

HIE Business Panel Survey

Wave 14: Business Resilience, Brexit and
Climate Change



Ipsos MORI
Scotland



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 to measure and monitor the economic health of the region through the experiences and opinions of businesses and social enterprises in the area, and to explore topical issues at a regional, sub-regional or sectoral level.

Following two waves of panel surveys in 2014 and 2015, HIE commissioned Ipsos MORI to carry out regular business panel surveys with 1,000 businesses and social enterprises, representative of the Highlands and Islands business base in terms of geographic area, organisation size and sector. The surveys ran quarterly during 2016 and 2017, before changing to three times per year in 2018.

This report presents findings from the most recent wave of the survey (the fourteenth overall) carried out in September/October 2019. The survey covered a number of topics of general interest to business, including economic optimism, business performance and prospects for the year ahead. This wave also focused on future risks and opportunities for businesses, business resilience, environmental impacts, and Brexit.

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 HIE account-managed businesses were also approached along with companies identified from the Experian business database. The sample was designed to match the structure of the Highlands and Islands business population in terms of sector, size and geographical distribution. Quotas were set for recruitment and interviewing so that the achieved sample reflected the population of eligible organisations as defined by the Inter-Departmental Business Register (IDBR). Eligible organisations were defined by SIC code, with the following SIC 2007 Sections excluded from the sampling:

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

SIC codes were used to identify areas of economic activity considered to be growth sectors (as set out in the Government Economic Strategy) so that quotas could be set to ensure these were represented in the survey sample.

Within each participating organisation, the survey respondent was the owner or a senior manager able to comment on the performance and future prospects of the organisation.

Survey fieldwork

The survey fieldwork was conducted between 30th September and 30th October 2019, using telephone interviewing. In total 1,000 eligible interviews were achieved.

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

PRESENTATION AND INTERPRETATION OF THE DATA

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

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

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

2. OPTIMISM, PROSPECTS AND PERFORMANCE

KEY MESSAGES:

Economic optimism fell to the lowest level ever recorded in the survey: 48% said their confidence in the economic outlook in Scotland had decreased over the last six months, while 42% said it had stayed the same and 8% said it has increased. This resulted in a net confidence of -40, the lowest level recorded.

Confidence in the economic outlook for the Highlands and Islands also fell this wave: 53% said they were confident in the region's economy (a decrease from 63% in September/October 2018), while 42% said they were not confident (an increase from 33%).

Views on business performance were generally in keeping with previous waves, with 41% reporting their business had performed well, 38% reporting business had been fairly steady and around a fifth (21%) reporting that they had struggled in the last 12 months.

Optimism regarding business prospects also remained in line with the previous wave, with 72% saying they felt optimistic and 26% saying they did not.

As seen in previous waves, tourism businesses tended to be more confident in the economy, more positive about their performance, and more optimistic about their own prospects. In contrast, food and drink and small businesses (0-4 employees) tended to be less confident in the economy, less positive about their performance, and more pessimistic about their prospects.

ECONOMIC OPTIMISM

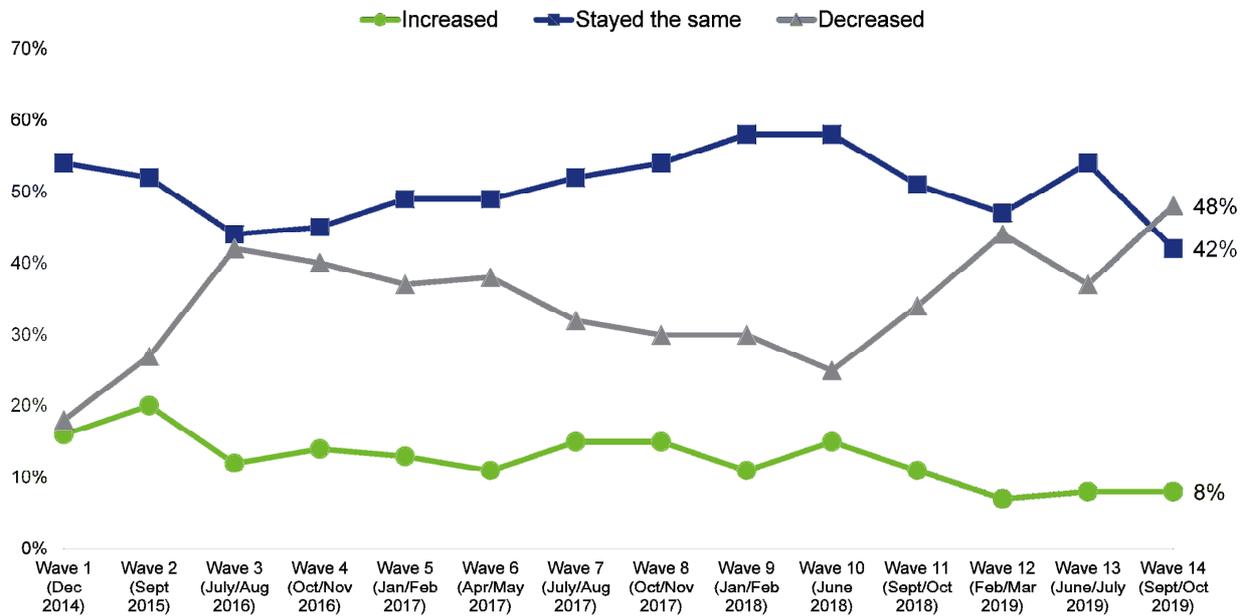
Outlook in Scotland

This wave economic optimism fell to the lowest level ever recorded, with net confidence at -40¹. Just under half (48%) of businesses said their confidence in the economic outlook in Scotland had decreased over the last six months, while 42% said it stayed the same and 8% said it had increased (Figure 2.1). These findings may reflect the timing of this wave, which took place just weeks before the UK's scheduled departure from the EU on 31st October 2019. The extension to the Brexit deadline was announced on Friday 25th October, a few days before the survey fieldwork was completed.

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

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

Q. Over the past six months, since April 2019, has your level of confidence in the economic outlook in Scotland increased, decreased or has it stayed the same?



Base: All businesses

Small businesses with 0-4 employees were more likely than average to say their confidence had decreased in the past six months (52% compared with 48% overall).

There was little variation in economic confidence by sector, however food and drink businesses were more likely than average to say their confidence had decreased (58% compared with 48% overall) whereas tourism businesses were more likely to report an increase (12% compared with 8%).

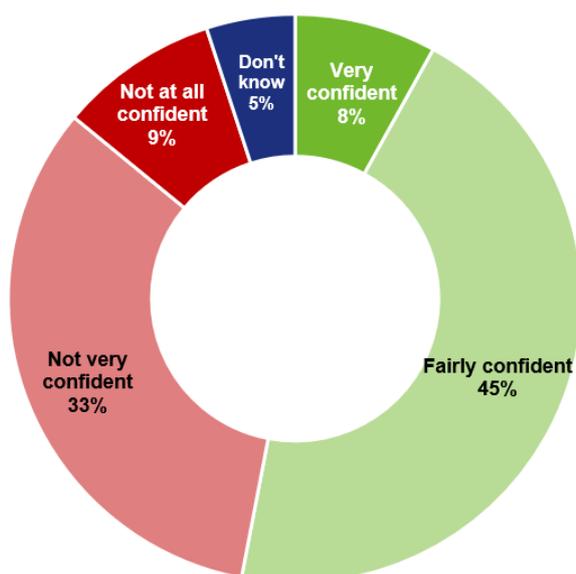
Economic confidence continued to be correlated with optimism and growth expectations. Businesses who were not optimistic about their prospects for the next 12 months were more likely to report decreased economic confidence (84% compared with 35% of those who were optimistic). Similarly, those that did not expect growth were more likely to say their confidence had decreased (53% compared with 42% of those that expected to grow). In addition, businesses that had struggled in the last 12 months were almost twice as likely than those that had performed well to report decreased confidence in the economy (76% compared with 35% respectively).

Highlands and Islands region

Confidence in the economic outlook for the Highlands and Islands fell over the last year. Just over half (53%) of businesses said they were confident (a decrease from 63% in September/October 2018), while 42% said they were not confident (an increase from 33%) (Figure 2.2).

Figure 2.2: Confidence in the economic outlook for the Highlands and Islands region over the next 12 months

Q. Thinking about the Highlands and Islands region as a whole, how confident are you in the economic outlook for the region over the next 12 months?



Base: All businesses

Variation in confidence between businesses reflected a similar pattern to that seen 12 months ago. Small businesses with up to 4 employees were less likely than average to say they were confident (48% compared with 53% overall). Reflecting their views about the economy of Scotland as a whole, tourism companies were more likely to say they were confident in the region's outlook (62% compared with 53% overall), whereas food and drink companies were more likely to say they were not confident (51% compared with 42% overall).

Economic confidence was also lower than average in Orkney, where 53% of businesses said they were not confident (compared with 42% overall). This may, at least in part, be explained by the higher than average proportion of food and drink businesses in Orkney, which make up 46% of businesses in the area compared with 24% of the sample as a whole.

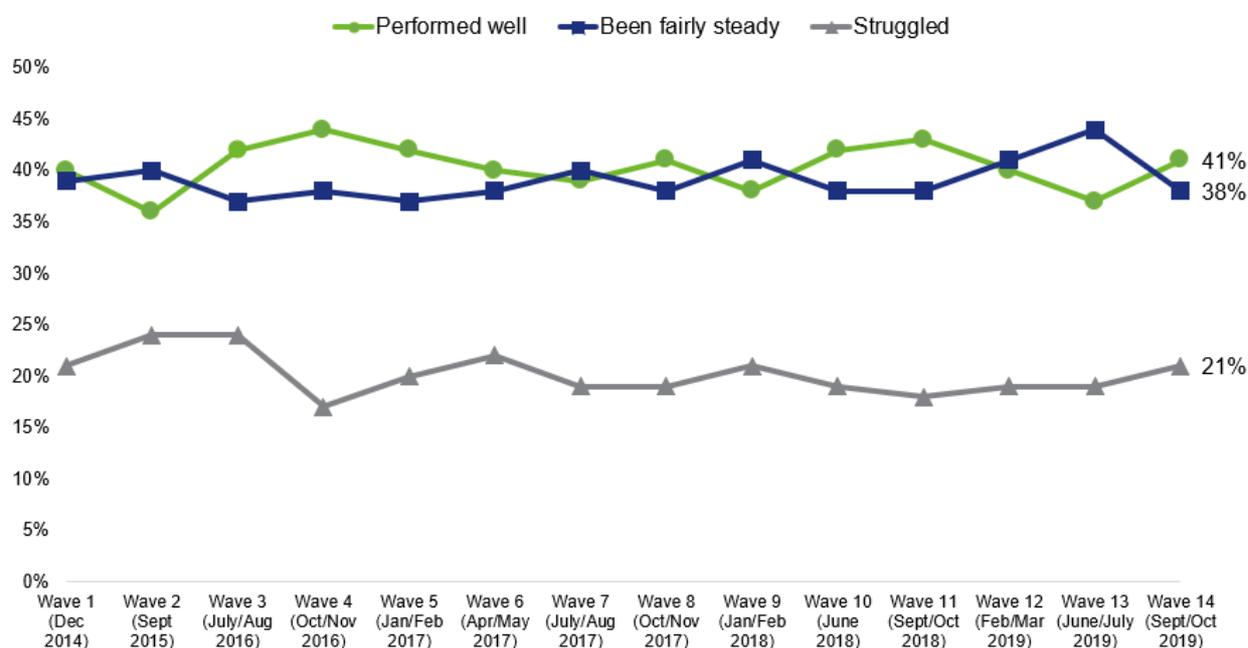
Confidence in the region's economy was particularly low among those that had struggled in the last 12 months (72% not confident), those that were not optimistic for the year ahead (89%), and those that did not anticipate growth (50%).

BUSINESS PERFORMANCE

Despite the decrease in economic confidence, views on business performance were generally in keeping with previous waves (Figure 2.3) with 41% reporting their business had performed well, 38% reporting business had been fairly steady and around a fifth (21%) reporting that they had struggled.

Figure 2.3: Assessment of business performance in the last 12 months over time

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



Base: All businesses

As seen in previous waves, larger businesses (25+ employees) were more likely than average to have performed well (55% compared with 41%), while small businesses (0-4 employees) were more likely to have struggled (24% compared with 21%).

Food and drink businesses were once again more likely to have struggled (32% compared with 21% overall) and tourism businesses were more likely to have had performed well (61% compared with 41% overall) (Table A.1, see appendix).

There was little regional variation, however businesses in Lochaber Skye and Wester Ross were more likely than average to say their business had performed well over the last 12 months (58% compared with 41% overall). In keeping with previous waves, this is at least in part explained by the profile of businesses in Lochaber, Skye and Wester Ross: a quarter (26%) of businesses were in the tourism sector, compared with the average of 11%.

Businesses who did not feel optimistic about their business prospects in the next year were more likely to have struggled in the previous 12 months (52% compared with 21% overall). Similarly, those whose confidence in the economy had decreased were more likely to report having struggled (33% compared with 21%).

ASPECTS OF BUSINESS PERFORMANCE

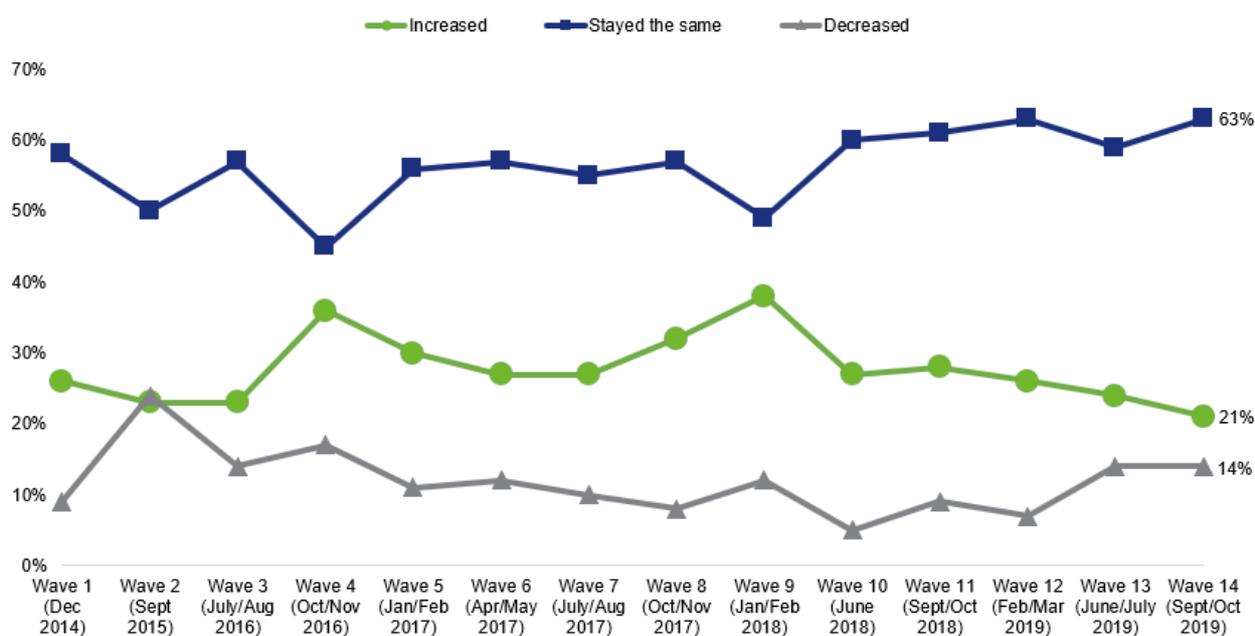
Business performance remained relatively stable in terms of employment (72%), working hours (71%) and staff training (71%) (Table A.2, see appendix). Sales and turnover were more variable, with 40% of businesses reporting stability in this area, 21% reporting decreased performance and 37% reporting

increased performance. Similarly, there were mixed results regarding profit margins, with 43% businesses saying this had stayed the same, 29% saying it had decreased and 25% saying it had increased.

