HIE BUSINESS PANEL SURVEY

September 2017

Ipsos MORI Scotland

Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

CONTENTS

1. INTRODUCTION

Background

The Highlands and Islands Enterprise (HIE) Business Panel was established in 2008 to measure and monitor the economic health of the region through the experiences and opinions of businesses and social enterprises in the region, and to explore topical issues at a regional, sub-regional or sectoral level.

Following two waves of panel surveys in 2014 and 2015 HIE commissioned Ipsos MORI to carry out a further six, quarterly business panel surveys with 1,000 businesses and social enterprises, representative of the Highlands and Islands business base in terms of geographic area, organisation size and sector.

This report presents findings from the most recent wave of the survey (the fifth in the series of quarterly surveys, and seventh overall) carried out between July and August 2017. The survey covered a number of topics of general interest to business, including economic optimism and business performance, prospects and risks, and past and future business investment.

Methodology

Sampling

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

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

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

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

Survey fieldwork

The survey fieldwork was conducted between 7th July – 14th August 2017, using a combination of online and telephone methods. The survey was initially distributed by e-mail, inviting respondents to complete the questionnaire online. Remaining interviews were then carried out by telephone. In total 1,000 eligible interviews were achieved.

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

Presentation and interpretation of the data

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

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

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

2. OPTIMISIM, PROSPECTS AND PERFORMANCE

Key messages:

This wave there are slightly more positive results in terms of confidence in the economic outlook in Scotland, although overall, *only* 15% of businesses reported that their confidence had increased over the last six months.

A similar proportion of businesses reported performing quite/exceptionally well (39%) as reported a steady performance in the last twelve months (40%).

Businesses reported stability in most aspects of business performance in the last six months, the same was true for prospects in the next six months.

Having said that, around three quarters of businesses (78%) were very (17%) or fairly (61%) optimistic for their prospects over the next 12 month period.

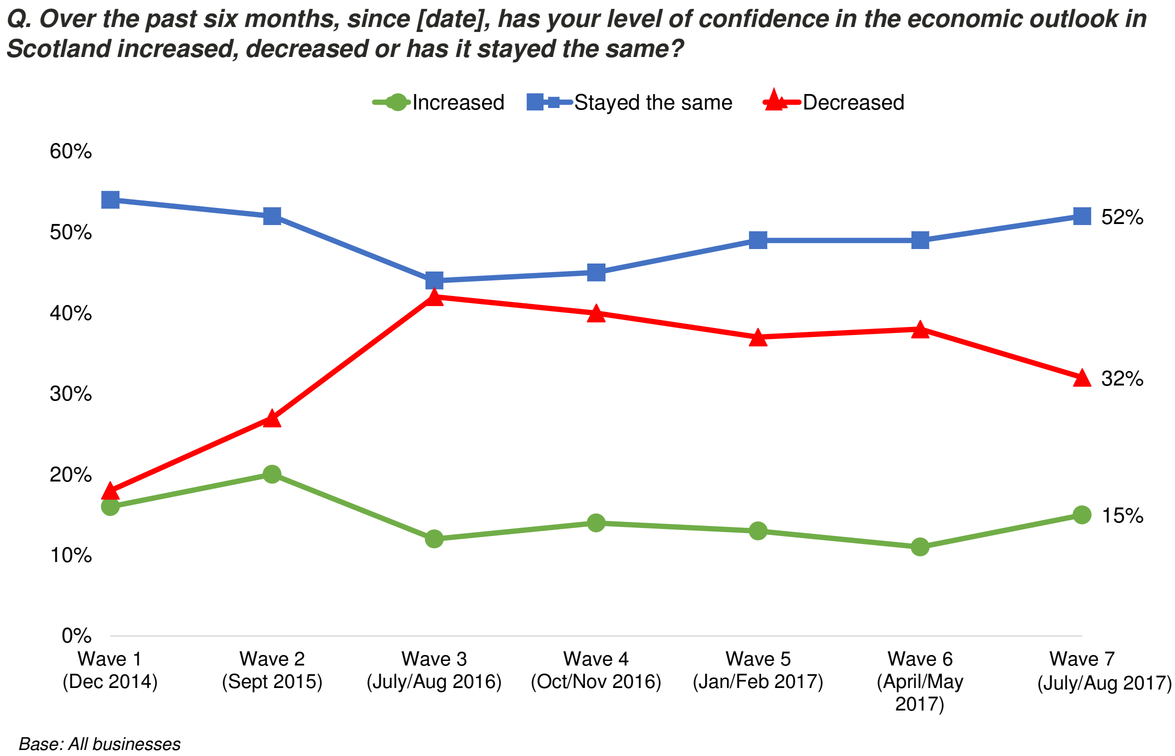
Over half (56%) of businesses did not anticipate growth over the next year or two: 46% expected stability while 10% anticipated a contraction.

Economic optimism

This wave there are slightly more positive results in terms of confidence in the economic outlook in Scotland, with 15% saying that their confidence had increased (up four percentage points) and 32% saying their confidence had decreased (down 6% percentage points) over the last six months. Still, slightly over half (52%) reported that their confidence remained the same. (Figure 2.1). Reflecting these results, economic optimism had an overall net negative of -17 points this wave, compared with a net negative of -27 in wave six (undertaken in April/May 2017). [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



Variation by type of business

Tourism businesses, those located in Lochaber, Skye and Wester Ross[2], and those that are account managed by HIE were more likely than average to report increased confidence (25%, 21% and 22% respectively compared with 15% overall). The same was also true of businesses with 5-10 (20%), 11-24 (19%), and 25+ (22%) employees compared with those with 0-4 (12%).

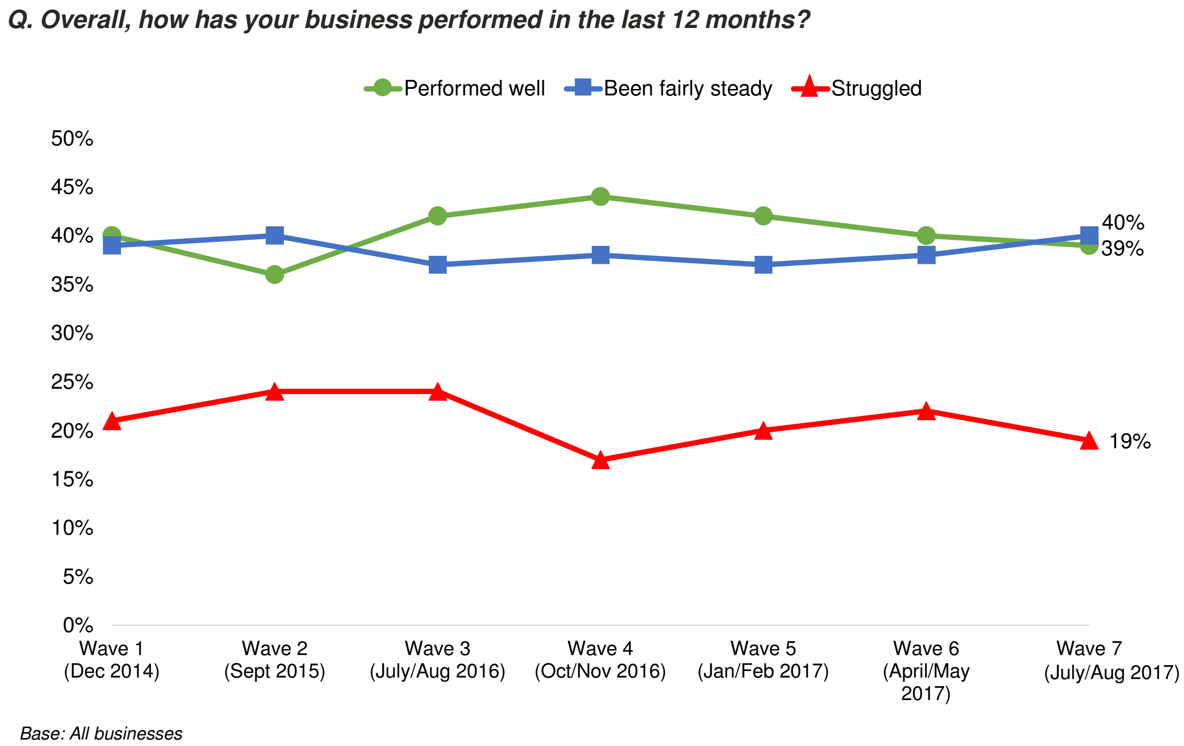
Following the trends from the previous waves, food and drink businesses, and those located in Argyll and the Islands were more likely than average to report decreased confidence (39%, and 40% respectively compared with 32% overall). Furthermore, businesses that were not optimistic about the next twelve months were almost twice as likely than average to report that they had decreased confidence (70% compared with 32% overall). Views on the relationship with the European Union (EU), both in terms of access to the Single Market and free movement of people, impacted business confidence in the economy, those who viewed these aspects as being important to the Scottish economy overall were more likely than average to report decreased confidence (35% and 37% compared with 32%).

[2] When interpreting this difference, it is important to note the profile of businesses from these areas who took part in the survey. The sample of businesses in Lochaber, Skye and Wester Ross contained a higher proportion of tourism businesses than the overall sample (25% of businesses in the region compared with 11% overall). Higher than average confidence in this region may therefore be linked to confidence among tourism businesses.

Business performance

Assessments of business performance were broadly similar to those seen in the past two waves (Figure 2.2). Two in five businesses reported performing quite (30%) or exceptionally (9%) well (39%) in the last twelve months, with a similar proportion reporting steady performance (40%). In contrast, just under a fifth (19%) said that their business had struggled slightly (15%) or markedly (4%).

Figure 2.2 – Assessments of business performance in the last 12 months over time



As in previous waves, views of past business performance were correlated with the level of confidence in the economic outlook in Scotland: 70% of those whose confidence in the economy had increased also reported that they had performed well, while 33% of those whose confidence had decreased said they had struggled in the past 12 months.

Variation by type of business

In terms of variation by sector, again, tourism businesses were more likely than average and compared with food and drink businesses to be positive about their performance: 23% said that they performed exceptionally well compared with 9% on average, and 6% among food and drink businesses. Conversely, food and drink businesses were twice as likely than tourism businesses to report that they struggled slightly (20% compared with 10% among tourism businesses) (Table 2.1).

Larger businesses (25+ employees), and those that are account managed by HIE were more likely than average to report that they had performed exceptionally well (18% and 14% respectively compared with 9% overall).

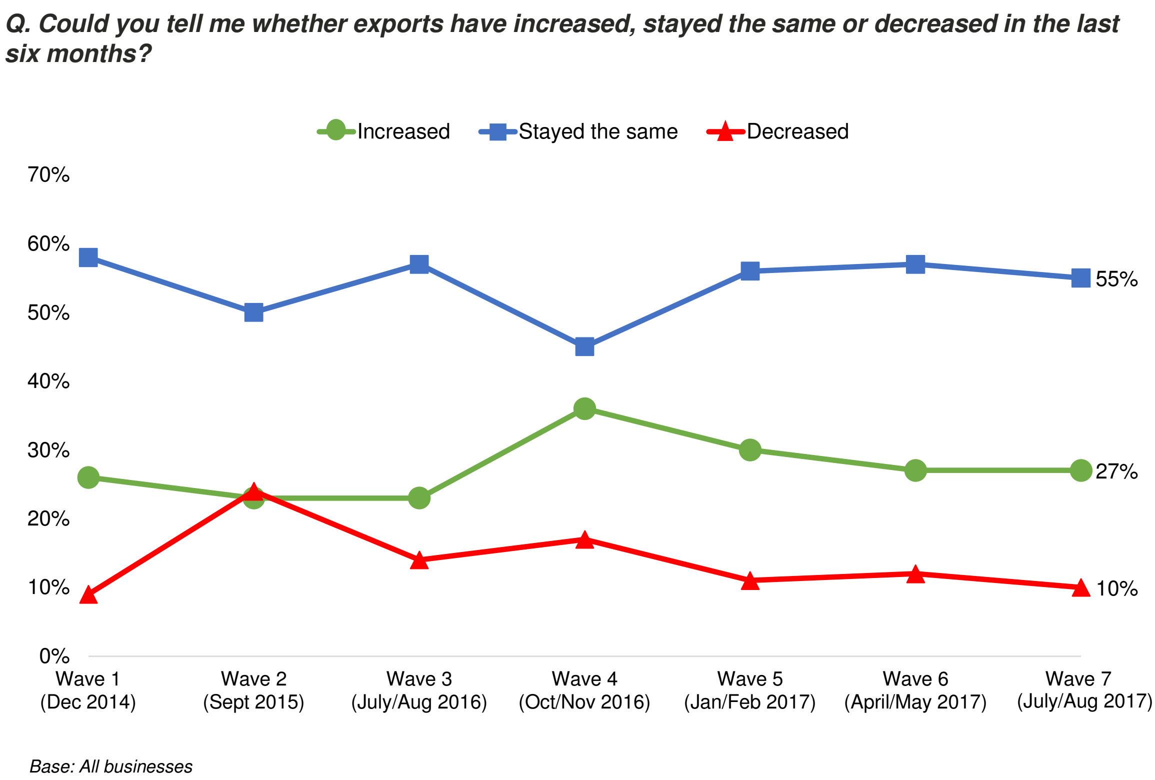
There were some variations in assessments of business performance, depending on whether businesses had used investment in the past twelve months. Those that had used investment were more likely than average to report that they had struggled markedly (6% compared with 4% overall); whereas, those who had not used investment were more likely than average to report that they had performed exceptionally well (12% compared with 9% overall). While these results suggest that there is a relationship between businesses decisions to seek investment and their assessments of performance, these differences should be treated with caution, as they are on the threshold of significance.

