

# HIE BUSINESS PANEL SURVEY

Wave 15: Brexit and the Changing Business Environment



**Ipsos MORI**  
Scotland



Highlands and Islands Enterprise  
Iomairt na Gàidhealtachd 's nan Eilean

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# 1. INTRODUCTION

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## BACKGROUND

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

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

This report presents findings from the most recent wave of the survey (the fifteenth overall) carried out in January/February 2020. 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 explored any changes businesses had experienced in the past six months, and the extent to which they felt confident in their ability to respond to changes that might occur as a result of Brexit.

**Note:** Fieldwork for this wave was completed on 26<sup>th</sup> February, before the first COVID-19 case in Scotland was confirmed on 2<sup>nd</sup> March and prior to measures put in place by UK Government on 16<sup>th</sup> March advising people to work from home and avoid non-essential travel and contact. Findings from this wave do not, therefore, reflect the potential impacts these measures may have subsequently had on businesses in the Highland and Islands.

## 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 29<sup>th</sup> January and 26<sup>th</sup> February 2020, using telephone interviewing. In total 1,002 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

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### KEY MESSAGES:

Economic optimism remained low: 34% of businesses said their confidence in the economic outlook in Scotland had decreased over the last six months, 57% said it stayed the same and 7% said it had increased. Though confidence was low, it showed signs of improvement on recent waves: net confidence was -27, higher than the previous two waves.

Views on business performance were generally positive with 37% saying their business had performed well, 44% saying business had been fairly steady and 18% saying they had struggled in the last 12 months.

Optimism regarding business prospects remained in line with the previous wave, with 75% saying they felt optimistic and 23% saying they did not.

In contrast to previous waves, tourism businesses were more likely to report decreased confidence in the economy. However, they remained more likely than average to have performed well and to feel optimistic for their own prospects. Food and drink businesses, meanwhile, showed signs of improved performance; while in previous waves they were more likely to have struggled, this wave their performance was in line with the average. However, they still had lower than average optimism for their business prospects.

### ECONOMIC OPTIMISM

#### Outlook in Scotland

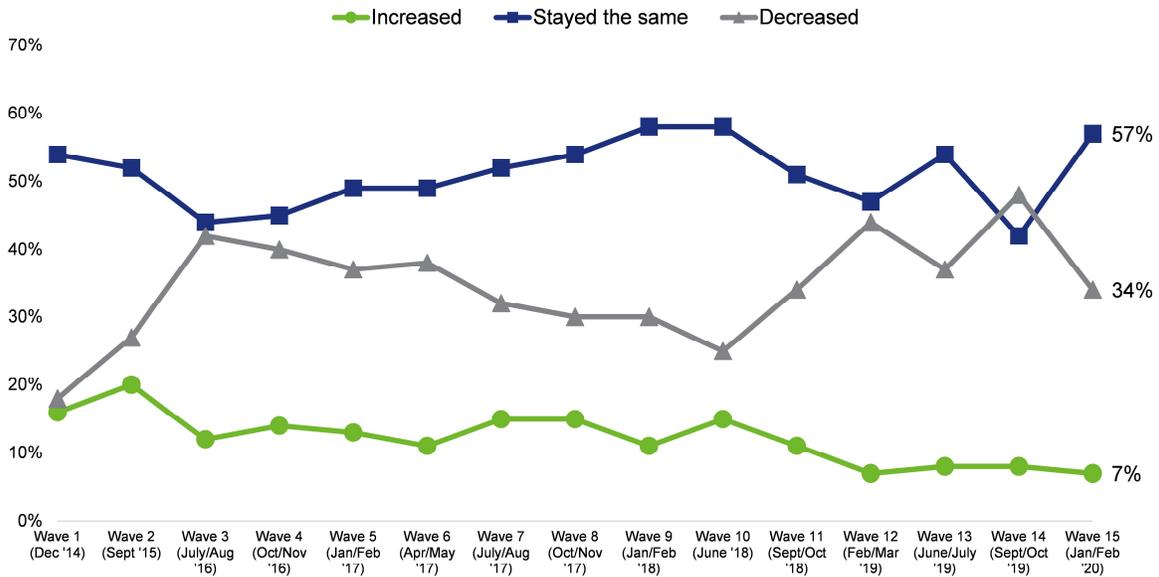
Economic optimism remained low this wave: 34% of businesses said their confidence in the economic outlook in Scotland had decreased over the last six months, 57% said it stayed the same and 7% said it had increased (Figure 2.1). Though confidence was low, it showed signs of improvement from the previous wave, which saw the lowest level of economic optimism ever recorded in the survey. Net confidence this wave was -27<sup>1</sup>, higher than the previous two waves (which were -37 and -40).

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

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

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



Base: All businesses

This wave saw a change in attitudes towards the economy among tourism businesses. In previous waves they were typically more likely than average to report an increase in confidence, whereas this wave they were more likely to report a *decrease* in confidence (43% compared with 34% overall). Financial and business services business, on the other hand, were more likely to report increased confidence in the economy (13% compared with 7% overall).

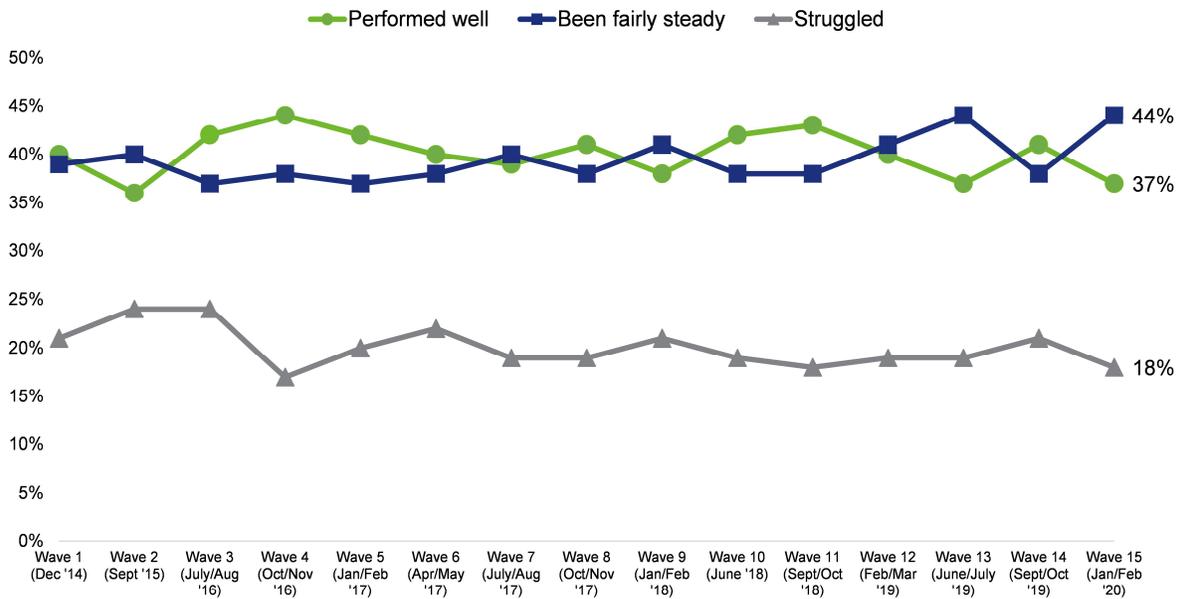
As has been the case for a number of waves, economic confidence was correlated with optimism and performance. Businesses who were not optimistic about their prospects for the next 12 months were more likely to report decreased economic confidence (67% compared with 24% of those who were optimistic). Similarly, businesses that had struggled in the last 12 months were more likely than those that had performed well to report decreased confidence in the economy (64% compared with 24% respectively).

### BUSINESS PERFORMANCE

Views on business performance were generally positive, with 37% saying their business had performed well, 44% saying business had been fairly steady and 18% saying they had struggled (Figure 2.2). These findings were broadly in line with the previous wave, but with a slight increase in the proportion reporting steady performance (by 6 percentage points).

**Figure 2.2: 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

Continuing the trend seen in previous waves, larger businesses (25+ employees) were more likely than average to have performed well (53% compared with 37%). Small businesses (0-4 employees) were more likely to report steady performance this wave (49% compared with 44% overall), in contrast with previous waves where they tended to say they had struggled.

Despite their change in economic confidence, tourism businesses were once again more likely than average to have performed well (49% compared with 37% overall). Food and drink businesses, meanwhile, showed signs of improved performance; while in previous waves they were more likely to have struggled, this wave their performance was in line with the average (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 (43% compared with 37% overall). In keeping with previous waves, this is at least in part explained by the profile of businesses in Lochaber, Skye and Wester Ross: 22% of businesses were in the tourism sector, compared with the average of 10%.

