



SCOTTISH BUSINESS
RESEARCH WHITE PAPER

Taking the temperature of Scottish Business pre-Brexit

Contents

1. Introduction	
Setting the scene.....	3
2. Reliance	
How much do we rely on EU?	4
3. Expectation	
What do business leaders think will happen when the UK leaves the EU?.....	6
4. Knowledge	
How much do our businesses actually know about how Brexit will affect them?	8
5. Preparation	
How prepared are Scottish businesses for all eventualities?	9
6. Glasgow and Edinburgh	
How do Scotland’s two largest business hubs differ?.....	11
7. Future	
What are Scottish business expectations for the future?	12
8. Conclusion	
What has the report shown us overall?	14

1. Introduction



“As an independent law firm, we take great care to get to know our clients, the challenges and opportunities they face in everyday business; the developments facing them through Brexit and beyond.

Whatever the Brexit deal – or even if there is no deal at all – many aspects of our clients’ business are touched by Brexit. That’s why we decided to take the pulse of key stakeholders amongst the business community – 250 senior leaders from Scottish business – to understand how ready Scotland is for Brexit and what they think of the process we are going through. We’ve looked at the differences between the two largest Scottish economic centres – Edinburgh and Glasgow – and we’ve gathered opinion on what the future holds for our enterprises. I hope you find this report insightful and a useful reference point for many of the challenges and some of the opportunities facing our business leaders today.”

Bruce Farquhar
Chair
Anderson Strathern



“Our independent research report backs up a lot of the trends that we’ve seen across Scottish business, however it has also revealed some key findings useful to both business leaders and their lawyers in helping us plan for Brexit and beyond. It is clear, however, that a significant proportion of small and medium sized business leaders aren’t looking into the specifics of how Brexit may directly affect their business. There is a lot of work to be done to get our Scottish businesses Brexit ready.”

Neil Amner
Director and Brexit Lead
Anderson Strathern

How much do we rely on the EU?

More than a third of Scottish companies surveyed heavily rely on highly-skilled EU staff – almost a quarter heavily rely on low-skilled EU staff.



There needs to be a transition period following our withdrawal from the EU particularly in relation to free movement of workers. In the case of a no- deal Brexit there would be no transition period which would likely cause significant challenges for the health and social care sector. We would also like to see regulatory requirements aligned with the EU to create a level playing field between the remaining member states, the UK and the wider international sphere. This will be especially beneficial for developing a coherent UK workforce strategy.”

Norman Provan, Associate Director, Royal College of Nursing

The EU Market

We found that 50% of total survey respondents identified the EU market as ‘key’ for their business.

This places the EU as Scotland’s third most important market, behind the domestic Scottish market (86%) and the rest of the UK (57%). Interestingly, 26% of those managers surveyed identified the USA as a key market with 20% identifying Asia.

- Domestic business is still the main driver for the Scottish economy
- Despite being the most concerned about the potential negative impact of Brexit, SMEs (middle managers and above from small to medium firms with up to 250 employees) are the least reliant on the EU as a key market (39%)
- This compares to just 49% of larger firms

The EU workforce

The EU workforce is key for the smooth running of Scottish businesses and other organisations employing EU workers. More than a third of companies surveyed heavily rely on highly-skilled EU staff (35%) while a further 24% rely heavily on low-skilled EU staff.

- The future of the EU workforce is one of the issues that respondents are most concerned about, with 78% of those affected by it registering this concern (45% significantly).
- Supply chain disruption is another concern with 79% of respondents identifying this, (41% significantly) and cost base pressures with 79% raising concern about this (35% significantly)
- Senior Managers at larger organisations are also the most concerned about the EU workforce (55%).

Workforce retention is a big issue for our businesses and organisations when it comes to Brexit. Large companies seem much more likely to lose EU nationals from their staff, with 49% of middle managers at 250+ staff companies and 54% of senior managers, from similar firms, thinking the same.

When asked about their most common Brexit business exposure points overall Scottish companies identified:

54%

EU workforce

49%

Pricing and finance

42%

Regulatory and compliance concerns

41%

Supply chain disruption

33%

Export and import red tape

33%

Obtaining goods/services/components from the EU

The effects of Brexit on the economy?

While opinion is divided across the panel, the general consensus is that Brexit will have a significant effect on the UK economy.

Overall, business leaders surveyed (57%) think that the UK leaving the EU will have a negative effect on the Scottish economy, with 37% saying it will be 'significant' and 19% saying it will have a 'somewhat' negative effect.