Aspects of business performance

Businesses once again reported a stable performance in employment (69%), staff training (66%), working hours (60%), and exports (55%). Reflecting the seasonal period, two-fifths of businesses (41%) reported increased sales or turnover. The same level of increased sales and turnover, nevertheless, did not translate into increased profit margins: only a quarter (26%) reported an increase, and almost half (47%) reported that this aspect had stayed the same (Table 2.2).

Looking more closely at performance in relation to exports, results have remained consistent for the past three waves (Figure 2.3). Among businesses that exported, those more likely to report an increase were businesses with 5-10 employees (43%); those that reported that they had performed well in the last twelve months (38%); and those that are account managed by HIE (37%) compared with 27% on average.

Figure 2.3 – Trends in exports over time



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[3]. The average score was 0.8 – tending toward a more positive assessment, and a slight increase from previous wave (0.6), indicating that more businesses reported increases than reported decreases in all aspects. Just over half (53%) of businesses had an overall positive score, while 23% had a negative score and 25% had a score of zero.

Variation by type of business

Reflecting the overall trends, businesses in the tourism sector had a higher overall average score, at 1.1, followed by food and drink businesses (0.8) and those in the financial and business services sector (0.7). Notably, tourism businesses were more likely to report an increase in sales or turnover (50% compared with 41% overall) echoing findings from the past three waves. This stronger than average financial performance in the tourism sector may be linked to the continued low value of the pound, and its perceived positive impact on overseas and domestic tourism in the region. It may also reflect the time of year the survey was carried out, with interviews taking place over the peak tourist months of July and August.

In line with the previous two waves, businesses in Lochaber, Skye and Wester Ross were more likely than average to report an increase in sales or turnover (51% compared with 41% overall). This is also reflected in their overall higher performance score, at 1.1. When interpreting these differences, it is important again to note the profile of businesses from these areas who took part in the survey. The sample of businesses in Lochaber, Skye and Wester Ross contained a higher proportion of tourism businesses than the overall sample, and higher than average performance in this region may therefore be linked to positive performance among tourism businesses, as highlighted earlier.

Businesses with 25+ employees were more likely to report an increase in aspects of business performance, overall, compared with those with fewer employees (Table 2.3). Consistent with results from the past four waves, businesses with 25+ employees were more likely than average to report an increase in almost all aspects of business performance: sales or turnover (57%), employment (50%), staff training (42%), and profit margins (37%). Businesses with 11-24 employees were more likely than average to report an increase in sales or turnover (55%), and employment (40%).

As with the past four waves, account-managed businesses had higher positive scores (1.5) than non-account managed (0.7) and were more likely to report increased performance in sales or turnover (59% compared with 38% of non-account managed businesses), employment (44% compared with 19%), staff training (40% compared with 26%), profit margins (37% compared with 24%) and exports (37% compared with 23%).

Business prospects in the next six months

Looking ahead to the next six months, businesses expected stability in most aspects – employment (70%), working hours (67%), staff training (64%), exports (53%), and profit margins (52%). An equal proportion expected increased sales and turnover (40%) as expected this aspect to remain constant (40%) (Table 2.4).

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[3] 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.

Scoring prospects in the same way as past performance, the overall score across the six aspects was 0.7, a slight decrease from the previous wave. More businesses had a positive score than a negative one: 46% had an overall of positive score, while 22% had a negative score, and 33% had a score of zero.

Variation by type of business

All sectors had an overall positive mean score (Table 2.5), with businesses in food and drink and creative industries sectors seeing the highest overall mean scores. In particular, food and drink businesses were more likely than overall to anticipate an increase in exports (49% compared with 33%); and working hours (24% compared with 19%). Energy businesses were also positive in their assessments of their prospects – although any results should be treated with caution because of the small number of businesses within this sector – they were more likely than average to report increases in employment (48% compared with 19%); profit margins (46% compared with 28%); and sales or turnover (54% compared with 40%).

Tourism businesses on the other hand, were more likely to report decreases in all aspects barring exports: employment (29% compared with 10% overall); working hours (27% compared with 13%); profit margins (30% compared with 17%); staff training (17% compared with 6%); and sales or turnover (32% compared with 17%). These results may reflect seasonal changes affecting tourism businesses within the next six months.

In terms of location, businesses in the Outer Hebrides (0.9), Moray (0.9) and Inner Moray Firth (0.8) had comparatively higher mean scores. The starkest different, however, was in terms of businesses in Lochaber, Skye and Wester Ross that had the lowest mean scores (0.3) – perhaps reflecting the negative assessments of tourism businesses within this location.

Reflecting these mean scores, businesses in Lochaber, Skye and Wester Ross were more likely than average to expect decreases in employment (19% compared with 10%); working hours (23% compared with 13%); staff training (12% compared with 6%); and sales or turnover (31% compared 17%).

Larger businesses had more positive expectations than smaller businesses: businesses with 25 or more employees had an overall mean score of 1.4 compared with 0.4 among businesses with 0-4 employees. Consistent with these results, larger businesses were more likely than average to expect increases in employment (35% compared with 19%); working hours (28% compared with 19%); profit margins (40% compared with 28%); staff training (40% compared with 28%); and sales or turnover (64% compared with 40%).

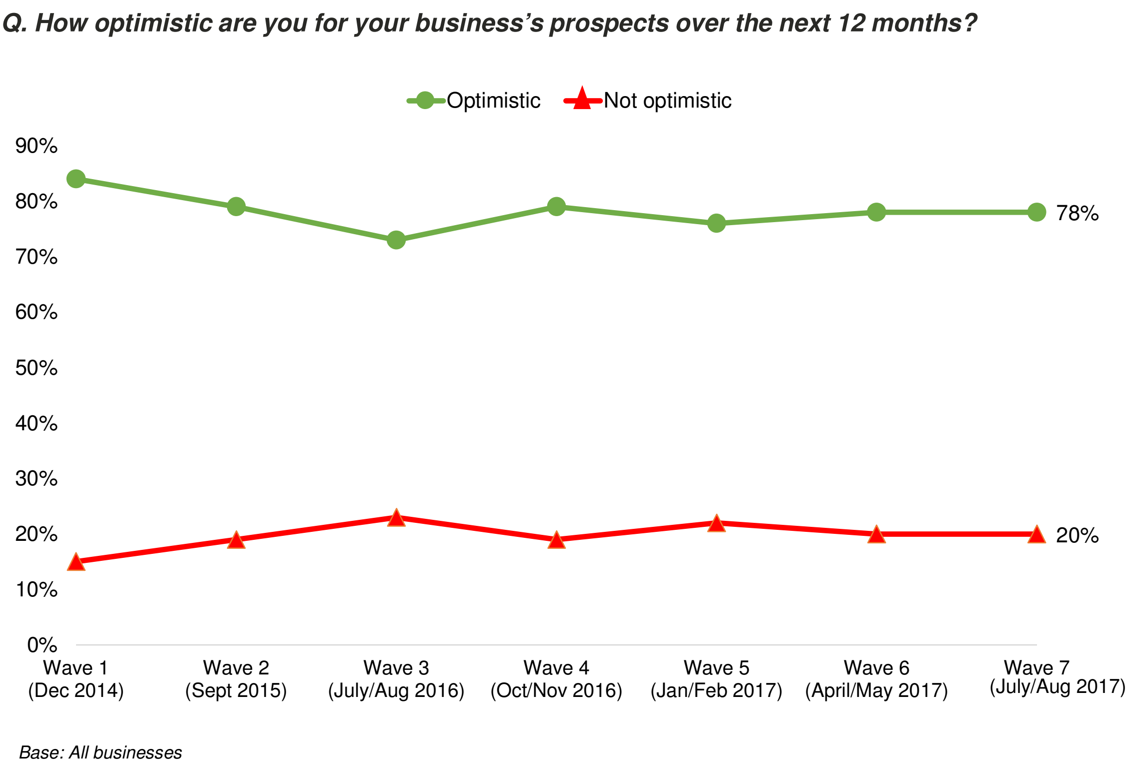
Once again, account-managed businesses had a higher overall positive score (1.8) than non-account managed (0.8). Specifically, they were more likely than non-account managed businesses to expect an increase in all aspects of performance: sales or turnover (64% compared with 36% of non-account managed businesses); staff training (46% compared with 24%); profit margins (40% compared with 26%); working hours (27% compared with 17%); employment (37% compared with 16%); and exports (51% compared with 24%).

There were few statistically significant differences in aspects of business performance in the next six months by fragility.

Future business prospects

Directly consistent with wave six, around three quarters of businesses (78%) were very (17%) or fairly (61%) optimistic for their prospects over the next 12 months, in comparison to around a fifth (20%) who were not very (16%) or not at all (3%) optimistic. (Figure 2.4).

Figure 2.4 – Business prospects over the next 12 months over time



As seen in previous waves, there was a correlation between economic optimism and assessment of future business prospects; those whose confidence in the economy had increased were also more optimistic about the future of their business. Similarly, those whose confidence had decreased were more likely to report that they were not very optimistic about their future business prospects (Table 2.6).

Past business performance is also correlated with future optimism. As shown in Table 2.7, 93% of those that said their business had performed well also reported that they were optimistic about their future business prospects. Similarly, 56% of those who had reported that they had struggled slightly or markedly in the last 12 months also reported that they were not optimistic for their future prospects.

Variation by type of business

Businesses in the tourism sector were more likely than average to report that they were very optimistic (23% compared with 17%); in comparison, food and drink businesses were more likely to report that they were not very optimistic (23% compared with 16%). On the mid-point of the scale, businesses in the financial and business services sector were more likely than overall to report that they were fairly optimistic (72% compared with 61%).

