

HIE BUSINESS PANEL SURVEY

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

CONTENTS

1. Introduction	1
Background.....	1
Methodology	1
Presentation and interpretation of the data	2
2. Optimism, prospects and performance	3
Economic optimism	3
Business performance	5
Business prospects in the next six months	7
Future business prospects	8
Business growth	10
3. Relationship with the EU	11
European Single Market	11
Free movement of people	13
Comparing views on the European Single Market and free movement of people	15
4. Attitudes to business performance	17
Reasons for performing well.....	17
Reasons for stable performance.....	19
Reasons for struggling.....	20
Common challenges	22
5. Concerns and plans for the future.....	23
Concerns about business prospects	23
Actions to enhance competitiveness	27
Current events	29
5. Summary.....	37
Appendix.....	39

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 five, 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 fourth in the series of quarterly surveys, and sixth overall) carried out between April and May 2017. The survey covered a number of topics of general interest to businesses in the region, including economic optimism and the importance of free movement and access to the European Single Market as well as business performance, and future prospects in more depth. Furthermore, the survey included questions on the actions that businesses are taking to enhance their competitiveness and the impact of recent political events on business activity.

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;
- Education;
- Human health and social work activities;
- 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 also 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 22nd April – 16th May 2017, using a combination of online and telephone methods. The survey was initially distributed by e-mail, inviting respondents to complete the questionnaire online. Remaining interviews were then carried out by telephone. In total 1,014 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 the key sub-groups (growth sector, business size, location, fragility and relationship with HIE) are explored and 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:

Economic optimism remained low, with 38% of businesses reporting decreased confidence in the economic outlook in Scotland and 49% saying their confidence had stayed the same.

Nevertheless, businesses were positive with respect to their own performance in the last 12 months – two fifths (40%) reported that they performed well and a similar proportion (38%) reported stable performance.

Most were also positive about future prospects, with three quarters (78%) saying they were optimistic about the next 12 months. Similar proportions anticipated growth (43%) and stability (44%) in the next 12 months.

Across these measures, larger businesses, those in the Tourism sector, and account-managed businesses tended to be more positive and optimistic than others. In contrast, Food and drink businesses, smaller businesses, and those that were non-account managed tended to be more negative and pessimistic.

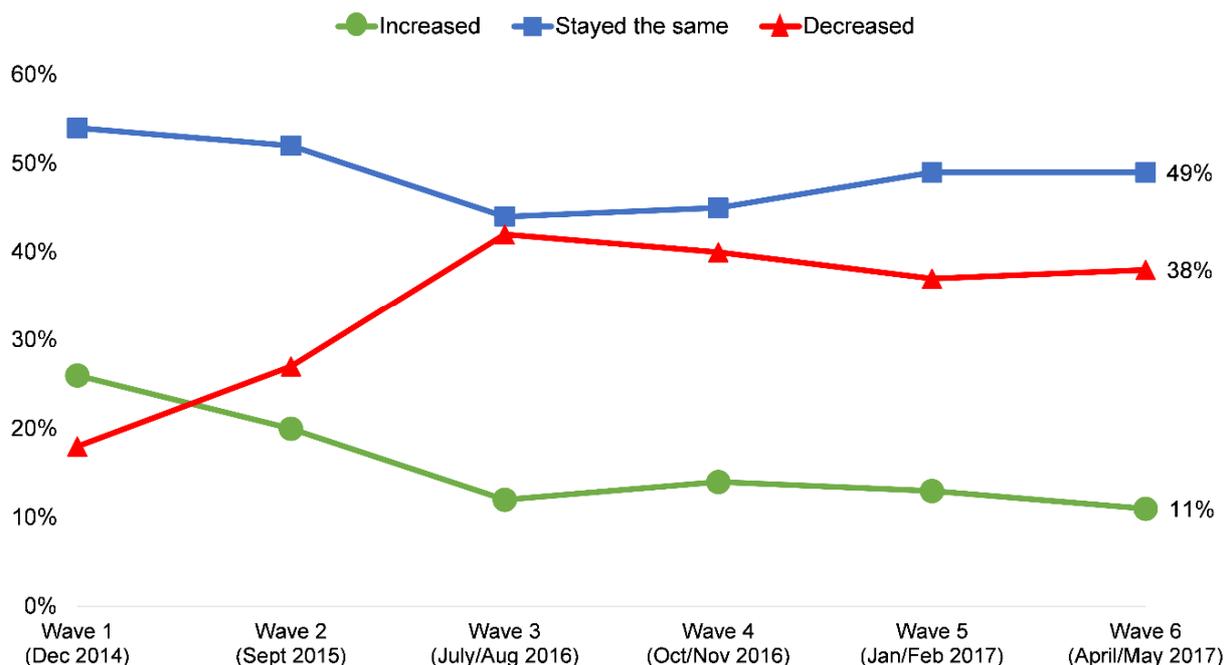
Economic optimism

Levels of economic optimism remain largely unchanged compared with recent waves, with 38% saying their confidence in the economic outlook in Scotland had decreased compared with only 11% who said their confidence had increased and 49% who felt that their confidence had remained the same. (Figure 2.1). Economic optimism had an overall net negative of -27 points, similar to the net negative of -24 seen in wave four.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 the beginning of [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 findings from the previous wave, Tourism businesses and those with 25+ employees were more likely than average to report increased confidence (16% and 20% respectively compared with 11% overall), while Food and drink businesses and those with 0-4 employees were more likely to report that their confidence had decreased: 46% and 41% compared with 38% overall (Table 2.1 and 2.2)². Businesses located in fragile areas were also more likely than those elsewhere to report decreased confidence (46% compared with 36%) (Table 2.3).

The trends were largely consistent across businesses in terms of location; the only exception were those in Caithness and Sutherland who were more likely than average to say their confidence had decreased (50% compared with 38% overall). When interpreting these differences, and any differences in results by region, it is important to note the profile of businesses from these areas who took part in the survey. For example, the sample of businesses in Caithness and Sutherland contained a higher proportion of small businesses (0-4 employees) than the overall sample (75% of businesses in the region compared with 65% overall) and a lower proportion of those with 25+ employees (4% compared with 9% overall). Lower than average performance in this region may therefore be linked to less positive performance among small businesses, as highlighted above.

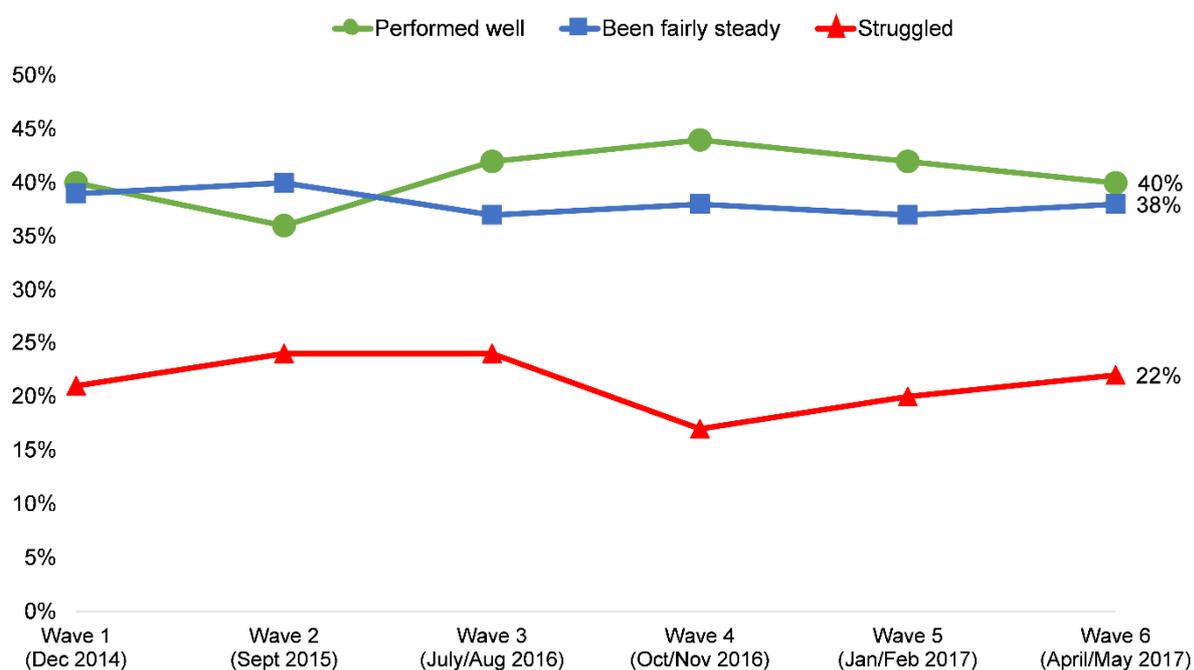
² All tables referred to in the body of the report can be found in the annex.

Business performance

Assessments of business performance were broadly similar to those seen in the past two waves (Figure 2.2). Two fifths (40%) of businesses said that they had performed quite (31%), or exceptionally well (9%) over the previous 12 months, while 38% reported a steady performance. Just over a fifth (22%) said that their business had struggled slightly (17%) or markedly (5%).

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? Would you say it has...?



Base: All businesses

As in previous waves, views of past business performance were correlated with the level of confidence in the economic outlook in Scotland: 64% of those who had performed well also reported that their confidence had increased, while 59% of those who struggled also reported a decrease in confidence.

Variation by type of business

In terms of variation by sector, again, Tourism businesses were more likely to be positive and Food and drink businesses negative: 52% of Tourism business reported that their business performed either quite or exceptionally well, compared with 40% overall, while 29% of Food and drink businesses said they had struggled slightly or markedly compared with 22% overall (Table 2.4).

Smaller business (0-4 employees) were again more likely than average to report steady performance (42% compared with 38% overall), while larger businesses (25+ staff) were more likely to report that they had performed quite well (42% compared with 31% overall) (Table 2.5).

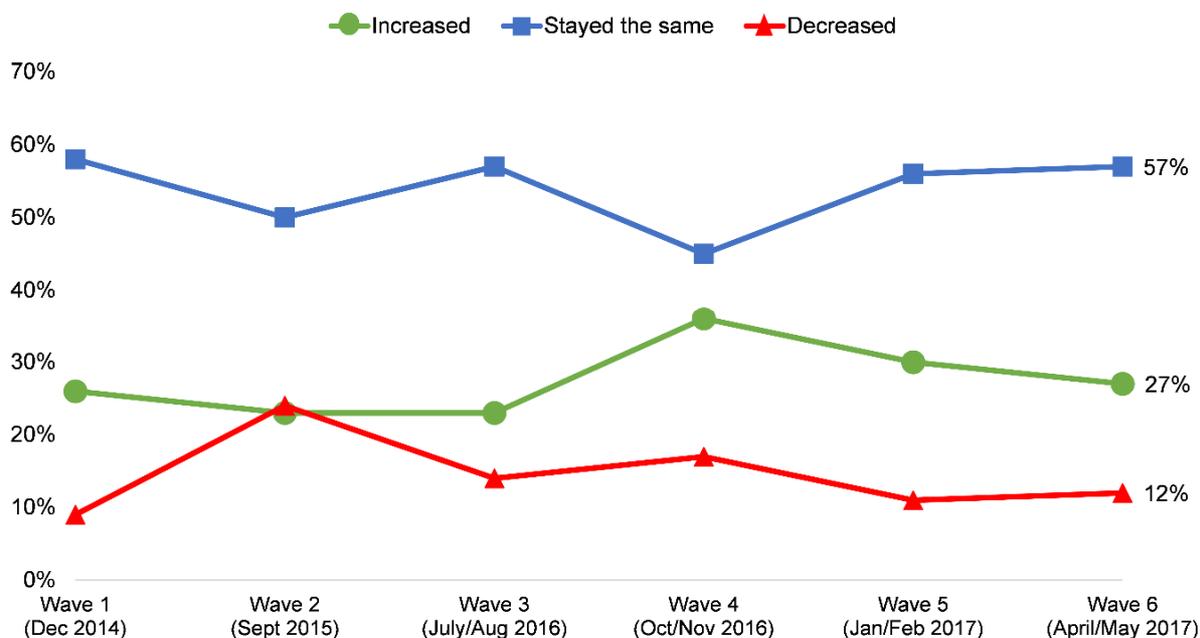
Aspects of business performance

Businesses once again reported stable performance in employment (72%), staff training (66%), working hours (62%), and exports (57%). Views were mixed in relation to sales or turnover, with 39% reporting an increase and 22% a decrease, and in terms of profit margins, with 25% reporting an increase and 30% a decrease. (Table 2.6).

