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Centre for Urban  
and  
Regional Development Studies

THE MOBILISATION OF INDIGENOUS  
POTENTIAL IN THE U.K.

A REPORT TO THE REGIONAL POLICY  
DIRECTORATE OF THE EUROPEAN  
COMMUNITY



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## INTRODUCTION

This report has been prepared during a period of considerable change in U.K. regional policy. The need for economies in public expenditure has led to a phased but nevertheless considerable reduction in the number of areas of the country eligible for regional aid. In addition regional policies containing an element of discretion will in future be applied even more selectively. In England the retreat from national regional policy administered by the Department of Industry has also been accompanied by a decision to abandon formalised procedures for regional strategic planning as administered by the Department of the Environment. Such plans previously sought to co-ordinate the activities of central and local government and other bodies at the regional level through an advisory Strategic Plan. In Scotland and Wales the resources available for direct investment in local industry have also been reduced.

Although these moves are primarily indicative of the new Government's desire to reduce its involvement in the private sector and the need to reduce public expenditure, they also reflect other basic changes in the conditions for a strong regional policy. The redefinition of development areas in part recognises the necessity of concentrating scarce regional resources into areas where problems of unemployment and industrial decline are greatest. Particular emphasis is given in the new boundaries to the largest cities in the Northern parts of the country; many predominantly rural areas which have experienced buoyant manufacturing employment growth have been de-scheduled. At the same time the relaxation of industrial disincentive policies in more prosperous areas and the abandonment of controls on office development is, amongst other things, indicative of rising unemployment in some locations in the Southern half of the country, particularly in London and Birmingham. It also reveals a strong pressure to concentrate on national rather than regional economic development issues. With the strength of the entire economy seemingly dependent on a few buoyant manufacturing and export service industries, the former concentrated in the South East region outside London and the latter in Central London the rationale behind the retreat from regional disincentive policies seems obvious. Taken together with the reduction in the area eligible for regional aid it seems likely that policy induced industrial and service mobility will decline in the future.

In addition to changes in public policy, a future reduction in industrial mobility may also be attributed to changes in the technological conditions prevailing in much of modern industry. The increasing application of micro-

electronics in manufacturing processes will reduce one of the principal reasons for much policy reinforced industrial mobility - namely the search for reserves of relatively low skilled manual labour. In many industries new technologies may permit industrial restructuring in situ without investment in totally new factories. Such structural changes may imply that the high mobility of industry that characterised the late 1960s and early 1970s may be seen in a longer term historical perspective as a unique phenomena.

In these circumstances it is inevitable that new emphasis should be placed on the necessity for local economic development to be based upon the mobilisation of indigenous industrial potential - whether this be in companies wholly owned within an area or establishments that have relocated during more active periods of industrial movement. This report reviews the constraints acting upon such industrial development within the U.K. regions. To set the scene Chapter 1 expands upon some of the opening remarks made in this introduction concerning changes in regional policy, its past effectiveness and its shortcomings in relation to the changing nature of the regional problem itself.

The main body of the report then considers how the changing nature of the regional problem may be attributable to a number of non-spatial processes which have had important regional consequences. The first, which is discussed in Chapter 2, is the increasing volume of both inward and outward international investment. The second is the now dominant position of large multi-site companies in the national economy. Chapter 3 discusses the implications for the peripheral regions arising from the geographical division of functions within such companies. Since one of the key mechanisms by which large firms have grown is through the acquisition of smaller companies, Chapter 4 discusses the implications of this process for the development of indigenous enterprises in peripheral regions. And as one corollary of the growth of large firms has been the decline of the small firm sector, Chapter 5 therefore considers regional differences in the importance of small firms and in rates of new firm formation.

Each of these chapters draws upon substantive research findings and discusses the implications of these findings for 'the mobilisation of indigenous potential'. Since technological innovation amongst industries in a particular area is essential to self-sustained economic growth, Chapter 6 discusses some unique evidence on the regional distribution of significant

British manufacturing innovations. Finally, because a range of policies, many of them without a specific regional bias have a bearing on innovation, the concluding chapter discusses how, in the light of earlier discussions about the spatial structure of U.K. manufacturing industry, such policies can be integrated with more directly regional instruments to produce an "innovation orientated regional policy". These suggestions are based on the view that a spatial dimension is required to many national industrial policies in order to ensure their maximum effectiveness. The aim of such policies should be to raise the performance of manufacturing plants throughout the country to the highest possible standards for their respective industries. Because of the large gap already existing between plants in different parts of the country some additional effort in the less developed areas will be required to achieve this objective.

This report has been prepared by a number of research staff in the Centre working under the overall direction of Professor J. B. Goddard. Chapter 1 was drafted by Alfred Thwaites and Andrew Gillespie; Chapter 2 by Peter Nash; Chapter 3 by Vicki James; Chapter 4 by Ian Smith; Chapter 5 by Alfred Thwaites and Professor Goddard; Chapter 6 by Raymond Oakey and Professor Goddard and Chapter 7 by Alfred Thwaites and Professor Goddard. Professor Goddard bears overall responsibility for the whole report.





