

# **ENTERPRISE AND LIFELONG LEARNING COMMITTEE**

Wednesday 16 January 2002  
*(Morning)*

Session 1

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## ENTERPRISE AND LIFELONG LEARNING COMMITTEE

† 2<sup>nd</sup> Meeting 2002, Session 1

### CONVENER

\*Alex Neil (Central Scotland) (SNP)

### DEPUTY CONVENER

\*Miss Annabel Goldie (West of Scotland) (Con)

### COMMITTEE MEMBERS

Rhona Brankin (Midlothian) (Lab)

\*Brian Fitzpatrick (Strathkelvin and Bearsden) (Lab)

\*Marilyn Livingstone (Kirkcaldy) (Lab)

Mr Kenny MacAskill (Lothians) (SNP)

Mr Kenneth Macintosh (Eastwood) (Lab)

David Mundell (South of Scotland) (Con)

\*Tavish Scott (Shetland) (LD)

\*Elaine Thomson (Aberdeen North) (Lab)

\*Andrew Wilson (Central Scotland) (SNP)

\*attended

### WITNESSES

Robert Crawford (Scottish Enterprise)

John Downie (Federation of Small Businesses)

Professor Neil Hood (Scottish Enterprise)

Bob Leitch (Scottish Chambers of Commerce)

Iain McMillan (Confederation of British Industry Scotland)

Sir Ian Robinson (Scottish Enterprise)

Martin Togneri (Scottish Enterprise)

### CLERK TO THE COMMITTEE

Simon Watkins

### SENIOR ASSISTANT CLERK

Judith Evans

### ASSISTANT CLERK

Jane Sutherland

### LOCATION

Scottish Enterprise, Atlantic Quay, Glasgow

† 1<sup>st</sup> Meeting 2002, Session 1—held in private.



## Scottish Parliament

### Enterprise and Lifelong Learning Committee

*Wednesday 16 January 2002*

*(Morning)*

[THE CONVENER *opened the meeting at 09:59*]

**The Convener (Alex Neil):** Good morning and welcome to the second meeting of the Enterprise and Lifelong Learning Committee of 2002. On behalf of the committee, I would like to thank Scottish Enterprise for hosting this morning's meeting. I have received four apologies from committee members—Kenny MacAskill, David Mundell, Rhona Brankin and Kenneth Macintosh.

### Interests

**The Convener:** The first item is a declaration of interests by Andrew Wilson.

**Andrew Wilson (Central Scotland) (SNP):** I have three interests to declare. I am in receipt of a salary from Trinity Mirror Group plc for a six-month rolling contract to write one column a week. I receive occasional remuneration from other media outlets in Scotland and the rest of the UK. I have interest in and have consulted and worked for several international development agencies, particularly the London Information Network on Conflicts and State-building. Those organisations occasionally seek corporate funding. I will notify the committee of that if it is relevant.

### Local Economic Forums

**The Convener:** The next item is a review of local economic forums. I remind everyone that the first major report produced by the Enterprise and Lifelong Learning Committee more than two years ago was on local economic development. The key recommendation arising from the committee report was that local economic forums should be established. We agreed to review progress on the establishment and work being undertaken by the local economic forums at the beginning of 2002. This morning we are taking our first set of evidence as part of that review.

We are joined by three distinguished gentlemen who, as well as representing their own organisations, are members of the ministerial working group on local economic forums. I welcome John Downie from the Federation of Small Businesses, Iain McMillan from the Confederation of British Industry Scotland and Bob Leitch from the Scottish Chambers of Commerce.

I invite each witness to make a five-minute introductory statement after which I will open the meeting to questions from the committee. I will start on the left with John Downie and move to the right.

**John Downie (Federation of Small Businesses):** When the results of the Enterprise and Lifelong Learning Committee's inquiry into the enterprise network were announced in May 2000, the FSB agreed with the main conclusions—that economic development and business support services in Scotland were plagued by confusion, duplication and inefficiency—but we had serious doubts about whether local economic forums would be an effective tool in cutting out the confusion and duplication in the enterprise network.

There were a number of reasons for our view, which were well documented at the time. The most fundamental was that the many public sector agencies that would be participating in the LEFs did not accept the findings of the committee's inquiry and did not believe that there was a problem. Despite the doubts, we made and fulfilled a commitment to participate in the process, to ensure that there was input from the small business sector. However, we had problems with certain LEFs where small business representation was not exactly a priority.

The experience of our members on the forums has varied, particularly in relation to the operation of the forums and the attitude of the public sector and its willingness to engage in serious discussion and open dialogue with the private sector. That has been a major problem.

It is also apparent that, despite the representation of the Federation of Small Businesses and chambers of commerce on individual LEFs, the representation of business was swamped by that of the public sector. There was not enough continuing input from the private sector. We believe that that issue had an undoubted impact on the genuine business influence on the LEF action plan. That is very apparent.

In our assessment of the action plan, there were a number of common issues, including the quality of the mapping, customer service standards, business gateway versus small business gateway, an extension to the year one deadline, and the year two task list. I do not want to comment on those individual issues and the performance of individual LEFs at the moment. That will come during questioning.

We believe that the overall performance of the LEFs highlights a dilemma for the Scottish Executive. A clearly designated universal brief, guideline or task list—whatever you want to call it—from the Minister for Enterprise and Lifelong Learning exists, but it is apparent from the action plans that in many cases it has been ignored and not been taken seriously by local economic forums.

The question that needs to be addressed, perhaps by the committee, is what pressure the Scottish Executive needs to apply to ensure that the action plans are implemented and the job is done. Overall, it is clear that many of the action plans are long in talk but short in commitment.

We believe that it is apparent from the action plans that the better-performing LEFs recognise the opportunity whereas the poor performers simply saw it as a commitment to maintain the status quo. They did not want to do anything at all.

We have been asking ourselves whether the LEFs have met our expectations. They probably have, but we had low expectations from the start.

The Executive needs to take some hard decisions. Based on the mapping exercises and on rationalisation issues, we do not believe that we can depend on individual LEFs to take the hard decisions on cutting the confusion of duplication and on rationalisation. We need an outside review of the mapping and an outside judgment on what agencies should be involved in economic development and business support services. We cannot leave that decision to individual LEFs because we do not believe that they will make those hard choices.

**Iain McMillan (Confederation of British Industry Scotland):** Thank you for inviting me to give evidence. I also thank the convener for breaking new ground—it is the first time he has

ever described me as a distinguished gentleman.

To build on John Downie's point, CBI Scotland welcomes the committee's continued interest in the local economic forums. We believe that the search for a more accessible, coherent and effective system of local business support is important for business and for Scotland.

We are not involved in the LEFs; our commitment is with the ministerial task force that oversees them. Our chairman, Jack Perry, serves on the task force for Scottish Enterprise.

In our original evidence to the committee, we advocated a rationalisation of business support and much clarification on the boundaries between the various economic development support players. Although we did not call for the formation of the LEFs, we recognise that that has provided the potential to make progress. However, we share the reservations that John Downie expressed.

It is clearly too early to assess whether the LEFs will be successful. Evidence on that will accumulate over time. If our members do not become more satisfied with the coherence, accessibility and quality of business support, that will be a signal for the committee to have another look at the model in the future. We certainly believe that the process that has been followed by the Executive and the LEFs, and the forming of the ministerial task force to give strong central oversight, is the right way to go.

There are three areas of concern. When the decision on the creation of the LEFs was taken, we argued that they should be business led and should have a majority of business people on them. That has not happened—the LEFs have a preponderance of public sector members. We have no complaint against the public sector per se; our argument is that the consumer of any product should always set the agenda and the fact that the producers tend to be in the majority on the LEFs puts that in jeopardy.

We accept that public sector reform can be slow, but it is more than 18 months since the committee's report recommended the formation of the LEFs. Although a good deal has been achieved thus far, real improvement on the ground still appears to be some way off.

The Scottish Executive is right to be concerned that only one LEF has made proposals for cost savings that could be redirected. That concern is justified, although the prime purpose of the reforms was to improve coherence and accessibility to the business support system. We would expect cost savings to arise, but we do not believe that they should be the main determinant of the success of the reforms.

