

HIE BUSINESS PANEL SURVEY

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Ipsos MORI
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Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

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1. INTRODUCTION

Background

The Highlands and Islands Enterprise (HIE) Business Panel was established in 2008 to measure and monitor the economic health of the region through the experiences and opinions of businesses and social enterprises in the region, 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 a further six, quarterly 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.

This report presents findings from the most recent wave of the survey (the sixth in the series of quarterly surveys, and eighth overall) carried out between October and November 2017. The survey covered a number of topics of general interest to business, including economic optimism and business performance, prospects, and productivity.

Methodology

Sampling

The survey sample was mainly sourced from businesses that took part in the previous waves of the survey and had indicated that they were willing to be re-contacted. Additional HIE panel members and account-managed businesses were also approached along with companies identified from the Experian 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 code, with the following SIC 2007 Sections excluded from the sampling:

- Public administration and defence; compulsory social security;
- Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use;
- 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.

Survey fieldwork

The survey fieldwork was conducted between 25th October and 29th November, using telephone interviewing. In total 1,001 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.

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 HIE area, so 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 "easy/difficult") 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.

2. Optimism, prospects and performance

Key messages:

Confidence in the economic outlook of Scotland remained at a similar level to the previous wave, with 30% saying their confidence had decreased and 54% saying it had remained the same. Only 15% of businesses reported that their confidence had increased over the last six months.

A similar proportion of businesses reported performing well (41%) as reported a steady performance in the last twelve months (38%). Around one in five (19%) said that they had struggled in the last twelve months.

Businesses reported stability in most aspects of business performance in the last six months. Views were more mixed in relation to performance on sales or turnover and profit margins.

Around three quarters of businesses (77%) were once again very (16%) or fairly (61%) optimistic for their prospects over the next 12 month period.

Over half (57%) of businesses did not anticipate growth over the next year or two: 47% expected stability while 10% anticipated a contraction.

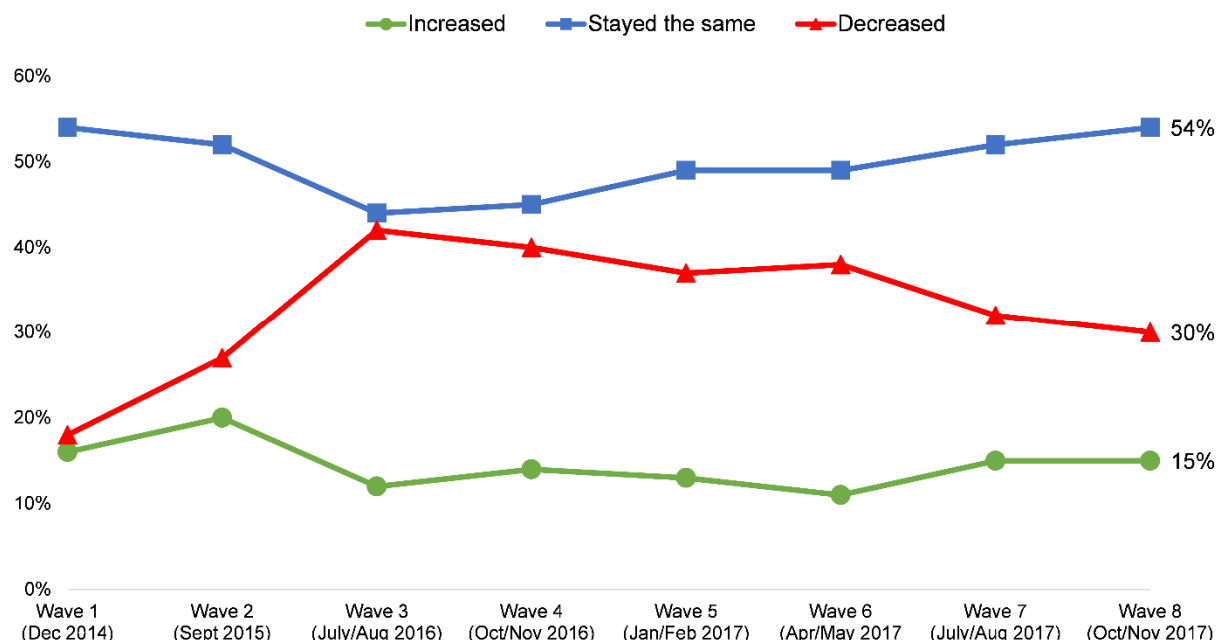
Economic optimism

Economic optimism remained at a similar level to the previous wave, with 30% saying their confidence had decreased, 15% saying it had increased, and 54% saying it had remained the same (Figure 2.1). Economic optimism had an overall net negative of -15 points, similar to the -17 recorded in wave seven (July/August 2017).¹

¹ The net figure is the difference between 'increased' and 'decreased' assessments at each wave. Net scores are positive when positive assessments exceed negative.

Figure 2.1 – Confidence in the economic outlook in Scotland over time

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



Base: All businesses

Variation by type of business

In line with previous waves, tourism businesses were more likely than average to report increased confidence (27% compared with 15% overall). In contrast, and following the trends from previous waves, food and drink businesses were more likely than average to report decreased confidence (44% compared with 30% overall).

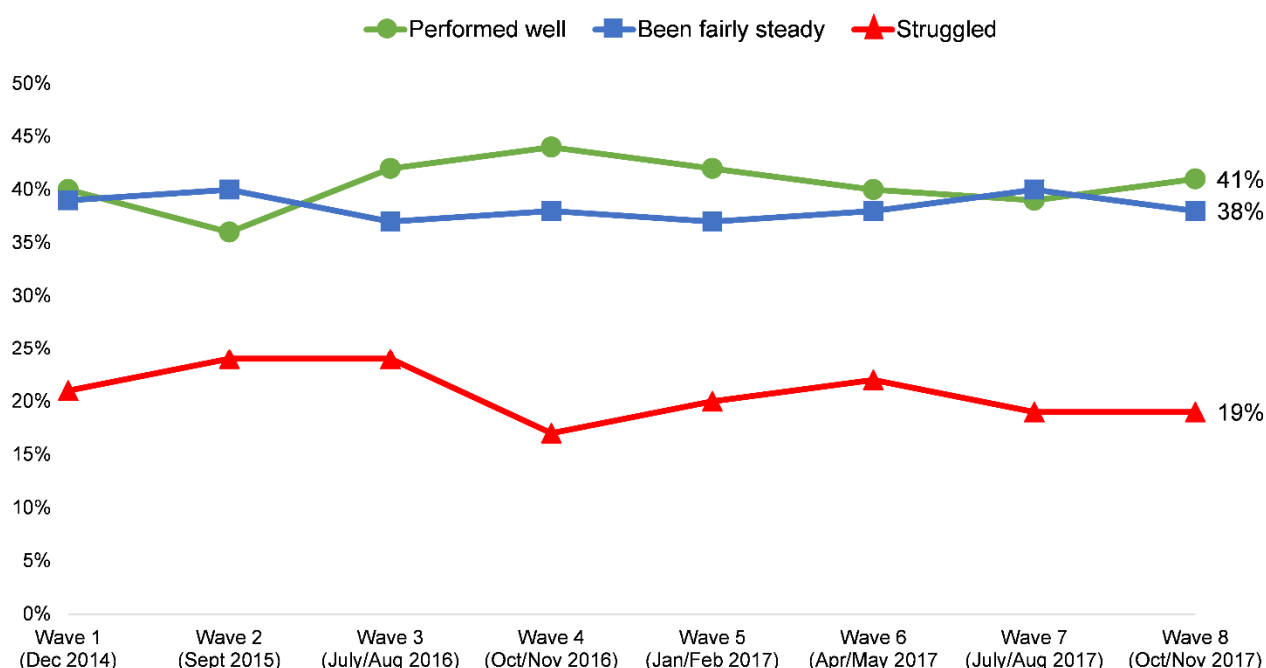
Once again, businesses that were not optimistic about the next twelve months were more likely than average to report decreased confidence (68% compared with 30% overall). Confidence was also correlated with business performance: those who had performed well in the past 12 months were more likely than average to report increased confidence (25% compared with 15%), while those who had struggled were more likely to report decreased confidence (51% compared with 30%).

Business performance

Views on business performance were consistent with those seen in the last three waves (Figure 2.2). Two in five businesses (41%) reported performing quite (32%) or exceptionally (9%) well in the last twelve months, and a similar proportion reported steady performance (38%). Just under a fifth (19%) said that their business had struggled slightly (16%) or markedly (3%).

Figure 2.2 – Assessments of business performance in the last 12 months over time

Q. Overall, how has your business performed in the last 12 months?



Base: All businesses

Reflecting the relationship between business performance and economic confidence outlined above, 71% of those whose confidence in the economy had increased also reported that they had performed well (compared with 41% overall), while 34% of those whose confidence had decreased said they had struggled in the past 12 months (compared with 19% overall).

Variation by type of business

Once again, tourism businesses were more likely than average and compared with food and drink businesses to be positive about their performance: 62% said that they performed well compared with 41% on average, and 32% among food and drink businesses. In contrast, food and drink businesses were more likely to have struggled, with 27% saying they had struggled markedly or slightly compared with 19% overall and 12% among tourism businesses (Table 2.1).

Larger businesses (25+ employees) and those that are account managed by HIE were more likely than average to report that they had performed well (56% and 50% respectively compared with 41% overall).