Looking more closely at performance in relation to exports, results have remained consistent for the past two waves, with over half (57%) reporting steady performance (Figure 2.3). Among businesses that exported, those more likely to report an increase were businesses with 25 or more employees (44% compared to 27% overall) and those working in the Food and drink sector (39%). There were no statistically significant variations by location, relationship with HIE or fragile areas.

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 business³. The average score was 0.6 – slightly positive, the same level as the previous wave, indicating that few businesses reported increases or decreases in all aspects. Just under half (49%) of businesses had an overall positive score, while 27% had a negative score and 24% had a score of zero. This is consistent with previous waves of the survey.

³ 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.

Variation by type of business

There was little variation by growth sector. However, Food and drink business had a higher overall average score, at 0.7, followed by Tourism, Energy and Non-growth sector businesses, each at 0.6 (Table 2.7). The higher than average overall score for Food and drink businesses may reflect their particularly positive views on exports (as noted earlier). Elsewhere, Tourism businesses were more likely to report an increase in sales or turnover (46% compared with 39% overall) echoing findings from the past three waves. This 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.

In line with the previous two waves, businesses in Lochaber, Skye and Wester Ross were more likely than average to report an increase in sales or turnover (53% compared with 39% overall) and profit margins (38% compared with 25% overall), and reflecting this, the area has one of the highest average business performance scores, at 1.1 (Table 2.8). When interpreting these differences, it is important again to note the profile of businesses from these areas who took part in the survey. The sample of businesses in Lochaber, Skye and Wester Ross contained a higher proportion of Tourism businesses than the overall sample (25% of businesses in the region compared with 11% overall). Higher than average performance in this region may therefore be linked to positive performance among Tourism businesses, as highlighted earlier.

Businesses with 25 or more employees were more likely to report an increase in aspects of business performance, overall, compared with those with fewer employees (Table 2.9). Consistent with results from the past three waves, businesses with 25 or more employees were more likely than average to report an increase in almost all aspects of business performance: sales or turnover (58%) exports (44%), staff training (44%), employment (41%) and profit margins (39%). Businesses with 11-24 employees were more likely than average to report an increase in sales or turnover (49%), staff training (40%), employment (37%) and profit margins (33%).

As with the past three waves, account-managed businesses had higher positive scores (1.4) than non-account managed (0.5) (Table 2.10) and were more likely to report increased performance in sales or turnover (56% compared with 36% of non-account managed businesses), profit margins (40% compared with 23%), staff training (37% compared with 26%) and employment (36% compared with 16%).

Business prospects in the next six months

Looking ahead to the next six months, most businesses expected stability in relation to employment (71%), working hours (70%), and staff training (65%). Views were more mixed in relation to exports, profit margins and sales or turnover (Table 2.11).

Scoring future prospects in the same way as past performance, the overall score across the six aspects was again 1.1, the same level seen in the previous wave. More businesses had a positive score than a negative one: 53% had an overall of positive score, while 17% 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 2.12), with businesses in the Creative Industries and Tourism sectors seeing the highest overall mean scores. Tourism businesses were more likely than others to anticipate an

increase in working hours (33% compared with 23% overall), and to anticipate staff training remaining at the same level (72% compared with 65% overall). Food and drink businesses were more likely than average to anticipate increased exports (48% compared with 38%). Elsewhere, there were no other significant differences by sector.

In terms of location, businesses in the Outer Hebrides and in Lochaber, Skye and Wester Ross had the highest mean scores, at 1.9 and 1.5 respectively (Table 2.13). Reflecting these mean scores, those in the Outer Hebrides were more likely than others to anticipate an increase in employment (48% compared with 24%), while those in Lochaber, Skye and Wester Ross were more likely to anticipate an increase in profits margins (42% compared with 32% overall) and in sales or turnover (55% compared with 45%). These positive results for Lochaber, Skye and Wester Ross echo findings from the previous wave, and may reflect the high proportion of Tourism businesses in this region, and the higher than average mean scores seen among Tourism businesses overall.

Elsewhere businesses in Shetland were more likely than average to expect profit margins to increase (45% compared with 32%), while those in Caithness and Sutherland were more likely to anticipate a decrease on this aspect (28% compared with 16%). This was the first time variation on this aspect of performance had been reported in these regions.

Larger businesses had more positive expectations than smaller businesses, and were more positive overall than they had been in the previous two waves. Businesses with 0-4 staff had a mean score of 0.8, while those with more than 25 staff had a mean score of 2.1 (Table 2.14). As with the previous wave, those with 25 or more employees were more likely than average to anticipate an increase in sales or turnover (62% compared with 45% overall), profit margins (46% compared with 32%), employment (44% compared with 24%) and staff training (40% compared with 29%).

Once again, account-managed businesses had a higher overall positive score (2.5) than non-account managed (0.8) (Table 2.15). Specifically, they were more likely to expect an increase in sales or turnover (71% compared with 41% of non-account managed businesses), profit margins (51% compared with 28%), exports (50% compared with 29%), staff training (42% compared with 26%), and working hours (31% compared with 21%).

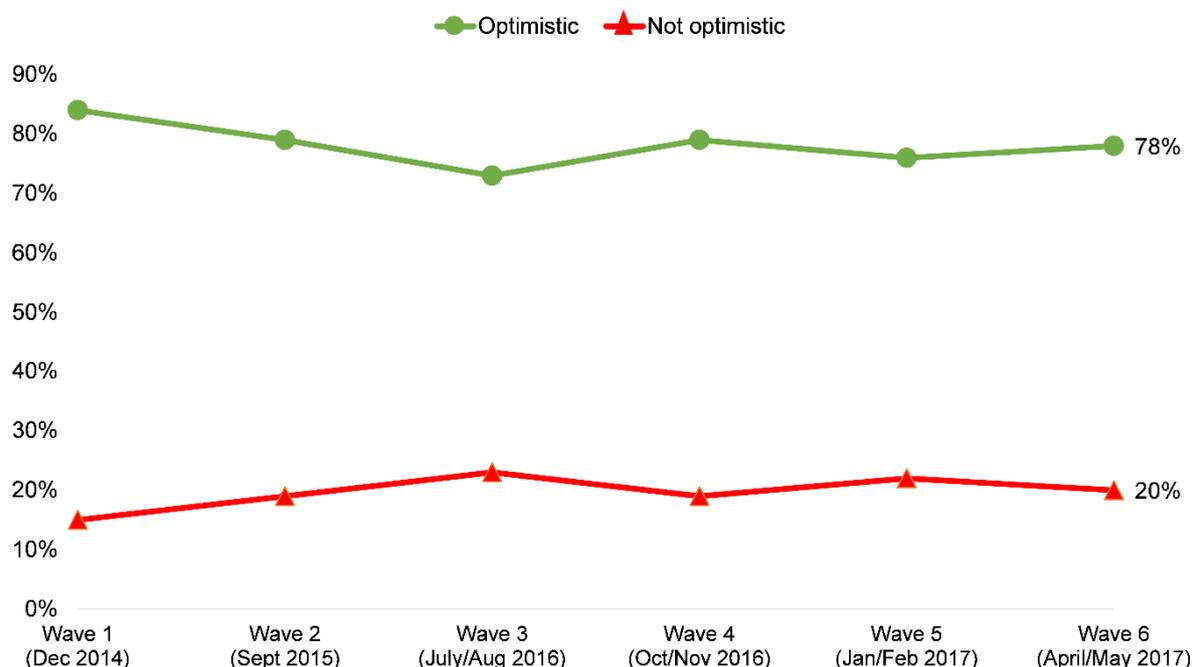
There were few statistically significant differences in aspects of business performance in the next six months by fragility. The only exceptions were that those in fragile areas were more likely than those in other areas to expect an increase in staff training (42% compared with 26%) and a decrease in sales or turnover (17% compared with 10%).

Future business prospects

Consistent with previous waves, around three quarters of businesses (78%) were very (17%) or fairly (61%) optimistic for their prospects over the next 12 months, in comparison to around a fifth (20%) who were not very (16%) or not at all (5%) 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

As seen in previous waves, there was a correlation between economic optimism and assessment of future business prospects; those whose confidence in the economy had increased were also more optimistic about the future of their business. Similarly, those whose confidence had decreased were more likely to report that they were not very optimistic about their future business prospects (Table 2.16).

Past business performance is also correlated with future optimism. As shown in Table 2.17, 90% of those that had said that their business had performed exceptionally or quite well also reported that they were optimistic about their future business prospects. Similarly, 51% of those who had reported that they had struggled slightly or markedly in the last 12 months also reported that they were not optimistic for their future prospects.

Variation by type of business

Echoing the past two waves, businesses in the Tourism sector were more likely to report that they were very optimistic about their prospects in the next 12 months (29% compared to 17% overall) while Food and drink businesses were more likely to be pessimistic about the next 12 months (21% were not very optimistic compared to 16% overall) (Table 2.18).

Variation by size of business followed a similar pattern to the previous wave. Larger businesses (25 or more employees) were more likely than average to be very optimistic (27% compared with 17% overall), and smaller businesses (0-4 employees) not very or not at all optimistic (24% compared with 20% overall) (Table 2.19).

Mirroring findings about economic confidence and business performance, those in Lochaber, Skye and Wester Ross were more likely to be optimistic (88% compared with 78% overall), and those in Caithness and Sutherland pessimistic (33% compared with 20% overall). Again, this may reflect the profile of businesses in these regions in terms of sectors and size (with higher proportions of Tourism businesses in Lochaber, Skye and Wester Ross and small businesses in Caithness and Sutherland).

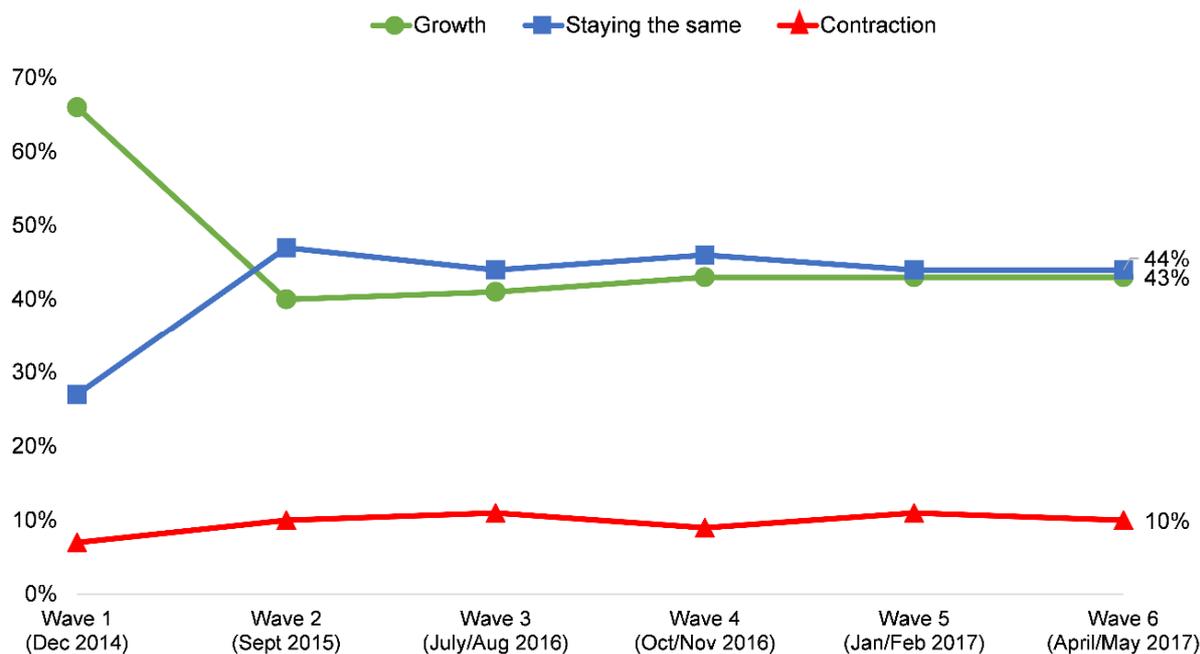
As in previous waves, account-managed businesses (93%) were more optimistic about their prospects than non-account managed businesses (75%).

Business growth

Consistent with the past four waves of the survey, over half (54%) of businesses did not anticipate growth over the next year or two: 44% expected stability while 10% anticipated a contraction. In terms of those who anticipated growth (43%), 6% anticipated substantial growth, 17% moderate growth and 21% 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

Businesses with 25 or more employees were more likely than others to anticipate growth (73% compared with 43% overall), while those with 0-4 employees were more likely to anticipate stability (53% compared with 44% overall) (Table 2.20). Elsewhere, account managed firms were again more optimistic than non-account managed firms: 80% anticipated growth in contrast to 37% of non-account managed firms.

