

DECEMBER 2023



UNDERSTANDING
BUSINESS



Diffley
Partnership

56°
NORTH



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UNDERSTANDING BUSINESS

It has never been more important to understand what businesses in Scotland are thinking, what challenges they face and their priorities for future prosperity.

Understanding Business is a new quarterly survey across Scotland, measuring the outlook, perceptions and challenges for business – allowing for these to be measured over time.

This high-quality, large-scale survey is brought to you by Diffley Partnership and 56° North.



Introduction

*Understanding Business –
December 2023*

In the third edition of *Understanding Business*, we provide a comprehensive overview of the current business outlook in Scotland.

Businesses project a mixed outlook for the next 12 months, balancing optimism and caution. While some anticipate economic improvement, others expect challenges to persist. The ongoing struggle with recruitment reveals familiar hurdles: concerns over applicant skill levels, a shortage of suitable candidates, and salary expectations. Notably, businesses now grapple with an emerging new challenge, namely candidates' preferred working hours.

Reflecting on the past year, businesses hold nuanced views on economic conditions. While some see deterioration, a growing segment perceives improvement, hinting at a gradual shift in sentiment. Looking ahead, there's a heightened confidence in future financial trajectories, with an increasing proportion of businesses anticipating increased turnover and improved profitability.



The evolving work landscape has witnessed a substantial cultural shift, with a significant number of businesses embracing remote work practices. This shift reflects a lasting impact of the pandemic, shaping a potential new normal in work arrangements.

This report offers valuable insights into the challenges, priorities, and aspirations of businesses in Scotland today. We hope these insights can contribute to informed decision-making and meaningful discussion among businesses and policymakers.

5 KEY TAKEAWAYS

Our third edition of Understanding Business brings you insights from over 600 businesses in Scotland: focusing on their outlook for the economy, prospects for their businesses and challenges they face.



01 LIMITED BUT INCREASING OPTIMISM WHEN LOOKING TO THE FUTURE

Looking ahead to the next 12 months, around two in five (39%) believe that economic conditions will be worse in 12 months' time and around a third (32%) that conditions will be about the same, suggesting that many businesses believe that things will remain tough over the next 12 months. However, three in ten (29%) think that will be at least some improvement in general economic conditions over the next 12 months, up from 17% in September 2023.

02 PAST ECONOMIC ASSESSMENTS LESS PESSIMISTIC THAN IN PREVIOUS WAVES

When reflecting on the previous 12 months, a majority (58%) believe that economic conditions are worse now than a year ago. This is lower than the 71% recorded in September 2023. Around a quarter (23%) believe that economic conditions are about the same as a year ago. One in five (19%) believe that economic conditions are better than a year ago, up from 9% in September.

03 MORE POSITIVE OUTLOOK ON PROFITABILITY AND TURNOVER

Four in ten (41%) businesses surveyed think that their turnover will increase in the next 12 months, an increase of five percentage points from September. There has also been a notable increase in the proportion of businesses who think that their profitability will increase from around three in ten (27%) in September to around four in ten (37%) in December 2023.

04 SKILLS LEVEL MISMATCH AND APPLICANT SHORTAGE LEAD CONCERNS

Despite ongoing recruitment efforts, a significant hurdle for businesses remains the insufficient skill level of applicants, with 57% of actively recruiting businesses citing this concern. A lack of suitable candidates and salary expectations also pose challenges, each mentioned by 43% of businesses. Notably, 26% of hiring businesses find the preferred working hours of candidates to be a newly emerging obstacle, marking a significant increase from September.

05 CULTURAL SHIFT IN WORKING FROM HOME PRACTICES DRIVEN BY PANDEMIC

A notable shift in remote work attitudes has emerged, with 55% of businesses now allowing regular work from home, a significant increase from the pre-pandemic figure of 24%. A considerable proportion (22%) enable employees to choose entirely how much they work from home, while 20% permit 1-2 days a week and 13% allow 3-4 days a week. This reflects a substantial cultural change in remote work practices driven by the ongoing impact of the pandemic.

