

HIE BUSINESS PANEL

Wave 25: May/June 2023



EXECUTIVE SUMMARY (1)

Overview

This report presents findings from the most recent wave of the Highlands and Islands Enterprise business panel survey carried out in May and June 2023.

In spite of challenging economic circumstances, this wave saw business confidence in the economy increase and reach the highest level seen since February/March 2022.

Business performance was mixed, but slightly improved on the previous wave. Most said they had either performed well or had been fairly steady, although around a quarter were struggling. While sales or turnover performance was also fairly mixed, this did not always translate into profit - businesses were more likely to report a decrease in profit margins than an increase.

Certain sectors performed differently to others, with accommodation and food services being more likely to say they had struggled in the past six months. Findings suggest this was due to a downturn in their profit margins in particular.

Overall, businesses had a positive outlook about their future. For the next six months, most expected to either sustain or improve their level of performance. However, more than one-in-ten businesses said they would be unable to survive more than three months on their current cash reserves, while a further one-in-ten had no cash reserves at all.

As seen in previous waves, the top financial concern for businesses was high and increasing costs. Other key financial concerns included reduced profit margins, cash flow, having to charge higher prices, and being unable to invest in the business.

Most businesses were taking action to improve their productivity and competitive position, and to ensure they had access to the skills and resources they needed. However, this varied, with smaller businesses and construction businesses less likely to be taking any action.

Automation was not being used widely by businesses in the region. Fewer than a third were using it, and most of the remaining businesses said they were unlikely to use it in future.

Among businesses that were using, or wanted to use, automation, most saw it as essential or important to their future and it was clear that steps were being taken to support its use. These tended to involve planning, training, or exploring how best to use automation, but there was also evidence of investment in hardware, machinery and equipment.

Automation was being used in a range of business areas, but mostly for finance and accounting, administration and IT. Other specific uses including generating website or social media content, targeted marketing, and production of reports.

Perceived benefits of automation were that it could make processes more efficient, support innovation, and reduce costs. Its ability to free up staff to better use their skills and to help alleviate staff shortages was also recognised. There were concerns, including among those already using automation. These centred around cyber security risks, compliance with and lack of regulation.

In addition to the cost of implementation, key barriers to the use of automation included understanding its application and access to expertise, technology, advice and support and training. Lack of digital technology was a more significant barrier for those in remote rural areas.

EXECUTIVE SUMMARY (2)

Business structure

- **Among employers, two thirds (66%) described themselves as family-owned**, while 7% were employee-owned (with employees owning a majority of the shares). More than one-in-ten (12%) businesses were women-led, and 6% described themselves as a social enterprise. This was similar to the previous wave (February/March 2023).

Markets of operation

- **Almost four-in-five (79%) businesses were importers** (sourcing goods from outside Scotland), with 77% importing from the rest of the UK and 33% from outside the UK. The majority of businesses (94%) sourced goods and materials from Scotland, with 19% sourcing *only* from Scotland.
- While the proportion of importers was similar to the last survey wave, **the proportion importing from outside the UK remained lower than in June/July 2021** (39% compared to 33%).
- **Just under half (47%) of businesses were exporters** (selling to markets outside Scotland), with 46% selling to the rest of the UK and 25% internationally. The majority (92%) of businesses sold goods or services within Scotland, with 46% selling *only* in Scotland.
- The proportion of exporters decreased slightly compared with the previous wave (47% down from 50%) and **remained lower than the level seen in June/July 2021 (62%)**.

Optimism and performance

- **Confidence in the economic outlook for Scotland increased this wave**: 55% of businesses were confident (compared to 50% in February/March 2023), while 43% were not (compared with 48%). Confidence was at the highest level seen since February/March 2022.
- **Reflecting on the past six months, 38% said their confidence had decreased, 9% said it had increased, and 52% said it had stayed the same**. Economic confidence was higher than the previous three waves and similar to levels seen in February/March 2022.
- **Views on business performance over the last six months were mixed** although improvements were noted since the previous survey wave in February/March 2023. A third (33%) said their business had performed well, 43% said their performance had been fairly steady and 24% had struggled.
- **Over the past six months, sales or turnover performance was mixed** (34% said it had increased, 20% decreased, and 45% remained the same). Businesses had performed better on sales or turnover than on profit (17% said profit margins had increased, 37% decreased, and 43% remained the same).
- **Employment and exports had remained relatively stable** (71% and 64% respectively said these had stayed the same over the past six months).
- **Looking ahead to the next six months, 71% of businesses expected to perform at much the same level as they were**, while 18% expected to perform better and 9% expected a decline in performance.

EXECUTIVE SUMMARY (3)

Financial outlook

- **The majority of businesses (92%) were concerned about their finances.** The most significant concerns were high and increasing costs (82%), having to charge higher prices (66%), and lower or no profit margins (53%).
- Those that were **most concerned about finances** (i.e. concerned about at least one of the factors listed) were: arts and entertainment (99%) and accommodation and food services (97%) businesses; the tourism sector more broadly (97%); those that had struggled in the past six months (99%); and those with no cash reserves (99%).
- Those that were **least concerned about finances** (i.e. not concerned about any of the factors listed) were: IT, finance and real estate (14%) and professional, scientific and technical (13%) businesses; the financial and business services growth sector as a whole (18%); those that had performed well (13%); and those that could continue operating on their existing cash reserves for more than 12 months (11%).
- **Assuming they had no additional funding, just under a third of businesses (31%) said they could operate on their cash reserves for up to six months** (2% for no more than a month, 12% for up to three months and 17% between three and six months). Just over half (53%) could continue operating for more than six months. One-in-ten (9%) businesses had no cash reserves.
- Businesses **least able to survive on their cash reserves** (i.e. those who could operate for no more than three months or had no cash reserves) were more likely to be: in the wholesale and retail, construction, and professional, scientific and technical sectors; women-led businesses; and had struggled in the past six months.

Adapting to change

- **Most (89%) businesses were taking actions to improve their productivity and competitive position.** This typically included introducing more efficient working practices (58%), adapting products or services (49%), adopting new technologies (47%), investing in premises or equipment (46%) and collaborating with other businesses (45%).
- **The majority of businesses (79%) were taking action to ensure they had access to the skills and resources they needed.** Of the range of actions being taken, the most common were using independent contractors or freelancers (41%) and encouraging staff to work across different parts of the business (41%). Just under a third (32%) were recruiting staff early in careers and training up.
- **Among employers, 88% were taking additional actions related to their existing workforce.** This included introducing internal training and development (66%), increasing wages (60%) offering flexible working (52%), external, accredited training (41%) and promotion or career progression opportunities (40%).
- The types of business **most likely to be taking workforce-related actions** as outlined above included: arts and entertainment businesses, those with 25+ staff, HIE-client-engaged businesses, those that had performed well in the past six months, and those expecting their performance to improve in the next six months.
- Those **least likely to be taking workforce-related action** included construction businesses and those with 0-4 staff.

EXECUTIVE SUMMARY (4)

Automation

- **Three-in-ten (30%) businesses are already using automation:** 5% described it as integral to their business, 13% used it to an extent and would like to do more, and 11% used it to an extent but did not plan to do more.
- **Seven-in-ten (70%) did not currently use automation:** 52% were familiar with it but did not use it, and 18% said they knew nothing about it. Of those not currently using automation, only 9% said they were likely to do so in future.
- Use of automation was **higher than average** among large businesses (25+ staff), the professional, scientific and technical sector, accommodation and food services businesses, and HIE-client-engaged businesses. Use was also higher than average among those taking action to enhance their productivity and competitive position.
- Automation use was **lower than average** among micro business with 0-4 staff, construction businesses, the transport and storage sector, and non-HIE-client-engaged businesses.
- **Among businesses currently using automation, 89% were taking additional steps to support its use,** most commonly training staff (57%) and investing in hardware, equipment and machinery (56%). Around half were exploring bespoke solutions (51%), creating or updating plans (49%) and developing leadership awareness and understanding (49%).
- **Similarly, among businesses that were likely to start using automation in future, 96% planned to take steps to support this,** including exploring solutions for their specific needs (79%), exploring how best to apply automation (78%) and exploring new hardware, equipment or machinery (76%).
- **For businesses currently using automation, the main areas in which they were using, or intending to use it, were finance and accounting (71%) and information and communications technology (71%).** This was followed by environmental sustainability (58%), sales and marketing (55%) and production of goods and materials (51%).
- **The most common business activities to which automation was being applied, or was likely to be applied, were accounting, finance and administration tasks (57%) and generating website or social media content (51%).** This was followed by targeted marketed or communication to customers (43%), creating reports or documentation (42%), and inventory, stock control and supply chain processes (38%).
- **Among businesses who knew about automation, 72% felt that it offered benefits and 75% had concerns about it.** The main perceived **benefits** were making processes faster or more efficient (55%), innovating and keeping pace with change (52%) and cost savings (50%). The top **concerns** were cyber security risks (56%), compliance with data protection regulation (43%) and lack of regulation (42%).
- **Two thirds (67%) cited barriers to the use of automation,** most commonly the cost of implementation (45%) and understanding of its application (36%). Around three-in-ten cited access to expertise (32%), technology (31%), advice and support (29%) and appropriate training (28%) as barriers. Lack of digital technology was a barrier for 27%.
- **Looking ahead, three-in-ten (30%) businesses felt that automation was either important (21%) or essential (9%) to their future,** rising to 68% amongst those already using/planning to use automation. Two thirds (68%) felt it was not important.

A. INTRODUCTION

INTRODUCTION

Introduction

This report presents findings from wave 25 of the Highlands and Islands Enterprise (HIE) Business Panel survey. The survey fieldwork was conducted between 30 May and 30 June 2023, using a combination of online survey and telephone interviewing. In total 1,014 eligible surveys with businesses and social enterprises across the Highlands and Islands were achieved (917 by telephone, 97 online).

The survey covered a range of topics including: economic optimism, business performance, markets of operation, financial outlook, enhancing productivity and competitive position, responding to labour market and skills challenges, and automation.

Context for this wave

The survey took place against the backdrop of ongoing economic challenges. The cost of living and energy crises continued, with rising mortgage rates widely reported, and ongoing industrial action all contributing to reduced economic output during May. Within this, labour market and skills challenges remained.

May and June also saw frequent reporting and commentary on the use, benefits, and challenges of automation and artificial intelligence (AI).

About the HIE Business Panel Survey

The 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 Scotland 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 and reducing to twice per calendar year from this wave onwards.

Since June 2021, surveys have been carried out in parallel with South of Scotland Enterprise (SOSE), with members of the SOSE Business Panel comprising of businesses in the South of Scotland region (Dumfries and Galloway and the Scottish Borders). Both surveys covered the same questions.*

Two methodological changes were introduced this survey wave. An online element was used for the first time since August 2017, with businesses being offered the chance to complete the survey either online or by telephone interview. In addition, a slight change was made to the sector categories used in the design of the survey sample. In both cases precautions were taken and quality checks carried out to ensure that findings remained as comparable as possible with previous survey waves.

NOTES:

*For more information about the HIE Business Panel Survey, and to view previous reports visit: www.hie.co.uk/businesspanel

*Findings of the SOSE Business Panel Surveys are available at: <https://www.southofscotlandenterprise.com/business-surveys>

METHODOLOGY

Sampling

The survey sample was mainly sourced from businesses that took part in previous waves of the survey and had indicated that they were willing to be re-contacted. Additional HIE panel members and HIE-client-engaged businesses were also approached along with companies identified from the Dun and Bradstreet and Market Location business databases.

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 so that the achieved sample reflected the population of eligible organisations as defined by the Inter-Departmental Business Register (IDBR).

The sectors referenced in the report are derived from a Standard Industry Classification (SIC) 2007 code applied to each business*. The following SIC 2007 Sections were excluded from the sampling:

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

NOTES:

*Full detail of SIC 2007 categories can be found at <https://www.gov.scot/publications/standard-industrial-classification/>

**Definition and details of growth sector categories are available from the Scottish Government at <https://www.gov.scot/publications/growth-sector-statistics/>

This wave, the survey was designed to be reflective of the population based on the SIC 2007 codes. Previous survey waves had been designed to be reflective of the population based on areas of economic activity considered to be “growth sectors” (as set out in the Government Economic Strategy). ** Despite this methodological change to the sample design, the sector profile of the achieved survey sample still remained similar to that seen in previous waves (based on SIC 2007 codes).

To reflect the new sample design, and to maintain comparability with previous waves, in this report businesses are referred to in two ways:

- by the standard sector groupings defined by SIC 2007 code.
- by the growth sector categories used in previous waves.

The types of business covered by each category are shown in the appendix (slide 55).

Fieldwork

Respondents had a choice between completing the survey online or by telephone. The online survey was distributed by e-mail, inviting respondents to complete the questionnaire via a unique link. The remaining surveys were carried out using telephone interviewing.

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.

PRESENTATION AND INTERPRETATION OF THE DATA

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.

The profile of the businesses that took part in the survey covered a range of categories in the Scottish Government's six-fold Urban Rural Classification*. In this report, survey findings have been condensed into three categories: remote rural (category 6), accessible rural (5), and small towns and peripheral urban areas (2 to 4). Throughout, those in small towns and peripheral urban areas are referred to as "urban".

Weighting

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. A breakdown of the achieved profile of businesses is provided in the appendix (slide 56).

NOTES:

*The Scottish Government's six-fold Urban Rural Classification is described on the Scottish website available [here](#).

B. BUSINESS STRUCTURE AND MARKETS OF OPERATION

KEY FINDINGS

- **Among employers, two thirds (66%) described themselves as family-owned**, while 7% were employee-owned (with employees owning a majority of the shares). More than one-in-ten (12%) businesses were women-led, and 6% described themselves as a social enterprise. This was similar to the previous wave (February/March 2023).
- **Almost four-in-five (79%) businesses were importers** (sourcing goods from outside Scotland) with 77% importing from the rest of the UK and 33% from outside the UK. The majority of businesses (94%) sourced goods and materials from Scotland, with 19% sourcing *only* from Scotland.
- While the proportion of importers was similar to the last survey wave, **the proportion of those importing from outside the UK remained lower than in June/July 2021** (39% compared to 33%).
- **Just under half (47%) of businesses were exporters** (selling to markets outside Scotland), with 46% selling to the rest of the UK and 25% internationally. The majority (92%) of businesses sold goods or services within Scotland, with 46% selling *only* in Scotland.
- The proportion of **exporters decreased slightly compared with the previous wave (47% down from 50%) and remained lower than the level seen in June/July 2021 (62%)**.

BUSINESS STRUCTURE

Among employers, two thirds (66%) described themselves as family-owned, while 7% were employee-owned (with employees owning a majority of the shares). More than one-in-ten (12%) businesses were women-led, and 6% described themselves as a social enterprise.

Findings were similar to the previous wave (February/March 2023) when 68% were family-owned, 11% women-led, 6% employee-owned and 4% social enterprises.

More likely to be:

Family-owned

- 1-4 staff (75%).
- Primary industries (84%).
- Accommodation and food services (75%).
- Food and drink growth sector (84%).
- In remote rural areas (71%).

