

ENTERPRISE AND CULTURE COMMITTEE

Tuesday 10 May 2005

Session 2

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ENTERPRISE AND CULTURE COMMITTEE

11th Meeting 2004, Session 2

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*Mr Richard Baker (North East Scotland) (Lab)
*Chris Ballance (South of Scotland) (Green)
*Susan Deacon (Edinburgh East and Musselburgh) (Lab)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Michael Matheson (Central Scotland) (SNP)
*Christine May (Central Fife) (Lab)
*Mike Pringle (Edinburgh South) (LD)

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Margaret Jamieson (Kilmarnock and Loudoun) (Lab)
Mr Brian Monteith (Mid Scotland and Fife) (Con)

LOCATION

Committee room 2

*attended

THE FOLLOWING ALSO ATTENDED:

Dr Wolfgang Michalski (Adviser)

THE FOLLOWING GAVE EVIDENCE:

Cosmo Blake (Berwickshire High School, Duns)
Charlene Carrick (All Saints RC Secondary School, Glasgow)
Professor Sara Carter (Hunter Centre For Entrepreneurship, University of Strathclyde)
Carol Craig (Centre for Confidence and Well-being)
Nikki Donnelly (All Saints RC Secondary School, Glasgow)
Bill Fleming (Glasgow Opportunities Enterprise Trust)
Sarah Goldie-Scot (Berwickshire High School, Duns)
Neil Henry (Berwickshire High School, Duns)
Cameron MacAllister (Berwickshire High School, Duns)
Kenneth McLean (Berwickshire High School, Duns)
Anna Peers (Berwickshire High School, Duns)
Agnes Samuel (Glasgow Opportunities Enterprise Trust)
Kulsoom Shah (All Saints RC Secondary School, Glasgow)

Scottish Parliament

Enterprise and Culture Committee

Tuesday 10 May 2005

[THE CONVENER *opened the meeting at 14:05*]

Subordinate Legislation

Education (Student Fees and Support) Temporary Protection (Scotland) Amendment Regulations (SSI 2005/217)

The Convener (Alex Neil): As it is five past 2, I think that we should start.

I welcome everyone to the 11th meeting in 2005 of the Enterprise and Culture Committee. To begin with, I want to raise some housekeeping issues. First, I ask everyone to switch off their mobile phones. Secondly, we have received apologies from Susan Deacon, who will be late. Thirdly, I welcome to the meeting Wolfgang Michalski, who is our special adviser on our business growth inquiry and will participate in items 2 and 3.

Before I move on, I want on behalf of the whole committee to put on record our gratitude to Jim Wallace. In his period as Minister for Enterprise and Lifelong Learning, he has co-operated fully with the committee and has taken forward some of our recommendations, most recently with regard to the Further and Higher Education (Scotland) Bill. As convener, I have had a very good working relationship with Mr Wallace and I am sure that the committee will join me in wishing him all the best for the future.

Members: Hear, hear.

The Convener: Item 1 is consideration of a piece of subordinate legislation. For this instrument that is subject to the negative procedure, we are joined by Kathleen Robertson and Valerie Sneddon from the Department of Enterprise, Transport and Lifelong Learning, who will answer any questions that members might have.

Do members have any questions about or comments on the regulations?

Christine May (Central Fife) (Lab): I do not have anything to say, other than to point out that, as the cover note makes clear, the Subordinate Legislation Committee had no comment to make on the technicalities of the regulations.

Mike Pringle (Edinburgh South) (LD): I second that.

The Convener: Given that this is a negative instrument, we do not need to make any recommendations as such. We just have to consider any issues that might arise, which is what we have duly done.

Business Growth Inquiry

14:08

The Convener: We move on to item 2. To create a round table atmosphere, I will, with the committee's agreement, invite the participants in this item to join us round the table. That will make the discussion less of a formal, them-and-us evidence-taking session. Are members agreed?

Members *indicated agreement.*

The Convener: I welcome to the meeting Carol Craig, who is sitting between Mike Watson and Murdo Fraser and is the chief executive of the recently established Centre for Confidence and Well-being; Professor Sara Carter, who is from the Hunter centre for entrepreneurship at the University of Strathclyde; and Agnes Samuel, who is the chief executive of the Glasgow Opportunities enterprise trust. This open debate will focus on entrepreneurship, attitudes and confidence in Scotland to give us some of the bigger picture and background with regard to the promotion of business growth.

On a point of protocol, I issue an open invitation to Wolfgang Michalski to participate in the discussion whenever he feels able and willing to do so. In the stuffy way in which committees are usually run, he would have to ask me for permission every time he wanted to speak.

Christine May: Does that also apply to members?

Mike Pringle: I am sure that it does not.

The Convener: It might be an idea for Carol Craig to start things off by giving us some background about why the new Centre for Confidence and Well-being was thought to be necessary in Scotland and how it relates to entrepreneurship.

Carol Craig (Centre for Confidence and Well-being): I had worked in training and development in Scotland for about 15 years and had become increasingly aware of how important the confidence agenda was for organisations. More people who felt confident and could take the initiative were needed in the workforce, and there needed to be more emphasis on entrepreneurship and so on. From working in Scotland, I was aware that there were cultural barriers to people putting their head above the parapet and pushing themselves forward. That is why I wrote my book, in which I brought together the evidence that was available. Some of that evidence was anecdotal, some was theoretical and some took a historical view, but the book very much chimed with people's experiences. Many people read it and said that they could identify Scotland from it.

People from abroad read it and said that they, too, could identify Scotland from it, but could not see America or England in it. In that sense, the book has been validated.

The reason for the centre is that confidence and well-being cross many different sectors. As the people who have come together at the conferences that I have organised have been aware, if we could make progress on those issues, it would make a huge difference in areas such as economic development, social work and education. A real head of steam has built up across the private and public sectors.

The Convener: I invite Sara Carter to tell us a bit about what the Hunter centre for entrepreneurship is doing.

Professor Sara Carter (Hunter Centre For Entrepreneurship, University of Strathclyde): The Hunter centre for entrepreneurship was started at the University of Strathclyde about seven or eight years ago. Its work was considerably enhanced by a very generous donation from Mr Tom Hunter, who gave the university £5 million to help us in our work of stimulating enterprise. He did not want us to do that just within the university curriculum and among students in the business faculty; he wanted us to spread the message of entrepreneurship, to investigate ways in which we could help the Scottish population to become more entrepreneurial and to develop world-class research and publications in entrepreneurship.

The Convener: I ask Agnes Samuel to tell us about Glasgow Opportunities enterprise trust and her wider role in promoting enterprise among women.

Agnes Samuel (Glasgow Opportunities): I have not done much on promoting enterprise among women recently; Sara Carter has done more on that than I have.

Glasgow Opportunities enterprise trust has been in existence for 21 years. We were set up as a private-public initiative to give free, confidential and impartial advice to anyone who wanted to set up or grow a business. We started in Glasgow, but many of our services now cover the whole of Scotland. We undertake business gateway contracts for Scottish Enterprise and a huge part of our business is giving people soft and business skills. That includes the provision of management development for owner-managers, of which there is a huge lack in this country. Increasingly, we are exporting our knowledge abroad. We are quite an interesting organisation.

We are not a public sector body; I report to a private sector board of directors. We bid competitively with other companies for the work that we get.

Murdo Fraser (Mid Scotland and Fife) (Con): I will kick off with a question that is predominantly for Carol Craig, although the other witnesses might want to answer it, too. Historically, Scotland was one of the most enterprising countries in the world. We exported entrepreneurs across the globe and, to a significant extent, the British empire was built on Scots in Canada and the far east. There was home-grown as well as overseas entrepreneurial activity. If we look back 100 years to the late 19th century, Scotland probably had the highest gross domestic product per capita in the world. What has gone wrong?

Carol Craig: To some extent, I cover that in my book. There are two points in Scottish history at which there was some kind of turning point, the first of which was at the end of the 19th century. Scotland had been highly entrepreneurial and, in many ways, its economy was very successful. However, there were incredibly high levels of poverty—the levels in Scotland were much higher than those in England. That was partly because of the pattern of home ownership. People lived in tenement buildings in properties that they had not bought, and rents for what was inferior accommodation were quite high.

For many years, great attempts had been made—by people such as Thomas Chalmers—to cure the poverty problem, but it had not been cured. It was as if people in Scotland lost faith in the capitalist system and turned towards the state, so that it could provide. That said, in many ways, the state provided: it provided people with better housing, benefits and so on. It is a great pity that the scale of the problem was so enormous in Scotland that huge housing estates had to be put up very quickly but in a way that did not include facilities, as those huge housing estates quickly became the new slums.

14:15

If we look at Scotland's history, we can see the toll that was taken around the turn of the century on our belief in the economic system and in capitalism. We bought into state provision at that time, which weakened our belief in entrepreneurship.

The second turning point is the more recent one of Scotland's response to Thatcherism. As a result of Thatcherism, the cultural elite said, "Entrepreneurship is English: they are into money; we are into collectivism." We have reinforced the collectivist side of Scottish culture in a way that increasingly is not very helpful. A balance has to be struck between the collective and the individual.

In many ways, we have lost sight of the importance of individuality in Scotland. I am saying

that we have lost sight not of individualism but of individuality—of people being different. Increasingly, we have become a very conformist culture; people are frightened of putting their head above the parapet. We have to address that issue. From the point of view of building up entrepreneurship, it is vital that we do so.

That is my thesis on the subject. Murdo Fraser is right: given Scotland's past, it is extraordinary that we find ourselves in the position today of having an indifferent business birth rate.

The Convener: Before I call Christine May and then Susan Deacon, I remind members that I want to keep the discussion flowing as much as possible.

Christine May: Okay. On the collective versus the individual, perhaps we should think about whether there is a way of turning our belief in the collective into a means of supporting individuals as part of the collective whole.

My second point is for Sara Carter. In a global entrepreneurship monitor publication for 2004, I note that the GEM researchers say that entrepreneurial activity increases as GDP per capita increases. Is that something that we should consider? If so, can we try to raise GDP per capita in advance of developing an entrepreneurial spirit in Scotland, or do the two have to run hand in hand?

Professor Carter: If I may, I will take the last point first. A number of economic specialists have given evidence to the committee, and I will not reprise their evidence. As we are talking about culture, I prefer to restrict my comments to that subject. Carol Craig alluded to the fact that we need to celebrate entrepreneurs more in Scotland. The points that she made about our collective view of entrepreneurs resonate with me.

Certainly, there is a lot of resistance among the students at the University of Strathclyde to courses that have the word "entrepreneurship" in their title. That is not to say that students are not self-employed in their own capacities—trading on eBay and making all kinds of money in a variety of different ways. However, the concept and the ideology that are associated with entrepreneurship are anathema not only to people of the generation—our generation—who remember Thatcherism but to students who were born after Thatcher left office. Still the legacy continues.

I return to the question about wealth, GDP and entrepreneurship. One of the things that is notable across the GEM international studies—we look at entrepreneurship across many different countries—is the link between wealth creation and entrepreneurship. The link is well established specifically in developed countries, partly because the origins of the GEM project were in studies of

developed countries. The more recent inclusion of countries such as Uganda has shown that developing countries can have even higher rates of entrepreneurship than has the United States of America, for example. The more recent studies challenge that link—indeed, it suggests that there is almost a U-shaped relationship between the very developed countries and the underdeveloped countries in terms of GDP and the number of businesses that are created.

Susan Deacon (Edinburgh East and Musselburgh) (Lab): If I may, I will return to Carol Craig's assessment of some of the key turning points in Scottish history. For what it is worth, what she said broadly resonates with my own view of the situation. The way in which she explored the issues in her book is helpful.

A key watershed in Scotland's more recent history is the creation of the Scottish Parliament. Would any of our guests like to take the opportunity to make observations, albeit embryonic ones, on how devolution in Scotland has contributed, for good or ill, to the issues and attitudes that we are discussing?

Agnes Samuel: There is now far more scrutiny of the enterprise networks and they are far more accountable. That is both a good thing, because we should look after public money, and a bad thing, because we seem to have entered a period in which the enterprise networks are reluctant to take risks because they are audited constantly. I consider myself to be an entrepreneur in my business, but I find that the vocabulary of audit and compliance—that is a word that I hate—is taking over from a vocabulary that is about helping people to set up and grow businesses.

As providers, we are very target driven, and the local enterprise companies are under constant pressure to meet their targets. I find that my staff spend up to 24 days in each contract dealing with audit and compliance issues and being told, "You've got £18 more than you should have on this invoice", or, "The paperwork isn't 100 per cent—it's only 85 per cent", instead of helping them to set up and grow their businesses, which is what we do.

Carol Craig: If we did not have a Parliament and someone like me came forward and said that there was an issue about attitudes and confidence, people would say, "That's a load of rubbish. All that we need is a Parliament. If we get X, Y and Z, all that will change." We have seen enough of devolved powers to know that the situation is a bit more complicated than that.

My point is about attitudinal change. I do not think that we would be discussing confidence if we did not have devolution, so devolution has been enormously helpful. Some people will say that we

do not have enough powers and that it is independence that will make a difference. I am not saying that that would not be beneficial, but people are aware that that is not the whole story. A lot of it is about our indigenous culture and values.

I echo Agnes Samuel's point: the main thing that would make a huge difference is for us to break out of the conformity culture, which is about standardisation and auditing. I have done a lot of work with schools and I am aware that the inspection regime is unhelpful in that it aims to standardise practices. People are at their most confident when they are being themselves. The more we try to get people to comply with other people's standards, the more we undermine confidence. Freeing up organisations is a major issue.

