Innovation, Design & Creativity – Leading Competitive Advantage

1. Designing entrepreneurial economies

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Designing Entrepreneurial Economies

INTRODUCTION

If we are serious about rebalancing the UK economy we cannot remain overly dependent on debt and consumption and on London and the South East to deliver jobs and growth for the country as a whole. We need to **revitalise our regions**.

As John Cridland, Director General, CBI observed, "Cities outside London could contribute a great deal more. Most don't stand up to their equivalents across Europe and without regeneration they will continue to 'punch below their weight'."

Designing and facilitating entrepreneurial approaches means, of necessity, providing **strong leadership and vision** to design **longer term solutions to dynamise city and regional economies**. It means creating broadly based economies and building on our existing strengths.

For the Midlands it means sustaining production, brand development and creating a **neo industrial economic paradigm**. Especially so, in light of a growing recognition of the need to re-evaluate the **role of manufacturing and its fundamental value to our economy,** its contribution to our balance of payments, in driving innovation in processes, products and services, and in transforming more mature productive industries and moving our offers into higher value market sectors.

As **Sir George Cox said in 2005 in his 'Review of Creativity in Business'**, "*the decline in manufacturing does not have to be inevitable and unending. In practice* ***greater creativity is key to greater productivity,*** *whether by way of higher value added products and services, better processes, more effective marketing, simpler structures or better use of people's skills."*

However, competing on **quality, specialist, higher value added, luxury and brand-led offers**, rather than price, has led to **increasing complexity** in applied skills, expertise, technologies, processes, products and services, marketing and routes to market, requiring **locally based support for business** through **collaborative networks** providing access to best **sources of ideas, knowledge, expertise and credit** or accessing an **innovation eco-system**.

The importance of design is in helping to stimulate user-focussed innovation and to this end prompting creative approaches in business. Professor John Heskett has highlighted the **'context of use'** in creating competitive advantage for companies, stating that whilst most economic theory halts at the point of sale it is through greater understanding of our human problems and the challenges associated with improving our quality of life that design is of crucial significance in introducing change that is both meaningful in people's lives and simultaneously capable of creating sources of competitiveness for firms.

In this respect design is too often 'a missing element' in current business management development which tends to focus on the core and important management disciplines such as, Financial Reporting and Control, International Economy, Leadership and Organizational Behaviour, Marketing and Brand Management, Technology and Operations Management, Strategy, Entrepreneurial Management and Corporate Accountability. It is a too often the missing element that is about developing a strategic approach to enhancing all aspects of business competitiveness by adding value through making products and services enhanced through creative and user-focussed approaches to develop incremental, lateral, disruptive and new market opportunities.

Short-termism associated with shareholder capitalism has provided some impetus to explore **alternative business models** – by drawing on existing approaches such as cooperatives, social enterprises and companies limited by guarantee – or looking at newer approaches including co-working and collectives, as outlined in our pamphlet on, '*Driving Regional Growth – Education*'.

Medium and Small sized businesses (MSBs) are recognised as important **drivers of employment and growth**. If properly supported the CBI states they can add a further £20bn to UK GDP by 2020. Building on the German example and the importance of the mittelstand, this requires more highly coordinated regional governance and devolved solutions. Assisting these businesses with skills and knowledge acquisition can, in turn, drive sales and market share acquisition.

The family-run element of the **German Mittelstand is an important regional role model**, given the commitment by these families to ideas and activities looking beyond immediate economic benefits and into their communities, combined with the goal of creating better places for people to enjoy as well as looking to the next generation in terms of the time frames for operation. The Mittelstand thrived in a system of Federal Government with regionally devolved systems of finance, capital, and notions of strong regional identity and place. Enhanced socially democratic models at regional level, such as those found in Germany were also seen as playing a part in delivering solutions.

A top competitive priority is to drive **greater levels of business and education collaboration**. This will help young people to understand more about **career opportunities** within local businesses, in manufacturing and design; it will help education to meet and develop applied solutions for evolving regional skills requirements and in turn lead to more sophisticated and on-going collaborations between education and business involving **knowledge transfer, applied research and workforce development**. Getting the skills mix right and accessing the best available talent also requires a flexible visa system.

We need to diversify, **innovate and facilitate access to finance for businesses**, through regional and city based sources of capital enabling development of strategic infrastructure projects and freeing up the public sector to play a greater role in local economic growth through financial flexibility and public procurement. The first Building Society was formed in Birmingham – we need a regional finance system providing 'patient' finance that works with and for our productive base.

The **current planning regime** is holding back growth – nationally and regionally. With businesses sitting on an estimated £700bn cash pile the planning system has been getting in the way of the big developments needed to see our economy grow. These include projects focussed around urban regeneration, renewable energy generation, sustainable solutions, infrastructure, housing and commercial development.

Designing Entrepreneurial Economies – Recommendations

1. **Revitalise our Regions** to accelerate rebalancing our economy through coherent **longer term solutions in city regional governance**.

2. Create and promote a '**neo industrial paradigm'** that creates a **manufacturing eco-system** and a **culture that values and generates pride in production** – by promoting and educating people about the great products made in Birmingham and the Midlands, as well as opportunities for jobs and growth.

3. **Move productive business into higher value added offers** including specialist, niche, luxury, brand-led offers facilitating this through development of **regionally based innovation eco-system** harnessing knowledge and facilities of universities, Research Centres and business and facilitating their **focus on user-centred design and innovation.**

4. **Incentivise collaborative enterprise**, **entrepreneurship and business formation drawing on alternative business models with longer term horizons,** building on Birmingham's history as home to the first UK Building Society.

5. **Support Medium Sized Businesses and Family Businesses** in particular through effective provision of funding, applied knowledge, skills and expertise.

6. Focus on developing **education-business collaboration** providing emerging talent with a greater understanding of manufacturing and **career opportunities** and **developing employability skills** and providing emerging business managers with an appreciation of the opportunities for **driving competitiveness through harnessing design-driven innovation and creativity focussed on enhanced user experience.**

7. **Empower the public sector within regions** to play a greater role in financing and planning for growth.

