

PANMURE HOUSE PERSPECTIVES

Developing tomorrow's business leaders for tomorrow's markets

ISSUE 2 2018



[ELEVEN LIFE LESSONS]

ENJOY THE JOURNEY

Bob Buchan, Chancellor of Heriot-Watt University,
shares a selection of his business lessons.

WISE WORDS FROM CENTRE OF COURT

Why we need strong voices of
reason in our volatile world.

CZECHS AND BALANCES

How political thought shapes a
nation's business culture.

PANMURE HOUSE PIONEER

How Adam Smith's derelict home
has been reborn.

AFRICAN DELIGHT ON NIGERIAN VISIT

Business School Dean returns
to childhood homeland.

[Welcome]

We're ready for a grand opening.

AN INTRODUCTION FROM PROFESSOR HEATHER MCGREGOR



elcome to the second issue of *Panmure House Perspectives*, the magazine from Edinburgh Business School that seeks to place the life and work of Adam Smith in a contemporary global context.

Life as the dean of a leading global business school is endlessly interesting, often frenetic and full of challenge, but there is a palpable sense of excitement as we work towards the official opening of Panmure House in Edinburgh in the autumn. As you can read in this issue, it is a special project that has taken years to turn from vision into reality. I appreciate that many people have been involved with the Panmure House project since its inception, and we would never have reached this momentous occasion without the help and input of dozens of supporters, including many from within the Heriot-Watt University community: our Chancellor, Bob Buchan, our Principal and Vice-Chancellor, Richard Williams, and the Court of the University. I would also like to put on record my thanks to everyone else, and especially the donors to the project in its early stages, who have made the refurbishment of Adam Smith's final home a grand reality.

Our task now is to make Panmure House a unique and inspirational centre for independent thinking, and an environment where Adam Smith and the Scottish Enlightenment can be placed in a modern setting. The opening of this 17th century house is certain to attract a lot of interest from around the globe, and I believe this focus will also help Edinburgh Business School maintain its position as a world leader in business and executive education.

PANMURE HOUSE PERSPECTIVES
Developing tomorrow's business leaders for tomorrow's markets

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Professor Heather McGregor - Editor-in-Chief
Kenny Kemp - Chief Writer
Stuart Martin - Creative Director @ Intrinsic.cc
Stuart Allan - Publication Director
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Our campuses in Dubai and Malaysia, as well as our base in Edinburgh, continue to welcome students and researchers from around the globe. One of our many assets is that we can offer those who are working full-time the opportunity to pursue doctoral research, from wherever they are in the world. However, to undertake any kind of rigorous academic study from a standing start can be hard, and applicants first need to learn how to undertake independent research. We have therefore launched a pre-doctoral programme that allows participants to obtain a Postgraduate Certificate in Research Methods before developing a research proposal and then joining our doctoral programme. This kind of innovation makes our business school immediate, relevant and vital. I am sure that Adam Smith would have approved.

While Panmure House will host a number of prestigious economic gatherings, it is also a place for the public to learn more about Adam Smith. If you are reading this before or during August, and are likely to be in Edinburgh, may I commend two shows taking place during the Edinburgh Festival Fringe. My *Financial Times* colleague Merryn Somerset Webb will be interviewing and inviting audience engagement with leading economists and business leaders in a show entitled *The Butcher, the Brewer, the Baker... and Merryn Somerset Webb*, and there will be a dramatic representation of Adam Smith's life in a play with four actors called *Adam Smith: The Invisible Hand*. I recommend both to readers, and I hope to see many of you at one of the events to celebrate Panmure House. Meantime, I trust you will find something rewarding to read in our latest magazine.



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contents issue 2 2018

HONOUR FOR TOP ASIAN BUSINESS LEADER

Dato' Yeoh Seok Kian was awarded an honorary degree at ceremonies in Edinburgh and Putrajaya, where he was joined by his family. **___ p4**

CAMPUS PERSPECTIVES News and events from around Edinburgh Business School. **___ p5**

THE PANMURE HOUSE PERSPECTIVES

INTERVIEW Bob Buchan, Heriot-Watt University's Chancellor, shares his business lessons learned building one of the world's largest mining firms. He speaks with Kenny Kemp. **___ p6**

A ROAD MAP FOR A BETTER FUTURE Distinguished economist and writer Dame Frances Cairncross offers some pointers on how to navigate complexity and ambiguity. **___ p11**

ECONOMICS WITH THE TRUTH Professor Neil Kay reveals how Dickens's Ebenezer Scrooge might have been influenced by one of Adam Smith's contemporaries. **___ p14**

WHAT'S ON MY READING LIST? Dr Aude Le Guennec, Director of Fashion Studies at Heriot-Watt University's School of Textiles and Design, reveals the distinct Scottish and Gallic influences of her current reading material. **___ p15**

HOME AT LAST Professor Keith Lumsden, the original torch-bearer for the Panmure House regeneration, gets a first glimpse of a completed project. Kenny Kemp reports. **___ p16**

THE OBJECT OF COMPANY ART Professor Roy Suddaby asks why large corporate organisations bother putting paintings on the walls of their office towers. **___ p20**

TACKLING THE CRIME OF OUR TIME Dr Steve Johnson, a DBA from Heriot-Watt University, looks at a case study of workplace fraud, one of the biggest issues of our times. **___ p22**

A PASSION FOR EDUCATION

Professor Andrew Cairns, Director of the Actuarial Research Centre and a professor of the Maxwell Institute for Mathematical Sciences, says there is more to life than pure numbers when living in Edinburgh. **___ p25**

CZECHS AND BALANCES Dr Ron Boddý, who gained his doctorate from Heriot-Watt in 2017, examines the "psychological contract" that binds us to our workplaces. **___ p26**

AN EMOTIONAL ENGAGEMENT FOR THE DEAN

Dr Ayodele Amos Olujide explains how this African nation is embracing postgraduate learning with significant impact.

___ p29

INFOGRAPHIC Time and Tide. Green energy is being harnessed by Heriot-Watt's scientists working in the Tidal Research Centre in the Orkney Islands. **___ p31**



Panmure House Perspectives is a twice-yearly publication reflecting on modern global business and the continuing relevance of Adam Smith. Smith's former home – Panmure House, near Edinburgh's Royal Mile – is being restored by Edinburgh Business School as a place of learning, research, reflection and international fellowship.

ISSUE 2 2018

Intelligent life, Jill, but not as we know it

Professor ROBERT MACINTOSH, Head of School of Social Sciences, Heriot-Watt University, argues that thoughtful educational institutions must answer the key question: "Why study with us?"



As a strategy researcher, it has been a real pleasure to be involved in the project to refresh Heriot-Watt University's strategy. Any such strategy work requires an element of looking backwards and some attempts to peer into the future. In an academic year when Heriot-Watt researchers reached the world finals of Amazon's Alexa Prize challenge, it seems timely to contemplate how technology might impact the higher education sector. There's a familiar narrative that bank tellers, hotel receptionists and assembly line workers might eventually be replaced by technology because their roles are structured and repetitive in nature. In contrast, universities might feel greater insulation from technological disruption given that teaching, grading assignments and undertaking research surely require the services of a living, breathing academic.

During some research for our Strategy 2025 project, I was struck by the pioneering work of Ashok Goel at Georgia Institute of Technology. Goel introduced a new member of his teaching team called Jill Watson. Students loved Jill. She would answer questions quickly, politely and with the occasional jaunty "Yep!"

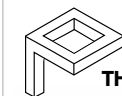
She would sometimes say something odd, but don't we all? Since Goel didn't initially tell his students that Jill was in fact an artificial intelligence (AI) system, he was forced to add a short delay to her responses. Otherwise, he reasoned, her students might notice how much quicker she was at answering questions than her living, breathing counterparts.

Jill Watson's status as a teaching assistant sounds a salutary note for those of us in higher education. There is widespread acceptance that human jobs will be lost to

technology. When we focus on the nuance and subtlety of what academics do in teaching and research, we are overlooking the monotonous regularity of some aspects of our work. Not everything a university does can be reduced to a multiple choice form of assessment, but simple heuristics can allow targeted feedback suggesting particular learning materials, examples or activities that students might find helpful given how they've performed in their last assessment. If voice recognition, augmented reality and AI are being used to enhance retailing in our domestic lives, it is surely only a matter of time before they begin to have significant influence on our education system. A booming sector combined with the potential for technological disruption has left some UK university leaders feeling anxious, with the annual PA Consulting report on vice-chancellor sentiments suggesting that the sector could be facing a stormy period.

Alongside the potential for technological disruption, there is a small but growing trend that sees universities operating across more than one location. Heriot-Watt is a pioneer in this regard, operating across five separate sites in three countries. The UK has been a net exporter of higher education, but there is the threat of global brand names setting up in earnest in our own backyard. Further challenge will likely come from an expansion of private provision. Maybe UK vice-chancellors are right to be a little worried, but those outwith the sector see huge opportunities to deploy AI in ways that personalise learning economically and at scale.

As we work together to develop our new strategy, both institutional and individual consequences flow from a brief reflection on the future of higher education. Building a robust strategy in the face of significant short-term uncertainty is a challenge. Individual academics need to focus on what they can do that technology cannot. Universities need to develop compelling answers to the question: "Why study with us?" Whatever your connection to Heriot-Watt, I invite you to help shape our future strategy by joining our global conversation at Strategy2025.hw.ac.uk ☺



THE ALEXA PRIZE

The Alexa Prize is an annual competition for university students dedicated to accelerating the field of conversational AI. The 2018 competition is focused on creating a "socialbot" that converses coherently and engagingly with humans. Participating teams will advance several areas of conversational AI, including knowledge acquisition, natural language understanding, natural language generation, context modelling, common-sense reasoning and dialogue planning. Alexa customers will have engaging conversations and the feedback will help students improve their algorithms.

amazon

University honours

LEADING GRADUATE

AND MALAYSIAN BUSINESS FIGURE



DATO' YEOH SEOK KIAN, who was awarded with the honorary degree of Doctor of University (DUniv) by Heriot-Watt University, is a firm believer in the power of developing knowledge through education.



One of Heriot-Watt's most successful graduates has been recognised in his homeland by the University.

Dato' Yeoh Seok Kian, a leading international business figure in the construction industry, was presented with the honorary degree of Doctor of University (DUniv) at a ceremony in Edinburgh and then again at graduation in Putrajaya, Malaysia.

Professor Lynne Jack, speaking at the laureation of Dato' Yeoh at the graduation ceremony for the School of Energy, Geoscience, Infrastructure and Society at the Pullman Putrajaya Lakeside Hotel, on 3 December 2017, said: "Our honorary graduates are all individuals who have made outstanding contributions in areas of particular relevance to the University's values and mission. Dato' Yeoh is a hugely respected and highly successful figure in the field of construction, urban development and utilities provision. Through his business acumen, personal endeavour and commitment to supporting community and educational

development, he provides an outstanding role model for those of you graduating today."

Dato' Yeoh was described as a professional of huge talent and foresight who believes in developing knowledge through education so as to be able to realise one's aspirations. He was born in 1957 and grew up in Malaysia. His father, Tan Sri Dato' Seri (Dr) Yeoh Tiong Lay, founder of YTL Corporation, an integrated infrastructure developer, also held an honorary degree from Heriot-Watt. Dato' Yeoh graduated from the University's Edinburgh campus with a BSc in Building in 1981, and later attended the Advanced Management Program at Wharton Business School, University of Pennsylvania. His career accelerated rapidly throughout the 1980s and 1990s, and he is currently Deputy Managing Director of YTL Corporation and Executive Director of YTL Land.

Today YTL owns and manages regulated infrastructure assets and utilities worldwide, serving 10 million customers. It is known for its history of innovation and strategy, consistently

providing world-class products and services across the globe. The property development arm of the corporation, YTL Land, which is spearheaded by Dato' Yeoh, has garnered many local and international awards and recognition for excellence in property development and the built environment.

In 2018, the Group's revenue increased by 10% to RM7.8 billion (£1.4 billion) for the first half of the financial year, while profit before taxation grew 12% to RM836 million (£150 million) compared to the same period in 2017. In the hotels segment, the company recently acquired Hotel Stripes in Kuala Lumpur, Sydney Harbour Marriott Hotel in Australia, and three new hotels in the UK. The company also owns the Marriott, Majestic and Ritz-Carlton hotels in Kuala Lumpur, and resorts at Pangkor Laut and Tanjung Jara.



Dato' Yeoh places a keen emphasis on sustainability as a cornerstone of his business,

with a strong belief in doing good through sound business practices, and bringing about positive change to the communities that he builds."

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Dato' Yeoh places a keen emphasis on sustainability as a cornerstone of his business, with a strong belief in doing good through sound business practices, and bringing about positive change to the communities that he builds. He is also a member of the UK's Chartered Institute of Building (CIOB), the world's largest and most influential professional body for construction management and leadership.

The YTL Foundation currently offers scholarships, particularly in engineering and construction, to deserving Malaysian students who wish to pursue their undergraduate degrees at Heriot-Watt's Putrajaya campus, including the opportunity to study abroad at the UK campus.

At the ceremony, Professor Jack said, "Graduating students, I'm sure you will agree that Dato' Yeoh is, without doubt, one of the sector's leading developers, and that he provides an excellent role model for you. His success is inspirational, his knowledge of the sector enviable, and his focus on development through education exceptional."

Dato' Yeoh was joined at the Malaysia ceremony by his wife and children. 📷

## CAMPUS PERSPECTIVES

### Branding guru talks in Cairo

**An Edinburgh Business School marketing seminar in Cairo demonstrated how smarter attention to branding can increase sales and lead to business success. Guests braved an unexpected rainstorm to hear the Edinburgh-based academic Dr Barbara Jamieson deliver a seminar on how marketing helps build competitive advantage in the twenty-first century.**

The April event, followed by

an evening reception, was hosted by Edinburgh Business School and supported by Heriot-Watt University's alumni association, the Watt Club.

