



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 6 February 2018

Session 5



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ECONOMY, JOBS AND FAIR WORK COMMITTEE
5th Meeting 2018, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Tom Arthur (Renfrewshire South) (SNP)
*Jackie Baillie (Dumbarton) (Lab)
*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Kezia Dugdale (Lothian) (Lab)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Gillian Martin (Aberdeenshire East) (SNP)
Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Vicky Brock (Clear Returns)
Paddy Collins (Aubin Group)
Alison Grieve (G-Hold)
Leah Hutcheon (Appointedd)
Jonny Kinross (Grassmarket Community Project)
Professor Gary McEwan (Elevator)
Karen Pickering (PagePark Architects)
Sara Roberts (Healthy Nibbles)
Laurie Russell (Wise Group)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Jobs and Fair Work Committee

Tuesday 6 February 2018

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning and welcome to the fifth meeting in 2018 of the Economy, Jobs and Fair Work Committee. I have received apologies from Andy Wightman, who is not present today because he has other committee business.

Agenda item 1 is a decision on whether to take items 3 and 4 in private. Do members agree to do so?

Members indicated agreement.

Scotland's Economic Performance

09:30

The Convener: Under agenda item 2, we continue our inquiry into Scotland's economic performance. I welcome our first panel of witnesses: Leah Hutcheon, who is the founder and chief executive officer of Appointedd; Karen Pickering, who is chair of the board of Page\Park Architects; Paddy Collins, who is CEO of the Aubin Group; and Alison Grieve, who is the CEO and inventor of G-Hold. I understand that Sara Roberts will join us later, as she has been delayed by weather conditions.

I will start with a general question for all of you. Looking back over the past 10 years at how the Scottish economy has performed on entrepreneurship and business growth and innovation in particular, how do you see matters developing as we move forward?

Who would like to start with a few comments on that? Are there any volunteers? If you wish to enter the discussion, you can put your hand—otherwise, you can simply join in as we move on to questions from my fellow committee members.

Paddy Collins (Aubin Group): I will kick off. As I come from the north-east of Scotland, I am in a little bit of a bubble, so I cannot really speak about the rest of Scotland. In the north-east, we have been quite effective at being entrepreneurial, and we have seen a lot of businesses grow and flourish. To some extent, the economy in Aberdeenshire and Aberdeen overheated, and there has since been an element of correction. There is not necessarily any lack of entrepreneurship or of a desire to be entrepreneurial, but there are difficult challenges around money, resources and infrastructure.

The Convener: I should have said that the sound desk will operate the microphones, so there is no need for you to press any buttons—you can just speak.

Leah Hutcheon (Appointedd): I back up absolutely what Paddy Collins said. Looking at the past 10 years and the recession, from an entrepreneurial standpoint, it appears that there has been real growth—certainly over the past five years—in start-up culture and in the provision of support for start-ups and scale-ups. Appointedd has benefited from the Scottish EDGE—encouraging dynamic growth entrepreneurs—award, which has had a big impact on early-stage and start-up companies. It has done a lot to encourage growth in early-stage companies,

which then start to power the economy in a more impactful way.

Over the past few years, there has also been more collaboration with the enterprise agencies, which has had a real impact, too. We are setting off into the next 10 years in a much better position than the one that we were in back in 2008.

The Convener: We have been joined by Sara Roberts, who is the founder and CEO of Healthy Nibbles.

Sara Roberts (Healthy Nibbles): Good morning.

The Convener: To recap, we started with a question about the performance of the Scottish economy over the past 10 years and how our panel members see matters moving forward, in particular with regard to entrepreneurship and business growth and innovation. Does anyone else wish to comment before we move on to the next question?

Alison Grieve (G-Hold): I have seen a lot more support for businesses at the start-up stage, but the Scottish business community is suffering somewhat in the scale-up phase. I am caught between two opinions. On one hand, I understand the need for a small country such as ours to back winning horses in certain business categories that benefit a great deal from investment in Scotland, such as software as a service, food and drink, textiles and so on. There is a lot of sense in getting behind those categories, but that sometimes comes at a cost to certain companies that sit outside them. I do not know whether it would be better to continue to provide that specific support or to broaden the available support to include companies that sit on the periphery of those categories.

The Convener: We move to a question from John Mason, who is deputy convener of the committee. I remind witnesses that they should not feel that they need to respond to every question—you can come in as and when you wish to or when you are brought in by committee members.

John Mason (Glasgow Shettleston) (SNP): I have a supplementary to the previous question, given what Alison Grieve said. Which companies are on the periphery and are not getting the support that they need?

Alison Grieve: Recently, there was a huge exit of a hardware company based in Scotland—the deal is not public knowledge, but I will say that the buyer was a US major and the amount was quite a few hundred million pounds. As a hardware business, that company was not really supported in the Scottish ecosystem; I wonder how many other Scottish gems are not supported because they do not fit into the categories that I mentioned.

We are in accessories—we are a manufacturer and a hardware business—and we do not fit into the categories that are part of particular ecosystems in Scotland. We definitely struggle with that sometimes, but I do not want to speak personally, because there will always be losers. I am not necessarily against the fact that there are great categories that enable investors to equate Scotland with a fantastic community of businesses, but there are definitely some losers in the current system.

John Mason: Colleagues will ask questions about how we grow businesses, so I will not go into that. However, for information, you can describe your own experiences and give your view of the wider economy—the committee is happy to hear evidence on both those aspects.

My question is more about how you see the next 10 years. Will it just be a repeat of the past 10 years, or are there new challenges, opportunities and risks, either for your business or more widely?

Paddy Collins: There are certainly new challenges. One of the principal challenges is what my wife insists that I call the B word, because we do not allow it in the house any more. The movement of technology is very rapid—the major companies on the world stage right now, such as Google and Facebook, did not exist 20 years ago, and it is likely that the large companies and big businesses of 10 years' time will not be the same businesses that exist today.

I work in the oil and gas industry, and we are going to see a lot of changes. We will begin to dismantle our infrastructure in the North Sea and put it to sleep, which will be a cost. There will be another cost for Scotland, because a lot of highly skilled jobs will no longer exist and will have to be reproduced somewhere else. We will have to do something else, and I am not sure what that will be.

John Mason: Are there opportunities in that respect, given that there is a skilled workforce that can go elsewhere or do something else?

Paddy Collins: Of course. Those people have the skills, knowledge and abilities—they know a lot about doing things underwater, for instance—so there are opportunities for them to go into renewables or a variety of other areas to do with the sea.

On Alison Grieve's point about picking winners, it would be more useful if we focused on creating a valuable business environment that encourages businesses to come forward.

One big issue is cash—in fact, it is one of the biggest challenges for small companies. The challenge that I face—I am sure that Alison Grieve will agree—is to get our customers, especially the

large companies, to pay on time. I will give you an example. As a company, we turn over about \$12 million, which is approximately \$1 million a month. Our payment terms are 30 days, so we need to live for 30 days before we get \$1 million. If our customers pay us on 60 days, we are in effect giving them an interest-free loan of \$1 million. If I do not have that \$1 million, I cannot use it to invest in my company and my staff by hiring new people, investing in new technology and so on.

John Mason: Is that situation getting worse or better, or is it much the same?

Paddy Collins: It is getting worse, particularly with large companies. It says on paper that our terms are 30 days, but they will not pay on 30 days—they will not answer our phone calls or anything like that. We are fortunate in that we sell a consumable item, so when a company does not pay, we take its next order and when a truck turns up to collect it, we say, “Give us the money first, and then you get the chemicals.” That is not the case for a lot of other businesses.

John Mason: Does anyone else want to give us some thoughts on the next 10 years?

Karen Pickering (PagePark Architects): We are an employee-owned business, and I think that business models will change in the next 10 years. Scotland is very attractive to international companies, but we need to protect Scottish companies. Since PagePark Architects has become employee owned, we have become more productive. We need to try to protect smaller Scottish businesses from being taken over and bought up so that we can keep those companies local.

John Mason: I am slightly biased because PagePark is in my constituency. A few of the committee members visited the company, and it was suggested to us that some big construction projects prefer to employ a big-name architect rather than a local one.

Karen Pickering: Yes.

John Mason: Do you see that as a challenge going forward?

Karen Pickering: In the past 10 years—I am speaking about construction—we have found that Scotland has become very attractive to global companies. Five years ago, we were very strong in the Scottish market, but over the past five years a lot of competitors have been coming from London and even from America and Australia. It is getting more and more difficult for smaller Scottish companies to compete in that market. In the next 10 years, Scotland will be even more attractive to global companies.

John Mason: Would our leaving the European Union have an effect in that regard if we were able to be biased towards Scottish companies?

Karen Pickering: Possibly. We currently have to go through the European procurement process. Building projects are advertised Europe wide, so that anybody can bid for them. Obviously, companies have to go through a selection process and they then have to tender, but the competition is getting tougher and tougher. Construction is a very long-term industry—we are the first to get hit when a recession appears and the last to recover. As we know from the recent events involving Carillion, the market is quite competitive, and we have to be wary of that.

The Convener: Jamie Halcro Johnston has a supplementary.

Jamie Halcro Johnston (Highlands and Islands) (Con): It is on the point that Paddy Collins made about cash flow, and non-payment and delayed payment of invoices. In my experience, larger companies tend to do that on purpose, as Paddy Collins said, in order to extend their loan.

In your experience, does it tend to be large or medium-sized companies that operate in that way, or is it a problem with companies across the spectrum?

Paddy Collins: I generally agree that it tends to be the larger companies—they see it as a means of low-cost financing for their business. It is reprehensible.

Jamie Halcro Johnston: How would you suggest that we deal with the issue?

Paddy Collins: What would I do? Do you want a suggestion that I can describe in polite conversation? Those people need to be named and shamed—there needs to be some sort of action. I was thinking about that issue as I came down on the train, because I anticipated that someone would ask the question. We could require companies to publish how rapidly they pay, what their payment terms are and whether they meet those terms. They have those numbers already—it would not be expensive, because they are already looking at their payment days and at how efficient they are. They want to get the money in quickly, but they do not want to pay it out. That is not reasonable.

Jamie Halcro Johnston: Would that have an impact on smaller businesses in particular?

Paddy Collins: I think that it would have a significant impact in helping small businesses to progress. For a small business, cash, rather than profit, is the most important thing in finance. Cash is king—would you not agree, ladies? I am a thistle among roses here. [*Laughter.*]

09:45

If I come away having made only one point today, it should be that we need to get paid on time. If we are paid on time, we can finance ourselves better, the banks will be more supportive and we can employ people. None of us will get that money and say, "Ooh—lots of money! Let's go and spend it on ourselves." We will stick it back into our businesses, because that is what we do.

The Convener: I want to bring Sara Roberts into the conversation. Healthy Nibbles deals in consumables. Do you have difficulties with payment times?

Sara Roberts: We are currently quite fortunate—even though we deal with FTSE 100 companies, we typically find that they pay as they should do. It is so far, so good.

We have experienced the "cash is king" issue more in relation to supported funding that comes through the agencies. We recently—I say "recently"; it was in March last year—applied for a small business loan through one of the agencies. The process is supposed to take 13 weeks to complete, and we are now at week 33. There are issues in accessing funds when a business is going from the start-up to the scale-up stage.

The Convener: Gillian Martin has a supplementary.

Gillian Martin (Aberdeenshire East) (SNP): As someone who used to run a small business, I was nodding along in agreement with what Paddy Collins said about late payers. Do you think that legislation is the way to go? France, for example, has legislation that compels companies to pay within a certain window.

Paddy Collins: Legislation could possibly help. We try to persuade people as nicely as we can, but they do not listen. People say, "We don't really want legislation," but if we have tried everything else and nobody has paid any attention, we are left with legislation, are we not?

Gillian Martin: I have another supplementary. One issue that we have discussed is the reluctance of small businesses to scale up and employ more people. If your company is not getting paid on time and your existence is precarious, you are conscious that you are responsible for your employees. One would think that if the issue of non-payment was addressed, businesses would feel more comfortable about employing people more quickly. I see that you are all nodding.

Paddy Collins: Yes—we would have more confidence in the future.

Gillian Martin: I think that I knew the answer to that, actually.

Sara Roberts: There are definitely issues in that respect. As a business owner, you can make a lot of decisions to advance different aspects of the business, but taking somebody on is a step further forward. It is possible to cope with fluctuations in certain areas, but you do not want to risk someone else's livelihood.

Alison Grieve: The other aspect of that is that you might pull back a little bit on sales so that your exposure is not so high. For example, if a business was rolling out a product through a retail group, it might go for 10 retail sites rather than 50, because it could not risk such high exposure. People are pulling back on revenue opportunities because they do not want that cash exposure in their business.

