

HIE BUSINESS PANEL

Wave 21: February/March 2022



EXECUTIVE SUMMARY (1)

Overview

This report presents findings from the most recent wave of the Highlands and Islands Enterprise business panel survey carried out in February and March 2022.

The survey was carried out against the backdrop of continued economic challenges for business in the region, and across the UK. The first quarter of the year saw reports of increased inflation, interest rates and record fuel prices. These challenges were compounded during February and March 2022 by the invasion of Ukraine by Russian forces. The resulting economic sanctions and reduced supply chains increased prices in some sectors.

Against this background, businesses were slightly less confident in the economy, and less optimistic about their own future, than they were in October/November 2021.

There were signs of continued recovery from COVID-19, with a majority (six in ten) of businesses operating at or above their pre-pandemic levels. However, this majority was slightly lower than in the previous wave.

Once again tourism businesses were seemingly impacted by a challenging economic environment. They were more likely to be operating below pre-pandemic levels and to have seen a decrease in sales and turnover and employment. That said they were more likely to be striving for growth.

Reflecting what was happening in the wider economy, almost all businesses were concerned about rising costs, particularly the cost of energy and fuel. In response, more than half of businesses were increasing their prices.

Looking ahead, businesses were currently focusing on their resilience, productivity and compliance with regulation and legislation. Workforce was seen as key to businesses achieving these plans.

However, most businesses were experiencing workforce related challenges, with cost being the most common issue. The main issues contributing to workforce challenges were a lack of candidates and difficulties accessing specific skillsets. Two thirds were nevertheless confident they could address these challenges with the actions they were taking.

Most businesses were already using or planning to use new technologies, though there were implementation barriers including cost and time to overcome.

While most businesses were taking action to help them move to low carbon working and to improve energy efficiency this was a current focus for less than half. The top barriers to low carbon working were the same as in the previous wave: cost of making changes, lack of green transport options, and difficulty making premises more energy efficient.

EXECUTIVE SUMMARY (2)

Optimism and performance

- **Thinking about the economic outlook for Scotland over the next 12 months, 60% of businesses were confident, while 38% were not. Economic optimism was down slightly on the previous wave:** 45% said their confidence had stayed the same over the past six months, 14% reported an increase, and 40% a decrease.
- **There were signs of continued recovery from COVID-19, though slightly less so than the previous wave:** 62% were operating at either the same level (42%) or over and above the level (20%) they were before COVID-19, while 37% were operating below their pre-pandemic levels.
- **Over the last six months, employment was fairly stable while sales or turnover performance was mixed** (34% said it had increased, 32% decreased, and 33% remained the same). Exports were more likely to have decreased than increased (30% vs 11%), but had remained stable for around half (55%).
- **Most businesses (77%) were optimistic about their prospects in the next 12 months, while 22% were not.** Businesses were less optimistic than they were in October/November 2021, when 82% were optimistic and 17% were not.
- **More than two in five (43%) businesses were striving for growth** while around the same proportion (45%) were content with their current level of performance. Around one in ten (11%) wanted to downsize.

Costs

- **Almost all businesses were concerned about rising costs (94%), just 6% were not concerned.**
- **Among those concerned about rising costs, the top concerns were the cost of energy (65%) and the cost of fuel (62%).** A third said their top concern was the cost of goods sourced from within the UK (34%) and around a fifth said the cost of transporting goods (22%), the cost of labour (22%) and the cost of imported goods (20%).
- **To help respond to increased costs, more than half of businesses were increasing prices (54%).** Other measures included: exploring new markets (37%), collaborating with other businesses (35%) and working with new suppliers (34%), followed by postponing investment plans (31%), using cash reserves (28%) and doing more online (25%).

EXECUTIVE SUMMARY (3)

Planning ahead

- **Over half of businesses were currently focusing on their resilience (57%), enhancing their productivity (55%) and compliance with regulation or legislation (53%).** Fewer than half were currently focusing on reducing carbon emissions (48%), supporting growth (40%), succession planning (38%) and addressing labour challenges (34%).
- **Areas of focus were linked to operating level,** with those operating over and above their pre-COVID-19 levels more likely than average to say they were focusing on a number of actions including business resilience, enhancing productivity and compliance with regulation or legislation.
- **The most important factor in helping businesses achieve their plans was their workforce (49%),** followed by new technology (30%), market and customer insights (29%) and adapting products or processes (28%).

Markets

- **Almost four in five (79%) of businesses were importers** (sourcing goods from outside Scotland) **and around half (52%) were exporters** (selling to markets outside Scotland)
- **Most (98%) businesses were taking, or planning, action in relation to their markets:** 89% were maintaining their existing markets, 31% expanding into new markets and 10% concentrating on fewer markets.
- **The most important actions for helping businesses achieve their market plans** were: adapting their product or service (50%), re-skilling or up-skilling staff (46%), collaborating (43%), investing in technology (43%) and bringing in external advice or support (42%).
- **The majority (82%) of businesses were taking action relating to their supply chain,** and around half (55%) were taken actions specifically in response to supply chain challenges.
- **The most common supply chain actions being taken were sourcing supplies more locally (52%) or from within the UK (51%).** Around a quarter were moving to greener supply chains, greener forms of transport and reviewing routes to market, while on in five were reviewing their distribution network and stockpiling goods.

EXECUTIVE SUMMARY (4)

Workforce

- **A quarter of businesses described themselves as women-led (24%)** while 72% did not.
- **70% of employers were experiencing workforce related challenges.** Of these the most common were: the cost of labour (42%), followed by skills gaps (30%), staff absences (25%) and unfilled vacancies (25%).
- **The top three issues contributing to workforce related-challenges were: a lack of candidates (56%), difficulties accessing specific skillsets (50%) and poor transport connections (36%).** Fewer said lack of accommodation (30%), being unable to offer competitive pay (27%) and being unable to recruit from the EU (21%).
- **The majority (82%) of employers were taking actions related to their workforce.** The most common were: upskilling or re-skilling current staff (58%), making pay more competitive (43%), investing in new technology (41%) and collaborating with other businesses (36%).
- **Two thirds of employers were confident they could address their workforce challenges (65%), while one third were not (34%).** Tourism businesses and those in remote rural areas were less confident than average.

Low carbon

- **Around three quarters (73%) of businesses were taking action to help them move to low carbon working.** The most common actions were: investing in premises (40%), making a plan or updating business plans (37%), bringing in external advice and support (37%) and investing in low carbon technology (36%).
- **85% of businesses were taking or planning actions to improve their energy efficiency.** The most common were: reducing energy consumption (66%), installing more energy efficient systems (51%), using greener sources of energy (46%), and improving building insulation (43%).
- **The most frequently cited barriers to moving to low carbon working were: cost (65%), lack of green transport options (53%) and difficulty making existing premises more energy efficient (46%).** The top three barriers were the same as those in the previous wave (when businesses were asked about barriers to reducing their greenhouse gas emissions).

New technology

- **Three quarters of businesses (74%) were using or planning to use new technologies,** with the top two being low carbon technology (41%) and the Internet of Things and sensor technologies (36%). The other technologies asked about were used by around a quarter of businesses.
- **The top barriers to adopting new approaches and technologies were: cost (56%), lack of time (48%), more pressing priorities (46%) and lack of knowledge or skills (40%).** A third were affected by ability to keep pace with new developments (34%), while fewer mentioned access to equipment (27%) and access to external advice and guidance (21%).

EXECUTIVE SUMMARY (5)

Some clear findings emerged for businesses from two of the growth sector categories – tourism, and food and drink. These are summarised below (based on the topics where findings for these sectors were significantly different to the average).

Tourism

Tourism businesses were more likely than other sectors to still be operating below their pre-COVID-19 levels and to have seen decreases in sales or turnover and in employment in the last six months. However, they were more likely to be striving for future growth. A higher than average proportion of tourism businesses were women-led.

Rising costs were of particular concern for the sector, especially the cost of energy. In response to cost increases they tended to be increasing prices, using cash reserves, changing their product or service, or scaling back production or services.

Business resilience and compliance with regulation or legislation were current areas of focus for tourism businesses.

Cost of labour, unfilled vacancies and staff leaving the business were all more common workforce challenges for tourism businesses. Poor transport connections, being unable to recruit from the EU, and a lack of accommodation and childcare were felt to be contributing to labour challenges for the sector.

To address workforce issues, tourism businesses were more likely than others to be providing accommodation and recruiting from different markets. While over half of tourism businesses were confident they could address workforce challenges, a higher proportion than average were not confident.

Market actions were in line with average, with most tourism businesses planning to maintain existing markets and respond to supply chain challenges. To achieve market plans, tourism businesses were more likely to be adapting their product or service.

Food and drink

Food and drink businesses had seen relatively stable performance over the last six months and were more likely than average to be operating at the same level as before COVID-19. However these businesses were more likely to say that their confidence in Scotland's economic outlook had decreased over the last 6 months.

Like tourism businesses, they were more concerned than average about rising costs. The cost of transporting goods was of particular concern.

Food and drink businesses felt their sector was unattractive to candidates due to working hours, conditions and lack of accommodation. As part of their response, they were more likely than average to be providing accommodation for staff.

Low carbon was a particular area of focus for food and drink businesses, and they were more likely than average to be making a plan/updating business plans, bringing in external advice and support, and investing in technology to help them move to low carbon ways of working. However, they were also more likely to cite speed or reliability of digital connectivity as a barrier to doing so.

Succession planning was also more likely to be a current focus for food and drink businesses.

Food and drink businesses were more likely to highlight the importance of financial investment in helping them realise their business plans.

EXECUTIVE SUMMARY (5)

While findings for businesses in the creative industries and financial and business services sector were closely aligned with the average, there is some clear variation. These are summarised below.

Creative Industries

Businesses in the creative industries sector were more likely than average to still be operating below their pre-pandemic levels. However their confidence in Scotland's economic outlook and optimism in their own prospects was in line with average.

Overall concern about rising costs was in line with average, however for the creative industries sector, the cost of transporting goods and the cost of goods imported from outside the UK were of particular concern. A higher than average proportion were doing more online to offset increased costs.

These businesses were less likely to be facing workforce challenges in general – a higher than average proportion reported no issues at all. However, most employers were experiencing challenges in at least one area. Actions to address workforce challenges were in line with average, as was confidence to address them.

Creative industries businesses were more likely than average to be looking at succession planning in the longer rather than shorter term.

While most were taking actions to move to low carbon ways of working, a higher proportion than average were not doing so.

Creative industries businesses were more likely to be looking to expand into new markets, although most were also looking to maintain existing markets. To achieve market plans they were more likely to be adapting their product/service.

Financial and Business Services

Those in the financial and business services sector were operating at levels in line with the average with two-thirds at much the same level as before the pandemic, around a third either operating over and above, or below. Their confidence in Scotland's economic outlook and optimism in their own prospects was also in line with average.

Overall concern about rising costs was also in line with average, although they were more likely than others to cite cost of premises as a concern (just over a tenth did so). In response to increased costs businesses in this sector were more likely to be doing more online.

While most financial and business services organisations were either focusing on or planning on reducing carbon emissions, a higher-than-average proportion were not planning to do this. Barriers faced were similar to those experienced by business in other sectors.

While employers in the financial and business services sector were less likely than others to be facing workforce challenges, most were. Difficulty accessing specific skillsets was a particular challenge. Confidence to address workforce challenges was in line with average, with financial and business services organisations more likely to be up-skilling or re-skilling current staff and changing working practices.

Most financial and business services businesses were using or planning to use at least one new technology. However, concerns over data security was cited as a particular barrier for the sector.

A. INTRODUCTION

INTRODUCTION

The HIE Business Panel Survey

The Highlands and Islands Enterprise (HIE) Business Panel was established to measure and monitor the economic health of the region through the experiences and opinions of businesses and social enterprises in the area, and to explore topical issues at a regional, sub-regional or sectoral level.

Following two waves of panel surveys in 2014 and 2015, HIE commissioned Ipsos Scotland to carry out regular business panel surveys with 1,000 businesses and social enterprises, representative of the Highlands and Islands business base in terms of geographic area, organisation size and sector. The surveys ran quarterly during 2016 and 2017, before changing to three times per year in 2018.

This report presents findings from the most recent wave of the survey carried out in February and March 2022. The survey covered a range of topics including: economic optimism, current priorities and concerns, response to cost increases and workforce challenges. It also explored import and export markets, new technology and business response to net zero.

This wave the survey was carried out as part of the Rural Scotland Business Panel, a survey of 2,723 businesses across rural Scotland commissioned by a partnership of HIE, South of Scotland Enterprise (SOSE) and the Scottish Government. The HIE and SOSE Business Panel surveys were distinct components of the overall survey. Findings from the SOSE Business Panel and the overall Rural Scotland Business Panel have been reported separately.

Context for this wave

The survey was carried out against the backdrop of challenging economic circumstance for businesses in the region, and across the UK.

Though widespread COVID-19 lockdown restrictions had eased, some businesses were still operating in a different way than they had been pre-pandemic.

The first quarter of the year saw reports of increased inflation, interest rates and record fuel prices. These challenges were compounded during February and March 2022 by the invasion of Ukraine by Russian forces. The resulting economic sanctions and reduced supply chains increased prices in some sectors. The survey therefore captured concerns in these areas.

November 2021 saw the UN Climate Change Conference (COP26) take place in Glasgow, with the attention of global media turned to Scotland and its response to the climate emergency. Reflecting this, the survey captured business views on net zero and moving to low carbon ways of working.

METHODOLOGY

Sampling

The survey sample was mainly sourced from businesses that took part in previous waves of the survey and had indicated that they were willing to be re-contacted. Additional HIE panel members and HIE account-managed businesses were also approached along with companies identified from the Dun and Bradstreet business database.

The sample was designed to match the structure of the Highlands and Islands business population in terms of sector, size, and geographical distribution. Quotas were set for recruitment and interviewing so that the achieved sample reflected the population of eligible organisations as defined by the Inter-Departmental Business Register (IDBR). Eligible organisations were defined by SIC (Standard Industrial Classification) code, with the following SIC 2007 Sections excluded from the sampling:

- Public administration and defence; compulsory social security;
- Education and health and social work;
- Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use; and
- Activities of extraterritorial organisations and bodies.

SIC codes were used to identify areas of economic activity considered to be growth sectors (as set out in the Government Economic Strategy) so that quotas could be set to ensure these were represented in the survey sample.

Within each participating organisation, the survey respondent was the owner or a senior manager able to comment on the performance and future prospects of the organisation.

Fieldwork

The survey fieldwork was conducted between 7 February and 22 March 2022, using telephone interviewing. In total 1,017 eligible interviews were achieved.

The achieved sample was broadly representative of the population, notwithstanding some differential non-response due to differences in availability and willingness to participate.

Weighting was applied to correct the distribution of sectors to match the sample counts. A breakdown of the achieved profile of businesses is provided in the Appendix.

PRESENTATION AND INTERPRETATION OF THE DATA

The survey findings represent the views of a sample of businesses, and not the entire business population of the Highlands and Islands, therefore they are subject to sampling tolerances, meaning that not all differences will be statistically significant.

Throughout the report, differences between sub-groups are commented upon only where we are sure these are statistically significant, i.e. where we can be 95% certain that they have not occurred by chance.

Where percentages do not sum to 100%, this may be due to rounding, the exclusion of 'don't know' categories, or multiple answers. Aggregate percentages (e.g. "optimistic/not optimistic" or "important/not important") are calculated from the absolute values. Therefore, aggregate percentages may differ from the sum of the individual scores due to rounding of percentage totals.

Throughout the report, an asterisk (*) denotes any value of less than half a percent and a dash (-) denotes zero. For questions where the number of businesses is less than 30, the number of times a response has been selected (N) rather than the percentage is given.

