

# HIE BUSINESS PANEL SURVEY

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Wave 9 - The Year Ahead  
April 2018



**Ipsos MORI**  
Scotland



Highlands and Islands Enterprise  
Iomairt na Gàidhealtachd 's nan Eilean

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# 1. INTRODUCTION

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## BACKGROUND

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 ninth overall) carried out between January and February 2018. The survey covered a number of topics of general interest to business, including economic optimism and business performance, prospects, challenges and workforce issues.

## 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 29<sup>th</sup> January and 25<sup>th</sup> February 2018, using telephone interviewing. In total 1,000 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 "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.

## 2. OPTIMISM, PROSPECTS AND PERFORMANCE

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### KEY MESSAGES:

Confidence in the economic outlook in Scotland remained low. Businesses were more than twice as likely to say their confidence had decreased (30%) as to say it had increased (11%), with the gap between these two positions widening slightly this wave.

Businesses were more positive about their own performance than about the economy as a whole. A similar proportion of businesses reported performing quite/exceptionally well (38%) as reported a steady performance in the last twelve months (41%). Around one in five (21%) said that they had struggled in the last twelve months.

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

A majority of businesses (80%) were very (15%) or fairly (65%) optimistic for their prospects over the next 12 month period.

Around half (49%) of businesses expected to remain stable in the next year or two, while 39% expected growth and 8% expected a contraction.

### ECONOMIC OPTIMISM

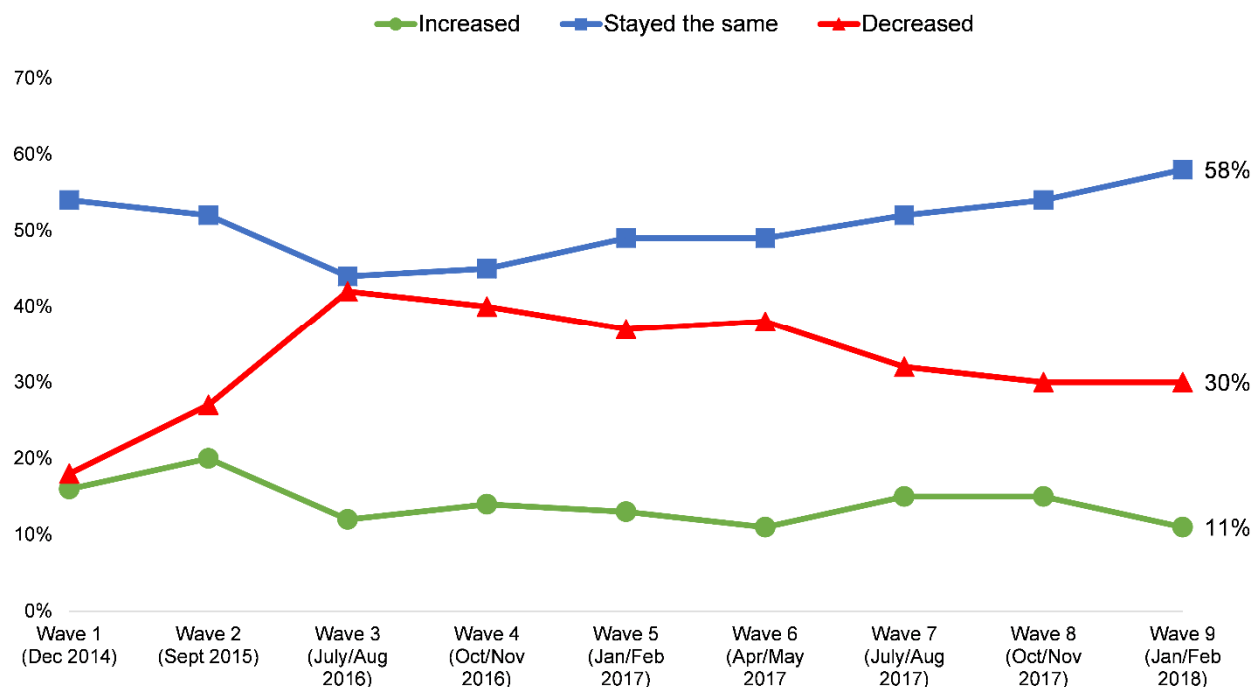
Reflecting on the last six months, almost six in ten (58%) businesses said their confidence in the economy had remained the same, while 30% said it had decreased and 11% said it had increased. The proportion saying confidence had increased was lower than in the previous wave (down from 15%), while the proportion saying it had remained the same was higher (up from 54%) (Figure 2.1). Economic optimism had an overall net negative of -19 points, lower than the -15 recorded in wave eight (October/November 2017). <sup>1</sup>

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<sup>1</sup> 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*

This wave there was little variation by sector, with the exception of creative industries businesses who were more likely to say their confidence had remained the same (74% compared with 58%). Unlike in previous waves, findings for food and drink and tourism businesses were in line with those for all businesses.

Non-account managed businesses were more likely than account managed businesses to say their confidence had decreased (31% compared with 25%).

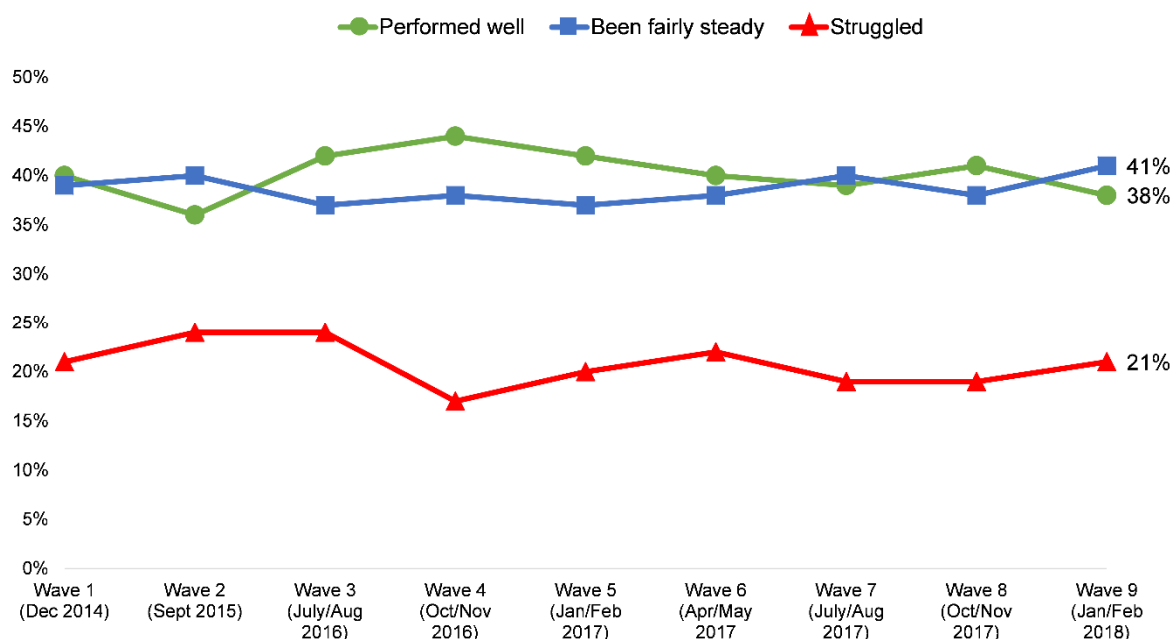
Once again, economic confidence was correlated with optimism and views on business performance. Those that were not optimistic about the next twelve months were more likely than average to report decreased confidence (67% compared with 30% overall). Those who had performed well in the past 12 months were more likely than average to report increased confidence (18% compared with 11%), while those who had struggled were more likely to report decreased confidence (52% 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 (38%) reported performing quite (30%) or exceptionally (8%) well in the last twelve months, and a similar proportion reported steady performance (41%). Around a fifth (21%) said that their business had struggled slightly (17%) or markedly (4%).

**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

#### *Variation by type of business*

As noted above, there was a correlation between business performance and economic confidence: 61% of those whose confidence in the economy had increased also reported that they had performed well (compared with 38% overall), while 36% of those whose confidence had decreased said they had struggled in the past 12 months (compared with 21% overall).

As seen in previous waves, tourism businesses were more likely than average, and compared with food and drink businesses, to be positive about their performance: 20% said that they performed exceptionally well compared with 8% on average, and 6% among food and drink businesses. In contrast, food and drink businesses were more likely to have struggled, with 23% saying they had struggled slightly compared with 17% overall and 16% among tourism businesses (Table A.1, see Appendix).

Larger businesses (25+ employees) were more likely than smaller businesses (0-4 employees) to have performed well (54% compared with 35%).

Those that were account managed by HIE were more likely than average and than non-account managed businesses to say they had performed well (53% respectively compared with 38% overall and 35% among non-account managed businesses).

#### **ASPECTS OF BUSINESS PERFORMANCE**

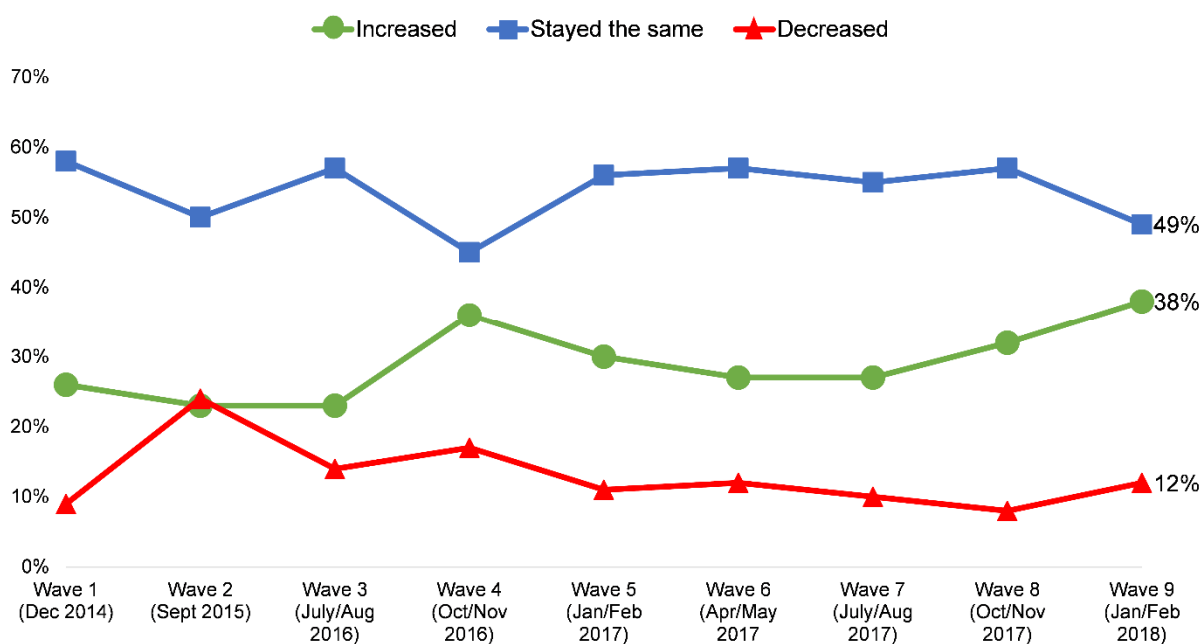
Businesses once again reported stable performance on employment (73%), staff training (69%) and working hours (69%). Consistent with past waves, views were more mixed in relation to financial aspects of business performance: 41% reported an increase in sales or turnover while 21% reported a decrease; and 25% reported an increase in profit margins while 28% reported a decrease (Table A.2).

