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# Feature Article

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## SCOTTISH ENTERPRISE : THE BASIS OF A SCOTTISH SOLUTION TO SCOTTISH PROBLEMS?

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### INTRODUCTION

The Prime Minister's speech to the CBI in Scotland in September 1988 heralded the start of the most radical change in Government policy towards the sponsorship of economic development in Scotland for a generation. Like many such changes it commenced with much noise and little that was in any way cerebral. Of course, many radical policy changes do not stem from an in-depth analysis of the issues and the options, and this was no exception. Since that date, the due process of debate and consultation have been conducted with more heat than light, but with no little trauma for the two merging bodies namely the Scottish Development Agency (SDA) and the Training Agency (TA), as they have endeavoured to continue to fulfil their responsibilities. That they have managed to do so effectively is no small tribute to the commitment of those working in these organisations as they move towards the end of the thirty one month process leading to the final emergence of Scottish Enterprise in April 1991.

This paper attempts to stand back from these changes and reflect on some of their characteristics and implications. It is written from the perspective of someone closely involved in the process of taking the concept (1) and helping to shape it in a way which would be to the benefit of the Scottish economy.

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It therefore takes the initial parameters as the expressed intention of the Government of the day, and operates on the presumption that Scottish Enterprise is currently the only available option for a national economic development agency in Scotland. Given the relative position of Scotland within the regions of the UK economy, it assumes that such an agency is required. At the same time it recognises that the quality of the debate on Scottish Enterprise has been generally poor, with little attention being directed to the fundamental determinants of its future. It should be noted that although Highlands & Islands Enterprise is also being established, under the same principles and within an area covering some 7% of the Scottish population, this paper exclusively comments on Scottish Enterprise.

### RATIONALE

The conceptual roots of Scottish Enterprise are not easy to trace. At one level, they start with various negatives. These include some aspects of the performance of the two bodies concerned; the perception of the SDA as never quite being in the ownership of the current Government, in spite of the radical changes made in its modus operandi in the 1980's; the presumption that business acumen and direction were the essential missing ingredients within such bodies, and so on. A late and strident manifestation of some of this was associated with the observation made by the Vice Chairman of the Conservative Party in Scotland that bodies such as the SDA, in this case because of their unwelcome perspective on the Scottish economy, were run by 'academics and pen pushers'.

At another level, were the positives. Chief among these was the view promoted by Norman Fowler as the then Secretary of State for Employment and his advisers, that there was a new release of energy to be achieved in the pursuit of employment creation by the direct involvement of businessmen

in locally based initiatives. Drawn from a number of examples in the United States, this experience was considered (in a rather unquestioning manner) to be substantive and transferable to the UK. While positive, this strand of thinking was not evidently based on any considered study as to what was wrong with existing mechanisms in Scotland, beyond the ready, early and widespread agreement that it made much sense to integrate economic development and training. Indeed many, validly, asked why this had never been considered before. There are many answers to that, most of which are to do with the division of labour between Government departments and the nature of civil service 'ring-fencing'. The inherent logic of merging the SDA and TA has taken the Scottish Enterprise initiative a long way in that it has led to sustained support of that particular principle from a wide spectrum of interests within Scotland. This was evident in the results of the consultative processes undertaken in late 1988 and early 1989. It was equally evident during the Parliamentary processes in 1989 and 1990. It has perhaps been the single most important principle in determining the reaction of most interested parties to the changes. As such it is a necessary, but not a sufficient, basis for its future success.

A more penetrating examination of the rationale behind Scottish Enterprise would look in the following directions. In so doing, it would provide the basis for evaluating expectations over the years to come. Firstly, and perhaps most powerfully, is the integrating of economic development and training functions. These are part of the same process. But it does not stop there, since this initiative involves (at least initially) integrating the training powers and functions that are presently available and which are closely specified under current Government policy principles. In other words, it would be possible to integrate the available funding mechanisms, without truly integrating economic development and training. This is, of course, the real and new challenge, to which we shall return.

