

# PANMURE HOUSE PERSPECTIVES

Developing tomorrow's business leaders for tomorrow's markets

ISSUE 5 2019



## REVERED, REVIVED & REVITALISED

A stellar international gathering of historians and leading economic thinkers pays homage to Adam Smith, setting his work into an urgent, contemporary context.

### DIRECTOR'S CHAIR

In an exclusive interview, corporate leader Sue Clark, a director of Edinburgh Business School, shares her experiences of driving change in companies in international markets.

### LEADING LIGHTS OF THE NORTH

Scotland's First Minister Nicola Sturgeon welcomes the Icelandic Prime Minister to Panmure House for a summit on wellbeing and economics.

### ALL FIRED UP AND READY TO GO

Dr Jens Ullrich, a DBA from Edinburgh Business School, examines the ethical compass at the heart of health and safety managers in European fire-fighting services.

### LET THE DESERT SUN SHINE IN

Heriot-Watt's ESTEEM team rises to the Solar Decathlon challenge of designing and building a sustainable house in Dubai as part of EXPO 2020.

# A New Dawn for our Business School

**W**elcome to the fifth edition of *Panmure House Perspectives*, the international business journal of Edinburgh Business School, Heriot-Watt University. We hope that whatever your connection with our University, you find something of interest in its pages.

This summer was a very busy time for everyone at Heriot-Watt engaged in teaching and research in the area of business and business-related subjects. At midnight on July 31st we went through the legal formalities to merge the distance-learning activities of the Edinburgh Business School with all the mainstream business education activities of Heriot-Watt University, and formed a new, much larger, Edinburgh Business School.

I have written in more detail about the new Business School and its mission and purpose on p13, but in summary we can all celebrate the new dawn of business education and research at Heriot-Watt University. As a University that was born in the place where science and business meet, 200 years ago, our heritage has always been rooted in those two areas.

Nowhere was this more evident than in July when an Adam Smith scholar, Professor David Teece from the University of California, Berkeley, convened *The New Enlightenment: Reshaping Capitalism and the Global Order in a Neo-Mercantilist World* at Panmure House. This once-in-a-lifetime event that gathered scholars from across the globe is featured strongly in this issue, and I encourage you to read and reflect on the major world issues that we discussed at the time. At its conclusion, the participants made a declaration to show that the work of Kirkcaldy-born Adam Smith in his twin masterpieces, *The Wealth of Nations* and *The Theory of Moral Sentiments*, still resonates powerfully in a world where the voices of reason and respectful discussion are needed more than ever.

The 1st declaration of Panmure House urges 'international leaders to base their policies and decision-making on a set of common principles, as espoused and formulated by Adam Smith, which cherish the required values of an ethically-based liberal democratic system, a moral commitment to the well-being of our communities and affirm responsibility to protect economic, political and social freedoms, use resources wisely, avoid unintentional consequences, follow the rule of law, favour markets and prices as guides to resource allocation and take a long term view of private and public investments, to support inclusive economic growth and prosperity for all.'

The Panmure House Declaration was the first major pronouncement from Adam Smith's home since his death in 1790; I believe that it sets out a clear vision first espoused by Smith, and still highly relevant in a modern 21st century context.

Panmure House was in constant use over the summer as it welcomed visitors to the Edinburgh Festival Fringe and staged no fewer than three different shows, sometimes all on the same day. John Yule's play *Adam Smith: The Invisible Hand*, was reprised from 2018, we ran a hugely successful public debate each day at 2pm, chaired by financial commentator Merryn Somerset Webb and professional economist-comedian Dominic Frisby in relay, and Dominic also performed his 'Father of the Fringe' lecture on how Adam Smith foresaw the success of the Edinburgh Fringe itself.

We also look forward to launching The Society of Panmure House, which gives members the chance to be invited to select gatherings at the house and to receive this magazine regularly. Please do get in touch if you would like to join us. For more details see p15.



PROFESSOR HEATHER McGREGOR  
Executive Dean

**PANMURE HOUSE  
PERSPECTIVES**

Developing tomorrow's business leaders for tomorrow's markets

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If you would like to know more about forthcoming issues, please contact: Dr Caroline Howitt, Production Director, *Panmure House Perspectives*, Edinburgh Business School, Heriot-Watt University, Edinburgh, EH14 4AS, Scotland, UK. c.howitt@hw.ac.uk

**contents**  
issue 5 2019

**NORTHERN NEIGHBOURS** Scotland's First Minister holds a special conference on wellbeing hosting the Icelandic Prime Minister in Panmure House. **\_\_ p4**

**CAMPUS PERSPECTIVES** News and events from around Heriot-Watt University and Edinburgh Business School. **\_\_ p5**

**THE PANMURE HOUSE PERSPECTIVES INTERVIEW** In an exclusive interview, corporate leader Sue Clark, a director of Edinburgh Business School, shares her experiences of driving change in companies in international markets. **\_\_ p6**

**SOLAR DECATHLON IN DUBAI** Heriot-Watt's ESTEEM team rises to the Solar Decathlon challenge of building a sustainable house in Dubai as part of EXPO 2020. **\_\_ p10**

**DR CAROLINE HOWITT'S DIARY** A warm welcome for all the VIP visitors who have toured Panmure House. **\_\_ p14**

**JOIN THE SOCIETY OF PANMURE HOUSE** Details on how you can sign up for all the news and activities at Panmure House, plus an opportunity to buy a tartan scarf. **\_\_ p15**

**REVERED, REVIVED AND REVITALISED** A stellar international gathering of historians and leading economic thinkers gather for the first New Enlightenment conference in Edinburgh. **\_\_ p16**

**WHAT'S ON MY READING LIST?** Graham Watson, a Member of the Court of Heriot-Watt University, reveals some of the books that have influenced his leadership style. **\_\_ p25**

**ALL FIRED UP AND READY TO GO** Dr Jens Ullrich, a DBA from Edinburgh Business School, examines the ethical compass at the heart of Health and Safety managers in European fire-fighting services. **\_\_ p26**

**ECONOMICS WITH THE TRUTH** Omar Shaikh, managing director of The Global Ethical Finance Initiative, says contemporary ethical financiers must remember Adam Smith and the Rev Henry Duncan as moral pioneers. **\_\_ p31**

**MINDFULNESS AS A CHINESE REMEDY** Dr Graham Norris, a DBA from Edinburgh Business School, examines how Chinese nationals have coped with the rapid pace of change in Asia. **\_\_ p32**

**INFOGRAPHIC** Oriam, Scotland's national sports performance centre, in numbers. **\_\_ p35**



ISSUE 5 2019



PROFESSOR ROBERT MACINTOSH, Head of School of Social Sciences; Heriot-Watt University, says leadership in the low-carbon economy requires much more open and wider engagement to ensure a radical change in behaviour.

**T**he received wisdom is that in times of change, leadership matters more than management. Even a passing familiarity with our immersive, rolling news coverage suggests that we are experiencing a period of significant political and economic turmoil. Governments and economies regularly experience turmoil but now, a new ingredient is being added to the mix in the form of the new narrative relating to sustainability. Leaders have always had to find new ways to compete but how do we find new ways to compete sustainably?

Several years ago, a colleague and I wrote a paper which defined the relationship between management and leadership as the relationship between the organisation of production and the production of organisation. It's more than just

a play on words. Management matters because whether you are producing a physical product, new knowledge such as world-leading research or even something as ephemeral as a customer experience, the doing of things has to be organised. Leadership matters more because it involves shaping the processes of organising and managing. Leadership gets really challenging when we face problems we've never come across before. Producing an organised response in these circumstances is a challenge. In most businesses we know how to organise production, even if we could do so a little more efficiently. But how to produce in ways which are sustainable represents a new and evolving type of problem.

Colleagues at Heriot-Watt, as in many other organisations, are beginning to think through a response to the climate crisis. As a university, some of our technological research might help produce dramatically more efficient and sustainable ways of producing energy, reducing consumption and improving sustainability. Some of our social science research might help encourage consumers to change their behaviours in ways which enable more sustainable modes of operating. Yet alongside these academic

challenges, we cannot escape the need to think about the conduct of our day-to-day business.

There's an urgent need to engage our community of staff, students and alumni in the process of rethinking the organisation of our production. Everything from the learner experience, to buildings in which we work and how we feed our staff and students is up for debate. If we, as a university, are to establish a carbon neutral mode of operating we'll need to rethink every aspect of how we work. Getting staff and students into large lecture theatres is historically a core part of university life. Educational concerns about the effectiveness of the traditional lecture aside, there are ecological concerns about the carbon consequences of getting everyone to and from one of our campuses. A simplistic response might be to imagine that new students, digital natives since kindergarten, might even prefer to be educated remotely. Yet, digital solutions bring their own carbon challenges with some estimates that the worldwide web is on a par with the aviation industry as a source of emissions. A completely new way of thinking would be entailed in getting academic staff to design a learning experience that was educationally effective yet ecologically sustainable.

How then, do business leaders in every sector of the economy create the circumstances in which carbon neutral solutions can emerge?

There are three things that help with delivering radical change, rapidly. The first is to engage openly and widely with the whole organisation, your customers, suppliers, regulators and anyone else you can think of. Good ideas come from the strangest of places and engaged staff are more inclined to help you follow through with new ways of working if they've had a hand in shaping the solution. The second is to simplify your messaging. A few simple rules that convey "you can do anything you want so long as it does X or doesn't do Y" are much more amenable to creative, localised solutions than a lengthy set of corporate edicts. Third, make it obvious that you're serious about change. Sharing examples of good practice, highlighting what works and why is likely to encourage other parts of the organisation to do likewise. Amplifying successes is more likely to be effective than trying to micro-manage change at scale.

The future of the planet rests on the quality of the leadership that we each show in reshaping our organisation, its operating assumptions and the ecological consequences of those assumptions. That's the real leadership challenge of our times.

©

## SCOTLAND AND ICELAND DISCUSS THE FEELGOOD FACTOR IN LEADERSHIP *summit*

First Minister welcomes the Icelandic leader to Panmure House and says Adam Smith was a pioneer in his understanding of the wellbeing of society and its interrelation with the economy. Report by KENNY KEMP.

Scotland's First Minister Nicola Sturgeon and Katrín Jakobsdóttir, the Icelandic Prime Minister, visited Panmure House as they discussed the creation of an international network examining the wellbeing of communities and society.

The two leaders met on 30th April 2019 in Bute House in Edinburgh, before touring Panmure House and opening a meeting where delegates held the first 'policy lab' of the Wellbeing Governments' Group, an initiative examining how inclusive economic growth can be measured alongside the experiences and living conditions of people and communities.

The Scottish Government are one of the main supporters of Panmure House, which is owned and run by Heriot-Watt University. The Scottish leader said she was inspired by the 'beautifully restored' venue and by the thinking of Adam Smith.

"It is very appropriate that we're gathered here in Panmure House – the home of Adam Smith. In his most famous work, *The Wealth of Nations*, Smith argued – among many other things – that a nation's wealth should not be measured by its gold and silver reserves – but by the total of its production and commerce. That was an early description of the measure we now know as GDP. In the years since then – contrary I think to Smith's intentions – GDP has too often come to be seen not just as an indicator of a country's wealth, but as the main measure of its success."

"Yet – following a decade of global economic turmoil – the limitations of that view have become increasingly clear. In countries around the world, there is a growing realisation that growth is not the only measure of a successful economy, in fact in some respects it might not be the best measure of a successful economy. And there is a growing realisation that we must give much greater priority to the wellbeing – and the quality of life – of people living in a country."



**AVID INTEREST:** The Prime Minister of Iceland, Katrín Jakobsdóttir, reads the open pages of Adam Smith's *The Wealth of Nations* during her visit to Panmure House.

The First Minister said the OECD has been hugely influential in promoting the idea of well-being through its support for the work developing the Better Life Index.

"Here in Scotland, we have tried to embed a much broader understanding of economic success – and for the concept of 'wellbeing' – in the work of government."

She went on to say: "I mentioned earlier Adam Smith's *The Wealth of Nations*. In fact of course,



Smith had written an earlier and to my mind equally significant work – *The Theory of Moral Sentiments*, in which he sets out the foundations for his moral philosophy. As part of that, Smith sets out his belief that happiness is achieved when 'all the different ranks of life are nearly upon a level.'

"He also states that, 'All constitutions of government are valued only in proportion as they tend to promote the happiness of those who live under them. This is their sole end and use.'

So I think it's fair to say that Adam Smith was an early advocate of the wellbeing approach to the economy and indeed that is the belief that underpins the work of this group."

Following the meeting the First Minister said it was a pleasure to host the Prime Minister at Bute and Panmure Houses. "Our countries have a long history of friendship, with many historic and cultural ties. It was an opportunity to discuss the many areas where we have shared ambitions and challenges, such as our desire to grow sustainable tourism and take action to reduce and mitigate the effects of climate change."

Prime Minister Katrín Jakobsdóttir said: "Iceland and Scotland enjoy a longstanding relationship. I am delighted that we are now collaborating on the Wellbeing Economy Government project, in which Scotland has demonstrated an important leadership."

The First Minister again repeated how Adam Smith had influenced her thinking during the TEDSummit: A Community Beyond Borders, which came to Edinburgh from July to 25 July.

She explained why Scotland has taken the lead in the creation of the Wellbeing Economy Governments group, bringing together as founding members the countries of Scotland, Iceland and New Zealand.

The First Minister said she looked to Adam Smith for inspiration in defining policies that can create a

**HEALTH OF NATIONS:** First Minister Nicola Sturgeon during her 'policy lab' session at Panmure House with Katrín Jakobsdóttir, the Icelandic Premier, said economic measurements must include the well being of society.

wealthy, healthy economy and a happy society.

"In Adam Smith's earlier work, *The Theory of Moral Sentiments*, which I think is just as important, he made the observation that the value of any government is judged in proportion to the extent that it makes its people happy. I think that is a good founding principle for any group of countries focused on promoting wellbeing. None of us have all of the answers, not even Scotland, the birthplace of Adam Smith. But in the world we live in today, with growing divides and inequalities, with disaffection and alienation, it is more important than ever that we ask and find the answers to those questions and promote a vision of society that has wellbeing, not just wealth, at its very heart."

## CAMPUS PERSPECTIVES

### Prince Edward launches MBA partnership in Malaysia

Prince Edward, Earl of Wessex, visited Heriot-Watt University's Putrajaya campus in Malaysia to launch an MBA partnership between Edinburgh Business School and The Duke of Edinburgh's International Award Foundation.

He also launched Malaysia's first Happy Café under the Action for Happiness Organisation.

Earlier the Duke of Edinburgh's International Award Foundation signed a Memorandum of Understanding with Heriot-Watt University at its Dubai campus, paving the way for senior staff of the Foundation to study for a distance-taught MBA. The programme is specifically designed to equip them with invaluable business insight and skills that will

enable them to impact numerous young people through the provision of access to the non-formal education The Duke of Edinburgh's International Award offers.

"The MBA programme provided by Heriot-Watt will equip our senior staff and volunteers with the opportunity to develop themselves to a standard that is not normally available in our sector – to facilitate the business of developing charities and young people. Having this MBA qualification places us in the right position in terms of our mission to help youth everywhere, and to do it well," said John May, Secretary General, The Duke of Edinburgh's International Award Foundation.



**ROYAL APPROVAL:** Prince Edward congratulates Professor Mushtak Al-Atabi, the Provost and Chief Executive Officer for Heriot-Watt University Malaysia, on the transformation of the campus and its leading research base.

HAVING THIS MBA QUALIFICATION PLACES US IN THE RIGHT POSITION IN TERMS OF OUR MISSION TO HELP YOUTH EVERYWHERE, AND TO DO IT WELL."

### Top ranking for influential engineer

Raffaella Ocone, Professor of Chemical Engineering of Heriot-Watt University, has been announced as one of the top 100 Most Influential Women in the Engineering Sector.

The list, produced by board appointments firm Inclusive Boards in partnership with the Financial Times, was released at the Inclusive Boards: Women in Engineering Leadership Conference in October. Professor Ocone, said: "I am both humbled and thrilled to feature as one of the top 100 Most Influential Women in Engineering ... I am committed to inspiring our younger generation, especially young women, to study engineering and to be amazed by the world of opportunities that engineering offers."

### Heriot-Watt engineers take second place

Four students from Heriot-Watt University Malaysia were runners-up at the 2019 APEC YES Challenge, at Feng Chia University, Taiwan, from 6 to 8 September 2019.

The APEC YES Challenge is an international competition where the teams are required to propose and defend a novel green sustainable business model. The team members, all third year Mechanical Engineering students, are Vishnu Anil, Sukhpreet Kaur Karam Singh, Akhil Suraj Prasad, and Kin Wai Yuen. Vishnu Anil, also a third year Mechanical Engineering student, won first prize for the Cross-Economy Innovation Challenge. The team is mentored by Noor Shieela Kalib, Vinod Kumar Venkiteswaran and Saqaff Ahamed Alkaff.

**SUE CLARK** does not shirk from a business challenge - and she has faced many awkward situations over her varied career. After helping to build up one of Europe's biggest beer businesses - including buying Peroni - she now has a portfolio of non-executive directorships, including as a board member of Edinburgh Business School. She talks to *Panmure House Perspectives* Editor-at-Large about her most challenging times.