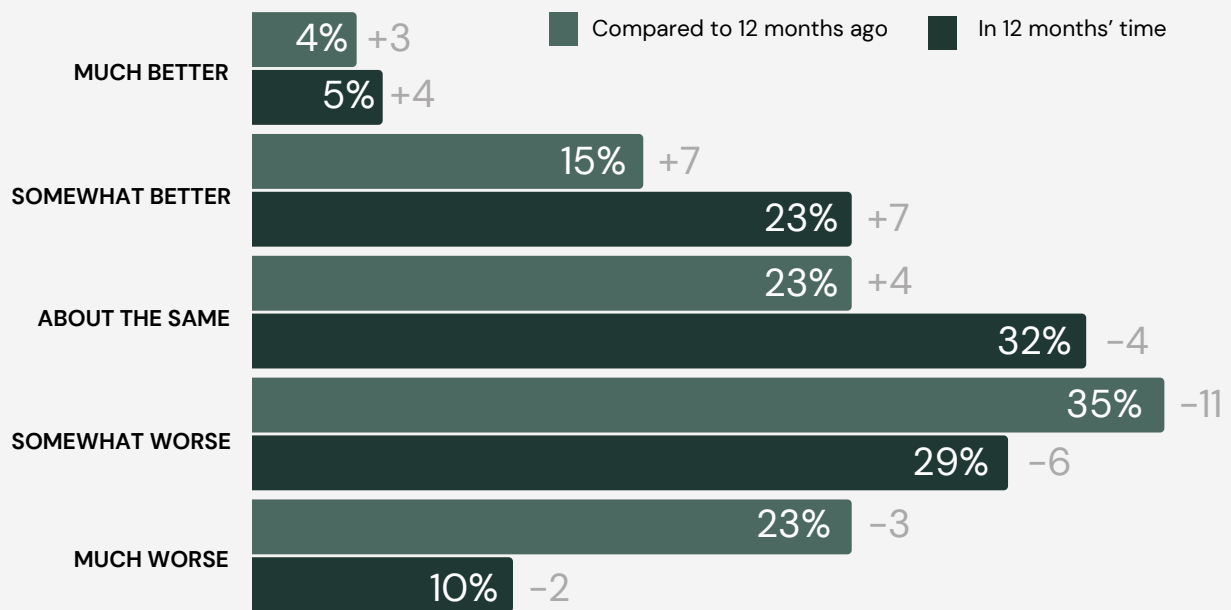
Economic Outlook

When reflecting on the previous 12 months, a majority (58%) believe that economic conditions are worse now than a year ago (excluding 'don't knows').

This is lower than the 71% recorded in September 2023. Around a quarter (23%) believe that economic conditions are about the same as a year ago.

One in five (19%) believe that economic conditions are better than a year ago, up from 9% in September suggesting that business is becoming slightly less pessimistic in its assessment.

Proportions of respondents reporting and predicting perceived changes to the general economy



Looking ahead to the next 12 months, around two in five (39%) respondents believe that economic conditions will be worse in 12 months' time and around a third (32%) believe that they will be about the same, suggesting that many businesses believe that things will remain tough over the next 12 months.

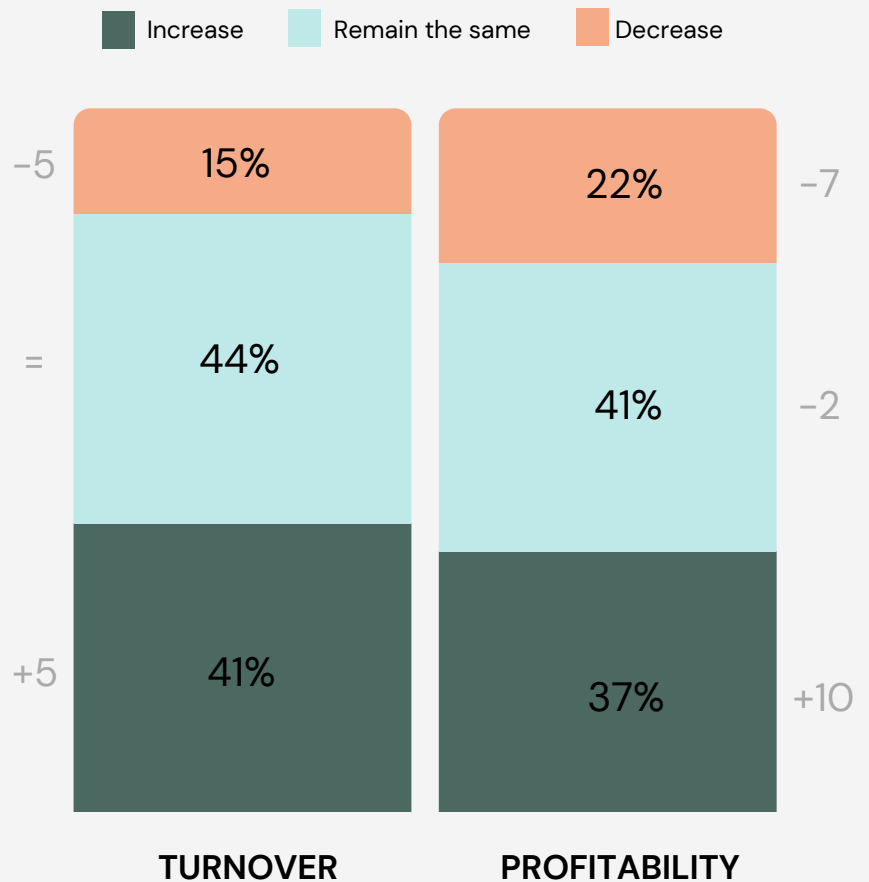
However, three in ten (29%) think that will be at least some improvement in general economic conditions over the next 12 months, up from 17% in September 2023. This suggests that a growing proportion of businesses are growing to be more optimistic about economic conditions when looking to the future.



