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"THE ROLE OF BUSINESS SERVICES IN REGIONAL DEVELOPMENT:  
THE CASE OF THE SCOTTISH HIGHLANDS."

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Thesis submitted for the degree of Doctor of Philosophy.

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## ABSTRACT

This research is concerned primarily with the provision of private and public sector business services in the Highlands of Scotland. This is a sparsely populated area with a variety of economic problems, including remoteness from main centres providing business services. The research involved a survey of over fifty manufacturing and fish farming enterprises in the region, and fourteen accountancy firms. Semi-structured interviews identified which services firms use and provided information on the quality of services.

The survey revealed wide variations in the use of services by the firms. Externally controlled operations tended to be poorly integrated into the local service economy, whilst small indigenous firms were most dependent on the local services sector. It was found that there was limited use of services concerned with financial management, marketing, training, and technical services. This was related to factors including the costs of the services, problems of remoteness, and the failure to recognise the need for advice. The HIDB, a development agency active since 1965, was found to play an important role in service provision.

The study concludes that service provision is an important factor in the economic development process. Policy initiatives are suggested which require a more pro-active approach than is currently being pursued.

## Index of Common Abbreviations.

- BOTB - British Overseas Trade Board.
- DAFS - Department of Agriculture and Fisheries for Scotland.
- DOE - Department of Employment.
- DTI - Department of Trade and Industry.
- ECGD - Export Credits Gaurantee Department.
- HIDB - Highlands and Islands Development Board.
- HIE - Highlands and Islands Enterprise
- HRC - Highland Regional Council.
- IDS - Industry Department for Scotland.
- MSC - Manpower Services Commission.
- PSWP - Producer Services Working Party.
- SDA - Scottish Development Agency.
- SIC - Standard Industrial Classification.
- YTS - Youth Training Scheme

## CHAPTER ONE: INTRODUCTION.

This chapter provides an initial background to the study. It consists of five main sections. The first section outlines the research question and explains why it is considered important. This highlights the limited scope of previous research in the area. The second section provides basic definitions of the terms employed. The third section provides the economic background to the study, explaining why the study area was chosen. The fourth briefly describes the activities of the Highlands and Islands Development Board (HIDB). In the fifth section the thesis structure is outlined.

### 1.1: The research question.

Table 1.1 outlines the main research questions the thesis seeks to answer. The basic question is what role the provision and demand for business services play in the economy of a peripheral area? Do business services in a peripheral economy affect the performance of that economy? Within this general question the research seeks to identify whether firms in remote regions such as the Highlands are disadvantaged by being less accessible to business services. Furthermore does this disadvantage compound the problem of distance from main markets? Another issue is whether the problem of remoteness from business services acts as a deterrent for prospective

entrepreneurs who may be disadvantaged in terms of access to professional advice and expertise.

As table 1.1 shows, there are also a number of more specific questions which the research seeks to answer. Firstly, what is the extent of the demand for business services generated by firms in the Highlands? By answering this question it should be possible to identify gaps in the use of services which could form the basis of policy recommendations. This question would be concerned with the frequency of use of services and whether firms in the area face problems in accessing a wide range of business services.

A further issue is where firms in the Highlands currently obtain the services that they use. Moreover, data on the expenditure on services by firms in the Highlands would help to determine the significance of the demand for services generated in the local economy. This would also illustrate the importance of service costs in relation to other aspects of firms' costs, such as labour. Of particular interest in this context would be firms' expenditure on transport since location theory suggests that firms in remote locations may be at a disadvantage because of greater costs.

As table 1.1 shows, a third main question to be tackled is to analyse the demand for business services to see

Table 1.1: Research Questions.

| <u>Primary questions</u>  | <u>Secondary Issues</u>   |
|---|---|
| 1. Does the limited availability of business services in remote locations act as a constraint on the local economy? | - Are firms in these locations disadvantaged?<br>- Does this cause problems for prospective entrepreneurs?  |
| 2. What is the demand for business services in the Highlands?   | - Which services do firms use?<br>- Where do they obtain them, and why?<br>- What do they spend on services?  |
| 3. Do certain types of firms use different business services?   | - Which firms are most reliant upon local services?<br>- Which firms need services but face problems accessing them?<br>- What is the nature of these problems eg travel time, cost?    |
| 4. Is there a relationship between a firm's use of services and its performance?                                    | - Do successful firms use certain key services?<br>- If so, can other firms be encouraged to use these services?  |
| 5. Are there problems with the supply of professional services in peripheral areas?                                 | - Are the service providers conservative, traditional, and undynamic?<br>- Are the services more expensive than elsewhere?<br>- Are the services of poorer quality?                     |
| 6. Could enhancing the provision of certain services boost the local economy?                                       | - Is this a key issue?<br>- Is it significant for inward-investors?<br>- Is it significant for local entrepreneurs?<br>- Can this play a role in tackling the problems of remote areas? |

whether this varies according to the type of firm involved. For example: on the basis of ownership, or sector, or size of firm. Smaller firms may be more dependent on certain services than larger firms with greater internal expertise. New entrepreneurs may have a greater need for basic accountancy services than other firms. If this is the case, are there gaps in the provision of services for certain types of client group? A further important issue is to determine which firms are most reliant upon the provision of local services. If, for example, there are qualitative differences between the supply of business services in a peripheral area and elsewhere this would suggest that firms reliant upon local services would be disadvantaged. Another issue would be whether firms try to compensate for limited provision of certain services by producing them "in house". This may reveal a need for business or skills training in small firms, for example.

This question also seeks to identify whether different types of firms face problems in accessing certain services. They may be related to physical factors such as travel time, or financial constraints, or there may be different attitudes and outlooks between entrepreneurs and business consultants.

Furthermore, examining differences between services used by firms should help to determine how closely they are

integrated into the local service economy. This may be useful for the development strategies pursued by government agencies such as the HIDB.

A fourth primary question is to determine whether there is a relationship between a firm's use of services and its performance, based upon criteria such as profitability and employment generation. From a policy perspective this would help to determine whether certain types of advisory services should be targeted upon firms to help them develop more rapidly. A key issue is to try to identify if more "successful" firms use more or different services from other firms. Most of the literature on the role of business services states that the provision of such services is vital to the success of firms in other sectors, but there is little empirical evidence to support this hypothesis (Marshall 1988). This question would help to rectify this gap in the literature.

The fifth question is whether there are problems with the supply of business services in peripheral areas such as the Highlands. Secondary issues are to assess whether the provision of these services is deficient in terms of their quality and range. Also, given that in many areas there is likely to be limited competition to provide the services, and that service providers also face cost disadvantages stemming from greater transport costs, are these services more expensive than elsewhere? For

example, would an accountant or a lawyer charge higher fees than in a more central location where competition is greater? Another issue is to explore the possibility that incoming firms perceive that services in areas such as the Highlands are more expensive and of lower quality than elsewhere.

The sixth main question which the research seeks to answer is whether service provision is a significant issue to firms in remote areas. In other words by enhancing the supply and demand for certain key services could stimulus be provided to the local economy? Are firms in the Highlands disadvantaged by the limited provision of certain services? If so, how important is this in comparison to other factors affecting their performance? Service provision is very much a "supply-side" issue and it is important to consider the demand for goods and services as well. It should also be determined whether service provision is important for inward investors, which remain the target for many local development strategies, and for local entrepreneurs. Finally the research should ask whether improving the provision of business services could play a part in tackling the economic problems of remote areas.

Map 1.1 shows the HIDB area and its constituent local authority areas. The empirical research was carried out in Highland Region.



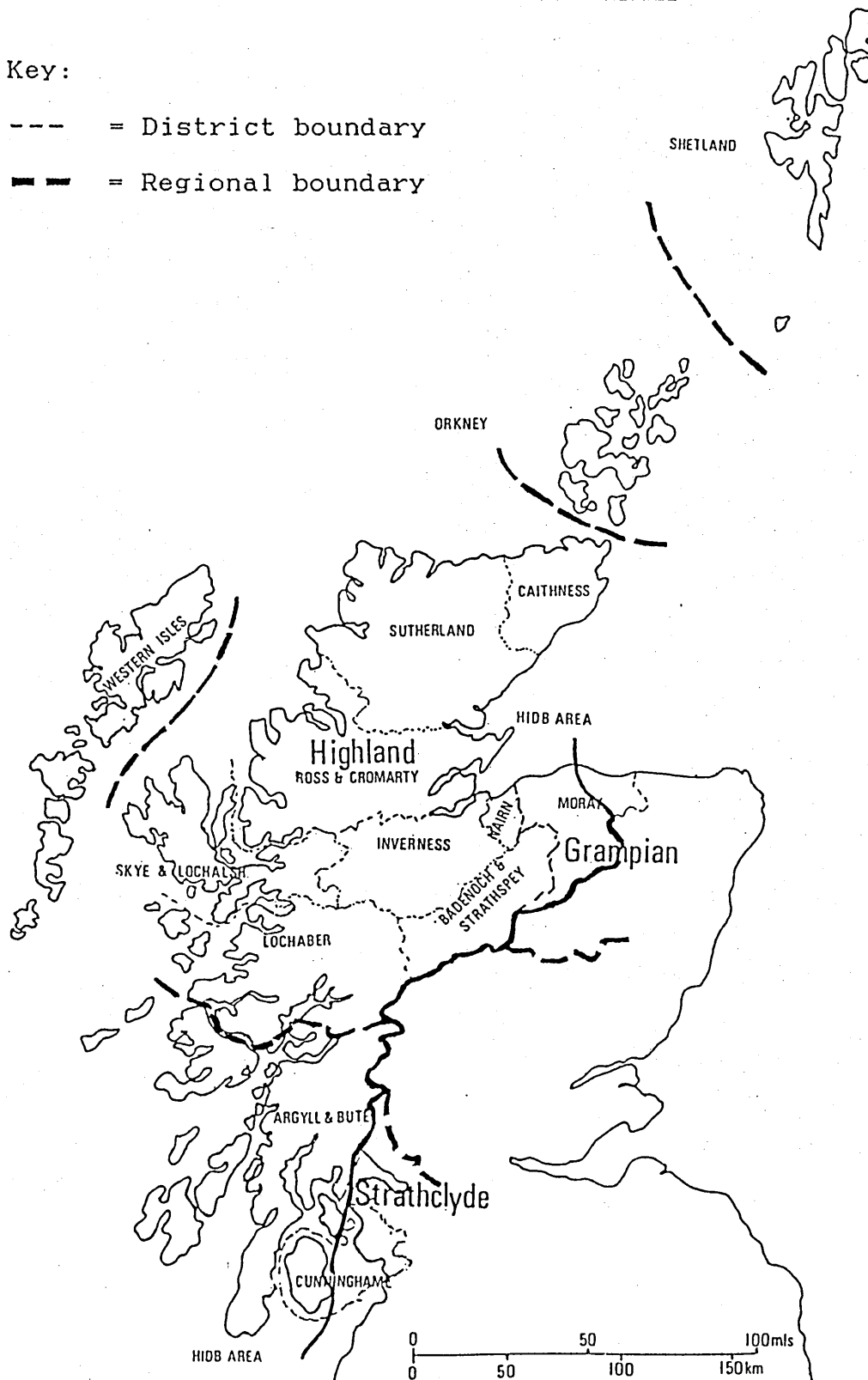
Map 1.1: The HIDB area.

(Local Authority areas)

Key:

--- = District boundary

— — — = Regional boundary



Source: HIDB Annual Report for 1988.

### 1.1.2: Why this is an important issue.

The research question is significant from two perspectives. Firstly, as a study area in its own right as it is in the expanding field of the geography of services. Secondly, it raises the possibility of providing relevant material for policy initiatives in an area with a variety of economic problems. On the former point the research is building on previous studies and attempting to expand the field by virtue of the geographic study area and the methodology employed.

Traditionally economic base theory viewed the service sector as being a passive agent in the economic development process. The basic sectors of the economy, (primary and manufacturing activity), it was argued generated income into a regional economy through exports whilst the non basic or service sector was simply dependant on the multiplier effect of the former activities. This argument has been challenged on two fronts. Firstly it has been argued that business services may also perform "basic" export functions. Accountants based in one region could serve the needs of firms located elsewhere, for example. Secondly it has been argued that as part of the "supply capacity" of a local economy, business services can contribute to the performance of other sectors.

Marshall argues that many of the key questions about the

role of business or producer services in economic development remain unanswered. The main hypothesis in the area of study is that:

"... the availability, range and quality of producer services in an area can have a significant effect upon the competitiveness and capacity for successful adjustment to change of local industry."

(Marshall 1988 p56)

The limited evidence on the topic suggests that firms in peripheral areas may be disadvantaged by more limited access to specialist business services but the evidence is to a certain extent inconclusive. Having reviewed the literature Marshall states that:

"It is still an open question whether there are actually spatial variations in the availability and quality of producer services which affect firm performance. Does a shortfall in the local supply of producer service industries add to client costs or reduce the quality of service provided, and if so how do user firms respond? Does a shortage of local services encourage users to internalize their producer services, and does this mean they are performed less well? Finally, assuming any of these factors affect client performance, how important is the impact relative to that of other influences on performance." (Marshall 1988 p59)

As this quote suggests, several of the issues which this research project attempts to answer have been set out as areas for future research in previous studies.

Whilst the literature is reviewed more fully in the following chapter it is worth noting that at present there is a limited amount of empirical work in the field. This research has identified six studies of the demand for business services (Bryden 1983, Marshall 1982, O'Farrell and O'Loughlin 1981, Pedersen 1986, Polese 1982, Savi 1988). In general these studies have consisted of large scale postal surveys of firms in specific geographic regions which are usually centred on a medium sized provincial centre, rather than a major city. The studies have used different definitions of business services ranging from 90 individual service tasks (Bryden 1983) to only ten services (O'Farrell and O'Loughlin 1981).

The methodological divergence is underpinned, however, with the same basic hypothesis about the role of business service provision. In general the studies argue that business services, and particularly higher order professional services (legal, accounting, marketing etc) play an important role in economic development. It is argued that access to a range of services is vital to the development of small firms because they lack the in house expertise to provide many specialist services. This is

significant for the Highlands which has a high proportion of very small firms. In 1983 for example 69% of manufacturing firms in the HIDB area employed less than ten people (Business Statistics Office, Business Monitor PA1003, in "Review of the HIDB", IDS 1987b).

Previous research has found that the demand and use of business services is related to several factors. As the previous paragraph suggests, the size of firm has been found to be important with smaller firms tending to use fewer services and less specialist services such as management consultants than their larger counterparts. Ownership has also emerged as an important factor in determining the demand for business services. In general research has found that externally controlled branch plants and subsidiaries tend to use fewer local services than their locally owned counterparts, although this may depend on the local availability of services. Other factors affecting the demand for services include the economic situation of the firm, the type of product market which it serves, and the geographical market which the firm serves. These factors will be returned to in the following chapter but it is interesting to note that in general studies have broadly confirmed previous studies findings despite the fact that the studies are drawn from a variety of countries including Canada, Denmark, England, Ireland, Italy and Scotland.

The most relevant study for this research project was carried out in the Highlands by Bryden (1983). This study, "*Regional self reliance and public policies on services to rural industry*" was published as an OECD working paper. This included a survey of eighteen firms which were questioned about their use of private and public services. The survey involved "detailed personal interviews in only fourteen cases, with briefer interviews with a further four" (Bryden 1983 p1). As the introduction to the study noted:

*"Very little information exists on the use of public and private services by rural industry and the nature of the day to day problems on service provision and use in rural areas of the UK."*  
(Bryden 1983 p1).

The sample mainly consisted of manufacturing firms including four high-tech firms and four primary product processors, although it also included two fish farms. The firms were asked where they obtained over ninety service tasks and in particular whether they obtained them within or outwith the Highlands (See appendix 1.1 for Bryden's definition of service tasks). Table 1.2 shows the summary of the findings of the survey into the demand for private services generated by the firms.

As the table shows the majority of the services were obtained within the Highlands suggesting that small

locally owned firms tend to use local services. The main problems identified by the survey included problems with finance, marketing, technical support, planning and transport. In the area of financial arrangements problems were identified such as the need to obtain public finance through the HIDB before being able to secure loans from the private sector, venture capital gaps, and the need for additional financial advisory services.

Table 1.2: Use and location of services by the sample.

(Source: Bryden 1983, Survey of 18 firms)

| Category of service   | No of mentions | Of which locally supplied | % local <sup>1</sup> |
|---|----------------|---------------------------|----------------------|
| <i>Normal services<sup>2</sup></i>  |                |                           |                      |
| Real estate, legal, accounting, technical, advertising & promotion, transport, telecoms, finance.                                 | 126            | 87                        | 69%                  |
| <i>Common services<sup>3</sup></i>  |                |                           |                      |
| Auxilliary insurance, market research & consultancy, organisation & management, training.   | 36             | 21                        | 58%                  |
| <i>Unusual services<sup>4</sup></i>   |                |                           |                      |
| Auxilliary banking, computer services, marketing, research & development, rentals, commercial companies, refrigeration & heating. | 28             | 18                        | 64%                  |

- Key: 1. Supplied from centres in the Highlands & Islands  
 2. Used by all or nearly all firms surveyed  
 3. Used by at least half of the firms surveyed  
 4. Used by less than half of the firms

In the field of marketing the survey showed that with a few exceptions the firms were sceptical of the value of assistance from public agencies but they also did not use advisors in the private sector to any great extent. This may suggest that the firms were neglecting marketing activities although this problem is not mentioned by Bryden. In the area of technical support it was found that generally firms were unable to obtain this type of assistance locally, were reliant on customers or suppliers for this advice, and experienced problems obtaining technical training in the Highlands. Planning and transport problems were related to delays and costs. The survey concluded that:

*"Amongst very small new enterprises, there is in some cases a need for general and policy advice, but little trust of the sources available. Agencies are generally discounted because they do not and cannot have the specific knowledge. Accountants are regarded by both larger and smaller firms as non-committal, whilst Banks tend to look at maximum "safe" (ie secured) lending as the guide to advice."*

(Bryden 1983, p8)

The survey also found that there was a limited awareness of more specialist schemes of assistance such as for consultancy, training and technical services "...perhaps because of their range, complexity and the physical remoteness of the offices and personnel associated with



them" (Bryden 1983 p8). Whilst based on a limited sample this survey would tend to suggest that there are problems with service provision and use in the Highlands which warrant further investigation. The survey is also useful in that it raises issues which can be investigated more fully in a larger sample, although a major criticism is that it did not look at in house provision of services by the firms.

### Conclusion

This section has outlined the main questions which the research will attempt to answer. It has demonstrated that the research is in a relatively new and undeveloped field with a limited number of studies to build upon. It has shown that there has been a limited research project addressing similar issues in the study area which the research could build upon. As the section has illustrated this is a research area which can provide policy relevant material to development agencies such as the HIDB. The latter, for example, could gain information about the use of business services in the Highlands which might be used in future policy initiatives.

#### 1.2: The definition of business or producer services.

The terms business and producer services are often used interchangeably in the literature. They refer to interme-

mediate service inputs used by firms during the production and distribution of goods and services. Gershuny and Miles state that business or producer services:

"...are themselves provided to the producers in a formal production process of goods, or indeed, other services. These can include such a range of activities as office cleaning, factory canteens, legal and financial consultancies, and dealing, technical design and so on. They are intermediate inputs into the final product." (Gershuny and Miles, 1983 p13)

Thus according to this definition such services can be both blue and white collar, and are not simply confined to office based activities. In certain cases, however, the term producer services has been defined to include office based activity only, thus excluding activities such as transport and distribution (see for example Gillespie and Green 1987, Marshall 1983). To add confusion to the issue Polese defines office based activities as business services, contrasting them with producer services including distribution (Polese 1982).

The principal distinction between business services and consumer services is the source of final demand for their products. Thus whilst the latter serve the needs of individuals and households, the former serve firms and organisations involved in the production of goods and

services. Thus the Producer Services Working Party of the Institute of British Geographers, defined producer services as:

"...those services which supply business and government organisations rather than private individuals, whether in agriculture, mining, manufacturing or service industries..." (PSWP 1986 p16)

In further defining such services the PSWP state that:

"...producer services are concerned with financial, legal and general management, innovation, development design, administration, personnel, production technology, maintenance, transport, communication, wholesale distribution, advertising and selling..." (PSWP 1986 p16)

Appendix 1.2 provides the definition of producer services used by the PSWP. These activities are split into three groups: information processing services (mainly white collar/office based eg accountancy, legal); goods-related services (mainly blue collar routine services eg transport, repair and maintenance); and personnel support services (eg welfare, cleaning, catering) (PSWP 1986).

The definitional issue is returned to in the following chapter, but it should be stated that there are a number of different definitions of business or producer services. The study quoted above represents an attempt to

classify business services as tasks rather than on the basis of employment categories. The following section summarising economic data on the Highland economy includes an attempt at the latter.

### 1.3: Economic background to the study: The Highland Economy.

This section presents some basic economic data describing the Highland economy and its recent development which helps to explain some of the problems the area faces. The concluding section summarises the main economic problems facing the area.

Providing a full socio-economic profile of the Highlands is beyond the scope of this study and this section merely summarises some of the key economic variables and problems in the region<sup>1</sup>. There are problems with some of the data sources. At the time of writing, for example, the latest available census of employment statistics are for 1984 and the results of the 1987 survey have not yet been published.

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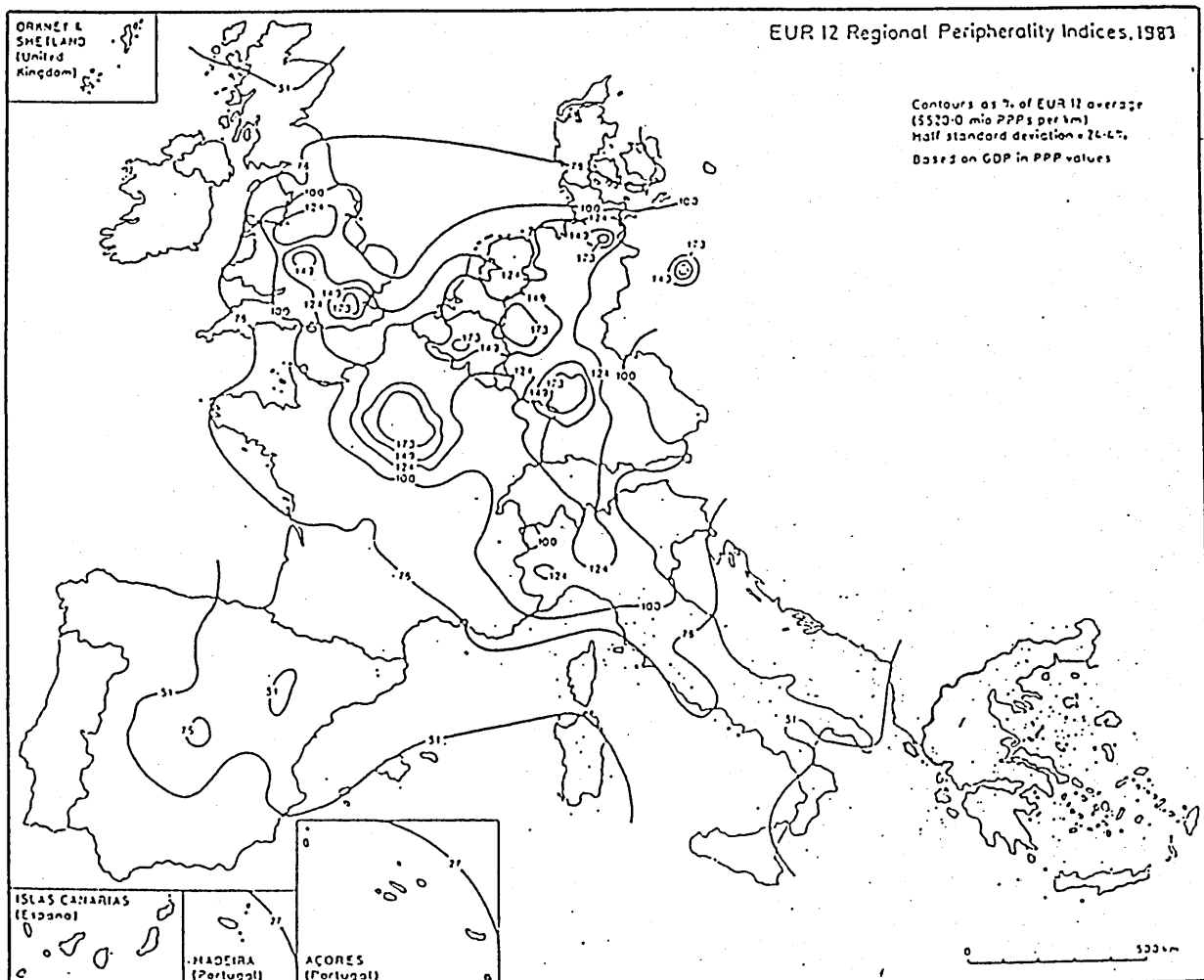
<sup>1</sup> The publication "*Economic and Social change in the Highlands and Islands*", published by the Scottish Office (1987a), provides an excellent source of key data on the region as do the annual reports of the HIDB.

### 1.3.1: Remoteness and limited population base.

The Highlands are a significant area to study for a variety of reasons. The area is one of the most peripheral and sparsely populated regions in Western Europe. Map 1.2 provides a map of an index of peripherality in the European Community. This map shows that the Highlands and islands are located at the extreme north west of the EEC away from the main centres of economic activity. In addition to greater transport costs firms in peripheral regions also incur higher telecommunications, and information gathering costs. They face problems maintaining contact with customers and suppliers and therefore contact with rapidly changing markets (Keeble et al 1986). A study of peripheral regions in the EEC concluded that in general they exhibit "*major structural weaknesses and relative economic disadvantages*" including factors such as a reliance on the primary sector, limited manufacturing sectors biased towards traditional industries, high levels of unemployment, and of particular relevance to this study, low levels of employment in producer services (Keeble et al 1983 p13). As this section will demonstrate these factors are apparent in the economy of the Highlands.

In addition to the problem of remoteness the Highlands and Islands also have a low population which means that there is a limited local market for goods and services.

Map 1.2: Peripherality in the EEC.



Source: Keeble et al 1983.

Key: The higher the contour value the closer to centres of economic activity.

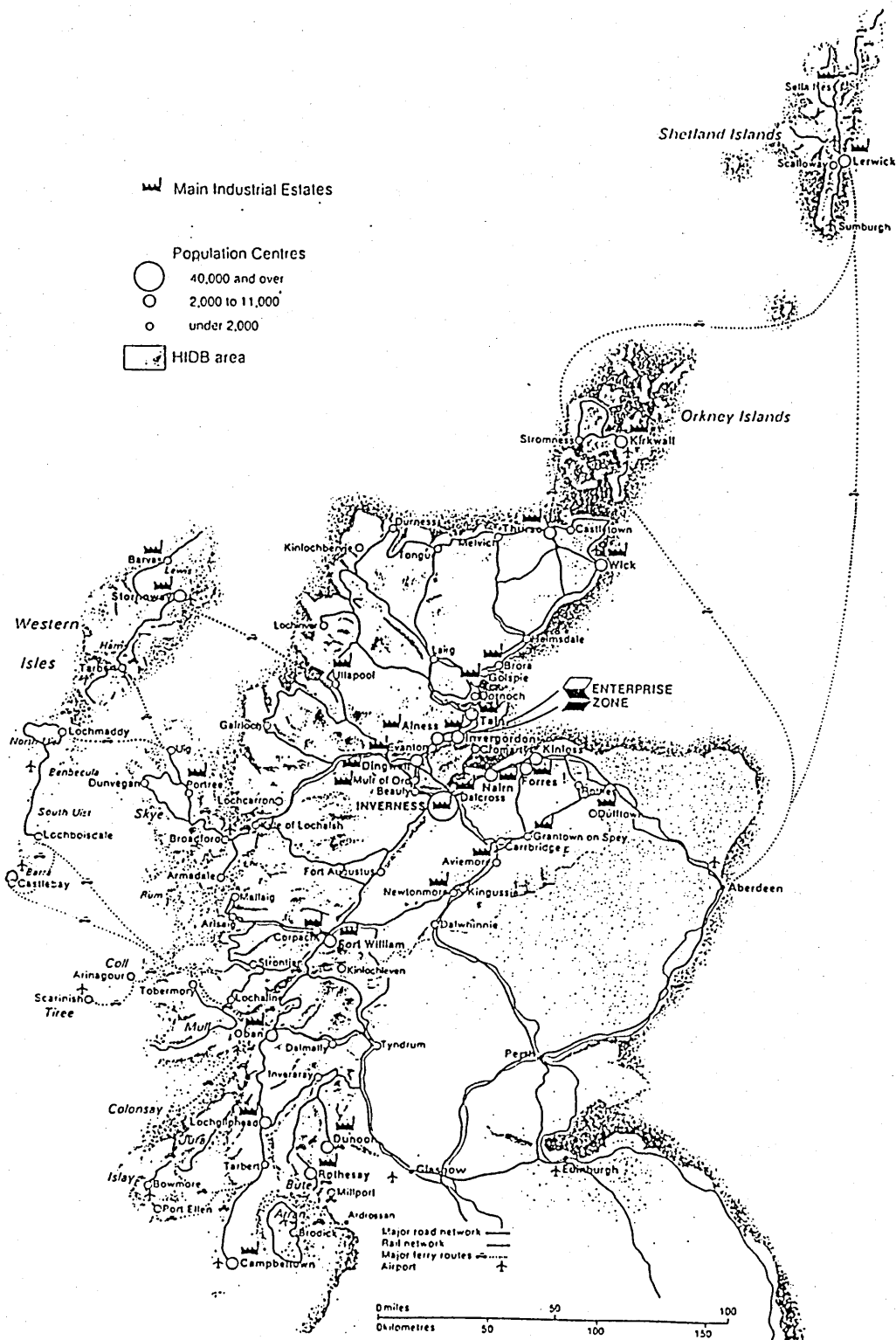
The HIDB area has a total population of 344,000 (1987 figure), less than 7% of the total Scottish population although it covers about 50% of the land-mass. The Highlands and Islands are the least densely populated

region in the EC. The average population density for the twelve member states is 143 persons per km<sup>2</sup>, whilst for the Highlands and Islands it is only 9 persons per km<sup>2</sup> (1984 figures). The next least densely populated region in the EC, is in Spain with a population density of 21 persons per km<sup>2</sup> (Arkleton Research 1987).

In addition the majority of the population live on islands and/or in small rural settlements. 30% of the population of the HIDB area live on 90 islands. All of the districts making up the HIDB area are classed as "rural" by the Scottish Office. There are only two settlements in the area with over 10,000 inhabitants (Inverness c38,000 and Fort William c11,000 - 1981 Census), and a further eleven of over 5000 (IDS 1987a). In addition the Highlands differ from other rural areas in Scotland in being remote from major cities such as Aberdeen, Glasgow, and Edinburgh which are all about three hours drive from Inverness.

The distribution of population and remoteness from main centres obviously exerts an influence on the provision of services, notably private services which are dependent on market forces. Lawyers, accountants and other professionals tend to be concentrated in the larger settlements such as Inverness, Fort William, Dingwall, Oban, Wick and Thurso, and in the island administrative centres of Stornoway, Lerwick and Kirkwall (See map 1.3).

Map 1.3: Settlements in the HIDB area.



Source: HIDB "The Top Country" (undated).



Given this distribution of population, access to higher order services can be a problem and choice can be limited to one or two local firms outwith Inverness. Thus the authors of "Economic and Social change in the Highlands" argue that:

"...the cost of, and accessibility to, business services remains a significant difficulty facing most enterprises in outlying parts of the Highlands and Islands." ("Economic and Social change in the Highlands and Islands", IDS 1987a p85)

The above recognises that this is a problem for firms in remote locations but other problems may include the range and quality of services which are available.

### 1.3.2: Economic trends.

In the absence of regional GDP figures the main indicator of economic performance which can be used is employment figures. Table 1.3 details the main employment trends in the HIDB area since 1951. There have been several important changes in the methods of counting those in employment, the standard industrial classification, and the HIDB area boundaries over this period. Where possible the figures have taken account of these factors. The 1971 change from a national insurance card count to a census of employment based on an employers survey prevents direct comparison of the figures before and after this

period.

Table 1.3: Employment trends in the HIB area 1951 to 1981

| Sector               | 1951            | 1961            | 1971            |                 | 1981            |
|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                      |                 |                 | a <sup>1</sup>  | b               |                 |
| Primary <sup>2</sup> | 15,628<br>(18%) | 13,991<br>(15%) | 8,695<br>(10%)  | 11,907<br>(12%) | 10,954<br>(9%)  |
| Manufacturing        | 11,541<br>(13%) | 9,150<br>(10%)  | 12,783<br>(14%) | 11,601<br>(12%) | 16,674<br>(14%) |
| Construction         | 12,217<br>(14%) | 14,623<br>(16%) | 12,885<br>(14%) | 11,421<br>(12%) | 12,714<br>(10%) |
| Utilities            | 897<br>(1%)     | 1,047<br>(1%)   | 1,351<br>(1%)   | 1,425<br>(1%)   | 1,632<br>(1%)   |
| Services             | 46,310<br>(54%) | 52,384<br>(57%) | 56,151<br>(62%) | 61,444<br>(62%) | 80,997<br>(66%) |
| TOTAL                | 86,593          | 91,195          | 91,868          | 97,798          | 123,061         |

Source: "Social and Economic change in the Highlands and Islands"  
IDS 1987a p125.

Key: 1. 1951 to 1971a figures relate to employees in employment plus the unemployed cf 1971b to 1981 employees in employment only.

2. Fishing employment 1971b to 1981 includes self employed.

Employment trends 1951 to 1981.

As the table shows the economic structure of the Highlands has undergone fairly dramatic changes over the period, notably in the decline in importance of the primary sector, and particularly the growth of service

industry employment. The decade to 1961 involved growth in the construction and service sectors with the opening of the Dounreay nuclear research establishment in Caithness responsible for growth in professional services. The Highland economy underperformed in relation to growth in employment in Britain as a whole over this decade particularly in manufacturing employment. In the 1960s, the Highland economy again performed poorly relative to the British economy with virtually no growth in employment. This is despite the fact that the manufacturing sector expanded significantly because of major "growth pole" projects such as the Corpach pulp and paper mill at Fort William, and the Invergordon aluminium smelter.

In contrast to the two previous decades the period 1971 to 1981 was one of unprecedented growth in employment in the Highlands and Islands with the creation of some 25,000 jobs. As the table shows there was a 44% increase in employment in the manufacturing sector, and a 32% increase in employment in the services sector. The latter increased at more than twice the Scottish average, whilst the former contrasted with decline in manufacturing nationally. Oil related developments in particular were the main stimulus to the local economy. Major developments included the construction of oil terminals at Flotta in Orkney, and Sullom Voe in Shetland; and development of fabrication yards for offshore structures at Kishorn (Wester Ross), Nigg (Easter Ross), Ardersier

(Inverness), and Arnish (Isle of Lewis). It has been estimated that oil related employment including multiplier effects accounted for two thirds of the employment increase in the region in the 1970s (IDS 1987). At its peak in mid 1981 direct oil related employment accounted for some 16,443 jobs in the HIDB area in contrast with 3,290 jobs at the first survey of oil related employment in December 1973 (MSC Survey). Indeed it has been argued that under-recording of temporary construction labour, particularly at Sullom Voe, means that oil related employment probably peaked at approximately 20,000 jobs in 1981 (MacKay 1987).

The impact of oil sector developments can be seen in the growth of employment in specific industries. Thus employment in "Engineering and Shipbuilding" increased by roughly 6000 jobs (+385%) over the period 1971 to 1981. In contrast to this growth there was continued decline in the fortunes of the primary sector. The traditional manufacturing sector of the Highlands was also generally static or declining over the 1970s. Thus employment in textiles (-28%), food and drink processing (-4%), and paper and printing (-20%) all declined. The closure of the pulp mill at Corpach leaving only the paper making operation, and the closure of the Invergordon smelter in 1982 (-900 jobs) were the major effects of the recession of the late 1970s and early 1980s.

The growth in service sector employment of 32% over the 1970s is obviously important in the context of this study. This was related to developments in the oil sector, such as the provision of catering facilities and increased transport requirements, and population growth. Analysis of changes within the service sector show that the greatest increases occurred in the fields of Professional and scientific services, such as health and education (+6000 jobs); Distributive trades (+3,260 jobs) and Miscellaneous services, including tourism (+7000). Employment in insurance and banking occurred at above the overall rate for the sector as a whole, growing by 57%, albeit from a low initial base of about 2,500 jobs. As with national trends, however, part time female employment accounted for half of the increase in service sector employment (IDS 1987a).

#### Employment trends in the 1980s.

The period since 1981 has involved the loss of about 8000 jobs in the Highlands, principally because of the completion of major oil related construction projects such as the Sullom Voe terminal and a decline in the fortunes of the fabrication sector, particularly after the oil price falls in 1986 (MacKay 1987). Other major job losses over this period in the manufacturing sector have occurred as a result of the Invergordon smelter closure in 1982, restructuring of the remaining smelters in Lochaber, and

of the Corpach paper mill. The latter, for example employed almost 1000 in 1979, and in late 1988 employed about 200 (Top Business, January 1989). Closures in the oil sector included the Howard Dorris yard at Kishorn, the Arnish yard in Lewis, and the cyclical nature of employment in the remainder of the sector has been reflected in generally lower levels of employment at the remaining yards. As the survey shows the two surviving oil fabrication yards are very significant to the local economies in Dingwall and Invergordon and Inverness areas.

Table 1.4 shows the trends in employment in the HIDB area and compares them with Scotland for the period 1981 to 1984, the latest available censuses of employment. The HIDB area performed markedly worse than the Scottish economy in all sectors with the exception of the service sector. The growth in the latter in the HIDB (+8.3%) was in marked contrast to the Scottish picture where overall service employment was static (-0.3%). Table 1.4 also shows that the employment structure of the HIDB area differs markedly from the Scottish picture. Employment in agriculture, forestry and fishing is twice as significant for the Highlands. Indeed the table understates the significance of primary sector employment in the economy as it only includes employees in employment thereby excluding the self employed and working proprietors. In 1981, for example there were 15,000 in this category in

the Highlands (HIDB 1986).

Table 1.4: Employment trends in the 1980s - HIDB area v Scotland

| 1980 SIC                                   | SCOTLAND                    |                    | % change | HIDB area <sup>1</sup> |                 | % change |
|--|-----------------------------|--------------------|----------|------------------------|-----------------|----------|
|  | 1981                        | 1984               |          | 1981                   | 1984            |          |
| 0. Agric/Forestry/<br>Fishing <sup>2</sup> | 39,000<br>(2%) <sup>3</sup> | 36,700<br>(2%)     | -9.4%    | 6,865<br>(6%)          | 5,745<br>(5%)   | -16.3%   |
| 1. Energy & Water<br>Supply                | 73,100<br>(4%)              | 65,200<br>(3%)     | -10.8%   | 2,583<br>(2%)          | 2,122<br>(2%)   | -17.8%   |
| 2-4. Manufacturing                         | 502,400<br>(25%)            | 433,700<br>(23%)   | -13.6%   | 17,433<br>(15%)        | 14,810<br>(12%) | -15.0%   |
| 5. Construction                            | 137,800<br>(7%)             | 138,900<br>(7%)    | +0.8%    | 11,955<br>(10%)        | 11,256<br>(9%)  | -0.6%    |
| 6-9 Services                               | 1,232,900<br>(62%)          | 1,229,400<br>(65%) | -0.3%    | 78,768<br>(67%)        | 85,279<br>(72%) | +8.3%    |
| TOTAL                                      | 1,985,200                   | 1,903,900          | -4.0%    | 117,604                | 119,212         | +1.4%    |

Source: Scottish Economic Bulletin No 36 Dec 1987, and HIDB.

Key: 1. HIDB figures exclude Moray and Arran & the Cumbraes.

2. Primary sector excludes self employed fishermen therefore figures differ from table 1.3

3. (x%) = % of total employment.

The rural nature of the economy is also reflected in the low levels of employment in manufacturing with this sector accounting for only 12% of employment in the HIDB area in 1984, compared to the Scottish figure of 23%.

The service sector is also of more importance than at the national scale. Indeed the growth of the service sector

in the HIDB area wholly accounts for the overall growth of employment over the period (+1.4%). Given this contrast with the national picture, table 1.5 shows the employment trends within the service sector between 1981 and 1984 for the HIDB area, and Scotland.

Table 1.5: Service Sector Employment in the 1980s - HIDB area v Scotland

| 1980 SIC   | SCOTLAND         |                  | % change | HIDB area <sup>1</sup> |                 | % change |
|--|------------------|------------------|----------|------------------------|-----------------|----------|
|  | 1981             | 1984             |          | 1981                   | 1984            |          |
| 6. Distribution, Hotels, Catering & Repairs.                 | 382,700<br>(31%) | 379,700<br>(31%) | -0.8%    | 28,857<br>(37%)        | 29,265<br>(34%) | +1.4%    |
| 7. Transport & Communication                                 | 127,900<br>(10%) | 115,100<br>(9%)  | -10.0%   | 8,551<br>(11%)         | 8,361<br>(10%)  | -2.2%    |
| 8. Banking, Finance, Insurance, Business services & leasing. | 131,000<br>(11%) | 146,200<br>(12%) | +11.6%   | 5,719<br>(7%)          | 5,971<br>(7%)   | +4.4%    |
| 9. Other services  | 591,000<br>(48%) | 588,500<br>(48%) | -0.4%    | 35,641<br>(45%)        | 41,628<br>(49%) | +17.0%   |
| TOTAL  | 1,232,600        | 1,229,700        | -0.2%    | 78,768                 | 85,279          | +8.0%    |

Source: As table 1.4

Key: (x%) = % of total employment in service industries.

NB. Totals differ from table 1.4 for Scotland because of rounding.

As the table shows the main growth in the sector in the Highlands occurred in "Other services" in public administration, and health services, which contrasted with a static picture for these services at the national level. Care should be taken in analysing these statistics however because of sampling errors. As the authors in the



Scottish Economic Bulletin state:

"Results for small areas may be subject to relatively large errors and certain adjustments made to Scottish totals have not been made to figures for areas within Scotland...In consequence, the figures given for areas within Scotland should be treated with caution." (Scottish Economic Bulletin No36 Dec 1987 p23)

Of particular relevance in the context of this study is the poorer performance of the Highland economy in "Banking, insurance and business services", where growth was less than half of the national average. Further analysis of variations within this order heading show that employment growth in division 83 "Business services", including activities such as legal, accountancy, advertising and computer services was 8% for the HIDB area compared to 22% for Scotland. This suggests that the Highlands markedly underperformed in the growth of these high order business services which the literature argues are important for economic growth. This may reflect the poorer performance of primary and manufacturing sectors in the early 1980s in the Highlands (see table 1.4). This may also reflect the growth of these services in main centres rather than peripheral areas. The poorer performance of business services in the Highlands may also have contributed to the lack of dynamism in other sectors of the economy. As chapter two

shows there is clearly an interrelationship between a dynamic business services sector and dynamic productive base although at this stage it is difficult to determine causality. In addition the numerical differences may disguise more important structural weaknesses in the range and quality of service provision.

As mentioned previously it was argued by Keeble et al (1983) that peripheral regions in the EEC suffered from poorly developed producer services sectors. One way to illustrate this is to use a classification developed by Urry to analyse employment in the service sector. Urry subdivided the sector into six categories on the basis of the 1980 SIC (this classification appears in appendix 1.3). Table 1.6 shows the employment structure of the service sector in the Highlands, Scotland and for comparison the South East for 1984.

The table shows that for both categories of producer services the Highlands and Scotland have below the national average employment and markedly below the South East's share of "private managerial producer services". The latter include activities such as banking, insurance, business services and research and development. This tends to confirm Keeble et als' findings.

Table 1.6: Employment in services - HIDB area, Scotland and the South East

| Classification                              | HIDB area       | Scotland<br>(000s) | South East<br>(000s) | GB<br>(000s)    |
|---|-----------------|--------------------|----------------------|-----------------|
| 1. Public Consumer services                 | 30,452<br>(36%) | 445.8<br>(37%)     | 1679.2<br>(32%)      | 4738.8<br>(35%) |
| 2. Private Consumer services                | 28,066<br>(34%) | 371.4<br>(30%)     | 1347.8<br>(26%)      | 3850.7<br>(28%) |
| 3. Private Managerial Producer services     | 7,358<br>(9%)   | 131.5<br>(11%)     | 919.3<br>(18%)       | 1796.8<br>(13%) |
| 4. Private Distributional Producer services | 4,849<br>(6%)   | 87.2<br>(7%)       | 482.4<br>(9%)        | 1218.0<br>(9%)  |
| 5. Circulation services                     | 8,361<br>(10%)  | 115.1<br>(9%)      | 571.3<br>(11%)       | 1327.5<br>(10%) |
| 6. Private Welfare services                 | 4,431<br>(5%)   | 68.6<br>(5%)       | 234.6<br>(4%)        | 613.9<br>(5%)   |
| TOTAL                                       | 83,607          | 1229.6             | 5234.6               | 13541.7         |

Sources: DOE "Employment Gazette" Jan 1987 (Special feature), & HIDB.

Key: (x%) = % of total service sector employment in region.

NB. Totals differ from table 1.5 because classification misses out certain services eg Class 92 Sanitary services.

Indeed the position of the HIDB area in this sector is worse than would appear to be the case, because about 30% of employment in this sector is accounted for by Dounreay where employment is classed under research and development<sup>2</sup>.

The non availability at the time of writing of the 1987

<sup>2</sup> In July 1988 the Government decided to cut 1600 jobs at Dounreay by the mid 1990s (HIDB Annual Report 1988).

census of employment means that it is difficult to provide an accurate picture of trends since 1984. Most authors suggest that employment in the Highlands has declined significantly since 1984. As stated previously, MacKay (1988) estimated that the region has lost about 8000 jobs over the 1980s, whilst Highland Region estimates that for their administrative area employment has fallen by 6000 (HRC Structure Plan 1988). Since the employment census for 1984 showed an increase of about 1,500 jobs (see table 1.4) the majority of these losses occurred since the mid 1980s, particularly in the oil related sector after 1986. As will become apparent this had an important effect on the results obtained in the survey of manufacturing firms. The main areas of employment growth, however, have been in the retail sector, particularly in Inverness, and also in fish farming throughout the area.

The generally poorer performance of the Highland economy over the recent period is reflected in higher unemployment levels. Thus average unemployment in the HIDB area for 1988 at 13.4%, was higher than for Scotland (13.2%), and Britain (9.4%) (HIDB Annual Report 1988). This contrasts with trends in the 1980s reflected in table 1.7 (The usual qualifications about the multiple changes in the definition of unemployment over the period apply).

Table 1.7: Unemployment in the HIDB area 1984 to 1988

| Year | HIDB area | Scotland | GB    |
|------|-----------|----------|-------|
| 1984 | 14.2%     | 15.1%    | 12.9% |
| 1985 | 15.3%     | 15.6%    | 13.3% |
| 1986 | 15.6%     | 15.7%    | 13.1% |
| 1987 | 14.9%     | 15.3%    | 11.6% |
| 1988 | 13.4%     | 13.2%    | 9.4%  |

Source: HIDB Annual reports.

In March 1989, unemployment in the HIDB area was 12.1%, compared to 10.2% for Scotland, and 6.9% for the UK as a whole (DOE "Employment Gazette" May 1989). At this time there were also significant unemployment blackspots in the Highlands, such as the Western Isles (18.8%), Skye and Wester Ross (18.5%), and Dingwall and Invergordon (16%).

