

HIE BUSINESS PANEL SURVEY

Wave 11 - Looking to the Future



Ipsos MORI
Scotland



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

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1. INTRODUCTION

BACKGROUND

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

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

This report presents findings from the most recent wave of the survey (the eleventh overall) carried out in September/October 2018. The survey covered a number of topics of general interest to business, including economic optimism and business performance, prospects, challenges and workforce issues. This wave also explored several topics relating to the period ahead, including business values, priorities and growth aspirations, views on the impact of Brexit, and any actions businesses were taking as a result.

METHODOLOGY

Sampling

The survey sample was mainly sourced from businesses that took part in the previous waves of the survey and had indicated that they were willing to be re-contacted. Additional HIE panel members and account managed businesses were also approached along with companies identified from the Experian business database. The sample was designed to match the structure of the Highlands and Islands business population in terms of sector, size and geographical distribution. Quotas were set for recruitment and interviewing so that the achieved sample reflected the population of eligible organisations as defined by the Inter-Departmental Business Register (IDBR). Eligible organisations were defined by SIC code, with the following SIC 2007 Sections excluded from the sampling:

- Public administration and defence; compulsory social security;
- 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 29th September and 31st October 2018, using telephone interviewing. In total 1,001 eligible interviews were achieved.

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

PRESENTATION AND INTERPRETATION OF THE DATA

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

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

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

2. OPTIMISM, PROSPECTS AND PERFORMANCE

KEY MESSAGES:

Overall confidence in the economic outlook in Scotland fell this wave: 34% said their confidence had decreased in the last six months wave (up 9 percentage points on the previous wave), while 11% said it increased (down 4 percentage points). The gap between the decrease and increase in confidence was notably more pronounced than in the last wave, and similar to the levels recorded between July/August 2016 and April/May 2017.

Regarding confidence in the Highlands and Islands economy, almost two thirds (63%) of businesses said they were very or fairly confident about the next 12 months, while a third were not confident.

Businesses were positive about their own performance, in keeping with previous waves: 43% said their business had performed well in the last 12 months, whilst 38% had been fairly steady and 18% struggled. Businesses continued to report stable business performance over the last six months, particularly with regards to employment, working hours and staff training. However, opinion was more mixed in terms of financial aspects, specifically sales and turnover, and profit margins.

Looking ahead to the next year or two, businesses remained optimistic, with four in five being very or fairly optimistic about their prospects.

The biggest risks for the next year or two were increased costs (88%), wider political uncertainty (79%) and the UK's departure from the EU (70%). The biggest opportunities were having a loyal customer base (85%) and increased demand for products or services (80%).

ECONOMIC OPTIMISM

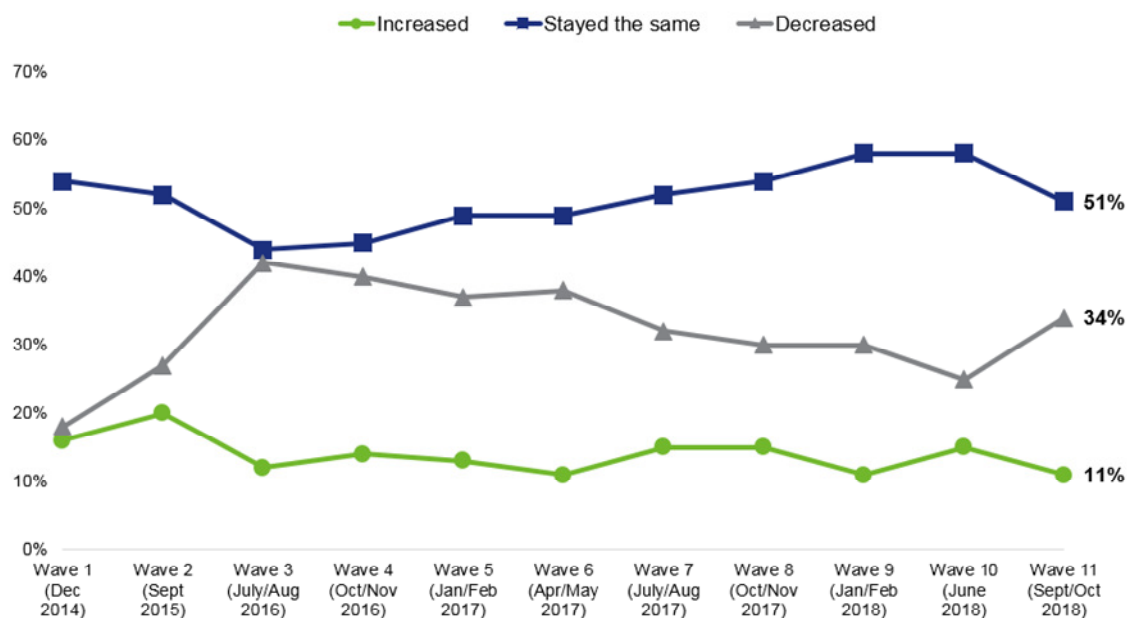
Outlook in Scotland

Approximately half (51%) of businesses said their confidence in the economy had stayed the same over the past six months, while a third (34%) said their confidence had decreased and 11% said it had increased (Figure 2.1). The proportion saying their confidence had decreased was higher than the previous wave (up 9 percentage points). There was a corresponding decrease in the proportion saying their confidence had stayed the same, back to the levels reported between July/August 2016 and April/May 2017. Economic optimism had an overall net negative of -23, notably lower than the -10 points recorded last wave, but better than the low of -30 recorded in July/August 2016.¹

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

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

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



Base: All businesses

Variation by type of business

There was little variation by sector, except for food and drink and financial and business services, both of which were more likely to say their confidence had decreased: 44% and 46% respectively, compared to the average of 34%.

In keeping with wave ten, there was no significant difference between account managed and non-account managed businesses.

Continuing the trend noted in previous waves, economic confidence was correlated with optimism and views on business performance. Businesses who were not optimistic about their prospects for the next 12 months were more likely to report decreased confidence in the economic outlook: 69% compared to 27% of those who said they were optimistic about the upcoming year. Alternatively, those who were optimistic about their business prospects for the next 12 months were more likely to say their confidence had stayed the same (57% compared to 25% of those not optimistic) or increased (13% compared with 6%).

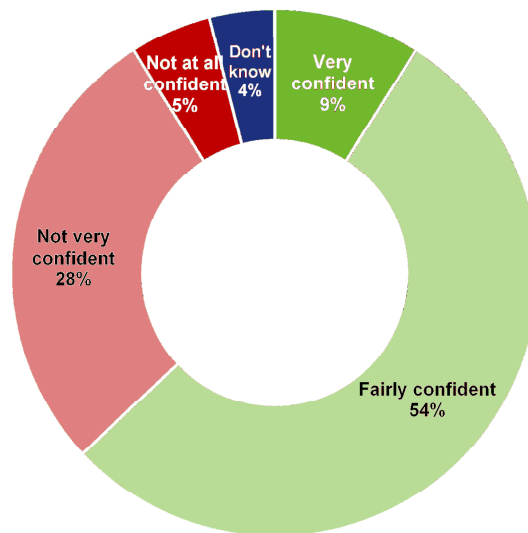
In terms of past performance, businesses who had struggled in the past 12 months were more likely than average to report decreased confidence in the economy (58% compared with the survey average of 34%), and those who had performed well were more inclined to say their confidence increased (19% compared with 11%).

Highlands and Islands region

In this wave, businesses were asked about their confidence in the economic outlook for the Highlands and Islands region over the next 12 months. As shown in Figure 2.2, 63% said they were confident, with 9% very and 54% fairly confident. However, a third (33%) said they were not confident, with 28% not very confident and 5% not at all confident.

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

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



Base: All businesses

Variation by type of business

Food and drink businesses more likely to *not* be confident (41% compared to the survey average of 33%). Confidence was also lower among small businesses: 37% of businesses with 0-4 employees said they were not very/not at all confident compared with the average of 33%.

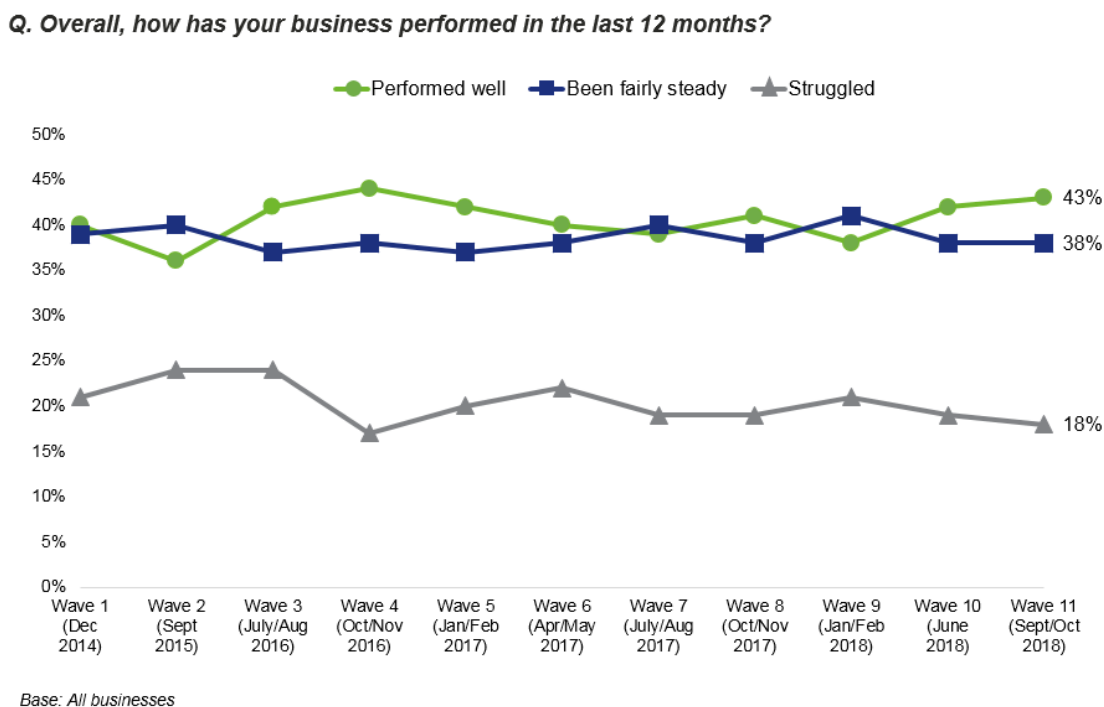
As with confidence in the economic outlook in Scotland, economic confidence was correlated with optimism and views on business performance. Businesses that were optimistic about their business prospects for the next 12 months were notably more likely to express confidence in the Highlands and Islands economy: 73% compared with 17% of those who were not optimistic. Similarly, the highest levels of confidence were also seen amongst businesses who had performed well (73%) or steadily in the last 12 months (64%), compared with those who had struggled (38%).

Confidence in the regional economic outlook was also higher among those that aspired to grow in the next year or two (67% confident) compared with those that wanted to downsize (31%).

BUSINESS PERFORMANCE

Views on business performance remained similar to those recorded in previous waves (Figure 2.3), with 43% saying they had performed well in the last six months (10% exceptionally well, 33% quite well). A further 38% reported steady performance, while 18% had struggled (15% struggled slightly and 4% markedly).

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



Variation by type of business

As detailed above, there was a correlation between business performance and economic confidence: 72% of those whose confidence in the economy had increased also said their business had performed well (compared with 43% overall), while 31% of those whose confidence had decreased said they had struggled in the past 12 months (compared with 18% overall). Similarly, those that were striving for growth were more likely to have performed well than those that wanted to downsize (47% compared with 22%)

Food and drink businesses were more likely to have struggled: 28% said they struggled, either slightly or markedly, compared to the average of 18% (Table A.1, see Appendix).

Larger businesses (25+ employees) were more likely than average to have performed well (63% compared to 43%), while small businesses (0-4 employees) were more likely to have struggled (22% compared to 18%).

There was no significant difference between account managed and non-account managed businesses.

ASPECTS OF BUSINESS PERFORMANCE

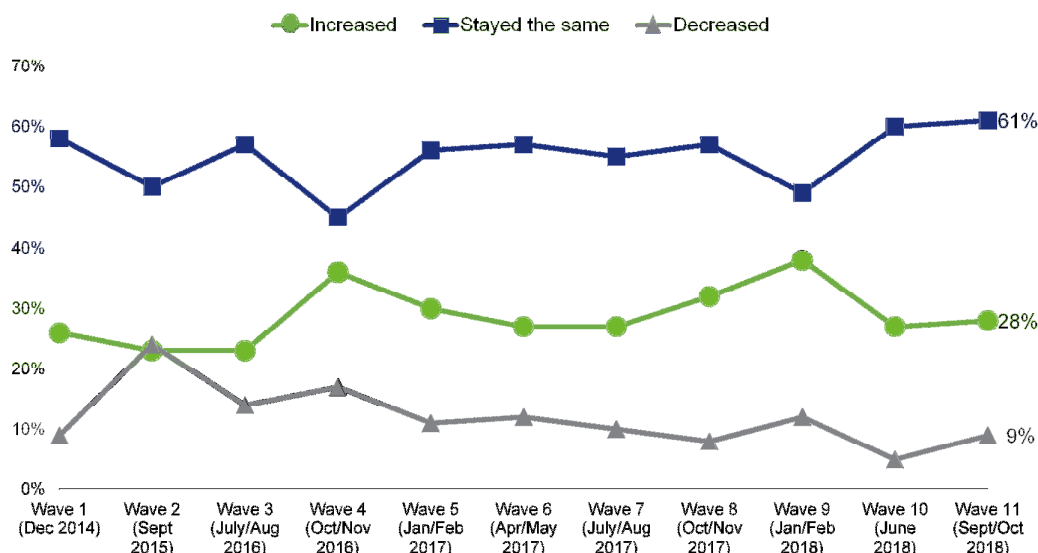
In line with the findings from previous waves, businesses reported relatively stable performance on employment (71%), working hours (69%) and staff training (68%). Views were more varied in relation to sales and turnover (42% increase, 19% decrease and 38% stayed the same) and profit margins (27% increase, 23% decrease and 47% stayed the same) (Table A.2).

Turning specifically to exports, 28% experienced an increase, whilst 61% said levels had stayed the same and 9% experienced a decrease. As shown in Figure 2.4, the findings were similar to those recorded in wave ten.

As reported in previous waves, among exporters, those more likely than average to report an increase were account managed businesses (39% compared with 28% overall) and those performing well in the last twelve months (41% compared with 28%).

Figure 2.4: Trends in exports over time

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



Base: All businesses for whom this question applied (209)

To summarise businesses' experience, we scored each instance of increased performance as +1, each decrease as -1 and each 'stayed the same' as 0 and summed across the six aspects for each business.² The average score was 0.7, slightly lower than the 0.8 reported in wave ten, but in line with wave eight (0.7) and nine (0.6). This indicates that businesses continue to report more increases than decreases overall.

Half (50%) of businesses had an overall positive score, while 23% had a negative score and a quarter (27%) had a score of zero.

Variation by type of business

Those in the financial and business services sector had the highest overall score (1.2), followed by the creative industries (0.8) and tourism (0.6) sectors (Table A.3). Financial and business services organisations were more likely than average to report an increase in sales or turnover (61% compared with 42%). The overall score amongst tourism businesses (0.6) was lower than in the previous wave (1.0) and back to the level reported in wave nine (0.5), reflecting the time period of fieldwork (the score of 1.0 was achieved during summer months).

In terms of regional variation, businesses in the Outer Hebrides (1.2) had the highest average overall score, followed by the Inner Moray Firth (0.9) (Table A.4). Scores were lowest in Caithness and Sutherland (0.4) and Lochaber, Skye and West Ross (0.6). In keeping with previous waves, this is at least in part explained

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

by the profile of businesses in different areas: in Lochaber, Skye and West Ross, for instance, 26% of businesses were in the tourism sector, compared to the average of 15%.