Turning to exports specifically, 38% said these had increased, while 12% reported a decrease and 49% said they had stayed the same. The proportion saying exports had increased was higher than in past waves (38% compared with 27% in wave 7) (Figure 2.3).

Among exporters, those more likely to report an increase were account managed businesses (56% compared with 27% of non-account managed businesses), and those performing well in the last twelve months (55% compared with 38% of all exporters).

**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 for whom this question applied*

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 business<sup>2</sup>. The average score was 0.6 – tending toward a more positive assessment, and similar to the previous wave (0.7), indicating that more businesses reported increases than reported decreases in all aspects. Forty six percent of businesses had an overall positive score, while 26% had a negative score and 28% had a score of zero.

#### *Variation by type of business*

Businesses in the creative industries sector had the highest overall average scores, at 1.2, followed by financial and business services (0.9) (Table A.3). Reflecting their higher than average score, creative industries businesses were more likely to report an increase in sales or turnover (56% compared with 41% overall). The overall average among tourism businesses was lower than in the previous wave (0.5 compared

<sup>2</sup> 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.

with 1.2), and this wave they were more likely than average to report a decrease in employment (16% compared with 10%). This perhaps reflects seasonal differences between waves, with the most recent wave taking place following the autumn/winter season, while the previous wave took place after the summer season.

Businesses in the Outer Hebrides, Lochaber, Skye and Wester Ross, and Moray each saw a higher overall average score compared with other areas, at 0.9 (Table A.4). 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 and in Lochaber, Skye and Wester Ross both contained a higher proportion of creative industries businesses than the overall sample (21% and 14% compared with 8% overall). High performance in these regions may therefore be linked to performance of businesses in creative industries. Reflecting their higher than average score, business in the Lochaber, Skye and Wester Ross were more likely than average to report an increase in sales and turnover (54% compared with 41% overall) and profit margins (41% compared with 25% overall).

Businesses with 25+ employees were more likely to report an increase in aspects of business performance overall (mean score of 1.1), compared with those with fewer employees (those with 0-4 employees had a mean score of 0.5) (Table A.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 (63%), employment (42%), staff training (37%), and profit margins (37%).

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 38% of non-account managed businesses), exports (55% compared with 23%), staff training (39% compared with 24%), profit margins (35% compared with 24%) and employment (32% compared with 14%).

## **BUSINESS PROSPECTS IN THE NEXT SIX MONTHS**

Looking ahead to the next six months, businesses expected stability in most aspects – working hours (72%), employment (70%), staff training (68%) exports (50%) and profit margins (46%). Similar proportions expected increased sales and turnover (46%) as expected this aspect to remain constant (42%) (Table A.6).

Scoring prospects in the same way as past performance, the overall score across the six aspects was 1.2, an increase from the last time businesses were asked (0.7, in wave 7). More businesses had a positive score than a negative one: 56% had an overall positive score, while 14% had a negative score, and 30% had a score of zero.

### *Variation by type of business*

All sectors had an overall positive mean score (Table A.7). Reflecting their higher than average scores on past performance, businesses in creative industries and tourism sectors saw the highest overall mean scores (1.8 and 1.6). Tourism businesses in particular were more likely than overall to anticipate an increase in sales or turnover (57% compared with 46%), profit margins (47% compared with 36%) and working hours (29% compared with 21%). This may suggest that these businesses anticipate a busier tourism season in the six months ahead, in comparison with the previous six months.

In terms of location, businesses in the Outer Hebrides (1.6) and Lochaber, Skye and Wester Ross (1.6) had the highest mean scores (Table A.8). As noted earlier, this may reflect the higher than average proportion of tourism and creative industries businesses in this region. Reflecting findings for tourism and creative industries businesses, those in Lochaber, Skye and Wester Ross were more likely than average to expect increase in sale or turnover (56% compared with 46%) and profit margins (45% compared with 36%).

As seen in previous waves, larger businesses had more positive expectations than smaller businesses: businesses with 25 or more employees had an overall mean score of 1.5 compared with 0.9 among businesses with 0-4 employees. Reflecting these mean scores, larger businesses were more likely than average to expect increases in employment (43% compared with 25%) and staff training (36% compared with 29%).

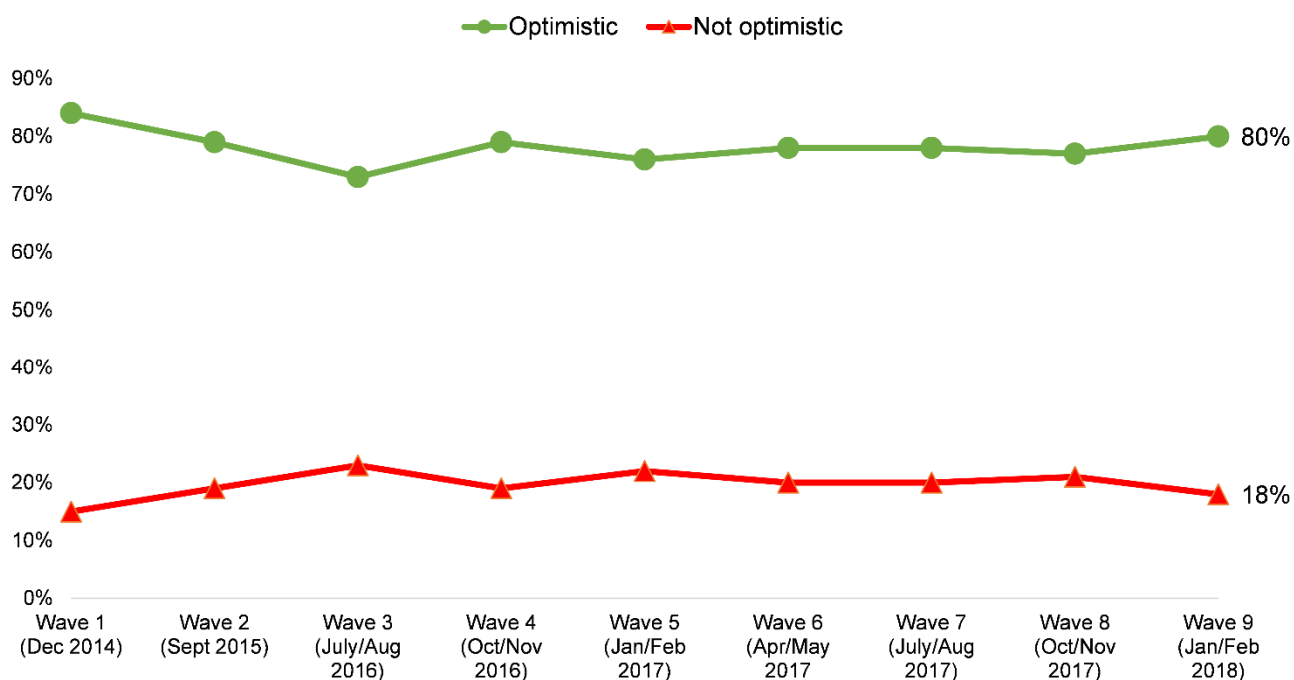
Account-managed businesses again had a higher overall positive score (2.3) than non-account managed (0.9). They were more likely than non-account managed businesses to expect an increase in several aspects of performance: sales or turnover (66% compared with 43% of non-account managed businesses); exports (55% compared with 27%); employment (48% compared with 21%); profit margins (46% compared with 34%); and staff training (44% compared with 26%).

## FUTURE BUSINESS PROSPECTS

The majority of businesses were optimistic about their future prospects. In line with previous waves, 80% were very (15%) or fairly (65%) optimistic for their prospects over the next 12 months, in comparison to 18% who were not very (14%) 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

### Variation by type of business

As seen in the previous wave, optimism was higher among those who had increased confidence in the economy; 96% of those whose confidence in the economy had increased were optimistic about the future of

their business (compared with 80% overall), while 40% of those whose confidence had decreased were not optimistic (compared with 18%) (Table A.9).

Once again, optimism was correlated with past business performance; 92% of those that had performed well said they were optimistic, while 47% of those that had struggled said they were not optimistic (Table A.10).

Food and drink businesses had different views from those in other sectors, being more likely than average to report that they were not optimistic (25% compared with 18%). In contrast, those in the creative industries (90%), financial and business services (85%) and tourism (83%) sectors were all more likely than those in the food and drink sector (70%) to report that they were optimistic.

Large businesses (with 25+ employees) were more likely than average to be optimistic (89% compared with 80%).

Account managed businesses were more likely than non-account managed businesses to feel optimistic about their future prospects (89% compared with 79%).

## BUSINESS GROWTH

Around half (49%) of businesses expected to remain stable in the next year or two, while 39% expected growth and 8% expected a contraction (Figure 2.5). These findings were similar to the previous wave, but the proportion saying they anticipated growth was lower than in the earlier stages of 2017 (43% between waves 5 and 7). Among the 39% who anticipated growth, 4% anticipate substantial growth, 16% moderate growth and 20% slight growth.

**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*

Larger businesses were more likely than smaller businesses to anticipate growth: 59% of those with 25+ and 55% of those with 11-24 employees, compared with 46% of those with 5-10 and 32% of those with 0-4 staff.

Reflecting their more positive performance and their higher levels of optimism, account managed businesses were again more likely than non-account managed businesses to anticipate growth (65% compared with 35% of non-account managed).

### 3. RELATIONSHIP WITH THE EU

#### KEY MESSAGES:

Among those that employed staff, around one in five (18%) employed non-UK EU nationals. This proportion was higher among larger businesses, those in the tourism sector, those in the Inner Moray Firth and account managed businesses.

Businesses had mixed views on the importance of membership of the European Single Market to their business – 51% regarded it as important, while 44% regarded it as not important. However, they considered the European Single Market as more important to the Scottish economy overall than to their own business – 75% said that it was important to the economy.

Over the past 12 months, the proportion of businesses saying membership was important increased from 44% in wave 4 (carried out in October/November 2016) to 51% this wave.

In terms of free movement of people across the EU, 39% of companies felt it was important to their business, while 59% felt it was not. As with their views on the European Single Market, businesses were 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.

#### EMPLOYMENT OF NON-UK EU NATIONALS

Among the three-quarters (73%) of businesses that employed staff, 18% employed non-UK EU nationals, fewer than when businesses were last asked in October/November 2016 (23%). The number of non-UK nationals employed is shown in Table 3.1, grouped by business size.

**Table 3.1 – Number of non-UK EU nationals employed**

Number of non-UK nationals employed	% of all business that employ staff	
	Wave 4 (Oct/Nov 2016) %	Wave 7 (Jan/Feb 2018) %
0	77	82
1 to 4	14	12
5 to 10	4	4
11 to 24	2	2
25 or more	3	1
<i>Base: All businesses that employ staff</i>	<i>713</i>	<i>731</i>

Non-UK EU nationals made up 9% of the overall workforce employed by businesses – of the 14,000 staff employed by businesses, 1,213 were from outside the UK but within the EU.

Larger businesses were more likely to employ non-UK EU nationals than smaller businesses, with 53% of businesses with 25+ employees having done so, compared with 9% of those with 1 to 4 employees (Table A.11).

Tourism (31%) saw the highest level of employment of non-UK EU nationals compared to other sectors, while Financial and Business Services (8%) had the lowest level (Table A.12).

There was further variation by location. The proportion employing non-UK EU nationals was higher than average in the Inner Moray Firth (27% compared with 18% overall). In addition, those in Lochaber, Skye and Wester Ross (21%) and Shetland (20%) were more likely than those in Caithness and Sutherland (9%) or Orkney (9%) to do so (Table A.13).

A higher proportion of account managed than non-account managed businesses employed non-UK EU nationals (39% compared with 9%).