## SUMMARY OF CHAPTERS

### Chapter 1: Regional Policy and the Changing Nature of the Regional Problem

1. The principal rationale of regional policy has been to reduce the persistently high levels of unemployment which characterise the peripheral industrial regions of the country. Strategy to achieve this objective has centred around the control of factory extensions and development in the more prosperous areas coupled with the offer of incentives to encourage mobile industry to locate in the peripheral areas (paras. 1.1 to 1.3.)
2. From the mid 1960s, the areas covered by regional assistance have generally been enlarged by successive governments. The present government's proposals, however, reverse this tendency: Intermediate Areas are to be <sup>dowgraded</sup> abolished, the Development Areas considerably reduced in size, and total expenditure under regional policy instruments is to be cut by £200m over the next three years (paras. 2.1. to 2.6.)
3. Evidence suggests that approximately 250,000 manufacturing jobs have been created in the Development Areas by regional policy between 1960 and 1976 (paras. 3.1. to 3.3.). Unemployment levels, however, remain much higher in the assisted areas than in the non-assisted (para. 4.1.). Part of the explanation appears to be that the type of employment created has encouraged female participation in the labour market, thus increasing labour supply (paras. 4.2. to 4.3.).
4. A further shortcoming of regional policy has been the high closure rate of firms moving to the assisted areas (para. 4.4.).
5. Evidence suggests that variation in employment performance, particularly of indigenous industry, cannot be explained at the regional level - the performance of an area owes more to its degree of urbanisation than its regional location, with the larger urban areas faring considerably worse than the smaller urban or semi-rural areas (paras. 4.8 to 4.9. and 5.10. to 5.12.).
6. The current economic situation has reduced the effectiveness of

regional policy instruments, which are dependent upon the demand for additional manufacturing capacity (paras. 5.1. to 5.4.). Priorities have shifted towards facilitating the regeneration of national industry (paras. 5.7. to 5.9.).

## Chapter 2: The International Context

1. In detailing inward and outward direct investment flows, it is noted that the surplus of outward over inward investment is increasing over time (para. 1.3.).
2. Inward investment is heavily concentrated into those areas of manufacturing industry which are less technology intensive (para. 1.6.). The extent of foreign direct investment by British firms, most significantly in high technology industry, may pose a threat for the long term growth of the domestic manufacturing sector (para. 2.4.), particularly as there is a suggestion that some at least of this investment has diverted from peripheral U.K. regions (para. 2.5.).
3. High degrees of external control characterise overseas investment in peripheral areas; production plants with very few local linkages and a low degree of functional complexity typify this investment (para. 3.6.).
4. Available evidence suggests that these incoming firms do not operate as very effective technology agents. They have generated much-needed employment, but have not contributed greatly to the mobilisation of indigenous potential (paras. 4.2. and 4.3.).

## Chapter 3: Spatial Corporate Structure and its Implications for the U.K. Regions

1. The centralisation of the control functions of multi-plant enterprises has created a severely unbalanced distribution of office employment in the U.K. with peripheral regions being the focus of routine functions only. (paras. 2.1. to 3.6.).
2. The agglomeration of head offices in the South East has intensified the centralisation of specialist service activities also in that region.

Branch plants in peripheral areas tend to be serviced either from their own head offices or from South East based service suppliers. The growth of externally controlled establishments in peripheral regions is, therefore, having the effect of downgrading the quality of services provided in the local area (paras.5.1. to 5.5.).

3. The quality of the local information environment acts as a severe constraint upon the growth of indigenous enterprise in peripheral regions (para. 5.4.).

4. Whether it be a satellite of, or a competitor to, a large enterprise the small indigenous firm operates at a distinct disadvantage (paras. 6.1. to 6.3.).

5. Advances in telecommunications might aid the development of indigenous enterprise by making remote service and information sources more accessible. At the same time telecommunications may permit more "remote control" of peripheral area manufacturing plants.

#### Chapter 4: The Consequences of Takeover and Merger Activity for the Mobilisation of Indigenous Industrial Potential in Peripheral Regions

1. Loss of indigenous control over the means of production in peripheral economies results primarily from a negative acquisition balance, i.e. more peripheral region firms are acquired by firms in other regions and overseas than vice versa. This reflects the size differential between core and peripheral area-based companies (para. 1.3.).

2. Evidence is presented which suggests that the acquisition process may have particularly serious consequences for indigenous growth potential, in view of the propensity for acquisition of small to medium sized fast growing enterprises (para. 2.2.). It is suggested that such firms, unable to obtain loan capital from public sources or the banking sector, see acquisition as an alternative means of financing their expansion (para. 2.9.). That these expansion hopes may not subsequently materialise, is indicated by a large body of evidence, which suggests

that takeovers often lead to a diminution in the growth rate of the subsidiary (paras. 5.3. and 5.4.) or even outright failure resulting in closure of the acquired firms plants (para. 5.6.).

