Impact of Brexit on the Internationalisation of SMEs in Kent

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# Executive Summary

Kent County Council commissioned some research in 2016 as part of an EU-funded project to better understand the current situation with the internationalisation (export activities) of local companies including barriers to exporting and the challenges faced by businesses. The report was completed by Kent Business School in 2017 and is available here: [https://www.interregeurope.eu/sie/sie-research-work/](https://www.interregeurope.eu/sie/sie-research-work/).

This follow-up report was commissioned to better understand the evolving outlook of Kent businesses relating to international trade as the UK prepares to leave the European Union. It builds on quantitative and qualitative findings from a survey on SMEs' internationalisation in October-November 2016, a roundtable of local businesses organised by Kent Business School in February 2017 and the Kent Business Summit that took place in January 2018.

The report starts with a discussion of the impact on inward and outward Foreign Direct Investments and continues with a discussion of the impact on both facets of SMEs internationalisation, i.e. exporting and importing activity. It then provides evidence on the impact of Brexit on the overall economic activity and concludes by summarising the key findings and recommendations.

A summary of the findings reveals the following important issues:

- Firms and especially SMES should be aware of their position in global value chains.
- Foreign exchange fluctuations are a major factor especially for SMEs that do not have the resources to hedge in the medium and long term.
- Access to talent and skills could have an important effect.
- Brexit could be an opportunity but this requires the development of an entrepreneurial approach that enables firms to become resilient.
- Kent's economy has the necessary characteristics to develop innovation and entrepreneurship.

These findings suggest that Brexit has a negative impact but this could be mitigated with appropriate support in the following areas:

- Supporting businesses to having better planning and scenario analysis.
- Enabling access to talent through the retention and attraction of highly skilled labour force.
- Supporting an entrepreneurial approach to business through access to funding and additional specialised support in the development of ideas.

# Introduction

This report was commissioned by Kent County Council as part of the Interreg project looking at Small and Medium Enterprise (SME) Information Exchange (SIE). It provides an overview of the potential Brexit impact on Kent, focusing primarily on those companies that internationalise.

It builds on analysis and information collected at three different points in time during the Brexit negotiations stage. The first part of the analysis offers an in-depth discussion of the results from an SME survey investigating the internationalisation of SMEs. The survey was administrated in the first few months after the referendum and provides a detailed view on the immediate reaction of SMEs. A significant degree of uncertainty characterises the SMEs' responses, especially for those engaging in international activities as exporters or importers.

The second part of the analysis builds on a roundtable organised by Kent Business School in February 2017. A number of companies were invited to discuss their approach to Brexit, identify the key challenges and offer advice on ways to mitigate them. A qualitative analysis shows that companies have identified the key challenges in the post-Brexit era but struggled to strategize on appropriate ways to overcome them. This was primarily due to the resource constraints faced by these companies. The key message which emerged was that although Brexit was a challenge, it had the potential to create opportunities but planning for alternative scenarios had significant resource implications and therefore was expensive, especially for SMEs.

The third part of the analysis builds on the findings of the Kent Business Summit organised by Kent Business School in partnership with the Institute of Directors and the Federation of Small Businesses. Although the key theme of the Summit was forward looking beyond Brexit, this was an excellent opportunity for companies to discuss the implications and progress on Brexit negotiations almost a year before the formal exit of the UK from the EU. Most companies identified Brexit as a challenge but had in place a number of mitigation strategies and were already planning for the alternative scenarios in the post-Brexit period, especially for the 'no deal' Brexit option. Although this is reassuring and shows a degree of pro-activeness from the corporate world, it comes at the expense of alternative investments that had to be postponed or cancelled to commit resources in the Brexit planning.

The report starts with an overview of the scarce academic literature on the impact of Brexit. This is not Kent specific but provides an excellent background to set the scene on the implications for the wider UK economy. A number of studies have already been published offering both a conceptual and empirical understanding of Brexit but a lot is still required to fully understand the implications. Following this section, an analysis on the impact of Brexit on Foreign Direct Investment (FDI) in the region is presented. FDI is a key driver of economic activity and could have significant externalities for local SMEs through the dissemination of best management practices, creation of knowledge and upgrading of human resources. The impact on both Outward and Inward FDI is presented. This is then followed by the analysis on Brexit impact with information collected during the three periods discussed above. The report concludes with a number of recommendations for the local county council to support companies in mitigating the Brexit uncertainty.

# Literature review on Brexit – Existing Studies

Many authors have tried to estimate the levels of FDI that may be affected by the Brexit decision. Dhinga et al. (2016a&b) find that FDI inflows into the UK will decrease by 22% over the next decade. They estimate this number through their belief that leaving the EU will have a smaller proportionate effect than joining. They estimate the effect of joining the EU to increase FDI inflows by an average of 28% through three different statistical models. By using this baseline of 28%, the authors employ the following calculation of 0.28/(1+0.28) to obtain 22%. The authors list three main reasons behind the potential fall in FDI. These include no longer being in the Single Market with tariff free access as is associated with Brexit, the issue of co-ordination of supply chains with headquarters and local branches and the uncertainty over future trading arrangements with the EU.

Driffield and Karoglou (2016), agree with Dhinga et al. (2016b) and indicate that Brexit would have a negative impact on the UK in terms of inward FDI. This pessimistic conclusion of FDI inflows post Brexit is furthered by Bailey et al. (2017), PWC (2016a&b), Simionescu (2017) and McGrattan and Waddle (2017) who all predict FDI inflows will fall. Thus, these articles, directly related to the Brexit situation, all indicate negative outcomes for the UK. All the above authors, bar McGrattan and Waddle (2017), highlight uncertainty as one of the main factors affecting FDI inflows into the UK.

However, there are also articles that contrast the suggestions by the above authors. Kekic (2017) conveys his belief that FDI in the UK will remain stable after Brexit due to the strong institutions and favourable environment for investment. He even further suggests that this environment may be helped by a weakened pound and the chance of further deregulation.

Blonigen and Piger (2014) are sceptical of the influence a host country can have on FDI through the traditional variables such as political institutions and infrastructure. Further to this, the authors highlight the importance of trade agreements and customs unions amongst other bilateral agreements. As the UK is embarking upon Brexit, this result would contradict Kekic (2017) and suggest that FDI is likely to fall.

# The impact of Brexit on regional Foreign Direct Investment

Assessing the impact of Brexit on FDI can provide us with a first picture of the potential implications for investment decisions and the potential impact of uncertainty. The two sections below provide a discussion of the impact on both outward FDI (FDI that originates from South East based companies[1]) as well as inward FDI (FDI that is being attracted into Kent from abroad).

## Outward FDI

It is evident from Table 1 below that there is a clear downward trend with regards to outward FDI. Whilst the data for 2018 is not sufficient to offer a comparative basis due to its limited time dimension, outward FDI projects have dropped from 226 in 2015 to 149 in 2017. A big decrease is observed in 2016 (the year of the referendum) in terms of projects, and capital expenditure as well as jobs created. There is some improvement in 2017 but the numbers are still significantly below the 2015 activity, especially around capital expenditure and jobs created. Kent based companies have therefore moderated their FDI related internationalisation activities and despite some increase in the activity in 2017 this still remains well below the pre-referendum period.