**RELIANCE
CONCLUSIONS**

- Overall Scottish business thinks leaving the EU will have a negative impact on our economy
- EU workforce has been identified as the greatest Brexit business exposure point
- There remains a concern that both low and high skilled workers will need to be sourced from elsewhere post-withdrawal
- The EU is an important market for Scotland, however the domestic and wider UK market remain the stalwarts of Scottish business



Two of our main concerns, when it comes to Brexit, are supply chain disruption and export and import red tape. We've also been looking at what happens to our cost base, fuel and drivers wages. While we have less than 2% non UK nationals, the overall UK driver makeup is very different. A current driver shortage in the south and a hard Brexit may result in considerable price impact across the industry."

Kenneth Russell, Sales & Marketing Director, John G Russell (Transport) Ltd

What do our business leaders actually think will happen when the UK leaves the EU?

Overall, business leaders think that the UK leaving the EU will have a negative impact on our economy. Senior managers from organisations with more than 250 employees, however, have a more positive outlook, with 55% of them believing it will have a positive effect (35% significantly so).

In contrast, just 24% of middle managers and above at firms of the same size feel that Brexit will have a significantly positive effect, while 38% think it will have a significantly negative effect (compared to just 28% of senior managers).

Small to medium sized enterprises have the most pessimistic view of the future effects of Brexit

- 57% believe it will have a negative impact on the UK economy (35% significantly so)
- Just 17% thinking it will be significantly positive

More of our businesses believe that after Brexit they will recruit more workers from the EU than they will recruit from non-EU countries:

from the EU (26%)

from non-EU countries (24%)

reflecting the continued demand for an EU workforce in Scotland.

Workforce expectations

When asked what they expected their business to experience over the next five years, the top responses from respondents were:

- Encounter difficulties attracting workers from the EU – 54%
- Lose EU nationals from our workers – 45%
- 26% are expecting to recruit more workers from EU countries and 24% expected to have to recruit more workers from non-EU countries

Worryingly, companies who employ staff from EU states have a much more pessimistic view of the effects of Brexit

- 41% say it will have a significantly negative effect
- Contrasts with just 18% of those who don't employ EU staff

Interestingly, more of our businesses believe that they will recruit more workers from the EU after Brexit (26%) than think they will recruit more from non-EU countries (24%), reflecting the continued demand for an EU workforce in Scotland.

Similarly, exactly the same number of respondents from businesses employing staff from the EU expect to hire staff from both the EU and non-EU countries (27%) each.

Scottish business confidence

We asked Scottish business' how confident they were about 'business as usual' under current Brexit scenarios:

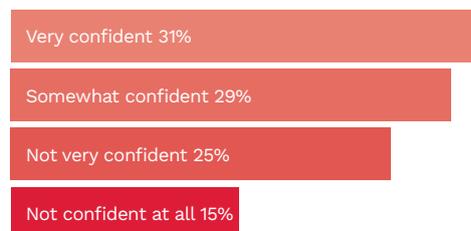
- A no deal Brexit
- A negotiated exit
- Another referendum

The research reflects the uncertainty over exactly what a 'no deal' Brexit will actually entail, as it is the scenario which most divides opinion about carrying out 'business as usual'.

- Almost 60% of respondents are confident that they can carry out business as usual under a no-deal scenario with 31% 'very confident' and 29% 'somewhat confident'
- This leaves 40% of businesses surveyed not confident about business as usual with a no-deal (25% not very confident and 15% not confident at all)

Business as usual in a no-deal scenario?

Gives a 60/40 split



There is much more certainty surrounding a withdrawal agreement and even another referendum:

- 76% of companies surveyed are confident with business as usual under a negotiated exit
- 73% surveyed are able to confidently carry out business as usual through another referendum

A negotiated exit, the scenario respondents were shown to be most prepared for, was also the scenario which elicited the most confidence levels, with 76% saying they were either 'somewhat confident' or 'very confident' about carrying out business as usual.

EXPECTATIONS CONCLUSIONS

- Opinion is divided about corporate Scotland's ability to carry out 'business as usual' under a no-deal scenario
- Of all the Brexit scenarios a no-deal comes with the least business confidence and a negotiated exit results in marginally more confidence than another referendum
- There doesn't seem to be widespread belief that cross-border recruitment will change too much after Brexit and Scotland will continue to rely on an EU workforce
- Senior managers from larger organisations are more optimistic in their expectations for the economy over Brexit

How much do respondents know about how Brexit will affect them?

It is clear from the survey that small to medium enterprises across Scotland need the most help and advice when it comes to understanding exactly how Brexit may affect their business, especially when it comes to trading.

