NORTH EAST
BUSINESS WEEK
27 APRIL - 1 MAY 2015

Creating an enterprising and prosperous future

Change Driving Growth

NORTH EAST BUSINESS WEEK RESEARCH

Change Driving Growth

April 2015

Aberdeen & Grampian Chamber of Commerce

ELEVATOR

FSB

scdi Scottish Council for Development and Industry
1965 50 years in the North East and Highlands & Islands 2015

Executive Summary

The North East Business Week 2015 theme is Change Driving Growth.

Senior business leaders were asked for their thoughts on the change projects planned for the region, as well as the impact that both internal and external change are having on their business.

Aberdeen & Grampian Chamber of Commerce (AGCC) research unit delivered the study on behalf of the partners – AGCC, Elevator, FSB and SCDI.

The key findings vary widely, depending on the size of the respondent's company or the sector in which it operates. The first major change is in predicted employment levels. The 2014 NEBW research forecast employment growth of 15% by 2016. Companies now forecast a fall in employment of 8% over the next two years (to April 2017).

Some of the other major findings are as follows:

Improvement projects for the North-east

• The top three change projects identified as having the biggest net balance impact on the region's economy are the airport redevelopment (+89%)[1], faster broadband (+88%) and the Aberdeen Western Peripheral Route (AWPR) (+86%).

• The same projects also feature in the list of top three most important projects for the region; AWPR (80%), the airport redevelopment (42%), and faster broadband (29%).

• Respondents are most confident about the new oil and gas regulator being delivered on time (+35%) and least confident about city centre redevelopment (-55%).

Outcomes of the decline in oil price

• The decline in the price of oil has had (or is expected to have) a detrimental impact for the majority of businesses responding (91%).

• The oil price has driven energy sector companies to reduce their prices (59%) and has also resulted in lost contracts (40%) and redundancies (29%).

Internal changes to the business

• Internal changes have had an overall favourable impact on businesses with a net score of +75% (-6% + 8%).

• The most common change businesses have undergone in the last year is a reorganisation or a transformation of the people or culture within the business (55%).

• The average proportion of businesses who have undertaken change in the past year is markedly different for large businesses (51%), SMEs (40%) and micro organisations (27%).

Political influence on the business environment

• External change is generally found to have a negative impact on business with political change scoring a net balance of -20% (-37% + 17%).

• If business leaders could change one thing about politics, 18% express a preference for better collaboration and consensus between parties, governments and councils.

One overall key finding from the research is that business leaders can see the value of the planned local projects for the economy, although consensus is more mixed on the priority of these projects, with the exception of the AWPR and the airport development. This is consistent with the findings of NEBW 2012.

[1] Net balances are used throughout the report which are calculated by subtracting negative scores from positive scores i.e. 17% of people think the project will have a positive impact, 12% think it will have a negative impact – net balance is +5%.

8%
decline in employment is forecast over the **next two years**

—

+89%
the net balance reporting the **airport redevelopment** will be **positive**
(-1% +90%)

—

91%
of business are facing a **detrimental impact** due to the **recent oil price decline**

—

37%
of business are **negatively affected** by **political change**

Introduction

In 2012, the North East Business Week theme was ‘Driving Growth’.

Research published found that the Aberdeen Western Peripheral Route (AWPR) and the airport redevelopment were the two most significant projects which would drive growth in the region.

Major constraints to growth included late payment, skills shortages, the cost of doing business and financing costs.

In 2013, the North East Business Week partners (Aberdeen & Grampian Chamber of Commerce, the Federation of Small Businesses, the Scottish Council for Development and Industry, and Elevator – formerly Enterprise North East Trust) published research focused on workforce issues.

This report has become an important part of our regional evidence base, highlighting that in order to attract the right talent to the North-east, we have to resolve the factors which are preventing people from moving to the region.

In 2014, the theme was ‘Connectivity Driving Growth’. The research provided an analysis of digital infrastructure and social media as well as considering the importance of connectivity to our main trading markets by road, rail and air.

The theme of the North East Business Week 2015 is Change Driving Growth. The focus of this report is the impact of both internal and externally-driven change with a detailed analysis on the impact of the decline in the oil price and also the influence of politics in the business environment.

Once again, the partners of North East Business Week would like to thank members and clients who contributed to the research.