B. OPTIMISM AND PERFORMANCE

KEY FINDINGS

- **Thinking about the economic outlook for Scotland over the next 12 months, 60% of businesses were confident, while 38% were not. Economic optimism was down slightly on the previous wave:** 45% said their confidence had stayed the same over the past six months, 14% reported an increase, and 40% a decrease.
- **There were signs of continued recovery from COVID-19, though slightly less so than the previous wave:** 62% were operating at either the same level (42%) or over and above the level (20%) they were before COVID-19, while 37% were operating below their pre-pandemic levels.
- **Over the last six months, employment was fairly stable while sales or turnover performance was mixed** (34% said it had increased, 32% decreased, and 33% remained the same). Exports were more likely to have decreased than increased (30% vs 11%), but had remained stable for around half (55%).
- **Most businesses (77%) were optimistic about their prospects in the next 12 months, while 22% were not.** Businesses were less optimistic than they were in October/November 2021, when 82% were optimistic and 17% were not.
- **More than two in five (43%) businesses were striving for growth** while around the same proportion (45%) were content with their current level of performance. Around one in ten (11%) wanted to downsize.
- **As in previous waves, tourism businesses were more likely to be operating below their pre-pandemic levels** and to have seen decreases in sales and turnover and employment. They were also more likely to be striving for growth.
- **Food and drink businesses saw fairly stable performance** over the past six months, and were more likely to be operating at about the same level as they were before COVID-19, reflecting findings from the previous wave. Level of optimism for their own business prospects was in line with the average, having been below average in the previous wave.

CURRENT ECONOMIC CONFIDENCE

Thinking about the economic outlook for Scotland over the next 12 months, 60% of businesses were confident, while 38% were not.

Overall confidence was slightly lower than in the previous wave: in October/November 2021, 64% of businesses were confident in the economic outlook while 34% were not.

Confidence in the economy was linked to other measures of business confidence, including optimism, growth aspirations and operating level:

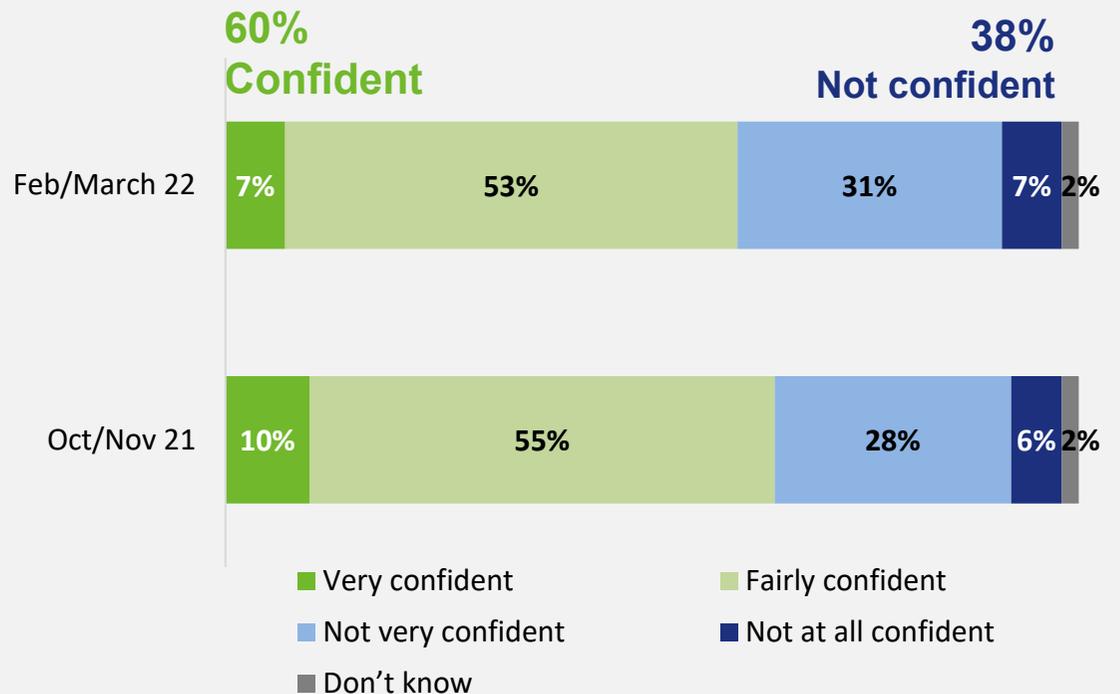
More confident than average

- Those selling to international markets (any market outside of the UK) (65% confident).
- Optimistic about their future (72%).
- Operating above pre-pandemic levels (76%).
- Striving for growth in next 12 months (66%).

Less confident than average

- Not optimistic about their future (76% not confident).
- Operating below pre-pandemic levels (51%).
- Those aiming to retain their current level of performance (42%).

Q. How confident are you in the economic outlook for Scotland over the next 12 months?



Base: All businesses (1,017)

ECONOMIC CONFIDENCE OVER PAST 6 MONTHS

Economic optimism was down slightly on the previous wave: 45% said their confidence had stayed the same over the past six months, 14% reported an increase, and 40% a decrease.

Net confidence* was -26, lower than the past two waves (-15 in Oct/Nov 2021 and -14 in June 2021). However, overall confidence remained higher than that seen in early stages of the pandemic (-51 in February 2021, -64 in October/November 2020 and the record low of -76 in June/July 2020).

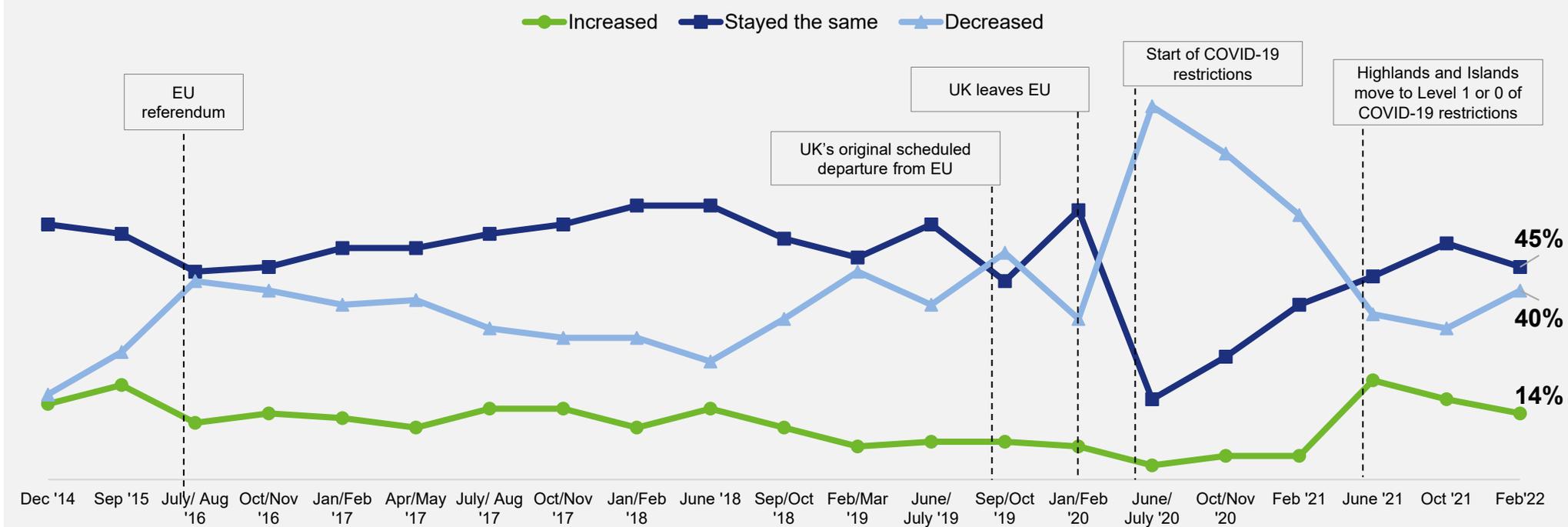
More likely to report increased confidence:

- Those operating above pre-pandemic levels (26%).
- Striving for growth in the next 12 months (20%).
- Selling to the rest of UK (18%).

More likely to report decreased confidence:

- Food and drink businesses (47%).
- Those operating below pre-pandemic levels (48%).
- Not optimistic about their future (67%).

Q. Over the past six months, has your level of confidence in the economic outlook in Scotland increased, decreased or stayed the same?



Base: All businesses (1,011)

NOTES:

*The net figure is the difference between 'increased' and 'decreased' assessments at each wave. Net scores are positive when positive assessments exceed negative

LEVEL OF CURRENT OPERATION

Three fifths (62%) of businesses were operating at either the same level (42%) or over and above the level (20%) they were before COVID-19, while 37% were operating below their pre-pandemic levels.

Compared with the previous wave, there was a slight increase in those saying they were operating below their pre-COVID-19 levels (from 32% to 37%). However, this figure was still lower than it had been in the preceding waves (between June/July 2020 and June 2021), suggesting that businesses were in a stronger position than they were in early stages of the pandemic.

More likely to be operating below pre-COVID-19 levels

- Tourism (59%) and creative industries (50%) businesses, echoing findings from the previous wave.
- Those not optimistic about their future (58%).
- Aiming to downsize (52%).

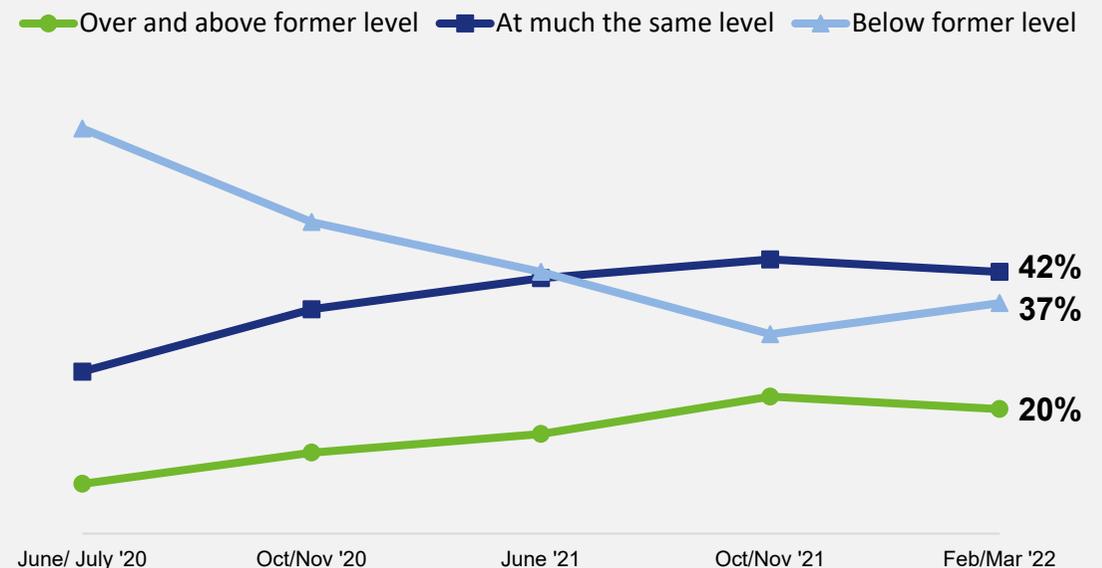
More likely to be operating above pre-COVID-19 levels

- Non-growth sector businesses (23%).
- Those with 25+ staff (36%).
- Optimistic about their future (25%).
- In urban parts of the region (27% vs 17% in both remote and accessible rural locations).

More likely to be operating at same level as pre-COVID-19

- Food and drink businesses (62%).
- In remote rural areas (46%).
- Selling to domestic markets only (46%).

Q. Which of the following best describes the way in which you are currently operating in relation to how you had been before the coronavirus outbreak?



Base: All businesses (1,017)

Note: This question was not asked in the February 2021 survey, hence there is no data shown for that wave

NOTES:

In this report "domestic markets only" means those trading only in Scotland and no markets outside of Scotland; "international" means those trading with any markets outside of the UK (a combination of those saying they sold to the EU or to outside the EU)

ASPECTS OF BUSINESS PERFORMANCE

Over the past six months sales or turnover performance was mixed (34% said it had increased, 32% decreased, and 33% remained the same). Employment had remained relatively stable (67%). Exports were more likely to have decreased than increased (30% vs 11%), but had remained stable for around half (55%).

On all three measures, those operating above pre-pandemic levels were more likely to have seen increases, while those operating below former levels were more likely report decreases.

Sales or turnover

Performance was down on the previous wave (when 38% reported an increase, 28% a decrease, and 32% no change).

- **Tourism** businesses were more likely than average to see a decrease (57%) while **food and drink** businesses were more likely to report stability (40%), reflecting the pattern of recent waves.
- Those importing from **international markets** (39%) and those with **25+ staff** (50%) were more likely to report an increase, while those with **0-4 staff** were more likely to have seen a decrease (35%).

Employment

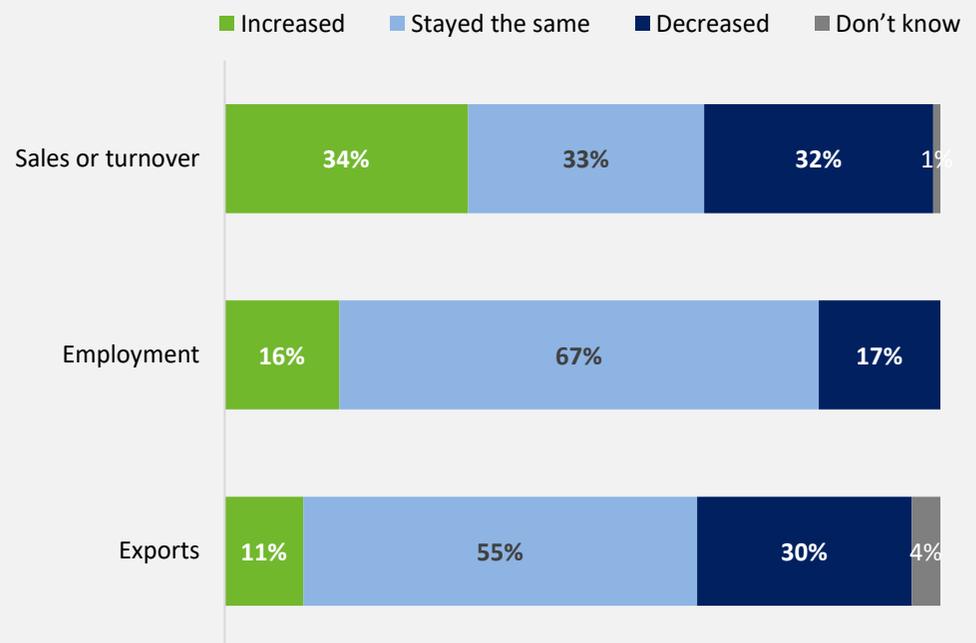
As with the previous wave, downturn in employment was more pronounced among those that had also experienced reduced sales and turnover (37% of these businesses had also seen a decrease in employment). In addition:

- **Tourism** businesses were more likely to have seen a decrease (31%).
- Increases were higher among those with **25+ staff** (46%) as well those importing from (21%) and exporting to (19%) **international markets**.
- **HIE-account managed** businesses were more likely than non-account managed to experience increased employment (39% vs 14%).

Exports

- Those selling to international markets were more likely than average to see changes in their level of exports (18% saw an increase, 43% a decrease)

Q. Please tell me if the following has increased, stayed the same or decreased over the last six months?



Base: All businesses to whom it applied: sales or turnover (996), employment (952), exports (350)

FUTURE PROSPECTS

Most businesses (77%) were optimistic about their prospects in the next 12 months, while 22% were not.

Businesses were less optimistic than they were in October/November 2021, when 82% were optimistic and 17% were not.

Unlike the previous wave, when food and drink businesses had lower than average levels of optimism, this wave they were in line with the overall findings.

Otherwise, optimism was broadly linked to overall operating levels, growth aspiration and markets of operation.

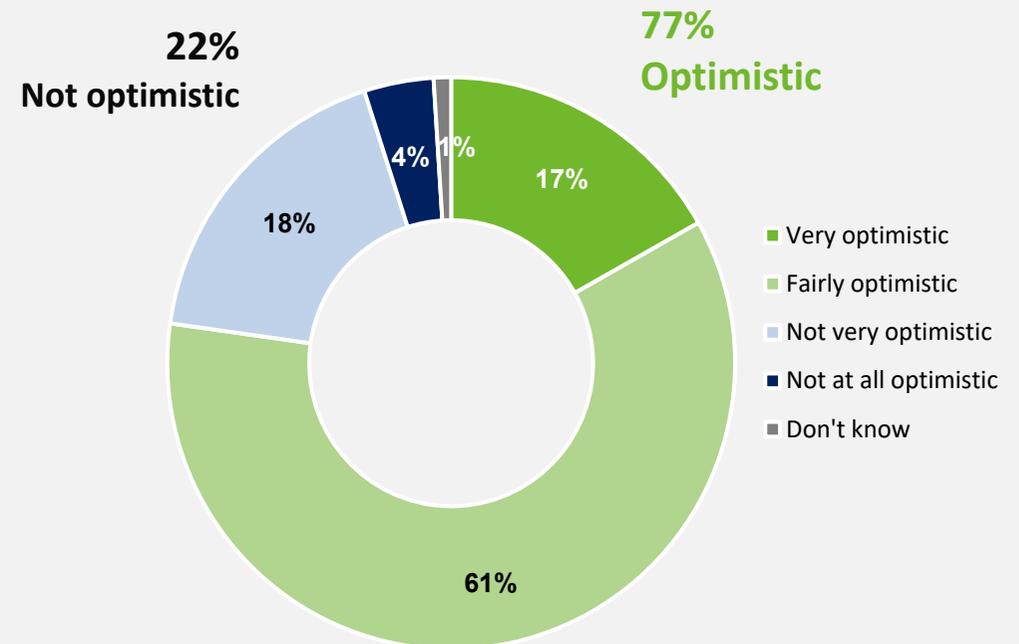
More optimistic than average

- Those operating above pre-pandemic levels (94% optimistic).
- Striving for growth in next 12 months (86%).
- Selling to international markets (84%) and rest of the UK (83%).

