

**Department of Economics
Napier University**

**SOCIAL SCIENCE
WORKING PAPER
NO. 12**

**LOCAL ENTERPRISE COMPANIES AND ECONOMIC
DEVELOPMENT - SOME ISSUES IN RURAL SCOTLAND**

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LOCAL ENTERPRISE COMPANIES AND ECONOMIC DEVELOPMENT - SOME ISSUES IN RURAL SCOTLAND

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I INTRODUCTION AND CONTEXT

Local Enterprise Companies (LECs) are the main central government-funded business development agencies which provide support for businesses and training programmes for individuals in the rural areas of Scotland. This paper provides a general overview of LECs and considers their main types of activity. In the remote, thinly populated north and extreme west of Scotland, LECs operate under contract to the quasi-autonomous non-governmental organisation (or quango) called Highlands and Islands Enterprise, as is discussed by McCleery in another chapter of this book. The remainder of Scotland, the Lowlands, covering over 90% of the Scottish population is the focus of this paper. The network of LECs covering the Lowlands operates under the umbrella of the Scottish Enterprise quango. After briefly setting the broad context within which LECs operate, the paper considers the characteristics of LECs, how they determine their strategy, their range of activities and how they go about these activities.

To set the context for LEC activities four main issues need to be discussed. These include the nature of the rural economy, other key actors, other government policies, and the priorities and role of Scottish Enterprise.¹

The first issue is the wide recognition that the nature of the rural economy is changing and that rural economic restructuring increasingly involves a number of economic, social and employment issues other than those related directly or indirectly to agriculture (eg. OECD, 1991; House of Lords 1991). The industrialisation and shrinkage of jobs in the agriculture industry is well known (Healey and Ilbery, 1985; Gilg, 1991). LEC involvement is generally with the wider rural non-agricultural economy and its restructuring (including non-agricultural businesses, people with training needs and environmental issues), rather than primarily the agricultural industry, although clearly both are closely inter-linked. Overall, agriculture employs around 1.1% of the Scottish working population, together with a further 0.5% of the workforce in forestry and fishing, although these figures are much higher in rural areas (Department of Employment, 1989 Census of Employment). Specific policies aimed at the agricultural sector, including European Union farm diversification policies, are normally implemented through the central government's Scottish Office Agricultural and Fisheries Department rather than through LECs (Scottish Office, 1993; McCleery, 1992).

This emphasis on non-agricultural industries may also be a reflection of a number of other factors involving the LECs themselves and the economic and administrative environment they operate in. These factors may include: LECs generally having a predominantly urban focus as in

¹ If the Office of Population Censuses and Surveys (OPCS) definition is used then all LECs, except Glasgow, contain rural areas of agglomerations and other administrative areas of less than 1,000 inhabitants. See Robinson (1990) for international examples of other definitions of rural areas.

population (although not geographical) terms the rural areas are a small part of each LEC area; future employment and wealth creation opportunities are seen as coming from the non-agricultural sectors, especially linked to the decentralisation of people and jobs from metropolitan areas; and the relatively small level of LEC resources may have greatest impact on non-agricultural sectors (especially when set against the massive public funding already being given to the agricultural industries, as discussed below). There is also a debate as to what degree are many of the wider economic issues, such as developing tourism, small business generation etc., 'generic' (i.e. the basic issues are similar in all locations) or to what degree are they specifically rural and therefore need distinctively rural policies (for example: Marsden *et al*, 1993; Fothergill, Kitson and Monk, 1984).

The second issue in setting the context is to identify the types of key actors in the local economy (see Stern, 1989 for an international context). Besides the individual businesses and people in the rural areas there are many bodies with a role in the development of rural economies. While it is not possible to discuss their roles in this paper, they each have an impact upon rural economic development. These include: local government with statutory duties involving housing, education, planning, transport, water and sewerage infrastructure etc., and a significant economic development role (McQuaid, 1993); central government agencies with specific or sectoral responsibilities which have an important impact on rural areas, such as Scottish Natural Heritage, the Forestry Commission, Scottish Tourist Board (see Slee and Souter, 1993), Scottish Homes; industry and employer bodies, such as the National Farmers Union or Fisheries bodies; and joint public-private bodies and third sector organisations, including Rural Forum, Scottish Council for Voluntary Organisations, the Arkleton Trust.

At a local level there are also many local area partnerships etc. which may involve a number of the national agencies, LECs and local bodies or communities (see for instance: COSLA, 1992). It is worth noting that the Rural Development Commission and CoSIRA are English based and do not operate in Scotland. Their economic development functions being largely covered by the LECs or Local Authorities.

Third, LECs should be seen in the context of a long series of central government policies concerned with Regional Development. These include the current Regional Development grants to firms in designated areas which cover some of the rural areas². In addition European Commission support for economic development in certain rural areas is discussed more fully elsewhere (Scottish Office, 1993). It is worth noting that out of an estimate total European Commission spending in rural Scotland of £280-290m in 1991, a massive £236m relates to agriculture (Scottish Office, 1993, p.3). So clearly the wealth of rural areas is likely to continue to be greatly influenced by the level of public subsidy to agriculture.

² Moore, Rhodes and Tyler (1986) argue that national government regional policy has been effective, generating 450,000 net manufacturing jobs (generated by regional policies and remaining at the end of the period), plus a further 180,000 secondary or multiplier jobs in the UK between 1960-81. However, Knox and Agnew (1989, p.363) argue that regional policy is now a luxury, and Minford and Stoney, (1991) suggest free-market solutions such as wage flexibility etc. Others argue that intra-regional differences are now more significant (Keeble, 1977) than inter-regional differences, while those adopting a 'structuralist' approach argue that there is not so much a regional problem as a localized pattern of spatial inequality linked to industrial or employment restructuring (see Massey, 1984).