Secondly, there is the desire at the very heart of Scottish Enterprise, to both devolve powers and functions to a local level and to have them 'private sector led' through the mechanisms of local enterprise companies (LEC's) (2). Each of these elements needs to be considered in turn. As to the 'local' dimension, there are aspects of

economic development which are best initiated at that level, such as the support for new business development, provision of smaller scale commercial and industrial property, preparation of certain industrial sites, and so on. Moreover, the Scottish evidence to date, in terms of the SDA regionalisation over the past three years, encourages the belief that project volume is enhanced by closer local focus. The much bigger question, however, concerns how local focus can be blended with national strategy and effective impact at the national level. That this is achieved from the outset is absolutely fundamental. Every endeavour has been made to ensure that the business planning process currently under way within Scottish Enterprise and the LEC's starts on that footing. But it will need much resolve on the part of all parties, not least through Government's support of the Board of Scottish Enterprise to ensure that it remains in synchronisation.

The strategy of Scottish Enterprise as a network of bodies interrelated by contract has to be driven by overall Scottish interests, not by other imperatives. There are, however, many other imperatives! Not least of these surrounds the number of other 'local' players on the economic development map, in both the private and public sector. The question of who has primacy in contexts where these duplicate one another, remains an open one. Substantial, and often heroic, efforts have been made over recent months within many LEC areas to ensure that all these parties remain on reasonably common ground. It is to be hoped that such unity is developed and sustained. Without it the whole initiative will be in peril. But ongoing questions remain in abundance. Will the future public funding of enterprise trusts be determined by LEC's? What impact will LEC's have on the implementation of local authority responsibilities in the short term and on the existence of these responsibilities in the medium term? How will the privatisation of New Towns and, in particular, the planned local development companies relate to LEC's and/or to Scottish Enterprise?

Turning to the second component of devolution, namely that of LEC's being 'private sector led', this is an area where expectations have been particularly high since the earliest days of Scottish Enterprise. At the outset it has to be acknowledged that substantial numbers of senior, respected and experienced business people have

come forward to contribute centrally to bids for LEC status. Since many of these individuals have already been involved for a year or more, they have had ample opportunity to observe the nature and pace of change within the public sector, as well as its frustrations. They have also had time to reflect on precisely what is expected of them at local level, not least because they have experienced the weight of pressure group politics, some for the first time. There is a surprising number of individuals involved who have previously not sought the type of local exposure which LEC board membership brings. Many have long ago learned that if using public money to address market failure was an easy business, durable mechanisms would have been perfected long ago and it would by now be a mere matter of mechanics. Several still wrestle with precisely what their personal and collective contribution will be.

What such contributions will in fact be is dependent on what 'private sector led' turns out to mean in the context of an LEC. Clearly these are private companies, whose principal (and in most cases, sole) activity is the delivery of a contract entered into with Scottish Enterprise. As they start, therefore, LEC's could be defined as (part-time) private sector led companies, providing (constrained) direction to public sector managers to spend public money in a manner approved by Treasury. Of course, this is not necessarily where they will end up. One of the most critical determinants of their direction as organisations and of the motivation of their boards will be whether the undoubted entrepreneurial skill of many of the directors will be matched by sufficient flexibility in the manner in which Government funds are made available. As many board members readily admit, now that they have viewed an economic development agency from the inside for the first time, there is a real skill in long term project and programme development which manages to create an image of customer orientation, creativity and flexibility while remaining highly constrained. Many SDA staffers will recognise this as an accurate description of their existence.

Development agencies, if they are to be at all effective, have to push back the edges of established rules, regulations and methods of operation between existing bodies and in that sense have to operate at the margin. LEC's boards, however, show every sign of being less philosophical about this, and indeed it is to be

expected that they will find much of the regulatory environment highly frustrating. They will form, with their UK TEC counterparts, a formidable new pressure group for changes to that environment. Given that they do and yet wish to stick to their initial task, they will also generate their own pressures for initiatives which can be realised with minimum public funding. For example, provided they agree to the terms under which public assets are made available to them, the development of LEC property and land portfolios are to be expected; as is the sponsorship of local economic development services and so on. That said, however, it is probable that in the short term, the 'private sector led' concept will be principally expressed in a different and perhaps more specific understanding of local need and opportunity; in style of management and reporting; and in the substantial enhancement of pressure group politics pushing for changes in the scale and shape of Government support for economic development. The latter is the 'genie out of the bottle' factor, which will lead in directions which are impossible to chart.