Actions we can implement without government intervention = 1, 2, 3, 4, 5, 6

<u>Director General, CBI, John Cridland , 6th June 2013</u>
<u>*The opportunity for private sector-led regeneration*</u>

John Cridland stated that it was encouraging that there were some signs of 'quite powerful' economic shoots. GDP growth was forecast at around +1% for 2013 and at +2% for 2014. In short, 'things can only get (a little bit) better'. Rebalancing from debt-driven consumption to organic growth was a priority. Small companies in aggregate amounted to half UK employment. Middle Sized businesses (MSBs) were very important in the growth mix and sensible regional economic governance would help develop an integrated approach to putting in place the conditions required for business to flourish.

Looking forward whilst recognising cutting the budget deficit was the 'number 1 priority', the Coalition government had promised to make £11.5bn cuts in 2015 – would they be able to deliver on this? "We need to get Britain building, we can't keep cutting. This means infrastructure, science, innovation, research and skills. We want to hang onto our EU markets, but at same time expand into the BRIC markets (Brazil, Russia, India and China) where there is great potential," said John Cridland.

Businesses were delivering for consumers and communities. There had been some work done recently about what citizens felt about businesses. They had talked to people in focus groups who responded to the businesses as consumers and spoke of their 'experience' of that business in terms of what they consumed from them. "What we offer our consumers must pass muster. There is no point in doing CSR if our offer doesn't pass muster."

One of the biggest contributions we can make is in education. We're doing some phenomenal things on skills. It's very important for our creative industries to have apprenticeships in place. We won't tackle skills shortages unless business gets into schools. As Plutarch said 2000 years ago, 'the essence of the mind is not a vessel to be filled, but wood to be ignited'.
This, said John Cridland, required businesses from all parts of the UK to be investing and exporting, 'from Durham to Dagenham and Taunton to Teesside'.

In summary his talk was a plea for sensible regionally-based governance. This meant taking an integrated approach to putting in place the conditions for all business to flourish, with a particular focus on those located in cities outside London, in turn leading to greater economic success for those cities and their surroundings.

Commenting on the Birmingham MadeMe Design Expo venue he congratulated Millennium Point for being 'in the vanguard of Birmingham's adventurous regeneration…as an exciting creative and technological hub'.

Millennium Point, he said, highlighted the importance of local economies being properly governed and supported to achieve great things and to drive local investment, adding that we needed more focus on key geographical pockets of industry and innovation.

Referring specifically to the MadeMe Design Expo he said, "I think it is very important to stand up and shout about what we are good at, and Birmingham takes it back to the roots as a great manufacturing city and a great innovation city.

"We are still the 9th or 10th biggest manufacturing nation in the World, even with what is happening in China and India. And if you look at the automotive industry, including the Midlands, it was on its knees around 5 years ago, now we are exporting more than we are importing. This is a fabulous success story and a reminder that in West Midlands and Birmingham we certainly do make things."

The model of sustainable business-led growth needed to be underpinned through local regeneration which in turn required the unlocking of the creative and innovative potential of our major cities. Cities outside London could contribute a great deal more and most didn't stand up to their equivalents across Europe and without regeneration they would continue to 'punch below their weight'.

This meant that the right physical conditions for business to flourish needed to be in place but to do this we needed to redefine our approach.

"We need to break the cycle of dependency on the public purse to bankroll building projects and focus more on local business strength, leveraging the strength of the public balance sheet as a confidence booster to drive investment," he said.

Whilst there wasn't a 'one size fits all' approach there were common drivers and in reviewing these he highlighted four themes –

1) Creating the best urban platform for growth through, for example, adequate Grade A office space, vibrant high streets and addressing the growing burden of business rates
2) Dealing with the housing shortage
3) Enabling local economies to play to their industrial strengths
4) Providing strong leadership enabling bold decisions and meaningful solutions for the wider infrastructure including –
    a. national infrastructure schemes such as HS2 and key local developments, such as the Birmingham Metro extension,
    b. strong LEP governance and cross party commitment to stability on current structures beyond the next election
    c. businesses - education collaborations to develop skills provision solutions
    d. planning reform to ensure consistent and speedier decision making

In reviewing all four he stated in the first instance that the buildings businesses occupy need to fully accommodate business need. "Here in Birmingham, the availability of Grade A office space has fallen by over 50% in the last 5 years." Whilst this might look good when reviewing occupancy figures right now, his concern was that in 5 years' time there could be a shortage of suitable new office space 'spec'd-up' to the needs of 21st century businesses.

Across West Midlands high streets 16% of all shops were vacant. There was no shortage of bright ideas about ways to use this space and local communities needed to put their heads together to 'envisage them afresh'. This might mean, for example, fewer shops, more restaurants, revamped community spaces, but it was important that each area came up with its own response and solution.

The 'growing burden of business rates' was a major barrier to renewal. He said, "I've spoken to businesses paying huge amounts based on valuations done five years ago; their rents have decreased, but their rates have gone up, making it harder for them to keep their high street operations open."

It was a shocking fact that as a country we built only 'half the number of homes we need'. Whilst the government had helped with mortgage access initiatives he said that supply side action, or 'shovels in the ground' was still required. "Failure to build will see housing in our major cities become increasingly unaffordable, pricing workers out of the areas where they are needed most."

There was a clear need to play to local industrial strengths with the region's recent automotive manufacturing success highlighting this. By drawing attention to the i54 Wolverhampton site transforming 91 hectares of previously dormant brownfield land he emphasised the strong leadership required by the local authorities. "To make it possible local authorities collaborated to deliver the connecting infrastructure and it's now attracted significant investment from the private sector - £350m from Jaguar Land Rover to develop a new state of the art engine plant."

This kind of strong leadership and bold decision-making needed to be extended to 'put in place all the pieces of the jigsaw'.

Major national infrastructure developments, such as HS2 were 'sure to bring a huge string of benefits to this region' and three quarters of CBI members believed this to be the case. Smaller schemes like the Birmingham Metro network could bring great local advantages too.

LEPs too needed to provide strong governance to drive change by 'combining public and private ingenuity for a broad vision of local strategic growth with a single common cause'.

From April 2015 next year the Single Pot would enable LEPs to have the chance to bid for money currently going to local transport, housing and skills. The Single Local Growth Fund could help LEPs to take this chance to develop better local approaches bringing out the best of localism which freeing up the LEPs to get development activity off the ground.

Whilst business remained concerned that LEP structures had a future beyond this parliament, they had been impressed at how quickly the GBSLEP had moved to publish '10 big ideas' working with Lord Heseltine to access the Single Pot once it was up and running.

