Glasgow Economic Commission
Call for Evidence
Submission Template

Please provide as much detail as you wish. Email completed submissions to: Alison.loveday@scotent.co.uk no later than 28 February 2011.

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Q1. What are the key economic and business opportunities that Glasgow must grasp in the next 5-10 years?

For Glasgow companies to survive and grow, they must compete globally, shifting from cost-based competition to adding value to their products and services and developing sustainable outputs. Investment in design and its integration into business process as a resource that can be used by all industry sectors will help directly achieve two of the strategic priorities set out in ‘A Step Change for Glasgow’: to move up the value chain; and to provide an excellent economic environment that aligns business, physical, cultural and social environments to support innovation and growth; and indirectly contributes to the third: to ensure shared prosperity for all citizens. In doing so, it will also meet the Government’s wider economic objectives for Scotland. This will require a step change in investment and support for design as an enabler of innovation.

Design in this context is a structured approach to creative problem-solving involving research, analysis, testing and refinement to develop solutions that are user-focused, practical and commercially viable. Significant evidence exists as to the value of design to business and economic growth and particularly in its role as an effective mechanism to unlock innovation. However, fewer than one in six UK SMEs recognise the contribution of design to business success, compared to one third of larger companies. This failure to utilise design is particularly stark in Scotland with the average UK business almost twice as likely to hire external designers than a Scottish business². This presents a lost opportunity and pressing economic issue as SMEs account for around 99% of the businesses and around 60% of private sector employment in Scotland.

A recent European Commission paper³ identified a number of barriers to the use of design in industry including that the benefits to be gained through design are not widely recognised by companies and policy makers and so only early adopters are actively engaging with design. For Glasgow’s economy to succeed a step change is needed in investment in design as an enabler of innovation, and as a: “…bridge between science, technology and the user by putting the user in the
Economic development agencies should extend the range of innovation support currently available to include the role of design in realising research and technology-focused innovation, and should provide support for ‘soft’ innovation relating to services, brand development and organisational transformation resulting in structural and cultural level innovation.

The Government acknowledges that appropriate support for Scottish businesses to innovate is fundamental to increasing competitive advantage and to grow the economy:

“Enhancing the quality and focus of support for business and innovation will have a direct impact on business competitiveness and growth...This support needs to stimulate demand for investment, innovation and skills in pursuit of higher productivity and increased competitiveness.”

The need for innovation support is evidenced in Scotland’s relatively poor economic performance, where economic growth has been lower than the UK average and other comparable countries in Europe in recent times. It is a key objective of the Government Economic Strategy to increase the rate of growth to match UK figures by 2011, and to increase productivity to reach the top quartile of OECD member states by 2017.

At a local level, recent productivity levels in Glasgow have been lower than the national average, with the contribution of GVA per employee at £39,800, compared to the Scottish average of £41,200 (figures for 2007), and: “Glasgow is now falling short of the national target of matching the UK in terms of economic growth.” Furthermore, unemployment rates for Glasgow were 2% above the Scottish average in 2009 (7% and 5%, respectively), indeed employment rates are the lowest of all 32 local authorities in Scotland.

Glasgow should therefore grasp the opportunity to enhance innovation and sustainable development within the regional economy by drawing on the much under-utilised resource of design, which can be an effective mechanism to guide creativity to realise innovation.

Q2. Can you provide some evidence to back up your views?

Evidence for the role of design in economic success is provided in relation to four aspects:

1. The Interconnectivity of Creativity, Design and Innovation
2. The Role of Design in Industry
3. Market Failure and the Need for Public Sector Intervention
4. Design and Sustainable Development

1. The Interconnectivity of Creativity, Design and Innovation

The ‘Cox Review of Creativity in Business’, highlighted the important role of creativity in business and gave significance to the role of design as the link between creativity, identified as the generation of new ideas; and innovation, defined as the successful exploitation of those ideas. This was reiterated in the Scottish Government’s Innovation Framework.

While radical innovation (associated with new knowledge) and incremental innovation (building on existing knowledge) are widely acknowledged, the focus is increasingly on ‘open’, ‘user-led’, ‘design-inspired’, and ‘hidden’ innovation. These ‘new’ sources of innovation extend beyond the traditional...
boundaries of science and technology, drawing on novel ideas from customers, suppliers and the transfer of ideas between industry sectors.