**Bob Leitch (Scottish Chambers of Commerce):** I was a little surprised that you said that I am on the right, convener. I want to make clear to the committee that that is not a political statement—it refers to where I happen to have sat down.

**Brian Fitzpatrick (Strathkelvin and Bearsden) (Lab):** We take that as read.

**Bob Leitch:** The Scottish Chambers of Commerce has been part of the system since it started. We are represented on 11 of the 13 forums and were involved in encouraging private involvement in the other two.

I agree with my colleagues that it is still early days—the implementation plans have just been laid down and we have not had the opportunity to assess how they might work and what benefits they might yield. Bearing that in mind, in our view the review has been less than fundamental. It did not address the relative powers that are exercised by the enterprise network and by local authorities, or the overlap and duplication in the delivery of those powers. Does the Scottish Executive need to have environmental or financial powers? Do local authorities need to be involved in economic development? We are not saying one thing or the other—simply that, to date, those issues have not been answered by the review.

A lot of sensible work has been done on examining activity overlap, which has been beneficial. Although that will involve some resource savings as the implementation plans fall into place, it is—as the director of the Scottish Chamber of Commerce described it—perhaps moving around the deckchairs rather than addressing the major issues of delivery.

I must agree with my colleagues that in some forums there has seemed to be a difference in parity between the public and the private sectors. That has affected the way in which the implementation plans have been drawn up and it will probably affect how they are delivered. The consumer is the most important person. The representation of consumers in the forums is perhaps not as strong as it might have been. That is not true of my forum, in Ayrshire, where there is a 6:6 balance between the private and public sectors. That has benefited the outputs.

There have been some indications that there was a preconceived blueprint of what the outcome might be. It was suggested that if any forum appeared to suggest a minimum of overlap in its report, that would be cast down as not the kind of thing that should be found. The thing that we were to look for was overlap; if we did not find it, it was thought that we had not reported effectively or efficiently on what was happening.

10:15

The draft proposals on the business gateway, which were issued last week, have been done quickly, with little consultation and with little time to consider any input. A response was sought extremely quickly after the issue of the draft paper. We are not saying that what is proposed is good or bad. We are simply saying that, in the time scale that is being allocated to consider the proposal, it is unlikely that any valid input will be got from the business sector.

We fear that, at the end of the day, if the forums are to continue, there is a danger that they might simply become another level of bureaucracy. We would be concerned about that. It is important that, if they are to continue, they are guided towards specific subjects, such as education and training. They must certainly be given a valid role that adds value rather than another level of bureaucracy to an already massively bureaucratic system.

**The Convener:** Thank you. I should make it clear that our current discussions relate to the LEFs in the Scottish Enterprise area. I emphasise, for the record, that we will hold a separate review of the LEFs in the Highlands and Islands, which have a number of differences.

**Miss Annabel Goldie (West of Scotland) (Con):** I am one of only three remaining original members of the committee who were involved in the committee inquiry into the provision of business development services at local level—Elaine Thomson and Marilyn Livingstone are the other two.

I must say that, when I look at the report of the task force and the measure of progress to date, I am staggered to find that, since May 2000, which was the denouement of everything the committee had been considering and the conclusion of massive evidence taking, matters have not simply proceeded at snail's pace, but the snail seems to have been clogged up with constipation. I want to hear from the three of you what the dose of laxative is to be.

John Downie said that he thinks some of that work now has to be lifted out and given to external agencies. I think that the phrase

“an outside review of the mapping”

was used. Is that a view that the other two witnesses share, or have you any other suggestions for trying to breathe some life into that area? The rate of progress is absolutely unacceptable, and is incredible given the volume of evidence that was taken more than two years ago. I am not blaming the three of you as individuals—far from it—but I and other external onlookers are aghast at how little has been achieved in real terms since the committee

relinquished property of the review.

**The Convener:** We shall hear from Iain McMillan and Bob Leitch, and then from John Downie.

**Iain McMillan:** I mentioned our concern about the rate of progress in that area. I have not spoken with John Downie in any detail about his proposal. Annabel Goldie referred to a laxative. If the bowels have started to move, albeit it is late, a laxative may not be required at this point. It is certainly important for the committee, if it sees fit, to send a clear signal to the Scottish Executive and its agencies that greater progress is expected.

**Bob Leitch:** In general, I agree with that view, but we must remember that in bringing together the local economic forums we have brought together a lot of partners and parties that were never brought together before. In any marriage, it takes some time for things to settle down and for trust to be established. That is the stage that we are probably at now. I know that things have not moved as fast as you or we would have liked, but considerable progress has been made. We should now concentrate on developing that and not worry too much about how long it took us to get here.

**John Downie:** I agree with Bob Leitch: the involvement of the public sector agencies and of the private sector in talking and working together is some progress. The problem is that, apart from the Glasgow local economic forum, there seems to be universal reluctance to carry out effective mapping of the overlap between the partnerships, business support services and economic development services.

We are at the stage at which each LEF has produced mapping. The Borders LEF has been mentioned. It put together its action plan before it carried out the mapping. That is to put the cart before the horse.

We believe that although there has been a lot of scrutiny of the mapping, the local public sector agencies that have been working together in partnership for a number of years are reluctant to make hard choices. They have been reluctant to say, "We will do this; you will not do that," or, "We will take this away from X and give it to Y."

By external review, we mean that perhaps the ministerial task force needs to come in and work with the LEFs. The Scottish Executive's central support unit could help the LEFs make those harder choices. More momentum needs to be given to the implementation of the plans.

**Miss Goldie:** Do Mr McMillan and Mr Leitch agree with that proposal?

**Iain McMillan:** Any involvement from the centre in local economic forums is certainly a possibility, but it should, I think, be a last resort. However, I

would not rule it out. As I said previously, given the voluntary nature of how the various actors work together in each area, perhaps they should be given a little more time if things have started to move.

**Miss Goldie:** But what is a little more time, Mr McMillan? We are now talking of a time scale that is in excess of two years. The assessment of forum action plans that will follow on from the committee report raises more question marks than substantive ways forward. Are people just going to talk for the next two years?

**Iain McMillan:** No. Miss Goldie mentioned how long ago the committee started its work on local economic forums, but I am not sure when the Scottish Executive fired the starting pistol to get the forums moving. From the forums' point of view, the starting point would be when the Executive began its work, not when the committee started to form a view.

**Miss Goldie:** That is a fair point. The intention that the report should be implemented as far as possible could come only from the Scottish Executive, as there was no other instrument by which the implementation could be effected.

In the overall scheme of things, given the backdrop of Scotland's current economic growth, our alarmingly poorer business start-up rate and the need for local economic forums to be up and running efficiently, it is disappointing that things still seem to be behind closed doors and clogged up.

**Iain McMillan:** That is absolutely right. That is why I said in answer to the first question that if the committee sees fit to do so, it should send a signal to the Executive, which Annabel Goldie mentioned as being the prime engine in this area. At least in the first instance, the route should be through the Executive.

**Bob Leitch:** I too would be a bit hesitant about what John Downie's plans are at this stage.

Iain McMillan made the good point that although the Enterprise and Lifelong Learning Committee started on the subject earlier, the actual process started only about a year ago. Given the bodies that have been thrown together—people who have been put together into the one room for the first time in their lives—reasonable progress has been made, although it is not as great as we would have wanted.

As Iain McMillan said, it is time for the committee to underline that although progress has been made, we need to get on further and get the implementation plans in place. If within a reasonable period of time—if I remember rightly, the implementation plans should be completed by about October of this year—the plans do not work



and are not seen to add value, we should certainly take another route.

**John Downie:** A number of the LEFs asked for a six-month extension to the deadline by which the action plans should be submitted to the Executive. They asked that the year one deadline of 1 April 2002 be extended to 1 October 2002. By doing that, they are really extending the year one task list into year two, so instead of being a two-year process, the LEFs will take two and a half years. We will probably have an extension of year two.

Frankly, from the business community perspective, the fact that the LEFs want an extension just now shows their lack of seriousness about the implementation plan. We believe that if you give the LEFs an inch, they will take a mile and the task list will slide even further. The crux of the matter is that harder choices need to be made. As Iain McMillan said, the Executive, through the ministerial task force and the central support unit, needs to propose a harder implementation process to get the LEFs to implement their action plans.

