

Does Business Really Support 'Remain' in the EU Referendum Debate?

Business Views on the EU Referendum



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MEDIA BRIEFING

Introduction

In less than a week, the British public will vote in the EU 'in-out' referendum on whether to remain or to leave the European Union. It is a decision that will have profound consequences for generations to come. As the debate has 'hotted-up', two issues, rightly or wrongly, have taken centre stage: immigration and the economy. How the economy performs in particular, following the vote, will be largely dependent on how 'business' fares, broadly speaking. It is, therefore, little surprise that on an almost weekly basis surveys of business views on the referendum are released to the public in either support of 'leaving' or 'remaining' in the EU.

The purpose of this piece is to give you the tools you need to understand where business sits in the EU debate, the logic and reasons why, and to work out the wider economic and employment implications.

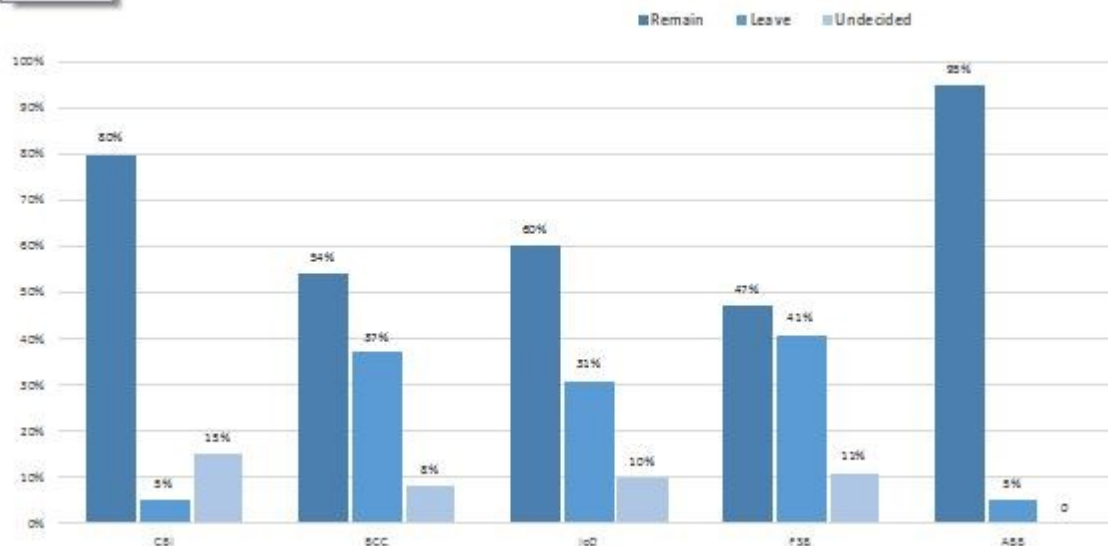
What Business Thinks About the EU Referendum

Five business surveys are particularly important. They are from the Confederation of British Industry (CBI), the British Chamber of Commerce (BCC), the Institute of Directors (IoD), the Federation of Small Business (FSB) and the British-American Business (BAB) Association (see chart below).

They are important because, taken together, they represent a good cross-section of the private sector businesses in the UK economy. Their memberships range from predominantly large businesses (250+ employees) in the CBI, small and medium-sized business (SMEs) in the FSB (0-249 employees), a mixture of different sized businesses in the BCC and IoD, and both American and British-based multinationals in the ABB. The industries and sectors represented in these membership bodies also reflect the make-up of private sector business in the UK.

Picture 1

Attitudes towards the EU Referendum, 2016



While all the surveys express a majority preference for remaining part of the EU, some surveys are more decisive (the CBI, IoD and ABB for example), while the BCC and FSB are much more split. But even within these surveys, responses vary. For instance, the CBI's survey in March of nearly 800 UK companies found 84% back 'Remain' among large companies and 71% among smaller ones. The British Chambers of Commerce survey of 2,200 members from May found 54% backed 'Remain' compared to 37% for 'Leave'.