During the seminar, Dr Jamieson encouraged guests to think about how they could brand themselves in the future and to practise this during the informal networking session that followed the event. The reception was also attended by Edinburgh Business School Arab

World and representatives from the American University in Cairo, one of the School's Learning Partners.

Adam Gillies, Alumni Engagement Officer, said: "Dr Jamieson's seminar was very well received. Some attendees had travelled from as far as Saudi Arabia and Sudan, which is a wonderful example of how enthusiastic our students and alumni are to meet and network with one another." 📷

“A WONDERFUL EXAMPLE OF HOW ENTHUSIASTIC OUR STUDENTS AND ALUMNI ARE TO MEET AND NETWORK WITH ONE ANOTHER.”

### African scholarship reaping rewards

**The African Scholarship Programme, with more than 100 students graduating this year, is now recognised as the largest scheme offered by a British university in Africa.**

It was launched in 2015 in recognition of 20 years of learning and teaching activity across the continent by the University. Edinburgh Business School is committed to ensuring more people have access to business education, enabling applicants who might not be able to afford an MBA course to undertake advanced management programmes.

Angela Msipha, an engineering specialist in agricultural mechanisation from Zimbabwe, was one of the students who received a scholarship. She said it was a relief and comfort to know the programme was all paid. "I'm already reaping the benefits of the MBA programme as I implement the concepts in project management."

Students from 20 countries applied for the African Scholarship Programme. 📷

### The Fringe at Panmure House

**The Edinburgh Festival Fringe is coming to Panmure House with two shows. Adam Smith: The Invisible Hand, from In Company Theatre Productions, is a dramatic representation of Adam Smith's life by four actors portraying Smith, David Hume, Jean-Jacques Rousseau, Voltaire, Robert Burns and Smith's mother, Margaret, who lived in Panmure House.**

The show, on daily at 4pm, opens on 11 August and runs until 26 August. Tickets cost £12.

Meanwhile, writer and journalist Merryn Somerset Webb, editor-in-chief of *MoneyWeek*, is hosting a political, economics and current affairs chatshow entitled *The Butcher, the Brewer, the Baker...* This promises to include a number of guests from the world of politics, economics, business and comedy! The show, at 2pm, runs from 16 August to 25 August. Tickets cost £12 (Concessions £10). 📷



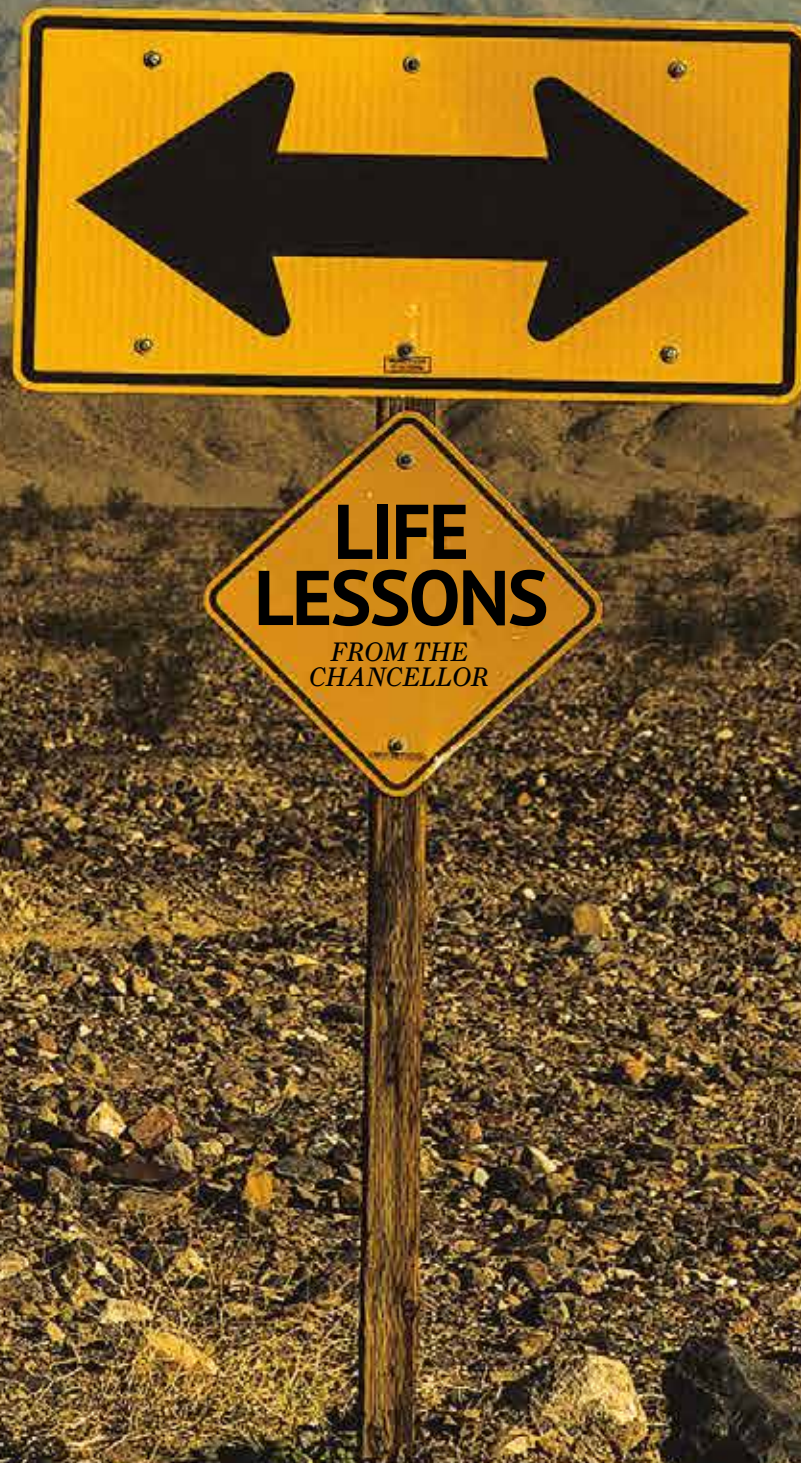


BOB BUCHAN, Chancellor of Heriot-Watt University, shares a selection of his business lessons learned at the sharp end of financing gold and copper mines in the harshest regions of the world. He received an honorary doctorate from Heriot-Watt in 2011. He spoke to KENNY KEMP.



Bob Buchan is an entrepreneur who thrives in hot climates. The Chancellor of Heriot-Watt University, an alumnus who is also a major benefactor of the University, prefers these days to spend the winter in southern California. After many years working in the slush and fog of Toronto winters, he and his wife, Marie, are now able to take time out becoming ‘Snowbirds’ – the name for Canadians who escape the worst of winter in the rejuvenating sunshine.

*Panmure House Perspectives* caught up with the Chancellor as he enjoyed breakfast in his Palm Desert hacienda, situated in the arid but beautiful Coachella Valley. The mercury on his veranda was heading for 36° C that day, while Edinburgh was barely above freezing point. Chancellor Buchan, who will be on hand for the June graduation ceremonies, was invited to share some of his business lessons.



## His lesson is there is no right road in life.

Expect the unexpected. Just get on the bus, get in the traffic and stay focused.”

### A STARTER FOR TEN

Bob Buchan was born in Aberdeen, Scotland. His parents, from the Peterhead fishing industry, in the north-east area of Buchan, later flitted to Rosyth in Fife. His family were involved in the naval dockyard, and his grandfather was a pilot on the Firth of Forth, steering ships safely up the estuary. He attended Dunfermline High School and then applied to go to university. Heriot-Watt University, before its shift to Riccarton, was then based in Edinburgh’s Chambers Street, with the mining department situated in the Grassmarket.

“Coming from the high school in Dunfermline, the university at the time wasn’t a lot bigger than the high school. I didn’t realise that this was unusual until later in life, when I understood how small Heriot-Watt was in relation to other universities,” he says in a Canadian drawl that still has a hint of Scotland.

His mining class had only three undergraduates throughout the years of the course. “I was able to say at my installation as chancellor that two-thirds of the graduating class for my year were present. Everyone was amazed when only one other person stood up. This is the power of statistics.”

Previously, Heriot-Watt graduates had joined the UK’s National Coal Board (NCB), but coal mining was now in terminal decline. Soon after, Heriot-Watt’s mining department closed too. Of the trio, one joined the NCB, the other was an overseas student from Guinea, and Bob Buchan headed off to Canada.

“My motivation to go into mining was made with minimal research. I wanted to go into architecture but I had no art qualification. I couldn’t get a place, so I went into engineering. Mining looked to be the easiest and that was the extent of my research.”

He admits he had no concept of what he would do if he graduated with a mining degree. However, he enjoyed the social life in Edinburgh. In his first year, he stayed at home, driving each day across the Forth Road Bridge in a bone-juddering Austin Westminster with clapped-out shock absorbers. For his second, third and fourth years, he moved into a city centre flat with fellow students, and became a proficient snooker player, turning out for the university team.



### LESSON ONE: SOCIAL EDUCATION IS IMPORTANT

“The formal education was almost an add-on to the social education. This was paramount for me because I came from such a narrow and closed world. To become

exposed to a different environment and people from all over the country and other parts of the world expanded your horizons. That was as powerful a message as I got, probably more so than the formal education.”

For the Chancellor, this continues to be an important part of the whole British university experience. “With social media today, it might be less relevant. But for me it was an eye-opener at an important time in my development as a young adult. It certainly guided me on a different path to what I might have expected.”

For Heriot-Watt University, with its diversity of people and cultures, including its campuses in Dubai and Malaysia, this appreciation for the value of social education should not be overlooked or underestimated. “I get totally fascinated at each graduation, where there might be 50, 60, 70 countries represented. I really enjoy asking as many graduands as possible, ‘Where are you from?’ It’s humbling to know they come from all over the world, from Afghanistan to Sweden, from Canada to Indonesia. It’s fascinating.”



### LESSON TWO: EXPECT SURPRISES IN LIFE



His motivation for heading off to Canada was a handsome bursary for a master’s degree that exceeded a starting salary in the NCB. But he soon learned a basic lesson in economics: he got more in Canada because the cost of living was substantially higher.

“I went there without any real sense of what I was doing, other than I didn’t want to go and work down a coal mine.”

He knew very little about Queen’s University in Toronto, although it was significantly larger than Heriot-Watt at the time. It had a very strong scientific base. (In July 2009, Bob Buchan donated \$10 million in the largest single donation to mining education in Canadian history.)

“I stumbled into a great programme at a great institution with the mining engineering department stretching back to 1883. I was able to complete my master’s programme over an 18-month period and then started looking for a job.”

He was invited to a few interviews, including with an oil major in Calgary recruiting a reservoir engineer, which didn’t go well. Much better was his interview with a mining equipment company, Joy Manufacturing, in southern Ontario.

“I might have ended up in the oil and gas industry instead of mining. Life is full of surprises.”

The company was developing new technology for the industry and recruiting young engineers to help in their research and development. He stayed for several years, visiting underground mining operations across Canada.

“It was a wonderful opportunity for me to see the different environments that the equipment is asked to work in, and it helped me develop an awareness of what constitutes a well-run operation and what does not.” ➤





### LESSON THREE: SEIZE YOUR OPPORTUNITIES

Living in Kitchener, in southern Ontario, Bob Buchan discovered that his neighbour was a portfolio manager for one of the country’s top pension funds. He ran money in the capital markets.

“I befriended him and his life sounded so much more interesting than working for a mine manufacturing company. I was intrigued and decided to try and get involved.”

He picked up the Yellow Pages to find stockbroking companies, and wrote to the first three on the list. Two of them offered him a job.

“It was a classic opportunity that happens often in life. There is a sea change happening in an industry and this was occurring in the brokerage industry, where there was an understanding that the firms had to have proper research. They needed to be in a position to give clients more and better advice.”

Professionals from industry were now being recruited by stockbroking firms, and Bob Buchan, then aged 25, was among the early cohort. He was told: “You have a heartbeat and you’re a mining engineer? You’ll do: you’re now a mining analyst.”

He had no idea about the stock market and did not know how to trade stock. But he learned quickly, picking up financial statements, which he found easy to understand. In 1974, he moved to Toronto and joined A.E. Ames. It was both an eye-opener and an acute disappointment. He was surprised that Bay Street, Canada’s Wall Street, was filled with mediocre salesmen rather than intellectually rigorous and smart business people. Yet the salesmen were paid three times more than the analysts. This turned out to be an opportunity for Buchan.



### LESSON FOUR: FIND A MENTOR YOU CAN TRUST

Bob Buchan’s first research report was on the copper mining business, something he would come back to much later in life. But he soon turned his attention from base metals to gold mining. “Gold mining was, and frankly is, more exciting,” he says.

He moved to a boutique operation where the pay scales were better. In 1984, he left the brokerage business to set up his own consultancy. It was then that he met, befriended and ultimately partnered with Ned Goodman, who became a lifelong mentor.

“Ned was one of the smartest people that I ever met. He was a Canadian from Montreal who moved to Toronto and had a stellar career. Ned taught me the importance of capital markets to the success of anything in the mining industry.”

Bob Buchan found out that the capital markets were fundamentally more important than anything else in the business. By its nature, the mining industry is ferociously capital intensive, and the high cost of entry means that gaining serious financial backing is the only key to success.

“Ned also taught me that it is a lot easier to mine the stock market than it is to mine an ore body. While this might seem a cavalier approach to business, it set the benchmark on how to build a company.”



