



OFFICIAL REPORT
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Economy, Jobs and Fair Work Committee

Tuesday 13 September 2016

Session 5



The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 13 September 2016

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ECONOMY, JOBS AND FAIR WORK COMMITTEE
4th Meeting 2016, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Jackie Baillie (Dumbarton) (Lab)
*Ash Denham (Edinburgh Eastern) (SNP)
*Liam Kerr (North East Scotland) (Con)
*Richard Leonard (Central Scotland) (Lab)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Gillian Martin (Aberdeenshire East) (SNP)
*Gil Paterson (Clydebank and Milngavie) (SNP)
*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

James Bream (Aberdeen and Grampian Chamber of Commerce)
Carolyn Currie (Women's Enterprise Scotland)
Alison Grieve (G-Hold)
Ann Johnson (Blaze Manufacturing Solutions Ltd)
Sandy Kennedy (Entrepreneurial Scotland)
Dr John Lee (Scottish Grocers Federation)
Susan Love (Federation of Small Businesses)
Professor Colin Mason (University of Glasgow)
James Withers (Scotland Food & Drink Ltd)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Jobs and Fair Work Committee

Tuesday 13 September 2016

[The Convener opened the meeting at 11:01]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning, everyone, and welcome to the fourth meeting in 2016 of the Economy, Jobs and Fair Work Committee. I start by reminding everyone to turn off electrical devices so that they do not interfere with proceedings.

The first item on the agenda is a decision on whether to take business in private. Do members agree to take item 4 in private?

Members *indicated agreement.*

Witness Expenses

11:02

The Convener: The second item is to decide whether the committee is happy to delegate responsibility to me, as convener, for payment of witness expenses arising from the round-table sessions. Is everyone happy with that?

Members *indicated agreement.*

The Convener: Thank you. That will be dealt with by the usual procedure.

Small and Medium-sized Enterprises

11:02

The Convener: We now move on to our round-table session, which will be slightly less formal than an evidence-taking session. As well as the committee members, we have various representatives from small and medium-sized enterprises and organisations with us today. Once we get going, individuals should raise their hands if they want to speak. We will focus on what our guests have to say to committee members, although committee members can obviously come in with questions as and when appropriate. For the benefit of our witnesses, I point out that there is no need to switch on your microphones—they are already on, as broadcasting staff deal with such issues.

First, I will introduce myself. I am Gordon Lindhurst MSP, and I am convener of the committee. To my left we have the committee's clerk ably assisting me, others from the clerking team and the official reporters. I shall start with a round of introductions, and ask everyone around the table to say who they are and what organisation they are from, and to give a very brief introduction explaining what their organisation or business does.

Susan Love (Federation of Small Businesses): I am policy manager for the Federation of Small Businesses. I will not say any more, because you have just heard from me at the briefing.

John Mason (Glasgow Shettleston) (SNP): I am MSP for Glasgow Shettleston, which is in the east end of Glasgow. I am the deputy convener of the committee.

Dr John Lee (Scottish Grocers Federation): I am the policy officer for the Scottish Grocers Federation. We are the national trade association for the independent convenience store industry in Scotland. There are roughly 5,600 convenience stores in Scotland—more per head of population than in the rest of the United Kingdom. The sector employs about 44,000 people directly and contributes about £543 million in gross value added to the Scottish economy. We feel that it is an important part of the supply chain in Scotland.

Jackie Baillie (Dumbarton) (Lab): I am the constituency MSP for Dumbarton and the Scottish Labour spokesperson on the economy, jobs and fair work.

Carolyn Currie (Women's Enterprise Scotland): I am from Women's Enterprise Scotland and I am standing in for my colleague

Anne Meikle, our policy officer, who was supposed to be here today. I shall do my best to replace her. As many of you know, Women's Enterprise Scotland works to create an entrepreneurial environment in which all women can start up in business, with the specific aim of unlocking the economic potential—estimated at £7.6 billion in GVA—of women starting up in business at the same rate as men in Scotland.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I am the MSP for Edinburgh Pentlands.

Sandy Kennedy (Entrepreneurial Scotland): I am the chief executive of Entrepreneurial Scotland, which starts from the premise that we have been lagging significantly behind in our economic performance not just for a few years but for decades. We believe that only by becoming a truly entrepreneurial society can we begin to resolve that. By “entrepreneurial society”, I mean not just a society with entrepreneurs and start-ups, which are vital, but a society that looks at how businesses are growing and scaling and that looks internationally. An entrepreneurial culture might also exist within government, our universities and the third sector. The important thing to recognise is that such a culture is already there—it is not about one thing moving towards the other. We have a network of many of the most famous and successful entrepreneurs, and there are many people coming in behind them. It is about joining the dots and working together collaboratively with very high ambition.

Dean Lockhart (Mid Scotland and Fife) (Con): I am a regional MSP for Mid Scotland and Fife. I am also the economy spokesperson for the Scottish Conservative and Unionist Party. I thank all our witnesses for coming along this morning.

Gil Paterson (Clydebank and Milngavie) (SNP): I am the constituency member for Clydebank and Milngavie, taking in a chunk of Bearsden—I had better say that. I declare an interest as a member of the Federation of Small Businesses.

Professor Colin Mason (University of Glasgow): I am the professor of entrepreneurship at the Adam Smith business school of the University of Glasgow. I research entrepreneurship in the Scottish economy, from home businesses to high-growth firms and the financing of entrepreneurial businesses. I also teach business start-up classes.

Andy Wightman (Lothian) (Green): I am an MSP for the Lothian region.

Alison Grieve (G-Hold): I am the chief executive of G-Hold. We invent and manufacture hand tools for different industries, and our main focus is export. We sell our products and the licences for our patents to 20 countries worldwide.

Gillian Martin (Aberdeenshire East) (SNP): I am the MSP for Aberdeenshire East.

James Withers (Scotland Food & Drink Ltd): I am the chief executive of Scotland Food & Drink, the industry leadership body for the food and drink sector. We have a membership of around 360 businesses, the vast majority of which are food and drink manufacturers that are also SMEs. We exist to grow the value of Scottish food and drink and, ultimately, to grow its reputation as well. We are also a partnership body. Although we are industry led, we work in partnership with the main trade associations operating in food and drink alongside the public sector agencies, all working together to deliver a food and drink industry strategy.

Richard Leonard (Central Scotland) (Lab): I am a Labour MSP for Central Scotland.

Ann Johnson (Blaze Manufacturing Solutions Ltd): I own a business called Blaze Manufacturing Solutions. We are a family business—I own the business with my husband—and we have 30 employees as well as a workforce of about 130 sub-contractors. We have gone from a garden shed—quite literally—to premises that Howard and I own. We had turnover of £20 million the year before last, but last year we had turnover of £3.9 million. Our industry is absolutely in crisis and we are desperate for help from the Government, so I am delighted to have the opportunity to speak here.

Ash Denham (Edinburgh Eastern) (SNP): I am the constituency member for Edinburgh Eastern.

James Bream (Aberdeen and Grampian Chamber of Commerce): I am the research and policy director at Aberdeen and Grampian Chamber of Commerce. In other parts of my life, I direct the developing the young workforce programme in the north-east.

Liam Kerr (North East Scotland) (Con): I am an MSP for the North East Scotland region. I declare an interest in that I have set up and run various small businesses, including one that is currently in existence and is a member of the Aberdeen and Grampian Chamber of Commerce.

The Convener: Thank you all for those introductions.

I will start with a question about business rates—the large business supplement might not be so relevant to today's discussion. There have been recent changes. What effect do business rates have, and what would witnesses like the Scottish Government to do about them? Perhaps Sandy Kennedy, who talked about Scotland “lagging ... behind”, will go first, although I do not know whether that is an issue that you are in a

position to address. Other guests may then comment.

Sandy Kennedy: Are you asking specifically about business rates?

The Convener: Yes.

Sandy Kennedy: Someone else is probably better able to talk about business rates.

The Convener: Who wants to take the question? Perhaps James Bream will comment.

James Bream: I am happy to have a go. I think it was last week that a number of business organisations wrote about the large business supplement, so people's views on what should be done about that are well documented and in the public domain.

From the perspective of a small and medium-sized enterprise, business rates are an input tax—the business pays before it has earned a penny. In that respect, the impact on cash flow can be disproportionately harmful, compared with the impact on larger corporates.

A lot of smaller businesses go through a cycle of investing in the business and in property, which impacts on their valuation—we invest, and the valuation goes up—but people are maybe not as incentivised as they might be to invest in property. That is generally unhelpful. In some cases, a small business might delay investment around revaluation points.