Their focus on skills provision was welcome. "Bringing schools and businesses closer together is absolutely essential to create a ready supply of human capital for ever-growing business demand. Key skills needed in the West Midlands need to be developed, honed and provided locally by schools, colleges and universities based on your doorstep."
Other ideas developed by the LEP had focussed on infrastructure and property renewal; the creation of sector acceleration zones to boost advanced manufacturing, life sciences and digital industries; the M42 economic gateway, all of which had the potential to create 100,000 jobs and bring in £14bn additional GDP.

On planning John Cridland welcomed recent government steps taken to reform the system, which if implemented locally would help to increase investment and development, but as he said, "That is a big 'if'".

CBI members regretted the lack of consistency in the system and remained concerned at the speed at which decisions were made. The Black Country LEP had done some good work in adopting a consistent approach to applications throughout its local authorities but the approach was not as supportive across the piece.

Speaking **11th September at the HMG-CBI Industrial Strategy Conference** John Cridland launched the CBI's new report '**Raising the Bar – Business Priorities for Industrial Strategy one year on'** and highlighted the continued the CBI focus on developing a new industrial policy.

CBI member businesses remain concerned about the potential of the UK to deliver the conditions that will help companies become more competitive. "This economic rebalancing is taking a lot longer than any of us anticipated. Beyond the statistics, our aspirations for growth need to be underpinned much more by trade and investment. Our trade deficit is narrowing, but business investment still stands 25% below its pre-recession peak."

The CBI was no longer debating whether an **Industrial Strategy** was required 'that debate has been won' as they put it. There are 11 recognised sectors with sector strategies.

"Where we go next is what I'm interested in. For me this means three things: **taking action to further improve the competitiveness of the UK's business environment**, **strengthening supply chains** that underpin our **key growth sectors** and raising the bar on **implementation** by both business and government."

On infrastructure and access to finance John Cridland highlighted that the UK still lagged behind key competitors in these areas and proposed benchmarking our performance against them.

On the second priority he stated, "Strengthening supply chain companies that underpin champion sectors will make industrial strategy real to people and businesses in every region of the country." But supply chains had been 'hollowed out' over the last few decades partly through strong sterling and partly through low costs in developing economies. Many supply chain businesses were SMEs and the CBI had highlighted the economic impact of growing these businesses could contribute as much as £20bn by 2020.

He added, "Many companies are tightly woven into the fabric of a number of different sectors, think of the many uses for chemicals, steel and electronics. Take Tata Steel, which supplies to companies in multiple sectors including automotive, oil & gas, nuclear, offshore wind and construction. Given such **interconnectedness across industries, it's important to adopt a more holistic approach to developing and exploiting the synergies that exist within and across sectors**."

He highlighted how research from the Automotive Council revealed that 80% of all component types required for vehicle assembly could be produced in the UK – amounting to £3bn of unfulfilled opportunity. Government needed to work with businesses to promote more effectively the support already available – from innovation assistance through Catapult Centres to UKTI export support.

In terms of access to finance John Cridland flagged up the finance being made available through the **Advanced Manufacturing Supply Chain Initiative**, stating, "this fantastic scheme is focussed entirely on boosting supply chain capability – I believe it should be expanded and extended."
He commented on how he would like to see more collaboration along supply chains on issues such as innovation, skills training and access to finance, flagging up Rolls Royce Apprenticeship Academy as a great way to train up the skills it needs for the future as well as its supply chain.

On implementation John Cridland repeated the **need for coordination across departments** in **government.** "It has to be a vision fully owned and wholly bought into…policies need to be aligned in support of growth. That's why the CBI is calling for objectives related to industrial strategy to be written into all relevant departmental business plans from next year."

Finally, business remained concerned about the sustainability of any strategy, especially in light of reshuffles and forthcoming elections.

<u>John Longworth, Director General, British Chambers of Commerce, 20th June 2013</u>
<u>*Designing and exporting our way to recovery*</u>

BCC Director General, John Longworth put the case for an enterprise-friendly government to support SMEs and manufacturing in putting our economy back on track. Birmingham manufacturing was at its height when there was the least government, the lowest taxes, the most finance, and when it traded the world. It was interesting, he noted, that the demise of British manufacturing coincided with the rise of City investment in services and overseas, a period of 'rent-taking' by management, unions and shareholders from the late '70s, coupled with the 'Deadhand of Whitehall' and the 'comfort blanket' of the EU.   SMEs had, for too long, been starved of access to funds for growth.

John Longworth: In 1870 Birmingham had been the great manufacturing city of the world. 35% of UK employment was in manufacturing.

In 1913 - 33% of UK workers were still employed in manufacturing.

In 1870 the level of UK GDP when divided by number of people making up our population was the highest in world with exception of Australia and it was twice as high of that of USA. In 1913 only USA, New Zealand, Australia were better.

In 1950 the economic performance of UK exceeded only by handful of countries. The re-set button was set by WW2. And it gave us an advantage that we didn't capitalise on.

The UK exported more than any other country. "But we began to lag. UK patents had fallen behind other nations by 1913. Investment in manufacturing declined from 1870 with the City investing in services and overseas. However in 1950 the UK was still in an enviable position.

We know now what not to do. The period of greatest economic decline for manufacturing was between 1950 and 1979. This was the 'Golden age of Economic Growth' across the world, so it masked a lot of bad stuff in UK. It was the period in which successive governments had industrial strategies, were picking winners, and when the public sector became bloated. Slowly but surely we stopped training for skills and started educating for equality.

All this led to 'rent-taking', amongst Unions, management and shareholders, crowding out challenger companies and the lack of growth amongst SMEs into MSBs. We lacked an enterprise environment. The 'Deadhand of Whitehall' was heavy, overlaid by the 'Comfort blanket' of the EU.

Successive government of both complexions avoided hard choices. The engineering sector is now starved of apprentices and graduates alike, both equally important.

SMEs are starved of the finance they need for growth. Even our policies post '79 have only managed to arrest economic decline against 'developed countries' and worse in comparison to the BRIC economies.

By contrast Birmingham manufacturing was at its height when there was the least government, the lowest taxes, the most finance, and when it traded the world. What's to be done?

There is a small and perfectly formed manufacturing sector. It is beginning to grow again and is still around 10% of the economy. We need an enterprise friendly environment.