Gillian Martin: That is interesting—thank you.

Jackie Baillie (Dumbarton) (Lab): I cannot help but remark that it is 100 years to the day since some women got the vote, so I am particularly pleased that Paddy Collins is outnumbered today. [*Laughter.*]

I want to ask about automation and technological change, which Paddy Collins highlighted and has come up as a theme in previous evidence sessions. The official statistics tell us that Scotland lags behind other countries in business research and development. What are the opportunities and challenges, and how do we capture some of those? I am happy for anybody to go first—perhaps Karen Pickering can start.

Karen Pickering: In the construction industry, we will see a huge change as a result of automation—I hope that it will be a change for the better in terms of quality of build, but obviously it will be detrimental to jobs. Bricklaying and demolition can be done by robots, so a whole range of skills will probably go. There is currently a skills shortage in construction, so I hope that automation will mean that the more skilled workers can focus on the jobs for which people are needed.

Leah Hutcheon: Karen Pickering is absolutely right, but the positive aspect is that we will free up people from manual jobs to focus on innovation. Construction is a really interesting area, and Scotland has a rich history of innovation. It would be great to see some of those skills being pointed towards exploring new training from the ground up and looking at new materials and new ways of generating power and such like. Automation allows that to happen.

As a company, Appointedd sells automation in a lot of respects. It allows small and large businesses to automate the process of making

appointments, and it pushes those appointments and reports through the business. The impact that we have on small businesses in particular is amazing. We are often told by our clients that they would not be in business without Appointedd and that it frees them up to supply extra services so that they can make more profits. The impact that automation can have is undeniable.

The challenges are in adoption of automation, specifically in larger enterprises. It is easier for small business, because they are quite nimble—they know what they need from their business tools and can adopt quite easily. It is more difficult in larger companies or at Government level. However, automation will happen regardless of whether we are proactive in adopting technology.

I would like more encouragement from agencies to enable businesses of all sizes to adopt technology—especially technology that is built in Scotland, because there are some amazing technology companies based here. It is a shame that Jamie Coleman from CodeBase could not be at the meeting today, because a lot of those companies are housed in CodeBase. They are supported by Scottish Enterprise and the Scottish Investment Bank—we are building world-class tools right here, so it is a shame that more Scottish companies are not using Scottish technology at their heart, because that would have an impact on both sides of the coin.

Jackie Baillie: You seem to be suggesting—you are probably right—that there is very little planning going on. We are looking ahead, but we are not really doing much about it. Is that a fair characterisation?

Leah Hutcheon: We are saying, and talking about, the right things, which is great, and there are brilliant examples such as CivTech, which is looking at how start-ups or small businesses can engage with the governmental side of procurement. Outside that network, the activity is not very joined up, although we are doing some nice big headline things. I do not know what the answer is. Perhaps we could look at financial incentives. Who knows? If we were to join the different various aspects together, that would have a massive impact along the chain.

Jackie Baillie: That is very helpful. Are there any other comments?

Paddy Collins: Aubin Group competes against operators in India and China. As is the case for everyone in the Scottish economy, we cannot compete on price, so we have to be smarter and faster, otherwise we will not win the business and the international trade that we need.

As a company, we have been very keen on innovation, and we spend a lot of effort on it in our business. We have looked at diversifying our core

business activity, and we are developing new products for waste management, subsea applications and decommissioning. Some of that work has involved our own stuff, but we have had help from organisations such as the Oil & Gas Innovation Centre and the Oil & Gas Technology Centre to bring it forward. It is not just about money—it is about the links and the ability to meet people. OGIC enables us to meet people in universities, and OGTC can introduce us to people in oil companies whom we did not previously know. Those things help.

Karen Pickering said that jobs will be lost because there will be robot house builders and bricklayers. I am wondering why no one is making a robot bricklayer in Scotland. It should be possible—the skills are certainly here.

Alison Grieve: I agree. As a manufacturer, I see that a lot of companies in our industry are manufacturing plastic products primarily in China. I do not think that that is necessary. If Scottish manufacturing got behind some technological advances, with an emphasis on clever use of robotics, the cost per unit would be reduced and we—or rather, other companies; we already do so—could choose to manufacture in Scotland. That would be a very positive move, but it would perhaps require more support for the manufacturing companies that we use.

Jackie Baillie: It is conceivable, based on what you are saying that the cost of labour would be stripped out, so we would need to plan in advance to mitigate the impact and ensure that people have alternative work.

Alison Grieve: Our process is fairly labour intensive and all our manufacturing and assembly takes place in Scotland, but larger companies often manufacture in China or elsewhere in the Far East, so those jobs no longer really exist in Scotland, anyway. It is important to acknowledge that there is no loss—there is only benefit from bringing the revenue to Scotland with some clever innovations and optimisation processes.

Jackie Baillie: That explanation is helpful. I do not know whether Sara Roberts would like to add anything.

Sara Roberts: I do not have a great deal to say on tech. I reiterate what Paddy Collins said: small businesses could benefit from connecting to the various tech companies. Part of what Healthy Nibbles does is healthy vending, but we are evolving. We are looking at integrating those machines with wearables and devices, and thinking about how we can push the sector forward. I immediately looked to London rather than Scotland to meet our needs, so perhaps we need an entity that brings the tech companies to smaller companies in Scotland.

Jackie Baillie: That is very helpful. Thank you.

Jamie Halcro Johnston: Some of the areas that I was going to ask about—EDGE funding and the like—have been covered. However, I want to ask how Scotland compares with other countries in creating small businesses, and how we could create businesses that grow quickly and become major success stories. It would be interesting to hear an international or a United Kingdom comparison.

Leah Hutcheon: Appointedd has been massively supported—we have had a very positive experience of financial support and support for skills and training. We were one of the first Scottish EDGE award winners: that was how Appointedd became a company. Until that point, I was working on my own and outsourcing our development. We were awarded £30,000, which enabled us to hire our first developer, who is still with us, and we have since built a team of 14.

Our development has been assisted at each stage by Scottish Enterprise, and we have received match funding through the Scottish Investment Bank, which in my view is one of the most impactful ways in which Government money can help business. It allows private investment and, from a management perspective, it takes a fairly light-touch approach.

We identified match-funding investment partners and were able to take the angel money—in Scotland, we are fairly well provisioned with angel investors. The amount of money is relatively small in comparison to the funding that a business might get in London, but the match funding from the Scottish Investment Bank has been amazing. Those touch points have allowed us, each time we have needed to scale up or invest in infrastructure or staffing, to do so. We have been able to access resources that have allowed us to compete with businesses elsewhere.

There are undoubtedly restrictions in building a company in a smaller region outside London but, in our case, the benefits have certainly outweighed the downsides. We have been able to punch above our weight at each stage because we have been supported, as I have described.

10:00

Outside that system, organisations such as Entrepreneurial Scotland or Women's Enterprise Scotland are able to provide support. For me, Scotland is probably the best place in the world in which to build a small business, and to take that business from an idea to the point at which it is making a positive impact on the economy.

Jamie Halcro Johnston: You mentioned a light-touch approach. Is it important to you, in

accessing funding and support, that you do not have to jump through too many hoops?

Leah Hutcheon: Yes—absolutely. That relates to one thing that we in Scotland do not do so well for businesses in the early stages, which goes back to what Alison Grieve said earlier. I understand that there needs to be a rigorous process in place for businesses that want to access money, and that some areas should be supported over others and strategic decisions must be made. However, there is a difficulty when a business is asked to jump through hoops and the end goal is not taken into account, because the support does not have as much of an impact as it could have had.

In the earlier stages of building Appointedd, there were occasions when we would perhaps have made more of an impact if we had focused on selling stuff rather than on trying to raise money or support. It is really important, in building a small business, to be aware of the impact of whatever activity you are doing. At the very beginning, there is just one person, and there is an opportunity cost to whatever they choose to do. Taking a fairly light-touch approach and allowing companies to have control is important.

That is why the EDGE funding had such an impact on our business—it was not about accessing £5,000 to do a branding exercise or £2,000 to do something else, or trying to jigsaw together a company that fits in with where the support is. Instead, the approach was to give us a pot of money and say that we know our business best. They wanted to collaborate and to know what we were going to do with the money, so there were touch points to ensure that we were spending wisely, but by and large we could just get on and do it because we had a business plan. We had gone through the process and had been awarded the money, so we could spend it however the business needed it to be spent. That was really important.

It is necessary to trust people at the early stages to do the right thing for their businesses because—as has been said—we want and need to invest in and build ambitious companies in Scotland.

Jamie Halcro Johnston: Did you find that support—financial support or advice—came as quickly as you needed it?

Leah Hutcheon: Our experience was mixed. One of my biggest frustrations is that the level of support often depends on the person with whom you are working. In Scottish Enterprise, for example, that can depend on your account manager, your particular needs or which sector you are in. Support is not consistent across the board.

We are lucky in Scotland in that the entrepreneurial community is very joined up and collaborative, so people hear about opportunities. However, I hear—more often than I would like—about opportunities from other start-ups or consultants, rather than from Scottish Development International or Scottish Enterprise. That situation could do with some improvement. I know that work is being done on that. It is important in order to ensure that we have a level playing field and that the people who can benefit from the support that is on offer get to hear about it.

Jamie Halcro Johnston: I had better let other members ask their questions. Do any of the witnesses have anything else to say in response to my last question, given that you all have experience of different sectors?

Sara Roberts: To go back to your question about geographical comparisons, I have not done a great deal of trading outside the UK, but my work is split between Scotland and London, and I have found that we have a much stronger ecosystem for the entrepreneurial community up here. The ability to access small pots of funding—such as small grants for branding that Leah Hutcheon mentioned—is very encouraging for businesses. I get a lot of positive comments about that when I am down south.

However I reiterate the point about inconsistency in advice and support that the agencies provide. When I first started Healthy Nibbles, I spoke to an adviser who was based in Edinburgh and had never worked outside business gateway, and I was told that I would not be able to access any funding. As we were setting the business up, we moved out to Midlothian, where I was able to access a lot more funding and support.

One element of our journey that I have found to be a struggle has been the lack of ability to place us in a particular category. We are a tech company to a degree, but not quite, and we are a retail company, to a degree, but not quite. The fact that people are unable to pigeonhole us has meant that we are not able to access certain funds.

In addition to the loan that I mentioned, we have tried to access relevant advice and support in other areas and have met with incredible delays. It is all very well for us to take part in a strategy session, but that might not be what we actually need at that time—perhaps we could do with a different type of support. It is important that support is a bespoke fit for the company, because we may have internal strengths that we can draw on that mean that we need expertise and support in some areas but not in others.

Jamie Halcro Johnston: You talk about not being able to access funding, and about facing issues in accessing it because you do not fall into a particular category. Is there also a gap in terms of the size of your company? Some companies are bigger than the start-ups that business gateway supports, but they are not yet at the level at which Scottish Enterprise will come in.

Sara Roberts: That could be a potential gap. We are currently just hitting the level at which we are account managed by Scottish Enterprise, but there has been a gap. We are operating in a high-demand sector because we deal with corporate wellbeing, so we have a lot of draw, and most of our customers are top FTSE 100 companies. There has been massive demand in that respect, but we need to drag the smaller business along. We have handled that by sticking with lower employee numbers—we have the capacity to employ another five or six people in our team, but we do not have the funding yet. There is a divide, when businesses separate from business gateway and look to move to Scottish Enterprise, that we could do with bridging a little better.

Jamie Halcro Johnston: To widen that out a little, how do we scale up successful small businesses to become medium or large successful businesses?

Alison Grieve: One thing that I have recently found curious is that people do not talk so much about sales when a business goes through an investment round or applies for a Scottish Enterprise grant. Once upon a time—about eight years ago, I think—I had an investor who called my customers to check that we were who we said we were and to get an idea of the level of business that they would expect to do with us. That is fairly basic due diligence, but none of that happens now. There is much less focus on people selling their products and services, and more focus on how many staff a business employs or how much investment it has managed to bring on board. That is a failing in Scotland right now, as we are not focusing on the actual revenue that is taken in through sales of goods and services.

Jamie Halcro Johnston: Is that coming from the agencies?

Alison Grieve: It comes from the investment community and the agencies—pretty much any route to funding. There is much consideration of whether a company is going to be the next Facebook and getting massive investment rounds on board. There is more of a vanity element rather than any thought being given to whether a company is doing business in real life with companies outside Scotland. That is a massive problem. There should be more of a focus on revenue from sales above and beyond anything else if we want to reduce our trade deficit.

