DECEMBER 2025

UNDERSTANDING BUSINESS

Diffley Partnership

CHARLOTTE STREET PARTNERS

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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 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 Charlotte Street Partners.

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INTRODUCTION

Understanding Business - December 2025

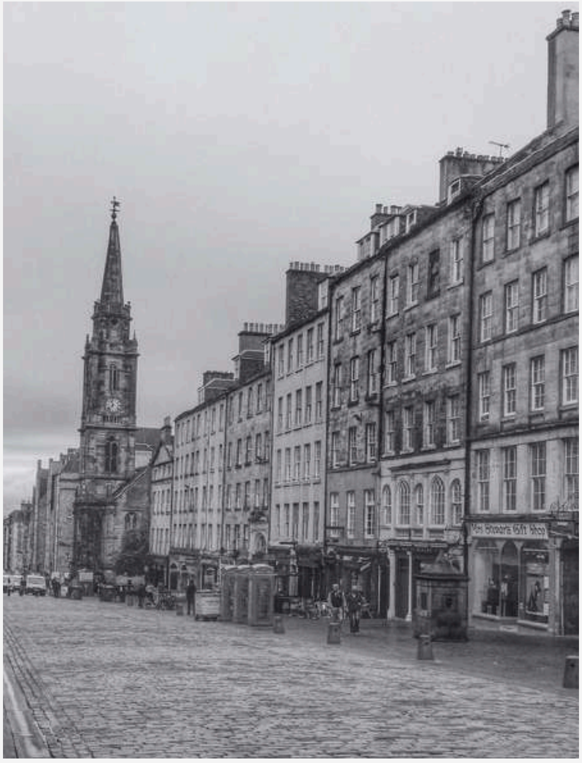
The latest findings from the Understanding Business survey show how Scottish businesses are faring during ever-changing economic times.

This wave shows several shifts from September. Notably, there has been a rise in pessimism towards current and future economic conditions. Despite previous waves showing positive trends, a majority now believe the economy is worse than it was a year ago and a plurality believe it will be even worse in a year's time.

This wave also shows a deterioration in anticipated business turnover and profitability and a steady belief that prices will generally increase, driven mainly by workforce costs, but increasingly by taxation and the price of utilities.

Adding to the negativity is a slight downturn in positive attitudes towards the perceived concern and action of the UK and Scottish governments when it comes to business issues. Reducing taxation is still the most frequently cited intervention that governments could take to promote growth.

Despite shifts in attitudes towards government, the SNP remains the most frequently mentioned when businesses consider the party that best represents their interests.



This wave asked about Scotland-specific business news, garnering mixed responses on whether the country is well served. Questions moved beyond general attitudes to capture engagement with types of news and the salience of business subscriptions.

It also asked a series of questions on artificial intelligence (AI), capturing both the use of AI within businesses and perceptions of AI's likelihood of meaningfully changing sectors across Scotland. These questions found mixed AI uptake to date, with most businesses using the tool at least some of time across certain day-to-day tasks. It also found that businesses see the potential for positive change from AI.

Overall, the December wave of Understanding Business demonstrates a continually shifting industry landscape.

5 KEY TAKEAWAYS

The eleventh edition of Understanding Business brings you insights from over 500 businesses in Scotland: focusing on their outlook for the economy, prospects for their businesses and challenges they face.

01 RETURN TO PESSIMISM TOWARDS THE STATE OF THE ECONOMY

Despite the trend in previous waves indicating an improvement in business attitudes towards the state of the general economy, this wave saw a return to pessimism. More than half (51%) of businesses now believe that the economy is worse than it was a year ago, rising six percentage points from September. Similarly, nearly half (45%) believe the economy will be worse in a year, also up six percentage points from September.

02 EROSION OF POSITIVITY TOWARDS GOVERNMENT RESPONSIVENESS

Both the UK and Scottish Governments saw a slight downturn in the confidence of businesses towards their responsiveness. Businesses are generally more likely to agree that governments are concerned with their needs than they are to say that governments are acting to address industry concerns. As seen in previous waves, businesses are more likely to say that the Scottish Government is responsive than they are to say the same about the UK Government.

03 SNP LEAD ON BUSINESS REPRESENTATION, BUT BUSINESS LEADERS AND GENERAL PUBLIC DIVERGE ON REFORM

One third of business leaders (33%) say that the SNP best represents the interests of Scottish businesses, up three percentage points from September. They are followed by Scottish Labour (23%) and the Scottish Conservatives (16%). Despite the uptick in support for Reform UK seen across recent polling of the general public, this is a trend not reflected in Understanding Business; just one in ten business leaders (10%) believe the party best represents Scottish business interests.

04 RESPONDENTS SPLIT ON THE QUALITY AND DIVERSITY OF SCOTLAND-SPECIFIC BUSINESS NEWS

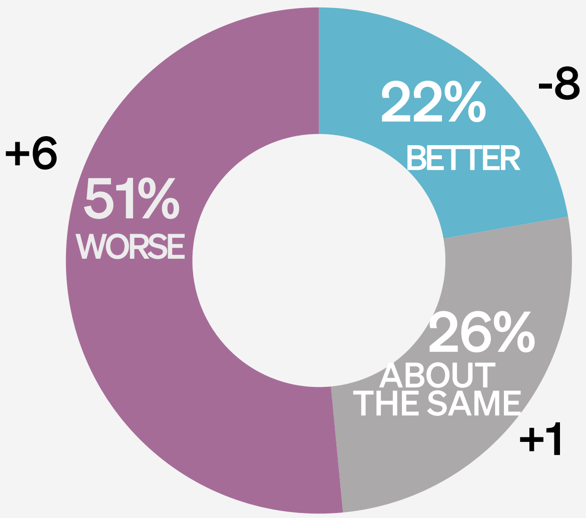
43% agree that Scotland is well served for news and analysis focused on Scottish businesses, with the same proportion saying that there is good diversity across sectors and regions. When considering what they would like to see more of in terms of Scotland-specific business news, the greatest proportion say more coverage on SMEs (38%), coverage of regional business developments (32%), and a greater focus on innovation and technology (30%).

05 BUSINESS LEADERS ANTICIPATE CHANGES DUE TO ARTIFICIAL INTELLIGENCE

Businesses anticipate significant disruption from AI in the near future. Nearly two-thirds (63%) agree that AI will fundamentally reshape their sector within the next five years. Businesses frequently see the opportunity for positive change, with six in ten (56%) believing it will improve efficiency and reduce costs in their business.

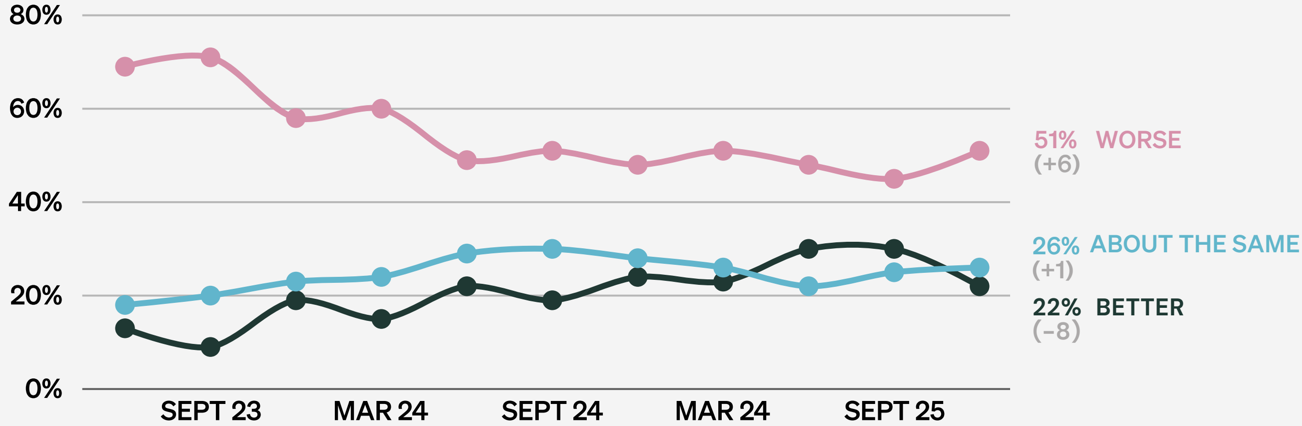
ECONOMIC OUTLOOK

Despite the increasingly favourable outlook of the last few waves of Understanding Business, December saw a return to pessimism, with more than half (51%) of businesses saying that economic conditions have deteriorated over the last year (excluding 'don't know's) and just one in five (22%) saying they have improved.



Economic conditions now, compared to 12 months ago

Proportions of respondents reporting perceived changes to the general economy in the last 12 months



The proportion believing that economic conditions are worse now than they were 12 months ago has risen by six percentage points to just over half of respondents (51%), representing a majority for the first time since March 2024.

