

HIE Business Panel Survey Business Confidence and Investment

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Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

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1. INTRODUCTION

Background

The Highlands and Islands Enterprise (HIE) Business Panel was established in 2008 to measure and monitor the economic health of the region through the experiences and opinions of businesses and social enterprises in the region and to explore topical issues at a regional, sub-regional or sectoral level.

Following two waves of panel surveys in 2014 and 2015 HIE commissioned Ipsos MORI to carry out a further series of five, quarterly business panel surveys with 1,000 businesses and social enterprises, representative of the Highland 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 first in the series of five), carried out in July and August 2016. The survey covered a number of topics of general interest to business, including economic optimism and business performance, prospects and risks, and past and future business investment. The survey also included questions to obtain an initial impression of the impact of the Leave vote in the EU referendum.

Methodology

Sampling

The survey sample was mainly sourced from the businesses who 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 businesses with an account-managed relationship with HIE were also approached along with companies identified from the Experian business database. The sample was also 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 4th July and 7th August, 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 1,054 eligible interviews were achieved.

The achieved sample was broadly representative of the population, notwithstanding some differential non-response due to differences in availability and willingness to participate. Weighting was applied to correct the distribution of sectors to match the sample counts.

Presentation and interpretation of the data

The survey findings represent the views of a sample of businesses, and not the entire business population of the HIE area, so they are subject to sampling tolerances, meaning that not all differences will be statistically significant. Throughout the report, differences between sub-groups are commented upon only where we are sure these are statistically significant i.e. where we can be 95% certain that they have not occurred by chance.

Where percentages do not sum to 100%, this may be due to rounding, the exclusion of 'don't know' categories, or multiple answers. 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.

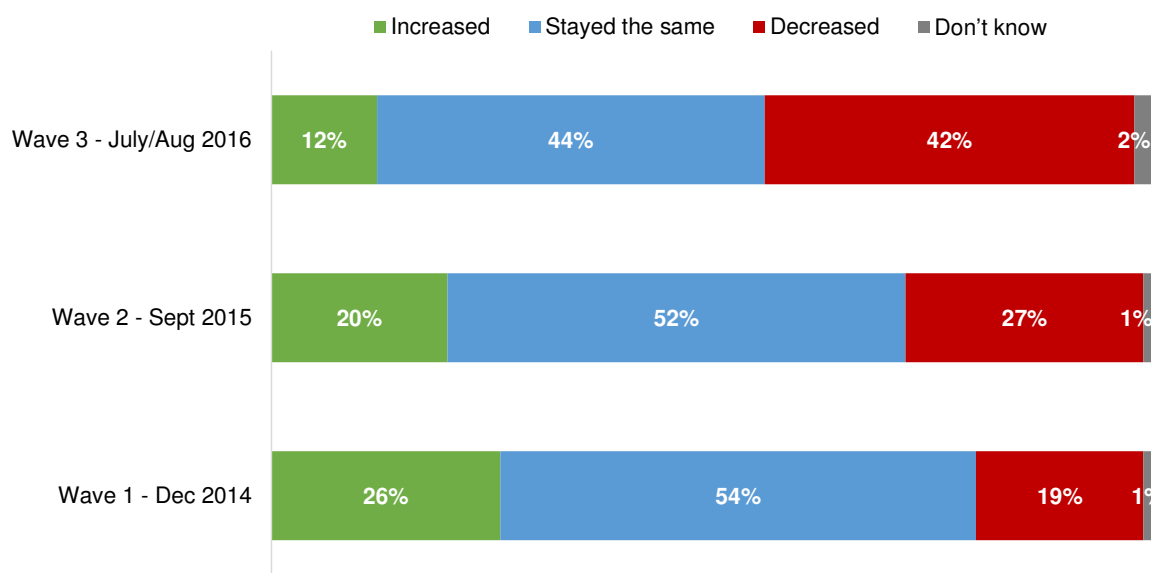
2. OPTIMISM, PROSPECTS AND PERFORMANCE

Economic optimism

Overall, the findings reflect the lowest ever confidence in the economic outlook in Scotland out of the previous waves of the survey. Economic optimism declined significantly from a net negative of -7 points to a net negative of -30 points since the 2015 survey¹. A little over two fifths (44%) of businesses said that their confidence in the economic outlook in Scotland had stayed the same over the previous six months. A similar figure (42%) said that their confidence had decreased, and only one eighth (12%) said that their confidence had increased (Figure 2.1).

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

Q. Over the past six months, since the beginning of January 2016, has your level of confidence in the economic outlook in Scotland increased, decreased, or stayed the same?



Base: All businesses (1,054)

Source: Ipsos MORI

There were no statistically significant differences in confidence by growth sector, location, size of business, account managed firms or fragile areas². The trends for overall economic optimism were largely consistent across businesses in the HIE area.

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

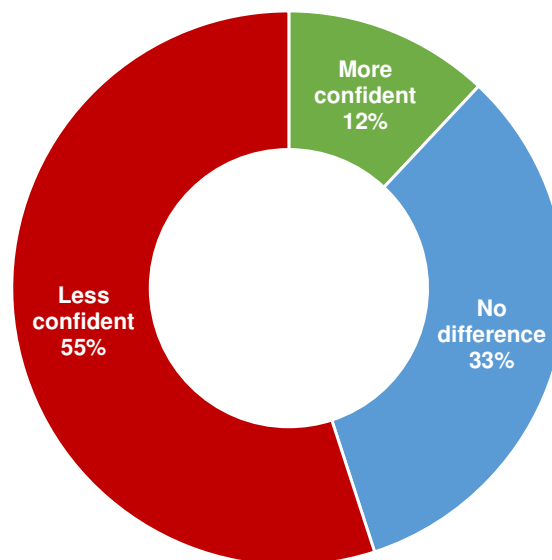
² Account managed firms are those with an account-managed relationship with HIE. Fragile areas are communities characterised by declining population, under-representation of young people within the population, lack of economic opportunities, below average income levels, problems with transport and other issues reflecting their geographic location. For more information see HIE's report on fragile areas at: <http://www.hie.co.uk/regional-information/economic-reports-and-research/archive/review-of-fragile-areas-and-employment-action-areas-in-the-highlands-and-islands---executive-summary.html>

Impact of EU Referendum result on economic optimism

When asked specifically about the impact of the EU referendum, 55% of businesses said that the recent vote to leave the EU had made them less confident about the economic outlook for Scotland (Figure 2.2).

Figure 2.2: Confidence in the economic outlook in Scotland after EU referendum

Q. Thinking specifically about the recent vote to leave the European Union, what effect, if any, has this had on your level of confidence in the economic outlook in Scotland?



Base: All businesses (1,054)

Source: Ipsos MORI

The vote to leave the EU seems to have widened the gap between those confident about Scotland's economic prospects and those whose confidence had decreased over the past 6 months. Those who reported that their confidence in the economic outlook in Scotland had increased were also more likely to report that the EU referendum had made them more confident. As shown in Table 2.1, 80% of businesses who said that their confidence in the economic outlook in Scotland had decreased also said that the recent vote to leave the European Union had made them less confident.