Levels of exports remained broadly stable, with 63% of exporting businesses saying they had stayed the same, 21% reporting an increase and 14% reporting a decrease (Figure 2.4).

Figure 2.4: Trends in exports over time

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



Base: All businesses for whom this question applied (246)

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.² The average score was 0.6, in line with the level reported in the previous wave (June/July 2019). The positive score indicates that businesses continued to report more increases than decreases overall.

Similar to the previous waves, 47% of businesses had an overall positive score, while 28% had a negative score and 26% had a score of zero.

Variation between businesses was similar to that seen in previous waves:

- Tourism businesses had the highest overall performance scores (1.1), reflecting their overall positive views on the performance in the past 12 months. Creative industries and food and drink businesses had the lowest overall scores (at 0.2 and 0.3 respectively) (Table A.3, see appendix).

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

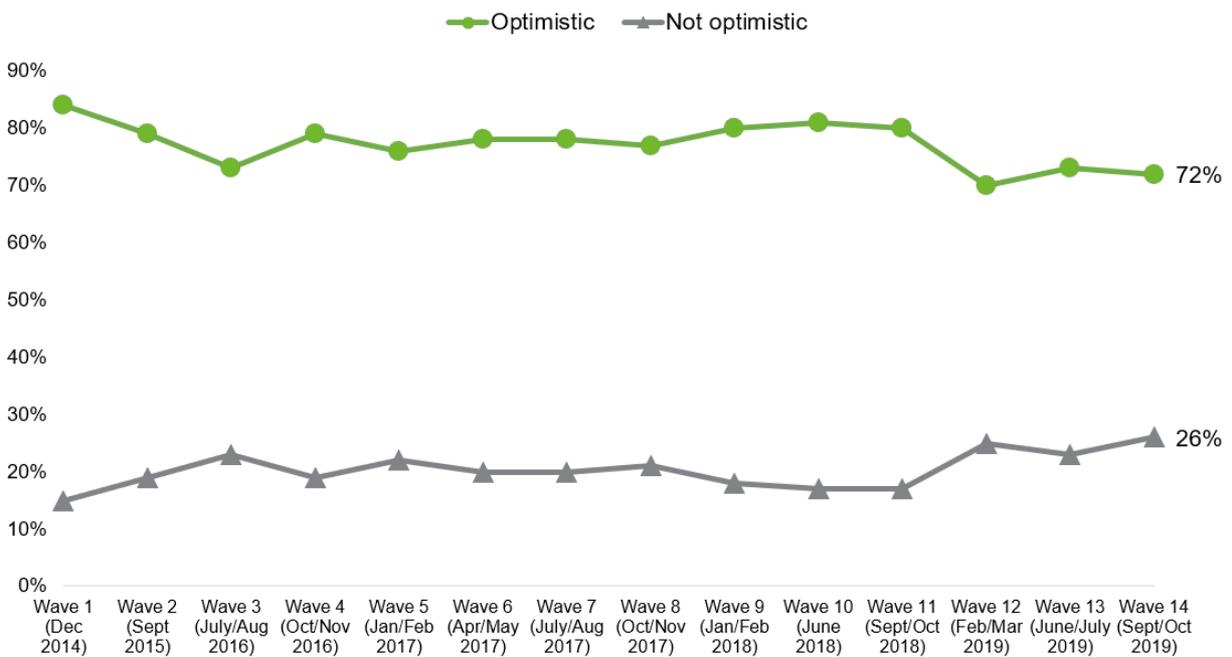
- Businesses in the Outer Hebrides (1.0) once again had the highest overall score, followed by Moray, Inner Moray Firth and Lochaber, Skye and Wester Ross – all with 0.7.(Table A.4, see appendix).
- The smallest businesses (0-4 staff) had the lowest score (0.3), compared to those with 5-10 staff (1.1), 11-24 staff (1.3) and 25+ staff (0.7) (Table A.5, see appendix).
- The mean score for HIE account managed businesses (0.9) was higher than for non-account managed businesses (0.5).

FUTURE BUSINESS PROSPECTS

Almost three quarters (72%) of businesses were optimistic about their prospects over the next 12 months (15% very optimistic, 57% fairly optimistic) and a quarter (26%) were not optimistic (22% not very optimistic and 4% not at all optimistic). These findings were similar to the previous wave (73% optimistic and 23% not optimistic in June/July 2019) and continued the overall pattern of lower levels of optimism in 2019 in comparison with preceding years. (Figure 2.5).

Figure 2.5: Business prospects over the next 12 months over time

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



Base: All businesses

Small businesses (0-4 employees) were less optimistic than others: 66% said they felt optimistic (compared with 72% overall) while 32% said they did not (compared with 26%). Optimism was also lower than average in the food and drink sector (59% compared with 72% overall), but higher than average in the tourism sector (83%).

Optimism for the next 12 months was higher than average (72%) amongst those whose confidence in the Scottish economy had increased (98%) and amongst those who had performed well (90%) in the past six

months. Once again, businesses reporting decreased economic confidence (45%) and those that had struggled (64%) were more likely than average (26%) to say they were not optimistic (Tables A.6 and A.7, see appendix).

Businesses that felt prepared for Brexit were more likely to feel optimistic than those that did not feel prepared (86% compared with 53%).

3. FUTURE GROWTH, RISKS, AND OPPORTUNITIES

KEY MESSAGES:

Just over half (54%) of businesses aspired to grow, while 36% were content with their current level of performance and 10% wanted to downsize. In terms of *expected* growth, there was little change since the previous wave: 45% of businesses anticipated growth, with the same amount anticipating stability and 7% expecting to contract.

For most businesses, aspirations aligned with expectations: for example, 71% of those striving for growth also expected to grow. Views were more mixed amongst businesses wanting to downsize, with 59% anticipating stability and 30% anticipating contraction.

Looking ahead to the next year or two, the most common risks cited by businesses were increased costs (89% to at least a small extent) and political and economic uncertainty (84%). Among those concerned about political and economic uncertainty, most felt that the UK's departure from the EU (89%), the global economy (88%) and Scotland's relationship with the UK (83%) presented a risk to their business. Around a third felt that the UK's departure from the EU (36%) and Scotland's relationship with the rest of the UK (34%) presented *significant* risks to their business.

The factors presenting the greatest opportunities for businesses were having a loyal customer base (88% to at least a small extent), increased demand for products or services (86%) and investment in the business (77%).

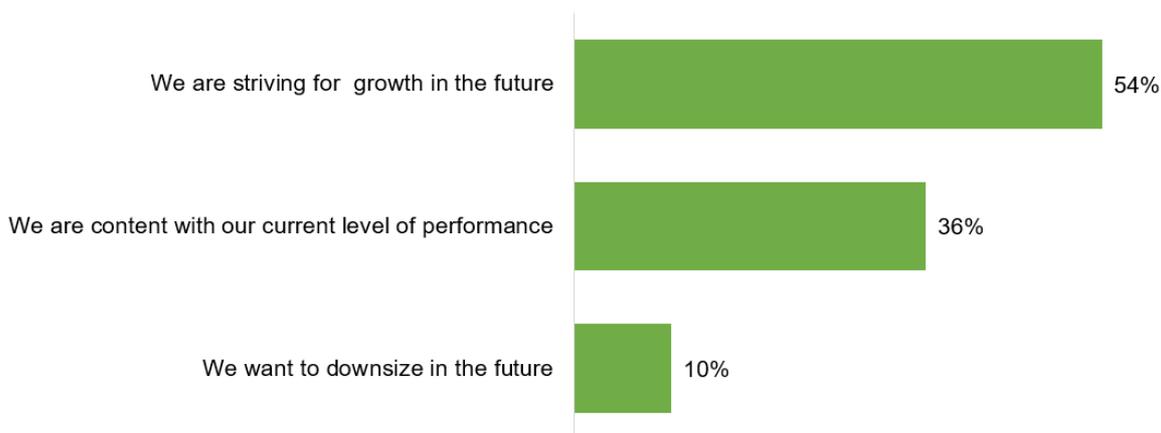
FUTURE BUSINESS GROWTH

Growth aspirations

Over half (54%) of businesses in the Highlands and Islands aspired to grow in the future, while over a third (36%) were content with their current level of performance and one in ten said they would like to downsize (Figure 3.1). This is a very similar picture to that seen in previous waves.

Figure 3.1: Current aspirations for business

Q. Which of these statements best describes your current aspirations for the business?



Base: All businesses

Aspirations for growth were higher among those with 5-10 (73%), 11-24 (73%) and 25+ employees (74%) and lower among those with 0-4 employees (42%). Small businesses (0-4 employees) were more likely than average to say they wanted to downsize (14% compared with 10% overall) or keep their current level of performance (43% compared with 36%).

Tourism businesses were more likely to strive for growth than those in other sectors (61% compared with 54% overall), while creative industries businesses were more likely to be content with their current level of performance (54% compared with 36%). Aspirations for growth were higher among international businesses (63%) and those trading outside Scotland but within the UK (59%) compared with domestic businesses (49%).

The majority (85%) of HIE-account managed businesses said they were striving for growth, compared with around half (51%) of non-account managed businesses.

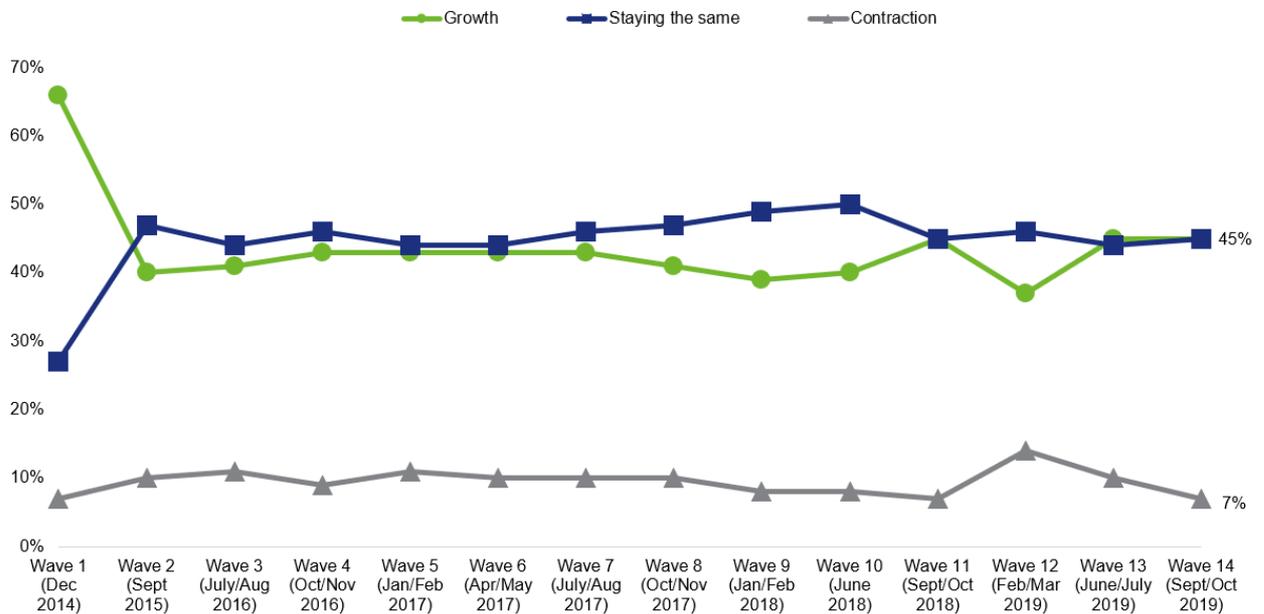
Businesses optimistic about their prospects for the next 12 months showed greater aspirations for growth (57% compared with 44% of those not optimistic), while those not optimistic were more inclined to want to downsize in the future (20% compared with 6% of those optimistic).

Future business growth

Reflecting the findings from the previous wave, 45% of businesses expect to grow, with the same amount anticipating stability and 7% expecting to contract (the remaining 3% said they did not know) (Figure 3.2).

Figure 3.2: Future growth over the next year or two

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



Base: All businesses

Small businesses (0-4 employees) were less likely than average to anticipate growth (35% expected to grow compared with 45% overall) and more likely than average to anticipate remaining the same (52% compared with 45%).

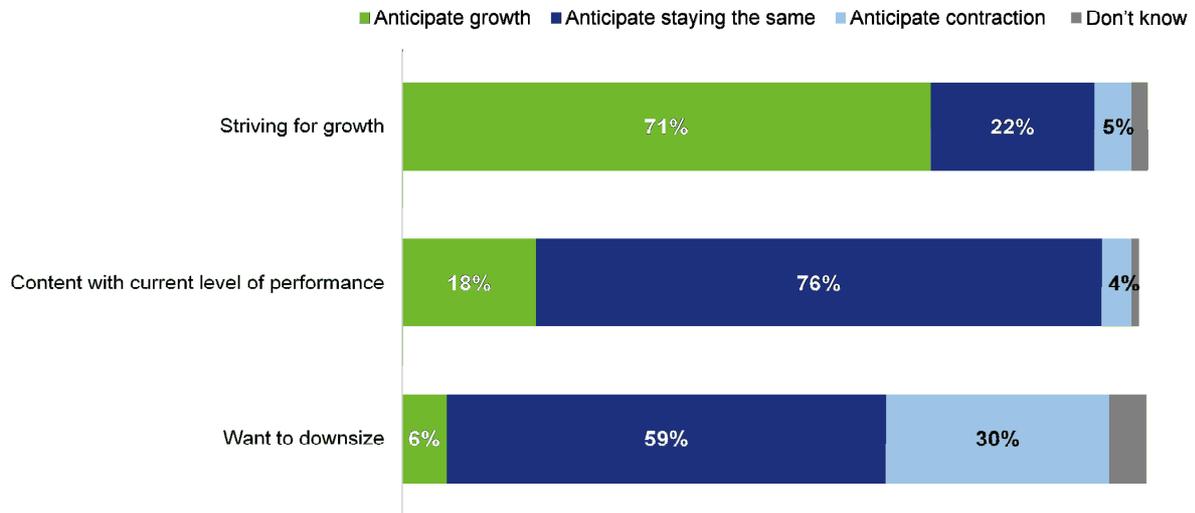
Tourism businesses showed higher than average growth expectations (54% compared with 45% overall). International businesses (51%) and those trading outside Scotland but within the UK (50%) were more likely than domestic businesses (41%) to anticipate growth.