Paddy Collins: I have some experience of doing business overseas—we have done business in the United States and we do a lot of business in the middle east. We have about five or six people working for us who are based in Dubai. About 65 per cent of our business is based in the middle east, including in Saudi Arabia, the United Arab Emirates, Iraq, Oman and Kuwait.

We sometimes forget that there are quite a lot of pluses for a business that is based in Scotland. We have a sensible legal system, which means that, when we have a deal, we know that we have a deal, and a reasonable infrastructure. Members will be surprised to hear that we also have significantly less bureaucracy than many other parts of the world—not just the middle east but the United States of America—have. There is a lot going for us in terms of being efficient. That goes back to what I said earlier about creating the right infrastructure and not creating more problems.

A number of people have moved from senior roles in bigger companies to work for us, and they have discovered that all the things that they had to do in the big company they still have to do in the small company, although they do not have the same amount of money and resources to do them. They still have to comply with the Bribery Act 2010, the Control of Substances Hazardous to Health Regulations 2002, health and safety legislation and the ISO 9001 standard, but they do not have anywhere near as much money.

I said that there is much less bureaucracy in Scotland, and I have just reeled off a whole load of bureaucracy—but, believe me, in comparison with other parts of the world, Scotland is an easier place to do business in. When I speak to foreign companies that have set up in Scotland, they often tell me about how much easier it is to get things done and make stuff happen here.

Alison Grieve: I have a question about some of the complexities. Paddy, do you use SDI or tap into any of the other sources of support?

Paddy Collins: Yes. We are an account managed company with Scottish Enterprise, and we have been on a number of trade missions with SDI. That has been very useful, because SDI can enable us to meet people whom we would not meet on our own. We have had assistance with looking at business opportunities in Algeria, for instance. I would not have known how to start doing business in Algeria, but I can get in there through SDI, and we can meet companies such as Sonatrach. We are also looking at opportunities in Norway, which is rather closer to home. We have not done a lot of business there, but SDI can help us in that regard and introduce us to people. What is more, it can introduce us at a higher level than the level at which we might have gone in

otherwise. There is a significant benefit in that regard.

Often, we just ring up Scottish Enterprise and say, “I’m trying to do this. Do you know anyone who can help us in that area?” SE will often be able to direct us to this or that person. Someone will say, “Why don’t you talk to Fred? He might know someone who has contacts.”

Dean Lockhart (Mid Scotland and Fife) (Con):

I would like to explore further the line of questioning about the specific support—whether it is from the agencies or from angel investors—that you have found to be helpful for your business. I am thinking about areas such as the incorporation of technology, export finance and support to increase productivity in your business. I ask each of you to highlight one specific example—or more, if that is appropriate—of the help that you have received from the enterprise agencies or through external investments. On the flipside, perhaps you can describe cases in which intervention by the agencies was not so helpful. It is helpful for the committee to understand directly from business—from you guys, who are on the front line—what works and what does not work in practice.

10:15

Karen Pickering: We got assistance from Co-operative Development Scotland when we chose to become an employee-owned business. If we had not received that help and input, we probably would not have gone down that route, because we did not really understand the different business models. That was a great help to us.

We have been employee owned for four years, and our productivity has increased. That small amount of assistance—we got financial assistance and business advice—has really transformed our business. We have increased our staff numbers and our profitability. As we are in the service industry, it is difficult for us to measure our productivity, but our architecture has improved and our staffs are more innovative. When the business was run as a traditional partnership, we all worked away and were told what to do. Now that we are our own bosses, there is a lot more innovation in the business. We work in different groups, such as a graphics group and an innovative architecture group. The small amount of advice that we received led to a huge transformation in our business.

Alison Grieve: Any support for trade shows from Scottish Development International is always really valuable. I cannot think of a single trade show in which we have been supported that has not led to an incredible return on the investment. Any contribution that assists us in our actual

selling activities is the most important and helpful support in growing our business.

I know that Scottish Development International is supposed to be growing as an organisation, or at least retaining the same budget that it had previously, but budget cuts seem to be having a big impact on the number of trade shows that it attends. I do not know where that money is now going, but it is clearly not going into trade shows.

Leah Hutcheon: I have talked about the financial impact of assistance from the Scottish Investment Bank. That support came along with a board observer, who got involved in the business and had a fantastic impact on our growth. Our observer was female, which was fantastic because, although she was there only in an observer capacity, she enabled us to achieve 50:50 representation on our board.

On the negative side, I go back to what Sara Roberts said about the possibility that the support that a business receives at an early stage could lead it down the wrong path. We had support from marketing consultants, who came in for five days—or however long it was. Knowing what I know now about growing and building a business, I look back and am horrified that we were given such negative advice from consultants who were supported by Government agencies. It was negative from a creative standpoint; at worst, it could have put us off and made us think that we could not do business and that we had no future. That is very dangerous.

When a business is at that very early stage, it is much more likely to fail than to succeed. It is really important that a rigorous process is in place to ensure that anyone who comes into contact with early-stage businesses is aware of the need for restraint, understands the context of the business, and is able to give advice with those things in mind. If that does not happen, it can be dangerous for businesses.

Sara Roberts: I agree. I came to my own business opportunity with a reasonable amount of commercial experience behind me, and I had previously supported and advised on a lot of start-ups. On the positive side, access to funding and support will encourage people to give it a go. However, people need to be aware of what it takes to run a business. They need to be aware of the pitfalls and opportunities that they will face, and the need to manage those challenges in a cautious and controlled way rather than taking a spread-and-go approach.

The big feedback is the need for consistency from the agencies and for timeliness in a commercial sense rather than following an agency timeline. We were given a 12-week lead time for support. I could almost have changed the direction

of the business in that time. That sounds rather erratic, but the agencies need to keep up with the speed at which start-ups and scale-ups move. That is key.

Paddy Collins: We have benefited in a different way. We have had periods in which we wanted to grow and we needed to get key individuals on board. We have benefited from the support of Scottish Enterprise's manager for hire, so we have had some assistance to get us over the first big gulp. We would say, "Gosh, that individual is a bit expensive. Can we really afford it? Yes, we can—let's do it." We bring the individual on board and they help to transform the business, and then we move on to the next stage. Businesses are built by people.

I will be a bit cheeky. When we feel that we are not getting a great deal of help, we drop that support and move on. We just say, "Thanks very much", and we do not get back to them. Therefore, we have not experienced the problems that have been described. I had the benefit of coming into my business having run businesses for a number of years previously, so I had a lot of experience. When experts told me that something was not going to work, I did not necessarily always believe them, which is probably just as well.

The Convener: Gordon MacDonald has a couple of supplementaries. I will then bring in Tom Arthur.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I want to go back to the point about international trade shows. Alison Grieve said that the number of trade shows that SDI attends has possibly dropped. What other agencies are involved in trade shows? I am sure that it is not only SDI that gets involved.

In the previous parliamentary session, the committee carried out an inquiry into the amount of duplication between different agencies. Do you think that the amount of duplication has reduced? If it has, is that partly why Scotland now has the third fastest growth rate for exporting businesses in Great Britain, according to figures from the Scottish Parliament information centre?

Alison Grieve: That is fantastic, if duplication was previously an issue. In the food and drink sector, Scotland Food & Drink might get involved in trade shows along with SDI. I cannot give you specific examples of duplication—

Gordon MacDonald: I am thinking of organisations such as the Scottish Chambers of Commerce and UK Trade & Investment.

Alison Grieve: That could perhaps be the case in attending international trade shows. However, I have just come back from the CES trade show, which is the largest consumer electronics trade

show in the world—it is plastered all over the media every year—and there was no official Scottish presence there at all. There was not even a meeting room. No Scottish company was told that UKTI would have any presence at all at this year's show; it did not have so much as a meeting room last year. I know of some Scottish companies that went out there, but they did so of their own accord. It is a shame that there was no official presence. Given that every single industry in the world is represented at CES and that the event showcases the future of technology, we are perhaps falling short in that regard.

Gordon MacDonald: Were you able to make inquiries to find out why that was the case?

Alison Grieve: I spoke to SDI yesterday. All the individuals whom I know in that organisation are fantastic; they just deal with what they have. It said that SDI had a stand at the mobile world congress in Barcelona, which is a smaller show but is more expensive to attend, whereas CES is cheaper so Scottish companies should be able to go there alone. It was a confusing message. I also thought that it was a shame that SDI account managers were not able to attend CES, even just to walk the show, given that there are so many opportunities there. I know that the decision is difficult, but I have never seen any duplication of Scottish stands at any trade show that I have attended, although that may have been an issue in the past.

Tom Arthur (Renfrewshire South) (SNP): I am curious about the relative importance of trade shows in the European Union, especially for businesses that are taking their first steps towards internationalisation.

Alison Grieve: I am slightly biased, as 90 per cent of our exports go to the United States, so we are used to the complexities of Incoterms and taxation. For us, it makes no difference—whether we are exporting to Europe or the States—if we are in a trading union or not. The mobile world congress is in Barcelona; I do not know how leaving the EU will impact on people who are going to trade shows in European locations. In general, trade shows are international, so there is representation from companies all over the world. If a trade show is held in Europe, it is not only European companies that attend.

Tom Arthur: I am thinking specifically about the customs union and the imposition of carnets, which would have consequences. I led a members' business debate in Parliament on the far more pronounced impact that that will have on touring musicians. I appreciate that larger and more established companies will have the capacity to deal with the additional bureaucracy. However, I wonder whether, if we find ourselves outside the customs union, we need to ensure that there is additional support in place for companies that

would benefit from taking their first steps towards internationalisation at European trade shows.

Alison Grieve: When I started my company, there was a programme called smart exporter—I do not know whether it still exists—which was very useful in going through what Incoterms were and advising us on how to export goods and services. I do not think that it will be that much more complicated if we suddenly have to deal with that extra percentage on whatever goods we have going out there. There will be a little bit of added complication, and it is annoying to have to queue in a visa line, but, perhaps because we do so much of our business over in the States—I might be on my own here—I do not think that there will be as much of an impact as people are currently freaking out about. It is just another stage of learning.

Tom Arthur: For musicians, being outside the customs union could have a severe impact on the profitability of a tour. I am keen, as we go through the Brexit process, to explore how it impacts on different sectors.

Alison Grieve: In terms of the visa requirements, they would need—

Tom Arthur: They would need visas, but specifically they would need carnets as well. If you are taking in a certain number of goods, you have to demonstrate that you are taking them back out. That is potentially an issue for businesses that are engaging in their first international trade show, for which margins are very tight. Will they need additional support? For more established companies, it is not a problem, but for a business that is taking that first step, the extra cost could be prohibitive.

Alison Grieve: I imagine that support from the agencies would be needed. As I said, when I started my business, I used the smart exporter programme. We could call up Chamber International and say, "I'm thinking about taking goods for display only, and then I want to take them back out of the country." It is always easier to say in hindsight that everything was easy—perhaps I found it a bit more complicated at the time. I certainly would not want musicians to suffer financially as a result of the processes becoming more complicated. Generally, as long as the documentation is in order, it should be fine for them to take instruments into another country and back out again.

10:30

Tom Arthur: There is a significant charge for that.

Alison Grieve: Is there?

Tom Arthur: Yes—well, there will be when we are outwith the customs union. I will not take up any more of your time.

Alison Grieve: Okay. I am sorry—I was not aware that there was a charge.

The Convener: That is perhaps a topic for another time. We will come back to Dean Lockhart before we move on to questions from Colin Beattie.

Dean Lockhart: First, I thank all the witnesses for their valuable feedback on the specific help that they have received in the past.

In other evidence sessions, we have heard that companies that are trying to access enterprise support have found the landscape quite cluttered, and that they find it difficult to establish where to start the process given that there are a lot of agencies involved. Is that something that you experienced when you started your journey?

Paddy Collins: Yes, to put it simply. There is a lot of support available, but unless you have a guide, such as an account manager, you will never identify which elements are available to and appropriate for you. For somebody who is coming from outside and starting up in business, it is very difficult. There are a lot of different schemes—many of them overlap, and some appear to contradict one another. It can be very difficult to work out which is the right scheme for you. We are fortunate, as we have a very good account manager who looks after us and points us towards certain things, saying, “There is this funding you can go after” or “Are you aware of that? Perhaps you should look at it, as it might help your business.” If someone does not have that resource, they will find it very difficult to get money from Scottish Enterprise.

Dean Lockhart: The other witnesses seem to agree that that is the case.

Leah Hutcheon: As I said earlier, the support is not consistent across companies. The assistance that Paddy Collins described sounds amazing, but it is not in place for all companies. Some companies do fantastically well in getting that support, and they flourish because of it, but there are other companies that do not know about opportunities of which they probably should be made aware.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I want to move on to something a wee bit different. Evidence to the committee has suggested that, in recent times at least, Scotland has experienced poor productivity growth. The Scottish Fiscal Commission believes that, since the so-called great recession, poor productivity has become structural rather than cyclical, and Scotland, like other advanced

economies, is moving into a long-term poor productivity growth period. Do you agree with that?

