
Economic Perspective 1

"SCOTTISH ENTERPRISE": THE CREATION OF A MORE EFFECTIVE DEVELOPMENT AGENCY OR THE PURSUIT OF IDEOLOGY?

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This paper presents an assessment of the ideas contained in the recent White Paper "Scottish Enterprise: A New Approach to Training and Enterprise Creation" (Industry Department for Scotland, 1988).

The "Scottish Enterprise" proposal

A major reform of the job creation and training provision processes in Scotland was proposed in a paper prepared by Bill Hughes, Chair of the CBI in Scotland, in the summer of 1988. The proposal acquired political momentum with quite remarkable speed. It was discussed with Margaret Thatcher and received her public backing in September. The "Scottish Enterprise" White Paper appeared in December 1988. The introduction of enabling legislation has been pencilled in for the 1989-90 Parliamentary Session although those reforms which do not require legislative changes could be introduced earlier.

The original Hughes proposal was not published but its main features emerged from speeches, interviews and press conferences. The reform involved the creation of a new body - Hughes called it "Enterprise Scotland" - which would merge the Scottish Development Agency (SDA), the Highlands and Islands Development Board (HIDB) and the Scottish operation of the Training Agency (briefly the Training Commission and before that the Manpower Services Commission). The implication appeared to be that the HIDB would form the basis of the rural assistance operation of a single development agency covering the whole of Scotland. This new agency, with an annual budget of about £500 million, would then provide a network of up to sixty local agencies led by

proven business people. These business led initiatives would build upon existing local enterprise initiatives and would be intended to meet the training and job creation needs of their own areas. Each local centre would fund training aimed at satisfying local demand for skills and also tailor other advice and support to the particular area concerned. Hughes claimed that "Enterprise Scotland" could reduce unemployment in Scotland to 2-3% within ten years ("The Independent", 8 September 1988).

A number of features of the original Hughes plan did not survive to the White Paper. The White Paper proposes bringing together the SDA and the Scottish operation of the Training Agency, but not the HIDB, in a new single body, Scottish Enterprise. Located in Scotland, the inward investment agency jointly run by the SDA and the Scottish Office, is unaffected by the proposals. Initially, the more strategic functions of the SDA and the Training Agency would be retained by Scottish Enterprise at the centre but the new body would subcontract its business development and training roles to local business led agencies. The White Paper divides Scotland into 22 areas which might be covered by local agencies. In the parallel White Paper, "Employment for the 1990s" (Department of Employment, 1988) it is proposed that similar local agencies, called Training and Enterprise Councils, be established throughout England and Wales.

The proposed consortia, in tendering for the three year contracts for their local areas, would have to demonstrate that they could meet a set of criteria drawn up by the government initially and by Scottish Enterprise itself in subsequent

rounds. They would be staffed by experts, mostly seconded from the present ranks of the SDA and the Training Agency in the first instance. The functions of the local agencies will include "assessing the local labour market, arranging the delivery of national training programmes, developing training for specific local needs, designing business development services, raising private sector funds, organising tenders for training contracts, publicising opportunities and other such promotional activities as may be appropriate" (Industry Department for Scotland, 1988, p.11). Over time, as the network of agencies becomes established, it is anticipated that the agencies will assume certain of the economic development functions presently carried out by the SDA. The White Paper cites, in this respect, property development, land reclamation and environmental improvements, the administration of equity, loan and grant assistance, and marketing.

The White Paper recognises the distinctive problems of the Highlands and Islands. As in the rest of Scotland, the Government's intention is to establish "a more locally focused and market based model with an accompanying hand-over of decision taking to involved and committed employers at the local level" (Industry Department for Scotland, 1988, p.21). However, no single definite proposal is made. Instead, three alternative possibilities are discussed, all involving the HIDB in some way. The first proposal is that a new body, Highland Enterprise, be created which would be virtually equivalent to Scottish Enterprise in its powers and methods of operation and would contract out business and training services to local agencies in the Highlands. The second possibility is that the HIDB continue in its present form but that Scottish Enterprise contract out directly to local agencies. Subsequently, the HIDB might devolve some of its business activities to the agencies which would then have to deal with both central organisations. The third suggestion is that the HIDB continue in its present form but itself contract with Scottish Enterprise as a local agency to take on the arrangements for training provision in the Highlands.

Recent changes to the HIDB and the SDA

The White Paper argues for the fundamental reform of the two development agencies in Scotland to increase the involvement of private business but there has already been a marked commercialisation

of the activities of both the SDA and the HIDB in recent years.