The fourth issue, is the role of the national agency, Scottish Enterprise. As part of regional policy the Highlands and Islands Development Board was set up in the mid-1960's with an economic and a social remit. The Scottish Development Agency covering the Lowlands came into existence in the mid-1970's with a purely economic and environmental remit. In April 1991 these were combined with the government Training Agency to form Highlands and Islands Enterprise (HIE) and Scottish Enterprise (SE) respectively. The next section discusses Scottish Enterprise and its priorities in greater detail. This is followed by a section describing and analysing what LECs are. Section III appraises the factors influencing the development of LEC strategies, then the actual LEC activities resulting from these strategies are considered. Section V analyses how LECs go about implementing these activities or policies, which is important to understanding their operation. The final section presents a conclusion.

II SCOTTISH ENTERPRISE

Scottish Enterprise (SE) began operations in 1991 after a public consultation on earlier proposals (Industry Department for Scotland, 1988; Hansard, 1989). It was set up by statute to support economic development in Lowland Scotland with: powers covering economic development, training and environmental improvement functions; private sector-leadership, at least in terms of having a majority of private sector non-executive directors on the Board; and funding from central government. It develops and implements many policies through a network of 13 LECs which cover all of its area (see McQuaid, 1989, and Danson *et al*, 1989, 1990, on the development of SE; and Hood, 1991, on its predecessor the Scottish Development Agency). SE provides strategic direction and funding for the LECs, as well as monitoring and controlling them. Hence it is worth briefly considering the strategy of SE.

The Scottish Enterprise "Strategies for the 1990's" (Scottish Enterprise, 1992), states that the organisation's purpose is (p. 7):

"to develop a high output, high income and low unemployment economy in Scotland which provides a high quality of life and is sustainable both in economic and environmental terms."

There are three broad goals to: generate wealth/create jobs; improve access to jobs; and develop the environment. It is within this framework that the LECs operate, and generally their policies follow similar lines as the Scottish Enterprise Strategy, albeit with a different emphasis in each LEC area. Hence it is worth more detailed consideration of how these goals are to be achieved.

In order to achieve the first goal to generate wealth/create jobs the strategic directions for Scottish Enterprise are to: make Scotland more competitive (which requires developing and maintaining the skills of the people, the technology base to provide new products and processes, and the business infrastructure, such as communications, premises and finance); develop local companies; generate more start-up companies; grow global companies that can succeed world-wide, based on existing or new companies; increase exports; increase tourism earnings; attract inward investment; and improve company linkages, such as supplier links.

In order to improve access to jobs, the main direction here is to try to realise the economic potential of people and areas, particularly where they are becoming increasingly isolated from the successful parts of the economy. Types of areas include inner cities/peripheral estates,

isolated rural areas and major closure areas, while groups include women wishing to return to the labour market and single parents wishing to work.

To achieve the third goal, developing the environment, emphasis is split between exploiting the best environment (such as potential inward investment sites, international cities and tourist attractions), but also upgrading the worst environments (such as peripheral estates/inner cities, town centres, major dereliction sites and transport corridors). Many cases of dereliction occurred in rural mining communities or quarries such as at Loch Leven, although most of these have been dealt with by the early-1990's and the main environmental issues now include improvements for tourism and occasionally improving sites for inward investment in rural areas near to cities.

A significant shift in resources is planned from the access to jobs goal towards increasing wealth and jobs. In 1991/2 around 50% of funds went into the former, but this is planned to fall to 30% within 5 years. Wealth generation/job creation will move from 40% of all resources to 60%, with especially large expenditure on improving the skills base. Environmental improvements remains at 10%, although there is a shift from upgrading poor environments to realising the opportunities for economic growth through exploiting the best areas. Overall there is a clear shift towards spending resources in directions that are likely to expand the economy rather than those seeking to help redistribute job opportunities. As most LEC funding is from Scottish Enterprise, their policies usually follow these priorities.³

III WHAT ARE LECS ?

There are 12 LECs in Lowland Scotland, plus one (Moray, Badenoch & Strathspey) that is jointly funded by Highland and Islands Enterprise. Including Moray, there are also 10 LECs in the Highlands and Islands under HIE. While all of the HIE LECs are predominantly rural in nature, only three lowland LECs are not dominated, in population and economic terms, by urban areas. These are Dumfries & Galloway LEC in south-west Scotland, Borders LEC in the south-east and Moray, Badenoch & Strathspey in the north.

The LECs vary in size with most covering between a quarter and a half million **people**. The exceptions are the two largest LECs covering Lothian and Edinburgh (743,000 people), and Glasgow (696,500 people, although this excludes most of the suburbs and surrounding towns), and the three rural LECs - Moray, Badenoch & Strathspey (97,000 people), Borders 103,000), and Dumfries & Galloway (147,000).

Each LEC had a **budget** of around £20-30m, although again the exceptions were Glasgow (£74.6m in 1991/2), Lothian and Edinburgh (£51.1m), and the three rural LECs with £3.7m (plus a contribution from HIE), £8.7m and £11.1m respectively.

³ It may be worth mentioning why the government should be funding such intervention in the market at all. The main justification is market failure primarily in terms of: information; externalities (positive and negative); risk aversion and 'short-termism'; and excessive entry or exit barriers. For example, Petrof (1987) considers the case for intervention with small enterprises.

