

THE LOCAL ENTERPRISE PROGRAMME: A STRATEGY

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The Economic Background

In the early 1980s the Northern Ireland economy entered the worst economic recession in its history. The already severe structural problems which the economy was facing were exacerbated by a world recession and the monetarist policies adopted by the U.K. Government. The most obvious impact of the recession was on unemployment which increased by 50% between 1979 and 1981 — from 62,750 to 95,255. By 1986 the figure was over 126,000, or 22% of all employees. Inward investment, which had provided thousands of new jobs in the 1960s and early 1970s and allowed massive restructuring of manufacturing, was virtually non-existent in the early 1980s. Manufacturing employment thus fell dramatically.

Increasing public expenditure in Northern Ireland became the main source of new jobs in the 1970s. In this period public expenditure increased from 57% to 72% of G.D.P. and by 35% in real terms. Some 77,000 jobs were created in the process. In the early 1980s, however, real public expenditure, far from showing the growth patterns of the 1970s, actually declined. The rapid increase in public sector employment came to a halt and employment in the construction industry, closely tied to public spending, fell by 28% between 1979 and 1981. Thus, two of the main sources of new jobs in the Northern Ireland economy in the 1960s and 1970s, both externally controlled, were ineffective in the early 1980s and at the same time the labour force continued to increase. Northern Ireland therefore turned to rely more and more on the development of its own indigenous resources to provide the necessary jobs, culminating in the Pathfinder programme (Department of Economic Development, 1987).

A significant element in this new thrust was the emphasis on enterprise and especially on the development of small business. This mirrored a shift in thinking in the United Kingdom as a whole and other Western economies. The perceived failure of Keynesian demand management led

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to the emergence of monetarism and a move away from the public sector and towards a reliance on the working of the market mechanism and a revived spirit of enterprise to promote economic growth. This philosophical change was reinforced by the publication of a U.S. study of 4.6 million businesses (Birch, 1979) which indicated that, between 1969 and 1976, 66% of all new jobs in the U.S.A. were created in firms which employed less than 20 people. As a result the promotion of small business became an integral part of Government policy in most Western economies. In the United Kingdom the Conservative Government, after 1979, introduced over 100 measures to help small business. In Northern Ireland the work of the Government sponsored Local Enterprise Development Unit (LEDU) was expanded and a number of initiatives have been developed at Government and local level to promote small business.

Small Firms in the Northern Ireland Economy

The Northern Ireland economy is not a small firms economy by international standards. Fewer people are employed in small firms in the Province than in most other developed economies as shown in Table 1.

Table 1: *% Employment in Establishments with < 20 employees, 1981*

	%
Austria	33.6
Belgium	22.2
France	32.1
Italy (1)	43.4
Japan	49.4
G.B. (1)	26.1
U.S.A.	26.1
N. Ireland	26.0

Source: OECD Employment Outlook, September 1985.

Note: The band size for Italy and G.B. is < 10.

Neither has the small firms sector been very dynamic. VAT statistics for the early 80s (Ganguly 1985) indicate that Northern Ireland has the lowest rate of firm formation of the 4 countries in the U.K. Hart (1985) has shown that in the 1970s, the Northern Ireland small firms sector created proportionately fewer jobs than the Republic of Ireland, G.B., or U.S.A. The data in Table 2 confirms that few jobs were created in the small firm manufacturing sector between 1971 and 1981.

Looking at employment changes in manufacturing as whole, however, the percentage of manufacturing employees in small firms rises quite dramatically, principally because large firms are declining. Recent

Table 2: *Small Firms in the Manufacturing Sector of the N. Ireland Economy*

Year	Size	Number of Establishments	%	Employees in Establishments	%
1971	<50	1,672	74.6	21,381	12.5
	>50	568	25.4	150,149	87.5
	Total	2,240		171,530	
1981	<50	2,242	84.2	22,932	19.6
	>50	422	15.8	94,026	80.4
		2,664		116,958	
1984	<50	2,891	88.0	27,604	25.4
	>50	394	12.0	80,797	74.5
		3,285		108,401	

Source: Department of Economic Development.

research (Storey, 1987) shows that this is quite a common phenomenon in European economies, a point not brought out in the early studies.