Leah Hutcheon: I disagree—a lot is happening around start-ups and scale-ups. As you said, we have come out—or are coming out, depending on what you read—of a recession, so the current situation is not without its challenges, but Scotland is well placed to fight those challenges, and there is a lot of appetite for doing so. The stats on the number of companies that are starting up or starting to export show that growth is happening. It will not happen overnight, and we need support and an understanding that large companies can help the economy to grow. There are some fantastic companies in Scotland, such as Skyscanner and FanDuel, but scaling up to that level takes time, and we need to understand that it is a longer-term journey. I absolutely disagree with what was said.

Colin Beattie: I would like you to clarify something. Are you saying that you believe that low productivity growth is not structural but is part of the cycle of coming out of the recession?

Leah Hutcheon: I am saying that the appetite for growth and the ability to grow are better in Scotland than in other countries, including England. There is currently a real opportunity and appetite for growth here, and I think that that will continue.

Paddy Collins: I agree with Leah Hutcheon. Let me put it this way. Businesses in north-east Scotland have some of the highest productivity not only in Scotland but in the UK overall, and there is a reason for that: people are expensive and are difficult to come by. If your business is hiring expensive people, you want to get the highest possible value out of them, so you will train them as well as you can and give them all the tools to make them as productive as possible. You cannot get other people, and even if you do, they will be expensive too. There is evidence to suggest that there is a link between low pay and poor productivity—that is well known. If we can be successful in achieving high levels of productivity in north-east Scotland, we can replicate that in the rest of Scotland. The question is, why is the rest of Scotland not achieving the level of productivity that we are seeing in the north-east?

Colin Beattie: I was going to ask you that question.

Paddy Collins: Thank you very much for asking me that question. Businesses have to invest in training people and in equipment. If they do not give someone the right tools, that person cannot do the job. You buy the right computers to allow people to do the job, and you give them access to high-speed broadband. You send them on training

courses to learn how to use software programmes—in our business, we hire high-quality chemists and we build fancy laboratories for them to work in and do their stuff. If you do not do those things, you will not get high productivity. Low productivity is, to my mind, linked with low investment. If people do not invest in their businesses, they will not get the productivity that they need.

A lot of people say, “Oh, we’re not so good at this and that”, but—jeez, guys!—foreign companies come to Scotland and achieve higher levels of productivity from Scottish employees than local companies do. Why is that? It is because they spend more money on employees and train them better, and they give them the right equipment. If you do not do that, you will not get higher productivity. If you do it, you will get higher productivity.

Colin Beattie: Last week, the committee took evidence from Jim McColl, who believes that the key to productivity is happiness, job security and a fair wage. In broad terms, is that correct? Is that what you are saying?

Paddy Collins: If you invest in people and in their skills, and give them a decent place in which to work and the right tools to do the job, you will create happiness and all the things that Jim McColl mentioned. I generally agree with him, but I come at it from a slightly different perspective. You have to generate an environment in which people enjoy coming to work and are productive. If you do not spend the money and invest in people, you will not get high productivity. It is unreasonable to expect people to just work harder—why would they do that? It is much better to give them the right tools to allow them to get through their work much more efficiently and to be more productive, rather than just telling them to work harder.

Colin Beattie: Is there evidence, to your mind at least, that Scottish companies are not making that investment?

Paddy Collins: Again, I live in a bit of a bubble, as I work in a company in rural Aberdeenshire that is making that investment. I look at some other companies and think, “I don’t think they’re much cop”, because they do not invest in those things. If you read about business and visit other companies, you become aware of that. You visit your companies in other parts of the world, and you can see where people are making those investments and getting those results.

It is not for me to say, “Are other bits of Scotland not doing that?” I simply contend that, if you do not spend the money, you will not get the productivity. If other parts of Scotland are not getting the productivity, I suggest that they are possibly not spending the money.

Karen Pickering: As we are an employee-owned business, I am probably living in a bubble as well. However, the other employee-owned businesses that we deal with have great staff morale and happiness, and hence better productivity. In our business, every employee has a voice. We meet and communicate regularly so that everyone feels as though they are in control of their own destiny. If employees feel like that, they put more into the business.

Paddy Collins: I do not think that being employee owned is a necessary requirement for a company in that respect, although it helps. That brings me back to another bugbear: a lot of companies in Scotland are not very well managed. You will know that yourselves—we have all been to see businesses that are not well managed. You look at the guy and say, “If you’re clearing off at 3 o’clock in the afternoon to play golf, and leaving all your staff working away, why would they be breaking their necks for you, matey?” If the manager turns up at 10 o’clock and everyone else has to turn up at 8, they ain’t going to make an effort. If you, as the manager, are the first person to get there at 8 and the last person to leave, everyone else will see that you are making an effort and will think that they should make an effort too.

Colin Beattie: Given that we have a lower productivity growth rate in Scotland in comparison with not only other European countries but the rest of the UK, does that mean that the problem is endemic in Scotland and needs to be addressed urgently?

Paddy Collins: You have almost answered your own question. If we want Scotland to be strong, successful and wealthy, and if we want to have all the resources that we need for teachers, nurses and social care, we need to get more taxes, and that will happen only if we have a strong business sector. That is a structural issue, and it is something that you need to think about.

Alison Grieve: Is it an education issue, perhaps? Should more business training happen in schools? At what point do we start to change the culture? If some people think that the issues have become structural rather than cyclical, it is surely the case that the earlier we get into training, the better.

Colin Beattie: To what extent do businesses currently engage with schools? There are various programmes.

Alison Grieve: Yes, there are—that is definitely a positive thing. There are pockets of interesting activity taking place, and there are innovations such as digital schools. It will be interesting to see how that plays out in five or 10 years’ time when those students are out in the business community.

Colin Beattie: How do you feed that view back to the powers that be? You clearly think that businesses need to engage more with schools to develop business skills.

Alison Grieve: When I gave evidence in Parliament previously, I had an idea for a scheme that would focus on international trade and create an international mindset in Scottish schools. That is being fed back in through pockets of activity. I do not know whether there should be a more formal process—surely that is partly why we are here today. To whom do you feed back the evidence that you receive? Do you say to Scottish Enterprise that there should be more engagement with schools? What would you suggest?

Colin Beattie: I am not answering the questions. [*Laughter.*]

There are various agencies for that. I will move on to something slightly different. What are the most challenging issues for new or expanding Scottish firms? What practical things should policy makers, both in Scotland and at the UK level, do to help those companies?

Sara Roberts: First, I want to nip back to the previous conversation, which links in with your question. I have a couple of points to make on productivity. Healthy Nibbles deals in corporate wellness—that is the predominant driver for our customers. To build on what Paddy Collins said about keeping employees happy, we have found that, among employees whose nutrition is sound, productivity has increased by 66 per cent, and that people who have healthier diets take 15 per cent fewer days off per annum.

To return to Alison Grieve's comments about the need to connect with a younger audience, we decided at the end of 2016 that we were going to take on a modern apprentice, as I am passionate about feeding back opportunities to the young. There was a change of circumstance in the business, so we could not do so, but at that stage, from my recollection, approximately 75 per cent of the cost was funded by City of Edinburgh Council through the business gateway network. When we eventually came to take on our current modern apprentice, the support infrastructure for apprenticeships had changed. In order for us to get support, the apprentice had to be highly emotionally dependent on the infrastructure—they had to have had a drug issue, been released from prison or been a child carer. For us, as a younger business going from start-up to scale-up, such a commitment was very challenging. In the end, we took somebody on and paid the full price for them, so it worked out.

10:45

With regard to how we improve the situation, access to support—we have all reiterated this point—must be consistent. That should be the case whether your business is led by women; whether you are a high achiever; or whether you are operating in a sub-sector and your business does not quite fit into a certain category. It should also apply to underachievers—there should be an opportunity for those who are not faring so well at school to get involved in a business of some description, with at least partial support. We took on our current modern apprentice when he was 16 years old; he had left school with significant issues, but he has been a tremendous blessing and support for the company. More youth engagement would be really beneficial.

Colin Beattie: Does anyone else have a view on what policy makers can do to tackle the biggest barriers that Scottish companies face?

Alison Grieve: The point that Paddy Collins made earlier about cash flow was really interesting. Access to finance and cash support is always useful; perhaps some form of national ledger of non-payers could be rolled out. It is also important to recognise that a lot of Scottish companies that started up in a very challenging recession are still nervous about bank funding and are very cautious in that regard. That makes the scale-up stage quite challenging—banks have traditionally dominated that space and, given the nervousness about taking bank finance, there needs to be some sort of replacement for that funding.

Colin Beattie: I thought that there were alternative funding sources.

Alison Grieve: There is equity finance and investment, which is very well supported. However, a lot of investors are drawing back a little in areas such as the enterprise investment scheme, which offers fantastic tax relief for investors but not in relation to things such as loan notes or loan finance. HM Revenue and Customs used to run a scheme that allowed investors to tap into that tax break when they gave a loan to a company at the point of scale-up. Now they cannot access the tax relief—it is very complicated. Where investors might previously have stepped in on the occasion when a loan was the most sensible option—to provide bridging finance, if you like—they are no longer doing so because there is no extra tax incentive. That is just one example of where some kind of provision around loans could be put in place rather than companies and founders continually needing to sell off equity in their businesses.

Colin Beattie: Do you consider that the current environment for new and growing Scottish

companies is where it should be, from a policy makers' point of view, notwithstanding the need for the various tweaks that we have discussed?

Alison Grieve: Are you referring to the start-up community?

Colin Beattie: I am talking about the general environment and the support that is available for new businesses.

Alison Grieve: Businesses in Scotland will always face challenges at the point of scale-up, but that is nothing new; it is indicative of the fact that we are quite a small country. It is easy to grow start-up businesses in that environment, but it is very difficult for such a small country to support a raft of scale-up businesses. I am not entirely sure what the answers are. Perhaps we need more funding mechanisms at the point of scale-up to enable businesses to increase the number of customers and invest in stock. Those are traditionally bank-financed zones, so certain policies in that respect could be helpful. There may be examples in other countries.

The Convener: I am mindful of time, as a number of other committee members would like to come in. Jackie Baillie has a question that might tie in with the last point that was made.

Jackie Baillie: My question is for the second panel.

The Convener: That is fine. Does John Mason have a question?

John Mason: I will make it quick. I notice that four out of five of today's panel members are female, which is fabulous. Nevertheless, do women face particular issues in setting up and growing businesses?

Leah Hutcheon: There are unique challenges for female-led businesses, but there are also unique opportunities. The numbers speak for themselves in terms of results.

The early stages of setting up a company can be difficult, and there are various challenges. I have just had a baby, and my husband and I shared parental leave, which worked fantastically for us. The system was really easy to access, understand and navigate. What the Scottish Government is doing to increase access to childcare and such like is fantastic. One change that could make an impact would be to allow people to access that childcare sooner rather than having to wait for three years. That would allow parents to go back to work more quickly—

The Convener: Do you mean before the child is three years old?

Leah Hutcheon: Yes. I do not know whether more childcare provision is needed—it just needs to be more flexible. One element of the shared

parental leave system that impressed me was the flexibility. There was a light-touch approach, and we were able to manage our leave so that it worked for the business and for our family. It is a traditional mindset, but it is often the case that responsibility for childcare falls to the female caregiver.

On another point, we have all talked about the need for consistency. We need to report on the distribution of support by gender if we are to achieve a split of 50:50 by 2020, which would be amazing. We need to start changing the mindset of agencies in terms of looking at where the money and support goes.

John Mason: The committee has previously heard it suggested that some of the agencies, such as Scottish Enterprise, just want the jobs no matter what, and they are not really looking at whether a business is led by women or at how many women are involved.

Leah Hutcheon: That is possibly true. We have been really lucky, as we have had great support. In some ways, it is fantastic that it does not matter whether we are a female-led company. However, in order for us to get to where we all want to be, and to see an impact on the numbers, it would be good if there was a look at that aspect. You cannot work on what you are not measuring.

I know that things are difficult at the moment; there has been some talk about the idea that Scottish Enterprise is not allowed to support measures that it thinks will specifically help female-led businesses. There may be a need to remove some of those constraints. I do not know whether that ties in with leaving the EU—perhaps that will change things. There is a lack of female-led businesses; it is amazing that so many are represented here today.

Karen Pickering: It depends on the industry. The construction industry is very male dominated—even the employees are mostly male, so it is difficult to build a female-led business. It comes down to education as well. We have to educate girls in schools about the opportunities that are out there, in construction and in other technology businesses.