From the wider economic development point of view, I am not sure that we do everything we can to use business rates positively in the way that other countries do. I am thinking about free trade zones and so on—I think that we used to call them “enterprise zones” in Scotland. It might be good to revisit such interventions to see how they worked in the past. We might be able to look at clusters and incentivise greater activity.

We could examine all those things if we were looking to change the system. If we are doing nothing with the current system, we could look at, for example, how the appeals process works and make some tweaks and nudges at the edges. However, there are more fundamental things that we could do.

The Convener: Do you have in mind specific countries from which we could take examples that might help us to reassess our approach?

James Bream: You could look at elements from various countries. For example, a lot of middle eastern countries try to attract clusters of business in the oil and gas sector. A number of countries in the middle east and eastern Europe have free trade zones and are quite specific about the type of company that they want to attract in order to build strong clusters.

The Government is conducting reviews at the moment, but we cannot look at geography and sectors in isolation; the nature of a cluster is that the businesses have to be close together. That approach seems to be an obvious tool. Are many local authorities thinking like that at the moment? Probably not, but that might be because if they took a risk in that regard they would incur significant financial hurt in the short term. It is about using business rates as a growth tool rather than as a way to raise money, which requires a long-term view that I am not sure we currently take.

Gordon MacDonald: Will you say something about the small business bonus and how it has helped existing and new businesses?

James Bream: The FSB might be better placed to answer that. The small business bonus scheme has certainly been helpful and it has been welcomed. I was not with the chamber of commerce when it was introduced, but in reducing the burden of an input tax it has been extremely helpful for businesses' cash flow position.

When we look at how we use the small business bonus scheme, we need to look at where the cliffs are and to make sure that we are taking account of the companies that are at the margins. Again, it is probably a case of evolution rather than revolution. We hear feedback that it might be useful to look at how transitions impact when people jump up to the next level. That would be a way of evolving the existing system rather than making a complete change.

11:15

Ann Johnson: I will use the hardware store in Laurencekirk as an example of how small businesses—I am talking about shop owners—are affected. In the villages on the outskirts of Aberdeen, we are finding that because of the downturn in oil, many people have lost their jobs and no one is spending any money. The hardware store in Laurencekirk had expanded, by which I mean that a makeshift roof had been put on the back of the store so that it could sell gardening equipment. It then faced an enormous hike in business rates. That is the number 1 thing that is stopping such businesses from growing, or even existing, at the moment.

Dr Lee: I will pick up on Gordon MacDonald's question. The small business bonus scheme is very welcome. The Government has signalled its commitment to maintaining it, which is great, but if we could find a way of taking the politics out of it and ensuring that the scheme became a permanent form of rate relief that had no strings attached, that would be extremely helpful.

The problem with business rates is that they keep going up. Our members continually ask what they get from business rates. They have increasingly to pay for their recycling, waste-collection services and so on. As citizens, they pay their council tax, but they also have to pay business rates, for which they seem to get very little in return. We need more frequent revaluations. I think that most business rates were set a few years ago, at a time when the value of commercial property was much higher. If consideration could be given to a freeze in the poundage, to the small business bonus scheme becoming permanent and to more frequent revaluation, that would be extremely helpful.

Susan Love: I do not think that it is any secret that there are a number of concerns about the non-domestic rates system; there are concerns in all the countries in the UK about how the system operates. The independent review that is under way in Scotland is looking at that.

From the FSB perspective, there are short-term and long-term issues to think about, and there are some short-term changes that could be made to the system. For example, within the parameters of the review is consideration of how we can have a system that does not discourage investment, which we have at the moment, for precisely the reasons that Ann Johnson outlined. A business that is seeking to expand or invest in its property is not able to find out what the rateable value of its property will be until after it has done the work, because the system is completely opaque and difficult to navigate for small businesses. One short-term solution might be to delay for up to two years, for small businesses, any revaluation following an improvement. That would give people the certainty of knowing that they could recoup their investment before they paid higher business rates.

Although a number of changes could be made in the short term to make the system easier to use, in particular for small businesses, there are many longer-term issues that are more difficult to address, which relate to how the tax works and whether a property-based tax is right for the modern economy. There are obvious questions about online business and how that creates a burden that falls on businesses that have premises. Such issues are not easy to solve in the short term, but they are worthy of discussion. A property-based tax places greater burdens on smaller businesses, for whom their rent and property costs make up a higher proportion of their turnover than is the case for larger businesses. That is particularly the case for start-up businesses, which have to survive the early overheads. The small business bonus scheme has been a lifeline for them, particularly through the

recession and as the economy struggles to recover.

John Mason: If less money were to come into local government or central Government through business rates, would the preference be to have more tax on profits—in other words, to raise corporation tax or income tax—to compensate for that, or would it be, say, to cut services and spend less on road repairs or spend less on training young people, with the result that they would be less ready for work?

The Convener: Does someone want to field that one? [*Laughter.*]

James Bream: In relation to the proportion of the total revenue that is committed to government, I think that businesses generally feel that the burden is placed more on business than on the general public. That is a perception that businesses have. Would they be happy with a profit tax? That is the point that Susan Love alluded to: there will always be winners and losers, whatever you do.

We need to have a proper discussion on what is fit for purpose in helping our economy to grow, rather than kick a can down the road because the problem is difficult to fix. It might be that when we have that discussion, we find that a property-based tax is the best type of tax to help our economy to grow. I do not think that businesses feel that we have had that discussion.

Perhaps there is a halfway house that is half property and half profit—I do not know, because we have not yet had that analysis and discussion. That is what we need, because until we have that analysis we are going to return to the discussion for evermore. I suspect that people who have been around for longer than I have been have probably had this discussion a few times.

The Convener: Sandy Kennedy wanted to come in. I remind panel members that if you want to come in, please just indicate that to me by raising your hand.

Sandy Kennedy: I have a short observation, which is that a lot of the discussion is centred around how we would carve the pie up, who would get what and how it would be allocated. The point that John Lee made is a good one. I ask the committee always to bear this in mind: how do you grow the pie? How do you make that pie bigger?

If we want inclusive growth—if we want more investment in all parts of the community—that is going to be possible only if we grow the pie. If we spend all our time talking about just moving the deckchairs around, we will be continually talking about that for the next 10 years. It is really important that we focus on growing the pie.

The Convener: Right. I think that Gil Paterson wants to come in. Do you have an idea about growing the pie, or is it a further question?

Gil Paterson: It is on James Bream's point on the split between rents and so on and whether you go more on profit.

As a businessperson, I do not like the idea that I do not qualify for any business bonus because of the size of my business, but I have always voted for the bonus. I think that it is good and, to be frank, I think that it saved a lot of businesses in the hard times.

The thing that I like about business rates is that they capture those who do not pay any taxes at all in this country, who tend to be big companies that pay low wages. If a company has a footprint on the ground, it does not escape rates. That helps the fire service, the roads, and all the other things that we get. For example, if a place is broken into, the police will turn up, even if the folk do not pay tax. That is one element to consider.

We need to understand what is happening in business at present. I am dead easy to capture, because I pay all my taxes and so do my employees, but some big outfits do not pay anything and we need to consider that if we want to shift away from rates or a property-type tax. That is perhaps more of an observation than anything else, but would anyone like to comment?

The Convener: Internet-based companies might not fall into the category of those that would be captured by business rates on property. That is a further dimension to what Gil Paterson said. Would someone like to comment on that? Andy Wightman wants to comment, and then perhaps one of our guests might make some suggestions.

Andy Wightman: On what Gil Paterson said, one of the biggest online retail operations is Amazon, which pays more in non-domestic rates to Fife Council than it pays in corporation tax to the UK Government. That is one reason why I echo Gil's comment that property-based taxes are quite good taxes because they are very hard to avoid.

The Convener: That might be correct, but it would depend on whether companies had a geographic base in Scotland. Some would not have such a base. Does Colin Mason want to add to the discussion on that point?

Professor Mason: Not on that point, but I share Sandy Kennedy's disappointment at the way that the discussion has gone. There are more fundamental strategic questions that we should consider. One of the most strategic questions is: what are Scotland's structural weaknesses in entrepreneurship? One is that we do not have sufficient companies that achieve scale. That is

not to denigrate small businesses that employ one, two, three or four people, which are very valuable socially and economically, but we know that the companies that achieve scale—they are sometimes called gazelles—have a disproportionate impact.

