

# **Brexit and Scottish Business: Leader views**



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Recent years have seen tumultuous change worldwide. The UK and Scotland have not been immune from this, evidenced by the result of the UK Referendum on exiting the European Union in June 2016.

Another measure of this change has been the dramatic impact upon the assumptions of the past in economics and politics – assumptions which have been unable to withstand the flow of events.

Amidst this there is a need to approach research and consultancy work with change being at its heart. Hence the creation of our new Scottish company with international ambitions. 'Momentous Change Ltd', a niche consultancy, will help address and use change to seek progress for business, organisations and wider society.

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## Introduction

This study aims to research business attitudes and needs in light of Brexit, and to identify how government policies could be better framed to support business.

We will report our findings in full in January 2018, but such has been the quality and range of contributions thus far we have chosen to produce an interim report, summarising key lines of inquiry.

A key assumption we make is that, notwithstanding the uncertainties and complexities of Brexit, businesses that engage in preparation and planning will be better placed to cope whatever the outcome of negotiations.

## Summary reflections to date

We estimate that 10 percent of our business leader respondents favoured leaving, and 90 percent favoured remaining in the EU.

However, the polarity in the vote does not tell the whole story. Some

who supported remain also see positives in forging new trade arrangements and being removed from the burden of EU regulation (13 percent and 23 percent of respondents respectively), and some who voted to leave value 'maintaining free movement of labour'. Indeed 71 percent of all our respondents see maintaining free movement as a key priority, and 74 percent also see 'maintaining as close an access to the single market as possible' as a priority.

Our research to date suggests that the sector that has been undertaking the most detailed scenario planning is the banking sector. However, thus far the results of such planning that are in the public domain reflect considerations relating to banks themselves, and little about how they will manage customer relations and adapt policies should significant economic turbulence ensue in the wake of Brexit.

It is revealing to note that only 9 percent of our respondents indicated they consulted with banks regarding Brexit, as

compared to 23 percent engaging with academics and 32 percent with business groups.

We have found evidence of a significant number of business leaders, particularly amongst SMEs, still finding reason to avoid detailed planning for Brexit. This includes waiting for an illusive certainty. The largest businesses are the best prepared and the smallest the least well prepared. Although there remains much to explore, we have made a recommendation at this early stage, summarised at the end of this executive summary.

In the matter of customs preparations should there be a hard Brexit, significant issues have been identified regarding the capacity to cope. This is one example of where increased complexity could pose significant threats.

Respondents identified their key asks from the UK and the Scottish governments. By a clear margin the two highest asks from the UK Government were firstly to establish transition arrangements specifically geared to assisting businesses (77 percent of respondents), and to make explicit those matters that will be devolved (76 percent).

In relation to the Scottish Government the key asks were to make explicit how it would seek to use any new devolved powers (80 percent) and to increase direct engagement with the business community (70 percent).

Universities and colleges have a critical contribution to make, supporting the development of a

skilled labour force, conducting research, engaging internationally and supporting the cultural diversity of our society. They have considerable concerns about the loss of key staff and EU funding. However, we anticipate they will have a key role in the development of updated skills policies in the wake of Brexit and in supporting businesses.

We note that some of our senior business leaders admit to a failure of current business and political leadership to future generations. We shall explore the views of young business leaders more fully in our final report.

Perhaps a surprising number of business leaders adopt a stoic attitude and reflect that the resilience and creativity of business will ultimately be its saviour, allowing it to adapt and accommodate whatever the future holds.

We expect to make a wide range of conclusions and recommendations in our final report. On one issue which we consider urgent, we make the following recommendation now.

**The Scottish government should actively encourage joint efforts involving Scottish Enterprise, relevant academic communities and business organisations in scaling up briefings on Brexit for the business community. These efforts should go beyond general briefings and involve methods of planning including:**

- **Surveying staff and skill needs.**
- **Scenario Planning.**
- **Financial modeling.**

In his famous Reith lecture of 1970 on Change and Industrial Society and subsequent book *Beyond the Stable State* (1973)<sup>1</sup>, Donald Schön argued there remains in modern society a deeply ingrained and pervasive illusion of the possibility of stability. It is a “*belief in the... attainability of constancy*”. He argued it serves to “*protect us from apprehension of the threats inherent in change*”.

Such apprehension can be seen via the desire for definitive facts before decision making or acting. However, businesses, like individuals, cannot reasonably expect comprehensive exactness or definitive knowledge in the face of uncertainty. Searching for such an illusion too often becomes the cause of doing nothing.

Since 1970, change in social, political and economic affairs has become ever faster and more pervasive. Yet an illusion of the possibility of attaining the constancy of stability persists in many quarters.

Our assumption in undertaking this study into Brexit and Business in Scotland is that for business and institutions of various types to do nothing, to fail to plan in the face of uncertainty surrounding Brexit may not be the optimal or even the most rational option.

Our challenge has been how best to identify meaningful information that may guide future endeavours under the uncertain conditions currently being faced. This has led us to capture the views of business leaders spanning a broad range of sectors and representing businesses of varying scale from

SMEs to some of the largest businesses in Scotland. We have done so by engaging with 160 individuals (thus far) via a survey, face to face interview or both. Approximately 70percent of respondents describe themselves as Chief Executives or equivalent.

As our work has progressed, some of our respondents are now in regular dialogue with us, sharing their views as matters in the wider environment develop, not least in negotiations around exiting the European Union.

Our approach has been to encourage reflection-in-action. That is, encouraging participants to reflect on what they are doing and their business-related priorities in the face of current uncertainties, and also reflecting on what could be done, for example by government, to assist given the nature of the uncertainties.