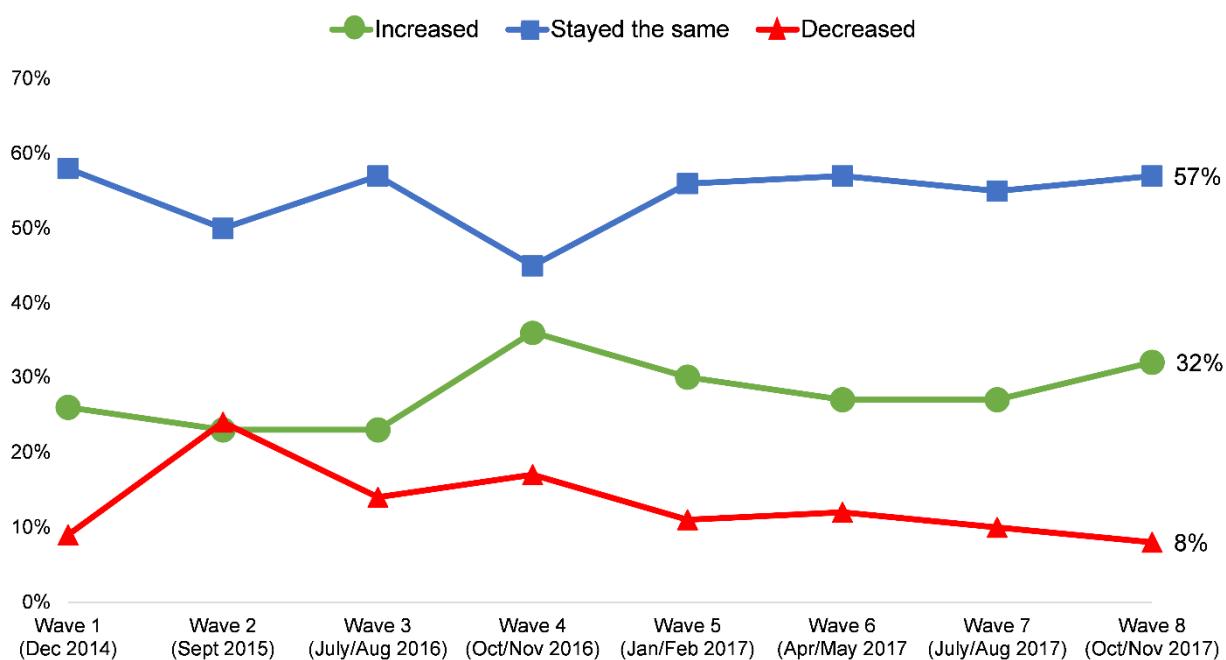
Aspects of business performance

Businesses once again reported a stable performance on a number of key areas: employment (73%), staff training (68%), working hours (67%), and exports (57%). Views were more mixed in relation to financial aspects of business performance: 40% reported an increase in sales or turnover while 20% reported a decrease; and 24% reported an increase in profit margins while 27% reported a decrease (Table 2.2).

Turning to exports specifically, results have remained consistent over the past three waves. While the proportion saying exports had increased was five percentage points higher in this wave compared with the previous (32% compared with 27%), this does not represent a statistically significant increase (Figure 2.3). Among businesses that exported, those more likely to report an increase were businesses with 25+ employees (55%), those that are account managed by HIE (50%), and those that reported that they had performed well in the last twelve months (44% compared with 32% overall).

Figure 2.3 – Trends in exports over time

Q. Could you tell me whether exports have increased, stayed the same or decreased in the last six months?



Base: All businesses

To summarise businesses' experience, we scored each instance of increased performance as +1, each decrease as -1 and each 'stayed the same' as 0 and summed across the six aspects for each business². The average score was 0.7 – tending toward a more positive assessment, and similar to the previous wave (0.8), indicating that more businesses reported increases than reported decreases in all aspects. Half (50%) of businesses had an overall positive score, while 25% had a negative score and 25% had a score of zero.

Variation by type of business

Businesses in the tourism, creative industries and non-growth sectors had the highest overall average scores, at 1.2, followed by financial and business services (0.7) (Table 2.3). Tourism and creative industries businesses were more

² A positive score indicates that on average businesses reported more aspects increasing than decreasing or staying the same. A negative score means more aspects decreasing than staying the same or increasing.

likely to report an increase in sales or turnover (54% and 53% compared with 40% overall), while tourism businesses were also more likely to report an increase in profit margins (41% compared with 24% overall). As we have seen in previous waves, the stronger than average financial performance in the tourism sector may be linked to the continued low value of the pound, and its perceived positive impact on overseas and domestic tourism in the region.

Businesses in the Outer Hebrides, saw a higher overall average score compared with other areas, at 1.4 (Table 2.4), in contrast to previous waves where businesses in Lochaber, Skye and Wester Ross tended to report the highest scores. When interpreting this difference, it is important to note the profile of businesses from these areas who took part in the survey. The sample of businesses in the Outer Hebrides contained a higher proportion of tourism businesses than the overall sample (16% of businesses in the region compared with 10% overall) and a higher proportion of creative industries businesses (12% compared with 4%). High performance in this region may therefore be linked to performance of businesses in tourism and creative industries. Reflecting their higher than average score, businesses in the Outer Hebrides were more likely than average to report an increase in employment (32% compared with 18% overall). In contrast, businesses in Argyll and the Islands had the lowest average score at 0.4, and were also more likely than average to report a decrease in profit margins (33% compared with 27%).

Businesses with 25+ employees were more likely to report an increase in aspects of business performance overall (mean score of 1.5), compared with those with fewer employees (those with 0-4 employees had a mean score of 0.4) (Table 2.5). Consistent with previous waves, businesses with 25+ employees were more likely than average to report an increase in almost all aspects of business performance, including: sales or turnover (58%), exports (55%), staff training (46%), employment (42%), and profit margins (37%).

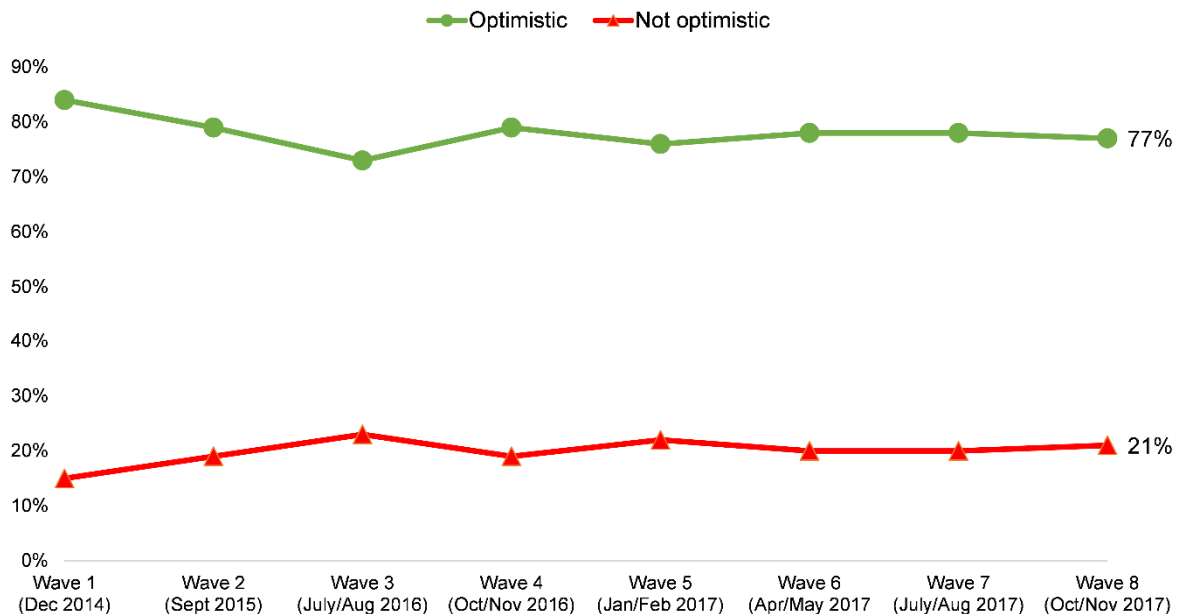
Once again, account-managed businesses had higher positive scores (1.5) than non-account managed (0.5) and were more likely to report increased performance in sales or turnover (64% compared with 36% of non-account managed businesses), employment (32% compared with 15%), staff training (38% compared with 24%), profit margins (32% compared with 23%) and exports (50% compared with 23%).

Future business prospects

In line with previous waves, around three quarters of businesses (77%) were very (16%) or fairly (61%) optimistic for their prospects over the next 12 months, in comparison to around a fifth (21%) who were not very (18%) or not at all (3%) optimistic. (Figure 2.4).

Figure 2.4 – Business prospects over the next 12 months over time

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



Base: All businesses

There was a correlation between economic optimism and future business prospects, echoing findings from the last wave; 98% of those whose confidence in the economy had increased were optimistic about the future of their business (compared with 77% overall), while 47% of those whose confidence had decreased were not optimistic (compared with 21%) (Table 2.6).

Optimism was also correlated with past business performance, with 91% of those that had performed well saying they were optimistic, and 55% of those that had struggled saying they were not optimistic (Table 2.7).

Variation by type of business

Variations between tourism and food and drink businesses were once again seen this wave. Those in the tourism sector were more likely than average to report that they were optimistic (87% compared with 77%), while food and drink businesses were more likely to report that they were not optimistic (31% compared with 21%).

There was less variation by size of business this wave, however medium sized businesses (with 11-24 employees) were more likely than average to be optimistic (86% compared with 77%) while the smallest businesses were more likely than average to not be optimistic (24% compared with 21%).

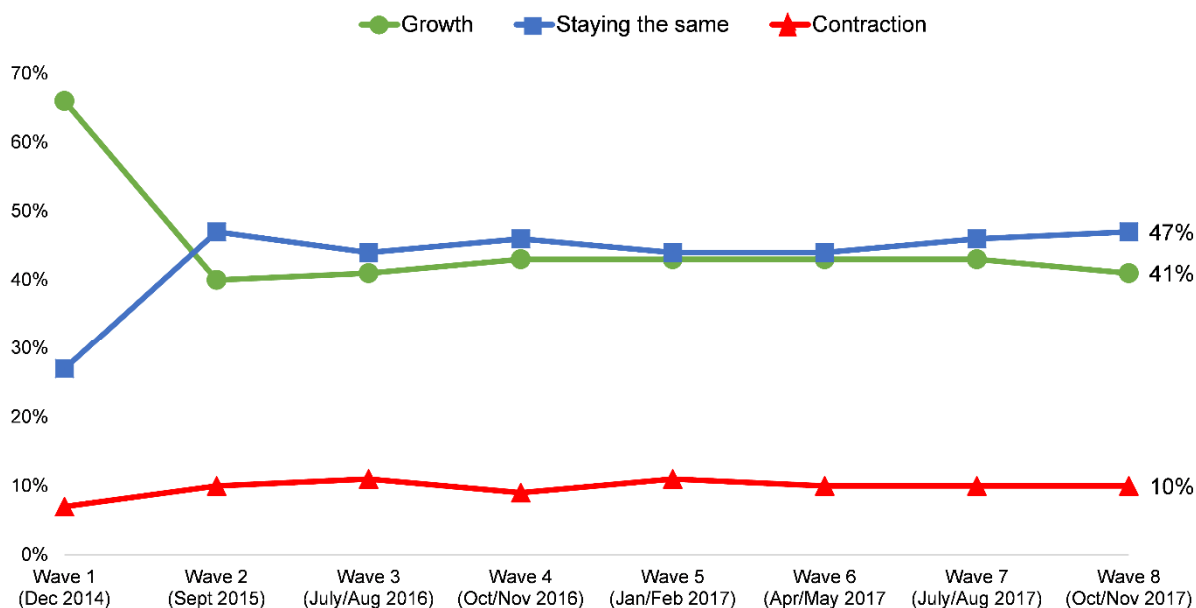
Account managed businesses were more likely than non-account managed businesses to feel optimistic about their future prospects (90% compared with 75%).