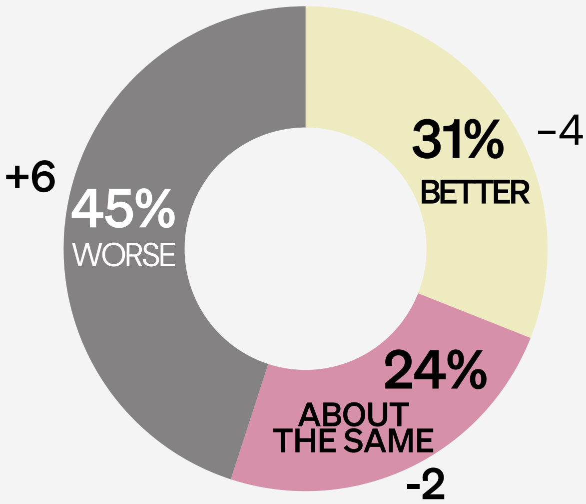
Supporting this is a sharp drop in the proportion reporting that the economy is better now than it was a year ago, down eight percentage points to one in five respondents (22%).

These figures represent the largest rise in the proportion believing the economy has deteriorated and the largest drop in the proportion saying the economy has improved since the series began.

One quarter (26%) of respondents say that economic conditions have remained about the same, up one percentage point from September.

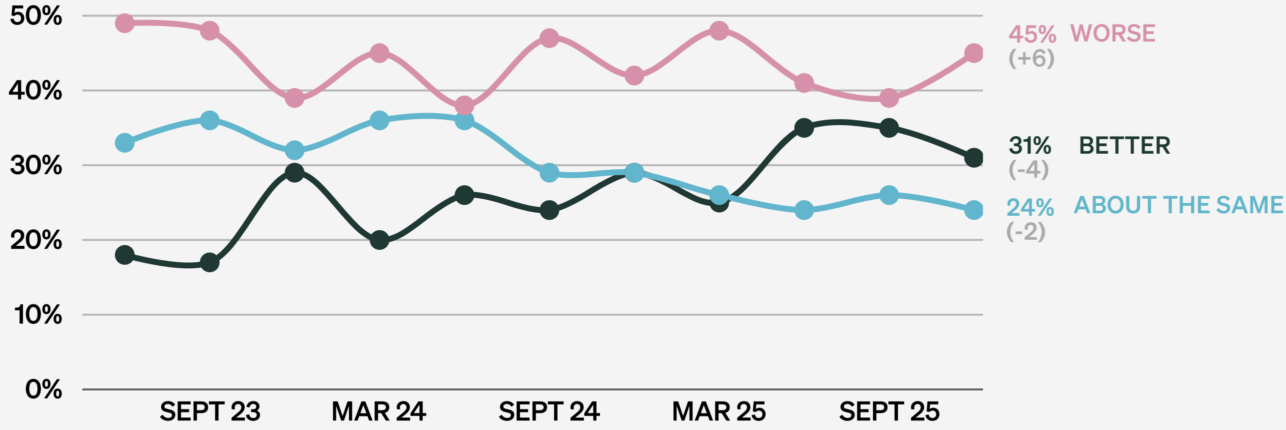
ECONOMIC OUTLOOK

Looking ahead, around half of businesses (45%) believe that general economic conditions will be worse in a year than they are now (excluding 'don't know's), a six percentage point increase since September. Three in ten believe that the economy will be better this time next year (31%).



Economic conditions in 12 months, compared to now

Proportions of respondents predicting changes to the general economy in the next 12 months



Similar to the outlook over the past year, the proportion of businesses predicting a decline in economic conditions over the next twelve months has risen significantly, up six percentage points to just under half of respondents (45%).

Supporting this increase is a decline in the proportion of respondents that are bullish towards the future state of the economy.

Just three in ten (31%) believe that the economy will be better this time next year, down four percentage points since the September wave of this business survey.

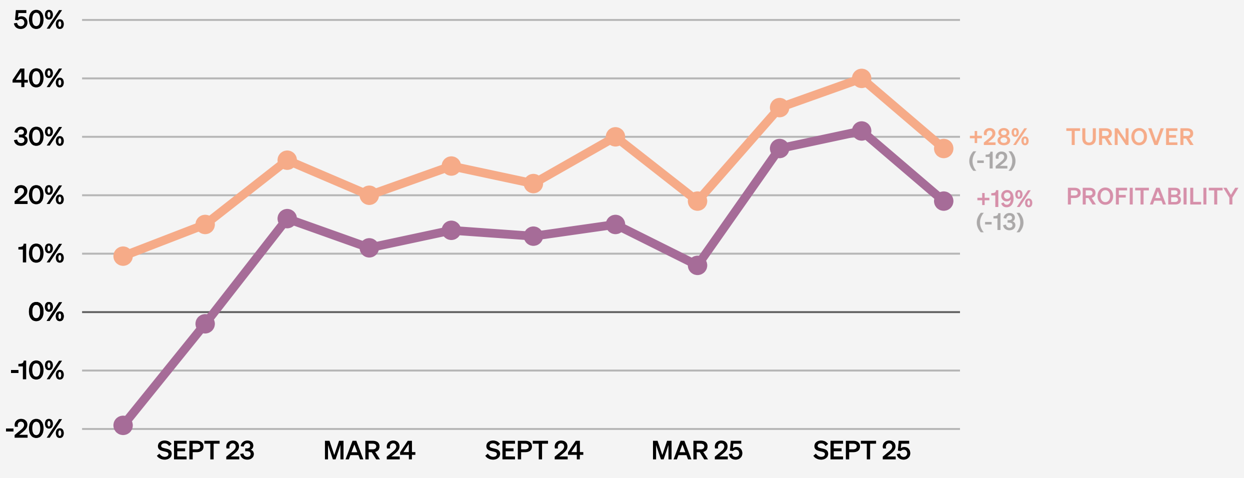
Around a quarter (24%) of respondents say the economy will be about the same in twelve months, representing a modest drop of two percentage points from the previous wave.

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.

Despite anticipated business turnover and profitability generally trending upwards since the inception of Understanding Business in 2023, this wave sees a drop in confidence towards both. Around four in ten respondents report that their turnover will increase, compared to one in eight (16%) who say it will decrease. While still positive overall, the net balance of positive versus negative responses dropped by twelve percentage points. Similarly, four in ten (39%) say their profitability will increase over the next year, compared to one in five (20%) who predict a decrease. The net balance for profitability also dropped this wave, down thirteen percentage points since September.

Proportions of respondents predicting increase in turnover/profitability minus those predicting a decrease



RECRUITMENT

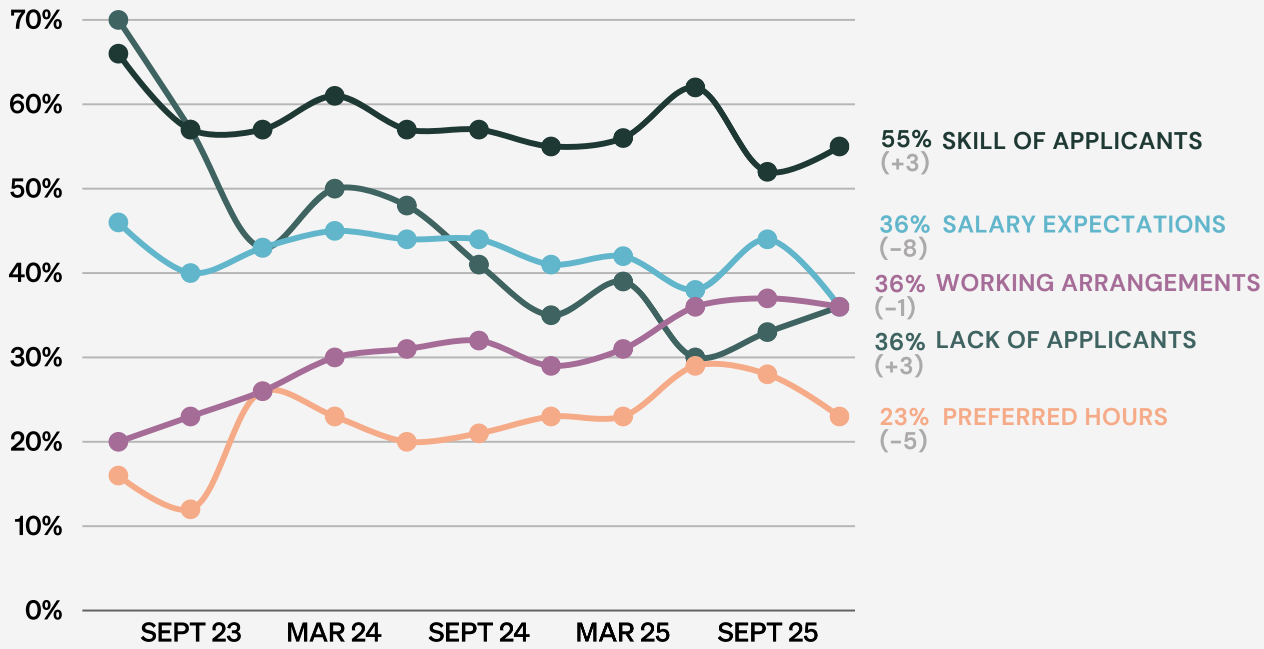
Over the past three months, less than a quarter of businesses report that the size of their workforce has increased (23%). Conversely, 15% of businesses say their workforce size has decreased. Looking forward paints a similar picture; around a quarter (27%) of respondents expect that the size of their workforce will increase over the next three months. Around one in eight (13%) expect that it will decrease, while over half (54%) say it will likely remain constant.