### LESSON FIVE: IT’S ALL ABOUT THE JOCKEY

As an analyst for 10 years, Bob Buchan met chief executive officers and senior executives from all the major and many of the smaller mining companies around the world. From this exposure, he developed a keen eye for who – and who not – to support.

“While there are many ways in which a company can be successful, few do not involve strong, imaginative leadership. As it always does, no matter if it is a financial or an academic institution, it comes down to the jockey. The horse is important – you’ve got to have an animal with four legs – but it’s the jockey that counts. It is way more important to support the right jockey.”

A good institution with bad management can be led in the wrong direction. For Bob Buchan, it is all about learning who the good jockeys are and then supporting them. “For example, Ned Goodman was a great jockey and I jumped on his horse. I learned from him.”

Watching and learning the skill sets of successful “jockeys”, and, paradoxically, seeing what can happen with poorly qualified entrepreneurs, motivated Buchan to do it himself.

“Starting out in base metal extraction rather than precious metals is harder because the initial capital requirements are enormous: up to \$1 billion to buy and develop a new mine. Whereas the gold mining business was a much better option with entry levels around \$20–\$30 million.”

In the summer of 1993, he created Kinross Gold Corporation; he took it public the following year. The company started life with a 25% interest in a small mine in Nevada, \$15 million in cash and a market capitalisation of about \$50 million. By March 2003, Kinross owned 13 mines around the world, employing over 9,000 people, and had a market capitalisation of well over \$2 billion.

“Obviously I didn’t grow the company from the assets we started with. I was able to convince the market that I was a jockey worth supporting. I was able to sell myself to the capital markets as having an entrepreneurial ability and an intellectual awareness of how to build a company.”

In March 2005, Bob Buchan announced he was stepping down from the board of Kinross Gold Corporation in Toronto.



### LESSON SIX: GRASP THE IDEA OF “SUPER MONEY”

Bob Buchan believes the financial game is about understanding “super money”. Gold mining stocks trade at multiples of what they are worth. He says it is one of those bizarre realities in life. “But if you know it’s a reality, it’s your obligation to use it.”

From 1994 to 1996, Buchan did around eight refinancings, and every one was 40% up on the previous.

“After starting Kinross, it was hard work convincing investors that I could actually find a good acquisition and execute. It was difficult to find investors that would support you in raising the money to make the purchase. When the first deal proved to be successful, the market rewarded us with a rising stock price. By the time I had identified my second asset purchase, the stock had risen by almost 40% and financing was significantly easier. Since I was able to identify assets to purchase, and the shares of Kinross kept rising, raising money became easier and easier. All the people who bought before were happy to come in again. Over the first two years of Kinross’s life, the stock went from just over \$1 a share to almost \$15 a share.”

This is super money! The amount that was raised got bigger and bigger.



It was tough. I remember sitting down with my CFO and looking at three-year forecasts.

No matter what we did to cut costs, we always ended up on the edge of a cliff staring at bankruptcy.”



### LESSON SEVEN: DON’T BELIEVE YOUR OWN HYPE

People talk about the Midas touch. Bob Buchan knows only too well that the super money cycle reaches a peak. He reckons one of his failings was buying too soon and selling too early. He was far too conservative when it came to selling.

“Eventually, the market gets tired and runs out of momentum. We had reached our peak of around \$15 a share. Within two years, it was back below \$1.”

The gold market crashed and the mining sector fell badly out of favour. Bob Buchan’s company had purchased a pile of assets that were no longer nearly as profitable.

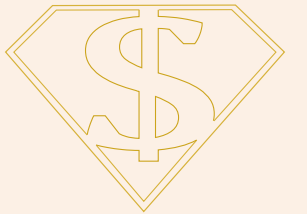
“It took a while to digest the transactions that we had done. Then you were into a whole different attitude.” Nobody wanted to know and, for a while – from 1997 to 2000 – he disappeared off the radar.

“It was tough. I remember sitting down with my CFO and looking at three-year forecasts. No matter what we did to cut costs, we always ended up on the edge of a cliff staring at bankruptcy. Nothing tests your mettle like the prospect of looming bankruptcy.”

But what was apparent to Buchan was the lesson: “Don’t believe your own hype! Stand back, be conservative and take some money off the table.”

“I truly believed that our company was worth \$20 a share and I never sold any shares on the way up.”

His stock valuation went up to \$100 million then dropped back to significantly less. He never made the mistake of not selling again!





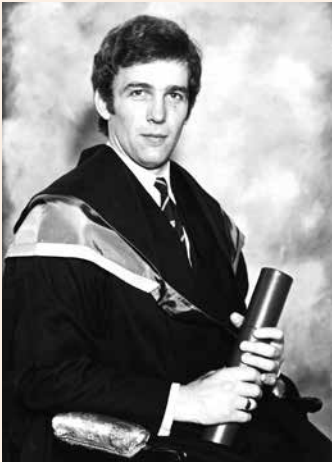
**LESSON EIGHT: DEAL WITH THE ASSETS YOU HAVE**

With business on the ropes and no access to money, it's essential to go back and re-examine the company.

"We couldn't sell any assets, and nobody would give us any financial help. So with potential bankruptcy on the horizon, we attacked our balance sheet, did some aggressive restructuring of our obligations, pushed bankruptcy further into the future and regained momentum."

It meant the balance sheet was in a stronger position when the market started to pick up, as it did very quickly. The technology boom of mobile phones, computers and even renewable wind energy all needed gold and copper. And the cycle started racing right up again.

"By 2001 the balance sheet was completely repaired, and by 2003 we were able to effect a three-way merger that resulted in Kinross emerging as a senior global producer."



A DAY TO REMEMBER:  
Bob Buchan on his graduation from  
Heriot-Watt University in the 1960s.

**LESSON NINE: CYCLICAL BUSINESSES ARE FUN**

It takes a certain type of individual to handle the peaks and troughs of a cyclical industry.

"Cyclical businesses are fun. They are either emotionally debilitating or incredibly exhilarating. There is nothing in between."

Bob Buchan left Kinross in 2004 and started a copper mining company called Katanga Mining, with assets in the Democratic Republic of Congo. It was in a mess after having been owned by a Belgian company. The Belgians had been kicked out and President Mobutu had nearly destroyed the mining business over the course of a decade.



The mining complex was being offered for virtually nothing. Nobody was prepared to go there.

**It was like a Mad Max movie and the country was a mess."**

"The assets were world class, but after 10 years of being plundered by President Mobutu they were in a sorry state. The mining complex was being offered for virtually nothing. Nobody was prepared to go there. It was like a Mad Max movie and the country was a mess."

The Katanga assets have come a long way since then. They are now considered to be one of the most important copper and cobalt production assets in the world and are one of the DRC's most important sources of revenue.



**LESSON TEN: RISKS ARE NOT ALWAYS OBVIOUS**

Bob Buchan was convinced that the Katanga assets could be straightened out. He knew they had world-class potential but was determined to accomplish this without paying bribes.

"We made it clear that we were not going to pay any bribes, and we didn't. That made it difficult sometimes when people were looking to smooth the road for you. It took about a year to get our mining permit, which was sitting in Kinshasa waiting for us to bribe the appropriate people. Eventually the government gave us the permit, because the asset needed to be developed."

"The mine has come a long way. It is a real treasure of the world's resources. Two-thirds of the world's cobalt comes from the Congo. It is now one of the key assets of Glencore, who ended up buying it."

Did he not worry about the risks? Buchan learned about the complexity of risk while building Kinross. In 1998 he bought remote gold mining assets in the far east of Russia, 400 miles from a major road.

"Clearly, investing in Russia in 1998 and in the Congo in 2004 represented risk in its simplest form. But investment risk can be more complicated than that. My experience is in Greece and in North America, where corruption, frivolous lawsuits and regulatory over-reach proved to be a much more demanding and unexpected definition of risk. You can lose a dollar in Russia, if you invest a dollar, but you can lose 10 in the United States if you invest a dollar because of the power of the legal system. Risk is often seen through the wrong lens," he says.



**LESSON ELEVEN: THERE IS NO RIGHT ROAD**

Bob Buchan's life has been packed with the Technicolor experiences and drama of travelling the world as a leading CEO. His lesson is that there is no right road in life. Expect the unexpected. Just get on the bus, get in the traffic and stay focused.

"Don't worry about what your goal is. Enjoy the journey. Whenever you get to the goal, to the top of the mountain, there's always going to be another mountain behind it. If you don't focus on enjoying the journey, you are not going to enjoy each one of the mountains that you conquer," he says.

One concluding Bob Buchan nugget: "One life lesson that I believe is invaluable is that with success comes obligation. Share your knowledge, your time and, when you can, your wealth to benefit the generation coming behind you. Believe me, it will enhance and give greater meaning to your life."

Above all, enjoy your journey in life!



KENNY KEMP is an award-winning business writer. He is currently writing the 150th-anniversary history of Baxters Food Group, the iconic Scottish jam and preserves business set up in 1868 in Fochabers and still going strong.

A ROAD MAP FOR A  
**BETTER FUTURE**



Distinguished global economist and writer, and former Management Editor of *The Economist*, DAME FRANCES CAIRNCROSS has been in the vanguard of thinkers interpreting and making sense of our chaotic and contradictory world. Dame Cairncross is also Chair of Heriot-Watt University Court, where she helps guide the institution's future. She talks with *Panmure House Perspectives'* chief writer KENNY KEMP.

Q.  
A.

**ON THE FUTURE OF BUSINESS**  
**KK:** In 2002, you published a seminal book, *The Company of the Future*, in which you argued that the companies of the future would be about "ideas" and the pursuit of knowledge. This has come to pass. But what else has surprised you since you wrote the book?

famously produced the iPhone and predicted: "This will change everything." The iPhone and its imitators have been transformative in more ways than I could ever have imagined back in 2002. But one way is to make small businesses very much more productive. For example, a builder can take a photo of the tool he needs to buy; a personal trainer can keep notes of her timetable and customer details; an interior designer can order samples ➤

**FC:** My book came out five years before Steve Jobs





DAME FRANCES CAIRNCROSS is a distinguished economist, writer and academic. She attended school in Glasgow before studying at Oxford University and Brown University, Rhode Island. She is Chair of the Court of Heriot-Watt University.

➤ of material overnight. These allow us to make huge efficiencies in time, and none of them cost the business any more than the phone itself.

**KK:** Are you optimistic that businesses and the capital markets can apply the necessary changes to ensure the world does not head towards environmental disaster?

**FC:** No, I'm not confident. We are already beyond the point where we can stop change, especially in the degradation of the oceans caused by a combination of pollution and climate change. The oceans are the great heat sink of the planet. The way environmental change will affect our lives will not take forms that drive capital markets to respond rapidly.

**KK:** So what does business in general need to do urgently to address some of the environmental and geopolitical imperatives?

**FC:** I would say that one of the imperatives is to find ways to cool urban buildings that do not increase the global output of carbon as much as fossil fuels do. It will be cooling – and by this I mean massive air-conditioning plants – not heating, that drives the fastest growth

in carbon use in the coming years. This is an area where the Principal, Professor Richard Williams, has done interesting research work.

**KK:** Do you think the frontiers of space, the deep ocean vents and the core of the earth will provide solutions for civilisations?

**FC:** Again, no, I don't think so. The solutions will come largely from doing what we already do better: growing food productively and sustainably, using water frugally and learning to cope with an ageing global population. We also need to find better ways to live with and understand each other, as there will be more and madder nations with access to nuclear weapons.

**KK:** So how can we best ensure we don't make a mess of these new frontiers too?

**FC:** Only by accepting international regulation on an even greater scale than we have already. Large countries such as the United States, Russia, China and India don't much like being told how to manage the planet by foreigners, but scientists are more multinational and collaborative in their instincts. Their voices of reason are increasingly vital. This should make us hopeful.

#### ON THE FUTURE OF EDUCATION

**KK:** You have described the best universities as "brain factories of the world". Don't universities have a role as the "heart" and "lungs" too?

**FC:** They certainly should have a heart. Of course, universities should have a deep sense of care for the well-being of their students and staff, which I suppose is what you mean. I am not quite sure how you envisage a university's lungs. But the single most important purpose of universities is the pursuit and the transmission of knowledge.

**KK:** How do you see the relationship between pure intellectual research and the application of science for practical purposes?

**FC:** Most research is about finding answers to questions. If those questions are too closely framed by outsiders who demand measurable economic outputs from universities, that may diminish the quality of the research. It is often difficult to see what practical impact a particular line of inquiry will eventually produce. But when taxpayers are carrying the bill for research, it is reasonable that they should ask, from time to time, what the work's impact has been or is likely to be. That is not the same as asking whether

the work will eventually produce another iPhone.

**KK:** What would be the one facet over all others we must retain when it comes to lifelong learning?

**FC:** I'm not sure if you are asking about the learner or the teacher here. If the learner, then the main requirement is curiosity. If the teacher, then it is the ability to explain complex things in clear and understandable ways.

**KK:** You have been critical of some international educational institutions for having too much theory and not enough application. What is the best kind of balance?

**FC:** That will vary from one institution to another. Even within Scotland, there are universities that focus largely on practical skills, and others where some pretty arcane research goes on. Heriot-Watt gets the mix about right.

**KK:** How important is it for teachers and academics to keep in touch with their subject matter?

**FC:** Very.

**KK:** Are academics and researchers properly remunerated for the discoveries they make?

**FC:** Some are and some aren't. Researchers sometimes follow a line of inquiry that turns out to lead nowhere but might have been transformative. Most successful research produces an answer to only a small corner of the great global jigsaw puzzle. The biggest rewards usually go not to academics but to the Steve Jobs of this world who understand how to put all the pieces together into a valuable product.

