

## ECONOMIC PERSPECTIVE 2

### ENTERPRISING LOCAL COMPANIES?<sup>1</sup>

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#### Introduction

On 2 April Scottish Enterprise came into being. Although not all of the local enterprise companies (LECs) have yet been formally launched they too became operational at the same time. As yet their impact seems to have been mainly limited to withdrawing funding from a number of training programmes, to widespread critical comment. However, in an attempt to consider their longer term impact upon economic development and training, this article looks at some of the main issues arising out of some of their business plan summaries.<sup>2</sup>

#### The Privatisation of Economic Development

That the article is based on the summaries rather than the actual business plans is because, as a number of commentators claimed when the concept of Scottish Enterprise was first announced (for example Hayton, 1989), economic development and training are being privatised. The LECs are private companies. Outsiders attempting to gain access to the plans are therefore told that this is not possible because, as private companies, their plans are confidential.

Both reasons are spurious. Technically the LECs may be private companies. Yet they are private companies that are being almost totally funded by the public sector and which, at the time the plans were being prepared, were staffed by civil servants or Scottish Development Agency employees. The confidentiality argument may have had some slight validity before the funding allocations were announced. It is hard to see why this is the case now. As in other areas of Central Government policy the public is being denied access to information about how its money is being spent.

One hopes that this will not continue. If nothing else it is bad public relations. For example some of the critical comments that have, perhaps unfairly, been directed at the LECs over the cutbacks in training might not have been made if those concerned had been allowed access to the plans setting out the LECs' priorities and funding allocations. The LECs also need to realise that if they are to attain their objectives then they need to work in partnership. One way of building up these partnerships is to involve others in the preparation of the business plans. Whilst this has happened in some areas with local

government it has been by no means universal (COSLA, 1990). Partnership should also involve giving the public the opportunity to comment on the plans before they are finalised, as happens with statutory physical plans. Whilst it is very unlikely that Central Government would legislate for this the public relations benefits that would accrue to the first LEC to adopt such an idea would be considerable.

One must be charitable and assume that the lack of involvement of outsiders, which has generally characterised the preparation of this first round of business plans, has occurred as everyone was learning about the new system. One hopes that this will not happen in future years. However, one side effect is that outsiders wanting to give an overview of the business plans are forced to use the summaries. The commentary below needs to be read bearing this in mind and, in so far as the summaries may not accurately reflect the plans, readers need to be aware that there may be a risk of false conclusions being drawn.

#### An Overview of the Business Plans

Before looking in detail at some of the main issues arising from the plans a number of general points are worth making. As far as can be judged from the summaries the plans are very variable. They range from a number that are simply long lists of projects to a few that have an intellectual coherence. The latter are the only ones that seem to be based on a realistic assessment of labour market and economic trends. Irrespective of this the contents of the plans are not surprising. Far from being "bold and imaginative" they are exceptionally predictable. They contain what are best described as "flavour of the decade" projects. Thus one keeps reading about such things as school-industry links, initiatives to encourage women returners and training credits.

However, in the longer term the situation needs to be reviewed. There may be a danger that the LECs replace one set of imposed national constraints, for example meeting the needs of the Employment Training guarantee groups, with a set of self imposed constraints. Thus the LECs may get themselves into the situation where they feel they cannot risk putting forward their business plans for approval unless they contain the latest fashionable projects, regardless of their relevance to their areas and problems.

Closely related to this predictability is the limited evidence of any innovative thinking. Whilst there are such initiatives as ones to encourage tele-commuting and a Borders Rugby museum there is generally little sign of any distinctive, innovative regional solutions emerging to economic and training problems. Given the guidance about the plans' contents this is perhaps not surprising nor, at this stage, is it a bad thing. There would be far greater cause for concern if all of the LECs were overnight coming forward with untried initiatives. Yet in the longer term one must be wary of the search for novelty coming to override any rational assessment of needs.

### **Inward Investment**

Targeting inward investment is one of the policies that seems to be common to virtually all plans. This is either directly referred to or obliquely mentioned, with talk of allocating strategic sites "to meet unforeseen demands". If there is mobile employment to be gained then it would be foolish for the LECs not to try to capture some of it. However if all LECs are laying emphasis upon this then it would seem that:-

- a) some will be disappointed as there will be insufficient mobile investment to meet all of the demands; and
- b) for some LECs energy will be diverted from more productive uses of time.

One must also echo Hood's view that there may be a danger of the LECs competing with Locate in Scotland (LIS) for inward investment opportunities (Hood, 1991). In the short term this may not happen as the LECs will be dependent upon Scottish Office funding. They will therefore have neither the resources nor the opportunities to act independently. However should they begin to raise their own funds, something that was envisaged in the original legislation (Industry Department for Scotland, 1988, p.13), then these constraints will be lessened.

The likelihood of this happening is increased by the calibre of the business men on many of the LECs' boards. They will have their own national and international contacts, possibly at a higher level than have most LIS staff. It is all too easy to envisage a scenario when a LEC feels that it is not getting its "fair share" of opportunities through LIS and decides to act independently. This risk must be increased by the fact that the Chief Executives of two of the LECs are former LIS staff. If this does happen then inward investment could mark, in the Glasgow Herald's words, the start of the "balkanisation of Scotland's economic development effort" (Young, 1989).

### **Land and Property**

The emphasis on inward investment is closely related to the interest that most LECs have in land and property.

Many seem to be keen to develop "flagship" projects. Thus there is talk of feasibility studies for "high amenity business parks" and developing sites to exploit "strategic development opportunities". It is unlikely that these "opportunities" will be proposed for brownfield sites. Given this there must be considerable scope for conflict with the planning system. Even when the planners are in favour of the LECs' development plans there is likely to be conflict with the communities in those areas affected. This has recently been seen when plans were put forward for development at Boden Boo in Renfrewshire and at Park of Keir in Central Region.

Physical developments appear under other headings in the plans. For example many include tourism development projects and area renewal schemes, whilst at least two LECs intend to become involved in the provision of housing in order to attract industry. Indeed the number of development projects at times makes the summaries almost read like local plans. The limited contacts that some LECs have had with local government, as shown by the COSLA survey (COSLA, 1990), therefore makes conflict with the planning system almost inevitable.

### **Women Entrants to the Labour Market**

One of the main similarities between the plans is the emphasis they place upon persuading more women to enter the labour market. Given that almost all LECs were disappointed in their budget allocations it is difficult to understand why they seem to want to spend money in this way. One of the main labour market changes over the past decade has been the increase in the numbers and proportions of women in the labour market. For example estimates from the Labour Force Survey indicate that between 1979 and 1989 the number of women in the labour market increased by 19% whilst between 1988 and 1989 some 795,000 women re-entered the labour market (Department of Employment, 1990). Given this, why are the LECs spending money on something that has been happening and is forecast to continue to occur?

It is hard to think of any adequate explanation other than the LECs being so influenced by the publicity surrounding this issue that they all felt they had to include it in their business plans otherwise they would be somehow failing. This seems to have blinded them to looking at what has actually been happening in the labour market. A more effective use of money would be to help those women presently in the Scottish labour market to improve their pay and conditions, something which recent research has indicated are far from ideal (Scottish Low Pay Unit, 1991).

It is difficult to equate this interest in getting more women into work with the LECs' grandiose Mission Statements, most of which lay stress upon developing their areas' prosperity and "human resource potential". This hardly seems likely to be helped by encouraging more women to enter low paid, part-time employment. There also seems to be an in-built contradiction between

implementing policies to bring more women into the labour market at the same time as attempts are being made to train the unemployed.

### **Training the Unemployed**

Around three quarters of those in the official unemployment count are male. Training for the unemployed is something that almost all LECs intend to do. However attempts to increase female participation in the labour market undermine much of the justification for this. All that is likely to happen is that competition for available jobs increases. This may be advantageous for employers. It is likely to do little for the unemployed.

Allocating resources to train the unemployed also, as was argued in a previous article (Hayton, 1991), is based upon a misunderstanding of the problems of the Scottish labour market. Whilst many of Scotland's 200,000 or so unemployed may be unskilled this is not the reason they are unemployed. In simple terms unemployment is high because labour demand is low. Training the unemployed therefore is likely to have 2 main consequences:-

- a) it will increase competition for available jobs so that the unemployed will be better qualified; and
- b) it will, if training efforts are targeted at areas of high unemployment as several LECs claim they will be, result in displacement.

There seems to be little recognition of these factors by the LECs. The assumption seems to be that training will get the unemployed into jobs. Generally this is unlikely to be the case.

### **The Voluntary Sector**

If the LECs were serious about doing something to help the unemployed then one would hope that they would have envisaged a role for the voluntary sector in their plans. Initiatives such as community business have had an important role in training and motivating individuals and communities, whilst the voluntary sector generally has been very effective at targeting those who are most disadvantaged in the labour market. Although these efforts may not have always resulted in many permanent jobs being created, something that reflects labour market conditions rather than the effectiveness of the voluntary sector, they have enabled trainees to develop, in LEC terminology, their "human resource potential". Despite this only one reference to the voluntary sector has been found. The short term outlook for those who lack literacy and numeracy skills, ex-offenders, those with mental health problems and those with physical and mental handicaps therefore seems likely to be bleak.

### **Tourism**

One can also query the emphasis that a number of LECs

place upon tourism. In isolation one would not question this as an arm of economic development. However it seems to sit rather strangely alongside the Mission Statements with their talk of creating prosperity and developing human resources. Given that tourism is associated, for good reason, with low wages and often less than ideal conditions, it is hard to see how its promotion is going to do much to produce a well paid, highly skilled labour force. These contradictions are most evident for the LEC that identifies low wages as being a problem and then proceeds to devote a ninth of its plan summary to measures for the promotion of tourism!

### **Implementation Priorities**

Anyone looking at the business plan summaries to gain some idea of priorities will be disappointed. Everything seems to be equally important and the impression is given that everything will be done. This is likely to be totally unrealistic yet no indication is given as to which projects will be cut if resources are not forthcoming.

The lack of any priorities is closely related to the range of projects that most LECs claim that they will be implementing. The LECs intend to do everything. One example illustrates this. One of the more rural LECs claims that it will "provide facelifts and initiate regeneration" in the towns and villages in its area. These are to include 8 specific towns and 2 groups of villages. In addition it intends to regenerate riverside walks and coastal seafronts, listing 4 specific locations plus a general riverside walks category. This is just one example of the vast range of projects that this LEC includes in its plan. Yet it has a staff of only 35 and an annual budget of £8 million!

One is left wondering how realistic this "shopping list" approach to business planning is and if the plan summaries will be any use at all in indicating what the LECs' priorities are to be. There must be a fear that the summaries are so divorced from reality that no one comes to believe anything that they contain. An even worse scenario may be for people to actually take the summaries at face value, as a list of projects that will be implemented in the near future. If this does happen then it is likely that an awful lot of people will be disappointed and the LECs' credibility will accordingly suffer.

### **Conclusions**

The speed with which Scottish Enterprise has been set up is impressive: less than 30 months from the initial White Paper to the formal launch. However analysis of a selection of the business plans shows that this speed has not been without its problems. What characterises the plans is that they are internally contradictory, seem to lack much awareness of current labour market trends and do not appear to be based upon a sound analysis of economic problems. As over £1 million of public money

was spent on preparing them the value of this expenditure can be questioned. It might have been far more effective for the plans to have been developed at a more leisurely pace to allow the staff of the LECs more time to learn about the economic and training problems and opportunities of their areas. However these plans are the first attempts at producing integrated training and economic development strategies in an environment of considerable financial uncertainty. As such it would have been surprising if there had been no problems.

Yet if the LECs are to "enhance and stimulate economic growth in (their areas) and improve the quality of life" (Industry Department for Scotland) one would hope to see three things in the next round of plans. From the LECs far greater efforts at developing real partnerships are needed. Whilst many talk about its importance so far true partnership, as opposed to consultation, seems to have been limited. This needs to change. The LECs also need to begin to develop strategies that are based upon reality rather than upon unattainable Mission Statements. This will mean that the "shopping list" approach to business planning will have to go to be replaced by a series of prioritised, complementary projects that are capable of being implemented.

However success in these areas will be dependent upon there being greater flexibility by Central Government over both the amount of money available and the uses to which it can be put. What is evident at the moment is that the cutbacks in training funds mean that once the demands of the guarantee groups are met there is very little scope for the development of any other initiatives. Unless this changes the integration of training and economic development, one of the main reasons for setting up the new system, will be as far away as ever.

#### Notes

1. An earlier version of this paper was presented at a Planning Exchange Conference "Local Enterprise Companies: Open for Business", held in Glasgow in March 1991.
2. At the time this paper was written (March 1991) business plan summaries were not available for all of the 13 lowland LECs.

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