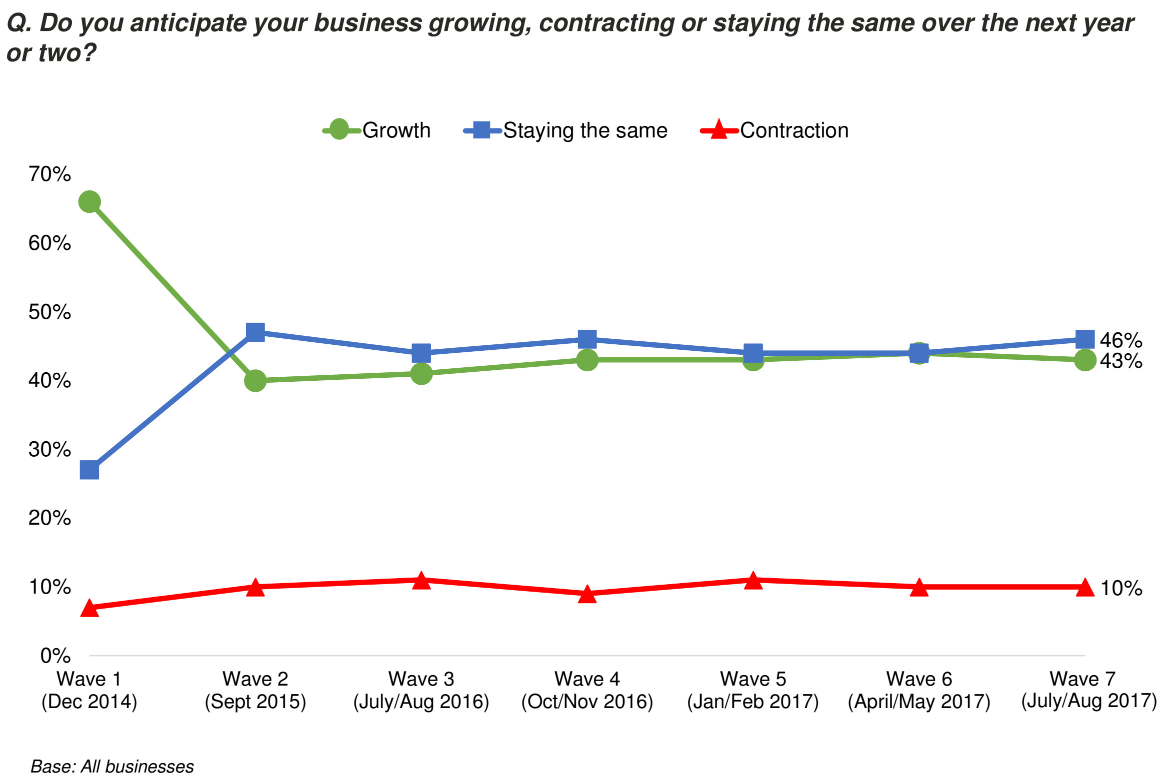
Variation by size of business followed a similar pattern to the previous wave. Larger businesses (25+ employees) were more likely than average to be *very* optimistic (30% compared with 17% overall), and smaller businesses (0-4 employees) not optimistic (24% compared with 20% overall).

There were fewer variations by location this wave, notably, however businesses in Argyll and the Islands were more likely than overall to report that they were not very optimistic (22% compared with 16% overall).

Business growth

Over half (56%) of businesses did not anticipate growth over the next year or two: 46% expected stability while 10% anticipated a contraction. In terms of those who anticipated growth (43%), 4% anticipated substantial growth, 18% moderate growth and 21% slight growth (Figure 2.5).

Figure 2.5 – Future growth over the next year or two



Variation by type of business

Following the trends from the tracking questions: larger businesses with 25+ employees were more likely than overall, and smaller businesses, to anticipate substantial growth (9% compared with 4% overall, and 1% among 0-4 businesses). This wave, there were also positive estimates from mid-sized businesses with 5-10 staff – these businesses were also more likely to anticipate substantial growth in the next six months – 9% compared with 4% overall).

Similarly, this wave energy businesses have been positive about their future prospescts. They are three times more likely than average to anticipate substantial growth (12% compared with 4%). Consistent with the positive trend among account managed businesses, they were also more likely than overall, and non account managed businesses, to anticipate substantial growth (13% compared with 4% overall, and 2% non account managed).

3. RELATIONSHIP WITH THE EU

Key messages:

Businesses are split in terms of the perceived importance of membership of the European Single Market to their business.

When thinking about the Scottish economy overall, three out of four businesses reported that membership of the European Single Market was important (74%).

Over half (57%) felt that the free movement of people across the EU was not important to their business, while 40% felt that it was important.

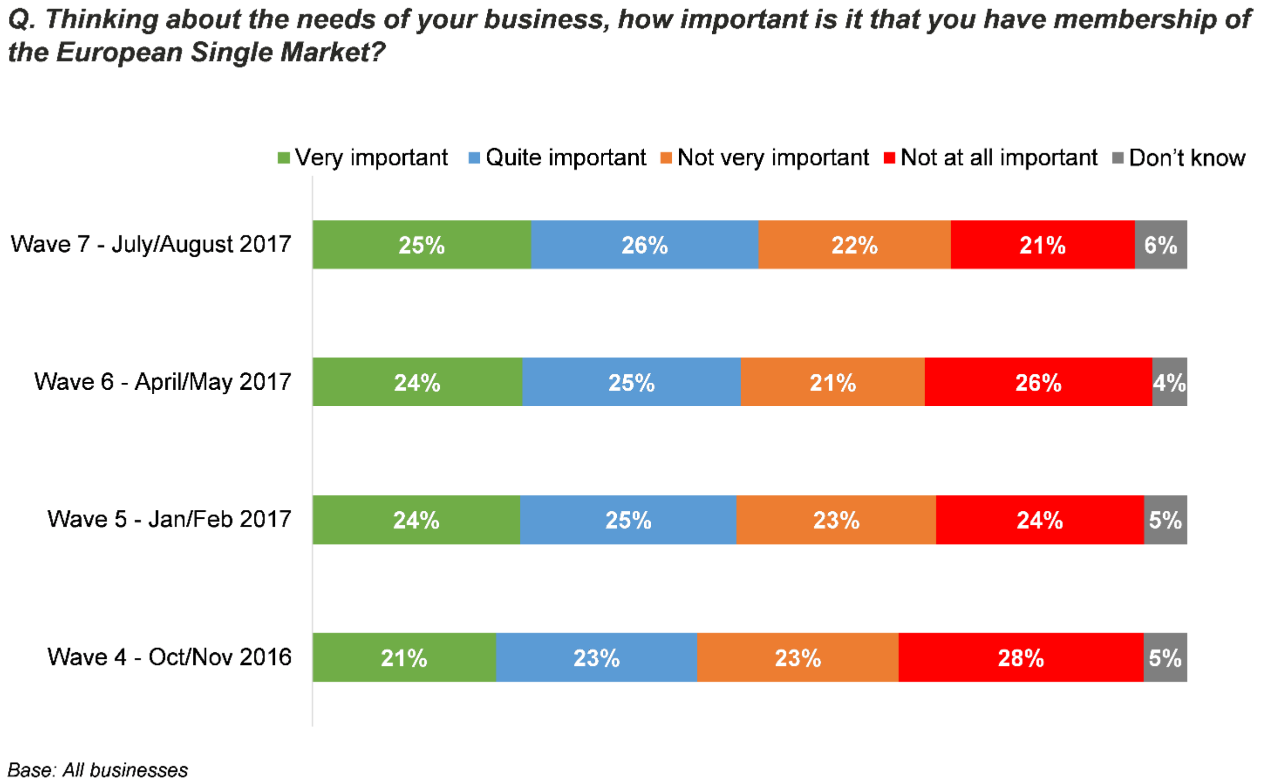
Businesses were more likely to feel that free movement was important to the Scottish economy overall than to their own business: eight out of ten (79%) felt that free movement was important.

European Single Market

Importance of European Single Market to businesses

Businesses were split in terms of the perceived importance of membership of the European Single Market to their business – 51% regarded it is as important, while 43% regarded it as not important (Figure 3.1).

Figure 3.1 – Importance of membership of the European Single Market



Variation by type of business

Food and drink businesses and those in the creative industries sector were more likely than average to report that membership of the European Single Market was very important to their business (35% and 37% respectively compared with 25% overall).

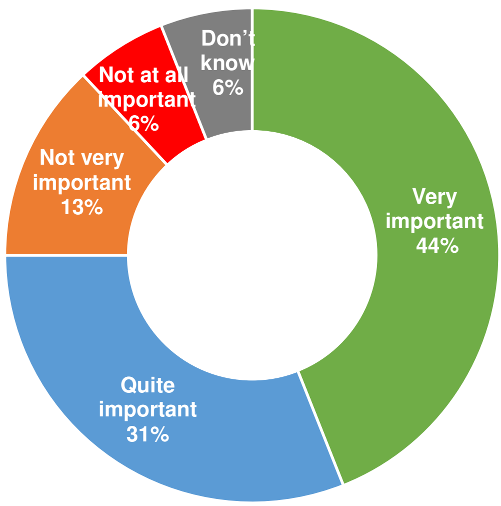
In contrast, financial and business services (38%), and smaller businesses (0-4 employees) (23%) were more likely than average (21%) to say that membership was not at all important to them.

Importance of European Single Market to the Scottish economy

Following on from the previous wave, businesses were asked how important membership of the European Single Market was to the Scottish economy overall. As shown in Figure 3.2, three out of four businesses reported that membership was important (74%) to the Scottish economy overall – a significant increase from the 69% recorded last wave, and higher than the proportion viewing membership as important for their business.

Figure 3.2 – 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 (1,000)

There is some correlation between views on importance of the European Single Market to businesses and to the economy: 96% of those who said membership was important to their business also said it was important to the economy (Table 3.1). However, over half (56%) of those who felt that membership was *not* important to their business did feel that membership was important to the economy overall.

Variation by type of business

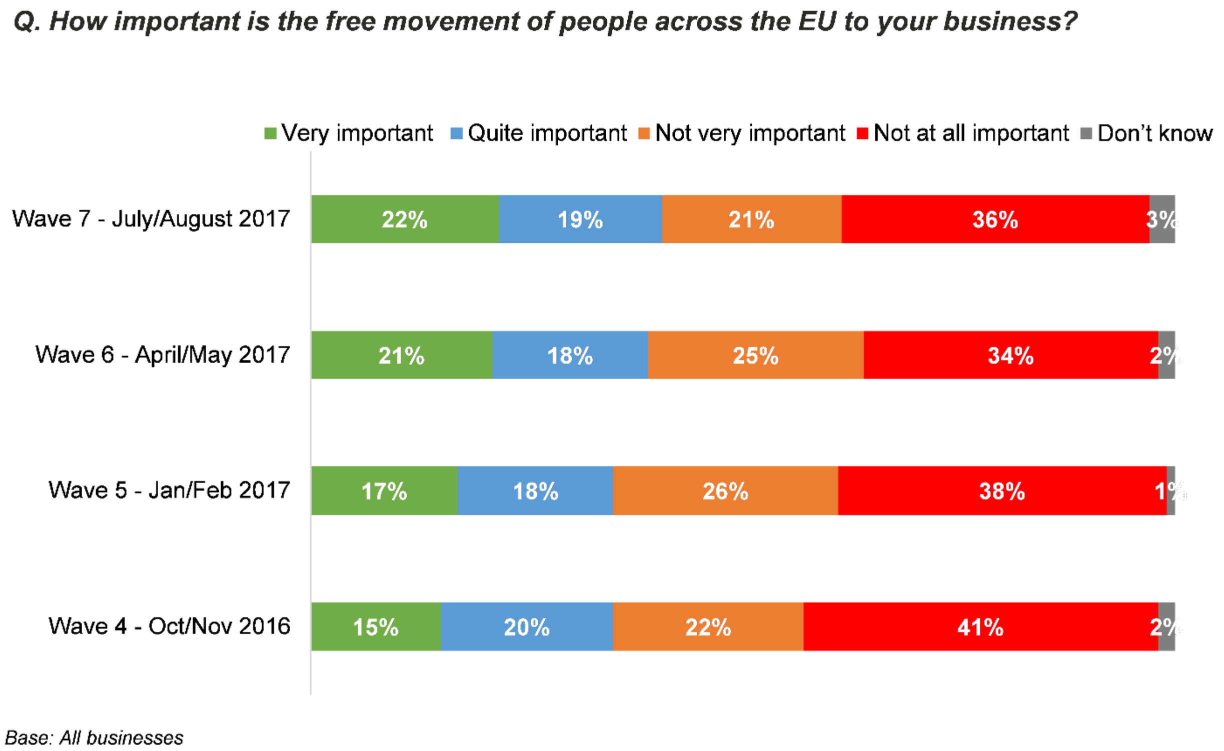
Businesses in the creative industries sector were more likely than average to report that access to the European Single Market was very important to the Scottish economy overall (63% compared with 44%). Furthermore, following the relationship between economic optimism and views on Brexit, those whose economic confidence had decreased in the last six months were more likely than average to report that access was important (81% compared with 74% overall).

