

EIO: State of the Nation

Entrepreneurship and Innovation
Report 2025



**ENTREPRENEURSHIP
AND INNOVATION
OBSERVATORY**

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Disclaimer

The analysis in this report has been conducted by the Fraser of Allander Institute (FAI) and the Hunter Centre for Entrepreneurship, Strategy and Innovation at the University of Strathclyde. The FAI is a leading academic research centre focused on the Scottish economy. The Hunter Centre is Scotland's oldest entrepreneurship focused teaching and research unit.

The Entrepreneurship and Innovation Observatory is committed to providing the highest quality analytical advice and analysis. We are therefore happy to respond to requests for technical advice and analysis. Any technical errors or omissions are those of the authors.

Foreword

We must all welcome this analysis adding to our understanding of Scotland's entrepreneurial challenges.

In summary Scotland's scorecard on entrepreneurship and innovation is 'must do better'. We lag on start-ups, large scale businesses (250 employees or more) are stagnant and mid-size companies vary against economic trends. On the plus side the Angel investment market is relatively buoyant, if significantly geographically weighted to Edinburgh.

What does this tell us about policies and Government support for entrepreneurs? It tells us we need more definitive data about what policies and practices work, what's the return on investment and hence what do we stop doing and what do we double down on.

It's very clear to me Scotland needs more scaling businesses; they are the lifeblood of the economy.

But it's also clear to me health and education are pivotal to a vibrant economy and start-ups. The data here is worrying indeed with mental health and poor educational outcomes debilitating entrepreneurship. A clear case for joined up, non-siloed thinking something our Government seems abjectly poor at.

I am forever the optimist, and we have seen through Scottish EDGE and our own ScaleUPScotland programmes that there is real entrepreneurial ambition out there, it simply needs more integrated, transparent support.

Our Foundation, having consulted with and listened to the entrepreneurial community, publish in January an 'Entrepreneurs Manifesto' to address some of the key issues debilitating growth; we hope all our political parties and indeed policy makers will consider what that community has to say and, in an ideal world, implement those ideas.



*Sir Tom Hunter
Philanthropist and Entrepreneur*

Introduction

We have long felt that there was an opportunity to enhance our understanding of Scotland's entrepreneurship and innovation performance through a dedicated resource that provides a forum for analysis, debate, and discussion of relevant and novel regional and national indicators. To that end, we have created The Scottish Entrepreneurship and Innovation Observatory at the University of Strathclyde Business School as a joint initiative between the Hunter Centre for Entrepreneurship, Strategy and Innovation and the Fraser of Allander Institute.

Launching this initiative in 2025 is an apt way of celebrating the Hunter Centre's 25th and the Fraser of Allander's 50th anniversaries, bringing together our expertise to support understanding of this critical part of Scotland's economy. Scotland's entrepreneurial performance has been the subject of several important recent reviews – Ana Stewart and Mark Logan's Pathways review of female entrepreneurship, Mark Logan's Technology Ecosystem Review, and Shane Corstorphine's Scaling Scotland. Each of these contributes detailed analysis of the situation Scotland finds itself in and what can be done to improve matters. At the heart of these contributions is high quality quantitative and qualitative data underpinning important insights and recommendations.

Our ambition is to build on this work by offering regular analysis of Scotland's entrepreneurial performance across a range of measures, to build better intelligence on what is working (or not), where our strengths lie as a country, and how key trends are evolving. Good quality data and analysis are crucial to informing better support, decision-making, and co-ordination of resources for Scotland's entrepreneurs and innovators.

In this inaugural "state of the nation" report, we present a series of analyses of key areas of Scotland's entrepreneurship and innovation performance drawn from a range of different sources, including official publications, privately held data, and our own bespoke research. Consistent across these insights is the recognition that, for Scotland to continue to effectively support new and scaling businesses, we need access to high-quality, relevant data, analysis, discussion, and ideas that can inform how we meaningfully engage with the challenges of business in the twenty-first century.

