



ENTERPRISE AND CULTURE COMMITTEE

27th Meeting, 2004 (Session 2)

Tuesday, 30th November 2004

The Committee will meet at 2 pm in Committee Room 2.

- 1. Business Growth Inquiry:** the Committee will receive a presentation on the research commissioned on 'Effective Business Growth Support: Benchmarking UK and International Enterprise Agencies' from:

John Firn, Consultant, Firn Crichton Roberts Ltd; and

David Crichton, Consultant, David Crichton Economic Development.

- 2. Business Growth Inquiry:** the Committee will consider a remit for its Business Growth inquiry.
- 3. Proposed St Andrew's Day Bank Holiday Bill:** the Committee will consider a statement of reasons from Denis Canavan MSP for not consulting on the draft proposal.
- 4. Subordinate Legislation:** the Committee will consider the following negative instruments:

The Education (Graduate Endowment, Student Fees and Support) Switzerland Regulations 2004 (SSI/2004/469);

The Holyrood Park Amendment Regulations 2004 (SSI/2004/Draft).

Judith Evans
Acting Clerk to the Committee
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The following meeting papers are enclosed:

Agenda Item 1

Firn Crichton Roberts consultants report on business growth [EC/S2/04/27/1](#)

Agenda Item 2

Business Growth inquiry draft remit paper [EC/S2/04/27/2](#)

Agenda Item 4

Proposed Members' Bill cover paper including: [EC/S2/04/27/3](#)

[St Andrew's Day Bank Holiday Bill - Draft proposal](#)

[St Andrew's Day Bank Holiday Bill – Statement of Reasons](#)

[St Andrew's Day Bank Holiday Bill – A National Holiday Bill Consultation Document](#)

Agenda Item 5

SSI Cover paper including: [EC/S2/04/27/4](#)

The Education (Graduate Endowment, Student Fees and Support) Switzerland Regulations 2004 (SSI/2004/469) – *hard copy only*

The Holyrood Park Amendment Regulations 2004 (SSI/2004/Draft) – *hard copy only*

Enterprise and Culture Committee

Meeting 30 November 2004

Business Growth Inquiry: Commissioned Research

Introduction

The Enterprise and Culture Committee commissioned research on international comparators for economic development to inform its consideration of a remit for an inquiry into business growth. The draft research report is attached.+

John Firn and David Crichton will attend the Committee meeting to present and discuss their findings.

Judith Evans
Acting Clerk



Effective Business Growth Support

Benchmarking UK & International Enterprise Agencies

**DISCUSSION DRAFT REPORT TO ENTERPRISE & CULTURE COMMITTEE
SCOTTISH PARLIAMENT**

**Firn Crichton Roberts Ltd
and
David Crichton Economic Development**

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Abbreviations & Acronyms

BG	Business Growth
BGS	Business Growth Support
EA	Enterprise Agency
EI	Enterprise Ireland (RDA), Ireland
ED	Economic Development
EE	Enterprise Estonia
ERVET	Emilia-Romagna Development Agency, Italy
EU	European Union
GFW · NRW	Gesellschaft für Wirtschaftsförderung NRW (RDA), Germany
HIE	Highland and Islands Enterprise (RDA), Scotland
IEE	Institute of Entrepreneurial Excellence
IHK	Industrie-und-Handelskammer zu Köln (Chamber of Commerce, Cologne), Germany
KFW	
NRW	Nordrhein-Wesfalen, Germany
NSBI	Nova Scotia Business Inc
ONE	One North-East (RDA), England
PFAU	Programm zur Finanziellen Absicherung von Unternehmensgründern/innen aus Hochschulen
R&D	Research and Development
RDA	Regional Development Agency
RDT	Research, Development and Technology
RER	Regione Emilia-Romagna, Italy
SDI	Scottish Development International, Scotland
SEN	Scottish Enterprise National (RDA), Scotland
SExec	Scottish Executive (Regional Government), Scotland
SME	Small and Medium Enterprise(s)
UK	United Kingdom
WAG	Welsh Assembly Government (Regional Government), Wales
WDA	Welsh Development Agency (RDA), Wales
ZENIT	Zentrum für Innovation & Technik in Nordrhein-Westfalen GmbH

Executive Summary

1. INTRODUCTION & BACKGROUND

1.1 In April 2004, the Scottish Parliament Corporate Body through its information and research unit (SPICe) commissioned Firn Crichton Roberts Ltd (FCR) with David Crichton Economic Development (DCED) to undertake research and assessment of the business growth support activities of UK and international enterprise agencies (EAs). The purpose of the research is to provide broad comparative benchmarks to inform the Enterprise and Culture Committee's investigations on business growth (BG) activities of Scotland's two enterprise agencies planned for 2005.

1.2 This first section of our report to the Committee begins by describing the objectives and purposes of the research commissioned by SPICe; and explains the research approach and methodology undertaken by the team during the course of the investigation. Definitions of the main economic development and business growth concepts involved in the inquiry are then provided; and the structure of this final report explained. The section ends with our acknowledgements to the EA and other executives, both within and outwith Scotland, who have contributed to the research.

THE BACKGROUND TO THE RESEARCH

1.3 The Enterprise and Culture Committee of the Scottish Parliament is a cross-party Committee of nine Members of the Scottish Parliament, currently chaired by Alex Neil, MSP. The Committee has a remit to consider and report on a wide range of matters relating to Scotland's economic and cultural life. These include, for example, business and industry, energy, training, further and higher education, lifelong learning, tourism, the arts and sport. The Committee has a programme of work that includes Inquiries into specific aspects of its remit, during which it can call for evidence from interested parties and commission background research.

1.4 The Committee intends during 2005 to undertake an Inquiry into economic growth in Scotland, and in particular wishes to identify any potential barriers to business growth. Economic development is the top priority of the Scottish Executive, as Scotland has a recognised need to improve its performance in business start-up and business growth. As part of its Inquiry, the Committee will examine the role of the main enterprise agencies in Scotland: Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE). Both these bodies are accountable to the Scottish Parliament and are the Parliament's main agencies for supporting economic development in their respective areas of Scotland.

1.5 Both SE and HIE have wide-ranging responsibilities in areas such as business creation and growth in Scotland. Their activities in support of this specific remit include measures to improve the enterprise culture in Scotland; support for new business starts; programmes to increase the growth and competitiveness of existing businesses; and the attraction of new businesses to the country. These activities account for a significant proportion of their annual expenditure, resources and performance targets, and form the main policy and support interface between the public and private enterprise sectors in Scotland.

1.6 In Spring 2004 the Committee signaled its intention to examine business growth in Scotland and any potential barriers to this. Included within this inquiry would be an examinations of the role of the main enterprise agencies (SE and HIE) in supporting business growth. This research project will feed into the early stages of the Committee's examination of the issues through providing the Committee with information on the approaches taken by enterprise agencies elsewhere in the UK and other parts of the world.

1.7 There has been a considerable amount of research into business growth, and performance league tables are regularly produced, some indicating that Scotland has scope to improve its performance. Economic development is the stated number one priority of the Scottish Executive and the policy framework and strategy to pursue this is set out in the *Framework for Economic Development* and the recently revised *Smart Successful Scotland* documents. The Committee briefly considered the scope and remit of its business growth inquiry at a meeting on 4th November 2003, and at a subsequent 'away day' meeting in Edinburgh on 29 June 2004.

1.8 The Committee acknowledged that some information was already available on a number of enterprise agencies and bodies and, for example, on the approach to specific types of economic development project in different countries. However, this information lacked the constructively critical and comparative analysis that would be useful to the Committee. The Enterprise and Lifelong Learning Committee had recently commissioned a piece of research with a similar scope to help support its Tourism Inquiry. This was widely acknowledged to be a very helpful report, and provided useful context to the business growth research required by the Committee.

THE RESEARCH PURPOSE & OBJECTIVES

1.9 The main purpose of the EA and BG benchmark research was to put the work of Scotland's two enterprise agencies (SE and HIE) into context by examining specific aspects of the work of their counterparts in a selection of comparable regions. Given the broad nature of the research, the emphasis was to identify interesting business growth support 'stories' which may have relevance for Scotland and for the Committee's inquiry. It deliberately did not seek to provide a comprehensive overview of the work of enterprise agencies outside Scotland. The research also sought to identify the lessons for Scotland, and where appropriate signal potential areas for committee focus and enquiry.

1.10 Specifically, the research team was invited to analyse the key strategic priorities of the selected agencies within the area of business growth, for example (but not limited to) looking at their relative policy and operational focus on the :

- Encouragement for new business start-ups and for overcoming barriers to becoming self-employed
- Efforts to change general perceptions of self-employment and entrepreneurship
- Support for existing small and growing businesses
- Relative focus on support for different sectors of the economy (such as tourism, electronics etc), and different types of activity (e-commerce, international joint ventures, etc)
- Linkages with the higher education sector in relation to the commercialisation of research
- Export assistance and development of international trade contracts
- Delivery structures, for example the use of arms-length agencies and consultants
- Forms of financial assistance provided, eg grants, loans, equity stakes, etc

1.11 The research attempted to identify the stated strategic priorities contained within strategic plans and other relevant documents of the EAs and governments involved; and to compare the agencies' actual expenditure and resource allocation across activities to its stated priorities. Finally, the research would review, wherever possible, the achievement of stated targets.

1.12 The research team was also invited to analyse the process by which the current set of business growth and economic development priorities and measures had been arrived at; what approaches and priorities have been tried previously; EA evidence on evaluation and impact research of those approaches; and instances where the approach has been modified or abandoned and reasons for such adjustments.

1.13 The original brief suggested that the research should encompass between four and six comparator regions, to be finalised following discussion with SPICe, and that these might include a Canadian province, a German Länd and an English Regional Development Agency. It should also include one region without an agency comparable to Scottish Enterprise, reviewing the approach to economic development and success of this approach. In the event, the team assessed eight comparator EAs and regions outwith Scotland (section 5).

THE RESEARCH APPROACH & METHODOLOGY

1.14 The research brief provided to us and our initial discussions with SPICe staff recognised that there were a number of methodological and practical challenges involved in the benchmarking. It is worth briefly reviewing these challenges before summarising the research activities undertaken by the benchmarking team.

BUSINESS GROWTH BENCHMARKING CHALLENGES

1.15 There are a number of methodological and practical challenges in seeking to compare the effectiveness of business growth support between EAs across a range of different regions and nations. These can be summarised as :

- ❑ *Defining BG Components* so that they are understandable in different policy contexts and environments. To simplify the comparisons we grouped BG policy and activities into the six main thematic areas of endogenous growth used in this report : entrepreneurship; business creation and start-ups; strengthening existing business; high growth companies; innovation and technology transfer; and business internationalisation. We accept that this aggregation hides a much wider range of BGS needs and activities.
- ❑ *Establishing Operational Benchmarking Criteria* capable of easy comparison to assess perceived 'best practice'. Given the scope and schedule of the research programme it would be impossible to identify, collect and assess quantitative measures of BGS effectiveness : the visit programme confirmed this as few EAs currently gather BGS data in any structured and/or continual manner.
- ❑ *The Base Benchmarking of SEN and HIE* that began our research programme was an interesting challenge in that it provided the initial opportunity to use the BG components and the benchmarking criteria frameworks whilst both were still being developed. An important finding from these base benchmark reviews is that no structured long-term assessments have been made of the BG activities and impacts of Scotland's two EAs (as distinct from the regular programme and project level evaluations).
- ❑ *The Political & Economic Development Contexts*, both within regions over time and between nations and regions, are important determinants of BGS policy, capability and focus; and influence BGS effectiveness and impact. It was decided to deliberately select regions outwith the UK where the political, economic and government traditions and structures differed from those that have shaped the BGS activities of SEN and HIE, especially areas where EAs are either absent or less-developed.
- ❑ *Assessing the Transferability* of BGS initiatives in relation to Scotland's current EA and BGS is a complex issue, especially given our pre-research perception (based on personal

involvement) that Scotland's EAs have been much longer-established; have tried most ED possibilities over the past quarter century; and have continually explored the potential relevance of BGS initiatives at an international level. The BGS "good stories" in this report are therefore those that we believe might have both relevance and potential transferability : many others we encountered were excluded as not meeting the criteria.

1.16 There were other research and practical constraints to overcome, including the relatively underdeveloped state of programme and project evaluation outwith the UK and Eire; screening out the recent effects of EU Structural Fund programmes at the regional level; the scheduling impact of the virtual close-down of most EAs and government agencies over the summer; and (perhaps most importantly) the difficulty of gaining a real understanding of the sustainability and relevance of BGS as seen by private sector businesses receiving such support. These issues are addressed in later sections of our report

THE BENCHMARKING APPROACH & METHODOLOGY

1.17 The BGS benchmarking approach followed by the team combined extensive initial desk and on-line research on candidate EAs and regions with comprehensive structured personal interviews with EA and other executives in ten EAs located in 9 nations in Europe and North America. This was delivered through a research programme involving thirteen largely sequential benchmarking tasks.

1.18 The individual research tasks were :

- 1 : A launch and project definition meeting with SPICe and Committee clerks
- 2 : The development of EA and BGS definitions and screening criteria
- 3 : BGS visit programme to SEN & HIE to establish EA baselines
- 4 : Confirmation of BGS benchmarking criteria and target EAs
- 5 : Interim report and visit programme proposals
- 6 : Confirming & scheduling EA visits outwith Scotland
- 7 : Undertaking the North American benchmarking visits
- 8 : Undertaking the European benchmarking visits
- 9 : Review and evaluation of EA visits, and identifying 'good stories'
- 10 : Preparing initial benchmark conclusions and implications
- 11 : Preparation of draft benchmark report
- 12 : Presentation of draft report conclusions and issues to Enterprise & Culture Committee
- 13 : Completion of final report and recommendations

1.19 This benchmarking research programme began in May 2004 and ran through until late November 2004. It had been hoped to complete the international visit programme by late August 2004, but the visits had to be rescheduled as the availability of some partners was limited because of the traditional high-summer close down; and also because some of the EA partners were in the midst of significant organisational and operational restructuring.

THE BENCHMARKING VISITS

1.20 The EA visit programme undertaken by the benchmarking team over the late June to early October period involved personal interviews with over 100 senior executives in 9 nations, many of which have been supported by subsequent telephone and on-line contacts. All of these interview partners have been very positive about participation in the benchmarking; have freely supplied relevant information and documentation requested; and

all wish to strengthen collaboration and co-operation with Scotland. We make recommendations on this towards the end of the report.

1.21 It is interesting that this BGS research for the Scottish Parliament has been paralleled by other relevant research and developments. Amongst the most important of these are :

- ❑ The Scotland-Nordrhein Westfalia Collaboration Agreement signed in 2002 which is now being transformed into an action programme where entrepreneurship is one of the areas identified for cooperation.
- ❑ The involvement of many of the EAs in our project in BGS and economic development benchmarking undertaken through EURADA – the European Association of Regional Development Agencies.
- ❑ Emerging economic development linkages and relationships between the EAs participating in this benchmarking project that might form the basis for wider collaborative networks in future. Of especial interest are the exploratory discussions begun in October 2004 between Nordrhein Westfalia and Pittsburgh, two industrial regions with similar economic restructuring needs to Scotland.

1.22 These parallel benchmarking and collaborative BGS activities suggest that in terms of endogenous economic growth sharing of BGS experience, best practice and research between EAs is to be encouraged by the Scottish Parliament.

THE REPORT STRUCTURE

1.23 The next four sections of this report review our understanding of the role played by EAs in encouraging growth in entrepreneurship and businesses at the regional level as currently understood; sets out the main components of BGS as established for the purpose of this benchmarking research; explains the BGS benchmarking approach; and then briefly profiles the ten EAs and regions that have been examined and assessed in relation to their BGS activities.

1.24 In sections 6-11 of the report “good stories” of BGS best practice (or what currently appears to represent ‘best practice’) are presented. In each case the BGS activities are reviewed in relation to their background, rationale and objectives; the approach and activities involved; the BGS achievements and impacts to date; and the perceived relevance to Scotland’s EAs and BGS activities.

1.25 The final two sections of the report begin with our presenting the main BGS and EA benchmark findings and conclusions in terms of relevant and important factors for consideration and further exploration by the Scottish and other benchmark partners. We then explore the implications of our research both for the Enterprise Committee’s enquiry and for Scotland’s BGS policies; and in the final section suggest some generic economic development issues that have emerged during the course of our research, and that could perhaps underpin the Committee’s deliberations throughout 2005 and beyond.

Acknowledgements

1.26 This report on business growth benchmarking of Enterprise Agencies in Scotland and internationally, and the underlying research, would not have been possible without the collaboration, contributions, kindness and support of a relatively large number of people and organisations in the nine nations where our interview partners are based. The executives, managers and other staff of the partners whom we met during the summer and autumn of 2004 are listed in Annex A. All of those approached in this benchmarking responded in a positive, helpful and open manner; and went to significant effort to arrange, host and manage complex visits programmes and associated warm hospitality. The research team thanks our partners for their kindness and understanding, and acknowledge their important contribution to this international research project.

1.27 In our gratitude we are joined by the MSP members of the Enterprise and Culture Committee of the Scottish Parliament, its Clerks and staff, and the research team within SPICe. It is hoped that Scotland, the Scottish Parliament, the Scottish Executive, our Scottish EAs and other appropriate organisations involved in business growth support, will be able to repay such partner hospitality in Scotland during 2006. A recommendation on this is made towards the end of our report.

1.28 We also wish to acknowledge and thank those officials of the Scottish Parliamentary Body involved in commissioning and managing this research project. Especial thanks must go to Simon Wakefield, Ross Burnside and Jim Dewar of SPICe for their significant guidance and support; and to Simon Watkins and Stephen Imrie as Clerks to the Enterprise and Culture Committee of the Parliament. Their contribution, both in framing the original research brief and in guiding us through the evolving interests and frameworks of the Parliament, is greatly valued by us. Finally, we thank Lois Ferguson, Liz Fielding, Alexandra Watson and Marion Finn for their essential (but often unrecognised) technical support throughout a somewhat complex research and reporting programme.

2. ENTERPRISE AGENCIES & REGIONAL BUSINESS GROWTH

2.1 Encouraging entrepreneurship and new business starts, and supporting established companies to grow, are activities that figure consistently in the “toolkit” used by national, regional and local development agencies worldwide. Such agencies often provide a wide range of other services, for example in training, urban regeneration or inward investment attraction. Or in some regions, they demonstrate a narrower focus on business growth as their core activity. But there tends to be a general acceptance, at either end of the political spectrum, that enterprise agencies have an important role in encouraging people to set up in business and in helping as many as possible of those businesses to grow. There is rarely any serious questioning of whether it is an appropriate and effective role for enterprise agencies to play, especially those in the public sector.

2.2 Why should entrepreneurship and business growth interventions have such an apparently secure position as one of the core purposes of economic development agencies? There are a number of strategic, policy reasons for this. Higher rates of entrepreneurship and of business growth are recognised as important contributors to wider economic growth and prosperity. They provide new employment and skills, and reduce poverty and welfare costs. They encourage technological innovation and the creation of new products and services. They provide opportunities for disadvantaged groups and communities to become more self-sustaining. There is therefore a range of both economic and social objectives that business growth support can help achieve.

2.3 In addition, there are a number of potential market failures that obstruct entrepreneurship and business growth, and which therefore provide a rationale for public sector intervention. These include: cultural and educational barriers to entrepreneurship; difficulty of access to capital to support start-up and growth; lack of appropriate premises for new and growing firms; bottlenecks in the transfer of new technology into commercial application; or a lack of the information and advice necessary to guide new and expanding businesses.

2.4 There are of course political factors at play as well. Support for business is a highly visible activity, which allows enterprise agencies and their funders to show that they are directly in touch with and supportive of the business community. It is also a means of showing how public funds can be recirculated directly back into the businesses that help generate them through tax revenues.

2.5 So support for entrepreneurship and growth are established and largely unquestioned features of the economic development landscape. A recent OECD study¹ has highlighted the rapid growth in policy emphasis, and sheer number, of business growth initiatives amongst member countries. Similarly, most international donor agencies include business support programmes as one of their key initiatives in support of developing economies.

2.6 The same study, however, also remarks on the lack of empirical evidence to measure the impact and effectiveness of these initiatives. Our own, more limited field work reinforced this point. We found very little evidence of robust, systematic analysis of just how effective business growth interventions really are in supporting wider economic development. We also found very little evidence of “accumulated wisdom” in this area of intervention; that is, learning from the experience of successful, and less successful, entrepreneurs over an extended period of time as a means of guiding policy interventions. We return to both these points later.

¹ Entrepreneurship and Local Economic Development, OECD, 2003

2.7 Another characteristic identified during our desk and field research is that although the number of business growth initiatives worldwide is large and their labelling highly varied, there are a relatively limited number of common themes in what is actually delivered by the enterprise agencies. The key ones tend to be: encouraging enterprise; advice and support for new starts; support for exporting and internationalisation; support for innovation; and management development and mentoring. Most initiatives tend to fit comfortably into these broad categories of activity.

2.8 In summary then, support for enterprise and business growth is a common feature in most enterprise agencies worldwide. Its position as a core activity is largely unquestioned, despite the lack of any significant body of evidence to demonstrate its sustained economic development value. And the types of activity undertaken are broadly consistent and comparable across a wide range of regions and economies.

3. THE BUSINESS GROWTH CYCLE

3.1 There is a wide range of potential situations in which EAs (and/or private advisers) seek to support the formation and development of competitive businesses. Such direct EA intervention is often difficult to target at the relevant needs of entrepreneurs and businesses; and its impact is usually difficult to distinguish from the positive benefits of the non-direct investment in improving the broader platform of economic, social and environmental infrastructure. It is important, therefore, to recognise and understand that the formulation and delivery of BGS to entrepreneurs and business is more complex than many other areas of economic development policy.

3.2 For the purposes of this benchmark review of BGS in UK and international EAs and regions it was decided to aggregate direct support to business into six categories that broadly parallel the life cycle of private businesses. These categories are :

- Entrepreneurship
- Business creation and start-ups
- Strengthening existing businesses
- High growth companies
- Innovation and technology transfer
- Business internationalisation

3.3 Each of these will be briefly described below in terms of some of the key policy issues involved. This categorisation has been used to provide the reporting framework for the 'good stories' or interesting exemplars of BGS encountered during the benchmarking research and visits.

ENTREPRENEURSHIP

3.4 It is important for both policy and operational reasons to distinguish the concept of *entrepreneurship* from that of the start-up of new businesses. Entrepreneurship exists in a wide range of forms and situations from the individual entering self-employment to the entrepreneurial attitudes and behaviour of executives and managers in existing companies. Of more importance is the increasing recognition that the improvement in a nation's entrepreneurial spirit requires policies that operate at a platform level to benefit individuals and groups in a wide variety of learning and career environments. Such policies are increasingly targeted by EAs at university staff and students, skilled vocational groups, school leavers and professionals.

3.5 The principal challenges of policies seeking to understand and influence regional and national entrepreneurial capabilities are that they can take a comparatively long time to reveal their impact; that entrepreneurship gains may really be attributable to other economic and social trends (such as global growth, population migration and economic hardship); and that retaining successful entrepreneurs within a declining regional economy is difficult : success may mean out-migration. All of the EAs visited in the benchmark investigation recognised the importance of promoting and supporting entrepreneurs as an essential component of BGS and economic development. It is, however, a policy area that all admit is comparatively little understood.

BUSINESS CREATION & START-UPS

3.6 Successful endogenous economic growth at the regional level requires a continuing flow of entrepreneurs taking the important step of creating and growing a new independent business. It also requires that the level of such business start-ups is sufficient to compensate for the decline in older less competitive businesses and economic sectors; and this in turn assumes that some of the new starts will eventually grow through the micro and small firm stages to become medium-sized regional enterprises of which a few will progress to become significant national and international corporations.

3.7 All of the EAs involved in the BGS benchmarking have a policy goal to encourage and support new business start-ups, even where the EAs have only limited direct BGS remits. There is, however, a wide variety of policy approaches and priorities for new businesses within the EAs : some target only potential high-growth ventures (see below para 3.10); others focus on university and research spin-outs; and others adopt a cluster-driven prioritisation of BGS to new firms. It is also increasingly recognised that indirect promotion of start-ups can be effective, especially in terms of encouraging more progressive attitudes to the provision of risk capital by local financial institutions or the provision of start-up property through such as university-based incubators.