Two years ago I became Director General of the British Chambers of Commerce. I believed it important to change the economic paradigm. The Chambers of Commerce can do much good, with their local and regional bases - even if we are still too 'Pale, White and Male'.

To nurture SMEs to MSBs and challenger companies to grand-children, government needs to intervene where there is market failure and recognise structural failures of big finance. We need to put in place a development programme through public and private investment over the long-term.

We need to recognise that education, knowledge and skills are as important as hard infrastructure. We need support for exporters; that's what they want.

Every business has its own story of hard work and enterprise, of' it's tough but we're doing OK'.

If we all knew this of each other, then total confidence would rise, because we're all doing this. But in business we're all doing this inspite of government, not because of it. We are all up for it and we can be world class. Exports are now driving growth and employment.

Government needs to focus on creating an enterprise friendly environment and if they won't facilitate that then they need to stop trying to meddle and get out of the way.

Simon Walker, Director General Institute of Directors , 12th June 2013
Design and Innovation leading job creation and growth

Simon Walker praised the ethos of the MadeMe Design Expo, which he said, 'was rightly capturing sense of Pride in what Birmingham can do'. "We need a campaign to promote value of manufacturing heartlands and to ensure that we have the necessary skills and transport infrastructure to support this growth."

Simon Walker: Earlier today I was shown around Bromford Industries, whose manufacturing and process capability is providing a single source supply point to the world's leading aero, industrial and marine gas turbine, nuclear and specialist engineering manufacturers – including the aptly named, 'Jesus nut' attaching helicopter blades to the rota.

I am hugely impressed, as Director General of the IoD, in having the opportunity to get to meet so many innovative businessmen and women across the country and to see the inspiring work of British business.

If it was just about cheerleading as Director General of the IoD it would be an easy job! Whilst there is some fantastic design work happening we need a great deal more. Birmingham has some great examples – Jaguar Land Rover, with car exports at a record high.

WMG at Warwick University is educating 600 Jaguar Land Rover staff to degree level. Greater collaboration between industry and universities is essential to equip our workforce with the right skills. The IoD's single biggest priority to get more young people into industry.

The Daily Mail ran an article a few months back looking at the final year class at Eton. Of these 2 had gone into the armed forces. All the rest had gone into the City, except one acting for banks. We have got to change that or Britain's future will be incredibly limited. I keep stressing this to government along with the need to keep reinforcing the bonds between education and business.

Our country has not always had the best designed infrastructure. The developing world is powering ahead. For example, I have been discussing with the Brazilian Ambassador the potential for the country and for our IoD members .
Half our members are exporting to the BRIC (Brazil, Russia, India China) countries and two thirds are exporting to the Middle East. How we get to these markets and get them to come to us matters. Skype and iPhone apps help, yes, but personal relations even more important with these countries. Two thirds of our members said last year in survey that direct flights are very important to them and they are very sympathetic for Birmingham to have more capacity.

If we were designing a network we wouldn't design what we have now. We are designing around trade-offs and political sensitivities. The German Ambassador told me recently of a new motorway into Essen built just 8 years after it was proposed, even with necessary environmental consideration and protection for local frog populations.

There is a broader national debate required – we have got to get more long haul flights into Birmingham. The Runway extension currently being built enables that. Beijing and Shanghai will be within reach.

There are 10m within one hour's drive of Birmingham Airport. Bur of these, 3m passengers are using South East airports. Whilst competition is the best way of improving the range of air services available with good surface access, our ticketing infrastructure has fallen behind.

Euston connectivity, combining air and rail tickets is needed, as this is par for the course in Germany and elsewhere. For example, at Cologne Airport you can connect into high speed trains ticketing. We need to get beyond siloed transport planning.

There is also the difficulty of getting into this country. Our Visa situation is very challenging as it takes 12 weeks to process a visa to travel to the UK from Brazil. On welcoming a Brazilian delegation following a 15 hour flight, I found it took 2 hours 43 minutes queuing on arrival from Sao Paulo in London. However, in Sao Paulo the experience was of queuing for just 20 minutes to get through immigration there.

Their government seems serious about Visa applications and immigration checks. However, our default attitude should by one of 'welcome' rather than 'suspicion'.

The Home Secretary has been talking about Visa restrictions on Brazilians. Some very senior people running universities couldn't get visas to visit the UK. There are six times as many Brazilians visiting Germany. And there are eight times as many going to France from China as come to the UK: 28 million last year, 28 million this year and 28 million next year in China learning about Shakespeare.

I think it's an absolute crying shame that it takes 3-4 days to get a Visa for China. We are doing ourselves a disservice. Politicians from all political parties are doing great disservice. It's time to show some leadership. Cost of UK Visas is too high. You can't apply for a UK visa from Yemen. You have to go to Cairo and get good word put in for you and show your bank account details. The UK Fruit Growers Association has called for Visas for Ukraine and Russian migrant workers. We are a great trading nation and that necessitates mobility and access.

Other countries have abolished air passenger taxes. In Holland they raised Euro 300m revenue from this tax but found it was costing the wider economy Euros 1.4bn so they got rid of this tax. We in the IoD would not be surprised if the same applied in this country. IoD is keen to champion people in this city; it is one of liveliest branches in the country in Birmingham.

There is a serious policy problem. Our planning systems are crippled by excess of democracy. Key decisions have to be made. It is the 60th anniversary of Heathrow being built and decisions need to be made about where we will find our next capacity.

There is endless scope for localism. Policy solutions are required. For example, why not consider setting up a Commission looking at projects of national importance. It shouldn't be composed of people with political future, but it could be composed of people with a political past who were given the power to make decisions of national interest within specific timescales providing them with the opportunity to think about the bigger picture for all parts of our country.

Identity, quality of life, education – we need to engage local communities in spatial structure and vision. But we also need to be able to rise above local communities so they can't frustrate national advantage. If they need to share in the economic benefits that also seems a reasonable goal. Shale gas and fracking is an example. Communities should benefit from lower prices and rewards need to be shared too. But we simply can't string decision-making out forever with all the consequences that brings not only to local communities but to the nation."

