



## **Analysis of Barnett Report & Reaction to it**

Improving NI Economy

The Barnett Report created significant reaction and righteousness but was it justified and if so in what context? The following analysis indicates that the responsibility for developing the NI economy rests not on Invest NI or DETI but on all our shoulders and we need to act now.

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## Premise

With the release of the Barnett Report many people saw a veil of opportunity to flood their frustrations (rightly or wrongly) whilst simultaneously throwing their weight behind specific recommendations (agendas?). By commenting now, I hope to avoid hysteria and analyse it in the cold light of day. Without regurgitating the Barnett report (or more precisely the Executive Summary) or its recommendations, I would like to place Invest NI, the report and its comments in context.

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## Objectivity & Constructive Value of Comments

- Have you read the full [Barnett Report](#)?
- Have you provided evidence for or feedback on the Barnett Report?
- Have you benchmarked Invest NI against other public bodies in NI or comparable Investment Agencies in other countries?
- Have you commented on DETI as much as Invest NI?

Without a yes to all four answers, how meaningful and objective can comments or criticisms be? This is not to discredit comments but more to put them in perspective.

The Barnett Report had a panel of 5 distinguished authors with admin staff, spent 9 months researching, and taking evidence from almost 50 parties before publishing their report. If such an esteemed group were to spend the equivalent time on our own businesses and organisations, what light would we be shown in? How would we react if the details were made public? We all have made mistakes and know areas for improvement and would not like our examination exposed to the public.

Although it is a public organisation and thus public money, are we comparing it with other public sector organisations or some utopian private sector provider? No doubt many public sector bodies thank their lucky stars that they have not been the recipients of such scrutiny. Barnett uncovered many faults and has made recommendations, and thus we can feel entitled to better service in the future, but what other factors influence the economy?

## State of NI Economy

- NI has an unemployment rate of 7%, this [compares favourably](#) to OECD 8.6%, UK 7.9%, Germany 7.7%, France 9.9%, Euro 9.6%, USA 9.8% and Ireland at 12.4%.
- Queens University has just been announced the [most entrepreneurial](#) in the UK, generating most turnover in UK.
- NI has 11 companies in the [Sunday Times Top Track 250](#) 50% more than the UK average on a per capita basis
- Many of our enterprise centres are full or near capacity, and NI has just attracted some of the biggest names from Silicon Valley through ITLG to NI for a weeklong visit

So it may appear that the NI economy is strong, and if measured on this basis Invest NI is doing well (and indeed compares favourably with other regions) - but as with everything it is perception and statistics. Whilst contemporaneously having low unemployment, our economically inactivity rate is 29.3% compared to 21% for the UK. Our productivity rates our 20% behind the UK, which are in turn 20% behind France (with their 35 hr working week). Thus our economy has long-term endemic structural problems, symptomised best by our net loss of £7bn a year (£16b cost, £9bn receipts). **NI is not a business or an economy it is a charity.** How much of this can be left at Invest NI's door?

What roles do the enterprise agencies, Councils, sector organisations, representative and professional groups, and Universities play in the economy? What about the banks, surely the engine

and catalysts for private sector business growth, how would you measure their performance over the last few years?

100 years ago, Belfast had the biggest ship building, biggest rope making and biggest linen industries in the world. Belfast was a busy industrial city that led the way in many respects, but where are we now? Why does the cream of NI talent often feel they have to leave to maximise their opportunities? Why is there so little push or necessity to create businesses, have we too much of a safety net? Where is the drive to provide additional value, perform better services, faster, more effectively, and cheaper? Are we too insulated from the real world and happy to accept such low levels of economic inactivity? How come so many other countries have passed us by?

