

HIE BUSINESS PANEL

LOOKING BEYOND RECOVERY FROM COVID-19

Wave 19: June/July 2021

Ipsos MORI



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd's nan Eilean

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 June 2021.

This wave businesses showed signs of recovery from the disruption brought about by COVID-19. With lockdown restrictions easing and the COVID-19 vaccine rollout continuing, businesses were more confident in the economy and more optimistic about their own prospects than they had been since before the pandemic.

Reflecting this change in optimism, more businesses were returning to their pre-pandemic levels of operating and reporting stronger sales and turnover performance.

Most businesses had experienced changes to their ways of working as a result of COVID-19. While around a quarter of businesses were embracing change and wanted to maintain new ways of working, more wanted to return to the way they operated before. Businesses were generally confident about their ability to deal with future changes to their working environment.

Tourism businesses continued to feel the impacts of the pandemic in their sector. They were more likely to be operating below their pre-pandemic levels and to have seen decreases in sales and turnover, and employment. They also had lower levels of optimism. That said, they were more likely to say they were striving for growth, suggesting a shift in mindset from one of survival to one of thinking beyond recovery from the pandemic.

Turning to Brexit, this was the second survey wave since the end of EU transition period. Among those that had been impacted by Brexit so far, views were more negative than positive. Food and drink and creative industries sectors had felt negative impacts more strongly than other sectors.

While most were able to access the goods and services they needed, a majority nonetheless faced issues when doing so, mainly higher costs and delays.

Among exporters, two in five were currently experiencing issues selling outside of Great Britain. Expectations around future sales varied depending on the market, with businesses most positive about sales in domestic markets and in England and Wales, and least positive about sales to EU markets.

Around half of employers had some concerns about their workforce, with availability of candidates for both permanent and temporary/seasonal roles the key issues. Tourism businesses were particularly concerned about availability of skilled staff and EU workers leaving the business.

Looking ahead, and reflecting the overall sense of optimism noted this wave, most businesses in the region were confident they would be viable in the next six months.

EXECUTIVE SUMMARY (2)

Optimism and performance

- **Confidence in the economic outlook in Scotland improved significantly** from the low levels seen since the start of the pandemic: 21% reported an increase in confidence, 35% a decrease, and 43% reported it had stayed the same. Net confidence was considerably higher than the previous three waves.
- **Confidence in the regional economy also increased:** 67% were confident in the outlook for the Highlands and Islands and 31% were not.
- **In terms of business operation, findings suggest continued signs of recovery from the pandemic:** 42% of businesses were operating below their pre- COVID-19 levels, 41% at much the same level, and 16% over and above the level they had been.
- **Business performance varied.** Over the past six months, employment had remained relatively stable (66%), while exports were more likely to have decreased (34%) than increased (10%). Sales or turnover performance was more mixed, but overall more positive than in the previous wave.
- **Most (80%) were optimistic about their future prospects** in the next 12 months, while 18% were not.
- **Fewer than half (44%) were striving for growth** while a similar proportion (47%) were content with their current level of performance. Just under one in ten (8%) wanted to downsize.

Adapting to change

- **Most businesses (71%) had experienced changes to their ways of working as a result of COVID-19:** 28% wanted to maintain those new ways of working, while 43% wanted to return to the way they operated before. Around a quarter (27%) said they had not experienced any change: 23% expected this to continue, while 4% expected changes in the year ahead.
- **The majority (87%) of businesses had taken action to help them respond to changes.** The most common were doing more online, using cash reserves, collaborating and targeting new or different markets.
- **Businesses were generally confident in their ability to respond to changes in their working environment,** particularly in: responding to changes in customer needs and demands, adapting or responding to ongoing restrictions, remaining competitive in current markets and managing cash flow.
- **Key priorities** for businesses over the coming months were: ensuring the wellbeing of their staff (42%), growing their customer base (39%) and creating or sustaining jobs (34%).
- **The vast majority (93%) of businesses were confident that they would be viable in the next 6 months.** Confidence this wave was higher than in recent waves.

EXECUTIVE SUMMARY (3)

Brexit / Markets

- **Views on the impact of Brexit were more negative than positive:** 44% felt it had had a negative impact on their business, while 11% felt it was positive. A sizeable proportion (41%) felt that Brexit had had no impact on them.
- **The majority (89%) of businesses were able to access the goods and services they needed.** Most (68%) said they could do so from existing suppliers, 10% by using different suppliers, and 12% from a mixture of both existing and new suppliers. Around one in ten (9%) were unable to access what they needed. This overall pattern was similar whether businesses were sourcing from within Scotland or importing from other markets.
- In spite of most saying they were able access the goods or services they needed, **a majority (84%) nonetheless faced issues when doing so.** Costs (70%) and delays (65%) were the most common difficulties.
- **Looking ahead to changes to import procedures expected later this year, 38% felt prepared while 41% did not.** One in five (20%) were unaware of these changes or did not know whether they were prepared or not.
- **In terms of sales, expectations for the next 12 months varied depending on the market sold to.** Businesses were most optimistic about sales in domestic markets and England and Wales, and least optimistic about sales to the EU.
- **Of those exporting outside of Great Britain, 40% were experiencing issues doing so.** The most common issue was retaining or re-establishing customer demand.

Workforce

- **Around half (47%) of employers were concerned about some aspect of their workforce.**
- Top concerns included having **fewer candidates to fill permanent (38%) and temporary/seasonal vacancies (33%),** the attractiveness of the sector to candidates (31%) and being able to offer competitive pay (30%).
- **Thinking about current staffing levels, a quarter (26%) of employers lacked the staff they needed.** Around one in five employers (21%) lacked the staff needed for permanent roles, while around a quarter (24%) lacked the staff needed for temporary/ seasonal roles.
- The most common perceived barrier to accessing staff was that there was a **short supply of the skills they required (49%).** Other common issues included location (44%) and a lack of accommodation in the area (40%).
- **74% of employers were taking action** to help ensure they could attract the staff they needed.
- The top action being taken to attract staff was **offering competitive levels of pay (54%),** followed by providing informal learning and development (49%), flexible work patterns (49%) and providing formal or accredited training (40%).

EXECUTIVE SUMMARY (4)

Innovation

- **Most businesses (84%) were innovating** in some way.
- **The top approach to innovation was making processes more efficient (60%)** followed by adapting products/services (49%), adapting business model/structure (42%) and developing new products/services (38%).
- The most common innovation support used by businesses was **enterprise agencies or business gateway (34%) followed by knowledge sharing networks (30%)** and innovation centres/academic institutions (14%). A majority were unaware of the National Manufacturing Institute Scotland (68%), Interface (67%) or the Scottish Manufacturing Advisory Service (57%).
- **The main barriers to innovation were that it simply wasn't a priority (39%), the cost was prohibitive (38%) or the time taken to innovate (37%).** A fifth of businesses (21%) did not think they faced any barriers to innovating.

Transport

- **Most (93%) businesses were dependent (at least to a small extent) on road transport for their day-to-day operation, with 73% dependent to a large extent.** This was followed by ferry services (57% at least to a small extent), air travel (36%) and rail (19%).
- **Findings highlight the crucial role that ferry and air transport play for island communities.** A majority (71%) of island businesses relied on ferries and around one in five (17%) relied on air to a large extent.
- Among those that depended on transport, **most used it for deliveries of supplies (84%),** followed by transporting goods elsewhere (66%), enabling customers to visit them (61%), and meeting customers/business events (54%).
- When thinking about the transport they used, **the most important factor for businesses was reliability (66%).** Around half (48%) mentioned the price, 38% said timing and frequency of the service and 14% said connections between different types of transport.
- **For those reliant on ferries, the resilience and reliability of services was seen as particularly important.** Connections between different types of transport was particularly important for those reliant on air.

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 MORI 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 (the nineteenth overall) carried out in June 2021. The survey covered a range of topics including: economic optimism, the impact of COVID-19 on working practices and business confidence, and import and export challenges associated with the end of the EU exit transition period. It also covered workforce, innovation and transport issues in the region.

This wave the survey was carried out in parallel with one for South of Scotland Enterprise (SOSE), among businesses in the South of Scotland region (Dumfries and Galloway and the Scottish Borders). Both surveys covered largely the same questions. A separate report comparing findings for the two regions is available.

Context for this wave

The survey was carried out against the backdrop of both COVID-19 and Brexit. Fieldwork was carried out through June 2021, while businesses continued to respond to the pandemic but as lockdown restrictions were gradually easing.

On 5th June, Highland, Argyll and Bute and Moray which had been at Level 2 moved to Level 1 restrictions. Shetland, Orkney and the Western Isles, islands in Highland (except Skye) and islands in the Inner Hebrides which had been at Level 1 moved to Level 0.

This meant the continuation of social distancing and hygiene measures and the general advice to work from home where possible. Many businesses taking part in the survey will have been affected by these restrictions. The survey therefore explores issues such as current working practices and actions taken for workforce in response to COVID-19.

This is the second survey wave since the end of the EU transition period, with new rules in place for businesses importing from, and exporting to the EU. The survey explores the experiences of businesses that employ EU staff, and any impacts on imports from, and export to these markets.

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 2 June and 2 July 2021, using telephone interviewing. In total 1,002 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.

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Where differences are noted by location (area office) this may at least in part explained by the profile of businesses in that location. For example, there is higher than average proportion of tourism business in Lochaber, Skye and Wester Ross (26% compared with 14% in the overall sample) and a higher proportion of creative industries businesses in the Inner Moray Firth (40% compared with 24% in the overall sample). This means that differences in these locations may be partly driven by the views of businesses in the tourism or creative industries sectors.

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

- **Economic optimism improved significantly** from the low levels seen since the start of the pandemic: 21% reported an increase in confidence, 35% a decrease, and 43% reported it had stayed the same. Net confidence was -14, considerably higher than the previous three waves (-51 in February 2021, -64 in October/November 2020 and the record low of -76 in June/July 2020).
- **Confidence in the regional economy also increased** reversing the trend seen over the previous three waves: 67% were confident in the outlook for the Highlands and Islands and 31% were not.
- **In terms of business operation, findings suggest continued signs of recovery from the pandemic.** Although 42% of businesses were operating below their pre-COVID-19 levels, a similar proportion (41%) were operating at much the same level, and 16% were operating over and above the level they had been.
- **On aspects of business performance, there was a mixed picture.** Over the past six months, employment had remained relatively stable (66%), exports were more likely to have decreased than increased (34% vs 10%), while sales or turnover performance was more mixed (40% decreased, 30% increased, 29% stable), though more positive than in the previous wave.
- **Most businesses (80%) were optimistic about their prospects in the next 12 months, while 18% were not.** Overall optimism levels were similar to those seen in January/February 2020.
- **Fewer than half (44%) were striving for growth** while a similar proportion (47%) were content with their current level of performance. Fewer than one in ten (8%) wanted to downsize.
- **Tourism businesses continued to feel the impacts of the pandemic in their sector.** They were more likely to be operating below their pre-pandemic levels and to have seen decreases in sales and turnover and employment. They also had lower levels of optimism. That said, they were more likely than average to have increased confidence in the Scottish economy and to say they were striving for growth.

ECONOMIC OPTIMISM - SCOTLAND

Economic optimism improved significantly from the low levels seen since the start of the pandemic: 21% reported an increase in confidence over the past six months, 35% a decrease, and 43% reported it had stayed the same.

The increase in economic optimism may reflect the impact of gradual easing of lockdown restrictions since the beginning of the year, along with continued rollout of the COVID-19 vaccine.

Net confidence* this wave was -14, considerably higher than the previous three waves (-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

- **Tourism** businesses (29%), in contrast to recent waves when they were less confident than average
- **Large businesses** (25+ staff) (31%)
- Operating over and above pre-pandemic levels (41%)
- Striving for growth in the next 12 months (26%)
- Selling to markets outside the EU (25%)

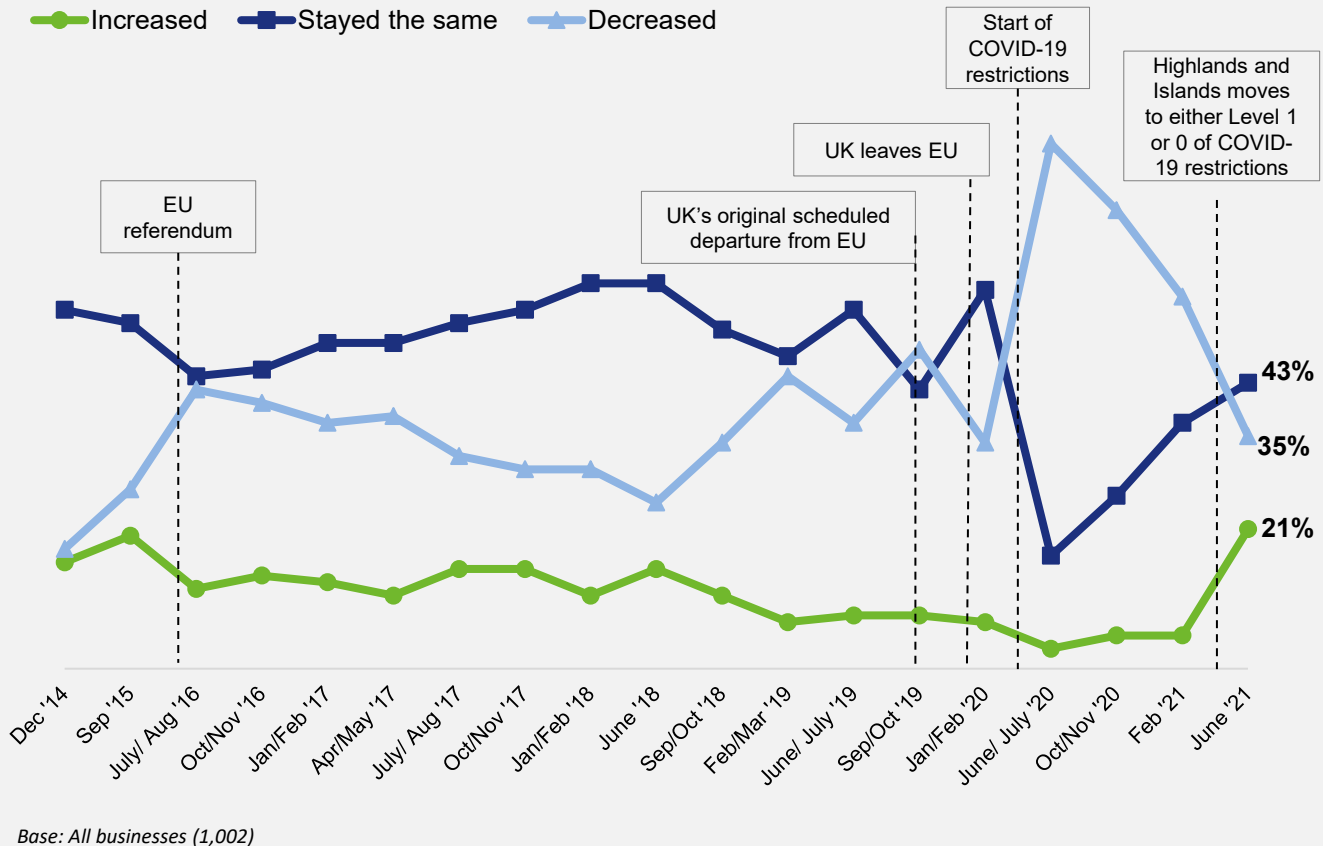
More likely to report decreased confidence