Deciphering World Trade Organisation rules, in the event of a no-deal Brexit, and what this may mean for carrying out business as usual is a challenge. Whilst larger organisations and more senior managers are generally more knowledgeable about what may lie ahead.

Tariffs and barriers to exporting

Almost a third of Scottish SMEs and larger companies surveyed (32%) have no idea what tariffs or quotas they may face when **exporting** their products to the EU post-Brexit.

- Less than three in ten (29%) are totally aware of the potential quotas/tariffs, while 39% have some idea which tariffs they face on exporting

Senior managers at larger firms are the most aware of tariffs:

43% of senior managers saying they are 'completely aware' of which tariffs could affect them post-Brexit.

Compared to just

29% of middle managers at larger companies and

26% of middle managers at SMEs.

By industry:

- 44% of respondents in Engineering & Manufacturing don't know what tariffs they may face when exporting goods to the EU
- 43% in the Food & Drink industry polled responded with 'not knowing at all' about potential tariffs and quotas they may face when exporting, 57% are 'somewhat aware'
- 50% of Food & Drink respondents are 'somewhat' aware when it comes to potential barriers to importing goods from the EU

The results by industry come from much smaller sample sizes than the overall report.

Tariffs and barriers to importing

Just under a quarter (24%) of those surveyed have no idea what barriers there may be to importing goods from the EU post-Brexit, with just 27% 'completely aware'.

For companies importing goods from the EU 47% are 'somewhat' aware of the tariffs involved.

Once again, senior managers of companies with more than 250 employees are the most aware (41% 'completely') while small to medium sized company (middle managers and above) are the most in the dark (26% have no idea).

What about World Trade Organisation (WTO) rules?

We asked Scottish companies about their awareness of WTO rules; what falling back on these would potentially mean for business should a no-deal Brexit happen.

Overall, a quarter (25%) of those surveyed are fully aware of what falling back WTO rules would mean for their business.

This is only marginally ahead of the number with no idea (22%).

40% of Scottish enterprises are 'somewhat' aware of how World Trade Organisation rules may affect their business in the event of a no-deal Brexit.

Once more, senior managers of companies with more than 250 employees are the most aware (35%) while middle managers and above from smaller firms are the least aware (20%).

How prepared are Scottish businesses for all eventualities?

KNOWLEDGE CONCLUSIONS

- It is clear that a large proportion of businesses surveyed lack clarity on the specifics around how Brexit may directly affect their business
- The larger the business and more senior the staff, the more likely they are to be more aware of the potential hurdles they will face
- The results could also reflect larger companies with larger resources to gather the required knowledge
- There is a lot of work to be done to get businesses up to speed with their knowledge of the potential impact Brexit may have on their business

Preparation messages are getting through, with Scottish business managers now taking clear steps to prepare for the UK leaving the EU. 84% of all respondents are saying they have either completed a risk assessment (47%) or are in the process of doing so (37%).

What's more, 74% of Scottish managers say they have either completed scenario planning (37%) for Brexit or are in the process of completing it (37%)

- More than seven in ten Scottish managers, who have carried out scenario planning, are prepared for a 'negotiated exit' with a transition period (70%)
- 65% have a scenario plan in place for a 'no deal Brexit'

Risk assessment

One continuing trend is that smaller and medium sized companies seem less prepared than larger ones when it comes to assessing all the risks Brexit may present for their business.

- Just over a quarter (26%) of SMEs (companies with 250 staff or less) say that they haven't started a risk assessment yet, and a further 17% haven't yet but plan to
- Larger companies (with more than 250 employees) are the most prepared, with 91% having either completed a risk assessment already (58%) or being in the process of completing one (33%)
- 43% of SMEs surveyed have still to complete a risk assessment

The majority of Scottish businesses surveyed (84%) have now completed a risk assessment to prepare their business for Brexit and beyond.



The survey confirms British Chambers of Commerce evidence that the majority of small and medium sized businesses have done little to prepare for Brexit. We can largely sympathise with the difficulties so many businesses have in preparing for such an uncertain event as Brexit and we would urge businesses to go through either our own Business Brexit Checklist or the helpful materials available from Scottish Enterprise and from Scottish Brexit business advisers like Anderson Strathern."

Stuart Patrick, Chief Executive, Scottish Chambers of Commerce

Two thirds of businesses surveyed are or intend to stockpile and these results are generally consistent across business size.

Scenario planning

Senior managers at larger firms (more than 250 staff) are also the most prepared when it comes to scenario planning.