**Elaine Thomson (Aberdeen North) (Lab):** One of the things that you were suggesting, John, was that the underlying mapping process has not been undertaken as fully as you had hoped. Do the other witnesses support that view? The mapping exercise is the basis on which much of the forward action is to be based. If it is flawed, that will cause difficulties.

**Iain McMillan:** I agree that if the mapping process were flawed, it would cause difficulties. I do not have a great deal of knowledge of the mapping exercise, but it may be the case that some local economic forums are making heavy weather of it. I return to the point that I made earlier: the Scottish Executive has to look carefully at the rate of progress and decide what, under the circumstances, is reasonable. It must then demand greater progress or allow a delay.

**Bob Leitch:** That is more true in some areas than it is in others. In some instances, the public sector was not keen to reveal all its processes and how they were used. My understanding is that the mapping process is complete. An examination would need to be made to see whether the maps are comparable and equal for all areas and what information they contain. That is where the truth lies about the effectiveness and efficiency of the mapping process.

**Elaine Thomson:** That remark supports the point that John Downie made: that some kind of independent review or audit of the mapping process is needed to validate the consistency of the process.

**John Downie:** A comprehensive mapping exercise was undertaken in Glasgow. That was in

place before the local economic forums started. Because tourism was on the year two task list, a number of the LEFs, particularly in the Highlands and Islands, left it off their mapping exercises. They did not involve the business support services that are delivered by some of the area tourist boards. Bob Leitch rightly said that the process was flawed, as some public sector agencies did not want to be open and transparent about what services they delivered. The mapping process raises serious issues.

**Elaine Thomson:** The committee is interested in the way forward. Annabel Goldie referred to that. It is important. A number of the reports contain positive things and that is evident in some of the things that have been agreed for the task force. Should we be picking up on some of the good points about joint delivery of economic services, as has been proposed by the Aberdeen LEF amongst others? Should we develop single business gateways and say firmly to all LEFs, "This is the direction in which we want you to go"?

**John Downie:** Bob Leitch made the point that it is the decisions about who does what that are important. Should local authorities be involved in business support services? Our view is that they should not. They should be involved in economic development in the widest sense of the definition in terms of infrastructure and planning.

People still say, "You do that bit and we will deliver this part of the service." The agencies have to be clear about which one is delivering what service. There should be no duplication. We are still hearing people say that they can work together to deliver services, when what we want is clarity. It should be decided which agencies deliver which service. They do not always have to work in partnership. We can be clear who does what at the economic forum level—that is what partnership is. The delivery agencies will then be clear about their remit.

**Iain McMillan:** I agree. There was also a proposal somewhere—perhaps by one of the review groups—about Audit Scotland's involvement. Audit Scotland could have a helpful role at Scottish Executive and local economic forum level in clarifying and testing objectives, processes and outcomes with key players. Alongside that, there is an unassailable case for best practice to be understood and transposed to some of the other local economic forums.

There must be a blueprint, but there is a case for allowing LEFs to arrange their business in a way that takes account of local circumstances. Sometimes, there will be a tension between what is right locally and adherence to the grand agenda, but that is not too problematic. There should be scope for both.

10:30

**Bob Leitch:** We agree that we must get on with things. There must be some form of branding—that is important—but I hope that that will not remove flexibility from the system. There is no point in having the same delivery in Glasgow as in Banffshire, for example. Different local circumstances have different needs. We must—I hope that we always will—accept that. We must consider branding and how that can be delivered to the public with least confusion. Frankly, the consumer does not care who delivers as long as they deliver. We can act on such issues fairly quickly.

**Elaine Thomson:** I have a final question.

**The Convener:** You should make the question short—four other members are waiting.

**Elaine Thomson:** Scottish Enterprise's environmental remit came up in the background papers. Will someone throw light on that and on what issues are coming up?

**Iain McMillan:** I am not terribly sure.

**The Convener:** I do not think that the witnesses have given the issue a lot of thought.

**Iain McMillan:** No.

**Tavish Scott (Shetland) (LD):** Issues such as a lack of open dialogue between the public and private sectors, the private sector's being swamped in respect of representation and the public sector's not being open and transparent have been discussed. I accept that evidence will always be general, but it would be extraordinarily helpful—with respect to your request to us to send a signal to the Executive—if you could substantiate in detail what you have said and tell us about particular areas and particular local economic forums. Can you do so now or in written evidence later?

**John Downie:** We would be more than happy to submit written evidence. We prepared for the two ministerial task forces a briefing that we submitted to the Executive. It included our basic views on each of the local economic forum action plans. The committee is considering the Borders LEF plan, so I will touch on that. Perhaps Bob Leitch and Iain McMillan can speak about other economic forums.

Like Fife LEF, Borders LEF seemed to think that it was the model for local economic forums. We think that that brought complacency. Borders LEF believed that it did not have to do anything because its previous local economic forum worked so well. It believed that it was the model for the new system.

As I said, the action plan that Borders LEF completed was put together before it carried out a

mapping exercise. It refused to admit that there were problems in its area. However, through business opinion and focus groups that it held with businesses, it realised belatedly that there were problems. That is why its plan is so weak. Our representative on the forum asked for sight of the mapping exercise, which we believe is flawed. It took an hour of argument with the chief executive of the local enterprise company to get him to hand that mapping exercise over. However, I absolve him of any responsibility for that because he has been reasonably proactive on the issue and was upholding the view of the forum and the forum chairman.

Business opinion is critical of business support services in the Borders. There is no relationship between the forum and the business community. The Borders had a new ways plan, but there was no relationship between that and the business community. There has been no partnership assessment despite our repeated requests for one. Those are the key points from our representative in the Borders.

**Tavish Scott:** Other witnesses could follow that up. It would be important to have some of the detail behind the statements. If witnesses wish to provide that in written evidence, that would be helpful.

I have a question for Bob Leitch. You talked about precise remits for local economic forums and mentioned that the focus should perhaps be on education and training. Will you enlarge on that view? Are you suggesting that, if that were the focus, a lot of other stuff would be moved out of the way and the forums would concentrate on one or two things and get them right?

**Bob Leitch:** That is the bottom line. Unless the forums become specifically directed they will simply become another tier of bureaucracy. We have always said that skills are important; indeed, the Enterprise and Lifelong Learning Committee and the Executive have said that skills are the future of Scotland. It would be worthwhile to give the forums a specific task that can be seen to add value. The alternative is that they simply become another body in local economic development that is trying to pull together the various objectives. The business review has specified the direction in which we should go—that should now be implemented. After that, let us do something that will add further value elsewhere.

**Andrew Wilson:** I am relatively wet behind the ears on this inquiry, so my question is more fundamental. It strikes me as ironic that we have set up a relatively bureaucratic and overlapping system in order to reduce bureaucracy and overlapping. If you were starting again from scratch, would you bother? I wonder what lessons that teaches us for the lifelong learning inquiry, in

which we seek to do broadly the same thing. We run the risk of making the same mistakes again.

Do Scottish stakeholders, business stakeholders, economic stakeholders and—most important—public sector stakeholders ever reform themselves when they are put in a room and asked to reach a conclusion? Will this model ever work, or will we be here in a year's time with the same frustrations being expressed by Annabel Goldie? You are not exactly setting gladiators against one another and asking them to battle to the death to make the hard choices to which John Downie refers. You are asking them to say, "If we put down our weapons we can both come out of this stadium alive." Would you bother to start from here? If not, will the external advice to which John Downie referred in his evidence work? A ministerial task force should look beyond the bounds of the public sector. What is the solution?

**John Downie:** There are several solutions. We have talked about a Scottish framework for economic development and business support services, and local flexibility for delivery. That framework needs to be set in place. The minister set out guidelines and task lists for the local economic forums that we believe have been ignored in certain cases. Andrew Wilson made the point about how seriously the public sector takes the matter. Many LEFs had meetings every two weeks. There were sub-groups and a lot of work was involved. Borders LEF had one meeting in June, but did not have another until August. That shows how seriously the Borders took the process of involvement with the business community.