The reasons for the lack of dynamism in the small firms sector in Northern Ireland has not been the subject of in-depth research. A number of studies (Harvey 1985; Fell 1986; Hitchens 1987) suggest the broad causes to have been the existence of an anti enterprise culture allied to a socio/economic environment which reduced the opportunity for enterprise. The result was a low rate of small firm formation; and those who started firms were in many cases not capable of effective management. Northern Ireland has not therefore provided the environment, either cultural or economic, in which small firms flourish.

The situation has shown some change as the 1980s has progressed. The rise in employment between 1981 and 1984 (Table 2) suggests an increasing rate of job creation in small firms although underestimates in the 1981 figures may reduce the apparent increase. Unfortunately there are no figures on self employment in Northern Ireland since 1981. However, in Great Britain self-employment rose by 500,000 between 1981 and 1986. The increase in unemployment and the emphasis on enterprise and small firms in the 1980s has led to a rapid increase in the number of enquiries received by LEDU and the number of jobs it promotes (as Table 3 shows). The type of jobs being created may not, however, be of a kind which suggests a dynamic economy.

If this increased interest is to be translated into the type and number of jobs which reflect a dynamic small firms sector then there is the need to ensure that the firms have a supportive environment. The Local

Table 3: *Enquiries Received and Jobs Promoted by LEDU, 1980-1987*

Year	LEDU	
	Enquiries	Job Promoted
1980-81	N/A	1,055
1981-82	2,240	1,613
1982-83	4,909	2,550
1983-84	7,622	3,658
1984-85	11,200	4,009
1985-86	16,000	3,888
1986-87	16,855	4,244

Source: LEDU.

Enterprise Programme could be a first important step in the creation of that environment.

The Local Enterprise Programme

The Local Enterprise Programme (LEP) was launched by the Northern Ireland Government in 1983 and built on a developing network of local enterprise agencies. It is a comprehensive scheme to encourage and support local groups throughout Northern Ireland in establishing local enterprise companies which would develop and run Managed Workspace Centres. The Centres are envisaged in the programme as buildings of typically 20,000/30,000 sq. ft. with units of workspace, mainly 200/800 sq. ft. starter accommodation, rented on easy in/easy out terms. Each Centre would provide a range of facilities including advice, training and administrative support for the small business tenants as well as central amenities such as canteen. The Centre would have a local board of directors and a manager responsible not only for the running of the centre itself but also for the promotion of small business in the community generally.

LEDU, which will provide substantial funding for the setting up and running of a Centre, is responsible to the Department of Economic Development for the administration of the LEP. LEDU has defined the objective of the programme as being

‘to promote additional job opportunities through small business formation, survival and growth, integrating the skills, commitment and resources of local enterprise groups as a source of help and advice’.

The Centres are expected to be self financing after 3 years. The intention is to have a network of Centres which can be a focus for local economic development covering each of the 26 District Council Areas.

The Lep Experience

A survey of LEP managers undertaken during July 1987 indicated that by the middle of 1987 some 16 LEP Centres were operational around Northern Ireland, mostly in areas of very high unemployment. Two more Centres were nearing completion and offers of assistance had been made to another five. Over 420,000 sq. ft. of workspace had been made available, providing accommodation for approximately 390 small businesses.

These Centres range in size from 4,000 sq. ft. to 120,000 sq. ft. and the premises themselves vary from purpose built, modern single storey premises to old multi storey mills. The support structure varies from a part-time manager on his own to the provision of a quite sophisticated management team.

Around the Centres, some 1,500 people are employed in 230 client firms and in government sponsored Youth Training Programmes (YTP) and Action for Community Employment (ACE) schemes. Just four of the Centres account for 1,000 of these jobs. Table 4 shows the profile of the 230 customer firms. Most of the firms are very small and cater purely for the local market in Northern Ireland. Few are offering distinctive products or services and many would appear to be low wage businesses, started as an alternative to unemployment. On the other hand, a small number of firms employ more than 20 people. There are also a few but significant firms with products or services which are distinctive and could have export potential.