Table 2.1: Economic confidence by impact of EU referendum result

	Confidence in the economic outlook in Scotland			
	Increased	Decreased	Stayed the same	Don't know
Impact of EU referendum on economic confidence	%	%	%	%
More confident	37	7	11	12
Less confident	30	80	38	48
No difference	33	13	51	40
<i>Base: All Businesses (1,054)</i>				

Again, there is little variation in this across area offices, size of business or growth sectors, and no significant difference between account managed and non-account managed businesses.

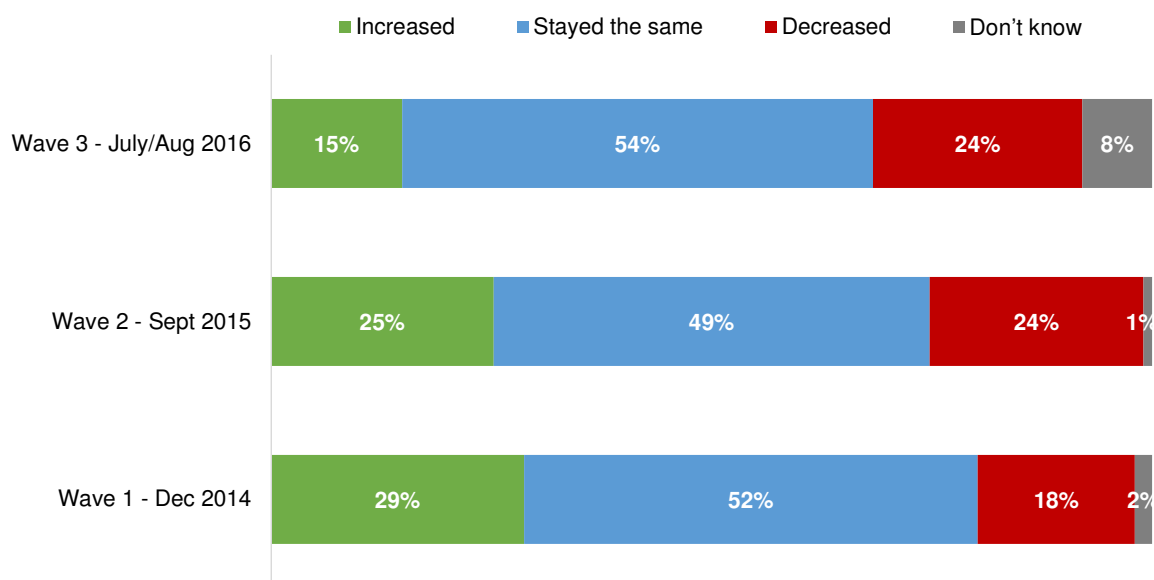
In terms of location, in Argyll and the Islands, 62% of businesses said they were less confident compared with 55% on average. The EU referendum had a more pronounced impact on views in fragile areas than others. Among firms in fragile areas, 68% felt less confident in the economic outlook compared with 55% in non-fragile areas.

Business prospects compared with previous six months

Similar to the findings on economic optimism, respondents' assessment of their business prospects over the last six months had also decreased, shifting from a net positive of +1 points to a net negative of -9 points between September 2015 and July 2016. However, just over half (54%) of businesses reported that their prospects had stayed the same (Figure 2.3). This is a slight increase in the proportion reporting stable prospects in the previous wave of the survey (49%). However, there has been a significant reduction in the proportion reporting improved prospects (15%, compared with 25% in 2015 and 29% in 2014), while the proportion reporting deteriorated prospects had stayed the same as in 2015, at 24%.

Figure 2.3: Assessments of business prospects in the last six months over time

Q. Does this mean that the prospects for your business changed since the beginning of January 2016? Have your business prospects...?



Base: All businesses (1,054)

Source: Ipsos MORI

Businesses in the Outer Hebrides were most likely to report improved business prospects (24%, compared with 15% overall), while businesses in Orkney were least likely to report improved prospects (9%) (Table 2.2). There were no significant variations across growth sector, size of business, account managed firms or fragile areas.

Table 2.2: Business prospects by region

	Improved	Deteriorated	Stayed the same	Don't know	Base
	%	%	%	%	
Outer Hebrides	24	19	53	4	44
Shetland	20	20	60	-	44
Inner Moray Firth	18	21	51	10	257
Caithness and Sutherland	18	28	45	8	88
Lochaber, Skye and Wester Ross	14	25	55	6	139
Argyll and the Islands	12	24	54	10	229
Moray	11	24	60	6	156
Orkney	9	30	54	7	87
Base: All Businesses in each region					

Impact of the EU Referendum result on business prospects

While the majority, 54%, felt their business prospects had stayed the same since January 2016, there appears to be a relationship between those who feel that their business prospects had changed and the impact of the EU referendum on economic confidence. Among those who felt business prospects had deteriorated since January 2016, 82% also felt less confident in the economy since the result of the EU referendum (Table 2.3).

Table 2.3: Business prospects by impact of EU referendum results on economic confidence

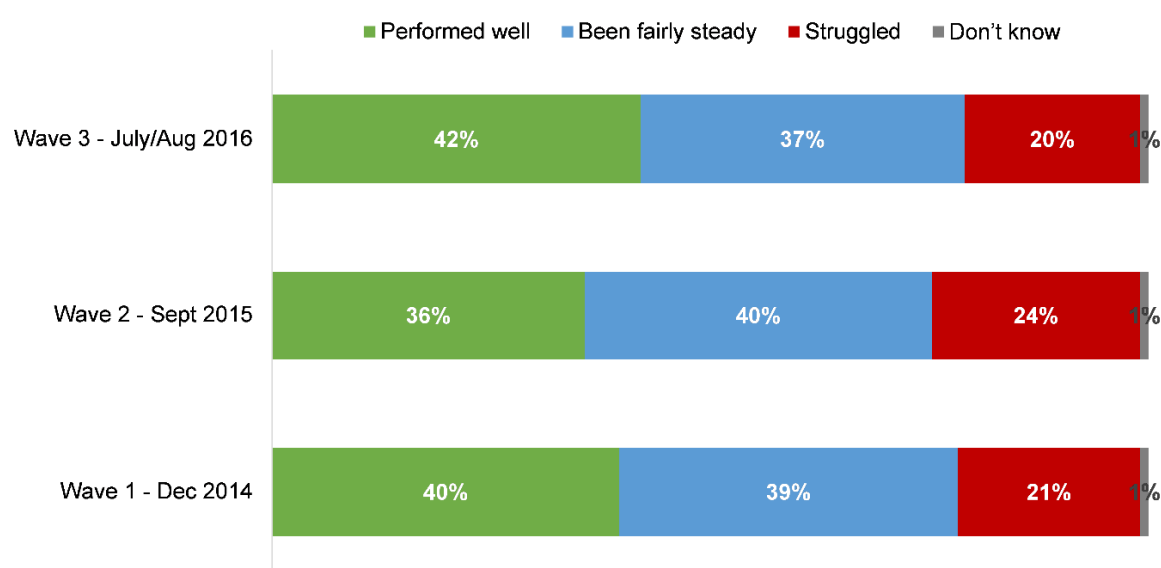
	Business prospects since January 2016 have...			
	Improved	Deteriorated	Stayed the same	Don't know
Impact of EU referendum on economic confidence	%	%	%	%
More confident	38	2	11	6
Less confident	25	82	48	75
No difference	37	16	41	19
<i>Base: All Businesses (1,054)</i>				

Business performance

Around two fifths (42%) of businesses said that they performed quite (32%), or exceptionally (10%) well over the previous 12 months, while 37% reported a steady performance. A fifth (20%) said their business has struggled slightly (15%) or markedly (5%). These results are consistent with the previous waves of the survey.