- **Food and drink** (42%)
- Businesses in **Moray** (45%)
- Operating below pre-pandemic levels (47%)
- Not confident in their future viability (69%)
- Selling only to domestic markets (48%)

NOTES:

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

Q. Over the past six months, since January 2021, has your level of confidence in the economic outlook in Scotland increased, decreased or stayed the same?'



ECONOMIC OPTIMISM – HIGHLANDS AND ISLANDS

Confidence in the economic outlook for the Highlands and Islands also increased, reversing the trend seen over the previous three waves: **67% were confident (9% very, 58% fairly) and 31% were not (26% not very, 4% not at all).**

There was little variation by sector or size in relation to confidence in the regional economy. However, there was some variation by location and other aspects of business confidence and outlook.

More confident than average

- Business in **Lochaber, Skye and Wester Ross** (75%)
- Operating over and above pre-pandemic levels (79%)
- Confident in their future viability (70%)

Less confident than average

- Businesses in **Outer Hebrides** (45% not confident)
- Operating below pre-pandemic levels (44%)
- Not confident in their future viability (70%)

Q. Thinking about the region as a whole, how confident are you in the economic outlook for the region over the next 12 months?



NOTES:

This question has not been asked in every wave of the survey - the chart only shows those waves in which it was asked

LEVEL OF CURRENT OPERATION

Although 42% of businesses were operating below their pre- COVID-19 levels, a similar proportion (41%) were operating at much the same level, and 16% were operating over and above the level they had been.

These findings suggest continued signs of recovery from the pandemic - fewer this wave reported operating below pre-COVID-19 levels than in October/November 2020 (50%) or June/July 2020 (65%).

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

- **Tourism** businesses (68%), echoing findings from Oct/Nov 2020 when this question was last asked
- Those not confident in future viability (89%)
- Aiming to downsize (52%)
- Selling to international markets (47%) and to Northern Ireland (48%)
- Importing from England and Wales (44%)

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

- **Financial and business services** (23%)
- Those with 5-10 (22%) or 11-24 staff (28%)
- In urban parts of the region (22%)

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

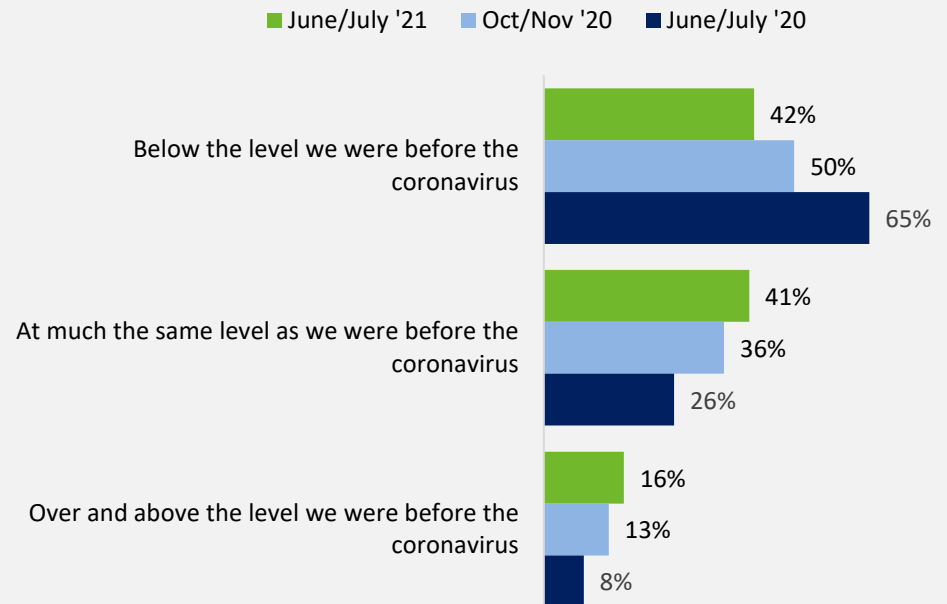
- **Food and drink** businesses (63%)
- Small businesses (0-4 staff) (46%)
- In remote rural areas (46%)
- Selling to domestic markets only (46%)

The finding above for food and drink businesses appears to be driven by those selling in domestic markets only: 73% were operating at pre-COVID levels, compared with 59% of those selling to rUK markets and 56% of those engaged in to international markets.

NOTES:

In this report “domestic markets only” means those trading only in Scotland and no markets outside of Scotland; “rUK” means those trading with the rest of the UK (a combination of those saying they sold to England and Wales and to Northern Ireland; “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)

Q. Which of the following best describes the way in which you are currently operating?



Base: All businesses (1,002)

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

ASPECTS OF BUSINESS PERFORMANCE

Over the past six months, employment had remained relatively stable (66%). Exports were more likely to have decreased than increased (34% vs 10%). Sales or turnover performance was more mixed (40% decreased, 30% increased, 29% stable).

Employment

- Decreases were more common among: the **tourism** (34%) and **creative industries** (27%) sectors; those in **Lochaber, Skye and Wester Ross** (27%); and those selling to the EU (20%) and outside the EU (20%)
- **Small businesses** (0-4 staff) were more likely to report stability (73%)
- Those operating above pre-pandemic levels more likely have increased employment levels (43%); those operating below were more likely to report decreased employment (29%)

Exports

There was little variation in export performance. However, decreased exports were more common among **creative industries** businesses (62%) and those operating below pre-pandemic levels (51%).

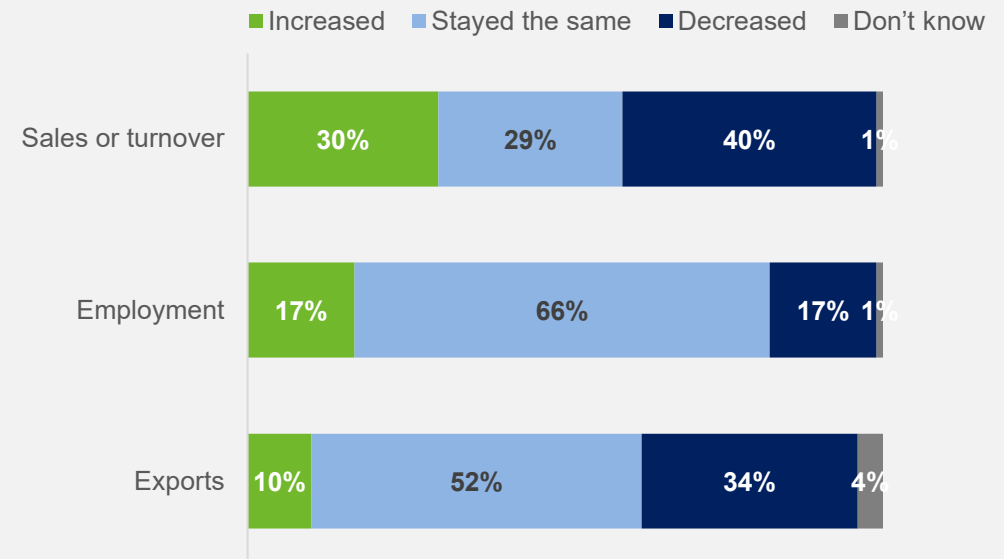
Sales or turnover

While sales or turnover performance still presented a mixed picture, it was more positive than in the previous wave (when 18% reported an increase, 57% a decrease and 29% no change).

Variation was similar to that seen for employment:

- Decreases were more common among: **tourism businesses** (64%); those in **Lochaber, Skye and Wester Ross** (52%); and those selling to Northern Ireland (46%), the EU (47%) and outside the EU (46%)
- **Food and drink** businesses were more likely to say sales or turnover had remained the same (41%)

Q. Please tell me if the following has increased, stayed the same or decreased since the beginning of this year?



Base: All businesses to whom it applied: sales or turnover (976), employment (905), exports (242)

FUTURE PROSPECTS

Most businesses (80%) were optimistic about their future prospects in the next 12 months, while 18% were not.

Overall optimism levels were slightly higher than those seen in January/February 2020, before the pandemic (when this question was last asked), when 75% of businesses said they were optimistic and 23% not optimistic.

Tourism businesses were less optimistic than average (70% confident, 27% not), though a majority was still optimistic. Their lower than average optimism may reflect the ongoing impacts the pandemic, including decreases in sales or turnover and employment.

Otherwise, optimism was broadly linked to overall operating levels and other measures of confidence:

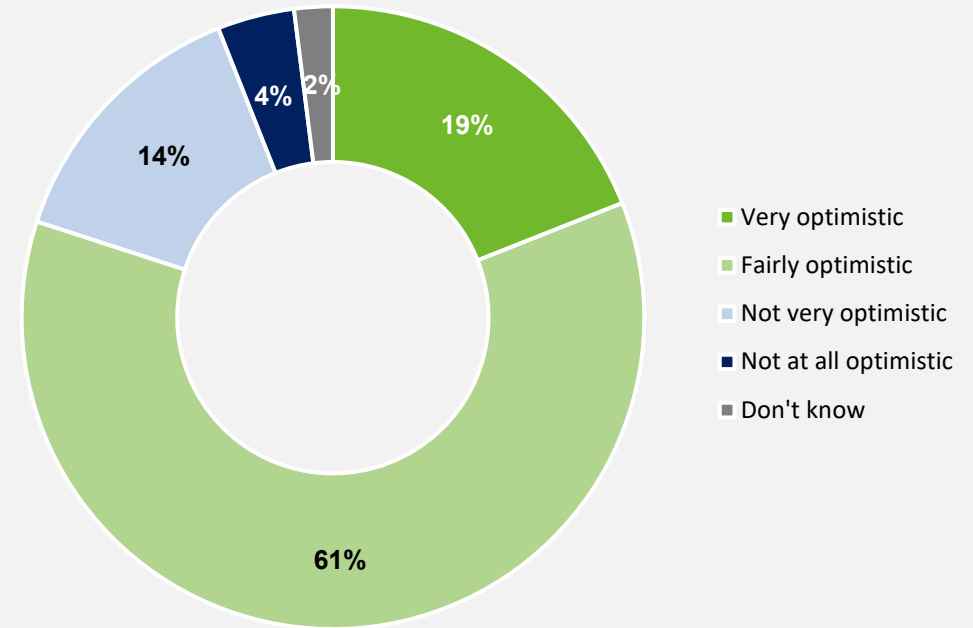
More optimistic than average

- Those operating above pre-pandemic levels (95% optimistic)
- Confident in their future viability (85%)
- Striving for growth in next 12 months (84%)

Less optimistic than average

- Operating below pre-pandemic levels (33% not optimistic)
- Aiming to downsize (35%)
- Selling to markets in the EU (21%)
- Not confident in their future viability (80%)

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



Base: All businesses (1,002)

GROWTH ASPIRATIONS

Just under half (47%) of businesses were content with their current level of performance, while 44% were striving for growth and 8% wanted to downsize.

Growth aspirations were slightly lower than in October/November 2020 (the last time this question was asked) when 54% wanted to grow, 36% were content, and 9% wanted to downsize.