Dr Tim Bradshaw, former Head of Enterprise & Innovation, CBI ,20th December 2011
UK needs a Design Strategy says CBI Head of Enterprise and Innovation

Dr Tim Bradshaw, (former) Head of Enterprise and Innovation at the CBI strongly supported the need for a national design strategy when speaking to businesses in Birmingham in 2011. He emphasised the need to break the link, either explicitly or implicitly, equating design with just the so-called 'creative industries' as design was an important catalyst in the innovation process and could be more effectively harnessed to drive growth and savings in the public and private sectors.

Dr Tim Bradshaw: With economic growth stalling, the public deficit at 7.9% of GDP and debt at 84% and growing in 2011 (7.6% net borrowing 2012/13 and public sector net debt 74.5% July 2013) the UK needs a design strategy that is active and ambitious, setting a clear direction of travel; developing our competitive advantage both across all areas of government and in terms of all of its interactions with the public and wider economy.

Design is essential in all areas of policy & regulatory development, in all areas of service delivery, in business operations, in processes, product development and, increasingly, in changing behaviours... something that needs to be at the heart of thinking when tackling pressing issues such as climate change and obesity," said Dr. Bradshaw.

Within government it is pleasing to see design is 'on the radar' with the government's 'Innovation and Research Strategy for Growth', focussing on design, not as a stand-alone silo, but as part of essential innovation systems reaching across borders, institutions, sectors, processes and public organisations.

The report, published in November 2011, stated, "The UK innovation system has distinctive characteristics that are actual or potential sources of competitive advantages. These include (1) a genuinely world-leading science base and information infrastructure, (2) a major financial sector that can be better directed to support firm growth, (3) a strong supply of high-level skills and access to globally mobile skills, and (4) strong business performance in the creation of intangible assets. The government has a strategic role to play in order to build on these assets and leverage the innovative potential of the economy."

Stressing four priority areas for innovation policy the report recognised:
1) the need to strengthen the sharing and dissemination of knowledge within the innovation system;
2) that innovation performance increasingly rests on creating and using a more coherent research and innovation infrastructure;
3) the importance of driving business innovation in all sectors of the economy, in high-tech but also in our large service sector, and in low and medium-tech activities;
4) the potential for transforming the public sector into a major driver of innovation.

However, in spite of this we still have a long way to go before design is embedded in thinking as the norm right across government, stating that a proper design strategy could help move things in that direction.

If you look at the government's Plan for Growth that came out with the Budget, for instance, design barely features in any meaningful way - and that is despite having a whole section on the digital and creative industries."

He was encouraged that design was mentioned a couple of times in the Autumn Statement, referring to the design of procurement systems, but could see no reason why design should not feature in all areas of government policy whether, for example, in tackling bovine TB, education policy or the MoD.

The government currently spends around £1/4 trillion a year on goods and services. Making wider use of design principles and thinking could see it delivering more effective outcomes, more efficiently.

Ultimately this approach could allow the government to do more with less and have a better chance of tackling the deficit.

In business dealings he illustrated the ways in which a design strategy would help to raise the profile of design, setting out the UK's vision and ambitions to stimulate investment as part of a strategy for economic growth.

Mid-sized businesses, for example, are being hailed by everyone as the unsung heroes and the future champions of growth - BUT... only 62.5% of UK mid-sized firms describe themselves as innovating, compared with 84% in Germany and 67% in France.

We need to increase the rate and pace of innovation across more businesses if we were to compete effectively internationally, improve our balance of trade in goods and services, attract more inward investment and create more high value jobs.

Emphasising design, rather than R&D or innovation is the way forward. We know from NESTA's innovation index work that innovative firms spend something like 40% more on design than they do on R&D. The innovation survey shows how design is significantly more important for novel innovators.

So if we can make more of our strengths in design spreading this to more companies and into more areas of their operations then we will be in a much better position to export, attract investment and grow.

If we had a coherent cross-government design strategy that helped us make real headway into markets such as these, with new products and service offerings (perhaps developed as a result of government being an intelligent customer for good designs and new ideas through public procurement) and a design strategy that helped to tackle the budget deficit and debt with a different approach to public services then I think we would confidently be able to see light at the end of the tunnel.

Panel Chair: Tim Finch, Communications Director, IPPR, 7th June 2013
Panel Discussion: Developing Sustainable Regional Economic Models
Panel participants: Richard Burden MP, Lorely Burt MP, Rt Hon John Spellar MP, Lucan Gray, Custard Factory, Dr Steve McCabe, Birmingham City University, Simon Topman, Acme Whistles

The prevailing UK economic model had some strengths but lacked a strong regional dimension and was inherently unstable. In Professor Roberto Unger's view there had been a paradigm shift in the economy and we were living through it. We need to move to a fundamentally different economy and form of market capitalism. An active industrial policy with support for different sectors, building a co-operative and collaborative form of capitalism was seen as a priority moving forward.

Key points from discussion
Empowering **local** and **regional activity** – were structures right?
Exemplar of Mittelstand discussed and relevance to UK considered. Highlights included – **importance of real knowledge and understanding of manufacturing** gained from education (Apprenticeships), working in industry for a lifetime and learning from bottom up.

The family-run element of the German Mittelstand is seen as important, given the family commitment to an idea and activity looking beyond immediate economic benefit to the community of the people living and working there, combined with the goal of creating a better place for people to enjoy as well as looking to the next generation in terms of the time frames for operation. It was noted that the Mittelstand had thrived in a system of Federal Government with regionally developed systems of finance, capital, and notions of strong regional identity and place.

Vocabulary – We are struggling to articulate what we mean as the world has changed. Intervention no longer meant the same thing for example. But we were trying to find Identity. Networking was critical now, more so than ever.

Structural Solutions – Was it about creating more governance solutions – enhanced LEPs v RDAs v Devolved funding? Or was it about seizing the power we already had and getting things done. It was observed that Germany had a very **socially democratic model** and that this had a positive impact.

Involving the excluded – how do we get those from high areas of deprivation involved, engaged and aspiring – e.g. the 'Frankley Schools' of the world. Unless we can reach out to these people in transport and skilling then we are only fixing half the problem

Local Pride – It was seen as important to generate greater levels of local pride. It was remarkable to the outsiders who had come into Birmingham to work just how invisible the city is.

Risk and Entrepreneurialism – how to deal with risk? It was recognised that governments are no good at dealing with risk, yet to develop entrepreneurial cultures within this context was clearly a challenge. The role of the entrepreneur was to drive through an 'obsessive idea' and the role of government was seen as helping to make it happen, although even this seemed a stretch goal!