When George Reid and Parliament held the futures event, anything could have emerged as the big issue, but it was confidence and a perceived problem with risk that came out from the many organisations that attended. It is enormously difficult for people in organisations to do things, partly because of the scrutiny that Agnes Samuel talked about.

For example, I organised an event called Scotland's tipping point, which was about how we can get radical, large-scale change quickly in Scotland. It was a good event. The group from Dundee really gelled and within two months it had organised an event called go Dundee, which was attended by 200 people. It was organised on an ad hoc basis; the group said to people, "Go and invite 10 people and ask them to invite two people and we can have a great event." The event was about how to celebrate Dundee and encourage more positive attitudes.

There were some extremely senior figures on the group who could have organised the event as part of their job—I will not name them on the public record, of course. I asked them why they had not done so as part of their job and they said, "If I were to do that according to my job, I would have to do it in a certain way. I'd have to be very careful and think about what the papers would say and so on." Given that we have strong risk-averse cultures in our organisations that make it difficult for people to think differently and do things differently, the big challenge for us is to find ways of encouraging people to step outside those structures so that they can start doing things a bit differently. I think that people outwith organisations will start to change things in Scotland because there is a great deal of pressure on people in organisations to keep doing things in the same way.

Susan Deacon: Sticking with the question about the impact that the creation of the Parliament has had, there is a huge question about the role that

we politicians have in all this. Even at this early stage in the discussion, I share the views that have been expressed and absolutely agree with the analysis of the conformity culture. I have to say that it is extremely prevalent in the body politic in Scotland—I could give numerous examples of it in the way in which Parliament, the Executive and political parties work. The 129 people who have been elected to this institution should be thinking not only about what everyone else should be doing but about what we should be doing. Our witnesses might not want to leap in with both feet and talk about that at this point in the discussion, but I think that it is an issue that this committee has to be brave enough and bold enough to address head on.

Richard Baker (North East Scotland) (Lab):

Those are interesting points. I take Sara Carter's point about needing to improve the image of entrepreneurs—I think that a lot of people still think of Del Boy at a market stall when they hear that word, and we have to move on from that image.

Carol Craig's point about cultural shift was also important. However—if I can be provocative for a moment—can we really legislate and educate for that cultural shift? To what extent can we have any influence in that regard? For example, enterprise education is not a particularly new thing. I know that because, when I was at university, which must be 10 or 15 years ago, John Sewell started up the university's centre for entrepreneurship. To what extent have such innovations in educational approaches changed things? Has change proved to be much more difficult to achieve than was expected?

The Convener: We will take questions from some other members and then return to those points.

Mike Watson (Glasgow Cathcart) (Lab): I was taken with a lot of the arguments that Carol Craig advanced in her book, some of which she has referred to today.

The question of general confidence and the fear of failure was touched on in our informal discussion with Wolfgang Michalski this morning. We talked about the idea that, if a Scottish business fails—and the point has been made this afternoon that this is the same in Europe—the entrepreneur is categorised as a failure and is told to go away and do something else but not to start another business, whereas, in the United States of America, people treat such failures as stepping stones and learn lessons from them.

I am interested in the differences within the UK. Carol Craig highlighted the differences between Scotland and England. Certainly, in a business-growth sense, such differences exist. The start-up

rate of businesses is higher in England than it is in Scotland, as is the sustainability rate. I wonder why that should be, particularly given the fact that there are many Scots living in England and many English people living in Scotland—around 10 per cent of the population of Scotland is English. Is there a cross-fertilisation or do people just go native in whatever part of the UK they go to?

On the issue of change, you mentioned the turn of the 20th century and the post-Thatcher period. However, a lot of the attitudes that you mention in your book are to do with people's fear of what others will think of them and a reluctance to stand up in case they make a fool of themselves. Someone has described that as the Broons syndrome. I will not try to explain that fully to Wolfgang Michalski at this stage, but, basically, it involves someone in "The Broons", which is a comic strip, trying to be different, failing and falling flat on their face and being laughed at by the rest of the family.

Carol Craig: And he is absorbed straight back into the fold.

14:30

Mike Watson: That is right. Basically, the messages are "Don't try to be different" and "You won't make that mistake again, will you?" That is the attitude, and it seems to me to predate Thatcherism and to underscore the idea that people should not be willing to go out on a limb, but that is what one has to do if one wants to become an entrepreneur.

I will be interested to hear what the young people say about entrepreneurship in schools. That programme is now under way, and I would like to ask Sara Carter whether she thinks that it will be successful and, if so, how long its effects will take to filter through. Will it take a generation? Will a time come when people who have an idea that is different will not be afraid to develop it and to ask for help in developing it? Will they be able to carry the idea through to find success? Can we reasonably expect the sort of cultural shift to which Richard Baker referred?

Professor Carter: So many questions—I will respond to the last one first.

I think that it will take a generation for the ideas of enterprise education in schools to filter through to economic activity. It will not happen for 20 or 30 years. Some children will have been in mini-enterprise companies in primary school and had more enterprise education in secondary school and at university, but it is unreasonable to expect them to graduate and then start a business immediately. I am not even sure that that would be desirable. However, although it will take a generation for the ideas to filter through, it is important that that will happen.

Education on its own is insufficient. We can inculcate ideas as much as we like in the classroom, but if what kids see outside the classroom—in newspapers, in television soap operas or wherever—is the opposite, and if what they learn in class is not reinforced by other cultural media, we have problems.

It is no mystery to any university academic that one of the biggest rises in student applications happens to be for law school. We all refer to it as the “Ally McBeal” effect: it is regarded as desirable and attractive to be a skinny, barmy lawyer. Such stereotypically desirable attributes are reinforced in a number of different ways, but we do not have similar fashionable media portrayals of entrepreneurs.

There has been discussion about the impact that TV programmes such as “Dragons’ Den” and “The Apprentice” might have. However, I still think that we should be looking for more popular representations of entrepreneurs whom people really want to be like when they grow up. That is important for schoolchildren.

The Convener: I should plug the fact that the cross-party group in the Scottish Parliament on the Scottish economy is bringing “Dragons’ Den” to the Parliament in September. That should be quite interesting.

Mike Pringle: I was interested in what Carol Craig said about her group—people who came from various backgrounds, got involved in the conference that she mentioned, but said that they would have been extremely restricted if they had done the work as part of their day jobs. It seems to me that Scotland lacks risk takers. Many Scottish institutions such as banks or insurance companies are not prepared to take risks. However, in America—although not on the continent—their counterparts are prepared to take risks.

Sara Carter has been talking about getting kids involved at school. Not all of them will start businesses, but I would hope that some young people who have been taught about entrepreneurship will eventually work in financial institutions. They might then say, “Well, it’s time we started taking risks.”

I agree with Susan Deacon that the Scottish Parliament has a huge responsibility, but how can we persuade the financial organisations to take risks? I am sure that we can all think of examples, but people such as Tom Hunter made it, and I suspect that he made it because of who he was, and not because he got much help from the banks. We have to think about the long term and about people coming through from school. How do we persuade people to take more risks? At the moment we do not take risks. The 19th century has been mentioned. People took risks at the end of

the 19th century because they did not have restrictions on them, but everybody has restrictions on them now. It is not a short-term issue, it is a long-term issue, and we need to start taking risks to improve our economic strategy.

Agnes Samuel: May I put in a good word for the banks?

Mike Pringle: I should say that I used to be a banker, so in a way I am criticising myself.

Agnes Samuel: That is all right. We have to remember that the banks are businesses, just like any other business. I have just come back from talking about the business angel network Local Investment Networking Company Scotland—LINC Scotland—in Kosovo. I found the situation terribly interesting, because the banks there do not lend—they do not have enough reserves to lend. In Scotland, we have worked hard at developing a sophisticated enterprise support network for people, because there are vast areas of market failure. We should ensure that we do not go backwards with the network and that we encourage as many businesses as possible, either at start-up or at growth level, to take advice and help, because it has been proved that if they do that, survival levels are much greater.

In addition, if businesses are going to try to get funding from sources such as our banks, business angels or loan funds, we need to do much more to help them so that they are easier to invest in, by having proper business plans and soft skills such as communication and knowing how to manage people. A lot of training is hidden in business development, but it is just as important as all the other aspects of business development, although perhaps it is patchy throughout the enterprise network. It is important that owner-managers can run their businesses and are aware of what can go wrong and how to avoid it, so that there are fewer bankruptcies. There is also a great lack of skills within small and medium-sized enterprises, particularly the soft skills that we need to make business work.

Chris Ballance (South of Scotland) (Green): I have followed the discussion about risk with a huge amount of interest. Given that most artists take risks every day, that the best artists never conform, and that most artists are entrepreneurs by default, what input ought there to be from the arts and culture side into the business growth side of this committee’s work?

The Convener: Is that a question for Carol Craig?

Chris Ballance: It is, potentially.

Carol Craig: I think that you are right. Part of the reason why the Centre for Confidence and Well-being is generating so much interest is that

its agenda goes across the board. Much of what we do is about self-expression, so it is relevant to entrepreneurship and to the arts and culture. Many people say that successful economies with good levels of entrepreneurship also have heavy investment in the arts and good expression, because in many ways they feed one another. Our agenda is a general one.

How might we effect a change? The comments by Malcolm Gladwell, author of "The Tipping Point: How Little Things Can Make a Big Difference", were relevant. He says that although we tend to think that the world is slow and unchanging and that people are immune to change, people change all the time. Just think about fashion: people change what they wear, their diet, their words and so on quite a lot, but they do not tend to be influenced in a top-down way. They do not tend to be told what to do by politicians and bosses. In fact, they resist that and are much more likely to do things as a result of their friends or family doing things.

Gladwell examines how to spread social epidemics; one of his examples is hairdressers. Just about everyone goes to the hairdresser, where they usually sit and talk about holidays. Why not enlist hairdressers to give out messages about business start-ups or health? That is quite a creative way of thinking about the subject. Social networks are already being considered as part of the centre's agenda; we are going to try and sell some of our programmes and so on and people will be influenced because they are quite open to that idea.

I have one final point. Sarah Carter talked about "Ally McBeal". If you consider some of the happiness data that are coming out, there is a good argument for saying that people who work for themselves tend to be marginally happier than people who work for other people because they have much more control over their lives. That is a major idea that we could promote to young people, who are often into independence. Lawyers, on the other hand, are miserably unhappy—[*Laughter*.]

The Convener: And they turn that into an epidemic.

Carol Craig: Absolutely. Some of the well-being and happiness statistics are quite challenging and some of the American positive psychologists are saying the same. If we are serious about this, why do we give young people careers information that says, "If you are a lawyer, you will earn X and this is the career progression." Why not tell them what the happiness quotient is for the various professions and that lawyers are miserable and commit suicide more often—that comes from American data; I do not know what the British data are—and that they are more likely to get divorced, or leave their profession? The legal profession is

held up as being quite attractive but the people who do it do not feel very happy. Why do we not tell people that? Why do we not give our young people access to that information? People who run their own businesses are happier; that is a major reason for encouraging people to do it.

The Convener: It is not all bad news if lawyers are committing suicide.

Dr Wolfgang Michalski (Adviser): This is a stimulating and fascinating discussion. However, I wonder whether there is not also some confusion. It seems to me that there is too much equalisation of entrepreneurial behaviour with business. For me, entrepreneurial behaviour is to do with innovation, being different, and doing things differently; one can do that even working in public administration or in a bank, although it might be more difficult. However, I know people who have behaved in a highly entrepreneurial way in international organisations.

The problem with business is the greater probability that someone who is not entrepreneurial and who goes into business will fail. On the other hand, in public organisations, the bureaucratic way is easier. I do not believe that the only task is to have this culture shift with regard to business; there has to be culture shift with regard to society.

Michael Matheson (Central Scotland) (SNP): I might be about to take a more cynical approach to the debate about confidence. Is there clear and validated evidence that lack of confidence in Scotland and in Scots in particular compromises our business growth, which is what our inquiry is about?

Carol Craig: There was one piece in the GEM study on fear of failure and making mistakes and how that inhibits people from setting up businesses. The rate was something like 10 per cent higher in Scotland than in other similar small nations. It seems that fear of failure is a bigger issue in Scotland than it is in other places.

There is not a huge amount of data on other such matters, although there are elements. If you consider the dependency culture, for example, the British household panel survey has come up with data that suggest that a much higher percentage of Scots believe that the state should provide for them in various ways than believe that even in England. There are various bits of information and anecdotal evidence that suggest that there is an issue, but there is not an awful lot of hard evidence.

14:45

There are two different pressures within Scottish culture, one of which is that one must prove one's

worth—we are a high-achievement culture and there is no automatic acceptance that one is a worthwhile person in Scotland, so one has to prove that. Scandinavian cultures are not quite the same. There is not the same pressure to get on and to prove what you are made of. Here, it is as if as you are being pushed forward, someone is holding on to your jacket at the back and saying, “Don’t think you’re anybody special. Don’t stand out from the crowd.” That is one of the reasons why Scots who leave Scotland and who are freed from that second pressure, which is a levelling-down pressure, often achieve much more than they would here.

There are also other reasons, however. If one sets up in business in America, there is a much bigger market; it is much easier to be successful in America than it is in Scotland, which is a small market. Countless Scots say that when they left Scotland they no longer felt crippled by the fear of success that tends to dog people here. People do not like it if you get on.

Professor Carter: I would like to add two things to that. Carol Craig made the point that leaving the country liberates you, in a way. We see the reverse effect happening for our immigrants, particularly English in-migrants. In-migrants to Scotland from other parts of the UK have much higher rates of entrepreneurship—perhaps they, too, have been liberated by moving away from their home regions and coming to set up in business here. They are far more entrepreneurial even than immigrants from other cultures, which is to do with confidence and liberation.

