

GOVERNMENT POLICY AND INWARD INVESTMENT ATTRACTION IN SCOTLAND

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Introduction and Context

Foreign direct investment has played an important role in the development of the Scottish economy in the post war period. Accounting for over 90,000 jobs in Scottish manufacturing industry or around 16% of manufacturing employment, Scotland is marginally more dependent on investment from overseas than the UK as a whole (at around 15%). An important dimension of foreign direct investment in Scotland over the past ten years has been a substantial decline in employment in some of the long established plants of major corporations, especially those with mechanical or mechanical-engineering orientations. While the explanations of this trend are complex¹ the net effect has been a growing recognition that in order to

"guarantee stability of employment (in the foreign sector overall).... there would have to be continued pressure to add significantly to the 'feed-stock' of new entrants to offset the employment decline in the integrating and rationalising corporations".²

The problems in even attempting to maintain the existing overall employment levels in the foreign owned sector are substantial, given the recession conditions, reduced levels of foreign direct investment from the US, the dramatic increase in competition for mobile projects and so on.

It is perhaps not surprising, given this environment, that the past year has seen a growing interest in improving the effectiveness of Scottish efforts to attract additional, and develop existing, foreign corporations. Such an evaluation of Scottish practice is long overdue. Nor has this solely been of concern in Scotland since the Select Committee on Welsh Affairs has also been collecting evidence on the same issue in the recent past. The purpose of this paper is to make a critical appraisal of policy towards inward direct investment in Scotland. Having identified the crucial issues, the policy directions are considered in the light both of the findings of the Committee on Scottish Affairs (August 1980³) and of the Government response (March 1981⁴). Thereafter a proposed programme of action is examined for both the newly-established 'Locate in Scotland' (LIS) unit and for the UK as a whole over the next few years.

Policy Issues

As in other policy areas there is no universal agreement on either exactly which problems existing practice is failing to solve or on the direction of reform thereafter. The relative efficiency of Scotland in attracting inward investment (as compared to say Eire over the last five years) is one aspect of the problem diagnosis which meets with ready acceptance. Similarly the overall need to generate an unspecified amount of employment from international companies is a generally accepted, if rather crude, guiding principle. Recent re-examinations of policy have tended to take such questions as given and thereafter plunged into more pragmatic

considerations. This is a patently inadequate way to proceed. At the very least some clear employment and sectoral targets are required for Scotland and these should be set within an evaluation of the desired role which foreign and other sources of investment are expected to play in the economy. The recent policy focus has, however, rather been on more mundane but nevertheless important questions of organising the foreign direct investment attraction effort. Even this partial analysis of the issues has to be viewed in a framework. The thrust in this direction of the paper is therefore to stand back from recent policy initiatives and set out a model of the inward direct investment attraction process.

In our view a pre-requisite to any policy formulation on this question must be a structured analysis of the process of inward investment attraction; identification of its constituent elements and an evaluation of the adequacy of existing and potential institutional arrangements in effectively undertaking this process.

Figure 1 outlines what are regarded as its seven analytically distinct components. The basic presumption in our analysis is that under the competitive pressures for mobile investment in the 1980s, it is no longer possible to assume that the efficient operation of any one (or group) of these will adequately serve the job creation needs of the national or regional economy. For example, a number of these stages, especially numbers 1 and 2 (Figure 1) have traditionally been subsumed under promotion in more supply orientated conditions, whereas with an increase in the alternatives open to a reduced volume of mobile investment coming into Europe, a more selective and directed approach is obviously required. The success of some of our major European competitors would point to the merits of a strategy which was more planning-centred. In other words effective operation of each of the stages is essential, whether or not these can be located within the same organisation. The presumption behind Figure 1 is that in the British or Scottish context, it is inevitable that these functions will be exercised within a variety of national and local bodies. This is certainly not optimal and puts great pressure on finding a method of operating which minimises the difficulties associated with such arrangements.