## EUROPEAN SINGLE MARKET

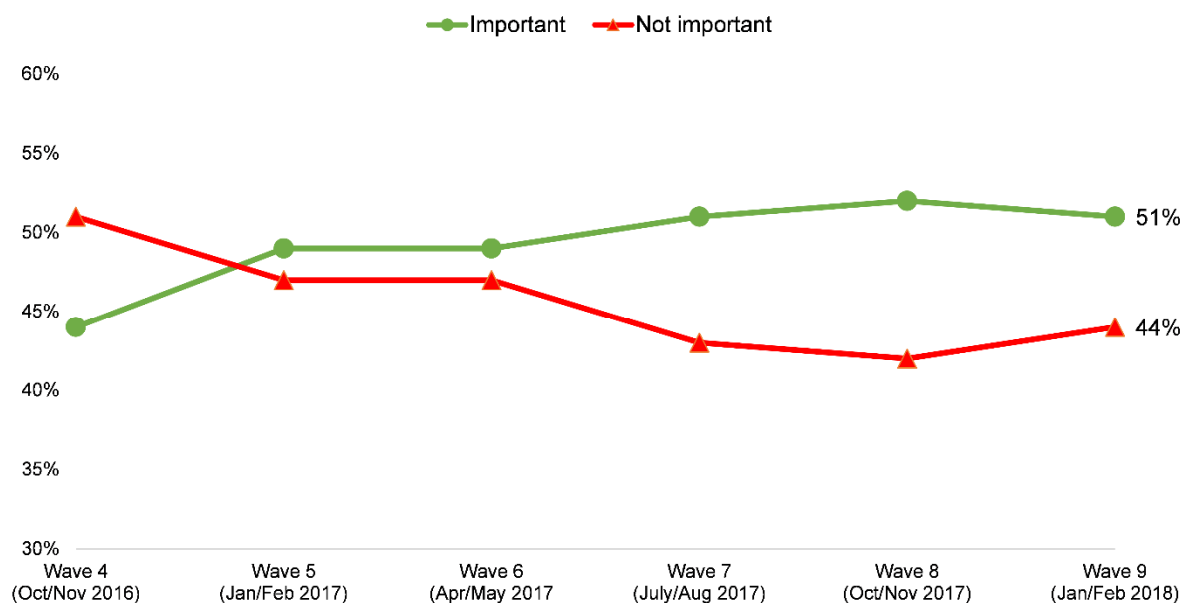
### Importance of the European Single Market to businesses

Businesses had mixed views on the importance of membership of the European Single Market to their business – 51% regarded it as important, while 44% regarded it as not important (Figure 3.1). Of those that felt membership was important, 23% felt it was very important and 28% felt it was quite important.

These results are comparable with the previous wave (the difference between 52% in the previous wave and 51% this wave is not statistically significant). 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 51% 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

Businesses that employed non-UK EU nationals were more likely than those without non-UK EU employees to view membership of the Single Market as important (63% compared with 52%).

Consistent with recent waves, food and drink businesses were more likely than average to report that membership of the European Single Market was important to their business (73% compared with 51% overall). Financial and business services were again more likely than average to say that membership was not important to them (55% compared with 44%).

Businesses in Argyll and the Islands were more likely than average to say that membership was very important (31% compared with 23%). However, this may reflect the higher than average proportion of food and drink businesses in Argyll and the Islands (55% compared with 43% overall).

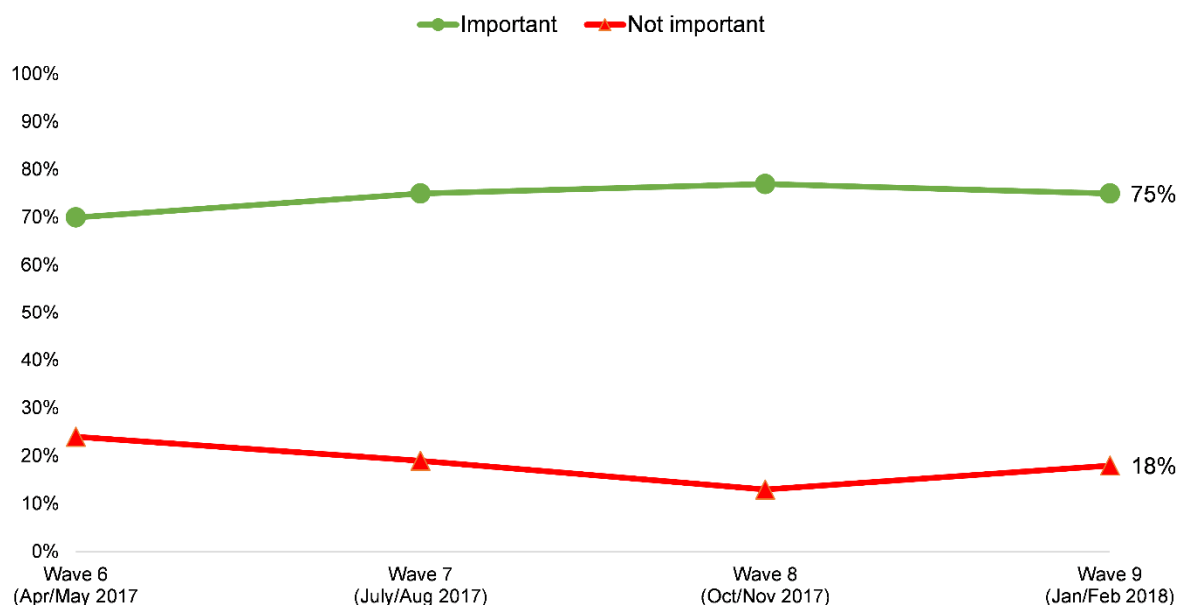
Account managed businesses were more likely than non-account managed businesses to say that membership was important to them (60% compared with 50%).

### Importance of the European Single Market to the Scottish economy

Echoing findings of recent waves, businesses considered the European Single Market as more important to the Scottish economy overall than to their own business. Three-quarters (75%) of businesses said that it was very (44%) or quite (31%) important to the economy, in line with the level recorded in the previous wave (78%) but higher than the 70% 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

### Variation by type of business

There was some correlation between views on importance of the European Single Market to businesses and to the economy: 97% of those who said membership was important to their business also said it was important to the economy (Table A.14). That said, 60% of those who felt that membership was *not* important to their business did feel that membership was important to the economy overall.

Businesses in the food and drink sector were more likely than average to report that membership of the European Single Market was important to the economy (81% compared with 75%). Those located in a fragile area were more likely than those in a non-fragile area to say membership was important (81% compared with 73%).

Those whose economic confidence had decreased in the last six months were once again more likely than average to report that access was important (84% compared with 75% overall).

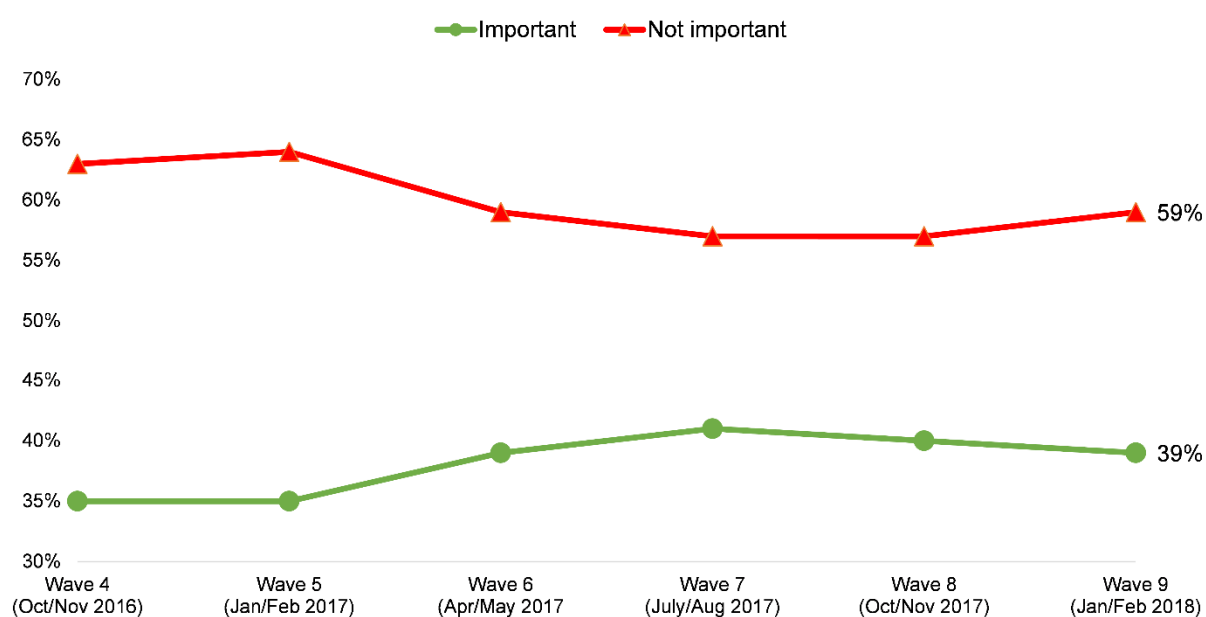
## FREE MOVEMENT OF PEOPLE

### Importance of free movement of people to businesses

Views on free movement of people across the EU were similar to those seen in the previous wave: 39% of businesses felt that free movement was important to their business, while 59% felt it was not (Figure 3.3).

**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*

Those who employed non-UK EU nationals placed higher importance on free movement of people than those who did not: 76% felt it was important, compared with 35%.

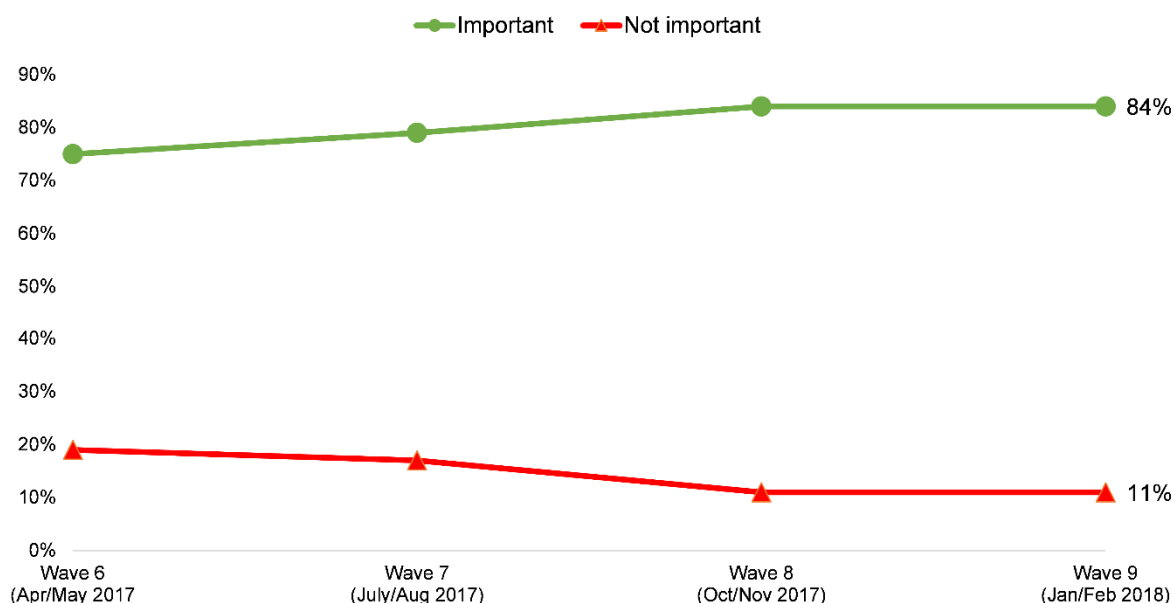
There was further variation by sector and size. Those in the tourism sector (59%) and those with 25+ staff (62%) were more likely than average (39%) to report that free movement of people was important to their business. Conversely, those in the financial and business services sector (69%), and those that employed 0-4 staff (65%) were more likely than average to say free movement was not important (59%).

