Scotland's Economic Performance

Clansman Dynamics

Comments are offered under the following headings:

1. **Barriers to growth and diversification.** Lack of language skills not proclaimed by politicians. Stamina. Oil price helps recruitment.
2. **Export and Growth.** Essential for any SME with product. 1 to 1 training in place of institutions.
3. **Employee Ownership.** Roots businesses in Scotland and long term development. Is not proclaimed by politicians.
4. **Scottish Bank.** To solve serious problem of provision of bank guarantees by SME's.
5. **Brexit.** Cannot afford delay at customs.

1. **BARRIERS TO GROWTH AND DIVERSIFICATION**

Clansman has grown by taking hefty technical risks (for a small company) and by relentless and always increasing export activity to 45 countries. I guess the ultimate barrier to both growth and diversification is an individual’s appetite for more nail biting technical developments and for making yet another trek to the airport for yet another long business trip. In the early days of a company start-up the appetite is endless – everything is possible. The trick is to find a way to share that load and to keep the early start-up ‘buzz’ going. This is one of the reasons that the Employee Ownership model was chosen in 2009 – involved employees with a stake in the business respond more logically and more keenly.

But there is a limit to limitless energies. One is a lack of language skills. The government seems to get it with 1+2, but until business understands the magic of languages there will be no pressure on universities and schools to provide engineers and scientists with language skills. Scottish Enterprise at the highest level say they need to respond to Business and Business says it is not concerned about languages. Mad.

The sample size is small but it is significant that since the 2 German speakers retired from Clansman 12 months ago there have been no orders from Germany/Austria and previously Germany had been our best market. It is not just language skills for salesmen. It is just as important for design engineers and those who go to site. A German who came to Scotland to teach German, only for the school to cease German, is now teaching 7 engineers at Clansman – all of whom volunteered – no compulsion. Why? Because they understand the benefits having suffered the humiliation of being unable to communicate.

The aims of 1+2 are not enthusiastically proclaimed from the rooftops by politicians. And I have never heard politicians exhort businesses to consider the benefits of employing engineers, software writers, scientists etc with language skills. We cannot
simply internationalise the Scottish economy if the prime tool of internationalisation, language, is absent.

**Labour**

The supply of design engineers, fitters and electricians has not been a problem since the oil price collapse. Oil spoils. It is nice to take stuff out of the ground but it seems to distort any economy where this occurs. The non-Oil bit of the manufacturing economy has to compete for services with the Oil bit AND international competitors who are not affected by the oil distortion.

**2. EXPORT AND GROW**

There is a government drive to increase exports from Scotland; great. If exports thrive then, as we have seen in Japan, then S Korea and now China, the other stuff follows. It is generally easier to export goods than services. It is easier to increase productivity in manufacturing than in services. Scotland is in a very unfavourable place from which to export (geography, limited direct flights v Germany, lack of language skills, wildly fluctuating exchange rates, lack of manufacturing ‘clusters’) and I believe the government needs to over compensate for this by encouraging and rewarding exporters. We need export heroes without the paraphernalia of completing Queens Award forms! Japan had tax incentives for exporters…………

I believe, (as with British cycling which has been flooded with money), that if sufficient resources are put in to tutoring candidates that more companies could see the immense benefits of exporting. What about a pilot test whereby a small number of companies are chosen by SE and offered an export tutor for a year who would show by example how it is done. It would be much more focussed than initiatives from SDI, SCDI etc..

**3. EMPLOYEE OWNERSHIP**

This is a very personal story but one which I think exactly exemplifies one of the important benefits of Employee Ownership for Scotland.

The government seeks to reduce inequality and increase inclusivity. Good.

In 2009 I had a choice, (dictated by age and the need to show all at Clansman there was a secure future after I had retired ) as to whether Clansman Dynamics should become employee owned or sold to one of 3 interested competitors. 2 of the competitors were in Germany and 1 in Italy.