The theme of the North East Business Week 2015 is **Change Driving Growth**

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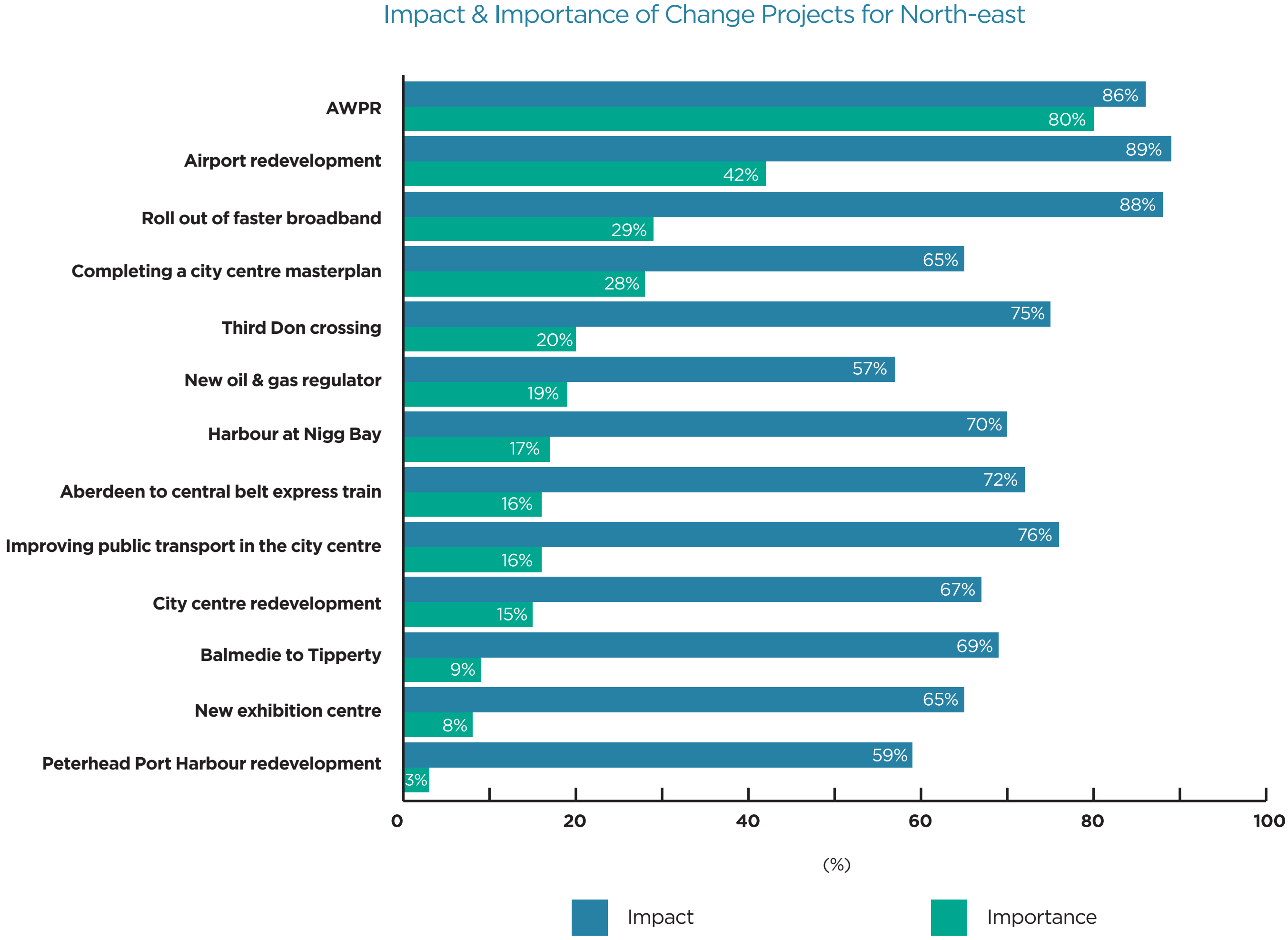
Key Findings

Change projects in the North-east

The majority of senior business leaders have a positive outlook on the impact of the projects in the pipeline for the region.

The top three projects identified as having the largest positive impact[2] on the economy were the airport redevelopment (+89%), faster broadband (+88%) and the AWPR (+86%).