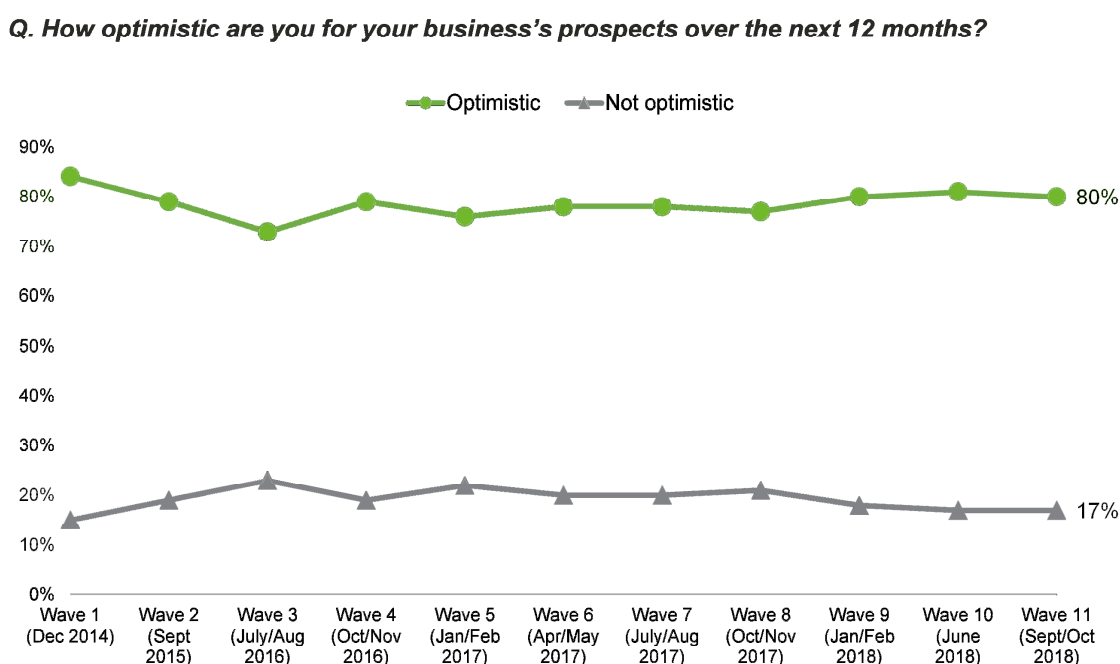
Reinforcing findings from previous waves, larger businesses tended to report greater overall satisfaction: the average score for businesses with 25+ employees (1.6) was considerably higher than those with 0-4 employees (0.4) (Table A.5). This is seen across all aspects of business performance, most notably sales or turnover (65% compared with 42%), exports (36% compared with 28%) and training (44% compared with 25%).

Account managed businesses had higher positive scores (1.3) than non-account managed businesses (0.7) and, similar to the last wave, were more likely to report increased performance in sales or turnover (51% compared with 41% of non-account managed businesses), exports (39% compared with 24%), staff training (38% compared with 23%) and employment (33% compared with 18%). The percentage of businesses reporting an increase in profit margins was similar between both account managed (25%) and non-account managed (27%) businesses.

FUTURE BUSINESS PROSPECTS

Four in five businesses (80%) were optimistic about their future prospects (14% very, 66% fairly optimistic), while 17% were not optimistic (14% not very, 3% not at all). These findings were very similar to those reported in previous waves (Figure 2.5).

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



Base: All businesses

Variation by type of business

Mirroring findings outlined thus far, optimism for the year ahead was higher amongst those whose confidence in the Scottish economy had increased in the last six months: 90% of businesses who said their confidence had increased also said they were optimistic about their business's prospects in the next 12 months (compared with 80% overall). In contrast, those whose optimism about the economy had decreased were more inclined to say they were not optimistic (35% compared with 17% overall) (Table A.6).

Optimism regarding business prospects for the upcoming year was again related to past business performance: 92% of those who had performed well said they were optimistic, while over half (56%) of those that had struggled said they were not optimistic (Table A.7). Similarly, optimism was higher among those striving for growth and content with their current level of performance than those wanting to downsize (82% and 85% compared with 46% respectively).

Similar to the previous wave, food and drink businesses were less optimistic than other industries: 29% were not optimistic, compared with 17% overall.

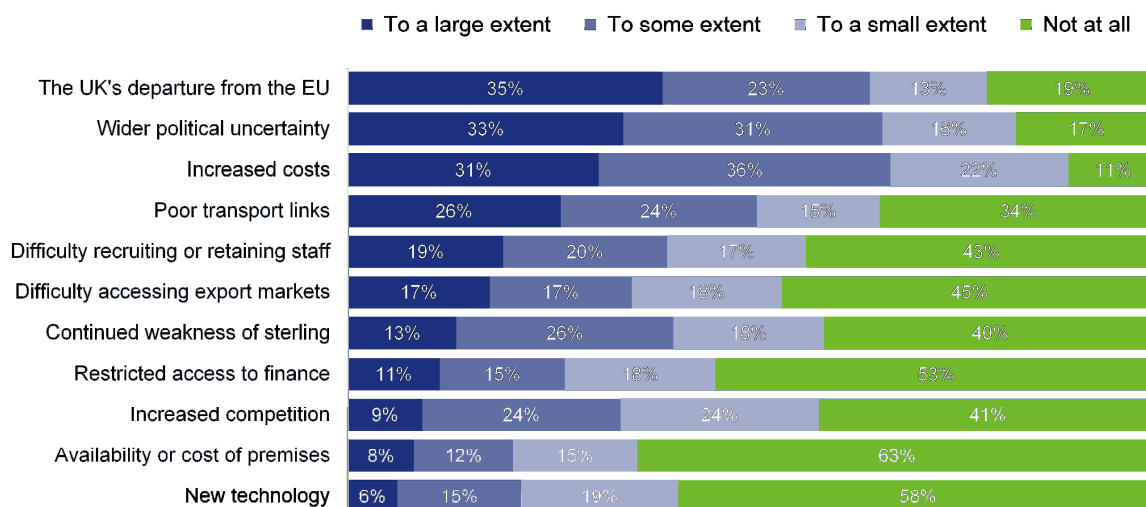
There was no significant difference between account managed and non-account managed businesses.

Factors presenting risk

Businesses were asked the extent to which a series of factors present a risk to their business within the next year or two (Figure 2.6 and Table A.8). Almost nine in ten businesses (88%) said increased costs was a risk (31% stating this was a risk to a large extent). Wider political uncertainty was also a risk for 79% (33% to a large extent) as was the UK's departure from the EU (70%, with 35% large extent). Poor transport links (65%), increased competition (58%), the continued weakness of sterling (57%), difficulty recruiting or retaining staff (57%) and difficulty accessing export markets (52%) were also seen as presenting a risk to more than half of businesses.

Figure 2.6: Factors presenting risk to business

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



Base: All businesses for whom it applied

Variation by type of business

As might be expected, difficulty recruiting and retaining staff was a more prominent risk for larger organisations (81% compared to the survey average of 57%), as was the availability and cost of premises (49% compared with 36%) and increased competition (73% compared with 58%).

In terms of sector, food and drink businesses were more likely than average to say several factors presented a risk: increased costs (93% versus 88%), wider political uncertainty (89% versus 79%), UK's departure from the EU (76% versus 70%), recruiting and retaining staff (69% versus 57%), and difficulty accessing export markets (69% versus 52%). Tourism businesses were more likely to view poor transport links as a risk: 75% compared with the survey average of 65%.

Account managed businesses tended to view each of the factors as more of a risk than non-account managed businesses, particularly: wider political uncertainty (91% of account managed businesses versus 78% of non-account managed), UK's departure from the EU (82% versus 69%), poor transport links (78% versus 63%), increased competition (69% versus 57%), restricted access to finance (64% versus 42%) and difficulty accessing export markets (64% versus 49%).

Businesses who had struggled within the last 12 months reported above average concerns about many of the risks: increased costs (95% compared with 88% overall), wider political uncertainty (90% versus 79%), UK's departure from the EU (82% versus 70%), difficult accessing export markets (71% versus 52%), continued weakness of Sterling (69% versus 57%), recruiting and retaining staff (68% versus 57%) and restricted access to finance (64% versus 45%).

Businesses striving for growth were more likely than those that wanted to downsize to be concerned about: poor transport links (68% compared with 51%), difficulty recruiting or retaining staff (65% versus 44%), and increased competition (62% versus 40%). Those striving for growth were more likely than those that were content with current performance to see access to finance as a risk (52% compared with 33%).

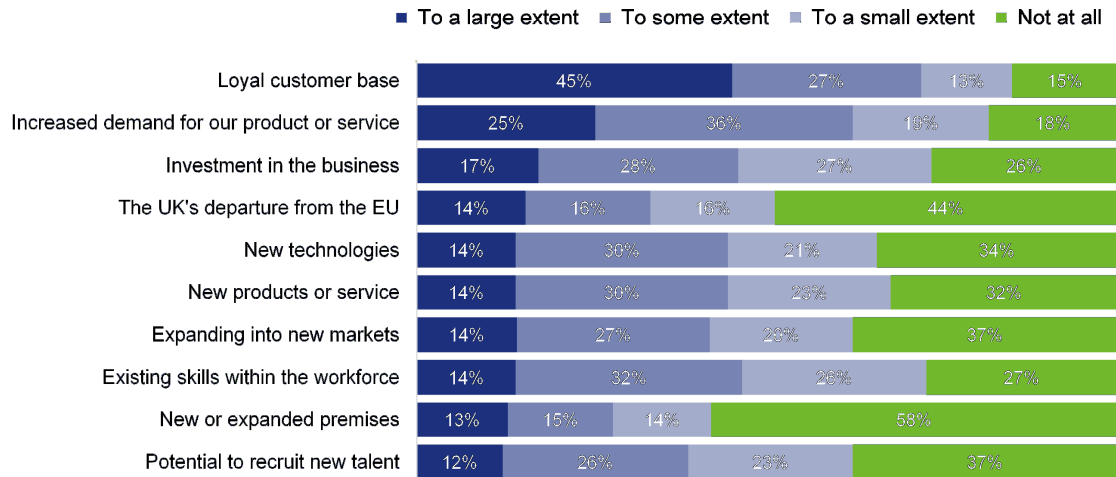
There was little difference in terms of area, however businesses based in Shetland were more likely to be concerned about poor transport links (78% compared with 65%).

Factors presenting opportunity

Businesses were also asked the extent to which a series of factors present an opportunity to their business within the next few years. As can be seen from Figure 2.7, loyal customer base presented an opportunity for 85% of businesses (45% to a large extent), followed by increased demand for product or service (80%), investment in business (72%), existing skills with the workforce (72%) and new products or services (67%) – all selected by more than two thirds of relevant businesses.

Figure 2.7: Factors presenting opportunities for business

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



Base: All businesses for whom it applied

It is worth noting that certain factors were seen as both risks and opportunities for the next year or two. As noted above, Brexit was seen as a risk by 70% of businesses and as an opportunity by 46%, with 35% seeing it as both. Similarly, new technology was seen as a risk for 40% of businesses and as an opportunity for 65%, with 30% seeing it as both.

Variation by type of business

Businesses with 25+ employees were more likely to view existing skills within workforce as an opportunity (82% compared with the survey average of 72%) and the potential to recruit new talent (80% compared with 62%).

Account managed businesses were more inclined than non-account managed businesses to view the following factors as an opportunity: increased demand for product or service (90% compared with 79%), expanding into new markets (82% compared with 59%), new products or services (80% compared with 65%), potential to recruit new talent (76% compared with 59%), new technologies (74% compared with 64%) and new or expanded premises (62% compared with 38%).

With the exception of Brexit, businesses striving for growth were more likely than average to see each factor as an opportunity: loyal customer base (88% compared with 85% overall), increased demand (85% versus 80%), investment in the business (80% versus 72%), existing skills within the workforce (78% versus 72%), new products or services (77% versus 67%), expanding in to new markets (72% versus 61%), potential to recruit new talent (69% versus 61%), new technologies (69% versus 65%) and new or expanded premises (52% versus 42%).

3. BUSINESS VALUES AND GROWTH ASPIRATIONS

KEY MESSAGES:

Producing quality goods and services was important to almost all (96%) businesses, as was having a good work life balance (93%), contributing to the local community (93%), strong financial performance (86%) and the future legacy of the business (85%).

Reflecting these business values, the majority (96%) felt producing quality products or services gave them a competitive advantage over other businesses. Other key competitive aspects were brand reputation (93%), quality of customer service (92%) and loyalty of customers (92%).

Over half (56%) of businesses said they *aspired* to future growth, whilst a third (34%) were content with their current size and a tenth (9%) were looking to downsize in the future. In terms of *expected* growth over the next year or two, 45% said they expected to grow, 45% to stay the same and 7% anticipated a contraction.

Thinking about what growth looks like to businesses, 93% said continuous improvement was of most relevance to them, followed by increased profits (84%), increased customer base (82%), keeping pace with new technology (81%), outperforming competition (81%) and increased turnover (81%).

Almost all (94%) of businesses said they had taken some action in the last 12 months to help improve productivity and competitive position. Likewise, 94% planned to take some action in the next 12 months.

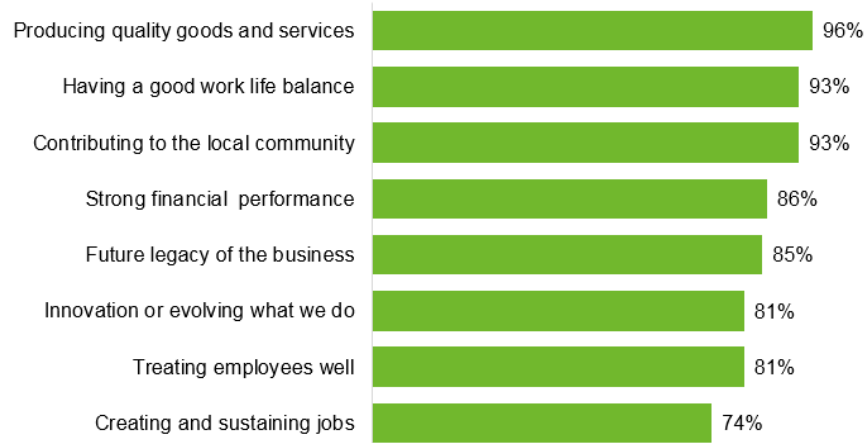
The top actions businesses had taken, and were likely to take in the future, were: analysing data to help inform decision-making (66% had done this in the last 12 months and 73% planned to in next 12 months), investment in premises or equipment (66% had done this and 63% planned to) and adapting business models and working practices (64% had done this and 71% planned to).

BUSINESS VALUES AND COMPETITIVE ADVANTAGE

Asked about their business values, almost all (96%) said that producing quality goods and services was of importance to them, closely followed by having a good work life balance (93%), contributing to the local community (93%), strong financial performance (86%) and the future legacy of the business (85%) (Figure 3.1).

Figure 3.1: Values important to business

Q. Firstly, what values would you say are most important for your business?



Base: All businesses

Variation by type of business

Larger business (with more than 5 employees) placed particular importance on creating and sustaining jobs, and treating employees well: for example, almost all (99-100%) of those employing more than five said treating employees well was important for their business, compared with 71% of businesses employing 0-4 staff.

There were few differences by sector, with food and drink businesses showing above average tendency to value strong financial performance (92% compared to 86% overall).

Account managed businesses were more likely than non-account managed to select many of the values listed, particularly: contributing to the local community (98% compared with 92%), treating employees well (97% compared with 80%), creating and sustaining jobs (95% compared with 71%), strong financial performance (94% compared with 85%), innovation or evolving what they do (93% compared with 79%) and future legacy of the business (93% compared with 84%).

Businesses optimistic about the next 12 months showed a greater tendency to say the following business values were important: having a good work/life balance (94% versus 88% of those not optimistic), future legacy of the business (86% versus 79%), treating employees well (83% versus 72%) and creating and sustaining jobs (76% versus 65%).

Those striving for growth were more likely than average to identify several values as important to their business (Table 3.1; shaded cells represent those that are significantly different from the average).

Table 3.1: Values important to businesses by growth aspirations

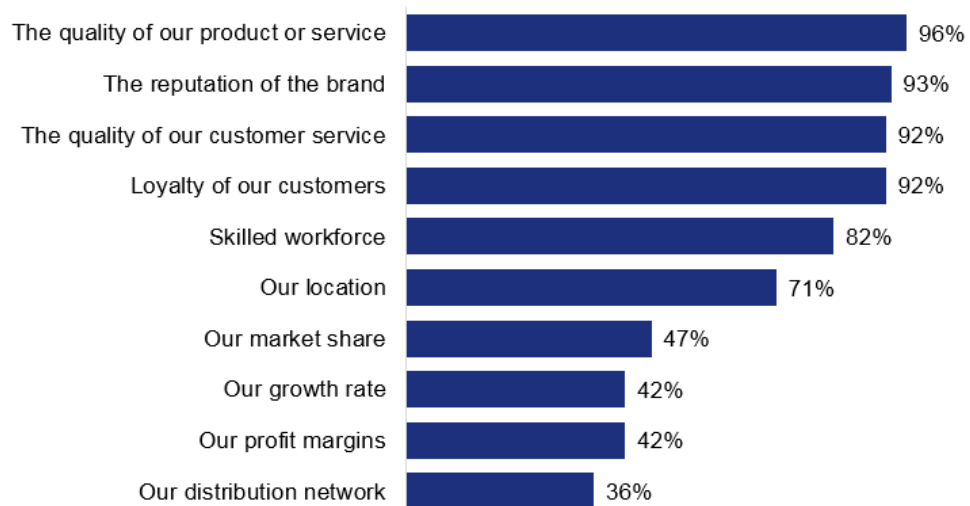
Values important to business	Growth aspiration		
	Striving for growth (%)	Content with current level (%)	Wanting to downsize (%)
Producing quality goods and services	98	96	90
Having a good work life balance	93	92	93
Contributing to the local economy	94	92	89
Strong financial performance	91	80	76
Future legacy of the business	89	81	70
Innovation or evolving what we do	85	76	73
Treating employees well	90	72	61
Creating and sustaining jobs	84	63	55
<i>Base</i>	<i>578</i>	<i>338</i>	<i>79</i>

Competitive advantage

These values were reflected in the aspects that businesses view as giving them a competitive advantage, with almost all (96%) saying the quality of products or services was a competitive advantage. This was closely followed by brand reputation (93%), the quality of customer service (92%) and loyalty of customers (92%). A skilled workforce was seen as a competitive advantage by 82% and location by 71%, while aspects relating to infrastructure and finance were considered a competitive advantage by less than half: market share (47%), growth rate (42%), profit margins (42%) and distribution network (36%) (Figure 3.2).