Secondly, there is a link between growth aspirations and confidence. A number of submissions to the inquiry suggest that business growth is related to ambitions for growth. There is no self-fulfilling prophecy that just because you have an aspiration for growth it automatically happens, although there is a connection. In fact, many small businesses have a desire to grow. The majority—about 60 per cent—of businesses in Scotland want growth. They might want modest growth, but they want to attain growth year on year, whether by sales turnover or by slight increases in employment. What is important is that we start to recognise and value that growth.

One of my bugbears in Scottish business culture is the term “lifestyle businesses”, which is used in a wholly pejorative way to condemn those poor individuals who have started up a business, who perhaps are not starting the next IBM or Hunter Enterprises, but who are doing their best and who are doing well. We do not acknowledge sufficiently the contribution of very small businesses; rather, we condemn them, which has a reinforcing negative impact on business confidence.

Agnes Samuel: That is also one of my hobby-horses. We never seem to have a nice, quiet period when things that work are allowed to work. We are always being reformed in some way or other, usually by smart young men. It does not always work, because they do not seem to realise that for every one thing that you do—this is true of politicians—many other things come piling in behind it that you never thought of.

Along with the pejorative treatment of the lifestyle businesses, the current trend in Scottish Enterprise is to talk about—here is some more jargon—“universal businesses” and “client-managed businesses”. Client-managed businesses are those which the local enterprise companies identify as growth businesses. There is a question there. If anybody knows how to spot a growth business, they have more experience than I have. If I knew how to do that, I would be very rich. SE gives those businesses more support than it gives businesses further down the ladder, which are the so-called universal businesses. For instance, Investors in People help is now going to client-managed businesses instead of to the businesses that have not been identified as winners.

Similarly, e-commerce assistance goes only to client-managed businesses. It seems to me that we are not concentrating on the market failure element of our assistance to businesses in Scotland, but on businesses that probably have the resources and would succeed anyway and that we are trying to feed the other businesses into a web-based information system. My experience is that businesses do not know what they want, so they go on to the internet to look for grants. If they sat down and talked to a counsellor, they would discover that their financial management is mince, that they do not know what they are selling or what market they are in and that they need a fair amount of business skills and soft skills training. By segmenting the market, we are returning to the position we were in 21 years ago, when businesses were ignored. It will probably take two, three or four years before the results of the strategy are seen. I would like somebody to stop and ask Scottish Enterprise whether that is the right way to instil an enterprise culture.

The Convener: We will do so.

Christine May: I want to return to people getting away from their roots to be successful. I have a question for Dr Michalski. From your experience, is there any evidence of people being more successful when they have removed themselves from the city, town or region of their birth and all their family ties in those places? I remember that when I went to London from Ireland, I no longer had to think about what my mother, brothers, sisters and friends thought because they would

not know what I was doing. Moving away is challenging, but it is also liberating, so I am curious to know about any evidence on that.

Furthermore, Agnes Samuel spoke about there being support for high-growth businesses as opposed to smaller businesses in order to boost gross domestic product. Will you say something about that? It is probably time to test Scottish Enterprise on that.

Dr Michalski: I am not an expert on behavioural sciences and therefore cannot say whether people who leave the country are more successful than they would have been had they stayed. My experience is that the more dynamic people leave a country if it provides too many constraints.

Carol Craig: When we talk about confidence, it is easy to think about self-esteem, but optimism is another aspect of confidence. Optimism probably crosses sectors in Scotland, and there is a good reason for its doing so. Like Ireland, Scotland has exported many people to other parts of the world. We tend to think of the Scottish clearances, but actually it was the most optimistic and adventurous who left. That was bound to have an impact on Scottish culture, which is probably more pessimistic as a result. Our most optimistic people were continually creamed off. A growing body of evidence shows that whether a person thinks optimistically has huge implications for their educational success, health and whether they will set up in business. We are sitting in a wealthy country that has some of the worst health outcomes in the western world, so perhaps we must start to think about whether our culture is unduly pessimistic, because things can be done about that. Apparently, people in Portugal are thinking about whether Portugal's culture is unduly pessimistic, because they believe that there are high levels of pessimism there; young people are being trained in schools to think more optimistically. Scotland might want to consider that, as we have extraordinary figures for depression and low life expectancy.

The Convener: We should not think only about the clearances—emigration in the 19th century and in the first half of the 20th century must have drained Scotland of many dynamic people.

Carol Craig: Yes. That to some extent takes us back to the question that Michael Matheson asked.

Murdo Fraser: I want to pursue that point because I find your analysis very interesting. Throughout the late 19th century until the late 20th century, Scotland had a high level of immigration from Ireland. If we were exporting our most optimistic people, surely we were also importing optimistic people at the same time—not just from Ireland, but from Italy, Lithuania and elsewhere. Would the situation not balance itself out?

Carol Craig: I am not an expert, but I think that the people who came from Ireland to Scotland were probably quite poor, whereas many of the Scots who left Scotland were quite highly skilled and were already existing at a much higher level than the Irish who came in.

The Convener: Could not a distinction be drawn between what we might call voluntary and involuntary emigration? Much emigration from Ireland to Scotland was involuntary and people were pushed out by poverty, whereas a lot of the emigration from Scotland might have been opportunity driven—especially in the 20th century, when people could get £10 passages to Australia. I wish that I had taken one of those.

Christine May: Some of the stuff that Sara Carter has in her global entrepreneurship monitor knocks that on the head. The point is made that levels of entrepreneurship in relatively poor countries are quite high, partly because of desperation. We generalise at our peril.

The Convener: Chris Ballance has a question, after which I will need to wind up the discussion.

Chris Ballance: I want to get back to something that Carol Craig touched on a couple of times. You have talked here and elsewhere about the need to develop happiness measurements—for want of a better term—rather than using GDP as an indicator of success. How do you see such measurements developing in Scotland?

Carol Craig: There is a worldwide interest in that idea and it is happening among a variety of people around the world. There was one opportunity when Scotland could have been used as the test country for developing a national index, and I talked to some of the people who were interested in doing that.

In general, there is growing awareness that we are pursuing wealth and not thinking about the point of wealth. The same could be said about confidence. I do not think that confidence, in its own right, is particularly valuable; its value is in what it helps people to do in their lives to feel happy and fulfilled. An awful lot comes back to happiness and fulfilment, so we have to consider such measurements. I gave the example earlier of careers advice. Our saying that happiness is an important thing to pursue could lead to interesting developments in public policy, such as giving people different careers advice. I would like us to raise the well-being agenda at the same time as we raise the confidence agenda.

Chris Ballance: Do you think that there is an opportunity for the committee, in this inquiry, to pursue that?

Carol Craig: Yes.

Murdo Fraser: Another point that has come up elsewhere in our inquiry, which came out of the

evidence that we received from Professor Donald MacRae, is the relative size of the public sector in Scotland. As we know, it is substantially greater than the relative size of the public sector in the UK as a whole. If many more people here than elsewhere work in the public sector, that might reduce the potential pool of entrepreneurs. To what extent do you think that that is a factor?

Carol Craig: I am sure that it is a factor. As will be the case in most matters, there will not just one or two, but a range of factors, so there might be something in what you suggest. If people have quite comfortable lives, they might want just to work in the public sector and not risk setting up businesses.

The Convener: Certain recommendations or proposals may come out of the inquiry. I hesitate to ask what your top three recommendations would be, because that would be restrictive, and we acknowledge what you state in your written evidence, for which we are grateful. However, what would be the biggies, in terms of what the Scottish Parliament or the Scottish Executive could do to start to improve things?

Carol Craig: What I will say goes against everything that the cultural analysts have said about Scottish culture being quite weak. I think that Scottish culture and Scottish institutions are very strong and that it is difficult for people not to be sucked into them. For example, the probationer's programme in education should be a huge success; however, I have spent quite a lot of time with probationers and what they say—particularly those who work in the secondary school sector—is that it is difficult not to get sucked into pretty traditional ways of doing things. We find that time and again.

15:00

We need to find ways in which we can help people to step outside the system from time to time and encourage them to express different views. Instead of assuming that the structures that we have put in place are fine, we should continually check whether that is the case and whether those structures are making the difference that we expect.

The Convener: As Susan Deacon said, we perhaps need to start with the grip that the party hierarchies hold over Parliament. The situation here is similar to that which you described in the education sector. The situation here is even worse than in Westminster.

Carol Craig: In conjunction with Parliament—I would love to think that committee members will also participate—the Centre for Confidence and Well-being is running a big programme called the vanguard programme to consider how we can

create a more positive, confident and optimistic culture of well-being in Scotland. The programme will be international, but with a big Scottish focus and it will promote leading-edge thinking. Many parliamentarians need to participate in the programme, because it will provide Scotland with a huge opportunity to be at the leading edge of the debate. I doubt that any other country will put together a similar programme comprising leading-edge thinkers and positive psychologists such as Richard Layard. Such an event is right for Scotland, given the big developments that are currently taking place here. Things are happening especially in the social sciences, which were first created in the streets around here many centuries ago.

The programme is a huge opportunity for Scotland to pilot things at the leading edge. That is what we need to do, but we need sufficient people to get involved if we are to start to make a difference. If we have only one or two people involved here and there, we will not be able to succeed. We need to work at cultural level, which means that we need many people doing things at the same time.

Agnes Samuel: I would love the committee to find a way to do something about the audit and compliance culture in the networks. However, I do not know whether that will be possible, given that the same culture exists in big business and everywhere else. That kind of culture instils a lack of risk taking in people who help entrepreneurs and small businesses, and it turns small businesses off.

Secondly, we should re-examine the policy whereby we confine help to, and concentrate assistance on, pre-picked growth businesses. We should return to the key principle of providing free, confidential and impartial advice to anyone who wants to start and grow a business.

Thirdly, it is about time we examined the consistency of training provision for small to medium-sized businesses and their owner-managers. We should perhaps consider a Scottish training campaign to persuade businesses that training is not a luxury and to improve the confidence of owner-managers so that they can grow their businesses.

Professor Carter: I would like the committee to pursue three issues. First, in all the written submissions to the inquiry that I downloaded from the internet, I saw not one reference to gender, despite the fact that we know from the GEM report that countries with high business start-up rates also have high rates of women starting up in business. I would hate that population to be overlooked.

Secondly, as Agnes Samuel pointed out, we need to re-evaluate the way in which we treat

lifestyle businesses. I also agree with Agnes that business growth programmes are starting to look like business eugenics programmes. I urge the committee to re-evaluate them.

Thirdly, with regard to culture, I draw the committee's attention to Richard Florida's recent work on successful cities around the world. He specifically cites the importance of issues such as tolerance of diversity and bohemianism. Culturally tolerant societies attract young bright people who, in turn, are attracted to entrepreneurial ventures. There is a need to consider the broad issue of culture and tolerance of diversity. Those are my top three requests.

The Convener: Excellent. I thank all three witnesses for their helpful contributions. They are welcome to stay to listen to our next set of witnesses.

I point out one depressing piece of election-related news—leaving aside the results, which might depress members around the table—which comes from a BBC poll that was carried out at the beginning of the campaign. When people in Scotland were asked to rate issues in order of their importance, economic growth was rated very low. That suggests to me that we all have quite a big job to do in persuading people of the importance of growth in wealth creation. We cannot distribute wealth if it ain't been created. That seems to be symbolic of where the nation's priorities lie.

I suspend the meeting for five minutes to give the clerks time to arrange our next set of witnesses.

15:06

Meeting suspended.

15:12

On resuming—

The Convener: I welcome the students from Berwickshire High School, who will give us a presentation. We will then ask them questions. That will be followed by a similar presentation from All Saints school in Glasgow. Is Cameron MacAllister the chairman of the company?

Cameron MacAllister (Berwickshire High School, Duns): No.

The Convener: Who is the chairman or the managing director? They are not at the table. Who is the lead person at the table?

Neil Henry (Berwickshire High School, Duns): We are a democracy, so we are all doing the presentation.

The Convener: Excellent. Lead off, please.

Neil Henry: Good afternoon. I am the sales director. We are thingamybob incorporated. This is our programme.

Christine Trotter (Berwickshire High School, Duns): Hi, I am the secretary. As you can see from the slides, our company has a flat structure, as that allows easy communication among all the members. People were appointed to positions that took advantage of their skills so that we could maximise the potential of the company.

Anna Peers (Berwickshire High School, Duns): Hi, I am the finance director. The first thing that our company had to do was to think of a name. We wanted it to reflect what our company was about and cover all the products that we would sell. We decided on thingamybob incorporated, or THinc for short. We next had to decide what to sell. As the name suggests, we have sold a wide range of thingamybobs. Our mission statement is to provide excellent-quality original products and to provide the best customer service possible.

Cosmo Blake (Berwickshire High School, Duns): Hi, I am the operations director. We decided to handmake our products, as we thought that that would give us more flexibility and would be cheaper. Our most successful products were the hats and the tea lights. Most of the products were made by particular members of the group to make use of their skills. However, when it came to Christmas, the cards were very popular so the whole group had to mass produce them.

Neil Henry: In order to generate as much cash as possible, we diversified into offering rugby and football strips. We offered more than 200 rugby and football strips, as well as balls, kicking tees and other merchandise. We had a wide range of prices, which allowed us to target the largest market possible. We also offered a name and numbering service for the strips if requested.