International businesses<sup>2</sup> (45%) and those trading outside Scotland but within the UK (41%) were more likely than domestic businesses (32%) to have performed well.

<sup>2</sup> Throughout the report, "international businesses" refers to those that sell goods or services outside of the UK, "rUK businesses" refers to those that sell outside of Scotland but within the rest of the UK, and "domestic businesses" refers to those that only sell within Scotland.

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 (45% compared with 18% overall). Similarly, those whose confidence in the economy had decreased were more likely to report having struggled (34% compared with 18%).

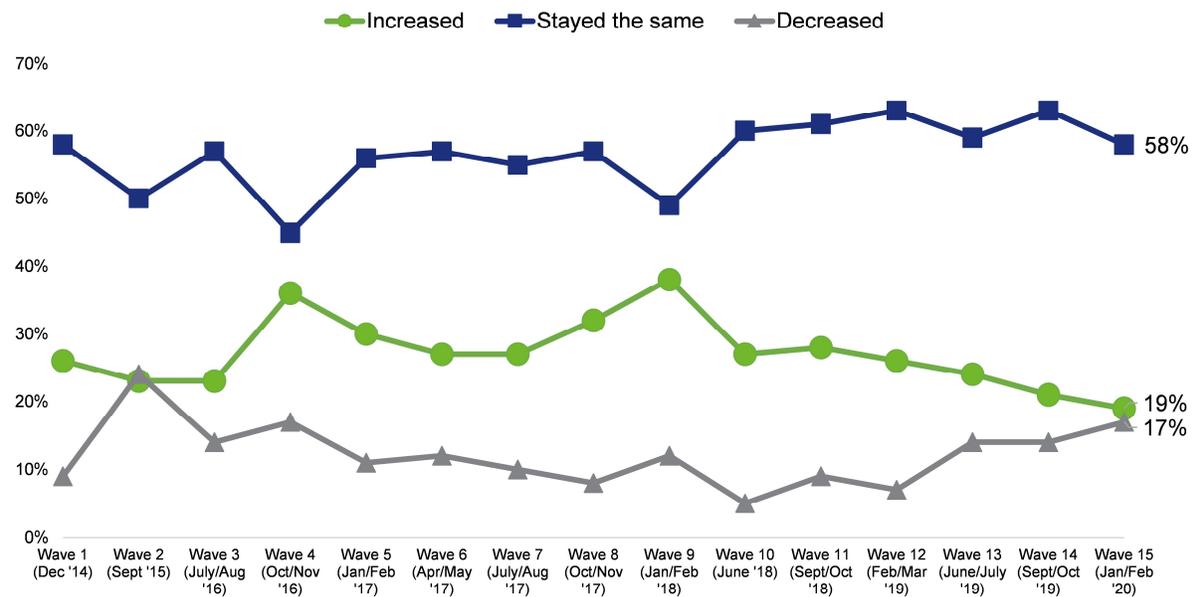
### ASPECTS OF BUSINESS PERFORMANCE

Business performance again remained relatively stable in terms of employment (76%), working hours (74%) and staff training (73%) (Table A.2, see appendix). Sales and turnover were variable, with 43% of businesses reporting stability in this area, 21% reporting decreased performance and 34% reporting increased performance. There were also mixed views on profit margins, with 46% businesses saying this had stayed the same, 26% saying it had decreased and 24% saying it had increased.

In terms of exports, 58% of exporting businesses said they had stayed the same, 19% reported an increase and 17% a decrease (Figure 2.3). While these findings were similar to previous waves, they do point to a continued downward trend in the proportion reporting an increase in exports, mirrored by an upward trend in the proportion reporting a decrease.

**Figure 2.3: Trends in exports over time**

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



Base: All businesses for whom this question applied (220)

To summarise businesses' experience, we scored each instance of increased performance as +1, each decrease as -1 and each 'stayed the same' as 0 and summed across the six aspects for each business.<sup>3</sup> The

<sup>3</sup> A positive score indicates that on average businesses reported more aspects increasing than decreasing or staying the same. A negative score means more aspects decreasing than staying the same or increasing.

average score was 0.4, slightly lower than the level reported in the previous wave (0.6 in Sept/Oct 2019), but nonetheless indicating that businesses continued to report more increases than decreases overall.

Overall, 44% of businesses had a positive score, while 27% had a negative score and 28% had a score of zero.

Financial and business services and food and drink businesses had the highest overall performance scores (0.6 each), whereas tourism and creative industries businesses had the lowest overall scores (at 0.2 and 0.1 respectively) (Table A.3, see appendix). The lower score for tourism businesses contrasts with higher overall scores for the sector in the previous wave. Despite their overall positive business performance, tourism businesses were more likely than average to report a decrease in sales or turnover (30% compared with 21% overall) and employment (19% compared with 9%). This perhaps reflects seasonal differences between waves, with the most recent wave taking place following the autumn/winter season, while the previous wave took place after the summer season.

Businesses in the Inner Moray Firth (0.7) and Moray (0.7) had the highest overall scores. Both areas saw a higher than average increase in employment (21% in each, compared with 15% overall), and those in the Inner Moray Firth saw higher than average increases in sales or turnover (41% compared with 34% overall) and profit margins (29% compared with 24%). These results may, at least in part, be explained by the higher than average proportion of financial and business services businesses located in the Inner Moray Firth (13% compared with 9% in the overall sample), and the higher than average proportion of food and drink businesses in Moray (31% compared with 24% overall). Elsewhere, those in Shetland (0.2) and Caithness and Sutherland (0.1) had the lowest overall scores (Table A.4, see appendix).

The smallest businesses (0-4 staff) had the lowest score (0.2), compared to those with 5-10 staff (0.5), 11-24 staff (0.9) and 25+ staff (0.9) (Table A.5, see appendix).

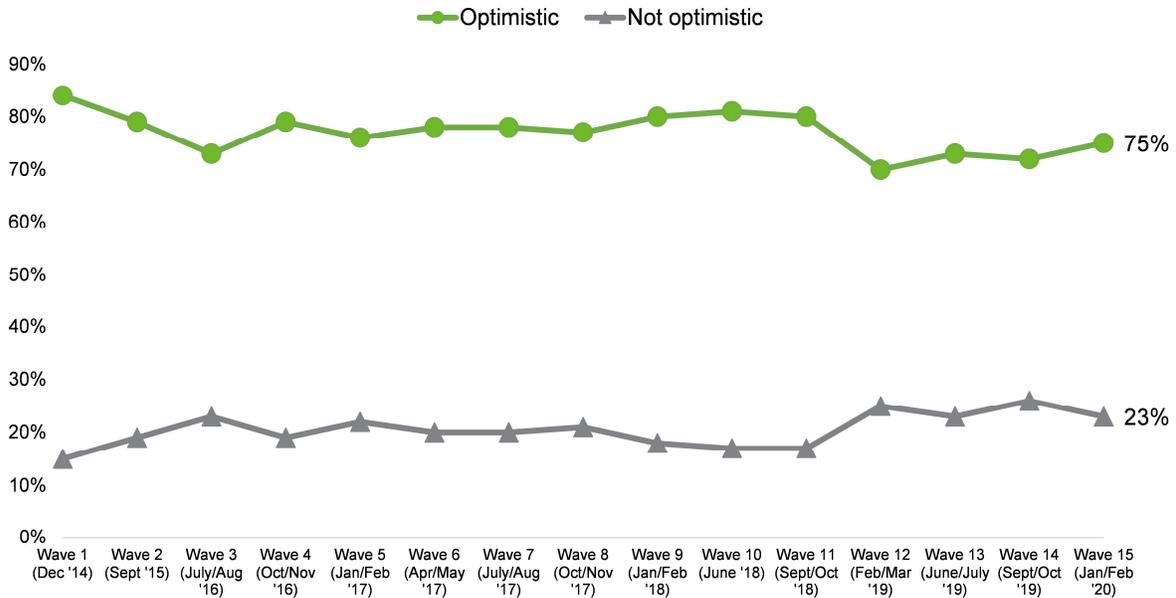
The mean score for HIE account managed businesses (0.7) was higher than for non-account managed businesses (0.4).

## **FUTURE BUSINESS PROSPECTS**

Three quarters (75%) of businesses were optimistic about their prospects over the next 12 months (14% very optimistic, 61% fairly optimistic) and around a quarter (23%) were not optimistic (18% not very optimistic and 5% not at all optimistic). These findings were similar to the previous wave (72% optimistic and 26% not optimistic in September/October 2019) (Figure 2.4).