As would be expected the pattern of employment growth and stagnation has varied throughout the HIDB area. The oil related developments of the 1970s were to an extent highly localised around the Moray and Cromarty Firths and in Shetland. This picture is confirmed by a brief look at population trends in the HIDB area.

Population trends in the HIDB area 1951 to 1981

Table 1.8, shows the Census of Population results for the HIDB area and selected growing and stagnant parts of the

area.

Table 1.8: Population trends in the HIDB area 1951 to 1981

| Area                     | 1951    | 1961    | 1971    | 1981    | %increase/<br>decrease<br>1971 to 81 |
|--------------------------|---------|---------|---------|---------|--------------------------------------|
| HIDB                     | 316,471 | 304,161 | 307,532 | 353,513 | +15%                                 |
| Shetland                 | 19,352  | 17,812  | 17,567  | 27,277  | +55%                                 |
| East Ross                | 28,713  | 28,199  | 30,480  | 41,340  | +36%                                 |
| Badenoch &<br>Strathspey | 9,497   | 9,093   | 9,099   | 12,402  | +36%                                 |
| Inverness                | 45,620  | 45,820  | 49,468  | 56,770  | +15%                                 |
| NW Sutherland            | 4,238   | 3,961   | 3,782   | 3,965   | +5%                                  |
| Lewis & Harris           | 23,731  | 21,937  | 20,739  | 21,544  | +4%                                  |
| Oban & Lorne             | 14,615  | 15,162  | 15,078  | 15,208  | +1%                                  |
| Caithness                | 22,770  | 27,370  | 27,915  | 27,380  | -2%                                  |
| Bute                     | 12,548  | 9,799   | 8,429   | 7,733   | -8%                                  |

Source: Census of population - population present including visitors.  
HIDB Annual report for 1988.

In general population trends in the 1970s were favourable throughout most parts of the HIDB area helped by the oil related developments and factors such as counter-urbanisation. The overall pattern, however, disguised decline in the most remote rural and island areas. This can be seen in the figures for Lewis and Harris, North West Sutherland, and Caithness where population growth was very limited and occurred in the largest settlements.

Estimates of population trends in the 1980s made by the

Registrar General show a stagnation in population growth in the region and continued decline in the remotest areas. Thus it was estimated that the HIDB area's population had increased by only 0.6% between 1981 and 1986, whilst in Caithness, Sutherland, Lochaber, the Western Isles, and Arran and the Cumbraes, it had fallen in each area by roughly 2%. The most dramatic fall of 15% occurred in Shetland with the completion of the Sullon Voe terminal and the return of migrant labour. Meanwhile the Inverness area experienced a 7% increase in population. These figures tend to suggest that in certain areas of the Highlands population loss is a recurring economic problem.

### 1.3.3: Summary of economic problems in the Highlands.

As the previous sections have shown the Highlands display a number of features in common with other peripheral areas, including a reliance on a declining primary sector, a poorly developed and declining manufacturing sector a reliance on public services with an underdeveloped producer services sector. The problems of the area are reflected in high unemployment and stagnant population growth. Other problems with the regional economy include generally lower levels of entrepreneurship, weak management, poor marketing and limited local ownership and control (MacKay 1987). It would clearly, however, be incorrect to suggest that the economy is in a poor

position throughout the Highlands. In particular the growth of Inverness, one of the fastest growing towns in Scotland, has been relatively dramatic<sup>3</sup>.

#### 1.4: Policy Background

This section provides a brief discussion of the activities of the HIDB which plays an role in fostering certain types of economic activity in the Highlands through the provision of a variety of business services.

Since 1965 the economic and social conditions of the Highlands and Islands have been addressed by the Highlands and Islands Development Board, based in Inverness. The HIDB was established with a twofold remit:

*"...for the purpose of assisting the people of the Highlands and Islands to improve their economic and social conditions and to play a more effective part in the economic and social development of the nation". (HIDB (Scotland) Act 1965)*

The main functions of the Board are providing financial assistance to economic projects, through grants, loans or equity, and the provision of factories. In general the HIDB is able to provide about 50% of total project

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<sup>3</sup> "Building boom threatens jewel of the Highlands" *The Gaurdian* (29.3.89)



costs for developments in the primary sector including fisheries, manufacturing, tourism and certain services. In "special" circumstances this can be increased to 70%, for example in remote areas or unemployment blackspots. The HIDB also provides a range of advisory and training services. Whilst HIDB expenditure on the former two activities comprised 62% of the 1988-89 budget, expenditure on business advice and training service provision was 1.6% and 1.3% of the budget respectively (HIDB Corporate Plan, March 1988). HIDB also provides a range of marketing services, and funds specific projects for improving the local economy, such as research into fish farming for example. This brief sketch of the Board's activities shows the extent to which it provides services to businesses in the Highlands to try to combat the problem of limited local access to property, financial and advisory services.

In 1988, the HIDB had a total staff of 270, with 239 being based at their head office in Inverness, and the remainder throughout a network of twelve local offices. In the financial year 1987-88 the HIDB's budget was £37.7m, made up of £26.2m from Government and £11.5m in receipts from property rentals and loan repayments and sales of assets. HIDB expenditure is therefore equivalent to about £123 per capita for the HIDB area population of about 350,000. The 1980s have seen a steady decline in the proportion of HIDB finance from central

government as it has been encouraged to increase its own earnings through disposal of assets. In 1987-88 70% of its income was from central government whilst in 1982-83, the figure was 84%. HIDB assistance over the period 1979-88 shows that investment in manufacturing, and processing accounted for £57m (at 1988 prices) worth of investment, or 25% of their total, and it was claimed led to the creation or protection of some 10500 jobs. The fish farming sector is another important area of investment accounting for £25m worth of investment in research and job creation over the same period leading to the creation of about 1000 jobs, often in remote and island locations.

The HIDB was subject to a wide ranging review by the Government in 1987, the outcome of which was generally favourable (IDS 1987b). Given current central government policy, its main conclusions were that HIDB should try to foster entrepreneurship, increase the role of the private sector, target its resources more effectively, introduce charging for its advisory services, continue to dispose of "saleable" assets and try to make its social projects more self financing. It has been argued that this amounts to the "commercialisation" of the HIDB and if strictly applied its new operating criteria would substantially limit its scope for intervention (Danson, Lloyd, and Newlands 1989).

Towards the end of the research project the Government

put forward proposals which would increase the role of the private sector in the running of the HIDB which would be renamed "Highlands and Islands Enterprise" ("Scottish Enterprise: a new approach to training and enterprise creation" IDS (1989)). This issue will be returned to in the conclusion and policy recommendations at the end of the thesis.

### 1.5: Thesis structure and chapter outline.

The thesis consists of seven chapters. Chapter two of the thesis examines the geography of services in the UK and in particular assesses the literature on the role of business services in economic development. Other issues which are dealt with are the reasons for the growth of employment in services and why it has occurred in an uneven way across the UK. This provides an introduction to the empirical work which follows. Chapter three discusses the methodology of the study, why this was chosen and also provides a justification for choosing the sectors for study. The fourth chapter presents the general findings of the study into the demand for business services. This includes which services were used by the firms and where they were obtained. The fifth chapter provides an in depth analysis of the findings of the study and analyses differences between types of firms. It also assesses the role of the HIDB in business service provision and provides a picture of how firms

operate in the Highlands. In chapter six the focus is on the provision of services, with special reference to the accountancy sector where a survey of sixteen local firms was carried out. Previous studies, notably the Bolton Report, have shown that accountants play a very significant role in providing business advisory services to small firms in particular (Bolton Report 1971). In the final chapter the conclusions and policy recommendations are drawn, and suggestions are made for future research.

CHAPTER TWO: RESEARCH CONTEXT - THE GEOGRAPHY OF SERVICES  
IN THE UK AND THE ROLE OF PRODUCER SERVICES IN ECONOMIC  
DEVELOPMENT.

The aim of this chapter is to review the literature underpinning the theoretical and analytical approaches to the study. The intention is not to be comprehensive but to lay the basis for the argument developed in subsequent chapters. The chapter deals with four interrelated themes. Firstly, the problems of definition in the services sector are discussed. This includes the distinction between goods and services, sectoral models of the economy, and distinctions within the services sector. The second section examines theories which attempt to explain why the services sector has been growing. Post industrial theories, the "socio-technical" argument of Gershuny and Miles, and other structural critiques are briefly discussed. The third section focuses on the geography of services in the UK. This includes data on employment in the services sector in the UK and its spatial distribution. A brief critique is provided of some of the factors which are thought to account for the spatial distribution of service activity. In the fourth and final section of the chapter the focus narrows to discuss the role of producer services in regional economic development. This involves highlighting the findings of previous research, and discussing issues which form the basis for the methodology adopted in the study. The conclusion justi-

fies the focus of the study.

## 2.1: Definitions of Services.

### 2.1.1: The distinction between goods and services.

A basic question which arises in any study of the services sector is exactly what is meant by a service as opposed to a good. Generally studies of the service sector have agreed that what determines the distinction between a good and a service is the degree of tangibility. It is argued that whilst goods represent tangible products which can be transported or stored, services tend to be intangible or immaterial. Often services must also be consumed at the point of production. This is most readily apparent in consumer services such as restaurants, hairdressers, or even concerts and plays. This argument is based on the distinction made by Adam Smith in "The Wealth of Nations" where tangible goods were contrasted with intangible goods (ie services). Greenfield points out that this also led Smith to make a distinction between *productive and unproductive* labour which has underpinned certain attitudes to employment in the services sector. Thus Greenfield argues that a basic characteristic of services is that they..."pass out of existence in the same instant that they come into it" (Greenfield 1966 p1). Whilst Allen argues that the main characteristic of services is..."the absence of a physi-

cal or material form." (Allen 1988a p94). Furthermore Stanback has argued that:

"Production of 'goods' results in a material product that is typically storable and transportable. Production of 'services' results in an output that is not storable and usually requires direct interaction with the customer." (Stanback 1979 p 5).

The two basic characteristics associated with services therefore seem to be that they are immaterial and must be consumed at the place and time of production. Even these distinctions which seem relatively straightforward are open to criticism. A lawyer for example will produce a product such as a will or contract which is tangible and can be stored and transported. Similarly an accountant will produce an audit which fulfills all of the criteria which the definitions classify as belonging to goods. In the field of computer services software production is a good example of the problem of defining a good or a service.

The Producer Services Working Party of the Institute of British Geographers recognised the problem of defining services but it could be argued to a certain extent simply dodged the issue. Their report stated that:

"Services are usually defined as activities which are relatively detached from material production and

which as a consequence do not directly involve the processing of physical materials. The main difference between manufactured and service products seems to be that the expertise provided by services relies much more directly on workforce skills, experience and knowledge than on physical techniques embodied in machinery or processes. However, converting this general statement into a practical definition is difficult because of the heterogeneity of service activities." (PSWP Report 1986, p 13-14). (Emphasis added)

The basic question of what constitutes a service as opposed to a good appears to be broadly apparent but not completely clear-cut.

#### 2.1.2: Sectoral models of the economy.

Some of the confusion about defining services stems from the sector models of the economy developed in the 1930s and 1940s. The so called Fisher/Clark thesis argued that as economies developed employment moved from the primary, to the secondary to the tertiary sector. This argument is important in the post industrial theory discussed below.

The definition of the tertiary or service sector however tended to lump together those activities which did not fit into the primary (agriculture/mining etc) or



secondary (manufacturing) sectors. This meant the tertiary sector was simply a residual sector containing a "mixed bag" of activities. This helps to explain the confusion underlying definitions of the service sector.

Another important distinction is between employment in the industries which make up the services sector and employment in service occupations. Thus an accountant working in a manufacturing firm would be classed as a member of the secondary sector although he or she is clearly in a service occupation. This distinction has become increasingly important as it has been established that in 1981 40% of UK employees in manufacturing were engaged in non production activities (Wood 1986).

It is apparent therefore that as with the distinction between goods and services there is little in the way of a sound explanation to determine activities which constitute the service sector. Indeed most definitions simply use the categories of the standard industrial classification which are a type of definition by exclusion. The service sector is viewed as categories 6-9 of the 1980 Standard Industrial Classification: ie Division 6 - Distribution, Hotels and Catering, Repairs; Division 7 - Transport and Communication; Division 8 - Banking, Finance, Insurance, Business Services and Leasing; and Division 9 - Other services.

### 2.1.3 Types of Services:

An initial attempt to distinguish between types of service activity was made by Greenfield in "Manpower and the Growth of Producer Services" (1966). The latter drew a distinction between types of services based on the final demand or markets of the service. Greenfield's taxonomy was based on the work of Kuznets (1948) who had drawn a distinction between producer and consumer goods which is equivalent to the capital and consumer goods dichotomy (Allen 1988a). Thus Greenfield argued that:

"Consumer goods are defined as those satisfying a final demand and producer goods as those entering into the further production of output. It follows therefore that producer services are in the nature of intermediate and not final outputs." (Greenfield 1966 p 11).

Likewise consumer services satisfy final demand. The distinction between producer and consumer services which has formed the basis for many studies of the services sector originated from Greenfield's study.

There are however problems with this simple distinction notably the problem that many services satisfy both consumer and producer demand. Activities such as banking and transport for example. This has led studies to adopt the category of "Mixed" producer and consumer services.

Indeed in the Producer Services Working Party report the largest category in their classification of the service sector is the mixed producer/consumer services category (PSWP 1986). These services include activities such as transport, post and telecommunications, banking, finance and insurance, estate agents, accountants and lawyers which serve the needs of individuals and businesses. This problem has led to criticism of the value of the producer/consumer dichotomy. In particular Allen has argued that:

*"If the boundaries between intermediate and final uses are this hazy, it does raise a question over the practical adequacy of the producer/consumer distinction. In general, the justification for adopting a particular classification rests upon its ability to lead towards statements of some explanatory significance. If the largest category of a taxonomy is inherently ambiguous it is unclear what explanatory status can be attached to the distinctions advanced". (Allen 1988b, p17).*

Although this is a fair criticism, to an extent the producer/consumer distinction merely suffers from the same vagueness as defining the service sector in the first place. It is possible to use input-output tables to determine the destination of demand for services, however, which helps to split employment in "mixed" service industries into producer and consumer categories. This

technique was used by Greenfield and later by Marquand (1979) and Daniels in his analysis of employment in UK services which is referred to below (Daniels 1986). Allen, however, has argued that the input-output method is fraught with data problems and that the outputs of industries will vary both temporally and more significantly spatially. The latter makes it problematic to use figures from national input-output tables for inter regional comparisons (Allen 1988b).

The producer/consumer split is the most common way of drawing distinctions between different types of services but other distinctions include the basis for the provision of the service, notably the difference between marketed and non marketed services. The latter deals with the provision of services by the public sector which is often determined by political rather than market forces. Authors have also argued for the inclusion of separate categories for services such as transport and wholesale distribution (usually referred to as "Circulation" services) because of the problems of determining their final demand. Thus certain studies of the service sector have included these activities with producer services, whilst others have classified them as a separate category (Allen 1988b).

Browning and Singelman classified employment in service industries into four categories: Distributive services

(eg transport/communications/retail etc); Producer services (eg finance/design/management/legal); Social services (eg health and education); and Personal services (eg domestic services/entertainment/hotels). This categorisation is largely descriptive and was used by Gershuny and Miles to illustrate the problems of finding coherent descriptions of service activities (Gershuny and Miles 1983).

One of the most useful categorisations of employment in service industries was developed by Urry (1987). This was introduced in the first chapter but is referred to again because it represents an attempt to take account of the criticisms of the previous categorisations. As chapter 1 showed, using the 1980 SIC, Urry divided the service sector into six categories taking into account most of the factors mentioned above. The definition used six criteria including: Ownership (public or private): Nature of the market served (producer or consumer): Nature of the product (material eg software or immediate eg haircut); Degree of commodification (is product sold for profit or do other factors play a role?); Function in the processes of production and circulation (eg management services or the transportation of people, goods, money or information); and the Character of the exchange involved and significance of the quality of service. Urry's classification is outlined in table 2.1.

This schema still faces the problem of determining producer and consumer markets but it takes into consideration a wider variety of factors than most alternative categorisations.

Table 2.1: Classification of Service Industries

| <i>Category</i>  | <i>Examples</i>   |
|--|---|
| Public Consumer Services                                   | - Health/Education/Government   |
| Private Consumer Services                                  | - Retail/Catering/Hotels  |
| Private managerial producer services                       | - Banking/Finance/Insurance, Business services/Research and Development |
| Private Distributional producer services                   | - Wholesale distribution/Estate agents.                                 |
| Circulation Services (public/private/producer or consumer) | - Transport/Post/telecoms   |
| Privately owned welfare services                           | - Private Nursing/Unions  |

Source: Urry 1987 p26

2.1.4: Conclusion.

In conclusion, there is clearly a degree of confusion and divergence in both the definition of services, the

subsequent definition of service industries and the subdivision of the service sector into categories which exhibit coherent properties and which help to explain the geographical distribution of service activities. In the following sections dealing with the geography of services in the UK and the role of producer services in the economy the definitional issue will be further elaborated.

## 2.2: Explaining the growth of the Services sector.

The services sector has developed over the post war period to the extent that it now dominates the employment structures of most of the developed nations (see for example Kellerman 1985). In the UK service employment accounts for for two thirds of employment in all regions and about three quarters in the South East, whilst service industries constitute over half the gross domestic product in every region and more than 70% in the South East (PSWP 1986). The following section briefly discusses some of the theories which have been developed to explain the growth of services. The two main theories discussed are Post Industrial theory, after Bell (1974), and the theory proposed by Gershuny and Miles in "*The New Service Economy*" (1983).

### 2.2.1: The Post Industrial Thesis:

The Fisher/Clark thesis viewed economies as advancing through three phases of development from being based on primary to secondary to tertiary activities and was a major influence behind the Post Industrial school (after Bell 1974). Two factors were viewed as facilitating this transition.

Firstly, growth in productivity levels in one sector would enable the employees displaced from that sector to move into new activities. The mechanisation of agriculture, and more recently the adoption of computerised and highly automated machine tools are examples of such technological innovations which improve productivity and mean fewer workers are required in previous activities. It has also been argued that the slower growth in productivity in services has meant that fewer workers have been displaced from services as opposed to manufacturing (Urry 1987).

The second factor lying behind the sectoral transitions in the economy as described by the Fisher/Clark thesis, is Engel's Law. The latter is based on the fact that as societies become more wealthy consumers spend proportionately less of their income on staple foods. This argument is extended to the present day to argue that as society becomes more affluent consumers will spend proportionately more on services as opposed to goods (Allen 1988a, Urry 1987). One example is the growth of tourism and



leisure services which represent such a shift in consumption patterns.

Numerous criticisms have been made of the Fisher/Clark thesis. In particular Urry has criticised the notion that economies will develop in such a linear fashion. Urry points out that the UK had greater levels of service employment than manufacturing throughout the 19th century, whilst several economies, notably the US and France, Canada and Japan made the transformation from primary sector based economies to tertiary based economies without ever having a dominant (in employment terms) manufacturing sector. He argues that the thesis is only correct for certain European countries during the early part of the 20th century (Urry 1987). In terms of regional economies this linear progression is notably absent, particularly in areas such as the Highlands where the manufacturing base has never accounted for more than about 10% of total employment (IDS 1987a). Furthermore the notion that workers displaced from one sector will automatically shift into alternative areas of employment has been challenged particularly given that most of the employees displaced from manufacturing have been full time male employees whilst most of the new employment generated in the service sector has been for part time female employees (Allen 1988a).

The Post Industrial argument also recognises three phases

in the development of the economy from a pre industrial (agrarian) society to an industrial and finally a post industrial society (Allen 1988a). In the final phase certain services come to dominate the economy. Service activities are important in all three phases but certain services become more important in each phase. According to Bell:

*"Many agrarian societies such as India have a high proportion of persons engaged in services, but of a personal sort (eg household servants) because labor is cheap and usually underemployed. In an industrial society different services tend to increase because of the need for auxiliary help for production. But in a post industrial society the emphasis is on a different kind of service. If we group services as personal (retail stores, laundries, garages, beauty shops); business (banking and finance, real estate, insurance); transportation, communication and utilities; and health, education and government; then it is the last category that represents the expansion of a new intelligensia - in the universities, professions and government." (Bell 1974 p17).*

Therefore according to Bell, post industrial society is based upon a growing body of professional and technical workers such as scientists and engineers whose basic resource is knowledge. Bell also uses Engel's law to

support his argument about increasing demand for services. Thus:

*"If an industrial society is defined by the quantity of goods as marking the standard of living, the post-industrial society is defined by the quality of life as measured by the services and amenities - health, education, recreation and the arts - which are now deemed desirable and possible for everyone."*  
(Bell 1974 p127).

The main criticisms of Bell's argument are that like the Fisher/Clark thesis it relies upon a linear progression. Another problem is that it is a theory relating to employment rather than output (Allen 1988a). In other words in post industrial society consumers demands may continue to grow but it would be wrong to suggest that their needs can only be met by the service sector. The failure to relate processes in the secondary and tertiary sectors is taken up by the work of Gershuny and Miles, particularly in *"The New Service Economy"* (1983).

### 2.2.2: Structural critiques - The Self Service Economy.

Gershuny and Miles argue that what has emerged in the post war period in much of the developed world could be described as a "self service" economy, one where technology has enabled consumers to carry out an increasing proportion of household and other tasks themselves using

manufactured goods as substitutes for services. Their argument rests upon the slower productivity growth in the services sector and on their fourfold distinction of the meaning of the term services. They distinguish between firstly, service industries which constitute the service sector, secondly service occupations which can occur throughout the economy. Thirdly, service products which are the products of workers in service occupations. Their most important concept, however, is that of service functions (Gershuny and Miles, 1983).

The goods and services produced in the economy all fulfill a function whether this is entertainment, transport, or the provision of basic living conditions. The basis of their argument is that the same function can be provided in different ways. Individuals can buy either services or goods which fulfill the same service function. The transport function for example can be provided by an individual driving their car or by purchasing the services of public transport. In the case of a business service a firm could contract out provision of its payroll or use its own inhouse computer for example. In the former case the firm would be purchasing a service in the latter it may be using a product to provide the service function in house. Indeed a criticism of Gershuny and Miles is that most of their examples of the emerging self service economy relate to the domestic sphere such as the substituting of commercial laundries for domestic

washing machines. They argue that much of the post war manufacturing boom relied on the provision of consumer products and infrastructure which underlay the self service economy. The driving force behind these innovations is viewed as being technological change. The strength of their argument is that they relate growth and decline in the services sector (falling employment in domestic services for example) to wider structural trends in the economy.

Their argument basically contradicts the post industrial school by stating that the service sector has been expanding because of increases in the production of manufactured goods rather than a replacement of goods with services production. Three factors account for this. Firstly the growth in service occupations which help to increase the efficiency of production (managers, technicians etc), secondly the contracting out of services by manufacturing firms, and thirdly the growth of employment in maintaining and repairing consumer goods such as garages, and electrical repairs (Allen 1988a). Their argument therefore contradicts the post industrial school. In the context of this research, survey work which identified factors such as the increasing use of external services, or increasing employment of managers and technicians in manufacturing firms would help to back up Gershuny and Miles' argument. In part Gershuny and Miles' criticism of the post industrial thesis is that

its analysis is too superficial simply equating increased service employment with increased service output, whilst paying limited attention to structural changes throughout the economy and the underlying processes which shape these trends.

Further criticism of the post industrial argument has come from writers in the Marxist tradition. In particular, Walker (1985) has challenged the notion of the service economy, arguing that the growth in service occupations reflects changes in the social division of labour under the latest phase of industrial capitalism. The growth of service employment and use of specialist business services reflects two trends stemming from the restructuring of manufacturing. Firstly, contracting out of services to enable firms to concentrate on core activities and reduce direct labour costs, and secondly the need to use specialist expertise in an increasingly competitive global market. Thus it is argued that the notion of a service economy is misguided and that the basic motive of profitable production lies behind the structural changes in the economy (Walker 1985).

### 2.2.3: Conclusion

This section has briefly reviewed the two main theoretical strands which attempt to explain the growth of employment in the services sector and service occupations

throughout the economy. It was argued that the post industrial thesis was too simplistic whilst the technological argument of Gershuny and Miles represented an attempt to link changes in the secondary and tertiary sectors through the notion of the self service economy. Finally it was noted that authors in the Marxist tradition argue that the growth in the service sector is simply an extension of the division of labour under capitalism. The following section provides empirical evidence to support the argument that the service sector has been growing and to show that this growth has been uneven across the regions of the UK.

### 2.3: Service employment in the UK - Trends and explanations.

As chapter one noted one of the problems of analysis of employment figures is ensuring the data is standardised to take account of changes in the methods of classification of employment. There are major differences between the 1968 and 1980 SIC, particularly in the services sector. Another problem is that many of the statistics used can be out of date. At the time of writing, for example, the 1987 census of employment figures are not yet available, and indeed much of the published literature does not yet use the results of the 1984 census. Given these provisos therefore the following section uses the most recent literature to describe and analyse the

trends in service sector employment.

This section consists of three parts. Firstly, there is a discussion of changes in the composition of the service sector in the UK over the recent period. Secondly, there is a discussion of the regional pattern of service industry employment in the UK. Finally there is a concluding section which examines the uneven development of the service sector, with particular emphasis on the business or producer services sector and briefly assesses the theoretical explanations for this divergence. This leads on to the final main section of the chapter which discusses the role of producer services in regional economic development.

### 2.3.1: Change and development in UK services.

Over the period 1973 to 1983 whilst 2.6 million jobs were lost in industrial employment in the UK, the service sector grew by some 1.5 million jobs (Hall 1987). The service sector has therefore been the main source of job creation in the UK over the recent period. Table 2.2 over illustrates the trends in employment in UK services over the period 1959 to 1981.

The table shows that the individual services which have grown most significantly over the period are welfare services (+161%), and other business services (+131%).



**Table 2.2: Employment change in British Service Industries 1959 - 81**

|   | Employment (000s) |              | Change (000s) | Percentage Change |
|---|-------------------|--------------|---------------|-------------------|
|   | 1959              | 1981         | 1959-81       |                   |
| Public Transport<br>(roads & railways)  | 705               | 393          | -312          | -44%              |
| Goods Transport &<br>Storage (wholesalers,<br>road haulage)                   | 1030              | 1269         | +239          | +23%              |
| Sea & Air transport   | 317               | 218          | -99           | -31%              |
| Private Motor Services  | 339               | 482          | +143          | +42%              |
| Retail Distribution   | 1844              | 1846         | +2            | +0.1%             |
| Post & Telecoms   | 334               | 430          | +96           | +29%              |
| <b>Total Distributive &amp;<br/>Transport services</b>                        | <b>4569</b>       | <b>4638</b>  | <b>+69</b>    | <b>+1.5%</b>      |
| Financial Services<br>(insurance, banking etc)                                | 458               | 779          | +321          | +70%              |
| Other Business Services<br>(Property, Ads, Law,<br>Accountants, R & D etc)    | 464               | 1070         | +606          | +131%             |
| <b>Total Producer Services</b>  | <b>922</b>        | <b>1849</b>  | <b>+927</b>   | <b>+101%</b>      |
| Leisure and Recreation  | 238               | 334          | +96           | +40%              |
| Hotels & Catering   | 665               | 928          | +263          | +40%              |
| Other Personal services<br>(Hairdressers, private<br>domestic, laundries etc) | 268               | 157          | -111          | -41%              |
| <b>Total Marketed Personal<br/>services</b>                                   | <b>1171</b>       | <b>1419</b>  | <b>+248</b>   | <b>+21%</b>       |
| Public administration<br>(central & local govt)                               | 1255              | 1400         | +145          | +12%              |
| Health & Education  | 1616              | 3124         | +1508         | +99%              |
| Welfare services  | 259               | 675          | +416          | +161%             |
| <b>Total Public Services</b>  | <b>3135</b>       | <b>5199</b>  | <b>+2064</b>  | <b>+66%</b>       |
| <b>ALL SERVICES</b>   | <b>9797</b>       | <b>13105</b> | <b>+3308</b>  | <b>+34%</b>       |

Sources: Buck 1985 & Allen 1988a

The former are mainly provided by the voluntary sector, or by religious organisations and trades unions, whilst the latter include activities such as advertising agents, lawyers, accountants, and research and development employees. There were also substantial increases in health and education which grew almost as rapidly as producer services over the period. In contrast there was a decline in transport services of over 40%.

There is evidence in the table to support both the arguments of Bell, and Gershuny and Miles. The growth in employment in private motor services (+44%), and decline in other personal services (-41%) supports the self service economy thesis of Gershuny and Miles as the former illustrates the growth in car ownership whilst the latter reflects the decline in domestic service. The growth of leisure services supports the arguments drawing upon Engel's Law. The growth in producer services, and in health and education supports Bell's argument about the growth of a technical and professional elite.

Two factors need to be considered in relation to the table. Firstly, the growth in part time female employment in the sector raises questions about the quality of jobs. Between 1971 and 1981 part time employment grew by 65.8% in producer services, 52.3% in consumer services and 34.1% in public services. Part time employment increased by over 70% for women compared to 50% for men

(PSWP 1986). Secondly the externalisation process. It has been estimated by Rajan, for example, that about 300,000 jobs in the service sector may simply result from the shake out of support services from the manufacturing sector (Rajan 1987).

In terms of historical development over the period, growth of the service sector has varied. Between 1959 and 1966 the sector grew at an average of 2.1% pa, then slowed in the late 1960s, partly because of the imposition of the Selective Employment Tax. Between 1970 and 1981 employment in service industries increased at an average of 1.5% pa but by the late 1970s and early 1980s, the increase had slowed to an average of 0.7% pa (PSWP 1986).

Employment in producer service industries (using the PSWP definition) followed these trends, although these industries lost 1000 jobs between 1965 and 1969, and were affected by the slowdown in activity after the mid 1970s oil crisis, such that they lost 56,000 jobs between 1975 and 1976. Thus producer services only accounted for 18.5% of the 2.9 million jobs created in the service sector between 1959 and 1976, when public services increased by 1.9 million jobs or 64.5% of the increase. Between 1976 and 1981, however, producer services grew by 1.8% pa, accounting for 51% of the increase in service employment whilst public sector employment fell by 118,000 jobs.

The increase in employment in producer services is of most relevance to this study. This is particularly the case because these are the services which have continued to expand in the 1980s. According to Buck's figures, however, public services are still the largest section of employment in the service sector, accounting for 40% of service sector employment, followed by distributive and transport services (35%), then producer services (14%), and marketed personal services (11%) (Buck, 1985). Using Buck's categorisation of the service sector producer services account for about 9% of total UK employment in 1981. Using relatively crude input output figures, however, Daniels has estimated that one in three jobs in the service sector are "producer" related, or 22% of all employment in 1981. As mentioned previously, Daniels used estimates of the sources of final demand for various services to allocate employment to the producer or consumer category. Thus for banking and finance 50% of the demand was estimated to come from consumers and 50% from producers (Daniels, 1986). Similarly, using input-output tables, the PSWP estimated that one in three jobs in the service sector were producer oriented, which accords with Daniel's estimates (PSWP 1986).

### 2.3.2: The spatial distribution of service activity.

Having briefly discussed the distribution of employment

in the service sector the following section describes the main features of the geographical distribution of services employment in the UK. As Allen points out:

*"As with the pattern of manufacturing job loss, the growth of service employment in post war Britain has not occurred evenly across the country. In recent years, southern parts of the country have experienced rapid service sector growth, whereas some northern areas have witnessed a limited expansion or even erosion of their service base...In the first half of the 1980s it was those regions in the 'south' of the country - the South East, South West, and East Anglia - least affected by manufacturing job loss that also gained the most jobs from the expansion of the service sector." (Allen, 1988a p124).*

The distribution of employment in the service sector, however, as would be expected, varies considerably between industries. Marquand shows that the distribution of employment in consumer services largely reflects the distribution of population, whilst certain producer services are unevenly distributed (Marquand, 1979). Using the 1968 SIC and the eleven standard economic planning regions the PSWP show those services which are more or less evenly distributed (See table 2.3 over). Where an industry shows a high standard deviation this suggests that it is unevenly distributed on the basis of analysis

Table 2.3: The Uneven location of service industries by region, 1981.

| Unevenly Distributed Services * |                          |                  |
|---------------------------------|--------------------------|------------------|
| Producer services               | Consumer services        | Public services  |
| Air transport                   | Clubs                    | Public admin.    |
| Sea Transport                   | Hotels                   |                  |
| Central Offices                 | Relig. Instit            |                  |
| Advertising                     | Cinemas etc              |                  |
| Ports                           | Betting and gambling     |                  |
| R & D                           | Repairs of boots & shoes |                  |
| Wholesale dist. Oil/petrol      | Public houses            |                  |
| Other business services         |                          |                  |
| Insurance                       |                          |                  |
| Misc transport                  |                          |                  |
| Evenly Distributed Services +   |                          |                  |
| Producer services               | Consumer services        | Public services  |
| Wholesale dist. food/drink      | Motor repairers          | Medical services |
| Post & telecoms                 | Hairdressers             | Local govt       |
| Accountancy                     | Sport                    | Education        |
| Legal                           | Other retail dist        |                  |
|                                 | Restuarants              |                  |
| Summary                         |                          |                  |
|                                 | Standard deviation       | Mean deviation   |
| Producer services               | 0.179                    | 0.127            |
| Consumer services               | 0.075                    | 0.063            |
| Public services                 | 0.178                    | 0.127            |
| ALL SERVICES                    | 0.089                    | 0.071            |
| MANUFACTURING                   | 0.194                    | 0.169            |

Source: PSWP 1986 p69.

Note: \* Unevenly distributed services have standard deviation > 0.3

+ Evenly distributed services have standard deviation < 0.2

Standard deviation represents deviation from mean regional employment.

$LQ = E_{ij}/E_i/R_j/N$  where  $E_{ij}$  = employment in industry  $i$  in region  $j$   
 $E_i$  = national employment in industry  $i$   
 $R_j$  = total employment in region  $j$   
 $N$  = total national employment

Definitions: (1968 SIC)

*Producer services* = Transport & Communication, Wholesale Distribution, Insurance/banking/finance, Prof & Sci services.

*Public services* = National govt and defence, Local govt, Medical and educational services

*Consumer services* = Retail distribution, Misc services.

using a location quotient measure. The summary table shows that generally all service industries are more evenly distributed than manufacturing. Consumer services are more evenly distributed throughout the UK than either producer or public services which confirms Marquand's findings. The latter have standard deviations which are more similar to that for manufacturing. In part the uneven distribution of public service employment helps to counteract that of producer service employment. In particular proportionately high levels of public service employment are found in areas such as Northern Ireland, Scotland, Wales and the North and North West (Allen 1988a).

As the table shows there are a number of white collar producer services which are unevenly distributed, such as central offices (mainly headquarters), advertising, research and development, other business services and insurance. The services which are unevenly distributed have also been amongst the fastest growing services. Thus for the period 1959 to 1981 employment in other business services was the fastest growing service increasing by 242,000 jobs, or 341%. Similarly employment in advertising increased by 117%, and research and development by 86% (PSWP 1986).

Table 2.4 below details the changes in service employment in for the eleven UK standard regions between 1971 and

1981. As the table shows, for private producer and consumer services the greatest increases occurred in the regions adjacent to the South East, namely the South West, East Midlands and East Anglia. As Allen pointed out these regions also suffered the least falls in manufacturing with East Anglia declining by only 3.6%, the South West by 6.3%, and East Midlands by 11.6% (Marshall 1988). Although the South East recorded the largest absolute increases in all categories of service employment proportionately these increases were below the national average.

Table 2.4: Employment change by region, ranked by % change, 1971-81

| Producer services |                    |      | Consumer services |                    |      | Public services |                    |      |
|-------------------|--------------------|------|-------------------|--------------------|------|-----------------|--------------------|------|
| Region            | Absolute<br>(000s) | %    | Region            | Absolute<br>(000s) | %    | Region          | Absolute<br>(000s) | %    |
| S West            | 78.6               | 42.6 | E Midlands        | 75.6               | 39.3 | N Ireland       | 55.8               | 54.2 |
| E Anglia          | 34.8               | 41.3 | S West            | 103.0              | 37.6 | E Midlands      | 59.6               | 27.8 |
| E Midlands        | 50.5               | 34.1 | E Anglia          | 32.3               | 27.8 | S West          | 67.1               | 23.9 |
| Yorks & Hum       | 43.1               | 18.1 | N Ireland         | 20.6               | 26.4 | Scotland        | 80.4               | 21.2 |
| W Midlands        | 39.2               | 15.6 | Wales             | 38.0               | 24.7 | Wales           | 42.2               | 21.1 |
| S East            | 188.4              | 11.4 | Yorks & Hum       | 63.5               | 20.8 | E Anglia        | 21.7               | 19.1 |
| Scotland          | 24.8               | 8.4  | Scotland          | 74.4               | 19.7 | Yorks & Hum     | 59.4               | 19.0 |
| N Ireland         | 4.6                | 7.9  | W Midlands        | 55.7               | 17.6 | W Midlands      | 53.6               | 15.9 |
| North             | 10.7               | 7.8  | N West            | 68.1               | 15.3 | N West          | 48.4               | 10.6 |
| Wales             | 8.4                | 7.2  | S East            | 185.7              | 13.0 | S East          | 99.7               | 6.8  |
| N West            | -0.8               | -0.2 | North             | 23.4               | 10.5 | North           | 12.0               | 5.4  |
| UK                | 482.3              | 13.4 | UK                | 740.3              | 18.9 | UK              | 599.9              | 14.7 |

Source: Marshall 1988 p78 (Census of Employment)

The producer services sector showed an absolute decline in the North West whilst Scotland, Northern Ireland, the North and Wales recorded increases below the national



average. In consumer services the North and North West also recorded below national average growth, whilst Scotland's growth was slightly above average. The main growth areas in the public sector, however, were several of the regions which performed poorly in producer services, notably Northern Ireland and Scotland, although the East Midlands and South West also benefited from above average growth in public services. The latter two regions were thus in the top three for growth in all three types of services. In overall terms, however, the region to fare worst was the North West, which as the table shows featured in the bottom three in all categories of service performance, whilst also losing 30% of all its manufacturing employment, only beaten by Northern Ireland where this declined by 32% (Marshall 1988). Although in general terms the South East appears to have underperformed this is explained by Hall, who blames this on the poor performance of the London economy, and contrasts this with the performance of the ROSE region or "rest of the South East", where employment loss in manufacturing was well below the national average, combined with above average growth in services, particularly producer services because of decentralisation of activity from London (Hall 1987).

It is interesting to note, however, that overall growth in producer services was less than other services. This is explained by the strong growth in public and consumer

services in the early and mid 1970s whilst producer services expanded more rapidly in the late 1970s. Thus whilst consumer services and public services grew by 14.2% and 17.2% in the period 1971 to 1978, producer services grew by 8.6%. Whereas in the latter period, 1978 to 1981, producer services grew by 4.4%, consumer services by 4.2%, and public services declined by 2.1% (Marshall 1988). The following section focuses on the pattern of employment in producer services because of their role in economic development.

#### Section 2.3.3: Uneven development in producer services.

Table 2.5 describes the regional pattern of employment in producer service occupations and industries, the former including non production employment in manufacturing. As the key shows column 1 refers to the proportion of producer service employment (PSE), including employment in producer service industries and producer service occupations, for example the accountant employed in an engineering firm. Column 2 refers only to employees such as the latter, employed in manufacturing only (NPEM). This means that the first column may be inaccurate because it neglects producer service workers in the primary sector, construction and utilities where the data was not available for comparison (Marshall 1988). Column 3 shows the proportions of national producer service industry employment in each region. In addition columns 4

to 6 give the deviations from expected levels for each of the categories given national employment. Finally columns 6 and 7 respectively show the numbers of producer service employees in manufacturing for every 1000 manufacturing employees, and the numbers of producer service industry employees per 1000 employees in all industries.

Table 2.5: Location of Producer Service Employment, 1981

|             | % of national producer emp. |      |      | Deviation from expected level* |       |        | NPEM/1000 Manuf emps | PSIE/1000 Total emps |
|-------------|-----------------------------|------|------|--------------------------------|-------|--------|----------------------|----------------------|
|             | PSE                         | NPEM | PSIE | PSE                            | NPEM  | PSIE   |                      |                      |
|             | 1                           | 2    | 3    | 4                              | 5     | 6      |                      |                      |
| North       | 4.3                         | 4.9  | 4.0  | -73.1                          | -8.1  | -65.0  | 254                  | 223                  |
| Yorks & Hum | 7.7                         | 8.3  | 7.4  | -72.2                          | -8.1  | -64.1  | 259                  | 247                  |
| E Midlands  | 5.9                         | 7.7  | 5.3  | -64.7                          | +13.0 | -77.6  | 261                  | 242                  |
| E Anglia    | 3.3                         | 3.2  | 3.3  | -7.0                           | -3.7  | -3.3   | 290                  | 274                  |
| South East  | 40.3                        | 33.9 | 42.8 | +461.7                         | +15.3 | +446.5 | 364                  | 345                  |
| South West  | 7.2                         | 7.1  | 7.2  | -33.8                          | -11.9 | -22.0  | 305                  | 264                  |
| W Midlands  | 8.8                         | 12.1 | 7.5  | -40.0                          | +48.4 | -88.4  | 274                  | 264                  |
| North West  | 11.3                        | 12.6 | 10.8 | -18.1                          | +17.5 | -35.6  | 277                  | 277                  |
| Wales       | 3.4                         | 3.1  | 3.5  | -71.0                          | -25.2 | -45.7  | 232                  | 214                  |
| Scotland    | 7.9                         | 7.1  | 8.2  | -82.1                          | -37.3 | -44.9  | 259                  | 244                  |
| GB          | 100                         | 100  | 100  |                                |       |        | 295                  | 284                  |

Source: Marshall 1988 p64

Note:

PSE = Total producer service employment (ie NPEM + PSEI)

NPEM = Non production employment in manufacturing

PSEI = Producer service industry employment

\* Calculated from shift share analysis given national levels of total employment

Immediately, it is apparent that producer service employment is highly concentrated in the South East. Marshall points out that the table shows:

"...that there are 461,700 more producer service jobs in the South East than expected. The largest

deficits are in Scotland (-82,100), the Northern Region (-73,100), Yorkshire and Humberside (-72,200), and Wales (-71,000)." (Marshall 1988 p65)

The table also shows that disparities arise, largely because of the distribution of producer service industries, rather than producer service employment as a whole. Thus 97.6% of the excess in producer service employment in the South East is caused by the former (Marshall 1988) In the Scottish case, however, the underrepresentation is split 45:55 showing that employment is underdeveloped almost equally in both types of producer service employment. Thus in the Scottish case there is a much greater deficit in non production employment in manufacturing (45% of the deficit) compared to the next poorest performance in Wales (35% of the deficit). Column 7, however, shows Wales has a poorer ratio of producer service employees in manufacturing to total manufacturing employees than Scotland (232 per 1000 cf 259 per 1000), as does the North (254 per 1000). This presumably reflects the branch plant economy, where the higher order functions of the manufacturing sector are located outwith the area. On the other hand the Scottish economy could be seen to have a strength in the fact that with the exception of East Anglia (3.3k deficit or 47% of its total) it has the smallest proportion of its deficit in producer service employment accounted for by producer service industries (54% of deficit). This could reflect

the relative strength of the Scottish financial sector in contrast with other peripheral regions such as the North. In contrast the Midlands with a large manufacturing sector have greater shares of non production employment in manufacturing than would be expected and much greater deficits in producer service industries. Columns 7 and 8 show that the highest proportions of producer service employment occur in the South East and those regions contiguous with it such as the South West and East Anglia. In general, therefore, the table shows the poorer development of producer service employment in the peripheral areas of the UK, compared to the South.

The patterns at the regional scale, however, mask the greater complexity of the intra regional pattern. Using the hierarchy of urban centred functional regions, developed by CURDS (Coombes et al 1982), Marshall has shown the complexity of producer service location. Table 2.6 illustrates the trends. The classification defines 280 "local labour market areas" on the basis of analysis of 1971 population, employment and commuting data, and groups them into 19 categories (Marshall, Damesick and Wood. 1987), (Marshall 1988). The latter was done on the basis of regional setting, functional status (eg dominant v sub-dominant, metropolitan v free standing and service v commercial and/or manufacturing) and urban size (rural v urban, towns v cities) (Marshall 1988). One obvious criticism of the schema is that since it is based upon

1971 data it can not take into account the effects of transport improvements (and house prices) on commuting for example.

The main feature of table 2.6, is the distinct urban bias displayed. As the table shows 41.5% of the total employment in producer services is in London and the five largest conurbations, with the London local labour market area accounting for almost 30%. This gives London the highest location quotient for producer services employment (1.61), and particularly business service offices (1.85). In addition, many of the places in the London area (London subdominant towns and cities) show an above average propensity of producer service employment (1.04 and 1.03), and also for business service offices (1.21 and 1.05 respectively). This suggests that decentralisation of such activity has occurred close to London.

In contrast those locations with the largest deficits of producer service employment are mainly in the north and west of the country. Thus the lowest location quotient figures occur in the smaller northern and western subdominants (0.54), manufacturing towns (0.56), and commercial towns (0.64). The same locations also have the lowest figures for business service offices.

The northern and western rural areas, the category containing local labour market areas in the Highlands,

Table 2.6: The relative distribution in 1981 of Producer Services, All Services, and Business Service Industries by LLMA.

| Class/LLMA                                    | no of llmas | Producer Services total emps (000s) | LQ   | All Services LQ | Business Service Offices LQ |
|---|-------------|-------------------------------------|------|-----------------|-----------------------------|
| 1. London dominant                            | 1           | 1219                                | 1.61 | 1.19            | 1.85                        |
| 2. Conurbation dominants (eg Manchester)      | 5           | 488                                 | 1.06 | 1.02            | 1.07                        |
| 3. Provincial dominants (eg Edinburgh)        | 5           | 288                                 | 1.01 | 1.00            | 0.99                        |
| 4. Subregional dominants (eg Portsmouth)      | 9           | 193                                 | 0.91 | 1.01            | 0.84                        |
| 5. London subdominant cities (eg Southend)    | 7           | 129                                 | 1.04 | 1.07            | 1.21                        |
| 6. London subdominant towns (eg Maidenhead)   | 23          | 200                                 | 1.03 | 0.99            | 1.05                        |
| 7. Conurbation subdom. cities (eg Motherwell) | 13          | 153                                 | 0.69 | 0.85            | 0.58                        |
| 8. Conurbation subdom. towns (eg Northwich)   | 22          | 123                                 | 0.74 | 0.89            | 0.69                        |
| 9. Smaller N. & W. subdominants (eg Rugby)    | 24          | 107                                 | 0.54 | 0.76            | 0.40                        |
| 10. S. & E. freestanding cities (eg Norwich)  | 12          | 305                                 | 0.99 | 1.01            | 0.94                        |
| 11. N. & W. freestanding cities (eg Derby)    | 13          | 229                                 | 0.78 | 0.91            | 0.63                        |
| 12. S. & E. service towns (eg Canterbury)     | 22          | 133                                 | 0.81 | 1.10            | 0.84                        |
| 13. S. & E. commercial towns (eg Trowbridge)  | 14          | 125                                 | 0.94 | 1.01            | 0.78                        |
| 14. S. & E. manuf towns (eg Wellingborough)   | 13          | 63                                  | 0.76 | 0.88            | 0.77                        |
| 15. N. & W. service towns (eg Llandudno)      | 12          | 65                                  | 0.74 | 1.08            | 0.67                        |
| 16. N. & W. commercial towns (eg Hereford)    | 19          | 94                                  | 0.64 | 0.87            | 0.50                        |
| 17. N. & W. manuf towns (eg Scunthorpe)       | 14          | 62                                  | 0.56 | 0.75            | 0.45                        |
| 18. S. & E. rural areas (eg Penzance)         | 19          | 58                                  | 0.93 | 0.95            | 0.89                        |
| 19. N. & W. rural areas (eg Penrith)          | 34          | 77                                  | 0.75 | 1.00            | 0.63                        |
| GB Total                                      | 280         | 4111                                | 1.00 | 1.00            | 1.00                        |

Source: Marshall 1988 p72

also display a low location quotient figure for both producer service employment and business service office employment (0.75 and 0.63).