Women-led

- Wholesale and retail (23%).
- Arts and entertainment (22%).

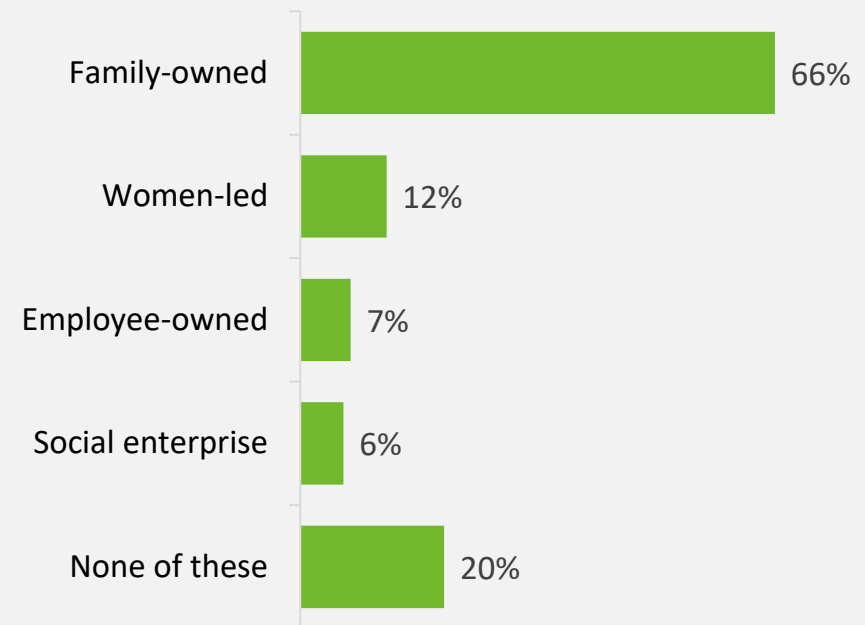
Employee-owned

- Professional, scientific and technical (14%).
- Creative industries growth sector (17%).

Social enterprises

- Arts and entertainment (24%).
- Creative industries growth sector (12%).

Q. Which of the following, if any, describes your business?



Base: For women-led, social enterprise and none of these – all businesses (1,014); for family or employee-owned – all employers (777)

IMPORT MARKETS

79% of businesses were importers*, with 77% importing from the rest of the UK and 33% from outside the UK. The majority of businesses (94%) sourced goods and materials from Scotland, with 19% sourcing *only* from Scotland.

The proportion of those importing from outside the UK was similar to the previous two waves (33% compared with 31% and 33% respectively) but overall this has decreased since June/July 2021 (from 39%). Following a dip in February/March 2023, this wave saw slight increases in the proportion of businesses sourcing goods from Scotland (from 87% to 94%) and from the rest of the UK (from 72% to 77%), which were closer to levels seen in October/November 2022.

The proportion of businesses importing from the rest of the UK was lower in the Highlands and Islands (77%) than in the South of Scotland (83%). Both areas had the same proportion of businesses importing from outside the UK (33%).

Variation (more likely than average to source from each market)

Within Scotland:

- Accommodation and food services (99%).
- Primary industries (97%).
- Food and drink growth sector (97%).
- Tourism growth sector (97%).

Importing overall:

- Manufacturing (90%).
- Wholesale and retail (88%).
- Accommodation and food services (87%).
- Those currently using automation (84%).

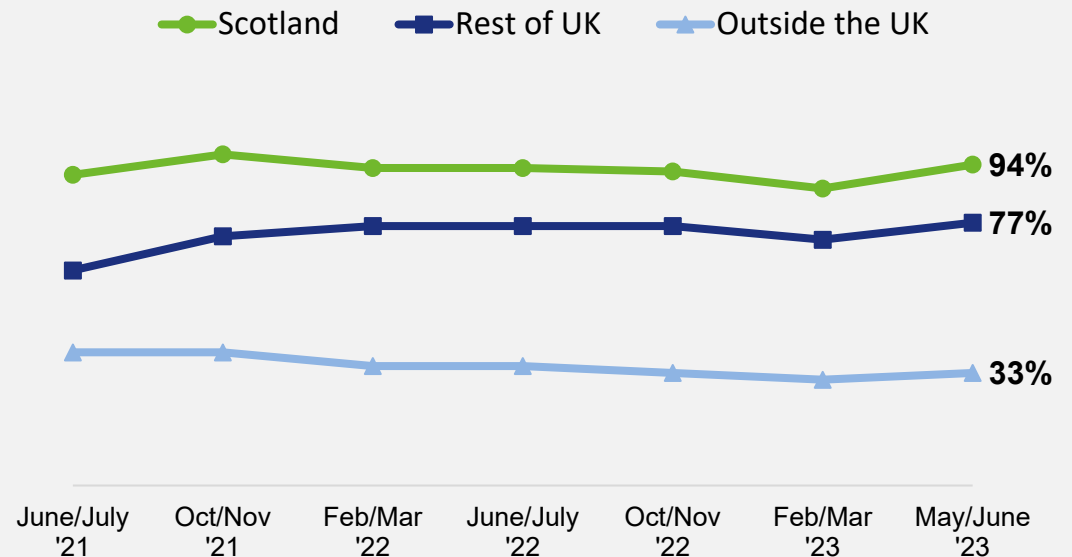
Rest of the UK:

- Manufacturing (88%).
- Accommodation and food services (85%).
- Wholesale and retail (84%).
- Creative industries growth sector (89%).

Outside the UK:

- 25+ staff (51%).
- Manufacturing (52%).
- Wholesale and retail (40%).
- HIE-client-engaged (61% vs 32% of non-client-engaged).
- Those currently using automation (48%).

Q. From which of these markets do you currently source goods and materials?



Base: All businesses

*In this report "importers" are defined as those that source goods or materials from any market outside of Scotland

EXPORT MARKETS

Just under half (47%) of businesses were exporters* with 46% selling to the rest of the UK and 25% internationally. The majority (92%) of businesses sold goods or services within Scotland, with 46% selling *only* in Scotland.

The proportion of exporters decreased slightly compared with the previous wave (47% down from 50%) and remained lower than the level seen in June/July 2021 (62%).

The proportion of businesses selling to the rest of the UK was lower in the Highlands and Islands (46%) than in South of Scotland (60%). The proportion selling outside the UK was slightly but not statistically higher for businesses in the Highlands and Islands (25% versus 21% in the South of Scotland).

Variation (more likely than average to sell to each market)

Exporters overall:

- 25+ staff (68%).
- Manufacturing (70%).
- Accommodation and food services (63%).
- IT, finance and real estate (59%).
- HIE-client-engaged (71%).
- Those using automation (61%).

Rest of the UK

- Wholesale and retail (54%).

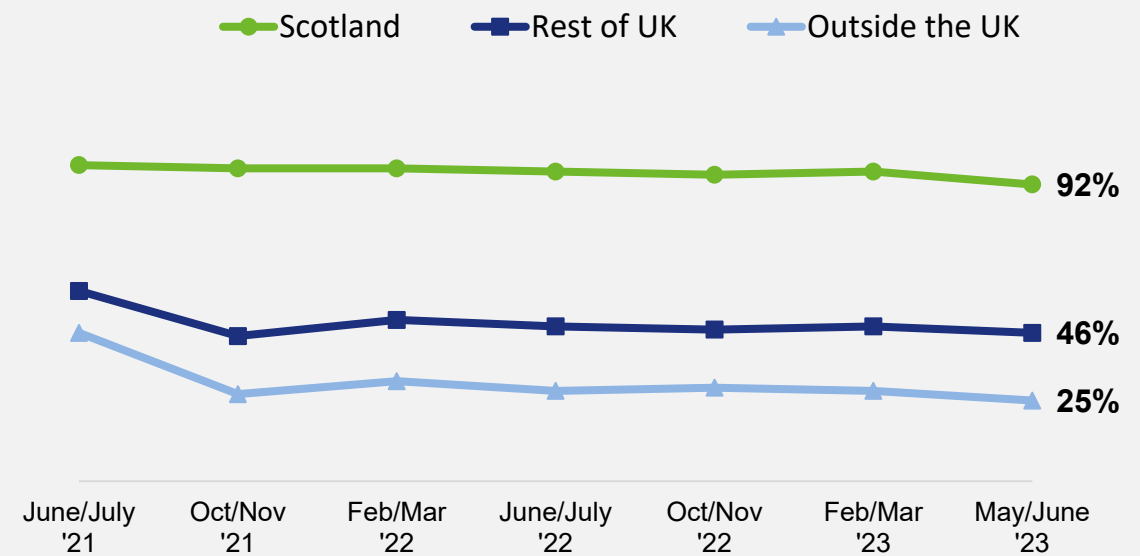
Outside the UK

- IT, finance and real estate (39%).
- HIE-client-engaged (55% vs 24% of non-client-engaged).

Both the rest of the UK and internationally

- 25+ staff (68% and 38%).
- Tourism growth sector (73% and 65% respectively).
- Creative industries growth sector (72% and 52%).
- Manufacturing (69% and 48%).
- Accommodation and food services (63% and 55%).
- Those using automation (60% and 35%).

Q. From which of these markets do you currently sell goods or services?



Base: All businesses

*In this report, “exporters” are defined as those that sell goods or services to any market outside of Scotland

C. OPTIMISM AND PERFORMANCE

KEY FINDINGS

- **Confidence in the economic outlook for Scotland increased this wave: 55% of businesses were confident (compared to 50% in February/March 2023), while 43% were not (compared with 48%).** Confidence was at the highest level seen since February/March 2022.
- **Reflecting on the past six months, 38% said their confidence had decreased, 9% said it had increased, and 52% said it had stayed the same.** Economic confidence was higher than in the previous three waves and similar to the levels seen in February/March 2022.
- **Views on business performance over the last six months were mixed** although improvements were noted since the previous survey wave in February/March 2023. A third (33%) said their business had performed well, 43% said their performance had been fairly steady and 24% had struggled.
- **Over the past six months, sales or turnover performance was mixed** (34% said it had increased, 20% decreased, and 45% remained the same). Businesses had performed better on sales or turnover than on profit (17% said profit margins had increased, 37% decreased, and 43% remained the same).
- **Employment and exports had remained relatively stable** (71% and 64% respectively said these had stayed the same over the past six months).
- **Looking ahead to the next six months, 71% of businesses expected to perform at much the same level as they were,** while 18% expected to perform better and 9% expected a decline in performance.

CURRENT ECONOMIC CONFIDENCE

Confidence in the economic outlook for Scotland increased this wave: 55% of businesses were confident (compared to 50% in February/March 2023), while 43% were not (compared with 48%). Confidence was at the highest level seen since February/March 2022.

Businesses in the Highlands and Islands were more confident in the economic outlook for Scotland than those in the South of Scotland (where 48% were confident, 51% not confident).

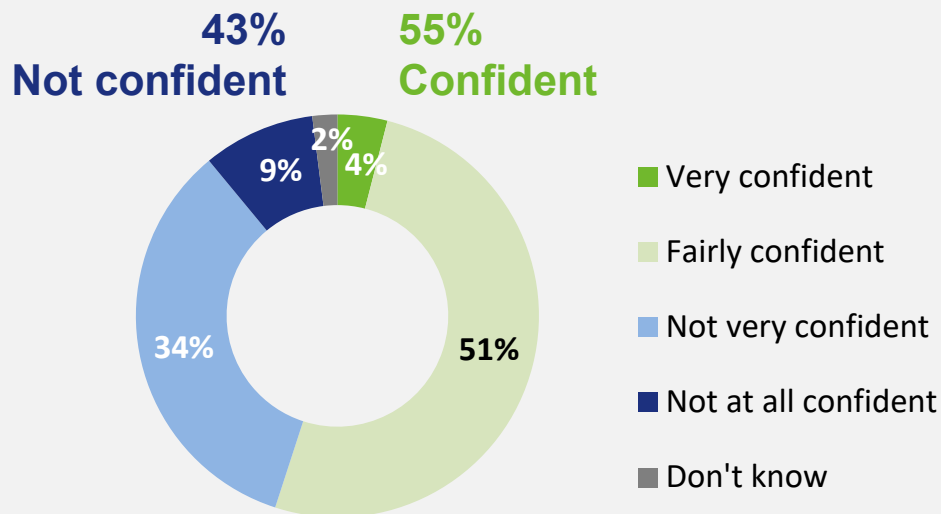
More confident than average

- Construction (67% confident).
- Performed well (69%) or reported steady performance (59%) in the past six months.
- Not concerned about their finances (70%).

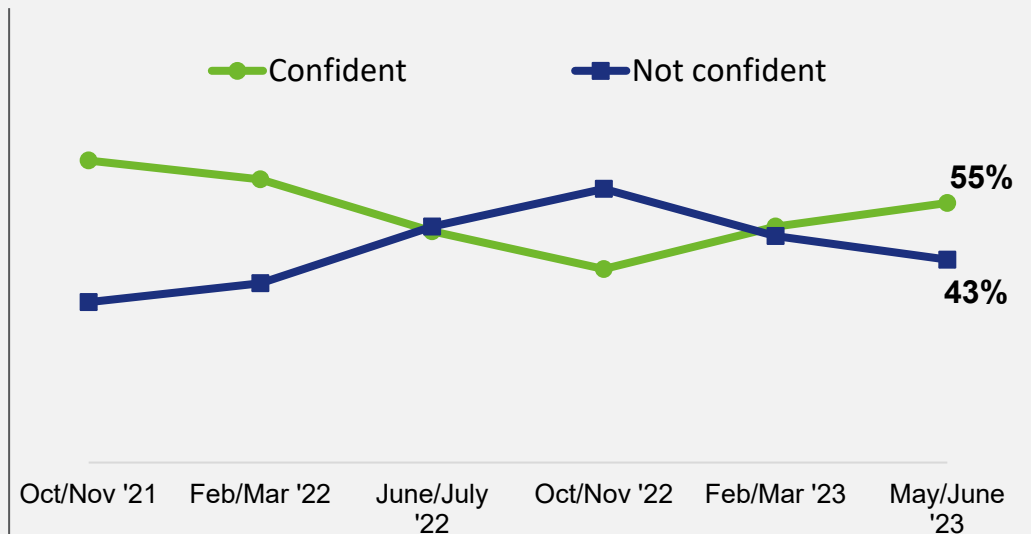
Less confident than average

- Administrative and support services (55% not confident).
- HIE-client-engaged (57% not confident vs 42% of non-HIE client-engaged).
- Struggled in the past six months (71%).

Q. How confident are you in the economic outlook for Scotland over the next 12 months?



Base: All businesses (1,014)



ECONOMIC CONFIDENCE OVER PAST 6 MONTHS

Reflecting on the past six months, 38% said their confidence had decreased, 9% said it had increased, and 52% said it had stayed the same. Economic confidence was higher than in the previous three waves and similar to the levels seen in February/March 2022.

Net confidence* was -29, an improvement on Feb/March 2023 (-37), Oct/Nov 2022 (-58) and June/July 2022 (-43), and almost back to the level seen in Feb/March 2022 (-26).