**NEVER A DULL MOMENT**  
*when business creates a buzz*



**Some people relish a challenge. If you scan Sue Clark's career path, you will see she has had to navigate change, disruption and growth in business at an astonishing level. This, in turn, makes this Heriot-Watt**

**University MBA graduate and Non-Executive Director of Edinburgh Business School one of the most sought-after and respected female non-executive directors in the UK.**

She has enjoyed the buzz at a series of high-profile companies, which is probably why she finds solace in the recreational activity of bee-keeping at her leafy home in Hertfordshire. Although being a keen apiarist and gardener may have more to do with a BSc degree in Biological Sciences, which she completed at Manchester University.

"If I think about my career, one of the themes - and I don't know if this is lucky or unlucky - is that I've always worked in companies that have challenges or aren't in the status quo," she says in an interview with *Panmure House Perspectives*.

In a quick synopsis: Sue joined ScottishPower in 1992, just after it listed; worked at Railtrack and had to deal with the aftermath of railway disasters and investor meltdown; moved to beer-makers SABMiller, joining as it listed on the London Stock Market; while one of her first non-executive directorships was with AkzoNobel, which had fought off a hostile takeover battle. Today she sits on the board of Imperial Brands, the global tobacco business moving to next generation products, and Tulchan Communications, a financial communications outfit which works with many of the City's leading businesses.

Looking back, she recalls her time with the Scottish utility, which is now part of Spanish-based Iberdrola, with immense pride. "I was there in the glory days of Scottish Power," she says, cautioning herself that it might not be right to state this.

Yet there is no doubt it was a high point for Scottish business. Ian Robinson, later Sir Ian, was in the driving seat as Chief Executive with Ian Russell, the current chairman of the Infrastructure Commission for Scotland, as the Finance Director. Scottish Power, emerging from the South of Scotland Electricity Board, was the first public company to start the consolidation among UK utilities after privatisation in 1990 and Sue Clark, who had worked with the Central Electricity Generation Board, joined as Investor Relations Director in Glasgow. Until then, there was a group of 12 regional electrical companies across the UK. Scottish Power bid for ManWeb, buying that business in January 1996, opened the flood gates. The company moved into multi-utilities, buying Southern Water, created Scottish Telecom, which was later floated as Thus, and then bought PacifiCorp in Oregon, the US utility. Sue Clark made headlines for working to the end of her pregnancy and her daughter Lucy was born literally hours after sealing the £4.5 billion deal. By 2000, ScottishPower had a market capital of around £10 billion and a turnover of £6 billion.

**SCOTTISH POWER  
IN 2000**

**£10BN  
MARKET CAPITAL**

**+**

**£6BN  
TURNOVER**

"The business at the time was at the heart of the FTSE100 and we did a lot of things we were really proud of. During my time there, we were voted in *The Times* survey as The Most Admired Company in the UK. This focused not only on business performance but also on the work we were doing in the community and on sustainability."

It was a relentless job that was rewarding for a high-flying woman in her early 30s.

"The Scottish utilities got a much tougher deal than those in England and Wales and we had to work hard to get the investor community to understand the potential of ScottishPower. It was a surprise that we stepped forward and led the industry consolidation. The management team at the time was outstanding."

**MBA PARTNERSHIPS WITH SCOTTISH FIRMS**

Her job was not without its challenges. A major substation explosion resulted in the death of two workers, then thousands of customers were cut off from their electricity supply in a black-out during Christmas and New Year. It was Sue Clark's job to manage the communications during this fraught period.

Learning was a key part of the organisation with Sir Ian Robinson leading the Government's Welfare to Work initiative and establishing ScottishPower's own learning and continuous training culture. This development in people led Sue Clark to undertake her MBA at Heriot-Watt University.

"I came to do my MBA on the back of a ScottishPower programme which was part of a business-sponsored MBA. A whole cohort of ScottishPower's management team was sponsored and went through an MBA programme."

Professor Keith Lumsden was running Edinburgh Business School at the time and her thesis was on the market valuation of utility companies.

"The great thing was the way the MBA was structured, it was done in partnership with other Scottish companies. Students were working and learning at the same time. It is a model that worked for me because you can take what you are learning back into the business and vice versa. You were able to see the academic underpinning of what you were doing at a corporate level."

After the birth of her second daughter, 11 months after her first, Sue Clark moved from ScottishPower to be nearer her own family in England. She joined Railtrack as a Director of Corporate Affairs.

The UK's railway industry, also undergoing privatisation, was in a controversial state where the railway assets and stations were separate from the train operating companies, who were bidding for rail passenger franchises. However, there had been massive under-investment in the rail infrastructure for generations and Railtrack hit the news for all the wrong reasons.

"Railtrack was in the public eye. It was a very torrid two years of my life. I arrived after the Ladbroke Rail Disaster [when 31 were killed and over 400 injured] and then went straight into the Hatfield crash [four killed and 70 injured] in October 2000. There were subsequently two or three other crashes."

Moreover, Sue Clark also had to deal with the bereaved and the injured from the rail disasters.

"This was a very personal learning experience within business. I don't think there are any right answers but it is very difficult when it comes to corporates showing compassion for those who have been deeply traumatised."

While the short-term grief and pain had to be managed, it is the longer term impact of survivor groups that was more difficult. "The reality is that you can't give people what they really want, which is the return of loved one who has died in a rail crash, or their lives back to the way they were before. We kept working with people but it became clear we were not able to give them what they really wanted."

As Head of Corporate Affairs, one of the biggest issues was managing the external perception, angry shareholders, and supporting the much-maligned Gerald Corbett and then Steve Marshall. After Hatfield, there was fresh investment in the railway which led to the closure of large sections for upgrade. Railtrack faced the lion's share of public and shareholder opprobrium at the disruption and the state of the UK's railways. Eventually, this led to Railtrack losing its licence to operate and the creation of state-owned Network Rail.



**I wanted to go somewhere that was fun, global and a lot less contentious.**

Beer is a fantastic business because it is so social and it adds to people's pleasure, if it is consumed properly."



## I always remember that Peroni, the great Italian beer, was bought on my birthday.

And the Finance Director always said he'd bought it for me as a birthday present."

▶ "We lost the trust of the Government and the travelling public and the operating company was put into administration in October 2001. When the administrators came in they asked me what I was going to do and I said, "I'm sorry I'm not going to work for you, because I don't think this is right". Myself, the Finance Director and Company Secretary took the top company, which was not in administration, and we set up in a Regis office, and then fought a battle for the shareholders, who weren't going to get any money out of the administration."

### BEER IS A FANTASTIC BUSINESS

Her small team managed to ensure a substantial pay-out for shareholders, many of them small investors who had been encouraged to invest in the railways. They also supported the shareholders' legal battle against the then Transport Secretary Steven Byers in the Labour government. The Cabinet Minister was subsequently found guilty of malfeasance over his decision to call in the administrators. It would take Network Rail many more years of massive investment in the railway system to restore public confidence in the railway sector.

"We wound up Railtrack and I needed a new job," she says.

She was keen to move into a sector that had a happier outlook, far less emotionally charged, so she joined the global beer business, SABMiller, which grew from South African Breweries.

"I was fed-up getting a torrent of abuse when I told people I worked for Railtrack. I wanted to go somewhere that was fun, global and a lot less contentious. Beer is a fantastic business because it is so social and it adds to people's pleasure, if it is consumed properly."

It was an effervescent time to be joining one of the emerging global players. Carlsberg, Heineken, Miller, Anheuser-Busch, later AB In Bev and owners of Budweiser, were the dominant forces as SAB moved its listing to the London Stock Exchange. In 2002, SAB bought the Milwaukee-based company Miller Brewing Company, famed for its Miller Lite. The portfolio included Castle Lager, Pilsner Urquell, and later Peroni and Grolsch.

"Joining SABMiller after the Miller deal was like joining ScottishPower because it was right at the early days of SAB coming into the UK, they were not well known and needed to come to the UK to raise capital to build the global business. We had a very small team here in the UK that ran the global business and I played an instrumental part in many of the acquisitions."

Clark joined as Corporate Affairs Director and moved into general management and became involved in shaping the brands, the marketing and steering the growth of the European business, which extended to Vladivostok and from Finland to the Middle East with 120 brands. She moved to Switzerland to steer the growing business.

"I always remember that Peroni, the great Italian beer, was bought on my birthday. And the Finance Director always said he'd bought it for me as a birthday present. When I went on to run the Europe region, that was always my favourite brand," she says.

Consumer tastes were rapidly changing and the beer market had to innovate to keep up, and switching to the smaller craft brewing industry was one fresh direction. Sue Clark was involved in buying Meantime in Greenwich, the first dedicated craft brewery in the UK.

"Younger beer consumers were looking for something different, that was authentic and not what their dads had been drinking. We had to work hard on driving the costs out of the core business and then put investment behind innovation and marketing. From my perspective, I was interested in how we could get more women into the beer category. We did a lot of work around how women have different taste profiles for sweetness and carbonation, than male consumers."

This was the orangoleptic sensory properties of food and drink and how individuals experience this through their senses. This even involved the tactile qualities and aesthetics of the size and shape of bottles and glasses.

"We were really at the forefront of where consumers' taste was going and it became a good bridge later on into my non-executive portfolio around consumers and where and what the consumers are wanting," she says.

In Scotland, Scottish & Newcastle was still a major regional beer and cider player with Kronenbourg, and owned John Smith's, one of the UK's best-selling beers, as well as McEwan's Export and Newcastle Brown Ale.

"There was a lot of heart-ache and long nights about Scottish & Newcastle over should we or shouldn't we get involved in that transaction. Perhaps, with hindsight, we should have done. We didn't have a big UK portfolio so we would have retained many of the well-known brands."

S&N was sold to Heineken with some of its international assets going to Carlsberg. Heineken became the dominant brand at the expense of regional beer names.

"Hindsight is a perfect science and the SABMiller business grew from being the bottom of the FTSE to a

top ten FTSE company. When we were taken over by ABI it was the biggest UK consumer transaction that had ever been executed."

This was in the heated summer of 2016 and the AB InBev deal was worth £79 billion, although some fund managers believed that the price under-valued the beer portfolio and was aided by a sharp fall in sterling a few weeks after Britain voted to leave the European Union.

Sue Clark loved her time growing the beer business, but the ABI model is to remove all the executive tiers and Clark was left polishing up her résumé again. This time, she decided to switch and build a portfolio of non-executive directorships.

"SABMiller was such a fantastic business I thought I'd never find an executive role as good as this again. But also, it is exhausting being in operational roles. I ran the European business and was based in Switzerland and travelled the whole time. The beer business means working all day and in the evening going out and meeting customers in bars and clubs."

The gestation period of the SABMiller take-over gave Clark time to set in train her non-executive career, and she was asked to join the board of Britvic, the soft-drinks business which shared similar marketing and consumer issues with alcoholic drinks.

"This was good for me and I think it's important with your first non-executive directors' role to move into something that is analogous with what you do, because you then have the confidence to look at a new business in a different way."

Soon after this, she was preparing to join AkzoNobel, the Dutch paints and coatings giant, famed for its Dulux, Polyfilla and Cuprinol brands, but it was in the middle of a heated take-over battle and she had to wait until this was resolved.

"There is a transition from becoming a serving executive to becoming a non-executive director," she says.

### THE ROLE OF THE NED

The accepted role of the board is setting the strategy and ensuring that it is implemented by the executives through proper governance, and the creation of a set of values for that company. According to the text books, the duties of a non-executive director are to ensure that the company is operating properly and in the best interests of the shareholders.

"In today's world, companies have to operate more than simply in the interest of shareholders. Our duty is to operate in the best interests of all stakeholders and there is a much greater emphasis on employees, communities and broader society as stakeholders," she says. "When you are thinking about joining the board as a non-exec, you have to think how you are going to add value and does it play to your skill set."

AkzoNobel has a European business model and Sue Clark was invited to join the Supervisory Board. Again, Clark was returning to a challenging work place.



"It was business that had just fought off a hostile takeover and had a lot of challenges. It had to dig deep to do a lot of difficult things to change the culture and the way it was operating – and in the areas it was operating in. I'm glad to say, it has achieved this."

Did she feel the difference between the supervisory model and the Anglo-Saxon model?

"I think the differences are more perceived than real. At AkzoNobel, the Supervisory Board and the Executive Board, which is separate for legal reasons, are run closely together. There is not a huge difference between how the advisory board system works."

In essence, it is about consulting the works councils and the business communities around process and the way things are implemented.

### TOBACCO PIVOTS TO NEW PRODUCTS

Sue Clark then joined one of the emerging food companies, Bakkavor, an Icelandic family business which provides freshly prepared food for the major supermarkets and high street chains across Europe. It played into her knowledge of global FMCG, [fast-moving consumer goods].

"I joined for the IPO [initial public offering] and it was a bit of a blast from the past with the original IPOs from the regional electricity companies. The attraction was to get involved in an IPO and see it through its listing and be part of a new business. It is expanding quickly in China and the United States."

In 2018, Sue Clark joined Imperial Brands, a global tobacco business, owners of the famous Winston cigarette brand, Gauloises and Gitanes, the iconic French cigarettes, and Lambert & Butler. It also owns brands well-known by those who roll their own tobacco, Rizla and Drum. Today's challenge is moving smokers from combustible sticks onto next generation products, such as vaping.

"For me, the attraction – and I admit some people wouldn't go into nicotine – is how can you move people quickly from smoking cigarettes to the next generation products? By this, you are effectively creating a whole new category in many dark markets, where you can't merchandise or advertise.

It is a very big challenge and a business that is pivoting from one category to another."

## When you're an executive, you wonder what they do,

and when you become a non-exec you realise, there is a lot to consider, particularly when you chair board committees."

While some may shirk from involvement, Sue Clark is clear about Imperial Brands, once one of Glasgow's largest employers, with Will's Woodbine and Golden Virginia, and a company paying out more than £10 billion in dividends to shareholders and fund managers during the nine-year tenure of departing Chief Executive Officer Alison Cooper.

"Tobacco is a legal business. If it is a legal business, then you want it run by people who are responsible and going to do it in the right way. One of the other themes of my career is that I have been in regulated businesses, and particularly when you've been in alcohol you only preserve your licence to operate as a business if you are focused on making sure you are selling to people who are over-age and in a responsible way. That's key with tobacco too."

Sue Clark believes that if tobacco and alcohol are not run properly and responsibly then an illicit market develops which leads to criminality and un-regulated products which do not have the quality and standards. Her work at Imperial is certain to increase as she helps recruit a new leader to take over from Alison Cooper.

Back at home, she finds time to take her two dogs for a walk in the fresh air, look after her honey bees, and contemplate the business challenges in her various companies.

"I think I have a good balance. Being a non-ex is quite a difficult job. When you're an executive, you wonder what they do, and when you become a non-exec you realise, there is a lot to consider, particularly when you chair board committees."

One bugbear is she feels there are still too few women in the top flight of business. "We need more women executives and chief executives and this is one of the areas which still needs a lot of work. It is hard being an executive for either sex, so we need to embrace more flexible working and more sabbaticals. I think the relentless pace of business means you need more flexibility around people moving in and out at the top."

She says this is no quick-fix, but it is something the business world must continue to focus on. It's another challenge that will keep Sue Clark motivated and determined to make a difference. ☺

## LEADERSHIP AND HERIOT-WATT

Sue Clark learned a great deal during her time at Heriot-Watt, and this has infused her thinking on good leadership. She sees leadership as setting a clear purpose and the priorities and goals that come with this. Fundamental to this is building a great team which knows where it is going and delivers against the purpose.

"One of the great things about leadership is realising you need a team of people around you, and then bringing the best out of that team. Clarity of purpose and getting the right people to deliver, and giving them space to deliver, is key for me. You regularly check to make sure they are on the case, in case you need to correct the course. I learned that very much from doing my MBA at Heriot-Watt."

"The MBA helped me enormously in my career in terms of filling the gaps – and it gave me self-confidence."

On her role at the Business School, she says: "It has been great to come back to Heriot-Watt and see the changes that have

taken place over the years at Edinburgh Business School. It is brilliant that it has gone from strength to strength since I did my MBA.

"One of the great things that the School did was develop its distance learning programmes. The University was at the forefront of the move to electronic and online distance learning, which is now working well across the campuses and in Malaysia and Dubai as well.

"When I joined the Edinburgh Business School board it was a separate part of the University. A lot of our work over the last two or three years has been to bring the Business School into the University, which I think is a huge step-forward. We now have the knowledge and academic excellence in one place. It is now a matter of delivering in multiple ways, such as on-campus, distance learning, under-graduate and post-graduate."

"This can all be applied to the wider University, so this is a big win." ☺



JEREMY WATSON is a journalist and former Chief Reporter on Scotland on Sunday. He was also the News Editor of *The Times Scotland*.



The students have been massively inspired in a way that they might not have been inspired by traditional teaching.

It opens up new ways of learning and gets students who might switch off in lectures to engage in something that feels really exciting.”



**I**t's called the 'Solar Decathlon' and takes place in the stifling heat of the Middle Eastern desert.

The team that will represent Scotland and the UK in the event next year are not athletes in the conventional sense but a team of multi-disciplinary students from Heriot-Watt University.