Christine Trotter: Our target market was the parents, teachers and pupils of our high school. We think that we did not do enough research when we decided what products to sell. That is an area that we think we could have improved on. For publicity purposes, we took out advertisements in the school magazine. If we had had more time, we would have distributed a brochure that showed all the rugby and football strips that were on sale. Our sales events were parent consultation evenings and the Christmas concert.

15:15

Cosmo Blake: Like every company, we came across problems. Our first major problem was that it took us a long time to set up our bank account, which lost us buying opportunities to make new products. We also lacked confidence when we

were selling, but we had gained confidence by the end of the project. People came unprepared to the parents evenings, due to a lack of awareness of the company, so we offered a buy now, pay later option, which was deemed very successful.

Anna Peers: As Cosmo Blake said, banking was a problem. Initially, we set up the wrong account, due to a communication error. However, as soon as we realised that that had happened we told the bank, which sorted out the problem quickly. We made sales of about £290, which resulted in a profit of around £90. I think that our company was a success, because everyone in the company had fun, we made a profit and we were able to give our shareholders a return of about 75 per cent.

Neil Henry: We learned a lot from our time with the company. Communication was strong throughout the year, because we held weekly meetings. Product quality was also important and we always endeavoured to produce goods of as high a quality as possible. Customer relations are important for any company and we were no different. At one point, we had to absorb the profits from our rugby strip after it took longer to arrive than expected and we always tried to keep our customers as happy as possible. Teamwork became stronger as the year went on, as we got to know one another better and learned one another's strengths and weaknesses.

We thank Mr Walker and Mr Tennent for their help throughout the year and we thank committee members for listening to us. We will do our best to answer questions.

The Convener: Thank you very much for a very professional presentation. I will kick off by asking each of you whether, before you started the exercise, you had planned to become an entrepreneur on leaving school. Have any of you decided during the exercise that you might like to set up your own business one day?

Neil Henry: I think that I will go into the business world—I am doing accountancy and economics at university—but I do not think that I will start up my own business.

The Convener: Why not?

Neil Henry: I am not brave enough. That might change, but I doubt that I will set up a business.

Cosmo Blake: As a result of the Young Enterprise Scotland project, I have become much more interested in the business world. I might go into business, but I have not made a decision about that.

Christine Trotter: I do not think that I will start my own business. A lot of hard work is involved and setting up a company is quite stressful. I do not think that I could deal with the stress.

Anna Peers: I do not think that I will start a business, either, but I learned a lot about how businesses work and what people who run them have to do. I am more interested in the sciences than I am in businesses.

Cameron MacAllister: The project was good fun, but I do not think that I will set up my own business.

The Convener: Do you want to do something riskier and become an MSP?

Christine May: There is great job satisfaction.

Mike Pringle: Anna Peers said that she was interested in the sciences. I do not know whether the other witnesses are interested in science and I would be interested in hearing from the two young people who have not spoken. I recently visited a company that was set up by someone who left university with a PhD and then in their mid-40s produced a television that is the size of a thumbnail. They were able to do that because they studied sciences, but fewer and fewer people study sciences at university. I would be interested in hearing why someone who thinks that they will study science does not think that that might lead her into one of the new types of industry—for example, in information technology, physics or chemistry.

Anna Peers: I am mostly interested in biology and biochemistry and I think that it would be difficult to set up a business in those fields. I would like to carry out research into diseases.

Murdo Fraser: First of all, congratulations on your excellent results. I wish that my shares had the return that your shares have had. Even if none of you wants to be an entrepreneur as a result of your experience, would you say that you are at least a bit more sympathetic now towards what people in business have to go through?

Neil Henry: Definitely.

Christine May: I would like to ask each of you in turn to tell us about the most important thing that you learned. One of your slides detailed what you learned, but I am interested in what you found most beneficial individually.

Christine Trotter: I learned how to work as part a team. We were a strong unit together and all our skills worked amazingly because we are all so different. I have learned how to appreciate the importance of individuals.

Anna Peers: I do not know the most important thing that I have learned—a lot of small things make up one big thing. I have learned lots, but I cannot really explain it in a word. As Christine Trotter said, everyone has worked together and we had to learn how everyone else works and incorporate that into a business.

Cameron MacAllister: I would say the same. Team work is a big part of the experience; I would say that that is probably the biggest thing.

Neil Henry: I would say something similar. Basically, we had to learn to deal with other people. At times, you have to be very tactful—everyone is different, so you have to learn how to treat other people differently but still keep everyone happy.

Cosmo Blake: Working as a team was quite a big thing, but so was communication. I found that it was important to keep regular communication between people in the company. That is why we had a flat structure, so that information could be passed through easily and quickly.

Christine May: Did you have a choice about who was in the group, or was it just a matter of six or eight people being selected and told, "Right, get on with it"? Are you the original members of the group or did the membership change?

Neil Henry: I am not an original member. I joined the school in August, so I joined on at the end. The rest are original members, I think.

Anna Peers: At the start of our school year, everyone could apply for Young Enterprise Scotland by filling in a form and giving it to the school. Then we all got put into a company. Whoever wanted to do that could do it, but some people left because they left the school and one person left because, when we voted on who was to be managing director, he was not chosen for the big job.

Christine May: Did you find that initial blending of personalities difficult when you were getting used to one another?

Anna Peers: Yes. Most of us were friends already, so we were used to how everyone else thinks, but it was slightly more difficult because we were interacting in a way that was to do not simply with friendship, but with a purpose and with wanting to do well. That made the experience a bit more strained or stressful.

Susan Deacon: I have a factual question first of all—I apologise if I have blinked and missed this, but what year are you all in?

Anna Peers: Sixth year.

Susan Deacon: How long have you been doing the project?

Anna Peers: Since June or July last year, but we started properly only in August.

Susan Deacon: One reason for my asking that is that I recently attended a presentation in my constituency by your equivalents at Portobello High School, where a similar exercise to yours has done rather well in various competitions across

Scotland. Some of the practical points that those pupils made to me were about the time element involved and particularly about marrying that with the stage that you are at with your core academic studies. Would you like to comment on that? There is obviously a big time commitment involved in the project. Would you do it again if you had your time over, or has it been a much bigger commitment than you expected it to be? Do you think that your age and stage in life was the optimal time to do such a project, or might it have been better to do it a couple of years earlier, when your academic workload was less but your life experience would also have been less? Could you give us a feel for your views on those issues?

Neil Henry: Sixth year is probably a good year for this sort of exercise. If we had been any younger, we would probably have ended up arguing with one another and we would not have got anything done. By sixth year, we have matured enough to be able to communicate happily with one another and to get things done.

The workload is quite heavy and we needed to be dedicated to get through it. However, if the group is good, people can do well. They should know about the workload from the start and, if they are not willing to put the work in, they should not attempt it.

Anna Peers: Our company was quite lucky, because we started to wind down after Christmas. As a result, when our prelims and exams came up, we had finished most of the work. It did not pose any difficulties for our revision and schoolwork. If I had the chance to do it again, I definitely would.

Susan Deacon: Was the time commitment what you expected it to be?

Christine Trotter: No. It was a lot heavier.

Christine May: A bit like being an MSP, then.

Christine Trotter: It took Anna Peers three hours to knit every hat that we sold, and cutting out tiny bits of paper took for ever. We all had to pull together to make the project work.

Michael Matheson: I was interested by your response to Alex Neil's question whether any of you planned to be entrepreneurs or to set up a business when you left school. Even though none of you intends to set up your own business, do you think that you could still be entrepreneurial, no matter what area of work you entered? Do you make any distinction between being an entrepreneur and running a business?

Neil Henry: The exercise has taught me skills that I will definitely use. I am a lot more confident now and am willing to take ideas to people and to try out things that I possibly would not have tried out before. I do not know about becoming an entrepreneur, but I would certainly use aspects of that activity.

Michael Matheson: Some of the skills that you mentioned are associated with entrepreneurs, regardless of their area of work. I simply wondered whether there is a distinction between running a business and being an entrepreneur.

Mike Watson: There are probably two key words to our inquiry: risk and confidence. I am surprised to see that, in the slide headed "Problems", you have highlighted "Lack of confidence". None of you sounds as if you lack confidence. Cosmo, at what stage of the exercise was there a lack of confidence? Did certain individuals lack confidence or was there a collective lack of confidence, so that you all thought, "Oh, we'll never get this done; we'll never make this work"?

Cosmo Blake: When we first started, we were not very confident, especially when we worked with people or when we sold things. We did not interact that well and we were quite stressed when we were making things to deadlines. However, we gained more confidence when we started to sell a lot of products, work with lots of people and meet a lot of deadlines. I think that everyone has benefited from the enterprise and is more confident than they were at the beginning.

Mike Watson: I have another question, but would any of the other witnesses like to comment on the confidence angle and particularly on whether you are more confident at the end of the exercise than you were at the start?

Anna Peers: Giving presentations, particularly the final presentation and the one that we have given this afternoon, and talking to people have helped to make us more confident about how well our company did.

15:30

Mike Watson: That links with my second question. Risk is partly about having an idea and thinking that you might be able to take it forward, but not wanting to fall flat on your face. I am generalising, but we are finding that that is something of a Scottish trait. Christine Trotter said that she did not think that she could run her own business because she would find it too stressful. Cannot stress be a motivator as well? Can it motivate people to see through to conclusion something that they might otherwise find difficult? Was that one of the lessons of the exercise?

Christine Trotter: Yes. When we were doing a presentation, I talked to an entrepreneur who said that he got four hours' sleep a night. I would not be able to live on four hours' sleep. The exercise was great for building up our confidence and enabling us to do entrepreneurial activities. I might go into business later on in life, but not now, because life is stressful now and I need a lot of beauty sleep.

Mike Watson: I find that answer encouraging. We would not expect you suddenly to leave school and start a business. You might go through college or university and gain other experiences and, at some stage, feel that you could start a business—not necessarily on your own but as part of a group. I hope that your experience of the project leads you to believe that that is more possible than you had imagined before.

Dr Michalski: Even if you have decided at this stage that you would not set up your own business, on the basis of your experience would you be more inclined to pursue your future career in the private sector or the public sector and what are the primary reasons for your choice? I would like a response from each of you in turn and I hope that my question is not too indiscreet.

Cosmo Blake: I would say the private sector. Each sector has its advantages and disadvantages. The private sector would probably be better, because in that sector people have a lot more control over their companies and all the profits go to the companies.

The Convener: So on balance you would choose the private sector.

Cosmo Blake: Yes.

Neil Henry: Overall, I would probably choose the private sector too. For one thing, the money tends to be better, which would appeal to me. Also, people in the private sector often have more freedom and, as Cosmo Blake said, a bit more control over how they do things, which would probably suit me.

Cameron MacAllister: I do not have a clue; I have not thought about it.

The Convener: You are obviously going into the public sector then.

Anna Peers: I have not thought about the question in much detail. I would say the public sector, because the private sector seems to be geared more towards making money. If I were running my own business, it would have something to do with biology. I would be more interested in learning how things work than making money out of them.

Christine Trotter: I go along with what Anna Peers said. The public sector is the best one to go into. There is a lot of work involved in it, but I think that it is better than the private sector.

The Convener: That is just about the right proportion.

Chris Ballance: Neil Henry said that one of the reasons why he would find it difficult to set up in business is that it needs a lot of bravery. On the other hand, Anna Peers said that it was great fun. Why does a person need to be brave to start a business, of whatever size?

The Convener: I ask Susan Deacon to ask her question now so that the witnesses can answer the questions together.

Susan Deacon: My question is a bit unfair, so the witnesses should feel free not to answer it. I make the stunning observation that there are two girls and three boys in the team—or, to be more accurate, two young women and three young men. Given that you are such a representative sample of the nation as a whole, do you have any observations or experience to share with us about whether males and females within the group behaved differently?

Neil Henry: When we decided what products to make, there were big differences. The rugby and football strip ideas came predominantly from the males and the craft ideas came predominantly from the females.

The Convener: But the boss, the managing director, is a female.

Neil Henry: That is true.

The Convener: What about Chris Ballance's question?

Anna Peers: A person setting up a business has to be brave, because there is a threat of failure. There is a good chance that the business will fail, and a person has to be brave to face that. However, I saw the whole thing as fun—if we failed, we failed, but it was fun.

The Convener: I congratulate you on your presentation and the way in which you answered the questions, which was much appreciated.

I now welcome the students from All Saints RC Secondary School in Glasgow. Claire Shanks will introduce the team and begin the presentation.

Claire Shanks (All Saints RC Secondary School, Glasgow): Good afternoon, ladies and gentlemen. I am the managing director of GlassCo.

Nikki Donnelly (All Saints RC Secondary School, Glasgow): I am the operations director.

Kulsoom Shah (All Saints RC Secondary School, Glasgow): I am the marketing director.

Claire Shanks: Beside me is Charlene Carrick, who is our information and communications technology director.

Nikki Donnelly: Why GlassCo? Guess what? Our main products were made of glass. Our range included vases, mirrors and shot glasses.

Claire Shanks: We set up with 13 directors, but some were less than committed to their tasks and three members were asked to resign.

Kulsoom Shah: Our main aims were high customer satisfaction and to be different from

other YES companies. We wanted to give our best and to increase our personal skills. We hoped to achieve goods of high quality, reasonable profits and a sizeable donation to our charity.

Nikki Donnelly: We launched our company by having a staff coffee morning at which we displayed our products and sold shares. So keen were the staff to invest in our company that our share flotation was oversubscribed.

