State of UK Business 2023: Squeezed but Still Standing

February 2023

BCG

CENTRE FOR Growth

"We believe that the UK has genuine sources of competitive advantage. Collaboration can achieve breakthrough change. Opportunities for disruption can energise the UK economy."

CENTRE FOR
Growth

About the Centre for Growth:

BCG's Centre for Growth focuses on accelerating sustainable and inclusive economic growth in the UK by working with businesses, government, and wider society to deliver breakthrough outcomes.

As part of BCG, the Centre for Growth brings together ideas, people, and action to drive the UK forward. We work with our global expert network to identify transformational opportunities, connect key decision-makers, and build coalitions for change. We offer long-term strategic insight, extensive cross-sector expertise, platforms for dialogue, and bias to action.

About BCG:

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders – empowering organisations to grow, build sustainable competitive advantage, and drive positive societal impact.

Our diverse, global teams bring deep industry and functional expertise and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organisation, fuelled by the goal of helping our clients thrive and enabling them to make the world a better place.

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Executive Summary

BCG's Centre for Growth was launched in summer 2022 in the belief that there is both a need and opportunity for new ideas to contribute to the rewriting of the UK's somewhat downbeat economic outlook. The following six months proved to be more challenging for UK businesses than even the most pessimistic of observers might have expected, marked by uncertainty and a culmination of multiple economic shocks.

It is in this context that we decided to launch our inaugural 'State of UK Business' survey, with a view to it being the largest and most comprehensive assessment of UK business leaders' views on a range of issues. Topics include: economic growth, UK competitiveness, business resilience, barriers to investment and long-term trends changing the economic landscape — from structural labour market changes to the introduction of Artificial Intelligence (AI) and net zero.

It has never been more important to understand how businesses are responding on the ground to the tests and challenges they face — both for those operating in the policy making world and those running businesses.

What we found is illuminating and reminds us that we shouldn't sell the resilience of UK plc short. This applies both literally — through the construction of our UK Business Resilience Index we found that businesses are relatively resilient across a range of criteria — and figuratively, in terms of the continued optimism amongst UK business leaders. Despite a large majority of business leaders expecting a recession this year, they are much more optimistic about the medium term. Close to two-thirds (61%) expect economic growth to be somewhat or significantly better in 2025, challenging the view the UK is slipping into a medium-term malaise. Similarly, 63% think their revenues will grow over this period.

This resilience also applies to the UK labour market, though this is somewhat of a double-edged sword. Over three-quarters (77%) of senior leaders said they expected their headcount to either stay the same or grow over the next year, well exceeding those who expect it to reduce (20%). At the same time a quarter of business leaders (26%) say they have faced skill shortages over the past year. There is little doubt that ensuring businesses have access to the right skills and tackling the smaller-than-expected labour force should be policy priorities going forward.

The broader picture on policy is less clear. Almost half of business leaders (46%) believe that energy should be in the government's top three policy priorities, reiterating that the cost burden of energy remains top of mind and needs to be a policy focus, particularly in the long-term context of net zero. But when we specifically asked business leaders which policy changes would have the most positive impact on their business — there was no clear consensus. This highlights the challenge in making policy to support businesses across the economy in the current environment. Those that ranked highest were focused around boosting businesses' margins, such as tax reductions and simplifications, but none achieved support from more than a third of business leaders.

But this is not all on policy makers. Our results highlight that there are concrete steps that businesses can take to boost resilience and improve their own outlook — from supply chain diversity to flexible working practices — steps which are positively correlated with both historic and future expectations of revenue growth.

We hope the breadth and depth of the findings can provide a unique dataset, which we will track over time, and will provoke debate around practical steps we can take to improve the UK's outlook from a bottom up and business focused perspective.

Key Findings

Chapter 01

Economic Context and Outlook

- **75%** of business leaders expect a recession in 2023. **51%** said that higher energy costs had significantly impacted profits over the past year. **~25%** said higher wages, supply chain disruption, rising interest rates and staff shortages had also significantly impacted profitability. Businesses clearly feel they are getting squeezed from all angles.
- Only **52%** said they had made specific plans for a recession.
- **77%** are confident about their business prospects in the next year, compared to just **9%** who say they're not confident.
- Clear majorities think that inflation, consumer confidence, innovation, and economic growth will be better in 2025 than today. **63%** expect their revenue to grow over the next three years, only **15%** expect it to decline.
- **45%** say business infrastructure in the UK is better than in other markets. Only **28%** said the cost of energy is better in the UK and **47%** said it is worse. Political stability and predictability — something the UK is traditionally known for — attracted almost as many negative responses (33%) as positive (38%).

Chapter 02

Resilience

Those businesses that rank higher on our UK Business Resilience Index are much more likely to have seen positive revenue growth over the past year and expect it to continue over the coming year. Leaders of the most resilient businesses in our index are also:

- 5.1× more likely to say that they expect the revenue of their business to grow by more than 5% in the next year
- 3.4× more likely to say that business growth in the last year exceeded their expectations
- 6× more likely to say that the challenging wider economic environment could be more of an opportunity than a threat to their business
- 3.6× more likely to say that their business did better than average in adopting new technology quickly

Chapter 03

Planning for the Future

Labour Market

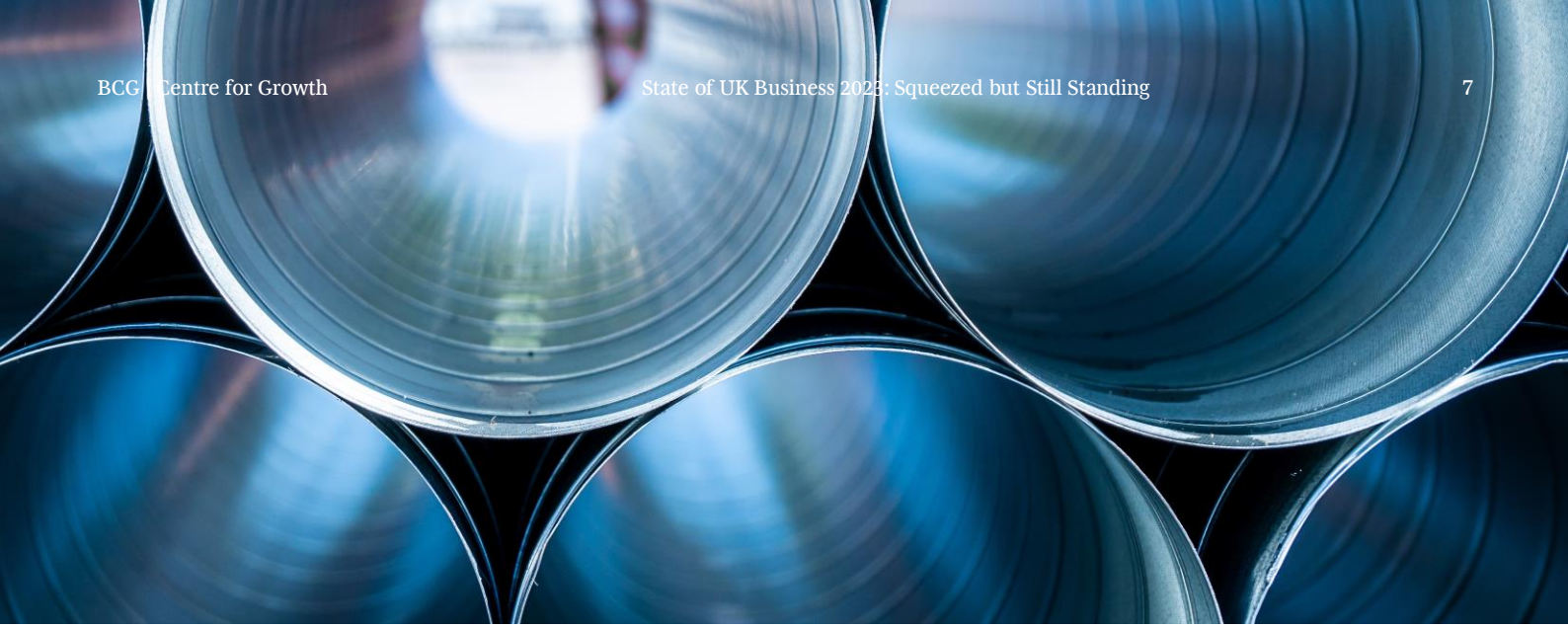
- More business leaders said they expect their business to increase headcount **(29%)** over the next year compared to those who expect it to reduce (20%), challenging the view that unemployment will increase sharply this year.
- Only **a quarter** (24%) of decision makers plan to limit their recruitment over the next six months.
- In response to experiencing labour shortages, **37%** of decision makers said they increased their salary range and 31% said they advertised for staff in new locations.
- **29%** of senior business decision makers said that their firm had hired purely remote workers. Yorkshire, Northern Ireland, Wales and East of England show the highest share of business decision makers saying they have hired remote workers.

Inflation

- **56%** of business leaders expect their business to increase prices over the next six months. This expectation is consistent across business sizes, sectors and regions. All of which hints at the persistence of inflation.
- **40%** list higher energy costs as one of their three largest threats over the next twelve months. This is followed by higher taxes (26%), falling consumer demand (25%), higher interest rates (25%), supply chain disruptions (23%), and staff or skill shortages (22%). Driving home again that a sizeable chunk of businesses feel squeezed from all sides.

Policy

- **46%** of business leaders listed energy as one of the top three policy priorities for the government. This was followed by business taxes (36%), employment taxes (24%), sustainability and climate change (20%), health and social care and digital infrastructure and connectivity (17%).
- When we asked business leaders to tell us the top policies that would have the most positive impact on their business: 29% said reducing VAT (rising to 37% of leaders in businesses with 10-50 employees), reducing taxes on energy use (23%), reducing the corporation tax rate to 15% (22%), simplifying the tax system (20%) and reforming business rates (18%).
- **25%** of businesses with 1000+ employees want to encourage more high-skill immigration.
- Very few businesses – **9%** – plan to cut investment despite a downturn.



Chapter 04

Long Term Trends

Future of Work and the Office

- Over three-quarters (77%) of businesses have a proportion of staff working remotely for at least some of an average week and over half (54%) have at least a quarter of their staff working remotely. Few expect any changes over the next year – suggesting we may be close to reaching a settled way of working.
- Just **8%** said that the move to remote working had had an overall negative impact on staff performance.

Artificial Intelligence

- **48%** of decision makers think that artificial intelligence will have a very or somewhat positive impact on their business in the next year, rising to **59%** in the next five years, and **64%** in the next 20 years.
- **34%** of them said AI will require them to upskill or retrain some of their workforce in the next five years, **33%** think it will require them to change some existing job roles, **32%** said it would allow them to automate some roles that are currently performed by employees, and **32%** expected AI to significantly increase the productivity of some of their employees. Allaying fears there is a trade-off between AI and employment – the relationship is far more nuanced.

Sustainability and Net Zero

- **39%** say that an economic downturn will have no impact on their company's prioritisation of environmental sustainability and **24%** say it will increase their business's prioritisation. Only **21%** say it would decrease it.
- **60%** think that the UK's net zero target will significantly or somewhat increase their business costs over the next five years, highlighting that business leaders are aware of the costs involved but committed to implementing sustainability and net zero changes anyway.
- This may be partly because **47%** think that the UK's net zero targets will create opportunities, potentially offsetting some of the cost impacts.

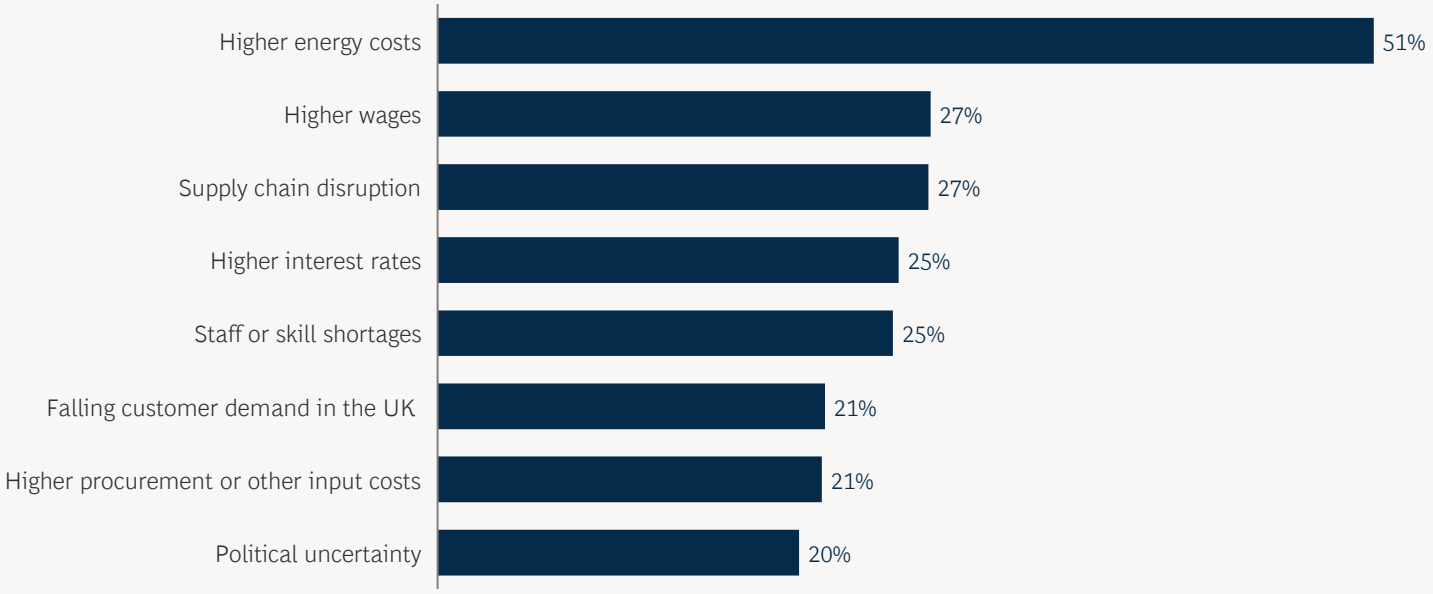
Chapter 01

Economic Context and Outlook

Businesses are braced for a difficult year in 2023, with 75% of senior business leaders believing a recession is either somewhat or very likely. This comes on the back of the past year already squeezing business margins.

Unsurprisingly, 51% of business leaders said that higher energy costs had significantly impacted profits. This hasn't been the only challenge though, a further quarter said that higher wages, supply chain disruption, rising interest rates and staff shortages had all also significantly impacted profits.