As part of this initiative, we are committed to working with key stakeholders in the Scottish entrepreneurial ecosystem to support and provide ongoing analysis and insights. This report is the first in what will be an annual series, alongside a dedicated website where we will host data, commentaries, blogs, and discussion papers detailing different aspects of Scotland's entrepreneurship and innovation performance. Our website will be updated

regularly with additional insights to provide a repository of high-quality information for all those interested in this area. We hope you will find this report and the associated resources useful, and we look forward to building collaborative insights in the future.

Professor Niall G MacKenzie, Head of the Hunter Centre for Entrepreneurship, Strategy and Innovation

Professor Mairi Spowage, Director of the Fraser of Allander Institute

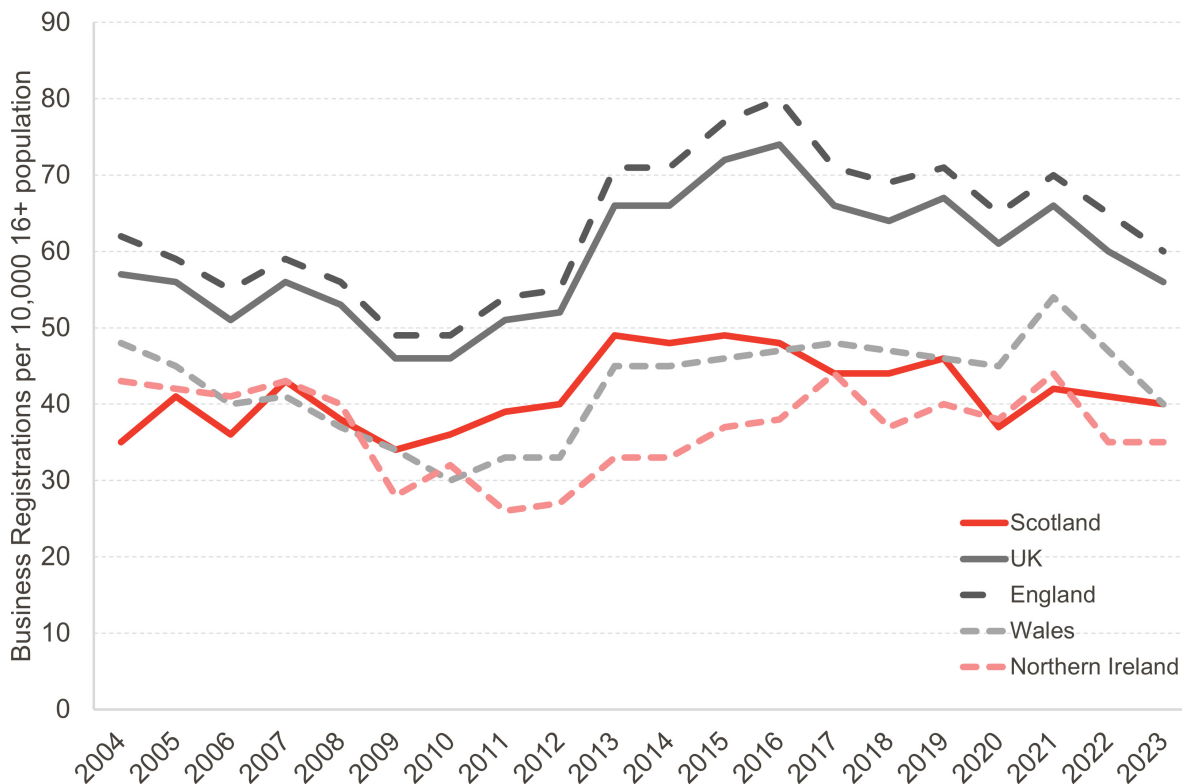
Scotland's Entrepreneurship and Innovation Landscape At a Glance

This section summarises some interesting findings from our data bank. You can download the data bank on [our webpage](#) for further data and charts.