Profitability & Turnover

Businesses surveyed were asked to consider whether they thought that their profitability and turnover would increase or decrease over the next 12 months.

Proportion of respondents projecting increases/decreases



Four in ten (41%) businesses surveyed think that their turnover will increase in the next 12 months, an increase of five percentage points from September. The proportion that think that their turnover will decrease has also fallen by five percentage points from September from 20% to 15%.

There has also been a notable increase in the proportion of businesses who think that their profitability will increase from around three in ten (27%) in September to around four in ten (37%) in December 2023.

Recruitment

Around two-thirds (66%) of respondents report that their workforce size has remained the same over the past three months (excluding don't knows). In terms of changing workforce size, 20% report an increase in their workforce size and 14% report a decrease.

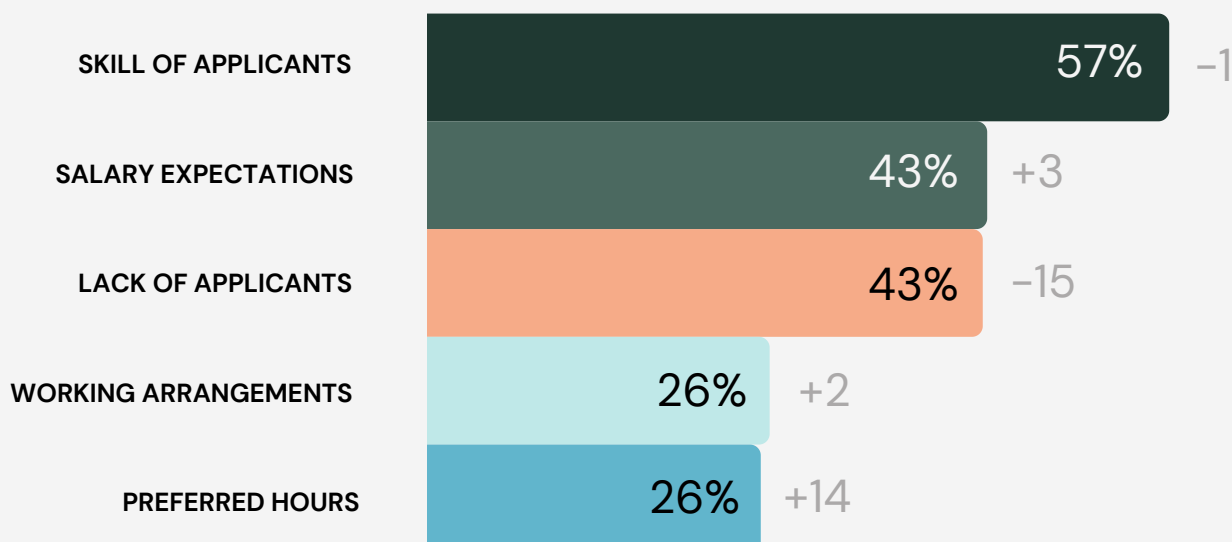
Looking ahead to the next three months, seven in ten (70%) report that their workforce size is set to remain the same while more than one in five (21%) plan to increase the size of their workforce. The remaining 9% report that they expect their workforce size to decrease in the next three months.

Just under one in two (47%) businesses surveyed have attempted to recruit in the last three months.