Less optimistic than average

- Operating below pre-pandemic levels (34% not optimistic).
- Aiming to downsize (46%).
- Selling to domestic markets only (28%).

Q. How optimistic are you for your business's prospects in the next 12 months?



Base: All businesses (1,017)

GROWTH ASPIRATIONS

More than two in five (43%) businesses were striving for growth while around the same proportion (45%) were content with their current level of performance. Around one in ten (11%) wanted to downsize.

Growth aspirations were in line with those seen in October/November 2021, when 45% wanted to grow, 45% were content, and 11% wanted to downsize.

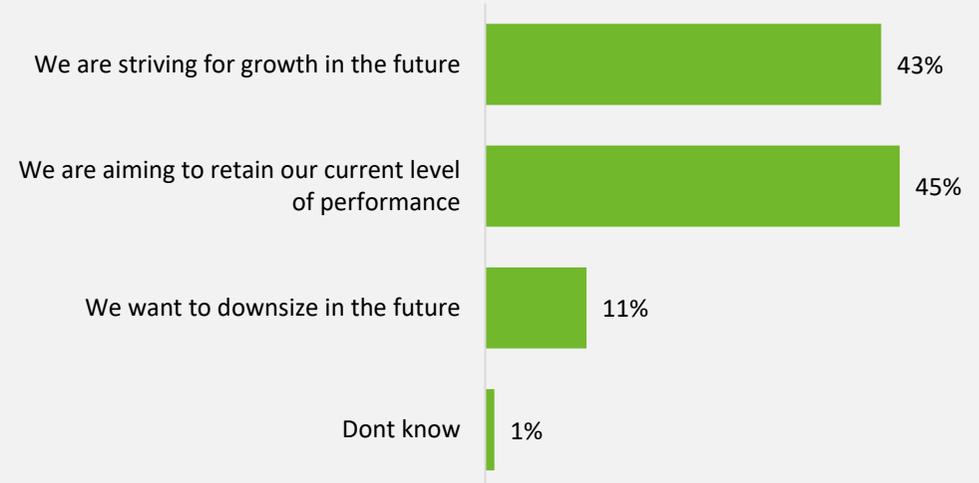
More likely to strive for growth

- Tourism businesses (53%), as seen in the previous wave.
- Those with 11-24 (58%), and 25+ (80%) staff.
- HIE-account managed (80%, vs 41% of non-account managed).
- Importing from (54%) and selling to (55%) international markets.

More likely to want to downsize

- Small businesses (0-4 staff) (15%).
- Non-account managed (12% vs 1% of HIE-account managed).
- Sourcing goods only from domestic markets (14%).

Q. Which of these statements best describes your current aspirations for the business?



Base: All businesses (1,017)

Growth aspirations were again linked to operating levels (see table to the right). Those operating above pre-COVID-19 levels were more likely than average to be striving for growth, while those operating below pre-COVID-19 levels were more likely to want to downsize. Those operating at much the same level were more likely to want to stay at that level.

Growth aspiration	Level of current operation compared to pre-pandemic levels		
	Over and above	Same	Below
We are striving for growth in the future	66	34	42
We are aiming to retain our current level of performance	30	55	41
We want to downsize in the future	4	11	16
Base	204	386	409

*figures that are significantly higher than the average are highlighted in green

C. COSTS

KEY FINDINGS

- **Almost all businesses were concerned about rising costs (94%), just 6% were not concerned.**
- **Businesses were most concerned about the cost of energy (65%) and the cost of fuel (62%).** A third were concerned about the cost of goods sourced from within the UK (34%) and around a fifth by the cost of labour (22%), of transporting goods (22%), and of imported goods (20%).
- **To help respond to increased costs, more than half of businesses were increasing their prices (54%).** More than a third were exploring new markets (37%), collaborating with other businesses (35%) and working with new suppliers (34%). Other measures included postponing investment plans (31%), using cash reserves (28%) and doing more online (25%).
- **Concern about costs was particularly high among tourism and food and drink businesses, and those operating below their pre-pandemic levels.** In response to rising costs, those operating below their former levels were more likely to be postponing investment plans (43%), using cash reserves (42%), postponing recruitment plans (32%), and scaling back production or services (23%).



RISING COSTS

The vast majority (94%) of businesses were concerned about rising costs (61% very, 33% fairly concerned). Just 6% were not.

Findings reflect the economic context at the time of the survey, with costs increases for both businesses and households being widely reported in Scotland and across the UK.

They also echo the findings from the previous wave (October/November 2021) where the most significant concern for businesses was increased costs.

Concern about rising costs was high across the board, however there was still some variation by sector, operating level and optimism:

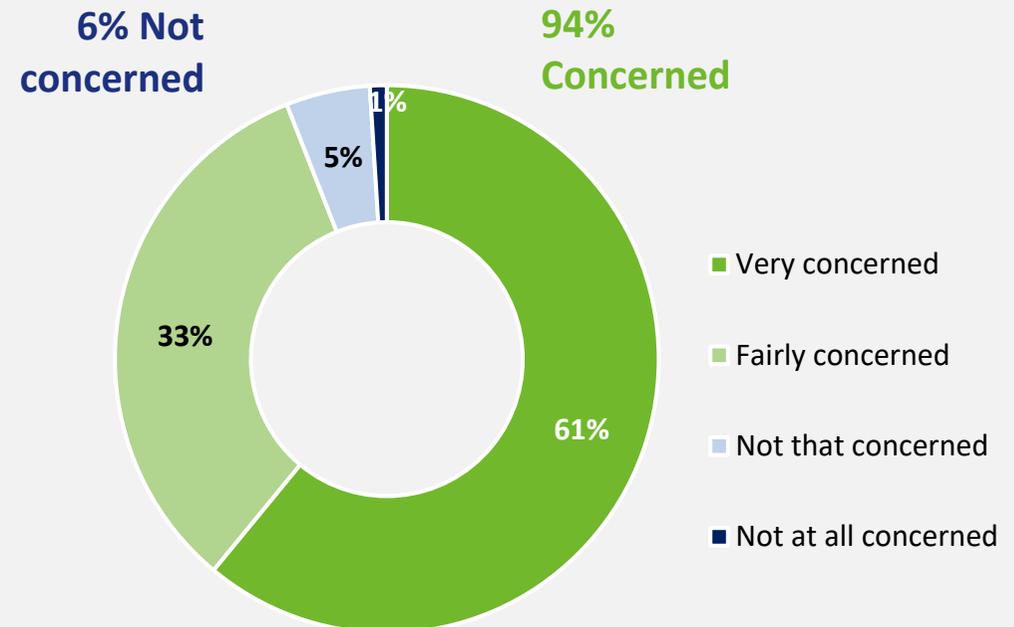
More likely to be concerned

- Food and drink (98%) and tourism (98%) businesses.
- Those operating below pre-pandemic levels (96%).
- Those not optimistic about their future (98%).

Less likely to be concerned

- Financial and business services businesses (13%).
- Those operating above pre-pandemic levels (13%).
- Those optimistic about their future (7%).

Q. How concerned, if at all, are you about rising costs at the moment?



Base: All businesses (1,017)

COST CONCERNS

Of those concerned about rising costs, the top concerns were the cost of energy (65%) and fuel (62%). A further third (34%) were concerned with the cost of goods sourced from within the UK.

Of those that were concerned about costs, around one in five were most concerned with cost of labour*, transporting goods and goods imported from outside the UK. Cost of premises and cost of exporting goods were the most pressing concerns for markedly fewer (5% and 3%).

Findings align strongly with the current economic context, with fuel and energy costs currently increasing and due to increase still further (e.g. energy firms increased costs in April 2022 and are due to again in October 2022).

Variations in cost concerns by:

Sector

- **Tourism** – energy (77%).
- **Creative industries** and **food and drink** – transporting goods (40% and 29%).
- **Financial and business services** – premises (12%).

Location

- **Remote rural areas** – goods sourced within the UK (38%) and transporting goods (25%).

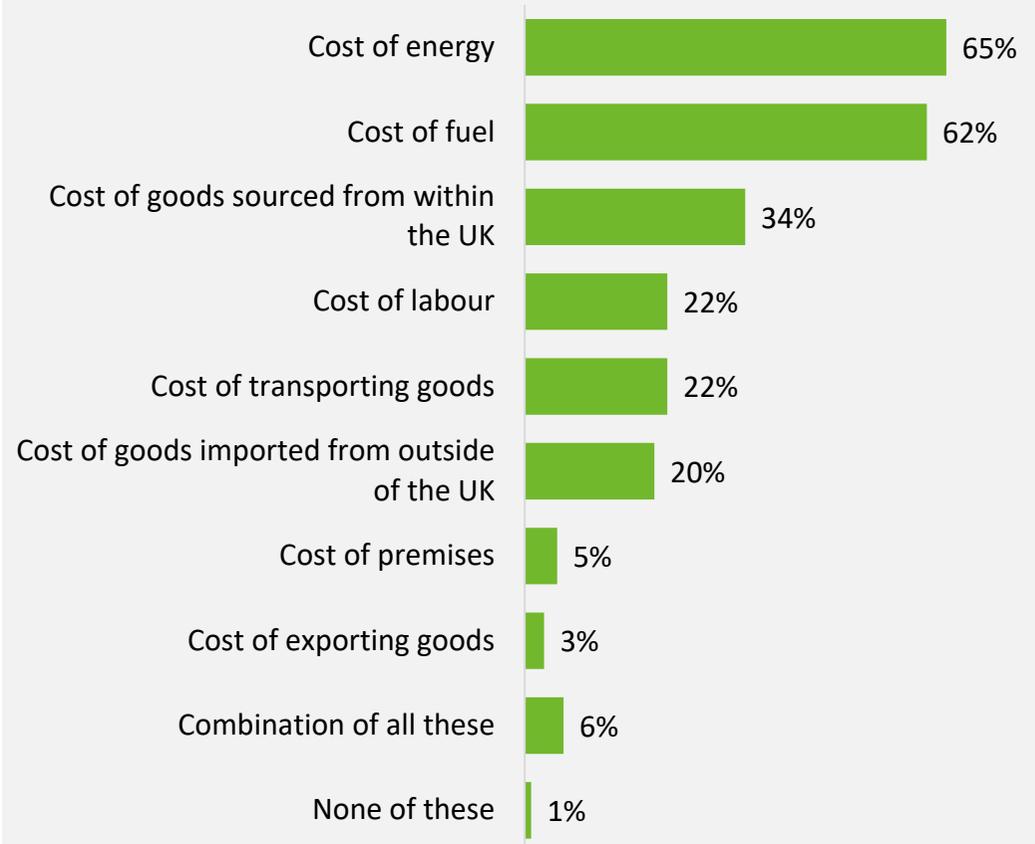
Size

- **Large businesses** (25+ staff) – labour (47%), combination (16%).
- **Small businesses** (0-4 staff) – fuel (67%).

Markets

- **Importing** from outside the UK – goods imported from outside the UK (30%) and exporting goods (6%).
- **Exporting** to outside the UK – exporting goods (8%).

Q. Which two or three of the following are you most concerned about?



Base: Businesses concerned about rising costs (957)

NOTES:

Among employers, 25% said they were most concerned about cost of labour, while 5% of those with no staff said this was their top concern.

RESPONDING TO COST INCREASES

To help respond to cost increases, around half of businesses were increasing their prices (54%), while over a third were exploring new markets (37%), collaborating with other businesses (35%) and working with new suppliers (34%). Other actions included postponing investment plans (31%), using cash reserves (28%) and doing more online (25%).

Q. What if anything, are you doing differently to help respond to cost increases?



Base: All businesses (1,017)

Variation by sector

- **Tourism** – increasing prices (62%), using cash reserves (37%), changing our product or service (22%), scaling back production or services (19%).
- **Financial and business services** and **creative industries** – doing more online (43% and 40%).

Variation by location

- **Urban areas** – increasing prices (59%), exploring new markets (42%), working with new suppliers (38%).

Variation by account management

- **HIE-account managed** – exploring new markets (65%), collaborating (51%), seeking external finance (27%).

Variation by markets

- **Importing** from outside the UK - increasing prices (62%), exploring new markets (49%), collaborating (45%), working with new suppliers (44%), doing more online (32%), changing product or service (23%), seeking external finance (17%).
- **Exporting** from outside the UK - exploring new markets (51%), collaborating (41%), doing more online (36%), using cash reserves (32%), changing product or service (20%), seeking external finance (18%).

Variation by operating level

- **Below pre-pandemic** – postponing investment plans (43%), using cash reserves (42%), postponing recruitment plans (32%), scaling back production or services (23%).

D. PLANNING AHEAD

KEY FINDINGS

- **Over half of businesses were currently focusing on their resilience (57%), enhancing their productivity (55%), and compliance with regulation or legislation (53%).** Fewer than half were currently focusing on reducing carbon emissions (48%), supporting growth (40%), succession planning (38%) and addressing labour challenges (34%).
- **For around a quarter of businesses, certain factors were longer-term considerations:** succession planning (27%), supporting growth (26%), and reducing carbon emissions (25%). The other aspects were being planned for in the longer term by around one-in-five businesses.
- **Areas of focus were linked to operating level,** with those operating over and above their pre-COVID-19 levels more likely than average to say they were focusing on a number of actions including business resilience, enhancing productivity and compliance with regulation or legislation.
- **The most important factor in helping businesses achieve their plans was their workforce (49%)** followed by new technology (30%), market and customer insights (29%) and adapting products or processes (28%).



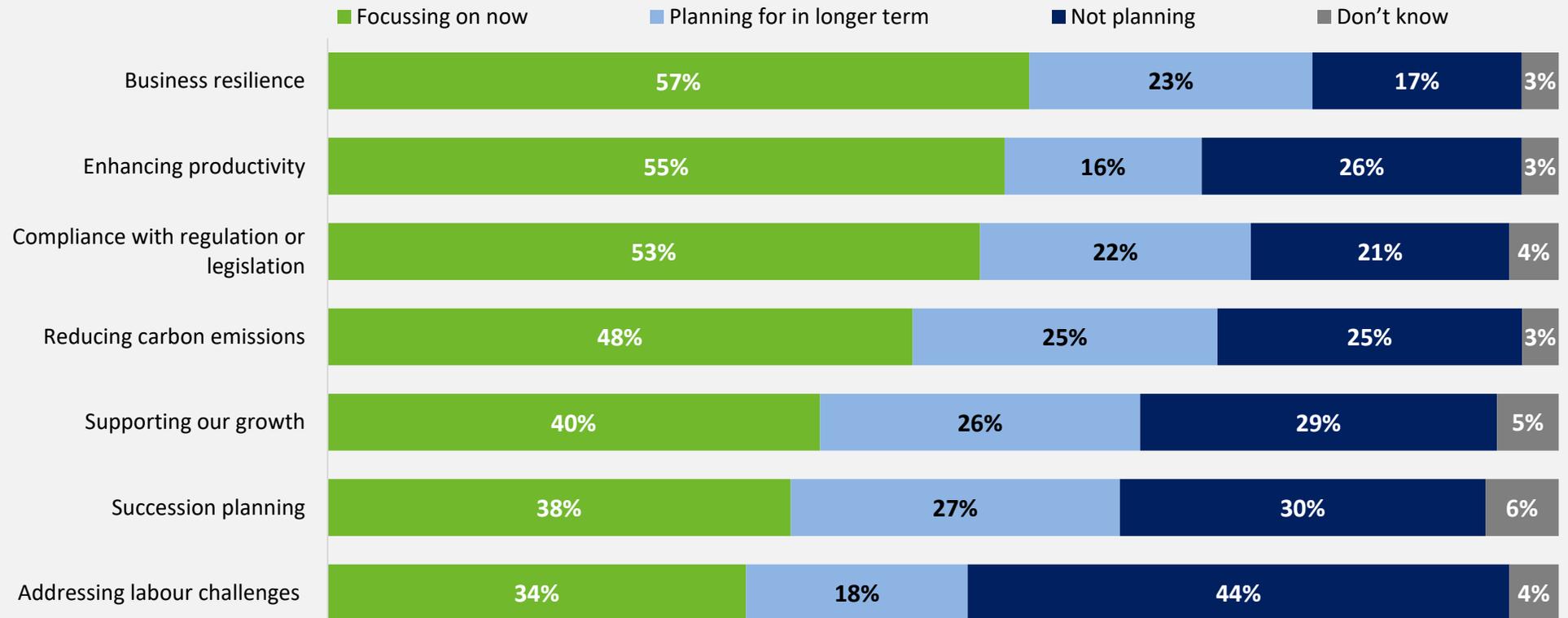
AREAS OF FOCUS

Over half of businesses were currently focusing on their resilience (57%), enhancing productivity (55%) and compliance with regulation or legislation (53%). Fewer than half were currently focusing on reducing carbon emissions (48%), supporting growth (40%), succession planning (38%) and addressing labour challenges (34%).