**Figure 2.4: Business prospects over the next 12 months over time**

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



Base: All businesses

Small businesses (0-4 employees) were less optimistic than others: 70% said they felt optimistic (compared with 75% overall) while 27% said they did not (compared with 23%). Large businesses (25+ employees), on the other hand, were more optimistic than average (89% compared with 75% overall).

Despite their lower than average levels of economic confidence, tourism businesses had higher than average optimism for their own prospects (80% were optimistic, with 23% very optimistic). Optimism was also higher than average in the financial and business services sector (85%), but lower than average in the food and drink sector (68%).

Reflecting the pattern seen in previous waves, optimism for the next 12 months was higher than average (75%) among those whose confidence in the Scottish economy had increased (98%) and among those who had performed well (89%) in the past six months. Businesses reporting decreased economic confidence (44%) and those that had struggled (56%) were more likely than average (23%) to say they were not optimistic (Tables A.6 and A.7, see appendix).

Optimism was higher than average among those that anticipated growth (88% compared with 75%) and lower than average among those not anticipating growth (31% not optimistic, compared with 23% overall).

### 3. FUTURE GROWTH AND RISKS

#### KEY MESSAGES:

Growth aspirations and expectations remained unchanged from the previous wave. Just over half (55%) of businesses aspired to grow, while 35% were content with their current level of performance and 10% wanted to downsize. In terms of expected growth, 43% of businesses anticipated growth, while 44% anticipated stability and 10% expected to contract.

For most businesses, aspirations aligned with expectations: 69% of those striving for growth also expected to grow, while 78% of those content with their current level of performance anticipated stability. Views were more mixed amongst businesses wanting to downsize, with 41% anticipating stability and 53% anticipating contraction.

Around nine in ten businesses felt that political and economic uncertainty posed a risk to the future of their business; 71% in relation to the global economy, 67% in relation to Scotland's relationship with the rest of the UK, and 66% in relation to the UK's departure from the EU. A quarter (26%) felt that Scotland's relationship with the rest of the UK posed a *significant* risk, compared with 20% for the UK's departure from the EU and 14% for the global economy.

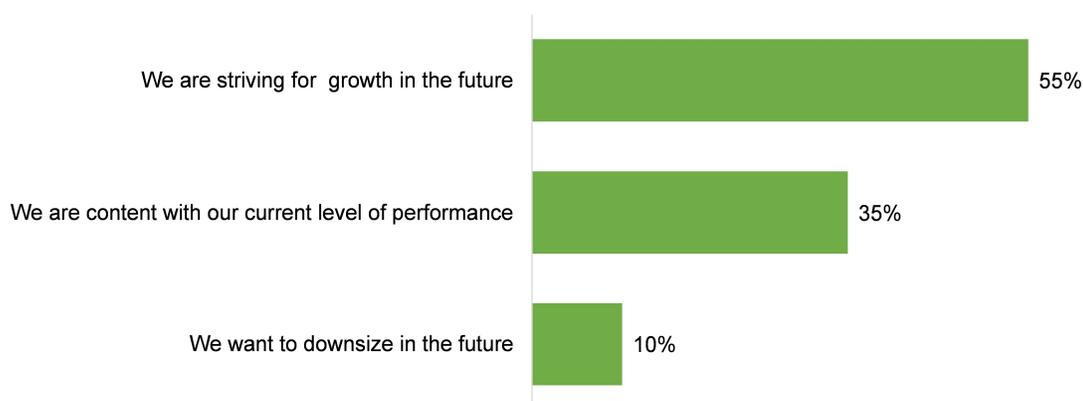
#### FUTURE BUSINESS GROWTH

##### Growth aspirations

Over half (55%) of businesses aspired to grow in the future, while over a third (35%) were content with their current level of performance and one in ten said they would like to downsize (Figure 3.1). These findings were very similar to those of 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 (69%), 11-24 (66%) and 25+ employees (81%) and lower among those with 0-4 employees (45%). 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 (40% compared with 35%).

Aspirations for growth were higher among international businesses (63%) and those trading outside Scotland but within the UK (59%) compared with domestic businesses (51%).

The majority (87%) of HIE-account managed businesses said they were striving for growth, compared with around half (52%) of non-account managed businesses.

Businesses optimistic about their prospects for the next 12 months were more likely to strive for growth (56% compared with 49% of those not optimistic) while those not optimistic were more inclined to want to downsize in the future (21% compared with 7% of those optimistic).

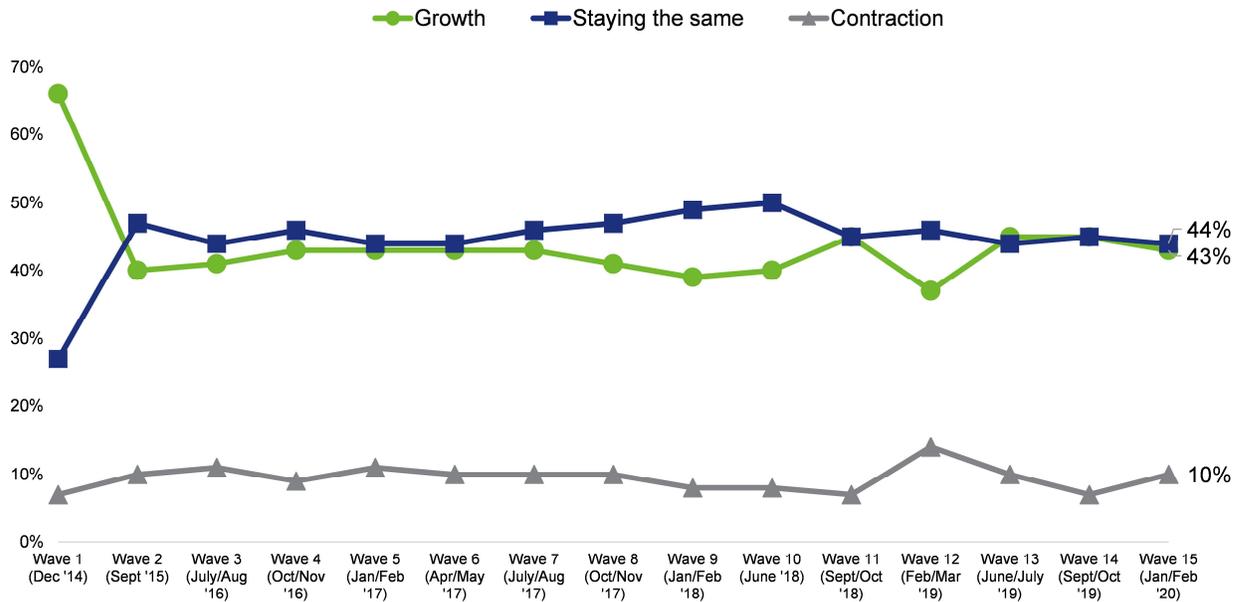
This wave there was no variation in growth aspirations by sector or location.

### Future business growth

Continuing the pattern of recent waves, 43% of businesses expected to grow, while 44% anticipated stability and 10% expected to contract (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

Large businesses (25+ employees) were more likely than average to anticipate growth (66% compared to 43% overall), while small businesses (0-4 employees) were more likely to anticipate remaining the same (48% compared with 44% overall) or contracting (13% compared with 10%).

Those in the financial and business services sector showed higher than average growth expectations (54% compared with 43% overall). Otherwise, there was no significant variation by sector. Businesses in the Inner Moray Firth were more likely than those in other area to anticipate growth (53% compared with 43% on average) which, again, may reflect the higher than average proportion of financial and business service organisations in the area.

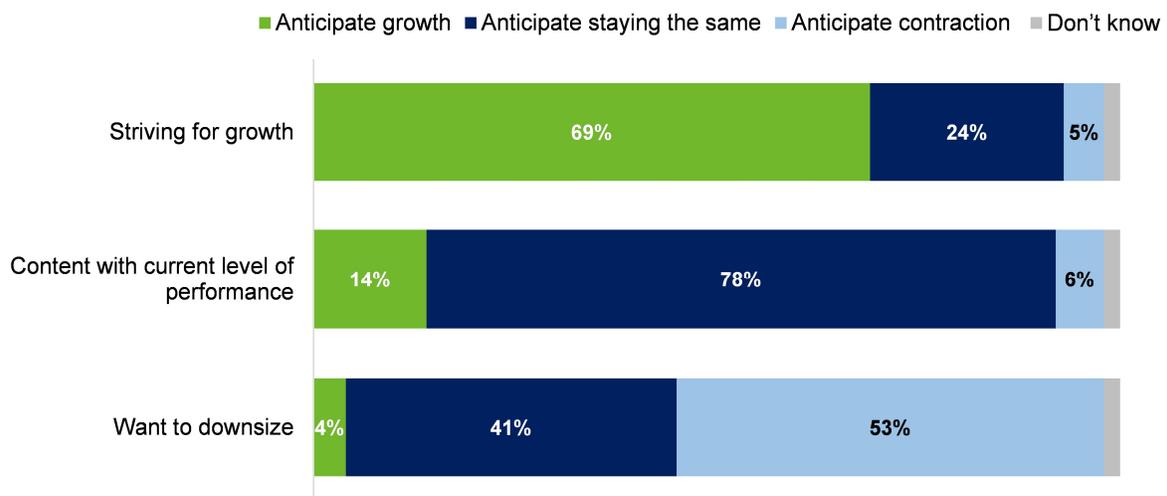
International businesses (48%) and those trading outside Scotland but within the UK (48%) were more likely than domestic businesses (39%) to anticipate growth.

