



PROCEEDINGS OF THE 5th BUSINESS IN THE PARLIAMENT CONFERENCE

18th – 19th June, 2009

 **The Scottish Government**



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PROGRAMME

“Innovating for the upturn”

Thursday 18th June, 2009

- 6.30pm Guests arrive
- 7.00pm *Drinks reception* – Hosted by Alex Fergusson MSP, Presiding Officer (Main Public Hall)
- 8.00pm *Dinner* (Garden Lobby)
- 10.00pm Close

Friday 19th June, 2008

- 8.15am Arrival and registration *with refreshments and a light breakfast*
- 9.00am **Welcome** – Alex Fergusson MSP, Presiding Officer (Debating Chamber)
- 9.10am **Opening Address** - The First Minister, The Rt. Hon Alex Salmond MP MSP
- 9.20am **Views from the Committee** – Iain Smith MSP, Convener of the Economy, Energy and Tourism Committee
- 9.30am **Learning from experience: UK, international and business perspectives**
- Jonathan Kestenbaum, Chief Executive, The National Endowment for Science, Technology and the Arts, and board member of The Design Council and the UK's Technology Strategy Board
 - Vikki England, HR Associate, WL Gore and Associates (UK) Ltd
 - Graham Hutcheon, Group Operations Director, The Edrington Group
- 10.20am **Discussion Sessions** (Committee Rooms)
- 12.20pm **Feedback and Open Forum** (Debating Chamber)
- 1.15pm **Closing speech** – John Swinney MSP, Cabinet Secretary for Finance and Sustainable Growth
- 1.30pm **Closing Remarks** - Alex Fergusson MSP, Presiding Officer

Discussion Sessions

Session	Minister/MSP/Senior figure as chair	Facilitator
1 – Skills utilisation and investing in the workforce Committee Room 1	Keith Brown MSP , Minister for Schools and Skills	Mary Grant , Managing Director, First Scotrail and member of the Scottish Government's Skills Utilisation Leadership Group
2 – Innovation in science and technology Committee Room 6	Fiona Hyslop MSP , Cabinet Secretary for Education and Lifelong Learning	Professor Anne Glover , Chief Scientific Adviser, Scottish Government
3 – Public sector innovation Committee Room 4	John Swinney MSP , Cabinet Secretary for Finance and Sustainable Growth	Mike Harris , Senior Research Fellow, The National Endowment for Science, Technology and the Arts
4 – Innovative regulation Room P1.02	Adam Ingram MSP , Minister for Children and Early Years	Professor Russel Griggs , Chair, Regulatory Review Group and David Sigsworth , Chairman, Scottish Environment Protection Agency
5 – Innovation in manufacturing Committee Room 3	Iain Smith MSP , Convener, Economy, Energy and Tourism Committee	Isabell Majewsky , Chief Executive, GO Group and Steve Graham , Director, Scottish Manufacturing Advisory Service
6 – Growing Business Innovation in Scotland Committee Room 2	Willy Roe , Chairman, Highlands and Islands Enterprise and Chairman, Skills Development Scotland	Paul Lewis , Managing Director of Industries and Policy, Scottish Enterprise
7 – Systems alignment Committee Room 5	Jim Mather MSP , Minister for Enterprise, Energy and Tourism	Professor Umit Bititci Director of Strathclyde Institute for Operations Management (SIOM) and the Professor of Technology and Enterprise Management University of Strathclyde

Further details on this and previous Business in the Parliament Conferences can be found on the BIPC website at:

<http://www.businessinthe-parliament.org.uk/>

LIST OF DELEGATES WHO REGISTERED TO ATTEND THE 5TH BUSINESS IN THE PARLIAMENT CONFERENCE

Name	Organisation	Role
John W Stephen	A & J Stephen (Builders) Ltd	Director
John Stephen	A & J Stephen (Builders) Ltd	Director
Kate Yuill	Aberdeen & Grampian Chamber of Commerce	Policy & Communications Manager
Edward Chance	Adventi	Chief Executive
John McGlynn	Airlink Group	Chairman
Colin McQueen	Allied Vehicles	
Douglas Thomson	Aquapharm Biodiscovery Limited	Chief Operating Officer
Gavin Gemmell	Archangel Informal Investment Ltd	Chairman
Patricia McDonagh	Association of Accounting Technicians (AAT)	Head of Education & Training Operations and Partner
Crawford Beveridge	Autodesk Inc	Chairman
Bill MacDonald	Baggit Ltd	General Manager
Iain Duff	Bank of England	Deputy Agent for Scotland
Saftar Sarwar	Barclays Wealth	Private and Investment Banker
John B. March	Big DNA Ltd	Chief Executive
Alan M Johnston	BioIndustry Association	Member of Scottish Board
Grahame Steed	BiP Solutions	Publishing Director
Gerry Thorogood	BiP Solutions	Commercial Executive
Richard Grant	BP	Political Affairs
Rufus Logan	BRE Scotland	Director
Linda Smith	British Energy	Public Affairs Manager
Robert Armour	British Energy	General Counsel & Company Secretary
Ian Shanks	BT Scotland	Head of Scottish Affairs
Roger Telford	CALA Properties	Site Director
Charles Brodie	Caledonian Strategy Scotland Ltd	
Dennis McGuinness	Carswell Securities	Chief Executive Officer
David Lonsdale	CBI Scotland	Assistant Director
Rona Campbell	CBI Scotland	Assistant Director
Iain Ferguson	CBI Scotland	Policy Executive
Camille Lorigo	Che Camille Ltd	Managing Director
Ken Richardson	Chemical Industries Association	Scottish Adviser
Steve Clark	Clark Contracts Ltd	Chairman
Steve Clark	Clark Contracts Ltd	Chairman
Suzanne Motherwell	Close The Gap	
Michael Peoples	Clyde Bergemann Ltd.	General Manager
Robert Mooney	Community/STUC General Council	
Keith Lough	Composite Energy Ltd	Chief Executive Officer
Frank Cooper	Cooper Software	Managing Director
Susan Cooper	Cooper Software	Managing & Finance Directors
Sarah Deas	Co-operative Development Scotland	Chief Executive
James Fowlie	COSLA	Team Development Manager
Brian Johnston	Delivering Business Growth	Partner
John Paterson	Diageo Global Supply	Director

Laurence Ward	Dundas & Wilson	Partner
Mr Alan Moody	Ecebs Limited	Commercial Director
Brian McLaren	EKOS	Business Development Director
Kenneth Ross OBE	Elphinstone Holdings Ltd	Chairman & Chief Executive
Scott Muir	Extreme Dream Ltd	Director
Colin Borland	Federation of Small Businesses	Public Affairs Manager
Andy Willox OBE	Federation of Small Businesses	Scottish Policy Convenor
Fiona Frances Adam	Federation of Small Businesses	Member
Joanne Miller	Federation of Small Businesses	Secretary - North East Scotland
Scott Willox	Federation of Small Businesses	Vice Chair North East Scotland
Graham Struthers	Federation of Small Businesses	Vice Chair- West of Scotland
Janet Forbes	Federation of Small Businesses	Member
Rory Mackail	Federation of Small Businesses	Vice Chairperson
Susan Love	Federation of Small Businesses	Policy Manager
Mary Grant	FirstGroup	Managing Director, Rail
Richard Forsyth	Forsyth's	Managing Director
Nigel Fortnum	Fortnum Select	Managing Partner
Darran Reid	GAP Group Ltd	Business Development Manager
Mark Robinson OBE	Gas Measurement Instruments Ltd	Managing Director
Alison Culpan	GlaxoSmithKline UK Ltd.	Sr. Government Affairs Manager, Scotland
Gordon Cowan	gr8works	Chief Executive Officer
Robert Graham Senior	Grahams Diaries	
Charlie Morrison OBE	Green Ocean Energy Ltd	Chief Executive Officer
Graeme Bell	Green Ocean Energy Ltd	Special Projects Director
George Smith	Green Ocean Energy Ltd	Managing Director
Graham C Struthers	GS Lighting Ltd	Managing Director
Iain Mowat	Halcrow	Associate Economist
Rod Petrie	Hibernian F.C.	Chief Executive
Sandy Cumming	Highlands & Islands Enterprise	Chief Executive
Willy Roe	Highlands & Islands Enterprise	Chair
Laura Dingwall	Highlands & Islands Enterprise	Senior Development Manager, Innovation
Alex Paterson	Highlands & Islands Enterprise	Director
Craig Spence	Highlands & Islands Enterprise	Board Member
Bob McAlpine	Hydrasun Group Ltd	Chief Operating Officer
Linda Scott	IBM (United Kingdom) Ltd	Business Manager for RSS Europe
Joanne McManus	ICS Ltd	Education Services Director
Prof Russel Griggs OBE	Imes Group	Non Executive Director
Amjid Akram	Institute of Asian Professionals	Chief Executive Officer
David Hutcheson	Institute of Directors (Scotland)	Chair Tayside Branch
Raymond O'Hare	Institute of Directors (Scotland)	Chairman
Dr David Venables	InterCell Biomedical Ltd	Site Director
Dr Siobhan Jordan	Interface-The knowledge connection for business	Director
Iona Crawford	Iona Crawford Ltd	Contemporary Fashion Label and Artist
Scott Jarvie	Jarvie-Design	Proprietor
Mr James K Mitchell	JKM Property Services Ltd	Managing Director
Stuart G Cannon	Kames Fish Farming Ltd	Managing Director

Fraser Ferguson	Kube Networks	Director
Manus Fullerton	lloyds TSB Scotland	Director of Corporate & Commercial Banking
Mr. Ahsan Khan	Loreburn Housing Association Ltd	Chief Executive Officer
Ronnie Leggett	Macphie of Glenbervie	Group Commercial Director
Alastair Ross	McGrigors LLP	Director, Public Policy
Michael Ferguson	Medtronic Ltd	Managing Director
David Carrick	Memex Technology Ltd	Chief Executive Officer
Laura Socha	Midlothian & East Lothian Chamber of Commerce	Chamber Manager
Jill Watson	Millstream Associates Ltd	Head of Training & Consultancy
Eric Dobbie	MITIE.plc	Managing Director
Rodney Ayre	Mitsubishi Electric	Production/Environment
Prof Julie Fitzpatrick	Moredun Research Institute	Scientific Director
Linda H Urquhart	Morton Fraser LLP	Chief Executive
Andrew Grant	Nation1	Managing Director
Graeme Downie	NESTA	Head of Public Affairs
Jonathan Kestenbaum	NESTA	Chief Executive
Emma Thackrah	NESTA	Team Administrator
Michael Harris	NESTA	Director, Public and Social Innovation
Kyla Brand	Office of Fair Trading	Representative in Scotland
Stuart Wood	Orkney Meat	
Donald Bathgate	Powerwall	Consultant
Domenic Tedesco	Powerwall Systems	Managing Director
Alistair Campbell	Powerwall Systems	UK Sales Co-ordinator
Alistair Campbell	Powerwall Systems	Sales Manager
Anne Douglas	Prospect/STUC General Council	National Secretary
Billy Kirkwood	RDK Construction/RobertRyan	Managing Director/Owner
Amanda Jones	Red Button Design	Managing Director
Dr Dave Anderson	Renewable Devices Ltd	Director
Candy Munro	Renfrewshire Chamber of Commerce	Chief Executive
Bob Downie	Royal Yacht Britannia	Chief Executive
Bruce D Hamilton	Sales Resource Solutions	Owner
Warrick Malcolm	SBAC Scotland	Head of Public Affairs
Brian Veitch	SCDI	Board Member
Mr Niall Stuart	SCDI	Press & Government Affairs Manager
Mr Vince McKeown	SCDI	Membership Relations Manager
Vince McKeown	SCDI	Business Development
Ian Wall	SCDI	Executive Committee Member
Peter Quinn	ScotAsh Ltd	Managing Director
Chris Travis	Scotland's Colleges	Chief Executive
Charlotte Elmer	Scottish & Newcastle	Public Affairs Manager
George Baxter	Scottish and Southern Energy	Public Affairs Manager
Christopher Harvie MSP	Scottish Association for Public Transport	Hon. President & MSP
Michael Levack	Scottish Building Federation	Chief Executive
Garry Clark	Scottish Chambers of Commerce	Head of Policy and Public Affairs
David Smith	Scottish Development International	Operations Director
Linda McDowall	Scottish Enterprise	Senior Director, Business Networks & Communication

Carole McCarthy	Scottish Enterprise	Director of Innovation and Commercialisation
Julian Taylor	Scottish Enterprise	Senior Director, Research & Policy
Crawford Gillies	Scottish Enterprise	Chairman
Ian Crawford	Scottish Enterprise	Board Member
Catherine Cairns	Scottish Enterprise	Business Networks and Communications
Steve Graham	Scottish Enterprise	SMAS, Managing Director
Lena Wilson	Scottish Enterprise	Chief Operating Officer
Jack Perry	Scottish Enterprise	Chief Executive
Paul Lewis	Scottish Enterprise	Managing Director, Industries, Research & Policy
Graeme Waddell	Scottish Enterprise	Board Member
Jim McFarlane	Scottish Enterprise	Managing Director, Operations
Donald MacRae	Scottish Enterprise	Board Member
Gareth Baird	Scottish Enterprise	Chairman of Advisory Board
Jillian Moffat	Scottish Enterprise	Head of Olympic and Commonwealth Legacy Team
Clive Reeves	Scottish Enterprise	Knowledge Transfer
David Sigsworth	Scottish Environment Protection Agency	Chairman
Dr Campbell Gemmell	Scottish Environment Protection Agency	Chief Executive
Peter Finnie	Scottish Environment Protection Agency	Researcher to the Chairman/CEO
John F McClelland	Scottish Funding Council	Chair
David Lott	Scottish Funding Council	Senior Policy Officer (KE)
Jim Mather MSP	Scottish Government	Minister for Enterprise, Energy and Tourism
Adam Ingram MSP	Scottish Government	Minister for Children and Early Years
Shona Robison MSP	Scottish Government	Minister for Public Health and Sport
John Swinney MSP	Scottish Government	Cabinet Secretary for Finance and Sustainable Growth
Joe Brown	Scottish Government	Head of Better Regulation and Business Engagement
Teresa Martin	Scottish Government	
Aileen McKechnie	Scottish Government	Deputy Director
Stewart Stevenson MSP	Scottish Government	Minister for Transport, Infrastructure and Climate
Tom Tumilty	Scottish Government	Team Leader
Fiona Hyslop MSP	Scottish Government	Cabinet Secretary for Education and Lifelong Learning
Keith Brown MSP	Scottish Government	Minister for Schools and Skills
Alex Salmond MSP	Scottish Government	First Minister
Anne Glover	Scottish Government	Chief Scientific Adviser
Simon Coote	Scottish Government	Manufacturing policy
Dr. Andrew Scott	Scottish Government	Director of Lifelong Learning
Morag Watt	Scottish Government	Business Manager, Business, Enterprise & Energy Division
David McFadyen	Scottish Government	Head of Business Competitiveness Division
Col Baird	Scottish Government	Senior Policy Executive
James S. Rowan	Scottish Government	ICT Advisor
Andy Bishop	Scottish Government	Science Policy Adviser
Russell Bain	Scottish Government	Public Service Reform Policy Co-ordinator
Fiona Hamilton	Scottish Government	Policy Officer, Strategy & Economic Policy Division
Douglas Greig	Scottish Government	Head of Strategy and Analytical Service Co-ordinator
Margo MacDonald MSP	Scottish Parliament	MSP
Jim Tolson MSP	Scottish Parliament	MSP
Brian Adam MSP	Scottish Parliament	MSP

Iain Smith MSP	Scottish Parliament	MSP
Matt Corbin	Scottish Parliament	Vice President & Regional Leader
Dr Richard Simpson MSP	Scottish Parliament	MSP
Nanette Milne MSP	Scottish Parliament	MSP
Scherie Nicol	Scottish Parliament	Senior Research Specialist
Stephen Imrie	Scottish Parliament	Clerk to the Economy, Energy and Tourism Committee
Gail Grant	Scottish Parliament	Assistant Clerk to the Economy, Energy and Tourism
Ranjit Singh	Scottish Parliament	Temporary staff member
John Park MSP	Scottish Parliament	MSP
Linda Fabiani MSP	Scottish Parliament	MSP
Rob Gibson MSP	Scottish Parliament	MSP
Lewis Macdonald MSP	Scottish Parliament	MSP
Kenneth Gibson MSP	Scottish Parliament	MSP
Alex Fergusson MSP	Scottish Parliament	MSP and Presiding Officer
David Whitton MSP	Scottish Parliament	MSP
Wendy Alexander MSP	Scottish Parliament	MSP
Mary Scanlon MSP	Scottish Parliament	MSP
Lindsey Davey	Scottish Parliament	
Roy Devon	Scottish Parliament	
Douglas Millar	Scottish Parliament	
Sam Currie	Scottish Parliament	
Rebecca Lamb	Scottish Parliament	
Bruce Crawford MSP	Scottish Parliament	Minister for Parliamentary Business
Dr Ian McKee MSP	Scottish Parliament	MSP
Paul Grice	Scottish Parliament	Clerk/Chief Executive
Jamie McGrigor MSP	Scottish Parliament	MSP
Derek Brownlee MSP	Scottish Parliament	MSP
Murdo Fraser MSP	Scottish Parliament	MSP
Arthur McIvor	Scottish Parliament & Business Exchange	Chief Executive
Howard McKenzie	Scottish Parliament & Business Exchange	Director
Ian Shearer	Scottish Retail Consortium	Interim Director
Iain Herbert	Scottish Tourism Forum	Chief Executive
Grant Nairn	Scottish Water	Director of IT & Innovation
Andrew Watson	ScottishPower	Government Affairs Manager
Ashley Strachan	SELEX GALILEO	Head of Special Projects
Gillian Bruce	SEPA	Environmental Advice Manager
Alan Smith	SgurrEnergy Ltd	Regional Development Manager
Stephanie Young	Skills Development Scotland	Director of Strategic Relations
Ian A Ewing	Sovereign Homemaker	Partner
Clive Dyson	St Andrews Fuel Cells	Chief Executive
Dr Alan Feighery	St Andrews Fuel Cells	Operations Director
Jeff Newton	Standard Life plc	Senior Public Affairs Manager
Stephen Boyd	STUC	Assistant Secretary
Grahame Smith	STUC	General Secretary
Ann Henderson	STUC	Assistant Secretary
Daniel Johnson	Studio One & Paper Tiger	Director

Bobby Hain	STV	Director, Broadcast Services & Regulatory Affairs
Martin Hunt	Tartan Silk	
Ewan Duncan	Tayside Contracts	WORKS MANAGER
John Malone	Telford College	Assistant Principal
David Lockwood	Thales Optronics Ltd	Managing Director
Gordon Hall	The Deming Learning Network Ltd	CEO
Graham Hutcheon	The Edrington Group	Group Operations Director
Gerry O'Donnell	The Edrington Group	Director, The Famous Grouse
Emrys Inker	The Edrington Group	Director of Corporate Affairs
Isabell Majewsky	The GO Group	Chief Executive
Ash Gupta	The Gupta Partnership	Managing Partner
Patricia Gallacher	Institute of Chartered Accountants of Scotland	Director, Member Services
Ewan Bruce	Institute of Chartered Accountants of Scotland	Member of CAs in Business Committee
Ronnie Jacobs	The Miller Group	Chairman - Miller Homes (Scotland)
Angela Mathis	ThinkTank Maths	Chief Executive
Susanna Freedman	TSUKO	Managing Director
Harry Frew	UCATT	
David Caldwell	Universities Scotland	Director
Alan Bundy	University of Edinburgh & SSAC Member	Professor of Automated Reasoning
Umit Bititci	University of Strathclyde	Professor
Catherine Maguire	University of Strathclyde	Research Fellow
Glen Gribbon	Vets Now	Managing Director
Chris Maguire	VisitScotland	Strategic Relations Manager
Ben Carter	VisitScotland	Head of Strategic Relations
Scott Johnson	W. F. Watt (Contracts) Ltd	Director
Alan Duncan	W. F. Watt (Contracts) Ltd	Director
Vikki England	WL Gore & Associates	HR associate

NOTES OF THE DISCUSSION SESSIONS

As part of this year's Business in the Parliament Conference, seven discussion groups were held for delegates on the following themes:

- 1 – Skills utilisation and investing in the workforce
- 2 – Innovation in science and technology
- 3 – Public sector innovation
- 4 – Innovative regulation
- 5 – Innovation in manufacturing
- 6 – Growing business innovation in Scotland
- 7 – Systems alignment

Each session was hosted by a minister, a member of the Parliament's Economy, Energy and Tourism Committee or another senior public sector figure. Notes of each session have been prepared by officials from the Scottish Government.

Disclaimer

The views expressed in these notes may not necessarily represent those of all the delegates that took part in each session, or the opinions of the Scottish Government or Scottish Parliament.

Discussion Session 1

Skills utilisation and investing in the workforce

BACKGROUND PAPER

Skills are the key link needed to translate new ideas into products, processes and business models. Innovation can drive demand for skills and effective utilisation of skills can stimulate innovation creating a virtuous circle. Also, workplace innovation – the introduction of better workplace practices – is a vital component of effective skills utilisation.

Skills Utilisation: Reaping The Benefits Of Skills Investment

Scotland has a relatively good record on skills qualifications but that has not translated as well as it could into enhanced economic performance. The Scottish Government invests billions of pounds each year in the lifelong learning system. Private businesses and other organisations, including voluntary and public sector employers, spend considerably more.

Recognising the value of skills to performance, productivity and economic growth through funding and supporting learning is vitally important. However, as the Government Economic Strategy and skills strategy outline, it is not enough simply to invest in training. Organisations and individuals will only reap the full benefits of skills investment when workplace environments fully enable staff to also **use** their skills effectively. Not realising these benefits is something organisations can ill-afford at the best of times; it is something they especially cannot ignore in current economic circumstances.