HIE account-managed businesses were more likely than non-account managed businesses to expect to grow (74% compared with 42% of non-account-managed businesses). Non-account managed businesses were more likely to anticipate remaining the same (48% compared with 19% of HIE account-managed businesses).

As seen in the previous wave, most businesses striving for growth also anticipated growth in the next year or two (71%). However, 22% anticipated staying the same, while 5% anticipated a contraction (Figure 3.3). Again, three quarters (76%) of those that were content with their current level of performance anticipated stability, while less than a fifth (18%) expected growth. Among those that wanted to downsize, views were more mixed, with 59% anticipating stability and 30% anticipating contraction.

Figure 3.3: Growth aspirations by expectations for growth

Aspiration for growth vs expectations for growth



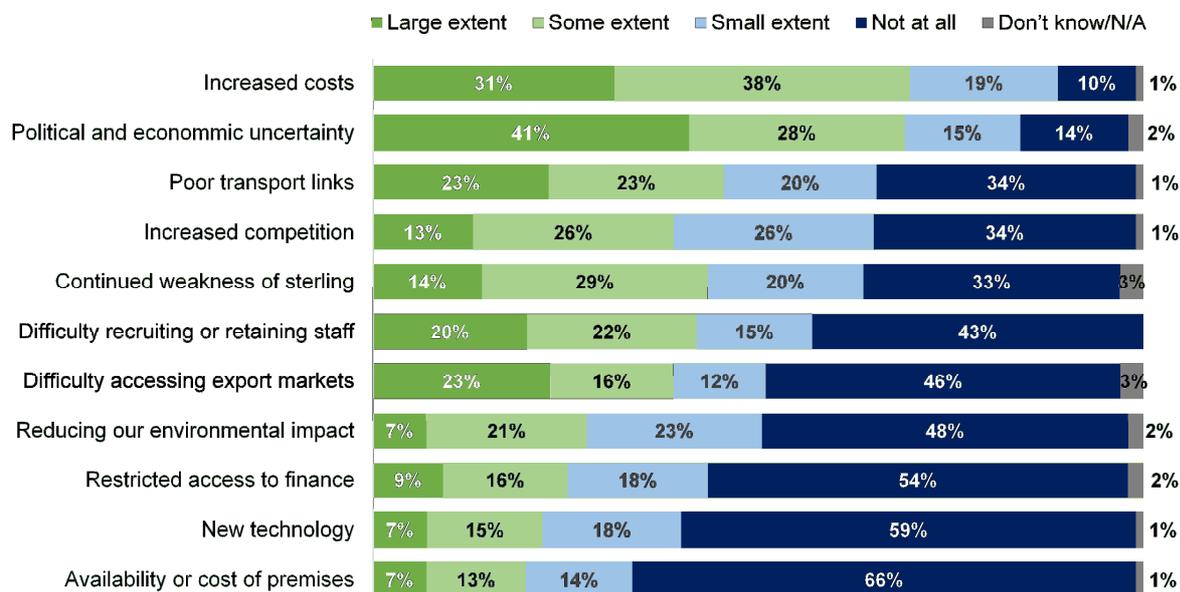
Base: All businesses

RISKS TO BUSINESS

Thinking ahead to the next year or two, the two main risks identified by businesses were increased costs (89% to at least a small extent) and political and economic uncertainty (84%). Other common risks were: poor transport links (66%), increased competition (65%), the continued weakness of sterling (64%), and difficulty recruiting or retaining staff (57%) (Figure 3.4).

Figure 3.4: Factors presenting risks to businesses over the the next year or two

Q. Thinking ahead to the next year or two, to what extent would you say the following factors present a risk to your business?



Base: All businesses

These findings echo those from September/October 2018, when the top risks³ also included: increased costs (88% to at least a small extent), poor transport links (65%), increased competition (58%), the continued weakness of sterling (57%) and difficulty recruit and retaining staff (57%). Of the risks asked about in both waves, findings were largely unchanged with the exception of increased competition and the continued weakness of sterling which each decreased by seven percentage points.

Tourism businesses were more likely to view poor transport links as a risk (77% compared with 66% overall). Businesses located in Orkney, Outer Hebrides and Lochaber Skye and Wester Ross were also more likely to report this as a risk to a “large extent” (36%, 36% and 33% respectively compared with 23% overall).

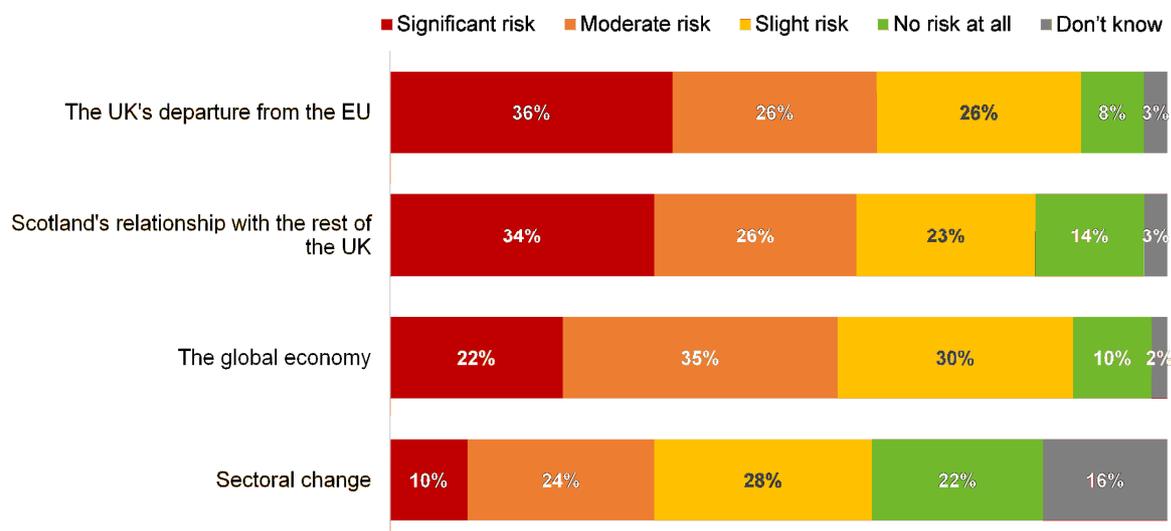
New technology was perceived as more of a risk by those in the financial and business services sector (50% compared with 40% overall). Food and drink businesses, meanwhile, were more likely than average to say political and economic uncertainty was a risk (90% compared with 84%).

Among those businesses concerned about political and economic uncertainty, similar proportions felt that the UK’s departure from the EU (89%), the global economy (88%) and Scotland’s relationship with the UK (83%) presented at least a slight degree of risk to their business. Around a third felt that the UK’s departure from the EU (36%) and Scotland’s relationship with the rest of the UK (34%) presented *significant* risks to their business, and just over a fifth (22%), the global economy. Sectoral change was viewed as a risk by 62%, and a *significant* risk by 10% (Figure 3.5).

³ The list of risks asked in September/October 2018 were mostly the same as those as in September/October 2019; however in 2018 the risks also included “The UK’s departure from the EU” and “wider political uncertainty”, which were replaced with “political and economic uncertainty” in the 2019 wave. “Reducing our environmental impact” was not asked about in the 2018 wave.

Figure 3.5: Risks of specific aspects of political and economic uncertainty

Q. You said that political and economic uncertainty presented a risk to your business. To what extent would you say the following factors present a risk to your business?



Base: All businesses citing political and economic uncertainty as a risk (822)

Small businesses (0-4 employees) were more likely than average to see both the UK's departure from the EU and the global economy as significant risks to their business (43% and 26% compared with 36% and 22% overall).

Those in the food and drink sector were more likely than average to anticipate significant risks from the UK's departure from the EU (48% vs 36%), Scotland's relationship with the rest of the UK (44% vs 34%), and sectoral change (18% vs 10%). Tourism businesses were less likely to view Scotland's relationship with the UK as a risk (22% said this was no risk at all compared with 14% overall).

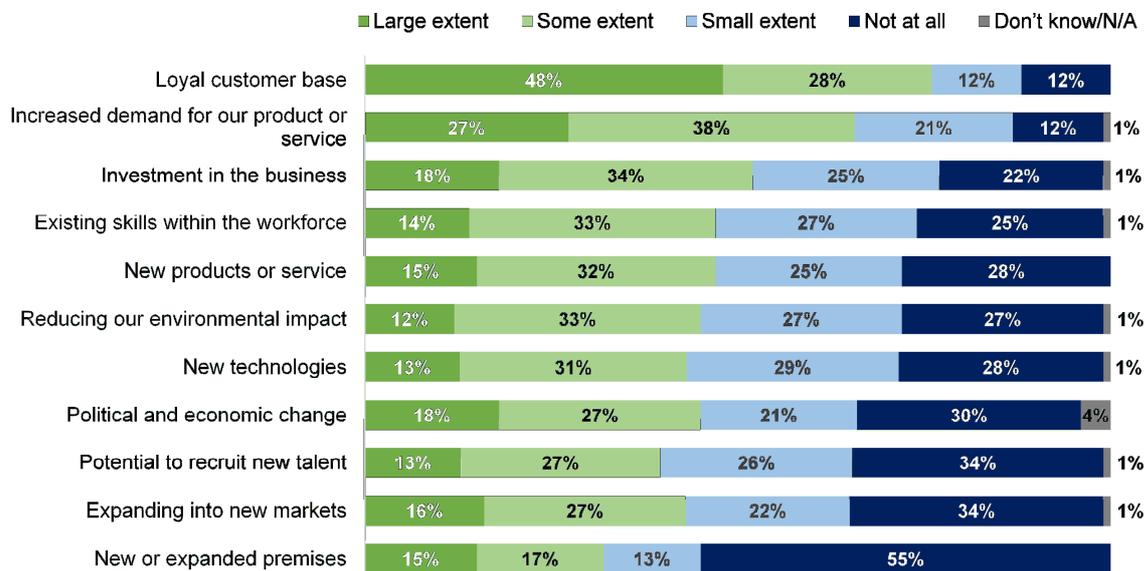
As might be expected, the global economy was perceived as a higher risk among international businesses (91% compared with 88% overall).

OPPORTUNITIES FOR BUSINESS

The factors presenting the greatest opportunities for businesses were having a loyal customer base (88% to at least a small extent), increased demand for products or services (86%) and investment in the business (77%) (Figure 3.6).

Figure 3.6: Factors presenting opportunities for businesses over the next year or two

Q. Thinking ahead to the next year or two, to what extent would you say the following factors present opportunities for your business?



Base: All businesses

The top opportunities identified by businesses were very similar to those seen in September/October 2018⁴, when the top three responses were also loyal customer base (85% to at least a small extent), increased demand for product or service (80%), and investment in business (72%). Of the opportunities asked about in both waves, findings were largely unchanged with the exception of: new technologies (down by seven percentage points), increased demand for products or services (down by six percentage points), and investment in business (down by five percentage points).

Businesses with 5 or more staff were more likely to see opportunities in factors related to workforce. For example, existing workforce skills were seen as more of an opportunity to those with 5-10 (85%), 11-24 (90%) and 25+ employees (87%), compared with those with 0-4 employees (65%). Similarly, potential to recruit new talent was less of an opportunity for small businesses (0-4 employees) (52%) than it was for those with 5-10 (78%), 11-24 (89%) and 25+ employees (88%).

HIE-account managed businesses saw more opportunities than non-account managed businesses in several areas, as shown in Table 3.1 (the factors shown in the table are those where there is a significant difference in views):

⁴ The list of opportunities asked in September/October 2018 were mostly the same as those as in September/October 2019; however “the UK’s departure from the EU” was asked about in 2018 but replaced with “political and economic change” in 2019, and “reducing our environmental impact” was not asked about in the 2018 wave.

Table 3.1: Factors presenting opportunities, by HIE-account management

Source of information	HIE-account managed	Non-account managed
	% viewing each as an opportunity	
Investment in the business	96	75
Increased demand on products and services	95	85
New products or services	95	69
Expansion into new markets	89	63
Existing workforce skills	88	72
New technologies	85	79
Potential to recruit new talent	84	63
Political and economic change	77	64
<i>Base</i>	<i>93</i>	<i>907</i>

Those in the creative industries were more likely than average to view having a loyal customer base as an opportunity (96% compared with 88% overall). Food and drink businesses were more likely to see opportunities in: investment in the business (87% compared with 77% overall); expanding into new markets (75% vs 65%); political and economic change (75% vs 66%) and new or expanded premises (55% vs 44%).

4. RESILIENCE AND RESPONDING TO CHANGE

KEY MESSAGES:

Businesses felt the quality of their goods and services (60%) and strong financial performance (46%) were the most integral values to their business.

Businesses drew on a range of information sources when making decisions about their future, with customer feedback (79%) and financial performance data (68%) being the two sources they relied on most. Around half also drew on research into existing or new markets (54%) and new developments in technology (51%).

Almost all businesses innovated in some way. The most commonly used approaches to innovation were: making efficiency improvements to processes (76%), adapting existing products or services (64%), and targeting new customers and markets (61%).

Most businesses (88%) said they felt confident in their ability to respond to changes in their working environment over the next year or two, with 9% saying they did not feel confident. Reasons for feeling confident included: being able to adapt and respond to changes in the past (64%), having the skills needed to respond to changes (56%), having an adaptable workforce (55%), a loyal customer base (53%), and a strong brand reputation (51%). The main reason given for *not* feeling confident was a lack of resources needed to respond to change (30%).

BUSINESS VALUES

To provide context for their views on changes in their working environment, businesses were first asked to think about their future aspirations and consider what values they found most integral to their business.