Table 4: *Customer Profile*

70%	employ	1 to 3 people
9%	export to	Republic of Ireland
5%	'export' to	G.B.
3%	export to	Other Countries
3%		involved in High Tech

The background of the LEP customer firms is set out in Table 5.

Table 5: *Customer Background*

70%	Unemployed
10%	Employed
20%	Transfers from other premises
10%	Female

There is a preponderance of people starting businesses as an alternative to unemployment, as compared to those leaving employment to pursue a business opportunity; a substantial minority of firms have transferred from other premises; and the small percentage of female entrepreneurs does not reflect the growing importance of women in the economy.

With a few exceptions, the Centres are either working to near capacity or, for those recently established, are ahead of schedule in filling space. In some cases the Centres which have old multi-storey premises have difficulty in letting upper floors but have unmet demand for further ground level space; indeed seven Centres are planning conversion or expansion of existing space. It would seem, therefore, that the Centres are meeting a strong demand for space from small firms who want to trade locally.

The Impact of the LEP

In some communities the LEP Centre has clearly become the focal point of a resurgence of optimism about the community's economic future. It is a very visible complex of small business activity which provides a positive role model for enterprise in the local area — though in some locations the Centre is too small and the catchment area too large to make a noticeable impact. A small number of very innovative projects have developed in some Centres. They combine YTP and ACE schemes along with managed workspace to create quite sophisticated organisation and management structures employing hundreds of people and giving opportunities for capable staff to develop at middle management levels.

In assessing the achievement of the LEP two factors need to be recognised:

1. Many of the small firms in the Centres have limited potential, either in terms of their product/service and/or in terms of their management capability. Quite a few firms, for example, provide local services such as upholstery, plant maintenance, electrical & electronic repairs and camera repairs which, frankly, have limited potential. Single person firms producing furniture and kitchens suggest businesses scarce of management skills.
2. Some of the businesses in the Centres, although benefitting their local community, may add little to the economy as a whole. This can happen in two ways:
 - (i) To the extent that the small firms provide products/services to the local market which are already being provided by other Northern Ireland firms, the gain in employment in the LEP centre may be at the expense of jobs elsewhere (displacement). To the extent that

they provide products/services which were imported the whole economy gains, as is the case if they export.

(ii) The transfer of businesses from one premises to another, in itself, adds nothing to the economy. If, however, the transfer enables expansion to take place which could not otherwise happen, or if the failure rate of transferred firms is lower in the Centres than outside as research (BIC 1987) suggests then there is a net economic gain on the same basis as in (i).

We might also note that Centres may in fact be picking up firms which would have started anyway as part of the normal process in a dynamic economy.

The nature of the customers that the LEP centres have at present with only 17% exporting out of Northern Ireland, suggests that the economic benefits of the LEP may not be as great as the number of firms attracted would suggest and may be mainly confined to the communities concerned. On the other hand, to help regenerate areas of high unemployment is an achievement in itself, and the Centres are obviously answering a pent-up demand. LEDU also benefits greatly because many enquiries are now being dealt with at local level, which frees up their resources to concentrate on areas other than start-up.

However, and more substantially, it is not clear what role Government sees the LEP playing in the development of the economy in the long term. One possibility is that it simply sees it carrying on as at present, meeting the demand of people who want to start their own businesses largely as a response to unemployment. The main thrust of developing the economy, in other words, would be focussed elsewhere.

If the objective of DED (and LEDU) is that the LEP should help create a more dynamic small business sector, then the quality of customer firms in terms of their ability to export out of Northern Ireland or provide import substitution product/services must be raised.

A Way Forward

The assumption is made here that the Government's objective is indeed that the LEP promote a more dynamic small business sector. In developing a strategy for this, however, recognition must be given to each individual Centre's most immediate objective, which is to be self-sufficient within 3 years; Centres must therefore fill their premises. Present experience shows that there are not enough high growth small firms coming forward to achieve this and there is unmet demand from small firms who will only trade locally.