In other words, our study is based on the belief that more qualitative insights into the challenges facing and actions being made by businesses is needed.

We have also reviewed a wide range of recent commentaries and papers by governments, academics, journalists and business groups. Some have been very useful. Others have suggested that too much of the current debate retains the belief that uncertainty prevents preparation or action.

# INTRODUCTION

“

**International Trade is something Scots have in their blood - our ‘Brand Scotland’ remains second to none throughout the globe.**

”

This interim report briefly sets out our lines of inquiry, the type of insights being gained, and the focus of future work. Our intention is to publish a full report by January 2018. This full report shall of course itself be produced at a very uncertain time in the Brexit negotiation process, with little, if any, clarity expected by then on matters such as a trade agreement between the UK and EU.

There is a great diversity of views amongst business leaders. To exemplify the breadth of views on exiting the EU, consider the following two opinions:

*“I recently read that there were three stages in the development of nations:*

- 1. Pre-Modern States - where the country is run by competing robber barons and liable to**

*be hi-jacked by criminal and terrorist interests.*

- 2. Modern States - where democracy and the rule of law are operational but the nation is assertive and aggressively jealous of its own interests.**
- 3. Post-Modern States – where nations are more collaborative, sharing burdens and opportunities, applying common standards, transparent, open to inspection and penalties for deviation from agreed norms...**

*I agree, and my hopes and ambitions are that we do not – either as the UK or as Scotland – turn our backs on our shared ownership of humanity’s noble Post-Modern experiment... my fear is that we do.”*

which can be contrasted with:

*“We have no fears - we see an exit from the EU as being a fantastic opportunity for Scotland and in particular its future prosperity. Change creates opportunity - it's happening so all should be encouraged to grasp/create and embrace these opportunities...”*

*International Trade is something Scots have in their blood - our 'Brand Scotland' remains second to none throughout the globe - encouraging all to 'wake-up' and stop the political infighting would go a long way to bringing confidence to business - engage positively with business instead.*

*We believe that we are on the cusp of a 'second Enlightenment'... The EU is an out of date and out of touch concept which will eventually implode on itself. We do not believe it is sustainable to merge/force cultures and countries under the German/French 'European Flag' - we expect to see southern and eastern European countries follow the UK out of the EU.”*

Such views, and particularly such passion, has led to the capturing of a vast amount of comment. This interim report is written before the process of capturing opinions and undertaking a full analysis is complete. However, we have judged there is merit in previewing some key lines of inquiry.

## **Leave supporters**

This interim report seeks to fairly reflect the opinions of the business leaders engaged in our study. That includes those who are content with leaving the European Union as well as those who are not. In

our study to date, for example, we estimate 10 percent of business respondents support leaving the European Community. But some of the aims of those supporters of leaving the European Union find attraction amongst a wider grouping. For example, some 13 percent of respondents want to see the UK:

*“Taking the opportunity of leaving the Customs Union to forge the UK's own trade arrangements with other countries.”*

While 23 percent want to:

*“Remove UK business from the burden of EU regulatory requirements.”*

Although those supportive of leaving the European Union overall are in the minority, it does not mean their views should be ignored as has happened in some reports on the attitude of business.

## **Remain supporters**

Turning to the majority of business leaders who are critical of leaving the EU, there are some areas of considerable agreement. For example 71 percent of all our respondents view

*“Maintaining free movement of labour.”*

as a priority. On other matters there is much less agreement. For example, on undertaking detailed business planning in the context of Brexit uncertainty, there is considerable division of opinion.

We have found too, some variation across sectors and focus of business. For example, some



**We have found evidence of a significant number of business leaders, particularly amongst SMEs, still finding reason to avoid detailed planning for Brexit.**



business leaders see their firms as predominantly domestic (UK) focused and express somewhat less anxiety than those who have a strong export/import focus.

In our judgement, therefore, a more nuanced understanding of the views of business leaders is needed.

### **Addressing uncertainties**

In addition, we wanted to begin to capture how business leaders are tackling current uncertainties surrounding Brexit. We note that back in June of 2017, Karen Briggs, head of Brexit at KPMG was quoted, in relation to large businesses, as averring that,

*There is definitely a band of firms that are either in denial or yet to fully engage at board level. These organisations tend to argue that there is too much uncertainty and complexity...*

*These businesses need to urgently get on with the necessary planning.*

*There is little reason to believe that the current levels of uncertainty and volatility around Brexit are going to change.”<sup>2</sup>*

Just over 4 months later these remarks seem rather prophetic. We have found evidence of a significant number of business leaders, particularly amongst SMEs, still finding reason to avoid detailed planning for Brexit. However, we have also found some business leaders who are not allowing the uncertainties to paralyse planning for the future, and we are in the process of further exploring what can be learned and shared from these active leaders.

Given this is a short interim report, we have, with one exception, not drawn any final conclusions, nor made any recommendations at this stage. Our work must continue before we can do so with confidence.

# UNCERTAINTIES AND COMPLEXITIES

“

**British business are quietly, but much more firmly than before, explaining to the UK government that time is running out. For them the cliff-edge is not March 2019, but early 2018 when contingency plans have to be executed.**

”

The uncertainties and complexities surrounding Brexit – and our study confirms there are a great many – may well be characterised as circumstances where we are living on “The Edge of Chaos”. Complexity theorists<sup>3</sup> picture the edge of chaos as a place where order and disorder coexist.