Connectivity – this was seen as vital feature of emerging economic growth – knowledge and ideas into businesses and people

Professor Susan Christopherson, City & Regional Planning, Cornell University, lecture at University of Birmingham, 24th September, 2013
Advanced Manufacturing and Rebalancing the UK and US economies: what role does financialisation play?

There have been profound losses in manufacturing jobs in the US during the 2000s – more substantially than during the 'great recession'. Today young people have little understanding of manufacturing and its role in the economy. They do not see manufacturing as a likely employer and they are more likely to think of innovation in terms of a new app rather than in relation to a new product and service offer. Sceptics, in turn, doubt the economic sense in a 'post-industrial' renaissance for advanced economies. In her view it was time for a re-evaluation of manufacturing and its fundamental value to economies, given its contribution to our balance of payments and in driving innovation in processes, products and services and in transforming and moving economies higher up value chains.

Why is manufacturing significant?
1) Firstly, it's about the number of jobs created in manufacturing which tend to be better quality, taken across the board, than in other sectors.
2) Secondly, manufacturing constitutes the basis of exports – without this countries' balance of payments is challenged.
3) Thirdly, the relationship of manufacturing to innovation is significant. Innovation that improves products and processes is critical in enabling manufacturing to move up the value chain and bring about transformative kinds of innovation. This kind of innovation happens when industries are more mature and it can lead to a more robust economy through the transformation which it can help to effect.

Reasons for the reassessment of manufacturing within the developed economies:

1) The decline in labour costs as a percentage of total costs of output which has been happening because of an increase in capital intensity, combined with lower labour costs as a proportion of the total cost of sales have changed the equation for firms when making location decisions.
2) There is a need for a strong IPR regime because of the increasing proportion of intellectual capital embedded within the wealth creation process.
3) Advantages of quality control and processes around production in contrast with increasing dissatisfaction with the Chinese QA processes.
4) Transportation costs and proximity to market with the flexibility that brings to respond to upturns in demand

5) Other costs forming part of Total Cost Analysis and which form part of the decision-making framework or the 'deals' that firms can strike as part of their relocation packages.

The Innovation Technology Foundation has looked at capital investment going on within manufacturing and whether there has been an increase in investment overall – whether in capital, upskilling, other investment associated with moving up the value chain. They have looked at where profits are coming from and where they are being utilised. The situation is not as positive as some anecdotal evidence may suggest. Firms that come into the US and UK are looking for enhanced levels of support in terms of infrastructure, skills etc, from government. The question that has to be asked is why firms are looking for government support with areas that they would have paid for in the past. The answer seems to come from the change in the make-up of our economies and the financialisation of these economies.

There is literature about the role of financialisation in non-financial industries and the transformation of these businesses that are very dependent on returns embedded in financial instruments. These are largely studies looking at shareholder capitalism. They suggest that as manufacturing firms have had to increase their returns to shareholders they have been able to do this through an increasing reliance on financial instruments. GE is the 'poster child' or case study exemplar here as half their profits come from the financial services arm of the business, GE Capital. What has happened here is that GE is really a financial firm with a manufacturing arm. These businesses have internal capital markets. It was interesting to see how Rattan Tata has been derided for making the investment in Jaguar Land Rover because they were not seen as making profits quickly enough.

How does the short-term profit horizon distort manufacturing in our economies?
Krippner, 2005, has written about the impact of financialisation on capital accumulation in the non-financial sector. Over a period '73-2003 there was a negative relationship between real investment and financialisation was recorded. Two explanations are offered: firstly, increased financial investment and increased financial profit opportunities are proposed as 'crowding out' real investment by changing the incentives of business managers resulting in funds being directed funds away from real investment. Secondly, increased payments to the financial markets are proposed as having impeded real investment by decreasing available internal funds, shortening planning horizons and increasing uncertainty. These findings indicated a dramatic change in investment away from R&D, capital equipment and skills development.

Most attention has been focussed on the impact of this **capital equipment** where investment levels in the US have been low compared to Japan and Germany where there are still high levels of capital investment and more product and process innovation.

With reference to **human capital** there has been a constant debate around this topic and whether the state should prepare people with the skills businesses need or the businesses should train people to do what they require to be competitive. Whilst it is more generally accepted that core skills around literacy and numeracy are the role of the state with employability skills being increasingly seen as the role of education, it has even been argued by some businesses when looking at location choices that workers should be trained in how to use machines or technologies, specific to their businesses.

In the US skilled manufacturing workers are on average only paid 10% more than the average US worker so their salaries wouldn't appear to justify going into this area. There has been a decline in the investment made by businesses into managerial talent according to the Kauffman Foundation. There were skills gaps in terms of the availability of the sorts of people wanting to run businesses that employs people, especially where this involves engineering skills, which may produce more innovative skills in productive areas.

IPR is a financial product because it is intended to produce a 'fast buck'. The universities have had a role in fostering these skills and neglecting longer-term skills for the productive industries.

Research & Development is the third area where there has been a decline in investment and this decline at firm level has been matched by a decline in government investment in R&D, so much so, that it is perceived by some to be at crisis levels by some industrialists and academics.
Michael Mandel has looked at the relatively small number of jobs produced by the so-called innovative industries even though there had been the promise that these would replace the traditional industries with new emerging sectors over time – biosciences, etc. However, these sectors are financialised to a greater extent than the traditional industries and so are under pressure to produce quick turns and profits for the people who have started them up.
If we only invest in them then we cannot recreate our economies or start to rebalance them as has been proposed of late.

I don't think the situation is completely hopeless, but we can see evidence that the kinds of inputs that would rebuild robust manufacturing is simply not there. Until that is remedied we are not going to rebuild robust manufacturing. Businesses are saying today, 'If you provide us with the skills we need, give us tax breaks then we'll come to your locations', and increasingly, they don't see these as core areas of investment for them any longer. In the US people are not getting to grips with this. Privately or family-owned businesses have, in my view, more latitude around investment. For example in the case of Corning where they have been able to adjust profit expectations in light of economic changes with more capacity to sustain investment in R&D, managerial skills and capital spend.