Free movement of people

Importance of free movement of people to businesses

Over half (57%) of businesses felt that the free movement of people across the EU was not important to their business, while 40% felt that it was important (Figure 3.3). Between waves 4 and 7 there was an increase in the proportion of businesses saying free movement was very important (from 15% to 22%), and conversely a decrease in those saying it was not at all important (from 41% to 36%).

Figure 3.3 – Importance of free movement of people across the EU



Variation by type of business

As in previous waves, tourism businesses (58%), creative industries businesses (52%), those with 5-10, 11-24 or 25+ staff (49%, 51% and 65% respectively), account managed businesses (51%), and those in fragile areas (49%) were more likely than average (40%) to report that free movement of people was important to their business.

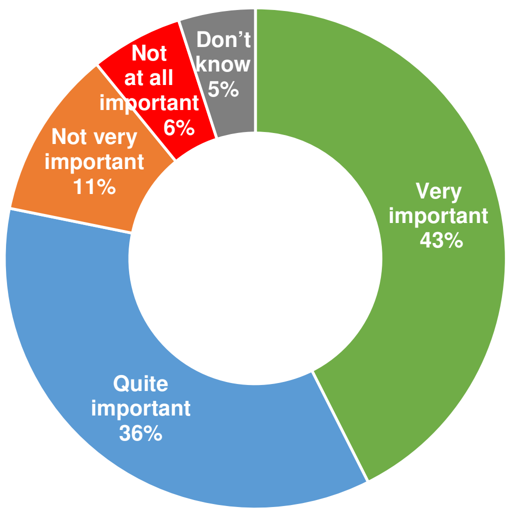
In contrast, those in the financial and business services sector, and those that employed 0-4 staff were more likely than average to say free movement was not important (71%, and 64% respectively compared with 57% overall).

Importance of free movement of people to the Scottish economy

Businesses were more likely to feel that free movement was important to the Scottish economy overall than to their own business: eight out of ten (79%) felt that free movement was important, compared with 16% who felt it was not important (Figure 3.4). The proportion saying free movement was important to the economy increased from the 75% recorded in the last wave.

Figure 3.4 – 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 (1,000)

As with views on membership of the European Single Market, there was some correlation between views on importance of free movement to businesses and to the economy: 97% of those who said free movement was important to their business also said it was important to the economy. However, 71% of those who felt that free movement was *not* important to their business did feel it was important to the economy overall.

Variation by type of business

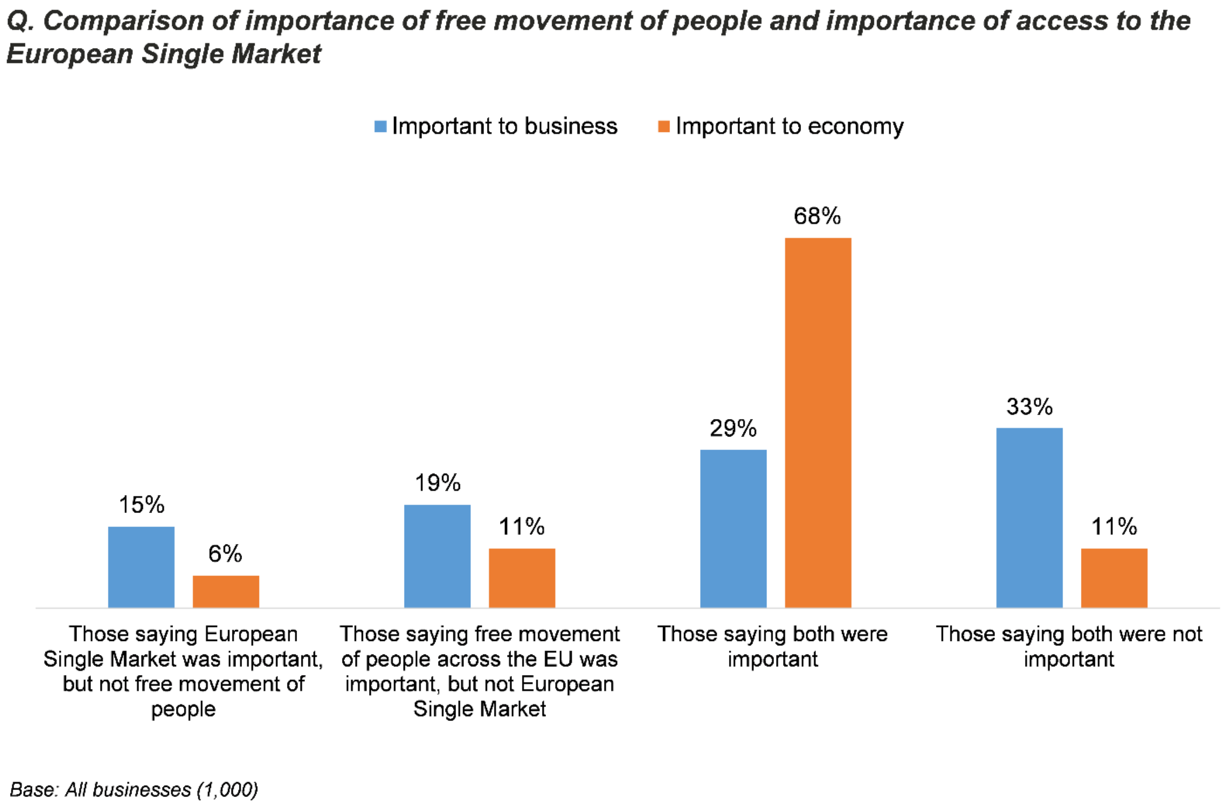
Tourism businesses (52%), those in the financial and business services sector (55%), and those with 25 or more employees (59%) were more likely than average (43%) to say that free movement was *very* important to the economy. There were little further statistically significant variations in the results.

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 29% of the overall sample of businesses (290 businesses), similar to the 27% reported in wave 6 and 25% in wave 5. Those who felt that *neither* was important represent 33% of the sample (330 businesses), similar to the 36% reported in wave 6 and 39% reported in wave 5.

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 68% of the overall sample of businesses (681 businesses). Those who felt that *neither* was important represent 11% of the sample (107 businesses). (Figure 3.5).

Figure 3.5: Comparison of importance of free movement of people and importance of access to the European Single Market



4. BUSINESS COSTS

Key messages:

A majority of businesses (88%) had experienced an increase in costs of some form. Costs that were most likely to have increased were goods imported from outside the UK, goods sourced from within the UK, utilities and labour.

Larger businesses, those in the tourism and food and drink sectors, and account managed businesses were more likely than others to have experienced cost increases.

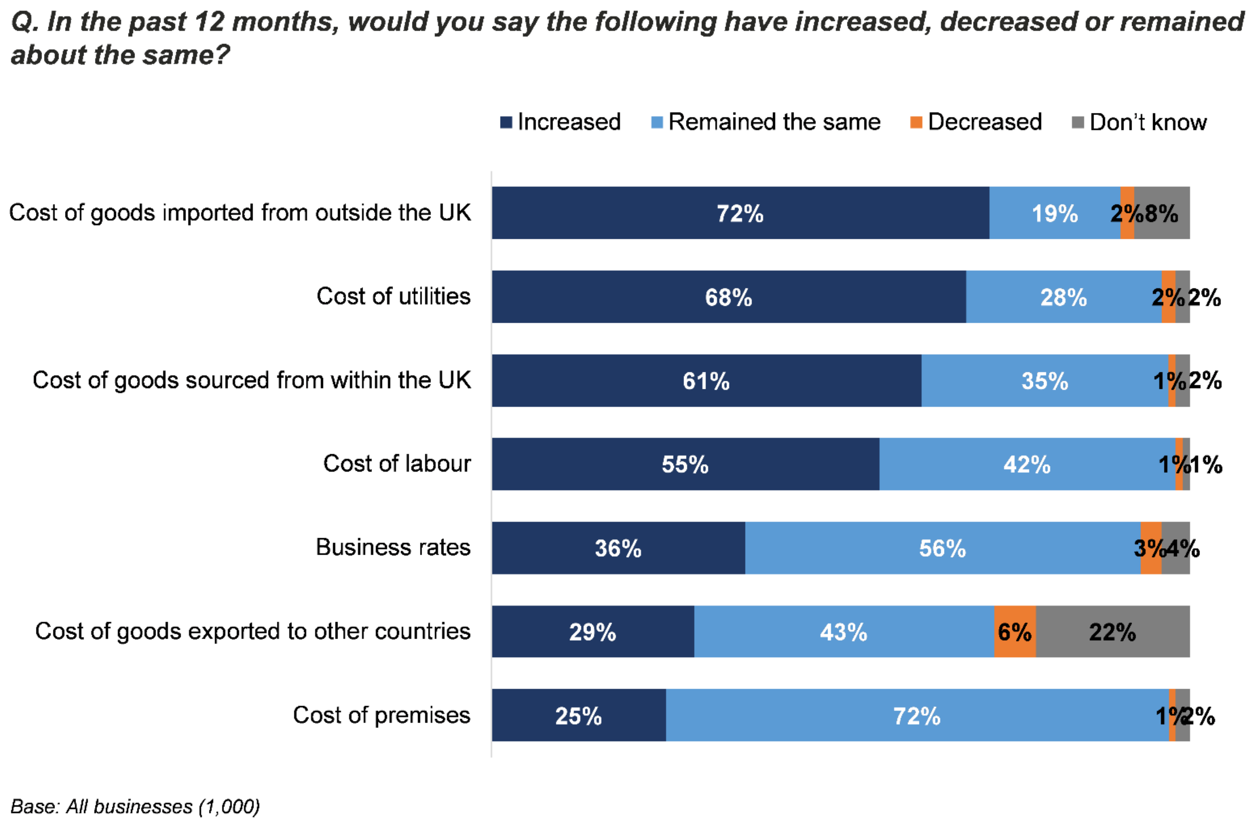
Among those who had seen an increase in costs, half (48%) said they had responded by absorbing those costs internally. These tended to be smaller businesses and those in the Food and drink sector. A further 11% had increased their prices, and 39% had taken both of these measures. Those most likely to have taken both measures tended to be larger businesses, those in the Tourism sector and account managed businesses.

Change in costs in past 12 months

This wave, businesses were asked the extent to which they had experienced a change in certain costs over the past 12 months. Overall, 88% had experienced an increase in at least one of the cost areas listed.

As shown in Figure 4.1, the area that most businesses had seen an increase in was the cost of goods imported from outside the UK (72%), followed by cost of utilities (68%), cost of goods sources from within the UK (61%) and cost of labour (55%). In terms of business rates, cost of premises and cost of goods exported to other countries, businesses were more likely to say that these had stayed the same than had increased. Only a minority (between 1% and 6%) said that any of the costs had decreased.

Figure 4.1: Change in costs in the past 12 months



Certain businesses were more likely than others to have seen a change in costs:

- Larger businesses (25+ employees) were more likely than average have seen an increase in most costs, including goods imported from outside the UK (91%), labour (82%), goods sourced from within the UK (73%) premises (39%), business rates (68%) and exports (51%) (Table 4.1).

- Account managed businesses were more likely than non-account managed businesses to have seen an increase in cost of goods imported from outside the UK (82% compared with 70%), labour (68% compared with 53%), business rates (51% compared with 34%) and exports (39% compared with 25%) (Table 4.2).

- Tourism businesses were more likely than average to have seen an increase in costs of goods sourced within the UK (75%), labour (67%), and business rates (55%) (Table 4.3).

- Food and drink businesses were more likely than average to have seen an increase in goods sourced from within the UK (68%) and exports (41%) (Table 4.3).