Exhibit 1 - Higher energy costs have hit businesses more than any other factor in the last year

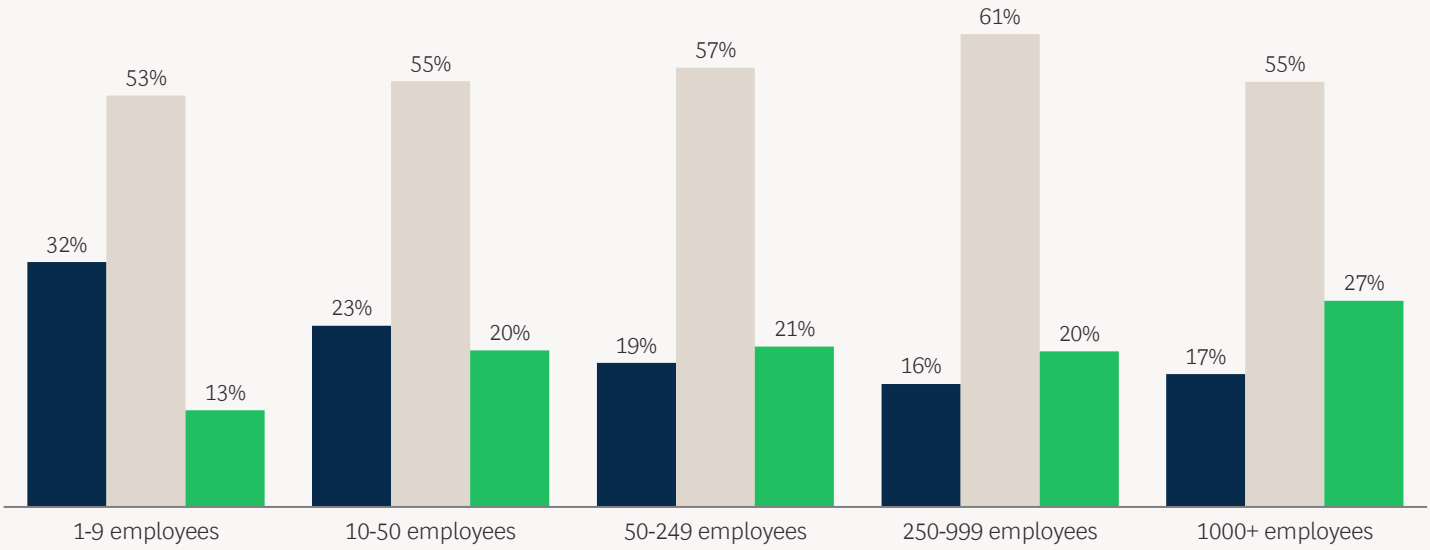


Source: BCG State of UK Business 2023 Survey
Question: 'Which, if any, of the following have significantly changed your business' profitability in the last year?'

Given these pressures, it's not surprising one in five (21%) businesses failed to realise their growth expectations last year. The worst performing companies were micro-businesses where nearly a third (32%) of leaders said their business had underperformed against expectations last year.

Breaking it down by sector, a quarter (25%) of arts and entertainment and almost a quarter (23%) of finance, insurance and real estate businesses felt they had underperformed. Fundamentally, many businesses, small and large, feel they have been fighting on all fronts.

Exhibit 2 - Last year, small businesses were the least likely to meet their own growth expectations



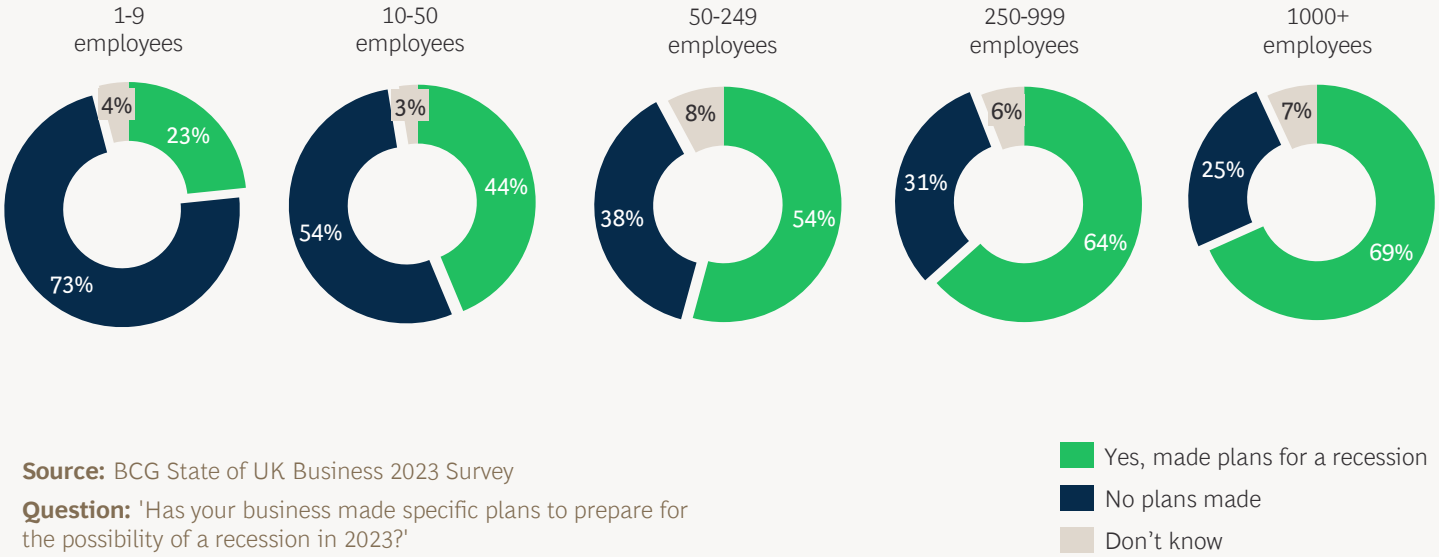
Source: BCG State of UK Business 2023 Survey

Question: 'Overall, would you say your business's growth in the last year exceeded, met or fell short of your expectations?'

- Growth did worse than my expectations
- Growth met my expectations
- Growth exceeded my expectations

Despite consensus that a recession could be imminent, only half (52%) of senior business leaders said their business had made plans for this possibility. Smaller businesses appear to be less prepared, even though they are potentially more exposed in an economic downturn. Over half (54%) of those with 10-50 employees and nearly three quarters (73%) of micro-businesses don't have a plan for how to deal with a recession, compared with 25% of the largest businesses.

Exhibit 3 - Smaller businesses are less likely to have plans for a recession, but bigger businesses are prepared



Source: BCG State of UK Business 2023 Survey

Question: 'Has your business made specific plans to prepare for the possibility of a recession in 2023?'

Perhaps because smaller businesses are often more consumer-facing one of their primary concerns over the next year is falling customer demand. Nearly half (47%) of micro-businesses and just under a quarter (21%) of businesses with 10-249 employees see falling customer demand as a key threat this year. For medium and large businesses, rising wage costs are more of a concern - a quarter of businesses with more than 10 employees think rising wages are likely to be one of the largest threats in 2023. There also tends to be a correlation between the businesses that have seen revenue fall over the past year and concerns around collapsing consumer demand.

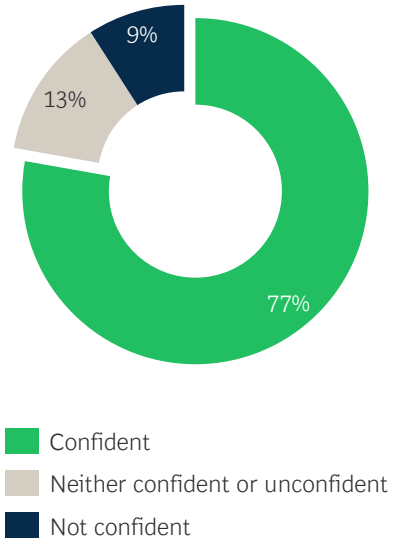
Clearly, small and medium sized businesses in particular are stretched and struggling to deal with the multitude of challenges. This is a common theme throughout the survey. We expect many will be looking for further tailored support from the government in the Spring Statement.

Despite the expectation of a recession, when asked about their own businesses, leaders are much more confident. **Over three quarters (77%) are confident about their businesses' prospects in the next year, compared to just 9% who say they're not confident.**

Given the wider economic outlook, it is likely more businesses will struggle over the course of the year than those at the top of these large organisations expect. Small and medium sized businesses are slightly more aware of how challenging the wider environment could be for their own business this year.

The gap between wider economic expectations and confidence in their own businesses closes when looking at the medium term. Contrary to the prevailing narrative about the UK economy entering a long-term malaise, business leaders are much more confident about their businesses' prospects and the economic outlook over the medium term. Overwhelmingly, business leaders think that inflation, consumer confidence, innovation, and, most importantly, economic growth will be better in 2025 than they are today.

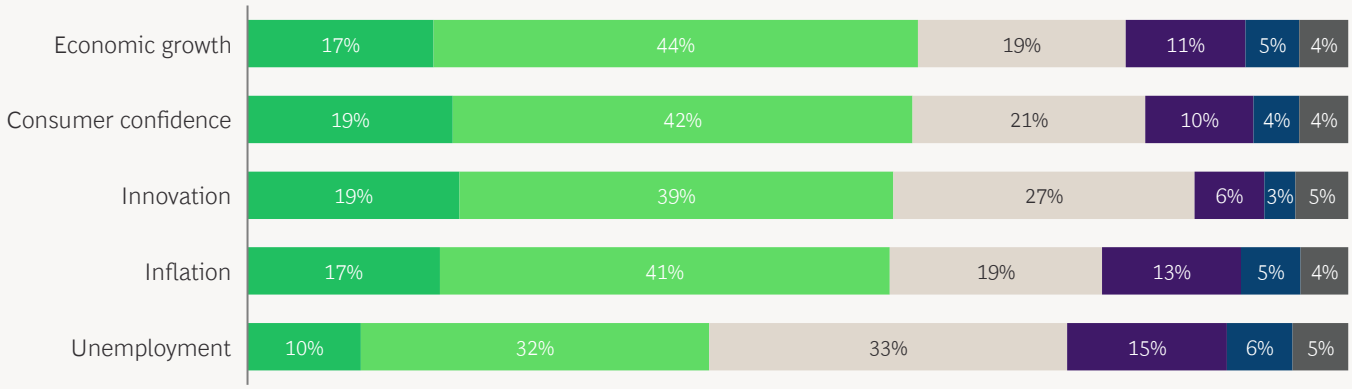
Exhibit 4 - An overwhelming majority of business leaders are confident about the prospects of their own business this year



Source: BCG State of UK Business 2023 Survey

Question: 'Overall, how confident or unconfident are you about your business's prospects over the next year?'

Exhibit 5 - Leaders are confident about the future in the UK. The majority think economic growth, consumer confidence, innovation, inflation and unemployment will all be better in 2025



Source: BCG State of UK Business 2023 Survey

Question: 'And now thinking forward to 2025, do you expect the following to be better, worse or around the same as today?'

Significantly better
Somewhat better
Around the same
Somewhat worse
Significantly worse
Don't know

It's not just the UK's medium-term prospects that business leaders are optimistic about either; positivity extends to their own business outlook too. **Most businesses expect their revenue to grow over the next three years (63%), while only 15% expect it to decline.**

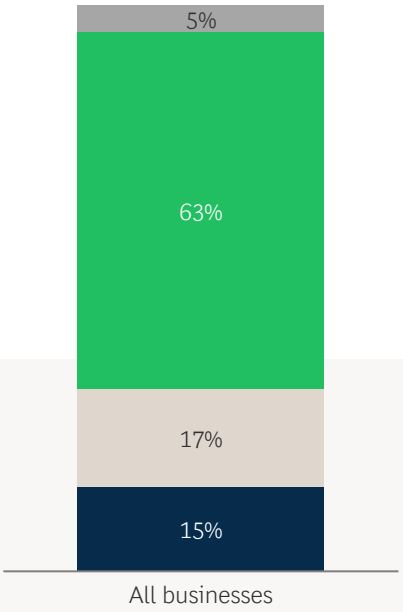
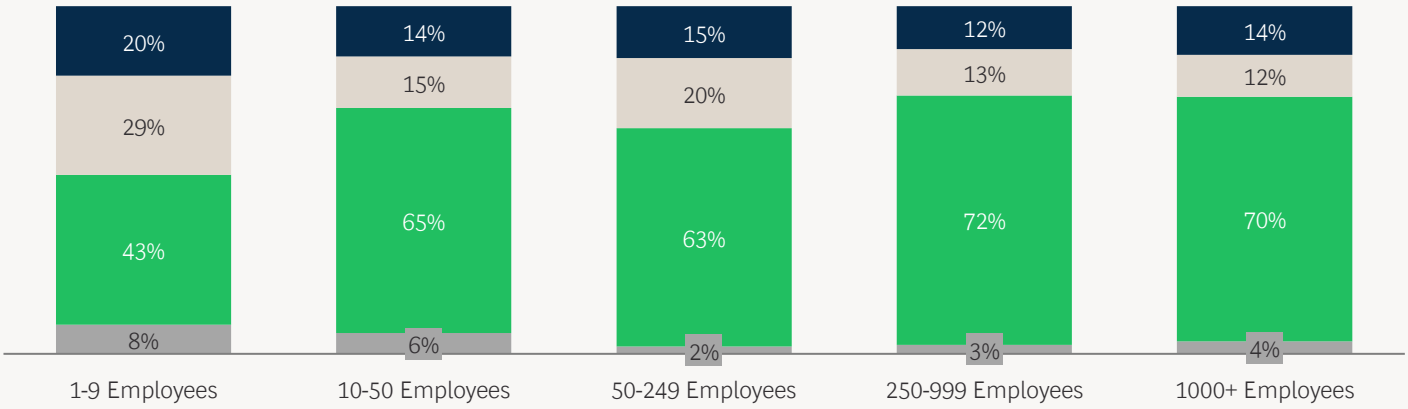


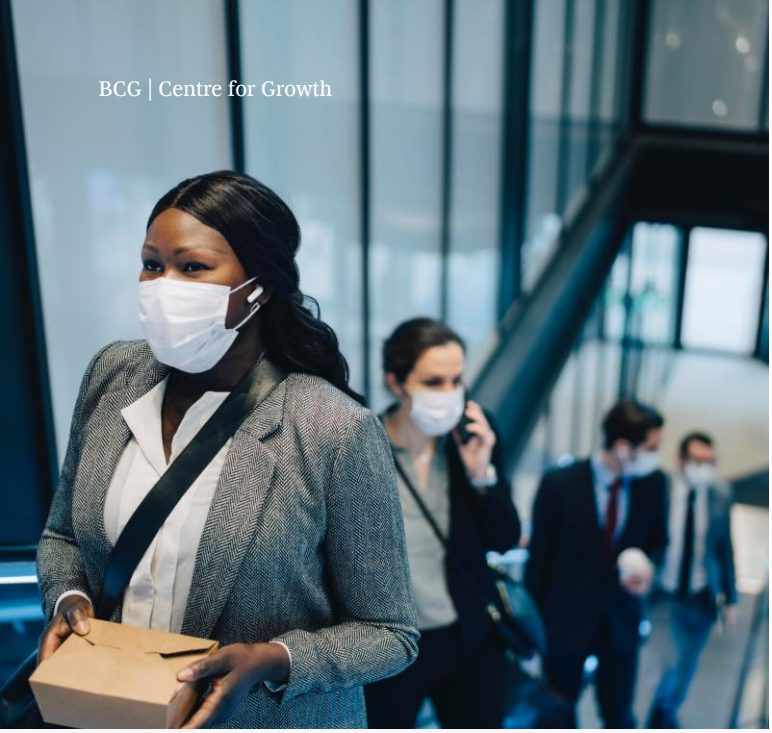
Exhibit 6 - Businesses expect to grow over the next three years despite current economic pressures



Source: BCG State of UK Business 2023 Survey

Question: 'And how much do you expect your revenue to change in the next three years?'