These differing objectives may be reconciled by looking at them as objectives at different stages in the development of the LEP. Thus over a defined period of years the objectives of the LEP could develop as in Figure 1.

The three stages outlined are systemic and should be seen as part of continuous process of development. In Stage I, Centres concentrate on filling premises by meeting current demand. This Stage may include

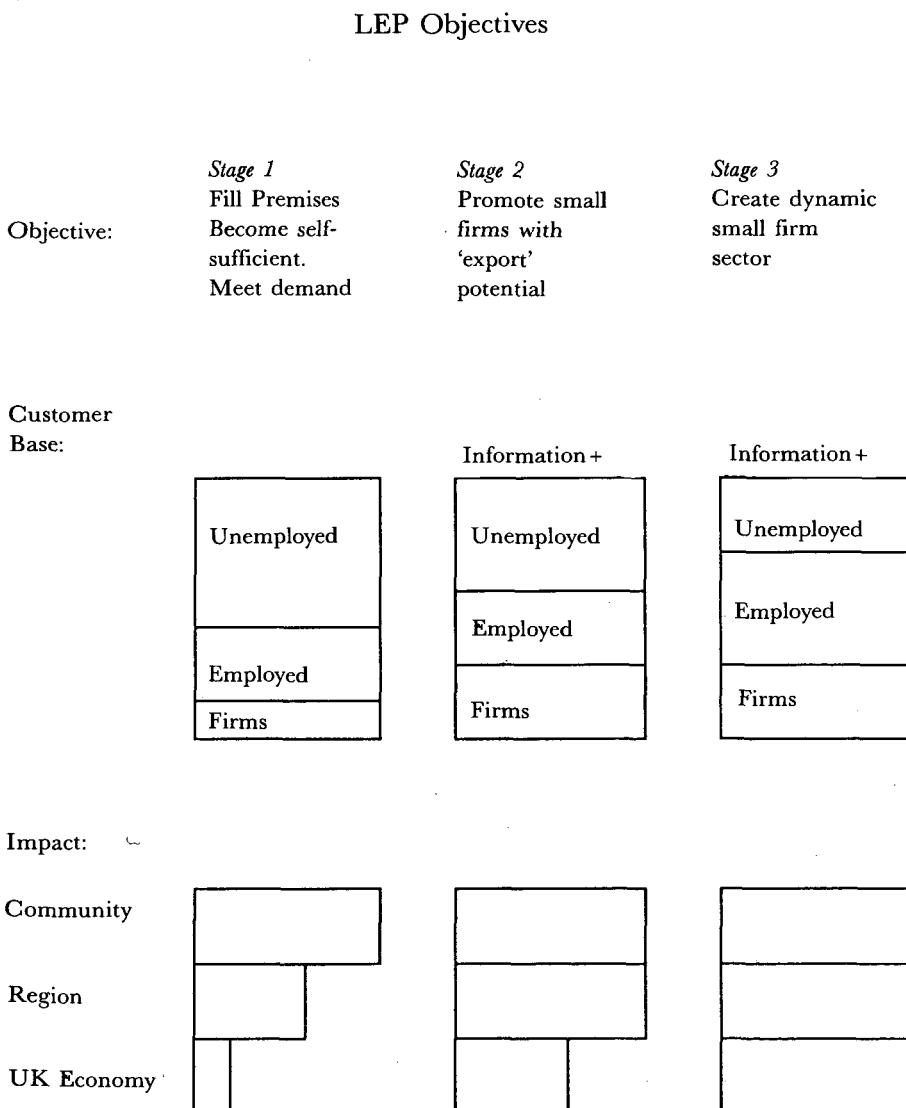


Figure 1

expansions of existing Centres or the building of new ones. There is displacement and the transfer of firms into Centres. The main beneficiaries in terms of employment are the local communities themselves. There are a number of key functions which the Centres perform at this stage: firstly, they provide a highly visible role model of small business activity and thus help change the culture in the local area; secondly, they are building up networks of contacts who will benefit their clients; and thirdly, they provide the long term support for new small firms, the lack of which has been one of the greatest weaknesses of the small firms support system.

