people with a specific technical knowledge, etc.

2. Often aligned to growth ambitions, there is the need to *provide a* ***return for investors****:*

    - Investment for growth businesses comes in phases, with different levels and types needed and available as they progress through a growth journey.
    - Given investment (even patient capital) needs sight of an exit strategy before investing, exits provided an opportunity for businesses to use this to drive growth through bringing in new investors at a different scale, who have a different set of objectives as well as assets they can bring to the business, such as knowledge, market reach, greater levels of investment, a more 'patient' approach, etc.
    - Recycling arises as a result of this. Particularly with money but reputations of people, places, and sectors as well as the continuous learning from experiences of positive and negative acquisitions – a *buzz* is generated.

3. Linked to the above two reasons, though often more associated with the second factor than the first, an acquisition was sought to ***facilitate a management exit****:*

    - The desire for an exit focused the remaining management on their ambition for the business, and in some cases interviewed, use it as a springboard for growth.
    - Often this can best for the business to grow. It enables a new leadership, or skill set to come in, relative to what the business needs. This can align with increased external investment, or a particular approach needed that calls for a particular level or experience e.g., to compete against a rival, or to internationalise the business.
    - It can also lead to some degree of recycling. This tended not to be the exiting management, since this was usually the founder who was approaching retirement.
    - Instead, it was often those working within the business, who either stayed or left but had knowledge/experience gained from the exit process, perhaps had some cash to invest, and, freed from working in what was likely to be a family business[18] who went on to add value to another venture of their own, or business.

Source: The role of acquisition in business growth (2014) with additions from 2022.

[18] Given recent estimates have 84.1% of Scottish private firms, as family businesses (p.9).

1. To achieve growth

The primary objective for acquisition throughout this research has been to achieve growth. So much so, if it hasn't already become obvious, this evidence is less about acquisition, and more about growth. Acquisition is simply one means to the ultimate goal.

It is equally important to accept many of the driving forces are global, multi-faceted and almost impossible to shape. But businesses can respond to them, and we spoke with many Scottish businesses who were up for, and had risen to, that challenge.

Whether triggering a new phase or continuing a current growth phase, growth is why it is happening. It also ties to the evidence about age. All those businesses interviewed in 2014 and 2022 citing growth reasons, were aged under 10 years at the point of their first (and most of their subsequent) deals.

Businesses spoke about their growth potential in their domestic/existing market being *"maxed out"* and having reached or approaching a *"glass ceiling"* whereby further growth was simply not possible without significant investment, or 'addition' to the business, be those technology, skills, personnel, markets already established, presence in markets, investment, new investors, business acumen, new board members and advisors (and many others).

We heard how challenges from competitors led to moments where the business and its leadership faced a decision; *"to manage in effect a declining business as part of a race to the bottom, with constant cutting of prices, or to fight back and grow"*.

Sometimes this was competitors securing significant investment, above what was available within Scotland or having new competition emerge from a rival with deeper pockets who was *"able to sustain losses for longer, in effect causing a race to the bottom"*.

Seeing a ceiling to their current growth ambitions led to a realisation for businesses they were *"at a crossroads"*. Growth opportunities were felt to be limited. As one Managing Director put it, over time, *"you'd be in effect managing a declining business"*. In this situation each felt an impetus to strive for more, and to do so mean they had to consider either an acquisition or sale as an avenue to growth. There was an ambition behind their decisions, something those not in the private sector often assume is missing or lacking when a business is acquired.

Growth ambition was described in multiple interviews as reflecting a business need, and subsequent benefits of being able to be a *"one-stop shop"*, delivering a full suite of products or services in one business. Being able to grow depended on securing bigger contracts with clients who demanded the simplicity involved from having one business interfacing with them for all aspects, rather than having to have multiple contracts across multiple businesses.

Businesses had considered alternative routes to growth, including investment and diversification to grow, but felt no guarantee existed if or when the investment would pay off. One cited an example of a competitor in Scotland who had chosen to invest, but *"hadn't seen anywhere near the return they might have hoped for, and they have no real indication as to when they will, if indeed they do."*

Interviewees compared their approach which included acquiring or being acquired, which led to investment, to this investment-only approach. For them, it was the complementing of new people, new markets, etc, *with investment* (from the acquisition) that had produced the growth they sought.

Businesses expressed that they would have found it harder to penetrate further into markets, make necessary investment and access required knowledge, expertise, and contacts without acquiring or being acquired – and that the path they took was the fastest and most effective way for them to reach into those markets and networks. To build this up organically would in their view, take too long, be too costly and have a smaller chance of success.

One of the principal reasons which led to their belief that a 'glass ceiling' had been reached, was the need to secure and make further investment. One described their situation at the time as *"fine, but not explosive"* within a wider environment of competitors being acquired and through this, securing access to tens of millions of dollars, far beyond what they could achieve organically and via their own funding rounds.

After years of making investments into the business, its supply chain and workforce over a period of years, it was proving hard to sustain this within organic means.

> *"But when you think about it, the only way to get and keep any form of momentum is to grow via acquisition. How else are you going to do it? You're never going to be big by just organic means alone."*

This was the way in which they needed to add products and services. An acquisition was seen as the approach to take because whilst each business had an established and positive relationship with the bank, they were not able to secure the level of investment now needed.

At the same time, the business was also not able to find the additional resources from within to make the investment, not to mention the difficulties in finding and attracting staff with the necessary skills. It was about investment *and* other benefits, not necessarily one or the other.

This led to a consideration of all options as to how these aspects could be found. *"…and we felt that if we could get a buyer who would make the investment, show the commitment to our workforce and our brand in Scotland, then it would help us, but also help them too. We had a lot to offer them in return."*

At this point it is important to flag up the personal side of these stories. To get where the business was at the point acquisition became (or appeared as) an option, took a toll on those leading it. Given the twin challenges of maintaining growth and doing so within an environment with greater challenges especially being eclipsed by competition with access to deeper pockets they do not have, and (as was noted), the risk of going out of business.

Decisions were being taken within this context. In some ways, this made the choice for some, quite simple. *"Do we stick with it for a couple more years and likely end up facing the same decision then, and two more years of mental drain?".*

This being said, it was emphasised how important it was to find the right business to secure the most beneficial deal. As one Chief Executive put it *"It's not the biggest cheque, it's who would work with us to grow in the long-term."*.

Deals were often seen and described as a partnership, despite being acquired. As one MD of an acquired business put it, *"we had hit the limit of what we could do standing alone, it was time to partner up.".* They explained the deal was struck between two businesses with different objectives, but similar aspirations to grow.

Whilst the Scottish business was seeking to expand its international footprint alongside and secure the additional investment required to improve productivity, the acquiring international business was keen to expand into the UK, particularly into Scotland, giving it proximity to identified growth opportunities.