Among those who have attempted to recruit staff, the most common reason given is applicants not being of the required skilled level (57%), a similar proportion to that observed in September. A lack of applicants (43%) and salary expectations of candidates (43%) are the next most common difficulties cited. The proportion of hiring businesses reporting a lack of applicants as a difficulty has fallen by fifteen percentage points compared to September.

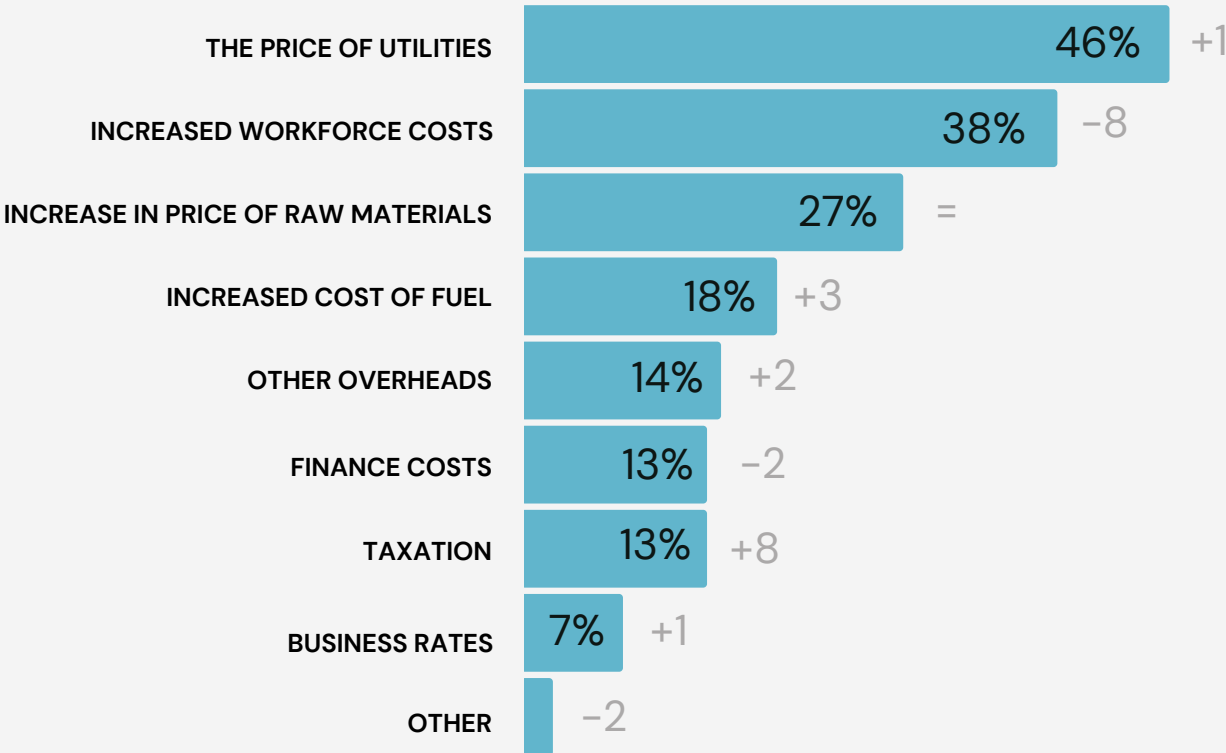
Interestingly, the preferred hours of candidates is cited as a challenge by a quarter (26%) of businesses that attempted to recruit, up fourteen percentage points from September.

Proportion of recruiting businesses that experienced the following challenges



More than half (54%) of respondents that express an opinion expect the price of their goods or services to increase in the next three months, in line with findings from September. Four in ten (44%) expect them to remain the same.

Proportion of respondents citing the following as an important pressure to increase costs