More likely to strive for growth

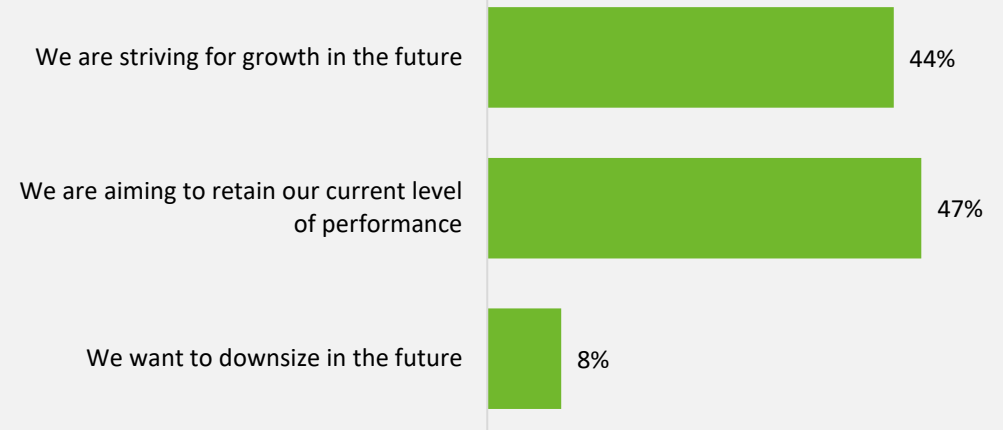
- **Tourism** businesses (55%)
- Those with 5-10 (53%), 11-24 (60%), and 25+ (66%) staff
- HIE-account managed (60%, vs 43% of non-account managed)
- Operating above pre-COVID-19 levels (62%)
- Importing from (51%) and selling to (51%) international markets

More likely to want to downsize

- **Financial and business services** businesses (14%) (a sectoral variation not seen in previous waves)
- **Small businesses** (0-4 staff) 10%
- Non-account managed (9% vs 2% of HIE-account managed)
- Importing from (15%) and selling to (11%) domestic only markets

Growth aspirations were also 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.

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



Base: All businesses (1,002)

Growth aspiration	Level of current operation compared to pre-pandemic levels		
	Over and above	Same	Below
We are striving for growth in the future	62	37	45
We are aiming to retain our current level of performance	33	56	43
We want to downsize in the future	5	7	10
Base	162	381	442

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

C. ADAPTING TO CHANGE

KEY FINDINGS

- **Most businesses (71%) had experienced changes to their ways of working as a result of COVID-19:** 28% were embracing those changes and wanted to maintain new ways of working, while 43% wanted to return to pre-COVID working practices. Around a quarter (27%) had not experienced any change: 23% expected this to continue, while 4% expected changes in the year ahead.
- **Tourism businesses were most likely to have experienced change** while food and drink were least likely to.
- **The majority (87%) of businesses had taken action to help them respond to changes.** A range of actions were typically being taken, the most common being: doing more online (40%), using cash reserves (36%), collaborating (36%) and targeting new or different markets (35%). Businesses trading with markets outside of Scotland were more likely than average to have taken a range of actions in response to change.
- **Businesses were generally confident in their ability to respond to changes in their working environment,** particularly in their ability to: respond to changes in customer needs and demands (95%), adapt or respond to ongoing restrictions (93%), remain competitive in current markets (91%) and manage cash flow (90%). Confidence was lower in relation to accessing external finance (66% confident, 34% not), accessing new markets (63% confident, 37% not), and accessing staff with the skills needed (59% confident, 41% not).
- **Key priorities for businesses over the coming months** were: ensuring the wellbeing of their staff (42%), growing their customer base (39%) and creating or sustaining jobs (34%).
- **The vast majority (93%) of businesses were confident that they would be viable in the next 6 months.** Confidence was higher than in recent waves (84% confident in January/February 2021, and 82% in October/November 2020), reflecting higher levels of economic optimism and higher levels of optimism about future prospects.

EMBRACING CHANGE

Just under three quarters (71%) of businesses said their ways of working had changed as a result of COVID-19: 28% were embracing those changes and wanted to maintain new ways of working, while 43% wanted to return to the way they operated before.

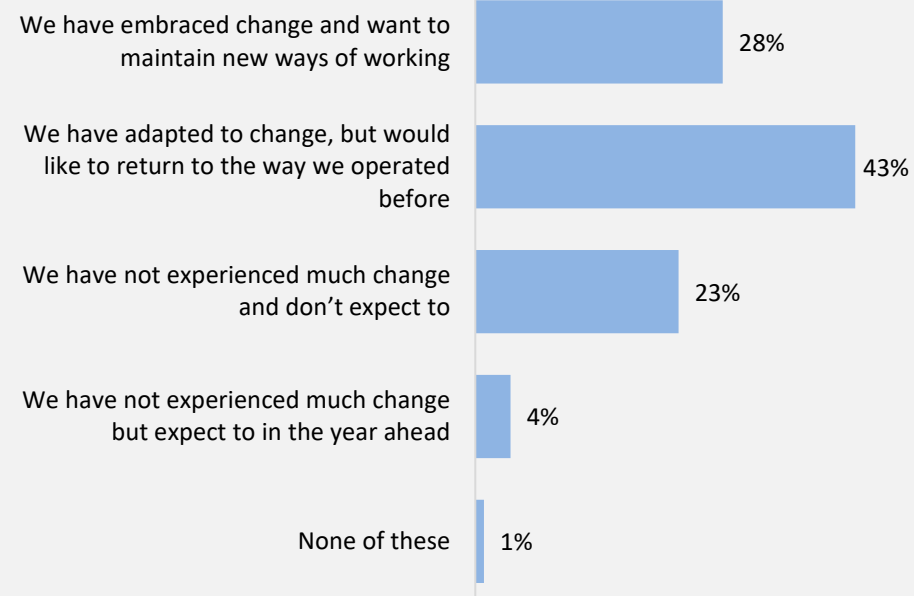
Around a quarter (27%) said they had not experienced any change: 23% expected this to continue, while 4% expected changes in the year ahead.

Tourism businesses were most likely to have experienced changes to their way of working, with 94% saying they had done so. In the sector, 39% were embracing change (markedly higher than the average of 28%) while 53% wanted to return to former ways of working (also well above the average of 43%). These two groups differed in terms of some of the changes they had implemented (changes are detailed further in the next slide):

- those embracing change were more likely to have changed their business model, done more online, and allowed staff to work from home.
- those wanting to return to former ways of working, on the other hand, were more likely to have scaled back activity, only delivered certain aspects of their business, changed opening hours, and used cash reserves.

Changes were less common in the **food and drink** sector (41% said they experienced no change – 35% expected this to continue, while 6% expected changes in the year ahead).

Q. Which of these best describes your experience and outlook?



Base: All businesses (1,002)

Further variation:

More likely to be embracing change

- Those selling internationally (33%)
- Operating above the pre-pandemic levels (39%)
- Striving for growth (38%)

More likely to have changed but want to return to previous ways of working

- Large businesses (25+) (56%)
- Those in urban areas (52%)
- Operating below pre-pandemic levels (54%)

ACTIONS IN RESPONSE TO CHANGE (1)

87% had taken action to help them respond to change

Those most likely to have taken any action were:

- **tourism** business (97% vs 87% overall)
- **HIE-account managed** (94%, vs 86% of non-account managed)
- those **operating below** (96%) **or above** (91%) **pre-COVID-19 levels** (vs 77% of those operating at the same level).
- those **striving for growth** (93%, vs 83% of those wanting stability and 81% of those wanting to downsize).

Specific actions to respond to change were more common among:

- **Large businesses (25+ staff):** enabling staff to work from home (60%), targeting new or different markets (52%) using cash reserves (48%), collaborating (48%).
- **Tourism:** amending product offering (60%), using cash reserves (52%), targeting new or different markets (45%), reducing profit margins (44%), scaling back (41%) changing business model (40%) or opening hours (40%) and only delivering some aspects of the business (39%).
- **Creative industries:** doing more online (57%) and enabling staff to work from home (44%).
- **Financial and business services:** doing more online (53%) and enabling staff to work from home (43%).
- **HIE-account managed** businesses: targeting new or different markets (60% vs 33% of non-account managed), doing more online (52% vs 39%), collaborating (52% vs 34%), and enabling staff to work from home (48% vs 25%).

Each action was more common among those striving for growth. There was further variation by markets of operation (on the following slide).

Q. In what ways is your business responding to change?



Base: All businesses (1,002)

ACTIONS IN RESPONSE TO CHANGE (2)

Variation

Businesses trading with markets outside of Scotland were more likely than average to have taken a range of actions to respond to change.

Findings by each market imported from/sold to are shown in the table below, with figures that are higher than the average highlighted in green.

By contrast, those that imported from and sold to domestic markets only were less likely to have taken any action (17% and 18% respectively said they had not taken action).

Action to respond to change	Markets imported from				Markets sold to			
	Domestic	England and Wales	Northern Ireland	International	Domestic	England and Wales	Northern Ireland	International
	%	%	%	%	%	%	%	%
Doing more online	29	44	37	48	27	47	46	50
Using cash reserves	32	39	41	41	31	40	41	41
Collaborating	26	37	33	44	28	40	39	43
Targeting new or different markets	25	41	37	43	22	44	44	48
Reducing profit margins	27	35	37	35	28	35	35	36
Amending our product offering	24	36	31	36	25	37	40	40
Changing our business model	23	33	29	33	21	34	36	37
Enabling staff to work from home	25	29	24	30	18	31	29	33
Changing operating hours	22	28	27	26	23	28	30	28
Only delivering some aspects of the business	22	27	26	28	24	27	28	29
Scaling back activity or production	24	26	25	24	24	25	26	27
None of these	17	10	11	10	18	9	8	7
<i>Base</i>	<i>270</i>	<i>619</i>	<i>207</i>	<i>374</i>	<i>293</i>	<i>597</i>	<i>385</i>	<i>456</i>

NOTES:

International markets are shown here, as a combination of those trading with markets either in the EU or outside the EU, as findings were similar for each of those markets. England Wales and Northern Ireland are shown separately as there was some different patterns between those two markets.

CONFIDENCE IN ABILITY TO RESPOND TO CHANGE (1)

Businesses were generally confident in their ability to respond to changes that may occur to their working environment over the coming months.

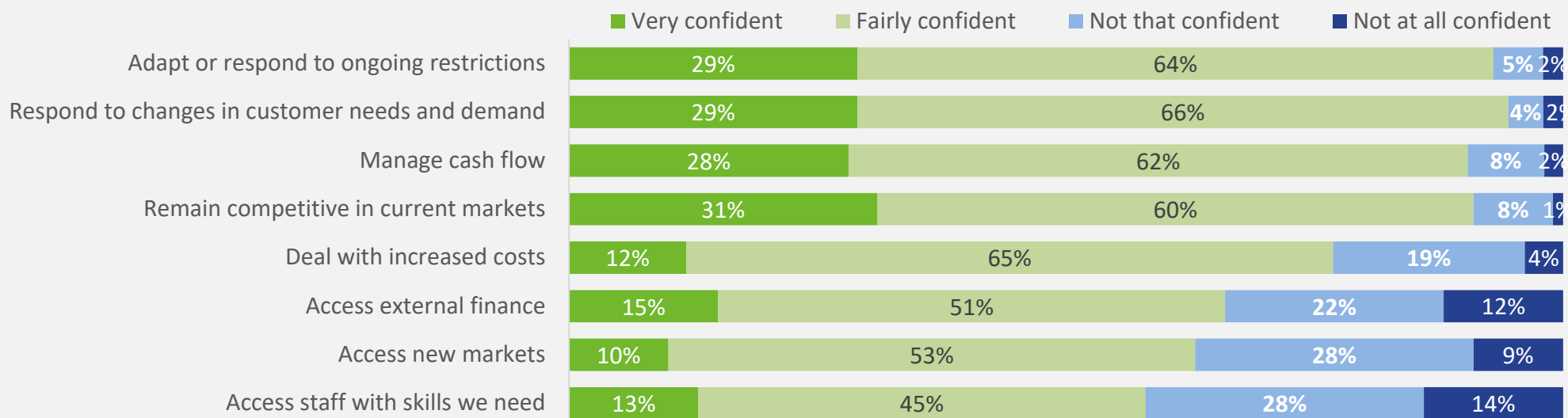
Overall, businesses were more likely to be confident than not in relation to each potential change.

A vast majority were confident in their ability to: respond to changes in customer needs and demands (95%), adapt or respond to ongoing restrictions (93%), remain competitive in current markets (91%) and manage cash flow (90%).

Around three quarters (77%) were confident in their ability to deal with increased costs (23% not confident).

Confidence was lower in relation to accessing external finance (66% confident, 34% not), accessing new markets (63% confident, 37% not), and accessing staff with the skills needed (59% confident, 41% not).

Q. Thinking about changes that may occur to your working environment over the coming months, how confident do you feel about your ability to...



Base: All business to whom each applied (i.e. excluding don't know and not applicable responses)

CONFIDENCE IN ABILITY TO RESPOND TO CHANGE (2)

Variation

Creative industries businesses were more confident than average in their ability to access external finance (81%) and access new markets (78%). **Tourism** businesses were less confident in their ability to access external finance (47% not confident)

Large businesses (0-4 staff) were more confident than average in the ability to access new markets (78%), but less confident about accessing staff with the required skills (53% not confident)

Those **selling internationally** were more likely to be confident in their ability to access new markets (68% confident), whereas domestic-only businesses were more likely to say they were *not* confident (45% not confident)

Confidence in ability to access staff varied by whether or not current staffing needs were being met. Those that did not have the permanent staff they currently needed were more likely to say they were not confident in their ability to access staff (71% compared with 42% overall). Similarly, those with temporary/seasonal staff vacancies were also more likely to say they were not confident (68%).