A TNS survey in June of more than 500 small and medium-sized companies found 38% backed Remain and 37% Leave. More recently a new academic survey of UK skippers and boat owners in the fishing industry found that 92% favour a Brexit. This all raises interesting questions about the differences between various businesses.

It is, therefore, no surprise that it is difficult to understand where business views actually stand in the debate, and the potential impact of either a 'Leave' or 'Remain' vote for business, and by extension, for future job creation and growth prospects of the British economy. Trying to navigate the constant stream of business surveys is further exacerbated in the public debate when coverage simply refers to 'business', or to 'small versus large businesses', as if all businesses of a size and type are the same. So how can we make sense of these surveys, and the potential consequences of a 'remain' or 'leave' vote?

Scottish Echoes

In the run-up to the Scottish independence referendum on September 18th, 2014, we conducted extensive research into business attitudes towards the referendum. This research is important because, despite there having been close to 50 referendums on various issues across Europe since 2011 alone, there has been very little, if any, systematic academic research conducted into business

views and/or how they might react under different referendum scenarios. We found some very distinctive patterns emerged from our interview data.

While businesses themselves do not have a vote, the decisions that business leaders take afterwards to invest, divest, locate or relocate either in the UK or outside the UK will ultimately determine job growth, economic performance, the funding of our public services (such as education and the NHS), the price we pay for goods and services, and ultimately, the money we have in our pockets. Over the course of the EU referendum debate we have been monitoring business attitudes and surveys and applying our framework to them. It turns out that the framework applies nicely to responses to the in-out debate on the EU too.

A Toolkit for Understanding Business Views on the EU Referendum

So what did we find? In our research we found that business attitudes are generally driven by a small number of variables: where the business is headquartered; the ownership structure; the jurisdiction where the balance of its trade/profits take place; and the most advantageous locations for foreign direct investment (FDI) by multinationals. Having applied the same framework to the EU referendum, it turns out the same variables apply.

Business leaders of UK-headquartered listed companies, or multinationals with subsidiary headquarters in the UK with significant trade in the EU, have been the most perplexed by a vote to leave and most willing to relocate business investment elsewhere. That is why 36 heads of FTSE 100 companies signed an open letter arguing for a Remain vote, and 95% of members of the British American Business Association oppose Brexit.

Heads of privately-owned companies with comparable EU trading interests also oppose a Brexit, though without the same shareholder pressures, previous evidence suggests, they tend to be more willing to soldier on with UK investments if it comes to pass. Think about Sir Richard Branson and the Virgin group, for instance.

People who run private companies where the majority of trade and/or profits are more global or come from outside the EU are either ambivalent or in favour of leaving – if they can identify a specific benefit for their business. Lord Bamford, the chairman of building group JCB who came out in favour of Leave recently, is a prime example of the latter. Companies of this sort are a minority, however.

Business leaders most in favour of 'Leave' are the ones who mainly trade at home and see a cost advantage or a greater ability to influence the political process after separation. Tim Martin of pub chain Wetherspoons, and the majority of UK fishermen surveyed fit into this category.

Looking at business surveys using this lens gives a more nuanced analysis of the breakdown of business responses. Let's take the most recent BCC survey as an example (see below):

Voting Intentions: Exporters (sellers to other countries) vs. non-exporters

April 2016	Both (n=2231)	Exporter (n=1506)	Non-exporter (n=682)
Vote to remain	54.1	59.5	42.8

Vote to leave	37	32.8	46.4
Wouldn't vote	0.6	0.6	0.6
Don't know	8.2	7.1	10.2

While a slim majority of businesses are in support of remain, when we look at exporters (i.e. businesses trading outside the UK) versus non-exporters (i.e. businesses trading within the UK) we find that a much higher number of exporters (59.5%) are decisively for remaining in the EU, while that statistic drops to 42.8% for non-exporters.