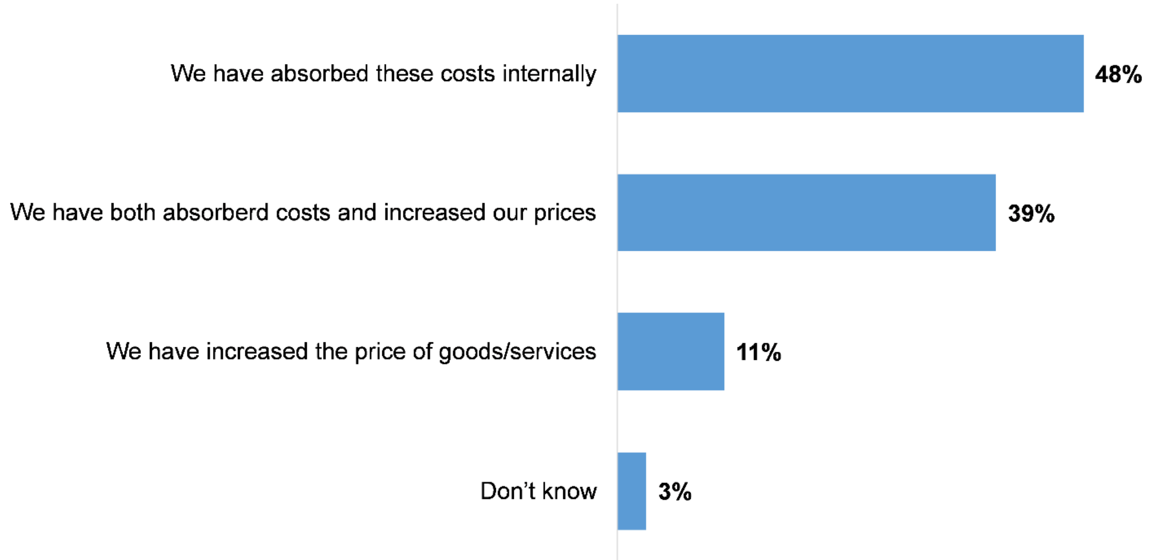
There was little significant variation by location, with the exception of two results: those in Argyll and the Islands were more likely than average to say the cost of utilities had increased (75% compared with 68%), and those in Moray that business rates had increased (46% compared with 36%).

Response to increase in costs

Among those who had seen an increase in costs, half (48%) said they had responded by absorbing those costs internally, while 11% had increased their prices, and 39% had taken both of these measures (Figure 4.2).

Figure 4.2: Response to increases in costs

Q. Where costs have increased, which of the following best describes how your business has responded to those increases?



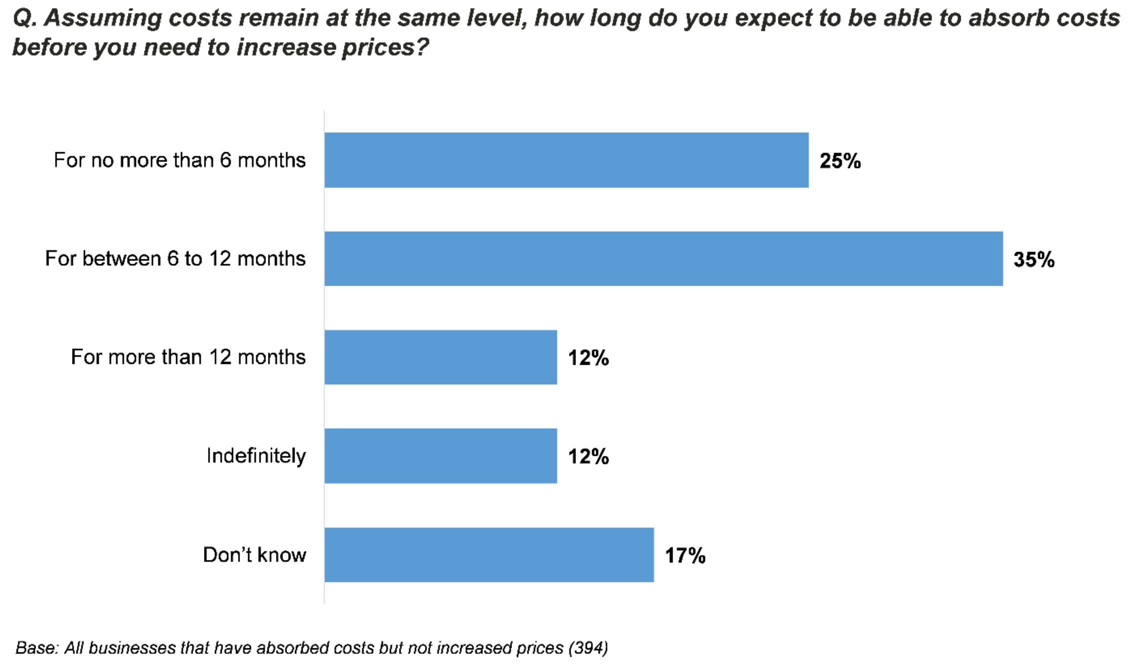
Base: All businesses with costs that have increased (877)

Those most likely to have absorbed costs internally were smaller businesses (0-4 employees) (57%) and those in the food and drink sector (60%) (Tables 4.4 and 4.5). In contrast, those most likely to have *both* absorbed costs *and* increased prices were larger business (25+) (66%), those in the tourism sector (58%) and account managed businesses (48%).

There was also a correlation between response to cost increases and both economic optimism and business performance: those whose economic confidence had decreased and those who had struggled in the past 12 months were more likely than average to have absorbed costs (54% and 58% respectively); those whose confidence had increased and who had performed well were more likely to have both absorbed costs and increased prices (both 48%).

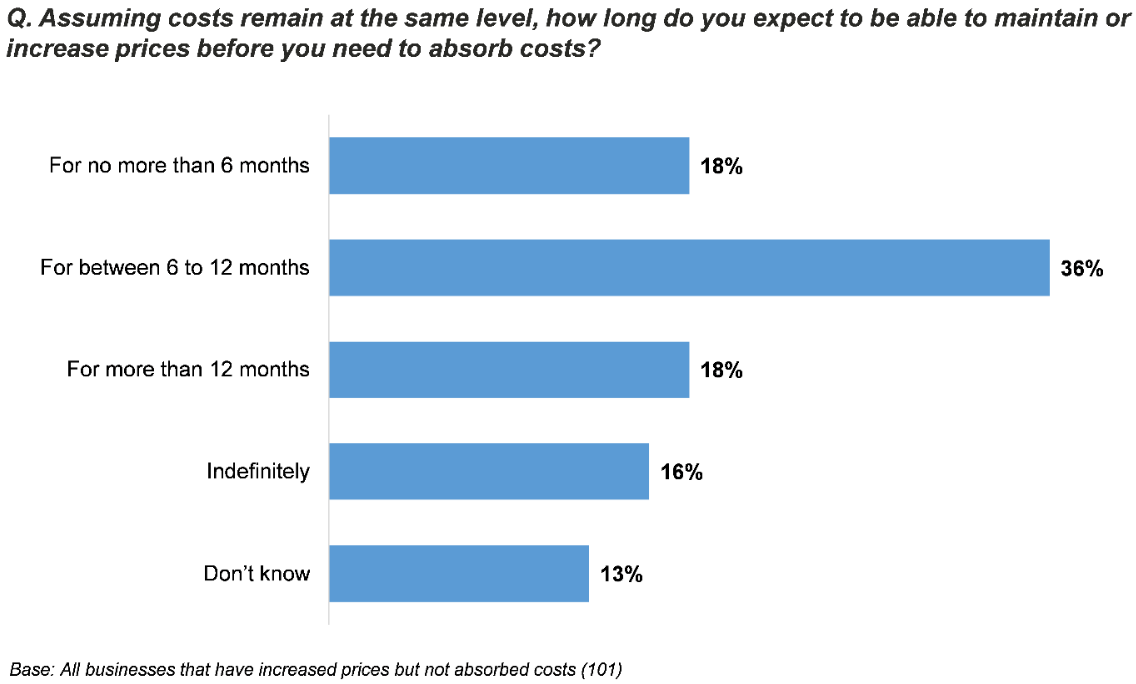
Among those that had absorbed costs, 60% expected to be able to do so for less than 12 months before they would need to increase prices - 25% for no more than 6 months, and 35% for between 6 and 12 months (Figure 4.3). Around one in ten (12%) expected to be able to do this for more than 12 months, while the same proportion (12%) expected to do so indefinitely.

Figure 4.3: How long businesses expect to absorb costs before increasing prices



It is a similar picture among those that had increased prices. Over half (54%) expected to be able to maintain or increase prices for less than 12 months before they would need to absorb costs - 18% for no more than 6 months, and 36% for between 6 and 12 months (Figure 4.4). Elsewhere 18% expected to be able to do this for more than 12 months, while 16% expected to do so indefinitely.

Figure 4.4: How long businesses expect to increase prices before absorbing costs



There was no significant variation in response to either question by size, sector, location or relationship with HIE.

5. BUSINESS INVESTMENT

Key messages:

Experience of previous investment was mixed, with around half of organisations (48%) having invested in their business in the past twelve months. Business in the food and drink sector, larger businesses, and account managed businesses were more likely than average to have invested.

The common forms of investment were loans from banks or financial institutions, or from non-financial institutions.

The most common uses for the investment funding were to invest in plant, vehicles or equipment (52%), improve or extend existing premises (34%), for working capital (30%), and product improvement (24%).

Looking ahead to the next two years, the majority of businesses were again cautious about future investment, with two thirds (63%) unlikely to seek investment in this period.

Among businesses who had not used or tried to use investment, the main reason was a reluctance to borrow or a desire to remain debt-free (72%). The same cautions were expressed in relation to seeking future investment (59%).

When asked what would encourage businesses like theirs to seek investment in the future, the majority (71%) said a stable economic climate or less uncertainty, with other popular suggestions including more favourable borrowing terms, investment in digital infrastructure, and investment in transport infrastructure.

Experience of using investment

When asked about a range of potential investment sources, around half of businesses (48%) had used at least one source to fund the growth or development of their business in the past year, while 52% had not used or tried to use any. These figures are the same as those recorded in wave 3 (undertaken in July/August 2016); despite 17% of those who had not already used investment in wave 3 saying they were likely to do so in the coming 12 months. The steady proportion of businesses investing between the two waves suggests that this projected additional investment activity did not take place (though it should be acknowledged that not all respondents in wave 3 also took part in this wave).

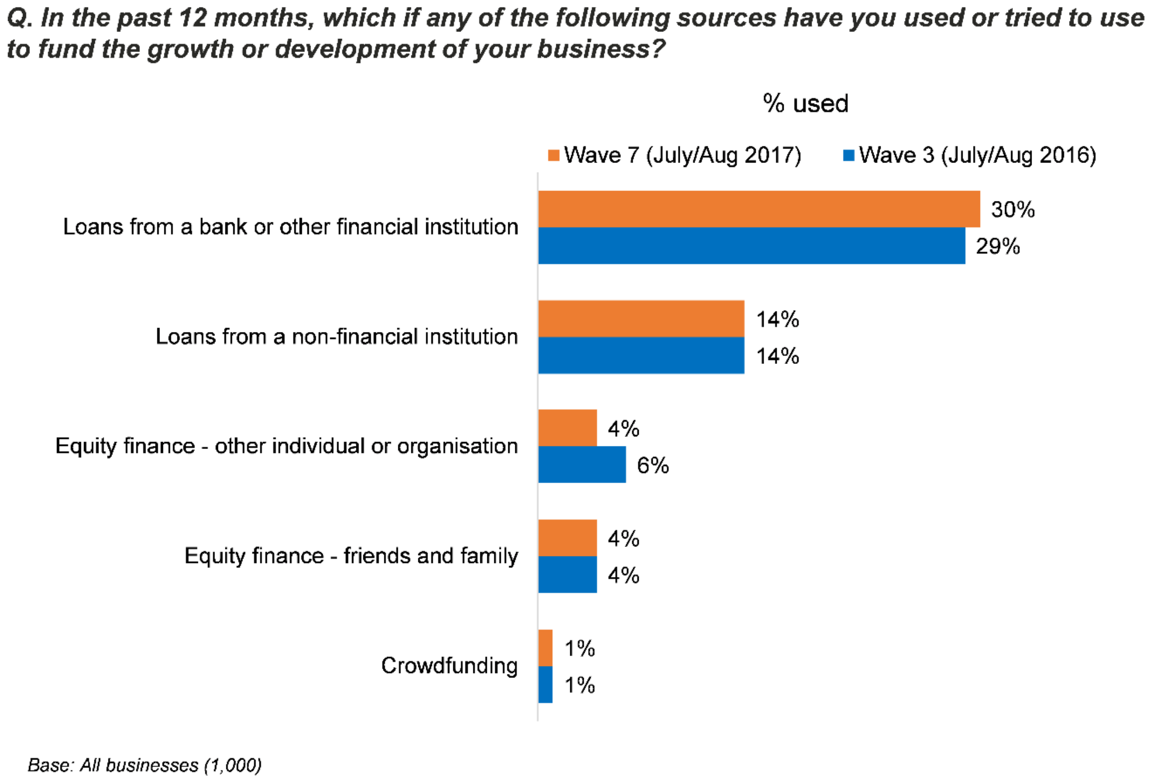
There was some variation in experience of investment by growth sector. Echoing findings from wave 3, businesses in the food and drink (63%) sector were more likely than overall to have used any source of investment, while those in non-growth sectors (38%) and the creative industries sector (37%) were less likely to have done so (Table 5.1). Account-managed businesses were more likely than non-account managed business to have used investment (67% compared with 45% respectively).