Sara Roberts: I am an ambassador for Women's Enterprise Scotland. The stats from Scottish Enterprise show that only 3.2 per cent of its high-growth account managed businesses are run by women. We need to look at the diverse roles that women typically undertake. They may be raising a family, but on the other side of the coin they may have ageing parents, and we know that responsibility for navigating that side of things can fall on women.

I was talking about these issues on the radio this morning. During the last quarter, two women

were unable to raise funding, so they dressed up as men and went in and got funding. That is definitely at the extreme end, but it shows that there are still some issues to consider. We may have reached the centenary of votes for women, but we need to make progress in order to move light years ahead.

Alison Grieve: I have heard it said—at the business in Parliament event, for example—that research shows that women want to be treated differently by support organisations. That does not speak to me—I just want to be treated the same.

There are specific issues, such as the need for education, as has been mentioned. Representatives from male-dominated industries could go into schools and speak to girls to get them interested in science, technology, engineering and mathematics. It is important that men, as well as women, are asked to do that. If only female entrepreneurs are going into schools to talk to girls that does not fairly reflect the landscape in certain manufacturing or construction jobs. It becomes a false, cosmetic, promotional activity that is probably counterproductive. I think that we all agree that women need to be paid the same and have the same opportunities, but we will not get that by preaching to the converted and putting pressure on women to answer the question of how to create more gender equality. I would quite like to see my male peers being asked that question.

Paddy Collins: Thank you, ladies. [*Laughter.*]

I probably tick a number of boxes—our business is in the oil and gas industry, and we do chemistry, which is a STEM subject. In fact, about 50 per cent of our staff throughout the organisation are female. The chief financial officer—my number two—is a lady, and a number of my technical staff are female. The buyer, the supply chain manager and the people who are in charge of quality assurance are all female. It is fairly mixed. In the past, I have been told that I am prejudiced when I hire people because I tend to hire too many women. If a young woman comes to look for a job in the oil and gas industry, good for her—we need more women in the industry, so I will encourage her to come and work for us.

Recently, I had the experience of having a young woman quit on me to set up her own business as a personal trainer, although she has a much bigger game plan. I was not very pleased, because she is a very good chemist and I did not really want to lose her, but there she goes. At the end of the meeting, I wished her well—I hope that she does really well, because she is a very capable and determined individual. She is 24—she wants to get into nutrition and healthcare, and helping people to live better.

John Mason: We could probably explore those issues a bit further, but we are a bit pushed for time.

The Convener: Some questions may have to wait for the second session, as I see that we are indeed rather pushed for time. I thank the witnesses very much for coming along, and I suspend the meeting to let the next panel take their places.

10:58

Meeting suspended.

11:02

On resuming—

The Convener: Good morning again, and thank you to our second panel for coming in this morning. I welcome Professor Gary McEwan, who is chief executive of Elevator; Vicky Brock, who is the founder of Clear Returns; Laurie Russell, who is chief executive of the Wise Group; and Jonny Kinross, who is chief executive of the Grassmarket Community Project. Good morning to all four of you. We start with a question from Jackie Baillie.

Jackie Baillie: This question is for this panel, rather than the previous one. Many of you will know that I am a long-time fan of social enterprises. I am keen to know what, in your words, you contribute to developing a stronger economy and what more you would expect Government to do to help you in that process. I will start with Laurie Russell—because I have probably known you the longest, Laurie.

Laurie Russell (Wise Group): I suspect so. Perhaps that is just because I am the oldest.

I think that we have a huge role to play in creating an inclusive Scottish economy. Social enterprises tend to contribute to the economic success of Scotland and to tackle social and—often—environmental issues at the same time. We are a business model that makes sense to Scots. We are creative, innovative and entrepreneurial. At the same time, we care about the impact that we have on communities and vulnerable groups.

Many of us, including the Wise Group, are set up as supported businesses. Under the EU definition, that means that a proportion of our employees—in our case, 32 per cent of our 240-odd employees—are either living in the most deprived communities in Scotland or have a background of being homeless, addicted or in prison, or they might have a health issue or disability. That is a key element to Scotland's success in the future, because that demonstrates that we are inclusive.

As to what we could do more, I will use a word—trust—that a member of the previous panel used. I would say, “Trust us more.” We are more accountable. We demonstrate what social impact we make, and we can often measure that. We often save the public purse money that would be spent on individuals, because we can reduce their reoffending, for example, keep them out of prison or get them into employment when they have been out of employment for a long time. We can demonstrate that in a way that many public sector agencies that get public money do not do particularly well, and that is not normally a requirement on the private sector.

We have a huge role in the next 10 years in demonstrating that Scotland could really achieve an inclusive economy.

Jonny Kinross (Grassmarket Community Project): I echo everything that Laurie Russell has said. It was really good to hear about the experiences of the first panel. In my opinion, we do exactly the same as them, but more, in the sense that we are creating jobs: our contribution to employment is huge, especially considering the size of our sector. We are creating opportunities for people to create skills, so that they can set up their own businesses and can work in other people’s businesses when they move on. Most importantly for me—certainly in the Grassmarket Community Project’s situation—we work with people whom the commercial sector does not want and the public sector does not particularly want either, because they are complicated. Because of our particular business model, because we tap into huge social capital and because of the availability of volunteers and resources, we can work with people who would otherwise just be excluded from the Scottish economy and would not be able to work in or contribute to it. They are the people whom we work for.

Similarly to Laurie Russell’s organisation, we are a supported business. Ours is a much smaller organisation, but approximately 40 per cent of our staff team are people who would otherwise really struggle to find work. We have the skill set and the social capital to get them into work with us initially and then to move them on, into mainstream commercial employers.

Jackie Baillie: I will focus the question a bit more for Vicky Brock and Professor McEwan. I have heard about the value of social enterprises, and I have heard Laurie Russell say that trust and giving you more work are helpful but, institutionally, is there anything that you need more of that would help you to be more successful?

Professor Gary McEwan (Elevator): Everything that has been said so far is entirely

true. What motivates and drives a social enterprise can be quite different from what drives a commercial enterprise. I run a social enterprise that delivers business gateway across about a quarter of Scotland’s start-ups. As an enterprise trust, we seek to create surpluses that we can then put back in so as to fulfil our objective, which is to make the economy much better. Last year, about £370,000 went back in. That unlocked more than £1 million of private sector money, which was also coming in to support start-ups. That recycling of wealth that happens within social enterprise is really interesting.

Structurally, what we need more of is a belief that a social enterprise, with its aims and objectives, will do what it sets out to do and possibly give back to a community, unlock more private sector support and engage in the country more collaboratively. That belief does not exist too much in the commercial world. To trust us to do the right thing would be a wise thing to do.

Vicky Brock (Clear Returns): I am in a slightly different position, in that I am a serial entrepreneur. My experience has been entirely commercial. I have set up entirely commercial companies—I am about to launch my fourth. I used the business model of for profit, for good because I was terrified of the concept of setting up a social enterprise. I could not understand how to make the business model work, and I applaud anybody who does. I did not want my next business to be trapped in the loop of constantly needing to raise money from potentially capricious sources or sources that would change on a cycle that did not map to my business. I spent quite a long time figuring out a business model that allows me to do what I want to do on the social good side and that I feel is a slightly safer and therefore more understandable model in which I make commercially sustainable money in a replicable way and on a timeframe that I control. That is what I deploy. What would have made me more comfortable in thinking that I could set up a social enterprise would have been a very clear understanding of the financial mechanism, the timeframe and the consistency in terms of how long the support might have been around for, had I chosen to go down that route.

Jackie Baillie: So, financial certainty is a key issue for you.

Vicky Brock: Yes.

Laurie Russell: I return to the specific point about what the public sector and Government could do more of. It is about commissioning and procuring contracts. We bid for contracts in employability and skills, in justice and in sustainability. We compete against all the big companies—with the exception of Carillion—whose names are now in the public environment.

Those include Capita, Interserve—about which there have been profit warnings—Serco and G4S. We compete with those companies, which run a number of contracts in Scotland. The Wise Group operates in the north-east of England as well as across Scotland. The Government sees no benefit in social enterprises as against those companies. You could introduce many more demands such as open-book accountancy and accountability on measuring social impact, which we do and which is rightly often demanded by Government in our contracts. Many of those contracts involve payment by results, so we have the same cash-flow issues that people on the first panel talked about.

As an example of a payment-by-results contract, the Scottish Government has just procured employability contracts that were devolved from the UK Government. There is a cash-flow element to that, on which we get no extra help in comparison with those large, internationally owned, several-billion-pound-turnover companies that are in our market.

There are better ways of doing commissioning and procurement. The Scottish Government has some good examples, and there are others south of the border, but we need to learn about that across the public sector. We should examine the track records of the types of companies that we are procuring to carry out services on behalf of the public sector.

The Convener: A number of committee members wish to come in. First we will have Gordon MacDonald, and then Dean Lockhart.

Gordon MacDonald: This point carries on from Jackie Baillie's question. Laurie, you were talking about inclusive growth and so on. How do we ensure that every section of society benefits when there is economic growth? What steps do you see as necessary?

Laurie Russell: The kind of people with whom social enterprises tend to work have issues in their lives other than being able to get straight into work. Relatively short-term unemployed people will get back into the labour market quickly because they are used to working, they are motivated and they have work experience, a CV and a track record. We come across many people whose challenges could involve health or confidence. They do not usually involve a lack of skills, but they sometimes include a lack of softer skills, such as the ability to cope with a working environment. They may have caring responsibilities and so on. We have to see individuals in a holistic way and resolve some of those issues in their lives before we expect them to be able to get into the economy. That is essential, because we are spending public money on supporting those individuals and, if we do not

get them into the economy, we will potentially continue to do so throughout their lives.

There are various programmes that work. We tend not to spend a huge amount of money on helping the people who have the greatest issues to get into the economy. I benefited from higher education, but if you consider what an individual who comes out of school and goes into further or higher education will get from the public purse in comparison with the individual who comes out of school with no qualifications, the latter is very small compared with the investment in further and higher education. That amount has got too small and too tight, I think. Thinking about when I started in the Wise Group, which is coming up for 12 years ago, the average amount of money that we now have for getting a long-term unemployed person into work is about a third of what it was 10 or 12 years ago. That is a relatively small amount.

Jonny Kinross: For me, there is an element of robustness about social enterprise. That is encapsulated in the idea that, once you bring into your organisation somebody with complex needs who has been out of work for a long time and who faces all the sorts of issues to which Laurie Russell alluded, you find that, although it might be harder in the short term and you face more challenges as an employer, you will never get a more loyal member of staff or anyone who is more grateful for a job. I have had people sitting in my office telling me that they would do anything for the Grassmarket. It is a hugely privileged position to have someone in your office saying that about you. That is because, in their view, you have literally saved them—you saved their life. You will not get a harder-working or more productive individual, and you will not get somebody who is more willing to contribute to the growth of the Scottish economy than those people who put their heart and soul into the survival of an organisation and a business model. That is one of the key contributions that social enterprise can make to growth: including people. You are missing a trick if you do not include people. They can be the most talented, hard-working individuals.

11:15

Vicky Brock: It is important to recognise that not everybody can afford to be an entrepreneur. I had my entrepreneur hat and did the whole start-up thing. I work with start-ups, in schools and in incubators. It is a very narrow section of the population who can afford to work for a year for nothing on the hope that their idea might work. That is the reality of it. People might be working 60, 70 or 80 hours a week for an indefinite period for no money for something that might not work. It is a very narrow little elite of people who do that. As an educated person who has worked in tech, I

am one of them. It is hard enough when people are leaving a decent salary. Leaving a £40,000 or £50,000 job to go and do a start-up venture is hard. People who do that are not available for work; they are working flat out and full time on their idea, which might not even become a business. They are not available to do anything else. There are very few people outside the stereotypes—of which, as I say, I am one—who can afford to do that.

My crazy idea is that the first year, when someone is founding a company, should be a minimally salaried job. It is an insane amount of work. Provided they are in a structured environment, if they are reporting to an incubator, sending their metrics back, showing up and doing the work, why the hell should that be something that they are supposed to do for free? I do not know the mechanics of that—fortunately, I am not a politician—but I think that it would massively open up the potential for other people to unlock their potential, found stuff and be entrepreneurs. People have the skills.