3. Relationship with the EU

Key messages:

While opinion was divided amongst respondents on the importance of membership of the European Single Market to their business (49% said it was important and 47% that it was not), the majority (69%) of businesses recognised the importance of the European Single Market to the Scottish economy overall.

Food and drink businesses were more likely than average to think membership was important to their own business, reflecting the higher proportion of exporting businesses within this sector. Businesses with 5-10 staff and those that were account managed were also more likely to view membership as important – both in terms of their business, and the economy overall.

In relation to the free movement of people across the European Union (EU), 39% felt it was important to their own business while around three quarters of businesses (75%) felt it was important to the Scottish economy overall.

Tourism businesses, larger businesses and those that were account managed were more likely than average to view free movement of people as important to their business.

There was a correlation between those who thought membership of the European Single Market was important and those who thought free movement was important; this was particularly strong when considering importance to the Scottish economy overall.

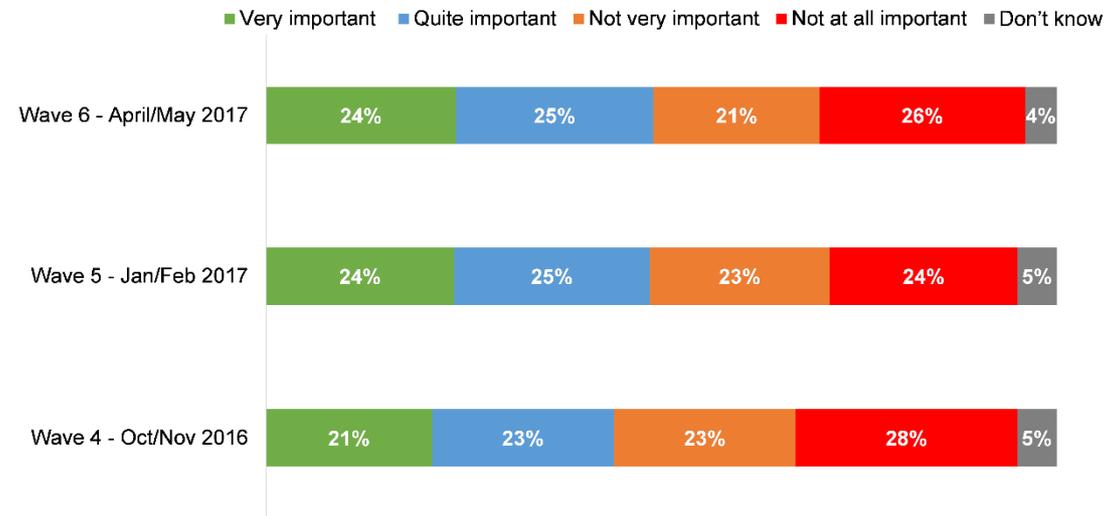
European Single Market

Importance of European Single Market to businesses

Opinion was split on the importance of membership of the European Single Market, reflecting similar findings from previous waves: around half (49%) said that access was important to their business and a similar proportion (47%) that it was not. Further emphasising this split in opinion, similar proportions reported that membership was *very important* as reported that it was *not at all important* (24% and 26% respectively) (Figure 3.1).

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

Food and drink businesses and those with 5-10 staff were more likely than average to report that membership of the European Single Market was important to their business (67% and 59% respectively compared to 49% overall) (Tables 3.1 and 3.2). It was also seen as more important to account-managed than non-account managed businesses (57% compared with 47%).

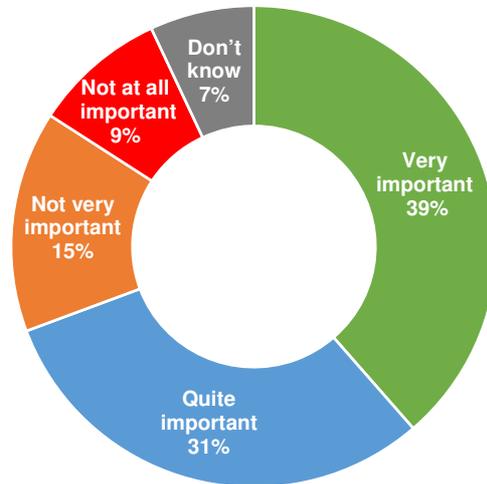
In contrast, Financial and business services (58%), Tourism (55%) and smaller businesses (0-4 employees) (50%) were more likely than average (47%) to say that membership was not important to them.

Importance of European Single Market to the Scottish economy

This wave, businesses were asked how important membership of the European Single Market was to the Scottish economy overall. As shown in Figure 3.2, businesses were more likely to feel membership was important (69%) than not important (23%).

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 (1,014)

There is some correlation between views on importance of the European Single Market to businesses and to the economy: 94% of those who said membership was important to their business also said it was important to the economy (Table 3.3). However, almost half (45%) 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

Businesses with 5-10 staff and those that were account managed were more likely than average to say membership of the European Single Market was important to the economy (80% and 79% respectively compared with 56% overall) (Table 3.4).

In contrast, smaller businesses (0-4 employees) (26%), and those in Caithness and Sutherland (39%) were more likely than average (23%) to say that membership was not important to the economy. Further, those in non-fragile areas were more likely than those in fragile areas to say membership was not important (25% compared with 16% in fragile areas).

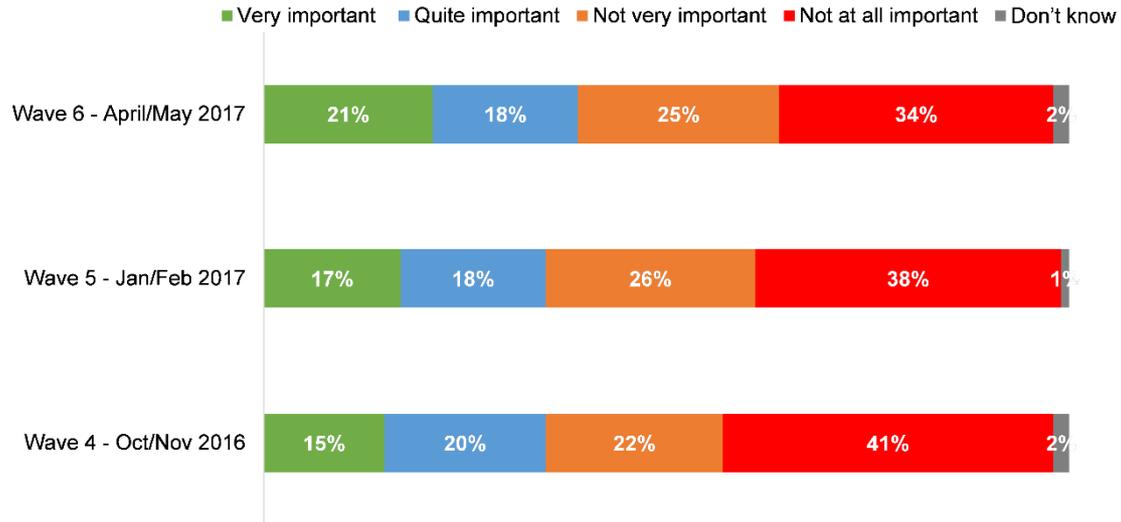
Free movement of people

Importance of free movement of people to businesses

Over half (59%) felt that the free movement of people across the EU was not important to their business, while 39% felt that it was important (Figure 3.3). Between waves 4 and 6 there was an increase in the proportion of businesses saying free movement was very important (from 15% to 21%), and conversely a decrease in those saying it was not at all important (from 41% to 34%).

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

As in previous waves, Tourism businesses (57%), those with 11-24 or 25+ staff (48% and 54% respectively), and account managed businesses (53%) were more likely than average (39%) to report that free movement of people was important to their business.

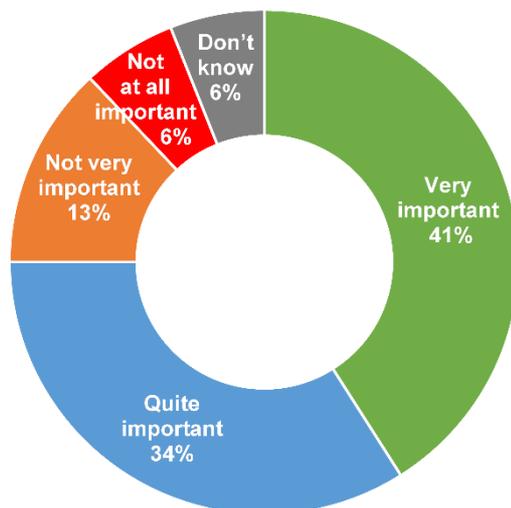
In contrast, those in the Financial and business services sector were more likely than average to say free movement was not important (69% compared with 59% overall).

Importance of free movement of people to the Scottish economy

Businesses were more likely to feel that free movement was important to the Scottish economy overall than to their own business: three quarters (75%) felt that free movement was important, compared with 19% who felt it was not important (Figure 3.4).

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 (1,014)

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: 98% of those who said free movement was important to their business also said it was important to the economy (Table 3.5). However, 61% of those who felt that free movement was *not* important to their business did feel it was important to the economy overall.

Variation by type of business

Tourism businesses (81%) and those with 5-10 staff (84%) were more likely than average (75%) to say that free movement was important to the economy (Table 3.6), while small businesses (0-4 employees) were more likely than average to say it was not important (22% compared with 19% overall). These variations by size show a similar pattern to views on the importance of free movement to businesses, and views on membership of the European Single Market.

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

Just over half (55%) of those who felt membership of the European single market was important to their business also felt that free movement of people was important. The majority (77%) of those who felt access to the single market was *not* important also felt that free movement of people was *not* important. These findings are consistent with previous waves (Table 3.7)

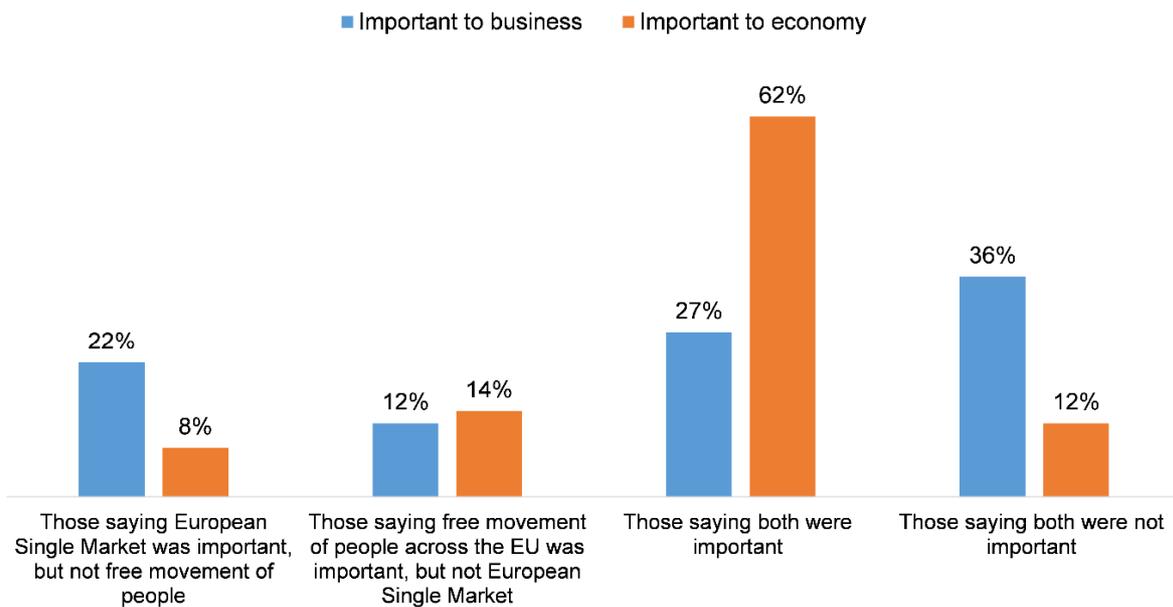
A strong correlation can also be seen when comparing views on these two issues in relation to importance to the economy. As shown in Table 3.8, the majority (91%) of those who felt membership of the single market was important to the economy also felt that free movement of people was important. Over half (56%) of those who felt

access to the single market was *not* important to the economy also felt that free movement of people was *not* important.

In terms of importance to their business, 61% of the overall sample (622 businesses) thought one or both aspects were important. Those who felt that free movement of people *and* access to the European Single Market were important to their business represent 27% of the overall sample of businesses (271 businesses), similar to the 25% reported in the wave 5 and 24% in wave 4. Those who felt that *neither* was important represent 36% of the sample (363 businesses), similar to the 39% reported in wave 5 and 40% in wave 4.