### IMPORTANCE OF FREE MOVEMENT OF PEOPLE TO THE SCOTTISH ECONOMY

As with their views on the European Single Market, businesses were also 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 findings mirrored those of the previous wave, but the proportion saying free movement was important was higher than in earlier waves (75% in wave 6 and 79% in wave 7).

**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

#### Variation by type of business

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, which mirror findings from the previous wave: 99% of those who said free movement was important to their business also said it was important to the economy. However, 80% 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 A.15).

Those who employed non-UK EU nationals placed higher importance on free movement of people than those who did not: 90% felt it was important to the economy as a whole, compared with 83%.

Food and drink businesses (88%) were more likely than average (84%) to say that free movement was important to the economy. Account managed businesses viewed free movement as more important than non-account managed businesses did (89% compared with 83%).

Elsewhere, there was no significant variation by type of business.

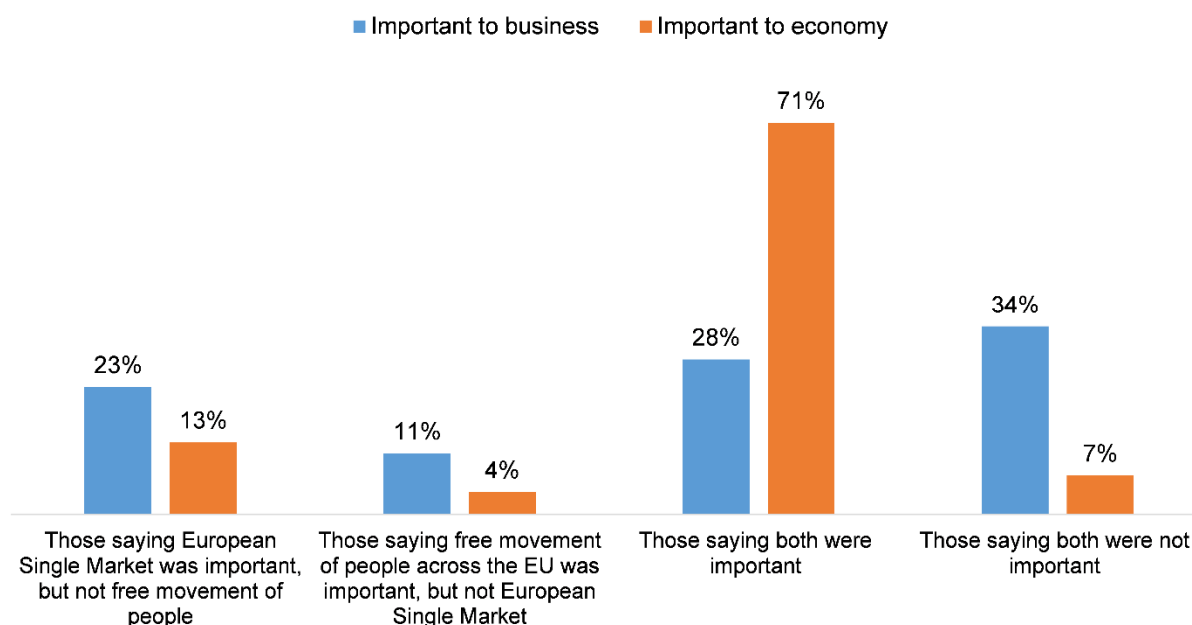
### COMPARING VIEWS ON THE EUROPEAN SINGLE MARKET AND FREE MOVEMENT OF PEOPLE

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 (283 businesses): in line with the 28% reported in wave 8 and 29% in wave 7. Those who felt that *neither* were important represent 34% of the sample (336 businesses), similar to the 32% reported in wave 8 and 33% in wave 7.

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 71% of the overall sample of businesses (707 businesses), similar to the 74% recorded last wave. Those who felt that *neither* were important represent just 7% of the sample (68 businesses), similar to the 6% 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 membership of the European Single Market**



Base: All businesses (1,000)

## 4. CHALLENGES FACING BUSINESSES

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### KEY MESSAGES:

The majority of businesses (95%) identified challenges they were facing in the next 12 months.

The biggest challenge for businesses was rising costs (81% for employers, 68% for sole traders). Other common challenges facing both employers and sole traders included market uncertainty, meeting regulatory or legislative requirements and political uncertainty.

Businesses were more likely to say that challenges would have a negative impact than a positive one, however over a quarter said the challenges would have no impact on their business.

Among businesses that were facing challenges, the majority (94%) were taking action to help overcome them. For both employers and sole traders, actions included: seeking new markets or customers, investing in training and development, making use of digital technologies, more collaboration with others, and investment in premises or equipment.

### BIGGEST CHALLENGES FACING BUSINESSES

Thinking about the 12 months ahead, the majority of businesses (95%) identified some challenges they were facing. Those that employed staff were more likely than sole traders to be facing challenges (97% compared with 90%).

The greatest challenge for businesses was rising costs, with 81% of employers and 68% of sole traders citing this (Table 4.1).

Among those that employed staff, other commonly mentioned challenges were rising labour costs, market uncertainty, meeting regulatory or legislative requirements (each 59%), political uncertainty (58%), lack of time and resources (57%) and recruiting and training skilled staff (55%).

The challenges facing sole traders were similar: market uncertainty (50%), meeting regulatory or legislative requirements (48%), political uncertainty (47%) and weakness of sterling (40%). Around a third (30%) of sole traders cited competition from larger businesses as a challenge.

**Table 4.1: Biggest challenges facing businesses in next 12 months <sup>3</sup>**

	Employers %	Sole traders %
Rising costs (general)	81	68
Rising labour costs	59	n/a
Market uncertainty	59	50
Meeting regulatory or legislative requirements	59	48
Political uncertainty	58	47
Lack of time and resources	57	35
Recruiting and retaining skilled staff	55	n/a
Weakness of sterling	47	40
Lack of demand	35	36
Competition from larger businesses	n/a	30
Ability to access new markets	31	28
Succession planning	n/a	26
Automation	19	11
Difficulty sourcing collaborators	n/a	16
None	3	10

*Variation by type of business*

Among employers, larger businesses with 25+ (71%) and 11-24 (70%) employees were more likely than average (59%) to identify rising labour costs and recruiting and retaining skilled staff (69% of those with 25+ and 66% of those with 11-24 employees, compared with 55% overall) as challenges.

Food and drink businesses were more likely to identify particular challenges. Sole traders in this sector were more likely than average to say that market uncertainty (68% compared with 50%), weakness of sterling (52% compared with 40%) and ability to access new markets (37% compared with 28%) were challenges. Similar variations were seen among food and drink employers, who were more likely than other employers to view the following as challenges (Table 4.2):

- rising costs (general) (89% compared with 81%)
- political uncertainty (73% compared with 58%)
- market uncertainty (73% compared with 59%)
- meeting regulatory or legislative requirements (70% compared with 59%)
- rising labour costs (68% compared with 59%)

<sup>3</sup> Employers and sole traders were asked about different potential challenges to reflect their circumstances, therefore results are presented separately for each group. Where 'n/a' is shown, these questions were not asked.

- weakness of sterling (57% compared with 47%)
- ability to access new markets (44% compared with 31%).

In terms of further variation among employers: those working in financial and business services (75%) were more likely than average (59%) to say regulatory or legislative requirement presented a challenge, and tourism businesses that rising labour costs were a challenge (72% compared with 59% on average).

**Table 4.2 – Challenges facing business who employ staff, by sector<sup>4</sup>**

	Food and drink	Tourism	Financial and business services	Creative industries	Non-growth sector	Energy	Life Science
	%	%	%	%	%	N	N
Rising costs (general)	89	88	71	73	81	17	2
Rising labour costs	68	72	49	52	56	10	1
Market uncertainty	73	65	60	57	51	16	1
Meeting regulatory or legislative requirements	70	49	75	44	57	11	1
Political uncertainty	73	49	59	71	53	11	-
Lack of time and resources	63	44	62	78	54	14	1
Recruiting and retaining skilled staff	54	56	53	50	55	11	2
Weakness of sterling	57	53	36	55	44	11	1
Lack of demand	37	33	35	37	35	7	-
Ability to access new markets	44	30	22	36	24	9	1
Automation	23	18	25	16	16	2	1
None	1	1	4	-	4	-	-
<i>Base</i>	<i>155</i>	<i>79</i>	<i>73</i>	<i>31</i>	<i>332</i>	<i>22</i>	<i>2</i>

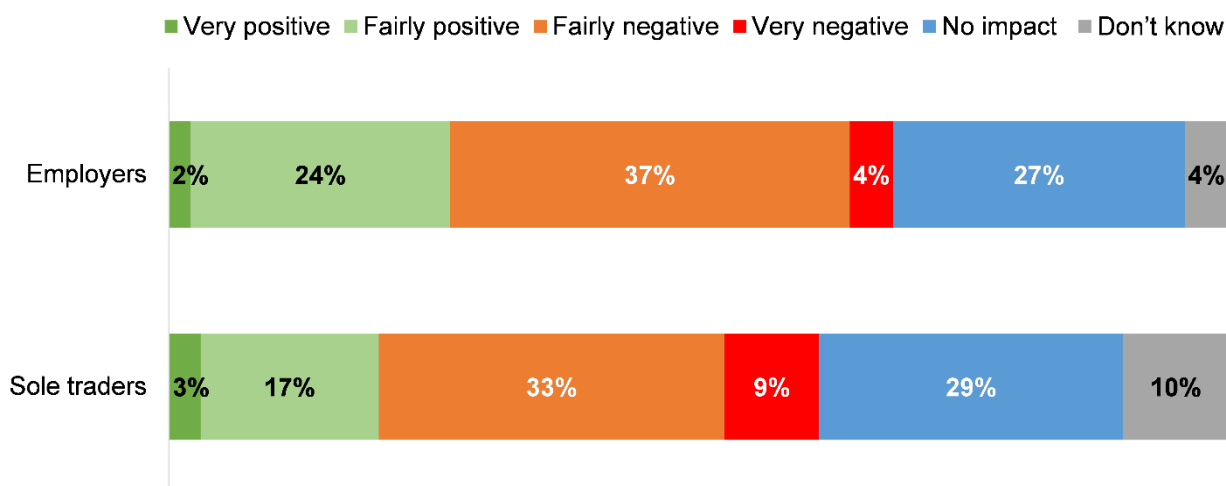
## IMPACT OF CHALLENGES

Businesses were more likely to say that challenges identified would have a negative impact on their business than a positive one: 42% of both employers and sole traders said they would have a negative impact, while 26% of employers and 19% of sole trader said they would have a positive impact. However, for both groups just over a quarter said the challenges would have no impact (27% of employers and 29% of sole traders) (Figure 4.1).

<sup>4</sup> As the base size for Energy and 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 these sectors are the weighted, rather than unweighted, base.

**Figure 4.1: Impact of challenges on business**

***Q. Thinking about the challenges we just discussed, what sort of impact do you think these will have on your business?***



*Base: All who employ staff and are facing challenges (708); all sole traders who are facing challenges (241)*

#### *Variation by type of business*

There was a correlation between views on the impact of the challenges ahead and views on economic confidence, business performance and business optimism.

