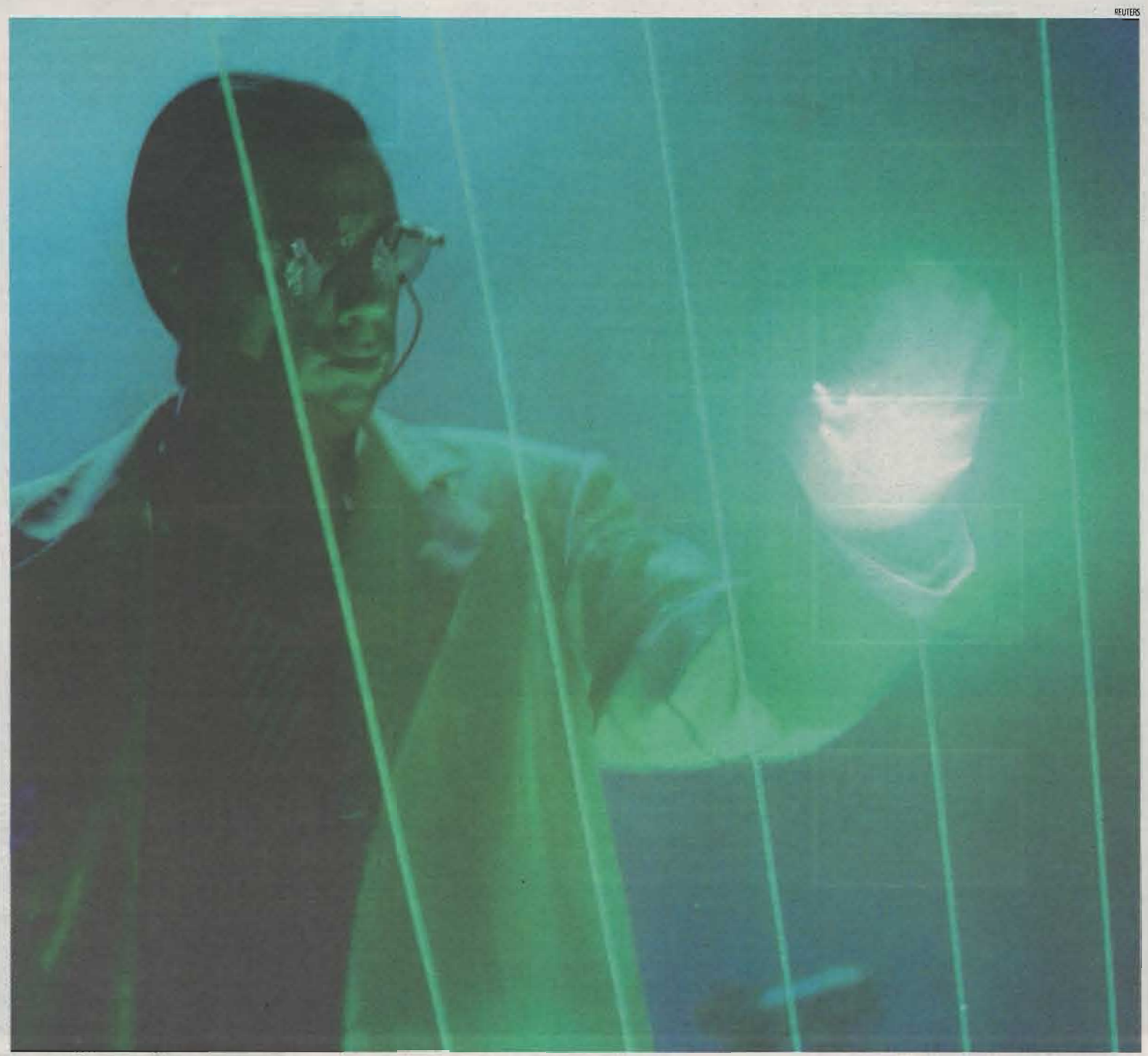
Special report
Securing Recovery

Making the links that sustain the recovery

Innovation can drive Scotland towards permanent growth, and establishing global networks will lie at the heart of success.

By Rob Stokes



REUTERS

Tough times are driving more companies in Scotland to drink at the well of innovation, according to matchmakers between firms needing research and development (R&D) and those that can provide it. Set up in 2005, government financed Interface has caught on as news spreads that native and international businesses can use it as a free and impartial link to Scotland's 26 universities and research institutes. It is a short cut to finding the expertise best suited to developing new and improved products and services.