Workplace Innovation

Improving skills utilisation will involve a significant change in attitudes. This is a long-term challenge that requires urgent attention. 'Skills issues' have long been synonymous with issues about the quality of the learning system. It will not be easy to refocus attention also on to what happens in the workplace.

The public, private and voluntary sectors can reap the benefits of the relatively strong skills base we have in Scotland by introducing better workplace practices. There is no one-size-fits-all model to improving skills utilisation in the workplace. The evidence of what works best in particular circumstances is far from complete. That said, the impact of our collective investment in skills acquisition and development can be maximised when workplaces provide meaningful and appropriate opportunity encouragement, opportunity and support for employees to use their skills effectively.

This can:

- increase organisational performance and productivity;
- stimulate other drivers of productivity, namely investment, enterprise and innovation, which can in turn lead to further performance and productivity gains; and
- improve job satisfaction and employee well-being.

Leadership and Management

Progressive and innovative leadership and management is a key enabler. Leadership is a key influencer on the strategies of firms and other organisations, which drive their demand for skills. Leadership and management are also main factors that facilitate workplace innovation (the other being employee trust and motivation).

Proposed discussion questions on skills

- Is the Government right to seek to refocus attention to also cover what happens in the workplace?
- What is the role of business leaders and managers? How can progressive and innovative leadership and management be encouraged across Scotland at all levels in organisations?
- How can business best be supported to introduce innovative workplace practices to improve the utilisation of skills? How can businesses learn from each other about what workplace practices best improve skills utilisation, when and why?

Investing in the workforce: Apprenticeships

During the passage of the Budget Bill John Swinney announced an additional £16 million to increase apprenticeship recruitment. This equates to 7,800 new starts in Modern Apprenticeships in 2009-10 and represents a 73% increase on last year. So far, 1,150 places have been allocated:

- 1000 places to Glasgow City Council;
- 50 to Scotland's creative industries; and
- 100 new Home Energy and Efficiency apprenticeships.

150 employers took part in our first ever Apprenticeships Summit on 28 April to help us decide how to achieve the 7,800 places. Follow up sessions with the STUC and sector skills councils have taken place with further sessions planned with training providers in June.

Securing the future for Scotland's Apprentices

The Scottish Government will be guaranteeing continued training for apprenticeships. The Scottish Government's priority is to ensure that as many apprentices as possible can complete their training with an employer. Where this is not possible, the Government will ensure that they have the opportunity to complete alternative, relevant training.

Proposed discussion question

- In the current economic environment how can businesses best be encouraged to continue to invest in their workforce?

NOTES FROM THE DISCUSSION GROUP

Introduction

This session was set within the context of the Government Economic Strategy and Skills strategy, which both outline that it was not enough to simply invest in training; organisations and individuals will only reap the full benefits of skills investment when workplace environments fully enable staff to also use their skills effectively. Against this background, the group's discussion centred on the following questions:

- Is the Government right to seek to refocus attention to also cover what happens in the workplace?
- What is the role of business leaders and managers? How can progressive and innovative leadership and management be encouraged across Scotland at all levels in organisations?
- How can business best be supported to introduce innovative workplace practices to improve the utilisation of skills?
- How can businesses learn from each other about what workplace practices best improve skills utilisation, when and why?

The group agreed that the workplace was important. Barriers should be removed to enable access to training provision, given that 80% of the workforce of 2020 is already in work. More effective skills use should also be encouraged. Both of these issues should be addressed together.

It was suggested that there are three key aspects to effective skills utilisation:

- training and development of individuals;
- equipping individuals with the correct tools and technologies; and
- workplace environments that have the right processes to enable staff to use their skills effectively.

The members of the Skills Utilisation Leadership Group present will feed the points raised at the session back to the Leadership Group. The following is a summary of the key points of discussion.

Upskilling of the workforce

The group discussed how successful businesses are ones that have an encouraging environment to upskilling. There are particular problems with training of staff in smaller firms where it is not practical to take employees out of the work setting. The following comments were made:

- More should be done to articulate and aggregate demand from SMEs to make training opportunities viable (it is easier for large companies to articulate their training needs).
- Work-based learning was important, however, accreditation is an issue.
- Employers need to work with learning providers to get more recognition for on-the-job training.
- Online training is becoming more popular.
- Colleges are finding it difficult to secure student placements. It was suggested that Government should help by funding placements.
- Many SMEs are finding that by encouraging an open and inclusive work culture, they are uncovering skills in their workforce they never knew existed.

Leadership

The group discussed that the need for good leadership has never been greater and the it was felt that good leadership involves:

- Recognising opportunities, the capabilities of the workforce and nurturing talent.
- Sharing a vision (setting a clear direction), communicating well with staff and getting the right mix of people – it is not just about governance.
- Passion, looking forward and being able to make decisions.
- Empowering people
- Valuing the HR function of an organisation - this should be supported from the top of the business.

Every organisation has a responsibility to develop its own leaders.

In the discussion it was questioned whether leaders are transparent enough with their workforce and if business objectives are clearly understood. It was suggested that while good leadership skills are intuitive, the process/skills could be shared with others. There are excellent examples of good leadership in Scotland and more could be done to share case studies more widely. The Institute of Directors has captured some of the real experience of good leaders and will make it available to the wider business community. The work of the Scottish Tourism Forum has highlighted leadership as a key driver for the sector, both in terms of leadership across the sector and in individual businesses. The Scottish Chambers of Commerce Business Mentoring Scotland programme was cited as a particularly good example of how businesses support each other. It was questioned whether enough organisations were aware of this programme.

Investors in People (IiP)

The group discussed how the IiP framework has developed and how it is now linked to business strategy. The IiP model was suggested as a good model to be used by businesses who were seeking to make better use of staff skills. It was highlighted that IiP advisers act like mentors. It was mentioned that IiP accreditation used to be financially supported by the enterprise agencies and that this support is no longer generally available. It was suggested that IiP should be promoted more strongly.

Collaboration

The importance of collaboration was a key theme of the discussion. The group discussed how Scotland's size helped businesses and sectors to come together- described as a "small but perfectly formed" country. Concern was raised about the availability of opportunities for SMEs. It was suggested that local authorities could help by making their staff training facilities (e.g. council skills centres) available to employees of contractors. This collaborative approach would help working relationships and enable the public and private sector to learn from each other. Particular examples cited were in respect of the construction industry and training in energy efficiency.

More generally, other collaborative approaches mentioned included businesses providing training to their firms in their supply chain. There may also be scope for companies with some slack to loan their employees to other companies. It was highlighted that FirstGroup has helped voluntary groups attend courses run by the company for its own staff.

The need for an integrated approach to employment and skills services was raised. The group discussed how this is being taken forward and the challenges it poses, given it involves reserved and devolved issues. Improving relations between Job Centre Plus (JCP) and businesses was also mentioned. It was suggested that JCP could be better at reaching the right individuals and work more closely with colleges and universities, paying particular attention to the diversity of the workforce. It was highlighted that there is a disproportionate number of minorities currently being made redundant.

Skills Landscape

The group discussed the perceived complexity of the current skills landscape. While it is difficult for businesses of all sizes to understand what is available, it is often a problem for SMEs. Access to funding can be cumbersome and the language used by public organisations can be a barrier. There is a lot of help available to businesses and expertise available to tap into. The key issue was how and where does a business go to get support. A role for government is to simplify the route - make it easy to navigate around the vast amount of information and support and to make the messages easy to understand and relevant to business needs.

It was suggested that the support available to businesses in England was more readily understood. That said, it was advised that the English system of brokers should be avoided as it adds an extra level of cost. The Group discussed that businesses would benefit from a directory of support, such as a web-tool and better signposting. There is an opportunity here for government and business representative organisations and other intermediaries to work together and translate the language of policy makers and public organisations into the language businesses understand. The group felt that the role of business representative organisations has never been greater. They each have networks which can be used to facilitate businesses, supporting and signposting them to the public assistance available to them.

KEY RECOMMENDATION OF THE GROUP – PUBLICISE AVAILABLE BUSINESS SUPPORT INFORMATION IN A SIMPLE AND ACCESSIBLE FORM.

Discussion Session 2

Innovation in science and technology

BACKGROUND PAPER

Innovation

Modern innovation policy is increasingly structured by three key principles:

- the current emphasis on science, engineering and technology-based innovation
- R&D is necessary but not sufficient; effective innovation policy should adopt a systemic view of Scotland's innovation ecosystem - understanding how the parts work together; and
- an effective innovation policy depends on an effective skills and human resources strategy.

Ultimately the goal is to increase the number and scale of actively innovative companies in Scotland and deliver increased and sustainable economic growth.

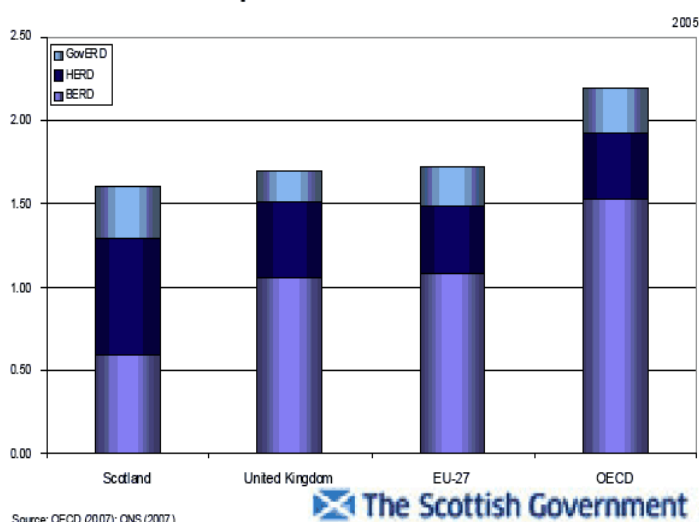
Science and Innovation

The Government Economic Strategy clearly sets out the need to drive greater innovation in the economy if Scotland is to achieve the overarching goal of increased sustainable economic growth. One of the key challenges will be to strengthen the link between Scotland's research base and business innovation and address low levels of business R&D. It is widely accepted that innovation, in its broadest sense, will be critical if Scotland is to recover well from the current economic downturn and be globally competitive. That said, the world-class resource that is Scotland's science base has a vital, and increasing, role to play in enhancing sustainable economic growth.

In addressing this opportunity to enhance economic performance it is important to recognise that the research landscape of Scotland has a significantly different balance between Business and Higher education based R&D (see chart) where BERD and HERD are shown for Scotland, the UK and OECD comparators.

The relatively high level of HERD in Scotland presents Scotland concurrently with a unique challenge and opportunity. Recognising this strength in HERD, there has been an increasing policy focus on efforts to improve the effectiveness of knowledge exchange (KE) in Scotland. Scotland needs to foster and significantly enhance the environment, culture, skills and mechanisms in academia and business that will encourage and drive greater business demand for the science knowledge which in turn will drive improved economic performance.

Composition of R&D



Investment in R&D on Scotland's scientific research base is the equivalent of 1.61 per cent of GDP, which is below the UK level (1.76 per cent) and also below the EU and OECD averages. Although we are only lagging slightly behind the R&D expenditure of the UK and EU, the composition of Scottish R&D expenditure is distinctive. Compared to the UK, EU25 and OECD averages, Scotland is ahead in terms of government R&D and far ahead in terms of HE R&D expenditure.

Business R&D in Scotland is low by international standards. That said, the strength of the science research base provides important opportunities to develop the 'Key Industries' of Scotland. Each sector has a different balance of requirements for R&D and innovation activities and hence a sectorally based approach is necessary.

Key elements of current Knowledge Exchange activity in Scotland include:

- **Scottish universities** provide a flow of well-trained SET graduates into the economy and engage in applied research, consultancy, commercialisation and outreach activities. Funding for knowledge transfer and innovation activities in universities is supported through the Scottish Funding Council's Horizon Fund. The Horizon Fund includes the Knowledge Transfer Grant (KTG) of around £22M in AY 2009-10, and is SFC's main funding support for KE.
- **In 2008-09 SFC created a new funding stream for strategic projects – the Strategic Priority Investment in Research and Innovation Translation (SPIRIT)** - which aims to support strategic knowledge exchange projects which are developed in collaboration between universities and industry. In its first year a range of projects got off the ground, including Industry Studentships involving 31 SMEs in the chemical sciences industry in Scotland, an innovation 'voucher' scheme which funds first interactions between HEIs and Scottish SMEs to support the development of innovative products and processes and an online resource, the Venture Navigator platform, to support entrepreneurship in Scotland. SPIRIT funding has increased from £2 million to £3.8 million for AY 2009-10
- **The Knowledge Transfer Grant (KTG)**, which will total around £22M in 2009-2010, is the Scottish Funding Council's main funding support for KE. It is approximately 10% of the amount of the main grant provided to support research activity.
- **Strategic Priority Investment in Research and Innovation Translation (SPIRIT)** - new KE funding stream- was piloted in 2008-09 and has been raised to £3.8M for AY 2009-10. This fund will support significant demand-driven projects focussed on the key industries in the Scottish Government's economic strategy alongside national mechanisms such as innovation vouchers. The SFC is also the main funder of Interface, which offers a central point of access for industry to Scotland's research base.
- **Scottish universities** generate significant income from knowledge exchange (KE) activities which are largely science-based, amounting to £314M in 2007-2008. External research grants, contracts and consultancy for the majority of income. Spin-out activity compares favourably with UK and international comparison in terms of numbers, but few grow to be companies of scale.
- **Scotland's colleges** also provide a flow of trained graduates as well as a range of wider knowledge exchange activities - although the latter is not so well developed as for the University Sector. The SFC report "*Knowledge transfer activities in Scotland's colleges : a baseline study*" (November 2007) indicated that in 2005/06 total college revenue from all knowledge exchange activity exceeded £39 million, equivalent to 6% of total college revenue. While not all of this activity was science-related, it is clear that almost all colleges intend to further develop their KE activities in coming years. The SFC is providing colleges with £3.2M of funding in 2009-2010 to support KE activity.
- **Scottish Enterprise** has invested in a number of industry demand led projects which respond to these opportunities by strengthening knowledge transfer interactions with the science base. The Edinburgh Bioquarter is one example.

Knowledge Exchange requires strong interactions between business and academia, a range of mechanisms have been introduced over the past 5-10 years to tackle key barriers, namely; (i) cultural issues within institutions and the academic community that inhibit effective engagement with industry; (ii) creating a business demand for the wealth of knowledge that resides within academic institutions and a culture which views KE as an opportunity for growth; and (iii) growing the absorptive capacity within our existing industry base.

- **KTG/ SPIRIT (SFC)** - £26m in 2009-10 for HEIs and £3m for colleges- designed to support HEIs to disseminate, translate and exploit their research, knowledge, skills, expertise widely, including for economic development.
- **SEEKIT (SG)** - £4m+ pa for strategic grants to help SMEs gain access to the store of academic expertise and facilities contained within Scotland's public sector science base. The funding goes to public sector organisations (mostly universities), who have developed business focussed demand led proposals that will help SMEs climb the innovation ladder through the adoption of new knowledge, technology and/or business techniques. SEEKIT contributes to the Government's National Indicators on increased R&D spend, business start ups and improved knowledge transfer from research activity in universities.
- **Knowledge Transfer Partnerships**- around £5m pa (total for Scotland) - UK-wide Programme to support effective KE between academic institutions and businesses.
- **Proof of Concept Programme (SE)** - £6m pa fund to help HEIs take research projects aligned to priority industries towards commercialisation.
- **SPAF/ PACER (SE/ SFC)** - £1m pa to assist institutions and businesses access EU Framework programmes and participate in collaborative research.
- **SE/ RSE Fellowships (SE and Royal Society of Edinburgh)** - £0.5-1m p.a. scheme to support graduates/post-graduate in developing the commercial and business skills to take forward a science and technology based spin-out based on their research ideas.

Despite these mechanisms, and corresponding UK and EU support for knowledge exchange, Scotland still has an asymmetry of supply and demand and there is a clear need to foster the environment, culture, skills and mechanisms in academia and business that will drive greater business demand for the scientific knowledge which will improve economic performance. This remains a key policy objective. It was addressed in the Government's economic strategy, the science framework Science for Scotland, the Innovation Framework, Innovation for Scotland and in the economic recovery programme.

In broad terms three types of interaction will help to deliver the scale of change in culture and effective knowledge exchange required to support GES ambitions:

- movement of creative and enterprising people that are empowered with knowledge, enthusiasm and commitment;
- interchange of existing ideas, concepts and intellectual property between organisations; and
- co-creation of new, economically valuable knowledge and ideas through creative interaction.

Proposed discussion questions

- what support do companies in key sectors need - from colleges, universities and Government - to continue to innovate and grow?
- what support do SMEs need to access the knowledge in the academic sector which can drive process or systems innovation and economic growth?
- what are the main barriers to effective partnership and how do we address them?

NOTES FROM THE DISCUSSION GROUP

Introduction

This session was attended by around 20 people, mainly from business, including representatives of major industries and smaller companies, and mainly from the health, energy and information technologies sectors. Others attending were from the public sector including Scottish Enterprise and MSPs, and from academia including Interface and Universities Scotland. Ms Hyslop opened the session remarking on the need under the Government's Economic Strategy to drive greater innovation in the economy – and in particular to strengthen the link between Scotland's research base and business innovation to address low levels of business R&D.

Summary of key discussion points

Prof Glover asked the meeting to consider the bottlenecks, barriers and what needed to change to make innovation in science and technology work more effectively. She stressed the excellence of the science base in our HEIs, in terms of its size relative to our population; the quality of the science generated and also the breadth of activity. Public funding of science in Scotland formed an unusually high percentage of total spend on R&D, compared with many other competitor countries. There was a need however to ensure that science and engineering was communicated more effectively, and there remained a gap in its connections with the company sector. HEIs had a responsibility to help bridge and researchers would need to engage better with industry. The points made are grouped below under the three main themes that emerged.

Government Procurement

There were a number of issues identified as potential barriers:

- Government procurement activity could help to stimulate the SME sector but it needs to be reshaped if it is to be effective.
- Government computing projects often fail or overrun in cost because of the lack of effective translators between the customer and the main contractors - a similar role that an architect plays between a developer and a builder. If Government insisted on "architects" being part of the project, this could create big opportunities for SMEs and also result in more effective computing projects. This would encourage the private sector to do the same.
- The barriers to tendering for Government contracts were too high for many small companies. A "smart" procurement process was needed from Government in order to enable innovative solutions from SMEs. Small companies needed contracts, not grants from Government
- The software used in the NHS was not good. Very often it was bought off-the-shelf and with little scope to tailor for the needs of the NHS. SMEs would be good at this but can't get on the contract list, for instance because of confidentiality issues between small and large companies
- Collaboration between smaller and larger companies needed to be encouraged. Smaller, local companies were often squeezed out by collaborations between large public sector bodies and large UK companies. There was a need for public bodies to pool their lists of pre-qualified companies and to find ways of enabling smaller companies to be added to such lists
- The procurement process itself stifled opportunities for small companies, since a major driving force was the need to save tax payers' money and make the process as efficient as possible. There were limits placed on the number of companies that could be suppliers to Government.
- Smaller companies were riskier, and so less likely to survive. Some kind of guarantee by Government would be helpful that small companies used as suppliers to projects would be supported if they ran into difficulties
- The ability to access Government contracts would help to provide comfort for investors in SMEs so increasing their chances of gaining additional funding
- Even for large companies there were difficulties and barriers in terms of gaining Government contracts

- Scottish Enterprise were now routinely requiring applicants for their R&D grants to say how their project would help support local supply chains
- The EU competition rules might need to be modified to better encourage local innovation and subcontracting

Science and innovation push from HEIs

- Scotland has a unique competitive advantage arising from the pooling initiatives in Scottish research – in physics, chemistry etc which enabled business to have a single front door to finding out where particular research was being carried out.
- Some areas did not have pools so were in need of a single front door – eg drug development (although this is covered to some extent by the pooling in life sciences). A consortium approach was needed without losing competition
- The recent Scottish Academic Health Sciences Collaboration was another recent example of this approach
- Large companies were more in touch with universities because of graduate recruitment. SMEs often did not know which bits of the HE sector to network with.
- There was also a need to consider innovative processes, not just products
- Interface provided a one-stop shop for businesses wanting to engage with the HE sector. While Interface had provided a large number of contacts for business, there was a need to increase the conversion rate into full-scale collaboration
- There was a need to improve the climate for clinical trials in Scotland, as this was an area in which we were not punching above our weight in UK terms. There should be an obligation in Health Board contracts for clinicians to participate in trials.
- We need to celebrate our successes and good news better
- We need more business pull - not just the supply of science from the HE sector.
- There is often too much bureaucracy involved in applying for support - small businesses in particular often do not have the time or energy to do it.

Training and encouragement of entrepreneurship

- There was a need to focus on better science engagement with young people as they are tomorrow's innovators, and to talk up our innovation with young people. Informal science education on TV etc was better than that from elitist academics. Business needed to get involved in this as well
- Scientists in academia got very little support or training during their degree or PhDs about how to become business people. There needed to be mechanisms to provide support for scientists wishing to pursue a business career.
- There needed to be a better partnership between business schools and science faculties to address this issue
- The Informatics Forum at the University of Edinburgh, supported by Scottish Enterprise, is a good example of how academia and business can interact. A second version of this was being progressed in Medicine and Veterinary science.
- There should be more interchange of staff between business and academia, and between small and large businesses in order for each to understand the other better, and to learn their respective "languages"
- Entrepreneurial drive cannot be taught – but there were skills to be learnt.
- More HE/FE courses should teach an appreciation of innovation
- Partnerships between scientists and entrepreneurs might be more effective than scientists also trying to become entrepreneurs
- The Curriculum for Excellence and the Science Baccalaureate were designed to provide a better foundation for confidence and self-belief, helping to overcome cultural issues around entrepreneurship
- Public funding of innovation was generally good, but projects were often held back by a lack of private investment.
- Business often found that new entrants while usually highly enthusiastic often lacked basic skills around pitching business ideas – more training was needed

- It might be desirable to require all students to have placements in business as part of their course, although there would be a volume issue to resolve
- Enterprise fellowships had been extremely successful. At the moment, they are supported by Scottish Enterprise and the Royal Society of Edinburgh. More might be needed to help bridge the gap
- Barriers for SMEs sometimes existed around the inability to access funding unless they could demonstrate a threshold level of experience or technical expertise - something that big business found much easier.
- Small scale innovators often need tailored support - the system though generally provided “one size fits all” support
- We need to study innovation failures as well as successes –and also to find ways of being more tolerant of failure even when public money was involved

At the end of the session, Professor Glover summarised the main points she intended to cover in the report back to the plenary session. Ms Hyslop thanked all the participants and encouraged them to get in touch with their MSPs throughout the year about the issues they were facing.