Jonny Kinross: I agree entirely. For many of the people whom we train up in our woodwork shop, for example, a natural step would be to make their own furniture. Trust me: there is definitely a market for that—we are overwhelmed. There would be a difficulty for someone who has been unemployed for a significant period and who trains and volunteers with us to come off benefits and go into something as insecure as that. Although the benefits option is not ideal for any of those people, the thought of working flat out for very little money, not knowing when the next order will come through, not knowing how to manage their bookkeeping and all that sort of stuff would be terrifying to most people in that position. Indeed, I know it is terrifying from my conversations with members of the Grassmarket. I totally agree with Vicky Brock. Having been self-employed for five years, I know that, for many people, self-employment is overrated and misguided as an option. We have to be careful about saying that everyone should be self-employed and entrepreneurial and so on. It is great for the right individual, but it is terrifying for many people to go down that route.

Professor McEwan: For modern businesses, there was a notion that fairness and equality is a luxury, but we now know that it is not. It is actually crucial—in a reputational sense, apart from anything else. If we get the fairness and equality part right, that gives us real productivity change.

As employers, we need to have people who are completely ingrained in our business. We need to be able to attract the right people and retain them. People do not hang around where they feel that there is inequality or a lack of opportunity. A

business that is founded on greed or exploitation ain't gonnae get very far these days. We have high levels of employment now, and people have choices. They want to work in the right environment, and if they do not find that they will move on. It is no longer a luxury. Inclusive and fair working practices are a crucial part of today's business.

Gordon MacDonald: On that point, over the past couple of decades we have seen growth in the ratio between the lowest paid people in an organisation and the highest paid. How do you address that issue? You are saying that people would walk if they do not see fairness and equality, yet in the background there is that increasing ratio, and many people do not have the choice to walk. They are in secure employment and their concern is that, if they want to support their family, they need that secure employment, regardless of what the salary level is.

Professor McEwan: Since the downturn in 2008, it has been a tough 10 years for business. It has been a very unstable time. One key thing for retention is that employees feel valued and invested in and that they feel secure in the employment. In some ways, our growth has been significantly stunted in the past 10 years, so the chain reaction of people moving from the bottom up has stalled in some way. The leaders have had to become much more robust and innovative in how they go about certain things. There is a middle ground that has created a void, and that will have an impact soon, with automation taking over many of the more mundane tasks.

Economically, I have no real answer to why that divergence has happened. If organisations are seen as being unfair and oppressive, ultimately, that will come through, because there are too many organisations working cleverly now to ensure that that does not happen.

Jonny Kinross: The social enterprise sector leads the way on that issue, as the ratios between the highest and lowest paid are significantly smaller in that sector. The figure is 1:2.5, according to the recent "Social Enterprise in Scotland" census. That pales into insignificance in the context of the private sector's commitment to the ever-widening gap between the highest paid and the lowest paid in its organisations. We are leading the way in that sense. To go back to issues discussed with the previous panel, we also have far more women heading up and working at all levels of our organisations. There is no doubt that we are leading the way on that kind of stuff.

Laurie Russell: We also have a voluntary code of signing up to a maximum ratio of 1:7—I think that is the figure—between the lowest and highest paid. We sign up to that, and we pay a living wage. We also tend to have good conditions for

staff. We have flexible working and flexible hours, and we invest significantly in staff development and training. That is part of the culture. As Gary McEwan said, that does not necessarily apply only in the social enterprise world, but we sign up to a voluntary code that sets a maximum for the salary of the highest paid individual in comparison with the lowest paid. Businesses generally should be doing that.

Jonny Kinross: It would be good if people across the commercial sector signed up to some of the voluntary codes that we sign up to. We do not see as much of that. It is almost as if people do not feel that they need to sign up, even to the fair tax voluntary code, which is literally just about paying the taxes that you are supposed to pay. Let us see more businesses shouting about the good things that they do and that they are supposed to do, and concerning themselves less about corporate social responsibility and that kind of stuff. Let them just talk about the great things that they are doing just because they are good.

Dean Lockhart: I want to clarify what we mean by “social enterprise”, because there is a lot of terminology involved, such as CSR. In Scotland, as I understand it, there is no legal definition of what a social enterprise is. How does the sector distinguish what is a social enterprise and what is not? Is it driven by the voluntary code? Do people need to have signed up to that code in order to qualify technically as a social enterprise?

Laurie Russell: People do not have to do that, as it is a voluntary code, but many of us do. Most social enterprises are set up as companies limited by guarantee, and many have charitable status. That is the structure that we adopt and have done since the Wise Group was formed 34 years ago. There is also a legal model called a community interest company, which many people adopt. The key is openness, transparency and accountability. Our mantra is that everything that we do is open, so people see a lot more of what we do. However, you are right that there is no specific legal definition of a social enterprise, although I imagine that the bulk of social enterprises are companies limited by guarantee with charitable status.

Jonny Kinross: The code is a step forward. I am not convinced that we should extend that and exclude groups or organisations that call themselves social enterprises but do not sign up to the code. For those who are not familiar with the code, I point out that it gives a really good definition involving an asset lock. That means that all of the assets are locked into a community benefit and the profits are not put into private investment, unless they are being reinvested in the business. The code is really clear. It was cut and dried for me and my organisation, so I do not see any reason not to sign up to it, especially if

people enjoy financial incentives, as some of us do, or preferential treatment in terms of tax, grants and that sort of thing. It is good to have such a robust definition, as it provides for transparency in what people do.

However, I am totally for CSR and for businesses that do not want to call themselves a social enterprise but that want to enjoy being part of a movement for fairer working practices and better, more inclusive ways of doing business. For me, it is all about collaboration and working with all sorts of business models.

Dean Lockhart: You mentioned grants, and I was coming to a question on that. Do Scottish Enterprise and the Scottish Government apply a particular definition or guidelines in deciding whether a social enterprise qualifies for funding or social enterprise assistance?

Laurie Russell: Lots of social enterprises, including ours, get no grants at all. We can get a grant through the Big Lottery Fund, but it is competitive. We do not get any regular support through grant aid for our core activity. That is the general model. Often, charitable status is the criterion for grant-making bodies—trusts and the Big Lottery Fund, for example, would want to see charitable status.

Most social enterprises realise that the grant world is not sustainable and that they have to be able to generate income either through competitive tendering and winning contracts or through customer-facing commercial activity. The key, as Jonny Kinross and others have said, is that a social enterprise is marked out by what it is doing and by the fact that there is an asset lock. Like any other business, we have to make a profit every year or we go out of business, but that is reinvested in the business and it does not go to shareholders or owners. That is the key difference.

Dean Lockhart: Are you comfortable with not having a strict definition? Does it help the sector to have that flexibility, rather than have a black and white definition of what a social enterprise might or might not be?

Laurie Russell: I am personally comfortable with that. We heard earlier from the first panel about the Page\Park Architects model. That is an employee-owned company. There are different models around, some of which Vicky Brock described. I do not think that it matters; what matters is what you do and how you do it. In Scotland we have an opportunity for different kinds of companies to play a role in generating inclusive economic growth.

There should be restrictions on some companies that are making excessive profits, especially if they are running Government contracts or are working with vulnerable people. I

have a personal issue with some of the companies that get taken on by the UK and Scottish Governments to run employability programmes, for example. Some of those companies do not declare where their profits go and are perhaps owned by investment companies whose main aim is to sell them on if they win a Government contract. Apart from that, I am pleased if a company has a model that means that it cares about its people, its communities, its social impact and the environment.

Professor McEwan: The general notion that a social enterprise has as its ultimate beneficiary the population of our country rather than shareholders is a broad but very good one.

It was mentioned earlier but is worth reiterating that all our income is commercial, and we have to bid alongside many commercial organisations. Laurie Russell may be in the same situation. We do a lot of stuff with the Scottish Government and SE. In the tendering process, there is no notion of social enterprises providing a benefit. The weighting never seems to tip its hat, even in a small way, towards the notion that we are here for the benefit of Scotland rather than of shareholders.

If there was one thing that could change, it would be nice if that could be recognised when contracts are delivered. Consideration should be given to what happens to the surpluses, where they go and how they unlock other money in the sector. Such processes have to be economically competitive—we understand that, and we will always try to be competitive—but, where there is little difference between companies, consideration of where the money is going should make a difference to the decision makers.

11:30

Vicky Brock: The grant issue is interesting. Most of the companies that I have run have involved data technology in some way, as does my next one. Intellectual property and patenting are important, and I have leveraged R and D grants and SMART—small firms merit award for research and technology—awards. The shape of that type of company is the equivalent of winning the support lottery, because it ticks everybody's boxes in every way, shape and form. It was one of the things that I considered as I was thinking about how to structure the next company. I did not want to preclude myself from SMART awards and from all the assistance that people get when they are building technology and IP because of the way that I had chosen to structure the company. I was therefore wary of the term "social enterprise", because it would rule me out of so much free money that I had leveraged so well before. I know

that that sounds ruthless—sorry. I apologise to all the non-evil people.

Jonny Kinross: I would like to make another point about definition. There is a place for shorthand. All our businesses are customer facing, so it would be really good to have something a bit like the Fairtrade mark, which is now well established. Everyone in the room will understand what the Fairtrade mark is. If you buy Fairtrade coffee, as I hope you do, you understand the benefit of doing so, and people can have a conversation about that. There is a place for an easy way in, in the form of a kitemark, logo or whatever, with a set of conditions attached—it could be the voluntary code, for example—so that consumers can instantly find a like-for-like cafe. Our cafe, for instance, sits beside other cafes that are not run as social enterprises. If you enjoy our cafe, as I hope that you will at some point, you may well choose it on the basis that it has decent coffee plus an added benefit. The same goes for the Serenity cafe and other such places. That kind of shorthand would be useful for consumers, as it would cut through some of the grey areas. I am not suggesting for one moment that that should necessarily come from the Scottish Government—it could be a sector or an industry initiative—but it would be useful.

Kezia Dugdale (Lothian) (Lab): I want to develop that point in a moment, but first I want to go back to what Laurie Russell said. I apologise if I did not catch the exact words that you used, but I think that you suggested that the amount of money that we spend on reducing long-term unemployment among people who are the furthest removed from the labour market is a third of what it was 10 years ago. You used the word "we"—did you mean the Government or Scotland? What does that mean? How did you get to that statement?

Laurie Russell: It is a collective "we", if you like. Through the public sector contracts that are available for organisations such as the Wise Group to bid for, we get—in broad terms—around £1,000 to work with somebody over a longish period, not just to get them into work but to sustain them in employment. The groups of people who are rightly targeted are those who have been unemployed for a longer period or who have health problems or other issues that affect their ability to get into work. From my experience in the Wise Group, I believe that the current funding is about a third of the amount that was available from Government 10 years ago for similar contracts.

Kezia Dugdale: That is a helpful clarification—thank you.

To go back to the more generic point about what constitutes good business, you mentioned that the key to making progress might be to crack the

procurement system—or the Scottish Government's procurement system, at least—and allow a broader range of companies and organisations to access contracts.

Reflecting on the evidence from the previous panel, which most of you heard, I note that many of the things that constitute a good business—paying bills on time, having a good impact on the community, being a good employer, seeking to employ young people and having a diverse workforce—are all in the Scottish Government's business pledge, in addition to aspects such as intervention and internationalisation that have not been mentioned so far. What do you think of the Scottish Government's business pledge? Would that be the platform for the badge or mark that Jonny Kinross suggested? The fundamentals are already there.

I am struck by the fact that only 15 per cent of the Government's current contractors are signed up to the business pledge. Is it a model that works? If so, what more should be done to promote it? If it is not working, what should replace it? Should it be mandatory? It would be great to hear your reflections on the business pledge.

Laurie Russell: I support it, and the Wise Group has signed up to it. In our most recent tender for a Scottish Government contract, we were asked if we were signed up to the business pledge. However, in my view, there is not enough due diligence—the process is easy. A tender is like sitting an exam: you fill in the form, and it goes to somebody who scores it and the result comes out. There is rarely an interview or a negotiation, as I suppose it would be called in the tender process.

We are not doing enough on the business pledge—it could go further, which goes back to Gary McEwan's point. The tender process should look at the type of business that someone is running as well as at whether they are signed up to the pledge. For example, it could include the ratio between the lowest paid and the highest paid person or open-book accountancy so that, if a business is making a profit, we know where it is going.

The international companies that bid for Government contracts across the UK are often owned by US or Australian businesses, which are often equivalent to private equity investment companies and which will sell on their companies if they win sufficient Government contracts. We can see that simply by looking back at the ownership of all the companies that have been in the news over the past 10 years or so.

I do not think that we—the Government, at either a UK or Scottish level—are doing enough to determine what kind of companies are getting

contracts. The business pledge is a very good start, but it could go further; I would make it mandatory.

Kezia Dugdale: Are there any comments from others?