**KK:** How and where does Adam Smith sit in the pantheon of the greatest economists?



When taxpayers are carrying the bill for research, it is reasonable that they should ask, from time to time, what the work's impact has been

or is likely to be. That is not the same as asking whether the work will eventually produce another iPhone."

DAME FRANCES CAIRNCROSS, CHAIR OF HERIOT-WATT UNIVERSITY

**FC:** On about a par with Jove.

#### ON HERIOT-WATT UNIVERSITY

**KK:** Does size matter when it comes to universities?

**FC:** Yes, but not in simple ways. For instance, the California Institute of Technology has about 1,000 undergraduates – and not many more graduates. So a university can be a global winner with very few students. But we need – and hope – to expand our size in the years ahead, though not necessarily on the Edinburgh campus.

**KK:** The expansion of Heriot-Watt globally has given the institution an incredible footprint. How does the University create a unique Heriot-Watt culture that is shared in its Edinburgh, Dubai and Malaysia campuses?

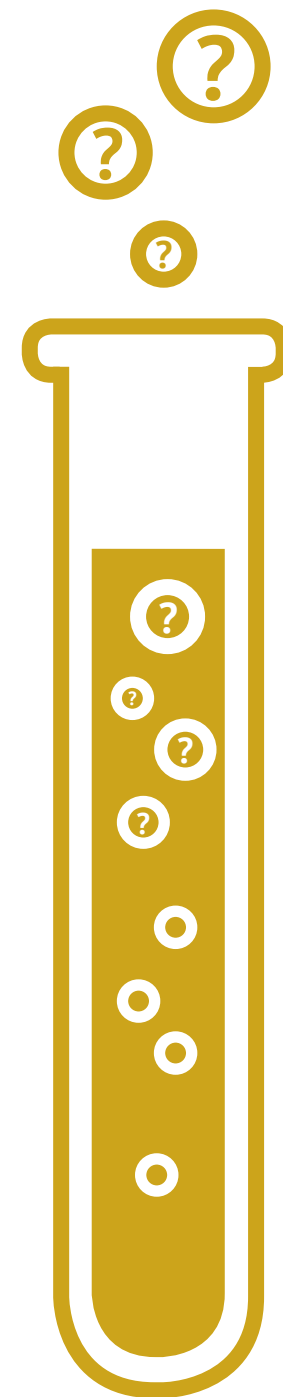
**FC:** The Go Global programme, encouraging our students to spend some time studying on another campus, has a key role to play here. We don't need every student to go abroad, but if enough start to do so that will help to link our campuses together. A sense of common purpose has become more apparent even in the short time I have been here.

**KK:** The University now has the term "radical innovation" imprinted in its DNA. What kind of radical innovation do you like best?

**FC:** No, universities don't have DNA... and I am not wholly happy with the phrase "radical innovation" either. But the iPhone seems a pretty good example – though.

**KK:** What has impressed you most about the recent scientific research and discovery at Heriot-Watt?

**FC:** I'm especially impressed by some of the brilliant young people we have in our scientific community.



**KK:** You chair the Heriot-Watt University Court. What emotions do you feel when you hear about the institution's activity?

**FC:** That depends on what activity it is! Usually, I feel pride and excitement – but like all organisations, just occasionally I wish that we'd done something differently.

#### ON STUDENTS AND LEARNING

**KK:** You have said that students should be praised for asking searching questions. Can you expand on what you mean by this?

**FC:** Learning should involve questioning. It is not always easy for a lecturer to know how much a student has understood unless the student asks questions. Good students ask good questions. Besides, ideas should be challenged – a challenge from a student may lead an engineer or chemist to ask different questions in research work.

**KK:** What is the best way to teach young people to question and analyse?

**FC:** Teaching is a professional skill. It requires training and practice. A good teacher is the answer.

**KK:** What would you like to do to prevent people from closing their minds the moment they graduate?

**FC:** I don't think people who have been well trained to question and analyse ever close their minds!

**KK:** What's the one piece of advice you'd like to give to a new graduate in any discipline from any university?

**FC:** Don't expect your degree to pay off immediately. The first few years can be disappointing. But in the long run, the intellectual training, the habits of mind and the self-discipline that a university degree instil will bring you benefits that will amply repay your studies.

**KK:** Thank you so much for your time and answers.

**FC:** Thank you. My pleasure.



# Adam Smith and Ebenezer Scroogie



Professor of Economics NEIL KAY gives his reflection on understanding Adam Smith, then and now.



Some of Adam Smith's ideas have stood the test of time less well than others. He argued in *The Wealth of Nations* that the English were more handsome than the Scots, but that above them all stood the Irish, with "the most beautiful women perhaps in the British Dominions". He attributed these differences to the Scots being fed oats, the English wheat, and the Irish potatoes.

These observations may seem amusing now (though perhaps less so if, like me, you are Scottish), but Scotland was a country that was still holding witchcraft trials when Smith was born. It was a tribute to both the country and Smith that an unseemly countenance could now be attributed to dietary deficiencies rather than a curse from some cackling crone.

It was this ability to stitch together observation and rational explanation that Smith carried through all his works, even if it sometimes led him down some paths that we might not always find sound or persuasive today. The image we have of Smith is indelibly associated with his *Wealth of Nations* and his acerbic comment that "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love."

## FAWNING ATTENTION

He even conscripted house pets into this dismal view of mammalian morals at dinner: "[A] spaniel endeavours by a thousand attractions to engage the attention of its master who is at dinner, when it wants to be fed by him. Man sometimes uses the same arts with his brethren, and when he has no other means of engaging them to act according to his inclinations, endeavours by every servile and fawning attention to obtain their good will."

**// IT IS ALSO EASY TO BELIEVE THAT CHARLES DICKENS WAS INSPIRED TO WRITE THE CHARACTER OF EBENEZER SCROOGE AFTER SEEING THE GRAVESTONE INSCRIPTION OF A 'MEAN MAN' FROM KIRKCALDY IN EDINBURGH'S CANONGATE KIRKYARD...//**

You can almost hear Smith mutter "humbug" as he supped his porridge. It is also easy to believe that Charles Dickens was inspired to write the character of Ebenezer Scrooge after seeing the gravestone inscription of a "mean man" from Kirkcaldy in Edinburgh's Canongate Kirkyard... which, according to several sources, is true. However, the grave was not that of Adam Smith but of his Kirkcaldy-born great-nephew Ebenezer Scroogie, so at least any reputation for meanness was kept in the family.

Whether or not the story is true, neither Smith nor Scroogie deserved such an unflattering reputation. (Dickens supposedly misread Scroogie's grave inscription, which actually read "meal man" – he was a corn merchant.) *The Wealth of Nations* was based on detached observation of aspects of human behaviour, but its various editions were bookended by the first edition of Smith's *Theory of Moral Sentiments* in 1759 and the last one in 1790. That work starts, "How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it."

## BASER MOTIVES

So what picture of society did Smith really believe in: that of the *Moral Sentiments* or that

of the *Wealth of Nations*? The answer is both; to him they did not represent abstract vices or virtues but actual facets of human nature whose manifestations depended on time, place and context. For Smith, "to restrain our selfish, and to indulge our benevolent affections, constitutes the perfection of human nature". You can see echoes of both works today in compound terms such as "social enterprise", "billionaire philanthropist", "charity credit card" and "ethical investment", each of which reflects aspects of the working of the market economy while still capturing elements of contributing to the commonweal.

Smith's life and work reflected that duality. His daily work as commissioner of customs exposed him to some of the baser motives underpinning market behaviour, but his dinner table reflected friendship and society. He kept open house every Sunday for friends and any visitors who wanted to meet him, and he was a member of dining clubs where the conversation menu could cover the range of the arts and the sciences.

At home in Panmure House he was no monastic gruel-munching Scrooge. He never married but was devoted to his mother, who lived with him, as did a cousin and her son. The English statesman William Windham remarked, after visiting the Smiths at home, "House magnificent and place fine... Felt strongly the impression of a family completely Scotch."

But whatever the typical menu that such guests could have encountered at Panmure House, we can be reasonably sure of one thing: Adam Smith would have ensured it contained healthy portions of potatoes. ☺



NEIL KAY is a Professorial Fellow at Edinburgh Business School, Heriot-Watt University. His most recently published research paper is: *Driving innovation through ambidextrous service provision - long cycle products in manufacturing contexts*, with Nusa Fain and Beverly Wagner.

# What's on my Reading list?

DR AUDE LE GUENNEC

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

Since childhood, bedtime has been a sacred moment when I can enter the world of exotic, romantic or scary storytelling. Fiction is a realm that I visit every evening with delight, meeting the words of talented and inspiring writers. Trying to understand Scotland – its history, people and creativity – is the current remit of my book hunting.

Muriel Spark accompanies me on an educational tour of Edinburgh; the dull and troubling atmosphere of the crime novels of Peter May introduces me to the contemporary sagas and beliefs of the Scottish Outer Hebrides; the vigorous style of Alistair Moffat embarks me on an unexpected and savant history of the Scottish Borders. David McCrone's *New Sociology of Scotland* is the only non-fiction that I allow myself to open at night. Fluid and extremely well informed, this book is the key to understanding a contrasting country, rich in culture and identity. As an art historian, my reading list also includes visual books which are as important as the words compiled in the novels piled on the floor. David Peat's photographs published in *An Eye On The World: The Street Photographs of David Peat*, and presented in the inspiring exhibition 'When We Were Young' at the Scottish National Portrait Gallery, was an anthropological shock.

Story time has been shared with my children over the last 10 years and their books add to my piles of dreams and thoughts. We discuss the surrealist and poetic vision of Claude Ponti's world (*Sur l'île des Zertes*), we play with the words of Pef, we sit our dog on a log (Kes Gray) or go on a bear hunt with Michael Rosen. Reading is a way to share and create a family culture nurtured by fantastic tales.

## What's your favourite novel?

Alexander McCall Smith's *Dream Angus: The Celtic God of Dreams* has been cradled since the first moments of my eldest son. As an entry to the Scottish world, this tale bonded us to a country of myths and music. McCall Smith's words sound like a contrasting lullaby: the rhythm alternates moments of pure dream with scenes of fierce cruelty. This poetry reflects the shades of our lives and, strangely, the personality of my cherished wee one.

## What is the best business / fashion industry book in your view?

Exhibitions are usually the best way to understand the creative process of fashion designers. Their inspirations and the way they connect ideas to functional objects can only be communicated visually through carefully curated events or publications.

Dries Van Noten's catalogue, published by Pamela Golbin, for an exhibition held at the Musée des Arts Décoratifs, Paris, in 2014 gives a rare and stimulating insight into the creative atmosphere of this iconic Belgian fashion designer. Van Noten acts as an educational mentor to inspire and guide fashion students as well as professionals. This book is a bible that I keep analysing and exploring for the benefit of my students.

## What are the key magazines and publications that you can't afford to miss?

My French *Grazia* coming up on my tablet each Friday morning! Unlike the British version, the French one provides information on cultural life, politics, social issues and trends. It questions the challenges of the fashion industry and informs on current debates. Stimulating weekend breakfast reading is guaranteed!

However, the children's fashion specialist in me is always frustrated by the lack of interest for 'small fashion' in these magazines. Since 2007, the French *Milk Magazine* has provided a contemporary and trendy vision of children's fashion. It gives a lot of information on children's lifestyle, culture and education. *Fashion Theory* is the journal that any fashion theorist and historian has to keep up with. Influential and formative, this journal follows an editorial line based on the communication of new areas of research in fashion and innovative theoretical views on fashion in society.

## Are you a tablet fan or do you prefer the feel of a well-produced magazine?

I like the smell of books, listening to the swish of the pages, touching the matt texture of paper. Learning through sensations and colour has always been a driving force for me. I love exploring, reading to the end and finding what's hidden behind the page. In this world of 4D sensations, the tablet is too simple and linear for me. However, on a professional basis, I do give it a go; scrolling down the screen is my way of reading magazines and academic papers when the paper is not available!

## What would you recommend for creative industry professionals to read?

I have the privilege to share a room with Dr Sue Thomas, who, as a worldwide fashion theorist, reflects on her extensive industry experience to provide a forward-thinking approach on the future of fashion. Dr Thomas has recently published a fascinating book on *Fashion Ethics* (Routledge, 2017). Her comprehensive analysis of the fashion industry raises

questions about the importance of faith in the development of an ethical and sustainable industry. Every day her fresh and stimulating vision is dispensed to me in our conversations and it has had a major impact on my approach to our discipline.

As a fashion historian focusing on the material culture, Lou Taylor is my mentor and has led my research from my early student days. Her statement *Establishing Dress History* (Manchester University Press, 2004) has had a major impact on worldwide fashion history. I had the honour to have her as an external in my PhD panel: her words have had a major impact and continue to inspire my research.

## What is the one creative business website you can't live without?

Depending on my hat, there is actually more than one website. I enjoy perusing the website of the Victoria & Albert Museum in my quest for exciting events, accurate historical information or inspiring design explorations. *Vogue* archives online is also a database that I consult regularly when looking for accurate historical information or vintage inspiration. As a lecturer in fashion, I constantly keep an eye on the fashion sphere to share fresh inspiration with my students. One such website is published by the trend forecaster Li Edelkoort. *Trend Tablet* ([www.trendtablet.com](http://www.trendtablet.com)) is a crucible of applied arts experiments and fashion statements.

More commercial, but extensively informed, WGSN is the website to follow for any fashion designers. WGSN provides news and daily reports. Thanks to our passionate

librarians, who are always listening to academics' needs, we have the chance at Heriot-Watt University to subscribe to this extremely useful website, which I remind my fashion students about every day.