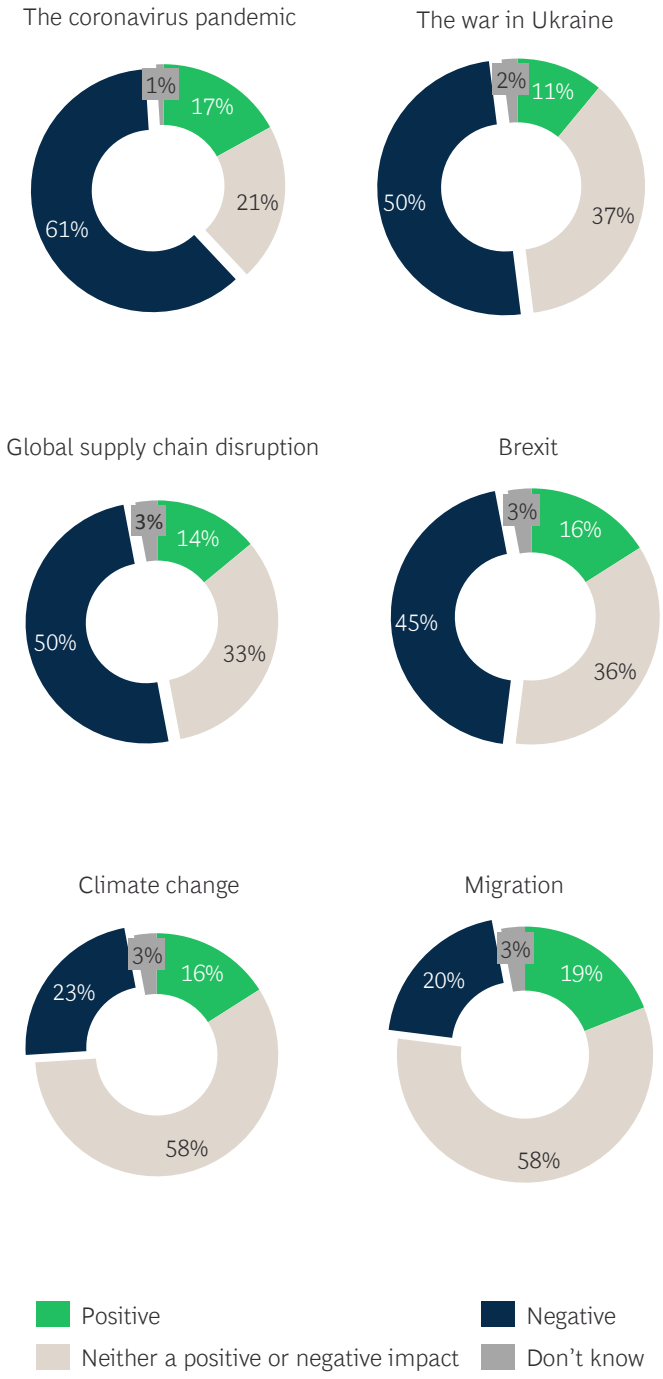
Decline
Grow
Stay about the same size
Don't know



Although not alone in this, the UK has seen an almost unprecedented number of global/regional shocks in the past few years. Of the six international issues we discussed with business leaders, four are viewed as being significantly more negative to business than positive. **The pandemic ranks highest, with well over half (61%) of business leaders saying that it's had a negative impact on their business**, compared with just 17% who said it had been positive. Less than a quarter (21%) of leaders said it was neither positive nor negative – the lowest proportion for any issue.

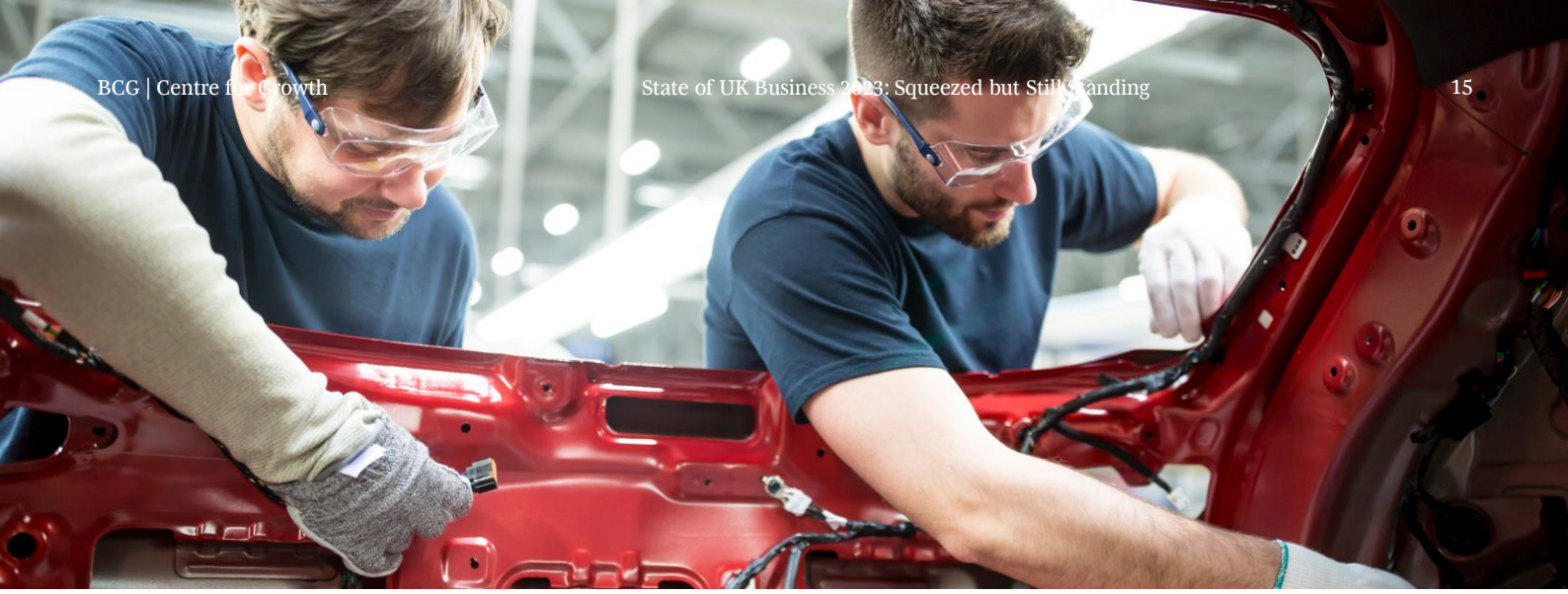
The next biggest factors aren't surprising, with half of business leaders saying the war in Ukraine (50%) and global supply chain disruption (50%) had negatively impacted them. Slightly less than half (45%) cited Brexit as having a negative impact compared with 16% who said it had been positive. Over a third (36%) said it had neither a positive nor negative impact on their business. Leaders are split when it comes to migration though; 19% think the effects have been positive whilst 20% think it has resulted in negative impacts on their business. Interestingly the majority (58%) don't think migration has had a negative or positive impact on their businesses.

Exhibit 7 - Of all international issues, the pandemic has had the most detrimental impact on businesses in recent years



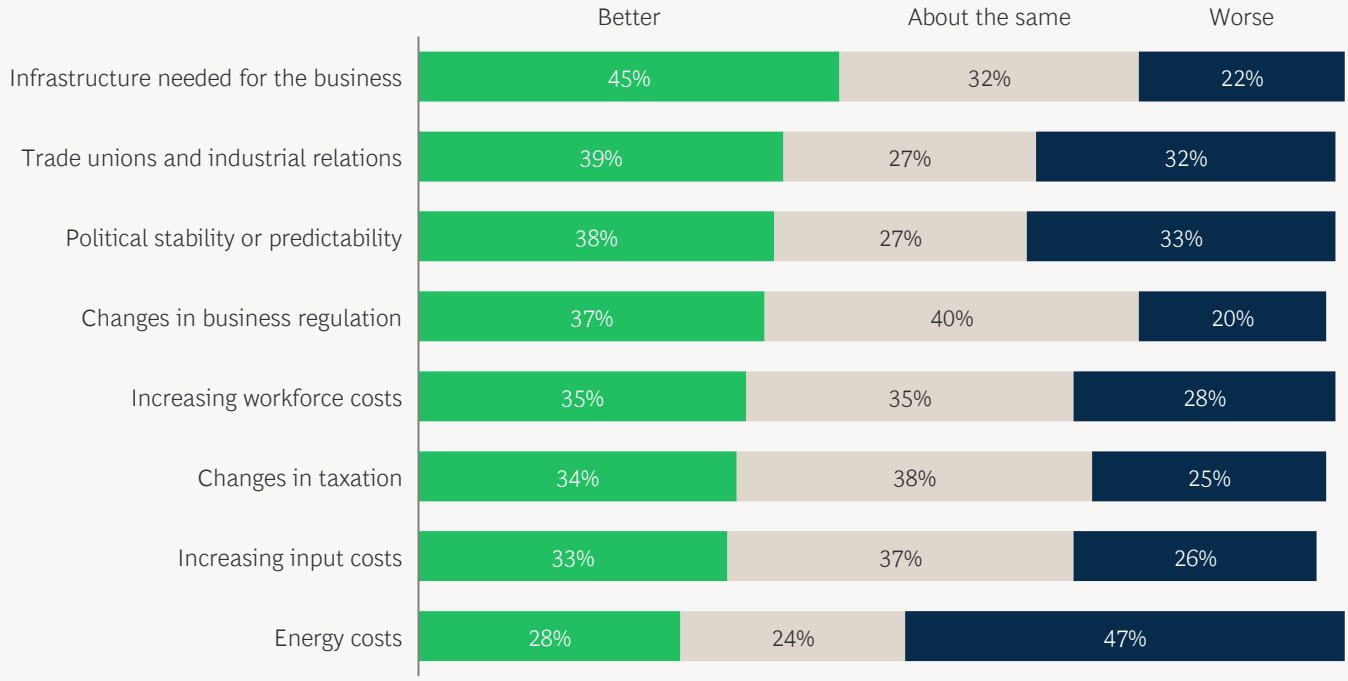
Source: BCG State of UK Business 2023 Survey

Question: 'Have the following international issues had a positive or negative impact on your business?'



We also asked those whose business operated in other markets to compare what they thought the UK did well and what it did badly. They were most positive about the UK's business infrastructure such as roads or internet connectivity – with 45% saying the UK is better than other markets. In contrast, just 28% of business leaders said the cost of energy is better in the UK and nearly half (47%) said it is worse than in other markets. It is also worth noting that political stability and predictability – something the UK is traditionally known for – attracted nearly as many negative responses (33%) as positive (38%).

Exhibit 8 - Leaders think business infrastructure sets the UK apart but we're behind competitors when it comes to the energy cost burden



Source: BCG State of UK Business 2023 Survey

Question: 'In general, in the following areas, would you say that the current situation in the UK is better, worse or around the same as other markets you operate in?'

Chapter 02

Resilience

With an economic slowdown looming and businesses being squeezed from all sides, resilience has become a buzzword across the business community. But it is rarely clear what resilience really means or what constitutes a resilient business. Are business leaders even good at assessing how resilient their business is? What drives their perceptions?

To shed some light on this we have created the BCG UK Business Resilience Index as part of our survey. First, we asked business leaders directly about how they perceive the resilience of their business. We then asked them a series of more specific questions about how their business fares on certain key criteria – from supply chains to cash balances – which we believe are important in helping to make a resilient business.

What Makes a Resilient Business?

As set out in *BCG's Resilience Framework*, we believe there are five core pillars to building a resilient business:

01/

Financial resilience

– From cash reserves to the ability to withstand sharply rising interest rates as well as the flexibility to implement strategies to maintain profit margins when necessary

02/

Operational resilience

– Company and geographical diversity in supply chain and the ability to adjust

03/

Organisational flexibility

– Ability to respond to a crisis, workforce flexibility and capabilities to launch new products to the market

04/

Understanding of marketing, sales and pricing

– Ability to predict and respond to changing demand and to pass on rising costs if needed

05/

Technological resilience

– Systems in place to reduce vulnerability to cyber-attacks, ability to recover and capacity for keeping pace with technological change

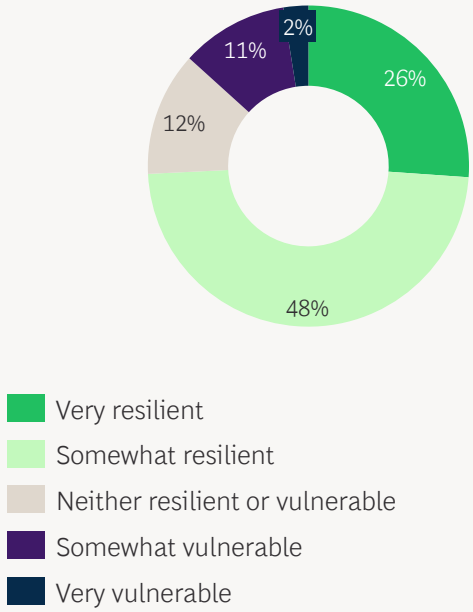
We asked business leaders 32 questions across these five categories, standardising each answer on a scale from 0 to 10. Our resilience index places businesses in five categories based on their scores across all 32 questions:

1- Very high resilience; 2- High resilience; 3- Medium resilience; 4- Low resilience; 5- Very low resilience

Most business leaders think their business is resilient. We found that only 13% self-assessed their business as somewhat or very vulnerable, compared to 74% who think it is somewhat or very resilient. In some senses this isn't surprising, given that most business leaders would see it as their responsibility to ensure their business is resilient. But, as with business confidence, there is also a disconnect from the wider economic situation.

Most business leaders feel their own business is resilient despite experiencing significant economic pressures in the last year and anticipating a downturn this year. It could be that many do not expect a deep recession, which also chimes with the fact that their economic outlook is more positive over the medium term.

