



University of
Strathclyde
Glasgow

Fraser of Allander Institute

Scottish Business Monitor Q2 2023:
Scottish Government's Relationship with
the Business Community

August 2023



ADDLESHAW
GODDARD

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Disclaimer

The analysis in this report has been conducted by the Fraser of Allander Institute (FAI) at the University of Strathclyde. The FAI is a leading academic research centre focused on the Scottish economy.

The analysis and writing-up of the results was undertaken independently by the FAI. The FAI is committed to providing the highest quality analytical advice and analysis. We are therefore happy to respond to requests for technical advice and analysis. Any technical errors or omissions are those of the FAI.

Executive Summary

Earlier this month, we published our latest [Scottish Business Monitor \(SBM\)](#), produced in partnership with Addleshaw Goddard, for Q2 2023.

The survey sampled 400 firms in July and August from across the Scottish economy.

As usual, we asked firms about how economic conditions are affecting them and their outlook over the next year. However, against the backdrop of the Scottish Government's 'New Deal for Business', we felt that it was important to find out the business community's current opinion on their relationship with the Scottish Government. Therefore, we asked Scottish firms the following three questions –

- To what extent do you agree or disagree with the following statements?
 1. The Scottish Government understands the business environment in Scotland.
 2. The Scottish Government engages effectively with my sector if it is considering policies that may affect my business.
 3. If I wish, I know an effective route to influence Scottish Government policy if new announcements are likely to affect my business.

Only 9% of surveyed firms agreed or strongly agreed that the Scottish Government understands the business environment in Scotland, compared to 64% of businesses that disagreed or strongly disagreed, equating to a net balance¹ of -55.

Additionally, 8% of businesses agreed or strongly agreed that the Scottish Government engages effectively with their sector, with a net balance of -59. And finally, a slightly better, 19% of surveyed firms agreed or strongly agreed that they know an effective route to influence Scottish Government policy, with a net balance of -21.

Our analysis also finds that larger firms typically disagree more than smaller firms when it comes to whether the Scottish Government understands the business environment in Scotland or engages effectively with their sector. We also find that hospitality, other services, wholesale, and construction are among those who disagree more with the first two questions.

Despite these latest results from our Scottish Business Monitor being disappointing for the Scottish Government, they provide a baseline that allows for progress to be monitored. The Fraser of Allander Institute will ask businesses these three questions once a year, providing the Scottish Government and business community with an annual update on how the New Deal for Business is going.

This report is outlined as follows –

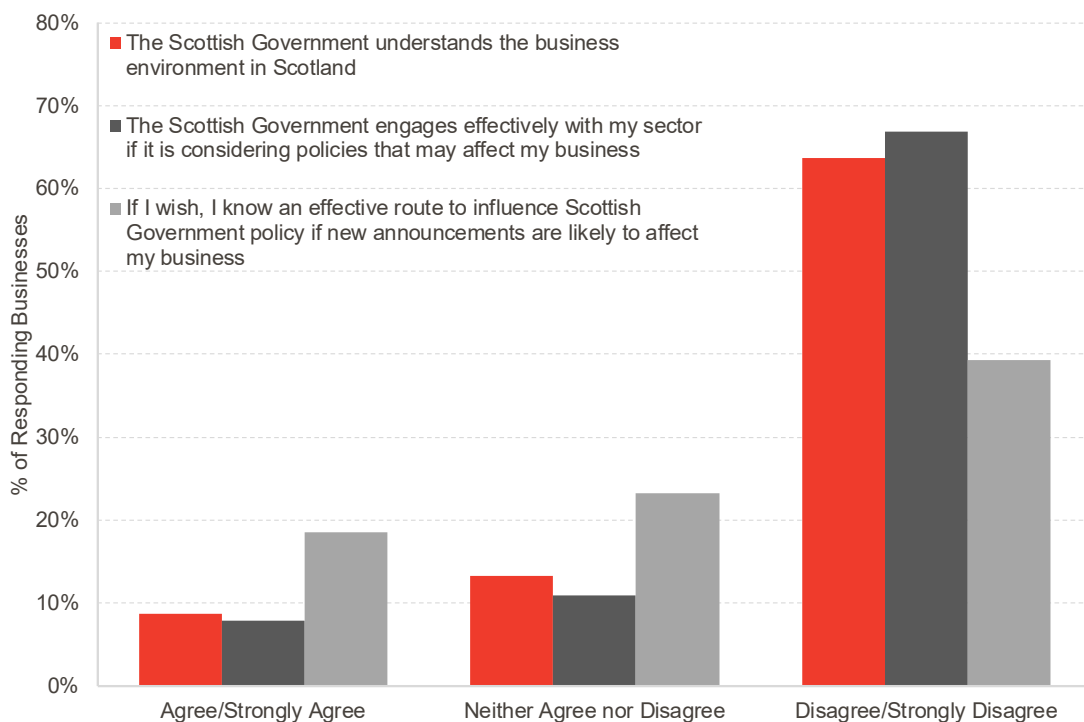
- **Section 1** highlights the key results of these three Scottish Government questions, with firm-size and sectoral analysis; and,
- **Section 2** sets out how the Scottish Government and business community can use the Institute's SBM as a vehicle for tracking progress against the 'New Deal for Business'.