HIE-account managed businesses were more likely than non-account managed businesses to anticipate growth (79% compared with 40% respectively). Non-account managed businesses were more likely than HIE-account managed to anticipate either remaining the same (46% compared with 19%) or contracting (11% compared with 1%).

Most businesses striving for growth also anticipated growth in the next year or two (69%), while most that were content with their current level of performance anticipated stability (78%). Among those that wanted to downsize, 41% anticipated stability and 53% anticipated a contraction.

**Figure 3.3: Growth aspirations by expectations for growth**

***Aspirations for growth vs expectations for growth***



Base: All businesses

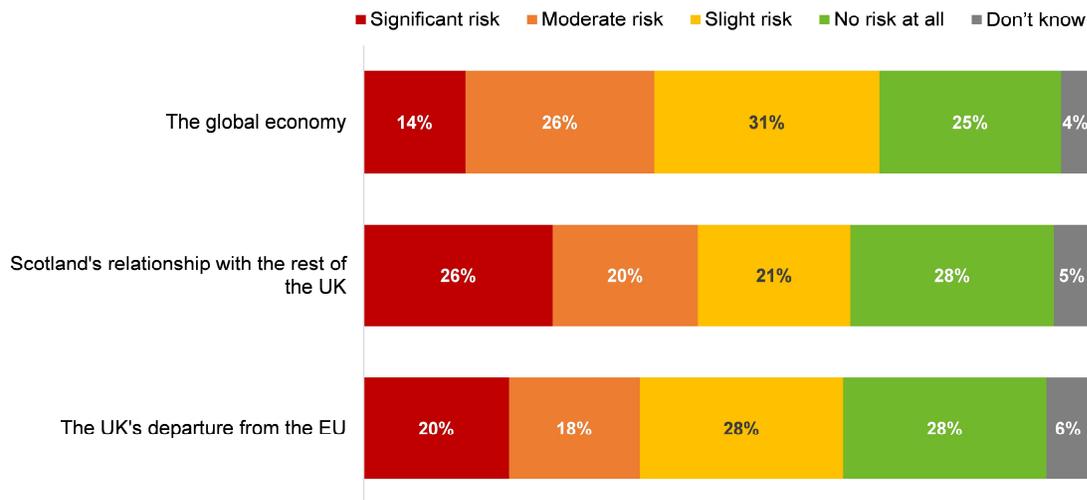
**RISKS ASSOCIATED WITH POLITICAL AND ECONOMIC UNCERTAINTY**

Businesses were asked about the perceived level of risk associated with three aspects of political and economic uncertainty: the UK's departure from the EU, Scotland's relationship with the rest of the UK, and the global economy.

Around nine in ten businesses (89%) felt that at least one of these aspects posed some degree of risk; 71% in relation to the global economy, 67% in relation to Scotland's relationship with the rest of the UK, and 66% in relation to the UK's departure from the EU. A quarter (26%) felt that Scotland's relationship with the rest of the UK posed a *significant* risk, compared with 20% for the UK's departure from the EU and 14% for the global economy (Figure 3.5).

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

***Q. I am going to read you out a number of factors related to political and economic uncertainty and would like you to tell me if they present a significant risk, moderate risk, slightly risk, or no risk at all to your business?***



Base: All businesses

Small businesses (0-4 employees) were more likely than average to see *significant* risk from uncertainty surrounding Scotland's relationship with the rest of the UK (29% compared with 26% overall, with 66% seeing at least some level of risk). Similarly, small businesses were more likely to perceive *significant* risk from the UK's departure from the EU (23% compared with 20%, with 63% seeing at least some level of risk).

Food and drink businesses were more likely than average to view uncertainty around Scotland's relationship with the rest of the UK as a risk (74% vs 67% overall) and specifically as a *significant* risk (35% vs 26%). They were also more likely to see the UK's departure from the EU as a risk (74% vs 66% overall) and a *significant* risk (28% vs 20%). Financial and business services businesses, on the other hand, were more likely than average to see *no risk at all* from uncertainty about Scotland's relationship with the rest of the UK (40% vs 28%), the UK's departure from the EU (37% vs 28%), or the global economy (36% vs 25%).

International businesses were more likely than average to perceive risks from uncertainty about the global economy (77% compared with 71% overall) and the UK's departure from the EU (73% compared with 66%).

## 4. MARKETS OF OPERATION

### KEY MESSAGES:

The vast majority of businesses sold goods or services within Scotland (98%), while just under half (47%) sold outside Scotland but within the rest of the UK. Around a third (31%) of businesses sold internationally; 29% within the EU and 24% outside of the EU.

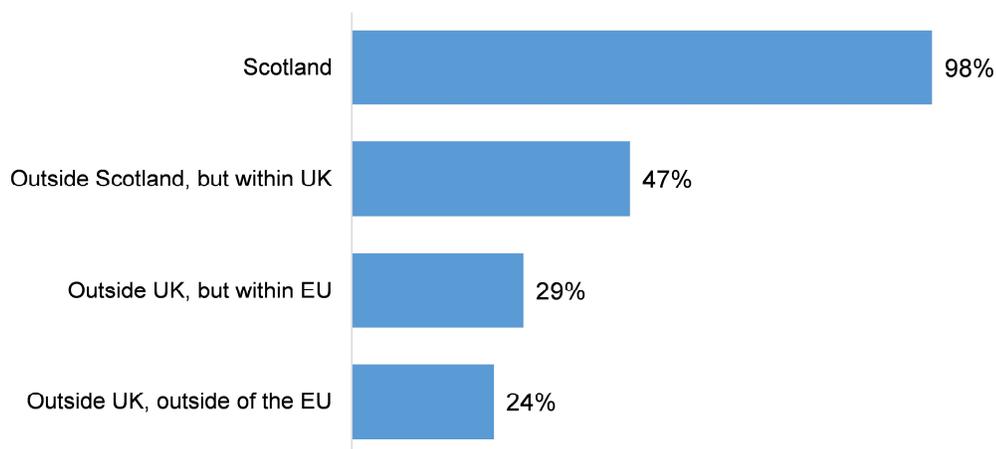
Most businesses sourced equipment or materials from within Scotland (92%), while three quarters (73%) did so from outside Scotland but within the UK. Four in ten businesses (40%) imported from outside of the UK; 36% from within the EU and 20% from outside of the EU.

### MARKETS SOLD TO

The vast majority of businesses sold goods or services within Scotland (98%), while 51% *only* sold in Scotland and not in other markets (these are referred to as 'domestic businesses'). Just under half (47%) sold outside Scotland but within the rest of the UK (referred to as 'rUK businesses'). Around a third (31%) of businesses sold goods or services outside of the UK (referred to as 'international businesses'); 29% within the EU and 24% outside of the EU (Figure 4.1). These proportions were similar to those seen in the previous wave.

**Figure 4.1: Markets sold to**

**Q. In which of these market does your business currently sell goods or services?**



Base: All businesses

The characteristics of businesses operating in each market reflected the patterns seen in recent waves:

- Domestic businesses were more likely to be:
  - smaller businesses with 0-4 (52%) or 5-10 (59%) employees, than larger businesses with 11-24 (45%) or 25+ employees (34%)

- non-account managed (54%) businesses than HIE account-managed businesses (18%).
- rUK businesses, were higher than average (47%) among:
  - larger businesses with 25+ employees (62%)
  - tourism (63%) and creative industries (60%) businesses
  - HIE account-managed businesses (77%).
- International businesses were also higher than average (31%) among:
  - larger businesses with 25+ employees (50%)
  - tourism (55%) and creative industries (52%) businesses
  - HIE account-managed businesses (64%).