I had always had a very keen interest in employees having a stake in the business they worked in but had never been able to make it happen. I found it difficult to believe that engineers schooled in the heavy industries of North Lanarkshire would actually buy shares in Clansman. I was wrong, and they did, and from 2009 to 2014
we had 5 excellent years with new products developed and ever larger profits made, despite the financial crisis.

In that period there had been a complete change in employee behaviour. Same managers, building, market, products. All we did was change the ownership structure. It was no longer just me, but all employees were now owners with full access to any information apart from individual salaries.

My business pals told me that, 'Well, Employee Ownership might work in the good times, but just see what happens in the bad times.' Sure enough difficult times came and for two years we struggled and just achieved a break-even.

All employees knew in 2015 we had a fight to survive. All knew however that there was still a serious amount of cash at the bank because all had attended the monthly meetings where such things were discussed. All knew we had been very cautious with the level of dividends paid out so that a hefty 'rainy day' fund could be maintained; a conventional business would have tended to take a more short term view and external shareholders pressing for a dividend. There were no surprises. All also knew that avoiding redundancies was a priority.

The Italian competitor licked its lips and again suggested talks in 2015. If they had bought Clansman in 2009 I have little doubt that in 2015/6 they would have absorbed the Clansman East Kilbride operation back into the Italian base. In early 2017 we learned they were bankrupt and by August 2017 were in Chinese ownership.

Clansman has fought back and we are in for an excellent year with a wide spread of orders and are recruiting more engineers. Our employees, who are the only shareholders, want Clansman to remain in East Kilbride. Employee Ownership glues the company to its East Kilbride base for the long term. All employees know that even in tough times it is necessary to continue with technical development, (partly because 85% of them have been made redundant by other engineering businesses, who ceased technical development and went for short term profit maximisation).

Employee Ownership at Clansman has spread a little democracy and some significant dividends into the local community. Employees have gained the confidence to argue and question and suggest in a way that did not happen before 2009.

And a number of government ministers, MSP's and MP's have visited Clansman and made approving noises. Yes, there was a 'debate' at Holyrood in October on Employee Ownership, but it was more cross party agreement that it was a great idea, than debate. Yet there has been no shouting from the rooftops of the virtues of Employee Ownership by politicians. Only silence. There has been little or no pressure for Employee Ownership from workforces because most employees are completely unaware of the possibilities. And while all make nice noises there are only a few thousand employees in Scottish headquartered companies who work for employee owned companies. If the soft and hard benefits are so real – why the silence? Politicians have a role as well as CDS and enthusiasts for the model.
4. SCOTTISH BANK

There is talk of the government setting up a new Scottish bank but I have not seen mention of the problem of Bank Guarantees for SME’s. When Clansman began in 1994 we encountered the need to provide Bank Guarantees to cover advance payments with orders and to cover warranty periods. All banks we approached insisted on £ for £ cash coverage before they would offer a guarantee, (i.e. a 30% payment from a customer with order would effectively be frozen in our account until the machine was delivered – so it was useless in terms of providing cash to fund the order).

An American local authority demanded a 100% of contract value bank guarantee to cover the period from order to delivery – 8 months. We took the fairly reckless risk of raising the bank guarantee (we could not show the customer we were not capable of producing a guarantee!) with cover provided by our houses. Last year 2 large German companies demanded large and not time limited guarantees. Our German agent insisted that German companies could get this via the german government. Much exasperated argument from both sides. Luckily we hung on to the order, but the buyers were extremely wary of contravening their company policies.

Companies raise money and struggle to start. Then they are hit by requests for bank guarantees when they start to export. The cost of bank guarantees is tiresome – about 2% of value per year plus set-up fee – but not crippling. It is the attitude of all UK banks in demanding £ for £ cover that is the main problem for a UK SME as what could be working capital from the advance payment is effectively frozen. In 40 years of exporting and involvement with 1000’s of bank guarantees, not one has been called. How big an issue is this for other SME’s?

5. BREXIT

Supposed EU red tape is not an issue for Clansman. However we have a need to be able to ship spares overnight to any part of Europe to keep our machines running. Customs barriers will jeopardise this fundamental requirement.

Obviously tariff barriers will hinder exports.