Unique to Scotland, envied elsewhere, Interface saw a 10% annual rise in enquiries from businesses in the year up to September. Of 629 approaches, 204 (+36 per cent) advanced to discussions and 98 (+23 per cent) collaborative projects resulted, 96 of them for companies based in Scotland and 86 per cent with SMEs.

Dr Siobhán Jordan, director of Interface, says the figures are about more than rising awareness. "Companies are telling us that in the good times before the recession, it was almost a case of being too busy making money to think about innovation.

"Now the chips are down, they want to respond to what customers have been asking for, sometimes for years."

This is music to the ears of policymakers. The Scottish government published an innovation framework in 2009 and is committed to focusing support on improving the [illegible] between businesses and [illegible] other economic [illegible] emerging [illegible] high on the agenda [illegible] shows it really does drive [illegible]

Research for the UK's National Endowment for Science, Technology & The Arts established that only 6 per cent of businesses with the highest growth rates generated half of the new jobs created by existing businesses between 2002 and 2008. Sector or location regardless, these shared an important trait: they were much more likely to be innovative, and this innovation was the source of growth.

Scotland stands out from most of the herd in the depth and quality of its science, the range of support, science parks and initiatives focused on fostering and commercialising innovation, and the networks that have been created or have sprung up organically.

An in-depth 2009 analysis of the research base by the Office of the Chief Scientific Adviser confirmed "the strong relative international performance of Scotland in terms of achievement, productivity and efficiency".

Scotland, a country of five million people, produced 1.9 per cent of the world's most highly-cited scientific papers and had a high share of published papers in environment (1.6 per cent), humanities (1.5 per cent) and biological sciences (1.4 per cent), according to the benchmark Science Citation Index compiled by Thomson Reuters. With only 8.4 per cent of the UK population, Scotland accounted for fully 18 per cent of UK output in biological sciences publications.

Around half of Scotland's world-influencing research is generated by the universities and globally-renowned research institutes located in or just outside the capital.

The Times/QS university rankings place the University of Edinburgh in Europe's top six, together with Cambridge, Oxford and three in London. Its principal, Sir Timothy O'Shea, told the Edinburgh Science Triangle conference last year that he believes the city region is successful because it has a critical mass of world-class researchers, a culture of multi-disciplinary working, embedded commercialisation, appropriate infrastructure and strong support from government.

Edinburgh Science Triangle is a partnership between five universities and research institutes, four local governments, two development agencies and seven science and technology parks, with co-funding from the European Regional Development Fund. The idea is to encourage collaboration between seven different science parks and their tenant companies and to promote the exchange of ideas and expertise between academia and business to further scientific development and industry commercialisation.

The potential presented by such an approach is unrivalled — especially in exploiting the opportunities provided by converging sciences. The Edinburgh region is recognised as one of the top ten research and development locations in Europe with world class-clusters in life sciences, informatics, micro- and opto-electronics, and energy and cleantech. It also enjoys growing reputations in enabling technologies and specialist manufacturing.

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Economists have identified networks as key drivers in achieving clusters with a critical mass of activity to attract talent and sustain research, commercialisation and inward investment for the long-term. "Even though it's easy now to communicate instantly with anyone anywhere via phone or internet, most valuable relationships only happen when the right people meet face-to-face," says Barry Shafe, project director for EST. "It's about giving serendipity a chance.

"Universities need to work hard to engage with business and listen carefully to what it needs and what it is seeking to achieve. Business needs to integrate with relevant local companies and take an enquiring approach to discover how academic expertise can help them innovate and compete on the global stage."

As a key asset for Scotland's IT community, impacting most disciplines from life sciences to financial services, the world class School of Informatics at Edinburgh University shows the value of networks driving innovation.

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During an economic downturn, university spin-outs and similar commercial ventures capable of capitalising on intellectual property may struggle to compete for investment. However, as the market gradually recovers, universities will have to consider the human resource issues that can arise in such enterprises. One of the most immediate concerns will be around the appropriate protection of intellectual property rights and the prohibition of subsequent unfair competition. There will often need to be forthright discussions around the necessary protection, and how the key academics should be rewarded for their endeavours. But a combination of the existing employment contract provisions, the legal fall-back position on intellectual property ownership (whereby in simple terms, the key rights over intellectual property created in the course of employment are owned by the employer) and the fact that most institutions will have very clear published policies on revenue sharing, means that these discussions are likely to follow a reasonably well trodden-path. What is perhaps less obvious to those relatively inexperienced in commercialisation is how the working life of key staff might change, the very different skills that will be required of them and the performance management challenges that these factors might throw up. These might include:-

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- Thought should also be given to whether the failure of the venture (or the strains caused by getting it off the ground) might impact the relationships involved and whether those are acceptable consequences? The human resources issues are varied, and go way beyond the 'black letter' legal and monetary issues. What is clear is that for the venture to be successful they need to be understood from the outset.