Net confidence was slightly higher than in the South of Scotland (-34).

More likely to report increased confidence:

- Performed well in past six months (15%).

More likely to say confidence stayed the same:

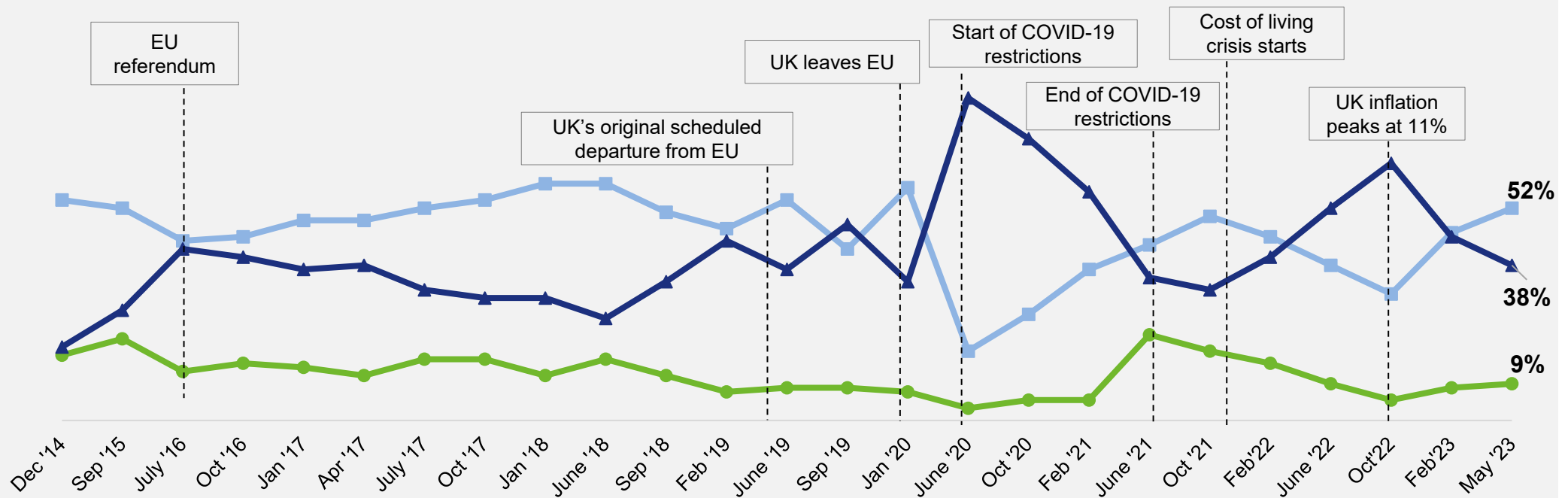
- Steady performance in past six months (56%).
- Not concerned about their finances (70%).

More likely to report decreased confidence:

- Accommodation and food services (50%).
- Struggled in past six months (57%).
- Concerned about their finances (40%).

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

—●— Increased —■— Stayed the same —▲— Decreased



Base: All businesses

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

PERFORMANCE

Views on business performance over the last six months were mixed, with 33% saying their business had performed well, 43% saying their performance had been fairly steady and 24% saying they had struggled.

Performance had improved on the previous wave in February/March 2023 (when 29% had performed well, 26% had struggled, and 43% had steady performance).

Performance was also slightly higher than the levels seen in the South of Scotland this wave (where 29% had performed well, and 24% struggled).

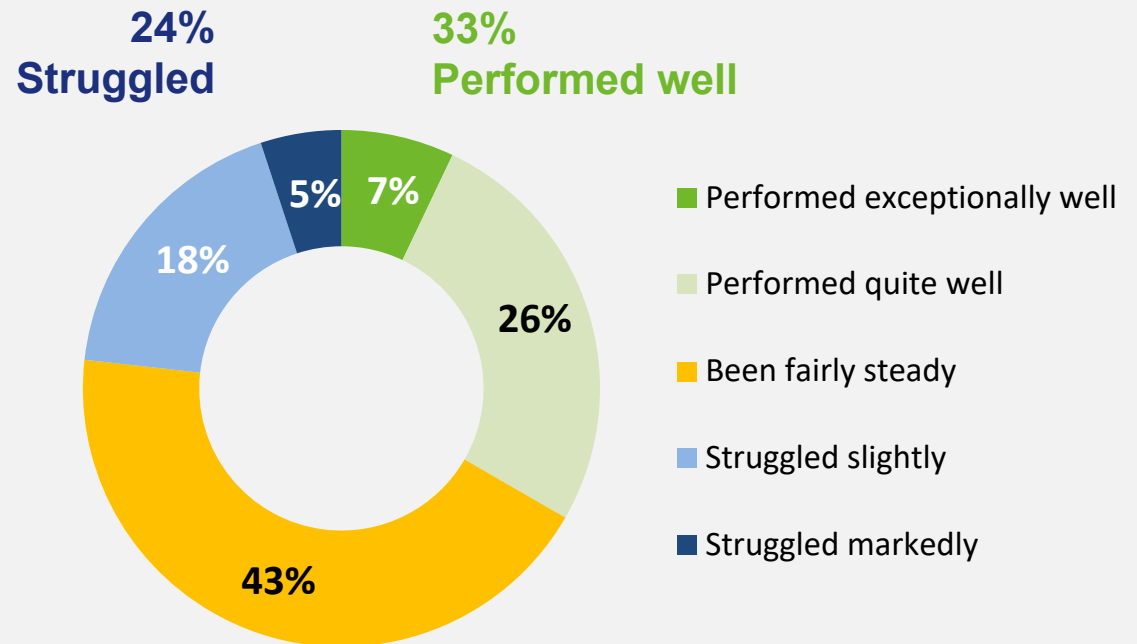
More likely to have performed well

- 25+ staff (45%).
- In urban areas (41%).
- Not concerned about their finances (55%).

More likely to have struggled

- Accommodation and food services (32%).
- Not confident in the economic outlook (39%).

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



Base: All businesses (1,014)

ASPECTS OF BUSINESS PERFORMANCE

Over the past six months, sales or turnover performance was mixed (34% said it had increased, 20% decreased, and 45% remained the same). Businesses had performed better on sales or turnover than on profit (17% said profit margins had increased, 37% decreased, and 43% remained the same). Employment and exports had remained relatively stable (71% and 64% respectively said these had stayed the same).

As seen in the previous survey wave, sales or turnover did not necessarily translate into profit: among those that had seen an increase in sales or turnover, 40% also saw profit margins increase, but 36% saw them remain at the same level and 21% saw them decrease.

This was particularly notable among **accommodation and food services** businesses: they were more likely than average to report increased sales or turnover (43%), but also more likely to report decreased profit (61%).

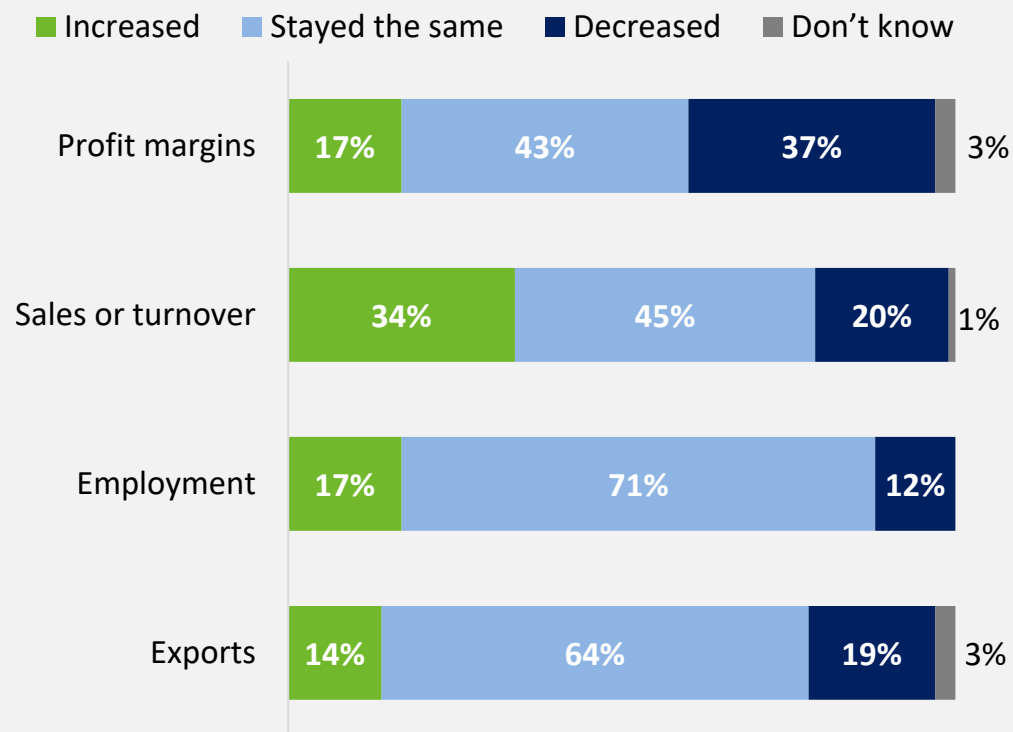
Increases were more common among:

- **25+ staff** – sales or turnover (49%) and employment (44%).
- **Accommodation and food services** – employment (27%).
- **Arts and entertainment** – employment (28%).
- **Manufacturing** – sales or turnover (53%) and exports (31%).
- **Tourism** growth sector – employment (33%) and sales or turnover (47%).
- Those that had **performed well** – sales or turnover (59%), profit (32%), employment (27%) and exports (22%).
- **HIE-client-engaged** – sales or turnover (52%) and employment (32%).
- Those **currently using automation**: sales or turnover (39%).

Decreases were more common among:

- **Tourism** growth sector – profit margins (56%).
- **Remote rural** businesses – profit margins (41%) and exports (23%).
- Those that had **struggled** – profit margins (70%), sales or turnover (50%), exports (34%) and employment (22%).
- Those who could **operate on their cash reserves for 3 to 6 months or 6 to 12 months**: sales or turnover (24% and 26%).

Q. Please tell me if the following has increased, stayed the same or decreased over the last six months?



Base: All businesses to whom each applied

PERFORMANCE EXPECTATIONS

Looking ahead to the next six months, 71% of businesses expected to perform at much the same level as they were, while 18% expected to perform better and 9% anticipated a decline in their performance.

More likely to expect improved performance:

- 25+ staff (30%).
- Manufacturing (30%).
- Wholesale and retail (27%).
- Tourism growth sector (27%).
- HIE-client-engaged (29%).
- Exporters (23%).

More likely to expect steady performance:

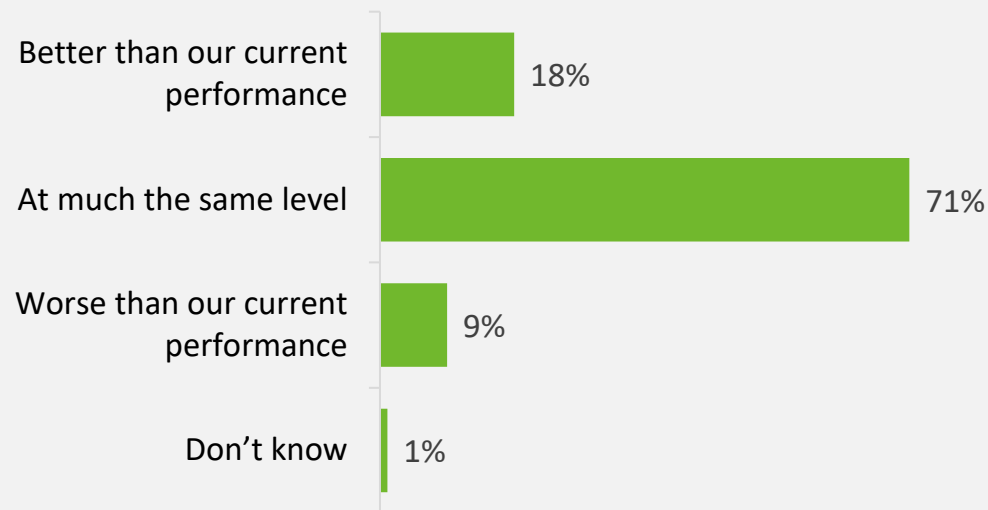
- 0-4 staff (74%).
- Construction (88%).
- Not concerned about their finances (87%).

Accommodation and food services had mixed expectations – they were more likely to expect either improvement (29%) or a decline (17%) in performance.

Expected performance also varied depending on performance over the past six months (see table – shaded cells represent differences from the average):

- Those that had struggled were more likely to anticipate a decline in their performance (14%).
- Those reporting steady performance were more likely to expect to perform at much the same level (75%).

Q. How do you expect your business to perform over the next 6 months?



Base: All businesses (1,014)

Expected performance	Performance over past six months		
	Performed well	Steady	Struggled
Better than our current performance	21%	14%	22%
At much the same level	74%	75%	60%
Worse than our current performance	5%	9%	14%
Don't know	-	2%	3%
Base	329	435	244

D. FINANCIAL OUTLOOK

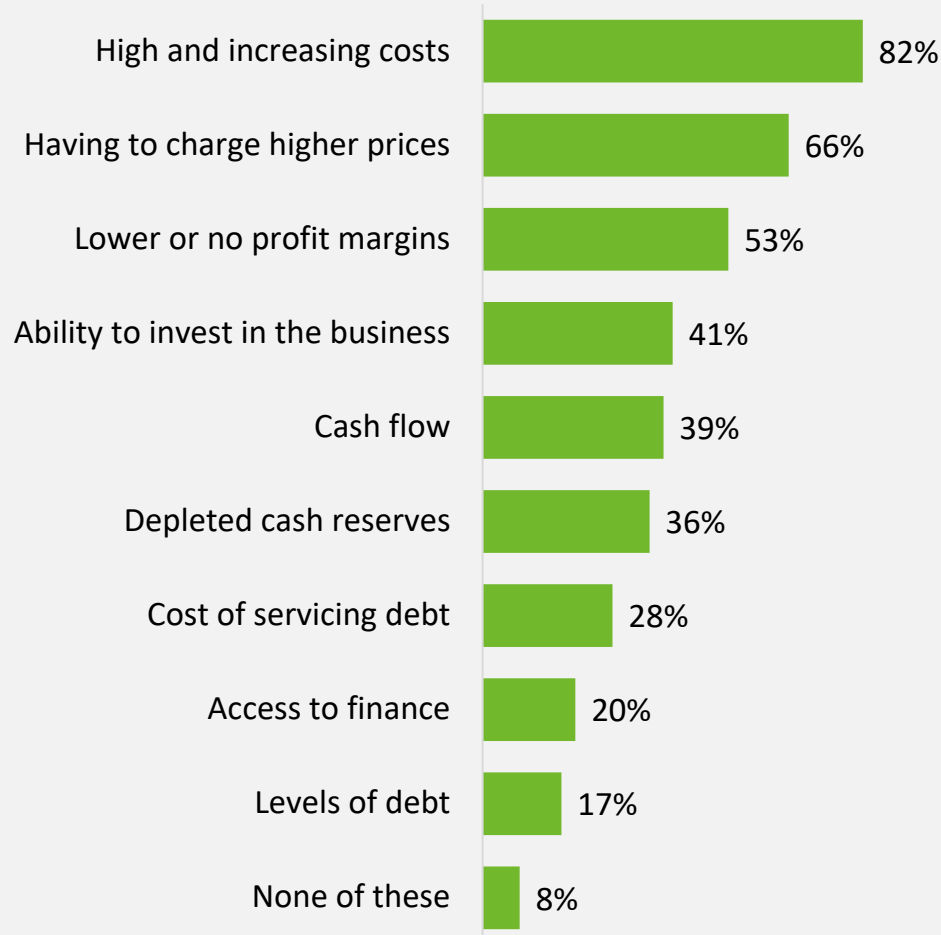
KEY FINDINGS

- **The majority of businesses (92%) were concerned about their finances.** The most significant concerns were high and increasing costs (82%), having to charge higher prices (66%), and lower or no profit margins (53%).
- Those that were **most concerned about finances** (i.e. concerned about at least one of the factors listed) were: arts and entertainment (99%) and accommodation and food services (97%) businesses; tourism growth sector more broadly (97%); those that had struggled in the past six months (99%); and those with no cash reserves (99%).
- Those that were **least concerned about finances** (i.e. not concerned about any of the factors listed) were: IT, finance and real estate (14%) and professional, scientific and technical (13%) businesses; financial and business services growth sector overall (18%); those that had performed well (13%); and those that could continue operating on their existing cash reserves for more than 12 months (11%).
- **Assuming they had no additional funding, just under a third of businesses (31%) said they could operate on their cash reserves for up to six months** (2% for no more than a month, 12% for up to three months and 17% between three and six months). Just over half (53%) could continue operating for more than six months. One-in-ten (9%) businesses had no cash reserves.
- Businesses **least able to survive on their cash reserves** (i.e. those who could operate for no more than three months or had no cash reserves) were more likely to be: in the wholesale and retail, construction, and professional, scientific and technical sectors; women-led businesses; and had struggled in the past six months.