When it comes to recruiting staff, 47% of businesses report that they have tried to in the past three months while 53% say they have not. Among those who have attempted to recruit, one quarter (23%) recruited for just new roles, one third (33%) recruited just to replace existing roles, and just over four in ten (44%) recruited for both new and existing roles.

The skill of applications remains the most frequently cited recruitment challenge in this wave of Understanding Business, increasing slightly by three percentage points from September.

Despite a sharp drop of eight percentage points, salary expectations remains the second most frequently mentioned recruitment challenge, cited by more than a third of businesses (36%). An identical proportion (36%) cite both desired working arrangements and a lack of applicants, with the latter seeing a small rise in salience of three percentage points. Finally, preferred hours of candidates is mentioned less frequently this wave, dropping five percentage points to one in four (23%) respondents.

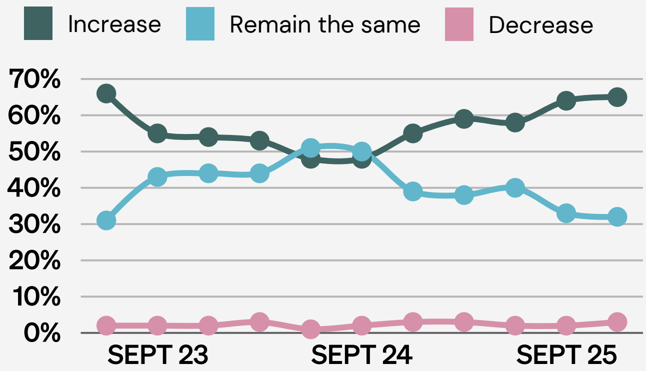
Proportion of recruiting businesses that report experiencing the following recruitment challenges over time



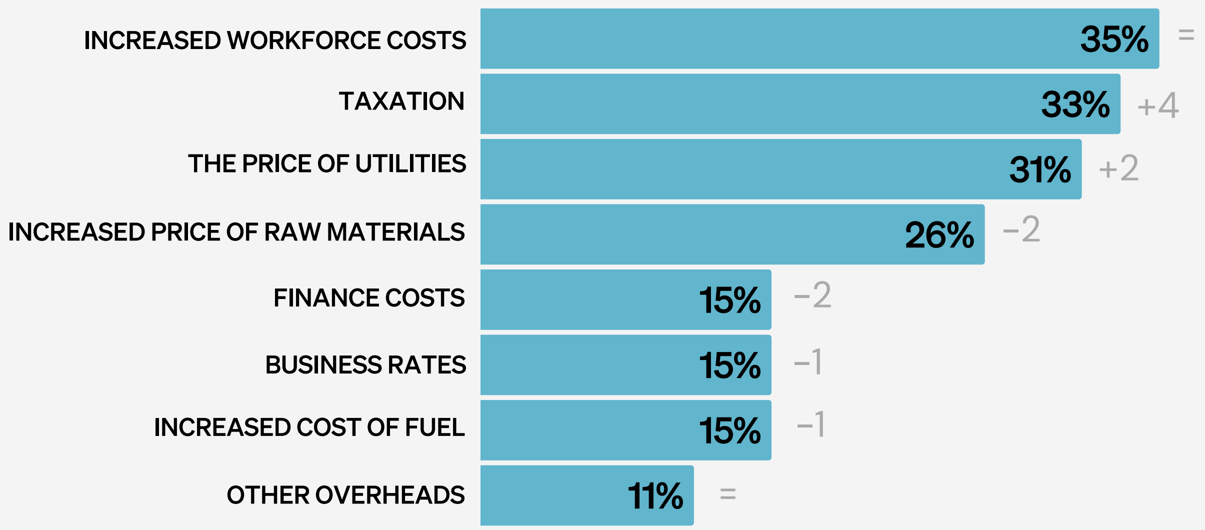
PRICING

Nearly two-thirds (65%) expect the price of their goods or services to increase over the next three months, excluding don't know's. A third (32%) believe their prices will remain the same, while very few (3%) anticipate a decrease.

Proportion of respondents expecting price increases/decreases, excluding 'don't know's



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



When asked to select the top two most important pressures to increase costs, the greatest proportion of respondents select increased workforce costs (35%). There was a four percentage point increase in the proportion citing taxation as a key pressure, making it the second most mentioned this wave at one in three respondents (33%).

This wave saw a two percentage point increase in those citing the price of utilities, up to three in ten respondents (31%), while the price of raw materials saw a two percentage point drop (26%). Finance costs, business rates and cost of fuel were mentioned by one in seven (15%), while one in ten cited other overheads (11%).

GOVERNMENT RESPONSIVENESS

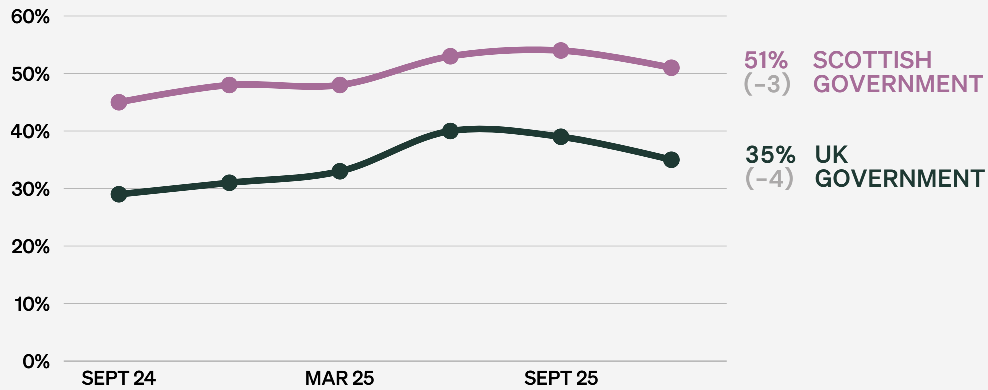
The Scottish Government continues to outperform the UK Government on perceptions of both concern and action on business needs.

More respondents tend to see the Scottish Government as concerned with the needs of Scottish businesses (51% agree) compared to the UK Government (35% agree). This wave saw a slight deterioration in perceptions of both governments, with a drop in three percentage points for the Scottish Government and four percentage points for the UK Government on this statement.

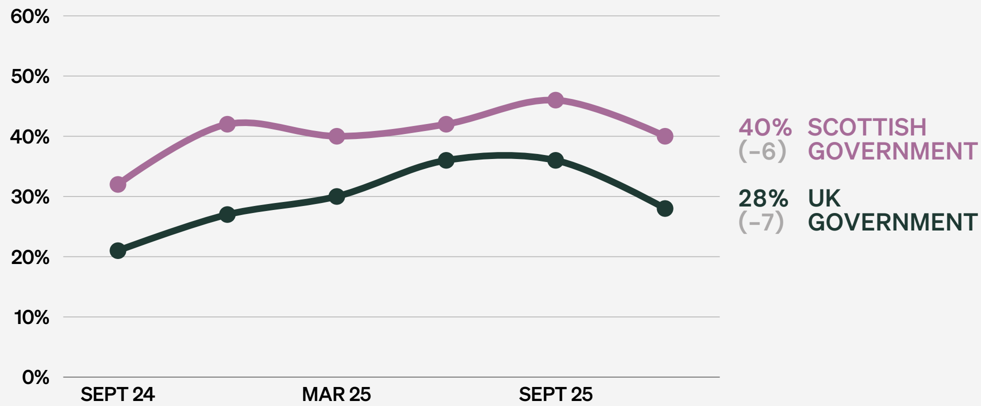
Similarly, the Scottish Government outperforms the UK Government when it comes to the proportion of businesses agreeing that each government is taking action to address business concerns. Four in ten (40%) agree that the Scottish Government is taking such action. This is compared to just a over a quarter (28%) of those who agree that the UK Government is taking action to address concerns.

Significant drops were seen in the proportion agreeing that each government is taking action, with a decline of six and seven percentage points for the Scottish and UK Governments respectively.