Voting intentions: Exporters by export destination

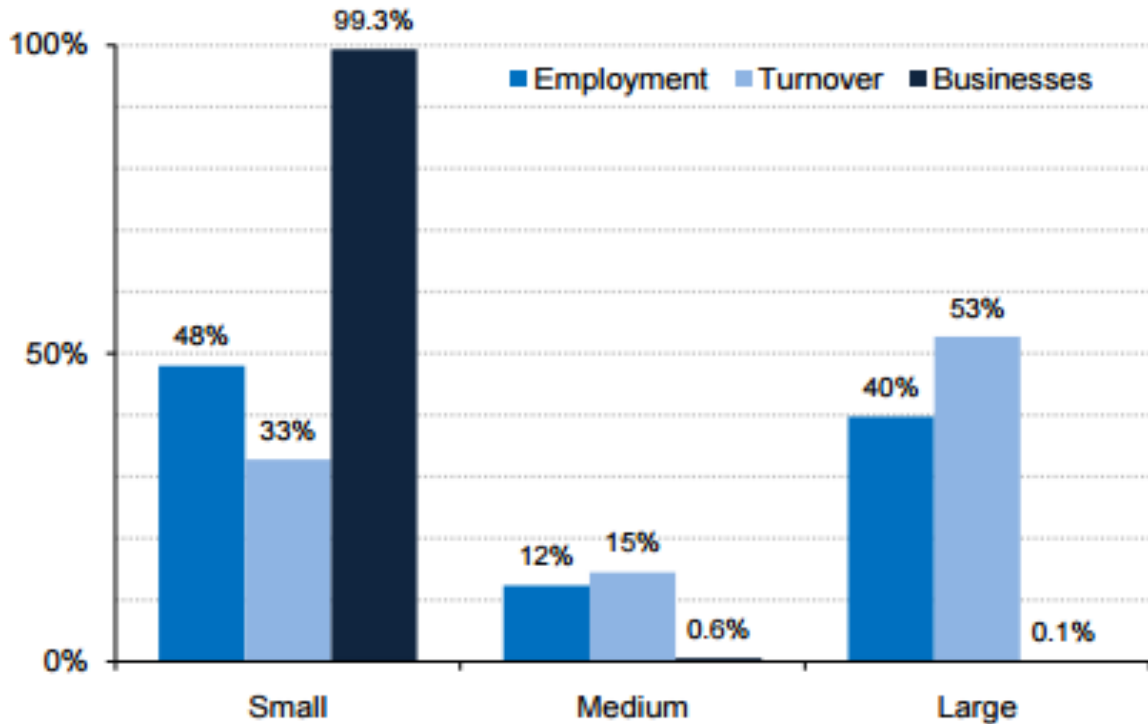
<i>April 2016</i>	<i>All (n=2231)</i>	<i>Sell to EU only (n=497)</i>	<i>Sell to ROTW only (n=88)*</i>	<i>Sell to both (n=921)</i>	<i>Non-exporter (n=682)</i>
Vote to remain	54.1	62.1	46.7	59.3	42.8
Vote to leave	37	30.7	50.1	32.3	46.4
Wouldn't vote	0.6	1.7	0.5	0.1	0.6
Don't know	8.2	5.5	2.8	8.3	10.2

For those exporting businesses selling only to the EU, the number supporting 'Remain' jumps again to 62.1 %, whilst those exporters who are diversified between the EU and globally drops to 59.3%, and those selling to the rest of the world only (ROTW) falls to 46.7%, precisely as our framework would predict.

The Verdict

The majority of businesses in the UK clearly support remaining in the EU, but there is variation in their attitudes towards the referendum. So what does this mean for the UK economy? While our framework helps to explain the diversity of business attitudes towards the referendum, the wider implications of these responses can be worked out by looking at where businesses fit into it (or in some cases where they fit into the supply chains of those that do, or have their supply chains), and then considering the impact that future decisions to invest, divest, locate or relocate in, or outside the UK will have based on either a vote to remain part of the EU, or to leave it. In working this out, it's helpful to break private sector contributions to the UK economy down by employment, revenue and the total number of businesses in the UK (see chart below).