Discussion Session 3

Public sector innovation

BACKGROUND PAPER

The Government Economic Strategy (GES) notes that the public sector itself accounts for over 20 per cent of Scotland's economic output. This means that it is vitally important that we consider the contribution that the sector can make to shaping and supporting the upturn. The impact of the public sector is all the more important when we take into account the facts also set out in the GES; that the public sector is Scotland's largest consumer, and that it is the dominant player in two of our largest industries, education and healthcare. An efficient and effective public sector is therefore central to the overall performance of the Scottish economy.

The current economic circumstances underline the critical importance of the Government's Purpose and reinforce the significance of the work that is underway to maximise the contribution of the public sector. The Government's reforms in this area aim to align the public sector towards common goals, reduce duplication, break down barriers and ultimately, encourage innovation in public services. This must include maximising our investment in technology and changing our behaviours and culture to ensure that more efficient and effective public services are delivered to the benefit of citizens. We must also be innovative in our engagement with stakeholders to deliver quality public services, drive out efficiencies and reduce our carbon footprint.

Key issues

The Government is working more effectively with partners and *aligning* all Public Bodies with the Purpose of increasing sustainable economic growth. By giving the public sector a new focus on outcomes, the Government aims to simplify the public sector landscape, bringing it together under a shared mission, with shared goals. For example, the Concordat and Single Outcome Agreements, provide a vehicle for uniting public sector organisations at a local level behind a common purpose and common set of outcomes. Single Outcome Agreements between the Scottish Government and each community planning partnership set out how they will work in the future towards improving national outcomes for local people in a way that reflects local circumstances and priorities.

Work is ongoing to *reduce duplication and bureaucracy* and the Government has publicly committed to a 25% reduction in the number of public bodies by 2011 to deliver a more proportionate and focused organisational environment. The recently published Public Services Reform Bill is a key part of this Simplification Programme. The Government's *efficiency programme* will deliver savings in excess of its £534 million target for 08/09. The target for 09/10 is over a billion, rising to more than £1.6 billion in 2010-11 – which is 6%.

The Government is supporting moves among councils and other parts of the public sector to work together in developing leading practice business processes to deliver more effective public services. In addition, in the current climate where rationalisation and collaboration need to be accelerated, the opportunity to *Share Services* is vital both in terms of building capacity and delivering efficiencies. Significant progress has been made, for example, the Recruitment Portal for Local Government managed by COSLA is on track to deliver £6m savings in the first full year of operation. One of the key priority areas for Local Government is increasing opportunities for mobile and flexible working including ensuring staff can be supported by technology in innovative ways.

Joint Venture's such as Access, a partnership between Glasgow City Council and Serco to provide ICT and Property Services confirm a key role for the private sector in public services. Also E-

Procurement Scotland (ePS) has been live since 2002 and is one of the most comprehensive and successful Public Sector eCommerce initiatives in the world.

In the *health sector*, NHS Scotland is committed to improving the quality of services for the people of Scotland through the application of systems thinking and the development of a culture of continuous quality improvement. This encourages NHS teams to think differently in order to find new solutions to long standing challenges. In order to do this, we have spent time learning from other industries' approaches to innovation and how the health sector can incorporate this into working practices.

The drive for innovation is also being extended to the *Third Sector*. For example, a contract for Public-Social-partnership (PSP) development in Scotland (part of the Enterprising Third Sector Action Plan) has recently been awarded and will identify and then help develop 10 public-social-partnerships over the next 2 years. The Government has given particular consideration to the potential for added value through PSP given that social enterprises and voluntary organisations have a proven ability to innovate, and experience in working with particular client groups.

Proposed discussion questions

- What are the key challenges in supporting public sector innovation?
- What role do the private sector have in public sector innovation?
- Do group members think that outcome approaches in public service delivery will lead to greater user involvement in design and delivery?
- Do group members think SOAs will stimulate service re-design in the public sector in localities?
- Do group members see further opportunities to work with the Third Sector on collaborative contracts?

NOTES FROM THE DISCUSSION GROUP

Introduction

The context for discussion in this session was described against the background of changing perspectives on innovation in the public sector. The increasing expectations from and need for public services needed to be seen in light of three major challenges; the global economic situation, changing demographics and the future of public finances.

Discussion in this session focused on five key themes, which had a number of connections and synergies. The five themes were: Procurement; Culture (including interaction between sectors); Planning; Sharing of ideas; and, the Size / Composition of the Public Sector.

Procurement

The role of public sector procurement and its potential to act as a positive driver for Scottish businesses was recognised. However, there were a number of issues identified as potential barriers:

- The risk that EU procurement rules could act as a barrier to public sector contracts going to Scottish businesses. It was suggested that other EU member states interpreted the rules differently and therefore were able to support their own, local businesses by ensuring that they were recipients of major contracts.
- The potential (large) size of public sector contracts. This meant that smaller, Scottish businesses were unable to compete. If contracts could be broken down into smaller, component parts, then Scottish businesses may have a better chance of making successful bids. However, the point was also made that the large and fragmented nature of the Scottish public sector did not aid joined-up

(and potentially more efficient) procurement. At times, a more centralised approach would bring benefits, albeit with larger contracts.

- It could be too easy to apply the public procurement process negatively. However, the public sector tended to procure “properly” and often got a better deal because of this.
- The legislative framework, which potentially could act to stifle innovation, rather than allow it. Councils appeared to be limited in what they could deliver by legislation and this acted against an innovative approach to procurement.

A number of steps had already been taken in order to improve the procurement process and these included the creation of the procurement centres of excellence and the public contracts website. The recent agreement of a pan-public sector power supply contract was also highlighted as an example of where large-scale, joined-up public procurement could be innovative and deliver significant savings.

Culture

The discussion on the importance of working culture to the promotion of innovation was wide-ranging and overlapped with the discussions on the other four themes. The key contention was that culture change was as important, if not more so, than changes to legislation or rules. The following main issues were raised:

- In relation to procurement, previous setbacks or problems shaped attitudes to risk. Therefore, there was a significant challenge to promote a culture which promoted proportionate risk-taking and allowed some freedom to make mistakes through innovative practice.
- At present, there was no expectation that innovative approaches would be found in either central or local government. This could be attributed, at least in part, to a belief that innovation was exclusively the preserve of the private sector and had been fuelled by a culture of “private sector good / public sector bad”. It was noted that other countries placed a greater premium on public service and therefore had higher expectations of innovative conduct from public officials.
- A higher degree of interchange between private, public and third sectors had the potential to improve understanding of the differing cultures in each area and therefore drive a more collaborative approach.
- Culture change was vital in moving the public sector to a position where they saw their role as facilitators, rather than blockers.
- The public sector needed to adopt a more positive approach to user engagement. This had the potential to encourage greater innovation by tapping in to the widest possible number of inputs and it was vital that this was not lost if budgets were reduced.

Planning

Aspects of the land-use planning process were discussed as examples of where changes could be made to aid or promote productivity through greater innovation. The main points raised were:

- Differing interpretations of the planning laws in different areas meant that builders and developers found it difficult to engage consistently with Councils across Scotland, which was inefficient and time-consuming.
- The speed and complex hierarchy of decision-making in the planning process mitigated against innovative practice. There needed to be greater clarity about the role and engagement of other parts of the public sector, such as agencies, in the overall process.
- As noted under the Culture theme, above, all public agencies should be acting as facilitators, supporting the planning process. This linked directly to the delivery of the Government’s Purpose and the move to focus all of Government and the public services on creating a more successful country.

Sharing of ideas / good practice / data

During the course of the discussion, a number of references were made to the importance of sharing ideas to encourage innovation. The issue of data sharing within the public sector was also mentioned. The references were wide-ranging and the key points raised were:

- More effective sharing of data between public sector partners would create greater efficiencies and would, in itself, be an innovative approach. Examples of areas where greater data sharing would be most beneficial were child care and the reporting / regulatory sector.
- Examples of innovative practice could usefully be shared between different sectors. However, it was important to consider how the benefits of innovation could be developed and protected, for example, as intellectual property. There was a risk that the tangible benefits of innovation could be exploited elsewhere if not given appropriate protection. The intention should be to share good ideas so that the best overall outcome could be achieved.
- Consideration should also be given to highlighting examples of innovative practice that were not necessarily major scientific or technical breakthroughs. There were substantial pockets of innovation in the public sector but these were generally not well known.

Size / Composition of the Public Sector

Discussion also covered more general points about the size and make-up of the public sector in Scotland and how this influenced innovation. The following issues were raised:

- Due to the relatively large size of the public sector, it was argued that opportunities must exist for business transformational opportunities that could release significant funds. A question was raised about whether the political will existed to take decisions about the size of the public sector that might result in job losses.
- As noted under the discussion on Procurement, above, the fragmented nature of the Scottish public sector could be argued to be a barrier to innovation.
- A broad point was raised about whether the balance in the Scottish economy between public and private sectors was correct and whether examples of innovation would increase if the relative size of the public sector reduced.

Discussion Session 4

Innovative regulation

BACKGROUND PAPER

Overview

Modern innovation policy is increasingly structured by three key principles: the current emphasis on science, engineering and technology-based innovation and R&D is necessary but not sufficient; effective innovation policy should adopt a systemic view of Scotland's innovation ecosystem - understanding how the parts work together; and an effective innovation policy depends on an effective skills and human resources strategy. As such in considering how innovation can help drive economic recovery and sustainable economic growth consistent with the Government's Economic Strategy this discussion session will focus on Innovative Regulation

Better Regulation

The Scottish Government is committed to better regulation, recognising that it is crucial to a more successful and more sustainable Scottish economy. The accepted principles of better regulation are that it should be transparent, accountable, consistent, proportionate, and targeted. Better regulation also requires partnership working, and the Government is committed to ensuring that regulations are developed, applied and reviewed with the support and assistance of the regulators and the regulated - business, charities and the voluntary sector - and with a focus on continuous improvement, economic recovery and faster sustainable growth in Scotland

The Regulatory Review Group (RRG) is an independent committee, with members drawn largely from the main business organisations in Scotland and the Scottish Trade Union Congress, established by Government to offer advice and challenge in relation to:

- Applying the key principles of better regulation consistently and with a focus on outcomes;
- creating a culture and environment in Scotland where both business and Government (in all its forms) work together to foster and deliver better regulation for business and for all, and
- putting Scotland at the forefront of European activities to promote better regulation;
- supporting delivery of the Government's economic purpose, and economic recovery programme.

With Government RRG is striving to build awareness of, and commitment to the five principles of better regulation. This remains a major challenge as it creates a need for some fundamental changes in how individuals in Government, Regulators, and business work and think, both separately and together. Progress depends critically on winning 'hearts and minds' and changing behaviours, rather than reforming processes only, even although they may need changed as well.

Actions by the Scottish Environment Protection Agency

The discussion will therefore be informed by an outline of the ongoing response of the Scottish Environmental Protection Agency (SEPA), which in August 2008 initiated nine Better Regulation projects, including:

- Exploring the use of simpler English in key written communications;
- Launching a new Compliance Assessment Scheme;

- Selecting 10 companies to work closely with on simpler ways to comply and how to improve regulation at a site level;
- Developing a 'freeloader' strategy (for non-compliant businesses);
- Driving forward on the Better Waste Regulation Action Programme (jointly with Scottish Government);
- Examining how to simplify the licensing process;
- Delivering phase 1 of Scotland's Environmental and Rural Services (SEARS) and developing proposals for phase 2;
- Seeking to streamline and simplify regulations, for example, the use of standard permits and review of specific legislation with government.

SEPA demonstrated a strong commitment to Better Regulation, including the completion of a survey of over 1000 regulated businesses, through these projects. For 2009-2010, SEPA will be implementing an Annual Operating Plan which will include a range of corporate projects on Better Regulation, customer focus, supporting enterprise and encouraging environmental clean technology so as to address cultural issues and provide the necessary focus on outcomes, efficiency and improved effectiveness.

Proposed discussion questions

- What existing Scottish regulations constrain the growth of your business with no corresponding benefit to Scotland's economy or environment?
- What is your experience of Scotland's regulators and how can the way they apply regulations be further and appropriately aligned with business needs?
- What are the main barriers to effective partnership between Government, regulators and the regulated - and how do we address them?

NOTES FROM THE DISCUSSION GROUP

Government as an enabler not an enforcer

There has been a shift in the role of Government from traditional enforcement activity and behaviour to helping people comply with regulation. This mirrors the ethos of the Government economic strategy with its recognition that delivery of the purpose requires the active participation of all. A shift in the balance from Government enforcement to industry self-policing its own standards, opens up opportunities to focus on the few cases where enforcement is necessary to drive the right behaviours. One example of this was given from SEPA:

- Compliance Assessment Scheme: SEPA inspections rank the standards applied and the outcomes achieved by 1800 of its largest customers. Subsequent inspections are focussed on those customers demonstrating the poorest performance. Eventually, SEPA is anticipating that customers demonstrating consistent high performance and adherence to the standards will see reduced costs for permits. SEPA is currently consulting on this matter.

Existing business models may need to be revised to ensure that they do not drive contrary behaviour. For example, SEPA currently has to fund 40% of its business from regulatory charges, and permits are costed on a full cost recovery basis.

SEPA and HSE were recognised as having made considerable progress with their cultural change towards a more enabling role. But there is variability across the public sector and HMRC was considered still to have some way to go. In particular, while its treatment of large firms was considered positive, its treatment of SMEs was felt to be much less positive.

The Regulatory Review Group has been engaging with HMRC and noted that HMRC was making progress. For example, training is encouraging HMRC staff to have a better understanding of the impact of their communications on recipients. Nevertheless, it was noted that HMRC was a very large organisation with a massive culture change programme to tackle.

Local Authorities have taken over responsibility for licensing regulations. Not only does this increase scope for inconsistency, but customers are experiencing little guidance. At odds with the “Government as an enabler of compliance”, requests for guidance can be met with the stock answer: “you have to take your own legal advice”. Some concerns were expressed that more regulation is heading in this direction – on alcohol for example.

Next year, the Regulatory Review Group is planning a new approach which involves bringing together at the outset, all parties with an interest in a specific issue. In that way, the group will be encouraged to develop a common purpose. The energy industry is expected to trial this first. The Regulatory Review Group is also concerned with European legislation and will be considering, in particular, the role of the European Auditor.

Need for improved communications

Communication of regulations was flagged as an area where there was scope for significant improvement. It was made very clear in the discussion that an announcement to Parliament (in one case a single line announcement) was insufficient: a far broader range of communication channels needs to be used.

Information needs to be targeted but also written in appropriate language. User groups can work with Government to sense-check communications material before it is widely disseminated. This was considered to have worked well in the past (a panel of 12 farmers reviewing agricultural communications was noted as particularly effective).

A water toolkit aimed at SMEs on the web was said to be difficult to find and written in an inaccessible form. In contrast, the web-site www.netregs.gov.uk was cited as a very useful, plain English, single portal for advice on environmental regulations for SMEs.

Communications is a matter that the Regulatory Review Group plans to discuss in the Autumn alongside the business impact assessment of legislation. Not all regulation is Government-driven. There are also private sector regulators, such as Quality Beef Scotland, where Government is not involved.

Best Practice

There was some disappointment that there was little evidence of significant change following the Hampton Review (“Best Practice on Better Regulation”, Hampton Review, February 2005). It was suggested that Scotland was approaching matters differently from England and taking more of a “hearts and minds” approach to improving regulation.

One example of good practice from SEPA:

- Scotland's Environmental and Rural Services (SEARS): 9 separate organisations' inspectors and other staff used to visit farms to check 9 separate sets of compliance issues. Now one inspector visits, wherever possible, sufficiently aware and trained in all 9 areas to be able to assess whether a more specialist inspection or follow-up support is needed. This has been very well-received by the farming community.

Housing Association regulations were considered to be particularly burdensome and seem to have got worse since the banking failures. There was felt to be scope for trialling a parallel to the SEARS example, combining a range of inspections. It was thought that Government would be willing to listen to such a proposal.

Not all regulators operate a de minimis approach, but there was felt to be scope to consider doing more in this area, consistent with proportionality. Instances were cited where poorly-drafted regulations had had unintended consequences, sometimes catching very small operators within their remit. Temporary amnesties of fees or fines could sometimes encourage compliance.

It was noted that more could be done within the public sector to share information to help improve targeting. For example, Local Authorities know (for business rates purposes) all SMEs in their area. There was felt to be scope to use this information to make sure that information aimed at SMEs was reaching the right audience. It was noted that data sharing has proved beneficial in the context of child protection and that there may be good practice to be shared.

It was suggested that financial pressures might help drive positive change: fewer visits, more sharing of data, greater use of de minimis, etc. It was also noted that in these difficult economic times, regulators could play their part alongside central Government. SEPA, in its ten point plan for economic recovery submission to Government last year, led the way in proposing and applying a ten day payment model, subsequently taken up Government-wide. This and other parts of the plan have put over £1.6m per month into the Scottish economy.

Building on the positive experience of www.netregs.gov.uk a plain English regulation web-site model might be able to be rolled out to other areas of regulation.

Conclusions

- Government needs to move more from its traditional enforcement role to helping businesses comply with regulation, always aware of the need to protect the public in externis. However, the cultural change should not be underestimated- it will take time.
- Need increased and better communications about regulations, particularly to SMEs
- There is scope for sharing best practice including data sharing and combining inspections, as with the SEARS initiative.
- The key principles of better regulation still apply: regulation should be transparent; accountable; consistent; proportionate; and targeted.

Discussion Session 5

Innovation in manufacturing

BACKGROUND PAPER

Innovation is the successful exploitation of ideas including new products, processes and services as well as business models.

The *Government Economic Strategy*, published in November 2007, set out its purpose of sustainable economic growth and highlighted the importance of innovation in delivering that purpose. Innovation drives improvements in productivity and, through creating new products, processes and services, creates new jobs and encourages greater economic participation - two of the crucial components of increased economic growth. In recognition of the importance of innovation, the Scottish Government's refreshed Economic Recovery Program includes *investing in innovation and the industries of the future* as one of its 3 key themes.

Innovation is crucial to the competitive position of manufacturing businesses. Businesses and retail customers have an ever-increasing range of products to choose from, so manufacturing businesses face constant competition in order to retain or increase their market share.

The application of good design processes has a key role to play in innovation, particularly in the creation of marketable products and services with enhanced competitive advantage.

Manufacturers are also likely to benefit from being flexible and able to consider new ways of working as well as new technologies that will allow them to respond rapidly and cost-effectively to customer demand.

The Economic Downturn

Research and innovation are just as important during a period of economic downturn. Evidence from previous recessions suggest that R&D spending during a recession is often one of the first areas to be cut by the private sector. However, when financial pressures are greater and margins tighter, successful businesses are the ones that find smarter, more efficient and effective ways to improve productivity, expand market share and increase profits. Surviving an economic downturn and placing ourselves in the best possible position to benefit from the upturn will not be achieved by simply doing more of the same. Innovation is about seeing and seizing new opportunities.

In the Manufacturing Sector, innovation usually refers to:

- Product innovation
- The introduction of innovative processes and equipment
- Green technologies which reduce waste and use consumables more efficiently

Benefits

The benefits of innovation to businesses might include:

- greater responsiveness to customer demands
- faster turnaround times
- ability to enter and compete in new markets
- reduced waste levels and downtime
- improved product design and quality
- greater potential for a wider product range
- streamlined relationships with suppliers and customers

Manufacturing in Scotland

The study 'Manufacturing in Scotland', by the Strathclyde Institute for Operations Management found that there is a lack of appreciation of the potential value of innovation in delivering value (and indeed the understanding of innovation in its many guises).

It recommended that establishing processes that support innovation and product development would be central to the sustainability of many Scottish SMEs

Proposed discussion questions

- What new opportunities have you seen coming out of the current circumstances?
- What can be done to assist Scottish companies to improve innovation?
- How can businesses collaborate with other businesses on innovation, or with suppliers/customers ('open innovation')?
- Could public procurement procedures help encourage business innovation?
- How aware are you of public sector support for innovation? How can the public sector better publicise the support available to companies and individuals?
- How can we improve collaboration between businesses and key suppliers of R&D and innovation, i.e. Scotland's universities and research centres?
- How can Scotland's businesses use innovation to remain competitive in an increasingly global market place?

NOTES FROM THE DISCUSSION GROUP

Summary

To stimulate discussion, four questions around innovation in manufacturing were debated by the group. The group felt there was a need to ease the journey of ideas and designs through to products, and to encourage Scottish designers to turn to Scottish manufacturers and vice versa. The marketing and packaging of both the assistance available from the public sector and the business opportunities out there could be improved, and the interpersonal aspect of collaboration with SE and SMAS was highlighted, including the need for quality individuals to conduct these interactions.