In terms of importance to the economy, 84% of the overall sample of businesses (852 businesses) felt that one or both aspects are important. Those who felt that free movement of people *and* access to the European Single Market were important to the economy represent 62% of the overall sample of businesses (623 businesses). Those who felt that *neither* was important represent 12% of the sample (124 businesses). (Figure 3.5).

Figure 3.5 – Comparison of importance of free movement of people and importance of access to the European Single Market ⁴



Base: All businesses (1,014)

⁴ Percentages in the chart do not add to 100% due to the exclusion of those saying 'don't know'. 3% (29 respondents) said 'don't know' in relation to the importance of both factors on their business; 4% (38) said 'don't know' in relation to importance of both factors on the economy as a whole

4. Attitudes to business performance

Businesses were asked to provide details about their assessment of business performance, including factors that had contributed to their healthy, stable or weak business performance. These were asked as “open” questions (i.e. with no pre-defined, or “closed” answer options), and results have been analysed using a more qualitative approach, highlighting key messages that have emerged across the responses, rather than quantifying responses.

Key messages:

Businesses that had performed well cited a range of reasons, including: good quality staffing and management, reducing operating costs, diversification, increased competitiveness attributed to the weakness of the pound, and a focus on marketing.

Among those that reported a stable performance similar factors were mentioned: reducing operating costs, retaining an existing client/customer base, as well as the important role played by funding, marketing and advertising.

Common reasons for businesses having struggled included the impact of political uncertainty, which was making consumers more cautious and less likely to spend, the low value of the pound increasing the cost of imports, and concerns specific to island communities (such as increased freight charges, transport disruption and a declining population).

Food and drink businesses were more likely than others to report that they had struggled. Overarching reasons for poor performance within this sector specifically included: increased competition from large scale production of commodities in other countries, increased costs, a reliance on subsidies and changeable weather impacting their ability to grow produce.

More generally, a number of cross-cutting challenges facing businesses were also mentioned, including political uncertainty, rising costs, recruitment, funding, and poor digital infrastructure.

Reasons for performing well

Consistent with previous panel results, this wave has shown that the general lack of confidence in the economic outlook in Scotland has not translated into negative assessments of business performance. As was shown in Figure 2.2, two fifths of businesses reported that they had performed *exceptionally well* or *well* in the last 12 months. Among those that performed well, a range of internal and external factors were seen to have contributed to this performance.

Among the internal factors businesses referred to, staffing and management emerged prominently. It was common for businesses to say that employing knowledgeable and skilled staff or a change of management had helped businesses perform well.

We have had increased turnover with more qualified staff.

(Non-growth sector, Moray, 5-10 employees)

Businesses also referred to changes they had made to their business operations to maintain or enhance their market share. For example, businesses had diversified by changing or expanding their product offering, or expanded into new markets they had not worked in previously. Others specifically referred to making financial changes, such as increasing costs to the end consumer, and reducing their operating costs.

Good strategic planning, market knowledge, knowledgeable team, growth in people seeing buying online as normal, improvements to our website. Not sure any external factors have aided it.

(Financial and business services, Inner Moray Firth, 11-24 employees)

We've done quite a lot of work on our costs. Reduced a bit of costs to the business here. Income hasn't improved greatly but expenditure has went down. Turnaround from making losses to profit.

(Non-growth sector, Inner Moray Firth, 5-10 employees)

Further internal factors attributed to positive business performance included good strategic planning and the ability to maintain existing client relationships. Others cited digital innovation, including enhancing their presence on social media as a reason for strong performance, particularly businesses in the Creative Industries sector.

In relation to external factors that impacted on business performance, it was common for positive performance to be linked to the weakness of the pound and the opportunity this had created to enhance competitiveness: a view particularly expressed among both Food and drink and Tourism businesses. For Food and drink businesses, the reduction in the value of the pound was viewed as having increased the competitiveness of exports, which in turn helped to increase demand for their products in a range of markets, particularly Europe and Asia.

The devaluation of the pound has made our sales more attractive, better traction in the market, we depend on half of our sales of one component of it being heavily dependent on sales in Norway, and the other the European market.

(Food and drink, Shetland, 0-4 employees)

Among Tourism businesses there was the view that the low value of the pound had resulted in Scotland being a cheaper and more attractive destination for tourists – an observation that has been consistently reported in previous qualitative research conducted among panel members.

The impact of marketing activity was also noted as a reason for positive performance. Tourism businesses reported seeing positive results from their own marketing initiatives, including social media activities and maintaining an online presence on websites such as Trip Advisor, as well as wider marketing of particular regions and tourism initiatives, such as the North Coast 500.

Trip Advisor is the main factor - I am in the top five and leading to me doing well. The national advertising for Skye is helping too.

(Tourism, Lochaber Skye and Wester Ross 0-4 employees)

Tourism has also generally increased in Inverness, and also, with the advent of the North Coast 500 driving tour, there has been a larger influx of people to the city.

(Tourism, Inner Moray Firth, 0-4 employees)

Reference was also made to the impact of investment on positive business performance. Larger businesses (with 25 or more employees) mentioned that new or continued investment had helped them to take steps to increase their market and increase their productivity. Among smaller businesses, investment in the form of grant funding, some of which was from the EU, was also considered a factor contributing to business performance. For instance, there was specific mention of EU funded marine projects that had helped to support businesses working in that field.

Businesses that reported that they had *struggled* were also invited to comment on aspects of their business that had performed well: however, few were noted. Among the minority that reported positive aspects of performance, these included comments on the hard work of staff, as well as increases in advertising, exports to Iceland and Asia, training and development of staff, and the market price of livestock which has helped increase profit margins.

Reasons for stable performance

As seen earlier, 38% of businesses reported that their performance had been steady in the last 12 months. These businesses were asked if there were any opportunities they had taken advantage in the past year in order to maintain this steady performance, or any challenges they had faced in this time.

Businesses within this category commonly mentioned that they had experienced little material change to their business, in particular that they had an existing customer/client base which provided them with repeat business, or that they felt the nature of their business was not largely affected by external factors.

It has just been steady and we have been doing the same thing so there has been no change.

(Food and Drink, Orkney, 11-24 employees)

On the other hand, while some businesses reported stable performance, it was clear that they had to make significant changes to their business to maintain this level of performance. For example, businesses who had noticed challenges in their external environment did so by putting measures in place to control wages and costs, such as reducing trading hours, making savings on their energy costs, and scaling down their business operations.

Facing ever increasing burdens of taxation, employment regulations and an unsettled Scottish independence situation we took the opportunity to scale down our business last October. We have closed the public bar and restaurant, got rid of all the staff and now operate with just two of us.

(Tourism, Shetland, 0-4 employees)

Among businesses with stable performance, there was common mention of increasing the emphasis on marketing and advertising, including an increase in their online presence. Furthermore, businesses also mentioned that access to funding from a variety of sources (Scottish Government, European Union, Creative Scotland, Zero Waste Scotland), had helped them maintain a stable performance. A less common view was that increased exports,

attributed to the weakness of the pound, and demand from Asian and European markets had supported business performance.

More emphasis has been placed on advertising and product development.

(Food and Drink, Shetland, with 25+ employees)

We have applied for funding from a local wind farm, and we have done our own fundraising.

(Non-growth sector, Caithness and Sutherland, 0-4 employees)

Increased exports to EU and North America with the pound falling.

(Non-growth sector, Outer Hebrides, 11-24 employees)

Reasons for struggling

Around a fifth (22%) of businesses reported that they had struggled in the last 12 months which increases to 39% among businesses in the Food and drink sector. Those that had struggled were asked what factors had contributed to this type of business performance.

The main factors that were attributed to poor business performance were external ones. There was a general sense that political uncertainty caused by Brexit and the prospect of a second referendum on Scottish Independence, as well as the downturn in the oil and gas sector, had caused consumers to be more cautious and spend less. As has been seen in previous waves of the survey, the low value of the pound since the EU referendum was singled out as having had a negative impact for business who import goods.

Lower prices and poor customer turnout. Consumer habits and lack of money and uncertainty.

(Non-growth sector, Caithness and Sutherland, 0-4 employees)

The fall of the pound due to the Brexit vote, also uncertainty.

(Non-growth sector, Shetland, 11-24 employees)

Devaluation of Sterling. I trade a (USA) product paid for in USD. My commission rate has been cut by 19% as a consequence.

(Non-growth sector, Moray, 0-4 employees)

Businesses in island communities cited specific factors that had caused their business to struggle, particularly in relation to freight charges which mean that products produced in the islands are less competitive than the mainland; ferry cancellations which cause disruption to travel; a declining island population which affects recruitment and retention of staff; and a lack of facilities for young people. There was also specific mention of large supermarkets delivering to Islands which affected the sales of small local businesses.

Living on an island has been the biggest struggle for me, especially with the ferry cancellations as we trade from a remote island. The stock can take up to 3 months to arrive, which means my customers are waiting longer for their products.

(Non-growth sector, Argyll and the Islands, 0-4 employees)

External factors. As Shetland is an island community, any products produced on the islands are 30% more expensive to produce! All packaging and other materials associated with our business have to be imported from UK mainland or within the EU. Also, the transport costs, both to and from the Shetland are very high.

(Food and drink sector, Shetland, 11-24 employees)

Looking more closely at businesses in the Food and drink sector, there were a number of factors underpinning their measures of business performance.

First, the perception that increased production of certain commodities (e.g. grain, lamb) in other countries, such as New Zealand and Australia, was driving a decrease in the market value of these products and making businesses in the region less competitive.

The price of cattle: the supermarkets have taken the price down. Same with the price of lamb. Again it's the supermarkets - Australian and New Zealand lamb supermarkets seem to control everything - they seem to control all the prices, if it doesn't suit them, they take the price down

(Food and Drink, Orkney, 0-4 employees)

Another factor commonly mentioned by Food and Drink businesses was the increased cost of raw materials, basic commodities and machinery, which were squeezing profit margins. Businesses in this sector also mentioned that they were not in a position to increase their prices as they had had significant competition from supermarket stores which sell similar products at a more affordable price. A lesser mentioned view was that businesses in the Food and Drink sector had faced difficulty in securing investment to fund expansion.

We are facing rising costs, materials and ingredients.

(Food and Drink, Outer Hebrides with 11-24 employees)

It was also noted that the sector was reliant on government subsidies, but that payments are often delayed and in some cases specific payments have been drastically reduced e.g. the Single Farm Payment.

Finally, Food and drink business, particularly those working in agriculture, noted that the changeability of the weather had an impact on their ability to grow produce.

I think the weather has been my downfall as we are very weather related, also the tourist industry has started later this year.

(Food and drink sector, Shetland, 0-4 employees)

Common challenges

A number of common themes emerged in relation to challenges businesses had faced in the past 12 months, across those that had performed well, been stable or struggled. These are summarised below:

- **Political uncertainty:** As outlined, political uncertainty in relation to Brexit and a second independence referendum was seen to be a key challenge for businesses. As well as businesses being more cautious as a result of political uncertainty there was the view that people were spending less money. Moreover, businesses that had contracts with EU firms (e.g. in France and Germany), were worried about the longevity of these contracts. There was also concern expressed among tourism businesses about the interest of EU tourists visiting the UK, post-Brexit.
- **Rising costs:** As well as the rising costs of goods noted by Food and drink businesses, there were also wider concerns about rising costs of gas and electricity, and increased costs from wholesalers who source products from outside the UK. Rising costs were attributed to the value of the pound, market fluctuations, and changes to taxation and business rates.
- **Recruitment:** Businesses had experienced difficulties recruiting skilled and experienced staff– a lack of digital skills was specifically mentioned. Moreover, finding low-skilled staff was seen as a particular challenge due to a lack of affordable housing, or higher recruitment costs due to the living wage and compulsory pension contributions. Some community and social enterprise businesses mentioned that they employed staff with disabilities and felt that there was little funding or support in relation to this.
- **Funding:** There was a view that there has been a decrease in the availability of public sector funding and grants from the EU. Some businesses were experiencing delays in receiving expected payments, and it was felt that public sector cuts and the prospect of Brexit placed further uncertainty on the future of funding sources. Furthermore, there was a view that there was limited funding for particular sectors such as agriculture and renewables.
- **Digital infrastructure:** Businesses noted a lack of digital infrastructure, poor internet connectivity, internet speed, and mobile reception as key challenges. In particular, this presented difficulties for businesses who use e-commerce, or maintained an online profile.
- **Sector specific concerns:** There were sector specific concerns raised by businesses, for instance those businesses in the whisky industry noted that the government stance on responsible drinking, and the health lobby has the potential to adversely affect their industry. Businesses that engaged with the public sector cited the standard procurement process, and the related bureaucracy, as a challenge. Further, those working in the fishing industry discussed the lack of fisherman and fishing vessels as a major challenge facing their business.

