

Submission to the House of Commons Business, Innovation and Skills Committee's Inquiry into Business Views on the EU Referendum

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Summary

It has been suggested that, with some notable exceptions, business reaction to the prospect of a UK withdrawal from the EU is determined to a large degree by the size of the company concerned. Such suggestions, however, obscure other more explanatory factors. Research undertaken in the lead up to the Scottish Independence Referendum - and confirmed subsequently by large scale surveys of business attitudes to Brexit – suggests a clearer framework.

About the research

1. The following is based on research that I conducted into business attitudes towards the Scottish referendum on independence from the United Kingdom in September 2014. The research involved 75 interviews with business leaders from medium (>50 employees) and large businesses (>250 employees) from across the UK. Participants came from a number of key sectors of the British economy including electronics/technology, energy, engineering, financial services, food and drink, and life sciences.
2. From these data, we developed a simple framework for explaining the responses and rationale being given by business leaders towards a referendum. The framework, and the pattern of responses it was derived from, also appears to fit the pattern of responses from business leaders in the run-up to the UK referendum on staying in or leaving the EU.
3. While the research was focused on the Scottish referendum, the possibility (at the time) of a UK-wide referendum on withdrawal from the EU also featured in views expressed through the interviews.

A framework for understanding the views and rationale expressed by business leaders towards referenda

4. The views and rationale for responses from our interviews appear to be driven by three variables that include:

- a. Where the business is headquartered (Scotland, UK, EU, Global),
- b. The ownership structure (partnership, private, public/traded), and
- c. The geographic location of its balance of trade (Scotland, UK, EU, Global).

The three variables listed above, however, interacted to give a number of variations in the patterns of business leader views and rationales towards the referendum. The framework can be explained as follows:

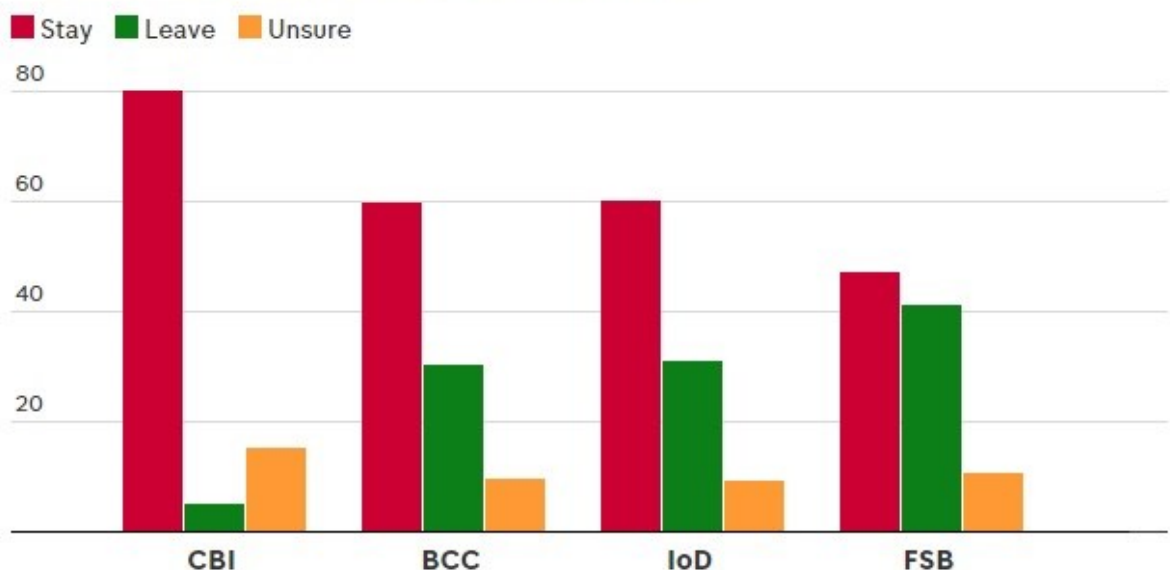
5. Business leaders (regardless of the size of the business) most concerned about the risks posed by a referendum, tended to be **large PLC businesses** with their headquarters in the seceding jurisdiction, but the bulk of their trade (as well as supply-chains etc.) in the jurisdiction that the referendum is asking about seceding from. Independence in these cases posed issues around access to their major market(s), the possibility of double regulation, labor mobility etc. Some of these business leaders also referred to the importance of the 'weight' of the EU in international trade negotiations, protecting IP and so on. As publicly traded companies, there is also greater onus on protecting the interests of their shareholders. These businesses are also the most likely to re-domicile.
6. Responses from business leaders in **privately owned businesses based in the jurisdiction** seeking to secede responded similarly to the category above, but may be personally more willing to absorb the downside risk of a vote for independence/withdrawal unlike business leaders who have an obligation to their shareholders.
7. Business leaders (regardless of the size of the business) whose **balance of trade, recruitment etc. is within the jurisdiction seeking independence** are likely to be least concerned and/or most supportive of the prospects of sovereignty for that jurisdiction.
8. **Business leaders most supportive of independence** are likely to see some form of cost advantage, business opportunity or ability to influence regulation for their business with the prospects of sovereignty.
9. **Business leaders whose trade is global** (regardless of ownership structure or domicile) are less exercised by the prospect of independence/withdrawal than their counterparts whose trade based in the jurisdiction with the prospect of being seceded from.
10. **Foreign owned subsidiaries located in the jurisdiction seeking to secede** pointed out that they were located in that particular jurisdiction for a specific reason (access to markets, access to resources) and provided that these reasons, as well as the general business environment, didn't change, they were relatively untroubled by the prospects of independence. Moreover, competition for Foreign Direct Investment (FDI) from other jurisdictions is high, meaning that they could explore alternative locations.
11. The research suggests that in situations of extreme uncertainty, such as with a referendum, business views and rationales tend to be based on business fundamentals, including:

12. **Protecting customers/access to markets.** Anything that enhances or hinders the ability to sell products and services (e.g. location of the customer base, regulations, reputation). Anything that enhances or hinders the ability to access markets (e.g. border effects).
13. **Protecting the interests of shareholders.** Anything that creates and enhances shareholder value (e.g. the returns above the cost of capital that generated them). Or alternatively, anything that impedes or destroys shareholder value (e.g. increasing costs, complexity etc.).
14. **Protecting the interests of employees.** The ability to attract, recruit and retain high value, skilled labor (e.g. labor mobility). Access to labor markets.
15. **The business environment.** Anything that improves or adds complexity, cost, and uncertainty to the business environment.

Business views and rationale: From Indyref to Brexit

16. Various surveys by members of industry bodies such as the CBI, BCC, IoD and FSB on their views on Brexit have broadly mirrored the results of various surveys conducted in the run-up to Scottish Indyref. What they show is that the majority of business leaders running large businesses are supportive of the UK maintaining its membership in the EU, as with the CBI poll, and the same is also true for polls taken by the BCC, IoD and FSB. However, you get more variation with industry bodies that represent memberships with corresponding variation in the size of the organizations that they represent (as with the BCC and IoD), or those focused on SMEs (as with the FSB). But again, our framework suggests that this variation is not down to size, but the three variables we outlined above.

Does business back Brexit?



Source: FactCheck

17. However, when qualitative data sitting behind the numbers is given greater scrutiny using the framework outlined above, the responses being given by business leaders on their views and rationale for maintaining the UK's membership in the EU, or leaving, the rationale becomes much clearer and they tend to fit within these wider patterns of response.
18. Prominent supporters of Brexit, such as the owner of JCB, Lord Bamford, for example, has a global business, but one where most of its profits are also in the UK. A vote to leave the UK is unlikely to have a significant impact on the business, and could have some marginal benefits for it in terms of regulatory changes.
19. For the majority of large businesses in particular, but also for many medium and small businesses exporting to the EU or embedded within the supply chain of those that are, the prospects of a UK withdrawal and increased complexity in accessing those markets, the free movement of labour, and EU resources (this will be particularly the case for Airbus, for example) will be shaping their views and their rationale for either backing staying or leaving the EU. For those businesses more exposed to the downside risks and uncertainties posed by a withdrawal, the strength of their responses may also be shaped by shareholder and customer reactions, as we saw in the lead-up to the Scottish Indyref.
20. Many business leaders of multinationals based in Britain will be looking at the issue through the lens of why they are based in the UK. For many, part of the rationale for investing in the UK versus other jurisdictions will be access to the EU market. This helps to explain why Bank of America Merrill Lynch, Citigroup, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan, Morgan Stanley and so on have been drawing up contingency plans to ensure that their business is not disrupted in the event of a Brexit vote.
21. Political uncertainty over and above normal business uncertainty for many business leaders will be hugely problematic for a range of business decisions by both UK businesses and businesses based in the UK, and in the event of a vote to leave, if it looks to be prolonged by, for example, negotiating new trade agreements, it will drive business behavior towards seeking certainty and stability.

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