# ECONOMIC PERSPECTIVE 2

## NEW LAMPS FOR OLD? THE INDUSTRIAL STRATEGIES OF SCOTTISH ENTERPRISE

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### 1. Introduction

The merger of the Scottish Development Agency with the Training Agency's Scottish operation has dominated the industrial policy scene in Scotland since the conception of Scottish Enterprise in 1988. From the very beginning the scheme was shrouded in political controversy, and during the extensive period of reorganization a considerable body of academic writing has been devoted to exposing potential weaknesses of the new institutional set-up.[1] This paper presents a first attempt to assess the actual record of Scottish Enterprise in order to 1) establish to what extent the new body represents a departure from the SDA legacy, and 2) discuss the possible implications of its corporate strategies for the future of this new two-tier network of regional development agencies.

In theory, combining industrial development and training within a single body makes a good deal of sense, given the close links between the two areas (Hood, 1990, p 66), but a number of circumstances prevented the specific merger proposal from being unconditionally accepted by the industrial policy community in Scotland.

On the one hand the idea had been launched just shortly after the SDA had been given a clean bill of health by a major government review (IDS, 1987). Moreover, it had been conceived by Bill Hughes, the chairman of CBI Scotland, and after public endorsement by the prime minister herself the proposal quickly emerged as a government white paper. Although Conservative ministers had regularly sought to profit from photo-opportunities produced by Agency activity,[2] and the SDA embraced official government philosophy that would only permit public intervention in cases of 'market failure', the notion of a government-funded regional development agency had never been fully accepted by the party's neo-liberal wing. Under these circumstances the proposal could readily be construed as an anti-interventionist backlash, design to transform the SDA beyond recognition.

On the other hand the structure of the new body also gave rise to concern, because the merger created a two-tier network consisting of a national core, now known as Scottish Enterprise National (SEN), and a number of geographically based and business-led Local Enterprise Companies (LECs). This could perhaps be seen as an attempt to combine national strategic coherence with adjustment to local circumstances, but at the same time the set-up also entailed considerable risks. The dominance of local business notables on LEC boards could lead to the prevalence of short-term interests of existing firms, and the need to cultivate local support could make LECs judge projects on their high-profile visibility rather than their development potentials. The most serious problem, however, was that even if these pitfalls were avoided, the existence of powerful LECs pursuing local interests would not only create an unstable situation with fierce internal competition for limited resources, but could also undermine widely acclaimed SDA achievements on the national level like e.g. strategies for particular sectors of industry or the coordinated approach to the attraction of inward investment. The only way to counter this inherent tendency of fragmentation would be to ensure that the SEN core was maintained as a regional development agency in its own right, i.e. with a considerable capacity for strategic decision-making and executing policy programmes on the Scottish level. From the outset Scottish Enterprise was guilty of Thatcherism by more than association. The institutional set-up made it likely that long-term strategies for industrial development could be superseded by business-led short-termism, and the spectre of the English Urban Development Corporations with property-dominated developments and yuppification loomed large in the industrial heartland north

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of the border.

The extent to which the merger actually did produce a material break with previous policies is of course difficult to appreciate before the new organization has settled down and functioned for a number of years, but a helpful first indication of the direction in which Scottish Enterprise is moving can be obtained by examining its industrial strategies. Although such documents are proclamations about the future from which policies may eventually deviate, corporate strategies play an important part in the policy-making process as internal guidelines for action and statements of intent that define the role of the organization vis-à-vis its environment. Especially in a situation where the position of the core is perceived to be under political threat from both the LECs and the Scottish Office, an analysis of the aims and methods favoured by the SEN core could provide important pointers to the future of the network.

The paper proceeds in three steps. In order to establish the degree of continuity and change at the corporate level, first the early industrial strategies and then the proposed expenditure patterns of Scottish Enterprise are analyzed and compared to those of the SDA in the late 1980s. Finally the significance of these results are discussed as a preliminary indicator of the relationship of SEN to the LECs and the Scottish Office.

**2. Aims and methods**

The first statement of strategy presented by Scottish Enterprise differs significantly in form from those of its predecessor body. While the SDA's corporate planning documents were not normally published in their entirety but merely summarized in the Agency's glossy Annual Reports, "Scottish Enterprise: Strategies for the 1990s" is clearly aimed at a larger external public with its - by SDA standards - lengthy overview of structural trends and weaknesses in the Scottish economy and plenty of space devoted to elaborating on individual areas of policy initiative. The analysis below compares this SEN document (SE, 1991) with the last corporate strategy adopted by the SDA before the before the merger proposal gained political momentum in the autumn of 1988 (SDA, 1987a), and focuses on three areas, namely

* overall corporate goals,
* key policy aims, and
* methods of implementation.

As can be seen from Table 1, the overall goals of Scottish Enterprise appears to be broadly similar to those of the SDA, namely to promote economic development, measured in income and jobs, and to improve Scotland's environment. Apart from the addition of the Brundtlandian buzz-word "sustainability", the main difference would seem to be that the SE goals are more explicitly social than their precursors, aiming at absolute goals such as low unemployment and a high quality of life, instead of merely improving the relative position of Scotland in these areas. This 'unexpected' change of emphasis should be interpreted in the light of the nature of the two organizations involved in the merger. From well before the advent of the first Thatcher government in 1979 the SDA had adopted a strategy that aimed at solving social problems such as unemployment by economic means, i.e. by creating long-term viable jobs in internationally competitive firms.[3] Contrary to this the raison-d'être of the Training Agency had been largely social, namely to improve the chances of individual unemployed on the labour market. The more social posture of Scottish Enterprise can in other words be explained by the inclusion of training responsibilities in the remit of the merged body, and thus at the level of overall corporate objectives institutional inertia has clearly been more important than considerations of ideological 'correctness'.

Both organizations intend to attain their general development objectives by pursuing a large number of specific policy aims, and as can be seen from Table 2 also on this level the degree of permanence is remarkable. The overwhelming majority of SDA policy priorities have been retained by Scottish Enterprise, albeit regrouped under new headings, and also the key area of sectoral priorities has remained by and large the same. The 1987 target industries included electronics, advanced engineering, oil, healthcare, food and financial services, and - apart from broadening the latter to include business services in general and formalizing earlier commitments to tourism - the only 1991 additions were education and environment, both of them in line with commitments to tradeable services and high-tech engineering respectively.

In addition to this, Scottish Enterprise has upgraded or adopted a number of policy aims in the area of economic development. Firstly, skills enhancement for managers and employees is now much more conspicuous, probably partly inspired by the new responsibility for training but definitely also in line with the long-term trend of the 1980s where development of soft resources via a wide range of advisory services was the fastest growing area of SDA activity.[4] Secondly, export promotion is now a more prominent feature. This may seem natural for an organization constantly stressing international competitiveness, but hitherto the tripartite Scottish Council Development & Industry has play a major, partly government-funded, role as promoter of trade, and perhaps at this stage the inclusion of export as a priority should be seen as a 'take-over bid' more than anything else.[5] The third new economic aim is to

"build truly global businesses that can succeed in all major markets from worldwide bases but be headquartered in Scotland" (SE, 1991, p 13) on the basis of existing or totally new firms competing in specific market niches. A similar commitment may have been implicit in the 1987 priorities, but the only example of such an approach dates back to the late 1970s where the SDA was heavily engaged in Stonefield Vehicles, a potential a world-leader in rough-terrain heavy transport that eventually failed after a series of management problems and the political intervention of the incoming Conservative government (Committee of Public Accounts, 1980). The Stonefield parallel not only underlines the high-risk nature of this type of activity, clearly recognized by Scottish Enterprise (SE, 1991, p 19), but is also in stark contrast to the cautious hands-off approach that could be expected from an allegedly Thatcherite organization. Instead the bold statement of this ambitious goal projects a picture of Scottish Enterprise as an dynamic and project-driven organization deeply involved in promoting the development of individual companies.

The merged body's training remit has been translated into the Access-to-jobs priority, interpreted as the dual task of "realising economic potential" and "improving the quality of life", i.e. a combination of economic and social objectives. The most astonishing thing about the training strategies of Scottish Enterprise is, however, their paucity. In striking contrast to the 6 pages detailing the economic and environmental priorities, only half a page is devoted to training issues, merely stating the dual purpose and the target areas. This apparent lack of forward planning may merely reflect the nature of the Scottish operation of the Training Agency as an executive organization delivering UK policy programmes in Scotland (Hayton, 1991, pp 81ff), but in that case the merger did obviously not eliminate the 'strategic deficit' overnight.

As regards methods of implementation, the ways in which the policy aims of Scottish Enterprise are to be realized would seem to differ little from the previous SDA approach. Apart from the various schemes inherited from the Training Agency, the merged body still commands broadly the same armoury: the capability to provide advice, premises finance and various types of infrastructure. Moreover, the criteria for developing and implementing projects are also largely a transcript of earlier practices. Like the SDA, Scottish Enterprise stresses the need to

- work in partnership with others and maximize private sector input,
- to enable others to act rather than rely on direct provision,
- to be additional and minimize displacement of private enterprise, and
- to maintain delivery of services on commercial terms except when subsidies can be justified in terms of externalities or pump-priming effects.[6] The most significant difference in terms of methods of implementation is perhaps the somewhat intangible question of style. Whereas the SDA in the late 1980s came across as a rather defensive body, constantly stressing that the need to work with the grain of the market, the new body presents itself in a way that resembles the early 1980s with its emphasis on being "action-oriented, opportunistic, risk-taking and deal-making" (IDS, 1987, p 96).

Such corporate imagery - like overall goals, key aims, methods and approaches - does not necessarily correspond in any great detail to the realities of policy development and implementation, but as a signal of intent to its environment the message of Scottish Enterprise is clear. While continuity prevails and most new priorities reflect the extended remit, some significant changes actually take the organization 'back to the future' by replacing the cautiousness of the late 1980s with a high-profile project-driven style akin to that of the early 1980s.

But before we ponder the possible significance of this pattern, a brief look at the resource allocation of Scottish Enterprise will be helpful.

**3. Resources**

The first corporate strategy of Scottish Enterprise contains a projection of resource allocation for the coming five-year period, and this not only gives a much more accurate picture of the relative weight of the organization's policy priorities, but also enables comparison with earlier SDA expenditure patterns.

As can be seen from Figure 1, the merger is to be accompanied by noticeable changes within the original SDA areas of economic and environmental development.[7] The sudden 60% decrease in expenditure on business infrastructure can, however, not be ascribed to Scottish Enterprise because it reflects the sale of the nearly 2/3 of the SDA's property assets in 1990, and factory building had accounted for nearly 80% of SDA expenditure on business infrastructure. Interestingly enough, the remaining 40% should leave plenty of room for an unchanged level of activity in the politically controversial area of public venture capital. The increase in support for indigenous firms may to some extent reflect changing categorization of expenditure, but the general tendency is by no means surprising because 'soft' support for indigenous firms such as advisory services has been the outstanding area of expansion in the 1980s, growing 435% in real terms and making up 25% of SDA gross expenditure in 1990.[8]

Looking ahead to the 1990s, the resource allocation projected by Scottish Enterprise reveals a further increase in this type of support for indigenous firms, and Figure 2 demonstrates that two thirds of this growth stems from two new priorities: skills enhancement and the quest for creating Scottish winners in a global context. As can be seen from Figure 1, the expansion of support for indigenous firms will take place at the expense of training, facing a 40% reduction, and thus the proposal involves a large-scale redistribution between policy areas. In the future competitiveness boosting measures such as in-job skills enhancement will be relied on to generate new jobs and thereby reduce the need for traditional training programmes for the unemployed. If this is indeed the strategic thrust for the 1990s, then the curious silence about training policies noted above is perhaps after all less surprising because the projected redeployment of resources amounts to achieving social goals by economic means - something that would be in excellent accordance with the SDA's long record of (re)interpreting its non-economic responsibilities from an economic perspective.[9]

All in all the expenditure plans of Scottish Enterprise, like the aims and methods, display a significant degree of continuity with patterns and trends well-known from the SDA in the 1980s, especially the drift away from the 'hardware' side of regional industrial policy towards less tangible 'soft' aspects of economic development. However, the single most interesting conclusion reach by analyzing the resource balance projections still relates to the way in which the two major tasks of the new organization are to be integrated. The very essence of Scottish Enterprise's strategy for the 1990s seems to be that the social problem of unemployment should not be dealt with on a direct and individual basis - by means of training - but instead addressed indirectly via promotion of economic development. From this perspective, the merged body has certainly turned out to be more than just the sum of it constituent parts.

### 4. Strategic significance

The analysis of Scottish Enterprise's strategies for the 1990s has revealed

- a notable degree of continuity with SDA goals, policy aims and spending patterns,
- changes of priority that focus the organization's attention even more clearly on the needs of indigenous manufacturing industry,
- a return to the proactive, project-driven style of operation of the SDA of the early 1980s, and
- the intention to deal with its new social remit by economic means.What is the significance of these priorities for the future of the Scottish Enterprise network?

Firstly, from the combination of continuity and strategic adjustments it is obvious that if the hidden agenda of the merger were to reorganize the SDA beyond recognition, then the scheme has failed. Scottish Enterprise anno 1991 even in some ways appears to be closer to the heyday SDA of the early 1980s than was the cautious organization the Thatcherites allegedly tried to get rid of, and the priority accorded to manufacturing industry coupled with the downgrading of property and environment development hardly resembles an English Urban Development Corporation, let alone herald a period of yuppification. One major change that could be seen as inspired by the Conservative government (cf. IDS, 1988) is the shift of resources from traditional training programmes to policies more directly geared to the needs of economic development, but in that case the Thatcher legacy would be located in the Training Agency part of the operation while the smooth-talking industrial intervention of the SDA, the assumed target of a clandestine conspiracy, appears to be alive and kicking.

Secondly, the proclamation of corporate strategies for Scottish Enterprise as a whole is a clear indication of SEN's intention to exercise a strategic role within the network. And what is even more important, the policy priorities also imply that a number of key functions will still be carried out on a national level, i.e. sectoral initiatives, attraction of inward investment, major infrastructure projects and specialized advisory services. SEN does not in other words see its role merely as a policer of LECs on behalf of the Scottish Office, but as a development agency in its own right.

Thirdly, the nature of the strategy document with its detailed priorities on policy and expenditure presupposes that SEN will be capable of exercising considerable influence on local activities because the LECs account for c. 85% of total network expenditure. At the same time the planned reduction of 'hardware' oriented policy programmes (business infrastructure and environmental renewal) and the switch to 'softer', more low-key, development strategies would also seem to limit the scope for local flag-waving to quite a considerable extent.

On this background it could be tempting to conclude that the SDA has survived yet another malevolent attack and predict that once again Scotland's regional development agency will bounce back, just like in the early 1980s when the new Conservative government made a much publicized, but ultimately unsuccessful, attempt to restrict the Agency's industrial investment activity.[10]

Neither this parallel nor the optimistic conclusion are, however, warranted. The basic problem is that while the proactive spirit of the SDA clearly pervades the corporate thinking of Scottish Enterprise, it remains to be seen to what extent these corporate strategies will eventually be translated into implemented policy programmes. And implementation is crucially depending on the LECs, currently discharging by far the largest part of network activity, and the extent to which the core can persuade - or ultimately force - the local bodies to comply with its strategic objectives. The SDA executive of the early 1980s could decide to fight back and succeeded, Scottish Office permitting, because it was the only centre of decision-making within the organization. The fate of SEN depends not only on central government, but also on the LECs and the delicate balance between parochial short-termism and project-driven opportunism.

The most long-term strategic consequences of the merger are in other words organizational, namely the creation of a series of semi-autonomous centres of local decision-making. Within this institutional setting, nationally devised strategies are a starting point for negotiation and bargaining rather than commandments to be obeyed throughout the network, and depending on the approach of the LECs, this may or may not be bad news.

The good news is that the first corporate strategies of Scottish Enterprise demonstrate that SEN clearly intends to play a full role in the two-tier network of regional development agencies. Whether this will eventually be possible, let alone preferable to the pre-merger situation or ultimately a success, is a different story.

| SDA 1987 | SCOTTISH ENTERPRISE 1991 |
|---|---|
| * economic development<br>* increase aggregate income<br>* net-creation of new jobs<br>* environmental renewal | * high output/income<br>* low unemployment<br>* high quality of life<br>* economic and environmental sustainability |

**Table 1. Corporate goals.**
Source: SDA 1987a and SE 1991.

<table>
<tr><th>SDA 1987</th><th>Scottish Enterprise 1991</th></tr>
<tr><td>Technology:<br>* improve competitiveness<br>* increase R&D<br>* infrastructure for priority sectors</td><td rowspan="3">Generate wealth & create jobs:<br>* improve competitiveness<br>* enhance technology base<br><br>* develop new / local / global firms<br>* develop skills<br>* improve linkages<br>* increase exports<br>* improve business infrastructure<br>(R&D facilities, premises, venture capital)<br>* sectoral initiatives<br><br>* attraction of inward investment</td></tr>
<tr><td>Scottish enterprise:<br>* improve management<br>* training<br>* improve linkages<br>* market development<br>* provision of venture capital<br>* provision of premises<br>* sectoral initiatives</td></tr>
<tr><td>Internationalization:<br>* improve Scottish competitiveness<br>* attraction of inward investment<br>* attraction of external tourists</td></tr>
<tr><td rowspan="2">Urban renewal:<br>* improve deprived priority areas<br>* high street developments</td><td>Environmental development:<br>* upgrade the worst<br>* exploit the best</td></tr>
<tr><td>Access to jobs:<br>* improved for priority areas<br>(inner cities, peripheral estates, isolated rural areas, closure areas)</td></tr>
</table>

**Table 2. Key policy aims.** Source: SDA 1987a and SE 1991.

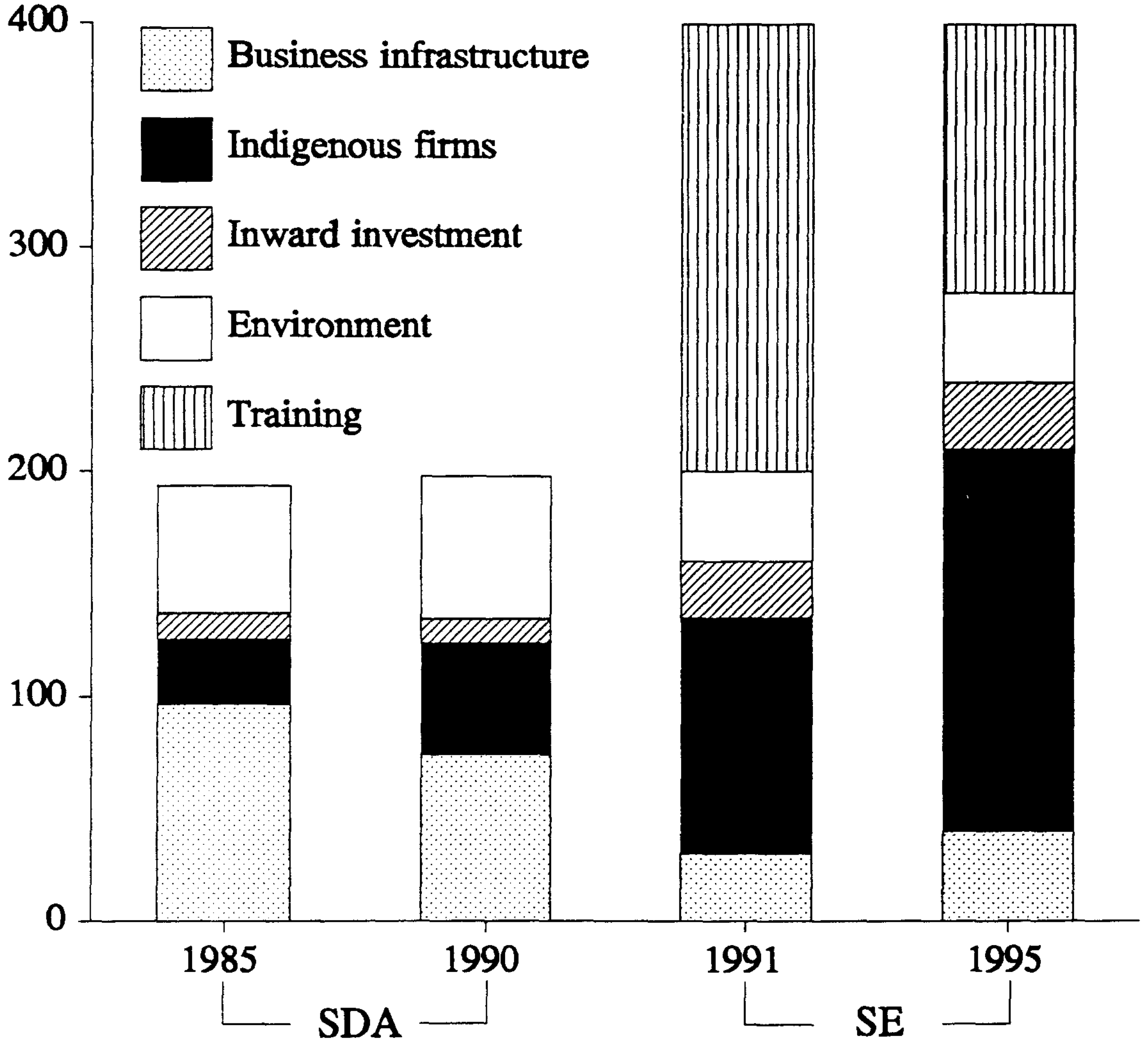


**Figure 1. Gross expenditure balances.**
£mio 1990. 1985/1990 sources: SDA accounts (1986, 1991). 1991/95 source: SE 1991 p 21.

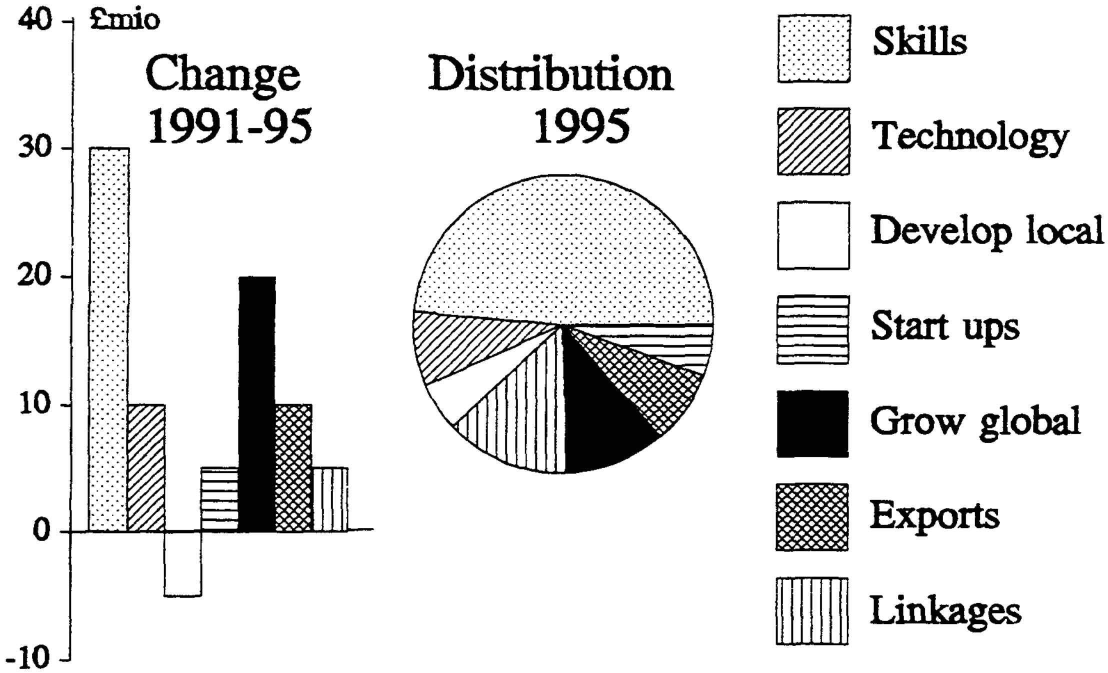


**Figure 2. Expenditure on indigenous firms.** £mio 1990. Source: SE 1991.

## Notes

1. For extensive reviews of the merger proposal, see e.g. Boyle 1988, Moore 1989, Danson et. al. 1989 & 1990, Fairley 1990, and Hood 1990 & 1991.

2. After 1984 the pictorial sections of the SDA's annual reports became a favoured venue for Scottish Office and other government ministers.

3. See e.g. SDA 1976 sect. 46, SDA 1978 p. 6, 1984a and 1987a.

4. While total SDA expenditure remained virtually constant in real terms throughout the 1980s, advisory services increased their share from 2% to 18% and were by the end of the decade the by far largest area of non-infrastructure expenditure (calculated on the basis of SDA 1977-91).

5. A likely explanation for this 'untidy' situation could be that after having transferred responsibility for inward investment attraction to the SDA in the late 1970s, the Scottish Office was reluctant to let trade promotion follow suit in order to avoid further weakening of the SCDI as a tripartite defender of Scottish interests.

6. While the two first can be found in statements of corporate strategy aimed at the public at large (e.g. SDA 1987 and SE 1991), the more 'technical' and indeed more operational criteria feature prominently in documents for primarily internal and Scottish Office consumption (e.g. SDA 1987a and SE 1992).

7. In order to overcome the different structures of the expenditure figures, some activities have been regrouped under two headings, namely business infrastructure ('hardware' such as premises, finance, and R&D facilities) and indigenous firms (including 'soft' support like sectoral initiatives and advisory services on technology, export, linkages, skills, etc.). The boundaries between the two composite categories does not correspond fully with the divisions employed in the two sets of figures, and thus the comparison should only be regarded as a crude first estimate.

8. Calculated on the basis of SDA 1983-91.

9. E.g. employment in the late 1970s (Halkier 1991), and in the 1980s urban development (Moore & Lever (eds.) 1986) and environmental improvement (IDS, 1987, p 66).

10. See Halkier 1991.

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