FINANCIAL CONCERNS

The majority of businesses (92%) were concerned about their finances. The most significant concerns were high and increasing costs (82%), having to charge higher prices (66%), and lower or no profit margins (53%).

Q. Thinking of your finances, which of the following are a significant concern for your business right now?



Base: All businesses (1,014)

Most concerned:

- Arts and entertainment (99% concerned overall).
- Accommodation and food services (97%).
- Tourism growth sector (97%).
- Those that had struggled in the past six months (99%).
- Those with no cash reserves (99%).

Least concerned

- Financial and business services growth sector (18% were not concerned about any of the factors listed).
- IT, finance and real estate (14%).
- Professional, scientific and technical (13%).
- Those that had performed well (13%).
- Those that could operate on their current cash reserves for more than 12 months (11%).

Individual concerns were also higher than average among some groups of businesses not listed above: construction, primary industries and wholesale and retail businesses; those in remote rural areas; and HIE-client-engaged (see next slide).

FINANCIAL CONCERNS (2)

Variation (higher than average):

Size

- **25+ staff** – charging higher prices (80%).

Sector

- **Accommodation and food services** – high costs (92%), charging higher prices (80%), profit (67%), ability to invest (53%), cash reserves (44%) and levels of debt (28%).
- **Arts and entertainment** – high costs (91%) and access to finance (34%).
- **Construction** – charging higher prices (79%).
- **Primary industries** – cost of servicing debt (34%).
- **Wholesale and retail** – charging higher prices (81%) and profit (61%).
- **Tourism growth sector** – high costs (91%), charging higher prices (80%), profit (67%), and ability to invest (55%).

Location

- **Remote rural** – high costs (84%) and levels of debt (20%).

Relationship with HIE

- **HIE-client-engaged** – charging higher prices (79%).

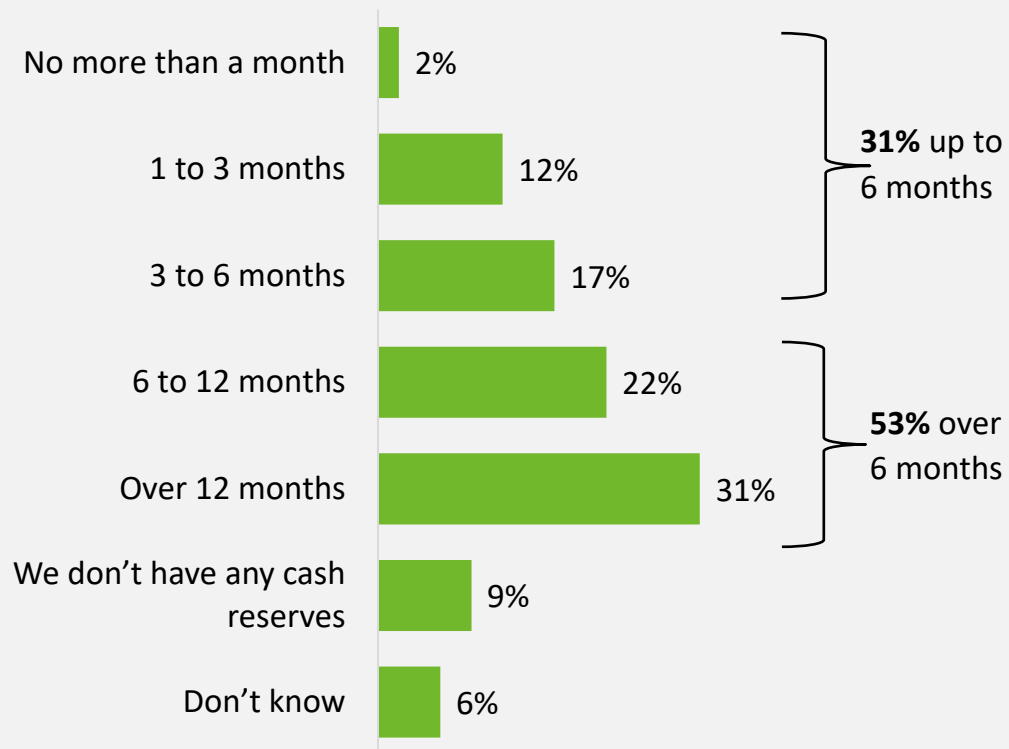
Performance

- Those who had **struggled over the last six months** were more likely than average to cite each of the factors listed as a concern (see appendix, slide 50).
- Those who **could only operate on current cash reserves for up to 3 months** were more likely to cite all but three of these factors (high costs, access to finance and levels of debt) as a concern (see appendix, slide 51).

FINANCIAL VIABILITY

Assuming they had no additional funding, just under a third of businesses (31%) said they could operate on their cash reserves for up to six months. This included 2% who could operate for no more than a month, 12% for up to three months and 17% between three and six months. Just over half (53%) could operate for more than six months. One in ten (9%) businesses had no cash reserves.

Q. Assuming you had no additional funding, how long could your business keep operating on your current cash reserves?



Base: All businesses (1,014)

More likely to say:

No more than a month

- Wholesale and retail (6%).

1 to 3 months

- Construction (20%).
- Professional, scientific and technical (21%).

3 to 6 months

- Accommodation and food services (27%).

6 to 12 months

- Arts and entertainment (36%).

Over 12 months

- 0-4 staff (34%).
- IT, finance and real estate (48%).
- Accessible rural businesses (43%).

Businesses more likely to have **no cash reserves** included:

- Women-led businesses (15%).*
- Businesses that had struggled in the past six months (14%).

*The finding for women-led businesses is driven, at least in part, by wholesale and retail businesses – 24% of women-led businesses were from the wholesale and retail sector, compared with 12% of the overall sample.

E. ADAPTING TO CHANGE

KEY FINDINGS

- **Most (89%) businesses were taking actions to improve their productivity and competitive position.** This typically included introducing more efficient working practices (58%), adapting products or services (49%), adopting new technologies (47%), investing in premises or equipment (46%) and collaborating with other businesses (45%).
- **The majority of businesses (79%) were taking action to ensure they had access to the skills and resources they needed.** Of the range of actions being taken, the most common were using independent contractors or freelancers (41%) and encouraging staff to work across different parts of the business (41%). Just under a third (32%) were recruiting staff early in careers and training up.
- **Among employers, 88% were taking additional actions related to their existing workforce.** The most common actions were introducing internal training and development (66%), increasing wages (60%), offering flexible working (52%), external, accredited training (41%) and promotion or career progression opportunities (40%).
- The types of business **most likely to be taking workforce-related actions** as outlined above included: arts and entertainment businesses, those with 25+ staff, HIE-client-engaged businesses, those that had performed well in the past six months, and those expecting their performance to improve in the next six months.
- Those **least likely to be taking workforce-related action** included construction businesses and those with 0-4 staff.

ACTIONS TO IMPROVE PRODUCTIVITY AND COMPETITIVE POSITION (1)

Most (89%) businesses were taking actions to improve their productivity and competitive position. This typically included introducing more efficient working practices (58%), adapting products or services (49%), adopting new technologies (47%), investing in premises or equipment (46%) and collaborating with other businesses (45%).

Most likely to be taking actions:

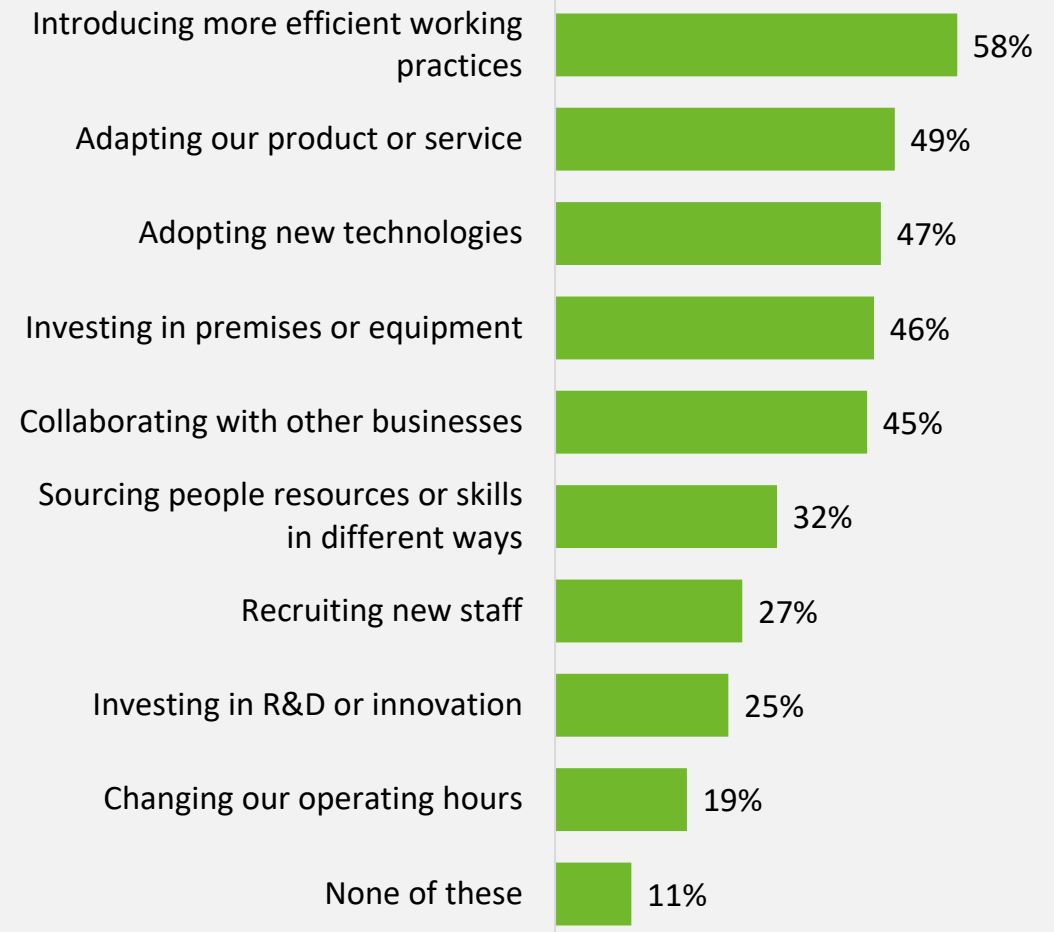
- 25+ staff (99%).
- Arts and entertainment (98%).
- Tourism growth sector (95%).
- HIE-client-engaged (100%).
- Those expecting improved performance (98%).

Least likely to be taking actions:

- 0-4 staff (15% were taking none of the actions listed).
- Construction businesses (17%).
- Those not concerned about finance (28%).

Individual actions were also higher than average among other sectors and types of business not listed above (see next slide).

Q. What actions, if any, is your business taking to help improve its productivity and competitive position?



Base: All businesses (1,014)

ACTIONS TO IMPROVE PRODUCTIVITY AND COMPETITIVE POSITION (2)

Actions to improve productivity and competitive position varied by size, sector, performance and relationship with HIE.

Variation (higher than average):

Sector

- **Accommodation and food services** – adapting product or service (63%), investing in premises or equipment (63%), recruiting (41%) and changing operating hours (27%).
- **Arts and entertainment** – adapting product or service (67%), collaborating (66%), sourcing people resources differently (52%) and changing operating hours (33%).
- **IT, finance and real estate** – investing in R&D (35%).
- **Manufacturing** – sourcing people resources or skills differently (44%) and recruiting new staff (40%).
- **Professional, scientific and technical** – adopting new technologies (64%), sourcing people resources or skills differently (40%) and investing in R&D (35%).
- **Wholesale and retail** – adapting product or service (63%) and changing operating hours (25%).

Growth sector

- **Creative industries** – adapting product or service (62%), adopting new technologies (60%) and investing in R&D (38%).
- **Financial and business services** – adopting new technologies (62%), sourcing people resources or skills differently (48%), recruiting (41%) and investing in R&D (38%).
- **Tourism** – adapting product or service (69%), investing in premises or equipment (65%), recruiting (45%), sourcing people resources or skills differently (44%) and changing operating hours (28%).

Size

- **25+ staff** – investing in premises or equipment (73%), more efficient working practices (71%), recruiting (70%), sourcing people resources or skills differently (59%) and changing operating hours (30%).

Relationship with HIE

- **HIE-client-engaged** – more efficient working practices (79%), adapting product or service (65%), collaborating (60%), sourcing people resources or skills differently (50%) and investing in R&D (42%).

Performance

- Businesses that had **performed well** and those **expecting improved performance** were more likely to be taking most of these actions (see appendix, slides 52 and 53).
- Businesses that had **struggled** – changing operating hours (26%).

Concern about finances

- Businesses **concerned about finances** were more likely to be – introducing more efficient working practices (60%), adapting product or service (51%), investing in premises or equipment (47%), collaborating (46%), and changing operating hours (20%).

ACTIONS TO ENSURE ACCESS TO SKILLS AND RESOURCES (1)

The majority (79%) of businesses were taking action to ensure they had access to the skills and resources they needed. Of the range of actions being taken, the most common were using independent contractors or freelancers (41%) and encouraging staff to work across different parts of the business (41%). Just under a third (32%) were recruiting staff early in careers and training up.