3.8 A shared policy concern in many of the visited EAs is the continuing difficulty in measuring the rate and type of new business creation in a manner that enables meaningful inter-regional and international comparisons. Many of the EAs also recognised the advantages of following the longer-term evolution of new business ventures and their founder entrepreneurs, and of trying to identify the features which gave a predisposition to success.

STRENGTHENING EXISTING BUSINESSES

3.9 It is generally agreed by most BGS staff in visited EAs that the most sustainable and cost-effective means for generating stronger regional economic competitiveness is through providing BG support to existing businesses in all sectors of the economy. There is a long experience, both with the UK and elsewhere in Europe, of appropriate mechanisms to achieve this, but not all of the benchmarked EAs had a remit or the resources to provide such direct support to their companies even where this was recognised as being a critical component of endogenous growth.

3.10 The experience of BGS in Scotland and Wales where direct financial and advisory support has been available for over 70 years through various regional and financial schemes is very different from most of the other benchmarked regions (with the exception of major corporate subsidies provided under wartime situations). Whilst it is becoming increasingly difficult (especially within the EU) to be innovative in providing BGS support, the visits encountered some interesting exemplars of EA mechanisms and policies which are profiled below.

HIGH GROWTH COMPANIES

3.11 A common feature of EAs with limited resources available to support business growth is their seeking to identify and assist those businesses which are either displaying superior turnover growth or are perceived as having potential to grow their businesses at a faster rate than their regional or national business peers. This is not always recognised as being a classic high risk/high return policy focus, as economic development experience suggests that it is almost impossible (a) for BGS advisors to identify in advance the longer-term growth

potential of individual businesses and (b) to then provide a positive means of support acceptable to the business owners and investors involved.

3.12 There are other challenges to the pursuit of BGS targeted in such high growth businesses within a region. There is a predisposition (not recognised by all EAs) that '*high tech*' is not synonymous with *high growth*. Even more difficult in a policy sense is the rationale for EAs intervening in an already growing business, when perhaps the appropriate policy response is to leave it alone to get on with its growth without the distraction of intervention. An even more complex policy issue is the rationale for concentrating support on a relatively small proportion of a region's business base, especially if it means consigning the remainder to a standard volume business BGS service. It is worth noting that most of Scotland's big growth business of the last quarter century emerged from relatively unglamorous sectors without receiving significant levels of public BGS support.

INNOVATION & TECHNOLOGY TRANSFER

3.13 In most of the EAs involved in the benchmarking review there is an assumption that there is a significant (but not always fully defined) potential within the local scientific and technological research community to generate new products, processes and systems which if transformed into commercial ventures could strengthen the competitiveness of the region's business base. Whilst established economic development experience suggests that it is very difficult to mobilise and commercialise the results of discovery and invention, many EAs have devoted significant resources to this aspect of BGS

3.14 Such support includes that for enabling university and research institute spin-outs; for commercialising IPR at an international level; and for IPR and technological skills transfer through joint ventures or training schemes with local companies. But it is increasingly recognised that there is a major difficulty in retaining important discoveries and advances within a region in the face of the financial power and inducements available from the new breed of global private equity investment corporations. Few EAs have either the financial resources or the professional capability to offer an attractive alternative route for their holders of IPR to simultaneously cash-in and benefit the local business base.

BUSINESS INTERNATIONALISATION

3.15 The remaining area of BGS is that associated with the successful business that has grown to the stage where it has the experience, resources, determination and strategic vision to expand out of its regional or national business base into export markets. Experience has shown that only a relatively small proportion of businesses have the capability to be successful in exporting their products and/or services, or in gaining competitive advantage via sourcing raw materials, components, services or other inputs from suppliers in other nations especially where these have different cultural traditions.

3.16 It is also recognised by most EAs that assisting businesses to internationalise through entry into new export markets or investment joint ventures is only possible where EAs themselves have evolved an international network of representative offices, or where EAs have access to the offices of such as their regional Chambers of Commerce. The current major pull factor driving business internationalisation in most of the benchmarked EAs is the perceived market growth of the Asian economies, especially China and India. In some cases the pursuit of Chinese market entry has also become a significant element of regional industry strategies.

4. BENCHMARKING BUSINESS GROWTH SUPPORT

4.1 In order to provide a method of structuring the field work for this project, and making comparisons across the enterprise agencies visited, we established a set of benchmarking criteria. These criteria were used as the basis for collecting information and for interviewing respondents in each of the regions visited.

THE BENCHMARKING CRITERIA

4.2 We adopted five benchmarking criteria, described below:

- The positioning of business growth support within the overall economic development package. Under this heading, we examined the extent to which Business Growth comprised a significant and well integrated part of the overall toolkit for economic development, or whether it was a more marginal part of the package.
- The strategy for business growth support. We examined here the question of how well business growth services were driven by a clear set of priorities and targets, linked to the enterprise agency's overall strategy and the identified needs of the region's business base.
- The effectiveness of delivery of BG services. We wanted to assess the efficiency and effectiveness of business growth service delivery: how well it was targeted and how effectively it was marketed and delivered. We were not seeking any best practice model for this, given the range of agencies, countries and cultures that we were examining and so the assessment was set within the context of each agency's operating environment.
- The outputs and impacts of BG services. We knew that this was one of the biggest challenges facing enterprise agencies, namely finding appropriate output measures and identifying the impact and additionality of the services provided. It was therefore an important means of assessing the impact and sophistication of the agencies visited.
- Customer feedback. Like any business, there needs to be a regular check made on what the customer needs and how they perceive the quality of service. We therefore examined the extent to which business feedback was sought, and then used to improve the services provided.

5. THE BENCHMARKED AGENCIES & REGIONS

5.1 In this section we provide brief profiles of the regions and agencies that we visited during the research, highlighting in particular the main similarities and differences between them and Scotland's experience.

ESTONIA

5.2 We chose Estonia as a benchmark primarily because it provided a relatively new environment for business growth and enterprise agencies, and therefore a potential location for new and best practice influences. It has also just joined the EU, and we wished to examine the specific opportunities, challenges and influences that accession had brought.

5.3 Estonia regained its independence from the former Soviet Union in 1991. The country has a population of 1.4 million, and a business base of around 29,400 companies. These employ just over 390,000 people of which 300,000 are in the SME sector. The overall working population is 700,000, and so just under half of the workforce remain in public sector employment. Unemployment is high by UK standards, at 9.5%, and is expected to grow to around 10%. GDP growth has been strong, however, at 5.1% in 2003 and a forecast of 5.3% in 2004. Inflation was 1.3% in 2003 but is expected to grow to over 3% following accession to the EU in 2004. The business formation rate, at 26 per 1000 population, is 30% lower than the EU average.

5.4 Since independence, Estonia has pursued strongly liberal, open economic policies. This has caused major adjustment problems, and there are some indications of a move to a more interventionist approach. In general though, this broad approach remains in place and accepted as the most appropriate route to creating a modern, vibrant and competitive economy. Growth has largely been driven by and been centred in the capital city of Tallinn, to the extent that some policies now discriminate in favour of development in other parts of the country.

5.5 Policy for economic development is focused on continuing to build a larger and stronger SME sector, working within the principles of the EU Lisbon Agreement. There is an increasing emphasis on building knowledge-based business, though this is inhibited by a lack of local R&D capability, both within the university sector and within larger firms. It is in this area therefore that a case is building up for more state intervention, with funding from the EU as a key resource.

5.6 It is fair to say therefore that support for business formation and growth is very much at the heart of economic development policy, and this is reflected in the very specific focus of the two main enterprise agencies: Enterprise Estonia (EE) and Kredex. Both were visited during our research.

5.7 EE therefore inherited 5-6 existing bodies. It is accountable to the Ministry of Economic Affairs, and the Chairman and Supervisory Board are appointed by its Minister. There were political difficulties at establishment: some over-ambition to take on too many functions, some resistance from other Ministries unwilling to lose areas they had previously controlled. The organisation has re-structured even in the relatively short period since it was set up. But it is becoming established within the Estonian institutional landscape, developing its visibility and reputation.

5.8 EE's targets in business growth are to increase the rate of business start-ups, to increase exports, to increase company R&D investment and to create new jobs.

5.9 They aim to help create one new business every working day, or 200 per annum. This is excluding Tallinn, where the market environment for start-ups is considered better and less in need of intervention.

5.10 For growing existing SME's, support is increasingly focused in future, on high potential, technology based, export related businesses. The aim is to have 10% of supported businesses within that category. The services provided include infrastructure support (outside Tallinn only), feasibility studies, training, research advice, R&D grants, product development support, support to work towards ISO standards and specialist consultancy advice. EE expects to get around 5000 applications for support each year, and will work with around 3000 of these. They see this as too many: even 1000 would be too much. Ideally, they would work only with the best growth prospects, with bigger projects and higher impact.

5.11 EE contracts out to around 300 external consultants and advisers for the provision of advice and expertise. They also have around 60 such consultants in-house. It is difficult to find good people for these roles, especially with prior business experience. They have done some work on consultancy competence training, covering for example project design and management. They operate 16 Business Advice Centres around the country, mostly with just one member of staff in each. These are generally for start-up advice, and also act as an entry point for other EE programmes. As much as possible is delivered on a face to face basis with companies.

5.12 Impact measurement largely comprises activity measures: numbers of contacts, projects, etc. They also include some outcome measures such as jobs created, new products and export turnover. Measurement is based on asking the companies directly: at the end of every project, the company has to complete a questionnaire. EE does however recognise the difficulty of accurate impact assessment.

5.13 What we found in EE was a relatively new organisation, almost exclusively focused on business growth rather than on any wider economic development activity. This was a quite deliberate choice, made to maintain an emphasis on what is seen to be a priority and one where they have the capacity to make a difference. This was its main source of contrast with Scotland's much more broadly based approach. Beyond that, EE faces many similar challenges to EA's elsewhere in terms of political accountability, proper understanding of its market place and of its impact, attracting and retaining good people, and of retaining a genuinely creative and developmental approach.

5.14 Kredex, the other of Estonia's two main enterprise agencies, is short for the Credit and Export Guarantee Fund. It was founded in 2001 and so like EE is a relatively new organisation, also having inherited the responsibilities of a number of predecessors. We consider Kredex to be one of the "good stories" worthy of further consideration as a case study. Our more detailed report on its role, successes and relevance is therefore included later, in Chapter 8.

5.15 There are also some improvement needs: getting the right management, staff and competencies; reducing the political turbulence around EE; creating more stability to attract good people and then letting them get on with the long term strategy; moving to a longer term budget settlement (it's currently annual); and avoiding the risk of their role in distributing EU funds making them a predominantly bureaucratic agency with a conservative attitude to risk and creativity. This latter concern was raised by a number of people we spoke to outwith EE.

5.16 Enterprise Estonia was established in 2000. Prior to that, there were a number of small organisations providing business support in Estonia, but creating a fragmented and

cluttered landscape. There was a political will to change this, partly driven by the EU's desire to see Estonia adopt clear strategies and interventions in advance of accession. The decision was to set up 2 new institutions that would absorb many of the existing ones: EE and Kredex.

NOVA SCOTIA, CANADA

5.17 Nova Scotia has a population of 936,000 (2003 estimate), and a labour force of almost 475,000. The business base comprises just over 33,000 organisations, almost 10,000 of which are classified as “community, business and personal services”. The primary sector employs 4.3% of the total, manufacturing 11.5%, retail 14.7% and public administration 13.6%.

5.18 We chose Nova Scotia as a benchmark primarily because it faces similar challenges to the Highlands and Islands. The primary industries of agriculture and fishing have been under pressure, and the region has lost many of its older, heavy manufacturing operations in mining and steel. The population is growing slowly, but is increasingly skewed towards older age groups with those leaving the province tending to be younger and better educated. There is a preponderance of very small businesses, and real difficulty in enabling any significant proportion of them to expand. There is a limited basis from which to develop new technology and knowledge-based business. And the regional capital, Halifax, is proving to be a dominant growth centre for both business and population, at the expense of the rural hinterland.

5.19 Overall macroeconomic policy is determined by the Canadian federal government, and a number of federal agencies, such as the Atlantic Canada Opportunities Agency, are active in economic development and business support. The provincial government has economic development responsibilities and activities as well, and set up the principal enterprise agency in the province, Nova Scotia Business Inc. There is also a considerable degree of enterprise support activity at sub-regional level, through a network of local economic development agencies. The “map” of enterprise support is therefore a relatively complex one, and we return to the implications of this later.

5.20 The strategy for economic development in Nova Scotia is set out in the provincial government's “Opportunities for Prosperity” document, published in 2000 and reviewed and refreshed in 2003. The seven strategic directions set out in the document all have relevance to business growth, some directly such as encouraging innovation and promoting exports, and others less so such as improving the regulatory environment and developing labour force skills. It identifies five growth sectors for particular effort (digital, energy, advanced manufacturing, learning and life sciences). But a strong emphasis is also maintained on the province's “foundation” industries: ocean resources, land resources, agriculture, tourism and culture.

5.21 “Opportunities for Success” also marked a significant change in the delivery of economic development activities in Nova Scotia. Previously, these had fallen primarily within the remit of the province's Economic Development Department. Following publication of the strategy, the Department was replaced by two organisations. One, Nova Scotia Economic Development Agency, remained within the provincial government and was asked to retain a strong policy and coordination role for all government activities in support of economic development. The other, Nova Scotia Business Inc (NSBI), was set up in 2001 as a private sector led corporation managing the direct delivery of business support activities to Nova Scotia companies.

5.22 NSBI hosted our research visit to Nova Scotia, and we have identified it as another “good story” to be detailed in Chapter 8. This is largely because of its explicit, single focus on

business development support, quite deliberately separated from other economic development activities and managed at arms length from government.

PITTSBURGH, PENNSYLVANIA, USA

5.23 Our reasons for researching the Pittsburgh experience were relatively straightforward ones. The Pittsburgh city-region faced a massive structural challenge in the 1970's and 1980's as its heavy industrial base was decimated. For example, 80% of the region's labour force was employed in heavy industry in the 80's: the proportion is now 18%. This change brought with it familiar problems of unemployment, deprivation and urban decay. A strong response to these problems was eventually marshaled by a private/public sector partnership, the Allegheny Conference, and since then impressive progress has been made in reconstructing the Pittsburgh economy. Much of this has been driven by mobilising the academic, research and development strengths of the region's universities, with Carnegie Mellon in particular having won a strong reputation for its commercialisation work. There are therefore strong parallels with both the experience and aspirations of the Central Scotland economy.

5.24 It is also important to realise, however, that the Pittsburgh economy is in no sense "fixed". For example, the shake-out in the technology sector during the late 1990's led to 300,000 people leaving the region, many of them from the younger and more highly skilled population. Large numbers of the remaining resident population remain outside the labour market, with low skills and motivation. The technology sector is not yet of sufficient critical mass to withstand the loss of 2-3 key players. The Pittsburgh authorities recognise the need to attract highly skilled and entrepreneurial talent into the region, and to encourage more graduates to stay there on completion of their degrees. Again, all of this demonstrates clear parallels to the current Scottish experience.

5.25 The city of Pittsburgh has a population of just over 330,000, and the wider Allegheny County of which the city is a part has just under 1.3mn people. The Pittsburgh Metropolitan Statistical Area (MSA), which is perhaps the closest approximation to the regional labour market, has a population of 2.4mn. Total employees in employment in the MSA is 1.4mn, and there are over 200,000 business proprietors. Pittsburgh is headquarters to a number of Fortune 500 companies, including Alcoa, Heinz, PPG Industries, US Steel, the PNC Financial Service Group, and Mellon Financial Corporation. There are 30 universities and colleges in the region, around 40 corporate research centres and 14 government research centres.

5.26 There is a marked contrast between the means by which economic development and business growth services are delivered in Pittsburgh and how we do it in Scotland. Indeed, this contrast would be just as evident in other parts of the United States. Specifically, the private sector's role in designing and delivering business growth support is much more evident than in Scotland or other parts of the UK. The Allegheny Conference's initial mission was to clean up the dereliction evident in Pittsburgh, and from there it has developed into a public/private policy body. It is driven by the local private sector, and seeks to exert a major influence over public policy. The Conference itself is an umbrella body for a number of other partnership organisations, such as the Pittsburgh Regional Alliance (which hosted our visit) and the Greater Pittsburgh Chamber of Commerce.

5.27 Underneath these partnerships, there is a wide range of providers of business growth services, from federal agencies such as the Small Business Administration, through to state government departments, universities, venture capital providers and local chambers and community initiatives. Overall, the usual "toolkit" of business growth support can be identified,

but its delivery is much more fragmented and business-led than in any of our other benchmark regions.

5.28 Only recently has there been an attempt, under the auspices of the Pittsburgh Regional Alliance, to prepare a systematic and shared economic development strategy. This is still work in progress and open for consultation, but it is likely to include emphases on new business starts, increased aftercare for established businesses, the attraction of entrepreneurs from outside the region (including from India), innovation, higher labour skills and productivity, and attracting a more diverse population base. There is likely to be a focus on 4-6 key growth sectors where there is an existing local presence to build on, such as medical devices and security systems. There is also a wish to construct a much more seamless delivery of business growth services to companies although this will represent a huge challenge given the current very diverse and fragmented structure.

WALES, UNITED KINGDOM

5.29 We chose Wales and the Welsh Development Agency (WDA) as a benchmark principally because it represents perhaps the closest parallel to the economic development experience of Scotland. It incorporates both regions of industrial restructuring in North and South Wales; an important rural economy in mid west Wales; it has an EA established at the same time as Scotland's (1975); and it has its own devolved executive through the Welsh Assembly Government (WAG). Like Scotland it has been a major recipient of and beneficiary from EU Structural Funds, and for much of the 1980 to 2000 period it was Scotland's main competitor for attracting FDI. It is thus a principal comparator for BGS and EA effectiveness.

5.30 Wales, with a population of just under 3 million has a long-established and diverse business base which is estimated to be around 120,000 VAT registered businesses and a further significant number of smaller businesses, rural holdings and self-employed units. The estimated labour force of around 1.3 million has increasingly moved from the larger manufacturing businesses in steel, coal and engineering which drove the Welsh economy in the pre-1960 period into smaller and progressively non-manufacturing employment, as has been the case with most UK regions, but with agriculture, forestry and rural sectors being of more importance than the UK average.

5.31 Unemployment has generally been above the UK average; and throughout most of the past decade GDP has been around 83-85% of the EU15 average, and has been the second lowest within the UK to Northern Ireland. The business formation rate, a key indicator for BGS comparisons, can only be assessed in relation to VAT-registered businesses, and throughout the 1990s it averaged around 27 new businesses per 10,000 population compared to 30 in Scotland, 66 in London and 39 for the UK as a whole. A strategic priority for WAG and the WDA is therefore both to raise the rate of business creation, although the available evidence suggests that the three year survival rate of new businesses in Wales is on a par with the UK average.

5.32 Since the creation of the WDA it has sought to replace the older industrial and rural business base of Wales with a new economy that builds on the nation's research and technology capabilities, its skills and learning frameworks, and its improving infrastructure and its attractiveness as a cost-efficient business location for UK and international businesses. Through the 1980s and 1990s Wales was comparatively successful in this long-term strategy to evolve a more competitive business base; but the global decline in FDI flows over the past decade and their progressive shift to lower cost locations in Eastern Europe and Asia has led to an enhanced focus on endogenous economic growth.

5.33 The comparative economic position of Wales within the European Union has resulted in it being awarded significant levels of EU Structural Funds to help pursue the national economic strategy (*A Winning Wales*) of creating a strong, sustainable and inclusive economy. There is currently a major 2000-2006 Objective 1 programme for large parts of North and West Wales and the South Wales Valley areas that reflects their special challenges and opportunities, and success in this is seen as being a touch-stone in terms of the achievement of a more sustainable economy based on endogenous sources of growth. The current concern is whether there will be a capability to continue to support these Objective 1 areas after the completion of the present EU Structural Fund programmes in 2006 : the UK government's 2003 commitment to continued regional development funding is thus especially important for Wales.

5.34 At the centre of the drive for national economic and business regeneration is **The Welsh Development Agency**, which since its absorption of the Development Board for Rural Wales in the 1990s, now has an established national remit. As with Scottish Enterprise, the WDA operated as a relatively independent statutory agency for most of its initial quarter century of existence, setting its own strategic priorities and operational programmes in consultation with the Welsh Office as its reporting and funding locus. During this period the WDA introduced a range of strategic, programme and project innovations across all of its areas of operation, and regularly benchmarked economic development and BGS activities of other RDAs and EAs in the UK and internationally.

5.35 In mid-2004 a major organisational change was announced by the Welsh Assembly Government which aimed at strengthened 'joined-up-government' in Wales through the incorporation of the WDA into the WAG as an integral Welsh civil service unit. This removal of the statutory independence of the Agency was accompanied by the integration of the Welsh Tourist Board and Education and Learning Agency for Wales into an expanded economic development portfolio centered upon the Agency. There has been an understandable degree of disquiet both within the Agency and in the Welsh business, research and local government community about these developments; but the progress of amalgamation working groups since then suggest that the longer-term benefits of the merging of the three leading EAs in Wales may be significant. It is worth noting that (with the exception of the incorporation of tourism) this recent development broadly parallels the EA merger that led to the creation of Scottish Enterprise in 1990.

5.36 The WDA's current Business Plan for 2004-2007, which is likely to be revised to reflect these recent changes, provides the framework for its BGS remit and activities in Wales, both directly and through partnerships with other public and private sector organisations. These BGS activities and support are delivered through the Agency's HQ in Cardiff, five regional offices in Wales and a network of overseas representative offices, including Brussels and the key countries that have been important for inward investment over the past decade.

5.37 The Agency has evolved a detailed understanding of the Welsh business community over the past three decades, and virtually all SMEs and larger enterprises in Wales have contacts with the WDA as have the Welsh scientific and research institutions. As a consequence, the Agency has developed a comprehensive portfolio of BGS support to meet the needs of the Welsh SME community. It appears that WDA may have the widest range of BGS products amongst the benchmarked EAs, including suites of programmes addressing business needs in terms of marketing and strategy; process development, productivity improvement and sectoral and cluster development initiatives. Underlying this is a WDA

flagship programme, *Source Wales*, to help companies in Wales to identify supplier opportunities.

5.38 There are consequently WDA BGS initiatives in all six of the business growth cycle areas defined for benchmarking. These begin with the Agency's *Entrepreneurship Action Plan* activities, and progress through to the funding support available through Finance Wales to a wide range of innovation and technology transfer initiatives which represent the largest portfolio of inter-related programmes encountered by the research team. Some of these BGS initiatives are profiled later in the report, but one of the issues under consideration as a response to the recent organisational change is the potential for rationalising and thereby reducing the present large BGS portfolio.

5.39 One important strategic decision within the Agency's SME and BGS activities is the need to reduce the dependency of Welsh businesses on the Agency's BGS provision, and the importance therefore of progressively transferring into business managers the knowledge and skills for identifying and sourcing appropriate BGS advice, funding and support to the individual businesses and industrial groups. The Shared Investment Fund for purchasing BGS services is an interesting example of this approach profiled later in the report.

5.40 There has been a continuing programme of impact monitoring and evaluation at the level of the individual BGS schemes, but none of these have involved sustained longitudinal assessments of benefits to the participating business in terms of corporate and financial sustainability. It is understood that this is under consideration, but the perception of WDA executives is that, with the exception of risk and venture capital provision, the BGS delivered over the past decade has significantly improved the competitiveness of the Welsh business base : however, there remains a major continuing need to further strengthen the national economy.

NORDRHEIN WESTFALIA, GERMANY

5.41 The Nordrhein Westfalia (NRW) Länd in Western Germany was chosen as a BGS benchmark region because of it having a large traditional industrial economy undergoing economic restructuring similar to Scotland; a distinctive economic governance base within which the NRW RDA plays a more structured role than in Scotland; an active EU Structural Fund support programme; and a recent tradition of effective innovation in selected key economic sectors, especially energy where it has begun to replace its once important coal-based industries with a rapidly evolving renewable energy sector which already has lessons and opportunities for Scotland.