Figure 2.4: 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 (1,054)

Source: Ipsos MORI

Overall there is a strong relationship between business performance over the past 12 months and respondents' assessments of business prospects. Those who feel their business has performed well also feel that their prospects have improved (60%) and conversely those who feel that their business has struggled also feel that their prospects have deteriorated (33%).

Those in the Creative Industries (19%) and Tourism (18%) sectors were most likely to report that their business had performed exceptionally well compared to 10% overall. Furthermore, and consistent with the previous wave of the survey, Food and Drink businesses were most likely to report that they were struggling slightly (23% compared to 15% overall) (Table 2.4).

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
	%	%	%	%	%	%	
Tourism	18	38	29	11	1	2	<i>148</i>
Non Growth sector	8	37	38	13	4	-	<i>396</i>
Financial and Business Services	10	33	42	10	2	3	<i>110</i>
Creative Industries	19	24	41	15	2	-	<i>53</i>
Food and Drink	7	24	37	23	9	1	<i>308</i>
	N	N	N	N	N	N	
Energy	4	8	9	5	2	-	<i>28</i>
Life Sciences	1	1	1	1	-	-	<i>4</i>

Note: 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.

There were few significant differences by area, however businesses in Shetland were more likely than average to report that their business had performed well (57% compared with 42% overall).

Businesses that have 5 or more employees were more likely to report that their business performed quite well (5-10: 43%, 11-24:40%, 25+:45%) in contrast to those who had fewer employees (24%) and 32% overall.

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	24	42	18	7	1	695
5-10	10	43	31	14	2	-	132
11-24	9	40	36	10	4	-	129
25+	19	45	23	10	1	1	97
<i>Base: All Businesses (1,054)</i>							

Account-managed businesses were more likely than non-account managed businesses to say their business had performed well in the last 12 months (55% compared with 40% respectively).

Overall, firms in fragile areas showed very little difference from those in other areas in their views of business performance.

Looking at specific aspects of performance, businesses reported stable performance in a number of key areas that applied to them including staff training (70%), working hours (67%), employment (67%) and exports (57%). Forty-two percent of businesses reported an increase in sales or turnover, and a similar figure (45%) reported that profit margins had stayed the same (Table 2.6).

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

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	
Employment	24	8	67	-	929
Exports	23	14	57	5	252
Working hours	27	6	67	1	1,041
Profit margins	25	27	45	4	1,019
Staff training	24	5	70	1	833
Sales or turnover	42	21	35	1	1,030
<i>Base: All businesses saying each aspect applied to them</i>					

Among those that export (24% of those surveyed), businesses located in Inner Moray Firth were more likely to report an increase in exports in the last six months, 38% compared to 23% overall. There were no statistically significant variations by growth sector, size of business, account managed firms and fragile areas.

To summarise businesses' experience, we scored each instance of increased performance as +1, each decrease as -1 and each 'stayed the same' as 0 and summed across the six aspects for each business, giving a maximum of +6 for increases on all aspects and a minimum of -6 for those reporting decreases across the board. 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.

Across the whole sample, the average score was 0.7 – slightly positive, and indicating that few businesses reported increases or decreases in all aspects. Almost half (49%) had an overall positive score, while 27% had a negative score and 24% had a score of zero. This is consistent with the previous wave of the survey.

Overall there were not many variations by growth sector, although Tourism and Creative Industries reported increased performance in a number of areas with an average score of 1.41 and 1.36 respectively. More specifically, Tourism businesses were more likely to report an increase in employment (35%), profit margins (40%) and sales or turnover (57%) (likely to be linked to seasonal changes in the sector) and businesses in the Creative Industries sector were more likely to report an increase in exports (37%), and staff training (37%).

Businesses in Lochaber, Skye and Wester Ross had an average score of 1.17 across all aspects of business performance and were more likely to report an increase in employment (35%), sales or turnover (53%) and working hours (35%). Similarly, businesses in the Outer Hebrides had an average score of 1.67 and also reported an increase in employment (40%) and sales or turnover (61%) as well as exports (39%) and profit margins (45%).

Businesses with 25 or more employees were more likely than overall to report an increase in several aspects of business performance with an average score of 1.59. The specific aspects of performance in which they were more likely to report an increase included employment (39%), staff training (36%) and, sales or turnover (47%).

On specific aspects of business performance, there was some variation between HIE's account-managed businesses and non-account managed businesses. Overall, account-managed businesses had higher positive scores (1.4) than non-account managed (0.6). They also differed in relation to a number of aspects of business performance:

- Account-managed businesses were more likely than non-account managed to report increases in sales/turnover (61% compared with 39% respectively), employment (45% compared with 22%), staff training (37% compared with 22%), and profit margins (35% compared with 23%).
- In relation to exports, account-managed businesses were more likely to say there had been a decrease (26% compared with 10%).

There were no statistically significant differences in aspects of business performance in the last six months in fragile areas.

Business prospects in the next six months

Although many businesses are less confident about the implications of the EU referendum for Scotland as a whole, this pessimism does not feed into how they feel about their own business, where the overall expectation is for stability. Either businesses think that the vote to leave the EU will have less of an impact on their own business or it will take more than six months to materialise. Businesses expect stability in all aspects of performance that applied to them: employment (70%), working hours (73%), staff training (72%), profit margins (49%), exports (48%) and sales or turnover (42%).

Table 2.7: Aspects of business performance in the next six months

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	
Sales or turnover	37	17	42	4	1,030
Exports	35	12	48	5	270
Profit margins	26	19	49	6	1,023
Staff training	21	6	72	1	850
Employment	18	10	70	1	942
Working hours	17	9	73	1	1,047
<i>Base: All businesses saying each aspect applied to them</i>					

Scoring future prospects in the same way as past performance, the overall score across the six aspects was 0.6 for all businesses which is similar to the results for past performance. Over half (55%) expect performance to stay the same, 23% expect it to decrease, and 22% expect it to increase.

Tourism businesses had an average score of 0.25 and reported expecting a decrease in employment (21%), working hours (16%), and staff training (12%) although this might simply reflect seasonal changes in that sector.

Following a similar pattern, businesses in Lochaber, Skye and Wester Ross had an overall score of 0.54 and reported expecting a decrease in employment (20%) in the next six months. In the previous wave of the survey, these businesses expected an increase in employment. This may reflect seasonality of employment and the fact that this survey was carried out in the summer, whereas the previous wave was carried out in winter. The Outer Hebrides, however, had an average score of 1.54 and were more positive in relation to employment (36%), as well as exports (50%), and staff training (34%).

