



UNIVERSITY OF EDINBURGH  
Business School



# THE FUTURE OF THE UK AND SCOTLAND

THE SCOTTISH INDEPENDENCE DEBATE:  
EVIDENCE FROM BUSINESS



What risks and opportunities does the independence referendum pose for businesses in Scotland? Are businesses planning for the referendum, and if they are, how? Is the constitutional debate impacting on business decisions? What decisions might be taken in different constitutional scenarios?

## INTRODUCTION

The aim of this ESRC Senior Fellowship in the Future of the UK and Scotland programme of research is to investigate how constitutional and political uncertainty surrounding the future of the UK and Scotland is influencing business decision making. The uncertainties caused by the referendum vote on Scottish independence has the potential to influence any number of business decisions, such as whether to invest, re-invest, expand, withdraw, locate or relocate business activity within or outside Scotland and the UK.

The aim of the study has been to explore business decision-making in conditions of constitutional and political uncertainty in Scotland and the United Kingdom, and to develop a broad typology that helps to give an indication of how businesses in different sectors might behave following the independence referendum in Scotland on September 18, 2014.

The study involved undertaking over 60 interviews between November 2013 and February 2014 with senior business leaders in randomly selected medium (over 50 employees) and large (over 500 employees) companies from across a range of strategically important, and mobile, industries operating in Scotland. They included energy, engineering and manufacturing, electronics and technology, financial services and life sciences.

Interviews were semi-structured, meaning that they were a conversation based on five questions relating to whether the referendum posed risks and / or opportunities, whether businesses were contingency planning, whether the prospect of a referendum was having a material impact on business decisions, and whether it might under different scenarios.

## FINDINGS:

1. Business leaders are immensely proud of their Scottish links.
2. For a majority of business leaders and the firms they represent, with some notable exceptions, they are resolutely politically neutral where their business interests are concerned.
3. While it is uncertainty generally that poses the biggest challenge for business, specific uncertainties include the currency, followed by regulation, tax and the EU.
4. The primary responsibility of business leaders is to look after their customers, employees and shareholders. It appears to be the ownership structure of firms and whether their primary jurisdiction for trade is in the rest of the UK (rUK) that is driving contingency planning, and may well drive business behaviour under different constitutional scenarios.

## INDUSTRY PROFILE

Figure 1 profiles the industries involved in the study.

BY SECTOR	No.	%
Financial Services (Life insurance, retail, wealth management)	20	33
Energy (incl. Hydro and Oil and Gas companies)	12	20
Electronics / Technology	9	15
Life Science	7	12
Engineering / Industrial Manufacturing	12	20
<b>TOTAL</b>	<b>60</b>	<b>100</b>
<b>OTHER</b>	<b>2</b>	<b>3</b>

**Given the sensitivity of the referendum issue for business leaders, this study is committed to the strict anonymity of participants and non-attribution of data to their firms. To protect confidentiality, individuals and firms participating are NOT being published.**

## COMPANY PROFILE

Figure 2 gives an overview of the company profiles by which interviewees are affiliated.

BY SIZE	No.	%	OWNERSHIP	No.	%
Large	32	53	Scotland	33	55
Medium (2xS/M)	28	47	rUK	12	20
<b>TOTAL</b>	<b>60</b>	<b>100</b>	Foreign	15	25
			<b>TOTAL</b>	<b>60</b>	<b>100</b>
OWNERSHIP STRUCTURE	No.	%	PRIMARY TRADE/ CUSTOMERS	No.	%
PLC	28	47	Scotland	6	10
Private	18	30	rUK	16	27
Partnership	8	13	Global	38	63
Trade Body	6	10	<b>TOTAL</b>	<b>60</b>	<b>100</b>
<b>TOTAL</b>	<b>60</b>	<b>100</b>			

Companies are profiled by size, global headquarter location, primary customer base, and ownership structure.

## RISKS POSED BY THE INDEPENDENCE REFERENDUM

Figure 3 profiles the key risks cited by business leaders for their businesses.