There is a policy shift required to recognise the fundamental value of manufacturing. In terms of supply chains, more needs to be done to encourage larger companies to support their supply chains as too often OEMs are competing with SMEs for skills. Tax breaks and subsidies could be used more effectively to encourage behavioural changes in the way companies behave towards each other, especially within the same sectors aiming for greater levels of collaboration. For example a focus on looking to finance SMEs where they are collaborating together.

Summary TUC Report, January 2012
German Lessons, Developing Industrial Policy in the UK

The TUC has recognised the need to boost British manufacturing and secure export growth. They call for a new manufacturing eco-system for the UK outlining a range of policies needed to bring the country back to its rightful place as a major manufacturing nation.

Skills, investment, procurement, helping small firms to expand, finance for strategic sectors. They call for a new economic system that brings management and workers together, rather than pushing them apart, and sets out the role of modern trade unions and the value of collective bargaining and of minimum standards. The prize is significant – manufacturing renaissance in a rebalanced economy, boosting our industrial strength and enhancing social justice.

Their report highlights recent government initiatives aimed at promoting growth – a network of Technology Innovation Centres, a National Infrastructure Plan, a Green Investment Bank, a Regional

Growth Fund, expansion of University Technical Colleges, Catapult Centres, new Apprenticeship programmes with degree-equivalent Higher Level Apprenticeships.

Distinctive features of German industrial policy :

- 2.6% of GDP spent on **R&D** compared to EU average of 1.9%
- **Social partnership of trade unions and employer associations** enshrined in collective labour law
- **Co-determination ensuring the right of workers to participate** in the management of companies with elected representatives having seats on works councils and supervisory boards

The TUC visited a number of companies in Germany and the UK including Volkswagen, Siemens, ThyssenKrupp, BASF, Airbus, Bentley, BMW and Roballo Engineering.

The TUCs **manufacturing eco-system** would link together a number of initiatives focussed around identifying future industrial trends, skills requirements, procurement, growing small firms and the image of manufacturing.

Future Trends in Manufacturing
This is about identifying significant trends affecting society which will impact of production and have implications for tax, skills, R&D. Whilst the TUC do not identify a role for HEIs in bringing some of this focus together businesses have through research conducted by Idea Birmingham identified this as a possibility.

A Strategic Investment Bank
Experience shows that some sectors, especially those that are not a 'safe bet', cannot get development capital. The UK's major international competitors have strategic investment banks whether based on the model of Germany's KfW or France's FSI. The government has established the Green Investment Bank, but sectors outside of low carbon growth still face funding challenges. The TUC recommend assessing whether existing holdings in the banking industry could be used to raise money in commercial markets backed by a smaller capital base provided by government.

Growing more medium-sized businesses
In Germany the Mittelstand is central to the supply chain of many larger businesses. The TUC cite the CBI's focus on encouraging larger companies to work with SMEs to encourage them to strengthen their supply chains in promoting best practice, leadership, innovation, recruitment, exporting and finance. The report states, "Germany enjoys more developed government than the UK and so is able to make more support available at regional and local level. Erich Thanner, HR Director, MINI Plant Oxford, says, "In German industry we have the Mittelstand and especially in manufacturing they have a very important role. In Germany there is a saying that these medium-sized companies are the growth engine of the German economy. From my observation, this is different in the UK."

The case for a social market economy
Their discussions highlighted the value of the German model in bringing their company through the crisis. In particular, the strong independent employee's voice exercised through works councils and supervisory boards was emphasised. This was seen to safeguard a high degree of equality and fairness among the population.

Skills
The TUC welcomes the recognition that more focus needs to be given to vocational skills and that some pupils are ill-served by the present education system. Their agenda has two key priorities –
1) Helping unions build on their strengths in supporting and protecting apprenticeships at work
2) Lobbying to improve quality of training, equality of access and employer demand
They highlight that many SMEs lack the capacity to take on apprentices and they see Group Training Agencies (GTAs) as part of the answer as well as highlighting the University Technical Colleges.
Procurement
The TUC, like employers organisations, sees government procurement as a wasted opportunity for British Business. They state, "Every pound of taxpayer's money spent on procuring goods and services must do something to support the development of a modern, high-skill, high value economy in the UK."

The image of Manufacturing
Much of manufacturing has an image problem. There is not enough understanding of what it does. The UK's areas of success should be highlighted as a sign of potential, they state, whilst remaining realistic about our current problems. "A gimmicky campaign to rebrand manufacturing should be avoided," their report states. "Instead there should be a long-term campaign in schools. Business leaders should be encouraged to visit schools to talk about manufacturing.

Immigration
Their report acknowledges the impact of immigration policy in preventing companies from accessing much-needed specialist skills and states that immigration should be seen as positive for high skills, high value businesses.

Employment law – collective bargaining
The TUC calls for employers' organisations such as the CBI and EEF, to consider the role of co-determination as part of a new economic model and asks how might employers see co-determination systems working in the UK and how might trade unions fit into such a system.

Jas Bains, Chief Executive Ashram Housing Association & Executive Director, Accord Ventures (Accord Group), 11th June 2013

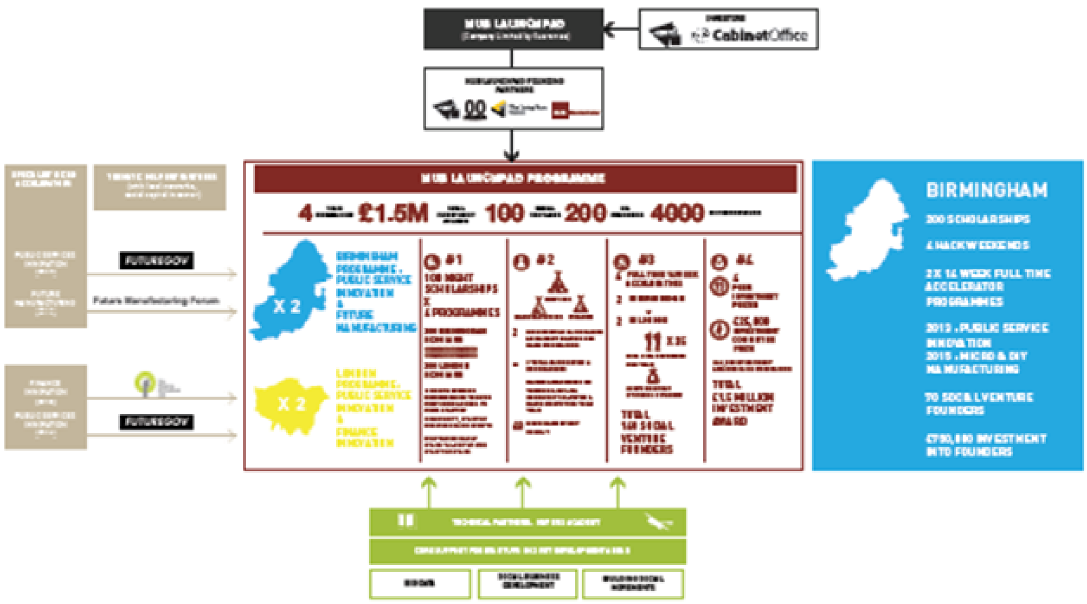
Opportunities for Social Entrepreneurship