It was recognised that there was value to be had in bringing companies together more, to encourage innovation and best practice. In addition, it was agreed that there were ways in which collaboration between companies could be both realistic and valuable without risking competitive advantage, and it was felt that business groups and the public sector could have a role to play in encouraging that collaboration.

The value of changing attitudes within companies towards new ideas and new people was also recognised, alongside the need for training, mentoring, etc to bring out talent and ideas of current staff. Finally, the importance of the interaction between academic institutions and manufacturers was debated and it was felt that there must be ways in which research could be made more available and commercialised more readily.

The following 4 questions were debated in order to define suggested solutions:

Q1. WHAT SUPPORT IS AVAILABLE AND IS IT WORKING?

- The route from design to manufacture is problematic: designers have difficulty in finding a manufacturer in Scotland who can make the design; manufacturers have difficulty in finding a designer in Scotland.
- Knowing what support is available there is problematic.
- That support relies on an individual having the appropriate experience but a good individual can map a company's way "through the swamp". There is an important interpersonal link there.
- Aware there is financial support but "can't see the wood for the trees"
- SME's cannot easily find out what new innovative business opportunities are available and not all are able to do the required digging or know where to get advice
- The route of new technology to market needs to be freed up
- Support needs to be packaged and marketed better
- The likes of Business gateway does not support large companies – their options for support are limited
- "JFK Moment" – The country creating the manufacturing capability through technological push
- Leadership – SMEs need the skills

Suggested solutions:

1. Work to improve the flow of ideas and designs through to products, including the support available to help this process
2. Work to ease and support new technologies' route to market
3. Improve the marketing of innovation and the associated business opportunities available
4. Move towards a collective clearing house approach for financial support
5. Improve the marketing and simplify the packaging for available advice and strengthen interpersonal aspect
6. Develop leadership skills within small businesses

Q2. WHAT COULD BE DONE TO ASSIST COMPANIES TO IMPROVE INNOVATION?

- Perception of innovation in Scotland- the manufacturing framework has a detrimental effect
- Innovate more than get credit for – not just product, processes too
- A change of attitudes is important to allow new ideas and free people to innovate
- Incentivise the individual and introduce new blood.

Suggested solutions:

1. Bring companies together more to encourage innovation of business process
2. Work to change attitudes – for companies to be more open to new ideas and new people, or to 'set people free'
3. Incentivise training and development within company and new ideas through apprenticeships, sandwich course, etc
4. Encourage the practice of mentoring

Q3. HOW CAN WE ENCOURAGE GREATER COLLABORATION AMONGST MANUFACTURING BUSINESSES (AND OTHER INDUSTRY SECTORS)?

- Concern over other companies "pinching my ideas"
- Relationship between renewables and decommissioning industries and Scottish manufacturing sector – need to get our act together as there are opportunities there
- Businesses can collaborate on process and non-product themes with little risk, especially if not competitors
- Collaboration probably needs a middle man, e.g. Scottish Enterprise

- Change the attitude of keeping the door closed to other businesses - share best practice
- Need for manufacturers to get together more

Suggested solutions:

1. Promote collaboration between companies on non-product themes, e.g. energy efficiency, perhaps through events
2. Encourage business groups to meet and collaborate (e.g. Scottish Engineering).
3. Encourage companies to look for companies with similar, but not the same, products to collaborate with.

Q4 – HOW CAN WE IMPROVE COLLABORATION WITH OUR UNIVERSITIES AND RESEARCH CENTRES?

- Need to persuade universities that product should go to market asap.
- Give Universities a stake in the product.
- Improve mechanism for technology transfer
- Problem of so many products which are designed but not picked up by manufacturers
- Two-way thing - businesses need to embrace the academic institutions too
- Knowledge transfer programme – students end up working for companies
- Wealth of expertise but difficult to find
- SE can help companies find expertise but limited resource and relies on the quality and connections of the individual
- Technology transfer centres

Suggested solutions:

1. Consider the idea that condition of funding for academic institutions should be that they are compelled to seek commercialisation
2. Encourage businesses to embrace academic institutions
3. Find ways to make it easier for businesses to find the expertise and knowledge which exists
4. Set up technology transfer centres involving businesses and educational institutions (the Advanced Forming Technology Centre cited as an example).

Discussion Session 6

Growing business innovation in Scotland

BACKGROUND PAPER

This session will explore the opportunities to improve Scotland's economic performance by developing the culture of **innovation** within Scotland's businesses. Innovation provides critical opportunities for businesses to build their competitive position in both global and local markets and hence is a key driver of profitable growth.

Innovation, businesses and the Economy

Innovation is the successful exploitation of new ideas. These ideas improve the way we do things and the things we make, in short, they help businesses to remain competitive. These ideas may be small and incremental and new only to the company itself or they may be disruptive leading to an entire paradigm shift in an industry. Both are important.

Evidence shows that businesses that have the ability to continually create, evaluate and exploit their new ideas are more likely to survive and prosper in the competitive global economy. Businesses that innovate benefit the economy by delivering:

- added value;
- high quality jobs;
- better products, processes and services for their customers;
- new, more environmentally friendly, processes.

The Scottish Government has made increasing long-term sustainable economic growth the top priority and, the promotion of business innovation is central to this. Business innovation is a key element of the refreshed Economic Recovery Plan.

For businesses, innovation is about:

- **introducing** new products and modifying existing ones
- **improving** management and production processes to raise efficiency and reduce costs
- **adding value** and profit for customers with new ways to deliver products and services
- **transforming** business models to improve competitiveness
- **exploiting** the opportunities in a low carbon economy

The introduction of new products, processes and services may require investment in research and development (R&D). However, business innovation may be much wider than this, for example, the innovation may centre on the business model itself. Both R&D based innovation and wider innovation are critical to improving Scotland's economic performance.

As businesses face the present global economic downturn, successful innovation provides an important source of new opportunity. During a downturn the need for businesses to be innovative is arguably more critical than at any other time, as companies focus on ensuring they are in the best possible shape to take advantage of the new opportunities that will emerge when the economy starts to recover.

Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE), as Scotland's innovation agencies, have important roles to play in contributing to this agenda by encouraging companies to embrace this innovation opportunity, through promoting innovation, providing support for businesses and by helping to build a strongly positive innovative environment for each of Scotland's key business sectors.

SE and HIE are working intensively with businesses across Scotland to ensure these businesses develop and exploit opportunities, and to ensure that cutting-edge innovation support mechanisms are available both to accelerate and to increase the impact on both the business and the economy.

Developing the environment for business innovation and business growth is also critical for each of Scotland's key business sectors, and development of this environment requires closer working between businesses, Scottish Enterprise and all other key contributors to the innovation agenda including Scotland's universities and research institutes.

Scotland's key business sectors are:

- Life Sciences
- Energy
- Creative Industries (including digital media and ICT)
- Financial and Business Services
- Food and Drink
- Tourism

For each key business sector, Scottish Enterprise and Highlands and Islands Enterprise are working with businesses, universities, Government and the Scottish Funding Council to ensure the environment in Scotland for business innovation is strengthened. Examples of this approach include the Translational Medicine Collaboration and Tourism collaboration.

Key innovation themes are summarised for a business audience in the SE/HIE document 'Growing Innovation'.

The greatest opportunity of all is for Scotland's businesses to embrace this opportunity to innovate.

Proposed discussion questions

'Innovation? it's the successful exploitation of ideas to make our businesses even more competitive'

- Scotland has world-class research and invention. This provides huge opportunities to make our businesses more competitive. In making the most of our strengths in research and invention, what is working well, and where are the opportunities to improve our approach?

'The popular idea of innovation is of ground-breaking research to produce a new product. It often is. But there are more ways than this to win competitive advantage'

- What are the wider opportunities to win competitive advantage through innovation? Aside from research based innovation where do the wider opportunities lie? What do we need to do to make the most of these wider opportunities?

'Innovation is no longer happening under-the-radar. It's more likely to come from creative collaboration'

- Is Scotland well positioned to engage with, and to exploit commercially, these creative collaboration opportunities? What is working well and where are the opportunities to achieve more?

‘Six key business sectors are marked out by their intense creativity, originality of thinking and research focus’

- Scotland’s six priority business sectors are listed above. What needs to be done to ensure these business sectors provide the growth opportunities for Scotland’s economy? How should Scotland balance present needs versus nurturing opportunities for the future?

NOTES FROM THE DISCUSSION GROUP

Introduction

The three main areas for in depth discussion are outlined below:

- low carbon economy,
- developing a culture of business innovation
- increasing academia-business collaborations

Low carbon economy

The low carbon economy provides a massive opportunity for Scotland. One to which we can respond with focus, application of talent, collaboration and financial resource, i.e. by applying the four key ingredients to economic success as outlined by Jonathan Kestenbaum of NESTA in his plenary speech earlier in the day.

The round-table discussion included the following key points:

- Challenge is to win over the consumer using incentives to change behaviours.
- Government can help by introducing incentives e.g. low tax for low emitting vehicles and schemes such as congestion charges (as introduced in London).
- Government could do more to stimulate uptake of low carbon vehicles by offsetting cost of purchase, and by development of infrastructure such as vehicle charging stations for electric/hybrid vehicles and distribution infrastructure for hydrogen.
- Scotland could take a lead from Iceland which has developed a transport strategy for low carbon vehicles.
- Government agencies such as SEPA could be more proactive in helping businesses to embrace opportunities i.e. UK/EU regulations may themselves represent opportunities for business innovation.
- Need to be careful of unintended consequences of low carbon approach. For example potential legislation which requires new and existing buildings to be carbon neutral may affect business competitiveness in Scotland and may decrease our attractiveness as a location for mobile investments.

Developing a culture of business innovation

Scotland has a strong history of invention but, in many cases, these inventions have not been exploited successfully in Scotland. In short we are good at invention but not so good at innovation. Hence the question ‘what needs to happen to help Scotland develop a culture of business innovation?’

In response the following key points were raised:

- Challenge is to ‘turn people on’ to innovation, for example by:
 - Developing attitudes, behaviour and business leadership.
 - Building opportunities to link **creativity** with **business innovation**.
- Development of business skills around product management is critical.

- Need to develop an eco-system where companies are hungry for innovation that drives their growth.
- Need to de-risk business innovation – particularly for SMEs – SE and ITIs can help here. IP ownership may be an issue with ITIs.
- Need to simplify application procedures for innovation support – too time consuming for businesses.
- Also need to recognise that not all business innovation will be successful. Need to develop a culture where we learn from failure and then move on.
- Government spends massive amounts of money on public procurement. Much of this does not stimulate innovation as contracts are too rigid. More flexibility would help SME's to respond more innovatively.
- Increased innovation in public procurement could be achieved by appointing an 'innovation officer' in each local authority (with private sector experience).
- Also, public sector scoring for personal development could include an innovation theme..
- Local authorities present an important opportunity for culture change in their approach to innovation.
- Opportunities to change mind-set of next generation through access to inspiring science/innovation projects e.g. NASA space school has been very inspiring to Scottish youth.

Increasing academia-business collaborations

Within knowledge based economies, further and higher education institutions play a critical role in providing a strong supply of talented and skilled graduates. However, many such economies are learning how to improve the relationships between academia and business as a means of improving business innovation. What are the issues and opportunities in Scotland to develop mutually beneficial collaborations between academia and industry?

The round table discussion highlighted the following key points:

- Access to universities needs to be improved, there is an over focus on funding rather than customer satisfaction.
- Often difficult to develop a genuinely shared agenda between business and academia due to the differing metrics, motivations and behaviours.
- Universities may overvalue their IP and be over-protective in helping businesses to access this IP.
- Collaborations between SMEs and large companies may bring critical mass to academia-business collaborations i.e. a 'shared' business voice in collaborating with universities.
- Also, collaborations between universities help bring critical mass from the academic side, such are Scottish Research Partnership in Engineering.
- Need to be careful not to create too many initiatives - SME's have limited time and resources to respond.

Summary

The discussion provided helpful insight, and new thinking, in three identified areas of opportunity to grow business innovation in Scotland.

- The discussion group recognised that the low carbon economy presents considerable opportunity form Scotland's industries, however, if businesses are to win in international markets we need to be focused, co-ordinated and highly effective.
- The group explored key elements in developing Scotland's appetite for business innovation. We need to become as good at exploitation of ideas as we are at invention. We need to be innovators as well as inventors. While much of the challenge here rests within culture

change within the business sector, there is much the public sector can do, for example innovative procurement.

- The discussion concluded with a series of key points which address the opportunity to develop academia-business collaboration as a route to delivering more effective business innovation in Scotland.

Supporting documentation

Copies of the Innovation Framework document (Scottish Government) and the [Growing Innovation](#) document published by SE and HIE were made available to all attendees as background information for the discussion.

Discussion Session 7

Systems alignment

BACKGROUND PAPER

Context

- Innovation is seen as an important factor in delivering sustainable economic growth.
- Innovation, be it incremental, radical or transformational, is seen as a complex dynamic system where various, apparently independent, parts interact to deliver the outcomes.
- The government sees its role as a strategic enabler, orchestrating the actors in the Scottish innovation system and their strategic missions with the needs of the economy and society.
- The main driver for economic growth is the private sector. However, it is critical to understand:
 - various parts that constitutes the Scottish innovation systems
 - how these parts interact
 - the barriers and constraint preventing the system from working efficiently and effectively

What is Systems Thinking?

- **A system** is a dynamic and complex functional unit comprising interdependent (sometimes apparently independent) interacting parts. A system always has a purpose - however complex. For example, a corner shop may be seen as a:
 - wealth generation system
 - employment system
 - distribution system
 - supply system
- [Energy](#), [material](#), [information](#) and stakeholders **flow** among the different parts of the system, as well as from and to the surrounding environment
- **Systems thinking** is about understanding parts of a [system](#) in the context of the whole, rather than in isolation. That is the relationships between various parts of the system as well as with other systems. How many times have we seen someone change something to eliminate a ripple in their part of the process and cause tidal waves elsewhere?

What is innovation?

- **Innovation** is a new way of doing something. It can result in incremental, radical and transformational changes to thinking, products, services, processes or organisations.
- It is now accepted that through innovation organisations generate distinctive competencies that underpin their competitive advantage. For example, customers prefer buying your product or service, whilst paying more money for it, instead of going to one of your competitors because your product and/or service ...
 - is technologically more superior
 - looks and feels better
 - is more reliable and better quality

- eliminates hassle in customers business
 - is tailored to customers specific needs because you really understand customers needs/business
 - is known and trusted
- Innovation is output of a process and the system within which the process unfolds. A well designed, efficient and effective system will produce high levels of innovation with little waste... in contrast, a badly designed or an emerging system will produce lower levels of innovation with considerable waste.
 - When was the last time we revised the Scottish innovation system?

Proposed discussion questions

- What are the parts of the Scottish innovation system?
- What should the role of each part within the system be?
- What are the constraints and barriers that prevent the system from functioning efficiently and effectively?

NOTES FROM THE DISCUSSION GROUP

Introduction

The group first discussed what constituted the Scottish Innovation System, who were the key players and what are the constraints and barriers that prevent it from functioning efficiently and effectively.

Professor Umit Bititci presented on the key questions of:

- What are the parts of the Scottish innovation system?
- What are the constraints and barriers that prevent the system from functioning efficiently and effectively?
- What conclusions should we draw about how to improve the system?

What constituted the Scottish innovation system?

It was concluded that there were a very wide community of players, not just the usual suspects of government, its agencies, industry and academia but also those linked to Scotland or whose actions could have an effect on innovation in Scotland, for example, the UK Government, the Technology Strategy Board, the UK Research Councils and the EU in the public sector, and inward investors and Globalscots from the private sector. Banks and other venture capital companies were also a key component as had been evidenced by the recent economic situation. Regulators such as SEPA and Scottish Natural Heritage and the planning system were important but usually in a negative sense, in that they tended to be a barrier to innovation.. The media and their attitudes played a vital part in the system, again mostly in a negative sense. The point was made that the system was not just the sum of all the players but the design of their interrelationships and the resources made available were also crucial to how well the system performed.

What were the key constraints and barriers to the system performing effectively.

The main constraints identified were cultural and attitudinal.

- The “Scottish mentality” that was the opposite of a “can do” attitude; a fear of making mistakes that led to risk aversion. This was considered to be prevalent in the private sector

as well as the public sector. The existence of an “underdog culture” held Scotland back from celebrating our successes and encouraging others to do likewise.

- The lack of a clear goal or objective. It was pointed out that the Government Economic Strategy had identified one overarching objective, that of increasing sustainable economic growth. The group felt that this would help but considered that the public sector had to be more joined up in how it approached the goal and how it transmitted its messages. Other “worthy goals” that could contribute towards innovative thinking were the current economic crisis and the climate change agenda.
- A lack of understanding of a systems approach and how collaboration between all the players would lead to a more efficient and effective outcome were also identified as barriers. The group felt that the Government could do more to encourage such an approach, perhaps by helping fund industry-led, collaborative initiatives. Trust and common goals would be a useful start.
- The education system was felt to be a barrier in that it focussed too much on academic excellence and not on celebrating creative, innovative thinking. It also didn’t encourage the types of skills that were needed in the modern business world such as collaborative working, understanding of risk, celebration of success. The comment was made that we needed to create more space for education and not just for passing exams. In industry, companies needed more focus on management and leadership skills and on training. The training budget was often the first to be cut in a recession but it was, if anything, more important that companies encouraged their people to think differently in a down turn.
- Regulation- it was felt that some in the public sector saw it as their job to say “no”. The number of regulatory bodies and their tendency to take a long time to make decisions acted as a constraint to original ideas. Public procurement had also been a barrier although some welcomed the changes being made to publicise public sector contracts. There was felt to be a disconnect between companies and the public sector. In general, the support for innovation in companies needed to be more accessible, more easily understood and more flexible to meet the different needs of companies of a different size in different sectors. More one-to-one support for companies and more support for companies outside the main sectors was needed.
- The way that innovation was measured and rewarded was seen as a constraint. Financial measures on their own missed a great part of what made companies, and people, innovative as had been demonstrated by the earlier presentation from W L Gore.

Summary:

- The system consists of not just everyone who plays a part in it, e.g. Government, Funding Council, Enterprise Agencies, industry and academia, but also the design of the interrelationships between them and the resources available
- The system is not confined to Scotland; the UK Government, the Technology Strategy Board, the UK Research Councils and the EU are also key players, as are inward investors and Globalscots, for example
- The main constraints and barriers are cultural and attitudinal:
 - Lack of a “can do” attitude
 - Risk aversion
 - Lack of understanding of a systems approach

No appreciation of systems thinking and the role of business in the education system from the earliest days through to university

The group's suggestions for improving the picture were:

- Government needs to be joined up and demonstrate a clear common purpose or “worthy goal”
- Strategies need to be clearly linked to each other and to the overarching goal
- Regulation needs to be as light touch as possible
- “vested interests” need to be challenged at all levels
- Education needs to recognise and celebrate new ideas and different thinking
- Industry needs a lead from major players to act as an example
- Industry, academia and government need to focus on initiatives that require a collaborative approach

TRANSCRIPT

Friday 19th June, 2009

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Business in the Parliament

Friday 19 June, 2009

[THE PRESIDING OFFICER *opened the meeting at 09:02*]

Innovating for the Upturn

The Presiding Officer (Alex Fergusson):

Good morning ladies and gentlemen. It is good to see that those of you who were at the reception and dinner last night have survived the experience intact. I welcome you again this morning, along with several delegates who were unable to join us last night, but to whom I offer a warm welcome to this, their Parliament, this morning.

This is, of course, the fifth business in the Parliament conference, which comes at an opportune time, as we look back on a decade of devolution and the first 10 years of the Scottish Parliament.

Today's conference is an opportunity for you to engage directly with Parliament, its members and the Scottish Government. You will have the chance today to voice your opinions, to participate in discussion groups and, later today, to pose questions to ministers. I hope you will do all of those things enthusiastically.

As I mentioned in my remarks last night, this year marks the 10th anniversary of the Scottish Parliament. Openness and accessibility are key principles that have underpinned this Parliament's work and ethos over its first decade, and we continue to take very seriously our commitment to those principles. As Presiding Officer, I am confident in saying that one of the considerable successes of the Scottish Parliament has been its work in seeking to engage with all Scotland's people. However, that is of necessity a two-way process, and I am the first to acknowledge that a lot of work still needs to be done to ensure that all our people know how to, and are encouraged to, engage with their Parliament.

That is why events such as business in the Parliament are a key part of the Parliament's activities. This event affords members of this Parliament, including ministers, a valuable opportunity to engage directly with you, who are here as representatives of Scotland's business community.

It almost goes without saying that, in the current economic climate, the need for dialogue between business, Government and Parliament is greater than ever. Although we are in the midst of a recession right now—there are conflicting views about what stage of the recession we might be

in—it is of huge importance that we, as politicians, businesspeople, policy makers and stakeholders not only consider how to get out of this situation, but plan how to manage a recovering economy. That is why the theme for this year's conference is innovating for the upturn.

Scotland has a tremendous tradition of innovation, from Adam Smith, who is buried in the Canongate kirkyard just across the road from here, to famous inventors such as John Logie Baird and Alexander Graham Bell and the innovators of today in the life sciences, business, and medicine. We have every right to be optimistic that, with the right approach, Scotland can be well placed to take full advantage when these difficult economic times take a turn for the better.

I am grateful to the members and officials of the Economy, Energy and Tourism Committee for their role in preparing for today. In a little while, we shall be hearing from that committee's convener. I also thank the ministers and officials of the Scottish Government for their part in the organisation of this conference and for their participation in the day itself.

It is always wonderful to see this magnificent chamber filled with people from around Scotland. It is genuinely great to have you here, and I hope that you have an interesting and productive day.

I have always felt that one of the indicators of the importance of this conference has been the willingness of ministers from the start to take part in its proceedings. I therefore have great pleasure in inviting the First Minister of Scotland to make his way to the podium to deliver his opening speech to the conference.