The dynamic created by the interaction of the current order, such as the rules by which we conduct business, with the disorder created by, for example, exiting the single market to an unknown destination, promotes a situation where innovation, novelty and change become the “order” of the day for those striving not only to survive, but to prosper.

## **Banking and Finance sector**

Our research to date suggests that the sector that has been undertaking the most detailed examination of the implications of the uncertainties and complexities of exiting the EU is the banking sector. Their detailed work includes making preparation for a disorderly Brexit, as well as for a Brexit with a coherent transition period.

Recent reports continue to make forecasts, often very variably, about the extent of job losses in the banking and financial sector. It is anticipated there will be a movement of finance jobs to the continent, particularly if anything

close to a 'hard Brexit' comes about. The Bank of England continues to encourage banks to undertake planning, including for a 'no deal'<sup>4</sup>.

But as we will explore in greater detail in our final report there remain areas where there is a lack of clarity. Of most concern is a lack of transparency and clarity about the planning financial institutions must make with regard to the impact of Brexit on their financial products and plans. Should we face the 'hard Brexit' or 'no deal' they are planning for, what are their anticipated plans and products for business customers? This is a matter we require to further explore.

We recognise that the functioning of an effective banking and financial system is critical for all sectors of the economy. For this interim report we highlight four areas pertaining to the banking sector: lack of engagement with business, preparing for possible relocations, transition requirements and threats to lending.

### Lack of engagement

We asked our business respondents to indicate who they had consulted as part of preparations for Brexit. To our surprise only 9 percent of our respondents indicated an engagement with banks. We discuss the issue of consultation later, but it is instructive to note that, 23 percent had engaged with academics and 32 percent with business groups. We are continuing to explore reasons

including current attitudes towards banks.

### Preparations for relocation

There has been wide speculation in the financial press about the possible relocation of banking and related services post Brexit. This is an area where considerable scenario planning has been taking place. In a report in *The Herald* on 17 October 2017, it was pointed out that:

*“Royal Bank of Scotland for example, has already said it will transfer hundreds of jobs to Amsterdam. In England, insurance giant Lloyd’s of London has said it will move its EU base to Dublin.”*

In the same report, Professor Sir Anton Muscatelli, who advises the Scottish government on Brexit matters, is quoted as saying,

*“British business are quietly, but much more firmly than before, explaining to the UK government that time is running out.*

*“For them the cliff-edge is not March 2019, but early 2018 when contingency plans have to be executed.*

*“Most financial services companies have made these contingency plans, and many tell me that they are stepping these up plans from ‘Brexit-min’, where they were moving some minimal operations*

“

**We have “over-invested” executive time and presence in Europe to reassure colleagues that we remain a reliable business partner with a continental and outgoing perspective.**

”

*to take advantage of being inside the single market in the case of a ‘cliff-edge’, to ‘Brexit-max’, i.e. plans to scale up operations significantly in Frankfurt, Dublin and elsewhere.*

*“Once gone, these jobs will not come back if, following a cliff-edge Brexit, we seek ex post facto to recover the situation.”<sup>5</sup>*

Our respondents from the financial world suggest Professor Muscatelli is correct, but it is not nearly as clear cut in other sectors. We have also found a growing emphasis on finding ways of working with EU partners. For example, one of our respondents explained the preparations of his organisation in the following terms:

*“We have performed scenario analyses on the spectrum from hard to soft. We have identified European business partners with whom we are seeking to contract relatively urgently and certainly*

*intend to be live next year. We have “over-invested” executive time and presence in Europe to reassure colleagues that we remain a reliable business partner with a continental and outgoing perspective and a long-term approach to delivering our strategy. We have also taken advice on the regulatory outlook e.g. MiFID2 and Capital Markets Directive.”*

## **Transition requirements**

Our research included attending the Treasury Select Committee on 17 October 2017 at the House of Commons and listening to the evidence of the Governor of the Bank of England, Dr Mark Carney. Although inevitably careful in his choice of words, he emphasised the importance of securing effective transitional arrangements for the financial sector. Under questioning, his words suggested that he foresees

a need for transitional arrangement longer than the maximum 2 years currently being proposed by members of the UK Government cabinet, and this is related to the issue of complexity. He put it thus:

*“There is a very limited amount of time... between now and the end of March 2019 to transition large, complex financial institutions and activities... If one thinks about the implementation of Basel III, it was agreed back in 2011 and will be implemented fully in 2019.”*<sup>6</sup>

The possibility of a “cliff edge” Brexit with no transitional arrangements was something he argued should not take place,

*“There is a question of what the ultimate arrangement is... I will quote the President of the European Council: ‘a disorderly Brexit is in no one’s interests’.”*

### Threats to lending

One of the threats to lending to businesses has been identified as the issues surrounding those financial institutions domiciled in Europe who conduct business in the UK. As a report in the Guardian of 3 October 2017 put it:

*“The Bank of England has warned that lending to businesses could dry up after Brexit because not enough preparations are being made by companies in the EU to keep operating in the UK after March 2019.”*<sup>7</sup>

However, there is another issue regarding threats to lending, that in our judgement, requires further examination.

As we have commented, the scenario planning and research banks and others have undertaken in relation to the effect of Brexit on their customers is unclear. How will they manage their existing business client base if economic turbulence continues for some time after Brexit? Are existing businesses holding loans from banks going to find any new flexibilities to support them? If there will be greater flexibility what might it look like? What role will government play in supporting lending during a period of turbulence?

The recent history of bank behaviour post 2008 - towards SMEs in particular - has shown the vulnerability SMEs can face due to bank policy changes; the obvious if extreme example being RBS’s former GRG operation.