Businesses with more than 25 staff had an average score of 0.7 and were more likely to report expecting employment (21%) and working hours (16%) to decrease in the next six months while they were more likely to report an increase in staff training (28%). In particular, Food and Drink businesses with 25 or more staff were more likely to report expecting a decrease in employment and working hours as well as businesses in Shetland and Argyll and the Islands.

As with their views on past performance, account-managed businesses were more optimistic than non-account managed businesses about future performance. Overall, account-managed businesses had a score of 1.14, compared with 0.52 for non-account managed businesses. In particular, account-managed firms were more positive than others in relation to future sales/turnover, staff training and employment:

- In relation to sales/turnover, 56% of account-managed businesses expected an increase, compared with 34% of non-account managed businesses
- Account-managed businesses were more likely than others to anticipate an increase in employment (30% compared with 18% respectively)
- Similarly, account-managed businesses were more likely to expect an increase in staff training (33% compared with 17%).

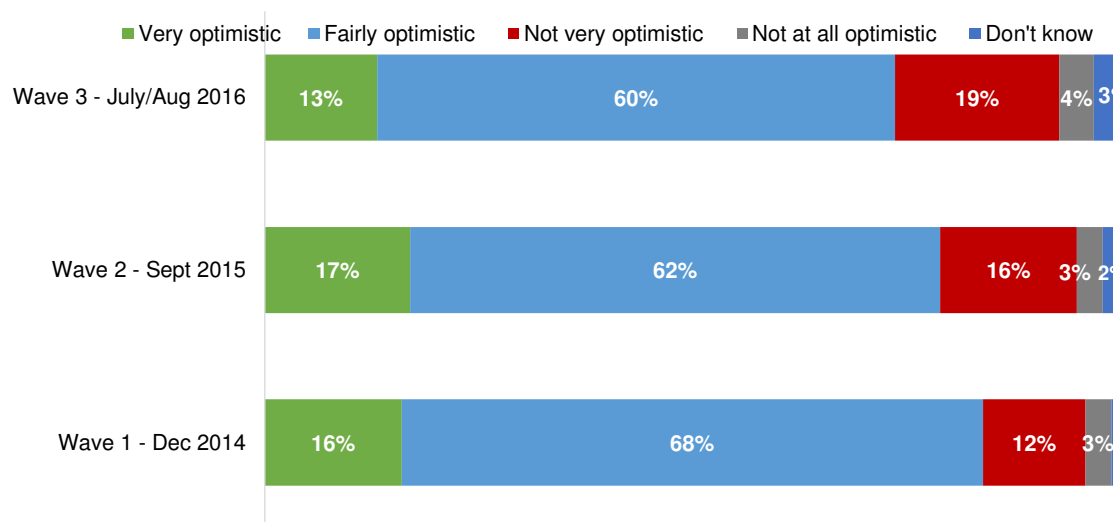
There were no statistically significant differences in aspects of business performance in the next six months in fragile areas.

Future business prospects

A little under three quarters (73%) of businesses were very or fairly optimistic for their prospects over the next 12 months, with 23% not optimistic. These results reflect a slight decline in optimism from the previous survey (79%) and especially since the first wave of the survey (84%) (Figure 2.5). Optimism about their own business prospects is, however, still high in comparison to the pessimism expressed by businesses in relation to the effects of the EU referendum for Scotland as a whole.

Figure 2.5: Business prospects over the next 12 months

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



Base: All businesses (1,054)

Source: Ipsos MORI

Past business performance was seen to influence businesses' assessments of future business prospects: 85% 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 six months also reported that they were not optimistic for their future prospects. This figure increases to 67% when we only look at those who reported that they had struggled markedly.

Table 2.8: Optimism for future business prospects by past business performance

	Optimism for future business prospects			
	Optimistic	Not optimistic	Don't know	Base
Past business performance	%	%	%	N
Performed exceptionally/quite well	85	12	3	440
Been fairly steady	76	21	3	388
Struggled slightly/markedly	44	51	4	216
Don't know	61	33	6	9

Reflecting findings from the previous wave, businesses in the Food and Drink sector were most likely to be not optimistic (31% compared with 23% overall) (Table 2.9).

Table 2.9: Optimism with business prospects by growth sector

	Optimistic	Not optimistic	Don't know	Base
	%	%	%	N
Creative Industries	83	17	-	53
Tourism	79	19	2	148
Financial and Business Services	78	17	4	110
Non Growth sector	76	20	4	396
Food and Drink	65	31	4	308
	N	N	N	
Energy	19	9	-	29
Life Sciences	3	-	-	3
<i>Base: All businesses in each sector</i>				

Note: 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.

In terms of variations by location, businesses in Shetland were more likely than average to report optimism for their future prospects (89% compared to 73% overall) while those in Caithness and Sutherland and in Argyll and the Islands were more likely than average to report that they were not optimistic at 34% and 29% respectively (Table 2.10). The results

for Shetland and Caithness and Sutherland are consistent with the previous wave of the survey where 91% compared to 79% reported that they were optimistic and 34% compared to 19% reported that they were not optimistic.

Table 2.10: Optimism with business prospects by region

	Optimistic	Not optimistic	Don't know	Base
	%	%	%	N
Shetland	89	8	4	44
Outer Hebrides	82	15	3	44
Lochaber, Skye and Wester Ross	78	18	4	139
Inner Moray Firth	77	18	5	257
Orkney	72	26	1	87
Moray	69	27	4	156
Argyll and the Islands	69	29	2	229
Caithness and Sutherland	62	34	4	88
<i>Base: All businesses in each region</i>				

Businesses with 5-10 and 11-24 employees were more likely than average to be optimistic, 81% and 83% respectively while businesses with 0-4 employees were more likely to not be optimistic about their business prospects in the next 12 months (Table 2.11).

Table 2.11: Optimism with business prospects by size of business

	Optimistic	Not optimistic	Don't know	Base
	%	%	%	N
0-4	67	28	5	695
5-10	81	18	2	132
11-24	83	15	1	129
25+	79	19	1	97
<i>Base: All businesses of each size</i>				

Account-managed businesses (83%) were more optimistic about their prospects than non-account managed businesses (72%).

In spite of feeling less confidence in the economy as a result of the EU referendum, businesses in fragile areas (80%) were actually more optimistic about their own business prospects than those in other areas (71%).

Impact of EU Referendum on future business prospects

A little under half (45%) of businesses reported that the recent vote to leave the EU had made them less optimistic about their business prospects, a similar figure (41%) reported that it had made no difference, while 14% were more optimistic.

There is a relationship between assessments of future business prospects and the result of the EU referendum. Among businesses that are optimistic about their business prospects in the next 12 months, 16% are much more or a little more optimistic after the results of the EU referendum. Conversely, among those who were not optimistic about their business prospects, 68% are a little or much less optimistic after the results of the EU referendum (Table 2.12).