To take an example, Dunbartonshire LEC covers the area around the immediate north of Glasgow and up along Loch Lomond, with a population of 321,000 people and a budget in the first year of operation (1991/2) of £22.1m (Dunbartonshire Enterprise, 1993). Of this, £5.4m was spent on supporting Enterprise development (including assistance for company growth or start-up, exporting, etc.), £6.8m on environmental improvements, including tourism related initiatives, £5.4m on training young people, £2.6m on training adults, and £1.8m on management and administration. In the following year (1992/3) the budget dropped by £0.5m, and the emphasis shifted from environmental improvements towards enterprise support and youth training. Funding is almost totally from Scottish Enterprise, with them providing some 98% of the budget (falling to 95% in 1992/3 with the rest made up largely of funds from the European Commission and Department of Employment for specific initiatives).

In terms of 'internal' **control** of LEC activities, as stated earlier, the LECs must have at least two-thirds of their (generally) 12 unpaid Board members from the private-sector. These Boards determine the policies of the LEC, while policy advice and implementation is carried out by the paid executives. The remainder of Board members come from various public bodies or other organisations, such as local authorities, Colleges, Trades Unions etc. The built-in private sector majority is claimed to reflect their knowledge and experience of the local economy and business. It also reflects the government's move towards greater control of government expenditure by local people selected by national Ministers, rather than through direct elections or selection by locally elected government.

This clearly raises a problem of accountability, particularly when many decisions are not made in public. The LECs are however, subject to considerable 'external' control by Scottish Enterprise (and indirectly by the government through the Scottish Office), through their contractual obligations when they receive their funding. Also, Scottish Enterprise exercise considerable control over LECs through determining their funding for LECs as they: provide the vast majority of a LEC's funds; must approve the LEC's annual plans for future activities; and must approve any individual project costing more than £0.25m.

The **mission statements** and **objectives** of LECs are consistent with those of Scottish Enterprise and tend to be similar, although each varies in emphasis. It is not possible here to discuss the details and subtleties of the various LEC objectives and mission statements, but it is worth illustrating some examples.

A mission statement is sometimes said to represent the major long-term goal that will be difficult, but not impossible to achieve. There are a variety of LEC mission statements, with some being quite nebulous and difficult to measure such as: "to promote and develop a culture which will encourage growth in the local economy, enhance the region's attractive quality of life and contribute to the expansion of the Scottish economy" (Dumfries and Galloway LEC - a LEC covering the thinly populated rural south-west of Scotland). This mission statement does clearly indicate that the LEC's role is to expand the wider national economy rather than just its own area.

Other LECs have quite specific missions which are potentially more measurable (admittedly with great difficulty), such as that of Dunbartonshire LEC (a largely urban LEC which also covers part of the Highlands and Loch Lomond near Glasgow) which seeks "to achieve a level of prosperity and quality of life for Dunbartonshire which matches the best in the United Kingdom". It is important to note that most mission statements are not restricted to simply economic growth, but include: quality of life issues; how they will go about their activities

("within an alliance of organisations" in Glasgow LEC or "through creative partnerships with other private and public sector bodies" in Renfrewshire LEC); and in some cases organisation aspirations (such as to be among the best business development agencies anywhere in the world in the case of Glasgow LEC).

Some LECs state their objectives in terms of broad functional areas, often mirroring their organisational structure. The rural Borders LEC has the broad objectives of: enterprise and human resource development; property development; environmental development; and integrated and innovative project development (with particular regard to tourism and rural development issues). Other LECs express their objectives in terms of what they seek to achieve. For example, Dumfries and Galloway LEC's objectives are: to meet the needs of employers by enhancing the skills and enterprise of the community; to encourage the development of indigenous business; to encourage and assist business start-ups; to develop projects and programmes which maximise the areas of opportunity and respond to the needs of people and places in rural and urban areas; and to act as a focal point to encourage partnerships with others to achieve these objectives. In broad terms, the more detailed content of the objectives and how they are to be achieved tend to be fairly similar. Also there is a fairly consistent emphasis in the objectives upon seeking to improve the workings of the markets, and for LEC policies to move in the same direction as the market (such as assisting private property investment rather than the LEC building industrial property directly).

Finally, it is worth noting that there are significant differences between the LECs and the Training and Enterprise Councils (TECs) in England. The LECs have considerably wider powers covering both business development and environmental issues in addition to the training issues covered by the TECs. This permits the LECs to have a broad, more integrated approach to the development of their local economies and allows the integration of support for training and business development within firms. It also means that the scale of resources and bargaining position with other local bodies is relatively greater with LECs.

Having considered the context within which LECs operate and some of their main characteristics, the next sections look at their broad range of activities and how they carry these out.

IV DETERMINING LEC STRATEGIES

How then do LECs seek to achieve their visions and objectives? Each LEC undertakes some or all of a wide range of activities or policies which are directly or indirectly relevant to achieving their objectives. In order to choose and prioritise these activities each LEC has developed a strategy. Hence, before considering individual sets of LEC activities or policies, it is useful to briefly look at their strategy formation and some economic theory underlying them. In addition to developing their long-term strategy, each LEC must submit an annual Business Plan to Scottish Enterprise, making a case for funding for the next year and outlining short-term expenditure plans for the next year. The decisions by SE will then largely determine what actual activities the LECs can carry out as that is by far their major source of funding.