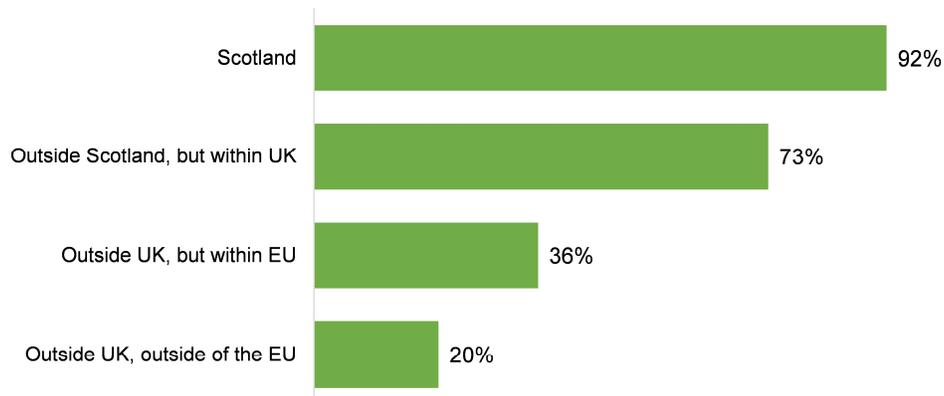
Those selling within the EU and outside the EU had similar characteristics as outlined above in relation international business: they were both more likely to be large businesses (25+ employees), in the tourism or creative industries sectors, and HIE account-managed.

### MARKETS IMPORTED FROM

Most businesses sourced equipment or materials from within Scotland (92%), while three quarters (73%) did so from outside Scotland but within the UK. Four in ten (40%) of businesses imported from outside of the UK (these are later referred to as 'importers'); 36% from within the EU and 20% from outside of the EU (Figure 4.2). These proportions are similar to those seen in the previous wave (when 37% imported from within the EU and 21% from outside the EU).

**Figure 4.2: Markets imported from**

**Q. From which of these markets does your business currently source equipment of materials?**



Base: All businesses

Similar to findings from previous waves, large businesses (25+ staff) were more likely than average to import from outside the UK (70% compared with 40% overall) and to do so from within the EU (65% vs 36% overall) and outside the EU (34% vs 20% overall). Food and drink businesses were also more likely than average to import from countries within the EU (42% vs 36% overall)

HIE account-managed businesses were again more likely than non-account managed businesses to import (72% compared with 37%), both from within the EU (66% vs 33%) and outside the EU (37% vs 18%).

## 5. CHANGES IN BUSINESS ENVIRONMENT

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### KEY MESSAGES:

In the past six months, businesses were more likely to have noticed negative changes than positive changes. The most common negative changes were in the perception of the UK among overseas customers (38%) and among overseas suppliers (31%). Businesses had mixed experiences in relation to customer demand within the UK (20% positive change, 17% negative change) and customer demand outwith the UK (16% positive change, 20% negative change). The majority had not noticed any change to their routes to market (83% no change) or supply chain (77%).

Among those noticing positive changes, the common impact was an increase in sales or turnover (57%), followed by increases in demand from domestic markets (49%), strengthening of their position in existing markets (48%) and strengthening of loyalty among existing customers (43%).

The most common negative impacts were an increase in costs (46%) and a decrease in sales or turnover (42%), followed by current markets being less viable (30%), an increase in delivery lead times (25%) and needing to renegotiate contracts or find new suppliers or distributors (23%).

Businesses reported largely stable levels of employment. Where change was noted, this was largely in relation to UK nationals; 16% said the number employed had increased, while 6% said it had decreased. In relation to non-UK EU nationals, 8% had seen an increase in employees while 6% had seen a decrease.

The most common reasons for staff leaving were finding a better job (21%), a change in personal circumstances (19%) or dissatisfaction with aspects of their job such as tasks, salary or hours (17%). A further 15% said staff had relocated outside of the UK.

### PERCEIVED CHANGES IN THE PAST 6 MONTHS

To help measure the impact of the Brexit process so far, businesses were asked whether they had noticed positive or negative changes in various Brexit-related aspects of their business in the past 6 months. Overall, there was more negative change reported than positive change: 46% had noticed a negative change in at least one of these Brexit-related areas, while 27% had noticed a positive change (with 12% noticing both negative and positive changes). A further 40% reported that there had been no change in any of these areas.

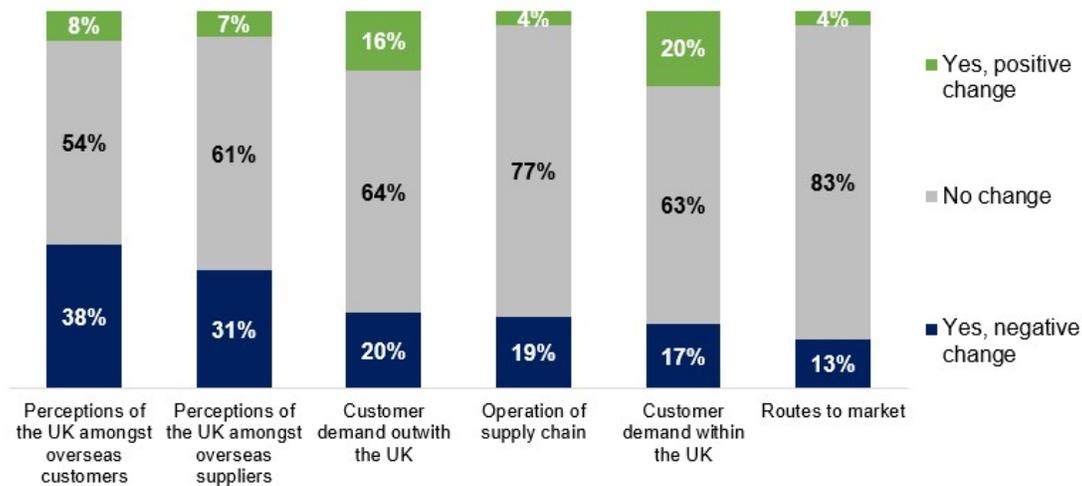
The most commonly reported negative changes were in the perception of the UK among overseas customers (38% noticed a negative change, 8% positive change) and among overseas suppliers (31% negative change, 7% positive change) (Figure 5.1).

Businesses had more mixed experiences in relation to customer demand within the UK (20% noticed a positive change, 17% a negative change) and customer demand outwith the UK (16% positive change, 20% negative change).

The majority of businesses had not noticed any change to their routes to market (83% no change) or supply chain (77%). However, these measures still saw more negative change than positive change: 19% reported a negative change in their supply chain and 13% for routes to market, while each saw 4% reporting positive changes.

**Figure 5.1: Perceived changes in the past 6 months**

**Q. Within the last 6 months, that is since August 2019, have you seen changes in the following...?**



*Base: All businesses for whom each applied*

There was little variation by size of business. However, businesses with 11-24 employees were more likely than average to notice a negative impact on their routes to market (21% compared with 13% overall).

Food and drink businesses were more likely than average to have seen a positive change in customer demand outwith the UK (22% compared with 16%). Creative industries businesses, on the other hand, were more likely to have seen a negative change in customer demand *within* the UK (29% compared to 17% overall). Those in the financial and business services sector, meanwhile, were more likely to have seen negative changes in the perception of the UK among overseas suppliers (46% compared to 31% overall).

Businesses in Orkney were more likely than average to have seen a positive change in perceptions of the UK among overseas customers (18% compared to 8% overall) and overseas suppliers (15% compared to 7% overall). Businesses in the Inner Moray Firth were more likely to say they had seen a positive change in their routes to market (7% compared to 4%), whereas businesses in the Outer Hebrides were more likely to have seen a negative change (23% compared to 13% overall).

Businesses who did not feel optimistic about their business prospects in the next year and those whose confidence in the economy had decreased were more likely than average to report having noticed negative changes in all measures.

International businesses were more likely than domestic businesses to have noted a negative change in perceptions of the UK among overseas suppliers (40% vs 27%) and overseas customers (44% vs 35%) and in customer demand outwith the UK (24% vs 14%).

Businesses who imported from outside the UK but within the EU were more likely than average to have noticed a negative change in perceptions of the UK among overseas customers (48% vs 38% overall) and suppliers (39% vs 31%) as well in the operation of their supply chain (33% vs 19%).