5.42 NRW was also a logical choice as a benchmark partner as the regional government signed a collaboration agreement with the Scottish Executive in 2001. The base collaboration prospectus (*Partners for Development : Opportunities for Collaboration between Scotland and North Rhine Westfalia*) is currently being developed into an operational action plan to take forward a range of initiatives in the areas of land reclamation and environmental renewal, cluster or competence fields, sustainable development and environmental technology industries, and entrepreneurship and sustainable new business start-ups. It was therefore desirable to use the opportunity of the Scottish Parliament's benchmarking project to further our mutual understanding of BGS in NRW which encompasses many of the business growth cycle areas in benchmarking.

5.43 NRW has the largest population at just over 18 million of Germany's 16 federal states, and is also the most densely populated state. As a highly regarded area to both live and work, it has a long tradition of immigration and integration perhaps reflecting its location in the

far west of Germany, and currently 1 in 9 of the resident population are immigrants. It is a diverse region encompassing densely forested highlands and the major cities of the Ruhr such as Bonn (until recently the Federal capital), Cologne and Düsseldorf, the capital of the Länd where its state ministries and agencies are located.

5.44 The regional economy, with a GDP of €464 billion, makes NRW a major economic force : it would rank as the 14th largest nation internationally were it an independent state, ahead of such as Australia and the Netherlands. The relative affluence of NRW is reflected in its per capita income being well above the EU15 average; its unemployment below average; and its success in attracting FDI perhaps unmatched in Europe.

5.45 This latter attribute reflects NRW's world status as a location for hi-tech businesses based on the most highly integrated scientific and technological research network in Europe comprising 58 universities, 52 major research institutes, 68 specialist research organisations, 63 technology centres and 30 technology transfer centres. This R & D strength was another factor in our decision to benchmark NRW, as it represents a significantly stronger technology base than Scotland.

5.46 The NRW business base comprises a mix of long-established large and medium sized (predominantly private) companies, including corporations such as Eon which has power generation interests in Scotland. There is also a comparatively strong community of around 700,000 small businesses which currently account for 73% of NRW employment, 47% of industrial production and 41% of investment : this is another economic component where NRW is comparatively much stronger than Scotland even allowing for it being over three times larger.

5.47 The past 30 years has seen a major restructuring of the industrial base of NRW away from its traditional coal and steel base towards a more diverse economic structure predominantly focused upon new and SME businesses in service and hi-tech sectors such as ITC, retail, banking insurance, healthcare, leisure and hospitality. This restructuring has been predominantly driven through the creation of new businesses rather than through changes in markets and technology within the older existing businesses. Since 1996 around 160,000 new businesses have been registered annually, and NRW's BGS initiatives to support start-ups are recognised as having made a major contribution to this entrepreneurial culture. We profile some of the more interesting of these in later chapters of this report.

5.48 Within the new business and technology economy of NRW is an important portfolio of what NRW labels '*future orientated companies*' through which the next stage of economic regeneration and growth will be driven. These are generating new products and services in chemicals manufacture, life sciences, environmental and recycling technologies, alternative energy systems, vehicle manufacture and advanced mechanical engineering. Alternative energy systems, especially those based on wood, is one specific area of interest and relevance to Scotland where NRW's technology lead is such that the prospect of joint ventures should be pursued.

5.49 However, despite NRW's comparatively powerful and competitive economy, there remain important economic restructuring challenges, especially in the older urban coal mining and steel communities along the Ruhr. These weaknesses were recognised through the award in February 2001 of major Objective 2 Programme investment to these areas within NRW. Approximately €970 million has been provided by the European Commission to match the €1 billion from the NRW State Government. The Programme objectives are to create new and secure jobs especially in SMEs; and the funding support is being delivered in pursuit of four 'horizontal' priorities through a carefully designed portfolio of 25 specific economic

development measures. Customisation of support is regarded especially important in BGS, and an enhanced programme monitoring and evaluation process has been put in place

5.50 The Objective 2 programme support in NRW strengthens both Federal and State government BGS initiatives which in combination represent a comprehensive commitment to assisting business growth in all of the benchmark areas. Start-up assistance is available in both equity and loan forms from the KfW bank, with such finance also being accessed for subsequent business growth via take-overs, expansion or relocation. There is also a wide range of regional BGS programmes from the State Government and banks in NRW covering start-up and expansion finance; the major corporate expansion of larger businesses; most aspects of corporate innovation and technology development; and investment in efficient energy consumption by businesses. It appears that the scale, breadth and terms of such state BGS assistance is significantly greater than in any of the other benchmarked EAs, but this requires further investigation.

5.51 The economic development framework in NRW is also distinctive in its organisation and roles. The State Government through its main ministries has a much more direct and influential influence on economic development and BGS, especially through the Ministries of Economy and Labour, and Energy and Regional Planning. Both have developed, lead and administer important programmes with significant BGS benefits. Of especial interest and importance is the major renewable energy initiative (*Energy of the Future from North Rhine-Westphalia*) supported by the State and local industry which has introduced a range of effective energy generation and energy efficiency initiatives. This is an important area within the Scotland-NRW Collaboration Agreement, and should be given priority in the action plan.

NORTH EAST ENGLAND

5.52 The North East region of England has faced many similar economic challenges to central Scotland over the past 15-20 years: the decline of resource-based industries and heavy manufacturing, loss of population and skills, low business birth rates, and high levels of unemployment. This was one of the factors in us choosing it as a benchmark region.

5.53 Unlike Scotland, and in common with other English regions, there was never historically a single, lead economic development agency in place to develop strategies and services in support of growth. This changed with the advent of the Regional Development Agencies (RDAs), modeled to some extent on the Scottish Development Agency/Scottish Enterprise experience. Each RDA has prepared a regional economic strategy, and has increasingly taken lead responsibility for delivering or coordinating a fuller range of economic development interventions, including business growth support. This process of rationalisation is still in progress and has thrown up challenges and obstacles along the way. We therefore wished to compare this experience with developments in Scotland.

5.54 The RDA for North East England is One NorthEast (ONE), based in Newcastle. The North East region has a population of 2.5mn and a labour force of 1.2mn. Unemployment has consistently remained at 2-3 percentage points above the national average over the past decade. There are just over 90,000 businesses in the region, 78% employing less than 10 people. (The GB average is 84%.) The region has a larger proportion of SMEs (10-199 employees) and large companies (200+ employees) than the rest of Great Britain. A low rate of business formation has been a particular characteristic of the North East, reflecting a range of economic, market and cultural factors, and is therefore a priority for ONE and its delivery partners.

5.55 The Regional Economic Strategy, published in October 2002, has a strong focus on business growth. It includes six strategic objectives, the first two of which are raising business productivity and establishing a new entrepreneurial culture. The others include labour productivity and skills and mobilising academic expertise, and so there is a strong emphasis throughout on building a larger and more productive business base in the region.

5.56 In terms of the delivery of business growth advice and support, the North East has historically had a very fragmented network of providers and funders: the national Small Business Service of the DTI; the Business Links network; the government office; local authorities; local enterprise agencies. At one time, there were 160 start-up initiatives in the Tyne and Wear area alone. This often led to competition between agencies for customers and funds, and a lack of referrals from one agency to another. Most important, it represented a very confusing and inefficient picture for the businesses of the region. It is estimated that there is £50mn worth of publicly funded business support available in the region: 10-15% from ONE; a similar proportion from DTI; and the rest from the wide range of local authorities and enterprise agencies.

5.57 Efforts are now under way, led by ONE, to create a simpler and more effective network. The intention is to set these efforts within the context of the Regional Economic Strategy, so that the services provided are supportive of the region's wider economic development needs. For example, all the RDAs are being given responsibility for channelling funds to the Business Links (BL) network, and BL in turn will be marketed as the single point of access for companies to the wider business support framework. Also, emphasis is being placed on a new Area Brokerage Partnership (ABP) model. This is designed to allow businesses to make their own choice on support provider, having got initial access through

the Business Links network. Thus it is intended that customer choice will then determine the shape of the support system, with some suppliers disappearing and others concentrating on their core competencies.

5.58 This process of reshaping provision has been under way for around two years, and is only now beginning to be put into practice. It is therefore too early to make any judgment on its success, though there does appear to be widespread recognition that it is a move in the correct direction and should be given the opportunity to work.

5.59 As a next stage in refining the model, there is an interest in building up a more sophisticated segmentation of the market for business support, and in reducing substantially the range of overlapping services and initiatives that are currently on offer. These refinements reflect the process that Scottish Enterprise has been going through in terms of market segmentation and “productisation”. There is also a desire to link business growth support more directly to the strategic, cluster and technology priorities set out in the Regional Economic Strategy.

5.60 At this relatively early stage in the process of change, there is probably not a great deal for us to learn from or adapt for the Scottish environment and in many ways we are ahead of the game. As the ABP rolls out into practice, however, and as progress is made on implementation of the wider regional economic strategy, there will be new experience to draw from.

EMILIA-ROMAGNA, ITALY

5.61 We selected Emilia-Romagna and its economic development organisations as a BGS benchmark region for Scotland as it is seen as representing a relatively less structured approach to economic development where a state EA played a much smaller role. This region stretching across the North East of Italy is internationally recognised as one of Europe’s more innovative areas in relation to its companies, products and technologies, hosting a number of internationally recognised corporate names such as Ferrari, Maserati and Ducati; accepted as the home of Italy’s national reputation in food and cooking; and an increasingly important destination for European and global tourism.

5.62 It is also a region where significant economic and industrial restructuring and regeneration began in the 1950s as its engineering companies diversified from armaments production into manufacturers of much of the sophisticated production equipment for sectors such as foodstuffs, furniture and wood products manufacture, ceramics and packaging. In a global environment in which manufacturing and especially private sector engineering companies have either declined or relocated to lower cost locations in Eastern Europe and Asia, the Emilia-Romagna region (RER) offered an interesting opportunity to explore how BGS policy is shaped and delivered in a different economic environment.

5.63 Emilia-Romagna is one of Italy’s smaller regions with a population of around 3.9 million much of which is concentrated in the larger cities such as Bologna, Parma, Modena and Ravenna. There has been significant migration from the region’s agricultural and rural sectors, not as yet fully matched by the arrival of European migrants as with Tuscany. There is some concern that the population is aging, and that the younger skilled professionals are leaving to seek employment in Rome, Turin and Milan following school and university graduation. Despite the rural exodus, agriculture remains comparatively important within the economy, and industrial sectors contribute more to the region’s GDP than any other Italian region apart from Lombardy. This reflects the continuing strength of the SME and locally

controlled larger manufacturing businesses, especially in the food products and engineering sectors.

5.64 These export orientated businesses, together with relatively strong local service and government sectors, make RER the most prosperous regional economy in Italy with a per caput GDP nearly a third higher than the EU15 average. Unemployment rates are almost half the national average, and long-term unemployment has recently been the lowest in Italy. These all reflect the fact that RER is a vibrant, creative regional economy with a comparatively strong capability for self-reliance in generating new businesses based on innovative and distinctive products and services.

5.65 Despite its being smaller than Scotland, RER has a larger business base in terms of self-employment, SMEs and larger corporations : these groups are all regarded as of equal importance to the Regional Government and to its Provincial Authorities. There are currently an estimated 300,000 SMEs (including self-employed businesses) in RER, of which 67,000 are in manufacturing sectors, and where over 14,000 are export-orientated. This scale and diversity of enterprise gives the region a capability to respond rapidly to emerging global challenges and opportunities, and both the RER Association of Chambers of Commerce (Unioncamere ER) and the Regional Government are determined to promote and support the international competitiveness of this core component of the regional economy.

5.66 Emilia-Romagna has a relatively strong grouping of 4 major and 3 minor research institutes, with the University of Bologna being recognised as the oldest in Europe. At the main university campus to the North of Bologna, two of national Italian Research Centres are located; as well as ASTER the science and technology development consortium that has the lead remit within RER for co-ordinating the research, innovation and technology transfer activities of the universities, research institutes and the region's 249 certified research laboratories. This R & D based is estimated to generate over 15% of national scientific production from only 5.9% of Italy's national scientific and technological resources. This innovation collaboration through ASTER is profiled later in this report as an interesting good story of direct relevance to Scotland.

5.67 An active economic development and BGS policy framework is a relatively recent innovation in RER having only begun 15 years ago; and its rationale, focus and mechanisms are still evolving. In its initial formulation RER's strategy sought to promote a series of territorial clusters based on sectoral specializations of the cities along the core transport corridor running through the spine of Emilia-Romagna. The resulting eleven cluster (in such as ceramics, food products, mechanical engineering) were based on companies, consultants, agents universities products, mechanical engineering) were based on companies, consultants, agents, universities and consultants working together to develop and transfer specialist knowledge. Each was supported by a Service Centre in each District funded by the Regional Government, and co-ordinated by ERVET, the development agency for RER.

5.68 This initial economic development strategy for RER proved to be both too inward-looking and ineffective in technology transfer terms; and the emergence of economic globalisation and new cross-sectoral specialisms such as mechatronics required a different strategy and approach. Since then an economic development and BGS focus on Supply Chain Integration has been introduced, and the Regional Government believes that the activities being delivered makes RER a clear European leader in building international business competitiveness through increased efficiencies along the region's main industrial supply chains. However, this innovation is limited through a regional scarcity of risk and venture capital to underpin business and entrepreneurial growth; a continuing erosion of the

local corporate finance and banking community through take-overs; and the need to rethink the organisational, promotional and operational priorities of the important trade fair institutions and facilities.

5.69 The new approach formed the core of the first RER economic strategy (1999-2001), and the second (2002-2005) plan is being transformed into a rolling 3 year industrial strategy. The core objectives will be on achieving a closer match of RER's applied research to corporate priorities; a drive for certificated quality standards in all sectors; and an active promotion of business internationalisation. However, resources available to pursue these objectives are likely to be reduced in real terms as Italy and its regions seek to reduce budget deficits to meet Maastricht Treaty requirements. This budget constraint is also partially behind the RER decision to tap into global economic opportunities through trade promotions in growth markets such as China, the Balkans and Russia; and the major expansion of FDI promotional agencies at both regional and provincial levels. These represent an important shift in economic development and BGS priorities, and will be supported by operational economic co-operation agreements.

5.70 In selecting Emilia-Romagna as a BGS benchmark partner it had been assumed (from desk and on-line research) that only a small EA existed, but the visit programme confirmed that ERVET, the RER EA, was both larger and more integrated than indicated. ERVET, the RER development agency was created in 1974 as an instrument of economic policy to play a leading role in identifying territorial development issues; undertaking industrial policy actions; developing and delivering innovative applied research projects; and enabling technology transfer. In the 1980s it created a series of specialised industrial Service Centres throughout RER in support of the initial regional economic development strategy (see above), and it continues to administer these and to ensure that they serve the innovation needs of the more than 1,000 RER company members.

5.71 More recently ASTER, the specialist science and technology subsidiary of ERVET has been spun-off into a separate agency with its own funding, management and priorities. This has encouraged ERVET to review its strategic priorities, organisation structure and operational mechanisms. A new corporate strategy and business plan is currently being finalised for agreement with the Regional Government and the other public and private sector ERVET stakeholders. It is thus another EA that is currently confronting change.

IRELAND

5.72 The Republic of Ireland was not amongst the initial group of regions and nations selected as appropriate EA and BGS benchmarks. It became obvious during the team's desk and online research and initial discussions with the other benchmark partners that Eire and Enterprise Ireland EA was (alongside Scottish Enterprise) the EA that such other agencies often sought to follow and emulate. It was thus decided to include Eire in the benchmarking process, a change that is fully supported by the subsequent visit programme.

5.73 Eire and Enterprise Ireland (EI) have relevance for the present investigation in that their BGS activities and institutions are long-established, comprehensive, innovative and internationally recognised as formulating and delivering economic growth and BGS programmes widely regarded as being leading edge in concept, rationale and management. The rapid transformation of Ireland's economy over the past quarter century must be recognised as one of Europe's economic miracles, with the Celtic tiger matching the performance of its large Asian counterparts. Within a generation predominantly rural and agricultural economic drivers have been largely replaced by technology-based businesses

introduced through sustained success in attracting FDI which in turn has reversed over 150 years of emigration.

5.74 With a population of nearly 4 million, Ireland is one of the EU's smallest nations, with a relatively young and educated population. It is a small open economy closely integrated into the global economy via comparatively high investment and trade flows, but despite this Ireland has proved resilient to recent global down turns. Over the past decade Ireland, which has been a recipient of significant levels of EU Structural Funds, has grown faster than most EU member states; and has now made the transition to a modern fully-developed economy.

5.75 Over a relatively short period Ireland's GDP per caput has risen from well under the EU average to the point whereby in 2003 it had a GDP of €33,700 per person, the second highest in the EU after Luxembourg : this is a marked contrast to the nation being the poorest member state when it joined the EU in 1973. This GDP growth has been accompanied by a two-thirds reduction in unemployment levels and a doubling of the employed work force. However, it is important to note that if the FDI component in the economy is removed, the resulting GNP measure is some 20-25% lower than the more widely quoted GDP figures.

5.76 There is a broad agreement that Ireland's recent economic success has been caused by a fortunate combination of key economic development factors. These combined the benefits of major FDI gains, EU Structural and Cohesion Funds (peaking at 5-6% of the GDP in the early 1990s), the youthful labour force, an emphasis on education and technological innovation and an open attitude to internationally traded goods and services with pragmatic and flexible government policies that promoted policy delivery through an emphasis on a Social Partnership approach to economic development. Policy flexibility and a willingness to rapidly learn from experience have also been important determinants of business, industrial and economic growth. The main Irish EAs, namely Enterprise Ireland and the Industrial Development Agency (IDA) have been the prime means for delivering national economic policy, and both have continually sought to incorporate best practice identified in other nations through economic development benchmarking, including and especially with Scotland.

5.77 Whilst exports of agricultural and food products have made a significant contribution alongside technology-base manufacture to Ireland's outstanding export achievements, a potentially more enduring economic strength is the network of universities, research institutes and technology based regional clusters geared to support these key export sectors. There is now a portfolio of national programme initiatives designed to strengthen the economic and enterprise contribution of Ireland's R & D community, including the interesting Campus Enterprise initiative managed by EI.

5.78 It is now recognised in Ireland that the decade ahead may present a more challenging economic development environment, especially with the increasing impact of Chinese, Indian and Russian growth. There is no guarantee that future growth will be as easily gained. In order to address Ireland's new policy requirements a major investigation of business and economic development prospects was undertaken by The Enterprise Strategy Group, the 16 members of which were selected by the Minister for Enterprise, Trade and Employment from company executives, academics and the investment community in Ireland and internationally.

5.79 The Group's comprehensive report (*Ahead of the Curve : Ireland's Place in the Global Economy*) was published in July 2004, and has since engendered a positive and spirited policy response. The Group, whilst recognising Ireland's highly developed manufacturing capability, identified the need for policy development to address two major relative weaknesses : in international sales and marketing; and in the application of technology to develop high value products and services that will be competitive in global markets. A series

of policy actions are recommended for pursuit over the period to 2015 which in combination will raise the 'profile' of expertise in Irish enterprise. Amongst the more important of the recommendations is the allocation of €20 million per annum of EA budgets to support the creation of enterprise-led networks as key drivers in the new strategy.

5.80 At the centre of the national economic development effort is Enterprise Ireland, established in 1998 through a restructuring of existing ministries and agencies, and with a core remit to support the growth of locally-controlled industry. (IDA has the parallel remit for overseas-owned enterprises). EI's prime client base are manufacturing and service businesses employing over 10; high-growth start-ups; and overseas companies in the food, drink and timber sectors wishing to locate in Ireland. There are currently around 3,300 businesses in these client groups, and within these BGS priority is largely driven by potential.

5.81 EI's resources currently encompass an annual budget of €260 million; 950 staff in 8 regional offices; and over 30 overseas offices including a recent expansion of the Irish presence in China. In addition to EI, a separate regional EA has operated at Shannon for over 20 years; and the BGS needs of self-employed and micro businesses have been met by a network of over 30 City and County Enterprise Boards which provide lower levels of business finance and advice. However, it appears likely that both the Shannon EA and local Enterprise Boards will be incorporated into EI in the near future as part of the ongoing drive to ensure a more efficient and integrated BGS framework throughout Ireland.

5.82 There are three key BGS elements in EI's corporate strategy : innovation, internationalisation and business development. The programmes and resources to pursue these encompass all of the six broad BGS areas used in the present benchmarking, and also seek to ensure that the economic success reaches all regions of Ireland. Agriculture is an especially important sector for EI support principally through its promotion of dairy and other products in large export markets based on the strength of the Irish food and drink brand.

5.83 EI has also developed an innovative Business Development Model (BDM) that ensures its development advisors work with their client companies to evolve an effective and achievable business development plan which EI can then help deliver.

5.84 This stronger focus on BGS has been reinforced through a revision of EI's business finance for companies into 5 funding areas covering the exploration of new opportunities; high potential start-ups; expansion of existing companies; building international competitiveness; and promoting R & D. The post-1995 policy of working through partnerships being continued by EI has led to the emergence of a comparatively strong venture capital community, and new jointly invested venture capital funds have been created by EI and private sector financial institutions to support growth companies. This clear and structured approach to BGS now being delivered by EI is worth further consideration by the Committee.

6. ENTREPRENEURSHIP

6.1 The brief overview of the business growth cycle presented in section 3 of this report distinguishes the concept of 'entrepreneurship' from that of 'business start-ups and new business creation', and stresses the policy importance of the distinction. Encouraging an entrepreneurial culture within a region or nation is perhaps the single most difficult economic policy area, especially within the context of traditional long-established industrial regions where the internal drivers of economic growth and competitiveness have been left behind by global market change. The policy challenge is further enhanced through our incomplete understanding of the forces shaping both entrepreneurs and an entrepreneurial market environment.

ENTERPRISE AGENCIES & ENTREPRENEURSHIP

6.2 All of the ten EAs in the benchmarking programme give priority to encouraging a greater spirit of entrepreneurship amongst their people; all regard it as an essential pre-requisite for endogenous economic growth; and most have (or have had) ED programmes and projects seeking to foster entrepreneurial behaviour and outcomes. These have been both of a general nature or have targeted specific groups such as university staff and graduates, school leavers, recent immigrants or the spin-out of employees into self employment.

6.3 In none of the visited EAs is there confidence in having a clear understanding of entrepreneurship or of having made significant improvements to indigenous entrepreneurial forces. Few of the EAs have (as yet) a policy interest in encouraging entrepreneurship within existing companies, but all express a hope that their EAs will themselves seek to be entrepreneurial in their BGS activities. There was a view encountered in the visits that large EAs (in employment, remit or financing terms) can find it harder to be entrepreneurial.

Entrepreneurship Good Stories

6.4 The team encountered a number of EA and government initiatives to promote and encourage indigenous entrepreneurship, including the PFAU Programme in Nordrhein Westfalia, and WDA's Entrepreneurial Culture Initiative.

6.5 GOOD STORY : ENTREPRENEURSHIP

PFAU PROGRAMME : NORDRHEIN WESTFALIA

PROGRAMME BACKGROUND

The PFAU¹ initiative is an interesting attempt by the Ministry of Science and Research of the Federal State of Nordrhein Westfalia (NRW) to promote and support the start-up of new business from the Länd's 27 universities and research institutes. The programme was launched in 1996 and has received both Länd and EU Objective 2 funding. It is managed and administered by ZENIT, a public private partnership founded in 1984 with membership including over 230 SMEs in NRW, a consortium of banks and the NRW Länd government. PFAU is already recognised as approaching 'best practice' in encouraging university graduates to form independent businesses.

PROGRAMME RATIONALE & OBJECTIVES

PFAU addresses NRW concerns that not enough new potential hi-growth businesses are being created by graduates of the region's universities and research institutes to drive structural change within the predominantly industrial economy of the Ruhr. The PFAU has three inter-related objectives, namely to :

- Minimise the personal and financial risks linked to starting a business
- Turn innovative University ideas into products that are ready to market
- Develop product-orientated innovative services to introduce to the market

ZENIT and the NRW government also hope that PFAU will have a broader demonstrative effect on younger skilled people in the region, and that the flow of new entrepreneurs will increase the potential deal flow for NRW's underdeveloped risk capital community.

