

HIE Business Panel Survey Performance and prospects

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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 | 4 |
| Business prospects in the next six months | 9 |
| Future business prospects | 11 |
| Business growth | 13 |
| European Single Market | 14 |
| Free movement of people | 16 |
| 3. Recruitment and workforce | 20 |
| Recent experience of recruitment | 20 |
| Make-up of current workforce | 22 |
| 4. Impact of relationship with the EU | 25 |
| Impact of a reduction in the flow of EU migrants | 25 |
| Actions to address UK leaving the EU | 30 |
| 5. Summary | 34 |

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 second in the series of five and fourth overall) carried out in October and November 2016. The survey covered a number of topics of general interest to businesses in the region, including economic optimism and business performance, prospects and risks. The survey also included questions on experiences of recruiting staff in the past 12 months and the potential impacts on recruitment of the recent UK vote to leave the European Union (EU).

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 29th September – 3rd November 2016, 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 1,004 eligible interviews were achieved.

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

Presentation and interpretation of the data

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

Where percentages do not sum to 100%, this may be due to rounding, the exclusion of 'don't know' categories, or multiple answers. Aggregate percentages (e.g. "optimistic/not optimistic" or "easy/difficult") are calculated from the absolute values. Therefore, aggregate percentages may differ from the sum of the individual scores due to rounding of percentage totals.

Throughout the report, an asterisk (*) denotes any value of less than half a percent and a dash (-) denotes zero. For questions where the number of businesses is less than 30, the number of times a response has been selected (N) rather than the percentage is given.

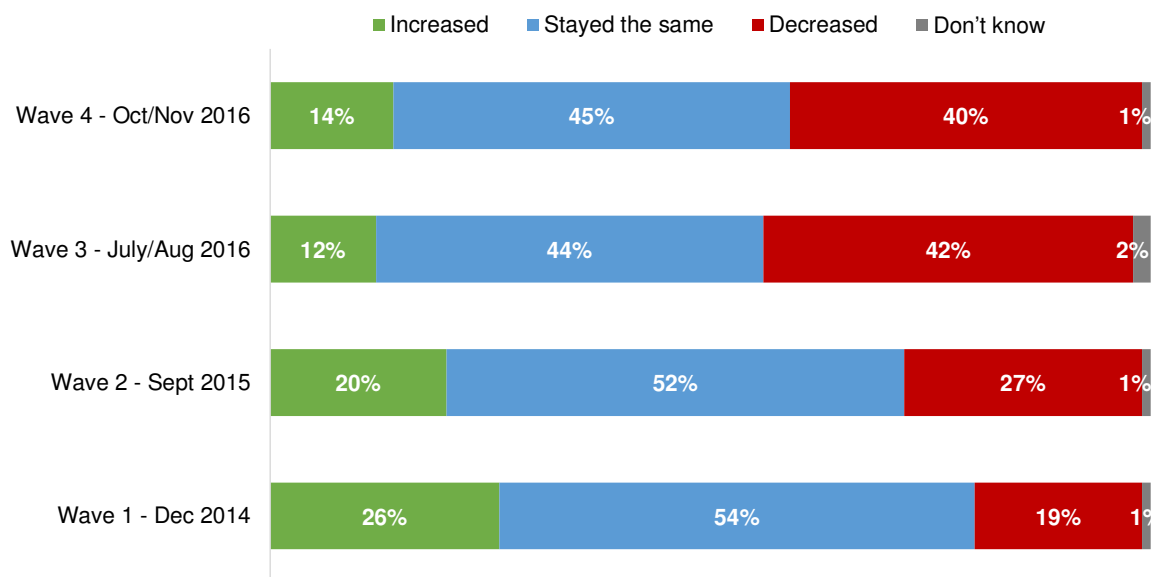
2. OPTIMISM, PROSPECTS AND PERFORMANCE

Economic optimism

Overall, the findings are consistent with the previous wave of the survey and reflect a decline in economic optimism since the 2014 survey. Economic optimism has declined significantly from a net positive of +7 points in 2014 to a net negative of -26 points¹. A little over two fifths (45%) of businesses said that their confidence in the economic outlook in Scotland had stayed the same over the previous six months. Two fifths of businesses (40%) said that their confidence had decreased, while around one eighth (14%) 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 April 2016, has your level of confidence in the economic outlook in Scotland increased, decreased, or stayed the same?



Base: All businesses (1,004)

Source: Ipsos MORI

Businesses in the Tourism sector were more confident than those in other sectors about the economic outlook in Scotland, with 22% reporting increased confidence compared with 14% overall. In contrast, businesses in the Food and drink sector were more likely than others to report that their confidence had decreased: 47% compared with 40% overall (Table 2.1).

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

Table 2.1 – Economic optimism by growth sector

| | Increased | Decreased | Stayed the same | Don't know | Base |
|--|-----------|-----------|-----------------|------------|------|
| | % | % | % | % | N |
| Non-growth sector | 14 | 38 | 47 | 2 | 488 |
| Food and Drink | 12 | 47 | 40 | 1 | 231 |
| Tourism | 22 | 36 | 39 | 3 | 109 |
| Financial and Business Services | 11 | 35 | 51 | 3 | 91 |
| Creative Industries | 7 | 42 | 50 | - | 47 |
| | | | | | |
| | N | N | N | N | N |
| Energy ² | 1 | 10 | 11 | 1 | 23 |
| Life Sciences | - | 1 | 1 | - | 2 |
| <i>Base: All businesses in each sector</i> | | | | | |

The trends were largely consistent across businesses in terms of size, location and fragile areas. However, non-account managed businesses were more likely than average to report that their confidence had decreased over the previous six months, 42% compared with 40% overall, and 41% of account-managed firms.

Business performance

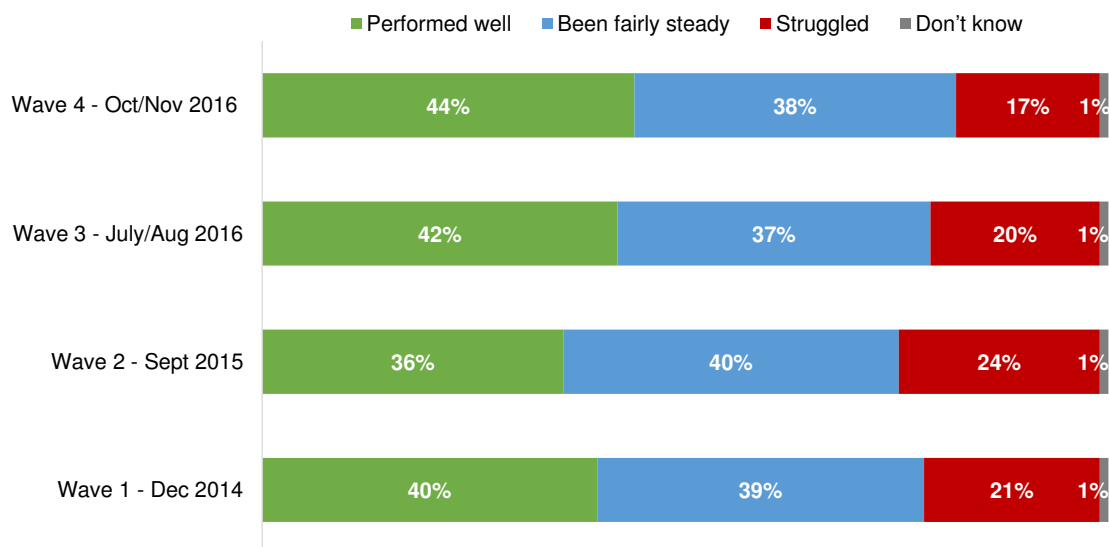
A little over two fifths (44%) of businesses said that they had performed quite (32%), or exceptionally well (12%) over the previous 12 months, while 38% reported a steady performance. Just under a fifth (17%) said that their business had struggled slightly (12%) or markedly (5%). These results are consistent with the previous wave of the survey (Figure 2.2).

Positive assessments of past business performance were correlated with increased confidence in the economic outlook in Scotland: 71% of those who reported that their business had performed well also reported that their confidence had increased.

² 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.

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 (1,004)

Source: Ipsos MORI

Businesses in the Tourism sector were also more likely than average to have positive assessments of their business performance, 44% reported that their business performed quite well, compared with 32% overall. Creative industries businesses appear a little more likely to have struggled slightly, although the difference is just over the threshold of significance, 23% compared to 12% overall (Table 2.2).