5. Concerns and plans for the future

Key messages:

Top concerns affecting future business prospects were political uncertainty (79%), rising labour costs and continued weakness of the sterling (64% respectively), recruiting and retaining skilled staff (58%) and the response of European customers to future trading conditions (53%).

Businesses that had struggled in the past 12 months were more likely to say they were concerned about most aspects.

Food and drink businesses were more likely than average to be concerned about external influences such as political uncertainty, the response of European customers to future trading conditions, the ability to access new markets, and the accessibility of investment finance.

Common actions that businesses were taking to enhance their competitiveness were seeking new markets (67%), more efficient working practices (64%), collaboration with other businesses (55%), and upskilling staff (53%)

Food and drink businesses were more likely than overall to report that they are taking action to enhance their competitiveness.

Concerns about business prospects

Businesses were presented with a number of aspects affecting business prospects and asked to consider the extent to which they were of concern to them. As shown in Figure 5.1, the aspect that was of most concern was political uncertainty with four-fifths (79%) stating that they were concerned about this (either to a small, some, or large extent) in contrast to a fifth who were not concerned at all. This was followed by rising labour costs and continued weakness of the sterling (64% respectively), recruiting and retaining skilled staff (58%), the response of European customers to future trading conditions (53%) and ability to access new markets (52%). Less than half of businesses were concerned about the accessibility of investment finance (42%) or availability or cost of premises (37%).

Figure 5.1 – The extent to which businesses are concerned about a number of aspects affecting business prospects

Q. In terms of your business prospects over the next 12 months, to what extent are you concerned about the following, if at all?



Base: All businesses (1,014)

Across the different aspects of concern there were a number of cross-cutting themes:

- **Food and drink businesses** were more likely than average to report that they were concerned about a range of factors: political uncertainty, the response of European customers to future trading conditions, the ability to access new markets and the accessibility of investment finance.
- **Businesses with 11-24 staff** were more likely than average to be concerned to a large extent about rising labour costs and recruiting and retaining skilled staff.
- **Account managed businesses** were more likely than average, and non-account managed firms to express concerns regarding rising labour costs, recruiting and retaining skilled staff, ability to access new markets, accessibility of investment finance and availability or cost of premises.
- **Businesses in fragile areas** were more likely than average to report that they were concerned about political uncertainty, recruiting and retaining skilled staff and the availability or cost of premises.
- **Businesses that had struggled in the last 12 months** were more likely than average to report that they were concerned about all the aspects, bar recruiting and retaining skilled staff and the availability or cost of premises.

Each aspect of concern is explored in more detail below.

Political uncertainty

A majority (79%) felt that political uncertainty was a concern for their business prospects, including 37% who said they were concerned to a large extent, 24% to some extent and 18% to a small extent, while 21% who said it was not a concern at all.

Food and drink businesses (47%) (Table 5.1); those in fragile areas (47%), those who had struggled in the last 12 months (52%) and those who were not optimistic about their prospects in the next 12 months (61%) were more likely than average (37%) to be concerned to a large extent.

Rising labour costs

Around two-thirds (64%) said they were concerned with rising labour costs: 23% to a large extent, 22% to some extent and 19% to a small extent.

Types of business more likely than average to be concerned to a *large* extent were: Tourism businesses (31%), those employing 11-24 staff (37%), those who had struggled in the last 12 months (39%), those who were not optimistic about their prospects in the next 12 months (35%), and those saying free movement of people was important to their business (29%).

Smaller business (0-4 staff) were more likely than average to not be concerned (48% compared with 37% overall).

Continued weakness of sterling

Continued weakness of the sterling was on a par with rising labour costs in terms of concerns for future business prospects: around two-thirds (64%) reported that they were concerned (20% to a large extent, 21% to some extent and 23% to a small extent).

Businesses who had struggled in the last 12 months (30%) those who were not optimistic about their business prospects (29%), and those saying access to the European Single Market was important to their business (29%) (Table 5.2) were more likely than average (20%) to be concerned to a large extent.

Recruiting and retaining skilled staff

Over half (58%) of businesses expressed that they were concerned about recruiting and retaining skilled staff - 23% to a large extent, 18% to some extent and 17% to a small extent.

Those with 11-24 staff (39%) (Table 5.3), account-managed businesses (31%), businesses in fragile areas (35%), and those saying free movement of people was important to their business (31%) were more likely than average (23%) to express concern to a large extent.

Response of European customers to future trading conditions

Just over half (53%) of businesses expressed concern about the response of European customers to future trading conditions: 19% to a large extent, 20% to some extent and 14% to a small extent. In contrast just under half (47%) said they were not at all concerned.

Food and drink businesses (30%), those that had struggled (26%), those that were not optimistic about their prospects (35%), and those saying access to the European Single Market (32%) and free movement (27%) were important to them were more likely than overall (19%) to be concerned to a large extent.

In contrast, those in Tourism and Financial and business services were both more likely than Food and drink businesses to not be concerned at all (42% and 57% respectively compared with 30%) (Table 5.4). Smaller businesses (0-4 staff) and those not account managed by HIE were more likely than average to not be concerned at all (50% and 49% respectively, compared with 47% overall).

Ability to access new markets

Businesses were split in terms of concerns about the ability to access new markets: 48% were not at all concerned, while 52% expressed that they were concerned (16% to a large extent, 20% to some extent and 16% to a small extent).

Food and drink businesses (Table 5.5), and those in Caithness and Sutherland were more likely than average to be concerned to a large extent (27%, and 30% respectively compared with 16% overall). Businesses saying, they had struggled in the last 12 months (29%), those not optimistic about their future prospects (34%) and those saying access to the European Single Market was important to them (24%) were also more likely than average (16%) to be concerned to a large extent.

Tourism (59%) and non-growth sectors (56%) were more likely than overall (48%) to report that they were not at all concerned (Table 5.5), as were those that were not account managed by HIE (50%).

Accessibility of investment finance

Over half (58%) of businesses were not at all concerned about the accessibility of investment finance, in contrast to 42% who were concerned (10% to a large extent, 16% to some extent, and 16% to a small extent).

Food and drink businesses (13%), account managed businesses (16%), and those that had struggled in the last 12 months (17%) were more likely than overall (10%) to be concerned to a large extent.

Those in Financial and business services and Non-growth sectors were more likely to not be at all concerned (73% and 64% respectively compared with 58% overall) (Table 5.6). Similarly, small businesses (0-4 employees) (63%), those in the Argyll and the Islands (67%), and non-account managed businesses (61%) were more likely to not be at all concerned.

Availability or cost of premises

Around two-thirds (63%) reported that they were not at all concerned about the availability or cost of premises, in contrast to 37% that reported that they were concerned (10% to a large extent, 12% to some extent, and 15% to a small extent).

Smaller businesses with 0-4 employees (68%) (Table 5.7), businesses in Orkney (76%), and non-account managed businesses (66%) were more likely than overall (63%) to be not at all concerned. On the other hand, businesses in fragile areas were more likely than average to be concerned to a large extent (16% compared with 10% overall, and 9% in non-fragile areas).

Actions to enhance competitiveness

Businesses were invited to consider what actions they are taking to enhance their competitiveness in the current economic climate. The majority of businesses (91%) are taking one or more of the actions listed. The top actions included seeking new markets or customers (67%), introducing more efficient working practices (64%), collaboration with other businesses (55%), upskilling staff (53%) and investing in improved, plant, machinery or automation or investing in innovation (51% respectively). Among the lesser mentioned actions, under half of businesses reported that they would use market intelligence to better understand customer requirements (47%), enhance leadership skills (39%), recruit new staff (30%), and lower transport costs (29%). A small proportion reported that they had taken no actions and don't anticipate having to (6%), and even less reported that they had taken no actions but recognise that they may need to (3%) (Figure 5.2).

Figure 5.2 – Actions that businesses are taking to enhance their competitiveness in the current economic climate

Q. Which of the following actions, if any, are you taking to enhance your business competitiveness in the current economic climate?



Base: All businesses (1,014)

Variation by type of business

Across the various actions, Food and Drink, larger businesses (25+ staff), account managed businesses, and those that were optimistic for the future were more likely to have taken action across the majority of measures, while non-account managed and small businesses (0-4) were less likely to have taken action or anticipate that they would have to. These variations are outlined in more detail below.

Food and drink businesses were more likely than average, and more likely than Tourism businesses, to report that they were (Table 5.8):

- seeking new markets or customers (74% compared with 67% overall, and 63% Tourism);
- introducing more efficient working practices (73% compared with 64% overall, and 61% Tourism);
- investing in improved plant, machinery or automation (72% compared 51% overall, and 33% Tourism) or innovation (58% compared with 51% overall, 47% Tourism); and
- lowering transport costs (41% compared with 29% overall, and 20% Tourism).

Both Food and drink and Tourism businesses were more likely than average to report that they were using market intelligence to better understand customer requirements (53% and 61% respectively, compared with 47% overall).

Larger businesses (25+) were more likely than average to take action across a majority of the measures. (Table 5.9). Most notably, almost all (92%) businesses of this size reported that they had introduced more efficient working practices. In contrast, smaller businesses (0-4) were more likely than average to report that they had taken no action and did not anticipate having to (9% compared with 6% overall).

There was some variation among the measures by location (Table 5.10), for instance businesses in Moray were more likely than average to report that they were seeking new markets or customers (77% compared with 67% overall); introducing more efficient working practices (80% compared with 64%); investing in improved plant, machinery or automation (64% compared with 51%) and lowering transport costs (39% compared with 29%). Those in Shetland, meanwhile, were more likely than average to collaborate with other businesses (72% compared with 55% overall); upskill staff (70% compared with 53%), and recruit new staff (43% compared with 30%). In contrast, businesses in Inner Moray Firth were more likely than average to report that they had taken no steps but recognise that they may need to (5% compared with 3% overall).

In terms of relationship with HIE, account-managed businesses were more likely than non-account managed businesses to have taken almost all the actions listed, with the exception of lowering transport costs. Furthermore, non-account managed businesses were more likely than account managed businesses to report that they had not taken any actions and don't anticipate having to (7% compared with less than 1% of account managed businesses) (Table 5.11).

Those that were optimistic about their business prospects in the next 12 months were more likely than average to report they were taking several actions to enhance their competitiveness (Table 5.12).

Current events

Key messages:

Businesses views on a second referendum on Scottish Independence were fairly clear. Two-thirds (66%) were in agreement that a second independence referendum presented a risk to Scotland's economic stability. A similar proportion (61%) disagreed that independence offered the prospect of more favourable trading conditions for Scottish businesses.

In relation to Brexit, however, opinion varied across the range of statements. Over half (63%) agreed that leaving the EU will threaten the future of businesses relying on non-UK EU workers, while 53% agreed that Brexit will force businesses to source more UK-based products and therefore encourage growth.

Businesses were less certain whether Brexit will reduce the cost of exports – similar proportions agreed as disagreed. Elsewhere, a quarter agreed that they will withhold making investment decisions until after Brexit negotiations have been completed.

Food and drink businesses appeared more concerned than others about the impact of Brexit, being more likely to agree with the statements that expressed more negative views about current political events. Smaller businesses were also generally more likely to agree with statements that presented a positive take on political events related to Brexit.

Businesses were shown a list of statements about a range of current events and asked the extent to which they would agree or disagree with each one (Figure 5.3).

The most pronounced opinions were those in relation to a second Scottish independence referendum, and reflected a somewhat cautious view. Two-thirds (66%) of businesses agreed that "the call for a second Scottish Independence referendum presents a risk to Scotland's economic ability, while a similar proportion (61%) *disagreed* that "a second Scottish Independence referendum offers the prospect of more favourable trading conditions for Scottish business" – 46% strongly so.

Views were more mixed in relation to the various statements relating to Brexit. Almost two thirds (63%) agreed that "leaving the EU will threaten the future of businesses relying on non-UK EU workers". However, over half agreed (53%) with the more positive scenario that "Brexit will force businesses to source more products within the UK, encouraging growth of UK-based producers."