*Table 1. Outward Foreign Direct Investments from South East Based Companies*

| Year | Projects | Capex | Avg Capex | Jobs Created | Avg Jobs | Companies |
|---|---|---|---|---|---|---|
| **2018** | 3 | 118.4 | 39.5 | 183 | 61 | 3 |
| **2017** | 149 | 3,680.5 | 24.7 | 11,449 | 76 | 113 |
| **2016** | 183 | 3,444.6 | 18.8 | 11,504 | 62 | 134 |
| **2015** | 226 | 5,818.8 | 25.7 | 17,667 | 78 | 167 |
| **Total** | 561 | 13,062.2 | 23.3 | 40,803 | 72 | 364 |

Source: FDIMarkets.com

Table 2 provides the number of outward FDI projects over the last 3 years by location. It is interesting to note that Kent based companies are investing primarily outside the EU. Four out of the top five locations are outside the EU with USA being the most popular location while China, India and UAE follow after Germany, which is in the second position. The rest of the table verifies that Kent based companies do hold an impressive portfolio of activities in a significant number of locations. In total 364 companies have invested abroad with 41,000 jobs have been created. The profile of locations justifies the creation of a clear policy concerning the support of those companies operating outside the EU.

[1] Data specifically for Kent based companies does not exist at this disaggregated level for outward FDI.

*Table 2. Outward Foreign Direct Investment by location (2015-2018)*

| Destination Country | Projects | Capex | Avg Capex | Jobs Created | Avg Jobs | Companies |
|---|---|---|---|---|---|---|
| United States | 111 | 2,098.9 | 18.9 | 5,951 | 53 | 96 |
| Germany | 41 | 547.0 | 13.3 | 1,706 | 41 | 37 |
| India | 38 | 1,474.9 | 38.8 | 5,085 | 133 | 24 |
| China | 31 | 809.6 | 26.1 | 2,348 | 75 | 30 |
| UAE | 25 | 318.1 | 12.7 | 1,020 | 40 | 25 |
| France | 22 | 643.9 | 29.3 | 1,151 | 52 | 18 |
| Ireland | 19 | 309.1 | 16.3 | 879 | 46 | 15 |
| Singapore | 19 | 423.7 | 22.3 | 3,233 | 170 | 16 |
| Spain | 18 | 310.9 | 17.3 | 893 | 49 | 13 |
| Australia | 16 | 705.7 | 44.1 | 1,606 | 100 | 15 |
| Hong Kong | 14 | 175.6 | 12.5 | 661 | 47 | 14 |
| South Africa | 14 | 78.1 | 5.6 | 248 | 17 | 13 |
| Romania | 10 | 170.2 | 17.0 | 1,571 | 157 | 5 |
| Canada | 9 | 263.9 | 29.3 | 308 | 34 | 9 |
| Netherlands | 9 | 160.9 | 17.9 | 418 | 46 | 8 |
| Philippines | 9 | 344.3 | 38.3 | 386 | 42 | 5 |
| Mexico | 8 | 343.9 | 43.0 | 1,437 | 179 | 8 |
| Poland | 8 | 179.3 | 22.4 | 800 | 100 | 7 |
| Brazil | 7 | 134.8 | 19.3 | 610 | 87 | 5 |
| Denmark | 7 | 23.6 | 3.4 | 129 | 18 | 7 |
| Malaysia | 7 | 44.3 | 6.3 | 181 | 25 | 6 |
| Rest of the World | 119 | 3,501.5 | 29.4 | 10,182 | 85 | 109 |
| Total | 561 | 13,062.2 | 23.3 | 40,803 | 72 | 364 |

Source: FDIMarkets.com

Focusing exclusively on the EU based projects, as the data presented in Table 3 and 4 shows, EU countries have attracted over a quarter of the total outward FDI. This finding bocomes more important if one puts the number of companies that have invested into other EU countries into perspective. A total of 121 out of 364 companies have invested in EU countries. This represents 1 in every 3 companies. Table 4 provides a breakdown by destination presenting Germany, France, Ireland and Spain as being the most popular locations attracting over 50% of the projects over the period. The position of Ireland is particularly important given the Brexit negotiations complexity.

*Table 3. Outward Foreign Direct Investment in EU countries (2015-2018)*

| Year | Projects | Capex | Avg Capex | Jobs Created | Avg Jobs | Companies |
|---|---|---|---|---|---|---|
| **2018** | 2 | 116.5 | 58.3 | 173 | 86 | 2 |
| **2017** | 49 | 1,098.4 | 22.4 | 3,335 | 68 | 44 |
| **2016** | 52 | 721.0 | 13.9 | 2,694 | 51 | 41 |
| **2015** | 59 | 833.1 | 14.1 | 3,182 | 53 | 51 |
| **Total** | 162 | 2,769.0 | 17.1 | 9,384 | 57 | 121 |

Source: FDIMarkets.com

*Table 4. Outward Foreign Direct Investment by EU country (2015-2018)*

| Destination Country | Projects | Capex | Avg Capex | Jobs Created | Avg Jobs | Companies |
|---|---|---|---|---|---|---|
| **Germany** | 41 | 547.0 | 13.3 | 1,706 | 41 | 37 |
| **France** | 22 | 643.9 | 29.3 | 1,151 | 52 | 18 |
| **Ireland** | 19 | 309.1 | 16.3 | 879 | 46 | 15 |
| **Spain** | 18 | 310.9 | 17.3 | 893 | 49 | 13 |
| **Romania** | 10 | 170.2 | 17.0 | 1,571 | 157 | 5 |
| **Netherlands** | 9 | 160.9 | 17.9 | 418 | 46 | 8 |
| **Poland** | 8 | 179.3 | 22.4 | 800 | 100 | 7 |
| **Denmark** | 7 | 23.6 | 3.4 | 129 | 18 | 7 |
| **Italy** | 4 | 26.0 | 6.5 | 40 | 10 | 4 |
| **Belgium** | 3 | 29.7 | 9.9 | 145 | 48 | 3 |
| **Bulgaria** | 3 | 22.7 | 7.6 | 129 | 43 | 3 |
| **Czech Republic** | 3 | 30.4 | 10.1 | 793 | 264 | 3 |
| **Hungary** | 3 | 77.1 | 25.7 | 377 | 125 | 2 |
| **Lithuania** | 3 | 16.3 | 5.4 | 78 | 26 | 3 |
| **Portugal** | 3 | 176.6 | 58.9 | 165 | 55 | 2 |
| **Finland** | 2 | 3.8 | 1.9 | 25 | 12 | 2 |
| **Greece** | 2 | 2.2 | 1.1 | 14 | 7 | 2 |
| **Luxembourg** | 1 | 36.8 | 36.8 | 63 | 63 | 1 |
| **Malta** | 1 | 2.5 | 2.5 | 8 | 8 | 1 |
| **Total** | 162 | 2,769.0 | 17.1 | 9,384 | 57 | 121 |

Source: FDIMarkets.com

## Inward FDI

Of equal importance for economic development and economic growth are inward FDI. These investments, in addition to the obvious benefit of the additional capital they bring in the investment location could also have substantial externalities by upgrading the local infrastructure, disseminating best practices, developing the human capital and sharing knowledge. The discussion around Brexit has focused on the UK's potential to remain an attractive destination for international investors, especially those that would invest in the UK as a major production and distribution centre for the rest of EU countries. Data on inward FDI[2] shows a mixed picture with a significant drop in terms of capital expenditure and jobs created during the referendum year but also a significant increase in activity during 2017, driven primarily by some substantial retail investment projects. It is worth highlighting that inward FDI can be very idiosyncratic to specific regions and this does not reflect the overall UK trend, which for the same period shows significant characteristics of slowing down. Due to the nature of the local economy, Kent has to a certain degree managed to buckle the UK trend and perform much better.

*Table 5. Inward Foreign Direct Investment in Kent (2015-2018)*

| Year | Projects | Capex | Avg Capex | Jobs Created | Avg Jobs | Companies |
|---|---|---|---|---|---|---|
| **2018** | 1 | 23.8 | 23.8 | 77 | 77 | 1 |
| **2017** | 12 | 605.0 | 50.4 | 919 | 76 | 12 |
| **2016** | 11 | 182.3 | 16.6 | 549 | 49 | 11 |
| **2015** | 13 | 416.0 | 32.0 | 1,190 | 91 | 13 |
| **Total** | 37 | 1,227.0 | 33.2 | 2,735 | 73 | 36 |

Source: FDIMarkets.com

In conclusion, there a mixed picture emerging with regards to FDI activity. Despite the initial shock in 2016, it appears that thus far FDI activity is returning back to normal levels and both from an inward and outward FDI perspective, companies are still able to identify and explore opportunities.