A recent European Commission Staff Working Document acknowledged that design contributes to innovation and competitiveness, tapping into societal and user requirements, as a complement to traditional routes such as research and technology-focused activities. It also suggests that design can be more accessible to businesses than traditional innovation activities as it requires less capital investment and often has a shorter payback period\(^{13}\). There is therefore a need to provide a broader range of business innovation initiatives than is currently available, and that should include support for the role of design in innovation.

2. The Role of Design in Industry

Design has the potential to add value to a company’s products and processes; can facilitate the innovation process; and can be a source of business innovation.

Design adds value to products and services and can significantly enhance company performance. The Design Council’s report, *Design in Britain 2004/2005*\(^{14}\), revealed that companies that make significant use of design are less likely to compete on price than those that make little or no use of it. Recent research indicated that for every £100 spent on design, companies experienced a £225 increase in turnover.\(^{15}\) Indeed, earlier research carried out by the Design Council showed that design-led businesses on the FTSE 100 out-performed the index by 200% between 1994 and 2003\(^{16}\). Furthermore, rapidly growing companies increasingly consider design to be integral or significant to their operations\(^{17}\).

Design can also help to unlock and realise innovation, which is critical for sustainable economic prosperity and growth, and can significantly enhance the financial performance of companies\(^{18}\). A recent European study on innovation stated that knowledge intensive business services such as design are: “...particularly important economic actors, and these services are increasingly becoming more proactive, generators of innovation, which are then taken up and implemented by manufacturing enterprises”\(^{19}\).

Furthermore, design has value as a complementary activity to other innovation related investments: “Firms that engage in all three of R&D, design and marketing were 11 times more likely than firms that engage in none of these activities to introduce both product and process innovations, nearly 6 times more likely to introduce only product innovations, and 50% more likely to introduce only process innovations\(^{20}\).”

Investment in design, while not a panacea, can have a significant role to play in company success and sustainability.

3. Market Failure and the Need for Public Sector Intervention

There is an urgent need for public sector intervention to address the market failure and engage SMEs in particular in the use of design to add value to their products, services and business models and to realise innovation opportunities.

The important role of design and need for support was recognised by the European Commission in the recently published findings of a consultation exploring design as a driver for user-centred innovation\(^{21}\). The findings suggested that: “...design is very important for the future competitiveness
of the EU economy,” that support for design initiatives should be available at EU level and that design should be an integral part of innovation policy.

The European Commission publication also recommended that specific support for SMEs in the low-tech and service sectors should be available to take advantage of a possible “untapped potential” for the use of design in this sector. SMEs are a vital component of the Scottish and Glasgow economy. They account for 99.2% of enterprises in Scotland and employ around 52.8% of the population. In Glasgow, SMEs account for 93.4% of enterprises in the city and contribute 35.9% of the city’s GDP. The sector is a significant employer representing 34.9% of employment of all enterprises and a quarter of all employment in the city.

In 2009, a report for DIUS emphasised that design has a valuable role to play in the innovative activities of firms:

“Overall, our findings show the UK Government is right to be taking a strong interest in design. Our results imply that design is a complementary asset to R&D and marketing in the innovation activities of firms... The analysis in this paper suggests that design makes a significant, yet neglected, contribution to innovation in firms.”

However, despite the encouraging evidence, UK companies are slow to invest in design. The situation is even more severe in Scotland. While the Scottish Government’s Innovation Strategy recognises that innovation should be integral to business thinking, emphasizing the links between innovation, design and creativity and its contribution to economic growth, only 22% of businesses consider design to have become more important in helping them compete over the last ten years, less than half the UK average. Furthermore, around 62% of Scottish businesses do not invest in design at all and the average UK business is almost twice as likely as Scottish businesses to hire external designers.

This market failure suggests the imperative for design support in Glasgow, and in Scotland. While the focus in this paper is on SMEs, it should be recognised that design can also make a positive impact on other organisations including in the public sector.

4. Design and Sustainable Development

Sustainable development is critical to the future success of world economies and the preservation of the natural environment. Increasing recognition of the need for sustainable development presents opportunities to established economies. Indeed, Lord Smith of Kelvin, a member of the Council for Economic Advisors and Chairman of SSE and the Weir Group recently commented that the low-carbon economy presents Scotland with the greatest economic opportunity since the discovery of oil. Design and the creative industries can help to shape a sustainable future.