Figure 3.2: Aspects giving competitive advantage

Q. What aspects of your business would you say give it a competitive advantage over others?



Base: All businesses

Variation by type of business

There was some variation between sectors: food and drink businesses were more likely on average to view profit margins (49% compared with 42%) and their distribution network (46% compared with 36%) as competitive advantages, while location was an advantage for tourism businesses (88% compared with 71%) and skilled workforce for financial and business services organisations (92% compared with 82%).

Businesses with five or more employees were most likely to view their skilled workforce as an advantage: 89% of businesses with 5-10 employees and 94% with 11+ employees, compared with 76% employing 0-4 say their skilled workforce gives them a competitive advantage. Larger businesses (25+ employees), were also more likely on average to view their market share (68% compared with an average of 47%) and growth rate (63% compared with 42%) as an advantage.

There were relatively few differences in terms of account management status: 56% of account managed businesses said their growth rate was an advantage (compared with 40% of non-account managed), and 45% said their distribution network was an advantage (compared with 35% of non-account managed).

There were also differences between businesses in fragile and non-fragile areas, with a lower percentage of those in fragile areas viewing brand reputation (89% fragile; 94% non-fragile), customer loyalty (87% fragile; 93% non-fragile), market share (39% fragile; 49% non-fragile) and profit margins (34% fragile; 43% non-fragile) as an advantage.

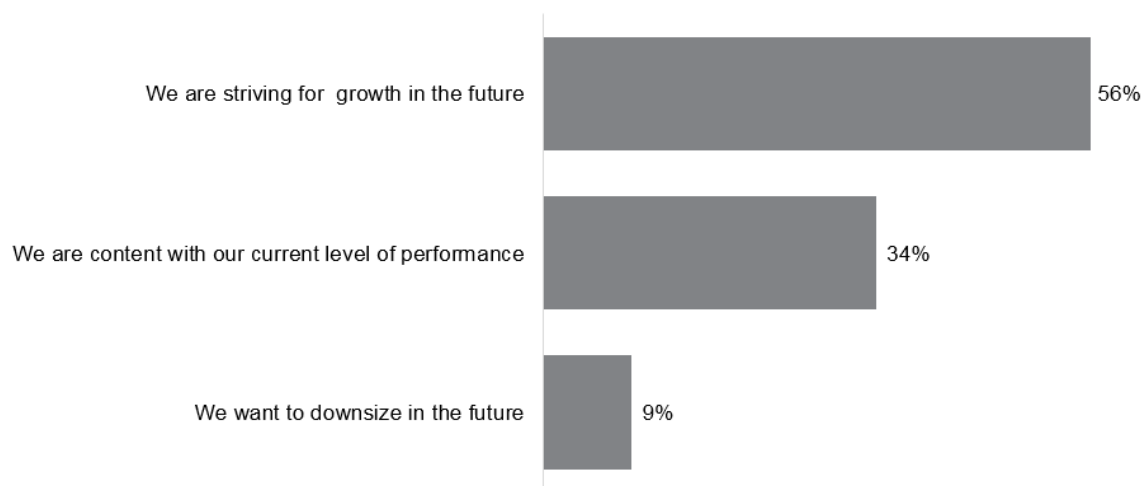
Businesses that performed well in the last 12 months were more likely than average to view market share (56% compared to 47%) and growth rate (50% compared to 42%) as competitive advantages.

GROWTH ASPIRATIONS

In terms of their growth aspirations, over half (56%) of businesses said they were striving for growth in the future, whilst a third (34%) said they were content with their current size and a tenth (9%) were looking to downsize in the future (Figure 3.3).

Figure 3.3: Current aspirations for business

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



Base: All businesses

Variation by type of business

There was notable variation by size of business: those with 0-4 employees were more likely than average to want to downsize (13% compared to 3% of business with 5+ employees) or maintain their current level of performance (42% compared with 19% of those employing 5+). Whilst 45% of 0-4 sized businesses aspired for growth in the future, this figure was 71% for business with 5+ employees, and as high as 81% amongst businesses with 25+ employees.

There were also some differences in terms of years of operation, with those who had been in operation for 10+ years showing an above average intention to downsize (11% compared to average of 9%).

Almost nine in ten (89%) of account managed businesses said they were striving for growth in the future, compared to 53% of non-account managed businesses.

Businesses optimistic about their business prospects for the next 12 months showed greater aspirations for growth (58% compared with 48% of those not optimistic) or were content with remaining at their current level of performance (36% compared with 26% of those not optimistic), while those not optimistic were more inclined to want to downsize in the future (25% compared with 5% of those optimistic).

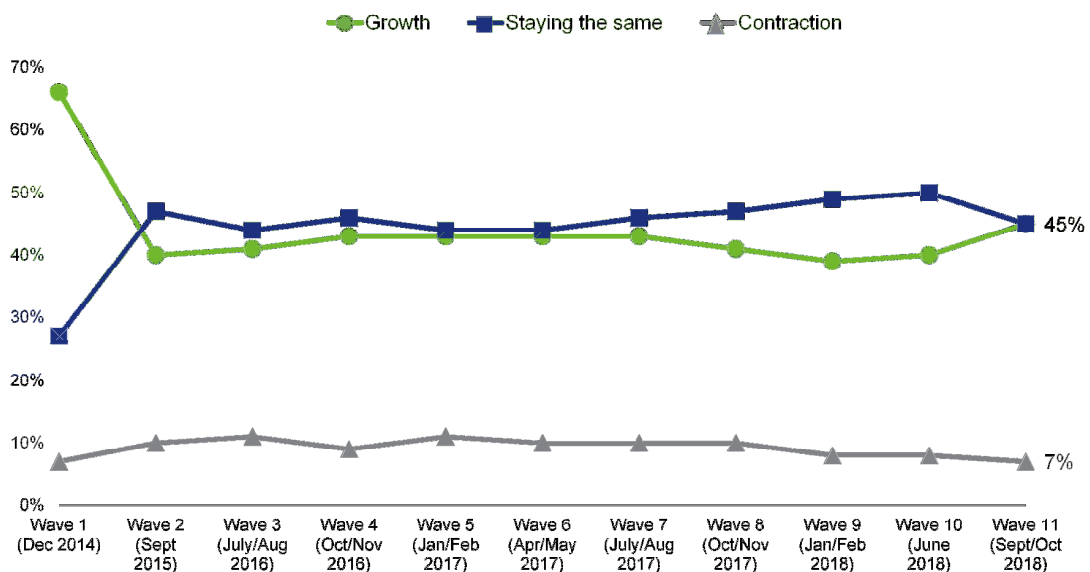
There were no differences by sector.

Future business growth

Broadly reflecting the findings from previous waves, 45% of businesses expected to remain stable in the next year or two, while 45% anticipated growth and 7% expected contraction. As is evident from Figure 3.4, the proportion expecting growth increased on the previous two waves and there was a corresponding decline in percentage expecting to remain stable. Similar to previous waves, a small percentage (6%) expected substantial growth, 23% moderate growth and 17% slight growth.

Figure 3.4: 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

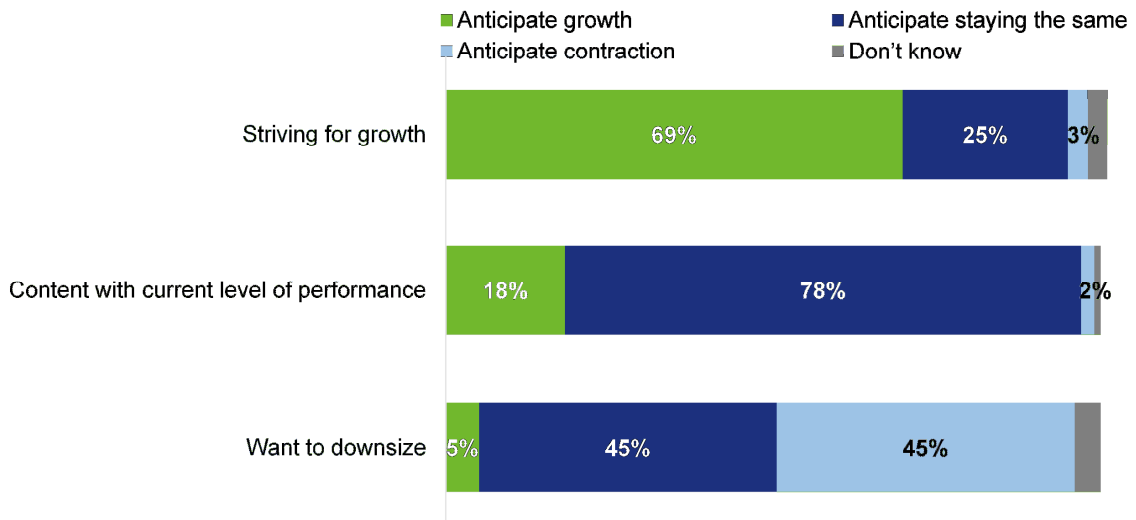
Variation by type of business

Small businesses (0-4 employees) were less likely than average to anticipate growth: 36% expected to grow compared with 45% overall. Account managed businesses were more likely than non-account managed to anticipate growth (75% compared with 42%). Businesses that had been in operation for 10+ years were more likely to forecast remaining much the same (48% compared with the average of 45%).

Most business striving for growth also anticipated growth in the next year or two (69%). However, 25% of those that were striving for growth anticipated staying the same, while 3% anticipated a contraction (Figure 3.5). Around a fifth (18%) of those that were content with their level of performance anticipated growing, while, while 78% anticipated stability. Among those that wanted to downsize, views were mainly split between those who anticipated stability (45%) and those who anticipated a contraction (45%).

Figure 3.5: Growth aspirations by expectations for growth

Aspiration for growth vs expectations for growth



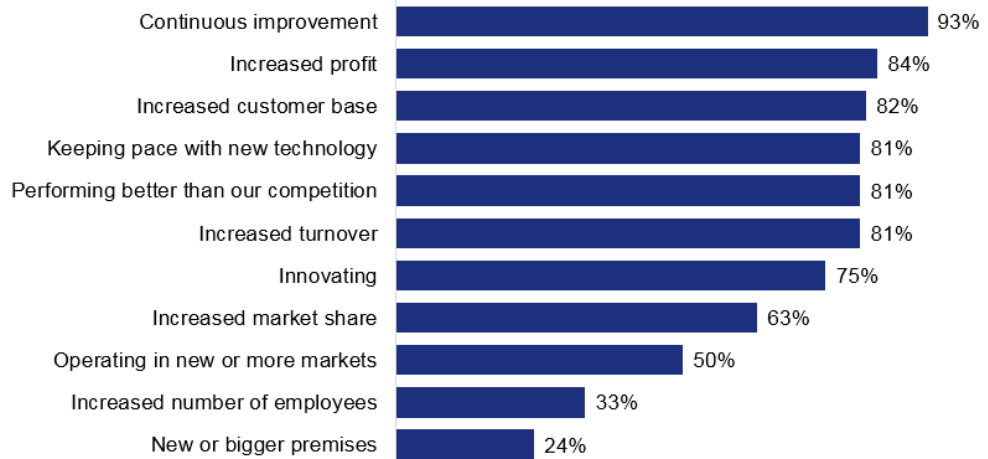
Base: All businesses

Relevant characteristics of growth

When asked what characteristics of growth were most relevant to their business, continuous improvement was relevant to almost all businesses (93%). This was followed by increased profits (84%), increased customer base (82%), keeping pace with new technology (81%), performing better than competition (81%) and increased turnover (81%). Innovation was relevant to three quarters of businesses, while 63% selected increased market share and half selected operating in new or more markets. Just one third of businesses said increasing the number of employees was an aspect of growth relevant to their business and one quarter (24%) said new or larger premises (Figure 3.6).

Figure 3.6: Characteristics of growth relevant to business

Q. Which of these characteristics associated with “growth” are most relevant to your business?



Base: All businesses

Variation by type of business

Larger businesses (25+ employees) were more inclined to view many of the characteristics as relevant to their business, particularly: performing better than competition (93% compared with the average of 81%), innovating (87% compared with 75%), increased market share (74% compared with 63%), increased number of employees (40% compared with 33%) and new or bigger premises (35% compared with 24%).

As shown in Table 3.2, across many of the characteristics given, account managed businesses and those in non-fragile areas were more inclined to view these as relevant to their business. The grey shading indicates significant differences between subgroups (i.e. account managed and non-account managed or between fragile and non-fragile).

Table 3.2: Relevant characteristics of growth by fragile area and HIE account management

Characteristic	Account management		Fragile area	
	Account managed (%)	Non-account managed (%)	Fragile (%)	Non-fragile (%)
Increased turnover	95%	80%	76%	82%
Increased profit	86%	83%	76%	85%
Increased number of employees	54%	30%	32%	33%
Operating in new or more markets	74%	47%	43%	51%
Increased customer base	92%	81%	74%	84%
Increased market share	81%	61%	52%	65%
New or bigger premises	39%	22%	22%	24%
Performing better than our competition	85%	81%	73%	83%
Innovating	88%	74%	67%	77%
Continuous improvement	96%	93%	86%	94%
Keeping pace with new technology	83%	81%	66%	84%
<i>Base: All businesses</i>	<i>117</i>	<i>884</i>	<i>177</i>	<i>824</i>

Those striving for growth were more likely than average view each characteristic of growth as relevant to their business (see Table A.9).

TAKING ACTION

Almost all businesses (94%) said they had taken some action in the last 12 months to help improve productivity and competitive position, while 6% said they had not. Similarly, 94% said they planned to take some action in the next 12 months to improve productivity and competitive position. From Figure 3.7, businesses were more inclined to say they would take each of the actions within the next 12 months than to have done so within the last 12 months.

Broadly, the ranking of the actions businesses had taken and planned to take were similar, with the most common being analysing data to help inform decision-making followed by investing in premises or equipment. Two thirds had each taken these actions in the previous year while 73% and 63% respectively planned to in the next 12 months. Just under two thirds (64%) had adapted business models and working practices, while 71% planned to do so. Over half had either already or planned to take the following actions: promoting staff welfare and wellbeing (60% had done; 66% planned to), collaborating with other businesses (58% had done; 63% planned to), recruiting new staff or upskilling existing staff (58% had done; 62% planned to) and adopting new technology (54% had done; 60% planned to). Finally, 39% of business said they had invested in research and development or innovation, and 48% planned to do this in the next year.

Figure 3.7: Actions to improve productivity and competitive position

Q. And now thinking about the last 12 months, what actions, if any, has your business taken to help improve its productivity and competitive position?

Q. And what actions, if any, do you plan to take to help improve productivity and competitive position in the next 12 months?



Base: All businesses

Variation by type of business

Larger business, particularly those with 25+ employees, were more likely than average to have or to plan to take each of the following actions in the last/next 12 months:

- 94% had recruited new staff or upskilled existing staff (compared with 58% on average), while 91% planned to do this in the next 12 months (compared with 62%);
- 85% had promoted staff welfare and wellbeing (compared with 60%) and 93% planned to do this in the next year (compared with 66%);
- 80% had invested in premises or equipment (compared with 66%) and 77% planned to do this next year (compared with 63%);
- 83% analysed data to help inform decisions (compared with 66%) and 89% planned to do this next year (compared with 73%);
- 78% adapted business models and working practices (compared with 64%) and 87% planned to do so in the future (compared with 71%);
- 68% had collaborated with other businesses (compared with 58%) and 73% planned to within the next year (compared with 63%); and
- 68% had adopted new technology (compared with 54%) and 73% planned to (compared with 60%).

Businesses with 0-4 employees were notably less likely to have done, or plan to take each of the actions.

There were also notable differences in terms of account management, with account managed businesses showing a greater tendency to have taken each of the actions in the last 12 months and plan to take them in the next 12 months (see Table A.10).

Those striving for growth were also more likely to have taken each of the actions in the last 12 months and plan to take them in the next 12 months (see Table A.11).