[2] This data corresponds to FDI located in Kent specifically. A full list of investors and the characteristics of these investments can be found in Appendix 1.

## The impact of Brexit on the Internationalisation of SMEs (Survey based evidence)

The following section provides evidence on the potential impact of Brexit on the SMEs located in Kent. It builds on a previous study focusing on recording and evaluating a variety of aspects of internationalisation of Kent based SMEs conducted in autumn 2016. The results of a survey demonstrate the impact of Brexit in a period of significant uncertainty regarding the future relationship of the UK with the EU. Brexit brings environmental uncertainty and this can significantly affect the internationalisation of SMEs (Hilmersson, Sandberg et al. 2015). The unprecedented nature of Brexit makes it an extreme event. Extreme events expose organisations to substantial strategic uncertainty (Sullivan-Taylor, Branicki 2011). Resourcefulness, technical and organisational capabilities do not necessarily help SMEs build resilience to extreme events. This section offers additional evidence to that which was presented in the 2016 report evaluating the internationalisation of SMEs. It goes a step further in analysing the data by looking at all different internationalisation activities (including importing) and looking at differences between groups of companies and their ability to build resilience.

We start by looking at some qualitative evidence around the way SMEs perceive Brexit. In the original survey, we asked participants to describe Brexit and talk about the potential consequences for their business. Figures 1 and 2 show the differences in approach between exporting and non-exporting companies. Figure 1 gives a clear picture on the way export based companies approach Brexit. For them the main issue is an increase in costs, possibly generated through the uncertainty regarding the nature of future trade relationship. Any scenario that will involve customs check and additional bureaucracy will automatically increase costs and make UK products exported abroad or imported products more expensive. Two more aspects stand out, the exchange rate and customers. The significant fluctuation of the exchange rate has created substantial problems to SMEs, especially those that rely on imported intermediate goods for their activity. Unlike larger companies, SMEs do not always have access to hedging mechanisms and are not flexible in responding to sudden changes of the exchange rate. The second aspect relates to customers. SMEs rely significantly on existing networks of customers. These networks have been facilitated by the creation of the Single Market and the harmonisation of the regulative framework across the EU. A degree of uncertainty over the future relationship makes the maintenance of those networks more expensive and generates additional costs for SMEs.

Figure 2 presents the same picture for non-exporting companies. In this case, the major challenge is the additional uncertainty created by the decision to leave the EU. This uncertainty is further reflected in the discussion around the pound and its exchange rate, the availability of labour force in the form of immigration and maintaining relationships with clients. Many of the non-exporting SMEs have come to the realisation that they do not operate independently but sit within a wider value chain of activities where the final customer might be an EU based company. This means that although they do not have an immediate direct effect from Brexit, the impact will eventually come through other channels of this value chain.

*Figure 1.The Brexit decision has the following consequences for my business... (Exporters)*


*Figure 2. The Brexit decision has the following consequences for my business... (Non-Exporters)*

## Understanding the impact of Brexit

Due to the nature of our variables (ordinal), we decided to use a Kruskal-Wallis rank test to explore differences between exporters and non-exporters, importers and non-importers, and a number of other SMEs characteristics in the way these approach Brexit. Our starting point is to explore whether SMEs understand the impact of Brexit on their operations and whether this differs between exporters, non-exporters, importers, and non-importers. Table 6 presents the relevant proportions of SMEs and the results of the test concerning differences. It is evident that a significant number of SMEs have an appreciation of the impact of Brexit. There are some differences between the proportions of exporters and importers, especially in the categories of moderately well and above, in contrast to those SMEs that do not engage in international activities but the overall test does not find any statistically significant differences between the two groups both for exporters and importers. Therefore, engaging in international activity, does not lead to a better understanding of Brexit related uncertainty, which could be primarily due to the complexity of the process and the potential impact both on the terms of trade as well as the local economic activity. Table 7 explores the differences concerning understanding uncertainty between a variety of groups. We have explored differences when the SME has declared itself as a family business due to the additional resource constraints these firms face. We have also looked at differences between high and low export intensity firms, differences between the key export markets and export intentions of the SME. Equally we have looked at differences between low and high import intensity companies, their key import markets but also differences between SMEs that have engaged with Kent International Business and the way they have evaluated the effectiveness of the support received. To benchmark this we have also explored differences with effectiveness and support received from UK Trade and Investment (UKTI)I. These two final differences can help us understand whether more engaged SMEs with different support mechanisms at the regional or national level differ from those that have not engaged. Table 7 shows clearly that there are no differences whatsoever between the different groups when understanding the effect of leaving the EU. This can be attributed to the complexity of the phenomenon and the variety of implications for businesses through a number of channels. SMEs that have indicated the EU as their key export market tend to have a slightly different result but fails to reach any level of statistically acceptable significance.

*Table 6. How well do you think you understand what the effect of leaving the EU will have on your business?*

| | Non-Exporters | Exporters | Total |
|---|---|---|---|
| **Not Well at all** | 9.39% | 8.84% | 18.23% |
| **Slightly Well** | 4.42% | 2.21% | 6.63% |
| **Moderately Well** | 22.65% | 10.50% | 33.15% |
| **Very Well** | 11.05% | 8.84% | 19.89% |
| **Extremely Well** | 12.71% | 9.39% | 22.10% |
| **Total** | 60.22% | 39.78% | 100.00% |
| **Chi-squared** | 0.01 | **Probability** | 0.9215 |
| | | | |
| | **Non-Importers** | **Importers** | **Total** |
| **Not Well at all** | 13.81% | 4.42% | 18.23% |
| **Slightly Well** | 3.87% | 2.76% | 6.63% |
| **Moderately Well** | 23.76% | 9.39% | 33.15% |
| **Very Well** | 16.02% | 3.87% | 19.89% |
| **Extremely Well** | 16.57% | 5.53% | 22.10% |
| **Total** | 74.03% | 25.97% | 100.00% |
| **Chi-squared** | 0.363 | **Probability** | 0.5466 |

*Table 7. How well do you think you understand what the effect of leaving the EU will have on your business? (differences between groups)*

| | Chi-squared | Probability |
|---|---|---|
| **Family Business** | 5.81 | 0.2138 |
| **High vs low exporters** | 3.872 | 0.5679 |
| **Export market - EU** | 0.081 | 0.7755 |
| **Export market - USA** | 0.081 | 0.7755 |
| **Export market - China** | 0.25 | 0.6171 |
| **Export market - India** | 0.013 | 0.9094 |
| **Exporting Intentions** | 5.947 | 0.2032 |
| **High vs low Importers** | 2.527 | 0.7724 |
| **Import market - EU** | 2.063 | 0.1509 |
| **Import market - USA** | 1.585 | 0.2081 |
| **Import market - China** | 0.001 | 0.9944 |
| **Import market - India** | 0.11 | 0.7311 |
| **Effectiveness (KIB)** | 0.567 | 0.9039 |
| **Effectiveness (UKTI)** | 3.609 | 0.4616 |

## The impact of Brexit

We also explored the nature of the Brexit impact. We have asked organisations to evaluate, in positive or negative terms, the impact of Brexit. The balance is in favour of a negative impact overall but in this case we also find evidence of differences between the groups. There is a clear, very strong and statistically significant difference on the negative impact of Brexit on operations between the exporters and the non-exporters group, presented in Table 8. Almost 75% of exporters have indicated that they will be much or somewhat worse after Brexit. This is due to the substantial reliance of those exporting companies to trade with other EU countries. For 88% of our surveyed SMEs, the EU has been the primary export market. Changing the trade relationship between the UK and the rest of the EU will make these SMEs worse off. This effect does not appear to exist for importing companies. Many of the importers have identified China, India and the USA as their key markets and the potential ability of UK to negotiate terms of trade independently with these locations outside the EU might moderate the potential negative effects.