The speed with which any LEP Centre can move through the different Stages will depend on the environment in which it is located and the resources available to it. Some Centres may be located in areas with many small firms and low unemployment. These would have little trouble filling the premises and could move quickly to Stage II. In some communities with high unemployment and low entrepreneurial ability, Stage I may require pre-business activity. The unemployed may need to be introduced to work through ACE and, possibly, community businesses before launching out on their own.

In Stage II the Centres (and Government) become more proactive and concentrate on developing customers with export potential. One of the major weaknesses of the LEP at present, for example, is the limited potential of many firms in terms of products/services and/or management. The system needs an infusion of information on market structures, new markets, new products and processes; and it needs an upgrading of the customer base by management training of existing customers and by a shift in the customer base to those with particular experience, skills and resources conducive to business success. There is a wealth of secondary data on markets and new products available in many different organisations in Northern Ireland e.g. LEDU, IDB, the Industrial Science Division of DED, and Libraries. Few people are aware of exactly what is available and the information is not readily accessible to Centres and small firms. All of this must be consolidated and made available for ready access by Centre managers and their small firm customers. One part-time librarian in the LEDU library, as at present is not appropriate support. The Government agencies might also consider preparing market analysis of sectors similar to those prepared by the Industrial Development Authority of the Republic of Ireland (IDA 1984).

The Centre managers must also be able to analyse the information available and also use the network of services they have developed in Stage I to upgrade the customer base. This can be done in a number of ways:

1. Upgrade the quality of projects of people who come to the Centre by matching their particular skills and resources to growth market segments — a different customer is thereby created.
2. Introduce new product ideas/markets which match skills and equipment of existing small firms in the Centre.
3. Assist existing customers in the Centre with exportable products to at least export to the rest of the U.K.
4. Assist existing customers who are exporting to G.B. to develop markets elsewhere.
5. Identify new client groups with experience, knowledge or skills conducive to business success e.g.
 - (a) existing businessmen — businessmen who trade abroad will see further opportunities for export; and local traders who might identify opportunities for import substitution;
 - (b) small businesses which the LEP manager thinks have growth potential and would benefit from the LEP environment;
 - (c) middle management in existing medium and larger businesses who may see opportunities which their own firm does not wish to follow;
 - (d) women — there are few women in the LEP Centres as present; yet women have unrivalled market intelligence particularly in consumer products (one of the most successful customers of the LEP is a woman, using a large number of outworkers, exporting childrens clothes to the U.S.A.);
 - (e) small farmers — who have a lifetime's experience in working in their own small business, have a scarce resource in land, and may be matched with a market opportunity which complements their particular mix of resources.

In Stage II, therefore, the customer base will move away from customers whose businesses amount to self exploitation to customers whose businesses offer a future to themselves and growth to the economy. At Government level, this kind of proactive programme is dependent on Government agencies providing the kind of information system described above which is appropriate to a dynamic small firms sector. At the LEP level the programme is crucially dependent on the Centre manager and the support he/she get from the Centre Board of Directors particularly the Chairman.

There are a number of prerequisites for success. The first is that the manager's schedule provides sufficient time for development work; he/she must not get bogged down in managing real estate; the Centre must be

adequately resourced to allow this to happen. Secondly, the manager must be given adequate training to ensure that he/she is fully briefed on sources of information and how to access them. He/she must become expert at tapping into networks of information particularly in marketing and finance. The role requires a special type of person whose remuneration should reflect the importance of the position.

Stage III of our scenario recognises the strategic weakness of small firms due to their limited economic, financial, personnel and political resources. They require a supportive structure that compensates for their lack of resources. Research into those areas of the world where dynamic small firm environments exist (Sengenberger 1987, Piore 1984, Storey 1987) essentially show three approaches to overcoming this strategic weakness, each one of which has lessons for Northern Ireland.