¹ Net balance is calculated by subtracting the percentage of businesses who disagree/strongly disagree from those that agree/strongly agree.

Section 1: Key Results

- Only 9% of surveyed firms agreed or strongly agreed that the Scottish Government understands the business environment in Scotland, compared to 64% of businesses that disagreed or strongly disagreed.
- 8% of businesses agreed or strongly agreed that the Scottish Government engages effectively with their sector, with 67% of firms disagreeing or strongly disagreeing.
- 19% of surveyed firms agreed or strongly agreed that if they wish, they know an effective route to influence Scottish Government policy if new announcements are likely to affect their business, and 39% of firms disagreed or strongly disagreed.

Chart 1: Scottish Government's relationship with businesses, Q2 2023



*Some businesses responded N/A; therefore, percentages may not sum to 100%

Source: Scottish Business Monitor

Does the Scottish Government understand the business community in Scotland?

- In our latest SBM, we asked whether businesses agree that the Scottish Government understands the business environment in Scotland. Only 9% of surveyed firms agreed or strongly agreed, compared to 64% of businesses that disagreed or strongly disagreed.
- While some sectors were more negative than others, across all sectors the majority of firms disagreed or strongly disagreed.
- Businesses in the transport and storage sector² were most positive about the Scottish Government's understanding of businesses, with 15% of businesses in this industry agreeing or strongly agreeing.
- However, only firms in the transport and storage and professional services sector responded that they strongly agree with this statement. No businesses in any of the remaining sectors strongly agree that the Scottish Government understands the business environment in Scotland.
- The hospitality and other service activities sectors had the most firms reporting that they disagree or strongly disagree; 80% and 92%, respectively.
- We also looked at how responses change with firm size, and we found that larger businesses were more likely to disagree or strongly disagree that the Scottish Government understands the business environment in Scotland.
- 86% of firms with more than 100 employees and 73% of firms with under 100 employees disagreed or strongly disagreed, while 68% of small firms with 1-10 employees disagreed or strongly disagreed.

Does the Scottish Government engage effectively?

- Next, we asked whether firms agree that the Scottish Government engages effectively with their sector. 8% of businesses agreed or strongly agreed, with 67% of firms disagreeing or strongly disagreeing.
- As with the previous question, across all sectors, the majority of firms disagreed or strongly disagreed that the Scottish Government engages effectively with their sector.
- The info and comms (19%) and the admin and support services (14%) sectors had the highest proportion of firms reporting that they agree or strongly agree.
- On the other hand, the other service activities (92%), hospitality (80%), construction (77%), and wholesale and retail (72%) sectors were most likely to disagree or strongly disagree.
- Again, larger firms felt that the Scottish Government does not engage effectively with their sector, with 90% of firms with 250+ employees disagreeing or strongly disagreeing. 72% of firms with 1-10 employees disagreed or strongly disagreed.

² The sample size is low (N<15) for the transport and storage and other service activities sectors, so caution should be taken when interpreting these results.

Do businesses know an effective route to influence Scottish Government policy?

- Finally, we asked firms if they agree that if they wish, they know an effective route to influence Scottish Government policy if new announcements are likely to affect their business. This had a more positive response than the previous questions: 19% of surveyed firms agreed or strongly agreed, and 39% of firms disagreed or strongly disagreed.
- Firms in the info and comms (31%), construction (27%), and admin and support services (27%) sectors were most likely to agree or strongly agree. On the other hand, firms in other service activities (50%) and professional services (48%) sectors were most likely to disagree or strongly disagree.
- Unlike previous questions, smaller businesses were more likely to disagree or strongly disagree: 49% of firms with 1-10 employees and 47% of firms with 11-99 employees.
- This falls as firm size increases: 39% of firms with 100-249 employees and 30% of firms with 250+ employees.
- Despite this more positive reaction, a minority of firms agree or strongly agree that they know an effective route to influence Scottish Government policy: 15% of firms with 1-10 employees, 22% of firms with 11-99 employees, 39% of firms with 100-249 employees and 35% of firms with 250+ employees.