## NI Political & Media Leadership

- NI has 11 Government Departments, 26 Councils and over 80 Quangos
- NI Government has 92 press officers and more advisors than the White House
- NI has more community, voluntary, advocacy NGOs per capita than anywhere else in the World

Getting anything done within NI often requires significant Political and political skills matched by bucket loads of Persuasion and patience. Our government central and locally are devised not on economic or governance principles but on political lines. The recent employment of not one but four victim's commissioners on full pay provides open evidence of political expediency winning over economic efficiency. Our politicians and departments are well versed in generating strategies, grand visions and using buzzwords but behind the gloss – what are the leading political parties' economic policies? How do they suggest we improve our productivity and economic sustainability?

The unwillingness to make hard choices over water rates (revenues £400 - £900m) haunt us now that £370m needs to be found, providing further evidence of playing popular politics over unpopular budget balancing. Is anyone willing to bet that we will get a single Department of the Economy? Which politicians can ideologically or publicly support wealth creation (e.g. serial entrepreneurs) in the few as opposed to short-term mass job creation (with limited long term prospects)? Can our politicians really win over conglomerates willing to move where the labour cost, tax incentive, grant inducing host country wind takes them?

What of our media - surely they will hold NI to account on economics? Yet with more press officers (ex-Journalists?) than existing journalists and with many hacks looking towards the future (Newspaper industry trends v potential lucrative govt press officer post plus pension) who will stick their head above the parapet? But what of editors, publishers and printers surely they will push the economic argument... given the massive public advertising (jobs, notices, adverts) and lucrative publishing (how many updates, newsletters or annual reports are not on full colour gloss), who with one eye on their very own balance sheet won't pick personal economics over national economics every time?

## Community Economic Development

And what of our crusading community sector, where as all this Peace Money got us??? Peace (I, II and III, maybe IV?) was supposed to wean community groups off funding and deliver sustainability and economic development. After 15 years and at least £1.5b in funds (and [£500m](#) more to 2013) how many sustainable jobs do we have? Where is the net boost to the NI economy? If anything (with

a few great and noteworthy exceptions) much of NI's community sector has become more compartmentalised and funding orientated than dedicated to economic viability (reality?). Groups will no doubt complain that the money was aimed at more than economics. Yet with the new Noble report due next year how many are confident that it will highlight tangible improvements in reducing deprivation?

The Barnett Report outlines the role of Social Economy Enterprises (s4.2.3) and recommends further research. Given the scale of the social and community sector in NI and the potential for social economy sector to involve volunteers and respond to local need, this is something that should be supported. There is also a great skills base within this community that should be supported to transform their thinking from funding dependency to diversifying their revenue generation. Also move from eternally chasing funding and form filling to developing skills, services and sales.

Many of the 'disgusted' comments focussed on the percentage of funds that went to just 10 (30%) and 30 (50%) companies, yet who within NI can take the moral high ground and not say they wouldn't have taken advantage if they had known?

## NI Culture, Fame & Risk Aversion

NI has traditionally been a more conservative and risk adverse attitude, this is prevalent in respect of:

- Public attitudes to business failure (and even too much business success), bootstrapping, asking for help and paying for services
- Public sector attitudes to pension protection, public accounts committee and freedom of information posing great restrictions on performance
- Private sector start-up thinking how can I get funding before how can I get sales and considering NI business environment as parochial competition rather than possible global co-operation (how many businesses have sought sales from outside NI?)

In practical terms there can be an abyss in terms of outlook and attitude between those with lifelong public and private sector backgrounds. Investors and VCs know (accept?) from experience that at least half (56% according to latest research) of the businesses they invest in will lose all of their money. In fact their economic model assumes 1 in 7, sometimes 1 in 10 will actually strike it big, yet overall historic performance shows they can still expect average returns of 17 – 22%. That is a gamble they are willing to take, but what public sector representative in the same position would make that decision and is it right that they should be placed in that position?

Our history and position afford us great advantages, we receive more visits from the most senior US, UK, Ireland and European politicians (e.g. Hilary Clinton) than any other region by a significant margin. We are part of the largest diaspora in the World who are willing and able to help. We can switch between Ireland and UK identities when needed to boost business. We have more funds, more friends and more fame than any other comparable region in the world.

