

The Foundation for Science and Technology

Dinner/Discussion on Innovation
24th September, 2008-10-08

Speech

Jim Mather MSP

Minister for Enterprise, Energy and Tourism
Scottish Parliament

Thank you to the Foundation for Science and Technology for inviting me here tonight. The discussion topic this evening is one that is dear to my heart and, indeed, to every member of the Government. I'm assuming that most of you will already know that this Government has one purpose – and that is increasing sustainable economic growth; “Growing the Scottish Economy” as the title of the evening puts it.

It's the Pole Star which guides all our activities and to which all our actions are aligned. It was signalled early on in the new Government through the Government Economic Strategy that we published last November and it's crucial to all that we as a government are determined to achieve.

It's pretty clear that something needed to change: For over 30 years, Scotland has suffered because our economy has been locked into a low growth cycle. Successive economic strategies, and successive governments, have tried and failed to lift Scotland's economic performance to where it should be - and, while other small independent countries around us have flourished, Scotland has lagged behind.

And that's despite the many significant advantages that Scotland has: a world-class science base, a highly-qualified, well-educated workforce and a record of invention and innovation that is second to none. Politicians of all parties and journalists from broadsheets and tabloids alike are fond of quoting great Scots inventors of the past, like Watt, Fleming, John Logie Baird and so on. And we could point to significant achievements in more recent years like Dolly the Sheep, MRI scanners, ultrasound, ATMs.

But that record of invention has not translated into economic growth and that is where innovation comes in. There are many definitions of innovation but one of the simplest is “The successful exploitation of new ideas.”. And to me, that sums up the contribution that innovation makes to economic growth; it's the “successful exploitation” part that matters when it comes to the contribution that innovation in products and services has to play.

The GES identifies the main challenges we face as increasing productivity, economic participation and population growth. Innovation has a key role to play in the first two of these. They are mutually reinforcing and between them, they define our competitiveness as a nation.

In terms of productivity, there is significant room for improvement: currently, the UK's labour productivity is 2.8 per cent higher than in Scotland and productivity is significantly higher in the US, France and among the Arc of Prosperity countries. Ireland, for example, is 25.5 per cent higher and Norway 66.6 per cent. All the evidence tells us that it is higher levels of investment, skills, innovation and enterprise that can generate improvements in productivity.

In terms of investment in innovation, we can look at expenditure on R&D. Scotland's total gross expenditure on R&D as a proportion of GDP is slightly lower than the UK rate and considerably below the levels in Finland and Denmark. While the rate of expenditure on R&D in Higher Education is in the top quartile of OECD economies and government R&D spend is above the average EU 25 and OECD rates, business expenditure on R&D in Scotland is less than half the UK rate. Of course, we have to remember that Scotland's business R&D statistics, don't take into account all of the innovative activity undertaken in the Services sector. And on top of that, R&D statistics provide only a partial view of Scotland's performance on innovation, as the focus is on 'technical R&D' rather than a wider concept of innovative activity that would include process and service design innovation.

If we take that into account, we see that Scotland ranks in the second quartile of EU members in the Community Innovation Survey, which reported that the majority of Scottish firms, around 56 per cent, were engaged in some form of innovation activity during 2002-2004, that's broadly in line with the UK average.

So, it's fairly obvious that in those indicators that are significantly affected by public sector spend, Scotland does well. Whereas in those affected by private sector spend, we do less well. Recent OECD reports emphasise that private sector investment in R&D is one of the key drivers of economic growth. I think this is an absolutely crucial point. We say in the GES that Scotland's businesses are the primary driver of sustainable economic growth. Our national competitiveness depends critically on the competitiveness of our individual businesses. So what can we, and I mean "we"; all of us together go about that?