Table 9 follows a similar methodological approach to Table 7 above. Although a similar pattern emerges there are two clear differences. The SMEs that have indicated EU or USA as their key market show a clear difference on the way they perceive the impact of Brexit. Looking into the data one can see that in fact the result is in the same direction. Both groups consider leaving the EU having a significantly negative impact on business. This has two different interpretations. For EU exporting companies the effect is clear and related to the potential deterioration of terms of trade with the EU in the post Brexit period. This means that there will be an additional cost to access currently available markets. The negative and statistically significant effect of SMEs that have indicated USA as their key market can be explained by the potential positioning of these firms in the product value chain. Possibly these SMEs are producers that export to USA but rely substantially on intermediate goods and services imported from other EU countries. The deterioration of terms of trade with the EU will make these companies uncompetitive in the USA market on the basis of an increase to the cost of intermediate goods. This finding clearly indicates that Brexit is not only impacting SMEs focused on EU markets but could have other important implications.

*Table 8. Would leaving the EU be best for your business?*

| | Non-Exporters | Exporters | Total |
|---|---|---|---|
| **Much worse** | 10.50% | 15.47% | 25.97% |
| **Somewhat worse** | 12.15% | 7.74% | 19.89% |
| **About the Same** | 28.18% | 10.50% | 38.67% |
| **Somewhat better** | 4.42% | 2.21% | 6.63% |
| **Much Better** | 4.97% | 3.87% | 8.84% |
| **Total** | 60.22% | 39.78% | 100.00% |
| **Chi-squared** | 6.769 | **Probability** | 0.0093 |
| | | | |
| | **Non-Importers** | **Importers** | **Total** |
| **Much worse** | 17.68% | 8.29% | 25.97% |
| **Somewhat worse** | 14.92% | 4.97% | 19.89% |
| **About the Same** | 28.73% | 9.95% | 38.67% |
| **Somewhat better** | 6.08% | 0.55% | 6.63% |
| **Much Better** | 6.63% | 2.21% | 8.84% |
| **Total** | 74.03% | 25.97% | 100.00% |
| **Chi-squared** | 1.329 | **Probability** | 0.2482 |

*Table 9. Would leaving the EU be best for your business? (differences between groups)*

| | Chi-squared | Probability |
|---|---|---|
| **Family Business** | 3.406 | 0.4924 |
| **High vs low exporters** | 1.666 | 0.8931 |
| **Export market - EU** | 6.544 | 0.0105 |
| **Export market - USA** | 5.993 | 0.0144 |
| **Export market - China** | 0.533 | 0.4654 |
| **Export market - India** | 0.077 | 0.7819 |
| **Exporting Intentions** | 4.136 | 0.3879 |
| **High vs low Importers** | 1.222 | 0.9427 |
| **Import market - EU** | 2.268 | 0.1321 |
| **Import market - USA** | 1.178 | 0.2778 |
| **Import market - China** | 1.55 | 0.2131 |
| **Import market - India** | 1.772 | 0.1832 |
| **Effectiveness (KIB)** | 0.376 | 0.9452 |
| **Effectiveness (UKTI)** | 3.465 | 0.4832 |

## Importance of Brexit related factors

As our next step we wanted to explore further the effect of potential factors on the positive or negative impact of Brexit. We asked organisations to evaluate the most important factor for them across a number of factors that influence businesses and have been instrumental points of discussion in the referendum. We present these results in Table 10. Overall, the most important factor for all companies is access to markets with over 43% of the organisations indicating that this is a business critical factor. Although, this should be interpreted with some cautiousness. The impact of Brexit could be negative for those companies that require access to EU markets but potentially positive for those companies that require access to other international markets, under the assumption that the UK will be able to negotiate better trade terms with some key markets such as USA, Canada, China, India and other emerging markets. It is also interesting to note that the two issues that received a significant attention in the pre-referendum debate, i.e. free movement of labour and national control of immigration, cancel each other out with 14% and 12% of SMEs responding that this has been the most important factor. Additionaly, whilst there is no difference in the importance of these factors between exporting and non-exporting companies, there is a statistically significant result in the differences between importers and non-importers. This is due to the idiosyncratic nature of import business, which has a better understanding of how these individual factors could affect their international activities.

Table 11 explores differences in importance which SMEs attribute to the different factors related to Brexit. Three groups show considerable differences. SMEs with different import intensity, SMEs that import primarily from the EU and SMEs that import primarily from India. Looking into the details of this one can see that SMEs with low import intensity consider access to markets the most important factor whilst for companies with high import intensity it is free labour movement. Despite this difference, both groups tend to give particular importance to factors directly related to Brexit decisions.

Companies importing from India consider in their vast majority the national control of immigration as the most important factor meanwhile EU importers rank access to markets highest. This could possibly reflect the differential nature of imports from these two locations. EU imports could be primarily intermediate goods used in the manufacturing of final goods in the UK either for local consumption of exporting abroad. Additional controls to the circulation of these products would lead to a cost increase that will eventually hinder the competitiveness of local companies. In contrast imports from India could be final products with low value added that could be produced here if appropriate cheap labour was available.

*Table 10. Which one of these is most important for your business?*

| | Non-Exporters | Exporters | Total |
|---|---|---|---|
| **Other** | 7.22% | 5.00% | 12.22% |
| **Do not know** | 17.22% | 1.67% | 18.89% |
| **Access to Markets** | 16.67% | 26.67% | 43.33% |
| **National Control of Immigration** | 8.89% | 2.22% | 11.11% |
| **Free movement of labour** | 10.00% | 4.44% | 14.44% |
| **Total** | 60.00% | 40.00% | 100.00% |
| **Chi-squared** | 0.407 | **Probability** | 0.5234 |
| | | | |
| | **Non-Importers** | **Importers** | **Total** |
| **Other** | 10.56% | 1.67% | 12.22% |
| **Do not know** | 17.22% | 1.67% | 18.89% |
| **Access to Markets** | 27.22% | 16.11% | 43.33% |
| **National Control of Immigration** | 8.89% | 2.22% | 11.11% |
| **Free movement of labour** | 10.00% | 4.44% | 14.44% |
| **Total** | 73.89% | 26.11% | 100.00% |
| **Chi-squared** | 4.035 | **Probability** | 0.0446 |

*Table 11. Which one of these is most important for your business? (differences between groups)*

| | Chi-squared | Probability |
|---|---|---|
| **Family Business** | 4.598 | 0.3311 |
| **High vs low exporters** | 4.545 | 0.4739 |
| **Export market - EU** | 0.115 | 0.7345 |
| **Export market - USA** | 0.104 | 0.7469 |
| **Export market - China** | 2.298 | 0.1296 |
| **Export market - India** | 0.057 | 0.4554 |
| **Exporting Intentions** | 3.108 | 0.5399 |
| **High vs low Importers** | 13.621 | 0.0182 |
| **Import market - EU** | 5.481 | 0.0192 |
| **Import market - USA** | 1.158 | 0.2819 |
| **Import market - China** | 0.001 | 0.9873 |
| **Import market - India** | 3.754 | 0.0527 |
| **Effectiveness (KIB)** | 1.14 | 0.7674 |
| **Effectiveness (UKTI)** | 2.951 | 0.5661 |

## Impact of Brexit related uncertainty

Our discussion above has clearly demonstrated that the most important factor related to Brexit is the created uncertainty with regards to the post Brexit environment. Uncertainty is problematic for businesses as it makes scenario planning difficult and leads to risk averse behaviour. In addition to the above we wished to explore whether SMEs consider the impact of this Brexit related uncertainty an important one for their decisions. Evidence from Table 12 clearly shows that the majority of SMEs (close to 60%) consider that the impact of Brexit will have implications for their businesses. It is therefore important to ensure that there is clarity about the post Brexit situation. Similarly to the above findings, there are differences between the importers and non-importers group (whilst the differences between exporters and non-exporters approach a level of statistical significance). Again, it appears that importers have a better understanding of their positioning and the level of impact from the Brexit related uncertainty.