As the column for "all services" shows there is a much smaller spread of location quotient values for the different categories. This tends to confirm the view that public services and consumer services have an equalising effect on the uneven distribution of producer service employment.

In discussing the performance of LLMA's over the period 1971-1981, Marshall points out the contrasting patterns of change at the national and intra regional scale:

*"...some limited spatial concentration took place during the 1970s. At each level in the urban hierarchy, LLMA's in the southern and eastern half of the country performed more impressively in job generation terms than did their northern and western counterparts...At the intra-regional scale, however, the pattern of change is both much more dramatic and involves a very marked relative deconcentration within metropolitan regions..."* (Marshall 1988 p79)

For example, producer service industry employment in London grew by only 0.2% over this period against a national average of 12.4% and growth of London subdominant towns and cities of about 40% (Marshall



1988). Moreover:

"In the metropolitan regions based on the other conurbations, deconcentration was absolute as well as relative, with the dominants shedding more than 38,000 producer service jobs (-7.2%) while their sub-dominants grew by 55,700 employees (representing a 15.6%) growth in the Sub-dominant Cities and a 40% growth in Towns." (Marshall 1988 p82).

In terms of non metropolitan LLMA's, over the period 1971-1981, there was a reduction in the degree of under-representation in the south and east, whilst overall the position of the northern and western rural areas declined, although this masks internal divergence in the fortunes of this group (Marshall 1988). It is also important not to forget the context in which the growth of producer service employment was taking place during the 1970s. Over the period 1971-1981 Gillespie and Green state that whilst employment in producer services increased by 472,000, manufacturing employment fell by some 1,918,000 (Gillespie and Green 1987).

In contrast to the locational trends in manufacturing there has not been a significant shift in service activity from cities and main towns to small towns and rural areas. Thus Allen points out that in the so called "post industrial South"...

"Whereas the high-tech activities are to be found in

the smaller towns and "rural" areas, the new "service centres",...are located in the cities and larger towns". (Allen 1988a, p129)

This is obviously significant because it suggests that rural areas have not benefited significantly from the decentralisation of service activity over the 1970s. Unfortunately the non availability of published employment data for much of the 1980s means that it is difficult to determine the trends in as much detail as for the earlier period. As chapter one showed, however, the Highlands lagged behind the rest of Scotland in the growth of producer service employment in the early 1980s. Moreover, in Scotland business services are heavily concentrated in the main centres. Thus in 1981, 85.5% of all advertising agents and 64.1% of all management consultants were based in Edinburgh and Glasgow (PSWP 1986). This must of course be viewed in the context of the fact that two thirds of the 860,000 jobs created in the service sector in the period 1979 to 1986 were in the South East, South West and East Anglia (Allen 1988a). The geography of employment creation and the so called "North-South" divide, has therefore been heavily influenced by the services sector, particularly producer services. Thus Daniels has argued that:

*"...producer services are in some respects the embodiment of the structural changes currently taking place in advanced economies (therefore) it seems*

essential to know more about their role in economic development..." (Daniels 1986 p307)

The following subsection examines some of the main factors which are thought to account for the spatial distribution of producer service activity. Whilst the former section has drawn heavily on the work of Marshall which represents the best summary of trends in the service sector, the following section deals more with factors lying behind these trends and draws on other authors to a greater extent. Allen argues that there are two schools of thought lying behind the explanations for regional disparities in the growth of producer services employment. Firstly, "market-based" explanations which basically focus on demand factors, and secondly "production-based" explanations which focus on factors such as profitability and control of production (Allen 1988a). Without going into the details of these schools of thought they are readily apparent in each of the following explanations.

1. Agglomeration economies and the influence of corporate headquarters:

A common explanation for the geographical concentration of producer service activities can be traced back to Central Place theory. This states that the range and threshold for higher order services means that they will

only occur at the top of the urban hierarchy. This model was largely based on the demand for consumer services but has been extended to account for the location of higher order business services in main centres, and particularly London and the South East. Agglomeration economies mean that areas with corporate head-quarters will tend to attract high order and specialist business services which tend to be obtained through head offices. Since the South East has a disproportionate and growing share of corporate head quarters, research and development establishments and existing service activities agglomeration economies it is argued, work to its advantage in attracting further service industry. Thus for example 66% of all employment in advertising in 1981 was located in the South East. A study by the DTI of the computer services industry showed that of 1000 companies 69% had their head offices in the South East, and 70% of all branch offices were controlled from there (Daniels 1986). Similarly it was found this rapidly growing industry was highly concentrated in the South East with 55.9% of all Britain's employment in 1981 (Howells 1987).

Daniels summarises this argument by stating that:

*"Agglomeration confers economies which are external to a service production unit, and which result from locational association between either a number of similar or totally different production units"*  
(Daniels 1985 p72)

And later...

*"The location of producer services and corporate headquarters in large metropolitan areas is the most distinctive response to this factor which, in turn, means that the same metropolitan areas are attractive locations for consumer services or for public services."* (Daniels 1985 p104)

As is readily apparent this explanation belongs to the "market-based" school, which argues that producer service location is largely demand led. An extension of the central place/agglomeration economies thesis comes from Pred using the idea of "contact networks" and the need for the rapid diffusion of information to explain the agglomeration of producer services and other knowledge-based industries. Thus the need for rapid information transfer between top level decision-makers has caused such activities to be spatially concentrated (Pred 1977). Further support for the agglomeration thesis came from Stanback who showed that metropolitan areas in the USA which were already well endowed with producer services in the 1960s improved their position relative to other cities in the 1970s (Stanback 1979).

## 2. A dynamic market for producer services.

A second factor which it is argued has a bearing on the location of producer services is closely related to the

former agglomeration argument. In this case, however, the factor which is seen to be most important is the demand for producer services generated by dynamic manufacturing firms. The demand for producer services is drawn from a healthy and competitive manufacturing base which seeks to cope with the increasingly complex and competitive market by making use of specialist higher order business services (Marshall, Damesick and Wood 1987). In addition it is argued that the most dynamic firms are also those which are increasingly "contracting out" (or externalising) their demand for services to reduce costs, increase flexibility and concentrate on core activities (Allen 1988a). This can also be seen as part of the trend which involves the increased use of production subcontracting and "Just in Time" methods of stockholding by some manufacturing firms (Howells 1986). As was noted earlier it has been suggested that many of the supposed "new jobs" in producer services are simply transfers of employment from the manufacturing sector.

There is also a certain amount of empirical evidence to support the argument that it is demand from more dynamic or healthy manufacturing firms in the South which has encouraged the location of specialist producer services nearby. Evidence to support this comes recently from figures showing the amount of consultancy grants given to firms under the system of Government assistance schemes to small firms. Under the *Business Development*

Consultancy Initiative introduced in April 1988, the first six months of the scheme saw 27% of the approved applications coming from firms in the South East, against about 9% for Scotland (*The Scotsman* 5.12.88<sup>1</sup>). In addition a study showing the use of a scheme to encourage firms to adopt new technology showed a distinct bias in take up to the South. Thus of 4,599 grants approved between 1978 and 1985, East Anglian firms accounted for 20% of approvals, and firms in the South East 18%, the two highest figures. In addition the same study found that the consultants who provided the expertise for the scheme were also heavily biased to the South. Thus the largest number of consultants were based in the South East (158), whilst there were only 10 in Northern Ireland, and 29 in Scotland (Vincent, Chell, and Haworth 1987). This would also tend to support the former argument about the agglomeration of producer service activities.

### 3. The growth of "export services".

This factor is especially felt to account for the growth of producer service activity in London and particularly the City. Examples include the banking and insurance sector which are important earners of so-called "invisible exports". Other producer services are also

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<sup>1</sup> "Business aid drains away to affluent south" *The Scotsman* (5.12.88)

becoming increasingly important export earners, such as accountancy, advertising and legal services which use the communications facilities of London and the south to service growing export markets (Daniels, Leyshon and Thrift, 1986).

The above three factors represent a summary of the market based approach to understanding the location of producer services. They suggest that for a region to have a thriving producer services sector it is likely to have control and decision making functions, it is likely to have a thriving and dynamic sector to serve, and it could be readily placed to serve export markets. This suggests that for peripheral areas there may be significant disadvantages in trying to attract and maintain a producer services base. This is particularly the case since agglomeration economies and externalities would appear to play such an important role in producer service location.

The following section briefly describes the alternative proposition that "production" is the main factor accounting for producer service location.

#### 4. Profitability determines service industry location.

This is an extension of the argument proposed by authors such as Urry and Walker that service industry has attracted investment because of the declining



profitability of UK manufacturing. Similarly therefore those locations which offer the best conditions for profitable production of producer services have attracted these activities. Examples include the decentralisation of insurance offices to places such as Bristol and towns around London which can offer cheaper office accommodation, and labour (Allen 1988a). This is particularly the case with so called back offices performing routine functions which do not require a contact rich environment. Alternatively service firms such as accountants can develop branch networks which reflect the volume of work from each location rather than servicing all their clients centrally.

##### 5. Control functions dictate producer service location.

A further strand of the "production based" approach is the notion that it is the location of head-quarters and therefore control functions in London and the South East rather than the somewhat benign notion of agglomeration economies which dictate producer service location. The location of the headquarters of multinational service firms such as accountants, advertising agents, lawyers, and management consultants tends to exert an influence on the location of other head offices such that the dominant pattern of employment in the South East is reinforced. Allen goes on to argue that an extension of this argument involves the notion of a developing spatial division of

service labour. Thus it is argued that whilst control functions and high paid professional employment are concentrated in the South the routine clerical functions are shifted out to peripheral locations where labour is cheaper and frequently part time (Allen 1988a). Although this point has some attractions in that it alludes to the division between branch plants and R and D establishments in manufacturing, there is little empirical evidence to support the argument. Indeed as the employment data tends to show even the routine back office type service employment is still heavily concentrated in the South, although it has been decentralising from central London (Gillespie and Green 1987).

#### Conclusion:

There is plenty of evidence to show that the spatial development of producer services in the UK economy is highly uneven. The image of an overdeveloped Southern service economy and an underdeveloped North is clearly too much of a simplification. One of the ways to unpack the situation is through locality based studies. Similarly a variety of reasons have been put forward to attempt to explain the uneven development of producer services. As the first chapter noted there is a dearth of empirical studies which answer some of the basic questions raised about the development of producer services from either the market or production based approa-

ches. The following section draws upon a variety of empirical studies to try to point to some of the answers to these questions and provides an introduction to the empirical chapters which follow.

#### 2.4: The uneven development of producer services: their role in economic development - speculation and empirical studies.

The purpose here is to summarise the main arguments about the role of producer services. Following on from the previous chapter this section will briefly reiterate the key hypotheses and summarise the main methods and findings of previous research in the field. The section consists of three parts, the first asking whether the uneven distribution of producer services is significant, the second dealing with previous studies and the third detailing the relevance of the latter to this research.

##### 2.4.1: The significance of the uneven distribution of Producer services.

The following arguments have been used to suggest that the uneven regional distribution of producer service industries is a significant factor in regional development. The first group of arguments are about how these industries can benefit a regional economy directly and the second are concerned with indirect spin offs into

other sectors.

1. Benefits to a regional economy.

1a. Export functions: producer services are tradeable and therefore can be exported from a region. They perform export functions in the same way as the basic sector of economic base theory. For example accountants based in one region can audit firms based elsewhere. Advertising agents based in London for example can serve clients located throughout the UK and abroad.

1b. The Multiplier effect: the availability of producer services within a regional economy can strengthen the multiplier effect of other economic activities. It has been argued that where certain business services are not available within a regional economy the demand for these services will be lost elsewhere, weakening the multiplier effect. In peripheral rural economies therefore the multiplier effect will tend to be lower than in more urban economies. It has also been shown that the multiplier effect of producer service employment can be greater than for manufacturing. Thus studies of office relocation and tourism (also an export-based service) range from 1.25 to 1.41 whilst manufacturing multipliers typically range from 1.15 and 1.25 (Daniels 1983).

1c. Employment aspects: professional employment associa-

ted with higher order business services such as lawyers and accountants tends to be well paid so that regions which are well endowed with producer services will have higher spending power than elsewhere. This in turn leads to greater spending per capita on goods and services (Marshall, Danesick, and Wood 1987). In addition the high skill "key workers" in producer services act as a further stimulus to new or relocating service firms which tends to form a spiral of cumulative causation (Allen 1988a).

1d. Beneficial influence on entrepreneurship: It has been argued that regions which are well endowed with high order producer services also display higher levels of entrepreneurship. This is largely based on the argument that the South East is in such a position. In part this is because there are is a lot of self employment and many small firms in the producer services sector (PSWP 1986). It has also been argued that remoteness from specialist centres of producer services may act as a constraint on the innovative performance of these areas (Goddard 1980). The reasons for this will be discussed below.

## 2. Benefits to other sectors.

2a Improving the performance of other sectors: It has been argued that producer services play an important role in economic development through this function. In particular it is argued that these services are vital to the

health of manufacturing industry. There is, however, only a limited amount of evidence to support this argument. One widely quoted study was by Johnstone, who in a study of 604 contracts provided by management consultants showed that where their advice was acted upon, the client firms' productivity increased on average by 53% (Johnstone 1963). Other quantitative studies of non production workers in manufacturing show that firms employing more service workers per head, often a proxy for R & D staff, performed better on a variety of criteria (Gudgin, Crum, and Bailey 1979).

The evidence to support this argument is somewhat thin. As Marshall points out:

*"We have a very limited understanding about the contribution of producer services to the performance of manufacturing...(and) the argument that service input to production can have a positive impact on the competitiveness and tradability of industry is largely based on circumstantial evidence."*  
(Marshall, 1988 p52 & 54)

This proposition, however, has had a major influence on most studies of the use of producer services by firms.

2b. Enabling factors in the restructuring process: an extension of the former argument is that producer services act as mediators and facilitators of economic change.

Thus Gillespie and Green argue that:

"The key position producer services are coming to occupy lies essentially in the contribution they can make to promoting or facilitating overall economic change and adaptation". (Gillespie and Green, 1987 p400).

The provision of services such as research and development, marketing and strategic financial advice are viewed as being crucial to the long term adaption of firms to changes in the economy. It also argued that the provision of such services is particularly important for small and medium sized firms which may be unable to provide such services in house. Daniels argues that:

"Unless these (services) are available locally (ie within the same urban area or region), the cost of obtaining them (travel time to meetings, telecommunications charges), the likelihood of delays caused by the inability of client and supplier to meet as often as required, may be a sufficient deterrent to limit utilisation, or, more seriously, to prevent use altogether and so cause firms to grow more slowly than might otherwise be the case or even to cease prouction because of an inability to compete with firms in those cities and regions with a comprehensive pool of producer services." (Daniels, 1986 p307)

As with the first proposition in many ways this represents a hypothesis rather than a statement of fact. The contention that the provision of specialist advisory services will improve the performance of firms has not really been tested adequately at this time.

### Conclusion:

The previous statements are all in effect hypotheses which have not yet been adequately tested. The general "feel" of the argument would appear to be correct but as has been pointed out producer services could also act detrimentally to the benefit of other sectors of the domestic economy. The widely recognised difficulty of small firms in obtaining development funding suggests that the operation of banks in the UK may be detrimental to the development of new firms. Similarly the argument that the City takes very short term views of the performance of companies has also been highlighted. In addition, business services such as transport and distribution can equally well benefit producers exporting to Britain.

### 2.4.2: Empirical research on the role of producer services in economic development.

The following section is based on six studies of the demand for business services. The studies are internatio-



nal but are underlain by the thesis outlined above, namely that the quality and supply of business services is an important factor in the economic development process. Table 2.7 below provides a summary of the studies. As the table shows they are mainly based on large scale postal surveys often adopting quantitative techniques and modelling to analyse the data.

Table 2.7: Summary table of previous studies.

| Study                         | Area                                  | Methodology                | Sample size | Sectors                     | Nos of services studied* |
|-------------------------------|---------------------------------------|----------------------------|-------------|-----------------------------|--------------------------|
| Bryden (1983)                 | Highlands & Islands                   | Semi structured interviews | 18          | Primary Manuf               | 90                       |
| Marshall (1982)               | North West, Yorks & Hum, W. Midlands. | Postal & Phone survey.     | 300         | Manuf                       | 14                       |
| O'Farrell & O'Loughlin (1981) | Ireland                               | Structured interviews      | 285         | Manuf                       | 10                       |
| Pedersen (1986)               | Esbjerg, (Denmark)                    | Postal survey              | 228         | Manuf<br>Bus services       | 47                       |
| Polese (1982)                 | E. Quebec (Canada)                    | Postal survey              | 408         | Mining<br>Manuf<br>Services | 24                       |
| Savi (1988)                   | Emilia-Romagna (Italy)                | Postal survey              | 587         | Manuf                       | 14                       |

\* See appendices 1 to 4 for definitions.

The study by Bryden was obviously of most relevance to

this research. Chapter 1 referred to the extensive list of services used by Bryden which was adapted for use in this study. As the previous chapter also noted this study was somewhat brief. The sample size was limited and there was no real attempt to analyse the structure of local service supply in the area. The level of analysis obviously contrasts with the "extensive" studies which typify this area of research.

All of the studies have attempted to determine where services have been obtained from. In particular they are usually concerned with contrasting service purchases from within and outside a defined geographic region. In addition the studies undertaken by Marshall, Polese, and O'Farrell and O'Loughlin tried to determine the expenditure on services by the surveyed firms.

The types of services which the surveys analyse are broadly similar. Appendices 1 to 4 show the definition of services used by Pedersen, Polese, Marshall and O'Farrell and O'Loughlin respectively. Unfortunately the paper by Savi does not mention which services the firms were asked about. As the appendices show, the level of specificity varies but the services could be summarised into a few main categories including: transport, financial, legal, marketing and technical and training. Only Marshall's study does not include transport services as a business service.

Rather than presenting the results of each survey the following section provides a summary of the main points to emerge from the work. Table 2.8 over, provides a ten point summary of the most important arguments from the literature. As the table shows several of the arguments relate to ownership characteristics of firms and to the size of firms in employment terms. The latter factor is partly explained by the methodologies of the studies since they tend to have to group together firms sharing similar attributes to enable analysis of the large data sets. One obvious way of doing this is to use employment size bands. Unfortunately, however, the large scale nature of the surveys means that they can not explain why the patterns exposed between smaller and larger firms occur. This is an obvious problem with the extensive methodologies employed.

#### 1. The influence of firm size.

As the table shows, it has been shown that large firms use more services, produce more services in house and also have the tendency to import more services into peripheral areas. Large firms in these studies are defined as employing from over 50 to over 300. One reason for larger firms using more services could be simply that larger firms have greater resources to devote to the purchase of external services, whereas smaller

Table 2.8: Summary of findings of previous research  
on business service demand in peripheral areas.

| Finding  | No of Studies | Qualifications/Expansion   |
|--|---------------|--|
| 1. As firm size increases so does use of services.   | 4             | Larger firms tend to use more specialist services.                             |
| 2. A lot of the demand for services is satisfied in house, or obtained through head offices. | 4             | Those studies which gave figures showed c50% expenditure inhouse.              |
| 3. Large firms both internalise and purchase more services.                                  | 2             | It is argued that this is because they have the expertise to use the service.  |
| 4. Branch plants and subsidiaries obtain high order services from head offices.              | 5             | Nature of local supply also important acc. Marshall.                           |
| 5. Most expenditure on services is spent in same region as firm's location.                  | 2             | Marshall uses UK Econ. Planning region as basis for this argument.             |
| 6. Stable demand for services is internalised and firms buy in unstable/specialist needs.    | 2             | Other factors include confidentiality, strategic needs.                        |
| 7. Small independent firms are most reliant on local services.                               | 4             | esp. if owner-manager type of firm.  |
| 8. Larger firms tend purchase more services from outwith own regions.                        | 3             | Can relate to supply factors, and ownership.                                   |
| 9. Certain types of service are more likely to be purchased locally in peripheral areas.     | 2             | esp. lower order services eg maintenance, transport cf legal, accountancy etc. |
| 10. Proximity to main centres has an influence on service purchases.                         | 5             | Influence on nature of local supply.   |

firms are under greater pressure to control what could be viewed as unnecessary expenditure. Another reason which the literature points to, but largely fails to elaborate upon, is that larger firms will tend to have a greater range of specialists who are able to understand and communicate with outside consultants. In the Danish study, for example, it was found that the higher levels of education amongst the staff of a firm corresponded with greater use of specialist services. This also tied in with a greater likelihood of firms' producing services in house (Pedersen 1986). This accords with conclusion three.

The argument that larger firms will tend to import greater quantities of services into peripheral areas has to be seen in the context of the supply of services in such areas. The specialist requirements of larger firms may simply not be satisfied locally. One factor which is not mentioned, however, is that even if certain services are available larger firms may be reluctant to use them because they feel they may be qualitatively worse than equivalent services obtained from major centres. Marshall comes closest to arguing this because his survey, along with that of Pedersen, considered the nature of the local supply of services.

The contrast between larger firms and small firms is also seen in the context of small firms being more dependent

on local service expertise. It is also argued that this may mean that the small firms suffer from poorer quality of service provision. It could be argued that the only way to ascertain the influence of service provision would be to conduct a long term study into the fortunes of a variety of different companies to see if the services that they used were a factor determining their success. Another question which could be answered by a longitudinal study would be whether larger firms outgrow local service providers. Because the surveys tend to be snapshots examining service use at one point in time they can be criticised for failing to identify the dynamics of the situation between firms and their service providers. They argue that service provision is significant without actually showing that this is the case. Thus in the case of small one-man companies the issue of service provision is assumed to have an even greater importance. As Pedersen argues:

*"For the small firms the local availability of services also is important because they often have a very limited and undifferentiated management capacity, often only a single person...Such small firms will often only use the business service if it is locally available and presents itself. If this is not the case, the lack of service may be a hindrance to growth for small firms."* (Pedersen, 1986 p177)

Although this may be the case it could be argued that

there are many other factors which impinge upon the performance of small firms and service provision may be simply incidental.

## 2. The issue of ownership and control.

In the literature this factor is viewed as being very important in explaining why some firms are not well integrated into the local service economy. Most of the studies draw attention to the fact that certain types of firms obtain a large proportion of their service needs from their head offices, or within their own organisation. These firms are referred to as branch plants or in some cases subsidiaries. Only in the study by O'Farrell and O'Loughlin, however, is it stated that the branch plants had a degree of autonomy. In their study they state that 72% of the firms were branches but that 88.7% of the firms had full autonomy over expenditure on services. In the other studies, however, the degree of autonomy over these decisions is not addressed. It is simply assumed that external control leads to little or no autonomy over service purchases. Marshall, however, argues that it is the location of the head office which helps to determine the degree of external service purchases made by branch plants. Thus it was shown that where the head office was in the same region as the branch plant the latter tended to purchase more external services than if the head office was located

elsewhere. Marshall argues that this may be because non local head offices are less aware of local supply and therefore tend to remain with the service providers adjacent to the head office (Marshall 1982).

In the Canadian study it was found that purchases of services made by head offices located outwith a region were an important factor in explaining why service expenditure leaked from a region. Thus Polese found that 45% of the service imports into East Quebec took the form of intra firm transfers. What was more significant, however, was that these imports tended to be of higher order specialist services such as financial and business services. Those services which tended to be purchased locally were "heavy" services such as transport, construction services, and repairs with low human capital content compared to the information intensive "light" services which were imported. Polese argues that this is because production of the high value added services is more dependent on urban externalities. Thus it was found that of the intra firm purchases, 70% accrued to Montreal where many of the branch plants head quarters were based (Polese 1982).

3. The influence of major service centres on peripheral areas.

The proximity of a major service centre to any region is



also a factor which the literature shows is important in explaining the regional variation of service expenditure. In the Irish study it was found that Dublin accounted for 52.3% of service expenditure although it only had 12% of the plants in the survey. Similarly, Marshall shows that Manchester, Birmingham and to a lesser extent Leeds dominated the supply of services in their respective regions whilst London accounted for between 8% and 12% of the demand for services generated by the firms in the three regions even though none of the firms were located there. In the Italian study it was found that the neighbouring centre of Milan was drawing service demand in from Emilia-Romagna particularly from those areas closest to it. In the Danish study, Copenhagen exerted a similar influence. What Marshall's study suggests, however, is that the optimum geographic arrangement to retain service demand in a region is to have a major centre with a network of secondary centres. The lack of secondary centres in the North West, which was dominated by Manchester was the reason why demand was lost to London according to Marshall (Marshall 1982). As Marshall states:

*"A number of secondary centres would aim to satisfy the lower order service needs of manufacturing establishments in the immediate locality of the plant, whereas higher order service activities would be provided by the regional capital." (Marshall, 1982 p1538)*

Marshall's argument is based on a finding which is also common to a number of the studies, namely that firms will tend to purchase a large proportion of their service needs locally. Thus in the English study 78.7% of all service purchases were made in the same region, and 15.2% in the same local authority district. In the Irish study it was found that of the 40% of demand which could be spatially disaggregated, 42% accrued to within 20 miles of the plant. Reinforcing the former point, it was found that the proportion increased with proximity to towns of greater than 30,000 people (O'Farrell and O'Loughlin 1981).

#### 4. Other factors influencing the demand for services.

Such factors include the trend of firms internalising the stable demand for services and externalising unstable demand. It is argued that this enables firms to be flexible and cuts overheads. Other factors which can affect the internalisation or externalisation decision include confidentiality, the level of expertise needed to carry out the service, the frequency of use, the predictability of the service needs, and the cost of the service (Marshall 1989). The latter factor in particular is neglected by many of the studies but it clearly influences the ability of small firms to purchase specialist services. The issue of confidentiality can

also be helpful in explaining why head offices

provide branch plants and subsidiaries with certain higher order services.

Conclusion: Issues arising from the literature.

There are several main themes which can be drawn from the literature on the geography of services. Firstly there is the question of the scale of previous research. Most of the literature is at such a macro scale that it is difficult for the authors to identify causal mechanisms and processes. This partly reflects the state of research in the field because as several authors have pointed out the area of the geography of services has been neglected and much of the basic ground work still has to be done.

There has been very little work which has attempted to link an analysis of the demand for services with the nature of the local service sector. Most of the surveys have only concentrated on the demand side. In addition there has been little work on the provision of services in remote and rural areas. It could be argued that in such conditions it should be possible to discover some of the effects of the role of service provision since problems of accessibility to services will be at their

greatest in such areas. The methodologies adopted in previous research have largely failed to produce an understanding of the relationship between service users and providers and to explore issues such as the quality of service for example.

Another problem is identifying causality. The studies all tend to show that larger firms, firms which export more of their products, and generally the more successful firms all tend to use more services. The question therefore arises as to whether these firms are successful because they use the services or do firms which are successful need more services. The studies are also not very clear as to the specific types of services which successful firms use.

The literature is therefore very useful for pointing out trends which may be apparent in the demand for services and in identifying growth sectors in the service sector. Where it is weakest however, is in linking the two themes and identifying causal processes. This suggests that the most beneficial methodology in the field would be one that tried to achieve a greater depth of analysis using a more "intensive" methodology. The following chapters represent an attempt to achieve this by concentrating on a smaller sample of firms than has been the case in the majority of previous studies about the role of producer services in regional development.

### CHAPTER THREE: RESEARCH METHODS.

The research methodology was based on a four stage process and because of the nature of the research question, was largely empirical in nature. The research involved three main periods of survey research where firms in the manufacturing, fish farming and accountancy sectors of the economy were interviewed. In addition interviews were carried out with officials from the Highlands and Islands Development Board and Highland Regional Council at various stages throughout the research. The following chapter consists of three main sections. Initially a brief description of the research programme is provided. In the second section the justification for the research method and for studying the different sectors is presented. The third section describes how and why the sample firms were chosen.

#### 3.1: The research programme.

Table 3.1, below describes the research timetable over the three year period from July 1986 to October 1989. This has been summarised into a four stage process, although in reality there was a degree of overlap between the periods of research.

The first stage of the research can be said to have begun in July 1986 when the author was employed as a researcher

in the "Policy, Planning, and Transport Division" of the HIDB. This involved analysing data on employment, and population of the HIDB area to provide a time series for the post War period. The aim was to provide information for the document "*Economic and Social change in the Highlands and Islands*", which was submitted as part of the joint Treasury/Industry Department for Scotland review of the HIDB (IDS 1987a). This proved to be an ideal background to an understanding of the general economic and demographic processes occurring in the area since 1945.

**Table 3.1: The Research Timetable.**

| PHASE 1   | PHASE 2   | PHASE 3                             | PHASE 4                        |
|---|---|-------------------------------------|--------------------------------|
| July 1986 to<br>March 1987                          | April 1987 to<br>June 1987                      | July 1987 to<br>July 1988           | August 1988<br>to October 1989 |
| 1. Employment and<br>Population data<br>collection. | 1. HIDB office                                  | 1. Pilot survey<br>of 3 accountants | 1. Data analysis               |
| 2. Literature<br>review.                            | 2. Analysis of<br>service sector<br>employment. | 2. Survey of 25<br>Manuf. firms     | 2. Writing up                  |
| 3. Preliminary<br>questionnaire<br>design.          | 3. Discussion of<br>research design             | 3. Survey of 11<br>Accountants      | 3. Presentation<br>of results  |
|   | 4. Questionnaire<br>design                      | 4. Survey of 18<br>Manuf. firms     |                                |
|   |   | 5. Survey of 9<br>Fish Farms        |                                |

The initial period of research work was also useful as a familiarisation process with the sources of economic

information, such as the Census of Employment, and the problems associated with using them. It also provided an insight into the workings of the HIDB. One of the functions of the "Policy, Planning, and Transport" division is to carry out economic research for the Board and the author was involved in various sector specific research projects.

The first stage "proper" of the research involved an initial literature review, and course on research methodology. The latter included a requirement to produce a research proposal, a research design, and a methodology review. These proved to be useful exercises, ensuring that the literature review was placed in the context of focusing onto the research question and methodology at an early stage in the research process. The literature review involved an assessment of the literature on the geography of services, economic policy and the service sector, and the role of service provision in economic development. Of particular interest was work which involved surveys of the demand for business services. The author was able to pinpoint literature referred to in Chapter Two, but as was noted previously, this tended to involve mass surveys using postal questionnaires. One study by Bryden, proved to be very useful as it included, a definition of "business services" which was adapted to be used in the survey (Bryden 1983). In addition the author was able to contact Bryden and discuss the

research project and questionnaire design at an early stage.

The second stage of the research involved a period of work based in the HIDB office in Inverness. At this time the research design was discussed. A particular issue which arose at this time was the benefits of doing area or sectorally based research. The main benefits of an area based study were seen to be in that it would minimise transport and logistical problems, but problems were seen to exist because of the limited ability to generalise. One option discussed at this time was to compare a remote area of the HIDB area with a more centrally located area. A particular interest was to compare service use and provision on the Enterprise Zone on the Cromarty Firth, with a remote area such as North West Sutherland or the Outer Hebrides. This was decided against for a variety of reasons. For example, it was considered that these areas were so different as to make any comparisons of their development problems very limited. In contrast sectorally based research had the advantage of allowing comparisons between different firms in the same sector and thus being able to compare the influence of different types of patterns of service use on firms in the same sectors.

A further feature of work during this second phase was the analysis of service sector employment in the High-



lands. As chapter one mentioned, this was aided by the publication of a paper by Urry (1987) which included a definition of service sector employment based on the 1980 Standard Industrial Classification. This enabled the use of the Census of Employment figures for the Highlands, from 1981 and 1984, (the most up to date figures available at the time of writing).

Two questionnaires were developed over this period. Firstly, the design of a questionnaire with which to test the demand for services generated by firms in the Highlands, and secondly with the design of a questionnaire for accountants. It was felt to be useful to discuss the problems faced by businesses in the Highlands with local accountants and to discuss the types of services that they provided. This questionnaire was developed with assistance from a member of the Management Unit of the HIDB who was a qualified accountant and able to assist a non specialist in the terminology of the profession. At the same time the survey of demand for services was being developed, although it was decided to carry out this survey after a pilot of the accountants survey.

The third stage of the research was the empirical work which occurred in three main phases over the second year of the research. After a pilot survey of three accountants at the end of July 1987, it was decided to carry on

with the survey of the demand for business services. In the intervening period the survey was altered and the firms chosen for the sample (Appendix 3.1 shows the survey form). The main source of firms for the sample was the *Highland Region Industrial Handbook and Directory* (Highland Regional Council, 1987), which proved to be the most comprehensive source of firms in the region although it had some limitations which will be discussed later. Letters of introduction were sent to thirty firms throughout the Highland Region. This is a smaller area than the whole of the HIDB area, although it is still the largest local government region in Western Europe, and was chosen to minimise the time and travel cost problems associated with the research. Of the thirty firms, twenty five agreed to take part in the survey, a response rate of 83%. The survey period lasted about one month, and was followed by preliminary analysis of the survey data, and presentation of the results in the form of a conference paper. This enabled the author to take advantage of various comments about how to develop the research. One suggestion was that more economic data should be collected because the survey was amenable to a simplified input-output analysis. It was decided therefore to carry out a follow up survey of the firms using a short postal questionnaire. This included a summary of the survey's findings. Eleven firms responded to this information request, a response rate of 44%. The information provided consisted of expenditure on various services and labour

for the latest financial year.

In April 1988, a further survey of 18 manufacturing firms was carried out with the respondents also requested to provide the information sought in the postal survey. As appendix 3.1 showed, the original interview schedule had included questions on the costs of services used by the firms but most respondents were unwilling or unable to provide the information, probably because the survey did not detail specific services and was too general in seeking all service costs. At the same time a survey of 11 more accountants in Highland region was undertaken. The main source for these firms was the "*Official Directory of the Association of Chartered Accountants for Scotland*", and the *Yellow Pages*. The interview schedule used for this survey was abbreviated and altered to make it more clearly focused, because the previous survey had taken about one hour and this was considered to be too time consuming by the accountants (appendix 3.2, includes a copy of this interview schedule). By early May 1988 the two surveys of accountants and additional manufacturing firms was complete. In addition, an interview was carried out with the Deputy Director of *Highland Opportunities Limited*, an Enterprise Trust mainly funded by Highland Regional council, and run from the Council offices in Inverness. In addition to finding out about the operation of the trust, the names of several firms which had been assisted by them were obtained so that they could be

included in the survey. Initial interest in the scheme stemmed from the survey of manufacturing firms in October 1987.

The final piece of survey work was conducted in July 1988 when nine fish farms on the West Coast were interviewed over four days. The preliminary background research on the sector had been conducted over the previous month which included data collection in the HADB office, interviewing their fish farm division, and obtaining background information on the firms to ensure that the survey was providing a sample which highlighted differences in ownership, size, and age of the firms. The source of this sample was the "List of fish farms operating in the HADB area" (May 1988) provided by the HADB (a copy of this survey form is provided in Appendix 3.3).

### 3.2: Justification for choice of Research method and sectors for study.

#### 3.2.1: Research Method.

This involved using semi-structured interview schedules. These were preferred to highly structured questionnaires because the survey attempted to gather qualitative data which was not considered amenable to statistical analysis. The research methodology was essentially "intensive" X

in nature, although the survey also had to gain basic information about the level and nature of service use for example. Sayer and Morgan, contrast the use of <sup>x</sup>intensive <sup>x</sup> research methodologies, which are considered to be primarily explanatory in nature, with extensive methodologies which are considered to be mainly descriptive. Extensive methodologies involving large scale surveys and standardised data are useful for illustrating patterns but they lack explanatory power:

*"In the absence of intensive studies one can speculatively examine all manner of formal, quantitative relationships between various characteristics (eg firm size, mobility, location of origin and destination etc) without getting much closer to the causes of the patterns elicited by the regressions, correlations etc." (Sayer and Morgan, 1985 p152)*

To a certain extent the research involved both types of data with the first sections of the survey forms establishing the general patterns of service use, whilst the latter sections dealt with explaining the patterns, and providing qualitative feedback on the provision of services, and public sector assistance schemes, for example. An alternative research methodology could have used statistical analysis to try to illustrate the patterns of service use and establish general rules.

O'Farrell and Hitchens in a study of matched pairs of manufacturing firms outline the reasons for using an intensive methodology, which focuses more on understanding processes, rather than describing patterns:

*"The alternative research methodology involving the use of random probability sampling and various multivariate techniques of data analysis...is not necessarily the most suitable for all research problems. Conventional statistical testing does not enable evaluation of the adequacy of the concepts used. The need for quantifiable variables constrains the analysis; it may involve ignoring qualitative factors and above all weaken conceptualization through simplifying the detailed processes and interactions influencing a phenomenon by frequently postulating quantitative relations and not causal mechanisms"* (O'Farrell & Hitchens 1988 p401)

The research methodology adopted for this study also determined that quantitative techniques were not best suited to all of the analysis of the survey and that the research questions required the use of<sup>x</sup> open ended questions<sup>x</sup> on the interview schedules.

The use of semi-structured interviews, however, meant that there were certain logistical problems to overcome regarding arranging interviews and ensuring that travel time could be minimised and the time spent at various

locations maximised. Thus several interviews were carried out at each location and this is reflected in the pattern of the locations of the firms interviewed for the surveys. Table 3.2, below shows the locations of the firms interviewed for the study.

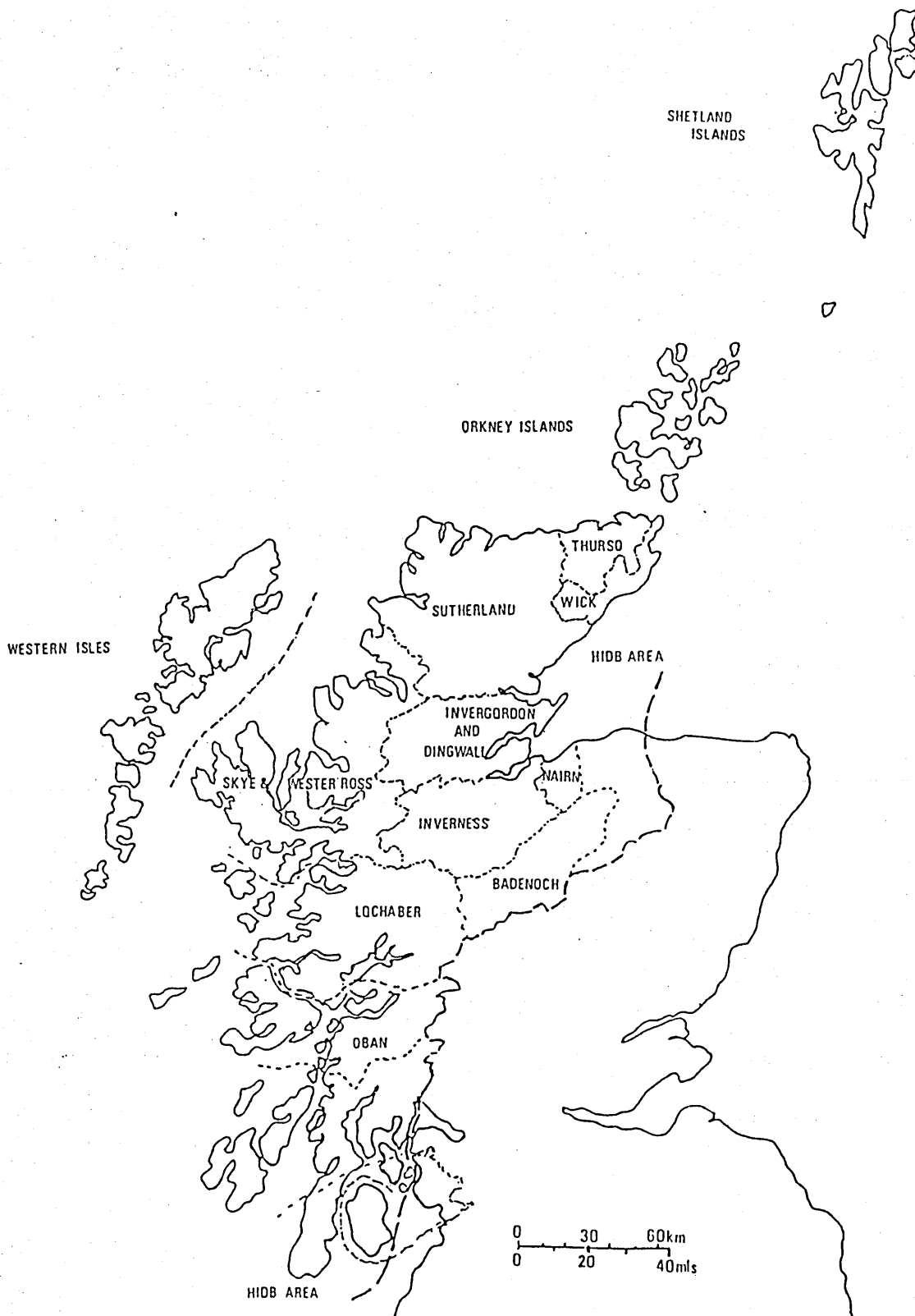
Table 3.2: Location of firms by Travel to work area

| TTWA                   | Number of Firms |
|------------------------|-----------------|
| Badenoch               | 3               |
| Dingwall & Invergordon | 19              |
| Inverness              | 13              |
| Lochaber               | 2               |
| Sutherland             | 3               |
| Wester Ross            | 6               |
| Wick/Thurso            | 5               |
| TOTAL                  | 51              |

(See Map 3.1 over)

The firms reflect a variety of locations throughout the northern and western areas of the Scottish mainland. This pattern is open to various criticisms. It does not include any of the areas of Strathclyde Region, such as Argyll and Bute, or any island locations. The main reason for this was logistical because during the field work periods the author was based in Inverness. In addition, from interviews with HIBD officers it was considered that

Map 3.1: Travel to work areas in the HIBD area.



Source: HIBD Annual Report 1985



firms in this area would be more likely to use services obtained from Glasgow rather than Inverness. This impression was generally confirmed by the pattern of clients revealed by the accountants survey. Using Highland Region as the base for the survey enabled the use of their *Industrial Directory* as the sample frame. The failure to include any island based firms in the sample could be a major criticism, but the problems of remoteness from main centres illustrated by the survey would undoubtedly be exacerbated for island enterprises.

### 3.2.2. The Sectors for Study.

#### Manufacturing:

Initially, it is important to outline the reasons for looking at the manufacturing and fish farming sectors of the highland economy. In the case of the manufacturing sector there are basically four reasons for studying its demand for business services.

Firstly, a crude export base view of economic development, argues that the manufacturing sector is generally not serving wholly local markets and so requires services to facilitate production for "exports" from the region. "Economic Base Theory" suggests that the manufacturing sector is the "basic" sector, whilst the service, or non-basic sector simply provides the services which are

required to facilitate production, and is dependant on the basic sector for employment generation through the multiplier effect. As the previous chapter argued there are several reasons for arguing that this is an oversimplified view of the role of business services in the development process in particular (See Marshall 1988). Even if this oversimplified view is refuted it is still clear that given the remote location of firms in the Highlands which are often competing in highly competitive markets the issue of service provision is particularly significant. The influence of the export base view, however, can be seen in the second main reason for studying the manufacturing sector, its influence on economic development policy. An extension of the argument about the "basic" role of manufacturing has been its characterisation as the only sector providing "real" jobs.

The attraction of manufacturing activity has been an important part of the development strategy pursued by the HIDB, accounting for 35.8 % of grant and loan approvals at 1987 prices, and 57.3% of jobs created between 1978 and 1987 (HIDB Annual Report 1987). The rationale behind this programme of investment includes allegedly lower cost per job created, multiplier effects, and higher earnings for employees in the sector compared to others such as tourism. The creation of a local industrial base helps to diversify the local economy (HIDB Corporate Plan

1988). Manufacturing employment also provides year round employment and is not hampered by problems of seasonality. The programme of relying on manufacturing for job creation goes back to the setting up of the Board and also reflects the legacy of regional policy. In its First Report (1st Nov 1965 to 31st Dec 1966), the Board stated that:

*"Manufacturing industry is the third main prop (for creating employment) and we increasingly regard it as the most urgent of all...Without it, the region will continue to lack any real possibility of a substantial enough rise in numbers to give credibility to Highland regeneration...Modern industrial enterprises are absolutely essential in providing more of the kind of skills and initiative which will breed new enterprises and broaden the range of social and cultural leadership." (HIDB, 1967 p4)*

In the 1980s the claims for manufacturing are less grandiose but it is still held to be:

*"...probably the only sector capable of creating sufficient jobs, through large projects, to make inroads into the problems of the unemployment blackspots." (HIDB Corporate Plan, March 1988 p9)*

Therefore, given this emphasis of development policy it is worthwhile analysing the spin off aspects of this

policy on the service sector.

Thirdly, the manufacturing sector is still relatively small in the Highlands, accounting for only 12% of employment in 1984, against a Scottish average of 23%. Moreover, it is highly probable that this figure has fallen since this time given the dominance of the sector by employment in the construction of offshore drilling platforms. Oil related employment, as a whole in the HIDB area fell from 7,308 to 5,783 from June 1984 to June 1986, reflecting the downward trend in employment in this sector from the early 1980s (IDS, 1987a). Therefore the limited size of the sector is likely to limit the availability of private services which may mean that firms do not have ready access to business services, or attempt to substitute for the lack of services by providing them in house.

Fourthly, focusing on manufacturing industry's demand for services follows in a tradition of similar studies of industrial linkage and service demand (Marshall 1982, O'Farrell and O'Loughlin 1981, Polese 1982, Pedersen 1986).

#### Fish Farming:

In contrast to the manufacturing sector as a whole, fish farming has been characterised by uninterrupted growth in

employment and output over the 1980s. It has been the only major source of new year round employment in the remoter parts of the HIDB area. Therefore, studying the industry provides an opportunity to study the role of business services in promoting a growth industry and the spin-offs the industry has had on the local business service sector. Issues such as the degree to which various business services enabled the industry to develop and the response of local service providers to the new industry can be tackled.

Of particular significance has been the growth of the salmon farming industry. Production of farmed salmon has grown at an average rate of 56% per annum between 1979 and 1986, whilst employment in the industry has grown at an average rate of 33% over the same period (Cobham Resource Consultants, June 1987).

Table 3.3 shows trends in the industry since 1979<sup>1</sup>. The fast growth rate of the industry has led it to be described as a "Boom industry of the 1980s" (Coull 1988). The increases in production have been matched by growth in competitor nations, notably Norway, the largest producer whose 1988 production of 87,000 tons, was roughly five times that of Scotland. Indeed such has been the

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<sup>1</sup> DAFS statistical reports for the industry were first published in 1979.

level of production, notably in Norway, that in the Spring of 1989, the price for salmon slumped from £2.20 per pound to £1.60 per pound leading to fears that small farmers, in particular, might not survive the depression (*The Observer* 30.4.89). At the time of the survey, however, the mood was one of optimism and expansion.