While the current economic model is coming under scrutiny and the link between economic growth and prosperity are under question, new models are being explored. Design can play a significant role in the development and realisation of new economic and business models. In 2010 a report on the ‘Steady State Economy’ conference (which explored alternative economic systems that can meet society’s needs without growth) suggested that creative individuals could help devise a better way of communicating the issues around sustainable development.

However, the application of creativity and the potential to utilise design need not be limited to communications but could contribute more widely to achieving a more sustainable and equitable future. The UK Technology Strategy Board (TSB) recognises the creative industries (of which design is
a key sector) as great inventors and harnessers of technology with an impressive track record of applying innovation to improve competitiveness.33

The TSB funded Creative Industries Knowledge Transfer Network suggests that: “Sustainable design is designing a product or service or business model to reduce the overall environmental impact, whilst maintaining or improving economic, technical and social performance.34 The Beacons of Innovation project explored the role of creative industries in supporting other business sectors to be more sustainable as well as becoming more sustainable themselves. The recently published report identified a series of opportunities and recommendations for creatives, non-creative businesses, and policy makers to harness creative capability to help shape a more sustainable future.35

This increasing recognition of the vital role of creativity in helping to solve complex issues like sustainable development should be further explored and business support developed to exploit this potential. In the city this could include working in partnership with Sustainable Glasgow to achieve its goal of becoming one of Europe’s most sustainable cities within a decade.36

Q3. What assets and capabilities do the city, its businesses and institutions have to help the city achieve success?

Glasgow has key assets in the form of a rich variety of creative companies and the novel activities of the Glasgow School of Art Design Innovation Studio that can draw from and build on to address the above issues. Partnerships such as the Glasgow Economic Commission can help to provide a centralised and coordinated approach to funding the development and application of design to achieve sustainable economic success.

Creative Community
Glasgow has a long established creative community. Alongside Financial Services, the Creative Industries (of which design is a key sector) in Glasgow has an above average concentration of employment. It experienced significant growth of 72% between 1998 and 2008 and accounts for 4% of all jobs in the city.37

Glasgow is also recognized as a centre of design excellence and home to the largest community of professional designers in the UK outside of London and the South East of England.38 The Lighthouse is a central, physical resource whose revised vision (in light of recent difficulties), is to be: “Scotland’s centre for the promotion of design and architecture nationally and internationally, driving positive change in society and the economy.”

However, the general lack of industry investment in design signals a grossly untapped resource that the city has available to it.

Glasgow School of Art
Glasgow School of Art (GSA) was founded in 1845 as one of the first Government Schools of Design outside of London, with a remit to support the industries of Glasgow – a mission that is as strong today as it was then with undergraduate and postgraduate programmes in communication design, fashion and textiles, silversmithing and jewellery, interior design, product design and product design engineering. Research strengths lie in digital print on textiles and design innovation.

The Design Innovation Studio at GSA is pioneering the application of design innovation to address industry and public sector issues and explore opportunities for future products, services and models of operating. Design innovation is a collaborative approach to the effective use of design thinking to

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stimulate new, creative solutions to complex issues. Design thinking means putting the user at the centre of a staged process that includes: initial exploration, identifying opportunities, testing options, and delivery of a product or service that will effectively meet the needs of those who need it or will be impacted by it.

Projects that are currently being piloted include:

- **Centre for Design Innovation (Forres)** is a 3-year partnership funded by Highlands and Islands Enterprise. GSA is working with HIE to introduce design innovation as a resource to enhance sustainable economic development in the region. This includes collaborative projects across industry sectors such as healthcare, tourism and creative industries.

- **Creating Cultures of Innovation** is in partnership with the Institute of Directors Scotland. This pilot explores the transfer and embedding of design innovation skills to four Scottish businesses to equip them to devise new solutions to their business issues. Sectors include textiles, leisure and tourism, and retail.

- **Public Sector Decision Making** is a pilot project exploring the development of more holistic, inclusive decision-making processes around sensitive issues.

- **Future Services** will explore how services can be enhanced to increase efficiency and improve the experience of the user/customer.

In addition, GSA’s Digital Design Studio (DDS) has pioneered 3D scanning and digital visualization in the medical and heritage fields, and has opened visualization studios in Inverness and Stornoway, commissioned by NHS Education. DDS is part of Glasgow’s Digital Media Quarter and attracts global clients.