Business growth

Over half (57%) of businesses did not anticipate growth over the next year or two: 47% expect stability while 10% anticipate a contraction. These results echo those from recent waves. Among the 41% who anticipate growth, 6% anticipate substantial growth, 16% moderate growth and 19% slight growth (Figure 2.5).

Figure 2.5 – Future growth over the next year or two

Q. Do you anticipate your business growing, contracting or staying the same in the next year or two?



Base: All businesses

Variation by type of business

The smallest businesses were least likely to anticipate growth: 33% of those with 0-4 employees compared with 51% of those with 5-10, 56% of those with 11-24 and 57% of those with 25+ employees..

Reflecting their more positive performance, account managed businesses were again more likely than non account managed businesses, to anticipate growth (74% compared with 36% of non account managed).

3. Relationship with the EU

Key messages:

Businesses were split in terms of the perceived importance of membership of the European Single Market to their business; 52% regarded it as important while 41% regarded it as not important.

However, businesses considered the European Single Market as more important to the Scottish economy overall than to their own business; over three quarters (77%) of businesses said that it was important to the economy.

Over half (57%) felt that the free movement of people across the EU was not important to their business, while 40% felt that it was important. The proportion saying free movement was important to their business has gradually increased since wave 4 (Oct/Nov 2016).

Businesses were again more likely to feel that free movement was important to the Scottish economy overall than to their own business: 84% felt that free movement was important.

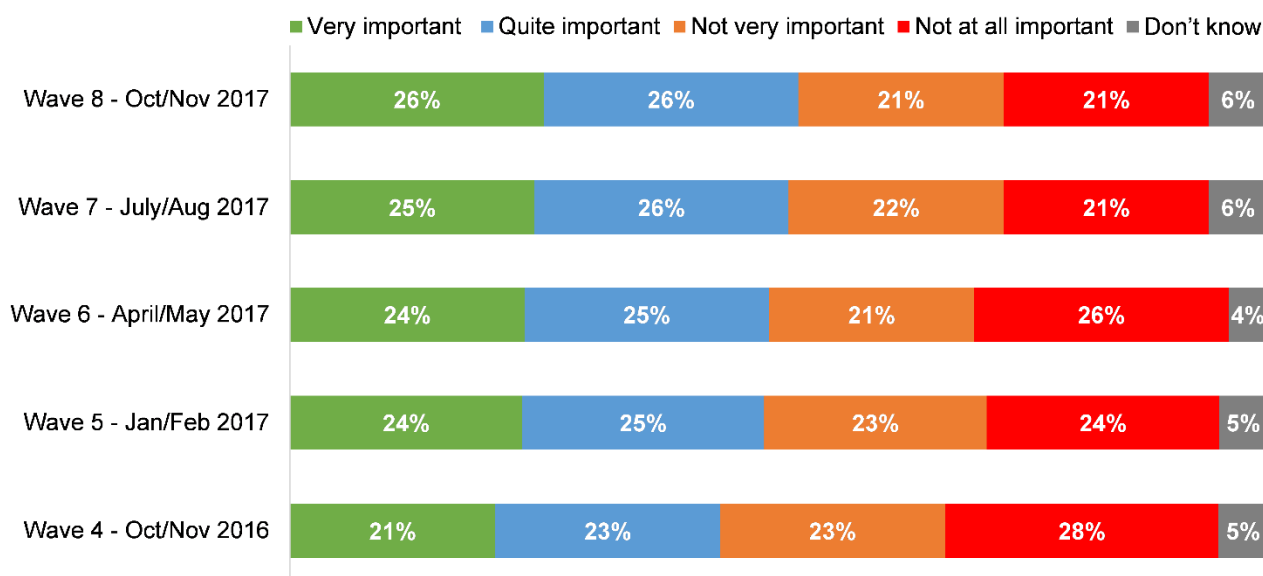
European Single Market

Importance of the European Single Market to businesses

As seen in the past two waves, businesses were broadly split in terms of the perceived importance of membership of the European Single Market to their business – 52% regarded it as important, while 41% regarded it as not important (Figure 3.1). However, there has been a shift in opinion over the past 12 months, with the proportion of businesses saying membership was important increasing from 44% in wave 4 (carried out in October/November 2016) to 52% this wave.

Figure 3.1 – Importance of membership of the European Single Market

Q. Thinking about the needs of your business, how important is it that you have membership of the European Single Market?



Base: All businesses

Variation by type of business

As reported last wave, food and drink businesses were more likely than average to report that membership of the European Single Market was very important to their business (42% compared with 26% overall). Once again, financial and business services were more likely than average to say that membership was not at all important to them (46% compared with 21%).

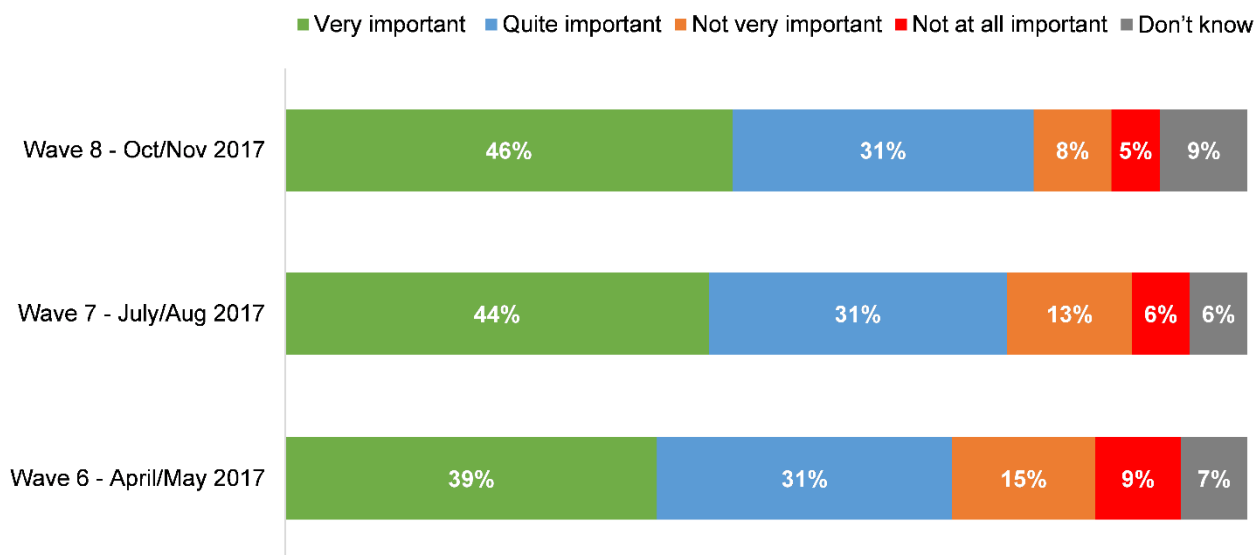
Account managed businesses were more likely than non-account managed businesses to say that membership was important to them (67% compared with 50%).

Importance of the European Single Market to the Scottish economy

Once again, businesses considered the European Single Market as more important to the Scottish economy overall than to their own business. Over three quarters (78%) of businesses said that it was important to the economy, in line with the level recorded in the previous wave (74%) but higher than that recorded in wave 6 (April/May 2017) (Figure 3.2).

Figure 3.2 – Importance of membership of the European Single Market to the economy

Q. And how important do you feel membership of the European Single Market is to the Scottish economy overall?



Base: All businesses

There was some correlation between views on importance of the European Single Market to businesses and to the economy: 98% of those who said membership was important to their business also said it was important to the economy (Table 3.1). That said, two thirds (68%) of those who felt that membership was *not* important to their business did feel that membership was important to the economy overall.

Variation by type of business

There was little variation by type of businesses. However, as seen in the last wave, businesses in the creative industries sector were more likely than average to report that access to the European Single Market was very important to the economy (61% compared with 46%). Those whose economic confidence had decreased in the last six months were also more likely than average to report that access was important (83% compared with 78% overall).