Section 2: Monitoring Progress

Despite these latest results from our Scottish Business Monitor being poorer than one might expect, they provide a baseline from which the Scottish Government can track progress.

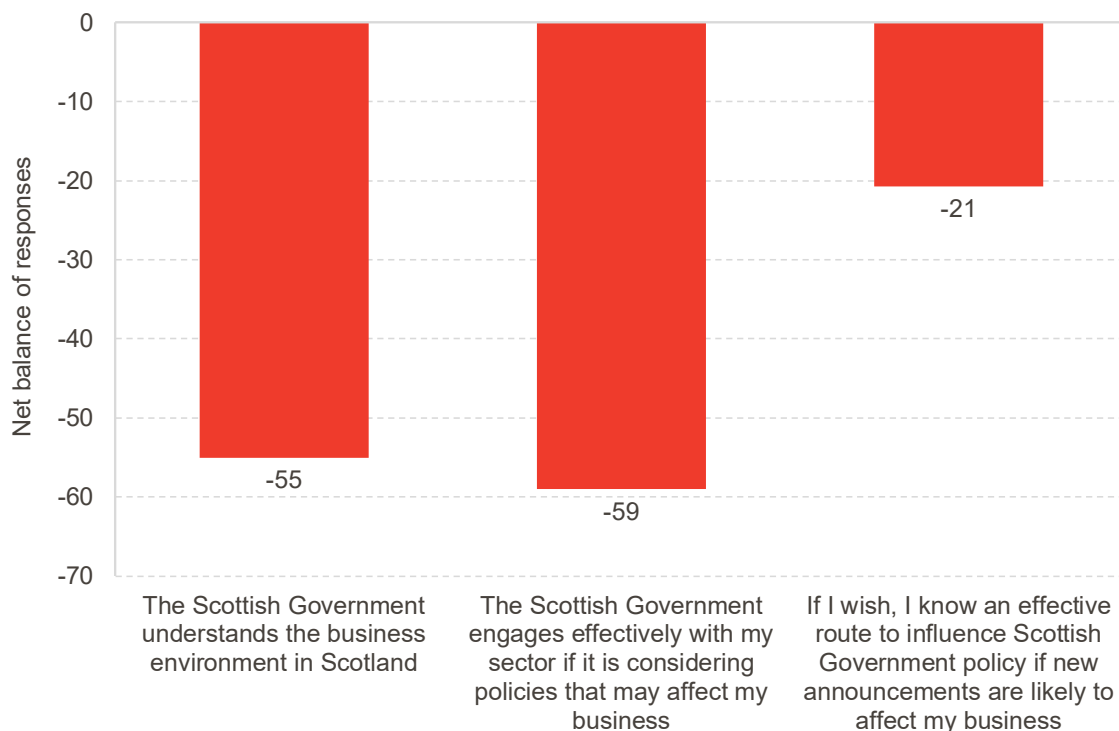
We typically survey firms for our Quarter 2 analysis in late July/August each year, which coincides with the summer recess in the Scottish Parliament, allowing for businesses to properly reflect on the past year in government. Results will also be published around the time that parliament comes back for another term, providing timely analysis for economic policymaking.

Therefore, the Fraser of Allander Institute will ask businesses these three questions once a year for our Quarter 2 analysis, providing the Scottish Government and the business community with an annual update on the New Deal for Business' progress.

If we take the net balances (i.e., subtracting the percentage of businesses who disagree/strongly disagree from those that agree/strongly agree) of the three questions asked in our monitor, it is evident that a lot of work is needed to be done to get each of these above the positive line, with an average net balance across the three questions of -45. **See Chart 2.**

However, it is important to not just focus on the aggregates as our report highlights that there are some important differences in opinion among different sizes of firms and different sectors.

Chart 2: Scottish Government's relationship with businesses, net balances (%), Q2 2023



Source: Scottish Business Monitor

Fraser of Allander Institute

University of Strathclyde
199 Cathedral Street
Glasgow G4 0QU
Scotland, UK

Telephone: 0141 548 3958

Email: fraser@strath.ac.uk

Website: fraserofallander.org

Follow us on Twitter via [@Strath_FAJ](https://twitter.com/Strath_FAJ)

Follow us on LinkedIn: [FAI LinkedIn](https://www.linkedin.com/company/fraser-of-allander-institute/)

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