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Often the guarantee will include a 'set-off' clause – whereby the guarantor authorises the bank to apply any credit balance on the guarantor's own personal account with that bank towards any unpaid sum due by the guarantor to the bank under the Guarantee.

If the financial position of the company changes to the extent that the personal guarantee is no longer required, then the guarantor should contact the bank with a view to negotiating a discharge from his obligations under the guarantee.

It is now common practice for a bank to require a potential guarantor to seek independent legal advice before giving the guarantee, in order to avoid any future difficulties with enforcing the guarantee. Banks have experienced difficulty in enforcing guarantees in the past as a result of allegations of misrepresentation or undue influence. The insistence that a guarantor seeks legal advice is designed to prevent such a situation arising.

In any event, we would always advise that anyone considering giving such a personal guarantee should seek independent legal advice to ensure they fully understand the significance of the commitment they are making.

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Brodies LLP, the largest commercial law firm based solely in Scotland, has a top-ranked litigation practice with nine specialist business units – commercial litigation, property, planning, insurance, personal injury, public law, family law, debt recovery, and construction and engineering. www.brodies.com.

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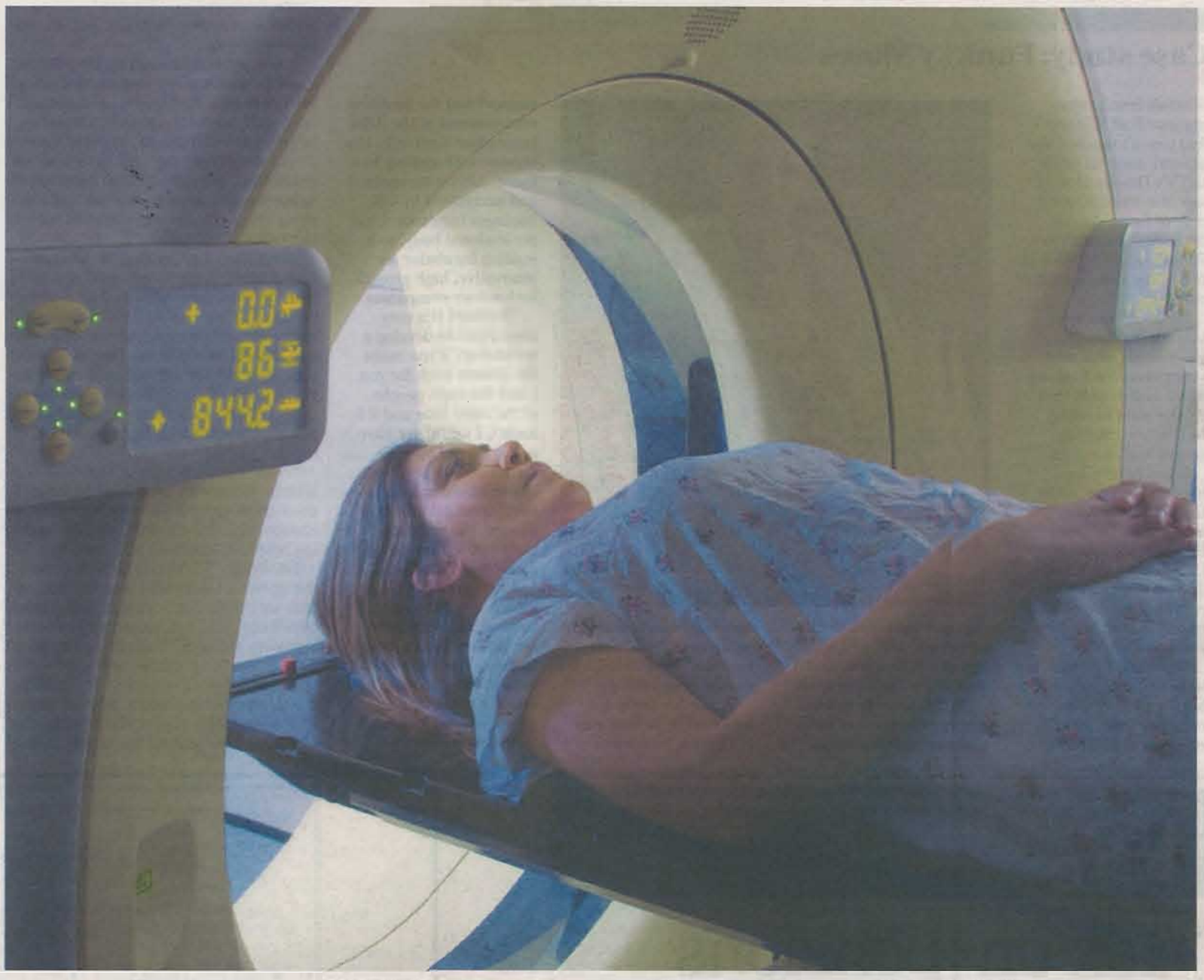