For around a quarter of businesses, certain factors were longer term considerations: succession planning (27%), supporting growth (26%), and reducing carbon emissions (25%). The other areas were being planned for the in the longer term by around one-in-five businesses.

The areas that businesses were most likely to say they were *not* planning for at all were: addressing labour challenges, succession planning, and supporting growth.

Q. Is this something you are focusing on now, planning for in the longer term, or not planning for at all?



Base: All businesses (1,017)

AREAS OF FOCUS (2)

Variation in areas of focus:

More likely to be focusing on now

- **Tourism** – business resilience (65%), compliance with regulation or legislation (61%).
- **Food and drink** – reducing carbon emissions (56%), succession planning (47%).
- **Operating above pre-COVID-19 levels** – business resilience (67%), enhancing productivity (64%), compliance with regulation or legislation (60%), reducing carbon emissions (58%), addressing labour challenges (42%).
- **Exporting outside the UK** – supporting our growth (46%).

More likely to be planning in longer term

- **Tourism** – reducing carbon emissions (34%).
- **HIE-account managed** – succession planning (38%).

More likely to not be planning for at all

- **Remote rural areas** – addressing labour challenges (47%) (and were less confident than average in their ability to address workforce-related challenges – see slide 46).
- **Operating below pre-COVID-19 levels** – reducing carbon emissions (30%), compliance with regulation or legislation (26%).

Businesses striving for growth were more likely than average to be currently focused on each aspect, while those wanting to downsize were more likely to not be planning at all.

Variation among those addressing labour challenges:

As might be expected, **addressing labour challenges was more of a focus for those that currently employed staff**, than for those with no staff. Among employers, 39% were currently focusing on addressing challenges, while 21% were planning for this in the longer term.

Most (78%) of those with no staff were not planning on addressing labour challenges. However, 10% said this was a current area of focus for them, suggesting they were currently trying to recruit staff or wanting to do so in future.

Approach to addressing labour challenges	Employers	Those with no staff	All
	%	%	%
Currently focusing on	39	10	34
Planning for in longer term	21	5	18
Not planning at all	36	78	44
Don't know	4	7	4
<i>Base</i>	<i>841</i>	<i>176</i>	<i>1,017</i>

Among those that were experiencing workforce-related issues (see slide 42), **half (50%) were currently focusing on addressing labour challenges**, while 25% were planning to do so in the longer term.

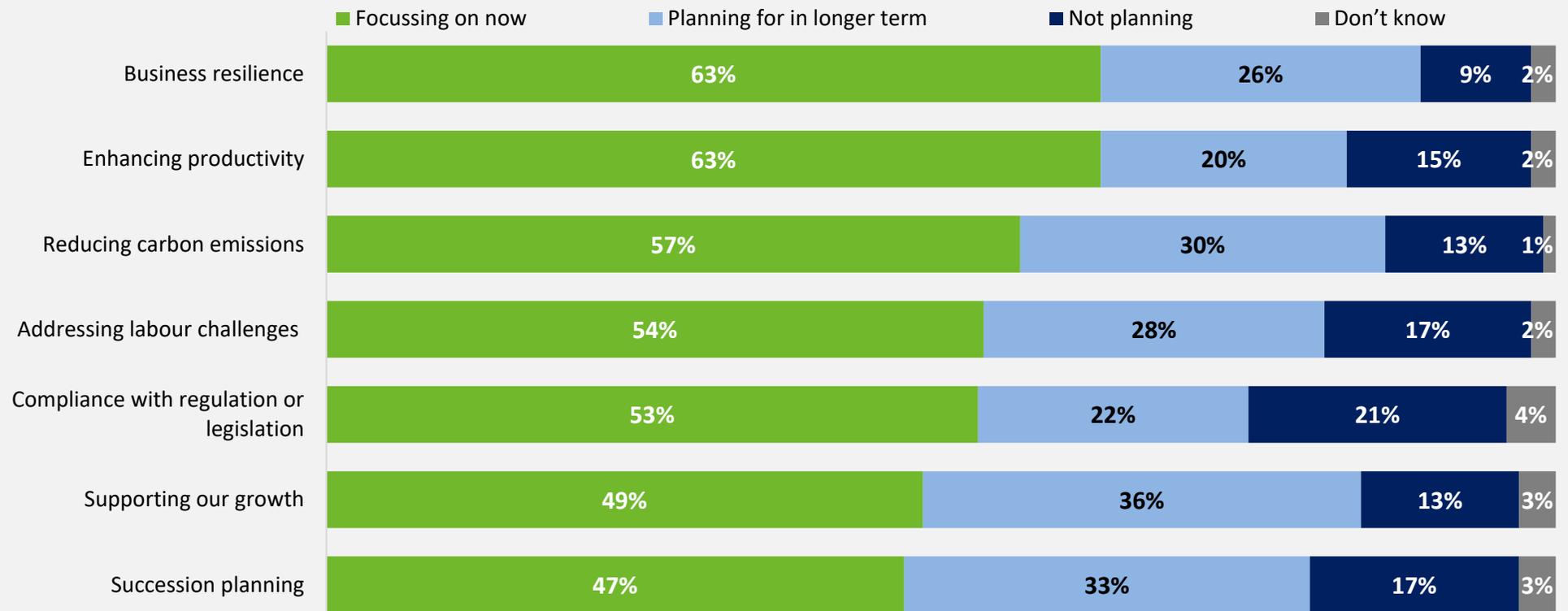
However, 22% of those experiencing workforce-related issues were not planning to address those challenges (and this group were also more likely than average to say they were not planning for any of the aspects listed).

AREAS OF FOCUS (3)

A subset of businesses were taking action on three key areas explored in the survey (covered in later sections). There were: actions relating to workforce, actions to help move to low carbon ways of working, and either using or planning to use new technology. Overall, 44% of businesses said they were doing all three of these – referred to here as “proactive” businesses.

This subset of “proactive” businesses were more likely than average to be currently focusing on each aspect (apart from compliance with regulation): their business resilience (63% vs 57% for all businesses), enhancing productivity (63% vs 55%), reducing carbon emissions (57% vs 48%), addressing labour challenges (54% vs 34%), supporting growth (49% vs 40%), and succession planning (47% vs 38%).

Q. Is this something you are focusing on now, planning for in the longer term, or not planning for at all?



Base: All those currently taking action on workforce, low carbon ways of working, and new technology (441)

HELPING BUSINESS ACHIEVE PLANS

The most important factor in helping businesses achieve their plans was their workforce (49%) followed by new technology (30%), market and customer insights (29%) and adapting products or processes (28%).

Other important factors included external advice and support (24%) and financial investment (21%). One in ten said that none of these factors were important in helping them achieve their plans.

Workforce was more important than average for:

- those currently experiencing workforce-related challenges (71%),
- those that were currently focusing on
 - addressing labour challenges (77%)
 - succession planning (61%)
 - supporting their growth (59%).

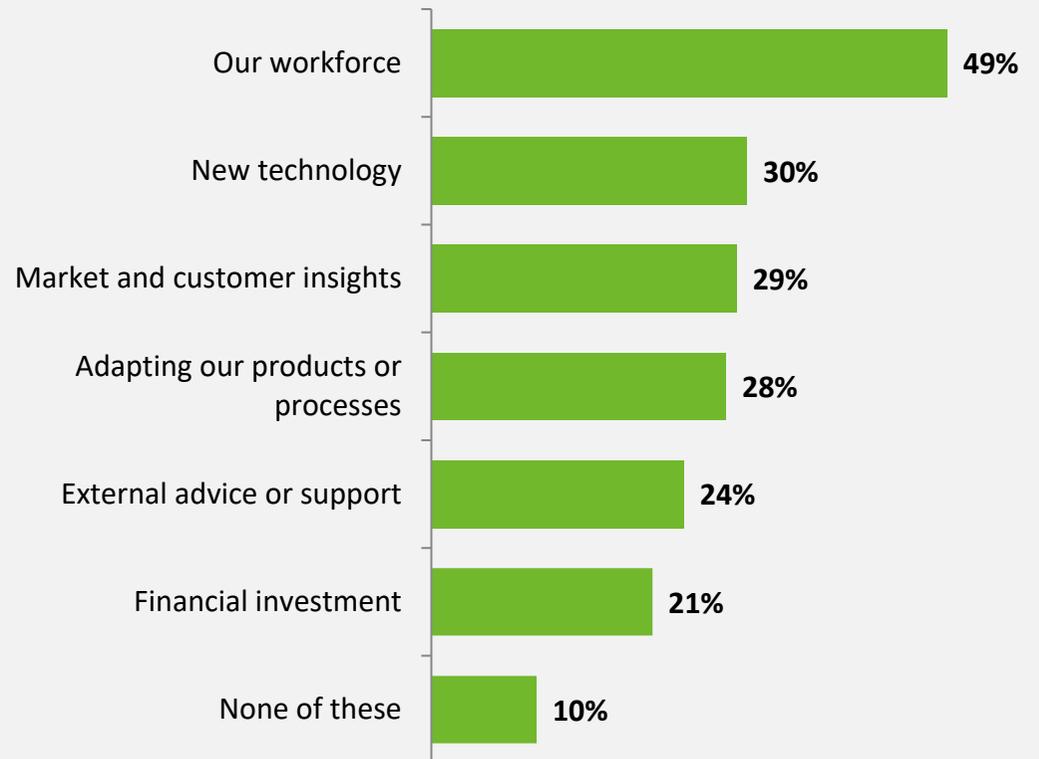
New technology was more important for those currently focusing on:

- enhancing their productivity (37%).

Adapting products or processes was more important for those currently focusing on:

- enhancing their productivity (34%)
- supporting their growth (34%).

Q. Which two or three of the following will be most important for helping your business achieve its plans?



Base: All businesses (1,017)

HELPING BUSINESS ACHIEVE PLANS (2)

Further variation:

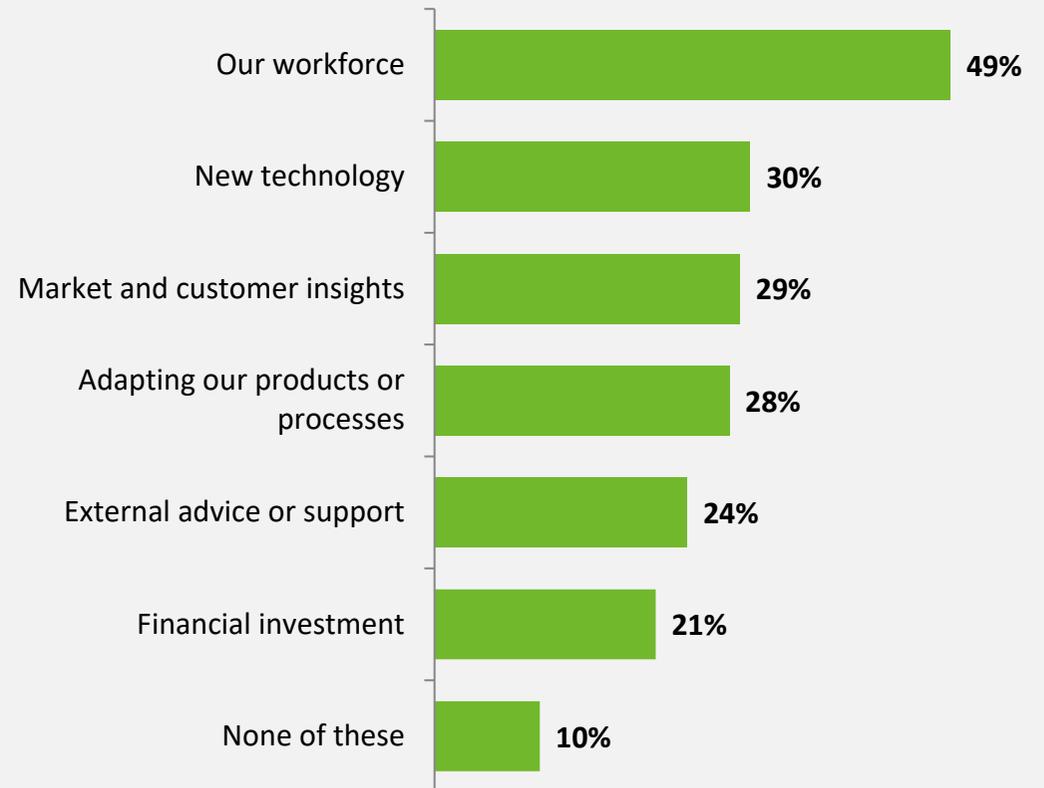
More likely than average to say these factors were important:

- **Tourism** – market and customer insights (45%)
- **Food and drink** – financial investment (31%)
- Those operating **above their pre-pandemic levels** – workforce (61%)
- Those operating **below their former levels** – market and customer insights (34%)
- **Exporting** to international markets – market and customer insights (38%).
- **Importing** from international markets – new technology (35%)

Businesses **striving for growth in the next 12 months** were more likely than average to say that the following were important:

- workforce (64%),
- market and customer insights (35%),
- new technology (34%) and
- financial investment (25%).

Q. Which two or three of the following will be most important for helping your business achieve its plans?



Base: All businesses (1,017)

E. MARKETS

KEY FINDINGS

- **Over three quarters (79%) of businesses were importers** (sourcing goods from outside Scotland) and **around half (52%) were exporters** (selling to markets outside Scotland).
- **Most (98%) businesses were taking, or planning, action in relation to their markets:** 89% were maintaining their existing markets, 31% expanding into new markets and 10% concentrating on fewer markets.
- **The most important actions for helping businesses achieve their market plans were: adapting their product or service (50%), re-skilling or up-skilling staff (46%), collaborating (43%), investing in technology (43%) and bringing in external advice or support (42%).** Around a quarter said that recruiting staff with new or different skills (27%) and investing in research and development (26%) were most important.
- **The majority (82%) of businesses were taking action relating to their supply chain,** and around half (55%) were taken actions specifically in response to supply chain *challenges*.
- **The most common actions being sourcing taken were sourcing supplies more locally (52%) or from within the UK (51%).** Around a quarter were moving to greener supply chains, greener forms of transport and reviewing routes to market, while one in five were reviewing their distribution network and stockpiling goods.