While it is thus possible to anticipate what 'private sector led' might entail, it should not be forgotten that the initiative has a further sting, namely that it is to be 'private sector led and financed'. Not surprisingly, this declaration of intent has not been easy to explore and many people would prefer to draw a veil over it and ignore its existence. Clearly, at one level most economic development and training activity in the economy is private sector financed, although not undertaken for reasons of market failure. Does this imply, therefore, that at the root of Scottish Enterprise there is a presumption that the Scottish economy is unlikely to need a development agency beyond the medium term? There is certainly no formal statement to that effect. Given the continuance of an operation on anything like the initial scale of Scottish Enterprise, is it possible to consider that it could be private sector financed to any substantial degree? The evidence to date points very much in the opposite direction. For example, the enterprise trust movement with over forty agencies in Scotland is still heavily dependent on public sector funding from one source or another and in total attracts little over £2m of private sector contributions. This compares starkly with the initial Scottish Enterprise budget of around £420m! Of course, it is possible under certain assumptions to make significant

inroads into these numbers by leverage on public assets. The SDA in recent years has had extensive income from its property and investment activities. Had the decision not been taken to sell off the former and investigate the sale of the latter, it is conceivable that public and private interests could have been brought together into companies acquiring these assets and giving a major 'private sector' income stream to Scottish Enterprise. At a much smaller scale, and with only the residual of a property portfolio held in a particularly constrained manner, this is one of the few remaining options for some early private sector financing of LEC's.

In reality, however, it is most probable that the 'private sector financed' dimension will boil down in the early period of Scottish Enterprise to the not inconsiderable amounts of unpaid time given by senior businessmen to the work of LEC's. In some cases local business communities may raise modest amounts of seedcorn money by way of a form of subscription to aid certain aspects of LEC work, in others proxy money in the shape of secondments will emerge. The early signs are that such endeavours will be on a very modest scale and that private sector finance will not make more than a token contribution to LEC needs.

The prime and new contribution of the private sector in Scottish Enterprise lies within the framework of the LEC's, given the long-standing composition of the SDA board. As such it is probably most accurate to place expectations upon the three linked concepts of integration; improvement; and development. Within these, integration of the powers and functions links closely with the integration of the two different cultures of the merging bodies. Improvement prospects lie in the area of more local responsiveness, more tailored to local needs and with a better sense of local ownership. As for development, the principal challenge will be around the balancing of needs and opportunities. Spreading resources thinly in a desire to assuage all known opinion will invariably not be the solution to anything other than noise reduction. It is in these matters that LEC board members will find that involvement in public sector sponsorship of economic development is not for the squeamish.

The third, and final, element of rationale which deserves attention is the presumption that Scottish Enterprise consists of fourteen bodies (a core plus thirteen LEC's) working in a new form of

partnership and acting as a network of organisations devoted to a common mission. Much has been said about that presumption. The whole initiative has been at times described as a form of Balkanisation within which all types of vested interests will prevail. Concerns have equally been expressed about the prospects of unrealistic and unconstrained competitive bidding between LEC's which would in itself constitute the seeds of destruction for any concept of a 'network'. There are two dimensions of this issue, namely those of partnership and network. Both need to be examined with care. Credit has to go to LEC's for working hard to create a spirit of partnership at local level, embracing many interest groups, not least local authorities who regarded themselves as initially spurned by the whole proposal. Some of the early vocalisation of Scottish Enterprise simply failed to recognise that the one direct lesson which recent history had taught both the SDA and the IA was that effective public - private sector partnership was a sine qua non of the activities of development agencies. Indeed, the extent to which such co-operation existed, in Scotland, warts and all, was both widely recognised and envied outside the country.

Fortunately, however, the initiative was steered away from that particular precipice, but only just.

The partners within LEC's are still learning about each other and there is still much to do. The first test is now being faced in the preparation of business plans and the explicit making of choices for resource allocation. There are clearly many more to come. The system, again to its credit, has survived many months of "preparations for preparations", extensive learning about the functions to be inherited, detailed briefings, local political pressures, running a business which is not yet in business, and so on. It is far too early to say that it is robust, but it shows clear signs of standing foursquare on its own two feet - especially on the part of the larger LEC's.