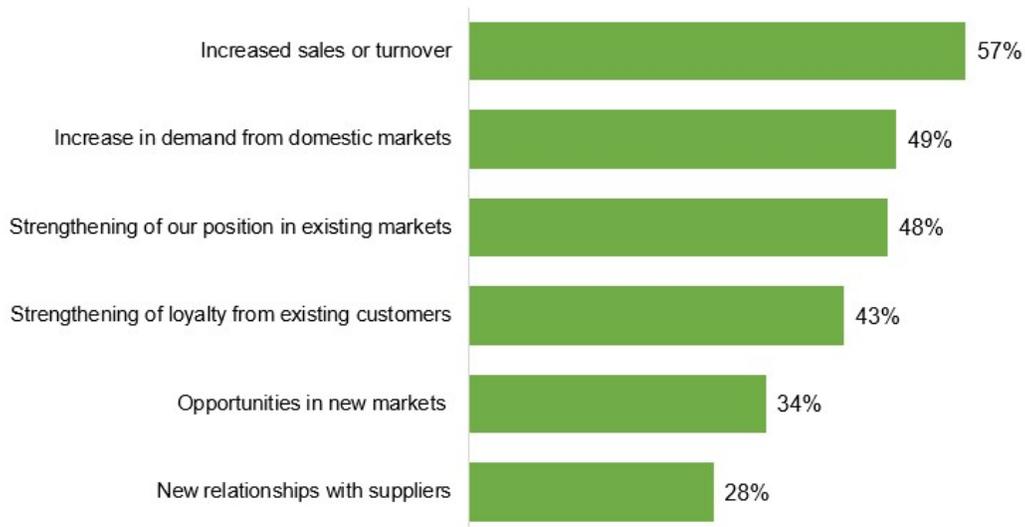
Similarly, businesses who imported from *outside* the EU were also more likely than average to have noticed a negative change perceptions of the UK among overseas customers (46% vs 38% overall) and suppliers (37% vs 31%) and in the operation of their supply chain (39% vs 19%).

### POSITIVE IMPACTS OF CHANGES IN THE PAST 6 MONTHS

Among those noticing positive changes in the past six months, the most common impact of those changes was an increase in sales or turnover (57%). This was followed by increases in demand from domestic markets (49%), strengthening of their position in existing markets (48%) and strengthening of loyalty among existing customers (43%). Fewer had seen opportunities in new markets (34%) and new relationships with suppliers (28%) (Figure 5.2).

**Figure 5.2: Perceived positive changes in the past 6 months**

**Q. You said you had noticed some positive changes in the past 6 months. What impacts, if any, are these changes having on your business?**



*Base: All businesses that have seen positive change (261)*

There was little variation by types of business, with the exception of those with 5-10 employees who were more likely than average to have seen an increase in sales or turnover (76% compared to 57% overall).

Businesses whose economic optimism had increased in the past 6 months were more likely to report increased sales or turnover (72% compared to 57% overall) as well as a strengthening of their position in existing markets (62% compared to 48% overall). A similar pattern was seen among businesses who had performed well in the last 12 months; 70% had seen increased sales or turnover and 57% a strengthening of their position in existing markets.

## NEGATIVE IMPACTS OF CHANGES IN THE PAST 6 MONTHS

Among those experiencing negative changes, the two most common impacts were an increase in costs (46%) and a decrease in sales or turnover (42%). Just under a third (30%) said their current markets were less viable, a quarter (25%) had seen an increase in delivery lead times and around a fifth (23%) had to renegotiate contracts or find new suppliers or distributors. Less common impacts included difficulties fulfilling orders (14%) and a decrease in hours of operations (7%) (Figure 5.3).

**Figure 5.3: Perceived negative changes in the past 6 months**

**Q. You said you had noticed some negative changes in the past 6 months. What impacts, if any, are these changes having on your business?**



*Base: All businesses that have seen negative change (458)*

Small businesses (0-4 employees) were more likely than average to report a decrease in sales or turnover (46% compared to 42% overall). However, they were less likely to have experienced increased delivery times (21% vs 25%), a need to renegotiate contracts or find new suppliers or distributors (19% vs 23%), or difficulties fulfilling orders (10% vs 14%). Businesses with 5-10 employees were more likely than average to need to renegotiate contracts or find new suppliers or distributors (34% vs 23%).

There was little sectoral variation, although tourism businesses were less likely to report current markets being less viable (19% compared to 30% overall).

Businesses selling goods and services outside the UK but within the EU were more likely than average to say current markets were less viable (36% compared with 30%), and the need to renegotiate contracts or find new suppliers or distributors (28% compared with 23%).

Those importing from within the EU were more likely to have seen increases in costs (51% compared with 46% overall), increase in delivery lead times (31% vs 25%), and the need to renegotiate contracts or find new suppliers or distributors (30% compared with 23%).

Businesses who had seen a drop in economic optimism over the past 6 months, those who had struggled in the past 12 months and those who were pessimistic about future business prospects were more likely to have experienced increases in costs, a reduction in sales or turnover, and current markets being less viable.

## CHANGES IN WORKFORCE

### Change in number of employees

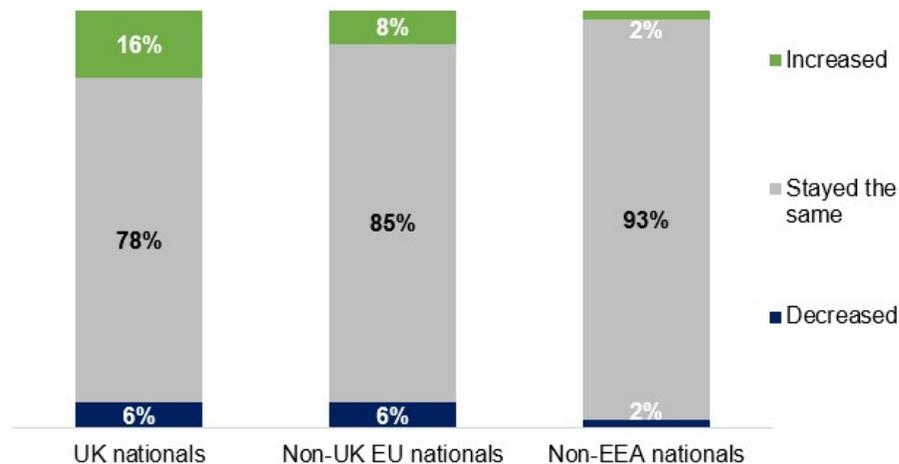
Of the 81% of businesses that employed staff, 18% employed non-UK EU nationals. Employment of non-UK EU nationals was higher than average among large businesses with 25+ employees (58% employed non-UK EU nationals), the tourism sector (26%), those in the Inner Moray Firth (28%) and HIE-account managed businesses (39%).

Businesses were asked whether they had experienced an increase or decrease in the number of UK nationals, non-UK EU nationals and non-EEA nationals they employed. Overall, employment of all three groups appeared largely stable; 93% said the number of non-EEA nationals had stayed the same, 85% in relation to non-UK EU nationals, and 78% in relation to UK nationals (Figure 5.4). This echoes businesses views on overall employment levels in the last three months shown in Table A.2 (76% said employment levels had remained the same, 15% said they had increased and 9% said they had decreased).

Where change was noted, this was largely in relation to UK nationals; 16% said the number employed had increased, while 6% said it had decreased. In relation to non-UK EU nationals, 8% had seen an increase in employees while 6% had seen a decrease. There was least movement in relation to non-UK EEA nationals, with equal levels of reported increase (2%) and decrease (2%) in number of employees.

**Figure 5.4: Changes in employment in the past 12 months**

**Q. Within the last 12 months, has the number of...employed in your company increased, decreased or stayed the same?**



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

Larger businesses (25+ employees) were more likely than average to report a rise in employees from the UK (35% vs 16% overall). They were also more likely than average to see changes in their number of non-UK EU employees, with 21% reporting an increase (compared to 8% overall), and 13% reporting a decrease (13% vs 6% overall).

Businesses in Moray were more likely than average to report an increase in UK nationals (33% vs 16% overall), whereas businesses in Argyll and the Islands were more likely to report a decrease (10% vs 6%). Businesses in the Inner Moray Firth were more likely to report an increase in non-UK EU nationals (15% vs 8% overall), while businesses in Lochaber, Skye and Wester Ross were more likely to report a decrease (13% vs 6%). There was no regional variation concerning non-UK EEA nationals.