4. PREPARING FOR CHANGE

KEY MESSAGES:

In terms of new approaches, businesses were most likely to be making use of digital technologies (69%), while 28% were automating processes and 24% were using low carbon technology. Fewer were making use of the collaborative economy (17%) and artificial intelligence (7%). Reflecting usage levels, there was low awareness of the collaborative economy (27% unaware), artificial intelligence (14%) and automation of processes (11% unaware).

Of these approaches, low carbon technology (25%) was the one businesses were most likely to use in the future.

The top barrier to adopting new approaches/technologies was the cost of acquiring new technology (42%). Lack of time (28%), lack of knowledge or skills within the organisation (23%) and access to relevant equipment (21%) were also barriers for more than a fifth of respondents. A similar proportion (20%) said they faced no barrier to adopting such approaches.

Amongst businesses that collaborated with others, or that said they were likely to collaborate in the future, the most common approach was networking with other businesses to identify new opportunities (84%). Other approaches to collaboration included sub-contracting work to sole-traders (60%), working in equal partnership with another organisation (48%), working on a freelance or contractual basis within an organisation (42%) and by sub-contracting work to larger organisations (36%).

Collaboration was seen as a way to share ideas and best practice (87% of those currently or likely to collaborate said this), help improve competitive advantage (83%) or help develop products or services (80%).

NEW APPROACHES

Businesses were presented with a number of new approaches and techniques and asked whether they were: currently using them, not using but likely to, not using and unlikely to, or not aware of the approach.

Businesses were most likely to have made use of digital technologies (69%), followed by automation of processes (28%) and low carbon technology (24%). Fewer were making use of collaborative or sharing economy (17%) and just 7% said they were using artificial intelligence (Table 4.1).

Low carbon technology was the approach businesses were most likely to be planning to make use of in the future: a quarter of businesses were not using this approach, but planned to in the future. There was less appetite for using artificial intelligence (AI): over two thirds (68%) said they were not making use of AI and were unlikely to in the future.

In terms of awareness, almost all businesses were aware of digital technologies and low carbon technology, whilst awareness of collaborative or sharing economy was lowest (27% unaware) and to a lesser extent artificial intelligence (14% unaware) and automation of processes (11% unaware).

Table 4.1: Awareness and use of new approaches

	Currently using (%)	Not using but likely to (%)	Not using and unlikely to (%)	Not aware of (%)
Automation of processes	28	13	46	11
Artificial intelligence	7	9	68	14
Digital technologies	69	13	16	2
Low carbon technology	24	25	47	2
Collaborative or sharing economy	17	13	38	27
<i>Base: All businesses</i>				

Currently making use of new approaches

Across the five approaches listed, larger organisations (25+) were more likely on average to use each: digital technologies (81% compared with 69%), automation of processes (51% compared with 28%), low carbon technology (33% compared with 24%), collaborative or sharing economy (30% compared with 17%) and artificial intelligence (14% compared with 7%).

Creative industries (83%), financial and business services (83%) and tourism (79%) were the sectors most likely to be using digital technologies (compared with 69% overall). Otherwise, there were few differences in terms of current use by sector.

There were some differences in terms of business optimism for the year ahead: those optimistic about the upcoming 12 months were more inclined to be using automation of processes (29% compared with 17% of businesses not optimistic) and digital technologies (70% compared with 60%).

There was further variation by growth aspirations. Those striving for growth were more likely than those wanting to downsize to have used each approach, and more likely than average to have used most approaches (Table 4.2). Shaded cells represent figures that are significantly higher than the average.

Table 4.2: Use of new approaches by growth aspirations

Approach	% currently using each approach		
	Striving for growth	Content with current level	Wanting to downsize
Automation of processes	35	20	16
Artificial intelligence	9	4	4
Digital technologies	75	63	52
Low carbon technology	24	28	12
Collaborative or sharing economy	22	13	5
<i>Base: All businesses</i>	<i>578</i>	<i>338</i>	<i>79</i>

Account managed businesses showed greater use of each of the approaches, as is evident from Table 4.3. Again, the grey shading indicates significant differences.

Table 4.3: Use of new approaches by HIE account management

	% currently using each approach	
	Account managed	Non-account managed
Automation of processes	48	25
Artificial intelligence	12	6
Digital technologies	80	67
Low carbon technology	29	24
Collaborative or sharing economy	33	15
<i>Base: All businesses</i>	<i>117</i>	<i>884</i>

Length of operation also had an impact on the extent to which some new approaches were used. Newer businesses (under 5 years) were less likely than older businesses (5-10 years or over 10 years) to have used: automation (16% compared with 30% and 29% respectively), or low carbon technology (13% compared with 28% and 25%) (Table 4.4). Shaded cells represent figures that are significantly lower than the average.

Table 4.4: Use of new approaches by length of operation

	% currently using each approach		
	Under 5 years	5-10 years	Over 10 years
Automation of processes	16	30	29
Artificial intelligence	7	5	7
Digital technologies	71	69	68
Low carbon technology	13	28	25
Collaborative or sharing economy	26	23	15
<i>Base: All businesses</i>	<i>93</i>	<i>120</i>	<i>786</i>

Aware of new approaches, but not currently using

Turning to those aware of new approaches, there were few differences in the profile of businesses who said they were *likely* to use them in the future. The main differences were in terms of artificial intelligence: financial and business services were most likely to say they were not using artificial intelligence but likely to in the future (16% compared with average of 9%) and account managed businesses (15%) were more likely than non-account managed businesses (9%) to do so.

Looking at the profile of those who were not using the approaches and *unlikely* to in the future, this was higher among small businesses (0-4 employees) in relation to: automation of processes (54% compared to average of 46%), digital technologies (20% compared to 16%) and collaborative or sharing economy (42% compared with 38%).

Non-account managed businesses were also more likely to say they did not intend to use: automation of processes (48% compared with 26% of account managed), digital technologies (17% compared with 6%),

low carbon technology (48% compared with 34%) and collaborative or sharing economy (40% compared with 20%).

Unaware of new approaches

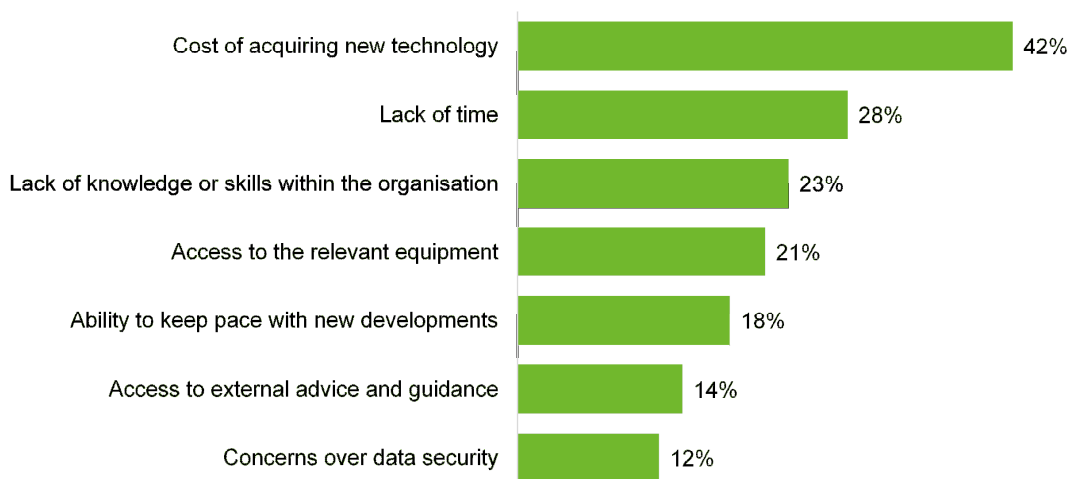
Finally, in terms of those unaware of the approaches, there were comparatively fewer differences of note, with the exception of tourism businesses who were more likely to be unaware of artificial intelligence (21% compared with 14%).

BARRIERS TO ADOPTING NEW APPROACHES/TECHNOLOGIES

Overall, one fifth of businesses said they faced no barriers to adopting new approaches/technologies such as the ones outlined above. The cost of acquiring new technology was the biggest barrier (42%), followed by lack of time (28%), lack of knowledge or skills within the business (23%), access to relevant equipment (21%), keeping pace with new developments (18%), access to external advice and guidance (14%) and concerns over data security (12%).

Figure 4.1: Barriers to adopting new approaches/technologies

Q. What barriers might your business face in adopting new approaches/technologies?



Base: All businesses

Variation by type of business

The cost of acquiring new technology was a greater barrier for food and drink businesses (49% compared with 42% overall), as were concerns over data security (16% compared with 12%). Those in the tourism (33%) and creative industries sectors (36%) were more likely to cite lack of knowledge or skills within organisation as a barrier (compared with 23%), while time was a barrier for financial and business services organisations (38% compared with 28%).

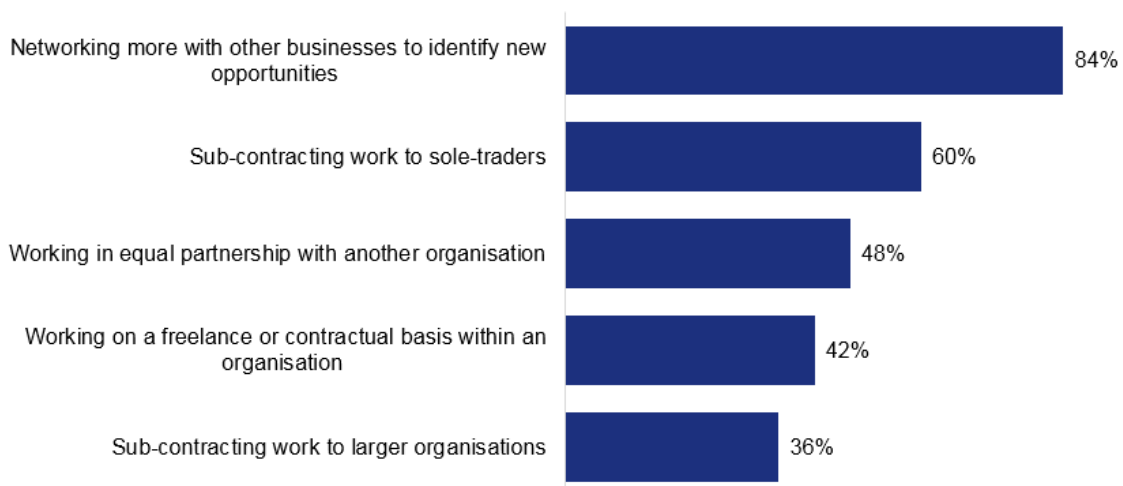
Account managed businesses showed a higher propensity to select several of the barriers listed: 39% of said lack of knowledge or skills within organisation was a barrier, compared with 22% of non-account managed business. Similarly, the cost of acquiring new technology (64% compared with 39%) and access to relevant equipment (32% compared with 20%) were greater barriers for this group.

COLLABORATION

Among those who were collaborating or likely to collaborate with others (67% of businesses), most were networking with other businesses to identify new opportunities (84%), followed by sub-contracting to sole-traders (60%), working in equal partnership with another organisation (48%), working on a freelance or contractual basis within an organisation (48%) or sub-contracting work to a larger organisation (36%) (Figure 4.2).

Figure 4.2: Collaboration with other businesses

Q. You said earlier that you were collaborating with/likely to collaborate with other businesses. In what ways are you/are you planning on collaborating?



Base: All businesses who are collaborating or likely to collaborate (671)

Variation by type of business

There were few differences by subgroups. However, account managed businesses were more likely than non-account managed businesses to: network more with other businesses to identify new opportunities (94% compared with 82%), work in equal partnership with others (63% compared with 46%), and sub-contract work to larger organisations (46% compared with 34%).

BENEFITS OF COLLABORATION

Collaboration as a means of sharing best practice was a benefit for almost nine in ten (87%) businesses, as was as improving competitive advantage (83%) and developing products or services (80%). Other prominent reasons for collaboration included reaching a new customer base (76%), saving time (67%), lowering costs through sharing resources (65%), making use of additional equipment or premises (63%) and filling specific skills gaps (60%) – each selected by more than three in five businesses. Under half (45%) said they collaborate as a means of addressing staff shortages (Figure 4.3).

Figure 4.3: Benefits of collaboration

Q. What benefits does/will this collaboration offer your business?



Base: All businesses who are collaborating or likely to collaborate (671)

Variation by type of business

There was again very little difference by subgroups. Businesses with 25+ employees were more likely than average to see collaboration as a means of filling specific skills gaps (73% compared with 60%). This benefit was also more likely to be selected by financial and business services (72%). Tourism businesses showed a greater propensity to use collaboration as a means of reaching new customer bases (85% compared with 76%), while for food and drink businesses, collaboration allowed them to make use of additional equipment or premises (72% compared with 63%).

5. INTERNATIONAL TRADE

KEY MESSAGES:

The vast majority (97%) of business sold goods or services in Scotland, while around half (48%) sold outside of Scotland but in the rest of the UK, and a third (34%) did so outside of the UK. The majority (80%) also made *most* of their sales within Scotland, while 13% did so outside of Scotland but within the UK, and 7% outside of the UK.

Among businesses that did not trade outside of Scotland, the vast majority were unlikely to in the future. The main reasons were that they felt their product or service was not appropriate for export (45%), followed by being happy with their current markets (23%) and perceiving there to be no demand for their product or service outside of the UK (14%).

Reflecting their generally positive expectations for future growth, businesses were more likely to anticipate an increase than a decrease in their future sales. Indeed, the majority (81%) expected their sales to increase in at least one of their markets: 56% in Scotland, 13% in the rest of the UK, and 12% outside of the UK.

CURRENT MARKETS OPERATED IN

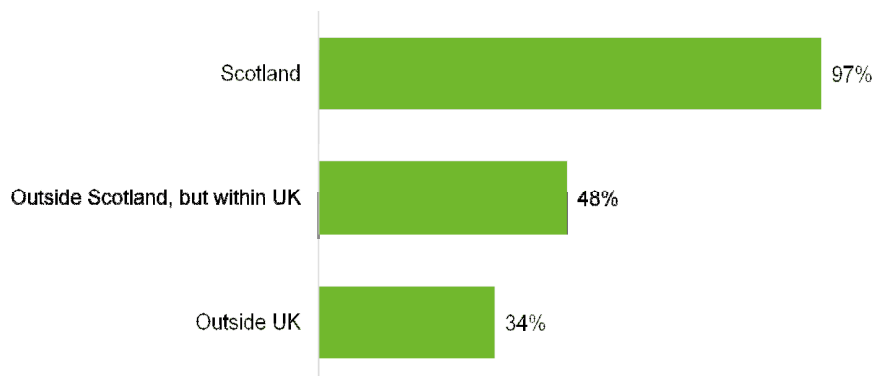
The vast majority (97%) of businesses in the Highlands and Islands sold goods or services in Scotland, while half (50%) *only* sold in Scotland and not in other markets (these are referred to as 'domestic businesses'). Around half (48%) sold outside of Scotland but in the rest of the UK (referred to as 'rUK businesses'), and a third (34%) did so outside of the UK (referred to as 'international businesses') (Figure 5.1). These findings are similar to those seen at the beginning of 2017, the last time businesses were asked, when 92% operated in Scotland, 54% in the rest of the UK and 33% outside of the UK.³

In terms of the *number* of markets operated, 52% operated in only one market, 17% operated in two, and 31% operated in all three.

³ The question was asked slightly different in the January/February 2017 wave, where businesses were asked "which of the following markets does your business currently trade in" and the possible answers consisted of ten possible markets.

Figure 5.1: Markets operated in

Q. In which of these markets does your business currently sell goods and services?



Base: All businesses

Certain types of business were more likely than others to operate in each market:

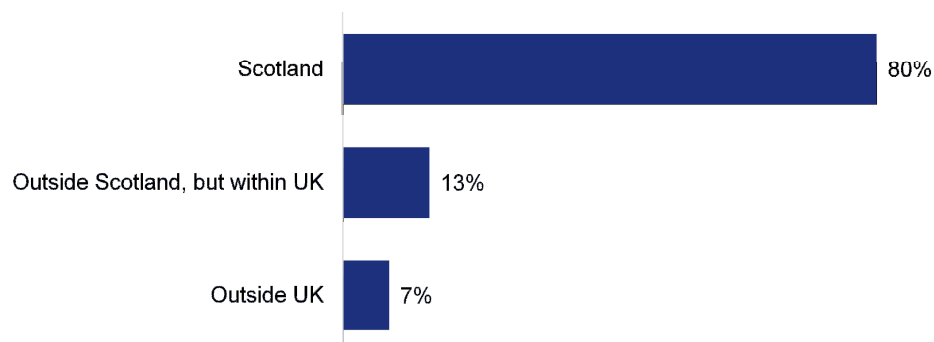
- Domestic businesses, were more likely to be:
 - smaller businesses (0-10 employees) (54%) than larger businesses (11+ employees) (34%)
 - non-account managed (53%) businesses than account managed businesses (25%).
- rUK businesses, were higher than average (48%) among:
 - larger businesses with 11-24 employees (62%) and 25+ employees (70%)
 - tourism businesses (62%)
 - those in the Outer Hebrides (63%) and the Inner Moray Firth (55%)
 - account managed businesses (73%).
- International businesses had a similar profile to rUK businesses and were higher than average (34%) among:
 - larger businesses with 11-24 employees (49%) and 25+ employees (51%)
 - those operating in the tourism (62%) and creative industries (53%) sectors:
 - those in the Outer Hebrides (51%) and Lochaber Skye and Wester Ross (44%)
 - account managed businesses (58%)
 - those striving for growth (65%).