Exhibit 9 - Despite economic pressures, three quarters of senior leaders feel their business is currently resilient



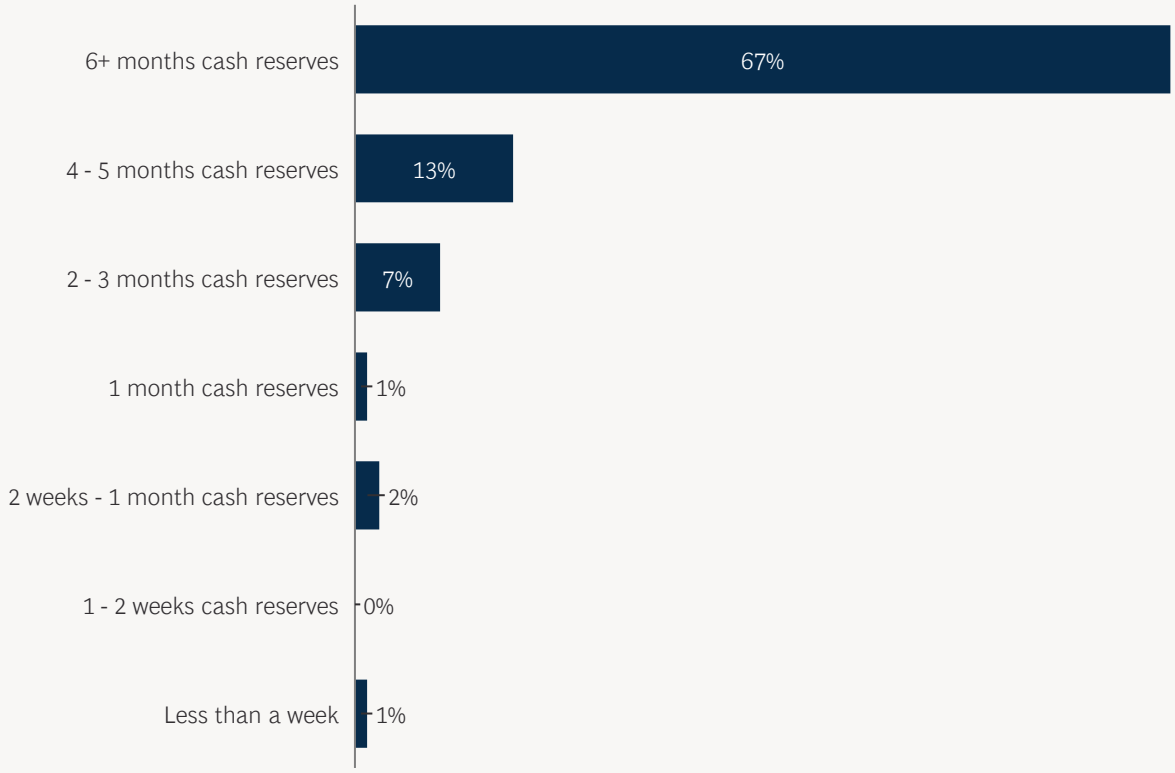
Source: BCG State of UK Business 2023 Survey

Question: 'Overall, how resilient or vulnerable do you currently feel that your business is?'

Comparing business leaders' perceptions of their resilience to our Business Resilience Index shows that, overall, businesses were reasonably good at assessing their own resilience, but there is a group at the lower end of the scale that tend to overstate their resilience. Half (51%) of the businesses which we ranked as having low resilience considered themselves to be somewhat or very resilient.

This might partly be down to the fact that there is a very strong positive correlation between perceived resilience and cash reserves, suggesting financial resilience often dominates the thinking of business leaders. Well over half (67%) of business leaders in businesses with more than six months of reserves self-reported that their business was very resilient, compared with just 1% of businesses with a month of cash reserves.

Exhibit 10 - Cash reserves and resilience are linked strongly for senior leaders. Of those who said their business was very resilient, they were significantly more likely to have more cash reserves:

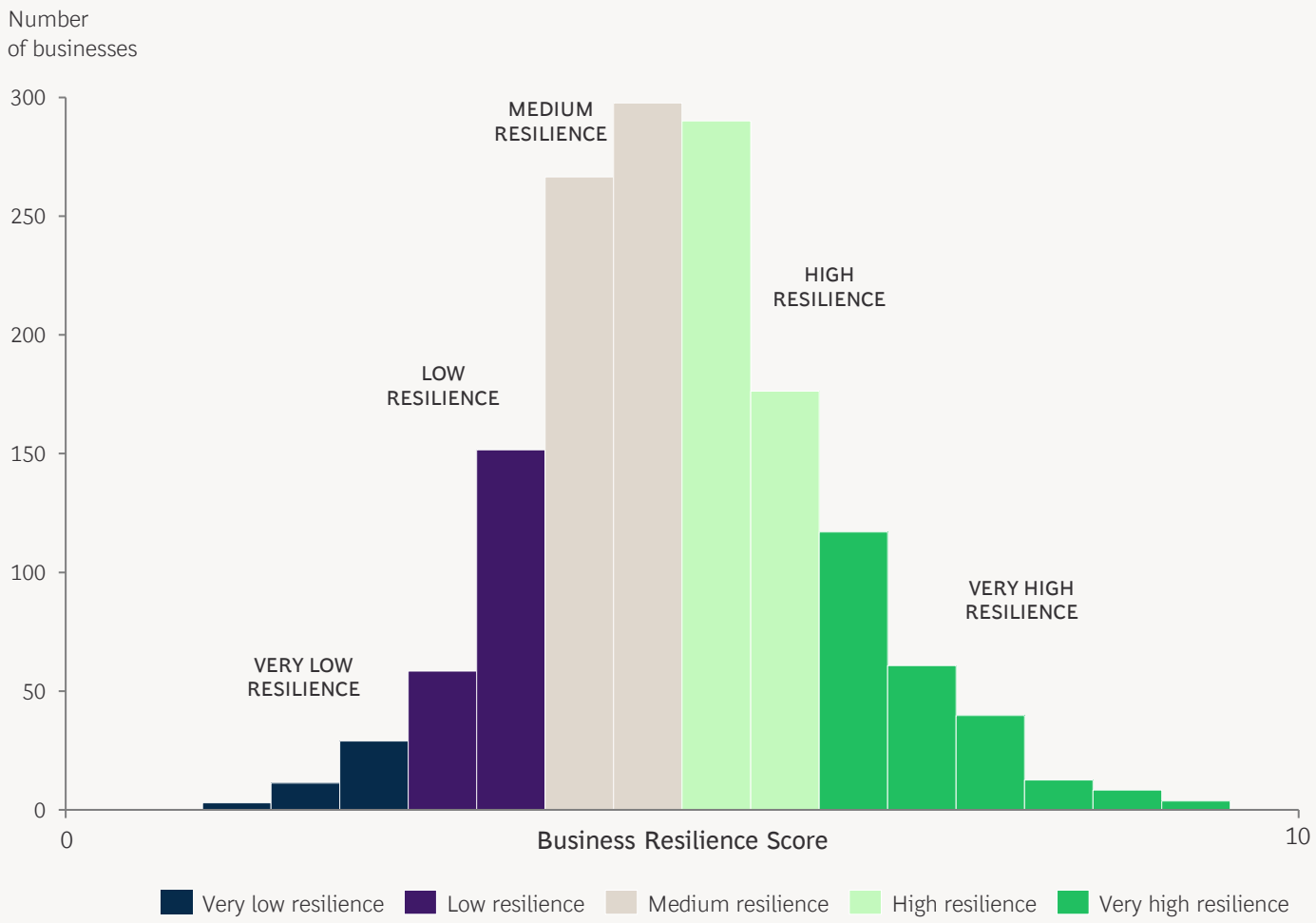


Source: BCG State of UK Business 2023 Survey
Question: Businesses assessed as having very high resilience answering: 'How long do you think your cash reserves could last without new revenue?'

But as recent shocks have shown, real resilience in the face of an uncertain environment is much broader than just cash reserves.

Using our Resilience Index we can begin to understand just how important resilience and the underlying criteria are for successful businesses. We found a broadly normal distribution of businesses across our index with a slightly longer tail towards more resilience, suggesting businesses in the UK are relatively well placed as a slowdown approaches. Across our index, the median score was lowest for financial resilience (5.14) suggesting this is the area that business leaders are least confident about in terms of their businesses' resilience.

Exhibit 11 - We found a normal distribution of index scores across our sample, with the central 50% of our sample concentrated between 3.8 and 7.7.



Source: BCG State of UK Business 2023 Survey
Businesses by Business Resilience Index

Most importantly, those businesses which rank higher in our index are clearly positively correlated with much higher revenue growth over the past year and anticipated revenue growth over the next year and three years. Resilience is a key factor in determining business performance.

Exhibit 12 - Resilience is linked with greater revenue growth over the past year and expected revenue growth for the future

Estimated revenue growth over the past year

	Very low resilience	Low resilience	Medium resilience	High resilience	Very high resilience
Grow	13%	36%	49%	68%	73%
Stay about the same	20%	28%	27%	14%	17%
Decline	67%	36%	24%	17%	10%

Estimated revenue change over the next year

	Very low resilience	Low resilience	Medium resilience	High resilience	Very high resilience
Grow	3%	26%	43%	67%	69%
Stay about the same	11%	33%	32%	21%	20%
Decline	81%	33%	22%	11%	10%

Estimated revenue change over the next three years

	Very low resilience	Low resilience	Medium resilience	High resilience	Very high resilience
Grow	14%	45%	60%	78%	81%
Stay about the same	23%	23%	20%	11%	12%
Decline	57%	24%	16%	7%	5%

Source: BCG State of UK Business 2023 Survey
Revenue growth by Business Resilience Index

Leaders of the Most Resilient Businesses in Our Index Are:

5.1x

more likely to say that they expect the revenue of their business to grow by more than 5% in the next year

3.2x

more likely to say that their business did better than average in following best practice in management

6x

more likely to say that the challenging wider economic environment could be more of an opportunity than a threat to their business

1.7x

more likely to describe themselves as confident in their role as a business leader

3.4x

more likely to say that business growth in the last year exceeded their expectations

3.6x

more likely to say that their business did better than average in adopting new technology quickly

1.7x

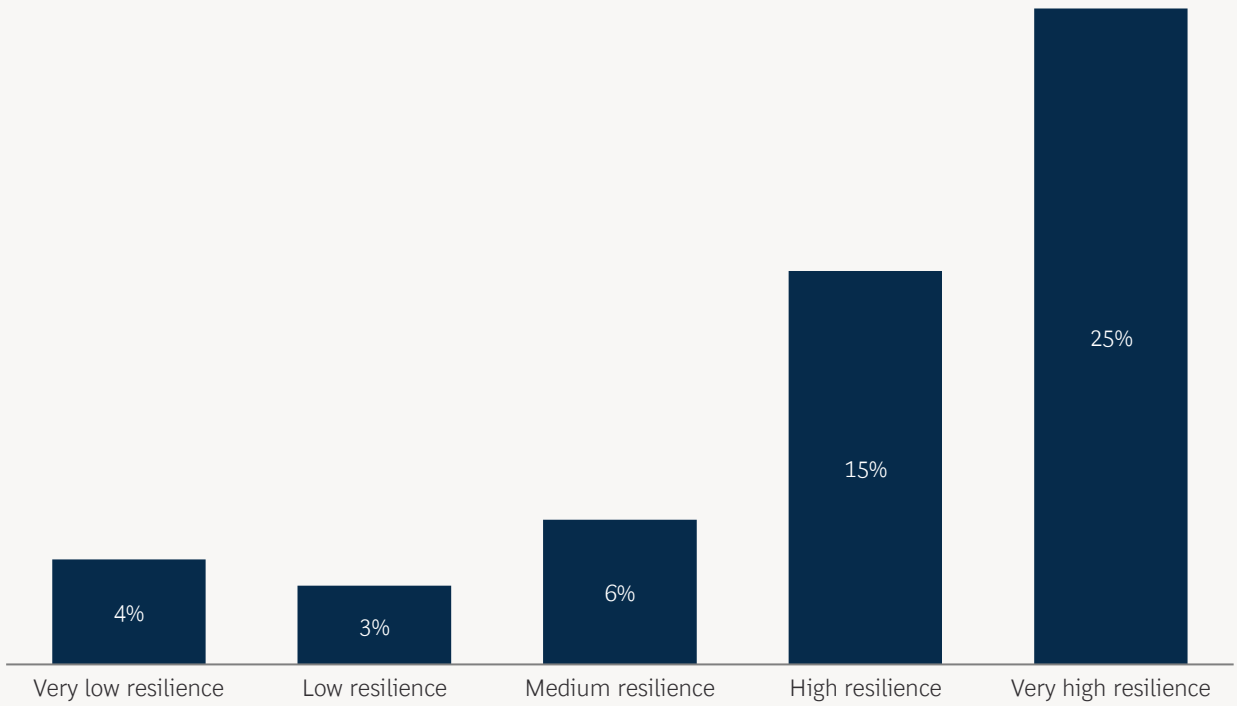
less likely to describe themselves as time-stretched

2.5x

less likely to describe themselves as worried

More resilient businesses also felt more able to increase pay over the past year, particularly when it came to giving above-inflation pay rises.

Exhibit 13 - The more resilient a business, the more likely they were to increase pay levels by inflation or more (12%+):



Source: BCG State of UK Business 2023 Survey

Question: The percentage of businesses that offered a pay rise at 12% and above when answering: ''Has the average base pay in your company increased by more, less or the same as inflation (10%) in the last year?' (Online)

There is also a strong positive correlation between those businesses which rank highly on our Resilience Index and those that perform well at adopting best practice in their sector – be this on improving productivity, offering new training opportunities, incorporating digital tools, developing new products and services, marketing or retaining staff. Again, this highlights the link between resilience and better performance.