A few years ago, I was involved in a United Kingdom-wide study that the National Endowment for Science, Technology and the Arts published. It was called "The vital 6 per cent: How high-growth innovative businesses generate prosperity and jobs", because the study showed that 6 per cent of companies created more than 50 per cent of jobs. The 6 per cent and 50 per cent will vary from time period to time period, but the gist is the same: a disproportionate number of companies make a big economic impact, and Scotland disproportionately lacks those companies of scale.

Not every growing company will take a public listing. That is not necessarily a route, but it is a useful indicator. Only 3 per cent of companies that are listed on AIM—the stock market in London that is designed for young, growing companies—are Scotland based. Why should that be? There are other statistics, with which I will not bore you, that make the point that Scotland lacks high-growth companies. Moreover, the nature of the Scottish economy means that high-growth companies in Scotland create many of their jobs outwith Scotland, so we need lots of high-growth companies to create jobs domestically.

One of the issues is that many of our potential high-growth companies get acquired, for good or bad—it is a complex issue. Having independent, locally owned, solid, middle-sized companies in Scotland is important not least because their head offices are in Scotland. If high-growth Scottish companies create jobs in their export markets, their only footprint in Scotland is often their head office. In many cases, that might be only 50 per cent of the jobs. It is important that decisions are made in Scotland. The head office also creates the demand for the professional services of law firms, advertising firms, marketing firms and accountancy firms. Therefore, it matters that Scotland should have significantly sized firms that are locally owned and have their head offices locally.

I am old enough to remember Crawford Beveridge becoming the new chief executive of Scottish Enterprise, back in the 1990s. He is a Scot, who had been working in a high-technology company in California before returning to Scotland to take that role. His immediate observation was that there was a lack of entrepreneurship in Scotland, so he set up the business birth-rate strategy. At that time, Scotland was ahead of the game. It was a very well-researched, strategically thought-out strategy, which was curtailed far too

quickly. Where is that strategic thinking happening now? I do not see it. I would like some kind of think tank or working party to be set up to nail those strategic issues and propose some meaningful policy solutions.

The Convener: Thank you, Professor Mason.

Gillian Martin and Jackie Baillie want to come in. I do not know whether one of them has a new point or whether their questions are on the point that we are discussing.

Gillian Martin: I have a new point that is linked to what we are talking about. It concerns rural areas. I have had feedback from a well-known company in my constituency, which talked to me about the barriers that it faces. It wants to grow and there is a huge demand for what it supplies, but it told me that the barrier to growth is infrastructure investment and access to utilities in the area in which it has its premises, which is Ellon—I am giving lots of clues as to what the company is. The company would like to stay in a rural area, where it provides jobs, which is great, but its demand for electricity and water outstrips what is available.

Have the witnesses seen that situation in their areas? Is it a situation that needs to be worked on, to promote the growth of existing medium-sized businesses such as the one that I referred to?

11:30

Jackie Baillie: My question is sort of related. I confess to sharing a frustration about where we started off. I absolutely agree with Sandy Kennedy and Colin Mason about the big questions that affect us. It is about how we grow the economy against a backdrop of Brexit and all sorts of other things that are going on. Understanding what is going on in our economy, where we should invest, what triggers we can pull and what levers we can use is central to whether we are going to be successful in future. I therefore absolutely endorse the comments about making sure that the strategy is right. I add that we should make sure that the institutional clutter is also right. A review is going on at the moment in that regard, on which I would be interested in hearing people's views.

The question for me is whether the issue is investment in infrastructure, which Gillian Martin talked about, or education, or exporting, or entrepreneurship and innovation—or all of them together. I want to get a feel from the witnesses about whether it should be SMEs or the large corporates that are the engine-room for growth, and where the balance should be struck. A lot of high-growth companies will not necessarily be SMEs. Is Scottish Enterprise's approach of simply targeting high-growth companies right? Scottish Enterprise comes in for a fair amount of praise but

also some criticism. Is the institutional architecture the right one to support a high-growth strategy?

Finally, the Government's economic strategy is supposed to be an overarching framework. Not many people disagree with it. If we compare this Government's economic strategy with previous Governments' economic strategies, we can see that they hit the same the buttons. Where are we going wrong? Is it just that we are not implementing the strategy? Is it that there is no action plan or monitoring framework? What is the reason? We talk about these things constantly. In the 17 years that I have been in the Parliament, we have talked about the same subject several times. What is going to make the difference?

The Convener: I wonder whether Colin Mason wants to come back in at this point. A couple of our other guests could come in after him.

Professor Mason: High-growth firms come in all shapes and sizes, but I think that there are some myths in policy making about what they look like, in particular that they are high-tech and are commercialising state-of-the-art technology. That is not the case, but it means that a lot of the schemes to support firms are based on myths about what a high-growth firm would look like. I therefore think that it is appropriate for policies to be agnostic about what high-growth firms look like.

In the present generation of the most successful entrepreneurs in Scotland, there are the two Toms—Hunter and Farmer—who are in retailing and car repair, respectively, and there is John Boyle, who is in travel. None of those guys would have qualified for public sector support, because they are not deemed to be in sectors where there is growth potential. To pick a company at random, Barrhead Travel is probably one of Scotland's most successful companies, and it is a travel agency. Clearly, the company has seen niches and opportunities, which is what entrepreneurship is about—seeing opportunities that other people have not taken.

Another problem with policies is that they see a divide between manufacturing and services. If we go into the real world and talk to businesses, we find that that is nonsense. The study that I did for Scottish Enterprise a few years ago found that some of the most successful companies call themselves solutions manufacturers. At the core, they have a manufacturing product, but they build services around that. They say that if they were just a manufacturer they would be competing on price and would be outcompeted by the Chinese and out of business before they knew it. However, they add intellectual value to their product.

The issue is therefore business models, and it is innovative business models that are the key to success, not necessarily the technology that

businesses work with. That is one of my thoughts on the subject.

The Convener: What can the Scottish Government or the Scottish Parliament do about those things? We need to get into the detail because, of course, the devil is always in the detail, and some of the issues that have been raised are perhaps matters of detail rather than of high-level strategy—the difficulty is turning that into something that we can do something about.

Professor Mason: Sandy Kennedy quoted the report by Sherry Coutu, the Cambridge entrepreneur, on the UK-wide need for scaling up. I would like to see a kind of Scottish Coutu report on the Scottish context, the scale of the problem, what we can do to create an infrastructure—which would not necessarily be entirely provided by the public sector—to support entrepreneurs to scale up, and how we can avoid the kind of anecdotes that we inevitably get in these debates. I propose the equivalent of a Sherry Coutu report: a scaling-up strategy, like the business growth rate strategy of 30 years ago.

The Convener: What do you think of that, Sandy?

Sandy Kennedy: I endorse that 100 per cent—there will be no surprise there. I will say, for people who do not know the Sherry Coutu report, that she has five recommendations on what she thinks are the big differences that can be made.

The first sits outside what can be done for the actual business: it is greater transparency and collaboration across the public, private and third sectors. We are all in this together, so we need to pull together and collaborate. James Withers and I were talking earlier about the fact that many issues that his members face are things that Entrepreneurial Scotland members might be able to help with, and vice versa. I would urge greater collaboration between all of us. The clutter that Jackie Baillie talked about is very much there, and not just on the agency side. That is the first recommendation.

The first, second and third recommendations that relate to businesses are all about people. They are all about whether we have the right talent flows coming through and the right leadership capabilities, particularly when we are looking to export, and whether we have the right connectivity. Connectivity is about people, and connectivity into new markets is absolutely vital.

That brings me back to my point about growing the pie. We have to recognise that we do not have limitless amounts of money to throw at this. We have a finite amount of money and we must expect the amount of money that the public sector can put in to go down rather than up, so we need to look at the issues and ask how we can do

something truly different. The key focus should be on how we ensure that our talent is coming through and is best placed to grow—business is about growth—and how we make sure that our leadership teams are the best that they can be, with the right mindset, networks, connectivity and executive education, if that is required. We need to get greater connectivity into new markets, as well. That is about the people side.

Ultimately, people are about culture. How do we—the Government, the private sector, communities and the third sector—work together collectively to change our culture into an entrepreneurial one? An entrepreneurial culture is about not just businesses making profit but how we solve problems in the national health service, for example. For that reason, I have been working with a number of Scottish Government civil servants on how we bring the tribes together. How do we bring together the Steve Dunlops of this world—Steve is driving change at Scottish Canals—with people like Mike Welch, of Blackcircles, and Richard Dixon? Only by working together can we make a difference.

The Convener: Carolyn Currie, do you share the views that have just been expressed?