09:06

The First Minister (Alex Salmond): This is a disorienting experience for me: usually, only the Presiding Officer and Her Majesty the Queen get to address Parliament facing it as opposed to from the benches. Also, I see that everyone is in the wrong place, and that a couple of my ministers appear to have defected to the Labour benches. They might have told me. Similarly, I see that the Liberal Democrats' Iain Smith has rejoined the Government. Congratulations, Iain—you are back where you belong. Even more alarmingly, David Sigsworth and Russel Griggs are on the Conservative front bench. Not only that, but they seem to be sitting on one seat, which is excellent. The other distinguished speakers from whom you will hear this morning appear to be the Liberal Democrats. As I said, the experience is disorienting.

I hope that you all note that the seats are not all that comfortable. I should say that they are not the normal seats. They have been brought in specially

to underline the austere approach that this Parliament takes to its business, as opposed to what might go on elsewhere. Obviously, after your sumptuous dinner last night, the chairs will also help to keep you awake this morning.

I am also struck that civility, decorum and good humour will clearly infuse your proceedings today—which is just the normal atmosphere in Parliament, of course. Yesterday, I spoke to the Dutch ambassador, who came to Parliament to view First Minister's question time, as many ambassadors and dignitaries do. He was delighted to have attended when there was such a jolly, end-of-term atmosphere and seemed so pleased by the conviviality that he saw that I did not have the heart to tell him that the recess does not start until the week after next. We should see ourselves as others see us and recognise that others view proceedings in this chamber differently from how we do.

I want to establish in your minds the fact that what happens during today's conference can actually have an impact and can result in things changing. I have been to many conferences over the 25 years in which I have been in public life, so I know that that is not always the case, as I am sure many people here today will agree. However, I can demonstrate that this conference is different from those others.

One of the themes that ran through the previous conference, in February 2008, at which energy was very much in the spotlight, was a suggestion that, unless there were distinct changes, Scotland's ambitious renewable energy targets of 31 per cent of our energy being generated from renewable sources by 2011, and 50 per cent by 2020, would not be met. It was suggested that several regulatory changes and attitude changes would be necessary to meet those targets. In fact, a good deal of press coverage—I have no doubt that it was inaccurate—suggested that the conference felt that the targets were very challenging. I thought that that view was overly pessimistic, but it had to be noted.

I am delighted that, with the renewable energy facilities that are installed and the 24 major renewable energy consents that have been given—one a month in the past two years—we can now say pretty reliably that the targets will be met, not least because we are already at 35 per cent in 2009, if we count what is installed and working and what has been given consent or is under construction. Would that have happened without the conference in February 2008? Maybe. However, it can at least be argued that the conference of 18 months or so ago provided a significant jolt and boost in establishing that pattern.

There is a range of differences between this

Parliament and Parliaments elsewhere. If we wind the clock back 15 years or so, the great scandal or drama in the Westminster Parliament was an argument not about MPs' expenses, but about whether organisations, businesspeople or other people were paying for access to parliamentarians. In this Parliament, which has a reputation for transparency and openness, one thing is certain: nobody will pay for access, because everybody and their auntie has free access. Access to the Parliament is a free good—as it should be. I say with no doubt that this Parliament is almost certainly the most accessible in the world—that applies to parliamentarians of all parties.

Other Parliaments, such as those in the Baltic states, have online interactivity that is perhaps still in advance of ours. That might be examined in the future. However, the third sector, voluntary groups, faith groups and business organisations have physical access to beard their parliamentarians here. Walter Scott wrote that people liked having the old Scots Parliament in Edinburgh because they could fling pebbles or chuckie-stanes at their parliamentarians. Whether folk want to fling chuckie-stanes or come in for intelligent discourse, Parliament is extremely accessible. I have encountered no organisation that has complaints about access to Parliament, its committees, MSPs, ministers and parliamentary proceedings. Perhaps people are just being polite, but I do not think so.

To bring people together in a conference such as today's is useful, because themes can emerge, points can be debated and issues can be crystallised. However, in the past 10 years, Parliament has established a substantial tradition of access in its day-to-day business. We are celebrating our 10th anniversary—we will do that formally in two weeks, when Her Majesty the Queen will address Parliament as part of the celebration. In general, those 10 years are widely regarded as a substantial success: they have enabled Parliament to grow in stature and authority.

The Government's economic strategy has been to enhance and increase economic growth in Scotland; specifically to close the gap that has pertained for many years between the United Kingdom growth rate and the Scottish growth rate, and to look at international figures to try to establish the Scottish growth rate at a comparable level with other European countries.

When we established that target, we expected to raise the Scottish growth rate, rather than see everybody else's growth rate go down. However, the target was expressed in relative terms—as it should be—because that takes account of economic realities. The target that we set remains.

The strategy to achieve it is to match and marry the human capital—the ability, training, skills and education of our people—to areas of comparative advantage in the Scottish economy. Anytime, anywhere, in any economic environment, successful economies will be those that manage both to maximise human capital and to apply it to their areas of comparative or competitive advantage.

The Presiding Officer has reminded us—it is the theme of the conference—of Scotland's tradition in innovation. It is true that our country invented the telephone, the television, the fax machine, the magnetic resonance imaging scanner and the bicycle. We even invented the overdraft, although we have not spoken about that much recently. At school, I learned that Scotland had invented all those things, and later, at university, I found a quote from my favourite economist, J K Galbraith, that I rather liked. He said that, in the history of humankind, the only two nations who had invented anything worth a damn were the Jews and the Scots. Galbraith was prejudiced because he was an expatriate Canadian Scot before he became an American citizen, but there is a huge amount of truth in his argument—albeit that it is a generalisation that ignores the contribution of 99 per cent of humanity to the advancement at humankind.

At school, most of us learned the remarkable truth that Scotland had managed to invent so many things. However, nobody told me at school why we had managed to invent so many things. A look at Scottish economic history shows that the answer is clear. We invented so many things because, first, we had the best established system of free education in the world, we mobilised more of our human capital than any other nation on earth and we had more people capable of inventing things. Secondly, the vast bulk of Scottish invention and innovation did not come through pure academic research, but was part of an industrial process—probably with the exceptions of many medical advances. That was true throughout Scottish economic history and it is true today. The secret of success lies in matching and marrying educational attainment to the competitive advantage of the country.

In February last year, this conference established points at which that underlying truth about the Scottish economy could be used to good effect. One of the things that emerged from the outreach sessions of that conference was that there were not enough technician-training places to sustain the substantial advance that everybody wanted to see in the life sciences, which is an area of growth in the Scottish economy. I am delighted to say that we are, just over a year later, about to see the roll-out across Scotland of the modern apprenticeship in life sciences. I am even more

delighted to say that that development was announced in Beijing as we were celebrating the agreement of a concordat on life sciences between Peking University, Beijing, and the University of Edinburgh. The issue was crystallised at the conference in February last year and is now being addressed, which underlines the fact that access to, debate with, and interest in the Parliament can lead to concrete results in policy making.

I have one announcement to make. Usually, when one is making an address, it is best to make an announcement of some kind. Colin Blorland is here, but I am sorry that Andy Willox, from the Federation of Small Businesses Scotland, has had to leave for another engagement, as I want to make the point that it is not just through the conference that people can access and influence the views of the parliamentary committees, MSPs or the Government. The Cabinet and the ministerial team have been meeting a variety of social partners from throughout Scottish society to consider the economic recovery plan in Scotland.

Two or three weeks ago, the business organisations came together to see the Government. They told me that, although they felt that the target that was set last year for the central Government and its organisations to meet 90 per cent of its payments to private companies within a defined period was excellent—indeed, the Government met 92 per cent of those payments—and although our performance was much better than that of our friends south of the border, they were frustrated that the same target did not apply beyond central Government to, for example, Government contracts. As a result of that discussion, I am delighted to say that we will be introducing into Government contracts a clause to enable that target to be carried through for suppliers to Government throughout Scotland's public sector, and we have put in place a mechanism for establishing that deadline for the payment of receipts and bills in the public sector. After all, if the main contractor is being paid within that timescale, it is only fair and reasonable that, given Scotland's substantial public procurement budget, the rapid payment and meeting of invoices should be carried through.

Of course, it remains to be seen whether such a move for Government contracts will be as successful in moving payments through the supply chain as it has been for central Government. Nevertheless, it shows how a specific request from business organisations that has arisen out of the recognition that, in times of economic pressure, more businesses probably fail as a result of cash-flow difficulties than underlying profitability problems, has been carried into effect as a positive measure in the Government's programme.

Ladies and gentlemen, you have today's agenda with its range of distinguished speakers and breakout sessions. I have no doubt that you have ideas that can be carried forward and, I hope, formulated into policy. You have been a civil, decorous, good-humoured and polite audience, although I dare say that you will make yourselves heard loud and clear in the participation session.

I wish you good luck for the conference. I will be able to stay for the initial proceedings, but must leave to open Senergy's new training office in Edinburgh. Senergy is an energy consultancy company that combines enhancement of human capital through training with a focus on one of the Scottish economy's key growth areas—renewable energy—in which £1 billion of new investment has been made over the past year. The organisations that supply the human capital for the sector are now coming to Scotland and establishing offices in our capital city—in Princes Street, as it happens. I am delighted to be involved in that event, but I will be watching these proceedings to see what we can carry into policy.

Thank you very much. [*Applause.*]

The Presiding Officer: I thank the First Minister for getting the conference off to such a good start. In my introduction, I mentioned the valuable role that is played by the Parliament's Economy, Energy and Tourism Committee, which scrutinises much of the work of Government and carries out its own inquiries. I am very pleased to say that our second speaker this morning is that committee's convener, Iain Smith MSP.

09:23

Iain Smith (North East Fife) (LD): Like the Presiding Officer and the First Minister, I welcome you all to your Parliament for the fifth business in the Parliament conference. It is a particular pleasure to co-host this event as I come to the end of my first year as convener of the Scottish Parliament's Economy, Energy and Tourism Committee. However, I am not sure how much longer I will be in that role, given the First Minister's offer of a front-bench Government job. I will have to get back to him on that.

The conference has become an established part of Scotland's parliamentary and business calendar and its success is a result of the unique partnership between the Scottish Government, the Scottish Parliament, individual MSPs, the business community, their representatives and their employees. Of course, it would not happen at all without the hard work of the backroom teams who put it all together, so I thank everyone involved in setting it up, particularly my committee's clerking team.

The mace that lies behind me was presented to the Scottish Parliament by Her Majesty the Queen at our official opening almost 10 years ago. On it, surrounded by the statement "There shall be a Scottish Parliament", are woven the words "Wisdom", "Justice", "Compassion" and "Integrity". These days, you might not normally associate those words with politicians, but they reflect the aspirations for this place as set by the founders of the Scottish Parliament. They are what the Scottish people have a right to expect from their parliamentarians. In our work, the Scottish Parliament is guided by those words and by the founding principles of accountability, openness, equality and the sharing of power between the Parliament, the Government and the people of Scotland.

As we near the 10th anniversary of devolution, this conference is a manifestation of that sharing of power. It is an opportunity for you, the business community, to tell us, the legislators and the Government, what you think your Scottish Parliament should do to assist you. One early criticism of the Scottish Parliament was that we did not understand business and that business did not have a voice in the Parliament. However, we have made great strides since those early days to ensure that we listen and respond to the voice of business throughout Scotland. Certainly, the Economy, Energy and Tourism Committee positively encourages business to engage with us and we welcome your views. As convener of the committee, I regularly meet business leaders. I welcome opportunities to meet and visit individual businesses.

We also have the Scottish Parliament and Business Exchange, which is helping to improve mutual understanding between businesses and MSPs and we have, of course, the business in the Parliament conference, which is an important opportunity for MSPs to engage with business and for the business community to help to shape our future agenda. I thank all the business organisations and the Scottish Trades Union Congress for their partnership in and support for the five business in the Parliament conferences so far.

The theme of this year's conference is particularly timely. No one believes that we are yet at the bottom of the recession, although opinion varies about how much further we have to go and how long we will be down there. However, one thing on which we can all agree is that if Scotland is to be well placed to come out of the recession, we must do more now to develop innovation, whether through new products or better processes. We have not been particularly good at that in the past—we are good at invention, but we are not so hot at innovation and turning invention into business opportunities and jobs. There is no

denying that we have some of the finest research institutions in the world, not least of which is the University of St Andrews in my constituency of North East Fife. In blue-sky thinking and academic research, we punch well above our weight as a nation, and in areas from biosciences to computer gaming, we lead the world in research and development at institutional level, but we lag behind when it comes to applying that research to creating new products for the market.

The reason for that quickly becomes apparent if we consider the funding of research and development in Scotland. Universities Scotland's recent report "What was/What next?—What the evidence tells us about the next steps for Scotland's economic strategy" highlighted that, when we strip out public sector funding, expenditure on research and development by Scottish business is just 0.59 per cent of gross domestic product. That compares with 1.08 per cent in the United Kingdom as a whole and 1.12 per cent for the European Union. At £579 million, our total business expenditure on R and D was only 4 per cent of the UK total, compared with our 8 per cent share of the UK economy. Clearly, that level of investment in R and D is insufficient to sustain any competitive edge that Scotland might need to help us to come out of the recession. Further, those figures predate the recession, and we all know that the temptation in a recession is to cut investment in things such as training and R and D, which is probably the opposite of what we should do.

Why does Scotland have such a poor record on R and D? If I knew the answer, I would probably not be standing here now. I hope that, in the course of today, we will explore some of the reasons and identify some things that we must do differently if we are to turn the situation around. What are the barriers to innovation in Scotland today? For example, do we have available to us the right sort of financial instruments to support innovation, not just from the public sector, but from our banks and other financial institutions? How do we learn from and disseminate examples of best practice both from within and furth of Scotland?

As I said, innovation is not the same as invention; it is also about a root-and-branch look at everything that we do to find out what we can do better and how we can strip away waste and anything that does not add value. That is equally important for the public and private sectors. Innovation is also about finding new markets or different ways of utilising products. For example, there are real opportunities for Scottish business in grasping the climate change agenda. By finding ways in which to cut energy use and reduce packaging, for example, your business will not only save money, but will reduce its carbon footprint. Innovation can simply be about tackling

the "It's aye been" attitude to how things are done. Today's theme of innovating for the upturn is about considering what businesses, public bodies and society need to do better to ensure that we do not miss the boat this time.

I assure delegates that the Economy, Energy and Tourism Committee will take a particular interest in what you have to say. We have identified as one of the committee's work streams for the next parliamentary term an inquiry into innovation and productivity. The proceedings of this conference will help inform that inquiry, so you can help set the Scottish Parliament's agenda today. I look forward to hearing your deliberations and I hope that you enjoy your day.

The Presiding Officer: Thank you very much, Iain. As you said, we are all in for a very exciting and participative day.

We now come to the first of our three keynote speakers. Jonathan Kestenbaum is the chief executive of the National Endowment for Science, Technology and the Arts and a member of the Design Council's board and the UK's Technology Strategy Board. He was unable to join us at last night's conference dinner because of prior commitments, but he has bust a gut to be with us today, so keen is he take part in today's events. We are very pleased to have him. I invite him to the podium.

09:31

Jonathan Kestenbaum (National Endowment for Science, Technology and the Arts): Thank you very much, Presiding Officer. This is an enormous privilege for me. I must start with the line, "What's a nice bloke like you doing in a place like this?" I do not have and have never had any political aspirations and I have never run for office, so I am not quite sure why I am standing here facing all of you.

My background is in private equity. I worked for a number of years with a firm called Apex Partners, which was the largest private equity firm in Europe. We started by raising a fund that got to £10 million, but the last fund that we raised was worth \$4 billion. We backed some of the great growth in United Kingdom and worldwide companies. I now run the National Endowment for Science, Technology and the Arts, which has terrific partnerships up here, backing some of the great, new creative industries and digital media sectors that are emerging from the recession. That is a desperate attempt to try to legitimise my being invited here. My brief for the 15 minutes for which I have been asked to say a few words comes from that perspective and that experience in backing great companies, raising finance and growing companies in good and bad times.

Iain Smith referred to barriers to innovation. What are the conditions under which great innovative economies and businesses thrive? I will discuss that in the few minutes that I have, laying out what, in our experience, those conditions are. I hope that that will provoke something for the discussion groups.

I will preface what I say with what two Americans have said, one of whom I think is right and the other of whom I think is utterly wrong. The American whom I think is right is Rahm Emanuel, President Obama's chief of staff. In advising that, no matter what we do, we should not miss the opportunity that a good crisis presents, he used the famous line:

"You never want a serious crisis to go to waste."

He was, of course, referring to recessionary times, to which issue I will return.

The American who I think is wrong is Tom Friedman, the distinguished columnist of the *New York Times* and author, who suggested in his famous book that the world is flat. You will recall that the book's title is "The World Is Flat: A Brief History of the Twenty-First Century". In other words, according to Friedman, innovation is distributed equally across the world in utterly shared property, and every nation, company and business will have shared and equal access to it. However, he is utterly wrong: that is not true. Innovation is not distributed equally: there are pockets and spikes of unbelievable innovative capacity and power, but other places do not have that.

My brief, then, is to discuss which conditions produce innovation. As I said, Friedman is wrong, because there are spikes of innovation across the world. Scotland has the opportunity to push and power on, but under what circumstances can that happen? I suggest that there are probably four great habits by which great nations, societies or economies become innovation economies and nations.

I address my comments on the first of those four habits to the political leadership in the chamber. The first habit has to do with a kind of relentless national purpose around the business of innovation. Let me tell you what I mean by that. On 25 May 1961, in an equally distinguished setting, President Kennedy stood in front of members of both houses of Congress and said that he would put a man on the moon within 10 years. Of course, he achieved that aim; and, of course, we know that the aim was influenced by Sputnik and the cold war. However, that speech did something else as well: it unleashed the talent, imagination and ingenuity of hundreds of thousands of young Americans. That happened right across the country, but there was a focus on

the two coasts—in California, and in the state of Massachusetts, in and around route 128.

As a result of that national galvanising purpose, hundreds of thousands of young Americans saw their future—as individuals, as businesspeople and as good citizens—as being in pursuit of imagination and innovative solutions. That is what a purpose such as "We'll put a man on the moon in 10 years" will do. That is what it did at that time—it unleashed the talents and imaginations of huge numbers of American innovators—and 10 or 20 years later, I and many others became the beneficiaries of that, in a business sense. The United States of America became one of the great innovation nations of the world, in a business sense and in other senses.

As well as the sense of national galvanising purpose, there was a sense of being undistracted. People no longer thought of innovation as just another fad or buzz word. It was not just the latest political cliché, starting with some special adviser in Harvard and then ending up in everybody's speeches, only to be replaced the same time the following year with another one. My point about a national galvanising purpose is directed towards the political leadership.

I will make an incidental point that I am sure the businesspeople here will identify with. People often ask me what the success criteria were of the great companies that we backed when I was at Apax. They asked about the difference between the companies that really made it and the ones that did not quite make it. The answer was not to do with product, and was not to do with technology. It was not even to do with management, because all the management was great. It was to do with great, galvanising ambition. The companies that had great, galvanising ambition were the companies that made it. That is my first observation on the barriers, in response to Iain Smith.

You will immediately identify with my second point—and it is one that the First Minister has alluded to. There must be a relentless focus on core strengths—the core strengths of companies, the core strengths of sectors and the core strengths of nations. Let me tell you what I mean by a relentless focus on strengths. We all know what the greatest driver of innovation was throughout the 20th century—of course, it was the three wars. The first world war provoked a huge uptake in motorised transport; the second world war provoked, through Frank Whittle and others, the adoption of avionic engineering in a way that we had never seen; and, towards the end of the century, the cold war provoked huge interest in new forms of electronic espionage, which, as we know, subsequently produced the internet. There

is something about focusing events that allow people to concentrate on core strengths.

I love Benjamin Franklin's line that nothing focuses the mind more than a hanging. Perhaps the political leadership in this room can identify with that, but it also has a bearing on business and innovation. We can look around the world at the great innovation nations. For example, we can look at what Esko Aho and his colleagues did in Finland in the early 1990s. Finland was a basket case—Helsinki in particular. The country had lost its natural trading partner in the former Soviet Union, the Government debt made our own Government debt look like that of a nursery, and unemployment was at 15 per cent. The natural core strengths were in a range of industries that were no longer competitive, so Finland concentrated relentlessly on what it thought would be its emerging core strengths—the great, new, major technology businesses.

You will love to know that Esko Aho went to a small rubber company that was renowned for producing wellington boots and said, "I have a vision for what these types of companies can be." That producer of wellington boots was, of course, Nokia. The more that I come here, the more that I see Scotland has the growing capacity to develop that relentless focus on its core strengths, whether it is the bioscience clusters, the emerging life science clusters, the increasing green opportunities or—I have had conversations about this this morning—Scotland's extraordinary strength in digital media and the creative industries. There are huge opportunities there.

Thirdly, there is also a huge opportunity for Scotland in what I call the collaborative approach to innovation. I will tell you what I mean by that through a short story—I am exposing my American origins with these stories. The Kennedy Administration of the early 1960s is regarded as the most intellectual presidency, perhaps until the present one. It was renowned for its brilliance, so why did the most brilliant American Administration bring the world closer to world war three than it has been at any time before or since? I am referring, of course, to the notorious Cuban missile crisis. The question was investigated by an American sociologist called Irving Lester Janis, who read meticulously every minute of every meeting that John F Kennedy and his brother convened to address the Cuban missile crisis. He came up with the following conclusion as to why so many of their judgments were miscalculated. Janis's view was that every person in Kennedy's Administration who was associated with the decision making around the Cuban missile crisis was exactly the same type of person. They were all male, in their mid-40s, white and from the state of Massachusetts. They were all educated at

Harvard and were almost all Catholic. They were all exactly the same.