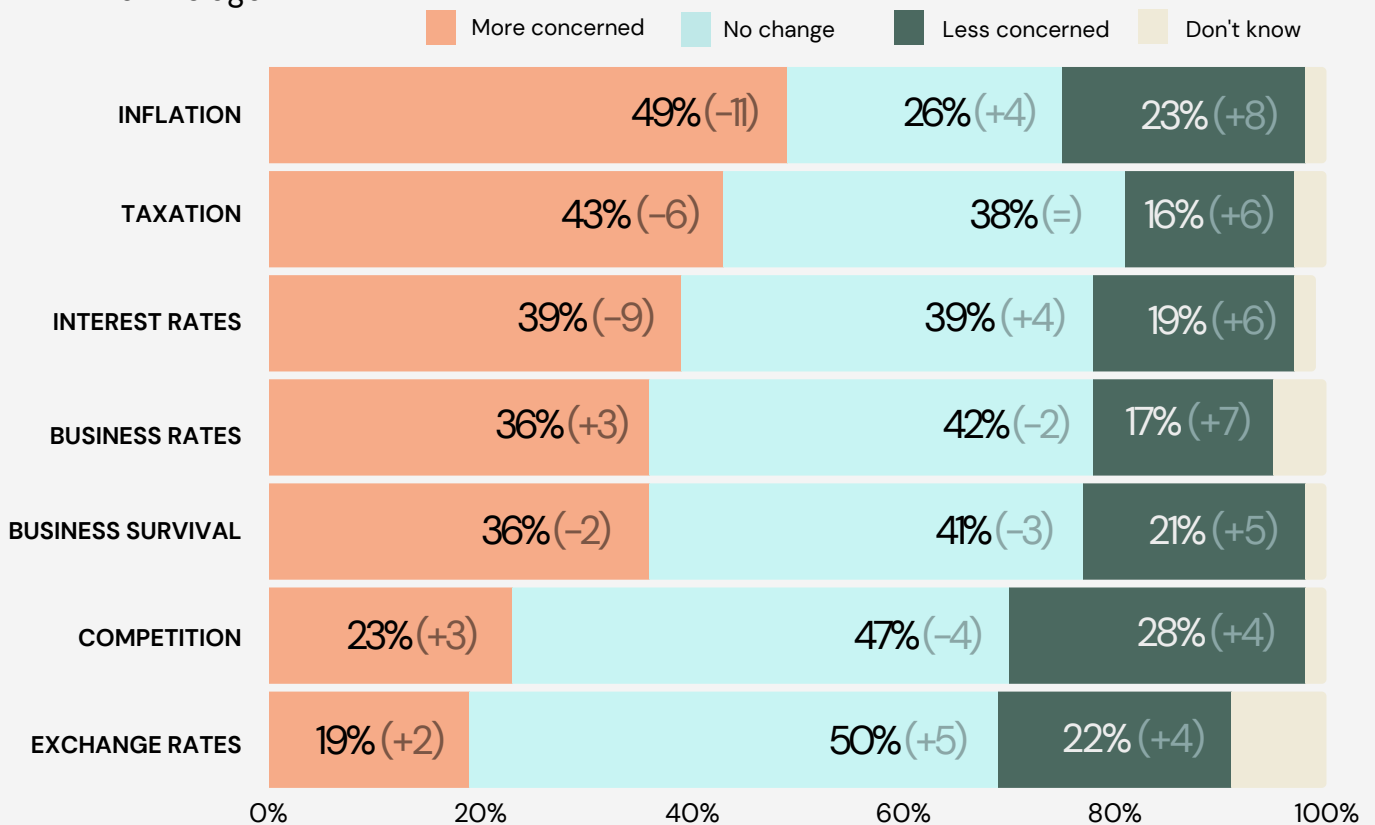
Respondents were asked to select the two most important factors that may lead to price increases. The most selected factor was the price of utilities (46%). Increased workforce costs was the next most identified factor (38%), though this is down eight percentage points from September.

Other factors that are deemed as important by a significant proportion of respondents are increases in the price of raw materials (27%) and the increased cost of fuel (18%). Taxation is viewed as one of the most important factors by 13% of businesses, up 8% from September but a similar proportion to that found in June 2023 (15%).

Concerns

Respondents were asked whether they are more or less concerned about a series of issues than they were three months ago.

Proportion of respondents citing the following as a concern compared to three months ago



Five in ten respondents (49%) say that they are more concerned about inflation than they were three months ago, down 11 percentage points from September. The proportion of businesses who are less concerned in relation to inflation has increased from 14% to 23%.

Around four in ten of businesses surveyed report being more concerned about taxation (43%, from 49% in September).

There has been a decrease in the proportion of businesses that are more concerned about interest rates from 48% in September to 39% in December. Around five in ten (19%) are less concerned, up six percentage points from September.

Businesses with 250+ employees were most likely to highlight that they were more concerned about interest rates and taxation than those with fewer employees.

Government Responsiveness

When asked if the Scottish Government is concerned with the needs of businesses in Scotland, around four in ten (43%) agree while 37% disagree. This is a notable change from September where 36% agreed and 46% disagreed.

When thinking about the UK Government, 30% agree that the UK Government is concerned with the needs of businesses in Scotland, up four percentage points from September. Around half (48%) disagree, though this is down seven percentage points from September.