For this business, within the first-year post-acquisition, there was heavy investment in machinery and the plant, above what would have been possible without it; *"It also showed our staff that they were valued and part of what we wanted to achieve."*

Further examples showed acquisition secured instant access to additional benefits. In particular, having expert support and resource to draw on and secure skilled staff were cited as two hugely beneficial aspects from concluding the deal. It was repeatedly noted by businesses how challenging it was to find, recruit and retain skilled staff. In some cases, becoming part of a larger business with those skills, or acquiring a business with skilled staff enabled the Scottish business to enhance their products, services and ultimately the size of work that was able to be carried out.

Scottish businesses also saw being acquired as providing greater financial security, enabling them to compete for larger contracts with bigger businesses, in order to yield even greater returns. Achieving and sustaining the level of growth they were experiencing had meant stretching their financial capabilities as far as possible, but in turn this hindered them continuing this approach into the next phase.

In summary, when driven by ambition to achieve growth, the reasons for pursuing an acquisition came down to *risk* and to *speed*. On completion of the deal, businesses had a ready-made supply of various aspects they desired and needed to achieve their growth ambitions. This included skilled staff, machinery, networks, knowledge, and markets/orders. This often came with an injection of cash to invest.

The ability to obtain these benefits almost instantly allowed growth to be realised much quicker than attempting to build organically. It lends itself to the emerging evidence from the data analysis about higher and more sustained levels of growth in Scotland's businesses having a link to previous acquisition activity in the previous five-year period.

One final note on businesses seeing acquisition as an avenue to achieve growth, which gives insight into the mindset of these businesses and their leaders. We heard about businesses who had tried to use acquisition to achieve growth, and we heard about some deals which simply didn't work. But that didn't deter them from that mindset for growth:

> *"When it doesn't work, get out. Don't try and make it work because your ego needs it to. It just costs more time and money. … But we keep trying to find deals because that's how we'll grow and we try and make it work for growth."*

2. To provide a return for investors and also get in new investors relevant to their growth phase and ambitions

All businesses with any form of external financing knew there would need to be an exit for existing funders and continually factored this into planning. This awareness meant they were ultimately able to both provide a return to those investors whilst using the deal to shape the long-term future of the business through securing new investment for a new phase.

For example, one fast-growing young Scottish business had always been aware their initial investors would require a return but in the interim period had undergone a period of substantial growth. At an appropriate juncture they began to work on considering the range of options open to them to find the next phase of investment, whilst facilitating the necessary return for the original backers. This was a long-term approach spurred in part by the knowledge an exit would be eventually required.

The situation that several businesses faced was summed up by one Chief Executive of a business who was acquired by an American firm and remained in charge of the Scottish office of this global business, which became the Northern European hub at a later date:

> *"It also meant that I focused less on the next round of funding – I don't think people really understand how much that can take up your time. It's all about moving from funding round to funding round, you never seem to look beyond that. You can't. It takes over and you aren't running the business and making it grow. It does grow, obviously… but you're not devoting as much of your time to make the most of it because you're always focused on the money.*
> *Being part of the NAME WITHELD means I can focus on our customers, our role in the business, getting more and bigger business in, making links across the globe and think more strategically."*

However, the 'wrong' type of investor can also necessitate an exit – sometimes earlier than might have been desired. We heard how in a couple of instances how investors agitated for exits earlier than might have been optimal, and this was not driven by *'greed'* and a desire to make money quickly, but to minimise risk, often as a consequence of a lack of understanding of the sector, or market, and get a return *"as soon as it was enough to cash the chips in"*.

It should be noted this particular type of exit was only raised in relation to brand new markets, where a proven track record for businesses did not exist, and indeed couldn't have, which limited any investor understanding. Particularly as this was new, many investors tend to stay away from perceived riskier investments, so (as was noted), *"I got what I could from who'd offer it"*. In this particular instance, this lack of understanding coincided with a desire for an exit from management (due to needing a break) to bring about an acquisition that, on reflection, was perhaps a little earlier than would have been ideal.

But more positively, and certainly since 2014, it was felt the calibre of investment has continued (and continues) to improve. Several references were made to the increasing maturity of the investment landscape in Scotland, as well as the improvement in the knowledge and patience of investors, with willingness to invest greater sums into business. This had played a role in ensuring acquisition was taking place when it made sense for the business to seek to continue (or kickstart another) growth trajectory, not for any other reason.

The evidence here highlighted the importance, not just in regard to acquisitions, but more widely, of having the right type of investors at the right stage of the business. Individuals or groups equipped with a market knowledge and understanding of the landscape and the goals of the business, are essential at every phase as the business develops and grows.

3. To achieve a management exit

For some interviewees, the explicit aim from the outset of the business was to achieve an exit and secure a return on investment. For others, as the business had developed, an exit had been sought for different reasons.

In each of these cases whilst the acquisition may have primarily been about facilitating an exit, it was ultimately sought to be used to seek a path to growth as a 'trigger' point to take the business forward.

One aspect that may have contributed to this was that the entrepreneur seeking the exit also wished to maintain their reputation in their chosen field to allow them to continue to work loosely in this area (in some cases), and having the business being seen and recognised as successful was central in this.

Criteria had been inserted into the sale contract to retain brand name, key accounts for the acquired business and guarantees for staff that remain, also securing benefits for the Scottish economy. It shows that whilst a management exit may have been sought, it was not simply about getting out and leaving the business to the whims of its acquirer.

> *"We spent years on this business, it's our legacy so we weren't going to hand it to just anyone. They had to make sure it worked for us beyond the sale, otherwise we'd have looked elsewhere."*

Another said, *"the top priority for us was everyone who wanted a job and wanted to stay had a job… they all got uplifts, bonuses and the business really wrapped their arms around staff."*

One important factor referenced earlier and highlighted again in this form of exit is the strain and toll that starting, growing, managing a business over a period of years can have. Even the most relentlessly driven individuals need a break, and we heard from individuals who had been there – spending many years working on building up a business, who found themselves burnt out, and recognising the toll this was taking on their family.

This often gets overlooked. Sometimes analysis of the economy is exclusively about what can be put into charts, compared, and measured, and the human element is completely forgotten or disregarded. We had several cases where acquisition provided a route for breathing space after years of grinding away. Where a return from an exit is a way to enjoy the fruits of years of sacrifice and effort, how can anyone without any of that emotional, physical and time investment deny someone who has taken the risk and put the effort in, a chance to be rewarded for their endeavours?

How do they approach acquisitions?

Every individual spoken to as part of this research, has stressed that the time before even being proactive on acquisition, beyond thinking about how it could be part of their growth strategy (either the main part, or an accessory to the overall strategy), is vital to its overall success through to the post-deal period and any subsequent growth.