Proportion of respondents agreeing that each government is concerned with the needs of Scottish businesses



Proportion of respondents agreeing that each government is taking action to address Scottish business concerns



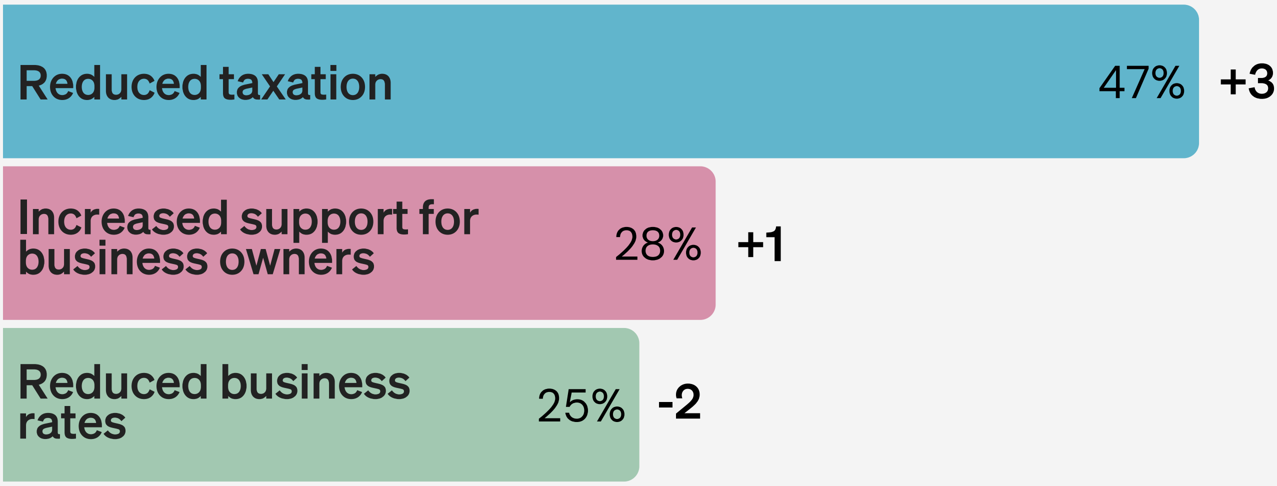
INTERVENTIONS

Respondents were asked to select the top three potential interventions that would best help the growth of their business.

Reduced taxation remains the most frequently cited intervention to help the growth of businesses; this wave saw a three percentage point increase in the proportion of businesses mentioning reduced taxation, up to nearly half of all respondents (47%).

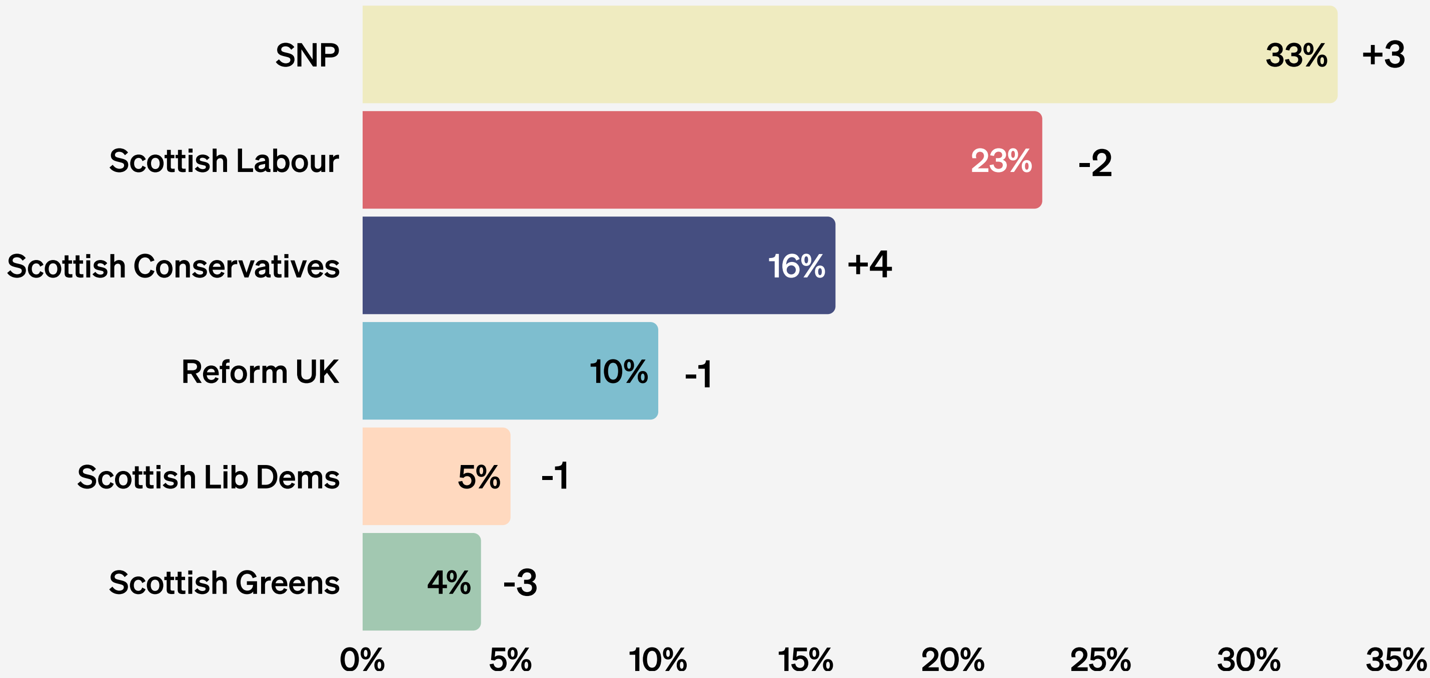
Increased support for business owners was cited by just over a quarter of all respondents (28%), making it the second most popular pro-growth intervention this wave. Despite a two percentage point drop from September, reduced business rates remained one of the most cited interventions this wave, mentioned by a quarter of businesses (25%)

Proportion of respondents reporting that the following interventions would be the top three most helpful for the growth of their business



VIEWS ON PARTY REPRESENTATION

Respondents were asked which party best represents the interests of Scottish business.



Perceptions of which party best represents Scottish business have shifted slightly between September and December 2025. The Scottish National Party (SNP) remains the leading choice, rising from 30% to 33% (+3). Support for the Scottish Conservatives also increased, from 12% to 16% (+4), while Scottish Labour saw a small decline, dropping from 25% to 23% (-2).

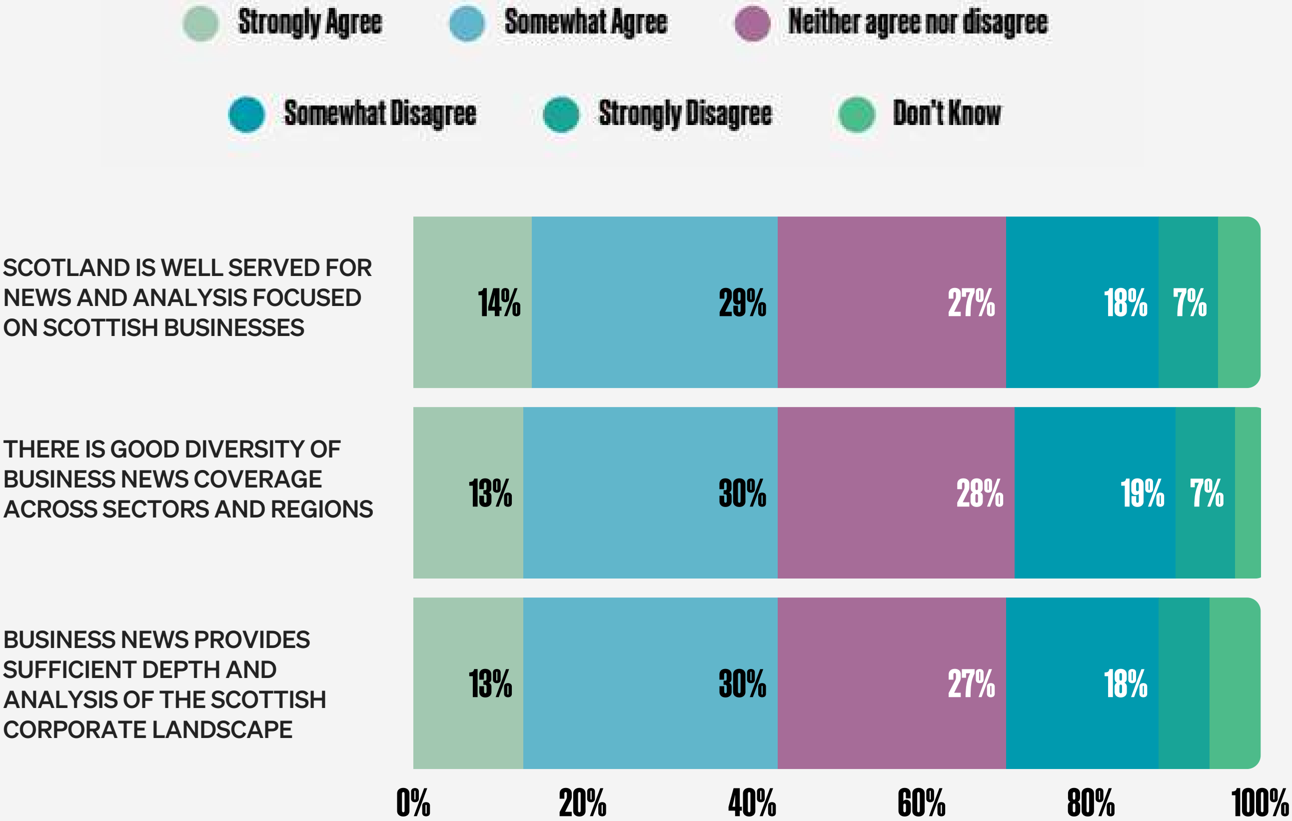
Other parties experienced minor changes: Reform UK fell by one point to 10%, Scottish Greens dropped from 6% to 4% (-3), and the Scottish Liberal Democrats slipped to 5% (-1).