Carolyn Currie: Pretty much. I would like to pick up on a point that Colin Mason made on what high growth looks like. We do a lot of the right things: we look at sectors to understand where sectoral growth is coming from, but the nature of high growth often surprises us. It is very much a mix of people—Sandy Kennedy picked up on that—and the personal traits that come through.

We have just consulted with a number of women-led businesses and there are some interesting trends coming through. We heard earlier this morning that there is an increase in the number of women starting up in business, which is of interest to us. In addition, there is a change in the demographic coming through. More older entrepreneurs are coming into the market—quite a different type of person is coming in. They have the benefit of corporate experience behind them and a lot of skills and talents at their disposal. A key question is how we identify the mix of entrepreneurs who are coming through and pull those talents through to best advantage.

Sandy Kennedy's point on leadership was well made. Diversity in a leadership team is very important. How do we harness the talent across the entire ecosystem to get real leadership and make entrepreneurial Scotland an exciting place that is open and inclusive?

If we can bring everybody together successfully, I have no doubt that we can create a very entrepreneurial culture. It is that mix of people from different backgrounds coming together to

share what they know and to bounce off each other that can take ideas and idea generation to the next level.

We touched briefly on the enterprise review. There is already a structure in Scotland to help businesses and give them support. It is important that we understand the end-user experience and listen to those voices to see how we tailor that support more to current needs and to the needs that we see coming through the pipeline.

The Convener: Thank you. I just want to bring in a couple of our business people before returning to committee members who would like to raise some points. James Withers can go first.

James Withers: Thank you, convener. I am keen to echo some of the themes that have come up. We are getting to some really interesting areas now, particularly scale, which Colin Mason raised.

We clearly need to achieve scale if we want to internationalise and build markets here and overseas. How we achieve that scale will be crucial, particularly in a country that is dominated by SMEs. In the food and drink sector, 90 per cent of businesses employ fewer than 10 people. We are not even at the S part of SME; we are really down at the microbusiness end. We can talk ourselves into that being a barrier to sector development, but I fundamentally disagree with that. It is absolutely a strength. It means diversity and authenticity and, in a sector like ours, where we are trying to build a national identity around provenance and the consumer's connection with individual brands, small can be beautiful.

How do we achieve scale without losing that diversity of small businesses? If I look at our sector again, eight to nine years ago, food and drink was static and not growing at all and now, in 2016, turnover is at 43 per cent. Interestingly, the growth of manufacturing of food and drink in Scotland is growing at twice the UK average. When we strip all that down and ask why that is and what is happening in Scotland that is different, it comes down to collaboration. To me, getting small SMEs to work collaboratively is the game changer. It allows individual businesses to retain their identity, talent and entrepreneurialism while achieving scale by working collectively.

To pick one sub-sector of our sector, there are about double the number of independent craft breweries in Scotland in 2016 than there were six or seven years ago. The old-school model of achieving scale would be some of the bigger independent breweries merging, or the big guys taking over the small guys. That is a highly unexciting prospect. For most customers who are interested in understanding the background to the brand that they are buying, the fact that it is independent, small, craft, or artisan is important.

Those brewers need to work collaboratively on logistics. They all need bottles and packaging and pallets, and they are all interested in getting into the same markets in London and internationally.

Someone asked one of the witnesses what we need to do. We need to think how to support collaboration. There might be 200 food and drink businesses that are account managed by our enterprise agencies, but most of them are at the bigger end. We need to think about how we support collaboration through account management and the support that the business bodies provide. In a world of tight funding, we need to think about how we deliver a one-to-many solution by bringing small businesses together and identifying their common issues.

That starts creating mentoring networks and a lot of the magic that comes out of bringing businesses together will come if we can facilitate that kind of collaboration.

The Convener: I will go to Ann Johnson next, but Alison Grieve was nodding in agreement.

Alison Grieve: Our products span food and drink and technology and I was really impressed by the collaborative work done by organisations such as Taste of Arran, which is made up of different food producers that export together and have a collaborative brand. That has worked very well.

In technology, as a hardware company I have found it quite difficult to collaborate with software companies. I find that there are divisions in the business community of Scotland that should not and need not exist, especially if we are going to be competitive in international markets where a lot of research and development departments in hardware and software are merged.

11:45

I will talk about growing the pie with a small, focused project, which is a bit like what was said about looking in through the large end of the telescope. I have been working quite a lot with California State University's teaching department, which promotes mobile technology in education, and I have formulated with them an idea for a pilot project involving 12-year-olds, because I believe in education and in children sometimes showing us how it is done.

The project that I would like to get off the ground is to collaborate with a group of five Scottish children of about 12 years old and a group of the same age in California, to do a small import-export project involving Scotland Food & Drink companies exporting healthy snacks. There are quite a lot of organisations that that might involve, and although it is a small project it is intended to

promote a culture of international entrepreneurship in the Scottish education system. I hope that some adults can learn from it, too.

Ann Johnson: I am on the high-growth fund and I am a high-growth company. We do fire protection offshore and I fall completely under Colin Mason's description. Once you have started your company and until you are turning over about £10 million a year, everybody leaves you alone. The minute you tip over that £10 million threshold, the globals see you as a threat. Our competitors, such as Wood Group, Chubb and Tyco, have massive deep pockets, and a company such as mine can suddenly become a hindrance to them. If you are up against them in a bid situation, they want you out of the market and their tactics are quite brutal.

The problem is that by the time you have done £10 million you are generally 10 years in and you are really tired. If it is a family business, you live and breathe it every minute and every second of the day and your kids are fed up of you talking about it, although our kids work in our business as well. You start to think, "Someone's going to offer me loads of money," and I do not blame anybody for selling out. We have not sold out; we are still continuing down.

What can the Scottish Government do? Actually, it does an enormous amount already. We are part of Scottish Enterprise, which literally could not be better. It has been fantastic. We are part of the chamber of commerce. Elevator is marvellous if you are starting off your business. I am part of Scotedge, which is a great thing for entrepreneurs to enter, and the prize money is £100,000, which is marvellous. We want to internationalise, and Scottish Development International is fabulously supportive, but what extra could the Government do? Our problem is that, because we have been in a downturn, the operators are now saying that they will not give work to us because we are too risky. Perhaps the Government could help by stimulating the market, as we are desperate for drilling in the UK. I am not saying, "Help me." I am saying that you could help higher up the economy and just leave us to it, and we will be okay because we will work away at it. Perhaps the Government could also guarantee bonds for working abroad. That is a huge problem, because banks do not want to know you if you are in a downturn.

The other thing that I wanted to address was Gillian Martin's point about working in a rural location. The only reason that we managed to stay afloat was because of an MSP, Nigel Don, who stepped in and talked to BT on our behalf. Nobody else would listen—absolutely nobody—and it was an MSP who helped us. I do not think that companies know how helpful an MSP can be, and

it is up to us to make those relationships with our MSPs so that we can filter the message back to Government so that it knows how to help us and how we can help it as well.

The Convener: I think that James Withers wanted to come in on that point.

James Withers: No, not on that point.

The Convener: I beg your pardon. James Withers has already commented. I meant to call James Bream.

James Bream: I did not want Gillian Martin's point on infrastructure to be lost. Ann Johnson just raised it about BT. It is unbelievable and completely unacceptable that, for example, a brewery that wants to grow and to be international, and that has huge scope for growth, cannot grow because it cannot get enough water. How can that happen? We have a dozen of the most powerful people in Scotland here in this room. That issue needs to be put to organisations such as Scottish Water and BT and just fixed. It is just not right and it should be easy to fix.

Andy Wightman: My point—which has been pre-empted by James Bream and follows Colin Mason's points about growth—is that it is apparent in certain sectors, such as distilling and brewing, that most of the large Scottish companies have now gone or been taken over. The growth is with the smaller companies, some of which are perfectly happy and do not want to grow to be Scottish & Newcastle or Guinness. The ones I spoke to employ 10 to 15 people, have extremely good order books and are never short of work, enjoy what they do and do not have all the attendant risks and uncertainties of trying to double their turnover in five years. Does anyone have a comment on how we should talk about business growth?

Susan Love: That is a recurring theme for us when talking about fixing the Scottish economy, which we talk about endlessly. We have to remember that this is the economy that we have and, if we want it to do more, we have to work with it and not against it. We have to work with what the people who run the businesses want to do, what motivates them and what interventions are effective. One issue might be that those people see their value in delivering wider social or economic benefits in their local area, rather than seeing themselves as contributing to the bottom line of Scotland plc. Perhaps they see the provision of jobs, activity, income and a service for local people as a valuable end in itself, and that can get overlooked sometimes.