- More than half (51%) have completed the scenario planning process, compared to just a third (33%) of SMEs (less than 250 staff)
- Larger firms are also the most prepared for a potential ‘no deal’ Brexit, with 68%, of respondents at companies with 250 staff or more, much more likely to have completed plans for this eventuality than SMEs (56%)

By industry:

The industries which we looked at vary wildly in preparedness levels. Just 7% of Education managers polled have completed their scenario planning, compared to 44% of Engineering managers.

Many are still going through scenario planning:

- Engineering (44%)
- Food and Drink (43%)
- Healthcare (43%)
- Transport (38%)
- Property (38%)
- Food and Drink (36%)

The results by industry come from much smaller sample sizes than the overall report.

EU Funding

Surprisingly, less than half of all business that rely on EU funding have a full contingency plan in place for the event of a ‘no deal’ Brexit (45%). Although a further 44% are currently planning one, perhaps leaving it a bit late?

More than one in ten of companies who rely on EU funding (11%) have no contingency plan in place whatsoever!

Stockpiling

We asked Scottish business leaders whether or not they were stockpiling for the event of a no-deal Brexit and if they aren’t intending to create a buffer stock, why this is?

There is a pretty even split across the survey re: stockpiling:

32%

are stockpiling goods

34%

aren’t but will be

35%

aren’t stockpiling goods and don’t intend to

Out of those who don’t intend to, 66% said they don’t see the need for it.

PREPARATION CONCLUSIONS

- Many businesses are still in the process of going through risk assessment, while a worrying number haven’t even started doing so yet
- More than half of all businesses are missing a full contingency plan
- Stockpiling or planning to stockpile is now a priority
- Larger businesses have the resources to be more prepared, but smaller businesses need to take a long look at what could be in store and prepare accordingly

Edinburgh and Glasgow

Our research has also uncovered how Scotland's two largest business centres diverge on Brexit and how reliant they are on an EU workforce.

Amongst our respondents Glasgow businesses are noticeably more reliant on the EU as a key market than Edinburgh companies, with 59% of Glasgow managers calling it a key market compared to just 48% of Edinburgh managers.

- Glasgow is much more reliant on the EU workforce than Edinburgh, with 59% affected compared to just 44%

Reliance on EU workers

Glasgow 59%

Edinburgh 44%

Preparedness

Respondents from Edinburgh are seemingly ahead of the game compared to their Glaswegian counterparts:

- Six in ten (60%) of Edinburgh respondents having completed their risk assessments, contrasting with just 44% in Glasgow

However Glasgow is ahead of Edinburgh in scenario planning, with 29% of Edinburgh managers not even having considered it, compared to just 18% of Glasgow managers.

Stockpiling

Results show that both Glasgow (31%) and Edinburgh (32%) are stockpiling, reflecting the overall survey trend here.

Business confidence

With regards to business confidence and the various Brexit scenarios there is also a divide.

- Half of Glasgow businesses believe that their turnover will decrease over the next year as a result of Brexit (50%), compared to just 31% of Edinburgh businesses

Overall, Glasgow seems to be much more uncertain, while also feeling less prepared for Brexit.

Nonetheless, more businesses who have carried out a risk assessment have gone on to address issues through scenario planning in Glasgow than Edinburgh.



Our focus over the last two years has been on cash generation so that we can weather any storm, should one arise. Like most organisations of our size, we are waiting to hear about whatever deal is done and cast in stone, then we'll start making and taking decisions."

Iain Mitchell, Managing Director, John Mitchell Haulage & Warehousing

So what is the longer-term forecast for Scottish business after Brexit?

If a withdrawal is agreed

The general consensus is that any effect on company turnover, as a result of Brexit, will be temporary, or at least will have less impact in five years' time.

- 43% of all respondents believe it will have decrease turnover for one year after Brexit, 36% for three years and 25% after five years

The majority of senior managers surveyed at large businesses (60%) believe their company will increase turnover over the next five years under a withdrawal agreement.

If there is a 'no deal' Brexit

Surprisingly, company turnover estimates are not much more conservative in the event of no Brexit settlement being agreed. Companies are most optimistic over the long term future regardless of the Brexit scenario.