Preparation

The time, thought and action put in here, was seen as the biggest determinant of success. Businesses report being presented with opportunities for acquisition all the time. Opportunities present themselves frequently, which we were told meant having these fundamentals to your business consistent in everything it does, ensured the right ones were explored and seized on, whilst others were allowed to pass by:

- Its purpose
- Its strengths (and its weaknesses) relative to its market and competition
- Its short, medium, and long-term goals and milestones

A sage piece of wisdom given to one of our interviewees from his Chair summed it up. *Your objective should be to build a good company, as good companies get acquired, and if not then you've got a good company.*

This solid foundation enabled what could be termed as *'strategic opportunism'*. Having a clear goal, but when opportunities arise, seizing on the right ones, and building off the solid fundamentals running throughout the business.

Having this foundation enabled businesses to seek out partnerships, collaborations, joint ventures for product synergy, sales, international expansion etc, to achieve growth. Existing relationships were the most prominent avenue from which acquisition evolved.

In one example, we were told how this worked:

> *"We weren't actively for sale…. We discussed at Board level going out to offers and letting it be known we were looking for one. But the Chair advised* (authors note – using his recycled knowledge) *not to do this. Because he said the minute this becomes known, you <u>have</u> to sell. It can have a negative impact on the business because it creates uncertainty. Clients and customers can easily move elsewhere if you're visibly touting a sale."*

Interviews highlighted how deals usually emerged over time, rather than being part of a deliberate process to identify targets or being scouted. Businesses knew each other, or at very least were familiar with each other. This familiarity increased, in the eyes of the deal makers, the chances of success.

Acquisitions can be used as a model to achieve growth, but the likelihood of this depends on a range of factors which increase the chance of success and failure, as noted in the interviews carried out for this, and previous studies.

The knowledge set out below, from interviewees, can provide lessons for businesses and policy makers to ensure that when an acquisition is explored, elements which bring the greatest chance of success can be implemented. It can also help ensure more businesses are properly equipped in both resource, capability, and time, before taking this challenging step.

Figure 24 – Aspects of preparation that need to be considered when planning and executing an acquisition as part of a growth strategy (either acquiring or being acquired)

Successful	***Unsuccessful***
Leadership possessing a long-term vision for growth. Retaining the right people in the acquired business. Having clear objectives in selecting the opportunities to pursue and knowing how this business will accentuate the existing firms' attributes. Having suitable, experienced external professional advisors, giving the business and its management expert advice and support. Clear plan for the early post-acquisition, including how to embed synergies, clear communications, assertion of the new business direction. Taking time to rationally and objectively research options in order to identify the most beneficial deal partner, and in valuation. Passion for what happens to the business post-acquisition (exclusive to inward acquisitions). Clear communications from initial engagement of target, or with potential acquirer, throughout and especially in the post-deal period. Post-acquisition, investment in the business, presenting a clear commitment to the business and its workforce (in Scotland or in the acquired nation). Retaining the incumbent management and/or staff when they bought into the vision of the acquirer and had understood the role they would have. Management's ability to adapt and identify and seize appropriate opportunities. *"Luck"* and taking advantage of fortunate and timely circumstances arising and coinciding with available options.	A lack of clarity about the ambition and focus. Lack (or total absence) of external professional advice, to support either the acquirer or the target through the deal. Communications - Not including all staff from both businesses when sharing key messages, expectations etc. Lack of clarity about the prevailing culture, creating an air of confusion and allowing dissatisfaction to take hold. Allowing the heart to rule the head in decisions. A lack of resources invested in considering the merits and risks involved in potential targets/suitors. Under-estimating and/or not considering how to manage the business across multiple sites. Unrealistic valuations, unrealistic expectations of projections, value, and revenue to be generated, on either side of the deal. Retaining the incumbent management/staff when they had not bought into the vision of the acquirer and/or had not clearly understood the role they would have. An inability to recognise a changing environment, globally or within sectors. Hesitating and enabling opportunity, or a window of opportunity to pass by. An owner/investor only focused on their exit. *"Bad luck".* Being too ambitious or too conservative in plans. Failing to appreciate cultural differences across businesses and/or across nations.

Source: The role of acquisition in business growth (2014) with additions from 2022. ***These are ranked according to the frequency though which they were mentioned, with 1 being the most frequently identified.***

However, when faced with the opportunity of an acquisition, not all businesses considered in full every potential available opportunity. This tended to be the case amongst those acquired, primarily to facilitate a management exit. This was due to a combination of a lack of time and general unawareness of alternatives that could deliver the exit. But between 2014 and 2022, there does appear to have been less of this, which is a positive trend.

For those businesses who put time and resources into considering their objectives and laying down a clear plan to deliver on these, their experience was more positive. They felt more strongly that they had achieved, and in some cases, surpassed their ambitions. Whilst the pre-deal diligence was exhausting and thorough, it was believed to be time and energy well spent.

Those businesses for whom acquisition arose more from circumstance, whilst they did not regret decisions taken, it was acknowledged that some aspects may have been fortuitous and more diligence could have been undertaken to ensure the deal was the best outcome.

Again, interviews highlighted some of the knowledge they wished they had on reflection:

- *Here's how you value a business*
- *Here is how you evaluate whether it is a good fit*
- *Here is how you go about making an approach*
- *These are the sorts of advisors you need*
- *These are the types of financial support, other considerations to have*
- *How to approach communication and culture*
- *What to be ready to do as soon as the deal is completed*

Culture and communication

This preparation informed the second most important aspect, which was *universally referenced*. That was *culture*. We were told *"I cannot stress enough how important culture is, and I mean from the start. What is the businesses' culture now and in the future? You have to be clear and consistent before even starting to approach any deal."*.

Synergy is a word often cited as rationale for acquisition (especially in the literature), which usually is referring to bringing together the business services or offerings. But equally important is synergy of cultures, or more accurately according to interviews, a clear direction of which culture is to prevail.

More often than not, when bringing together two cultures, the most important one (and the one that prevails) is that of the acquiring business[19]. But the imposition of this can cause issues to arise. The experiences we heard referenced a need for absolute clarity in advance of what the direction, ethos and culture of the post-deal business will be. This will enable it to be articulated, to the incoming staff, customers, clients, investors, shareholders - everyone.