Exhibit 14 – Businesses we assessed as resilient tend to adopt best practice in key areas

Best practice management

	Very low resilience	Low resilience	Medium resilience	High resilience	Very high resilience
Better than average	29%	20%	29%	57%	64%
About average	48%	67%	60%	41%	35%
Worse than average	18%	12%	7%	1%	0%

Adopting new technology

	Very low resilience	Low resilience	Medium resilience	High resilience	Very high resilience
Better than average	7%	17%	29%	52%	62%
About average	51%	56%	57%	42%	38%
Worse than average	37%	25%	11%	5%	0%

Planning for the future

	Very low resilience	Low resilience	Medium resilience	High resilience	Very high resilience
Better than average	15%	18%	33%	52%	71%
About average	57%	71%	59%	46%	29%
Worse than average	22%	9%	7%	2%	0%

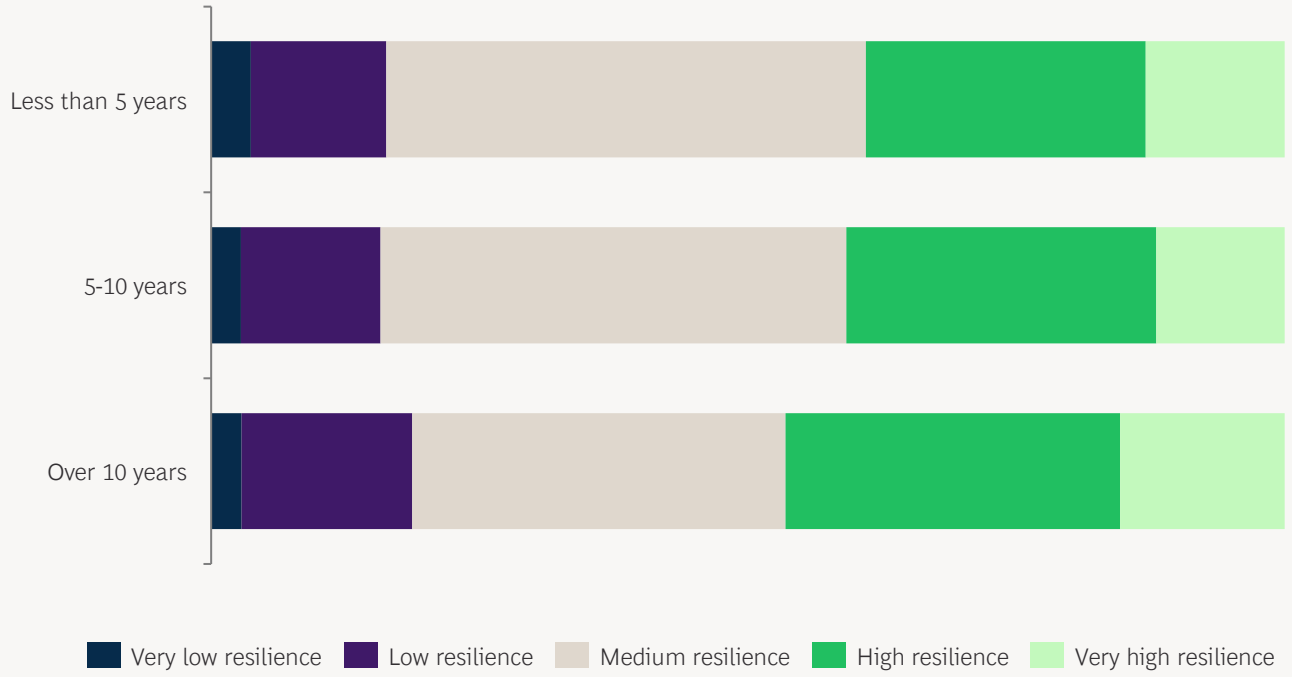
Innovating

	Very low resilience	Low resilience	Medium resilience	High resilience	Very high resilience
Better than average	12%	15%	27%	45%	65%
About average	62%	64%	63%	53%	34%
Worse than average	21%	18%	7%	2%	1%

Source: BCG State of UK Business 2023 Survey
Businesses by BCG's UK Business Resilience Index

Resilience does not seem to be a function of the age of the business. We found no correlation between how well a business scores on our Resilience Index and the business's age. Businesses over a decade old are marginally more likely to be resilient but also marginally more likely to be vulnerable than younger businesses.

Exhibit 15 - Older businesses aren't necessarily more resilient, in fact there seems to be no strong link between age and resilience



Source: BCG State of UK Business 2023 Survey

Businesses by BCG's UK Business Resilience Index ranking and age

Chapter 03

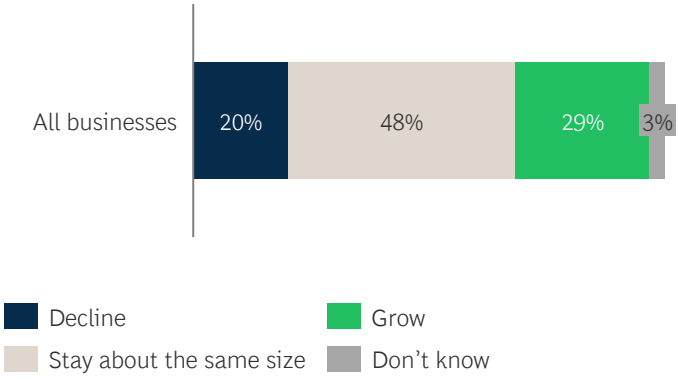
Planning for the Future

Labour Market

As we enter an economic slowdown, the prevailing narrative has been that the labour market will loosen relatively quickly this year and unemployment will rise. Both the Office for Budget Responsibility and the Bank of England expect unemployment to rise to close to 4.5% at the start of next year, up from 3.7% currently (a 22% increase). Our findings challenge that narrative. **Only 14% of business leaders said they expected their business to reduce headcount over the next six months**, while only a quarter (24%) of leaders plan to limit their recruitment.

In fact, over three quarters (77%) of senior leaders said they expected their headcount to either stay the same or grow over the next year, well exceeding those who expect it to reduce (20%).

Exhibit 16 - The majority of businesses are planning to either stay the same size or grow their headcount over the next year



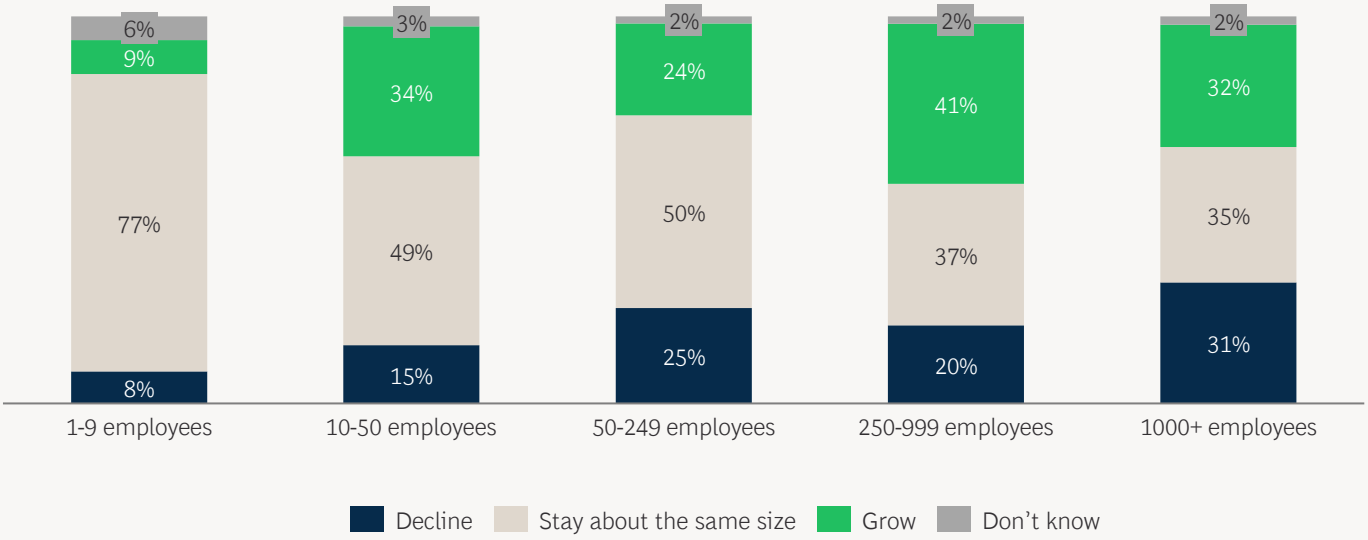
Source: BCG State of UK Business 2023 Survey

Question: 'At the moment, how do you expect your headcount to change over the next year?'

This fits with our anecdotal discussions with some of our clients who say that while they may slow or even halt recruitment, they are not planning to cut staff. This is likely because many businesses have struggled to attract and retain staff over the past few years and as such are reluctant to lose workers to what they expect will be a relatively short downturn (see expectations in section 1).

There are some differences between different sized firms. Nearly a third (31%) of the largest firms (1000+ employees) expect to reduce headcount, compared with just 8% of micro-businesses and 15% of businesses with 10-50 employees.

Exhibit 17 - Businesses expecting to increase their headcount exceeds those planning to reduce it. Apart from in companies with 50-249 employees where there is a 1% difference



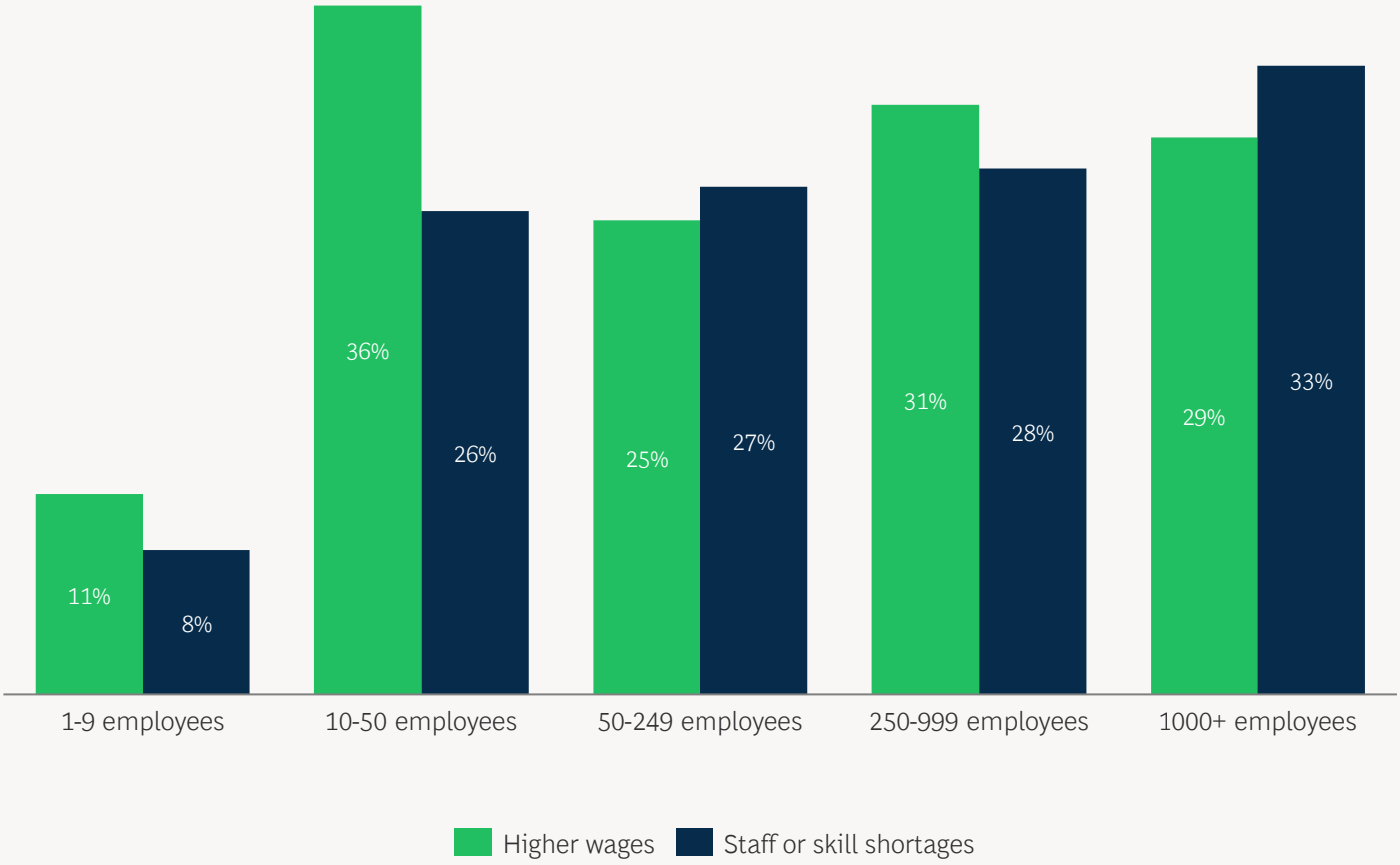
Source: BCG State of UK Business 2023 Survey
Question: 'At the moment, how do you expect your headcount to change over the next year?'

The labour market experience is different for small and large firms in other ways. The largest firms have faced more difficulty with staff and skills shortages. They have also found rising wages a much more significant challenge.

A third of business leaders from these businesses said that staff or skill shortages had significantly impacted the profitability of their business in the last year, compared with just 8% of micro-businesses (1-9 employees).

There are also some clear geographical differences, with business leaders outside of London more likely to say they struggled to find staff. Four in 10 (40%) business leaders in Northern Ireland and a third (33%) in the North East (33%) said they have been experiencing labour shortages.

Exhibit 18 - Larger companies' profitability has been hit by staff or skill shortages much more than smaller businesses



Source: BCG State of UK Business 2023 Survey

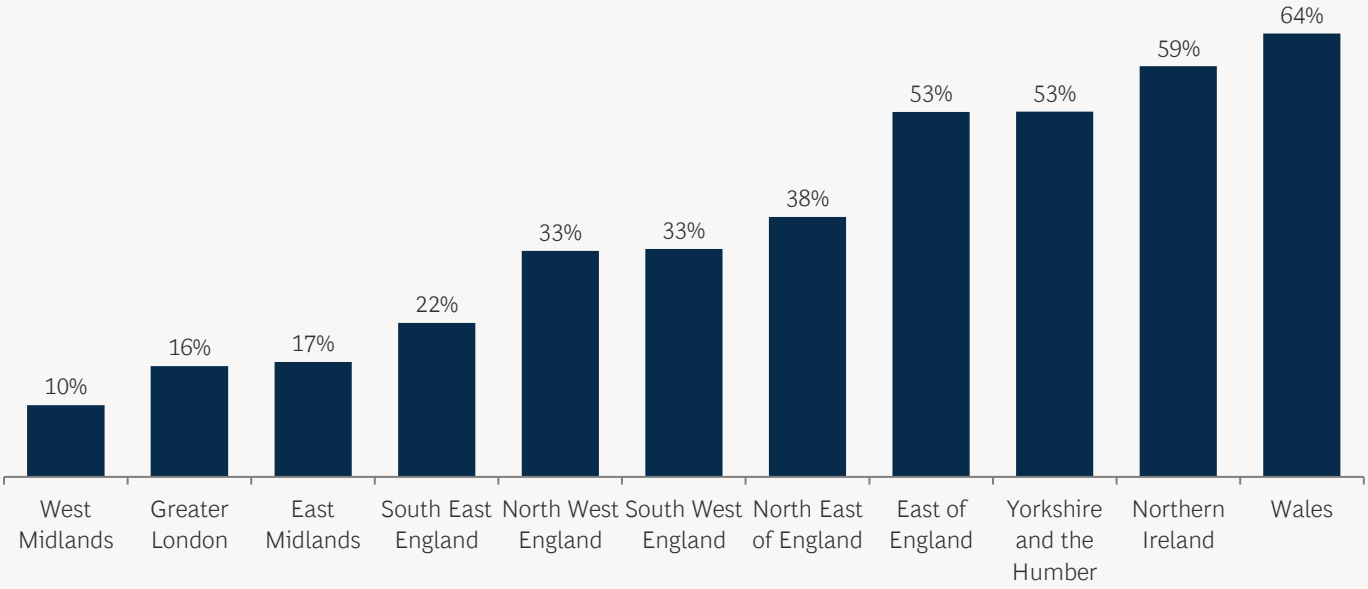
Businesses by Resilience Index ranking and age

In response to experiencing labour shortages, 37% of senior leaders said they increased their salary range and 31% said they advertised for staff in new locations. The largest firms are investing in their workforce to support growth too. Half of leaders from businesses with 1000+ employees said they plan to train up existing staff with new skills, compared to just 15% of micro-businesses.