Table 2.2 – Business performance by growth sector

| | Performed exceptionally well | Performed quite well | Been fairly steady | Struggled slightly | Struggled markedly | Don't know | Base |
|---------------------------------|------------------------------|----------------------|--------------------|--------------------|--------------------|------------|-------------|
| | % | % | % | % | % | % | |
| Overall | 12 | 32 | 38 | 12 | 5 | 1 | 1004 |
| Non Growth Sector | 11 | 34 | 40 | 10 | 5 | 1 | 488 |
| Food and drink | 5 | 25 | 44 | 16 | 8 | 1 | 231 |
| Tourism | 27 | 44 | 19 | 8 | 1 | 2 | 109 |
| Financial and business services | 15 | 31 | 39 | 11 | - | 3 | 91 |
| Creative industries | 11 | 34 | 30 | 23 | 1 | - | 47 |
| | N | N | N | N | N | N | N |
| Energy | 2 | 5 | 7 | 6 | 2 | - | 23 |
| Life sciences | - | 1 | * | 1 | * | - | 2 |

Base: All businesses in each sector

There were few significant differences by area, however businesses in Lochaber, Skye and Wester Ross were more likely than average to report that their business had performed exceptionally well (18% compared with 12% overall).

Similarly, larger businesses with 25 or more staff were more likely than average to report that their business had performed exceptionally well (20% compared with 12% overall). By comparison, smaller business with 0-4 employees were more likely than average to report steady performance (42% compared with 38% overall) (Table 2.3).

Table 2.3 – 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 | 9 | 28 | 42 | 14 | 6 | 2 | 637 |
| 5-10 | 12 | 37 | 33 | 14 | 2 | 2 | 137 |
| 11-24 | 15 | 34 | 40 | 10 | 1 | - | 121 |
| 25+ | 20 | 41 | 27 | 5 | 7 | - | 103 |
| <i>Base: All businesses</i> | | | | | | | |

Overall, there were not any significant variations by account managed firms or businesses in fragile areas.

Looking at specific aspects of performance, businesses reported stable performance in a number of key areas that applied to them, including staff training (66%), working hours (66%), employment (66%), exports (45%) and profit margins (45%). Forty-four percent of businesses reported an increase in sales or turnover, and while a similar proportion (45%) reported a steady performance in exports, over a third (36%) reported an increase (Table 2.4).

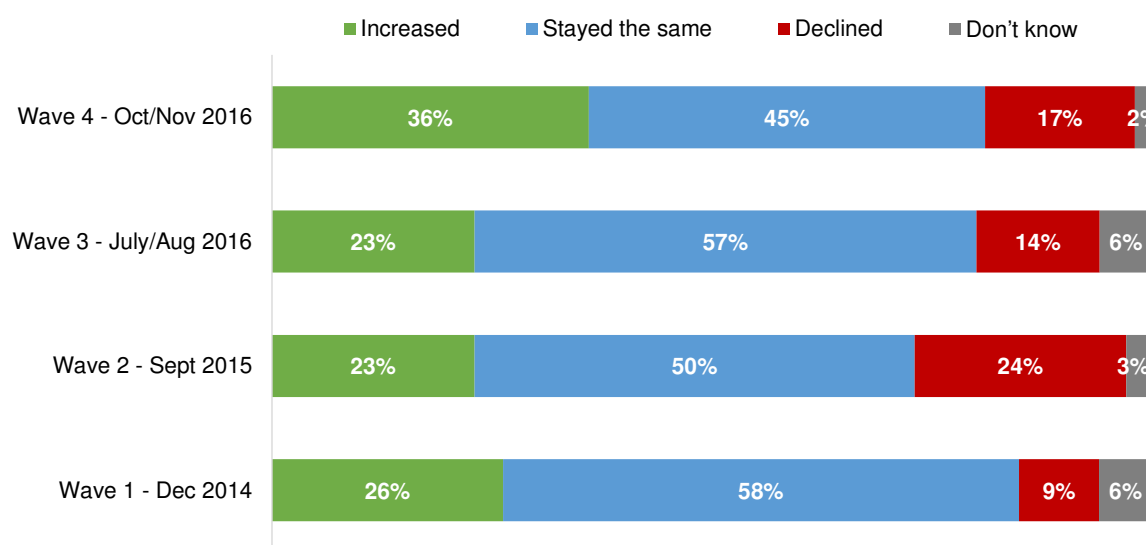
Table 2.4 – Aspects of business performance in the last six months

| | Increased | Decreased | Stayed the same | Don't know | Base |
|--|-----------|-----------|-----------------|------------|------|
| | % | % | % | % | |
| Employment | 26 | 9 | 66 | - | 843 |
| Exports | 36 | 17 | 45 | 2 | 202 |
| Working hours | 26 | 7 | 66 | * | 995 |
| Profit margins | 26 | 24 | 45 | 6 | 972 |
| Staff training | 28 | 5 | 66 | 1 | 748 |
| Sales or turnover | 44 | 20 | 35 | 2 | 987 |
| <i>Base: All businesses saying each aspect applied to them</i> | | | | | |

The proportion reporting an increase in exports was +13% higher than the previous wave of the survey (Figure 2.3). Among those that export (20% of those surveyed), businesses with 25 or more employees and account-managed firms were more likely to report an increase in exports in the last six months, 56% and 48% respectively compared to 36% overall. There were no statistically significant variations by growth sector, region or fragile areas.

Figure 2.3 – Trends in exports over time

Q. Could you tell me whether ‘exports’ have increased, stayed the same or declined in the last six months, that is since April 2016?



Base: All businesses (1,004)

Source: Ipsos MORI

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 the rest were evenly split between a negative score and a score of zero. This is consistent with the previous wave of the survey.

Overall there were not many significant variations by growth sector, although Tourism businesses reported increased performance in a number of areas with an average score of 1.3³ (Table 2.5). More specifically, Tourism businesses were more likely to report an increase in sales or turnover (60%) (that is likely to be linked to seasonal changes in the sector) and profit margins (35%).

³ Although Life Sciences had an average score of 1.9, this does not represent a significant difference from other sectors due to the small base size for Life Science businesses

Table 2.5: Overall assessments of business performance in the last six months by growth sector

| Growth Sector | Assessment of business performance (mean score) |
|---------------------------------|---|
| Life sciences | 1.9 |
| Tourism | 1.3 |
| Non Growth Sector | 1.1 |
| Financial and business services | 0.7 |
| Food and drink | 0.6 |
| Creative industries | 0.3 |
| Energy | -0.1 |

Businesses in Lochaber, Skye and Wester Ross had an average score of 1.2 across all aspects of business performance (Table 2.6) and were more likely than average to report an increase in sales or turnover (60%), working hours (38%) and employment (36%). In particular, sales or turnover had increased by 7% from the previous wave of the survey.

Table 2.6: Overall assessments of business performance in the last six months by location

| Location | Assessment of business performance (mean score) |
|--------------------------------|---|
| Lochaber, Skye and Wester Ross | 1.2 |
| Caithness and Sutherland | 0.9 |
| Outer Hebrides | 0.9 |
| Orkney | 0.8 |
| Inner Moray Firth | 0.7 |
| Argyll and the Islands | 0.6 |
| Moray | 0.6 |
| Shetland | 0.2 |

Businesses with 5 or more employees were more likely to report an increase in aspects of business performance, overall, compared with those with fewer employees (0-4) (Table 2.7). In particular, businesses with 25 or more employees were more likely than average to report an increase in several aspects of business performance including sales or turnover (58%), exports (56%), employment (42%), and staff training (37%).

Table 2.7 – Overall assessments of business performance by size of business

| Size of business | Assessment of business performance (mean score) |
|------------------|---|
| 0-4 | 0.5 |
| 5-10 | 1.2 |
| 11-24 | 1.0 |
| 25+ | 1.5 |

Overall, account-managed businesses had higher positive scores (1.5) than non-account managed (0.6) (Table 2.8) and were more likely to report increased performance in several aspects: sales or turnover (61%), exports (48%), employment (48%) and working hours (36%).

Table 2.8: 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 | 1.5 |
| Non-account managed | 0.6 |

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

Business prospects in the next six months

Businesses expected stability in most aspects of performance that applied to them: employment (68%), working hours (66%), staff training (64%), and profit margins (46%). Businesses were split on assessments of future exports: 41% expected an increase in exports compared with 42% expecting them to stay constant (Table 2.9).

Table 2.9 – Aspects of business performance in the next six months

| | Increase | Decrease | Stay the same | Don't know | Base |
|--|----------|----------|---------------|------------|------|
| | % | % | % | % | |
| Employment | 18 | 12 | 68 | 1 | 855 |
| Exports | 41 | 9 | 42 | 8 | 230 |
| Working hours | 17 | 16 | 66 | 1 | 996 |
| Profit margins | 25 | 23 | 46 | 6 | 975 |
| Staff training | 29 | 5 | 64 | 2 | 789 |
| Sales or turnover | 35 | 21 | 39 | 5 | 985 |
| <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 0.5 for all businesses which is positive on the whole but reflects the high score of those reporting that they expected future prospects to stay constant. Almost three fifths (57%) of businesses had an overall score of zero (30%) or a negative score (27%), while around two fifths (44%) had an overall positive score.