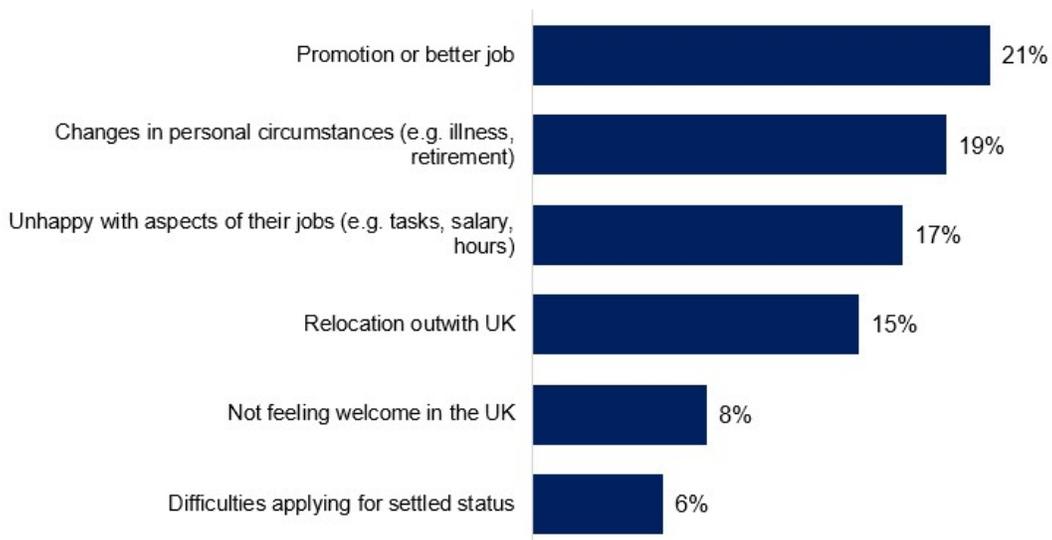
HIE-account managed businesses were more likely than non-account managed businesses to report an increase in UK employees (27% vs 14%), but also more likely to report a *decrease* in non-UK EU employees (12% vs 8%). There was little sectoral variation in employment.

### Reasons for staff leaving

The most common reasons for staff leaving were promotion or finding a better job (21%), a change in personal circumstances (19%) or dissatisfaction with aspects of their job such as tasks, salary or hours (17%). A further 15% said staff had relocated outside of the UK. External factors also had some impact on staff retention, with 8% saying staff left as a result of feeling unwelcome in the UK and 6% cited problems with applying for settled status. (Figure 5.5).

**Figure 5.5: Main reasons for staff leaving**

**Q. As far as you are aware, what are the main reasons staff have given for leaving your company?**



*Base: All business who have lost staff in the last year (81)*

There was little variation in reasons for staff leaving between different types of business. However, businesses who had performed well in the past 12 months were less likely to lose staff due to unhappiness with aspects of the job, such as salary or hours (8% vs 17% overall).

## 6. PREPARING FOR BREXIT

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### KEY MESSAGES:

Businesses were generally confident in their ability to respond to impacts of Brexit, though this position varied depending on the impacts in question. A majority were confident in their ability to continue operating in their current markets (87% very/fairly confident), manage cash flow (81%) respond to changes in customer demand (77%), and meet regulatory requirements for their product or service (75%).

Confidence was lower in relation to responding to changes in supply chains (66% confident, 17% not confident), accessing staff with the skills needed (60% confident, 26% not confident), and accessing new markets (60% confident, 25% not confident). The area of least certainty was in relation to changes to customs procedures: 46% were confident and 15% were not confident, while 38% felt it was too soon to say.

Just over half (55%) of businesses were aware of the Prepare for Brexit website. A third (32%) had used the website, while 26% had not but planned to in future, and 42% had not and did not plan to.

### CONFIDENCE IN ABILITY TO RESPOND TO IMPACTS OF BREXIT

Businesses were generally confident in their ability to respond to impacts of Brexit, though this position varied depending on the impacts in question.

A majority were confident in their ability to continue operating in their current markets (87% confident, 7% not confident), manage cash flow (81% confident, 11% not confident) respond to changes in customer demand (77% confident, 12% not confident), and meet regulatory requirements for their product or service (75% confident, 9% not confident) (Figure 6.1).

Confidence was lower in relation to responding to changes in supply chains (66% confident, 17% not confident), and lower still in relation to accessing new markets (60% confident, 25% not confident) and accessing staff with the skills needed (60% confident, 26% not confident). Confidence in ability to access staff was slightly lower than that seen in June/July 2019, when 65% were confident they could access staff with the skills needed in the next 12 months, while 34% were not confident<sup>4</sup>.

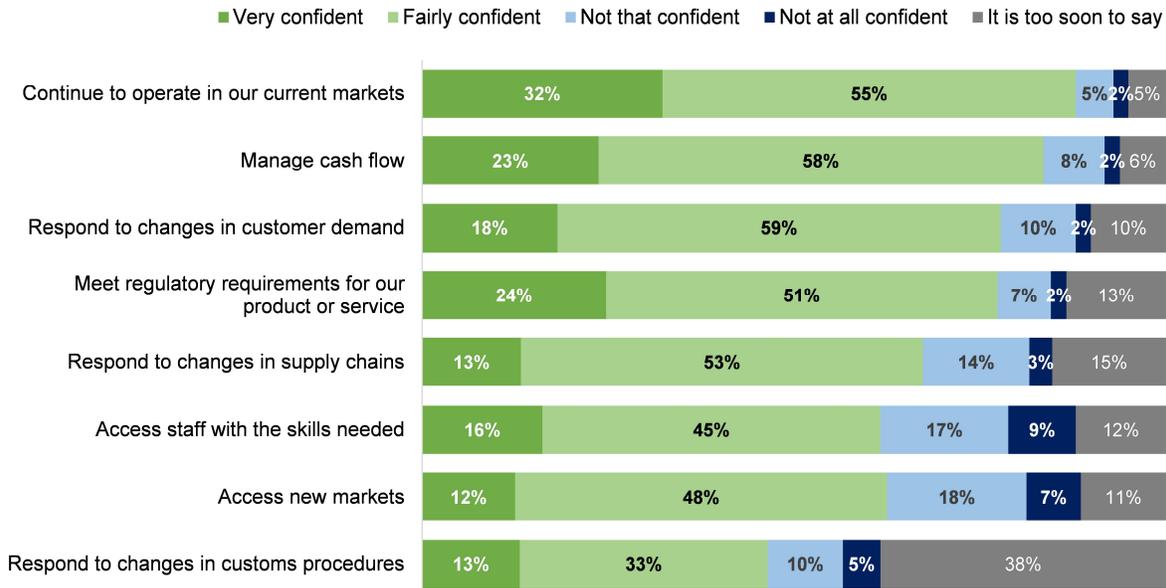
The area of least certainty was in relation to changes to customs procedures: 46% were confident and 15% were not confident, while 38% felt it was too soon to say.

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<sup>4</sup> Note, however, that the question wording used in these two waves on this topic was different and therefore findings are not directly comparable.

**Figure 6.1: Confidence in ability to respond to Brexit impacts**

**Q. Thinking about the potential changes or impacts that Brexit may have on business. How confident do you feel about your ability to....?**



Base: All businesses

Confidence varied somewhat by size of business and sector, with small businesses and those in the food and drink sector tending to show lower levels of confidence.

Large businesses (25+ staff) were more confident than average about their ability to respond to changes in customs procedures (66% very/fairly confident compared with 46% overall). Small businesses (0-4 staff), on the other hand, were more likely to *not* feel confident about their ability to: respond to changes in customs procedures (19% not very/not at all confident compared with 15% overall), respond to changes in supply chain (20% vs 17%), or meet regulatory requirements for their product or service (12% vs 9%).

Over a third (37%) of employers of non-UK EU nationals said they were *not* confident in their ability to access staff with the skills needed, higher than the average of 26%.

Food and drink businesses had lower than average confidence in their ability to: respond to change in customs procedures (21% not very/not at all confident compared with 15% overall), manage cash flow (15% vs 11%), meet regulatory requirements for their product or service (14% vs 9%), or continue to operate in their current markets (11% vs 7%). Tourism businesses, meanwhile, had lower than average confidence in their ability to access staff with skills needed (39% not very/not at all confident compared with 26% overall).

Attitudes towards impacts of Brexit did not vary significantly by markets of operation, or countries from which businesses imported goods and services (Table A.8. and A.9 see appendix). However, domestic businesses (89%) were more confident than those selling to the EU (85%) and outside the EU (84%) about their ability to continue operating in current markets. In contrast, those trading internationally were more confident than domestic businesses about their ability access new markets: 62% of those selling within the EU and 68% of those selling outside the EU were confident, compared with 58% of domestic businesses.

Finally, for each of the potential impacts, levels of confidence were lower among those whose economic optimism had decreased in the past six months, those who had struggled in the past 12 months, and those who expected to downsize.

### **PREPARE FOR BREXIT WEBSITE**

Just over half (55%) of businesses were aware of the Prepare for Brexit website ([www.prepareforbrexit.scot](http://www.prepareforbrexit.scot)). Awareness was higher than average among HIE-account managed businesses (80%) and those with 5-10 employees (70%). Otherwise, awareness levels were broadly similar between different types of business.

