

“Innovation”

*The introduction of something new
A new idea, method or device*

With confirmation that the UK economy is now in recession, there is a risk that organisations will seek to scale back investment in any activities deemed to be non-essential, which may lead to a stifling of future innovation.

Of course, we are currently investing billions of pounds trying to revive and sustain a financial system that was flawed and arguably stifled innovation in many areas of life. Now we are in recession, perhaps – as the saying goes – necessity is the mother of invention (and innovation). There is a growing sense that while the system “pauses”, we should take time to consider how society values innovation, from individuals to local communities to government to corporate business.

With this in mind, Scotland's Futures Forum joined with the National Endowment for Science, Technology and the Arts (NESTA) to organise a half day seminar to bring together individuals from the public, private and voluntary sectors to discuss the role of innovation in the economic regeneration of future society.

Stian Westlake, Executive Director of Policy and Research at NESTA, and Enterprise Minister Jim Mather MSP both gave presentations, after which there were World Cafe discussions about the issues raised.

The views highlighted in this discussion paper are those of the delegates who attended the seminar and not necessarily the views of the Futures Forum.

Key learning points

- Innovation shouldn't be seen as an add-on – it should be integral to an organisation's functioning
- Delegates supported the NESTA recommendation for a £1bn innovation fund, on the basis that it is not solely government-run
- There was a feeling that Scotland's experience of the recession would differ from that of the UK as a whole for a number of reasons:
 - The size of the public sector, which accounts for 54% of GDP
 - Its depleted manufacturing sector
 - Its reliance on the financial sector, which accounts for one in ten jobs in Edinburgh
- New opportunities arise in an economic downturn: redundancy can be the spur for self-enterprise and the demise of large corporations may leave space for SMEs to innovate and create new products and services
- Given the size of Scotland's public sector and its purchasing power, innovation may be stimulated via changes to procurement processes
- Criteria for success should include social as well as financial outcomes

Summary of presentations

“Recessions are never purely economic event. Recessions are ...a challenge of collective and collaborative adaptation to radically changed circumstances.”

Stian Westlake of NESTA argued that this recession was brought on by the “ultra-networked character of the modern economy and that the solutions will be more effective if they work with those networks”.

He cited the example of Finland which experienced the worst post-war recession of a Western democracy in the early 1990s following the collapse of the USSR – until then Finland’s major trading partner.

A focus on the technology sector and knowledge economy meant that Finland’s response to this recession led to a 30% growth in productivity in ten years. And since then the country has become a bi-word for a prosperous but socially cohesive nation.

The authors of NESTA’s report ‘Attacking the Recession’ argue that the recession provides an important opportunity to accelerate much needed innovation and to unleash a wave of business and social entrepreneurship. With strong leadership and public investment, they believe that the UK should build on existing strengths and look to sectors with the most immediate growth potential, such as biotechnology, green energy, environmental services and services for an ageing population.

The report concludes that networks will be critical to the way in which companies and regions respond to the recessions, as well as playing a key role in new business creation, keeping individuals in touch with work opportunities and improving access to shared resources, thereby promoting collaboration and creativity.

Jim Mather MSP, Minister for Enterprise, noted that innovation was a key plank in the Scottish government’s economic strategy, stressing the need to capitalise on short term opportunities without losing sight of longer term strategic goals.

He highlighted the importance of building partnerships between the public and private sectors, citing the 70 in-depth sessions he has held with a wide range of industry sectors and communities around Scotland. These have provided opportunities for sharing ideas as well as collaborations to create new products and services.

Referring to the Scottish government’s economic recovery plan, Mr Mather stated the government’s intention to increase its focus on energy efficiency – an example of a growth sector with great opportunities for innovation.

In conclusion, he noted that the Scottish government had made efforts to refocus the economic development agencies to become innovation, investment and enterprise agencies, with the goal of increased sustainable economic growth.

Feedback from delegates

Following the presentations, delegates were asked a number of questions, including:

- **How might the recession impact on Scottish innovation?**
- **How can we build, renew and energise networks in Scotland to maximise sustainable economic growth?**
- **How can public services be delivered more efficiently and effectively in Scotland through innovation?**

Their responses are summarised below.