Will company turnover increase across one, three and five years:

	One year	Three years	Five years
Withdrawal Agreement	27% say turnover will increase	36% say turnover will increase	50% say turnover will increase
No deal	28% say turnover will increase	34% say turnover will increase	44% say turnover will increase

If the UK remains in the EU

Across the full survey, this is the option which boasts by far the most optimism around short to longer term company turnover. Respondents believe that it represents the highest chance for an increase in turnover across one, three and five years:

Percentage of Scottish enterprises who forecast an increased turnover if the UK remains in the EU

One year – 44%

Three years – 52%

Five years – 57%

A large majority of firms who employ EU staff believe that remaining in the EU represents the best chance for turnover increases:

Percentage of firms who employ EU workers forecast for **increased** turnover if the UK remains in the EU

One year – 50%

Three years – 58%

Five years – 63%

Overall we are seeing much more optimism across business when it comes to the UK remaining in the EU.

Over the long-term, businesses as a general rule see not leaving the EU as the clearest path to turnover increases.

- 67% of respondents from larger companies (with more than 250 employees) see an increase in business turnover over the next five years

Overall, is Brexit a crisis or an opportunity?

More than half of Scottish business leaders surveyed believe it could provide opportunities for their business to grow (53%)

- This jumps to 68% of senior managers in larger companies, but falls to 52% amongst SMEs
- More than a third (36%) of businesses employing an EU workforce say Brexit wouldn't provide an opportunity for their business to grow

Many Scottish businesses see opportunities in new and emerging markets whilst they are still optimistic about our domestic market.

- Two thirds of Scottish businesses (65%) see doors opening for markets such as China and the USA
- While nearly half (48%) see new domestic opportunities

With the domestic market already representing the backbone of the Scottish economy, there is also optimism about immigration of workers from other markets (38%) and continuing to trade with EU (32%)

By industry:

Looking at optimism across specific industries. Healthcare is most pessimistic of Brexit providing opportunities:

- Almost six in ten respondents from the healthcare sector (57%) answered 'no' when asked if it would provide opportunities for business to grow
- Food and Drink is second with 43% saying Brexit would not provide opportunities for business growth
- Engineering and Manufacturing more optimistic with 11% responding with 'definitely' when asked about opportunities for growth and 44% responding 'possibly'
- Transport and Logistics (25%) and Property and Construction/Architecture (23%) were the highest responding with a 'definitely' when asked about opportunities for growth

The results by industry come from much smaller sample sizes than the overall report.

**FUTURE
CONCLUSION**

- There is generally optimism about the impact of Brexit and the opportunities in new markets, particularly at a senior management level
- The predictability of the UK staying in the EU is none the less attractive to most businesses who identify this as the best path to an increase in turnover
- Many Scottish businesses see doors opening in the USA and China

What has the report shown us overall?

- Scottish business thinks leaving the EU will have a negative impact on our economy
- There doesn't seem to be widespread belief that cross-border recruitment will change too much after Brexit and Scotland will continue to rely on an EU workforce
- More than half of all businesses are missing a full contingency plan
- Many businesses are doing their due diligence ahead of the UK leaving the EU, but there are many companies (particularly SMEs) across the country who could be doing more
- There is a difference in preparedness between Glasgow and Edinburgh with Glasgow businesses much more uncertain, while also feeling less prepared for Brexit
- Overall, the respondents are optimistic, but is this justified? Time will tell
- A remain scenario, due to greater business predictability, engenders the greatest confidence in Scottish businesses at this time
- There are clear knowledge and preparation gaps, particularly in small to medium sized businesses

Anderson Strathern is ready to assist our Scottish businesses prepare, for Brexit and beyond, across many of the areas highlighted in this report. Visit our Brexit Hub online for further information.

www.andersonstrathern.co.uk

Sources and Methodology

Data collection:

Research was conducted by Censuswide Scotland between: February 18th and March 4th 2019

Censuswide Scotland, collected the data via an online survey whereby respondents were sourced through an online access panel. Respondents were invited to participate in the survey by email and incentivised for their time.

Sample definition:

A total of 272 respondents from Scottish businesses participated in the research. These respondents' roles are broken down as follows

- 101 Senior Managers from companies of more than 250 employees or a revenue of £25million and above
- 218 Middle managers and above from companies of more than 250 employees or a revenue of £25million and above
- 54 Middle managers and above from small enterprises of up to 250 employees or with a revenue of £12 million – £50 million

Respondents were from the following industries:

- Agriculture or Fisheries
- Charity and Third Sector
- Education and Training
- Energy (including Oil & Gas) and Utilities
- Engineering and Manufacturing
- Financial and Professional Services
- Food & Drink
- Healthcare
- IT and Data
- Legal
- Property and Construction/Architecture
- Retail and Wholesale
- Sales, Media & Marketing
- Tourism and Leisure
- Transport and Logistics

Censuswide abide by and employ members of the Market Research Society which is based on the ESOMAR principles and GDPR.