Bob Leitch and Iain McMillan have both made the point that we need more private sector involvement. We acknowledge that there must be partnership, but the mapping exercise and scrutiny of the mapping are followed by hard choices. We believe that the cosy relationship that exists between local public sector agencies that do not want to upset each other will be a disincentive to making those hard choices. That is where the Executive or the Parliament must come in. They must help to bridge that gap and make the choices. The fact is that we might come up with better action plans if we had greater private sector involvement and if we listened to consumers' views from the start.

**Iain McMillan:** Andrew Wilson's question is good. I said earlier that the LEF result is not the model that CBI Scotland would have chosen, mainly because of the points that underlie Andrew Wilson's question. However, we are where we are and the train has left the station. I do not say that we should roll the film back and start again; the forums will have some use. For example, careers Scotland will kick in on 1 April, which should strengthen careers and education-business

partnerships at a local level. It is fair to say that the forums will provide an opportunity for more engagement and better coherence in understanding of labour market trends and careers advice, education and training issues.

That said, there is both a bureaucratic element to all of this and the risk that things could be worse. We thought that the decision to set up new bodies was rather odd at a time when everyone was trying to reduce the number of non-departmental public bodies and agencies. However, as I said, we are where we are. If the Scottish Executive exercises—where appropriate—stronger direction over mapping, coherence and time scales, we should give things a chance to work.

**Bob Leitch:** As Iain McMillan said, Andrew Wilson's question is a good one. It is important that we assess our current position, what we have achieved and what we can achieve in future. On the positive side, it is excellent that we have reached this point and that we have driven together people who have never been together before. Perhaps there should be some directive to increase private sector involvement in LEFs in which the level of such involvement is not proportionate. However, the private sector must earn its living during normal working hours, which means that forums should meet in the evening or at times when private sector representatives are more able to participate.

As far as the partnership element is concerned, much has been achieved in encouraging people to work together for their mutual benefit. The other side of the coin is that we must regularly examine whether LEFs are adding value. If not, they should be stopped.

**The Convener:** Andrew, do you have a short supplementary?

**Andrew Wilson:** No, I am fully content with the responses.

**Marilyn Livingstone (Kirkcaldy) (Lab):** As one of the original committee members, I have been listening hard to what has been said, and I want to make a couple of points before I ask my question. Previously, the committee unanimously agreed that there should be local flexibility and that local government, Scottish Enterprise and so on should be involved and would still feel that local areas know best what will work for them. As a result, I am very encouraged by Bob Leitch's comment that much good partnership work exists. Obviously, I have experience of the LEF in Fife, because that is where my constituency is. I was involved in the original committee report on this issue, so I have been keeping a close eye on how things are working in that area.

Although it is important to have central

guidance—indeed, a framework has already been mentioned—we also need local flexibility. I have heard locally—the committee has heard evidence to this effect—that people feel that there is not enough guidance. Do you think that LEFs will produce enough local flexibility to deal with specific issues?

**The Convener:** Could you keep your answers tight, as we are running up against our time limit?

**Bob Leitch:** I agree that local flexibility is important, as is branding. We need to strike a balance between branding and local delivery, which is not always easy. As soon as something is branded nationally, there tends to be national dictatorship of how that brand is run. At a local level, we are greatly concerned about that. We are happy with national branding, which is important for getting the overall picture right. However, that branding needs to be delivered locally by local people.

10:45

**Iain McMillan:** I agree with that. As I said, there is a very strong case for local economic forums to be given guidance, with high-level objectives agreed by the Scottish Executive and the Enterprise and Lifelong Learning Committee. However, there must also be scope for local flexibility. Sometimes there can be tension between those two things, but where there is good will, the system should work.

**John Downie:** As a general principle, local delivery works quite well. However, as Marilyn Livingstone said, we need a national framework that is set by the Scottish Executive that provides clear guidelines on the task that must be performed, and we need local discretion to do that. It has always been hard to judge what should be the balance between national guidelines and local discretion. Previously, LECs had much more flexibility than they currently have in relation to national programmes. Assessment and local delivery are key. Scotland has a small economic and business support services community. How much scope is there for local flexibility? I agree that it is necessary, but we need to strike the right balance between putting in place programmes that can develop the Scottish economy and delivering those programmes locally.

**Marilyn Livingstone:** You are saying that we need a national framework and audited local flexibility. That is how the committee has always envisaged the system working. We take on board the points that have been made about the need for auditing.

One criticism that I have heard is that the system is continually changing. It is important to ensure that, once a system is in place, there is

stability in the delivery of business development and skills. We are seeking to overhaul completely education and training. As Andrew Wilson said, we want to take on board issues that were raised in our previous inquiry into education and training.

We need to achieve stability locally. We must ensure that one or two partners do not impose changes that the local economy does not want or need. I am concerned with getting the system right, with getting it working and with getting stability in the provision of business support services and education and training. In evidence, we have heard that there has been a lot of change. How do you think we can achieve stability? John Downie talked about ensuring that best practice is extended to areas of Scotland in which the system is not working.

**The Convener:** Our witnesses may follow up on their answers with additional written information.

**Marilyn Livingstone:** The issues that I have raised are very important.

**Bob Leitch:** Marilyn Livingstone is absolutely right to say that stability is vital. If something is not working, we must not regard it as broken down or bad, which has always been the attitude taken in the past. We should have a national task group that is able to support and assist people, and to put right what is wrong helpfully, rather than a detrimental one. The answer is to build a framework in which people help one another to get the best results.

**Iain McMillan:** I agree with Bob Leitch. As has already been said, the ministerial task force is overseeing the work of the local economic forums. There is scope for reviewing that. As Audit Scotland builds up experience of the performance of local economic forums, it can spread best practice.

**John Downie:** I agree with Bob Leitch and Iain McMillan. Stability is an issue.

I think that seven or eight of the LEFs wanted to change the small business gateway into the business gateway. We need stability. The small business gateway has been in place for less than 18 months, but there is evidence that it is beginning to establish itself. However, we now have proposals to change again. We need to get the matter right and to have stability of delivery over a few years. As Bob Leitch said, we can then flexibly improve that as we go on. Continual change of branding or delivery is confusing businesses more.

**Brian Fitzpatrick:** It is necessarily a function of general evidence taking sessions that the evidence is general. I did not notice a demurral from Bob Leitch and Iain McMillan when John Downie asserted that business representation on

local economic forums was swamped by the public sector. On that point, is that a function of the calling notes for the forums? Are the arrangements impracticable for small and medium enterprises? What is going on and in what ways can we be helpful? What can we do to improve the situation? That is my first point. You can deal briefly with that, as we are mindful of the allocated time for the oral submissions.

Secondly, on rationalisation of business support, it strikes me that pulling back from duplication allows us to concentrate effort and resources elsewhere. That must be a benefit and a goal. We look to your constituents to assist in some of the pathfinding towards rationalisation of business support. The Dunbartonshire LEF, which covers my constituency, seems to be doing well in relation to common marketing and common access. That kind of concrete evidence would be much more useful to committee members if, for instance, we lobby the ministerial task force formally or informally. I invite those kinds of comments.

**The Convener:** Keep it tight, please.

**Brian Fitzpatrick:** The comments do not necessarily have to be oral.

**John Downie:** Brian Fitzpatrick asked a very full question. I do not think that I can answer it all orally, but we can add more points in writing.

Bob Leitch pointed out that the balance between the public and private sectors in his economic forum helped the progress of the action plan and will probably help the progress of the implementation. The problem was that the involvement of the private sector—the Scottish Chambers of Commerce and the Federation of Small Businesses—was set out. That situation needs to be considered.

We learned a lesson about business organisations supporting their members on LEFs. I do not know whether Bob Leitch will agree. It is difficult for business people to give up time to support LEFs. We need to be flexible in how we adopt processes, to ensure that we get private sector involvement and input that also allows people to run their business.

**Iain McMillan:** I will comment briefly. The ratio of public sector involvement to private sector involvement in LEFs is variable, but there is no question but that the public sector is predominant. That is a matter of public record. I do not think that it will be difficult for the committee to get the figures on that from the Executive.

I reiterate that the position is not public bad, private good. The private sector is the consumer of the services that are provided by the public sector. If greater weight is given to the private

sector than is currently given, the needs of the private sector can be articulated consensually to the public sector delivery organisations that are on the forums.