How might the recession impact on Scottish innovation?

Given the recent collapse of the banking sector and with the financial sector accounting for one in ten jobs in Edinburgh, some participants questioned whether there might now be a greater pull towards London. Others speculated whether the fact that many large companies are headquartered outside Scotland might have an adverse effect on the economy.

It is hard to say what the impact on innovation might be given that it is not yet clear whether this will be a short, sharp recession or a longer-term, deep downturn.

Many participants noted that, with a leaner and meaner economy, there will be a need for greater collaboration within and between sectors. It was also observed that redundancy is often a spur for self-enterprise.

Others saw the collapse of the construction, retail and tourism industries – where, arguably, innovation was squeezed out to maximise profit – as an opportunity for innovation albeit on a smaller scale. Many participants made the point that economies of scale often seemed to be at odds with a diversity of ideas and saw that a recession may provide more space for SMEs to innovate.

How can we build, renew and energise networks in Scotland to maximise sustainable economic growth?

Participants noted that intra-sector networks often develop quite naturally, but at the same time better use should be made of existing networks. Others made the point that networks should not be confined to Scotland, given that there can be greater potential for learning – and sometimes investment – internationally.

A number of participants were keen to point out that a great deal of innovation takes place within Scotland's sizeable public sector. It was also thought that a recession may prompt new collaborations between the public and private sector, as has already happened in the banking sector.

Strong leadership was seen as critical, although participants were clear that grassroots innovation should be able to flourish unencumbered by unnecessary bureaucracy. We could learn a great deal from the technology boom of the late 1990s, which was characterised by unordered, flat, grassroots organisations.

Participants wanted to see success judged on social outcomes as well as financial outcomes. There was a suggestion that the Post Office could become a People's Bank that funds projects and businesses that are socially innovative.

Even in a recession, it was thought that high net worth individuals will always be on the lookout for projects to invest in. There is a long history of patriotic investments in Scotland, which we should capitalise on.

There is a great deal of talent amongst those who are being made redundant from the large corporations and we should ensure that the right support networks are there to enable them to innovate and set up new businesses. Equally, we should recognise and draw on the skills and talents of the older generation.

That said, disproportionate numbers of young people are likely to be unemployed during the economic downturn. This could have upsides for innovation, as many entrepreneurs start young and younger people are often more willing to take risks.

However, there will need to be a generational learning curve: young people have grown up with easy access to cheap credit, which is no longer available in the same way, and this will obviously have implications for their ability to innovate and create new businesses.

We should review university education to ensure that it teaches undergraduates and postgraduates networking skills and encourages enterprise. We also need to make clear that failure is a hazard of the risk-taking that is often a part of being innovative.

How can public services be delivered more efficiently and effectively in Scotland through innovation?

There was support for NESTA's recommendation of a £1bn innovation fund, provided it was not solely government-run.

There was a strong feeling amongst participants that public sector procurement was a potentially significant lever for encouraging greater innovation in Scotland. Many argued that recent changes to procurement regulations had led to a stifling of innovation and that the Best Value criterion inevitably leads to homogeneity in the provision of goods and services to the public sector.

In Scotland, the public sector is the largest employer, but one participant asked that we consider how we could make the public sector the biggest customer. Another participant was of the view that a perhaps unintended consequence of the Concordat between the Scottish government and local authorities was that more resources are retained within local authorities rather than used to sub-contract out to local businesses in local communities, who may be more efficient at delivery. It was therefore suggested that there should be a formula dictating a percentage of local authority resources that should be spent on sub-contracted goods and services.

There was lengthy discussion about targets set by local and national government and the way in which they can often create perverse incentives, particularly when they seem to focus on processes rather than outcomes or 'customer needs'.

A number of participants felt that innovation in the public sector is often hindered by lengthy decision-making processes, as well as the regulatory and inspection regime. The issue of greater decentralisation of power and decision-making authority was raised as a means of encouraging greater diversity in public service delivery.

There was frustration that many government departments continue to operate with a 'silo' mentality and that there should be one cross-cutting department that ensures joined-up working on key issues.

Many participants also felt that we need to learn from international experience and that we should set up mechanisms to capture good practice from around the world to incorporate into policymaking here in Scotland.

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