Entrepreneurship indicators

Scotland has a longstanding policy commitment to supporting start-ups, rooted in early enterprise initiatives such as the creation of the Highlands and Islands Development Board in the 1960s (the predecessor to Highlands and Islands Enterprise, established in 1991) and the Scottish Development Agency in the 1970s (the predecessor to Scottish Enterprise). This commitment was further strengthened by the Business Birthrate Strategy in the early 1990s, which explicitly sought to increase new firm formation across Scotland. More recently, there has been an increasing emphasis on the importance of entrepreneurship to the Scottish economy, with political commitments positioning new venture creation as a key engine of economic growth, such as in the National Strategy for Economic Transformation.

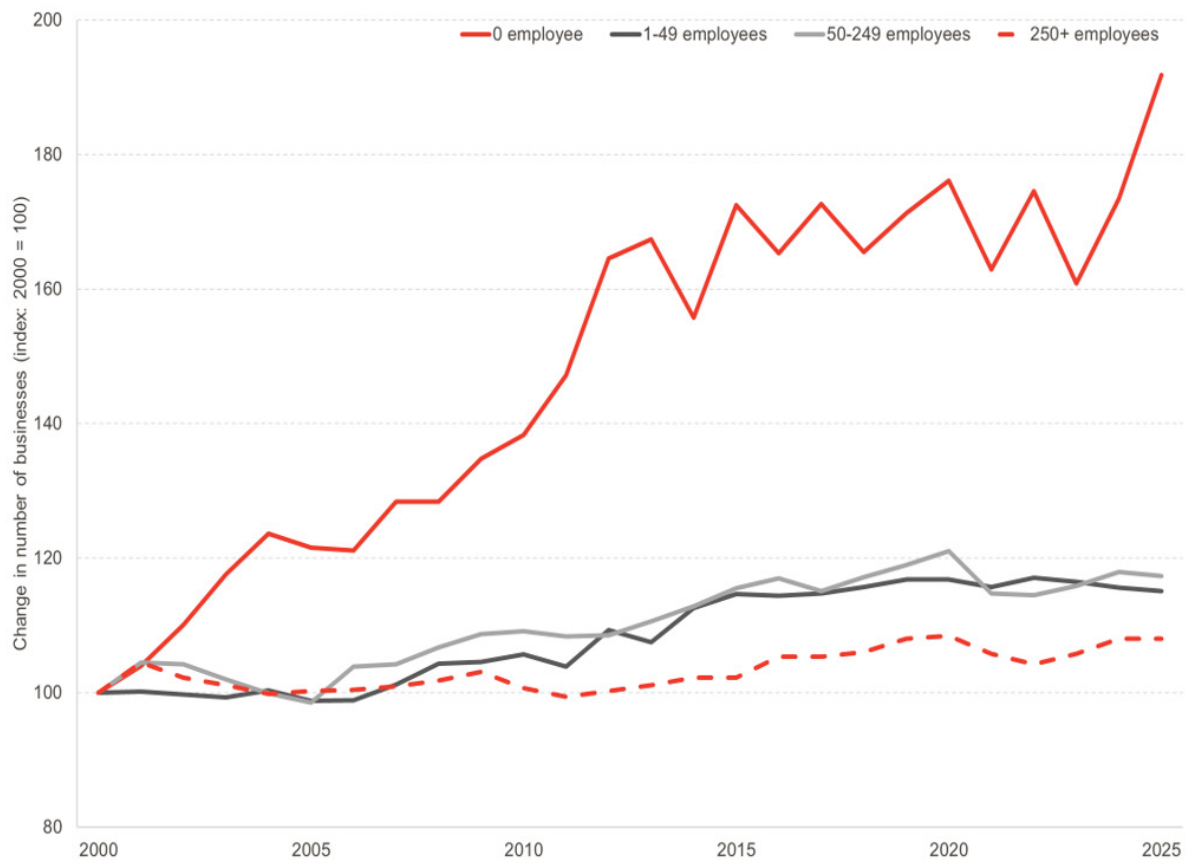
Figure 1: New Business Registrations per 10,000 adults