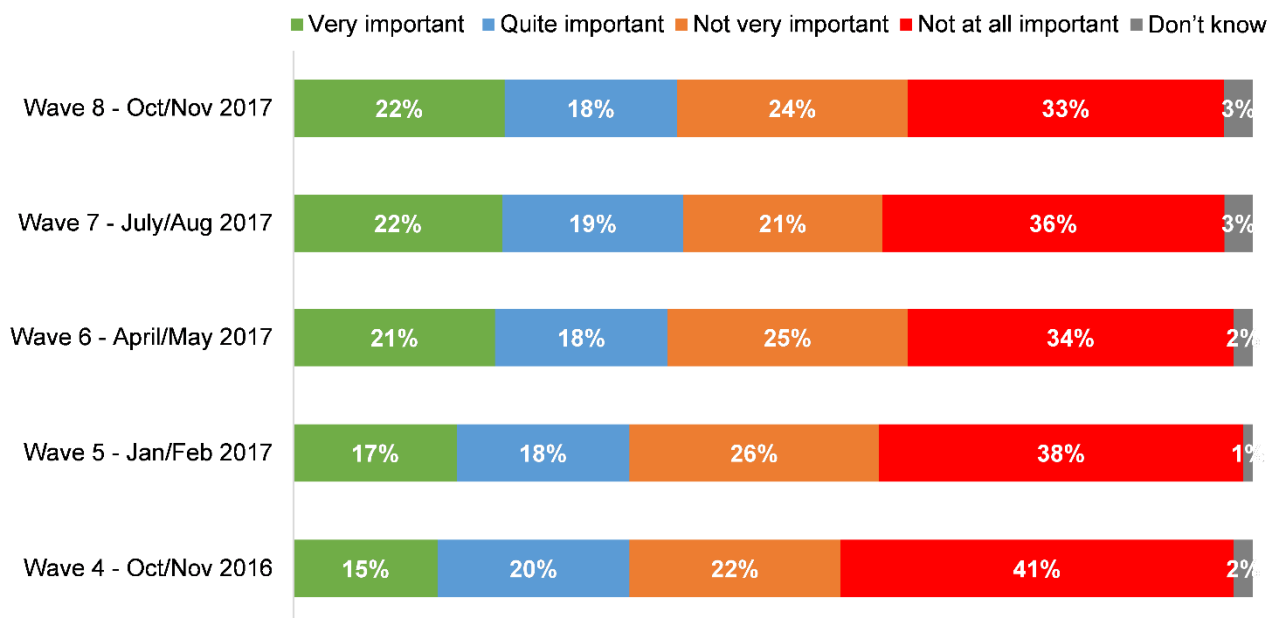
Free movement of people

Importance of free movement of people to businesses

Views on free movement of people across the EU mirrored those of the last wave: 40% of businesses felt that free movement was important to their business, while 57% felt it was not (Figure 3.3). Over time, however, there has been a change in views: between waves 4 and 8 there was an increase in the proportion of businesses saying free movement was very important (from 15% to 22%), and conversely a decrease in those saying it was not at all important (from 41% to 33%).

Figure 3.3 – Importance of free movement of people across the EU

Q. How important is the free movement of people across the EU to your business?



Base: All businesses

Variation by type of business

Views on the importance of free movement of people varied depending on both business type and size. Those in the tourism sector (60%), those with 5-10, 11-24 or 25+ staff (48%, 51% and 59% respectively) and account managed businesses (52%) were all more likely than average (40%) to report that free movement of people was important to their business.

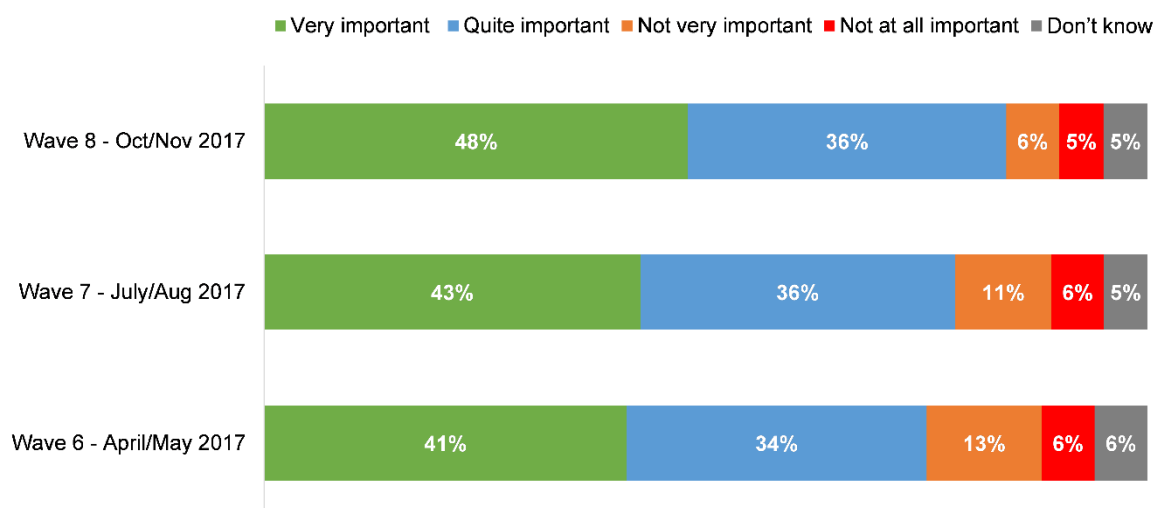
Those in the financial and business services sector, and those that employed 0-4 staff were more likely than average to say free movement was not important (70%, and 64% respectively compared with 57% overall).

Importance of free movement of people to the Scottish economy

Businesses were again more likely to feel that free movement was important to the Scottish economy overall than to their own business: 84% felt that free movement was important, compared with 11% who felt it was not important (Figure 3.4). The proportion saying free movement was important to the economy has gradually increased over the past three waves (75% in wave 6, 79% in wave 7, and 84% in wave 8).

Figure 3.4 – Importance of free movement of people to the economy

Q. And how important do you feel the free movement of people is to the Scottish economy overall?



Base: All businesses

As with views on membership of the European Single Market, there was some correlation between views on importance of free movement to businesses and to the economy: 99% of those who said free movement was important to their business also said it was important to the economy. However, 81% of those who felt that free movement was *not* important to their business did feel it was important to the economy overall, reflecting the finding that the majority of all businesses (84%) felt that it was important (Table 3.2).

Variation by type of business

There was little variation by type of business this wave. The exceptions were creative industries businesses and those based in the Outer Hebrides, who were more likely than average to say that free movement was very important to the economy (71% and 67% respectively compared with 48% overall).

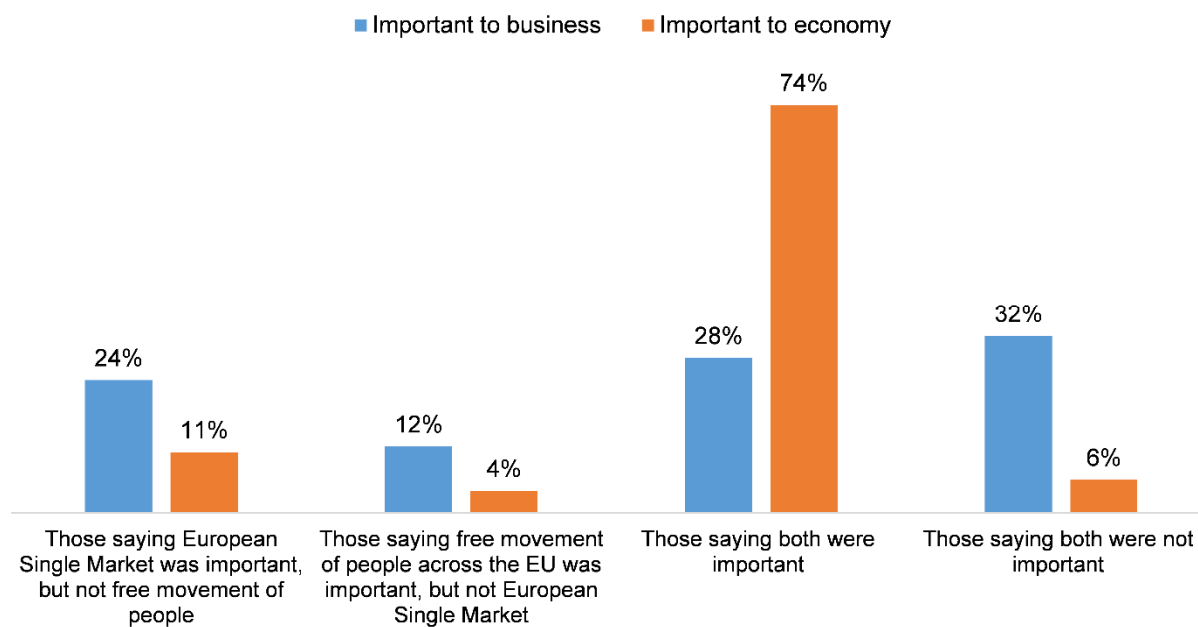
Comparing views on the European Single Market and free movement of people

In terms of importance to their business, those who felt that free movement of people *and* access to the European Single Market were important represent 28% of the overall sample of businesses (279 businesses): this is similar to the 29% reported in wave 7 and 27% reported in wave 6. Those who felt that *neither* was important represent 32% of the sample (315 businesses), similar to the 33% reported in wave 7 and 36% reported in wave 6.

In terms of importance to the economy, those who felt that free movement of people *and* access to the European Single Market were important represent 74% of the overall sample of businesses (739 businesses), higher than the 68% recorded last wave. Those who felt that *neither* was important represent 6% of the sample (61 businesses), down from the 11% recorded last wave. (Figure 3.5).

Figure 3.5: Comparison of importance of free movement of people and importance of access to the European Single Market

Q. Comparison of importance of free movement of people and importance of access to the European Single Market



Base: All businesses (1,001)

4. PRODUCTIVITY

Key messages:

When asked to consider ways of improving Scotland's competitive position, the majority of businesses favoured further investment, specifically in education, research and development, transport and digital infrastructure.

The vast majority (90%) of businesses were either very (19%) or fairly (71%) satisfied with their own productivity over the past 12 months.

The high level of satisfaction may be driven by the fact that almost all businesses (95%) had taken some form of action in the last 12 months to help improve their productivity. Where action was taken this has resulted in an improvement in overall productivity, attraction of new business, and staff feeling more engaged in the business.

Although the majority of businesses had taken actions to improve their productivity, almost nine in ten businesses (88%) had faced challenges when trying to do so.