INDUSTRY	Financial Services	Life Sciences	Electronics/Technology	Engineering/Ind. Manuf.	Energy (incl. oil and gas)
Change in Currency	14	2	5	5	5
Regulatory Changes	15	3	1	1	5
Personal Taxes	10	1	2	2	4
EU	8	--	3	4	5
Corporate Tax	8	--	2	4	5
Recruitment/Retention	7	1	2	1	3
Compet./Client. Reloc.	5	--	--	5	--
Reputation	5	1	3	3	--
Investment/Financing	--	4	3	4	2
Pension Costs	3	--	--	2	--
No vote. In-out ref. etc.	1	--	1	2	1
Cross-border Collabor.	--	2	--	--	--
Licensing/Labour Laws	--	--	1	4	2
IP	--	1	1	--	2

Across the five industries, business leaders reported that the fundamental challenge is uncertainty. The key risks cited in order of magnitude included currency, regulation, taxes (particularly income taxes), recruitment and retention of employees, and EU membership. Some variation existed between firms and industries.

For example: companies with a global customer base, or the subsidiaries of global companies operating in Scotland had more mixed, and often moderate views about risks in contrast with companies with significant trade in the rUK; in energy, for example: service companies appeared less concerned with some risks than exploration and production companies in oil and gas and hydro companies; and, there was more variation in responses from business leaders in wealth management and servicing than financial services more generally.

## IDENTIFYING OPPORTUNITIES FROM THE INDEPENDENCE REFERENDUM

Figure 4 profiles the key opportunities cited by business leaders for their businesses.

INDUSTRY	Financial Services	Life Sciences	Electronics/Technology	Engineering/Ind. Manuf.	Energy (incl. oil and gas)
Products/Services	4	2	--	1	1
Income Tax Decreases	6	--	--	2	--
Corp Tax Decreases	2	--	--	2	2
Access to Government	--	1	2	1	1
Liberal Immigration	2	2	1	2	1
R&D Rebates	--	--	1	--	--
Redesign Regulations	--	1	1	--	3
Scottish Brand/ Pride	1	--	1	1	--
Made in Scotland Prov.	--	--	--	1	2
Gov. Funding/ Subsidy	--	4	2	2	2
Connections	--	2	1	1	--
Skills Training	--	--	--	1	1
Influence EU Directly	--	--	--	1	1
Change Model of Independence	2	--	--	--	1

Across the five industries, 23 business leaders reported that they had yet to identify any obvious opportunities for their businesses, and a further seven indicated the opportunities would be marginal. Of the 30 business leaders able to cite opportunities, only in eight cases were they able to cite potential opportunities specific to their business. Six business leaders indicated that the drive towards the opportunities presented by independence outweigh the risks, while 54 indicated that, at present, the risks outweigh the opportunities.

There may be two reasons why opportunities do not emerge from the findings more strongly. First, uncertainties around currency, regulation, corporate tax and personal tax and continuing membership in the EU pose potential and explicit risks to many businesses. Attention is, therefore, focusing on the risks and their mitigation. Potential opportunities are less obvious at present, and business leaders may not have begun looking for them. Second, the specific opportunities presented by possible independence may be more marginal for larger companies in a smaller country.

# CONTINGENCY PLANNING AND AFFECTS ON DECISION MAKING

Figure 5 profiles contingency planning in businesses at the time of conducting the interviews.

INDUSTRY	Financial Services	Life Sciences	Electronics/Technology	Engineering/Ind. Manuf.	Energy (incl. oil and gas)
Discussions	16	1	2	2	5
Monitoring Risks	4	1	2	1	1
Analysis/Tactical Plans	12	--	--	4	4
Investing In/Existing Option to Restructure	3	--	3	1	2
Rely on Business Continuity Plans	3	1	2	--	--
Deferring Investment	--	1	--	1	--

At the time of conducting the interviews, the degree of contingency planning taking place in firms varied markedly. It included: (1) none at all, (2) discussions, (3) monitoring risks, (4) analysis and tactical planning around specific products, services and contracts, (5) strategic plans to restructure the business so that economic activity could be moved elsewhere, (6) deferring investment decisions, and (7) relying on existing business continuity plans. Of those businesses not contingency planning, reasons included assumptions that independence would not happen, the scale of uncertainty, contingency plans already being in place for business continuity, particularly for global companies, and finally, the perception that, either way, it would have little impact on their business. Only five business leaders indicated that the debate had influenced business decisions, and 55 indicated that it was business-as-usual.