1. Foster a relationship with a large firm — in Japan large firms in the export sector create a federation of efficient suppliers on the 'system motte' or 'zaibatsu' model. This secure market allows the small firm to become efficient and also to compete elsewhere. (Northern Ireland has a few but important examples of this relationship). At the same time the Japanese Government has created some 180 local research centres whose function it is to develop new products and processes and facilitate their diffusion among small firms.
2. Government Expenditure — The Boston Model. In less than 20 years Massachusetts has been transformed from an economy based on declining textiles, footwear and clothing industries to one based on high technology. The primary reasons were the presence of key suppliers to the U.S. Defence Department and the largest pool of educated manpower in the U.S. The U.K. itself provides another example: the M4 corridor's growth has been financed by a combination of military and civil government research expenditure with small hi-tech firms spinning off from the research establishments.
3. As an alternative to dependence or reliance on large enterprises or the state, small firms can build a joint support system. The thriving industrial districts of North and Central Italy provide the most successful examples. Here hundreds of small firms, many employing less than 10 people, combine to make products as diverse as motor-bikes, clothes, knitwear and shoes for world markets. All firms have a very low degree of vertical integration and the production process is carried on through the collaboration of a number of firms. Regional Government provides support in the form of industrial parks for the small producers (equipped, for example, with common dining halls)

and has operated regional research centres, as in Japan. The small firms themselves have formed associations which provide for group marketing, joint organisation of exports, common purchasing and the guaranteeing of credit lines and loans from banks (Brusco 1982). Other communities have an 'IMPANNATORE' or merchant company which provides the link between shifting world markets and the association of small specialist firms. In the Basque country of Spain, the Mondragon Co-operative Group has developed, in the most inhospitable environment, a federation of small co-operatives employing over 18,000 people. Two key aspects of their system are relevant. One was the creation of their own bank, the Caja Laboral Popular (Popular Labour Savings Bank). The second was the establishment of a Centro de Investigacion (Ikerlan) — a research centre, to upgrade the technical capabilities of the group to meet foreign competition. Ikerlan employs 43 full time and 18 part time specialists to carry out this task.

In Northern Ireland the LEP system has already laid the enabling framework of support for small firms. What is still required are the structures which will allow the small firms to grow and compete in world markets. The role of research centres in support of small firms in all the examples mentioned needs to be explored in relation to Northern Ireland. It would enhance the information system suggested in Stage II.

In relation to marketing support structures Northern Ireland does not have many large firms, so the development of marketing structures either on a group basis or through a merchant company needs consideration. There are examples of these merchant companies (or development companies) in the Republic of Ireland (O'Donnell 1984). The role of Government expenditure in promoting small firms also needs to be examined. Public expenditure White Papers show that purchases of goods and services by Government in Northern Ireland runs at over £800 million per annum. No analysis has ever been done of what is purchased, in what quantities and from where.

Import substitution is often not viable, because the economies of scale, necessary to compete, are not possible. But small firms in the LEPs working together, each one doing a specialised part of the process may achieve group of economies of scale, as happens in Italy. Exports markets could be attacked by a similar process. The LEP Centres themselves must recognise their collective strength. Chairmen together could be a very effective grouping in dealing with banks and Government. The possibility of LEPs working together on the Italian model also has tremendous possibilities.

A Stage III LEP as outlined could create a dynamic small firm environment in Northern Ireland.

Conclusion

Because of the failure of traditional sources of jobs, Northern Ireland has been forced to rely more and more on its indigenous resources. There has been a particular emphasis on developing the role of small business, a traditionally weak sector of the economy. A number of initiatives have been taken, one of which is the Local Enterprise Programme. The LEP centres which have been established have in some cases begun to revitalise areas of very high unemployment. However, because of the nature of the jobs being created the benefits of the LEP have so far been largely confined to the local communities concerned, with little net impact on the economy as a whole. The customer base of the LEPs needs to move away from a heavy dependence on the unemployed to those customers (both firms and individuals) whose experience, resources and skills create and possibility of a dynamic small firms sector. To make this possibility a reality, there must be recognition of the strategic weakness of individual small firms in the market place. Supportive structures must be put in place which will enable small firms to compete effectively in the world market place and so help to create a thriving small business community in Northern Ireland.

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