An important aspect of Figure 1 is the distinction between strategic and operational activity. The latter involves much more direct contact with companies during Stages 3 to 5. Looking objectively at the Scottish scene, almost all the skills which reside within the relevant agencies are implementing these stages of the process. It is within these areas that local authorities, New Towns, SDA and SEPD largely work, although the latter two organisations have made some efforts to operate in Stages 1 and 2. To date, while a considerable volume of sectoral work has been undertaken by the SDA this has not effectively filtered through to the more operational stages. In effect Stages 1 and 2 are in a very embryo state in Scotland, while Stages 6 and 7 do not exist in any meaningful form. While there is a strong case for arguing that the initiative in the strategic stages, and especially in 1, 6 and 7, should be at UK level these should also have a regional dimension, for a number of reasons. Firstly, there is, and will remain, intense inter-regional competition for mobile projects in the UK. Secondly, there is a substantial stock of foreign direct investment in Scotland, which requires to be monitored for both positive (in view of subsequent expansion plans) and negative reasons (in view of changing corporate policies leading to run-down or closure⁵). Thirdly, given the amount of delegation to Scotland which exists in the economic planning field, there is a prima facie case for some ongoing evaluative work

FIGURE 1

**THE INWARD DIRECT INVESTMENT ATTRACTION PROCESS
NATIONAL/REGIONAL DIMENSIONS**

Stages in the Inward Direct Investment Process	Type of Activity	Operations Involved	Preferred Model
1. Information	Strategic	Analysis of trends in direct investment; sectoral, company, country information to support selling effort; liaison with supranational bodies.	Primarily national responsibility - IBB
2. Planning & Targeting	Strategic	Setting of plans and targets for countries, sectors and companies.	Co-ordinating role at national level. Function remains with regions.
3. Promotion	Operational	Advertising, investment missions, seminars, presentations.	UK promotion and co-ordination of regional and FCO efforts at IBB. Regions responsible for regional promotions within agreed framework.
4. Negotiation	Operational	Development and presentation of specific financial and allied packages.	Primarily regional responsibility.
5. Settlement	Operational	Co-ordination of all relevant bodies to minimise blockages en route.	Primarily regional responsibility.
6. Monitoring	Strategic	Company strategies, performance, re-investment, etc	Primarily national responsibility. Some regional monitoring but liaison with IBB
7. Evaluation	Strategic	Objective assessment against targets.	Regional evaluation. Reporting and liaison with IBB.

assessing the changing contribution made by foreign direct investment in the economy. In short, new policy initiatives are required in Scotland within these stages, as a means of improving the efficiency of the attraction effort. Anything less is likely to constitute an inadequate response to the more competitive environment for foreign direct investment prevailing in the present decade.

Against this background of the issues which require to be addressed, the following sections consider the analysis and findings of the Committee on Scottish Affairs and subsequently the response of Government to these proposals.

The Diagnosis of the Select Committee

The Committee on Scottish Affairs met to consider certain aspects of the attraction of overseas investment to Scotland following a great deal of disquiet over the "effectiveness of the machinery for selling Scotland in the multinational market place".⁶ Using Figure 1 as a basis for assessing the Committee's report, it is immediately obvious that they did not systematically direct their attention to the total attraction process as outlined. Four key problem areas were identified and, while not formally stated as such, they lie within stages 1, 2, 3 and 7. A few brief comments will serve to indicate the flavour of the Committee's analysis of these issues. As regards **information**, the Committee accepted that a policy for inward direct investment must be based on detailed information and argued for "giving a high priority to time and resources spent on sectoral studies"⁷ and the systematic identification of "the rapidly changing population of mobile companies and their marketing and product strategies"⁸. No attention was given either to evaluating the extent and quality of existing information used by Scottish organisations or to the wider question of information generation for the UK as a whole. It is very clear that in practice the information available in Scotland falls far short of requirements, nor is it collected or presented in any systematic fashion.