The MRI scanner is an example of world-beating medical technology invented in Scotland

highest quality informatics research group in the UK has generated 31 spin-outs and start-ups in four years and co-operates with IT majors and local SMEs.

"We're way ahead of plan," says Dr Colin Adams, an IT industry executive recruited as commercial director in 2006 to lead a five year programme of tech transfer, entrepreneurism and network building.

The university, Scottish Enterprise and the Scottish Government co-funded the Informatics Forum, a £42 million research facility next to a now refurbished building for teaching, commercialisation and lifelong learning.

The site hosts 30 fledgling companies, a community effectively teaching itself. Each autumn, it hosts DEMOfest, run by the Scottish Informatics & Computer Science Alliance (SICSA) of universities for researchers to promote innovations and collaboration to SMEs.

"I call it a geek dating agency," jokes Dr Adams. "With so many scientific advances, it's hard for firms to keep track."

Engage Invest Exploit, an event each spring, saw Scottish university spin-outs pitch to 48 international investors in 2010. It is run by Informatics Ventures, based at the School of Informatics and funded by it, Scottish Enterprise, and the European Regional Development Fund. "In three years, Engage Invest Exploit has generated £11 million of investment, most of it hard-to-get seed capital," says Dr Adams.

Informatics Ventures invites international speakers to address CEO master classes for SMEs and academic wannabes as well as to a Silicon Valley Speaker series. "Entrepreneurial education should be by entrepreneurs," insists Dr Adams.

Informatics Ventures will send 10 ambitious companies, most likely university spin-outs, to Massachusetts Institute of Technology's prestigious Entrepreneurship Development Program in 2011. The School of Informatics also liaises with trade bodies like ScotlandIS to deepen technology and entrepreneurial links.

Tech Meet Up, a well attended monthly forum in Edinburgh, Glasgow and Aberdeen allows student, academic, and public and private sector IT players to discuss topics of their choosing informally. Informatics Ventures and Edinburgh University also sponsor Girl Geek Scotland, a networking community for women and girls interested in technology, creativity and computing.

There is a clear link between cluster strength and patent output. That, in turn, has an impact on regional economic performance, according to a 2007 report from the European Cluster Observatory, a consortium of five continental clusters coordinated by the Stockholm School of Economics.

Take life sciences for instance. Edinburgh Science Triangle is a key focal point for an emerging success story that is attracting attention and admiration from outside Scotland.

One leading, independent authority believes Scotland has the quality of research to lead the UK life science industry. A report by Dr Glenn Crocker, chief executive of a rival region, BioCity Nottingham, but previously author of Ernst & Young's authoritative European & US Life Science Reports, remarks on Scotland having the UK's highest rate of biotech start-ups — and also more new bio businesses than any other UK economic region except East of England, which encompasses the hothouse of Cambridge.

The UK is in the global top five emerging life science clusters, according to independent sectoral monitors FierceBiotech in 2007, when Scotland was the second largest cluster within the UK.

It punches above its population size to account for some 15 per cent of UK Life Sciences companies and has 625 organisations employing around 31,000 people, Scottish Enterprise estimated in 2009. In 2006, turnover from life sciences in Scotland was £3 billion and Gross Value Added £1.39 billion, the UK's Office for National Statistics calculated.

Another telling study on the subject of business connectivity was published by property investment specialists CBRE which looked in depth at the investment and relocation decisions of the large multinational pharmaceutical groups, arguably the most obvious example of the mobility of modern capital.