While space limits the length of discussion about the development of their strategies, it is worth briefly discussing some key issues in strategy development. The first steps in the LEC strategy

formulation were usually determining their vision, role and objectives. Then considerable effort was given to analysing their local economies in order to identify problems which hindered economic development, or opportunities to promote greater or different economic development. This should identify where LEC support for developing the local economy may have greatest impact, given the LEC resources⁴. Included in this analysis of the local economy is generally a review of the activities of other key actors (in both private and public sectors) seeking to promote economic development (see for instance, McQuaid, 1993 on their relationships with local authority economic development departments). This can help the development of relationships with these other key actors as well as identifying needless overlap with other agencies and how this can be avoided. Also opportunities could be identified where joint working with other agencies, in a complementary way, might significantly improve support for the local economy (see next section also).

Once the needs of the local economy, the current and planned activities of other key actors, and gaps or improvements in local economic development support have been identified, then the LECs can match these with their own objectives, remits and resources. This would then lead to a series of activities where the LEC would have the biggest impact upon the local economy, given its level of resources, or as the saying goes, they would get "the biggest bang from the buck".

It is important to note that the development of the local economy, and of the strategies and activities of the LECs, are heavily influenced by wider national and international strategic issues such as globalisation, changing technologies and the impact that these have on different locations and firms etc, the changing communication systems, the growing importance of environmental factors and changes in company structures, organisation and sizes, to mention but a few (see, for instance, Marsden et al, 1993 for a multi-disciplinary approach to analysing the impacts of these and other factors on rural communities; National Council, 1993). While clearly changes in the global economy influence the actions of firms or plants at the local level, it is not a one directional flow of influence, as the responses of local actors, and the wider local community, can have a significant impact on events. Indeed, while historically rural economies were dominated by agriculture, this is no longer the case and there is increasing heterogeneity amongst rural areas (Christenson and Flora, 1991).

It is also important to note that one of the fundamental ideas behind the development of Scottish Enterprise was the integration of business development and training, hence part of the logic in combining the former Scottish Development Agency and the Training Agency who respectively provided business development and environmental services and training services. While the activities discussed below have been separated for ease of analysis, in many cases they may be combined or grouped together within individual LECs and in all cases the individual activities should be developed. In general they are closely integrated with other activities of the LECs.

The broad economic theories underlying possible LEC strategies and activities cannot be fully discussed here (see for instance Armstrong and Taylor, 1993; Bingham and Meir, 1993; or Ilbery and Healey, 1990, for a basic review). The main sources of employment are through the expansion of existing indigenous companies in the area, the creation of new start-up firms, and the attraction of inward investment firms from other parts of the country or abroad. In addition, employment and income can be helped to be maintained through assistance to firms that are in

⁴ See, for example, Lyons and Hamlin (1991) for a practical discussion of creating action plans for economic development organisations.

danger of contracting, closing down or moving elsewhere, ie the mirror image of support for attracting in employment. Generally support to existing indigenous firms may be applicable to help indigenous firms grow or to stop them declining etc, although if firms do close or move out special initiatives may be generated to support the workforce to find jobs elsewhere in the local economy. Keeping in mind the various theories of regional development mentioned above, one influential theory upon which much of the support for expanding employment opportunities has been loosely founded is export-base theory, whereby expanding markets thereby increasing output and hence employment and income. This may be achieved, for instance, through: greater exports to other areas by local firms; attracting inward investment which will then sell their output to other areas; or import substitution whereby local firms produce products previously imported into the area (for further descriptions and critiques see: Armstrong & Taylor, 1993; Howland, 1993; Nelson, 1993; Roberts, 1989).

The main ways in which the LECs assist the development of their local economies are through aiding factors of production (such as improving access to or use of plant, equipment, finance, production and product technology, business information and advice, business skills etc, for both existing firms and for new start-up firms); improvement of the physical infrastructure such as property (premises or serviced land), communications, roads (particularly related to individual industrial or commercial developments) and environmental improvements (generally to make areas more attractive for inward investment or tourism); aiding increase in demand (particularly improving exports from the nation, but also increasing opportunities for local firms to meet local demand, or to meet demand elsewhere in the nation); and, particularly in the Highlands & Islands where Highlands and Islands Enterprise has a social as well as economic remit, improving the social infrastructure, including seeking changes to the education system, improving housing availability etc, which may indirectly affect local economic development.

In addition to assisting companies directly, a number of activities seek to support the training of the labour force, both those in work (which clearly assists companies as well as the individuals involved) and those out of work. LECs have no direct control over education, although this is clearly important for the development of a local economy. In addition, considerable efforts have been made by LECs to develop the physical infrastructure, such as improving communications, property and the environment.

IV WHAT ARE THEIR ACTIVITIES ?

Given this brief overall context in terms of strategy formation and underlying theory, what then are the specific activities carried out by the LECs? These have been separated according to assistance for existing businesses, new businesses start-up and survival, inward investment, training for those in work, area initiatives, sector initiatives, and the physical infrastructure. generally the activities have sought to be efficient and effective including being: part of a clear strategy, responsive to clearly identified needs for support, providing direct value to those getting the support, leveraging resources from others, supporting but not replacing private sector activity, and providing the minimum input to achieve the results.

a) Assisting Existing Businesses

LEC activities seeking to assist existing businesses are generally trying to expand the local economy through the growth of firms (or countering the contraction of firms), by improving their sales through increased efficiency, better product development, improved access to other markets etc. Increasingly support has been aimed at increasing the competitiveness of firms, rather than seeking to increase employment directly, partly on the basis that if a firm employs more people but is uncompetitive in its market, then in the long-run it (and the jobs) will not survive. This should then lead to greater employment and/or income generation.

There are many different types of business development support, including advice, finance (equity, loans, grants or other subsidies, or the development of venture capital funds etc), initiatives to improve the quality of products and operation of firms, technology transfer, benchmarking, assistance with exporting etc.