Amongst both employers and sole traders, those whose confidence in the economy had decreased (employers – 61%; sole traders – 52%); those that had struggled in the last 12 months (64%; 60%); and those that are not optimistic for the future (73%; 67%) were more likely than average (42% for both employers and sole traders) to think that impacts would be negative.

Elsewhere small employers (1-4 staff) were more likely than employers overall to say that challenges would have no impact on them (32% compared with 27% overall).

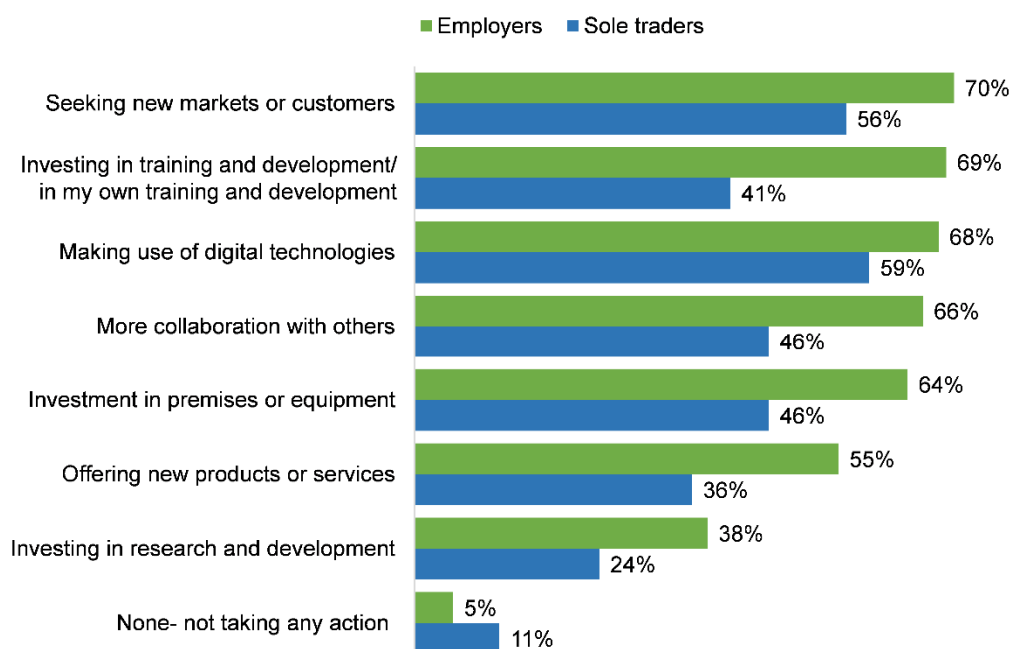
#### **APPROACHES TAKEN TO OVERCOME CHALLENGES**

Among businesses that were facing challenges, the majority (94%) were taking action to help mitigate them. Those that employed staff were more likely than sole traders to be taking action (95% compared with 89%).

The most common approaches being taken to overcome challenges varied somewhat between employers and sole traders, though there was overlap on a number of areas. As shown in Figure 4.2, the top approaches among employers were: seeking new markets or customers (70%), investing in training and development (69%), making use of digital technologies (68%), more collaboration with others (66%) and investment in premises or equipment (64%). The most common approaches taken by sole traders were: making use of digital technologies (59%), seeking new markets or customers (56%), more collaboration with others (46%) and investment in premises or equipment (46%).

**Figure 4.2: Approaches taken to overcome challenges**

*Q. Which of the following approaches, if any, are you taking to help overcome these challenges?*



*Base: All who employ staff and are facing challenges (708); all sole traders who are facing challenges (241)*

Certain approaches were more likely to be taken in response to specific challenges. For example, employers were more likely to seek greater collaboration with others if they had faced challenges with the ability to access new markets (78%), automation (77%), lack of time and resources (74%), and recruiting and retaining skilled staff (73% compared with 66% overall). Employers were also more likely to be making use of digital technology if they had faced challenges with automation (86%) the ability to access new markets (78%) and lack of time and resources (75% compared with 68% overall). Training and development was a more common approach among those for whom recruiting and retaining skilled staff (81%) and rising labour costs (76%) were a challenge. Table 4.3 summarises further variation among employers – the shaded figures indicate those that are significantly higher than average.

**Table 4.3: Approach taken by type of challenge facing employers in next 12 months<sup>5</sup>**

Approach taken	Type of challenge faced					
	All	Ability to access new markets	Automation	Lack of time and resources	Recruiting and retaining skilled staff	Rising labour costs
	%	%	%	%	%	%
Seeking new markets or customers	70	85	79	73	76	74
Investing in training and development	69	74	73	73	81	76
Making use of digital technologies	68	78	86	75	73	73
More collaboration with others	66	78	77	74	73	69
Investing in research and development	38	53	53	41	43	43
<i>Base: All facing each challenge</i>	<i>731</i>	<i>224</i>	<i>139</i>	<i>410</i>	<i>401</i>	<i>437</i>

In terms of challenges facing sole traders, businesses were more likely to make use of digital technologies if they were anticipating issues with accessing new markets (73%), automation (73%), sourcing collaborators (72%) and competition from larger businesses (69% compared with 59% overall). Further variation is summarised in table 4.4 – again the shaded figures show those that are significantly higher than average.

**Table 4.4: Approach taken by type of challenge facing sole traders in next 12 months**

Approach taken	Type of challenge faced					
	All	Difficulty sourcing collaborators	Succession planning	Competition from larger businesses	Ability to access new markets	Automation
	%	%	%	%	%	%
Making use of digital technologies	59	72	59	69	73	73
Seeking new markets or customers	56	77	63	74	65	59
More collaboration with others	46	69	57	51	54	50
<i>Base: All facing each challenge</i>	<i>241</i>	<i>44</i>	<i>70</i>	<i>81</i>	<i>76</i>	<i>31</i>

#### *Variation by type of business*

Among employers, those with 25+ employees were more likely than average to take each approach listed, with the exception of more collaboration with others. There was further variation by sector (Table 4.5):

- creative industries businesses were more likely than average to plan to seek new markets or customers (90% compared with 70%), invest in training and development (89% compared with 69%), and make use of digital technologies (87% compared with 68%).
- food and drink businesses were more likely than average to plan to invest in premises or equipment (72% compared with 64%), and research and development (50% compared with 38%).

<sup>5</sup> The table only shows the approaches and challenges for which there was significant variation between groups.

- tourism businesses were more likely than average to plan to make use of digital technologies (79% compared with 68%).

**Table 4.5 – Approaches taken by those who employ staff, by sector**

	Food and drink	Tourism	Financial and business services	Creative industries	Non-growth sector	Energy	Life Science
	%	%	%	%	%	N	N
Investing in training and development	61	74	77	89	67	15	1
More collaboration with others	67	68	73	77	63	15	2
Investment in premises or equipment	72	71	46	52	63	14	1
Seeking new markets or customers	70	71	61	90	67	19	1
Offering new products or services	50	6	50	63	54	14	1
Making use of digital technologies	65	79	77	87	62	14	1
Investing in research and development	50	32	27	46	33	13	2
None – not taking any action	5	6	6	-	5	1	-
<i>Base</i>	<i>154</i>	<i>78</i>	<i>70</i>	<i>31</i>	<i>316</i>	<i>22</i>	<i>2</i>

Account managed businesses were more likely than non-account managed businesses to plan on: seeking new markets or customers (93% compared with 65%); investing in training and development (83% compared with 66%); investing in premises or equipment (74% compared with 62%); and offering new products or services (72% compared with 51%).

There was little variation among sole traders, with the exception of food and drink businesses who were more likely than average to plan on investing in premises or equipment (59% compared with 46%).

### COLLABORATION AMONG SOLE TRADERS

Among sole traders who were facing challenges, 46% said they planned to increase collaboration with other businesses. The most common form of collaboration planned was more networking among other businesses to identify new opportunities (72%) (Figure 4.3). Other responses indicated a preference for collaboration with other sole traders rather than with larger businesses: 62% planned to work in equal partnership with other sole traders, compared with 27% who planned to do so with larger organisations. Similarly, 50% planned to sub-contract to sole traders, compared with 23% to larger organisations.

There was no significant variation in results among types of sole trader.

**Figure 4.3: Types of collaboration planned by sole traders in response to challenges**

***Q. You said you were planning more collaboration with other businesses. What types of collaboration are you planning?***



*Base: All sole traders who are planning more collaboration (115)*

## 5. WORKFORCE

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### KEY MESSAGES:

Among those that employed staff, the biggest workforce-related concern they had was staff succession planning (51% were concerned), followed by ageing workforce (44%), ability to attract apprentices (35%), and reliance on temporary or seasonal staff (29%).

Looking ahead to the next 12 months, just over a half (53%) of businesses said they were likely to recruit staff; 39% were likely to recruit permanent staff, and 36% temporary staff.

Those planning to employ staff were looking for a wide range of skills. For permanent staff, the most common were IT or digital, engineering and customer service skills. The most common skills sought among temporary staff were reliability, customer service, and skills in agriculture, farming or livestock.

The majority of those who planned to recruit said they were most likely to do so from within the Highlands and Islands (71% for permanent and 73% for temporary staff). Fewer planned to recruit from the rest of Scotland (14% and 15%), the rest of the UK (9% and 6%) and outside of the UK but within the EU (3% and 5%).

Most businesses were confident that they could recruit staff with the skills and experience they needed: 74% in relation to permanent staff and 79% in relation to temporary staff. However, around a quarter (26%) were not confident that they could recruit the permanent staff they needed, and 20% were not confident they could recruit temporary staff.

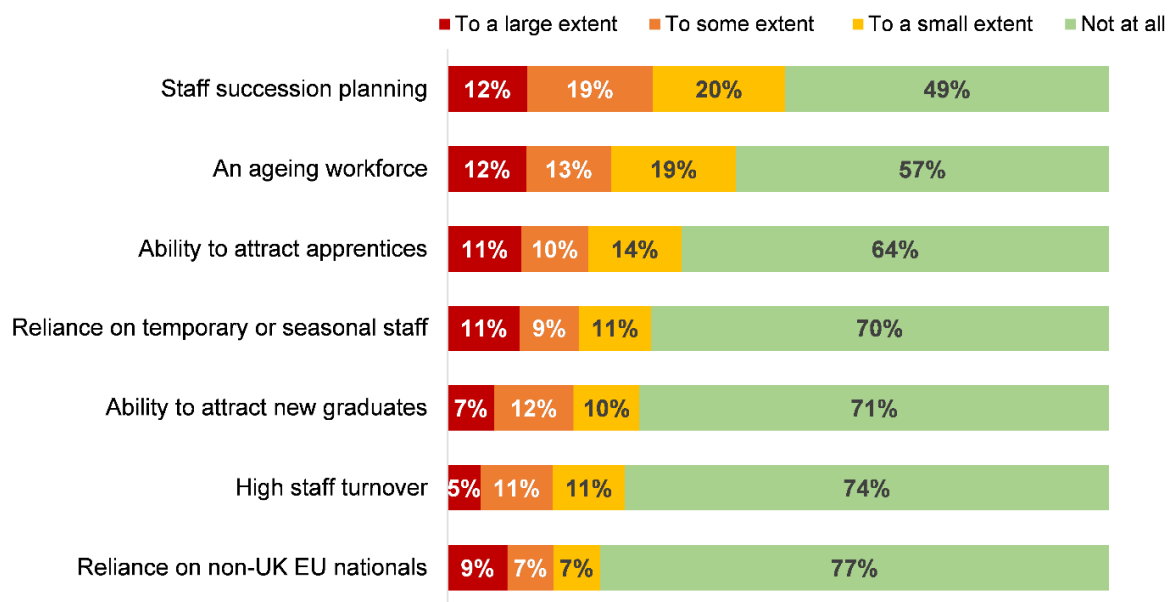
While most businesses were confident they could recruit the people with the skills and experience they need, around half (49%) expected to face some challenges when doing so.