## ACKNOWLEDGEMENTS

The authors wish to thank those business leaders that gave generously of their time for the study.

They also want to extend their appreciation to the ESRC for their generous financial support for the study, and the University of Edinburgh Business School for their support in kind.

## HEALTH WARNING

This study was designed to be exploratory, identifying patterns through qualitative interviews. While it is likely to resonate with wider populations of business leaders, it is not designed to be reflective of wider populations in a statistical sense.

# CONCLUSION

- Uncertainty poses a tremendous challenge for business leaders;
- The risks expressed by the business leaders are highly specific and directly concern business activity. The opportunities are less specific or are unspecific and tend to relate more to the politics of the debate at present;
- 90% of the interviewees perceived the costs of independence to business to outweigh the perceived benefits that might accrue.
- PLC companies headquartered in Scotland appear to be more affected than companies headquartered outside of Scotland;
- Companies whose trade is mainly in the rUK (typically 90%, with 10% in Scotland) appear far more affected than companies whose trade is mainly in Scotland, or is global
- Medium sized, privately owned companies appear more willing to absorb downside risk than PLCs;
- Medium sized, foreign-owned companies trading predominantly in a global market indicate they are less affected by the constitutional debate than PLCs trading primarily in the rUK.
- Business leaders of medium-sized, private companies exporting globally are the most likely to emphasise the opportunities presented by the possibility of Scottish independence
- The most problematic uncertainties for businesses are currency and regulation, followed by personal taxes and EU membership.

## IMPLICATIONS FOR BUSINESS BEHAVIOUR

The research suggests that in situations of extreme uncertainty, such as with the Scottish independence referendum, decisions are likely to be made on business fundamentals, including:

### CUSTOMERS

- Anything that enhances or hinders the ability to sell products and services (eg. location of the customer base, regulations, reputation);
- Anything that enhances or hinders the ability to access markets (eg. MoD, rUK, EU).

### SHAREHOLDERS

- Anything that creates and enhances shareholder value (eg. perceptions, profitability);
- Anything that impedes or destroys value creation (eg. Increasing costs/complexity).

### EMPLOYEES

- The ability to attract and recruit high value, skilled labour (eg. quality of life, remuneration);
- The ability to retain high value, skilled labour (eg. personal taxes).
- For most businesses in the study, decisions to expand, reduce, invest, divest, locate or relocate business activity will be driven by the interaction of the factors listed above.

### ENVIRONMENT

- Anything that improves or adds complexity and cost into the business environment.

## ABOUT THE AUTHORS



**Brad MacKay** is Professor of Strategic Management at the University of Edinburgh Business School where he is Director of Corporate Engagement. He researches, teaches and consults in the areas of business strategy, decision-making, and scenario planning. He is a Senior Fellow in the ESRC Future of the UK and Scotland Programme.

**Veselina Stoyanova** is a Research Fellow in the Future of the UK and Scotland Programme, and a doctoral candidate in the University of Edinburgh Business School.

## ABOUT THE ECONOMIC AND SOCIAL RESEARCH COUNCIL (ESRC)

The ESRC is the UK's largest organisation for funding research on economic and social issues. It supports authoritative, independent, high quality research which has an impact on business, the public sector and the third sector. The ESRC is a non-departmental public body established by Royal Charter in 1965. It receives most of its funding through the Department for Business, Innovation and Skills.

For further information visit:  
[www.esrc.ac.uk](http://www.esrc.ac.uk)

## THE FUTURE OF THE UK AND SCOTLAND PROGRAMME

The Future of the UK and Scotland programme is funded by the Economic and Social Research Council (ESRC). Its aim is to bring authoritative and independent social science research to the debate about Scotland's constitutional future and its implications for the rest of the UK for those people looking for information that stands apart from the politics of the referendum.



## ABOUT THE UNIVERSITY OF EDINBURGH BUSINESS SCHOOL

The University of Edinburgh Business School enjoys a long tradition of teaching and research. The School offers undergraduate, postgraduate and executive education programmes in business and management and provides a platform for research, discussion and debate on a wide range of business issues.

For further information visit:  
[www.business-school.ed.ac.uk](http://www.business-school.ed.ac.uk)