If a problem is put on the table and, to solve it, a group of people is convened who are all exactly the same, they will all come to exactly the same conclusion. In most cases, that conclusion will probably be wrong. It might be right periodically, but there will definitely not be the richness, texture, argument and trial and error that we know great innovation, imagination and problem solving require. That is what I call the collaborative approach, which we see in business. The great businesses that we backed had extraordinarily unusual combinations of disciplines and people. They had men and women from science, technology and the creative industries.

I had a lovely conversation with Jonathan Ive, one of the UK's great designers. He is the chief designer at Apple, and you will know his most iconic product. I asked Ive why the iPod is so extraordinarily distinctive from anything else that he has ever created. He told me that the iPod was the first product that he was involved with for which Apple said, "You're a designer, but we want you involved right from the beginning of the engineering of the product." He told the company that he knew nothing about engineering, but he was told not to worry about that. He sat with the scientists, the engineers and the technologists when they were dreaming up the basic core engineering of the iPod and therefore understood what the design elements of it should be. I use that story to explain that, whatever you do, when it comes to finding great innovative solutions, you should bring the people together right at the beginning of the problem—do not wait until the end.

Fourthly, I turn to my own core interest, which Iain Smith has said something about: capital—the little that we have left of it. When it comes to financial capital and innovation, there are two forms of tyranny. Much of the tyranny that I grew up with was the tyranny of shareholders and limited partners who expected increasing returns on their investment in shorter and shorter timeframes. That was a real problem for driving innovation, as innovation takes time. It was no coincidence that we had 10-year funds. The academics will tell you how long it takes for an idea to get from the laboratory desk to the marketplace. Innovation takes time, so private capital is not always the best driver of innovation.

There is also public capital. I am now the custodian of a modest pocket of public capital. I always thought that risks could be taken with public capital. I see the politicians around me immediately smiling—they know that public capital is equally problematic when it comes to driving risk.

What capital and innovation do we need? We know exactly what we need: we need multiple sources of capital that do different things at different stages of driving risk in innovation. Certain things that private capital simply cannot do must be taken on by public capital. It is the responsibility of public capital to take on pockets of early-stage risk. At other points in the development of great innovative ideas, public capital has to get out of the way—to use a lovely phrase—and let private capital take things on, but we should avoid the tired argument that public finance should just get out of the way and leave things to the market.

My impression—forgive me if it is incorrect—is that Scotland has a profound understanding of where public capital can have a catalytic impact on innovation in an economy. The danger is that public capital will try to do too much on its own—we have seen that in other economies. The real trick is for public and private capital to work in intelligent partnership to drive innovation.

Those are my four criteria or habits for driving innovative economies.

With the Presiding Officer's permission, I would like to make a final observation. It strikes me, even in listening to myself, that much of the problem is to do with combining discipline and risk. People have often said that a choice must be made between discipline and risk, but that is incorrect. Of course, one does not make a choice between the two when it comes to innovation. People must be disciplined and rigorous, take risks and be imaginative.

If the Presiding Officer does not mind, I would like to leave delegates with a story that beautifully captures the merger of discipline and risk. It is set in the darkest days of pre-revolutionary Russia, in 1916, when every self-respecting revolutionary was in jail—if they were not in jail, they were not doing their job. They were all male. The women were back on the farms and the men were in jail dreaming of the revolution.

Natasha travelled 800 miles to visit Leonid deep in a Moscow jail. Eventually, when she got to see him, she said, "It's all very well for you dreaming of the revolution. We're all left on the farm. It's the middle of March, we've had the deepest of winters and we need to plough the land and plant the potatoes. The farm is totally frozen over and we can't do anything." He replied, "Don't worry. I'll deal with it." She said, "What do you mean?" He said, "Go home and I'll deal with it." So she travelled 800 miles back home.

The next day, Leonid wrote her a letter in which he said, "Dear Natasha, Thank you for coming to visit me. It was a great delight to see you again. However, I was very concerned to hear what you

said about ploughing the field. Whatever you do, do not dig up the field. There are guns buried there." The secret police intercepted his letter. The next day, 5,000 troops with spades turned up at Natasha's farm and dug up every pocket of the field, but they did not find any guns. The next day, Leonid wrote Natasha another letter in which he said, "Dear Natasha, Now plant the potatoes." That is disciplined risk.

Thank you very much. [*Applause.*]

The Presiding Officer: The thanks should come from us. We are grateful for that challenging, entertaining and informed speech. I could not help thinking during it that perhaps there is another reason why iPods, Apple Macs and iPhones are great products. I think that I am right in saying that they all contain Wolfson Microelectronics semiconductor silicon chips. Wolfson Microelectronics is, of course, a splendid Scottish company. That may simply be coincidence, but I suspect that it is not.

I thank Jonathan Kestenbaum for getting us off to such a wonderful start.

I introduce our next speaker, who was a welcome guest at my table last night, with a degree of trepidation. My other guests included the convener of the Economy, Energy and Tourism Committee and the Cabinet Secretary for Finance and Sustainable Growth. We were having, as one does, a serious conversation about the state of the world, but our next speaker decided that it was getting a little too serious, so we found ourselves—entirely at her behest—revealing who would be our five perfect dinner guests. I remind the other people who were at the table that we are sworn to complete secrecy as to who those guests would be.

Vikki England is our next speaker. She has been with WL Gore and Associates (UK) Ltd for 11 years and is currently a human resources associate. WL Gore is consistently rated as one of the best companies to work for in the United Kingdom, Europe and the USA, and has regularly been recognised for its innovative products and culture. I am not quite sure what challenges she will put to us, but we are delighted to have her here, and I invite her to address the conference.

09:51

Vikki England (WL Gore and Associates (UK) Ltd): I promise no funny business this morning.

Who are WL Gore and Associates? If you know us at all, it is probably because of our Goretex jackets, which some of you might be able to afford to wear, but we make thousands of different products that serve hundreds of different industries. Last year, we celebrated 50 years in

business. This financial year, we finished with \$2.5 billion of sales, so we are a big company.

We are a family-owned company. We have 8,500 associates in 45 different locations worldwide, and they are the people who own the company. WL Gore is Bill Gore, our founder, and we are all shareholders in the company. We are divided into four divisions. The fabrics division is the one that makes Goretex jackets. We also have an electronics division, an industrial products division and a medical products division.

What are our credentials as an innovative company? I could spend 15 minutes talking about our different products but, instead, I will tell you about four different ones to give you an idea of the breadth of what we do.

Next week, you will see our Tenara architectural fabric on display at Wimbledon. It is the fabric that has been used for the new roof over the centre court. Its properties mean that it keeps out the rain, if we get any, but allows in the light so that playing under it is still like playing outdoors.

We also have a product called Cast Liner, which basically means that, when you have a stookie, you can still go swimming and do all those other things that you miss out on when you break a limb. It is a lining for stookies—we do not use that term when we talk to our American colleagues about it.

We make Elixir guitar strings. It is interesting that that product came about when we started in discussions with Disney, which was looking for more durable wire to help with its animatronics. We considered whether we could combine the wires and wrap them. That came to nothing, but the thinking that went into it meant that we discovered how we could wrap wires and we found that it was ideal for guitar strings. We can make guitar strings that do not break nearly as easily as our competitors' and that do not retain dirt or scraps of flesh, so the tone stays brighter for much longer. If you are a guitar player, look out for Elixir guitar strings—sorry, I did not mean to advertise.

We also have a medical product called Helex. It is a minimally invasive product that can be inserted into a child's body through the leg and deployed in the heart to mend a hole in the heart without the need for open-heart surgery. Our product is so compatible with the human body that the skin grows over it and there is never any need to repeat the operation.

Our products go to the top of mountains, into the fiercest of fires, to space and back and inside our bodies to change and save lives. Our tag line is innovative products with integrity. We are market leaders wherever we operate and our products do what we say they will do.

How do we do all that and more? It is through our people and our culture, which we believe is unique. We have four fundamentals, which are the basis of how we do business. We believe in the individual and their potential to achieve great things and to do the right thing. We trust that our associates will do the right thing and that we do not need to look over their shoulders to check what they are doing. We believe in the power of small teams, so we bring together the smallest number of people who are needed in order that they can communicate directly with each other and get things done together that they would not get done individually. We believe that we are all in the same boat, so all our practices mean that, no matter which divisions someone belongs to and no matter what product they work on, whether it is successful or not, they still benefit from the success of the company. It is all about the enterprise rather than a particular division or company. We also believe in the long-term view and are in things for the long term. We thought that 50 years ago and we definitely think it now. Our fabrics division, which produces the Goretex jackets that are fundamental to the success of our company, took 20 years to make a profit. I do not know of many other companies that would have waited 20 years for a product to start making money for them.

We have four guiding principles that are our rules, if you like. The first is our freedom principle. We will allow, help and encourage others to grow in their knowledge, scope and skill. As associates, we are all actively encouraged to grow and develop, and we give others the room to do so. The second is our fairness principle. We will try to be fair to our fellow associates, to our customers and to our suppliers. The third is our commitment principle. We will make our own commitments and will keep them. When each of us joins the organisation, we take on a core commitment and, after that, it is up to us, as associates, to decide what new commitments we will take on. Once we have taken on a commitment, we ensure that we deliver on it.

Our fourth guiding principle is called the waterline. The easiest way to talk about it is to imagine a boat in the sea, with the sea coming up to a certain level on the boat. If we want to make a decision or take a risk that is above the waterline on the boat, we can go ahead and do it. We do not wait to be asked or go and ask anyone—we just do it. However, if we want to make a decision or take a risk below the waterline, which could sink the ship just like drilling a hole, we must go and talk to some people first. It is not that we cannot do it—it might still be the right thing for the boat; it is just that we need to talk to people about it before we go ahead.

Those four fundamentals and four principles all work together—in tension and with each other—to guide us and ensure that we do the right things as associates. Our one objective is to make money and have fun. That is two things, but it is our one objective and, believe me, most of us get to do that.

What does the workplace look like at Gore? It sounds good. There is an emphasis on personal relationships at Gore, so we need to get out there and get to know people. We are a non-hierarchical organisation—we talk about being a lattice. Whoever we need to speak to, we go and speak to that person directly. There is no chain of command or having to go through someone else before we can reach the upper echelons of the company. We have minimal bureaucracy, so we have no titles. We have titles for the outside world, but we are described by our commitment, not by a title. We believe that those things create an environment that inspires innovation and creativity. Leadership at Gore is defined by followership. We see who the team is following and they become the leader. That can change over time. Leaders are appointed, but they need to earn the followership that goes with being a leader.

What is it in particular about Gore culture and our way of doing things that fosters innovation? I have a few thoughts for you. We celebrate both success and failure. We encourage people to take risks. There is a story about someone racing up to Bob Gore, the son of our founder, to talk to him about another associate. They say to him, “I’m really scared. This guy’s always trying different things out but has no idea whether his experiments will work. I’m scared that, one day, he’s going to blow us all up.” Bob Gore turns round and says, “Well, you know, I’d rather be scared to death than bored to death.” That is our attitude to risk taking. That is part of the point about the waterline principle. It is not just about protecting the health of the enterprise, or the boat—it is also about saying, “Go ahead and do things. Don’t wait to be asked. Don’t always check with people. Take some risks and show some initiative.”

We communicate directly with whoever we need to, so that ideas do not get lost. Ideas are shared with the people who need to hear them and who will understand whether they are good ideas. They will not be killed at an early stage by a middle manager who does not really know whether the idea is good.

We are an agile organisation. There is obviously some structure, but teams form around projects and around what needs to be done. There is none of that, “You need to make sure you include them,” just because of who they are. Nobody is who they are; at Gore, people are about what they do.

Leaders do emerge. Sometimes, leadership in a team will change, because someone else has the passion, the skills and the credibility to lead, rather than the person who has been leading up until then. However, once a leader emerges, they have to earn that leadership every day. Once they take on a leadership commitment, they have to work at it every day to stay in that commitment.

We have what we call sponsors, who are a little like a mentor or coach. One thing that is a bit different at Gore is that every single associate has a sponsor, who is there to help them with their growth and development. When it comes to innovation, sponsors give associates air cover: they help to protect them if they have an idea or try something out that does not go right. They give them time to think, to fail and to learn. Associates get space to make mistakes.

We also have a concept called dabble time. We are all encouraged to use 5 to 10 per cent of our time to try out something new or something that is not part of our core commitment—to experiment, to reach out and to find out whether something is of interest. Sometimes, that leads to a new commitment; sometimes, it is just an interesting diversion.

Our engineers and scientists, of whom there are many, are allowed out to play. In fact, they are not just allowed out; they are expected to get out there, to get to know the business that they are part of and to get to know the customers they serve, or potentially serve. They are expected to communicate with all associates. They are not locked up in the lab. We look for engineers and scientists with relationship skills, and we look for engineers and scientists who are mavericks. We love mavericks at Gore—people who are just that little bit different, or who have different ways of thinking. We believe that we have the right environment for them to thrive.

It is not just engineers and scientists who are expected to innovate at Gore; it is all of us. We are all expected to think about different ways of doing things. We look for associates who are motivated, and we reward them for action and for getting things done. We look for associates who love challenge, who are creative in how they approach things and who seek to add value and not just do the same thing every day.

Our complete lack of rules and regulations helps us to get things done. If a new idea comes along, we do the things that need to come together to make the idea happen.

That is a big list, and I could go on. Part of that was to demonstrate that our enterprise is complex and multilayered, as is real innovation. It is not about one or two things; it is about all the different things that can exist in an organisation and that

create the right environment. Our culture encourages us to challenge ourselves, to challenge others and to dream. We trust that those dreams and those of our associates are going to be good.

Is it all a pipe dream? It might sound like a bit of a cult. It might sound as if we sit about on beanbags all day, sipping camomile tea and high-fiving one another. Sometimes it might feel a bit like herding cats. In fact, it is not like that at all. Gore is a \$2.5 billion business, not a holiday camp. It is hard and challenging to work at Gore. We look to recruit the right people, who fit with our culture and who are unique. They have to bring themselves to Gore, and they have to figure out how to be successful. We look for people who are capable of being autonomous but who also want to be part of a team.

Bill Gore was a dreamer and a businessman, and we are all encouraged to behave in the same way. At the core of our success is the fact that we trust and believe in our associates, and we follow through on that trust and belief by giving them shares in the company. When we make decisions about how to spend Gore's money, it is our money that we are spending, and when we take a risk, we are taking a risk with our own company. That makes a difference to the decisions that we take and the way that we behave with our company.

When times get tough—let us face it, times are tough right now, even for a company such as Gore—there is a tendency to want to introduce more structure, control and bureaucracy and to start telling people what to do to ensure that the company does the right things. We have to do the opposite. We need discipline and focus, but we must stay true to our fundamentals, which are to believe in people and to believe that the right thing for them is to continue to take risks and to learn from them. That is Gore in a nutshell. Thank you for the opportunity to come along and talk to you about my wonderful company.

The Presiding Officer: Thank you very much, Vicky. You must have given every single delegate considerable food for thought. I am sure that they will take many of those points home with them and consider what might be applicable in their lives. Those of us who shared the table with you at last night's dinner are relieved, I think.

We come to our final keynote speaker, Graham Hutcheon, who probably has the job of which I am most jealous, given that he is responsible for the operational aspects of brands such as Famous Grouse, Macallan, Highland Park and Cutty Sark, ensuring that they are produced and delivered to customers throughout the world. He sits on the Scotch Whisky Association's operations committee. He is a director of the North British Distillery Company and the Scotch Whisky

Research Institute in Riccarton. He also recently joined the Confederation of British Industry Scotland. As with our previous speakers, we are hugely privileged to have him here today.

10:06

Graham Hutcheon (Edrington Group): That was quite an introduction—I did not know that I did all that stuff.

Presiding Officer, First Minister, ladies and gentlemen, good morning. In common with Gore, my company is a private company that is owned by a charitable trust and the employees. I am sure that it is not often that two representatives of such private companies speak at the conference. I want to share something with you. In February 2008, the Edrington Group concluded a long five-year strategic acquisition, involving more than \$0.5 billion. We bought a product called Brugal rum from the Dominican Republic, which meant that we moved from an 800-people-strong Scottish business that concentrated on Scotch brands, such as Famous Grouse, Macallan, Highland Park and Cutty Sark—I have to get them in—to a 2,000-people-strong international business that concentrates on international premium brands. Of what we produce, 90 per cent is exported. We work from 14 global locations and we have 19 nationalities in the business. In a very short period, the business mix changed and we transformed how we think and work. There is the associated challenge of international business management. *Hablo un poco de español ahora*, which was a challenge for me.

A point to note for the Parliament is that I doubt very much whether that key strategic thrust from my group, which was primarily bank funded and transacted in February 2008—the date is important—could have been delivered six weeks later. That is not because the business case was poor, but because of the financial turmoil that happened in the early part of last year. It could all have gone horribly wrong. In common with many businesses, we believe that our banks are key to supporting strategic growth. From large to small enterprises, the stagnation that we have witnessed in the past year will do nothing for our aspirations or the greater Scottish economy. Despite intervention by the Westminster Government, the banking sector is still unable to give business the support that it needs in these difficult and unprecedented times.

That must be addressed quickly. Confidence remains low and the London interbank offered rate—LIBOR—is high and therefore the cost of capital is high, if liquidity is available. Stimulating business growth remains a challenge. Business refinancing over the short to medium term will provide an interesting distraction, to say the least.

Suffice it to say that the uncertainty affects business behaviour.

I will set the Scotch whisky sector in context. The industry's exports are worth £3 billion. That represents a quarter of the United Kingdom's food and drink exports; one in five of Scotland's total manufactured exports; and 80 per cent of food and drink shipments from Scotland. We support 40,000 jobs in Scotland and 65,000 in the UK, and we spend £1 billion on our supply base.

In the past 18 months, the industry has invested more than £500 million in producing capacity and infrastructure for future growth—although, had we been making the decisions today, that might not have happened. For example, there has been investment in warehousing and distilling at one of my sites, the Macallan distillery in Speyside, and Diageo has constructed a new and highly innovative distillery at Roseisle on the Moray Firth, which you should go and see if you get the chance. Diageo has also expanded the Cameron Bridge distillery in Fife. Included in all those investments is a commitment to renewable energy—but more about that later.

As you can imagine, market conditions are pretty tough out there. They will improve, but we do not know when. However, I believe that Scotch whisky will retain its position as the world's leading premium spirit. Right now, the horns are drawn in. Capital is tight. The irony of the increase in capital allowances is not lost on me. In today's world, cost management and cash are king, as the First Minister said. We are all tightening our belts to ride out the worst of the recession. What will happen when we come out of the recession? Quantitative easing—or money printing—might give us an inflationary problem in future.

Today's theme—innovating for the upturn—feels a little like, "Today, we're doing strategy." Anyone in business will tell you that we must innovate continuously to remain competitive. Today's economic and market conditions may be unprecedented. As a result, we must adapt faster and better than before. There have been casualties, and there will be more. However, with appropriate Government support for the financial community, and with an appropriate fiscal policy, healthy businesses will continue to strive and survive.

Innovation in premium brands remains at the forefront of our thinking. Iain Smith mentioned percentages in relation to research and development, but I wonder how we measure research and development. We are innovating, researching and developing all the time, but that work is embedded in the business.

On the back of the success of Famous Grouse, which has been number 1 in Scotland for 29 years

and is now number 1 in the UK, we have developed a peaty version called Black Grouse. It was developed specifically for the Nordic region, although it is available in the UK now. We have also developed Snow Grouse, which is a freeze-and-serve grain whisky designed for duty-free procurement. And there is the Grouse malt, which has been the cornerstone of the resurgence in the consumption of Scotch whisky in Taiwan. All those products were designed to meet the particular requirements of markets or segments of markets. Different markets have different tastes and are based in different economies. They are fast moving, so we must move fast too if we are to remain competitive.

Scale can be an issue. The question has already been asked today: how can we punch above our weight? The question is very pertinent to the Scottish agenda. It is interesting to recall that, just as the current economic difficulties unfolded, Edrington was in the grip of a major challenge. Two partners in our distribution network left—one by choice, and the other because of an acquisition. That required some highly innovative thinking on our part, to produce a fit-for-purpose distribution vehicle for our current and future needs. We have delivered that. Doing so required pace, responsiveness and determination, and we now have a £1 billion vehicle operating in 24 markets and contributing 60 per cent of our profits.

Key ingredients of a successful business—before, during and after recessionary times—are successful people. Workforce development is fundamental to business innovation and strategy execution. Within Scotland, there is great focus on higher education, which is appropriate. There is also great focus on 16 to 19-year-olds, which is appropriate too. However, the vast majority of the working population are outside those categories. Our core workforce requires continuous training so that we can remain competitive and retain our competitive edge.

To me—a simple businessman—the current skills provision system appears cumbersome, complex and confusing. The provision mechanisms must be simplified, and fast. Eighty-five per cent of training for the working population is delivered in-company. Generally, the larger businesses can look after themselves, but how does your local butcher release his staff for essential training? Businesses must take the lead and set the agenda. We know what we need, and it will be a two-way partnership with Government.

Business is ready to do its bit for the far-reaching and ambitious environmental targets to which the Scottish Government is committed. I am pleased to report that the Scotch whisky industry is the first industry to sign up to those targets. Sustainability is key—both short and long term.

However, in that context, there is a need for a bolder agenda that supports business investment, for example helping companies to harness renewable energy opportunities, as I mentioned earlier. Conditions should be fostered that encourage industry to invest in innovative and alternative renewable energy solutions.

In Rothes, Speyside, we have plans to develop a 7.5MW biomass power station—whatever that means—which will generate enough electricity for 9,000 homes and produce an organic fertiliser. It has taken us more than a year to achieve planning consent because the regulation appears to lag significantly behind the demands of industry. However, in fairness—because David Sigsworth from the Scottish Environment Protection Agency is sitting to my left—SEPA and the Scottish Government have delivered some cut-through on that type of activity. I am grateful for that.