### WORKFORCE-RELATED CONCERNS

Among those that employed staff, the biggest workforce-related concern they had was staff succession planning, which 51% were concerned about (12% to a large extent, 19% to some extent and 20% to a small extent) (Figure 5.1). The other most common areas for concern were an ageing workforce (44% concerned to any extent), ability to attract apprentices (35%), and reliance on temporary or seasonal staff (29%).

**Figure 5.1: Concern about workforce-related issues**

**Q. Thinking about your workforce, to what extent are you concerned about the following, if at all?**



*Base: All who employ staff and to whom each applied*

#### Variation by type of business

Concerns about particular issues were higher among those that employed non-UK EU nationals. Unsurprisingly this included reliance on non-UK EU nationals (66% concerned to any extent, compared with 23% overall), but also high staff turnover (46% compared with 27%), ability to attract apprentices (45% compared with 35%) and ability to attract new graduates (41% compared with 29%) (Table 5.1).

**Table 5.1: Concern about workforce-related issues, by type of employer**

	Employers of non-UK EU nationals	All employers
	% concerned	% concerned
Reliance on non-UK EU nationals	66	23
Staff succession planning	55	51
High staff turnover	46	27
Ability to attract apprentices	45	35
An ageing workforce	44	44
Ability to attract new graduates	41	29
Reliance on temporary or seasonal staff	35	29
<i>Base</i>	<i>144</i>	<i>731</i>

Larger businesses were more likely than average to say they were concerned about staff succession planning (61% compared with 51% overall); high staff turnover (45% compared with 27%); reliance on non-UK EU nationals (46% compared on 23%); and ability to attract new graduates (39% compared with 29%).

In terms of variation by sector, tourism businesses were more likely than average to say they were concerned about reliance on temporary or seasonal staff (67% compared with 29% overall); high staff turnover (43% compared with 27%); and reliance on non-UK EU nationals (38% compared with 23%). Food and drink businesses were more likely than average to be concerned about an ageing workforce (52% compared with 44% overall), ability to attract apprentices (45% compared with 35%) and reliance on temporary or seasonal staff (42% compared with 29%).

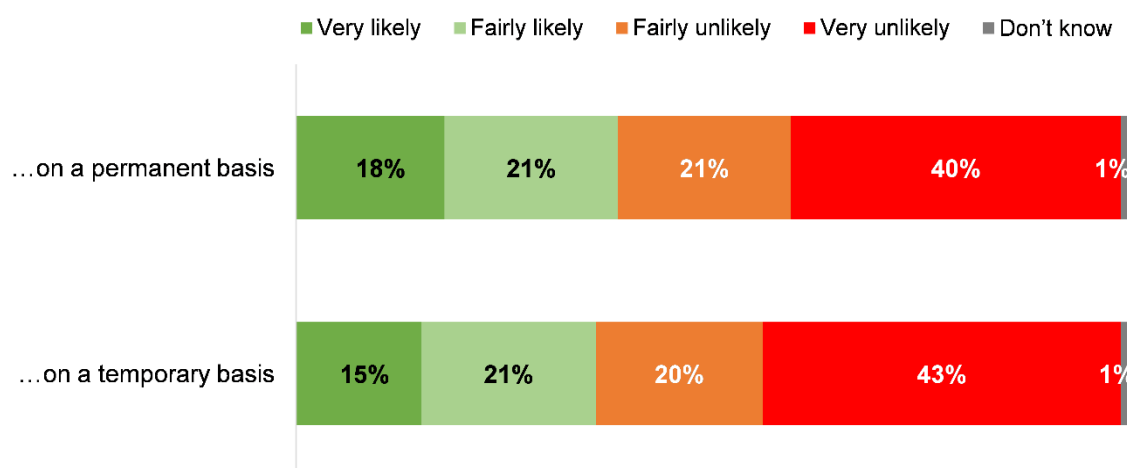
There was no significant variation by location or account management status.

## RECRUITMENT INTENTIONS

Looking ahead to the next 12 months, just over half (53%) of businesses said they were likely to recruit staff; 39% were likely to recruit permanent staff, and 36% were likely to recruit temporary staff (Figure 5.2).

**Figure 5.2: Likelihood of recruiting permanent or temporary staff**

**Q. How likely are you to recruit staff within the next 12 months...?**



Base: All businesses (1,000)

### Variation by type of business

Businesses that had performed well in the last 12 months were more likely than those that had struggled to plan to recruit permanent staff (52% compared with 23%) or temporary staff (44% compared with 34%). Recruitment plans were also linked to confidence in the economy: those with increased confidence were more likely than those with decreased confidence to be looking to recruit permanent staff (60% compared with 28%).

Large (25+ employees) and medium sized (11-24 staff) businesses were more likely than smaller (0-4 employees) businesses to plan to recruit permanent staff (86% and 70% compared with 22%), and temporary staff (56% and 46% compared with 30%).

In terms of sectoral variation, tourism businesses were more likely than average to have plans to recruit temporary staff (54% compared with 36%), while those in financial and business services were less likely to (76% unlikely, compared with 63%). Food and drink businesses demonstrated different views depending on whether staff were permanent or temporary: they were more likely than average to plan to recruit temporary staff (43% compared with 36%), but *less* likely to plan to recruit permanent staff (69% unlikely, compared with 60% overall).

Businesses in Lochaber, Skye and Wester Ross were more likely than average to plan on recruiting temporary staff (46% compared with 36%). As noted earlier, this higher than average likelihood may be linked to the disproportionate share of tourism businesses within this region.

Account managed businesses were more likely than non-account managed to plan to recruit both permanent staff (73% compared with 34%) and temporary staff (57% compared with 33%).

## **SKILLS REQUIRED**

### **Permanent staff**

Businesses were asked which specific skills they were looking for among staff they intended to recruit. This was asked as an “open ended” question, allowing businesses to categorise the skills themselves rather than choosing from a predefined list. Among those planning on recruiting permanent staff in the next 12 months, a wide range of skills were identified, covering both sector-specific (e.g. engineering, catering and food production skills) and more general skills (e.g. reliability, people skills). Of those that identified skills requirements, they tended to cite one or two specific skills (an average of 1.5 skills were mentioned by those that gave suggestions).

As shown in Table 5.2, the most common skills identified were IT or digital (10%), engineering (8%) and customer service (7%) skills, though by relatively small proportions due to the wide range of responses provided.

**Table 5.2: Skills being looked for in new permanent staff (Top 15 responses)**

Skills	%
IT/Digital	10
Engineering	8
Customer service	7
Driving/HGV/tractor	5
Reliability	5
Catering/cooking/food	5
Technical/technology	5
Qualifications we need (not specified)	5
Communication/conversation	5
People skills	4
Administration/office work	4
Graduate/degree level education	4
Job specific (not specified further)	3
Machinery/plant operative	3
Retail/sales	3
<i>Base: All who are likely to recruit permanent staff</i>	398

#### *Variation by type of business*

The main variation in findings was by sector. Those in the financial and business services sector were more likely than average to look for IT or digital skills (26% compared with 10% overall), and skills in administration or office work (15% compared with 4%). Tourism businesses were more likely than others to seek customer service (20% compared with 7%) and people skills (12% compared with 4%). Those that identified catering, cooking or food skills as a priority were all either food and drink, tourism or non-growth sector businesses.

#### **Temporary staff**

Among those planning on recruiting temporary staff, a similarly wide range of skills were identified. As shown in Table 5.3, the most common skills sought among temporary staff were: reliability (10%) (along with flexibility (6%) and being hard working (6%) which reflect a similar theme), customer service (8%) and skills in agriculture, farming or livestock (7%). Again, even the top responses had relatively small proportions due to the wide range of responses provided.

**Table 5.3: Skills being looked for in new permanent staff (Top 15 responses)**

Skills	%
Reliability	10
Customer service	8
Agriculture/farming/livestock	7
Flexibility	6
Hard working/willing to work	6
Labouring/general labour	5
IT/Digital	5
People skills	4
Catering/cooking/food	4
Hospitality/tourism	4
Experience in our field (not specified)	4
Engineering	4
Driving/HGV/tractor	4
Machinery/plant operative	3
Administrative/office work	3
<i>Base: All who are likely to recruit temporary staff</i>	367

#### *Variation by type of business*

Certain skills were of particular importance to tourism businesses, including reliability (19% compared with 10% overall), customer service (18% compared with 8%), catering and food skills (14% compared with 4%), people skills (13% and 4%) and hospitality and tourism skills (11% compared with 4%). Those that identified hospitality and tourism skills as a priority were all in either the tourism, food and drink or non-growth sectors. Similar, those that identified agriculture, farming and livestock skills were all in either the food and drink or non-growth sectors.

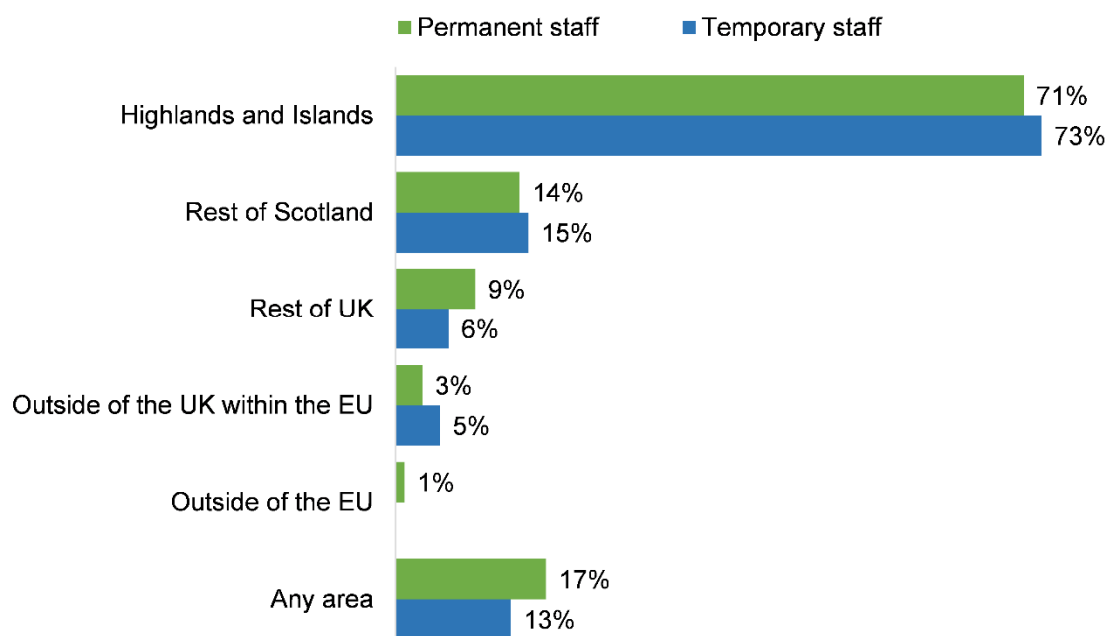
#### **AREAS FROM WHICH STAFF WILL BE RECRUITED**

For those planning on recruiting both permanent and temporary staff, the majority said they were most likely to recruit from within the Highlands and Islands (71% for permanent and 73% for temporary staff) (Figure 5.3). Fewer planned to recruit from the rest of Scotland (14% and 15%), the rest of the UK (9% and 6%) and outside of the UK but within the EU (3% and 5%). Only 1% of those recruiting permanent staff planned to recruit from outside the EU, while none would do so for temporary staff.