To mention just a few of these policies, some LECs have schemes to assist local firms in develop: improvements in product and operational quality through Total Quality Management schemes or aiding them to reach BS5750, which is the British Standards quality accreditation (equivalent to the ISO 9000 Standard); competitive benchmarking which brings together analysis of the key success factors for firms with examples of best practice in other organisations carrying out similar functions or other firms in similar industries; supply chain management, whereby firms are linked with potential suppliers so that a greater share of their purchases are locally sourced; waste minimisation schemes and other environmental management initiatives (including helping companies to evaluate the impact of new British Standards such as BS7750) as such changes will affect the operation of the company and/or open up new market opportunities for the company; the identification of new opportunities for the growth of the companies, such as through the use or development of new materials, leading to new product opportunities, marketing training, the introduction of new products etc.

Some LECs develop specific plans which incorporate all or some of the above factors and identify where the LEC can provide support through financial aid, advice, provision or part-subsidy of consultancy advice etc. This enables the firm to develop an action plan to support their projected growth, taking into account these and other factors. In addition, support is given by some LECs to companies to improve the training of their workforce (see below).

However, given the large number of existing firms in any local economy, it is usually necessary to target specific industrial sectors, or types of firms that may benefit most from support. Increasingly LECs have been targeting local firms with greatest potential to grow in terms of output and employment, providing most assistance to them while providing a much lower level of assistance to other firms. With limited resources, such targeting is increasingly important. The way in which LECs deliver such services can vary quite considerably and is discussed in the next section.

b) New Businesses Start-up and Survival

The importance of the start-up and survival of new businesses has been widely discussed and has been a major part of local economic development policy, certainly since the late 1970s. A major aim of many LECs has been to increase the number of businesses in their community, to improve their survival rate, particularly as new firms have an extremely high death rate, and to increase the formation of growth-orientated new businesses, rather than simply supporting the growth of new firms that are unlikely to employ more than one or a handful of people, and also those which may simply displace other small firms in the local economy.

To achieve this, LECs have carried out many activities⁵. They usually provide (directly or through other bodies) support packages such as information, advice, finance, small start-up premises etc. to entrepreneurs wishing to form new firms. They also seek to increase entrepreneurial awareness by addressing the underlying attitudes in their community to enterprise, risk and the business culture, and to improve information, pre start-up advice, and aftercare services (ie services once the company is up and running) to those wishing to start up their own business.

Examples of activities to improve entrepreneurial awareness include holding seminars, using the media and supporting young enterprise schemes in schools and colleges etc. The entrepreneurial infrastructure has been improved by various business start-up services (or centres which may target companies generally or may be specifically for those with high growth potential), providing premises, opportunities for entrepreneurs to meet and form networks, and access to finance, suitable courses, general business advice or industry specific advice etc. In some cases these may all be offered in a single building or centre. In particular the Enterprise Trusts have been used as a major vehicle to provide start-up advice to individuals wishing to start up companies or to be self-employed. Many towns in rural areas have their own Enterprise Trust which serves the surrounding hinterland, such as Highland-Perthshire Trust in Pitlochry. There are also some examples of specific rural educational institutions providing training in business, such as the gaelic medium Skye College.

Specific activities to support the development of new firms are generally focused upon aiding individuals. However, in some cases there are specific programmes to help the creation of teams of individuals to jointly start up new firms. These programmes are often based on the assumption that one individual may not have the full range of technical, administration, marketing, production etc skills to start a successful, high growth potential business, but that a team may have the combination of such skills and therefore be able to create a business that is more likely to be successful and have higher growth. Experience so far indicates that these schemes are perhaps difficult to develop cost-effectively, although many are still in the pilot stage.

c) Inward Investment

A traditional means of expanding the local economy has been through the attraction of inward investment. Often these are international companies seeking to locate within the UK or specifically within Scotland, but also inward investment may include firms coming from other parts of the country into a LEC's area. The individual LECs support inward investment through ensuring that sites are provided, tailored training schemes are developed and sometimes financial or other support is given. However, most aid to foreign inward investors comes through national government in terms of regional grants etc. and through the support of a specialist body operated by Scottish Enterprise and central government (the Scottish Office) called Locate In Scotland (LIS). Hence, much of a LEC's effort to attract inward investment is

⁵ Gibb (1987) reviews different approaches and types of programmes for training the owner-managers of small firms arguing that specialist programmes, and in some cases specialist institutions, are needed rather than merely adjusting current training applicable to large firms. See also: Flora and Johnson 1991; Petrof, 1987; Whatmore *et al*, 1991.

through seeking to influence LIS and to make sure that it is aware of possible sites, specialist labour pools etc.

For rural areas, however, the limited size of the labour pool, and remoteness from the main communication centres, from markets and from specialist suppliers, all mean that it is often difficult to attract large inward investors. On the other hand, some small inward investors may be attracted by the "quality of life" in rural areas, as well as lower land prices, land and premises availability, lack of congestion, lower wages, and so seek to locate in rural areas (see: Robinson, 1990, and Fothergill *et al*, 1984, on the advantages of rural locations for industry; Malecki, 1988; and Hall *et al*, 1987, on 'high-tech' industries and "quality of life" of such areas).