One of the questions in our enterprise review looks at the balance between the small number of firms who make a disproportionate impact on gross domestic product and jobs—Colin Mason

spoke about the undeniable evidence of that—versus the reduction of inequality and some of the other outcomes that we want, which might be better served by different types of intervention. How do we reconcile those two things, which might be very different? We have not had an open and honest discussion about that.

I have two final points. First, talking about not having the right type of businesses in Scotland and berating them for lacking ambition is not an effective way to talk to businesses and encourage them to grow.

The second point is about understanding that growth might mean different things to different people. It comes up in women's enterprise, for example, where fast-paced economic growth might not be the outcome that the business owner is looking for in the short term. Our language and thinking on that has not been bottomed out.

Dean Lockhart: On the separate point of the funding of the SME sector and business in general in Scotland, the feedback that we get is that after going through the family and friends round of finance, and the angel round of finance for the lucky, things start to dry up when trying to scale up around the £1 million to £5 million range—the mezzanine or other type of equity-linked finance. What are your views on that? Is there a funding gap and, if so, how can it be plugged? Related to that, how will the newly announced Scottish growth scheme—which aims to guarantee loans, not necessarily to provide grants—help with the availability and pricing of finance for SMEs?

Alison Grieve: I have fallen into that category: we had the family and friends seed money and the angel investment round. It is well known that getting through the next period of growth is difficult.

Access to guaranteed loans would be helpful in that environment. It should be stated that the banks are better than they were five years ago. The Bank of England has taken the right measures to encourage access to finance, especially after Brexit was announced. It has been difficult to raise that level of finance in Scotland for decades, so it is not a new environment, but at least there have been programmes available for seed rounds. Indeed, the Scottish co-investment fund and so on has been massively helpful to grow that community of businesses.

The Convener: Colin Mason wants to come in.

Professor Mason: Let us talk up Scotland for a change. A strength of the Scottish entrepreneurial ecosystem is the number of angel groups. We have about 20 angel groups, including Archangels, which is the oldest organised angel group in the world—it is even older than the well-known American groups. Angel groups take the third stair

on the escalator—there is family and friends, solo angels and then angel groups. With the syndication that is possible through the co-investment fund and so on, up to £2 million or £3 million can be covered quite easily. In many cases, given the falling cost of technology and so on, that is often enough runway for a company to grow and to succeed in reaching the point where it wants to be.

In some cases, a £5 million, £10 million or £15 million injection is needed, and we should not necessarily look just within Scotland for that. I have been doing research on how small economies address the venture capital problem. We know that venture capital is geographically concentrated in the major cities. In the UK context, London and the south-east get about 60 per cent of all the venture capital that is invested, and Scotland gets less than its 10 per cent share. Many countries are setting up what we call pipelines—connections—to other countries to access venture capital. New Zealand has a link to a venture capital organisation in Taiwan, and Skyscanner's recent funding round brought in one or two well-known American venture capital companies.

We are back to the theme of international connections, which has run throughout the discussion. International connections may well provide at least part of the answer to finding large chunks of finance. You need to bear in mind the fact that only a very small proportion of companies are in the market to get such funds. I do not know how many \$5 million venture capital deals there will be in Scotland over a year, but it will be very few. Those companies—the Skyscanners of this world—are the ones that make the big impact.

Sandy Kennedy: I endorse Colin Mason's points. I previously worked for a venture capital firm, and it is important to remember that the funding is a symptom—I do not know whether that is the right word—of something else. What will the funding be used for, and what motivates funders to put in money in the first place? I was with the 3i Group. Its investment strategy is maybe a bit of a cliché now, but it invested in three things: management, management and management. The bottom line is that if a company does not have strong management, a vision and a clear purpose for the funding, it should not get the funding. That does not mean that there is no structural gap—I agree 100 per cent with Colin Mason and Dean Lockhart.

It is important to recognise that the issue still comes back to the leadership and management that are in place in businesses and what we can do to support them.

Dr Lee: The key issue facing our sector is very much what we might call the cumulative impact of

costs. A lot of the costs emanate from legislation, particularly UK Government legislation. The most obvious cost is that of the national living wage, which has had a huge impact on our sector. About 80 per cent of staff in the independent retail sector are in the 25 and above age group, which is precisely the group that is impacted by the national living wage.

We have already seen evidence of a decline in employment in the independent retail sector—the first decline since 2012. Also, few years ago, the Department for Work and Pensions abolished the percentage threshold scheme, which allowed employers to claim back statutory sick pay but which is no longer available, while business rates keep on increasing. The cumulative impact of costs, at a time of price deflation in the grocery retail market, is having a significant impact on our sector.

12:00

I do not think that Scottish Government ministers and officials are always fully aware of all the policy changes that emanate from Westminster. I mentioned the percentage threshold scheme, but I am also thinking about workplace pensions and auto-enrolment. I do not think that Government has a 360° picture of all the cost pressures on our sector. An interesting area of work for the committee might be to ensure that officials and ministers have the full picture of the cumulative impact of costs—the full cost barometer.

It is becoming more and more difficult for our sector to provide the services that we provide. For example, we provide useful utility bill payment services, but it is becoming much less cost effective to do that. There is a big financial inclusion issue there for people paying their rent and council tax.

All those issues are impacting on our sector, and we are beginning to see a drop-off in retail employment for the first time.

The Convener: Thank you.

Ann Johnson: We have never asked for a loan. Typically, a project requires between £3 million and £12 million, and we fund that by staged payments throughout the contract—we are very careful with the contract's terms and conditions. We are finding that operators now want a guarantee that we are not going to go out of business. Without that guarantee, we are seen as too risky. That is why they are going to the globals; they do not want to deal with us.

I do not know whether we could get some kind of assurance from our bank that, should we need funding, it will be there. I am with the Royal Bank

of Scotland, which has always been supportive in the past, but I suspect that we would not get such an assurance. RBS offered me £100 million two and a half years ago, but I do not know whether it would give me anything at all now. I have not asked, but I suspect that it would be a difficult question.

Another issue is the speed of getting a loan. If we are given a guarantee, that is fantastic, but if we are making a bid we generally have four days, and the wheels are generally quite slow to turn when it comes to guarantees.

The Convener: I do not think that the committee can answer your question about the bank. [*Laughter.*]

Gordon MacDonald: The FSB said:

"64% of businesses think that the current economic approach favours large multi-national companies".

It also said:

"every Scottish public body should aim to spend ten per cent of its procurement budget with firms with fewer than 10 employees by 2021".

Where are we at the moment with that? What should we do to hit that target?

Susan Love: The first point relates to something that a lot of our members feel. After the election, we asked members what their priorities were, and they expressed the feeling that microbusinesses are not regarded as important in Scottish economic discussions. That is partly because of the conflict that I talked about: it is natural and understandable that an important value is placed on the small number of high-growth firms, but that can lead to the rest of the economy feeling undervalued. It is about getting the balance right.

It is fair to say that to some extent the focus of a lot of business support has been on certain high-growth sectors and firms, and if a business's face does not fit, because it does not hit the magic turnover growth criterion, no one wants to know, even if that business has potential. That might be an unfair perception, but it is how a lot of small businesses feel.

Gordon MacDonald: Does that relate to what James Withers said about collaboration? Should Scottish Enterprise support trade associations to build collaboration, as well as focusing on high-growth companies?

Susan Love: I suppose that the question is what we want our business support structures to do and what outcomes we are looking for in the economy. We argue that we need to do both. As well as making a better job of finding the companies that need support and will have a disproportionate impact, we need to value the

economic activity—at the most basic level—that small businesses provide in many of our communities. If we are trying to reduce inequality, a good start would be to look at what small businesses can bring to a community in which there is next to no formal economic activity. We are just saying that we want an approach that places a different value on business activity.

Collaboration is one approach, and some of the industry leadership groups do a good job on that, but it is not always the right approach for some small businesses.

As far as procurement is concerned, when it comes to spend with microbusinesses, because of the consolidation of procurement following procurement reform in Scotland over the past 10 years, there has been a general reduction in the number of small local businesses that engage in public contracts. We can debate whether that is good, because there are benefits that flow from that, but it is the case that fewer firms are getting public contracts.

The situation has started to improve as a result of some of the measures that have been put in place. We are hopeful that some of the measures in the Procurement Reform (Scotland) Act 2014 will have a beneficial impact, but there are also threats that flow from that act. At the moment, I think that we are at about 7 per cent with microbusinesses. I will not bore the committee with all the details, but there are various things that could be done around how public bodies implement their new procurement duties that could help us get towards the target. That is important because of the flows of money through local economies if we spend locally.

The Convener: I think that Carolyn Currie wants to come in on that point.