There was little variation in the use of investment by geography or by size of business. The only exception was that businesses with 25 or more employees were more likely than overall to have used investment (74% compared with 48% overall).

Types of investment funding used

Among businesses that had used investment, the most common sources were once again loans from banks or other financial institutions (30%), followed by loans from non-financial institutions (14%) and equity finance from an individual or organisation (4%) or friends and family (4%) (Figure 5.1).

Figure 5.1: Type of investment used



As seen in wave 3, larger businesses were more likely than smaller ones to have used a loan: 53% of businesses with 25 or more employees had used a loan from a bank or other financial institution compared with 27% of those with 0-4 employees; while 21% of businesses with 25 or more employees had used a loan from a non-financial institution, compared with 12% of those with 0-4 employees.

Food and drink businesses were again more likely than average to have used a loan from a bank or financial institution (44% compared with 30%), while those in the tourism and creative industries sectors were more likely to have not done so (77% and 78% respectively compared with 67%).

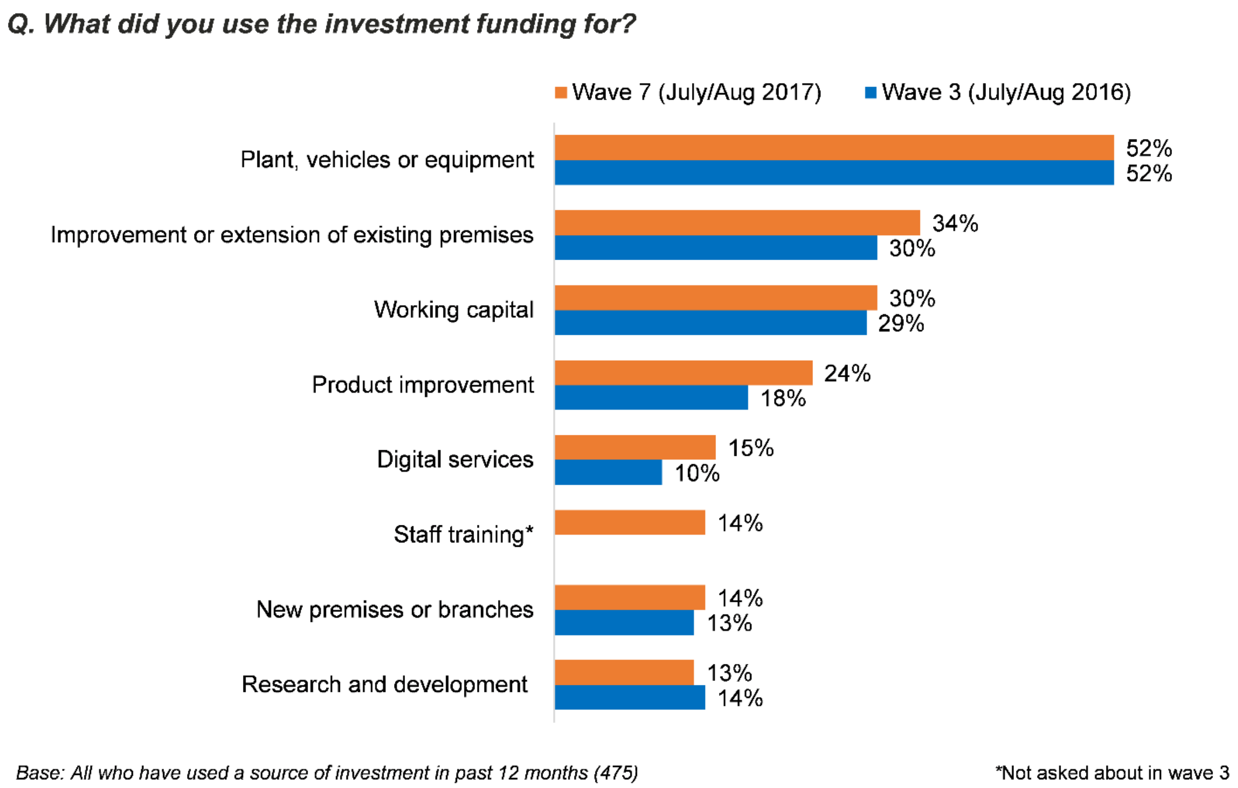
In terms of HIE region, those in Orkney and Moray were more likely than average to have used a loan from a bank or financial institution (42% and 40% compared with 30%). Otherwise there was no significant variation by location nor fragile area.

Account managed businesses were more likely than non-account managed businesses to have used loans from a bank or other financial institution (40% compared with 28%) and from a non-financial institution (25% compared with 12%).

Purpose of investment funding

Among those that have used investment in the past 12 months, the most common uses for the investment funding were to invest in plant, vehicles or equipment (52%), improve or extend existing premises (34%), for working capital (30%), and product improvement (24%). These results are in line with those reported in wave 3 (Figure 5.2).

Figure 5.2: Uses for investment funding



Businesses with 25+ employees were more likely than average to use investment for certain purposes, including: plant, vehicles and equipment (67%), existing premises (54%), product improvement (38%), new premises (28%) and research and development (24%).

In terms of variation by sector, businesses working in the tourism sector were more likely than average to invest in existing premises (54%) and product improvement (37%), while those in the creative industries sector were more likely to invest in digital services (49%), and those in the financial and business services sector were more likely to use investment for working capital (51%).

Account managed businesses were more likely than non-account managed businesses to invest in product improvement (36% compared with 20%), research and development (25% compared with 9%) and digital services (22% compared with 14%).

Plans for future investment

Likelihood of seeking investment in the future

The majority of businesses were once again cautious about future investment, with 63% unlikely to seek investment in the next two years. This echoes findings from wave 3 (Figure 5.3).

Figure 5.3: Likelihood of seeking investment in next two years

Q. Which of the following best describes your aspirations for seeking investment in the next 2 years?

Base: All businesses (1,000)

Larger businesses were more likely than smaller businesses to anticipate investing: 69% of businesses with 25+ employees said they were likely to seek investment, compared with 30% of those with 0 to 4 employees (Table 5.2).

There was little variation by growth sector, with the exception of food and drink businesses who were more likely than average to anticipate future investment (47%) and financial and business services businesses who were more likely to say they would *not* invest (75%) (Table 5.3). The only variation by region was among businesses in Shetland, who were more likely than others to seek investment (53%).

Account managed businesses were more likely to anticipate investing in the future than non-account managed businesses (66% compared with 33%).

Likelihood of investing was higher among those that had previously used investment. Among those that had used at least one source of investment in the past year, 54% were likely to be anticipating future investment, compared with 21% of those who had not previously used investment (Table 5.4). The latter figure is higher than the 17% recorded for the equivalent measure at wave 3. However, as noted earlier, despite this proportion saying they were likely to invest in future, levels of investment have remained constant between the two waves.

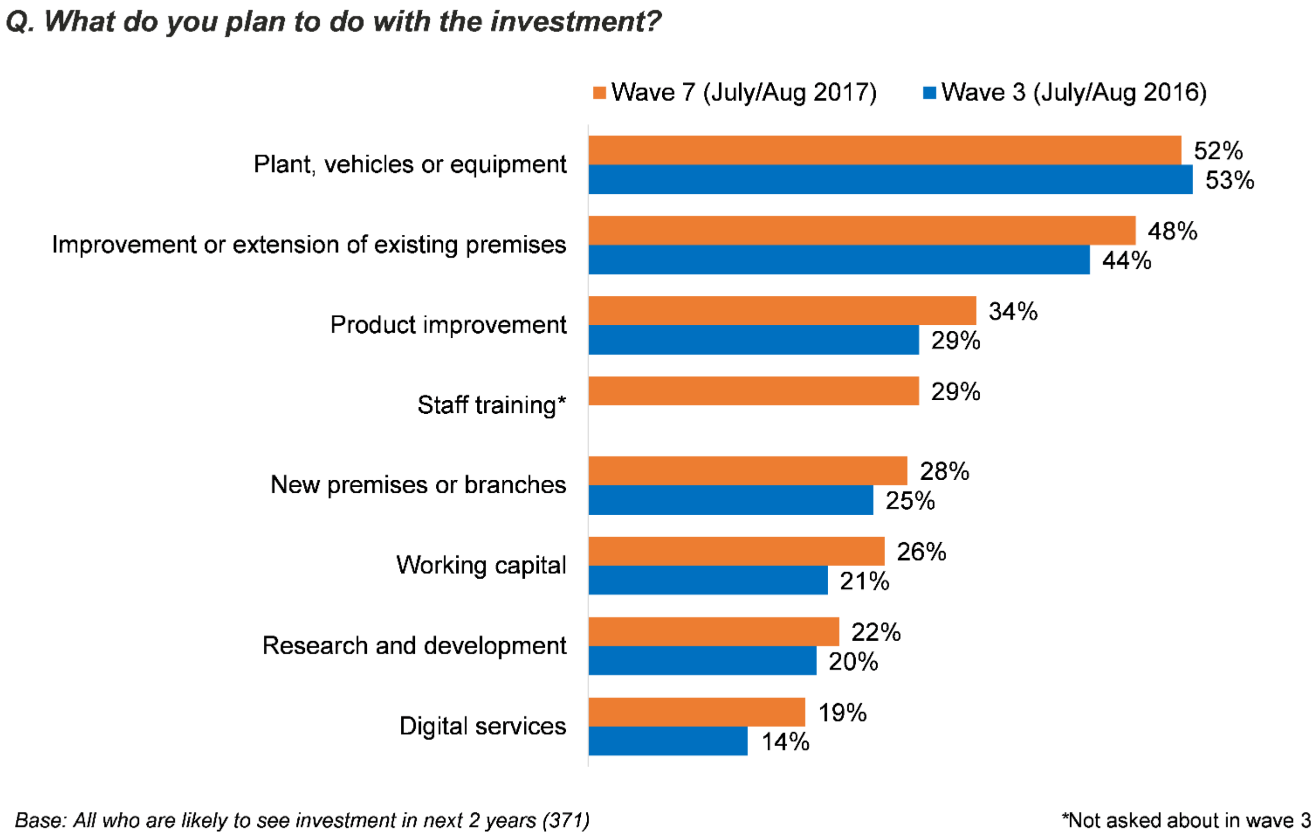
Likelihood of investing in the next 2 years was also linked to past business performance. Those that had performed well in the last 12 months were more likely to be planning to invest (42%) than those that had struggled (34%) (Table 5.5).

In line with wave 3, those who were optimistic about future business prospects were also more likely to be anticipating investing (40%) compared to those that were not optimistic (27%) (Table 5.6).

Purpose of future investment

When asked their reasons for seeking future investment, these very much mirrored those for past investment as shown in Figure 5.2. The most common uses for future investment were for plant, vehicles or equipment (52%), improvement of extension of existing premises (48%) and product improvement (34%). As shown in Figure 5.4, these findings are in line with those found in wave 3.