IMPORT MARKETS

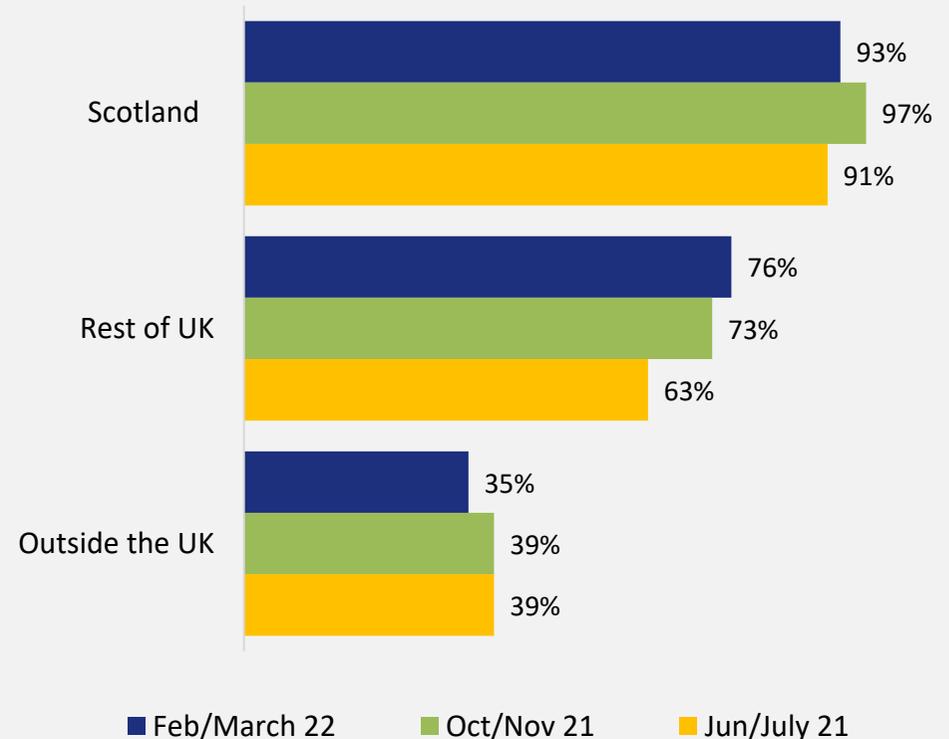
79% of businesses were importers*, with 76% importing from the rest of the UK and 35% from outside the UK. The majority of businesses (93%) sourced goods and materials from Scotland.

The past three waves have seen an increase in the proportion of businesses sourcing goods and materials from the rest of UK (from 63% in June/July 2021 to 76% this wave). In the same period there has been a slight decrease in those importing from outside the UK (from 39% the previous two waves to 35% this wave). This may suggest that businesses are turning to more UK-based rather than overseas suppliers.

Variation

- **Food and drink** businesses were more likely than average to source goods from Scotland (98%) while **creative industries** businesses were more likely to source from outside the UK (49%).
- The following were more likely to source goods and materials from each market outside of Scotland:
 - **Large businesses** (25+) (90% from rest of UK , 70% from outside the UK)
 - Businesses in **urban** areas (80% and 40%)
 - Those **striving for growth** (82% and 44%)
 - **HIE-account managed** (90% from rest of UK vs 75% non-account managed, and 60% from outside UK vs 33%)

Q. From which of these markets do you currently source goods and materials?



Base: All businesses (1,017)

*For Oct/Nov 21 and June/July 21, rest of UK is based on combining those saying Northern and Ireland and England and Wales, and outside the UK is based on combining the EU and outside the EU.

NOTES

*In this report, "importers" are defined as those that source goods or materials from any market outside of Scotland

EXPORT MARKETS

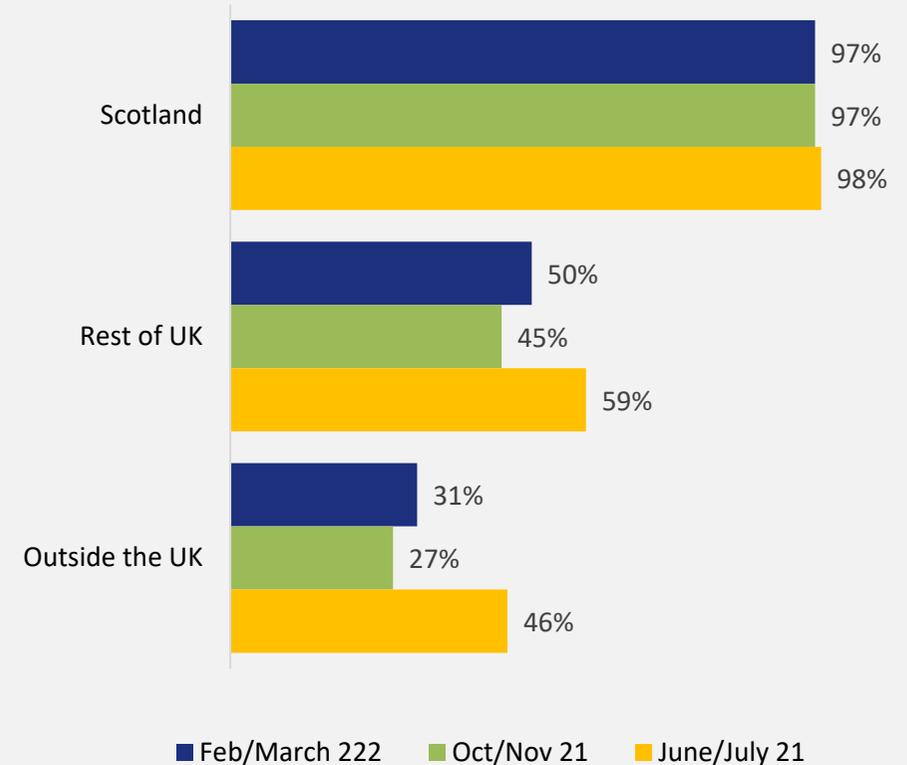
Around half (52%) of businesses were exporters (selling to markets outside Scotland), with 50% selling to the rest of UK and 31% outside the UK. The majority (97%) of businesses sold goods or services within Scotland, with 46% selling *only* in Scotland.

This proportion of exporters was close to that seen in the previous wave (48%) but still lower than that in June/July 2021 (62%). This suggests that the move towards more domestic trading by businesses in the region, observed in the previous wave, continued this wave.

Variation

- **Tourism** and **creative industries** businesses were both more likely to sell to the rest of UK (74% and 76%) and outside the UK (68% and 61%).
- **Large businesses (25+)** were also more likely to sell to both rest of UK (67%) and outside the UK (55%).
- **HIE-account managed** businesses were more likely to sell to rest of UK (71% vs 48% non-account managed), and outside the UK (52% vs 29%).

Q. In which of these markets do you currently sell goods or provide services?



Base: All businesses (1,017)

* For Oct/Nov 21 and June/July 21, rest of UK is based on combining those saying Northern and Ireland and England and Wales, and outside the UK is based on combining the EU and outside the EU.

NOTES

In this report, "exporters" are defined as those that sell good or services to any market outside of Scotland

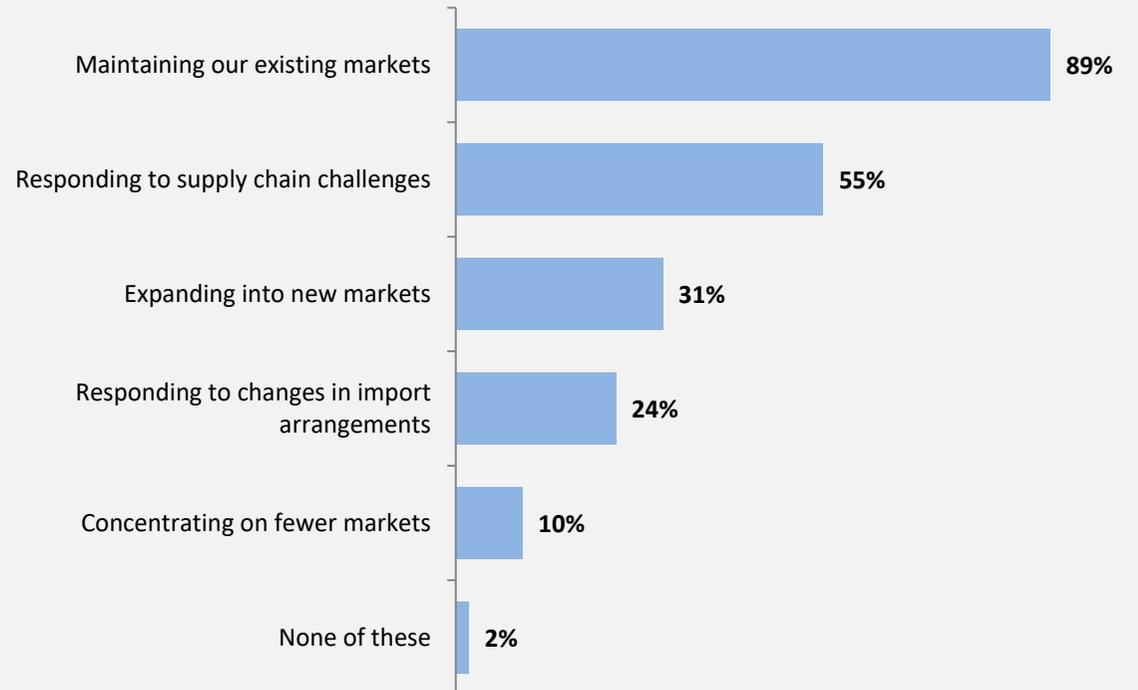
MARKET ACTIVITY

Most (98%) businesses were taking, or planning, action in relation to their markets: 89% were maintaining their existing markets, 31% expanding into new markets and 10% concentrating on few markets. Around half (55%) were responding to supply chain challenges and a quarter (24%) were responding to changes in import arrangements.

Variation

- **Creative industries** – expanding into new markets (44%).
- **Large businesses** (25+) – responding to supply chain challenges (76%), expanding into new markets (54%) and responding to changes in import arrangements (49%).
- **HIE-account managed** – expanding into new markets (67% vs 28% non-account managed).
- Those **importing** from both the rest of UK and outside the UK – responding to supply chain challenges (60% and 67%) and responding to changes in import arrangements (28% and 44%).
- Those **exporting** to both the rest of UK and outside the UK – expanding into new markets (40% and 46%) and responding to changes in import arrangements (29% and 32%).
- Those operating **above pre-pandemic levels**, those **striving for growth** and those **optimistic** about the next 12 months were all more likely to say they were expanding into new markets.

Q. Thinking about the markets you operate in, which of the following are you doing or planning to do?



Base: All businesses (1,017)

NOTES

Changes to import arrangements were not defined, but would include changes such as additional customs processes and checks on goods being imported into Great Britain from the EU.

SUPPORTING MARKET ACTIVITY

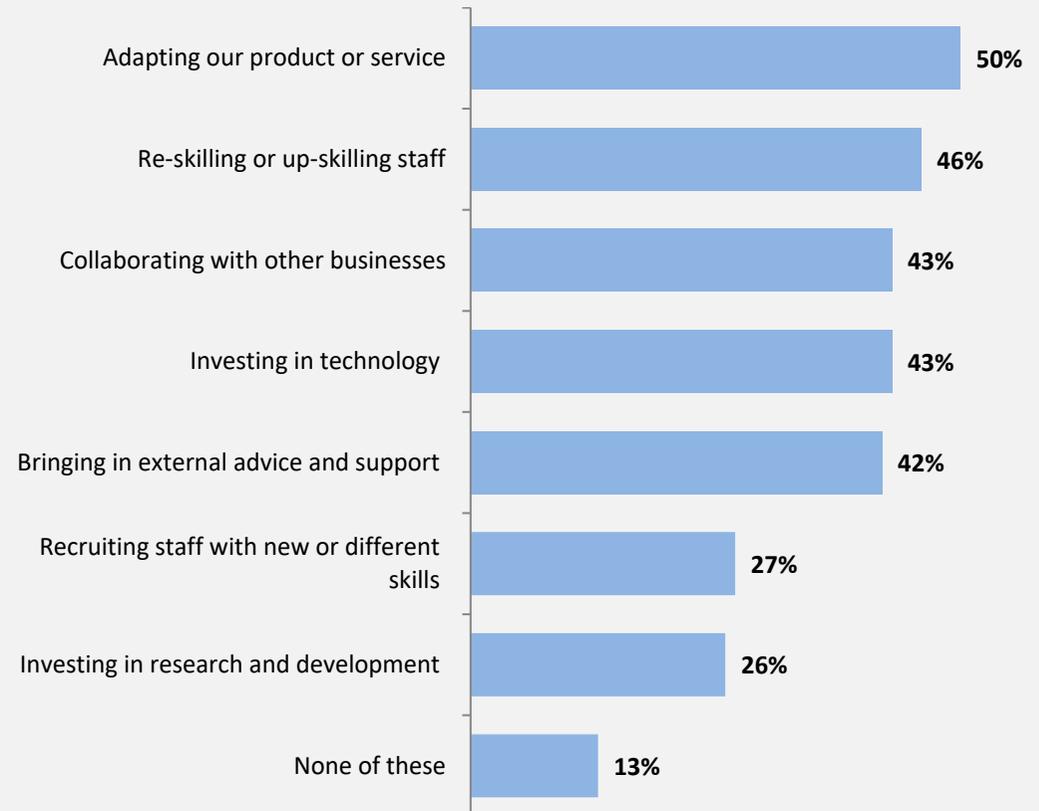
The most important actions for helping businesses achieve their market plans were: **adapting their product or service (50%), re-skilling or up-skilling staff (46%), collaborating (43%), investing in technology (43%) and bringing in external advice or support (42%).**

Some of these actions were more important than average for those that were expanding into new markets (see slide 36): **adapting their product or service (69%), re-skilling or up-skilling staff (60%), investing in technology (51%), and investing in research and development (43%).**

Further variation

- **Tourism and creative industries** – adapting their product or services was important (57% and 70%).
- **Food and drink** – bringing in external advice and support (50%) and investing in research and development (34%).
- **Large businesses (25+)** – re-skilling or up-skilling staff (62%), investing in technology (61%), recruiting staff (49%) and investing in research and development (37%).
- **HIE-account managed businesses** – investing in technology (57% vs 42% of non-account managed) and investing in research and development (44% vs 25%).
- Those operating **above** pre-Covid-19 levels – recruiting staff (34%).
- Those operating **below** former levels – adapting their product or service (55%).
- **Importers and exporters** (trading with both rest of UK and outside the UK) had higher than average responses for each action.

Q. Which of these will be most important in helping you achieve those plans?



Base: All businesses with a strategy for their markets (992)

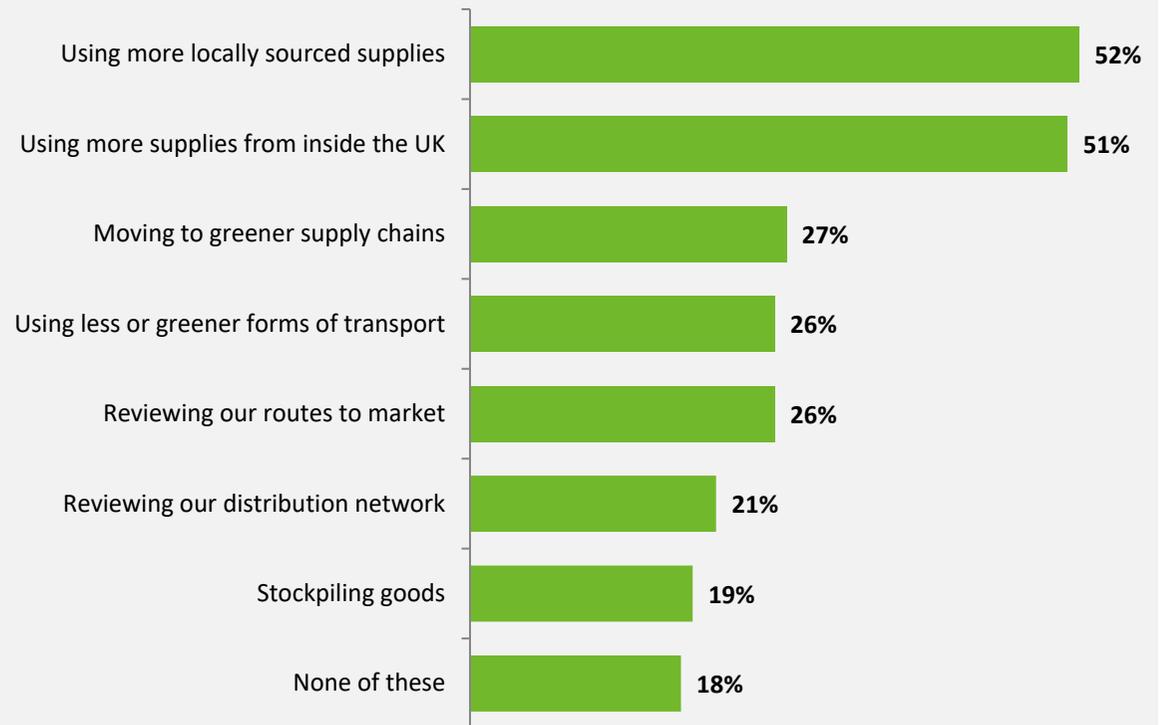
SUPPLY CHAIN ACTIONS

The majority (82%) of businesses were taking action relating to their supply chain, most commonly sourcing supplies more locally (52%) or from within the UK (51%).