PROGRAMME APPROACH & ACTIVITIES

6.6 PFAU is aimed at graduates who received their last degree or doctorate less than a year earlier, and who are deemed to have entrepreneurial potential. If accepted onto PFAU, they are appointed to a part-time research placement at a university for a maximum of two years the personnel costs of which are covered by PFAU. In addition, each student accepted onto PFAU is given a consulting 'chequebook' of €5,000 to purchase specialist advisory legal, mentoring, financial and marketing services; business paper and logo design; and relevant research reports, but not capital equipment. Once the two years placement funded by ZENIT is completed, the participants have to actively take steps to establish their business.

6.7 Once within PFAU, the graduates have to prepare a detailed business proposal covering all aspects of their proposed businesses. This includes a comprehensive start-up plan to take the graduate through to launch, and must address IPR, product development needs, market potential and the competitive situation; and be supported by an assessment of their financial, marketing and consultancy needs. These proposals are then reviewed both by ZENIT and university assessment centres where an important issue is whether the graduate has the personality to be an entrepreneur. If these reviews are positive, the graduate begins to establish a new business, and is helped to meet funders, potential investors and possible

¹ Programm zur Finanziellen Absicherung von Unternehmensgründern/innen aus Hochschulen.

business partners, including the students' professions who can become minority shareholders in the new ventures.

PROGRAMME ACHIEVEMENTS & IMPACTS

Since PFAU was introduced university graduates in NRW have prepared over 500 business plans, from which 211 new businesses have been created and funded. Around 65% of these new businesses are service-based with the remainder being built on generally innovative products. However, most of the new ventures are knowledge intensive with two thirds of employees being graduate.

An independent external evaluation by an experienced consultant undertaken in 2002 looked at the post-creation performance of PFAU start-ups. It found that 85% survived for more than two years, and that three years on an average of 4.5 jobs per company had been created. The evaluation conclusion was that PFAU was an effective programme deserving to be continued, and an important parallel to NRW's wider GO start-up support programme. The potential for replicating PFAU via an extension of entrepreneurial support in secondary schools is currently under consideration.

The ZENIT PFAU managers believe the three most important constraints to the longer-term impact of this innovative approach to promoting entrepreneurship are the probable post-2006 contract of EU objective funding; the real weaknesses in risk capital in NRW; and the fact that Professors continue to divert the best students into academic research and appointments.

RELEVANCE TO SCOTLAND

The NRW PFAU initiative is worth considering in relation to Scotland's policy goal of encouraging university graduates (especially in science and technology) to follow a business rather than an academic career. The programme has some similarity to the Enterprise Fellowship Programme managed by the Royal Society of Edinburgh although the PFAU initiative is much larger. There has also been seed funding of student and graduate start-ups has been pursued by universities such as Edinburgh, Aberdeen and Glasgow via various individual initiatives. This more structured nation-wide approach may thus be worth further consideration, especially as the approach would appear to be transferable.

PROGRAMME CONTACT

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7. BUSINESS CREATION & START-UPS

7.1 We have defined business creation (section 3) as the launch of new independent enterprises by individuals or groups of individuals where the business does not have ties with other existing businesses. It encompasses all sections of the economy including new ventures in the professions, retailing, trade and the primary sectors.

7.2 A high level of business starts, of which a proportion survive and prosper to evolve into medium and large-scale regional, national or international companies, is a core strategic goal of all EAs, even where they have no direct powers, resources or involvement in business creation. One common factor encountered within those EAs with business start-up programmes or projects is the current absence of long-term measurement and monitoring of start-up outcomes or of the subsequent careers of entrepreneurs who had created businesses but had either seen them fail or had achieved an exit through the sale of their business. Of even more policy interest is the fact that the majority of EAs with active start-up initiatives generally have a focus or concentration on what are perceived to be hi-tech or hi-growth sectors. Encouraging start-ups in the same favoured sectors or clusters is pursued throughout Europe and North America : we have comment to make on this later in the report.

BUSINESS CREATION GOOD STORIES

7.3 A number of interesting ED Initiatives promoting business creation were encountered during the visits, and these will be profiled as interesting Good Stories

8. STRENGTHENING EXISTING BUSINESS

8.1 As has been suggested in the overview of the BG cycle in section 3, the long-term experience of regional economic development is that the most sustainable and cost effective means for generating output and employment growth is through mechanisms that strengthen the competitiveness of already established businesses. The ED policies, tools and understanding associated with this aspect of endogenous growth are perhaps the most evolved in strategic and operational terms, and can draw upon a long period of public sector BGS support which in the UK dates back over 70 years. It is consequently an area of BGS where innovation in policy and mechanisms is perhaps progressively more difficult, but one where the benchmarking investigations encountered a number of new approaches.

ENTERPRISE AGENCIES & EXISTING BUSINESSES

8.2 All of the EAs visited during the research programme have established strategies, programmes and partnerships designed to strengthen the national and international competitiveness of their existing private (and sometimes public) sector enterprises. There are differences in the policy emphasis placed on the SME sector, on companies in perceived hi-growth situations, and on businesses within minority, rural or other disadvantaged groups.

8.3 One interesting aspect that has emerged is an increasing belief that funding, advice and support should be concentrated on hi-growth companies; that businesses outwith this group can be served through a lower level (and sometimes quality) of BGS; and/or that such lower potential businesses can be better served by local business development partnerships. This latter issue is also one that we would wish the Committee to consider in its deliberations.

EXISTING BUSINESS GOOD STORIES

The EA research and visit programmes have encountered a number of BGS approaches to delivering support to existing businesses that may be of interest and relevance to Scotland's EAs. These will be profiled in the final draft.

8.4 GOOD STORY : STRENGTHENING EXISTING BUSINESSES

IPT PROGRAMME¹ : NORDRHEIN WESTFALIA

PROGRAMME BACKGROUND

There has been a long-standing concern within the NRW government that skill shortages and bottlenecks within the region's SMEs limits their business competitiveness of a regional economy where 85% of employment is within the private SME sector. The concept emerged within the NRW Ministry of Economic Affairs of helping the region's SMEs acquire new skills and knowledge through their recruitment of new graduates from universities. The IPT initiative was thus launched in 1988 and is now an important means of strengthening the competitiveness of SMEs in NRW.

PROGRAMME RATIONALE & OBJECTIVES

The challenge for SMEs has been to identify short-term skills improvement mechanisms not based on either recruiting and then training skilled employees or on stretching business finances to recruit skilled employees from other SMEs. Alongside this skills bottleneck in smaller businesses NRW has (like many European regions) been aware that many of its university graduates were not finding appropriate career opportunities following graduation, which represents a comparative under-utilisation of one of the region's major resources. The IPT initiative was thus introduced to simultaneously address two objectives; namely to :

- Reduce skills bottlenecks in SMEs throughout NRW
- Upgrade the career opportunities for higher education graduates

The IPT programme is managed by ZENIT, the NRW public private partnership that also manages the parallel PFAU initiative for the NRW government; and these two programmes have benefited through learning from their different operational experiences.

PROGRAMME APPROACH & ACTIVITIES

The programme, funded from NRW government and EU Objective 2 sources, covers the personal and employment costs of university and polytechnic graduates employed by NRW's small businesses. There is a requirement that graduates recruited by SMEs be employed either as *Innovation Assistants* with remits to improve competitiveness via product, process or other improvements, or as *Euro-Assistants* to help SMEs 'internationalise' in order to take advantage of both EU programme funding and market opportunities outwith NRW. The IPT funding is restricted to the recruitment of new graduates, and is not available for the existing graduate staff of an SME nor for recruiting graduates out of other post-university employment.

The financial support to businesses covers much of the personnel costs of each recruited graduate for a period of 12 months, with 50-60% of their gross annual salary (including the employers' social security contributions) currently €12,500 towards a maximum salary level of €30,000. The intention is that the graduates involved join the businesses on a permanent basis, and it is assumed that they will prove their worth during the initial 12 month period of subsidised employment. The progress of each recruitment is regularly reviewed by ZENIT against the detailed innovation project goals that SMEs must develop for each graduate before recruitment.

¹ Das Programm Innovationsbezogener Personnel Transfer (IPT).

SMEs recruiting new graduates cannot dismiss them at the end of their year's employment and are required to retain each graduate for a full second year without IPT subsidy. If a graduate leaves during this period, the SME employer is liable to repay the full IPT funding contribution unless the departure can be fully justified or the business has become bankrupt.

PROGRAMME ACHIEVEMENTS & IMPACTS

Since IPT was launched in 1988 over 1,000 new university and polytechnic graduates (an average of over 60 per year) have been recruited by SMEs across a wide range of NRW industrial sectors. The evaluations undertaken to date suggest that around 60% remain with the SMEs they have joined once their funding support and subsequent year have ended.

In addition, programme evaluations have concluded that IPT graduate employees (because of the detailed pre-recruitment project specification required) have generated additional project ideas in the employer companies; have been effective in ensuring appropriate knowledge transfer between universities and polytechnics and the region's private businesses; have strengthened university-business contacts and linkages, and have promoted internationalisation of business within NRW's small businesses. This latter is seen as especially important given inter-regional SME competition within Germany from Baden-Württemberg and (especially) Bavaria.

RELEVANCE TO SCOTLAND

The IPT programme initiative in NRW will be of interest to the SME sector in Scotland and to their representational organisations (such as the Federation of Independent Business) as it demonstrates another means of strengthening links between universities and SMEs alongside existing initiatives such as knowledge transfer partnerships. The requirement of SMEs (with advisory help from ZENIT managers) to define their business development needs and priorities in advance of graduate recruitment together with the requirement on SMEs to retain their graduate recruits (to avoid grant repayment) will thus bear further consideration. The design of IPT to involve all NRW universities and polytechnics in a region over three times larger than Scotland suggests that a national approach of such initiatives might be more regularly designed into similar SME initiatives in Scotland.

PROGRAMME CONTACT

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8.5 GOOD STORY : STRENGTHENING EXISTING BUSINESSES

CREDIT AND EXPORT GUARANTEE FUND (KREDEX) : ESTONIA

PROGRAMME BACKGROUND

Kredex is one of the two key enterprise support agencies in Estonia. It was established in 2001, consolidating three existing funds and placed under the jurisdiction of the Ministry of Economic Affairs and Communications. It is targeted at Estonian SME's, providing loan and leasing guarantees as well as export guarantees. It also provides housing loan guarantees to private individuals. The three inherited funds had previously provided direct loans in their own right, but as the Estonian commercial banking sector matured after independence this was seen as less of a need. There was however seen to be a market failure facing higher risk start-ups and SME's which could not offer sufficient security to the banks, hence the gap identified for Kredex to fill, and is now an important means of strengthening the competitiveness of SMEs in NRW.

PROGRAMME RATIONALE & OBJECTIVES

Many entrepreneurs and SME's in Estonia have insufficient collateral to offer as security against commercial lending, reflecting the country's recent emergence from a Soviet-style economy. They also face a limited credit history, insufficient equity to limit their gearing and a relatively under-developed leasing market. Although the commercial banking sector in Estonia has grown and matured since independence, or perhaps because of that, many SME's with growth potential but no security to offer have found it difficult to raise loans from the banks. Kredex' role is therefore to provide the banks with guarantees when lending to firms in the higher risk categories, and over time to help reduce this perceived market failure.

Kredex' target groups of companies are SME's, micro-enterprises and start-ups. To qualify, firms must employ less than 250 people, a turnover of less than EUR 40mn, and less than EUR 27mn of assets on their balance sheet. The maximum guarantee is EUR 895,000. A number of sectors are excluded from support (agriculture, forestry, real estate, international road transport, non-profit and public sector organisations.)

A fee is charged to the firm receiving the loan, in the form of a premium on the bank's interest rate. Kredex aims to be self-sustaining, re-circulating these premiums into the fund and minimising the need for calls upon it. The organisation has already achieved this self-sufficiency, and receives no new capital funds from the state.

Kredex is a small organisation, employing only 30 people.

PROGRAMME APPROACH & ACTIVITIES

For basic *loan guarantees*, Kredex provides both short and long term cover, up to 75% of the loan amount. The annual guarantee fee is 1.5-3% on long term loans and 1.8-3.5% on short term lending, payable quarterly. There is an arrangement fee payable up front of 0.5%. Applications for the use of a Kredex guarantee are channelled from the banks, not directly from the SME's. For *leasing guarantees*, coverage is up to 40% of the leased property and the annual fee is 1.3-3%. *Export guarantees* can be provided on a short or long term basis, and provide the exporter with a guarantee in the event of an overseas buyer failing to meet payment obligations. The premium charged begins at 0.36% of the sales value.

Applications are assessed on the basis of a business plan with cash flow projections. Visits are also made to most applicant companies for further investigation. Decision times are short, averaging two weeks.

PROGRAMME ACHIEVEMENTS & IMPACTS

By June 2004, banks had lent around EUR 75mn with Kredex support. The amount of this directly guaranteed by Kredex is around EUR 40mn. A total of 570 SME loan guarantee contracts had been entered into, supporting around 450 companies and 2000 new jobs. Volumes have risen steadily since 2001, though with a peak in 2002, largely due to new investment in food processing companies to enable them to meet EU regulations.

Manufacturing companies accounted for 64% of the guarantee volumes, the service sector 21% and wholesale and retail 15%. Firms with less than 10 employees accounted for 38% of guarantee volumes and 55% of contracts; those between 10-49 employees accounted for 36% and 32% respectively; and from 50-250 employees the proportions were 26% and 13%.

Guarantees that have actually been paid out to the banks have been limited to date. There was only one case in 2001, 2 in 2003 and an expected increase to 5-10 this year. Those 5-10 would involve a projected loss of EUR 168,000. Any losses incurred are not usually paid to the banks until 24 months after the ending of the loan agreement, thus ensuring that the banks do everything possible to recover the loan without drawing on the Kredex guarantee.

RELEVANCE TO SCOTLAND

The use of a loan guarantee fund is not in itself especially innovative. Most European countries have guarantee organisations, albeit with the models varying according to legislative differences. The oldest established are in Italy, Austria and Germany, and they are also in place in emerging countries such as Poland and Romania. The United States also makes extensive use of loan guarantee programmes.

In the UK, the DTIs small firms loan guarantee scheme is long running and well regarded, with a focus on high growth potential businesses. Its take-up by Scottish banks has been limited and SE has itself piloted a more broadly based small business loan scheme which was not renewed. Whilst the demand and legislative environment would need to be assessed in detail, this does appear to be a current gap in the Scottish support package compared with many other countries and regions.

8.6 GOOD STORY : STRENGTHENING EXISTING BUSINESSES

MANCHESTER BIDWELL CORPORATION : PITTSBURGH

PROGRAMME BACKGROUND

One of the main barriers to growth quoted by Scottish companies, and by businesses in the other regions that we visited, is a shortage of labour and appropriate skills. Unemployment levels are currently at historically low levels in most of the regions that we visited, making labour supply tight. In addition, many regional economies still experience low rates of participation in the labour market, with large numbers of people not making themselves available for work due to incapacity, family circumstances, lack of training or personal choice. Finally, the growth of many companies is fundamentally dependent on being able to recruit sufficient numbers of highly qualified and creative people in the relevant specialisms. The supply of such people is often limited, and the market for them highly competitive.

Any approach to supporting business growth must therefore include labour and skills development as part of the package. This “good story” describes a particular approach to increasing both the numbers and skills of the available workforce, bringing more people into the labour market with skills identified by local business as being in high demand.

PROGRAMME RATIONALE & OBJECTIVES

Manchester Bidwell is essentially a community-based college, independent and not for profit. Its students mainly comprise ethnic minorities, single parents, young people at risk and the unemployed. There are two main components to the organisation: an arts centre, where young people still within the schools system are given experience and training in a range of art forms; and a vocational training centre for people aged over 18, providing job-related training in a number of disciplines. It is the latter component that we concentrate on here, though the combination of the two elements is an important part of the project’s success.

The principal objective of the vocational training element is to bring people back into the workforce, providing both the technical skills and change in attitudes required to gain long term employment. Private sector representatives sit on the Board of the Corporation and define the emerging skills needs of local employers. Large corporations such as Heinz, Bayer and Alcoa are involved. The relevant training programmes are then designed, delivered and often funded by the private sector. The project therefore has a strong demand-led, business-driven focus, despite its origins in wider social and community objectives.

PROGRAMME APPROACH & ACTIVITIES

Students of the college are expected to achieve high standards of effort and discipline: participation in a Manchester Bidwell programme is not a soft option. In return, the Corporation has a single measure of impact: the number of students who move on to employment.

Vocational training programmes currently available include those for: pharmacy technicians; chemical laboratory technicians; medical coders; health unit coordinators; medical claims processors; horticulture technology; office technology; and culinary arts. The range of programmes is continually reviewed and refreshed in line with changing market demands: the latest push is likely to be in the bio-medical field.

As a supplement to the vocational training, Manchester Bidwell has also launched a number of commercial enterprises providing on-the-job training within the discipline of a business environment. For example, the Corporation has its own music label for jazz recordings and has recently signed a distribution deal with Wal-Mart. It has also opened a horticultural business, growing and exporting orchids. A previous catering business failed.

PROGRAMME ACHIEVEMENTS & IMPACTS

The single key performance indicator for the Corporation is the flow of students into employment. Given the origins and location of the project in one of Pittsburgh's disadvantaged communities, another measure of its success is its acceptance by the local community and the attitudes of its students. There is no record of vandalism or violence at Manchester Bidwell, in contrast to most parts of the local public school system.

RELEVANCE TO SCOTLAND

There are many aspects of Manchester Bidwell that could not be transferred to Scotland. Its community and cultural origins are unique to the area, and much of its success is due to the vision and energy of its founder, Bill Strickland. Yet the basic principles are entirely valid: to support business growth through bringing greater numbers of suitably trained people into the workforce. Other regions in the United States and in Europe are in fact looking at adapting the model to their own circumstances, and the management of Manchester Bidwell are assisting with this (typically and correctly with an eye to protecting their intellectual property!).

There are already projects with similar characteristics in Scotland, for example the health care and retail academies in Edinburgh where there is strong employer involvement. We are not however aware of an initiative on quite this scale and with the same degree of business leadership and support. As an approach to supporting growth through increasing participation in the labour market it may well provide a suitable model on which to base a Scottish version.

9. HIGH GROWTH BUSINESSES

9.1 An important economic development and BGS challenge is presented by the policy interest in many EAs in targeting their funding and other support on the private sector business within their areas that are either already growing faster than their business peers or which are perceived as having potential to being a prolonged period of fast growth. As suggested in section 3, this presents a policy dilemma : if a business is already growing rapidly perhaps the best EA approach is to leave it alone; if a business is not yet growing how confidently can outsiders predict its capability to take-off into a period of faster growth? The research has found this to be a common policy challenge for most of the EAs visited.

ENTERPRISE AGENCIES & HIGH GROWTH COMPANIES

9.2 The EAs participating in this BGS benchmarking all expressed the importance of trying to identify and encourage those private sector businesses which were seen as having or being candidates for high growth status. There was, however, a degree of confusion within some agencies on the distinction between 'high growth' and 'high tech' companies, with an assumption that the two are usually synonymous. Others recognised that high growth businesses can also be found in what are perceived to be declining or traditional industrial sectors; and in Scotland the largest business growth success stories of the past quarter century have generally been outwith the high tech clusters and sectors.

HIGH GROWTH BUSINESS GOOD STORIES

9.3 The EA benchmarking visits identified a small number of BGS initiatives that sought to support their faster growing business irrespective of sector or organisational status.

10. INNOVATION & TECHNOLOGY TRANSFER

10.1 A central assumption in most national and regional BG strategies and action programmes is that there is a significant (but generally undefined) economic growth capability and potential within the local scientific and technological research community. As suggested earlier in section 3, economic development experience suggests that it is always more difficult to mobilise this innovation and discovery than envisaged, and equally challenging to achieve its efficient transfer into businesses via specialist start-ups (q.v.) or through adoption of innovation by existing businesses. This is increasingly the case where scientific and technological discoveries are tracked globally by specialist private equity and venture capital businesses.

ENTERPRISE AGENCIES, INNOVATION & TECHNOLOGY

10.2 All of the benchmarked EAs, with the exception of Enterprise Estonia's initial ED priorities, are confident that their university and research institutes (and less so, local private sector R & D centres) have the potential to generate new products, processes, technologies and skills of importance to their existing businesses. For some EAs the emphasis is on encouraging and enabling technology transfer; others give emphasis to technology transfer through university and research institute spin-offs of new business ventures; and others perceive that their applied research strengths have most impact through attracting FDI or investment in joint ventures.

10.3 Scotland, Wales, Eire and NRW are the four European areas within the benchmarking group with the longest and most varied experience in promoting and encouraging innovation and technology transfer, with the first structured programmes dating back to the mid-1970s. The other EU benchmarked partners, however, now have equally strong potential for technology transfer including through EU collaboration programmes, but are handicapped by their weaker risk capital communities.

INNOVATION & TECHNOLOGY TRANSFER GOOD STORIES

10.4 The benchmarking research and discussions identified some BGS innovations in innovation and technology transfer that are worth profiling in the context of the present enquiry. These include such as the Innovation and Technology Councillors, Wales; the ASTER Consortium, Emilia Romagna; and the Wood Energy Initiative, Nordrhein Westfalia. These will be profiled in the final draft

10.5 GOOD STORY : TECHNOLOGY AND INNOVATION

INNOVATION WORKS : PITTSBURGH

PROGRAMME BACKGROUND

The Ben Franklin Technology Partnership (BFTP) was established by the Commonwealth of Pennsylvania in 1982. It is a fund designed to help the state's economy diversify away from heavy industry, by providing seed funding for technology-based start-ups. The BFTP is delivered through four technology centres each covering different parts of the state, and each having developed their own model of working. Innovation Works (IW) is the partner for the Pittsburgh region.

Its interest as a case study lies in its role at the early stages of a new technology company's development, before the point at which venture capital or other commercial funders are prepared to invest. This is often highlighted as a gap that faces many, higher risk new starts in Scotland.

PROGRAMME RATIONALE & OBJECTIVES

The overall mission of IW is to increase the number of successful technology and technology-adopting companies in SW Pennsylvania through direct investment and infrastructure development.

It provides debt and equity investments for early stage technology start-ups: seed capital. It also provides those start-ups with hands-on business advice. The infrastructure element of the mission involves helping to attract next stage private investment to supported companies, as well as more generally helping to improve the climate for entrepreneurship and the awareness of technology issues amongst policy makers in the region.

A recent addition to IW's role is a grant scheme to help existing, perhaps more traditional, manufacturing companies to introduce new products and processes.

IW sees itself as a voice for the needs of new technology companies. For example, when the technology bubble burst IW had to become much more active in attracting venture capital and business angel funds from within and outside the region.

In assessing cases, the key test applied by IW is the strength and uniqueness of the company's technology, on the basis that this is the only factor that cannot be changed. Their judgment on this is admittedly very subjective, and they call on venture capitalists and external experts to help assess the technology involved.

Overall, they are very conscious that increasing the flow of new start, technology-based companies is not a short term fix and is inevitably at odds with the shorter four year political cycles of their public sector funders. Around 100 funding deals for such companies are made in the Pittsburgh region each year. This places the region in the 2nd or 3rd tier behind areas such as Boston. But 20 years ago, Boston was in the same position as Pittsburgh is now. The city leadership then committed to a long term strategy, with MIT very much at its heart. So with a long term commitment, political will and a productive source of new technology this type of transformation is eminently possible.

PROGRAMME APPROACH & ACTIVITIES

The state provides IW with around \$7mn each year, to be used on investments, grants and operating costs. In addition, returns made on investments are retained within the fund and enable new investments and programmes to be implemented.

Prior to any investment, a due diligence process of up to 3 months is undertaken. This reviews the strength of the technology involved, the scale of the potential market and the abilities of the management team. IW concludes around 10-12 deals each year, representing around 10% of the proposals that they assess.

Once a positive decision is made, the funds are invested in up to three stages according to a schedule of performance milestones. The maximum investment per company is \$1.1mn, which typically will comprise \$600,000 of convertible loan and \$500,000 of equity. IW has an internal team of experienced business advisors that provide guidance to invested companies. They also call on external experts, where industry or technology-specific input is required. The final stage of activity is to help prepare the companies for external fund raising from venture capitalists and other commercial sources. They make introductions to potential investors and assist in preparing the case. IW's credibility with investors is therefore a vitally important factor in its success.