Source: [Scottish Government](#), [Stats Wales](#), [ONS](#), EIO Analysis

In recent years, Scotland has lagged behind England and Wales in new business registrations per 10,000 adult population (Figure 1). Growth between 2006 and 2013 has been unwound in the decade since, and the Scottish rate is now roughly back where it was 20 years ago. In contrast, Wales has seen a general upward trend since 2012, while England has consistently remained well above the other nations. Scottish results demonstrate moderate stability, fluctuating between 34-49 new businesses per 10,000 adults, with values clustering around 40-48 from 2013 onwards.

Figure 2: Change in number of registered and unregistered businesses in Scotland by employee size band (2020=100)



Source: *Scottish Government, EIO Analysis*

Figure 2 illustrates the divergence in Scotland's business landscape since 2000. Starting with zero-employee businesses, numbers almost doubled from the 2000 baseline by 2025. Growth in this area accelerated sharply after 2020, likely reflecting the pandemic-driven shift toward the gig economy encompassing self-employment and freelancing as workers seeking greater flexibility or establishing home-based enterprises.

By contrast, businesses with 1-49 employees showed steady, if somewhat modest, growth throughout the period, plateauing at around 115 on the index. This suggests the number of small Scottish businesses expanded slowly but consistently throughout the period. Businesses with 50-249 employees exhibited some volatility, climbing to around 160 by



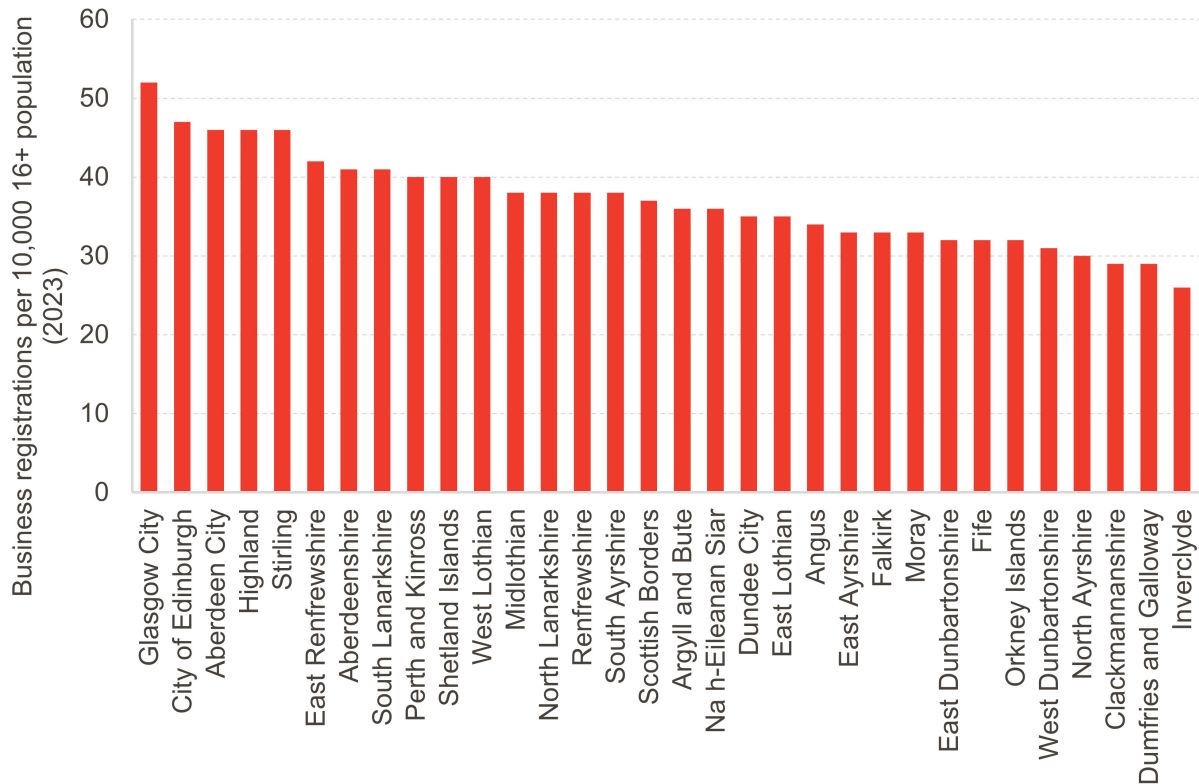
2013 before fluctuating between 145-175 through 2025. These mid-sized enterprises appear particularly sensitive to economic cycles, possibly reflecting their exposure to both local and broader economic pressures.