Confidence in ability to access skills we need	Current staffing levels		
	Those with vacancies for permanent staff	Those with vacancies for temporary/seasonal staff	All
Very confident	6	7	13
Fairly confident	23	26	45
Not that confident	38	38	28
Not at all confident	34	30	14
Confident (Net)	29	32	58
Not confident (Net)	71	68	42
<i>Base</i>	161	183	771

*figures that are significantly different to the average are highlighted in green

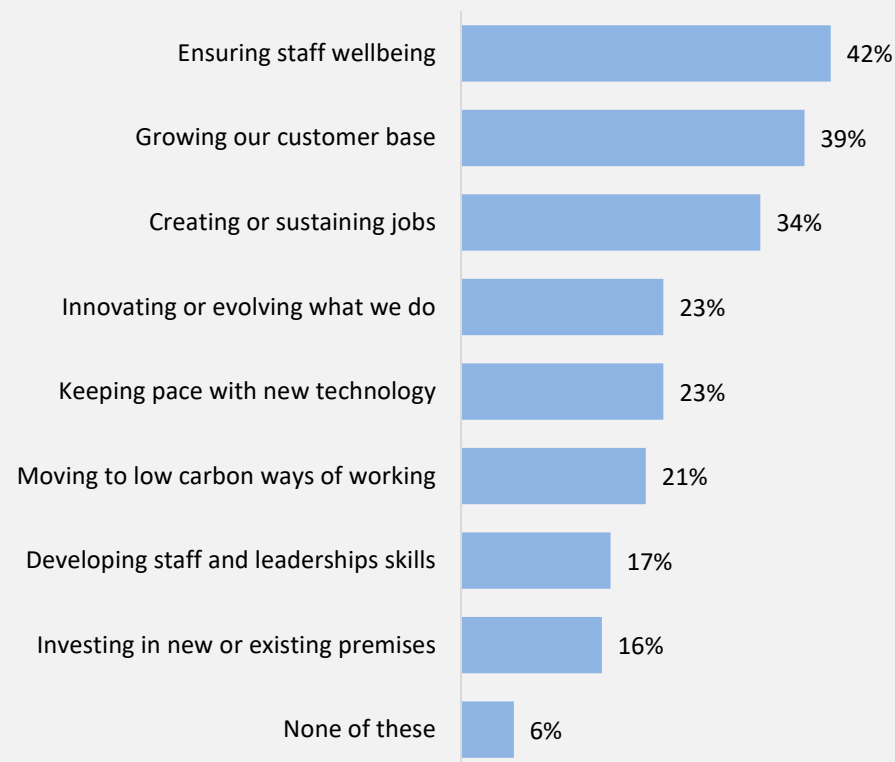
PRIORITIES FOR THE COMING MONTHS

Key priorities for businesses over the coming months, aside from financial viability, were: ensuring the wellbeing of their staff (42%), growing their customer base (39%) and creating or sustaining jobs (34%).

Certain priorities were more common among:

- **Large businesses (25+ staff):** ensuring staff wellbeing (60%), creating or sustaining jobs (58%), developing staff and leadership skills (33%)
- **Tourism:** growing customer base (53%)
- **Creative industries:** keeping pace with new technology (34%)
- **Financial and business services:** keeping pace with new technology (41%) and innovating or evolving (32%)
- **HIE-account managed businesses:** growing customer base (54% vs 38% of non-account managed) and creating or sustaining jobs (47% vs 32%)
- Those **selling outside of Scotland** to England and Wales, Northern Ireland and international markets: growing our customer base (43%, 47% and 44%) and innovating or evolving (27%, 28% and 29%)
- Those **operating above pre-pandemic levels:** developing staff and leadership (29%), investing in premises (25%)
- Those **operating below pre-pandemic levels:** growing customer base (50%)

Q. Aside from financial viability, which two or three of the following will be most important to your business over the coming months?



Base: All businesses (1,002)

FUTURE VIABILITY

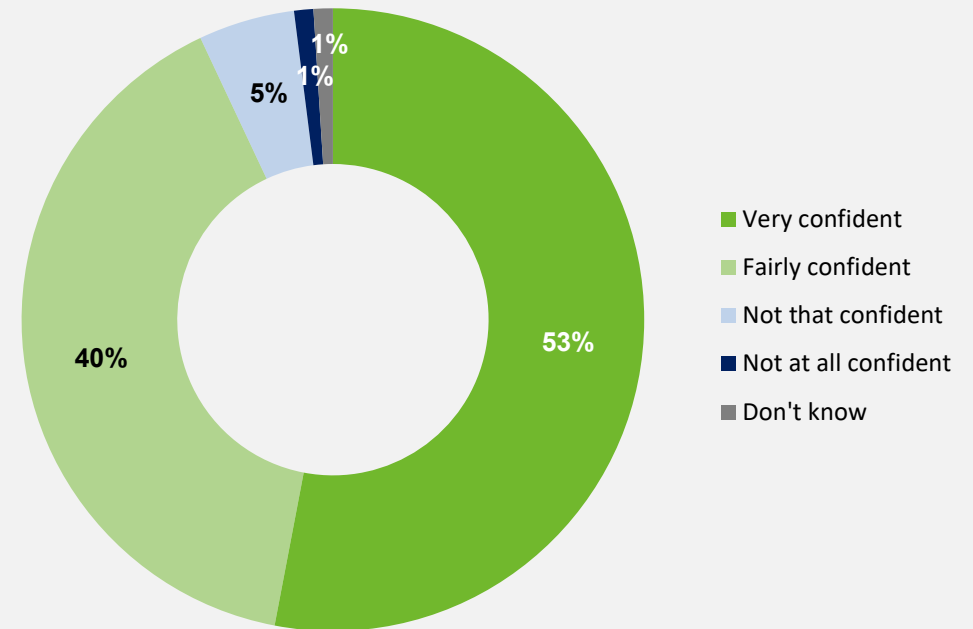
The vast majority (93%) of businesses were confident that they would be viable in the next 6 months, while 6% were not.

Confidence in future viability was higher than in recent waves (84% confident in January/February 2021, and 82% in October/November 2020). This reflects the higher levels of optimism in the economy, and in their own prospects, reported by businesses this wave.

There was little variation between types of business. However, **tourism** businesses were more likely than average to say they were not confident (14% vs 6%), as were:

- Those operating below pre-pandemic levels (13%)
- Those aiming to downsize (14%)

Q. How confident are you that your business will be viable over the next 6 months?



Base: All businesses (1,002)

D. BREXIT / MARKETS

KEY FINDINGS

- **Views on the impact of the UK's exit from the EU were more negative than positive:** 44% reported a negative impact on their business, while 11% cited a positive impact. A sizeable proportion (41%) felt that Brexit had not impacted their business at all.
- **The impacts of Brexit had been felt more strongly by certain sectors.** Food and drink businesses were more likely than average to report positive impacts of Brexit (23%), particularly those only trading in domestic markets. Creative industries businesses were more likely to report negative impacts (60%). Brexit was also seen as particularly negative by those operating in markets outside of Scotland.
- **A high proportion of regional businesses (70%) were importing from outwith Scotland.** The largest import markets were England and Wales (62%), followed by the EU (35%), outside the EU (20%) and Northern Ireland (21%).
- **The majority (89%) of businesses were able to access the goods and services they needed.** Most (68%) said they could do so from existing suppliers, 10% by using different suppliers, and 12% from a mixture of both existing and new suppliers. Around one in ten (9%) were unable to access what they needed.
- **Despite most being able to access the goods or services they needed, a majority (84%) faced issues when doing so.** Costs (70%) and delays (65%) were the most common difficulties reported.
- **Looking ahead to changes to import procedures expected later this year, 38% felt prepared while 41% did not.** One in five (20%) were unaware of these changes or did not know whether they were prepared or not.
- **In terms of sales, expectations for the next 12 months varied depending on the market sold to.** Businesses were most optimistic about sales in domestic markets and England and Wales, and least optimistic about sales to the EU. Tourism businesses were particularly positive about future sales to domestic and UK markets. They had mixed expectations about sales to the EU and were more likely than average to anticipate downturn in sales outside the EU.
- **Of those exporting outwith Great Britain, 40% were experiencing issues doing so.** The most common issue was retaining or re-establishing customer demand.

IMPACT OF BREXIT

Views on the impact of Brexit were more negative than positive: 44% reported a negative impact on their business, while 11% cited positive impacts. A sizeable proportion (41%) felt that Brexit had not impacted on their business at all.

The impacts of Brexit had been felt more strongly by certain sectors, but were seen as particularly negative by those operating in markets outside of Scotland:

More likely to say Brexit had positive impacts

- **Food and drink** businesses (23% positive, 46% negative). Those that felt Brexit had positive impacts were more likely to only be selling to domestic markets (40% of these businesses were domestic-only, compared with 34% of the overall sample of food and drink businesses)

More likely say Brexit had negative impacts

- **Creative industries** businesses (60%)
- **HIE-account managed** (60%)
- Those not able to access the goods/services they needed (67%) or that had to change suppliers to access what they needed (70%)
- Those sourcing equipment/materials from and selling to each market outside of Scotland:
 - England and Wales (48% importers, 49% exporters)
 - Northern Ireland (53% and 50%)
 - The EU (65% and 54%)
 - Outside the EU (59% and 52%)
- Those striving for growth (50%)
- Those operating below pre-pandemic levels (49%)

More likely say Brexit had no impacts

- **Financial and business services** businesses (62%)
- Those importing from (52%) and selling to (45%) domestic markets

Q. Overall what impact would you say the UK leaving the EU has had on your business so far?

**11%
positive**

**44%
negative**



■ Very positive ■ Fairly positive ■ No impact
■ Fairly negative ■ Very negative ■ Don't know

Base: All businesses (1,002)

IMPORT MARKETS

70% of businesses were importers*. The largest import markets were England and Wales (62%), followed by the EU (35%), outside the EU (20%) and Northern Ireland (21%).

More likely to source materials from:

The local area

- Tourism businesses (79%)
- Those in Orkney (86%)

England and Wales

- Large businesses (25+) (82%)
- HIE-account managed (75% vs 60% non-account managed)
- Businesses in urban areas (67%)

Northern Ireland

- Non-growth sectors (26%)
- Large businesses (25+) (33%)
- Businesses in urban areas (26%)

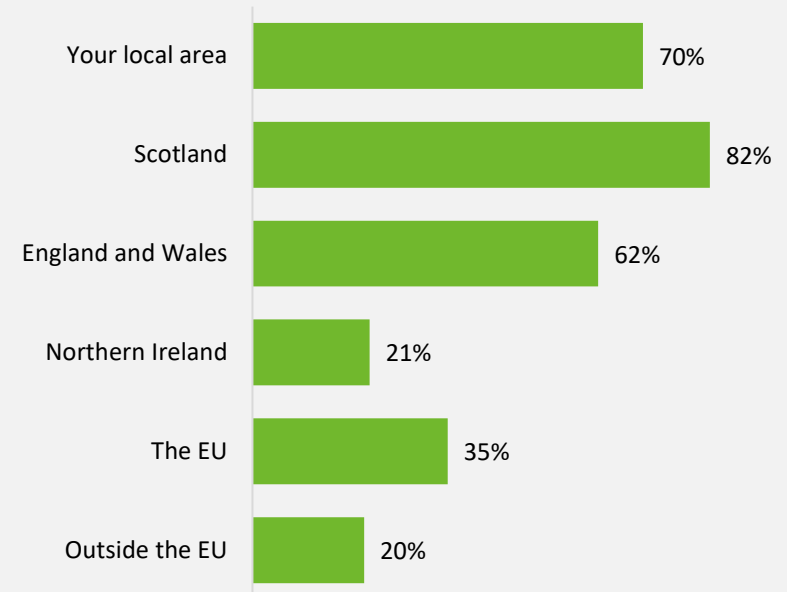
The EU

- Food and drink (46%)
- Large businesses (25+) (33%)
- HIE-account managed (50% vs 33% non-account managed)

Outside the EU

- Creative industries (33%)
- Large businesses (25+) (38%)
- HIE-account managed (31% vs 19% non-account managed)

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



Base: All businesses (1,002)

NOTES

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

ACCESSING GOODS AND SERVICES NEEDED

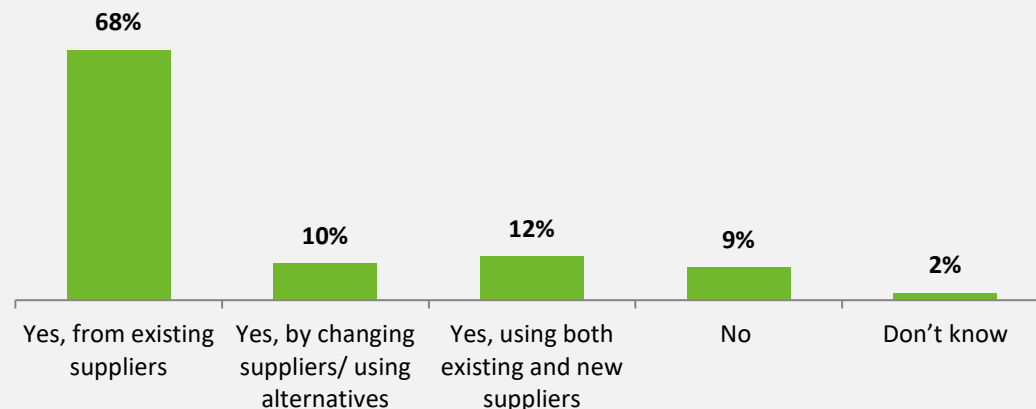
The majority (89%) of businesses were able to access the goods and services they needed. Most (68%) said they could do so from existing suppliers, 10% by using different suppliers, and 12% from a mixture of both existing and new suppliers. Around one in ten (9%) were unable to access what they needed.

The findings were the same when looking at those only accessing goods from outside of Scotland (i.e. “importers”): 90% were able to access what they needed (65% from existing suppliers, 11% from different suppliers, and 14% from both) while 9% were unable to.

Among **food and drink** businesses, views were in line with the average: 67% were able to source from existing suppliers, 10% using different suppliers and 11% from both, while 12% were not able to access what they needed.

Those that were unable to access what they needed were more likely to be negative about the impact of Brexit (67% negative vs 44% overall), as were those that were only able to source from new suppliers (70% negative).

Q. Are you currently able to access the goods or services that you need?



Base: All businesses (1,002)

Variation by import market

Those importing from each market outside of Great Britain were more likely than average to say they were using new suppliers, or a mix of new and existing suppliers. Those importing from Northern Ireland were also more likely than average to say they were not able to access what they needed (see table to the right).