Figure 1: Impact and importance of future change projects



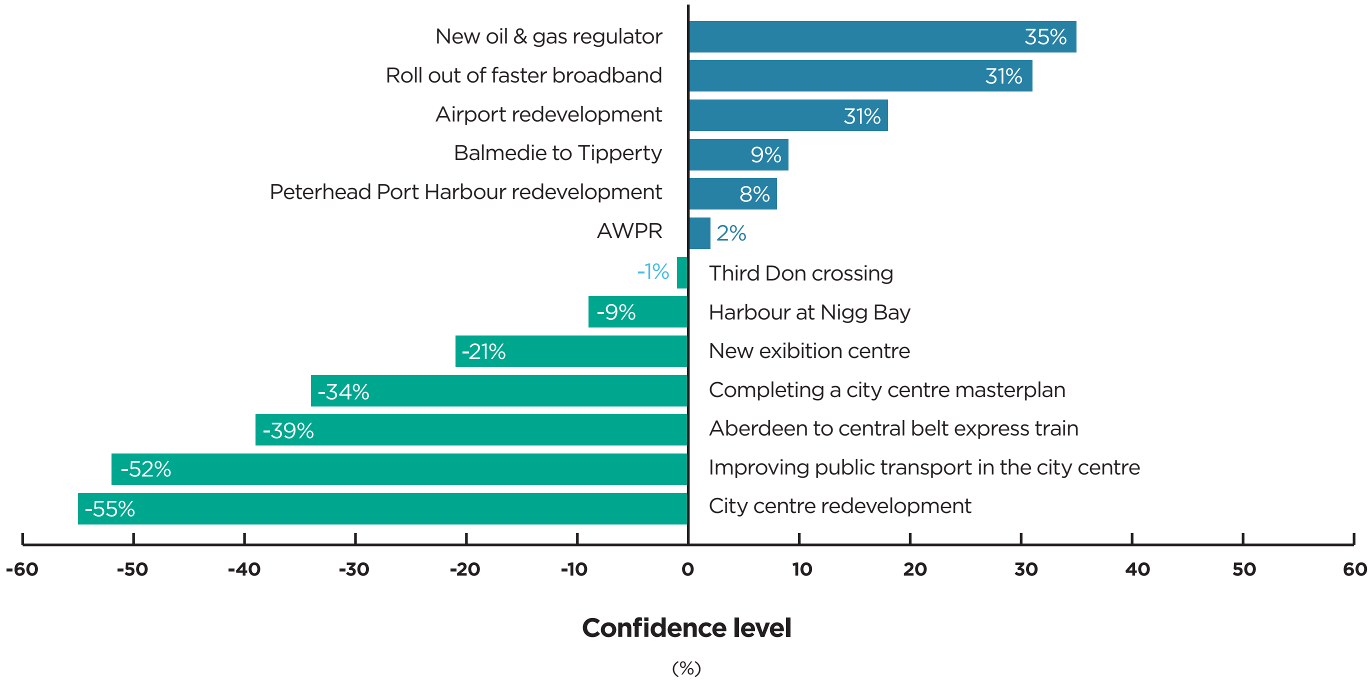
The airport redevelopment, faster broadband and the AWPR were also highlighted as being the most important projects for the region by 42%, 29% and 80%, respectively.

This is consistent with the findings from NEBW 2013 which listed the airport redevelopment (+63%), faster broadband (+90%) and the AWPR (+74%) as important projects to business over the next five years.

Although the new oil and gas regulator is perceived to have the lowest impact on the economy, it is ranked as the sixth most important project for the region.

[2] Impact was calculated as a net balance score (positive scores – negative scores).

Figure 2: Confidence in project delivery (net balance)
How confident are you that the 'change' projects will be delivered on time?



Confidence in the project delivery is split with the highest confidence in the establishment of the new oil and gas regulator (35%) and the least confidence in the city centre redevelopment (-55%). There is also a negative sentiment for completion of other locally led projects including the city centre masterplan, exhibition centre and public transport improvements.

new

46% are confident the new oil and gas regulator will be **delivered on time**, **11% are not confident**

Key Findings

Oil price

The survey shows that the recent decline in the price of oil has had (or is expected to have) a detrimental impact on the majority of businesses (91%), which is much higher than the typical influence of an oil price decline which usually only has a negative impact for 69% of businesses.