There are of course knock-on effects from the tightness of the labour market. For example, well over a third (40%) of large firms said that a shortage of the right staff/skills was hampering businesses' investment plans.

There is an important shift underway as new ways of working take hold. **Close to one third (29%) of senior business leaders said that their firm had hired remote workers in response to labour shortages. There are also interesting geographical differences here. The top areas for hiring remote workers were Yorkshire and the Humber, Northern Ireland and Wales.**

Exhibit 19 - Welsh businesses are the most likely to respond to labour shortages by hiring remote workers



Source: BCG State of UK Business 2023 Survey

Question: Business leaders who answered 'hiring remote workers' to: 'You said that you had been experiencing labour shortages. Which of the following, if anything, have you done in response to this'

This is likely down to a combination of a staff/skill shortages and new ways of working. But it is a signal that fundamental changes, which will have widespread impacts on everything from tax to immigration, are underway in the UK. This paradigm shift is further evidenced by the Welsh Government's remote working target of 30% of workers in Wales working from home. This specific policy approach, which was established in 2020, may go some way to explaining why Wales tops the table of leaders hiring remote workers in response to labour shortages. It's important to note that as well as individuals working remotely in the UK, this may also include those working remotely outside the UK. The view that businesses fundamentally choose between training up local staff, hiring migrants or investing in capital/automation is increasingly outdated (if it were ever true).

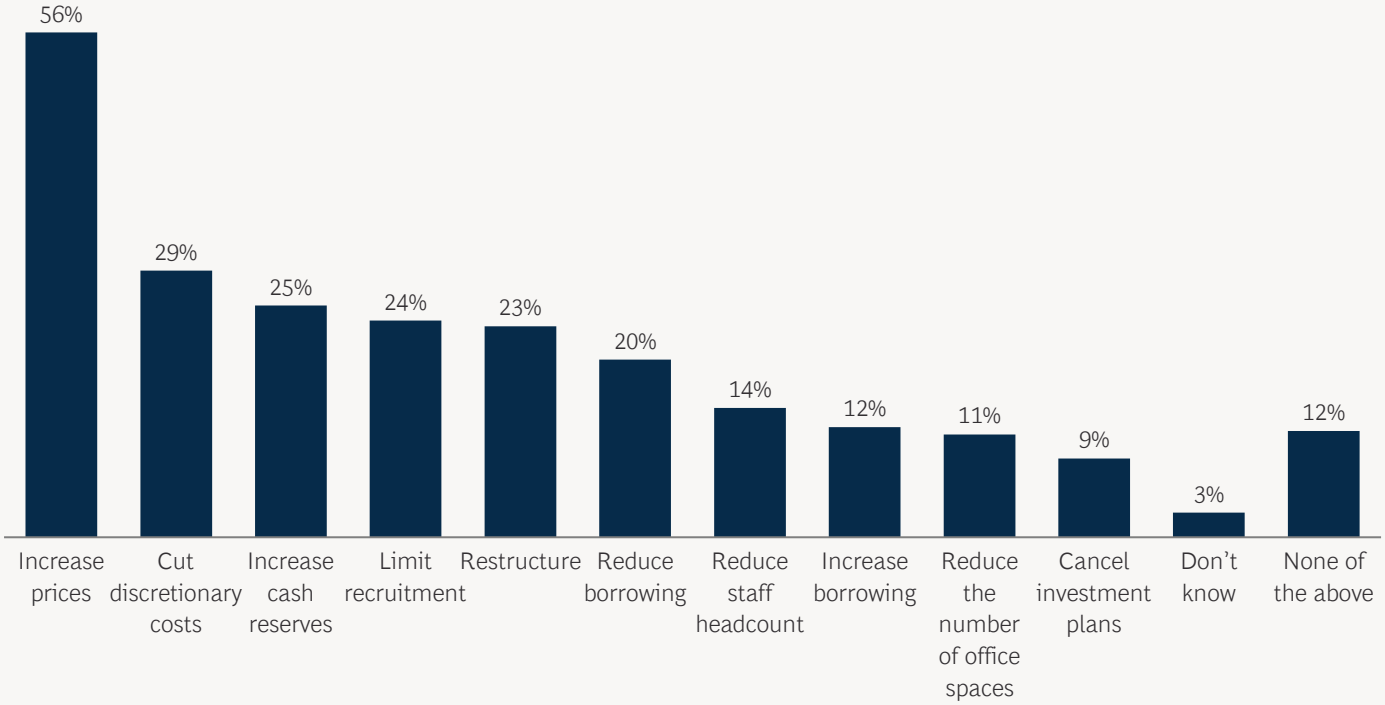
Inflation and Cost Base

The expectation is that inflation will fall this year, particularly as global energy prices ease.

But the UK is facing a combination of domestically-driven inflation as well as that from the energy price shock.

Over half of business leaders (56%) expect their business to increase prices over the next six months. This expectation is consistent across all business sizes, sectors and regions. All of this hints that inflation may persist this year.

Exhibit 20 - Most businesses intend to increase prices over the next six months



Source: BCG State of UK Business 2023 Survey

Question: 'Do you expect your business to take any of the following steps in the next six months?'

40% of business leaders list higher energy costs as one of their three largest threats over the next 12 months. This is followed by higher taxes (26%), falling consumer demand (25%), higher interest rates (25%), supply chain disruptions (23%), and staff or skills shortages (22%).

Policy

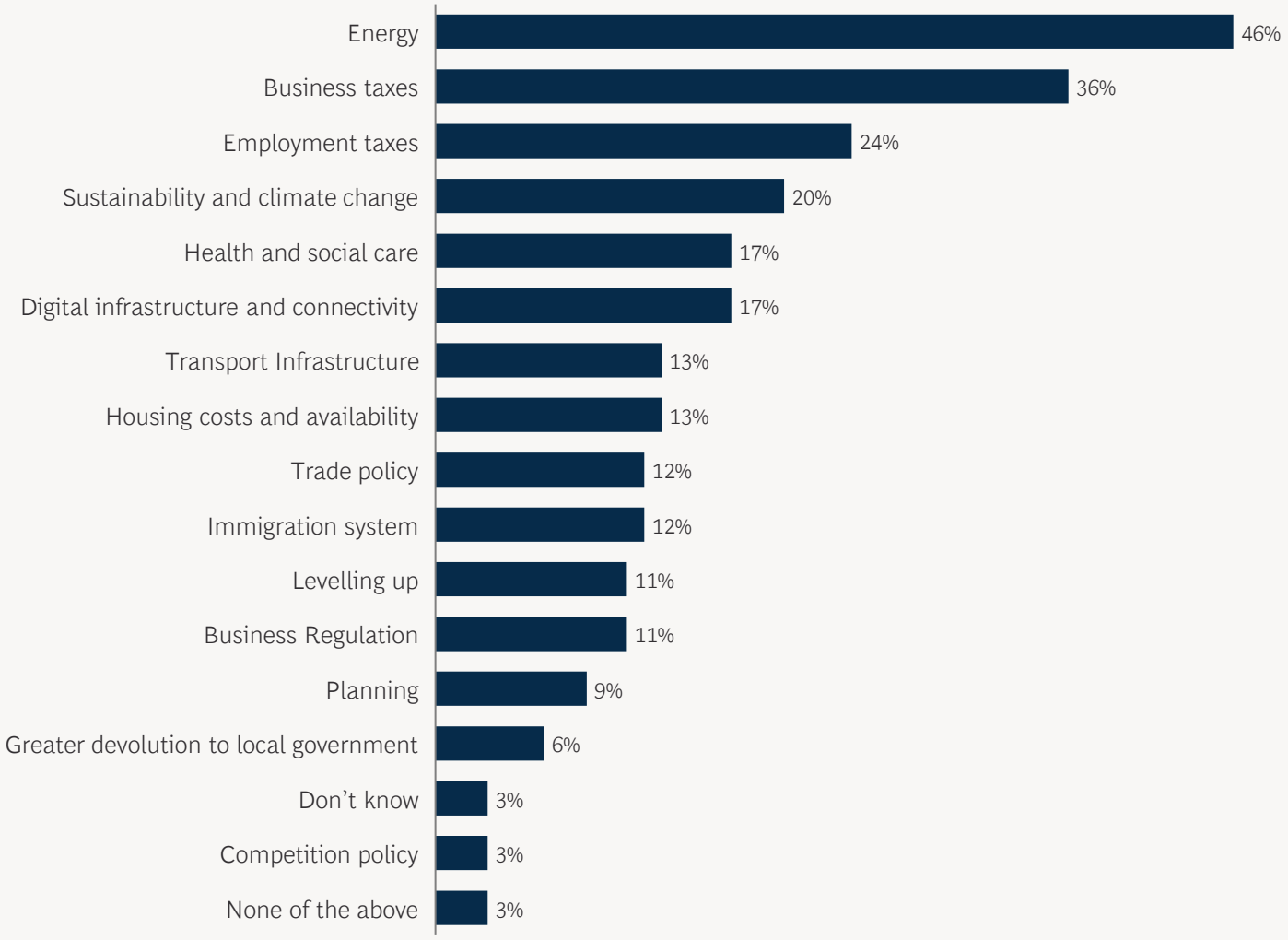
As we set out in our launch publication – A Pathway to Growth – the UK faces several economic challenges, particularly around growth and productivity.

Unsurprisingly, nearly half (46%) of business leaders listed energy as one of the top three policy priorities for the government.

This was followed by business taxes (36%), employment taxes (24%), then sustainability and climate change (20%). Health and social care and digital infrastructure and connectivity both scored 17%.

It's clear from business leaders that businesses are tightly focused on aspects of policy that are directly squeezing their margins right now.

Exhibit 21 - Energy policy is the area that most business leaders think government should prioritise

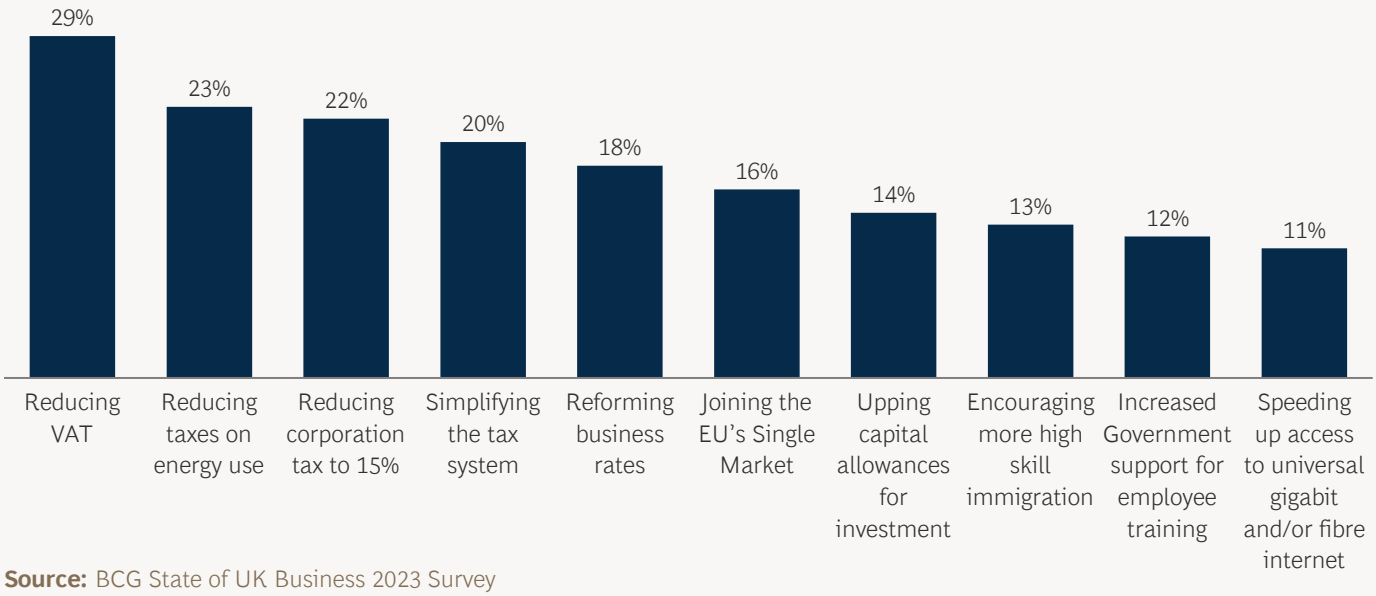


Source: BCG State of UK Business 2023 Survey

Question: 'Which of the following policy areas do you think should be the highest priority for the Government to help companies like yours?'

When we asked business leaders to tell us the policies that would have the most positive impact on their business, 29% of business leaders chose reducing VAT; rising to 37% of business leaders in businesses with between 10 and 50 employees – making it the top overall choice. This was followed by reducing taxes on energy use (23%), reducing the corporation tax rate to 15% (22%), simplifying the tax system (20%) and reforming business rates (18%).

Exhibit 22 - There's no clear consensus on which policies would have the most positive impact for UK businesses but easing tax burden was most common theme:



Source: BCG State of UK Business 2023 Survey

Question: 'Next, we would like you to select the five policies which you think would have the most positive impact on your own business'

A quarter (25%) of leaders in businesses with 1000+ employees said that encouraging more high-skill immigration would be among the most impactful things the government could do for their business.

The lack of any majorities for the wide array of policies we tested also demonstrates the challenge government is facing. Whilst there are economic pressures for all businesses, companies of different sizes, ages and types are facing diverse challenges and so have different priorities for growth. The result is that there is little to no consensus over what policies would best help overall.

One small silver lining is that very few businesses (only 9%) are planning to reduce their investment plans over the next six months, despite an expected recession.

This is important given that business investment has been very weak in the UK, particularly over the last five years but over even a longer horizon when compared to other developed economies. The UK cannot afford even further deterioration here.

Chapter 04

Long Term Trends

Future of Work and the Office

Business leaders believe that remote/hybrid working is the new normal and is here to stay. Not only that, they also overwhelmingly think this is a positive thing. **Just 8% said that the move to remote working had had an overall negative impact on staff performance**, challenging the narrative that business leaders want to see workers back in the office and that they believe it has harmed productivity.

Exhibit 23 - Only 8% of business leaders think remote working has had a negative impact overall

Source: BCG State of UK Business 2023 Survey

Question: 'In your experience, has having staff work remotely improved, worsened or had no impact on their performance?'