> *"When you are the acquiring business, you need to remove the perception there is a choice. The perception of a choice will ultimately make the new people coming into the business unhappy if you create the idea there's a choice which in reality doesn't play out. You are in danger of pissing people off. … You need to be clear and assertive. This is who we are, and what we do, and what we want to do. It is not about cultural alignment. It is about being part of <u>this</u> culture."*

It was acknowledged (from experience) this vacuum can emerge due to good intentions and in speaking *"corporately"* to provide reassurance in a time of change. But ultimately this was counterproductive since it creates a lack of universal understanding. If you set the trajectory

[19] This is not universal. There have been cases in the course of this, and previous, studies, where the culture of the acquired business became the dominant approach post-acquisition. This serves again, to highlight how unique deal-making and the impetus for acquisition, can be.

and are clear in your goals and be prepared to move on those who are not buying into these goals, you will be left with the core, *"who make the business sing".*

> *"Businesses need, in services especially, to be OK that you are going to lose some people. Don't lose them all. Don't lose the difference makers/the core drivers of performance but do lose those who don't make any difference."*

The above experience was learnt the hard way, though not doing this with an acquisition and struggling to assert a new culture as a result, before being corrected in future deals. It is another example of recycling of knowledge, turning a 'negative' into a 'positive'.

Similarly, we heard other examples where a lack of consideration of how two different businesses would align post-deal, can have a negative impact – even down to time being wasted on what the new business name would be!

In this case, a lack of clarity extended to management failing to communicate, failing to deliver on those steps they said they would take, causing tension with the acquired management/founder of the business, to the point they exited the business.

Such a tense environment with a *'culture vacuum'* can lead to recycling and a wider, more positive, impact being felt than on one business, as this former founder continues to be active in this industry, playing a wide role through mentoring, supporting others, and advising Government on support for the industry.

A further wrinkle to this argument about the importance of culture and communication, was made in regard to small businesses. In small businesses, teams are often blurry with individuals 'helping out' in other areas as required. There are also simply fewer people, so as we were told, *"everyone pretty much knows and talks to, everyone else"*.

Therefore, if a lack of communication about the culture, the purpose of the acquisition, or any uncertainty exists, it is likely to permeate into other staff and other parts of the business, because of this former close-knit culture existing in the acquired business, now being part of the new post-acquisition entity.

We heard an example of this being caused by a former founder/CEO who was retained in the business post-acquisition, as part of an earn-out from the deal. However, their dissatisfaction with the new direction, and their marginalised role (compared to their previous role of being 100% in control) festered. Their relationship with their previous employees (now colleagues) meant this dissatisfaction permeated and created an issue.

This was not the only challenge, as it coincided with a vacuum emerging from a lack of a clear communications plan from the new management to these old employees, with the negative whispers from the previous leadership plugging this gap. This led to the former founder/CEO leaving several months into what was meant to be a three-year earn-out, but with some damage caused by his presence and negativity.

Equally, there were examples where former founders, management, and leadership, remained with the business post-acquisition, and this was a positive, beneficial experience. In one example, the CEO and the co-founder were asked to remain for the transition period, to *"act as a safety net"* for their former staff as they migrated into a global business. Neither had a desire to remain in the business longer-term for their own motivations (and both have gone on to share their knowledge and experience more widely than in a single business). Six months after this deal, the acquirer told our interviewee this *"was the best acquisition they'd done."*

These experiences corroborate two things, the first being the importance of culture and communications. The second is what these examples are ultimately about – talented people. The people who make the business work and who drive it forward. This applies both when acquiring and being acquired and applies to both existing and 'new' staff introduced via the acquisition.

Talented people

We heard the culture of the business is critical to success or not of any type of acquisition. But this ultimately boiled down to the people, and interviews highlighted the importance of talented people *throughout every aspect of the business* – from Board, to investors, management and through to all levels of staff.

This context emphasises the critical importance of the preparatory work outlined above. Interviews highlighted the importance of understanding the skills and attributes of the personnel in the target business - *as far as possible* – and ensure via the culture and via communications, the people of value are retained. We also heard how it can be almost as important to move on those not aligning to the culture and becoming a negative influence, as soon as possible.

One of the major changes since interviews conducted on acquisitions in 2014, is that acquisition to secure talented people – and in particular, *larger volumes* of talented people, features much more prominently as a driver of deals in 2022 than in 2014.

One interview with a business in a specialised area (giving market insights) brought this to life by citing several businesses were looking for hundreds of suitable staff. In this environment, it is logical for businesses desperate for talent on this scale to consider simply acquiring a business with them, in order to get them.

However, what this interviewee highlighted was that whilst this was the motivation – getting that talent needed to sustain growth or to push growth forward, experiences were often that many of this targeted talent often ultimately left. The reason was the lack of communication, and poor (or no) cultural alignment, which made these staff members feel unvalued, unwanted, and looking elsewhere.

It was noted however that no matter how much due diligence you do, you cannot truly get into the mindset of the important people. And you need to accept that no matter how *"good"* the deal may be, and how much consideration is given to embedding culture, there is the risk of two businesses coming together unsettling the people *"who make the business tick"*.

This even happens in deals (as noted on the previous page) regarded as *"the best acquisition they'd done"* because ultimately the tech talent didn't feel a tech sales led business was the right fit for them. It corroborates the emphasis made by all interviewees that you can do as much preparation *as far as possible*, but ultimately there are things beyond your control.

This term *'as far as possible'* is also pertinent in regard to people and talent. It seems obvious to say but acquisitions are pressurised activities, and since time is money, there is a pressure to do all the above as quickly as possible. There may not be time to do everything in terms of cultural diligence and 'softer' aspects compared to the formal requirements, e.g. paperwork, that must be completed.

These findings around talent begins to paint the post-deal active status of the business in a different light. A business can remain active post-acquisition, but if the talent, the people who made/make that business tick leave, then will the acquisition succeed?

We heard that one of the 'downsides' for any business is talented people often want to do exciting things and can get restless and get bored quicker and more easily, than those content to collect a pay cheque. This is why these talented individuals are the most important parts of any business. An acquisition might unsettle them, but equally anything else could too.

It was emphasised that when this is the case, with your talent, you can't really do anything about this no matter how hard you try and how much focus you put on culture and communications and wooing the talented ones. You can only plan *as far as possible*.

Wider post-deal consequences - recycling[20]

As noted, all discussions ultimately highlighted talent which evolved into what flowed either from the acquisition(s) being discussed, or other acquisitions. Given what we heard about talent, understanding the talent is vital.

The most visible trigger for recycling is an acquisition. As noted above, for one reason or another, for positive or negative reasons, examples were cited whereby not just the interviewee, but several of their former colleagues left or took the opportunity to enter entrepreneurship following the acquisition of their previous employers. Even when this was not immediate, subsequent changes in the acquired business can trigger recycling.

More than one interviewee cited that following an acquisition, their work changed or the business adopted a different outlook, which made them disillusioned and desire something different. This was not always negative, but often simply a divergence of personal ambitions or preferences to a type of activity or operating in smaller businesses than larger entities.

On reflection it is worth highlighting the recycling was always 'positive'. Learning and experience had improved knowledge and understanding for the future, and the chances of future success.

Our previous research shows it was the recycling of talent not money which had a greater impact on the economy and on the success of businesses. Interviews with investment groups and those actively engaged in the entrepreneurial ecosystem highlighted skills were most highly sought.

