

# ECONOMIC PERSPECTIVE 1

## LOCAL ENTERPRISE COMPANIES IN THE HIGHLANDS AND ISLANDS: FURTHER RESPONSES TO THE ENTERPRISE NETWORK

by Stuart Black, Department of Land Economy, University of Aberdeen

### 1. Introduction

The reorganisation of development agencies in Scotland in April 1991 led to the formation of networks of local enterprise companies (LECs) throughout the country. The Highlands and Islands Development Board was replaced by a new agency Highlands and Islands Enterprise (HIE) with a network of ten LECs. A study was carried out by the author during the summer of 1992, 18 months after the creation of the enterprise network to assess the views of a sample of predominantly manufacturing firms in the HIE area. The results of this study were published in the Quarterly Economic Commentary (Black 1993). A second survey was undertaken of the same sample of firms in October/November 1993 to assess their views on the development of the Highlands and Islands Enterprise Network after a further year.

Whilst the LECs in the Scottish Enterprise area have been subject to a number of critical appraisals, there is relatively little published research on the Highlands and Islands Enterprise Network (Lloyd and Black 1993, Wicks et al 1992). This is despite the fact that the LECs in the Highlands whilst being smaller than their lowland counterparts, have arguably greater scope, notably over finance for grant and loan assistance for companies in their areas and in other areas such as social development. The current study by the Scottish Affairs Select Committee also makes this research of interest.

The follow-up study used a similar methodology to the first survey. The method adopted was a telephone survey which combined open-ended and closed questions. The questionnaire used was adapted from the Industry Department for Scotland/Scottish Development Agency area initiatives evaluation handbook (IDS 1988).

### 2. The study areas and sample structure

The firms in the study were drawn from three LEC areas, Skye and Lochalsh, Caithness and Sutherland, and Ross and Cromarty. The original sampling

frame was a 100% sample of manufacturing businesses in the former two areas, and 50% in the latter. In addition 15 fish farming enterprises were drawn from the more remote areas where there is little manufacturing activity. These sectors were chosen because they tend to be reliant on sales outwith the region and have been the focus of development policy.

The total sample in the 1992 study consisted of 67 firms. In the second survey 59 firms responded (88%). In order to ensure the validity of the comparison the interview was conducted with the same respondent, either the owner-manager or manager of the company. This was the case in all but two of the interviews.

In the Ross and Cromarty Enterprise area of the 24 firms which had taken part in the 1992 study, 21 took part in the follow-up study (88%). Of the other three firms, two could not be contacted, and one refused to take part. In the Caithness and Sutherland Enterprise area of the 23 firms which had taken part in the 1992 study, 20 took part in the follow up study (87%). Of the other three firms, two could not be contacted, and the owner-manager of one who was self-employed, was away and unable to take part. In the Skye and Lochalsh Enterprise area of the 20 firms which had taken part in the 1992 study, 18 took part in the follow up study (90%). Of the other two firms one had recently ceased trading and the other could not be contacted. Overall only one firm refused to take part in the second study, one owner-manager was away, and six could not be contacted and had most probably ceased trading.

In line with the previous study 78% of the firms were single independent businesses (78% in 1992). 14% were headquarter operations with branches elsewhere (13%), and 8% were branches (9%). The firms were mainly small in employment terms with two thirds employing fewer than 10 staff, and only 20% employing more than 30. One third of the

companies were sole traders, and just over a half were private limited companies, with the remainder being partnerships or public limited companies. The structure of the sample was therefore almost identical to the previous study, despite the loss of eight companies from the sample.

The firms were asked how their employment levels had changed over the year. One third of the firms had expanded over the past year (20), almost one half had not changed their employment levels (27), and the remainder had registered declines in employment (12). It should also be noted that six firms had most probably ceased trading.

### **3. Services the LECs provide**

Only four firms could not name their respective local enterprise company. The firms were asked whether the LECs provided or funded a number of services. The results are set out in Table 1 below.