77% of business leaders say their businesses have at least a quarter of their staff working remotely for at least some of an average week.
This compares to a fifth (21%) of leaders who say their businesses have no staff working remotely.

It also looks as if we might be approaching the new normal in terms of ways of working. Very few business leaders, across all different sizes, regions and sectors, see much changing in the coming year in terms of ways of working. Businesses are prepared to take action too; leaders in nearly a quarter (22%) of businesses with over a 1,000 employees said they expected to reduce the number of physical locations or office space over the next six months.

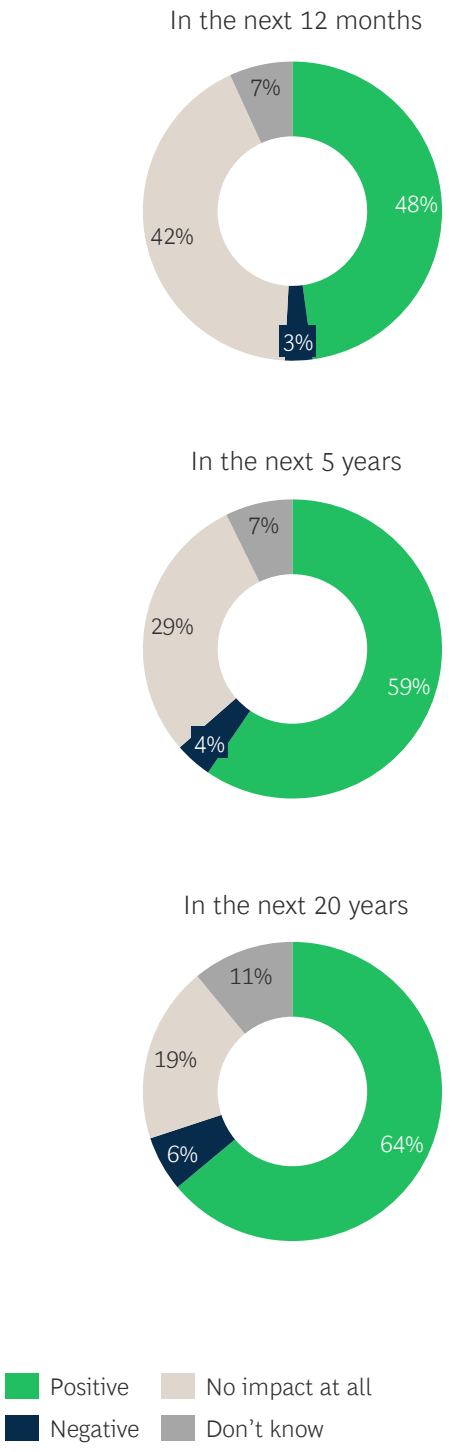
Artificial Intelligence

The increasing use of AI within the workplace is a rapid and important shift. We found a lot of optimism amongst business leaders around the use of AI for their business.

Almost half (47%) of leaders say that their business has used artificial intelligence or machine learning to analyse their internal data. Just below half (44%) say their business has used AI or machine learning to optimise and automate their existing processes or systems. The prevalence of AI use was higher than we were expecting and highlights the broad use cases within a variety of sectors.

48% of leaders think that artificial intelligence will have a very or somewhat positive impact on their business in the next year. This rises to 59% when considering the next five years and 64% for the next 20 years.

Exhibit 24 - Overwhelmingly, business leaders think AI will have a positive impact on their businesses in both the immediate and long-term future

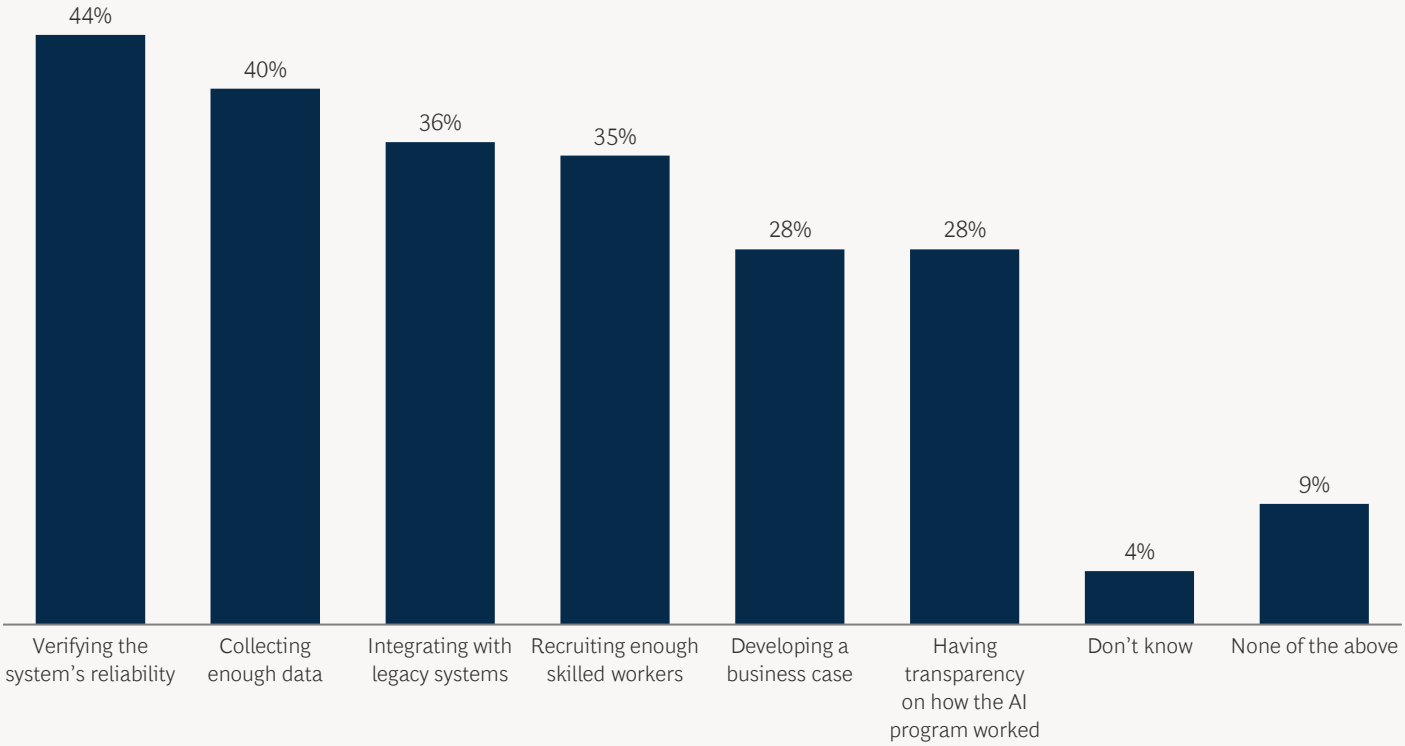


Source: BCG State of UK Business 2023 Survey

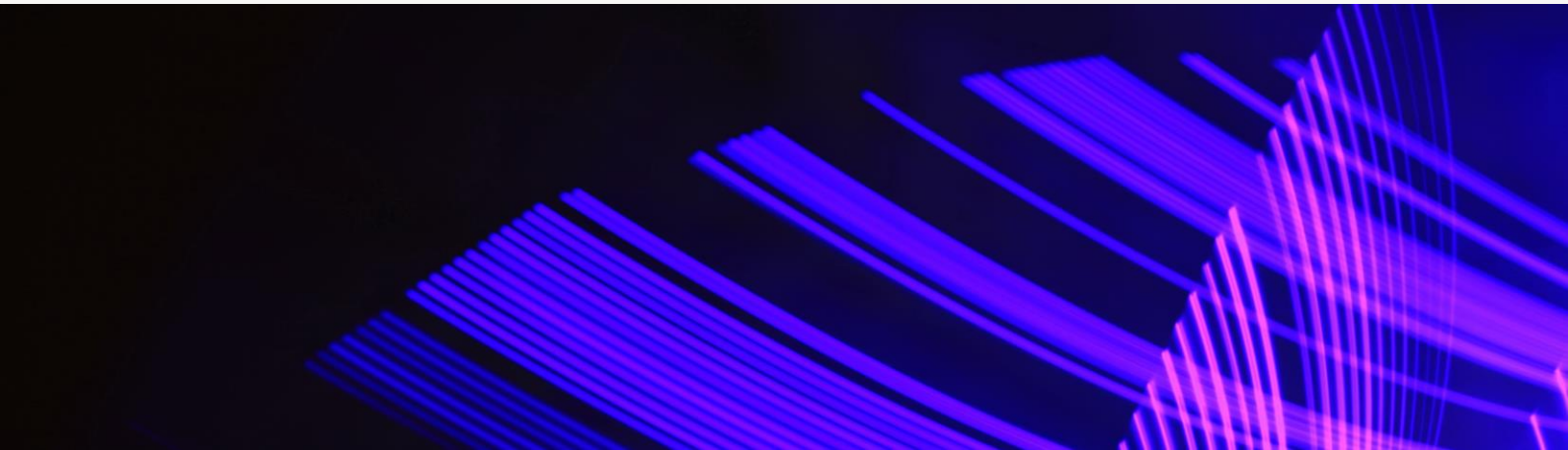
Question: 'What impact do you think artificial intelligence will have on business over the following timescales?'

Of course, the deployment of new technologies such as AI is rarely smooth sailing. In terms of the major challenges for their business, almost half of business leaders (44%) said that verifying the system's reliability was a challenge. This was followed by collecting enough data (40%), integrating the AI or machine learning with legacy systems (36%), recruiting enough skilled workers (35%), developing a business case (28%), and having transparency on how exactly the AI or machine learning programme worked (28%). This suggests that improving the reliability of AI systems usage in a day-to-day business environment will be important for its benefits to be fully realised.

Exhibit 25 - Most businesses found that reliability was the biggest challenge when adopting AI

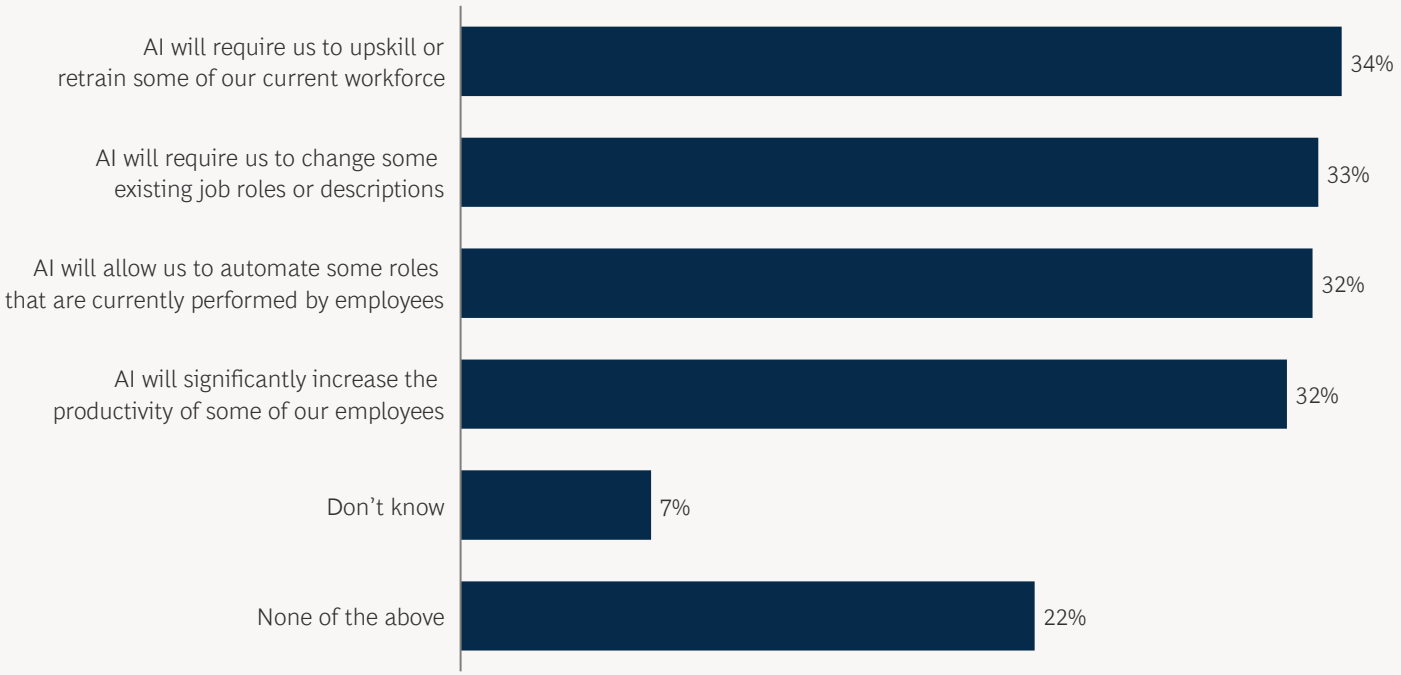


Source: BCG State of UK Business 2023 Survey
Question: 'Which, if any, of the following challenges did your business experience when looking to adopt AI?'



One of the major concerns around the deployment of AI is that it will eliminate certain jobs. This view was not shared by the business leaders we asked. A third (34%) said that AI will require them to upskill or retrain some of their workforce in the next five years, 33% think it will require them to change some existing job roles or descriptions, 32% said it would allow them to automate some roles that are currently performed by employees, and 32% expected AI to significantly increase the productivity of some of their employees. Clearly, the likelihood of automation ranks equally with expectations that there will also need to be investment in training and a potential increase in productivity.

Exhibit 26 - In order to harness the potential of AI, business leaders recognise changes are needed - including upskilling staff and amending existing job roles



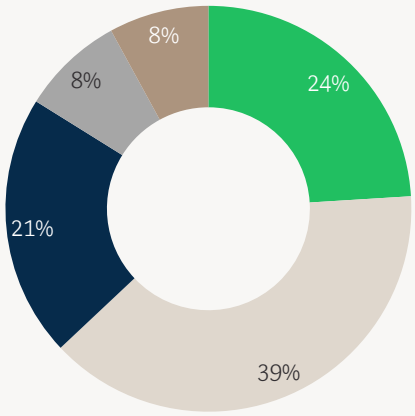
Source: BCG State of UK Business 2023 Survey

Question: 'In the next five years, what impact do you expect artificial intelligence to have on your workforce needs?'

Sustainability

As we enter a period of economic uncertainty, there is a valid concern that the more difficult economic environment will lead to some businesses stepping back from their commitment and investment in sustainability and net zero targets. **However, over a third (39%) of business leaders said that an economic downturn would have no impact on their company's prioritisation of environmental sustainability and a further 24% said it would actually make it more of a priority.** This compares to 21% who said they would prioritise sustainability less in the event of a downturn.