Table 13 looks at the way these different groups approach uncertainty over Brexit negotiations. There is a clear pattern emerging here. Companies with significant exports in either the EU or USA show higher degrees of exposure to the uncertainty over negotiations. There is also a very similar impact to companies that import from the EU and USA with the addition of China. At the moment these locations are governed by existing rules. These will no longer apply after the UK's exit from the EU and the lack of clarity on the regime governing these trade relations the day after creates significant concerns to both exporters and importers. Trade agreements can take a long time to negotiate and be ratified. The UK cannot negotiate independently till after the official exit date. The combination of these two factors create significant uncertainty over the status of exports and imports not only from EU but also other parts of the world.

*Table 12. How likely is that the uncertainty over Brexit negotiations will impact on your business?*

| | Non-Exporters | Exporters | Total |
|---|---|---|---|
| **Extremely unlikely** | 8.29% | 2.76% | 11.05% |
| **Somewhat unlikely** | 4.97% | 3.87% | 8.84% |
| **Neither likely nor unlikely** | 12.71% | 7.18% | 19.89% |
| **Somewhat likely** | 19.89% | 12.71% | 32.60% |
| **Extremely likely** | 14.36% | 13.26% | 27.62% |
| **Total** | 60.22% | 39.78% | 100.00% |
| **Chi-squared** | 2.343 | **Probability** | 0.1258 |
| | | | |
| | **Non-Importers** | **Importers** | **Total** |
| **Extremely unlikely** | 10.50% | 0.55% | 11.05% |
| **Somewhat unlikely** | 6.08% | 2.76% | 8.84% |
| **Neither likely nor unlikely** | 17.68% | 2.21% | 19.89% |
| **Somewhat likely** | 23.20% | 9.39% | 32.60% |
| **Extremely likely** | 16.57% | 11.05% | 27.62% |
| **Total** | 74.03% | 25.97% | 100.00% |
| **Chi-squared** | 10.283 | **Probability** | 0.0013 |

*Table 13. How likely is that the uncertainty over Brexit negotiations will impact on your business? (differences between groups)*

| | Chi-squared | Probability |
|---|---|---|
| **Family Business** | 2.865 | 0.5806 |
| **High vs low exporters** | 7.931 | 0.1601 |
| **Export market - EU** | 5.963 | 0.0146 |
| **Export market - USA** | 5.572 | 0.0182 |
| **Export market - China** | 0.844 | 0.3583 |
| **Export market - India** | 0.041 | 0.8401 |
| **Exporting Intentions** | 1.893 | 0.7554 |
| **High vs low Importers** | 5.086 | 0.4055 |
| **Import market - EU** | 8.716 | 0.0032 |
| **Import market - USA** | 4.291 | 0.0386 |
| **Import market - China** | 5.929 | 0.0149 |
| **Import market - India** | 0.062 | 0.8029 |
| **Effectiveness (KIB)** | 1.85 | 0.6041 |
| **Effectiveness (UKTI)** | 2.194 | 0.7002 |

## The impact of Brexit on the local economy (evidence based analysis)

The following two sections focus on the impact of Brexit on the wider Kent economy. They build on evidence collected through two events. First, a business roundtable was organised by Kent Business School in February 2017 during the presentation of the Kent SMEs Internationalisation report. A selected group of local companies, with a variety of sizes were put together to discuss the challenges they anticipated from Brexit. The discussion had no prescribed agenda and was methodologically conducted as a focus group. The discussion was then analysed to explore the main themes emerging. Second, in January 2018, Kent Business School in partnership with the Institute of Directors and the Federation of Small Businesses organised the Kent Business Summit. The summit was organised around a number of sessions with the aim being to explore the future of Kent in the post Brexit period. The discussions in these sessions were recorded, transcribed and analysed. A report was produced shortly after the summit highlighting the key findings. This report does not aim to replicate these findings but shed a bit more in-depth light on the challenges created by Brexit in the short and medium term. The next section provides the methodological background of the transcript analysis that was followed.

### Methodological Approach

The data collected is essentially textual and was gathered from a number of transcripts. Textual data is defined as 'any text, which constitutes a relevant and necessary source material for answering the questions one is interested in' (Alexa, 1997). There are many kinds of textual data that can be used for sociological text analysis: open responses to questionnaires, newspaper editorials, commentaries, titles, articles, different kinds of reports (company annual reports, memos, newspaper reports), journal articles, advertisements, public speeches, conversations, interviews, letters, slogans, keywords (Alexa 1997).

The methodology used in this exploratory research is of a qualitative nature. We follow an inductive approach in order to gain an understanding of the key themes emerging from each roundtable. The analysis of the data involved the coding of the transcripts with the view to identify consistently emerging patterns in the discussions. More specifically the research used a focus coding procedure. Through a focus coding research method, the researcher examines all the data in a category, compares each piece of data with all other pieces and finally builds a clear working definition of each concept, which is then named, with the name becoming the CODE (Charmaz, 1983, page 117). The coding and analysis of the data was facilitated through NVivo, a computer-aided qualitative data analysis software package. The key themes that emerge from the codes are concepts that identify key discussions and actions that appeared frequently in the different roundtables. Contents analysis of the transcripts and the coding process is based on a categorisation scheme, where words or phrases are given a code. The focused coding requires the researcher to develop a set of analytical categories rather than just labelling data in a typical fashion. Modifying code themes is also an important aspect of this method.

This approach ensured that a systematic analysis of all discussions took place and we have removed any potential bias in the reporting of the key findings and the consequent actions.

## Kent Business School Roundtable (February 2017)

We have anonymised the companies that contributed to this discussion in order to protect their identity. The following table shows the key characteristics of each of the participants:

*Table 14. Participating Companies*

| Company | Role | Sector | Size |
|---|---|---|---|
| **Company 1** | Founder and CEO | Retail (Footwear and Accessories) | Large |
| **Company 2** | Managing Director | Manufacturing (Plastics) | Large |
| **Company 3** | Chief Financial Officer | Logistics | Medium |
| **Company 4** | Chief Strategy Officer | Health (High Technology) | Medium |
| **Company 5** | Managing Director | Business IT Support | Small |
| **Company 6** | Director Global Sales | Power Generation | Large |
| **Company 7** | Chief Executive Officer | Food and Beverage | Large |
| **Company 8** | Managing Director | Textiles | Small |
| **Company 9** | Managing Director | Food and Beverage | Medium |

## Uncertainty

Uncertainty has been at the forefront of discussions during the roundtable. Companies expressed concerns over a potential hard/no deal Brexit scenario which would further feed uncertainty for the day after the official exit date. It is evident from the following quotes that uncertainty is treated as an additional cost for doing business with the main additional implication that it is not always measurable.