On the question of **planning** and **targeting**, the Committee again accepted the need for change without proffering recommendations which would generate that change. "Targeting the clients and tailoring the case presented to each"⁹ is a worthy objective but how it was to be achieved was left open. In fairness to the Committee this is a much wider problem, in that such planning would be more effectively accomplished within a UK framework. The fact is that no strategic plan for inward investment exists at UK level. There are perhaps several reasons for this and a number of important consequences arising from the situation. Among the reasons may well be the fact that initiative on inward investment attraction has largely been at the regional level, and centralised UK bodies such as the Invest in Britain Bureau (IBB) are relatively new. More generally perhaps, it is naive to expect a strategy to emerge for inward investment, when there is no clear overall industrial strategy in the UK. As regards the consequences, one of the most serious would appear to be the absence of any pressure placed upon a region such as Scotland to really define what it is doing in this field. The approach has been and remains amateurish, without the discipline of formally having to plan over a reasonable time period and defend such a plan against the scrutiny of outside observers. Such planning would formally address itself to resources, co-ordination of interests, target countries, sectors and companies, related promotional policies and so on.

Perhaps the dominant concern of the Committee and the area where there is fairly widespread agreement was on the question of **co-ordination**. In our model this principally straddles stages 2, 3, 4, and 5, but is of relevance throughout. Quite properly the overlap and duplication between government departments, statutory agencies and other authorities responsible for inward investment attraction was a major focus of concern. This is expressed, for example, in the observation that "would be investor(s) (were) bemused by the number of separate but ill-defined authorities who seemed to have an interest in what to him was one straightforward decision"¹⁰. Accepting that this problem cannot be solved by a 'single door' approach to Scotland for a variety of statutory, political and historical reasons, the lack of co-ordination is more easily identified than solved. There are a number of dilemmas which have to be resolved in posing a solution. While duplication of effort in overseas missions and allied promotional work is only too visible, less visible is the fact that local initiatives have often proved crucial in attracting key inward investment projects. Not all projects are of such a scale for there to be demonstrable advantages in a national level of negotiation. More than that, there is ample evidence throughout the UK to show that much of the skill and experience of attracting inward investment resides at a regional or sub-regional level and not at the level of national bodies. In short, co-ordination efforts have to be directed to the question of what is to be co-ordinated and who is to co-ordinate.

Of the areas identified by the Committee perhaps that of **monitoring** is the most controversial. Among other observations, it was noted "that close relationships should be maintained with these arrivals, once they are established, in order to deal with any possible problems and to give assistance on a continuing basis"¹¹. Such remarks are open to a variety of interpretations and there was little evidence that the Committee had really thought through questions as to how this would be done, who should do it and on what basis.

While the Select Committee did, therefore, accurately identify a number of problems associated with the attraction of foreign investment to Scotland, there were two major deficiencies in its report. Firstly, the observations were not followed through by the presentation of a coherent inter-related set of recommendations displaying the connections between the elements of the attraction process. More seriously perhaps is the second criticism, namely, that they failed to provide any evidence that the problems which they diagnosed could be solved by adopting their solutions.

The solutions offered lacked coherence and were strongly influenced by political discussions within the Committee. The principal gaps in these proposals can be readily summarised. Firstly, as regards Scotland/UK relationships there was a strong suggestion that many of the problems of the Scottish attraction effort could be solved simply by transferring them to UK level - without any assessment of whether these functions could be adequately handled at that level. This is reflected for example in the claim that Scottish inward investment interests overseas could be adequately represented by Foreign and Commonwealth Office (FCO) posts, the commercial quality of which are known to vary widely. Similarly, they outlined a tortuous and bureaucratic scheme whereby information on mobile investment would flow from FCO to SEPD, thence to the SDA and then to others in Scotland, implying that Scottish interests could be adequately served by such an approach. Such a proposal reflects a woeful lack of understanding of the real competitiveness and speed of movement required for inward investment attraction in Europe. The second gap in the Committee's proposals concerns the internal relationships between interested parties in