Share of Enterprises in the UK Private Sector, 2014



(Source: BIS, Business population estimates, 2015, p 1)

Small businesses make up 99.3% (99.9% if you include medium sized businesses) of the total number of businesses in the UK, and provide 48% of private-sector employment. Large businesses only make up .1% of the total stock of businesses in the UK, but employ 40% of private sector employees, and generate a very significant 53% of total revenue (turnover).

What the .1% of large businesses in the UK – the backbone of the UK economy – do after the vote is, therefore, critical to the medium and long-term prospects of the UK economy. A relatively small shift in their behaviour could have a magnified impact on growth, job creation and the UK’s economic performance. Such movements would also have some cascading effects to businesses whose trade is solely in the UK. And as one senior executive member of a very large, UK-based global PLC said to us in the lead-up to the Scottish referendum in 2014:

“This isn’t a complex or complicated debate for us. It’s really very straightforward. We have three categories of stakeholder whose interest we need to bear in mind: our customers, our shareholders, and our employees. And we’re a PLC ... so our shareholders’ interests are obviously of paramount importance. So [the question is] does the economic environment in which we operate, does it support the continued sustainability of the business and the future prosperity of those three groups. And if it doesn’t, what do we do about it. It’s not a political debate for us. It isn’t complicated. But it’s trying to take the politics out of it that’s the difficult thing. If you take any of those three stakeholder groups, employees for example, it’s very difficult to, in their minds, to differentiate between the political statement and the statement protecting stakeholders’ interests. So it’s quite difficult....But in terms of understanding what the right thing to do is, that’s not difficult at all. That’s not difficult. We’ve got to protect the interests of those three groups.”

This sentiment, and the evidence presented here, while not definitive (as we don't know precisely what would happen in the event of a leave vote in the EU referendum or how, in particular, governments, markets, politicians or public opinion here and abroad would react), is nevertheless an important indicator.

Let's revisit the British-American Business Association survey to illustrate further.

The survey itself included 127 companies and employ 327,000 people across the UK. Of those, 46% of responses were from American headquartered companies and 42% from UK headquartered companies. There are approximately 7,500 US companies operating in the UK employing some 1.2 million UK workers. In their survey, 88% of their members pointed to the EU/Single Market as an attractive reason for investing in the UK. 70% suggested that if the UK were to vote to leave the EU, this would make the UK a less attractive place to invest, and it would have a negatively or strongly negative effect on future investments in the country. A survey of Canadian businesses operating in the UK also reflect these trends. Airbus and Rolls-Royce have recently stated that they, too, would have to consider very carefully their future investment decisions in the UK following a vote to leave, particularly if it impacts negatively on their global competitiveness, and the BAB survey helps to put these comments in context.

In addition, 89% of BAB members surveyed said that they would not move operations outside the UK in the event of a leave vote (although this does not mean that they wouldn't redirect future investment to the EU), 1 in 10 implied they would. In the lead-up to the Scottish referendum, we also found that 10% of businesses would have considered moving their operations out of Scotland if there had been a vote for independence. There appears to be a '10%' rule.

If there were to be a vote to 'leave' in the EU referendum, there would be a short period where many of these businesses would 'wait-and-see' what happened. This would, of course, negatively affect investments in jobs and growth in the meantime. Their eventual decisions would depend on what sort of a future scenario emerged after the vote (such as an acrimonious and protracted negotiation with trading partners and an unfavourable settlement for the UK, or a pragmatic and short negotiation and a favourable settlement for the UK). But during the 'transition' period between a vote to 'leave' and a new set of arrangements (such as free trade deals) being negotiated, there would be uncertainty. Uncertainty is the enemy of business competitiveness and investment; so they will not wait for long.



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