To a degree, the prospect of developing Scottish Enterprise into an effective development network is a more vexed one. As with partnership, it will require constant vigilance and a particularly open management style to be adopted on the part of the core body (3). At one level, there are many common characteristics in the network. Not the

least of these is the fact that the executive staff resource within the LEC's comes almost exclusively from the common sources of the SDA and TA. The early evidence of staff integration has been encouraging as befits building a network. Equally basic is the recognition by all component parts that they have to apply the same rules and regulations to project evaluation, simply because Scottish Enterprise in its totality is subject to the same accountabilities and the Chief Executive of Scottish Enterprise is the Accounting Officer for the network. More difficult, however, will be the consequences which flow from requiring these rules to be applied with negative result to favourite LEC projects or in situations where the predominance of an overriding Scottish-wide interest leads to the rejection of certain types of local schemes. In the search for 'early winners' LEC's might well have to be reminded that a country the size of Scotland simply does not require a business park, technology centre, management training facility or an exhibition hall in every second valley. Similarly, conventional impact measures, additionally and leverage rules, to say nothing of displacement considerations, are all part of establishing the common parameters for the network.

The use of the corporate analogy of 'tight - loose' management within the framework of public accountability, is a useful way of positioning the approach to giving cohesion to the Scottish Enterprise network. In the 'tight' dimension lies the need for an acceptance of overall strategy, priorities and directions for the Scottish economy as a whole; the recognition that the funding guidelines and constraints are shared by all participants and are generally not invented in Bothwell Street but in the Scottish Office/Treasury; and the belief that certain activities, especially inward investment, must be handled by the core resource not by the LEC's. In the 'loose' dimension lies an open and co-operative approach to encouraging differentiation in business plans; the two-way flow of resources associated with networking; shared desires for funding flexibilities; early indications of the approvability of projects, and so on. With the best of intentions, it will take some time to get that balance right but even the realisation that it is an issue is an important step forward.

The 'tight-loose' concept, however useful, has its limitations. By no means the least of these surround differences in interpretation, definition

and expectations. The early, and evidently ill informed, rhetoric implied much which was 'loose' and little which was 'tight' in terms of such critical issues as conditions within which public money would be made available, access to public assets, scope for recruiting staff from scratch, and so on. Inevitably, when the cold realities of implementation were faced several LEC board members had to recalibrate to the real environment, amidst allegations from some quarters of bureaucracy taking control. Of course, the impetus of Scottish Enterprise will in itself change this 'tight-loose' balance, and so it should. The critical question is whether the Government are genuinely ready in that regard for the implications of what they have created. Networks, however the internal relationships are styled, are shaped by the relative power and influence of their component parts. By definition, Scottish Enterprise involves a redistribution of power and a redirection of activity. The core staff of Scottish Enterprise will have to devote intense effort to the management of these relationships. Fortunately that is well understood and is being professionally addressed.

#### OBJECTIVES AND IMPLICATIONS

While it will take some considerable time to assess the full impact of Scottish Enterprise upon the Scottish economy, it is possible to examine some of the immediate, practical implications of the initiative. Before doing so it is important to recognise the need for a common set of objectives for this complex set of arrangements. Quite properly the core team planning the implementation of Scottish Enterprise have devoted a great deal of time, both to the assessment of the current state of the Scottish economy and to the setting of a strategic direction, in the early months of 1990 in order to give the LEC's a framework within which to plan their operations. An important component of that was the mission statement laid out by Scottish Enterprise and widely disseminated to LEC's. Scottish Enterprise was seen as being designed 'to help build, through partnership with others, a strong internationally competitive, high income, more diversified, sustainable economy with an enhanced skill base and quality of life for all the people of Scotland.' Although all such statements have a ring of motherhood about them and exist in a rarefied atmosphere at some distance from operational detail, this basic declaration has

been well received by almost all concerned. It strikes some important notes about the philosophy and focus of Scottish Enterprise as a network sharing a common developmental approach. Flowing from the latter is the common process which is initiated in the identification of market failure or the recognition of opportunity and is progressed through the design of conceptual solutions, the assembling of partners, project approval, implementation, assessment and withdrawal. In effect the mission of Scottish Enterprise can only have meaningful realisation with the framework of a development agency, or in this case an integrated network of such agencies.

What then are the implications of the existence of a body, so designed and with these ambitious aims? The starting point for any such evaluation should be the Scottish economy. It is outwith the scope of this article to examine its current health in detail. But it is perfectly feasible to determine some of Scotland's requirements from Scottish Enterprise, given its known characteristics and continued weak relative position with UK regions.