**Role of Creative Industries and Sustainability**

A recent Glasgow-based workshop responded to the initial findings of the TSB’s Beacons for Innovation project mentioned above. It was held at The Lighthouse, facilitate by Forum for the Future and Glasgow-based Journey Associates, and sponsored by Glasgow City Council and Glasgow School of Art.

Glasgow should **build on these valuable city assets**. This includes maintaining and developing the existing strengths, extensive experience and knowledge networks within the city to provide a coherent and concerted approach to design investment to support economic development. An integrated strategy that builds on these existing assets will allow Glasgow to remain **sustainably competitive**.

**Q4. Is this a niche or large-scale opportunity for the city’s economy?**

The integration of design into business processes, of SMEs in particular, presents a **large-scale opportunity for the city’s economy**. SMEs have the potential to become large, pioneering businesses of the future. As noted previously, design investment has the potential to help businesses add value to their products and services and realise innovation thereby facilitating economic competitiveness.

As mentioned above, SMEs play a critical role in the Glasgow economy. They account for 93.4% of enterprises in the city and contribute 35.9% of the city’s GDP. The sector is also a significant employer representing 34.9% of employment of all enterprises and a quarter of all employment in the city. The contribution of SMEs to economic success in Scotland underlines: “...the pivotal role of small firms in our economy and communities”.

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Q5. What actions need to be taken in order to grasp these opportunities?

The key actions required to grasp the opportunities presented by design and its potential contribution to business success and economic sustainability include:

- **A strategic commitment** to developing initiatives to embed design within organisations as a means to enhance sustainable economic success. This strategy should be a partnership between the key stakeholders in the city, thereby ensuring a coordinated approach.

- Consider establishing a **Centre for Design Innovation in Glasgow**. This would be a valuable resource to support initiatives relating to design in industry and other sectors of the economy, and building on the pioneering work already underway at GSA and the Centre for Design Innovation in Forres and could be housed at The Lighthouse. This would align with the Step Change Action Plan Update Theme 2, Section 9, which suggests the establishment of a £10m Centre for Innovation, Design and Creativity at GSA.

- **Educate business leaders** and **stimulate demand** for design by Glasgow/Scottish companies across industry sectors. Evidence should be gathered and case studies devised to show how Scottish businesses have used, managed, benefited from, and evaluated design as a business investment.

- Identify an **ambassador or champion** for the role of design in industry. This would be a high profile individual who is widely respected and acknowledged for their business acumen and innovative approach. It should not be a designer. Their role would be to promote business support initiatives, and the economic and social benefits of design.

- Support the further development of **business support programmes** such as the Creating Cultures of Innovation programme by GSA and the Institute of Directors Scotland, and the Design Council’s highly successful ‘Designing Demand’ programme for SMEs, by drawing on the learning from international best practice, to inform the types of support that have proven successful and could be made available in Glasgow.

- Build on the recommendations from the Glasgow sustainability workshop and **map examples of best practice** in projects where the creative industries are already taking addressing sustainability issues such as low carbon. This evidence can then be used to explore how the creative industries can help meet the aspirations for Sustainable Glasgow.

Q6. Are there specific barriers we should be aware of that might inhibit the realisation of these key opportunities?

Despite compelling evidence of the value of design to business success, and the Scottish Government’s recognition for design as a mechanism to unlock innovation, not enough companies realise these benefits. Design tends to be used in large companies and those with high growth potential, with only 15 per cent of SMEs considering design to be integral to their business compared to 32 per cent of larger companies.

In Scotland the situation is even worse than in the UK as a whole, suggesting an urgent need for intervention and design support:

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• Less than a quarter (22%) of Scottish businesses believed that design has become more important over the last 10 years in helping them compete. That is less than half the UK average.

• Only 16% of businesses in Scotland have increased their investment in design.

• The majority, 62% do not invest in design at all.

• The average UK business is almost twice as likely as Scottish businesses to hire external designers.

This failure to value design is largely due to information failures, in which businesses have only limited information on the benefits of design, and on how to access design expertise. The Cox Review identified a number of aspects of market failure that are barriers to SMEs embracing and exploiting creativity including:

• Lack of awareness and experience

• Lack of belief in the value of, or confidence in, the outcome

• Not knowing where to turn for specialised help

• Limited ambition or appetite for risk

• Too many other pressures on the business.