Variation

- **Tourism** - using more locally sourced supplies (67%).
- **Food and drink** - reviewing routes to market (32%).
- **Large businesses (25+)** - stockpiling (38%) and reviewing distribution networks (33%).
- **HIE-account managed** - reviewing routes to market (43% vs 24% non-account managed) and distribution networks (41% vs 19%).
- Those **importing** from rest of UK and outside the UK – using more supplies from the UK (56% respectively), moving to greener supply chains (29% and 34%), reviewing routes to market (28% and 35%) and distribution networks (23% and 31%) and stockpiling (22% and 29%).
- Those **exporting** to rest of UK and outside the UK – using less or greener forms of transport (30% and 32%), moving to greener supply chains (32% and 37%), reviewing routes to market (33% and 34%) and distribution networks (27% respectively) and stockpiling (22% and 23%).

Q. What actions you are taking in relation to your supply chain?



Base: All businesses (1,017)

Certain actions were more common among those that were responding to supply chain challenges: using more suppliers from inside the UK (64%), reviewing routes to market (35%), moving to greener supply chains (34%), reviewing distribution networks (30%), and stockpiling (28%).

F. WORKFORCE

KEY FINDINGS

- **A quarter of businesses described themselves as women-led (24%)** while 72% did not (3% didn't know).
 - **70% of employers were experiencing workforce related challenges.** Of these the most common were the cost of labour (42%), followed by skills gaps (30%), staff absences (25%) and unfilled vacancies (25%).
 - **The top three issues contributing to workforce related-challenges were: a lack of candidates (56%), difficulties accessing specific skillsets (50%) and poor transport connections (36%).** Around three in 10 said lack of accommodation (30%) or being unable to offer competitive pay (27%) and around a fifth being unable to recruit from the EU (21%).
 - **The majority (82%) of employers were taking actions related to their workforce.** The most common were: upskilling or re-skilling current workforce (58%), making pay more competitive (43%), investing in new technology (41%) and collaborating with other businesses (36%). Fewer were changing their working practices (30%), recruiting staff with different skills (25%) and offering apprenticeships (23%).
 - **Two thirds of employers were confident they could address their workforce challenges (65%), while one third were not (34%).** Tourism businesses and those in remote rural areas were less confident than average.
- 

WOMEN-LED BUSINESSES

A quarter of businesses described themselves as women-led (24%), while 72% did not.

This question was asked openly, allowing businesses to interpret “women-led” for themselves. However, for those that asked for clarification of what this meant, they were provided with the Scottish Government’s definition: “controlled by a single woman or having a management team composed of a majority of women.”

Women-led business were higher than average among:

- **Tourism** businesses (36%)
- Those with **5-10 employees** (30%)
- Those **selling to markets in rest of UK** (27%) and **outside the UK** (29%)

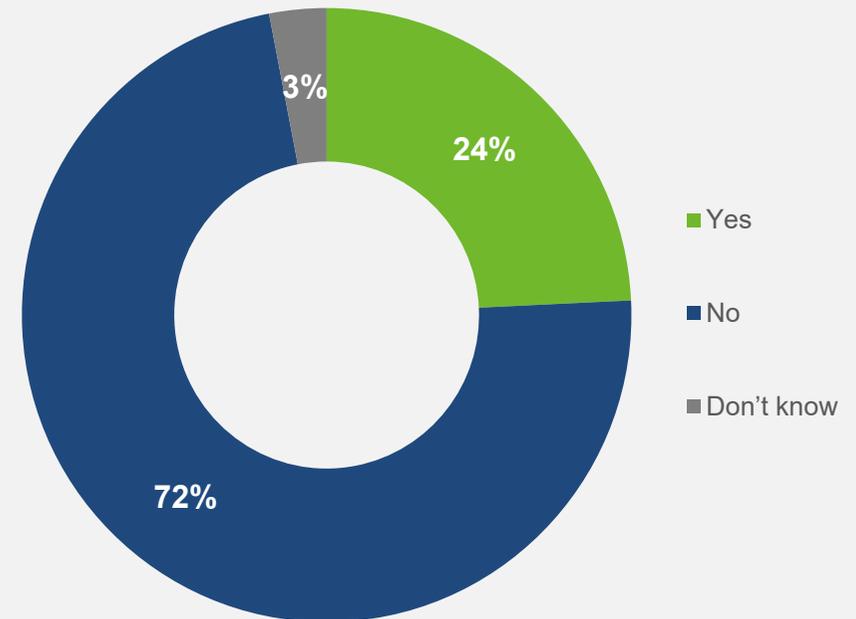
There was some variation in experiences with women-led businesses more likely to have experienced the following compared to those that did not identify as women-led:

- Decrease in sales or turnover over the last 6 months (39% compared to 30% of non-women led businesses)
- Concern about the cost of energy (74% vs 61%)
- Unfilled vacancies (32% compared to 23%) and more likely to say they were not confident in addressing workforce challenges (40% compared to 31%)
- Recruiting staff with new or different skills to achieve market plans (33% compared to 25%)

Additionally, women-led business were less likely than those that were not women-led to have experienced the following:

- Concern about cost of transporting goods (15% vs 24% of non-women-led businesses)
- New technology being an important means to achieve future plans (24% vs 32%)
- Difficulties accessing specific skillsets (41% vs 54%)
- Using/planning to use low carbon technology (33% vs 44%) or investing in low carbon technology (30% vs 38%)

Q. Would you describe your business as women-led?



Base: All businesses (1,017)

WORKFORCE-RELATED CHALLENGES

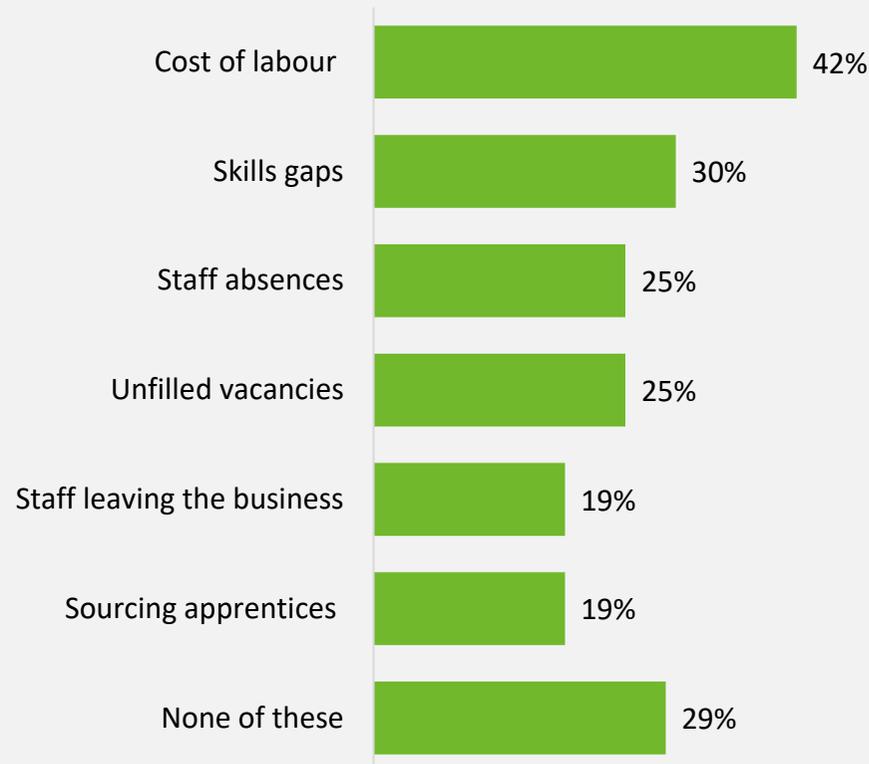
70% of employers were experiencing workforce related challenges. The most common challenge was the cost of labour (42%), followed by skills gaps (30%), staff absences (25%) and unfilled vacancies (25%).

Tourism businesses (77%), those with over 4 employees (88%), businesses in urban areas (75%), HIE-account-managed businesses (88%) and those striving for growth (77%) were more likely to be experiencing at least one workforce related challenge.

Variation

- **Tourism** – cost of labour (52%), unfilled vacancies (43%) and staff leaving the business (31%).
- **Creative industries** and **financial and business services** - least likely to face any challenges (48% and 43% faced none).
- **Large businesses (25+ staff)** – cost of labour (63%), staff absences (57%), skills gaps (45%), unfilled vacancies (44%), staff leaving the business (44%).
- **Importing from outside UK** – cost of labour (49%), skills gaps (38%), staff absences (31%), staff leaving the business (26%), sourcing apprentices (24%).
- **Operating above** pre-pandemic levels – staff absences (32%).
- **Operating below** pre-pandemic levels – staff leaving the business (24%).
- **Striving for growth** – skills gaps (37%), unfilled vacancies (32%), staff absences (29%), staff leaving the business (24%).

Q. Which of these workforce-related challenges is your business currently experiencing?



Base: All employers (841)

Those businesses that were currently focusing on addressing labour challenges were also more likely to be experiencing each challenge: cost of labour (58%), skills gaps (45%), unfilled vacancies (44%), staff absences (38%), staff leaving (33%) and sourcing apprentices (23%).

NOTES

The figure for those saying that cost of labour was a challenge (42%) is different from that in slides 23 in relation to concern about cost of labour (22%), as these are different measures asked of different groups of businesses (the former among employers only, the latter among all businesses).

FACTORS CONTRIBUTING TO WORKFORCE CHALLENGES

The top three issues contributing to workforce related-challenges were a lack of candidates (56%), difficulties accessing specific skillsets (50%) and poor transport connections (36%).

Variation by:

Sector

- **Tourism** – poor transport connections (53%), unable to recruit from the EU (45%), lack of accommodation (40%), lack of childcare (23%).
- **Financial and business services** – difficult to access specific skillsets (67%).
- **Food and drink** – lack of accommodation (40%), unattractive working hours or conditions (32%).

Location

- **Remote rural areas** - poor transport connections (46%), lack of accommodation (42%) and lack of childcare (20%).
- **Island areas** – lack of accommodation (43%).

Size

- **Small businesses (0-4 staff)** – difficulty providing or accessing training (23%).

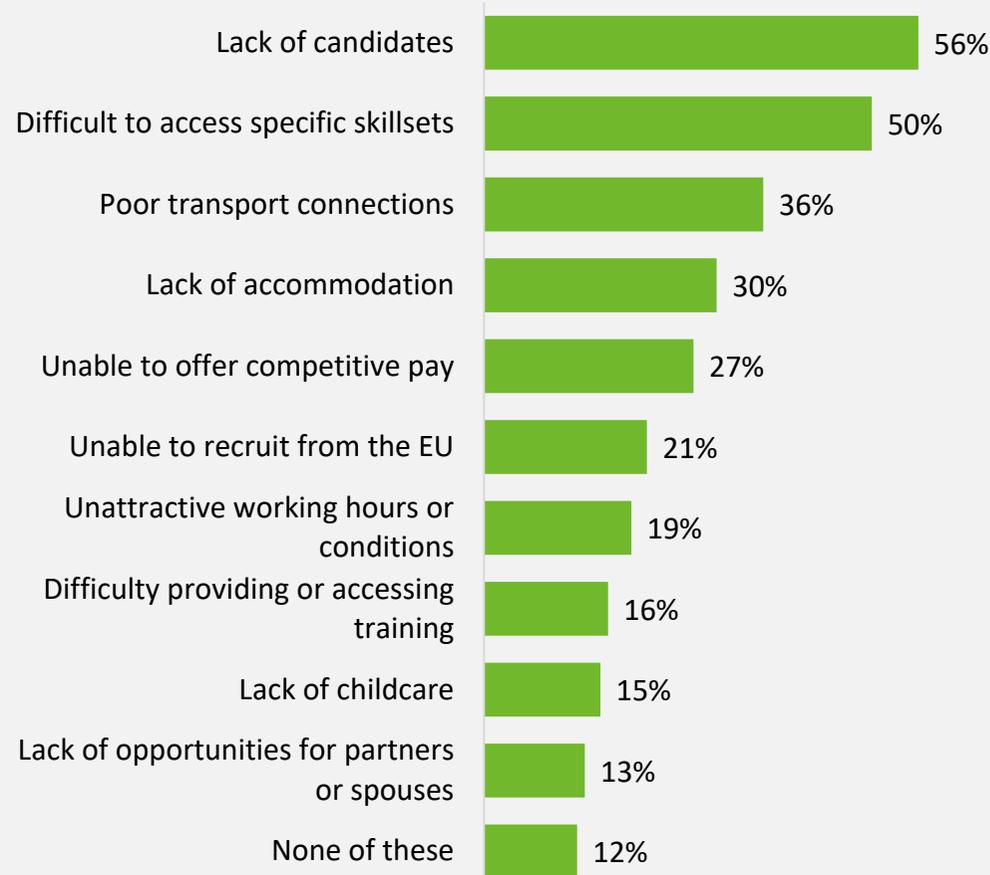
Operating level

- **Below pre-pandemic levels** – unable to offer competitive pay (33%), difficulty providing or accessing training (22%).

Markets

- **Exporting outside of the UK** – poor transport connections (44%), lack of accommodation (38%), unable to recruit from the EU (30%).

Q. What in particular is contributing to those [workforce-related] challenges?



Base: All businesses who are facing workforce challenges (595)

Those businesses that were currently focusing on addressing labour challenges were more likely to say: lack of candidates (65%), poor transport connections (42%) and being unable to recruit from the EU (27%) were contributing to challenges.

WORKFORCE ACTIONS

The majority (82%) of employers were taking actions related to their workforce. The most common were: upskilling or re-skilling current workforce (58%), making pay more competitive (43%), investing in new technology (41%) and collaborating (36%).

Large businesses (25+ staff) were more likely than average to be taking each action (with the exception of collaboration), while small businesses (0-4 staff) were more likely to be taking none.

Variation by sector

- **Tourism** – providing accommodation (27%), recruiting from different markets (19%).
- **Financial and business services** – up-skilling or re-skilling current workforce (70%), changing working practices (42%).
- **Food and drink** – providing accommodation (26%).

Variation by location

- **Remote rural areas** – providing accommodation (21%).
- **Urban areas** – making pay and rewards more competitive (49%), changing working practices (38%), offering apprenticeships (30%), recruiting staff with different skills (29%), recruiting from different markets (16%).

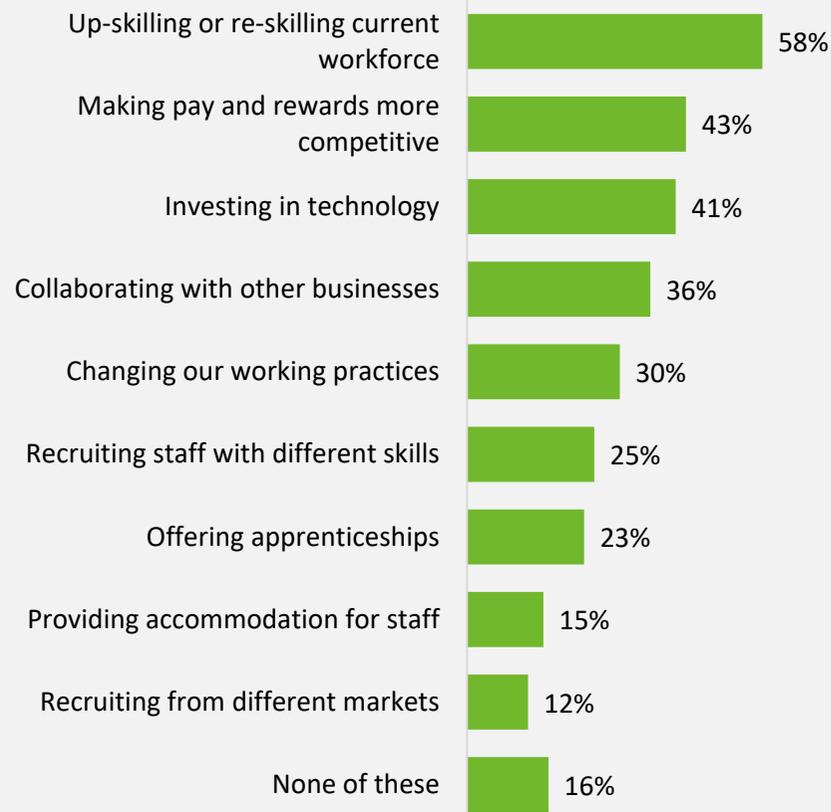
Variation by operation

- **Above pre-pandemic levels** – making pay and rewards more competitive (52%), offering apprenticeships (29%).