## Who has inspired you in your career?

My children. Their clear and unfiltered vision of the world, surprising and always unexpected, their surrealist sense of humour, their dreams and projections for the future provide me with genuine keys to draft my life and design my research. I can only thank them for having been my first and privileged field of observation, my guinea pigs and my inspirations. As a mum, my life has changed since their first breath, following their dreams to help their future.

DR AUDE LE GUENNEC is Director of Fashion Studies in the School of Textiles and Design, Heriot-Watt University. She is a specialist in fashion art history and a children's fashion specialist.





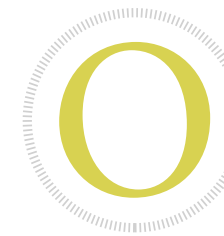


**ROOM WITH A VIEW:**  
Professor Keith Lumsden admires the spring-time scene from Panmure House's refurbished library, where later editions of *The Wealth of Nations* were amended by Adam Smith.

The regeneration of Panmure House, Adam Smith's final home, is now nearing completion. *Panmure House Perspectives* met with **PROFESSOR KEITH LUMSDEN**, former director of Edinburgh Business School and the driving force behind the original project. He speaks with chief writer **KENNY KEMP**.

# home at last

A PROFESSOR'S JOURNEY WITH ADAM SMITH



**O**n a late April morning, a hard-hat and hi-vis-vest tour of Panmure House was undertaken by Professor Neil Kay, of Edinburgh Business School, and conservators and experts in the works of Adam Smith from the National Library of Scotland. One of the special visitors joining this tour was Professor Keith Lumsden, the visionary behind the regeneration of Adam Smith's home.

"It really is something to see how Adam Smith's home is being brought back to life and how it will become a fitting place to mark his legacy to the modern world of political theory and economics," he said, gazing out from the freshly painted library towards Smith's burial place in nearby Canongate kirkyard.

Panmure House is the only surviving home of that pantheon of philosophers who made the Scottish Enlightenment. It's an intimate space; the house runs to 4,000 sq ft, its centrepiece being the two main rooms where Smith gathered people together to eat and drink and discourse about the issues of the day. Yet the ambience that emanates from the elegant library, where Smith edited his final editions of *The Wealth of Nations*, is certain to inspire future generations of thinkers. In May 2018, the contractors working on the project were in the process of handing Panmure House over to Edinburgh Business School in preparation for a series of opening events and private fundraising dinners. The re-emergence of Panmure House is a significant event for Professor Lumsden, for Edinburgh Business School and for Heriot-Watt University.

It has been a long, personal journey for Professor Lumsden, now in his early 80s. The project has taken time to come to fruition, with all the challenges that come with renovating a building of this age and heritage. However, dogged determination, imagination and the generosity of donors have helped overcome these hurdles and allowed Panmure House to emerge as an intimate and historic addition to Edinburgh's – and Scotland's – intellectual landscape.

"In 1976, the University of Glasgow celebrated 200 years since *The Wealth of Nations*. They had a seminar and invited the Nobel Prize laureate

in Economics, George Stigler, from the University of Chicago, who opened his speech by saying that Adam Smith was alive and well and living in Chicago. I would like to say that Adam Smith is alive and well and we're bringing him back to Edinburgh," said the Professor.

The seeds of this remarkable regeneration go back many years. After graduating from the University of Edinburgh, Professor Lumsden went to Stanford University in California on a scholarship in 1959. He stayed in the US to complete a PhD and became immersed in how economics was being taught.

"I enjoyed Stanford; it was a great place. One of my favourite tutors was Kenneth Arrow, who won the Nobel Prize for Economic Sciences with John Hicks in 1972. I went to his first class in public finance and he was talking about the rights of minorities and he quoted Rousseau. I put my hand up and politely said he had obviously not read Rousseau's recantation of the rights of minorities. I was asked to see Professor Arrow after class and I told him about the political philosophy course I had undertaken in Edinburgh."



It was this Edinburgh course that introduced Lumsden to the work and importance of Adam Smith and spawned a lifelong appreciation and study of the Scottish economist. Arrow befriended Lumsden, who was then asked to teach quantitative methods at Stanford Business School on a short-term contract.

"What was interesting was the classes were held in the law school because the business school, even then one of the major institutions in the world, did not have its own building at the time. Now a third of the Stanford campus is the business school."

Ernest Arbuckle, who was dean of Stanford Graduate School of Business and chairman of Wells Fargo, offered Lumsden a job teaching economics. Under Arbuckle's tenure, the school attained top-tier status as one of the best in the US. After several years, the then Dr Lumsden, still inspired by *The Wealth of Nations* and its mission to explain using practical examples of commerce, became involved in improving the performance of economics teaching. Lumsden was soon at the forefront of teaching innovation aimed at enhancing learning and understanding.

Increasingly, Stanford ran successful 10-week executive leadership courses during the summer attended by top-flight business people. In 1961, Lumsden met a psychologist called Allen Calvin, who was working with Arthur Sullivan, a producer of reading aids for children. Calvin asked if Lumsden could write an economics textbook for schools. It was to be the start of a successful career authoring textbooks and "programmed learning" materials. Lumsden described economics as "the social science which studies how society uses scarce productive resources to produce the goods and services society wants". He was told to expand this into 30 pages to explain what it meant, and leading publisher McGraw-Hill published the first programmed learning text in economics in 1961. The three major university textbooks at that time were by Paul Samuelson, Campbell McConnell (both published by McGraw-Hill) and George Leland (Lee) Bach. Lumsden was approached by Samuelson and MIT to create a programmed learning version of his bestselling textbook; instead he took up an offer by Lee Bach to join him in writing and editing *Microeconomics* and *Macroeconomics*, the first two programmed learning textbooks for college students, with his colleague Richard Attiyeh.

"These were all early elements that led to the MBA. Universities would send our textbooks out to students to read prior to starting their course, so the students would be ready and the courses could then be more applied with the use of case studies."

Stanford Business School's research ethos was "publish or perish". Lumsden chose to undertake research in economics education and pedagogy because he felt there was work to be done on understanding how students actually learned. "It was an untouched field. There was something wrong with the way we went about it."

It became a mission for Lumsden to use programmed learning to teach, developing relevant business case studies to test a learner's capabilities. It was also at this time that computers were being used more in teaching and for analysis. Stanford was involved in building one of the first computer simulations of the US economy. This allowed students to role play with monitoring fiscal policy to see what the outcomes might be in terms of employment and industrial output.

Then an opportunity to return to Edinburgh arose, and Professor Lumsden moved to Heriot-Watt University, where he harboured an ambition to create a distance-learning MBA. Simultaneously, Heriot-Watt had been building a reputation for its own executive learning programme, working with the likes of ScottishPower, Hewlett-Packard and Reckitt & Colman. Lumsden commissioned various experts and teachers to produce distance-learning materials, based on first explaining the "concept" and then illustrating it by means of an "example". By 1990, three courses (finance, quantitative methods and accountancy) had been developed, which were then published by Pitman. Professor Gavin Kennedy, the well-known Scottish economist, added a book on negotiation.

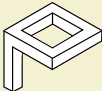
The rest of the MBA modules soon followed, and within five years the *Financial Times* had named Heriot-Watt University the biggest producer of MBAs in the world. This helped seal the University's success in the business

It was in a parlous state and had suffered decades of neglect.

It took a number of years to set the wheels in motion, but Heriot-Watt's Vice-Chancellor at the time, Anton Muscatelli, now head of the University of Glasgow, was an economist and encouraged the idea.



THRESHOLD OF KNOWLEDGE:  
A solid wooden door at Panmure House symbolises how the old meets the new.



MINISTER TOURS THE SITE

Many of Scotland's political figures are deeply informed and influenced by the writing of Adam Smith. *The Wealth of Nations* is regularly quoted by academics, scholars and policy makers who are attempting to make sense of the modern economic world. As work in the Canongate project comes to completion, there have been a number of hard-hatted political visitors. One of the recent visitors has been Keith Brown, Cabinet Secretary for the Economy, Jobs and Fair Work, who was accompanied by Professor Richard Williams and Professor Heather McGregor. "The Cabinet Secretary was deeply interested in the project, which of course is located handily between the Scottish Parliament and St Andrew's House," she said. ☺



BENCHMARK:  
Professor Neil Kay (right) hears Martin Sinclair, Project Manager of Panmure House, explain the final touches to the refurbishment.

2008 PURCHASED BY EDINBURGH BUSINESS SCHOOL

2014 EXTERIOR WALLS, ROOF AND WINDOWS RENOVATED

2016 CONTRACTORS APPOINTED

2018 OFFICIAL OPENING OF PANMURE HOUSE



KENNY KEMP is an award-winning business writer. He is currently writing the 150th-anniversary history of Baxters Food Group, the iconic Scottish jam and preserves business set up in 1868 in Fochabers and still going strong.

learning market, giving it the financial muscle and international kudos needed to establish the Business Executive Centre and build the Esmée Fairbairn Research Centre on the campus, and then the building that now houses Edinburgh Business School.

It was around this time that Professor Lumsden began to see the opportunity to take on Adam Smith's Edinburgh home.

The house was a vacant A-listed property in the heart of Edinburgh's World Heritage Site. It was in a parlous state and had suffered decades of neglect. It took a number of years to set the wheels in motion, but Heriot-Watt's Vice-Chancellor at the time, Anton Muscatelli, now head of the University of Glasgow, was an economist and encouraged the idea.

In 2008, Edinburgh Business School was granted permission by the University's court to purchase the building. It needed full-scale refurbishment, including the raising of floors and repairs to roofs and ceilings, as well as the excavation of the basement to allow for the building to be connected to all major services.

Fundraising commenced in earnest and by 2014 the exterior walls, roof and windows had been renovated. But the project then slowed down, and it was only after the appointment of Heriot-Watt's current Vice-Chancellor, Professor Richard Williams, in 2015, and of the new Executive Dean of Edinburgh Business School, Professor Heather McGregor, that it was revived. Contractors were appointed in 2016, by which time Professor Lumsden had retired from the Business School, although he remained a strong supporter of the project.

"To support the transition we were delighted Prof Lumsden was able to take up a three-year post as Master of Panmure House in recognition of his contribution," said Prof McGregor.

The Stanford University connection with Heriot-Watt, a door opened by Lumsden, was cemented in April 2017, when Scotland's First Minister Nicola Sturgeon visited Stanford and announced a research partnership with five Scottish universities, and in particular plans for Heriot-Watt's economic postgraduate scholarship, which will be based at Panmure House.

When Keith Lumsden retired from Edinburgh Business School, he retained a deep and passionate interest in this project. His hi-vis tour in April gave him a satisfying sense that his original idea to restore the house in order to honour Adam Smith is almost complete. ☺



ANDY WARHOL  
Dollar Sign Yellow, 1982, acrylic and silkscreen ink on canvas.  
A potent symbol of consumerist culture viewed through the  
artist's inimitable pop art aesthetic.

## The object of company art

Major paintings, fine art and  
tapestries are increasingly a badge  
of success in corporate offices. But is  
holding and maintaining expensive  
art really what shareholders want?  
**PROFESSOR ROY SUDDABY** asks:  
Why do corporations collect art?

**T**he very earliest corporations collected art. The Hudson's Bay Company, which received its royal charter in 1670, was a meticulous collector of North American art, and over the next 300 years amassed a large collection of more than 10,000 indigenous artefacts, antique maps, and oil and watercolour paintings. Anheuser-Busch, the brewing company, similarly began collecting in its founding years by commissioning Western artworks as early as 1890. Such early collections, however, were often the whim of individual executives within the corporation.

As a formalised corporate practice, art collection in US corporations can be traced to an individual executive: David Rockefeller Sr. In 1959, Rockefeller, who was then president of the Chase Manhattan Bank, established the corporation's first formal art programme. He also promoted the idea of formal art collections in major US companies by establishing, in 1967, the Business Committee for the Arts, whose mission was to encourage the growth of the arts in the US through active partnerships between leading corporations and the arts community. The idea spread quickly throughout the elite business community, and by 1980 more than 80% of Fortune 500 companies had extensive, formal and professionally curated collections.

### ART AS A BRAND STORY

Today, corporate art programmes rival elite public galleries in the scope and depth of their collections. Although it is difficult to obtain accurate statements of the cost of corporate collections, the Swiss financial firm UBS is one of the few corporations to formally value its mid-size collection of 35,000 pieces, which in 2009 was assessed to be worth \$150 million. While impressive, this sum grossly underestimates the overall cost to the corporation of acquiring, storing and maintaining such an extensive collection, which clearly indicates a significant financial commitment to the practice. The German financial services firm Deutsche Bank, with more than 100,000 paintings and sculptures, is the largest corporate art collector in the world; this aptly illustrates the size, scope and economic value of the phenomenon.



## It is somewhat surprising that activist shareholders who get exercised

about often much more trivial forms of corporate spending seem to be quite accepting of corporate art collections."

When asked, corporate executives offer a range of justifications for collecting art. Some suggest that corporate collections help to articulate a consistent image or identity that communicates core values both internally to employees and externally to key stakeholders. Those using this justification tend to have "themed" collections that are built around an important element of the firm's history or evolution. The global document delivery firm UPS, for example, has constructed its corporate art collections around tapestries and textiles, many of which date from the time of Marco Polo and the Silk Road. Tapestries, the firm's curator avers, represent the integration of modes of transportation and communication and, as such, reflect the core identity and mission of the corporation. Similarly, US-based Wells Fargo, the tenth-largest bank in the world, holds one of the most extensive collections of the work of artist Frederic Remington, whose depictions of the American Old West in painting and sculpture capture the soul of a bank that can trace its history back to its origins as a stagecoach company established in 1852.