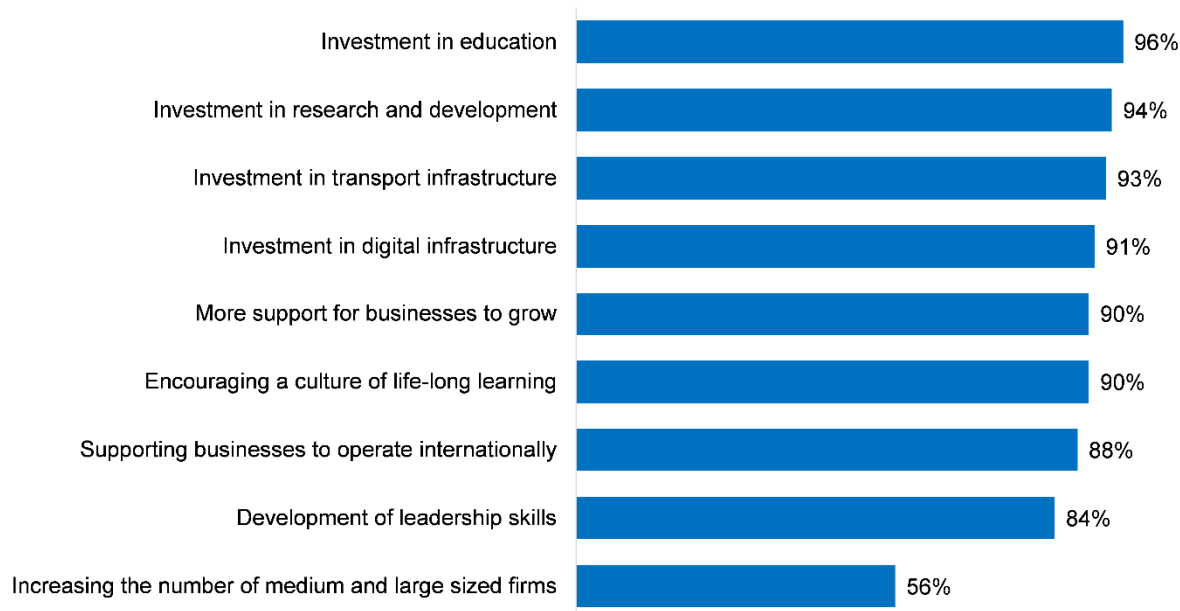
Among those that employed staff, almost all businesses (98%) had taken measures in the past 12 months to make the best use of its employees. Two in five businesses (43%) had introduced flexible contracts in the past 12 months. Of these, most (89%) had introduced flexible working patterns. The most common reason for this change was to allow greater flexibility for existing staff (87%).

Scotland's productivity

Before being asked questions about their own productivity, businesses were first asked to consider Scotland's productivity as a whole, and the approaches they thought should be taken to improve the country's competitive position. As shown in Figure 4.1, the majority of businesses were in favour of most of the approaches they were asked about. The most popular suggestions highlight a desire for additional investment, specifically in education (96%), research and development (94%), transport (93%) and digital infrastructure (91%). The least cited option was increasing the number of medium and large sized firms, but this was still seen as desirable by over half of businesses (56%).

Figure 4.1: Priority actions to improve Scotland's productivity

Q. Which of these approaches, if any, do you think should be taken to help improve our competitive position?



Base: All businesses (1,001)

Variation by type of business

There was little variation by type of business, reflecting the high overall majorities that supported most of the suggestions. Nonetheless, tourism businesses were more likely than average to support investment in transport infrastructure (98% compared with 93%), and account managed businesses were more likely than non-account managed businesses to support development of leadership skills (91% compared with 83%). In terms of size, those with 5-10 employees were more likely than average to favour the provision of more support for businesses to grow (95% compared with 90% overall).

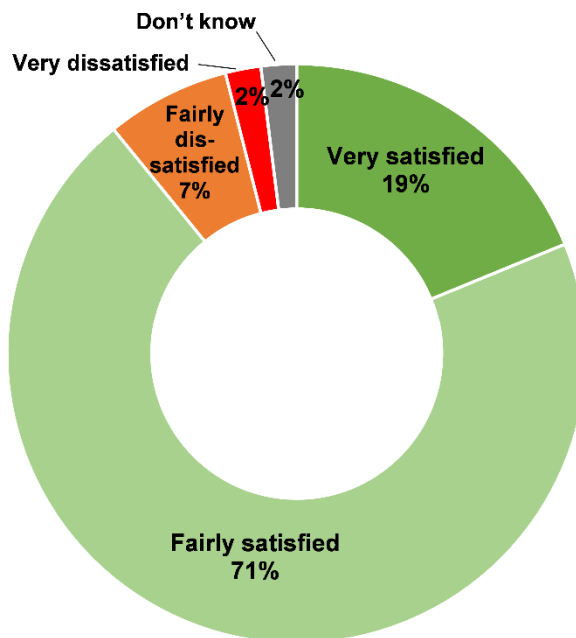
Business productivity

Satisfaction with overall productivity

The vast majority (90%) of businesses were satisfied with their own productivity over the past 12 months; 71% were fairly satisfied, while 19% were very satisfied (Figure 4.2).

Figure 4.2: Satisfaction with productivity

Q. Thinking about how your business has performed in the past 12 months, how satisfied or dissatisfied are you with your overall productivity?



Base: All businesses (1,001)

Variation by type of business

Certain sectors demonstrated higher levels of satisfaction than others. Those working in tourism and financial and business services were more likely than average to say they were *very* satisfied with productivity (32% and 29% respectively compared with 19% overall). In contrast, and reflecting their more negative views on business performance noted earlier, those in the food and drink sector were more likely to be dissatisfied overall with their productivity (13% compared with 9% overall) (Table 4.1).

Table 4.1 – Satisfaction with productivity, by sector³

	Sector						
	Food and drink	Tourism	Financial and business services	Creative industries	Non growth sector	Life science	Energy
	%	%	%	%	%	N	N
Very satisfied	10	32	29	20	18	1	4
Fairly satisfied	76	62	60	72	72	1	15
Fairly dissatisfied	10	5	8	5	7	*	2
Very dissatisfied	4	1	-	-	1	-	-
Satisfied	86	94	89	92	90	86	89
Dissatisfied	13	6	8	5	8	14	11
<i>Base</i>	<i>200</i>	<i>116</i>	<i>74</i>	<i>62</i>	<i>513</i>	<i>2</i>	<i>21</i>
<i>Base: All businesses in each sector</i>							

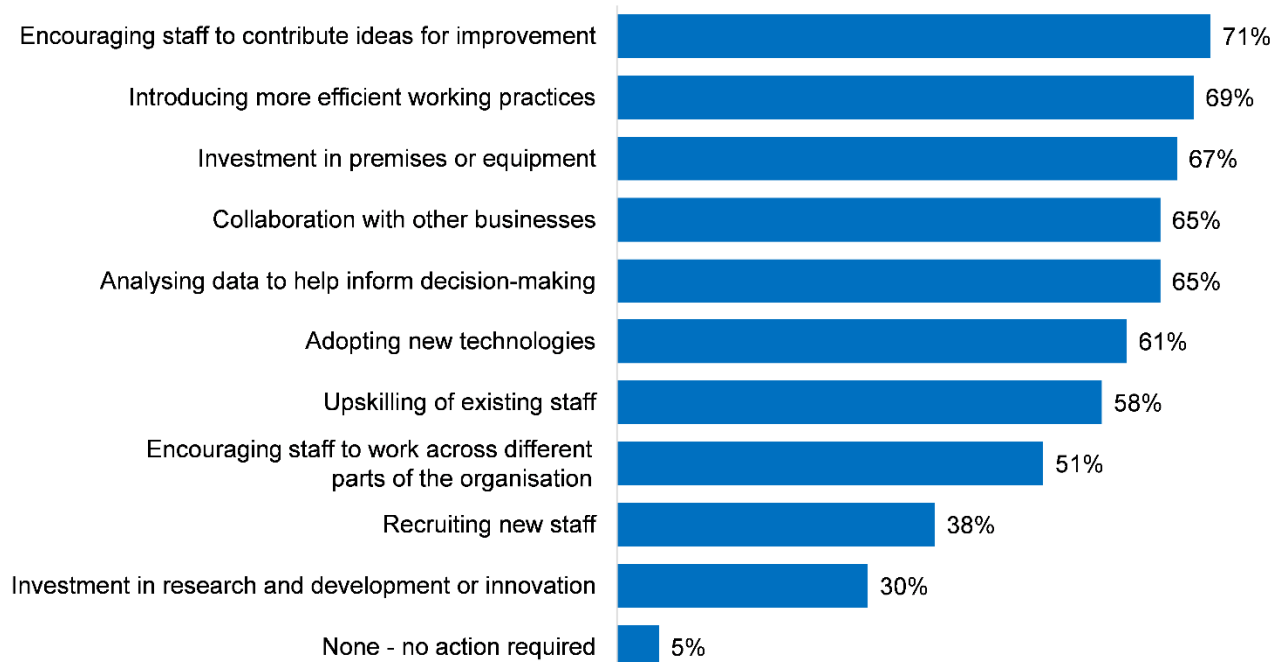
Actions taken to help improve productivity

The high level of satisfaction with productivity may be driven by the fact that almost all businesses (95%) had taken some form of action in the last 12 months to help improve their productivity and competitive position. It is worth noting that in wave 7, results showed that only around half of organisations had invested in their business in the last 12 months. The apparent disparity, between findings on investment in wave 7 and productivity in this wave, highlights that actions to improve productivity extend beyond investment in the business, and include measures related to staff contribution, working practices and collaboration with others. Indeed, as shown in Figure 4.3, the most common actions taken were encouraging staff to contribute ideas for improvement (71%), introducing more efficient working practices (69%), investment in premises or equipment (67%), collaboration with other businesses (65%) and analysing data to help inform decision-making (65%).

³ As the base size for Life Sciences and Energy are less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for these sectors is the weighted, rather than unweighted, base.

Figure 4.3: Actions taken to enhance productivity

Q. Thinking about the last 12 months, what action, if any, has your business taken to help improve its productivity and competitive position?



Base: All businesses (1,001)

Variation by type of business

Actions were more likely to be taken by larger than smaller businesses (Table 4.6 in annex); the minority that had taken no action were all small businesses (0-4 employees) , and were predominantly sole traders (77% of those that had taken no action were sole traders, while 23% were businesses with 1-4 employees) This echoes the pattern seen in relation to investment behaviour in wave 7, where we saw that larger businesses were more likely than smaller businesses to have invested in the last 12 months.

Certain actions were more common in particular sectors than others. Tourism businesses were more likely than average to have encouraged staff to contribute ideas (80% compared with 71% overall) and recruited new staff (54% compared with 38%). Financial and business services businesses were more likely than average to have upskilled existing staff (70% compared with 58%) (Table 4.2).