	Markets imported from				
	Scotland only	England and Wales	Northern Ireland	The EU	Outside the EU
Yes, from existing suppliers	66	65	54	58	57
Yes, by changing suppliers/using alternatives	10	11	14	15	13
Yes, using both existing and new suppliers	13	14	16	14	16
No	9	9	14	11	12
Base	270	615	207	334	197

*figures that are significantly different to the average are highlighted in green

ISSUES ACCESSING GOODS OR SERVICES (1)

In spite of most saying they were able access the goods or services they needed, a majority (84%) nonetheless faced issues when doing so. Costs (70%) and delays (65%) were the most common difficulties encountered.

The types of business more likely to have experienced any issues were: **large businesses (25+)** (92%), **food and drink** (92%), **HIE-account managed** (91% compared with 83% of non-account managed), and those **importing from the EU** (93%) and **outside the EU** (94%).

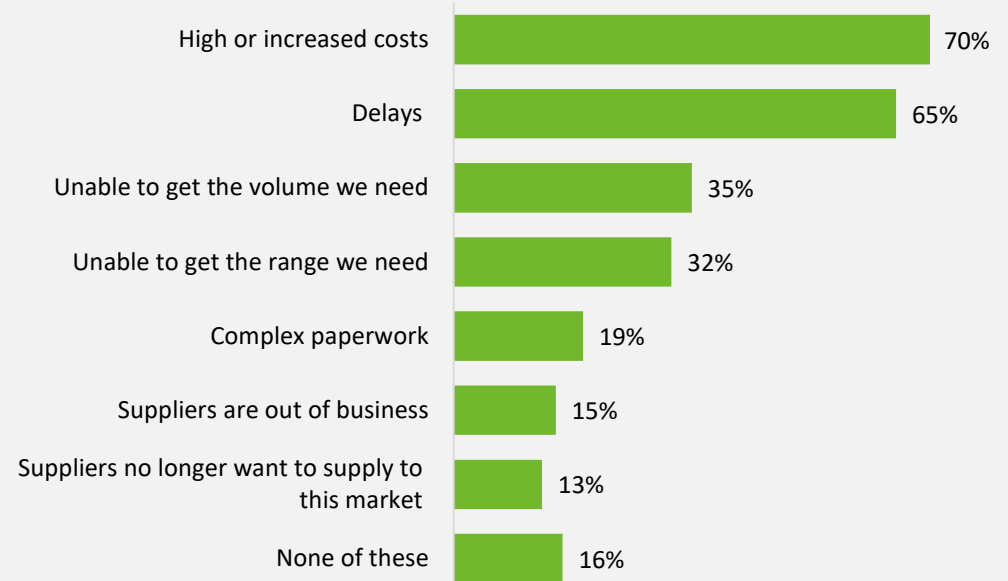
Certain specific issues were also more common among:

- **Large businesses (25+ staff):** costs (84%), delays (80%), complex paperwork (35%)
- **Food and drink:** costs (77%) and delays (73%)
- **Caithness and Sutherland:** suppliers out of business (22%)
- **HIE-account managed:** costs (83% vs 69% of non-account managed) and complex paperwork (27% vs 18%)
- **Those operating below pre-pandemic levels:** suppliers out of business (18%) and suppliers no longer wanting to supply to this market (16%)

Financial and business services were more likely than average to say they experienced no issues (43% vs 15% overall).

There was further variation by the specific markets that good or services were sourced from, and by views on the impact of Brexit (see next slide).

Q. Which of these issues, if any, are you experiencing when accessing the goods or services that you need?



Base: All businesses (1,002)

ISSUES ACCESSING GOODS OR SERVICES (2)

Variation by import market

- Costs, delays, and difficult getting the volumes required were more likely than average among those importing from each market outwith Scotland.
- Those importing from England and Wales and the EU were more likely than average to have experienced issues with accessing the range of goods needed.
- Those importing from outwith Great Britain were more likely to have experienced issues with complex paperwork.
- Those importing from Northern Ireland and outside the EU were more likely to say suppliers had gone out of business, while those importing from the EU were more likely to say suppliers no longer wanted to supply to their market.

Issues faced	Markets equipment/materials are sourced from				
	Scotland only	England and Wales	Northern Ireland	The EU	Outside the EU
High or increased costs	61	74	75	81	79
Delays	51	70	74	83	83
Unable to get the volume we need	25	39	42	46	45
Unable to get the range we need	24	37	38	39	39
Complex paperwork	14	19	24	30	30
Suppliers are out of business	12	16	20	16	20
Suppliers no longer want to supply to this market	8	16	18	21	18
None of these	25	12	10	6	6
<i>Base (all to whom each applied)</i>	<i>270</i>	<i>615</i>	<i>207</i>	<i>334</i>	<i>197</i>

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

Variation by impact of Brexit

Those who perceive negative impacts on their business from Brexit were more likely to have experienced each of the issues related to accessing goods/services. However, a majority of those that were *positive* about Brexit also experienced issues related to costs (70%) and delays (67%). This suggests that not all these import issues were seen as being directly linked to Brexit.

Those that said Brexit had no impact on them were less likely to have experienced each of the individual issues. However, sizeable proportions were nonetheless experiencing issues (e.g. 55% with costs, 48% with delays) which might again suggest that these issues were not being attributed to Brexit.

Issues faced	Perceived impact of Brexit on business		
	Positive	Negative	No impact
High or increased costs	70	86	55
Delays	67	80	48
Unable to get the volume we need	29	48	21
Unable to get the range we need	26	46	19
Complex paperwork	20	29	8
Suppliers are out of business	9	22	8
Suppliers no longer want to supply to this market	9	23	4
None of these	10	5	29
<i>Base</i>	<i>109</i>	<i>444</i>	<i>409</i>

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

PREPAREDNESS FOR CHANGES TO IMPORT PROCEDURES

Looking ahead to changes to future import procedures, businesses were split: 38% felt prepared while 41% did not. One in five (20%) were unaware of these changes or did not know whether they were prepared or not.

The UK-EU Trade and Cooperation Agreement (TCA) came into effect on 1 January 2021. As a result, goods being imported into Great Britain from the EU will be subject to new customs processes, administration and checks. This will include the need to meet Rules of Origin requirements in order to qualify for zero tariffs on goods*.

At the time of survey fieldwork, changes to import processes had yet to be implemented but were expected to commence later in 2021. The survey sought to explore the extent to which businesses felt prepared for these changes.

Most likely to be prepared

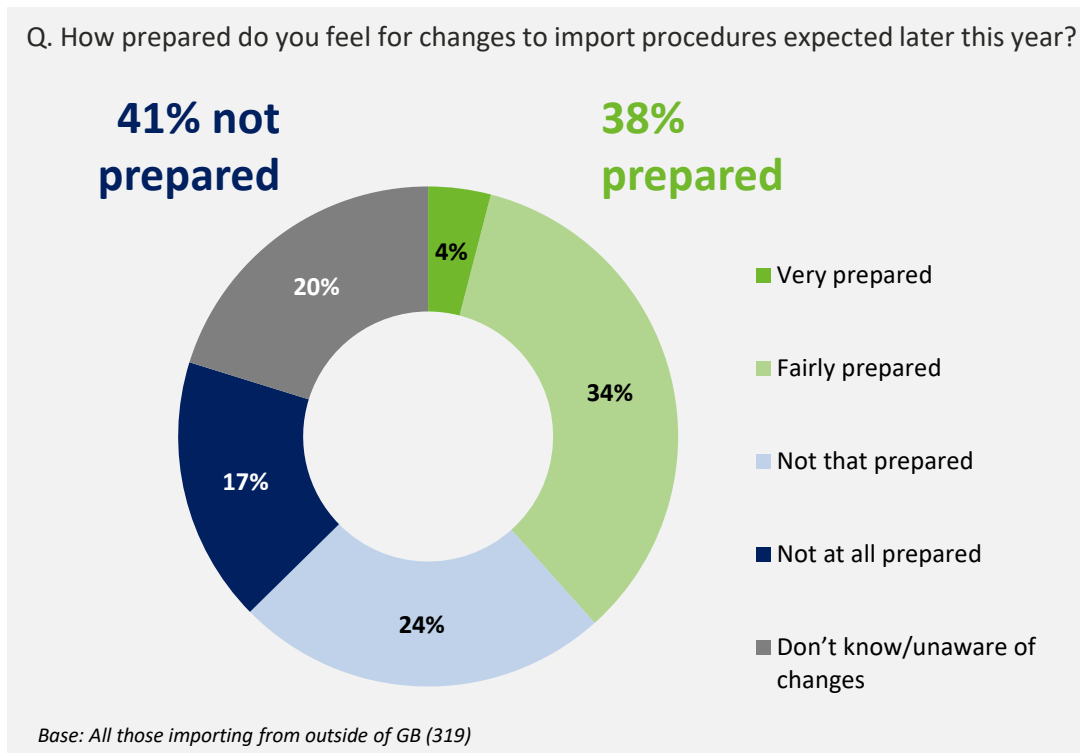
- Those operating above pre-pandemic levels (54%)

Least likely to be prepared

- Small businesses (0-4 staff) (48%)

Most likely to say they were unaware/did not know

- Tourism businesses (36%)



Variation by import market

Those importing from the EU were less likely than average to be prepared (45% not prepared) while those importing from Northern Ireland were more likely than average to say they were unaware / did not know whether they were prepared or not (27%). (Note, only those that were importing from outside Great Britain were asked this question).

	Market imported from			
	England and Wales	Northern Ireland	The EU	Outside the EU
Prepared	38	40	38	44
Not prepared	41	33	45	39
Unaware/don't know	21	27	17	17
<i>Base</i>	615	207	334	197

*figures that are significantly different to the average are highlighted in green

NOTES

*More detail on the changes to import rules available here <https://www.cbi.org.uk/uk-transition-hub/importing-goods-from-the-eu/>

SALES AND EXPORT MARKETS

The majority (91%) of businesses sold goods or services to Scotland, with 38% selling *only* in Scotland. 62% of businesses were exporters*, selling goods or services to markets outside of Scotland. Just over half (58%) sold to England and Wales, 36% to Northern Ireland, 40% to the EU and 35% outside the EU.

Compared with the previous wave (January/February 2021), there was a decrease in domestic-only businesses (38% down from 44%) and an increase in those exporting outside of Scotland (62% up from 56%).

More likely to sell to:

England and Wales

- Tourism (71%)
- Creative industries (66%)
- Large businesses (25+) (69%)
- HIE-account managed (74% vs 57% non-account managed)

Northern Ireland

- Tourism (60%)
- HIE-account managed (46% vs 35% non-account managed)

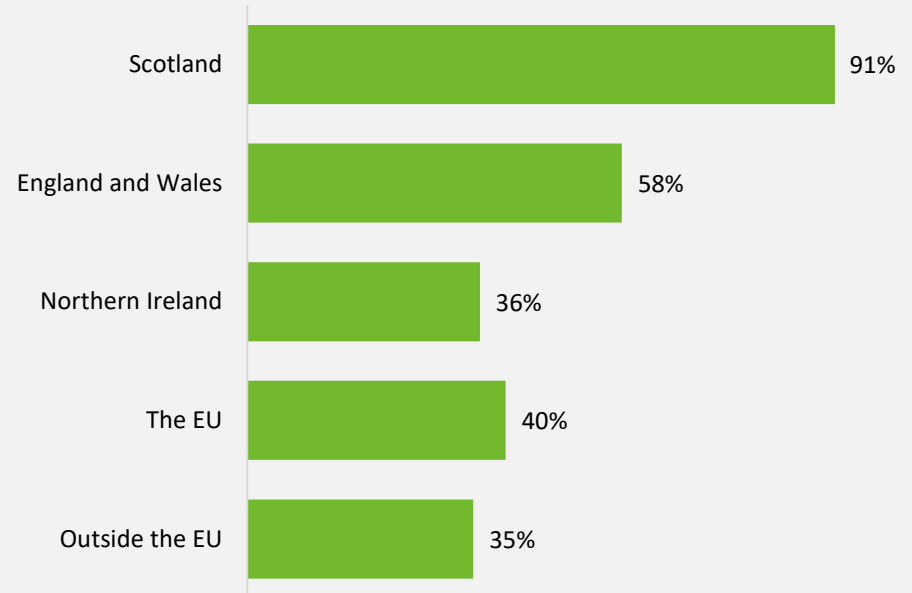
The EU

- Tourism (62%)
- Large businesses (25+) (50%)
- HIE-account managed (57% vs 38% non-account managed)

Outside the EU

- Tourism (61%)
- Creative industries (58%)
- Large businesses (25+) (43%)
- HIE-account managed (55% vs 33% non-account managed)

Markets to which goods/services were sold to



Base: All businesses (1,002)

NOTES

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

FUTURE SALES TO MARKETS (1)

Thinking about the 12 months ahead, expectations around future sales varied depending on the market. Businesses were most optimistic about sales in domestic markets and England and Wales, and least optimistic about sales to the EU.