**Bob Leitch:** In a nutshell, I agree. I raised that earlier, to a certain extent. We are happy to give written evidence on private and public sector involvement in each of the local economic forums. However, I stress that this is not a public versus private sector event. That is not how we look at the situation. I hope that no one looks at it like that. The forums were set up as they were set up. The forums did not make that decision, but were presented with it. Perhaps the forums' balance needs to be changed to help the development of the various subjects that the forums are considering.

**The Convener:** I have a final question on the matter. I have been in the economic development game for what seems like 300 years. For the past 11 or 12 years there has been an interminable debate about the structure of the development delivery mechanism. The next item on the agenda is Scotland's place in the international economy. The message I am picking up, albeit with a slight difference of emphasis on the pace, is that we must try to resolve those issues and reach agreement on the way forward. That will give stability to the system and allow people to get on with the job of delivering the services that they are meant to deliver.

In the private session that we had last year with the Minister for Enterprise and Lifelong Learning, her view was that it is time that we bit the bullet. I think that she has expressed the same view publicly. The theme from this morning's comments seems to be that the time is fast approaching when we must bite the bullet once and for all, otherwise we will continue talking about the matter for the next 10 years. Is that the bottom line of what the witnesses said?

**John Downie:** Yes.

**Iain McMillan:** I agree. Nothing is intrinsically wrong with the building blocks that are in place. The issue is how they are co-ordinated and the added value from them working together. There will always be questions about who does what, particularly as the situation changes. I met the Los Angeles County Economic Development Corporation in Los Angeles in November 2001. Its agenda is similar to ours. The tensions and the way in which it works with other organisations are just as challenging.

**The Convener:** Thank you. We look forward to supplementary written evidence to back up what the witnesses said this morning.

We have a problem with the heating; it is a bit cold at this end of the room—I know that there

have been cuts in Scottish Enterprise's budget. I suggest that we adjourn for two minutes to get a quick cup of coffee.

10:57

*Meeting adjourned.*

11:02

*On resuming—*

## **Scottish Development International (Strategy)**

**The Convener:** I welcome Sir Ian Robinson, who is the chairman of Scottish Enterprise, along with Neil Hood, who is the deputy chairman, Robert Crawford, who is the chief executive, and Martin Togneri, who is the senior director of international operations. The purpose of this morning's session is to discuss the international development strategy. I ask Ian Robinson to introduce the item.

**Sir Ian Robinson (Scottish Enterprise):** Good morning, ladies and gentlemen. I am delighted to welcome you to Scottish Enterprise's new headquarters. I thank the committee for giving us the opportunity to present evidence on our global connections strategy and on our activities to establish Scotland as a major player in the global economy. The topic is important and we are pleased to give evidence.

I want to say a brief word on each of the witnesses. Neil Hood, as well as being deputy chairman of Scottish Enterprise, is a recognised authority on the Scottish and global economies and international business, so he will be helpful. The committee knows Robert Crawford well. He is doing a terrific job of running Scottish Enterprise. Martin Togneri, as the committee knows, is charged with the implementation of Scottish Development International. He has an important place. I hope that we can all add value to the discussion without getting in one another's road.

Martin Togneri will begin by introducing Scottish Enterprise's involvement in the global connections strategy and the role of Scottish Development International. We will all participate in the question-and-answer session.

**Martin Togneri (Scottish Enterprise):** As the chairman said, I will explain Scottish Enterprise's contribution to the global connections strategy. Last winter we updated and unified the strategy for all our international activities. Meanwhile, our minister—Wendy Alexander—said that, later in 2001, she would publish a global connections strategy to expand on the international dimensions of "A Smart, Successful Scotland". Those go beyond our activities. For example, they also cover the work of VisitScotland. Our revised strategy was adopted by the Scottish Executive as a key contribution to the broader global connections strategy that was published last October.

I turn to the strategy itself. Our past approach to international economic development focused almost exclusively on inward investment and exports. That yielded good results for the 1980s and 1990s. However, the world has changed dramatically. In particular, the fundamental role of knowledge in creating sustainable regional economic growth has become ever clearer and we have seen a rapid acceleration in the pace of globalisation.

We now need an approach that is based on the better exploitation of knowledge in the context of accelerating globalisation. Instead of focusing only on supporting Scottish exports and attracting investment into Scotland, we need to support the export of Scottish knowledge out into the world and attract the world's knowledge to Scotland.

Looking first at getting Scotland's knowledge out, we acknowledge that exporting is one of the key ways that that happens. However, we also need to help Scottish companies to use deeper forms of internationalisation, such as technology partnerships with foreign companies or making their own overseas investments.

That has a critical connection to our business birth rate strategy. Accelerated globalisation means that many new companies must be international players from day one. Increasingly, we find that we are working with much younger companies than ever before.

We also need to work on the outward agenda with our universities in order to help them to commercialise their intellectual property and research capabilities overseas as well as at home.

On bringing the knowledge in, we will change our inward investment focus to target research and development projects as well as the more traditional types of inward investment. That highlights another critical link with our work in skills and training. Winning knowledge-intensive inward investment depends upon us having the talent that new investors need. Without a skills strategy that is closely aligned with the needs of the global connections strategy, that would be difficult to achieve.

We will also go beyond inward investment and seek new ways to bring overseas knowledge into Scotland. We will work with foreign companies and universities to help them to license their technologies to Scottish companies. We will engage people from overseas who have key skills and persuade them to come and work in Scotland. We will work to bring technology investments in Scotland to the attention of foreign venture capital firms.

We have had to change our structure in order to implement the new strategy. In particular, we have merged our overseas operations—the separate

sales forces of the former Locate in Scotland and Scottish Trade International—into a single integrated field sales force. Instead of tackling the Intels of the world via two separate field teams, we will engage them using single account executives. Their job will be to bring the best of Scottish knowledge to bear on helping their clients to our mutual advantage.

When you think about it, companies like Intel are not only potential inward investors or buyers of exports. They also license technologies from elsewhere and license their technologies out. They place research contracts with universities. They invest in other companies. There are many ways in which we could work together but we would never find out what those ways might be if we carried on tackling those companies by using one sales force to persuade them to build factories in Scotland and another to persuade them to buy our exports. It is only by getting such companies to share their strategy with us, and working out how Scottish knowledge can help them to implement that strategy, that we will be able to conduct the most productive relationship with them.

Our domestic activities are also important and I will highlight three of them. Our trade team helps Scottish companies to start exporting or to enter new export markets. Our international business development team helps Scottish companies with deeper forms of internationalisation. Our international networks team builds networks of senior Scots and friends of Scotland around the world in order to harness their willingness to help us.

We have also updated our branding to reflect the new strategy. The names Locate in Scotland and Scottish Trade International no longer describe adequately what we do. They give clients the mistaken idea that we are interested only in inward investment and exports. Indeed, there is increasing anecdotal evidence that those names worked against us.

First, two names is one too many. Secondly, why should the chief technology officer of Toshiba, for example, see an organisation called Locate in Scotland when what she really needs is a new voice recognition technology and she does not want to locate new operations anywhere? We would be doing Scotland no favours if we did not see her because our name gave her the wrong idea of what we were trying to achieve. We have therefore chosen a single new organisation name—Scottish Development International—which best describes the new broader agenda.

As we move away from simply promoting Scottish exports or the location benefits of Scotland, our staff will need greatly improved strategic sales and marketing skills and product knowledge. Helping them to develop those skills

and knowledge will be among our highest priorities for the year ahead.

**The Convener:** Thank you, Martin. That was very helpful, as was the paper that has been circulated, which is much appreciated. I will use the convener's prerogative to kick off the questioning. In the old days, or the pre-SDI days, it was easy to measure the success of Locate in Scotland, as that was measured in jobs. STI was evaluated in terms of new exporters and the level of exports. To some extent, those are still relevant measurements. Taking into account technology transfer, knowledge transfer, the use of e-commerce and other aspects of globalisation, what are the key measures of success now? If we were to ask you to tell us about the success of the global connections strategy a year from now, on what key criteria should we judge that?

**Martin Togneri:** Like the other parts of the economic development network, we are subject to the same target-setting process which, through the joint performance team, leads into Scottish Enterprise's balanced scorecard. That work is being done now.