Perhaps most concerning is the stagnation of larger businesses (250+ employees), which remained pretty flat throughout the entire period at roughly 105-110 on the index. This category suffered during/after COVID but has now recovered but growth remains fairly stagnant. What this suggests is that we are struggling to grow (or attract) much larger businesses that typically drive substantial employment and economic impact. This chimes with the recent [Scaling Scotland report](#) about our difficulty in scaling businesses and ongoing discussion around what the pipeline of growth companies in the future looks like in Scotland.

Our data and analysis points to what looks like a significant restructuring of Scotland's economy over the last ten years or so toward solo entrepreneurship and away from traditional employer-employee relationships. With the advent of gig and platform economy businesses that facilitate and require self-employment this is not entirely surprising. The emergence of such companies, technologies, and platforms raises questions about job quality, income stability, and the provision of employee benefits. The weak performance of medium and large enterprises suggests the oft-discussed challenges in scaling businesses are very real.

In terms of the location of new business registrations, 2023 data from local authorities in Scotland sees Glasgow come out on top in measures per 10,000 population (Figure 3). Edinburgh's business registrations are on par with Aberdeen City, Highland, and Stirling council areas. At the lower end of the scale, Inverclyde, Dumfries and Galloway, Clackmannanshire and North Ayrshire all show significantly lower rates of new registrations, with Inverclyde showing just over half the level of Glasgow.

Figure 3: Business registrations across Scotland's Local Authorities



Source: [ONS](#), EIO Analysis

Across all council areas there has been a decline in performance since 2013, with Aberdeen recording the largest drop, followed by Aberdeenshire and Edinburgh. This mirrors Scotland’s overall performance in the same period suggesting that there are similar challenges at the national and local level.

Innovation indicators and metrics

Innovation driven enterprises are of critical importance to modern economies. In this section, key indicators of the health of Scotland’s innovation system are analysed.

Our first metric is on the number of Enterprise Investment Scheme (EIS) companies raising funds. The Enterprise Investment Scheme is a UK Government scheme used by investors to provide tax relief on their investment in early-stage companies where the risk is higher, but which also forms an important part of the scale up pipeline. Early-stage risk capital is the riskiest form of company investment and EIS is designed to encourage investors into this space. These firms are often highly innovative with the potential for growing at scale.

Across the UK, the number of EIS companies raising funds and amount raised peaked in 2021-22 and has dropped off since. There were 200 EIS companies in Scotland in 2023-24,

raising £78 million. Weighted by population, Scotland performs similarly to the South-West of England in terms of number of EIS companies and amount raised.

The Department for Business and Trade releases statistics on the number of innovation active companies across the UK. Innovation active is defined as engaging in any of the following activities:

1. The introduction of a new or improved product (goods or services);
2. Business processes used to produce or supply all goods or services that the business has introduced, regardless of their origin. These innovations may be new to business or new to the market;
3. Engagement in innovation projects not yet complete or abandoned.