> *"Money's not really a problem. People who say it is more than likely just aren't able to get it. Maybe because their idea isn't good enough, maybe their expectations are unrealistic. But if you're good you'll get it. ... But I don't always know I can find who I will need. Then on top of that you don't always know if you're going to gel as a team."*

The greatest challenge appeared to be locating and utilising these people. Interviewees didn't know where to look if businesses were seeking someone with their experiences, and whether they even existed citing the lack of sector-level communications.

Yet, at the other end, several distinguished international businesspeople interviewed in 2015 all made a similar point when asked if they could see themselves returning to Scotland. They felt they could be presented with more opportunities, or they did not feel they knew where to look for opportunities beyond their own contacts and relationships.

Combined these likely explains the high importance attached to prior and existing business relationships. Without maintaining and expanding their relationships, they may be unable to find someone with the required skills, experiences, and abilities when the necessity arises.

This (in part, at least) could be assigned to the lack of acquisition activity taking place, generating new businesses, new growth phases requiring new skills, experiences and possibilities, new opportunities, and creating that fast-paced dynamism in the economy. So there appears to be a combination of a lack of opportunities with a lack of knowledge of where the limited opportunities are, also holding back potential growth.

More acquisitions by growth-oriented and capable businesses can in part, help unlock more opportunities and through recycling, generate more positive economic activity.

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[20] This section draws on the specific look at the recycling of entrepreneurial talent from 2015.

Figure 25 - Recycling occurring within the economy from acquisitions

Financial

- With the deal, entrepreneurs who have exited businesses have gone onto re-invest their return, across more than one business.
- Investors also get a return which they can invest into further businesses. If the exit is successful, this increases their appetite for that particular sector, type of business.
- Throughout the lifetime of the business, financial benefits have come via salaries, tax, supply chain, etc which have rippled out into the wider economy. In 2022 reshoring supply chains was mentioned as a bigger benefit than before.
- Acquisition has led to additional benefits being paid to staff, which are then invested amongst the local economy through retail and services.
- Growth in the supply chain, with the subsequent impacts in the local economy.

Knowledge

- Engagement with new practices, methods and businesses at a global level has given Scottish leaders experience and skills previously unavailable.
- Entrepreneurs who have exited businesses have gone onto share their learning and experiences with multiple businesses. Without their exit this knowledge could have been restricted to one single firm.
- Employees of Scottish businesses have been able to experience working practices in other nations, enhancing their skills and abilities, to increase their earnings.
- Knowledge of what works (and does not work) in acquisition, which can be shared in future roles within business or via routes such as mentoring.

Talented people

- Staff who have worked within a business who has grown and through that, have a range of experiences which they can bring to enable future growth of the business or to apply in another business, potentially in starting one up themselves.
- Entrepreneurs within Scotland who have started up businesses with a specific focus on products and services, to sell them on and then go back and work on establishing a further product and service.
- Investors and shareholders also learn, they see what has worked before and not worked before, and adjust their approaches accordingly, with greater confidence.

Reputation

- Acquisition activity involving Scottish businesses has raised the profile of Scotland, and its firms in certain sectors at an international level, which may lead to further opportunities from interested investors, businesses, international clusters, etc.
- The presence of Scottish businesses overseas, investing in a nation or region, also raises the profile of the business, providing opportunities to ‘piggyback’ others in on the back of this action.

Source: The role of acquisition in business growth (2014) with additions from 2022.

PART III – THE ROLE ACQUISITION CAN PLAY IN ECONOMIC GROWTH

This section highlights the main implications of this research.

It comes down to growth at speed

Acquisition is driven by and drives growth but Scotland has a lack of growth businesses <u>and</u> acquisition activity relative to other European nations, but not other UK nations and regions.

Acquisition can lead to growth *quicker* than organic routes across each type of acquisition.

The evidence has highlighted the factors businesses believe limit their growth potential, leading ultimately to consideration of the role an acquisition can play in realising their ambitions. Looking to remove these barriers can serve to provide businesses with *more options* over their future growth, enabling them to make the best decision available rather than be constrained towards any particular option.

However, it is highly unlikely resolving the flow of attractive talent, entering, and establishing in new markets, developing new products, adding services etc, will remove the *speed* factor which makes acquisition attractive.

The reality is acquisition provides these objectives quicker and the evidence shows Scotland has young businesses using this route to achieve (and continue) early fast growth and help sustain this. But Scotland does not have enough businesses embracing this route to grow, particularly those aged over ten years, and particularly in making acquisitions.

An interviewee set out their view about what was needed to stimulate interest in this area. It was emphasised this would be a medium-term approach due to the damage caused by the allowing of the pervasive negativity around this area, to prevail for many years.

1. *There needs to be a clear and reasoned explanation as to how it can be good for business. How it can create value and realise growth.*
2. *There needs to be clear explanations of how you make it work. Such as having a clear plan going in, e.g. getting external professional advice.*
3. *There needs to be support giving this information, raising the awareness, and helping aid understanding of how and why to use acquisition.*

Acquisitions have enabled, and do enable, Scottish businesses to grow – but not enough consider and/or then use it to grow

This research has found acquisitions of and by Scottish businesses can and does lead to additional benefits being created within Scotland, both for the business and the wider economy. There were three principal motivations for acquisitions: to facilitate growth, to enable a management exit and provide a return for investors. Each of these factors has acted as a trigger point for growth.

Inward acquisitions of Scottish businesses can and do bring additional benefits to businesses and the wider economy through growth in jobs, turnover, growth in the supply chain, investment in plants and machinery as well as staff. All of these benefits were above what the business would have been able to provide had it remained independent and may not have been able to provide through organic growth, certainly not at the same pace.

One of the reasons most inward acquisitions in this study have proved to be more beneficial, not just for the business but the economy, is because the acquired businesses have been embedded within Scotland. When discussing the motivations of the buyer in interviews, it became apparent the network of skills and expertise, and infrastructure, access to the Scottish and UK markets was attractive – and in many cases, essential features of the deal. It might be worth noting that advice and support from Government and its agencies was less frequently referenced in 2022 than in 2014.

These aspects lent themselves to an outcome which retained the business in Scotland post-sale, along with wider benefits to the business and economy, a view reinforced by Scotland's positive post-deal active rate compared to other European nations.

Cross-border acquisitions are time-consuming and resource intensive and can draw away the benefits assumed to flow back to Scotland, such as the repatriation of profits. The experience of the businesses included as case studies here is that acquired businesses in other nations require significant investment and attention from their new management, resulting in a lack of focus and investment in the headquarters back in Scotland.