The table shows generally a similar pattern to the 1992 survey. Some of the services show a decline in recognition, notably for youth training and training for the unemployed. For example 54% of the respondents did not know that the LECs were responsible for funding training for the unemployed, this compares with 40% in 1992. This may reflect confusion over training policies. As was the case in 1992, the more traditional former-HIDB services (grant and loan, business start-ups) were now associated with the local enterprise companies. The respondents also seemed less aware that the LECs provided funding for community projects and provided property than they were last year.

### **4. Contact with the LECs**

The respondents were asked if they had any contact with the LECs since the previous study in August 1992. Two thirds of the firms had been in contact with their respective LEC, 40 of the 59 firms (68%). This compared to 42 of the 67 firms for the 18 month period of the previous study (63%). By this time only 11 firms in the sample had no contact with the LECs over the two study periods (19%). Since the firms were contacted on a random basis this could be considered quite a high level of contact between firms in the area and the LECs.

Of the 40 firms which had contacted their respective LEC, 19 had been assisted, and three were awaiting assistance. Therefore 22 of the firms had been assisted since the previous study (37%). This was a similar figure to the previous study. The

remaining firms had either only made inquiries or had been turned down.

### **5. Impact of the assistance**

The 22 firms which had been assisted or were awaiting assistance were asked about the impact of this. Firstly they were asked if they had not been assisted would this have affected their decision to proceed with the projects. Only two firms stated that they would have gone ahead with the projects in any case if they had not been assisted. These were a training project and a small marketing grant. The remaining firms either stated that they would not have proceeded with the projects or would have done so on a smaller scale.

All but three of the firms which had been assisted stated that the assistance had made a contribution to their business. Only one of the firms which had been assisted was not satisfied with the quality of advice and assistance that they had received. One of the firms which was satisfied overall stated that there had been an unacceptable delay in dealing with their application.

The firms which had not contacted the LECs were asked why this was the case. Most of them stated that it was because they had no projects over the past year, or that they were waiting for the economic climate to improve before proceeding with projects. Two stated that previous experience with their LEC had put them off, and two stated that they felt their LEC was ineffective.

### **6. Comparisons with the previous system.**

All of the firms which had contacted their LEC over the previous year were asked if they had experience of the HIDB. Of the 40 firms which had contacted their LEC, 32 also had experience of HIDB assistance. The largest group of firms were unsure about making any comparison (56%). This was a large increase compared to the previous study when only 15% were unsure about making a comparison. The remaining firms were evenly split between those who preferred the HIDB (34%) and those who preferred the LEC or felt there was no difference (34%). The previous study showed a split of 38% who preferred the HIDB to 46% who stated that they preferred the LEC or there was no difference. Only two firms in this survey, however, actually stated that they preferred the LEC. This should not be taken as too severe a criticism, however, because for the most part firms who previously stated that they preferred the LEC were

now no longer prepared to make a comparison. In addition some of these firms mentioned advantages associated with the LECs. These generally involved an improved local presence and a feeling that the LECs were now more proactive in their approach. This was related to increased staffing levels in the LECs. Several firms who were unsure about making any comparisons described the level of service as now being as good as the HADB.

The main reasons given by those who were critical of the LECs were similar to the previous study. Respondents either felt that the HADB was a larger and in some ways more professional organisation or were concerned about applying for assistance to boards made up of local business people. These criticisms were raised by fewer respondents than the previous study.

All of the respondents were asked if they felt that the new system was an improvement compared to the previous system administered by the HADB. The results are set out in table 2. As the table shows the largest group were unsure. The numbers of firms stating that this was the case has doubled to almost half of the firms. This is probably to be expected given that the LEC system has existed for almost three years so many of the respondents felt they were no longer able to make a comparison.