Most likely to be taking actions:

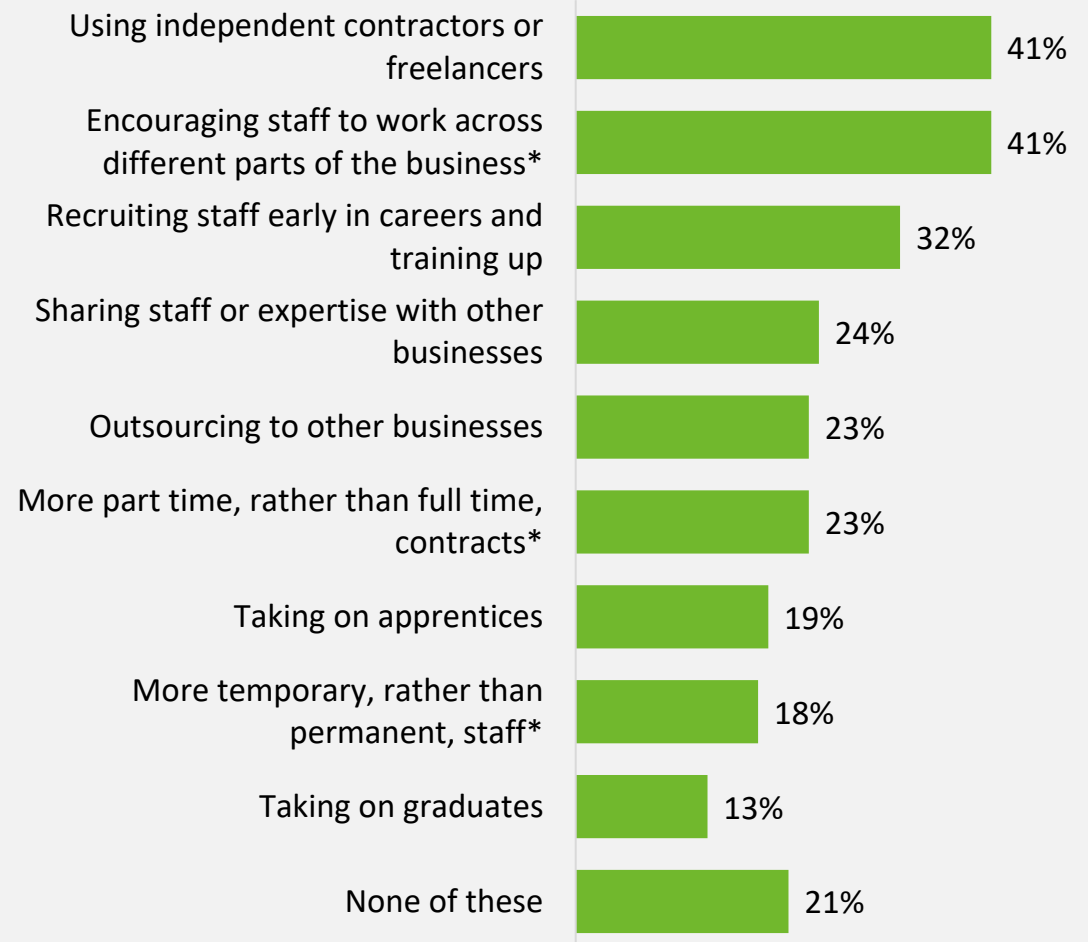
- 25+ staff (99%).
- Arts and entertainment (88%).
- HIE-client-engaged (97%).
- Social enterprises (89%).
- Those that had performed well (84%).
- Those expecting improved performance (90%).

Least likely to be taking actions

- 0-4 staff (30% were taking none of the actions listed).
- Construction businesses (29%).
- Non-HIE client engaged (22%).

Individual actions were also higher than average among some sectors and types of businesses not listed above (see next slide).

Q. Which, if any, of the following approaches are you taking to ensure you have the skills and resources you need?



Base: All businesses (1,014) (those marked with an * were only asked to employers)

ACTIONS TO ENSURE ACCESS TO SKILLS AND RESOURCES (2)

There was variation in approaches to skills and resources by size, sector location, relationship with HIE, performance and business structure.

Variation (higher than average):

Size

- **0-4 staff** – independent contractors or freelancers (44%).
- **25+ staff** – recruiting staff early in careers (77%), encouraging staff to work across the business (72%), apprentices (48%), part time contracts (42%), temporary staff (39%) and graduates (41%).

Sector

- **Accommodation and food services** – recruiting staff early in careers (43%), part time contracts (35%), temporary staff (32%) and graduates (21%).
- **Arts and entertainment** – encouraging staff to work across the business (60%), recruiting staff early in careers (51%), part time contracts (45%), temporary staff (33%) and graduates (21%).
- **Construction** – apprentices (29%).
- **Manufacturing** – recruiting early in careers (46%) and graduates (25%).
- **Primary industries** – independent contractors (57%).
- **Professional, scientific and technical** – graduates (28%).
- **Wholesale and retail** – part time contracts (32%).

Growth sector

- **Food and drink** – independent contractors or freelancers (59%).
- **Tourism** – encouraging staff to work across the business (55%), recruiting early in careers (49%), temporary staff (36%), part time contracts (44%) and graduates (28%).

Location

- **Remote rural** businesses – independent contractors (46%).
- **Accessible rural** businesses – outsourcing (32%).
- **Urban** businesses: encouraging staff to work across the business (46%), recruiting staff early in careers (42%), and apprentices (29%).

Relationship with HIE

- **HIE-client-engaged** – encouraging staff to work across the business (75%), recruiting staff early in careers (61%), part time contracts (37%) and graduates (34%).

Performance

- Businesses that had **performed well** – encouraging staff to work across the business (48%), recruiting staff early in careers (44%), apprentices (28%) and graduates (17%).

Structure

- **Women-led businesses** – part time contracts (31%).
- **Employee-owned businesses** – outsourcing (39%).
- **Social enterprises** – encouraging staff to work across the business (63%), part time contracts (35%) and graduates (23%).

WORKFORCE-RELATED ACTIONS (1)

Among employers, 88% were taking additional actions related to their existing workforce. The most common actions were introducing internal training and development (66%), increasing wages (60%) offering flexible working (52%), external, accredited training (41%) and promotion or career progression opportunities (40%).

Most likely to be taking actions:

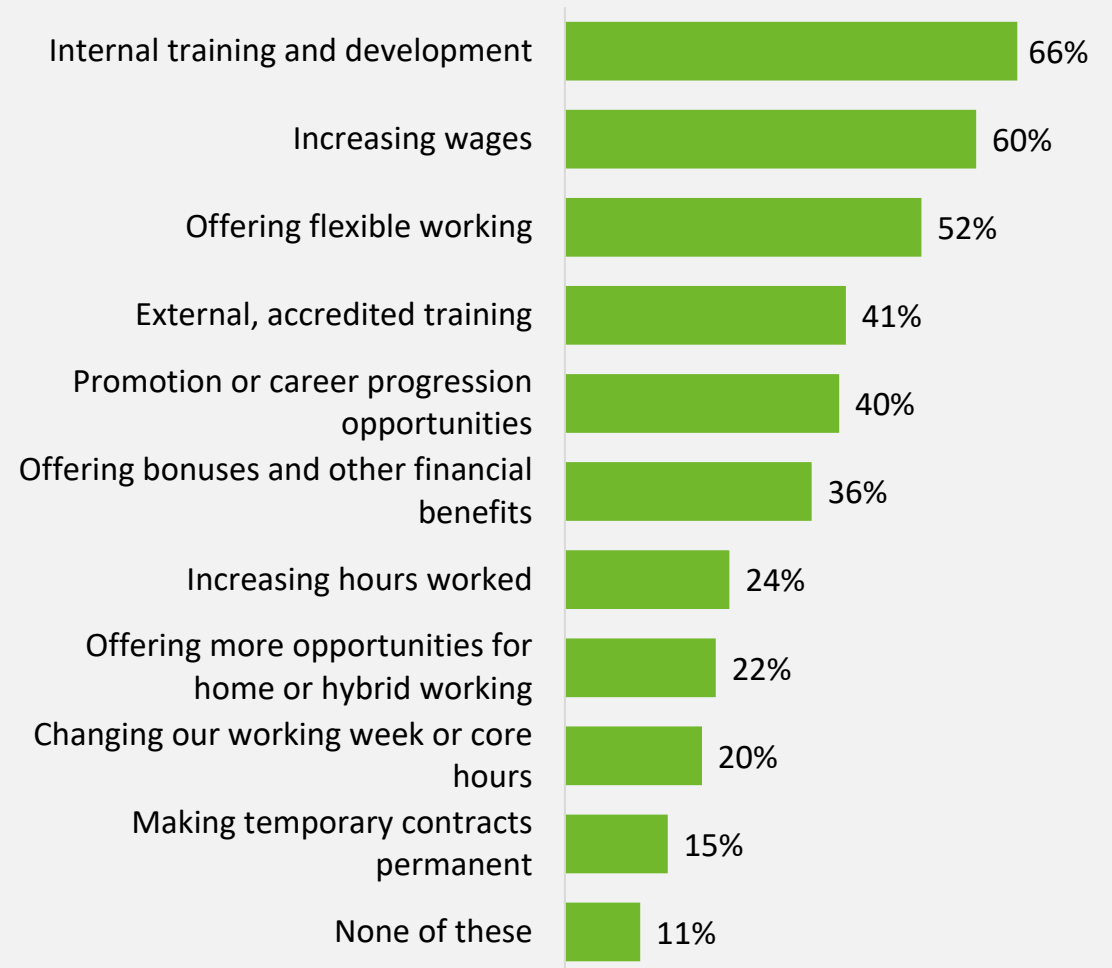
- 25+ staff (96%).
- Arts and entertainment (98%).
- Professional, scientific and technical businesses (95%).
- Financial and business services growth sector (95%).
- Those that had performed well (94%).
- Those expecting improved performance (96%).

Least likely to be taking actions

- 0-4 staff (19% were taking none of the actions listed).
- Food and drink growth sector (20%).
- Primary industries (19%).
- Remote rural businesses (14%).
- Family-owned businesses (14%).

Individual actions were also higher than average among some sectors and types of businesses not listed above (see next slide).

Q. For your existing workforce, which of the following actions are you taking or planning to take?



Base: All employers (777)

WORKFORCE-RELATED ACTIONS (2)

There was variation in workforce-related actions by size, sector, relationship with HIE, performance, and structure.

Variation (higher than average):

Sector

- **Accommodation and food services** – bonuses (48%), increasing hours (37%), changing working week or core hours (29%) and making temporary contracts permanent (24%).
- **Administrative and support services** – home and hybrid working (33%).
- **Arts and entertainment** – internal training (91%), flexible working (69%), external training (58%), career progression opportunities (55%) and increasing hours worked (32%).
- **IT, finance and real estate** – flexible working (68%) and home and hybrid working (44%).
- **Professional, scientific and technical** – internal training (76%), flexible working (65%), career progression opportunities (52%) and home and hybrid working (48%).

Growth sector

- **Financial and business services** – internal training (76%), flexible working (66%), external training (59%), home and hybrid working (57%) and career progression opportunities (56%).
- **Tourism** – increasing wages (73%), flexible working (64%), increasing hours worked (35%), changing working week or core hours (34%) and making temporary contracts permanent (26%).

Size

- **25+ staff** – internal training (87%), increasing wages (76%), external training (69%), promotion or career progression (69%), bonuses (58%) and making temporary contracts permanent (28%).

Relationship with HIE

- **HIE-client-engaged** – offering flexible working (73%) and more opportunities for home and hybrid working (35%).

Performance

- Businesses that had **performed well** – internal training (77%), increasing wages (74%), career progression opportunities (49%), offering bonuses (49%), external training (48%) and making temporary contracts permanent (19%).

Structure

- **Employee-owned** businesses – offering bonuses (54%).
- **Social enterprises** – more opportunities for home and hybrid working (38%).

E. AUTOMATION

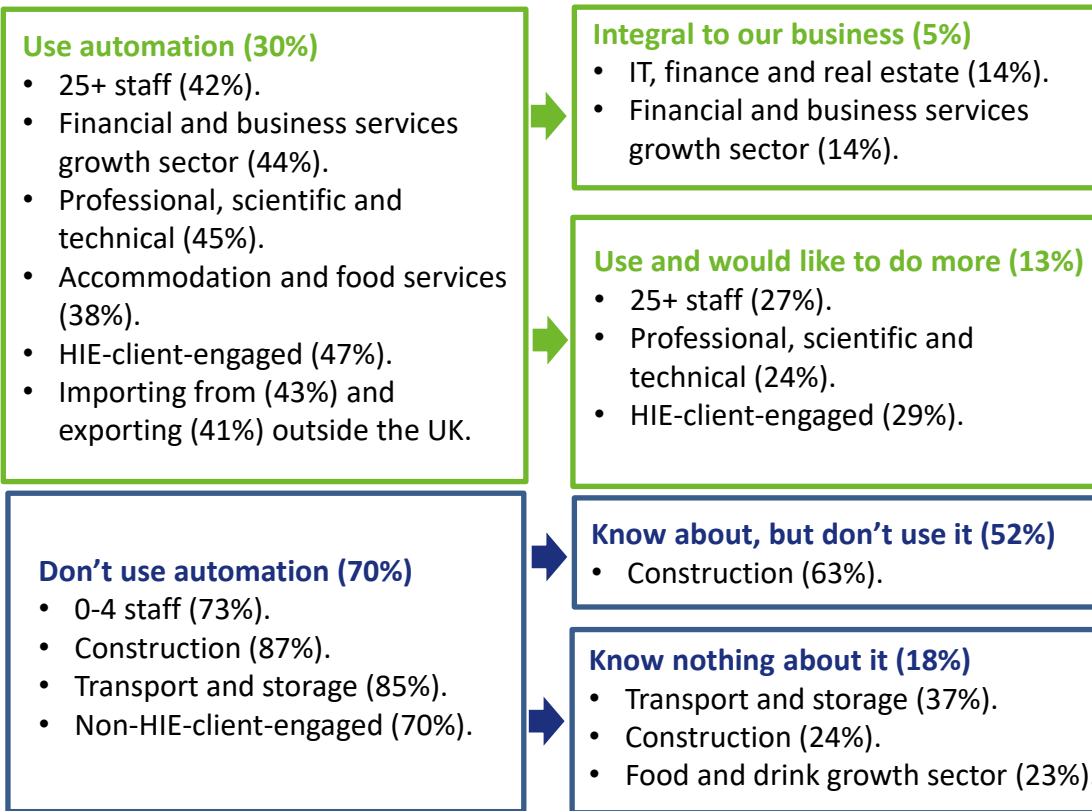
KEY FINDINGS

- **Three-in-ten (30%) businesses are already using automation:** 5% described it as integral to their business, 13% used it to an extent and would like to do more, and 11% used it to an extent but did not plan to do more.
- **Seven-in-ten (70%) did not currently use automation:** 52% were familiar with it but did not use it, and 18% said they knew nothing about it. Of those not currently using automation, only 9% said they were likely to do so in future.
- Use of automation was **higher than average** among large businesses (25+ staff), the professional, scientific and technical sector, accommodation and food services businesses, and HIE-client-engaged businesses. Use was also higher than average among those taking action to enhance their productivity and competitive position.
- Automation use was **lower than average** among micro businesses with 0-4 staff, construction businesses, the transport and storage sector, and non-HIE client-engaged businesses.
- **Among businesses that were currently using automation, 89% were taking additional steps to support its use,** most commonly training staff (57%) and investing in hardware, equipment and machinery (56%). Around half were exploring bespoke solutions (51%), creating or updating plans (49%) and developing leadership awareness and understanding (49%).
- **Similarly, among businesses that were likely to start using automation in future, 96% planned to take steps to support this,** including exploring solutions for their specific needs (79%), exploring how best to apply automation (78%) and training staff on its use (68%).
- **For businesses currently using automation, the main areas in which they were using, or intending to use it, were finance and accounting (71%) and information and communications technology (71%).** This was followed by environmental sustainability (58%), sales and marketing (55%), production of goods and materials (55%).
- **The most common business activities to which automation was being applied, or was likely to be applied, were accounting, finance and administration tasks (57%) and generating website or social media content (51%).** This was followed by targeted marketed or communication to customers (43%), creating written reports or documentation (42%), and inventory, stock control and supply chain processes (38%).
- **Among businesses who knew about automation, 72% felt that it offered benefits and 75% had concerns about it.** The main perceived **benefits** were making processes faster or more efficient (55%), innovating and keeping pace with change (52%) and cost savings (50%). The top **concerns** were cyber security risks (56%), compliance with data protection regulation (43%) and lack of regulation (42%).
- **Two thirds (67%) cited barriers to the use of automation,** most commonly the cost of implementation (45%) and understanding of its application (36%). Around three-in-ten cited access to expertise (32%), technology (31%), advice and support (29%) and appropriate training (28%) as barriers. Lack of digital technology was a barrier for 27%.
- **Looking ahead, three-in-ten (30%) businesses felt that automation was either important (21%) or essential (9%) to their future,** rising to 68% amongst those already using/planning to use automation. Two thirds (68%) felt it was not important.