Once inward investors have been attracted to an area effort is increasingly being given by LECs, working with other local agencies, to expand the investor's links with the local economy and local firms. For instance, this may be achieved through developing supplier networks with the inward investor so that local companies are capable and able to supply the new firms. Also it is common for specific training programmes for local people to be developed so that they are qualified to take jobs with the new inward investment firms (for example when the electronics company Motorola moved to near Bathgate in West Lothian).

d) Training for those in Work

As the labour force is often cited as a company's major resource, LECs have been involved in a number of initiatives to increase the level of training within companies. These include part-funding skills audits within companies to help identify training needs of the workforce and of their future workforce, providing labour market information, grant schemes to part-fund specific training and sometimes short-term wage costs, and specialised grants or training for target groups (for example training grants when a long-term unemployed person is taken on by a company). Generally these have been linked to the wider business development plan of companies, so that the company business plan determines the future skills needed.

In addition there are schemes to encourage companies to take on young unemployed people, such as the Skillseekers programme, where young people are given a grant which will cover the cost of training and where their wages will be part-funded by the LEC for the first year or two. In addition there are many other variations on employment grants for covering young people, such as the national government Youth Training scheme.

In general these schemes have been heavily influenced by national government policy, through the need to implement specific national policies and meet the national guarantees to certain groups such as young people entering Youth Training. Also, the general government view that firms should carry-out and pay for their own training, rather than being subsidised by the state through LECs, has limited the ability of LECs to fund training for most company employees directly. However, given that the UK has had a poor training record compared to some countries and as the vast majority of the workforce in the year 2010 are already in the labour market, it is essential that existing workers are trained or re-trained, and are committed to life-long-learning if the general level of skills in the economy is to be improved.

e) Training for the Unemployed

The major part of the budget of LECs has been spent on training for the unemployed. This tends to be extremely expensive as in some cases (eg some European Social Fund projects) it includes

a living allowance for the unemployed person, so that the cost covers both the training and living cost (in effect substituting for unemployment benefit). Support for the unemployed covers a range of activities providing, in some LEC areas, basic numeracy and literacy courses, to careers advice, job search, work experience, specialised training and wage subsidy support.

Examples of these activities include: improving knowledge about career options (which is usually done by working with the local government Careers Service Officers), and providing specialist training and information such as the Training Access Points (TAPs) scheme which provides computerised lists of all training courses for a huge variety of occupations. Also assistance is given through the funding of training, either through grants to the employer or to the trainee (such as Skillseekers mentioned above), and government-backed career development loans where people may take out a loan to pay for their training. In addition, schemes such as modern apprenticeships whereby people are trained up to a high level of craft and skill levels (level III+) are included. Considerable effort is often made to work with the education system through various partnerships such as the Compacts, whereby students achieving certain grades and attendance records etc are guaranteed job interviews or job experience (hence motivating students to continue in adult education), to other forms of education and business partnerships.

For the older unemployed people, particularly those long-term unemployed (ie out of work for 12 months or more for people aged over 25, or 6 months or more for those below that age) there are various schemes to train them so that they can acquire general work experience, and/or specific skills. There are also initiatives whereby recent graduates can be funded to work with companies, hence bringing their recently acquired skills and knowledge to the firm, but also gaining valuable experience.

There is a danger that if too much of the LEC effort and budgets are focused upon such schemes for the unemployed, rather than on training the labour force as a whole, then they will not make a significant impact upon the long-term development of the economy through raising the national stock of human capital and assisting the creation and growth of firms.

Often training schemes for the unemployed are closely linked to area initiatives, which are discussed below.

f) Area Initiatives

A number of LECs have specific area-based initiatives, where they joint fund (with other agencies such as local authorities, charitable trusts, local businesses etc.), a specific initiative targeting a closely defined geographical area and/or a target group of people and usually seek to integrate and target resources. Many specific rural initiatives come under this category, targeted at areas with specific problems, or opportunities, or at the pervasive problem of rural poverty (as poverty is more widespread in rural parts of Scotland than elsewhere).

These initiatives will often provide business development and training services mentioned above, or coordinate their delivery at a local level. As they are relatively small-scale they can tailor various programmes very specifically to the local economy and they can often generate considerable input from the local community, including the business community. For example there is a relatively new Rural Initiative in Stirling while the Highland-Perthshire initiative has been operating for almost a decade as a joint partnership between various agencies and has concentrated on maximising the economic development of the area around Pitlochry, including

developing initiatives in tourism, agriculture and other local industries (see COSLA, 1992, for further examples).

In addition, there may be priority target groups within the local labour market such as the long-term unemployed, young unemployed, returners to the labour market or single parents. Generally they seek to ensure equal access to employment for these different groups which for various reasons may have difficulty competing in the local labour market due to their lack of skills, the stigmatisation of living in particular areas with bad reputations or the lack of childcare facilities.

Such initiatives may include: helping to change individuals' perceptions of training and employment opportunity in the economy and in areas outside the local area but which may be within commuting distance; providing incentives for and remove barriers from the people successfully participating in training and job search; ensuring a flexible and appropriate stairway from education to training and job search by providing the necessary skills and opportunities, ranging from very basic skills (such as adult basic education or basic reading, writing and numeracy); establishing mechanisms to identify appropriate job opportunities in the wider economy, especially through working with employers and identifying specific training and recruitment packages which can then be provided to those in the target group; working with the local communities so that the programmes are more effective, as they will be promoted by local people involved; and working closely with other agencies to make sure that their provision is relevant and adapted to meet the needs of the target group.