Figure 5.4: Planned uses for future investment



Larger businesses (25+ employees) were again more likely than average to seek investment in certain aspects of their business, namely: plant, vehicles and equipment (64%), new premises (41%), staff training (41%) and research and development (39%).

There was little variation by sector, with the exception of tourism and food and drink businesses who were both more likely than average to seek investment for existing premises (71% and 60% respectively).

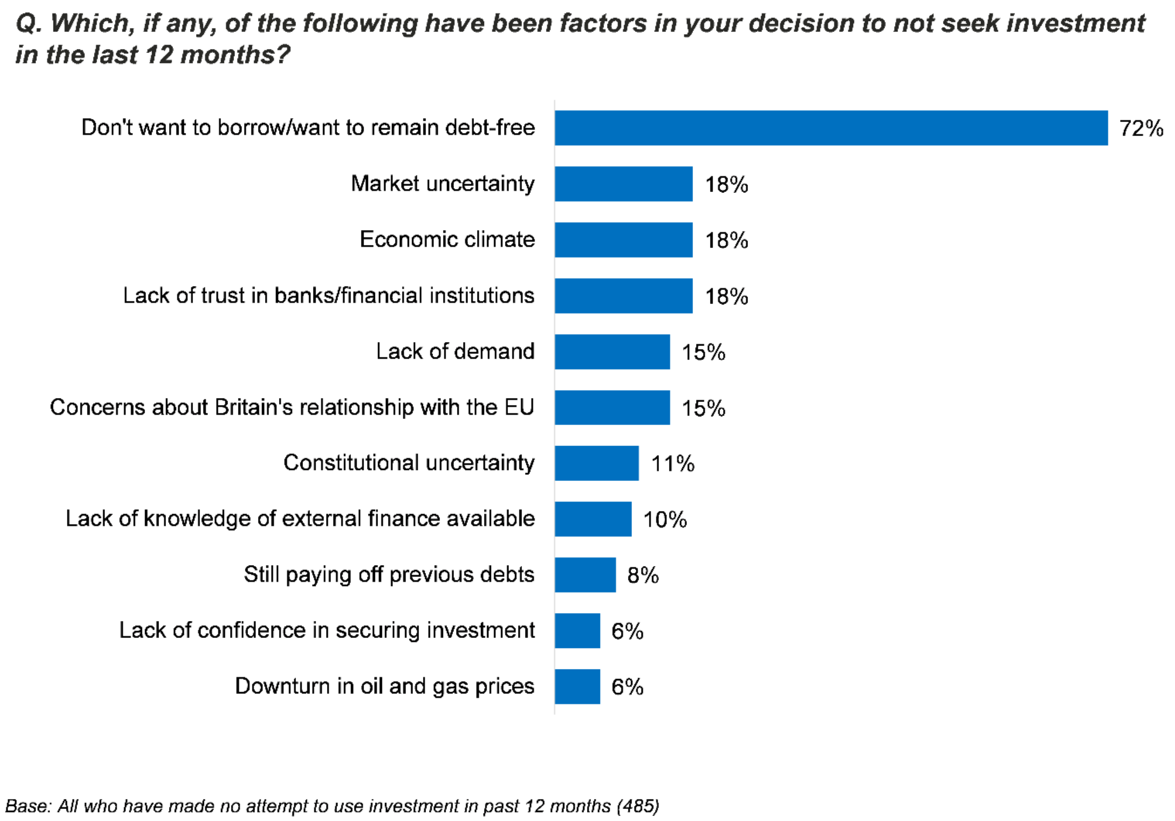
Account managed businesses were more likely than non-account managed businesses to seek investment for product development (44% compared with 30%) and research and development (35% compared with 17%).

Elsewhere, those in fragile areas were more likely than those in non-fragile areas to seek investment to use as working capital (39% compared with 22%).

Barriers to investment

Among businesses who had not used or tried to use investment, the main reason was a reluctance to borrow or a desire to remain debt-free (72%), echoing the same finding from wave 3. Other common responses were also similar to those seen in wave 3 and included market uncertainty (18%), the economic climate (18%) lack of trust in banks and financial institutions (18%), lack of demand (15%) and concerns about Britain's relationship with the EU (15%) (Figure 5.5).

Figure 5.5: Reasons for not seeking investment in past year [4]



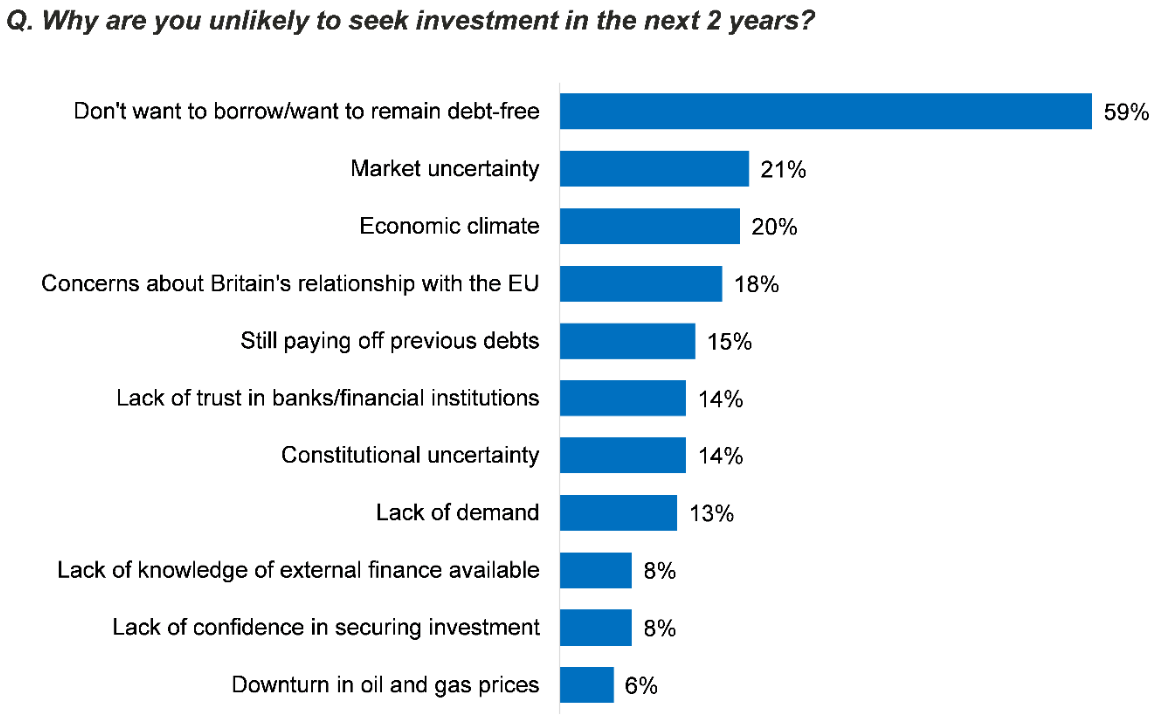
Food and drink businesses were more likely than average to be influenced by market uncertainty (27%) and by concerns about Britain's relationship with the EU (24%). In terms of variation by location, businesses in the Inner Moray Firth were more likely than average to not seek investment due to market uncertainty (25%).

[4] Only data for wave 7 is shown, as there was a change to some of the answer options between waves 3 and 7, making direct comparison across the two waves difficult. In wave 3, the answer option was "market conditions/lack of demand", whereas in wave 7 this was replaced with two options, "market uncertainty" and "lack of demand".

Elsewhere, there was no variation by size or relationship with HIE.

In terms of future investment, businesses were cautious for similar reasons as they gave in relation to past investment. As shown in Figure 5.6, the main reason for not seeking future investment was a reluctance to borrow or a desire to remain debt-free (59%), similar to the 61% reported at wave 3.

Figure 5.6: Reasons for not seeking investment in next two years



Base: All who are unlikely to seek investment in the next 2 years (629)

As in wave 3, certain reasons for not seeking investment were more prevalent in the food and drink sector, namely market uncertainty (33%), concerns about Britain's relationship with the EU (32%), economic climate (31%), constitutional uncertainty (20%) and lack of confidence in securing investment (15%).

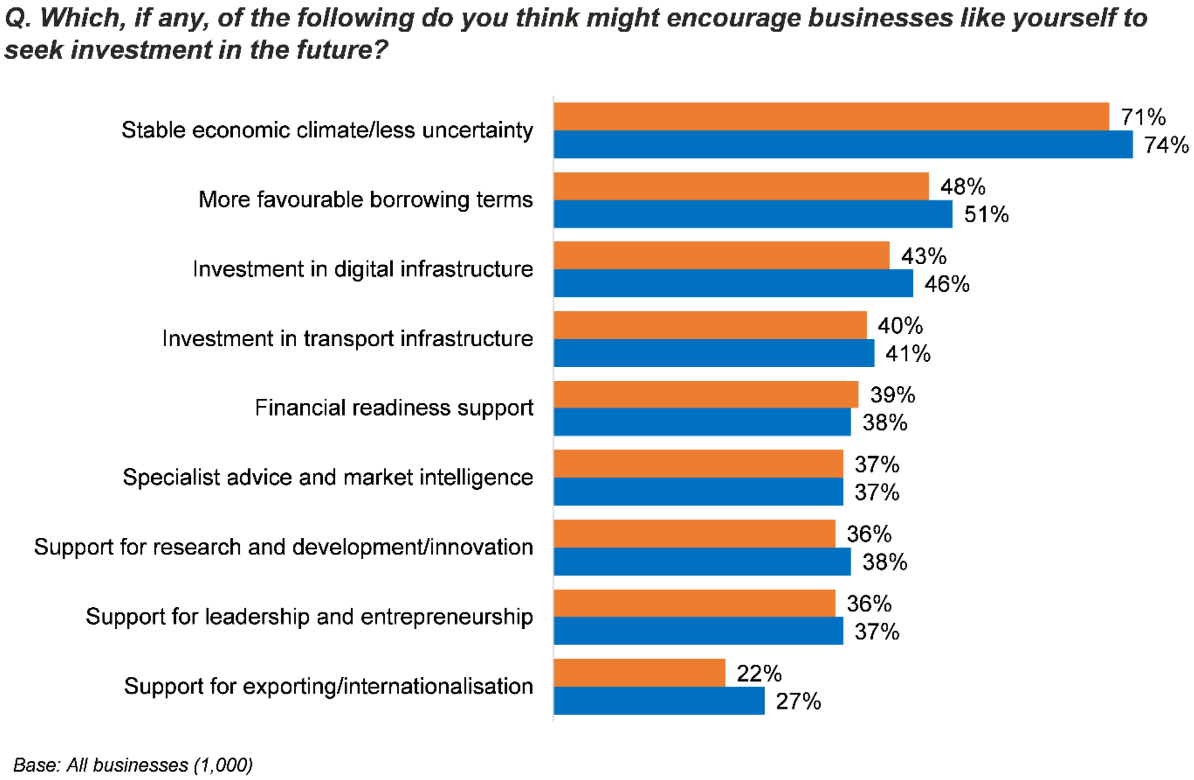
There was little variation by size, with the exception of smaller business (0-4 employees) being more likely than average to be cautious due to constitutional uncertainty (16%).

Non-account managed business were more likely than account managed businesses to cite concerns about Britain's relationship with the EU (19% compared with 2%), constitutional uncertainty (15% compared with 4%), lack of trust in banks (15% compared with 3%) and lack of confidence in securing investment (9% compared with 0%) as reasons for not seeking investment.

Encouraging future investment

Perceptions of actions that would encourage future investment were largely unchanged since wave 3. The majority (71%) said a stable economic climate or less uncertainty would encourage investment, while other common suggestions included more favourable borrowing terms (48%), investment in digital infrastructure (43%), and investment in transport infrastructure (40%) (Figure 5.7).

Figure 5.7: Measures to encourage future investment



Certain measures held more appeal among larger businesses (25+ employees), namely: stable economic climate/less uncertainty (84%), improvements in digital infrastructure (58%), improvements in transport infrastructure (55%), specialist advice and market intelligence (48%) and support for leadership and entrepreneurship (46%).