Arguably the most interesting finding here is that of those firms who were willing to make a judgement, the percentage who felt that the new system was an improvement has fallen from 28% to only 8% of the sample. For a better comparison, however, this figure should be added to those who felt the new system was no different (28%). This figure is similar to those who felt that the LEC-based system was not an improvement (27%). So overall there is an even split among the respondents between those who feel the new system is better or no different and those who feel it is positively not an improvement on the previous system. The 1992 study showed a similar split. 37% felt the new system was not an improvement in 1992, whilst 40% felt it was better or no different.

It should also be noted that several firms which were unsure about making any comparisons stated that the LECs had a number of advantages, notably their enhanced local presence. At this stage, however, there is a core of slightly more than a quarter of the respondents in the sample who still feel that the new LEC-based system is not an improvement. This has declined from more than a third of firms in the 1992 study.

The firms were also asked if they felt that the LEC boards were representative of the local community to see if there had been any change in the pattern of responses. The results were very similar over the two surveys with the main changes being a slight increase in the proportion of respondents who stated that the LEC boards were representative (40% from 36% in 1992). Almost a third of respondents stated that they felt the LEC boards were not representative. Amongst those who were unsure were eight respondents who stated that they did not know who was on the LEC boards (13%).

## 7. LEC performance over the past year

The firms were also asked whether they felt that their respective LEC had improved its performance over the past year. This relied on a subjective assessment by the respondents so the results should be interpreted with caution. They do provide an illustration of perceptions of the LECs however. The results are set out in table 3.

As the table shows amongst those who were prepared to make a judgement on this issue the largest number felt that the LECs had improved. None of the firms stated that the LEC had actually deteriorated over the year. Firms stating that the LECs had improved stated that they were being increasingly active in their areas, and more open about their activities. The largest number of firms, however, were unsure. The results did not vary particularly from area to area, although firms in the CASE area were the most positive about the LECs improvement. The numbers in each area are, however, too small to be conclusive.

The firms were also asked if they felt better informed about what the LEC was doing. Last year there was an even split between firms who felt sufficiently informed about what the LECs were doing and those who did not. The results are set out in table 4.

As the table shows, over half of the firms stated that they felt better informed about what the LEC was doing than last year. The proportion stating that this was the case was highest in the CASE area where 70% of the companies felt that they were better informed. CASE have been at the forefront of efforts to be more open about their activities and this appears to have had an effect, although the numbers of firms in the area are too small to be conclusive. Amongst the comments received for this answer, several firms in the CASE area welcomed its attempts to be more open about its activities. As

for the previous question on LEC performance, the responses were unprompted and none of the respondents stated that they felt less informed than a year ago.

## 9. Discussion

After a further year of existence of the Highlands and Islands Enterprise network these results provide an update of the initial study undertaken in 1992. On a positive note firms which have had dealings with the LECs have generally responded favourably to the organisations. Firms are also stated that they felt better informed about what the LECs are doing than they were last year.

Since the creation of the enterprise network about 80% of firms in the study have been in contact with their LEC. It would be interesting to compare this figure with other areas in Scotland but it is undoubtedly a high figure. Respondents also seem to feel that the LECs are improving in terms of the quality of service offered. Amongst those who were prepared to make a judgement the largest number stated that this was the case. No respondent stated that the quality of service which the LECs deliver had deteriorated.

On a more critical note the numbers of firms actually stating that the new system was an improvement have declined but so have the numbers preferring the previous system, under the HIDB. The largest number now felt unsure about any comparison. This may suggest that the new system is increasingly accepted, although not uncritically. There remains slightly more than a quarter of firms who feel that the previous system administered by the HIDB had been better. The main reasons given for this were that the previous system was perceived to be more objective, or that the HIDB had been a larger and more professional organisation. These reasons have remained the same over the past year but they are now expressed by a lower proportion of the respondents. This also tends to lead to the conclusion that the enterprise network is becoming increasingly accepted by the majority of the respondents.