Quality emerged as the most important value for businesses, with almost two-thirds (60%) saying they found it integral to ensure that quality was at the heart of their goods and services. This echoed findings from September/October 2018, when the vast majority of businesses (96%) said that producing quality goods and services was important to them. A further 46% said strong financial performance was integral to their business, while around a quarter placed value on: ensuring a good work life balance (29%), developing their staff (26%), minimising their environmental impact (23%), their future legacy (22%) and creating and sustaining jobs (21%) (Figure 4.1).

Figure 4.1: Values seen as integral to business

Q. Which 2 or 3 of the following you would say are most integral to your business?



Base: All businesses

Views differed by size of business, with:

- larger businesses (25+ employees) more likely than average to place importance on developing their staff (51% compared with 26% overall) and their future legacy (35% compared with 22%);
- those with 5-10 and 11-24 employees more likely to value creating and sustaining jobs (30% and 34% respectively compared with 21%); and
- small businesses (0-4 employees) placing greater value on a good work life balance (34% compared with 29% overall).

Businesses in the financial and business services sector were more likely to value developing their staff (41% compared with 26%), while those in the creative industries sector were more likely to value innovation or evolving what they do (32% compared with 16%) and their social purpose (22% compared with 12%).

HIE-account managed businesses were more likely than non-account managed businesses to value strong financial performance (63% compared with 45%) and innovation or evolving what they do (27% compared with 15%).

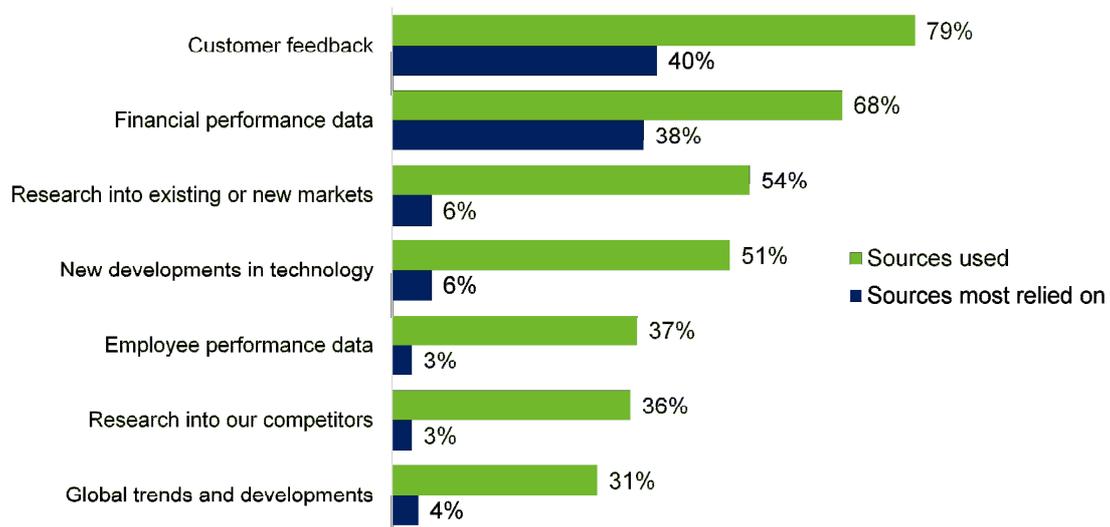
INFORMATION SOURCES USED FOR DECISION-MAKING

Businesses drew upon a range of information sources when making decisions about their future. The most commonly used sources were customer feedback (79%) and financial performance data (68%), while around half drew on research into existing or new markets (54%) and new developments in technology (51%) (Figure 4.2). When asked which sources of information they relied on *most* for decision making, customer feedback (40%) and financial performance data (38%) stood out ahead of the others.

Figure 4.2: Sources of information used for decision-making

Q. When making decisions about the future of your business, which, if any, of these types of information do you tend to draw upon?

Q. And which one are you most reliant on for your decision making?



Base: All businesses

Large businesses (25+ employees) were more likely than average to use a number of sources, namely: financial performance data (91% compared with 68% overall), employee performance data (67% vs 37%), new developments in technology (63% vs 51%), research into competitors (51% vs 36%), and global trends and developments (43% vs 31%).

There were a number of differences by sector. Food and drink and tourism businesses were each more likely than average to draw on financial performance data (77% and 76% compared with 68% overall) and global trends and developments (41% and 37% vs 31%). Tourism businesses were also more likely than average to use customer feedback (94% vs 79%), research into competitors (52% vs 36%) and employee performance data (47% vs 37%). Those working in financial and business services, meanwhile, were more likely to draw on new developments in technology (69% vs 51%) and research into new or existing markets (64% vs 54%).

HIE-account managed businesses were more likely than non-account managed to use most of these sources of information (Table 4.1: source shown in the table are those where there is a significant difference in views):

Table 4.1: Sources of information used by account managed status

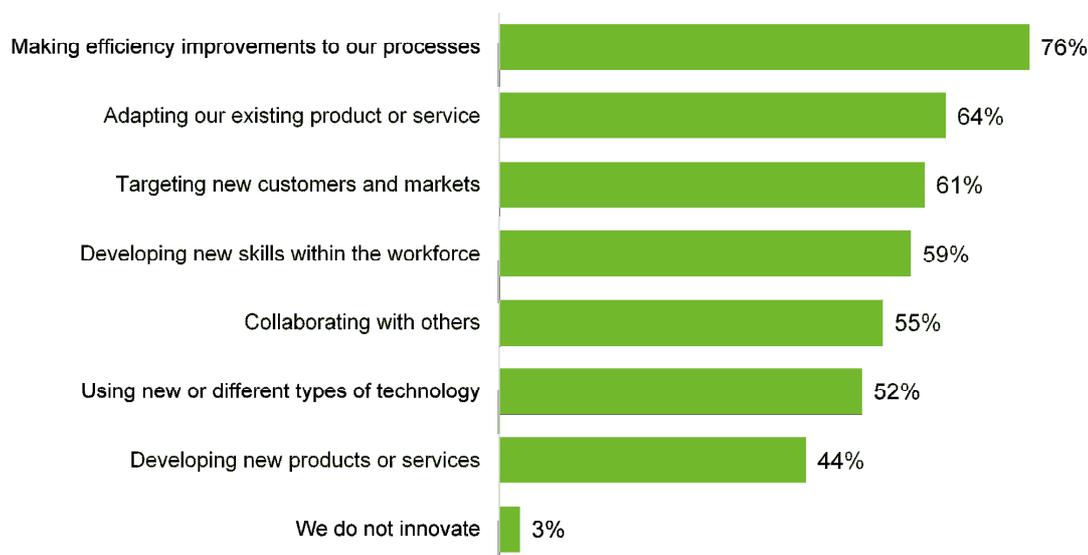
Source of information	HIE-account managed	Non-account managed
	% drawing on each	
Financial performance data	91	66
New developments in technology	70	49
Research into existing or new markets	67	53
Employee performance data	54	35
Global trends and developments	53	28
<i>Base</i>	93	907

INNOVATION

Almost all businesses (97%) said they innovated in some way. The three most commonly used approaches to innovation were: making efficiency improvements to processes (76%), adapting existing products or services (64%), and targeting new customers and markets (61%). Fewer were developing new products or services (44%) or using different types of technology (52%) (Figure 4.3).

Figure 4.3: Approaches to innovation

Q. Which, if any, of the following approaches do you use?



Base: All businesses

Large businesses (25+ employees) were more likely to say they were making efficiency improvements to their processes (91% compared with 76% overall), developing new skills in their workforce (84% vs 59%), collaborating (70% vs 55%) and developing new products or services (61% vs 44%).

Those in the financial and business services sector were more likely than average to say they were developing new skills in their workforce (74% compared with 59% overall) and using new or different types of technology (65% vs 52%). Food and drink businesses were more likely to be making efficiency

improvements to processes (84% vs 76%) and collaborating (64% vs 55%), while tourism businesses were more likely to be adapting their existing product or service (71% vs 64%).

HIE-account managed businesses were more likely than non-account managed businesses to use almost all approaches to innovation (bar efficiency improvements to their processes) (Table 4.2).

Table 4.2: Approaches to innovation by account managed status

Approach to innovation	HIE-account managed	Non-account managed
	% using each	
Collaborating with others	83	53
Developing new skills within the workforce	79	57
Adapting our existing product or service	78	62
Targeting new customers and markets	75	60
Developing new products or services	73	41
Using new or different types of technology	64	51
<i>Base</i>	<i>93</i>	<i>907</i>

Those that were striving for growth were more likely to be targeting new customers or markets, developing new skills within the workforce, and developing new products or services (compared with the average and with those who were content or wanting to downsize) (Table 4.3),

Table 4.3: Approaches to innovation by growth aspirations

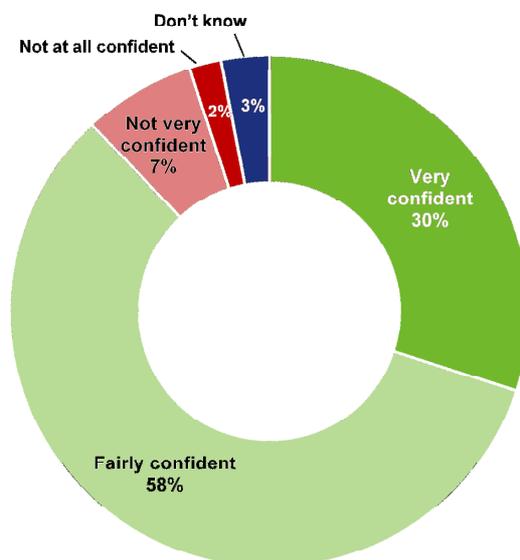
	Striving for growth	Content	Wanting to downsize
	% using each		
Targeting new customers or markets	71	54	38
Developing new skills within the workforce	67	54	29
Developing new products or services	52	36	29
<i>Base</i>	<i>549</i>	<i>365</i>	<i>78</i>

RESPONDING TO CHANGE

The majority of businesses (88%) said they felt confident in their ability to respond to changes in their working environment over the next year or two, with 9% saying they did not feel confident (Figure 4.4).

Figure 4.4: Confidence in ability to respond to change

Q. Overall how confident are you in your ability to respond to changes in your working environment over the next year or two?



Base: All businesses

Confidence was lower among small businesses: 12% of those with 0-4 employees said they were not confident, compared with 5% of those with 5-10, 6% of those with 11-24 and 4% of those with 25+ employees.

There was little variation by sector, apart from tourism businesses who were more likely than average to say they were *very confident* (of the 88% of tourism businesses that were confident, 37% were *very confident* compared with 30% of all businesses).

Confidence was also higher among those that had performed well in the past 12 months (98% compared with 70% of those that had struggled) and those that were striving for growth (93% compared with 68% of those that wanted to downsize). Further, those that felt prepared for Brexit (see section 6) were more likely to feel confident than those who did not feel prepared (96% compared with 80%).

Reasons for feeling confident

Reasons for feeling confident included: being able to adapt and respond to changes in the past (64%); having the skills needed to respond to changes (56%), having an adaptable workforce (55%), a loyal customer base (53%), and a strong brand reputation (51%) (Figure 4.5).

Figure 4.5: Reasons for confidence in ability to respond to change

Q. Why do you say you are confident?



Base: All who are confident in their ability to respond to changes in their working environment (892)

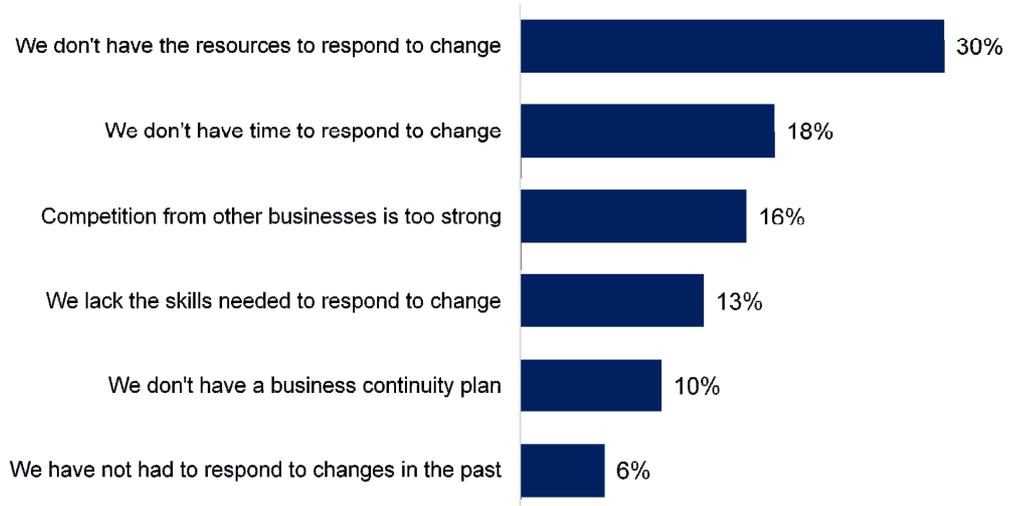
Large businesses (25+ employees) were more likely than average to feel confident because of their strong brand reputation (66% compared with 51% overall), while tourism businesses were more likely to attribute their confidence to strong business performance (58% compared with 50%). Otherwise, findings were broadly consistent across different types of business.

Reasons for not feeling confident

The main reason given for *not* feeling confident was a lack of resources needed to respond to change (30%), with other reasons including a lack of time (18%), competition from other businesses (16%) and lack of skills (13%) (Figure 4.6).

Figure 4.6: Reasons for not feeling confident in ability to respond to change

Q. Why do you say you are not confident?



Base: All who are not confident in their ability to respond to changes in their working environment (91)

5. ENVIRONMENTAL IMPACT

KEY MESSAGES:

Businesses demonstrated high levels of commitment to reducing their environmental impacts: out of an overall score of 10 (meaning “very committed”) the mean score for all businesses was 7.3.

Reflecting this high level of commitment, the vast majority of businesses (93%) were already taking some actions to reduce or respond to their environmental impacts, most commonly: minimising their waste (82%), improving the energy efficiency of premises (62%). Fewer were improving the energy efficiency of their systems and processes (45%) or looking at how they can offset their carbon emissions (36%).

The vast majority of businesses relied on transport for their day-to-day operations and, of those, 86% anticipated taking action to help reduce the environmental impacts of their travel or transportation. Actions they were most likely to take were using more locally sourced supplies (62%) investing in more energy efficient transport (47%) and collaborating with other business to achieve efficiencies (46%).

Re-using equipment and materials for as long as possible (93%) and recycling or re-using their waste products (81%) were the main ways in which businesses anticipated eliminating their waste and reducing their emissions.