Carolyn Currie: I would like to underscore some of Susan Love's points. On collaboration, we have just carried out a survey for the ministerial enterprise review. We have not yet released the results but, in very general terms, there are definitely issues around collaboration. I think that the handovers could be clearer.

In addition, we got the sense from many responses that, at the point of support, businesses are not being understood or valued, with the result that they cannot access the support that they feel that they need at the time that they need it. There are two issues there: accessing the support that businesses feel would be beneficial and the timing of the availability of support, and businesses' frustration about their inability to access what they need.

I will link that back to growth. Very interestingly, the overwhelming majority of enterprises wish to grow their business. We have talked about the

constructs of what high growth might look like and how we might pull that out. In businesses that are led by women, what high growth looks like is quite different. That does not mean that in such businesses there is no appetite to grow or that that different mindset on high growth cannot be leveraged for the benefit of the economy. All that we need to do is understand what that looks like and the support that we could put in around it.

I was very interested in Alison Grieve's comment about the small exporting pilot that she would like to undertake. I think that the carrying out of such initiatives on a much broader scale would resonate with many women-led businesses, for whom the sense of having grown something that has brought benefits to the local community is very important. That ties in with the points that have been made about the importance of growing a business in a rural community. If such a community has links with another community elsewhere in the world, there can be a link to that ambition for internationalisation, but the way in which we might go about making those connections is perhaps a bit different from what happens in our current structure.

James Bream: On local procurement, we hear about the understandable move to go for economies of scale in the shape of large tier 1 companies. As a result, some of the local impact tends to be lost, because labour and work will be bought along an existing supply chain around the UK or outside the UK.

The procurement process still looks at financial value rather than true economic value. Currently, the definition of economic value consists of a set of quality criteria plus a financial appraisal, which are added together to get economic benefit. What is not counted is economic value—in other words, the number of jobs that might be retained by giving a microbusiness that is located in the area some of the work. That would be a measure of the economic multiplier effect in the local economy. I do not think that we would want to have economic impact as part of every procurement process, but it would be helpful to understand that aspect. There are clauses on community benefit, and they could be beefed up. That is a tool that could be used, and in some cases it is already being used.

Some stuff with trade organisations happens with Scottish Enterprise in particular. On taking companies overseas, we have run missions in partnership with Scottish Enterprise to Mexico and Colombia. One of the difficulties that we face is that Scottish Enterprise is a membership organisation that is self-funded, whereas we ask members to pay for our services. The public sector is paid to provide services, so companies get them for free. We have agreed with Scottish Enterprise that any company that wants to internationalise

can get some money towards doing that. It is about making such approaches more formal so that it does not matter who a company goes to—whether it goes to the Scottish Food and Drink Federation, Entrepreneurial Scotland or a chamber of commerce—because those bodies are all trying to deliver the same outcome. How a company enters the marketplace should be completely irrelevant. We need to blur the boundary around whether it is the private sector or the public sector that delivers. That boundary is quite fixed at the moment unless a relationship can be built, and if the process is based on a relationship, things tend to fall apart if the person who built it leaves.

Ash Denham: I am interested in taking people's temperature on Brexit and whether you are already seeing an impact or think that you will see more of an impact in future. How important is it for exporters to be in the single market rather than just have just access to it? Do people have concerns about the effect of any limit on free movement in terms of employees?

Sandy Kennedy: I will take that question, but it is probably important to open it up to others. It is important to recognise that attitudes to Brexit vary massively: different leaders, organisations and sectors see Brexit very differently.

My communities—I admit an utter bias—tend to be entrepreneurial, so they see opportunity coming out of Brexit and believe that they just have to deal with it. I was surprised to find that the freedom of movement issue was a much stronger issue for our communities. We do not have a bias towards tech but we cross over into it, and it is very concerned. It goes back to Sherry Coutu's report. If talent is the single most important thing for a company, it becomes an issue if the talent pool is restricted. Uncertainty is also a significant problem. In many businesses, 75 per cent of their employees are not UK nationals. I would say that freedom of movement is the big issue that is of universal concern. That aside, companies are just getting on with it.

Ann Johnson: We work in some shipyards in Germany and need to be able to go and work there, so it is about free movement the other way for us.

A small example of how important free movement is here is that of our local post office. Romanians who work in the food industry locally send money transfers back home every week through the post office, which gets a fee for that. The people who run the post office say that that is the only thing that is keeping them in business, which I was astonished to hear. We have a lot of Romanians and Latvians in our area—a great mix of very hard-working people.

However, we cannot risk having another referendum to try to stay in Europe. That would kill just about every business that I know of. The oil operators have said publicly that if there is another referendum, they will delay their drilling plans. They are already not going to drill in 2017, and heaven knows how we will all survive that. However, if they delay drilling for any longer than that, we will not have an oil industry any more because all the drillers will have gone bankrupt.

James Withers: I suspect that we could have a very long session on Brexit alone, so I will not go into it too much. However, to answer Ash Denham's question, 30 per cent of the food and drink workforce come from Europe and 80 per cent of our food exports go to Europe, so that is the ball game to a large degree. We cannot grow without that workforce.

It is critical for SMEs in Scotland that Scottish priorities are emphasised in any UK exit negotiating position, and finding a mechanism for that will be central to our future. However, we know that we rely far too much on Europe for our export business. Whisky is the one exception to that, as it has conquered the globe. The rest of the food and drink sector is quite immature in relation to exports, with the probable exception of salmon and seafood. It will be important to prioritise where the new overseas FTAs will be, and for us, America, Japan and China top the list.

There is a good level of discussion at a UK level about what the post-Brexit plan looks like, but I am not seeing that in Scotland. We should be having a more open discussion about what Brexit looks like for Scotland and what the priorities are. For example, farming, fishing, food and drink are much higher priorities for the Scottish economy than they are for the UK as a whole. We need to highlight the differences between the Scottish position and the position elsewhere.

12:15

James Bream: I am just looking at our statistics, which flag up some stuff. It depends where you are and what type of business you are in. In the north-east, our disposition is to be more concerned about free movement—I guess that our businesses are possibly more international and we have quite a lot of Europeans in the fruit-picking sector. Changes to regulation also feature highly. For the rest of Scotland, the Scottish Chambers of Commerce is looking at access to the single market without tariffs. That paints a picture of how different things are around Scotland. It depends on who you ask, but I suspect that we all know what the issues are and none of them looks to be easy to solve—I wish you good luck with that.

The Convener: Thank you.

James Bream: On advice and support, I think that companies are looking for a little bit of guidance as this starts to pan out. People are, frankly, just getting on with stuff at the moment—nothing has actually changed, although there have been things such as currency impacts. Of the new market opportunities, North America is big in a Scottish sense. The north-east is looking at slightly different markets, including Norway and the United Arab Emirates, and there may be new ones for the rest of Scotland. The situation is not without opportunities, but first it will be about influencing where we go with the UK Government, being part of that and understanding what is best for Scotland as we go through that.

The Convener: Thank you. Liam Kerr is next.

Liam Kerr: I am just after a few comments, first from Sandy Kennedy and Carolyn Currie. I very much enjoyed Alison Grieve's presentation and the papers that we received. What do you think can or should be done at the school curriculum level on entrepreneurialism, financial education and that sort of thing?

A number of the papers talk about fair taxation and light-touch regulation. I am interested to know what that means at a practical level. James Withers talked about collaboration kick-starting craft ale, but my understanding is that that was at least partly due to a significant tax break in the past 10 years. How can the tax system be used in that way?

My final question is perhaps for Dr Lee in particular. With my small business hat on, I have a concern about the Scottish business pledge. With auto-enrolment coming in, things like the Scottish business pledge could disincentivise growth. Does Dr Lee or anyone else have any comments on that?

The Convener: Who would like to start?

Carolyn Currie: As an ex-banker, I think that financial education is critical. It is important that it should be part of education nowadays, particularly given the growing number of self-employed people. Gender and any other demographics apart, it is critical that anyone starting up in business and enterprise understands the financial side of things. Many people come to enterprise with great skill, a great idea or great drive, but they often do not come well equipped for the financial side of things. It is important for start-ups to keep themselves on the straight and narrow, and a sense of how finance works is critical to that.

Organisations such as Young Enterprise Scotland do a great job in providing enterprise education in schools, not just in teaching enterprise but in getting kids to live and breathe it. Ann Johnson and I were talking about her experience earlier and she might want to

comment. It is so important to make enterprise accessible to young people and give them those insights at an early stage.