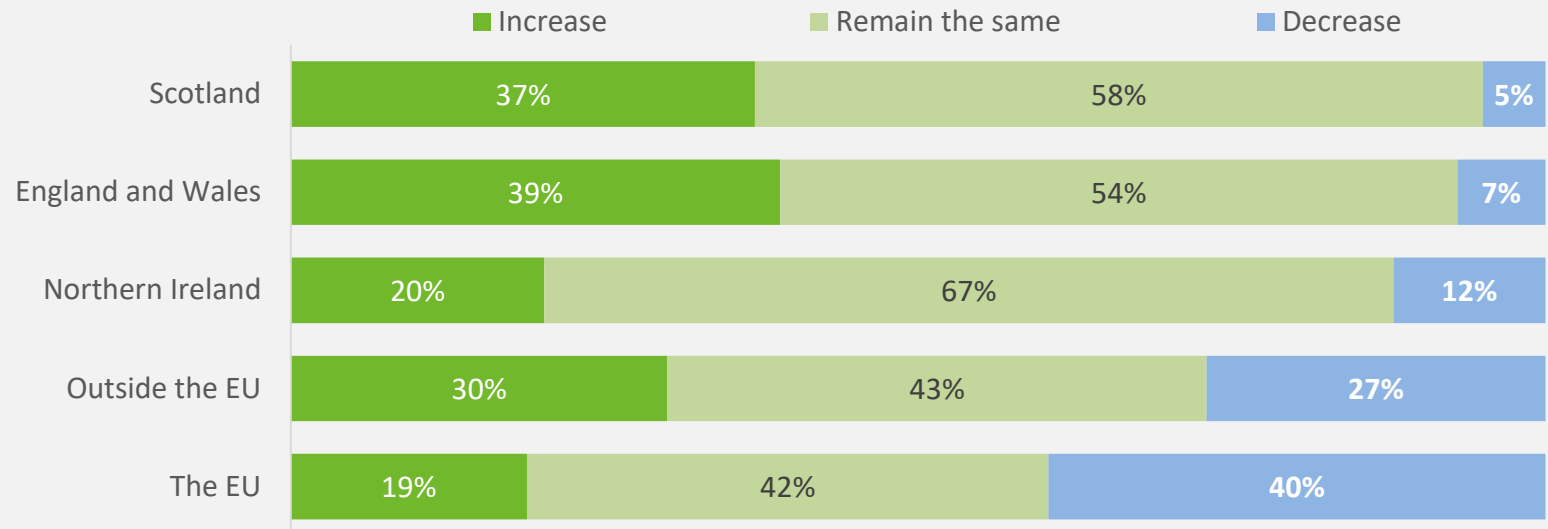
More than half of responding businesses expected sales in Scotland and England and Wales to remain fairly static (58% and 54% respectively) while more than a third expected them to increase (37% and 39%).

Those selling to Northern Ireland also generally expected stability (67%), while 20% expected an increase and 12% a decrease.

Views were more mixed in relation to markets outside the EU, with similar proportions expecting an increase (30%) as expected a decrease (27%).

Businesses were least optimistic about sales to the EU: 40% expected a decrease, double the proportion expecting an increase (19%).

Q. In the next 12 months do you expect the amount you sell in each of these markets to increase, decrease or remain about the same?



Base: All business to whom each applied (i.e. excluding don't know and not applicable responses)

FUTURE SALES TO MARKETS (2)

Variation by sector

Tourism businesses were particularly positive about future sales to domestic and UK markets:

- They were more likely than average to expect an increase in sales to Scotland (55% vs 37% overall), England and Wales (68% vs 39%) and Northern Ireland (36% vs 20%).
- They had mixed expectations about sales to the EU: they were more likely than average to expect both an increase (28% vs 19%) and a decrease (58% vs 40%).
- They were more likely to expect a decrease in sales outside the EU (51% vs 27% overall).

Variation by location

- Businesses located in **urban areas** were more likely to anticipate an increase in sales to Scotland (42%) and the EU (25%).
- Those in **remote rural** locations were more likely to anticipate decreased sales to the EU (46%) and outside the EU (31%).

Variation by operating level

- Those operating **above pre-pandemic levels** were more likely to anticipate an increase in sales to: Scotland (48%) and to England and Wales (50%).
- Those operating **below pre-pandemic levels** were more likely to anticipate decreased sales to Scotland (9%) and outside the EU (37%).

Variation by growth aspiration

- Those **striving for growth** were more likely to anticipate an increase in sales to: Scotland (54%), England and Wales (49%), and outside the EU (41%).
- Those aiming to downsize were more likely to anticipate decreased sales to Scotland (13%).

EXPORT ISSUES

Of those exporting outside of Great Britain, 40% were experiencing issues doing so. The most common issue was retaining or re-establishing customer demand.

Other issues were experienced by similar proportions of exporters: time taken to get to market (19%), export processes (18%) and access to overseas distribution or groupage (14%). Over half (59%) said they were experiencing no issues.

Certain issues were more common among:

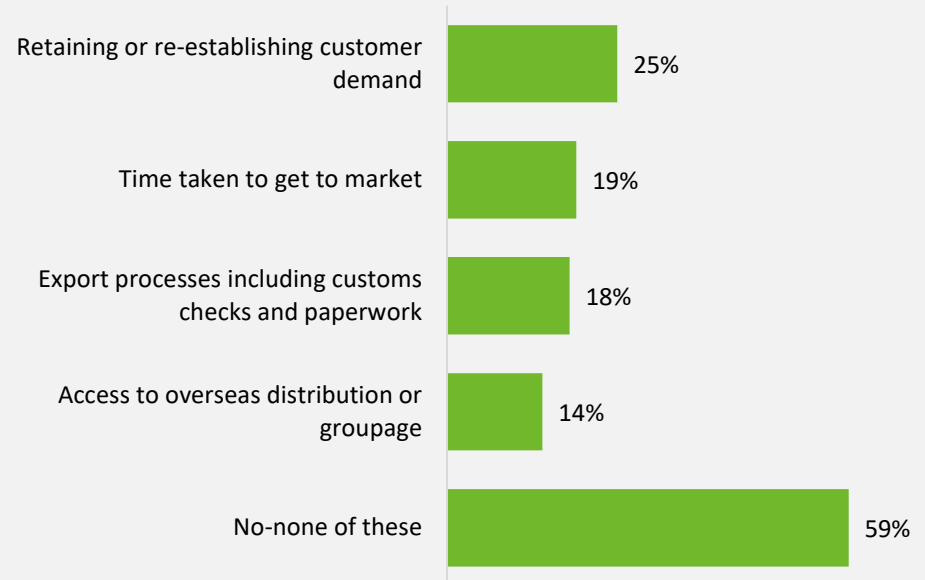
- **Those selling to the EU:** retaining or re-establishing demand (33%), time taken to get to market (29%), export processes (28%), access to distribution or groupage (22%).
- **Those selling outside the EU:** retaining or re-establishing demand (33%), time taken to get to market (31%), export processes (29%), access to distribution or groupage (17%)
- **Large businesses (25+ staff):** export processes (36%) and time to get to market (34%)
- **Tourism:** retaining or re-establishing demand (34%)
- **Food and drink:** export processes (32%).

Experience of export issues vs former expectations

Among the 40% of exporters that *were* experiencing at least one of these issues:

- 61% had issues with retaining or re-establishing customer demand,
- 46% with time taken to get to market,
- 43% with export processes, and
- 33% with access to overseas distribution or groupage.

Q. Are you currently experiencing issues with any of the following?



Base: All those exporting outside of GB (515)

Comparing these findings with the previous wave (January/February 2021), lower proportions were experiencing these issues than had expected to. In the previous wave, at least 70% had expected to experience the top three issues, with around half (53%) expecting to experience issues with distribution or groupage.

E. WORKFORCE

KEY FINDINGS

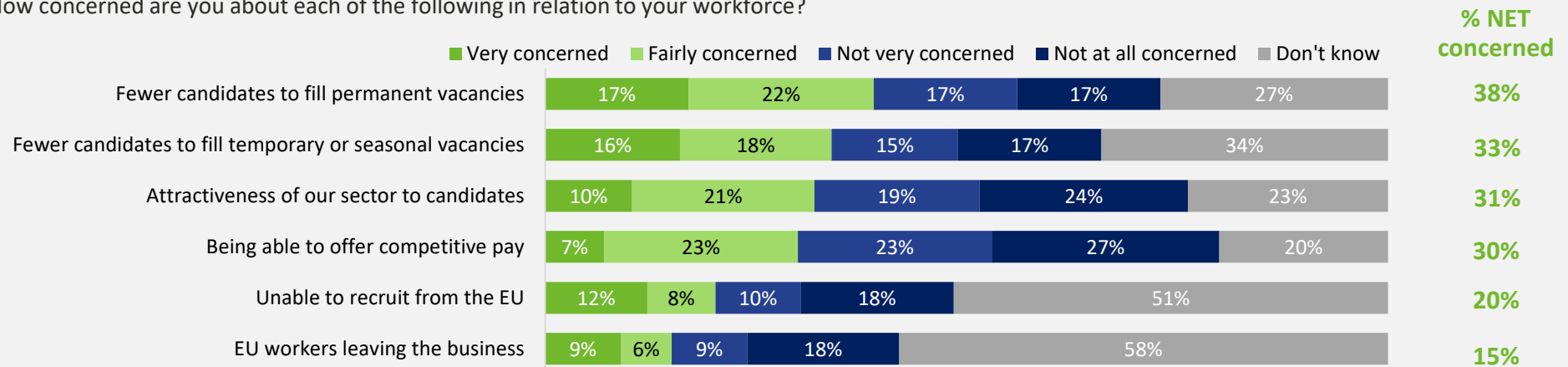
- **Around half (47%) of employers were concerned about some aspect of their workforce. The top workforce issue they were concerned about was having fewer candidates to fill permanent vacancies (38%),** followed by fewer candidates to fill temporary/seasonal vacancies (33%), the attractiveness of the sector to candidates (31%), being able to offer competitive pay (30%), being unable to recruit from the EU (20%) and EU workers leaving the business (15%).
- **Thinking about current staffing levels, a quarter (26%) of employers lacked either the permanent or temporary/seasonal staff they needed.** Around one in five (21%) specifically lacked staff for permanent roles, and a quarter (24%) for temporary/seasonal roles. Staff shortages were more of an issue for tourism businesses: 30% lacked the permanent staff and 42% the temporary/seasonal staff they needed.
- **The most common perceived barrier to accessing staff was that there was a short supply of the skills they required (49%).** Other common issues included location (44%) and a lack of accommodation in the area (40%).
- **The top action being taken to attract staff was offering competitive levels of pay - just over half (54%) of employers were doing this.** This was followed by providing informal learning and development (49%), flexible work patterns (49%) and providing formal or accredited training (40%).



WORKFORCE CONCERNS

Around half (47%) of employers were concerned about some aspect of their workforce. The top concern was having fewer candidates to fill permanent vacancies (38%).

Q. How concerned are you about each of the following in relation to your workforce?



Base: All employers (820)

Concern with certain aspect was higher among:

- Those in **remote rural areas**: fewer candidate to fill temporary/seasonal roles (49%); the attractiveness of the sector (45%); and being able to offer competitive levels of pay (42%).
- **Large businesses** (25+ staff): fewer candidates for permanent roles (67%).
- **Small businesses** (0-4 staff): unable to recruit from the EU (66%).
- **Tourism**: fewer candidates for permanent roles (72%); the attractiveness of the sector (58%); and EU workers leaving the businesses (65%).
- **Financial/business services**: unable to recruit from the EU (75%).
- Businesses **selling internationally**: unable to recruit from the EU (45%) and EU workers leaving the business (41%).

Variation by confidence in ability access staff

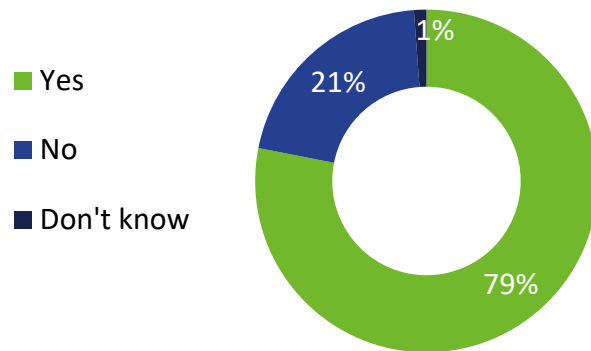
Concern with each aspect was higher among those saying they were not confident in their ability to access the staff they needed:

- Fewer candidates for permanent vacancies (61% concerned)
- Few candidate for temporary/seasonal vacancies (54%)
- Attractiveness of the sector (46%)
- Being able to offer competitive pay (42%)
- Unable to recruit from the EU (33%)
- EU workers leaving the business (23%)

STAFFING LEVELS

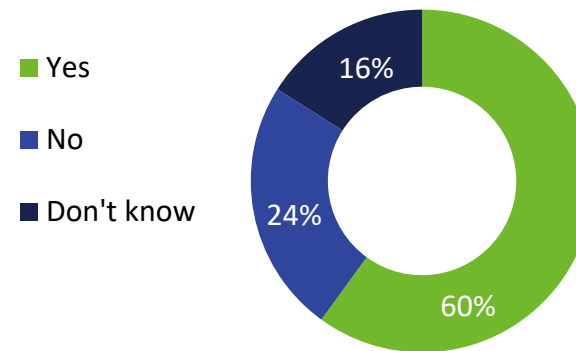
Thinking about current staffing levels, a quarter (26%) of employers lacked either the permanent or temporary/seasonal staff they needed. Around one in five (21%) specifically lacked staff for permanent roles, and a quarter (24%) for temporary/ seasonal roles. While only 1% said they didn't know whether they had the level of staff they needed for permanent roles, there was much higher level of uncertainty regarding temporary/seasonal roles, with 16% saying they didn't know if they had the staff for these positions.