Tourism businesses had an overall negative score of -0.4 (Table 2.10), which is a decrease from the previous wave where the average score was 0.3 and in contrast to their score on past business performance (1.3). This might simply reflect seasonal changes in that sector with Tourism businesses expecting a decrease on a number of aspects including profit margins (40%), working hours (38%), sales or turnover (36%), and employment (26%).

Table 2.10: Overall assessments of business performance in the next six months by growth sector

| Growth Sector | Assessment of business performance (mean score) |
|---------------------------------|---|
| Life sciences | 2.5 ⁴ |
| Food and drink | 0.9 |
| Creative industries | 0.9 |
| Energy | 0.9 |
| Financial and business services | 0.5 |
| Non Growth Sector | 0.4 |
| Tourism | -0.4 |

There was little variation by location, and most areas barely deviated from the overall mean score of 0.5 (Table 2.11). Some locations were more likely to expect constant levels of performance, for instance, Orkney and the Outer Hebrides were more likely to anticipate stable profit margins, (60% and 62% respectively). The Outer Hebrides were also more likely than average to expect stable sales or turnover (59%).

Table 2.11: Overall assessments of business performance in the next six months by location

| Location | Assessment of business performance (mean score) |
|--------------------------------|---|
| Orkney | 0.7 |
| Moray | 0.7 |
| Caithness and Sutherland | 0.7 |
| Outer Hebrides | 0.6 |
| Inner Moray Firth | 0.4 |
| Argyll and the Islands | 0.3 |
| Lochaber, Skye and Wester Ross | 0.3 |
| Shetland | 0.1 |

Businesses with 11-24, and 25 or more staff had an average score of 0.5 (Table 2.12). While this is positive on the whole, these larger businesses were more likely to expect a decrease in employment, 24% and 25% respectively, compared to 12% overall. In contrast, smaller businesses with 0-4 staff had a mean score of 0.33 and were more likely to have stable prospects across a number of different aspects: employment (77%), staff training (69%), profit margins (49%) and sales or turnover (42%).

⁴ Although Life Sciences has the highest mean score of 2.5, this does not represent a significant difference from other sectors due to the small base size for Life Science businesses

Table 2.12: 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 | 0.3 |
| 5-10 | 0.9 |
| 11-24 | 0.5 |
| 25+ | 0.5 |

Overall, account-managed businesses had a higher positive score (1.4) than non-account managed (0.3) (Table 2.13). This was reflected in proportions expecting each aspect of business performance to increase in the next six months: exports (59%), sales or turnover (57%), staff training (43%) employment (34%), profit margins (34%) and working hours (25%).

Table 2.13: 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 | 1.4 |
| Non-account managed | 0.3 |

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

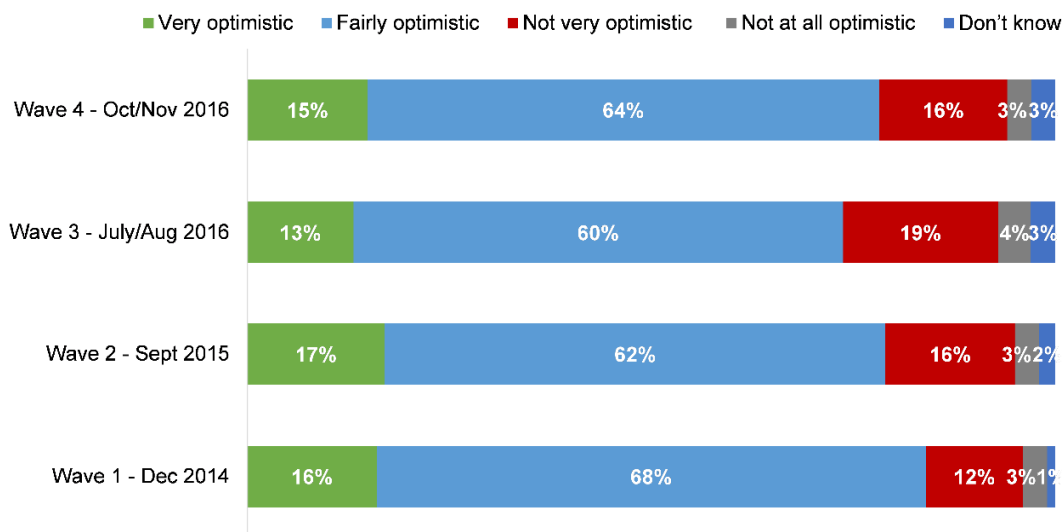
Future business prospects

Almost four fifths (79%) of businesses were very or fairly optimistic for their prospects over the next 12 months, in comparison to around a fifth (18%⁵) who were not optimistic. These results show that businesses are slightly more optimistic (+6%) about their own business prospects than the previous wave of the survey (Figure 2.4).

⁵ Aggregate percentages for "optimistic" are calculated from the absolute values. Therefore, the aggregate percentage differs from the sum of the individual scores in Figure 2.4 due to rounding of percentage totals

Figure 2.4 – 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 (1,004)

Source: Ipsos MORI

There is a correlation between economic optimism and assessment of future business prospects; those who were more confident about the economic outlook in Scotland 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 2.14).

Table 2.14– Business prospects over the next 12 months by confidence in the economic outlook in Scotland

| | Optimism for future business prospects | | | | | Base |
|---|--|-------------------|---------------------|-----------------------|------------|------|
| | Very optimistic | Fairly optimistic | Not very optimistic | Not at all optimistic | Don't know | |
| Confidence in the economic outlook in Scotland | % | % | % | % | % | |
| Increased | 35 | 62 | 1 | 1 | 1 | 133 |
| Stayed the same | 16 | 72 | 9 | 1 | 2 | 457 |
| Decreased | 6 | 56 | 29 | 5 | 3 | 399 |

Base: All Businesses (1,004)

Past business performance was seen to influence businesses' assessments of future business prospects: 92% 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, 53% 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 (Table 2.15). This figure increases to 57% when we *only* look at those who reported that they had struggled *markedly*.

Table 2.15 – 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 | 92 | 7 | 2 | 434 |
| Been fairly steady | 79 | 17 | 4 | 382 |
| Struggled slightly/markedly | 44 | 53 | 3 | 177 |
| Don't know | 64 | 9 | 27 | 11 |

In contrast to the findings on individual aspects of business prospects in the next six months, businesses in the Tourism sector were more likely to report that they were very optimistic about their prospects in the next 12 months, likely related to the onset of the summer season (25% compared to 15% overall). Financial and business services and Food and drink businesses were more likely to be pessimistic about the next 12 months (25% and 21% reported that they were not very optimistic compared to 16% overall) (Table 2.16).

Table 2.16 – Optimism with business prospects by growth sector

| | Very optimistic | Fairly optimistic | Not very optimistic | Not at all Optimistic | Don't know | Base |
|---------------------------------|-----------------|-------------------|---------------------|-----------------------|------------|------|
| | % | % | % | % | % | N |
| Non-growth sector | 17 | 64 | 14 | 2 | 3 | 488 |
| Food and drink | 8 | 64 | 21 | 4 | 2 | 231 |
| Tourism | 25 | 59 | 10 | 4 | 2 | 109 |
| Financial and business services | 11 | 61 | 25 | - | 3 | 91 |
| Creative industries | 9 | 75 | 14 | - | 2 | 47 |
| | | | | | | |
| Energy | 4 | 14 | 2 | 2 | 1 | 23 |
| Life sciences | 1 | 1 | 1 | - | - | 2 |

There were no statistically significant differences by location or size of business.

Account-managed businesses (87%) were more optimistic about their prospects than non-account managed businesses (76%). There were no statistically significant differences by fragile areas.

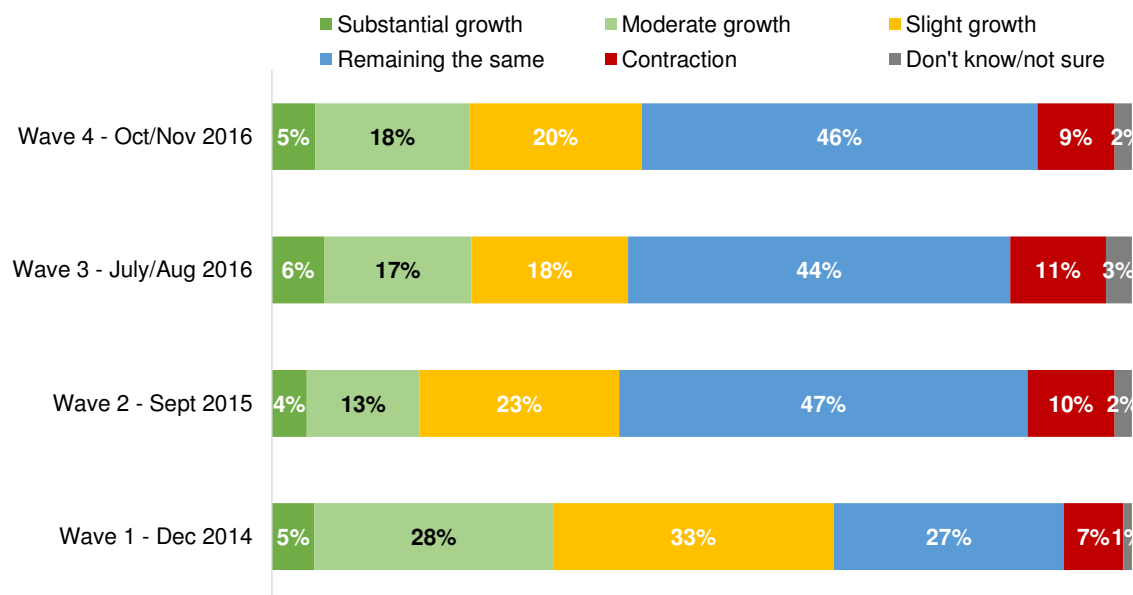
Business growth

Over half (55%) of businesses did not anticipate growth over the next year or two: 46% expect stability while 9% anticipate a contraction. In terms of those who anticipate growth (43%): 5% anticipated substantial growth, 18% moderate growth and 20% slight growth.