The first requirement is that the transition into Scottish Enterprise is as smooth as possible with minimum further uncertainty at any level. This applies particularly to the continued existence of a strong core resource as was envisaged by the Secretary of State in his July 1989 statement (4). The second is that the relevant overarching strategies are quickly backed by Government approval for appropriate, flexible schemes which allow all parts of the network to gain the potential benefits of differentiation and the direct addressing of real needs and opportunities. This applies particularly, but not exclusively, to the Government's GB-wide training policies and priorities. It would be equally problematic if, for example, appropriate new schemes to aid public and private interaction in the provision of industrial property were not available to cope with the period post-SDA property privatisation and the demise of new town corporations.

This leads to the third requirement namely that at all levels the available Scottish Enterprise money is used with maximum leverage to induce the highest possible levels of private sector support. The Scottish economy needs more impact, rather than less, from the Scottish Enterprise spend. It is just possible that the propensity in some LEC's will be to negate this as special pleading

emerges. While the counter weight of high levels of private sector board membership might be expected to work against such tendencies, some businessmen see most of what the Government provides as infinitely soft money and subject to significantly less stringent rules than they would apply to their company's own funds. The fourth requirement is closely linked, namely that the budgets of Scottish Enterprise are not subject to substantial reduction in real terms over the next few years. There are readily identifiable trends which might well lead that to happen.

The fifth point is contentious. It is the requirement for the maintenance of distance between the Scottish Office and Scottish Enterprise, distance consistent with the relationship between a Non-Departmental Public Body (NDPB) and its sponsor department. That relationship is well understood and readily implemented in 'normal' times. Major policy change almost inevitably leads to a less 'hands-off' approach. The complexities of Scottish Enterprise will only be effectively resolved within the network itself with minimum 'second guessing'. The Boards and executives of all fourteen components will, with all checks and balances duly established, have to be charged with the task and allowed to proceed to achieve it.

The final point is a related one. Scottish Enterprise in itself has to be regarded as a major experiment whose outcome is unknown. The whole network has to be tolerant of controlled experimentation, and the past relationship, for example, between SDA and the Scottish Office has enabled this to exist. Preferably with a minimum reinventing of the wheel, this style has to be fostered for the future - particularly within LEC's, as new and potentially fruitful solutions are applied to old and new problems alike. The core of Scottish Enterprise can only stimulate such experimentation if it itself is given continued (or further) space in which to operate.

Turning from the Scottish economy at the macro dimension, there is then the question of the implications for the customer, whether individual, firm, sector or community. This is a difficult area. At one level Scottish Enterprise, at the LEC end, appears as yet another contributor to the economic development scene, entering on a stage which continues to have all the players who arrived in previous acts. This author has spent far too much time over the past eighteen months

discussing these developments throughout Scotland, to feel sanguine about the potential for confusion. While Scottish Enterprise might well develop the capability to bring order into this world, if the Government so desires, it will take time. It is not, of course, that the LEC role is ill-defined relative to that of others, it is more the question of overlap in some areas (such as industrial promotion with local authorities and new towns; business development with enterprise trusts and development companies) and confusion in others. Some of this will be solved over time, but much effort will be required at local level to communicate the effect of the changes and address the continued serious level of misunderstanding which emerges from time to time.

One customer group which has regularly expressed itself unable to assess the implications for its own interests, is the business community itself. For example, there has been frequent concern, long after the broad shape of the core resource was clear, as to whether key sectoral groupings in SDA would remain and as to how an LEC could possibly hope to build up credible resource in areas such as electronics, advanced engineering or supplier development. In another form, this raises the question as to how substantial equity investment propositions could be effectively and judiciously handled in the context of intense local interests in smaller LEC's. While some of these matters are merely the confusions surrounding change, others are more substantive. Some business groups recognise that while it may be easy to maintain a national approach to inward investment through LIS, there is a danger that the core resource devoted to indigenous business might be diminished in quality and expertise, if not in absolute quantity. There are few commentators who would argue, were that to happen, that it would be in the Scottish interest especially where the proper expectation of Scottish Enterprise is that more expertise would go to the support of indigenous business. LEC's would be wise to keep a close eye on these developments remembering that the core resource is, inter alia, there to be mobilised alongside that reporting to them. Complementarity and competitiveness will have to be addressed constantly in the deployment of such joint resources if the needs of the customer are to be met.

Another important group of interests have viewed the emergence of Scottish Enterprise with a wary eye, anxious to know its implications for them,

namely the bodies already active in the economic development business. Of course, both the SDA and TA have already been in existence and locally represented to one degree or another. As such they had formed relationships under the present order. The new dimensions with Scottish Enterprise are less to do with the merger as such, and more to do with both the planned major change in delivery mechanisms through private led LEC's and the strength of political purpose behind their establishment. While it is possible to present these issues as being resolved by the mere involvement of local authorities, enterprise trust members and new towns in the formation of LEC's, it would be naive to do so. The present relationships in many instances are as much to do with wariness and holding watching briefs as they are to do with real partnership. But at least many of the bodies are present (if not strictly 'represented') round the same tables. The resolution of some of the potential tensions might either have to await legislation (for local authorities), time (for new towns) or Scottish Enterprise/LEC policy (on the part of enterprise trusts). Alternatively, and most probably, an effective local modus operandi will emerge from early uneasy relationships.

A final set of implications surrounds the staff of the two merging bodies upon whose shoulders the delivery of much of this initiative will ultimately rest. As such their quality, motivation and continued commitment is crucial. The extended time period over which Scottish Enterprise has been in the pipeline and the attendant uncertainties at several key stages, has led to significant staff losses in certain skill areas - especially from the SDA. The buoyancy of the economy and their close professional interaction with the private sector has made their departure the more easy. Provided a balance is maintained, there is much to be said for the staff complement of an NDPB being mobile and for their regarding their role within such a body as part of career progression. The SDA culture over the last decade fostered this and correctly so. Staffing Scottish Enterprise has, however, some special new challenges. These start with the blending of two very different cultures, one much more individualistic and professionalised than the other. But it is quite clear that they have much to offer each other, not least because of the need for a working balance between the creative focus of the SDA and the delivery focus of the TA. The two organisations cannot and should not be

characterised in these simplistic terms, and there are grounds for optimism in the staff integration which has occurred, especially at LEC level, over the past year or so.

The greater challenges are perhaps elsewhere. The personnel situation is unusual in many respects. Firstly, Scottish Enterprise will have several staff cadres at the outset, given the options which existing SDA and TA staff can exercise. This is further complicated by the fact that TA staff as civil servants can opt not to join at all. The staff who join will include, ex SDA staff who become SE staff; ex TA staff who leave the civil service and become SE staff; TA staff who decide to retain a 'return ticket' enabling them to go back to the civil service after three years; and others recruited from outside bodies, albeit initially in small numbers. Added to the existence of these four groupings within the Scottish Enterprise staff complement of around 1400, some 70% - 75% of them will be based within LEC's where, appropriately, their first loyalty is to the Board of that private company. Moreover, the process of staff exercising options regarding both career direction and geography is in itself complex. Taken together, there is much to be said for establishing common elements in terms and conditions, development and training, pensions, etc for the Scottish Enterprise staff network and this is the approach which has been taken. But LEC's have the ability to opt in or out of such a system, given the central philosophy of independent, private sector-led contractors. Most will opt in, but maverick situations and various manifestations of independence are to be expected here, and elsewhere.

All of these issues are, of course, capable of sensible and effective resolution, but some disruption is to be expected as LEC's engage in competitive bidding for key specialists, and as the implications of the network are thought through. For example, the question of reporting lines at core and LEC levels goes beyond the potential tensions of loyalties into areas associated with the confidentiality of company and project specific information. But for the staff and for the system as a whole there is perhaps a more fundamental tension. Within the planning for Scottish Enterprise, and throughout this paper, reference has been made to building a network of agencies with all that flows from such a concept. It remains an open question as to whether this is incompatible with a relationship

based on three year rolling contracts. For example, the implied mutually supporting dimension of one contrasts with the inherently competitive element of the other. There are contrasts too in time scales; in public and private ownership; in Scotland-wide and local interests; in monitoring and being monitored; in formulating and applying the terms of engagement; and so on. It is too early to predict how these relationships will develop or how they will stand the stresses and strains of normal business life, let alone a situation where Scottish Enterprise retains the responsibility to deliver the relevant services across Scotland, with or without a competent, operational LEC (5). The latter would clearly only be an ultimate sanction after all other remedial efforts had been made. In the current climate it would also be politically damaging in the extreme.

#### PRECONDITIONS FOR SUCCESS

In reviewing some of the principal determinants of success or failure for Scottish Enterprise, one important ground rule should be set. It is simply that while the SDA has had notable successes and while others have emulated many of its methods of operation, it is not the only way to run a development agency and it was never perfect. Scottish Enterprise, for obvious reasons, will not be another SDA. Vital though it is that all the powers and functions of SDA are being merged with the TA, giving the network a powerful array of development tools and a substantial budget, the new body will operate in a very new environment. By far the majority of its budget will be spent by LEC's; it is, by definition, cast in both a leadership and monitoring role; its emergence heralds the start, not the finish, of a process of devolution where the weight of political support lies not with the core body, but with LEC's; its profile in the national (and to a much lesser degree, the international) scene will be determined to a considerable extent by the behaviour and performance of fourteen heterogeneous bodies, not one; and it will be under the new pressure of adding value to LEC's, as well as to its direct customer group. This is neither good nor bad news, but it is different news. As such it will require a new style and a new culture, hopefully based on the best of the past. The first precondition then is to recognise the nature of the environment, build an organisation and culture which is styled to both accommodate it and thrive

within it. A good start has been made towards achieving these ends, and there is a lot of realism around.

The second prerequisite is for flexibilities in Government policy to enable the rhetoric and the reality of Scottish Enterprise to stay in synchronisation. Without it, especially in training, true integration of powers and functions, allowing them to be jointly employed in novel ways, will not be possible. Scottish Enterprise needs to be not only established, but fully empowered. The network needs new, flexible instruments to realise the mission and address strategic priority areas such as competitiveness, product development and human capital. To some extent pressures from the Training and Enterprise Councils (TEC's) at UK level might both help and hinder Scottish Enterprise. The help is flowing from heavy pressure for change in training schemes since these are the only functions at the disposal of powerful TEC boards. The hindrance could come from the fact that, as multi-functional bodies, LEC's are viewed as already privileged and therefore schemes aiding them further will be particularly watched as precedents by TEC's and Treasury alike.

The third precondition flows from the earlier discussion on tight - loose management. In achieving that balance, the core of Scottish Enterprise will have to blend it with being active rather than passive in certain vital areas. No one else will give this network strategic leadership or be able to both set the policy agenda for the 90's and actually ensure its translation into LEC plans. Only time will tell whether the bottom-up strategy from LEC's correctly identifies the real priorities for Scotland, but Scottish Enterprise has to be robust if they do not. The core is not residual to the effective implementation of this model, it is central. For the foreseeable future it is extremely difficult to conceive of the whole experiment being successful without its retaining the portfolio of responsibilities to which the Secretary of State has subscribed. The numbers involved will fluctuate and decline somewhat as the process of functional adjustment between core and LEC's takes place and as the two merging bodies wind down. The debate should be less about numbers and more about content, style and political intent.

One classic area for vigorous action surrounds

inward investment and the role of Locate in Scotland (LIS). While this is well protected in the Statute, there is no doubt it will remain an area of contention. It will, as it has been since 1981, be subject to attempted erosion and will require intensive policing as well as active encouragement for LEC's to play their respective roles in aiding the delivery of projects. At the very least the existence of LEC's reopens the debate about the respective roles of LIS as the national body and the many representing narrower, local interests. LIS is important to Scottish Enterprise, as it has been for SDA, not only because of its undoubted achievements, but also because of its effective profiling of Scotland in overseas markets. Logic, scale and functional necessity, should have led to the integrating of Scottish trade efforts within the whole policy review associated with the establishment of Scottish Enterprise, but that remains for the moment a lost opportunity.

#### ALTERNATIVE FUTURES

Setting out preconditions for the success of Scottish Enterprise is no easy task. The previous section has been based on the presumption that there are no substantial policy shifts and that the model currently being established is implemented in both spirit and letter. In many ways this is a quite unrealistic set of assumptions, given the dynamic tensions within that model. No less difficult is the task of predicting alternative futures for Scottish Enterprise, although there are at least three different scenarios which can be predicted for the next 2-5 years at this stage. Each of these is examined below.

#### Scenario 1 : Networking

\* Core - Providing strong and fearless leadership; setting strategies, financial plans and providing appropriate funding mechanisms for LEC's to employ flexibly; designing and implementing distinctive national programmes led by Scotland-wide interests; in scale, employing around 350-400 people at present overall staffing complement.

\* LEC's - Differentiating according to area needs, based on creative business plans; recognition of the need for gradualism as they mature and in accord with their scale and experience base.

\* Philosophy - A system based on balance and mutual respect, with a strong level of joint action between core and LEC's in all dimensions.

\* Commentary - This is desirable, but improbable. Yet it is close to the policy intentions for Scottish Enterprise. The lack of realism stems both from the strength of the Government's resolve for a meaningful core and from the aspirations of some of the LEC's.

#### Scenario 2 : Disaggregation and Reform

\* Core - Maintained for its statutory, constitutional and administrative services role only; losing its key contribution to the initiation and implementation of functional areas such as industry, investment, human resources and property: consistent with this would be the demise of LIS as a Scottish Enterprise/Scottish Office initiative and its absorption within the Industry Department for Scotland: some reserve powers held at centre for large scale Scottish problems only.

\* LEC's - Substantial and early downloading of funding powers and staff resources to LEC's; reinforced (more radically) by some, if not all, transfer of industrial and economic development powers from local authorities.

\* Philosophy - This is based on the 'sovereignty of the LEC' presumption of Scottish Enterprise and associated with it is the diminution of Government involvement in the promotion of economic development and (ultimately) the removal of a layer of players from this field.

\* Commentary - A very radical scenario if it were to be fully implemented, but with a ring of truth about it under certain favourable assumptions about LEC performance and certain interpretations of the political environment in Scotland over the next two to three years.

#### Scenario 3 : Recalibration and Development

\* Core - As in Scenario 1, but perhaps with enhanced functions including, say, trade co-ordination for Scotland as a whole; gradual approach to core change as LEC's mature; core shape and functions strongly influenced by development agencies emerging for England.

\* LEC's - As in Scenario 1, but with potential change in the balance of power between private and public sector membership on LEC boards.

\* Philosophy - Assumes a government change over next two years and that the new government would take a similar approach to that displayed by the Opposition to date. It also assumes that there will be a recognition of the need to avoid radical change in Scottish Enterprise for at least the next three to four years, given the experience of the past two years within the merging organisations.

\* Commentary - This is totally conditional on a change of government and on the presumption of a desire for stability in the implementation mechanisms to enable any change in policy intention to be meaningfully delivered in the short term.

#### CONCLUSIONS

In the light of all the foregoing is it possible to conclude that Scottish Enterprise, as presently planned, lays the foundations for a Scottish solution to Scottish problems? Yes, in that it is distinctive and potentially powerful; but it is far too early to judge on the basis of intentions, policies or structures alone. As has been shown, there are probably quite different future scenarios awaiting it over the early years of its life. Within these the definition of both the problems and the solutions will change many times and the key question is whether Scottish Enterprise provides a sufficiently robust and sound framework to address the short to medium term environment. Only time will tell. There are many talented and resourceful people at executive and board levels who have a genuine desire to make the model succeed and seek workable solutions from the morass of complexity which surrounds many aspects of the initiative. However, perhaps even more than its predecessors, it will need fair winds simply because the directions of the predicted winds are many and varied, while calm waters are still some distance over the horizon.

#### NOTES AND REFERENCES

(1) As laid out in, Scottish Enterprise, A New Approach to Training and Enterprise Creation, CM 534, HMSO, Edinburgh, December 1988.

- (2) The initial operating parameters for LEC's were set out in Towards Scottish Enterprise: the Handbook, published by the Scottish Office in August 1989, a volume which has since been added to as various policy areas were clarified.
- (3) For the purposes of clarity the term 'core' is used throughout to describe the headquarters functions of Scottish Enterprise based in Glasgow. Technically the core is Scottish Enterprise, but that title has been widely used to cover either the whole network (of core and LEC's) or the initiative itself.
- (4) Statement made on Scottish Enterprise to the House of Commons by Secretary of State for Scotland, Hansard, 26 July 1989.
- (5) This role of 'last resort' provider should be noted. Moreover, it should be recalled that the Enterprise and New Towns (Scotland) Act 1990 contains no reference to an LEC. Section 19 (1) of the Act refers rather to the ability of Scottish Enterprise (and Highlands and Islands Enterprise) to delegate certain of its functions and powers.