While these justifications for the activity of art collection are plausible, if unverifiable, they fail to fully counter more pointed challenges based on pure economic reasoning. Extensive art collections are expensive to put together, become extremely valuable over time and, once built, reflect a substantial financial commitment. The money involved, some argue, rightfully belongs to the shareholders of the company and should be paid back to them as dividends. Viewed through the cool rational lens of economic reason, large and expensive collections of art could thus be seen as a breakdown in corporate governance. It is somewhat surprising, therefore, that activist shareholders who get exercised about often much more trivial forms of corporate spending seem to be quite accepting of corporate art collections.

### THE CORPORATION AS A SOCIAL ENTITY

My ongoing research on this subject suggests an alternative and perhaps somewhat more interesting explanation. One must consider corporate art collections within the context of a growing range of related activities that defy rational economic explanation. How do we explain corporate museums and archives? Corporate universities? Corporate

police forces and armies? Corporate health facilities?

The reality is that the modern Fortune 500 or FTSE 100 corporation is increasingly internalising many of the functions and activities that were once considered the exclusive preserve of the nation state. While there may be some diffuse, long-term benefit of these activities, in the short run they do not directly contribute to the productivity of the corporation as an economic actor. They do, however, contribute to the legitimacy of the corporation as a social entity. Increasingly, the corporation is evolving into an institutional form that rivals the modern nation state. Perhaps unsurprisingly, this seems to be occurring just as the nation state appears to be entering a long phase of retraction of its traditional roles and responsibilities.

So my answer to the question of why corporations collect art is that the corporation is an ascendant social institution. It has proven, on many occasions, better equipped than government to organise resources and address social need. It is no accident that large corporations such as Home Depot and Walmart were the first to bring aid to the victims of Hurricane Katrina, a natural disaster exacerbated by the inability of the US government to predict it and to defend its vulnerable population. It should not be surprising that the modern corporation seeks to assume the core activities of the institution it is about to transcend. Lest we worry too much about greedy corporations taking on the role and responsibilities of government, it might be helpful to consider what Adam Smith thought of the social responsibility of government: "Most government is by the rich for the rich. Government comprises a large part of the organised injustice in any society, ancient or modern. Civil government, insofar as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, and for the defence of those who have property against those who have none." ☺



PROFESSOR ROY SUDDABY is one of the world's leading institutional theorists and past Editor of the prestigious organisational journal, the Academy of Management Review. He is the Winspear Chair of Management, Peter B. Gustavson School of Business, University of Victoria, Canada, and Research Professor at Newcastle University Business School, UK.



## DR STEVE JOHNSON REVIEWS A SERIOUS ISSUE THAT IS ENDEMIC IN OUR BUSINESS WORLD: FRAUD.

What motivates those who steal from their employers and what can be done to halt this alarming global trend? He speaks to Kenny Kemp about his doctoral research inside a Southeast Asian non-governmental organisation.

# Tackling the Crime of Our time

Workplace fraud is an endemic concern in almost every organisation around the world. It has the power to destroy worthy institutions, ruin the lives of good people, damage shareholder confidence and tarnish reputations.

**R**esearch suggests that one-third to one-half of employees steal from their organisation, with one study claiming that 75% of people admit to stealing from their employers at some point during their lives. Employee theft is estimated to cost businesses worldwide a staggering \$100 billion a year.

The big corporates have sophisticated processes and procedures to police cheating and stealing, and armies of internal auditors and security professionals guard large organisations. Yet, in the US, employee theft is 10 times costlier than street crime and is the cause of 30–50% of all business failures. But what happens in the myriad of smaller social enterprises and, particularly, non-governmental organisations (NGOs) in developing nations, where employees are often very poor and the temptation to steal is driven by a desire to ward off starvation?

### EMPLOYEE FRAUD

Canadian-born auditor Steve Johnson, who was awarded a Doctor of Business Administration by Heriot-Watt University in November 2017, spent seven years working as a chartered accountant, international auditor and fraud examiner before looking more deeply into this disturbing global phenomenon. As the media spotlight has fallen recently on major international NGOs and charitable organisations following allegations of involvement in prostitution, this is an apposite time to look at how fraud develops in this sector.

Dr Johnson, inspired by the work of Dr Muhammad Yunus, is particularly interested in the sphere of microfinance, in which relatively small sums are at issue.



DR STEVE JOHNSON is a Canadian-born auditor who was awarded a Doctor of Business Administration by Heriot-Watt University in November 2017. He spent seven years working as a chartered accountant, international auditor and fraud examiner.

Fraud is a major problem: the average organisation around the world loses 5% of its revenues to fraud, defined as “any intentional or deliberate act to deprive another of property or money by guile, deception or other unfair means”.

Dr Johnson’s research focused on employee fraud at a local NGO in a small Southeast Asian nation. His study was inspired by his time working with a microfinance organisation in the same country, where the workforce is poorly trained and many people live in conditions of extreme poverty. The region had experienced years of conflict and the organisation’s role was to use finance to help promote economic stability and improve standards of living. He spent three years in the country, from 2012 to 2015, visiting many of the workers by motorbike, often riding through tropical rainstorms to reach remote areas.

“During my time, I led teams in conducting many employee fraud investigations at all levels of the organisation. I advised management and the board on all areas of the business, including developing several initiatives and policies to detect and, more importantly, prevent employee fraud in the future. This experience was very relevant to my research, as it allowed me to learn the local language and culture, and appreciate many of the intricacies of why and how certain employees engage in fraudulent behaviour,” he said.

The most common types of fraud encountered by Dr Johnson during this time were corruption, theft and manipulation of records, committed by employees at all levels of the organisation. Major contributing factors included a generally low level of employee job satisfaction, a lack of mutual respect between staff and management, and poor working conditions.

### THE FRAUD TRIANGLE

In pursuing his research, Dr Johnson wanted to find out how national culture impacts on the likelihood of fraud in the context of an NGO. This led him to look also at organisational culture and at the “motivations” and “rationalisations” that can lead to fraud.

The research took as its starting point Cressey’s Fraud Triangle, which is the foundation of contemporary fraud theory and helps understand why fraud occurs. The three original components of motivation, opportunity and rationalisation are what can drive an individual to commit fraud. Motivation plays a significant role in workplace fraud and is closely related to workplace conditions and employee satisfaction. While an individual’s honesty and integrity play their part, the literature shows that most employees, in any given culture, can be persuaded to commit fraud in certain situations,



especially if it is encouraged and condoned in a particular workplace. Rationalisation is when an individual feels able to justify fraud because of perceived unfair treatment, for example if they feel they have an inadequate salary or should be entitled to certain extra resources and “unofficial perks”. In other words, they morally justify the act to themselves so as not to feel like a criminal. The Fraud Triangle has also been refined further by academics who speak of the Fraud Diamond, which is extended to include the capability of the fraudster to trick the system.

Dr Johnson set out to find out how this theory works in a poorer region. He learned from his study that culture is key. Here he took into consideration national and organisational cultures, and found that Asian and developing countries differ in a number of ways from more developed countries such as the US, Canada, the UK and Australia. Several points emerged, among them that a lack of integrity is a key determinant of employee fraud, that situational factors are a key determinant of employee behaviour, and that organisational culture is a major determinant of employee fraud. If the culture allows certain negative behaviours to go unchecked, the door is more likely to be open to fraud.

Because of the sensitivity of this subject matter, Dr Johnson has asked that the organisation and region remain anonymous. “Fraud is a sensitive topic. A lack of integrity, situational factors, honesty and morals are relevant to both the West and developing

countries when explaining fraud,” he explained.

His research, which was an in-depth case study, asked local employees in the NGO to complete a questionnaire, or “census”, using SurveyMonkey. The NGO, set up in 2004, has one of the largest community outreach programmes in the region and prides itself on its core values of accountability, innovation and integrity. International donors insist on detailed reporting requirements and external audits to deter fraud. The census was followed up with focused interviews with employees and managers in all departments. All the research interviews were undertaken at the NGO’s head office in the capital, which staff from the districts travelled to for their monthly visits.


### THE IMPACT OF FRAUD

Dr Johnson wanted to develop a deeper understanding of the motivations, rationalisations and cultural aspects surrounding fraud in this single organisation. The census provided a rich picture of what the employees believed about various motivations and rationalisations regarding fraud in their workplace. The NGO has dealt with many forms of fraud over recent years, including nepotism,

forgery, fictitious expenses, manipulated financial and non-financial documents, misuse of the organisation’s assets, and theft.

“It is difficult to quantify the impact of these frauds, but the cumulative effect is certainly material. Frauds are typically discovered by the finance team or management, and have involved a wide variety of employees. One part of the issue is the common and limited definition of what constitutes fraud, which is often restricted to misappropriating cash or other assets. It is highly likely that many instances of fraud go unreported or are quickly dismissed as not fraud,” he explained.

“Based on my experience investigating numerous fraud cases in the region with multiple organisations, I realised it was highly unusual to get honest responses from the perpetrators (even if proof exists of their wrongdoing); therefore, interviewing the perpetrators would likely be unreliable. I took a more indirect approach by asking a wider audience about fraud in general, and this was deemed to be a more realistic and reliable approach to my research,” said Dr Johnson. ➤

 **Fraud is a sensitive topic. A lack of integrity, situational factors, honesty and morals are relevant to both the West and developing countries when explaining fraud.”**





THE FINDINGS

What Dr Johnson found was a deep-seated cultural issue: an expectation to be loyal and follow those in charge – such as the government, police, elders or managers – and a belief that this should be done without question, even if employees disagree or it seems illogical. Showing disagreement, especially publicly, is considered disrespectful. In the NGO, it is important for staff to follow managers’ instructions and show loyalty. This can be problematic, however, if a manager is dishonest or fraudulent.

The census indicated that working conditions overall are quite good, and that there is a fairly high level of job satisfaction, which limits the likelihood of employee fraud. It was also clear that the organisation is firmly focused on achieving great work results. As a consequence, the work environment is cohesive: everyone is focused on the same objective. The research found that (generally speaking):

- management treats employees well;
- employees are happy to work;
- there is mutual respect throughout the organisation;
- employees receive good support and sympathy;
- there is good, two-way communication;
- salaries are sufficient and fair;
- people are honest; and
- management enforces a zero-tolerance policy for fraud.

However, not all employees experienced a high level of job satisfaction, and several undesirable aspects of the organisational culture increased the likelihood of fraud. These include that:

- some employees perceive a lack of support and sympathy from their managers;
  - managers often become angry with their staff, which includes shouting;
  - many staff feel their salaries are unfair in some way; and
  - most employees feel stressed at work.
- Employees who perceive such undesirable aspects of an organisation’s culture are more likely to commit fraud.

DR JOHNSON’S RECOMMENDATIONS

To mitigate fraud risk, Dr Johnson recommends addressing issues that negatively impact employees’ perceived motivations and rationalisations. By doing so, management will likely increase employee satisfaction and also achieve what they desire above all else: better work results. However, he emphasises that there are many things the NGO already does well to limit perceived motivations and rationalisations. “There is already a fairly high level of employee satisfaction, as existing working conditions go a long way to keeping fraud to a relatively low level. Management should be commended for creating a generally positive and productive organisational culture.”

His recommendations are meant to be practical and culturally appropriate, and include the following.

1. Management should display the behaviour they desire to see from employees. This includes applying the rules to everyone, and always showing respect and consideration.
2. Management should seek regular feedback from employees, genuinely listen and respond appropriately.
3. Managers should be encouraged to be proactive, supportive and helpful when their staff members encounter work problems, to ensure that work plans are achieved.
4. Managers should ensure that their staff are properly resourced to achieve success, for example by ensuring everyone has appropriate transportation to fulfil their duties.
5. Managers should show more sympathy and support for employees’ personal problems, for example by facilitating appropriate leave.
6. Managers should practise being more calm and patient with their staff, and try to avoid showing anger.
7. Management should adapt the salary scale to account for other relevant considerations, such as workload and responsibilities. Salaries need to be comparatively fair throughout the organisation.
8. Management should incorporate relative weightings into annual performance evaluations to better align priorities to employee evaluations and to ensure performance targets are realistic.

These recommendations could be applied to many NGOs to help them in their fight against fraud.

“This research has brought together components of several fraud models and shown the relationship to national and organisational cultures, but applied them in a unique, non-Western context. In addition, this topic is of great importance in Southeast Asia, as organisations attempt to diverge from a national culture that is characterised by widespread fraud and corruption.

“Unless organisations better understand the way the fraudster thinks, they will be unable to properly mitigate their fraud risk. If an organisation has a better understanding of the factors that lead to fraud, it can take an offensive stance against ... fraud with a clear plan that limits the opportunity for fraud and minimises the impact when fraud does occur. Such anti-fraud measures can be described as efforts at prevention, deterrence and detection.”

Dr Johnson would like to thank his supervisor, Professor Pauline Gleadle, for her support and guidance throughout this research.

*UNDERSTANDING EMPLOYEE FRAUD: A Case Study in Southeast Asia* by Steve Johnson. Submitted for the degree of Doctor of Business Administration, Edinburgh Business School, Heriot-Watt University, May 2017.