To date, 64% of investments have been in information technology companies (mostly software) and 30% in life sciences. The balance have been in robotics and advanced materials.

PROGRAMME ACHIEVEMENTS & IMPACTS

The state-wide impact of the BFTP was measured independently in 2003. This review found that every dollar invested in BFTP yielded an additional \$23 of income to Pennsylvania. Over 93,000 job years had been created, at a cost per job year of around \$3,300. The state had collected over \$400mn of additional tax revenues, more than covering the operating costs of the programme. And the state economy had been boosted by \$8bn.

Since 1999, IW has invested over \$18mn in 56 companies. Those companies have since raised over \$180mn in next stage investments, as well as attracting skilled talent into the region from elsewhere in the US.

IW is not without its critics of course. The main criticism made is that it has "cherry picked" the best of the proposals that come to it, leaving those that are rejected with a more difficult task to raise investment. With a limited budget, and accountability to the state, it is difficult to see how IW could have done differently and even with its strict due diligence procedures 30% of companies that it has invested in have failed.

RELEVANCE TO SCOTLAND

Access to finance for high risk new starts has consistently been quoted as a barrier to growth in Scotland, particularly in the early stages of development before venture capital and larger commercial investors are generally prepared to step in. Also, venture capital funds themselves often complain about the poor state of preparation and communication of proposals that they receive. IW's combination of seed capital and hands-on advice appear to fill those gaps, especially when delivered with such a strong, commercial focus. The number of deals and size of investments are also of a comparable scale to what might be required in the Scottish market.

What is perhaps most striking about the IW model is the provision of investment alongside intensive business advice, with a strong focus on raising next stage funding as an exit route for the public sector funds.

11. BUSINESS INTERNATIONALISATION

11.1 There is a common acceptance within all EAs that their local businesses are now competing in a genuinely global market place, and that BGS should seek to enable entry into promising international markets for those businesses with a determination to bear the costs and constraints of export market entry. But as noted in section 3, above internationalisation of business goals and activities is only appropriate to a limited number of businesses. Experience also suggests both that it is best to support companies that are already exploring and piloting export markets, and that EAs can only hope to be effective in this aspect of BGS where they have also established a network of international offices.

ENTERPRISE AGENCIES & BUSINESS INTERNATIONALISATION

11.2 An especially important current policy driver for internationalisation is the recent rapid economic growth of China and India which between them are seen by many EA executives as providing major export, outward investment, supply chain sourcing, and technology transfer opportunities. However, most also accept that every national and regional economic agency is already beating their own paths to these two South Asian doors; and that latecomers or timid EAs may be squeezed out.

11.3 Virtually all of the national and regional EAs interviewed with the benchmarking programme had – or were considering – major initiatives for business internationalisation. In some cases, such as Scotland, Eire, Wales and Emilia Romagna these programmes were being delivered through expansions of the overseas office networks of EAs and regional governments; in others (such a NRW and also Emilia-Romagna) the lead role was increasingly being taken by the Chambers of Commerce. In virtually all cases, the EA objectives are to enable market identification and entry, but with BGS tailing off once export trading has been successfully established.

BUSINESS INTERNATIONALISATION GOOD STORIES

11.4 The benchmarking visits to the EAs identified a number of business internationalisation initiatives and programmes that are of interest as competing exemplars to the international activities of SEN. These include such as the Enterprise Ireland International Export Initiative, Eire; and the Market Development Programme, Cologne Chamber of Commerce, NRW. These will be profiled in the final draft.

12. BUSINESS GROWTH BENCHMARK CONCLUSIONS

12.1 In this section we present the key findings from our research and benchmarking work, by highlighting the main similarities and differences between the enterprise agencies that we visited. We have not sought to devise a “league table”, ordering the agencies in terms of their impact or effectiveness : not least because so little impact evaluation is actually available. We have instead sought to draw out examples of good practice that provide pointers to how policies and projects in Scotland might be improved.

SIMILARITIES OF APPROACH

12.2 We visited 9 countries during the project, all with their own economic challenges, institutional frameworks, policy priorities, history and culture. Yet we were struck by the degree of similarity in the economic development and BGS issues being faced and the approaches being taken. There are eight EA areas where our benchmarked partners share a common understanding and approach. These are in relation to recent EA organisational change; a shared economic development context; the importance of endogenous growth; a similarity in BGS toolkits; changes in targeting and delivery; BGS impact assessment; client company responses; and the willingness of EAs to collaborate in economic development

EA ORGANISATIONAL CHANGE

12.3 Most of the agencies we visited were undergoing change at the time: not just minor adjustments, but significant changes to their structures and operation. For example, the WDA was absorbed directly into the Welsh Assembly Government during the project. Enterprise Estonia had been re-organised within the first 3-4 years of its operation; and both the NRW and Emilia Romagna RDAs were being given more focused remits. Scottish Enterprise itself continues to implement a change programme that has continued for some years.

12.4 Doing business in the modern, global economic environment demands a huge degree of flexibility and adaptability, and enterprise agencies are no different in this regard. So a regular process of change is to be expected and encouraged. Nevertheless the consistency with which we found major changes under way suggests that the role of enterprise agencies is increasingly in the spotlight at present, perhaps reflecting an underlying uncertainty over what they should do and what political and business expectations of them should realistically be.

12.5 This in turn reflects the fact that in many ways the role of public sector intervention in local economic development is potentially more important and relevant in the modern economy. With globalisation, most demand-side and macroeconomic factors are driven by international trends and consequently less and less susceptible to change at the regional level. The scope to influence regional competitiveness is therefore stronger in supply-side factors such as labour supply and productivity, product and process innovation, and management skills. These are the factors more capable of being influenced by enterprise agencies, and so finding the right role and focus for them is all the more important.

12.6 This perhaps explains the current propensity of EAs to review priorities and change structures. What was also clear, however, from the discussions we had with individual companies and other private sector representatives, was that such constant change and uncertainty is a “turn off” for the business customer. The more regularly services, operations, structures and personnel change, the less confidence the business community has in the value of their local enterprise agency. Their needs are for clarity, speed of decision and continuity, and there is a danger for many of the agencies that we visited that whilst they

continue to review internal structures and procedures the business customers they are meant to be servicing will have lost confidence in their relevance.

A SHARED ECONOMIC DEVELOPMENT CONTEXT

12.7 It was clear from our discussions that enterprise agencies worldwide share a common understanding of the key economic drivers facing them and their business communities. The strategy documents that we saw all majored on the implications of continued internationalisation, global shifts in competitive advantage, the importance of continuous product and process innovation and the central role of skills development. This was the case from the larger, more mature regional economies such as Pittsburgh and Nord Rhein Westfalia, through to an emerging nation such as Estonia.

12.8 That common understanding is hardly surprising. More surprising though was the extent to which it led to similar views on local priorities and interventions, almost irrespective of each region's different structure and starting points. For example, those agencies that have set priorities in relation to key industry clusters are largely targeting the same areas. Industries such as life sciences, digital media, software and advanced engineering are on most agencies' "hit lists", whilst important traditional sectors and technologies can be ignored.

12.9 For any region or business to develop a competitive advantage in the modern economy, it must be capable of demonstrating some distinctive competencies and advantages. Most of these potential advantages will have some basis within their existing characteristics, for EAs to then build on and diversify. Our impression is that very few enterprise agencies have been able to properly interpret the specific local sectoral and business significance of the global trends that they all face. As a result, they are targeting the same competitive space in terms of clusters and markets.

12.10 One notable exception to this is emerging in Nova Scotia. NSBI has the familiar portfolio of priority clusters in its strategy. In practice, however, it is increasingly recognising the value of building new competitive advantages from more traditional, established sectors and skills: the conversion of boatbuilding yards from fishing to leisure or safety vessels for example. A similar example, closer to home, is Buckie Shipyard where Moray, Badenoch and Strathspey Enterprise has played a big part in enabling a similar transition.

12.11 The danger therefore is that a common understanding of the global economy is driving enterprise agencies into the same competitive sectoral spaces and the same, relatively narrow types of company. Opportunities to build on more established, locally relevant strengths, and to seek growth opportunities in unexpected places, may be lost.

THE IMPORTANCE OF ENDOGENOUS GROWTH

12.12 In a similar vein, most enterprise agencies are now stating a clear emphasis on establishing new companies in their region or helping existing ones to grow, rather than on attracting large scale foreign direct investment (FDI) although Emilia Romagna appears to be an exception in its increasing emphasis on FDI. This reflects recent reductions in the scale of mobile projects available to pitch for, and the increasing competitiveness of lower cost economies in attracting large scale projects.

12.13 We should stress that the question of *ownership* of locally based businesses is not generally seen as the major issue that it once was. It is accepted that the degree to which the individual business is embedded into the local economy is more important than its ultimate ownership. Indeed, many agencies are seeking to attract entrepreneurial talent, as opposed to large investment projects, from elsewhere.

12.14 The emphasis on indigenous growth has some big implications for how enterprise agencies operate, and how they are perceived by their public sector stakeholders. It does not offer the instant gratification of a major new inward investment project, with its attendant political and media spotlight. Nor does it lend itself to the targeted sales and marketing pitches of FDI attraction. The payback in terms of jobs and growth is likely to be longer term, and requires a more in-depth appreciation of day to day business development issues. This requires a fundamentally different approach from enterprise agencies, many of which remain in the mode of selling standard solutions for pre-determined problems, rather than tailoring advice and support to the specific needs of growing businesses.

SIMILAR BGS TOOLKITS

12.15 Had we set out in this project to find some brand new, miracle solution to the challenges of supporting business growth, we would have been sorely disappointed. The enterprise agencies that we visited have broadly similar objectives and services: enterprise education, business planning, innovation support, commercialisation of R&D, export and internationalisation advice, management training, financial support and property provision. The exact mix varies in each case, as does the labelling, but the overall toolkit is a familiar one.

12.16 This is not surprising. The challenges faced by growing businesses are themselves similar across regions, and so the responses from enterprise agencies would be expected to be similar as well. The differences emerge in the fine tuning of the various interventions, their method of delivery and ultimately in their degree of impact, and we return to these differences later.

CHANGES IN BGS TARGETING AND DELIVERY

12.17 Another common thread amongst the agencies we visited was a growing interest in setting clearer priorities, segmenting their business markets, and improving company's ease of access to their services. Some are further along this route than others, with Scottish Enterprise having made a particularly strong effort to understand its market, rationalise its products, expand service delivery on the web, and coordinate access through the Business Gateway. Most of the others (especially Wales) are moving in that direction, albeit with varying degrees of sophistication.

12.18 These changes reflect what any successful organisation or business must do: improved market understanding, refinement of products, and more efficient sales and distribution channels. Normally however, these improvements begin with an understanding of the value and effectiveness of the company's product range. As we emphasise in the next paragraph, this understanding is singularly lacking in most enterprise agencies. The risk they all face, therefore, is of continuing to provide the wrong or ineffective service but in an increasingly sophisticated way.

BGS IMPACT MEASUREMENT

12.19 The impact of any form of economic development intervention can be difficult to isolate and measure, given how many factors are having an influence on the end result. This is especially the case with business growth support, where market conditions, political developments, technical changes, management capacity and a range of other drivers are all playing a part in determining the outcome.

12.20 Just because it is difficult, however, does not mean that impact measurement should be avoided. Without it, there is no means of determining the value and cost-effectiveness of services, and therefore in refining or discarding them for the future.

12.21 All of the enterprise agencies that we visited recognised the importance of impact measurement. None, however, were conducting it robustly or systematically. Some and we include both SE and HIE in this, are making genuine efforts to do so, though we have not been able to identify any clear evidence on business growth impact. Others recognise the need but are still at the stage of “getting round to it sometime”.

12.22 This therefore remains a common weakness in business growth support across the enterprise agency network. Few agencies can present a convincing case that their work is having a measurable, positive impact on company growth, and there is therefore no objective basis on which to judge whether that impact is significant or only marginal.

12.23 Given that it is a common problem, and one that has no real competitive or confidentiality aspects, this may be an area where collaboration across all or some of the benchmark partners could be of benefit to all.

CLIENT COMPANIES’ RESPONSE

12.24 During the field work, we tried wherever possible to meet with companies that had received business growth support from the relevant agency, or with representative bodies such as the local Chamber of Commerce. Our intention was to get a customer’s perspective on their support needs, and on how well the agencies were meeting them.

12.25 Our sample of companies was inevitably a small one. Also, they were recommended to us by the enterprise agencies themselves and therefore understandably were those most likely to be positive in their feedback. Therefore we have been able to take only an impression of the customer’s perception, rather than a systematic opinion survey.

12.26 Having said that, there was a remarkable degree of consistency in the comments we received: all the more remarkable given that the companies were hand-picked by the agencies themselves. We would characterise their response as “politely sceptical”. All certainly valued their relationship with the enterprise agency, and were complimentary about the individuals that they worked with. But none could say that the support of the agency had been anything more than marginal to their growth performance. In most cases, the agencies were seen either as a source of cheap or free funding, or as an entry point to a network of potential government or international customers. Rarely had their business advisors identified a new opportunity or challenge, shifted the direction or performance of the business, or identified something that the company was not already aware of.

12.27 The two most common impacts quoted were the ability, through cheap funding, to do certain things quicker than would otherwise have been possible, and to gain credibility in the market through having a close association with a public agency.

12.28 Businesses are rarely quick to recognise the impact of other peoples’ advice. But even allowing for that, this highlights a common dilemma facing all enterprise agencies. Few want to be seen as just a source of funding. They want a much broader and substantive relationship with their high growth business customers. The businesses however rarely see it that way, nor do they expect enterprise agencies to make a significant difference to their prospects.

EA WILLINGNESS TO COLLABORATE

12.29 All of the agencies we visited expressed an interest in sharing experience and good practice with their peers internationally. This is especially the case given that, with the declining emphasis on FDI, business growth support is not seen as a competitive activity. We identified a number of possible areas of collaboration: for example on joint research, trade and supply chain linkages, and impact measurement. Within the EU, there will be positive encouragement from Brussels for such collaboration especially where one of the accession states is involved.

12.30 We should also highlight however that we came across some existing collaboration agreements that had never really progressed beyond the ceremonial stage. If there is to be some genuine benefit from collaboration, the projects identified will need to be clearly specified in terms of both their purpose and their management arrangements; properly funded and resourced; and managed to deliver outputs of real operational importance to companies in the participating areas.

MAJOR DIFFERENCES IN APPROACH

12.31 In contrast, this section highlights the main differences we found between the agencies visited. These relate to the relative degree of integration of EA activities; the balance between economic growth and redistribution goals; sophistication of market definition and delivery; the distance from the political environment; target setting; the role of other providers; a commitment to clusters; and the issue of creativity versus programme management.

INTEGRATION OF ACTIVITIES

12.32 Some agencies that we saw were economic development bodies in the fullest sense, engaged in a broad range of inter-related work: business support, FDI, skills development, community regeneration, property development, environmental improvement, place marketing. The two Scottish agencies are very much in this category, and at the furthest end of the integration spectrum. The other UK agencies, ONE and the WDA, were similarly very fully integrated. In these cases, business growth support is just one of a wide range of functions and usually one where resource allocations are entirely discretionary, subject to regular pressures and internal negotiation.

12.33 Others were more exclusively involved in business growth, or even particular aspects of it. Nova Scotia Business Inc had been established deliberately to concentrate on business growth, leaving other agencies to deal with broader economic development matters. Kredex, in Estonia, was even narrower in its remit as a credit guarantee agency, operated separately from Enterprise Estonia.

12.34 There are arguments for and against either model. The fully integrated agency, if working in a consistent and cohesive way, can bring a wider set of powers to the table and deliver them in a more cost-effective way. The more narrowly based agency can be more single-minded in its purpose, and less subject to competing resource demands. Neither model is a guarantee of success. In many respects the organisational structure is an irrelevance, provided that the quality, value and impact of service provision is of an appropriately high standard. There was certainly no evidence from our research to make any recommendations on what the most appropriate structure would be, given the lack of robust impact data.

12.35 What we can highlight however, are a number of risks inherent in the fully integrated model that has been adopted in Scotland and elsewhere in the UK. For example, the

pressures to deliver across such a broad front of activities may limit the priority and resource given to a discretionary activity such as business growth where it is relatively easy to adjust the scale and pace of activity. There is also a risk that business growth support can be “hijacked” to help meet wider social, geographic or community objectives. It may be difficult to attract experienced, credible business advisors to work within a more broadly focussed organisation. Customer perceptions of the agency may be influenced more by its wider activities and profile, rather than its direct delivery to them.

12.36 Whilst we cannot come down in favour of any particular structure on the basis of our research, we do believe that this is an important question for the Committee to explore further.

ECONOMIC GROWTH VERSUS REDISTRIBUTION

12.37 Most of the agencies that we visited were either wholly or partly funded by public resources, ultimately under democratic control. As a result, wider national or regional policy priorities have an effect on how they operate. Most government bodies will recognise the central importance of business growth. But they also have a responsibility for how that growth, and the benefits from it, are distributed. We found that different agencies were handling this dilemma in different ways, largely depending on the degree of political control over their priorities.

12.38 In Estonia, for example, the relative success of Tallinn has led to some business support measures only being made available to companies based outside the city. Some agencies, including SE and particularly HIE, are expected to support growth in disadvantaged or under-performing regions and communities. In contrast, the enterprise agencies in Pittsburgh are unambivalent about the need to concentrate on growth companies and centres, with other agencies responsible for the redistribution agenda.

12.39 These differences reflect both political choices and organisational structures. But they do represent an important issue to explore further. An exclusive focus on companies with the best growth potential is likely to reinforce the balance of jobs and wealth towards growth centres: in Scotland’s case, our two main cities.

SOPHISTICATION OF MARKET DEFINITION AND DELIVERY

12.40 We indicated in the previous section on similarities that all agencies had an interest in improving their understanding of the business market, segmenting it more explicitly, establishing account management procedures and more effective delivery channels. Not all however have progressed in this direction to the same extent or at the same pace.

12.41 SE is very much at the leading edge in terms of the attention it has paid to these issues. From our research, it seems unlikely that many other agencies will follow their lead to the same degree of energy and detail, with some fearing that it would inhibit their flexibility and creativity. It will therefore be important for SE to be able to identify the impact that this more systematic approach has on businesses’ performance and perceptions.

DISTANCE FROM THE POLITICAL ENVIRONMENT

12.42 Most of the agencies we visited had at least a proportion of public funding, and in some cases exclusively so. It is therefore to be expected that they are required to demonstrate consistency with government policies, and accountability for the use of public funds.

12.43 The exact degree of political influence over their activities does vary considerably, however. In Wales, this is likely to increase with the absorption of the WDA into the Welsh Assembly Government. Nova Scotia Business Inc, on the other hand, was deliberately established as an arms-length agency to create distance between its activities and government direction. This was on the basis that it would enable a longer term view of business growth to be taken, that it would allow an exclusive focus on growth, that it would encourage the recruitment of advisors from the private sector, and that it would help win credibility with the business community.

12.44 Again, it is too early to judge the success of this. We can say, however, that support for business growth does require a long-term commitment and does not generally produce immediate and visible results. Too close an association with wider government policies can also limit the business customer's confidence in being the main focus of attention and delivery. Accountability and transparency in the use of public money for business support is essential, but the delivery agencies must be granted sufficient space to take the long term view, the commercial judgments and the calculated risks that are necessary in BGS.

TARGET AND GOAL SETTING

12.45 Whilst all agencies were able to describe the targets and outputs that they aimed for, or were set, the numbers of targets and the rigour with which they were monitored varied widely. This reflected both the structure of the organisation and the degree of direct political control. Both SE and HIE had a broader range of business support targets than most of the others, and in most cases a more sophisticated definition of output targets. Others had very simple and frankly rather meaningless targets, such as the number of business meetings arranged.

12.46 Without proper impact measurement, it is difficult to establish exactly what a set of meaningful, challenging targets would actually look like. What is generally true, however, is that whatever targets are set the agency will drive its operations to achieve them, irrespective of whether they genuinely make a difference to business growth. Where targets are set for a wider set of policy objectives, they may therefore distort business support activities from a pure concentration on growth.

THE ROLE OF OTHER PROVIDERS

12.47 Economic and business development is generally a cluttered market, with a wide range of suppliers taking part. This was the case in most of the regions we visited, with the notable exception of Estonia. There are two sets of participants that we wish to highlight here: the university sector, and the chamber of commerce network.

12.48 As regards the universities, we found that in the US in particular they play a much more direct role in supporting business growth, going beyond the commercialisation agenda. Our case study on the Institute of Entrepreneurial Excellence illustrates that. As highlighted in the case study, we believe that the potential that currently appears to be locked up within our business schools to provide an additional source of expert advice needs to be explored further.

12.49 The role and importance of regional Chambers of Commerce is another area where the experience of continental Europe (and to a lesser extent North America) is significantly different from that of Scotland and the UK. At the base of the much stronger role of the Chambers in Emilia-Romagna and NRW is the fact that membership of the local Chamber is compulsory and new businesses cannot be registered without proof of Chamber membership. This requirement, imposed by Napoleon on the European regions he annexed, makes the

Chambers financially strong; influential in policy; often an investor in property and infrastructure (the Bologna Chamber owns 50% of the regional airport); and capable of delivering BGS programmes in areas such as business start-ups and business internationalisation. They also act as the major and influential voice of private business within their regional political frameworks, and our perception is that in these regions such as NRW and Emilia-Romagna are competitively stronger than in the UK where Chambers are relatively weak and underresourced.

COMMITMENT TO PRIORITY CLUSTERS

12.50 One of the similarities across the agencies visited was their explicit commitment to specific cluster priorities, in many cases the same ones. On exploring this further, however, there were different views on just how useful the cluster focus was and how rigidly it was being pursued. At one extreme, it was completely rejected as a method of prioritisation. This was the case in the Institute of Entrepreneurial Excellence at Pittsburgh, where the main criterion for determining growth potential is the intellect, commitment and energy of the entrepreneur.

12.51 A more common position, most noted in the smaller regions, was that whilst cluster and sector priorities would remain, in reality they would look for and support growth prospects wherever they could be found. A focus on sector priorities was seen to be too much of a luxury where companies with growth potential were in short supply and where the prospects for building a significant cluster were limited.

CREATIVITY VERSUS PROGRAMME MANAGEMENT

12.52 This is another dilemma facing most enterprise agencies, and where we found different approaches being adopted. Most express a wish to be seen as creative and flexible, capable of adjusting services to the specific needs of individual businesses. In turn, most businesses wish to see a tailored service, rather than being sold pre-determined programmes of support.

12.53 For some agencies, however, the conditions and targets attached to their funding sources make it difficult to be flexible or creative. An example of this is Enterprise Estonia, a significant proportion of whose budget is now coming from the EU. The conditions, accountabilities and targets attached to EU funding have meant that the agency has had to devote much more resource to programme management. Its partners, including those in their sponsoring government department, and business clients have already noticed this causing a more cautious and bureaucratic approach by the agency.

12.54 In general, the more that enterprise agencies deliver support in the form of set programmes or products with strict conditions on the application of funds, the less they are likely to be considered relevant by their business customers.

13. IMPLICATIONS & OPPORTUNITIES FOR SCOTLAND

13.1 This chapter draws together the key questions that we believe have surfaced from the benchmarking research, and which might therefore provide a basis for the Committee's Inquiry. First though, we believe it is important to emphasise the positioning and reputation of Scotland's enterprise agencies within the wider international context.

SCOTLAND AND ECONOMIC DEVELOPMENT

13.2 There is no doubt that Scotland's approach to economic and business development is highly regarded by our peers internationally. Scotland is seen to have long experience in this business, and to have implemented programmes and projects that have assisted the Scottish economy to adjust to major economic challenges. We should therefore recognise the strong reputation of SE and HIE abroad.

13.3 In addition, the benchmarking highlighted a number of areas where Scotland's approach compares very favourably with that of others. In particular:

- Business growth sits at the heart of economic development strategy.
- It is well integrated with other economic development measures.
- Recent efforts to segment the market, simplify the product range, ensure the quality of advisors, and make access to support easier are in advance of most other areas.
- Impact measurement, whilst still not robust, is taken more seriously than in many other agencies.