A study by the Boston Consulting Group<sup>8</sup> has suggested that a ‘hard Brexit’ could lead to greater restrictions on access to wholesale banking services, with SMEs potentially the worst affected.

One senior figure in business specifically claimed that business has lost trust in the banks, and that some are looking to alternative sources of support.

We shall be seeking further clarity on this issue for our final report.

It is of course not merely financial institutions that have wide ranging implications across sectors. The possible implications for customs arrangements have been raised as a matter of concern, notwithstanding the reassuring words from the UK government in its recently published position paper on customs arrangements.<sup>9</sup>

Concerns range from very general concerns born of uncertainty to deeper concerns revolving around both uncertainty and complexity.

In both the comments provided and papers consulted there are concerns regarding policy, capacity on the part of government and implications for businesses.

Customs is both complex and expensive. A concern is that Brexit will cause *“bewildering paperwork for the uninitiated”*, complex tax structures by country and product, and new legal and compliance obligations.

The UK government’s position paper seeks to encourage very light touch customs clearance, but recognises this will require negotiations, such as a continued waiver from the requirement to submit entry and exit summary declarations for goods. It is unclear at present whether all requirements will be met to maintain the current cross border flows efficiently. This of course carries additional relevance to the border issue between Northern Ireland and Eire.

## Practical issues

It would take very little by way of increased impediment to create substantial problems.

For example, the port of Dover processes 10,000 lorries each day at approximately 2 minutes per vehicle<sup>10</sup>. Should new requirements come into force when the UK leaves the Customs Union that sees an increase in administration and clearance by only two minutes per vehicle, it is estimated this will create 17 miles of queues, creating major disruption.

Thus, the uncertainty combined with any possible increase in complexity is causing concern for some.

One of our respondents with a lifetime of logistics experience was particularly articulate on the range of challenges, demonstrating the challenges that await. Although he raised a wider range of points, the following selected quotations give a clear insight into current concerns

*“It is not yet settled on what basis the UK will be trading with the EU after March 2019. The possibilities range from “business as usual”, which is unlikely, to WTO terms which by definition impose requirements for customs controls. The more the UK diverges from EU standards to WTO and stand-alone, the more customs controls there are likely to be...”*

*In any event, HMRC and Borderforce who are the agency carrying out its physical checks are in the frontline of Brexit with responsibility for security and the revenue capture from levies on imported goods under current and future regimes.*

*As far as possible HMRC target inspection remote from ports to minimise disruption and rely on declarations from shippers and forwarding agents to direct their activities. HMRC has estimated that this will increase from the current 55 million entries (each entry takes around 50 pieces of information) to 255 million entries, which will require up to an additional 5000 staff to handle the administration...*

*(Furthermore) HMRC is only one of 26 agencies which can intervene in an international transaction with bodies such as the Home Office (Immigration), Environment Agency (Toxic Waste), Port Health (Contaminated Food) and local authorities all accounting for up to 75 percent of the inspections which occur at the ports. Each of these agencies will have to scale up activities to ensure “control of our borders” to varying degrees depending on the reliance of each on the current controls in place within Europe.”*

### **On uncertainties and complexity**

This section has highlighted only some of the uncertainties and complexities involved which span across almost all parts of the economy.

We are very aware that different sectors face different challenges, and that some sectors have been consulting and providing advice. We are currently reviewing a sample of sector reports to better reflect the scope of uncertainty and complexity in our final report.

We are also in the process of considering the views of organisations often forgotten in studies of this type. This includes social enterprises and charities who both employ many Scots and supply support and services to many more. We do not attempt an analysis of these sectors here, but reassure respondents we shall consider these oft-forgotten organisations in our final report.

### **Lack of foresight**

Thus far it is very understandable that many in business are critical of the lack of foresight and planning by government. As one of our respondents put it,

*“The shambolic nature of this largely unplanned venture has already had dramatic effects on the economy.”*

But the majority of our respondents have not allowed what they view as a weakness of government and politics to deter them from focusing on their future business needs – although as we shall discover in the following section, there is considerable scope for many businesses to improve their own planning for the future.



**The leader of one representative organisation, however, suggested that some businesses have been looking beyond the major banks for funding and advice.**



A major issue we have sought to address is the extent to which businesses are preparing and planning for Brexit.

### Perceptions of preparedness

To gain an overview of business leader perceptions, we asked them to respond to the following:

**Where 0 represents not at all preparing, and 100 fully preparing, where do you rate your business at present in terms of preparing for Brexit?**

Across all respondents, the mean score was 42, demonstrating business leaders themselves recognise that there is a considerable distance to travel before they will consider their business “fully prepared”. We sought to interrogate this finding, and found that of particular significance was the scale of the business involved. The following table summarises our findings:

**Table 1: Preparedness ratings by size of business**

Scale of business (No of employees)	Mean score for Preparedness
Under 50	39
50-249	38
250-999	57
1000+	58

We were surprised to find that businesses with up to 249 employees appear to be almost identical to businesses employing less than 50 people in terms of preparedness. There is then a significant shift in scores for businesses employing over 250.

This suggests medium-sized business in addition to small businesses are a long way from having prepared for Brexit.

Although larger businesses are much further along the road in terms of preparation, there remains still real scope for strengthening preparations.