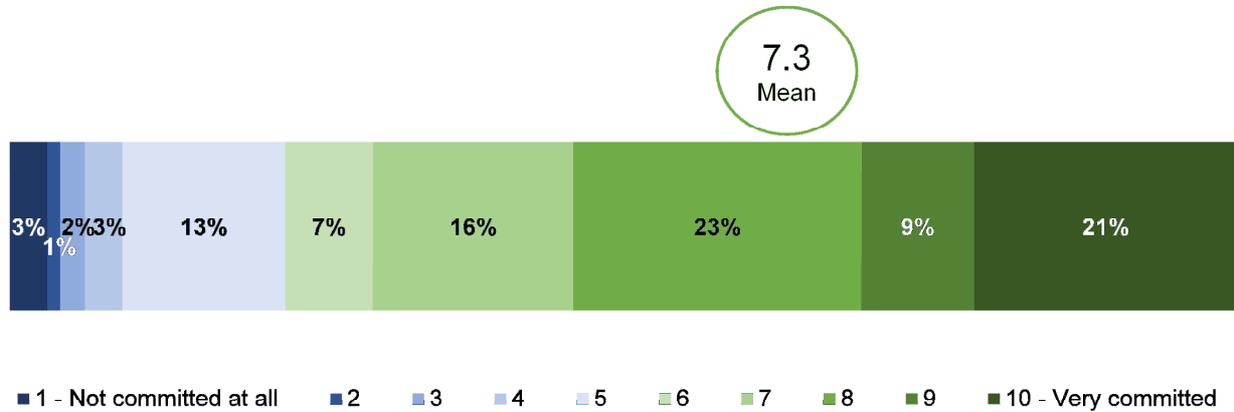
Over half (55%) of businesses said they already operated in an environmentally sustainable way. However, barriers that prevented other businesses from reducing their environmental impacts included: the cost of making changes (50%), a perception that reducing environmental impacts was not relevant to their business (39%), lack of time to research or implement actions (34%) and lack of knowledge and skills

REDUCING ENVIRONMENTAL IMPACTS

Businesses were asked to rate their commitment to reducing their environmental impacts using a scale of 1 to 10, where 1 was “not committed at all” and 10 was “very committed”. Businesses generally demonstrated high levels of commitment to reducing their environmental impacts: over two-thirds (69%) gave a score between 7 and 10, while 20% gave a score of 5 or 6, and 9% gave a score of between 1 and 4. The mean score for all businesses was 7.3 out of 10 (Figure 5.1).

Figure 5.1: Commitment to reducing environmental impacts

Q. How committed would you say your business is to reducing its environmental impact, where 10 is very committed and 1 is not committed at all?



Base: All businesses

Those in the financial and businesses services sector showed lower than average commitment to reducing their environmental impacts (overall mean score of 6.5), while international businesses demonstrated higher commitment than domestic businesses (mean score of 7.5 compared with 7.0). Otherwise, views were fairly consistent between different types of business (Table A.8, see appendix).

Reflecting the overall high levels of commitment, the vast majority of businesses (93%) were already taking some actions to reduce or respond to their environmental impacts, while just 2% were not or did not plan to take any action.

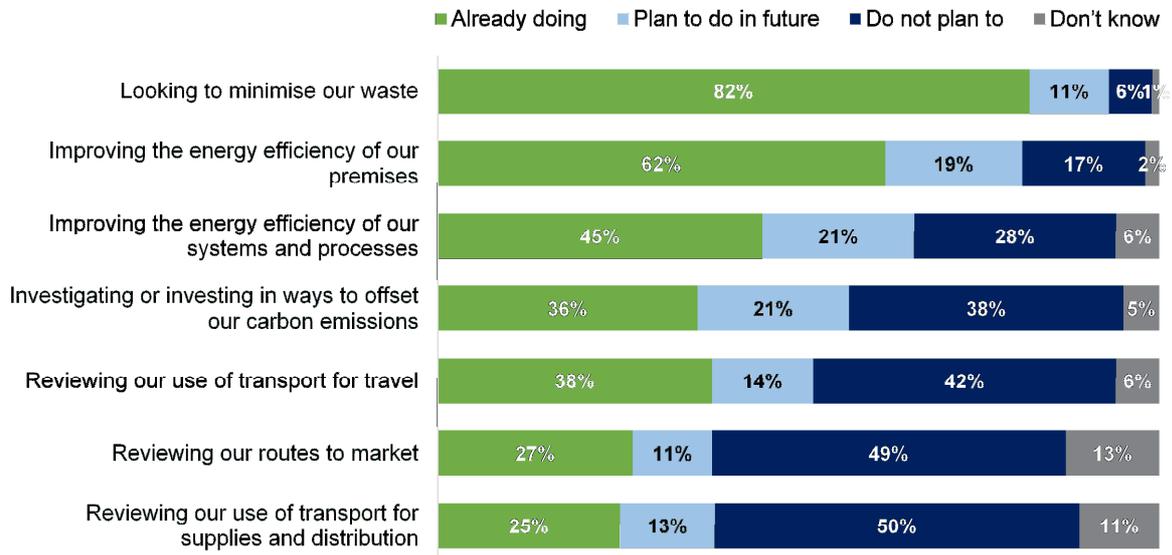
The most common actions businesses had already taken were arguably those either requiring the least effort or easiest to implement, namely minimising waste (82%) and improving the energy efficiency of premises (62%). Less common actions were: improving the energy efficiency of systems or processes (45%); reviewing their use of transport for travel (38%); investigating or investing in ways of offsetting their carbon emissions (36%); reviewing their routes to market (27%); and reviewing use of transport for supplies and distribution (25%) (Figure 5.2).

In terms of actions businesses were *planning* to take, around one in five said they planned to improve the energy efficiency of their systems and procedures (21%), investigate or invest in ways to offset their carbon emissions (21%) and improve the energy efficiency of their premises. Fewer planned to review their use of transport for travel (14%) and for supplies and distribution (13%), minimise their waste (11%) and review their routes to market (11%).

Actions that businesses were most likely to say they *did not* plan to take were: reviewing their use of transport for supplies and distribution (50%); reviewing their routes to market (49%); reviewing their use of transport for travel (42%); and investigating or investing in ways to offset their carbon emissions (38%).

Figure 5.2: Actions taken to reduce or respond to environmental impacts

Q. ...Please tell me if this is something you have already done, plan to do in future, or do not plan to do?



Base: All businesses

Large businesses (25+) were more likely than average to have already improved the energy efficiency of their premises (75% compared with 62% overall) and of their systems and processes (62% vs 45%) and to have reviewed their routes to market (44% vs 27%).

Food and drink businesses were more likely to have already improved the energy efficiency of their systems and processes (54% vs 45%), investigated ways to offset their carbon emissions (47% vs 36%) and reviewed their use of transport for supplies and distribution (32% vs 25%). Tourism businesses were more likely to have improved the energy efficiency of their premises (74% vs 62%).

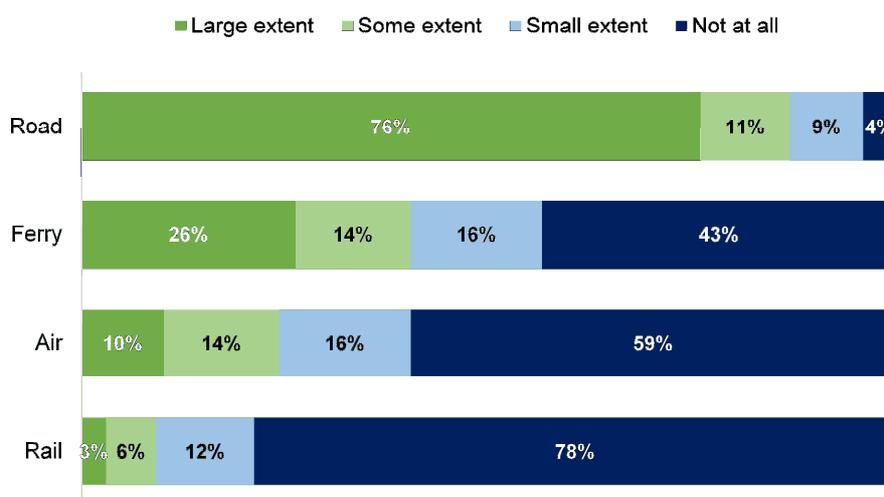
Plans to reduce environmental impacts were less prevalent in the financial and business services sector. These businesses were more likely than average to say they *did not* plan to: investigate ways of offsetting their carbon emissions (54% compared with 38% overall); improve the energy efficiency of their systems and processes (42% vs 28%) or their premises (25% vs 17% overall); and look at minimising their waste (14% vs 6%).

TRAVEL AND TRANSPORTATION

To provide context for their views on the environmental impact of transport, businesses were asked how reliant they were on various forms of transport for their day-to-day operations. As shown in Figure 5.3, the majority (96%) of businesses were reliant on road transport to at least a small extent, while 56% were reliant on ferry, 40% on air and 21% on rail.

Figure 5.3: Reliance on transport

Q. To what extent would you say your business is dependent on the following forms of transport for your day-to-day operations?



Base: All businesses

Reliance on rail, ferry and air varied between different types of business, as summarised in Table 5.1:

Table 5.1: Reliance on transport – variation by type of business

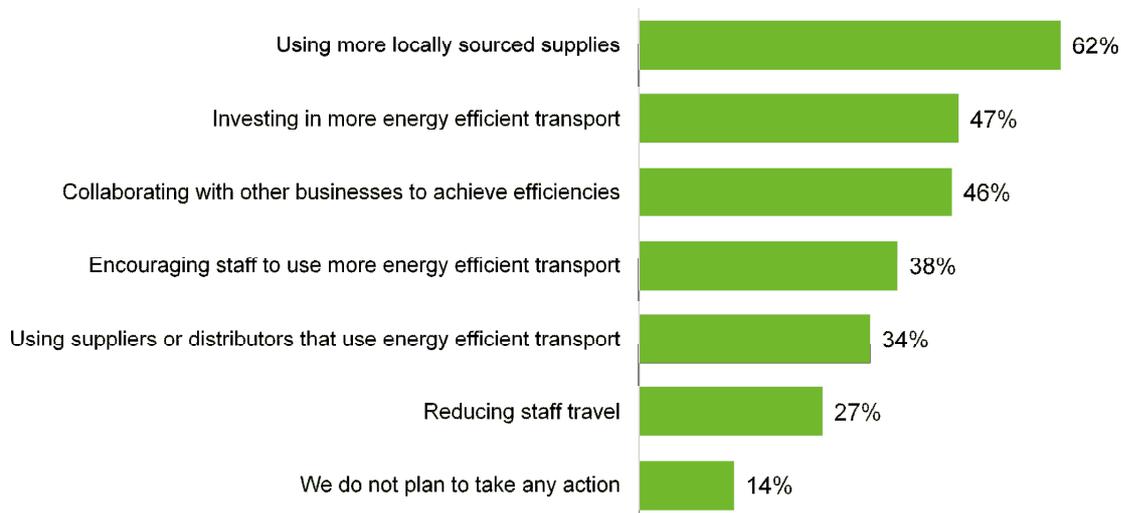
Rail	Ferry	Air
Tourism (42%) and Financial and business services (34%) vs average (21%)	Creative industries (67%) vs average (56%)	Tourism (57%), Financial and business services (54%) and Creative industries (52%) vs average (40%)
Lochaber, Skye and Wester Ross (31%) and Inner Moray Firth (31%) vs average (21%)	Orkney (97%), Outer Hebrides (97%) Shetland (90%) and Argyll and Islands (70%) vs average (56%)	Outer Hebrides (73%), Orkney (63%) and Shetland (53%) vs average (40%)
HIE-account managed (31%) vs non-account managed (20%)	HIE-account managed (71%) vs non-account managed (55%)	HIE-account managed (69%) vs non-account managed (38%)
International (30%) and rUK businesses (26%) vs domestic only (16%)	International (62%) and rUK businesses (60%) vs domestic only (52%)	International (63%) and rUK businesses (50%) vs domestic only (38%)
Non-fragile (23%) vs Fragile area (14%)	Fragile (73%) vs Non-fragile area (52%)	No variation by Fragile/Non-fragile area
No variation by size	No variation by size	25+ staff (55%) and 11-24 staff (53%) vs average (40%)

Among those businesses that relied on at least one form of transport, 86% anticipated taking action to help reduce the environmental impacts of their travel or transportation. The proportion was higher among those reliant on rail (92%), but similar among those reliant on other sources (86% of those reliant on road, 86% of those reliant on ferry, and 85% of those reliant on air).

Actions they were most likely to take were using more locally sourced supplies (62%), followed by investing in more energy efficient transport (47%), collaborating with other business to achieve efficiencies (46%), encouraging staff to use more energy efficient transport (38%), and using suppliers or distributors that use energy efficient transport (34%) (Figure 5.4).

Figure 5.4: Anticipated actions to help reduce transport-related environmental impacts

Q. What actions, if any, do you anticipate your business taking to help reduce its environmental impact on travel or transportation?



Base: All businesses that depend to some extent on transport (970)

Large businesses (25+) were more likely than others to anticipate using more locally sourced supplies (75% compared with 62% overall), investing in more energy efficient transport (66% vs 47%), and encouraging staff to use more energy efficient transport (64% vs 38%).

Food and drink and tourism businesses were both more likely than average to use more locally sourced supplies (75% and 71% respectively, compared with 62% overall). Food and drink businesses were also more likely to anticipate collaborating with others to achieve efficiencies (60% vs 46%) and investing in more energy efficient transport (56% vs 47%). Those in the financial and business services sector, on the other hand, were more likely than average to say they did not plan to take any action (26% vs 14%), reflecting their lower overall levels of commitment to reducing environmental impacts.

Those reliant on rail were more likely than average to plan to reduce travel (42% vs 27% overall), while those reliant on rail and air were both more likely to encourage staff to use more energy efficient transport (51% and 44% vs 38%) (Table 5.2). Otherwise, there was little variation by type of transport relied upon.