We have a number of carbon reduction and trading schemes, all of which operate on a different timescale and basis. It is extremely bureaucratic. Let us keep it simple. Would it not be good if, rather than boxing companies into complex renewables trading schemes, we could create the fiscal and regulatory conditions today for investment in innovative green technology that will stand us in good stead tomorrow, both environmentally and economically?

Legislation, and our unparalleled ability to produce complicated interpretations of legislation, should be reviewed. Let us make the European Union directives work for us, and not use the precautionary principle to place huge barriers in the way of progress. In many areas, legislation is there to protect not prevent.

I take the opportunity to be very industry specific, and to mention corporate social responsibility. The alcohol and society debate is a hot topic at the moment. We recognise the issue and are engaged in the debate. However, be aware that this is an industry that exports 90 per cent of what it produces, and the world is watching what we do here in Holyrood. The industry spends huge time and resource combating barriers to trade around the world and has found innovative methods for dealing with them. You can rest assured that the current debate on minimum pricing, for example, could put more money and power in the hands of the multiple retailers, and will be used against us internationally.

We want to see emerging markets grow, improving profitability and securing jobs in Scotland. Innovation is not all about new kit, processes and inward investment. We require bold and innovative thinking right across the spectrum. While high-tech industries such as biosciences and renewable technology are vital for Scotland's future, we have a few indigenous industries that

have had to innovate over centuries and, in many cases, have hit world-class levels. We as a nation have to ensure that we have both the regulation and the fiscal framework to allow business to flourish. Business will generate wealth if the environment is right.

The pace of change is frightening and shows no signs of slacking. If I consider my business to the end of December 2008, everything was looking good. By January, signs of poor market confidence globally were obvious. Nothing shouts trouble ahead more loudly than factory gates shipments. We have to ensure that Government and business work together to provide innovative solutions to meet the global demands of the future.

The examples that I have given mainly revolve around my sector, but I am sure that you have all had similar experiences. Scotland has a proud heritage of innovation, from penicillin to television. However, I believe that we have the capability to sort out the banking liquidity issues; to up the pace of action; to get a solid and workable mixed energy policy in place, fostering new technologies; to ensure effective contact between our research institutes and business; to ensure that we have appropriate but uncomplicated regulation; to develop all our people for the needs of the future; and to market all that is best about Scotland.

Presiding Officer, First Minister, ladies and gentlemen, let us just get on with it. Thank you. *[Applause.]*

The Presiding Officer: Thank you. All five of our speakers could not have set the scene better for the breakout sessions that you are about to go to. What they said about the challenges that face us and the barriers to innovation and everything else that they spoke about could not have given us a better first session. I ask you to join me in thanking all of this morning's speakers. *[Applause.]*

The time has come for the breakout workshop sessions. I will take my leave of you at this point, but we meet again in about two hours' time, back here in the chamber. Stephen Imrie, who is on my right, will make a few announcements about what to do and how to go about it. Thank you all for being a much quieter audience than I usually have in the chamber.

10:21

Meeting suspended.

12:26

On resuming—

The Presiding Officer: Welcome back, ladies and gentlemen. I hope that you have had a thoroughly invigorating session since we were last together. I am glad to see that all the seats are still full—I take that as a good sign.

I ask each facilitator from the seven discussion groups to give us a brief—I emphasise the word “brief”—summary of the points that arose in their discussion group. Obviously, they will do that for the benefit of those who were not at their group. After that, we will go to an open forum session, which I must finish at quarter past 1. I will then ask the Cabinet Secretary for Finance and Sustainable Growth to wind up our conference.

The first facilitator is Mary Grant, who is the managing director of First ScotRail.

Mary Grant (FirstGroup): I was the facilitator for group 1.

We had a particularly engaging discussion. Skills utilisation is a difficult subject to discuss, particularly in the unprecedented times that we all face. In our session, we agreed unanimously that it is right for the Government to take an interest in refocusing what is happening in the workplace rather than just looking at the generic skills utilisation agenda. However, it is equally important for us, as business leaders and managers, to have absolute clarity about our own vision for our organisations and about what goals we wish to set and achieve for our businesses so that we have sustainable and profitable organisations going forward. We need to understand our organisation’s existing workforce and the skills that our staff might, or might not, have. However, we also need to understand, when we are recruiting at different levels, who is available outwith our existing organisations who could join our business.

The big thing that we discussed, which took up some time, was the infrastructure that is already in place to support us. We have representative bodies, such as the Institute of Directors, the Confederation of British Industry and Scottish Enterprise, and funding opportunities are also available to organisations. We felt that, as organisations, we do not necessarily use the existing infrastructure to obtain the level of support that we could to maximise what we have within Scotland.

We all recognised that different difficulties can occur depending on whether people are in a small, medium or large organisation. We recognise that those need to be treated individually, but we suggested that there should be a good mentoring scheme for businesses. We should also break

down the barriers. Scotland is a really easy place to do business. We said that we want not another layer—another body to put this together—but to use what we have.

However, we probably need something like what we called a support directory, which would list organisations that support people who feel that they need some one-to-one advice and guidance; it would also list funding opportunities. That is a bit of a minefield for organisations that do not have the infrastructure to research that properly. We also talked about taking a more collaborative approach and using our business organisations to the full.

12:30

We recognised that probably an awful lot is available already, so we can take action quickly. By the end of the session, we were all pretty enthused and we felt that we could go away with something from the discussion. We said that it is important that we all buy into the approach, which is not all one way—from the top down. The responsibility is not just the Government’s; as individuals in organisations, and as organisations, we all have a joint responsibility.

We worked through how we could achieve an output, so we felt that we had a positive end to our session. I certainly look forward to breaking down barriers and doing good business, and to our supporting one another to go forward.

The Presiding Officer: The second session was on innovation in science and technology. I ask Professor Anne Glover to give us a précis of the discussion, please.

Anne Glover (Scottish Government): I will start with a personal observation. This event is fantastic, because we have a full house. It has been supported by the First Minister, many cabinet secretaries and MSPs from all political parties. That sends an incredibly strong message to the business community that it is valued.

Another event that happens once a year is science and the Parliament, which the Royal Society of Chemistry and the Royal Society of Edinburgh organise. We have had at that event a debate in the chamber, but that has not achieved the representation of MSPs and ministers that we have today. That is a problem, because it means that the science community feels that it is not valued, so a disconnect exists. One thing that we could do to try to bring those communities together is to acknowledge the important role that the science, engineering and technology community and the business community have in working together to deliver the economic future that we want.

Our discussion session was far ranging. Scotland has a high proportion of small and medium-sized enterprises. It is difficult for them to obtain contracts—to go out and win work. A large part of funding in Scotland is from the Government, so our first recommendation was about Government procurement. Buying services for the Government has the potential to stimulate innovation in our SMEs that deliver science, engineering and technology. Seeing how we might do that better is a challenge.

As well as stimulating the business of our SMEs, another advantage of proceeding in that way is that the investment community that supports those SMEs with funding might have great confidence and comfort that those SMEs could bid for and win substantial contracts. A risk is always involved, but we felt that risk should be embraced. We must all work towards that.

Our second point concerned people and communication. Often, what holds back innovation in our SMEs is a lack of resource—not just simple funding, but the human resource. We discussed the possibility of promoting and stimulating secondments throughout all sectors, so people from higher education institutions or our research institutes could work in SMEs, people from large companies could work in SMEs and people in Government could work in any of those sectors. We thought that better movement of people would break down barriers and help communication and identification of the key issues that prevent—or at least do not support—innovation in those sectors.

We wanted support to be given to enterprise fellowships, which we thought had been extremely successful. At the moment, they are supported by Scottish Enterprise and the Royal Society of Edinburgh. They are immensely successful, so having more of them would help to make the marriage between the research base and business.

An issue that we did not discuss much but which we all agreed was terribly important is the fact that the research base does an awful lot of pushing, but we need more pulling from the business base. We must try to construct an environment in which it is easy for a business to say, “Look, these are the big issues for me. I need help with delivery.” That is to do with communication and co-ordination. There is some crossover between the conclusions of the first group on skills and innovation, which Mary Grant described, and what our group identified.

There is a funding and investment barrier, and we ask for the Government’s help with that. There is often a lot of bureaucracy around funding eligibility for various schemes. Can we not simplify that, particularly when the funding is for SMEs, which, as I have identified, are restricted in terms

of human resource? Let us have a system that is appropriate but simple so that people can access that funding. In addition, there was a desire for bespoke funding to be available for the bigger projects so that companies’ needs could be addressed and they could do the truly inspirational, large-scale innovation that we want to see.

Finally, we considered the need to build on our strengths. In his introduction, the First Minister said that a really successful economy had two things: human capital—we have a lot of human capital in Scotland—and a competitive advantage. If we have a competitive advantage, it is that we are a small country, so the potential for collaboration is extremely high. People do not normally collaborate well. We have already demonstrated through research pooling that in Scotland we collaborate well in the research base. In fact, we collaborate to tremendous effect to make ourselves internationally competitive in a range of science, engineering and technology areas. Let us intensify that collaboration so that we become truly competitive. In other words, the challenge is to compete with the rest of the world, rather than with ourselves. We should stimulate innovation with that in mind. That final point is all about co-operation, collaboration and communication. That more or less sums up our discussion.

The Presiding Officer: The third workshop concentrated on public sector innovation. I am pleased to ask Mike Harris, senior research fellow with NESTA, to summarise that workshop’s discussions.

Michael Harris (National Endowment for Science, Technology and the Arts): It was interesting to note the extent to which our group’s conversations about public sector innovation echoed some of the themes from this morning’s keynote speeches, which were about the importance to innovation of mission, purpose and organisations having a culture of innovation, and some of the processes, rules and regulations that can inhibit innovation.

To take that last theme first, we quite rightly had a discussion about issues in public procurement, some of which are to do with the drafting of legislation and some of which are a result of the rule-bound behaviours that one can find in parts of the public sector that inhibit innovation and prevent, in particular, the drawing in of innovations from the private and third sectors. A strong call was made for changes in that regard.

That led on to a discussion of how, in many public sector organisations, that is a cultural issue and is not just to do with the rules themselves. We considered how we could move into the public sector the empowered employee/associate culture

that we heard about this morning from WL Gore and other organisations. That is vital if we are to attract and retain the talent that can support and sustain innovation in the public sector. Talented people will not want to work for organisations that do not allow them to innovate or contribute to innovation.

That led us on to the third theme—the importance of mission and purpose. We need to be able to communicate what innovation is about in the public sector and why it will be so important to that sector. Although cutting costs and making efficiencies will be important, they alone will not galvanise the sense of mission and purpose and attract the talent that is needed.

Ultimately, it is a question of leadership for transformational change. Our underlying challenge to the policy makers is to provide that leadership. We need them to respond to that challenge.

The Presiding Officer: The fourth workshop, on innovative regulation, was jointly facilitated by the chairman of the Scottish Environment Protection Agency, David Sigsworth, and Professor Russel Griggs, who will give a résumé of the discussion.

Professor Russel Griggs OBE (Imes Group): Our group was small but perfectly formed, if I can put it that way. I hope that our discussion showed that many people now realise that we have moved on, that we are taking action, and that we are on a journey.

We focused on how one regulator—SEPA—is meeting the challenge. There was general agreement that the path of becoming an enabler rather than an enforcer is where we all need to get to. The issue is to do with helping businesses to comply rather than forcing them to comply.

There are still things that we need to do. Communication is an issue. It would be good to find ways of using databases better. In considering water issues, someone asked why we cannot use databases of water rates, which involve everybody in the country, to communicate, rather than SEPA having to take out advertisements in local newspapers in the hope that people will see them. How to communicate with people is an interesting issue.

We talked about members standing up and saying things in Parliament. Not every businessperson reads the parliamentary website every night, so that is probably not the best way of communicating decisions to do with businesses, although that was done in one case.

We considered Scotland's environmental and rural services—SEARS—initiative in the farming sector, under which one regulator goes out and decides whether other regulators need to go out too. We considered how that approach might be

expanded into other areas. A housing association colleague talked about the number of regulators who come to him and wondered whether the process in which nine regulating bodies in Scotland now act as a single entity, which has worked well, could be used elsewhere. That is where we ended.

The key principles of regulation still apply. We should look back to where Philip Hampton was in the mid-1990s. The difference in Scotland is that we are looking for cultural change, which takes time. We all realise that we are on a journey; we are making great headway, but we still have a way to go. However, I think that when we get to the end of the process, the cultural change that will have occurred will be much better than having simply ticked boxes to say that we have done things—ticking boxes can mean that we do not actually do anything at all in the end.

The Presiding Officer: The fifth workshop, on innovation in manufacturing, was jointly facilitated by the director of the Scottish manufacturing advisory service, Steve Graham, and the chief executive of the GO Group, Isabell Majewsky, who will give a summary of the discussion.

Isabell Majewsky (GO Group): We decided to be innovative. We approached the challenge using a break-out session followed by a round-table discussion.

Essentially, we asked ourselves a number of questions: what support is out there for manufacturing businesses; whether that support is working; what could be done differently; and how we can encourage collaboration not just in the manufacturing community, but with our research base—our universities and other research institutes. The fact that 23 per cent of Scottish manufacturing businesses do not believe that they need to innovate framed the scene for us. We need to challenge that fundamentally, and we have several recommendations to make.

I agree with previous facilitators that a huge resource bank out there is available to our innovative manufacturing businesses. However, they could all benefit from better visibility, being more co-ordinated and being clear about what will be delivered to the end beneficiary. In addition, clarity is needed on the sources of funds, such as the effective and successful Scottish Enterprise co-investment fund, and, more important, on how businesses can access that funding. The focus was really on packaging the support framework and making it accessible to innovative manufacturers.

12:45

We felt that too much emphasis is placed on technological innovation in new products and that

there needs to be a shift. We need to embrace process innovation, seek new business models and think about innovation in logistics, product design, packaging and branding. That must be recognised in the support that is available. We also felt that our manufacturing businesses would benefit greatly from collaboration, especially in areas of mutual interest such as energy efficiency, and that the public sector could stimulate such dialogue.

Compelling leadership and management capability drive innovation. We felt that, in our manufacturing sector, there needs to be more training and development—more provision of expertise—to retain and support the talent in Scotland's pool. There needs to be an injection of that knowledge. One of our recommendations is that a mentoring scheme should be set up through which large organisations can share their experience and expertise with some of the small organisations. That dialogue would be mutually beneficial.

The session was co-facilitated by my colleague, Steve Graham, who represents the Scottish manufacturing advisory service. I am delighted to say that the community that discussed the service felt that it needed to be broadened and enhanced so that it could provide more active support and a bigger framework of support.

Finally, we talked about collaboration with the university sector and other research institutes. Two main points were made, involving both push and pull. First, our universities establish our intellectual capital. There is a huge amount of research and development activity in universities, which needs to be pushed into the marketplace. The manufacturing community can help to facilitate that, but there needs to be more impetus, and more energy must be directed at encouraging the universities to engage with business and to pursue a very aggressive tech transfer route. Secondly, we felt that businesses need to access that expertise. Programmes such as the interphase knowledge transfer partnerships are already in place. However, those mechanisms need to be more visible in the marketplace and must be profiled so that businesses take them up.

Those were, essentially, the conclusions of our discussion, which we are consolidating into an action plan.

The Presiding Officer: Session 6 was on growing business innovation in Scotland and was facilitated by Paul Lewis, the managing director of industries, research and policy at Scottish Enterprise.

Paul Lewis (Scottish Enterprise): We talked about innovation in business. Picking up on this morning's conversations, we felt that such

innovation is the mission to which Scotland needs to respond. We focused the discussion on three key areas.

The first was the importance of collaboration in innovation, especially between business and higher education, which others have spoken about. There is some good practice but businesses still find difficulties in engaging with higher education. At present, universities engage with business through what is described as a transactional model—a fee-for-service model. We want to move to a model in which higher education is a collaborator in business-to-business partnerships. We are looking for bilateral business-to-business collaboration rather than a fee-for-service relationship. That relates to some of the points that Anne Glover made about businesses having an opportunity to be clear about their demands and higher education engaging much more in those opportunities. That was the first important theme.

The second was a galvanising theme, if not the new war. The low-carbon economy offers a huge area of opportunity and innovation for business in the future. Although business feels confident about being able to innovate and take advantage of the low-carbon economy, there is an important role for Government as an enabler to use its legislative and regulatory powers and the planning system to enable business to innovate in the low-carbon economy. Related to that is an important point about procurement. The opportunity that public sector procurement presents to drive innovation in business was not lost on us. Processes, forms, procedures and the culture of a lack of risk-taking in public procurement were all seen as barriers to SMEs engaging properly.

There is some good work around the portal for public contracts, but we could do more. We talked about examples that exist in other countries, such as the United States, where 2.5 per cent of public procurement is set aside for innovation through the small business research initiative. Could we do something like that in Scotland?

The final element is a challenge to business around innovation, which others have touched on and which relates to the importance of business leadership in creating the right culture and the right environment for more individuals in companies to innovate and realise their potential. We should making more active use of role models such as WL Gore and other companies that we know about as exemplars of best practice to help other companies reach that standard.

The Presiding Officer: Last, but by no means least, the seventh session focused on systems alignment. It was facilitated by Professor Umit Bititci, director of the Strathclyde institute for operations management and professor of

technology and enterprise management at the University of Strathclyde.

Professor Umit Bititci (University of Strathclyde): Mine is a good old Scottish name.

We looked at alignment in the Scottish innovation system. We started by saying that in a well-designed system, the various parts of the system work together towards a common purpose with high levels of innovation and minimum amounts of waste. Of course, the converse would also be true. The consensus was that the innovation system in Scotland is not necessarily ideal.

We considered three questions. The first was who the key players are in the system. There are a number of players and the system is quite complex, but, generally, one could summarise the players as being the education system, from pre-school through primary, secondary, tertiary and higher education and lifelong learning; administration, which includes the Scottish Parliament, the Scottish Government, Scottish Enterprise and other quangos; and the private sector, which includes SMEs and large companies.

Our second question was what the barriers to innovation are. There was quite a lot of discussion about that. Culture and the measures that we impose on our organisations were identified as barriers. I wrote down a third barrier, but I cannot read my own writing. It is okay—I am a professor.

The third question was what we have to do to move things forward. We identified a number of general things that all the players have to do. The first, which relates back to this morning's session, is that we need a galvanising goal or common purpose to work towards. At all levels, we have to nurture a can-do attitude and celebrate success. In all sectors, we need leadership that can turn words into action quickly.

As the generators of wealth—the economic engine—the people in the private sector have to take the lead and show the way through industry-led collaborative initiatives, supported by education, Government and so on. The private sector must try to put vested interests aside. It was suggested that we should have vested interests police—I would be the first to apply for that job.

We also need to think about what we need to do in education. We need to start challenging the culture and nurturing a positive, can-do attitude. We need to start encouraging and celebrating success and innovation, recognising new ideas and nurturing ambition. On administration, we need to start with lightweight, joined-up regulation and work towards a common purpose. We need clear linkages within strategies, and we need to implement policy more effectively.

That sums up what our group discussed.

The Presiding Officer: I thank all the facilitators for so ably summing up what were clearly lively and largely positive discussions. They were obviously eagerly entered into, at any rate.

Ladies and gentlemen, the floor is yours for the next 20 minutes. You are free to make any comment that you wish; if you have a question for the ministers who are still with us, I understand that they are more than willing to answer them.

If you wish to make a comment or ask a question, please catch my eye. When I call your name, please stand up, allow a second for your microphone to be switched on—you will see a small red light come on—and then state your name and who you represent before you make your contribution. Given that we have only 20 minutes, I ask that contributions be kept as brief as possible.

John March (Big DNA Ltd): I am the chief executive officer of a biotechnology company called Big DNA Ltd. I was in discussion group 2, and it struck me that the discussion was very inward-facing. That is perhaps a reflection of our country in general. The participants focused on the problems that their companies are facing rather than the problems that face our country as a whole, which we need to examine in a far more strategic way. In particular, Government procurement took up a large proportion of the time. We need to address that issue today.

We need to focus on the long-term issues and think about the children of today and how we can change the culture to ensure that we have an entrepreneurial spirit in a much wider sense. Unfortunately, our discussion did not cover that in any great length. I must admit that I was surprised by the reporting back on our session, which did not bear a great resemblance to my recollection of the meeting that I attended.

Ash Gupta (Gupta Partnership): I have a question for Anne Glover. I ask her to forgive me if I am wrong, but I think that she is also a member of the Technology Strategy Board, which is a key driver for leading edge technology not just in Scotland but in the United Kingdom. She mentioned complexity. Recently, we put together a consortium to bid for one of the ultra-low carbon vehicle competitions, and I encountered the paperwork for the first time. The guidelines were about 70 pages long. Can we help SMEs with great ideas to tackle the paperwork by simplifying it and putting it in plain English with simple rules?

The Presiding Officer: If Professor Glover would like to respond, she is free to do so.

Anne Glover: I am often confused with Anne Glover, who is the chief executive of Amadeus Capital Partners, but I am not her, unfortunately.

Ash Gupta's point came up in our session. We felt strongly that there is a lot of bureaucracy involved in getting support and applying for things. Coming from an academic background, I find that interesting, because in academia we have put up with it for years. When we work in partnership with business on larger programmes, we end up filling in all the forms because business does not have the time or energy to do it. It is a significant challenge. If we were fast on our feet and addressed the issue here in Scotland, that would help to promote innovation. Ash Gupta makes a good point.

The Presiding Officer: It would not be a question-and-answer session in the Parliament without a contribution from the next person: Margo MacDonald.

Margo MacDonald (Lothians) (Ind): Thank you, Presiding Officer. I never thought that I would be called to speak in a forum such as this.