Table 3.3: Growth of Employment and Production  
in the Scottish Salmon Farming Industry.

|      | Employment<br>FTEs | %<br>Change | Production<br>Tons | %<br>Change |
|------|--------------------|-------------|--------------------|-------------|
| 1979 | 144                | no data     | 520                | no data     |
| 1980 | 188                | +30%        | 598                | +15%        |
| 1981 | 233                | +24%        | 1133               | +90%        |
| 1982 | 265                | +14%        | 2152               | +90%        |
| 1983 | 328                | +24%        | 2536               | +18%        |
| 1984 | 451                | +38%        | 3912               | +54%        |
| 1985 | 625                | +39%        | 6921               | +77%        |
| 1986 | 872                | +40%        | 10337              | +49%        |
| 1987 | 1000               | +15%        | 12721              | +23%        |
| 1988 | 1560               | +56%        | 17951              | +41%        |
| 1989 | no data            |             | 31015 (est)        | +72%        |
| 1990 | no data            |             | 43465 (est)        | +40%        |
| 1991 | no data            |             | 52793 (est)        | +22%        |

(Source: DAFS Annual Reports 1979-88)

A further reason for studying the industry is that unlike most of the manufacturing sector in the Highlands, the

fish farming industry enjoys a comparative advantage in competition with other locations. The sheltered and unpolluted waters of the west coast and island sea lochs are particularly suited for salmon cages, whilst the warmer temperature of the sea off Scotland gives advantages in the form of faster growth rates over competitors, particularly Norway (Coull 1988). Therefore, virtually all of the Scottish salmon farming industry is in the HIDB area, with the exception of a farm on the Solway Firth, in Dumfries and Galloway. The high value added nature of the product also means that transport costs are less significant. The fact therefore that the industry is a resource based sector which enjoys comparative advantages in the HIDB area makes it an interesting comparison with the manufacturing sector.

In addition, it is that it is an "export" based industry which sells its product outwith the Highlands, and therefore is part of the "basic" sector. Indeed in 1988, 40% of industry output was exported from Britain, equivalent to sales of £18.4m (*Fish Farmer* March/April 1989). It has formed a major role in the development strategy pursued by the HIDB which provided funding for research in the industry from its inception in 1965. Table 3.4 shows the trends in HIDB finance for the sector, including less capital intensive projects in shell fish production, such as mussels and oysters. In addition HIDB

have funded 118 parties with research assistance to the value of £5m (MacKay Consultants, 1988).

Table 3.4: HIDB Assistance to Fish Farming

|           | Nos of Projects | Total Assistance |
|-----------|-----------------|------------------|
| 1973-1977 | 40              | £3.8m            |
| 1978-1982 | 71              | £6.8m            |
| 1983-1987 | 336             | £13.4m           |

NB. 1987 Prices

Source: MacKay Consultants, 1988.

It also forms the basis for HIDB policy of diversifying the economic base of the Highlands into "value-added" processing of local primary products. This meant that several of the firms in the manufacturing sample were involved in salmon processing.

The involvement of large scale capital and concentration of most production in the hands of several large companies raises similar issues to those of external control which are more readily found in the manufacturing sector. Indeed it has been argued that one of the problems for the Highland economy is the high level of external control (MacKay 1987). It is estimated that the three largest firms, Marine Harvest a subsidiary of Unilever, Golden Sea Produce part of the Norwegian Norsk Hydro group, and McConnell Salmon a subsidiary of Booker PLC,



control about 50% of all the industry's output (*Fish Farm International* Vol 15 No2). Production estimates for Marine Harvest, Scotland's largest producer, suggest that its 1989 output will be 8000 tons, or one quarter of projected output for the whole Scottish industry (*Fish Farmer* March/April 1989). These companies tend to be vertically integrated from hatcheries to processing. Marine Harvest, for example, opened a modern automated processing and packaging plant in Fort William at the end of 1987 providing 30 jobs initially, with plans to expand to 130 by the end of 1989 (*Fish Farmer* March/April 1989).

#### Accountancy:

The research question meant that it was also important to gain information on the provision of business services in the Highlands. Rather than simply exploring the demand for services it was clear that firms providing services to businesses would also be hampered in terms of remoteness and accessibility to clients. In addition, the research sought to explore whether locally based service providers were facing competitive pressures from firms based outwith the local area. Having studied the provision of HADB advisory services, and given the focus which developed on financial advice the logical extension of the survey of demand for services was to carry out a survey of accountants. This idea was developed prior to, and after the survey of the demand for services. It was

considered that accountants might have been expanding their provision of advisory services. In addition the experience of local accountants might have been useful for identifying common problems for businesses in the Highlands. Given that most of the accountancy firms were based in or near Inverness, this also reduced the problems of logistics in carrying out the survey. Table 3.5 below outlines the geographical spread of the accountancy firms in the sample.

Table 3.5: Location of Accountancy Firms.

| Town      | Nos of Firms | % of all firms in Town |
|-----------|--------------|------------------------|
| Inverness | 7            | 54%                    |
| Dingwall  | 2            | 66%                    |
| Nairn     | 2            | 66%                    |
| Avoch     | 1            | 100%                   |
| Fearn     | 1            | 100%                   |
| Tain      | 1            | 50%                    |

Source: Survey data.

The survey covered 50% of the firms in Highland Region, according to "*The Institute of Chartered Accountants for Scotland: Official Directory 1988*". Seven of the firms in Highland Region have more than one office in the area. As the previous chapter described the accountancy sector along with other business services has gone through a

period of unprecedented expansion in the UK, and its role as a growth area in employment meant that it was considered to be worthy of study.

### 3.3: The Sample Companies.

The following section describes the companies in the survey as this would appear to exert an important influence on the range of services that they use and the extent to which they use them. Initially the reasons for choosing the specific types of manufacturing firms is described. This involves an analysis, by SIC classification<sup>2</sup>, and a more descriptive sectoral definition. Information from the survey is also presented such as the employment sizes, and turnovers of the companies in the survey.

#### 3.3.1: The Manufacturing Sample

As stated in the introduction, the base used for the sample was the "*Highland Region Industrial Handbook and Directory*", the most up to date version of which was obtained in Autumn 1987 (up dated in August 1987). In addition a list of occupants of HIDB factory units was also used to supplement this source, particularly in Spring 1988 when it helped to pin point firms which had newly set up. The industrial handbook lists firms accor-

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<sup>2</sup> 1980 Standard Industrial Classification

ding to SIC and because firms may be carrying out several activities, the same firms appear under different classifications. From the handbook, however, it is not clear which is the main activity of the firm. This problem means that there is a high degree of double counting in the handbook, with the same firm appearing in as many as four different activity headings. This is understandable as the purpose of the handbook is to advertise the activities of firms and provide information for suppliers and purchasers. It makes it difficult, however, to provide accurate information on the number of firms in each industrial sector. Another problem is that the handbook does not provide a good definition of employment size from which to gauge the size of firms. The smallest size band is 1 to 25 employees, the next 25 to 50, then 50 to 100, 100 to 200, 200 to 500, and finally 500+. Because the vast majority of the firms are in the 1 to 25 size range it is impossible to differentiate between one or two person operations and firms employing 20 or so. A further problem arises because of mistakes in the handbook, primarily the defining of service firms or suppliers to manufacturing activity headings. The best examples of this problem occur in Class 34 "Electrical and Electronic Engineering" where eleven of the fourteen firms in this category are referred to as Service or wholesale operations, and should therefore not be classified as manufacturing operations.

Table 3.6, below shows the structure of the sample as defined by the 1980 Standard Industrial classification. The latter consists of ten broad divisions denoted by a single digit (0-9). These are subdivided into 60 classes (2 digits), then 222 groups (3 digits) and finally 334 activity headings (4 digits) (Central Statistical Office, 1979). Table 3.6 defines the firms mainly according to groups, which as the table shows are more detailed descriptions of the activities of firms than classes. In several cases, however, classes have also been used. Class 34 "Electrical and Electronic Engineering" has been subdivided because most of the firms in the class which were surveyed were in group 344 "Telecommunication and electrical measuring equipment, electronic capital goods, and passive components". The figures showing the percentage of each sector surveyed show all of the firms in the sample which the handbook defines as belonging to the sector. In contrast, using information obtained from the firms in the survey they have each been allocated to one category. Thus although the table only shows one firm in class 37 "Instrument engineering", the survey covered four of the six firms in the handbook which were defined to this class (a further firm was contacted but declined to take part in the survey). Multiple entries of the same firms also account for the high percentage of firms surveyed in group 345 "Other electronic equipment".

Table 3.6: 1980 SIC Definition of Manufacturing sample

1980 SIC

| Division                                       | Classes/Groups   | No of Firms | % of Sector surveyed * |
|--|--|-------------|------------------------|
| 2. Manuf of Metals, mineral prods, & chemicals | 247 Glass & Glassware  | 1           | 20%                    |
|  | 258 Soap & Toiletries  | 1           | 50%                    |
|  | 248 Ceramic goods  | 2           | 17%                    |
| 3. Metal Goods, Engineering and Vehicle Inds.  | 313 Bolts, Nuts etc  | 1           | 50%                    |
|  | 316 Finished Metal goods   | 3           | 27%                    |
|  | 320 Industrial plant and steelworks  | 7           | 35%                    |
|  | 322 Machine tools  | 2           | 100%                   |
|  | 328 Other machinery  | 4           | 20%                    |
|  | 34 Electrical & electronic engineering                                     | 2           | 14%                    |
|  | 344 Telecoms, electrical measuring, electronic capital goods & components. | 6           | 54%                    |
|  | 345 Other Electronic equipment.  | 1           | 63%                    |
|  | 350 Motor vehicles   | 1           | 100%                   |
|  | 37 Instrument engineering  | 1           | 67%                    |
| 4. Other Manuf Inds.                           | 413 Milk products  | 1           | 12%                    |
|  | 415 Fish processing  | 2           | 20%                    |
|  | 453 Clothing, hats etc   | 1           | 10%                    |
|  | 46 Timber & Wood Inds  | 2           | 6%                     |
|  | 475 Printing & Publishing  | 1           | 5%                     |
|  | 483 Plastics Processing  | 3           | 38%                    |

\* NB. All % figures include double counting of firms in source handbook.

In thirteen of the nineteen classes or groups used in the sample, more than 20% of the sector was covered. In the fish processing sector, although the survey only covered two firms in the manufacturing sector, 20% of the sector was surveyed because three additional firms in the fish farming sector also undertook processing activities.

The aim of the sample was to focus on sectors where the firms would tend to be reliant on sales outwith the HIDB area. In addition the sample tried to cover specialist sectors in the Highlands such as the oil-related engineering sector for example (see group 320). Three additional firms in this sector declined to take part in the survey, which would have increased the coverage to more than 50%. Also of particular interest was the "high technology" sector, defined as class 34, group 344, group 345 and class 37, where, as the table shows, virtually all of the firms were included. Indeed, excluding mistakes in the sampling frame, where firms were not actually manufacturing any product, would increase coverage of the high technology sectors to over 90%. With the exception of wood processing, textiles, dairy products, and printing the survey covered a high percentage of firms in representative manufacturing sectors in the Highlands. One exception might be the whisky distilling sector but previous research by the author has shown that most of the distilleries in the Highlands simply function as branch operations, supplying their parent companies, and

with a few notable exceptions have no autonomy over areas other than routine production (Black 1985).

### 3.3.2: Firm sizes and characteristics.

Rather than use the SIC definition, the firms in the sample could be subdivided into six general descriptive categories. A total of 15 of the firms could be described as in the "Engineering" field (SIC classes 31, 35 and most of 32 excluding several firms in group 328 "other machinery"). These included small general engineering service companies, companies involved in the oil sector, and companies making highly specialised components and machinery. 10 companies could be described as "High Technology" companies (SIC Class 34 and 37). These companies ranged from firms making image collection and processing equipment to firms involved in the production of specialised scientific instruments and those involved in the production of electronic components. Three companies were involved in "Food Processing" of fish and dairy products (SIC group 413 and 415). Three companies were involved in the production of "Glassware and Ceramics" (SIC 247 and 248), and three companies in the production of "Plastics" (SIC 438). The final category of eight companies were involved in a variety of "Miscellaneous Manufacturing and Processing" activities. These included firms involved in wood processing, textiles, printing and the production of consumer goods, amongst other activi-



ties.

The employment ranges of the firms show that the majority of the companies employed less than 30 people. Statistics from the Business Statistics Office show that 80% of manufacturing establishments in the Highlands and Islands employed less than 20 people so that the bias in the sample towards the smaller companies gives a reflection of the general trend of small establishments in the Highlands (IDS, 1987a). The survey, however, deliberately included a higher than average proportion of larger firms to see whether their service needs were satisfied within the region generating spin-offs in service provision for the smaller firms. Table 3.7 gives a sectoral breakdown of the employment ranges of the firms.

Of the companies employing more than 100, only two of these, involved in the construction of offshore platforms, employed more than 150. Of the 42 firms in the sample 19 could be classed as subsidiaries or branch plant operations. Many of the latter, however, enjoyed a high degree of autonomy from their headquarters or controlling groups and this was reflected in their service purchases. Therefore the majority of firms in the sample enjoyed a degree of purchasing autonomy or were headquartered in the Highlands.

Table 3.7: Employment Ranges of Sample Firms.

|               | 0-9 | 10-19 | 20-29 | 30-49 | 50-100 | 100+ | Total |
|---------------|-----|-------|-------|-------|--------|------|-------|
| Engineering   | 3   | 3     | 4     | 1     | 1      | 3    | 15    |
| High Tech     | -   | 4     | 2     | 1     | 2      | 1    | 10    |
| Food Process. | -   | -     | 2     | 1     | -      | -    | 3     |
| Plastics      | 1   | 2     | -     | -     | -      | -    | 3     |
| Glass & Cer.  | 1   | -     | 1     | -     | -      | 1    | 3     |
| Misc. Manuf.  | 3   | 2     | -     | 1     | -      | 2    | 8     |
| TOTAL         | 8   | 11    | 9     | 4     | 3      | 7    | 42    |

Source: Survey data November 1987 & March 1988

In general, the independent companies in the sample were smaller in both employment and turnover terms than the subsidiaries and branch operations. Turnover figures were obtained for the firms for the financial year to April 1987 or the calendar year 1987. Not all of the firms were willing to supply the figures so that it was not possible to obtain 100% coverage. Only one of the independent companies did not provide the figure compared to 9 of the 19 subsidiary or branch operations.

Table 3.8 shows the range of turnover figures for the independent companies compared to the subsidiaries. The 22 independent firms which provided turnover figures had an average figure of £1.68m. Removing the 6 firms in the sample with turnovers of more than £1m, however, gives an average of £250k. Similarly the companies with higher

than average turnover figures were also the larger employers. For the total sample of independent companies the average employment was 29 but removing those with turnovers of more than £1m reduced the average employment to 11.

Table 3.8: Turnover Figures Independent v Subsidiary Firms

| (£,000s)     | 0-100 | 101-250 | 251-500 | 501-1000 | >1000 | Total | % of sample |
|--------------|-------|---------|---------|----------|-------|-------|-------------|
| Independents | 6     | 5       | 4       | 1        | 6     | 22    | 96%         |
| Subsids.     | -     | 2       | 2       | 1        | 5     | 10    | 53%         |

Source: Survey data, November 1987 & March 1988

The average picture for the subsidiary companies is not very meaningful because of the more limited coverage of turnover figures and the distorting effect of the two oil yards which employed some 2100 workers at the time of the survey. Removing the latter from the sample gives an average employment figure for the subsidiaries of 39, but only 5 of the 17 remaining firms exceeded this figure with the remainder of them having an average employment figure of 17. In total the 42 firms in the sample employed 3,429 workers at the time of the survey, compared to total manufacturing employment in Highland Region of 10,255 at the 1984 Census of Employment (DoE, 1987). This is roughly 33% of all manufacturing employment in 1984, but this figure had declined since

this time, as described in chapter one.

In conclusion, the independent companies in the sample are smaller in both employment and turnover terms than the subsidiary and branch plant operations. Discounting the distorting effects of the larger firms both types of company tended to employ less than 20 workers which is typical for the Highlands as a whole.

### 3.3.3: The Fish Farm Sample

The salmon farms provided a contrast with the manufacturing firms in that they were all located on the west coast in the remoter areas of Wester Ross and North West Sutherland. The nine firms represented about 40% of the salmon farms in these areas. The aim of the sample was to try to get a variety of sizes of farms and different types of ownership. Of the nine companies, four could be classed as subsidiary operations which were owned and controlled from outwith the Highlands.

Two of the companies had only started their production cycles in 1988 and so had yet to produce any salmon for sale. Another company had originally operated a hatchery but had just started to develop its sea sites to produce mature salmon. These companies production figures were therefore based on estimates of future production. In the case of the two former farms their estimates showed that

they were small scale operations with estimates of future production of between 30 and 50 tons in their first year of production. Although these farms may produce some grilse (salmon which mature after one year in the sea) in 1989, the bulk of their sales will be made in 1990, reflecting the cycle of production from smolts to mature salmon.

Table 3.9 gives the range of employment of each of the firms. Firms were also asked about previous employment levels and to project their future employment needs and these figures have been included in the table. (Part time or seasonal jobs were valued at half a full time equivalent). The table includes information on wages for the financial year to April 1988 which shows some of the impact of the farms directly on the local economies. In several cases the figures relate to companies rather than individual sites because it is quite common for the larger firms to operate several sites from a centrally located base.

The employment figures also include information on employment in ancillary activities such as hatcheries and packing since in several cases these activities were carried out in addition to salmon production. Those farms which were sea site operations only, are marked with an asterix.

Table 3.9: Fish Farm Employment.

|          | 1987 | Present | 1990 | Wages |
|----------|------|---------|------|-------|
| Firm A:  | 16   | 20      | 20   | £150k |
| Firm B:* | 11   | 6       | -    | £100k |
| Firm C:* | -    | 1       | 4    | -     |
| Firm D:  | 18   | 22      | 40   | £180k |
| Firm E:* | -    | 1       | 3    | £10k  |
| Firm F:  | 34   | 48      | 54   | £400k |
| Firm G:  | 33   | 37      | -    | -     |
| Firm H:* | 8    | 10      | 12   | £140k |
| Firm I:  | 36   | 50      | 75   | -     |

Source: Survey data, July 1988.

These figures reflect the continued growth in employment in the industry, although farm B is an example of a farm which suffered from an outbreak of disease and had to cut back its workforce. In the case of some of the larger projected increases in employment these were based on speculation about moving into processing and packing activities. The discrepancies in some of the annual wage bill figures may be caused by the exclusion of directors' salaries. The projected increases in output are far more significant than those of employment reflecting increasing economies of scale in the industry.

Table 3.10 below shows the growth in output of the sample

firms which provided production figures. Annual production figures can vary substantially from estimates.

Table 3.10: Production Figures of sample firms.

|         | 1. Previous | 2. 1988  | 3. Med Term  | % Increase<br>2 to 3 |
|---------|-------------|----------|--------------|----------------------|
| Firm A: | 100t (1985) | 250t     | 400t (1991)  | 60%                  |
| Firm B: | -           | 150t     | -            |                      |
| Firm C: | no prod.    | no prod. | 50t (1990)   | -                    |
| Firm D: | no prod.    | no prod. | 600t (1991)  | -                    |
| Firm E: | no prod.    | no prod. | 100t (1992)  | -                    |
| Firm F: | 600t (1987) | 1000t    | -            | -                    |
| Firm H: | 130t (1987) | 500t     | 750t (1989)  | 50%                  |
| Firm I: | -           | 800t     | 2000t (1990) | 150%                 |

Source: Survey data, July 1988 (no figs for Firm G)

In the case of several of the larger firms their ability to expand was limited by the capacity of their existing sites to accommodate further large scale expansion because of overcrowding and possible pollution problems caused by the build up of waste and feed spillage on the sea-bed beneath the cages. This can cause the emission of poisonous hydrogen sulphide and produce toxic algal blooms particularly in sheltered locations where the tidal action is less able to flush out the sea-bed (Coull, 1988). In the cases of the farms which had been established from the early 1980s and before, the development of new sites was a pre-requisite for further

expansion. The availability of new sites for the development of salmon farms in both Wester Ross and North West Sutherland appears to be highly limited (Interview with HIDB Fish Farm Officer).

The production levels and employment levels of the nine firms in the sample would appear to be representative of a variety of different scales of enterprise, ranging from the one man "crofter" type operation to large production units employing over 30 men. Three of the companies were established in the mid to late 1970s, two in the period 1980/81, two in the period 1984/5, and two in the period 1987/88, so that the firms were also established at different periods in the development of the industry.

### 3.4: Conclusion

This chapter has described the research programme. The methods used in the research have been discussed reflecting the use of mainly qualitative, rather than quantitative methods. The latter, however, have been used where appropriate to gain basic information about service use. The reasons for focusing on the specific sectors were also discussed, and finally a detailed overview of the sample used in the surveys of the demand for business



services was provided<sup>3</sup>. Table 3.11 details the employment picture for the whole sample. The following chapters provide the analysis of the surveys<sup>4</sup>.

Table 3.11: Summary of Employment in the sample firms

|               | 0-9 | 10-19 | 20-29 | 30-49 | 50-100 | 100+ | Total |
|---------------|-----|-------|-------|-------|--------|------|-------|
| Engineering   | 3   | 3     | 4     | 1     | 1      | 3    | 15    |
| High Tech     | -   | 4     | 2     | 1     | 2      | 1    | 10    |
| Food Process. | -   | -     | 2     | 1     | -      | -    | 3     |
| Plastics      | 1   | 2     | -     | -     | -      | -    | 3     |
| Glass & Cer.  | 1   | -     | 1     | -     | -      | 1    | 3     |
| Misc. Manuf.  | 3   | 2     | -     | 1     | -      | 2    | 8     |
| Fish Farms    | 3   | 1     | 2     | 2     | 1      | -    | 9     |
| TOTAL         | 11  | 12    | 11    | 6     | 4      | 7    | 51    |

Source: Survey data from 51 firms.

<sup>3</sup> Chapter 6 provides similar information on the accountancy firms.

<sup>4</sup> Appendix 3.4 gives the names of all of the firms which participated in the surveys.

CHAPTER FOUR: ESTABLISHING THE DEMAND FOR  
BUSINESS SERVICES IN THE HIGHLANDS.

This chapter presents some of the findings of the survey into the demand for business services, and the provision of advisory services to companies in the Highlands. The chapter consists of three main sections. Initially, the chapter investigates the use of private sector services, establishing which services firms use. The following section focuses on where the services are obtained. In the third section the use of services obtained from public sector agencies is presented. This includes the use made of services provided by the HIDB. The next chapter attempts to explain the variation in the pattern of demand using statistical analysis and more detailed qualitative information.

It is clear that different types of firms use varying degrees of business services. Whilst most firms use a minimum of services, the extent to which more specialist services such as management consultants are used is more limited. In addition, the types of services obtained from advisors such as accountants varied between the firms. This tends to confirm the findings of previous research in this field which has shown that the demands for services vary widely between different types of firms (Marshall 1982, Pedersen 1986, Savi 1988).

#### 4.1: Contrasting demands for external services.

The firms were asked about their use of thirty nine business services, in five main categories (See Appendix 4.1). The list of services was adapted from the one used by Bryden referred to in chapter one which had twenty main categories and ninety specific examples, but which was considered too detailed for this survey (Bryden 1983). The services were in the following categories:

1. **Section A: Financial services**, including accountancy, and banking services, as well as the financial services provided by the HIDB which although in the public sector could be seen as additional to or substituting for private capital provision.
2. **Section B: Legal and Specialist services**, including legal, insurance and computer services. Also rentals and leasing services, factoring, merchant banking and management consultancy.
3. **Section C: Technical and Training services**, including surveying and architectural services. Maintenance services, for both buildings and equipment, technical design, prototype development and testing. Also secretarial, book-keeping and VAT, translation and photocopying and printing services. Management and personnel training and personnel provision were the other services in this

category.

4. Section D: Promotion and Marketing, including advertising services, marketing advice, exhibitions and trades fairs, market research and export advice.

5. Section E: Transport and Communications, including postal services, road haulage, air, sea and rail transport. The use of telephone, telex and fax and computers was also assessed. The use of wholesalers was also included but as most of the firms had many suppliers this question was not very appropriate. The information was brought out in a further question which asked where the firms purchased their inputs.

It could be argued that this schema was more open ended than that used by Bryden. For example asking firms where they obtain computer services is less clear than the four categories of computer services which Bryden used. Since the interviews were face to face, rather than postal, it was possible to clarify any ambiguities. In the case of legal services for example, several firms used more than one legal firm for different services, which was clarified during the interview. By cutting down the number of services which the firms were asked about this enabled time for explanations of why the firms obtained the services where they did rather than a simple descriptive pattern.

The aim of this section of the questionnaire was to find out where the firms obtained these services and why, also the extent to which they used them and considerations of the quality of the services. In theory, firms are able to either provide services themselves, in house, or obtain them from outside service firms. Alternatively, in the case of branch or subsidiary operations they could obtain the service from their head office. The respondents were asked if they obtained the services from the following category of locations.

1. In house, on the site of the establishment.
2. From their head quarters.
3. Locally, defined as within the travel to work area (Refer back to Map 3.1 p 118 if required).
4. From Inverness.
5. From elsewhere in the Highlands.
6. From the rest of Scotland.
7. From the rest of the UK.

In several cases the number of locations where the service was obtained added up to more than the total number of firms in the sample. Categories 1, and 3 to 5, represented demand for services which was met within the Highlands, whereas categories 2, and 6 and 7 represented demand met outwith the Highlands. In the case of category 2, head offices, this was because all of the firms in the

sample obtaining services through their head offices were externally owned, non HIDB area registered companies.

The demand for different business services varied considerably. Table 4.1, below adopts the system used by Bryden to distinguish between the more and less widely used business services.

**Table 4.1: Summary Table - Service Classification**

| Category of service   | No. of Mentions | Of which locally Supplied * | %local |
|---|-----------------|-----------------------------|--------|
| 1. <i>Normal services</i><br>eg Banking, legal, accountancy, insurance, haulage.              | 249             | 146                         | 59%    |
| 2. <i>Common services</i><br>eg Computer, rentals, market research, export advice             | 173             | 83                          | 48%    |
| 3. <i>Unusual services</i><br>eg Consultancy, technical design, advertising agents, Training. | 156             | 49                          | 32%    |

Key: \* = supplied from centres within the HIDB area  
 "Normal" services = used by c100% of firms  
 "Common" services = used by >40% of firms  
 "Unusual" services = used by <40% of firms

Source: Survey data from 51 firms.

As the table shows, in general as fewer firms use the services the likelihood is that they will obtain them

outwith the Highlands. Thus the proportion of firms obtaining services "locally", declines from *normal* to *common* to *unusual* services.

There are a number of provisos, however, which must be made about the above table. Firstly, the financial services provided by HIDB have been excluded from the table because they are obviously all obtained from within the Highlands and therefore distort the pattern of demand for financial services. Secondly, the table excludes in house provision of services but includes services obtained from head offices because the table reflects whether firms obtain services from other establishments, regardless of their ownership. Thirdly, the table excludes *Transport and Communications*, with the exception of road haulage, because in general these do not readily fit the locational classification. Fourthly, where a firm obtains a service from more than one location each response is counted as either a half or a third, depending on the number of locations the firm obtains the service from. In this way, each firm's response counts for one value in the table for each service. This table therefore gives a picture of the number of firms obtaining external services rather than the number of suppliers used. This is an important distinction because the following sections of the chapter deal with the absolute numbers of locations where the services are obtained.

Table 4.2 over, provides a breakdown of the types of services classified as *Normal*, *Common*, and *Unusual* services, with the proportion of firms using local service firms also shown. In the case of *Normal* services it is clear that road haulage and banking account for the highest proportions of locally met demand (85% and 67% respectively). In comparison, 50% of the firms in the sample use local accountancy and legal services, whilst 45% use local insurance offices. Some of the factors which account for this pattern of demand were ownership of the establishments in the survey and also considerations of cost and quality of service. HADB services would have been classified as a *Normal* services because they were used to varying degrees (either property/financial/ or advisory) by 45 of the firms in the sample, or 88% of the firms.

The services classified as *Common* services were used by over 40% of the firms in the sample (more than 20 firms), whereas Bryden used 50% as the cut off point. The service used by the largest number of the firms in this category was rentals and leasing with 60% of the firms obtaining this service locally. Printing and maintenance services were the services which were most likely to be obtained locally with 87% and 91% respectively of the supply of these routine services met in the Highlands. Where firms tended to have to go outwith the local area was for marketing services.



**Table 4.2: Business Services Classification**

**based on the demand for External Services**

| Type of Service                            | Nos of Firms using it. | Nos. using local supply | %local supply |
|--|------------------------|-------------------------|---------------|
| <hr/>                                      |                        |                         |               |
| <b>Normal Services</b><br>(c100% of firms) |                        |                         |               |
| Banking                                    | 51                     | 34                      | 67%           |
| Insurance                                  | 51                     | 28                      | 45%           |
| Accountancy                                | 50                     | 25                      | 50%           |
| Legal                                      | 50                     | 26                      | 50%           |
| Road Hauliers                              | 47                     | 40                      | 85%           |
| <br>                                       |                        |                         |               |
| <b>Common Services</b><br>(>40% of firms)  |                        |                         |               |
| Rentals/Leasing                            | 30                     | 18                      | 60%           |
| Computer Services                          | 25                     | 10                      | 40%           |
| Export Advice                              | 25                     | 5                       | 20%           |
| Marketing Advice                           | 24                     | 4                       | 17%           |
| Photo/Printing                             | 24                     | 21                      | 87%           |
| Maintenance                                | 23                     | 21                      | 91%           |
| Market Research                            | 22                     | 4                       | 18%           |
| <br>                                       |                        |                         |               |
| <b>Unusual Services</b><br>(<40% of firms) |                        |                         |               |
| Advertising Agents                         | 18                     | 3                       | 17%           |
| Personnel Provision                        | 17                     | 13                      | 76%           |
| Personnel Training                         | 14                     | 11                      | 79%           |
| Management Training                        | 13                     | 5                       | 38%           |
| Management Consultancy                     | 12                     | 1                       | 8%            |
| Testing services                           | 12                     | -                       | -             |
| Prototype Development                      | 11                     | -                       | -             |
| Sec/book-keeping/VAT                       | 11                     | -                       | -             |
| Technical Design                           | 11                     | -                       | -             |
| Exhibs/Trades fairs                        | 9                      | 2                       | 22%           |
| Architecture                               | 8                      | 6                       | 75%           |
| Surveying                                  | 8                      | 5                       | 63%           |
| Merchant Banking                           | 6                      | -                       | -             |
| Translation                                | 5                      | 3                       | 60%           |
| Factoring                                  | 1                      | -                       | -             |

Key: Locally = obtained from centres in the HIDB area.

Source: Survey of 51 firms.

The banks and the public sector tended to play a major role in this field. The HIDB, SDA and British Overseas Trade Board were all used to provide these services. Where HIDB and banks were used this demand accounted for the fifth of companies obtaining marketing services in the Highlands.

The *Unusual* services were used by a minority of the firms in the survey, less than 40% or 20 firms. Advertising agents were the most frequently mentioned service providers in this category with only three firms using a local agency. The next highest categories of services used related to personnel provision and training with the majority of these services provided locally, 76% and 79% respectively. In contrast, only 38% of the 13 firms which stated that they used management training services external to their establishments obtained them locally. Management consultants had been used by 12 of the firms in the sample, whilst only one respondent stated that they had obtained this service locally. The next least used services related to product development, including testing, design and prototype development with none of the firms stating that they obtained advice on these aspects of production locally. This may not be a true picture of the provision of these services, however, because one firm used the services of Craftpoint and several others used HIDB for technical advice but they did not state that they "formally" provided them with the

services mentioned above. The picture which emerges therefore is that in the fields of product development firms receive very little external advice. This view is confirmed at a later stage in this chapter where it is apparent that the majority of the firms using outside technical assistance are branch operations obtaining these services through their head offices. The remainder of the services in this category were used by less than 10 of the firms in the survey. Architectural and surveying services were used directly by a limited number of firms in the sample because the vast majority of the firms were in premises rented from the public sector, either HADB or the regional or district councils.

Table 4.2 gives an idea of the services used by the firms but it does not detail the frequency of use. The use of services tended to vary both qualitatively and quantitatively. For example in the case of legal services the majority of the smaller firms had simply used lawyers to advise them on how to form their companies, whereas other firms used lawyers for international trade. This will be illustrated more clearly at a later stage where data on expenditure on business services is presented. The detailed use made of accountancy services is presented at a later stage but clearly it varied widely amongst the firms from those which used outside accountants to provide them with monthly management accounts to those which simply obtained an annual audit. The frequency of

use of services is important in another respect. Depending on the service, most firms had used them in the past year. In the case of more specialist services such as technical advice the firms had used these services over the past five years. Thus the services used by fewer firms also tended to be used less often by these firms than more "normal" services.

The use of consultants for example was relatively limited. The twelve firms which had used them had done so at some point over the past three years. In the majority of cases the consultants had been used in "one off" circumstances such as the introduction of quality control procedures or to improve productivity. In several cases, however, firms had become involved with consultants as part of efforts to get out of difficulties. HIDB played an important role in the use of consultants. In three of the twelve cases consultants had been brought in after an initial period of assistance from HIDB's management unit. HIDB then jointly funded the exercises which were undertaken.

The previous section has described the extent to which firms used external services. It is apparent that certain services are used by more firms than others and that their use tends to vary both qualitatively and quantitatively. The following section outlines the locational pattern of the demand for services,

illustrating the extent to which firms provide services in house as well as where they obtain external services based on the sixfold classification outlined earlier in the chapter.

#### 4.2: The Locational Demand for Services

Appendix 4.2, shows the spreadsheet of the results obtained for the full sample for all of the services apart from section E, Transport and Communication services (which did not readily fit the categorisation). Table 1 shows the actual responses, whereas table 2 illustrates the proportion of service demand accounted for by each of the categories. This is obtained by working out the percentage of total locations in each category. For banking services, for example the "local", travel to work area (TTWA) category, accounts for 39% of the 57 locations where banking services were obtained by the firms.

##### 4.2.1: Financial Services.

Table 4.3 below shows the pattern of demand for financial services. As the table shows, the 51 firms gave a total of 57 locations where they obtained banking services. The largest single category was the local, travel to work area, accounting for almost 40% of the locations mentioned. The second largest category was Inverness, with 15

firms banking there. In total two thirds of the banks used by the firms were located in the Highlands. The firms which did not use local banking services were branchplant operations and several of the larger fish farms which had their parent companies head offices outwith the Highlands

Table 4.3: Demand for Financial Services

|             | A | B   | C   | D   | E  | F   | G  | Total |
|-------------|---|-----|-----|-----|----|-----|----|-------|
| Banking     | - | 16% | 39% | 26% | -  | 11% | 9% | 57    |
| HIDB        | - | -   | 4%  | 96% | -  | -   | -  | 46    |
| Accountancy | - | 23% | 13% | 33% | 4% | 25% | 2% | 52    |

Key: A - In house  
 B - Head Office  
 C - Local (Travel to work Area)  
 D - Inverness  
 E - Rest of Highlands  
 F - " " Scotland  
 G - " " UK

Total = Total number of locations where the service is obtained.

In several cases firms used banks in Edinburgh and Aberdeen in addition to using their local branches. In most cases firms using smaller branches outwith Inverness, would have their applications for loans dealt with either through the Inverness branch, or indirectly with the Bank's head office. This is because of the lending hierarchy applying within the banks which tends to limit the lending capacity of local managers in smaller bran-

ches. It was argued that this could have a detrimental effect for local entrepreneurs. A number of the companies stated that whilst the local managers were often quite positive about plans that they had, this attitude was missing from higher up the bank's hierarchy. This may simply reflect more rigorous appraisal of plans but was apparently an important issue and will be returned to at a later stage.

Virtually all of the firms had had contact with HIDB at some stage, with 45 of them using their services to varying degrees. 39 of the firms had obtained grant and loan assistance from HIDB. Of the firms which had not obtained or applied for assistance there was only one fish farm, and the remainder were either too large to be eligible (the two platform yards), or were small independent firms. Three quarters of the firms had obtained HIDB financial assistance.

As table 4.3 shows, the largest single category for the use of accountancy services was Inverness, which accounted for 33% of the locations where they were obtained by the firms. The second biggest category was the "rest of Scotland" with 25% and the third biggest was the "headquarters" category, accounting for 23% of the locations. As table 4.2 showed about half of the firms in the sample obtained accountancy services outwith the region. Aberdeen and Glasgow were the two most important locations in

the rest of Scotland category.

Conclusion on the provision of financial services:

The demand for financial services shows that most firms will tend to use local services unless they feel there are quality or cost considerations which mean that they use services located in major centres. A common perception amongst firms was that local accountancy services were more expensive than elsewhere. All of these three services are classified as normal services, in that virtually all of the firms in the sample made use of them. There were clearly problems for some firms obtaining finance for expansion despite the availability of HIDB assistance. HIDB finance was often considered crucial to securing loans from the private sector. Several of the smaller firms stated that the security required on loans from the private sector was such that there was no risk involved for the banks.

The difference in attitude between local branches and head offices of banks was also a problem mentioned in several cases. The importance of a good "track record" with a bank was also mentioned as a problem for new firms. In general small firms in particular did not appear to be looking beyond the local area to raise finance.



#### 4.2.2: Legal and Specialist Services.

Table 4.4 below, shows the pattern of demand for these services. The 51 firms obtained legal services from 58 locations. As with accountancy services half of these locations were outwith the Highlands (columns B, F, and G).

Table 4.4: Legal and Specialist Services

|                      | A   | B      | C   | D   | E  | F   | G   | Total |
|----------------------|-----|--------|-----|-----|----|-----|-----|-------|
| Legal                | -   | 19%    | 14% | 33% | 2% | 25% | 7%  | 58    |
| Insurance            | -   | 21%    | 16% | 29% | -  | 21% | 12% | 56    |
| Computer Services    | 31% | 28%    | 11% | 17% | -  | 14% | -   | 36    |
| Rentals/Leasing      | -   | 12%    | 6%  | 53% | -  | 23% | 6%  | 34    |
| Factoring            | -   | 100.0% | -   | -   | -  | -   | -   | 1     |
| Merchant Banking     | -   | 33%    | -   | -   | -  | 33% | 33% | 6     |
| Management Consults. | -   | 15%    | 8%  | 8%  | -  | 54% | 15% | 13    |

Key: A - In house  
B - Head Office  
C - Local (Travel to work Area)  
D - Inverness  
E - Rest of Highlands  
F - " " Scotland  
G - " " UK

Total = Total number of locations where the service is obtained.

For legal and insurance services Inverness was the main centre used, accounting for about one third of the locations mentioned. Given that these are both classed as *Normal* services, which most firms used this is to be expected. In the case of legal services 11 of the firms obtained them through their head offices, whilst 4 firms dealt directly with London lawyers in addition to local firms. This was also the case with several of the firms having legal advisers in Edinburgh and Glasgow in addition to local firms.

Computer services were required by 35 of the firms. In this case, however, the largest category was in house, accounting for 30% of the responses, followed by the head office category, with 27% of the responses. It is probable that this response resulted from a degree of ambiguity in the question since it may not have been clear that this referred to the supply of equipment and back up services. What the in house category suggests is that firms tend to have very limited training and support in their use of computers. This was confirmed by several accountants in their survey who said that few of their clients took advice on their use of computers.

Rentals and leasing services were used by 30 firms who obtained them from 34 locations, with Inverness accounting for over 50% of the responses, and the remainder being predominantly outwith the Highlands. Only one firm

in the sample used factoring services. This was a capital intensive firm with a continuous production process which required heavy expenditure on materials and which obtained the service through its head office. Only six firms stated that they used Merchant Banks, two through their head offices, two in London, and one in Glasgow and Edinburgh.

Twelve of the firms stated that they had used the services of management consultants. There are no management consultancy firms based in the Highlands, which explains the pattern in the table. Several of the smaller firms however, used accountants offering similar advisory services and it is obviously unclear where the line between consultants and accountants offering similar advisory services is drawn. What can be said is that twelve firms stated that they had used the services of firms calling themselves management consultants.

Conclusion on the provision of legal and specialist services:

Given that the services in this category varied between the *normal* services used by most firms and *common*, and *unusual* services, the locational trends are not clear cut. Inverness emerges as the main centre for *normal* services, with the important proviso that firms also look beyond the Highlands for additional legal advice. The

services which were used by fewer of the firms tended to come from main centres outwith the Highlands. Within these types of services in house provision started to appear as a significant response. Although this could have been caused by a lack of clarity in the question it also points to the limited use of support services for new technology.

#### 4.2.3: Technical Services

Table 4.5, below shows the picture of the demand for those services classed as "Technical and Training". The majority of these services were provided in house (See column A).

As mentioned earlier, few of the firms used surveying or architectural services so they were classed as unusual services. In the case of maintenance services almost half of the firms which carried out maintenance did so inhouse. The larger employers, however, tended to subcontract maintenance work and in several cases small engineering companies in the sample had contracts with these firms. Maintenance services, such as electricians, painters and such like were mostly obtained locally, or in Inverness if not carried out in house.

The three services related to the development of new products were mainly carried out in house by the firms.

Table 4.5: Technical and Training Services.

|                     | A   | B   | C   | D   | E   | F   | G  | Total |
|---------------------|-----|-----|-----|-----|-----|-----|----|-------|
| Surveying           | 11% | -   | 11% | 33% | 11% | 33% | -  | 9     |
| Architec.           | 30% | -   | 7%  | 30% | 7%  | 15% | 7% | 13    |
| Mainten.            | 46% | -   | 26% | 23% | -   | 5%  | -  | 43    |
| Technical Design    | 79% | 15% | -   | -   | -   | 6%  | -  | 52    |
| Prototype Develop.  | 76% | 18% | -   | -   | -   | 2%  | 4% | 51    |
| Materials Testing   | 48% | 19% | 5%  | 9%  | 5%  | 5%  | 9% | 21    |
| Sec/Bk/VAT          | 79% | 21% | -   | -   | -   | -   | -  | 53    |
| Translation         | 29% | 29% | 43% | -   | -   | -   | -  | 7     |
| Photo/Print         | 55% | 2%  | 19% | 21% | -   | 2%  | 2% | 53    |
| Management Training | 60% | 6%  | 3%  | 11% | -   | 14% | 6% | 35    |
| Personnel Training  | 70% | -   | 2%  | 20% | -   | 3%  | 5% | 57    |
| Personnel Provision | 65% | -   | 17% | 9%  | -   | 7%  | 2% | 57    |

Key: A - In house  
 B - Head Office  
 C - Local (Travel to work Area)  
 D - Inverness  
 E - Rest of Highlands  
 F - " " Scotland  
 G - " " UK

Total = Total number of locations where the service is obtained.

Branch plant and subsidiary operations obtained product design and development assistance from their head offices

and parent companies. As the figures show firms generally received very little outside assistance with product development (columns A & B).

Secretarial, VAT, and book-keeping services were also mainly provided in house. In eleven cases these services were provided wholly, or in some measure through head offices. One notable trend was increasing use of computer accounts systems to carry out some of these functions. At the time of the survey three firms were changing from using local accountants, or their head offices to provide these services.

Only seven of the firms used any translation service, four firms relying on either in house or head office provision, and three firms using local teachers. This is despite the fact that thirty of the firms were exporting a proportion of their products. Photo-copying and printing services were mainly carried out in house or obtained locally. Two of the firms, however, had their packaging materials printed outwith the Highlands.

In the fields of training and personnel provision the majority of these activities were carried out in house. For management training, 60% of the responses indicated that this was carried out in house, usually by way of correspondence courses. Only two of the subsidiary operations obtained this service through their head office,

although this to some extent reflected the type of employment in the operations concerned. Management training services were also obtained at Inverness College in four cases, and from the rest of Scotland in five cases. Three firms stated that they had received training from the HIDB, and two through Highland Opportunities, the Enterprise Trust established by Highland Regional Council. It was clear that many firms neglected this aspect of their operations, often because of time or cost constraints. This is illustrated by the fact that only eleven of the firms obtained training services outwith their own or parent companies. Indeed twenty of the firms in the sample stated that they carried out no formal management training whatsoever.

Personnel training also showed a high proportion of in house activity, although colleges were also used particularly at Inverness, where all of the fish farms had sent employees on courses. Seven of the firms had obtained training grants from HIDB and a similar number from the Manpower Services Commission. As with management training, however, relatively few of the firms obtained any external training services. The quality and quantity of training obviously varied amongst the firms but the questionnaire can be criticised for failing to quantify these differences. In general the impression given tends to confirm the findings of more recent research into rural training needs in Scotland which found limited

availability and take up of training services (Arkleton Research 1988).

Personnel provision also tended to be carried out in house. The majority of the firms obtained personnel through existing contacts such as those already working for the firm. The oil-related firms kept their own registers of employees because of the cyclical nature of their contracts. Local job centres were used in only fifteen cases. In several cases firms mentioned that they had used job centres previously but had been unhappy with the quality of applicants, and had been "swamped" by the response. In five cases firms used specialist employment agencies outwith the Highlands to recruit specialist staff, particularly with computer and electronics skills.

#### Conclusion on the provision of Technical and Training Services:

This section covered something of a mixed bag of activities. By far the largest category for most of these services was in house provision. Therefore whilst the external demand for these services appeared to be low, such that with the exception of maintenance and printing services they were all classed as unusual services, these services are required by most firms. The internal provision of these important activities raises questions about the quality of provision which will be returned to



at a later stage.

4.2.4: Promotion and Marketing Services

This section of the survey aimed to assess the extent to which the firms used external marketing services. Table 4.6, below shows where the firms obtained these services.

Table 4.6: Promotion and Marketing Services

|                  | A   | B   | C   | D   | E  | F   | G  | Total |
|------------------|-----|-----|-----|-----|----|-----|----|-------|
| Adverts.         | 39% | 27% | 3%  | 9%  | -  | 12% | 9% | 33    |
| Marketing Advice | 44% | 32% | 2%  | 7%  | -  | 12% | 2% | 43    |
| Exhibits.        | 73% | 15% | -   | 3%  | 3% | 3%  | 3% | 33    |
| Market Research  | 41% | 27% | 3%  | 8%  | -  | 16% | 5% | 37    |
| Export Advice    | 7%  | 30% | 10% | 13% | -  | 37% | 3% | 30    |

Key: A - In house  
 B - Head Office  
 C - Local (Travel to work Area)  
 D - Inverness  
 E - Rest of Highlands  
 F - " " Scotland  
 G - " " UK

Total = Total number of locations where the service is obtained.

As table 4.6 shows a significant proportion of the demand for promotion and marketing services is met within each of the firms (Columns A and B). This suggests that

relatively little use is made of external advice in this area.

The use of advertising services such as advertising agencies, showed that this was an unusual service used by less than 40% of the firms. Twenty two of the firms carried out advertising in house or through their head offices. Of the nine firms directly using external advertising agents (rather than through their head offices), the majority went outwith the Highlands. Three firms used an Inverness marketing firm, two of them in conjunction with advertising agents in London. The firms using advertising services were all larger than the average for firms in the survey.

The pattern of demand for marketing advice was very similar, with the majority of firms relying on in house provision. More of the firms claimed that they obtained marketing advice than used advertising. Therefore this service was classed as a *common* service. Nineteen of the firms stated that they obtained their marketing advice in house, and fourteen through their head offices. Ten firms stated that they obtained external marketing advice. Three firms used an Inverness company, one obtained advice from a local bank and the remainder went outwith the Highlands, mainly to Aberdeen or Glasgow. In this field, however, it was apparent that firms used public sector advice to a certain extent for marketing

assistance. This was brought out in the section looking at the use of public sector services where both the HIDB, and the SDA were used for marketing advice to varying degrees.

Exhibitions and trades fairs also tended to be organised in house by the firms. Twenty nine firms in total stated that they attended trades fairs, with several of the larger companies using firms outwith the Highlands to help with their promotion. Six firms were also members of the umbrella "Cromarty Industries Group" of oil-related companies which attends trades fairs.