We turn now to the key issues that we believe the Committee should consider.

13.4 In this final section of the report we identify eight central economic development challenges that we have identified as a result of the desk research and – more importantly – the comprehensive discussions we have had with senior executives in the ten enterprise agencies and regions during the summer of 2004. It is suggested that the Enterprise Committee of the Scottish Parliament may wish to explore these issues in more detail during 2005 with those invited to provide written and/or oral evidence on Scotland's economic and business performance.

13.5 The eight inter-related economic development and business growth issues that we see as being important both to the Committee's enquiry and to the broader economic policy debate in Scotland are best posed as questions, namely :

- 14 : Where are enterprise agencies most successful in supporting business growth - direct advice and support, or creating the platform?
- 15 : How comfortably do business growth services fit within a more broadly-based enterprise agency?
- 16 : How do we know if business growth products delivered via EAs are having a real and sustained impact on growth?
- 17 : Who is best placed to offer credible, practical business advice and support – public agencies or business peers?
- 18 : Do the current established means of formulating policy and programme priorities truly capture the best growth prospects?
- 19 : What lessons have we learned from our genuine business growth success stories (and failures)?

20 : Does the location or nature of the ownership of growth businesses matter?

21 : Should our Universities and Business Schools play a more active and direct business development role in Scotland?

13.6 Our research has identified little relevant applied policy research on these **important** economic development and business growth issues, nor have we encountered consideration of these issues within recent national or regional strategy frameworks. It is thus perhaps helpful to briefly expand on each of these eight generic Economic issues.

1 : DIRECT BUSINESS SUPPORT OR CREATING THE PLATFORM?

13.7 There remains no evidence-based research on the relative effectiveness of pursuing regional economic, industrial and business regeneration through the provision of investment, advice and business support direct to individual entrepreneurs and business managers compared to a more indirect BG approach based on providing the platform or framework for business creation via such as investment in economic infrastructure, skills development, capital investment vehicles, environmental improvement and changes in the levels of business (and perhaps personal) taxation. This remains an important and unanswered economic development issue at both national and regional levels.

13.8 Over the past 50 years of regional policy in the UK both direct and indirect routes to stimulating endogenous economic growth have been pursued, but with a continuing shift towards direct support to individual businesses both within and outwith sectoral and cluster policy initiatives. The present benchmarking research deliberately sought to identify both direct and indirect BGS policy environments, and to try to assess the relative effectiveness of each.

13.9 Scotland, Wales, and Eire have EAs delivering relatively direct BGS to their entrepreneurs and businesses, whereas partner EAs in Germany, Italy and North America place more emphasis on creating the platform (whilst envying the more direct capabilities available in Scotland). However, our perception that promoting economic and business growth indirectly is no less effective than delivering support direct to individual companies. This is, therefore, an interesting and important area for research and speculation.

2 : BUSINESS GROWTH SERVICES VIA BROAD-BASED EAs?

13.10 There has been a trend over the past thirty years to progressively integrate business growth policy and support with the other main economic development, mechanisms such as property, infrastructure and environmental improvement. This has taken place both within Scotland and in most of the other regions examined by us, but there are examples where such integration has been more limited (Emilia Romagna, Nordrhein Westfalia) or where a relatively stand-alone business support capability has been developed at the regional level.

13.11 This is a further area where evidence-based research is conspicuous by its absence, and thus the Enterprise Committee may wish to explore the competing rationales for both integration and separation of BGS with other regional economic development goals and mechanisms. It is worth noting that the present research encountered examples of progressive separation of BGS activities by its EA (as appears to be the case in Wales) in order to transfer BGS skills and experience to local agencies and advisors, and examples where a degree of integration is under consideration.

13.12 In the context of Scotland's BGS environment the continuing challenge for our SMEs and larger independent businesses is that over the past three decades the BGS framework

has been re-designed and re-structured on a regular basis. Eight SME development regimes succeeding each other since 1975 have not produced evidence of a significant impact on SME growth or business start-ups. The present benchmarking research suggests that the effectiveness of integrated versus separate BGS provision is an issue to be further explored by the committee.

3 : WHAT ARE REAL IMPACTS OF EA BGS PRODUCTS?

13.13 Whilst one conclusion of the benchmarking research is that Scotland's EAs and agencies have perhaps the most advanced programme and project evaluation understanding, this tends to be based on relatively medium-term (ie 3-5 year) assessments of economic and business growth impacts and benefits. The continuing absence of longer-term monitoring of the development of SMEs and entrepreneurs receiving BG products from EAs is, however, much less well researched and understood, as indeed is our knowledge of what BGS SMEs actually need.

13.14 We currently have only a limited knowledge of the long-term value and type of BGS support provided to individual companies (either directly or via sector-wide initiatives, and an even more limited understanding of the sustainable impacts of such support. There are a number of reasons for this situation : a significant under-investment in regional and enterprise statistics; an absence of longitudinal research traditions; the turnover of key government and EA executives; and (perhaps) a relatively poor understanding of business concepts within the economic research community.

13.15 One BGS area is worth highlighting as an example of this lack of knowledge. Since 1990, a significant amount of public sector and EU expenditure has gone into promoting and funding indigenous risk capital provision for hi-tech and hi-growth business start-ups from Scotland's universities and research institutes. Yet we (and it appears EA staff) are unaware of any structured research to monitor such risk capital through the post-formation experience of the individual entrepreneurs and companies involved. Indeed, it appears that a simple list of such post-1990 ventures has yet to be compiled. This issue of BGS product impacts is important in shaping future policy priorities and support mechanisms : but in this area Scotland is still better placed than most of EAs benchmarked.

4 : ARE PUBLIC AGENCIES OR BUSINESS PEERS BEST SOURCES OF BG ADVICE?

13.16 It is interesting that in some of the regions participating this benchmarking review private sector organisations and companies play a much larger and more influential role in providing BGS to SMEs and entrepreneurs. This is the situation in both the two North American regions (Nova Scotia and Pittsburgh) and the two European regions (NRW and Emilia-Romagna). In these two EU regions where local Chambers of Commerce, through their compulsory membership, often have lead roles in providing both direct BGS support and economic infrastructure. It has again been difficult to establish how much the relative roles of business peers and public sector development agencies have affected local economic and business growth.

13.17 In all of the 9 benchmarked regions, private sector business support and advice is available through business relationships with their banks, accountants, lawyers, business consultants and suppliers; and (on the evidence of earlier research) with appropriate family members and friends. But there is some concern within established European EAs that such SME relationships with private sector business peers may have been weakened through the

growing ubiquity of BGS programmes and networks delivered via public sector frameworks, especially where an EU structural fund involvement has evolved.

13.18 The issue of whether BGS advice and support is best developed and delivered by public agencies such as EAs and RDAs or by private sector business peers is deserving of consideration by the Committee. It is also associated with the BGS integration or separation issue (para 14.7 above), as one separation option is to encourage a greater role in BGS for business peers. But the involvement of business peers in BGS via their appointment to EA Boards has perhaps reduced the distinctiveness of public and private BGS priorities and activities.

5 : DOES THE POLICY PRIORITISATION PROCESS CAPTURE BEST GROWTH PROSPECTS?

13.19 Establishing strategic and operational economic development priorities, both for regional economies and their EAs, appear to have converged over the past two decades into a process where the public sector has effectively taken the lead perhaps to the detriment of the business community. Whilst the government ministries and agencies concerned do seek the contributions and views of private businesses through strategy steering groups and consultations, there is an interesting issue about whether this policy prioritisation process actually identifies and captures the best growth prospects for nations, regions and businesses.

13.20 The resulting strategic perspectives launched by ministers are usually drafted, produced and presented in such a way as to have little direct operational relevance to private businesses. Many of the benchmarked EAs across Europe recognise the weaknesses of this approach, but are not clear on whether alternative approaches might produce more relevant and operational economic development road maps. It has been suggested to us, for example, that the influence of the European Commission in shaping and defining funding eligibility within Structural Fund programmes and strategies may have narrowed the potential for creativity in BGS programmes. Similarly, as already noted, the focusing of economic development planning and funding on the same narrow group of “growth” sectors or clusters may both be reducing serious consideration of the potential of other less glamorous industries and businesses, and reducing long-term economic diversity.

13.21 There is thus a need to carefully consider whether the present approach that Scotland has taken to setting economic development priorities and policies is best capturing the real longer-term business growth prospects. This is especially important given that the EU funding influence will reduce post-2007 : this should be seen as an opportunity for innovation in policy development and delivery.

6 : WHAT LESSONS HAVE WE LEARNED FROM GENUINE BG SUCCESSES/FAILURES?

13.22 There is a broad common agreement within the EAs (especially those in Europe) that not sufficient investment has been made in trying to learn strategic and operational lessons from the BGS and economic development successes and failures both within and between regions. In this, economic development theory, research and practice is significantly behind most of the applied sciences; and policy and strategy development is more often based on intuition, experience and replication of competitors than on informed evidence. All EAs recognise that difficult analytical concepts are involved and that the future is unlikely to be a simple continuation of past trends : this argues for more evidence-based research.

13.23 As an interesting example of the need to understand the practical and policy implications of past performances already identified the post-1990 experience of the high-tech and high-growth business receiving BGS in Scotland. Virtually nothing is known of the fate of these businesses, their founders or the intellectual capital upon which they were based : there may not ever be a list of such enterprises. Similarly, what do we know of the influences and factors that shaped the success of Scotland's major business leaders of the past quarter century? This latter issue is important given that very few of them have been in the high-tech sectors upon which national strategies have focussed.

13.24 It could well be that further investigation of such successes and failures will result in lessons that prove difficult to incorporate into BGS policy and practice; but without evidence-based research such successes and failures cannot help shape BGS priorities. It might be that there is merit in making these and other relevant economic development and BGS issues for independent enquiry in the manner of the Toothill Committee in the early 1960s. More importantly we suggest that these issues could form the focus for collaborative investigation by the ten present benchmarking partners. The Committee is invited to explore this opportunity.

7 : DOES LOCATION OR NATURE OF BUSINESS OWNERSHIP MATTER?

13.25 It has already been noted that currently the concerns about the location and nature of the ownership and control of private businesses is not a current issue of policy concern, either in Scotland or in the other EAs that we visited. In some cases (such as NRW, Emilia-Romagna and Pittsburgh) the size and corporate strength of the local business base means that this is not an issue of policy or business concern. In other areas, including Scotland, Wales and Eire, it is seen as being a more significant issue but one which, in a global corporate and investment environment, can no longer be effectively addressed through local economic development or BGS policy instruments.

13.26 It is accepted that consideration of corporate ownership and regional development is no longer fashionable nor of much research interest. However, as many of the EAs visited suggested, it is one aspect of BGS that requires to be borne in mind in policy and operations. Public funding of high-tech start-ups (especially those seeking to commercialise local scientific and technological research) which recoups investment via an exit sale to an international corporation, or the sale by locally successful entrepreneurs of their business, are accepted features of the modern global economy; but these may have an impact on an area's economic sustainability goals.

13.27 There is always the challenge of separating consideration of the economic development, BGS and corporate community aspects of this issue from political concerns and campaigns. The location or nature of business ownership of regions and nations is self-evidently an interesting but complex policy issue that is normally put to one side as too difficult and sensitive to address. It is not suggested that EAs should focus their priorities on this, but there is merit in including it on policy or strategy checklists. The Committee may wish to do likewise.

8 : SHOULD UNIVERSITIES & BUSINESS SCHOOLS PLAY MORE ACTIVE BGS ROLES?

13.28 The final issue for possible consideration by the Committee concerns the potential BGS and economic development roles played by the nation's universities and business schools. This is an issue where both policy and practice varies widely between the EAs and regions in this benchmarking review. It is an issue that we consider of interest. It might be

expected that the universities and business schools undertaking research and education on business development topics would be seen as having an interest in making a visible contribution to local business creation, competitiveness and technology transfer. It is suggested, that without the benefit of evidence-based impact research, that this might be one aspect of BGS and economic development where Scotland could benefit from innovations and experience elsewhere.

13.29 In NRW, for example, the scale, quality and focus of the Länd's university and research base makes it a key driving force in the reconstruction of the region's economic, industrial and business base in a way (even accepting for NRW's larger size) that has yet not been achieved in Scotland. The more positive and structured collaboration of Emilia-Romagna's universities and research institutes in the ASTER consortium may be of interest to Scotland where a more devolved and dispersed approach to innovation and technology transfer exists. The experience of Pittsburgh's universities in playing a direct BGS role to help strengthen the competitiveness and core competences of the region's SMEs is a sufficiently different approach to university involvement in the local business base to warrant further investigation. Enterprise Ireland's comprehensive Campus Enterprise framework is a yet further innovation in co-ordinating university inputs to a nation's BGS approach. Finally, the suite of BGS programmes and facilities made available in support of new and growing businesses in Wales appears to be both comprehensive and targeted at the appropriate BGS roles of Welsh universities and research institutes.

13.30 All the EAs involved in the benchmarking regard their universities, research institutes and high-tech businesses as playing a central role in driving future endogenous economic growth. There is, therefore, a need for careful consideration on whether universities and business schools are maximising their contribution to economic development and business growth, and whether this is being delivered through sustainable approaches and appropriate BGS mechanisms. It is an issue which the Committee may wish to explore further.

Annexes

A. Participating Agencies & Executives

SCOTLAND: SCOTTISH ENTERPRISE

Janet Brown	Director, Corporate Competitiveness, SE
Jennifer Crow	Chief Executive, SE Grampian
Terry Currie	Director,
Sue Gemmell	Senior Executive, Relationship Management, SE
Carole McCarthy	Director, SE Lanarkshire
Dr Brian McVey	Head of Business Policy
Alice Munro	Manager, Strategic Planning
David Robson	Director, Innovation Development, SE

SCOTLAND: HIGHLANDS & ISLANDS ENTERPRISE

Jackie Wright	Director of Competitive Business
Jeff Foot	Head of Business Starts and Growth
Alastair Nicolson	Head of Strategic Planning and Research

SCOTLAND: MORAY, BADENOCH & STRATHSPEY ENTERPRISE

Douglas Yule	Chief Executive Enterprise
James Gibbs	Head of Operations
David Reid	Senior Development Manager

ENGLAND: ONE NORTH EAST

David Allison	Director of Business and Industry
Doug Scott	Director and Chief Executive
Jeremy Hall	Financial Director, The Design Group
Russel Griggs	R&E Resources
Tim Pain	Business Links Tyne and Wear

WALES: WELSH DEVELOPMENT AGENCY

Daniel Jones	Culture Manager, Entrepreneurship Action Plan
David Longford-Jones	Senior Manager Business Support
David Pritchard	Manager, Business Eye
Dr Christian Bryant	Programme Development Manager
Dr Ron Loveland	Chief Technology Officer, Welsh Assembly Government
Dr Virginia Chamber	Director of Technology & Innovation
Gareth Hall	Chief Executive, WDA
Gretel Leeb	Executive Director Business Support
Iain Willox	Development Director, Enterprise Support
Julie Cunningham	SMART Cymru, Programme Executive
Karen Latham	Director WDA South East
Nick Moon	Strategy & Planning Manager, Finance Wales
Patrick Sullivan	Director Media Technology Programmes
Sian Lloyd-Jones	Acting Chief Executive Finance Wales
Tony Barry	Programme Manager, Technology Exploitation Programme

EIRE: ENTERPRISE IRELAND

Dr Marie Bourlee	Long Term Planning, Tax & Finance Policy, Enterprise Division, Forfás
Eddie Hughes	Manager: Dairy, Beverages & Food Inwards Investment, EI
Gerard O'Brien	Economist, Policy & Planning, EI
Gerry O'Brien	Manager, International Communications
Jennifer Gordon McLaren	Divisional Manager, Software Services & Emerging Sectors, EI
Jonathan McMillan	Manager, Scotland & Northern Ireland, EI
Julie Sinnamon	Manager, Investment Services, EI
Loman O'Byrne	Chief Executive, South Dublin County Enterprise Board
Maura Robinson	Market Research: Dairy, Beverages, Horticulture & Food Inward Investment, EI
William Fitzgerald	Senior Development Advisor, Timber & Furniture Department, EI

ESTONIA: ENTERPRISE ESTONIA

Ahti Kuningas	Head of Economic Development Department, Ministry of Economic Affairs and Communications
Pirko Konsa	Head of Enterprise Division, Ministry of Economic Affairs and Communications
Alar Kolk	Board Member; Enterprise Estonia
Anu Varvik	Director of Foreign Investments and Trade Promotion; Enterprise Estonia
Andrus Treier	Chief Financial Officer; Kredex
Ardo Reinsalu	Chief Executive Officer; Doc@HOME
Raul Malmstein	Adviser to the Government
Siim Raie	Director General, Estonian Chamber of Commerce and Industry

GERMANY: NORDREIN-WESTFALEN

Christoph Hanke	International Business & Transportation Manager, Cologne Chamber of Commerce
Dagmar Beyna	Department Head: Technology, Industry & Foreign Economic Relations Staatskanzler, NRW
Daniella Glimm-Lükewillie	Objective 2 Programme Secretariat, NRW
Dr Bernd Schwabe	Director, Craft Industries Technology Transfer Network, NRW
Dr Bernhard Iking	ZENIT GmbH, Mülheim an der Ruhr
Dr Frank-Michael Bayman	Ministry for Transport, Energy and Spatial Planning, NRW
Dr Herbert Jackoby	Director of European & International Affairs, Staatskanzlei, NRW
Dr Manfred Blank	Vice President, Craft Industries Technology Transfer Network, NRW
Dr Reinhard Send	Head of Section, Foreign Economic Relations, Ministry of Economic Affairs of Europe, NRW
Dr Wolfgang Schöll	Director, Renewable Energy, Ministry for Transport, Energy & Spatial Planning, NRW

Eva Platz	Project Manager, Economic Development Corporation, NRW
Harald Becker	Economist, Innovation Principles & Technology Policy, Ministry of Economic Affairs & Labour, NRW
Ira Herrmann	Location Marketing, Life Science Agency, NRW
Karl-Uwe Buetof	Ministry of Economic Affairs & Labour, NRW
Reinhard Schütz	Foreign Economic Relations Sector, Ministry of Economic Affairs & Labour, NRW
Richard Todd	Director, Scottish Development International, Düsseldorf
Roman Noetzel	ZENIT GmbH, Mülheim an der Ruhr

ITALY: EMILIA ROMAGNA

Ruben Sacerdoti	Head of Policy for Internationalisation of SMEs Unit; General Directorate for Industry, Trade & Tourism; Emilia-Romagna Regional Government
Sandra Lotti	Co-ordinator for Regional Centre for Competences on E-Government; Emilia-Romagna Regional Government
David Osimo	Co-ordinator of Benchmarking Activities, E-Government Unit; Emilia-Romagna Regional Government
Roberta Dell'Ollio	Head of European Policy Department, ERVET; Emilia-Romagna Regional Government
Luca Rosselli	European Policy Department, ERVET; Emilia-Romagna Regional Government
Mauro Penza	Marketing Manager, Promo Bologna
Giarda Grandi	Head General Affairs & Economic Promotion; Bologna Chamber of Commerce
Paolo Bonaretti	Director, ASTER (The Science, Technology & Enterprise Consortium); Bologna
Guainpaolo Montaletti	Deputy Director, Unioncamere Emilia-Romagna; Bologna
Stefano Lenzi	International Relations, Unioncamere Emilia-Romagna; Bologna

CANADA : NOVA SCOTIA

Marianne Etter	Business Development; Nova Scotia Business Inc.
Martin P. Walker	Director, Small Business Growth; Nova Scotia Business Inc.
Jim Simpson	Manager, Export Development; Nova Scotia Business Inc.
Jud Godin	Manager, Financial Services; Nova Scotia Business Inc.
Fred Terrio	Manager, Business Advisory Team; Nova Scotia Business Inc.
Rick Beaton	Vice President; Enterprise Cape Breton Corporation
Peter L. Hogan	Director, Community Development and Rural Initiatives; Atlantic Canada Opportunities Agency
Mel Coombs	Acting Director, Programs; Atlantic Canada Opportunities Agency

Fred Morley	Vice President and Chief Economist; Greater Halifax Partnership
Alastair MacLeod	President; Nova Scotia Chamber of Commerce
Neal Conrad	Director, Office of Economic Development; Nova Scotia
James Whitty	President of Technology, Sales and Marketing; ecrm Networks Inc.
Eileen Lannon Oldford	Chief Executive Officer; Cape Breton County Economic Development Authority

USA : PITTSBURGH

Mohan Ramani	Chief Executive Officer; Evoxis
Suzi Pegg	Director, International Business Investment; Pittsburgh Regional Alliance
Matthew Harbaugh	Director, External Finance; Innovation Works
Terri Glueck	Director, Communications; Innovation Works
Robert A. Lowe	Assistant Professor of Strategy and Entrepreneurship; Tepper School of Business, Carnegie Mellon University
David P. Ruppertsberger	President and Chief Executive Officer; Pittsburgh Digital Greenhouse
William E. Strickland, Jr	President/CEO; Manchester Bidwell Corporation
Ann M. Dugan	Assistant Dean, Joseph M. Katz Graduate School of Business, Institute for Entrepreneurial Excellence; University of Pittsburgh
Roger O. Cranville	Senior Vice President, Business Investment; Pittsburgh Regional Alliance

OTHER INTERVIEWS

Gordon McLaren	Executive Director, East of Scotland European Partnership
Roddy McLean	External Relations, Scottish Executive

Enterprise and Culture Committee

Meeting 30 November 2004

Business Growth Inquiry: Draft Remit and Proposed Structure and Work Programme

Introduction

This paper sets out a **draft** remit and proposed structure and work programme for the business growth inquiry. The inquiry has the potential to be very broad-ranging and so will need to be carefully focused to enable Members to reach meaningful conclusions. To help achieve this, the Committee has commissioned **external research**, which will be presented at today's Committee meeting. The Convener has also asked SPICe to consider this research and identify some of the broader challenges for business growth in Scotland. The **SPICe paper** is attached as Annexe A.

Suggested title and draft remit for the Inquiry

Title options

1. Vision 2015: an inquiry into what needs to be done to increase the level of business growth in Scotland in the next 10 years
2. Growing pains: an inquiry into the promotion of business growth in Scotland

Draft remit

Economic growth is the Scottish Executive's stated top priority. To achieve this, improving business growth will be critical. This growth must come in the form of the creation of new businesses, the development of existing firms into efficient and productive world leaders in their field, and inward investment. This growth must also recognise the principles of sustainable development.

The Scottish Executive and its agencies have a wide range of initiatives and programmes already underway aimed at improving business growth in Scotland. Some successes can be identified, but can we do better and how do you achieve that?

This inquiry aims to "add value" to that debate. Over the course of our inquiry we will look at what is being done in Scotland to stimulate sustainable business growth, compare ourselves with others around the world in terms of best practice, identify the challenges we face over the next decade and propose actions for the longer-term.

The challenges we will face over the next decade are enormous. How will we increase our R&D base and how do we stimulate greater innovation and commercialisation within this? How do we boost our level of business start-ups and encourage firms to grow into world leaders? How do we improve our productivity and our investment levels? How should we respond to changing demographics and how can we overcome our peripherality from our export markets? Do our businesses

compete on a level playing field? And what role is there for all of us in the public and private sector in terms of tackling these challenges?

To answer these questions, we will seek to address the following points:

1. Why is business growth in Scotland lower than other parts of the UK?
2. What challenges will we face as we seek to stimulate long-term, sustainable business growth in Scotland?
3. What are we currently doing to tackle these challenges, how effective are our efforts and what should we be doing both in the public and the private sectors to increase their effectiveness?
4. Can we learn from others and can we identify best practice that can be replicated in Scotland?
5. What is our vision for the next decade in terms of business growth and how are we going to get there?

Structure and timetable

The proposed timetable (attached at Annexe B) sets out the various stages for the inquiry. It is proposed to start with an open call for written evidence. As per best practice, a period of 10-12 weeks should be allowed for receipt. Additionally, a targeted mailing of specific organisations and individuals will be carried out¹. Drawing on the written submissions received, although not necessarily exclusively, the Committee will select organisations and individuals who will be asked to give oral evidence. As per previous practice in the Committee, we will look at other innovative ways of encouraging people to submit their evidence and views.