Table 4.2 – Actions taken to improve productivity, by sector⁴

	Sector						
	Food and drink	Tourism	Financial and business services	Creative industries	Non growth sector	Life science	Energy
	%	%	%	%	%	N	N
Any action taken	96	97	100	95	94	2	21
Encouraging staff to contribute ideas for improvement	67	80	73	60	71	2	21
Introducing more efficient working practices	74	72	75	57	67	1	14
Investment in premises or equipment	73	74	50	56	66	1	12
Collaboration with other businesses	67	69	64	69	63	2	17
Analysing data to help inform decision-making	67	71	74	58	61	2	15
Adopting new technologies	61	58	62	61	60	2	15
Upskilling of existing staff	46	63	70	58	59	1	17
Encouraging staff to work across different parts of the organisation	48	54	54	52	50	2	16
Recruiting new staff	30	54	46	36	37	1	11
Investment in research and development or innovation	33	29	25	41	28	1	14
None- no action required	4	3	-	5	7	-	-
<i>Base</i>	<i>200</i>	<i>116</i>	<i>74</i>	<i>62</i>	<i>513</i>	<i>2</i>	<i>21</i>
<i>Base: All businesses in each sector</i>							

Benefits of taking action to improve productivity

Almost three in four (72%) businesses that had taken action to improve productivity reported that this had enhanced their overall productivity. Other benefits noted by a majority were the ability to attract new business (67%), staff feeling more engaged in the business (66%), improved financial performance (60%) and the ability to retain existing staff for longer (60%) (Figure 4.4).

⁴ As the base size for Life Sciences and Energy are less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for these sectors is the weighted, rather than unweighted, base.

Figure 4.4: Benefits of taking action to improve productivity

Q. What benefits have you seen as a result of taking action to improve productivity?



Base: All businesses (1,001)

Variation by type of business

Benefits were more likely to be observed by the largest businesses (25+ employees). For example, these businesses were more likely than average to say that staff felt more engaged in the business (89% compared with 66% overall), that they had been able to attract new business (86% compared with 67%), that overall productivity had improved (85% compared with 72%) and that they had been able to retain existing staff for longer (80% compared with 60%) (Table 4.7 in annex).

In terms of sectoral variation, tourism businesses were more likely than average to have been able to attract new business (76% compared with 67%) and recruit new staff (38% compared with 29%). Creative industries businesses were more likely than average to have developed new products or services (61% compared with 44% overall) (Table 4.8 in annex).

Businesses located in Outer Hebrides were more likely than average to say their staff felt more engaged in the business (84% compared with 66% overall) and, along with those in Moray, were more likely to have retained existing staff for longer (77% and 69% respectively compared with 60%). Businesses in the Inner Moray Firth were more likely than average to have been able to attract new business (73% compared with 67% overall).

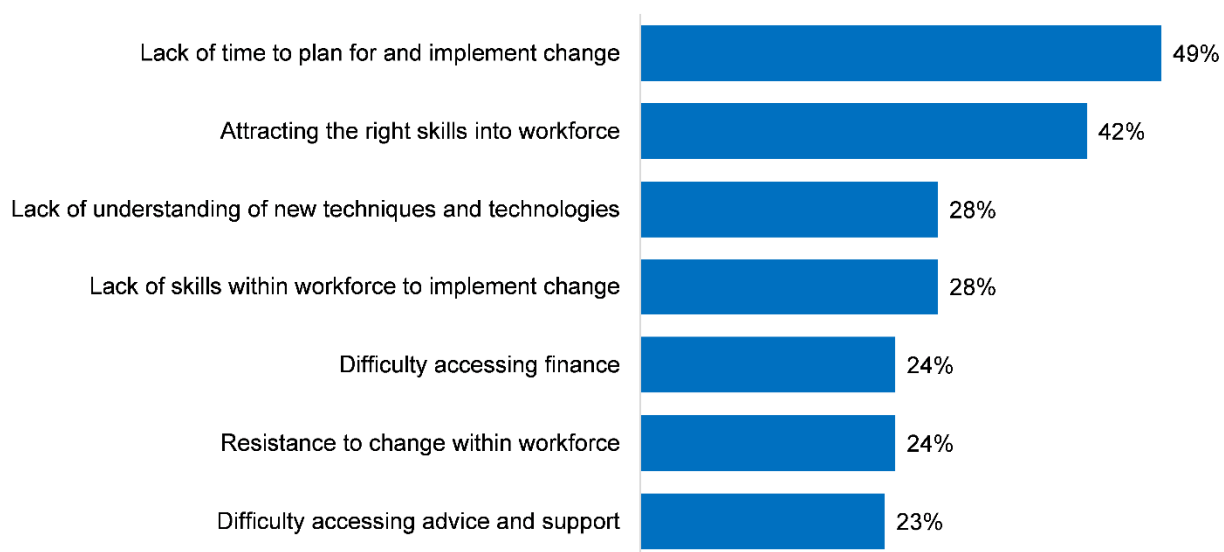
Account managed businesses were more likely than non-account managed to have seen each of the benefits.

Challenges to improving productivity

Although the majority of businesses had taken actions to improve their productivity, almost nine in ten businesses (88%) had faced challenges when trying to do so. The most common challenges faced were lack of time to plan for and implement change (49%) and attracting the right skills into the workforce (42%). Other, lesser mentioned challenges, were a lack of understanding of new techniques and technologies and lack of skills within the workforce to implement change (both 28%) (Figure 4.5).

Figure 4.5: Challenges faced when trying to improve productivity

Q. Which, if any, of the following challenges have you faced when trying to take action to improve productivity?



Base: All businesses (1,001)

Variation by type of business

Larger businesses (25+ employees) were more likely than smaller businesses (1-4 employees) to have faced workforce related challenges, namely: attracting the right skills into the workforce (73% compared with 38%), lack of skills within the workforce to implement change (53% compared with 22%) and resistance to change within the workforce (48% compared with 18%) (Table 4.9 in annex).

Tourism businesses were more likely than average to have faced challenges attracting the right skills into their workforce (51% compared with 42% overall). Businesses in Orkney were also more likely than average to have faced this challenge (68%), while those in the Outer Hebrides were more likely to have experienced difficulties accessing advice and support (42% compared with 23%) and those in Moray more likely to have faced resistance to change within their workforce (39% compared with 24%).

Account managed businesses were more likely than non-account managed businesses to have faced a number of challenges including: lack of time (64% compared with 47%), attracting the right skills (56% compared with 42%), lack of skills (40% compared with 28%) and difficulty accessing finance (35% compared with 24%).

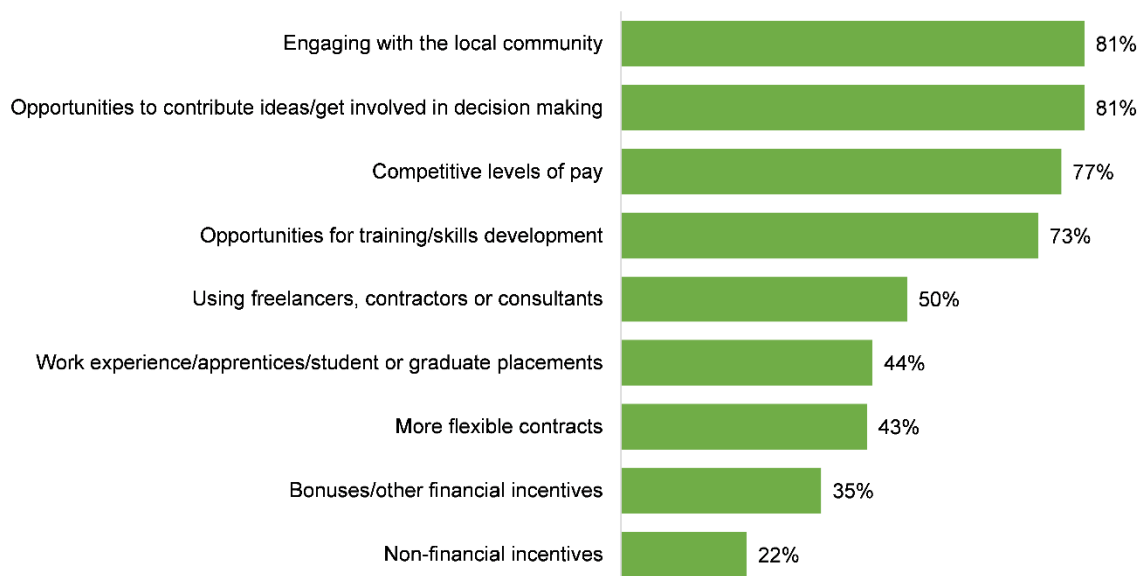
Workforce productivity

Measures taken to make best use of employees

Among those that employed staff, almost all businesses (98%) had taken measures in the past 12 months to make the best use of its employees. A majority of these businesses had taken steps to engage with the local community (81%), provided opportunities to contribute ideas and get involved in decision making (81%), offered competitive levels of pay (77%) and provided opportunities for training or skills development (73%) (Figure 4.6).

Figure 4.6: Measures taken to make the best use of employees

Q. In the past 12 months what measures, if any, has your business taken to make the best use of its employees?



Base: All businesses who employ staff (757)

Variation by type of business

Measures taken varied by size of business (Table 4.10 in annex). Medium and large sized businesses (those with 5-10, 11-24 or 25+ employees) were more likely than the smallest businesses (1-4 employees) to have:

- engaged with the local community (87%, 86% and 91% respectively compared with 74%)
- provided opportunities to contribute ideas (87%, 93% and 87% compared with 73%)
- provided opportunities for training or skills development (84%, 93% and 93% compared with 58%)

- offered work experience, apprenticeships or placements (51%, 63% and 81% compared with 25%)
- offered more flexible contracts (52%, 49% and 50% compared with 35%)

The largest businesses (25+) were also more likely than average to have offered non-financial incentives such as award schemes (32% compared with 22%).