In the case of both permanent and temporary staff, over one in ten had no preference and said they would recruit from any area (17% and 13% respectively).

**Figure 5.3: Areas from which staff will be recruited**

**Q. And when recruiting people with these skills, which areas are you most likely to recruit from?**



*Base: All who are likely to recruit permanent staff (398); all who are likely to recruit temporary staff (367)*

#### *Variation by type of business*

Those that currently employed non-UK EU staff were more likely than average to say they would recruit from any area (26% compared with 17% for permanent staff; and 26% compared with 13% for temporary staff). They were also more likely to plan to recruit from outside the UK, but within the EU (8% compared with 3% for permanent staff; 11% compared with 5% for temporary staff).

Larger businesses (25+ staff) were more likely than average to say they would recruit permanent staff from the rest of Scotland (22% compared with 14%), and would recruit temporary staff from any area (26% compared with 13%). In contrast, small businesses (0-4 employees) were more likely than average to say they would recruit temporary staff from the Highlands and Islands (78% compared with 73%); in relation to permanent staff, their views were in line with the average.

In terms of sectoral variation, those in the financial and business services sector were most likely to say they would recruit permanent staff from the Highlands and Islands (92% compared with 71%) (Table A.16). Food and drink businesses were most likely to say they would recruit temporary staff from within the region (83% compared with 73%), while tourism businesses were more likely to do so from any area (25% compared with 13%) (Table A.17).

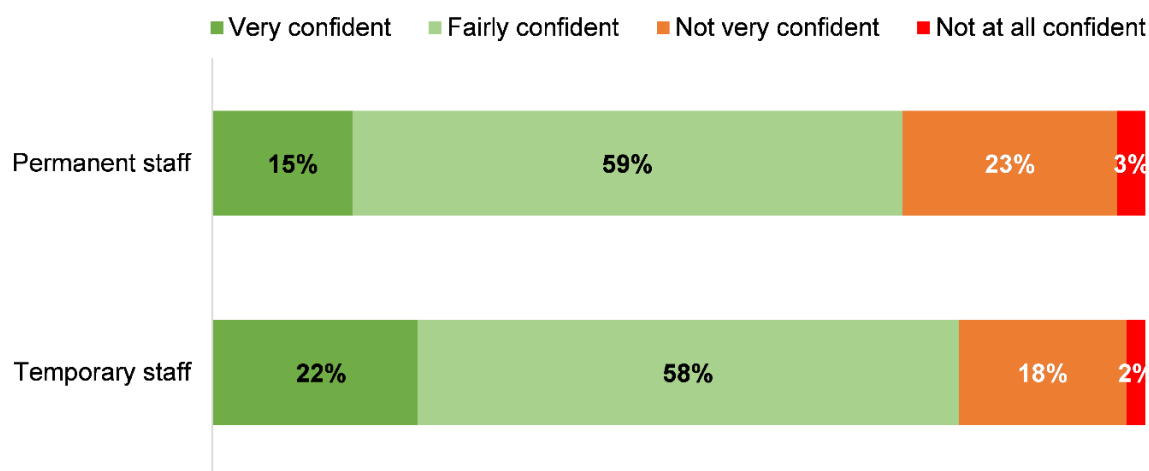
#### **CONFIDENCE IN ABILITY TO RECRUIT**

Most businesses were confident that they could recruit staff with the skills and experience they needed: 74% in relation to permanent staff and 79% in relation to temporary staff. However, around a quarter (26%) were

not confident that they could recruit the permanent staff they needed, and 20% were not confident they could recruit temporary staff (Figure 5.4).

**Figure 5.4: Confidence in ability to recruit staff with skills and experience needed**

***Q. How confident are you that you will be able to recruit staff with the skills and experience you need?***



*Base: All who are likely to recruit permanent staff (398); all who are likely to recruit temporary staff (367)*

#### *Variation by type of business*

There was little variation by type of business, with the exception of a correlation between confidence and future business optimism. Those who were optimistic about their business prospects for the next 12 months were more likely than those who were not optimistic to feel confident about recruitment of permanent staff (77% compared with 40%), and temporary staff (82% compared with 69%).

## **CHALLENGES FOR FUTURE RECRUITMENT**

### **Challenges anticipated**

While most businesses were confident they could recruit the people with the skills and experience they need (as shown in Figure 5.4 earlier), around half (49%) of those that planned to recruit staff expected to face some challenges when doing so. The most common challenges anticipated were: a lack of suitably qualified or skilled candidates (58%); competitive wages offered by other businesses (50%); poor work ethic among potential candidates (50%); and a perception that the location was off-putting (49%) (Figure 5.5). Just under one in ten (8%) said they did not anticipate any challenges.

**Figure 5.5: Challenges expected when recruiting staff**

**Q. What challenges, if any, do you expect to face when recruiting staff?**



*Base: All who are likely to recruit staff in next 12 months (541)*

#### *Variation by type of business*

Employers of non-UK EU nationals were more likely than other businesses to identify challenges relating specifically to workers from other parts of the EU. Uncertainty around movement of EU workers was viewed as a challenge by 45% (compared with 17% of those that did not employ EU nationals), while the UK becoming less attractive for EU and other migrant workers was seen as a challenge by 57% (compared with 28%) (Table 5.4).

**Table 5.4: Challenges expected when recruiting staff, by type of employer**

	Employers of non-UK EU nationals	Non-employers of non-UK EU nationals
	%	%
Lack of suitably skilled or qualified candidates	64	56
Competitive wages offered by other businesses	41	53
Poor work ethic among potential candidates	56	48
Our location is off-putting	58	47
Lack of accommodation in this area	43	43
UK has become less attractive for EU and other migrant workers	57	28
Change in employer requirements such as pensions	17	30
Uncertainty around movement of EU workers	45	17
None- I don't anticipate any challenges	3	9
<i>Base (All who are likely to recruit staff)</i>	<i>108</i>	<i>423</i>

Larger businesses (25+ employees) were more likely than average to foresee challenges relating to: location being off-putting (63% compared with 49%); a view that the UK had become less attractive for EU and other migrant workers (52% compared with 34%); and uncertainty around the movement of EU workers (41% compared with 23%).

There was little variation by sector, with the exception of food and drink businesses, who were more likely than average to say that poor work ethic among potential candidates (61% compared with 50%) and uncertainty around the movement of EU workers (29% compared with 23%) were challenges.

Businesses in Shetland (66%) and Argyll and the Islands (59%), were more likely than average (49%) to see their location as off-putting. Lack of accommodation was of higher than average concern in Lochaber, Skye and Wester Ross (62%) and Argyll and the Islands (57% compared with 43%). Businesses in fragile areas were more likely than those in non-fragile areas to see each of these issues as a challenge: 62% saw lack of accommodation as a challenge (compared with 39%), while 61% saw an off-putting location as a challenge (compared with 46%) (Table 5.5).

**Table 5.5: Challenges expected when recruiting staff, by fragile area**

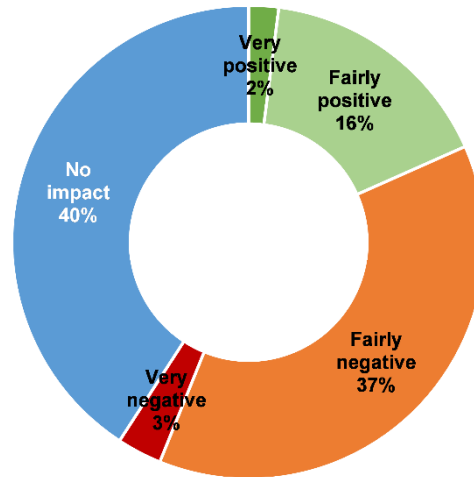
	Fragile area	Non-fragile area
	%	%
Lack of suitably skilled or qualified candidates	52	59
Competitive wages offered by other businesses	47	51
Poor work ethic among potential candidates	43	51
Our location is off-putting	61	46
Lack of accommodation in this area	62	39
UK has become less attractive for EU and other migrant workers	31	35
Change in employer requirements such as pensions	28	28
Uncertainty around movement of EU workers	20	23
None- I don't anticipate any challenges	10	7
<i>Base (All who are likely to recruit staff)</i>	<i>89</i>	<i>452</i>

### Impact of challenges

Businesses were more likely to say that recruitment challenges would have a negative impact (40%) than a positive one (18%). However, 40% said the challenges would have no impact on their business (Figure 5.6).

**Figure 5.6: Nature of impact of recruitment challenges**

***Q. Thinking about the challenges we just discussed, what sort of impact do you think these will have on your business?***



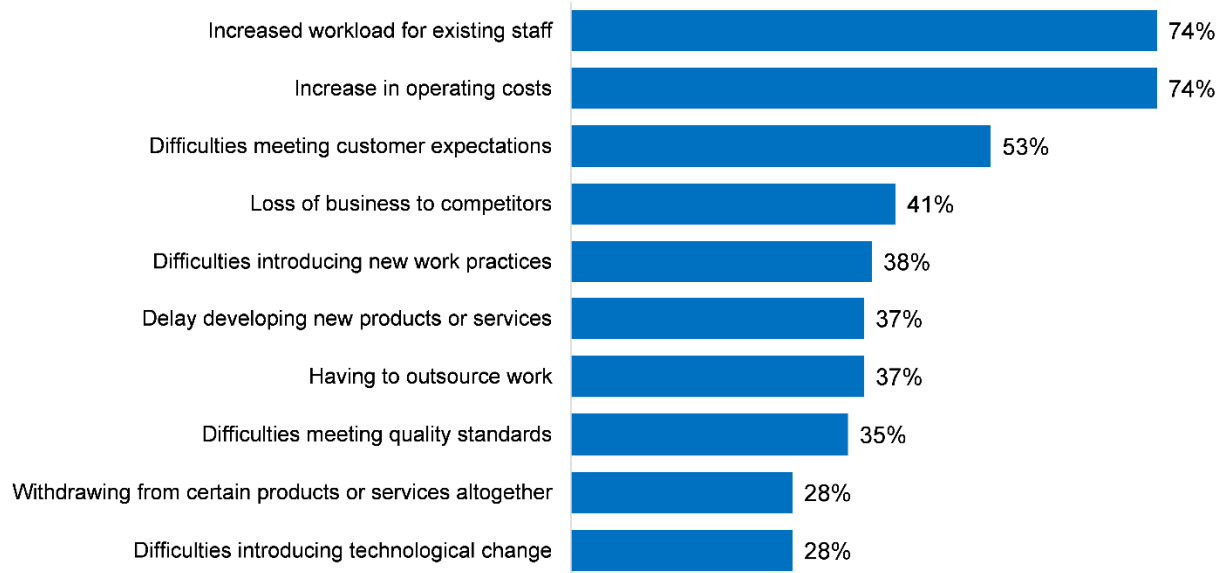
*Base: All who expect to face challenges when recruiting staff (498)*

The anticipated level of impact was similar for each type of recruitment challenge. However, the uncertainty around movement of EU workers was viewed more negatively than other challenges: of those that expected to face this challenge, 62% felt that it would have a negative impact on their business, the highest for any challenge asked about.

Asked about the specific impact that recruitment challenges may have on their business, around three quarters said they would lead to increased workload for their staff (74%) and an increase in operating costs (74%). Other anticipated impacts were: difficulties meeting customer expectations (53%), loss of business to competitors (41%), and difficulties introducing new working practices (38%) (Figure 5.7).