The four nations had an increase in percentage of businesses which were innovation active during 2018-2020, but this percentage fell again in 2020-2022. Scotland (32.4%) has pulled ahead of Wales (30.9%) and Northern Ireland (32.1%) in the latest data and is now second only behind England (37.1%). However, all regions of England have higher percentage innovation active businesses compared to Scotland.

Another measure we can use to analyse innovation is patent and design application numbers. In terms of Scotland's patent applications, publications and patents granted, there was a drop of around 15% between 2023 and 2024. Scotland has also seen a 40% drop in design applications and registrations between 2023 and 2024.

Finally, R&D expenditure is another key metric for innovation. Scotland has the highest higher education expenditure on R&D as a percentage of UK GDP when compared to Wales, Northern Ireland, and the regions of England. Gross expenditure on R&D in Scotland is middling. Across the UK, private non-profit expenditure on R&D more than doubled between 2020 and 2021 and remained high in 2022.

Highlights from our research

The launch of the Entrepreneurship and Innovation Observatory includes a new discussion series on relevant research topics. The first two editions of the discussion series have been released today alongside this annual report. A summary of each discussion paper is provided here, with links to view the full papers.

Edition 1: The Link Between Deprivation and Business Startups in Scotland

Author: Aidan Rooney (Fraser of Allander Institute)

Entrepreneurship is often highlighted as a way to strengthen local economies and reduce deprivation. Previous research suggests that new businesses can help create jobs, support local spending, and promote economic inclusion in disadvantaged areas. This analysis considers the reverse possibility: that deprivation itself may make it harder for people to start businesses. Using local authority level data on business startups and SIMD deprivation data, this paper examines the relationship between startup numbers and a range of deprivation indicators. The research finds that general deprivation is negatively correlated with startups per 10,000 adults, with mental health and education also showing correlations. [Read the full paper here.](#)

Edition 2: Angel Investment in Scotland, 2018-2023

Author: Professor Niall MacKenzie (Hunter Centre for Entrepreneurship, Strategy and Innovation)

Scotland has one of the most mature angel markets in the world, hosting both the oldest continually running angel syndicate in Archangels (formed in 1992) and the oldest national association for angels in LINC Scotland/Angel Capital Scotland (formed in 1993). LINC Scotland has collected significant data on annual performance measures of deal flow, value, location, and composition since shortly after the inception of the market. This edition of the EIO discussion series presents headline results from the last five years of the market's operation which are based on an ongoing research project conducted by Professor Niall G MacKenzie of the Hunter Centre, looking at the development and economic impact of the early-stage risk capital market in Scotland. [Read the full paper here.](#)

Report Conclusions

This report starts a conversation about what entrepreneurship and innovation means for Scotland's economy. The results are not intended to be wholly comprehensive – the analysis selected areas of interest where there was something to be said (and done) about how Scotland performs on these measures. The start-up rate in adults is an area that is critical for current and future economic performance – new businesses offer opportunity for the population and for economic and social outcomes. If the rate of start-ups does not improve, Scotland runs the very real risk of losing out to other countries that do.

Much has been done to make entrepreneurship a viable and feasible career choice in Scotland, but the flatlining numbers of starting up vis-à-vis other nations in the UK suggests more could be done to support this. When taken together with our insights into the innovation performance in Scotland, this suggests there is a danger of lagging behind our counterparts elsewhere in the UK. Our short reports on the relationship between deprivation and starting up, and the role of angel investment offer key insights into business growth and innovation in Scotland and how we might start to address some of these issues. For example, there is a positive relationship between starting up a business and involvement in further education – it wouldn't be a stretch to consider national co-ordinated support for student enterprise as a reasonable way to leverage this into better start-up rates.

It is important to recognise that work has been done across all of these areas and that there is no quick fix – supporting entrepreneurship and innovation is a key tenet of any successful economy and Scotland certainly has the ingredients to achieve this, but it takes time. More coordination, less duplication, and better cohesion in how this is done is one way to make this happen. This analysis helps open some of these issues to discussion and action and we will continue to develop this through our new website and data bank.



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