Those striving for growth, importing from outside the UK, exporting outside the UK and HIE-account managed businesses were also more likely to be taking most actions in relation to their workforce (see Appendix).

Almost all workforce-related actions were more common than average among businesses that said they were currently focusing on addressing labour challenges and those that said their workforce was important in helping them achieve their plans (see Appendix).

Q. What actions are you currently taking in relation to your workforce?



Base: All employers (841)

CONFIDENCE TO ADDRESS WORKFORCE CHALLENGES

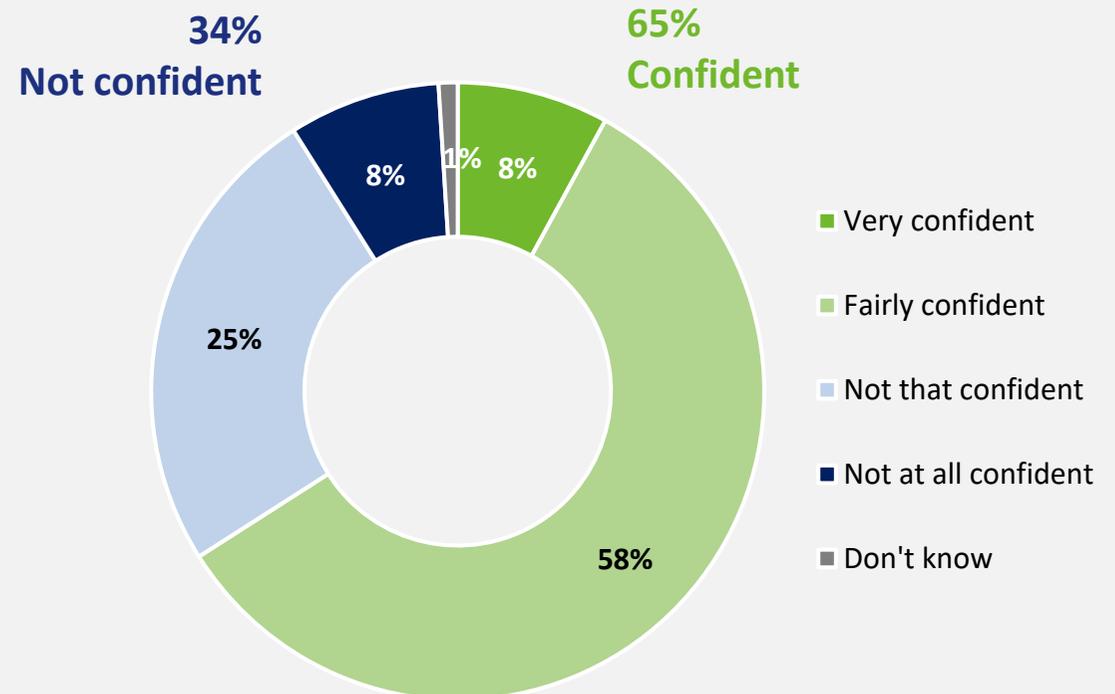
Two thirds of employers were confident they could address their workforce challenges (65%), while one third were not (34%).

Confidence was linked with overall business optimism – 73% of those that were optimistic about the next 12 months were also confident they could address workforce challenges.

Those least likely to be confident were:

- **Tourism** businesses (56% confident, 42% not).
- **Remote rural** areas (59% confident, 40% not).
- Operating **below-pre pandemic levels** (57% confident, 41% not).

Q. Overall, how confident are you that you can address the workforce challenges you are facing?



Base: Businesses who are facing workforce challenges (595)

G. NEW TECHNOLOGY

KEY FINDINGS

- **Three quarters of businesses (74%) were using or planning to use new technologies.** The top two technologies businesses were using or planning to use were low carbon technology (41%), and the Internet of Things and sensor technologies (36%). The other technologies asked about were used by around a quarter of businesses.
- **The top barriers to adopting new approaches and technologies were: cost (56%), lack of time (48%), more pressing priorities (46%) and lack of knowledge or skills (40%).** A third were affected by ability to keep pace with new developments (34%), while fewer mentioned access to equipment (27%) and access to external advice and guidance (21%).



NEW TECHNOLOGY

Three quarters of businesses (74%) were using or planning to use new technologies. The top two technologies businesses were using or planning to use were low carbon technology (41%), and the Internet of Things and sensor technologies (36%). The other technologies asked about were used by around a quarter of businesses.

Businesses in the Inner Moray Firth (80%), large businesses (25+ staff) (87%), HIE-account-managed businesses (88%) and those striving for growth (83%), sourcing goods outside Scotland, and selling outside Scotland were more likely to be using at least one new technology.

Variation by:

Sector

- **Tourism** – data analytics (33%).
- **Food and drink** – low carbon technology (56%).

Location

- **Urban areas** – Internet of Things and sensor technologies (41%), automation of processes (35%), cyber resilience and security technology (31%).

Account management

- **HIE-account managed** – low carbon technology (63%), automation of processes (58%), data analytics (45%), mobile app development (43%).

Size

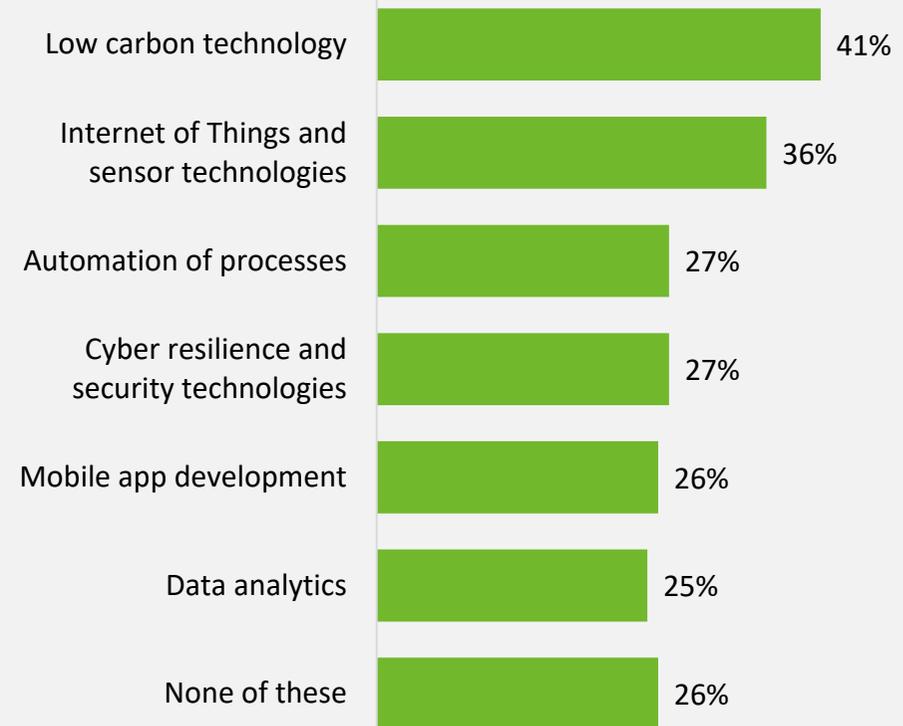
- **Large businesses (25+)** – automation of processes (56%), low carbon technology (53%), mobile app development (47%), cyber resilience and security technologies (44%), data analytics (39%).

Operating level

- **Above pre-pandemic levels** – cyber resilience and security technologies (36%).

Those striving for growth, importing from outside the UK, and exporting to outside the UK were more likely to be using or planning to use most technologies (see Appendix).

Q. Which of the following technologies are you using or planning to use?



Base: All businesses (1,017)

Those that were **not using or planning to use any of the listed technologies** were more likely to be small businesses (0-4 staff), non-growth sector businesses (30%), aiming to remain at their current level of performance (31%) and not optimistic about their future (32%).

BARRIERS TO NEW TECHNOLOGY

The top barriers to adopting new approaches and technologies were cost (56%), lack of time (48%), more pressing priorities (46%) and lack of knowledge or skills (40%).

Variation by:

Sector

- **Financial and business services** – concerns over data security (28%).

Location

- **Island areas** – lack of time (56%), ability to keep pace with new developments (40%).

Account management

- **HIE-account managed** – lack of time (62%).
- **Non-account managed** – don't know what is required/where to seek advice (19%).

Size

- **Large businesses (25+)** – cost of new technology (68%).
- **Small businesses (0-4)** – access to external advice and guidance (23%).

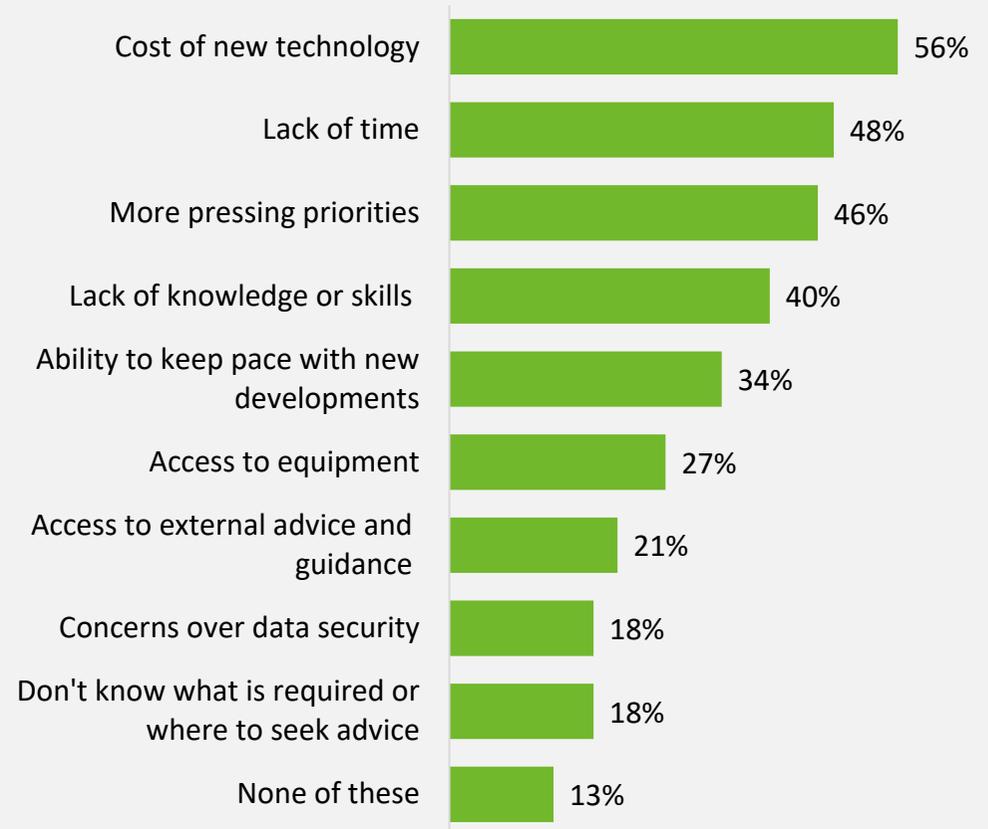
Operation

- **Below pre-pandemic levels** – access to external advice and guidance (25%).

Markets

- **Importing from outside the UK** – more pressing priorities (52%), lack of knowledge or skills (45%), access to equipment (33%), don't know what is required or where to seek advice (22%).

Q. What barriers might your business face in adopting new approaches and technologies such as those we just discussed?



Base: All businesses (1,017)

H. LOW CARBON

KEY FINDINGS

- **Around three quarters (73%) of businesses were taking action to help them move to low carbon working.** The most common actions were investing in premises (40%), making a plan or updating business plans (37%), bringing in external advice and support (37%) and investing in low carbon technology (36%).
- **85% of businesses were taking or planning actions to improve their energy efficiency.** As well as reducing energy consumption (66%) the most common actions were installing more energy efficient systems (51%), using greener sources of energy (46%), and improving building insulation (43%).
- **The most frequently mentioned barriers to moving to low carbon working were: cost of making changes (65%), lack of green transport options (53%) and difficulty making existing premises more energy efficient (46%).** The top three barriers were the same as those seen in the previous wave (when businesses were asked about barriers to reducing their greenhouse gas emissions).



ACTIONS TO SUPPORT LOW CARBON WORKING

Around three quarters (73%) of businesses were taking action to help them move to low carbon working. The most common actions were investing in premises (40%), making a plan or updating business plans (37%), bringing in external advice and support (37%) and investing in low carbon technology (36%).

Food and drink (79%) and tourism businesses (79%), those with 11-24 (81%) and 25+ staff (90%), HIE-account-managed (95%), and businesses striving for growth (82%) were more likely to be taking at least one action.

Around a quarter (27%) were not taking any of these actions. These were most likely to be small businesses (0-4 staff) (33%) those in the creative industries sector (40%), operating below pre-pandemic levels (34%) and not optimistic about their future (39%).

Variation

Those more likely than average to cite certain actions were:

Food and drink businesses - making a plan/updating business plans (53%), bringing in external advice and support (48%), and investing in low carbon technology (44%).

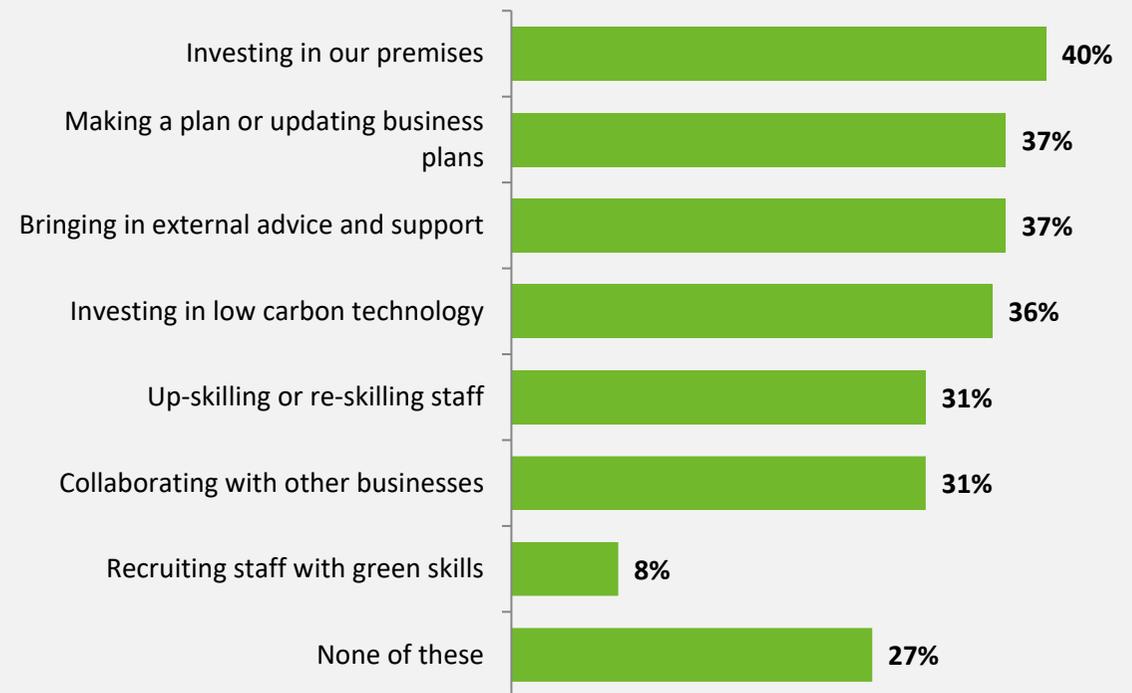
Tourism businesses - investing in premises (46%).

Those operating **above pre-pandemic levels** - investing in premises (47%), low carbon technology (42%), and recruiting staff with green skills (13%).

Large businesses (25+ staff) - making a plan/updating business plans (64%), investing in premises (60%), investing in low carbon technology (56%), and up-skilling or re-skilling staff (45%).