Fifteen firms stated that they carried out market research in house, with a further ten obtaining this from their head offices. Only eight firms stated that they obtained external assistance with market research. The fish farm operators acknowledged the role of the Scottish Salmon Growers Association in this field, whilst five companies in specialised manufacturing used the SDA. Four companies had obtained market research services in the Highlands, three through HIDB and one through its bank. In general, firms stated that they carried out very little, if any market research mainly because they were too involved in day to day production.

Export advice was mainly obtained from the rest of Scotland (Column F), with eleven firms using the British

Overseas Trade Board's Glasgow office. Nine of the firms obtained export advice through their head offices. In addition, several firms used their banks or accountants to provide this service.

Conclusion on the provision of Promotion and Marketing services:

In general, this section illustrated the low priority attached to marketing activities by many of the firms in the sample. These services were used by relatively few of the firms if the in house, and particularly the head office categories are ignored. A common response amongst the smaller firms was that it was very difficult to quantify the effect of advertising or attending trade fairs and many which had done so stated that they felt these activities were of limited benefit. In contrast, a number of companies obtained the bulk of their sales through orders obtained at trade fairs. In many cases the smaller companies had quite a direct relationship with their clients, relying on repeat orders so that external promotion was considered unnecessary. This was also the case with firms in the oil-related sector where there is a direct relationship between the major firms and the subcontractors which are dependent on them. In the fish farm sample, in four cases the farms had less than three customers who purchased their stock and this meant that there was little need for them to carry out any promotio-

nal activities. The use of external advisers in the public sector suggests that some firms were aware of the need for marketing assistance but were wary of, or reluctant to use private sector companies because of the problem of quantifying the value of such a service. The majority of the limited number of firms using any outside marketing assistance went outwith the Highlands. These were exclusively larger companies in the sample.

#### 4.2.5: Transport and Communication Services.

The main aim of this section was to find the ways in which the firms transported their products and to assess their use of communications technology. By far the most significant transport service was road haulage. The largest number of firms obtained this service locally or in Inverness (25 and 15 firms respectively). The firms either used small local hauliers, or branches of national companies such as Lynx, TNT, and Federal Express. Six firms used hauliers with no local depot, notably for refrigerated transport from Aberdeen. Sixteen firms used rail freight services with one company virtually wholly reliant on Red Star, and one fish farm making extensive use of the predominantly tourist dependent Kyle of Lochalsh line. Air services were the next most important type of transport, with fourteen firms using planes to transport their products, and many of the other companies stressing the importance of air travel for business

meetings. Three of the larger fish farms also used helicopters to ship fish between cage sites at different stages in their development. Helicopter services were obtained from Inverness.

Transport services were generally felt to be very competitive and most firms stated that transport costs were not a problem for them. In most cases transport costs did not amount to more than 5% of their total costs, and in the majority of cases less than 2%. In only one case were transport costs greater than 10% of the companies total costs. This reflects the nature of the products the firms were producing which tended to be high value and low volume but firms stressed the competitive rates provided by local hauliers and the improvements to the A9 trunk road as major factors in reducing transport costs. The main transport problem was the logistical problem of operating a business at some distance from customers and suppliers. Table 4.7 illustrates the scale of this problem for the 42 manufacturing firms in the sample, who were asked about the pattern of their component purchases.

As table 4.7 shows, three quarters of the firms obtained less than 5% of their inputs from the Highlands. In several cases these firms had all of their suppliers located in the central belt of Scotland and beyond, so that they obtained virtually none of their inputs

locally. In only five cases did firms obtain more than 75% of their inputs locally. As the table shows these firms were in the food processing sector, and the two others were involved in forest products.

Table 4.7: Percentage of Inputs by value  
obtained in the Highlands

| Sector        | 75%+ | 74-26% | 25-6% | <5% |
|---------------|------|--------|-------|-----|
| Engineering   | -    | -      | 3     | 7   |
| High Tech     | -    | -      | 1     | 8   |
| Food Process. | 3    | -      | -     | -   |
| Plastics      | -    | -      | 1     | 2   |
| Glass & Cer.  | -    | -      | -     | 3   |
| Misc Manuf.   | 2    | -      | -     | 6   |

Source: Survey data, November 1987 & March 1988.

NB. 86% coverage (No data for 6 firms).

The pattern of the firms' sales also shows the extent to which they are reliant on transport services (See Table 4.8).

The majority of the firms were serving markets outwith the Highlands and the North Sea "oil-related" sector. In addition there are ten firms which exported more than 50%

of their output. In total there were twenty three manufacturing firms in the sample which exported some of their production. Of these, twelve were independent companies and eleven were subsidiaries.

Table 4.8: Markets of the Manufacturing Firms

| Sector       | >50%<br>local | >50%<br>North<br>Sea | >50%<br>rest of<br>Scotland | >50%<br>England | >50%<br>Export | >50%<br>HQ |
|--------------|---------------|----------------------|-----------------------------|-----------------|----------------|------------|
| Engineering  | 6             | 4                    | -                           | 1               | 2              | 1          |
| High Tech    | -             | 1                    | -                           | 2               | 6              | 1          |
| Food Proces. | -             | -                    | 2                           | -               | 1              | -          |
| Plastics     | 1             | -                    | 1                           | 1               | -              | -          |
| Glass & Cer. | 1             | -                    | 1                           | 1               | -              | -          |
| Misc Manuf.  | 4             | -                    | -                           | 1               | 1              | -          |

Source: Survey data, November 1987 & March 1988.

(NB. Not 100% coverage as several firms had markets which were not more than 50% in any of the areas.)

Nine of the ten firms classified as High Technology were exporting, whereas only three of the fifteen classified as Engineering were doing so, reflecting their greater reliance on the local and North Sea markets.

Over two thirds of the companies in the sample used



computers. Twenty two firms had them whilst a further thirteen firms also had computers with modems to enable them to transmit data over the telephone lines. In the case of the latter, the majority of these companies were subsidiary or branch plant operations which were in contact with their head offices via their modems. One of the oil platform yards had recently transferred part of its administration function from London to its site near Inverness, creating about 100 jobs, and it was argued that one factor was the improvements in communications technology. Thirty five of the companies had fax, whilst twenty companies used telex. One high technology company noted that the lack of a digital communications network could slow down the development of the company's use of telecommunications but this did not appear to be a problem which most of the firms recognised.

The preceding section has concentrated on private sector services, but as several sections showed the public sector also plays an important role in business service provision. The following section, focuses on the firms' interactions with public sector bodies, such as the HIDB, Highland Regional Council, and the Manpower Services Commission (now the Training Agency).

#### 4.3: The Demand for Public Sector Services.

Firms were asked about their interaction with a variety

of public sector agencies and government offices to establish their awareness and usage of their services. Appendix 4.3 lists the agencies and departments.

Table 4.9 shows the degree of interaction of the firms with the public sector which varied considerably according to the firms and the agencies. The table illustrates some of the different factors which caused the firms to be involved with the agencies. The main focus of the section was on financial schemes and advisory services. The main focus of the questioning was on financial schemes therefore contact over matters such as planning applications have not been included in the table, although in some cases this was extensive.

As table 4.9 shows, the HIDB was by far the most important source of premises, financial assistance and advisory services for the firms. Of the forty two manufacturing firms in the sample, twenty of them were located in HIDB premises, whilst two more had purchased their premises from HIDB and of the other nine firms operating from their own premises one had obtained a grant for its expansion and another had an application pending. Only three of the firms were renting their premises in the private sector which reflects the limited availability of private premises in the area because of the high costs of construction and low rates of return on new premises and the lack of cheap older accommodation.

Table 4.9: Use of Public Sector Business Services

| Agency \ Service                   | premises | £ assistance only         |     | £ + advisory services |       |
|------------------------------------|----------|---------------------------|-----|-----------------------|-------|
| HIDB *                             | 20       | 22                        |     | 17                    |       |
| Regional/<br>District<br>Council * | 7        | -                         |     | 5                     |       |
|                                    |          | Advisory services         |     |                       |       |
| SDA                                | 1        | 9                         |     |                       |       |
|                                    |          | RDGs                      | RSA | enquiries             | other |
| IDS/DTI                            |          | 5                         | 2   | 4                     | 5     |
|                                    |          | Advisory services/schemes |     |                       |       |
| BOTB                               |          | 13                        |     |                       |       |
| ECGD                               |          | 6                         |     |                       |       |
|                                    |          | Training £                | YTS | Ent. Allow            |       |
| MSC *                              |          | 7                         | 17  | 1                     |       |

Key: X = No of Firms involved with the Agencies  
 \* = Includes the 9 Fish Farms

Source: Survey data, November 1987, March & July 1988

Twenty two of the firms had obtained financial assistance from the HIDB which can take the form of equity, grants,

loans, and interest relief grants. A further seventeen firms had obtained financial assistance and had made use of additional HADB advisory services. Although there is theoretically an advisory capacity built into HADB financial assistance, in practice this involves monitoring repayments of outstanding loans and checking financial returns. Most of the Board's financial staff are involved in investigations arising from applications for assistance, and consequently there is a limited degree of "after-care" provided. HADB, however, does provide a range of additional services such as assistance with marketing, training, and general business advice. The Board's Management Unit in particular, provides a consultancy service to businesses in the area and four of the firms in the sample were at that time using their advice. The use of HADB advisory services will be explored in greater detail in a subsequent chapter. Only three of the firms had made enquiries about obtaining assistance and not gone ahead with applications. There were, however, other firms in the sample which had not proceeded to this stage.

As Table 4.9 shows, seven of the firms rented their premises from Highland Regional Council or the respective District Councils. Generally, these were smaller units with the firms employing less than five people. In addition five of the firms had received financial and advisory assistance from Highland Opportunities Ltd, an

enterprise trust managed by the regional council's development department. Highland Opportunities provides business finance in the form of grants and low interest loans and includes a programme of advisory assistance in its packages. Of the five firms which had been assisted, three were new businesses and one had also obtained HIDB finance although the sums involved were relatively minor.

Nine firms made use of advisory services obtained through the SDA. One firm also rented SDA premises for part of its operation outwith the HIDB area. Involvement with the SDA was prevalent amongst the high technology firms in particular with six of the ten firms in this class having contact. Two of the firms used the SDA's Oil Team in Aberdeen to establish contacts and try to set up joint ventures. Another firm was involved with their Healthcare and Biotechnology division for market research and contacts. Two of the firms had taken part in SDA consultancy exercises on costing and quality control respectively which were both viewed as beneficial, and two more had been involved in SDA sector specific initiatives. There was one example of a firm where the SDA had an equity holding. It was apparent that most of the firms who had used the SDA, or been approached by them, were in specific and technologically advanced areas. Three firms had been advised to seek advice from the SDA by the HIDB. The firms generally recognised the SDA as a valuable source of specialist expertise, although as with HIDB a

minority of the firms were critical of the SDA.

Involvement with the Industry Department for Scotland, or the Department of Trade and Industry, was mainly in connection with applications for financial assistance. As the table shows, five of the firms had obtained regional development grants in the past, and two had obtained regional selective assistance. In the case of RDGs, changes in the regional aid map at various times had altered the ability of firms in different parts of the HIDB area to qualify for this form of assistance (The field work with the manufacturing firms was carried out prior to the abolition of RDGs in April 1988). Four firms had simply made enquiries about the availability of assistance. In the "other" category, three of the high technology firms had obtained assistance for product development through the "Support for Innovation" scheme, and one had obtained a loan from the European Investment Bank through the DTI. In general, therefore firms contact with IDS and DTI was more limited than with the HIDB. Those firms which made use of their services tended to be in more innovative sectors or larger companies with previous experience of regional development grants. In general, the smaller companies in the sample had no contact with these departments. This suggests that the local availability of HIDB grant assistance may have led the small firms in particular not to try for other sources of government assistance.

The use of services for exporters provided by the British Overseas Trade Board and Export Credits Guarantee Department was also limited to the larger firms and the high technology companies. For the majority of the firms using the ECGD, their services were obtained through their banks. The BOTB "export intelligence service" was highly regarded by those firms which had used it. Two of the firms had no direct contact with the BOTB but their services were obtained by their head offices.

Finally, involvement with the Manpower Services Commission, was mainly through the Youth Training Scheme, or the provision of training grants. Only one firm had been started up under the "Enterprise Allowance Scheme". In general, the firms which had used the YTS claimed that they had subsequently employed those concerned on a full time basis. Two of the "high technology" firms had also used the Inverness ITEC (Information Technology Centre), sponsored by Highland Regional Council and the MSC, for training in the use of new technology. The use of MSC schemes was much more widespread than with most other public sector services.

#### Conclusion on the use of public sector services:

The HIDB played a major role in the provision of property, financial and advisory services to the firms.

Without comparative data from another region it is difficult to judge whether the use of services provided by other bodies was less than could be expected. HADB, however, clearly played a role in encouraging some firms to make use of services provided by other agencies. This undoubtedly contributed to the use of services provided by the SDA and BOTB. In two cases, however, firms were critical of the role of IDS in overseeing the HADB. This related to controlling the levels of assistance which HADB could provide.

Highland Regional Council and the district councils also played a significant role in the provision of premises, particularly smaller units. Where firms wanted to expand, however, there were problems obtaining larger premises close to their existing units. Several firms in Easter Ross stated that it had been suggested that they move to the Alness and Invergordon Enterprise zones but were reluctant to do so. Property rental levels were generally viewed as reasonable particularly amongst firms which had moved to the area from elsewhere.

It would be incorrect to suggest, however, that firms were uncritical of the public sector. There were criticisms of delays with financial applications, planning permission and excess bureaucracy. The plethora of government schemes may have put off the smaller firms from applying for any assistance and amongst these firms



the use of external services was generally much lower. This appeared to be related to the characteristics and motivations of the owners of the companies.

The Better Business Services scheme which enables firms to obtain subsidised consultancy advice on a range of subjects had been used by seven firms of the fifty one in the sample, or 14% of the firms. Four of the firms were in the engineering sector, whilst three were high technology companies. The scheme which provides a grant of 55% to a maximum of £550, had been used by five of the firms to produce business plans for HIDB applications. Generally the scheme was well regarded by the firms because there was a fast response to applications, and because the grants were to an extent regarded as something of a windfall where they had been used for applications to the HIDB which would have been made in any case.

The field work was carried out mainly prior to the introduction of the DTI's "*Enterprise Initiative*" which expanded the provision of grants for consultancy services so that no judgement of its take up could be made. All of the seven firms which had used the Better Business Services scheme were independent, locally controlled firms but there were still a large number of firms in this category who did not seem to be aware of the scheme. Indeed accountants had played a role in suggesting that

two of the firms use it. The larger companies argued that the grants were too small to be worthwhile applying for, or that the eligible services were not considered necessary by them.

#### 4.4: Conclusion.

This chapter has examined the demand for business services generated by the firms in the sample. The chapter has shown that whilst some services are used by most firms there are a number of business services which are used by relatively few firms. The threefold division of services into *normal*, *common*, and, *unusual* services illustrate this trend. As the demand for services decreases the likelihood is that they will not be available locally and that firms will have to go further afield for them. Thus for *normal* services 59% of the firms obtained them locally, whilst for *common* services the figure was 48%, and for *unusual* services the figure was only 32%. The limited use of certain services must of course be seen in the context of limited or non existent local supply.

The locational trends in the data showed that many services are imported into the area from main urban centres, which is to be expected from an open regional economy with a relatively limited business service sector. The use of services obtained through head offices by branch plant operations was shown to be a significant

factor in explaining this pattern. In the subsequent chapter further analysis shows that ownership characteristics are an important factor influencing the demand for locally provided business services.

This chapter has also shown the important role played by the public sector, and particularly the HIDB, in service provision in the Highlands. The figures suggest that where firms use grant and loan facilities they can also be attracted to using additional advisory services provided by the HIDB or other bodies. It is unfortunate therefore that there were several smaller firms which had been put off applying for grant and loan assistance and made no use of other HIDB services. The subsequent chapter develops the analysis in a more qualitative way.

CHAPTER FIVE: EXPLAINING THE DEMAND FOR BUSINESS  
SERVICES AND THEIR ROLE IN COMPANY PERFORMANCE.

The previous chapter provided an introductory picture of the demand for business services generated by the companies in the sample. This chapter follows the overview with analysis which helps to explain the patterns. In the first section the differences between types of firms is explored using statistical analysis. Subsequently, the use firms make of their financial advisers is explored. This includes information on who provides the firms with start up advice and the role of the HIDB in the provision of finance for the companies. Subsequently the chapter provides some information on the expenditure of the companies on various services. In conclusion it is argued that various types of firms will tend to generate differing demands for services and this argument is illustrated with qualitative material.

5.1: Factors lying behind the demand for services.

As Chapter Four showed, a significant proportion of the demand for professional services is met outwith the HIDB area. In order to determine some of the factors which might lie behind the observed pattern the firms were subdivided into various categories and several hypotheses explored. The four main hypotheses are outlined below.

1. Locally owned and controlled firms are more likely to use local services compared to externally owned and controlled firms or plants.
2. Small firms are more likely to use local services than large firms.
3. New firms are more likely to use local services than longer established firms which may have outgrown the provision of the local business services sector.
4. Firms which are reliant on local markets will tend to use local services whilst those which sell predominantly outwith their local areas will tend to also use external services.

Since all of the firms in the sample used accountants, lawyers and banks these three *common* business services were used to test the hypotheses.

#### 5.1.1: Locally owned firms compared to Externally owned firms.

Previous research has suggested that the operation of branch plants and subsidiary operations means that they tend to be poorly integrated into local economies and particularly the professional services sector. As outlined previously, in a study of the demand for business services in three English metropolitan regions, it was

found that there were significant differences between the needs of locally owned plants and branch or subsidiary operations (Marshall 1982). In a Danish study it was also found that locally controlled firms were more dependant on local service provision than externally controlled firms (Pedersen 1986).

Table 5.1 below, outlines the demand for accountancy, legal and banking services generated by the 28 firms classed as locally owned and controlled, and the 23 classed as subsidiary or branch plant operations. The figures in the table reflect the locations where the services were obtained, either inside, or outwith the HIDB area (In HIDB or Ex HIDB). It is of course possible for a firm to use more than one bank, or legal or accountancy firm. Therefore in most cases the totals for the locations where the services were obtained add up to more than the total number of firms in the sample.

The Chi square test shows significant differences for all three services at the 0.001 level. This suggests that there are differences between locally owned and controlled companies compared to subsidiary or branch operations. The table shows that the former were more likely to use local services in the HIDB area whilst the latter were more likely to go outwith the local area to meet their service needs.

Table 5.1: Locally owned independent firms v  
Branch/subsidiary operations.

| SERVICE                           | ACCOUNTANCY |         |
|-----------------------------------|-------------|---------|
|                                   | In HIDB     | Ex HIDB |
| <i>Locally owned independents</i> | 20          | 7       |
| <i>Branch or Subsidiaries</i>     | 5           | 19      |
| SERVICE                           | LEGAL       |         |
| <i>Locally owned independents</i> | 20          | 8       |
| <i>Branch or Subsidiaries</i>     | 8           | 20      |
| SERVICE                           | BANKING     |         |
| <i>Locally owned independents</i> | 26          | 5       |
| <i>Branch or Subsidiaries</i>     | 11          | 18      |

Source: Survey data.

This is particularly the case with branch plant operations in the manufacturing sector, or basic production units in the fish farming sector, which tended to obtain such services through their head offices. Of the firms classed as subsidiaries, only four were subsidiaries of companies based in the HIDB area, so the survey tended to confirm the view that externally controlled firms are poorly integrated into the local service economy. In the case of subsidiary operations, however, where local management had a certain degree of autonomy or where the

controlling company was based in the Highlands there was also a tendency to use local services. Thus five of the subsidiary operations used local accountants, eight used local legal services, and eleven used local banks. In the case of legal services, five of the subsidiary firms used legal advisors outwith the HIDB area in addition to local lawyers. Nine firms also used banks outwith the Highlands in addition to local banks, with six of them being branch or subsidiary operations which used local banks for routine payments, rather than raising finance. Overall, therefore the analysis suggests that ownership and control is an important factor in influencing firms' use of services with locally owned firms tending to use local services to a greater extent than externally owned operations.

#### 5.1.2. Small Firms compared to Large Firms

Another factor which may have an influence on the demand for services is the size of a company whether this is gauged in terms of employment or turnover. Previous research on the demand for accountancy services for example has suggested that as firms tend to grow they will change accountants, moving to larger firms (Ferguson, Watt and Lemboye 1988). In the case of the Highlands this may mean that firms change accountants from local firms to larger Aberdeen or Glasgow accountancy firms. In addition, larger firms may prefer to deal



with the main offices of banks rather than local branches and may also prefer to use larger legal firms with a range of specialists rather than local firms of lawyers. Table 5.2 describes the pattern.

Table 5.2: Small firms v Others

| SERVICE             | ACCOUNTANCY |         |
|---------------------|-------------|---------|
|                     | In HIDB     | Ex HIDB |
| <i>Small firms</i>  | 15          | 7       |
| <i>Larger firms</i> | 10          | 19      |
| SERVICE             | LEGAL       |         |
| <i>Small firms</i>  | 16          | 8       |
| <i>Larger firms</i> | 11          | 23      |
| SERVICE             | BANKING     |         |
| <i>Small firms</i>  | 19          | 5       |
| <i>Larger firms</i> | 19          | 18      |

Source: As per table 5.1

KEY: Small firms defined as those with < 25 employees and turnover of < £500k pa.

On this basis there were twenty three smaller firms in the sample compared to the twenty eight larger firms. As the table shows, there are differences between the

demand for these services generated by the small firms and the other firms in the survey.

The Chi-square test shows significant differences between the small firms and the others at the 0.05% level for accountancy and banking services, and at the 0.01% level for legal services. This suggests that the small firms in the sample are more likely to use local services.

The analysis suggests that it is small companies which are most reliant upon the local provision of high order business services. The small firm sample, however, conforms closely with the locally owned and controlled company sample. Of the twenty three firms classed as small firms, eighteen are also locally controlled independent companies. Four of the remaining small firms were classed as externally owned. In comparison, only eight of the larger companies were independent local companies.

To a certain extent therefore the emergence of company size, measured by employment and turnover, as an explanatory factor is linked with the pattern of ownership.

#### 5.1.3. New Firms compared to established firms

Another factor which may help to explain the demand for services is the age of a company. It could be argued that new firms are most likely to be dependent on the local

provision of services whilst longer established firms may have outgrown local service providers in a similar process to that outlined above whereby larger firms tended to go outwith the local area for their service needs. Such firms may also have internalised their service needs to a greater extent than new firms or require more specialised services than can be obtained locally.

Table 5.3 below, shows the pattern of service demand comparing firms which were established in or before financial year 1981/1982 (twenty nine firms) and after this point (twenty two firms). This was approximately six years prior to the survey period.

The Chi square test, shows that for accountancy and banking there are no significant differences between the firms established prior to financial year 1981/82 and the more recent firms.

For legal services, however, there is a tendency for the older firms to go outwith the HIDB area to a greater extent than the newer firms (significant difference at the 0.05% level). To a certain extent the difference is explained by the fact that five of the longer established firms used legal services outwith the Highlands in addition to local firms.

Table 5.3: New firms v Established firms.

| SERVICE                 | ACCOUNTANCY |         |
|-------------------------|-------------|---------|
|                         | In HIDB     | Ex HIDB |
| <i>Pre £1982 firms</i>  | 14          | 15      |
| <i>Post £1982 firms</i> | 10          | 12      |
| SERVICE                 | LEGAL       |         |
|                         | In HIDB     | Ex HIDB |
| <i>Pre £1982 firms</i>  | 13          | 21      |
| <i>Post £1982 firms</i> | 15          | 7       |
| SERVICE                 | BANKING     |         |
|                         | In HIDB     | Ex HIDB |
| <i>Pre £1982 firms</i>  | 20          | 14      |
| <i>Post £1982 firms</i> | 18          | 8       |

Source: As per table 5.1

The newer firms also tended to be small, locally owned companies, fifteen out of twenty two of them being classed as independent companies, and fourteen classed as small firms. But the inclusion of seven firms classed as branch plants or subsidiaries accounts for the lack of a clearcut pattern with the exception of legal services. Of the fifteen independent locally owned companies established since 1982, nine used local accountants, twelve local legal services, and fifteen local banks. Twelve of them were small firms and two of the larger firms used

accountants outwith the local area. This suggests that small independent new firms are dependent on local business service provision. In general, however, it does not appear that the age of a firm on its own is a very powerful explanatory factor.

#### 5.1.4: Firms dependent on local markets compared to export oriented firms.

A fourth explanatory factor could be a firms' market orientation. Firms which look to local markets might also tend to use local services, whilst those more oriented towards more distant markets may also look outwith the local area for their services (Pedersen 1986). Table 5.4 compares these two types of firms.

Table 5.4 uses the simple distinction of comparing firms which are reliant on markets within the Highlands for more than 50% of their sales by value with those who made more than 50% of their sales outwith the Highlands. Of the fifty firms, twenty four were in the former category, and twenty seven in the latter.

The Chi square test shows no significant differences between the two types of firms in the demand for accountancy and banking services. In the case of legal services, however, there was a significant difference with the more export oriented firms using lawyers outwith

the HIDB area to a greater extent than those firms which were reliant on local markets (significant difference at the 0.005% level). This suggests that firms dealing with sales outside the local area rely on company lawyers located in major service centres such as Edinburgh and Glasgow.

Table 5.4: Firms reliant on local markets v non local markets

| SERVICE            | ACCOUNTANCY |         |
|--------------------|-------------|---------|
|                    | In HIDB     | Ex HIDB |
| local market firms | 13          | 10      |
| export firms       | 12          | 16      |
| SERVICE            | LEGAL       |         |
| local market firms | 18          | 7       |
| export firms       | 10          | 21      |
| SERVICE            | BANKING     |         |
| local market firms | 20          | 7       |
| export firms       | 18          | 15      |

Source: As per table 5.1

KEY: Local market firms make > 50% of sales in HIDB area.

The analysis outlined above has illustrated the influence of ownership characteristics, and to a lesser extent the influence of company size in effecting where firms obtain professional services. This does not illustrate the qualitative and quantitative differences in the use of services. The following section, however, starts to expose these differences by focusing on the use firms make of their financial advisers.

### 5.2: The use made of business advisers.

The following section of the chapter details the use made by the firms of external advisers for various aspects of their operations. The section has four subsections. Initially the focus is on the start up phase of company operations. Secondly the focus switches to look at aspects of day to day production, market and sales information, and product development. Thereafter the use firms made of their accountants is discussed, and finally their use of HADB services. At the conclusion of this section therefore the reader will have an appreciation of the way in which the firms operate and the use they make of advisory services.

#### 5.2.1: The provision of start up advice.

Respondents for companies in the sample which were established in the 1980s or had changed ownership in the

same period were asked to specify who had provided them with advice over their start up phase and to say of those people mentioned who had been the most useful. For example a respondent could specify that his or her accountant, banker and an HIDB officer had provided the advice and that the latter had been most useful. Only the thirty one firms in the sample which had started up or changed ownership in the 1980s were asked about their start up conditions. Table 5.5 shows the responses of the twenty eight respondents who were aware of the situation.

Table 5.5: Sources of Start Up advice

| <i>Source</i>         | <i>Number of Firms</i> | <i>% of Firms</i> |
|-----------------------|------------------------|-------------------|
| <i>Accountants *</i>  | 10 (1)                 | 36%               |
| <i>Banks *</i>        | 6 (2)                  | 21%               |
| <i>HIDB</i>           | 11                     | 39%               |
| <i>In house</i>       | 14                     | 50%               |
| <i>Parent Company</i> | 8                      | 29%               |
| <i>Other</i>          | 6                      | 21%               |

Source: as above. NB. \* (Outwith the HIDB area)

The table shows that for the largest number of firms the response was in house, with 50% of the firms stating



that they had relied on their own expertise in the start up period. In the cases of five small independent firms the respondents stated that they had had previous experience of running businesses and knew how to set up a new firm so that they did not obtain external start up advice. Two of these companies were registered as sole traders, whilst another was a partnership and these three firms were amongst the smallest in the sample. One of these respondents, however, stated that he had been unsure where to get advice when he had started his business in Alness in 1983. He stated that there was a lack of advisory help at that time but the situation had subsequently improved. In addition this respondent stated that his first accountant had been incompetent and he had changed accountants in his first year of operation. Amongst the other four firms, however, none of the respondents felt that they needed start up advice.

The HIDB was the next most important source of start up advice with eleven of the firms using their services. In all of the cases this was because HIDB had been involved in financing the start up or providing premises. HIDB assistance was mentioned as an important factor in start ups by the high technology companies, particularly because of its ability to provide a "one door" approach. The fragile nature of the manufacturing sector is reflected in the fact that about one fifth of these "new" firms, were takeovers of existing companies. With the

exception of one of these firms HADB had been involved in financing or providing premises for these new firms.

As the table shows the third most important providers of start up advice were accountants, with the emphasis on local accountants, as only one firm stated that they had used accountants outside the area. All of these firms were independent locally owned and controlled companies with the exception of one subsidiary of a North American electronics company. The latter, however, could be described as an autonomous subsidiary. It was established after the American company restarted a previous operation and the previous company's Inverness based accountants were retained. One firm used accountants based in Aberdeen to provide start up advice as this was where its bankers were based. Four locally controlled fish farms had used Inverness based accountants to provide business plans. Of the remaining four firms two were established as "sole traders", one was a small engineering service firm and the other was a small electronics company formed by managers from a larger company. It is apparent therefore that local accountants were used by locally controlled companies to provide start up advice, rather than inward investing companies, or subsidiaries. Two of these companies stated that after an initial period they had changed accountants as they had been unhappy with the quality of service obtained. Both of these companies had gone to accountants outside the Highlands, in Aberdeen

and Edinburgh respectively.

As the table shows about one third of the firms relied on their head offices for advice during their start up phase. Four of these companies were involved in takeovers of existing businesses, three of them in the engineering sector. Two of the companies were subsidiaries of locally based firms. The remainder were new operations which had moved into the area because of HIDB assistance. Two of the firms were located on the Invergordon Enterprise Zone in units provided by HIDB. In the case of subsidiaries of non locally controlled companies the only local external advisers used were HIDB officials. This confirms the view that from an early stage incoming firms tend to have limited contact with local professional service providers.

The banks were the next most important providers of advice for new start companies with six companies stating that their banks had been important in this capacity. Two of these companies were small "sole trader" operations, one of which started under the Enterprise Allowance scheme. Two of the other companies were in the high technology sector, one being locally controlled and the other the autonomous subsidiary mentioned above. One of the fish farmers had used his local bank for advice during the start up phase. However, this respondent stated that whilst the local bank had been supportive,

the bank's head office was very negative about his proposal. He felt that this reflected an unwillingness on the part of the bank to invest in fish farming, particularly the smaller scale of operation. The respondent stated that the level of security which had to be provided meant that the bank was incurring no risk whatsoever. The other company which used its bank for start up advice was a major inward investor in the wood processing sector.

In the other category one of the main sources of start up advice mentioned was existing firms. This was particularly the case for the fish farming sector where four of the five locally owned companies stated that local farms had been important sources of advice. The respondents stated that there was close cooperation between the farms, regardless of ownership. Partly this is a reflection of necessity because of the need to maximise information about disease problems. One sole trader had been given start up advice by his former employer who, by chance, was also interviewed. Only one of the firms had been given advice by a small business counsellor. This was a small family firm producing creels for the west coast and island markets. This firm had been advised by an HIDB counsellor, and stated that this had been beneficial. The firm had secured grant and loan from HIDB to supplement the Enterprise Allowance scheme. In its second year of operation the firm also secured backing

from Highland Opportunities. The owner manager also made more use of his accountant and bank than most of the other small new starts. In the firm's third year its bank provided the firm with export advice to help develop the Scandinavian market. This suggests that targetted assistance on new starts can be beneficial in helping the firm to make use of sources of finance and advice which the remainder of the new small local firms did not use. The availability of a network of advice from other local businesses and support from public sector counsellors was effective in helping this firm to grow relatively rapidly to the extent that after three years it was employing ten people. Undoubtedly, however, the motivations and characteristics of the owner manager are important in influencing the use firms make of advisory services.

#### Conclusion on the provision of start up advice.

In general, this section has tended to confirm the view that the firms make limited use of external advice even during the start up phase. This is significant because it is during this phase that firms need to prepare presentations to banks to secure financial backing. Of the twenty eight firms which provided answers, nine of the firms stated that they had no start up advice outwith their own company. These answers, however, may not be strictly accurate because they involved having to recall historical events. Three of these companies were sole traders or

partnerships and were amongst the smallest firms in the sample confirming the view that the smaller locally controlled companies were often those using the minimum of external advice, undoubtedly partly because they lack the ability to pay for the advice. Amongst these firms the reasons for starting up in business were related to redundancy particularly because of the downturn in activity in the oil sector. Thus two of the engineering firms had been started by foremen who had been laid off from Cromarty Firth Engineering and Highlands Fabricators. The circumstances of firms starting varies widely and this tends to influence the qualitative and quantitative nature of the advisory support which they require. From the survey it can be concluded that the provision of start up advice in the area has improved since the early 1980s. It would have been useful, however, to identify potential entrepreneurs in the area who were presently establishing firms.

#### 5.2.2: The provision of general business advice.

The following section provides details of the use made by the firms in the sample of advice on three aspects of their operations. Firstly, advice on the "day to day" running of a business such as financial, legal, and employee related aspects of their operations. Secondly, advice and information on sales and market trends in the firms product areas. Finally, advice and information on

technical and production related aspects of the firms operations.

#### The "Day to Day" running of a business.

Not surprisingly this section can be dealt with very briefly by stating that the firms dealt with day to day aspects of their operations entirely in house. In a minority of cases the firms were in close contact with their head quarters in these aspects of their operations. Generally as would be expected firms only made use of outside expertise when problems arose. Clearly this places an extra burden on firms run entirely by one key man or woman, whereas the larger firms were able to draw on a range of directors with their own skills.

#### Market and Sales Information.

The firms were asked about the sources of information they used about market and sales trends for their products. As table 5.6 below shows the firms were most reliant on their customers for information on trends in their product markets. Only 42 firms provided answers to this question which could be used, and of these about 40% stated that the latter were a source of market information. The firms were also quite reliant on their own market research, with one third stating that this was a source of market information.

Table 5.6: Sources of Market Information

| <i>Source</i>                 | <i>Number of Firms</i> | <i>% of Firms</i> |
|-------------------------------|------------------------|-------------------|
| <i>Customers</i>              | 16                     | 38%               |
| <i>Distributors</i>           | 8                      | 19%               |
| <i>In House</i>               | 13                     | 31%               |
| <i>Parent Companies</i>       | 10                     | 24%               |
| <i>Trades Fairs</i>           | 2                      | 5%                |
| <i>Trades Journals</i>        | 4                      | 10%               |
| <i>Industry Organisations</i> | 8                      | 19%               |
| <i>Joint Ventures</i>         | 1                      | 2%                |

Source: Survey data

Ten companies relied on their parent companies for market information and these were branch plant operations where all sales were dealt with through their head offices. The other sources of market information tended to be used by fewer of the firms. The industry organisation referred to relates to the Scottish Salmon Growers Association which eight of the fish farms belonged to and which provides information on salmon prices.

This section showed the degree to which the firms were



reliant on their customers and distributors for market information with relatively few of them using other sources. Indeed for about one fifth of the firms the lack of market information emerged as a problem because of the remoteness of the area from the main markets. The oil related engineering sectors and the fish farming sectors were the exceptions because the close contact between the firms in these sectors, it was argued, meant that there was less of an information problem for them. Those firms served by specialist journals also argued that their geographic location was irrelevant as far as access to information was concerned. The problem of information about competitor products was also brought out in the following section which asked about the provision of information about technical and production related issues.

#### Product development and Technical advice.

The firms were asked who or what were the main sources of information and advice that they used in dealing with technical and production related issues. Table 5.7 below provides a picture of the responses.

As the previous chapter showed by far the largest category for the provision of technical advice was in house, followed by advice from head offices. Customers were the next most important source of technical advice.

This could illustrate a degree of dependency on behalf of the firms on their clients, or the fact that only about one fifth of the firms were in this category could suggest that the firms did not pay close attention to their customers requirements.

Table 5.7: Sources of Technical Advice.

| <i>Source</i>           | <i>Number of Firms</i> | <i>% of Firms</i> |
|-------------------------|------------------------|-------------------|
| <i>In House</i>         | 33                     | 65%               |
| <i>Parent Companies</i> | 13                     | 24%               |
| <i>Customers</i>        | 9                      | 18%               |
| <i>HIDB</i>             | 3                      | 6%                |
| <i>Other Firms</i>      | 6                      | 12%               |
| <i>Others</i>           | 7                      | 14%               |

Source: Survey data

Two of the firms stated that the main problem with being located in the Highlands was keeping up with developments in their competitors products and that they were reliant on customers for most of this information. Other firms also recognised this as a problem. This was most prevalent amongst locally controlled firms in specialist markets although most of these firms felt it was a pay

off they were prepared to make because of amenity considerations. Other firms were also an important source of external technical advice for six firms. One of these was a small specialist high technology company, whilst the other five were all locally controlled fish farms. These farms were all located in relatively close proximity and appeared to cooperate on many aspects of production. They had all been assisted with technical advice from the large externally owned fish farms particularly in disease diagnosis which is in the larger operators own interests. Undoubtedly the remote rural locations of these farms helped to foster a degree of cooperation between them. As the table shows three of the firms acknowledged technical assistance from the HIDB.

The "Other" category included firms which had used trades publications for technical assistance and firms which used external testing laboratories, and one firm which had used Craftpoint. The relatively limited use made of external advice on production and technical aspects confirms the findings made by O'Farrell and Hitchens (1988). After undertaking studies of the performance of small manufacturing firms in regions of the UK they conclude that small firms need to obtain much more technical assistance if they are to be competitive. Thus development agencies should concentrate greater efforts on product development rather than simply on marketing poorly designed and made products (O'Farrell and Hitchens

1988).

Conclusion on the provision of general business advice.

This section has illustrated some of the problems for firms located in the Highlands because of its remoteness from main markets. Firms are very reliant upon their customers and distributors for market information about their competitors' products. This suggests that customer loyalty is very important to Highlands based firms. The firms tended to be very reliant on inhouse expertise for market information and for product development. In general it was the larger companies and those in the high technology sectors which made the most use of external sources of expertise in these fields. Partly this was because these firms were most aware of the need for information to remain competitive because they also tended to be the firms exporting most of their products from the region. Firms which were dependant on local markets tended to do little or no marketing of their products. In most cases respondents stated that most of their work came to them and if they had a slack period they would phone around previous customers. The role of the Scottish Salmon Growers Association in providing market information for the fish farmers contrasted with the lack of similar information for most of the manufacturing firms. In general, firms in the most competitive markets were the ones which made the most use of advice

in these fields, whilst those serving "soft" local markets did not do so. This is to a certain extent a logical response to the market situation but it may also explain why 20% of the firms in the sample were takeovers of companies which had been in poor trading positions. Compared with the start up position, HADB was much less significant as a source of advice in these fields. HADB had however funded three external technical consultancy exercises and a number of market research reports. To a certain extent the more limited use of HADB finance for these aspects of firms' operations is inevitable because the funding tends to be reactive and dependant on firms coming forward for the assistance. This section has illustrated the extent to which the important aspects of market research and technical issues are neglected by some Highlands based firms which tended to be somewhat introvert in these aspects of their operations.

### 5.2.3: The use of Accountancy Services

The firms were also asked about the use they made of their accountants and the reasons for choosing them. They were asked which services their accountants provided for them and if they used different accountancy firms for different purposes, or if they carried out certain services inhouse. Table 5.8 below outlines the pattern of use.

Table 5.8: Use of Accountancy Firms

| <i>Service</i>                                    | <i>No of Firms<br/>using it</i> | <i>% of all<br/>firms</i> | <i>% local<br/>supply</i> |
|---|---------------------------------|---------------------------|---------------------------|
| 1. <i>Audit (ltd comps)</i>                       | 45                              | 88%                       | 42%                       |
| 2. <i>Tax Returns<br/>(sole traders etc)</i>      | 6                               | 12%                       | 100%                      |
| 3. <i>Business plans</i>                          | 9                               | 18%                       | 100%                      |
| 4. <i>Monthly accounts</i>                        | 2                               | 4%                        | 100%                      |
| 5. <i>Computer advice</i>                         | 3                               | 6%                        | 100%                      |
| 6. <i>Additional Advisor<br/>(private sector)</i> | 2                               | 4%                        | 100%                      |

Source: Survey data

As the table clearly shows outwith the provision of audit and taxation services the firms make limited use of formal services provided by accountancy firms. It is the provision of audit services where the leakage of demand for accountancy services tends to occur. But this does not fully illustrate the picture because the firms which obtained audits from outwith the Highlands, as shown previously, tended to be branch operations which obtained such services through their head offices and were to a certain extent unaware of the full use their head offices

made of external accountancy firms. In addition in the case of the majority of firms with their own in house accountancy department they tended to provide services such as the provision of business plans. One firm which obtained an audit from Edinburgh used a local accountancy firm to install a computerised accounts system. It would appear therefore that local accountancy firms could benefit from branch plant operations by providing specialist services which are more expensive to obtain remotely.

As the table shows, where firms require specialist accountancy services such as business plans they tend to obtain them locally, given the proviso about the extent of use of external accountants by branch operations. The business plans were mainly provided to obtain financial backing from the HIDB and banks, rather than to help the businesses plan their operations. In most cases where respondents were prepared to discuss the use they made of these plans it was stated that they painted a picture designed to enable the firm to maximise the assistance rather than a realistic picture of the firms activities. The respondents stated that external factors such as changes in interest rates often rendered the plans relatively useless. It would appear therefore that the business plans were not themselves of particular use to the firms apart from obtaining assistance.

The other services which were obtained by the firms were monthly accounts, where the ready availability of computerised accounts packages had encouraged a number of firms to bring this activity in house, and the provision of computer services related to this. In addition two locally controlled firms used additional local accountants in a consultancy capacity to provide them with financial advice. One firm was an engineering company on the Cromarty Firth which had been severely hit by the downturn in oil related activity in 1986/87 such that its workforce had fallen from a peak of 120 to 25. This firm was obtaining advice on how to restructure its activities and move into new markets. The Managing Director had already changed accountants because of the poor quality of service he had obtained locally and now used an Inverness firm. He described the situation for firms requiring specialist advice locally until recently as "woefully inadequate". The previous response to the firms difficulties had been to obtain "fire brigade" consultancy exercises, partly financed by HIDB which were viewed as simply pointing out the firm's problems rather than addressing them with the sort of longer term assistance which was now being obtained from the firm's additional advisor. He stated that a major constraint on his firm's capacity to restructure was the short term time horizons of the banks which was limiting their ability to develop new products.



The other firm using an additional financial advisor was a small family firm whose owners ran three companies from their factory supplying a range of goods and services throughout the north of Scotland and islands. The company was established in 1984 and by April 1988 employed five people and two additional subcontractors. The firm was looking to continue its expansion, including the acquisition of other businesses. The respondent stated that their auditors, based in Inverness, were too expensive to use for advisory services and so they used a self employed accountant providing a consultancy service to small firms. The respondent had a somewhat negative view of both the HIDB and Highland Opportunities. HIDB was viewed as not being interested in small local firms and supporting lame ducks, whilst an offer of a loan from Highland Opportunities was viewed as being on very poor terms. The respondent felt that the firm was on good terms with the local HIDB office in Invergordon, but had the feeling that it had little autonomy. The respondent stated that in future the firm may look for assistance but at present this was unnecessary because of its healthy bank balance and the ability to cover any losses made by one company through their other business activities. This firm therefore contrasted with the former firm in that additional advice was being sought for expansionary purposes rather than in helping the firm to restructure from a serious financial position. The former had been somewhat disillusioned by the type of short term

assistance which it was argued was the hall mark of HIDB sponsored consultancy exercises, whilst the latter's mistrust of HIDB assistance had led it to seek additional advice from the private sector.

These two firms were the only ones in the sample making use of external financial advice from advisors apart from their usual accountants, or public sector counsellors. They were both locally owned and controlled and their use of advisors contrasted with the very limited use of outside assistance by the other similar firms in the sample.

In terms of the frequency of contact with their accountants, however, there were also some of the smaller independent companies which stated that they saw external accountants on a regular basis. Eleven firms stated that they saw an accountant four times a year or more. Of these nine were small independent firms. The two firms mentioned above were obviously included in this category. Three of them saw accountants seconded from Highland Opportunities. Two of them saw this as very beneficial whilst the other viewed this as unnecessary interference in "their business". Two of the other firms were high technology firms which generally made greater use of external assistance. One firm was a large and rapidly expanding company which was using its advisors to monitor its expansion plans. One firm was located in Thurso where

its accountants had a branch office. In general these firms stated that they were aware of the need to obtain additional financial advice. They tended to be owner/manager operations where the person in charge was also responsible for the financial aspects of the firms operation. The contact was in most cases limited to when problems arose.

#### How did firms choose accountants?

A basic question which arose from the pattern of demand for accountancy services is how the firms chose their accountants. Amongst those firms with autonomy to choose their accountants were chosen mainly through personal recommendation. One firm had carried out interviews with the main local accountancy firms to form the basis of their choice. This confirms the findings of previous research. A survey of 55 firms in north west England showed that 72% of firms had chosen their accountants on this basis, with business colleagues being the most important category (32% of firms) (Ferguson, Watt, and Lemboye 1988).

Amongst firms that had moved into the area a common perception was that local accountants were not of the required quality and also that they tended to be more expensive. One manager of a Stirling based company stated that whilst an audit for his size of company would cost

about £400 in the central belt, it would cost £2000 from a Highlands based firm. Certainly amongst the small local firms using local accountants the cost of their services was a common complaint. For those firms which had changed accountants for quality reasons they had all left local Highlands based firms. There were five firms in this category, about 10% of the total sample, but about 20% of the locally owned companies. Two of these firms had changed to accountants outwith the Highlands, both in Aberdeen. The others had stayed in the Highlands but gone from firms in their own areas to larger Inverness practices. Ferguson, Watt and Lemboye in a study of medium sized accountants summarise other studies by stating that whilst the potential for changing accountants may be high the level of changes is quite low because firms lack the knowledge of other practises. They quote figures of 5% of an accountants firms moving a year, or 15% over 5 years (Ferguson, Watt and Lemboye 1988). In the absence of comparative data therefore, it is difficult to say whether the level of 10% (or 20% if the branch operations are excluded) of the firms changing accountants over three years is high or low. On balance, however, it is probably somewhat above average.

Takeovers can also be an important factor influencing whether firms change accountants. This was the case for two additional firms in the sample. In a study of why firms changed accountants Watkins and Wright found that

about 40% of changes in their sample were accounted for by this factor, whereas fee levels, better service, and personality factors (which could be classed as "qualitative" reasons) accounted for 50% (Watkins and Wright 1986). Takeovers of Highlands based firms did not always result in the firm changing accountants, particularly where a refinancing package had been arranged by HIBD and the firm's former accountants.

The larger locally controlled firms which used local accountants tended to use practises in Inverness, notably Ernst and Whinney, the international firm, who have an office there. In two cases the respondents stated that they used the firm because they were the closest international firm. This suggests that having a large local accountancy practice is beneficial in retaining demand for the service in the Highlands. Other respondents, however, stated that they felt Inverness was too small a town for them to have their business advisors.