**Figure 5.7: Specific impacts of recruitment challenges**

***Q. And what particular impacts do you think these recruitment challenges will have on your business?***



*Base: All who expect to be impacted by recruitment challenges (297)*

#### *Variation by type of business*

Large businesses (25+ employees) were more likely than average to anticipate an increase in operating costs as a result of recruitment challenges (93% compared with 74%). Otherwise, there was no significant variation by type of business.

## 6. SUMMARY

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Confidence in the economy continued to be low, with businesses now more than twice as likely to say their confidence had decreased (30%) as to say it had increased (11%). This low confidence has been a consistent pattern over survey waves, but the gap between these two positions widened slightly this wave.

Unlike earlier waves, there was little sectoral variation in relation to economic confidence, with findings for food and drink and tourism businesses in line with those for all businesses. However, as seen previously, confidence in the economy was linked with performance; those who had performed well in the last 12 months were more likely to say their confidence had increased, while those who had struggled were more likely to report decreased confidence.

In spite of low confidence, businesses were again more positive about their own performance: two fifths said they had performed well in the last twelve months, and a similar proportion reported steady performance. Around a fifth said that their business had struggled.

Reflecting previous waves, tourism businesses were more likely than average to be positive about their performance. In contrast, food and drink businesses were more likely to have struggled. Larger businesses (25+ employees) and those that were account managed were more likely than others to have performed well.

On specific aspects of performance, businesses mainly reported stability in employment, working hours, staff training and exports. Views were more mixed in relation to financial aspects of business performance (sales/turnover and profit margins). In terms of exports, the proportion saying these had increased was higher than in previous waves.

The majority of businesses were once again optimistic about their own prospects for the next 12 months. Food and drink businesses were more pessimistic, while larger (25+ staff) and account managed businesses were more optimistic. Around half of businesses expected stability in the next year or two, while 39% expected growth and 8% anticipated a contraction.

Among those that employed staff, around one in five employed non-UK EU nationals, but this proportion was higher among larger businesses and those in the tourism sector. In terms of wider views about the EU, businesses again considered the European Single Market as more important to the Scottish economy overall than to their own business. 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.

Thinking about the 12 months ahead, the majority of businesses identified some challenges. The biggest challenge facing both employers and sole traders was rising costs. Other common challenges were market uncertainty, meeting regulatory or legislative requirements and political uncertainty. Sole traders also faced challenges specific to their circumstances, such as competition from larger businesses, cited by around a third.

Businesses were more likely to say that challenges would have a negative impact than a positive one, however over a quarter said the challenges would have no impact on their business.

Among businesses facing challenges, the majority were taking action to mitigate it. Steps being taken to overcome challenges varied somewhat between employers and sole traders, but commonly mentioned

approaches included: seeking new markets or customers, investing in training and development, making use of digital technologies, more collaboration with others, and investment in premises or equipment.

Among sole traders who were facing challenges, just under half planned to collaborate more with other businesses. The most common form of collaboration planned was more networking with other businesses to identify new opportunities. Other responses indicated a preference for collaboration with other sole traders rather than with larger businesses, either through working in equal partnership or by sub-contracting.

Turning to workforce-related issues, among those that employed staff, the biggest concern they had about their workforce was staff succession planning, followed by an ageing workforce, ability to attract apprentices, and reliance on temporary or seasonal staff. Tourism businesses were more likely than others to say they were concerned about reliance on temporary or seasonal staff, high staff turnover and reliance on non-UK EU nationals. Food and drink businesses shared the concern about reliance on temporary or seasonal staff, but were also more likely than others to be concerned about an ageing workforce and ability to attract apprentices.

Looking ahead to the next 12 months, just over half of businesses said they were likely to recruit staff; 39% were likely to recruit permanent staff, and 36% were likely to recruit temporary staff.

A wide range of skills were being looked for among potential recruiters. For those planning on recruiting permanent staff in the next 12 months, the most common skills identified were IT or digital, engineering and customer service skills; the most common skills sought among temporary staff were reliability, customer service, and skills in agriculture, farming or livestock.

Businesses planning to recruit were most likely to do so from within the Highlands and Islands. However, those that currently employed non-UK EU staff were more likely than average to say they would recruit from outside the UK but within the EU, or indeed from any area. Larger business (25+ employees) were more likely than average to say they would recruit permanent staff from the rest of Scotland, and would recruit temporary staff from any area, while small businesses (0-4 employees) were more likely to say they would recruit temporary staff from the Highlands and Islands.

Most businesses were confident that they could recruit staff with the skills and experience they needed. However, around half expected to face some challenges when doing so. The most common challenges anticipated were: a lack of suitably qualified or skilled candidates, competitive wages offered by other businesses, poor work ethic among potential candidates, and a perception that the location was off-putting. Businesses in Shetland and Argyll and the Islands were more likely than average to see their location as off-putting.

Businesses were more likely to say that recruitment challenges would have a negative impact than a positive one. The impacts considered most likely were an increased workload for their staff and an increase in operating costs, followed by difficulties meeting customer expectations, loss of business to competitors and difficulties introducing new working practices.

## 7. APPENDIX

### BUSINESS PERFORMANCE

**Table A.1 – Business performance by growth sector<sup>6</sup>**

	Performed exceptionally well	Performed quite well	Been fairly steady	Struggled slightly	Struggled markedly	Don't know	Base
	%	%	%	%	%	%	
<b>Overall</b>	<b>8</b>	<b>30</b>	<b>41</b>	<b>17</b>	<b>4</b>	<b>1</b>	<b>1000</b>
Tourism	20	25	34	16	3	2	107
Financial and business services	11	31	45	11	1	-	89
Creative industries	5	35	51	9	-	-	43
Non Growth Sector	6	30	42	16	5	1	461
Food and drink	6	25	42	23	3	1	236
	N	N	N	N	N	N	
Energy	1	11	6	3	1	-	22
Life sciences	1	1	-	1	-	-	2
<i>Base: All businesses in each sector</i>							

**Table A.2 – Aspects of business performance in the last six months**

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	
Sales or turnover	41	21	37	1	961
Working hours	22	8	69	*	985
Staff training	26	4	69	*	789
Exports	38	12	49	2	172
Profit margins	25	28	43	4	961
Employment	17	10	73	*	909
<i>Base: All businesses saying each aspect applied to them</i>					

<sup>6</sup> As the base size for Energy and 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 these sectors are the weighted, rather than unweighted, base.

**Table A.3 – Overall assessments of business performance by growth sector**

Growth Sector <sup>7</sup>	Assessment of business performance (mean score)
Life Sciences	1.4
Energy	1.6
Creative industries	1.2
Financial and business services	0.9
Non-Growth Sector	0.5
Tourism	0.5
Food and drink	0.4

**Table A4 – Overall assessments of business performance by location**

Location	Assessment of business performance (mean score)
Outer Hebrides	0.9
Lochaber, Skye and Wester Ross	0.9
Moray	0.9
Inner Moray Firth	0.6
Caithness and Sutherland	0.5
Orkney	0.5
Argyll and the Islands	0.4
Shetland	0.3

**Table A.5 – Overall assessments of business performance by size of business**

Size of business	Assessment of business performance (mean score)
0-4	0.5
5-10	0.5
11-24	0.9
25+	1.1

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<sup>7</sup> Although Energy had an average score of 1.6 and Life Sciences had an average score of 1.4, these do not represent a significant difference from other sectors due to the small base size for these sectors

## BUSINESS PROSPECTS IN THE NEXT SIX MONTHS

**Table A.6 – Business prospects over the next 6 months**

	Increase	Decrease	Stay the same	Don't know	Base
	%	%	%	%	
Sales or turnover	46	9	42	3	971
Exports	37	10	50	3	194
Profit margins	36	14	46	4	970
Staff training	29	2	68	1	819
Employment	25	4	70	1	923
Working hours	21	6	72	1	991
<i>Base: All businesses saying each aspect applied to them</i>					

**Table A.7: Business prospects by growth sector**

Growth Sector <sup>8</sup>	Assessment of business performance (mean score)
Life Sciences	3.2
Creative industries	1.8
Tourism	1.6
Energy	1.4
Financial and business services	1.4
Food and drink	1.1
Non-Growth Sector	1.0

**Table A.8– Business prospects by location**

Location	Assessment of business performance (mean score)
Outer Hebrides	1.6
Lochaber, Skye and Wester Ross	1.6
Moray	1.2
Inner Moray Firth	1.1
Caithness and Sutherland	1.1
Argyll and the Islands	1.1
Shetland	1.1
Orkney	0.9

<sup>8</sup> Although Life Sciences has the highest mean score of 3.2 this does not represent a significant difference from other sectors due to the small base size for this sector. Similar, the base size for Energy is too small to compare this sector with the others in the table.

**Table A.9 – 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	39	57	2	2	1	114
Stayed the same	14	74	8	1	3	575
Decreased	8	50	32	9	2	297

**Table A.10 – 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	30	62	7	1	1	379
Been fairly steady	7	77	12	1	3	405
Struggled slightly/markedly	3	46	34	13	4	206

## RELATIONSHIP WITH EU

**Table A.11– Employment of non-UK EU nationals by size of business**

Size of business	All employing non-UK EU nationals	Base
	%	N
1 to 4	9	340
5 to 10	17	156
11 to 24	25	132
25 or more	53	103
<i>Base: All those employing staff (731)</i>		

**Table A.12 – Employment of non-UK EU nationals by sector**

Growth Sector	All employing non-UK EU nationals	Base
	%	N
Tourism	31	79
Food and drink	21	155
Creative industries	17	31
Non Growth sector	15	332
Financial and business services	8	73
	N	
Energy	7	22
Life sciences	1	2
<i>Base: All those employing staff (731)</i>		

**Table A13– Employment of non-UK EU nationals by region**

Location	All employing non-UK EU nationals	Base
	%	N
Inner Moray Firth	27	182
Lochaber, Skye and Wester Ross	21	81
Shetland	20	54
Moray	19	101
Argyll and the Islands	15	146
Outer Hebrides	13	38
Caithness and Sutherland	9	70
Orkney	9	57
<i>Base: All those employing staff (731)</i>		

**Table A.14 – 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
<b>Importance to businesses</b>	%	%	%	%	N
Important	66	31	3	-	507
Not important	25	35	25	15	395
<i>Base: All businesses excluding those saying 'don't know' to either measure</i>					

**Table A.15 – 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	74	25	1	-	390
Not important	33	47	11	9	549
<i>Base: All businesses excluding those saying 'don't know' to either measure</i>					

## WORKFORCE

**Table A.16 – Areas from which permanent staff will be recruited, by sector**

	Food and drink	Tourism	Financial and business services	Creative industries	Non-growth sector	Energy	Life Science
	%	%	%	%	%	N	N
The Highlands and Islands	71	60	92	44	73	6	2
The rest of Scotland	11	17	16	25	14	3	-
The rest of the UK	4	13	5	11	11	2	-
Outside of the UK but within the EU	3	7	-	-	4	-	-
Outside of the EU	1	-	3	-	1	-	-
Any area	22	23	8	31	13	4	-
<i>Base (All likely to recruit permanent staff)</i>	73	45	35	20	180	15	2

**Table A.17 – Areas from which temporary staff will be recruited, by sector**

	Food and drink	Tourism	Financial and business services	Creative industries	Non-growth sector	Energy	Life Science
	%	%	%	%	%	N	N
The Highlands and Islands	83	57	72	59	76	4	1
The rest of Scotland	14	10	19	17	15	6	-
The rest of the UK	3	11	-	-	7	-	-
Outside of the UK but within the EU	2	11	9	-	4	-	-
Outside of the EU	-	-	4	-	-	-	-
Any area	9	25	9	31	10	2	-
<i>Base (All likely to recruit temporary staff)</i>	103	61	21	17	140	11	1

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