Businesses in the financial and business services sector were more likely than average to have offered competitive levels of pay (92% compared with 77% overall) and flexible contracts (56% compared with 43%). Elsewhere, those working in tourism (53%) and creative industries (62%) were more likely to have offered work experience, apprenticeships or placements (44% overall) (Table 4.3)

Table 4.3- Measures taken to make the best use of employees, by sector⁵

	Sector						
	Food and drink	Tourism	Financial and business services	Creative industries	Non growth sector	Life science	Energy
Measures taken	%	%	%	%	%	N	N
Engaging with the local community	82	88	58	80	82	*	12
Providing opportunities to contribute ideas and get involved in decision making	75	84	82	90	79	1	18
Offering competitive levels of pay	69	83	92	78	75	1	16
Providing opportunities for training or skills development	66	81	82	71	72	1	13
Making use of freelancers, contractors or consultants	59	34	38	55	48	1	12
Offering opportunities for work experience, apprenticeships, or student or graduate placements	37	53	33	62	43	1	12
Offering more flexible contracts	33	51	56	56	42	1	7
Offering bonuses or other financial incentives	35	38	44	37	32	*	6
Offering non-financial incentives, such as award schemes	20	27	14	13	22	1	5
<i>Base</i>	<i>150</i>	<i>91</i>	<i>60</i>	<i>40</i>	<i>383</i>	<i>2</i>	<i>20</i>
<i>Base: All who employ staff, in each sector</i>							

In terms of location, those in Shetland and the Inner Moray Firth were more likely than average to offer competitive levels of pay (90% and 83% compared with 77%), while those in the Inner Moray Firth were also more likely to offer bonuses or other financial incentives (47% compared with 35%).

⁵ As the base size for Life Sciences and Energy are less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for these sectors is the weighted, rather than unweighted, base.

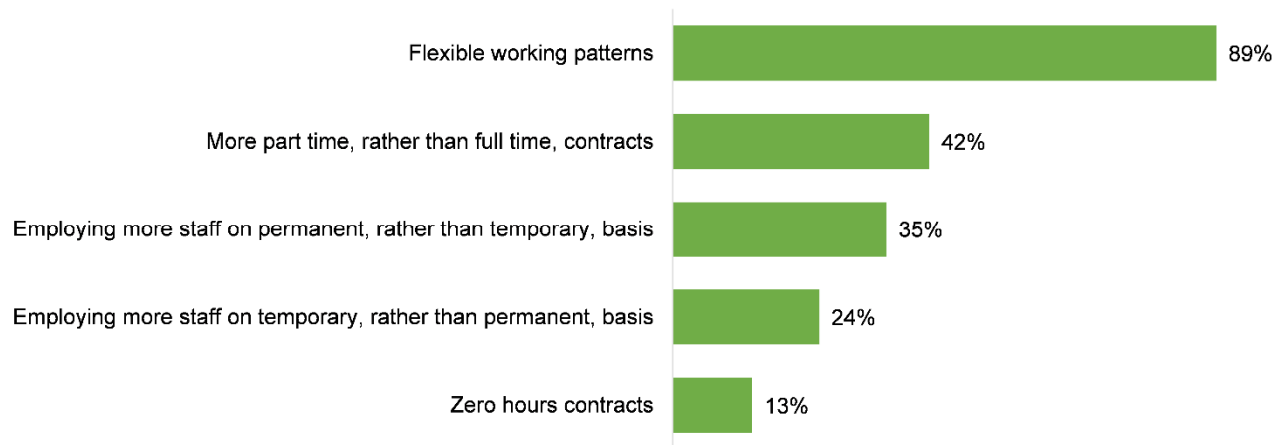
Account managed businesses were more likely than non-account managed businesses to have taken a number of measures including: opportunities to contribute ideas (90% compared with 79%), training and skills development (82% compared with 71%), work experience, apprenticeships or placements (65% compared with 39%), using freelancers, contractors or consultants (58% compared with 48%) and offering more flexible contracts (51% compared with 41%).

Type of flexible contracts

Among businesses that had introduced more flexible contracts as a way of making best use of employees, most (89%) had introduced flexible working patterns. Less common arrangements were employing more part time rather than full time staff (42%), employing more permanent rather than temporary staff (35%) and employing more temporary rather than permanent staff (24%). Just over one in ten (13%) had introduced zero hours contracts (Figure 4.7).

Figure 4.7: Types of flexible contract arrangements in place

Q. You said you offered more flexible contracts. What specific types of arrangements have you put in place?



Base: All businesses who offer employees flexible contracts (333)

Variation by type of business

Medium and large businesses (5-10, 11-24 and 25+ employees) were more likely than smaller (1-4) businesses to have used more part time rather than full time contracts (49%, 52% and 49% compared with 31%).

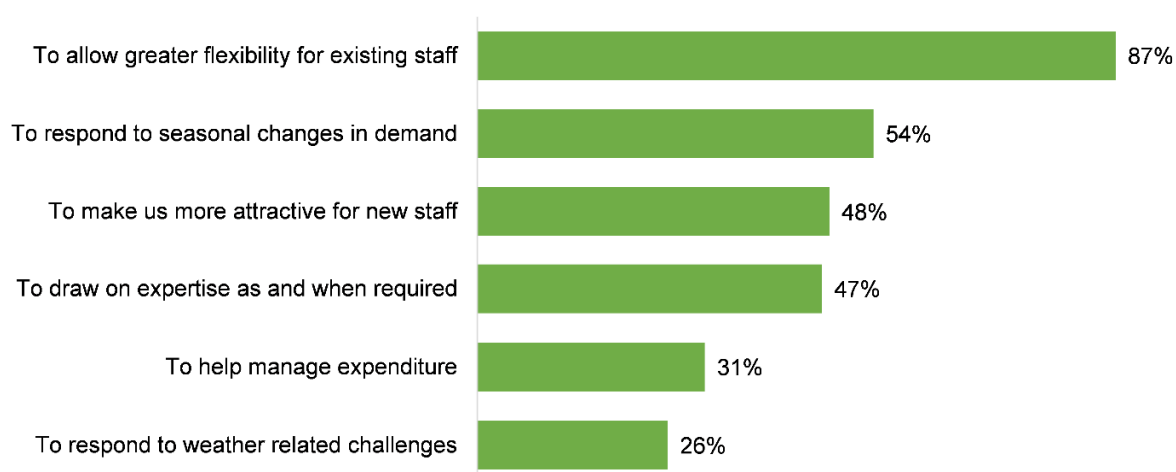
Tourism businesses were more likely than average to have used more part time rather than full time contracts (69% compared with 42%). Tourism and food and drink businesses were both more likely than average to have employed more staff on a temporary rather than permanent basis (47% and 37% compared with 24%) (Table 4.4).

Table 4.4- Flexible contract arrangements used by sector⁶

	Sector						
	Food and drink	Tourism	Financial and business services	Creative industries	Non growth sector	Life science	Energy
	%	%	%	%	%	N	N
Flexible working patterns	85	88	91	95	89	1	7
More part time rather than full time contracts	30	69	42	55	36	*	4
Employing more staff on a permanent instead of temporary basis	31	39	26	49	34	-	1
Employing more staff on a temporary instead of permanent basis	37	47	17	31	13	-	1
Zero hours contracts	16	22	10	15	10	-	2
<i>Base</i>	<i>150</i>	<i>91</i>	<i>60</i>	<i>40</i>	<i>383</i>	<i>2</i>	<i>20</i>
<i>Base: All who employ staff, in each sector</i>							

Reasons for using flexible contracts

The most common reason for having introduced flexible contracts was to meet the needs of existing staff (87%). Other, less common reasons were to respond to seasonal changes in demand (54%), to be more attractive for new staff (48%) and to draw on expertise as and when required (47%) (Figure 4.8).

Figure 4.8: Reasons for introducing flexible contracts**Q. What is your main reason for introducing these more flexible arrangements?**

Base: All businesses who offer employees flexible contracts (333)

⁶ As the base size for Life Sciences and Energy are less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for these sectors is the weighted, rather than unweighted, base.

Reasons varied depending on the specific arrangements that had been put in place, with notable differences among those who had introduced zero hours contracts and employed more temporary rather than permanent staff. These businesses were more likely than average to say they had introduced flexible measures to respond to seasonal demand (83% and 74% respectively compared with 54% overall), and to be more attractive to new staff (64% and 62% compared with 48%). Businesses that introduced zero hours contracts were also more likely than average to have done so to allow them to draw on expertise as and when required (68% compared with 47%) and to respond to weather related challenges (48% compared with 26%) (Table 4.5).

Table 4.5: Reasons for introducing flexible contracts, by type of flexible contract

	Flexible working patterns	More part time rather than full time contracts	More permanent instead of temporary staff	More temporary instead of permanent staff	Zero hours contracts
	%	%	%	%	%
To allow great flexibility for existing staff	88	86	95	77	81
To respond to seasonal changes in demand	54	58	55	74	83
To make us more attractive for new staff	49	56	60	62	64
To draw on expertise as and when required	47	50	60	55	68
To help manage expenditure	32	35	37	41	46
To respond to weather related challenges	27	21	30	30	48
<i>Base</i>	<i>282</i>	<i>133</i>	<i>109</i>	<i>76</i>	<i>42</i>

Variation by type of business

Large businesses (25+) were more likely than average to say they introduced flexible contracts to make them more attractive for new staff (70% compared with 48% overall). In contrast, small businesses (1-4) were more likely to have done so in response to weather related challenges (33% compared with 26%).

Businesses in the tourism and food and drink sectors were both more likely than average to have introduced flexible contracts in response to seasonal changes in demand (81% and 68% compared with 54%), reflecting the fact that these sectors were those most likely to have used more temporary instead of permanent staff.

5. Summary

Confidence in the economy has remained at a similar level to the previous wave. Overall confidence is low, with twice as many businesses saying their confidence had decreased (30%) as saying it had increased (15%).

The sectoral differences observed in previous waves are echoed again this wave, with food and drink tending to be more negative than others, and tourism businesses tending to be more positive. As we have seen before, confidence in the economy was also linked with performance; those who had performed well in the last 12 months were more likely to say their confidence in the economy had increased, while those who had struggled were more likely to report decreased confidence.

While economic confidence remains low, businesses are more positive about their own performance: two-fifths reported that their business had performed well over the last 12 months and a similar proportion reported a stable performance. The remaining one in five said their business had struggled. Large businesses (25+ employees) and those in the tourism sector were more likely than others to have performed well, while food and drink businesses were more likely to have struggled.

On specific aspects of performance, businesses mainly reported stability in employment, working hours, staff training, and exports. Once again, views were more mixed in relation to financial aspects of business performance (sales/turnover and profit margins).

Overall, the majority of businesses remain optimistic about their own prospects for the next 12 months. Tourism businesses were more optimistic than others, while food and drink businesses were more pessimistic, continuing the pattern of sectoral variation seen in relation to economic confidence and business performance. In terms of business growth, over half did not anticipate growth (57%), compared with around two fifths that did anticipate growth (41%).