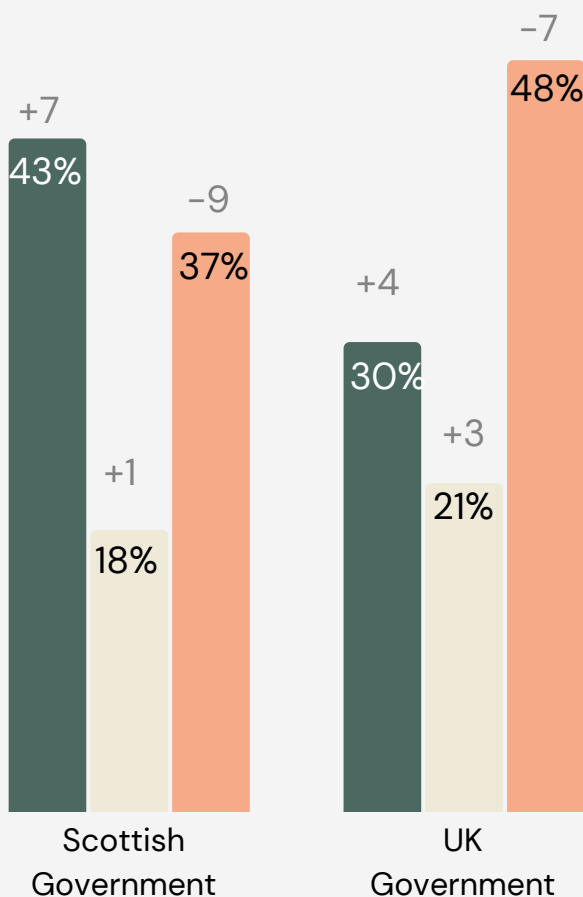
This suggests that over the last three months signals

from both Governments have slightly softened the notion among business that government is not concerned with their needs.

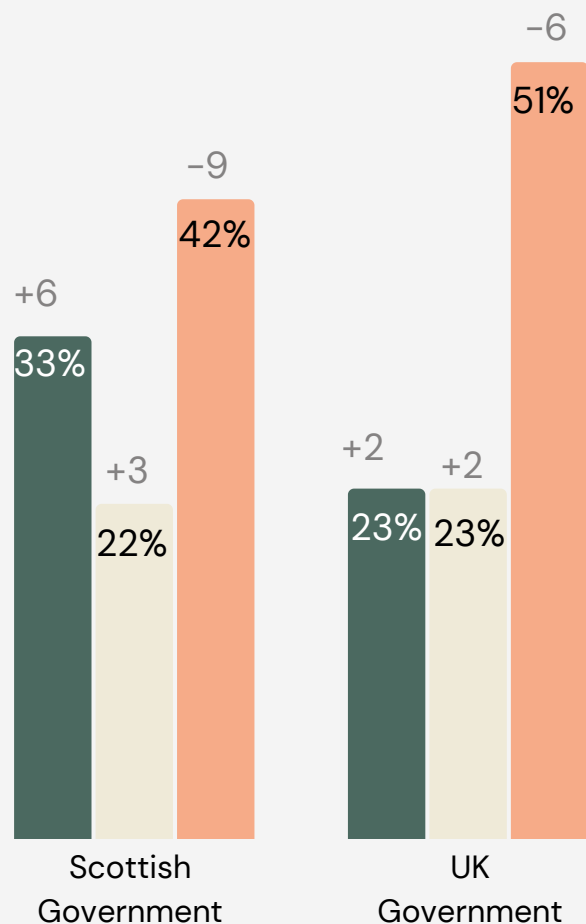
When looking at action taken around a third (33%) believe that Scottish Government is taking action to address business concerns in Scotland, up six percentage points from September. More than four in ten (42%) disagree, down from 51% in September.

Around a quarter (23%) believe that the UK Government is taking action to address business concerns in Scotland while more than half (51%) disagree, down from 57% in September.