These results suggest a modest strengthening of SNP and Conservative positions, alongside a slight weakening of Labour and Green representation in the eyes of Scottish businesses.

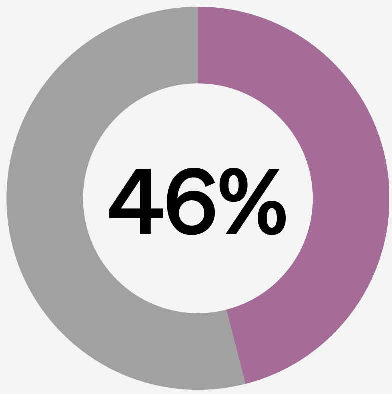
BUSINESS NEWS

Businesses are divided on the quality and diversity of Scotland-specific business news.

Proportions of respondents agreeing/disagreeing with statements about business news in Scotland



Around 4 in 10 (43%) agree that Scotland is well served for news and analysis focused on Scottish businesses, and the same proportion feel there is good diversity across sectors and regions. Similarly, 43% agree that business news provides sufficient depth and analysis of the Scottish corporate landscape. Nearly half (46%) say they would pay for high-quality journalism focused on Scottish businesses.



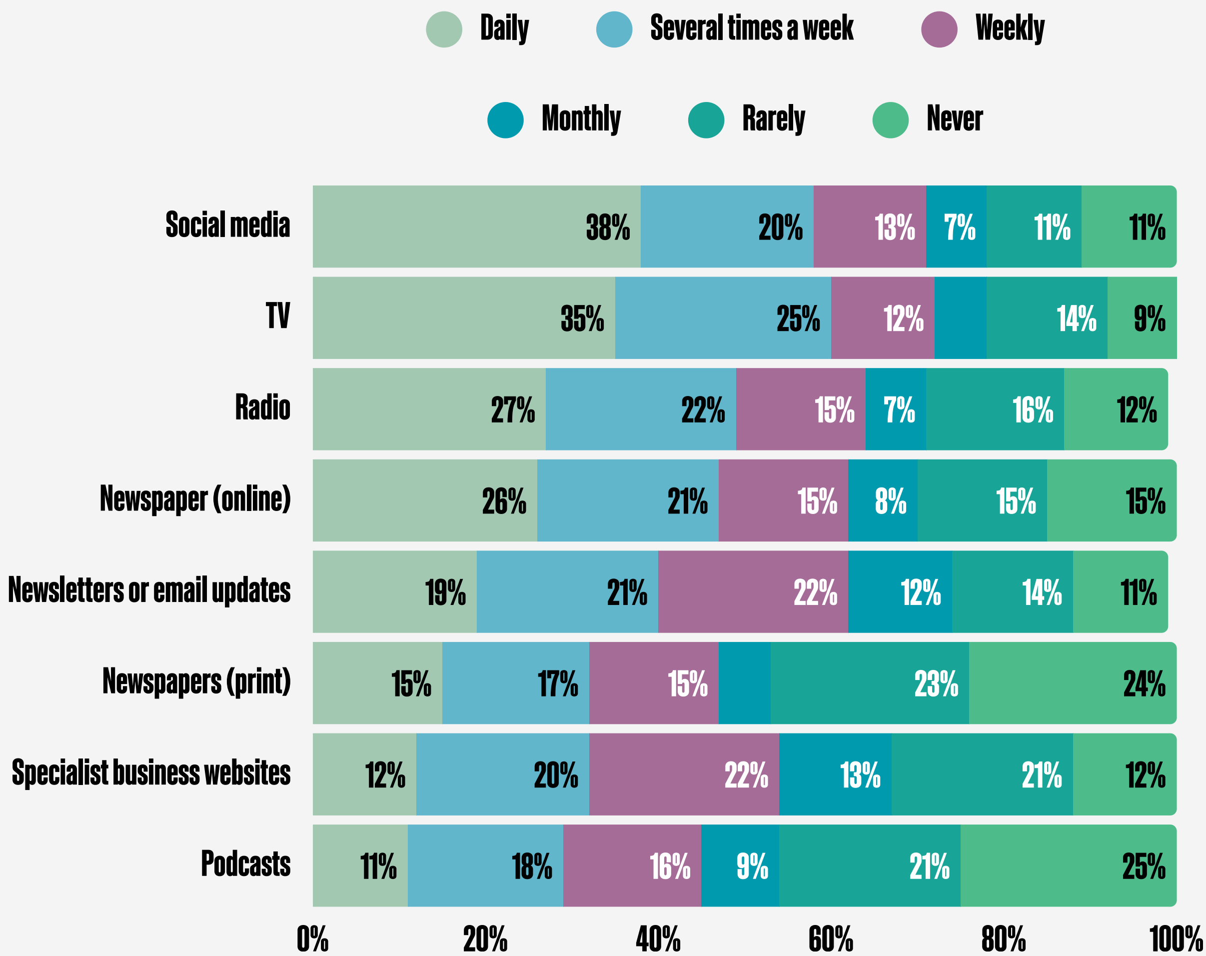
Would pay for high-quality journalism focused on Scottish businesses.

BUSINESS NEWS: SOURCES

Social media is the most frequent source of Scotland-specific business news, with 38% consuming it daily, followed by TV (35%) and radio (27%). Online newspapers are also popular (26% daily), while print newspapers lag behind (15% daily). Specialist business websites and newsletters are accessed less frequently, and podcasts remain niche, with only 11% listening daily.

When combining daily, several times a week, and weekly responses, the majority of businesses consume Scotland-specific business news regularly across multiple channels. Social media leads with 71% consuming at least weekly, followed by TV (71%) and radio (64%). Online newspapers are also widely accessed (62% at least weekly), while print newspapers reach 47%. Specialist business websites (54%) and newsletters (63%) show strong engagement as periodic sources, while podcasts remain less common but still reach 45% at least weekly.

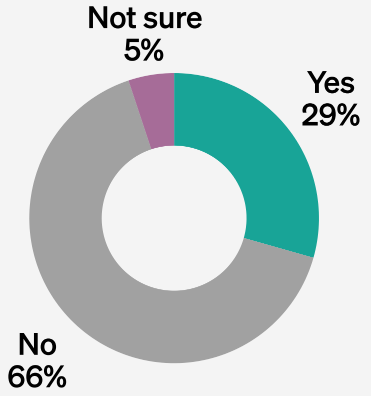
Proportions of respondents reporting engaging with Scotland-specific business news through the following mediums at each frequency



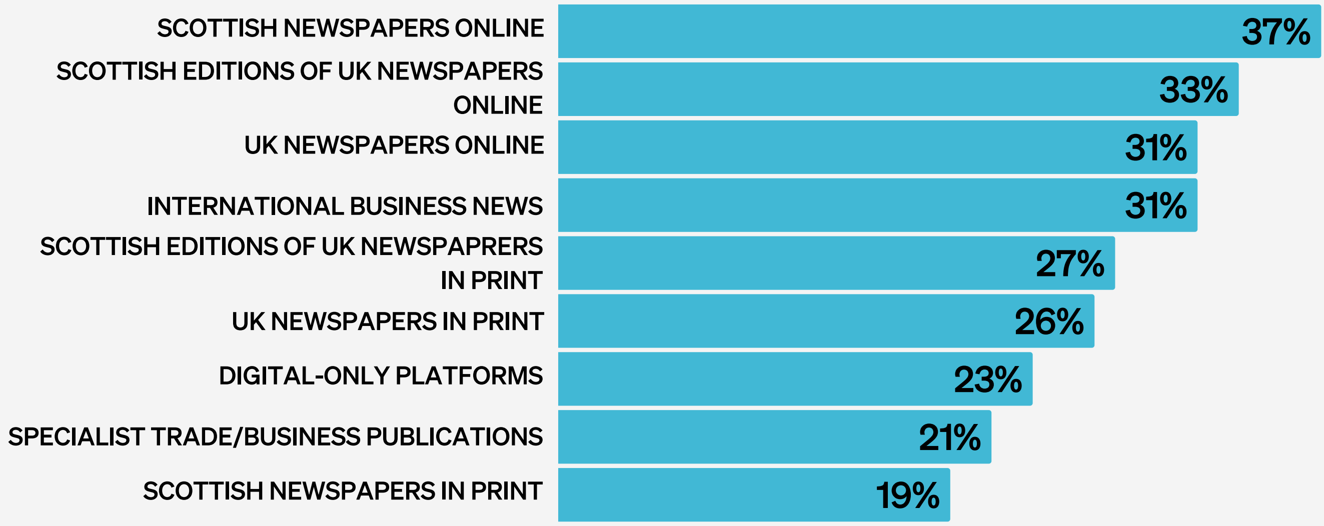
BUSINESS NEWS: SUBSCRIPTIONS

This wave of Understanding Business asked respondents about their news subscriptions. Three in ten businesses currently pay for a news subscription (29%), while around two thirds of businesses do not (66%).