In addition to meetings held in Edinburgh to hear oral evidence, the Committee may wish to hold **formal meetings outwith the Parliament premises**. It is proposed that at least one Committee meeting, at which oral evidence is taken, should be organised along these lines. As the remit of the inquiry is to look at business growth, a possible venue would be at a business or organisation that could be considered as a good example (assuming suitable facilities are available to host the meeting).

It would also be possible to combine formal Committee meeting(s) outwith Edinburgh with **fact-finding visits** to local businesses and organisations in the area that are role models, exhibit certain characteristics that are of relevance to the inquiry etc.

It is also proposed to utilise the **overseas case studies** identified in the external research as an integral part of the inquiry, supplemented by Scottish or UK case studies. These would help demonstrate good practice and act as success stories to help inform our recommendations. Part of the inquiry work programme may include a **visit(s)** by a cross-party delegation from the Committee to some of the case studies previously highlighted or to others, and delve further into the information already provided.

¹ Members are free to make suggestions to the clerk of local organisations that can be added to the mailing list

Finally, the Committee may wish to appoint an **adviser(s)** to assist with this Inquiry. If the Committee is so minded, the clerks could begin the administrative process to seek the approval of the Bureau and bring forward a shortlist of possible advisers.

Work schedule

A proposed inquiry timetable is attached at Annexe B. Points to note include:

1. Slots have been left open in the schedule to allow additional evidence to be taken from those who make interesting written submissions.
2. Assuming the Committee continues to meet weekly on Tuesdays after the February 2005 recess, the timetable is that the Committee will schedule agenda items for the inquiry on a weekly basis until the Easter recess. This period can be extended into April/May if necessary. At this stage, the now agreed follow-on inquiry into 'employability' can be brought on-stream.
3. It is proposed that consideration of interim findings be undertaken in public to allow for maximum transparency. However, it is proposed that the Committee take formal consideration of its draft final report in private to help reach a common view and to maximise impact with the media. Under standing orders a formal decision by the Committee is required for each meeting in private.
4. It is envisaged that the Committee would have a draft final report ready by the summer 2005 recess, which would form the basis of a document to discuss at the Business in the Parliament conference (to be held in September 2005). This would enable the Committee to 'test' key findings with the delegates at the Conference and subsequently publish the report shortly thereafter.
5. It is proposed that the Committee would then bid for time in the Chamber to debate the report during the last quarter of 2005.

Recommendations

The Committee is invited to:

- 1. discuss and agree the proposed remit and inquiry title;**
- 2. accept the general structure and timetable outlined in this paper for the implementation of the inquiry;**
- 3. agree to make the written evidence received publicly available during the course of the inquiry;**
- 4. agree to consider a range of case studies during the inquiry and from these to identify those where a visit by a cross-party delegation would be appropriate. The Convener and clerk will bring proposals to the Committee for approval and then take forward the necessary requests internally;**
- 5. agree to delegate power to the Convener to deal with any witness expenses claims which may arise as part of this inquiry;**

6. agree to seek appropriate authorisations to enable the Committee to hold at least one meeting outside the parliamentary campus in the first half of 2005;
7. consider whether an adviser(s) is needed for this inquiry and, if so, instruct the Convener and clerk to seek the necessary approval and bring back a shortlist of possible advisers;
8. formally agree that the meetings, or parts of meetings, which are utilised to agree the draft final Report, shall be held in private, but agree that prior to that stage there would be an opportunity to discuss interim views and findings in public;
9. agree that the Report, once agreed by Committee, be given full publicity via press briefings;

Alex Neil MSP
Convener

PAPER PRODUCED BY SPICe

Business growth is a term used to cover the growth of existing businesses, growth in the number of businesses and growth through inward investment. Growth is deemed to be desirable because it:

- Increases the number of jobs and the amount of wealth generated
- Increases innovation and hence productivity as new and fast growing companies are less bound by traditional ways of doing things, and as incoming companies introduce new ideas and practices into Scotland

Further to the research benchmarking the Scottish Enterprise Networks, presented to the Enterprise and Culture Committee by John Firn and David Crichton, this paper addresses some of the broader challenges for business growth in Scotland which members may wish to consider in its forthcoming inquiry.

The Key Challenges

1. The Research, Development and Innovation Challenge

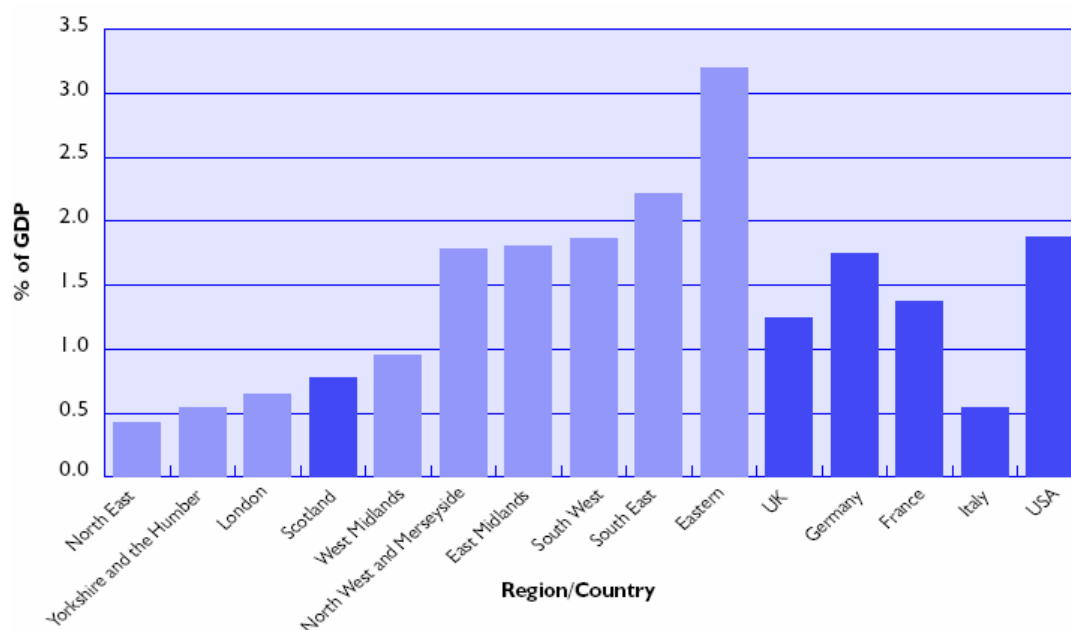
Corporate research and development (R&D) expenditure in Scotland is lower than competitor economies. The Committee may wish to consider what Scotland needs to do to bridge this R&D gap, analysing, not only the role of government, but also the role of business.

Total expenditure on R&D in Scotland, incorporating expenditure by business, government and higher education institutions (HEIs), was lower than that of the UK in 2002 (the latest statistics available) (Scottish Executive 2004a). Office for National Statistics (ONS) data indicates that Scotland accounted for 6.9% of the total UK R&D (Scottish Executive 2004b). Scotland performs better than the UK, in relative population terms², in its share of R&D undertaken by government and HEIs at 12.4% and 12.6% respectively. It does considerably less well in terms of its UK share of R&D carried out by business, at 4.9% of the UK total.

The challenge for Scotland, therefore, appears to be to improve its private sector R&D levels. As a percentage of GDP, R&D expenditure by businesses in Scotland in 2002 accounted for 0.77% of GDP (Scottish Executive 2004a). R&D relative to GDP has seen Scotland perform at a level of between 29% and 35% of the OECD average between 1990 and 2000, rising to 40% of the OECD average in 2001 (Scottish Executive 2004b).

² According to the [2001 census](#), Scotland's population forms 8.6% of the UK total.

Figure 1: Business Enterprise R&D expenditure as a percentage of GDP, 2002



Source: Scottish Executive 2004a

The Executive's *Framework for Economic Development in Scotland* (FEDS) recognises the need to close the R&D gap, and points to a variety of policy measures designed to encourage greater business expenditure on R&D. Specifically:

- SMART, a competition that provides funding of up to 75 per cent of eligible costs for a technical and commercial feasibility study lasting between 6 and 18 months. The maximum award is £50,000.
- SPUR, a scheme that covers 35 per cent of eligible costs for projects of over £75,000 lasting between 6 months and 3 years. The maximum award is £150,000.
- SPUR+, a scheme that covers 35 per cent of eligible costs for projects of over £1 million lasting between 6 months and 3 years. The maximum award is £500,000, and the scheme is only open to SMEs involved in markets that demand expensive leading-edge technology.

Commercialisation of Research

One aim of R&D expenditure is commercialisation of intellectual property. 23 spin-off companies (companies set up with university ownership) were established in Scotland in 2001-02 and Scottish Institutions filed 167 new patents and granted 102 licenses for the use of their intellectual property. The UK patent office publishes statistics on a regional basis. These are derived from the postcode of the applicant. Scottish applicants filed 1,165 UK patents in 2002, 6% of the UK total. The number of patents granted to Scottish applicants was 163, 5% of the UK total in 2002.

Figure 2: Patent Applications and R&D Expenditure by Region 2002

	Patent Applications Filed	Region as % of UK	R&D Expenditure £ million	Region as % of UK	Patents per £ million R&D exp.
Scotland	1,165	6%	640	5%	1.8
Wales	793	4%	170	1%	4.7
Northern Ireland	205	1%	149	1%	1.4
North East	450	2%	128	1%	3.5
North West	1,735	8%	1,661	13%	1.0
East Midlands	882	4%	1,063	8%	0.8
West Midlands	1,460	7%	695	5%	2.1
South West	1,666	8%	1,286	10%	1.3
London	3,860	19%	950	7%	4.1
South East	3,767	18%	3,268	25%	1.2
East of England	2,404	12%	2,741	21%	0.9
Yorkshire	1,240	6%	357	3%	3.5
UK¹	20,796	100%	13,110	100%	1.6

Sources: The Patent Office Annual Facts and Figures <http://www.patent.gov.uk/about/reports/anrep2003/facts2003.pdf>
 Business Enterprise Research and Development 2002: <http://www.statistics.gov.uk/BusinessStats>
 1. Includes patents which could not be allocated to a region.

Source: Scottish Executive 2004a, 100

In the context of the commercialisation of research, members will also be aware of Scottish Enterprise's [Intermediary Technology Institutes](#) (ITIs) programme, the effectiveness of which members may wish to consider during the course of an inquiry into business growth.

2. The Adding Value to Scottish Business Challenge

One challenge the Committee may wish to address in this inquiry is the level of business start-ups and closures as well as the value added by businesses (in monetary terms) to the Scottish economy.

Business start-ups and closures

The Department of Trade and Industry publishes statistics on VAT registration data which is generally taken to be the best available indicator of business start and closure rates. The table below shows that over the last ten years start-ups and closures have typically been around 10% of total stock. On average start-ups have exceeded closures with the result that the total number of VAT registered businesses in the UK has increased by about 11.1% since 1994.

VAT registrations, de-registrations and stock

UK, thousands, rate per 10,000 resident adults, percentage change

	Registrations		Deregistrations		Stock at start year
	'000	rate	'000	rate	
1994	169.2	37	174.8	38	1,629.1
1995	164.9	36	160.6	35	1,623.6
1996	169.6	37	151.5	33	1,627.9
1997	186.0	40	148.2	32	1,646.0
1998	184.8	40	149.1	32	1,683.7
1999	178.5	38	153.4	33	1,719.3
2000	179.6	38	156.4	33	1,744.4
2001	168.4	36	152.8	32	1,767.5
2002	175.7	37	163.9	34	1,783.1
2003	189.9	40	174.4	36	1,794.9
2004	1,810.5

Source: Small Business Service

The rate of new VAT registrations in Scotland at 29 per 10,000 adults is below that for the UK (40) and the majority of English regions (see table below). The stock of VAT registrations in Scotland at 307 per 10,000 adults is just over 80% of the UK average.

Registration, de-registration and stock rates by country and region, 2003

Number per 10,000 resident adults

	Registrations		Deregistrations		Stock	
	2003	change	2003	change	start of 2003	change
		on 2002		on 2002		during 2003
United Kingdom	40	2.7	36	2.0	378	0.9
North East	23	1.5	20	-0.2	219	2.2
North West	35	2.7	30	0.1	314	2.2
Yorkshire and the Humber	34	3.4	29	-0.5	320	3.1
East Midlands	37	2.1	33	2.0	361	1.2
West Midlands	37	2.7	34	3.0	357	0.6
East of England	42	1.7	39	2.8	417	-0.2
London	62	5.3	58	2.1	481	1.8
South East	47	2.7	43	3.2	439	1.3
South West	40	1.9	37	2.1	416	-0.2
England	42	2.8	38	1.8	385	1.3
Wales	29	2.3	29	1.9	337	-2.8
Scotland	29	2.1	28	1.7	307	0.2
Northern Ireland	29	2.1	30	8.0	444	-5.0

Source: Small Business Service (Statistics Team)

Productivity

There are various definitions of productivity and there are difficulties in measuring it. However, the data all points to the UK lagging behind its major competitors, and Scotland lagging behind the UK. The table below benchmarks Scottish productivity and reveals that the Scottish productivity gap has increased since 1996.

GDP per hour worked 1996-2002 (UK = 100)

	1996	1999	2001	2002
France	132.8	131.6	132.9	131.7
Germany	124	120.8	118.1	116.4
Japan	89.4	88	87.2	n.a.
UK	100	100	100	100
USA	122.7	122.2	119.9	119.4
G7	114.3	113.5	111.7	n.a.
Scotland	101.4	98.9	95.7	95.9

Source: Office for National Statistics, quoted in FEDS

3. The Investment Challenge

In a global economy, the movement of so called “low value” jobs out of Scotland is inevitable, as Scotland cannot compete on cost terms alone with low-wage economies like India and China. The decline in manufacturing jobs in Scotland over recent years presents the challenge of creating new jobs either higher up the value chain in the same sector or in other sectors of the economy.

The committee may wish to consider options for endogenous growth, given the decreasing levels of foreign direct investment in Scotland.

This issue of building endogenous growth will be addressed in the research presented by John Firn and David Crichton.

The Physical investment challenge

The state of Scotland’s physical infrastructure is widely considered to act as either a barrier to or enabler of business growth. The definition of business-related infrastructure could include road, rail, air, water links, telecommunications, water and sewerage, business sites and premises. The role of the planning framework is also important to infrastructure decisions. The Executive is shortly due to publish its Capital Investment Plan. In light of this publication, the Committee may wish to consider:

- How the Executive identifies priorities for infrastructure investment
- The degree to which infrastructure investment decisions taken or influenced by the Executive support or hinder business growth
- What type of capital investment priorities would maximise support for business growth in Scotland?

4. The People Challenge

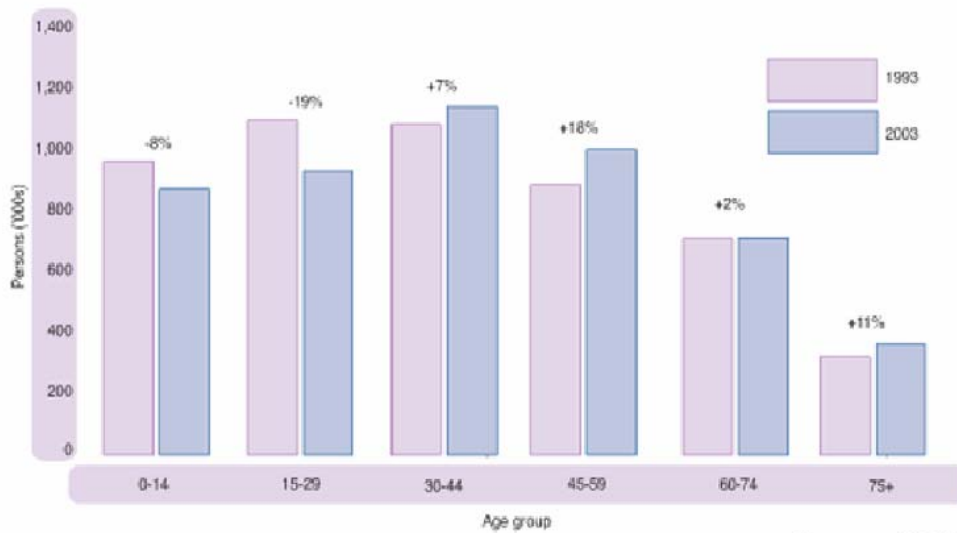
Scotland’s declining population has been identified by the First Minister as “the single biggest challenge facing Scotland as we move further into the 21st century” (Scottish Executive 2004d). The Committee may wish to consider the issue of

demography as “people” are the single biggest asset for businesses in Scotland, and fewer people leads to a potential shortage of adaptable labour with new skills.

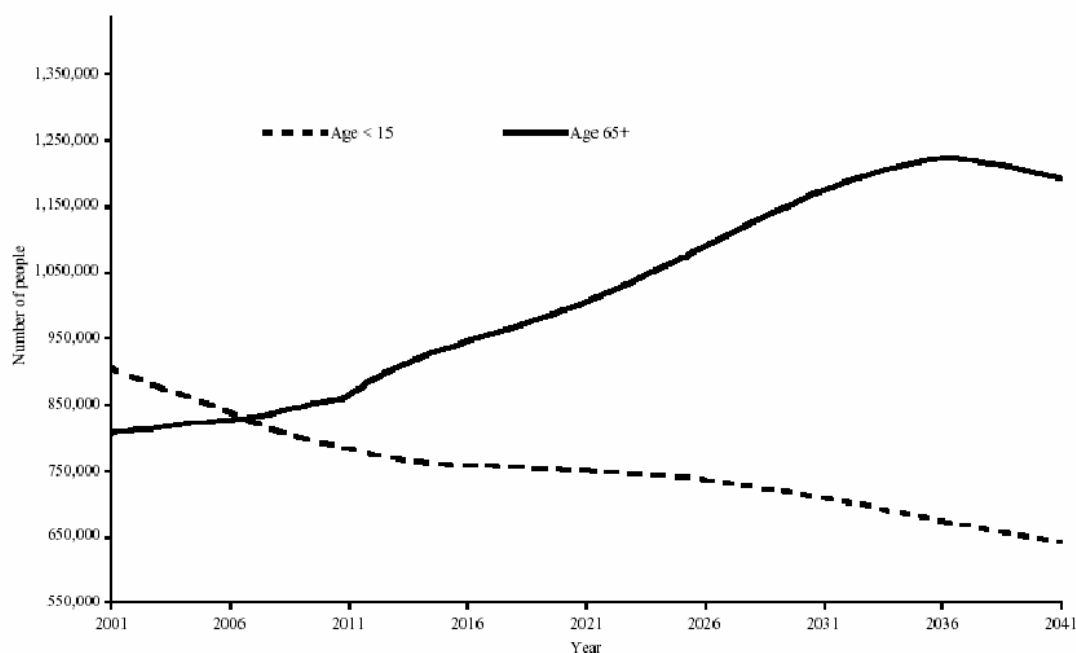
At just over 5m, Scotland’s overall population total remains very similar to the level of 50 years ago. However, this broadly similar total figure hides important changes to the age structure of the Scottish population. Specifically, the Scottish population is now significantly older than 50 years ago, with half the population aged over 38 years in 2001 and 10% aged over 71 years compared with 31 years and 64 years respectively in 1951 (GROS, 2002).

Figure 3 below depicts the changing demographic structure of Scotland, with figure 4 projecting forward to 2041 the number of people below 15 and over 65. Figure 4 shows that the number of people aged 65 and older is expected to rise from 800,000 in 2001 to 1.2m by 2041, while over the same period, the number aged 15 and under is expected to fall from 900,000 to 650,000.

Figure 3: Changes to the Scottish Population Structure, 1993-2003



Source: GROS 2004

Figure 4: Projected population in different age groups, 2001-2041

Source: In Joshi and Wright 2004, p26

For further information on Scotland's demography, see SPICe briefing, [Scotland's Demography and the Fresh Talent Initiative](#).

Economic Inactivity

The recently published refresh of Smart Successful Scotland (Scottish Executive 2004c, p21) states that "over 600,000 people of working age are currently inactive in Scotland, over 100,000 of them in Glasgow alone. This level of inactivity contributes to social exclusion and acts as a barrier to growth."

The challenge around Scotland's sizable number of economically inactive people may be something the Committee wishes to look at in the context of business growth, or in a separate inquiry on *employability*.

5. The Level Playing Field Challenge

Scotland lies on the periphery of Europe, a situation accentuated by EU enlargement, and this presents important challenges in terms of accessibility. Addressing this challenge involves looking at ways in which Scotland can attempt to address some of these natural disadvantages, to create a level playing field for business.

The Committee has already conducted an inquiry into Broadband in Scotland and acknowledge the importance of broadband access to Scottish businesses.

Another recent development has been the creation of the Executive's Route Development Fund (RDF), which has supported new air links where airlines can

demonstrate that the service will have a direct economic benefit to Scotland. The Committee may wish to assess the success of this programme in assisting business.

The Legislative playing field

The regulatory framework in Scotland is outlined in detail in the SPICe Briefing, [Regulatory Frameworks in Scotland and other selected countries](#).

Within the Enterprise, Transport and Lifelong Learning Department of the Scottish Executive there is an [Improving Regulation in Scotland Unit](#) (IRIS) which is the only Executive department which focuses on the impact of regulation. It is particularly concerned with the impact of regulation on business. The Deputy First Minister and Minister for Enterprise and Lifelong Learning, Jim Wallace, has direct responsibility for regulatory reform. The Scottish Executive is committed to the UK position that all policy proposals which may have an impact on business, charities or the voluntary sector should be accompanied by a 'Regulatory Impact Assessment' (RIA).

In February 2001 the Scottish Executive announced its 'Improving Regulation Strategy'. Key measures which were introduced in the Strategy were 'regulatory MOTs', i.e. reviews every 10 years of existing regulations that have an impact on business, and the inclusion of the 'microbusiness test' in all RIAs, i.e. an assessment of the impact of a proposal on businesses having one to five workers.

IRIS's equivalent in the UK Government is the [Regulatory Impact Unit](#) (RIU) which is at the centre of a system of satellite units known as Departmental Regulatory Impact Units (DRIUs). In the United States of America IRIS's equivalent is the [Office of Administration and Regulatory Affairs](#) (OIRA), in Canada, the [Regulatory Affairs and Orders in Council Secretariat](#), and in Australia, the [Office of Regulation Review](#).

Governments have also set up independent external bodies with remits in relation to regulatory reforms. Examples include the [Better Regulation Task Force](#) set up by the UK Government and the [Red Tape Commission](#) set up by the government of the Canadian province of Ontario.

EU legislation is the single largest source of regulation in the UK, accounting for about 50% of the total (Scottish Parliament Subordinate Legislation Committee 2003, para 28). Accordingly, one of the main areas of work for the Regulatory Impact Unit in the Cabinet Office (the UK Government's equivalent of IRIS) is influencing policies on EU regulatory reform. IRIS has also submitted its comments on a number of occasions to the European Commission in support of UK member state lines, with the aim of encouraging improvement in regulatory and consultation practices at the EU level.

Business Rates

An area where Scottish businesses often refer to the lack of a level playing field, within the UK context, is in the Scottish business rate, which, at 48.8p in the £, is currently 3.2p higher in Scotland than in England, and 3.6p higher than in Wales. Members may wish to pursue with the Executive the reasons for this difference.