The HIDB, which was established in 1965, has proved remarkably resilient. It has survived the many economic reforms of the present government and looks likely to survive the latest proposals. However, it has undergone substantial changes, particularly as a result of the review undertaken by the Industry Department for Scotland and the Treasury (Industry Department for Scotland, 1987a).

The review set out the limits to freedom of action of the HIDB very clearly: "The continuing rationale for the Board and its activities must reflect the government's general approach to intervention in the economy and its aim of creating a self-sustaining economy and society in the longer term . . . The Board, in pursuing any intervention in the market, should aim to encourage the private sector wherever possible, should justify the costs of any intervention against specified objectives and should aim to share in rewards as well as risks" (Industry Department for Scotland, 1987a, pp2-3).

These are formidable restrictions. Indeed, applied strictly they would rule out almost all interventionist measures on the part of the HIDB. Instead, the government gave the HIDB several new objectives. These included the encouragement of entrepreneurship, the fostering of increased private sector involvement in the development of the area, and the disposal of land, property and investments when the opportunity arises (Industry Department for Scotland, 1987a, p.10).

The SDA was established in 1975 to be responsible for economic development in the whole of Scotland apart from the area covered by the HIDB. Like the HIDB, the SDA has been closely scrutinised by the present government. The result has been either that the government has dictated changes in the SDA's policy objectives and working arrangements or that the SDA has itself responded to the changing ideological circumstances within which it has to operate.

There was a marked change in the SDA's economic development strategy following the election of the Conservative government in 1979. New investment guidelines were introduced early in 1980. The SDA's objectives were made more commercial and selective with an emphasis on identifying and

facilitating the opportunities for business development in Scotland. The revised guidelines stressed the development of Scottish entrepreneurship, support for growth sectors, including the promotion of new technology, the improvement of industrial efficiency and competitiveness, and the regeneration of local economies in different parts of Scotland. The previous obligations to maintain and safeguard employment and to promote industry democracy were dropped. As a consequence of these changes, the SDA developed a "modified market" approach to economic regeneration in Scotland, an approach which stresses the development of competitive and efficient business, diversification and commitment to the leverage of private investment (Moore and Booth, 1986).

More recently, there was a further review of the SDA by the Industry Department for Scotland and the Treasury (Industry Department for Scotland, 1987b). As with the HIDB, the SDA "should only be involved where the market alone will not produce the outcome desired by policy; and its intervention should wherever possible seek to achieve its ends by improving the working of the market and should not create dependency" (Industry Department for Scotland, 1987b, p.7).

Despite these fundamental changes to the HIDB and the SDA, the proposals in the White Paper imply that both agencies are viewed by the government as unduly interventionist. There has not been sufficient involvement of private business but the involvement of local authorities has been excessive. This represents a dramatic shift in opinion from the government review of the SDA. It noted that an important reason for the success of the SDA was its arms length relationship with government which, amongst other things, facilitated "its ability to form constructive partnerships with local authorities" (Industry Department for Scotland, 1987b, p.9).

It appears that the proposal to create Scottish Enterprise is seen as a way of improving the political performance of the government in Scotland. High unemployment contributed to the routing of the Conservative Party in Scotland at the General Election in 1987. The HIDB and the SDA are fairly popular and are generally considered to be successful but are not identified specifically with the government. The Glasgow Garden Festival is only the most recent example of an initiative for which the SDA, rather than the

government itself, received public credit. Hence, the attractiveness to the government of a proposal which by "creating a structure whose name is synonymous with Conservative thinking, and which is led by business rather than by civil servants, could radically improve public perception of the government's record on job creation" ("The Scotsman", 3 September 1988). The likelihood therefore is that the government will resist the demands which have arisen since the appearance of the White Paper to retain the "brand name" of the Scottish Development Agency.

The reform of training provision in Scotland

A review of industrial training in Scotland concluded that, despite evidence of a substantial volume of industrial training activity in Scotland the effect of the recession of the early 1980s was that industry "is badly placed, unwilling and probably unable to qualitatively improve its training activity at the present time. The government is committed to restoring 'voluntary' training arrangements in industry. This system failed to produce adequate supplies of skilled manpower in the 1950s when the economy was expanding and industry was much more competitive internationally than it is today, and seems unlikely to succeed in the 1980s" (Fairley, 1981, p.164).