Claire Shanks: L is for learning. After an enthusiastic start, the group became less motivated, but deadlines had to be met and most of us rallied. Effective communication across the departments ensured that correct products and quantities were produced on time. We also built up excellent relationships with customers, shareholders and suppliers. We learned about costs, selling prices and profits. We learned how to set short-term goals and work within timescales. We learned to keep focused after a disastrous shopping trip that resulted in a bag of unsellable rubbish.

Kulsoom Shah: A is for action. We identified our customer base: pupils, parents, staff and external links. We considered the four Ps of marketing: product, price, place and promotion. We prepared a questionnaire to help us to identify customer needs. We took on board the responses and considered our products with regard to price, design and packaging.

Nikki Donnelly: The production of our unique products involved a process that we called the magnificent seven. It involved masking, drawing, cutting, sand-blasting, unmasking, cleaning and delivering.

Claire Shanks: Nominating a charity was simple. A representative from the Scottish Motor Neurone Disease Association kindled our interest and the flame still burns. By selling SMNDA Christmas cards, we also raised awareness of the disease.

Nikki Donnelly: SS is for sales and successes. Our mirrors and vases were available in a variety of sizes and each bore our innovative designs. We supplemented our range to attract younger customers. Unfortunately, though, we did not consider breakages, which contributed to a disappointing 14 per cent profit.

Kulsoom Shah: At that point we were upset, but selling St Valentine's day products restored our smiles. We used our suppliers to get the best deals and offered 12 different products, each with our distinctive GlassCo packaging. In one hour, we delivered 160 items throughout the school and made an impressive £300 profit.

Claire Shanks: For Christmas we produced de luxe toiletry baskets and colourful baskets of sweets, which were snapped up.

Kulsoom Shah: C is for challenges. In September we faced our first challenge: to develop and sell an aeroplane at the Young Enterprise Scotland master-class. We also developed our business acumen, communication skills, initiative and creative talents.

Nikki Donnelly: Our main challenge was the trade fair. Our group started two months late and spent a long time achieving a professional look for our stall. Due to a lack of staff commitment we did not meet production deadlines, so we had insufficient stock to meet demand. However, we overcame our time and staffing problems to achieve excellent sales.

Claire Shanks: We faced other difficulties too, and we learned from them. Here are GlassCo's top three tips. First, check invoices carefully. We negotiated a reduction of £130 from one supplier. Secondly, seize opportunities. We were given a chance to work in partnership with Authentic Stained Glass Ltd to produce our unique products. Thirdly, research all costs before pricing products. We learned too late the main features of glass: it scratches and it smashes.

Kulsoom Shah: O is for outcomes. To ensure that we achieved our number 1 aim, we undertook a customer satisfaction survey. More than 90 per cent of customers were happy with our service and believed that our products were good value, of good quality and attractive.

Nikki Donnelly: The number crunchers inform us of a staggering 50 per cent gross profit on St Valentine's day products. Our overall net profit was £470, which allowed us to declare a 10 per cent interim dividend and donate £350 to the SMNDA.

Claire Shanks: Our trade fair stall, our products and our launch were all unique to GlassCo. We learned a lot together, with one goal. We are now skilled designers and can package 10 roses in two minutes. I thank our shareholders, customers and everyone who supported us, and I thank you for listening to us today.

The Convener: Thank you. That was much appreciated.

Mike Watson: Why did you want to become involved in the project? Your other classmates must have had the opportunity, but why did you come forward and get involved rather than doing something else? What motivated you?

Nikki Donnelly: Our school was successful in Young Enterprise Scotland in previous years and we had always been aware of that. We all thought that it would be great fun to get involved and experience some of the success that previous pupils had.

Claire Shanks: A lot of our friends were in last year's group and they had massive success. They

stormed the Glasgow awards, so we wanted to be a part of it.

Kulsoom Shah: We also wanted to find out about the responsibilities and workload of running a business.

Mike Watson: You learned some hard lessons. You have been honest enough to outline some mistakes that you made, but you learned from them. Do any of you think that you might carry your experience in the project into your later life and feel confident enough—not the day after leaving school, but later—to become involved in running a business?

15:45

Claire Shanks: The experience has definitely opened our eyes to the world of business. It was scary, but most of us realise what a great reward it has been and want to carry that on.

Susan Deacon: I have a short follow-up question. You said that your predecessors stormed the awards. How important to your participation was the fact that you were in a competition?

Claire Shanks: I am not sure about other people, but I can be quite competitive. That was a big aspect. We were representing our school on quite a lot of matters, which is a big thing in our school.

Chris Ballance: Thank you for coming to give evidence. What are the most important lessons that you learned from your project about business and what is needed to go into business?

Nikki Donnelly: People need to go in with their eyes open. We did not do that—we thought that the project would be fun and games. In our school, one period of 50 minutes a week was timetabled for the project. We thought that we would work on it just in period 3 on Mondays and at Friday lunch times, but it was not like that. We had many late nights and we were not really prepared for that.

Claire Shanks: We were at the school later than the head teacher—we were there until 9 pm most nights.

Richard Baker: Did you meet any entrepreneurs while doing the project? Did you receive any particularly good advice from anybody that helped to make the project a success?

Claire Shanks: We had an adviser—Andy Kelly—who has many businesses and is a real entrepreneur. He was a great help and we would not have had half our success without him. He offered great advice throughout the year.

Richard Baker: Has meeting him encouraged you to think about becoming entrepreneurs?

Claire Shanks: Yes.

Nikki Donnelly: When we met obstacles, we would sit and think, "What will we do?", but Andy Kelly was always there—he was the light at the end of the tunnel.

Richard Baker: Did the way in which he helped you make you think that business was something that you could do in future, because he was encouraging?

Nikki Donnelly: Yes.

Christine May: I thought of my next question after the previous panel left. I wish that I had asked that group the question, but I will ask you it. Does any of you have family experience of running a business? For example, do your parents run their own businesses?

Nikki Donnelly: No.

Claire Shanks: No.

Charlene Carrick (All Saints RC Secondary School, Glasgow): No.

Kulsoom Shah: No.

Christine May: I will ask a question that I asked the previous panel. What was the single most important thing that each of you took from the project?

Nikki Donnelly: More patience. I had to learn that everybody is different and that I could not expect everybody to work in the way that I work. We had to make our products ourselves, so we had to rely on everybody's individual skills and talents. The process had seven parts and everyone was assigned to a different part, rather than having mass production in which everybody undertook the first step then the second step and so on, which would never have worked.

Claire Shanks: Overall, I gained time management and organisation skills. I am not the most organised of people, but I realise that those skills are essential to running a business.

Charlene Carrick: Teamwork was most important. To do everything that needs to be done, the team is needed to help. To finish our glasswork, we needed the whole team.

Kulsoom Shah: Like Claire, I learned time management and teamwork skills.

Murdo Fraser: Claire Shanks said that she found the experience scary. Was it all scarier than you thought that it would be? Has finding it scary put you off going back into business in future? Was it scarier for you because you were the boss, or was it just as bad for everybody else?

Claire Shanks: I cannot speak for anybody else, but I felt that everybody looked to me for

guidance, which scared me. However, the experience has definitely not put me off.

Murdo Fraser: Do any others want to say something about how scary the project was, or did you just shelter behind your dynamic managing director?

The Convener: There are no comments.

Michael Matheson: The issue of gender was raised with the previous group. Were any boys involved in your company, or were they the members who were forced to resign?

Claire Shanks: John Leese, who is sitting behind us, was the only boy who was involved.

Nikki Donnelly: We started with 13 girls and one boy.

Michael Matheson: Was there any particular reason for that?

Claire Shanks: Those were just the people who volunteered.

Michael Matheson: You mentioned some of the difficulties that you experienced in running the company. Before setting it up, did you get enough advice on the dos and don'ts of running a business and the difficulties that there can be with products?

Claire Shanks: Mrs Collins, who is our link teacher, has been running enterprise in school for about five years now. She has come across a large number of problems running enterprise companies in those five years and was quite knowledgeable about the issues, but we also learned from our mistakes, which was part of the process.

Mike Pringle: At the beginning, you were a group of 12 or 14—I cannot remember how many you said—although some left. How did you decide on the company's name and that it would sell glass products, rather than do what the other group did? Who decided? Was it a joint decision or did only certain people have input into it?

Nikki Donnelly: Our initial idea was that we would sell women's handbags—probably because the majority of the group were ladies—but, on the September weekend, we went on a shopping trip and got the stuff that I have with me. We came back with no bags at all, which was due to a lack of organisation. We were unfocused, disorganised and did not have a clue what we were going for; we just went out and started buying things.

When we came back, we did some research on the internet and decided that, to appeal to a wider market in the school, we would go with glassware. We researched the product and found Authentic Stained Glass, which is a local company, and the enterprise spiralled from there.

Mike Pringle: How important was the internet to you? Did you use it a lot?

Nikki Donnelly: We used it a lot in the initial stages of finding a product.

The Convener: As there are no other questions, I thank you for a good presentation and wish you all the best.

I welcome Bill Fleming, who is on the agenda as chair of Glasgow Opportunities enterprise trust, but has many other interests: he has been a successful entrepreneur for a number of years and is, I think, still a member of the board of the Entrepreneurial Exchange.

Bill Fleming (Glasgow Opportunities Enterprise Trust): Yes, I am.

The Convener: I invite you to kick off, after which we will ask you questions.

Bill Fleming: I have been asked to speak about innovation and risk taking. If there is time, I will speak to a number of different topics, which all involve innovation and risk taking in different ways. I will talk first about the innovation counselling and advisory service Scotland—ICASS—and then talk briefly about the business gateway, how we deliver it and how we ought to deliver it. I will talk about business growth and I will tell you about the greatest potential for business growth in Scotland, which we steadfastly ignore. If anyone is still awake after all that, I will say a few words about reform of the bankruptcy laws and, finally, local enterprise investment funds, which are innovative and slightly risky.

ICASS is delivered throughout Scotland by Glasgow Opportunities, so I know quite a bit about it. We deliver it on behalf of the Scottish Executive and we cover the whole of Scotland—the Highlands and Islands as well as the Scottish Enterprise area. ICASS connects people who have good ideas, inventions or processes with the marketplace and the world of business and it enables them not only to make widgets, but to produce a business that makes and sells widgets.

ICASS has been successful. In the time that we have been delivering the service, it has resulted in more than 400 patent applications, more than 200 design registrations and more than 100 licence agreements. There are now businesses in Scotland that have unique products and processes that might never have succeeded without the help of ICASS.

A year ago, I was at the Royal Highland Show at Ingliston, where I came across a chap called William Barr. He had a wee stand at the show, where he was selling bedding that could be used for cows, sheep, horses, rabbits, hamsters or any other animal that might need bedding and which he makes from recycled cardboard. William told

me that he had been made redundant three times. On his third redundancy, he determined that nobody was ever going to make him redundant again, so he set up his own business, recycling cardboard boxes. He would collect the boxes from people who had no further use for them and sell them to people who did not care very much what the boxes said on the side. He then went on to develop a machine that could take those boxes and produce bedding that is suitable for animals. That is more difficult than it sounds; the material must be of a certain size and consistency. He and the village blacksmith from the wee village in Ayrshire where they both come from created the machine, brought it to market and produced the goods. Now, he sells the product in the UK and one or two other European countries.

The point of that example is that William Barr did all that entirely on his own, with no input from any of the manifestations of Scottish Enterprise or from ICASS. That was because he did not know about them. He never even thought to inquire and, of course, nobody approached him. I commend ICASS to members, but we need more people to know about it and we need the funds to market it properly. If William Barr had known about it, he could have developed a successful business in six months instead of two and a half years.

That brings me neatly to business gateways. Glasgow Opportunities, or the GO group, as we call it when we are feeling a wee bit ambitious, delivers business gateways in Ayrshire, Dumfries and Galloway and Dunbartonshire. We are the biggest single business gateway provider in Scotland and we are the best provider in Scotland—as you might expect. It is not just me saying that: we have been independently audited several times and have always come out on the top tier. We are very proud of that.

I will explain how business gateway is delivered and funded. Money goes to Scottish Enterprise, which takes whatever it thinks it needs to run. It then passes money on to the regional enterprise companies, which take whatever they think they need to run. Whatever is left is passed on to the likes of us. We are at the bottom of the value chain, but we are the people in the front line; we are the people who engage with start-ups and growth businesses in Scotland, and we engage with many more of them than Scottish Enterprise does at the national or regional levels. We know more about those businesses than Scottish Enterprise nationally or regionally, but we are not allowed to market our services to them, because the work is deemed to be far too important to be left to the likes of us—the people who know most are constrained. We must deliver contracts according to a template that has been determined by somebody else, but the whole project should be reversed. I maintain that you should give the

money to us. We will deliver business start-ups and business growth and, if we have anything left after that, we can pay for some beautiful headquarters in Glasgow, Edinburgh and Aberdeen.

That brings me to the low-hanging fruit, or the best opportunity for business growth in Scotland: businesses that already exist. The committee discussed a number of matters before I arrived here, so I do not know what members spoke about. There is a great deal of assistance available for business start-ups. There could be more, and it could be better, but it does exist. We know that there is a policy to focus on potentially high-growth businesses. I am a venture capitalist—in a small way—and I know many other venture capitalists. Members should bear in mind the fact that we invest our own money, not taxpayers' money. Our success rate is one in 10, and we think that that is pretty good. How anyone who is not involved in venture capital thinks they can choose potential high-growth businesses is quite beyond me, because we cannot do it.