Jonny Kinross: I totally agree that it should be mandatory. We do not deliver any Government contracts, so we are in a different position, but I have tendered before, and I am very much aware that my business practices stack up against the pledge much more than the practices of some of the other companies that are tendering. I know that for a fact, given where those companies invest their money when they are not tendering for local contracts.

I also feel strongly that many local contracts—particularly around employability, as I am sure Laurie Russell would agree—are about relationships. That is particularly the case for groups with complex needs such as the long-term unemployed. There will be a huge saving for the Scottish economy in the long term if we get those people into work. Local organisations—often social enterprises—have built those relationships and are already doing the work, so they should definitely be given a much greater opportunity to participate in the tendering process.

Professor McEwan: The multiplier effect that we will achieve if the Government procures services from companies that not only sign up to the pledge but live by those values will be colossal. I would make the pledge mandatory, but I would make it count. There is a saying that what gets measured gets done. If we include a measure in the tendering process to assess how well a company shapes up against those criteria, we will get much more value for the money that is being spent, because we will become more productive and inclusive. It would level the playing field a little bit more with regard to organisations that are very much driven by commercial shareholding interests.

Kezia Dugdale: Professor McEwan, you said earlier that you would give social enterprises weighting in procurement or in the tendering system. Do you prefer that model to the business pledge? The pledge is broader in terms of the number of private companies that could sign up to it, which means that it could reach further.

I am aware that not everybody will be familiar with the contents of the business pledge; I have studied it a lot in the past 24 hours. For everybody's benefit, I note that there are nine qualifying elements in the pledge, but in order for a business to sign the pledge, it needs to be doing only two of those things, and it can commit to meeting the rest of the qualifications over a period of time. It should not be difficult for a larger

number of companies—especially those that the Government is already funding—to sign up to the pledge. Would you agree with that?

Professor McEwan: Absolutely. The values that you talked about are crucial, whether a company is a social or a commercial enterprise. We should be doing that stuff, and Government should not engage with organisations that do not do it.

When it comes to what happens to the money, the status of a social enterprise should almost be a separate consideration. If all things are equal and two organisations comply with all nine elements of the pledge, we should go with the social enterprise because, that way, an additional value would be created. However, every organisation with which the Government engages should be active in those areas.

Vicky Brock: If there is a framework underpinning the data collection, and if data is disaggregated as it is captured so that gender and social markers are exposed, we can get to a place where we can measure the social return on investment a little more easily. That is massively complex, but if the basic framework that underpins the on-going data capture was a bit more robust than it is now, we would be able to measure the social return on investment more consistently, which means that we could more consistently weight the procurement process towards consideration of the potential social return on investment from a bid. Underneath all that, we need accurate, boring and consistent data capture, and we need to expose the granularity in that data.

Tom Arthur: Good morning. My questions relate to some of the matters that were discussed earlier in response to Jackie Baillie's line of questioning, in particular the question of capacity building for social enterprises. Fortunately, my constituency of Renfrewshire South has some fantastic examples. The Local Energy Action Plan project, which is based in Lochwinnoch, does a lot of great work in supporting the uptake of renewable energy sources, energy efficiency and active travel. At Kilbarchan, a former Liberal club has been converted into the old library centre, which is an excellent community facility. The Neilston Development Trust is an outstanding example. About 12 years ago, it took over a bank and converted it into a cafe and cycling hub. It is now a centre of excellence for cycle repairs, and a number of first responders are based there. The trust was also involved with Neilston community wind farm—it recently sold its 28 per cent stake, generating a £2 million surplus that it will invest in a charity and community fund.

However, I know from speaking to other social enterprises in my constituency that there can be

challenges around capacity building. People feel that, while a process of heuristic learning can get them to their goals eventually, they could expedite that journey if they had more support. Do you think that support is available to allow social enterprises to flourish in Scotland? There may be a shared desire for greater community empowerment, and the ideals are there, but do they translate into support on the ground?

Laurie Russell: My view, which I suspect is similar to the response that you got from the first panel, is that there is a significant amount of support. There is a bit of duplication, and some of the support and advice that new businesses or social enterprises will get will be relevant while other elements will be less so.

In Scotland, there is a model for supporting start-up social enterprises through an organisation called Firstport. I suspect that some of the enterprises in your constituency that you just mentioned will go through that route. There is other support available, too. I do not believe that Scottish Enterprise understands social enterprise. We were account managed by SE for a while—one individual understood our organisation and we got some good support, but then we were passed on to somebody else for whom we were just a box-ticking exercise, so we are no longer account managed by Scottish Enterprise. There is funding around through social investment models. Sometimes it is quite expensive, and for larger social enterprises such as the Wise Group it does not go high enough—we would get a better rate through commercial lending than we would get through those social investment models.

South of the border, there are more creative ways of funding social enterprises, especially larger and more innovative ones. On the whole, there is quite a broad support mechanism. In addition, critically, social enterprises support one another. In almost every local authority, there is a social enterprise network, and at a Scotland-wide level there is Social Enterprise Scotland, which provides information and support.

As I said earlier, the Wise Group employs around 240 people. In the contracts that we run, we have formal agreements with more than 100 small organisations that help to deliver those contracts. We use a partnership model for almost every contract that we have, which allows organisations that deliver specialist services and local services in particular to take part in a contract for which they would not be able to bid on their own. We think that we have created around 200 jobs in the past 10 years in the small organisations that work with us. If we get a contract, it creates jobs not only in the Wise Group, but in those organisations that help us to deliver that contract. That is an important element of how social

enterprises work and support other social enterprises to grow and develop.

11:45

Jonny Kinross: Tom Arthur is right—there are definitely challenges around capacity. The Grassmarket Community Project is a much smaller social enterprise, and my previous social enterprise was smaller still. Some of the talk that we heard earlier about scaling up, stepping up and all the investment stuff frightens the hell out of a lot of board members in social enterprises and charities. Taking on investment loans and that sort of thing is not part of the culture, because people are generally very worried about the impact that that could have on some of the small communities. Just like entrepreneurs in the commercial sector, people put their heart and soul into whatever enterprise they are running and will do everything to help it to succeed, so they get very anxious about that kind of thing.

Capacity is definitely an issue, and I encourage the Scottish Government, and anyone who is in a position to make a difference, to invest much more in those individuals, especially when they are at the early stage of social innovation and they have ideas. There are fantastic organisations, such as the Melting Pot in Edinburgh, which act as incubators. We should be investing as much as possible in those individuals, rather than getting too embroiled in decision making by committee and by risk-averse boards. Those individuals are the people who should be bringing forward new and socially innovative ideas. That would help a lot with the capacity issue, because those individuals are driving the business. The downside of that is when succession issues arise because people move out of the community or on to their next business. A social enterprise can really struggle when there is displacement because a key individual has moved on, and that is where some additional support is needed.

I totally agree with Laurie Russell and with the previous panel that there is a lot of support out there. Someone described the landscape as “cluttered”, which is exactly the word that I would use. You have to navigate your way through it—you get advice from someone to go a particular organisation, and that organisation says, “We don’t work with start-ups,” and you say, “Oh, really?” I got support for my previous venture and for the Grassmarket Community Project predominantly from the networks, which is why I sit on the board of Edinburgh Social Enterprise Network. We provide mentoring for one another—I do a lot of paid and unpaid collaboration with other social enterprises. It is a wonderful culture, and in my view it is much less competitive than the commercial sector. We help and look after one

another, and we share training and sometimes facilities in a way that is perhaps less widespread in the commercial sector. I do not know what other witnesses think about that.

Professor McEwan: In my view, it is possibly not that different from the commercial sector. A social enterprise is very much like an enterprise of any other kind: the beneficiaries may be different, but in seeking to become established, build credibility and a reputation, and grow and become sustainable, it will face the same challenges that entrepreneurs face when they start commercial businesses. Someone who has a huge amount of passion and resilience and who is no stranger to hard work and dedication is an embryonic social entrepreneur as much as any other kind of entrepreneur. They will always get the business going, whatever form it takes. The skills and attributes that are required to make a business growth orientated are quite different from those that are required to make it sustainable, because passion will get people so far but it does not get them all the way. They have to bring in structure and organisation, and the whole process becomes an education. If we intervene in any way, it is to convert those passionate entrepreneurs into skilled people who are capable of creating great social enterprises that will be around for a long time and will give something back to the community.

Tom Arthur: I have just one more question—I am conscious of the time. As a supplementary to the previous conversation about the Scottish business pledge and the fair work agenda, do any of you have direct experience of the carer positive accreditation scheme for employers? Do you have experience of employees who are working carers? If so, what support have you put in place for them?

Laurie Russell: We have a system of flexible hours and a flexible week that allows any employee to ask for consideration of a request to do their work within hours that would suit their family life or their life outside work—for example, if they have caring or other responsibilities. We react to the individual. We promote that system in our organisation. For an employee, working in an organisation is about not just how much they are paid—although that is critical, so we are signed up to the living wage—but the benefits that their employer provides for individuals. One of the main benefits that we know from feedback that staff like is flexibility around their daily working hours within a structure and their working week. People can work compressed hours, or they can ask for time off. They can ask for temporary time off if an issue that they are dealing with is temporary, as caring issues can sometimes be.

Jonny Kinross: As an organisation that is classed as a small-and-medium sized enterprise

and is customer facing, we face huge challenges around flexibility. It is all well and good for us to say that we should be as fair as possible as an employer and supports all our staff in whatever issues they are dealing with, but it can be very challenging commercially. If people do not turn up for work for childcare or caring reasons, we still have to serve coffee and run a business.

In that respect, we face exactly the same challenges as any other SME—it is very difficult. Like Laurie Russell, we promote fair working—as part of our living wage accreditation, we commit ourselves to fair and more inclusive working practices—but, in reality, that can be very challenging for an organisation such as ours. We get round it by using social capital—we use a lot of volunteers to help to prop up the business when it is struggling. In addition, someone who works in one part of the business might move into another part where we can still support them. We are very lucky to have those options, but for a lot of SMEs—including us on a bad day—it is a huge challenge to be as flexible and supportive an employer as they would like to be.

Vicky Brock: As a tech start-up, flexibility was one of the few areas in which we could compete. I was employing a lot of people who could potentially have gone to work for JP Morgan in Glasgow if they had wanted to, but they did not. They might have had issues in their life that meant that they could not do so. I actively recruited returners to work and people who had not been engaged with work because they were on the Asperger's or autism spectrum. In that way, I could build a really good team. That approach worked extremely well until I had raised a certain level of money. I was subsequently one of five board members, and I was no longer the majority shareholder of my company. I was essentially answering to the people who were funding the company, and those nice little fluffy things were a distraction. That was a huge mistake on the part of those people, because I feel that it very much damaged our growth potential, and, in effect, it broke one of the reasons why we were working. It was viewed as an indulgence, which is really sad.

The Convener: Gillian Martin has a quick follow-up question before we come to John Mason.

Gillian Martin: I was hoping to get into this issue with the previous panel. Productivity has been discussed in terms of the amount of hours worked, for example, but you have just said that productivity is about much more than that: it is about getting the best out of your employees. Flexible working has not been mentioned particularly baldly so far. Do you feel that the issue that you have just raised, which includes the ability to work remotely or flexibly to fit in with other

people, is a productivity issue, or is it simply about the need to be socially conscious? Does it have a value for your business?

Vicky Brock: I felt that there was a huge value in that approach. I had teams that functioned on completely different body clocks from me and from many people. I was not forcing people to work late, but there were individuals who did their best work after the kids had gone to bed—they sat down and did four hours flat out. Of course, I was not expecting them to answer emails before lunchtime. That worked, although it took a great deal of people management on my part. It was a bit like flight control. Sometimes you just need to get something out of the door and have everybody doing the same thing at the same time, and that is a challenge with flexible working. However, if you have flexibility at the heart of your culture and you actively recruit for it, you find that people get more done in the four hours when they are in the zone than they do if you lock them in a fluorescent-lit office for 12 hours.

Gillian Martin: That has an impact on a company's bottom line.

Vicky Brock: Absolutely

Gillian Martin: So why do more employers not do it?

Vicky Brock: If you are getting the most out of people in four hours and you have a small, tight team that is operating really well together, you are getting the same amount done, but sometimes the measures are different. Employing more people often looks like an indicator of growth. If you double your workforce, you are clearly doing great, but not if they are not producing any more. The measures can be funny—it depends on whose success criteria you are working towards. I certainly think that flexibility was at the heart of our fastest, best, most economically productive work, in that it was the most profitable work. As we got more expensive people and moved to a more traditional structure with traditional hours, our profitability and productivity fell.

Gillian Martin: In providing support for businesses, should there be more recognition that measuring work in that way can actually increase a company's productivity across the board, so that more companies can realise the benefits that you have enjoyed?