Exhibit 27 - Most businesses will double down on sustainability even if a recession bites



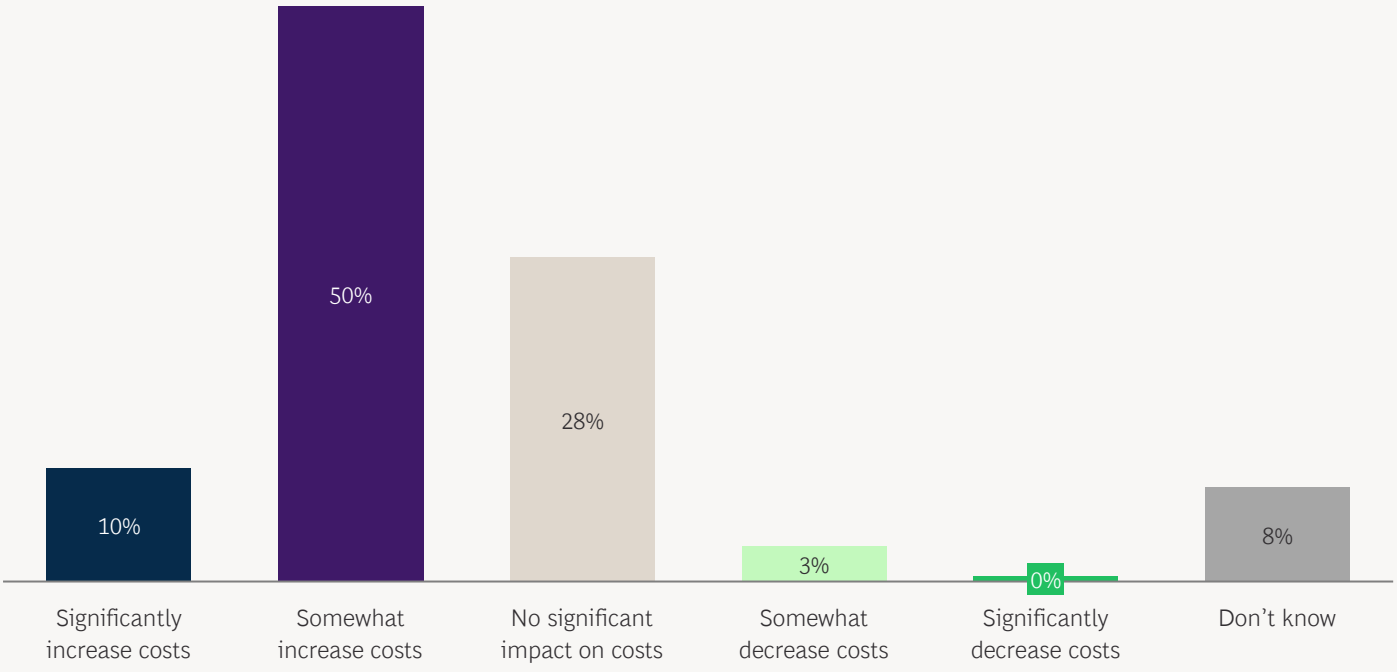
- Will increase the priority of sustainability
- Will have no impact on the priority of sustainability
- Will decrease the priority of sustainability
- Don't know
- Not applicable

Source: BCG State of UK Business 2023 Survey

Question: 'What impact, if any, do you think the economic downturn will have on your company's prioritisation of environmental sustainability'

Businesses continue to signal their commitment to climate targets despite an expectation that this will lead to higher costs. **Well over half (60%) of senior leaders said they thought the UK's net zero target will significantly or somewhat increase their business's costs over the next five years.** The consensus appears to be that pursuing sustainability as a priority is worth the price.

Exhibit 28 - Business leaders acknowledge that the UK's net zero target is likely to increase their costs



Source: BCG State of UK Business 2023 Survey

Question: 'In the next five years, do you expect the UK's net zero target to increase, reduce, or have no impact on your business's costs?'

Perhaps businesses believe that new opportunities will compensate for these extra costs. **Just under half (47%) of business leaders also told us they think that the UK's net zero targets will create opportunities for their business in the next five years, compared to 22% who think this is unlikely.**

Overall, the message came through strongly that business leaders in the UK are committed to improving sustainability and meeting net zero targets despite an economic slowdown and even though many expect it to increase their costs. Compared to other parts of the survey, it is clear that this transcends the immediate margin pressures facing businesses.

Survey Background

The Centre for Growth's inaugural business survey **'State of UK Business 2023: Squeezed but Still Standing'** consists of data from over 1,500 senior leaders in businesses across the UK, providing in-depth insights into business leaders' views in a time of significant uncertainty.

The State of UK Business 2023 survey provides unique and unparalleled data on business leaders' perspectives on the economy, resilience, business growth and the longer-term outlook for UK competitiveness.

For this survey, "business leaders" are defined as those who have a senior position and full or partial responsibility for a business's overall decision-making processes. For example, founders, c-suite executives, and vice presidents. More information on who completed our survey can be found in the methodology section.

What Makes this Survey Different?

The **'State of UK Business 2023: Squeezed but Still Standing'** survey is one of the largest surveys of UK business leaders and has a representative sample.

Includes business leaders from UK companies in all stages of their lifecycle, from start-ups to institutions who've been established for over 10 years.

Covers a wide range of business sizes, from sole traders to large multinational corporations with annual revenues of £50M+.

Includes leaders in businesses across all regions and countries in the UK from Northern Ireland to the South-West of England.

Respondents represent the breadth of UK sectors, from agriculture and the arts to transport and financial services, with the sample weighted to be representative of the structure of the UK economy.

Focuses on key areas of business growth including resilience, AI, sustainability, the future of work and labour market strategies.

We have developed a bespoke resilience index that assesses businesses' resilience against key metrics. This helps to crystallise what it takes to make a business resilient as well as highlighting the improved performance of resilient businesses.

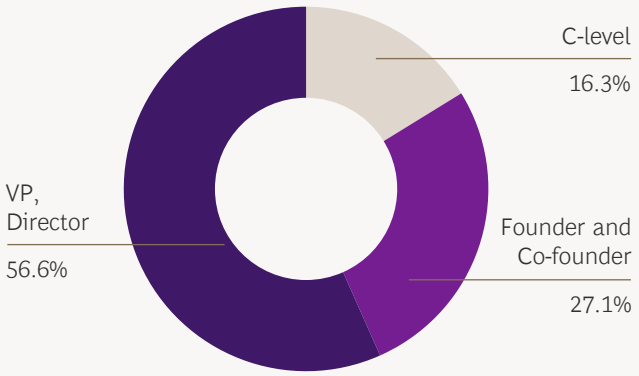
Methodology

The data in this report is based on responses from 1,526 senior business leaders (1,027 from an online survey and 499 from computer-assisted telephone interviews). Data was collected from 11th January – 2nd February 2023.

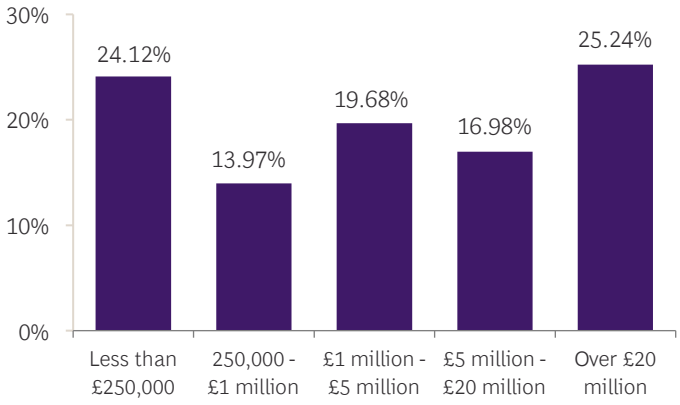
This report is based on research conducted on behalf of BCG by Public First, an independent consultancy specialising in policy, research, opinion, and strategy. Public First are members of the British Polling Council and the Market Research Society.

Who Participated?

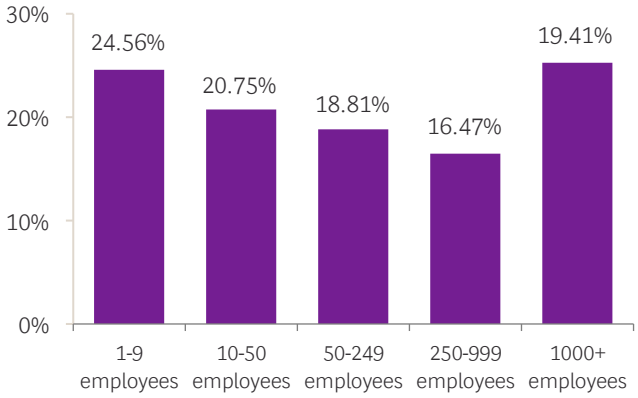
Over half of respondents held Vice President or Director roles, a further quarter were founders or co-founders and 16% held C-level roles.



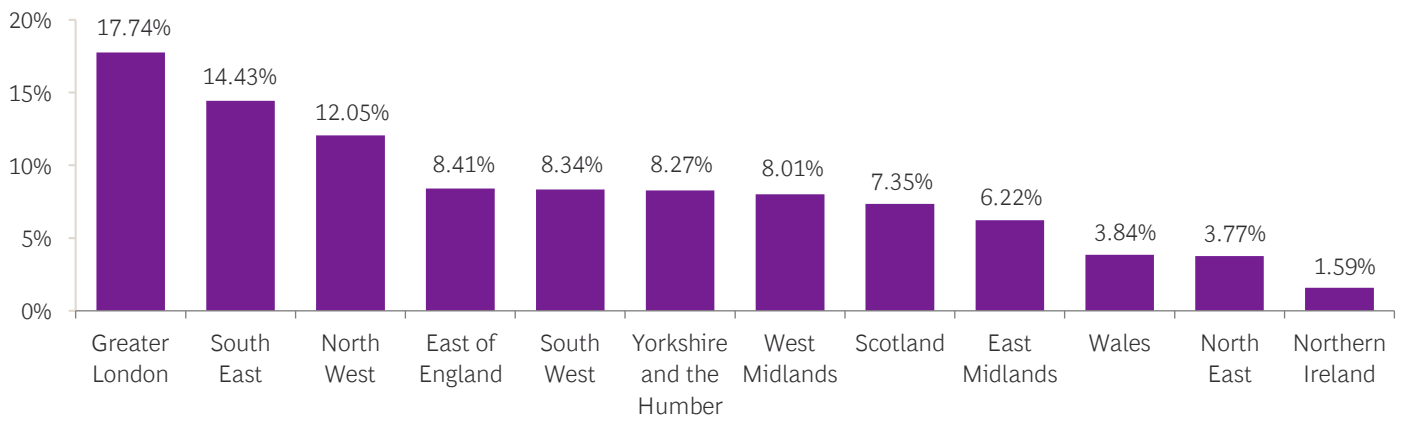
We included businesses with a range of annual revenue from less than £250,000 to over £20 million:



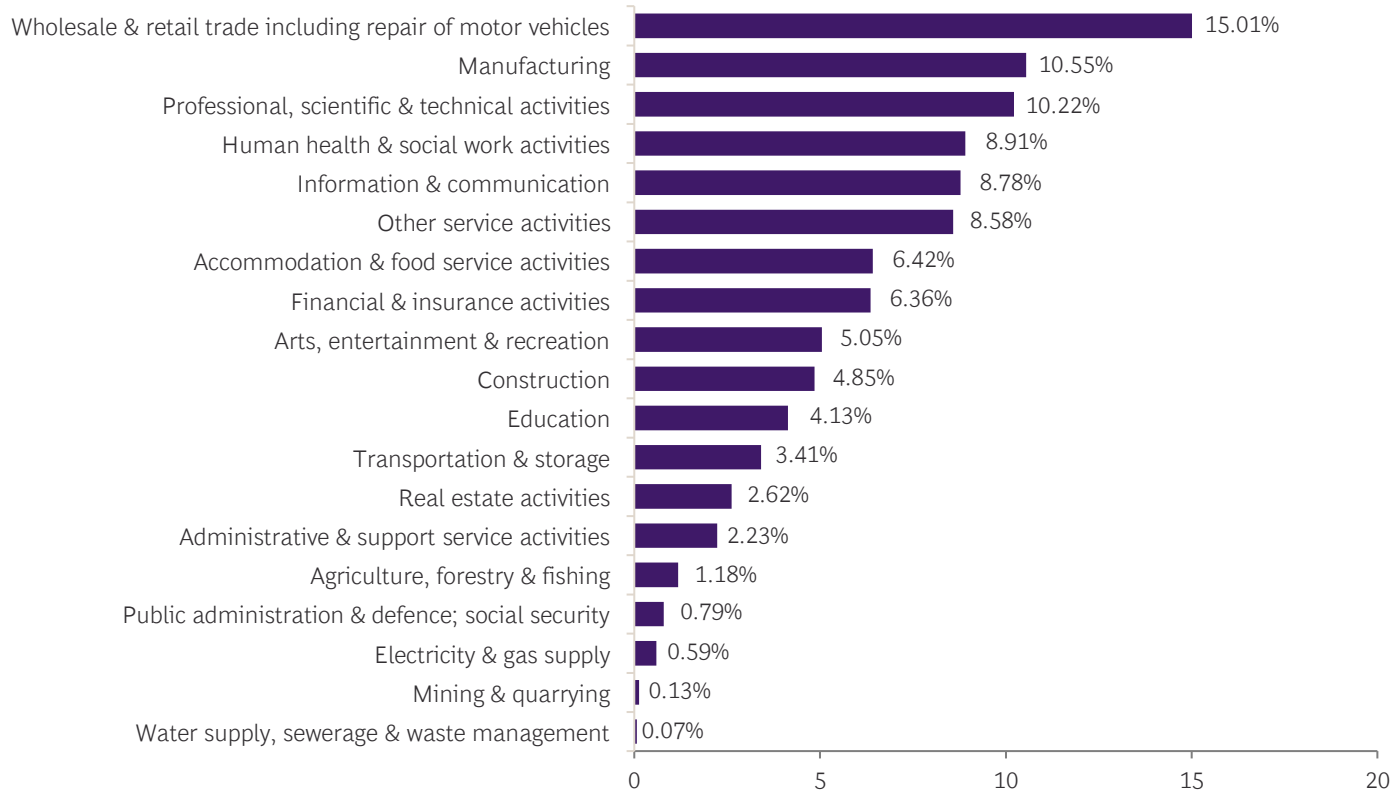
And businesses of all sizes:



They represented businesses from across the UK:



This survey included businesses from a wide array of sectors:



Data

Results have been weighted using iterative proportional fitting, to ensure a nationally representative of the following criteria:

- Business size by number of employees
- Region
- Primary sector of operation

The data for this report was collected from both an online and phone survey. This mixed approach allowed us to reach a more diverse audience whilst maintaining seniority of respondents. Respondents who participated in the telephone survey answered a shorter version of the survey allowing more time to go into depth on our priority questions. Questions which were fielded to online respondents only are indicated throughout the report.

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