Those **striving for growth** - to be taking each action.

Q. What actions, if any, are you taking to help equip the business for a move to low carbon ways of working?



Base: All businesses (1,017)

ENERGY EFFICIENCY

85% of businesses were taking or planning actions to improve their energy efficiency. In addition to reducing energy consumption (66%), the most common actions were: installing more energy efficient systems (51%), using greener sources of energy (46%) and improving building insulation (43%).

Those least likely to be taking any actions were small businesses (0-4 staff) (17% taking none) and non-growth sector businesses (18%).

Variation

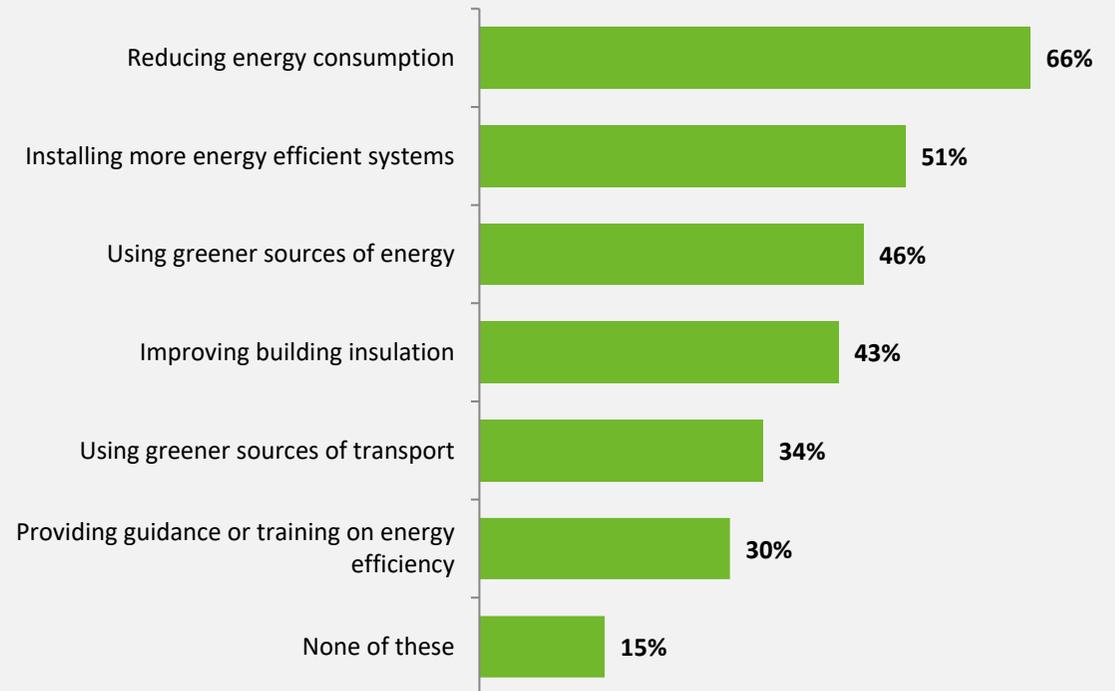
Tourism businesses were more likely to be taking each action (apart from using greener sources of transport).

Food and drink businesses were more likely to be using greener sources of energy (54%).

Large businesses (25+) were more likely to be reducing energy consumption (81%), installing more energy efficient systems (67%), providing guidance or training to staff (54%) and using greener sources of transport (48%).

International importers and exporters were each more likely to be taking most of these actions (with the exception of improving building insulation for importers, and greener transport for exporters).

Q. Thinking specifically about your energy efficiency, which of these activities have you taken or are planning to take?



Base: All businesses (1,017)

BARRIERS TO LOW CARBON WORKING

The most frequently mentioned barriers to moving to low carbon working were: cost of making changes (65%), lack of green transport options (53%) and difficulty making existing premises more energy efficient (46%).

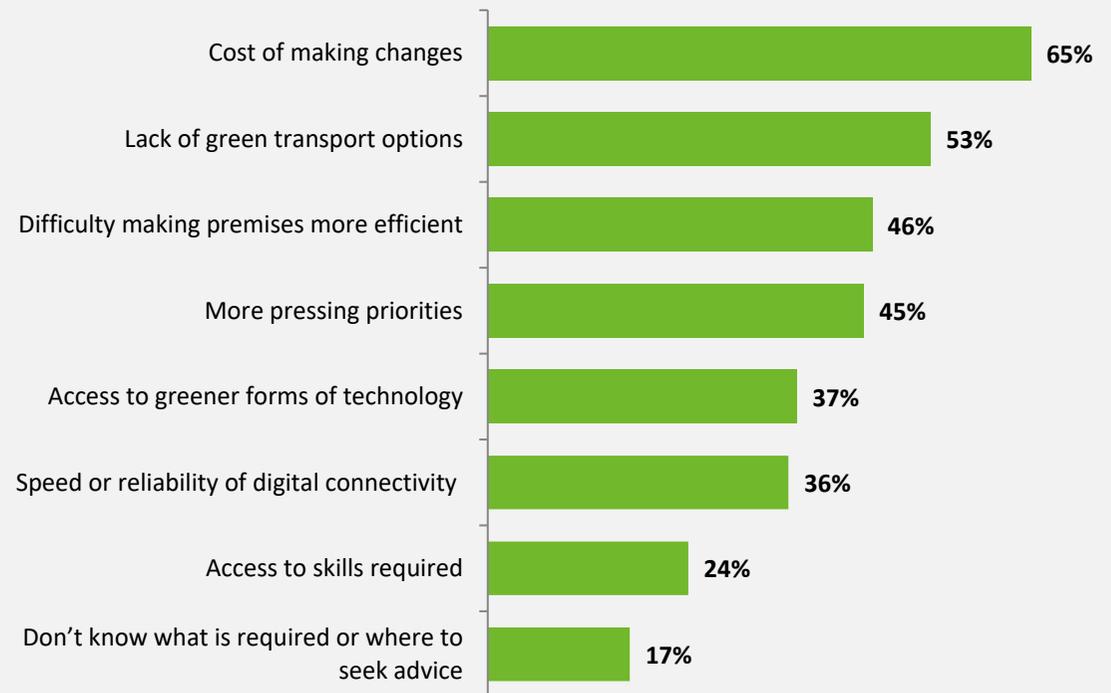
The top three barriers were the same as those seen in the previous wave (when businesses were asked about barriers to reducing their greenhouse gas emissions).

Variation

Certain businesses were more likely than average to cite certain barriers:

- **Tourism** – difficulty making existing premises more energy efficient (61%) and access to skills (31%).
- **Food and drink** – speed or reliability of digital connectivity (42%).
- **Large businesses (25+)** – cost (79%).
- Those operating **below pre-pandemic levels** – difficulty making premises more energy efficient (51%).
- **Remote rural** businesses – lack of green transport options (58%) and speed or reliability of digital connectivity (39%).

Q. What barriers might your business face in moving to low carbon ways of working?



Base: All businesses (1,017)

I. APPENDIX

ADDITIONAL VARIATION – WORKFORCE ACTIONS

Actions currently taken in relation to workforce	%	%	%
		Relationship with HIE	
	Total	Account managed	Non-account managed
Up-skilling or re-skilling	58	77	56
Making pay and rewards more competitive	43	70	40
Investing in technology	41	66	39
Collaborating with other businesses	36	51	35
Changing our working practices	30	46	28
Recruiting staff with different skills	25	40	23
Offering apprenticeships	23	43	21
Providing accommodation for staff	15	25	14
Recruiting from different markets	12	26	11
<i>Base</i>	<i>841</i>	<i>70</i>	<i>771</i>

Actions currently taken in relation to workforce	%	%	%	%
		Growth aspiration		
	Total	Striving for growth	Content	Aiming to downsize
Up-skilling or re-skilling	58	65	57	26
Making pay and rewards more competitive	43	52	38	16
Investing in technology	41	48	40	16
Collaborating with other businesses	36	41	35	21
Changing our working practices	30	38	24	15
Recruiting staff with different skills	25	37	14	10
Offering apprenticeships	23	27	22	13
Providing accommodation for staff	15	19	12	6
Recruiting from different markets	12	20	5	4
<i>Base</i>	<i>841</i>	<i>423</i>	<i>341</i>	<i>68</i>

ADDITIONAL VARIATION – WORKFORCE ACTIONS

Actions currently taken in relation to workforce	%	%	%	%
		Markets imported from		
	Total	Scotland	Rest of UK	Outside the UK
Up-skilling or re-skilling	58	58	61	62
Making pay and rewards more competitive	43	44	47	52
Investing in technology	41	41	45	49
Collaborating with other businesses	36	36	39	44
Changing our working practices	30	30	32	35
Recruiting staff with different skills	25	25	28	35
Offering apprenticeships	23	24	24	28
Providing accommodation for staff	15	15	15	18
Recruiting from different markets	12	12	14	16
<i>Base</i>	<i>841</i>	<i>780</i>	<i>668</i>	<i>321</i>

Actions currently taken in relation to workforce	%	%	%	%
		Markets sold to		
	Total	Scotland	Rest of UK	Outside the UK
Up-skilling or re-skilling	58	57	62	64
Making pay and rewards more competitive	43	44	46	42
Investing in technology	41	41	48	50
Collaborating with other businesses	36	36	41	41
Changing our working practices	30	30	35	35
Recruiting staff with different skills	25	24	30	30
Offering apprenticeships	23	23	23	23
Providing accommodation for staff	15	14	19	24
Recruiting from different markets	12	12	16	18
<i>Base</i>	<i>841</i>	<i>813</i>	<i>452</i>	<i>309</i>

ADDITIONAL VARIATION – WORKFORCE ACTIONS

Action	Those currently focusing on address labour challenges	Those whose workforce is important in helping achieve its plans	All
Up-skilling or re-skilling existing workforce	67	69	58
Making pay or rewards more competitive	60	55	43
Investing in technology	47	46	41
Collaborating with other businesses	42	41	36
Changing our working practices	38	33	30
Recruiting staff with different skills	39	34	25
Offering apprenticeships	31	27	23
Providing accommodation for staff	20	16	15
Recruiting from different markets	22	18	12
None of these	5	6	16
<i>Base</i>	<i>345</i>	<i>499</i>	<i>841</i>

* The changes that were significantly different from the average are shaded in the table.

ADDITIONAL VARIATION – NEW TECHNOLOGY

TECHNOLOGIES	%	%	%	%
		Growth aspiration		
	Total	Striving for growth	Content	Aiming to downsize
Low carbon technology	41	48	38	32
Internet of Things and sensor technologies	36	40	35	28
Automation of processes	27	37	20	20
Cyber resilience and security technologies	27	32	24	17
Mobile app development	26	36	20	15
Data analytics	25	35	18	10
None of these	26	16	31	35
<i>Base</i>	<i>1017</i>	<i>469</i>	<i>438</i>	<i>101</i>



ADDITIONAL VARIATION – NEW TECHNOLOGY

TECHNOLOGIES	%	%	%	%
		Markets imported from		
	Total	Scotland	Rest of UK	Outside the UK
Low carbon technology	41	42	44	48
Internet of Things and sensor technologies	36	36	38	44
Automation of processes	27	28	31	40
Cyber resilience and security technologies	27	26	28	31
Mobile app development	26	27	28	32
Data analytics	25	25	27	31
None of these	26	25	23	17
<i>Base</i>	<i>1017</i>	<i>934</i>	<i>792</i>	<i>376</i>

Actions currently taken in relation to workforce	%	%	%	%
		Markets sold to		
	Total	Scotland	Rest of UK	Outside the UK
Low carbon technology	41	42	44	46
Internet of Things and sensor technologies	36	36	42	44
Automation of processes	27	27	35	38
Cyber resilience and security technologies	27	27	33	39
Mobile app development	26	27	30	29
Data analytics	25	25	32	39
None of these	26	25	18	18
<i>Base</i>	<i>1017</i>	<i>983</i>	<i>551</i>	<i>368</i>

PROFILE OF BUSINESSES INTERVIEWED

Size (no of employees)	%
Sole trader	18
1-4	45
5-10	17
11-24	11
25+	9

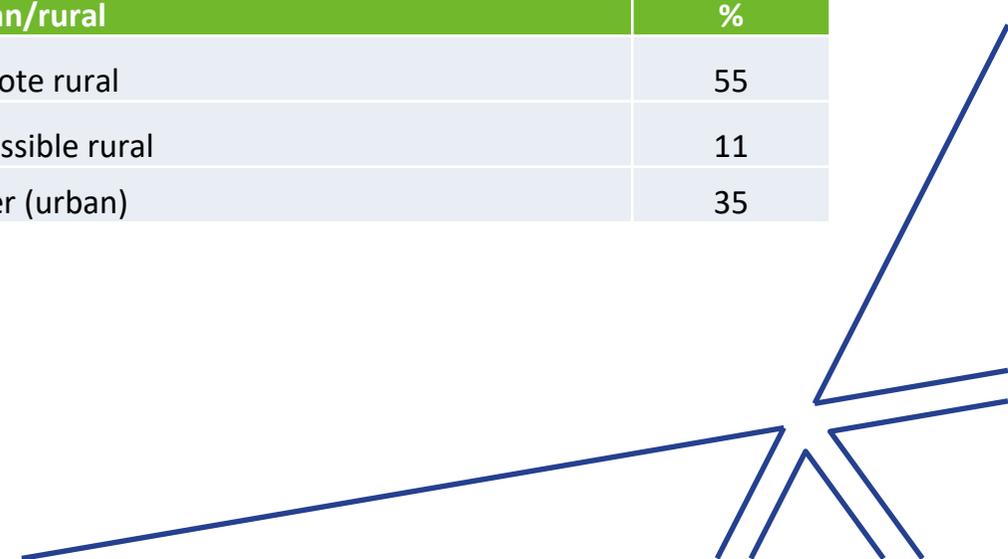
Growth sector	%
Creative industries	4
Energy	2
Financial and business services	9
Food and drink	25
Life sciences	*
Tourism	12
Non-growth	48

Relationship with HIE	%
Account-managed	7
Non-account managed	93

Location	%
Argyll and the Islands	19
Caithness and Sutherland	9
Inner Moray Firth	28
Lochaber, Skye and Wester Ross	11
Moray	13
Orkney	8
Outer Hebrides	5
Shetland	6

Fragile status	%
Fragile area	19
Non-fragile area	81

Urban/rural	%
Remote rural	55
Accessible rural	11
Other (urban)	35



Ipsos MORI's Standards & Accreditations

Ipsos MORI's standards & accreditations provide our clients with the peace of mind that they can always depend on us to deliver reliable, sustainable findings. Moreover, our focus on quality and continuous improvement means we have embedded a 'right first time' approach throughout our organisation.



ISO 20252 – is the international market research specific standard that supersedes BS 7911 / MRQSA & incorporates IQCS (Interviewer Quality Control Scheme); it covers the 5 stages of a Market Research project. Ipsos MORI was the first company in the world to gain this accreditation.



MRS Company Partnership – By being an MRS Company Partner, Ipsos MORI endorse and support the core MRS brand values of professionalism, research excellence and business effectiveness, and commit to comply with the MRS Code of Conduct throughout the organisation & we were the first company to sign our organisation up to the requirements & self regulation of the MRS Code; more than 350 companies have followed our lead.



ISO 9001 – International general company standard with a focus on continual improvement through quality management systems. In 1994 we became one of the early adopters of the ISO 9001 business standard.



ISO 27001 – International standard for information security designed to ensure the selection of adequate and proportionate security controls. Ipsos MORI was the first research company in the UK to be awarded this in August 2008.



The UK General Data Protection Regulation (UK GDPR) & the UK Data Protection Act 2018 (DPA) – Ipsos MORI is required to comply with the UK General Data Protection Regulation and the UK Data Protection Act; it covers the processing of personal data and the protection of privacy.



HMG Cyber Essentials – A government backed and key deliverable of the UK's National Cyber Security Programme. Ipsos MORI was assessment validated for certification in 2016. Cyber Essentials defines a set of controls which, when properly implemented, provide organisations with basic protection from the most prevalent forms of threat coming from the internet.



Fair Data – Ipsos MORI is signed up as a 'Fair Data' Company by agreeing to adhere to ten core principles. The principles support and complement other standards such as ISOs, and the requirements of Data Protection legislation.

This work was carried out in accordance with the requirements of the international quality standard for market research, ISO 20252 and with the Ipsos MORI Terms and Conditions

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