Indeed, design investment has been considered to have similar characteristics to other specialist consultancy and experience goods where the value of the goods or services are best understood after the service has been consumed.53 Government-funded support is, therefore, instrumental in providing access to best practice design advice and business support.

The recent European Commission White Paper on design as a driver for user-centred innovation64 also identified barriers to investment including:

• Barriers to the use of design in companies, mainly SMEs, and in line with those identified in the Cox Review.

• Barriers in the political and institutional framework for design, particularly that design ‘falls between two stools’ in terms of policy making as there is often lack of clarity as to whether it should fall within the culture or enterprise portfolio. In addition, designers have not asserted their role within the context of innovation, and innovation agencies and initiatives often lack design expertise.

• Barriers to growth of design businesses, that many design companies are small or micro businesses can be a barrier to them developing strategic design, design management and design-driven innovation skills and knowledge. The fragmented nature of the sector leads to low levels of networking and lack of power and influence in relation to their role and gaining support in the public and private sectors.

• Barriers in education, training and research: designers have to be trained in the ‘right’ skills and have expertise in the areas of strategic design, design management, user-centred design, eco-design and design for all, to contribute effectively. In addition, design thinking should be available to business students and executives to increase their understanding of the strategic benefits of design.
There is generally a lack of understanding of the role that design can play in increasing company competitiveness and contributing to economic sustainability. There is therefore a need for support initiatives with realisable outcomes, evidence gathering, and promotion to overcome this.

**Q7. What investments are needed – both public and private – to realise these opportunities and how might these be funded?**

Investments needed include funding for *programmes, initiatives, evidence gathering* and *promotion*. It may be that resources and funding come from a range of *public and private organisations*, and by engaging in *partnership projects*. This could include organisations with economic development remits, large corporations who want to invest in their supply chains, as well as industry bodies representing the private sector. Working with Glasgow School of Art (GSA) and the Design Council would allow the city to benefit from the expertise and experience of these national institutions.

Scottish Enterprise (SE) support has been successful in supporting ‘hard’ innovation within the research, early stage commercialisation, and technology related fields through initiatives such as Proof of Concept, SMART Scotland, Co-Investment Fund and R&D grants. However, SE recently broadened its focus for innovation to include business-generated innovation, thereby providing an opportunity to develop new or enhance existing initiatives by including design. This would include exploring the role of design in realising ‘soft’ innovation including in services, brand development and organisational transformation where structural and cultural level innovation can be achieved.

The development of new or enhanced initiatives should be developed as a partnership project with GSA, Scottish Enterprise, Glasgow City Council and industry bodies including Institute of Directors and the Chambers of Commerce.

Such investments would address key aspects of the Step Change Update Action Plan, including:

- **Theme 2: Education At The Heart Of The Economy**
  
  Section 9, a Centre for Innovation, Design and Creativity, Glasgow School of Art. To establish a Scottish centre aimed at increasing the creativity driving economic success; completion by 2012, £10m.

- **Theme 8: Success Through Specialisation**
  
  Section 9, Develop a creative industries strategy for Glasgow, GCC/HEI. To provide a Strategy to address digital media, the arts, design, music, micro-business development etc., £TBC.

- **Supporting Themes | Priority 1: Move up the value chain: Higher productivity through innovation, skills and creativity:**
  
  Section 4: Interventions supporting higher-value potential, improving productivity and sustainability in businesses to increased productivity, turnover, high value jobs, and commercialisation and spin-outs (£6m pa).

- **Section 5: Support innovation through RSA, SMART, SPUR schemes, developing new products/services/processes to increase innovation and R&D spend (£35m pa).**

- **Section 6: Consider an innovation and creativity strategy/action plan for Glasgow.**

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In the first instance, to address the multiple barriers and market failure mentioned above, some level of public sector investment is vital to provide initiatives and support for investment in design. This could involve:

- Glasgow Economic Commission working in collaboration with GSA to develop appropriate business support for design in helping SMEs to innovate as noted above.
- GSA could partner with Sustainable Glasgow to develop support for achieving a more sustainable and equitable Glasgow.

Where mutual benefit can be demonstrated, private sector companies may be a potential partner for the development of business support for SMEs, particularly where this enhances their supply chains in a sustainable way.

As well as enhancing capabilities and competitiveness of participating organisations, such investment would help stimulate demand for design by generating an evidence base on the business and economic case for design investment, thereby enhancing the sustainability of any initiative.

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