Q. Do you currently have the level of staff that you need for permanent roles?



Base: All employers (820)

Q. Do you currently have the level of staff that you need for temporary or seasonal roles?



Base: All employers (820)

More likely to have the level of permanent staff they need:

- **Small businesses** (0-4 staff) (85%)
- Businesses in non-fragile areas (80% vs 73% in fragile areas)
- Those operating at the same level as they were before the pandemic (85%)
- Those aiming to stay the same size (84%)

More likely to not have level of permanent staff they need:

- **Tourism** businesses (30% said no)
- Those with 11-24 (30%) and 25+ staff (46%)
- Businesses striving for growth (25%)

More likely to have the level of temporary staff they needed:

- **Small businesses** (0-4) (64%)
- **Food & drink** businesses (68%)
- Businesses in **Argyll & the Islands** (67%)
- Those operating at the same level as pre-pandemic (67%)

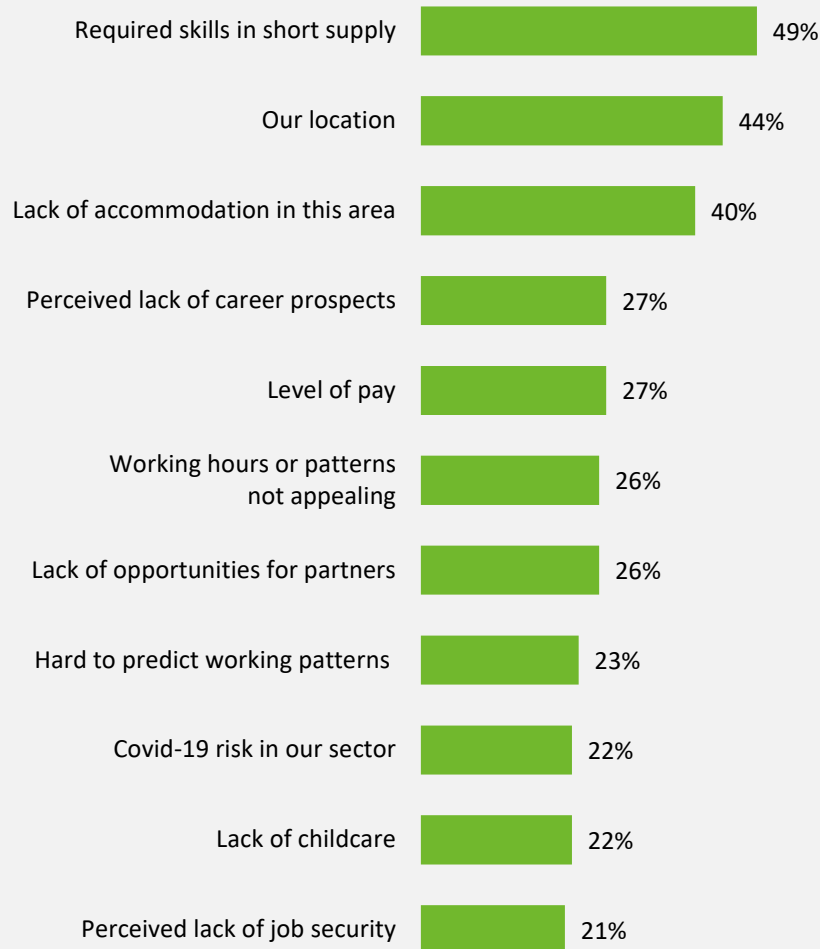
More likely to not have level of temporary staff they needed:

- **Large businesses** 25+ (42% said no)
- **Tourism** businesses (42%)
- Businesses in **Lochaber, Skye and Wester Ross** (36%)
- Those in fragile area (32% vs 22% of those in non-fragile areas)
- Those striving for growth (28% saying no)
- Those importing from outside the EU (31%)

BARRIERS TO STAFFING

The most common perceived barrier to accessing staff was that there was a short supply of the skills they required (49%). Other common issues included location (44%) and a lack of accommodation in the area (40%).

Q. What do you think is preventing you from getting the staff you need?



Base: All employers without the level of staff they need (261)

Variation

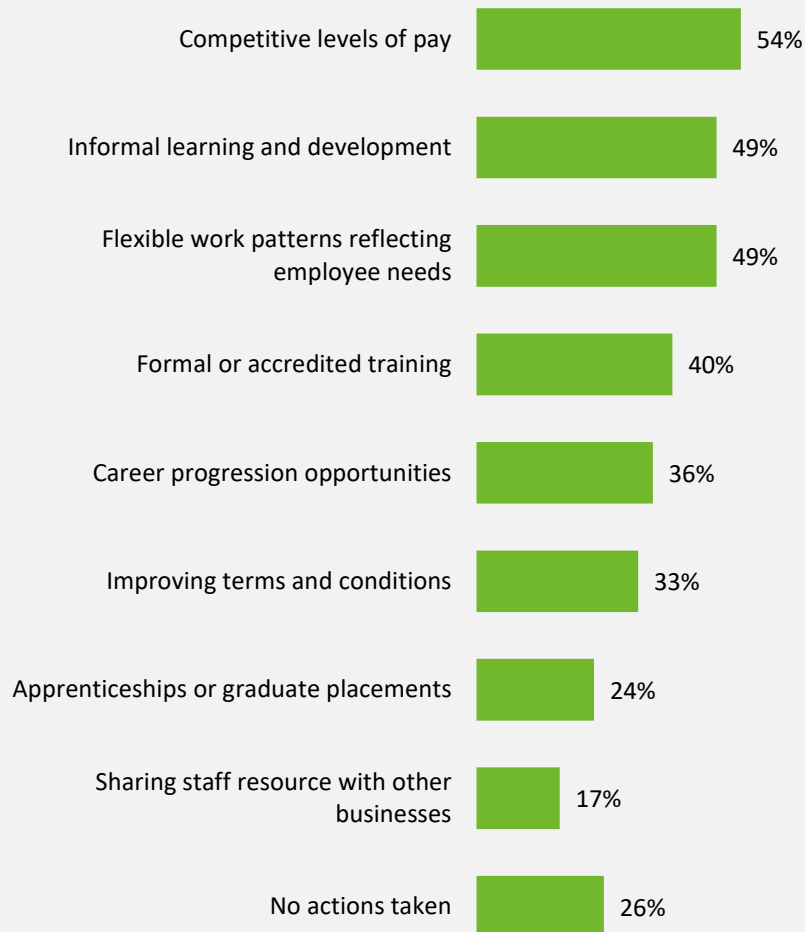
Certain barriers were more common among:

- **Small businesses (0-4 staff):** lack of opportunities for partners (35%) and hard to predict working patterns (30%).
- **Food and drink:** lack of accommodation (54%), perceived lack of career prospects (44%) working hours or patterns not appealing (41%)
- **Tourism:** lack of accommodation (58%), perceived lack of career prospects (38%) working hours or patterns not appealing (39%) and risk of COVID-19 in the sector (36%).
- **Those operating above pre-pandemic levels:** required skills in short supply (65%)
- **Remote rural businesses:** location (51%) and lack of accommodation in the area (51%) .
- **Businesses in Argyll and the islands:** lack of accommodation was an issue (56%) and level of pay (40%).
- **Businesses in Lochaber, Skye and Wester Ross:** lack of accommodation (76%); lack of career prospects (43%); lack of opportunities for partners (44%); COVID-19 (38%); and lack of job security (43%).

ATTRACTING STAFF

74% of employers were taking action to help ensure they could attract the staff they needed. The top action being taken was offering competitive levels of pay - just over half (54%) of employers were doing this.

Q. Of the following actions, if any, is your business taking to help ensure it can attract the staff it needs?



Base: All employers (820)

Variation

- **Food and drink:** offering informal learning and development (58%).
- Those in the **Outer Hebrides** and **Shetland:** offering apprenticeships/graduate placements (38% and 36% respectively).
- Those in **urban** areas: offering competitive levels of pay (59%); formal training (46%); career opportunities (43%); and apprenticeships/graduate placements (29%).
- **HIE-account managed businesses:** competitive levels of pay (65% vs 53% of non-account managed businesses) and apprenticeships/graduate placements (34% vs 22% of non-account managed).

Most likely to have not taken any actions:

- Small businesses (0-4) (39%)
- Creative industries (46%)
- Non-account managed businesses (28% vs 17% of HIE- account managed businesses)
- Those operating below pre-pandemic level (31%)
- Those not confident in their business viability (43% vs 25% of those who were confident)

There was further variation in actions taken by employers with permanent and temporary vacancies (see next slide).

ATTRACTING STAFF (2)

Actions taken by those with current skills gaps

Those with gaps in their permanent or temporary/seasonal workforce were both more likely than other employers to be taking action to help them access staff: 84% and 80% respectively were doing so compared to 74% of all employers. Overall, those with permanent vacancies were more likely to be taking actions than those with temporary/seasonal vacancies.

In terms of specific actions, those lacking permanent staff were more likely than average to have taken most actions (see table below). Those with temporary/seasonal workforce gaps were more likely than average to have improved their terms and conditions and offered informal learning and development, but otherwise had similar findings to other employers. *(Note, figures shaded in green are higher than the average for all employers)*

Action taken to attract staff	Those with vacancies for permanent staff	Those with vacancies for temporary/seasonal staff	All employers
Competitive levels of pay	66	60	54
Informal learning and development	63	58	49
Flexible work patterns reflecting employee needs	51	53	49
Formal or accredited training	53	43	40
Career progression opportunities	49	40	36
Improving terms and conditions	46	41	33
Apprenticeships or graduate placements	35	25	24
Sharing staff resources with other businesses	22	21	17
No actions taken	16	20	26
<i>Base</i>	168	198	821

F. INNOVATION

KEY FINDINGS

- **Most businesses (84%) were innovating** in some way. **The top approach to innovation was making processes more efficient (60%)** followed by adapting products/services (49%), adapting business model/structure (42%) and developing new products/services (38%).
- **The most common innovation support used by businesses was enterprise agencies or business gateway (34%) followed by knowledge sharing networks (29%) and innovation centres/academic institutions (14%).** A majority were unaware of the National Manufacturing Institute Scotland (68%), Interface (67%) or the Scottish Manufacturing Advisory Service (57%).
- **The main barriers to innovation for businesses were cost (38%) or the time taken to innovate (37%).** A fifth of businesses (21%) did not think they faced any barriers to innovating, and for two in five, **it simply wasn't a priority (39%).**



APPROACHES TO INNOVATION

Most businesses (84%) were innovating in some way. The top approach was making processes more efficient (60%) followed by adapting products/services (49%), adapting business model/structure (42%) and developing new products/services (38%).

Q. Which, if any, of the following approaches to innovation has your business undertaken?



Base: All employers (820)

Variation

- **Food and drink:** investing in low carbon technology (36%) and in automation (28%).
- **Tourism:** adapting products/services (62%) and business model/structure (50%); and analysing market/customer data (46%).
- **Creative industries:** developing new products/services (59%) and investing in research and development (34%).
- Businesses in the **Inner Moray Firth:** adapting their business model/structure (49%); analysing market/customer data (42%); using sensory/other digital technology (35%); and investing in research and development (29%).
- **HIE-account managed businesses:** developing new products/services (56% vs 36% of non-account managed) and investing in research and development (31% vs 22%).
- Those operating **above pre-pandemic levels:** developing new products/services (45%); analysing market/customer data (43%) and using sensory/other digital technology (36%).
- Those **striving for growth** were more likely than average to be taking every action apart from investing in low carbon technology.

Most likely to have not taken any actions:

- Small businesses (0-4) (18%)
- Businesses in the Outer Hebrides (28%)
- Non-account managed businesses (17% vs 8% of HIE-account managed)
- Those aiming to stay the same size (21%)

AWARENESS OF SUPPORT FOR INNOVATION

The most common innovation support used by businesses was enterprise agencies or business gateway (34%) followed by knowledge sharing networks (29%) and innovation centres/academic institutions (14%). A majority were unaware of the National Manufacturing Institute Scotland (68%), Interface (67%) or the Scottish Manufacturing Advisory Service (57%).

Variation in use/awareness:

Enterprise agencies/business gateway:

Had used:

- Businesses with 11-24 staff (48%)
- Creative industries (49%)
- Those in the Outer Hebrides (60%) and Shetland (46%)
- HIE-account managed (57% vs 32% non-account managed)

Knowledge sharing networks:

Had used:

- Those in the Inner Moray Firth (35%)

Innovation centres/academic institutions:

Had used:

- Food & drink businesses (25%)
- HIE-account managed (22% vs 13% of non-account managed)

Unaware of:

- Tourism (51%)
- Those in Argyll and the Islands (47%)

Scottish Manufacturing Advisory Service:

Had used:

- Food & drink businesses (11%)
- Creative industries (16%)
- HIE-account managed (17% vs 4% non-account managed)

Aware of but not used:

- Those in the Outer Hebrides (48%)

Unaware of

- Those in Lochaber, Skye and Wester Ross (65%)

Interface:

Had used:

- HIE-account managed (15% vs 4% non-account managed)

Aware of but not used:

- Those in the Outer Hebrides (48%)

National Manufacturing Institute Scotland:

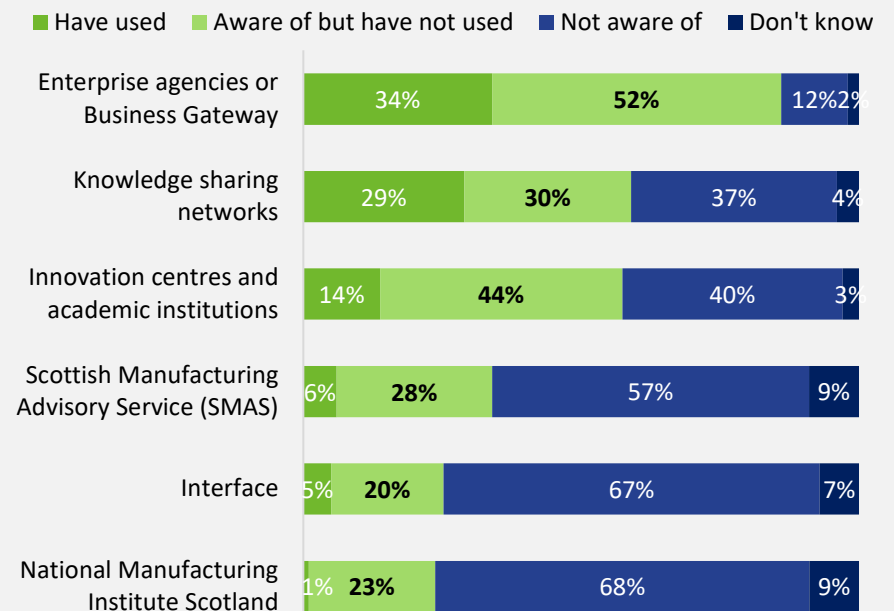
Had used:

- Businesses in Orkney (3%)

Aware of but not used:

- Those in the Outer Hebrides (41%)

Q. Are you aware of and have you used any of the following for innovation support?



Base: All businesses (1,002)

BARRIERS TO INNOVATION

For around two in five businesses (39%), innovation simply wasn't a priority. For those that identified barriers, the cost (38%) and time taken to innovate (37%) were cited most frequently. A fifth of businesses (21%) did not think they faced any barriers to innovating.