MARKETS MOST SALES ARE MADE IN

Looking at the markets in which businesses made most of their sales to, the majority (80%) did so within Scotland, while 13% did so outside of Scotland but within the UK, and 7% outside of the UK (Figure 5.2).

Figure 5.2: Markets in which most sales were made

Q. In which of these markets do you make most of your sales to?



Base: All businesses

In terms of variation by business size, sector and location, the picture is very similar to that for the current markets businesses operate in:

- smaller businesses (0-4 and 5-10 employees) were more likely than average to make most of their sales in Scotland (82% and 85% respectively, compared with 80% overall);
- tourism businesses were more likely than average to make most of their sales in the rest of the UK (21% compared with 13%), and outside of the UK (26% compared with 7%);
- those in the Outer Hebrides were more likely than average to make most of their sales in the rest of the UK (29% compared with 13% overall); and
- account managed businesses were more likely than non-account managed businesses to most of their sales in the rest of the UK (22% compared with 12%) and outside of the UK (13% compared with 6%).

FUTURE TRADE

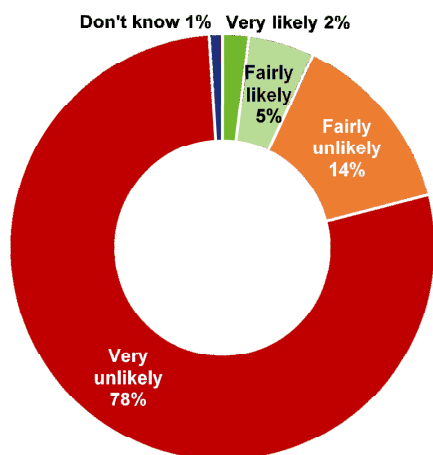
Likelihood of trading in new markets in the next 12 months

Among businesses that did not trade outside of Scotland, appetite to do so in the future was low. The vast majority (92%) of those that only traded in Scotland said they were unlikely to start trading to the rest of the UK in the next 12 months. Similarly, 93% of those who only traded within the UK were unlikely to start trading internationally (Figure 5.3).

Figure 5.3: Likelihood of trading in future markets

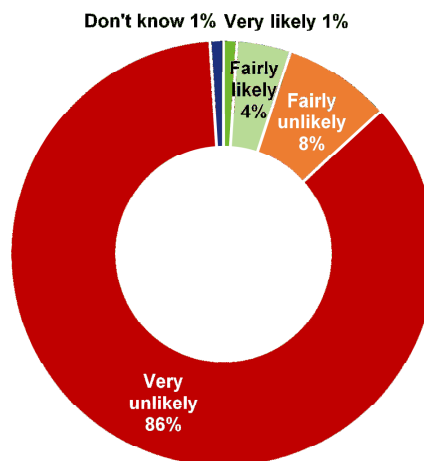
Q. How likely is your business to start selling goods or services...

...outside of Scotland to the rest of the UK in the next 12 months?



Base: All who do not operate outside Scotland (483)

...outside of the UK in the next 12 months?



All who do not operate outside of the UK (638)

Findings were similar across all types of business, however there was a degree of sectoral variation: tourism and food and drink businesses were both more likely than average to foresee trading in the rest of the UK (14% and 13% compared with 7%), and outside of the UK (14% and 11% compared with 6%).

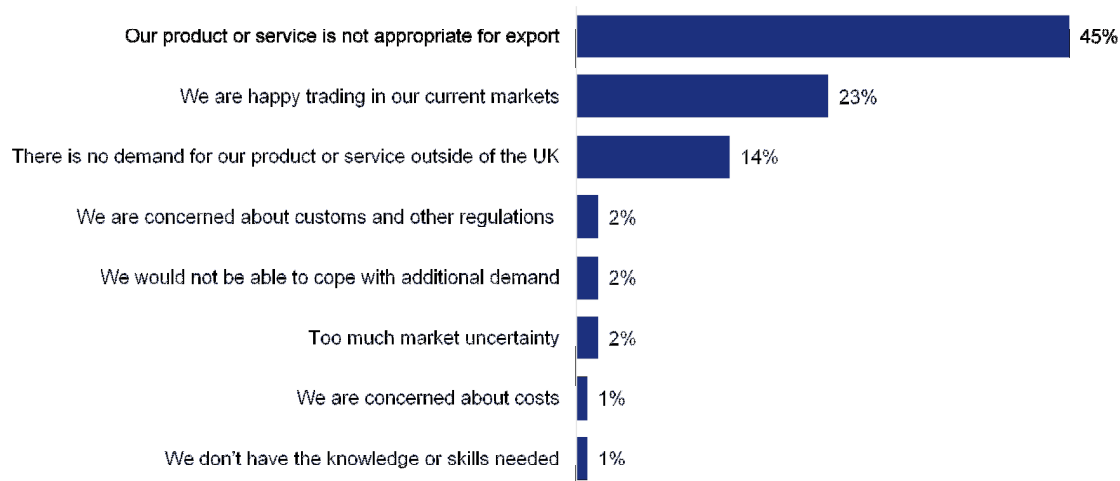
There were no other significant differences in findings, including by business prospects – those who were optimistic about the next 12 months had similar views to those who were pessimistic about the next 12 months.

Reasons for not planning to trade internationally

Among those that were unlikely to trade internationally (59% of the overall sample), the main reason given was that they felt their product or service was not appropriate for export (45%), followed by being happy with their current markets (23%) and perceiving there to be no demand for their product or service outside of the UK (14%) (Figure 5.4).

Figure 5.4: Reasons for being unlikely to trade internationally

Q. Why do you say you are unlikely to start selling goods or services outside of the UK?



Base: All businesses who are not likely to start trading outside the UK (592)

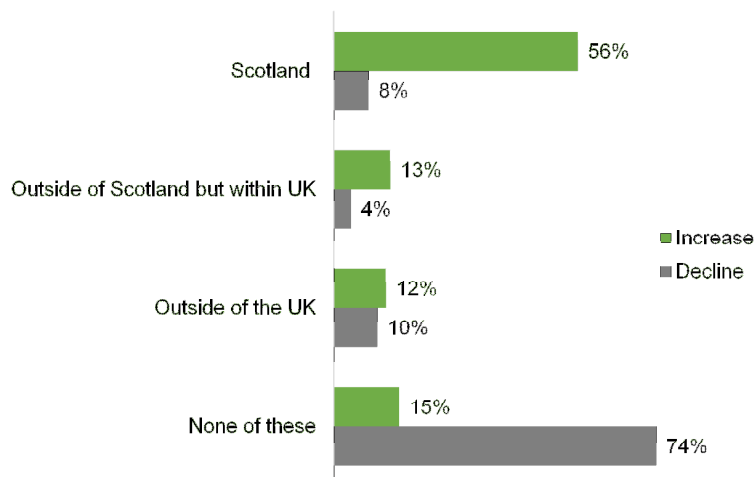
There was some variation by size and sector. Small businesses (0-4 employees) were more likely than large businesses (25+) to say they were happy trading in their current markets (27% compared with 5%). In terms of sectoral variation, food and drink businesses were more likely than average to say they were happy trading in their current markets (32% compared with 23%), and tourism businesses were more likely to perceive no international demand for their service (25% compared with 14%).

Expectations for future sales performance

Reflecting their expectations for future growth (see chapter 3), businesses were more likely to anticipate an increase than a decrease in their future sales. Indeed, the majority (81%) expected their sales to increase in at least one of their markets: 56% in Scotland, 13% in the rest of the UK, and 12% outside of the UK. Mirroring this sense of optimism, three quarters (74%) anticipated no decline in their sales, either in domestic or international markets. In terms of international sales specifically, similar proportions anticipated a decrease as anticipated an increase (10% and 12% respectively). (Figure 5.5).

Figure 5.5: Future sales expectations

Q. Which of these markets do you expect to see your sales increase / decline in over the next 12 months?



Base: All businesses

Expectations for increased sales in particular markets reflected the current markets businesses operated in; rUK and international businesses were both more likely than average to anticipate an increase in sales in the rest of the UK (26% for both, compared with 13%) and internationally (22% and 33% respectively, compared with 12%) (Table 5.1). Of those that only operated in Scotland, the majority either expected sales to increase in Scotland (75%) or in no markets (20%).

Table 5.1: Expected future sales increases by current markets operated in

Main markets operated in	Markets they anticipate an <u>increase</u> in				Base
	Scotland	Outside of Scotland but within the UK	Outside of the UK	None of these	
	%	%	%	%	N
Scotland only	75	2	1	20	495
Outside of Scotland but within the UK	37	26	22	10	483
Outside of the UK	25	26	33	12	338

Base: All operating in each area

Those that were more likely to expect an increase in overseas sales reflected the general profile of international businesses: they tended to be larger (22% of those with 25+ employees), working in tourism (20%), and account managed (32%). In terms of other variation, those with 5-10 employees (66%) and those in non-growth sectors (64%) were more likely than average to expect sales increases in Scotland.

In terms of expected decline in sales, rUK and international businesses were both more likely than average to anticipate a decline outside of the UK (17% and 23% respectively, compared with 10% overall) (Table 5.2). There was no other significant variation by types of business.

Table 5.2: Expected future sales decreases by current markets operated in

Main markets operated in	Markets they anticipate a <u>decline</u> in				Base <i>N</i>
	Scotland	Outside of Scotland but within the UK	Outside of the UK	None of these	
	%	%	%	%	
Scotland only	11	1	3	82	495
Outside of Scotland but within the UK	5	7	17	65	483
Outside of the UK	5	6	23	61	338
<i>Base: All operating in each area</i>					

6. RELATIONSHIP WITH THE EU

KEY MESSAGES:

Businesses had mixed views on the importance of membership of the European Single Market to their business – 55% regarded it as important while 41% regarded it as not important. However, a higher proportion of businesses (79%) considered the European Single Market important to the Scottish economy overall, higher than the level reported in the previous wave.

In terms of free movement of people across the EU, around two in five (41%) felt it was important to their business, while over half (57%) felt it was not. Following views on the European Single Market, businesses were more likely to feel that free movement was important to the Scottish economy overall than to their own business: 86% felt that free movement was important to the Scottish economy, compared with 9% who felt it was not important. The proportion saying it was important increased slightly on the previous wave.

In terms of the impacts of Brexit, businesses were much more likely to identify risks than opportunities; indeed, only 13% stated that Brexit posed their business no risks. In terms of the specific risks they faced, the most common were changes to the regulatory environment (58%), the introduction of tariffs on imports (53%), and changes to funding policy (53%).

In terms of opportunities, 61% of business felt that Brexit presented no opportunities for their business. Among the opportunities that were identified, these included improved access to new, global markets, increased demand for local products, and simplification of the regulatory environment.

The majority of businesses (76%) did not have a plan in place to help prepare for Brexit; 20% had no plan, but recognised they needed to have one, while 56% had no plan and did not anticipate having to. Of those that had made plans or anticipated having to do so, the most common actions they had taken were: minimising debt (47%), developing skills in their existing workforce (44%), and targeting new or different domestic markets (39%).

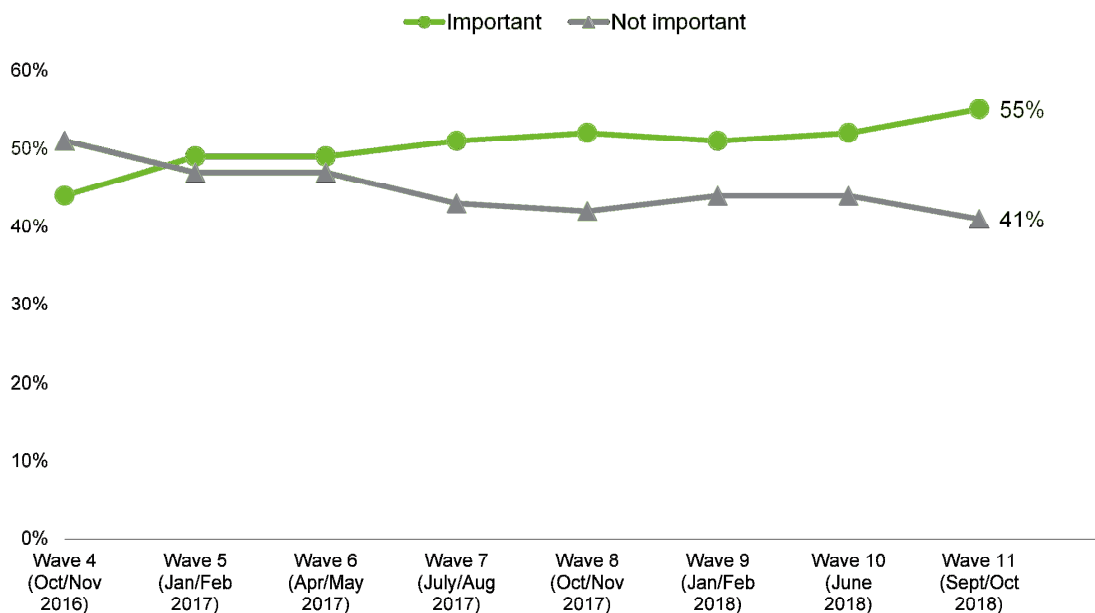
EUROPEAN SINGLE MARKET

Importance of the European Single Market to businesses

As seen in previous waves, businesses had mixed views on the importance of membership of the European Single Market to their business – 55% regarded it as important (increased from 52% in wave 10), while 41% said it was not important (44% in wave 10) (Figure 6.1). Amongst those who said it was important, 34% said it was very important and 22% quite important.

Figure 6.1: Importance of membership of the European Single Market

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



Base: All businesses

Variation by type of business

Once again, businesses that said their economic optimism over the last six months had decreased were more likely to view the European Single Market as important to their business (75% against the survey average of 55%), as were those who had struggled in the last 12 months (68%), and those who were not optimistic about their prospects for the next 12 months (83%).

Those that operated in international markets were more likely than domestic businesses to see the importance of the European Single Market; 63% viewed it as important to their business, compared with 51% respectively.

Sectoral variation was similar to that seen in previous waves, with food and drink businesses more likely than average to view membership of the European Single Market as important to their business (75% compared with 55% overall).

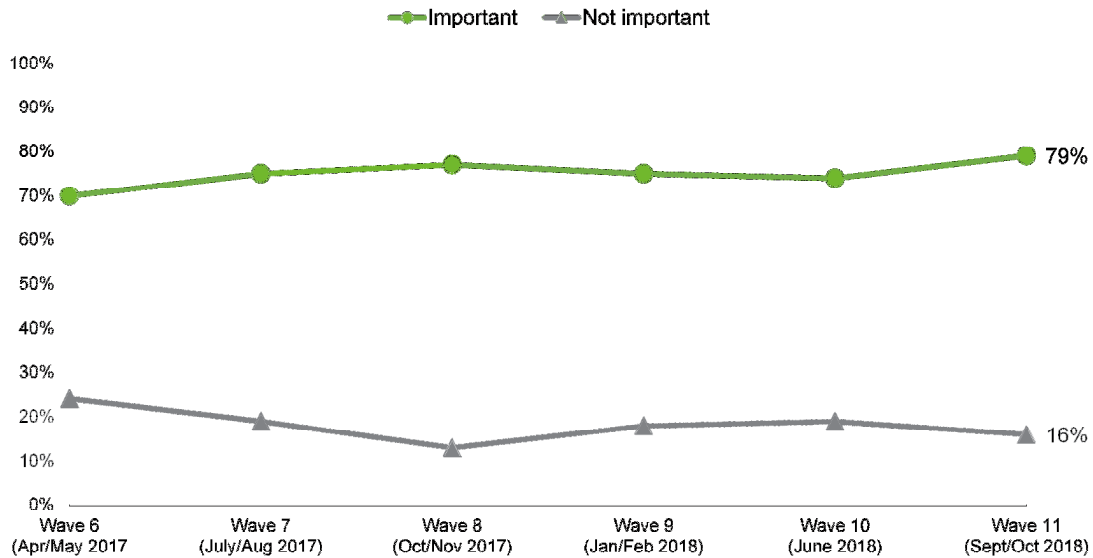
Account managed businesses were more likely than non-account managed businesses to say that membership was important to them (61% compared with 55%), and to specifically say it was very important to them (45% compared with 32%).