In addition, besides targeting local employers and local people, the basic physical environment in the area needs to be considered and brought up to a level which will allow and encourage economic development, as well as making the place more attractive to live in.

g) Sector Initiatives

Given the small scale of many rural areas, it is often sensible to concentrate effort on a limited number of industrial sectors or sub-sectors where there are opportunities for development and the level of expertise within the support agencies can be brought to bear. These may be tourism initiatives, which could involve improved training for providers of services such as restaurants or hotels etc., the development of tourist attractions, the marketing of the area and so on. Other industries which may provide opportunities include those supplying services to the agricultural industry, food processing, or specialist agricultural products etc., although these are often already well developed. The craft industry often has potential links to the tourist industry and there have been a number of schemes devoted to expanding the craft industry and increasing value that it adds to the local economy through international marketing etc.

h) Physical Infrastructure

LECs have often been involved in either providing directly, or ensuring that there is provision of basic property needs for economic development. These are generally serviced sites (with all the infrastructure such as water, roads, telephones, sewerage, electricity etc.) or actual premises available to firms either designed particularly for that firm or built on a speculative basis so that there are empty premises available to firms wishing to move into the area at short notice. Special emphasis has been made towards providing small units as small firms have difficulty raising the capital to purchase or construct their own buildings. These small units tend to be less attractive

to the private-sector developers as there is a lack of economies of scale, and many of the overheads such as rent collection are as high for one small firm as for a large firm.

Specialist premises for multiple users have also been provided in rural areas, such as the telecottages in Grampian, where local firms can access premises with up-to-date telecommunications. Generally, unlike local government, LECs have not sought to directly provide units themselves but rather to work with developers and to provide funding to make up the difference between what would be a viable private-sector-led initiative and the actual financial position of the proposed project (for example under the RAPID initiative, although LECs have been criticised by Thame (1993) for lack of property knowledge on their boards and rivalry between LECs resulting in competition rather than co-operation). Hence a relatively small amount of LEC money may be enough to lever the private sector to develop a project and so provide property etc.

There are many examples of rural environmental projects by LECs such as: the renovation of the dilapidated old residential Queensberry Square in an Outstanding Conservation Area of the small town of Sanquhar in Dumfries and Galloway; the conversion of a beautiful 1930's building within a former Monastery near Newton St Boswells in the Borders LEC area to form small workspaces, called the Tweed Horizons Building and powered by combined heat and power plant fuelled by willow coppice which is grown on local "set aside" agricultural land; the replacement of a Hydro-electric power station at Rumbling Bridge in a rural part of Forth Valley where the LEC paid for demolition, landscaping and fees; and developing proposed visitor attractions and a golf course near the internationally famous Loch Lomond by Dunbartonshire LEC.

In addition to property, considerable effort has been made towards improving the environment, such as tree planting to make an area more attractive for tourism, providing picnic areas etc, and in general the search for new land uses in the countryside (see for example Gilg, 1991, 1992). This is particularly important for tourism in the countryside.

VI HOW DO THEY GO ABOUT THEIR ACTIVITIES?

While each LEC may be involved in most of the above activities, there is a wide variety of ways in which they go about implementing these activities. The approach of Scottish Enterprise has been set out above, but it is important to consider key aspects of how LECs go about implementing policies. This section therefore looks at what the characteristics a successful local economic development organisation might be, followed by discussions of three factors related to policy implementation: the organisations directly providing their services or acting in an 'enabling' role; partnership and; public accountability.

First, what characteristics might a successful LEC have? Hughes (1992) suggests that they need: to get adequate resources from government; have independence and flexibility; remain adaptive (and be a learning organisation); support community based development and recognise the importance of complementary social programmes; the crucial importance of partnership between development agencies, local authorities and other public bodies; and imagination. To this can perhaps be added partnership with other bodies including the private and 'third' sectors, the need for well thought out and clear objectives, and the need not to be too constrained by

national policies or means of implementation, responsiveness to local needs and opportunities and ensuring that services provided are valuable to those receiving them and the local economy.

Shuttleworth (1993, chapter 7) indicates that a successful organisation should show 'third wave' characteristics. He argues that the activities of many economic development organisations can be divided over time into three waves (as identified by Ross and Friedman, 1990). The 'first wave' involved primarily trying to attract new manufacturing industries, or "smoke stack chasing" as it is sometimes called. The decline in manufacturing employment and competition from newly industrialised and other countries limited the potential success of this as the main policy. In the 'second wave' the economic development organisations have sought to ensure that economic resources (such as a skilled workforce, risk capital, up-to-date technology and modern telecommunications) are available to maximise the competitive capacities of local firms. This would appear to be a reasonable description of the activities of many LECs. However, he argues that while this public "pump priming" has, in the past been successful, there are dangers of: limited scale of resources relative to need (for example in the provision of risk capital); fragmented services with limited integration and co-ordination; lack of accountability concerning the performance of individual projects and collections of initiatives; and a missing link between economic and social concerns, as experience shows that an improved economy will not automatically resolve social inequalities.

The 'third wave' incorporates a decentralized model with the government not being the sole service provider (i.e. it has an 'enabling' role as discussed above). The basic principles of the organisation's initiatives are that: they are demand driven, i.e. programmes are only carried out when they are valued by the end-user; they leverage resources, as public sector resources are limited; they encourage competition among suppliers of services, so that world class resources are available to clients of the initiatives and service quality is kept up with prices kept down; and there is automatic feedback from the initiatives to ensure accountability and avoid political manipulation of the process.

Second, it is worth considering the 'enabling' role in greater detail. Increasing effort has been made to play an 'enabling' role whereby the main objective is to ensure that an activity has been carried out, rather than the LEC actually directly providing the service themselves, even though the LEC itself pays for these services. This enabling role means that the LEC has often to keep a more strategic perspective rather than getting involved in the operational details of providing the service.