Scotland and especially in the linking of these interests to the functions described in Figure 1. Almost no attention was given to reconciling the interests of the SDA and the Regions, New Towns etc, or to a consideration of exactly what initiative should be taken by the SDA to command the necessary respect from the others. In effect therefore inward investment after the Select Committee was one step forward in analysis and two steps backward in credible solutions! Fortunately, the Government response did not follow the proposed lines, but took a different tack.

Government Response: "Locate in Scotland"

The Government response to the Select Committee, while leaked in the press in the early days of 1981, did not formally appear until March this year. The step taken by the Government was to create a "Locate in Scotland" (LIS) group¹², bringing together the functions at present exercised by the SEPD and the SDA, under a single Director and a single building. The aim is to develop a structure in Scotland

"which can give a strong lead to and provide a focus for other promotional bodies such as the local authorities and the New Towns; which can develop good working relationships and standing with the Invest in Britain Bureau (IBB), the Diplomatic Service and its posts overseas....; which is clearly identifiable to prospective investors abroad....; and which is demonstrably effective and competitive"¹³.

It has been contested in this paper that the best way to test the merits of any inward investment attraction process is to set it against the framework of Figure 1. At this formative stage it is genuinely difficult to make such an evaluation of LIS, since the effectiveness and competitiveness of the body will depend on what it does rather than what it is. The thrust of the Government's response is concerned with co-ordination rather than with the effective covering of specific functions. In essence it is co-ordination across Stages 3 & 4 in Figure 1. The report itself gives very little indication of how LIS plans to operate outwith these functions or how it will draw together the other bodies at present involved in attraction activities. In these matters the only guideline as to the likely course of action consists of a list of the requirements for the new system as noted in the previous paragraph. While laudable, these are very vague and leave many parts of the mechanics of operation quite open ended.

To date, therefore, the LIS system is little more than an indication of the directions in which the Government would like to move; the actual path has yet to be determined. One thing is clear, if LIS turns out to be no more than a body concerned with co-ordination of promotion and negotiation it will represent a failure and a real loss of an important, if not unique, opportunity to bring the Scottish system in line with its competitors. While it is commendable that the Government have discounted many of the vagaries of the Select Committee's recommendations, much further work needs to be done to make LIS "demonstrably effective and competitive"¹⁴.

The priorities for the achievement of these aims are outlined in the ensuing paragraphs:

(1) **Priorities within LIS and between LIS and Other Scottish Bodies**

These can be readily stated as:

- a) The development of a credible planning and targeting programme as the basic tool with which to both co-ordinate local initiatives and establish a viable programme of action.
- b) The establishment of a well thought out modus operandi with local authorities, New Towns, etc. This requires urgent attention early in the life of LIS and it will be especially important to recognise the existence of skills and experience in inward investment attraction in such bodies. Such support cannot be won by statute and will not be gained without strong central leadership and the clear evidence that LIS is a credible alternative to certain types of formerly local initiative which become highly undesirable under the new system.
- c) The early determination of what presence LIS is going to have in areas outwith Stages 2, 3 & 4 in Figure 1. Here three issues are of particular importance. The information function is poorly developed at a Scottish level and where work has been undertaken (as in the SDA sectoral studies) it has not been fully reflected in the promotional strategy. In effect there is thus a dual problem, of establishing information requirements; and then using the information generated to produce a more professional LIS effort. The second functional area requiring early attention is that of monitoring, which again scarcely exists in Scotland. The Government's response explicitly accepts the need for such a function within LIS¹⁵. To be done properly this requires a dramatic change in present practice and will inevitably be costly. Finally it would appear essential that an evaluative dimension be introduced to assess the benefits and costs of the inward investment attraction effort. There is a real danger that this will be an activity which receives little attention as no body is effectively responsible for it.