We have a tendency to complain, but we have probably more support in terms of funding streams, diaspora, spectrum of assistance (EU, International Fund for Ireland, Atlantic Philanthropies, Invest NI, NI Screen, etc), tax advantages (e.g. EIS) than any other region in the world. So what is it we are missing?

- In light of our true potential (quantitative and qualitatively), how do we measure up?

- What can we learn from others (the Barnett Report should look at the [Farmleigh Report](#)) at maximising our true potential?
- Rather than reiterate perceived gripes with the system, how do we intend to move forward – what are we as individuals, businesses, public & community sector organisations and politicians willing to do ourselves?

## NI Economic Development Role, Aims & Culture Clash

Invest NI Client Executives come face to face with those bootstrapping entrepreneurs with an idea, ambition and early business model. The extent of the clash is probably never fully understood by Invest NI. Entrepreneurs or more accurately wannabe-prenuers see barriers, bureaucracy, and pages of forms from a person often with less private sector experience, working fewer hours in a nicer building, taking home better pay, secure pensions and expenses and often with less specific knowledge on their product (as expected).

There is no way for a client executive to know what it is like from the wannabe-prenuers perspective without having been in their shoes. This is a problem shared with banks and only adds to the sense of solidarity among start-ups, even leading to a creation of a 'them and us' scenario for some. Banks and Invest NI often take a conservative approach with business plans, yet many US investors say they have to multiply a NI business plan sales forecasts by 5 yet reducing a US business plan by half (©David Kirk). The extent of this clash and the significance personality's play in antagonising this further on both sides has also not fully been addressed.

The rationale for specific Invest NI clients has been addressed within the Barnett report. Like many previous reports (there have been supposedly at least 10 previous economic reports commissioned by the NI Government dating back almost 60 years) and other recent strategies the focus has been on innovation, smart economy, creative, tech and bio industries etc. Yet if we look at the [richest](#) (as an objective measure of success) people and companies in the world many (most) of them are in energy, minerals, finance, retail or large manufacturing not just tech and *pharma*. In fact many of them develop one business (business model) and then become successful serial entrepreneurs transferring their skills, resources and winning business model (convictions) to a wider portfolio of interests and markets. Let us not repeat the mistakes of [neighbouring development agencies](#) in creating expensive empty 'hi-tech' units in spite of traditional local business needs.

Thus is it not the entrepreneurial skills (and environment) as opposed to industry sectors we should be focusing on. Driving better more efficient business, more productive businesses should be the goal at every level. Think outside the box, in terms of mobile phones look at the example of Carphone Warehouse (and Phones4U) rather than Spinvox. Would Car Phone Warehouse as a retail model been supported but look where it has led to? Would Dell have been set up (\$5,000 'car loan' to build his first computer) in NI if had to follow existing strategies?

## Role of Economic Partners

What about training and encouragement? Where do people get the entrepreneurial spirit? People will say universities, yet many of the most successful business people never went to University. University sets people up for professional life or feeds them into corporations and public sector not to be entrepreneurial. They may make a business better but they won't start a business. If you think

of the traditional self-employed people, shop keeper, tradesmen, sales people etc these are the ones working very hard and striving to succeed in business. Napoleon once described Britain as a nation of shopkeepers, what would he say today?

We need to be teaching entrepreneurial skills and examples in schools. Not from a teacher who reads it in books but by living breathing business role models. Tell it to the kids straight but excite, encourage and plant the entrepreneurial spirit, you are never too old or too young to start a business. What about the grey entrepreneurs, with [population of pensionable age](#) to grow by 32% over the next 25 years, should we not focus on those people who have skills, time, contacts and often resources to start or at least mentor young businesses?