The assumed wisdom is an inward acquisition leads to repatriation of all profits, all benefits, and the host nation sees none, which is a very simplistic way of thinking about this. It is evident being acquired from outside Scotland invariably led and leads to some profits made in Scotland not remaining here. That is inevitable and indeed stopping it would be nigh on impossible without causing much more damage.

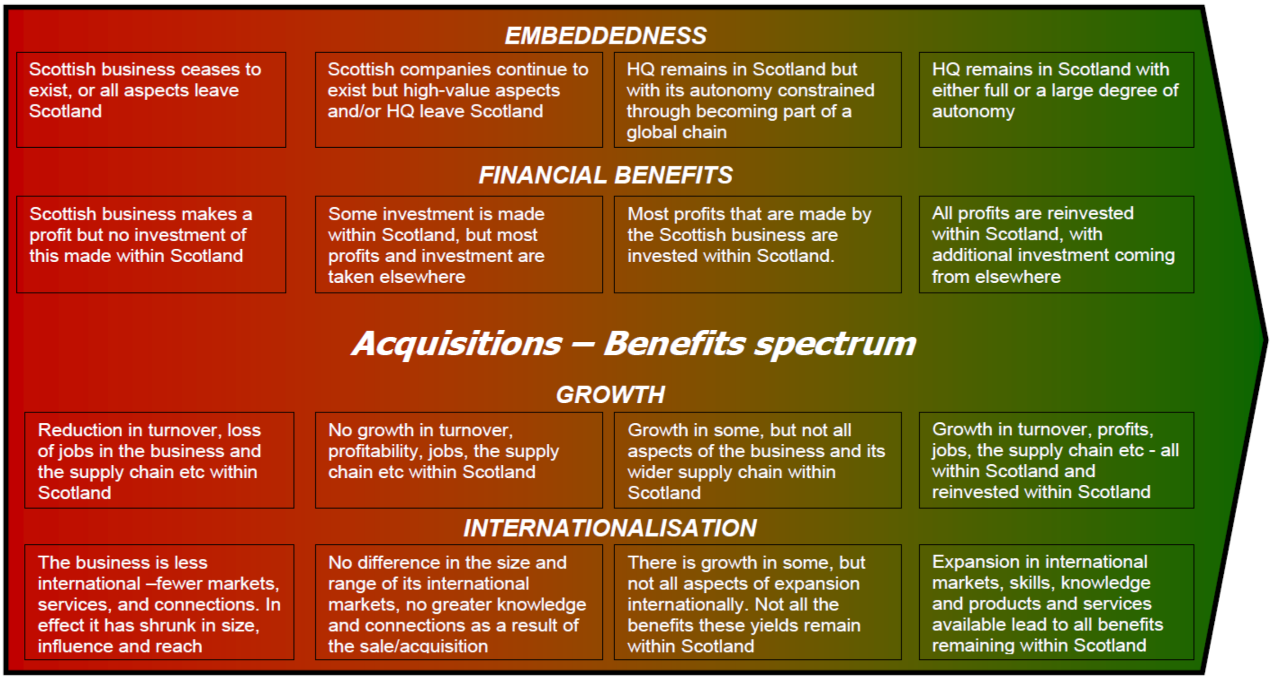
However, it was emphasised that without the acquisition, the business would not be experiencing the growth in jobs, the supply chain and have secured the investment it did. They would also not have access to international networks, larger contracts, and greater expertise.

In the minds of management some degree of profit not remaining within Scotland was an acceptable trade-off in order to secure wider benefits within Scotland for the business – and for the wider economy. Again, the emphasis is to look wider at what happens in an acquisition. Looking just at profits is missing much more. Profits (often more than originally envisaged) end up being invested in the acquired business, in order to make the acquisition succeed.

To aid understanding of the complexities involved in cross-border acquisitions to support the development of approaches to ensure as far as is possible, the benefits can be maximised, a spectrum plotting 'best' and 'worst' case scenarios has been developed.

But Scotland is already doing well in this regard, albeit from low overall numbers. Any approach first needs more businesses to grow, or have the ambition to grow, and see acquisition as part of achieving this.

Figure 26 – Acquisitions benefits spectrum



Source: The role of acquisitions in company growth (2014).

A greater chance of success boils down to preparation - ultimately driven by talent

There is no magic bullet to acquisition succeeding. There are simply too many factors at play.

But this is not to say there are not things businesses felt equip them to give it the best chance of success. Figure 24 set out the factors that gave a greater chance of success (and failure) and this in essence boiled down to a *clear and consistent business culture, effectively communicated to bring talented individuals along for the ride to deliver the growth sought*.

Businesses also see ways in which external support could support and encourage more businesses to consider this route. But this needs to be considered and seen in *the wider context of growth* – beyond purely acquisition.

It seems obvious to say but acquisitions are pressurised activities, and since time is money, there is a necessity to do all the diligence and paperwork as quickly as possible. Some interviewees showed how they used a ‘blueprint’ or model to assess the target or the deal, to keep them right. Even with this, there may not be time to do everything in terms of cultural diligence and ‘softer’ aspects compared to the formal requirements.

We heard the deal-making process following the submission of Letters of Intent was often *“lonely and isolating”* for CEXs without any independent, or impartial support or sounding board, away from vested interests, on which to lean. Similarly, professional advisors are vital but they aren’t part of helping with this, as they have their own objectives and agenda – and cost a lot of money.

It was noted in this time-challenged process, support was difficult to provide if an existing relationship between those available to support and the CEX did not already exist. And it was *stressed* – this needed to be with the person at the top doing the deal. A pre-existing relationship for independent advice and support is more likely to lead to leadership seeking external counsel of this kind. And needless to say, because of the time pressure, it needs to be efficient and not laborious, bureaucratic, and time-consuming.

It was also emphasised there is no legitimate role for anyone beyond the businesses involved, unless invited, so having a strong, established, beneficial relationship with the CEX is the only way to help shape most acquisitions.

This wider growth oriented outlook continued, with interviewees outlining how any support in the realm of acquisition needs to sit within broader advice around growth, not acquisition for the sake of it. What multiple interviewees outlined was a guide/plan, a *“package of pre-advice, information, for a range of things. Summarising that if x happens, we can do/offer x, y, and z”.*

As another interviewee put it, what might help a little more focused into the acquisition space was *“a risk journey for this. A step-by-step map. Lay out all the things you need to be aware of, like where do you get funding to make acquisitions? And part of this, really needs to be to lay out how to, and why it is so important to understand what it is you are buying – and number one here is culture”.*

Another point emphasised was put very simply; *“if you want more businesses to acquire, they need money. Not necessarily the price of the business money, which is a big enough challenge in regard to where do you get this? But the money for the process, the fees, those costs. They pile up and put people off. Legal costs especially”.*

This led to suggestion of some form of package, or support (even including the advisors themselves) on these fees and how much they cost, particularly for SMEs for whom costs and fees are disproportionately greater. The point was made that if acquisitions is a route to growth, and Scotland wants more of these, they need to find ways to take these barriers down. They cannot remove all risk, but reducing costs is one barrier less for businesses to face.