Table 2.12: Optimism with business prospects by optimism after the result of the EU referendum

	Optimism with business prospects	
	Optimistic	Not optimistic
Optimism with business prospects after the result of the EU Referendum	%	%
Much more optimistic	5	3
A little more optimistic	11	3
It made no difference	47	25
A little less optimistic	27	36
Much less optimistic	10	32
<i>Base: All businesses</i>		

There were not many variations by growth sector, location, size of business, account managed firms or fragile areas. In terms of the few subgroup differences in relation to optimism, businesses in the Creative Industries (63%) sector, those in Orkney (56%) and those with 25 or more employees (56%) were much less optimistic about their business prospects after the recent vote to leave the EU in comparison to 45% overall.

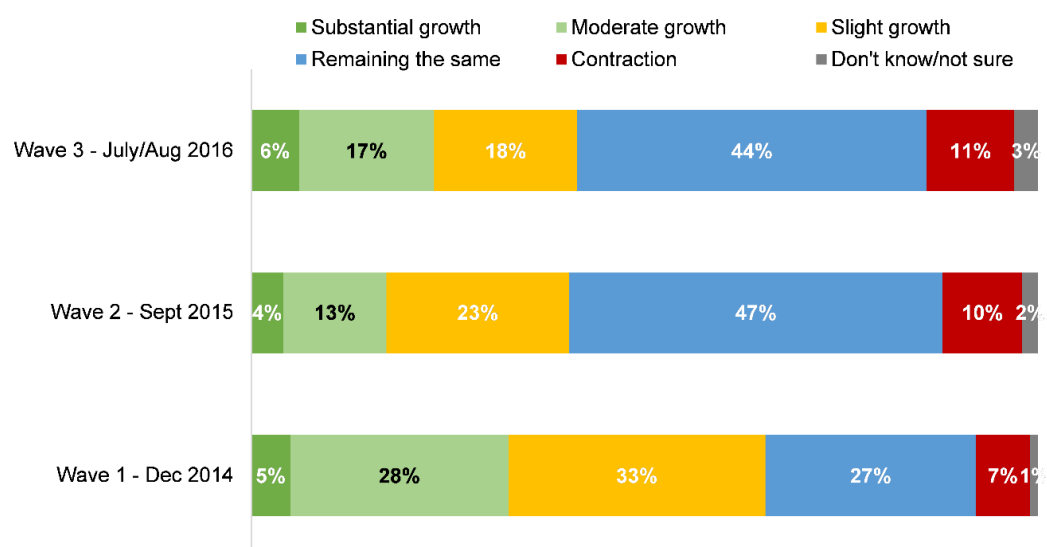
Business growth

Over half (55%) of businesses did not anticipate growth over the next year or two: 44% expect stability while 11% anticipate a contraction. In terms of those who anticipate growth (41%): 6% anticipated substantial growth, 17% moderate growth and 18% slight growth (Figure 2.6).

These results are broadly similar to the previous wave of the survey however reflect a decrease in expectations of growth from the results in 2014 where 66% of businesses anticipated growth in the next year or two.

Figure 2.6: Future growth over the next year or two

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



Base: All businesses (1,054)

Source: Ipsos MORI

There were not many statistically significant differences among businesses in terms of growth sectors or fragile areas, however, similar to the findings on optimism, 71% of businesses in Orkney reported that they do not anticipate growth, in comparison to 55% overall. This is consistent with findings from the previous wave of the survey where 73% of businesses in Orkney did not anticipate growth in comparison to 57% overall.

In terms of variations by business size, businesses with 0-4 employees were less likely than average to anticipate growth (66% compared to 55% overall).

Reflecting their more positive outlook about future business prospects, account-managed businesses were more likely than non-account managed businesses to anticipate growth (72% compared with 27% respectively).

3. BUSINESS INVESTMENT

Experience of using investment

When asked about a range of potential investment sources, around half of businesses (48%) had used at least one source to fund the growth or development of their business in the past two years, while 52% had not used or tried to use any.

There was some variation in experience of investment by growth sector. Businesses in the Food and Drink (61%) sector were more likely than overall to have used any source of investment, while those in the Financial and Business Services (35%) and non-growth sectors (40%) were less likely to have done so (Table 3.1).

Table 3.1 – Past use of investment by growth sector

	Used at least one source of investment	Not used or tried to use any source of investment	Base
	%	%	
Food and Drink	61	39	308
Tourism	48	52	148
Creative Industries	46	54	53
Financial and Business Services	35	65	110
Non Growth sector	40	60	396
	N	N	
Energy	5	24	29
Life Sciences	1	2	3
<i>Base: All businesses in each sector</i>			

Note: 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.

Account-managed businesses were more likely than non-account managed business to have used investment (74% compared with 45% respectively).

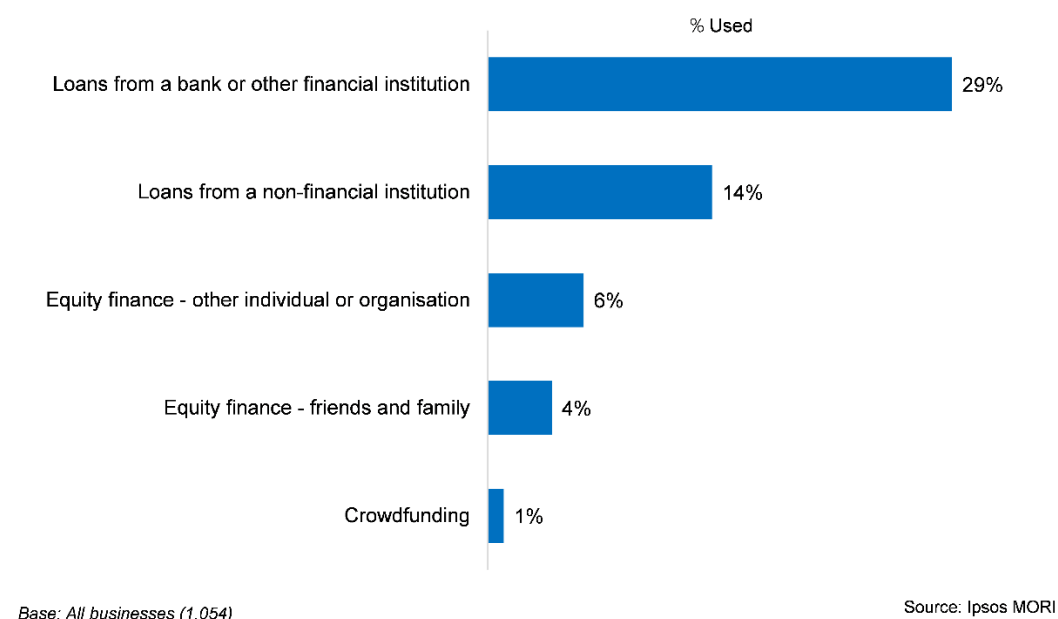
There was little variation in the use of investment by geography or by size of business. The only exception was that businesses with 25 or more employees were more likely than overall to have used investment (67% compared with 48% overall).

Types of investment funding used

Among businesses that had used investment, the most common sources were loans from banks or other financial institutions (29%), followed by loans from non-financial institutions (14%) and equity finance from an individual or organisation (6%) (Figure 3.1).