(2) **Priorities in Relationship Between LIS and UK-level Organisations**

It goes without saying perhaps that while the issues in the previous sections are vexed ones, they are at least able to be tackled by initiative within Scotland. Many of those in this section are not so readily approached. On the other hand, the very existence of such a body as LIS at regional level raises important questions for national policy. The present authors are on record as advocating national reform to coincide with regional reform¹⁶. In particular, there would appear to be a case for developing the Invest in Britain Bureau (IBB) to handle the strategic Stages 1, 2, 6 and 7 (Figure 1) at national level. While these clearly have a regional dimension, there are many reasons for advocating a primarily national initiative. For example, data banks of the type implied in the information function are expensive to generate and update; similarly there are considerable advantages in co-ordinating regional planning

and targeting efforts within a broad national strategy; while monitoring in many multi-plant corporate systems which are distributed throughout the UK is arguably a responsibility which is primarily national. The viewpoint of the authors in this regard is as summarised in the last column of Figure 1 and while this scheme is open to debate, and requires certain UK initiatives which are not on the horizon at present, some view has to be taken at LIS level in the meantime.

With this in mind we would advocate that the following are given early consideration:

- (1) The question of LIS representation abroad in the medium term (after existing SDA arrangements have lapsed) and how this relates to IBB. The Government's report leaves this deliberately open ended¹⁷ and begs important and highly political questions as to whether any representation at IBB level should only be of LIS personnel. Logically, of course, it should.
- (2) The effectiveness of regional representation within the FCO is an equally important question, given the interest shown in the solution for Northern Ireland. In our view, while co-ordinated overseas effort from the UK is essential, a strong Scottish (LIS) presence abroad remains vital in the contemporary competitive climate. As such, the LIS case has to be carefully prepared in order to maintain the effective level of regional autonomy which recognises both the employment needs of Scotland and the skills existing therein to obtain inward investment projects.

Conclusions

Developments in policy analysis over the past year in Scotland have at least started to face up to the issues involved in mounting an effective inward investment attraction operation. The worst excesses of the Select Committee's recommendations have been avoided and the formation of LIS provides an important organisational framework for progress. The real test, as has been implied, is still to come. LIS has to be established with vigour, vision and system if this opportunity is to be fully grasped. It is clearly in the interests of the Scottish economy that it is grasped.

NOTES AND REFERENCES

1. N Hood & S Young, **European Development Strategies of US Owned Manufacturing Companies Located in Scotland**, HMSO (Edinburgh), 1980.
2. Ibid.

3. Second Report from the Committee on Scottish Affairs, **Inward Investment**, HC 769-1, HMSO (London), 1980.
4. First Special Report from the Committee on Scottish Affairs, **Inward Investment, The Government's Reply to the Committee's Second Report of Session 1979-80**, HC 205, HMSO (London), 1981.
5. It should be borne in mind that employment in overseas owned companies in Scotland declined by 7% between 1975 and 1980, as compared with a 4% decline in Scottish manufacturing employment as a whole.
6. Second Report from the Committee on Scottish Affairs, **Inward Investment**, op cit p1, para 1.1.
7. Ibid, p20, para 4.19.
8. Ibid, p6, para 2.12.
9. Ibid, p15, para 4.2.
10. Ibid, p1, para 1.1
11. Ibid, p5, para 2.10.
12. First Special Report from the Committee on Scottish Affairs, **Inward Investment, the Government's Reply**, op cit.
13. Ibid, p4, para 2.2.
14. Ibid.
15. Ibid, p6, para 6.2.
16. N Hood & S Young, "Inward Direct Investment After the Select Committee: A Critique and A Way Ahead", **Strathclyde Business School, Working Paper Series, No 8005**, November 1980.
17. Ibid, p5, para 3.3.