CURRENT APPROACH TO AUTOMATION

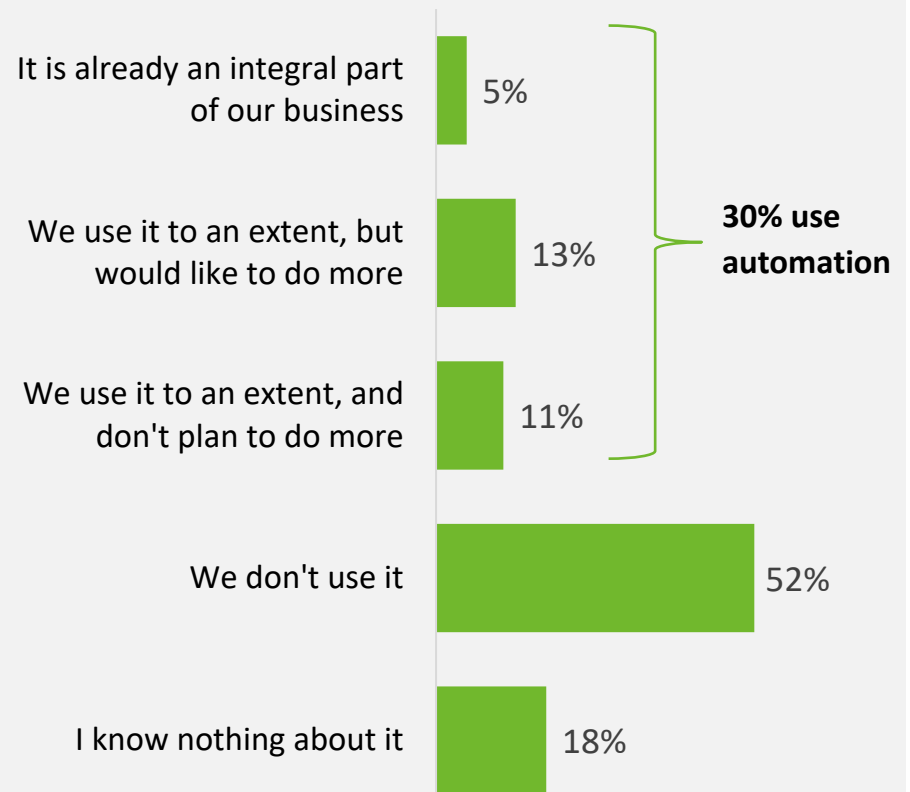
Three-in-ten (30%) businesses are already using automation: 5% described it as integral to their business, 13% used it to an extent and would like to do more, and 11% used it to an extent but did not plan to do more. Seven-in-ten (70%) did not use automation: 52% were familiar with it but did not use it, and 18% said they knew nothing about it.

Variation** (higher than average)



Use of automation was also higher than average among those taking certain actions to enhance their productivity and competitive position: investing in R&D (48% used it), adopting new technologies (45%), sourcing people resources differently (39%), adapting their product or service (37%) and introducing more efficient practices (35%).

Q. Which of these statements best describes your current approach to automation?



Base: All businesses (1,014)

*The following definition was provided: "Automation typically relates to the creation and application of technologies to produce, deliver or streamline outputs, processes and tasks, with minimal human input. It includes techniques such as artificial intelligence (or AI), machine learning, natural language processing, robotics, and a range of other tools."

**There was no significant variation among the businesses saying they used automation to an extent and did not plan to do more.

LIKELIHOOD OF ADOPTING AUTOMATION

Among businesses that were not currently using automation, the majority (90%) said they were unlikely to adopt it in future, while 9% said they were likely to (the latter making up 5% of all businesses).

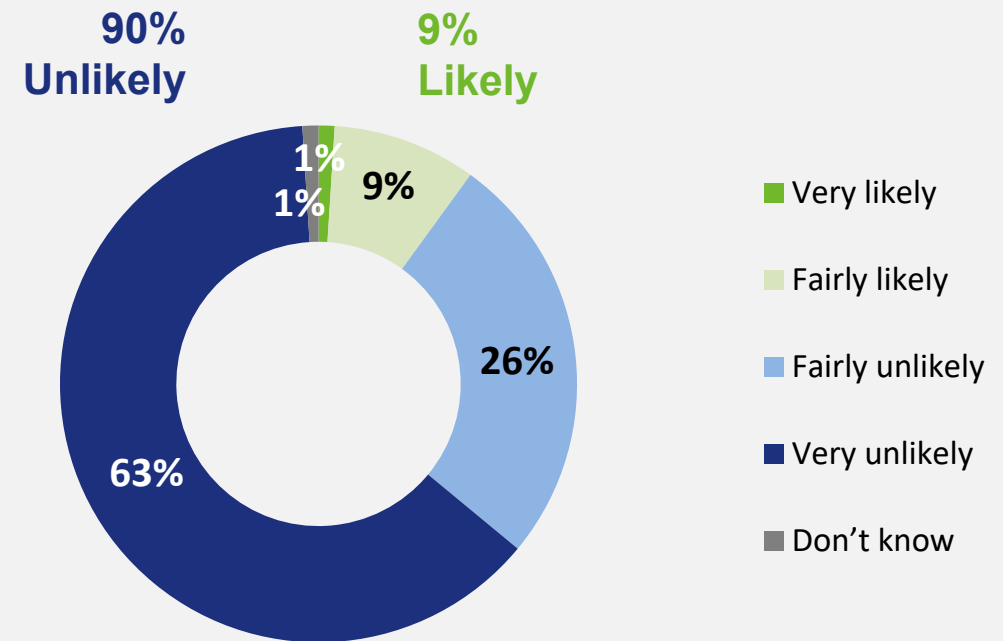
Variation (higher than average):

Large businesses (25+ staff) were more likely to say they planned to adopt automation in future (22%).

Small businesses (0-4 staff) were less likely to (92% were unlikely to, including 67% very unlikely).

Otherwise, there was little variation evident.

Q. How likely or unlikely are you to adopt automation in future?



Base: All businesses that knew about automation but were not using it (529)

ACTIONS TO SUPPORT USE OF AUTOMATION – BY CURRENT USERS

Among businesses that were currently using automation, 89% were taking additional steps to support its use, most commonly training staff (57%) and investing in hardware, equipment and machinery (56%). Around half were exploring bespoke solutions (51%), creating or updating plans (49%) and developing leadership awareness and understanding (49%).

Variation

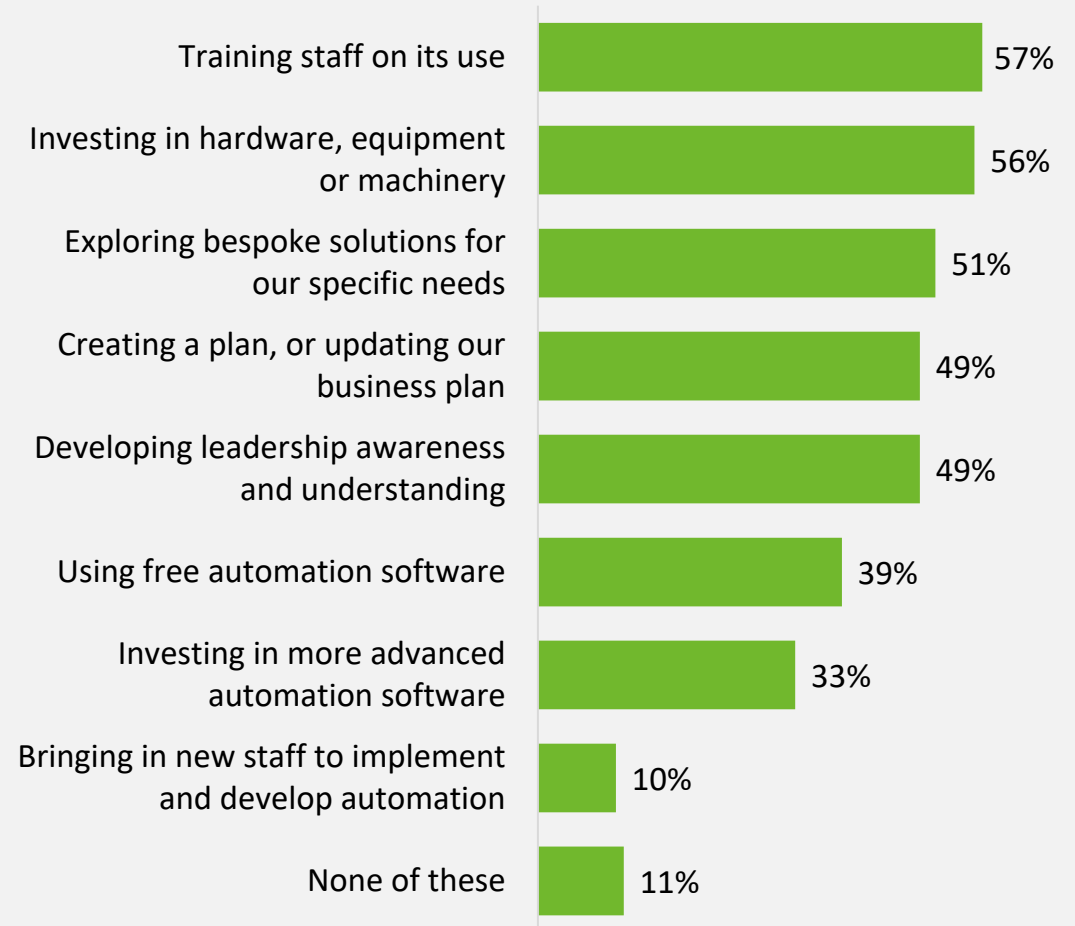
Actions were more likely to be taken by **current users who considered automation essential or important*** for their future (93%, compared with 82% of current users who felt it was not important).

Those currently using automation and who wanted to use it more were more likely to be investing in hardware (68%), training staff (67%), exploring bespoke solutions (67%), using free software (49%) and investing in more advanced software (43%).

Certain actions were also more common among:

- **5-10 staff** – training staff (71%) and developing leadership awareness and understanding (63%).
- **Professional, scientific and technical** – investing in more advanced automation software (47%).
- **Those concerned about the use of automation** – developing leadership awareness and understanding (53%).

Q. What steps, if any, is your business taking to support its use of automation?



Base: All businesses using automation (304)

*Importance of automation is explored on slide 48

ACTIONS TO SUPPORT USE OF AUTOMATION – BY POTENTIAL USERS

Among businesses that were likely to start using automation in future, 96% planned to take steps to support this. The main actions they were taking included exploring solutions for their specific needs (79%), exploring how best to apply automation to their operations (78%), exploring new hardware, equipment or machinery (76%) and training staff on its use (68%).

Other actions being considered by more than half were: developing leadership awareness and understanding (58%), creating a plan or updating a business plan (56%), and exploring free automation software (55%).

The actions being taken point towards a cautious approach to adoption with businesses exploring the potential of automation and its applicability, particularly in terms of more bespoke requirements.

Q. What steps, if any, is your business likely to take to support its use of automation?



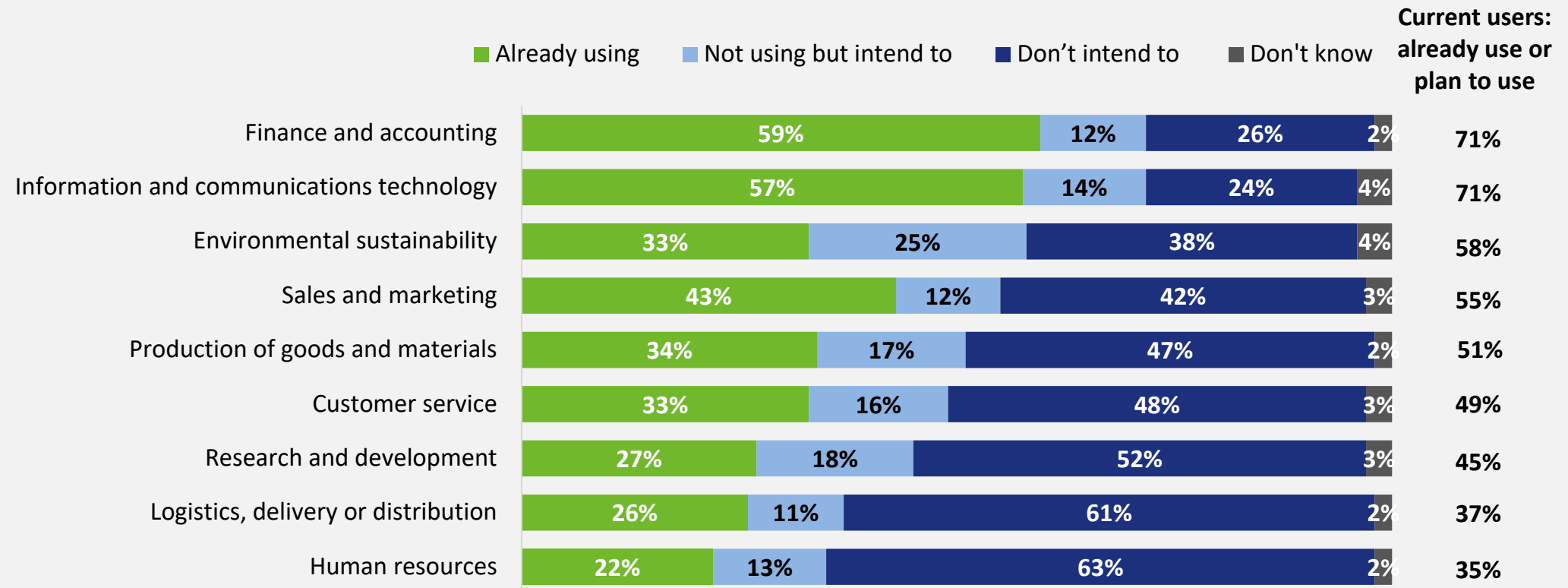
Base: All businesses likely to use automation (48)

AREAS AUTOMATION WAS USED IN THE BUSINESS – CURRENT USERS

For businesses currently using automation, the main areas in which they were using, or intending to use it were finance and accounting (71% using/intending to use) and information and communications technology (71%). This was followed by environmental sustainability (58%), sales and marketing (55%), production of goods and materials (51%) and customer service (49%).