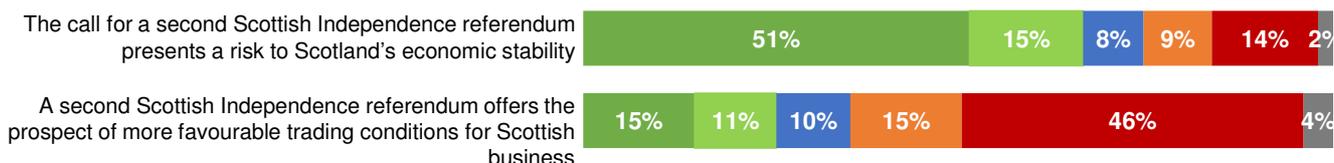
In terms of the impact of Brexit on investment, over half (55%) disagreed with the statement "I will withhold making any business investment decisions until after Brexit negotiations have completed," although 23% agreed. Opinion was split on the impact on exports: 29% agreed that "Brexit will reduce the cost of exporting goods, making businesses that export more competitive" while 36% disagreed.

Figure 5.3 – The extent to which businesses agree or disagree about the effects of current political events

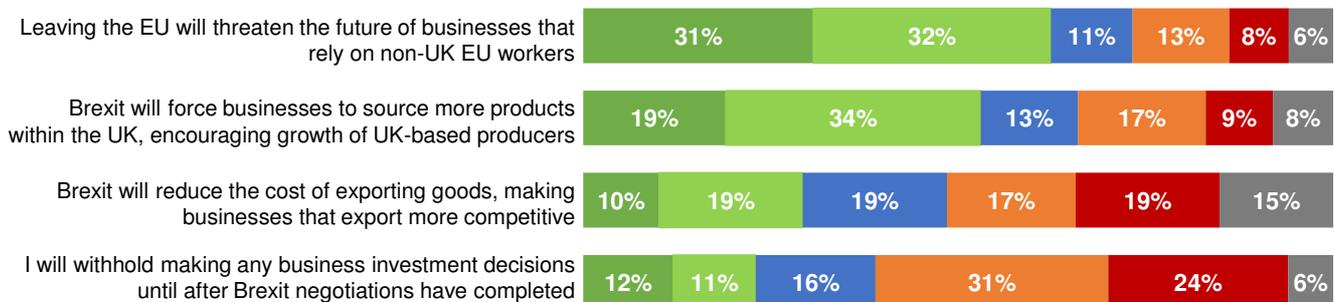
Q. Below are a number of statements that other businesses have made about current political events. To what extent to you agree or disagree with each one?

■ Strongly agree
 ■ Tend to agree
 ■ Neither agree nor disagree
 ■ Tend to disagree
 ■ Strongly disagree
 ■ Don't know

INDYREF2



BREXIT



Base: All businesses (1,014)

Across all the statements, there were notable differences among Food and drink businesses. Food and drink businesses appeared more concerned about the impact of Brexit and a second independence referendum, as they were more likely to agree with the statements that expressed more negative views about current political events (that they would withhold investment decisions until after Brexit negotiations, and view a second referendum as a risk to Scotland's economic stability). In contrast, they were more likely to disagree with the statements that presented a more optimistic view of these events (that Brexit will reduce the cost of exports and make business more competitive, and that a second referendum could offer more favourable trading conditions).

Smaller businesses with 0-4 employees were generally more likely to agree with statements that presented a positive take on Brexit (that Brexit could encourage the growth of UK-based producers, and that it will reduce the cost of exports and make business more competitive). The same was not true in terms of views on the prospect of a second independence referendum, where there was no significant variation by size of business.

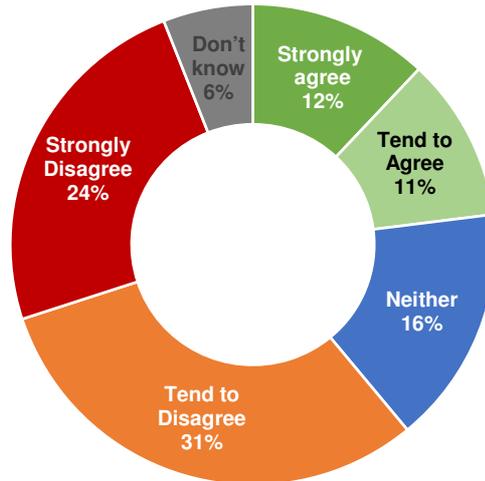
Each of the statements is explored in more detail below.

Business investment decisions

When asked whether businesses would withhold making any investment decisions until after the Brexit negotiations had been completed, over half (55%) disagreed while 23% agreed (Figure 5.4).

Figure 5.4 – Impact of Brexit negotiations on business investment decisions

Q. To what extent do you agree or disagree [that] “I will withhold making any business investment decisions until after Brexit negotiations have completed”?



Base: All businesses (1,014)

Food and drink businesses (33%), non-account managed businesses (24%), those that had struggled in the last 12 months (37%), and who were not optimistic about their business prospects (44%) were more likely than overall (23%) to agree that they would withhold making investment decisions until after Brexit.

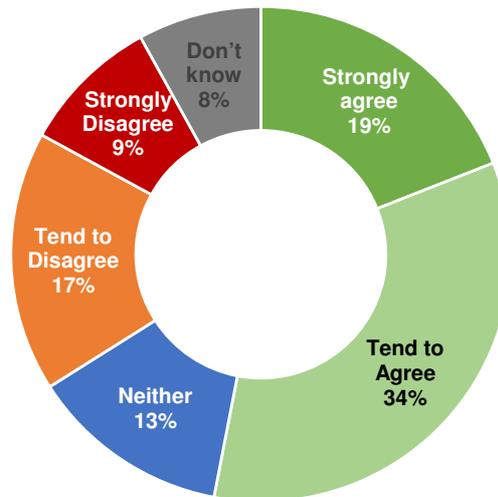
Businesses in Caithness and Sutherland were more likely than average to strongly agree (19% compared with 12%), while larger businesses (25+) and those in Inner Moray Firth were more likely than average to strongly disagree (36% and 32% respectively compared with 24% overall) (Table 5.13 and 5.14).

Impact of Brexit on UK-based production

Businesses were invited to reflect on whether Brexit would force businesses to source more products within the UK, in turn, encouraging the growth of UK-based production. Over half (53%) agreed with this statement, in comparison to around a quarter (26%) that disagreed (Figure 5.5).

Figure 5.5 – Impact of Brexit on UK-based production

Q. To what extent do you agree or disagree [that] Brexit will force businesses to source more products within the UK, encouraging growth of UK-based producers?



Base: All businesses (1,014)

Smaller businesses (0-4 employees) were more likely than average to strongly agree with the statement (23% compared with 19% overall). Those living in non-fragile areas were more likely than those living in fragile areas to agree overall (55% compared 46% in fragile areas).

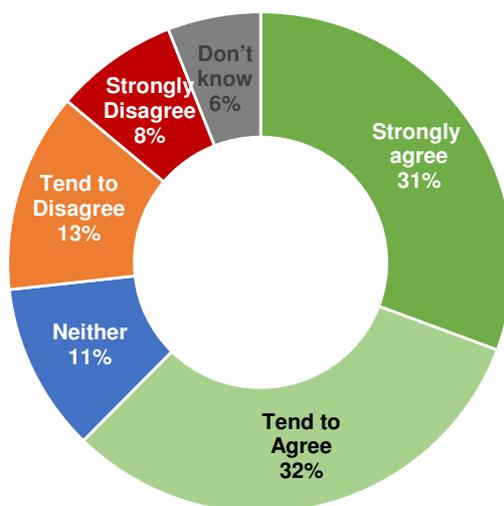
In contrast, those who thought membership of the European Single Market was important to their business were more likely than average to disagree with this statement (37% compared with 26% overall).

Future of businesses that rely on non-UK EU workers

Turning to another possible impact of Brexit, 62% agreed that leaving the EU will threaten the future of businesses that rely on non-UK EU workers, in comparison to a fifth (21%) that disagreed (Figure 5.6). This finding is consistent with concerns raised about this issues in previous waves, particularly among Tourism businesses.

Figure 5.6 – Future of businesses that rely on non-UK EU workers

Q. To what extent do you agree or disagree [that] “Leaving the EU will threaten the future of businesses that rely on non-UK EU workers”?



Base: All businesses (1,014)

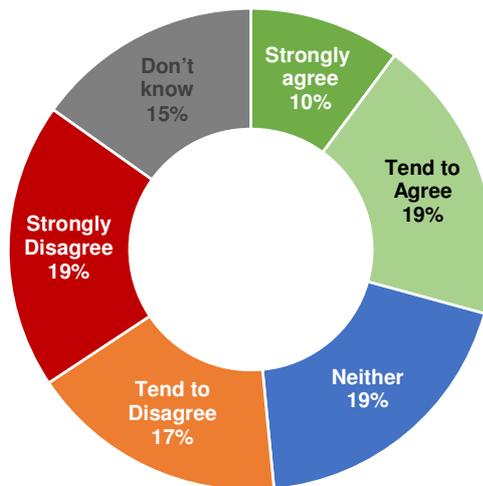
Those that felt that free movement of people was important were more likely than average to agree with this statement (73% compared with 62% overall). Otherwise, there were no statistically significant variations by sub-sector.

Impact of Brexit on costs of exports

Businesses were broadly split in their view of whether Brexit will reduce the cost of exporting goods, making businesses that export more competitive: 29% agreed as opposed to 36% that disagreed, while 34% had a neutral opinion or did not know (Figure 5.7).

Figure 5.7 – Impact of Brexit on costs of exports

Q. To what extent do you agree or disagree [that] Brexit will reduce the cost of exporting goods, making businesses that export more competitive?



Base: All businesses (1,014)

Businesses with 0-4 employees were more likely than average to strongly agree (13% compared with 10% overall). Those in fragile areas were more likely than those in non-fragile areas to strongly disagree (29% compared with 17%).

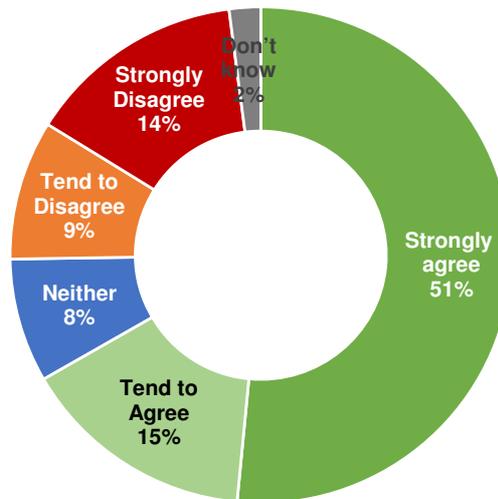
Views on access to the European Single Market further affected responses: those that felt that access was important were more likely to disagree (52% compared with 36% overall), while those that felt it was not important were more likely to agree (37% compared with 29% overall).

Scottish Independence Referendum a risk to Scotland's economic stability

Businesses were invited to consider whether the call for a second independence referendum presented a risk to Scotland's economic stability. Two-thirds (66%) were in agreement, in comparison to around a quarter (24%) that disagreed (Figure 5.8).

Figure 5.8 – The impact of a second independence referendum on Scotland's economic stability

Q. To what extent do you agree or disagree [that] the call for a second Scottish independence referendum presents a risk to Scotland's economic stability?



Base: All businesses (1,014)

Businesses in the Food and drink sector were more likely than average to strongly agree (60% compared with 51% overall) and those in non-fragile areas were more likely than those in fragile areas to strongly agree (53% compared with 43%). Those who said their economic optimism had decreased in the last six months were more likely than average to agree overall (72% compared with 66% overall).

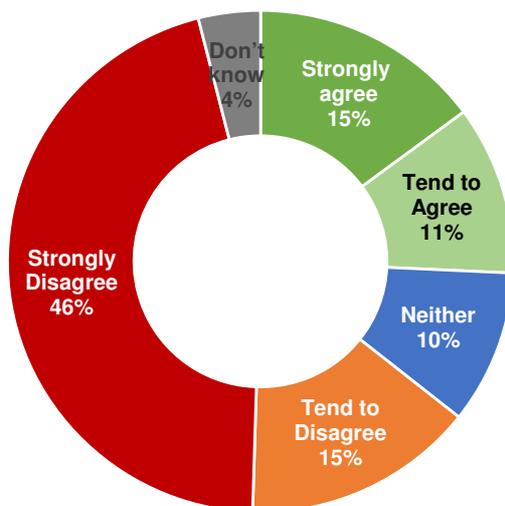
Non-account managed businesses were more likely than account-managed business to strongly disagree (16% compared 5%).

Favourable trading conditions as a result of a second Scottish Independence Referendum

Mirroring the results for the previous statement on Scottish Independence, 60% disagreed that independence offers the prospect of more favourable trading conditions for Scottish business, while only 26% agreed (Figure 5.9).

Figure 5.9 – The impact of a second independence referendum on trading conditions for Scottish business

Q. To what extent do you agree or disagree [that] a second Scottish Independence referendum offers the prospect of more favourable trading conditions for Scottish business?