Although I cannot be specific at this stage, we would expect there to be additional measures that would reflect the new breadth, including the share of inward investment that is related to research, design and development; the share of the jobs created through inward investment that are above a certain salary level—which is a proxy for a measurement of the quality of a job; the number of companies that have created strategic internationalisation plans with our support; and the number of people who have come to pursue semiconductor design careers in Scotland through our technology talent pool initiative. Those are examples of measures that, although they may not be specified in the operating plan, are likely to be added to it in the future.

**The Convener:** Has the Scottish Executive set specific targets for you to achieve year on year?

**Martin Togneri:** Aside from the measures, the targets would be determined through the joint performance teamwork that is under way.

**The Convener:** You touched on the issue of people and skills. One of my concerns in that area, which has not received as much attention from any of us as perhaps it should have done, is the prospect of a population drop. One forecast shows that the population of Scotland could go down as low as 3.8 million by 2065. I am not expecting you to come up with a solution to the problem of depopulation, but that entails a decrease in the percentage of the population that is of working age, which, in turn, affects the availability of the skills that we need to succeed internationally. Could you say a word or two about that?

**Robert Crawford (Scottish Enterprise):** That is a huge question. The global connections strategy will not itself address what is a demographic time bomb. However, aspects of what the strategy seeks to do include the attraction to Scotland of people who may want to come here because of a particular technology, institution or relationship that they regard as important. That requires a wider set of engagements from Scotland—in other words, Scotland being a competitive place. People may want to come to Edinburgh, for example, because a certain job or relationship is there, but also because it is a good place to live and work. There are measures of competitiveness value that all countries are now considering.

The broader question covers issues that are fundamentally controversial, including the encouragement of immigration and the establishment of a green card system for graduating students, both of which I think are being considered. It would be dishonest to pretend that our contribution to the strategy is, by itself, remotely close to being enough to address what is already a demographic time bomb. I agree that it is an important issue facing the country.

11:15

**Andrew Wilson:** The strategy, as I understand it from briefings and from reading it, is first class. The guts of it deal precisely with where we need to go.

I have several questions. I refer specifically to the point that Martin Togneri made earlier. This is a question with which I am wrestling, and I am keen to hear what he thinks, given his experience in inward investment. Is there a contradiction between an employment target, which was contained implicitly and explicitly in the inward investment strategy, and a growth target? Employment is a symptom of the core issue of growth, which is the fundamental question in the Scottish economy. Is there a contradiction and, if so, what do we do about it?

I focus secondly on growth. For ease of exposition, if growth is profits plus salaries, what is the balance? What is being done in the strategy to attract more profits than salaries, which we attracted in the past? What are the witnesses' views on getting headquarters functions embedded and on how they can get companies to do more in Scotland that is sustainable in the longer term?

My next question—I am trying to get them all in at the one time—is on international links. Scotland is already relatively exposed internationally, which brings ups and downs. There are obviously downs in the current climate. Do we have a target share, or even a sense of what share of the economy



should be exposed internationally? What would be the optimum? There is probably no right answer to that question, but I would like to hear Scottish Enterprise's view on where we are going. Within that question, what are the witnesses' views on the risk spread in exposure to different sectors and different marketplaces? In the past 15 years, we have, by our nature, been heavily at fault—I do not refer to anyone individually—in being overly exposed in one or two sectors.

Finally, what are the core constraints beyond Scottish Enterprise's remit, in which it is working admirably just now? For example, on the macro-environment, is the issue of the euro causing difficulties? If so, should we, as a group of organisations in the public sector in Scotland, take a collective view on it? What constraints are there in macroeconomic policy? Does Scottish Enterprise even analyse that? If so, how do they respond to the constraints? Are any constraints within UK trade policy putting us at a competitive disadvantage?

**The Convener:** I think that that is enough for one question, Andrew.

**Andrew Wilson:** That was three or four questions.

**Brian Fitzpatrick:** That was the first leg.

**Andrew Wilson:** We are okay. The witnesses have written them down.

**Sir Ian Robinson:** I thought that there were about 30 questions, but they raised good points. Perhaps Neil Hood could start by answering the question about growth versus jobs and some of the macro issues. Martin Togneri can deal with some other points and Robert Crawford can wrap up.

**Professor Neil Hood (Scottish Enterprise):** PhDs have been written on less, Andrew. I will be crisp, because your questions contained important issues. We should remind ourselves that, although there is a degree of tension between employment and growth, historically in inward investment we captured early steps in Europe. Historically there was a lot of growth in those waves of inward investment. About one third of that investment in manufacturing over quite a long time was the first entry to Europe by American companies and others.

In some senses that has almost seduced us to expect a level of ramp-up that will not happen. We should not play down the situation. For the United States, the UK might still be an important first step into Europe. That is why the strategy does not bin inward investment. It wraps round and takes a more mature and better-developed approach to the way forward.

We see headquarters function as central. It is

absolutely critical that we ensure first that there is the kind of environment in Scotland that makes indigenous businesses want to have their headquarters here. In addition, ancillary support and regional headquarters for other types of businesses might be located here. Those two aspects are connected to the overall work of the committee. Scotland has to be the kind of place in which businesses will want to develop. I refer to our own businesses as well as to foreign business, which is associated with that.

There is the prospect that attracting business that is higher up the value-added chain might give us more growth, but the matter is not as simple as that. There was an enormous ramp in the early stages of companies developing personal computers for Europe in Scotland and great growth was associated with that.

I will touch on a second point before, as the chairman directed, Martin Togneri comes in. I am not sure that we know what the optimum international exposure is. It depends on how we measure it. We could scarcely comment on a more open economy than that in Scotland one way or another. Although our economy is highly internationalised, we have not yet captured the economic development that internationalisation provides in some parts of it. The specific example of that is universities, which form one of the most internationally oriented institutions in Scotland. They have all kinds of connections with research contracts and a bundle of related activities. One of our major challenges is to capture some of that as part of the global connections strategy.

**Martin Togneri:** I will try to address some of the points that Neil Hood did not cover. An important issue is salaries versus profits. The issue of how the global connections strategy can contribute to the generation of more profit in Scotland has less to do with the inward element of the agenda and more to do with the outward element. The main point is how we can help Scottish companies to become more competitive. Profits and salaries accrue to people who are resident in Scotland and the degree to which they are Scottish profits depends on whether the companies are owned by Scots. That is related to the issue of whether companies are publicly or privately owned. I am not sure that I can give you a specific answer.

The outward element of our agenda, in so far as we help Scottish companies to become more competitive internationally, should generate more profit as well as higher salaries. The change in focus in our inward investment effort more towards research, design and development should also improve salary levels for people working in such companies.

One of the misconceptions about being heavily dependent on inward investment in the 1980s was

that there was a certain choice of sectors to target. Possibly we were choosing the wrong sectors to target, because we ended up getting a lot of electronics inward investment. However, the choice of sectors is actually very limited. In relation to the inward investment strategy, we have to choose the sectors in which there is a high demand from foreign companies for overseas locations.

For 15 to 20 years there have been three big sectors looking to inward investment—electronics, automotives and chemicals. We were strong in electronics, chemicals tended to have a high proportion of mergers and acquisitions in its foreign investment and we were not strong on automotives. Therefore, our inward investment strategy was heavily dependent on electronics. A broader international strategy that is less dependent on inward investment, such as the one that we are proposing, gives us the flexibility to consider a wider range of sectors and not just as inward investment targets.

**Robert Crawford:** At a recent Scotland International business event, Sir Ian Robinson and I heard the chief executive of a major global corporation say that he did not think that headquarters functions mattered. I could not disagree more with that point. The location of headquarters function—indigenous, regional and international—is fundamental and important for a variety of reasons. Our economy is weak in marketing skills, partly because we have a low level of headquarters function in Scotland.

We are interested in macroeconomic policy and we pursue it mainly through Charlie Woods's team. We will discuss that later. We do not have an independent model and I do not think that we need one. The key element of our strategy is its connection to other aspects of Scottish life. The bias of the strategy presumes that foreign engagement should support and extend indigenous enterprise and institutions, rather than taking the form of inward flows of investment. The bias is linked into the Scottish economy.

I did not answer Alex Neil's question on the numbers because it is difficult to measure. The strategy is pretty radical—I have not heard of anyone else doing this. However, we do not have any choice. The events of the past six to nine months demonstrate the significance of our approach. As the previous witnesses mentioned, we have to have a long-term, no-panic strategy. We might get it wrong in the first few years, but we must pursue and develop it.