## 10. Conclusion

Overall the results of this study are not clearcut and arguably are open to a number of different interpretations. The results are for three LEC areas and with 59 firms in the study, the number of firms is relatively small. The value of the survey is that the same firms were involved so that the responses

can be compared with the 1992 baseline study.

There was little change in the recognition of the services which the LECs provide or fund. In the case of training services, however, the respondents were slightly less aware of the position. This could reflect confusion surrounding training, an area where the LEC system was supposed to represent an improvement by integrating the delivery of training and development services. Although the logic of this has been widely accepted, a high proportion of firms appear to be unaware of this.

In line with the findings of the previous study the numbers favouring the new system, or stating that there was no difference (28% overall), are similar to those who felt the new system was not an improvement (27%). The number stating that they felt the new system was an improvement has declined (from 28% in 1992 to 8% in 1993). One of the reasons cited for this was adverse publicity which LECs in general have attracted, notably in the Scottish Enterprise area. The main reason, however, was that these respondents now tended to state that there was no difference between the two systems or were no longer prepared to make a comparison. In contrast the majority of those who were critical of the LEC system tended to remain so. Overall, however, the LEC system appears to be more accepted. This conclusion can be reached for the rather negative reason that fewer respondents stated that they preferred the previous system.

The majority of firms in the survey have adopted a pragmatic approach to the new enterprise network. Their main concern is an effective system of economic development services. Only four firms stated that they felt the LECs were ineffective or they had received poor service from the LECs and would not use them again. This suggests that the LECs are providing an acceptable level of service for most of the firms in their areas, although it is difficult to generalise given the small sample size.

The results of this study do show some important areas where respondents feel that the LECs can improve, notably in the increased provision of information about their activities and decision-making criteria. After the survey had been carried out HIE announced its new policy "Accountability through Openness" in February 1994. This aims to combat the criticism of the secretive nature of the enterprise network. Amongst the innovations which were to be introduced are public access to all financial assistance projects and registers of board members' and senior staff interests.

This policy is due to be introduced in April 1994 and represents an attempt to overcome any perceived conflicts of interest in the enterprise network. Evidence from the business survey in Caithness and Sutherland, where a similar policy was introduced in mid 1993, illustrates that this action is likely to meet with a favourable reaction. In the CASE area 70% of respondents felt better informed about what their LEC was doing. If it is successfully implemented this policy should help to alleviate many of the criticisms raised in this study and the previous study in 1992. The policy may help to increase LEC accountability but, as some respondents noted, increased openness may not be viewed as a substitute for wider opportunities for participation in the LEC structure.

### References

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**Table 1: Which services does the LEC provide /fund?**

	Yes	No	Don't know
Youth Training	53 (61)	17 (19)	30 (19)
Training for the Unemployed	46 (54)	15 (16)	39 (30)
Business start ups	88 (91)	2 (3)	10 (3)
Training for small businesses	71 (78)	3 (10)	15 (12)
Grant and Loan assistance	92 (91)	2 (1)	7 (5)
Advisory services	81 (82)	3 (7)	17 (10)
Property	63 (64)	10 (13)	27 (22)
Community projects	66 (76)	7 (9)	27 (15)

NB. Figures in brackets show 1992 results for 67 firms. 1993 survey had 59 firms. All are percentage figures.

**Table 2: Is the LEC system an improvement?**

Yes	8 (28)
No	27 (37)
No difference	20 (12)
Unsure	44 (22)

NB. Figures in brackets show 1992 results for 67 firms. 1993 survey had 59 firms. All are percentage figures.

**Table 3: Has the LEC improved its performance over the past year?**

Yes	36
No change	25
Unsure	39

Results for 59 firms, percentage figure.

**Table 4: Do you feel better informed about what the LEC is doing than you did a year ago?**

Yes	54
No change	41
Unsure	5

Results for 59 firms, percentage figure.