Which brought discussions back to the same point – talented people. Whether that be in having a strong and ambitious management, having a supportive, wise, and cohesive Board, and ultimately having talent. Growth (and acquisition) requires talent, and interviewees outlined how in reaching growth objectives via acquisition, in early 2022, talented people are as highly sought after as ever.

But as we heard, the best talent has their own ambitions and aspirations, and many also know their worth. Acquisition can be a spur to move on, no matter how smooth the integration process of two businesses is. Which is why recognising the importance of recycling is so key, and understanding acquisition is a vital part of this recycling.

The lack of acquisitions leads to a lack of recycling which further hinders growth

The inescapable fact remains, if we accept acquisition can be one avenue to growth, too few Scottish businesses are engaged in any form of activity.

One of the main points needing to be continuously recognised is that acquisitions do not occur in a bubble. They are the centre point of a range of issues flowing in, at a specific time, and then flowing out in even more directions (see Figure 25).

We know acquisitions lead to a recycling of talent, knowledge, and funds. With too few Scottish businesses being part of acquisitions, there is a concentration of knowledge and experience in too few people, which is not likely to be visible or shared widely.

Time after time, we hear about those exiting going on to do more, and because you build knowledge, experience (and even, money) upwards – it always grows, it never recedes, the knowledge added is almost always exclusively positive. It may not always lead to certain positive outcomes but the impact is in a forward direction, as knowledge and experience rolls forward, creating momentum.

In regard to growth, and acquisition, Scotland needs the momentum of knowledge and experience to build, enabling it to be injected into more parts of the economy than ever before.

Scotland needs more investment across business lifecycles

Returns on investment and cash are both a driver and a consequence, of acquisition. We heard from interviews that businesses, and Scotland's economy needs more cash being injected into businesses to realise their growth plans, not to mention the Government's stated objectives.

Interviews highlighted Scotland has good Venture Capital and Angel support, and their experience was predominantly positive, but there was a sense that there needed to be more, principally deeper – *much deeper* – pockets. The competitors these businesses were facing internationally and in markets, often had access to more, which made achieving growth harder for the business and with a greater toll on management.

Prior to exiting their business, one interviewee outlined the situation which others also referenced in similar terms of compete if you can win or begin to think about what you want to achieve and whether it is worth it.

> *"We weren't for sale, but in our market, we were seeing a lot of acquisition. One of our main competitors just raised $50m. That was the bar we needed to remain competitive. We had a choice. Do we stick with it for a couple more years and likely end up facing the same decision then, and two more years of mental drain?".*

Bigger investment opportunities with deeper pockets might widen the possibilities for businesses to consider more than an opting for an acquisition. It might encourage more to become acquirers. But it needs to be matched by capable, growth-oriented businesses.

> *"If Scotland wants more, and also, bigger acquirers you need access to big money. Probably international money. London money. US money. Go there for it right off the bat. That's what other small nations do. They don't even think about it."*

Securing this investment takes time, but it can be done. The next section outlines the wider dynamics of the global economy and shifting in sector dynamics, which have, and can work to Scotland's growth objectives, with acquisition as part of it.

Businesses either embrace change or become a victim of it – acquisition lets them embrace it fast (which is often the speed at which change occurs)

Reflecting on all discussions undertaken in this entire research series, one thing has been woven throughout, without being explicitly said. It is evident businesses are subject to a complex, multi-layered, forever changing (the only difference is the degree of pace) landscape they are largely at the mercy of, with no control over.

It is in this environment strategic opportunism exists. It is this strategic opportunism, rooted in (as an interviewee outlined) a sound knowledge of the business purpose, its strengths, and weaknesses as well as its short-to-long-term objectives, which leads to many Scottish businesses finding their route, with success, through acquisition.

These major, interconnected drivers fuelling acquisitions can be seen in the energy industry. Here exists challenges in the costs of energy (even before sanctions being placed on Russia), challenges from the transition from hydrocarbons towards Net Zero, the rapid acceleration of markets in new areas, with new and nimble SMEs holding the product and/or knowledge keys, a position of strength relative to the multinationals more versed in hydrocarbons.

Add into the mix, shareholders wanting to diversify risk, management teams (especially at global players) with plentiful cash available, a pressure (professionally and commercially) to get into these new low-carbon markets, and then the uncertainty caused by the political decisions and uncertainty around traditional activity[21] on top.

As a result of this 'race' for long-term advantage, larger businesses with cash, nervous shareholders, but lacking the knowledge, product, expertise, and skill in these rapidly emerging markets (e.g., hydrogen, tidal, etc) are aligning via acquisition, with small SMEs who possess what the large company doesn't. This gives the Scottish SME's greater influence relative to their size. The SMEs also benefit from what they lack – deep pockets, a corporate structure, which allows them to focus on what they excel at.

In addition to this, and a factor that may lead to acquisition activity in further sectors, there are signs of reshoring the supply chain in energy. In part this reduces the carbon footprint in the move towards Net Zero, but it also reduces the risk of delays and disruption. This change may also present acquisition opportunities for businesses able to seize upon the right ones.

In this environment, from a public policy perspective, what are the truly realistic options to try and maximise the benefits and minimise the risks? As those with experience have told us, it is to equip businesses with the knowledge and intelligence about how to use this tool to realise their growth objectives, not focus on these major changes beyond anyone's control, nor seek to try and limit or control these shifts via protectionist means.

Another example is in biotech and pharmaceuticals (and closely aligned areas). Here, the story is of the long-term investment in Scotland in this area now gaining significant traction, challenging long-term assumptions about the role acquisition plays.

The traditional assumption is all the high-growth, high-potential Scottish businesses are hoovered up in acquisition by large pharmaceutical businesses and global investors, with huge losses to the Scottish economy. To some degree, that is true. Acquisitions do happen in this space for that reason, because businesses need large volumes of cash to develop and test products to ultimately secure approval. And as the earlier global look at the data shows, (see Figure 9) this area is of high interest amongst investors, even before a global pandemic.

[21] https://www.bbc.co.uk/news/business-60825744

But the changing global appetite, interest, and investment confidence in this area, is likely to force the former hunted to consider becoming the hunter, in order to succeed. Huge amounts of capital investment have flowed into Scotland in this area via acquisition and investment[22]. These large amounts of money will in turn create pressure on the businesses to grow. The investors will want to see their money being used to drive growth. This poses the question for the business - how do they grow? Organic growth, which will take longer, or via incorporating accelerating routes like acquisition to do this quicker?