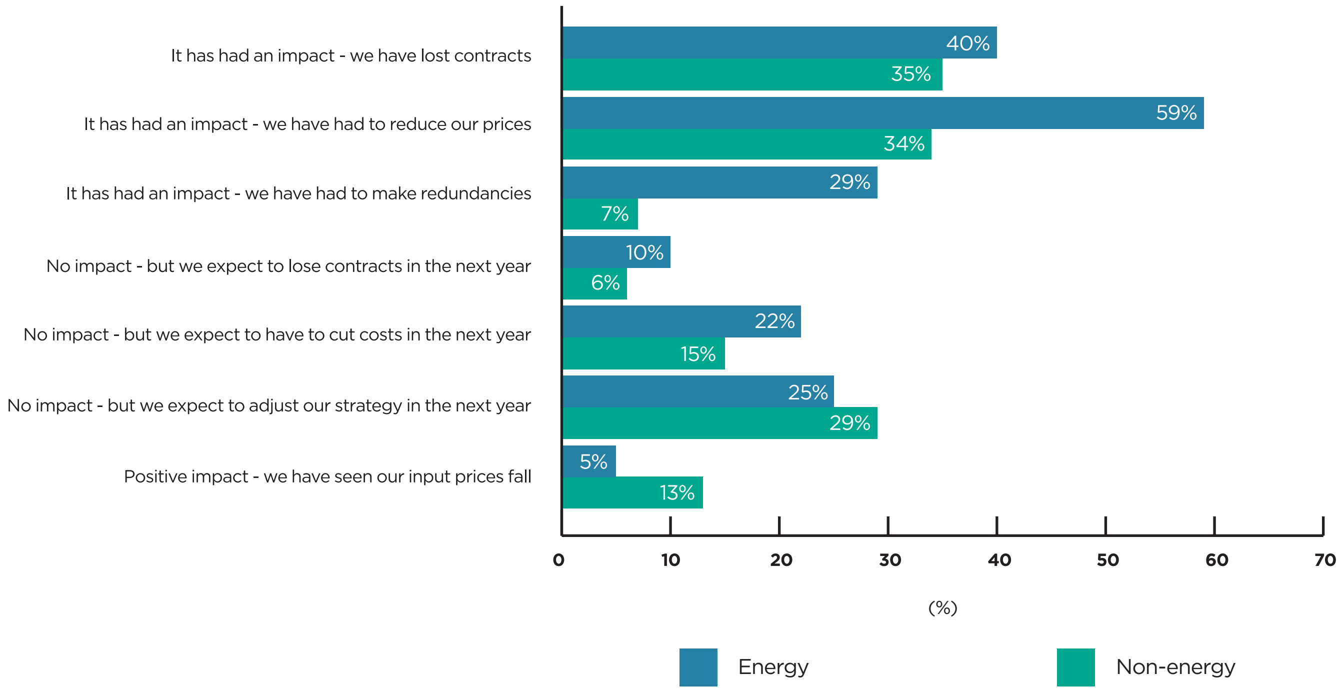
The most frequently cited outcome of the decline in oil price is a required reduction in prices (42%), followed by loss of contracts (36%) which is broken down by sector in figure 3 below.

Overall, 14% of businesses surveyed reported the need to make redundancies, however if we analyse this by sector it becomes clear that this has been a much more prevalent problem for energy companies (29% compared to 7% in non-energy companies).

59% of **energy companies** have had to **reduce their prices**

Figure 3: Impact of oil price by sector

What impact has the fall in oil price and on your business?