> *The difficulty we have is the uncertainly of deciding which direction to go in – do we make our partnerships with European partners stronger until the inevitable day comes along or do we look at partners outside of the EU [Company 8]*

*I think we are certainly forecasting business is going to be fairly flat, because I think we are in this sort of state of limbo, we do not know what is going to happen. We can't react to something when we don't know what it is [Company 3]*

*[…] the thing is there is not a mega amount of stuff which we produce (export) in this country that is not dependent on something coming in from abroad in the first place (imported materials/goods) to create it [Company 8]*

*[…] what I think makes the European market so much more appealing is because it's relatively near, we don't have big disadvantages in terms of freight costs [Company 8]*

*I do not see how you can pro-actively plan for something that you do not know if it is going to happen [Company 3]*

It is also evident that for some companies this uncertainty has a detrimental effect on their ability to innovate and become entrepreneurial. Entrepreneurial behaviour requires taking on-board additional risks but this can only happen in a relatively stable environment. This has also additional implications for the overall investment climate. A number of companies have postponed or cancelled investments in anticipation of the changes:

*Sales team is noticing that a lot of businesses are hesitating about investing in new infrastructures, with most saying they are waiting to see what's happening [Company 5]*

*[…] when we know what Brexit means, that we can innovate – and we can work out ways to be entrepreneurial [Company 3]*

Finally, concerns have been expressed regarding the regulatory environment post-Brexit. At the moment companies fear that the exit from the EU will create a legislative void that the current UK administration does not have the skills and resources to cover:

*More worried about the non-tariff/regulatory issues coming out of Brexit. EU did a lot of good work in the area of food security and environmental food protection. [Company 7]*

## Currency costs

The pound has fluctuated substantially against both the US dollar and the euro in the period following the referendum result. Despite the potential beneficial effect a weak pound has on exports a significant proportion of the production costs is attributed to energy and intermediate goods. The weak pound has made both more expensive and therefore has reduced the positive effect on exports. It is also worth highlighting that it is also the significant volatility that causes concerns. Whilst larger companies have the ability and resource to hedge against currency risks, this is not always the case for SMEs. The overall currency fluctuation has resulted in an increase in prices and loss of business for some companies:

> *[…] costs have gone up and so we are trying to recover that through price. Therefore, some of that price is being passed on to the client, in some cases successfully, however one major account has left so we've lost business as a result. [Company 2]*
>
> *Managing a global business in a world where there is great uncertainty particularly around currencies. [Company 4]*
>
> *Certainly some of the manufacturing clients mentioning problems with exchange rates and plans to downsize their staff, redundancies [Company 5]*
>
> *The biggest effect the currency has on us is the higher expense of bringing things in, and certainly in the short to medium term this brings with it a cash flow problem, as we cannot immediately hike up prices for everything in response to the fluctuations in exchange rates [Company 8]*

## Customs controls

Another important factor contributing to the overall uncertainty is the potential introduction of customs controls. Whilst it is still unknown how both the UK and EU will handle the additional bureaucracy of customs controls, especially in the case of perishable and time sensitive products, adding any kind of controls will create a major problem for a number of companies:

> *We moved 3 million items last year so for us the huge challenge of Brexit is what happens if we come out of the customs union. [Company 3]*
>
> *EU is a totally frictionless market for our product – which it is – the US in our view has so many hidden barriers that it is not worth our while to export there [Company 7]*
>
> *Again, if we don't leave the customs union, which you would hope one with common sense would see it doesn't benefit anyone creating paperwork on either side – it's not going to have as big of a reaction [Company 3]*
>
> *[…] the freight costs to Europe will go up because of the amount of extra paperwork that will have to be done by the courier companies and that as well [Company 8]*

## Access to labour and talent

Whilst this has been identified as a major issue for Kent businesses, irrespective of Brexit, there has been a consensus that the effect will be magnified upon exiting the EU. Access to a highly skilled labour force has become an issue due to the geographic proximity to London (where salaries are more attractive) but also due to the lack of appropriate skills from UK workers. This poses a major question on the strategic approach necessary to identify skills shortages and develop appropriate training provision in the post-Brexit era.

> *I cannot find people here. If you want to find good talent it is very, very difficult and even wider into field. This area is very close to London, so when we talk about millennials and the attraction to the bright lights of the big city – it's difficult to get them to come down here (to Kent) [Company 6]*

> *[…] so the level of engineering training, technical recruitment seems to be higher or there seems to be a pool of people willing to move, that we don't see within the UK – or we haven't attracted within the UK [Company 2]*

> *[…] we needed the warehouses running 24/7 and we ran out of British workers in about the first week. And we were only able to do it and service the contract by bringing in labour, of which 95% of it was eastern European [Company 3]*

## Brexit as an opportunity

Despite the above criticisms, companies were asked to look at Brexit as a potential opportunity and think of factors that could support taking advantage of new markets. Optimism has been expressed from larger companies on the impact of Brexit:

> *I see Brexit as an opportunity for British export, as opposed to the problems of foreign exchange and importing goods in order to play in the domestic market place. Kent should be thinking about going international, rather than domestic. [Company 6]*

> *I think the short and medium (term) is difficult because of all this uncertainty, but at the end of the day - business is business, and it is all about competitiveness, about your competition [Company 6]*

> *[…] the theme about adding value and making your product distinctive so that in a very competitive market you actually end up being a winner because you are doing something that is different [Company 1]*

*[…] really mitigate against food, and particularly perishable food, and therefore changes what we import from abroad and what we start to grow in-country instead. It may mean there are opportunities for Thanet Earth to double in size [Company 7]*

Looking at Kent specifically, few of the participating companies identified proximity to Europe and language as a key investment factor in the region. These two characteristics could provide the necessary mitigation factors for Brexit:

*[…] (we) bought a site in Ramsgate because it was close to Europe and English speaking. [Company 2]*

*They chose the UK because it has a very supportive R&D environment and access to Europe. [Company 4]*

In conclusion companies identified entrepreneurial approaches and angel investors as they key ways forward to address the Brexit related uncertainty:

*One of is that the level of entrepreneurship is going to need to pick up again, and that does mean a different approach to risk and reward [Company 4]*

*[…] there has been a growth of angel investment (in recent years) – there is quite a receptive market and I think that will start to drop off, and I think that is an area for Government intervention [Company 4]*

## Kent Business Summit (January 2018)

This section of the report builds on the findings during the Kent Business Summit 2018 that took place at Kent Business School, University of Kent on the 12th of January 2018. Kent Business Summit took place after a prolonged period of uncertainty before and after the EU referendum on the 23rd of June 2016. The aim of the Summit was to offer an opportunity to discuss ways on making a success out of Brexit and building resilience in an uncertain and possibly unfavourable environment.

### Uncertainty and innovation

It emerged from the discussions that Brexit creates uncertainty, which is stalling innovation activity and is causing people to be cautious and risk averse. Kent as a county has significant potential. There is a substantial amount of innovation, particularly around food technology, which reflects the significant contribution of this sector in the local economy. These innovation efforts are at the moment at risk due to the high degree of uncertainty. This could have a long term effect on the competitiveness of local companies. Concerns were also raised by the lack of investment on digital infrastructure and how this might be influenced from the lack of focus on the country given the substantial resource drain of managing Brexit. This will create a disadvantage for UK companies as technology has always been the way to be ahead of the game and look for new products and processes.

In addition to the uncertainty related effect on innovation a second important aspect emerged from the discussions. Innovation is also fostered by the creation of a collective knowledge pool. The calibre of people coming to the UK from abroad creates possibly a positive effect on innovation but also enhances knowledge created in universities and then transferred to companies. The reduction in immigration flows from other EU countries, especially in highly skilled human capital could have a significant effect on innovation. One of the industries that have already experienced this effect is Higher Education (HE). Dropping application numbers from EU students, especially at the postgraduate level not only put additional financial strains on HE institutions but also reduce the available pool of specialised human capital after graduation. Whilst the impact is thus far anecdotal, a substantial number of HE institutions have seen a drop in postgraduate student numbers from the EU or other international locations.

### Internationalisation

Internationalisation, through exports and FDI is an area that generate significant economic benefits. However, there was a high degree on consensus that it can, also, be substantially influenced by Brexit. Four areas have been identified as key support factors for successful internationalisation efforts of local companies. Skills, Networks, Regulations and Funding. These areas have been identified as crucial factors that could enable companies to mitigate any Brexit related risk highlighted in the roundtable discussions analysed in the previous section.