At present we are working on a programme whose aim is to give women an insight into business creation and what the process looks like, partly because they had no education on that in school. They find themselves in a situation in which enterprise could be a valuable option for them to generate an income but they have no understanding of it, or they feel that they cannot access the support that they might need and it feels like a massive step for them.

We are now in week 4 of the programme and virtually every one of the 27 women on it is talking about starting up in business. In week 1, they were terrified that they would never have a business idea and they thought that business was not for them. The programme is very interesting and I think that we are going to get a lot of learnings out of it. It is a 10-week programme, so we will keep you posted.

I am a huge fan of the Scottish business pledge, which provides a focus on the value of diversity and inclusion. To me, it is a key document in the Scottish Government's strategy. We all have great intentions about meeting our end-user needs and being a diverse and inclusive nation, but unless we have a structure that holds us to account for that, it is easy for it to fall off the agenda. I understand that there is potentially a level of cost and pain that needs to be debated but, from my perspective, the value of that inclusion—and also the value of inclusion when it comes to innovation, internationalisation and some of the broader aspects that we have talked about today—is huge and is not to be underestimated. That is where it starts—it starts at the heart of our business communities, with the business pledge.

Sandy Kennedy: I echo a lot of the points that Carolyn Currie made. The more practical experience that can be brought into schools, the better. The work that Young Enterprise Scotland does is spot on.

We have heard a lot today on the theme of collaboration and connectivity. How do we connect people? We talk about connecting businesses to schools, but it is actually people that we connect to schools. It is about how Ann Johnson goes into a school, or how we at Entrepreneurial Scotland go into schools.

It is important to remember that role models are not just people who run businesses but the people who come through behind them. For example, we run the Saltire scholar programme, which has on average between 45 and 55 per cent widening access students, and we encourage all those young people to go back into schools. I have gone

into schools, but sometimes, rather than hearing my posh voice, it is important that pupils at Springburn academy hear one of their own talking about their ambitions and where they want to go. The appropriateness of role models is key.

The Founders4Schools programme, which is around connectivity, is also spot on.

I return to my earlier point that an entrepreneurial culture and mindset is not just embedded in the start-up community. We also see it in schools—I have certainly seen it in schools that I have had the pleasure of being connected with. Where there is an outstanding headteacher or an outstanding senior leadership team in a school, lo and behold, amazing things happen; when there is not, those things do not happen. Again, I emphasise the importance of leadership in schools.

Carolyn Currie made some points about diversity. An additional observation is that there is strong research, particularly from Massachusetts Institute of Technology, that looks at diversity in a slightly different way, arguing that it is not only about gender, race and socio-demographics but that, particularly in times of uncertainty, we need diversity of ideas, experience, expertise and perspective. If we focus more on how we can bring in that diversity of ideas, that will grow the pie, to go back to a theme that we discussed earlier. Sometimes we need to have rules and say that that is how we force things, but it is important that we do not lose focus on different perspectives, because we need them in order to grow.

Professor Mason: All those things apply equally to universities. We need to create entrepreneurial universities, not in the conventional sense of how many spin-out companies we have but in the sense of how many graduates set up their own businesses. We think of MIT as perhaps being the most entrepreneurial university in the world, but it is not so much that the staff there are starting businesses; rather, it is the alumni who are starting businesses.

Entrepreneurialism needs to be embedded in universities—not only in the architecture of universities, with entrepreneurs in residence and hatcheries with entrepreneurship support people, but at the curriculum level. The subject should not just be taught in business schools. I know some Americans who said that the worst place to teach entrepreneurship is in a business school. Indeed, when entrepreneurship began in the States in the 1970s, the first professors of entrepreneurship were in engineering faculties and they only latterly moved into business schools.

I want to see ways of teaching entrepreneurship across all disciplines. After all, many of the folk who are graduating in the professions—the legal,

veterinary, dentistry and accountancy fields—are, in effect, going to be running small and not-so-small businesses, so entrepreneurship is highly relevant.

How do you teach entrepreneurship? To echo Carolyn Currie's point, I have come round to the view that it is about experience—you have to teach about entrepreneurship experientially. Like Sandy Kennedy, I have got students to start a mini-business. They said exactly what he said: "Gosh, I never realised I could do this. Entrepreneurship is not a totally different way of doing things."

The only predictor of who is likely to become an entrepreneur is whether someone comes from an entrepreneurial family—I think that those who come from an entrepreneurial family are twice as likely to become an entrepreneur. We are in a vicious circle in Scotland, because our entrepreneurship levels are quite low. Education is one way to break that. If your family is entrepreneurial, you get your entrepreneur's education over the dinner table or on your school holidays. Why not have sandwich courses where, rather than doing a business placement, you start your own business? I have seen one or two examples of that. We can be quite imaginative in how we build an entrepreneurial experience into all sorts of degrees.

James Bream: I will leave the topic of school, although the whole developing young workforce area is very exciting. We have started something here. There are areas where we may need to force collaboration, if you can do such a thing. That is because, particularly in education structures, there is an element of rigidity that we need to break down a little, and we should not hide that.

Hearing the different perspectives on regulation is really interesting. We are in a world where Governments are pushing regulators to be light touch and risk based, yet we are moving to a place where we are putting in place more regulation and telling businesses what to do and how to be good businesses.

The business pledge has been introduced. We need to make sure that we know why we are taking such measures. I am not sure that we can create diversity in businesses with a quota, because the issue is about what the business is and how people think. I accept that there are different views on that, but my worry is that we are telling businesses how to be good businesses. By saying that they should pay a living wage, have a particular type of person in their organisation and internationalise, you push some of the market out of being a good business. As an economist, I suppose that I am naturally disposed to say that the market will sort out all that stuff. I realise that

that does not always happen, so maybe I am not an economist after all. *[Laughter.]*

My nagging worry is that we are just pushing this stuff a bit too hard at the moment. By doing so, we make businesses start to worry about whether they are meeting a particular regulation rather than just being a good employer and doing the good stuff that businesses do.

12:30

Dr Lee: Mr Kerr made a good point about the business pledge. The pledge is a laudable policy. A key element of it is the living wage, which is essentially aspirational and voluntary. I think that any progress towards that was torpedoed by George Osborne pulling out of his hat the national living wage without any real consultation with industry. I think that even the Low Pay Commission was taken by surprise. George Osborne's two legacies to our sector have been the national living wage and the sugar tax—thanks, George. That has stopped people moving towards the living wage, which was essentially aspirational and voluntary. Instead, what has been imposed on them is a living wage that takes no account of the size or the profitability of their business.

Earlier Susan Love outlined a very useful topology of businesses when she talked about microbusinesses, small businesses and medium businesses rather than SMEs. However, the living wage takes no account of the size of a business, and it is very difficult for a small business to absorb constantly increasing staff costs. Now, for those of us in business, staff costs are not under our control; instead, they are under the control of the UK Government.

A problem with the national living wage is that it has torpedoed any move that the businesses in our sector were willing to make towards the living wage that the Scottish Government had been promoting. Moreover, the performance of the business pledge has been less than stellar, with only about 250 companies signing up to it. The national living wage has therefore been quite unhelpful in any move towards the wider adoption of the business pledge by our sector.

The Convener: On that last point, are you saying that the setting of the minimum wage has meant that businesses are not moving towards introducing a slightly higher minimum wage?

Dr Lee: From the retailer's point of view, everyone in our sector now pays the living wage. Before that came along, we were beginning to move towards discussions with the Poverty Alliance and so on about engaging a little bit more with the business pledge and at least encouraging some of our members to move towards the living

wage that the Scottish Government was promoting. Now they all consider themselves to be living wage employers, and they have very little inclination to move beyond that.

Susan Love: I want to make just a couple of points. First of all, the pack that we handed out earlier includes our recent report "School Ties: Transforming Small Business Engagement with Schools", which examines the links between local employers and schools. There is a lot of work to be done in that area.

Secondly, on fair taxation and light-touch regulation, I suppose that fair taxation is in the eye of the taxpayer. We could have a discussion and debate about types of tax and the sort of tax that businesses might view as fair. For example, a high-value, low-turnover business might view the business rates system as unfair, while a small business might view it as unfair that it has to pay tax while global companies do not.

I have to say that we have been fairly agnostic about the business pledge. It is entirely fair for the Government to set out its priorities for the kind of good behaviour that it is looking for from employers; after all, it is actually an employer's pledge, not a business pledge. I suppose that that is fine, but there is a risk in taking a tick-box approach to the good and rounded ethical behaviour that we are looking for from employers. As we have said, many small businesses exhibit great characteristics as employers that their employees rate as good and which they value, but that kind of stuff does not get picked up by the business pledge. I would also question the extent to which the pledge itself changes behaviour. Is it simply for those that are already doing all the good things that we want to have a piece of paper that says that they are doing them?