The White Paper itself notes evidence of the weakness of industrial training provision in Scotland. "Efforts to date to persuade the private sector to take greater interest in and responsibility for training have had disappointing results. Far too many firms take little interest in assessing and training for their own future needs ... Even though skill shortages in some sectors are already becoming apparent, industry as a whole is still insufficiently aware of the key changes ahead in the labour market and so is not planning ahead to cope with future needs" (Industry Department for Scotland, 1988, p.9).

In view of this continuing and long established reluctance of many employers in Scotland, as in the rest of Britain, to accept that training should be a legitimate and necessary priority for the future of their businesses, it is remarkable that the government is proposing giving such employers control over the larger part of the combined Scottish Enterprise budget of nearly £500 million.

In defence of its proposal, the government argues that some things have changed. "Industry, for long starved of profitability, is now prospering and able to shoulder its full responsibility for investing in the skills of its workforce. It has also shown, through the activities of its representative organisations, through Scottish Business in the Community (SCOTBIC) and through the Enterprise Trusts, that it is ready and willing to share the responsibility for developing enterprise and regenerating disadvantaged areas of our country" (Industry Department for Scotland, 1988, p.1). The White Paper further suggests that the training effort will be transformed by a switch "from a bureaucratic system within which the private sector has a purely advisory role to one which is led by the private sector" (Industry Department for Scotland, 1988, p.9).

The other White Paper published simultaneously with "Scottish Enterprise", "Employment for the 1990s", which deals with training policy for the whole of Britain, quotes approvingly the experience of other countries. "Several countries, notably Germany and the United States, also have more locally based training systems with the close and continuous involvement of employers and employer institutions. Such systems are much more likely to be attuned to the shifting pattern of employer needs, and to individuals' requirements, than the more inflexible arrangements at national and industry levels" (Department for Employment, 1988, p.29). However, an earlier article in this journal was sceptical of the American experience, arguing that if Private Industry Councils, the American local training and economic development agencies, are to be models for local agencies in this country, "there should be the fullest and frankest debate as to their ability to deliver a complex mixture of business support, assistance with training, community renewal and economic promotion" (Boyle, 1988, p.66).

Scottish Enterprise's budget is to be more or less the same as the total budget of the agencies it will replace. Moreover, much of the training budget will be earmarked for the Youth training Scheme and Employment Training programmes. The White Paper states that at present £290 million of the Training Agency's annual Scottish budget of £330 million is devoted to these two programmes (Industry Department for Scotland, 1988, p.32). The government argues that improved delivery of services by the local agencies will release

resources for the selective expansion of their activities. However, it is unclear whether local businesses will indeed achieve such improvements and efficiency, especially since the proposals envisage the most dynamic of business people in a local area giving their services free. As the White Paper itself puts it, "the concept stands or falls on the willingness of people of calibre to respond to this exciting challenge" (Industry Department for Scotland, 1988, p.13).

The choice of local agency areas seems almost arbitrary. The suggested areas are based upon an amalgamation of Travel to Work Areas. They do not correspond to the present regional network of the Training Agency, the SDA or the MIDB, or to the boundaries of local authorities. Many of the individual areas do not appear to make sense. The White Paper argues that "the balance has to be struck between efficient delivery and maximum local identification and relevance" (Industry Department for Scotland, 1988, p.17). It is much more likely that neither side of the balance will be satisfied. Since the appearance of the White Paper, the board of the SDA itself has argued that the appropriate structure for the greater involvement of private business is its own network of seven regional offices created in 1987 ("The Scotsman", 3 February 1989). However, since the SDA also argues that business involvement should continue to be largely advisory, its views are unlikely to be received sympathetically by the government.

The White Paper proposes "to adopt an evolutionary approach, and to transfer particular functions to local level over a period of time as and when the individual local agencies have developed the capability to handle them effectively" (Industry Department for Scotland, 1988, p.11). This is no doubt sensible but, even if local agencies are only expected to administer the minimum of training functions, the overall result is likely to be chaotic. There will not doubt be some successful agencies but many are likely to founder. This issue is not properly addressed in the White Paper. It does state that "to give freedom to succeed is also to give freedom to fail" but the latter term is immediately redefined to mean only that some local agencies will "do less well" (Industry Department for Scotland, 1988, p.14). The White Paper argues that monitoring of the agencies and the contractual basis on which they will be funded will minimise the difficulties which they encounter. However,

the experience of the contracting out of the services of local government and of health authorities has been that such arrangements are difficult to enforce especially where the original framework of public provision has been dismantled. Instead, two other outcomes are likely. The training provided by some local agencies which are established will, in the words of Charles Anderson, Chief Executive of Etrick and Lauderdale District Council, be "very haphazard, somewhat amateurish and in substantial variation, comparing one area with another" ("The Scotsman", 7 February 1989). Alternatively, the government may be forced to make repeated use of the safety net provided for by the White Paper, by which Scottish Enterprise will provide training directly either where a local agency is unable to fulfil its contract or where it takes time for a local agency to be established.