The research team found that the number one criterion used in making decisions on where to base operations globally is the strength of local networks. A few years ago it was a negligible factor.

"A connected community is now vital to bringing in technology and investment," says Barry Shafe. "If you want to be a major research and development hub you have to have good networks. That's why Edinburgh Science Triangle has worked with the University of Glasgow and Scottish Enterprise, for example, to extend the Nexxus bioscience network to better connect life sciences

Case Study: Nexxus Scotland

Nexxus Scotland has emerged as a key focal point for the bio community in central Scotland, which is the powerhouse of life sciences in Scotland.

Its raison d'être is simple, says director Graeme Boyle: "There's an anecdote about two researchers in laboratories 100 metres apart who discover they are working on the same thing only when they meet at an international conference thousands of miles away. Nexxus makes sure that happens at home."

Scottish science collaborates to deliver a bigger bang for public or private investors, to avoid or minimise overlaps, share equipment and facilities, and make its easier for investors to source what they need.

In one example, Scotland's National Health Service, which is run independently, collaborates with the four key medical schools — Edinburgh, Glasgow, Aberdeen and Dundee — to offer what amounts to a countrywide clinical research organisation for testing drugs that makes it easier, faster and cheaper to do clinical trials in Scotland.

In England, the average time to get a clinical trial proposal through hospital bureaucracy is 90 to 100 days: in Scotland, the average has been slashed to 19 days.

Nexxus is involved in the Scottish Government's Life Sciences Advisory Board (LiSAB) alongside networks from other hot spots of activity: Aberdeen, Dundee, and Inverness.

They work with academia and industry on five key focus areas and work streams — people, technology, capital, infrastructure, and collaboration — within the 2008 Scottish Life Sciences Strategy drawn up by LiSAB.

Feelers have also been put out to bio regions on the continent to see if there is scope to collaborate more widely to meet the needs of businesses and capture more business for Europe in the global competition for inward investment. Other European bio networks will be visiting Scotland later this year when Graeme Boyle expects to explore links.

"We'll probably be talking about how we can work jointly to provide SMEs with better access to individuals, companies and shared facilities."

Nexxus Scotland demonstrates the economic potential of investing in networks. It delivered a four fold return on the public investment that went in to it in its first five years, as measured through a 2008 assessment of Gross Value Added.

in association with

Edinburgh Science Triangle

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Case study: Funky Moves

Scottish based entrepreneur Ralf Klinnert's feet haven't touched the ground since his pitch to TV's Dragon Den saw him trade 50 per cent of Funky Moves for £120,000 from Theo Paphitis and Peter Jones, two of the show's panel of investors.

Funky Moves sells brightly-coloured sport cones with user programmable flashing lights and sounds that can be used to set up interactive training games and exercises.

It has been a long haul since 2000, when German born Klinnert graduated from Edinburgh's Napier University with his first degree in electronic engineering. He already hoped to start his own company one day.

Since the TV show, his website has handled a huge and international response from private consumers and professional buyers such as schools, colleges, sports and health clubs, and distribution companies.

"I'm already in final stage discussions with global distributors of specialist sports and gym equipment," Klinnert revealed. "We're talking numbers and contracts."

While his fortune looks set to be made by television, he credits support and the business environment at the Alba Innovation Centre in Livingston with getting him there. Alba is recognised and accredited by UK Business Incubation, the professional body, as a leading incubator for innovative, high growth technology companies.

"Scotland is a very good place to develop a technology if you make the system work for you. I met the right people at the right time and if I hadn't, I would not have got as far as Dragon's Den. There is genuine interest here in helping companies get off the ground. Business contacts in Germany say it is easier to do that here."

As he prepares to go global, one his motivations is just what economic developers love to hear. "To a certain extent, I feel obliged to make it successful to give something back to Scotland."

across the central belt, not just in our own city region."

It is a point reinforced by Dr Michael Capaldi, director of commercialisation for Edinburgh BioQuarter, a stakeholder in EST, says this globally important, large scale development on the outskirts of Scotland's capital city is all about generating synergies from biomedical researchers, finance, businesses and hospitals being close enough to network effectively.

Edinburgh BioQuarter, a £750 million public/private investment, is a 100-acre site seemingly destined to position Scotland in the world's top ten places for biomedical commercialisation. One sure sign that the world has noticed is that Dr Capaldi is already fielding enquiries from venture capitalists with investment funds in the £100m to £200m range, who are potentially interested in being based in the BioQuarter.