Proportion of businesses who currently pay/do not pay for news subscriptions



Proportions of respondents who have business subscriptions to each of the following

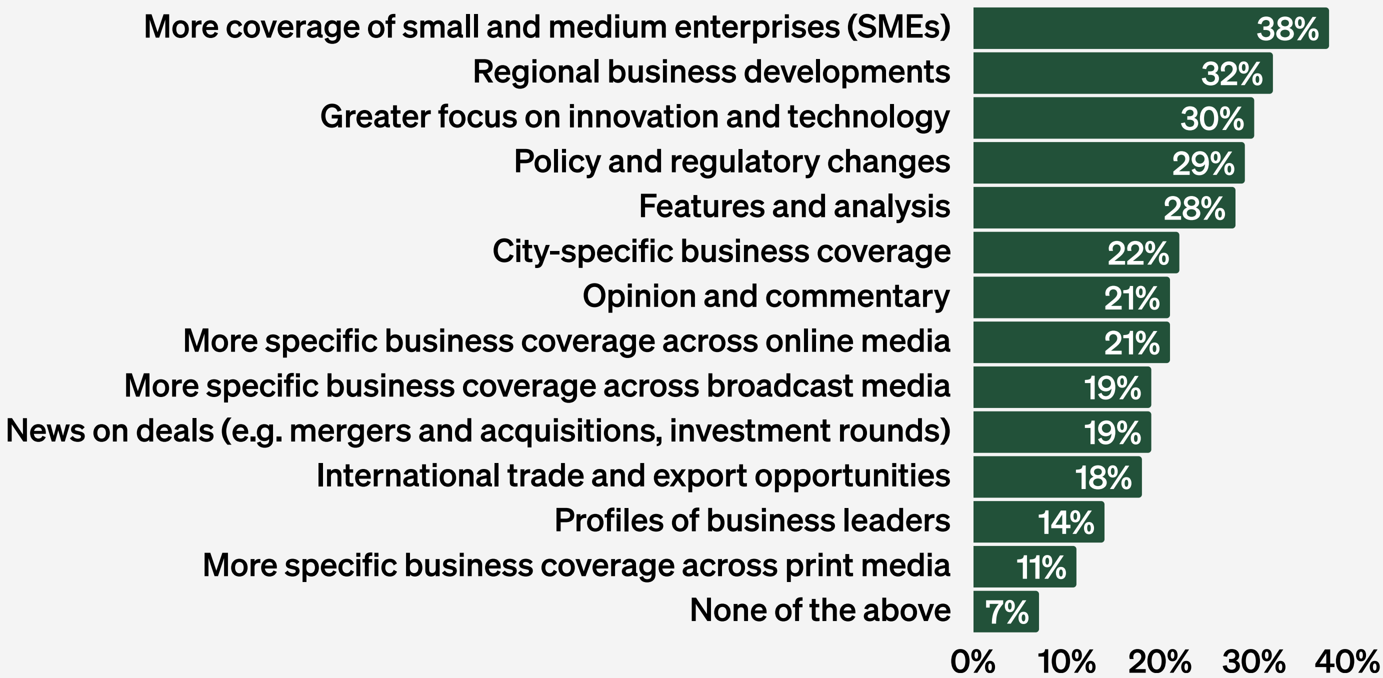


Among respondents who have business subscriptions to news outlets, these subscriptions are most commonly to Scottish newspapers online (37%). Nearly a third of respondents subscribe to Scottish editions of UK-wide newspapers (33%), UK newspapers in an online format (31%) or international business news (31%).

Around a quarter have a print subscription, either to the Scottish edition of UK newspapers (27%) or UK newspapers in general (26%). Around one in five have subscriptions to digital-only platforms (23%) or specialist trade publications (21%). The fewest have print subscriptions to Scottish newspapers (19%).

BUSINESS NEWS: PREFERENCES

Respondents were asked to specify what they would like to see more of, in terms of Scotland-specific business news coverage.



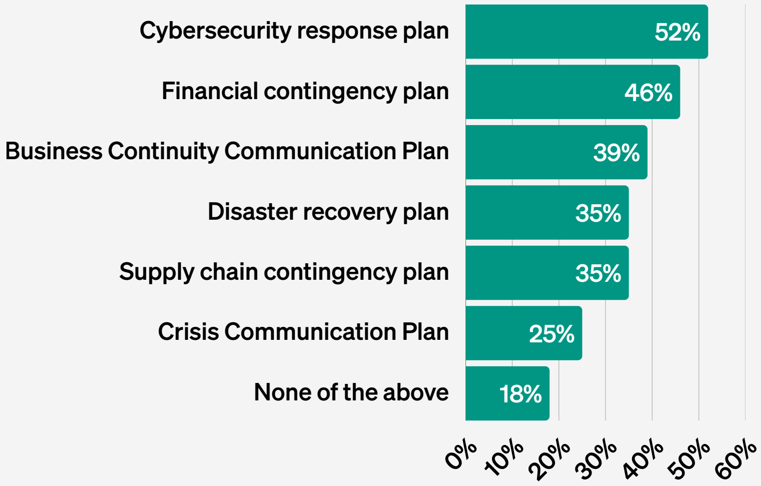
When considering the types of coverage they would like to see concerning businesses in Scotland, the greatest proportion of respondents select more coverage of small and medium enterprises. This is mentioned by around four in ten businesses (38%). Around three in ten mention regional business developments (32%), greater focus on innovation and technology (30%), policy and regulatory changes (29%), and features and analysis (28%).

All other types of coverage are mentioned by fewer than one quarter of businesses, including city-specific coverage (22%), opinion and commentary (21%), more specific business coverage across online media (21%), broadcast media (19%) and print media (11%), news on deals (19%), international trade and export opportunities (18%) and profiles of business leaders (14%).

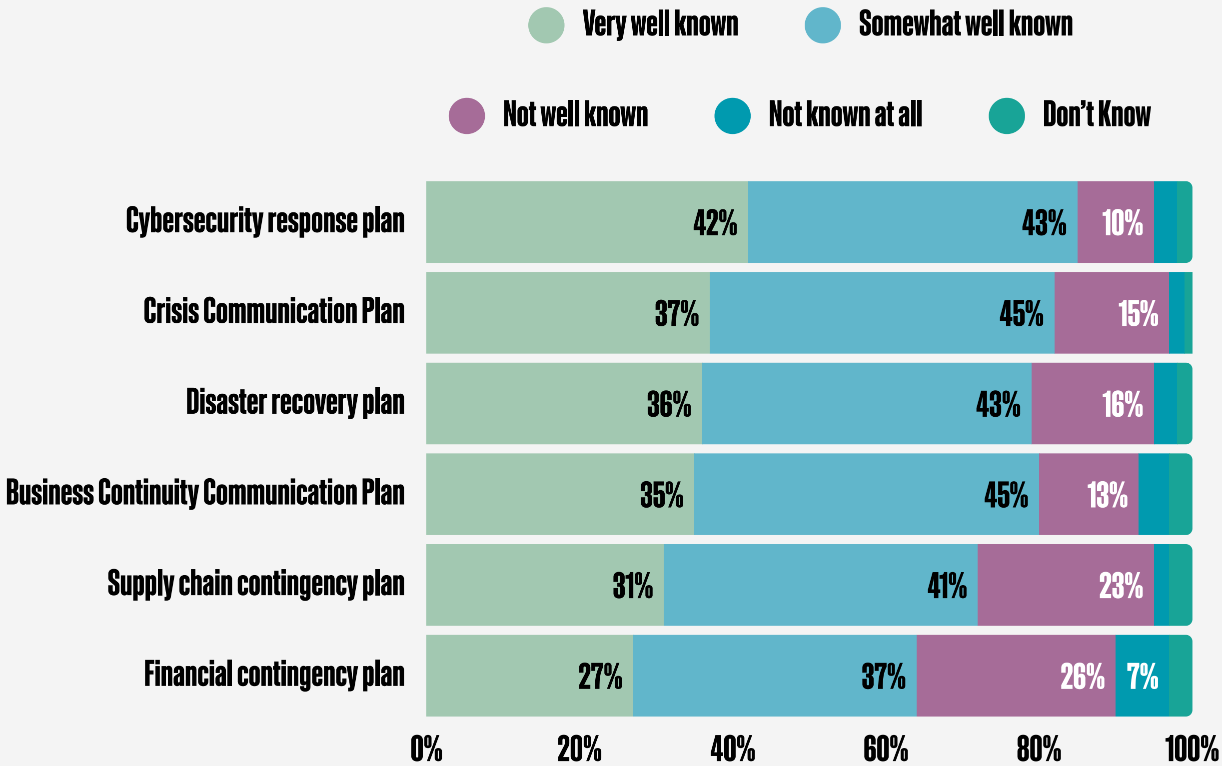
CRISIS PLANNING

This wave of Understanding Business asked about crisis planning and found that half of businesses have a cybersecurity response plan (52%), while just under half have a financial contingency plan (46%).