**Andrew Wilson:** Are there any macro constraints, such as the euro trade policy, that we should be aware of?

**Robert Crawford:** There are a variety of trade-related issues, such as the growth of the World

Trade Organisation, the impact that China is having on the Asian regions in sucking in investments that were previously going elsewhere and the implications for Scottish businesses engaged in world markets.

There are always other macroeconomic restraints. At the moment the euro is not one of them, but it might become so. Businesses across Scotland and the UK are sending mixed messages, which reflect different experiences of being able to hedge and so on. As far as I am aware, for many of our customers that does not represent a constraint on flows of investment into the country or on engagement in foreign markets.

**Miss Goldie:** My question is a little more homespun. What proportion of your budget is being deployed on funding an international development strategy?

**Robert Crawford:** The funding is in two parts. Scottish Development International spends about £15 million. To return to what I said earlier, more is spent on supporting international engagement through the provision of, say, science parks, business incubators or the cluster strategy, which have a built-in international dimension. That expenditure, the purpose of which is to support Scottish businesses, will grow rather than diminish.

If your question is what specific amount do we spend on our international strategy, the answer is £15 million.

**Miss Goldie:** I want to return to the questions on monitoring and evaluation. The Scottish Executive's document "Scotland: a global connections strategy" mentioned the joint performance team. I am not clear how you interface with that team—is someone from Scottish Enterprise on the team? How many meetings have been held to discuss measurement and evaluation?

**Robert Crawford:** Charlie Woods represents Scottish Enterprise on the joint performance team, which is chaired by Dr Goudie, the chief economist. I think that the joint performance team meets monthly, although I might be mistaken. To return to the convener's question, the team's output will be reflected in the output measurements that we will introduce in the forthcoming financial year.

**Miss Goldie:** It would be helpful to know more about what those measurements are.

**Robert Crawford:** If it is appropriate, we will share that information with you in the informal session. We will happily give you more information, if you would like.

**Miss Goldie:** Is it not appropriate for that information to be in the public domain?

**Robert Crawford:** It is in the public domain. It has been published on our website.

**Sir Ian Robinson:** From a broad perspective, we examine the targets monthly. That is not a direct answer to Annabel Goldie's question. We are very output and delivery orientated. We have introduced specific twice-a-year sessions with the press and other opinion formers at which we go through progress against our targets and outputs, so that there is as much transparency as in a public company.

**Miss Goldie:** I am perplexed about the board making a judgment on budget allocation. Fifteen million pounds might be a paltry sum—perhaps the amount that is devoted to Scottish Enterprise's international strategy should be increased vastly. I do not know how the board can make a judgment on priority spend, unless it has some idea about what all the work in this area achieves.

**Sir Ian Robinson:** The board met here on Friday and spent a long time on budget, budget allocation and priorities. Clearly, there is a lot of history associated with where money has been spent and where good returns have been achieved. In my view, the agenda in the 21<sup>st</sup> century is different to the agenda of the 1990s, which is why the strategy of Scottish Development International is different.

A discretionary spend is left with the chief executive, subject to board approval. We need to put in extra emphasis to obtain the outputs. The £15 million is the bald lump sum. As Robert Crawford said, we are working around sustaining the strategy in several areas, such as technology and cluster development. The board is satisfied. We are spending the appropriate sum in a new venture on the Executive's recommendation. That venture has been given a huge emphasis and a huge push. If the chief executive needs to add something, he has some discretion to do that—although if he does, something else in the budget will have to give.

**Robert Crawford:** I will clarify some points so that members are left in no doubt. Martin Togneri controls the Scottish Development International budget of £15 million. The total sum that is spent on global connections—including clusters, infrastructure support, buildings and so on—is £92.6 million. The outputs are published each year and are in the public domain. The board gets a monthly report on performance output and, at the chairman's insistence, we publish performance details biannually in the same way that a public or private company would do. That means that, through the year, people are able to judge whether we are hitting our targets.

11:30

**Tavish Scott:** Scottish Enterprise's submission was an interesting read and its appendix contains information that helps with the case that you are making.

What does the fact that 63 per cent of Scottish exports are to Europe mean for the way in which you take the strategy forward? Is that percentage changing? Is it evolving in relation to certain sectors? I have a perception that the United States of America is an important market in relation to this matter.

Digital connectivity is an awful word.

**Brian Fitzpatrick:** Two words, actually.

**Tavish Scott:** Indeed.

At the weekend I saw a table from the Organisation for Economic Co-operation and Development, which showed that the UK was 22<sup>nd</sup> out of 30 developed countries in relation to digital connectivity. That is not based on a Scottish figure, so it would be helpful if you could talk about what the Scottish breakdown might be. The OECD also said that, in France, 320,000 businesses were broadband users, while the UK figure was low. I appreciate that the Executive has announced the pathfinders initiative, which is relevant, but I would like to know how you are addressing that issue.

I visited Compaq yesterday in an attempt to find out what that company is doing in relation to its future in Scotland. The company's research and development department is in Houston and I was told that it would not move from there. Am I right in thinking that, earlier on, you said that Scotland could tap in to that research and development work through academia generating ideas in Scotland that could be delivered under international licence arrangements?

**The Convener:** Before our witnesses answer that question, I remind members that, in order to have only four witnesses instead of five, we agreed with Scottish Enterprise that digital connectivity would be dealt with mainly in a later session that would deal with the implementation of the new economy report.

**Tavish Scott:** I had forgotten that.

**The Convener:** Our witnesses are welcome to answer Tavish Scott's question, of course.

**Tavish Scott:** My wrist is duly slapped, convener.

**Sir Ian Robinson:** Martin Togneri will answer the question on Europe and the USA, Robert Crawford will deal quickly with digital connectivity and Neil Hood will talk about research and development.

**Martin Togneri:** At present, 63 per cent of Scotland's exports go to the EU. We expect a modest change in that situation, the biggest cause of which will be the entry of the accession countries. That will push the percentage of our exports that go to the EU to about 65 per cent.

The sectoral make-up changed dramatically in the early 1990s when electronics, computers and semiconductors overtook whisky as the biggest component of our exports. I am unaware of any major shifts on that scale since then.

The change in the percentage of our exports that goes to the EU will mean that the way in which we operate will change, in that Europe will become a more important priority for us during the three-year period of the global connections strategy. Countries are not priorities in themselves. That is one of the changes that I am trying to get across.

Our priority is to build our priority industries and we should devote the appropriate resources to specific regions or countries, given the balance of knowledge-in and knowledge-out opportunities for our priority industries in those countries. Having said that, it is quite clear that Asia should become a lower priority for us. We have already acted on that; over the past six months, we have shifted resources out of Asia to give us more flexibility elsewhere.

There are two reasons why we need to devote more of the available resource to Europe. The first is that we have historically underinvested in Europe because of the propensity to treat individual countries as priorities. Putting resource into India is the way to demonstrate that India is a priority, but the resource in India ends up being comparable to the resource in France, even though France takes £3.5 billion of Scottish exports and India takes £75 million of Scottish exports. You will see us shift more resource to Europe to try to redress the balance.

The other reason is that we will move to a more knowledge-based focus on our inward investment. Previous generations of inward investment were about market access. Compaq's plant in Scotland is to help its access to the European market. French and German companies already have that market access, because the market that people are accessing by inward investment in Scotland is the European market. However, as we move towards the research-and-development type of inward investment, the driver is not market access but access to skills. The skills are internationally mobile, so if Intel and NEC are short of semiconductor designers, you can bet your bottom dollar that STMicroelectronics, Infineon and the European semiconductor companies are short of them as well. For that reason, you will see a shift in our inward investment activities towards a

greater focus on Europe.

**Robert Crawford:** I will say more about digital connectivity in the informal session, because our position on that is confidential and not in the public domain. However, there is a strong correlation between a country's digital connectivity and its competitiveness and, increasingly, that is being used as a marker by a variety of institutions and organisations. I did not recognise the fact that the UK is 22<sup>nd</sup> out of 30 countries with regard to digital connectivity, but I know that London and the south-east have far greater digital connectivity than the rest of the UK. Edinburgh and Glasgow are at the leading edge of the second group of UK locations, but the rest of the country certainly is not.