The Fraud Diamond

In 2004, Wolfe and Hermanson published *The Fraud Diamond*, which adds a fourth component to the Fraud Triangle: the capability of the fraudster. They argue that many frauds would not have been committed had the fraudster not had the requisite capabilities (in addition to motivation, opportunity and rationalisation). Based on 15 years of observation in the US, they suggest that capability, which includes intelligence, position, ego/confidence, and the ability to coerce, lie and deal well with stress, is a necessary condition for fraud to occur. This capability is more easily observed than motivation or rationalisation. Some academics suggest that the fraudsters involved in the Enron, WorldCom, Adelphia, Phar-Mor and ZZZ Best scandals were motivated by money, ego and entitlement. 🎲

What Heriot-Watt means to me:  
PROFESSOR ANDREW CAIRNS

# A passion for education



I was born in Edinburgh and have spent most of my life in this fantastic city. My father was a well-known Edinburgh actuary, and despite my best efforts to do something vaguely different (Maths at Cambridge followed by a PhD in Statistics at Heriot-Watt University) I ended up following in his footsteps as a trainee actuary working at Scottish Widows in the early 1990s. After a couple of years in the insurance business I spotted an advert for a lectureship in Actuarial Maths at Heriot-Watt University, and a few months later I was back at Riccarton.

ACTUARIAL EXCELLENCE

I am lucky that Heriot-Watt University has one of the world’s top actuarial departments for both research and teaching – even better is that this is my home town. This has opened up many opportunities, but as one highlight I might pick out a period in the 1990s when I and a number of colleagues were invited to run short actuarial courses in Eastern Europe and China: places that, back then, had no actuarial science base. As a young academic, that was a great experience. I used to joke: what’s the first thing a country needs when it emerges from the Communist era? Actuaries.

My current research is a modern take on the age-old actuarial problem of mortality. Most of us as individuals will see improvements in life expectancy as a good thing. But we also have to manage the financial consequences of this and prepare as best we can for a hopefully long and healthy retirement.

Our research team has access to a wide range of national and socioeconomic data sets, and, aside from general improvements, we



**PROFESSOR ANDREW CAIRNS**  
is Director of the Actuarial Research Centre (ARC), the Institute and Faculty of Actuaries’ network of international researchers. He is a professor of the Maxwell Institute for Mathematical Sciences, Edinburgh, and of the Department of Actuarial Mathematics and Science at Heriot-Watt University.

UNDERSTANDING RISK

In my university teaching I try to make sure that our students understand the practical relevance of what we teach them. As my career has “matured” I have seen more and more how good use of mathematics can have a significant, positive effect on how the financial sector manages its financial and demographic risks.

Much of what I do in my research and teaching is focused on making sure that this continues. Most of my research sets out to use good mathematics and statistics to tackle rigorously practical problems that the financial sector faces. I also put huge effort into communicating my ideas to industry professionals. Practitioners will never hesitate to question what I am proposing, but I love that sort of environment and often come



Most of my research sets out to use good mathematics and statistics to tackle rigorously practical problems.”

PROFESSOR ANDREW CAIRNS

can see how big the gap is between different groups in society. More shocking is the fact that the mortality inequality gap is widening in most countries despite the best efforts of governments to close it.

INTEGRITY IS KEY

I feel privileged that I have always been among a great group of people in the Department of Actuarial Mathematics and Statistics who have acted as a team and with great integrity – and this has been a source of inspiration for me in my approach to university life. Externally, I have had a number of role models, and, among other things, I’ve learned from them to aim high, to share ideas and to be open to ideas that I might not agree with.

away with my head buzzing with ideas for future work. Ultimately, I probably get the most satisfaction when I see the results of our research being taken up by industry.

There has already been considerable change in the academic landscape and in our teaching since I joined Heriot-Watt University. Focusing on the future, data science is likely to emerge as a key element of what we teach the next generation of actuarial students. 🎲



# CZECHS

## AND

# BALANCES

*in the workplace*



DR RON BODDY, who gained his doctorate from Heriot-Watt University in 2017, examines how the “psychological contract” impacts a financial institution in the Czech Republic and what it tells us about the world of work. Report by Kenny Kemp.

**E**ntry into the wonderful world of work begins with a contract between an individual and an employer. Typically, this is a brief written document outlining terms and conditions. Increasingly, however, academic researchers who seek to understand productivity and working habits point out that there is far more at stake – including the psychological interplay between worker and supervisor.

As the Millennial cohort is repeatedly told, there is no such thing as a “job for life”; companies must understand how vital workplace relationships can be built and sustained by better models. This field of study, where the psychology of the worker meets business leadership, is increasingly relevant for organisations. The rules of employment remain largely unwritten, leaving plenty of scope for an individual to “interpret” them. This is constantly

evolving as an employee tries to develop a coherent view of their workplace. While this personal interpretation is unspoken, both parties – employee and employer – somehow share a common and mutual view of their respective obligations and expectations. But how does this work and how can it be improved?

This question is particularly acute in multinational organisations. Dr Ron Boddy, who has spent many years working at a senior level in international corporate financial institutions, decided to delve deeper into this cross-national cultural dynamic. The purpose of his research at Edinburgh Business School, Heriot-Watt University, has been to investigate how workers in a Czech financial services company

construe their “psychological contracts”. His case study and its findings have implications for the wider debate about the psychological contract.

Ron Boddy spent several years working with Barclays Bank, setting up its credit card business in a number of European,

African and Asian countries, where he was exposed to different cultural approaches to work. He then went off to pursue his entrepreneurial interests by starting up and running a scuba-diving business in Borneo. After a few years, he was ready for a fresh challenge and decided to return to financial services, mixing his business career with distance learning. He gained his MBA at Liverpool University Business School and then went to work for a multinational

 Czechs have a unique view about the reciprocal employment exchange.

Personal constructs of work, influenced by a culture rooted in central control, appeared to play a powerful role in defining the work dispositions of the staff concerned.”

financial organisation in Eastern Europe.

“I had a choice of two places for my further research. I looked at what was on offer and I could have gone back to Liverpool on a two- or three-year programme, but I chose Heriot-Watt. The course was longer but it offered a Postgraduate Certificate in Business Research Methods prior to the doctoral work. I was taken with the content of the course, and although it meant more work, it was something I wanted to get my head around.”

Dr Boddy felt the subject matter of the course – and particularly the statistical component, which gave him the grounding to investigate the psychological contract – was excellent.

#### THE BACKGROUND

For more than 500 years, what is now the Czech Republic was subject to the rule of other nations. The failed totalitarianism of the most recent hegemony, that of the Soviet Union, precipitated the Velvet Revolution and the Czech adoption of the market economy in 1989. Some commentators, however, have argued that unproductive work attitudes remain as a legacy of the command economy.

Dr Boddy’s research uses concepts from personal construct psychology to compare the work constructs of Czech and non-Czech staff within the Czech and UK subsidiaries of the same company, examining the influences of national culture and individual experiences on psychological contract formation and development. The case study is a Western financial services business, a subsidiary of a larger industrial corporation that made an acquisition in the Czech Republic in 1997.

Czechs appear to value independence much more than non-Czechs, with young Czechs being particularly clear about the importance of social justice and the right to self-determination. The findings make a strong case for these values having their origins in national culture and history. Following the Velvet Revolution in 1989, the Czech Republic moved rapidly from a command to a free market economy. Capitalism had an easy run until the credit crisis in 2008.

“All the financial services companies were troubled by the 2008 market dislocation. The Czech company responded by locking down its risk, compliance and regulatory processes, invoking tight central control. This situation persisted and progressively tightened as the downturn endured,” says Dr Boddy.

Although strong fundamentals helped Czech

financial institutions emerge from the global financial crisis relatively unscathed, the country still experienced a mild double-dip recession, with GDP falling in 2009 and 2012, and consumer confidence mirroring its performance. Consumer credit-taking fell during 2011 and 2012, down from annual pre-crisis growth close to 20%. The business reduced costs to compensate for falling income and embarked on a series of lay-offs and cost-savings. “There were rallying calls from senior management – at annual staff and regular leadership meetings and in frequent corporate communications – for greater intensity and application. The response was muted and cynical. Only a small number of staff engaged positively, while the majority continued to follow pre-recession patterns of work.”

#### SOLVING THE CZECH PUZZLE

Dr Boddy was puzzled as to why Czech workers were not responding to the encouragement of leadership. These observations led to the broad hypothesis that Czechs have a unique view about the reciprocal employment exchange. Personal constructs of work, influenced by a culture rooted in central control, appeared to play a powerful role in defining the work dispositions of the staff concerned, standing in marked contrast to the Western corporate culture espoused by the organisation.

“They were a bunch of bright, well-educated people working for a prestigious international organisation. The company had a million customers, a substantial slug of the market and, like all similar businesses, a difficult challenge. It would be Friday at 4pm and many people had gone home. I wondered why this was happening,” says Dr Boddy.

This became the genesis of the research. Looking to personal construct psychology (PCP), allied to social constructivism, Dr Boddy proposed to examine how workers in the company construe their psychological contracts in relation to their UK colleagues. PCP provides a means of identifying individual constructs of work that can then be analysed and compared. This is significant in determining the relationship between individuals and their employers, given that the psychological contract is an implicit, largely unspoken, understanding that creates an expectation among employees about the “deal” on offer. A growing body of evidence suggests that culture can materially influence how such contracts are construed. For example, factors such as trust, organisational commitment, perception of obligations, responses ➤



**Reciprocity,  
trust and power**  
are all influential  
elements of the  
psychological contract."



#### Trust and Power at Work

Reciprocity, trust and power are all influential elements of the psychological contract, in which both parties trade their capital to benefit their counterparty.

The asymmetric distribution of power within the relationship is likely to increase employee sensitivity to a breach of trust. As such, the psychological contract is an ongoing social exchange, sustained by continuous acts of faith on the employee's part and normalised through acts of reciprocation by the employer, within the context of a power distribution that favours the latter. It is not a meeting of equals.

Construal of the contract is likely to be influenced by the employee's own constructs of equity and fair play, giving it a very personal skew. Understanding these constructs is essential to understanding how the individual construes the psychological contract itself. ☺



DR RON BODDY has worked in product development and marketing at director level in a number of major global financial companies. He worked in Prague from 2012 until 2016. He also set up a tourist company in Sabah, Malaysia, and is a PADI Master Scuba instructor.

to breaches, and job insecurity are shown to differ according to the nationality of the contract holder. This made it appropriate to include the social construction of work in the research.

Dr Boddy looked specifically at how national culture influences the parameters of the psychological contract. In his previous international work he had witnessed attitudes to work that were clearly cultural in origin, such as in Japan, where decisions are never taken in meetings without consensus and there is a formal etiquette that dictates who attends and can speak at meetings. This kind of formality is less evident in meetings in the US or Europe.

Dr Boddy was introduced to the constructivist theories of George Kelly, who argued that we all perceive the same reality in entirely different ways. Kelly identified certain corollaries to his theory, two of which – “commonality” and “sociality” – are concerned with understanding and empathy respectively. They can be seen as a basis for social psychology and, through the lens of social constructivism, as a means of transmitting values and meaning. Kelly's findings suggest that culture and personal values such as trust, honesty and integrity have both a formative and an ongoing influence on constructs of work, and are manifest in an individual's psychological contract.

#### WHY PERSONAL AMBITION IS FROWNED UPON

Dr Boddy used Kelly's Repertory Grid Analysis to conduct 40 interviews, featuring questions that explored various iterations of individual psychological contracts to elicit the values of both Czech and US/British workers for comparison.

The findings show that the cohorts construe work with direct reference to their own experiences and cultural values. Czechs tend to have a simpler construct of work: a legacy of both an egalitarian ethos as a cultural value and the experience of a totalitarian environment where inequity and inefficiency compromised the relevance of work.

“The values placed on personal ambition and achievement by the Czech and non-Czech cohorts respectively sit at opposite ends of the same continuum. Czech values (associated with independence, workplace harmony and relationships with seniors) and the relative lack of meaning found in work by Czechs stand in stark contrast to the non-Czech sub-sample, who appear to construe work as a part of individual identity and synonymous with personal success. In consequence, the Czech cohorts have much more simple constructs of work than the non-Czech groups, suggesting it is imbued with less meaning,” Dr Boddy stated in his thesis.

The issue of personal achievement and ambition was missing entirely from the Czech cohort, who were much more collaborative in a cultural sense.

“Personal ambition, which was prevalent in the US and British cohort, did not really register in the Czech surveys. The Czechs are very entrepreneurial, but they don't like individual ambition. During the Communist years, the party faithful were rewarded with senior jobs regardless of their abilities. They tended to be viewed disdainfully by

the workforce and were culpable to a large degree for poor productivity,” says Dr Boddy.

The responses from younger Czechs, however, suggest that values are changing and the cultural paradigm is shifting. Specifically, younger Czechs have expectations of self-determination and social justice that would not have been seen during the Communist command economy. For the older workforce, however, legacy values from the previous generation still persist.

Understanding cultural influences and the way they contribute to the psychological contracts of different nationalities in multinational organisations has the potential to increase cross-border cooperation and prevent misunderstanding and conflict. Dr Boddy's suggestion is that specific training on cultural sensitivity for senior management might be helpful, to equip individuals to manage cross-border relationships more effectively. He also recommends supervised team interventions to share cultural understanding and agree ways of working, including clarification of guidelines for navigating cultural considerations and even the creation of “cultural manifestos”.

In further recommendations, Dr Boddy suggests that similar organisations wishing to establish a Czech subsidiary would benefit from remaining mindful that work is perceived as less engaging by Czech employees, and could draw on the Czech desire for workplace independence and harmony to increase meaning by:

- introducing mentorship and support programmes, pairing junior staff with more experienced counterparts;
- promoting short-term attachments to other teams for specific individuals, enabling them to develop their technical skills and inter-company relationships;
- actively arranging extra-curricular, “fun” activities such as sports events and company parties.

“What I found was that people in general have more in common than sets them apart, but there are cultural constructs that business leaders need to be alert to and understand more fully. The difference is in nuance rather than in massive rifts. Also important are the social qualities of work, such as team dynamics and the cultural environment: everything to do with social behaviour and activity,” he concludes.