These results are consistent with 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 2.5).

Figure 2.5 – 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 (1,004)

Source: Ipsos MORI

Businesses in the Tourism sector were more likely to anticipate growth in the next year or two, 52% compared with 43% overall.

There were not many variations by location, although the Outer Hebrides were more likely to report that they expected their business to remain much the same (66%) in the next year or two.

Businesses with 5-10 and 25+ staff were more likely than average to anticipate growth (57% and 58% respectively compared with 43% overall). Smaller businesses were more likely to not anticipate growth (63%), which is predominantly due to the expectation of business remaining much the same (53%) rather than the expectation of a contraction (10%).

Three quarters (75%) of account managed firms anticipated growth in contrast to just under two fifths (38%) of non- account managed firms.

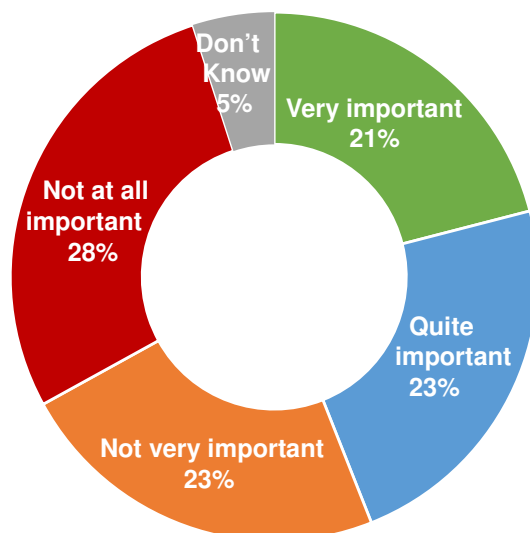
There were no statistically significant differences by fragile areas.

European Single Market

Businesses were asked to consider the importance of access to the European Single Market in the context of their business needs. Just over half (51%) reported that access was not important, while a little over two fifths (44%) reported that access was important. An equal proportion (23%) of businesses reported that access was *quite important* as reported that it was *not very important* (Figure 2.6).

Figure 2.6 – Importance of access to the European Single Market

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



Base: All businesses (1,004)

Source: Ipsos MORI

Food and drink businesses were more likely than average to report that access to the European Single Market was important to them (64% compared to 44% overall). Conversely, businesses in Financial and business services (66%) and Non-growth sectors (58%) were more likely than average to report that access was not important to them (Table 2.17).

Table 2.17 – Importance of access to European Single Market by growth sector

| | Very important | Quite important | Not very important | Not at all important | Don't know | Base |
|---------------------------------|----------------|-----------------|--------------------|----------------------|------------|------|
| | % | % | % | % | % | N |
| Non-growth sector | 15 | 23 | 26 | 32 | 5 | 488 |
| Food and drink | 34 | 30 | 18 | 12 | 6 | 231 |
| Tourism | 21 | 24 | 21 | 32 | 2 | 109 |
| Financial and business services | 13 | 15 | 21 | 45 | 6 | 91 |
| Creative industries | 31 | 11 | 14 | 37 | 6 | 47 |
| Energy | 8 | 3 | 7 | 4 | - | 23 |
| Life sciences | 1 | * | * | * | - | 2 |

There were not many variations by location, although businesses in Orkney were more likely than average to report that access to the Single Market was quite important (35% versus 23% overall).

Similarly, there was little difference in terms of business size, however, smaller businesses with 0-4 staff were more likely than average to report that access to the Single Market was not at all important (30%), although the percentage difference is small.

Access to the European Single Market was more important to account-managed businesses than those who are non-account managed (62% compared with 42%). There were no statistically significant differences by fragile areas.

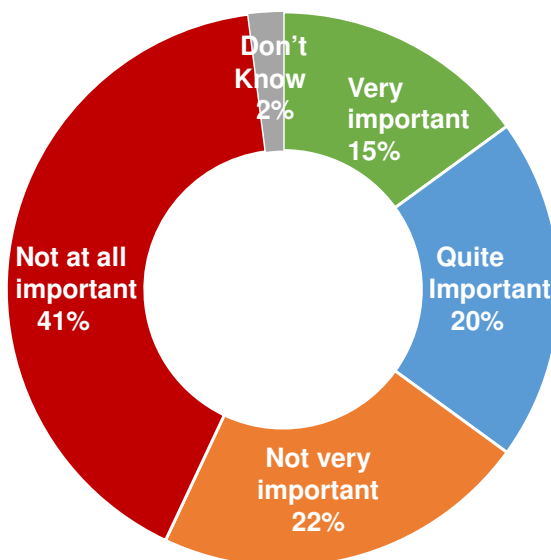
The importance of access to the Single Market increases to 65% when we only look at those businesses who exported. Among businesses that exported, those that felt access to the Single Market was *not* important (34% overall), were more likely to be non-account managed than account managed (45% compared with 21%). Otherwise, there were no significant variations in size, sector, location or fragile area.

Free movement of people

Around two-thirds (63%) of businesses felt that the free movement of people across the EU was not important for their business while around a third (35%) felt that it was important. Similar to the results for the importance of the European Single Market, businesses were split on the middle level of the scale: 20% reported that it was quite important and 22% that it was not very important (Figure 2.7).

Figure 2.7 – Importance of free movement of people across the EU

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



Base: All businesses (1,004)

Source: Ipsos MORI

Businesses in the Tourism sector were more likely to report that the free movement of people was important to their business (55% compared to 35% overall).

There were some variations by location: businesses in Lochaber, Skye and Wester Ross were more likely to report that free movement was *very important* (25%) and those in Shetland that it was *quite important* (33%). In contrast businesses in Caithness and Sutherland were more likely to report that free movement was *not at all important* (52% compared to 41% overall) (Table 2.18).

Table 2.18 – Importance of free movement of people by location

| | Very important | Quite important | Not very important | Not at all important | Don't know | Base |
|--------------------------------|----------------|-----------------|--------------------|----------------------|------------|-------------|
| | % | % | % | % | % | |
| Overall | 15 | 20 | 22 | 41 | 5 | 1004 |
| Inner Moray Firth | 16 | 20 | 20 | 43 | 1 | 285 |
| Argyll and the Islands | 16 | 23 | 23 | 35 | 3 | 197 |
| Moray | 13 | 12 | 23 | 49 | 3 | 136 |
| Lochaber, Skye and Wester Ross | 25 | 18 | 21 | 33 | 4 | 121 |
| Orkney | 9 | 16 | 23 | 50 | 2 | 82 |
| Caithness and Sutherland | 11 | 15 | 21 | 52 | 1 | 80 |
| Shetland | 9 | 33 | 28 | 30 | - | 53 |
| Outer Hebrides | 15 | 28 | 27 | 31 | - | 46 |

Larger businesses with 11-24 or 25+ staff were more likely than average to feel that the free movement of people was important to their business (43% and 57% respectively, compared to 35% overall). In contrast, smaller businesses were more likely than average to feel that free movement was not important to them (70% compared to 63% overall).

Account-managed businesses were more likely than average to report that the free movement of people was important to their business (56% compared to 35% overall and 31% non-account managed businesses).

There were no statistically significant differences by fragile areas.

When comparing the views on free movement of people with those on access to the European Single Market, just over half of those who felt access to the single market was important also felt that free movement of people was important (55%). The majority of those who felt access to the single market was *not* important also felt that free movement of people was *not* important (88%) (Table 2.19).