Importance of the European Single Market to the Scottish economy

The European Single Market continued to be viewed as more important to the Scottish economy overall than to businesses specifically. Three quarters (79%) viewed it as very (54%) or quite (24%) important to the economy, higher than the level reported in the previous wave (74%) (Figure 6.2). Sixteen per cent considered it not important.

Figure 6.2: Importance of membership of the European Single Market to the economy

Q. And how important do you feel membership of the European Single Market is to the Scottish economy overall?



Base: All businesses

Variation by type of business

Businesses who viewed the European Single Market as important to their business also viewed it as important to the economy: 94% of those who said membership was important to their business also said it was important to the economy. That said, 60% who felt that membership was *not* important to their business *did* feel that membership was important to the economy overall.

Reflecting the high overall level of importance placed on the European Single Market, views were similar between those who traded internationally (80%) and those who only traded domestically (77%), and between those with (80%) and without (78%) non-UK EU employees. There was also little variation by size, sector, location or account management status.

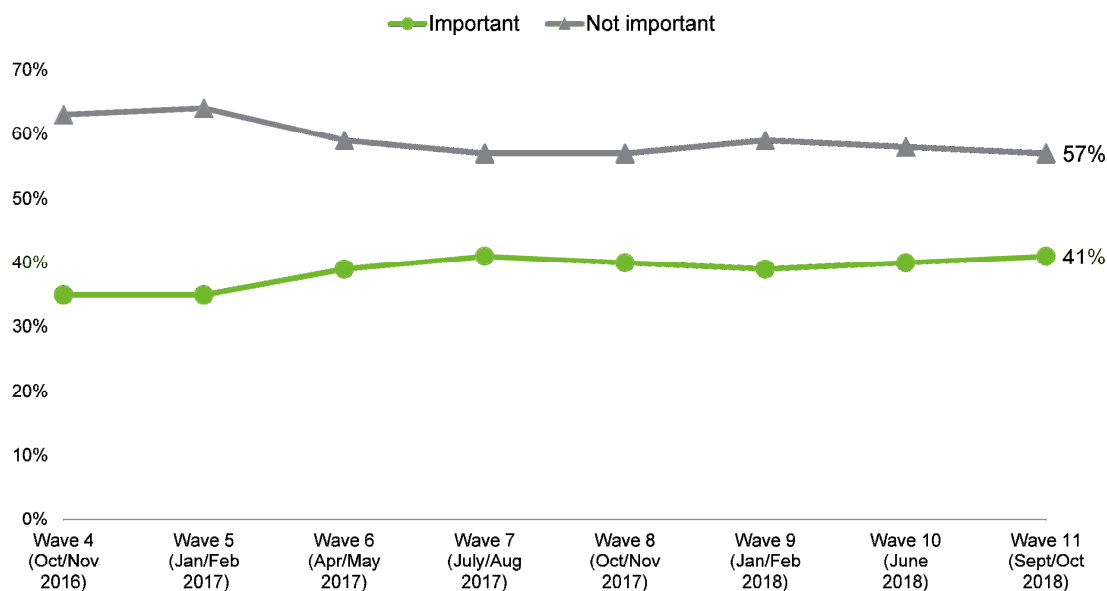
FREE MOVEMENT OF PEOPLE

Importance of free movement of people to businesses

Views on the importance of free movement of people were similar to the previous wave: 41% said free movement of people across the EU was important to their business (26% very, 16% quite important), while 57% felt it was not important (17% not very, 40% not at all important) (Figure 6.3).

Figure 6.3: Importance of free movement of people across the EU

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



Base: All businesses

Variation by type of business

Perhaps unsurprisingly, businesses who employed non-UK EU nationals placed higher importance on free movement of people than those without such employees; (69% important compared with 36%). In terms of market reach, international businesses were more likely than domestic businesses to view free movement as important (55% compared with 33%).

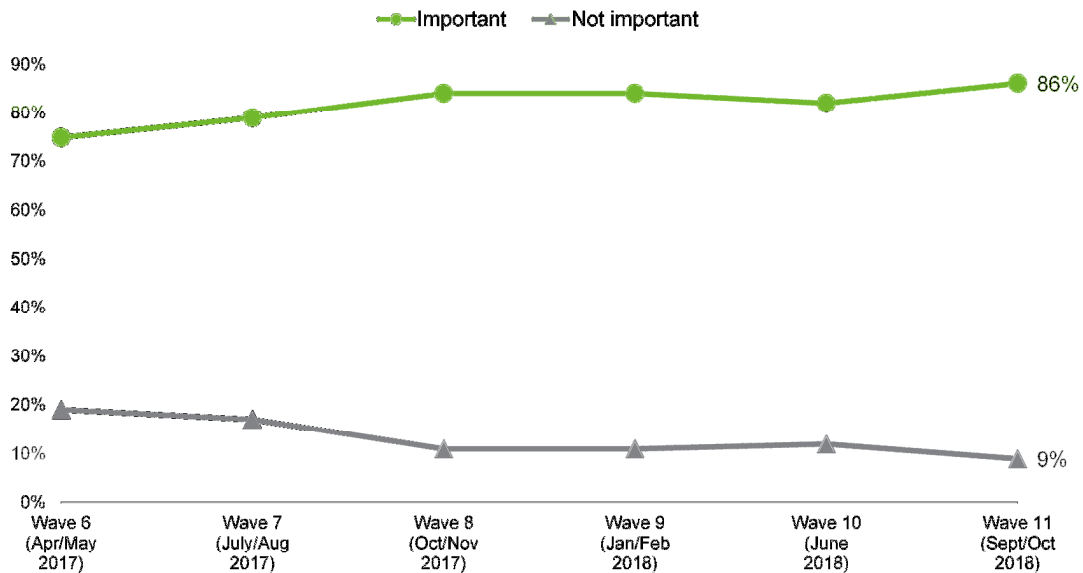
Elsewhere, tourism businesses (67%) and those with 25+ employees (63%) were more likely than average (41%) to view free movement of people as important to their business. In contrast, food and drink businesses and those with 0-4 employees were both more likely to view free movement as not important (63% and 63% compared with 57% overall).

Importance of free movement of people to the Scottish economy

Businesses were more likely to feel that free movement of people was important to the Scottish economy than to their business: 86% said free movement was important to the economy (54% very, 31% quite important), compared with 9% who said it was not important (6% not very, 3% not at all important). The proportion saying it was important increased slightly on the previous wave (from 82%) (Figure 6.4).

Figure 6.4: Importance of free movement of people to the economy

Q. And how important do you feel the free movement of people is to the Scottish economy overall?



Base: All businesses

Variation by type of business

Almost all (94%) of those who said free movement was important to their business also said it was important to the economy, as did 60% of those who said free movement was not important to their business. There was little variation between subgroups of businesses.

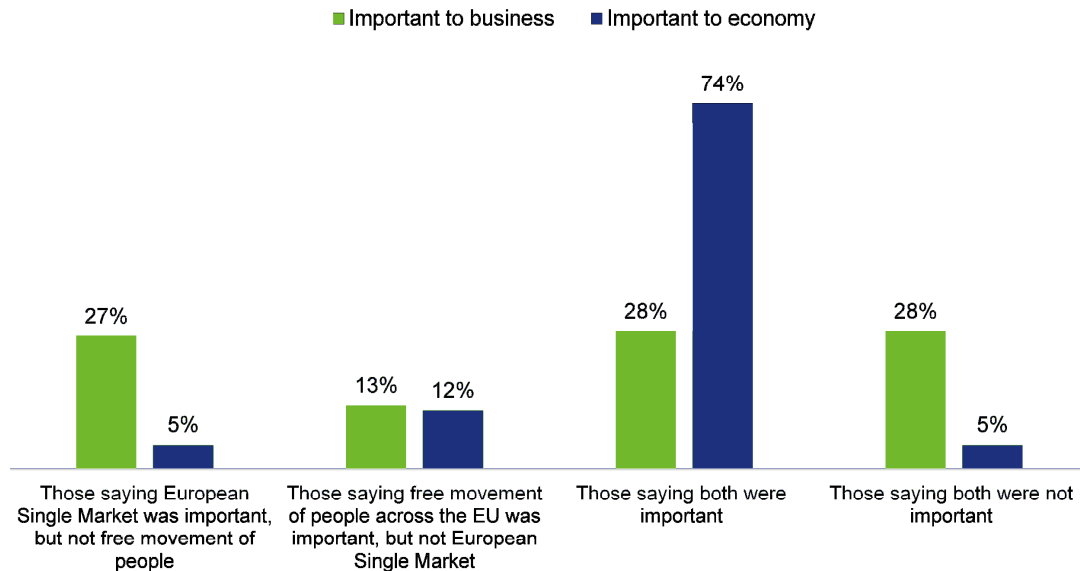
COMPARING VIEWS ON THE EUROPEAN SINGLE MARKET AND FREE MOVEMENT OF PEOPLE

In terms of importance to their business, those who felt that free movement of people *and* access to the European Single Market were important represent 28% of the overall sample of businesses (the same proportion as the previous wave). Those who felt that *neither* were important to their business also represent 28% of the sample, slightly fewer than in the previous waves (32%).

In terms of importance to the economy, those who felt that free movement of people *and* access to the European Single Market were important represent 74% of the overall sample of businesses, higher than the 69% recorded last wave. Those who felt that *neither* were important represent just 5% of the sample, slightly less than the 8% recorded last wave (Figure 6.5).

Figure 6.5: Comparison of importance of free movement of people and importance of access to the European Single Market

Q. Comparison of importance of free movement of people and importance of membership of the European Single Market



Base: All businesses

BREXIT: RISKS AND OPPORTUNITIES

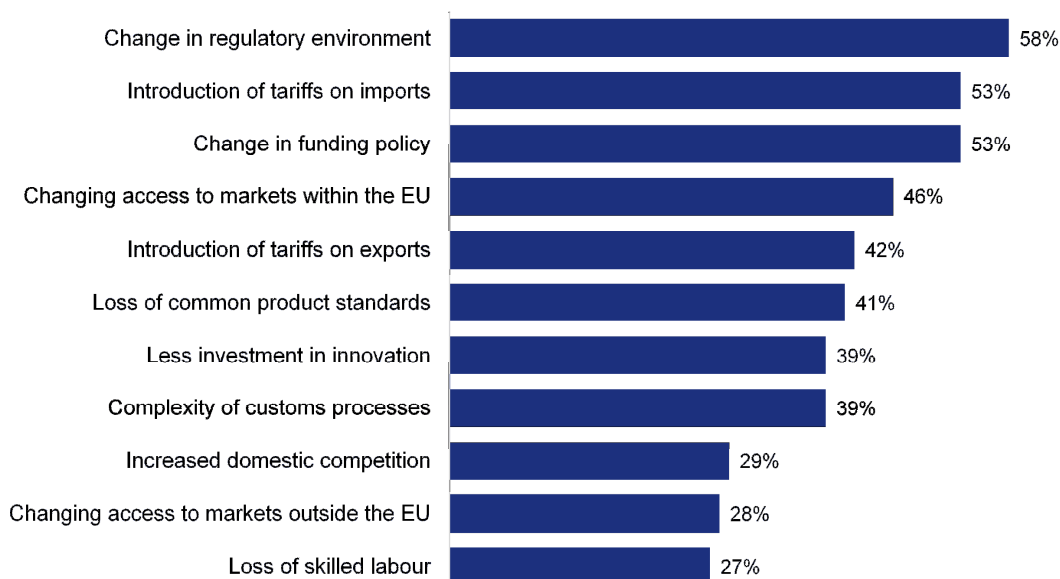
Businesses were asked to consider the potential risks and opportunities posed by the UK’s departure from the EU. Businesses were much more likely to identify risks than opportunities; only 13% stated that Brexit posed no risks to their business.

Risks posed by Brexit

In terms of the specific risks they faced, over half felt that changes to regulatory environment (58%), the introduction of tariffs on imports (53%), and changes to funding policy (53%) may impact on their business. Other common risks identified reflected further concerns about aspects of regulation, trade and investment, namely: changing access to markets within the EU (46%), the introduction of tariffs on exports (42%), the loss of common product standards (41%), less investment in innovation (39%) and complexity of customs processes (39%) (Figure 6.6).

Figure 6.6: Risks posed by Brexit

Q. In terms of the UK's departure from the EU, which of the following, if any, would present a risk to you business?



Base: All businesses

Businesses were asked to explain more about how these risks might impact on their business. In terms of changes to the regulatory environment, businesses felt that this posed the risk of them no longer being compliant with regulations, and that they would need to spend additional time and resources to ensure they met the new standards. There was also a concern that regulatory changes may result in lower quality products entering the market, thereby having a knock-on effect on the quality of supplies and equipment used by businesses.

“We work to a common standard and common regulations in the EU. If we have to work to two sets of standards it will complicate the business and lower productivity. We would have to run two computer programs, one the UK and one for Europe.”

(0-4 employees, Non-growth sector, Shetland)

“We use crop protection products which will change in quality if regulations change.”

(0-4 employees, Food and drink, Orkney)

Risks associated with changes to funding policy, and tariffs on imports and exports, were mainly described in terms of the potentially negative financial impacts such changes may have on businesses.

“We want to export but can't until we know how it's going to work. When you talk to people in other EU countries, they aren't really interested until they know [the outcome] of Brexit. Tariffs on imports are also a worry, as they will make [goods] more expensive for us to buy.”

(0-4 employees, Food and drink, Lochaber, Skye and Wester Ross)

“I’m a farmer and we are totally dependent on a good deal with Brexit and if we don’t [get one] and there are tariffs on exports, then we’ll suffer. Lack of funding support will [also] have a major impact on our business. And unless someone does something about biomass, then we won’t make it through.”

(0-4 employees, Food and drink, Lochaber, Skye and Wester Ross)

Generally, there was a sense that the range of potential risks left businesses feeling unclear on how best to respond and therefore reluctant to plan ahead.

“Every business needs a stable market place and stable regulatory base. We are working blind at the moment. It makes you more wary and less likely to make decisions for the future.”

(11-24 employees, Tourism, Argyll and the Islands)

Variation by type of business

Several risks were more apparent among those in the food and drink sector, specifically: export tariffs (73%), changing access to markets within the EU (70%), change in funding policy (70%), import tariffs (67%), change in regulatory environment (65%), increased domestic competition (58%) and complexity of customs processes (58%).

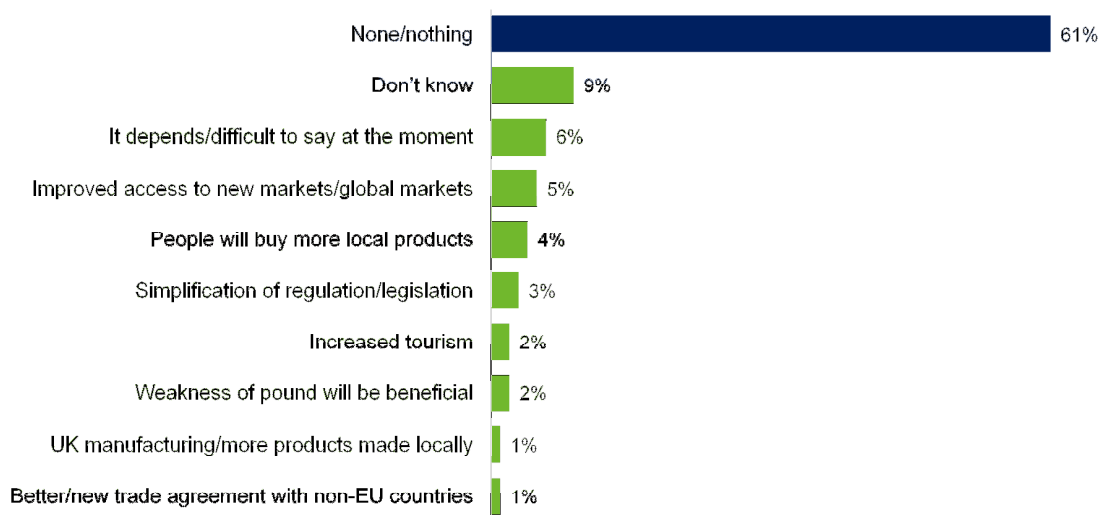
There was further variation by size and location. In terms of size, larger businesses (25+ employees) were more likely than average to view import tariffs (68%) and loss of skilled labour (44%) as risks. In terms of location, risks from export and import tariffs were higher than average amongst businesses in Shetland (55% and 71%), Orkney (57% and 65%), and Caithness and Sutherland (57% and 63%). Risks from changes to funding policy were higher for businesses in Shetland (67%) and Argyll and the Islands (60%).