#### Conclusion on the use of Accountancy services.

This section has illustrated the relatively limited use firms make of external accountants. The smaller independent companies tended to be the ones which were in more regular contact with their accountants because they contacted them as problems arose or to draw up business plans. The reasons for firms choosing accountants were

relatively straightforward, mainly relating to personal contacts. The extent to which the firms had changed accountants was higher than the limited evidence which could be found from other sources, although the majority of firms still stated that they were happy with the quality of service obtained. Important issues influencing the use of accountancy services were the attitude of the accountant, the level of fees and the speed of response. These are factors in broad agreement with the findings of previous studies. The problem of location was not one which was mentioned by the firms partly because the firms accepted distance as part of being located in the Highlands.

#### 5.2.4: The use of HIDB services.

As the previous chapter, and sections of this chapter have illustrated, the HIDB is an important source of finance and advisory assistance. The following section looks in greater detail at the use of their services. The firms were asked about their use of specific types of assistance and the importance of HIDB assistance to their choice of location. Table 5.9 illustrates the use of HIDB services.

As the table shows, the vast majority of companies in the sample had obtained financial assistance from the HIDB. In some cases the respondents did not say when they had

obtained the assistance and very few of the companies were willing to disclose the actual value and form of the assistance.

Table 5.9: The use of HIDB services.

| <i>Service</i>      | <i>No of Firms using it</i> | <i>% of total</i> |
|---------------------|-----------------------------|-------------------|
| Grant and loan      | 39 (2)                      | 76%               |
| Equity              | 6                           | 12%               |
| Factory Provision * | 20 (2)                      | 39%               |
| Marketing Advice    | 8 (2)                       | 16%               |
| Business Unit       | 7                           | 14%               |
| Training grants     | 5                           | 10%               |
| Technical Advice    | 3                           | 6%                |

Source: Survey data 51 firms.

Key: (x) = applications pending  
 \* = factory bought from HIDB

Given that three quarters of the firms had obtained assistance it is interesting firstly to focus on those

firms which had not received any HIDB funding.

There were eleven firms in this category which had either been rejected or had not applied for any assistance. The first two firms were the large platform fabrication yards which were too big to be eligible for assistance. Eight of the other firms could be classed as small locally owned companies, whilst the other firm was the only non assisted fish farm. One of the firms was providing electrical repair services rather than manufacturing and the proprietor felt that being a service business he was not eligible for HIDB finance. Four of the other non assisted firms were critical of the HIDB. One was an engineering firm whose proprietor had approached HIDB on three occasions but had been unsuccessful. It was probable that because the firm was serving a local market displacement may have been considered as a reason for not assisting this firm. The proprietor had not been told why he should not proceed with his application, and felt aggrieved that a competitor had been assisted prior to his approach to the Board. In four other cases respondents stated that they felt the Board was not approachable for small local firms. One said that on the basis of previous experience with another company he would not go back to the Board for assistance. The three other companies had approached the Board but gave the length of time an application would take as the reason for not proceeding. It was apparent that the time and cost of



applying for assistance were the main reasons for dissatisfaction with HIDB assistance. The HIDB had recently streamlined its requirements for small applicants although the firms did not seem aware of this or had been put off by previous experience. In terms of the problem for these firms in obtaining alternative sources of funding, four of them had obtained grant and loan assistance from Highland Opportunities, suggesting that it was relatively easy for them to obtain alternative public sector backing. The other firms argued that to be viable a business had to be able to function without grant assistance and were critical of HIDB policy towards incoming firms. One firm made use of HIDB marketing services but the respondent felt that the firm did not need financial assistance.

Those firms which had obtained HIDB grant and loan assistance included all of the externally owned branch plants, all of the high tech firms, and all of the fish farms with the exception of one. In virtually all of the cases of incoming firms respondents stated that HIDB financial assistance had been a crucial part of their decision to locate in the Highlands. The "One Door" approach of the Board was also considered important in helping to hasten the fruition of new projects. The significance of HIDB assistance in attracting firms to the Highlands is reflected in the table below which gives the reasons the firms gave as to why they had chosen to

locate where they were.

Table 5.10: Factors behind locational decisions.

| <i>Factors</i>                   | <i>Nos of Mentions</i> | <i>% of Total</i> |
|----------------------------------|------------------------|-------------------|
| <i>Residence</i>                 | 19                     | 24%               |
| <i>HIDB Package</i>              | 17                     | 22%               |
| <i>Market Factors</i>            | 9                      | 12%               |
| <i>Site/Factory</i>              | 8                      | 10%               |
| <i>A9/Communications</i>         | 7                      | 9%                |
| <i>Enterprise Zone</i>           | 5                      | 6%                |
| <i>Labour Supply</i>             | 5                      | 6%                |
| <i>Takeover of existing firm</i> | 5                      | 6%                |
| <i>Raw Materials</i>             | 3                      | 4%                |

Source: Survey data from 42 Manufacturing firms.

As this table shows, discounting the residential factor which mainly relates to locally owned firms, the availability of HIDB assistance was twice as important as any of the other factors mentioned by the manufacturing firms. (In the fish farm sample the reasons for their location were all determined by site availability).

Market gaps, or proximity to markets, were the next most important reason for firms being located where they were. These factors were interrelated. As one respondent from a Nairn based company, largely serving the North Sea oil market, put it:

*"We wanted to be as close to Aberdeen as possible whilst getting the benefits of HIDB assistance".*

(Source: Interview 10.11.87)

Site and factory availability, and communications, particularly the A9, were the next most frequently mentioned factors. As the previous table showed the HIDB plays an important role in factory provision. The communications from the Highlands were discussed with all of the firms but seven of them stated that this had been a primary factor in their locational decision.

Enterprise zone status for the industrial estates at Alness and Invergordon was viewed as a significant factor by five of the six firms in the sample located there. The remaining firm was already located on the Alness estate prior to it being given this status and viewed the benefits as a windfall. Indeed as three of the other firms gave their main reasons for being located there as primarily residential or market oriented, only two firms could be said to have located there specifically because of enterprise zone status. One firm had relocated from the south east because of labour shortages, and the other

firm was a Highlands based company using local raw materials. These firms stated that the availability of local labour because of the high local unemployment was also a factor in encouraging them to set up on the enterprise zone. Since the enterprise zone had been marketed by HIDB its role was again crucial. One of the firms had been provided with a custom built unit by HIDB. In conclusion therefore HIDB assistance was a major reason for most of the firms being located in the Highlands.

Table 5.9 also shows that the firms used a variety of HIDB advisory services, although to a much lesser extent than financial assistance. These additional services were generally well regarded. Indeed several of the firms stated that the advisory component was as significant as financial assistance. The marketing assistance ranged from grants to attend trades fairs to the financing of market research by external consultants. One question which arises is why these advisory services were used by a smaller number of the firms. In some cases respondents stated that they had heard that the services were not of a very high quality. In other cases it was stated that the firms knew how to produce their products and did not need technical advice. On the marketing side a common response was that firms were struggling to meet current demand and did not need any marketing advice. As the previous chapter showed, relatively few of the firms

paid much attention to marketing so that the limited use of HIDB advice is perhaps understandable.

#### 5.2.5: Use of the HIDB's Business Unit.

Of particular interest in the context of the research was the role of the HIDB's Business Unit which provides a management consultancy service to firms in the area. As the table shows, seven of the firms had been assisted by the Business Unit. In three cases involvement with the firms had finished over a year prior to the interview, whilst the other four cases were in progress or only recently complete. The unit offers "hands on" assistance rather than the monitoring of accounts which is the usual level of after care provided to assisted firms. Although initially a major part of its work load was emergency assistance and rescues, it has now moved on to increasingly provide development advice to firms. In a study of the Board's advisory services a major criticism was that the unit was being used as a Fire Brigade called in at the last minute to rescue companies in difficulties rather than to help companies develop (Delabre 1982). In 1987, 80% of the unit's work was providing development advice, whilst only 20% was dealing with emergency assistance (interview with Head of Business Unit 21.3.88). The unit has three consultants and in 1987 dealt with 54 firms with turnovers of between £15,000 and £1.8m (HIDB Annual Report 1987).

Firms are referred to the unit by HIDB staff investigating or monitoring grant and loan applications and payments. The criteria for selecting companies to be assisted by the unit take into consideration three main factors: HIDB investment, employment levels, and a remoteness factor. A points system is then used to select companies to be assisted. These are further determined by different criteria for new and previously assisted firms. To an extent the points system can be seen as a safety measure because the greater the level of Board investment the more likely it is that a company will be accepted if it is referred to the unit. The firms assisted in 1987, for example, had received £7.69m in HIDB assistance, or an average of £142.5k each. Their combined turnovers were theoretically £43.75m, or an average of c£800k a year. At face value this might suggest that the Unit was used to minimise the risk of major losses. Discounting the effect of five firms which had approved assistance of more than £500k, brings the average assistance level down to c£79k and turnover to £460k. To an extent concentrating on larger firms would be a logical response since they have a greater employment impact. In fact, however, the picture is distorted by a number of firms with larger than average turnovers, such that 40 of the firms have turnovers of less than £500k, and 22 of them less than £200k (Business Unit Summary, HIDB 1987). This would suggest that the unit is not being used simply to avoid

large losses although the priority attached to levels of Board assistance could mean that this was the case. The fact that a points system is required to decide which firms are the most deserving suggests that there are a larger number of firms needing consultancy assistance than the unit can cope with.

The sorting process for the Business unit shows that for new firms in the HIDB area there are four additional criteria applied to the three mentioned above. Firstly the management structure of the firm is analysed to see if there are gaps in the four main areas of: production; marketing/sales/distribution; finance/financial control; and administration/personnel. Secondly, the way the firm fits into the investment strategy of the Board is considered. In other words certain types of firms may be of greater strategic importance, "high tech" firms for example, or other "flagship" projects. Thirdly, certain types of new firms are considered to be at greater risk in the HIDB area. Table 5.11 illustrates the scale used to determine priority for cases to be assisted.

Fourthly, the nature of the firms products are considered, particularly if the firm is attempting to develop a new product or market, in which case the risk of failure is considered to increase. The manual states that this process would tend to eliminate many of the smaller cases of less than £25k worth of assistance but they may only

be in need of specific, routine assistance such as in book-keeping or training rather than general management assistance.

Table 5.11: Degree of risk associated with new businesses in HADB area.

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|          |   |   |
|----------|---|---|
| (Low)    | 1 | Service industries, farming.  |
|          | 2 | Hotels, self catering.  |
| (Medium) | 3 | Manufacturing (existing products), fish farming.                        |
|          | 4 | Tourist boats, market gardening   |
| (High)   | 5 | Fish processing, manufacturing (new products), Community Co-operatives. |

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Source: HADB Business Unit: Operations Manual (November 1987).

In the case of existing cases, as opposed to new firms or projects, it is suggested that the Board Investment Managers spend more time on monitoring assisted firms. The criteria for new firms will be used but external pressure from creditors and banks may also cause the unit to have to be called in. This represents an acknowledgement of the Unit's "fire brigade" role. The manual also suggests that in future data held on the Board's computer is used to pinpoint firms which may be getting into difficulties. Such information as loan and rent payments,



turnover and profit projections compared to achievements, and balance sheet ratios could show where problems were arising. The manual therefore suggests that the Unit is developing systematic efforts to foster the development, and in some cases rescue of Board assisted firms. To a certain extent this is borne out in practice. Four of the Business unit assisted firms argued that its assistance was extremely beneficial to them. The following section briefly describes the level of involvement of the unit with several of the firms and their reactions to it. (It must be remembered that the firms themselves were the main sources of the information for this section, so that their impressions are the ones being passed on to the reader).

Firm A: Moray Plastics. This is a manufacturing company based in Inverness, which is part of a central Scotland based group, and as is the tendency for such firms obtains most of its business services outwith the HIDB area. Indeed, the managing director was critical, for example, of the service obtained from a local legal firm. He stated that the lawyers unexplained delay in forming the company had delayed grant payments, so that he had driven to Edinburgh to have the documents drawn up. The respondent, however, spoke highly of the assistance he had obtained from the HIDB. He had written to the SDA at the same time as the Board about setting up the company and had still not received a reply from the SDA when the

firm was already operating in Inverness. The firm established in 1983, employed 9 full time and 2 part time staff, producing specialised injection mouldings. Its turnover for the year to December 1987 was in the region of £100k. The HIDB package was "crucial" in the firm establishing in Inverness. The Business unit was providing financial advice to the firm on how to continue its expansion, and providing some technical advice. The respondent stated that the unit was completely unlike other civil servants that he had dealt with, particularly because of visits out of normal office hours and the consultants business experience. 98% of the firm's product is sold outwith the HIDB area, but transport costs account for only 2-3% of its product costs. The firm is a "high valued added/low volume" manufacturing company producing a new product in the Highlands which would help explain why the Business Unit was involved. The firm was looking to double its output and turnover but the respondent stated that the lack of manufacturing employment in Inverness meant that the firm's staff had poor "factory discipline" and there was what was considered a high turnover of staff. This problem could cause the firm difficulties in expanding its output.

Firm B. Badenoch Ceramics: This firm is located near Aviemore, producing china goods primarily for the tourist souvenir market. The firm employs 23 and has a turnover of c£200k. The respondent stated that the Business Unit

had been involved in advising the firm "off and on" for the past 5 years, and that contact with HIDB covered all aspects of the firm's activities, including training, technical assistance (primarily through Highland Craft-point), marketing and general management advice. The respondent was highly complimentary about the advice he received and stated that the firm took full advantage of all aspects of HIDB assistance. According to the respondent the firm was in monthly contact with various aspects of the Board's activities. The company's employment had been stable for the past 5 years and there was no growth planned. The firm could be classed as locally owned and controlled and used predominantly local services, although its legal services were obtained from Edinburgh. The HIDB was an equity holder in the company and it had received some £150k in grants and loans. It is apparent that the HIDB was supplementing the management of the company using its own staff's managerial expertise to preserve the relatively substantial number of jobs in the firm, given its rural location. The respondent stated that the firm contributed about £90k per annum in wages into the local economy. The respondent argued that the provision of HIDB managerial expertise was vital, given that there were so few other manufacturing firms in the area with whom he could discuss aspects of business. He contrasted the HIDB counsellors with speculative consultants using the *Better Business Services* scheme. Again this firm mentioned labour attitude to work as a problem,

supposedly because of the lack of other factory-based employers in the area. This may of course have simply illustrated training or personnel related problems. (These two cases contrasted with the responses of most of the other companies in the sample).

Firm C. Islands Seafoods: This firm is a fish processing operation located in an area of high unemployment on the Cromarty Firth. The firm employed 26 people at the time of the interview in May 1988, with a projected turnover in its first year of operation of £1.5m, having been established in 1987. It was part of a larger Highlands based company. Most of its services were obtained locally in the district or in Inverness, although its accountants were based in Glasgow. The respondent stated that the provision of HIDB assistance was extremely important to the project but that it was also important that the firm was close to sources of supply, notably the West coast ports, and salmon farms. The provision of advisory assistance by the Business unit was viewed as "very much a side issue", and the respondent was somewhat sceptical of their role. The company had looked at alternative sites in Scotland, notably in Tayside, such as the Dundee enterprise zone, but had decided to locate on the Cromarty Firth enterprise zone. The company obtained assistance from the HIDB of some £940k, or about £31k per job created (although because of the firm's product, employment levels fluctuated), including a £700k purpose

built factory. The firm, however, according to the respondent, put about £160k into the local economy in wages alone in its first year of operation. In this case the Business unit input was most probably a supervisory role to ensure the proper use of the substantial public sector investment. This supervisory role may not have been viewed as particularly beneficial by the company and hence the critical view the respondent had of advisory assistance. This illustrates a problem for the HIDB since it must ensure the proper use of its assistance and the fruition of its investment plans by using the Business unit in this supervisory role which may be viewed negatively by firms in receipt of their backing.

Firm D. Lossie Electronics: The fourth company which the Business Unit was involved with was a small high technology company based in Morayshire. The company was locally owned and controlled and was established by managers who could be described as "skilled return migrants". The firm employed 11 full time and 3 part time staff at the time of the interview in November 1987 and had a turnover of about £500k. Its main markets were in the oil sector where its products were used for underwater inspection. Its production was specialised and typified by made to order products. The firm was hit by the down turn in the oil sector in 1986 and its employment level fell by roughly one third. The respondent stated that the Business unit assistance usually involved getting involved in

costly consultancy exercises which were viewed as being of little practical use, simply telling the firm what it knew already. The respondent also stated that he felt the HIDB were restricted by the Scottish Office in the amounts of assistance they could provide. This firm was also critical of local service providers, stating that they were more used to dealing with farms than modern industry. The respondent had interviewed local accountancy firms to choose the most suitable for the firm but was critical of the cost of using their services. It was apparent in this case that the Business unit was being used to support a firm which was most likely in receipt of emergency assistance. The retention of skilled and "prestigious" employment probably secured this firm the unit's support but the respondent was still sceptical of the value of the assistance, possibly because it was viewed as criticism of previous management failings.

Firm E: Strathkyle ltd. The contact this firm had with the Business unit was completed in 1985, although it illustrates successful use of an HIDB consultancy exercise which helped the company expand after initial problems. The company produces smoked salmon products using farmed salmon at its Inverness factory. At the time of the interview in May 1988, the firm employed a total of 43 employees and had a turnover in 1987 of £1.75m. 65% of its output was exported and the companies wages into the local economy totalled £260k. It is therefore a

relatively large firm in an area which the HIDB is keen to develop, namely the processing of local primary produce. Rapid growth in the market for its products meant that the respondent predicted turnover to increase to £2.5m in 1988. In 1985, after three years in operation, however the company was in some difficulty because of a combination of factors including the relatively high prices for its raw materials, mainly fresh salmon (a common problem for many salmon smokers), and problems relating to its factory layout and workforce. Initially the Business Unit was involved in an appraisal of the company's problems and subsequently specialist consultants were called in and jointly funded by HIDB and the company. (It is this stage that some of the other respondents complained about mainly because of the charging rates for the consultants time). In this case, however, the advice of the consultants was considered of a high standard. The company reorganised its production which led to job losses but also profitability. The respondent said that initially he felt that this was going against HIDB policy, but with increased profitability the firm had been able to expand further. This situation could illustrate a problem for firms obtaining HIDB assistance. The tying of assistance to job creation could unwittingly lead to a situation where firms are overmanned and unprofitable. The respondent had a high regard for the HIDB and also for the local professional services available in Inverness. The firm made use of HIDB marketing services. The firm has

recently doubled the size of its factory in a £700k expansion, which attracted HIDB support of £175k, and now employs 60 full-time and 20 part-time staff. The firm also relocated its head office functions from the south of England (Fish Farmer Jan/Feb 1989).

#### Summary of use of the Business Unit

These examples have illustrated the various roles that the Business unit has played in helping assisted firms. The firms generally had a positive attitude to the Business unit except where it had been used in difficult circumstances where inevitably there was some friction. If this sample is taken as representative of firms in differing situations using the unit it would appear that it is highly regarded. Indeed those firms obtaining assistance from the unit contrasted with most of the other firms in the sample which obtained virtually no external advisory assistance. It is extremely difficult to quantify the effects of advisory assistance but from this sample it is apparent that the unit was either protecting or helping to create jobs in the firms it assisted. One of the recommendations of the Treasury review of the HIDB was that the effects of its advisory assistance should be quantified (IDS 1987b). From this study it is difficult to draw specific conclusions about the value of such assistance in jobs terms but anecdotal evidence suggests its effects were positive. If the unit



had specific targets in terms of jobs created or preserved associated with its support this would enable its effects to be more readily quantified and help to placate any criticism of it. It may for example be possible to compare the growth of firms which had had Business unit assistance over time with non assisted firms to see if there was any difference. Alternatively simply monitoring the performance of Business unit assisted firms over time could help to illustrate its role. Certainly in the case of the salmon smoking company the managing director considered its fortunes had been "turned around" by the advisory assistance. Market growth and related factors obviously played a role in this firm's success but without the advisory assistance the firm might not have survived to take advantage of this. Another recommendation of the Treasury review was that the HIDB should start to charge for the use of its advisory services. This suggestion was rejected by most of the firms in the survey but those which had had beneficial experience stated that it was difficult for them to say whether or not they would be willing to pay in future. This suggests that charging for services would put off firms which were new to using the services but would have less of an effect on those firms which had previous experience of the services. Not surprisingly most of the firms were reticent about saying they would be willing to pay for advice.

The previous section has illustrated the role that the HADB plays in providing various property, financial and advisory services. The low rates of return which the private sector could obtain providing these services has meant that the HADB has to a certain extent had to develop a range of comprehensive support services for companies. From the survey it was apparent, however, that not only were not all of the firms taking advantage of financial assistance, but the use of specialist advisory assistance which could be equally beneficial to firms, and indeed maximise the value of financial assistance was much more limited.

### 5.3: Economic Impact of Firms on the Service Sector.

The following section illustrates the direct financial impact that firms in the sample had upon the service sector. This partly helps explain the limited availability of certain services in the HADB area. The section also includes information on the firms' wages and salaries which helps illustrate their impact on the local economy. As the methodology chapter stated 50% of the firms were asked to provide this information in a follow up postal survey. This achieved a response rate of 44%, or eleven of the twenty five firms. The remaining firms were asked for this information directly as part of the interview survey but this achieved a lower response rate, largely because the respondents were unsure of the

precise figures, or unwilling to give them. The fish farm sample provided a range of data on their impact on the local economy but this largely related to expenditure on feed and wages and salaries. The section is therefore divided into subsections reflecting ownership and firm size characteristics (employment and turnover), which as was illustrated earlier have an important influence on where services are obtained and, as this section illustrates, the level of expenditure on them. Unfortunately the quality of the data is better for the larger firms in the sample. This may be a reflection of the availability of financial data amongst the smaller firms, or time constraints.

#### 5.3.1: Economic Impact of Large Firms (Expenditure on Business Services).

Using the previous definition of large firms as those employing 25 or more, and with a turnover of more than £500k, there were eleven firms out of a total of twenty one firms which provided information which could be used for this section. Table 5.12 provides information on the turnover of the companies, the number of employees, and their wages and salaries. The service costs which were considered include: accountancy fees; legal fees; consultancy fees; advertising and promotion; and transport. The majority of the services used were obtained outwith the HADB area with the exception of transport services.

**Table 5.12: Economic Impact of Large Firms  
on the local economy and service sector.**

| Firm/<br>Sector       | Nos of<br>Emps. | Turnover | Wages         | Account-<br>ancy | Legal      | Consult-<br>ancy | Advertising/<br>Promotion | Transport<br>Costs | Year            |
|-----------------------|-----------------|----------|---------------|------------------|------------|------------------|---------------------------|--------------------|-----------------|
| A. Engin-<br>eering   | 500+            | no data  | £20m<br>+     | £24k<br>-        | HQ<br>-    | HQ<br>-          | no expend.                | £100k<br>+         | 1987            |
| B. Engin-<br>eering   | 500+            | no data  | £15m<br>+     | £30k<br>-        | £200k<br>- | £100k<br>-       | £10k<br>+                 | £475k<br>+16%      | 1987            |
| C. Engin-<br>eering   | 49              | no data  | £310k<br>+    | £9k<br>-         | £4k<br>-   | £9k<br>-         | no expend.                | £22k<br>+50%       | £1987<br>-£1988 |
| D. Engin-<br>eering ‡ | 25              | £750k    | £200k<br>+    | £10k<br>+        | £2k<br>-   | no expend.       | no expend.                | £7k<br>+           | £1987<br>-£1988 |
| E. High<br>Tech       | 130<br>50%      | £5m      | £1.4m<br>+50% | £24k<br>-        | £12k<br>-  | £6k<br>-         | £18k<br>-                 | £60k<br>+          | 1987            |
| J. High<br>Tech       | 49              | £2.5m    | £250k<br>+    | HQ<br>-          | HQ<br>-    | no expend.       | £28k<br>-                 | £63k<br>+          | 1987            |
| G. High<br>Tech       | 30              | £1.5m    | £217k<br>+    | £3k<br>+         | £250<br>+  | £4k<br>-         | no expend.                | £25k<br>+          | 1987            |
| H. Wood<br>Process. ‡ | 100             | £10m     | £1.3m<br>+    | £15k<br>-        | £10k<br>-  | no expend.       | £60k<br>-                 | £720k<br>+         | 1987            |
| I. Print<br>& Pub. ‡  | 46              | £1.5m    | £400k<br>+    | £7k<br>-         | £3k<br>+   | no expend.       | £6k<br>-                  | £14k<br>+          | 1987            |
| J. Fish<br>Process.   | 43              | £1.8m    | £260k<br>+    | £12k<br>+        | no data    | no expend.       | no data                   | £45k<br>+50%       | 1987            |
| K. Plast-<br>ics      | 15              | £2m      | £150k<br>+    | HQ<br>-          | HQ<br>-    | no expend.       | HQ<br>-                   | £175k<br>+         | £1987<br>-£1988 |

SOURCE: Survey data, manufacturing firms only.

**KEY:**  
‡ = Firms classed as Independent with HIDD area head offices  
+ = Expenditure accruing to HIDD area  
- = Expenditure outwith HIDD area  
HQ = Expenditure by Head Office  
+50% = 50% accruing to HIDD area.  
no expend. = No expenditure on this service  
£1987-£1988 = Financial year 1987 to 1988

For accountancy services only three of the firms were using accountants in the HIDB area, two using Inverness based practices and one an Invergordon based practise. The largest firms with the greatest expenditure on accountancy services used firms outwith the HIDB area. In comparison with other costs such as labour, for example, the expenditure on accountancy fees (mainly audits) is a minor cost. In only two cases, firms D and J, did accountancy fees approach 5% of labour costs. The total expenditure on accountancy fees "lost" from the local economy by the six firms providing exact figures is only £107k, or equivalent to the labour costs of one small firm (see table 5.13). Similarly in the case of legal costs, they make up a very small proportion of any one firms costs. The total sum lost to the local economy is £228k, but in this case only five firms provided figures and one major firm accounted for £200k of this expenditure (Firm B). In the case of consultancy expenditure, this was limited to only five firms, and four of them accounted for a total of £119k lost to the local economy, but again one firm accounted for the bulk of this expenditure (Firm B).

As the previous chapter showed, relatively few of the firms used external marketing and promotion services. Six of the firms had incurred expenditure on these activities and the amounts detailed by five of the firms totalled £122k. Almost 50% of this expenditure was

incurred by one company, a fast expanding wood processing company based near Inverness, which was carrying out an extensive promotional campaign to establish the market for its products. The second largest expenditure was incurred by a "high tech" company which was carrying out a market research exercise partly funded by HADB, which illustrates the Board's impact on local firm's service expenditure. This expenditure was equivalent to 5% of the firm's labour costs. In four cases the firms were using advertising agents outwith the Highlands, two in London and two in Aberdeen, but one platform construction yard used a local agency, to provide promotional material.

The transport cost figures show a wide variation, ranging from only the £7k spent by a locally based engineering firm, to the £720k spent by the wood processing firm, all of which was spent locally. Transport costs as a percentage of turnover varied considerably. On the basis of the figures provided by eight firms, transport costs accounted for less than 2% of turnover in four cases. In two cases they accounted for less than 3%, whilst in the remaining two cases they accounted for c7% and c10%. The former case was the wood processing firm, whilst the latter was a firm manufacturing roofing material. It was a highly capital intensive operation with the highest ratio of turnover per employee of any of the firms which provided the figures. Whilst transport costs were more

significant than the other service costs which the firms incurred they were in most cases insignificant compared to labour costs, for example. The significance of the firms to the transport sector was much higher than for any other of the local service sectors, with a total of c£1.3m spent in the HADB area by the eleven firms, compared to c£500k outwith the Highlands, with £400k relating to one firm. In most cases the transport costs were predominantly on road haulage, although 50% of Firm J's expenditure was on air transport.

Finally, turning to the wages costs, the figures clearly show the significance to the local economy of the two major oil platform construction yards, which accounted for 89% of the £39.5m which these firms paid in 1987.

### 5.3.2: Economic Impact of Small Firms (Expenditure on Business Services).

The small firms were defined as those employing less than 25, and with a turnover of less than £500k. Ten firms provided information on various service costs, and labour costs. Only four of the responses were from the postal survey, in comparison with seven of the responses for the large firms. Therefore the quality of the data is not as high as for the large firms. Table 5.13 details the information obtained from ten small firms in various sectors. As the table suggests, firms L,M,O and P, were

the four which provided the data in reply to the postal survey. Where the other firms did not supply the financial data it was still possible to say whether this was spent locally by looking at where the firms obtained the service. Firm M was included in the table although it is a branch plant of a Tayside based firm, hence only 25% of its wages accrue to the local economy.

As the table shows the levels of expenditure on the services was much lower than for the larger firms. For accountancy fees the highest expenditure was by a newly established "high tech" firm, with expenditure of £12k, whilst a clothing firm only spent £300 (Firms O and R).

As the table shows the majority of the small firms used locally based accountants. In this case the total expenditure on accountants for the eight firms which provided data was £25k. As a proportion of turnover, however, accountancy fees were more significant for the smaller firms, approaching 4% of turnover in one case. There was also a significant degree of variation in the level of fees charged for a given size of firm, although this to a certain extent reflects the different services used. In some cases, however, the fees are for audits only. Firm L and Firm P for example have the same turnover, yet the former firm has an audit fee of £475, whilst the latter has one of £3500.



**Table 5.13: Economic Impact of Small Firms  
on the local economy and service sector.**

| Firm/<br>Sector          | Nos of<br>Emps. | Turnover | Wages         | Account-<br>ancy | Legal        | Consult-<br>ancy | Advertising/<br>Promotion | Transport<br>Costs | Year            |
|--------------------------|-----------------|----------|---------------|------------------|--------------|------------------|---------------------------|--------------------|-----------------|
| L. Engin-<br>eering ‡    | 14              | £250k    | £80k<br>+     | £475<br>-        | £285<br>+    | no expend.       | £900<br>+                 | £1.3k<br>+         | 1987            |
| M. Engin-<br>eering      | 23              | no data  | £915k<br>+25% | £3.3k<br>-       | £60<br>-     | £2.2k<br>-       | £11k<br>-                 | £25k<br>-          | 1987            |
| N. Engin-<br>eering      | 15              | £450k    | £125k<br>+    | HQ<br>-          | HQ<br>-      | HQ<br>-          | HQ<br>-                   | £6k<br>+           | £1987<br>-£1988 |
| O. High<br>Tech ‡        | 10              | £300k    | £135k<br>+    | £12k<br>+        | £3k<br>-     | £4k<br>-         | £2k<br>-                  | £1k<br>+           | 1987            |
| P. High<br>Tech ‡        | 10              | £250k    | £100k<br>+    | £3.5k<br>+       | £500<br>+    | £2.5k<br>-       | £10k<br>+                 | £25k<br>+          | 1987            |
| Q. China &<br>Ceramics ‡ | 23              | £200k    | £90k<br>+     | £1.5k<br>+       | no data<br>- | no expend.       | no data<br>-              | £6k<br>+           | 1987            |
| R. Clothing<br>‡         | 12              | £80k     | £35k<br>+     | £300<br>+        | no data<br>+ | no expend.       | £800<br>+                 | £1.5k<br>-         | 1987            |
| S. Food<br>Process. ‡    | 16              | £250k    | £46k<br>+     | £800<br>+        | £800<br>+    | no expend.       | £900<br>+                 | £6.5k<br>-         | 1987            |
| T. Misc.<br>‡            | 22              | £200k    | £43k<br>+     | no data<br>+     | no data<br>+ | no expend.       | no data<br>+              | £5k<br>+           | 1987            |
| U. Plastics<br>‡         | 7               | £320k    | no data<br>+  | £3k<br>+         | no data<br>+ | no expend.       | no data<br>+              | no data<br>+       | 1987            |

SOURCE: Survey data, manufacturing firms only.

**KEY:** ‡ = Firms classed as Independent with HADB area head offices  
 + = Expenditure accruing to HADB area  
 - = Expenditure outwith HADB area  
 HQ = Expenditure by head office  
 +50% = 50% accruing to HADB area.  
 no expend. = No expenditure on this service  
 £1987-£1988 = Financial year 1987 to 1988

This would tend to lend support to the contention that local accountants were charging more for the same servi-

ces since the former firm used an Edinburgh based practise, whilst the latter used an Inverness practise. There is insufficient evidence, however, from the table to support this contention.

Expenditure on legal services was a very minor cost for most firms. Five of the firms provided data on this, and their total expenditure was only about £5k. Only three of the firms used non local accountants, reflecting the small firms greater propensity to use local services. Four of the firms had used the services of consultants accounting for a total expenditure of about £9k (for the three firms which provided data). Two of the firms were branch plants with the head offices incurring the cost. the two other firms were both classed as "high tech", and they had used consultants based in the central belt. One of the firms had obtained a grant from the SDA to use the consultant on a costing exercise.

Advertising and promotion costs were also a minor feature in the costs of the majority of the small firms which provided data. Discounting Firm M, which incurred this expenditure through its head office, only one firm spent more than £2k on this activity. Interestingly, firms L and R described this expenditure as "a waste of money" and intended to stop any further advertising. Their "campaigns", however, had been largely restricted to the local press.

The transport costs incurred by the small firms also tended to be less than two or three percent. As with the large firms, the bulk of this expenditure accrued to the local economy. Out of a total of about £77k, 75% of this was spent locally, whilst one firm used transport services obtained through its head office. Only one firm incurred transport costs of greater than 3%, and this "high tech" firm used air freight.

The wages of the nine small firms which provided data totalled £883k, or an average of c£100k. Labour was the greatest cost for all of these firms, but as the table shows the wage rates paid by firms varied. To an extent this reflected differences in skills and the effect of part-time labour. The exclusion of directors' salaries may also account for some of the differences in labour costs.

#### Conclusion on the economic impact of the firms.

It is apparent from the data that the larger firms in the sample which spend more on business services also tend to obtain them from outwith the local economy. The amounts spent on business services are relatively limited in comparison to wages but nevertheless represent a significant loss to the local economy. The loss is, however, not simply a financial one. It also means that local manufacturing firms have to rely on service providers with

limited experience of manufacturing firms, hence the complaints from some firms of their accountants and banks having limited competence. The figures also show the extent to which transport costs are a relatively small factor in most of the firms costs. The costs may of course be significant at the margins but for most firms the cheaper land and labour costs offset any transport disadvantages.

#### 5.4: Conclusion.

This chapter has illustrated the use of business services made by firms in the Highlands such that a picture has been drawn of how the firms operate. The chapter has shown that firms which are locally controlled and generally smaller in size tend to be the most reliant on local service provision. It has shown that expenditure on business services is a relatively minor cost for most firms. the limited use of more specialist services provided by the HIDB and the private sector was also shown. By using qualitative data, and specific material about individual companies the chapter has concluded that the business service sector is an important factor influencing the performance of companies.

## CHAPTER SIX: SERVICE PROVISION IN THE HIGHLANDS -

### A SURVEY OF LOCAL ACCOUNTANTS.

The previous chapters have mainly dealt with the demand for business services in the Highlands. In this chapter the focus shifts to look at the provision of accountancy services to businesses. The analysis is based on an interview survey of 14 accountancy firms, largely based in and around Inverness. The firms were chosen through the *Official Directory of the Institute of Chartered Accountants for Scotland*, and the *Yellow Pages*. The aim of the sample was to have a spread of firms in terms of size of firm measured by numbers of partners, whether the firm was part of a larger group, and the number of offices it had in the HIDB area. The survey form dealt with five main issues: background to the firm; main activities; location and sectoral spread of clients; competition and market strategy; and the role of the public sector. As with the previous surveys the quality of responses varied considerably. This was partly because the interview schedule was modified and improved in the course of the research. The limited number of accountancy firms meant that there was no opportunity to pilot the survey.

Initially an attempt was made to ascertain the internal dynamics of the firms. How long had they been established? How many people did they employ? How had their

employment levels changed? The second section attempted to gauge which services the firms provided. This section obtained the poorest quality of response, largely because of the different activities of partners within multi partnership firms and because of the author's limited knowledge of the profession. The section on location and sectoral spread of clients obtained a generally poor response, for similar reasons. Most respondents could state roughly the proportion of their client base (measured by fee income) outwith the HIBB area. The section on the firms' competition and market strategy obtained a wide variety of quality of responses. The final section on the role of the public sector in the accountants workload, and their appraisal of public sector development schemes, obtained the most interesting and useful responses.

#### 6.1: Employment and operation of the Accountancy firms in the sample.

Table 6.1 outlines the sizes of the firms in the sample and their growth rates over a variety of periods (given in brackets after the figure eg 1985 = between 1985 and 1988). As the table shows 50% of the firms were based in Inverness offices. In two cases, however, the practices were part of larger firms. One was a Scottish based firm, whilst the other was Ernst and Whinney, the only one of the "Big Eight" international accountancy firms to have

an office in the HIDB area.

Table 6.1: Employment in the Accountancy firms

| Firm            | Location    | Nos of partners (CAs) | Nos of Employees | Change in Employment |
|-----------------|-------------|-----------------------|------------------|----------------------|
| <i>Firm A</i>   | Inverness   | 4                     | 9                | +3 (1985)            |
| <i>Firm B</i> * | Inverness   | 5                     | 80               | -20 (1986)           |
| <i>Firm C</i>   | Inverness   | 4                     | 40               | stable (1986)        |
| <i>Firm D</i>   | Tain        | 3                     | 13               | stable (1985)        |
| <i>Firm E</i>   | Dingwall    | 3                     | 9                | +3 (1982)            |
| <i>Firm F</i>   | Inverness   | 1                     | 6                | stable (1986)        |
| <i>Firm G</i>   | Dingwall    | 2                     | 5                | +1 (1987)            |
| <i>Firm H</i>   | Inverness   | 5                     | 32               | +7 (1985)            |
| <i>Firm I</i>   | Invergordon | 3                     | 18               | +6 (1985)            |
| <i>Firm J</i>   | Avoch       | 1                     | 2                | +2 (1983)            |
| <i>Firm K</i>   | Nairn       | 1                     | 5                | stable (1986)        |
| <i>Firm L</i>   | Nairn       | 1                     | 8                | +1 (1987)            |
| <i>Firm M</i>   | Inverness   | 3                     | 26               | +7 (1985)            |
| <i>Firm N</i>   | Inverness   | 2                     | 9                | +2 (1985)            |

Source: Survey data, April/May 1988.

Key: (1985) = since 1985

\* Special circumstances.

The table shows that all but one of the firms have increased their employment over the stated period. The average size of firm is 19 employees, but this figure is distorted by the three firms with more than 30 employees.

The growth rates of the firms are high, between 20 and 25%, although in most cases this partly reflects the low initial figures. (The reasons for this growth will be discussed later). The only firm to have lost employees was the largest in the sample. This was because its workforce was temporarily inflated to clear a back log of work so that the "normal" workforce was relatively stable. The table shows that several of these firms were large employers in their own right.

Most of the firms stated that they trained their own clerks in house and had not experienced difficulty in finding staff to fill these positions. They tended to be female and part time employees. several firms, however, mentioned problems recruiting newly qualified Chartered Accountants. This problem reflected the demand for CAs outstripping supply. One firm had unsuccessfully advertised for a CA a year prior to the interview and had not been able to fill the position. This problem for small rural professional practices has been highlighted in the press (*Scotland on Sunday* 16.4.89)<sup>1</sup> .

As mentioned previously it was difficult to gauge which services the firms were providing. The respondents were asked about various services which accountants can pro-

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<sup>1</sup> "Executives shy away from small rural firms: highly qualified chartered accountants and surveyors are not being lured by the attractions of life in small communities" *Scotland on Sunday* 16.4.89.



vide. The bulk of their work was concerned with the preparation of accounts for tax purposes, audits, and financial planning. In the case of the very small firms they tended to have far less audit work as they mainly dealt with sole traders and partnerships. Firms were also involved in providing management accounts, investment advice, computer services, secretarial services such as payroll and VAT returns, insolvency and taxation advice.

When asked what proportion of their annual fee income was derived from various aspects of their work, most of the respondents were unable to give anything other than a rough estimate. Where firms were able to provide a figure (mainly the smaller practices), 70 to 80% of their income was derived from the preparation of accounts for tax. In general the larger practises provided a wider variety of services, largely because of their different partners' specialisms.

The respondents were asked if there had been any trends in the demand for their services over the past five years. Table 6.2 below shows the pattern of responses, which were obtained without prompting from the respondents. The largest number of respondents stated that the volume of work concerning financial planning was increasing. The main reasons for this were related to increased demands for cash flow projections by banks, and also from HIDB. In a minority of cases this was felt to be

dependant on individual bank managers. The majority view, however, was that banks were becoming increasingly cautious in lending.

**Table 6.2: Changing demands for Accountancy Services**

| Increased provision of service over the past 5 years. | No of firms mentioning it. | Comments/ Explanation.  |
|---|----------------------------|---|
| Financial Planning/ Provision of Business Plans.      | 11                         | Pressure from banks.<br>Start Up plans.<br>HIDB applications.<br>BBS Scheme.                            |
| Start Up Advice.                                      | 5                          | Improvement in economy.<br>Enterprise Allowance Scheme.<br>Redundancy.<br>Incomers with business ideas. |
| Computer Advice                                       | 5                          | Greater use by clients.   |
| Management Accounts                                   | 5                          | More financial control needed.<br>Less use now as more inhouse.   |
| General Business Advice.                              | 3                          | Pressure from banks.<br>Govt legislation.   |
| Tax advice  | 2                          | Changing legislation.   |

Source: Survey data, April/May 1988.

Another problem which was pin-pointed by the respondents was that when client firms were in difficulty, bankers would ask for future cash flow projections, which meant that their clients would incur costs in drawing up plans

when they could least afford it. There was a recognition that for most of their clients the financial costs inhibited firms from making greater use of their accountant.

As the table shows, a further factor behind the increased demand for financial plans mentioned by the respondents was the need for new starts to have business plans provided. The reasons for the increased demand for financial planning services and business plans were obviously closely interrelated. One factor which encouraged start up firms to have business plans drawn up by accountants was the availability of grants through the Better Business Services scheme. Table 6.3 shows the services available.

**Table 6.3: Better Business Services Scheme**

Eligible services

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1. General check up
  2. Business control and organisation
  3. Book-keeping and Accounting
  4. Financial planning
  5. Sales and marketing plans
  6. Design of promotional material
- 

Source: BBS Handbook, HIDB.

The BBS scheme provides a grant of 55% of the total cost of the service to a maximum of £550 and aims to get firms to use professional advice. Most of the accountants had used the scheme, except for those small practises dealing with sole traders and partnerships who stated that these firms were too small to be able to use these services.

The majority of the respondents stated that the business planning side of the scheme was their only use of it. The BBS scheme is administered by the HIDB in all parts of its area with the exception of Strathclyde Region, where it is administered by the Industry Department for Scotland. An analysis of the use of BBS services shows that 33% of the projects were for financial planning (the largest category), and 21% for "Business administration for small firms and start ups", whereas only 12% of the projects were for marketing services. The other major category was the installation of "management and financial control systems including computerisation" (23%). This was out of a total of 1075 projects and expenditure of c£400k over the 28 months to February 1987 (BBS Monthly Report for Feb 1987, HIDB). The use of BBS is therefore heavily biased towards the provision of financial services, such as business plans and assistance for new starts which explains the responses. The figures also show that only 3%, or 30 projects, over the period were for "profit improvement studies", a further subdivision of the financial planning aspect of the BBS scheme (HIDB

Feb 1987). This suggests that the scheme is used for general activities rather than specialist consultancy services. This bias towards using the scheme for financial planning was confirmed by the manufacturing survey, where all of the firms which had used the scheme had used it for this purpose. A survey of 75 firms which had used the BBS scheme in the autumn of 1985 found 70% of the firms were satisfied with the cost of the consultancy work, and had implemented the recommendations, and that 83% of them had noted positive effects on their business (unreferenced report, quoted in Review of HIDB, IDS 1987b). In the survey of business service demand, all of the firms stated that the service provided under the scheme was useful but most admitted that they probably would have gone ahead with the project anyway without the grant. This reflects the bias towards business plans which were considered essential for making approaches for financial assistance, or bank loans.

The second main area of increasing demand for accountancy services mentioned by four of the respondents was in the provision of start up assistance. This was related to four main factors. Firstly, the general improvement in the local and national economy. Local factors which were considered important were the tourist season, the upturn in the oil sector, and the growth of retailing and housing developments in Inverness. The second factor pinpointed by the respondents was the Enterprise

Allowance Scheme, operated by the Department of Employment, which provides £40 a week for a year to encourage people to start up in self employment. In general, however, this scheme was viewed somewhat negatively. The main problems were that the new firms were mainly in the service sectors, particularly trades such as plumbing and joinery, and were simply undercutting each other. Other problems mentioned were the undercapitalised nature of the firms, the lack of business experience of the founders, and the mainly negative reasons which lay behind the reasons for going into self employment. Whilst the accountants noted an increase in self employment, this was often because larger firms, in the building trade, for example were cutting down on their core workforce, which meant that previous employees were going self employed and gaining sub contract work. This was a trend noted by three of the Easter Ross accountants in particular. It was viewed negatively because although it meant an increase in the quantity of work it also reflected a deterioration in the fortunes of their larger clients.

The main reason for the increase in self employment in the area, as the discussion above suggests, appears to have been redundancy. This was viewed as a response to the decline in full time employment in the construction industry and oil sector in particular. This was borne out by the survey of manufacturing firms where five of the

new firms were started by people made redundant from the oil sector. The fourth reason for an increase in the demand for start up advice is part of the counter-urbanisation trend, whereby incomers with capital to invest were looking for business opportunities. In general these tended to be in the tourist sector.

The table shows that there were two main reasons for the increase in demand for general business advice. These are largely self explanatory but it is interesting to note that only three of the respondents noted this trend. This suggests that little of the accountants work was providing advice on a consultancy basis. This issue will be returned to at a later stage. The changes in government legislation were a factor pinpointed by Rajan in explaining the growth of employment in business services (Rajan 1987). The final two areas where respondents saw an increase in the demand for their services was in the provision of computer services, particularly because of the availability of computerised accounts packages. Assistance for this type of work is also available under the BBS scheme, and as the earlier figures, show 23% of projects during the 28 months up to February 1987 were for the installation of "management and financial control systems, including computerisation" (BBS Monthly Report for 1987, HIDB). Finally an increase in demand for tax advice was specifically noted by one respondent, although this was also seen as part of

general business advice. Another respondent stated that his firm's volume of tax work for individuals was increasing because people moving to the area from the South were changing to his practice from London firms because of their charging rates, and the more personal service which the local firms could offer.

A common trend running through all of the factors which the respondents stated were causing changes in the demand for their services was the role of the banks in providing finance and requiring more financial evaluation. All of the respondents stated that banks were asking for more information and a more "professional" approach was needed by their clients to secure backing than in the past. This was seen to have contributed to an increase in the cost of getting a project off the ground and was possibly a spin off from schemes like Better Business Services, in that bankers expected a well prepared plan to be the norm. This also reflected increased caution from the banks. In two cases respondents stated that there had been little change in the banks' requirements, or that this varied considerably between from bank manager to bank manager. One problem mentioned by three respondents was the lending hierarchy in the banking system whereby branch managers have a lending ceiling. Often a sympathetic hearing at a local level would be judged more harshly at head office. This was a problem highlighted by several respondents in the demand survey. This of course could be



a convenient way of local bank managers deflecting any criticism to head office level.

## 6.2: Geographical and Sectoral Spread of the firms' Clients.

As mentioned previously the quality of responses to this section of the interview schedule was not particularly high. Most of the respondents simply stated that their client base reflected the nature of the local economy. One interesting feature which this section brought out was the extent to which accountants obtained work outwith the HIDB area. In most cases non HIDB area clients accounted for less than 5% of fee income, but this rose to 20% in one case. In most cases the work was in other parts of Scotland, particularly neighbouring areas such as Grampian and Perthshire but firms also had clients in London and the South East.