## External consultations

Arguably, engaging in discussions and consultations with external agents may be one useful indicator of making preparations. We therefore invited respondents to identify those with whom they had consulted. The results in table 2 below are very revealing:

**Table 2: External agents consulted by business.**

Bodies consulted	% all	% consulting
Banks	9%	15%
Financial advisers	10%	17%
Government agencies	32%	54%
HR advisers	8%	13%
Academics	23%	39%
Business groups	32%	53%
Others	16%	27%
None	41%	Does not apply

The above table requires careful scrutiny. The “% all” column is based on all responses including those who identify as “None”, that is where no bodies have been consulted. As can be seen, 41 percent of all respondents indicated they had consulted no external body regarding Brexit.

The column headed “percent consulting” presents calculations based solely on those respondents who have consulted.

Note that both columns of data add to more than 100 percent because respondents were able to select more than one body.

## Main agencies consulted

Of those who had engaged in consultations, government agencies (such as Scottish Enterprise) and Business groups (such as CBI, Chambers of Commerce, FSB and IOD) were the most frequently cited, and indeed just over half of businesses who had consulted, indicated such consultation had included these agents.

It is in our judgment also interesting to note the importance of the academic community for the consultations that have taken place. Data indicates 39 percent of businesses have, in some form, consulted with academics. When discussing in particular the role of universities in Scotland, it is often assumed that it is their formal education role and their research role that are their main ways of supporting business. Although it will no doubt be based on their subject and research expertise, it is interesting to observe that they also have a significant role in supporting business in a broader consultative role as well.

Furthermore, academics are more than twice as likely to be consulted as the banks. At first glance this may seem a little surprising given the predominantly economic and financial focus of Brexit for business. The leader of one representative organisation, however, suggested that some businesses have been looking beyond the major banks for funding and advice, indicative of an erosion of trust in recent years. We shall be exploring this in further detail before drawing any conclusions.

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**We are currently engaging with all our staff to identify both European Citizens and others currently anxious about their future.**

”

## Approaches to planning

Types of planning being undertaken vary considerably.

For many, and particularly of those with less than 50 employees no active planning has yet taken place. Some assert there is no need as they will not be affected in any way:

*“I do not consider Brexit to cause any concern to my business.”*

and many are still expressing a sense of powerlessness that there appears to be no ready answers available:

*“I don't know what Brexit will ultimately look like so I cannot prepare for it.”*

Yet some smaller businesses have undertaken some planning and preparation activities ranging from monitoring the horizons

*“Keeping under review both the implications for the business individually and the wider markets in which it operates.”*

to taking action, such as ‘pausing’ investment, assessing the cost base in terms of cash flow and net profit, building cash reserves and at a more sophisticated level scenario planning based on the ‘hardest’ of a ‘hard’ Brexit.

The future skills base is being considered by some and diversification of product and sector is mentioned.

As our earlier data reveals, those businesses employing 250 and more are already more advanced in their planning. This includes more comprehensive financial modelling, and scenario planning for various possible outcomes from reliance on WTO rules to a trade deal with relatively close alignment to the EU.

There are considerable and specific labour and immigration concerns leading to various actions. For example, some comment on the effect of the uncertainty surrounding EU nationals:

*“We are currently engaging with all our staff to identify both European Citizens and others currently anxious about their future. We have already lost three staff returning or planning to return to France, Germany and the Netherlands respectively. We are concerned about the apparent rise in xenophobic bullying affecting some of our employees.”*

Larger businesses are taking more action when assessing labour requirements, including retraining staff or creating bases in Europe.

Rather than simply managing European relationships with assurances of continued business, some larger businesses are looking to ‘lock down’ relationships with legal certainty.

We continue to explore this area and will be more comprehensive in our review at final report stage. However, we believe more needs to be done in order to support businesses as they plan for the future, despite the uncertainties and complexities involved.

## Recommendation

Although our conclusions and recommendations will mainly be reserved for our final report, such is the importance of this area we are already inclined to make a general recommendation based on our findings to date:

**The Scottish government should actively encourage joint efforts involving Scottish Enterprise, the relevant academic communities and business organisations in scaling up briefings on Brexit for the business community. These efforts should go beyond general briefings and involve workshops on types of planning including:**

- **Surveying staff and skill needs.**
- **Scenario Planning.**
- **Financial modeling.**

We hope to provide more detailed recommendations in our final report, but in our view, progress needs to be made soon in supporting businesses.

# BREXIT NEGOTIATION: SCOTTISH BUSINESS PRIORITIES



**It is very clear that our business leader respondents have no significant appetite for clamping down on immigration.**



At the time of writing, there is uncertainty surrounding the course of Brexit negotiations. This then presented a particularly good opportunity to ask our study participants about their priorities.

Views revealed a wide range of priorities, from a Chief Executive asking that we

*“Leave (the EU) as soon and completely as possible.”*

To others who call for

*“remaining as close to the single market as possible.”*

There were very specific and strongly felt views amongst our sample of university and college Principals, regarding the threats to funding and participation in education and research programmes. Given the importance of the university and college sectors for the economy, we shall explore these concerns in greater depth in our final report.

## **Balance of priorities**

One of the ways in which we explored views was to present participants with six possible priorities. The six were chosen to reflect both priorities associated with those advocating a clean leaving of the EU and those who are seeking a Brexit as close as possible to current EU relations.

The three priorities reflecting pro-Brexit views (according to accounts in the press and other studies) are:

- 1.** Removing UK business from the burden of EU regulatory requirements
- 2.** Introducing stricter controls on immigration
- 3.** Taking the opportunity of leaving the Customs Union to forge the UK’s own trade arrangements with other countries.

The three considered to reflect anti-Brexit views are:

1. Maintaining free movement of labour
2. Providing generous rights to all European citizens currently living and working in Scotland.
3. Maintaining as close an access to the single market as possible.