Concerned with needs of Scottish businesses



Taking action to address Scottish business concerns

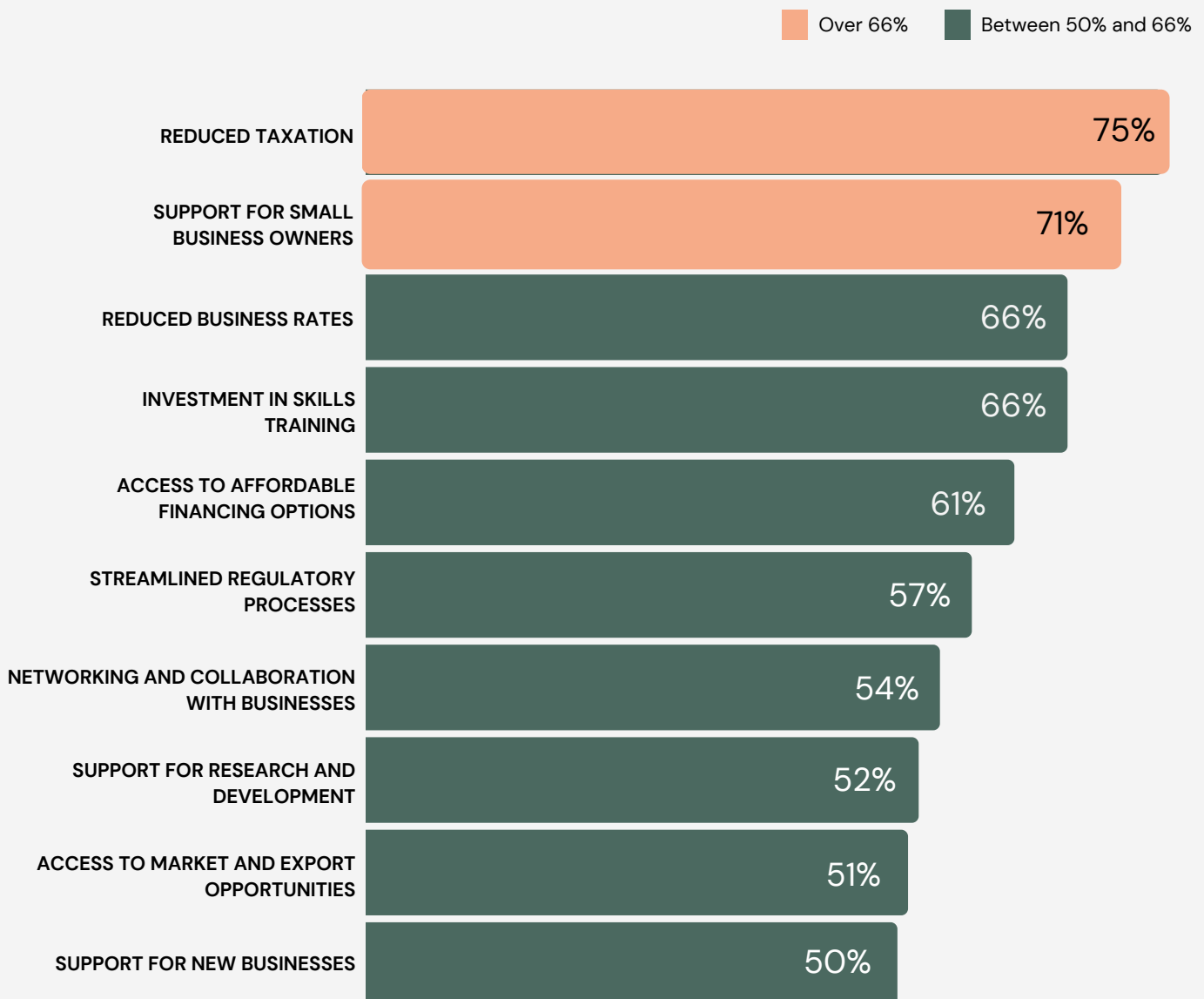


■ Agree ■ Neither agree nor disagree ■ Disagree

Respondents were asked to consider potential interventions that might be helpful to businesses like their own. All of the potential measures presented have been deemed helpful by at least half of respondents.