Q. What barriers to innovating might your business face?



Base: All businesses (1,002)

Innovation was a particularly low priority for businesses who were **confident in their viability** (39% not a priority vs 28% of those who were not); those who **aimed to stay the same size** (44%) or **to downsize** (51%) and those who **only sold within Scotland** (45%).

Other variation in terms of barriers faced:

- **Large businesses** (25+ staff): distance from expertise (38%)
- **Food and drink**: lack of confidence or skills (21%)
- Those in **Lochaber, Skye and Wester Ross**: distance from demonstration centres (41%); distance from expertise (33%); and a lack of networking opportunities (23%)
- Those in **remote rural** locations: distance from demonstration centres (34%) and distance from expertise (27%)
- Businesses in **fragile areas**: distance from demonstration centres (37% vs 30% in non-fragile areas); distance from expertise (32% vs 23%); and a lack of networking opportunities (21% vs 15%).
- **HIE-account managed businesses**: cost (54% vs 35% of non-account managed) and distance from expertise (36%).

G. TRANSPORT

KEY FINDINGS

- **A majority (93%) of businesses were dependent (at least to a small extent) on road transport for their day-to-day operation, with 73% dependent to a large extent.** This was followed by ferry services (57% at least to a small extent), air travel (36%) and rail (19%).
- **Findings highlight the crucial role that ferry and air transport play for island communities.** A majority (71%) of island businesses relied on ferries and around one in five (17%) relied on air to a large extent. Those trading with markets in Northern Ireland, the EU and outside EU were also particularly reliant on ferries.
- **Among those that depended on transport, most used it for deliveries of supplies (84%),** followed by transporting goods elsewhere (66%), enabling customers to visit them (61%); and meeting customers/business events (54%).
- **When thinking about the transport they used, the most important factor for businesses was reliability (66%).** Around half (48%) mentioned the price, 38% said timing and frequency of the service and 14% said connections between different types of transport.
- **For those reliant on ferries, the resilience and reliability of services was seen as particularly important.** Connections between different types of transport was of greater importance to those reliant on air.



DEPENDENCE ON TRANSPORT (1)

A majority (93%) of businesses were dependent (at least to a small extent) on road transport for their day-to-day operations, with 73% dependent to a large extent. This was followed by ferry services (57% at least to a small extent), air travel (36%) and rail (19%).

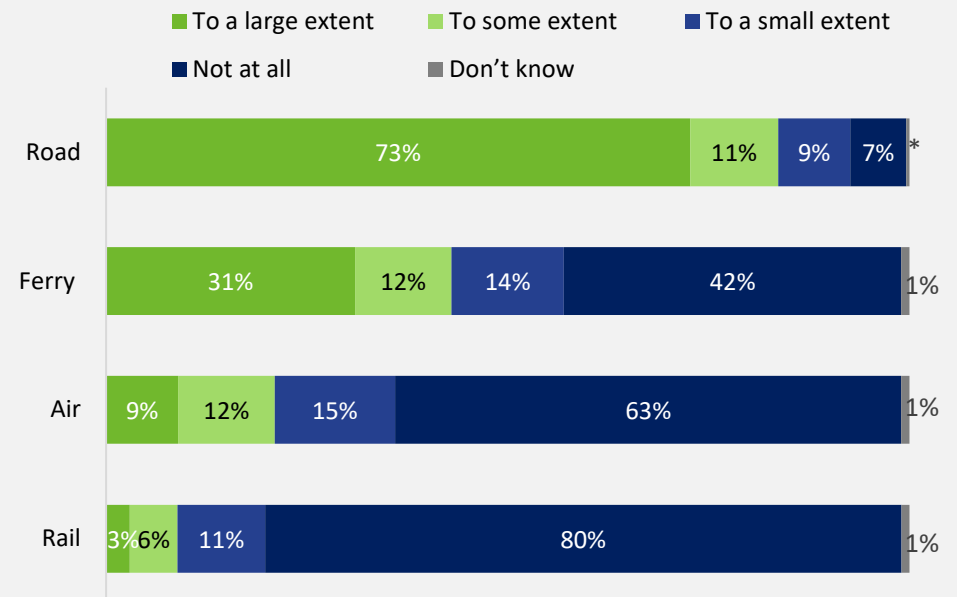
Findings highlight the crucial role that ferry and air transport play for island communities.

Among island businesses, a majority (71%) relied on ferries to a large extent and 82% to at least some extent (compared with 12% and 25% of mainland businesses). This is further reflected when looking at specific areas: most businesses in the Outer Hebrides (77%), Shetland (71%) and Orkney (72%) and half (49%) in Argyll and the Islands relied on ferries to a large extent.

Island communities also relied on air travel more than other areas, with around one in five (17%) depending on it to a large extent and 35% to at least some extent (compared with 6% and 15% for mainland businesses). The level of dependence on air was similar for businesses in Shetland (23% to a large extent), Orkney (20%) and the Outer Hebrides (20%).

Dependence on road transport was fairly consistent across different locations. It was a broadly similar story for rail, however there was higher than average reliance on this form of transport (to at least a small extent) in the Inner Moray Firth (25%) and Lochaber, Skye and Wester Ross (27%). This reflects where rail services are available and/or most prevalent within the region.

Q. To what extent would you say your business is dependent on the following forms of transport for your day-to-day operations?



Base: All businesses (1002)

DEPENDENCE ON TRANSPORT (2)

Variation by import markets

Businesses importing from outside of Scotland were dependent on a range of transport modes for their day-to-day operations.

Those **importing from the EU** had higher than average dependency on:

- Road to a large extent (79%)
- Ferry to a large extent (36%)

Those **importing from outside the EU** were more likely to depend on

- Road to a large extent (81%)
- Air to at least a small extent (45%)
- Rail to at least a small extent (26%)

Those importing from England and Wales and from Northern Ireland were each more likely to rely (to at least a small extent) on ferry (61% and 65%) and air (41% each).

Variation by export markets

Businesses selling to markets outside of Great Britain were particularly reliant on ferry and air travel.

Those selling to Northern Ireland and outside the EU had a higher-than-average dependency on ferries (37% and 35% to a large extent).

Reliance on air was higher than average among both those selling to the EU (13% to a large extent) and outside the EU (15%).

Type of transport and dependency	Markets imported from				
	England and Wales	Northern Ireland	The EU	Outside the EU	All
Road – to a large extent	75	77	79	81	73
Road – to at least a small extent	94	95	97	94	93
Rail – to a large extent	2	2	2	2	3
Rail – to at least a small extent	21	23	23	26	19
Ferry – to a large extent	33	34	36	30	31
Ferry – to at least a small extent	61	65	63	58	58
Air – to a large extent	11	9	10	13	9
Air – to at least a small extent	41	41	38	45	37
<i>Base</i>	619	207	350	201	1,002

Variation by other characteristics

- **Large businesses** (25+ staff) depended on **roads** to a large extent (84%)
- **Food and drink** depended on **ferries** to a large extent (39%)
- **Tourism** businesses depended (to at least a small extent) on **air** (59%) and **rail** (25%)
- **Creative industries** businesses depended (to at least a small extent) on **air** (52%)

DIFFERENT USES OF TRANSPORT

Most businesses used transport to receive deliveries of supplies (84%), followed by transporting goods elsewhere (66%) and enabling customers to visit them (61%).

Reasons for relying on transport were fairly similar across different locations. The exceptions were that remote rural businesses were more likely to depend on transport for moving goods elsewhere (70%), while those in the Outer Hebrides and the Inner Moray Firth were more likely to rely on transport for meeting customers/business events (75% and 61%).

Those dependent (to at least some extent) on rail and air were each more likely than average to say they depended on transport to help their customers travel to see them (85% and 74% compared with 61% overall).

Other variation

- **Food and drink:** delivery of supplies (89%) and transportation of goods elsewhere (86%)
- **Tourism:** customers coming to see them (98%)
- **Financial & business services:** meeting customers/business events (72%)
- Those **selling to England and Wales:** transporting goods elsewhere (70%).
- Those **importing from England and Wales** were more likely to rely on transport for every reason (with the exception of customers coming to see them which was in line with the average.)
- Businesses **importing from international markets** were more likely to use transport for transporting goods elsewhere (78%) and staff commuting (62%).

Q. What do you depend on those forms of transport for?

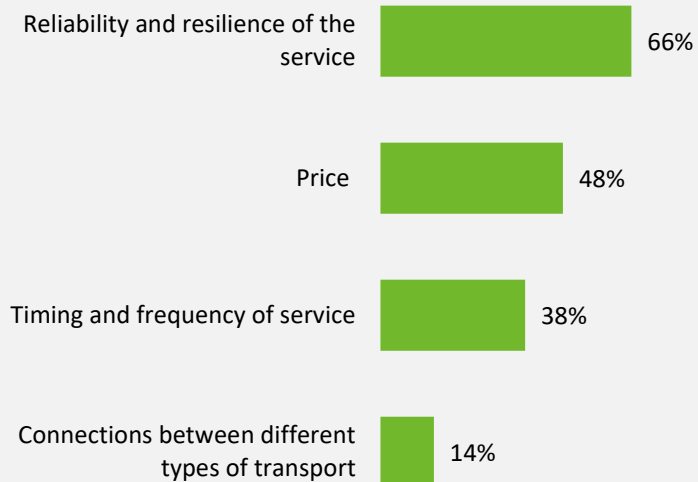


Base: All businesses which depend on road/rail/ferry/air (949)

IMPORTANT FACTORS FOR GOOD TRANSPORT

The most important factors for business use of transport was reliability (66%). Around half (48%) mentioned the price, 38% said timing and frequency of the service and 14% said connections between different types of transport were important.

Q. When thinking about transport that you use for your business, which two of these are most important to you?



Base: All businesses which depend on road/rail/ferry/air (949)

Reliability and resilience of service was particularly important for those depending to a large extent on ferries (75% said this was important). For those reliant on air (to a large extent), connections between different types of transport was particularly important (25%).

Further variation

Findings were fairly similar across types of business, however:

- Businesses in the **Outer Hebrides** were more likely to say reliability/resilience (80%) and connections between different types of transport (35%).
- Businesses importing **from England and Wales** were more likely than average to say price (52%) and timing and frequency of the service (41%).

H. APPENDIX

PROFILE OF BUSINESSES INTERVIEWED

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

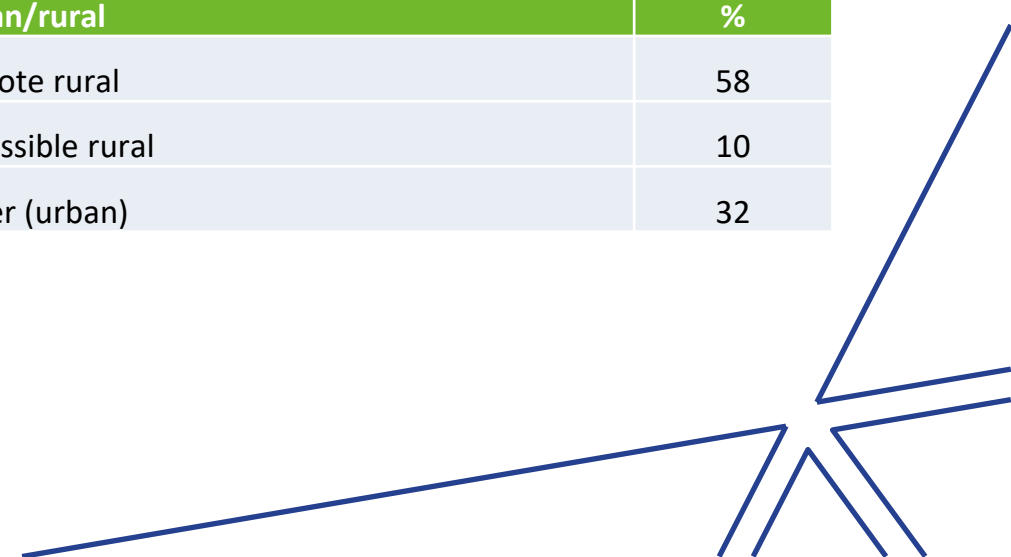
Growth sector	%
Creative industries	4
Energy	2
Financial and business services	9
Food and drink	24
Life sciences	*
Tourism	11
Non-growth	48

Relationship with HIE	%
Account-managed	10
Non-account managed	90

Location	%
Argyll and the Islands	19
Caithness and Sutherland	10
Inner Moray Firth	24
Lochaber, Skye and Wester Ross	14
Moray	12
Orkney	9
Outer Hebrides	5
Shetland	7

Fragile status	%
Fragile area	21
Non-fragile area	79

Urban/rural	%
Remote rural	58
Accessible rural	10
Other (urban)	32



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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.



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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.



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