16:00

As I said, leaving that to one side, the biggest potential is in businesses that already exist in Scotland. Earlier I heard reference to lifestyle businesses. Plenty of people start a business, grow it to a certain size, buy their BMW, get their golf club membership and a nice wee bungalow in a nice residential suburb but stop there, because that is what their peer group does; that is what is expected of them. However, we know that it does not take a lot to change that because we have been involved in doing so. If people think that that is acceptable and that that is what they are supposed to do, that is what they will deliver.

However, what is acceptable is giving some thought to growing a business and to operating beyond the confines of one's own particular territory. If your territory is Lanarkshire, you should think about operating in the whole of Scotland. If it is Scotland, think about operating in the whole of the UK; if it is the UK, think about Europe, the Far East and the United States of America. If gaining commendations from their peer group is what entrepreneurs desire, then that is what they will deliver, but we ignore those people.

We have help for start-ups and assistance for potential high-growth companies but the ones in the middle—by far the largest group—get little or no help at all. Members are about to hear the sound of grinding axes. During the past 10 years, Glasgow Opportunities enterprise trust has developed a programme for such people. It has been developed, changed, modified and improved and after 10 years, it is a very good programme, as you might imagine. Glasgow Opportunities is

private-sector led. It is a not-for-profit company and a charitable trust, but the board is made up entirely of people from private industry; they are hands-on people like me. None of us gets paid. I was going to say that we do it for the glory, but there has never been much glory associated with what we do, although it has always been very interesting. We want to make things successful. We want to produce surpluses that can be fed back into improving business in Scotland. We know that the programme works—we have testimonials that most other companies would give their right arm and left leg for.

We charge companies £4,000 for the programme. As you can imagine, that can be a fairly hard sell, but we have done hundreds of them. The programme has not only transformed the businesses, it has transformed the people. That can be done, but such people are still ignored. We should do more.

I have spoken about ICASS and business gateway and the committee looks like it might still be listening to me. I have spoken about attacking the low-hanging fruit—the existing businesses that need help and support to change their culture. I would now like to speak briefly about bankruptcy.

I started in business when I was 17 years old when I left school. I went to Coatbridge Technical College and became a failed accountant, which—I have since been told—is by far the best kind. The committee might have had some discussion about whether entrepreneurs can be created or do people have to be born with something that makes them entrepreneurs. Coatbridge tech bears the blame for me because, for the first time after 12 years in the education system, I was introduced to how business works; I was fascinated and I knew what I wanted to do.

I started a business, which was successful, and I went on to create several businesses. I created a very successful business that I sold for £10 million, £9 million of which came to me. Three years later, I was bankrupt; I will not bore you with the reason, but I have personal experience of bankruptcy. Bankruptcy punishes people for attempting to be successful in business. We all encourage people to be successful in business. We encourage people to leave school and to think about starting up businesses. We spend £450 million per year trying to create a culture that will improve business and which will make people think about starting their own businesses, but we must recognise that when we encourage people to succeed, we are also encouraging people to fail. Most businesses fail; that is a fact of life and the failure rate is horrifyingly high. There is a huge range of reasons for failure, but too many failures end up in bankruptcy, personal insolvency or sequestration, as it is known in Scotland.

The consequences of bankruptcy were totally unknown to me until I became bankrupt. They are totally unknown to most of the business community—it is something that we do not want to talk about so we shut the door on it and think about something else. However, the consequences are that one loses one's house, car and all the things that one values. We talked earlier about confidence and self-esteem; all that is taken away. One cannot have a bank account or a credit card, one must pre-pay utility suppliers—electricity, gas and phone. If one manages to overcome all those difficulties and think about setting up in business again, one discovers that the law actually forbids one to do so for three years. So, someone has set up a business, learned some hard lessons, but can they apply the experience? No. The attitude is, "While you're down, we kick you. We put our foot on your neck and we keep you there."

When I became bankrupt, I was fortunate. I managed to recover from bankruptcy and become successful in business once again. I was a founder chairman of the Entrepreneurial Exchange and after my experience, the Exchange decided to launch a campaign to reform the laws on bankruptcy. We produced a paper in October 1998 entitled, "In Aid of Enterprise", which was picked up by the Department of Trade and Industry and went through the usual process, although I am not sure of the sequence. It was a green paper that went out to consultation and became a white paper. Just about everything that we suggested be done to reform the laws on bankruptcy was incorporated in the Enterprise Act 2002.

The bits of the legislation that relate to personal insolvency became law on 1 April 2004. Great: that was a terrific result. However, it became law in England and Wales but not in Scotland. Between October 1998 and April 2004, we got a Scottish Parliament, which decided—for whatever reason—that reform of bankruptcy laws was not important enough to be put on the agenda, so we had a campaign that started in Scotland and which has been successful everywhere but Scotland. I say to members that I know the matter is now on the agenda, but I ask you to do whatever you can to speed up the process to reform bankruptcy laws.

We talked about risk taking. Let us imagine that one lives in a nice part of Scotland in a nice residential suburb. The chap or woman across the road has left their employment, started a business, failed in business—as most people do—and, as a consequence, has become bankrupt. They have moved out of their area and their kids no longer go to a nice school; they go to a somewhat less nice school. They do not own a house any more; they have a council flat in one of the less desirable parts of Glasgow, shall we say, because that is all

that they can get. We look at what happened to those people who lived across the road; if the thought of starting our own business ever crossed our minds, we dismiss it. What is the point in taking a risk like that? That is all I have to say about bankruptcy.

Members might have heard a lot about the equity gap for small businesses; small businesses have a problem raising money. If someone wants £2 million or £3 million, there are lots of places to go where one stands a fair chance of getting it. If you want £10,000, £15,000 or £20,000, you will probably get it—you can always tap your granny for a sum like that. However, if someone wants £50,000, £70,000, £100,000 or £150,000, their options are severely limited, but there are lots of people out there who have sitting in their building society and bank accounts money that they would be willing to invest in their community if they could see and touch the businesses that the money was going to.

A proposal appeared in 1998 for local enterprise investment funds. Glasgow Opportunities has a spin-off operation called LINC Scotland—Local Investment Networking Company Scotland—which is a marriage bureau for people who have money and people in business who need money. It has also been very successful. Local enterprise investment funds would be an extension of that. With your permission, convener, I will send to committee members a copy of that paper.

That is all I have to say. Thank you for listening.

The Convener: Thank you very much indeed; you have given us a lot of food for thought. I would appreciate your sending us the paper, which we will circulate to the committee. It is clear that access to funds is a major issue for future business growth.

I have a few questions of my own, but before I ask them, I have two points to make about bankruptcy. First, as members know, we expect the Executive to introduce its bankruptcy bill some time in the autumn. I anticipate that it will be wider ranging than the bill that the House of Commons passed and that, as well as dealing with bankruptcy, it will cover wider issues including credit. Secondly—I am not making a political point—for the record, it was not Parliament that decided not to legislate on bankruptcy, but the Executive, on which we rely to introduce bills. That was an Executive decision rather than a parliamentary decision. It is important that we make that distinction.

Bill Fleming: I will make that distinction in the future.

The Convener: Before I invite questions from members, I will pursue two issues, the first of which is patents and the service that is provided

through ICASS. In a typical year, 17 per cent of all patents that are registered in the United Kingdom are from Scotland, but only 5 per cent are developed in Scotland. What do we need to do to close that gap, assuming that it is important that we do so?

Secondly, I am highly sympathetic towards the idea of hiving off the whole business gateway operation and running it much more along the lines of the Prince's Scottish Youth Business Trust, which—in my view—is run much less bureaucratically, is much more to do with business people advising potential entrepreneurs and is much more in the front line. Is that what you would propose on the business gateway?

Bill Fleming: That suggestion goes further than what I would propose, but I am all in favour of it because I am a great admirer of the PSYBT and how it does things. As well as encouraging people to set up in business, it holds their hands and looks after them after they have done that, which we often fail to do. Not just the anecdotal evidence, but the statistical evidence shows that the PSYBT's success rate is much higher than anyone else's success rate and is much higher in Scotland than elsewhere in the UK. I endorse that model.

There is no one simple answer to how we close the gap between the percentage of patents that are registered in Scotland and the percentage that are developed here. The solution is a combination of all the measures that we are taking. I was heartened by the presentations that the two schools gave. Confidence has been discussed; confidence is born of ignorance. I did not learn about business until I left school and went to Coatbridge Technical College. The more people learn about business from the school curriculum, the more confident they will be when it comes to setting up their own business or—even better—getting together with other people to set up a business. All the things that we are doing will help to close the gap between the 17 per cent and the 5 per cent.

Murdo Fraser: I very much enjoyed your opening comments. I want to draw on your experience at the coalface of providing advice to businesses to explore further what you think are the major barriers to business growth. You mentioned that businesses' attitude to risk was cause for concern. I am thinking of other aspects, such as the cost base of doing business, red tape, infrastructure and the availability of skilled labour. Which of those are the major factors that contribute to the lack of business growth?

Bill Fleming: They all contribute, but I do not think that any of them is a major factor. If a business wants to succeed and grow, it will overcome those obstacles, which are common to

every business. A business operator in this country faces the same red tape as all their competitors; the same obstacles and barriers lie in everyone's path. As someone who has recent experience of a business in France, I think that we are a damned sight better off than most of our cousins in Europe are, as far as business infrastructure, bureaucracy and red tape are concerned. I am not too bothered about those factors.

16:15

The biggest obstacle to business growth in Scotland is our culture—our attitude to business. Our attitude is changing, however. Alex Neil mentioned that I was a director of the Entrepreneurial Exchange. I know that some members do not know about that organisation, because I had a chat with the clerk to the Enterprise and Lifelong Learning Committee in the first session of Parliament, who thought that the Entrepreneurial Exchange was an organisation that put MSPs in contact with people in business, so that they could learn more about business. One of the reasons for setting up the Entrepreneurial Exchange was to try to change the culture in Scotland, so that the world at large would recognise the importance of the business community—indeed, so that the business community would recognise its own importance. I am happy to say that we are now pushing at an open door, but the door still needs to be pushed. We need to change the culture; we need people to realise how important a successful economy is for Scotland and how it is down to us, rather than politicians, journalists or the Executive to create that successful economy.

We are doing many of the right things, starting with education. We are including business in the school curriculum; members heard the schoolkids on the previous panel of witnesses say that they had learned a lot. It was gratifying to hear them say that they had learned about the importance of working as a team and that they recognised the difficulties of creating and growing a business. However, it was less gratifying to hear them all say that they would not entertain the thought of starting their own business: we must change that attitude, so that starting a business is an acceptable career choice. Currently, that is not the case and starting a business remains the exception. Our biggest barrier is our culture.

Murdo Fraser: You said that it is “down to us”, rather than the Government, to change the culture. Given that the committee considers public policy, what role is there for Government in helping to change the culture?

Bill Fleming: I could have expressed myself better. Everybody, even the business community,

has a habit of passing the buck and asking, "What can I do?" The point that I try to keep making to the business community is that we can do a hell of a lot and it does not take many of us to make changes. The Government and politicians who are not in Government can make important changes by acknowledging the importance of a healthy economy and by doing what they can to promote a change in the culture of Scotland. However, I do not know precisely how they would go about doing that—I hope that the committee does.

Murdo Fraser: That is what we are trying to find out.

Mike Watson: I enjoyed Mr Fleming's contribution very much. It was very engaging; you talked about business in a way that was very different from the dull and dry approach of many people who traditionally discuss the subject. Your contribution was certainly not dull and dry. In answer to Murdo Fraser, you said that people will overcome the barriers to growth, whatever those barriers are. How do you reconcile that with your comment—which we have heard others make—that most businesses fail? If people are determined to overcome the barriers, why do so many businesses fail? The problem is not just to do with business start-up; it is to do with the long life of businesses, too.

Bill Fleming: The business failure rate in Scotland is no different—give or take a few percentage points—from the rate anywhere else in the world; indeed, our failure rate is a bit better than that of some countries. Members have probably heard this many times before, but we can draw a parallel with the United States of America, which has just as high a rate of business failure as Scotland has, but has more businesses per head of population. We wonder how those two facts can square with each other. If our failure rate is 95 per cent and the USA's failure rate is also 95 per cent, how come the USA has more businesses per 100,000 people than we do? The answer is that having more failures means that there are more successes. That comes down to the fact that the bankruptcy laws in the US bankruptcy code are designed to protect businesses, whereas our bankruptcy laws are designed to protect creditors. There is an entirely different mindset. I say in passing that our bankruptcy laws completely fail to protect creditors. The only people whom our bankruptcy laws protect—I am sorry for going on about bankruptcy—are the insolvency practitioners.

Anyway, in the USA it is regarded as being okay to fail in business. People can fail in business and start again and again. We must stop regarding failure as the end of the road. We must be able to say to people that they can start a business, fail in business but start again. Obviously, that must be

done within sensible parameters. To my mind, having experience of that, that is the key difference.

I will tell you two of my favourite stories—the committee is worth it. Franklin Mars founded the Mars Corporation, which makes Mars bars. It is the largest privately owned corporation in the world and it employs tens of thousands of people on every continent. Franklin Mars was bankrupt not twice, not three times, but four times in the USA. If he had started his business in Scotland there would be no Mars Corporation today.

We all know that Sir Edmund Hillary was the first man to climb Everest, but what we do not know is that he did it only on his third attempt. If he had been setting up in business in Scotland instead of seeking to climb Everest, he would not have been allowed to succeed.

I am sorry, but I have forgotten the question.

Mike Watson: Do not worry—so have I. However, I have another question, which relates to the submission from Glasgow Opportunities. Paragraph 2.4 is on growing the stock of medium-sized businesses, which is one of the issues that we will examine. It states:

"The enterprise network should be rewarded for sifting through our base of micro to small business looking for a spark to blow on, rather than companies that need minimal intervention. ... Concentrating resource on helping client managed businesses and diluting services to universal businesses could have serious long term implications. Is it time to re-examine the strategy?"