Rural areas will be especially badly catered for. A recent study by the Arkleton trust (1988) showed that the provision of training in rural Scotland is primarily directed towards the needs of traditional rural occupations. A third of all employers required assistance even in identifying their training needs and this proportion was even higher in those industrial sectors held to have most growth potential in rural Scotland. As a result, people living in rural areas often face a narrow range of training provision. If dependent on public transport, there are then the further problems of the time, costs and even impossibility of travel to such training schemes as are available.

The government will have great difficulty in establishing local agencies which serve rural areas effectively. Dynamic business people are in even shorter supply in rural areas than they are in urban areas (Malecki, 1988). Inspection of the network of approximately forty Enterprise Trusts in Scotland reveals that only a very few, such as in Wigtown, Nithsdale and Highland Perthshire, are in rural areas. The government has recognised the special problems of the Highlands and Islands but has failed to acknowledge that rural areas elsewhere in Scotland experience very similar problems.

Economic development functions

Most attention has focused on the job training element of the Scottish Enterprise proposal. Comparatively little has been said about the

industrial development and job creation processes which are the basic roles of the SDA and the HIDB. It is unclear which strategic functions will be retained by Scottish Enterprise at the centre and what the relationship between the central organisation and the local offices will be. The continued support of central strategic functions receives hardly any attention in the White Paper. Whether the attraction of inward investment, the creation of coherent sectoral strategies and the SDA's present close involvement in the regeneration of Scotland's cities, will suffer, is yet to be seen.

The White Paper proposes devolving certain development functions to the local agencies. However, just as there are severe doubts about local business involvement in training, increased local business control over economic development functions has also to be questioned. As one group of commentators has put it, "a striking feature of the Scottish economy is a lack of good entrepreneurs and it would be a misuse of their skills if they devoted much of their time to taking over functions currently performed reasonably well by the SDA and HIDB staff. Local businessmen are already well to the fore in the enterprise trust movement and that experience does not augur well . . . Some trusts have been excellent but others have been very disappointing, and in our opinion, they do not represent a good model for greater business control of public sector development activities." (Mackay Consultants, 1988, p.1).

All this suggests that the potential of supply side measures has been greatly exaggerated. The White Paper is not quite as rash as Bill Hughes in stating a specific date by which the proposed reforms will restore full employment in Scotland. Nevertheless, very ambitious claims are made. "If as a community we combine to get it right, we shall banish the spectre of high unemployment and make the Scottish economy a leader in Europe" (Industry Department for Scotland, 1988, p.2). We see no evidence in the White Paper that such claims are remotely justified.

There has been strong criticism of the lack of democratic control over both the central organisation and local business people. Of the board of ten members of Scottish Enterprise, at least six are to have a business background. Similarly, for the local agencies, "two thirds or more of the membership would be expected to be

from the senior ranks of private-sector business" (Industry Department for Scotland, 1988, p.15). The White Paper implies that the local agencies might be akin to the existing Enterprise Trust network. However, unlike Enterprise Trusts, these local agencies would not represent partnerships of local authorities, central government, the private sector and others, but would rather be business led consortia accountable only to Scottish Enterprise. In general, the White Paper does not anticipate any significant role for local government. There is some recognition that "amongst employers in certain localities local authorities may have a contribution to make" (Industry Department for Scotland, 1988, p.15), but the experience and commitment of local government to economic development and to training initiatives is not acknowledged.

The White Paper seeks to by-pass trade unions as well as local authorities. Indeed, the government may seek to use the new local training agencies to get round the widespread boycott by trade unions and local authorities of the Employment Training scheme (Fairley, 1989). The creation of the Training Agency in September 1988 and the abolition of the Training Commission, the successor to the Manpower Services Commission, was itself an earlier response to this boycott. If this is the case, it would certainly be quite consistent with the rest of the White Paper which is more concerned to address the political problems which the government faces in Scotland than it is to find genuine ways of improving the effectiveness of local economic development and training efforts.

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