Table 5.2: Anticipated actions to help reduce transport-related environmental impacts, by type of transport relied upon

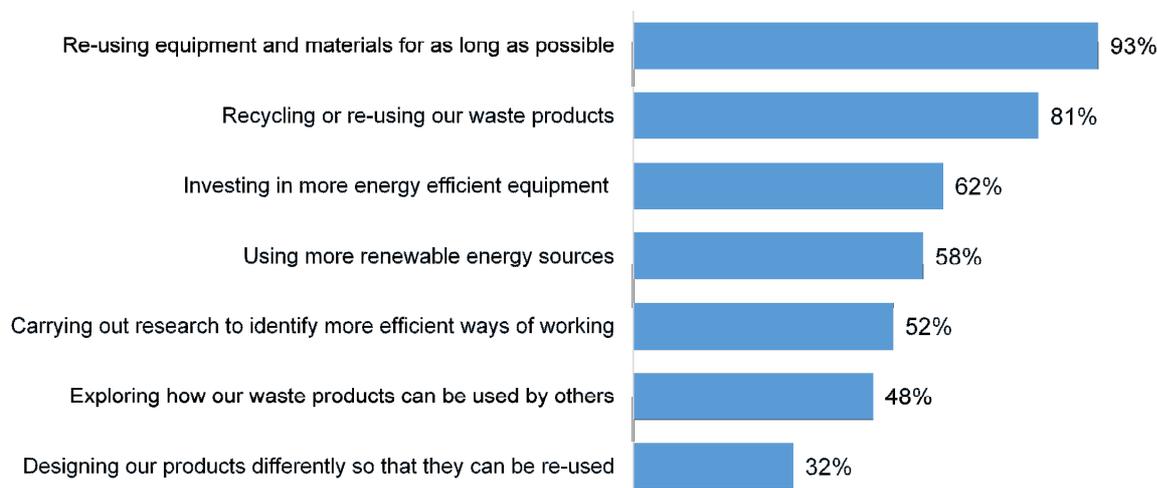
Action	All	Road	Rail	Ferry	Air
	% taking each action				
Reducing staff travel	27	27	42	30	31
Encouraging staff to use more energy efficient transport	38	39	51	43	44
Using more locally sourced supplies	62	63	64	62	61
Investing in more energy efficient transport	47	47	49	48	46
Using suppliers or distributors that use energy efficient transport	34	34	38	34	34
Collaborating with other businesses	46	46	48	49	47
We do not plan to take any actions	14	13	7	13	12
<i>Base</i>	<i>1,000</i>	<i>959</i>	<i>213</i>	<i>560</i>	<i>404</i>

ELIMINATING WASTE AND REDUCING EMISSIONS

Almost all businesses (97%) anticipated taking at least one action to help eliminate their waste and reduce their emissions. In terms of specific actions, the majority anticipated re-using equipment and materials for as long as possible (93%) and recycling or re-using their waste products (81%). More than half also anticipated investing in more energy efficient equipment (62%), using more renewable energy sources (58%) and carrying out research to identify more efficient ways of working (52%) (Figure 5.5).

Figure 5.5: Anticipated actions to help eliminate waste and reduce emissions

Q. Some businesses are taking actions to help eliminate their waste and reduce their emissions. Which, if any, of the following actions do you anticipate your business taking?



Base: All businesses

Large businesses (25+ employees) were more likely than average to invest in more energy efficient equipment (81% compared with 62% overall) and carry out research to identify more efficient ways of working (72% vs 52%).

Food and drink businesses were more likely than average to recycle or re-use waste products (87% vs 81%), use more renewable energy sources (69% vs 58%), and explore how their waste products could be used by others (59% vs 48%). Tourism businesses were more likely to invest in more energy efficient equipment (78% vs 62%) and use more renewable energy sources (69% vs 58%).

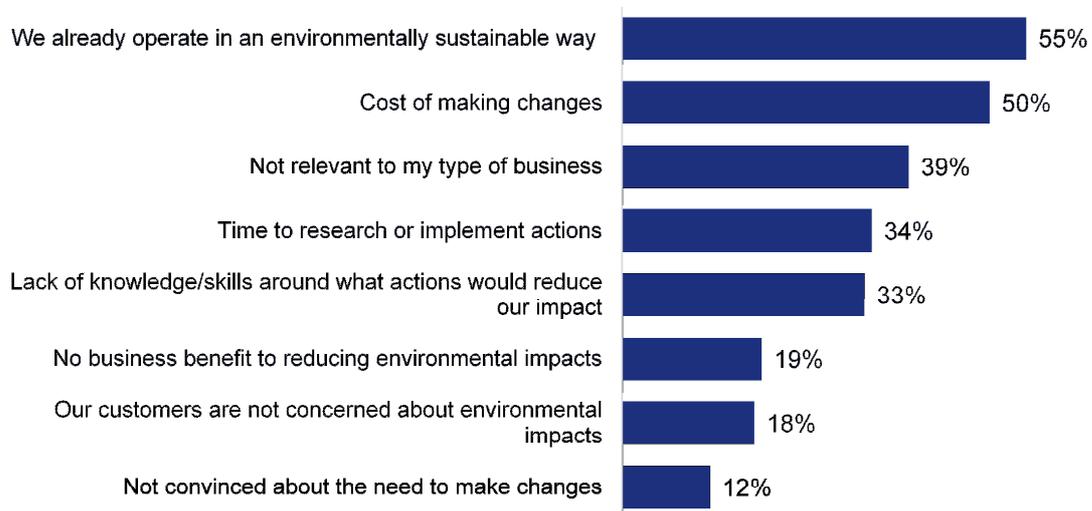
In addition, HIE-account managed businesses were more likely than non-account managed businesses to anticipate investing in more energy efficient equipment (78% compared with 60%) and carrying out research to identify more efficient ways of working (73% compared with 50%).

BARRIERS TO ACTION

When asked what might prevent them from taking action to reduce their environmental impacts, over half (55%) of businesses said they already operated in an environmentally sustainable way. However, a number of barriers were nonetheless evident, including: the cost of making changes (50%), a perception that reducing environmental impacts was not relevant to their business (39%), lack of time to research or implement actions (34%) and lack of knowledge and skills around what actions would reduce impact (33%) (Figure 5.6).

Figure 5.6: Barriers to taking action to reduce environmental impacts

Q. Which, if any, of these might prevent your business from taking actions to reduce its environmental impact?



Base: All businesses

Small businesses (0-4 employees) were more likely to say that they already operated in a sustainable way (60% compared with 55% overall), that actions to reduce environmental impacts were not relevant to them (45% vs 39%) and that there was no business benefit to them reducing their impacts (23% vs 19%).

Food and drink businesses were more likely than average to view cost (63% compared with 50% overall) and time (41% vs 34%) as barriers to making changes, and to say they lacked knowledge and skills around what actions would reduce their impact (41% vs 33%). Those in the financial and business services sector were more likely to say that taking action was not relevant to their type of business (51% vs 39%).

Looking at those who said actions to reduce environmental impacts were not relevant to them, just over half of these businesses (55%) also said they already operated in an environmentally sustainable way, while 28% also said their customers were not concerned about environmental impacts, and 23% were not convinced about the need to make changes. Aside from being smaller (0-4 employees) and in the financial and business services sector, as noted above, this subset of businesses were broadly similar in profile to the overall sample.

6. BREXIT

KEY MESSAGES:

The vast majority (98%) of businesses sold goods or services in Scotland, while half (52%) sold outside of Scotland but in the rest of the UK and a third (33%) did so outside of the UK. Looking ahead to the next 12 months, most businesses expected either an increase in sales or stability in each market (Scotland, rest of the UK and outside the UK).

Around half of businesses (52%) said they felt prepared for the UK's departure from the EU, while 39% were not prepared and 9% said they did not know.

In terms of specific changes that might occur after Brexit, businesses felt most prepared for changes to their cash flow (63% prepared), their routes to market (62%), supply chain arrangements (61%), increased competition from other domestic businesses (58%) and the availability of skilled staff (52%).

Businesses felt *least* prepared for changes to customs delays (22% prepared, 30% not prepared), export procedures (19% prepared, 26% not), import procedures (26% prepared, 29% not), and intellectual property rights on goods (28% prepared, 29% not).

For those not prepared for changes that might occur after Brexit, the main reason was that they were waiting to see what would happen (57%). Just over one in ten (13%), said they did not feel Brexit would impact on their business directly, while a similar proportion (11%) said they did not know how to prepare.

Asked what they were planning on doing differently in response to Brexit, a significant proportion of businesses (41%) said they did not know. Of the actions that businesses *were* planning to take, the three most common were: developing the skills of their existing workforce (32%), targeting new or different markets (24%), and changing or updating their supply chain arrangements (22%).

MARKETS OF OPERATION

Current markets

As seen in previous waves, the vast majority (98%) of businesses sold goods or services in Scotland, while 46% *only* sold in Scotland and not in other markets (these are referred to as 'domestic businesses'). Around half (52%) sold outside of Scotland but in the rest of the UK (referred to as 'rUK businesses'), and a third (33%) did so outside of the UK (referred to as 'international businesses').

Just under a third of businesses (31%) operated in all three markets. The proportions operating one or two different markets are outlined in Table 6.1.

Table 6.1: Markets of operation

Market(s)	%
All three markets	31
Scotland only	46
Scotland and rest of UK, but not outside UK	20
Scotland and outside UK, but not rest of UK	1
Rest of UK and outside UK, but not Scotland	1
<i>Base</i>	<i>1,000</i>

The proportion of international businesses has fluctuated somewhat over different waves of the survey. This wave the proportion was in line with that seen in September/October 2018 (34%) and before that in March 2017 (33%), but higher than the first two wave in 2019 (24% and 26% respectively). The reasons for this fluctuation are not clear, but by looking across multiple waves it can be estimated that between a quarter and a third of businesses tend to trade internationally.

Consistent with previous waves, there was variation in the types of business operating in each market:

- Domestic businesses, were more likely to be:
 - smaller businesses with 0-4 (47%), 5-10 (51%) or 11-24 (51%) employees than larger businesses with 25+ employees (28%)
 - non-account managed (49%) businesses than HIE account-managed businesses (22%).
- rUK businesses, were higher than average (52%) among:
 - larger businesses with 25+ employees (71%)
 - creative industries (69%), tourism (61%) and food and drink (61%) businesses
 - HIE account-managed businesses (75%).
- International businesses had a similar profile to rUK businesses and were higher than average (33%) among:
 - larger businesses with 25+ employees (52%)
 - tourism (54%) and creative industries (49%) businesses
 - HIE account-managed businesses (67%).

Future sales

Looking ahead to the next 12 months, over half of businesses expected sales to remain the same in Scotland (58%) the rest of the UK (57%), and outside the UK (54%). Other businesses were more likely to anticipate an increase than a decrease in each market: for example, 33% expected sales in Scotland to increase, while 6% expected them to decrease (Table 6.2).

Table 6.2: Expected future sales increases

Expectations for sales in next 12 months	Scotland	Outside of Scotland but within the UK	Outside of the UK
	%	%	%
Increase	33	21	13
Remain the same	58	57	54
Decrease	6	5	9
Don't know	3	17	24
<i>Base: All businesses</i>			

Expectations for future sales were more pessimistic than they were in September/October 2018, when 56% expected sales to increase in Scotland, 13% in the rest of the UK and 12% outside of the UK (though this comparison should be treated with some caution, as the questions were worded differently in the 2018 and 2019 waves⁵).

Large businesses (25+) were more likely to expect an increase in sales in the rest of the UK (38% compared with 21% overall) and outside the UK (32% vs 13%). Those with 5-10 and 11-24 employees were more likely to anticipate an increase in sales in Scotland (44% and 46% respectively vs 33% overall).

Tourism businesses were more likely than average to anticipate an increase in sales outside the UK (21% vs 13%). HIE-account managed businesses were more likely than non-account managed to expect sales to increase in each market: Scotland (53% vs 30%), rest of the UK (51% vs 18%) and outside the UK (44% vs 10%).

International businesses were more likely than average to anticipate changes in their sales in markets outside of Scotland. As shown in Table 6.3, 37% of international businesses expected to increase sales in the rest of the UK (compared with 21% of all businesses) while 34% expected increased sales outside of the UK (compared with 13% overall). However, they were also more likely to anticipate *decreases* in sales in both the rest of the UK (10% compared with 5% of all businesses) and outside the UK (25% compared with 9%).

Table 6.3: Expected future sales increases among international businesses

Expectations for sales in next 12 months	Scotland	Outside of Scotland but within the UK	Outside of the UK
	%	%	%
Increase	36	37	34
Remain the same	55	47	31
Decrease	5	10	25
Don't know	5	6	10
<i>Base: All international businesses (328)</i>			

⁵ In September/October 2018, businesses were asked "Which of these markets do you expect to see your sales increase / decline over the next 12 months"; in September/October 2019, businesses were asked "In the next 12 months do you expect the amount you sell in each of these markets to increase, decrease, or remain about the same?" – the main difference in wording therefore being the inclusion of a "remain about the same" option in the 2019 wave.

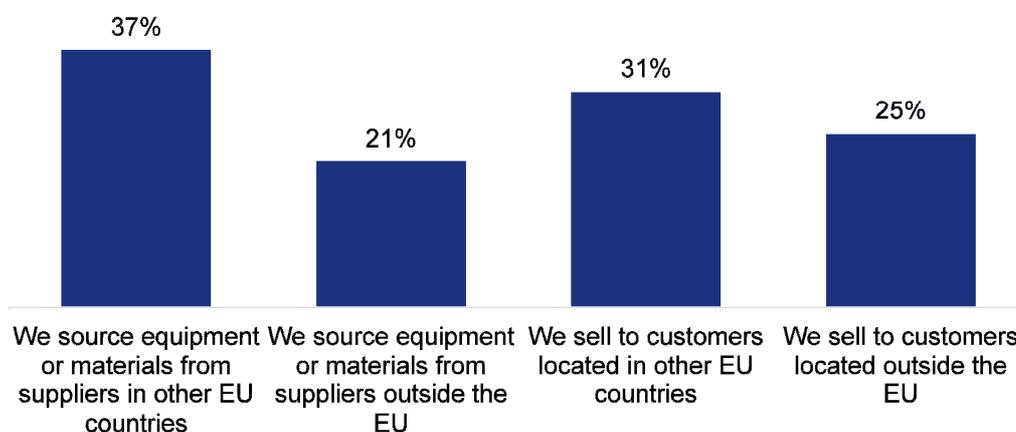
NATURE OF TRADE WITH OTHER COUNTRIES

Around two-fifths (39%) of businesses imported from other countries; 37% did so from suppliers in other EU countries, while 21% did so from outside the EU. A third (33%) exported to other countries; 31% to customers located in other EU countries, and 25% to customers located outside the EU (Figure 6.1).

Eighteen per cent both imported and exported, while 21% *only* imported (i.e. did not also export) and 14% only exported.

Figure 6.1: Nature of trade with other countries

Q. Which of the following statements applies to your trade with other countries?



Base: All businesses

Reflecting the increase in international businesses this wave, the proportion of importers and exporters was higher than that seen in February 2019 (the last time businesses were asked), when 29% imported from the EU and 16% from outside the EU, and 25% exported to the EU and 22% to outside the EU.

As seen previously, large businesses (25+ staff) were more likely than average to both import (70%) and export (50%), and to do so both from within and outside the EU (Table A.9, see appendix).

Tourism and creative industries businesses were more likely than average to export to other EU countries (50% and 49% respectively compared with 31%) and to countries outside the EU (53% and 43% compared with 25%). HIE account-managed businesses were more likely than non-account managed businesses to import and export, both from within and outside the EU (Table A.10, see appendix).