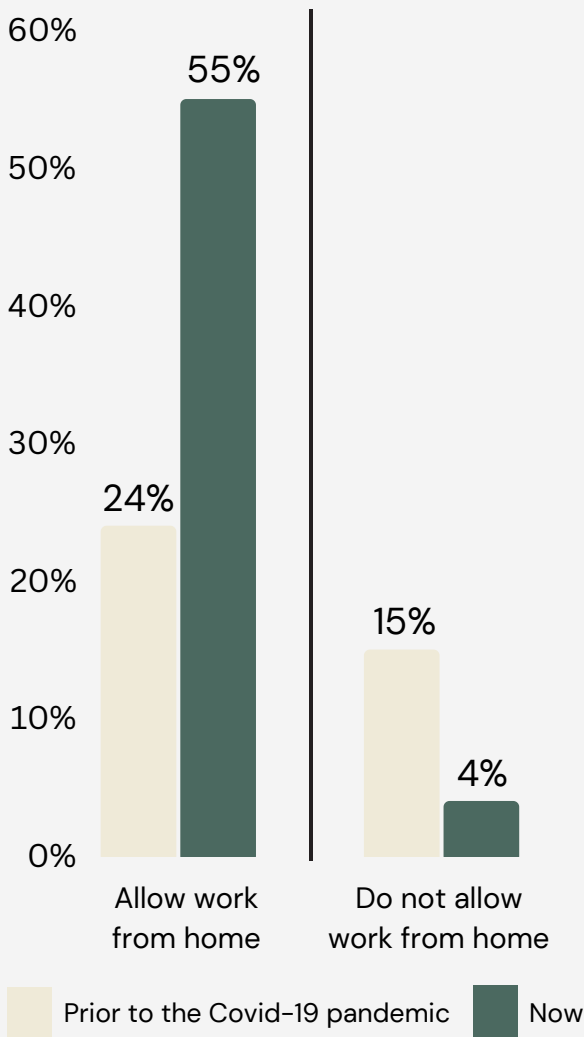
The measures that are deemed to be helpful by the greatest number of respondents are reduced taxation (75%), increased support for small business owners (71%), lowered business rates (66%), and increased investment in skill training (66%).

Proportion of respondents reporting that the following interventions would be helpful for businesses like theirs



Working from Home

Proportion of businesses that allow work from home



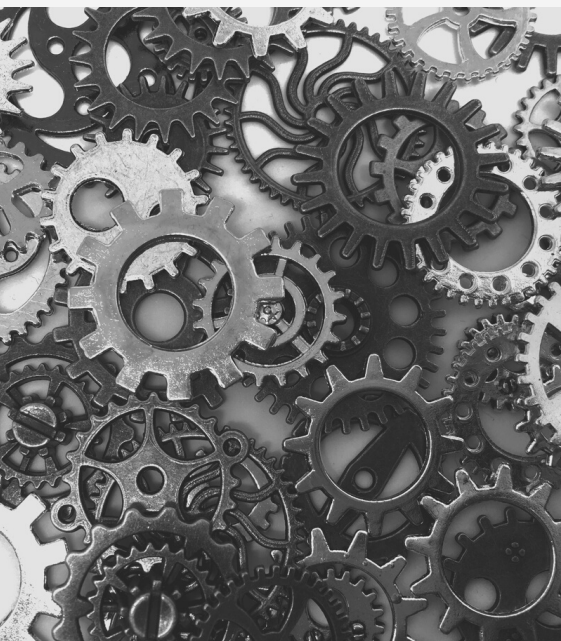
This edition of Understanding Business asked companies about working from home for employees before, during after the Covid-19 pandemic.

Prior to the pandemic, 24% of businesses reported that they allowed employees to work from home regularly while 34% allowed this in special circumstances, excluding don't knows. A quarter (27%) reported that employees were not able to work from home due to the nature of the business while 15% reported that they did not allow employees to work from home at all prior to the pandemic.

During the pandemic, 45% said that all employees worked from home during the pandemic while 31% reported that all employees worked from home during the pandemic except those classed as key workers. Around a quarter (24%) report that all their employees were classified as key workers.

Thinking about now, around a fifth (22%) state that employees can choose how often they work from home. Another fifth (20%) report that employees can work 1-2 days a week from home and 13% report that they can work 3-4 days a week from home. This combined total allowing regular working from home (55%) is significantly higher than those reporting doing this prior to the pandemic showing a cultural shift in working from home attitudes driven by the pandemic.

More than one in ten (13%) only allow employees to work from in special circumstances while 4% do not allow their employees to work from home at all. More than a quarter (27%) state that employees are not able to work from home due to the nature of their business. Smaller businesses are more likely to report that employees are not able to work from home due to the nature of their business than larger businesses.



TECHNICAL DETAILS

The survey was designed by Diffley Partnership and 56° North. Invitations were issued online and fieldwork was conducted during November and December 2023. A total of 626 responses were received from senior decision makers in businesses across Scotland.



FIND OUT MORE

To register for exclusive updates and a quarterly bulletin please sign up for our mailing list [here](#).

If you are interested in having your own questions asked and answered in future Understanding Business reports, email us at info@diffleypartnership.co.uk

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