The aim is to harness their skills to design and build a solar-powered house that will stand the test of time and the scrutiny of a global audience. It will go on show at the World Expo in Dubai in November which is expecting to attract a tech-savvy and entrepreneurial crowd of more than 25 million visitors over six months.

If Heriot-Watt's Team ESTEEM do well it will be the result of more than a year of graft and innovation by students who volunteered for the project and had their ideas incorporated into their university curriculum. For the University, the project pioneers a new way of learning that has more value for students who will eventually have to enter the real world of business, research and finance.

As Alex MacLaren, Associate Professor in Architecture and the project lead for Middle East Solar Decathlon 2020, explained: "This is a great example of how we can educate while applying research to a current project.

"The students have been massively inspired in a way that they might not have been inspired by traditional teaching. It opens up new ways of learning and gets students who might switch off in lectures to engage in something that feels really exciting."

The Solar Decathlon is a joint venture between the US Department of Energy and Dubai Electricity & Water Company, part of the government machinery of an oil-rich emirate that nevertheless intends to be at the heart of finding new solutions to reducing the carbon emissions that contribute to global warming. Those solutions include solar-powered homes, which will have renewable fuel sources long after carbon-based fossil fuels run out.

Competitor teams are expected to design and test a grid-connected, solar-powered house and then build it and operate a prototype on the World Expo site. It's a daunting and expensive project but one in which Heriot-Watt students have risen to the challenge. At the end of October, three Team ESTEEM representatives and undergraduate engineering students from the Edinburgh campus - Scot Calder, Jessica Haskett and Martin Juricek - were in Dubai to hear their efforts had already been recognised by Heriot-Watt becoming the only UK university to make next year's final. ESTEEM - named from the first initial of the University's six schools - will compete against 18 other teams from universities in China, the US, Taiwan and across the Middle East.

It's a tough brief. The houses are to be designed to use solar energy as the only energy source and have to be equipped with all the technologies that permit maximum energy efficiency. In a competition within a competition, teams have to address 10 individual criteria - architecture, engineering and construction, energy management, energy efficiency, comfort conditions, house functioning, sustainable transportation, sustainability, communication and innovation, which will all be judged in the search for a winner.

The project began in earnest in March when applications had to be submitted and teams built from scratch. Professor MacLaren sought volunteers through the University's internal communications network and assembled a core team of 15 from the various University disciplines. Altogether, 88 students have had an involvement, with all of them wanting to be intimately involved in the project and aware that it would become part of their course and integrated into the curriculum.

## HERIOT-WATT'S ESTEEM TEAM RISES TO THE SUN CHALLENGE

Ten academic disciplines working in collaboration to solve one problem - how to build the perfect, sustainable home in Dubai. Jeremy Watson speaks with PROFESSOR ALEX MACLAREN, project lead at Heriot-Watt in the Solar Decathlon Middle East 2020 project.



## Team ESTEEM got to work on the many challenges

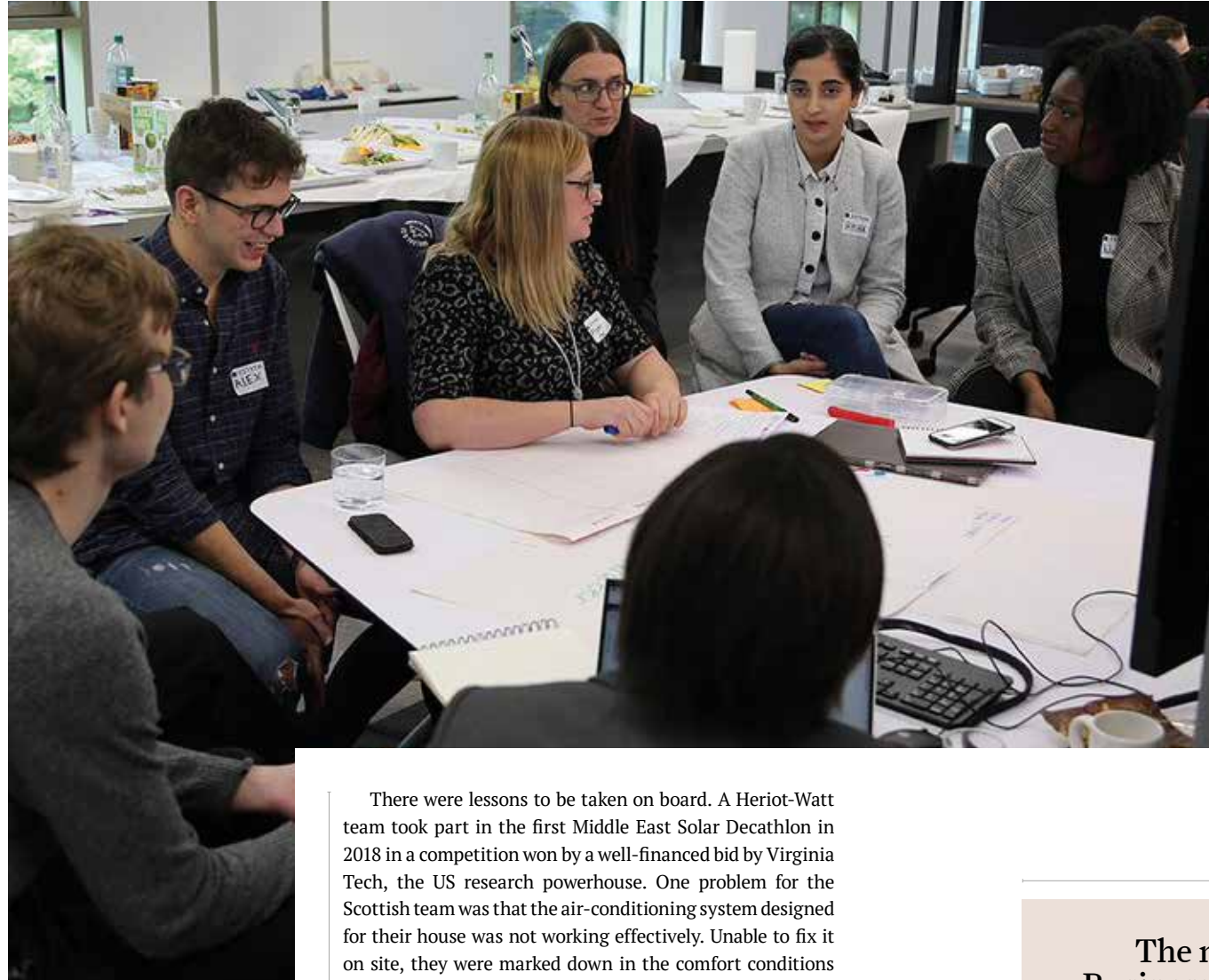
thrown up by the design of a solar powered house that also had to interact with its surrounding environment."

► "Hackathons" were set up to brainstorm ideas and settle on a design capable of challenging some of the best and well-resourced brains in the world. Fully digesting and understanding what the judges are looking for (the Solar Decathlon brief is a 200-page document) was a major task in itself. Private sector sponsors, some supplying expertise, others giving financial support, were lured in. Among them were Scottish Enterprise - the Scottish Government's business advice, support and funding agency, which recognises the important role that renewable energy will play in decarbonising the planet - as well as a range of energy-related start-ups with specific skills.

The Royal Botanic Garden Edinburgh (RBGE), one of the world's leading plant research and conservation bodies, decided it wanted to help as well as showcase its own work in the Middle East. Its experts at the Edinburgh-based Centre for Middle Eastern Plants will guide the team on external landscaping that sets the house in context. Not only does the house have to function well, it has to look good.

Team ESTEEM got to work on the many challenges thrown up by the design of a solar-powered house that also had to interact with its surrounding environment. Some of the engineering students, for example, set themselves the task of developing the relationship between the house and low-carbon electric vehicles as part of the sustainable transport brief. Others got to grips with the water supply and sea water desalination systems, a routine feature of life in the Gulf region where fresh water is at a premium.

Addressing comfort conditions required Maths and Computer Sciences students to design an 'intelligent house' system that controls aspects such as energy supply, heating and security. "When you ask the house if it's too cold in here it might respond by saying it is 20 degrees, put a jumper on," Professor MacLaren said.



A GOOD HEAD OF STEAM: A design hackathon for Team ESTEEM in the new GRID centre on the Heriot-Watt campus in Edinburgh pulled out innovative strands of thinking for the solar house.



There were lessons to be taken on board. A Heriot-Watt team took part in the first Middle East Solar Decathlon in 2018 in a competition won by a well-financed bid by Virginia Tech, the US research powerhouse. One problem for the Scottish team was that the air-conditioning system designed for their house was not working effectively. Unable to fix it on site, they were marked down in the comfort conditions category.

This time all systems will be robustly tested before the house is despatched to Dubai for assembly. In addition, a mobile workshop will accompany the team to allow them to help build the house themselves, instead of handing the project over to contractors.

One of the most challenging categories in which to impress the judges will be architecture. There is no point in designing a house that no-one will want to live in. Given that the Heriot-Watt team wanted their entry to be distinctive and that one of the World Expo themes is wellbeing, they decided on an element of 'Scottishness', despite the Middle Eastern setting and climate. The question is how bold and innovative to be? One design shows a traditional Scottish double-height, pitched roof home but with a taller wind tower to take advantage of natural ventilation, as well as a colonnaded courtyard with roof terrace, that speaks to the Middle Eastern vernacular.

All communicate with the concept of 'wellbeing', another of the underlying themes of the Expo. "The most efficient house would be a single-storey hut, but that doesn't talk about happiness or culture," Professor MacLaren said.



The timber-frame house, once thoroughly tested, will be shipped in containers over six weeks - spending a further four weeks in customs - before being erected on the site of the World Expo, billed as the "greatest show on earth." Currently under construction, one of the key themes is redefining "off-the-grid" with structures that generate their own electricity and water. It is big-league stuff; other inventions that have debuted at World Expos include the telephone (1876), the ice cream cone (1904) and IMAX film (1970), which changed cinema forever.

Once built on the site near Dubai's Al Maktoum airport - the team will have to finish off the architectural detail and the landscaping, with the help of RBGE. Their expertise lies in choosing plants that have longevity



The most efficient house would be a single-storey hut but that doesn't talk about happiness or culture."

but also enhance the house's surroundings while keeping (desalinated) water use to a minimum.

All of this has a cost. Virginia Tech's winning FutureHAUS entry in 2018 is estimated to have cost more than £1 million. Heriot-Watt's entry that year - the ORAhouse (organic, resilient and adaptable) - cost £200,000, demonstrating that the playing field is not level in a competition in which there are no spending limits.

ORA was Heriot-Watt Dubai's 2018 entry to the competition, so all images of the completed house and building site in the desert are from their 2018 activities, while ESTEEM are learning from this experience.

Professor MacLaren estimates the cost of the 2020 project to be just over £700,000. Half of that has been raised through sponsorship but there is a pressing need to find the rest of the money. "It's a huge and expensive logistical challenge to get the team out there, keep them out there and build the house to exacting standards," she said, "which is where sponsors are important."

"I would like to thank everyone for their support so far in this competition," she added. "We are lucky enough to have more than 30 companies and organisations who have pledged to support Team ESTEEM but we are looking for more sponsors and collaborators for this next step. I would ask anyone who would be interested in supporting us to get in touch." 📧

## The new Edinburgh Business School looks to its global future

PROFESSOR HEATHER MCGREGOR, Executive Dean of Edinburgh Business School, announces a significant step forward for Heriot-Watt University's ambition.



**A birthday to remember – 1st August 2019 – the day the new Edinburgh Business School came into being. This new entity is the result of a merger between the business and business-related activities of the School of Social Sciences, and the distance learning activities of the 'old' Edinburgh Business School.**

The new Business School will sit within the expanded School of Social Sciences, and I have been appointed as its Executive Dean, ably supported by a deputy, Professor Umit Bititci. We have seven subject areas: economics, accounting, finance, marketing, logistics, human resources and strategy & enterprise. Students at all stages (undergraduate and postgraduate) and modes (on campus, distance learning and with learning partners, and in the workplace) are supported. By uniting our faculty and students around the world on all three major campuses and with all our distance learning students, we are developing the resilient community that is part of Heriot-Watt's Strategy 2025.

What will this mean for students, staff and alumni? Current students will be part of a far

wider community and have more opportunity for industry interaction both on campus and online through our new MBA courses. Staff will have the opportunity to learn more about different modes of delivery instead of being restricted to on-campus or distance learning. Alumni will continue to be part of the Watt Club community and can take pride on noting that the Edinburgh Business School name and brand will continue to be invested in.

We are setting out to be a Business School with 4 As – we want to be **Applied**, with strong industry and employability links, **Accessible**, so that people can study with us wherever they live and whatever circumstances or stage of life they are at, **Accredited**, as we continue to promote AACSB accreditation, and above all **Ambitious** for ourselves, our students and our alumni. We are proud to carry on the heritage of Heriot-Watt University, which came into being in 1821, as the solution to one company's productivity issues. As we approach our bicentenary we are proud to have a Business School that is truly fit for the future. 📧



Visitors enjoy a  
**Panmure**  
welcome

**O**ne of the greatest privileges of being the Panmure House Programme Director of is welcoming dignitaries and special visitors to Adam Smith's last home. Since our official opening in September 2018, we have been delighted to meet and greet a wide range of guests.

In fresh and fragrant **May**, Scotland's First Minister Nicola Sturgeon visited the House for Scottish Government's Wellbeing Economics Conference (report on p4 of this issue), accompanied by Iceland's Prime Minister Katrín Jakobsdóttir. I had the pleasure of showing the First Minister our first edition copy of *The Wealth of Nations* and we talked about the inspiration of Smith. She was well informed about Adam Smith and was able to explain to our Icelandic guest more about his life and times. Later in the summer, the First Minister name-checked her visit to Panmure House in her international TED talk. I'm sure it will be the first of many visits by our leading political figure.



**WARM WORDS:** First Minister Nicola Sturgeon and Dr Caroline Howitt discuss the work of Adam Smith.

**DR CAROLINE HOWITT**, the Programme Director of Panmure House, gives a taster of the seminars, symposia, Festival events and other activities bringing Adam Smith's house back to intellectual life.

Later in May there was a special prize-giving event as Harvard professor Serhii Plokhy, winner of the Baillie Gifford Prize for Non-Fiction, talked about his new book *Chernobyl: History of a Tragedy*, joined by Heriot-Watt University Principal Professor Richard Williams and Dr Tiffany Jenkins.

**In June**, Heriot-Watt professor Mercedes Maroto-Valer showed that flying high is all part of the Adam Smith spirit. She led an Engineering and Physical Sciences Research Council workshop entitled Flightplan for Sustainable Aviation, during which experts gathered to examine carbon prospects, supply chains and future technologies.

**In July** Panmure House was buzzing with anticipation and activity during its first major international conference, The New Enlightenment, which transformed Edinburgh into a two-day hotbed of economic debate, with delegates from around the world coming together to map the way forward for democracy, economy, and society. Many of participants signed the First Panmure House Declaration, urging international leaders to 'base their policies and decision-making on a set of common principles, as espoused and formulated by Adam Smith' which cherish liberal democracy and social and political freedoms. It was a superb event, covered in detail by our special report on p16..

Later in the month, HRH Prince Edward, the Earl of Forfar, visited Panmure to discuss the expansion and benefits of the Duke of Edinburgh Awards Scheme, and we were delighted to show him our newly-signed Declaration.

**In August**, The Edinburgh Festival Fringe at Panmure 2019 was a huge success. More than 2,300 tickets were sold across three hit shows. Our play *Adam Smith: The Invisible Hand* brings to life Smith's 18th-century travels and asks what would happen if his imaginary lost papers were found today. While *The Butcher*, *The Brewer*, *The Baker... and the Commentator* revives his tradition of enlightened and, at times, light-hearted debate at Panmure.

**In September**, our Doors Open Day welcomed the Edinburgh public to Panmure. Despite seasonal rain, we were visited by over 300 people in just four hours, demonstrating a great appetite from the local community for interaction with the building and its new life.

**In October**, Mr Yukata Harada, senior member of the Policy Board of the Bank of Japan, visited us to deliver his insights on quantitative and qualitative monetary policy, low interest rates and the banking system, in a session that took place under the Chatham House rule.

#### THE YEAR AHEAD

2020 is set to be as vibrant and entertaining, with the launch of our Inspirational Alba lecture series in January. I am delighted that our first speaker is Andrew Gilmour, former Assistant Secretary-General for Human Rights, and Head of the Office of the United Nations High Commissioner for Human Rights in New York, who will be discussing his 30-year career in the United Nations.



**PRIZE WINNER:** Serhii Plokhy, winner of the Baillie Gifford Prize for Non-Fiction, joined by Heriot-Watt University Principal Professor Richard Williams and Dr Tiffany Jenkins.



**FRINGE FIRST:** *Adam Smith: The Invisible Hand* brought to life Smith's 18th century travels

We will also begin our Hutton seminar series – named after Adam Smith's close friend James Hutton, the father of modern geology – which aims to engage industry, NGOs, government and the public in open discourse around the increasingly urgent areas of energy, climate change, and the use and availability of resources.