Ah but people will say Universities educate our entrepreneurs of tomorrow and provide the R&D needs of today, Chris Horn comments excellently on the [difference between inventors](#), scientists and entrepreneurs and the need to punch above our weight, think global and make it in USA. Chris Horn (founder of IONA technologies) also comments that for all our university research it isn't that well connected to business outputs, citing that in the US only 8% of VC funds goes to University spin-outs. This is supported [by further analysis](#) which finds the University funds is for training and research not business. And this is Ireland with two universities rising up the [Top 100](#) in the World.

Ok, if not research well at least our universities provide the key skills to graduates? Then why when graduate numbers have increased by 35% in 12 years, Science Technology Engineering and Maths (STEM) graduates have [decreased by 20%](#) resulting in 140,000 IT positions requiring to be filled each year, with many industry organisations describing the situation as a [critical shortage](#). Research again shows that many businesses do not consider universities to be producing sufficiently skilled graduates, with more recent anecdotal evidence pointing to students not being sufficiently grounded in the reality of the business world. At school levels, whilst top grades become ever more common, the need to improve core and essential maths and English skills among young people is becoming a key issue for many employers and a barrier to economic growth.

## Economic Measurement

Are we even asking the right questions with respect to our economy, should we be looking at improving our ranking in the [Human Development Index](#) or reducing deprivation through the upcoming [Noble Report 2010](#) (consultation closing 06-Nov-09) or should we be monitoring the [well being of a population](#) over time as France is now seeking? Or should it be in terms of [global competitiveness](#)? And if so how do we measure up?

Should we scrap Invest NI and other economic development agencies and leave it to the VC markets? Apart from non-financial reasons, do VCs add up, some commentators calculate that VCs [actually lag the small cap Russell 2000](#) Index by 10%. In addition using the same [5-10 year growth models](#) (ie \$100m within 5 years) many VCs would have [missed Microsoft](#) and indeed some question whether in light of Twitter, You-Tube and Facebook whether [profitability](#) will even be required for future IPO's? If we don't have profitability or monetisation within a foreseeable timescale, are these really the businesses and business models we want to chase, would craigslist with 30 employees, bringing in \$100m dollars a year and providing a valuable service to tens of millions not be a better bet? Whilst it is important to aspire to high growth in 5 years time, (and for many investors Year 5 revenues appear the magic number) the focus should be on achieving \$1m in Year 1.

Should we measure output in terms of IP? What with rising costs to establish patent protection and even more extortionate costs to defend it, where is the value? and how effective is it actually against

piracy (or 'Free' expectations)? And with the US patent office having a backlog of over 1.2m patents and [taking 32 months](#) to approve existing patents and facing a [budgetary](#) crisis – is this really the road you want to be relying on? How many patents did Google have in the early days, none (by the way \$100,000 was its first round of funding)? Can we not just file a patent pending from €70 to capture a filing date and worry about it later?

Invest NI are not the only ones with an economic development role, there is probably over 50 other organisations (Enterprise Centres, Councils, Chambers of Commerce, Sector Organisations, and other wholly or partially public funded support organisations) in NI, not to mention UK or European organisations with responsibility towards business start-ups and economic development in NI. Again, any problem is beyond Invest NI alone.

## Summary & Recommendations

Full disclosure our company has received approximately £8,000 in assistance to date from Invest NI and hope to obtain more. I have dealt with several people in Invest NI who have been helpful and supportive. I would however always recommend that if you don't need their support, don't go near them (or other support organisations) as many issues raised in connection with Invest NI are due to expectations and time can be better spent on the business. Personally I think NI has too much money (public and private), it just needs better spent. Without duplicating the thoughts of [NISW](#) and Barnett report, my own solution would be as follows:

1. Create a portal for proven experienced operational, strategic and sales personnel to support NI businesses. Include the diaspora and develop boards of advisors, with the [Wall Street Journal](#) indicating that free boards of advisors can result in 88% increases in revenues for SME's
2. Give companies £10 - £20k within 3 weeks that will let them develop a business model, proof of concept and establish route to market (IP not an issue). This fund must be matched by value in kind contributions equal to 50% of total project cost.
3. Those who can establish above are within a further 3-6 weeks granted up to £100k to either bring business/product/etc to market and generate sales or secure investment (VC, Business Angel or Bank Funding). Value in Kind match funding criteria still remains.
4. In addition to above businesses must agree to set up board of advisors, aim for EIS and agree to match funding and [revenue share models](#) (to repay funds) as well as provide feedback and support to those start-ups below them in the eco-system. Businesses must get away from concept of grants at the earliest stage.
5. Funding is considered in terms of cash flow and not retrospectively. Funding is quick and secured by revenue share model agreement capped at return of 150% of original investment (ie if business does well, they repay 150% of investment to Govt, but if it doesn't do well then there is no debt and revenue is limited to that one project). Repayments also capped at an appropriate share say 33% of resulting revenues to ensure that the business has a sufficient cashflow while protecting the public's initial investment.
6. Support is provided to take care of non-core development activities, for example book-keeping, compliance issues, admin, possibly accommodation etc. Although sales, operations and development remain start-up responsibilities with marketing/PR an issue to be discussed between funder, board of advisors, relevant experts and founders.

7. Ensure no community, quasi public or sector organisation in NI is 100% supported by public funds as this reduces their need and desire to look for other income streams and makes them less protectionist and inward looking
8. All tenders for public work above £3,000 is tendered on a public site that is incredibly user friendly (think Apple), simply layout (think Red Beacon) and intuitively search friendly. Everyone is given a chance to tender for the work, tenders are objectively shortlisted and unsuccessful companies are given relevant feedback. This would transform the procurement environment, improve competition and lead to better services
9. Public sector takes on an investor approach to risk and investigate new models such as revenue share investment models (outlined above) that minimise risk, equity and debt.
10. Public sector limits their investment role (to bring businesses to a point that industry/markets/investors take over) and enhances their facilitation role with investors and businesses.
11. Public sector bodies need to co-ordinate more and fully appreciate the circumstances bootstrapping companies face. They also need to take on board more risk (if they truly want more innovation) and appreciate that this will lead to public failures.
12. They must acknowledge that sometimes it may come down to personalities and businesses should be offered more than one person to speak to or one avenue of assistance.
13. Public sector needs to encourage ideas, be able to work fast, engender more industry experience at relevant levels (secondments in industry and at start a business level) to fully understand SME needs
14. Businesses have to appreciate that Invest NI and others are not the solution to (or even the source of) all of their problems. Public sector bodies take time, they operate under many systems and structures that are inconceivable to those with no experience of the public sector
15. Schools need to be encouraged to be more entrepreneurial, and be given greater access to business role models and reminded of the need to work hard.
16. Businesses need support to use many of the free web tools (e.g. google analytics, Skype, Google docs, Microsoft technologies, Ning, Twitter, Blogs, elance.com etc) and benefit from good local resources such as [www.nibusinessinfo.co.uk](http://www.nibusinessinfo.co.uk) and services provided by BEN, NISP and President's Club. It is important that those outside Belfast receive equal support.

## Conclusion

I am learning in business and have made many mistakes, and am very lucky to have met with so many supportive people who have provided advice, encouragement and hard luck stories. I love being in business and when I see the talent, ideas and opportunities out there in NI I am in awe. I believe that NI has amazing potential but needs to appreciate the necessity to become economically viable and the burden is on everyone not just businesses.

Innovative and inspiring concepts such as OpenCoffee, BarCamp, etc should be promoted beyond the tech sphere; more places like Blick Studios should be created. Things can be done, low cost,

quickly that provide support and inspiration in equal measure. Actions speak louder than words, especially buzzwords.

To paraphrase the often quoted John Fitzgerald Kennedy “Think not what your country can do but what you can do for your country”, whether you are green white or blue it is in everyone’s interest to make NI economically viable and thus everyone has their role to play.

<http://mcgarryconsult.blogspot.com/2009/10/invest-ni-Barnett-report-reaction-review.html>

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