We have a proposal, which has been to the board and is now going to the market, to facilitate and accelerate business connectivity in Scotland, but, if I may, I will discuss that informally.

**Professor Hood:** Tavish Scott asked an important question about the mobility of research and development, which is important to us. There are signs that research and development has become rather less centralised—I use those words carefully—over the past 15 years, but the major corporations are still inclined to do research and development in or near to their home country.

That connects closely to where we are, relatively speaking, in Europe. There is a so-called—I do not like this phrase—golden banana in Europe, which swathes across northern Germany and France and into the south-east of the UK, within which a high proportion of European research and development takes place. Major corporations are starting to recognise the labour markets' skills point and tap into university links, but much of that tapping in is virtual; it is done through corporate ventures, investment and research contracts. We are trying to capture more economic development from that. It is not an easy task, but there is the prospect of doing it, and there are trends that indicate that we are on to something that is growing.

**Marilyn Livingstone:** My question follows on from what Neil Hood said. I was pleased to see the emphasis on "knowledge in" and "knowledge out" in Scottish Enterprise's informative submission.

Evidence that we have taken—not just in our lifelong learning inquiry but previously in our higher education funding inquiry—has mentioned the commercialisation of research and development. How do you see Scottish Enterprise's role in working with business and universities to help them? It came over to us strongly that Scotland has quite a good research and development base, but that the

commercialisation of research and development has not been so successful. You talked about the exploitation of knowledge. What is your role in that, and how can you help?

**Robert Crawford:** We have a couple of schemes that are working well—the enterprise fellowship scheme and the proof of concept scheme, which we have expanded significantly. I would be happy to give the convener details of those schemes if required.

There is a strong relationship between the effectiveness of commercialisation and the competitiveness of the country. The logic of Martin Togneri's argument is that we need to do much better than we have done historically. With honourable exceptions, that is true of the whole of the UK. The exceptions are the Cambridges and the Imperial Colleges of this world. The problem is not specifically Scottish, but what is interesting is the extent of the opportunities in Scotland.

The board is considering—and will spend a full day later this month on the task—an ambitious proposal for a 10-year project to accelerate commercialisation of Scottish, and other, knowledge in Scotland. That project will involve a significant budget. We already have a facilitating and partnering role and we have increasingly good relations with the universities. In the project, we would have a lead role, but that role would pass in due course to public sector partners. Again, I would be happy to provide more detail on that.

I emphasise that, although the board has agreed to the project in principle, specific and highly detailed aspects still have to be worked out. We hope to do that this calendar year, because we are taking the project very seriously.

**Marilyn Livingstone:** We all agree that we want a highly skilled and highly paid work force. How can we keep skills in Scotland and attract more skills to come in, within the strategy?

**Professor Hood:** Our board and the Scottish Executive are much seized with the challenge of scaling up. What we do in commercialisation—with universities and others who want to come together to form innovative high-growth companies—is good, and is acknowledged as good. However, the challenge lies in scaling up by a factor of 10 or 20.

Anent all that, several schemes are needed in addition to what we are doing. That is reflected in the proof of concept scheme—which Robert Crawford mentioned—in innovation grants, and in thinking about seed funds, information on which we will share privily with the committee later. Scaling up requires us to think differently and more innovatively. We will undoubtedly have to skew more funds in that direction and “A Smart, Successful Scotland” is the classic framework in which to do that. If we had not had that strategy,

we would have had to come and look for it. It is the right way to make progress.

I want to make a point about global connections. When we start to help small, high-tech, innovative businesses in Scotland, we find that many of them are almost born global. They have international connections from a stage at which it is far beyond their capability to be global. They need managerial help and advice, and they need to recruit the right teams. Global connections should not be seen as being at some high level; they are actually at a level that hits a lot of microbusinesses. What we hope to do in that regard is strongly linked to what the committee has been discussing, touching on indigenous growth and development.

**Brian Fitzpatrick:** There is a point that I would like to make in the public part of our meeting. We have heard some useful evidence and there has been an impressive outbreak of unanimity. I was impressed with the witnesses' submission.

If we are to have a stand-alone session, we will have to consider the format. I am not toadying excessively to this panel of witnesses. There are question-and-answer sessions, but we might all get added value from a discursive approach in a stand-alone session. Perhaps we can discuss that during the informal session.

I am interested in networking and the international networks that are referred to in the summary to the submission. We have to align effort to get the best results. We have key advantages because of our links to North America. Are we content that we are putting enough resources and effort into establishing links between universities in Scotland and universities in the States? How can we get the diffuse benefits of those connections?

Tom Devine at the University of Aberdeen is a very good example of someone who seems to be able to Hoover up—if he does not mind my using that phrase—research moneys from American foundations and universities. To some extent, he does that by making them think that his institute is part of the North American network. How do you think we are doing in that area?

11:45

**Martin Togneri:** Our method of international networking is new. Plenty of economic development agencies around the world have said in the past—and say currently—that they network their expatriates and friends of their country abroad. In practice, they mean that they send them a quarterly newsletter and occasionally hold a cocktail reception for them at an embassy or consulate. We are talking about a different concept of networking—a sustained, resource-intensive effort.

I should make it clear what I mean by resource intensive. The £15 million that I will spend this year will support a total staff of just under 200 people. Four people based in Scotland are engaged full time on the networks. Part of the effort of each member of my sales force overseas is to maintain links with specific target members. Total spending on networking amounts to £200,000 per annum. The concept that we are seeking to develop is that of a web-linked network. We will create an incentive for Scots and friends of Scotland to participate by enabling them to use the web to share knowledge.

Brian Fitzpatrick asked what was being achieved, but the issue is how we capture that. Because the initiative is new, we do not yet know in specific detail all the things that it can achieve. The initiative was launched only in November, when we sent out invitations to the first 400 target members. Responses are now starting to come in. For example, the chief operating officer of Monsanto, who happened to be an initial target, has offered to host learning journeys for the biotechnology industry to his company. We did not go into the networking effort thinking that it would lead a chief operating officer to offer learning journeys.

We need to capture the offerings as they emerge. The initiative is focused on engaging people intensively, one on one, finding out what contribution they think they can make to Scotland and supporting them in making that contribution. We will learn as we go, but we are making extensive efforts to list the things that people say they are willing to do, so that we can act on those.

**Sir Ian Robinson:** I have been an international person all my life. I have worked in 80 or 90 countries and lived on five continents, and I have never come across a country to which more good will was expressed than Scotland. That good will must be captured. Unfortunately, it relates more to traditional values than to 21<sup>st</sup> century values. The challenge is to preserve those traditional values.

When I was running ScottishPower, I used to visit Portland frequently. When we arrived there, we would be eight hours out of phase, but we would have to attend a reception at 8 o'clock—that is 4 o'clock in the morning UK time, so it was hard for us to keep our eyes open. We attended such receptions every two weeks, but on each occasion 80 or 90 people out of 100 would line up to tell us about their experiences of Scotland. Some had Scottish ancestors, whereas others had an interest in Scotch whisky, technology or golf. A significant number of key people in senior positions throughout the world have an interest in Scotland. Capturing that interest for our 21<sup>st</sup> century vision is a huge challenge, but the fact that it exists is a huge plus. We are in the early part of the journey.

There is a great deal to come from senior people who have good will towards Scotland, as they have towards their schools and universities.

**Brian Fitzpatrick:** From that, can I take it that we are prepared to be as promiscuous as the Irish when we define what qualifies as a connection with Scotland?

**Professor Hood:** We have a rugby team that does that pretty well.

**The Convener:** As a member of the alumni club of digital worldwide, I should point that it includes not just expats and third or fourth-generation Scots. There is a great deal of good will towards Scotland.

**Brian Fitzpatrick:** Hence my question.

**The Convener:** I am all for promiscuity.

I thank Ian Robinson and his team very much. Both their oral evidence and their written evidence were first class and much appreciated. We look forward to our private session with the witnesses over lunch.

**Sir Ian Robinson:** Thank you, convener.

**The Convener:** I ask members of the public to excuse themselves, as we are moving into private session.

11:49

*Meeting continued in private until 12:05.*

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