#### AND DON'T FORGET

The Society of Panmure House is our new annual membership platform for all those interested in the current intellectual life of Adam Smith's former home. It will be formally launched in 2020. Members will have privileged access to news, videos, podcasts and events taking place at Panmure. To register your interest for the Society or for any queries relating to the House, please email us on [panmurehouse@hw.ac.uk](mailto:panmurehouse@hw.ac.uk).

Wishing you all a wonderful festive season when it comes. 🍷

**Caroline Howitt**  
Programme Director:  
Panmure House



## JOIN THE SOCIETY OF *Panmure House*

Follow in the footsteps of Adam Smith by joining The Society of Panmure House, which will launch formally in 2020. The Society will be a membership platform supporting the work and the mission of the House.

Members will enjoy the following benefits:

- Access to exclusive online content including live-streamed and recorded lectures, events and podcasts.
- Invitation to a special annual Society gathering within Panmure House.
- Inclusion in a ballot to win tickets to attend Adam Smith Lecture delivered by a Nobel Laureate or leading specialist at Panmure.
- Newsletter updates on the scholarship, conferences, seminars and events taking place within the House.
- Digital subscription to *Panmure House Perspectives*, our biannual international business journal showcasing research, interviews with global business figures, and viewpoint from leading academics.
- Advance ticket availability for Panmure Fringe shows.

If you are interested in becoming a member please email [panmurehouse@hw.ac.uk](mailto:panmurehouse@hw.ac.uk), or send by normal mail:

FAO Caroline Howitt,  
Edinburgh Business School,  
Heriot-Watt University,  
Edinburgh, EH14 4AS.

*Wear your  
Panmure House  
Tartan with pride*

In honour of Adam Smith's work and time at Panmure House, we have created and registered the official Panmure House Tartan.

Designed exclusively by House of Edgar, it features the symbolic colours of Blue, derived from the Kirkcaldy coat of arms and the Heriot-Watt crest; Green, taken from the colours of the restoration of the House; Marled Grey, drawn from the Douglas clan (the maiden name of Margaret Smith, Adam's mother); and Gold & Red, the autumnal golden and berry tones of Kirkcaldy, featured in the Smith and Douglas tartans.

These scarves are available in 100% lambswool at £25 each. To arrange your purchase, email [panmurehouse@hw.ac.uk](mailto:panmurehouse@hw.ac.uk)





A SPECIAL REPORT OF THE FIRST NEW ENLIGHTENMENT CONFERENCE HELD IN EDINBURGH ON JULY 1-2, 2019.



WE MUST CREATE THE PANMURE SOCIETY: Lady Lynn Forester de Rothschild, of the Coalition for Inclusive Capital, said 'neo-liberalism' had hijacked Adam Smith as its patron saint. She called for the creation of a new Panmure House society.

# Revered, revived AND revitalised

A stellar international gathering of historians and leading economic thinkers paid homage to Adam Smith, setting his work into an urgent, contemporary context.

KENNY KEMP, *Panmure House Perspectives* Editor-At-Large, witnessed the historic occasion.

Adam Smith would have relished every moment of this exquisite convocation. Here, in Scotland, an unusually eclectic collective of academics and business people immersed themselves in his theories, gently pocking and jousting, and having some sharply-pointed reflections with enough breathing space for friendship, malt whisky and humour. Smith would have approved.

His former 18th Century home, Panmure House, in Scotland's capital city, where the venerable Scotsman scratched out his thinking with a quill pen by the light of a candle, was once again lit up the flickering luminescence of 'Enlightenment'. And, as if there was no finer way to explain the massive life-enhancing power of liberal inquiry, it emanated from a unique Chinese perspective. It was Weijian Shan, the Chairman and CEO of PAG Asia Capital, managing about \$30 billion, who spoke with stoic brilliance about his own journey from the privations of exile in the Gobi desert, reading, like Smith, by candlelight, during the darkest and coldest nights of the Chairman Mao's terrible regime. But more of this anon.

In Scotland, a good going argument where friends agree to disagree is called a *flyting*, and this conference grandly entitled:

*The New Enlightenment: Reshaping Capitalism and the Global Order in a Neo-Mercantilist World*,<sup>1</sup> did much to spark the discursive juices. It was pithily summed up by Ann Harrison, the Dean of the Haas School of Business, at University of California Berkeley, who was called to respond to long-standing Chinese observer Orville Schell's stark observations on the opening day that global authoritarianism was on the rise and China is 'pioneering the re-feudalisation of the world economy.'

In offering her observations, she said: "Too often people speak to people like themselves and there is no real debate or conversation. What's really wonderful here is that Orville Schell and I, for example, will have completely different perspectives on what the problems are right now but we are able to be in the same room and have a conversation together. That rarely happens."

It was doubly appropriate because Adam Smith himself referred to China, as leading historian Niall Ferguson, a Glasgow Scot, pointed out on day two, and indeed the dominant economic power of our time was a headline topic for much of the conference. In the news, human rights protests in Hong Kong were proof, if it was needed, that the world's biggest trading economy was facing human challenges. But, for the Americans in attendance, there was some inward soul-searching about their own leadership in the White House and America's direction of economic travel. Whether China was the culprit was a main thread, although discussions touched on so much more, from climate change, human dignity, the short-termism of capital markets, and what Matthew Slaughter, Dean of Tuck School of Business in Dartmouth University, called the battle for the recruitment and retention of exceptional talent.



[1] This conference was convened by Professor David J. Teece in cooperation with Haas School of Business, Heriot-Watt University, Edinburgh Business School, and Panmure House, and financially supported by FWU, BRG, American Discovery Capital, and the Lassonde Center for Social Entrepreneurship/The University of Utah.

## THE EDINBURGH OPENING

This international gathering of invited economists and thinkers, girded together by the gracious and unflappable David Teece and the tenacious Heather McGregor, was vociferous and open for debate. While Teece is a colossal figure in his academic discipline from Berkeley University in California, he also bestrides that fissure between economic research and real-time business. As the founder of the Berkeley Research Group and an entrepreneur in his own right, he ensured a balance in programming which made this such a credible gathering. His counterpart in Scotland, Professor Heather McGregor, Executive Dean of Edinburgh Business School, Heriot-Watt University, used her legendary persuasive powers to add the sheen which brought the likes of Gordon Brown, the former UK Prime Minister, Lord David Sainsbury, the former UK Minister of Science and Innovation, and Sarah Williamson, the Chief Executive Officer of FCLT Global, to the podium. This all made the first Convention of Panmure House a unique occasion. And while Scotland's unpredictable weather delivered torrential rain and local flooding, by Monday morning in the grand Balmoral Hotel, on Princes Street, where Teece gave his opening remarks, the city of Adam



Too often people speak to people like themselves and there is no real debate or conversation."

Ann Harrison, Dean of the Haas School of Business, University of California Berkeley

Smith's latter years was bathed in a perfect light and showing off its splendour.

"It is a great delight to be in Edinburgh and to do work around the New Enlightenment, which must come with our help," he 'encouraged'.

He reminded the assembly they were on Smith's hallowed ground to do work, not just to have a good time.

"Adam Smith believed in an open and just society and in an open and just world order. He helped explicate how a decentralised market system would flourish and how nations could become wealthy. He explained also that individuals had a moral compass and they set their moral compass according to how an impartial spectator would view one's actions."

Teece said that the international market system which had delivered global prosperity for over 200 years is under attack from all sides, and its legitimacy is questioned from the left and from the right. It was time to re-assess and recalibrate, seeking inspiration from Adam Smith to deal with the existential threats to a market-based liberal order.

## JOHN KAY'S PLENARY SESSION

He introduced Professor John Kay, celebrated writer, *Financial Times* columnist and visiting professor of Economics at London School of Economics, whose erudition concerning Smith is unparalleled. Kay, a Lallan or lowland Scot, born in Edinburgh, rather than a kilt-wearing Hielan man, introduced the fabled pin factory, a starting point in Smith's *Wealth of Nations*, which was a linear and repetitive means of production. This was a brilliant foundation for what was to follow.

Whether Smith had even visited the pin factory which he wrote about so eloquently, it is impossible to know. Kay suggested a better example for Smith's analysis of the means of production could have been the great Carron Ironworks, near Falkirk, making

carronades for the British Royal Navy in the mid-18th century which was likely to be the biggest industrial factory in Europe – and therefore in the world - in its day.

Kay raised a canard that Smith had plagiarised the work of Adam Ferguson, another revered Scottish economist and historian, who wrote his essay before Smith, and used the tale of the pin factory. Indeed there had been a tiff between Ferguson, a former student of Smith, with Kay pointing out the case study appears to be taken from a French book some years earlier. He laughingly remarked that that economists should get out more.

But Kay took us on a journey which was more than parochial economic history, it was an exploration of modern rational thinking and how the modern Corporation operates. He spoke about the building of the Airbus A380 super jumbo jet and its

▲ LEADING LIGHT: Professor David Teece, the driving force behind the conference, welcomes the guest economists and historians from around the globe.

◀ BOOK MARKERS: Delegates to the first New Enlightenment conference held in Panmure House pause to examine a rare first edition of *The Wealth of Nations*.

► complexity of construction, with not a single individual capable of understanding every aspect of its building and assembly.

"It is an immensely complicated product and there is no-one, literally no-one, no individual who knows how to build an Airbus. But 10,000 people working together, do know how to build an Airbus."

This aviation leviathan showed how collective knowledge and manufacturing processes have developed in the 200 years since the pin factory. On his run through of post-war economics, he talked about the importance of scientific management, and how Peter Drucker and other post-war economic thinkers had used General Motors, the iconic American car-maker, as the shining example of the Corporation. Business was General Motors and Ford, both models of linear, repetitive processes, and the conventional wisdom was such techniques of production could be applied to any manufactured products. Nobel Prize winner Milton Friedman sparked notoriety in the 1970s by declaring the underlying social responsibility of business was to maximise profits for shareholders. While Kay spoke about the organisational development of the American conglomerates, such as General Electric, under Jack Welch's tenure, leading to Six Sigma, which was about eliminating waste in the manufacturing production, he was keen to take the audience into the more modern world, from what he called 'axiomatic rationality' to 'evolutionary rationality'.

This was today's world of risk and radical uncertainty where new challenges lie. This is a very different world from the certainties of previous economic theory. If axiomatic rationality was about the risks associated with 20th - century American conglomerates and known, linear, and repetitive production, then the decline and collapse of these great, iconic manufacturers, which included ICI and GEC in the UK, showed it was now redundant. Replacing it is evolutionary rationality which matters because we simply do not know what the future holds. Today, the successful companies at the top of the Fortune 500 are Microsoft, Google, Apple, Berkshire Hathaway, and Johnson & Johnson, where manufacturing is a relatively small part of a total valued-added existence, showing that knowledge and the wisdom of teams mattered more.

On his storytelling excursion, we heard about the equation of money spent by leading English soccer clubs on buying players versus success rate, pointing out that Manchester United and Liverpool were by far the biggest spenders. But that Liverpool had more success on the field because they played as a team, rather than a group of highly-paid individuals. And so the idea of teams being more than the sum of their parts was deeply relevant to the modern, complex processes of building an Airbus A380. Competitive and human leverage was the difference between winning and losing, and the profitability of businesses where competitive leverage was in its extreme was identified as 'Winner Takes All'.

"This analysis of the nature of competitive leverage is fundamental to understanding these kinds of modern economic challenges," he said.

Furthermore, Kay spoke about how the broadening of market opportunity had come through the accumulation of collective knowledge which led to a 'staggering degree of productivity'. In speaking about the combined wisdom of crowds, he warned us that this was the accumulation of the 'aggregate' of knowledge, not the 'average' of this knowledge, which made radical change possible.

"We need to understand that the Corporation is a social organisation which is a product of the society in which it operates."

This, he said, draws as much from psychology and anthropology than on models

**PIN SHARP:** Professor John Kay took delegates on a storytelling excursion saying 'the corporation is a social organisation which is the product of the society in which it operates'.



of individual rationality. These are the tools which will help us understand the teams which dominate successful organisations. These were insights that were obvious to the scholars of the first Enlightenment, so they should be obvious to scholars today.

#### RESPONSES TO KAY

In dissecting this thesis, Barry Eichengreen said Kay's argument was that the 21st century Corporation was characterised by teamwork where decisions were taken and tasks executed by groups or collections of employees; where it was a repository of collective knowledge generated by individuals with different capabilities; and dependent on 'evolutionary rationality' which utilised 'adaptive capabilities'.

However, Eichengreen, professor of Economics and Political Science at Berkeley, questioned how many of these characteristics were distinctive purely in the 21st-century Corporation because Nelson, Winter and Chandler in the 1960s and 1970s were already writing about industrial dynamics and 'knowledge - acquiring' processes that were changing corporations.

"When John [Kay] is describing the 21st-century Corporation, I would argue he is also describing the late 19th-century and the 20th-century Corporation. Indeed, I would argue you see many of these same features: workers with different capabilities, teamwork, collective knowledge, evolutionary rationality in industrial shops, in very small manufacturing factories, towards the beginning of the Industrial Revolution."

He said that perhaps the real distinction is in the range of modern capabilities and that teamwork and collective knowledge are far more important today. Here Eichengreen spoke about the importance of 'visible proximity', where single-site manufacturing of the past was about fixed capital and the cost of handling materials. Now it is about data which can be instantaneously transferred, yet why therefore is the Googleplex in Mountain View, where many Google employees are situated in one place? Presumably, he proposed, visible proximity is integral to the successful operation of teams.

"A team seems to be more productive when there is face-to-face interaction and I make more progress on my research time when I'm in the same room as my co-authors," he said.

He said research is still required into visible proximity and the importance of non-verbal communications and how this affects levels of concentration, attention-span and productivity.



## What we know is our system has created horrible problems of wealth inequality,

nowhere worse than the United States where the top one percent controls 42% of the national wealth, and the bottom 90% controls 4.7%."

Lady Lynn Forester de Rothschild, Coalition for Inclusive Capital



Conference photographs by Gabriel Schwartz and Sasha Schell.

**CHINESE THINKING:** Prof Orville Schell makes a point, with Jeffrey Rosen, deputy chairman of Lazard; Prof Ann Harrison, Dean of the Haas School of Business, University of California Berkeley; Prof Matthew Slaughter, Dean of the Tuck School of Business, Dartmouth University; and Peter Schwartz, Vice President of Salesforce, on the panel.



Among the responses, Lady Lynn Forester de Rothschild, of the Coalition for Inclusive Capital, said that 'neo-liberalism' had hijacked Adam Smith as the patron saint, until the theories of Friedman and his Mont Pelerin classical economic acolytes became the norm.

"What we know is our system has created horrible problems of wealth inequality, nowhere worse than the United States where the top one percent controls 42% of the national wealth, and bottom 90% controls 4.7%," she said.

Wage stagnation, dislocation, loss of jobs and lack of economic security from the arrival of new technology, created a society now acting out against what it saw as neo-liberalism. This, she said, is an enormous problem which demands a new Enlightenment and not just tinkering at the edges. She called for the eschewing of the Mont Pelerin view and the creation of a new 'Panmure House society', which could use Kay's evolutionary rationality. Collective knowledge and teams were now relevant, as is the credo of Johnson & Johnson based on the concept of what we admire in society, and Robert Kennedy's moral imagination to engage all.

"One of the problems is not that we don't know the solution, but people don't believe we are actually in this together. I think everything we do should be towards making capitalism inclusive," she said.

She said philosophers, poets and musicians have to be brought into the fold to truly help convert the world from 'greed-is-good individualism' towards a poetic society with an economy which works for everyone, requiring a fundamental reform of capital markets.

Matthew Slaughter said it was important to think about the scalability of talent, now a driving force for economic and social change and unprecedented in human history. He introduced, as an example, the inflation-adjusted mean earnings of PGA Tour golf players since World War Two.

"In the Fifties, Sixties and Seventies, the mean earnings in this high-talent labour market was pretty constant ... then all of a sudden from the 1980s, it goes up and up. Today by a quarter in magnitude. So that the average earnings of an average PGA Tour golfer is \$1 million a year."

He explained that this was due to the expansion of talent to meet the massive global expansion of golf, but this also applied to an industry or activity where talent was at a premium, and this created massive rises in income equality. He raised the issue of how we create talent in the 21st century, and what the public policy and taxation response should be towards the remuneration of talent.

#### ORVILLE SCHELL'S PANEL LOOKS AT CHINA

While the plenary audience dispersed, with many heading down to Panmure House to take in Adam Smith's rejuvenated Scottish abode for the first time, those who remained heard Orville Schell, Director of the Center on US China Relations, giving an outstanding synopsis of the issues facing liberal democracy, with a finger pointed firmly at China. The topic, chaired by Schell, was *How and Why is Globalization Disaggregating in the World? A Look from China and Russia to the US and Europe*.

"You all remember Francis Fukuyama's rather optimism

**BETTER OUTCOMES:** Professor Mary Morgan, the Albert O. Hirschman chair at London School of Economics, speaks about the need for better measurements to improve outcomes



view of *The End of History* but we now have the end of the *End of History*," he said, raising laughter.