EORI number

Businesses that import or export products in and out of the EU need an Economic Operators Registration and Identification (EORI) number. Twenty percent of those that *either* imported or exported from the EU were registered for an EORI number (compared to 13% of businesses overall). Taking each group individually, 23% of those importing from the EU and 25% of those exporting to the EU were registered (Table 6.4):

Table 6.4: Registration for EORI number among importers and exporters

"Is your business registered for an EORI number?"	Import from the EU	Export to the EU	Either import of export from/to the EU
	%	%	%
Yes	23	25	20
No	39	37	40
Unsure/don't know	16	16	16
Not applicable to my business	23	22	26
Base	367	307	511

Among businesses that imported or exported from the EU, those that were registered for an EORI number were more likely to be:

- businesses with 11-24 staff (31%) or 25+ staff (28%), compared with 20% overall
- in the creative industries (29%) and food and drink (27%) sectors, compared with 20% overall
- HIE-account managed (52%) compared with non-account managed (14%)
- employers of EU staff (21%) compared with non-employers of EU staff (11%).

Those that were not registered were more likely to be:

- businesses with 0-4 staff (49%) compared with 40% overall
- non-account managed (43%) compared with HIE-account managed (25%).

Those that said registration was not applicable to their business were more likely to be:

- businesses with 0-4 staff (31%) compared with 26% overall
- in the tourism (32%) and financial and business services (31%) sectors, compared with 26% overall
- non-account managed (28%) compared with HIE-account managed (11%)
- non-employers of EU staff (41%) compared with employers of EU staff (23%).

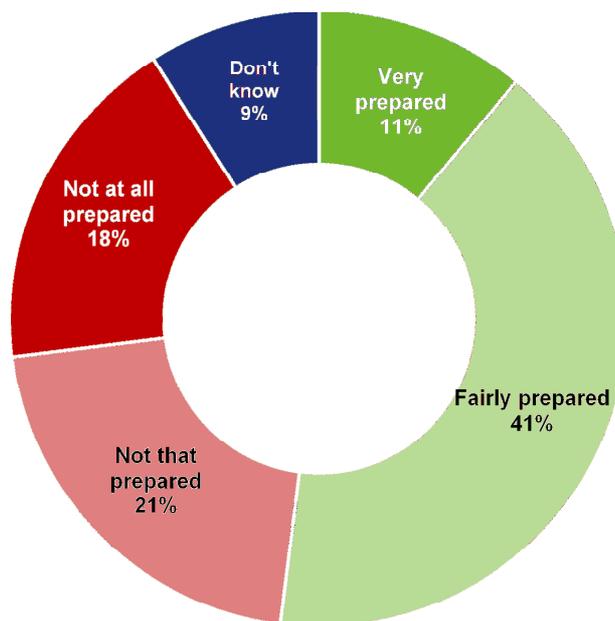
PREPAREDNESS FOR BREXIT

Overall preparedness

Around half of businesses (52%) said they felt prepared for the UK's departure from the EU, while 39% were not prepared and 9% said they did not know (Figure 6.2).

Figure 6.2: Preparedness for Brexit

Q. How prepared do you feel your business is for the UK's departure from the EU?



Base: All businesses

Large businesses (25+ employees) were more likely to feel prepared for Brexit (67% compared with 52% overall), while small businesses (0-4 employees) were more likely to *not* feel prepared (43% compared with 39%).

In terms of sectoral variation, food and drink businesses were least likely to feel prepared for Brexit: 40% were prepared while 48% were unprepared (52% and 39% among all businesses). Compared with food and drink businesses, those in financial and businesses services (61%) and the creative industries (58%) sectors were more likely to feel prepared.

Other businesses more likely to *not* feel prepared were those that were not confident in their ability to respond to changes in their working environment (69%), those not optimistic about their prospects for the next 12 months (66%), and those that expected to downsize (58%).

Views were similar between groups of businesses that imported and exported, from both within and outside the EU, with around half of each group saying they felt prepared and around two in five saying they felt unprepared (Table A.11, see appendix).

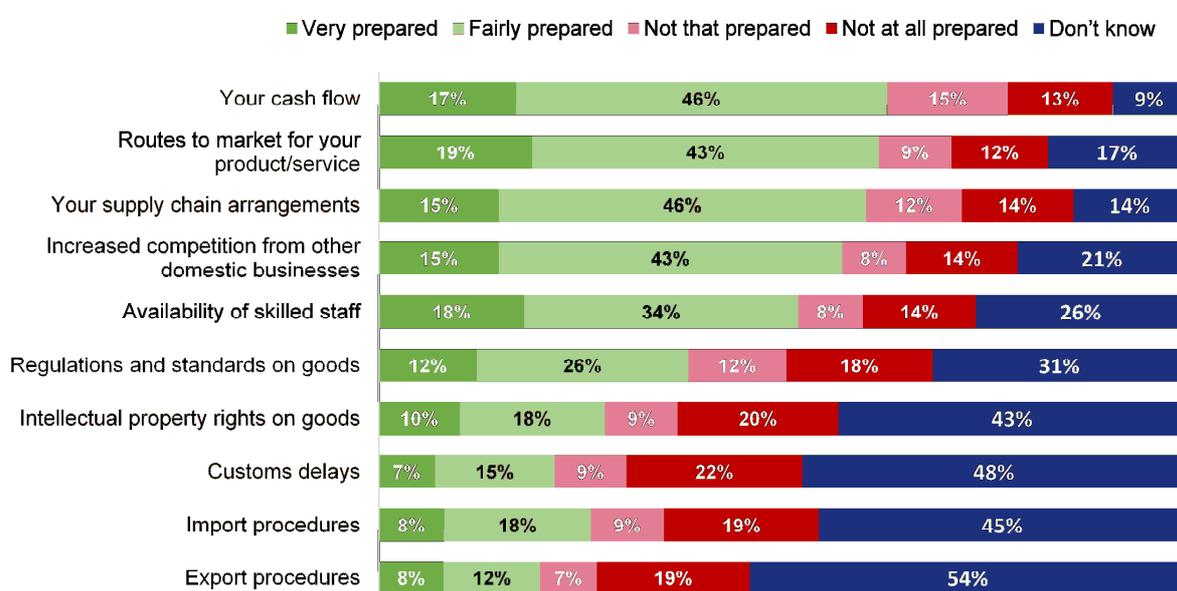
Preparedness for specific changes

In terms of specific changes that might occur after Brexit, businesses felt most prepared for changes to their cash flow (63% prepared), their routes to market (62%), supply chain arrangements (61%), increased competition from other domestic businesses (58%) and the availability of skilled staff (52%).

Businesses felt *least* prepared for changes to customs delays (22% prepared, 30% not prepared), export procedures (19% prepared, 26% not), import procedures (26% prepared, 29% not), and intellectual property rights on goods (28% prepared, 29% not) (Figure 6.3).

Figure 6.3: Preparedness for potential changes that might occur after Brexit

Q. Thinking about potential changes that might occur after Brexit, how prepared do you feel for changes to the following?



Base: All businesses

Small businesses (0-4 employees) were more likely than average to feel unprepared for all changes explored, bar routes to market and the availability of skilled staff (Table A.12, see appendix).

Food and drink businesses were more likely to say they were not prepared for changes to customs delays (40% compared with 30% overall), import procedures (38% vs 29%), export procedures (33% vs 26%) and intellectual property rights on goods (36% vs 29%). Tourism businesses, meanwhile, felt less prepared for changes in the availability of staff: 30% were not prepared, compared with 22% overall.

Two-thirds (65%) of employers of non-UK EU nationals felt prepared for changes in the availability of skilled staff, compared with 49% of those that did not employ staff from the EU.

In terms of increased competition from other domestic businesses, views differed between the tourism and food and drink sectors. Tourism businesses were more likely than average to feel prepared for this change (68% compared with 58% overall), while food and drink businesses were more likely to say they were *not* prepared (29% compared with 22% overall).

Among importers and exporters specifically, views about changes to import and export procedures were fairly split. As shown in Table 6.5, 36% of those that imported from the EU and 40% of those that import from outside the EU were prepared for changes to import procedures. However, around a third of these businesses still said they were *not* prepared for changes (35% and 32% respectively). Similarly, 37% of exporters to the EU and 38% of exporters to outside the EU said they were prepared for changes to export procedures. However, 31% and 28% respectively said they were *not* prepared.

Table 6.5: Preparedness for changes to import and export procedures, by trade with other countries

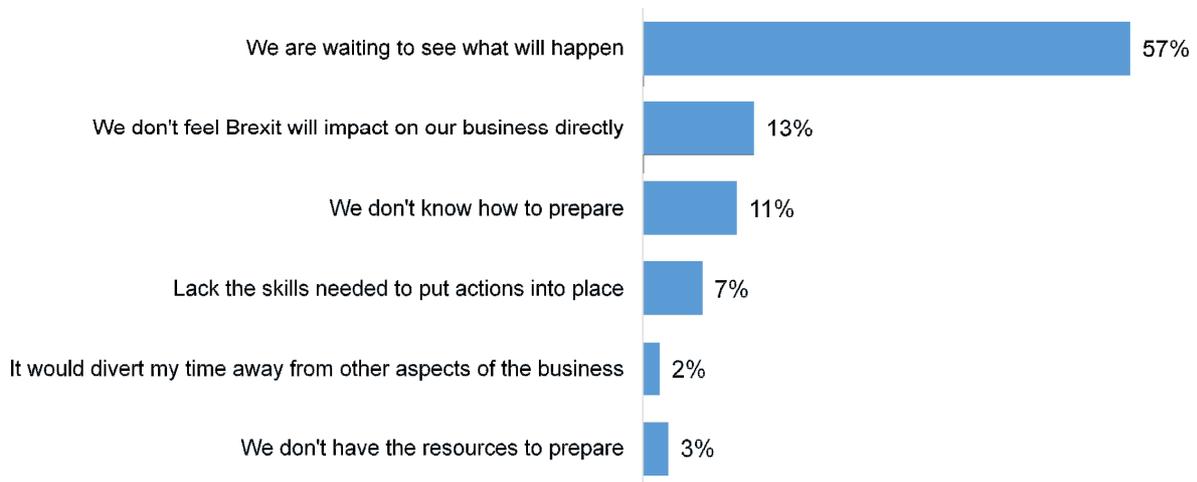
	Import from EU countries	Import for outside the EU
Preparedness for changes to import procedures		
Prepared	36	40
Not prepared	35	32
Don't know	30	28
<i>Base:</i>	<i>370</i>	<i>221</i>
	Export to EU countries	Export to outside the EU
Preparedness for changes to export procedures		
Prepared	37	38
Not prepared	31	28
Don't know	32	33
<i>Base:</i>	<i>340</i>	<i>296</i>

Reasons for not feeling prepared for change

For those not prepared for changes that might occur after Brexit, the main reason was that they were waiting to see what would happen (57%). This echoes findings from February/March 2019, where 49% of businesses who were not taking action to plan for Brexit said it was too soon and they were waiting to see what would happen. Just over one in ten (13%), said they did not feel Brexit would impact on their business directly, while a similar proportion (11%) said they did not know how to prepare (Figure 6.4). There was no significant variation in findings by different types of business.

Figure 6.4: Reasons for not feeling prepared changes that might occur after Brexit

Q. You said your business was not prepared for some of the changes that might occur after Brexit, what is the main reason for that?



Base: All businesses not prepared for at least one change that might occur after Brexit (611)

PLANNED ACTIONS IN RESPONSE TO BREXIT

Asked what they were planning on doing differently in response to Brexit, a significant proportion of businesses (41%) said they did not know. Of the actions that businesses *were* planning to take, the three most common were: developing the skills of their existing workforce (32%), targeting new or different markets (24%), and changing or updating their supply chain arrangements (22%) (Figure 6.5).

Figure 6.5: Planned actions in response to Brexit

Q. Which, if any, of the following is your business planning on doing differently in response to Brexit?



Base: All businesses

Large businesses (25+ employees) were more likely to plan on developing the skills of their workforce (61% compared with 32% overall), changing or updating their supply chain arrangements (45% vs 22%), changing or updating their routes to market (29% vs 15%), and stockpiling goods (23% vs 10%). Small businesses (0-4 employees) were more likely to say they planned to start downsizing (13% compared with 10% overall).

Food and drink businesses were more likely than average to plan on taking a number of actions, namely: targeting new or different markets (37% compared with 24% overall), changing or updating supply chain arrangements (30% vs 22%), applying for a Brexit Support Grant or similar (24% vs 12%), and changing or updating their routes to market (22% vs 15%) and their business model (20% vs 13%). Tourism businesses were more likely to target new or different markets (32% vs 24%) and recruit new staff (26% vs 17%).

HIE-account managed businesses were more likely than non-account managed businesses to plan on developing skills of the existing workforce (45% compared with 30%), targeting new or different markets (42% vs 22%), and changing or updating their supply chain arrangements (34% vs 20%) and routes to market (32% vs 13%).

Businesses were asked to explain more about the actions they were taking in response to Brexit. Among those that said they were developing their existing workforce, this was not always linked to Brexit specifically but was part of a standard approach that businesses would take to upskill staff over time. However, it was also suggested that staff may need to be trained on new legislation and new arrangements that may come into place following Brexit.

“We will be reskilling the existing staff to take on more of these responsibilities... to deal with the changes that will occur regarding current EU environmental legislation.”

(25+ employees, Financial and business services, Outer Hebrides)

The need to develop existing staff was also linked to the challenges of recruiting new staff. There was repeated reference to the shortage of candidates from the EU which was driving businesses to try and recruit more locally to fill these gaps. Examples were given of different approaches to recruitment in order to reach local candidates more effectively. When discussing recruitment, reference was also made to the challenge of recruiting locally due to declining and ageing populations.

“We are advertising for staff using different approaches, for example [advertising on] petrol pumps and roundabouts. We hope to reach more people this way because we cannot recruit from Europe anymore.”

(25+ employees, Financial and business services, Inner Moray Firth)

“We are trying to recruit younger staff which is difficult; the staff age profile is quite old, so we trying to recruit younger staff with more modern skills.”

(25+ employees, Tourism, Argyll and the Islands)

Among those targeting new or different markets, specific reference was made to targeting domestic markets, while others said they were trying to develop markets outside of EU, including the US and Canada. Similarly, those who said they were changing their routes to market said they were exploring opportunities that existed to sell outside of the EU. There was little detail provided on the exact approaches businesses were taking, other than saying they were currently exploring the opportunities available and promoting their goods or services in these different markets as much as possible. However, examples were also given of making change products or services to make them more compatible with and therefore more attractive to these different markets.

Businesses that were changing or updating the supply chain arrangements gave examples of sourcing new suppliers, or negotiating more favourable arrangements with existing suppliers, to make sure that they had a secure relationship in place before Brexit. Others said they had established relationships with other larger companies to manage supply chain relationships on their behalf.