Double digit growth over a sustained period needs all available tools to be considered. So rather than being acquired (over 2003-21 Life Sciences has seen more inward deals than any outward or intra[23]), in time we could perhaps anticipate outward acquisitions to grow at a higher rate, as a beneficial consequence of the reputational growth and strengths Scotland has built – and anchored - in this field.

It is another example of the success in Scotland at anchoring the business (as best it can realistically be expected) and key assets, whilst creating a buzz around expertise in a place (in this case, Dundee) which (when combined with the huge investment now coming in) creates significant spillover benefits. Which then fuels further development of the evolving ecosystem. This is how economic development works – and acquisition is part of it.

If change is as turbulent, volatile, and challenging over the next few years, as it has been across the last decade, then businesses and those seeking to support them have a simple choice. To adapt and compete, or to manage and ultimately cede to those who manage to harness the change for growth. What is positive for Scotland is many businesses are already deciding to be bold and brave – and succeeding. But there needs to be more of them.

"… we keep trying to find deals because that's how we'll grow and we try and make it work for growth"

Acquisition is a route for Scottish businesses to internationalise

Scotland has a higher share of businesses remaining active following a takeover from outside than anywhere[24]. The support provided to businesses, the supply chains and wider benefits from Scotland's location and being part of the UK market, has successfully embedded businesses. The 'loss' in the economy occurs *less in Scotland (from the activity occurring) than in any other European nation.*

When discussing motivations in the previous interviews, it became apparent the network of public and private sector agency support, available workforce skills and expertise, and infrastructure, access to the Scottish and UK markets were attractive – and in many cases, essential requirements of the deal. These aspects lent themselves to an outcome which retained the business in Scotland post-sale.

Consultees viewed inward acquisition as a means to take internationalisation further by expanding products and services in order to offer more to new and existing clients and customers. The acquisition not only brought financial benefits and investment, but through partnering with a business based abroad, they were now able to use their new owners contacts to extend their activity internationally. The ability to deepen their international connections was a major driver for Scottish businesses to consider an acquisition by a foreign business.

For outward acquisitions, the main objectives tended to be securing key aspects of its supply chain, avoiding a range of logistical and bureaucratic aspects, including regulation, planning and taxation in overseas markets, avoiding time and resources being spent on matters that can be easily dealt with in the acquired firm's nation. It also gave the Scottish business greater control over products/services, streamlining production and enhancing the customer offer.

[22] See for example, here and here.
[23] See here for inward, here for outward, and here for intra-acquiring and intra-acquired.
[24] As shown here.

Whilst the post-deal active status for Scottish acquirers is much higher than for inward acquisitions (as it is for all nations), it is lower than several nations[25]. This suggests that compared to the same nations Scotland outperforms in inward acquisition, it underperforms in outward suggesting there is scope for improvement.

This reminds us that whilst it is easy to hypothesise that making international acquisitions is an avenue for more Scottish businesses to consider and pursue, - and there is ample evidence that Scotland should be prioritising more businesses to consider and make acquisitions – it is extremely challenging and resource intensive for businesses.

It is not for every business and for those considering it, they need to be aware of what it takes to succeed, the pitfalls and risks involved, and have support in place to make it work. As one interviewee put it: *"If you have flaws and cracks in the business, an acquisition will expose them under the pressure it creates"*.

The low level of activity by Scottish businesses and the weaker post-deal active rate for outward acquisition suggests there could be an opportunity for awareness raising and subsequently, developing support for businesses considering (or even those unaware of the potential of) acquisition, particularly in those struggling to achieve growth.

Conclusions

This analysis, complemented by previous studies, continues to give a clear picture:

- Acquisition is a viable tool to achieve growth quicker than via organic means.
- Acquisition is an underused growth tool.
- Acquisition is an underappreciated, and historically in Scotland, a much-maligned growth tool, for which little evidence remains as to why.
- Like anything in business, acquisition carries risk and can go wrong, for a multitude of foreseen and unforeseen reasons.
- Acquisition is a high-pressure, cost and time intensive process, particularly on the business leadership.
- Thorough and considered preparation is critical to success. Focusing on culture, communications and crucially, people, is vital to securing the greatest chance of success.
- Younger Scottish businesses are using acquisitions (being acquired or acquiring) to accelerate, kick-start or sustain growth.
- But not enough Scottish businesses are considering and/or using acquisition.
- More activity will unlock more recycling about how to make acquisition succeed in Scotland, and further knock-on benefits which will also lead to growth and create more momentum towards economic growth.
- More needs to be done to deepen the understanding of acquisition in the business base but also the economic development realm and wider public domain.
- More also needs to be done to help remove some of the barriers and obstacles to businesses using acquisition, but the primary objective remains to create and stimulate more businesses achieving and sustaining growth.

Acquisition is both a consequence and a trigger of many of the economic goals set – more equity investment, bigger investment sums, more growth, innovation, widening and deepening skills, internationalisation, and so on. It needs to be seen as a key to achieve them.

At a minimum, the negativity, which is not rooted in the evidence, needs to be shut down. This might seem an irrelevant point but this powerful narrative has been allowed to persist for many years and cast a needless shadow into the debate of the value of this growth tool. It needs to be eliminated anytime it raises its head, with this evidence.

[25] As shown here.

Acquisitions needs to be consistently promoted as *one* way to achieve growth, whilst also widening the means for businesses to grow (through greater access to investment, making innovation easier, etc) – be that acquired or acquiring.

Where possible, the stimulating of the potential from acquiring should be emphasised - helping more businesses understand how acquisition can play a role in their growth and provide them with the information and assistance to make it work.

The message was increasingly clear that preparation was key, and there is scope to not only help in raising awareness of this growth tool, but what needs to be considered in making acquisition work, in businesses of all sizes and across all sectors. Not all risk can be eliminated, but assistance can help minimise it.

In a changing global environment, there is a lot for businesses to absorb, consider and understand in this area. For example, even within the UK, January 2022 saw legislation introduced (the National Security and Legislation Act) which places obligations on businesses to report on deals that fit within specific criteria[26]. Other nations have their own rules and laws[27], and if acquisition is a valid route to growth, businesses may require assistance in understanding the different national and supranational landscapes, not to mention minimising their cost.

Acquisitions is a growth strategy that can work for business. The challenge for Scotland is to get more businesses to *consider it, act on it, and make it successful for them and for the economy*, whilst also creating further opportunities that in time go on to present even more opportunities and options.

The evidence shows that Scotland ***needs to focus less on those who do and getting more that can***. This begins with a focus on creating more growth-centric businesses and ends when more are successfully incorporating acquisition into their growth strategy.

[26] Information on this can be found here. We heard in consultations that understanding the legislation and the extent to which it applies was causing confusion and using a lot of time (which means cost also) for businesses to check if they qualify.
[27] See for example, the rules at the European Union level, which overlay and intertwine with those at a national level.

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