In the private sector, Scottish Enterprise are working to restructure their support for business, firstly to work on a one-to-one basis with companies to help them understand how innovation can increase their productivity and profit, and how they can implement measures to achieve this. At the same time, they are working to spread the message on the importance of innovation as widely as possible. Any businessman will tell you about the importance of intelligent, demanding customers to the long-term survival and prosperity of a company. Scottish Enterprise are providing the support that will help produce exactly that kind of customer for their business programmes.

In the public sector, we have already adopted an outcome-focussed, systems-based approach in our concordat with Local Authorities. Working in partnership, we have created a series of high-level outcome agreements and encouraged local government to use their freedom and autonomy to deliver these outcomes as effectively, and innovatively as they now can.

Similarly, we have to look at how we can be more innovative in how we deliver public services to achieve better value for the citizen as consumer. One way to do that is to improve our performance on encouraging innovation through public procurement. I'd like to take this opportunity to thank one of our speakers, John McClelland, for the tremendous work he did in producing the McClelland report on public procurement. John's work embodied much of the thinking we are applying in our approach to public services and there is some excellent work going on in introducing greater transparency in procurement to encourage innovation thanks to John.

I mentioned earlier a fresh approach. I won't go into too much detail on this because I don't want to steal the thunder of the other one of our speakers tonight. Mike Harris and his colleagues in NESTA have been doing a fantastic job of bringing a fresh approach to innovation policy, one that recognises that innovation is not solely the domain of science and technology alone. That we need to recognise the importance of other types of innovation such as incremental innovation, open innovation, user-led innovation and business model innovation, to name just a few. NESTA's work has influenced the GES and the recent DIUS White Paper, Innovation Nation. I think that there are also clear echoes of their work in the recently published Finnish National Innovation Strategy. In Scotland, we have been working closely with the research function in NESTA to, I hope, our mutual benefit.

One of the key messages from the work of NESTA is that innovation applies just as much in the service sector as it does in manufacturing. I notice that the title of tonight's discussion includes mention of products and services. I think that is a vital message. The service sector accounts for over 80 percent of our economy and we cannot ignore it if we are to achieve the kind of growth that we are aiming for. We need to look at the work that's been done in Ireland, for example, on support for the service sector and see how that can be translated into the Scottish system.

And, just as manufacturing may have different support needs to services, so different sectors such as life sciences and software, for example, will need different types of support. One size rarely fits all and it certainly doesn't apply to business support. We need to ensure that we understand the different demands of different sectors and ensure that our support is designed to meet that demand.

I've mentioned the "Scottish system" and I think that the principle of a policy that is appropriate to Scottish conditions is vital here. It might sound like a no-brainer but I think we are all aware of times in the past when we've seen something interesting in other countries and just assumed that we could lift it lock, stock and barrel and replicate it in Scotland. We have to be much more attuned to Scotland's sectoral strengths, to our institutional structures and to the demand from our industrial base before we introduce new measures. And most of all, we have to ensure that they fit with the overall system, that they don't maximise one area to the detriment of the whole picture.

The last point I would like to mention is that of a greater clarity regarding the outcomes of innovation. Focussing on outcomes rather than inputs is a key message for this Government. It would be easy to say that there is complete clarity in our approach: we have a single purpose, a National Performance Framework that

identifies 15 national outcomes and 45 national indicators. Everything we do has to be aligned to meeting these outcomes.

But there is more to it than that. This is not a blueprint handed down on high that everyone has to follow without question. The outcomes are ones that we have worked with our key stakeholders to establish as a coherent vision of the Scotland we want to see. The concordat with the local authorities was reached in partnership with them. The high-level outcomes are a shared vision that we can only achieve by working collaboratively. By doing so, we share the vision and clarity about the outcomes.

So, to sum up, increased sustainable economic growth is critical to Scotland's future prosperity. Innovation in products and services plays a crucial part in that growth but there is more to it than that. We need to stimulate greater demand for innovation across a broader spectrum, we need to design our system to meet that greater demand as effectively as possible and we need to work in partnership to create a shared vision of the successful Scotland we are all working towards.