What might those long-term implications be?

Bill Fleming: May I call upon Agnes Samuel? She is our chief executive.

Mike Watson: I am happy for her to return to the table to comment.

The Convener: Agnes Samuel can come back to the table.

Agnes Samuel: As I am the person who wrote the submission, it is only fair that I should take the heat.

I was trying to say that we did not know what the long-term implications were, but one set of implications could relate to where we get the next set of growth businesses from. If resource is not put into the businesses that are currently lying fallow without much assistance, how will we get the businesses to pick to be client managed? There may be other implications. There might be some cynicism on the part of businesses, who might say, "I am sorry that there is no help here." My comments were a plea that we do not go rushing into a new strategy when the old one is not played out. Does that help?

Mike Watson: Yes. In a sense, it answers the question. At the end of the paragraph, you ask:

"Is it time to re-examine the strategy?"

You are saying that it is not time—the question is rhetorical. You mean, "Let's go back and look at the matter rather than come up with a new strategy."

Agnes Samuel: Yes, I think so. At the delivery end of this business, we frequently have to put new strategies into operation. This strategy profoundly worries my team who deal with businesses on the ground, because our experience is that we can have a tremendous impact when we work with the sort of ordinary businesses that most people do not think are terribly exciting.

The Convener: Is there not a more fundamental issue, which is related to the track record of any public sector or private sector organisation that tries to pick winners? As Bill Fleming said, a typical success rate for venture capitalists is 10 per cent. If public sector agencies have a similar success rate, 90 per cent will not be winners in any case. I suspect that Tom Farmer would not have been identified as a winner if he had gone to some agencies.

Mike Watson: Not the first time—that is the key.

The Convener: Exactly. Is that the fundamental problem?

Agnes Samuel: It is. As always, I agree with what the chairman of Glasgow Opportunities said. One cannot pick winners, but it is not the public sector's role to pick winners and it is not particularly good at doing so.

The Convener: We have other agenda items to deal with and I am conscious of the time, but Christine May has a question.

Christine May: I should probably remind members that I am a board member of Community Enterprise in Strathclyde, which helps small businesses and microbusinesses—I apologise for not doing so earlier.

I thank Mr Fleming for his presentation, which was challenging; he said a number of things that challenged how I see things, some of which I disagree with. In particular, I disagree with what he said about bankruptcy. He talked about how most businesspeople have no experience of bankruptcy, but the constituents of many members of the committee experience sequestration and the impact of poverty too frequently. Have you thought about how to encourage entrepreneurial spirit in people working in businesses? I do not necessarily mean encouraging it in people who are starting up businesses.

Secondly, will you say something about the role of chambers of commerce and business

organisations? Are there too many of them? Do they take too much of a scattergun approach? Could they be better focused? How could they help businesses better?

Bill Fleming: We must start with education if we want to encourage an entrepreneurial spirit. Given that we are talking about a fairly long-term objective, we can also encourage existing businesses to change their mindset, as we have said, and to be more ambitious, which would have a trickle-down effect. Very large corporations often encourage their divisions to be entrepreneurial in their thinking and to regard divisions, or the components of the global conglomerate, as businesses on their own. They have discovered that when people are given their head in that way and have the appropriate resources and support, they can achieve remarkable results.

On bankruptcy, I was speaking specifically about people in business who experience bankruptcy. Such people do not know much about it. However, I know quite a lot about how bankruptcy affects people who are not in business and the terrible consequences that it can have, and I urge members to do whatever they can to change such effects.

Dr Michalski: I want to follow up on a specific matter. I advise the Government of a major European Union country on the reform of research and innovation policy. During my work for that Government, I have come across literature that explains why the initial innovator—the inventor—is the man who is least capable of growing the business. The thesis is that such men need coaching for perhaps two years and then a different qualification is required that will bring into the business the capacity to industrialise and commercialise and the capacity to finance more than only the start-up. After another three to five years, the question is whether a very different capacity is needed to take the enterprise from being a very small to a medium-sized enterprise. What is your experience in Scotland in that regard? You have said that you assist and accompany enterprises here.

16:30

Bill Fleming: Again, the fact that someone can make widgets does not mean that they are qualified to run a business that makes widgets. I return to what is said anecdotally, which is that inventors or innovators are obsessed—no, "obsessed" is too strong a word; they are conscious of the fact that they have invented something. As a result, they attribute a very high value to whatever it is they have invented, whether or not that value is justified.

Inventors or innovators are defensive of their product or process. We must demonstrate to them

that, in order to connect with the marketplace for whatever invention they have come up with, they must share their knowledge with others. ICASS is important in that respect, because it ensures that the intellectual property of inventors or innovators is protected: we hold their hand and help them to get their invention patented, copyrighted, trademarked or whatever is appropriate in their circumstances. We seek to reassure inventors and innovators that, once their rights are protected, they should tell the world about their invention or innovation.

I return to the discovery that we heard about earlier from the school perspective, which is that to be successful, people have to work together as a team. If someone is an inventor or innovator, they have to be made to recognise that they may not be the best person to bring their invention or innovation to market and that they should team up with or engage with the people or a person who has sales and marketing skills.

Inventors or innovators also need assistance in raising finance, as they are not necessarily the best person to do that—ICASS does that work. As we have heard, if the company is successful and grows to a certain size, it will have to be taken to the next stage. Inventors or innovators may have to repeat that process to achieve continued success.

Dr Michalski: Do you agree with the statement that 80 per cent of the start-ups that fail do so for personal reasons? Do they fail because the inventor is afraid of losing his baby, or because he cannot understand that having 100 per cent of nothing is worse than having a smaller percentage—let us say 3 per cent—of something? I am thinking of Bill Gates, who owns 3 per cent of Microsoft and yet is the richest man in the world.

Bill Fleming: You sound like me. Yes, I agree completely.

Chris Ballance: I have two questions. First, if you were in a Scottish Government that had money to spend on promoting business and money to give to enterprise companies, would you focus on large, medium or small-sized businesses? Would you distribute the money through enterprise companies or use it in different ways, such as on business training or by marrying up inventors and entrepreneurs? What would your priorities be?

Bill Fleming: By and large, large companies can look after themselves. I understand the thinking that says, "Large companies employ large numbers of people and we should attract them to Scotland and help them. We should ensure that the infrastructure is in place so that the Scottish economic environment is attractive to them." That is a separate argument, however. Such support is

something that only a Government can and ought to do.

My focus would be on the small and medium-sized businesses, simply because there are more of them. It is difficult for anyone to pick winners. We should therefore give ourselves as many chances as possible to pick a winner. If I had control of the money, I would be reluctant to give people grants. I would rather spend the money on training and education. I would spend it on imparting business skills to people early in their lives, possibly at primary school level and certainly at the secondary school and tertiary education level.

As I said earlier, I would give money to the people who run existing businesses. Often, the people who run successful businesses are running them quite badly—sometimes, those business people are successful despite themselves. If they knew more about running a business, they would run their business better, employ more people and make more profit—the virtuous circle would be complete. That is a relatively simple thing to do. Although it may not be easy to achieve, we know what we have to do. That is where I would put the money.

Chris Ballance: I realise that I should have declared an interest as a partner in a small business at the start of my questioning. I now put that interest on the record.

My second question relates to your comments on bankruptcy. You pointed out that the current bankruptcy measures do nothing to protect creditors. What ought to be done to protect creditors or should they be left to look after their own interests?

Bill Fleming: Creditors should look after themselves. There are far too many circumstances—not so much in business, but in relation to personal sequestrations—in which people have, for example, bought fitted kitchens, double glazing or carpets and been persuaded to sign credit agreements that they are unable to honour, and as a consequence they suffer bankruptcy. The lenders in those circumstances should be taught a lesson. They should lend only to people who are able to repay loans, and bankruptcy should not be a weapon in their armoury.

Chris Ballance: What about the case that we talked about at lunch time of a businessperson who is made bankrupt purely because other businesses that they have supplied in good faith themselves go bankrupt?

Bill Fleming: I was born and brought up in Hamilton, where Rolls-Royce employed possibly thousands of people in a big factory. Probably another 5,000 people in and around Hamilton

were employed by subcontractors who supplied that factory. Rolls-Royce went bust in 1973—I am not sure exactly when. It was bailed out by the Government, and the current incarnation of Rolls-Royce was funded by taxpayers' money to protect all its jobs, but nobody protected the jobs in all the subcontractor companies, many of which went bankrupt and many of which never recovered and got back into business.

Richard Baker: My question is a supplementary to [Wolfgang Michalski](#)'s question. Some time ago, I was speaking to a venture capitalist who was enthusiastic about intermediary technology institutes. He said that there is no shortage of academic research, innovation or invention in Scotland that can go to the marketplace, but the issue is having the skills to get them there. He said that venture capitalists can play a role in linking people with those skills to the ideas, but he was having problems with attracting people with those skills from outside Scotland to base themselves here and take forward ideas and research and make successful companies out of them. Have you encountered that problem? How could we solve it?

Bill Fleming: It is a problem, but I do not see it as an issue that we have to do anything in particular about. When venture capitalists invest in business they tend to want to look after their money and to ensure that the management team has all the skills that are needed to make the business successful.

The Convener: That completes the questioning. It was a very interesting session. Thank you. I look forward to seeing you during the passage of any bill on bankruptcy, when we will take evidence from you.

We move to item 3 on the agenda. Members will remember that we discussed comparator areas in other countries that we want to examine for our business growth inquiry. We discussed the matter with [Wolfgang Michalski](#), who will give a brief introduction on the criteria that we should use to select comparator areas and for potential visits.

Dr Michalski: If my understanding is correct, the idea is to visit some places that are comparable with Scotland either in an holistic sense or in terms of an issue, and to compare those places so that we can learn from them and benchmark policies for Scotland.

If we take the holistic avenue first, the first criterion that came to mind was size, in terms of a population of around 5 million. One could look at smaller Organisation for Economic Co-operation and Development countries with a population of less than 10 million. You would find Sweden, Austria, Switzerland, Denmark and the Slovak Republic on the one side, and Finland, Norway,

New Zealand and Ireland on the other. All those countries are market economies and democracies, not city states.

The next criterion could be economic performance. If we looked at the growth rate of real GDP over a decade or so, we would find that the order would be quite different. The strongest performer by far would be Ireland, followed by the Slovak Republic and Finland. Norway, New Zealand and Sweden would be next at around 3 per cent and then, a little bit beneath that, Denmark. The poorest performer of the smaller OECD countries would be Switzerland, with a real GDP level of 1.8 per cent. That level is even less than that of Scotland over the past decade.

Total GDP growth is not the only criterion that should be considered; we also need to look at the level of economic development. For that reason, I would discard countries such as the Slovak Republic and even Ireland that are still going through a process of catch-up. In order to have comparable figures, I had to calculate GDP per capita data both on a purchasing power parity basis and on a dollar basis. In that respect, Norway and Ireland are far above Scotland. However, I would discard Ireland, for the reasons that I have mentioned, and Norway, because those figures include oil. Switzerland, which also lies above Scotland, is a different case. More interesting, Denmark, Austria, Sweden and Finland come next, and then the other countries come below Scotland. As a result, we should look more closely at the three nordic countries and perhaps Austria.

Because economic growth and wealth in terms of economic GDP per capita are not the sole objective of economic and social policies, we should also take into account the levels of employment and unemployment in a country. In that respect, if we leave Ireland aside, we find that Finland, which has an unemployment level of 9.1 per cent, does very poorly, whereas Sweden, Denmark and Austria do much better.

Average employment is one thing; other criteria with regard to employment performance are the level of long-term unemployment and the level of youth employment. In that respect, the list shortens somewhat, but we would remain at the same level as the three nordic countries and, perhaps, Austria.

Members could choose to examine not sovereign countries but regions. I thought of, for example, German federal states such as Bavaria or Baden-Württemberg; Lombardia and Piemonte in Italy; Catalonia in Spain; Nuevo León in Mexico; or a Canadian province. I would not be so enthusiastic about the last option, because the level of internal protectionism is much higher in Canada than it is in the EU. Of the rest, Bavaria

and Baden-Württemberg have a population of about 12 million each, which is more than double Scotland's population of 5 million, and almost three times the per capita income. As a result, I think that the choice is between Lombardia, which is the Milano area, Piemonte or Catalonia in Spain. Perhaps Monterrey in Mexico is a little far for the committee to go; however, it is an interesting place, as is Phoenix in the United States. That approach would be fairly holistic in that those regions are of a comparable size to Scotland and they have similar or higher economic performance in terms of GDP growth, employment and levels of development.

16:45

As an alternative to considering one country or region, we could take a much more targeted approach and examine how problems have been resolved in a certain area, such as Europe, or the design of policies that have been successful in tackling problems that are similar to those in Scotland. One of the major issues for economic development of a specific nature is the Glasgow area. Why not examine comparable areas and consider the way in which policies have led to redynamisation of areas with declining industries?

I read in some of the sources that I studied that Scotland still has 30,000 people in textiles. Should those people still be in the textile industry in the traditional sense? We knew for years that the multi-fibre agreement would be terminated and that China would become the biggest competitor not only for the textile industries in developing and newly industrialised countries but for our textile industry. It would be worth while examining places where the textile industry has been totally transformed. For example, in Germany, the old textile industry no longer exists. It went in two directions. The first is fashion design; more fashion is designed in Germany, for production in Asia, than in France. The second direction is industry textiles—I know that there are also such enterprises in France, in Lyon for instance. Because of the value-added content of its textile exports, Germany is still the greatest textile exporter in the world—apart from China, perhaps—but in value terms, not in quantity terms. It might be interesting for the committee to consider that issue.