Opportunities created by Brexit

Businesses were asked, unprompted, what opportunities the UK’s departure from the EU would present their business. This question was presented ‘open-ended’, rather than asking businesses to choose from a predefined list of answers. Among the responses provided, 61% of business said that Brexit presented no opportunities for their business. A further 6% found it too difficult to say whether there would be any opportunities (Figure 6.7), while 9% said they did not know. A quarter (24%) of businesses did suggest potential opportunities that may arise from Brexit. Among the opportunities that were identified, these included improved access to new, global markets (5%), increased demand for local products (4%), and simplification of the regulatory environment (3%).

Figure 6.7: Opportunities created by Brexit

Q. And what opportunities, if any, would the UK's departure from the EU create for your business?



Base: All businesses

Variation by type of business

Small businesses were more likely than larger businesses to feel that Brexit presented no opportunities: 62% of those with 0-4 and 66% of those with 5-10 employees felt this way, compared with 56% of those with 11-24 and 48% of those with 25+ employees.

"This is a very localised business, so I can't see any opportunities from Brexit"

(0-4 employees, Non-growth sector, Argyll and the Islands)

"Absolutely none. We actually anticipate closing down in the next 12 months. The uncertainty of Brexit has left us in limbo. We haven't invested in new equipment we have turned down opportunities to open up our own retail outlet, and we haven't taken on any additional staff which had been planned."

(0-4 employees, Food and drink, Lochaber, Skye and Wester Ross)

Tourism business, as might be expected, were more likely than average to identify an increase in tourism as an opportunity (11% compared with 2%). On more detailed analysis of their 'open-ended' responses, it emerged that they felt the low value of the pound had made the UK a more attractive destination for overseas visitors, thereby increasing performance in the tourism sector, and that this may continue post-Brexit.

"More tourism, the pound will probably drop through the floor so will open up doors to other tourists from other countries - this is good for us."

(5-10 employees, Tourism, Inner Moray Firth)

“The effect of the weaker pound has resulted in about 20% more tourists, as it is cheaper to come to UK. We have seen this for other businesses as well over the last 12 months.”

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

Food and drink businesses appeared slightly more uncertain than others, being more likely than average to find it difficult to say what the opportunities from Brexit might be (10% compared with 6%). Overall, however, over half (55%) of businesses in this sector still felt Brexit presented no opportunities for them.

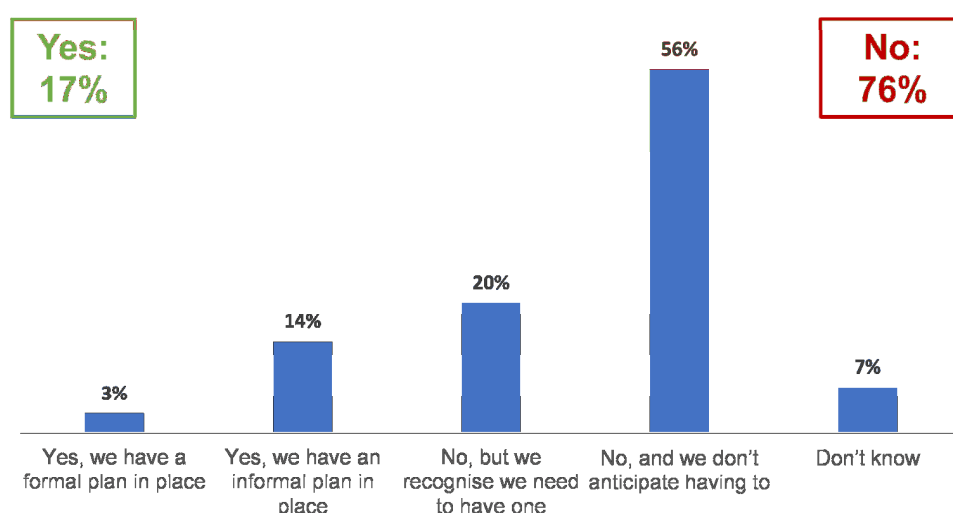
PLANNING FOR BREXIT

Extent of planning for Brexit

The majority of businesses (76%) did not have a plan in place to help prepare for Brexit; 20% had no plan, but recognised they needed to have one, while 56% had no plan and did not anticipate having to. Of the 17% that have a plan in place, 3% had a formal plan in place and 14% had an informal plan.

Figure 6.8: Extent to which businesses had a plan in place for Brexit

Q. Do you have a plan in place to help your business prepare for the UK's departure from the EU?



Base: All businesses

Variation by type of business

Having a plan in place was more common than average among large businesses (25+) (31% compared with 17% overall), those in the financial and business services (26%) and those based in Shetland (27%). Account managed businesses were also more likely than non-account managed to have a plan in place (29% compared with 15%).

Those that had no plan, and did not anticipate needing one, were more likely to be small (0-4) (60% compared with 56% overall), and work in tourism (65%) or non-growth sectors (62%). In terms of relationship with HIE, non-account managed businesses were more likely than account managed to feel they did not need to plan for Brexit (58% compared with 43%).

There was further variation by optimism and business performance. Businesses that had seen their confidence in the economy decrease were more likely than average to have a plan in place (24%). Those that had performed well (58%), or had steady performance (60%) were more likely than those that struggled (47%) to say they had no plan and did anticipate having to (see Appendix, Table A.12). These findings suggest that efforts to plan ahead were driven by more negative than positive experiences, linked as they were to poor performance and lack of optimism in the economy.

Relationships with, and views on, the EU also had a bearing on the extent to which businesses were planning ahead for Brexit. Employers of non-UK EU nationals were more likely than non-employers to have a plan in place (24% compared with 15%), while international businesses were more likely than domestic businesses to have planned (25% compared with 12%) (Table 6.1). On the other hand, those that felt that access to the European Single Market was not important and those that free movement was not important to Scotland were more likely than average to say that they did not anticipate making a plan (75% and 69% respectively compared to 56%) (see Appendix, Table A.13).

Table 6.1: Plans for Brexit by relationship with the EU

	Employ EU nationals		Markets traded in	
	Yes	No	International	Domestic
	%	%	%	%
Yes, we have a formal plan in place	5	2	5	2
Yes, we have an informal plan in place	19	13	19	10
No, but we recognise we need to have one	27	18	22	17
No, and we don't anticipate having to	42	59	46	65
Have a plan	24	15	25	12
Do not have a plan	69	77	68	82
<i>Base:</i>	<i>171</i>	<i>839</i>	<i>338</i>	<i>495</i>

Businesses that employed EU nationals and were not planning for Brexit demonstrated particular characteristics: when compared with all employers of EU nationals, they were more likely to be small (0-4) (35% compared with 30% of all EU employers) and working in tourism (25% compared with 20%). They were also less likely to consider Brexit a risk to their business: 20% of these businesses considered Brexit a risk to a large extent, and a further 20% to some extent; among all EU employers these figures were 40% and 22% respectively.

Similarly, when compared with all international businesses, those that were not planning for Brexit were more likely to be small (0-4) (62% compared with 52% of all international businesses), working in tourism (25% compared with 18%), and to be non-account managed (80% compared with 76%). They also felt that Brexit was less of a risk to their business: 21% considered it a risk to a large extent, and 26% to some extent; while among all international businesses the comparable findings were 38% and 23% respectively.

Actions taken to plan ahead

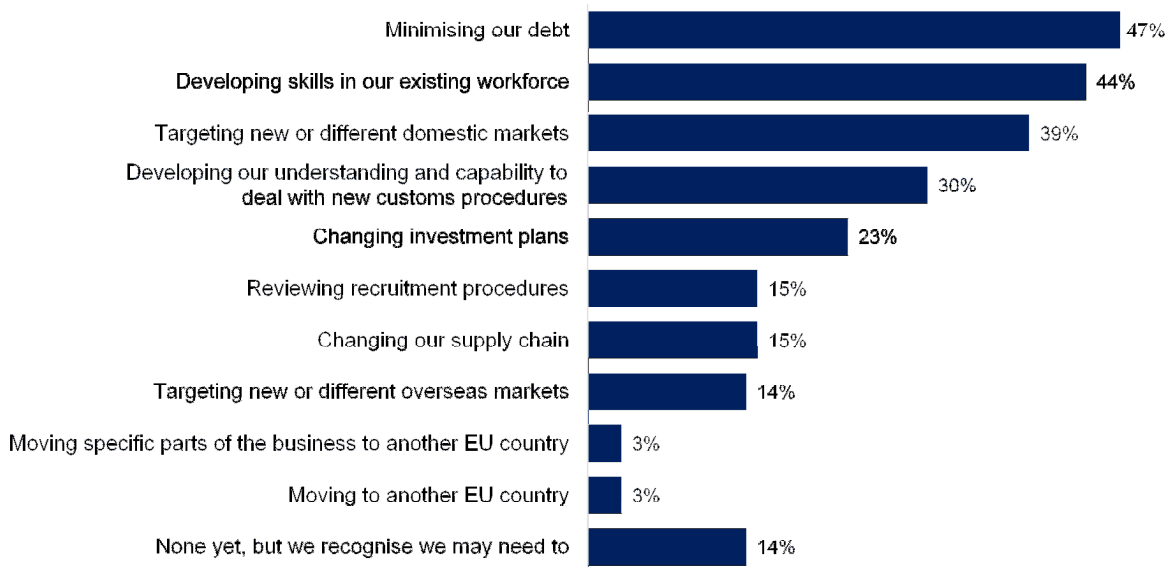
Of those that had made plans or anticipated having to do so, the most common actions they had taken were: minimising debt (47%), developing skills in their existing workforce (44%), targeting new or different domestic markets (39%), and developing their understanding and capability to deal with new customs procedures (30%) (Figure 6.9).

Other actions taken, though less commonly, were changing investment plans (23%), reviewing recruitment procedures (15%), changing supply chains (15%) and targeting new or different overseas markets (14%). More extreme actions, such as moving specific parts of the business to another EU country or moving to another EU country entirely, were only taken by a minority of businesses (3% in each case).

A further 14% had not yet taken actions, but recognised that they may need to.

Figure 6.9: Actions taken to help plan for Brexit

Q. What actions are you taking to help you plan ahead for the UK's departure from the EU?



Base: All who had made plans or anticipated have to do so (617)

Variation by type of business

Certain actions were more prevalent among different sizes of business. Small businesses (0-4 employees) were more likely than average to say they were minimising their debt (52%), while large businesses (25+) were more likely to be developing skills within their workforce (57%). Targeting of new markets, both domestic and overseas, was more common among businesses of 11-24 employees (53% and 27% respectively).

In terms of variation by sector, tourism and financial and business services stood out in terms of actions taken. Tourism businesses were more likely than average to have reviewed their recruitment procedures (24%), while those in financial and business services were more likely to be developing skills in their existing workforce (59%) and targeting new domestic markets (54%).

Account managed businesses were more likely than non-account managed businesses to have: developed skills in their existing workforce (54% compared with 43%), developed their understanding and capability around customs procedures (42% compared with 28%), targeted new or different overseas markets (27% compared with 12%), and reviewed their recruitment procedures (26% compared with 13%).

There were also differences in terms of economic confidence: those whose confidence had decreased were more likely than average to have taken action relating to their financial position, specifically minimising their debt (55%) and changing their investment plans (32%).

Further variation can be seen when looking at businesses who said they were targeting new markets. Those targeting new or different overseas markets were much more likely to already be international businesses than domestic-only businesses (22% compared with 2%). Those targeting new domestic markets were also more likely to be international (45%) than domestic businesses (30%), suggesting the move towards more domestic markets was being made as an alternative to trading internationally rather than simply identifying new markets only within Scotland. Supporting this finding, targeting of domestic markets was higher among those that expected to see their sales outside of the UK decline (58%) (Table 6.2). While not explicitly asked in the survey, these findings suggest that there may be an increase in competition for businesses operating within domestic markets, as a result of more businesses aiming to target their activity and grow their sales within Scotland.

Table 6.2: Targeting of new domestic markets, by markets with expected decline in sales

Markets in which sales are expected to decline	% Targeting new domestic markets
Scotland	40
Outside of Scotland but within the UK	45
Outside of the UK	58
None of these	46
<i>Base: All who were targeting new domestic markets</i>	245

It is also worth noting, however, that a quarter (26%) of businesses that were targeting new domestic markets were also targeting new or different overseas markets, indicating that there is a small subset of businesses (7% of the total sample) who were looking both domestically and internationally in terms of new market opportunities.

7. FUTURE PRIORITIES

KEY MESSAGES:

Businesses main priorities for the next year or two were primarily in relation to future growth aspirations. About a fifth of businesses (22%) stated that their main priority was to grow or expand their business, while a further 15% said it was to increase their turnover or their profit. There was also a desire for steady performance, with 18% stating their priority was to continue as they were and maintain their performance, and a further 12% stated their priority was to survive and to keep the business going.

In terms of support to help plan ahead, the most common suggestion was for financial support or funding, followed by more clarity and certainty around the impacts of Brexit, and more clarity and certainty around the economy in general. Just over a quarter said they did not need any support (26%).

MAIN BUSINESS PRIORITIES

Businesses were asked, in an 'open-ended' unprompted way, to describe their main business priorities for the next year or two. Almost all businesses gave a response, primarily in terms of their future growth aspirations. Grouping the responses into broad categories shows that just over a fifth of businesses (22%) stated that their main priority was to grow or expand their business, while a further 15% said it was to increase their turnover or their profit (Figure 7.1).

"We want to grow and try to export to markets probably outwith the EU. We are aiming to double our production in next 5 years."

(25+ employees, Food and drink, Argyll and the Islands)

"We have to try and grow our sales and profit as we always do while keeping a very close eye on the developments regarding Europe and responding quickly to what happens."

(11-24 employees, Non-growth sector, Orkney)

There was also a desire for steady performance, with 18% stating their priority was to continue as they were and maintain their performance, and a further 12% stated their priority was to survive and to keep the business going. The views echo findings relating to future growth aspirations, which saw most businesses either striving for future growth or being content with their current level of performance (see section 3).

"Keep the business stable, especially in the uncertainty which is likely to be present in the foreseeable future."

(11-24 employees, Food and drink, Outer Hebrides)

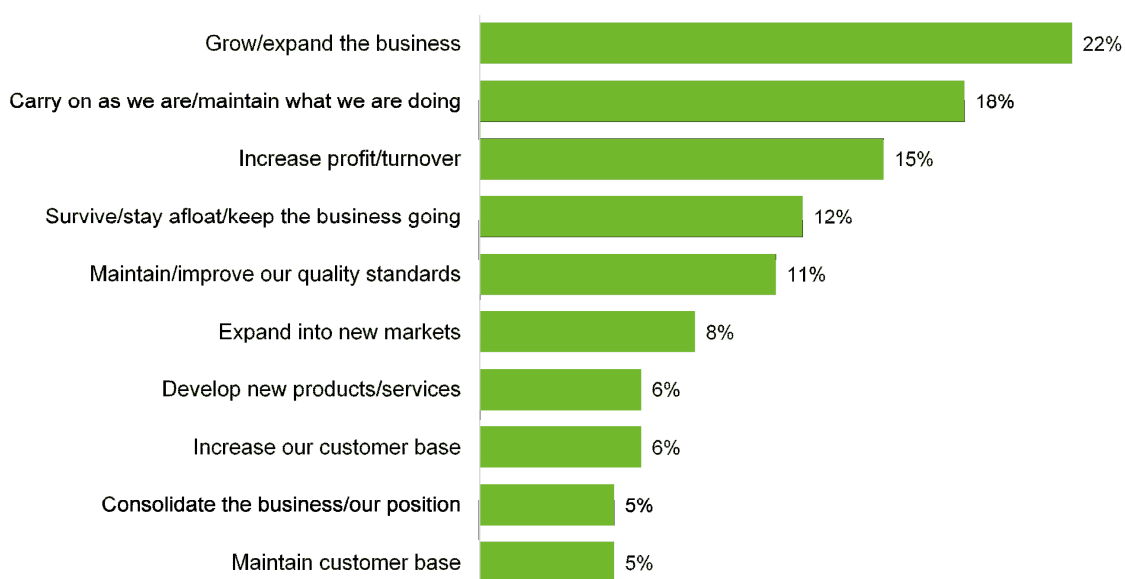
“Just carrying on the business as it is, maybe recruit one more person and keep building slowly... [In relation to Brexit], I feel the business will adapt, so let’s just get on with it and we will survive. Let’s be positive.”

(0-4 employees, Financial and business services, Inner Moray Firth)

Other priorities centred around maintaining or improving the quality of products or services (11%) and expanding into new markets (8%), while a smaller proportion were seeking to develop new products or services (6%), increase their customer base (6%), consolidate their business (5%) and maintain their existing customer base (5%) (Figure 7.1).

Figure 7.1: Main business priorities for the next year or two (top 10 responses)

Q. What are your main business priorities for the next year or two?



Base: All businesses

Variation by type of business

Reflecting the variation noted earlier in relation to growth aspiration, larger businesses (25+ staff) were more likely than average to say they wanted to grow or expand the business (36%, compared with 22% overall) and to explore and expand into new markets (22%, compared with 8%). Larger businesses (25+ staff) also noted a further priority not reflected in the overall top priorities in Figure 7,1, which was to look after their staff and create a good working environment (11%, compared with 4% overall). In contrast, small businesses were more likely than average to prioritise stability, aiming to continue as they were and maintain their performance (21% compared with 18% overall).