We found however, that it is not possible to assume any of the priorities are unique to either pro or anti-Brexit respondents. As one senior figure averred,

*“I voted to leave the European Union because I felt, that if we did not take a stand, then we would be complicit in what the European regularity union of unelected officials is becoming. I did not vote this way to reduce migration nor to turn our backs on Europe.”*

Thus, we invite readers to keep this in mind when reviewing the following table.

**Table 3: Negotiation priorities**

Possible priority objective	Supported by
Remove UK business from the burden of EU regulatory requirements	22%
Introducing stricter controls on immigration	8%
Taking the opportunity of leaving the Customs Union to forge the UK’s own trade arrangements with other countries	12%
Maintaining free movement of labour	72%
Providing generous rights to all European citizens currently living and working in Scotland	63%
Maintaining as close an access to the single market as possible	74%

In the table to the left percentages do not add to 100 percent as respondents were able to select as many priorities from the list as they wished.

It is very clear from the above that our business leader respondents have no significant appetite for clamping down on immigration and indeed, by a substantial majority, favour maintaining free movement of labour and providing generous rights to EU citizens currently living and working in Scotland.

## Citizenship

The issue of citizenship rights is a real concern for some. As one of our respondents put it:

*“How the government can claim to be exercising the will of the people on the basis of an advisory referendum in which the UK was almost equally divided and Scotland and Northern Ireland both voted to remain is beggars belief. Article 20 (1) of the Treaty on the functioning of the European Union states that: ‘Every person holding the nationality of a Member State shall be a citizen of the Union. Citizenship of the Union shall be additional to and not replace national citizenship’. We are having our rights of citizenship of the EU removed without our consent.”*

“

**Colleges and Universities are also vulnerable to losing participation rights, including funding, from various EU programmes.**

”

## Regulation

However, it is also clear that a number of respondents who would be classified as “remainers” are nonetheless critical of the amount of EU regulation. This too has been a recurring theme of those commentators seeking to reduce the burden of regulation within the UK for business. We shall be considering this in further detail as it has been suggested there may be differences of view dependent upon business size and the sector in which firms operate.

## Single market

However, the most highly rated of the six possible priorities presented to respondents was to maintain ease of access to the single market. The view of the majority is that membership of the single market has been a great success for business and therefore everything must be done to ensure post-Brexit we have as close an access as possible.

## Business optimism

It is worth reporting that even amongst those who deeply regret leaving the EU, there is recognition that, at their best, businesses will innovate and adapt. As one person put it:

*“We will do what we have always done: we’ll respond as best as we can to whatever challenges and opportunities that we face.”*

Indeed, those in business and politics who regret we are leaving the EU should be careful in how they address the challenges they are being forced to face. If we are, as some might suspect, living “on the edge of chaos” the response must be one of innovation and change, not merely of regret.

Amidst turmoil, the importance of being aware of opportunities as well as threats is the sentiment of a number of business leaders. As one respondent stated towards the end of an interview:

*“I seem to have been very negative, but business has always adapted, and however much I have real concerns, I try to be as upbeat as possible when discussing with others and try to be aware that there will be some opportunities too.”*

### **Universities and colleges**

Universities and colleges are large employers in their own right. They also fulfil a range of critical services to the business community. These include addressing the skills and education needs of the labour market, undertaking research that impacts on the development of products and services, providing intelligence about developments in the economy and business and facilitating the exchange of information on Brexit. They also have a wider social and cultural function including supporting a dynamic and inclusive society.

In the context of Brexit, these institutions are particularly important in the eyes of many business leaders.

It is clear that they are also very vulnerable to the loss of staff from other EU countries, including research specialists and subject experts.

Colleges and Universities are also vulnerable to losing participation rights, including funding, from various EU programmes.

At a time when the stock of both our universities and colleges are riding high, it will be in the interest of business to maintain their strength.

In terms of addressing future needs, we would anticipate colleges would have a key role in the development of updated skills policies in the wake of Brexit. There is also an expectation that universities will be increasingly important in supporting innovation and the development of research driven business sectors such as the life sciences.

This mix of challenges and expectations inevitably has invoked extensive comment. Some of this comment has looked towards making arrangements that are as close as possible to current circumstances. As one university principal stated:

*“Participation as an associate member of future EU research and innovation frameworks is important for UK universities. Above all, our economic interests, our competitiveness and cultural richness will depend on having free movement of labour and to study between the UK and the EU.”*

A college principal supported the notion:

*“I lament the potential loss of Erasmus funding, cultural enrichment and restrictions on student and academic staff exchanges.”*

The critical role played by our universities and colleges is one that is widely recognised. Their specific role in the context of Brexit will be considered more fully in our final report.

“

**Given the largely critical views of the government's negotiations to date, it is understandable that there are concerns about whether an effective transition deal can be struck.**

”

At present, much of the political debate throughout the UK and Scotland centres around issues of negotiations, arguments about likely impact of leaving the EU, and in some cases the future of UK constitutional arrangements.

However, we would argue much less political focus has been given to how businesses could be helped now.

In an earlier section, we have already made one recommendation for the Scottish Government and other actors to jointly pursue the provision of more support.

This section focuses more broadly on what types of actions our business respondents would like to see from both the UK and Scottish Governments.

## Identifying test options

Following a review of press comment over the course of the weeks following the onset of negotiations, there was a variety of comment in business and political circles related to both the UK and Scottish governments. From such comment, we prepared a list of five options in relation to UK government and 4 in relation to the Scottish Government plus a free response item for respondents to add further suggestions.