Base: All businesses (1,014)

Again reflecting the results on the previous statement on Scottish Independence, Food and drink businesses were more likely than overall to strongly disagree with the statement (55% compared with 46% overall). Businesses in Lochaber, Skye and Wester Ross were more likely than others to strongly agree (24% compared with 15% overall),

6. Summary

Consistent with the previous wave of the survey, half of businesses reported that their confidence in the economic outlook in Scotland had stayed the same. This is situated within a backdrop of a decline among those reporting that their confidence had increased from 26% in 2014, to 11% in 2017. Another consistent pattern in relation to overall confidence in the economic outlook is the difference between the Food and drink and Tourism sectors: Food and drink consistently tend to be more negative than others, with Tourism businesses being more positive.

Despite the low levels of confidence in the economy, two-fifths reported that their business had performed well and a similar proportion reported a stable performance – in contrast to a fifth that had struggled. In terms of specific aspects of performance, businesses reported a stable performance across a number of measures, including employment, staff training, working hours, and exports. On exports specifically, the reported increase in performance between wave 3 and wave 4 has seen a levelling off in the last two waves of the survey.

When looking at future prospects, businesses tended to be positive, with three quarters reporting that they were optimistic for their prospects in the next twelve months. In terms of business growth, a similar proportion expected growth (43%) as expected stability (44%), reflecting the trend seen in previous waves.

Turning to relationships with the EU, businesses were divided in terms of the importance of membership of the European Single Market for their business – half reported that it was important, while half said it was not important. However, when considering the importance of membership of European Single Market to the Scottish economy overall, the proportion saying it was important increases to over two-thirds. In terms of free movement of people, over half reported that this was important to their business, while three-quarters reported that it was important to the Scottish economy overall. There is a correlation between those that think that access to the European Single Market is important and those that think that the free movement of people is important – this relationship is particularly strong in terms of importance of these factors to the economy overall.

Aside from the trend questions, this wave of the survey we explored views on business performance in more detail. Among those businesses that reported that they performed well, businesses commonly cited staffing, product development, marketing, the weakness of the sterling, and investment and funding as reasons why their business had performed well.

Among those reporting a stable performance, it was common for this stability to be attributed to a strong customer or client base that they routinely work with. However, in other cases it was noted that businesses had had to make cutbacks on operating costs in order to maintain an overall stable performance.

Overall among those that reported that they had struggled, political uncertainty, depreciation of the pound, and specific issues facing island communities were commonly mentioned. Looking at Food and drink businesses (who were more likely to report that they had struggled), a number of sector specific factors were mentioned. These included the sector wide reliance on subsidies (with concerns around delayed or future payments), the fluctuation of world market prices, and increased costs. As well as these reasons for struggling, commonly mentioned challenges for all businesses were rising costs, recruitment, funding, digital infrastructure and political uncertainty.

Reflecting these commonly mentioned challenges, the areas that businesses were most concerned for the next 12 months about were political uncertainty, rising labour costs, continued weakness of the sterling and recruiting and retaining skilled staff. Other areas were also seen as a concern, although to a lesser degree: the response of European customers to future trading conditions, the ability to access new markets, accessibility of investment finance and the availability or cost of premises.

Businesses were invited to consider what actions they are taking to enhance their competitiveness in the current economic climate. The top actions included seeking new markets or customers, introducing more efficient working practices, collaboration with other businesses, upskilling staff, and investing in improved, plant, machinery or automation or investing in innovation.

Businesses were also invited to reflect on a number of statements about current political events and how these would impact businesses.

In relation to Brexit, there were a number of different reported impacts. Businesses were almost three times more likely to agree than disagree that leaving the EU will threaten the future of businesses that rely on non-UK EU workers. Meanwhile just over half agreed that Brexit will force businesses to source more products within the UK, encouraging the growth of UK-based producers. However, businesses were less certain whether Brexit will reduce the cost of exports – similar proportions agreed as disagreed. Elsewhere, a quarter agreed that they will withhold making investment decisions until after Brexit negotiations have been completed while more than half disagreed.

Views on the call for a second Scottish Independence Referendum were more consistent among businesses. Two-thirds agreed that a second Scottish Independence Referendum presented a risk to Scotland's economic stability, and a similar proportion disagreed that the referendum offered the prospect of more favourable trading conditions for Scottish businesses.

Appendix

Economic optimism

Table 2.1 – Economic optimism by growth sector

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	N
Tourism	16	31	50	2	187
Non-growth sector	12	37	49	2	422
Creative Industries	10	31	57	2	54
Financial and Business Services	8	39	53	1	81
Food and Drink	8	46	44	1	195
	N	N	N	N	N
Energy ⁵	7	7	10	-	24
Life Sciences	-	2	1	-	2

Base: All businesses in each sector

Table 2.2 – Economic optimism by size of business

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	N
0-4	11	41	46	2	603
5-10	8	37	55	-	164
11-24	13	30	56	2	134
25+	20	25	53	2	112

Base: All businesses

Table 2.3 – Economic optimism by fragile area

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	N
Fragile area	11	46	41	1	193
Non-fragile area	12	36	51	2	821

Base: All businesses

⁵ As base sizes for Energy and Life Sciences 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.

Business performance

Table 2.4 – Business performance by growth sector

	Performed exceptionally well	Performed quite well	Been fairly steady	Struggled slightly	Struggled markedly	Don't know	Base
	%	%	%	%	%	%	
Overall	9	31	38	17	5	1	1,014
Tourism	15	37	35	8	4	1	187
Non Growth Sector	9	32	36	17	5	1	422
Creative industries	3	33	38	17	9	-	54
Food and drink	6	27	36	23	6	1	195
Financial and business services	8	22	52	12	4	1	81
	N	N	N	N	N	N	N
Energy ⁶	2	10	9	3	1	-	24
Life sciences	-	1	-	1	1	-	2

Base: All businesses in each sector

Table 2.5 – Business performance by size of business

	Performed exceptionally well	Performed quite well	Been fairly steady	Struggled slightly	Struggled markedly	Don't know	Base
	%	%	%	%	%	%	
0-4	7	25	42	18	6	1	603
5-10	10	40	29	17	3	1	164
11-24	14	38	29	12	7	*	134
25+	14	42	33	9	2	-	112

Base: All businesses

Table 2.6 – Aspects of business performance in the last six months

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	
Sales or turnover	39	22	37	2	983
Working hours	29	9	62	*	1,003
Staff training	28	6	66	*	794
Exports	27	12	57	3	215
Profit margins	25	30	41	4	979
Employment	19	9	72	*	885

Base: All businesses saying each aspect applied to them

⁶ As base sizes for Energy and Life Sciences 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.

Table 2.7: Overall assessments of business performance in the last six months by growth sector

Growth Sector	Assessment of business performance (mean score)
Food and drink	0.7
Tourism	0.6
Energy	0.6
Non Growth Sector	0.6
Creative industries	0.4
Financial and business services	0.4
Life sciences ⁷	-0.5

Table 2.8: Overall assessments of business performance in the last six months by location

Location	Assessment of business performance (mean score)
Lochaber, Skye and Wester Ross	1.1
Outer Hebrides	1.1
Orkney	0.9
Inner Moray Firth	0.4
Moray	0.8
Caithness and Sutherland	0.7
Argyll and the Islands	0.4
Shetland	0

Table 2.9 – Overall assessments of business performance by size of business

Size of business	Assessment of business performance (mean score)
0-4	0.3
5-10	0.7
11-24	1.2
25+	1.6

Table 2.10: Overall assessments of business performance in the last six months by relationship with HIE

Relationship with HIE	Assessment of business performance (mean score)
Account-managed	1.4
Non-account managed	0.5

⁷ Although Life Sciences had an average score of -0.5, this does not represent a significant difference from other sectors due to the small base size for Life Science businesses

Business prospects in the next six months

Table 2.11 – Aspects of business performance in the next six months

	Increase	Decrease	Stay the same	Don't know	Base
	%	%	%	%	
Sales or turnover	45	12	39	4	991
Exports	38	5	52	5	216
Profit margins	32	16	46	5	988
Staff training	29	5	65	1	813
Employment	24	4	71	1	890
Working hours	23	6	70	1	1,006

Base: All businesses saying each aspect applied to them

Table 2.12: Overall assessments of business performance in the next six months by growth sector

Growth Sector	Assessment of business performance (mean score) ⁸
Energy	2.5
Creative industries	1.5
Tourism	1.3
Food and drink	1.1
Financial and business services	1.1
Non Growth Sector	0.9
Life Sciences	0.6

Table 2.13: Overall assessments of business performance in the next six months by location

Location	Assessment of business performance (mean score)
Outer Hebrides	1.9
Lochaber, Skye and Wester Ross	1.5
Shetland	1.4
Moray	1.2
Orkney	1.1
Argyll and the Islands	1
Inner Moray Firth	1
Caithness and Sutherland	0.5

⁸ Although Energy has the highest mean score of 2.5, and Life Sciences has the lowest score of 0.6, these do not represent a significant difference from other sectors due to the small base size for these sectors

Table 2.14: Overall assessments of business performance in the next six months by size of business

Size of business	Assessment of business performance (mean score)
0-4	0.8
5-10	1.4
11-24	1.8
25+	2.1

Table 2.15: Overall assessments of business performance in the next six months by relationship with HIE

Relationship with HIE	Assessment of business performance (mean score)
Account-managed	2.5
Non-account managed	0.8

Future business prospects

Table 2.16– 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	40	58	2	-	1	116
Stayed the same	18	68	10	2	2	494
Decreased	9	52	27	10	2	386

Table 2.17 – 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	62	7	2	2	400
Been fairly steady	14	69	12	3	2	384
Struggled slightly/markedly	4	44	37	14	1	220

Table 2.18 – Optimism for future business prospects by growth sector

	Very optimistic	Fairly optimistic	Not very optimistic	Not at all Optimistic	Don't know	Base
	%	%	%	%	%	N
Tourism	29	58	8	4	2	187
Creative industries	17	67	11	3	2	54
Financial and business services	14	65	18	1	3	81
Non-growth sector	16	59	16	6	3	422
Food and drink	14	58	21	5	1	195
	N	N	N	N	N	
Energy ⁹	9	15	-	-	-	24
Life sciences	1	1	1	-	-	2

Table 2.19 – Optimism for future business prospects by size of businesses

	Very optimistic	Fairly optimistic	Not very optimistic	Not at all Optimistic	Don't know	Base
	%	%	%	%	%	N
0-4	16	58	17	6	2	603
5-10	16	67	14	2	*	164
11-24	20	62	15	2	1	134
25+	27	64	6	3	1	112
<i>Base: All businesses</i>						

Business growth

Table 2.20– Future growth by size of businesses

	Substantial growth	Moderate growth	Slight growth	Much the same	Contraction	Don't know	Base
	%	%	%	%	%	%	N
0-4	4	12	17	53	12	3	603
5-10	7	20	29	38	5	1	164
11-24	11	24	30	24	9	1	134
25+	8	44	21	22	5	1	112

⁹ As base sizes for Energy and Life Sciences 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.

European Single Market

Table 3.1 – Importance of membership of European Single Market to own business by growth sector

	Very important	Quite important	Not very important	Not at all important	Don't know	Base
	%	%	%	%	%	N
Food and drink	36	31	18	13	2	195
Creative industries	29	18	32	15	6	54
Non-growth sector	17	26	23	30	5	422
Tourism	21	19	27	28	4	187
Financial and business services	22	16	18	40	4	81
	N	N	N	N	N	
Energy ¹⁰	10	3	4	6	1	24
Life sciences	1	1	-	1	-	2

Table 3.2 – Importance of access to European Single Market to own business by size of business

	Very important	Quite important	Not very important	Not at all important	Don't know	Base
	%	%	%	%	%	N
0-4	23	23	21	29	4	603
5-10	24	35	18	19	3	164
11-24	29	26	23	18	3	134
25+	23	21	26	23	6	112

Table 3.3 – 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	Don't know	Base
Importance to businesses	%	%	%	%	%	N
Important	61	33	3	*	3	474
Not important	17	28	28	18	9	501

¹⁰ As base sizes for Energy and Life Sciences 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.