You were talking about innovation, new ideas and cutting straight to the chase. Well, I have an idea: we can use the reserve football league structure in Scotland as an example of how to keep people in employment. I do not know how many folk are employed in the Scottish Premier League. Rod Petrie, who is sitting beside me, is the chairman of Hibernian Football Club. Do you have any idea how many folk are employed in the league, Rod?

13:00

Rod Petrie (Hibernian Football Club): There are 12 teams.

Margo MacDonald: So there are 12 teams of 11 players—there must be somebody who can work out the total. [*Laughter.*]

Many more folk are involved in supporting that number. That situation could be used as a model for co-operative ventures between medium-sized private companies, at least half of whose employees probably need training or retraining, and local colleges and local authorities that have sports and health programmes. In addition, John Swinney controls a small pot of money for training. Can we start thinking in this way: identify what we want to do, keep folk in work, train them better and keep companies going as well? Perhaps John Swinney would care to comment on whether he has the money with him or whether Rod will need to come and see me about that next week.

The Presiding Officer: That is always assuming that you get called for a question next week, Margo. I will leave it to the Cabinet

Secretary for Finance and Sustainable Growth to respond in his summing up.

The Cabinet Secretary for Education and Lifelong Learning (Fiona Hyslop): To share information, I can tell delegates that the Scottish Chambers of Commerce is working with us on one-page easy access to many current resources. On Margo MacDonald's point about training, the ILA Scotland individual learning accounts are now available to half of Scotland's workforce. The ILA 200 is for £200, and the ILA 500 is for £500. Eligibility for the ILAs has been improved so that anybody earning less than £22,000 a year can apply. We made that announcement recently and will communicate the information more widely. The ILAs provide an ideal opportunity for the staff of football clubs or any other companies to retrain. Our job is to ensure that we communicate information about one-page easy access and other changes that we are making to help support retraining.

Billy Kirkwood (RDK Construction Ltd/Robert Ryan Timber): I operate a small house building company in North Ayrshire and a joinery manufacturing company. I raised the issue in discussion group 1 of more collaboration between the public sector, particularly local authorities, and the private sector. I feel strongly that Scotland's social and economic future lies with the people of Scotland—from all levels. There is a lot of cross-duplication in the private and public sectors and between those sectors. I believe that we could give people better chances for training and education through better collaboration between local authorities and the private sector.

I spoke earlier with Mr Swinney about the planning system, which is a huge bugbear of mine. In my own planning prevention department in North Ayrshire Council, time just seems to march on for ever. I believe that the Scottish Government is making headway through positive contributions towards simplifying the system and moving things on, but the problem is how we then get that over to the dinosaurs in the local authorities who continue to do the same job of stalling and holding on for ever to applications that need approval.

Such applications are my future. I employ and train people, and I want to develop my area in North Ayrshire and move things on. Why are hurdles constantly put in front of me? The system must be more open and positive. As the previous facilitator said, we must talk ourselves up and have a wee bit of entrepreneurialism with regard to development, which must be seen as something good, not bad.

The Presiding Officer: Thank you. I am sure that the cabinet secretary will refer to that in his summing up.

Gordon Cowan (gr8works): I am not letting Billy Kirkwood from Ayrshire get the last word—I am from Ayrshire, too. To follow on from what Billy said, I want to know why not a single chief executive officer from any of the 32 councils is here. Do they think that they do not need to talk to the business community? Are they not part of the business community? Are they just organisations that get a chunk of money at the beginning of the year, with their only challenge being not to spend it too quickly or too late?

I think that council chief executives should be here, too. They have things to run, too; it is not just the business community. What do we do in the business community? We create jobs and we generate wealth, and it is that wealth that keeps those guys going. I would like there to be a bit more accountability, and I would like to see council chief executives here at next year's event.

The Presiding Officer: That point could well be taken on board. It is an open invitation to the conference but I am assured by my officials that we could proactively target those CEOs for next year's business in the Parliament conference. Thank you for making that point.

Does anybody else wish to contribute? It is most unusual having this chamber full of people who do not wish to talk—although it is a pleasant change, I have to say.

Kate Yuill (Aberdeen and Grampian Chamber of Commerce): One of the facilitators mentioned the need for some sort of mentoring service. Scottish Chambers of Commerce operates a business mentoring service, which we would be happy to talk to you about.

Margo MacDonald: I have just one—

The Presiding Officer: Oh, go on, Margo.

Margo MacDonald: Thank you. I tell everybody you are wonderful, Presiding Officer.

The professor who spoke last—forgive me for not catching her name; what she said was very Scottish—talked about lighter regulation, which is interesting in the present climate. I wonder if the cabinet secretary could say what he thinks about regulation when he makes his closing speech.

The Presiding Officer: I am sure that he will.

John McGlynn (Airlink Group): I will make a comment on a business-related matter that was raised in the chamber last week. I believe that a suggestion was made to the Government that businesses should be used for the collection of fines.

We have both the ministers here, and I ask them to adopt almost a zero tolerance policy on any new regulation to business. In these difficult times,

could we consider removing regulation rather than adding to it?

The Presiding Officer: That is another point for the cabinet secretary to take on board.

Michael Peoples (Clyde Bergemann Ltd): It is refreshing to be here today; I did not know that this sort of thing went on. Whatever people's points are—a few political ones are sneaking into the discussion—and whether they are positive or not, I feel reassured, as this event is innovation in its own right. I do not know how many ministers are here, but they are here and they are listening to people raising points, making complaints and discussing issues. Some of our colleagues from universities are here to support the event. I feel refreshed and reassured that something might actually happen, and I only hope that something can be done with some of the actions that have been suggested, whether in planning, application, time, education or whatever. I would just like to say well done.

Anne Glover: If we have the time, I would like to do a brief experiment with everybody in the room to illustrate a very important point for me: the link between risk and innovation. We need to address the fact that we are not very good at taking risks.

I ask everyone to think on a scale of 1 to 10, 1 being low and 10 being high. First, think where you yourself sit on that scale as a risk taker. If you think that you are a very good risk taker, you will be up at 10, so please get that number in your mind.

Now, think of the people you work with and where they lie on that scale between 1 and 10. I want you to put your hand up if your score is higher than that of the people you work with.

So almost all of us feel that we take more risks than our colleagues. If I do that experiment in the United States, nobody puts their hand up, because they all think that their colleagues are taking many more risks than they are—and they are not frightened of innovation. That pushes them forward to take risks and to innovate, because they think that the person next to them is getting ahead because that is what they are doing.

I do not know exactly how to address that, but I think that we have to embrace the idea of risk and not see it as something that is bad, challenging or to be feared. It is to be embraced, because that will give us the ability to innovate and challenge.

The Presiding Officer: It was Vikki England who I was worried about on the experimental front earlier, but that was certainly an interesting one.

Ken Richardson (Chemical Industries Association): The commonality of the feedback from the different groups is encouraging. Strong messages are coming through about common

purpose—one of the first speakers talked about the need for relentless pursuit of that, and that message is quite galvanising. The quality of leadership across all sectors has been discussed. Because we are a reasonably small country, the opportunity for collaboration both within and across sectors is great. The word “mentoring” has been mentioned with regard to the need to support each other.

I am greatly encouraged by the commonality that has been expressed and the sense that there are things that we can do if we work together.

Graham Struthers (GS Lighting): One point that came up in group 5 was public sector procurement. Local authorities and Government bodies are not wonderful at helping small businesses in public sector procurement. Clackmannanshire Council has just reduced the value threshold for getting on to the public sector portal from £30,000 to £10,000. Can other local authorities be encouraged to do the same? Some local authorities set that threshold at around £60,000, which excludes small and medium-sized enterprises. If projects could be broken down so that the minimum figure is reduced to £10,000, that would help SMEs carry on through the current economic situation.

Margo MacDonald: I have another idea.

The Presiding Officer: It is your lucky day, Margo. Go on.

Margo MacDonald: It makes sense to me that the missing local government heads that the chap from Ayrshire referred to could be asked the question that Mr Struthers asked. If they were to respond to the Economy, Energy and Tourism Committee, we could have a discussion about the matter and it might be possible to change the situation by the time that next year’s conference comes around.

David Hutcheson (Institute of Directors): I am from the Tayside branch of the Institute of Directors. To follow on from Mr Struthers’s point, could the cabinet secretary try to ensure that local authorities tell us whether they are buying from SMEs? We would like to find out who they are buying from.

The Presiding Officer: I will now call the cabinet secretary to speak. He has been asked a lot of questions and probably needs an extra minute in which to respond.

Earlier, I said that we were fortunate to have the First Minister come along this morning. We are similarly fortunate that the Cabinet Secretary for Finance and Sustainable Growth has been able to give us his whole morning and this much of his afternoon. I am delighted to ask John Swinney MSP to give our closing speech.

13:15

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): I am tempted to recite my conversation at dinner last night, Presiding Officer, when I noted that, the other day, you looked over your glasses at me to give me a ticking off for the length of my parliamentary answers. Today, I will try to keep my answers to a minimal length, particularly because of the volume of questions that I have been asked.

It is a pleasure to close today’s proceedings and to respond to the feedback and the issues that have been raised. My ministerial colleagues—the Cabinet Secretary for Education and Lifelong Learning, Fiona Hyslop; the Minister for Enterprise, Energy and Tourism, Jim Mather; the Minister for Children and Early Years, Adam Ingram; and the Minister for Schools and Skills, Keith Brown, who left just a few moments ago—have greatly appreciated the input that we had in this morning’s discussions.

Having listened to the feedback, I want to touch on five points before I cover some general themes, so that I can try to do justice to the questions that have been raised. Let me start by saying that my approach will be to give my honest reflections on how we are confronting, and responding to, the issues that have been raised. It strikes me that much of this is work in progress, so I hope that I in no way sound defensive as I try to explain the Government’s position in response to the feedback. However, I think that many of the issues are on the Government’s agenda. Whether we can deliver quite as much or as quickly as people would like is a different question, but I will endeavour to address that.

The first of those five issues is procurement. Procurement dominated one of our business in the Parliament events a few years ago that coincided with a report on the procurement process by John McClelland under the previous Administration. That resulted in the establishment, under the current Government, of a number of centres of excellence for local authorities, central services, police and fire services, universities and colleges and the national health service. All those procurement centres are designed to deliver greater value, transparency and innovation—which I will come on to in a moment—on procurement. They all report to a Government board that, for the first time, is chaired by a minister—it is chaired by me—and which meets four times a year. I hold those centres of excellence to account.

On the general comments about procurement, I have heard a lot of what people have said. Those comments will form the bulk of the agenda for the procurement reform board. We are trying to ensure greater cohesion in procurement, because

public spending pressures mean that we need to deliver greater value. In the current economic circumstances, we are acutely aware of the need to ensure that procurement satisfies local companies and local employers. I will take forward the suggestion that was made by the gentleman at the back—Graham Struthers—about the threshold on the public contracts Scotland portal. I will see whether we can apply a different level to assist with that.

Let me just plug the public contracts Scotland website as one of the innovations that we have introduced. Government does not always come along and do terribly helpful things for businesses, but I believe that the public contracts Scotland website provides an immensely helpful technique. At one end of that simple website, companies can register an interest in Government contracts—I say Government contracts, but I mean a cross-section of public sector contracts—and, at the other end of the website, the contracts are advertised by public organisations and agencies. The challenge for me is to ensure that as many companies as possible in Scotland know about it. When I talked to one of those who are involved in running the website, I was advised that the site has had massive interest from companies. I also have an obligation to ensure that public sector contracts are advertised at a level at which SMEs can participate. If people do not already know about the public contracts Scotland website, I encourage them to ensure that their awareness is raised. I know that the business organisations are very helpful in promoting the website to small and medium-sized enterprises.

The procurement agenda is taking shape. Earlier today, the First Minister announced an innovation in public sector procurement whereby we will amend the Scottish Government's terms and conditions of contract with the aim of delivering improved and prompt payment practices throughout the supply chain of our contracts. We are leading by example, but I certainly encourage other public bodies to amend their standard terms and conditions of contract accordingly. Together, I am sure that we can do something to help the cash flow of many small businesses. I encourage private sector companies to do likewise.

Under the procurement agenda, as I cited to the group that I was involved in earlier, we have brought together the electricity procurement contract for all public sector organisations in Scotland. Much to my relief, we were able to let that contract to two Scottish companies—Scottish and Southern Energy and Scottish Power. It would have been a tad embarrassing if that had not been the case but—before anyone raises any questions—everything was done by open tendering process. In one year, that saved the public sector 5 per cent of its annual electricity

costs. A 5 per cent saving per year in a contract such as that is very significant. Please take my assurance that we will pursue the procurement agenda vigorously.

The second issue that I want to concentrate on is the need to break down barriers. I will touch on what has been said about planning and regulation. We are encouraging our agencies and the civil servants who operate on our behalf to be enablers—as Russel Griggs talked about—of good things in our economy. We do not direct our agencies to be obstacles to development; we direct all our agencies to facilitate and aid development and to support organisations in undertaking development. I have many concrete examples of that in practice. The challenge for us is to ensure that that ethos percolates from us, around the Cabinet table, right down to the coalface where it is experienced by business organisations at the local level.

The particular challenge for us is to ensure that that ethos exists in local authorities, particularly in the planning system—to address Mr Kirkwood's point. I could line up in front of you plenty of companies that think that it is dead easy to do business in certain local authority areas but miserable to do business in other areas. The question for me is that, if it is possible to do business easily in some local authority areas, what prevents that in other areas? We take forward that theme in our dialogue with local authorities and the agenda is being actively pursued.

Last August, Jim Mather, the Minister for Enterprise, Energy and Tourism, Stewart Stevenson, the minister with responsibility for planning, and I got together with the directors of planning from all the local authorities in Scotland and set out, across the whole day, our agenda for reforming the culture of planning so that it will enable things to happen rather than be an obstacle to development. Quicker decision making in planning is good business, as it makes it easier for people to do business and to bring things to a conclusion. We are seeing progress on that agenda, and we are definitely seeing progress in the Government agencies. We must encourage that; it will not be sorted out overnight, but we will continue to make progress.

Margo MacDonald asked about the nature of regulation. Regulation should be appropriate, which means that it should be proportionate and commensurate with the risks that we take and the judgments that need to be arrived at. Russel Griggs's colleagues in the regulatory reform group have done a fantastic amount of work in challenging Government on some of the regulation that we have brought forward. The ethos that we are encouraging in the design of regulation is to

ensure that it is appropriate and proportionate in the context of its purpose.

I am not sure that I remember the parliamentary intervention that John McGlynn talked about, concerning the collection of fines by business, but I can find out what it was about.

John McGlynn: It was at First Minister's question time last week.

John Swinney: I must have nodded off by that time—I was definitely there. I will have a look at the *Official Report* of that. I hope that the First Minister said that we have no immediate plans to do that.

John McGlynn: He did.

John Swinney: I am glad that he was on message.

The third issue is the culture and climate of funding and investment. I was struck by Mr Gupta's point about how difficult it is to get through the plethora of bureaucracy. Rather than resign ourselves to that, as Anne Glover suggested that the scientific community has done over many years, we must confront it. There is no point in having a climate in which access to grant support and all the rest of it is such an unbearable burden that people decide not to bother.

In the public sector, when we spend public money, we must ensure that due process has been followed in the making of those decisions. However, that is not to say that the process must involve people losing the will to live while they apply for grants and support. I am struck by the level of participation in many of the schemes that Scottish Enterprise runs—whether the Scottish Manufacturing Advisory Service or the co-investment fund—whereby people are able to gain ready access to the resources that are available.

The fourth issue is collaboration. This is where we begin to get into some of the big themes of this Administration, which I will talk about in a moment. Just the other day, we launched what I think is called the Scottish health research sciences collaboration—did I get that right, Anne?

Anne Glover: It is called the Scottish academic health science collaboration.

John Swinney: In that collaboration, four health boards and four medical schools are coming together to form a single team of clinical and academic researchers in the field of health sciences, working hand in hand with Scottish Enterprise. We are seeking to ensure that institutions not only collaborate with one another but work with our economic development agencies and are pointing the health service in the direction of identifying what it can do to contribute to

economic development. Such collaboration certainly indicates great potential in that respect.

Our counterparts in the UK Government frequently moan at us, "It's terribly easy for you Scottish ministers. If you want to get people together to sort something out, you can get all the folk you need in the one room at a day's notice. In England, we can't do that." This Administration is determined to use such a competitive advantage.

The last of the five issues to emerge from the contributions is culture change, which is at the heart of many planning and regulation issues and of how we get things done in Scotland. I like to think that this Administration presides over a culture in which people are encouraged to achieve, to have a can-do attitude and to set out what can be achieved instead of identifying obstacles and barriers and putting them in the way of development. Will we get things right every time? Probably not, and nor can I guarantee that that attitude will percolate down from the Cabinet table to the areas with which you interface. Believe you me, though, it will not be for the want of trying by ministers. I am very confident that in each of their interactions and in every sphere of policy all my ministerial colleagues, right across Government, are sending out the message that we are not here to get in people's way or to get in the way of innovation or development—we are here to support the process.

That brings me to some of the central themes of today's contributions and the issue of innovating for the future. I was struck by the point made by Jonathan Kestenbaum at the very beginning of the conference about the need for a galvanising purpose. I do not want to embarrass my colleague Jim Mather, but I must say that he had a very significant effect on our thinking before we came into government. He banged on for ages—for far too long, we all thought—that there was no point in going into government without a clear galvanising purpose. If you go in with a blancmange of ideas, you will generally deliver blancmange. Jim eventually won the argument and from the first day of this Administration we made it clear that our galvanising purpose was to focus Government and public services on increasing sustainable economic growth in Scotland. That purpose lies at the heart of the Government; it has driven our policy agenda, including the innovation agenda, and has allowed us to make choices about some of the competing priorities that always exist in this area.

We should, as Jonathan Kestenbaum also pointed out, try to avoid the situation in which, every year, we have some special adviser setting out some new galvanising purpose and vision in some speech or other. I love that particular line—it is so true as an assessment of UK public policy

over the past 20 years. The galvanising purpose that I have set out will be emphasised in our speeches throughout the four years of this Administration.

The second theme that has arisen out of today's discussions is collaboration. We live in a disparate country with a multiplicity of public sector bodies, and have therefore decided to focus the attention of those bodies on our galvanising purpose. My message to you is the message that we communicate to all Government agencies and local authorities and that we ensure percolates through all our areas of activity.

Fiona Hyslop presides over all the skills and training infrastructure; I preside over economic support and business development. Our joint planning goes into the direction that is given to Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland, the Scottish Further and Higher Education Funding Council, VisitScotland and all our other agencies on how to plan for the economy.

Combined and collaborative work is beginning to indicate some routes out of the economic difficulties that we face. The investment in colleges that Fiona Hyslop announced recently, to expand skills provision, is a direct response to market intelligence from the business community on the skills that business wants to come out of colleges around Scotland. The modern apprenticeship in life sciences was a direct product of a discussion in a sub-group at last year's business in the Parliament conference, which informed the thinking of the Cabinet Secretary for Education and Lifelong Learning in that respect.

Paul Lewis touched on the other big question that has arisen today—what will the new war be about? For the Government, it will be about meeting three major challenges. The first is economic recovery—copies of our economic recovery programme are available for you to take away today. The second is public spending. In the years to come, less public expenditure will be available, we will have to make money go further and productivity will have to rise in the public sector to support that.

The third major challenge is the low-carbon economy. Next week the Parliament will decide in the chamber on the contents of the Climate Change (Scotland) Bill, which will have a huge effect on the Scottish economy. We must ensure that we seize the economic opportunities that the low-carbon economy presents. There are excellent examples of that. Today we have with us Alistair Campbell from Powerwall Systems Ltd in Wishaw, which has developed a new approach to eco-friendly housing structures. A housing association in Dundee has used its system to construct a house in a day. The company is supplying 800

zero-carbon houses in Abu Dhabi, and the Italian Government is using its technology in the reconstruction of the area that was affected by the recent L'Aquila earthquake. That is just one example of the great green technology innovations that are happening in the country. In recent weeks, developments have been announced in Machrihanish, in Mr Mather's constituency. Many wave and tidal developments are under way. At the dinner last night, I spoke to representatives of Green Ocean Energy Ltd about their contribution to the process.

We have a great focus on the big challenges. We must ensure that we use all of the attributes of having a central purpose, a collaborative spirit and a focus on how we can improve the economy's performance. As a team in Government, we will be greatly helped by your contribution today, which has been extremely precious to us. We have listened carefully to your thinking; I assure you that it will be taken forward as part of the Government's agenda. I hope that, when ministers are in front of you again in the years to come, we can be held to account for the way in which we have responded to the fine contributions that you have made today. *[Applause.]*

The Presiding Officer: Ladies and gentlemen, that concludes the conference. I thank the cabinet secretary for his thoughtful closing remarks and echo his thanks to you all for coming—one cannot have a conference without delegates. I know how enthusiastically you have entered into today's event—I saw how much note taking was going on—and am sure that that has led to the successful two-way process to which I referred in my opening remarks, which is essential if such an event is to be a success. I sincerely hope that you feel that your time has been well spent. That will probably be the case.

You need not fear that you have missed anything, because the Scottish Government will produce a report on the main issues that have been raised at the conference. Copies of the report will be mailed to you within a few weeks, as will a transcript of the discussions that have taken place in the chamber. I invite you to give yourselves a collective round of applause for taking part and to include in that all the facilitators and speakers, the ministers who have given their time, the convener of the Economy, Energy and Tourism Committee and, in particular, Stephen Imrie, the committee clerk, who is sitting on my right. I do not normally single people out, but he puts an enormous amount of time into this event. A round of applause is in order for that, if for no other reason. *[Applause.]*

Thank you for coming and for your suggestions. Next year we will have 32 local authority CEOs up in the gallery. I look forward to the sixth business

in the Parliament conference and declare the fifth
conference closed.

Meeting closed at 13:35.