We are now in an unforeseen cycle where liberal democracy and the global economic order, in the likes of Turkey, Poland, Hungary, Russia, is being challenged, with China the inflection point. He painted a grim picture of two clashing cultures: the Chinese model and the liberal capitalist market model. These were two different systems with very different sets of values and interests.

"Even as it touts itself as a global trader, it is also pioneering the re-feudalisation of the modern economy. If you look at what China has done with the internet with a sequestering and 're-sovereign-isation' of the internet that is characteristic of this, and what they are basically saying is that there is no such thing as the world-wide web for us." China has a national intranet that is a controlled gateway to the country. This was amplified in many other ways and undermines the concept of globalisation, and is manifest in the current trade war between China and the United States.



## For the two largest world economies, it is not a level-playing field, it is not fair.

It has a lot of inequity which needs to be ironed out if it going to be functional."

Orville Schell, Director of the Center on US China Relations,

"For the two largest world economies, it is not a level-playing field, it is not fair. It has a lot of inequity which needs to be ironed out if it going to be functional."

This posed the question of how would Adam Smith's bipolarity and moral sentiment operate when the Chinese model was one fundamentally without moral sentiment, and how these two systems can find a comfortable relationship and mode of engagement.

It was Peter Schwartz, a former oil industry engineer, co-founder of *Wired* magazine, and now a scenario-planner and Vice President of Salesforce, who declared he had been an optimist, but found it very painful that the spread of prosperity since World War Two had stagnated and the much-vaunted globalisation was fragmented and breaking down. He asked if capitalism can change and become more inclusive, as raised by Lady Rothschild, and take everyone with it, or is it a narrow definition of self-interest.

"There are only several possible scenarios: one, this is a temporary aberration and the world gets its act together and great leadership emerges, in America, China and Europe of the kind we saw post World War Two, to knit together a new fabric of collaboration, or are we heading for a world of increasing fragmentation and conflict. The fundamental question then is does that conflict lead to World War Three." ►

Ann Harrison reminded the audience that the Haas business school in California was set up facing East. And, as an economist who began her career examining world trade, she warned it was tempting to blame China for all the woes. This was not the problem. She reminded that audience that the United States had grown through its application of tariff barriers until 1945, when the rules were changed. She said the culprit is not China but the rapid bottoming out of employment, as automation and technology was rapidly changing employment. A recent visit to an Amazon Go store in Seattle, which is completely run by robots and AI with no people involved, was an indication of this future state and the massive displacement of service-sector labour.

"We can question if the world is disaggregating, but the interesting question is why. If you get the cause wrong, you are really going in a very bad direction."

She pointed out that America was experiencing the highest inequality in 100 years, and that inequality was continuing to rise. This was not just in America. The pain is real and spreading across Europe and was manifest in the Brexit vote in the UK. She warned against using China as a scapegoat, the way Japan had been used by the Americans for a similar purpose of generation earlier. She said the world was disaggregating because there was not enough high quality jobs and therefore there needed to be more investment in education, human capital and infrastructure.

Joanna Shelton, of the University of Montana, and a former Deputy Secretary-General of the OECD, in response to 'the pain being real' spoke about how Donald Trump had capitalised on the real pain that many felt about losing their jobs and loss of manufacturing industries. However, she spoke about universal income saying that psychologists point out that work is an important element of self-esteem and happiness. "And we can't forget that."

Jeffrey Rosen, deputy chairman of Lazard, said: "The fact is that the two largest economies of the world are now working outside the WTO (World Trade Organisation); so I think we might end up with some bifurcated or trifurcated trading system. But the real question is where is the leadership going to come from?"

Rosen spoke about the lack of middle-class support in democratic societies for international institutions that were supposed to serve them so well, with Brexit an example of this.

"I wonder if one of the challenges we have here is that we are trying to address a problem that is too large. We have two broken systems bashing against each other, the Western economic system is inherently broken, with a lack of social justice, and we've got the totalitarian Chinese system which is also a system with imbalance. Perhaps the best way to solve the problem isn't to try and get your neighbour to stop beating his wife, but just to improve the way you treat your own family. I wonder if part of the solution here is revolving around the issue of income inequality of the US where if we could solve that and make the average American wealthier, because we all agree that the middle class is really the method of creating opportunity. If Economics is the study of transactions, giving people more money, then we can perhaps look at how we can stabilise the West so it is better able to weather China."



**HISTORY MAKER:** Professor Niall Ferguson discusses the finer points of Adam Smith's *The Wealth of Nations* with Dr Caroline Howitt, Programme Director of Panmure House.

**DEEP IN THOUGHT:** Former Prime Minister Gordon Brown prepares a note in response to questions while Lord Sainsbury looks on during their session on dynamic growth theory.

#### LORD SAINSBURY AND GORDON BROWN JOIN THE DEBATE

There was a palpable excited energy in the after-lunch Balmoral ballroom where David Teece introduced Lord Sainsbury, the Chancellor of the University of Cambridge, by saying he brought a unique perspective combining the insights of government, the literature of economic growth, as well as a practical understanding of how businesses use innovation to succeed. Sainsbury chaired the panel discussion on Productivity, Enterprise Development, and Dynamic Capabilities, with Gordon Brown, the former UK Prime Minister, Barry Eichengreen and David Teece.

"We are living through one of the most dramatic periods of world economic history," said Sainsbury.

He opened by contrasting the G7 countries (Canada, France, Germany, Italy, Japan, the UK and the United States) which have been losing out to the Industrialising Six (I6) nations, including China, India, Indonesia, Poland, South Korea and Thailand, in terms of productivity. Most of the I6 countries only became market economies in 1990, yet since then they have had a major impact on competition with all G7 nations experiencing declining growth.



We are living through one of the most dramatic periods of world economic history."

Lord Sainsbury, Chancellor, University of Cambridge

"This was due to a loss of competitive advantage by firms in the G7 and a rapid increase in competitiveness of firms in the I6 countries," he said, pointing out there was with a shift from high-value jobs towards lower, value-added service jobs across the G7. This, he said, was an alarming picture for the American economy where there had been leadership in advanced hi-tech products and services in 1990, which has gradually been eroded.

He spoke about his dynamic theory of economic growth where innovation is used to gain productive efficiency which turns on how companies and countries can take advantage of what he called 'windows of opportunity'.

"If you look at China, many windows of opportunity have opened up for them including trade liberalisation, global value chains, and the development of transport and communication systems, especially in containerisation and freight, which could send goods to the developing world."

"If we are to stop in any way the trade war between the US and China turning into a major battle which retards world economic growth, we need to have an international debate about the trade rules which should be adopted in this new world where science, technology and innovation have become so important," he said.

He said there needs to be better ways to protect intellectual property of companies, including university research contracts, and that there is an issue of the purchase of high-tech companies by foreign firms. Public opinion is strongly against foreign companies being allowed to destroy the economic base of another country by buying its critical assets. Furthermore, to deal with Chinese competition, the liberal economies must invest more in education and improving training, supporting R&D, halting China from stealing IP, directing financial resources to successful firms, and focusing on wealth creation. Gordon Brown, who had been at the forefront of resolving the global banking crash, blamed the over-concentration on 'efficient' market theory, which became part of the 'Washington census', although it is not supported by the present incumbent in the White House. The over-emphasis of efficient markets at the expense of innovation and education was unfortunate. Brown reminded the audience that Adam Smith, who grew up in the coastal Scottish community of Kirkcaldy by the sea, regarded his *Theory of Moral Sentiments* as a more important book than *Wealth of Nations*.

"He had this idea of the circle of empathy, this idea that a community had obligations to each other and as a result of that you would support some forms of public services and the circle of empathy would move outwards so people would come to see themselves not just part of a local community but an international one."

He said Adam Smith required this to have a moral underpinning which the market did not in itself generate, hence Smith's enthusiasm for education and public works.

Speaking on innovation, Brown said the West was looking at China through the wrong lens as the country was due to spend 2.5% of national income on R&D. It has two million researchers, 75% of the world's electrical power, 60% of solar power, 40% of mobile infrastructure, and is bidding to be the leading power in AI.

"This idea that China is thriving and will thrive purely



**LOST AND FOUND:** Professor Christopher Berry from Glasgow University discusses what we have lost from Adam Smith and how economic theory has changed since his writing.

in low-value added goods and services is, of course, wrong. They are shifting low-value added stuff out to Vietnam and Bangladesh and other countries in Asia, and they want to be a high-value added dynamic economy investing in research and development."

He said the West's rate of innovation is low and has to change, by investing in skills and science and unlocking the key technologies of the future. However, he said international institutions needed to rebuild trust to ensure global cooperation in tackling the major issues of our time.

Brown said: "We are now in a world where globalisation is so badly managed and co-ordination between governments is so poor and meetings, such as the G20, are so empty of content that people have decided that there is no hope in international economic cooperation and have retreated into national silos as

if protectionism and aggressive nationalism can solve the problems that are global and cannot be solved other than by cooperation, whether it be climate change or financial instability or whatever you want to draw attention to."

Teece said Lord Sainsbury has done a very fine job of juxtaposing a traditional production efficiency view with a perspective on innovation. In Smith's defence, he reminded the audience that Smith was writing before the full extent of the Industrial Revolution was obvious and that he did not have the opportunity to observe automated firms. Nonetheless, he did recognise the emergence of technological innovation.



#### Forty years ago, the Chinese government controlled all the resources

and all economic activities and it didn't produce richness for China, it produced only poverty."

Weijian Shan



**REMARKABLE STORY:** Professor Weijian Shan's personal journey from being a Red Guard in Mao's China to becoming a professor in California, and now a major international investor, captivated a full house in the Lecture Room at Panmure House.

#### A UNIQUE CHINESE PERSPECTIVE

After this session, something magical happened. One of Professor Teece's most illustrious students, Weijian Shan, himself formerly a Wharton School professor, and a successful Chinese business figure who runs a private equity firm, gave his personal testimony, now also in a book, *Out of the Gobi*. More than 60 people crammed into the Panmure House Lecture Room, some standing at the back, with heads craned to listen to every single word of his extraordinary odyssey and fight for survival. This was worth the ticket alone. If there was ever

an example of human positivity, the power of education, and fighting against all the odds and succeeding in America, then Weijian Shan's tale is it.

"I wrote this story to provide an account of Chinese history which I and my generation lived through which, I think, informs and defines China to this day. It is very important to understand this part of Chinese history to order to understand China today."

The brutal policies of Chairman Mao Zedong's Great Leap Forward led to the Great Famine in the early 1960s when more than 36 million Chinese died of starvation, around 5% of the whole population. After this, the revolutionary zeal of Mao unleashed his Red Guards to spread the fire of revolution with the so-called Cultural Revolution. In 1966, Shan, who was born in Beijing, was 12 years old when the Cultural Revolution began. He was about to graduate from elementary school when schooling and education was banned for ten years. He became

a Red Guard who witnessed teachers being beaten to death, and then the terrifying consequences of Red Guard factions turning against each other.

"Mao likened the Cultural Revolution as a civil war when all kinds of weapons were used, guns, cannons, even tanks and missiles were used against Red Guard factions, and on each other. Hundreds of thousands of people were killed in this civil war, so China was totally out of control."

He said the entire political system and government was paralysed at this time. Then Mao sent 60 million young people - 10% of the urban population - to

the most remote and barren places in the nation to work with the peasants and try and transform the backward countryside. So, in 1969, when Shan was 15, he was dispatched to undertake hard labour growing crops in the extreme Gobi desert, under the blistering sun during the summer and terrible cold in the winter. He talked about living in a hole in the ground and then building a hut and collecting cow dung for a few minutes heat a day, and how he was forcibly marched miles to cut reeds for paper-making on the ice of a frozen lake in temperatures of -20 to 30° centigrade. Hunger, thirst and starvation was never far away, with never enough to eat and only given after a hefty quota of reeds was cut and delivered.

"I didn't mind the work so much, what I minded was not enough food to eat. We were starving all the time. It was very, very hard especially in extreme cold," he said. "The biggest waste in my view was not the starvation and the thirst and all that, the biggest waste was personal education as there was no school. I consider my generation to be the Lost Generation because none of us had the opportunity to go to school for ten years."

Books were banned and Shan's wake-up call was when a fellow exile, a successful Chinese pilot during the Second World War, talked about the greatness of the United States. Shan provoked laughter when he said he felt profound sympathy for the people of capitalist societies when he was told most people lived in poverty and misery, until his aviation exile friend, who had been trained as a US Navy pilot, revealed to him that America in the 1940s was richer than China in 1970s. Shan's opinions and sympathy began to change.

Shan's ordeal came to an end in 1976 when Mao Zedong died and China began to open up. Two years later, Deng Xiaoping, who had also been in exile and in prison, came back to power as China's paramount leader. In 1979, China re-established relations with the United States and Deng met with Jimmy Carter, the US president, and they agreed Chinese students could be sent to American colleges. This open door policy, linking trade and the migration of key people, allowed Shan to gain access to formal higher education and he gained entry to University of San Francisco, in 1980.

"Forty years ago, the Chinese government controlled all the resources and all economic activities and it didn't produce richness for China, it produced only poverty. So what Deng and his comrades decided was to abandon the old system of central planning and move in the direction of liberal markets, gradually. Initially, it was very tentative and cautious. Eventually that was the direction in which China moved. China has developed not because of some uniqueness of the Chinese model, it has developed because China has developed the market economy, which now accounts for 60% of China's GDP, but still has some way to go."

#### MEANS OF PRODUCTION: NIAL FERGUSON'S PLENARY SESSION

And so Day Two began with great anticipation. Niall Ferguson, a Scottish-born, newly-minted American citizen and Senior Fellow at the Hoover Institution, Stanford University, is known for his polish and panache. He did not disappoint. It was a neat counterpoint to Shan's personal journey. Ferguson's lecture was a bravura 40 minutes, weaving Adam Smith's thinking into his session Capital, Socialism and Democracy, Old Questions in a New Setting. He argued that the liberal democratic system had not done enough in explaining its breadth of scope and he argued that democratic societies have the choice on whether to spend more on tackling the issues of inequality or cutting taxation. But his thesis was one where he said socialism, by its nature, eventually ended with lawlessness and disorder.



**MEANS OF PRODUCTION:** Professor John Kay pointed out the Carron Iron Works near Falkirk was once one of the biggest industrial complexes in Europe.

"What matters in the end is not whether you're a socialist or capitalist, which is something of a false dichotomy, but what really matters is if you have the rule of law," he said.

Glasgow-born Ferguson, speaking as an historian, rather than an economist, noted that in his best-selling textbook *Economics*, Nobel Laureate Paul Samuelson, consistently predicted - and wrongly - in several editions that the socialist command economy of the Soviet Union would overtake the GDP of the United States in 1984. Yet by the time of the collapse of the Soviet Union in 1989, the economy was less than a third of America's.

Yet, since the global banking crash, which began in 2007, the term 'capitalism' has become a discredited term and socialism is back in vogue and there were growing anti-capitalist feeling.

"Remember capitalism was a term of abuse, not from Marxists, but a Tory term of abuse in the 19th century, and I urge people who believe in the free market and the principles of Smith not to use the term."

"It is only much more recently that the Left has begun to make serious signs of political recovery and which is very striking on both sides of the Atlantic socialism has made a comeback with the young."

He pointed to surveys among young people that say they prefer socialism to capitalism. In Generation Z, between 18 and 24, which he noted were not in numbers at this conference, 61% have a positive response to the term socialism. He also noted that many confused the term socialism with social media!

"We find a generational polarisation going on in at least the English-speaking world ... We face a really serious problem if the generation currently at university or university age believe that socialism is preferable to capitalism," he said.

He points out in his book, *The Square and the Tower* that this is an age of large online social networks where extreme ideologies and 'Fake News' can flourish.

"One can't explain the rise of the populist Right and, more recently, the populist Left without reference to technology... which is disrupting the existing structures of politics, undermining established parties and creating opportunities for extreme ideologies to spread."

His thesis was that anti-capitalists were not railing against small businesses or even the entrepreneurs of the Gig Economy but the big corporate businesses and the banks, who were held responsible for the collapse of society.

"There is a confusion at work here.

When young Americans talk about socialism they have in mind some idealised or caricatured version of Scandinavia or Northern Europe where education and healthcare is seemingly free. It seems to me to have nothing to do with the central notion of socialism, which is the collective ownership of the means of production, that was the defining feature of socialism as an ideology."



**SCOTTISH HOMECOMING:** Professor Niall Ferguson, a history professor at Stanford, delivered a tribute and appreciation of Adam Smith which placed the Scottish economist and thinker firmly in a modern context.



## We find a generational polarisation going on

in at least the English-speaking world... We face a really serious problem if the generation currently at university or university age believe that socialism is preferable to capitalism."

Niall Ferguson, Senior Fellow at the Hoover Institution, Stanford University



**THE BIGGER PICTURE:** Professor Arie Lewin, Professor Emeritus in Strategy and International Business at Duke University, gives a vivid outline of international economics in Panmure House.

He said that Jeremy Corbyn, the Labour leader, who is an advocate of socialism, has two million Twitter followers whereas Boris Johnston, the contender for the UK Premiership, is new to social media with 600,000 followers, which is one per cent of Donald Trump's own.