The balance between the 'enabling' or direct provider roles affects the way in which LECs deliver such services. This delivery is often in the forms of using: consultants from outside the LEC; or intermediate agencies; or their own staff. For example, LECs also often use specialist private-sector consultants to provide many of the services, either paying the full cost of the consultants or part of the cost, with the company paying the rest. In other cases third parties are part-funded to provide the services, for example Scottish Innovation provides support for companies throughout much of Scotland to develop new innovative products etc., while at a local level there may be local public or public-private delivery agents such as Enterprise Trusts which the LEC may part-fund to provide specific services to firms. Finally, the LEC may use its own staff to provide specialist or general business advisory services. Given the large range of firms to be dealt with, it is often not possible to have LEC employees with specialist knowledge of a number of industries, although they may be able to give more general advice, oversee the use of specialist outside consultants or organisations, and for certain key local industries they

may have specialist knowledge (for instance in tourism). Given the general small size of most rural businesses, often the advice will be of a fairly general nature in the first instance.

However, there can be dangers in moving too far along the 'enabling' policy, especially in a small scale organisation as is common in rural areas. It is often essential to learn the lessons from providing the service in order to develop a policy. An enabling role also necessitates that there are other actors who are able to carry out the function efficiently and effectively, be they in private, public or 'third' sectors. In theory the enabling role should allow the benefit of economies of scale, as the provider of the services could provide them over a much larger area than, say, the LEC or a particular rural area. Hence specialist services, such as in food processing for particular foods, could arise at perhaps regional or national level and that expertise brought in on a part-time basis to the specific locality. This would generate additional costs and benefits and the level of expertise would be high. However, there would be the disadvantages of lack of local knowledge, the lack of continuity between the providers and the client firms, and perhaps a less direct feed into the development.

In addition, a third issue is that many activities are carried out in partnership with other key actors, as well as in partnership with the Scottish Enterprise National body. In terms of partnerships, there are a number of clear principles relating to partnerships (COSLA 1991). These include the need for a clear and understood agreement (ie what needs to be done and who does what); clear operational guidelines (who does what); flexibility; and incentives and motivators (McQuaid, 1994).

In terms of partnership with their main funder, the relationship between LECs and Scottish Enterprise National have been briefly discussed above. However, there is likely to be some tension between the desire of Scottish Enterprise National to ensure that its own strategic priorities are carried out and the desire of the LEC to follow its own priorities and to gain the resources to implement them. It may be difficult for LECs with large rural areas if the priorities of Scottish Enterprise favour the main sections of the economy which are predominantly located in urban areas. As Scottish Enterprise National controls the budget, ultimately the LECs will be forced to follow their priorities, but there is likely to be a great need to lobby for the development of specific rural initiatives.

Fourth, the structure of the LEC and its decision making process has important implications for public accountability, especially as nearly all funds come from the public purse (see for example: Kerley, 1989; McQuaid, 1989; Moore, 1989). The structure of the LECs means that there is no necessary representation from local, democratically-elected authorities. This is likely to lead to a potential crisis of legitimacy whereby LECs could be seen as unelected bodies making decisions affecting the local economy and funded by the public purse. Fortunately, most LECs have ensured that local authority elected officials are present on the boards. There is also the tension between SE and the LECs, with a temptation by the former to use its power, especially its control of LEC budgets, to centralise policy and decision making. It remains to be seen how far SE will seek to centralise control and how far LECs will be permitted to develop and implement genuinely local solutions for local problems. Greater legitimacy and accountability to local communities could well strengthen the position of the LECs.

In summary, it is clear from the earlier discussion that LECs are seeking to adapt many of the characteristics of 'third wave' organisations, although there is considerable scope for improving feedback and accountability. It should be noted that while the 'third wave' describes an approach to policy development and implementation, the descriptions of first two waves concentrate upon

actual policies, so it is not inconsistent to consider that LECs show characteristics of both the 'second' and 'third waves'. Whether they can successfully follow such a 'third wave' approach has yet to be seen. Also in remoter rural areas particularly, the scope for competition between service providers and the leverage of significant resources from elsewhere may prove considerably more difficult than in more populated areas, suggesting that there may be practical limitations on such an approach in rural areas.

VII CONCLUSION

This paper has discussed some of the key issues concerning the development of the Scottish Enterprise LEC network in relation to rural areas. It has considered the range of usual LEC activities, although it is not intended to be a summary of the multitude of rural initiatives in which LECs are currently involved. While nearly all LECs cover relatively large rural geographical areas, their populations tend to be concentrated in urban areas. Policies therefore tended to have an urban focus, although there are many cases of rural projects and all services were generally applied to both rural and urban areas.

There appears to be a tendency both at Scottish National level and at the level of individual LECs to concentrate aid on where they will have the biggest impact, which will generally be seen as the urban areas, although further research is required on this issue. However, both Scottish Enterprise and individual LECs have made an effort to ensure that the specific issues concerned with economic development in rural areas are not completely overshadowed. LECs have a major role in the economic development of Scotland's rural areas, as funders, service providers or enablers, and partners in co-operation with other public, private and 'third sector' bodies. The variety of LECs and their relatively local focus compared to national agencies should allow them to develop appropriate policies to match the specific heterogeneous needs and opportunities of rural communities across Scotland. This suggests that distinct economic initiatives for specific local rural areas are likely to be important for rural economic development, with LECs having a significant role as a partner providing resources and specialist expertise.

Finally, LECs were found to have many of the characteristics of 'third wave' economic development organisations in terms of the way they approach policy making and delivery, although there may be practical limitations to such approaches in remoter rural areas.

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