Figure 3.1 – Types of investment used

Q. In the past two years, which if any of the following sources have you used or tried to use to fund the growth or development of your business?



Larger businesses were more likely than smaller ones to have used a loan. For example, 43% of businesses with 25 or more employees had used a loan from a bank or other financial institution compared with 26% of those with 0-4 employees. Similarly, 23% of businesses with 25 or more employees had used a loan from a non-financial institution, compared with 10% of those with 0-4 employees.

Account managed businesses were more likely than non-account managed businesses to have used loans from a bank or other financial institution (41% compared with 27%) and from a non-financial institution (26% compared with 12%).

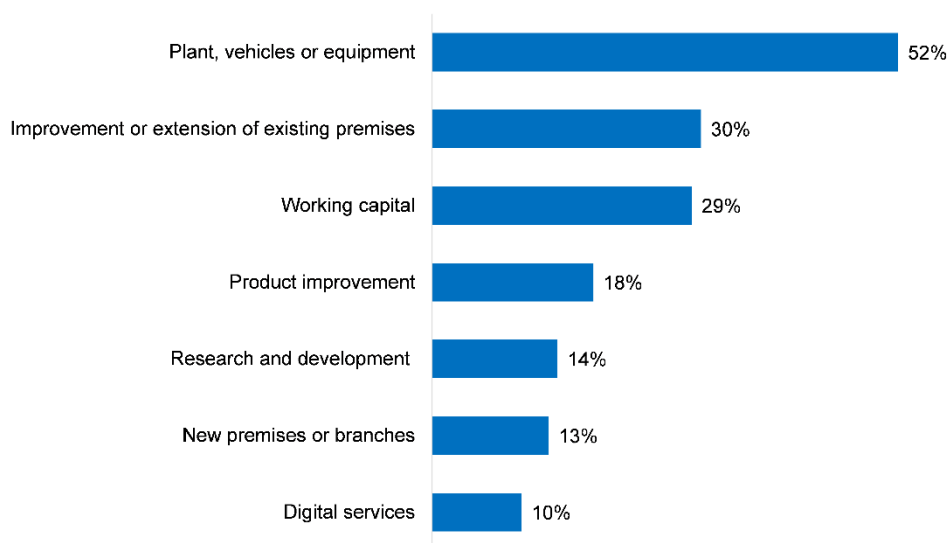
In terms of growth sector, those working in Food and Drink were more likely than average to have used a loan from a bank or financial institution (43% compared with 29%). There were no notable differences in the type of investment used by HIE region or by fragile and non-fragile area.

Purpose of investment funding

Among those that have used investment in the past two years, the most common uses for the investment funding were to invest in plant, vehicles or equipment (52%), improve or extend existing premises (30%) and for working capital (29%). Just under a fifth (18%) used the investment funding to undertake product improvement (Figure 3.2).

Figure 3.2 – Uses for investment funding

Q. What did you use the investment funding for?



Base: All who have used a source of investment in past two years (457)

Source: Ipsos MORI

There was little by way of variation by business size or growth. However, businesses with 25 or more employees were more likely than average to invest in existing premises (45%) and product improvement (28%). Elsewhere, businesses working in the Tourism sector were more likely to invest in existing premises (60%), while those in Financial and business services were more likely to invest in digital services (28%).

There were no significant differences by HIE region, between account managed and non-account managed firms, or between fragile and non-fragile areas.

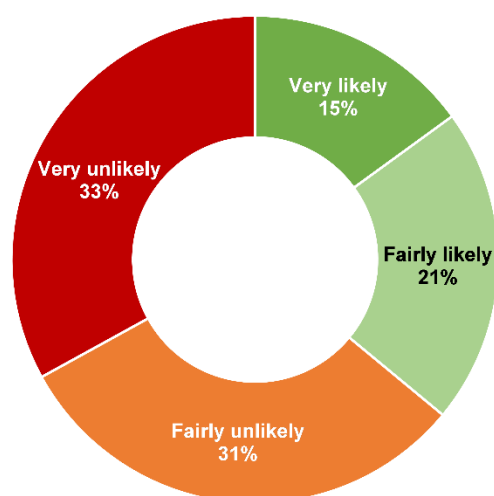
Plans for future investment

Likelihood of seeking investment in the future

Looking ahead to the next two years, the majority of businesses were cautious about future investment, with 64% unlikely to seek investment in this period (Figure 3.3).

Figure 3.3 – Likelihood of seeking investment in next two years

Q. Which of the following best describes your aspirations for seeking investment in the next 2 years?



Base: All businesses (1,054)

Source: Ipsos MORI

Larger businesses were more likely than smaller businesses to seek future investment. Indeed, businesses with 25 or more employees (59%) were over twice as likely to seek investment as those with 0 to 4 employees (25%) (Table 3.2).

Table 3.2 – Likelihood of seeking investment by business size

	Very likely	Fairly likely	Fairly unlikely	Very unlikely	Base
	%	%	%	%	
0 to 4	8	17	32	43	695
5 to 10	24	18	33	24	132
11 to 24	20	30	27	22	129
25 or more	25	35	25	16	97
<i>Base: All businesses</i>					

Very little variation in aspirations for future investment was found by growth sector. Looking at the HIE regions, there were few significant differences by area, however Moray emerged as the location least likely to seek future investment (24% compared with 36% overall) (Table 3.3).

Table 3.3 – Likelihood of seeking future investment by region

	Very likely	Fairly likely	Fairly unlikely	Very unlikely	Base
	%	%	%	%	
Outer Hebrides	33	16	30	21	44
Shetland	23	23	29	25	44
Orkney	9	35	26	30	87
Argyll and the Islands	15	22	31	32	229
Lochaber, Skye and Wester Ross	18	18	36	28	139
Inner Moray Firth	12	24	30	34	257
Caithness and Sutherland	18	11	33	39	88
Moray	8	16	33	43	156
<i>Base: All businesses in each region</i>					

Those in fragile areas (48%) were more likely than those in non-fragile areas (34%) to seek future investment. Account-managed businesses were more likely to seek future investment than non-account managed businesses (62% compared with 35% respectively).

Likelihood of investing was higher among those that had previously used investment. Among those that had used at least one source of investment in the past two years, 56% were likely to seek future investment, compared with only 17% of those who had not previously used investment (Table 3.4).

Table 3.4 – Likelihood of seeking future investment by previous investment experience

	Used at least one source of investment	Not used or tried to use any source of investment
	%	%
Very likely	27	3
Fairly likely	29	14
Fairly unlikely	29	33
Very unlikely	16	50
<i>Base: All businesses</i>	511	544

Looking at the relationship between likelihood of investing and past business performance, those that had struggled markedly in the last 12 months were more unlikely to invest (74%) compared with those that had performed exceptionally well (55%) (Table 3.5).