The business areas in which automation was least likely to be used were human resources (63% did not intend to), logistics, delivery and distribution (61%), and research and development (52%).

Q. Are you using, or do you plan to use, automation in any of the following areas of your business?



Base: All businesses using automation to whom it applied

AREAS AUTOMATION WAS USED IN THE BUSINESS – CURRENT USERS (2)

More likely to be using automation in these areas:

- **Accommodation and food services** – sales and marketing (66%) and customer service (51%).
- **Primary industries** – environmental sustainability (47%).
- **Professional, scientific and technical** – research and development (41%).
- **Wholesale and retail** – sales and marketing (62%).
- **Performed well in past six months** – customer service (45%).
- **Consider automation essential or important for their future** – information and communications technology (62%), production of goods and materials (39%), and logistics, delivery or distribution (30%).

More likely to be intending to use automation in these areas:

- **0-4 staff** – information and communications technology (18%).
- **Remote rural** – environmental sustainability (31%).
- **Struggled in past six months** – customer service (25%).

More likely to say they did not intend to use automation in these areas:

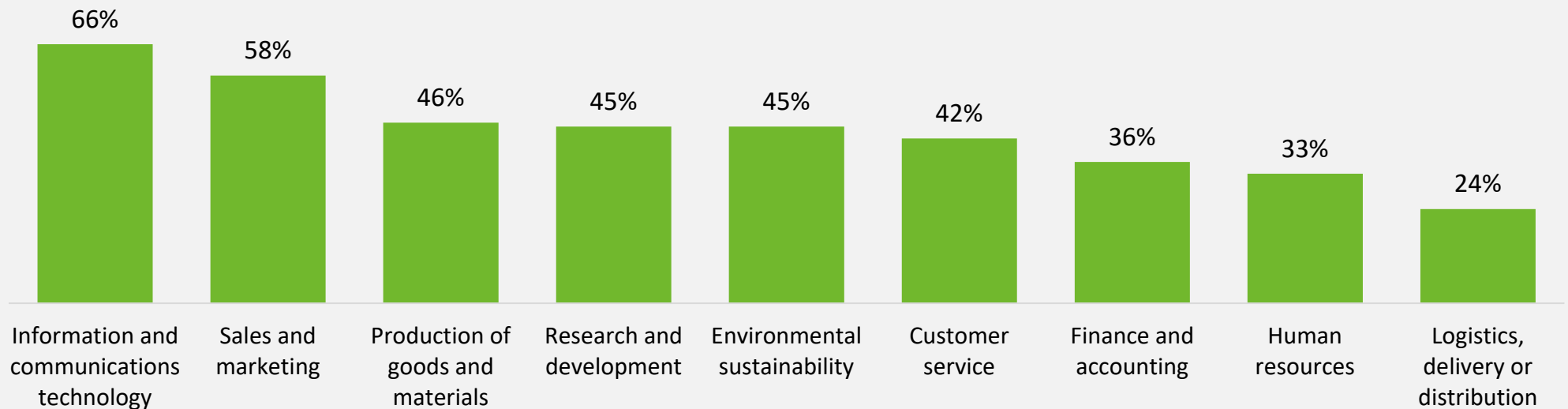
- **0-4 staff** – human resources (75%), logistics, delivery or distribution (69%), customer service (53%), and production of goods and materials (52%).
- **Accommodation and food services** – logistics, delivery or distribution (80%).
- **Primary industries** – customer service (64%).
- **Professional, scientific and technical** – sales and marketing (56%).
- **Remote rural** – logistics, delivery or distribution (71%).

AREAS AUTOMATION IS LIKELY TO BE USED IN THE BUSINESS – POTENTIAL USERS

Among businesses that were not yet using automation, but likely to in future, the top areas in which they expected to use it were: information and communications technology (66%), sales and marketing (58%), production of goods and materials (46%), research and development (45%) and environmental sustainability (45%).

There was no significant variation in findings between different businesses (which may reflect the low base size for this question).

Q. What areas of your business do you expect to use automation in?



Base: All businesses not yet using automation at all (48)

APPLICATION OF AUTOMATION

The most common business activities to which automation was being applied, or was likely to be applied, were accounting, finance and administration tasks (57%) and generating website or social media content (51%). This was followed by targeted marketed or communication to customers (43%), creating written reports or documentation (42%), and inventory, stock control and supply chain processes (38%).

Variation (higher than average):

- **Those not yet using automation but likely to –** inventory, stock control and supply chain processes (57%), and robotics for production and other manual tasks (44%).
- **25+ staff –** inventory, stock control and supply chain processes (58%), robotics for production and other manual tasks (40%) and virtual customer service assistants (35%).
- **Accommodation and food services –** website or social media content (69%), collating and analysing data (49%) and smart assistants (43%).
- **Primary industries –** autonomous vehicles (26%).
- **Food and drink growth sector –** robotics for production and other manual tasks (42%) and autonomous vehicles (26%).

Each application of automation was more likely than average to be taken by **those considering automation essential or important** to their future.

Q. In what ways are you using, or would like to use, automation?

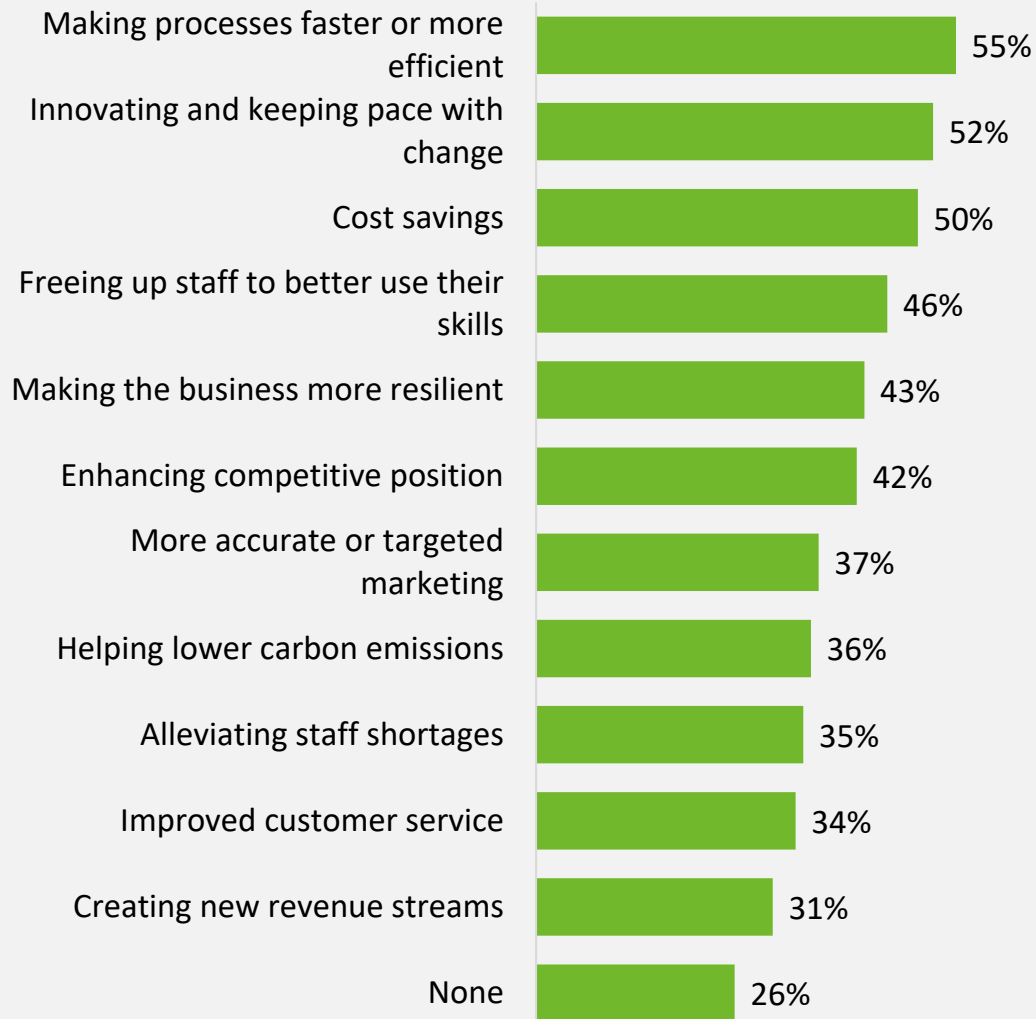


Base: All businesses using or likely to use automation (352)

BENEFITS OF AUTOMATION

Among businesses who knew about automation, 72% felt that it offered benefits. The main perceived benefits were making processes faster or more efficient (55%), innovating and keeping pace with change (52%), and cost savings (50%).

Q. What do you see as the benefits of automation?



Base: All businesses who know about automation (840)

Variation (higher than average):

- **25+ staff** – making processes faster or more efficient (70%), freeing up staff (59%), enhancing competitive position (54%), improved customer service (50%), alleviating staff shortages (49%) and helping lower carbon emissions (48%).
- **Accommodation and food services** – more accurate or targeted marketing (47%).
- **Construction and primary industries** – helping lower carbon emissions (46% and 43%).
- **Administrative and support services** – making processes faster or more efficient (70%), and alleviating staff shortages (50%).
- **Food and drink growth sector** – making the business more resilient (54%), alleviating staff shortages (43%) and helping lower carbon emissions (42%).
- **Tourism growth sector** – more accurate and targeted marketing (52%).
- **Urban** – enhancing competitive position (48%) and improved customer service (39%).
- **HIE-client-engaged** – making processes faster or more efficient (71%) and cost savings (67%).

Each benefit was more likely to be mentioned by those **already using automation** and those **likely to use it**. Those **unlikely to use automation** were less likely to perceive any benefits (40% said it had no benefits).

CONCERNS ABOUT AUTOMATION

Among businesses who knew about automation, three quarters (75%) had concerns about it. The top concerns were cyber security risks (56%), compliance with data protection regulation (43%) and lack of regulation in the round (42%). This was followed by ethical concerns (37%) and the risk of roles (37%) or of the business (22%) becoming obsolete.

Q. What, if any, concerns do you have about automation?



Base: All businesses who know about automation (840)

Overall concerns were higher among those already using automation (84% concerned) and those that were likely to use it in future (91%), compared with those unlikely to use it (65%).

In terms of specific concerns:

- **Those already using automation** were more concerned than average with: cyber security risks (67%) and compliance with data protection regulation (48%).
- **Those likely to use automation in future** were more concerned than average with: cyber security risks (81%), compliance with data protection regulation (67%), lack of regulation (62%) and ethical concerns (54%).

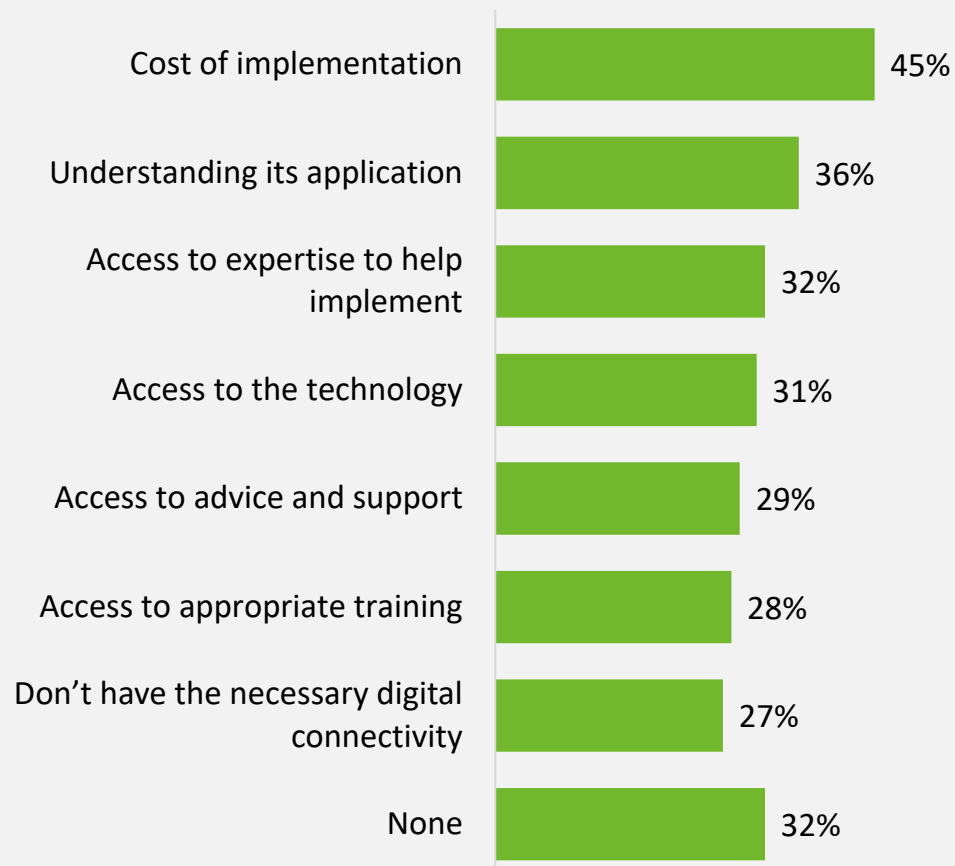
Other variation (higher than average)

- **Professional, technical and scientific** – cyber security risks (67%), lack of regulation (53%), ethical concerns (51%), and risk of roles becoming obsolete (47%).
- **Wholesale and retail** – risk of roles becoming obsolete (50%) and risk of business becoming obsolete (29%).
- **Social enterprises** – lack of regulation (68%) and ethical concerns (58%).