NNDR poundage (pence)	Scotland	England	Wales
2000/01	45.8	41.6	41.2
	47.0 (-2p for premises under £10K)		
2001/02	47.8 (-2p for premises under £10K)	43	42.6
2002/03	47.8	43.7	43.3
	48.8 (-3p for premises under £10K)		
2003/04	47.8	44.4	44
	48.8 (-3p for premises under £10K)		
2004/05	47.8	45.6	45.2

Ross Burnside Scottish Parliament Information Centre (SPICe)

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PROVISIONAL TIMETABLE

30 November	<ul style="list-style-type: none"> • Consider and agree remit etc
w/c 6 December	<ul style="list-style-type: none"> • Publish call for written evidence, conduct mailing etc. (to be submitted by 31/3/05)
12 – 20 February 2005 (Recess)	
22 February 2005	<ul style="list-style-type: none"> • Business Growth inquiry evidence • Possible visits
1 March 2005	<ul style="list-style-type: none"> • Business Growth inquiry evidence • Possible visits
8 March 2005	<ul style="list-style-type: none"> • Business Growth inquiry evidence • Possible visits
15 March 2005	<ul style="list-style-type: none"> • Business Growth inquiry evidence
22 March 2005	<ul style="list-style-type: none"> • Business Growth inquiry evidence • Business Growth discussion on interim findings (in public)
25 March – 10 April 2005 (Easter Recess)	Possible visits to case studies
19 April 2005	<ul style="list-style-type: none"> • Business Growth inquiry draft interim report 1 (private)
3 May 2005	<ul style="list-style-type: none"> • Business Growth inquiry draft interim report 2 (private)
2 July - 4 September 2005	Summer Recess
September	Business in the Parliament Conference (tbc)
Late September	<ul style="list-style-type: none"> • Publish final report, media launch etc

Enterprise and Culture Committee

Meeting 30 November 2004

St Andrew's Day Bank Holiday Bill

Introduction

Dennis Canavan MSP intends to lay a proposal for a Member's Bill to create a new bank holiday in Scotland, to mark St Andrew's Day. Standing Orders governing Members' Bills changed on 12 November 2004, following a debate on the Procedures Committee's 6th Report, 2004, *A new procedure for Members' Bills*. Mr Canavan will attend the meeting to take any questions the Committee might have.

Process

The new Rules establish a two-part process under which Members submit a draft proposal, which is normally consulted upon, and then a final proposal. This final proposal requires the support of at least 18 members from at least half the Parliamentary Bureau parties or groups, within 1 month, to enable it to proceed to Stage 1.

If a draft proposal is not to be accompanied by a consultation, the Member must provide a 'statement of reasons' why not. This is then referred to a committee for consideration.

Mr Canavan's draft proposal is attached at Annex A. The statement of reasons is attached at Annex B. Mr Canavan had previously conducted a consultation exercise on his proposed Bill, which is attached at Annex C.

The question for this meeting is only whether there has been enough consultation on the proposal to enable its merits to be properly assessed at later stages. **Members are not invited to consider the principles or content of the Bill at this point.** The decisions available to the Committee are:

- that the Committee is satisfied with the statement of reasons provided and that the Bill may proceed to a final proposal;

or

- that the Committee is not satisfied with the statement of reasons provided and that further consultation must take place or the proposal will fall.

In making this decision, members will wish to consider whether the consultation was:

- appropriately worded, open to critical as well as supportive feedback;
- sent to a wide range of bodies (not just those already inclined to support it);
- open to responses for a reasonable period.

Recommendation

Members are invited to decide whether they are or are not satisfied with the statement of reasons attached to the draft proposal for the St Andrew's Day Bank Holiday Bill.

Judith Evans
Acting Clerk

Draft proposal

Dennis Canavan: Proposed St Andrew's Day Bank Holiday Bill – Draft proposal for a Bill to establish a St Andrew's Day Bank Holiday. (lodged 12 November 2004)

A written statement of reasons why further consultation is not necessary is attached.

**Statement of Reasons Regarding Consultation in Accordance with Scottish
Parliament Standing Orders Rule 9.14 paragraph 3(B)**

In relation to my draft proposal for a St. Andrew's Day Bank Holiday Bill, I do not consider that consultation on the draft is required for the following reasons:

- A consultation paper on a St. Andrew's Day Bank Holiday was published by me on 29 July 2004 with a submission deadline of 31 October 2004. The main areas of consultation were: potential benefits and problems arising from the establishment of a St. Andrew's Day bank holiday; ways in which the day could become a national celebration of cultural diversity; potential economic impact of making the day a bank holiday; options regarding the actual day on which the proposed bank holiday be taken.
- Over 150 copies of the consultation paper were sent in hard copy to various groups and individuals, including those from the business sector, the voluntary sector, trade unions and other representative organisations, ethnic minority groups, faith groups, political groups and individual politicians, equality groups and members of the public. In addition, over 100 electronic copies were sent out, including domestic and international recipients. The consultation paper is available on my website from which 81 copies have been downloaded during the course of the consultation period. A press statement was also issued regarding the proposal.
- A total of 133 substantive responses have been received from a range of organisations and individuals. A summary of responses and copies of all responses (excluding any made in confidence) will be placed in SPICe with my final proposal and will be made available to the lead committee.
- Given that a recent consultation exercise has been undertaken, I consider that there is no need to carry out a further consultation. There has been adequate opportunity for the public to comment on what is being proposed and this in turn has helped to test, develop and refine my proposal.

I therefore request the Committee to consider the above statement and confirm that it is satisfied with the reasons for not consulting on the draft proposal.

Dennis Canavan
12 November 2004



St Andrew's Day: A National Holiday

Public Consultation

July 2004

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1 Introduction

Dennis Canavan, Member of the Scottish Parliament for Falkirk West, intends to introduce a Bill in the Scottish Parliament to establish a St Andrew's Day Bank Holiday in Scotland.

This consultation paper gives some information about the proposal and seeks your views on it. After reading this paper, you are invited to respond to a series of questions and your views will be considered as part of the public consultation process on the proposed Bill.

The purpose of the Bill is to designate St Andrew's Day (or an alternative day around 30 November) as a Bank Holiday so that St Andrew's Day can be recognised as Scotland's National Day and a celebration of Scotland's multi-cultural and multi-ethnic traditions.

There is no legal definition of public holiday in Scotland. Some public holidays are based on local traditions and vary considerably from one part of Scotland to another. However, bank holidays are designated in the Banking and Financial Dealings Act 1971 and, under the Scotland Act 1998, the Scottish Parliament has the right to amend the 1971 Act in order to create an additional bank holiday.

Currently, a disparate arrangement exists throughout Scotland where some employers, such as the Scottish Parliament, include St Andrew's Day in their staff holiday entitlement. For some, therefore, St Andrew's Day is already recognised as worthy of celebration as a holiday and the aim of the Bill is to expand such sporadic recognition so that St Andrew's Day becomes a day of national celebration.

2 The history and status of bank holidays

Bank holidays are days on which banks may close for business and legislative provision allows for certain payments to be deferred until the next appropriate working day. Although the law does not oblige employers to give employees a holiday on bank holidays, they have become so widely observed in the UK that terms and conditions of employment commonly include entitlement to a holiday on those days.

Legislative provision for bank holidays originates from the 1871 Bank Holidays Act, which designated named days on which banking transactions could be suspended without penalty.

The UK precedent for a bank holiday in recognition of a patron saint is found in Northern Ireland where, by a special Act of Parliament in 1903, St Patrick's Day (17 March) was added to the list of bank holidays. It is also interesting that, in 1926, Northern Ireland introduced a further bank holiday on 12 July to commemorate the 1690 Battle of the Boyne. To this day, Northern Ireland has two more bank holidays than other parts of the United Kingdom.

The provisions of the 1871 Act were eventually repealed and incorporated into the Banking and Financial Dealings Act 1971, which remains the statutory basis for bank holidays today. However, a number of changes have been instigated in the interim:

- **1971** - Whit Monday in England, Wales and Northern Ireland (which could fall anywhere between 11 May and 14 June) was formally replaced by a fixed spring holiday on the last Monday in May. The last Monday in August was formally made a bank holiday in place of the first Monday in August in England, Wales and Northern Ireland.
- **1973** - 2 January was created an additional bank holiday in Scotland by the 1971 Act, coming into effect in 1973.

- **1974** - New Year's Day became an additional bank holiday in England, Wales and Northern Ireland, and Boxing Day became an additional bank holiday in Scotland.
- **1978** - the first Monday in May in England, Wales and Northern Ireland, and the last Monday in May in Scotland, became additional bank holidays.

There are currently 8 permanent bank holidays in Scotland, England and Wales and 10 in Northern Ireland:

Table 1: Current Bank Holidays in the UK

Scotland	England & Wales	Northern Ireland
New Year's Day (or substitute day in lieu)	<i>New Year's Day (or substitute day in lieu)</i>	<i>New Year's Day (or substitute day in lieu)</i>
2 January (or substitute day in lieu)	Good Friday	St Patrick's Day
Good Friday	Easter Monday	Good Friday
Early May Bank Holiday	<i>Early May Bank Holiday</i>	Easter Monday
<i>Spring Bank Holiday</i>	Spring Bank Holiday	<i>Early May Bank Holiday</i>
Summer Bank Holiday	Summer Bank Holiday	Spring Bank Holiday
Christmas Day (or substitute day in lieu)	Christmas Day (or substitute day in lieu)	<i>Battle of the Boyne (Orangemen's Day)</i>
<i>Boxing Day (or substitute day in lieu)</i>	Boxing Day (or substitute day in lieu)	Summer Bank Holiday
		Christmas Day (or substitute day in lieu)
		Boxing Day (or substitute day in lieu)

Holidays in italics are in addition to those established by the original statute and are proclaimed annually by the Queen or Secretary of State for Northern Ireland.

Sources: www.dti.gov.uk/er/bankhol.htm & www.scotland.gov.uk/library3/employment/bankhol.pdf

3 An international comparison

UK employees often complain that they have fewer public holidays than their European Union (EU) colleagues and, from the evidence in Table 2, it would appear to be a valid complaint. In addition to the number of days shown in the table, it should be noted that, in some countries, there are regional variations. However, in terms of the number of official public holidays, Table 2 highlights the lack of parity across the recently expanded EU.

Table 2: Public Holidays in the European Union

Austria	14	Latvia	10
Belgium	11	Lithuania	9
Cyprus	15	Luxembourg	10-12 ¹
Czech Republic	12	Malta	14
Denmark	12	Netherlands	10
Estonia	9	Poland	10
Finland	14	Portugal	13
France	11	Slovak Republic	15
Germany	9-14 ¹	Slovenia	14
Greece	12	Spain	12
Hungary	12	Sweden	12-14 ²
Ireland	10	UK	8-10 ³
Italy	12	<i>EU average</i>	<i>12</i>

*1. Regional variations. 2. Includes half-days. 3. 10 holidays in Northern Ireland
Sources: www.incomesdata.co.uk & www.columbusguides.com*

It is significant that the UK lies at the bottom of the league in terms of officially designated public holidays and is well below the EU average.

The debate surrounding working hours and holiday entitlement in the UK has been going on for some time. Media speculation in the lead-up to the 2001 General Election suggested that the Labour Party might include in its manifesto a commitment to increase public holidays. This arose from John Prescott, Deputy Prime Minister, commenting on national television that employees in the UK worked too many hours and agreed that, compared with the rest of Europe, there was an argument for a further

bank holiday¹. This view was echoed by Michael Jacobs, past General Secretary of the Fabian Society, who claims that UK workers work longer hours than those in any other European country, and that working hours have been rising for many UK workers over the last decade².

An examination of national holidays across Europe provides an interesting picture where 43 of the 46 countries considered as comprising the continent of Europe, that is, 93.5 *per cent*, have an officially designated 'National Day' holiday. This may be referred to simply as *National Day* or, in some cases, *Liberation Day* or *Independence Day*. In some of those countries, the national day holiday is connected with a significant historical event associated with the celebration of patriotism or freedom, such as *Bastille Day* in France, *Unification Day* in Bulgaria, *October Revolution Day* in Belarus and the *Anniversary of the Slovak Uprising Day* in Slovakia. Over three-quarters of EU countries have a public holiday on either a specific saint's day and/or on All Saints' Day (1 November).

An even more emphatic picture emerges from an examination of the practice in North and South America where 100 *per cent* of the constituent countries have a National Day holiday (e.g. Independence Day on 4 July in the USA) and, in all but five of them, additional holidays to commemorate significant events in their history, including: battles (Paraguay), emancipation (Bermuda), revolutions (Mexico) and the abolition of slavery (Surinam), as well as various saints' days. Almost equally high in proportion are Africa, the Middle East, Asia and India where 95-100 *per cent* of constituent countries have a National Day holiday.

¹ <http://news.bbc.co.uk/1/hi/wales/1278988.stm>, *St David's Day Holiday Boost*, 15/04/01, (accessed July 2004)

² Jacobs, M. (2001) *Another Bank Holiday!* Fabian Society

In addition to holidays celebrating nationhood, many countries throughout the world have established national holidays in celebration of a variety of themes. Japan, for example, has several days of national celebration, including Health & Sports Day, Culture Day, Children's Day and Respect for the Aged Day³.

³ (www.columbusguides.com).

4 The case for an additional bank holiday

There are compelling arguments for increasing the number of public holidays in the UK in line with the EU average. The detrimental effect of long working hours can lead to high levels of stress, depression and other forms of ill health, as well as placing additional pressure on family life. Even in terms of efficiency at the work place, all employees need a reasonable degree of leisure time in order to re-charge their batteries.

Opponents might argue that a reduction in working hours is already possible through voluntary agreement with individual employers or even via collective bargaining in respect of holiday allowances. However, it is not always a straightforward process to reduce working hours through voluntary agreement. Unfortunately, long working hours are very much a part of the culture and ethos of many organisations in the UK and advocating a reduction in working hours may not be conducive to career advancement. In addition, some employers are unlikely to provide more holidays or offer shorter working hours if they fear it will result in a loss of competitive advantage.

Some employers, such as the Scottish Parliament, have already introduced a St Andrew's Day holiday for their employees but the practice is not common and other workers may feel that they should have a similar entitlement.

Some members of the business community may argue against additional bank holidays, claiming that any increase in statutory holidays will result in a decrease in national productivity and competitiveness. However, as has already been pointed out, most of our European competitors have more public holidays than us and there is no evidence of a resultant drop

in their ability to compete. On the contrary, more rest and recreation time may help to increase productivity through a more effective workforce and a reduction in work days lost because of stress-related illness.

Lord Macfarlane of Bearsden, who is widely respected for his business experience, has indicated that he sees 'enormous potential' in having a national day holiday on St Andrew's Day which could be celebrated with a much higher profile than at present. Commenting in the national press, Lord Macfarlane said:

As a businessman, I can see enormous potential in such a joyous celebration of St Andrew's Day and its ability to bring together the Scots community worldwide. Around the world there are an estimated 30 million people of Scots descent. In whisky, tartan, golf and international reputation for business sagacity, Scotland has the most readily recognised national symbols of any country in the world. But as a nation, are we maximising these tremendously strong marketing assets adequately for the long-term benefit of Scotland plc? I do not believe that we are, and I share the vision that the time has come to capitalise on these assets and make St Andrew's Day a focus for worldwide celebration of Scotland and Scottish achievement⁴.

In a similar debate about a St George's Day holiday, a representative from the English independent brewery, Charles Wells, estimated that celebrating a national day holiday for England could generate as much as £38 million from tourism and festivities⁵. There is no doubt that more leisure time increases the potential to spend more on leisure activities which can boost the economy. A St Andrew's Day holiday might even encourage Scots and people from outwith Scotland to take short-break holidays in Scotland and so stimulate the tourist industry during what would otherwise be an off-peak period. If workers in the service sector were expected to work on the St Andrew's Day holiday, then they could be given another day off in lieu.

⁴ Pia, S. (2001) *Should St Andrew's Day be a Holiday?* The Scotsman 1/12/01

⁵ <http://news.bbc.co.uk/1/hi/magazine/3650747.stm>, *If St George Wants a Party He Can Pay For It*, (23/04/04) (accessed July 2004)

5 Why St Andrew's Day?

For many centuries, the last day of November has been observed as the feast of St Andrew. In Scotland – and in many other parts of the world where Scots and their descendants are gathered – 30 November is celebrated as Scotland's National Day. St Andrew is Scotland's patron saint and the St Andrew's Cross forms our national flag, the Saltire.

The Bible tells us that Andrew and his brother, Simon Peter, were fishermen who were the first disciples to be called by Christ when they were casting their nets into the Sea of Galilee. After Christ's crucifixion, Andrew is said to have travelled to Greece, where he preached the Gospel, leading to his martyrdom by crucifixion on a diagonal cross, now referred to as the cross of St Andrew.

The history linking St Andrew to Scotland is rather convoluted. A common account is that, in the fourth century, some relics of St Andrew were being transported by a monk called St Rule (or Regulus) when he was shipwrecked off the coast of Fife. St Rule established a settlement in the north east of Fife which came to be known as St Andrews. It became a place of pilgrimage and later a cathedral was established as well as Scotland's oldest university.

The Saltire became the national flag by Act of Parliament in 1385 but the reason for its adoption is based on a legend dating back to the battle of Athelstanford in 831, when an army of Scots was about to face a Northumbrian army. When the Scots King Angus saw a vision of a white St Andrew's Cross in the clear blue sky, he swore that, if he was victorious, St Andrew would be forever the patron saint of Scotland. The

Scots went on to win the battle. St Andrew's status as patron saint of Scotland was formalised in the declaration of Arbroath in 1320.

At one time, St Andrew's Day was a popular day of feasting in Scotland but is now celebrated more enthusiastically by ex-patriate Scots and their descendants in countries such as the USA, Canada, Australia and New Zealand. There are St Andrew's Societies and St Andrew's Clubs in many parts of the world. If St Andrew's Day was recognised at home as Scotland's National Day, it would probably give a boost to such international celebrations and help to promote Scotland on the world stage.

6 A celebration of Scotland's diversity

Some critics of the celebration of St Andrew's Day might claim that the feast day of a Christian saint is not appropriate for the national day of a Scotland striving to be a modern multi-ethnic, multi-cultural and multi-faith society. One of the biggest impediments to the creation of such an inclusive Scotland is the religious sectarianism and antipathy which still exists between some people of different Christian traditions. However, all the major Christian denominations in Scotland recognise St Andrew as our patron saint. He is therefore a unifying figure in that respect and this consultation paper invites views from people of all faiths and none on how St Andrew's Day could become a day of national celebration of Scotland's diversity of cultures, faiths and ethnic origins.

In terms of multi-ethnic appeal, it might be worth recalling that St Andrew himself was not a Scot. Like many of today's Scots, his roots were in the continent of Asia but he is recognised throughout the world as an international figure. He is also the patron saint of other countries such as Greece, Russia and Romania.

It is also significant in this regard that the Scottish Trades Union Congress celebrates St Andrew's Day with an annual march and rally against racism and fascism and many of the participants are representatives of ethnic minority communities.

If St Andrew's Day were to become a Bank Holiday, it would encourage all the people of Scotland, irrespective of their ethnic origins and beliefs, to participate in the celebration of our national identity and social inclusion. It could also be a celebration of Scottish democracy, bearing in mind that our present Parliament is just a few years old.

7 The exact date of the proposed bank holiday

An important issue to consider in establishing a fixed date public holiday is whether a substitute day should be included in the event that it falls on a non-working day. If St Andrew's Day falls on a Saturday or Sunday, then the St Andrew's Day holiday could be held on the following Monday.

Another option might be to have the Bank Holiday always on the Monday or Friday closest to 30 November in order to avoid mid-week disruption of work and to give employees a long weekend off work. Such an arrangement would also enable the celebration of St Andrew's Day to encompass a whole weekend of events rather than just one day. A St Andrew's Day weekend might also make it more attractive to the tourist industry for marketing short winter breaks.

8 Conclusion and how to respond

Thank you for reading this consultation document. Supporters of the proposed Bill hope that you have been persuaded that there is a case for designating St Andrew's Day (or an alternative day around 30 November) as a Bank Holiday so that St Andrew's Day can be recognised as Scotland's National Day and a celebration of Scotland's multi-cultural and multi-ethnic traditions.

You are now invited to respond to this consultation paper by answering the questions in section 9. Responses, **which should be submitted by 31 October 2004**, may be sent to:

Dennis Canavan MSP
Scottish Parliament
EDINBURGH
EH99 1SP

Tel: 0131 348 5630
Fax: 0131 348 5941
E-mail:
dennis.canavan.msp@scottish.parliament.uk

Please make it clear whether you are responding as an individual or on behalf of an organisation. If you wish your response to be confidential, please say so, otherwise it will be available for public inspection, in accordance with the principles of transparency and freedom of information. Confidential responses will be included in any summary or statistical analysis but this will not reveal the identity of any respondent who has requested confidentiality.

Additional copies of the paper or alternative formats can be requested using the contact details above and calls via Typetalk are welcome. An on-line copy is available on Dennis Canavan's website at: <http://www.denniscanavan.com>

9 Questions

1. What would be the benefits of establishing a St Andrew's Day Bank Holiday in Scotland?
2. What are the problems, if any, that might arise from establishing a St Andrew's Day Bank Holiday in Scotland?
3. How do you think that St Andrew's Day could become a day of national celebration of Scotland's diversity of cultures, faiths and ethnic origins?
4. What impact, if any, would there be on the Scottish economy if a St Andrew's Day Bank Holiday were established in Scotland?
5. What alternative arrangements, if any, should be made if a St Andrew's Day Bank Holiday is established but the 30th of November falls on a Saturday or a Sunday?
6. Would there be any benefits in always having the St Andrew's Day Bank Holiday on the Monday or Friday closest to the 30th of November (rather than always adhering to the specific date of the 30th of November)?
7. Do you have any further comments to make?

10 Distribution List

Distribution List includes the following:

CBI Scotland
Scottish Clearing Banks
Scottish Chambers of Commerce
Scottish Council for Development & Industry
Scottish Enterprise
Federation of Small Businesses
Licensed trade and hospitality representatives
Equal Opportunities Commission
Ethnic Groups
Members of the Scottish Parliament
VisitScotland
Scottish Local Authorities
Convention of Scottish Local Authorities
Political Parties
Scottish Council for Voluntary Organisations
Scottish Parent Teacher Council
Scottish Trades Union Congress
Trade Unions
Universities Scotland
Association of Scottish Colleges
Scottish Association for Mental Health
Faith Groups
Saltire Society
Scottish Civic Forum
Scottish Youth Parliament
Scottish Law Commission
Law Society of Scotland

Enterprise and Culture Committee

Meeting 30 November 2004

Subordinate Legislation

Introduction

The following instrument was laid before the Parliament on 2nd November 2004 and is attached at Annex A:

the Education (Graduate Endowment, Student Fees and Support) Switzerland (Scotland) Amendment Regulations 2004, (SSI/2004/469)

The following instrument was laid before the Parliament on 11th November 2004 and is attached at Annex A:

the Holyrood Park Amendment Regulations 2004, (draft)

Purpose of instruments

Education (Graduate Endowment, Student Fees and Support) Switzerland (Scotland) Amendment Regulations 2004, (SSI/2004/469)

These Regulations amend a number of Regulations (detailed in the Explanatory Note) to confer on Swiss migrant workers, and certain family members, broadly similar rights of entry and residence in the UK as European Economic Area migrants. The Regulations provide for Swiss migrant workers residing in the UK, and their children, to be admitted to education on the same basis as UK nationals.

These Regulations are a negative instrument which is subject to annulment by way of a resolution of the Parliament. This instrument came into force on 24 November 2004.

Subordinate Legislation Committee report

The Subordinate Legislation Committee considered the Education (Graduate Endowment, Student Fees and Support) Switzerland (Scotland) Amendment Regulations 2004, (SSI/2004/469) at its meeting on 9th November 2004.

The Subordinate Legislation Committee had no recommendations to make to the Parliament on this instrument.

Holyrood Park Amendment Regulations 2004, (draft)

These Regulations amend the 1971 Holyrood Park Regulations so as to allow for the introduction of a “pay and display” charging scheme for vehicles parking in the Broad Pavement car park to the south of the Palace of Holyroodhouse in Holyrood Park.

These Regulations are a negative instrument which is subject to annulment by way of a resolution of the Parliament. These Regulations come into force on 14 January 2005.

Subordinate Legislation Committee report

The original Holyrood Park Amendment Regulations 2004, (draft) was laid before the Parliament by the Scottish Executive on 2nd November and considered by the Subordinate Legislation Committee at its meeting on 9th November. The Committee raised three specific points on which it wished the Executive to respond.

In responding the Executive decided to withdraw the original instrument and lay an amended instrument. This was laid before the Parliament on 11th November. The Subordinate Legislation Committee considered the amended Holyrood Park Amendment Regulations 2004, (draft) at its meeting on 16th November.

The Subordinate Legislation Committee had no recommendations to make to the Parliament on the amended instrument.

Recommendation

The Committee is invited to consider any issues that it wishes to raise in reporting to the Parliament on these instruments.

Judith Evans
Acting Clerk
25 November 2004