The options presented in relation to UK Government were:

- Appoint business advisory panels specifically to advise on sector issues
- Produce guidance and briefing notes for business at regular intervals

- Establish transition arrangements specifically for business to assist in the process of leaving the European Union and engaging with future legal, regulatory and trading arrangements
- Make explicit those matters which will be devolved to devolved governments as a consequence of leaving the European Union.
- Increase direct engagement with the business community.
- Other.

In relation to the Scottish government the options were:

- Appoint Scottish business advisory panels for Existing the European Union for key sectors of the economy
- Produce guidance and briefing notes for business at regular intervals
- Increase direct engagement with the business community
- Make explicit how it intends developing policy and managing new areas of competence which may be devolved as a result of leaving the European Union.
- Other

### **UK government priority asks**

By a clear margin, the two most prominent requests made by our respondents in relation to the UK Government were firstly to establish transition arrangements specifically geared to assisting

businesses (77 percent of respondents asking for this), and secondly to make explicit those matters that will be devolved (76 percent).

However, a great many comments are very critical of the UK government's capacity and competence in the negotiations.

This ranges from the rather curt:

*"The lunatics have taken over the asylum."*

to slightly more hopeful:

*"Clearly, the government is disorganised and is not making a good job of things, but I hope it will eventually be a success."*

And more hopeful again:

*"I have a feeling the outcome will end up being vastly different than the initial expectations and whether 'hard' or 'soft' brexit takes place the country will respond to the challenge and move forwards albeit on a different path perhaps than some people would prefer."*

Given the largely critical views of the government's negotiations to date, it is understandable that there are concerns about whether an effective transition deal can be struck. It also does not augur well for domestic policy if no clarity can be given on whether the UK or Scottish governments will be responsible for some important areas. Indeed, given that the distribution of domestic powers is largely within the gift of the UK government, it is adding unnecessary uncertainty.

## Transition arrangement

A transition arrangement is very strongly favoured, but comments suggest that business would like a longer transition arrangement than the two years currently being cited by some in government. As one respondent averred in relation to the UK Government:

*“Get their act together in terms of negotiations including seek an open ended or five years transitional arrangement.”*

In large part the call for a lengthy transition arrangement reflects the complexities that many think are involved. Once more we find it is a combination of uncertainty and complexity that is driving future asks.

We also find the call for transition arrangements spans a wide range of sectors, from life sciences to food, from the creative industries to higher education, and from finance to tourism.

## Scottish Government priority asks

In relation to the Scottish Government, the key asks were to make explicit how it would seek to use any new devolved powers (80 percent) and to increase direct engagement with the business community (70 percent).

Note that while respondents want the UK government to clarify what new devolved powers will come to Holyrood, they also want the Scottish Government to be clear on how it intends using such powers.

## Devolved powers

The call for clarity of what powers are to be devolved, why and to what ends, reflects, in our judgment, the unnecessary uncertainty created by a lack of clarity in this area. We have not found evidence that the pursuit of clarity is a function of political or constitutional preference, but rather it reflects the desire for business to know who they must deal with policy-wise.

To give a simple example, if we are to exit the Common Fisheries Policy, Scotland’s fishing industry wants to know who is going to be framing new domestic policy and ideally the direction of travel.

More generally, we believe many would support the following contribution from one respondent:

*“We recognise the limited role the SG can play in terms of the Brexit negotiations. The SG is consulting the business community around Brexit concerns without necessarily having the power to tackle these concerns. SG would be better placed planning for post Brexit by considering firstly the impact on devolved powers and also giving thought to how best to deal with any additional powers that might come post Brexit. SG have not thus far appeared to have been pro-active as to how best deal with Brexit (in the way the CBI are). SG arguably too busy doing the politics of Brexit.”*

“

**Brexit presents considerable challenges, and our respondents would therefore welcome stronger direct engagement by the Scottish government.**

”

### **Engaging with business**

There is a desire amongst the significant majority of respondents to see the Scottish Government engage more with the needs of business. This is exemplified in forthright comments such as:

*“I’d like to see our own government showing more interest in us.”*

*“(The) Scottish Government could do more to develop helpful policies for the business community. They need to listen more and their rhetoric needs to escape from being overly focused on how to spend money and better balanced with how to grow the economy and encouraging a profitable private sector.”*

Brexit presents considerable challenges, and our respondents would therefore welcome stronger direct engagement by the Scottish government with a view to supporting directly whatever transition arrangements may be

agreed and to re-profile the type of support needed post-Brexit.

To give but one example - which we will discuss at greater length in our final report - the threat to accessing and recruiting the necessary professional and technical skills for the future. If there is a context of greater restrictions on migration, this may lead to the need to revise current higher education and skills strategies. There have been suggestions, for example, that restrictions on migration are likely to lead to requirements for a greater focus on the training and education of those over the age of 24 and in active employment.

This in turn may well have significant investment implications. This presents a major challenge in terms of policy development for government, but one where they would find support in the business community.

## Alternative views

We must also recognise however that some respondents viewed priorities in a much more straightforward light. In particular, those favouring leaving the EU were less inclined to select any options and more inclined to comment. For example, in relation to the UK Government, additional asks from this group included:

*“Get us out now.”*

*“Just get on with it.”*

and in relation to the Scottish Government:

*“Keep well out of it: all the Scottish Government can do is imperil the British negotiating position.”*

*“Stop whining about Brexit and start being positive instead of the daily gloom and doom that they peddle.”*

However, the vast majority of respondents were of a different hue, seeing the need for action from government to better ease the transition to whatever Brexit will mean in the future.