Proportion of respondents who have the following processes



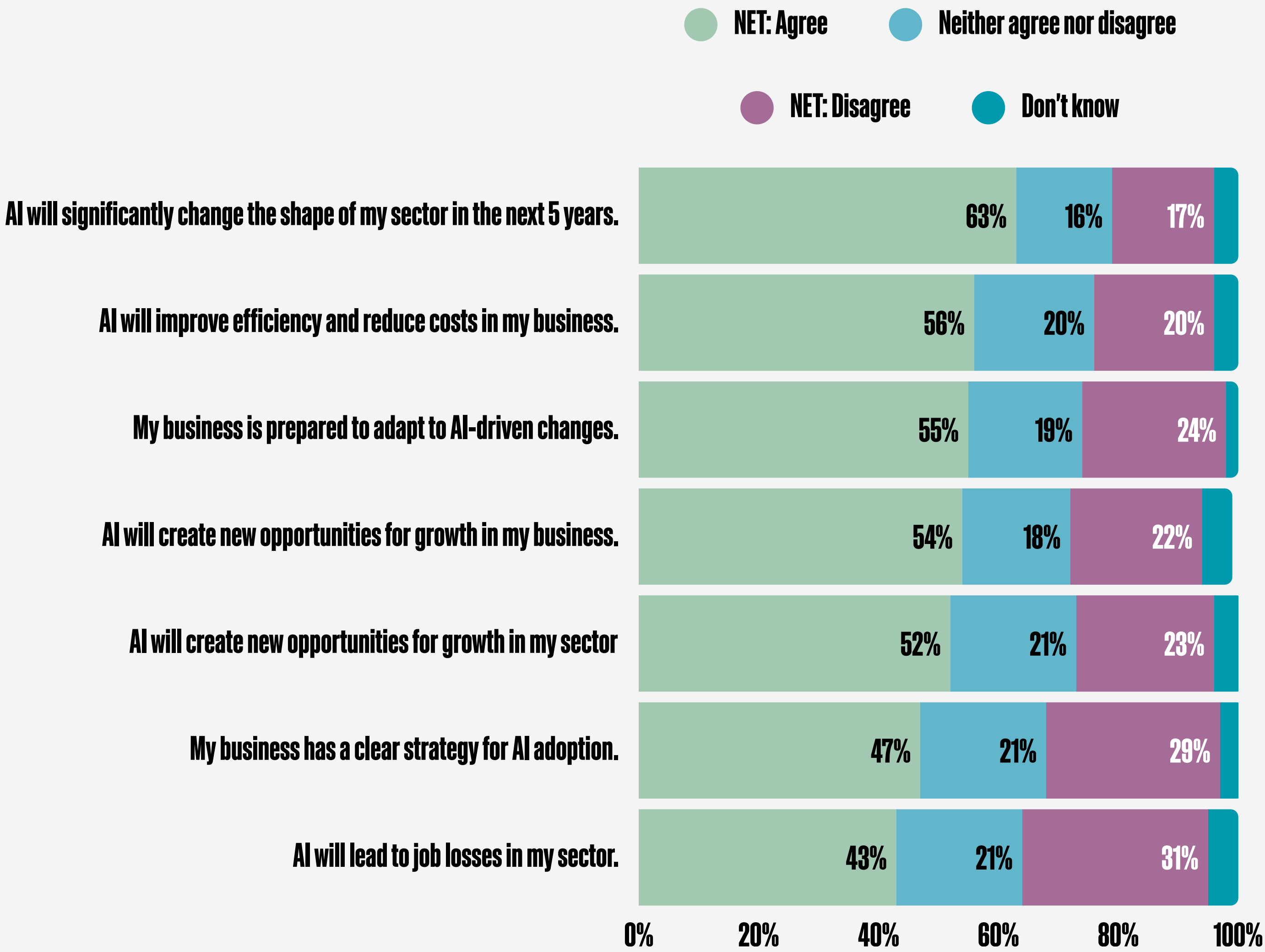
Proportions of those with each process that report it is well/not well known among staff



When it comes to the familiarity of business staff with crisis procedures, fewer than half of businesses believe that their employees know each plan 'very well'. Despite this, across all crisis plans, a majority of businesses believe that their employees know their procedures at least somewhat well. Cybersecurity response plans are the most widely known, with 85% of businesses reporting that the plan is at least somewhat well known internally. On the other hand, financial contingency plans are the least well known, with a third of businesses (33%) saying that their plan is not well known or not at all known among staff.

IMPACTS OF AI

Respondents were asked to indicate how much they agree or disagree with a series of statements about the impact of AI on their business and sector.



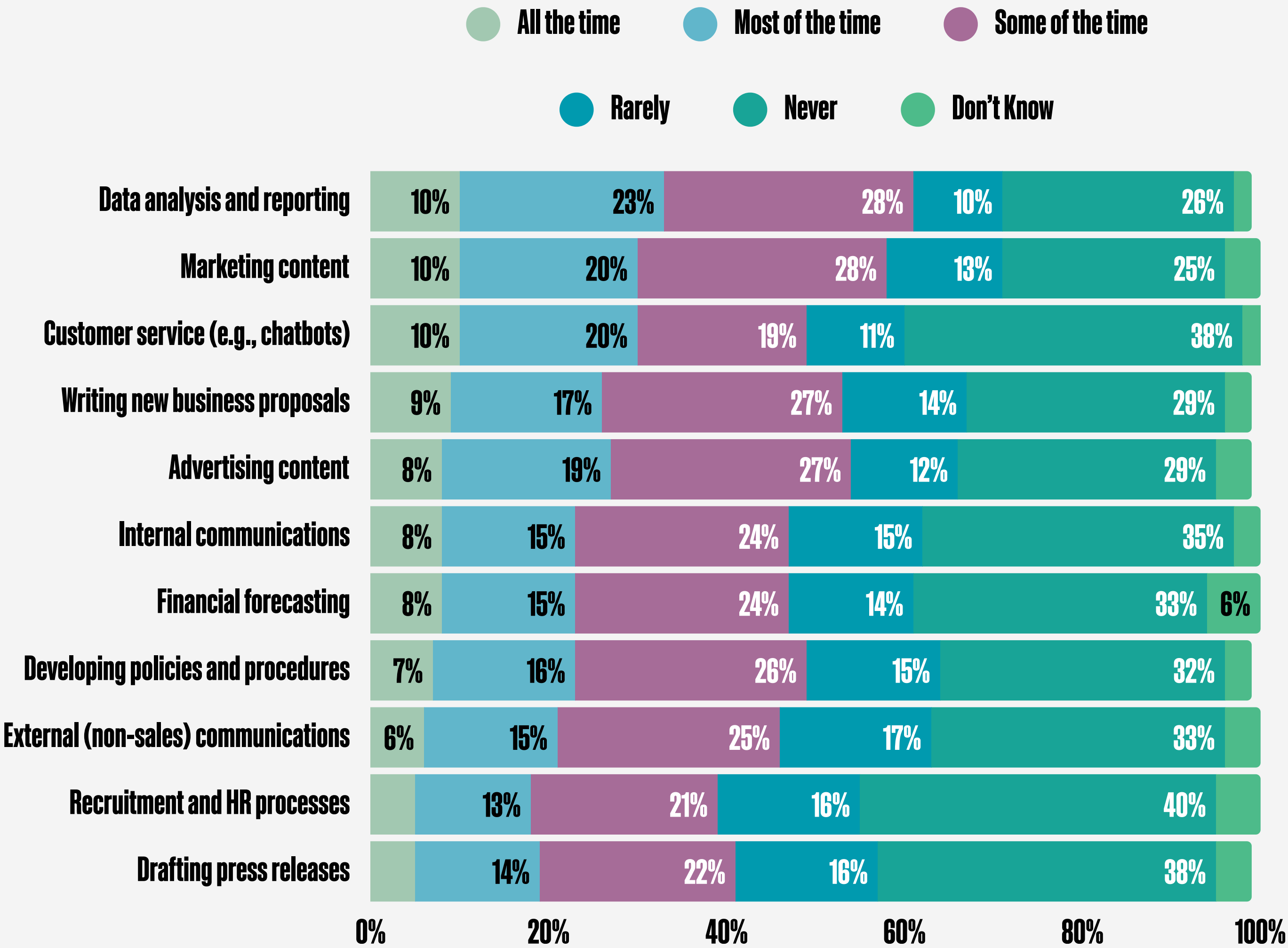
Businesses anticipate significant disruption from AI in the near future. Nearly two-thirds (63%) agree that AI will significantly reshape their sector within the next five years. Alongside this, a majority (56%) believe AI will deliver tangible benefits by improving efficiency and reducing costs. These findings suggest that most organisations recognise AI as a transformative force rather than a marginal innovation.

Despite this strong expectation of change, readiness to adapt is less certain. While 55% of respondents feel their business is prepared for AI-driven changes, fewer than half (47%) report having a clear strategy for AI adoption. This gap between perceived preparedness and formal planning highlights a potential risk: businesses may be underestimating the complexity of integrating AI into operations.

Views on AI's impact are not uniformly positive. Over half of respondents see AI as a source of growth, 52% for their sector and 54% for their own business, indicating optimism about new opportunities. However, concerns remain, with 43% agreeing that AI will lead to job losses in their sector. This tension between opportunity and risk highlights the need for careful workforce planning and communication as AI adoption accelerates.