Table 3.5 – Likelihood of seeing investment by past business performance

	Performed exceptionally well	Performed quite well	Been fairly steady	Struggled slightly	Struggled markedly
	%	%	%	%	%
Very likely	20	17	12	14	13
Fairly likely	26	22	19	22	13
Fairly unlikely	20	32	32	36	30
Very unlikely	35	29	37	28	43
<i>Base: All businesses</i>	<i>102</i>	<i>338</i>	<i>387</i>	<i>163</i>	<i>53</i>

There was no significant relationship between the level of confidence in the economic outlook for Scotland and likelihood of investment. However, there was some variation by level of optimism about future business prospects, with those who were not at all optimistic about being more unlikely to seek investment (77%) than those that were very optimistic (58%) (Table 3.6).

Table 3.6 – Likelihood of seeking investment by business optimism

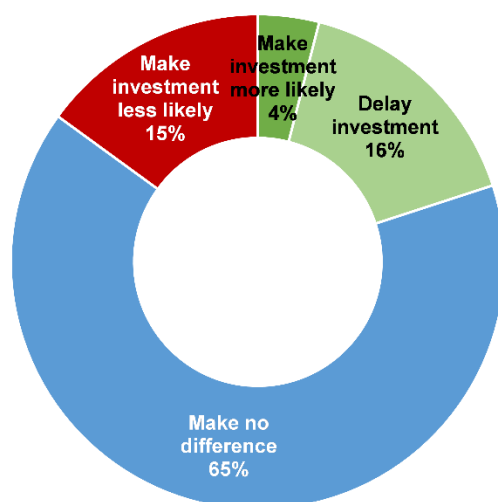
	Very optimistic	Fairly optimistic	Not very optimistic	Not at all optimistic
	%	%	%	%
Very likely	24	15	11	12
Fairly likely	18	22	25	12
Fairly unlikely	19	34	31	26
Very unlikely	39	30	33	51
<i>Base: All businesses</i>	<i>140</i>	<i>631</i>	<i>204</i>	<i>43</i>

Impact of the EU referendum on plans for investment

On the whole, the EU referendum has had little impact on investment decisions although that seems to be primarily because most business had limited investment plans. As seen earlier in Figure 3.3, almost two-thirds did not plan to use any form of borrowing in the next two years, and for 65% of business the outcome of the referendum had made no difference to their investment plans (Figure 3.4). Still, 16% said they were likely to delay investment and a further 15% said it made investment much less likely. Only 4% said the referendum made investment more likely.

Figure 3.4 – Impact of EU referendum on plans for investment

Q. Thinking specifically about the impact of the UK's vote to leave the European Union, what effect, if any, is this likely to have on your investment plans?



Base: All businesses (1,054)

Source: Ipsos MORi

The likely impact of the referendum result was higher than average among business who planned to invest in the next two years, with 23% saying the referendum had made them likely to delay investment (compared with 16% overall) and 17% saying that it made investment less likely (compared with 15% overall).

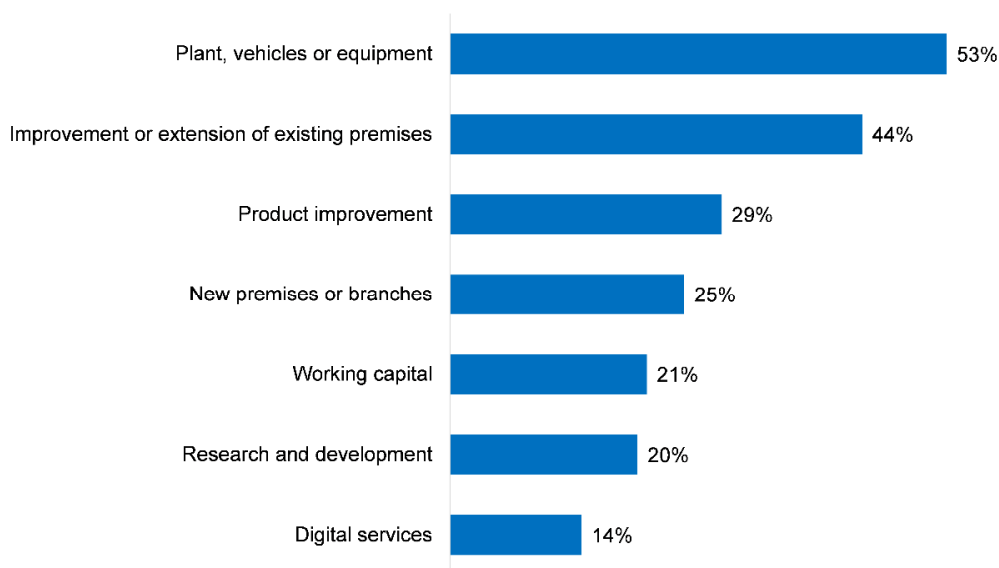
There were no significant variations by business size, HIE region, growth sector, fragile area or account management status.

Purpose of future investment

The reasons for seeking future investment were largely similar to the uses of past investment outlined in Figure 3.2, with the top responses being plant, vehicles or equipment (53%), improvement or extension of existing premises (44%), product improvement (29%) and new premises or branches (25%) (Figure 3.5).

Figure 3.5 – Planned uses for future investment

Q. What do you plan to do with the investment?



Base: All who are likely to see investment in next 2 years (346)

Source: Ipsos MORI

Reflecting their reasons for previous investment, businesses with 25 or more employees were more likely than average to plan to invest in product improvement (53% compared with 29%).

Account managed businesses were more likely than non-account managed businesses to use investment for research and development (30% compared with 17%). Elsewhere, there was little variation by business size, sector, region or fragile area.

Barriers to investment

Of the 52% of businesses who had not used or tried to use investment, the main reason was a reluctance to borrow or a desire to remain debt-free (72%). Other common responses were market conditions or lack of demand (18%), lack of trust in banks and financial institutions (18%), the economic climate (18%) and concerns about Britain's relationship with the EU (14%) (Figure 3.6).

Figure 3.6 – Reasons for not seeking investment in past two years

Q. Which, if any, of the following have been factors in your decision to not seek investment in the last 2 years?



Base: All who have made no attempt to use investment in past two years (566)