Vicky Brock: I think so. It does not take a lot of training to enable a manager or a company leader to get their head around that. I am a data-driven person, so I always say, "Show me the numbers—show me the output." If something works, I love it, but if it does not, I will try something else. For me, it is super important to measure results in that way, although I would not take it too far. At one point, I had an initiative where people started

tracking their hours, which was just pointless—it undid whatever the magic was.

John Mason: I will move to question 2 in our committee paper. I want to widen the discussion a little. From your angle, how do you see the Scottish economy going over the next 10 years? I am happy to hear your thoughts on specific areas, such as social enterprise. What are the challenges, risks and opportunities?

Jonny Kinross: I have to mention Brexit. I do not quite know in what way that will have an impact—I do not know enough about the Scottish economy and the potential impact of Brexit—but it scares me. It also scares many members of my team, some of whom are from Europe and enjoy working in Scotland. I have concerns about Brexit, but it is a complete knowledge gap for me.

John Mason: So there is uncertainty about your workforce.

Jonny Kinross: Yes, there is uncertainty. We also enjoy the benefits of having EU volunteers, who are funded through the Erasmus scheme. We love having them in our team—they come fully funded by the European Union. They are resident in Edinburgh, work full time and are of really high quality; they are often students who are volunteering between finishing their degree and going into work, so they have a maturity about them. I can only presume that we will lose that arrangement after Brexit. There are some real practical issues around what we do once we lose that resource.

In addition, the vast majority of my cafe customers are from Europe. They flock to Edinburgh as tourists—it is a great city—and they come to our cafe. We are customer facing, and we have created 11 new jobs in the past three years in the cafe just from our contract with local tour guides who predominantly serve the Spanish community. We have had a huge partnership with people from that commercial organisation to develop that, and they are scared about the impact of Brexit, given that they run an international tour company that brings Spanish people to Edinburgh. There is definitely uncertainty in that respect.

With regard to specific issues for social enterprises, there is a concern—as was mentioned earlier—about uncertainty around the definition of “social enterprise” and how we make our values clear to consumers, given the possibility of commercial organisations suggesting that they are social enterprises when they are not. That could give rise to a culture of uncertainty, in which we all stop buying from social enterprises because we cannot trust them. There is an element of trust around the social enterprise label, and I would like that issue to be addressed in the

next five or 10 years. There should be a bit more clarity. As Laurie Russell said, a social enterprise should be open about how it spends its money and its profits. In my view, that is critical. Those are the main areas that I would like to see addressed.

12:00

Professor McEwan: I will reflect on the past 10 years. The Scottish Government has a target of supporting 10,000 new businesses each year; the number has been the same for a long time. My organisation, Elevator, supports almost a quarter of those businesses, and we see a vibrant entrepreneurial culture—certainly in our area; I do not know whether that is universal across Scotland. When we travel round the world, we find that the most vibrant economies have the same trademark, which is a vibrant start-up community. The two seem to go hand in hand. The creation of a vibrant start-up culture signifies a healthy economy.

Over the past 10 years, we have, in many ways, achieved on that front. The bigger issue is how many of those organisations go on to grow to any significant degree. We have a growth issue. In Scotland, we seem to sell our businesses quite early in comparison with many other economies. We seem to have a fear of heights in that respect. There are not many people in this country who have experience of growing global companies, and the slight immaturity of our entrepreneurs means that they get out while they can—while the going is good—which is often too early. We do not have quite as much of an issue with growth as we do with scale-up. The ability to grow a company and the ability to scale it up are two quite different things. We have big issues with scale that we need to think seriously about addressing.

However, there are a lot of opportunities around. In a recent survey of the CEOs of Fortune 500 companies in the States, three quarters said that their biggest fear and greatest challenge is the rapid pace of technological change. They realise that 90 per cent of the companies that were in the Fortune 500 group 50 years ago are no longer there, and they reckon that, in the next 10 years, 40 per cent of today’s Fortune 500 companies will no longer be there. The ability of technology to disrupt markets has never been greater. Our current entrepreneurs—

John Mason: Is that more of a challenge for social enterprises, or do they face exactly the same challenges?

Professor McEwan: It boils down to the fact that, to all intents and purposes, the businesses that we run as social enterprises face exactly the same challenges. The challenges are possibly

even greater around investment, because investment in social enterprise when there is no outcome is difficult. Our challenge in Scotland relates to how we can get a little bit bigger and present more of a challenge on the global stage. Technology can enable us to do that like never before.

Laurie Russell: On the whole, social enterprises tend to be people-based businesses, whether they are working to help people start businesses, to include individuals in the economy or to tackle environmental issues. We are not immune to any of the global factors that will hit any business, but we are maybe a bit less directly affected by technological change.

A lot of our customers—the people with whom we work—are still a ways behind the people around this table in their use of technology. That is the digital divide that we talk about. We expect everybody—well, perhaps not everybody, but a very high proportion of people—on benefits to do everything online, but a lot of our customers do not have the capacity to do that. They do not have the equipment either—they are not attached to the internet, except perhaps on their phone. There are still big challenges around the group of people in our society whom we need to integrate into the economy. We need to expand the number of people who take part in the economy in Scotland, and to make the economy more inclusive.

I will quickly look back over the past 10 years and then look forward. I am an optimist—I think that social enterprise has come a huge way in the past 10 years. We did not even use term “social enterprise” 10 years ago; we were just starting to think about putting the economic and social parts of Scotland together. We now know what we are doing at least, and we have an understanding of our work. Social enterprise is a professional business—we are just as good as any other business. We can compete as quality social enterprises, and we can beat—we have beaten—companies such as Serco to win contracts. It is possible, and not just for us—other companies like ours can do that too. However, we need to go further and move quicker, because a lot of people in Scotland are still excluded from the quality of life that we expect to enjoy if the economy is doing well. That is still a challenge for us, and it will be a challenge for the Scottish Government over the next 10 years.

Vicky Brock: I will build on that from a slightly different perspective, as I do not have a social enterprise background. Technology is absolutely going to drive structural disruption, especially in rapid, repetitive and repeat decision-making tasks. The driver behind many sectors will be a move to automation and machine learning first. Some of the sexier sectors that currently get support will

become very commoditised. A lot of elements of data tech, artificial intelligence and information technology will become machine tasks, which is interesting—

John Mason: It has to be said that it seems to take more people to make a cup of coffee now than it used to.

Vicky Brock: That is the interesting thing. All the sectors that are currently undervalued, such as hospitality, care and tourism, will be the least automated, and they will be the sectors in which human value will be really important. Right now, they are the least sexy and the least supported areas, and they are the lowest on anybody's agenda. No one is saying, “Hey, let's make sure that we're developing more experience, hospitality and care businesses”, because they are perceived as low value. I think that that will shift, and they will become higher-value sectors.

John Mason: I think that some of my colleagues will go a bit further into that area, because it is very interesting.

Jamie Halcro Johnston: I have some questions about the sectors in which social enterprises are involved. Are there strong growth sectors or certain areas in which you think that there is a lot more potential for social enterprise to get involved? I represent the Highlands and Islands. Are there particular regions of Scotland in which the remoteness of rural communities and so on means that there is more potential for social enterprise to deliver services or to act like a local business?

Jonny Kinross: The recent social enterprise census found that a lot of social enterprises are doing very well in rural communities, but that might not be necessarily out of choice. It might be about saving a local shop, pub or other local facility, or it might be about providing childcare or after-school clubs. Rural communities are definitely a growth area for social enterprise, but not necessarily for the most positive reasons—it often happens because everybody else has left.

You asked about specific sectors. My understanding is that social care and healthcare are the sectors in which we will see significant growth in social enterprise—again, not necessarily for the right reasons. Although I am an advocate for and a strong proponent of social enterprise in all its forms, I would always want the public sector to be considered as one of the best providers of public services. Where a social enterprise can genuinely and authentically provide a better service than the public sector—and we often do so—bring it on. However, I personally think that it is really important that some services are not put out to tender, and that public services remain in the public sector. I would not want to see too much

growth in that area, especially if saving money is the sole motivation behind putting a particular service out to tender. In that situation, a social enterprise will fall into the same trap as any other commercial organisation: it will go in, drive the price down and provide less of a service. Some things cost money for the right reasons and should be left as they are.

Professor McEwan: There is a flipside to that. Often, the role of Government and local government is to engage with the private sector and perhaps with social enterprises in the context of their ability to fulfil some of the roles. It is not Government's place to do everything—there are certain areas in which we have more capacity and knowledge to enable us to deliver.

The converse of what Jonny Kinross said is that there are times when some services that local authorities deliver are not best delivered by them, and we would get much better value from another provider. At present, there is a certain retreat to local authorities because of austerity and because of attempts to preserve work in a local authority. That is a bit worrying, given that social enterprise could be engaged to provide the same service in a much more cost effective and, perhaps, better way.

Jonny Kinross: Delivery should be driven by neither ideology nor price—that is the key. I totally agree with Professor McEwan that social enterprises deliver some fantastic services that were previously provided by the public sector, and we do a better job in certain services. However, we must be very cautious about going down the route of putting public services out to tender and replacing them. In those situations, either the private sector or social enterprise comes in and tries to provide the service more cheaply. If we are doing a better job, that is great, but let us be careful.

Laurie Russell: There has been some growth in the ability of the private sector and social enterprises to work in partnership. I do not particularly like the term “corporate social responsibility”—I prefer “community benefits”. The private sector has an opportunity to work with us in a much better way, so that we can help it to deliver some of its objectives in a way that I think is in line with the business pledge and with what Government wants. As we work together, that could enable us to get the benefits of private sector expertise in certain areas and of social enterprise expertise in other areas.

Gillian Martin: My question is very short. What would a Scottish national investment bank mean to social enterprises? What would you like it to mean, given that you have—time and time again—talked about what you have saved the public

purse? Would some assistance from a Scottish national investment bank help you to do more?

Laurie Russell: We need to start with recognition that the social impact and the savings to the public purse are things that the Government wants to purchase, whether or not that is through a Scottish national investment bank. I am not sure that we have quite got to that stage yet, or that it is seen as a legitimate way of investing in something that benefits the public sector.

There are some obvious examples—justice is probably the most obvious. In my view, 60 per cent of people in prison—they are usually young males—are there because their behaviour is bad and we have not worked out a better way of dealing with them. They come out of prison no better able to cope in society—in fact, they are usually worse off than when they went in.

If we were to invest in training that group of people, in building their ability to work, in getting them into work and in supporting them for a while—perhaps in setting up a business, because they are often entrepreneurial—we would save the public purse huge amounts of money and benefit families and communities. We cannot even begin to put a price on that. It would be absolutely brilliant if we could invest in that kind of thing through a Scottish national investment bank, but we are a couple of steps away from that.

Vicky Brock: Each round of Scottish Investment Bank funding was absolutely transformational for us. We received match funding, and our advisers were a useful guide to us in building our business. The value of that funding and support was a core part of my decision to locate my businesses in Scotland. It is a shame if a swathe of equally commercial and entrepreneurial businesses are being excluded from that funding, because it gave us fuel and a bit of guidance, which we needed.

In all the other areas of Britain, no one is doing anything like that to the same degree. There is the London AngelCo investment fund and a few similar bits and pieces, but there is nothing that is really benefiting the early-stage companies.

Gillian Martin: As we heard in the previous session, the high street banks are taking a step back from investing in and supporting small businesses.

Vicky Brock: Yes. Four years in, we got a £30,000 loan, but my chairwoman and I had to put our houses on the line to guarantee it. We also had a £100,000 invoice awaiting payment. That was as low-risk as it came. My business is one of the few start-ups that I know of that ever got a bank loan—and boy, was it stressful, given the guarantee that came with it.

12:15

Professor McEwan: The SIB was a real revelation. It was badly needed when it came in and it has done amazing work with many businesses in Scotland. However, as usual, what gets measured gets done. If the SIB feels that it ought to be chasing investments where there is a return to be made, that is what it will do. Until it gets direction from Government that the social impact of businesses is also important, it is hard to see how it will orientate itself towards taking the sector seriously.

Jonny Kinross: As I said, there are now quite a few social investment funds available to social enterprises. We are currently looking at some of those for a development that we are involved in. They are good funds, but they are not the cheapest, which is a big issue for me. A big barrier for me in considering investment from the Scottish Investment Bank would be the level of investment. If, as Gary McEwan said, the funding is tied to huge economic targets and that kind of financial stuff while the social benefits are ignored, we would not be able to give it a look-in in the same way that we can some of the other social investment organisations, such as Social Investment Scotland, which big up the importance of social benefits as part of the business model.

The Convener: There are no further questions from committee members. I thank our witnesses very much for coming along today.

12:16

Meeting continued in private until 12:48.

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