USE OF AI

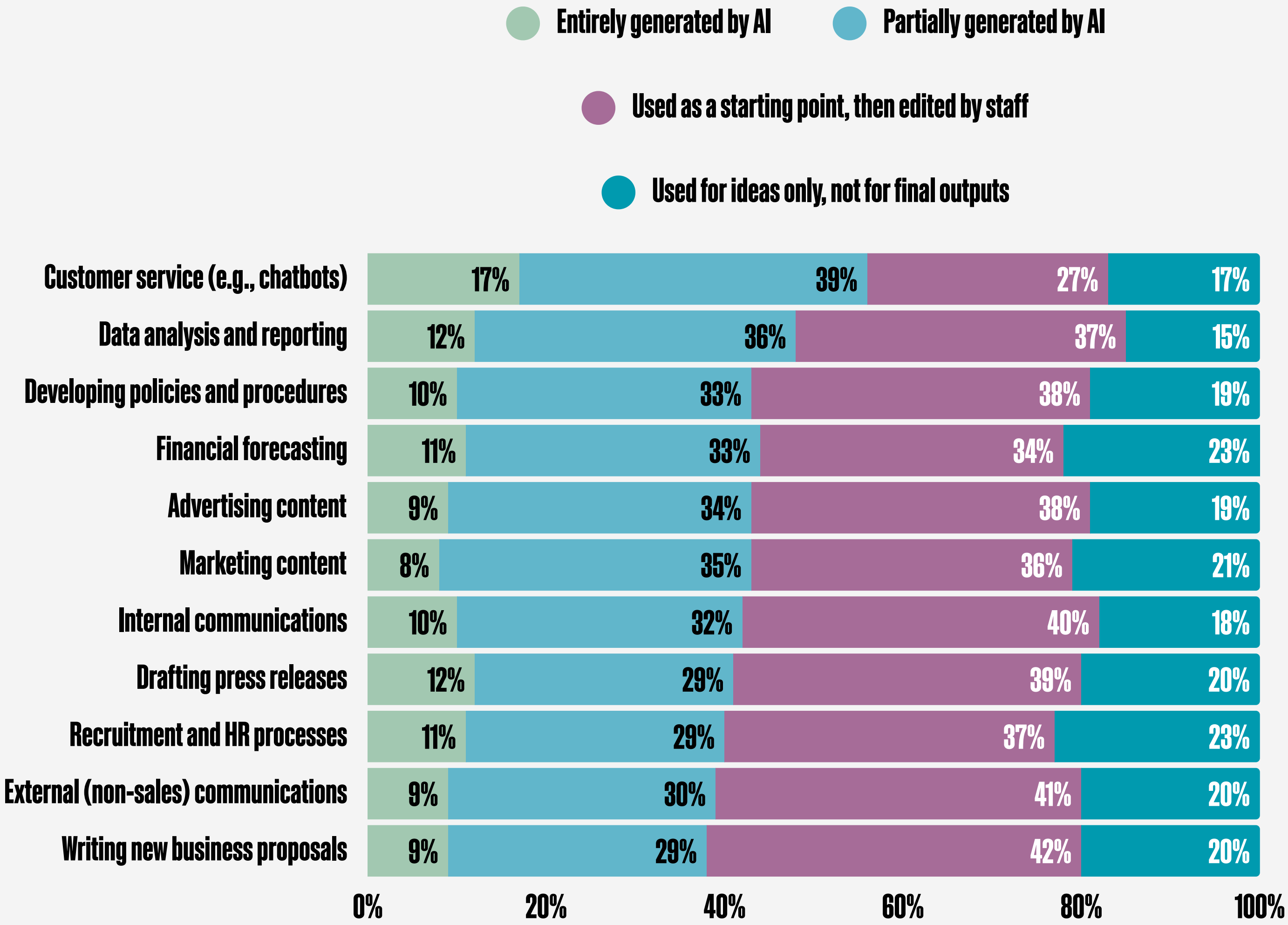
Respondents were asked how frequently their business uses AI for a range of activities.



AI is most commonly used for data-related tasks and marketing activities. A majority of businesses report using AI for data analysis and reporting (61% at least some of the time) and marketing content creation (58%), indicating that these areas are seen as the most immediate and practical applications. In contrast, adoption in functions such as recruitment and HR remains limited, with only 39% of businesses using AI for these processes at all. Adoption is similarly limited for writing press releases, where four in ten businesses report using AI at least some of the time (42%).

USE OF AI

Respondents were asked the degree to which AI was relied on for performing tasks they identified.



AI is rarely used to produce fully automated outputs. For most activities, businesses prefer a hybrid approach: customer service shows the highest full automation (17%), but 39% use partial generation and 27% edit AI drafts. In data analysis, only 12% rely entirely on AI, while 36% partially generate and 37% edit outputs. Marketing and advertising follow a similar pattern, with around one-third using partial generation and another third editing drafts.

This trend suggests AI is mainly a starting point or accelerator, with human oversight ensuring accuracy, compliance, and tone.

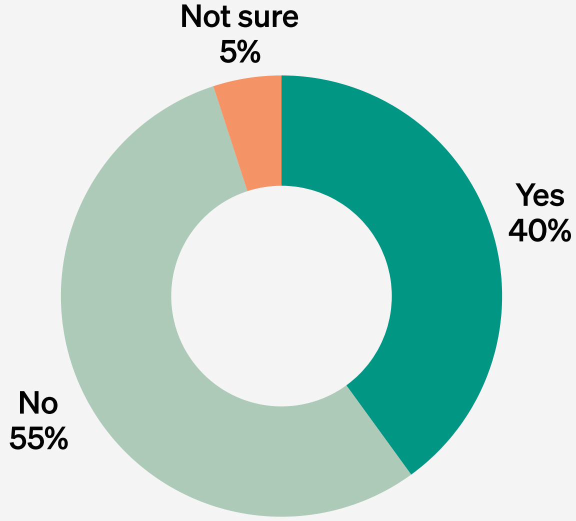
AI POLICY

Formal governance around AI use is still emerging. Currently, 40% of businesses report having a formal AI policy, while the majority (55%) have no policy in place and 5% are unsure.

Among those with a policy, most describe it as robust: 65% say their policy is comprehensive and regularly updated, suggesting that these businesses are actively managing AI risks and opportunities.

A further 31% have only basic guidelines, and a small minority (3%) rely on informal or ad hoc approaches.

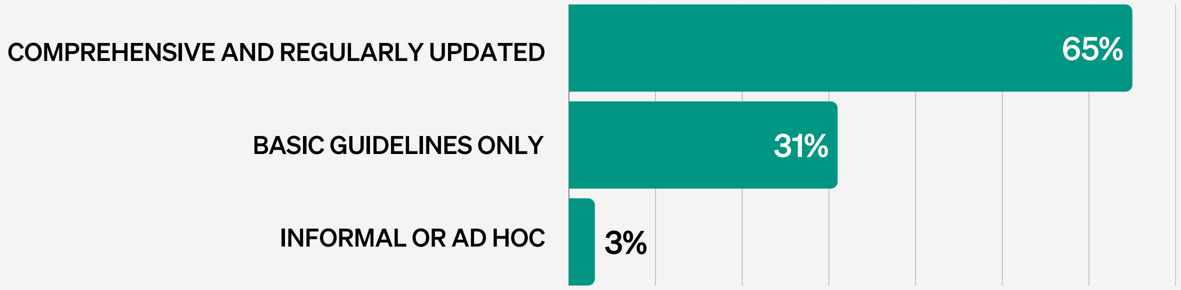
Proportion of respondents who have or do not have an AI policy in place

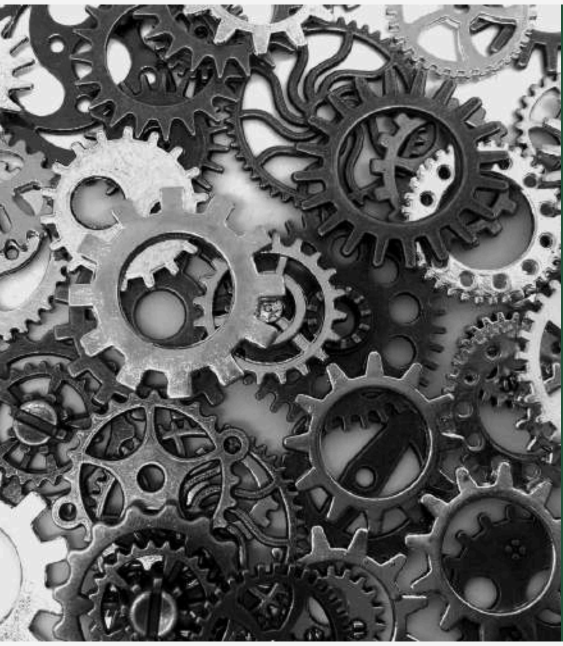


This indicates that while a significant proportion of businesses have taken steps to formalise AI governance, there remains a large gap in policy adoption across Scottish business

As AI becomes more integrated into operations, the absence of clear guidelines could pose challenges around compliance, ethics, and consistency in implementation.

Proportion of those with an AI policy that would describe the policy as comprehensive, basic or informal





TECHNICAL DETAILS

The survey was designed by Diffley Partnership and Charlotte Street Partners. Invitations were issued online and fieldwork was conducted from 25th November - 5th December 2025. A total of 507 responses were received from senior decision makers in businesses across Scotland.

FIND OUT MORE

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