Skills refers to staff talent and the way companies manage to recruit and retain in the long-term. Whilst this might also be an issue for businesses in general it is possibly most important for SMEs as it is clearly related to exporting (i.e. language skills). Language skills and local knowledge of foreign markets can help with access. Cross border networks can significantly help organisations to internationalise and act as risk sharing mechanisms when entering a new market. Whilst these networks take time to be developed, maintaining them can help with knowledge about markets, dealing with the risks, understanding the business culture and most importantly developing relationships thus overall reducing the risks of internationalising. Companies face significant complexity regarding regulatory affairs. For SMES, wishing to internationalise, the task of keeping track of changes and new regulations to ensure ongoing compliance across the world can be particularly resource intensive. Especially the uncertainty surrounding the regulatory environment when the UK exits the EU is a significant obstacle for their long-term planning. It remains to be seen how much new legislation will be integrated into British law and how will this impact upon UK's ability to trade. Finally, funding to support businesses is another key factor. This could take a number of facets ranging from the awareness of funding opportunities to the availability of funding opportunities and the ability to compete successfully for funding. The constantly shifting nature of government support causes problems and funding is not always visible to companies. Too often funding is rather time limited and limited in terms of financial size. Companies not only find it difficult to access funding but also difficult to find the right opportunities for funding. This has been an important point raised by SMEs that took part in the study investigating the internationalisation of Kent SMEs.

## Access to talent

Brexit could possibly be a barrier to attracting foreign talent and skilled people coming from the EU. A survey by Federation of Small Businesses has shown that at least 20% of all employees in SMEs come from EU countries. A reduction in access to this talent could compromise the diversity of thinking and expertise and the richness of social awareness. A number of industries could suffer and some are already facing issues. The Food industry, for example, suffers a lot through the lack of staff and higher costs of imported goods. The current situation with Brexit and its associated uncertainty for the labour force creates significant challenges for particular industries that are already struggling. For example, currently agriculture and horticulture have experienced issues especially in activities where the timely harvesting of soft fruit is important. Other industries such as construction and hospitality are also already facing challenges created by the unwillingness of UK workers to do particular jobs but also the lack of alternative workforce from other EU countries.

## Conclusions and recommendations

The main aim of this report was to investigate the impact of Brexit on the local economy. The report focuses on the internationalisation efforts of local companies, with an emphasis on SMEs, but also offers evidence on the wider economic impact from Brexit. The core finding of this report is that Brexit has generated a significant degree of uncertainty. Despite the government's efforts to provide clarity on the day after a final outcome is not yet in sight. Negotiations that started almost two years ago between the UK and the EU, represented by the European Commission have not reached a mutually acceptable outcome and are still on going. There has been an initial agreement on a few topics but not clear progress in areas such as trade and customs controls.

The report builds on three different sets of data, from quantitative and qualitative sources. The first section provides and in-depth analysis of the way local SMEs approach Brexit. This builds on a survey based study conducted between October and November 2016, a few months after the referendum. Firms identified a significant impact of uncertainty on their operations. This uncertainty remains to a large degree unchanged as a few months before the official exit from the EU, the two parties, EU and UK have not reached an agreement on their future relationship. The second section builds on a roundtable organised by Kent Business School in early 2017. This was the first time local companies were asked to identify the potential opportunities from Brexit. The roundtable discussion and its findings are complemented by a summary of Brexit related findings from the Kent Business Summit, an event organised by Kent Business School in collaboration with the Institute of Directors and the Federation of Small Businesses. During the Summit, local companies, academics and policy makers identified opportunities to transform Kent in the post Brexit era.

A number of key findings have emerged from the analysis of data:

- Firms, especially SMES should be aware of their position in global value chains. Most SMEs tend to focus on their immediate customer and forget that they could be part of a bigger value chain that might be influenced by the outcome of Brexit negotiations. Most of the emphasis and analysis has taken place on firms that directly export or import from the EU. Although this is an important group of companies one should not forget that a number of firms produce intermediate goods or services where their final customer might be based in the EU.
- Foreign exchange fluctuations are a major factor especially for SMEs that do not have the resources to hedge in the medium and long term. The positive effect of a weak pound on exports in a number of cases has been significantly moderated by an increase of cost of fuel and imported intermediate products. The potential benefits from a weak pound, unless translated to competitiveness gains in the long term, are not established.

- Access to talent and skills could have a dual effect. An impact on the ability of the companies to compete but also innovate. Additional regulations to control highly skilled EU immigrants will have an important effect on access to talent. EU highly skilled workers are not easily or immediately substitutable by UK residents and this could create a significant gap in the flow of human capital. This will constrain the ability of companies to innovate and consequently remain competitive in a sustainable way.
- Brexit could be an opportunity but this requires the development of an entrepreneurial approach that enables firms to become resilient to radical changes in the environment and look for opportunities beyond the existing markets. Companies should think outside the box in order to tap into international markets. This requires a proactive approach from businesses that will enable them to overcome the current shock from an unstable external environment and will foster sustainable solutions.
- Kent's economy has the necessary characteristics to develop innovation and entrepreneurship but additional support is required to generate the relevant framework. The variety of industries, the government's support on key projects such as industrial parks, the existence of higher education institutions and the geographical proximity to both London and continental Europe place Kent at the forefront of creating and fostering entrepreneurs.

These findings suggest that Brexit has a negative impact but this could be mitigated with appropriate support in the following areas:

- Supporting businesses to having better planning and scenario analysis. It has been evident from the analysis that, especially SMEs, lack the necessary resources to plan ahead in periods of uncertainty. This has a detrimental effect on investment and growth. The key support mechanisms should focus on medium to long term planning and analysis through focusing on potential alternative scenarios for different firm sizes and industries.
- Enabling access to talent through the retention and attraction of a highly skilled labour force. Local businesses, local government and local higher education institutions should work together to maximise the potential benefits of the Higher and Degree Apprenticeships Scheme. This scheme offers a unique opportunity to mobile resources and upskill the existing human capital.
- Supporting an entrepreneurial approach to business through access to funding and additional specialised support in the development of ideas. Making additional funding available for the development of risky ideas will be crucial in ensuring that SMEs undertake potentially high risk but also high return projects. These projects should be complemented with additional

individual, tailor made business support that will enable companies to maximise their potential. This support can be offered from the local government in collaboration with local higher education institutions.

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# Appendix 1. Key Inward FDI investors at Kent (January 2015 – January 2018)