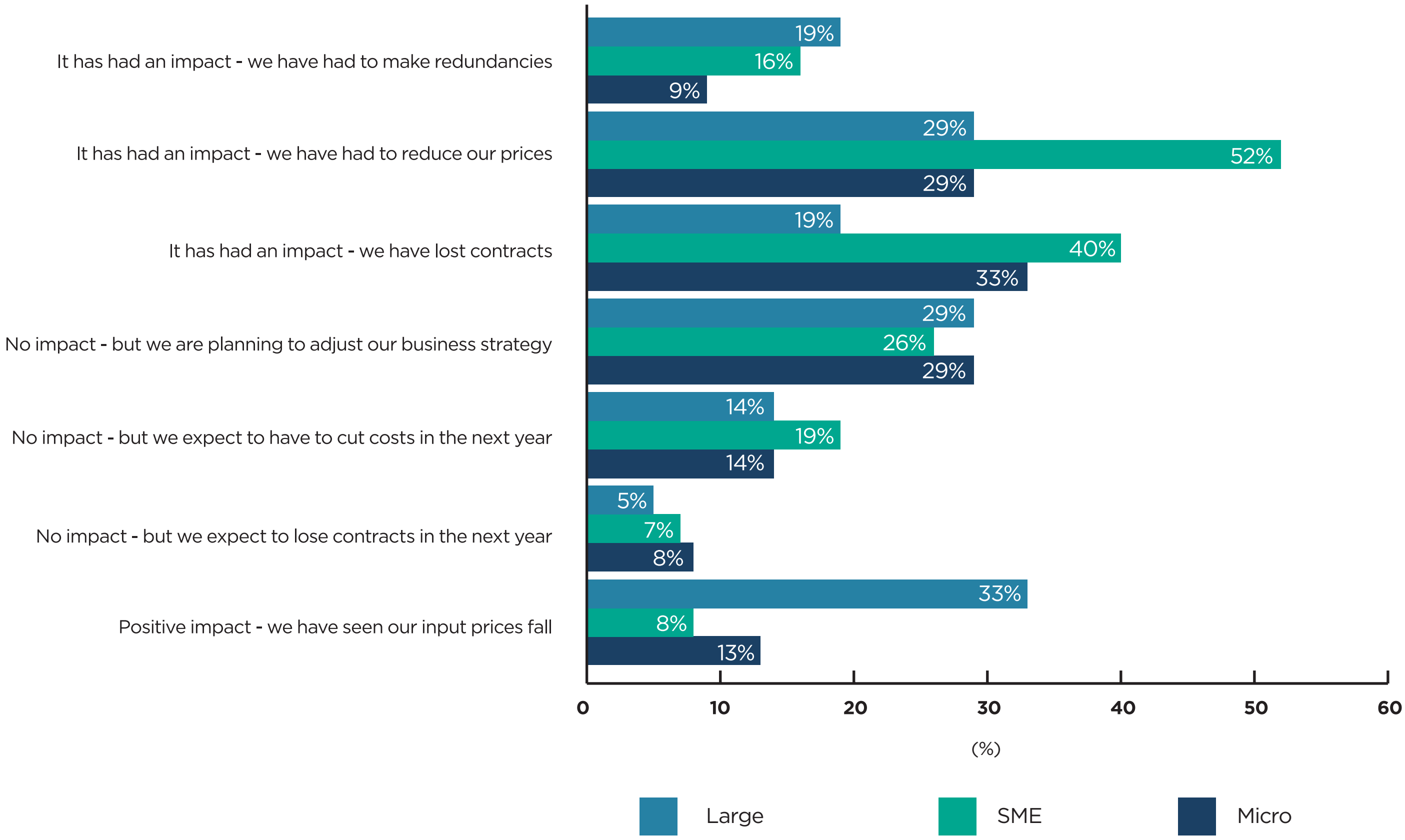


By comparing sectors, we can identify that price reductions have been the most common impact on energy companies, with 40% reporting having lost contracts and nearly a third having made redundancies.

The largest impact on non-energy companies is loss of contracts although again the impact is marginally lower than for energy companies. The data would suggest a small time lag on the impact of the oil price fall on non-energy companies.

Figure 4: Impact of oil price by business size

What impact has the fall in oil price and on your business?



The survey found that the oil price has had a more profound effect on SMEs in terms of price and contract reductions (52% and 40% respectively). The results also indicate that large companies have also been most affected by redundancies (19%) but also have experienced the greatest benefit through reduced input prices (33%).

52% of SMEs have had to **reduce their prices** and **40% have lost contracts**

Key Findings

Internal changes

Internal change has an overall favourable impact on business with a net score of +75% (81% positive minus 6% negative).

In the past year, more than half (55%) of businesses have undergone either a reorganisation or a transformation of 'people or culture' of the business.

The changes identified do not vary greatly between energy and non-energy sectors. However the size of the business does seem to have a linear correlation with the proportion of affected businesses i.e. micro businesses have generally experienced least change and large businesses the most. Figure 5 shows the proportion of businesses undertaking change by size.