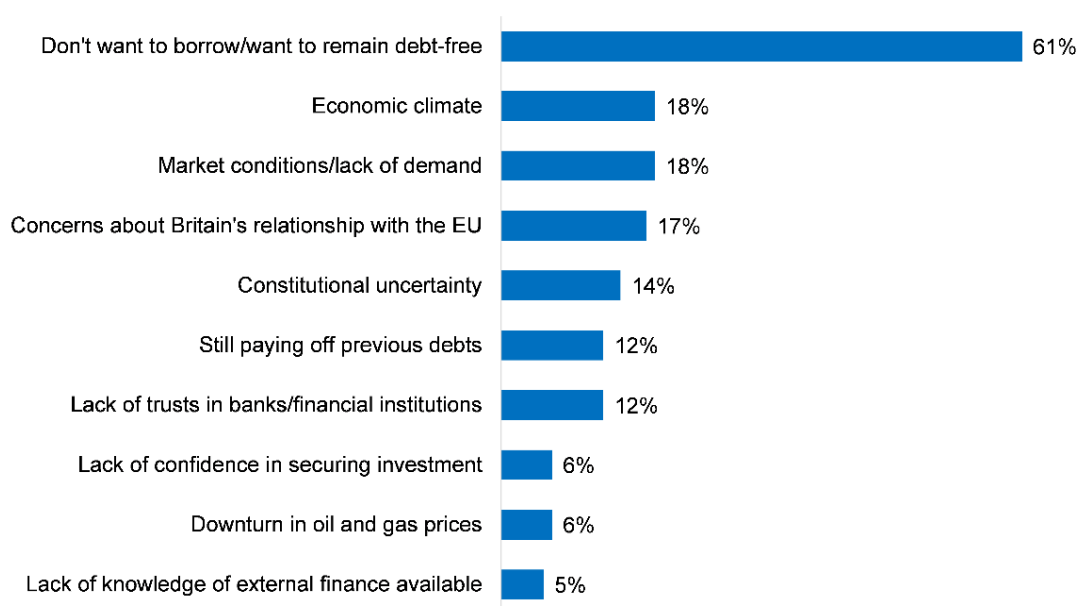
Source: Ipsos MORI

Reasons for not seeking investment were fairly consistent across business sector, size, region, fragile area and account management status. An exception was that business with 25 or more employees were most likely to be still paying off debts (21% compared with 10% overall).

Caution around seeking future investment very much reflected the views about past investment. Of those unlikely to seek future investment, the main reason was a reluctance to borrow or a desire to remain debt-free (61%) (Figure 3.7).

Figure 3.7 – Reasons for not seeking investment in next two years

Q. Why are you unlikely to seek investment in the next 2 years?



Base: All who are unlikely to seek investment in the next 2 years (708)

Source: Ipsos MORI

Certain reasons for not seeking investment were more prevalent in the Food and Drink sector, namely market conditions/lack of demand (28%), economic climate (24%), concerns about Britain's relationship with the EU (23%) and still paying off previous debts (18%). This may reflect the finding that Food and Drink businesses were more likely than others to say they had struggled over the past six months.

Non-account managed business were more likely than account managed businesses to cite market conditions or lack of demand as a reason for not seeking investment (18% compared with 7%),

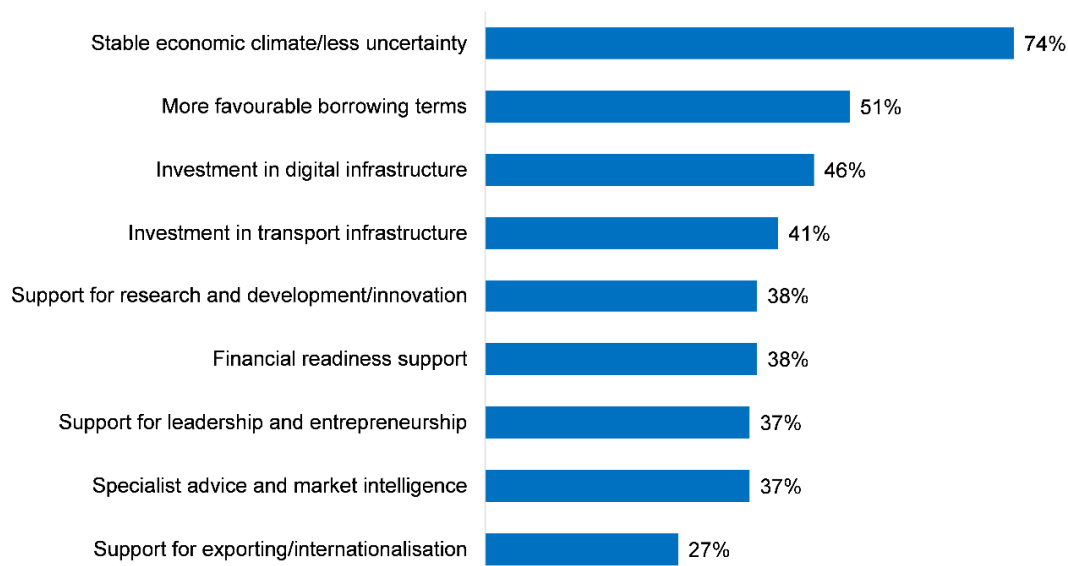
Otherwise, reasons given were fairly consistent across different types of business sector, size, region and fragile area.

Encouraging future investment

When asked what would encourage businesses like theirs to seek investment in the future, the majority (74%) said a stable economic climate or less uncertainty. Other popular suggestions included more favourable borrowing terms (51%), investment in digital infrastructure (46%), and investment in transport infrastructure (41%) (Figure 3.8).

Figure 3.8 – Measures to encourage future investment

Q. Which, if any, of the following do you think might encourage businesses like yourself to seek investment in the future?



Base: All businesses (1,054)

Source: Ipsos MORI

Food and Drink businesses were most likely to want a stable economic climate (80%), support for research and development or innovation (48%), and support for exports and internationalisation (42%).

Account managed businesses were more likely than non-account managed business to suggest support for research and development (57% compared with 36%), investment in digital infrastructure (55% compared with 44%), and specialist advice and market intelligence (51% compared with 35%),

There was no significant difference across regions, fragile areas or businesses of different sizes.

4. Summary

This wave sees confidence in the economy reach its lowest level since 2014. In our previous survey of businesses in the Highlands and Islands there were already indications that businesses were becoming more pessimistic about prospects for the Scottish economy. Since wave 1, the percentage whose confidence in the economy had decreased more than doubled, from around one in five to two in five.

This change in optimism may, at least in part, be explained by the result of the referendum to leave the EU. When asked specifically about the impact of the EU referendum, around half said that the vote to leave the EU had made them less confident about the economic outlook for Scotland.

Compared to previous waves, fewer businesses now say their business prospects had improved. In spite of this decline, more businesses now thought that their business prospects have stayed the same. Therefore, while the result of the EU referendum has reduced confidence about the economic outlook for Scotland, businesses expect the result to have less impact for their own business.

In terms of business performance, the picture is a fairly positive one, with two in five saying their business had performed well and a similar proportion saying it had been fairly steady. Around one in five said their business had struggled, which remains unchanged on previous waves of the survey. Looking at individual aspects of business performance, businesses reported mainly steady performance in employment, working hours, staff training and exports. However, sales/turnover and profit margins remain areas where views of performance are more mixed.

Looking to the future, a large majority of business are optimistic about their business prospects for the next 12 months. While this presents a positive picture, the proportion that are optimistic has declined since the first wave of the survey, perhaps reflecting the lower level of confidence in the economy as a whole.

Turning to business investment, experience of previous investment was fairly mixed, with around half having invested in their business in the past two years. Looking ahead to the next two years, the majority of businesses were cautious about future investment, with two thirds unlikely to seek investment in this period.

On the whole, the EU referendum has had little impact on investment decisions although that seems to be primarily because most business already had limited investment plans. For two thirds of businesses the outcome of the referendum made no difference to their investment plans. Still, almost a third said they were either likely to delay investment or that it made investment much less likely. The referendum result had more of an impact among the minority that were planning to invest in the next two years, resulting in them potentially delaying investment or being less likely to invest.

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