Table 3.4 – Importance of membership of the European Single Market to the economy by size of business

	Very important	Quite important	Not very important	Not at all important	Don't know	Base
	%	%	%	%	%	N
0-4	39	26	16	10	8	603
5-10	37	43	8	7	4	164
11-24	43	33	14	5	5	134
25+	30	38	20	7	6	112

Free movement of people

Table 3.5 – Comparison of importance of free movement to the economy and to business

	Importance to the economy					Base
	Very important	Quite important	Not very important	Not at all important	Don't know	Base
Importance to businesses	%	%	%	%	%	N
Important	66	32	1	*	2	421
Not important	27	35	21	10	8	576

Table 3.6 – Importance of free movement of people to the economy by size of business

	Very important	Quite important	Not very important	Not at all important	Don't know	Base
	%	%	%	%	%	N
0-4	38	34	14	7	7	603
5-10	53	31	10	4	2	164
11-24	46	34	11	3	6	134
25+	39	42	12	1	5	112

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

Table 3.7 – Importance of free movement by importance of European Single Market – to businesses

	Importance of free movement of people				
	Very important	Quite important	Not very important	Not at all important	Base
	%	%	%	%	
Importance of European Single Market					
Very important	49	13	22	16	241
Fairly important	19	30	23	28	251
Not very important	6	18	44	32	214
Not at all important	9	13	17	61	257
Important	33	22	23	22	492
Not important	8	15	29	48	471
<i>Base: All businesses, excluding those saying "don't know" (963)</i>					

Table 3.8 – Importance of free movement by importance of European Single Market – to the economy

	Importance of free movement of people				
	Very important	Quite important	Not very important	Not at all important	Base
	%	%	%	%	
Importance of European Single Market					
Very important	78	18	3	2	384
Fairly important	28	58	12	2	300
Not very important	11	39	40	10	137
Not at all important	13	21	29	39	84
Important	56	35	7	2	684
Not important	12	33	36	20	221
<i>Base: All businesses, excluding those saying "don't know" (905)</i>					

Concerns about business prospects

Table 5.1 – Concern over political uncertainty by growth sector

<i>In terms of your business prospects over the next 12 months, to what extent are you concerned about political uncertainty, if at all?</i>					
	To a small extent	To some extent	To a large extent	Not at all	Base
	%	%	%	%	N
Food and drink	11	26	47	15	195
Creative industries	4	39	39	6	53
Non-growth sector	19	21	34	26	409
Tourism	13	25	29	25	179
Financial and business services	21	18	37	25	78
	N	N	N	N	N
Energy ¹¹	4	4	8	3	24
Life sciences	-	-	1	1	4
<i>Base: All businesses in each sector</i>					

Table 5.2 – Concern over the continued weakness of the Sterling by importance of access to the European Single Market

<i>In terms of your business prospects over the next 12 months, to what extent are you concerned about the continued weakness of the Sterling, if at all?</i>					
	To a small extent	To some extent	To a large extent	Not at all	Base
	%	%	%	%	N
Access to the European Single Market					
Important	21	24	29	26	467
Not Important	23	18	10	48	480
<i>Base: All businesses</i>					

¹¹ As base sizes for Energy and Life Sciences 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.

Table 5.3 – Concern over recruiting and retaining skilled staff by business size

<i>In terms of your business prospects over the next 12 months, to what extent are you concerned about recruiting and retaining skilled staff, if at all?</i>					
	To a small extent	To some extent	To a large extent	Not at all	Base
	%	%	%	%	N
0-4	15	14	17	54	461
5-10	19	22	27	31	162
11-24	19	24	39	18	132
25+	16	26	31	27	111
<i>Base: All businesses in each size category</i>					

Table 5.4 – Concern over the response of European customers to future trading conditions by sector

<i>In terms of your business prospects over the next 12 months, to what extent are you concerned about the response of European customers to future trading conditions, if at all?</i>					
	To a small extent	To some extent	To a large extent	Not at all	Base N
	%	%	%	%	N
Food and drink	15	25	30	30	161
Creative industries	9	25	24	41	42
Non-growth sector	11	19	11	59	336
Tourism	16	21	21	42	160
Financial and business services	21	8	13	57	67
	N	N	N	N	N
Energy ¹²	6	5	6	4	22
Life sciences	1	-	1	1	4
<i>Base: All businesses in each sector</i>					

¹² As base sizes for Energy and Life Sciences 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.

Table 5.5 – Concern over the ability to access new markets by sector

<i>In terms of your business prospects over the next 12 months, to what extent are you concerned about the ability to access new markets, if at all?</i>					
	To a small extent	To some extent	To a large extent	Not at all	Base
	%	%	%	%	N
Food and drink	17	22	27	33	186
Creative industries	12	34	19	35	48
Non-growth sector	16	15	12	56	369
Tourism	15	18	8	59	162
Financial and business services	14	19	10	57	186
	N	N	N	N	N
Energy ¹³	7	9	4	4	24
Life sciences	1	1	1	-	4

Base: All businesses in each sector

Table 5.6 – Concern over the accessibility of investment finance by sector

<i>In terms of your business prospects over the next 12 months, to what extent are you concerned about the accessibility of investment finance, if at all?</i>					
	To a small extent	To some extent	To a large extent	Not at all	Base
	%	%	%	%	N
Food and drink	19	22	13	46	181
Creative industries	13	26	10	51	50
Non-growth sector	15	14	7	64	379
Tourism	15	13	9	63	168
Financial and business services	12	11	4	73	73
	N	N	N	N	N
Energy ¹⁴	5	4	3	12	25
Life sciences	-	-	1	1	3

Base: All businesses in each sector

¹³ As base sizes for Energy and Life Sciences 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.

¹⁴ As base sizes for Energy and Life Sciences 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.

Table 5.7– Concern over the availability or cost of premises by business size

<i>In terms of your business prospects over the next 12 months, to what extent are you concerned about the availability or cost of premises, if at all?</i>					
	To a small extent	To some extent	To a large extent	Not at all	Base N
	%	%	%	%	
0-4	13	10	9	68	496
5-10	25	12	12	51	154
11-24	12	14	13	60	117
25+	16	19	7	58	101
<i>Base: All businesses in each size category</i>					

Actions to enhance competitiveness

Table 5.8 – Actions to enhance competitiveness by growth sector

<i>Which of the following actions, if any, are you taking to enhance your business competitiveness in the current economic climate?</i>							
	Food and drink	Creative industries	Non-growth sector	Tourism	Financial and business services	Energy ¹⁵	Life Sciences
	%	%	%	%	%	N	N
Seeking new markets or customers	74	70	65	63	62	21	2
Introducing more efficient working practices	73	66	58	61	65	18	1
Collaborating with other businesses	57	47	50	60	52	21	2
Upskilling staff	50	58	52	48	60	19	1
Investing in innovation	58	49	45	47	47	21	2
Investing in improved plant, machinery or automation	72	42	46	33	33	16	1
Using market intelligence to better understand customer requirements	53	40	41	61	43	16	1
Enhancing leadership skills	37	36%	37	40	43	15	1
Recruiting new staff	27	26	26	32	33	14	1
Lowering transport costs	41	20	27	20	22	6	1
None – but recognise we may need to	1	5	4	3	4	-	-
None – and don't anticipate taking any actions	2	10	8	9	10	-	-
<i>Base</i>	<i>195</i>	<i>54</i>	<i>422</i>	<i>187</i>	<i>81</i>	<i>25</i>	<i>4</i>
<i>Base: All businesses in each sector</i>							

¹⁵ As base sizes for Energy and Life Sciences 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.

Table 5.9– Actions to enhance competitiveness by business size

<i>Which of the following actions, if any, are you taking to enhance your business competitiveness in the current economic climate?</i>				
	0-4	5-10	11-24	25+
	%	%	%	%
Seeking new markets or customers	62	70	78	84
Introducing more efficient working practices	56	67	84	92
Collaborating with other businesses	53	61	50	63
Upskilling staff	39	74	79	83
Investing in innovation	45	58	67	65
Investing in improved plant, machinery or automation	47	53	63	65
Using market intelligence to better understand customer requirements	43	52	54	59
Enhancing leadership skills	25	52	64	81
Recruiting new staff	15	45	61	68
Lowering transport costs	29	24	28	33
None – but recognise we may need to	3	2	1	1
None – and don't anticipate taking any actions	9	3	2	-
<i>Base</i>	<i>603</i>	<i>164</i>	<i>134</i>	<i>112</i>
<i>Base: All businesses in each size category</i>				

Table 5.10 – Actions to enhance competitiveness by location

<i>Which of the following actions, if any, are you taking to enhance your business competitiveness in the current economic climate?</i>								
	Argyll and the Islands	Caithness and Sutherland	Inner Moray Firth	Lochaber, Skye and Wester Ross	Moray	Orkney	Outer Hebrides	Shetland
	%	%	%	%	%	%	%	%
Seeking new markets or customers	58	72	70	61	77	60	69	78
Introducing more efficient working practices	56	57	62	62	80	71	66	73
Collaborating with other businesses	53	52	57	56	52	53	40	72
Upskilling staff	51	40	49	52	56	59	69	70
Investing in innovation	44	51	52	45	56	62	52	57
Investing in improved plant, machinery or automation	51	53	43	42	64	55	46	60
Using market intelligence to better understand customer requirements	48	50	50	43	46	37	61	43
Enhancing leadership skills	33	35	39	39	46	34	63	44
Recruiting new staff	30	19	28	29	31	28	42	43
Lowering transport costs	30	34	22	25	39	26	28	24
None – but recognise we may need to	1	3	5	3	1	2	2	1
None – and don't anticipate taking any actions	8	9	7	7	1	7	6	3
<i>Base</i>	<i>203</i>	<i>108</i>	<i>252</i>	<i>117</i>	<i>130</i>	<i>86</i>	<i>46</i>	<i>67</i>
<i>Base: All businesses in each location</i>								

Table 5.11 – Actions to enhance competitiveness by relationship with HIE

<i>Which of the following actions, if any, are you taking to enhance your business competitiveness in the current economic climate?</i>		
	Account managed	Non-account managed
	%	%
Seeking new markets or customers	86	64
Introducing more efficient working practices	80	62
Collaborating with other businesses	67	53
Upskilling staff	73	50
Investing in innovation	71	48
Investing in improved plant, machinery or automation	64	49
Using market intelligence to better understand customer requirements	55	46
Enhancing leadership skills	65	35
Recruiting new staff	57	25
Lowering transport costs	25	29
None – but recognise we may need to	1	3
None – and don't anticipate taking any actions	*	7
<i>Base</i>	<i>149</i>	<i>865</i>
<i>Base: All businesses</i>		

Table 5.12– Actions to enhance competitiveness by business prospects in the next 12 months

<i>Which of the following actions, if any, are you taking to enhance your business competitiveness in the current economic climate?</i>		
	Optimistic	Not optimistic
	%	%
Seeking new markets or customers	68	67
Introducing more efficient working practices	68	55
Collaborating with other businesses	57	49
Upskilling staff	58	38
Investing in innovation	54	43
Investing in improved plant, machinery or automation	53	45
Using market intelligence to better understand customer requirements	49	42
Enhancing leadership skills	44	22
Recruiting new staff	35	14
Lowering transport costs	28	30
None – but recognise we may need to	3	2
None – and don't anticipate taking any actions	5	11
<i>Base :</i>	<i>807</i>	<i>187</i>
<i>Base: All businesses</i>		

Current political events

Table 5.13 – Impact of Brexit negotiations on business investment decisions by business size

<i>To what extent do you agree or disagree with the statement 'I will withhold making any business investment decisions until after Brexit negotiations have completed'?</i>				
	0-4	5-10	11-24	25+
	%	%	%	%
Strongly agree	14	7	12	5
Tend to agree	11	15	7	8
Neither agree nor disagree	17	14	11	16
Tend to disagree	29	38	36	28
Strongly disagree	23	20	30	36
Don't know	6	6	4	8
<i>Base:</i>	<i>603</i>	<i>164</i>	<i>134</i>	<i>112</i>
<i>Base: All businesses in each size category</i>				

Table 5.14 – Impact of Brexit negotiations on business investment decisions by location

<i>To what extent do you agree or disagree with the statement 'I will withhold making any business investment decisions until after Brexit negotiations have completed'?</i>								
	Argyll and the Islands	Caithness and Sutherland	Inner Moray Firth	Lochaber, Skye and Wester Ross	Moray	Orkney	Outer Hebrides	Shetland
	%	%	%	%	%	%	%	%
Strongly agree	12	19	11	13	11	9	9	3
Tend to agree	11	11	7	12	11	19	11	13
Neither agree nor disagree	18	13	14	12	23	7	19	18
Tend to disagree	32	28	28	30	24	36	33	47
Strongly disagree	19	17	32	28	26	28	27	15
Don't know	7	11	7	5	5	1	2	4
<i>Base</i>	<i>203</i>	<i>108</i>	<i>252</i>	<i>117</i>	<i>130</i>	<i>86</i>	<i>46</i>	<i>67</i>
<i>Base: All businesses in each location</i>								