We also noted that 100% of large businesses had undertaken at least one of the noted changes in the past year compared to 89% of SMEs and 77% of micro businesses.

Figure 5: Average internal change

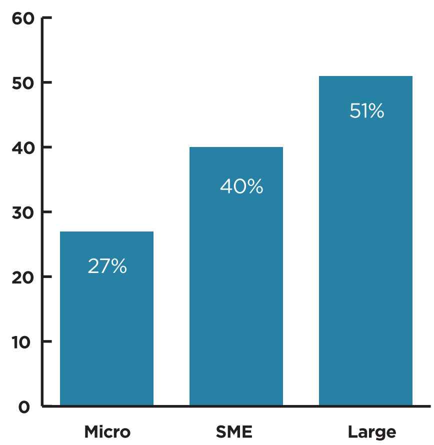
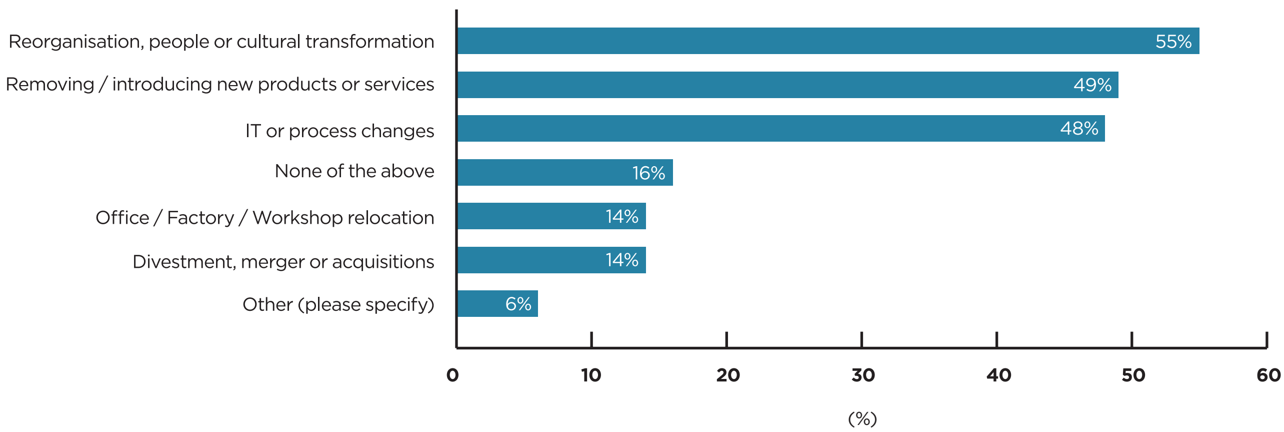


Figure 6: Change in the past year

In the past year, what type of change has taken place in your business?



Looking at the graph in figure 6 and the table in figure 7 we can clearly identify the top three types of change experienced by businesses in the past year. However, figure 6 does mask more intricate findings, such as almost a third of large businesses have undergone divestment, a merger or an acquisition (30%) and more than a quarter of micro businesses didn't go through any of these changes in the past year (28%).

Figure 7: Internal change by business size

	Reorganisation, people or cultural transformation	IT or process changes	Removing / introducing new products or services	Divestment, merger or acquisitions	Office / Factory / Workshop relocation	None of the above	Other
Micro	38%	37%	38%	6%	15%	28%	4%
SME	63%	51%	54%	17%	13%	12%	8%
Large	74%	70%	65%	30%	17%	0%	0%

The majority of changes listed as "other" were expansion – both in the UK and internationally.

Political change

When asked about expectations of the impact of the next government on the economy, the majority of people were uncertain (43%). We also found that 29% expect that there will be no change in the impact the next government will have on the North-east economy. A net balance score (+5%) suggests that business leaders have more positive than negative expectations of the next government.

Although business leaders expect the next government to have an overall positive effect on the economy, a negative net balance (-20%) suggests that more people believe that political change has a negative impact than a positive impact on business.

The net balance scores indicate that business leaders' experience of external change is generally negative.

The largest negative impact arises from legislative change regarding people (-41%). In this vein, 85% of respondents believe that women should gain their position on the board of an organisation through merit rather than by introducing a quota system. Only 9% of large businesses believe a quota system should be enforced (this rises to 21% in micro organisations).