“We have established relations with big importers within the UK as they have more buying power and say within the supply chains.”

(0-4 employees, Non-growth, Inner Moray Firth)

Others discussed how preparing for Brexit had led them to change or update their business model, with references to developing new business plans and master plans to help establish their future direction. One business said that preparing for Brexit had led them to prepare a business plan for the first time which had resulted in them feeling in a stronger position.

“As a business we have never had a business plan, and now we have a business plan and business continuity plan, and a risk register. The combination of all three is putting us in a stronger position. To help mitigate the risks

(25+ employees, Non-growth, Moray)

Those that were downsizing or selling less attributed this to a combination of general market decline linked to Brexit uncertainty, but also the fact that they were ageing and therefore did not want to take steps to grow or develop their business.

Aside from these comments, the dominant view among businesses was that it was hard to know what actions they might take due to the level of uncertainty surrounding Brexit. Some were holding off until they were certain that Brexit was happening and when. Others were simply not sure what actions to take as they did not know how Brexit would impact on their business specifically.

“We would like to be able to think that once everything is through that it won't affect us at all. Our products that are sold into Europe by our distributors will still be required...We don't know what will happen. We're hopeful but we're resigned to the fact we have to wait and see.”

(11-24 employees, Non-growth, Caithness and Sutherland)

7. SUMMARY

Against a background of constitutional uncertainty, confidence in the economic outlook for Scotland fell to the lowest level recorded – however, businesses continued to be more positive about their own performance and their future prospects.

This wave took place while businesses were preparing for significant constitutional change, with fieldwork being carried out just weeks before the UK's scheduled departure from the EU on 31st October 2019. The extension to the Brexit deadline was announced on Friday 25th October, a few days before the survey fieldwork was completed.

With these developments as a backdrop, economic optimism fell to the lowest level ever recorded in the survey: 48% said their confidence in the economic outlook in Scotland had decreased over the last six months, while 42% said it had stayed the same and 8% said it has increased.

Confidence in the economic outlook for the Highlands and Islands also fell this wave: 53% said they were confident in the region's economy (a decrease from 63% in September/October 2018), while 42% said they were not confident (an increase from 33%).

Despite these drops in economic confidence, businesses remained positive about their own performance (41% said they had performed well, 38% had been fairly steady and 21% had struggled in the last 12 months). Optimism regarding business prospects also remained in line with the previous wave, with 72% feeling optimistic and 26% not.

As seen in previous waves, tourism businesses tended to be more confident in the economy, more positive about their performance, and more optimistic about their own prospects. In contrast, food and drink and small businesses (0-4 employees) tended to be less confident in the economy, less positive about their performance, and more pessimistic about their prospects.

More businesses aspired to growth than did not. Increased costs and political and economic uncertainty posed the greatest risks to businesses over the next year or two. A loyal customer base and increased demand were the greatest opportunities.

Just over half (54%) of businesses aspired to grow, while 36% were content with their current level of performance and 10% wanted to downsize. In terms of expected growth, there was little change since the previous wave: 45% of businesses anticipated growth, with the same amount anticipating stability and 7% expecting to contract. For most businesses, their aspirations aligned with their expectations: 71% of those aspiring to growth also expected to grow.

Looking ahead to the next year or two, the most common risks cited by businesses were increased costs (89%) and political and economic uncertainty (84%). Among those concerned about political and economic uncertainty, most felt that the UK's departure from the EU (89%), the global economy (88%) and Scotland's relationship with the UK (83%) presented a risk to their business.

The factors presenting the greatest opportunities for businesses were having a loyal customer base (88%), increased demand for products or services (86%), and investment in the business (77%).

Most businesses felt confident in their ability to respond to changes in their working environment – and most were innovating and drawing on a range of information sources to inform their decision making.

Businesses felt the quality of their goods and services (60%) and strong financial performance (46%) were the most integral values to their business.

Businesses drew on a range of information sources when making decisions about their future, with customer feedback (79%) and financial performance data (68%) being the two sources they relied on most. Around half also drew on research into existing or new markets (54%) and new developments in technology (51%).

Almost all businesses innovated in some way, most commonly through making efficiency improvements to processes (76%), adapting existing products or services (64%), and targeting new customers and markets (61%).

Most businesses (88%) said they felt confident in their ability to respond to changes in their working environment over the next year or two. Reasons for feeling confident included: being able to adapt and respond to changes in the past, having the skills needed to respond to changes, having an adaptable workforce, a loyal customer base, and a strong brand reputation. The main reason given for not feeling confident was a lack of resources needed to respond to change.

Most businesses were committed to reducing their environmental impacts and had already taken action to do so. However, for some, cost, time and lack of knowledge remained barriers to action.

The Scottish Government's Programme for Government 2019-2020⁶ was published on 3 September 2019, a few weeks before fieldwork began. It sets out actions the Scottish Government will take to end Scotland's contribution to global climate change, including commitment to achieving net zero greenhouse gas emissions in Scotland by 2045. Against this context, businesses were asked about their own commitment to reducing environmental impacts and the specific actions they were taking, or planning on taking, in order to meet those commitments.

Overall, commitment to reducing environmental impacts was high (a mean score of 7.3 out of a maximum of 10). Most businesses (93%) were already taking some actions to reduce or respond to their environmental impacts, and these were focused on: minimising their waste (82%) and improving the energy efficiency of premises (62%). Fewer were currently improving the energy efficiency of systems or processes (45%) or investigating/investing in ways to offset their carbon emissions (36%).

Among those reliant on transport, the majority anticipated taking action to help reduce the environmental impacts of their travel or transportation. Actions they were most likely to take were using more locally sourced supplies (62%) investing in more energy efficient transport (47%) and collaborating with other business to achieve efficiencies (46%).

Further, to help eliminate their waste and reduce emissions, the majority anticipated re-using equipment and materials for as long as possible (93%) and recycling or re-using their waste products (81%). Fewer anticipated designing products differently (32%) or exploring how their waste products could be used by others (48%)

⁶ <https://www.gov.scot/publications/protecting-scotlands-future-governments-programme-scotland-2019-20/>

More than half (55%) of businesses felt that they already operate in a sustainable way. Barriers that prevented businesses from reducing their environmental impacts included: the cost of making changes (50%), a perception that reducing environmental impacts was not relevant to their business (39%), lack of time to research or implement actions (34%) and lack of knowledge and skills around what actions would reduce impact (33%).

While half of businesses were prepared for Brexit, around two in five still were not. Businesses were least prepared for changes to customs, imports, exports and intellectual property rights.

The vast majority (98%) of businesses sold goods or services in Scotland, while 46% *only* sold in Scotland and not in other markets. Around half (52%) sold outside of Scotland but in the rest of the UK, and a third (33%) did so outside of the UK.

Looking ahead to the next 12 months, over half of businesses expected sales to remain the same in Scotland (58%) the rest of the UK (57%), and outside the UK (54%). Other businesses were more likely to anticipate an increase than a decrease in each market: 33% expected sales to increase in Scotland, 21% in the rest of the UK, and 13% outside of the UK.

Among those that imported or exported from the EU, 20% were registered for an Economic Operators Registration and Identification (EORI) number, while 40% said they were not.

Around half of businesses (52%) said they felt prepared for the UK's departure from the EU, while 39% were not prepared and 9% said they did not know. Large businesses felt more prepared than smaller businesses, and food and drink businesses felt less prepared than those in other sectors.

Businesses felt *most* prepared for changes to their cash flow, their routes to market, supply chain arrangements, increased competition from other domestic businesses, and the availability of skilled staff. Businesses felt *least* prepared for changes to customs delays, export procedures, import procedures, and intellectual property rights on goods.

For those not prepared for changes that might occur after Brexit, the main reason was that they were waiting to see what would happen (57%). Just over one in ten (13%), said they did not feel Brexit would impact on their business directly, while a similar proportion (11%) said they did not know how to prepare.

Asked what they were planning on doing differently in response to Brexit, 41% said they did not know, while others planned on developing the skills of their existing workforce (32%), targeting new or different markets (24%), and changing or updating their supply chain arrangements (22%).

8. APPENDIX

BUSINESS PERFORMANCE

Table A.1: Business performance by growth sector⁷

	Performed exceptionally well	Performed quite well	Been fairly steady	Struggled slightly	Struggled markedly	Don't know	Base
	%	%	%	%	%	%	N
Overall	10	31	38	16	5	*	1000
Tourism	21	40	26	9	5	-	163
Financial and business services	9	31	39	13	7	-	89
Creative industries	1	28	54	12	5	-	68
Non-growth sector	10	31	41	15	3	*	473
Food and drink	7	25	36	22	10	-	154
Energy	14	44	19	20	4	-	21
Life sciences	-	68	12	20	-	-	9
Other	17	29	22	22	4	5	23

Base: All businesses in each sector

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

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	N
Sales or turnover	37	21	40	2	983
Working hours	22	6	71	*	997
Staff training	25	4	71	*	822
Exports	21	14	63	2	246
Profit margins	25	29	43	4	971
Employment	20	8	72	*	903

Base: All businesses saying each aspect applied to them

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

Table A.3: Overall assessments of business performance by growth sector⁸

Growth Sector ⁹	Assessment of business performance (mean score)	Base
Financial and business services	0.5	89
Tourism	1.1	163
Non-growth sector	0.6	473
Creative industries	0.2	68
Food and drink	0.3	154
Life Sciences	1.5	9
Energy	1.1	21

Table A.4: Overall assessments of business performance by location¹⁰

Location	Assessment of business performance (mean score)	Base
Lochaber, Skye and Wester Ross	0.7	147
Outer Hebrides	1.0	72
Argyll and the Islands	0.4	89
Moray	0.7	86
Inner Moray Firth	0.7	295
Orkney	0.3	89
Shetland	0.5	77
Caithness and Sutherland	0.5	99

Table A.5: Overall assessments of business performance by size of business

Size of business	Assessment of business performance (mean score)	Base
0-4 staff	0.3	577
5-10 staff	1.1	181
11-24 staff	1.3	141
25+ staff	0.7	97

⁸ Please note the small base sizes for Life Sciences and Energy.

⁹ Although Life Sciences had an average score of 1.5 and Energy had an average score of 1.1, these do not represent a significant difference from other sectors due to the small base size for these sectors.

¹⁰ Please note the small base size for the Outer Hebrides.

BUSINESS PROSPECTS IN THE NEXT SIX MONTHS

Table A.6: Business prospects over the next 12 months by confidence in the economic outlook

	Optimism for future business prospects					
	Very optimistic	Fairly optimistic	Not very optimistic	Not at all optimistic	Don't know	Base
Confidence in the economic outlook in Scotland	%	%	%	%	%	N
Increased	58	40	1	-	1	85
Stayed the same	18	71	9	1	2	465
Decreased	5	47	37	8	3	436

Table A.7: Optimism for future business prospects by past business performance

	Optimism for future business prospects					
	Very optimistic	Fairly optimistic	Not very optimistic	Not at all optimistic	Don't know	Base
Past business performance	%	%	%	%	%	N
Performed exceptionally/quite well	29	61	7	*	2	432
Been fairly steady	7	66	23	2	2	364
Struggled slightly/markedly	1	32	48	15	3	200

ENVIRONMENTAL IMPACTS

Table A.8: Mean score (1-10) on commitment to reducing environmental impacts, by type of business

Type of business	Mean score	Type of business	Mean score
<i>Size</i>		<i>Location</i>	
0-4 staff	7.26	Argyll and the Islands	7.46
5-10 staff	7.19	Caithness and Sutherland	7.11
11-24 staff	7.39	Inner Moray Firth	7.46
25+ staff	7.60	Lochaber, Skye and Wester Ross	7.34
<i>Sector¹¹</i>		Moray	7.38
Energy	7.69	Orkney	6.84
Food and drink	7.34	Outer Hebrides	7.17
Tourism	7.50	Shetland	7.11
Financial and business services	6.45	<i>Fragile/non-fragile area</i>	
Creative industries	7.65	Fragile area	7.32
Life sciences	7.85	Non-fragile area	7.29
Non-growth	7.86	<i>Markets operated in</i>	
<i>Account management</i>		Scotland	7.16
HIE-account managed	7.65	Outside Scotland but rest of UK	7.50
Non-account managed	7.26	Outside of UK	7.85

¹¹ Please note the small base size for Energy and Life Sciences

BREXIT

Table A.9: Nature of trade with other countries, by size of business

	All	Size			
		0-4 staff	5-10 staff	11-24 staff	25+ staff
We source equipment or materials from suppliers in other EU countries	37	31	35	48	68
We source equipment of materials from suppliers outside the EU	21	17	20	26	45
We sell to customers located in other EU countries	31	26	32	41	49
We sell to customers located outside the EU	25	21	28	34	39
Import (either within EU or outside EU)	39	33	39	50	70
Export (either within EU or outside EU)	33	28	34	42	50
<i>Base: All businesses</i>	<i>1,000</i>	<i>577</i>	<i>181</i>	<i>141</i>	<i>97</i>

Table A.10: Nature of trade with other countries, by account-managed status

	HIE-account managed	Non-account managed
We source equipment or materials from suppliers in other EU countries	66	34
We source equipment of materials from suppliers outside the EU	45	18
We sell to customers located in other EU countries	66	27
We sell to customers located outside the EU	55	22
Import (either within EU or outside EU)	68	36
Export (either within EU or outside EU)	68	29
<i>Base: All businesses</i>	<i>93</i>	<i>907</i>

Table A.11: Preparedness for Brexit, by trade with other countries

	Import from EU countries	Import from outside the EU	Export to EU countries	Export to outside the EU
Very prepared	8	12	9	12
Fairly prepared	43	37	41	40
Not that prepared	24	26	24	21
Not at all prepared	17	16	17	18
Prepared	51	49	50	52
Not prepared	41	42	41	39
<i>Base</i>	<i>370</i>	<i>221</i>	<i>340</i>	<i>296</i>

Table A.12: Changes businesses feel unprepared for, by size of business

	All	0-4	5-10	11-24	25+
	% unprepared				
Your cash flow	28	33	22	21	13
Routes to market for your product/service	21	23	17	15	17
Your supply chain arrangements	25	29	21	20	15
Increased competition from other domestic businesses	22	26	16	13	15
Availability of skilled staff	22	23	23	17	21
Regulations and standards on goods	30	34	23	22	24
Intellectual property rights on goods	29	35	19	13	25
Customs delays	30	34	19	22	35
Import procedures	29	32	21	25	25
Explore procedures	26	30	19	18	23
<i>Base</i>	<i>1,000</i>	<i>577</i>	<i>181</i>	<i>141</i>	<i>97</i>



HIE

Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean