

BRIEFING PAPER

AGENCY RESTRUCTURING IN THE HIGHLANDS AND ISLANDS: A PRELIMINARY EVALUATION OF THE LOCAL ENTERPRISE COMPANIES

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1. Introduction

In April 1991, the Highlands and Islands Development Board was replaced by a new agency, Highlands and Islands Enterprise. This combines training and development functions in the region in a single agency. In addition a network of ten Local Enterprise Companies (LECs) was established, charged with the delivery of most of the development services. A similar process occurred in the remainder of Scotland where the Scottish Development Agency and the Training Agency merged to form Scottish Enterprise. Whilst there have been a number of studies focussing on the LECs, they have tended to focus on their internal operation and priorities, or on their relationship with other agencies, such as local government and the enterprise trusts (Fairley 1992, Hayton 1992, Wicks et al 1992). To date there has not been a study which focuses on the responses of the clients of the LECs to the new system. This study aims to help redress this balance.

In order to undertake a preliminary evaluation of the LECs a survey was undertaken of a sample of businesses in three LEC areas in the HIE area. The aim of the survey was to assess the impacts of the institutional changes upon the firms and to attempt to quantify these outcomes in quantitative (numbers of jobs) and qualitative terms (quality of service offered by the LECs). The quantification of the changes proved to be more problematic than the qualitative assessment which was also undertaken. Partly this was because of the research methodology and also because respondents were unable to quantify the impacts so soon after the assistance had been provided by the LECs.

Turok (1990) summarises the main approaches to the evaluation of spatial economic policy including internal review (administrative effectiveness), external review (financial efficiency) and social accounting. Due to the lack of information available it was not possible to use one of these methods. For

example, to undertake an evaluation focusing on financial review would have required access to the accounts of the LECs, and to applications for assistance. This was not possible during the study period. Indeed it was not possible to obtain a list of firms which had been assisted from the LECs as the information is held to be commercially confidential. This issue has emerged as one of major concern elsewhere (Hayton 1991). This raises a number of issues which will be returned to later. The evaluation methodology therefore involved a random sample of businesses and used a questionnaire adapted from the Industry Department for Scotland / Scottish Development Agency area initiatives evaluation methodology (IDS 1988).

2. Highlands and Islands Enterprise

Whilst the purpose here is not to review the operation of HIE and the LEC network, rather to focus on the responses of firms to the new system, it is worth noting the major differences between the two systems (for a fuller account see Lloyd and Black, 1993, forthcoming). Firstly, HIE has responsibility for a wider set of functions than the HIDB. HIE integrates the economic and social development functions of the HIDB with the training functions of the Training Agency and the environmental functions of the SDA. Secondly, whilst the HIDB had a relatively centralised administrative structure operating within the public sector, HIE combines a central policy making body with ten private sector groupings - the LECs. The LECs are essentially private sector companies which contract with the central public sector body to deliver the training, business development and environmental services throughout the Highlands and Islands. Within the overall strategy of HIE, the LECs draw up their own annual business plans which must be approved by HIE and form the basis for the monitoring and evaluation of the LECs' performance.

A further important factor is the size of the LECs

in the HIE area. Whilst there are ten LECs in the HIE area covering a total population of some 370,000 there are thirteen LECs in the remainder of Scotland covering a total population of 4.7 million people. The LECs in the HIE area are therefore much smaller than those of SE. The largest SE LEC, Glasgow Development Agency for example, had a 1992/3 budget of £58m and 164 staff. This compares with Inverness and Nairn Enterprise, the largest HIE LEC, with an equivalent budget of £5m and 21 staff. The smaller HIE LECs are therefore to an extent different organisations from the SE LECs, sharing similar remits but having to deal with remote sparsely populated rural areas with few staff. Skye and Lochalsh Enterprise, the smallest LEC covers a population of only 12,600 and had 10 staff with a budget of £2.7m in 1992/93. The smaller size of the HIE area LECs is to an extent reflected in their financial responsibilities. Thus over the financial year 1991-92, they were only able to decide on applications for financial assistance up to £15,000. Larger applications had to be referred to HIE in Inverness for approval. This appeared to be a source of conflict within the system in its initial stages (Wicks et al 1992). This was increased to £30,000 in April 1992. At the time of the survey in August/September 1992 therefore, the LECs had only been in existence for 18 months and had only had increased fiscal responsibility for some five to six months.

3. The study areas

Three LEC areas were chosen for this study. The first area was that covered by Skye and Lochalsh Enterprise, based in Portree, Isle of Skye. This was chosen as it is the smallest LEC and also combines island and remote mainland conditions. Ross and Cromarty Enterprise, based in Invergordon, was chosen as a study area as it incorporates arguably the most industrialised part of the Highlands around the Cromarty Firth, and straddles the mainland, incorporating remote mainland locations on the west coast. The third area was Caithness and Sutherland Enterprise, based in Thurso, which also incorporates an east-west geographical split with a more industrial east coast and a large sparsely populated rural hinterland on the north west coast (See Map 1).

In each of the areas a sample of predominantly manufacturing and processing businesses was drawn up. The sources for the samples were business directories provided by the LECs and local authorities. In addition a sample of fish farming

businesses was used in the more remote locations where there is a lack of manufacturing. Manufacturing businesses were targeted because they have been the focus of development policy in the region over a long period. They also tend to be reliant on sales outwith the Highlands. In Skye and Lochalsh and Caithness and Sutherland a 100% sample of manufacturing businesses was used, whereas in Ross and Cromarty a 50% sample of manufacturing businesses was taken. The total sample size was 93 firms. The research methodology consisted of a telephone survey with 67 firms taking part (72%). The remainder of the firms were unobtainable suggesting that they had either ceased trading or moved away.

4. The sample firms

The firms were predominantly single independent businesses (78%), whilst 13% were headquarter operations with branches elsewhere, and only 9% branchplant operations. Turnover figures were provided by 58 of the firms (86%). They showed that only ten of the firms had sales of more than £1m and twenty one had sales of less than £75,000. The employment figures for the firms showed that 69% had ten employees or less and only 20% had more than 20 employees. Interestingly figures for the HIDB area in 1983 show that 69% of employees in manufacturing were in units of less than 10 employees (IDS 1987). The legal status of the firms showed that 30% were sole traders, 57% private limited companies, with the remainder partnerships (9%) and two public limited companies. The firms were therefore fairly typical of the Highlands and Islands in general, being predominantly small independent businesses. Table 1 shows the geographic and sectoral breakdown of the firms.

5. Survey Responses

5.1 LEC Services

The creation of HIE and the LEC network involved the integration of a number of different functions, indeed this was one of the main reasons for the new system (HM Government 1988). The survey attempted to find out whether the LEC clients were aware of the services which they provided. The respondents were asked if they thought the LEC provided a number of services. The answers are set out in table 2. The table shows that the respondents were less aware that the LECs provided training services. Thus almost half of the respondents were unaware that the LECs provide training services for

the unemployed and 40% did not know that they provide youth training services. The more "traditional" HIDB services of business start-ups and grant and loan assistance, however, were better recognised. Thus over 90% of respondents were aware that their LEC was now the source for this type of funding. The lowest recognition was on the training services. This appeared to be a general problem across the three LEC areas.

5.2 Contact with the LEC

The respondents were asked if they had ever had any contact with their LEC. Two thirds of the firms had contacted their respective LECs which was encouraging considering the random nature of the sample. Of the 42 firms which had contacted the LECs, one third had been assisted, and a further third were awaiting assistance or a decision on their applications. The remainder had either been turned down for assistance or had not proceeded with their applications. 26 firms had been assisted or had been told they would be assisted, almost 40% of the total sample. The project assistance ranged from small grants for promotional material and business plans, to assistance packages up to £500,000. The assisted firms were asked what effect this assistance had on their businesses. Of those firms which provided a response, 80% felt that the assistance had an impact on their business. When asked about the impact of the assistance on employment levels 50% of respondents reported an increase in employment, whilst a third reported no change, the remainder stated that it was too soon to tell. The respondents also had difficulty quantifying the numbers of jobs created. When asked about the quality of advice 80% stated that it was satisfactory with 16% unsatisfied. It should be borne in mind, however, that these figures are from a sub-set of the total sample, which had been assisted in some way. Many of the assisted firms stated that there had been delays in payment of their grants and loans. Of the 27 firms which had not contacted their LEC, the main reasons given were either that they had no problems over the previous year or that they had no projects. Two respondents stated that previous experience with the HIDB had put them off, whilst one stated that they were concerned about a fair hearing from the LEC.

5.3 Comparisons between the LECs and HIDB

Over a third of the firms which had contacted the LECs had previously been assisted by HIDB (24 firms, 36% of the total sample). Not all of these

firms had been assisted by the LECs, several for example had decided not to proceed with their applications. These firms, however, were clearly in a good position to be able to compare the two systems. They were asked to compare the LEC assistance with HIDB assistance. The replies are shown in table 3. As the table shows the largest number of respondents felt that assistance from the HIDB was better (38%). This is probably to be expected given the length of time which the LECs had been operating, and the administrative problems in the new system. There was no correlation between being assisted by the LECs and feeling that their assistance was better than HIDB assistance. Indeed of the 14 firms which had been assisted by the LECs and HIDB (grants/loans paid), the largest group (six) stated that HIDB assistance had been better, only two preferred the LEC assistance, with the remainder either stating there was no difference or unsure. There were no major geographical differences between the responses and given the small numbers it would be difficult to draw any conclusions about the performance of one LEC compared to another.

The respondents were asked to explain their answers. A number of comments suggested that the HIDB was a larger and more professional organisation than the smaller LECs. A further problem which was mentioned was that larger applications went to Inverness for decisions in any case and this caused an unnecessary delay in the system. The HIDB system of having a case officer for each application was also missed as respondents stated that they either did not know who to deal with at the LEC or seemed to be dealing with several different people.

All of the respondents were asked whether they felt having a LEC represented an improvement on the previous situation. The answers are set out in Table 4 below. As the table shows the largest category of firms felt that the new system was not an improvement on the previous system (37%). In contrast, about one third of the firms (28%) favoured the new system. In addition, the table shows that 40% of the firms either felt the new system was an improvement or no different from the previous system. Interestingly, the pattern of responses is similar to those of the subset of firms which had been assisted by HIDB and the LECs (see Table 2). The proportion of firms which feel that the new system is better or no different is 46% the case of firms with direct experience of both systems and 40% for all firms. As table 3 shows a large proportion of firms are undecided about the

new system (22%).

These results do not provide a clear-cut result as to whether the LECs are viewed favourably by their client group or not. Thus the largest response was that the HIDB system was better (37%). However, the proportion of firms stating that the new system is better or no different is very similar (40%). After only 18 months of existence these results may be viewed favourably by those responsible for the operation of the HIE enterprise network. Indeed focussing on those firms which had experience of both HIDB and the LECs shows a more favourable picture with almost half of these firms stating that the LECs were either better or no different (46%).

5.4 Discussion

The open-ended nature of the questions enabled respondents to explain their answers. Three main issues arose. Firstly, the need for any change in the system. Many of the respondents felt that the HIDB had operated a very good system of assistance and that this should not have been changed. Almost 30% of respondents asked why the system had changed. Some respondents also felt that the manufacturing sector was viewed more favourably by the HIDB. The major concern of the respondents was the effectiveness of the system. Thus if they had experienced delays or poor service from the LECs, or heard of this, they were critical of changes in the system. This type of criticism is the inevitable result of changing an established structure. The key question is whether this has adversely affected the economic environment in the Highlands and Islands.

Secondly, the issue of confidentiality arose amongst those who were critical of the LEC system. Eight respondents specifically mentioned confidentiality as a problem with the LEC system. Although no specific examples of breaches of confidentiality were given, this appeared to be an important issue. The HIDB was viewed as an independent organisation whereas the LECs with their boards made up largely of local business people were felt to have vested interests. There was a reluctance amongst some of the respondents to discuss their business with local business people, and the "Honest Broker" role of the HIDB was viewed as missing from the new system. One respondent stated categorically that he would not deal with the LEC but would have gone to the HIDB because he did not want to discuss his business with local business people. Whilst this perception was a minority view it is important as it was mentioned

without prompting.

Those who were in favour of the new system mentioned the benefits of a more local source of advice and felt that the LECs could respond better to local requirements. It was argued that a LEC had more feel for the local area as it involved local people. In contrast others argued that they had dealt with the local office of the HIDB in any case and that the LEC had to refer to Inverness for larger sums so that there was no real difference in the system. A further concern was that the LECs were too small and that the central pool of expertise provided by the HIDB had been lost in the new system. The HIDB Business Unit, which provided a "hands-on" consultancy service was specifically mentioned as a serious loss to the area by one respondent.

The firms were also asked if the LECs were representative of the local community. One third of the respondents felt that they were representative, whilst 40% felt that they were not and the remainder did not know. Thus amongst the client group it was generally felt that the LECs were not representative. The main reasons given were that the LEC boards were made up of "big businesses" or that they were not geographically representative. This was the case from some west coast respondents in the CASE and RACE areas. Firms were also asked if they felt that they were sufficiently informed about the activities of their LEC. 45% of respondents felt that they were and 46% that they were not. Amongst the latter comments included the need for better information on criteria for assistance and the aims of the LEC. Amongst some of the smallest firms in the study there was a feeling that they were too small to be assisted by the LEC or that the LEC was not interested in them. Two respondents stated that they were told they were not asking for enough money. This perception may arise from the tendency of the LECs to publicise larger grant and loan packages. There was some evidence, however, that larger firms were more successful at gaining assistance from the LECs. Thus of the 10 firms whose turnover was more than £1m, six had been assisted. This was the highest proportion of any category, although the small size of the sample means that no firm conclusion can be drawn. It is also not possible from the annual reports of the LECs to determine who has been assisted in any systematic way. Only the total numbers of economic cases supported are provided (CASE 1992, RACE 1992, SALE 1992).

6. Conclusion

This study raises a number of interesting issues. After 18 months it is not possible to draw any firm conclusions about whether the client group of the LECs feel that the new system is an improvement. The largest group felt that the HIDB framework of assistance developed over 25 years had been a better system. This was similar, however, to the number of firms which felt that the new system was either better or no different.

There are a number of important theoretical and political issues which also arise from this study but which are beyond the scope of this paper. There are clearly tensions between the decentralisation of decision-making about development funding to one group of local business people and their client group of local business colleagues and competitors. This raises a number of issues about conflicts of interest which may become institutionalised in the LEC system. There are also broader issues about the setting of priorities by LEC boards who are not locally accountable in any democratic sense yet are able to spend large sums of public money.

There is also a need for more openness on behalf of the LECs to counter the concerns about vested interests. Without a greater degree of openness these concerns which were raised during the study are difficult to counter. From the policy-makers point of view more information would also help improve evaluation of the new system. Only then will we be in a position to determine whether the new HIE enterprise network is delivering economic and social development more effectively than its predecessor.

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Table 1: Geographic and Sectoral Breakdown of firms

	Manuf/ Processing	Fish Farming
CASE	18	5
RACE	20	4
SALE	14	6

Total: 67 firms

Table 2: Does the LEC provide the following services?

	Yes	No	Unsure
Youth Training	61	19	19
Training for the unemployed	54	16	30
Encouraging business start ups	91	3	3
Training for small business	78	10	12
Grant and loan assistance	91	1	5
Business advisory services	82	7	12
Property provision	64	13	15
Social/Community projects	76	9	15

Responses from 67 firms (Percentage figure)

Table 3: Firms' comparison of HIDB and the LECs

	% response
No difference	27
HIDB better	38
LEC better	19
Don't know	15

NB. 24 firms which had been experience of both bodies

Table 4: All firms - is LEC system an improvement?

	% response
No difference	12
No	37
Yes	28
Don't know	22

Responses from 67 firms