Lastly, to pick up on James Withers's point about the economy, I think that the real trigger for this is the market and what your customers expect and demand. In some areas and markets, customers will drive a change in behaviour with regard to, say, the wage levels that they expect businesses to be paying, but there is a crunch point at which customers are not willing to pay more or do not value change in certain industries. Until we tackle that, the business pledge is not going to make a difference. We simply have to recognise that the pledge will be limited in its effectiveness in changing problems that tend to be focused in particular sectors and types of businesses.

The Convener: Richard Leonard has been patiently waiting to ask a question for some time now. Do you wish to ask a question or two now, Richard?

Richard Leonard: If I may, convener, I would like to make a couple of observations first.

On the point about taxation, the fact is that, over the past 35 years, the shift in the burden of taxation has been from the rich to the poor and from direct to indirect taxation, which is much more regressive. We therefore need to look at this issue in the round.

I am bound to say—and this is where Gordon might stop nodding—that you cannot have 10 years of a council tax freeze and not expect charges to go up.

The Convener: Which Gordon are you referring to?

Gordon MacDonald: I was agreeing that corporation tax was 52 per cent in, I think, 1984 and is now 20 per cent.

Richard Leonard: Absolutely. We need to consider the matter in the round.

Similarly, I say to Dr Lee that the converse argument to the one that he poses is that, if we give people at the bottom end of the pay scale increases in their disposable incomes, they are much more likely to spend that money in his members' shops than people at the top end of the scale are if we give them beneficial increments. I ask him to ponder that.

I come back to an important point that has emerged from the discussions. On the one hand, we have an increased level of external and, indeed, overseas ownership of what we might, in old-fashioned terms, call the commanding heights of the Scottish economy and, on the other, there is an increase in the number of people who are going into sole trader self-employment. As I understand it from the way in which our discussion has gone, the bit in the middle is missing. It is not a case of talking Scotland down; it is about saying that perhaps we could do better in developing medium-sized businesses compared to other countries.

That takes us back to the question of what the Scottish Government can do and whether the economic development architecture—which is being reviewed, as others have pointed out—is the right one. My immediate question concerns the impact of the devaluation of sterling. Albeit that it is involuntary and does not affect some industries—such as the whisky industry—so much, the devaluation opens up opportunities for an export drive, import substitution and tourism. How nimble is the support that businesses get in pursuing those opportunities? Are they already having conversations about how we can drive our exports forward because the pound has devalued? Are tourism businesses already having discussions about what can be done better to

market Scotland as a destination? Is that happening, or is there a lag in time between events and where the apparatus of Government is?

Susan Love: Without commenting on those individual types of conversation, I will comment on the state infrastructure. We commented to the enterprise review that the state does not have a good track record of being nimble, given how long it takes for programmes to be agreed and rolled out across the different parts of the public sector that have to deliver them. The recession was a fairly quick change in economic circumstance that led to a need to reposition support, but that was not a great example of the system being nimble. Therefore, we have asked whether it would be possible to design a system in which we can drop and change programmes, or change their focus, much more quickly. We have not been good at that in the past.

Dr Lee: I have reflected on Mr Leonard's point about the national living wage. It is a good point, but I suspect that the truth is that the changes to tax credits and in-work benefits that were made when the chancellor introduced the national living wage probably mean that people are not that much better off. What he gave with one hand, he took back with the other.

Carolyn Currie: On internationalisation, some of the responses that we have seen suggest that we are probably not currently nimble and adept. Could we be? The answer is yes. We have an infrastructure to support businesses that are interested in exporting. We have picked up that there is a growing number of microbusinesses that are interested in exporting but do not know the first thing about it. That business community is by definition very nimble and could be supported to export. There is a high value in considering how to match their needs to the service provision that is currently available but not targeted towards them. It is a huge missed opportunity.

Ann Johnson: SDI is a huge help in that and it is very quick—Carolyn Currie is absolutely right about that. Also, there is the chamber of commerce and the help with the trade missions.

When a company decides to go international, the first thing that it does is to find out about the tax law. That is its first stop. A company does not want to have to pay its accountant to do that, because accountants cost a fortune. I would like to see a body—or perhaps part of Scottish Enterprise—that is able to advise companies on that, because the cost of speaking to your accountant is phenomenal; it is ridiculous. That is one of the considerations wherever you trade abroad.

We are trading in the Democratic Republic of Congo because, basically, there is no work here in the UK. The problem with that is that the country is about to go into a state of civil war. Who is going to help you? Nobody. You have to be really careful with your contracts and your terms and conditions.

Working abroad is a risk. It is a higher risk than doing business here. However, are we nimble enough? Yes, as a small company, we are. Big companies are not, and that is where we beat them.

Sandy Kennedy: On the point about international exports and nimbleness, again—no surprise—collaboration has to be key. It is a bit of a walled garden at the moment, although I know that the agencies are trying to change that. SDI can be seen as the only solution, but sometimes UK Trade & Investment could be a very powerful ally.

We should be able to pull out all the stops at once for our businesses and business leaders. If UKTI can help, let us get access to it—we are paying for it, so we should be using it. SDI does great stuff. I tend to find that it is all down to the person. If you have a great end person in market, it makes all the difference; if you do not, you can go round and round in circles. The globalscot network is an amazing asset that is probably underutilised, but there is an opportunity to open that up.

Some of the networks that sit in the oil and gas sector, for example, might be useful for the food and drink sector. Some of the people within Entrepreneurial Scotland have connections that could be helpful to somebody else in another sector. The more we see that we are all working on this together, the more likely we are to be able to do it. The more we say that it does not matter whether it is UKTI or SDI if it helps Ann Johnson get a sale that she would not have got otherwise, the better. We all need to put our shoulders to the wheel. That applies for everybody else.

James Withers: On the international point, Mr Leonard raises an important point about the exchange rate at the moment and whether we are nimble enough to react to that. The answer is perhaps not. However, the international aspect is important, not because there is a short-term opportunity at the moment—it is about the economy and particularly about balancing our risk. Again, if we put whisky to one side and we look at the mainstay of our sector, we have too much business in too few hands in the UK, so we are not balancing our risk.

We want to export because it is a transformational opportunity but also because it balances our markets. For those who are old enough to remember, it is almost like the old

stereo systems with the graphic equaliser, where bits would go up and down. If we have lots of different options, when things change we dial one up or dial one down. We do not want to write a strategy that is based on the fact that the exchange rate is working in our favour just now, because for every minute that the rate is working in our favour for export, there will be a minute at some point down the line when it will not be. However, if we create that balance of good international markets, a good UK market and a good local market, we will have a long-term strategy that is robust to changes down the line that we absolutely will not be able to control, such as exchange rates.

The Convener: I am conscious that we are coming to the end of our time so I would like to give the representatives from the two SMEs who have come to the committee an opportunity to make a brief comment before we close.

Ann Johnson: I feel as though I have had an opinion on everything and I apologise for that. It is just because, if you have a business in a rural area, you get involved in absolutely everything. We have had a very successful career for the first 10 years, but this year has been brutal, and I worry about how good a leader I am. However, these hard times make you a much better leader.

We intend to stay in the game and recover, but we are only going to recover with help from people such as MSPs. We desperately need your support and we need the support of all the different organisations—Sandy Kennedy was absolutely right to say that we all need to band together. We are all in business and it has been great to meet other business leaders today, because what he said is absolutely right: I might have had some experience that can help somebody in the food and drink sector or that can help Alison Grieve. I thank the committee for the opportunity to come today.

Alison Grieve: I would like to finish on a positive note, which is linked to the point about the opportunities that exist right now. What was said was right. I was astounded that there were not more announcements about how we could capitalise on tourism opportunities, such as a step-by-step guide for people who might have been able to offer a bedroom on Airbnb during the Edinburgh festival. A lot of the general population do not realise the small steps that they can take in relation to the produce that they buy in local shops, their involvement with visitors who come to Scotland, and businesses that export or could potentially export overseas.

There is a lot more that we could talk about when it comes to the amazing opportunities and the fantastic support organisations that exist in Scotland. I suppose that it is more about

promoting things on an easier level rather than talking big politics or big business. It is about promoting to the everyday businessperson and everyday person in Scotland how we can all help to reduce that trade deficit and make us a more competitive country.

The Convener: On that positive note, we will finish this session. I thank all our guests very much for coming to speak to the committee.

12:46

Meeting continued in private until 13:01.

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