## Seeking positives

One additional matter worth reporting at this stage is the worry many have that the debate surrounding Brexit is rather stale and lacking in creativity. Even amongst strong remainers there is a desire to seek out opportunities and positive developments.

## Future generation

There was a wide variety of comments made in relation to

the questions about UK and Scottish Government. One aspect in particular - which initially surprised us - was the readiness of some very senior and successful business leaders to raise the issue of the younger generation. Some readily admitted to the failure of the current generation of leaders in both politics and business to secure a better future. Much more needs to be done in order to understand past failures and to build a much stronger future.

As one individual put it, the current generation of leaders grew up in circumstances where it was accepted that each new generation would have a better starting point than the previous generation. This is no longer seen to apply, and may be contributing to political and social turbulence. Such anger can be seen in one comment from a young business person:

*“I am 23. I want to see Scotland as a good place to live, but when you see clowns like Boris Johnson running the country the voters have a lot to answer for, so I’m very worried about the future.”*

A further response is given by another young entrepreneur. Focusing on his business needs he states:

*“Help young entrepreneurs and new young businesses by having people available to guide us through whatever happens in the negotiations.”*

A very modest ask we would contend.

**It is clear that many Scottish businesses have concerns about limitations on the free movement of people.**

Each respondent was given the opportunity to outline their hopes, fears and ambitions for their business as we approach Brexit. This was a free response question which allowed the contributor to express a final view.

### **Free movement of people**

Even with a cursory analysis, it is clear that many Scottish businesses have concerns about limitations on the free movement of people. This has been expressed in different ways, be it being able to access the right labour at the right time, as in supporting seasonal work, or considerations around recruitment and retention of high level skills expressed as:

*“the ability of some of the best brains in the world being able to remain and work here.”*

For others, there were concerns about depopulation, reciprocal rights for EU nationals, or the valuable cultural diversity that EU nationals brought to their organisations.

Some hope that, in the interests of business and the economy, immigration policy is developed to encourage growth:

*“we can grab control of immigration and implement a system that supports growth within the UK economy by letting industry access the skills they need.”*

“

**Our study suggests those who are planning and willing to innovate will be in a stronger position to face the future.**

”

For some, Scotland is seen as having very different needs to other parts of the UK regarding immigration:

*“we need a separate policy on immigration which is possible.”*

argued one respondent who went on to cite Quebec and Canada.

### **Economic impact fears**

Another recurring theme is concern about the economic impact of Brexit. These were wide-ranging including general macro-economic fears and uncertainty affecting investment by business themselves, within their sector or supply chain encapsulated by:

*“Our fears are that the upheaval caused by Brexit will have a negative impact on the economy.”*

The potential additional cost for

future trading features, as does the value of the pound.

However, we also note here that one of the great uncertainties is how the major financial institutions would respond should there be a period of economic disruption that impacts negatively on business. There is a pervading silence around this, which adds to the uncertainty.

### **Hopes in change**

Perhaps a surprising number of businesses have adopted a stoic attitude – as well as expressing fears they took the time to express the view that the resilience and creativity of business could face change positively and:

*“re-energise our manufacturing industries such as steel, technology, car design.”*

However, the level of confidence in the negotiations undertaken to date by the UK Government is low, with one respondent commenting for many that there is a:

*“lack of policy and strategy... backward looking and potentially disastrous approach of the UK Government in current negotiations.”*

Concern about the negotiations was expressed too by some pro-Brexit leaders, including from a sector that was strongly for leaving the EU at the time of the referendum. As one respondent put it:

*“We supported leaving the EU predominantly influenced by the failure of the Common Fisheries Policy and the destruction of much of the Scottish Fisheries sector over the last 40 years. However, I am really taken aback by the UK government’s incompetence in current negotiations.”*

*I would still vote to leave if another referendum came around, but I am very, very worried about the UK government’s inability to manage the process effectively or to give proper clarity.”*

### **Hopes and fears**

Current uncertainties and complexities have presented both hopes and fears riding side by side.

At the current time, whether driven by hopes or fears or both, our study suggests those who are planning and willing to innovate will be in a stronger position to face the future.

We are concerned for those allowing themselves to be buffeted around by the winds of uncertainty in the false hope of certainty coming along and equally false hope of a return to a stability of the past.

### **Key dividing line**

Thus far, it is not whether business leaders were in favour of Brexit or not that is the biggest divide, it is rather the schism between those willing to prepare, plan and innovate on the one hand and those waiting on something to turn up that is of most significance.

Clearly, there is much still to explore.

“

**We have been gratified at the willingness of respondents to engage with us thus far, and we hope we are on the path to providing some helpful insights and conclusions.**

”

In many respects this short interim report has served to highlight a continuing agenda for our research. We aim to have engaged with up to 200 leaders by the time of our final report and explore, mainly through interviews, the issues arising.

There are many uncertainties as there are many complexities. That said, it is neither enough for those content with leaving the EU to simply want it to happen as quickly as possible in the hope all will be well, nor is it enough for those critical of leaving to simply regret and bemoan the decision. There is a common cause to find at a minimum – the best coping strategy for each business, and more positively to seek out the type of innovation and change that will provide a strong platform for the future, whatever that future may be.

It is simply not possible at this stage to draw definitive conclusions in a number of areas. Nonetheless, we have been gratified at the willingness of respondents to engage with us thus far, and we hope we are on the path to providing some helpful insights and conclusions when we report in full in January 2018.

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