3. These effects appear to some extent to be independent of the motivation for the takeover; equally sound arguments can be advanced to explain the failure of both market extension (horizontal) and product diversification (conglomerate) mergers (para. 5.5.).

4. Even where closure or contraction does not occur, there is a strong likelihood that the range of activities carried out in the subsidiary will be substantially reduced, owing to the economies of scale which can be achieved through centralisation of higher order functions and the advantages which the peripheral areas possess for the batch production of mature products (paras. 4.1. to 4.7.).

#### Chapter 5: New and Small Firms in Regional Development

1. Encouragement of new and small enterprise is seen as an essential part of the current British Industrial Strategy. Evidence from the United States and Britain suggests that small independent firms play an important role in the creation of new job opportunities and in changing industrial structures at the local level (paras. 2.1. to 2.5.).

2. Most founders set up new enterprises in the locality in which they live or work - local entrepreneurship tends to produce local results.

3. Studies in the East Midlands and in the Northern Regions of Britain suggest that the rate and level of new firm formation in a local area is associated mainly with local plant size structure and to a lesser extent with industrial structure or industrial growth (para. 3.1.).

4. Founders of new enterprises can be divided into two broad categories; the 'craftsman' and the 'opportunist'. The 'opportunist' entrepreneur was often a former manager, well educated and with broader horizons and higher goals than his 'craftsman' counterpart.

5. Contrary to popular belief, relatively few new firms are set up to exploit some new innovation but their emergence appears to be heavily

dependent upon the availability of entrepreneurial skills and the local business environment (Section 4.).

6. While small firms have been responsible for producing a number of important innovations little is known of the rate and direction of inventive activity, Research and Development levels, rates of imitation or the technological capacity of small enterprises at the regional or national levels (Section 5).

7. The conclusion is reached that the role of the new and small firm in regional development is a neglected area of research. Comprehensive research across a broad spectrum of small enterprise activities is required to further our understanding of this vital sector of the local and national economy.

#### Chapter 6: The Regional Distribution of Significant British Innovations

1. Chapter 6 begins with a recognition of the need for hard evidence of differences in the rates of technological change and regional development. This requirement is met in part by the summary of the collection and analysis of descriptive data on the distribution of significant British industrial innovations. (paras. 1.1. to 4.4.).

2. This analysis includes a consideration of the aspatial characteristics of the innovating plants which pays especial attention to their size and organisational type (paras. 3.1. to 3.4.)

3. Subsequent regional examination of the regional distribution of innovation reveals that the propensity for innovations amongst small and medium sized firms is two and a half times greater in the South-East and Midlands compared with a group of Development Areas. At the same time there is little inter-regional transfer of technology in multi-site companies. In particular products first developed in the South-East are by and large first put into production in that region (paras. 4.1. to 4.4.).

4. The chapter is concluded with interim impressions gained from a major nationwide survey of factors influencing technological change at the plant level (paras. 5.1. to 5.8.). These impressions will be

expanded upon in detailed analysis which will be available by the end of 1979.

#### Chapter 7: Towards an Innovation Oriented Regional Policy

1. This section draws together the issues raised in earlier chapters at the regional level and discusses them within the context of the sub-regional and local labour market. The report has revealed the specialised and often fragmentary nature of current research aimed at identifying the causes of differences in regional performance. This leads to the development of an elementary framework for systematically examining indigenous potential across a large number of economically, socially and topographically diverse regions within the Community. This approach highlights a number of policy issues and suggest areas for further research:

- (a) the process of innovation in multi-plant corporations with spatially distributed plants.
- (b) the process of innovation in small and medium sized corporations located in peripheral areas. This will in all probability differ from the process discovered in (a) above and qualifying the existing information gained at the aspatial enterprise level.
- (c) the spatial implications and effectiveness by type of plant, industry etc. of both existing national and regional policy instruments, including if possible their second round effects as they impinge upon technical development.
- (d) the business service sector as an essential element in local innovative activity.
- (e) the economics and consequences of centralised or decentralised research and development activities and the apparent low level of contact between industry and centres of basic research.
- (f) the technical and economic consequences for Development Areas of increasing external ownership of manufacturing activity and of relevant service activity.
- (g) the technical and market information services available to industry indigenous to the Development Areas and in particular the independent small or medium sized firm.
- (h) A broader assessment of the impact of inward investment,

with the emphasis on their role as change agents rather than simply creators of employment. Investment diversion associated with outward investment must be comprehensively examined.

- (i) the paucity of data on new and small firms, their rate of formation, growth, survival, technical competence and contribution to regional development is such that it calls for further research into all aspects of performance at the national and regional levels.