Table 2.19 – Importance of free movement by importance of access to the European Single Market

| | 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 | 39 | 22 | 13 | 25 | 213 |
| Fairly important | 17 | 31 | 22 | 31 | 221 |
| Not very important | 8 | 19 | 41 | 32 | 226 |
| Not at all important | 4 | 11 | 16 | 70 | 293 |
| Important | 28 | 27 | 18 | 28 | 434 |
| Not important | 6 | 14 | 27 | 61 | 519 |
| <i>Base: All businesses, excluding those saying "don't know" (953)</i> | | | | | |

Those who felt that free movement of people *and* access to the European Single Market were important represent 24% of the overall sample of businesses (239 businesses), while those who felt that *neither* was important represent 40% of the sample (403 businesses) (Table 2.20).

Table 2.20 – Comparison of importance of free movement of people and importance of access to the European Single Market

| | % |
|---|----|
| Those saying European Single Market was important, but <i>not</i> free movement of people | 21 |
| Those saying free movement of people across the EU was important, but <i>not</i> European Single Market | 11 |
| Those saying both were important | 24 |
| Those saying both were not important | 40 |
| <i>All businesses (1,004)</i> | |

Looking at each of these groups in more detail, firstly certain types of business were more likely than others to say that *both* aspects were important:

- those who exported (47% compared with 18% of those who did not)
- those who employed non-UK EU nationals (48% compared with 19% of those who did not)
- account-managed businesses (47% compared with 20% of non-account managed businesses)
- businesses with 25 or more employees (38% compared with 24% overall)
- those working in the Tourism sector (34% compared with 24% overall).

Conversely, those that said both aspects were *not* important were more likely to be:

- those who did not export (44% compared with 26% of those who did)
- those who did not employ non-UK EU nationals (44% compared with 22% of those that did)
- non-account managed businesses (42% compared with 26% of account managed businesses)
- smaller businesses with 0-4 employees (42% compared with 30% of businesses with 25 or more employees)
- those working in the Financial and Business Services sector (60% compared with 40% overall).

Certain types of business were more likely than others to only say free movement of people across the EU was important (and not access to the European Single Market):

- those who employed non-UK EU nationals (19% compared with 9% of those who did not)
- businesses with 25 or more employees (19% compared with 9% of those with 0-4 employees)
- those working in the Tourism sector (21% compared with 11% overall).

Finally, those that only said access to the European Single Market was important (and not the free movement of people across the EU):

- those who did not employ non-UK EU nationals (23% compared with 7% of those that did)
- non-account managed businesses (21% compared with 15% of account managed businesses)
- smaller businesses with 0-4 employees (25% compared with 9% of businesses with 25 or more employees)
- those working in the Food and Drink sector (36% compared with 21% overall).

3. RECRUITMENT AND WORKFORCE

Recent experience of recruitment

Around two thirds (61%) of businesses had recruited staff in the past 12 months. The sector most likely to have done so was Tourism, with 72% of businesses having recruited staff (Table 3.1).

Table 3.1 – Recruitment in the past 12 months by sector

| | Yes | No | Base |
|--|-----------|-----------|------------|
| | % | % | N |
| Tourism | 72 | 28 | 80 |
| Financial and business services | 63 | 37 | 66 |
| Non Growth sector | 61 | 39 | 345 |
| Creative industries | 58 | 42 | 33 |
| Food and drink | 55 | 45 | 156 |
| | N | N | |
| Energy | 13 | 7 | 21 |
| Life sciences | 2 | * | 2 |
| All businesses | 61 | 39 | 713 |
| <i>Base: All businesses in each sector</i> | | | |

Larger businesses were more likely than smaller businesses to have recruited (e.g. 91% of those with 25 or more employees and 84% of those with 11-14 employees, compared with 33% of those with 0-4 employees). Similarly, account managed businesses were more likely than non-account managed businesses to have recruited (82% compared with 56%).

There was little significant variation by geography, however those in the Outer Hebrides were more likely than those in Caithness and Sutherland or Moray to have recruited (77% compared with 53% and 52% respectively) (Table 3.2).

Table 3.2 – Recruitment in the past 12 months by region

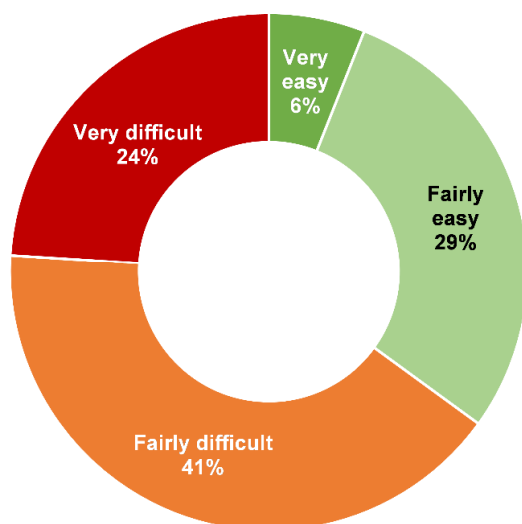
| | Yes | No | Base |
|--|-----|----|------|
| | % | % | N |
| Outer Hebrides | 77 | 23 | 38 |
| Lochaber, Skye and Wester Ross | 64 | 36 | 81 |
| Orkney | 63 | 37 | 55 |
| Argyll and the Islands | 63 | 37 | 142 |
| Inner Moray Firth | 62 | 38 | 194 |
| Shetland | 54 | 46 | 44 |
| Caithness and Sutherland | 53 | 47 | 58 |
| Moray | 52 | 48 | 100 |
| <i>Base: All businesses in each region</i> | | | |

There was no notable difference in the level of recruitment by fragile and non-fragile area.

Among those that had recruited in the past 12 months, the majority (65%) had found it difficult to recruit people with the skills and experience they needed (41% fairly difficult and 24% very difficult) (Figure 3.1).

Fig 3.1 – Experience of recruitment

Q. In general, how easy or difficult have you found it to recruit people with the skills and experience you need?



Base: All businesses that employ staff and have recruited staff in past 12 months (414)

Source: Ipsos MORI

Results on experience of recruitment were broadly similar across different sectors, size of business, account management status, HIE region and fragile area.

Comparing these results with those on free movement of people across the EU, businesses who considered this important (70%) were more likely than those who felt it was not important (60%) to say that recruitment had been difficult in the past 12 months (Table 3.3).

Table 3.3 – Experience of recruitment by importance of free movement of people across the EU

| | Experience of recruitment | | | | Base |
|--|---------------------------|------------|-----------------|----------------|------------|
| | Very easy | Quite easy | Quite difficult | Very difficult | |
| Importance of free movement of people | % | % | % | % | N |
| Very important | 4 | 18 | 45 | 33 | 84 |
| Quite important | 6 | 31 | 42 | 22 | 110 |
| Not very important | 7 | 33 | 44 | 17 | 101 |
| Not at all important | 7 | 34 | 34 | 25 | 123 |
| Important | 5 | 25 | 43 | 27 | 184 |
| Not important | 7 | 33 | 38 | 22 | 224 |

Base: All that employ and have recruited staff, excluding those saying 'don't know' (408)

Reasons for finding recruitment difficult

For those who had found it difficult to recruit, issues that were raised included lack of suitably qualified people, barriers due to location, and dependency on non-UK EU workers.

The lack of suitably qualified people was, for some businesses, seen as a symptom of a general lack of interest in particular jobs, and as a result of a small pool of people from which they could choose employees. Particular businesses highlighted the lack of necessary skills and qualifications they needed for specific roles, including engineers, electricians, IT workers, and chefs. For these businesses, there was a sense that there simply were not enough people to fill their positions. Businesses also raised the issue of wages, feeling unable to compete with higher wages being paid in other areas, which presented a further barrier to recruiting suitable applicants.

The issue of location was raised repeatedly and was linked to the lack of suitably qualified people willing to work in remote and rural areas. In smaller communities, with declining populations, businesses were more dependent on employees from outside of the local area. However, being in a remote location, particularly island communities, was seen as a barrier to prospective employees due to a perceived lack of housing options and transport connections.

In areas where there was a perceived labour shortage, some businesses were dependent on workers from elsewhere in the EU. While not a dominant view among businesses, those that did depend on EU workers were concerned about the reduction in the number of people coming from these countries and a lack of certainty around the future movement of workers following the UK vote to leave the EU.

Make-up of current workforce

Three-quarters of businesses (75%) said they currently employed staff. The vast majority of these (97%) employed permanent staff, while around a quarter (26%) employed temporary or seasonal staff. Among businesses that employed staff, 23% employed non-UK EU nationals. Of those non-UK EU nationals, 91% were permanent staff.

Respondents were asked how many non-UK EU nationals they employed and the results were grouped into size bands: 0 employees, between 1 and 4, between 5 and 10, between 11 and 24, and 25 or over. The proportion with non-UK employees in each of these size bands is shown in Table 3.4. The mean number of non-UK EU nationals employed by these businesses was 2.7, while the mean number of all employees in these businesses was 30.2.