| Project Date | Investing Company | Parent Company | Source Country | Destination City | Industry Sector | Sub-Sector | Cluster | Industry Activity | Capital Investment | Jobs Created | Motive Description |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Jan 2018** | Superdrug | Hutchison Whampoa | Hong Kong | Dover | Consumer Products | Cosmetics, perfume, personal care & household products | Retail Trade | Retail | 23.8 | 77 | |
| **Oct 2017** | Eyeslices | Eyeslices | South Africa | Sandwich | Consumer Products | Cosmetics, perfume, personal care & household products | Consumer Goods | Manufacturing | 0.279433 | 6 | |
| **Sep 2017** | Kate Spade | Kate Spade & Company (Fifth & Pacific) | United States | Dartford | Textiles | Clothing & clothing accessories | Retail Trade | Retail | 16.1 | 39 | Deborah Lloyd, president, states: "With a reputation as the leading retail and leisure destination in the UK, Bluewater was a clear choice for our first full price store outside London." |
| **Sep 2017** | Sims Group UK | Sims Metal Management (Sims Group) | United States | Sheerness | Consumer Electronics | Other (Consumer Electronics) | Environmental Technology | Recycling | 22.7 | 42 | |
| **Sep 2017** | Tobroco-Giant | Tobroco-Giant | Netherlands | Maidstone | Industrial Machinery, Equipment & Tools | General purpose machinery | Industrial | Headquarters | 12.9 | 42 | |
| **Sep 2017** | Pacadar | Villar Mir Group | Spain | Isle of Grain | Building & Construction Materials | Cement & concrete products | Construction | Manufacturing | 13.25 | 100 | "Thanks to the knowledge and efficiency of Locate in Kent, our new UK business will be completely up and running before the end of the |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | year, with the creation of around 100 jobs. This could not have been achieved without the collaboration with Medway Council and we are now helping to promote the local economy and actively engage with local suppliers," said David Diaz, manager (Europe), commercial, Pacadar. |
| **Aug 2017** | Aldi | Aldi Group | Germany | Not Specified | Food & Tobacco | Food & Beverage Stores (Food & Tobacco) | Retail Trade | Retail | 20.9 | 180 | |
| **Jul 2017** | Coach | Coach | United States | Dartford | Textiles | Clothing & clothing accessories | Retail Trade | Retail | 16.1 | 39 | |
| **Jul 2017** | Godiva Chocolatier | Yildiz Holding | Turkey | Dartford | Food & Tobacco | Sugar & confectionary products | Retail Trade | Retail | 20.9 | 182 | |
| **May 2017** | Smashbox Cosmetics | Estee Lauder | United States | Stone | Consumer Products | Cosmetics, perfume, personal care & household products | Retail Trade | Retail | 14.6 | 109 | "The enthusiasm and demand we have experienced for our brand among consumers throughout the south-east makes Bluewater an exciting move for us," said Anuschka Kuhnel, brand manager, |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Smashbox Cosmetics. |
| **Mar 2017** | Cembrit | Cembrit | Denmark | Erith | Building & Construction Materials | Cement & concrete products | Construction | Headquarters | 20.5 | 126 | |
| **Mar 2017** | Gap | Gap | United States | Dartford | Textiles | Clothing & clothing accessories | Retail Trade | Retail | 16.1 | 39 | |
| **Feb 2017** | VPI Immingham | Vitol Group | Netherlands | Glassenbury | Coal, Oil and Natural Gas | Fossil fuel electric power | Energy | Logistics, Distribution & Transportatio n | 430.7 | 15 | |
| **Nov 2016** | Schuh | Genesco | United States | Greenhithe | Textiles | Footwear | Retail Trade | Retail | 16.1 | 39 | |
| **Nov 2016** | Calvin Klein | Phillips-Van Heusen (PVH) | United States | Greenhithe | Textiles | Clothing & clothing accessories | Retail Trade | Retail | 16.1 | 39 | |
| **Aug 2016** | Penhaligon | Puig Beauty & Fashion (Puig) | Spain | Dartford | Consumer Products | Cosmetics, perfume, personal care & household products | Retail Trade | Retail | 14.7 | 83 | "We wanted to continue our expansion within the UK and Bluewater stood out as the obvious choice when searching for a new site due to its proximity to London and the strength of its catchment. In addition, we will be in such good company, surrounded by other great brands," said Lance Patterson, chief executive officer, Penhaligon. |

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| **Jul 2016** | Miebach Consulting | Miebach Logistik | Germany | Maidstone | Business Services | Management consulting services | Professional Services | Business Services | 6.1 | 29 | |
| **Jun 2016** | Brantano | Brantano | Belgium | Dover | Textiles | Footwear | Retail Trade | Retail | 16.1 | 39 | |
| **Jun 2016** | Michael Kors | Michael Kors | United States | Greenhithe | Textiles | Clothing & clothing accessories | Retail Trade | Retail | 16.1 | 39 | |
| **May 2016** | Tesla Motors | Tesla Motors | United States | Greenhithe | Automotive OEM | Motor vehicle & parts dealers (Automotive OEM) | Retail Trade | Retail | 26.3 | 8 | |
| **Apr 2016** | Caligor Rx | Caligor Rx | United States | Dartford | Pharmaceuticals | Other (Pharmaceuticals) | Life sciences | Logistics, Distribution & Transportatio n | 10.8 | 131 | |
| **Apr 2016** | Mazda | Mazda | Japan | Dartford | Automotive OEM | Automobiles | Transport Equipment | Customer Contact Centre | 0.5 | 20 | |
| **Mar 2016** | Algorithms Software UK | Algorithms Software | India | Tunbridge Wells | Software & IT services | Software publishers, except video games | Construction | Sales, Marketing & Support | 2.65871 | 15 | |
| **Feb 2016** | TNT (TPG) | TNT (TPG) | Netherlands | Dartford | Transportation | Freight/Distributio n Services | Transportation , Warehousing & Storage | Logistics, Distribution & Transportatio n | 56.8 | 107 | "The Dartford area was chosen for its strong road links and proximity to the South East of England and Greater London, as well as both ferry and Eurotunnel services." - Steve Meadows, director (UK and Ireland), international network and operations. |
| **Dec 2015** | Cotton On | Cotton On | Australia | Not Specified | Consumer Products | Office supplies | Consumer Goods | Logistics, Distribution & Transportatio n | 16.2 | 250 | "The online site is a great way to understand where that next customer resides for us. The UK |

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| | | | | | | | | | | | was an unexpected one, but we're happy to see the traffic from UK consumers wanting to purchase and requests on social media asking us to open over there," - Luke Slattery, creative manager. |
| **Dec 2015** | Regus | Regus | Luxembourg | Ashford (KENT) | Real Estate | Rental & leasing services | Professional Services | Business Services | 113.2 | 20 | |
| **Dec 2015** | Scania | Volkswagen | Germany | Maidstone | Automotive OEM | Heavy duty trucks | Transport Equipment | Maintenance & Servicing | 8.99 | 34 | |
| **Oct 2015** | Cemex UK | Cemex | Mexico | Rochester | Building & Construction Materials | Cement & concrete products | Construction | Manufacturing | 52.8 | 61 | |
| **Oct 2015** | Icomera | Icomera | Sweden | Chatham | Communications | Communications equipment | Transport Equipment | Headquarters | 13.4 | 22 | Karl-Johan Holm, chief executive officer of Icomera, said: "With a rapidly growing team of UK employees, we are investing heavily in the UK to serve the growing demands of passengers and transport operators for ever higher standards of mobile connectivity." |
| **Aug 2015** | Nespresso | Nestle | Switzerland | Dartford | Food & Tobacco | Coffee & tea | Retail Trade | Retail | 20.6 | 183 | |

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| **Apr 2015** | Aldi | Aldi Group | Germany | Sheppey | Food & Tobacco | Food & Beverage Stores (Food & Tobacco) | Food, Beverages & Tobacco | Headquarters | 76.0771 | 400 | |
| **Apr 2015** | Svenska Handelsbanken | Svenska Handelsbanken | Sweden | Ashford (KENT) | Financial Services | Retail banking | Financial Services | Business Services | 27.1 | 33 | |
| **Apr 2015** | UCC Europe | UCC Holdings (UCC) | Japan | Dartford | Food & Tobacco | Coffee & tea | Food, Beverages & Tobacco | Manufacturing | 3.69092 | 9 | |
| **Feb 2015** | Asure Software | Asure Software | United States | Ashford (KENT) | Software & IT services | Software publishers, except video games | ICT & Electronics | Sales, Marketing & Support | 5.5 | 16 | |
| **Feb 2015** | Elia System Operator | Elia System Operator | Belgium | Not Specified | Transportation | Other (Transportation ) | Energy | Logistics, Distribution & Transportation | 56.8 | 107 | |
| **Jan 2015** | 20\|20 Research | 20\|20 Research | United States | Tunbridge Wells | Software & IT services | Software publishers, except video games | Creative Industries | Sales, Marketing & Support | 5.5 | 16 | |
| **Jan 2015** | Deichmann Schuhe (Deichmann Group) | Deichmann Schuhe (Deichmann Group) | Germany | Folkestone | Textiles | Footwear | Retail Trade | Retail | 16.1 | 39 | |