Those in financial and business services and in creative industries were both more likely than average to prioritise development of new products and services (16% and 14% respectively, compared with 6%).

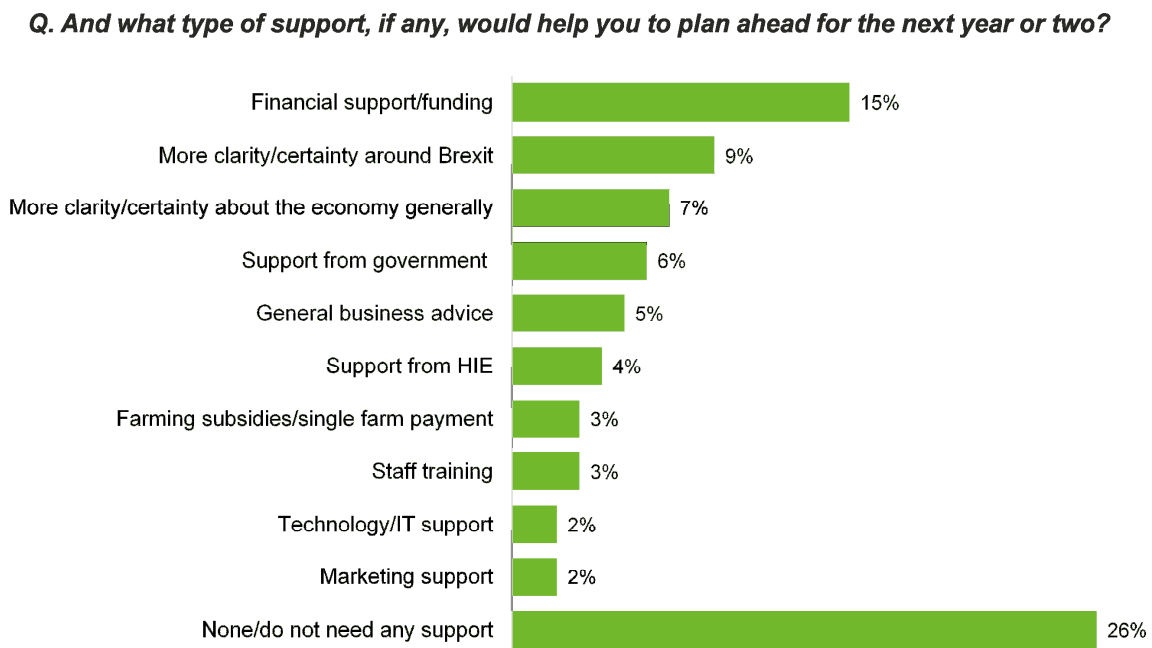
Account managed businesses were more likely than non-account managed to prioritise growing and expanding their business (36% compared with 20%), and expanding into new markets (26% compared with 6%).

SUPPORT NEEDED

Businesses were asked what types of support, if any, would help them to plan ahead for the next year or two; this question was, again, asked in an ‘open-ended’ unprompted way. Businesses suggested a range of types of support that would help them to plan ahead for the next year or two. The most common suggestion was financial support or funding (15%), followed by more clarity and certainty around the impacts of Brexit (9%), and more clarity and certainty around the economy in general (7%). A further 6% felt they would benefit from support from government, and 4% suggested support from HIE (Figure 7.2).

Just over a quarter (26%) said they did not need any support, while 9% were unable to provide an answer (saying “don’t know”).

Figure 7.2: Support to help businesses to plan ahead



Base: All businesses

In terms of specific suggestions related to further support from HIE, these included: more collaboration between local authorities and HIE to encourage growth within the region; provision of guides for businesses on how Brexit might have an impact on the region; and generally more opportunities for financial support and guidance from HIE.

“We have to get collaboration between Local Authorities and HIE to encourage growth in the area.”

(0-4 employees, Tourism, Moray)

“Continued support from HIE in all key areas discussed including productivity, product innovation, training. Plus support on navigating our way through any changes in legislation.”

(25+ employees, Food and drink, Inner Moray Firth)

"I think more meetings from HIE, for businesses to go so we know what is going to happen with Brexit. Seminars in Fort William which are more accessible for businesses in the north, instead of us having to travel to Edinburgh or Glasgow, which is costly and time consuming."

(0-4 employees, Non-growth sector, Lochaber, Skye and Wester Ross)

In relation to support from government, suggestion largely related to the desire for information and clarity around potential impacts on businesses resulting from Brexit, and a desire for more direct financial support for businesses.

"They [Scottish Government] should provide information on how to prepare for different scenarios."

(0-4 employees, Food and drink, Inner Moray Firth)

"The Government need to understand [our situation] and provide funding if we have a bad year. Something like a financial top up if we have a bad year."

(0-4 employees, Non-growth, Argyll and the Islands)

Variation by type of business

Businesses with 5-10 employees were more likely than average to say they would benefit from financial support (23% compared with 15% overall). Small businesses (0-4 employees) were more likely than large businesses (25+ employees) to say they did not need any support (28% compared with 14%).

Account managed businesses were more likely than non-account managed to want financial support (23% compared with 14%), more certainty about the impact of Brexit (17% compared with 8%) and support from HIE (9% compared with 3%).

8. SUMMARY

Optimism and performance

Businesses remain pessimistic about the economic outlook in Scotland, with more businesses saying their confidence had decreased (34%) than increased (11%). The gap between the two positions was wider than in the previous wave. However, businesses were more optimistic about the Highlands and Islands regional economic outlook; almost two thirds (63%) were confident about the year ahead, while a third were not.

Businesses continue to be more positive about their own performance than about Scotland's economy overall: 43% said they had performed well over the last 12 months, while 38% had been steady. Less than a fifth said they had struggled in the last year. Food and drink was the sector most likely to have struggled. Additionally, larger organisations (particularly those with 25+ employees) tended to have had a better year than smaller organisations (0-4 employees), as did account managed businesses.

Businesses largely reported stability in performance in terms of training, employment, working hours and exports. Views were more mixed in relation to financial aspects of business performance (sales/turnover and profit margins).

Businesses continue to remain optimistic for the future, with four in five optimistic about the year ahead. This has remained steady since the October/November 2016 wave. Factors most likely to present a risk to businesses within the next year or two were increased costs, the UK's departure from the EU and wider political uncertainty. However, businesses saw their loyal customer base and increased demand for products or services as key opportunities in the coming year or two.

Business values and growth aspirations

Almost all businesses said producing quality goods and services was a value important to their business, while other prominent values were having a good work/life balance, contributing to the local community, strong financial performance and the future legacy of the business. These values are evident in the aspects businesses see as giving them a competitive advantage, with producing quality goods and services emerging as a key feature.

Over half (56%) of businesses said they aspired to growth in the future, whilst a third (34%) were content with their current size and a tenth (9%) wanted to downsize. However, in terms of anticipated growth, 45% expected to grow in the next year or two, while 45% expected to remain the same and 7% anticipated a contraction.

In terms of the what growth actually means to businesses, almost all businesses said continuous improvement was a key characteristic they associated with growth, followed by increased profits, increased customer base, keeping pace with new technology, performing better than the competition and increased turnover.

Preparing for change

The majority (94%) of businesses had taken some action within the last 12 months to help improve their competitive advantage, and the same proportion said they planned to take action in the next 12 months. The actions businesses had taken and planned to take were broadly the same, most notably: analysing data to help inform decision-making, investment in premises or equipment, adapting business models and working practices, and promoting staff welfare and wellbeing.

Thinking about new approaches, approximately seven in ten said they were using digital technologies, whilst considerably fewer were automating processes, using low carbon technologies, or making use of the sharing economy, with fewer still using artificial intelligence. The primary barrier to using new approaches was the cost of acquiring new technology, however lack of time, lack of knowledge or skills, and access to relevant equipment were each also barriers.

Amongst businesses that currently collaborate, or were likely to in the future, the main reason given was to network more with other businesses and identify new opportunities. The main benefit of collaboration was to share ideas and best practice, as well as improve competitive advantage and help to develop products or services.

International trade

The vast majority of business sold goods or services in Scotland, while around half sold outside of Scotland but in the rest of the UK, and a third did so outside of the UK.

Among businesses that did not trade outside of Scotland, the vast majority said they were unlikely to in the future. The main reasons were that they felt their product or service was not appropriate for export, followed by being happy with their current markets and perceiving there to be no demand for their product or service outside of the UK.

Reflecting their generally positive expectations for future growth, businesses were more likely to anticipate an increase than a decrease in their future sales. The majority expected their sales to increase in at least one of their markets, either domestically or internationally.

Relationship with the EU

Just over half felt that the European Single Market and free movement of people across the EU were important to their business. Businesses continued to view both aspects as more important to the Scottish economy than to their business overall. Notably, this wave saw an increased importance placed on both these aspects of the UK's relationship with the EU.

In terms of the impacts of Brexit, businesses were much more likely to identify risks than opportunities. Key risks facing businesses included changes to regulatory environment, the introduction of tariffs on imports, and changes to funding policy.

In spite of risks outweighing opportunities, the majority of businesses (76%) did not have a plan in place to help prepare for Brexit; 20% had no plan, but recognised they needed to have one, while 56% had no plan and did not anticipate having to. Of those that had made plans or anticipated having to do so, the most common actions they had taken were: minimising debt, developing skills in their existing workforce, and targeting new or different domestic markets.

Future priorities

In terms of main priorities for the next year or two, businesses were most commonly focussed on growing and expanding their business, or continuing as they were and maintaining their performance.

In terms of support to help plan ahead, the most common suggestion was for financial support or funding, followed by more clarity and certainty around the impacts of Brexit, and more clarity and certainty around the economy in general. Just over a quarter said they did not need any support.

9. APPENDIX

BUSINESS PERFORMANCE

Table A.1: Business performance by growth sector⁴

	Performed exceptionally well	Performed quite well	Been fairly steady	Struggled slightly	Struggled markedly	Don't know	Base
	%	%	%	%	%	%	N
Overall	10	33	38	15	4	*	1001
Tourism	18	30	38	9	5	1	146
Financial and business services	9	38	35	16	1	-	74
Creative industries	8	31	42	14	5	-	58
Non-growth sector	10	35	40	13	2	-	480
Food and drink	7	27	37	21	7	*	175
	N	N	N	N	N	N	
Energy	2	7	8	5	-	-	25
Life sciences	-	1	1	-	-	-	2

Base: All businesses in each sector

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

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	N
Sales or turnover	42%	19%	38%	2%	979
Working hours	25%	5%	69%	*	993
Staff training	25%	7%	68%	*	810
Exports	28%	9%	61%	1%	209
Profit margins	27%	23%	47%	3%	972
Employment	20%	8%	71%	1%	903

Base: All businesses saying each aspect applied to them

⁴ 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 sector⁵

Growth Sector ⁶	Assessment of business performance (mean score)	Base
Creative industries	0.8	58
Tourism	0.6	146
Financial and business services	1.2	74
Non-growth sector	0.8	480
Food and drink	0.5	175
Life Sciences	2.9	2
Energy	0.7	25

Table A4: Overall assessments of business performance by location

Location	Assessment of business performance (mean score)
Lochaber, Skye and Wester Ross	0.6
Outer Hebrides	1.2
Argyll and the Islands	0.8
Moray	0.7
Inner Moray Firth	0.9
Orkney	0.7
Shetland	0.8
Caithness and Sutherland	0.4

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

Size of business (employees)	Assessment of business performance (mean score)
0-4	0.4
5-10	1.2
11-24	1.3
25+	1.6

⁵ Please note the small base sizes for Life Sciences and Energy. As number of responses have been weighted, the base size shown for these sectors are the weighted, rather than unweighted, base.

⁶ Although Energy had an average score of 0.7 and Life Sciences had an average score of 2.9, these do not represent a significant difference from other sectors due to the small base size for these sectors

BUSINESS PROSPECTS IN THE NEXT SIX MONTHS

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

	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	35	54	4	4	2	118
Stay the same	15	74	7	1	3	521
Decreased	4	58	27	7	3	338

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	68	5	*	2	427
Been fairly steady	7	77	11	2	4	391
Struggled slightly/markedly	2	39	41	15	3	178

FUTURE BUSINESS PROSPECTS

Table A.8: Factors presenting risk to business

	To a large extent	To some extent	To a small extent	Not at all	Don't know	Base
	%	%	%	%	%	N
Difficulty recruiting or retaining staff	19%	20%	17%	43%	*	813
Increased competition	9%	24%	24%	41%	1%	939
Restricted access to finance	11%	15%	18%	53%	2%	878
Increased costs	31%	36%	22%	11%	1%	995
Difficulty accessing export markets	17%	17%	18%	45%	3%	392
Poor transport links	26%	24%	15%	34%	1%	940
New technology	6%	15%	19%	58%	1%	926
The UK's departure from the EU	35%	23%	13%	19%	11%	978
Wider political uncertainty	33%	31%	16%	17%	3%	976
Availability or cost of premises	8%	12%	15%	63%	1%	816
Continued weakness of Sterling	13%	26%	18%	40%	3%	945
<i>Base: All businesses saying each aspect applied to them</i>						

GROWTH ASPIRATIONS

Table A.9: Relevant characteristics of growth by growth aspirations

Characteristics of growth	Growth aspiration		
	Striving for growth (%)	Content with current level (%)	Wanting to downsize (%)
Increased turnover	91	70	59
Increased profit	88	79	76
Increased number of employees	47	17	2
Operating in new or more markets	61	36	30
Increased customer base	91	75	52
Increased market share	75	48	44
New or bigger premises	34	11	8
Performing better than our competition	86	79	63
Innovating	84	66	59
Continuous improvement	97	91	79
Keeping pace with new technology	85	80	64
<i>Base</i>	<i>578</i>	<i>338</i>	<i>79</i>

TAKING ACTION

Table A.10: Actions to improve competitive advantage by HIE account management

	Actions taken within last 12 months		Actions planned to take in next 12 months	
	Account managed (%)	Non-account managed (%)	Account managed (%)	Non-account managed (%)
Promoting staff welfare and wellbeing	84%	58%	92%	63%
Recruiting new staff or upskilling existing staff	82%	55%	87%	59%
Analysing data to help inform decision-making	81%	65%	94%	70%
Collaboration with other businesses	79%	55%	86%	60%
Adapting business models and working practices	78%	63%	88%	69%
Investment in premises or equipment	77%	65%	80%	61%
Adopting new technology	67%	53%	70%	59%
Investment in research and development or innovation	64%	36%	73%	45%
<i>Base: All businesses</i>	117	884	117	884

Table A.11: Actions to improve competitive advantage by growth aspirations

	Actions taken within last 12 months			Actions planned to take in next 12 months		
	Striving for growth (%)	Content with current level (%)	Wanting to downsize (%)	Striving for growth (%)	Content with current level (%)	Wanting to downsize (%)
Promoting staff welfare and wellbeing	71	50	32	71	55	36
Recruiting new staff or upskilling existing staff	72	46	16	76	51	16
Analysing data to help inform decision-making	72	62	53	82	63	51
Collaboration with other businesses	65	51	40	69	56	47
Adapting business models and working practices	69	60	54	79	65	54
Investment in premises or equipment	73	60	47	71	59	29
Adopting new technology	58	53	36	69	53	35
Investment in research and development or innovation	48	30	18	57	41	18
<i>Base: All businesses</i>	578	338	79	578	338	79

THE UK'S RELATIONSHIP WITH THE EU

Table A12: Plans for Brexit by economic optimism and business performance

Extent of planning	Economic optimism			Business performance in the last 12 months		
	Increased	Stayed the same	Decreased	Performed well	Steady	Struggled
	%	%	%	%	%	%
Yes, we have a formal plan in place	3	2	4	3	2	3
Yes, we have an informal plan in place	9	11	20	16	11	15
No, but we recognize we need to have one	15	17	25	18	18	25
No, and we don't anticipate having to	66	63	43	58	60	47
Have a plan	12	14	24	4	9	10
Do not have a plan	81	80	68	76	78	72
<i>Base:</i>	<i>118</i>	<i>521</i>	<i>338</i>	<i>427</i>	<i>391</i>	<i>178</i>

Table A.13: Plans for Brexit views on the EU

	European Single Market for Scotland		Free move of people for Scotland	
	Important	Not important	Important	Not important
	%	%	%	%
Yes, we have a formal plan in place	3	*	3	–
Yes, we have an informal plan in place	14	15	14	15
No, but we recognise we need to have one	23	7	21	11
No, and we don't anticipate having to	52	75	55	69
Have a plan	18	16	17	15
Do not have a plan	75	82	76	79
<i>Base:</i>	<i>786</i>	<i>156</i>	<i>860</i>	<i>98</i>

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