Table 3.4 – Number of non-UK EU nationals employed

| | % of all business that employ staff |
|---|-------------------------------------|
| Number of non-UK nationals employed | % |
| 0 | 77 |
| 1 to 4 | 14 |
| 5 to 10 | 4 |
| 11 to 24 | 2 |
| 25 or more | 3 |
| <i>Base: All businesses that employ staff (713)</i> | |

Larger businesses were more likely to have employed non-UK EU nationals than smaller businesses, with 71% of businesses with 25 or more employees having done so (Table 3.5).

Table 3.5 – Employment of non-UK EU nationals by size of business

| | All employing non-UK EU nationals | Base |
|--|-----------------------------------|------|
| | % | N |
| 1 to 4 | 5 | 352 |
| 5 to 10 | 17 | 137 |
| 11 to 24 | 32 | 121 |
| 25 or more | 71 | 103 |
| <i>Base: All those employing staff (713)</i> | | |

A higher proportion of account managed than non-account managed businesses employed non-UK EU nationals (50% compared with 17%).

The Tourism sector saw the highest level of employment of non-UK EU nationals compared to other sectors, while Financial and Business Services had the lowest level (Table 3.6).

Table 3.6 – Employment of non-UK EU nationals by sector

| | All employing non-UK EU nationals | Base |
|--|-----------------------------------|------|
| | % | N |
| Tourism | 46 | 80 |
| Food and drink | 25 | 156 |
| Creative industries | 19 | 33 |
| Non Growth sector | 16 | 345 |
| Financial and business services | 15 | 66 |
| | N | |
| Energy | 8 | 21 |
| Life sciences | 1 | 2 |
| <i>Base: All those employing staff (713)</i> | | |

The proportion employing non-UK EU nationals was higher in certain HIE regions than others; those in Lochaber, Skye and Wester Ross were more likely than those in the Outer Hebrides or Orkney to do so (30% compared with 13% and 12% respectively (Table 3.7).

Table 3.7 – Employment of non-UK EU nationals by region

| | All employing non-UK EU nationals | Base |
|--|-----------------------------------|------|
| | % | N |
| Lochaber, Skye and Wester Ross | 30 | 81 |
| Shetland | 27 | 45 |
| Moray | 25 | 104 |
| Inner Moray Firth | 24 | 202 |
| Argyll and the Islands | 22 | 151 |
| Caithness and Sutherland | 22 | 60 |
| Outer Hebrides | 13 | 46 |
| Orkney | 12 | 58 |
| <i>Base: All those employing staff (713)</i> | | |

There was no notable difference in the employment of non-UK EU nationals by fragile and non-fragile area.

Employment of non-UK EU nationals was higher among those who felt the free movement of people was important (41%) compared with those who felt it was not important (12%) (Table 3.8).

Table 3.8 – Employment of non-UK EU nationals by importance of free movement of people

| | All employing non-UK EU nationals | Base |
|--|-----------------------------------|------------|
| | % | N |
| Very important | 49 | 120 |
| Quite important | 34 | 158 |
| Not very important | 17 | 174 |
| Not at all important | 8 | 283 |
| Important | 41 | 278 |
| Not important | 12 | 457 |
| <i>Base: All those employing staff (713)</i> | | |

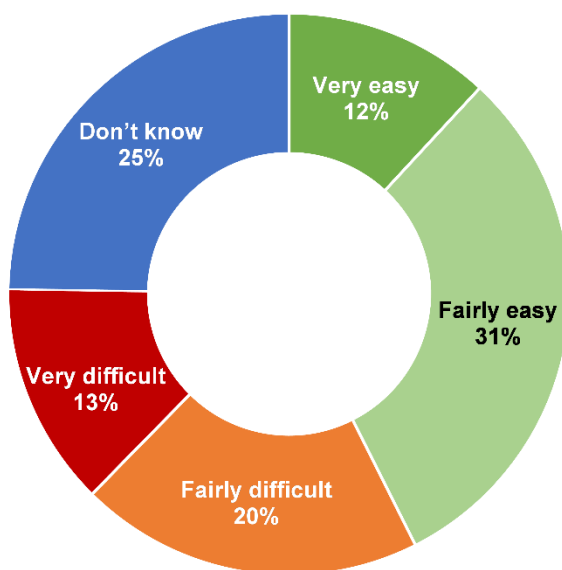
4. IMPACT OF RELATIONSHIP WITH THE EU

Impact of a reduction in the flow of EU migrants

When asked about the likely impact of a reduction in the flow of EU migrants, opinion was somewhat mixed. While 42%⁶ felt that it would be easy to recruit employees with the skills and experience they needed, 33% felt that it would be difficult to do so, and 25% said they did not know (Figure 4.1).

Fig 4.1 – Impact of a reduction in EU migrants on ease of recruitment

Q. If the flow of EU migrants is reduced, how easy or difficult do you think it would be to recruit employees with the skills and experience you need?



Base: All those employing staff plus those saying they did not know how many employees the business had (719)

Source: Ipsos MORI

Among those giving an opinion (i.e. excluding those who said “don’t know”) 56% said that it would be easy to recruit while 44% said it would be difficult. In addition, the proportion saying it would be difficult was higher among those that had recently recruited (51%) than among those with no recent recruitment experience (33%).

Those who had already found it difficult to recruit staff were also likely to say they would find recruitment difficult if the flow of EU migrants was reduced (74% compared with 17%⁷ of those who had not faced any difficulties recruiting) (Table 4.1).

⁶ Aggregate percentage for “easy” is calculated from the absolute values. Therefore, the aggregate percentage differs from the sum of the individual scores in Figure 4.1 due to rounding of percentage totals

⁷ Aggregate percentage of ‘difficult’; is calculated from the absolute values. Therefore, the aggregate percentage differs from the sum of the individual scores in Table 4.1 due to rounding of percentage totals

Table 4.1 – Impact of a reduction in EU migrants on ease of recruitment, by experience of recruitment

| | Impact on ease of recruitment | | | | |
|--|-------------------------------|------------|-----------------|----------------|------|
| | Very easy | Quite easy | Quite difficult | Very difficult | Base |
| Experience of recruitment | % | % | % | % | N |
| Easy | 21 | 62 | 12 | 6 | 139 |
| Difficult | 6 | 20 | 41 | 33 | 205 |
| <i>Base: All that employ staff and have recruited staff, plus those saying they did not know how many employees the business had; excluding those saying 'don't know' on ease of recruitment (344)</i> | | | | | |

Elsewhere, those who felt the free movement of people was important were more likely than those who felt it was not important to say that recruitment would be difficult (65% compared with 29%) (Table 4.2).

Table 4.2 – Impact of a reduction in EU migrants on ease of recruitment, by importance of free movement of people

| | Impact on ease of recruitment | | | | |
|---|-------------------------------|------------|-----------------|----------------|------------|
| | Very easy | Quite easy | Quite difficult | Very difficult | Base |
| Importance of free movement of people | % | % | % | % | N |
| Very important | 4 | 16 | 35 | 45 | 92 |
| Quite important | 11 | 35 | 39 | 15 | 119 |
| Not very important | 13 | 57 | 24 | 6 | 123 |
| Not at all important | 24 | 47 | 19 | 10 | 196 |
| Important | 8 | 27 | 37 | 28 | 211 |
| Not important | 20 | 51 | 21 | 8 | 319 |
| <i>Base: All that employ staff and have recruited staff, plus those saying they did not know how many employees the business had; excluding those saying 'don't know' on ease of recruitment or importance of free movement (530)</i> | | | | | |

Larger businesses were more likely than smaller businesses to say that recruitment would be difficult if the flow of EU migrants was reduced (e.g. 59% of businesses with 25 or more employees compared with 37% of those with 0-4 employees, based on all those giving an opinion) (Table 4.3). This perhaps reflects the higher proportion of non-UK EU nationals employed by larger businesses, as outlined earlier in Table 3.3.

Table 4.3 – Impact of a reduction in EU migrants on ease of recruitment, by size of business

| | Very easy | Quite easy | Quite difficult | Very difficult | Base |
|---|-----------|------------|-----------------|----------------|------|
| | % | % | % | % | N |
| 0 to 4 | 17 | 46 | 25 | 12 | 265 |
| 5 to 10 | 21 | 38 | 25 | 16 | 86 |
| 11 to 24 | 10 | 41 | 39 | 11 | 108 |
| 25 or more | 8 | 33 | 22 | 37 | 83 |
| <i>Base: All that employ and have recruited staff, excluding those saying 'don't know' on ease of recruitment (542)</i> | | | | | |

Results were broadly similar across sectors, HIE regions, fragile and non-fragile areas, and between account managed and non-account managed businesses.