Ferguson pointed out many people are unaware of the history of socialism in the 20th century and the whole idea has got lost in translation. He pointed out that the basis of socialism is about the state owning the means of production and distribution. To do this, they must curb personal freedoms and the rule of law. He pointed out that educators have failed to properly explain how socialist ideas led to disorder and widespread lawlessness and he cited the disarray in places such as Venezuela to make his point.

"The key issue here that we need to focus on, and it's a timely thing to focus on given the events in Hong Kong, is not so much on democracy but on the rule of law. The real distinction between China's system and the system of the United States or indeed the European Union is the fundamental limitation of the rule of law that exists in China."

The World Justice Project scores legal order to countries. Only in the measure of security is China ahead of the United States, but significantly behind on fundamental rights, openness of government, and absence of corruption. Sweden, by every measure, was top of the table.

"China has succeeded, as every politician says in every speech, because it has pulled hundreds of millions of people out of poverty and this is the greatest achievement in human history. Yes. But those people who have been pulled out of poverty and become middle class in last 30 years in China, Fine. But they do not have proper rights in the way we understand them in the West, nor can they allocate their capital freely as they would if they lived in the West, and that is why the entire Chinese system exists behind a great fire wall to exclude



**LONG-TERM THINKER:** Sarah Williamson, the Chief Executive Officer of FCLTG Global, a non-profit consortium of asset managers and investment houses dedicated to long-term investing, prepares another point in her Panmure House discussion.

by an earthquake and let us consider how a man of humanity in Europe with no sort of connection with that part of the world would be affected upon receiving intelligence of this dreadful calamity. He would, I imagine, first of all, express very strongly his sorrow upon the misfortune of that unhappy people, he would make many melancholy reflections upon the precariousness of human life, and the vanity of all the labours of man which has thus been annihilated in a moment. He would too perhaps, if he was a man of speculation, enter into many reasonings concerning the effect which the disaster might produce on the commerce of Europe and the trade and business of the world in general. And when all this fine philosophy was over, when all these humane sentiments had been once fairly expressed, he would pursue his business or his pleasure, take his repose or his diversion with the same ease and tranquillity as if no such action had happened. The most frivolous disaster which could perform himself on occasion or a more real disturbance if he was to lose his little finger tomorrow, he would not sleep tonight," wrote Smith.

Harold James, Professor of History and International Affairs, at Princeton, said Adam Smith's flaw was his retrospective view of the economy and that, by 1776, the year of the publication of *The Wealth of Nations*, society was changing with the advent of the steam engine, which Smith did not see. Such technology change revolutionised the world. James said Ferguson's discussion failed to talk about how technology and particularly AI will transform the ideas of socialism and capitalism.

Orville Schell said he forgotten how Adam Smith was such a beautiful and elegant writer.

"We crave that kind of elegant well-ordered thought process to make sense out of the world that we are in. I must say my head is exploding with a thousand ideas and that's partially because the world is in such a state of disorder now... we yearn for the good old Cold War days, when we know who is on what side. Socialism and capitalism all had very clear dividing lines... but that's not true anymore," he said.

He agreed with Ferguson's premise, that the main contradiction is not socialism or capitalism, although he pointed out China was Leninist rather than Socialist, but that the principles of the rule of law were a differentiation. It is between authoritarianism and liberal democracy and the wider question of 'where do we all stand'.



## Here's the problem. Information only arrives in the short-term.

Tomorrow's information is unknown speculation. Yesterday's information is stale and out of date. The only thing you can respond to, is what you learn today."

Professor Brad Cornell, professor of finance at UCLA Anderson School of Management

Peter Schwartz said Donald Trump had turned electoral politics into reality TV and the United States no longer has a conventional national electoral process but a reality show with a vote at the end of it. He said Trump was probably the biggest individual single force undermining the rule of law in the United States today. However, he said the failure of socialism was nothing to do with Ronald Reagan's nuclear defence build-up but the chronic state of the Soviet economy which collapsed and led to the end of the Cold War.

#### SARAH WILLIAMSON'S PANEL

FCLT Global CEO Sarah Williamson, who had co-chaired the World Economic Forum's Global Future Council on Long-term Investing, introduced the session on Capital Markets, Managerial Behaviour and Short-Term Incentives, explaining it was a subject at the heart of the future of the liberal capitalist system.

She welcomed Professor Brad Cornell, professor of finance at UCLA Anderson School of Management, who spoke about an investment advisory firm in which he is a senior adviser and is focused on long-term discounted cash-flow valuation. Yet people say the company is responding to the short-term.

"Here's the problem. Information only arrives in the short-term. Tomorrow's information is unknown speculation. Yesterday's information is stale and out of date. The only thing you can respond to, is what you learn today."

He also posed the question of how we are going to finance a civilisation of 10 billion people that will require massive amounts of energy to live the lifestyles to which we have all become accustomed.

He said the most useful data is total primary energy usage, which is 85% carbon based fuels, which is then converted into kilowatt hours, per day, per capita. This is about how many hours our society need to keep people living in the way they are used to living. China is trying to rise to the European standard and United States which is causing a massive rise in CO<sub>2</sub> emissions. Total energy demand is going to rise substantially.

"So the massive challenge for the capital markets is how are they going to raise, in the long term, tens of trillions of dollars to solve these problems. This related back to the debate we are having with the US versus China: will the US and the Western European countries figure out a way to finance and solve this problem, or will it take a centrally-organised government of the type China has to do it."

He said this is the biggest challenge that the world and the capital markets face today.

In the concluding session, Orville Schell said the notion of constructive engagement and the idea of globalisation appear to be coming to an end. The presumption that global trade, as described by Adam Smith, which all kinds of societies would find advantageous, is also coming to an end because of a new kind of authoritarianism. Harold James agreed with Schell about concerns over the future of globalisation and pointed out previous occasions when it disintegrated and the consequences were catastrophic, ending in World War.

Niall Ferguson said that Panmure House was a symbol in its own right of the smallness of what we call the Enlightenment.

"It's way better than having a huge, gilt-laden palace to commemorate Smith's contribution. There was an egalitarian quality to Scotland in the 18th Century which has always appealed to me. It's there in Robert Burns too. The great ideas that Smith bequeathed us, not only the invisible hand but the central notion of sympathy between us. These ideas sprang from something that was beautifully small and modest. The Enlightenment, at least the Scottish part of it, flourished in the most unlikely of soils."

Out of this, came an extraordinary intellectual miracle. Ferguson said Smith's thinking was independent of political structures which were still in flux. So Smith could be thought of as an intellectual 'software' or an operating system which runs independently of the political 'hardware' of the liberal institutions, which is subject to change, and should be subject to change.

"What is beautiful about these ideas is that they are portable over time and space. They can work anywhere regardless of a



**ITALIAN CONNECTION:** Professor Franco Malerba, Professor of Applied Economics at Bocconi University, Milan, argues that Adam Smith's position in modern European economic theory is assured.

country's history, heritage, religion, DNA. What is to be done? I think we need to teach the virtues of this operating system with its emphasis on individual liberty and economic, social and political implicit preference for software over institutional hardware."

#### THE CLOSING PLENARY

In the final act, Professor Teece thanked everyone for their attendance. He unveiled the first Panmure House Declaration which he said was a starting point and would be refined at future gatherings.

The declaration urged: 'International leaders to base their policies and decision-making on a set of common principles, as espoused and formulated by Adam Smith, which cherish the required values of an ethically-based liberal democratic system, a moral commitment to the well-being of our communities and affirm responsibility to protect economic, political and social freedoms, use resources wisely, avoid unintentional consequences, follow the rule of law, favour markets and prices as guides to resource allocation and take a long term view of private and public investments, to support inclusive economic growth and prosperity for all.'

It was signed at the conclusion of the conference by over 100 people who attended the event.

Professor Heather McGregor, of Heriot-Watt University, the custodians of Panmure House in the Canongate, said: "We believe the Panmure House Declaration sets out a clear vision first espoused by Adam Smith and still highly relevant in a modern 21st-century context. We are certain that the Declaration will resonate well beyond Smith's homeland and spark debate among academics about the future of our world."

"I'd like to thank Professor David Teece, and his colleagues from Haas School of Business at the University of California, Berkeley, for inviting such a distinguished group of thinkers to Adam Smith's final home in Edinburgh. We've been most fortunate to have two days of outstanding contributions about the economic and political state of the world." 🌟

*NB: Because of the nature of break-out sessions, not all speakers are covered in this report.*

# What's on my reading list?

GRAHAM WATSON

#### What books are on your bedside table at the moment?

Usually too many, and mostly weaving a thread through my interests in leadership, business, law, politics, sport, and the USA. The rather large pile at present includes, at the top, **A Year at the Circus: Inside Trump's White House** by BBC North America Editor, **John Soper**. In the book, Soper gives a riveting first hand account of the impact this presidency has had on the most iconic of American institutions.

Next is **Misbehaving** by Nobel Prize winning economist, **Richard H. Thaler**. This fascinating exploration of Thaler's 'Nudge' theory illustrates the central promise of behavioural economics as applied to policy – using people's weaknesses to help them achieve their goals.

A rather long read that I dip in and out of is **Scalia: A Court of One** by **Bruce Allen Murphy**. This is a marvellous biography of the late US Supreme Justice, Antonin Scalia. As the UK Supreme Court features more often in our daily news it is instructive to read about one of America's foremost conservative and free speech supporting justices, a man driven by three fundamental and nearly operatic qualities: a deep delight in argument, a florid and highly traditional Roman Catholicism and an insatiable need for attention to be paid.

Reflective of my interest in Edinburgh Business School, I am rereading **Adam Smith's The Theory of Moral Sentiments**. It pays to be reminded that the character of a truly virtuous person would embody the qualities of prudence, justice, beneficence and self-command.

Recently added to my collection is **The Sixth Man** by NBA basketball star, **Andre Iguadola**. Apart from its qualities as a memoir of the life of a great athlete, the book explores what motivates an athlete to keep striving for more once they have already achieved the highest level of play they could have dreamed of.

The final book on my table has just arrived; **Agent Running in the Field** by **John le Carré**. I do not often read fiction but I was taken by a review of le Carré's latest novel that said the book 'is right on the money, in psychology as much as politics...Various characters in the book have plenty to say about "the sheer bloody lunacy of Brexit"!

#### What's your favourite book?

Without a doubt, the legendary **John Wooden's** book of leadership lessons; **Wooden on Leadership: How to Create a Winning Organisation**. John Wooden lived 99 years and coached more NCAA championship basketball teams (10) than anyone else in history. He coached four UCLA teams that went undefeated. He coached teams that won 88 straight games. Yet, coach Wooden never talked about winning; he preached success. His timeless quote is etched in my mind: "Success is peace of mind which is a direct result of self-satisfaction in knowing you made the effort to become the best of which you are capable." Here are just a few of John Wooden's leadership gems:

- 'How you practice is how you play – in sports and in everything else.'
- 'I believe effective leaders are, first and foremost, good teachers. We are in the education business.'
- 'I had Intentness for 28 years as a coach at the high school and college level – intent on doing my best to help others do their best. In my twenty-ninth year of coaching, something remarkable occurred: UCLA won a national championship.'

#### What is the best leadership publication of recent times in your view and why is this so?

**True North** by **Bill George**, a Professor of Management at the Harvard Business School and the former Chairman and Ceo of Medtronic, the world's leading medical technology company. The book offers simple advice and a clear roadmap showing how anyone who follows their internal compass can be an authentic leader.

- 'Just as a compass points toward a magnetic field, your True North pulls you toward the purpose of your leadership. When you follow your internal compass, your leadership will be authentic, and people will naturally want to associate with you. Although others may guide or influence you, your truth is derived from your life story and only you can determine what it should be.'

#### Who are the writers and thinkers that you most admire and return to for your inspiration?

Two particular people come to mind immediately. **Condoleezza Rice** and **Tony Dungy**.

Professor Rice, the 66th US Secretary of State, was my younger daughter's academic adviser at Stanford University. In her memoir, **No Higher Honour**, she offers keen insights into how history actually proceeds. The book is a master class in statecraft, in a way that reveals her essential warmth and humility and deep reverence for the ideals on which America was founded. Expressing a view that today's politicians might heed, she writes that: 'Today's headlines and history's judgments are rarely the same. If you are too attentive to the former you will most certainly not do the good hard work of securing the latter.'

Tony Dungy was the first African American to coach a team to the NFL Super Bowl Championship. In **The Soul of a Team** he asks: 'What separates the truly great teams from the mediocre ones?'. His answer is 'four simple yet highly effective principles – selflessness, ownership, unity, and larger purpose.' Throughout the book, Dungy's leadership advice is rooted in his Christian faith.

Selflessness, ownership, and unity constitute the what of teamwork, but larger purpose constitutes the why. Teams often find that defining their larger purpose is a difficult task, but once they have done so, writes Dungy, that purpose 'guides their decision-making, shapes their relationships, and influences their conduct', as well as gives a team 'a vibrancy and sense of worth it wouldn't otherwise have.'

#### Which publication or journal has given you the most pleasure in its content, style and presentation?

**Trust** is the seasonal magazine from leading Edinburgh investment house, Baillie Gifford, where my older daughter works. The journal combines insightful ideas from investment managers and interviews with some of the foremost thinkers of our time. Baillie Gifford began managing investment trusts in 1909 and its approach is reflected in its strapline; 'Actual Investors imagine 'what if', not 'what is''. An article in the most recent edition of the magazine challenges the purpose of capital markets and reminds us that the genius of equity capital is to utilise the savings of society to provide the necessary risk capital in order to both drive economic progress and deliver returns to savers. This is a point that is often lost in a world that all too often focuses on short-term returns.

#### Who has inspired you in your professional career?

I am fortunate to have worked with many great people throughout my career. However, those who have inspired me the most are those who have pushed me to operate outside of my comfort zone. Early in my career I was fortunate to work with three of Scotland's great business thinkers, Sir Angus Grossart, Sir Ewan Brown and Peter Stevenson. As a mid-20-year-old, to be challenged to support some of the major corporate transactions of the day was equally exhilarating and frightening, but absolutely key to helping me build my own self-confidence to lead many multi-million pound transactions later in my career. More recently, I have been privileged to get to know EBS's own Executive Dean, Professor Heather McGregor. Heather is a remarkable and supremely energetic leader, someone who exudes passion, who motivates all those around her and who reminds you that multi-tasking is a key trait of a successful leader!

#### What is the one website or blog you can't live without?

I have been on Twitter (@posleadership) since 2009 and have now posted over 45,000 tweets! The themes of this article run through my tweets, especially a desire to see transparency and authenticity from our leaders. 🌟



GRAHAM WATSON is a Member of Court at Heriot-Watt University and Chair of the Court's Finance Committee. He recently completed a part-time sabbatical caddy for his younger daughter while she played golf professionally on the Ladies European Tour.

**W**hen Germany had compulsory national service Jens Ullrich faced a personal dilemma. Either he signed up for the Bundeswehr, the nation's unified armed forces, for a year, or joined the part-time Freiwillige Feuerwehr fire service for seven years. He chose the fire brigade and served his time in the local community dealing with house fires, traffic accidents and woodland blazes.

The grounding gave him the basis for his Heriot-Watt University DBA thesis from Edinburgh Business School which finds that a manager's feelings of moral and ethical responsibility play a more important role in corporate Health and Safety management than previously thought. Moreover, many companies ignore health and safety regulations and 'the power of formal rules' and rely on individual approaches when protecting people who are in harm's way.

"Health and Safety management is very important in firefighting because it is a dangerous job. I used to be a part-time firefighter in my 20s in Luneburg in Northern Germany. In the city there was no professional fire department, so we did everything besides our jobs. We had to take care of ourselves," he says.

There are few professions which take Health and Safety more seriously than firefighting. Each day they face a raft of risks and they must be prepared to deal with the unexpected. In his research, Dr Ullrich conducted confidential studies across 12 fire departments in Germany, the Netherlands and Sweden. His thesis -- Managerial Motivations for Varying Health and Safety Management Practices -- investigates both informal behaviours and formally documented structures and processes.

Why did he think this was a suitable subject for a DBA? "About six years ago, when I started this research project I was made the managing director of a power generation subsidiary. Suddenly I was responsible for operations, and this including health and safety. I was expected to take the lead on this matter," he says in an interview with Panmure House Perspectives.

Dr Ullrich works as head of mergers and acquisitions in a German utility and undertook his DBA through distance learning in between work projects. He began researching H&S and realised that very few German companies comply with the letter of the law when it comes to health and safety. Indeed, he discovered a paltry 10% of companies follow the rules, and he wanted to understand why this was the case.

"I wanted to know why so many managers don't comply with the law. Studies showed that only a small minority of companies comply with Health and Safety management laws prescribed by the European Union for all member states. Yet still we don't have many accidents and there is a high degree of safety. It can't be a legal motivation among managers because if you did have this, you would comply with the law."

So what else was underlying all of this lack of compliance? He chose to study the fire service because of his interest and knowledge and because firefighters can only survive in extreme situation by following instruction from managers and taking care.

In his interviews he found the managers who had invested in important health and safety measures always commented that they 'cared for their people' and did not wish to put them in harm's way. "This feeling of moral obligation was very clear in my study."