Figure 8: Impact of next government

What impact do you expect the next government to have on the NE economy?

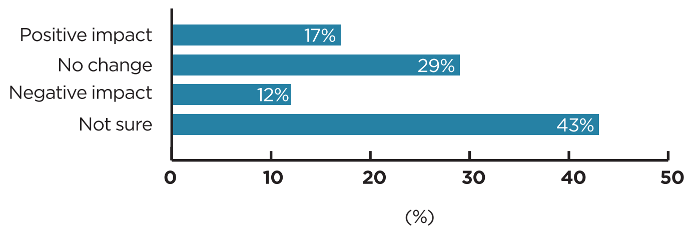
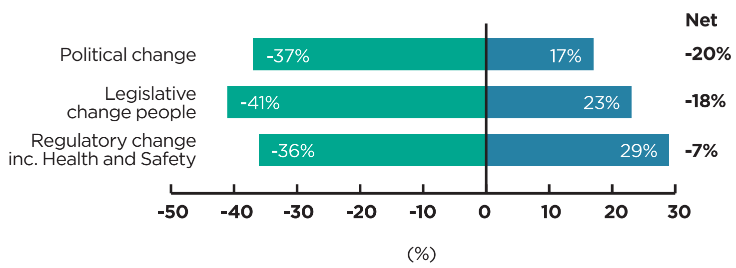


Figure 9: External change

What impact does the following types of external change usually have on our your business?



Key Findings

We gathered feedback about which aspect of politics should be changed and the following main two themes emerged:

1. to encourage greater collaboration and consensus between parties, governments and councils (18%)

2. more honesty from politicians and transparency in general (17%)

Figure 10: One change to politics

Top 10 Themes	Count	Frequency*
Consensus / collaboration	33	18%
Honesty & transparency	32	17%
Recognition of needs / contribution of region	22	12%
Long-term plans / consistency	14	8%
Fewer tiers / people	13	7%
Independence / decentralisation / devolution	12	6%
The types of people in politics / specific individuals	11	6%
Apolitical councils	9	5%
Business relationships / representation	8	4%
Accountability of politicians	5	3%

*Based on the number of people who responded to this question.

The findings of the research illustrate that while business leaders welcome change projects to boost the local economy and improve business links, they are wary of external change and the impact it has on their business.

Verbatim Comments

To conclude the report we have added some verbatim comments.

Oil Price

"As the cost-cutting filters down the supply chain, we are being asked to review our costs and have lost clients. We have had to spend considerable resources on convincing our clients of the value of our service and have had to design added-value services into our contracts for no additional fees. We may have to make redundancies later in the year if the situation continues or worsens."

"The impact of the oil price has enabled us to look at our business strategy and are now expanding our business to Edinburgh"

"We have noticed a significant reduction in Aberdeen city and shire based inquiries, particularly for new equipment. It appears that there is an element of stagnation with businesses of all sizes waiting to see the outcome of the oil price drop. This seems to be reflected across all industries. While it has not had a massive impact upon consumables the capital-heavy acquisitions are almost at a standstill."

"Most oil companies have stopped all projects, we need a certain level of project work to keep the business viable."

Business Environment

"Create positive enablers through encouraging a North-east Scotland 'help each other' culture, rather than the constant battering on prices that happens only in North-east Scotland, and not in other oil & gas energy centres."

"More backing for small business, with a stronger focus on developing sustainable business rather than large corporate companies."

"Ensure that money generated in the North-east is re-invested locally to improve both business and social aspects of the region."

"To simplify tax for companies and individuals."

Politics

"Have parties working together on goals that are common to all rather than point-scoring for own political agenda."

"Having senior business figures and experienced professionals working more closely with local authorities and running the council more like a businesses. I believe the council should be far more accountable than they currently are. Having lived in other parts of the UK, Aberdeen feels like it has had a massive lack of investment in its infrastructure (bus and rail) and the city centre to really make an attractive proposition for tourists. I think this may be potentially down to the politicians in the North-east that clearly lack vision and don't recognise opportunities when they are presented with them on a plate."

"Less centralised around Westminster on a national level, and less centralised around Central Belt in Scottish terms."

"Introduce City Regions, and in so doing significantly reduce the number of council staff and councillors."

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