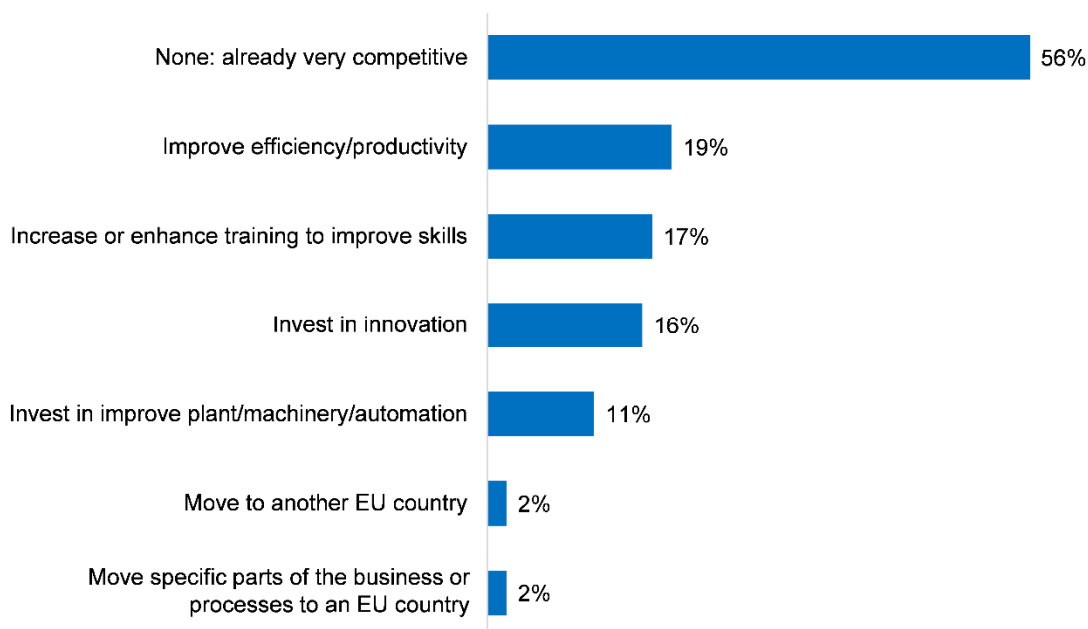
Among those who felt recruitment would be difficult, this was mainly down to a perceived lack of suitably qualified people, as highlighted earlier in section 3. In the absence of non-UK EU migrants, they felt the pool of potential employees would become even smaller. For some businesses, non-UK EU workers were seen as particularly valuable because of their positive work ethic, being described as “reliable”, “hard working”, “dependable” and “enthusiastic”, more so than Scottish employees. As a result, several of these businesses had become dependent upon non-UK EU workers and therefore felt a reduction in the flow of migrants would make future recruitment difficult.

Response to a reduction in EU migrants

In terms of their response to any future reduction in EU migrants, 56% said that they would take no action to retain or enhance their competitiveness, as they were already very competitive (Figure 4.2). The most commonly mentioned steps that businesses *would* take were improving efficiency or productivity (19%), increasing or enhancing training (17%) and investing in innovation (16%). Only a small minority said they would move their business (2%) or parts of it (2%) to another EU country.

Fig 4.2 – Future response to reduction in flow of EU migrants

Q. And if the flow of EU migrants is reduced, what steps would your business take to retain or enhance your competitiveness?



Base: All those employing staff plus those saying they did not know how many employees the business had (719)

Source: Ipsos MORI

Smaller businesses were more likely than larger businesses to say they would take no action in this scenario (e.g. 62% of those with 0-4 employees compared with 42% of those with 25 or more employees), while the largest businesses were most likely to say they would take each of the potential actions suggested. (Table 4.4)

Table 4.4– Future response to reduction in flow of EU migrants, by size of business

| | None: already very competitive | Improve efficiency / productivity | Increase or enhance training | Invest in innovation | Invest in improved plant/machinery/ automation | Base |
|------------|--------------------------------|-----------------------------------|------------------------------|----------------------|--|------|
| | % | % | % | % | % | N |
| 0 to 4 | 62 | 12 | 8 | 10 | 8 | 352 |
| 5 to 10 | 59 | 20 | 19 | 16 | 10 | 137 |
| 11 to 24 | 50 | 23 | 24 | 17 | 14 | 121 |
| 25 or more | 42 | 32 | 32 | 31 | 21 | 103 |

Base: All those employing staff (713)

Non-account managed businesses were more likely than account managed businesses to say they would take no action (59% compared with 43%). Elsewhere, results were largely similar across sectors, HIE regions, and between fragile and non-fragile areas.

Those who felt access to the European Single Market was *not* important were more likely to say they would take no action in response to a reduction in the flow of EU migrants (68% compared with 43% of those who felt access to the European Single Market was important). (Table 4.5)

Table 4.5 - Future response to reduction in flow of EU migrants, by importance of access to the European Single Market

| | Future response to reduction in the flow of EU migrants | | | | | Base |
|---|---|-----------------------------------|------------------------------|----------------------|--|------|
| | None: already very competitive | Improve efficiency / productivity | Increase or enhance training | Invest in innovation | Invest in improved plant/machinery/ automation | |
| Importance of access to the European Single Market | % | % | % | % | % | N |
| Very important | 39 | 25 | 22 | 21 | 13 | 160 |
| Quite important | 46 | 26 | 26 | 26 | 14 | 175 |
| Not very important | 64 | 15 | 15 | 10 | 11 | 181 |
| Not at all important | 73 | 9 | 6 | 6 | 7 | 203 |
| Important | 43 | 26 | 24 | 24 | 14 | 335 |
| Not important | 68 | 12 | 10 | 8 | 9 | 384 |
| <i>Base: All those employing staff, plus those saying they did not know how many employees the business had (719)</i> | | | | | | |

Similar to the finding above, those who felt that the free movement of people across the EU was *not* important were around twice as likely to say they would take no action (70% compared with 36% of those who felt free movement of people was important). (Table 4.6)

Table 4.6 - Future response to reduction in flow of EU migrants, by importance of free movement of people across the EU

| | Future response to reduction in the flow of EU migrants | | | | | Base |
|---|---|-----------------------------------|------------------------------|----------------------|--|------|
| | None: already very competitive | Improve efficiency / productivity | Increase or enhance training | Invest in innovation | Invest in improved plant/machinery/ automation | |
| Importance of free movement of people | % | % | % | % | % | N |
| Very important | 28 | 31 | 29 | 24 | 14 | 115 |
| Quite important | 42 | 21 | 22 | 19 | 17 | 149 |
| Not very important | 61 | 17 | 16 | 15 | 9 | 168 |
| Not at all important | 75 | 10 | 6 | 7 | 5 | 273 |
| Important | 36 | 26 | 25 | 21 | 16 | 264 |
| Not important | 70 | 12 | 10 | 10 | 7 | 441 |
| <i>Base: All those employing staff, plus those saying they did not know how many employees the business had; excluding those saying 'don't know' on importance of free movement of people (705)</i> | | | | | | |

Those that employed non-UK EU nationals were more likely to take each of the actions suggested, compared to those that did not employ non-UK EU nationals (Table 4.7).

Table 4.7 – Future response to reduction in flow of EU migrants, by employment of EU workers

| | Future response to reduction in the flow of EU migrants | | | | | Base |
|----------------------------------|---|-----------------------------------|------------------------------|----------------------|--|------|
| | None: already very competitive | Improve efficiency / productivity | Increase or enhance training | Invest in innovation | Invest in improved plant/machinery/ automation | |
| Employment | % | % | % | % | % | N |
| Don't employ non-UK EU nationals | 63 | 15 | 13 | 13 | 8 | 567 |
| Do employ non-UK EU nationals | 34 | 31 | 31 | 27 | 20 | 152 |

Base: All those employing staff, plus those saying they did not know how many employees the business had (719)

Actions to address UK leaving the EU

Most businesses (73%) had not yet taken any steps to address the potential impacts from the UK voting to leave the EU, although 23% recognised that they may need to do so (Figure 4.3). One in ten said they were reviewing their capital investment or investment in productivity, and a similar proportion (9%) said they were reviewing their training and skills development. Fewer, 6%, said they were reviewing their recruitment and reward packages to attract more local applications.

Fig 4.3 – Steps taken to address impact arising from UK vote to leave the EU.

Q. What steps, if any, has your business taken to address potential impacts arising from the UK voting to leave the EU?



Base: All those employing staff plus those saying they did not know how many employees the business had (719)

Source: Ipsos MORI

Once again, larger businesses were more likely than smaller businesses to have taken action. Businesses with 25 or more employees were more likely than average to have reviewed their training and skills development (21%), capital investment (19%), and recruitment and reward packages (14%) and to have offered EU nationals personal advice on immigration or naturalisation (7%). (Table 4.8).