#### THE SAFETY CURVE

Adam Smith spoke about a human moral compass acting properly when people were not observing. A good safety culture follows the same principle and 'defines what people do when no one is watching.'



### I wanted to know why so many managers don't comply with the law.

Studies showed that only a small minority of companies comply with health and safety management laws prescribed by the European Union for all member states."

A concept of safety culture is the DuPont Bradley Curve, which distinguishes between four development phases of organisational culture and indicates the behaviour of managers and employees. According to the curve, any organisational safety culture has four development phases. The reactive phase represents a weak safety culture. Top management is hardly interested in the issue and relies on the safety instincts of workers. Compliance with laws and regulation is ensured by delegating tasks to safety engineers. The dependent phase of safety culture corresponds to the top-down management approach to H&S management. In this environment, top management deals with H&S issues, but focuses extensively on centrally defined rules, which usually means documentation which has little actual impact on health and safety. Formal rules are problematic, especially when the working conditions are characterised by local variations, such as in firefighting. In such contexts, rules often are not applicable due to the actual situation, or they may even be entirely absent. In organisations with this type of work culture, top managers are committed to ensuring good H&S conditions for their employees, but they over-emphasise rules and top-down decision-making. The independent and interdependent phases of the DuPont Bradley Curve refer to the modern approach of H&S Management Systems (HSMS). In both phases, bottom-up decision making is supported by good



# All fired up

– WITH ENGINES READY TO GO

Strict rules on Health & Safety is the difference between life and death in Europe's fire services. However, as Dr Jens Ullrich discovered in his DBA research at Edinburgh Business School, it is the ethical compass of the fire service managers, rather than a rigid rulebook, which keeps lives and property safe. KENNY KEMP reports on a case study comparing the Netherlands, Sweden and Germany.

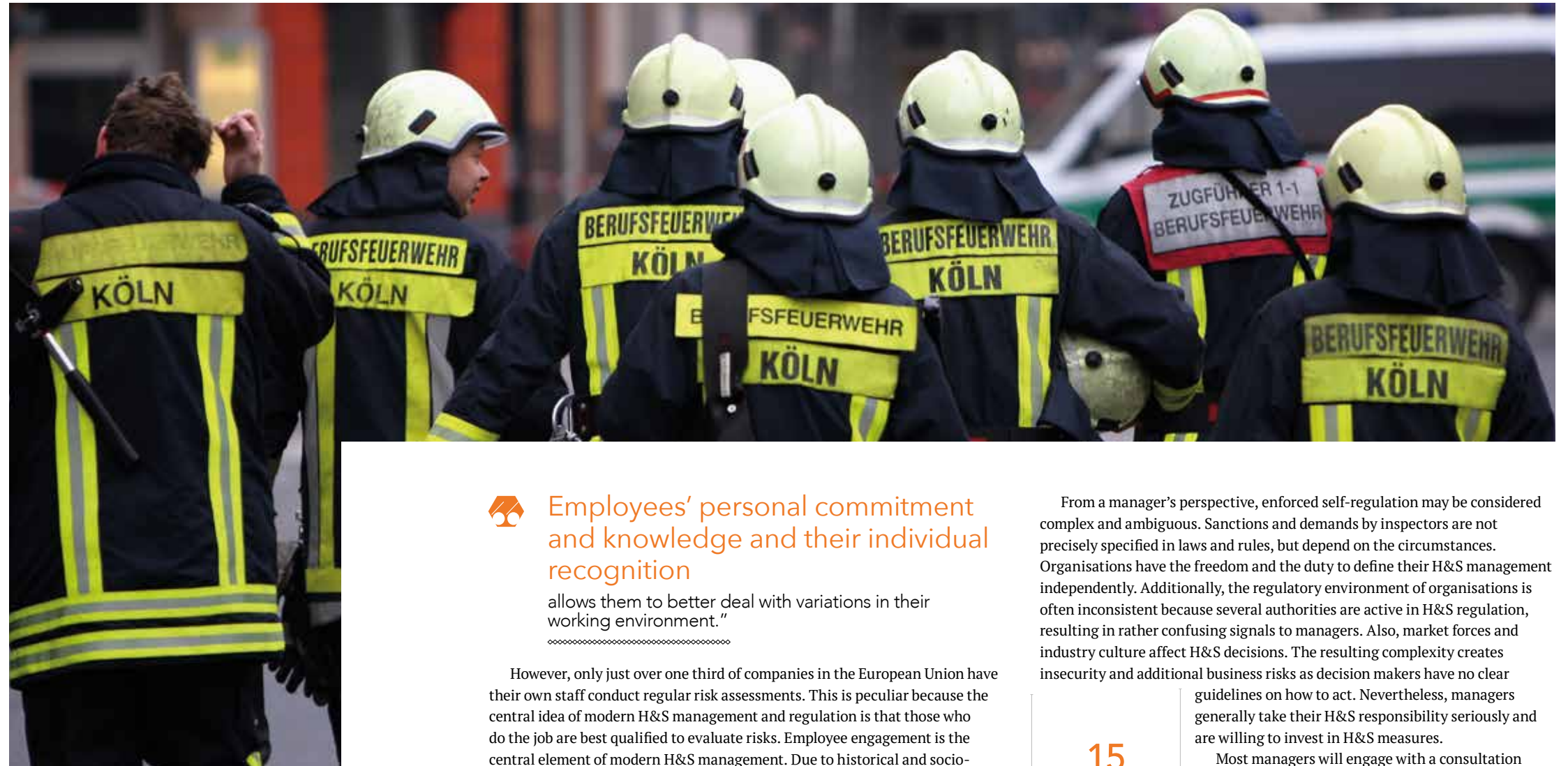
EMERGENCY CALL: Health & Safety managers must have the flexibility to respond to the actual and rapidly-changing situation on the ground.

► H&S knowledge on the part of employees and comprehensive information flows. Employees' personal commitment and knowledge and their individual recognition allows them to better deal with variations in their working environment. The main difference between the independent and interdependent phase is that, in the former, employees show 'care for self', while in the latter, they also show 'care for others', sharing information about H&S-related experiences among all employees and managers.

An organisation's knowledge is built by gathering and exchanging information about incidents such as near misses and accidents. This is disseminated to ensure that both managers and employees know about 'human, technical, organisational and environmental factors that determine the safety of the system'. In the final, interdependent phase, the information exchange and proactive activities of managers and employees are at the highest level because H&S is among the organisation's most important values. A safe organisational culture consists of four elements. The 'reporting culture' is characterised by the willingness of all members of the organisation to report incidents that are relevant to H&S. Such events are often dangerous situations that occur because of individuals' mistakes. In order to motivate these persons to report their mistakes, a 'just culture' is needed.



Everyone must be able to trust that they can talk about events without being punished. In general, about 90% of all unsafe actions are more or less non-culpable and can be reported by the acting individual. A 'learning culture' is established by evaluating the collected information and disseminating the results within the organisation. Finally, a 'flexible culture' is needed to allow for unpredicted variations in H&S conditions. The academic theorist James Reason mentioned an example from firefighting in the United States where 13 firefighters died in the Mann Gulch forest fire disaster in 1949 because they 'obeyed the organisational instruction to keep their fire-fighting tools with them at all times.' The survivors violated the rule by dropping their heavy tools in order to escape the fire.



### Employees' personal commitment and knowledge and their individual recognition

allows them to better deal with variations in their working environment."

However, only just over one third of companies in the European Union have their own staff conduct regular risk assessments. This is peculiar because the central idea of modern H&S management and regulation is that those who do the job are best qualified to evaluate risks. Employee engagement is the central element of modern H&S management. Due to historical and socio-political influences, there still exist considerable differences in the managerial approaches European countries.

In the three selected countries of this study – Germany, the Netherlands and Sweden – fire departments are municipal organisations that are free in decision making, especially in terms of H&S. They report to the cities' mayors but are independent from the rest of the public administrations due to their distinct area of work. The commanders of the brigades and the H&S specialists advising them were therefore interviewed as representatives of top management. Additionally, organisational H&S documents were reviewed to investigate the individual management practices.

In each country, at least five organisations were interested in participating in the study. Geographic selection resulted in a regional diversity covering three federal states in Germany, four provinces in the Netherlands and three provinces in Sweden. In total, 15 fire departments were examined, of which two served as pilot studies, one was excluded because of its unusual context and 12 provided the data of the main study. Other European countries were considered not suitable for this study because either the organisational structure of fire services was not comparable or the number of organisations was very small.

The literature indicated that that both public and private organisations could equally be expected to pursue a modern approach to H&S management. Thus, fire departments were considered a suitable example for investigating H&S management in general.

From a manager's perspective, enforced self-regulation may be considered complex and ambiguous. Sanctions and demands by inspectors are not precisely specified in laws and rules, but depend on the circumstances. Organisations have the freedom and the duty to define their H&S management independently. Additionally, the regulatory environment of organisations is often inconsistent because several authorities are active in H&S regulation, resulting in rather confusing signals to managers. Also, market forces and industry culture affect H&S decisions. The resulting complexity creates insecurity and additional business risks as decision makers have no clear

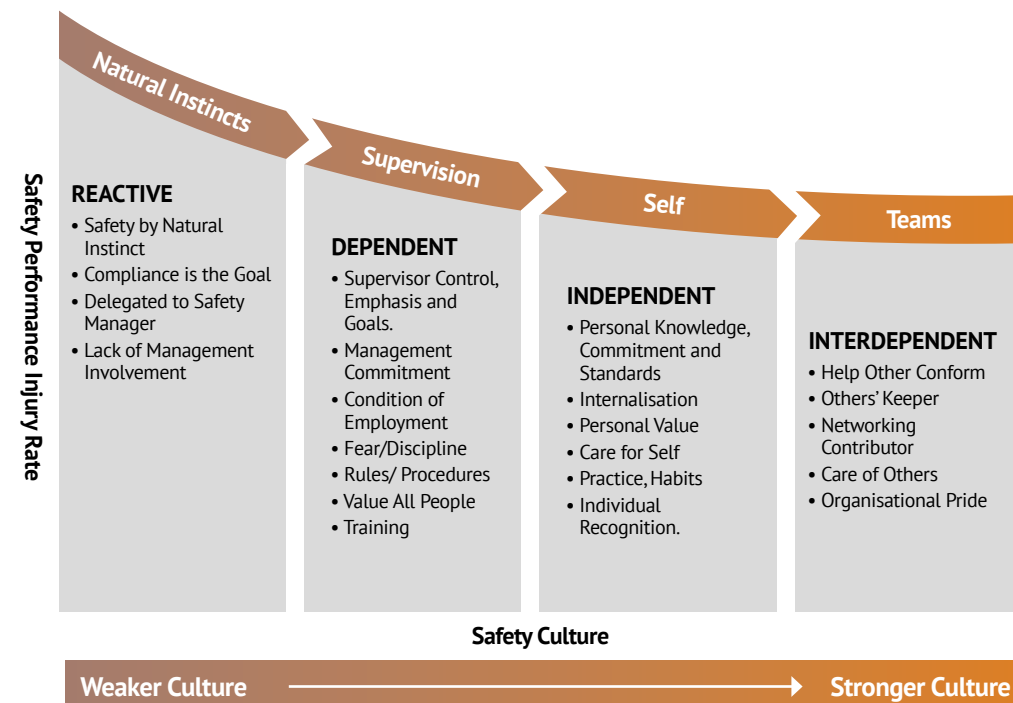
guidelines on how to act. Nevertheless, managers generally take their H&S responsibility seriously and are willing to invest in H&S measures.

Most managers will engage with a consultation processes with employees and authorities if they become aware of non-compliance and if they feel authorities are be willing to advise. They make decisions based on legal, economic, and social-context motivations. Regulatory activities affect these motivations, as do influences from peers, competitors, trade unions, the public and others. Accordingly, managers' H&S motivations may be expected to be diverse.

#### THE MORAL COMPASS

Why are managers willing to engage in H&S? Primarily, the decisions of managers affect the safety conditions in workplaces and determine the likelihood of harm to employees. This implies a moral and ethical question. Individuals may feel that avoiding harm to others is a universal moral rule, or they may consider harming people to be sometimes necessary to create business benefits. Though managers do not directly harm employees with their H&S decisions, they accept or reject risks to employees' health when deciding on work processes and equipment.

## AIMING FOR SAFETY FIRST AND LAST



### INSPECTION IN THE EU

The frequency of H&S inspections has generally decreased since enforced self-regulation was introduced across the European Union in the 1990s. Enforced self-regulation provides companies with the freedom and the duty to define their H&S management independently.

Managers are allowed to develop their own technical and organisational solutions for H&S problems as long as the resulting risks for employees are acceptable according to generally applicable standards.

Based on the new regulatory approach, and due to limited personnel resources, regulators have shifted their focus from law enforcement to promoting awareness of H&S issues. Inspections are also difficult in the system of enforced self-regulation because authorities have only limited information about organisations' risk assessments and safety measures.

Source: DuPont Bradley Curve (Krzywicki and Keese, 2011)

Accordingly, H&S management implies ethical decision making. The outcome of corresponding decision making is often determined by the manager's 'moral potency', which comprises feelings of moral ownership, courage and confidence. If a manager feels the ownership and courage to decide and act, there can be a positive ethical outcome that would increase confidence and improve the manager's future ethical decision making. This sense of moral responsibility motivates managers to take corrective action. There is empirical analysis that personal discussions are necessary in order to sensitise managers to the moral aspects of H&S management.

"This idea corresponds well with the data of my study, as the open and result-oriented discussions between fire departments and inspectors in the Netherlands resulted in more top-management statements reflecting 'moral and personal' motivations. More managers than in Germany and Sweden acted as Law & People Managers," said Dr Ullrich.



If you want managers to do H&S better, you need to allow them to undertake change projects that improve health and safety."

In the Netherlands, open and result-oriented discussions between inspectors and managers promoted 'moral and personal' motivations and ethical decision-making. Such conversations sensitise top managers to the moral aspects of H&S. In contrast to the Dutch H&S authority, German H&S inspectors were rarely available for conversations, and Swedish inspectors were strict on rules due to their policing approach. These regulatory approaches encourage managers to act as Law Managers that solely focus on legal requirements without considering their employees' actual working conditions.

What most surprised Dr Ullrich was that managers found focused projects and concrete actions more important than managerial processes and procedures according to EU laws.

"If you want managers to do H&S better, you need to allow them to undertake change projects that improve Health and Safety." In the Netherlands, fire departments have done a lot to build projects so that firefighters are less exposed to dangerous contamination after emergency actions. These are local initiatives whose success can be evaluated by the local fire departments themselves. In Germany, where the tendency is to adhere to technical guidelines, managers referred to legal provisions



when not acting until a new station was being built. "This is the difference. If you go for a project, you try to find new ways to do thing. But if you follow the rules, nothing is going to happen."

#### NEW METHOD FOR H&S.

This study proposes a new method for identifying and categorising managers' ways of implementing H&S practices in an organisation. A new model that describes the elements of effective H&S management was successfully applied during data collection and analysis. The data show that there are four critical elements: 'deciding', 'innovating', 'leading', 'taking care'. The working conditions of employees are improved if top managers decide in favour of H&S and promote appropriate behaviour through leadership. Employees then innovate H&S rules in their day-to-day work – especially in dedicated brainstorming sessions during projects – and they take care of themselves. The optimal safety culture according the DuPont Bradley Curve is achieved.

If top managers are sensitised by authorities to the moral dimensions of their H&S decisions, they are more likely to implement effective H&S projects. By revealing this relationship between managerial motivation and management practices, the study makes a significant contribution to discussions on potential innovations in H&S laws, regulations and industry standards. "Having identified moral motivations and its direct relationship with effective change projects in the field of H&S, it is concluded that regulatory rules and practices should be adjusted. Scientist and practitioners alike should take into account that ethical decision making by top managers is an important aspect in promoting good H&S conditions for employees," Dr Ullrich concluded.

Dr Ullrich has been able to share his findings with research institutions in Germany, the Netherlands and Sweden. While the fire services know that people prefer projects rather than rules, those who have been researching health and safety are now able to view this from the new managers' perspective. "There is very little literature about Health and Safety from the managers' perspective, and I think my Heriot-Watt research project has been well received so far." 📍

*An Investigation into the Managerial Motivations for Varying Health and Safety Management Practices: Case Studies and Analyses of Fire Departments in Germany, the Netherlands and Sweden: Jens Ullrich in his Doctor of Business Administration, Heriot-Watt University, at Edinburgh Business School.*



**KENNY KEMP** is an award-winning business writer. He is Editor-at-Large of *Panmure House Perspectives* and has been working on a history of Scottish Television, set up in 1957, due for publication later in 2020.

OMAR SHAIKH, managing director of Global Ethical Finance Initiative, based in Heriot-Watt's Edinburgh Business School, says two leading Scots – Adam Smith and the Reverend Henry Duncan – remain the inspiration for the ethical approach of our financial system.

# Purpose before profits

**A** cross the globe individuals, organisations and governments are starting to move from talk to collective action as they strive to achieve inclusive and sustainable economic growth against a backdrop of the climate emergency, persisting corporate scandals and increasing wealth disparity which is forcing a rethink or capitalism.