BARRIERS TO USING AUTOMATION

Among businesses who knew about automation, two thirds (67%) cited barriers to its use. The most commonly cited barriers were cost of implementation (45%) and understanding of its application (36%). Around three-in-ten cited access to expertise (32%), technology (31%), advice and support (29%) and appropriate training (28%) as barriers and 27% felt they lacked the necessary digital connectivity.

Q. Which of the following, if any, are preventing you from making more use of automation?



Base: All businesses who know about automation (840)

Those already using automation, and those likely to use it, were more likely to mention almost all of the barriers listed (with the exception of digital connectivity).

Those unlikely to use automation were more likely to say they faced no barriers (43%). This was a similar pattern to that seen in relation to concerns about automation (see previous slide).

Variation (higher than average)

- **25+ staff** – understanding its application (53%) and access to expertise to implement (49%), advice and support (47%), technology (43%) and appropriate training (42%).
- **Remote rural areas and Argyll and the Islands** – digital connectivity (32% and 33%).
- **Struggled in past six months** – cost of implementation (51%).

IMPORTANCE OF AUTOMATION FOR FUTURE OF BUSINESS

Three-in-ten (30%) businesses felt that automation was either important (21%) or essential (9%) to their future, rising to 68% amongst those already using/planning to use automation. Two thirds (68%) felt it was not important.

More likely to say 'essential':

- Those already using automation (23%).
- 5-10 and 11-24 staff (13% and 15%).
- Exporters (12%).

More likely to say 'important':

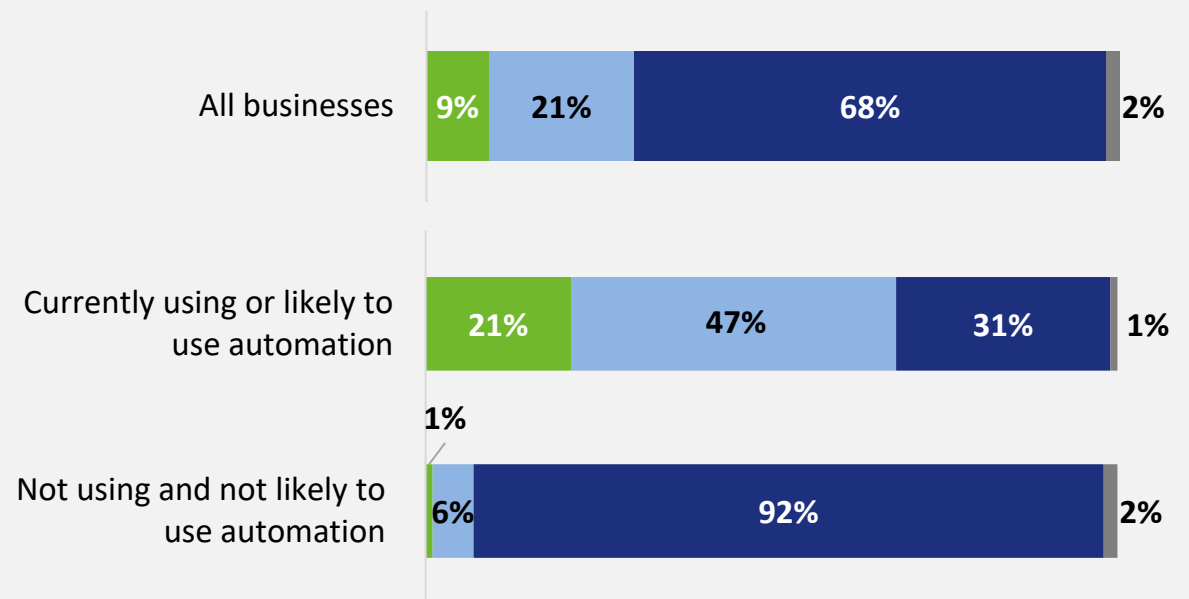
- Those already using automation (45%) and those likely to use it (65%).
- 25+ staff (43%).
- Professional, scientific and technical (28%).
- Exporters (25%).
- Concerned about aspects of their finances (22%).

More likely to say 'not important':

- Those not using automation and not likely to (92%).
- 0-4 staff (74%).
- Construction (79%).
- Not concerned about aspects of their finances (86%).

Q. Overall, how important is automation to the future of your business?

■ Essential ■ Important ■ Not important ■ Don't know



Base: All businesses (1,014); those using/likely to use automation (350); those not using and not likely to use automation (473)

F. APPENDIX

FINANCIAL CONCERNS – BY PERFORMANCE

	Average (%)	Performance over last six months		
		Performed well (%)	Been steady (%)	Struggled (%)
Financial concerns				
High and increasing costs	82	77	82	89
Having to charge higher prices	66	68	61	72
Profit margins	53	42	50	74
Ability to invest in the business	41	33	35	63
Cash flow	39	27	33	65
Cash reserves	36	25	31	60
Cost of servicing debt	28	18	25	46
Access to finance	20	16	17	32
Levels of debt	17	12	12	35
None of these	8	13	8	1
<i>Base</i>	<i>1,014</i>	<i>329</i>	<i>435</i>	<i>244</i>

NOTES

*Darker shaded cells are figures that are higher than the average

FINANCIAL CONCERNS – BY VIABILITY OF CASH RESERVES

		How long businesses could operate on their existing cash reserves			
Financial concerns	Average (%)	Up to 3 months (%)	3 to 6 months (%)	6 to 12 months (%)	Over 12 months (%)
High and increasing costs	82	83	82	82	79
Having to charge higher prices	66	76	68	64	58
Profit margins	53	63	55	54	45
Ability to invest in the business	41	50	43	41	33
Cash flow	39	57	40	36	27
Cash reserves	36	54	36	30	24
Cost of servicing debt	28	35	26	27	21
Access to finance	20	25	22	21	13
Levels of debt	17	23	16	14	10
None of these	8	7	6	4	11
<i>Base</i>	<i>1,014</i>	<i>149</i>	<i>392</i>	<i>215</i>	<i>320</i>

NOTES

*Darker shaded cells are figures that are higher than the average

ACTIONS TO IMPROVE PRODUCTIVITY AND COMPETITIVE POSITION – BY PERFORMANCE OVER LAST SIX MONTHS

Actions	Average (%)	Performance over last six months		
		Performed well (%)	Been steady (%)	Struggled (%)
Introducing more efficient working practices	58	64	53	58
Adapting our product or service	49	56	41	54
Adopting new technologies	47	54	43	46
Investing in premises or equipment	46	57	44	34
Collaborating with other businesses	45	49	41	47
Sourcing people, resources or skills in different ways	32	44	25	27
Recruiting new staff	27	41	22	19
Investing in research and development or innovation	25	30	20	26
Changing our operating hours	19	21	14	26
None of these	11	9	13	8
<i>Base</i>	<i>1,014</i>	<i>329</i>	<i>435</i>	<i>244</i>

NOTES

*Darker shaded cells are figures that are higher than the average

ACTIONS TO IMPROVE PRODUCTIVITY AND COMPETITIVE POSITION – BY EXPECTED PERFORMANCE

Actions	Average (%)	Expected performance over next six months		
		Better than our current performance (%)	At much the same level (%)	Worse than our current performance (%)
Introducing more efficient working practices	58	76	53	62
Adapting our product or service	49	63	46	52
Adopting new technologies	47	62	43	52
Investing in premises or equipment	46	60	44	35
Collaborating with other businesses	45	59	41	44
Sourcing people, resources or skills in different ways	32	49	28	24
Recruiting new staff	27	46	25	15
Investing in research and development or innovation	25	32	22	33
Changing our operating hours	19	31	17	18
None of these	11	2	13	8
<i>Base</i>	<i>1,014</i>	<i>185</i>	<i>723</i>	<i>91</i>

NOTES

*Darker shaded cells are figures that are higher than the average

ACTIONS TO SUPPORT USE OF AUTOMATION – BY CURRENT USERS

Steps taken to support use of automation	Average (%)	Level of use of automation		
		Integral to the business (%)	Use and want to do more (%)	Use but don't want to do more (%)
Training staff on its use	57	62	67	42
Investing in hardware, equipment or machinery	56	59	68	41
Exploring bespoke solutions for our specific needs	51	60	67	27
Creating a plan, or updating our business plan	49	45	56	42
Developing leadership awareness and understanding	49	47	53	45
Using free automation software	39	30	49	33
Investing in more advanced automation software	33	38	43	20
Bringing in new staff to implement and develop automation	10	8	16	5
None of these	11	9	5	18
<i>Base</i>	<i>301</i>	<i>55</i>	<i>133</i>	<i>116</i>

NOTES

*Darker shaded cells are figures that are higher than the average

SECTOR CATEGORIES INCLUDED IN THE SURVEY SAMPLE

SIC 2007 categories

The sector categories referred to in the report, and examples of the types of sectors covered by these categories, are summarised below.

Sector title uses in report	Types of sectors covered
Primary industries	Agriculture, forestry, fishing; Mining and quarrying; Electricity, gas and air supply; Water and sewerage
Manufacturing	Manufacturing
Construction	Construction
Wholesale and retail	Wholesale and retail sales and repairs
Transport and storage	Transport activity and storage of goods used for transport activities
Accommodation and food services	Accommodation and food service activities
IT, finance and real estate	IT, telecommunications, financial services, insurance, and real estate
Professional, scientific and technical	Legal, accounting, advertising, architectural and scientific research.
Administrative and support services	Office administration, human resources, services to buildings and landscapes, travel, and security services.
Arts and entertainment	Creative and arts activities; Libraries, museums and cultural activities; Sports and recreation.

Growth sector categories

The growth sector categories referred to in the report, and the types of SIC 2007 sectors they partially cover are summarised below.

Growth sector category	SIC 2007 categories partially covered
Creative industries	Manufacturing; Wholesale and retail; Professional, scientific and technical; Administrative and support services; Arts and entertainment.
Energy	Primary industries; Manufacturing; Professional, scientific and technical.
Financial and business services	IT, finance and real estate; Professional, scientific and technical; Administrative and support services;
Food and drink	Primary industries; Manufacturing.
Life sciences	Manufacturing. Professional, scientific and technical;
Tourism	Accommodation and food services; Administrative and support services; Arts and entertainment.

PROFILE OF BUSINESSES INTERVIEWED (WEIGHTED)

Size (no of employees)	%
Sole trader	23
1-4	40
5-10	17
11-24	11
25+	9

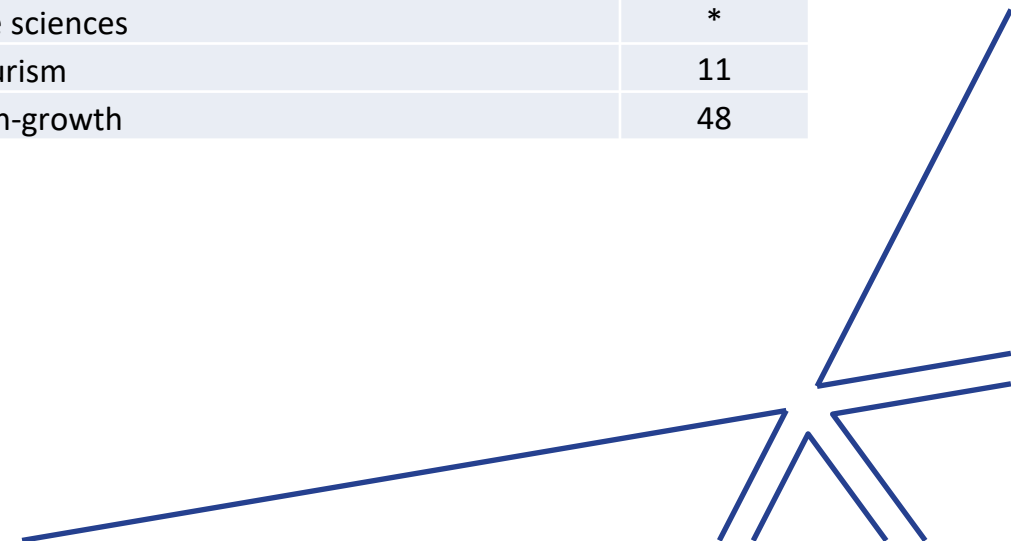
Location	%
Argyll and the Islands	20
Caithness and Sutherland	11
Inner Moray Firth	26
Lochaber, Skye and Wester Ross	13
Moray	12
Orkney	8
Outer Hebrides	5
Shetland	7

Relationship with HIE	%
Client-engaged	5
Non-client-engaged	95

Urban/rural	%
Remote rural	58
Accessible rural	10
Other (urban)	32

Sector (SIC 2007 categories)	%
Primary industries	27
Manufacturing	6
Construction	13
Wholesale and retail	12
Transport and storage	3
Accommodation and food services	11
IT, finance and real estate	5
Professional, scientific and technical	11
Administrative and support services	6
Arts and entertainment	6

Growth sector	%
Creative industries	7
Energy	2
Financial and business services	8
Food and drink	25
Life sciences	*
Tourism	11
Non-growth	48



IPSOS STANDARDS & ACCREDITATIONS

Ipsos' standards & accreditations provide our clients with the peace of mind that they can always depend on us to deliver reliable, sustainable findings. Moreover, our focus on quality and continuous improvement means we have embedded a 'right first time' approach throughout our organisation.



ISO 20252 – is the international market research specific standard that supersedes BS 7911 / MRQSA & incorporates IQCS (Interviewer Quality Control Scheme); it covers the 5 stages of a Market Research project. Ipsos was the first company in the world to gain this accreditation.



MRS Company Partnership – By being an MRS Company Partner, Ipsos endorse and support the core MRS brand values of professionalism, research excellence and business effectiveness, and commit to comply with the MRS Code of Conduct throughout the organisation & we were the first company to sign our organisation up to the requirements & self regulation of the MRS Code; more than 350 companies have followed our lead.



ISO 9001 – International general company standard with a focus on continual improvement through quality management systems. In 1994 we became one of the early adopters of the ISO 9001 business standard.



ISO 27001 – International standard for information security designed to ensure the selection of adequate and proportionate security controls. Ipsos was the first research company in the UK to be awarded this in August 2008.



The UK General Data Protection Regulation (UK GDPR) & the UK Data Protection Act 2018 (DPA) – Ipsos is required to comply with the UK General Data Protection Regulation and the UK Data Protection Act; it covers the processing of personal data and the protection of privacy.



HMG Cyber Essentials – A government backed and key deliverable of the UK's National Cyber Security Programme. Ipsos was assessment validated for certification in 2016. Cyber Essentials defines a set of controls which, when properly implemented, provide organisations with basic protection from the most prevalent forms of threat coming from the internet.



Fair Data – Ipsos is signed up as a 'Fair Data' Company by agreeing to adhere to ten core principles. The principles support and complement other standards such as ISOs, and the requirements of Data Protection legislation.

This work was carried out in accordance with the requirements of the international quality standard for market research, ISO 20252 and with the Ipsos Terms and Conditions

FOR FURTHER INFORMATION:

Ciaran Mulholland, Research Director, Ipsos Scotland
ciaran.mulholland@ipsos.com

Erin Simpson, Senior Research Executive, Ipsos Scotland
erin.simpson@ipsos.com

HIE Research Team
hieresearch@hient.co.uk