Table 4.8 – Steps taken to address impact arising from UK vote to leave the EU, by size of business

| | None and don't anticipate having to | None yet but recognise we may have to | Reviewed capital investment / investment in automation/ productivity increases | Reviewed training and skills development | Reviewed recruitment and rewards packages | Offered EU nationals advice on immigration / naturalisation | Circulated general information about immigration / naturalisation | Base |
|--|-------------------------------------|---------------------------------------|--|--|---|---|---|------|
| | % | % | % | % | % | % | % | N |
| 0 to 4 | 60 | 23 | 5 | 3 | 3 | 1 | 1 | 352 |
| 5 to 10 | 49 | 22 | 9 | 10 | 5 | 1 | 1 | 137 |
| 11 to 24 | 40 | 31 | 15 | 14 | 9 | 6 | 2 | 121 |
| 25 or more | 36 | 20 | 19 | 21 | 14 | 7 | 4 | 103 |
| <i>Base: All those employing staff (713)</i> | | | | | | | | |

Results were broadly similar across different sectors, account management status, HIE region and fragile area.

Those who felt that access to the European Single Market was *not* important were more likely to say that they had taken no action and did not anticipate having to (69% compared with 30% of those felt access to the European Single Market was important) (Table 4.9). Those who felt access was important were more likely to recognise that they may have to take action (32% compared with 14%).

Table 4.9 – Steps taken to address impact arising from UK vote to leave the EU, by importance access to the European Single Market

| | Steps taken to address impact of UK vote to leave the EU | | | | | | | Base |
|---|--|---------------------------------------|--|--|---|---|---|------|
| | None and don't anticipate having to | None yet but recognise we may have to | Reviewed capital investment / investment in automation/ productivity increases | Reviewed training and skills development | Reviewed recruitment and rewards packages | Offered EU nationals advice on immigration / naturalisation | Circulated general information about immigration / naturalisation | |
| Importance of access to the Single Market | % | % | % | % | % | % | % | N |
| Very important | 25 | 38 | 16 | 12 | 8 | 9 | 4 | 160 |
| Quite important | 34 | 27 | 15 | 11 | 8 | 3 | 2 | 175 |
| Not very important | 63 | 16 | 5 | 10 | 6 | 1 | - | 181 |
| Not at all important | 75 | 12 | 3 | 3 | 1 | - | - | 203 |
| Important | 30 | 32 | 15 | 12 | 8 | 6 | 3 | 335 |
| Not important | 69 | 14 | 4 | 7 | 3 | - | - | 384 |
| <i>Base: All those employing staff, plus those saying they did not know how many employees the business had (719)</i> | | | | | | | | |

Those who felt that free movement of people was *not* important were more likely to say that they had taken no action and did not anticipate having to (65% compared with 29% who regarded free movement of people as important) (Table 4.10). Those who felt free movement was important were more likely to recognise that they might have to take action (34% compared with 17%).

Table 4.10 – Steps taken to address impact arising from UK vote to leave the EU, by importance of free movement of people across the EU

| | Steps taken to address impact of UK vote to leave the EU | | | | | | | Base |
|---|--|---------------------------------------|--|--|---|---|---|------------|
| | None and don't anticipate having to | None yet but recognise we may have to | Reviewed capital investment / investment in automation/ productivity increases | Reviewed training and skills development | Reviewed recruitment and rewards packages | Offered EU nationals advice on immigration / naturalisation | Circulated general information about immigration / naturalisation | |
| Importance of free movement of people | % | % | % | % | % | % | % | N |
| Very important | 25 | 33 | 15 | 12 | 10 | 10 | 4 | 115 |
| Quite important | 32 | 34 | 13 | 13 | 9 | 4 | 2 | 149 |
| Not very important | 56 | 24 | 9 | 8 | 5 | 1 | - | 168 |
| Not at all important | 71 | 14 | 4 | 3 | 2 | - | - | 273 |
| Important | 29 | 34 | 14 | 13 | 9 | 6 | 3 | 264 |
| Not important | 65 | 17 | 6 | 5 | 3 | - | - | 441 |
| <i>Base: All those employing staff, plus those saying they did not know how many employees the business had; excluding those saying 'don't know' on importance of free movement of people (705)</i> | | | | | | | | |

Action was more likely to be taken by those that employed non-UK EU nationals, compared with those that did not. Over half (56%) of those that did not employ non-UK EU nationals said they had taken no action and did not anticipate having to, compared with less than a third (29%) of those that did employ EU workers. (Table 4.11).

Table 4.11 – Steps taken to address impact arising from UK vote to leave the EU, by employment of non-UK EU nationals

| | Steps taken to address impact of UK vote to leave the EU | | | | | | | |
|---|--|---------------------------------------|--|--|---|---|---|------|
| | None and don't anticipate having to | None yet but recognise we may have to | Reviewed capital investment / investment in automation/ productivity increases | Reviewed training and skills development | Reviewed recruitment and rewards packages | Offered EU nationals advice on immigration / naturalisation | Circulated general information about immigration / naturalisation | Base |
| Employment | % | % | % | % | % | % | % | N |
| Don't employ non-UK EU nationals | 56 | 21 | 8 | 7 | 4 | 1 | 1 | 567 |
| Do employ non-UK EU nationals | 29 | 29 | 16 | 17 | 11 | 9 | 4 | 152 |
| <i>Base: All those employing staff, plus those saying they did not know how many employees the business had (719)</i> | | | | | | | | |

Those whose level of confidence in the economy had increased (60%) or stayed the same (62%) were more likely than those whose confidence had decreased (35%) to say they had taken no action and did not anticipate having to (Table 4.12).

Table 4.12 – Steps taken to address impact arising from UK vote to leave the EU, by level of confidence in economic outlook for Scotland

| | Steps taken to address impact of UK vote to leave the EU | | | | | | | |
|---|--|---------------------------------------|--|--|---|---|---|------|
| | None and don't anticipate having to | None yet but recognise we may have to | Reviewed capital investment / investment in automation/ productivity increases | Reviewed training and skills development | Reviewed recruitment and rewards packages | Offered EU nationals advice on immigration / naturalisation | Circulated general information about immigration / naturalisation | Base |
| Level of confidence in economic outlook | % | % | % | % | % | % | % | N |
| Increased | 60 | 22 | 4 | 12 | 5 | - | - | 101 |
| Decreased | 35 | 32 | 12 | 11 | 7 | 3 | 1 | 290 |
| Stayed the same | 62 | 15 | 9 | 7 | 5 | 3 | 2 | 328 |
| <i>Base: All those employing staff, plus those saying they did not know how many employees the business had (719)</i> | | | | | | | | |

5. SUMMARY

Following a reduction in the level of economic confidence among businesses in the previous wave of the survey, this wave sees confidence in the economy remain low. Businesses were around three times more likely to say that their confidence in the economy had decreased than they were to say it had increased. These results were similar to those of the previous wave, with businesses showing no signs of becoming more optimistic.

Views on business performance were also largely unchanged since the previous wave. Around two in five said that their business had performed well in the previous 12 months, while a similar proportion reported a steady performance. Around one in five said their business had struggled, which remains unchanged on previous waves of the survey. So while optimism in the overall economy remains low, businesses remain largely satisfied with their own performance.

Looking at individual aspects of business performance, businesses reported mainly steady performance in employment, working hours and staff training. However, exports, sales/turnover and profit margins are areas where views of performance are more mixed.

In spite of the low level of confidence in the economy, the majority of businesses remain optimistic about their own prospects for the next 12 months. Having said that, one in five businesses remain pessimistic about their business prospects.

When asked their views on the European Single Market, the response was mixed; while around two in five said that access to the single market was important to them, around half of businesses felt that it was not important. On the question of free movement of people across the EU, the majority felt that this was not important to the needs of their business. However, a third felt that free movement of people was important, and this figure was higher among larger business and those working in the Tourism sector.

Looking at both these aspects together, a quarter of businesses felt that free movement of people *and* access to the European Single Market were important, however a greater proportion (two in five) felt that *neither* was important. The former group tended to be larger businesses who exported and employed non-UK nationals, whereas the latter group tended to be smaller, non-exporting business who had no non-UK EU employees.

Turning to recruitment of staff, businesses highlighted the challenges they had faced in finding people with the skills and experience they needed. Among those that had recruited staff in the past 12 months, the majority had found it difficult to recruit the people that they needed. The difficulties they had faced included a lack of people applying for jobs, a lack of suitable skills and experience, the barriers presented by being in a remote location, and dependency upon non-UK EU employees.

Around a quarter of businesses that employ staff employed non-UK EU nationals, and the vast majority of these were permanent employees. Among the largest businesses, seven in ten employed non-UK EU nationals. These figures highlight the nature of dependency on non-UK EU nationals – while the overall number of businesses employing migrants may be relatively small, for larger businesses there may be a risk of skills shortages among permanent employees if the flow of EU migrants is reduced. Indeed, a third of businesses said it would be difficult

for them to recruit employees with the skills and experience they needed if the flow of EU migrants was reduced – this figure rises to a half among larger businesses.

Looking more widely at the potential impact of the UK voting to leave the EU, most businesses have not yet taken any steps to address these potential impacts. However, even among those that have not yet taken action, there is a degree of recognition that they may need to do so. Those most likely to have taken steps to address potential impacts were those that employed non-UK EU nationals and those who felt that the free movement of people across the EU and access to the European Single Market were important.

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