But what role does finance have to play in becoming a force for driving positive change in the world that addresses such contemporary challenges? Herein lies the emergence of "ethical finance".

We at by the Global Ethical Finance Initiative (GEFI) use the term 'ethical finance' in a soft and inclusive manner. Although ethical finance is not a modern concept, in the post-recession world, it is an idea that has never been more popular or needed. The failure of trickle-down economics to fairly distribute wealth and encourage inclusive growth, the damaging impact on the planet of the unchecked pursuit of profit and the banking scandals of miss-selling and rate fixing of the last decade has provided the context for the emergence of a new narrative.

Ethical finance is not just talk, either: it is big business. The green bond market is set to hit \$200 billion issued by the end of the year. The UN's Principles for Responsible Banking saw 130 banks from 49 countries, collectively holding \$47 trillion in assets, commit to action on the climate and sustainability. The 2,300 signatories of UN's Principles for Responsible Investment manage a collective \$86 trillion, and \$30 trillion of global assets are professionally managed under responsible investment strategies.

In early October Edinburgh was the venue for the Ethical Finance 2019 summit attended by over 400 leading senior global practitioners. The summit offered a unique platform to facilitate new thinking through frank and open conversations and a holistic and multidisciplinary approach aimed at bringing together the banking and asset management worlds. The organisations represented collectively owned, managed or advised on over £10 trillion in assets.

It featured world-leading finance, political, civic and social leaders who convened to network, share, co-develop and shape a fairer, more sustainable financial system. Notable speakers included Scotland's First Minister Nicola Sturgeon, Saker Nusseibeh (CEO of Hermes Investment), Sir Roger Gifford (Green Finance Institute) and Dame Susan Rice (incoming Chair,

Banking Standards Board) with video addresses provided by the Rt. Hon. Gordon Brown and the Archbishop of Canterbury.

In recognising that parts of the current economic system is producing negative externalities with misaligned incentives, the summit encouraged collective action in response to the most pressing social and environmental challenges

facing our planet. The discussions were predicated on an underlying acceptance that we cannot achieve the transformative change required to deliver the UN Sustainable Development Goals and the Paris Agreement without an engaged and committed financial services sector.

A recurring theme was that while fiduciary duty assumes a responsibility to manage others' money to produce a profit, there is also a responsibility to ensure that profit does not come at the cost of a broken world. This sentiment represents an emerging new paradigm where purpose sits alongside profit.

It was fitting that this discussion is taking place in Scotland - a country with a long and proud history in the world of finance. From Adam Smith, renowned as the father of modern economics, to the Reverend Henry Duncan, founder of the world's first commercial savings bank, Scotland has been a pioneer in financial innovation and the development of professional standards.

While there were economists before Smith, his metaphor of 'the invisible hand' captured the public imagination like none before him and his work set the

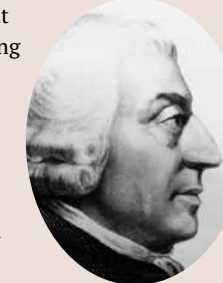
core principles that frames modern capitalism which eventually overshadowed his primary specialism as a moral philosopher.

Over the following two centuries profit and shareholder value has been firmly in the driving seat as indeed noted in 1970, when the leading economist of his Milton Friedman, wrote that "there is one and only one social responsibility of business – to use it resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

Much has changes since Friedman's expressed singular view, and ethical global finance has to be part of this better future. 📍



**SAVINGS PIONEER:**  
The Rev. Henry Duncan



**INVISIBLE HAND:**  
Adam Smith



OMAR SHAIKH is a Chartered Accountant by profession and specialises in Islamic finance and private equity. He leads the UKIFC's government policy advisory activities. Omar has been involved in the UK Government's strategy for making the City a leading hub for Islamic finance.



**DR GRAHAM NORRIS**, who recently completed his Doctor of Business Administration, has worked in Asia for over 20 years. He has witnessed first hand the impact of 'The Great Acceleration' and wanted to understand its impact on the wellbeing of Chinese workers. Here he speaks to **KENNY KEMP** about his thesis at Edinburgh Business School.



**HOW MINDFULNESS IS**

# a Chinese remedy for technology overload

**T**he white heat of a sizzling economy can create unbearable human pressure. Graham Norris witnessed this nearly a decade ago as China's economy was in over-drive. He was employed in an international public relations agency with offices in Beijing and the pace of change was so crazy he did not think it worthwhile learning the names of the newcomers who came through the door. This experience was mirrored years later when conducting interviews in the search for talent to join his team when he was a senior manager working for a non-profit organisation.

"The turnover was astounding at that time. I stopped bothering to learn people's name after a while. You'd turn up for work and then

people would be gone. It was wild," he recalls. This experience was mirrored years later with Chinese colleagues when he was now a senior manager working in another global agency.

"You'd be talking to these talented young Chinese people who had learned English, had gone to the United States to do a degree, and then came back to work in their home country. Yet they all said after a while that they wanted to leave the job they'd found," he says.

"I asked them why. They said, 'I joined this company a year ago under one manager, then changed to a different team with another manager, then they quit, now I've got another manager. I want a bit of stability, so I can actually learn something,' was their response."

This chimed with Dr Norris because it was simply repeating the situation he experienced at the first firm. This was part of phenomenon that now had a name: The Great Acceleration.

"Even although these Chinese workers were resilient and could roll with the punches a little bit, they wanted some continuity."

All of this experience, prompted Graham Norris to dig deeper into what was happening. It became the seed of his Heriot-Watt University, Edinburgh Business School thesis for a Doctor of Business Administration (DBA) entitled 'Adaptability and Mindfulness of Chinese Knowledge Workers in Multinational Companies'.

"When you look at China, people move around a lot. In a single life-time, people have gone through massive change from being peasant farmers in the countryside to living in a massive metropolitan city, all within a generation. Many people have had a bunch of different jobs. So it is quite amazing. You wonder, to what extent can people tolerate this level of change."

Dr Norris remains full of admiration for the Chinese character but wanted to work out how this fitted with mental health and wellbeing, something he was increasingly interested in.

"In general, they seem to be doing quite well, because this level of change is normal for them. But it clearly can take a toll [on some people] and I wanted to understand more about this," he explains.

Mindfulness seemed like an antidote to the frenetic world of information overload and social media bombardment.

**DEFINING THE KNOWLEDGE WORKER**

Dr Norris concedes that the term 'knowledge worker' has no clear-cut definition and some academics have said the term is a buzzword, and that it would be more fruitful to examine the 'working knowledge' of everyone in the workforce.

"There is also the argument that all employees are knowledge worker' to some extent, as even routine work requires improvisation and judgment," says Dr Norris. Yet the knowledge worker has become central to our global, technology-enriched world where the terms 'white collar' and 'blue collar' are increasingly outmoded. Dr Norris deploys T.H. Davenport's definition, namely, "Knowledge workers have high degrees of expertise, education, or experience, and the primary purpose of their jobs involves the creation, distribution or application of knowledge."

In China, the army of knowledge workers is now tens of millions in strength and expected to grow, based on the experience of the United States. As the Chinese economy continues to expand, this group will have an increasingly central role to play not just in China's development, but in the world's.

In the second half of the 20th century, China's economy was not as large as the UK's, despite having a population more than 10 times the size. Yet since 2005, China's economy has expanded rapidly, growing more than 500 percent over the following 10 years. This pace of technological change has created greater pressure on companies and their employees to adapt, and a failure to change can have drastic consequences. The discomfort of rapid change creates psychological challenges which can impact on an individual's ability to make effective business decisions. To survive, individuals adopt a range of coping techniques derived from their own adaptive psychological resources and mindfulness has attracted increasing attention in recent years. Research has shown there is a relationship between mindfulness and adaptability and flexibility in a changing environment.

Dr Norris, originally from Chichester in West Sussex, attended the University of Leeds. After graduating in 1997, he moved to Taiwan and his fascination for Asia grew as a westerner learning Mandarin.

"I've been living in Asia for the best part of 20 years in Taiwan, Singapore and, most recently, in China."

During this time he has been a journalist for 10 years, working for newspapers in Taiwan and then Dow Jones Newswires, including a stint in Tokyo, before moving into public relations and marketing communications with major multi national agencies. More recently, he has been involved in business psychology where he undertakes assessment for people seeking promotion in banks and financial services, plus an involvement in business coaching.

"When I first arrived to work in China I was infected with the 'live-fast, die-young' get-going mindset and so I started to undertake a distance learning MBA at Heriot-Watt.

It took me about three years. It seemed the case that you look forward to getting



This pace of technological change has created greater pressure on companies and their employees to adapt, and a failure to change can have drastic consequences. The discomfort of rapid change creates psychological challenges which can impact on an individual's ability to make effective business decisions."

your weekends and spare time back when it's over, but when I got my weekends back, I thought about doing a doctorate," he jokes.

He considered the options but the flexibility of the DBA at Heriot-Watt allowed him to continue working in China, and his research topic began to crystallise.

"The rate of change in China was staggering and you could see that it was having a psychological impact on people working in this changing environment. I thought maybe I should be studying change and adaptability and how people respond to change."

**A DEFINITION OF MINDFULNESS**

The study explores change as it relates to Chinese workers in multinational corporations and how they adapt to these changes and the potential role of mindfulness in that adaptability. But what does mindfulness mean in a Chinese context? The researcher explored the term with a group who agreed to undertake in-depth interviews about their psychological status. Most interviews were conducted in English, but two were conducted in Chinese at the request of the interviewee. All but one were conducted in person and participants signed a consent form, with the interviews recorded.

It was also important to explore what the participants understood by the term 'mindfulness' and its Chinese equivalent is *zheng nian*.

The participants made associations with:

- ◆ Positive thinking: the questionnaire had been distributed in Chinese, so the participants seemed to have the term *zheng nian* in mind when discussing mindfulness. The association for one participant was: keeping oneself positive, looking at the positive side.
- ◆ The word *zheng* in particular was cited as having a positive connotation. Yet most definitions of mindfulness do not make this association: instead they emphasise equanimity and not getting attached to positive or negative experiences.
- ◆ Religion, especially Buddhism: some participants recognised the religious background to the Chinese term for mindfulness.
- ◆ The standard mindfulness terminology of those who had read and understood more familiar terms and definitions.
- ◆ Those who said they were ignorant of the term, in either English or Chinese, until they had been contacted regarding the investigation.



## Organisational change was most pervasive

but its impacts could be positive as well as negative, especially where they changed the nature of work."

### THE RESPONDENTS

Three of the interviewees talked about their experience with technology.

**Delia** works in government affairs for a chemical company. Much of her role involves communicating with stakeholders about what the company is doing. She said the development of information technology had substantially shortened the response cycle for issues related to her company.

*"I think it's mostly because of this information technology and also devices like smart phones available to almost everybody. So people can make comments, make decisions and make their voice heard live. And also as a company we have to be vigilant and monitor all those stuff and be reactive if we need, almost immediately. Just take media as an example. In the past they have television, or print media, newspaper...You have almost 24 hours to react. Television, still, several hours. Now, with social media it's seconds."*

She was also sensitive to the increasing complexity that technology brings to her work.

*"So there's too much information, and to make a decision, there are a lot of moving parts. And, if we look at the social media or everything, then what matters? What doesn't matter? How much weight does something have? It's very, very difficult."*

**James** owns a company providing training services to large multinational companies. He said that technology was behind an evolution in the habits of clients, and in particular a shift in power from the companies to the individuals being trained. The greater number of training options now available online meant people were now taking charge of their own training development, and it was easier to see now what worked and what did not in terms of behavioural change at work.

*"In the past, the clients are the companies. They buy from you, so you just need to make them happy. But in the future, the users play a bigger role at decision making, the users are the employees. They take charge of their own learning, they will pay from their own pocket for training programmes now, for subscriptions. So you need to be able to make these people happy, the users, the end users, rather than just the HR, the managers."*

**Alan**, the government affairs professional at the auto company who was also the oldest participant in the study, said that while some forecasts about the negative impact of China's one-child policy had not been realised, there were still significant differences in the younger generations of workers.

*"A lot of Chinese young people, they don't want to work, because they, they don't need money, their parents will have a whole lot of money. They have a house, they have a car, their parents will prepare everything. So what is the motivation for them to work hard, challenge themselves, deal with changes? Like you said, you know, the study is how you're dealing with the changes, so if people are quite satisfied with their life, what is the motivation for them to make change? Probably the only word is boredom, right?"*

The results show that indeed, the Great Acceleration is being felt in China through rapid transitions in the economy and society, impacting the working lives of a sample of knowledge workers at multi national companies in China. However, the participants in Dr Norris study perceive the changes as having substantially different characteristics. Organisational change was most pervasive, but its impacts could be positive as well as negative, especially where they changed the nature of work.

Changes to relationships, on the other hand, were more often viewed negatively, most notably when it was the relationship with a supervisor that had changed. Many of the participants perceived change to be accelerating, in particular organisational change, suggesting cycles of transformational changes may be shortening so that they more resemble transactional changes. Moreover, technological change, which had been viewed as driven by organisation, is now being most keenly felt through personal mobile devices and social media such as WeChat.

### RAPID CHANGE CAN DE-SENSITISE WORKERS

This suggests that accelerating change can blur previously identified boundaries, between major transformations and minor transactional change, and between work and personal lives, as both organisations and their employees become more fluid in their structures and relationships.

"By focusing in depth on a small number of participants, and their perception of how change impacts work, the development of the concept of 'adaptability gaps' suggests a more complex process is in play than that implied by the conventional stress-coping literature. Rather than simply being appraised as threatening or challenging, the impact of change was judged across several specific dimensions. Some of these dimensions are related to specific changes – for example, where a relationship is broken and a new one required, a 'rapport gap' is created," says Dr Norris.

Several viewed change as an opportunity to be embraced. For example, change of any significance will most likely require the acquisition of more knowledge and the ability to comprehend what has been learnt, although these may not be the primary responses to the change.

A further finding from the present research was the emphasis some of the participants placed on experience in adapting to change. Rather than becoming entrenched in their ways and inflexible, they rather become de-sensitised to change and better able to adapt to it.

Dr Norris's study demonstrated how elements of mindfulness can contribute to the ability of knowledge workers to adapt to changes in their working lives. While the possibility that mindfulness could aid in adaptability has been mentioned in earlier literature, this study strengthens the theoretical links and provides some empirical evidence of how specific mindful attributes can influence attitudes and responses to change.

In conclusion, Dr Norris says one of the challenge in studying mindfulness was to identify evidence of mindful attributes and actions on the part of the subjects, which would require a clear consensus on the concept of mindfulness which does not yet exist in business literature. This has given Dr Norris more food for thought and he is writing a book about how this might be addressed.

"One of the conclusion I came to was that foresight is 90% of adaptability, which is what I'm working on now. If you can actually take a view of the future, and accept the fact that you don't know exactly what's going to happen, then you will feel much more confident about the future when it hits. And you don't need to adapt to it because you've already considered, adapted and changed. One of the things people struggle with is looking into the future."

In a disruptive and chaotic world, this might not be surprising, but Dr Norris' research points to wellbeing linked to being able to see a better pathway ahead for our lives. ☺



*Adaptability and Mindfulness of Chinese Knowledge Workers in Multinational Companies. Dr Graham Norris, Doctor of Business Administration, Heriot-Watt University, Edinburgh Business School, September 2019.*

# ORIAM

[ SCOTLAND'S SPORTS PERFORMANCE CENTRE AT HERIOT-WATT UNIVERSITY ]

THE CENTRE, COSTING £33 MILLION, WAS OPENED IN 2016, AND ONE OF SCOTLAND'S LARGEST INDOOR FACILITIES

- 33** sports clubs use the Oriam sports facilities at Heriot-Watt
- 3** FUNDING PARTNERS: The Scottish Government, sportscotland and Heriot-Watt University
- The indoor pitch boasts a **500** seat spectator gallery
- The main sports hall has a **JUNCKERS SPRUNG WOODEN FLOOR**
- 10** INTERNATIONAL ATHLETES have recently used the facilities including Greg Laidlaw and Finn Russell of Scottish Rugby in preparation for the 2019 Rugby World Cup in Japan
- 300** portable bleacher seats are an option in the main sports hall
- 7** SPORTING PARTNERS:
  - Scottish FA
  - Netball Scotland
  - Scottish Rugby
  - Scottish Squash
  - Scottish Handball Association
  - Basketball Scotland
  - Heart of Midlothian FC


“A *society*  
cannot subsist unless the  
laws of justice  
are tolerably  
*observed,*

*as no social intercourse can take place among men who do not generally abstain from injuring one another; the consideration of this necessity, it has been thought, was the ground upon which we approve of the enforcement of the laws of justice by the punishment of those who violate them. Man, it has been said, has a natural love for society, and desires that the union of mankind should be preserved for its own sake, and though he himself was to derive no benefit from it. The orderly and flourishing state of society is agreeable to him, and he takes delight in contemplating it. Its disorder and confusion, on the contrary, is the object of his aversion and he is chagrined at whatever tends to produce it.”*

**The Theory of Moral Sentiments, by Adam Smith,  
Third edition, 1767, Part 2. p 150**



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 **ADAM SMITH**  
*Economist, philosopher and author*  
1723–1790

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