Most of the firms had a wide spread of clients throughout the HIDB area, including remote and island locations. According to most of the respondents this did not affect the quality of service that these clients received. Although all of the accountancy practises were based in the Moray and Cromarty firth areas, and there are no accountants based on the west coast, north of Fort William, several of these firms had temporary offices on the west coast. Where problems would arise it was felt

would be with new starts which require more "hand holding" assistance. They could undoubtedly face problems in terms of accessibility to their accountant. This problem would obviously be greater on remote, island locations. One respondent stated that remoteness could cause clients to receive a less personal service. This was only really a problem for clients located on the Western Isles. One respondent stated that he tried to ensure that the costs of travel were met by seeing groups of six clients at a time. In general the respondents stated that they only charged for their time at their clients and that travel costs were borne by the practise. The travel costs would therefore be borne by all of the firm's clients, which may help to explain why local accountants were considered to be expensive. The time factor, however, was an important hidden cost element of dealing with firms in remote areas. It was generally felt that more remotely located clients did not receive any different service from other clients. To an extent, however, this was because the bulk of the accountants' work was audit and taxation. The respondents stated that for most of their clients this was the only contact that they had, so that the majority of their clients were only seen once a year to discuss their returns. This highlights the problem pinpointed in the previous chapters, that firms generally have very limited contact with their professional advisers. This was viewed as the norm although the respondents stated that they felt that the

BBS scheme had been useful in encouraging firms to make more use of their accountants. This could reflect a degree of self interest since the scheme obviously helps the accountants increase their fee income.

One criticism levelled at the local accountants by respondents to the survey of manufacturing firms was that their knowledge was biased towards the agricultural sector. The limited results of this survey do not strictly bear this out, although in one case a respondent said that 40% of his firm's fee income came from the agricultural sector. Most of the respondents stated that the vast majority of their clients were self employed tradesmen. Some practises had a bias towards dealing with hotels, but these tended to be the one man operations and reflected the respondents' interests.

When asked about changes in their client base over the past five years some of the main trends, such as the growth in self employment have already been noted. The accountants were asked specifically about the growth of the fish farming industry and if this had affected their client base. Only four firms mentioned that they dealt with fish farms directly, although several others stated that it had had an important spin off impact on their more remote clients. Of the four firms which worked with fish farms, two were amongst the largest in the sample. They described the impact of the industry as very great

on their business. The other firms stated that although they only worked with three or four fish farms, their size in turnover terms, meant that they made a significant impact on their fee income. In the case of one self employed accountant, fish farming accounted for 15% of fee income and was expanding. The other firms stated that because so many of the firms involved in fish farming were based outwith the Highlands, they did not use local accountants. This factor was certainly borne out by the survey of service demand. Indeed the ownership factor was cited as a reason why the accountants did not deal with many of the larger new projects in the manufacturing sector by several of the respondents.

When asked if they felt that their clients made the most of the services that they offered, several factors were cited as causing firms not to use more than the minimum audit or tax services. These interrelated factors included a lack of management experience, a lack of confidence, and worry about fees. In general the accountants did not feel that they had to provide more advice to their clients but tended to react to demands for assistance. One problem was that the firms which required the greatest assistance such as start up firms or those in difficulty were the ones which were least able to afford it. In most cases the volume of audit and taxation work was such that the accountants did not have to diversify to providing more consultancy services. Only the largest

firm in the sample had a specific "advisory" division in its office and its activities were expanding. The impression was given by most of the other firms that they were carrying on providing core services with little diversification. Indeed, one problem cited by an HIDB Investment Manager is that accountancy practises can see their main way of expanding as increasing their audit and tax base so that they have little time to provide advice to start up firms for example (Interview, April 1988).

### 6.3: Competition and Market Strategy.

The accountants were asked about factors such as, who they saw as their main competitors, how they marketed their services, how they would plan to expand, and any problems which could inhibit this, and finally to describe their market position over the past five years.

The competition was seen to come entirely from other local firms. The main factors considered to be of importance in competing locally were fees and quality of service, particularly the view that a "personal" service was important. In general the smaller practises, and those outwith Inverness, felt that they could undercut the larger Inverness firms and offer a more personal service. None of the respondents mentioned the "speed" of service, although this could be included as providing a "personal" service. The "speed" of service was however

clearly a factor which emerged from the demand survey as being very important. 50% of the firms used advertising in the local press to market their services but in most cases the only effective marketing strategy was seen as providing a high quality of service and being recommended. "Word of mouth" was mentioned by all of the respondents as being the only real way to expand their client base. The respondents were generally not aware of firms from outwith the area taking clients from them. Indeed in three cases respondents stated that the reverse process was occurring and they were picking up clients from larger international firms outwith the Highlands. All of the firms set their own charging rates, even those which were part of larger firms of accountants. Most were aware of the effect of their fees in gaining but particularly losing clients.

When asked how they would intend to expand their client base most of the firms argued that this was occurring organically without them having to do any formal marketing. Most of the respondents were distinctly "bullish" about their firm's prospects. The only problems which they could see were the shortage of professional staff. But one aspect in their favour, it was argued was the high amenity value and quality of life in the area.

The firms in Inverness contrasted with the smaller firms in places like Nairn, Dingwall, and Invergordon where the

accountants were more reliant on the immediate local market. In these places the more depressed nature of the local economy was reflected in the fact that most of these firm's growth had been in self employment. Other trends to emerge were the depressed nature of the agricultural sector. In the case of the larger Inverness firms they tended to be increasing their client base throughout the Highlands.

#### 6.4: The role of the Public Sector.

The accountants were asked about their involvement with the HIDB and Highland Opportunities, the local enterprise trust. The aim was to assess the extent to which the accountants were involved with grant and loan applications, to gain their views on HIDB programmes and to assess their awareness of other policies, such as the *Enterprise Initiative*, assuming that they act as intermediaries for their clients in keeping them advised of sources of assistance.

In general applications for financial assistance were not a major part of any of the firms workload. Only three respondents could put a figure on the level of fees generated by this type of work and the answers ranged from 2% to 5% of fee income. The only main criticism of the HIDB grant and loan procedures was the amount of time it could take to process applications. The time factor

also emerged as a criticism from the surveys outlined in the previous chapters. The Highland Opportunities scheme was almost universally criticised for having an overcomplicated application form, and asking for far more detailed information than the small amounts of money that were available justified. It was argued that this made the scheme more costly for applicants.

The accountants were also asked to describe how significant they felt HIDB finance was in relation to the funding of business projects in the area. This question was partly designed to tackle the issue of additionality and to see if they felt that there was still justification for continued public support for projects in the area. In all but one case it was argued that HIDB assistance was vital to the Highland economy, particularly in the manufacturing sector, but also in tourism, and because of the spin offs into other sectors. In two or three cases the appropriateness of projects in the manufacturing sector was questioned because of the areas peripherality to markets.

The issue of leverage was raised by most of the respondents, with twelve stating that banks were only willing to lend at all in certain circumstances where HIDB backing was forthcoming. One respondent stated that he felt that the HIDB was underfunded compared with earlier periods, and that its scope was too narrow and should be



extended into providing support for rural shops in particular. In one case, however, a respondent was highly critical of the HIDB stating that they had often backed projects which were highly detrimental to local communities because their failure was inevitable. The latter firm mainly dealt with small tradesmen and rural businesses and had a generally hostile attitude to public sector support for firms. In general it could be concluded that the accountants saw the HIDB as playing a very important role in the local economy because of the unwillingness of the private sector to risk supporting certain types of businesses in the area. This of course raises questions about the role of the HIDB in building a self sustaining economy since the general consensus was still important for the areas economic welfare.

The accountants were also asked if they felt that any of the HIDB's functions were in competition with them. This was an attempt to tackle the "crowding out" hypothesis, whereby it is argued that if the public sector stopped providing services, or introduced charging for them, then the private sector would find it worthwhile to compete to provide these services (See the Treasury Review of HIDB). None of the respondents stated that they felt HIDB was in competition with them in providing business advisory services. In part this may be explained by the dependence of the local accountants on audit and tax work rather than consultancy. In two cases respondents stated that

they felt HIDB services should be viewed as complimentary, and they encouraged firms to make use of these advisory services. In four cases, however, the respondents stated that they thought these services were limited to firms in difficulty and would not be of use to their clients.

When asked about the introduction of the *Enterprise Initiative* most of the respondents adopted a "wait and see" attitude. One respondent was wary of his firm's clients becoming involved with third party advisers. Another respondent was unaware of the whole procedure. In only one case did a respondent state that their firm was making efforts to increase the consultancy side of their activities. The loss of Regional Development Grants was viewed as not being very significant because the firms could still apply for HIDB assistance, although its automatic nature and therefore predictability had enabled firms to plan ahead more securely. Those respondents whose firms which were part of larger groups, or had more partners generally gave the impression of greater awareness of policy changes and their significance to their clients.

#### 6.5: Conclusion.

In the concluding section of the interview schedule general issues such as problems and opportunities in the

local economy, the scope for using new technology and the problem of remoteness were discussed. In general, the distance from major markets was not considered to be a problem. Problems in the local economy which were pinpointed included: management weakness, the openness of the local economy to external factors, the "equity gap" for firms wanting to raise £50k to £100k, and the lack of competition in certain areas leading to a poor quality of service. Most of these factors are fairly self explanatory. The management weaknesses were seen to be most evident in firms which were either in difficulty, or expanding too fast. A common response was that firms would only use the services of their accountant when they were in difficulty and that few of the firms sought advice at an early enough stage. This confirms the findings of the demand survey where respondents stated that they tended to only contact their accountants as problems arose.

The accountants were asked about the use of new technology both by themselves and their clients. Only two of the firms did not have a computer. The respondents noted an increasing trend towards the use of computers by their clients. In several cases it was noted that insufficient attention was paid to training in the use of the computerised systems and consequently firms often got into serious trouble with their accounts. It was generally felt that there needed to be more training in

the proper use of accounts packages. None of the respondents could foresee a time when they offered accounts services through modems, although one is already running on the RURTEL system based in Nethybridge. The main constraints to this were seen as the quality of the telephone lines, and lack of training.

In conclusion, this chapter has shown that generally the accountancy sector in the Highlands and particularly Inverness has been expanding over the recent period and has pinpointed some of the reasons for this growth. It has been shown that the accountants are mainly offering routine services such as audit and taxation and, with a few exceptions, offer a more limited amount of specialist advice. In general, contact with their clients is limited to a discussion of annual accounts or when problems arise, often at a very late stage. The accountants pinpointed gaps in the provision of training, particularly in the use of computers, but also in general management skills. The levels of awareness of government policy varied, although most of the accountants had regular contact with HIDB. Most criticism of the latter related to the time it took to process claims although it was also recognised that there had to be safeguards about the use of public resources. The scheme operated by Highland Opportunities was almost universally criticised for having an overcomplicated application form and therefore being costly to apply for. The Better Business

Services scheme was felt to be very useful, although as the analysis showed it was being used mainly to subsidise routine business plans rather than ongoing business advice.

This chapter has tended to confirm the view that there is limited provision of ongoing business support in the Highlands from the private sector. There was very limited evidence of the accountants offering proactive support to their clients. In general it could be assumed that the weakness of the local economy is reflected to a certain extent in much of the accountancy sector. This is only one aspect of a poorly developed business service sector servicing the needs of a weak productive base.

CHAPTER SEVEN: CONCLUSIONS AND POLICY IMPLICATIONS  
OF THE STUDY.

This chapter provides the main conclusions to the study. It consists of five sections. Firstly the major findings of the empirical research are summarised. In the second section the general policy implications of the study are discussed. The third section outlines the policy implications for the provision of HADB services in the context of the imminent changes (at the time of writing in autumn 1989) in the organisational structure of the HADB. In addition policies towards inward investing companies, the development of indigenous small firms and the local service sector are considered. In the fourth section ways of implementing the proposals are discussed. In the fifth section three areas for future research are suggested.

7.1: Summary of main findings.

This section has four parts. The first outlines the background finding of the study that the Highlands have limited employment in producer services. The second subsection summarises the general findings of the study into the demand for business services in the Highlands. The third section examines some of the specific findings examined in detail in chapter five. The fourth subsection shows how the findings relate to other studies. This provides the context for the policy implications.

7.1.1: The limited nature of employment in producer services in the HIDB area.

As the introductory chapter showed the Highlands and islands suffer from a number of structural economic problems which are shared with other peripheral regions in the European community. One of these problems it was argued, were relatively low levels of employment in producer services (Keeble et al, 1983). It was shown using a classification developed by Urry, that the area did indeed have a poorly developed producer services sector. Thus it was shown that the Highlands and islands had below the Scottish and therefore also UK average employment in producer services. It was also shown that in the early half of the 1980s growth in SIC order 8, banking, finance, insurance and business services, in the HIDB area was less than half the Scottish average (4.4% cf 11.6%). This suggests that the gap in employment in the high order business services, which the literature argues are important for economic growth, could be worsening. In addition, as chapter one pointed out, unlike other parts of rural Scotland much of the HIDB area is remote from main concentrations of business service activity in Edinburgh and Glasgow. The lack of an indigenous business service sector is therefore compounded by this problem.

As the second chapter showed factors which could account

for this include the poorer performance of other sectors of the local economy. Undoubtedly an important factor is the lack of major population centres, outwith Inverness (population c40,000), because as the literature shows higher order business services have tended to grow in main towns rather than rural areas. The fact that the HIDB area only has two towns of greater than 10,000 population helps to explain the apparently limited nature of employment in producer services in the region. The literature also points to the need for control functions such as head quarters to be present in the local economy to generate demand for business services. Thus areas where enterprises are controlled from elsewhere may suffer from a lack of demand for business services. As has been pointed out the high degree of "external control" is one of the less frequently recognised problems of the Highland economy (MacKay 1987). What the employment figures fail to reveal, however, are possible qualitative differences between the services provided in the Highlands and elsewhere. This issue was found to be extremely difficult to determine. It was one of the issues tackled in the survey of the demand for business services whose main findings are summarised below.

#### 7.1.2: General findings of the empirical research.

Table 7.1 summarises the main findings of the survey of the forty two manufacturing and nine fish farming enter-



Table 7.1: Main findings of the research.

| General finding  | Qualifications/Expansion  |
|--|---|
| 1. There are variations in the types of services used by firms in the survey.        | <ul style="list-style-type: none"> <li>- <i>Normal</i> services eg banking, legal, accountancy are used by all firms to varying degrees.</li> <li>- <i>Common</i> services eg maintenance, marketing, and computer services are used by about half the firms.</li> <li>- <i>Unusual</i> services eg advertising, training, consultancy, technical services are used by fewer than half of firms.</li> </ul> |
| 2. As the use of services falls there is a need to go beyond the HADB area.          | <ul style="list-style-type: none"> <li>- 59% of contacts involving the use of <i>normal</i> services were in the HADB area, cf 48% of <i>common</i>, and 32% of <i>unusual</i> services.</li> <li>- This relates to both supply and demand factors, with emphasis on the small size of indigenous firms</li> </ul>  |
| 3. Even where services are available firms may not use local services.               | <ul style="list-style-type: none"> <li>- Larger firms employing 25+ tend to go outwith the HADB area because of cost and quality considerations</li> <li>- Branch plants tend to obtain many services through head offices but this depends on the degree of autonomy the local manager has.</li> </ul>   |
| 4. Small indigenous firms tend to be most reliant on local services.                 | <ul style="list-style-type: none"> <li>- They "go local" because they want proximity to advice.</li> <li>- Their advisors are chosen on the basis of personal recommendation.</li> </ul>  |
| 5. Use made of external services by small indigenous firms is in most cases limited. | <ul style="list-style-type: none"> <li>- Additional advice was not viewed as necessary under "normal" circumstances.</li> <li>- Cost in financial and time terms is seen by potential users as the main constraint.</li> <li>- BBS is viewed as useful but also often as a windfall.</li> </ul>   |

prises in the Highlands. As chapters three and four described the firms were asked about their use of thirty nine business services as well as interaction with public sector agencies such as the the HIDB, Highland Regional Council, and the SDA.

As the table shows the first finding was relatively straightforward, namely that certain types of services were used to a greater or lesser extent by the firms. The services were classified into three categories - *normal*, *common*, and *unusual* services, according to the number of firms using the service. The first category of services were mainly used to comply with legal requirements such as audits, or the physical needs of the production process, for example road haulage. Interestingly the services of the HIDB would be classified as a *normal* service because they were used to varying degrees by about 90% of the sampled firms. Another interesting finding was that about half of the firms stated that they used external assistance with some aspect of marketing. This finding can to an extent be misleading, however, because about 60% of the firms which stated that they used marketing assistance were branch plant operations which obtained these services from their head office. The use of public sector agencies was also important in this respect notably the SDA and BOTB. Thus of the twenty four firms which stated that they obtained external marketing advice, twenty obtained this outwith the HIDB area.

In the case of unusual services it is apparent that relatively few of the firms undertook any formal management or personnel training, that their use of management consultants was limited and that the firms rarely used any external technical assistance. These findings it could be argued are extremely important from a policy perspective and will be returned to shortly below. To an extent these factors are interrelated since the research suggests that the better run and managed firms were also those which tended to make greater use of external services.

The second main finding from the survey was that as the use of business services became less frequent there was a tendency for firms to go outwith the HIDB area to obtain the service. Thus as the table shows there was a decline in the level of contacts inside the HIDB area from normal to common to unusual services. This is significant because the literature and also the findings of the survey tend to confirm the view that the smaller firms will tend to have a greater propensity to use services which are available locally. The small size of most of the firms in the sample meant that there were various constraints upon their use of services, including in many cases a failure to recognise that external assistance may be beneficial to them. This suggests that simply increasing the local supply of specialist

services, particularly in the fields of training and technical assistance, would be insufficient without ensuring that firms were aware of the need for assistance in these areas.

The third main finding of the survey is also significant for peripheral areas. This is that even where services are readily available, such as accountancy and legal services, there is a tendency for certain types of firms to go beyond the local area to obtain these services. As chapter five showed, it tended to be the larger firms and also certain types of branch plant and subsidiary operations which obtained their services outwith the HIDB area. Some of the reasons for this were apparent from the survey. Firstly there was a belief that the services on offer would not be of as high a standard as in a major centre. Conversely the area undoubtedly benefitted from having a major international accountancy firm based in Inverness, as most of the large firms which used Highlands based accountants tended to use them. Another factor is that many of the oil related firms tended to use accountants based in Aberdeen as many of the firms which they dealt with were based there. A second factor which helped to explain why local services were not used was that it was felt that they would be more expensive to use than services obtained from Glasgow or Aberdeen. A third reason was the belief that local service providers had a limited understanding of manufacturing companies

and were more used to dealing with agricultural and retail businesses. A fourth factor is that in certain cases firms wanted to have their business dealt with outside the local area because they wanted to preserve anonymity about their affairs locally.

Three of these reasons could be dismissed as showing a degree of prejudice mainly on the part of incoming firms to the area as in most cases respondents would admit that these assertions were based on limited knowledge. It could be argued that this non economic factor is still important as it means that there is less of a spin off into the local economy from for the most part inward investing firms. This was particularly the case with branch and subsidiary operations where proprietors stated that accountancy work and other professional services were obtained through head offices in the central belt and beyond. This was not always the case, however, and was dependant on the degree of autonomy which the local manager had. Paradoxically, therefore one subsidiary of an American firm had a pattern of service use more akin to a locally controlled firm than its neighbouring firm with a head office in Stirling.

The fourth main finding tends to confirm previous research in the field, namely that small indigenous firms tend to be most reliant upon local service providers. There are a variety of factors which help to explain

this. Firstly it is apparent that local firms tend to approach local professional advisers because they want to be close enough for ready contact with them. Amongst new start ups where the founder has limited experience of running a business this may reflect their recognition of the need for "hand-holding" assistance as the project begins. Secondly, because advisers are overwhelmingly chosen on the basis of recommendation from either a colleague or another adviser such as a bank manager, they tend to be from within the local area. This means that the ideas and attitudes of accountants, bank managers and solicitors may become reinforcing as they will tend to share the same outlook on business. This may have the benefit of providing consistency in the advice they give but it could also have negative aspects.

In any case, as conclusion five states, what the survey has tended to show is that amongst smaller indigenous firms the recourse to external advice is extremely limited. In most cases contact with accountants is only to discuss annual accounts, or to provide cash flow projections for financial applications. Additional advice about business development or financial management was not considered necessary unless the firm faced immediate problems. In the case of the smaller firms in the sample complaints arose because of the lateness of annual accounts which meant that they were not aware of their financial situation. This suggested that for the most

part proprietors had a limited idea of the firms day to day financial situation. This would help to explain why the accountants stated that often they were called in to help clients when the situation was too far out of control.

The main constraints upon greater use of external services were seen to be the cost both in financial and time terms. The Bolton report argued that this was often simply a convenient excuse for avoiding outside appraisal by proprietors (Bolton Report, 1971). Indeed as the figures in chapter five showed most of the small firms in the sample spent very little on external advisory and promotion services in relation to turnover. Unfortunately most expenditure on services was viewed as a cost to be limited rather than something which could provide positive returns. Comments such as "advertising brought us no orders and was a waste of money" to "the fees accountants charge are too high to make greater use of them" were typical of the responses of smaller firm proprietors when asked why they did not use more external services. As chapter five showed, with the exception of the HIDB's Business unit, only two firms in the sample used external financial advisers in addition to their accountants and bankers.

The time and travel cost element obviously became more important where firms were located remotely from their

advisers as this could mean that the proprietor would have to be away from the firm for a day or so. This could be a factor which limited the contact with external advisers and would undoubtedly be more significant for firms on island locations. For the most part proprietors were prepared to accept the distance factor which being located in the Highlands entailed, as the norm. Indeed there was little variation in the use of services between small indigenous firms located centrally near Inverness, to those in more remote locations, suggesting that the influence of travel costs should not be overstated. It could be argued that of more significance were the attitudes of the proprietors in seeking external assistance.

As the table suggests the Better Business services scheme which provided a grant up to 55% of costs to a maximum of £550 for certain consultancy exercises was generally viewed positively by the firms. It had been used by seven of the firms in the sample, in five cases to produce business plans to make financial applications to the HIDB. In the majority of cases it was viewed as something of a windfall because the respondents stated that they would have made the applications in any case. It was also clear that their accountants had pointed out that they would be eligible for the grants, suggesting that they can play an important role in keeping firms informed of sources of assistance.



The previous section has largely answered primary questions two and three, as set out in Table 1.1 (page 3), namely attempting to establish which services firms use and whether certain types of firms use different services. The following section attempts to summarise the conclusions about the remaining research questions. These were: 1. whether there is a relationship between firm performance and use of services; 2. whether there were problems with the supply of services in the Highlands; 3. whether enhancing the provision of certain services could improve the local economy; and 4. whether the limited availability of business services in remote areas acted as a constraint on the local economy.

### 7.1.3: Specific research findings.

#### 1. The relationship between firm performance and service use.

On balance it is extremely difficult to determine whether there is a relationship between the services which a firm uses and its relative success or failure. The research suggests that larger firms will tend to make greater use than smaller firms of specialist services such as technical advice, management consultancy and advertising agents, but this may simply reflect greater resources that they have at their disposal. Successful firms will also tend to generate demands for further financial,

property, and marketing services simply as a function of their success.

The research has identified specific examples of firms which have used management consultants, or marketing studies and subsequently improved their position, although other factors such as their product markets have to be taken into consideration. It is extremely difficult to isolate the impact of an individual consultancy, or marketing exercise from wider factors. In addition the research methodology did not really enable longitudinal comparison of firms' performance.

The problem of identifying factors involved in producing "successful" firms is not isolated to this study, however. Thus a study of small firms in West Lothian argued that it was extremely difficult to identify successful firms, although there was limited evidence to suggest that they made use of a wider range of external agencies than their less successful counterparts. The "growth" firms in this study it was argued were more likely to seek external advice, were less dependent on local markets, and were more ambitious. They were also more likely to be planning to develop their products, undertaking new investment, and undertaking marketing exercises (Turok and Richardson 1989). This suggests, as stated earlier that "successful" firms will tend to generate demands for services because they are successful.

Another problem involved in analysing the role of business services to firms is that as the above study suggests firm performance is also dependent upon the motivations of the proprietors of the firm. Thus "growth" firms were likely to have "ambitious" proprietors (Turok and Richardson, 1989). In the survey it was found that there were a number of firms where the proprietors could be described as "satisficers". In other words they were running businesses where the continued growth of the firm, in employment terms at least, was not a primary consideration. It is likely that in areas such as the Highlands there are a substantial number of firms whose proprietors would fall into this category. In conclusion, therefore, although it is likely that "successful" firms share similar attributes in terms of their use and - importantly - attitude to external services, it is very difficult to determine the nature of causality in the relationship between firm performance and business service use.

## 2. Are there problems with the provision of business services in peripheral areas such as the Highlands?

This question proved extremely difficult to determine. The survey of the demand for business services suggested various problems with services in the Highlands, although it would be incorrect to overstress these problems without sufficient comparative data. Firstly it was

argued that certain types of services simply were not available in the area. These included certain technical design and testing services, management consultants, and certain types of management and personnel training services.

Secondly it was argued that certain services were of poor quality. Thus amongst the small indigenous firms it was found that 20% had changed accountants over the past three years with the main reasons given as slowness and poor attitude, and unhappiness with the quality of the service. It must be remembered that this figure is drawn from a relatively small sample size. This may suggest that there were problems with the quality of the service provided or that the firm proprietors were dissatisfied with the accountants' diagnosis of weakness in the firms. In contrast, however, nine of the small indigenous firms made regular use of their accountants.

The survey of accountants largely failed to produce evidence of any deficiencies in service provision, although it did illustrate that they tended to be mainly involved in the provision of routine audit and taxation services, rather than providing more wide ranging assistance to client firms. Indeed in several cases it was argued that this was largely beyond their role. The survey revealed generally positive attitudes to HIDB assistance schemes, although there was some criticism of

the types of manufacturing projects assisted and in one case hostility towards most of the Board's activities. The scheme undertaken by Highland Opportunities was criticised for having an overly complex application procedure. It was not possible to determine whether local service providers were more expensive than elsewhere though as noted above this was a widely held contention.

Other problems identified were equity gaps, whereby firms found it difficult to raise backing from banks, and the short term time horizons of most private sector loans. A further problem identified in the banking sector was the lending hierarchy of the banks which meant that local entrepreneurs, particularly those using small rural banks, would have to deal with distant head offices. The two former issues are ones which are widely recognised but the latter problem is particularly significant in remote rural areas.

### 3. Could enhancing the provision of certain services improve the local economy?

This can be viewed in two ways. Firstly as a policy for improving the attractiveness of the area for inward investing companies, and secondly for improving the performance of indigenous firms.

The survey found that in the case of inward investing companies the local availability of high order business

services was viewed as relatively insignificant. As the survey showed to an extent this was because such firms tend to maintain their previous service linkages. In addition most of the subsidiary firms which were interviewed were located in relative proximity to Inverness, where there is access to most of the services which the firms felt that they required. It was stated that outwith this area the availability of such services may be more problematic but this was very much seen as a minor issue. For inward investing firms the most crucial factors were the availability of HIDB assistance, the availability of premises, efficient road haulage services, and good communications for business meetings, particularly by air, with the industrial centres of the country. By far the major problem of being located in the Highlands as seen by inward investing companies was the logistical problem of running a firm at some distance from their markets. With the exception of the few resource based processing firms it was apparent that in the absence of HIDB assistance most of the branch plant operations would not be located in the Highlands. This has clear policy implications about the level of funding which any successor body to the HIDB must receive. Alternatively, it suggests there are major difficulties associated with attempting to create self sustaining economic growth on the basis of footloose branchplants. This is particularly the case if future financial inducements are unavailable because from the survey findings it requires a commitment

on behalf of inward investing companies to remain in what can often be viewed as illogical locations.

In terms of the importance of business service provision to indigenous firms one of the main conclusions of the study is that simply increasing the availability of certain services would not on its own be sufficient. This is because of the nature of the indigenous manufacturing firms in peripheral areas. In the HIDB area it is almost exclusively a very small firm sector (less than ten employees). There would need to be a change in the attitude of many small firm proprietors towards using external services. It must however be concluded that the provision of an adequate range of business services is important to these firms. The attitude of service providers to such firms is very important because one of the problems identified by the study is that often the small firm proprietors are operating in a very isolated fashion, with few people that they can discuss their business with. This has been identified in previous studies of small firms but clearly reaches an extreme in remote areas. Therefore, positive and supportive attitudes from advisors such as accountants and lawyers are significant for this group of businesses. It could be argued that it would be difficult for public sector officials to obtain this degree of confidence from these firms, particularly where they are in receipt of assistance and have to paint a positive view of their

business.

4. Does the limited availability of business services in remote areas act as a constraint on the local economy?

It has to be concluded that this is simply one of the factors which go into creating a difficult economic environment for firms in remote regions. There are three closely interrelated factors which must be considered. Firstly certain services may simply be unavailable locally, and secondly proprietors may not have the time to seek out the necessary advice on obtaining the services. Thirdly, however, there may be a complete failure to recognise that the service could be necessary to the firm's survival. The problem of limited local markets for manufacturing firms in peripheral areas means that they are largely forced to sell beyond the immediate locality where they face the problems of higher transport costs. The firms are disadvantaged in that they are not immediately proximate to providers of specialist services but the literature suggests that small firms in general make limited use of external services. In addition it is argued that the small firm sector as a whole, and particularly in peripheral areas, faces increasing problems meeting the requirements of competitive markets (O'Farrell and Hitchens 1988).

It is doubtful whether increasing the range of advisory services available in a locality would have a significant



impact on the entrepreneurial potential of the area. By providing a range of specialist services to existing firms it may be possible to improve their performance but in general their individual impact will necessarily tend to be small. To counteract the closure of a major employer in the HADB area by relying on the growth of indigenous small firms alone would be very difficult. This can be illustrated in places such as Invergordon and Fort William where the closure of major industrial employers in the early 1980s has left persistent high levels of unemployment.

#### 7.1.4: Study findings in the context of previous research.

Chapter two provided a summary of the findings of previous research in the field (See table 2.8, page 98). The survey has largely confirmed the findings of previous research. In particular the findings that branch plants and subsidiaries tend to be poorly integrated into the local service economy in peripheral areas, particularly in the fields of professional services. This study showed that this was because of perceived quality and cost disadvantages which previous studies were unable to show because of their methodologies. The finding that small locally based firms are most dependent on local service providers was also confirmed by previous studies. The study was also able to point out the reasons for this,

particularly the reliance on personal recommendation in choosing professional advisers and the need for proximity. The survey also confirmed that significant aspects of service provision are carried out in house, particularly relating to technical services and marketing. These were not brought out by previous studies as being important areas of in house activity.

As chapter one noted many of the key questions about the role of producer services in economic development remain unanswered (Marshall 1988). This study has shown that there are important areas of service activity which are given insufficient attention or ignored by firms but it is extremely difficult to quantify the effects of this. This study must conclude that whilst service provision is important it is only one of the factors affecting the economic performance of an area. The literature on the role of business services tends to take sufficient demand for the products which firms are producing as given. This study has to conclude that the demand side of the equation is also very significant. Firms in peripheral areas face limited local demand for their products and are therefore vulnerable to changes in external markets. The fish farming sector provides an excellent example of the vulnerability of the local economy to external factors. The dominance of their market by Norwegian producers and their decision to cut the prices for their produce have had a serious effect on the Scottish

fish farmers. It could be argued therefore, that to see improved service provision as the answer to the economic problems of an area neglects some key issues. Other factors which should be considered are the social and cultural aspects of entrepreneurship which the literature on service provision tends to ignore. If the literature which argues that it is dynamic entrepreneurs which generate demand for services is to be agreed with, then a key issue becomes why some areas generate greater numbers of entrepreneurs than others.

In addition from a policy perspective there are other areas which must be considered aside from the provision of services. The role of national economic and regional policies is of great significance. Factors such as the exchange rates, and interest rates all play a role in the development of local economies. Another crucial aspect is the ownership and control of local resources which can have an important impact on the development process. In terms of local economic policy it should be ensured that the impact of grants to local firms is maximised. The fish farm survey, for example, showed that a great deal of the expenditure on equipment had been lost to Norway. The HIDB should arguably have taken a much more active role in fostering the production of equipment in the Highlands, particularly as the engineering sector was over reliant on the oil market.

## 7.2: General policy implications and recommendations of the study.

The following section focusses on weaknesses revealed by the survey in the use of services and makes proposals for improving the situation. The section has three parts. The first section makes proposals relating to the categories of services used in the survey, namely: financial services, legal and specialist services, technical and training services, marketing, and transport services. The second section discusses the use of HIDB services in the context of the proposals for "Highlands and Islands Enterprise". In the third section proposals are put forward relating to the focussing of advisory assistance on indigenous firms with growth potential, to inward investing companies, and to the development of the local service sector.

### 7.2.1: Policy towards business service use.

Table 7.2 provides a summary of the main policy recommendations regarding the use of services by the firms.

1. **Financial services.** Policy recommendations relating to banking and accountancy services.

The survey showed that the majority of the firms in the survey used local banks, with the largest single category

being in the local "travel to work" area. Thus 67% of the contacts with banks were within the HIDB area. Use of local banks for raising finance was highest amongst the smaller firms in the survey. It was also apparent, however, that if these firms were unsuccessful in raising finance they did not look beyond the local area for finance or examine alternative ways of funding projects. This suggests that particularly in the case of small indigenous firms there needs to be greater awareness of alternative sources of finance in the private sector. One way of achieving this might be to organise seminars about making presentations to investors, or encouraging local firms to undertake joint ventures with non local firms, and to explore opportunities for corporate venturing whereby larger firms offer financial backing and advisory assistance to small firms. HIDB could act as a broker in these instances. Target firms for corporate venturing would include those with directors from the HIDB area, or firms which used local firms as sub contractors.

In the case of accountancy services it was apparent that half of the firms in the survey obtained these services outwith the HIDB area. It was found that with the exception of auditing and tax services contact with accountants was extremely limited in most cases. It could be argued that in the case of the larger firms this was less significant as they tend to have their own

Table 7.2: Policy recommendations of the study.

| Recommendations  | Justification  |
|--|--|
| <b>1. Financial services:</b>  |  |
| Firms should be encouraged to look beyond the local area for finance.  | - Small firms argued it was difficult to raise finance from local banks but did not look to other sources.             |
| Firms should be encouraged to make better use of their accountants.  | - Contact was generally limited to audit and tax work particularly amongst the smallest and most vulnerable firms.     |
| <b>2. Specialist services:</b>   |  |
| There is a need for more training in the use of computers.   | - Firms which introduced computer accounts packages recieved little or no back up. Accountants saw this as a problem.  |
| Increased use could be made of management consultants.   | - Particularly to help with expansion rather than rescues where outside consultants were viewed sceptically.           |
| <b>3. Technical and Training services:</b>   |  |
| Firms need to use additional technical assistance.   | - Use of these services was extremely limited with reliance almost wholly on internal expertise.                       |
| There is a need for more training in management skills with aggressive marketing of courses and visits to firms. | - The smallest firms were particularly poor in this respect.   |
| Personnel training needs to be improved.   | - Most firms undertook this wholly in-house with ltd. recourse to outside advice (with the exclusion of fish-farming). |
| <b>4. Marketing Services:</b>  |  |
| Small firms need to increase their use of these services.  | - Most firms must sell beyond the HADB area to survive yet mainly rely on repeat orders and customer loyalty.          |
| <b>5. Transport and Communications:</b>  |  |
| Scope for shared use of transport and communications technology could be explored.                               | - This would reduce costs and help to foster use of fax/modems etc.  |

accountants in house, although this does not mean that they would not benefit from additional advice. In the case of small indigenous firms more than half of the firms only used their accountants for annual audits. One recommendation of the study is that small indigenous firms are encouraged to make greater use of their accountants on a regular basis rather than for "one off" activities such as business plans. Accountants would therefore be providing a degree of financial training to the firms. One immediate problem with this recommendation, however, is that a common complaint amongst the smaller firms was that their accountants lacked experience of manufacturing firms.

**2. Legal and specialist services.** Policy recommendations relating to the provision of computer services and management consultancy services.

As table 7.2 suggests there are two recommendations stemming from the survey. Firstly, the study showed that most firms using computers received very little training in their use. This was confirmed by the survey of accountants where it was stated that often firms were in difficulties because they did not know how to use their computers properly. This suggests a need for flexible training programmes in the use of computer accounting packages in particular.

The second main conclusion from this section is that the

use of management consultants by the firms was relatively limited. Twelve firms had used them at some stage in the past five years. The most common reason was that the consultants had been brought in by HIDB to rectify certain difficulties the firms were in. In general the firms had a negative view of consultants, either stating that they pointed out the obvious without providing solutions, or that the consultants were too inexperienced and lacked "local" knowledge. A further problem was that they were viewed as being too expensive. In certain cases, however, they were viewed positively, particularly where firms had used them to help with expansion plans. This suggests that consultants should be used more positively as opposed to simply where firms are in difficulties. This is the general thrust of the DTI's *Enterprise Initiative* which could be viewed as a positive development. It would appear that the scheme has met with some success in its first year of operation, with figures from the HIDB showing that 50 firms used the scheme in its first year of operation (HIDB Annual Report for 1988). This would suggest that there are firms which recognise that they can benefit from external assistance and are prepared to pay towards the cost of exercises if they are seen to be worthwhile. At this stage, however, there has been little evaluation of the scheme.

### 3. Technical and training services:

Relatively few of the firms in the sample used any



outside technical assistance. The firms were asked if they obtained assistance with technical design, prototype development and product testing services. As chapter four showed (Table 4.5, page 163), by far the largest category of response to these questions was that they were carried out in house, with branch plants obtaining the services through head offices. This suggests that firms which require technical assistance are not aware of it because they feel they can produce the products which the market requires. A typical response from a proprietor would be that "we might need some marketing assistance but we know how to make our products". In many cases this reflected the "craft-based" nature of many of the backgrounds of the proprietors. Again whilst this may not be a problem with larger firms or firms with the inhouse expertise it could be dangerously complacent. Thus O'Farrell and Hitchen argue that small firms in particular face problems manufacturing to the requirements of the market. They argue that:

*"The need to get the design and price/quality relationship correct for specific market segments is a necessary condition for growth for all firms."*

(O'Farrell and Hitchens 1988, p1380)

This suggests that greater attention must be paid by small firms to manufacturing their products and this could involve outside technical assistance. In only two cases did firms specifically mention that they had

introduced British Standard 5750 quality systems (although there was no specific prompt about this).

Similarly in the fields of management and personnel training there was very limited use of outside advice and programmes. There was a recognition amongst some of the smaller firms that they needed training in management skills but typically the respondent would argue that they could not spare the time away from the firm, or that courses were too distant. Only in the larger firms was there evidence of management development courses. This is to an extent a key issue because it could be argued that firms which were run by better trained managers were more aware of the benefits of external assistance. In addition amongst the smaller firm proprietors there was a reluctance to become involved with professionals who it was felt were simply after a fee for their services.

Another problem which the survey revealed was a shortage of skilled labour in the area. Managers in more remote locations complained that it was difficult to find skilled labour in the area. Even in fields such as engineering where it might be thought that the oil fabrication sector would produce a pool of skilled labour managers argued that they could not find skilled welders. This points to the need for a greater emphasis on training. This will become increasingly significant as it is clearly related to the ability of firms to manufacture

to high standards.

#### **4. Marketing services.**

There is evidence from the survey to suggest that few of the smaller firms in particular obtained any external advice on marketing activities. Many firms tended to simply rely on repeat orders and recommendations from existing customers. It was apparent that there were firms which could make greater efforts to market their products but again the elements of cost and time were seen as the problems. Thus often it was apparent that proprietors were so busy in the day to day management of companies that they neglected this aspect of their activities. One respondent stated that when his firm was not busy he would simply phone around previous clients to see if they had orders.

#### **5. Transport and communications technology.**

There was very little evidence of firms using new communications technology such as modems. In one case a respondent stated that he had one but did not know what to do with it. For the most part the firms which had them were branch plant operations where they were used to keep in contact with their head offices. There is undoubtedly scope for firms to use communications technology to overcome the problem of remoteness but it has to be concluded that few firms were aware of the potential. On a more basic note there was little or no

evidence of firms sharing transport services, with firms operating completely independently even though products were invariably being shipped south to similar destinations. Co-ordination of shipments amongst firms on the same industrial estates may help to reduce the transport costs for firms in the area.

### 7.3: Policy recommendations on the use of HIDB services in the light of the Highlands and Islands Enterprise proposals.

Clearly the previous section is of relevance to HIDB policy towards the provision of business services but this section focusses specifically on the implications of the study in relation to the services provided by HIDB. The section deals with five issues: the use of and attitude to HIDB services, the Business Unit, policy towards inward investing companies, policy towards indigenous firms, and policy towards business services.

#### 1. The use of HIDB services.

The study reveals that the HIDB is successful in terms of providing financial backing to firms in the area. Thus 76% of the firms in the survey had obtained financial assistance from the HIDB. The HIDB package also emerged as the most important factor in the locational decisions of inward investing companies. Of particular importance was the "one stop shop" nature of the assistance. The

HIDB, however, was still viewed as unapproachable and uninterested in local firms by about 10% of the respondents (exclusively small indigenous firms) suggesting that it still has a job to do in convincing some businesses that it can provide worthwhile assistance.

The use of additional services such as marketing, training assistance, and technical advice was more limited. In all cases less than 16% of the firms had ever used them. This is because these services do not seem as immediately relevant to firms, they feel that HIDB staff lack the necessary expertise in their field, and because they are not adequately marketed by the HIDB. It is also the case that getting firms to use these services requires a more proactive approach than waiting for firms to apply. It would be beneficial if these forms of advisory assistance were tied in with the provision of financial assistance. Thus, for example, grants would only be provided if the proprietors agreed to undertake a marketing study, or management training programme. This would require additional monitoring and contact with firms, providing a solution to the problem of the isolation many of the firm proprietors felt.

## 2. The role of the Business Unit in the context of *Highlands and Islands Enterprise*.

The Business Unit which provides management consultancy services to firms was well regarded. It is apparent that

it offered the type of proactive assistance which most of the proprietors regarded as extremely useful. Where it was less well regarded was where firms were in difficulty and where it may have been made a scapegoat for problems which the firms had encountered. In situations where the unit was used to oversee substantial Board investment it also did not appear to be well regarded. It could be concluded that the Business Unit should be expanded and as much emphasis as possible placed on its role in developing indigenous firms rather than attempting to rescue companies or protect investments.

Under the "*Highlands and Islands Enterprise*" structure with eight local enterprise companies in the HIDB area, it is currently unclear which services will be provided centrally (Interview with A. Brady, HIDB Policy Unit 15.9.89). This study would tend to suggest that the proactive approach developed by the Business Unit should continue. Their assistance can be seen as an existing attempt to integrate business training and development as envisaged under the government's proposals. One recommendation of this study is that each of the local enterprise companies has at least one business counsellor, akin to the present Business Unit consultants. The central services provided by HIE could be the more specific management, technical, and marketing services. What the study as a whole suggests is that firms in the area require much greater back up advice and assistance than is

presently provided and this would be one way of increasing this in the short term.

One problem identified within the HIE proposals is that the local enterprise companies will tend to be run for the most part by small businessmen. This study has pointed to certain weaknesses in the operation of some of the smaller indigenous firms in the area, particularly in the fields of financial management, production, training and marketing. It therefore has to be ensured that these problems are recognised to avoid the situation where conservative and parochial attitudes dominate the local enterprise companies. One of the findings of a study on rural training in Scotland was that many small firm proprietors needed help to simply identify what their training needs were (Arkleton Trust 1988). This situation could be multiplied if the local enterprise companies were to be run by poor managers.

### **3. Policy towards inward investing companies.**

As the survey shows there is very limited use of higher order business services amongst certain types of company in this category. Policy should be developed to try to ensure that these firms make more of an impact on the business service sector in the Highlands. The study shows that some of the factors which must be taken into consideration are prejudices about the quality and cost of local services. In the long term it would be

beneficial to the area as a whole if inward investing firms were encouraged to use local services as it would help to provide greater experience of dealing with manufacturing companies which was felt to be a problem amongst firms using local services. One way of achieving this would be to subsidise firms using local service providers, such as through the Better Business Service scheme, and to encourage local service providers to market themselves to inward investing companies. Given the role of head offices in attracting business services policy could also be developed in trying to attract firms to shift head office functions to the region. Emphasis should be placed on the ease of communications with main centres, low office rentals, and availability of services.

#### 4. Policy towards indigenous firms.

In the long run it is likely to be this sector which is most important if the regional economy is to become more self supporting. This means that assistance should be targeted most heavily upon existing firms with growth potential. This should take the form of integrated packages combining financial assistance with training, technical, and marketing assistance. The latter three areas must not be left to the firm's discretion but should be actively tied in to financial assistance. This should be provided as part of longer term programmes ensuring that indigenous firms are able to compete in



increasingly competitive markets. The provision of these services should be viewed as a long term investment in the human capital of the region and results will undoubtedly only be seen over the long term.

#### **5. Policy towards private sector business services.**

As part of the supply capacity of the local economy certain business services have the potential to produce successful firms. It is important that the service providers in the region realise this potential and do not simply wait for firms to demand services from them. They have to be equally as aggressive in the marketing and production of their services or, as the study shows, clients will be lost to competitors elsewhere. This means particularly in the case of the accountancy sector that a more developmental role should be adopted by the majority of local accountants, rather than the largely passive role which many of the smaller firms felt that they adopted. This is clearly part of a two way process but as firms in the area complained of the limited contact they had with business colleagues, accountants and other business advisers can obviously play a significant role.

As the study also showed the Highlands exhibit a low level of employment in business services as compared to the national average. Whilst improving the locally generated demand for services may encourage the growth of employment in business services this is likely to be

somewhat limited. Policy should be developed to try to attract "back office" functions which are increasingly footloose and could provide value added exports from the local economy. As with the attraction of head quarter activities, there is limited evidence of this process occurring in the local economy. Thus at the time of the survey, McDermotts, the oil fabrication yard at Ardesier had just transferred about 100 administration jobs from its London base (Survey data). These types of events should be publicised where possible to show that existing companies are realising the benefits which could attract further "back office" activity. Whilst it could be argued that "back offices" will be the branch plants of the 1990s, in terms of external control and routine functions, it is clear that continuing to simply focus on manufacturing establishments may be counterproductive. The attraction of "back offices" could be facilitated by the improvements to the telecommunications network signalled by the HIDB's £5 million package of assistance to British Telecom announced in mid 1989 (*The Scotsman*, 3.6.89). In addition the supply of office space in the Highlands should be investigated and attempts made to foster its provision. The region already benefits from a high level of employment in clerical activities, mainly in the public sector, so the availability of suitable labour should also be emphasised. Initial research into this area could be undertaken by expanding the remit of the HIDB's "Industrial Projects" programme to include

services. Subsequently the "Industrial Marketing" programme could be expanded to target the expanding financial and business services sector rather than focussing on the declining UK manufacturing sector.

#### 7.4: Ideas for implementing the research proposals.

There are clearly three options for the HIDB, or future HIE, to increase the provision and demand for business services in the Highlands. These are respectively: 1. Public sector subsidy for the providers of business services; 2. Subsidising the users of business services; and 3. HIDB/HIE providing the services directly. The possible strengths and weaknesses of each approach will be discussed in turn.