Businesses were again split in terms of the perceived importance of membership of the European Single Market to their business. However, businesses considered the European Single Market as more important to the Scottish economy overall (78%) than to their own business (52%). Businesses were also more likely to consider the free movement of people across the EU as important to the economy than to their own business; 84% felt it was important to the economy, compared with 40% who felt it was important to their business.

This wave, businesses were asked about productivity, both of Scotland as a whole and of their own business. When asked to consider ways of improving Scotland's competitive position, the majority of businesses favoured further investment, specifically in education, research and development, transport and digital infrastructure.

Although most businesses see the need for investment to improve Scotland's productivity and competitive position, they seem more positive about their own position. The vast majority (90%) of businesses were either very or fairly satisfied with their productivity over the past 12 months. These different perspectives echo findings we have seen over several waves, with businesses tending to lack confidence in the economy as a whole, but to be more positive about their own performance.

While the majority of businesses were satisfied with their productivity, they have had to take action over the past 12 months in order to improve this, and have faced challenges while doing so. Almost all businesses (95%) had taken

some form of action to help improve their productivity. The most common actions taken were encouraging staff to contribute ideas for improvement, introducing more efficient working practices, investment in premises or equipment, collaboration with other businesses and analysing data to help inform decision-making.

Among those that had taken such actions, benefits included an improvement in overall productivity, ability to attract new business, and staff feeling more engaged in the business. However, almost nine in ten businesses (88%) had faced challenges when trying to put these measures in place. The most commonly faced challenges were a lack of time to plan for and implement change, and being able to attract the right skills into the workforce.

Finally, turning to the productivity of their workforce, almost all businesses that employ staff (98%) had taken measures in the past 12 months to make the best use of their employees. The specific measures taken by most included: engagement with the local community; providing opportunities to contribute ideas and get involved in decision making; offering competitive levels of pay; and providing opportunities for training or skills development. Two in five businesses (43%) had introduced flexible contracts in the past 12 months. Of these, most (89%) had introduced flexible working patterns, while around one in ten (13%) had introduced zero hours contracts. The most common reason for having introduced flexible contracts was to allow greater flexibility for existing staff. However, among businesses that had used zero hours contracts, the most common reasons for doing so was to respond to seasonal changes in demand.

Appendix

Business performance

Table 2.1 – Business performance by growth sector⁷

	Performed exceptionally well	Performed quite well	Been fairly steady	Struggled slightly	Struggled markedly	Don't know	Base
	%	%	%	%	%	%	
Overall	9	32	38	16	3	1	1001
Tourism	20	42	25	10	2	1	116
Financial and business services	7	41	36	8	4	3	74
Creative industries	9	33	46	11	-	*	62
Non Growth Sector	8	30	41	17	2	1	513
Food and drink	6	26	39	21	6	1	200
	N	N	N	N	N	N	
Energy	1	11	5	4	-	1	21
Life sciences	*	*	1	1	-	-	2
<i>Base: All businesses in each sector</i>							

Table 2.2 – Aspects of business performance in the last six months

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	
Sales or turnover	40	20	38	3	970
Working hours	27	6	67	*	996
Staff training	27	5	68	*	820
Exports	32	8	57	3	216
Profit margins	24	27	44	5	972
Employment	18	9	73	*	943
<i>Base: All businesses saying each aspect applied to them</i>					

⁷ As the base size for Life Sciences is less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for this sector is the weighted, rather than unweighted, base.

Table 2.3 – Overall assessments of business performance by growth sector

Size of business	Assessment of business performance (mean score)
Energy ⁸	1.3
Creative industries	1.2
Tourism	1.2
Non-Growth Sector	1.2
Financial and business services	0.7
Food and drink	0.6
Life Sciences	0.6

Table 2.4 – Overall assessments of business performance by location

Location	Assessment of business performance (mean score)
Outer Hebrides	1.4
Inner Moray Firth	0.8
Moray	0.8
Lochaber, Skye and Wester Ross	0.7
Orkney	0.7
Shetland	0.6
Caithness and Sutherland	0.5
Argyll and the Islands	0.4

Table 2.5 – Overall assessments of business performance by size of business

Size of business	Assessment of business performance (mean score)
0-4	0.4
5-10	1.1
11-24	1.1
25+	1.5

⁸ Although Energy had an average score of 1.5, this does not represent a significant difference from other sectors due to the small base size for Energy businesses

Business prospects in the next six months

Table 2.6– Business prospects over the next 12 months by confidence in the economic outlook in Scotland

	Optimism for future business prospects					
	Very optimistic	Fairly optimistic	Not very optimistic	Not at all optimistic	Don't know	Base
Confidence in the economic outlook in Scotland	%	%	%	%	%	
Increased	41	58	2	-	-	143
Stayed the same	16	70	11	*	3	550
Decreased	4	45	38	9	4	294

Table 2.7 – Optimism for future business prospects by past business performance

	Optimism for future business prospects					
	Very optimistic	Fairly optimistic	Not very optimistic	Not at all optimistic	Don't know	Base
Past business performance	%	%	%	%	%	
Performed exceptionally/quite well	28	63	7	*	2	420
Been fairly steady	9	69	18	*	3	376
Struggled slightly/markedly	3	39	42	13	4	191

Relationship with EU

Table 3.1 – Comparison of importance of membership of the European Single Market to the economy and to business

	Importance to the economy				
	Very important	Quite important	Not very important	Not at all important	Base
Importance to businesses	%	%	%	%	N
Important	68	30	1	1	509
Not important	29	39	20	12	362
<i>Base: All businesses excluding those saying 'don't know' to either measure</i>					

Table 3.2 – Comparison of importance of membership of free movement of people across the EU to the economy and to business

	Importance to the economy				
	Very important	Quite important	Not very important	Not at all important	Base
Importance to businesses	%	%	%	%	N
Important	72	27	1	-	392
Not important	35	47	10	9	539
<i>Base: All businesses excluding those saying 'don't know' to either measure</i>					

Business productivity

Table 4.6 – Actions taken to improve productivity by size

	Size of business				
	Sole trader	1-4	5-10	11-24	25+
	%	%	%	%	%
Any action taken	86	97	100	100	100
Encouraging staff to contribute ideas for improvement	27	78	93	96	96
Introducing more efficient working practices	54	71	76	78	86
Investment in premises or equipment	53	64	77	78	90
Collaboration with other businesses	58	66	71	67	70
Analysing data to help inform decision-making	44	64	79	79	82
Adopting new technologies	51	63	63	65	71
Upskilling of existing staff	26	54	82	82	91
Encouraging staff to work across different parts of the organisation	16	49	74	76	84
Investment in research and development or innovation	24	27	38	37	40
Recruiting new staff	5	29	67	68	84
None- no action required	15	3	-	-	-
<i>Base (all businesses)</i>	<i>240</i>	<i>340</i>	<i>173</i>	<i>135</i>	<i>109</i>

Table 4.7 – Benefits of taking action to improve productivity by size

	Size of business			
	1-4	5-10	11-24	25+
Benefits	%	%	%	%
Overall productivity has improved	69	78	79	85
We have been able to attract new business	62	74	72	86
Staff feel more engaged in the business	68	88	87	89
Financial performance has improved	55	69	57	74
We have been able to retain existing staff for longer	65	84	80	80
We have developed new products or services	41	53	42	60
We have been able to access new markets	33	43	38	55
We have been able to recruit new staff with the skills and experience we need	21	47	52	57
<i>Base</i>	<i>333</i>	<i>173</i>	<i>135</i>	<i>109</i>
<i>Base: All who have taken action, in each size category (excluding sole traders)</i>				

Table 4.8 – Benefits of taking action to improve productivity by sector⁹

	Sector						
	Food and drink	Tourism	Financial and business services	Creative industries	Non growth sector	Life science	Energy
Benefits	%	%	%	%	%	N	N
Overall productivity has improved	70	75	68	76	68	1	16
We have been able to attract new business	45	76	72	78	68	1	17
Staff feel more engaged in the business	58	66	68	64	64	1	17
Financial performance has improved	52	68	57	64	58	1	18
We have been able to retain existing staff for longer	53	56	63	52	60	2	14
We have developed new products or services	40	39	34	61	43	1	15
We have been able to access new markets	33	42	33	43	37	1	15
We have been able to recruit new staff with the skills and experience we need	24	38	37	33	26	*	9
<i>Base</i>	<i>192</i>	<i>113</i>	<i>74</i>	<i>59</i>	<i>482</i>	<i>2</i>	<i>21</i>
<i>Base: All who have taken action, in each sector</i>							

⁹ As the base size for Life Sciences and Energy are less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for these sectors the weighted, rather than unweighted, base.

Table 4.9 – Challenge faced taking action to improve productivity by size

	Size of business			
	1-4	5-10	11-24	25+
Challenges	%	%	%	%
Lack of time to plan for and implement change	51	56	57	49
Attracting the right skills into the workforce	38	58	56	73
Lack of understanding of new techniques and technologies	29	28	31	20
Lack of skills within the workforce	22	38	41	53
Difficulty accessing finance	25	26	28	24
Resistance to change within the workforce	18	31	43	48
Difficulty accessing advice and support	24	20	27	21
<i>Base</i>	<i>340</i>	<i>173</i>	<i>135</i>	<i>109</i>
<i>Base: All businesses in each size category</i>				

Workforce productivity

Table 4.10 - Measures taken to make the best use of employees by size

	Size of business			
	1-4	5-10	11-24	25+
Measures taken	%	%	%	%
Engaging with the local community	74	87	86	91
Providing opportunities to contribute ideas and get involved in decision making	73	87	93	87
Offering competitive levels of pay	71	83	84	80
Providing opportunities for training or skills development	58	84	93	93
Making use of freelancers, contractors or consultants	47	56	43	57
Offering opportunities for work experience, apprenticeships, or student or graduate placements	25	51	63	81
Offering more flexible contracts	35	52	49	50
Offering bonuses or other financial incentives	28	40	46	40
Offering non-financial incentives, such as aware schemes	18	25	20	32
<i>Base</i>	<i>340</i>	<i>173</i>	<i>135</i>	<i>109</i>
<i>Base: All who employ staff, in each size category</i>				