In conducting his research, Dr Boddy was advised by several Heriot-Watt academics. “Academically, I am indebted to Dr Helen Cullina, who gave generously of her time, as both collaborator during the analytical phase of the research and as a ‘friendly ear’ at other times. I can't find the words to praise Professor Devi Jankowicz adequately. As dissertation supervisor he was an expert guide, gently and capably steering where necessary, helping me to overcome obstacles, and challenging me when appropriate.” ☺

*The Antecedent Roles of Personal Constructs and Culture in the Construing of Psychological Contracts by Staff in a Czech Financial Services Company*, by Ronald Boddy, Submitted for the degree of Doctor of Business Administration, Edinburgh Business School, Heriot-Watt University, September 2017.

## An emotional engagement for the Dean



**DR AYODELE AMOS OLUJIDE** reports on Edinburgh Business School's growing importance in Nigeria and how **HEATHER MCGREGOR** made a vital impression in her former homeland.

**A**s we drove from the airport in Lagos towards Victoria Island, Heather McGregor, Dean of Edinburgh Business School, unveiled her Nigerian roots to me. She recalled, with nostalgia, her days as a young girl living with her parents in northern Nigeria.

Like any diligent press man, I wasted no time in bringing out my notebook and pen to document the all-important story, which I knew every single one of the 500 current Nigerian students of Edinburgh Business School, as well as the 300-plus alumni, would love to hear.

At last, it was the turn of Executive Development Centre (EDC), the Approved Learning Partner of Edinburgh Business School in Nigeria, to play host to the boss herself. I said to myself: “This will be an October to remember for a long time.” My team and I at EDC are proud of our association with Edinburgh Business School, with its tentacles all over the world, a relationship that we have nurtured for the past 10 years.

Professor McGregor first visited Lagos as a five-year-old girl in 1968, arriving with her parents on a ship from the UK, together with their new car, which they then drove all the way to Sokoto, stopping over in Ilorin. Her father, Peter Gosden, had lived in Nigeria since pre-independence days, and worked for the Nigerian government as the principal agricultural officer of the northwest region. Heather was home-schooled in Sokoto until the age of eight, when she was sent home to boarding school in the UK, thereafter commuting back to Nigeria once a year via Kano Airport. Later on, when Heather's father was posted as an agricultural officer to a development project in central Nigeria, the family moved to live just outside Jos, in the present Plateau State. In fact, for a moment, I thought to myself that it was likely Heather had been to more parts of Nigeria than me, despite having lived here all my life.

One of Heather's most vivid childhood memories was the day that Nigeria changed to driving on the right-hand side of the road, when many people were frightened about venturing out in their cars. Her parents extended their family

by adopting two Nigerian girls, one in 1968 and one in 1971, so Heather has one Hausa sister and one Yoruba sister. All three girls were educated at school and university in the UK and now live there permanently. Heather last visited Nigeria 30 years ago, when she was 25, and was very excited to be returning after such a long break.

I could not imagine any other way I wanted the four-day working visit of such an important figure, a woman of diverse skills and ability from our cherished Edinburgh Business School, to start. I was still pinching myself that the Dean herself was coming to visit.

Heather's visit to Lagos got off to a flying start with a short radio interview in which she spoke about Edinburgh Business School and Heriot-Watt University. We received many phone calls at the office asking about courses after listeners heard Heather on the airwaves. That evening, employed and unemployed young and middle-aged professionals came in their numbers to our employability seminar. This was followed by an information session where Heather and I made presentations to professionals and senior managers about the benefits of Edinburgh Business School's portfolio of programmes. The second day began with a breakfast meeting with corporate Nigeria. We welcomed recruitment, talent, human capital, and learning and development managers from a wide range of sectors. The Dean engaged with the audience during a lecture about how they could prepare and position their employees as tomorrow's business leaders for tomorrow's markets. She seized the opportunity to recommend the School's various programmes for their employees, emphasising the huge benefits. A major evening reception was given for students and alumni in Nigeria. It was the biggest event we have ever hosted as we welcomed over 100 guests. Heather brought her good wishes and spoke passionately about her dreams and plans for Edinburgh Business School, as well as providing support for the work EDC is doing on behalf of the School in Nigeria.



The entire gathering was full of energy as we engaged in lively discussion. The event also provided a unique platform for students and alumni to interact, catch up and network. Heather's visit was rounded off on the third day with a well-attended seminar on empowerment for women entrepreneurs. With presentations by a successful entrepreneur alumna and another key female entrepreneur in the agribusiness sector, the audience was highly impressed with the speakers. Heather spoke about the need to develop social capital over and above human capital because this becomes more important as one climbs the professional and experience ladder.

Heather's meeting with senior officials of a leading financial institution in Nigeria led to the enrolment of several of the firm's employees on the School's flexible online MBA and MSc programmes. We are now in discussions with other corporate organisations to extend programmes to them.

#### EXPANSION IN LAGOS AND ABUJA

An important part of Heather's mission was to inspect our teaching facility in Lagos and to ask questions about our expansion plans, which we had discussed with the School throughout 2017. The recession Nigeria experienced during 2016 and 2017, following dwindling petrodollars and the devaluation of the naira, impacted student enrolment in no small way. The foreign exchange problem reached its peak when it became practically impossible for current and prospective students to source forex for tuition payment. The government, after several months, then started a weekly intervention of providing dollar liquidity in order to lessen the problem. While the economy is still in a fragile state in 2018, the appropriate government agencies are keeping a tab on the economic indices to ensure we do not go into recession again. The improving economic situation has brought enrolment back up, although not yet to the pre-recession level.

With support from Edinburgh Business School, we commenced the remodelling and expansion of our Lagos teaching facility to enhance the student learning experience.

We have remodelled the old facility and expanded with two new classrooms with a combined capacity of 40 students. We hope to expand the Lagos facility further with a digital library and study room as well as additional syndicate rooms during the summer of 2018. We have equally secured a good facility in Abuja as we focus on re-establishing our presence in the capital to attend to the increasing demand by professionals in the city who are in search of the kind of high-quality and flexible postgraduate management programmes available with Heriot-Watt University. The Nigerian market is an important one for EDC and Edinburgh Business School in the African region, and we are well positioned to extend the top-grade academic training that the University affords her 30,000-plus students the world over.

#### SOME ACADEMIC COMMENTS

Onyinye Okoli, who recently completed her MBA with distinction, said: "When I decided to take on a master's programme, I needed one where I could keep my job and easily switch roles upon completion. Then distance-learning became an option and I considered which online postgraduate degree would carry weight. I found out about Heriot-Watt University's Edinburgh Business School and discovered that its MBA was recognised worldwide, albeit not easy to attain. I chose to pursue this MBA because it was affordable and flexible, even in terms of course completion and examination timelines. The pay-as-you-go model works well. I registered and received my first set of courses and thought about how I was going to get myself to study each text. It was terrifying."

She said the EDC tutors are Edinburgh Business School alumni who are experienced managers and have passed through each course they facilitate, so they understand the student's needs. They are able to demystify complex aspects with practical examples that students can easily visualise.

"The facilities are very good and the learning environment will indeed make you want to study. Completing this programme has widened my horizons and career prospects. It has given me the knowledge to think strategically and analytically in the way I approach business problems. I now have a resolve that nothing is impossible."

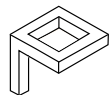
Chinyere Onwubiko, a financial services industry professional who recently commenced her MBA in Lagos, said: "The MBA programme has been challenging and exciting. I love the flexibility of completing a world-class MBA without having to quit my job or leave my home country."

She credits EDC with being a strong supporter on her MBA journey. On her first day at EDC, she was most impressed with the conducive learning environment as well as the excellent facilities. "The tutors taught with so much passion and expertise that I went to my first exam with much confidence, and the result was brilliant." She said the skills and knowledge she is developing from the courses have been very rewarding.

Timothy Jaiyeoba, an EBS-approved tutor at EDC, said Professor McGregor's visit to Nigeria was a big boost for everyone. "Her visit reassured us of the commitment to grow and develop the Nigerian, and the wider African, market. Student enrolment is on the up, and we have welcomed senior executives who contribute their rich and vast industry experience into the classroom. Student networking is also more effective than ever, as the benefits of being in a business school come to life. More importantly, the practical application of management theories to solving challenges and finding possible solutions brings new meaning to the complex world of work and society."



DR AYODELE AMOS OLUJIDE, an alumnus of Edinburgh Business School, has promoted the School's programmes in Nigeria as a regional ambassador since 2008.



#### ABOUT EXECUTIVE DEVELOPMENT CENTRE

Increasing access to higher education, including high-level business management skills, is a key mission for Nigeria, and Heriot-Watt University has cordial and long-standing ties with the nation. The University has welcomed many Nigerian students over the past 50 years. The region is an important and growing market for Edinburgh Business School, and in 2013 Executive Development Centre (EDC) in Abuja became one of the School's Approved Learning Partners. At present, EDC has around 130 active students, and 94 have graduated from its programmes. Dr Ayodele Amos Olujide, the director and founder of EDC, graduated from Edinburgh Business School in 2008 with an MBA with Specialism in Strategic Planning.

# TIME & TIDE OFFER ENERGY POTENTIAL

Tidal energy offers significant energy potential for the future. The moon determines the twice-daily ebb and flow of our global tidal system. Using astronomical charts, we can predict local tides very accurately.

THE WORLD'S HIGHEST TIDE IS IN THE BAY OF FUNDY IN CANADA, WHERE the difference between low and high tide can be up to



Over 50% of the UK resource lies in the Pentland Firth between Caithness and Orkney – one of the best sites in the world.

THE CHANGE FROM LOW TO HIGH TIDE IS KNOWN AS **FLOOD TIDE**

The technical term for the difference in water level is "tidal range".

THE CHANGE FROM HIGH TO LOW TIDE IS KNOWN AS **EBB TIDE**

AT PEAK AROUND **3,000,000** TONNES OF WATER PER SECOND

FLOW THROUGH THE 60M (196FT) DEEP CHANNEL OF THE PENTLAND FIRTH AT VELOCITIES UP TO 5M (16 FT) PER SECOND.

**75%** of the energy for capture is contained in the upper half of the water column.

AS WITH WIND ENERGY, A TIDAL FLOW'S ENERGY INCREASES WITH THE CUBE OF FLOW VELOCITY.

THE FLOW VELOCITY IN THE WATER COLUMN INCREASES FROM ZERO AT THE SEABED TO A MAXIMUM NEAR THE SURFACE – THE AREA WHERE DEVELOPERS WANT TO OPERATE.

THE UK HAS THE GREATEST TIDAL POWER POTENTIAL IN EUROPE – ESTIMATED BETWEEN

**5 & 16** GW

## HERIOT-WATT UNIVERSITY'S TIDAL ENERGY RESEARCH

The University's research separates broadly into the physical and engineering aspects of the tidal energy resource; ecological interactions with tidal energy; and the planning and socioeconomic aspects of tidal energy.

Understanding the physics of the resource (through modelling and measurement) underpins efficient and sustainable designs for tidal energy projects. For example, one PhD project (Mohammed al Moghayer, supervised by David Woolf with support from ETP and Aquatera) is exploring options to extract tidal stream energy from Hoy Sound to feed into the Orkney electrical market.

Ecological interactions (led by Joanne Porter and Mike Bell) include biofouling (Andrew Want working with the European Marine Energy Centre), connectivity between biological sub-populations (Hannah Millar working with Marine Scotland Science) and interactions with commercial fisheries (Matthew Coleman working with Orkney Sustainable Fisheries).

Kate Johnson and Sandy Kerr are interested in planning and "Blue Growth" (a long-term EU strategy to support sustainable growth in the marine sector, including tidal energy). For example, Stephanie Weir, a PhD Student, is investigating the ownership and governance issues raised by Blue Growth.

## THE RULE OF 12THS

states that in the first hour after low tide the water level will rise by 1/12 of the predicted tidal range in any given area. In the second hour, it will rise 2/12, and in the third hour, it will rise 3/12. In the fourth hour, it will also rise 3/12, in the fifth, it will rise 2/12, and in the sixth hour, it will rise 1/12.

## THE SEQUENCE IS 1-2-3-3-2-1

IF THE PREDICTED TIDAL RANGE IS 12 METRES...





On the

# iniquity *of* home brew

ADAM SMITH'S THOUGHTS ON THE SOURCES OF REVENUE, FROM THE WEALTH OF NATIONS, BOOKS IV AND V: "FERMENTED LIQUORS BREWED, AND SPIRITUOUS LIQUORS DISTILLED, NOT FOR SALE, BUT FOR PRIVATE USE, ARE NOT IN GREAT BRITAIN LIABLE TO ANY DUTIES OF EXCISE. **This exemption, of which the object is to save private families from the odious visit and examination of the tax-gatherer, occasions the burden of those duties to fall frequently much lighter upon the rich than upon the poor. It is not, indeed, very common to distil for private use, though it is done sometimes. But in the country many middling and almost all rich and great families brew their own beer. Their strong beer, therefore, costs them eight shillings a barrel less than it costs the common brewer, who must have his profit upon the tax as well as upon all the other expense which he advances. Such families, therefore, must drink their beer at least nine or ten shillings a barrel cheaper than any liquor of the same quality can be drunk by the common people, to whom it is everywhere more convenient to buy their beer, by little and little, from the brewery or the alehouse."** Several pages later, after discussing the taxation of malt, he concluded: "The only people likely to suffer by the change of system here proposed are those who brew for their own private use. But the exemption which this superior rank of people at present enjoy from very heavy taxes which are paid by the poor labourer and artificer is surely most unjust and unequal, and ought to be taken away."



ADAM SMITH

*Economist, philosopher and author.*

1723–1790