A third of businesses (32%) had used the website, while 26% had not but planned to in future, and 42% had not and did not plan to. Use of the website was higher than average among HIE-account managed (54%) and food and drink businesses (40%). Otherwise, usage and non-usage were broadly similar between different types of business

## 7. SUMMARY

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**Confidence in the economy remained low but showed some signs of improvement compared with the most recent survey waves. Businesses remained generally positive about their own performance and future prospects.**

This survey wave took place following the 2019 UK General Election and confirmation that UK would be departing from the EU at the end of 2020. Against this backdrop, economic optimism remained low, with 34% saying their confidence in the economic outlook had decreased over the last six months, 57% saying it stayed the same and 7% saying it had increased. Though confidence was low, it showed signs of improvement from the previous wave, which saw the lowest level of economic optimism ever recorded in the survey.

Businesses remained positive about their own performance (37% said they had performed well, 44% had been fairly steady and 18% had struggled in the last 12 months). Optimism regarding business prospects also remained in line with the previous wave, with 75% feeling optimistic and 23% not.

In contrast to previous waves, tourism businesses were more likely to report decreased confidence in the economy. However, they remained more likely than average to have performed well and to feel optimistic for their own prospects. Food and drink businesses, meanwhile, showed signs of improved performance; while in previous waves they were more likely to have struggled, this wave their performance was in line with the average. However, they still had lower than average optimism for their business prospects.

**Businesses continued to show growth aspirations and expectations, including those who were trading internationally. However, most felt that political and economic uncertainty posed a risk to their future, with Scotland's relationship with the rest of the UK seen as a particularly significant risk.**

Growth aspirations and expectations remained unchanged from the previous wave. Just over half (55%) of businesses aspired to grow, while 35% were content with their current level of performance and 10% wanted to downsize. In terms of expected growth, 43% of businesses anticipated growth, while 44% anticipated stability and 10% expected to contract.

Around nine in ten businesses felt that political and economic uncertainty posed a risk to the future of their business; 71% in relation to the global economy, 67% in relation to Scotland's relationship with the rest of the UK, and 66% in relation to the UK's departure from the EU. A quarter (26%) felt that Scotland's relationship with the rest of the UK posed a significant risk, compared with 20% for the UK's departure from the EU and 14% for the global economy.

**Trade with, and imports from, countries outside of the UK remained at similar levels to that seen in the previous wave.**

The vast majority of businesses sold goods or services within Scotland (98%), while just under half (47%) sold outside Scotland but within the rest of the UK. Around a third (31%) of businesses sold internationally; 29% within the EU and 24% outside of the EU.

Most businesses sourced equipment or materials from within Scotland (92%), while three quarters (73%) did so from outside Scotland but within the UK. Four in ten businesses (40%) imported from outside of the UK; 36% from within the EU and 20% from

**Businesses were more likely to have noticed negative changes than positive changes in the past six months, particularly in terms of the perception of the UK overseas. Employment levels had remained fairly constant, including the number of non-UK EU nationals employed.**

The most common negative changes in the past six months were in the perception of the UK among overseas customers (38%) and among overseas suppliers (31%). Businesses had mixed experiences in relation to customer demand within the UK, and customer demand outwith the UK, while the majority had not noticed any change to their routes to market or supply chain.

Positive impacts of recent changes included an increase in sales or turnover (57%), increases in demand from domestic markets (49%), strengthening of their position in existing markets (48%) and strengthening of loyalty among existing customers (43%). Negative impacts included an increase in costs (46%) and a decrease in sales or turnover (42%), followed by current markets being less viable (30%), an increase in delivery lead times (25%) and needing to renegotiate contracts or find new suppliers or distributors (23%).

Businesses reported largely stable levels of employment. Where change was noted, this was largely in relation to UK nationals (16% increased, 6% decreased). In relation to non-UK EU nationals, 8% had seen an increase in employees while 6% had seen a decrease.

The most common reasons for staff leaving were finding a better job (21%), a change in personal circumstances (19%) or dissatisfaction with aspects of their day to day work, such as tasks or hours (17%). A further 15% said staff had relocated outside of the UK.

**Businesses were generally confident in their ability to respond to impacts of Brexit, though this position varied depending on the impacts in question.**

A majority were confident in their ability to continue operating in their current markets (87% confident), manage cash flow (81%) respond to changes in customer demand (77%), and meet regulatory requirements for their product or service (75%).

Confidence was lower in relation to responding to changes in supply chains (66% confident, 17% not confident), accessing staff with the skills needed (60% confident, 26% not confident), and accessing new markets (60% confident, 25% not confident). The area of least certainty was in relation to changes to customs procedures: 46% were confident and 15% were not confident, while 38% felt it was too soon to say.

Just over half (55%) of businesses were aware of the Prepare for Brexit website. A third (32%) had used the website, while 26% had not but planned to in future, and 42% had not and did not plan to.

## 8. APPENDIX

### BUSINESS PERFORMANCE

**Table A.1: Business performance by growth sector<sup>5</sup>**

	Performed exceptionally well	Performed quite well	Been fairly steady	Struggled slightly	Struggled markedly	Don't know	Base
	%	%	%	%	%	%	N
<b>Overall</b>	<b>8</b>	<b>29</b>	<b>44</b>	<b>14</b>	<b>4</b>	<b>*</b>	<b>1002</b>
Tourism	17	32	34	9	6	2	131
Financial and business services	7	35	44	9	4	2	92
Non-growth sector	6	31	43	15	4	*	502
Food and drink	7	23	50	16	4	-	203
Creative industries	4	25	52	15	4	-	48
Energy	4	4	9	3	1	-	22
Life sciences	-	1	1	-	-	-	2
<i>Base: All businesses in each sector</i>							

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

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	N
Sales or turnover	34	21	43	2	983
Working hours	18	8	74	1	994
Staff training	22	5	73	*	826
Exports	19	17	58	6	232
Profit margins	24	26	46	4	969
Employment	15	9	76	*	910
<i>Base: All businesses saying each aspect applied to them</i>					

<sup>5</sup> As the base size for Energy and Life Sciences is less than 30, the number of responses (rather than percentages) are shown. As number of responses have been weighted, the base size shown for these sectors are the weighted, rather than unweighted, base.

**Table A.3: Overall assessments of business performance by growth sector<sup>6</sup>**

Growth Sector <sup>7</sup>	Assessment of business performance (mean score)	Base
Financial and business services	0.6	92
Food and drink	0.6	203
Non-growth sector	0.3	502
Tourism	0.2	131
Creative industries	0.1	48
Life Sciences	3.5	2
Energy	0.8	24

**Table A.4: Overall assessments of business performance by location<sup>8</sup>**

Location	Assessment of business performance (mean score)	Base
Inner Moray Firth	0.7	243
Moray	0.7	85
Outer Hebrides	0.6	82
Argyll and the Islands	0.3	206
Lochaber, Skye and Wester Ross	0.3	126
Orkney	0.3	91
Shetland	0.2	64
Caithness and Sutherland	0.1	86

**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	0.2	577
5-10 staff	0.5	188
11-24 staff	0.9	131
25+ staff	0.9	86

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<sup>6</sup> Please note the small base sizes for Life Sciences and Energy.

<sup>7</sup> 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.

<sup>8</sup> 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	48	50	2	-	-	79
Stayed the same	13	72	11	2	3	559
Decreased	7	46	33	11	3	350

**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	25	64	6	3	3	380
Been fairly steady	7	69	18	3	3	428
Struggled slightly/markedly	6	36	43	13	2	188

## PREPARING FOR BREXIT

**Table A.8: Confidence in ability to respond to Brexit impacts, by markets of operation**

	Domestic		Rest of UK		EU		Outside EU	
	Confident	Not confident	Confident	Not confident	Confident	Not confident	Confident	Not confident
Respond to changes in customs procedures	47	13	46	17	49	18	55	15
Access staff with the skills needed	63	23	58	29	55	34	58	28
Respond to changes in customer demand	76	11	78	12	80	13	79	11
Respond to changes in supply chain	63	18	69	16	73	17	71	16
Meet regulatory requirements for our product or service	75	10	75	8	80	7	79	7
Continue to operate in our current markets	89	6	86	7	85	9	84	10
Access new markets	58	27	62	24	62	22	68	20
Manage cash flow	80	11	82	10	82	10	84	7

*Base: All to whom each impact applied*

**Table A.9: Confidence in ability to respond to Brexit impacts, by markets imported from**

	All importers		Importers from EU		Importers from outside EU	
	Confident	Not confident	Confident	Not confident	Confident	Not confident
Respond to changes in customs procedures	44	17	46	17	46	13
Access staff with the skills needed	57	32	56	22	58	34
Respond to changes in customer demand	80	9	80	9	82	8
Respond to changes in supply chain	65	17	66	18	68	15
Meet regulatory requirements for our product or service	75	7	78	7	70	8
Continue to operate in our current markets	87	7	87	7	88	7
Access new markets	57	28	56	30	63	22
Manage cash flow	81	12	81	12	81	12
<i>Base: All to whom each applied</i>						



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