The Convener: Thank you. Because of the time, I will boil that down to the choices that we have. In our previous discussion, we talked about comparing Scotland with regions that are more successful than the wider state, which have similar powers to Scotland and which are of a similar size. I think that Wolfgang Michalski is saying that, in Europe, Piedmont and Lombardy in Italy and Catalonia in Spain are the three possibilities. If we

want to consider policy, we can probably learn most from Finland. For example, we could consider the way in which its shipbuilding industry was turned around. If we want to pick a fight with the Scottish Parliamentary Corporate Body, we could include Monterrey and Phoenix in our list of options.

There is also the city region issue. If we look at the Scottish statistics and extract the greater Glasgow conurbation, we find that the rest of Scotland compares pretty well with the rest of the UK and Europe. If we are to be serious about a business growth strategy, we will have to say something specifically about the city region economy of the greater Glasgow area and it would be beneficial to identify a city region that has regenerated itself.

We are tight for time today, but we will need to reach agreement at our next meeting in two weeks' time, when we could consider a paper on the four options along with costings. Realistically, by the time we get approval from the corporate body, we are probably talking about undertaking the visits towards the end of the summer recess or in the autumn rather than on this side of the summer recess. Do members agree that the clerks and the adviser should produce a paper with costings of the basic four options, including suggestions about appropriate city regions? Do members agree that we can then decide what we want to do based on those criteria?

Mike Watson: Will we ask [Wolfgang Michalski](#) to suggest city regions?

The Convener: Yes.

Mike Watson: I know that Bremen and Hamburg were mentioned earlier. Bremen is similar to Glasgow in size, standard of living and local gross domestic product. There might be benefit in considering Bremen; equally, there might be other examples to choose from.

Susan Deacon: It might be helpful to take a step back just for a second at some point after today, once we have had time to reflect on and digest what we have discussed in this lengthy meeting. It would be helpful to keep revisiting the question of what we are trying to achieve in our inquiry, given that it could still go in many different directions. Obviously, our choice of visits should be linked back to what we want to achieve.

Earlier in the day, Wolfgang [Michalski](#) warned us not to conflate—I think that he used the word “equalise”—the issues of entrepreneurialism and business growth. I understood that point exactly, but we need clarity on that before we decide which places we will visit. By extension, our thinking has also perhaps equated economic growth at the macro level with business growth at the micro level. Before we choose which places we will visit,

we need to clarify which of those things we are trying to achieve. Even our choice of city region will depend on how we plan to slice that particular cake. One could put up an argument—although I do not advocate this per se—that we should look at how another capital city with a good record of growth and development compares with Edinburgh, rather than, say, how a city region that has undergone regeneration compares with Glasgow.

In the absence of our having had a chance to clarify where our inquiry is going, I find it difficult to express an opinion on how we should narrow down the choice of places that we might visit.

The Convener: That is why we need a paper to provide us with a basis for discussion, so that we can be clear about what we are trying to get out of the comparator study visits. We will visit places from which we can learn rather than just go on a visit for the sake of it. As Wolfgang Michalski said, our visits will be a learning journey.

We will ask the clerks to draw up a paper in consultation with Wolfgang Michalski.

Dr Michalski: I will not be available for about 10 days from next Friday.

The Convener: That is okay. We have enough material from our earlier discussion with you to be able to prepare a paper, although we may need some additional suggestions from you on the city regions.

As well as stating the objectives of the exercise, the paper will provide options on which places we might want to visit and rough costings for those. On the basis of that information, we can then decide what we want to do. I need to submit the application to the corporate body before the summer recess. Realistically, I think that the visits will probably not take place until September.

Christine May: I look forward to seeing a paper that is based on the principles that Wolfgang Michalski outlined. The major strands are quite disparate, but I welcome that.

Dr Michalski: Having worked on a written paper for the committee for the past four weeks, I believe that it will be an advantage not to have the visits too early, so that we can properly identify the issues and questions that we want to discuss. We are still in a process of advancing our thinking on what the bottlenecks or barriers are to economic dynamism and success in Scotland.

Also, there remains the question of the difficult political choice that I mentioned at lunch: whether you should spread your resources thinly across Scotland, or opt for a strategy of building clusters with spillover effects. Under such a strategy, more money would be put into specific regions, such as the whole Glasgow-Edinburgh area, and the

benefits of redynamising those regions would spill over to other parts of the country. I think that you have to have some more discussion about that.

The Convener: Do we agree to prepare a paper, with input from Wolfgang Michalski, along the lines suggested?

Members *indicated agreement.*

The Convener: I should mention that Wolfgang thinks that Scotland should have an oil fund, but we will not put that in the paper.

Christine May: I wonder where he got that idea from.

Broadcasting Reviews

16:56

The Convener: The next agenda item concerns our first stab at our paper containing our thoughts on the BBC. We would like to get a steer from the committee as to whether the paper that you have before you is along the right lines, particularly with regard to the boxed areas.

I realise that we are tight for time, but it would be useful to have a brief discussion about the paper so that we can bring a final draft to the next meeting.

Susan, you have taken a primary interest in this issue. Have you had a chance to read the paper?

Susan Deacon: No, I have not. I was not quite sure why it came to me first.

The Convener: I know that it is a subject that you have been particularly interested in.

Richard Baker: I have two comments on the out-of-Glasgow policy that is mentioned on page 7. I failed to be convinced by Ken MacQuarrie's suggestion that having all the management structures located in Glasgow, rather than continuing to have them dotted round the country, would be effective in developing a successful regional structure. I do not know whether other members remain to be persuaded on that issue but, certainly, what we heard from the BBC did not reassure me entirely.

One of Ken MacQuarrie's answers seemed to suggest that it would be beneficial if the out-of-Glasgow strategy could encourage more local and independent companies to become involved in programme production. I do not dispute that point, but I think that an important balance must be struck between doing that and encouraging regional in-house production, which has reached an extremely high standard. If too much is sourced from independents, those in-house skills and the associated production capability will be put at risk.

Those are the main two concerns that were not wholly resolved by what I heard from Ken MacQuarrie, but I also think that it would be useful to hear exactly what the representation will be on the out-of-Glasgow strategy group from each of the regions. Obviously, regional managers would have sat on that group, but there are no regional managers any more. We should find out who will sit on it.

17:00

Michael Matheson: The first question in the paper deals with guarantees of the quality of the programming. From the evidence, it is clear that there are two distinct views on that. One is that

quality will decline markedly and the other, which is held by the managers, is that that will not happen. I suppose that the question depends on your definition of quality. The evidence of the BBC managers did not persuade me that it is possible to make such cuts in departments such as news and current affairs and expect the existing quality to be maintained.

Given that the first group of jobs that is targeted is in the news and current affairs section and that the cuts are going to take place anyway, I would have thought that the scope for a pilot of the use of personal digital production cameras is fairly limited. What is the purpose of the pilot? Is it to decide whether to use PDP technology in the first place? What is the point in having a pilot when it appears that even if the pilot shows that quality is poor—evidence from down south and other production companies that have used it suggests that it is—the BBC will go ahead with cuts that will result in the greater use of PDP technology anyway?

Regarding the potential impact on Scottish culture and the creative industries in Scotland, I note in the additional submission that we received from Ken MacQuarrie of BBC Scotland that 40-odd independent production companies in Scotland were used by BBC Scotland. However, the Scottish Parliament information centre can identify only three production companies that make it into the top 150 independent production companies in the UK. Given the changes that the BBC plans to implement, substantial amounts of money will be competed for not just in Scotland but in the UK as a whole. I wonder whether those smaller production companies in Scotland have the critical mass to be able to bid for bigger pieces of work, which appear to be the type of work that is being commissioned by the BBC at the moment.

Given the way in which the BBC is making changes, I am not persuaded that sufficient protection is in place to help to develop and promote the creative industries in Scotland. The changes will largely involve bigger-scale productions, for which Scotland will be competing with the other regions and nations, and I am not persuaded that the small independent production companies are of a size that will allow them to compete for those larger contracts with the big production companies in London.

Christine May: I came to the meeting prepared to hear BBC management explain how something really difficult was to be managed. However, what I heard was a dog's breakfast of unclear thinking, an inability to express the vision coherently, and management and workforce representatives with views that were so polarised that I could get no sense of the good of the organisation and the common interest.

The evidence was not convincing. I do not think that it is credible to say, "We are going to make all these people redundant and then in four years, lo and behold, we will take on even more staff. Yet we will save money and everything will be reinvested." That was not particularly credible and there was no sense of what the BBC will look like in 20 years' time when technology has changed so much. We heard an awful lot about news and current affairs, but we heard nothing about how technical skills would be developed and what the relationships would be with the training providers, the colleges and so forth. That is what I would have expected to hear from a management that knew what it was about and why it was making such changes.

The questions in the paper are reasonable, but I do not think that the BBC's proposals will benefit the creative industries in Scotland in the way that it foresees.

The Convener: The other thing that strikes me is the way in which BBC management has gone about the proposed changes—there was a total lack of negotiation with the staff. The first question that I asked Ken MacQuarrie was about the point that he made in his introduction that the BBC was in negotiation with staff. When he was questioned further, it was clear that the BBC was not in negotiation, that the changes were a fait accompli and that there had been no serious attempt to consult properly. In this day and age, it is reprehensible that an organisation such as the BBC treats its workers like that.

We will get the results of the strike ballot tomorrow. If anything will make people bloody-minded, it is a take-it-or-leave-it management attitude. There was no offer of negotiation on the table.

Christine May: It is patently obvious that the BBC has got to make changes to prepare itself for the digital age and the creative industries scenario of the next 20 years.

The Convener: Absolutely. I do not think that any of us disagrees. The BBC has not argued the case for the particular changes that it proposes.

Susan Deacon: Incidentally, I record my interest in that my partner is employed by BBC Scotland. Notwithstanding that—or perhaps owing to it; who knows?—I will raise my frequently expressed concern about where we want the committee to go and what we see as our role. It feels to me as if we are dotting between important issues that are specifically to do with the BBC and somewhat broader issues to do with broadcasting and I am genuinely struggling to know where we are jumping. Personally, I would play a different role in discussions, depending on the direction in which we jump.

On the BBC-specific issue, in procedural terms, we have been here before, when we had the debate about the Scottish Rugby Union, which was another issue in which I took an interest. The present issue may feel different but, with the SRU, we decided to bring divided views and contentious processes within an organisation into the public domain. However, in that inquiry, the committee consciously drew a line in relation to how much we commented on the internal processes, albeit that many of us had strong views about their handling. I do not want to express my opinion on the issue; I simply pose the question about how far the committee should go. We have given the issue an airing, provided a public forum and asked searching questions. My genuine question before we go any further is whether we feel that it is the committee's role to comment further on the matter. I will leave that as the question on the BBC-specific issue.

I have a separate but related comment on the wider issue. Whatever the answer to my question, the committee ought to consider deliberating the wider issue of the future of Scottish broadcasting, in accordance with our legitimate areas of interest, as set out in paragraph 2 on page 3 of the paper that has been circulated.

The Convener: On that latter point, we agreed at our previous meeting to produce a paper on the evidence that we heard and the issues raised in relation to the proposed reorganisation and cuts at the BBC—that is the paper that we are discussing. We also agreed to seek a meeting with the Office of Communications, which we have not yet had. Once we have had that meeting, we will discuss how to proceed with our general concern about the future of broadcasting, not just public sector broadcasting. However, we agreed at the previous meeting that we would produce a specific paper on the BBC.

There is no direct parallel between the SRU and the BBC, because the SRU is an independent organisation that is not in the public sector, although it receives funding from the public sector, whereas the BBC is a public corporation. The BBC is a reserved matter but, because it is a public corporation, we are nevertheless entitled to make comments on its internal machinations, even though we would go over the boundaries if we made such comments about an independent organisation such as the SRU.

Susan Deacon: I am not saying that there is a direct parallel; I was just asking for us to pause and think about the committee's role before we reach our conclusions.

The Convener: At the previous meeting, we discussed our role and agreed that it was legitimate for us to comment on the issue, given the evidence. We agreed to present the paper,

with a view to finalising it in two weeks. That in no way precludes us from considering the wider issues, which we are keen to do, particularly in the light of the Ofcom review.

Christine May: My comments were couched carefully in terms of the vision for the future of broadcasting and I would like our report to be couched in those terms, too. It is entirely legitimate to be critical of the specific proposals that were made, the way in which they were made and the way in which discussions were held with the staff, but the issue is the vision for the future and getting the Scottish element of the corporation ready for its place in that vision.

The Convener: From the comments that have been made so far, I sense that that is the committee's general view. I agree with the points that Richard Baker, Christine May and Michael Matheson made. Do members agree that we should prepare a final draft along those lines for final consideration at the next meeting?

Members *indicated agreement.*

The Convener: Like Christine May, I think that it is perfectly legitimate to be critical of the BBC.

Annual Report

17:10

The Convener: The final agenda item is our annual report, a draft of which has been circulated. I assume that the report is not controversial and that members are happy with it.

Christine May: It is 10 past 5, convener.

The Convener: The price of having only one meeting a fortnight is that we have a lot of work to get through in each meeting. We might want to review the matter at some stage, although I sense that members prefer a fortnightly meeting that runs for three hours to a weekly meeting that runs for one and a half hours.

Meeting closed at 17:11.

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