##### **1. Public sector subsidy for service providers.**

This policy option would recognise that providers of business services in remote areas also face cost disadvantages in accessing their clients. In the survey of accountants for example it was found that visiting their more remote clients occurred less frequently and obviously incurred extra costs compared to more centrally located clients. It may be beneficial therefore for the HIDB to provide travel grants for accountants and other business advisers where visits to remotely based clients are considered necessary. A maximum number of grants per firm could be allocated on an annual basis. This should

be targeted upon accountants serving firms in the remote "fragile areas" such as the Western Isles, North West Sutherland, and Inner Hebrides. This would help to increase the frequency of contact between firms and their advisers, one of the main problems highlighted by the study. Services which are not available in the HIDB area could be eligible on a wider geographical basis.

The survey has highlighted weaknesses in the provision of services such as marketing and technical services. The HIDB is already able to provide grant and loan assistance to business service providers. Given that previously most regional policy has concentrated on the manufacturing sector, the HIDB should try to ensure that service sector firms are aware that they are eligible for assistance through specifically targeted marketing.

The main problems with direct public subsidy of private sector service providers would be trying to ensure that the services were of sufficient quality, and issues such as displacement and additionality which are common to most economic development policy. Any direct subsidy to private sector service providers would require close monitoring and evaluation. This would prevent any schemes simply becoming a consultants charter. The problem of displacement, where there are already local firms providing the service, may arise but such a policy would help to increase competition and improve the quality of

service provision. If this policy was research based it would help to highlight existing areas of limited or non-existent provision and this would prevent this issue arising. The issue of additionality, or whether firms would be going to set up in the area without public support, would be more problematic to determine. It could be argued that waiting for the private sector to provide these services in the longer term is too complacent an option given that firms are suffering from a lack of specialist services at the present time. In addition, because of the lower capital costs in the service sector this policy option would be arguably less expensive than other areas of job creation. The scope for increasing employment in this sector based solely on local demand is limited, however, so that this is possibly the least attractive policy option.

## 2. Subsidising the users of business services.

Schemes such as the Better Business Services scheme and the *Enterprise Initiative* provide a subsidy to firms using specific business services. The field work for the study was conducted before the introduction of the latter scheme.

It was found that the Better Business Services scheme was generally well regarded but was also sometimes viewed as a wind fall gain. The study would conclude that providing subsidy to firms using services is a good way of

fostering the use of specialist services provided that a number of problems are recognised. Firms may be reluctant to use these types of services because they feel that it will involve them in a spiral of escalating costs or they can be sceptical of the value of assistance. This suggests that such schemes need to be marketed aggressively. A pro active approach with HIDB officers and particularly other private sector advisers, such as accountants, recommending the services to client firms is likely to be required. The consultancy exercises also require sufficient back up to ensure that firms are able to put the recommendations into practice and again this calls for a pro active approach. This could be achieved by HIDB officers monitoring the implementation of the consultancy and providing additional assistance. This is undoubtedly the most important aspect of any consultancy service provided in this way. It is therefore also very important that evaluation of the existing schemes is carried out to find out their impact and the problems faced by firms in implementing the proposals.

### 3. Direct provision of services by the public sector.

It could be argued that whilst this goes against the current trend of central government policy there is still a strong case to be made for the public sector providing a range of specialist services to businesses in the Highlands. Firstly, this is one way of ensuring that the standards of service provision are monitored. Secondly,

the resources of the HIDB mean that many of the overheads incurred by business advisers do not have to be passed on to the client group. This is particularly significant given the importance of perceived costs in deterring firms from using specialist services. Thirdly, this is one way of maximising the returns on the investment of public sector resources since it is a way of providing additional managerial expertise.

Inherent in the third advantage of providing advisory services directly through the public sector, however, is one of the main drawbacks. It could be argued that where firms are in receipt of financial assistance from public sector agencies they can be reluctant to become very involved with additional public sector advisers, whom they feel may simply be policing the investment. This may mean that they are reluctant to provide an accurate picture of their businesses if this differs from business plans submitted for financial backing. It would be beneficial if there appeared to be some independence between the financial investment and business advisory functions. This may be achieved through the *Highlands and Islands Enterprise* proposals if the advisory functions are placed at the local enterprise company level. At present it appears as though the local enterprise companies will have autonomy over cases up to £15k, so that the larger cases will be handled by the central HIE body (Bryden, 1989). This may mean that some separation of

these functions will occur. The local enterprise companies, however, will be dealing with about 80% of cases because of the large number of small cases dealt with by the HIDB (Interview with A. Brady, 15.9.89). The greater involvement of private sector employers in this scheme, however, may initially encourage additional interest in the services provided by the local enterprise companies. The business advisory capacity should be significant from the outset, through the placement of advisors akin to the present Business Unit consultants in the companies. The consultants should remain part of a centrally based unit to avoid losing the benefits of different skills and to share their experience but should be identified with the local level.

The former has largely dealt with already existing businesses. In terms of new starts, this study has shown that they have different requirements from established firms. There greater need for "hand-holding" assistance could be met through the provision of "incubator" units, with a business advisor based there according to the demand. This may be a cost effective solution in the more urban unemployment blackspots, such as Invergordon and Lochaber. Access to shared business facilities could also be provided.

#### **Conclusion:**

As the above discussion suggests each of these policy



options has its benefits and disadvantages. The third option is likely to continue being the most important but must occur in the context of the maximum use of national schemes such as the *Enterprise Initiative*. The limited local market will need to be addressed before private sector firms can be encouraged to set up to provide additional specialist services. Although the second policy option could deal with this, the small size of the BBS grants, and the limiting of the *Enterprise Initiative* to a maximum of two grants per firm place limits on effective demand which can be established using grants alone.

The proposals in this study for increasing the provision of advisory services to businesses in the Highlands could be met through the HIE proposals. Under the latter, there is limited scope for the local enterprise companies to develop their own training and development initiatives. Whilst 80 to 90% of the training budget of HIE is likely to be taken up by national schemes such as the YTS, there will be scope to use the remainder of the budget for locally developed training initiatives (Bryden 1989). The provision of advisory services to sectors and firms with growth potential should be an initial priority for these discretionary funds. This should be based on a combination of existing experience and research into the local economy. In the longer term there needs to be a shift in emphasis from grant and loan assistance for capital costs

towards greater provision of soft infrastructure. This study has also shown, however, that certain types of firms still find difficulties obtaining capital in the private sector, so this implies a greater targetting of assistance. As the study results suggest, however, there is an existing need for the "after care" element of HIDB assistance to assume a much greater prominence.

#### 7.5: Opportunities for future research.

It could be argued that there are three main opportunities for future research in this area. Firstly a longitudinal study of the impact of advisory assistance on firms, secondly a comparative study of service use between firms in different regions, and thirdly a study of the changing dynamics of service provision in a local economy.

A longitudinal study could help to determine the impact of advisory assistance on firms. Firms in receipt of advisory assistance would need to be compared with other firms in similar product markets and geographical regions to try to even out other factors, although this would undoubtedly be a very difficult task. This type of study would allow for greater reliance on "hard" data rather than the subjective opinions of entrepreneurs (which this study tended to rely on to a large degree) about the value of assistance. This would also enable evaluation of

programmes of advisory assistance. A study of the impact of the Business Unit of the HIDB, comparing the performance of firms which they had assisted and ones which had no contact with them, might be useful for example.

Secondly, a comparative study of the use of services in a peripheral region and a more centrally located region could provide insights into the role of business services in regional development. A framework would have to be developed to be able to evaluate the performance of the companies. Since the literature argues that firms in peripheral regions are disadvantaged by limited access to specialist business services such a study would help to determine whether there were any differences between the use of services by firms in peripheral and central regions.

Thirdly, a study of the changing provision of business services would help to illustrate whether new services were introduced in response to changing client demands or because the service providers were innovative. One of the findings of this study is that in most cases clients do not expect particularly innovative services from business service providers, often because they are unaware of them. Therefore a study could attempt to determine whether dynamic and innovative service providers have the capability to change their clients expectations and usage of the services they provide.

## 7.5: Conclusion.

The role of business services in regional economic development is extremely complex. This study has illustrated that it is very difficult to isolate the nature of causality between the success or otherwise of firms and their use of business services because of the complexity of the economic development process. The study has drawn attention to areas where the use of services could be improved. These are specifically, the areas of financial management, training, technical services and marketing. As the study has attempted to show these factors are interrelated. To an extent the limited nature of much of the indigenous manufacturing base of the Highlands is both an explanation for, and a symptom of, the poorly developed business services sector. The provision of business services can only be one of a number of areas for policy if the overall fortunes of the Highland economy are to further improve. The long term health of the economy is likely to be determined by the development of human resources and the expanded provision and use of key business services would be one element in fostering this development. As firms enter the increasingly hostile economic environment of the 1990s, it is important that the significant role business services can play in economic development is recognised by both entrepreneurs and policy-makers alike.

Appendix 1.1: Services to Industry Classification

Source: Bryden 1983

- |                                 |   |
|---------------------------------|---|
| 1. Auxilliary Banking           | Gaurantees<br>Leasing<br>Factoring<br>Debt Management<br>Other  |
| 2. Auxilliary Insurance         | Brokerage<br>Agency<br>Loss Adjusting<br>Averaging<br>Other   |
| 3. Real Estate                  | Purchase, sale or lease of<br>land<br>Property Management<br>Advice<br>Surveying<br>Estate Agency   |
| 4. Legal                        | Company Formation<br>Contracts<br>Licencing<br>Patents<br>Trade and International   |
| 5. Technical                    | Engineering<br>Process Engineers<br>Technical Design<br>Redisign and Adaptation<br>Prototype development<br>Technical assistance, inclu-<br>ding procurement, installat-<br>ion and commissioning.<br>Materials, parts and product<br>testing.<br>Model construction<br>Site surveying<br>Site testing<br>Quantity surveying<br>Pricing<br>Architects |
| 6. Advertising and<br>Promotion | Agency<br>Public relations<br>Trade fairs<br>Conventions etc.   |

/Continued

/Services to industry classification (after Bryden 1983)

|                                |   |
|--------------------------------|---|
| 7. Accounting                  | Accounts<br>Audit<br>Feasibility studies<br>Book-keeping<br>Payroll<br>VAT                            |
| 8. Market research etc         | Management consultancy<br>Market research<br>Raw materials and commodities.                           |
| 9. Organisation and Management | Personnel selection<br>Secretarial<br>Copying<br>Translation  |
| 10. Computer Services          | Consultancy<br>Supply and installation<br>Software development<br>Data bases and information services |
| 11. Marketing                  | Export advice<br>Export services<br>Commercial assistance<br>Marketing agency<br>Test marketing       |
| 12. Research and development   |   |
| 13. Training                   | Entrepreneurs<br>Personnel<br>Apprentices<br>Trainees   |
| 14. Rentals                    | Office machines<br>Cars<br>Plant and equipment  |
| 15. Commercial compnaies       | Representatives and Agents<br>Management companies<br>Other   |
| 16. Transportation             | Road<br>Rail<br>Sea<br>Air<br>Forwarding agents   |

/Continued

/Services to industry classification (after Bryden 1983)

|                                    |   |
|------------------------------------|---|
| 17. Telecommunications             | Telephone<br>Telex<br>Data transfer<br>Satellite communications                   |
| 18. Refrigeration,<br>Heating etc. | Cold stores<br>Freezing<br>Heating<br>Ventilation<br>Air conditioning             |
| 19. Finance                        | Banking<br>Merchant banking<br>State agencies: Grants<br>Loans<br>Equity<br>Other |

---

Appendix 1.2: Main types of Producer service

Source: PSWP 1986 p17

Information Processing services

Product/process, research and development.

Marketing, sales, advertising, market research, photography, media.

Engineering (civil, mechanical, chemical, electrical etc) including architectural design.

Computer services, management consultancy, administration.

Financial planning, accountancy, investment management, auditing.

Banking, other loan institutions.

Insurance.

Legal.

Training/education/personnel and industrial relations.

/Continued

/Appendix 1.2 "Main types of Producer service".

Purchasing.

Office services.

Property management/estate agency

Goods-related services

Distribution and storage of goods, wholesalers, waste disposal, transport management.

Installation, maintenance and repair of equipment, including vehicles, communications networks and the utilities.

Building and infrastructure maintenance.

Personnel support services

Welfare services

Cleaning, catering, security, safety.

Personnel travel and accommodation.

---

Appendix 1.3: Classification of Services (based on 1980 SIC)

Source: Urry 1987 p26.

| Services                           | SIC  | Services               | SIC              |
|------------------------------------|------|------------------------|------------------|
| <i>1. Public Consumer services</i> |      |                        |                  |
| National govt                      | 9111 | Education              | 8310, 9320, 9330 |
| Local govt                         | 9112 | Hospitals              | 9510             |
| Justice                            | 9120 | Other medical care     |                  |
| Police                             | 9130 | institutions           | 952              |
| Fire services                      | 9140 | Medical practices      | 9530             |
| National defence                   | 9150 | Dental practices       | 9540             |
| Social security                    | 9190 | Vet. practices etc     | 9560             |
| Refuse disposal,<br>sanitation etc | 921  | Tourist offices etc    | 9690             |
|                                    |      | Libraries, museums etc | 9770             |

/Continued



/Appendix 1.3: Classification of Services (based on 1980 SIC)

| Services   | SIC   | Services                                      | SIC              |
|--|---|---|------------------|
| <i>2. Private Consumer services</i>                                    |   |   |                  |
| Retail distribution  | 6410, 6420, 6430, 6450, 6460, 6470, 6480, 6510, 6520, 6530. | Driving & Flying school                       | 936              |
| Restaurants etc  | 661   | Film production, distribution, and exhibition | 9710             |
| Public Houses  | 6620  | Radio & television services, theatres etc     | 9741             |
| Clubs  | 6630  | Authors etc                                   | 9760             |
| Canteens   | 6640  | Sport & other recreational services           | 9791             |
| Hotels   | 6650  | Laundries, dryers & dry cleaning              | 9811             |
| Other tourist or short-stay accomodation                               | 6670  | Hairdressers                                  | 9820             |
| Repair of consumer goods & vehicles                                    | 6710, 6720, 6730  | Personal services                             | 9890             |
| Hiring out con. goods  | 8460  |   |                  |
| <i>3. Private Managerial Producer Services</i>                         |   |   |                  |
| Banking  | 8410  | Business services                             | 8310, 8320, 8350 |
| Other financial instits.   | 8150  |   | 8360, 8370, 8394 |
| Insurance  | 821   |   | 8395             |
|  |   | Research & Dev.                               | 941              |
| <i>4. Private Distributional Producer Services</i>                     |   |   |                  |
| Wholesale distrib.   | 6110, 6120, 6130, 6140, 6150, 6160, 6170, 6180, 6190        | House & estate agents                         | 8340             |
| Dealing in scrap & waste   | 62  | Hiring out equip.                             | 8410, 8430, 8480 |
| Commission agents  | 63  |   | 8490             |
|  |   | Owning & dealing in real estate               | 85               |
| <i>5. Circulation services (public, private, producer or consumer)</i> |   |   |                  |
| Railways   | 7100  | Support services                              | 7610, 7630, 7640 |
| Other inland transport   | 7210, 7220, 7230  | Misc transport                                | 77               |
| Sea  | 74  | Postal services & telecoms                    | 7901, 7902       |
| Air transport  | 75  |   |                  |
| <i>6. Privately owned welfare services</i>                             |   |   |                  |
| Agency & private midwives, nurses etc                                  | 9550  | Trades unions, business and prof. assoc.      | 9630             |
| Social welfare services  | 9611  | Religious orgs.                               | 966              |

## Appendix 2.1: Definition of business service tasks

(after Pedersen 1986)

1. Planning for investments
2. Planning for running expenses and liquidity
3. Registration of companies and issuing of shares
4. Problems related to generation change in firms
5. Tax advice
6. Accounting and book keeping
7. Auditing
8. Applications for public development support
9. Application for export credits
10. Legal problems regarding contracts
11. Legal problems regarding building and environment.
12. Insurance
13. Organization
14. Employment of management personnel
15. Employment of other personnel
16. Temporary assistance
17. Education of management personnel
18. Training of workers
19. Applications for public support for wages/training
20. Personnel administration
21. Legal problems of personnel administration
22. Electronic data processing (EDP)
23. Typing
24. Translation
25. Purchase of EDP hardware
26. Purchase of EDP software
27. Product design
28. Technical advice regarding materials
29. Technical advice regarding production
30. Technical advice regarding construction
31. Technical advice regarding environmental problems
32. Technical advice regarding energy conservation
33. Advertising, domestic
34. Advertising, abroad
35. Marketing analyses, domestic
36. Marketing analyses, abroad
37. Export
38. Import
39. Exhibitions and fairs
40. Office and shop design
41. Logistics and transport planning
42. Custom clearance
43. Transport of bulk ware
44. Transport of containers
45. Transport of general cargo
46. Packing and distribution
47. Warehousing

Source: Pedersen 1986 p170

## Appendix 2.2: Definition of producer services

(after Polese 1982)

1. Employment services
2. Manpower training
3. Student training
4. Long term loans
5. Factoring
6. Insurance (premiums)
7. General contractors
8. Specialized contractors
9. Real estate
10. Warranty service
11. Repairs
12. Legal services
13. Accounting
14. Management consultants
15. Publicity
16. Marketing studies
17. Computer studies
18. Landscaping & Architects
19. Engineering consultants
20. Technical studies
21. Customs brokers
22. Trucking
23. Rail
24. Equipment rental

Source: Polese 1982 p152.

NB. Services 12 - 20 defined as "Business services" by Polese.

## Appendix 2.3: Definition of business services

(after Marshall 1982)

1. Insurance
2. Stockbroking
3. Banking
4. Finance (hire purchase, loans, factoring)
5. Legal services
6. Personnel recruitment
7. Architecture
8. Advertising
9. Computing and data services
10. Market research
11. Research and development
12. Management consultancy
13. Other consultancy (engineers, work methods)
14. General office services (printing & translating)

Source: Marshall 1982 p1527

Appendix 2.4: Definition of business services

(after O'Farrell & O'Loughlin)

1. Repair & maintenance
2. Transport
3. Advertising
4. Auditing
5. Accounting
6. Security
7. Cleaning
8. Professional services
9. Insurance
10. Banking

Source: O'Farrell & O'Loughlin 1981 p 456.

BUSINESS SURVEY:  
SERVICES IN THE HIGHLANDS

SURVEY OF BUSINESSES

1. Background to business.

NAME OF FIRM:-----

SECTOR:-----

ADDRESS:-----  
-----  
-----

TEL:-----

PERSON INTERVIEWED:-----

(POSITION)-----

DATE/TIME-----

J. STUART BLACK  
CENTRE FOR PLANNING,  
STRATHCLYDE UNIVERSITY.

1.1 When established?-----

1.2 Why here?-----  
-----  
-----

1.3 When did operations begin at this location?-----

1.4 Origin of founder?(eg background, previous occupation...)-----  
-----  
-----

1.5 Legal Status of Business-----

1.6 Is Business a: (a) single independent business

(b) branch or subsidiary of another firm, if

so which, based where-----

(c) head office/ business with other branches.

if so where-----

1.7 Brief description of business? What are main activities here?

(eg services, goods, mass production/small batch, cap/lab

intensive)-----  
-----  
-----

1.8 Where are the major markets for your product? Exports?

1.9 Nos of Employees?

|        | All Year |        | Seasonal |        |
|--------|----------|--------|----------|--------|
|        | F-time   | P-time | F-time   | P-time |
| Male   |          |        |          |        |
| Female |          |        |          |        |
| Total  |          |        |          |        |

YTS

1.10 How have your employment levels changed over the past 5 years?

1.11 Turnover?

1.12 Profit in last financial year?

1.13 What are the main factors influencing your profitability?

2. Background to service provision in the area.

2.1 On this card I have a list of a possible range of services which businesses may need to use. Could you please tell me which of these services you have used and where you obtain them. Please state if any of these services are obtained from your head office, or provided within your own business. If possible I'd like to know roughly what each of the main services you use costs you over a year? Please make any comments about any difficulties which arise in obtaining the service or its quality, price etc....

SHOW CARD

2.2 Services provided in-house on site. By whom?

2.3 Services provided in-house from head office or elsewhere.

2.4 Services obtained locally ie within district. COST?

2.5 Services obtained from Inverness. COST?

2.6 Services obtained from Rest of Highlands. COST?

2.7 Services obtained from rest of Scotland. COST?

2.8 Services obtained outwith Scotland. Where. why? COST?

2.9 Where do you obtain the physical inputs/ materials for your business, and how much do they cost over a year in relation to the services you purchase externally? ie What proportion of your overheads do externally purchased services make up? .

- % District
- % Highlands
- % Rest of Scotland
- % Outwith Scotland

Rough cost of services v. cost of materials

(NB Services does not include electricity, water etc. Define as professional and business services including transport)

Cost of utilities if known?

2.10 So what makes up the most significant percentage of your overheads?

-----  
-----  
HIDB Services: (Please comment on each of the services used,  
ease of application, value etc)

-----  
-----  
Grant and Loan (YES/NO)  
-----  
-----

-----  
-----  
Equity (YES/NO)  
-----  
-----

-----  
-----  
Factory Provision (YES/NO)  
-----  
-----

-----  
-----  
Advisory Services (including Management Unit) If so, which?  
-----  
-----

-----  
-----  
Marketing (YES/NO) eg costs of promotional material.  
-----  
-----

-----  
-----  
Trades Fairs (YES/NO)  
-----  
-----

2.11 Do you share any of the services you use with other  
businesses in the area? eg share transport costs, share cost of  
bringing in an accountant. If not, why not?  
-----  
-----

3. Public Sector service provision in the area.

3.1 On the next card there is a list of public sector agencies  
and bodies which you may have been involved with. At this stage I  
would like you to say which of the bodies you have been involved  
with, why, and the nature of that involvement ie is it on a  
regular basis (once a month or more) or less frequently (between  
one month to a year) or rarely (less than annually). If you were  
more involved with one body at one stage (eg HIDB at start-up,  
please state this.

SHOW CARD

AGENCY                      INVOLVEMENT                      TIME PERIOD



Distribution (YES/NO)

Training and Recruitment Grants (YES/NO)

Other

4.3 When you were actually starting up the business what would you say were the main problems you faced? Do you feel these still impose important constraints on your business?

3.1 Did you have to pay for any of the advisory services that you used? YES/NO. If so, which ones?

Do you think you would use them if you did have to?

4.4 Whilst you were starting up the business who provided you with advice over this period? (Accountant, HIOB, Bank, Other)

4.5 Of these, whose advice would you say was the most useful? Why?

4. Start-up period (New starts, or <5 years, or those buying an existing business)

4.1 What were the main factors which attracted you to setting up business here. (Amenity, HIOB assistance, premises, workforce...)

4.6 When you were setting up the business how significant was the provision of business services locally in your choice of location? Did this enter into your locational decision at all?

4.2 When you were thinking of starting up the business what were the main difficulties which you envisaged about starting up in business here? (Distance from markets, isolation, lack of skilled

5. Business Advice

5.1 Who, or what are the main sources of the information and advice you use in the running and development of your business?  
(a) Running the business from day to day. (legal, employment, financial)

(b) Market and sales information.

(c) Developments in your product field. (technical, production)

5.2 How did you choose your accountant? If from outwith the area why were they chosen? If the business man/woman is from outwith the area did they keep their former accountant?

5.3 How often do you see your accountant?

Are you in more regular contact with him or her? Do you feel this is sufficient or would you like to see them more often, what are the main constraints?

5.4 If businessman/woman is from outwith the area did they find it easier to see their business advisors in their previous location, where/why?

5.5 Which accountancy services does your accountant provide for you? (If you use a different accountant or advisor, or do these internally say so)

1. Usual      2. Self      3. Other

Accountant

|   |   |   |                                       |
|---|---|---|---------------------------------------|
| 1 | 2 | 3 | Annual Audit (if a Ltd comp)          |
| 1 | 2 | 3 | Annual accounts for tax               |
| 1 | 2 | 3 | Annual accounts quickly (performance) |
| 1 | 2 | 3 | Monthly accounts                      |
| 1 | 2 | 3 | Financial Plans (profit and loss)     |
| 1 | 2 | 3 | Business Plans (for HIOB, bank)       |
| 1 | 2 | 3 | Costing                               |
| 1 | 2 | 3 | Consultancy Services eg Control, Chec |
| 1 | 2 | 3 | Marketing                             |
| 1 | 2 | 3 | Company Secretarial work              |
|   |   |   | Other...                              |

Have you used BBS for any of these services, who suggested that you use it?

5.11 Do your accountants, or solicitors provide any other services to you eg advice on computers, sales.

5.12 Have or would you ever consider changing your accountant or solicitor? Why?

6. Banks and raising finance.

6.1 What are the main sources of finance you have used in your business activities ?  
(a) New Investment

(b) Working Capital

6.2 When you are raising finance for your business who do you initially approach, and what are the main problems ?

6.3 When raising finance from the bank are you able to do this

5.6 when do you receive your annual accounts? (how long in arrears, do you feel this is adequate for your needs)

5.7 Are you are making more use of your accountant now than in the past, or how has this relationship changed? Why?

5.8 Have you ever used a Management consultant or had outside advisors in to check up on your performance? Would you consider doing this in future? Why, or why not?

5.9 Does your solicitor provide you with business advice? How would you describe his or her role in your business?

5.10 How did you choose your solicitor? Are they the same ones as when you were setting up the business?

locally or do you have to travel? Does this depend on the sum you require?

6.8 What are your main criticisms of HIOB?

6.4 If you are combining a bank loan with HIOB assistance what are the main problems which arise?

7. Conclusion

6.5 Have you ever had an application for HIOB funding rejected or scaled down YES/NO How often? What was the application for?

7.1 What do you feel are the main advantages of being located in the Highlands?

Did you: go ahead with the project with other funding  
cancel it  
scale it down

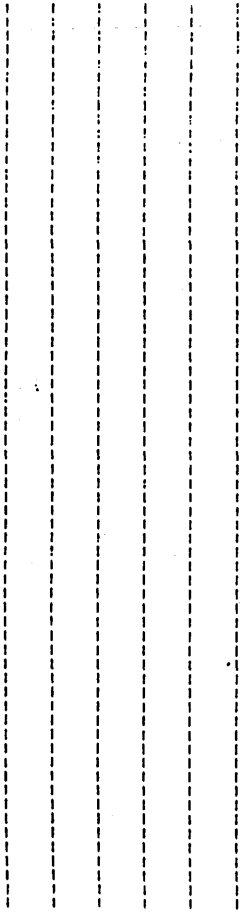
7.2 What are the main problems and do you feel these are imposing important constraints on the development of your business?

6.6 If you are cleared to receive HIOB assistance what effect does this have on your ability to raise funding from other sources? ie is a bank loan often dependant on HIOB's OK?

7.3 What proportion of the final cost of your product are transport costs.

6.7 If you have received HIOB assistance have you ever had any "after-care" or check up on how you spent the assistance?

7.4 Do you feel that business service provision in the Highlands is (a) satisfying your current needs and is (b) developing to meet your future demands. If not, where are the main problems



THANK YOU !

ACCOUNTANTS SURVEY

NAME OF FIRM: \_\_\_\_\_  
ADDRESS: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
TEL: \_\_\_\_\_  
PERSON INTERVIEWED: \_\_\_\_\_  
(POSITION) \_\_\_\_\_  
DATE/TIME \_\_\_\_\_

J. STUART BLACK  
CENTRE FOR PLANNING  
STRATHCLYDE UNIVERSITY

1.1 When was the firm established? \_\_\_\_\_  
1.2 Why here/and how eg "takeover"? \_\_\_\_\_  
\_\_\_\_\_  
1.3 When did operations begin at this location? \_\_\_\_\_  
1.4 Origin of founder? \_\_\_\_\_  
1.5 Legal Status of firm? \_\_\_\_\_  
1.6 Is it a (a) Single office firm  
(b) Branch office, if so where's head office? \_\_\_\_\_  
(c) Head office with other branches, if so where? \_\_\_\_\_

1.7 How many offices does the firm have in the HIDB area? \_\_\_\_\_

1.8 Number of partners? \_\_\_\_\_

1.9 Any other activities undertaken by partners or firm? \_\_\_\_\_

1.10 Number of employees in this office?  
Accountants Trainees Other Prof Others  
(CAs) F-t P-t  
Male  
Female  
Total

1.1.1 How have employment levels changed over the last 3 years?

**SECTION 2: FIRMS ACTIVITIES**

2.1 The following section looks at a range of services accountancy firms may provide. Please state which of these services your firm provides and which you carry out at this office. Could you give any comments about the demand for the services and whether you intend to expand provision of any of them.

SERVICE                      HERE                      ELSEWHERE                      COMMENTS

1. Annual accounts for tax

2. Annual Audits

3. Annual Accounts quickly

4. Monthly accounts

5. Investigations

6. Business control/organisation advice

7. Liquidations

8. Marketing

9. Financial Planning (Cash flows etc)

10. Business Plans (HIDB/Banks)

11. Costing

12. Tax planning

13. Company Secretarial work (VAT etc)

14. Other

2.2 What proportion of your annual fee income is derived from audits as compared to other activities? Has this changed?

2.3 Have there been any noticeable trends or changing demands for the services that you provide over the past 5 years or so. If so, why? (eg increased demand for business plans)

2.4 Would you say that the banks were asking for more financial information than in the past when appraising projects, and if so how has this affected you, or your clients?

**SECTION 3: LOCATION OF CLIENTS**

This section looks at the location of your clients and the types of businesses you provide accountancy services to.

3.1 In terms of numbers of clients, what proportion of your clients are located "locally", what proportion are located in the rest of the HIDB area, and do you have any

% LOCAL                    % REST OF HIGHLANDS                    % ELSEWHERE

3.2 Does the picture alter dramatically in terms of fee income? (ie do one or two major clients account for a large proportion of fee income)

3.3 Are any of your clients located in particularly remote or island locations, and what sort of problems does this impose?

3.4 Does this mean you tend to see them less often, or is there no real difference with more accessible clients?

3.5 In terms of your clients activities, again looking at the overall picture in numbers terms, what proportion are farmers, what proportion are involved in manufacturing or processing, and what proportion are involved in providing services?

% AGRICULTURE                    % MANUF.                    % SERVICES

(Any Public Sector? \_\_\_\_\_)

3.5 Again, does the picture alter in terms of fee income?

3.6 Who would you say makes up your biggest client group?

... which have been the victims in terms of changes in your client group over the past 5 years or so? (eg has the growth of activities such as fish-farming had any impact)

3.8 How often do you see most of your clients?

3.9 Do you think that your clients make the most of the services that you offer?

SECTION 4: COMPETITION AND MARKET STRATEGY

4.1 Who do you see as being your main competitors, and what is the nature of that competition? (ie price, quality, range)

4.2 How do you market your services?

4.3 Are you aware of firms from outwith the Highlands entering the market to compete with you?

4.4 How do you set the charges for your services? Is there a standard charge across your firm's offices or do you set the prices here? Therefore, is there any difference in Pricing Policy within your firm?



4.4 Would you hope to expand your client base in the future, and if so, how would you intend to do this? Would you consider expansion into markets outwith the Highlands or do you consider yourself to be primarily a "Highland" firm?

4.5 What would be the main problems inhibiting any expansion plans that you may have? Do you have any problems recruiting trained staff for example? (Ask salary for CA)

4.6 In general terms how would you describe your market position over recent years and would you say you were under any pressure from other firms? (healthy market, fees increasing etc)

SECTION 5: ROLE OF THE PUBLIC SECTOR

5.1 Are you involved with applications for financial assistance to HIBD, and if so how much of your firm's time would you say was taken up with this type of work?

5.2 What would you say were the main problems involved with applications for HIBD assistance?

5.3 How would you describe the importance of HIBD finance in terms of overall funding of business projects in the Highlands? Do you think banks and the private sector in general would be as willing to invest in the area in its absence?

5.4 Do you think that any of HIBD's functions are in direct competition to you? eg what about the suggestion that they should charge for their advisory services?

5.5 Do you think they provide sufficient "after-care"?

5.5 What has been your experience of the BBS scheme? Have you used the scheme to market the services you supply or has there been demand for it from your clients? Which services have been used most? (Check up, Control & Org, Bk & Acc, Fin. Plan)

5.6 What do you think of the recent changes in regional

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5.7 Might you expand the range of consultancy-type services that you provide or move into new areas such as marketing advice?

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SECTION 6: CONCLUSION

6.1 In general terms, how would you describe your role in the economy of the Highlands?

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6.2 Would you say that there were problems with business skills in the Highlands, or do you feel firms here are no different to elsewhere?

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6.3 Do you think that new technology offers any particular opportunities for you eg akin to home banking services?

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6.4 Finish in general terms with discussion of business skills, start-ups etc....

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FISH-FARM SURVEY

1. Background to business.

1.1 When established? .....  
1.2 Why here? .....  
.....  
.....

1.3 Number of sites operated by the company? .....

1.4 Origin of founder? .....

1.5 Principal place of residence of founder? .....

1.6 Other activities undertaken by founder? .....

1.7 Legal Status of the Fish Farm? .....

1.8 Is the farm a: (a) single independent business  
(b) branch or subsidiary of another firm, if  
so, based where? .....

(c) Main site/Head office location controlling  
other farms, if so where? .....

1.9 Does the company operate any hatcheries, smolt on  
growing facilities, or processing operations, if so  
where? If not, does it have plans to do so?  
.....

Firm: .....

Address: .....

.....

.....

Tel: .....

Respondent: .....

(Position) .....

Date/Time: .....

J Stuart Black  
Centre for Planning  
Strathclyde University

1.16 What is the turnover of the company? Is this growing or stable?

1.17 What is the tonnage of salmon produced on this farm?

1.18 What was the production level in the previous year?

1.19 Do you plan to expand this? By how much? What would be the main problems hampering any expansion plans that you have?

2. Service Provision to the Farms

2.1 Services provided in-house on site.

2.2 Services provided in-house from head office or elsewhere.

1.10 Where does the company obtain its smolts, have there been any problems with supply or is the situation improving?

1.11 Where are the major markets your salmon? How much for processing, and where?

1.12 How are the markets developing or changing? (Exports?)

1.13 Nos of Employees?  
All Year                      Seasonal/Casual

F-time      P-time      F-time      P-time

Male

Female

Total

1.14 How have your employment levels increased since you started operations?

1.15 Do you plan to increase your employment levels?



3. Public Sector service provision to Fish-Farming

AGENCY .....  
INVOLEMENT .....  
TIME PERIOD .....

(f) Transport and Distribution (Yes/No) .....

(g) Training and Recruitment Grants (Yes/No) .....

3.2 Did you have to pay for any of the advisory services that you used? Would you be prepared to do so? .....

3.3 In terms of the development of your farm how important would you describe the availability of HIBD finance compared to advisory assistance? .....

4. Start-up period

4.1 Who were the main sources of advice that you used when you were thinking of setting up your fish-farm? .....

4.2 Whose advice would you say was the most useful? .....

4.3 Do you think that you faced particular problems because of your location? .....

4.4 Did you prepare a business plan with your accountant? Have you used this since or was it simply to get the backing? .....

3.1 HIBD Services

(a) Grant and Loan (Yes/No), if so how would you describe it in terms of the establishment of the farm? What proportion of costs? .....

(b) Equity (Yes/No) .....

(c) Advisory Services (Fish-farm Unit, Management Unit) .....

(d) Marketing (Yes/No) .....

(e) Trades Fairs (Yes/No) .....

4.5 Would you describe your bank's attitude as positive and has it changed over time?  
.....  
.....  
.....

4.6 With the worries about disease was it a problem setting insurance for your farm?  
.....  
.....

5. Business Advice.

5.1 Are you doing any long term planning for your farm's development?  
.....  
.....

5.2 Would you say that you worked closely with any external advisors or are you developing your business largely based on your own experience?  
.....  
.....

5.3 How did you chose your accountant and are you happy with the advice he/she provides?  
.....  
.....

5.4 Do you think you could use more external advice or are you happy with the situation at present? If could, then why not?  
.....  
.....

5.5 In terms of your sales and marketing how many main customers do you have? ie how many purchasers do you have, does this cause any problems?  
.....  
.....

5.6 Would you say that salmon was being well marketed at present?  
.....  
.....

5.7 Do you do any marketing as an individual firm?  
.....  
.....

6. Conclusion.

6.1 Do you feel as an individual firm that the prospects for the industry are healthy?  
.....  
.....

6.2 How would you describe the HIDB's role in the development of the industry?  
.....  
.....

6.3 Do you see scope for expanding the support and advisory services provided for fish-farmers in Scotland? In what way?  
.....  
.....

Finish with general discussion of the industry and the way they see things developing esp competition, scope for more local processing, local cage manufacture etc.

Appendix 3.4: Firms which participated in the study.

Manufacturing Firms:

1. Engineering Sector - Bridgend Engineering (Dingwall), Wm G Cook (Engineering) Ltd (Evanton), Cromarty Firth Engineering Co Ltd (Evanton), D.A. Fleming Fabrications (Tain), Highland Components Ltd (Aviemore), Highland Fabricators Ltd (Nigg), Highland Precision Products (Thurso), Kestrel Subsea Systems (Wick), MacKay and MacLeod Engineering Ltd (Evanton), McDermott (Scotland) Ltd (Ardersier), Northern Engineering and Welding Co Ltd (Fort William), Wm. R. Stewart (Hacklemakers) Ltd (Alness), Verson AI (Inverness), Weldex (Invergordon) Ltd (Invergordon), Wilcox Seadyke Ltd (Dalcross).

2. High Technology Sector - Diagnostics and Measuring Systems Ltd (Dingwall), Furness Controls Ltd (Farr), Gaeltech Research Ltd (Dingwall), Liebnitz-Lann Ltd (Nairn), Osprey Electronics Ltd (Wick), Precision Relays (Inverness), R.K. Carbon Fibres Ltd (Muir of Ord), Tarka Controls Ltd (Inverness), White's Electronics (UK) Ltd (Inverness), Zonal (Highland) Ltd (Invergordon).

3. Plastics Sector - Hambleside Manufacturing Ltd (Dalcross), Highland Resins Ltd (Muir of Ord), Nairnsport Plastics Ltd (Inverness).

4. Food Processing Sector - Hebridean Seafare Ltd (Invergordon), Highland Fine Cheeses (Tain), Strathaird Ltd (Inverness).



Appendix 3.4: Firms which participated in the study  
(continued).

5. Glassware and Ceramics Sector - Balfour China (Newtonmore), Caithness Glass PLC (Wick/Perth), Highland China Ltd (Kingussie).

6. Miscellaneous manufacturing - Highland Aromatics Ltd (Kirkhill), Highland Forest Products PLC (Dalcross), Karl Products (Alness), Nevisprint Ltd (Fort William), Norfrost Ltd (Thurso), G. Payne Electronic Services (Alness), Precision Woodcraft (Evanton), Seaboard Anchors Ltd (Nigg).

**Accountancy Firms:**

Bell, Bauchop and Co (Inverness), Ernst and Whinney (Inverness), Frame Kennedy and Forrest (Inverness), Gray and Butler (Invergordon), Leggat and Co (Dingwall), MacDowall and Co (Dingwall), Mackenzie and Co (Inverness), MacKenzie and Co (Fearn), R.G. Muir and Co (Inverness), A. Radcliffe (Avoch), Ramsay and Co (Nairn), F.A. Ritson (Nairn), Scott Oswald and Co (Inverness), Stuart and Munro (Inverness).

**Fish Farms:**

Ardvar Fish Farmers (Ardvar, Sutherland), Kenmore Salmon (Shieldaig, W. Ross), Loch Drumbeg Seafoods (Drumbeg), Kinlochdamph Ltd (Kishorn), Loch Torridon Fish Farm Ltd (Torridon), Highland Fish Farmers (Lochcarron), Joseph Johnstone Ltd (Scourie), Summer Isles Salmon (Achiltibuie), Wester Ross Salmon Ltd (Inverness).

## Appendix 4.1: Business Services

### Section A: Financial Services

Banking  
HIDB  
Accountancy

### Section B: Legal and Specialist Services

Legal  
Insurance  
Computer Services  
Rentals/Leasing  
Factoring  
Merchant Banking  
Management Consultancy

### Section C: Technical and Training

Surveying  
Architecture  
Maintenance  
Technical Design  
Prototype Development  
Materials, Parts, and Product Testing  
Secretarial/Book-keeping/VAT  
Translation  
Photo-copying/Printing  
Management Training  
Personnel Training  
Personnel Provision

### Section D: Promotion and Marketing

Advertising  
Marketing Advice  
Exhibitions/Trades Fairs  
Market Research  
Export Advice

### Section E: Transport and Communications

Post  
Road hauliers  
Wholesalers  
Air/Sea/Rail  
Phone/Telex/Fax  
Computer (with modem?)

SERVICE USE: 51 FIRMS

TABLE 2

|                | IN HOUSE | HO | ITWA | INVERNESS | R OF H | SCOTLAND | UK | TOTAL | PERCENT        | IN HOUSE | HO     | ITWA  | INVERNESS | R OF H | SCOTLAND | UK    | TOTAL | HQS OF LOCATIONS |
|----------------|----------|----|------|-----------|--------|----------|----|-------|----------------|----------|--------|-------|-----------|--------|----------|-------|-------|------------------|
| BANKING        | 0        | 9  | 22   | 15        | 0      | 6        | 5  | 57    | BANKING        | .00      | 15.79  | 38.60 | 26.32     | .00    | 10.53    | 8.77  | 100   | 57               |
| HDOB           | 0        | 0  | 2    | 44        | 0      | 0        | 0  | 46    | HDOB           | .00      | .00    | 4.35  | 95.65     | .00    | .00      | .00   | 100   | 46               |
| ACCOUNTANCY    | 0        | 12 | 7    | 17        | 2      | 13       | 1  | 52    | ACCOUNTANCY    | .00      | 23.08  | 13.46 | 32.69     | 3.85   | 25.00    | 1.92  | 100   | 52               |
| LEGAL          | 0        | 11 | 8    | 19        | 1      | 15       | 4  | 58    | LEGAL          | .00      | 18.97  | 13.79 | 32.76     | 1.72   | 25.86    | 6.90  | 100   | 58               |
| INSURANCE      | 0        | 12 | 9    | 16        | 0      | 12       | 7  | 56    | INSURANCE      | .00      | 21.43  | 16.07 | 28.57     | .00    | 21.43    | 12.50 | 100   | 56               |
| COMPUTER S.    | 11       | 10 | 4    | 6         | 0      | 5        | 0  | 36    | COMPUTER S.    | 38.56    | 27.78  | 11.11 | 16.67     | .00    | 13.89    | .00   | 100   | 36               |
| RENTALS        | 0        | 4  | 2    | 18        | 0      | 8        | 2  | 34    | RENTALS        | .00      | 11.76  | 5.88  | 52.94     | .00    | 23.53    | 5.88  | 100   | 34               |
| FACTURING      | 0        | 1  | 0    | 0         | 0      | 0        | 0  | 1     | FACTURING      | .00      | 100.00 | .00   | .00       | .00    | .00      | .00   | 100   | 1                |
| NER. BANKS     | 0        | 2  | 0    | 0         | 0      | 2        | 2  | 6     | NER. BANKS     | .00      | 33.33  | .00   | .00       | .00    | 33.33    | 33.33 | 100   | 6                |
| MAN. CONS      | 0        | 2  | 1    | 1         | 0      | 7        | 2  | 13    | MAN. CONS      | .00      | 15.38  | 7.69  | 7.69      | .00    | 53.85    | 15.38 | 100   | 13               |
| SURVEYING      | 1        | 0  | 1    | 3         | 1      | 3        | 0  | 9     | SURVEYING      | 11.11    | .00    | 11.11 | 33.33     | 11.11  | 33.33    | .00   | 100   | 9                |
| ARCHITECTURE   | 4        | 0  | 1    | 4         | 1      | 2        | 1  | 13    | ARCHITECTURE   | 30.77    | .00    | 7.69  | 30.77     | 7.69   | 15.38    | 7.69  | 100   | 13               |
| MAINTENANCE    | 20       | 0  | 11   | 10        | 0      | 2        | 0  | 43    | MAINTENANCE    | 46.51    | .00    | 25.58 | 23.26     | .00    | 4.65     | .00   | 100   | 43               |
| TECH. DES      | 41       | 8  | 0    | 0         | 0      | 3        | 0  | 52    | TECH. DES      | 78.85    | 15.38  | .00   | .00       | .00    | 5.77     | .00   | 100   | 52               |
| PROD. DEV      | 39       | 9  | 0    | 0         | 0      | 1        | 2  | 51    | PROD. DEV      | 76.47    | 17.65  | .00   | .00       | .00    | 1.96     | .00   | 100   | 51               |
| MATS TESTING   | 10       | 4  | 1    | 2         | 1      | 1        | 2  | 21    | MATS TESTING   | 47.62    | 19.05  | 4.76  | 9.52      | 4.76   | 4.76     | 9.52  | 100   | 21               |
| SEC/BK/VAT     | 42       | 11 | 0    | 0         | 0      | 0        | 0  | 53    | SEC/BK/VAT     | 79.25    | 20.75  | .00   | .00       | .00    | .00      | .00   | 100   | 53               |
| TRANSLATION    | 2        | 2  | 3    | 0         | 0      | 0        | 0  | 7     | TRANSLATION    | 28.57    | 28.57  | 42.86 | .00       | .00    | .00      | .00   | 100   | 7                |
| PHOTO/PRINT    | 29       | 1  | 10   | 11        | 0      | 1        | 1  | 53    | PHOTO/PRINT    | 54.72    | 1.89   | 18.87 | 20.75     | .00    | 1.89     | 1.89  | 100   | 53               |
| MAN. TRAINING  | 21       | 2  | 1    | 4         | 0      | 5        | 2  | 35    | MAN. TRAINING  | 60.00    | 5.71   | 2.86  | 11.43     | .00    | 14.29    | 5.71  | 100   | 35               |
| PER. TRAINING  | 40       | 0  | 1    | 11        | 0      | 2        | 3  | 57    | PER. TRAINING  | 70.18    | .00    | 1.75  | 19.30     | .00    | 3.51     | 5.26  | 100   | 57               |
| PER. PROVISION | 37       | 0  | 10   | 5         | 0      | 4        | 1  | 57    | PER. PROVISION | 64.91    | .00    | 17.54 | 8.77      | .00    | 7.02     | 1.75  | 100   | 57               |
| ADVERTISING    | 13       | 9  | 1    | 3         | 0      | 4        | 3  | 33    | ADVERTISING    | 39.39    | 27.27  | 3.03  | 9.09      | .00    | 12.12    | 9.09  | 100   | 33               |
| MARKETING ADV. | 19       | 14 | 1    | 3         | 0      | 5        | 1  | 43    | MARKETING ADV. | 44.19    | 32.56  | 2.33  | 6.98      | .00    | 11.63    | 2.33  | 100   | 43               |
| EXHIBS         | 24       | 5  | 0    | 1         | 1      | 1        | 1  | 33    | EXHIBS         | 72.73    | 15.15  | .00   | 3.03      | 3.03   | 3.03     | 3.03  | 100   | 33               |
| MARKET RES.    | 15       | 10 | 1    | 3         | 0      | 6        | 2  | 37    | MARKET RES.    | 40.54    | 27.03  | 2.78  | 8.11      | .00    | 16.22    | 5.41  | 100   | 37               |
| EXPORT ADV.    | 2        | 9  | 3    | 4         | 0      | 11       | 1  | 30    | EXPORT ADV.    | 6.67     | 30.00  | 10.00 | 13.33     | .00    | 36.67    | 3.33  | 100   | 30               |

### Appendix 4.3: Public Sector Business Services

Highlands and Islands Development Board

Regional Council / District Council

Scottish Development Agency

Industry Department for Scotland

Department of Trade and Industry

British Overseas Trade Board

Export Credit Gaurantee Department

Manpower Services Commission

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