Food and drink businesses were more likely than average to want a stable economic climate (77%), support for research and development (46%) and support for exports and internationalisation (34%).

Account managed businesses were more likely than non-account managed businesses to suggest support for research and development (52% compared with 33%), specialist advice and market intelligence (44% compared with 35%), support for exports and internationalisation (43% compared with 19%) and support for leadership and entrepreneurship (44% compared with 35%).

6. SUMMARY

There has been a slight increase in business confidence in the economic outlook in Scotland, with 15% saying that their confidence had increased (up four percentage points) and 32% saying their confidence had decreased (down 6% percentage points). Nevertheless, there are still consistent patterns by sector with food and drink tending to be more negative than others, and tourism businesses being more positive. The results also continue to be impacted by the perceived importance of the relationship with Europe, whereby those who feel that access to the European Single Market and free movement of people across the EU are important were more likely to report that their confidence has decreased in the last six months.

Despite the low levels of confidence in the economy, two-fifths reported that their business had performed well over the last 12 months and a similar proportion reported a stable performance – in contrast to a fifth that had struggled. Following the theme of this wave, those that had used investment were more likely than average to report that they had struggled markedly, whereas, those that had not have used investment were more likely to report that they had performed exceptionally well.

Looking at aspects of performance, businesses once again reported a stable performance across several measures. Reflecting the seasonal period, there was a reported increase in sales or turnover, notably however, this did not translate specifically into increased profit margins. On exports, specifically, the reported increase in performance between wave 3 and wave 4 has seen a leveling off in the last few waves of the survey. Businesses with 5-10 employees, and those that are account managed by HIE were more likely to report increased exports in the last six months.

When looking at prospects, businesses tended to be positive, with three quarters reporting that they were optimistic for their prospects in the next twelve months. In terms of business growth, slightly over half did not anticipate growth (56%), compared with under half that did anticipate growth (43%).

Turning to relationships with the EU, businesses are split in terms of the perceived importance of membership of the European Single Market to their business. However, three out of four businesses reported that membership was important to the Scottish economy overall. In terms of free movement of people, while two fifths (40%) felt that this was important to their business; this figure doubles when businesses were asked to consider the importance of free movement to the Scottish economy overall (79%). There is a correlation between those that think that access to the European Single Market is important and those that think that the free movement of people is important – this relationship is particularly strong in terms of importance of these factors to the economy overall.

This wave, businesses were asked the extent to which they had experienced a change in certain costs over the past 12 months. A majority of businesses had experienced an increase in costs of some form. The types of costs that were most likely to have increased were goods imported from outside the UK, goods sourced from within the UK, utilities and labour. Larger businesses, those in the tourism and food and drink sectors, and account managed businesses were more likely than others to have experienced cost increases.

Among those who had seen an increase in costs, half said they had responded by absorbing those costs internally, while one in ten had increased their prices, and the remainder had taken both of these measures. However, neither approach was seen as a long term solution to costs increases. In each case, more than half expected to have to take the alternative approach (of either increasing prices or absorbing) within less than 12 months if costs continued to rise.

Turning to business investment, experience of previous investment was fairly mixed, with around half having invested in their business in the past twelve months. These figures are the same as those recorded in wave 3; despite 17% of those who had not already used investment in wave 3 saying they were likely to do so in the next 2 years. The similar proportion of businesses investing between the two waves suggests that this projected additional investment activity may not have taken place.

Looking ahead to the next two years, the majority of businesses were again cautious about future investment, with two thirds unlikely to seek investment in this period. Among businesses who had not used or tried to use investment, the main reason was a reluctance to borrow or a desire to remain debt-free. The same cautions were expressed in relation to seeking future investment.

When asked what would encourage businesses like theirs to seek investment in the future, the majority said a stable economic climate or less uncertainty, with other popular suggestions including more favourable borrowing terms, investment in digital infrastructure, and investment in transport infrastructure.

7. APPENDIX

Business performance

Table 2.1 – Business performance by growth sector

	Performed exceptionally well	Performed quite well	Been fairly steady	Struggled slightly	Struggled markedly	Don't know	Base
	%	%	%	%	%	%	
Overall	9	30	40	15	4	2	*1000*
Tourism	23	31	31	10	4	2	*136*
Creative industries	9	34	40	16	1	-	*79*
Non Growth Sector	8	32	40	15	4	2	*426*
Financial and business services	6	34	41	10	7	3	*78*
Energy	12	22	39	22	6	-	*33*
Food and drink	6	24	47	20	4	*	*201*
	N	N	N	N	N	N	
Life sciences	-	*	*	1	-	-	*2*

Base: All businesses in each sector

Note: As the base size for 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 this sector is the weighted, rather than unweighted, base.

Table 2.2 – Aspects of business performance in the last six months

	Increased	Decreased	Stayed the same	Don't know	Base
	%	%	%	%	
Sales or turnover	41	17	40	2	*973*
Working hours	33	6	60	*	*984*
Staff training	28	5	66	*	*767*
Exports	27	10	55	7	*238*
Profit margins	26	23	47	4	*960*
Employment	23	8	69	*	*888*

Base: All businesses saying each aspect applied to them

Table 2.3 – Overall assessments of business performance by size of business

Size of business	Assessment of business performance (mean score)
0-4	0.6
5-10	1.1
11-24	1.4
25+	1.7

Business prospects in the next six months

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

	Increase	Decrease	Stay the same	Don't know	Base
	%	%	%	%	
Sales or turnover	40	17	40	4	*973*
Exports	33	3	53	11	*252*
Profit margins	28	17	52	4	*967*
Staff training	28	6	64	2	*795*
Employment	19	10	70	2	*898*
Working hours	19	13	67	1	*967*
Base: All businesses saying each aspect applied to them					

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

Growth Sector	Assessment of business performance (mean score)
Energy	2.1
Creative industries	1.2
Tourism	0.3
Food and drink	1.1
Financial and business services	0.9
Non-Growth Sector	1.4
Life Sciences	0.4
Note: As the base size for 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 this sector is the weighted, rather than unweighted, base.	

Table 2.6– 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	%	%	%	%	%	
Increased	35	61	2	1	1	*165*
Stayed the same	17	71	10	*	1	*505*
Decreased	7	46	33	10	4	*386*

Table 2.7 – 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	%	%	%	%	%	
Performed exceptionally/quite well	33	60	6	*	*	*397*
Been fairly steady	8	74	13	1	3	*398*
Struggled slightly/markedly	1	40	42	14	3	*191*

Relationship with EU

Table 3.1 – Comparison of importance of membership of the European Single Market to the economy and to business

	Importance to the economy				
	Very important	Quite important	Not very important	Not at all important	Base
Importance to businesses	%	%	%	%	N
Important	65	32	2	1	*508*
Not important	23	34	28	14	*430*

Business costs

Table 4.1 – Cost increases by size of business

In the past 12 months, would you say the following have increased, decreased or remained about the same?				
	0-4	5-10	11-24	25+
	% 'increased'	% 'increased'	% 'increased'	% 'increased'
Cost of goods imported from outside the UK	68	75	71	91
Cost of utilities	64	73	80	74
Cost of goods sourced from within the UK	57	68	63	73
Cost of labour	42	68	74	82
Business rates	25	46	48	68
Cost of goods exported to other countries	19	39	32	51
Cost of premises	18	34	29	39
Base	*451*	*175*	*123*	*101*
Base: All businesses in each size category				

Table 4.2 – Cost increases by relationship with HIE

In the past 12 months, would you say the following have increased, decreased or remained about the same?		
	Account managed	Non account managed
	% 'increased'	% 'increased'
Cost of goods imported from outside the UK	82	70
Cost of utilities	68	68
Cost of goods sourced from within the UK	67	60
Cost of labour	68	53
Business rates	51	34
Cost of goods exported to other countries	39	25
Cost of premises	30	24
Base	*150*	*703*

Table 4.3 – Cost increases by sector

	Food and drink	Tourism	Financial and business services	Creative industries	Non growth sector	Life science	Energy
	% 'increased'	% 'increased'	% 'increased'	% 'increased'	% 'increased'	N 'increased'	N 'increased'
Cost of goods imported from outside the UK	71	79	53	67	74	1	10
Cost of utilities	67	82	59	60	68	1	15
Cost of goods sourced from within the UK	68	75	44	60	58	1	10
Cost of labour	57	67	46	52	54	-	8
Business rates	34	55	30	20	33	1	7
Cost of goods exported to other countries	41	28	9	24	23	1	1
Cost of premises	22	32	25	18	25	*	5

Base: All businesses in each sector for whom it applied

Note: As the base size for 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 this sector is the weighted, rather than unweighted, base.

Table 4.4 – Response to cost increases by size of business

Where costs have increased, which of the following best describes how your business has responded to those increases in costs?

	0-4	5-10	11-24	25+
	%	%	%	%
We have absorbed these costs internally	57	40	37	25
We have increase the price of our goods/services	11	10	12	9
We have both absorbed costs and increased our prices	29	48	50	66
Don't know	3	2	2	-
Base	*486*	*170*	*118*	*100*

Base: All businesses with costs that have increased in each size category

Table 4.5 – Response to cost increases by sector

	Food and drink	Tourism	Financial and business services	Creative industries	Non growth sector	Energy	Life science
	%	%	%	%	%	N	N
We have absorbed these costs internally	60	24	54	46	46	13	2
We have increase the price of our goods/services	9	16	3	7	12	-	-
We have both absorbed costs and increased our prices	26	58	41	44	41	7	1
Don't know	4	2	2	3	1	-	-
Base	*185*	*126*	*63*	*68*	*361*	*29*	*2*

Base: All businesses with costs that have increased in each sector
Note: As the base size for 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 this sector is the weighted, rather than unweighted, base.

Business investment

Table 5.1 – Past use of investment by growth sector[5]

	Used at least one source of investment	Not used or tried to use any source of investment	Base
	%	%	
Food and Drink	63	37	*201*
Energy	50	50	*33*
Financial and Business Services	47	53	*78*
Tourism	43	57	*136*
Non Growth sector	38	62	*426*
Creative Industries	37	63	*79*
	N	N	
Life Sciences	2	-	*2*

Base: All businesses in each sector
Note: As the base size for 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 this sector is the weighted, rather than unweighted, base.

Table 5.2 – Likelihood of seeking investment by business size

	Very likely	Fairly likely	Fairly unlikely	Very unlikely	Base
	%	%	%	%	
0 to 4	8	21	29	41	*591*
5 to 10	11	26	39	24	*178*
11 to 24	20	34	30	16	*124*
25 or more	35	33	18	14	*102*
Base: All businesses					

Table 5.3 – Likelihood of seeking future investment by sector

	Very likely	Fairly likely	Fairly unlikely	Very unlikely	Base
	%	%	%	%	
Energy	27	21	30	22	*33*
Food and drink	12	35	34	20	*201*
Tourism	12	21	23	44	*136*
Creative industries	13	17	34	36	*79*
Non-growth sectors	10	21	30	39	*426*
Financial and business services	8	17	33	42	*78*
	N	N	N	N	
Life Sciences	1	-	-	2	*2*
Base: All businesses in each region *Note: As the base size for 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 this sector is the weighted, rather than unweighted, base.*					

Table 5.4: Likelihood of seeking future investment by previous investment experience

	Used at least one source of investment	Not used or tried to use any source of investment
	%	%
Very likely	20	5
Fairly likely	34	16
Fairly unlikely	28	32
Very unlikely	18	47
Base: All businesses	*475*	*525*

Table 5.5: Likelihood of seeing investment by past business performance

	Performed well	Been fairly steady	Struggled
	%	%	%
Very likely	16	10	12
Fairly likely	26	25	22
Fairly unlikely	28	30	35
Very unlikely	30	36	31
Base: All businesses	*397*	*398*	*191*

Table 5.6: Likelihood of seeking investment by business optimism

	Optimistic	Not optimistic
	%	%
Very likely	14	8
Fairly likely	26	18
Fairly unlikely	28	38
Very unlikely	32	35
Base: All businesses	*787*	*187*

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