Jas Bains highlighted that faced as we are with austerity, we were at a remarkable moment which posed a real opportunity to be audacious and to embrace new business models, social entrepreneurship and the opportunities opened up by the internet.

Jas Bains: One of most interesting things for the City of Birmingham, that gave birth to Building Societies, is that in the last ten years we have only seen one license for a new Bank. Social entrepreneurship is a force for transformation and change and he was working to help promote this sector of the economy.

Birmingham City was at the heart of the industrial revolution. Now when we think about the word, 'Open' we think about 'Open Source access', tools which should increasingly apply to buildings, spaces, and way cities are forming. Tools that will be transforming entrepreneurship and making idea transfer more accessible to more people.

Through the Hub Launchpad Social Incubator Venture Fund, they were introducing initiatives such as night scholarships, hackathons and sponsored stipends to develop radically open social ventures.



Corporate Case Study:
Sir Charlie Mayfield, Chairman, John Lewis Partnership, has recognised publicly, the economic value of different **models of employee ownership**, enabling their business to take a long term view about business plans, investments and activities. **Article extract, The Scotsman, 12th September 2013**

Charlie Mayfield, Chairman of the £7bn turnover John Lewis Partnership (JLP), explained that the John Lewis Partnership as a business model meant that as a business they didn't look to maximise profits but took a longer term perspective aiming to make 'sufficient' profit with the aim of sharing some of this amongst their 69,000 employees.

"The difference in our business is our objective is not to make the maximum profit. That is not what we are interested in doing. We want to make sufficient profit."

However their staff are not actually employees. They are co-owners of the business and they are referred to as "partners". Last year they shared £125 million between them.

For Mayfield, the partnership model that the company has operated for 80 years is a "huge advantage, particularly at times like these".

"We were created as a better form of capitalism," he says. "We have a set of values which I think are definitely all about trying to achieve sustainable success across a balanced set of objectives. I do think some of those values are very appropriate now."

He is not critical of the publicly listed or privately-owned companies that make the fabric of the UK's high street. But he does think there is more scope for the growth of more employee-owned businesses, particularly in small, technologically advanced start-ups. We have become too "monoline" in our thinking about company structures and ways of making money, he says. This will have to change.
"Times like this are exciting in a way," says Mayfield. "The founder of John Lewis Partnership said in 1929 said, 'I believe there is a different way to run a business.' Times of crisis can be times which act as a catalyst for new thinking."

Although the workforce have a stake in the business, co-operative firms do not offer utopias.

Employees have a say in how the business is run but the hard choices are made by the people who run the group. Mayfield has executive control of the partnership, while John Lewis and Waitrose each have a managing director, Mark Price and Andy Street respectively.

"We don't run the business by committee," admits Mayfield. But if jobs have to go, Mayfield insists the model is consultative, and he seems sincere when he says:

"I am employed by the people who work for this shop. I don't employ them, they employ me."
If employees don't like him, their representative council has a chance twice a year to vote to have him removed. "It hasn't happened yet," he points out with a smile.

But while Mayfield notes that he will have been ten years with the John Lewis Partnership, the partnership has been here much longer. Interestingly, he says, the co-ownership model was introduced in 1929, another significant date in the history of economic adversity. Likewise, John Lewis expanded into Scotland in 1943, which wasn't such a hot year either. Yet the model in particular has proved resilient.

Whilst many retailers ‘battened down the hatches’ post the economic crisis, John Lewis, which includes 221 Waitrose supermarkets, went ahead with its investment plans, despite the impact it would have on short-term profits.

"We are talking several million pounds extra cost this year. That will give us a good return in the future but this time will cost us," says Mayfield, a former Scots Guards man.

"We took a particular decision last year that rather than cutting back during a recession, we were determined to use the fact that other businesses are going to be cutting back to push ahead.

"Even though sales were going to be tough we weren't going to slow down. Quite a lot of businesses would," he adds.

Investment this year included a new distribution hub at Magna Park in Milton Keyes. In addition, the company announced earlier this month they were opening a new call centre in Hamilton. Although sales in recent weeks at John Lewis have picked up – and Waitrose is powering ahead – Mayfield has no illusions that the New Year will bring much respite. He says the elections and the return of the higher VAT rate are a worry.

"There is more uncertainty ahead," says Mayfield. "In particular I don't think you can go through what the world economy has gone through and make the assumption it will return to normal. "What we are facing is a period where the economy will grow more slowly than it did in the past 15 years. That will bring with it a number of new challenges we haven't seen."

But changes to the structure of the group mean jobs have to go. While the new call centre will create 250 jobs in Glasgow – another will be based in the North of England – it centralises the smaller call centre units spread out over 25 stores. Inevitably more than 200 jobs will be cut across the group.

"Let's not pretend it is easy, it is not easy," says Mayfield.

The call centre programme is stretched out over two years, which will give affected staff the chance to get new jobs in the stores. Mayfield points out when it comes to job losses over the past five years, about 60 per cent of staff who were made redundant have found new jobs in the firm. Initially the new distribution depot in Milton Keynes was due to run alongside the old one in Stevenage until sales took a turn for the worse.

"As the recession hit we realised in fact we would not need to operate Stevenage anymore," says Mayfield. But even this "last-minute" decision was a six-month process, with all employees at the affected site offered a job 30 miles away at Magna park. Some 116 out of 280 took them up on it, but that is still lower than the average.

IDEA BIRMINGHAM MEMBERS