"What we are hearing is that Scotland is being taken very seriously," he says. "I don't think there'll be anywhere else in Europe with this concentration of teaching hospitals, institutes and incubators."

Edinburgh Science Triangle's faith in the power of networks and the important part played in fostering those links by science parks is demonstrated by some revealing research findings based on a small part of its constituency.

As part of a wider project to establish the economic impact of science parks EST undertook a pilot study at the Roslin Biocentre. The tenants are largely young companies, the sort of fledgling operations that might normally be expected to be swept away in a major economic recession, such as the one that was raging as the researchers were doing their rounds. However, their findings could not have been more startling.

Overall, those same smaller companies grew revenue by £11 million in the past 12 months and enjoyed year-on-year profit growth of 13 per cent. Removing the longest-serving tenant from the equation — which has also done well — the 16 companies questioned grew overall by 35 per cent.

The majority of Roslin companies launched new products in the past year — there were 29 products in total — and five tenants have filed patents. Some £9 million was spent on research and development and most companies are already working internationally.

"It is clear already from these pilot study results that the business activity on science parks is way ahead of the norm," says Barry Shafe, of EST. "We should not think of science parks merely as bricks and mortar but as outstanding support networks where innovative, ambitious companies can find assistance and grow to the next level."

Business needs to innovate to secure its own recovery. In securing economic recovery in Scotland, the Government can expect above average returns from future investments that take full advantage of the existing infrastructure and networks.

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Flight path to take us beyond recession

A comprehensive network at home and abroad helps firms find and train leaders of tomorrow

Scotland's training services and incentives have been recast to better match the supply and demand of skills to boost economic performance. Government-led initiatives aim to shift the skills balance toward high growth industries of the future while protecting jobs. Skills Development Scotland is the Government's leading, countrywide, skills body. Services include: free workbooks for staff training; online search for courses; access to work experience, training, for individuals and businesses; and liaison with learning providers and institutions.

Schemes include Get Ready for Work, Training for Work, Modern Apprenticeships, Skillseekers, Flexible Training Opportunities, and ILA Scotland. For individuals, some are free or subsidised. Non-returnable grants may be available to employers. Government initiatives drawing on some of these options include Step Forward Scotland, for teenagers.

ScotAction, government-led skills support to assist sustainable growth, can include wage subsidies for training. Redundancy support is through Partnership Action for Continuing Employment. The Big Plus boosts literacy and numeracy.

TalentScotland helps recruit international talent. Free services include job advertising, company promotion, access to graduates, and a visa, immigration and relocation advice. Recruitment agencies may place client-led advertising free for posts in key sectors: life sciences, energy, financial services, electronics, and the games industry. Scottish recruiters who help international candidates find work in any industry in Scotland may profile their activities through TalentScotland. Workers establish online accounts to apply for jobs and receive news and job alerts.

TalentScotland is a partnership between the Scottish government, the development agencies Scottish Enterprise and Highlands & Islands Enterprise, and Scottish Development International, the business internationalisation body.

Discounts are available on business flights to economic hot spots

The Association of Graduate Careers Advisory Services assists with TalentScotland Graduate Placement, offering recent Scottish and international graduates and postgraduates work with dynamic private firms and social enterprises for three to 12 months.

Scottish Enterprise provides management improvement initiatives and incentives. These include Leadership for Growth workshops, mentoring and coaching for existing and future leaders of growing businesses; a free Leadership Development Guide; a Business Mentoring service in partnership with Scottish Chambers of Commerce; and a Rural Leadership Development Programme.

Its Scottish Manufacturing Advisory Service offers free support and training for lean manufacturing. Innovation Support Services (ISS) helps managers develop new ideas and approaches. Investors in People Scotland is a proven model for leaders to support, manage and develop employees.

Scottish Development International assists firms to internationalise. It has a contact network, incubators, meeting rooms and support services in key global locations. SMEs can get 15 per cent discounts on flights to 130 British Airways' destinations, subject to terms.

Scottish Enterprise provides GlobalScot to draw on the experience of Scots abroad. Scottish companies tap freely into this for advice, contacts, assistance and support.

The Saltire Foundation has an Internship Programme offering talented students experience with the world's top companies. Its Fellowship Programme, a 12-month, full-time schedule of academic study and company experience fast-tracks go-ahead leaders.

The foundation aspires to develop people with the skills and drive to transform Scottish companies into global businesses of scale.