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European Union Policy Towards The Establishment Of Sme Networks And Clusters: A Critique.

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EUROPEAN UNION POLICY TOWARDS THE ESTABLISHMENT OF SME NETWORKS AND CLUSTERS: A CRITIQUE.

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The 1990s saw the development of what could be termed an industrial policy at the EU level. This development was outlined in such publications as the Bangemann Report (CEC 1990), the EC White Paper (CEC 1993), the proposals for an EU policy on Industrial Competitiveness (CEC 1994a) and the EU's proposals for SMEs (CEC 1994b). What is significant from these publications is that they saw the EU starting to break away from its traditional emphasis on large firm economies of scale in order to give greater attention to the role played by SMEs. The reasons for this are well documented in the existing literature but can be placed into three categories. First, SMEs have come to play an increasingly important role in European economies in terms of their share of economic activity, driven by the moves to greater specialisation in the process of production. Second, in terms of innovation there is a growing body of evidence to suggest that small firms are instrumental in introducing technical change. Third, SMEs are recognised as significant job creators. Each of these factors has been stressed at the regional level as offering the potential for regeneration. The EU policy documents designed to capture the dynamism of SMEs aim to: simplify and improve the environment in which SMEs operate, and provide a number of support measures for SMEs, including the promotion of enterprise networks. It is the second point which will be the focus of our paper. The objective of establishing enterprise networks was put forward in 1994 (CEC 1994). The idea of encouraging networks of SMEs to enhance competitiveness of 'new forms' of organisations within spatially defined areas has grown in importance over the last decade. However, within the existing literature and policy statements there is a lack of appreciation of crucial aspects which are essential if these 'new' forms of organisation are to be successful. In particular for a network/cluster to be successful there has to be an understanding of the power relationships and the role of trust and co-operation within these organisations. In this paper we build on our previous studies into industrial districts, clusters and regional economic development with a critical examination of the evolution of the enterprise networks at the EU level. We argue that, because of a lack of the understanding of the role of power, trust and co-operation, these networks to date have not been as successful as originally envisaged. At a micro-level we analyse the continuing development of the clusters strategy within Scotland. Whilst the clusters strategy is not a carbon-copy of the enterprise networks the underlying principles to further economic development certainly are.

Introduction

The 1990s saw the development of what could be termed an industrial policy at the EU level. This development was outlined in such publications as the Bangemann Report (CEC 1990), the EC White Paper (CEC 1993), the proposals for an EU policy on Industrial Competitiveness (CEC 1994a) and the EU's proposals for small and medium enterprises (SMEs) (CEC 1994b). What is significant from these publications is that they saw the EU starting to break away from its traditional emphasis on large firm economies of scale in order to give greater attention to the role played by SMEs. The reasons for this are well documented in the existing literature but can be placed into three categories. First, SMEs have come to play an increasingly important role in European economies in terms of their share of economic activity, driven by the moves to greater specialisation in the process of production. Second, in terms of innovation there is a growing body of evidence to suggest that small firms are instrumental in introducing technical change. Third, SMEs are recognised as significant job creators.

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- simplify and improve the environment in which SMEs operate, and
- provide a number of support measures for SMEs, including the promotion of enterprise networks.

It is the second point which will be the focus of our paper. The objective of establishing enterprise networks was put forward in 1994 (CEC 1994). The idea of encouraging networks of SMEs to enhance competitiveness of 'new forms' of organisations within spatially defined areas has grown in importance over the last decade. However, within the existing literature and policy statements, there is a lack of appreciation of crucial aspects which are essential if these 'new' forms of organisation are to be successful. In particular for a network or cluster to be successful there has to be an understanding of the power relationships and the role of trust and co-operation within these organisations (Danson and Whittam, 1998 and 1999).

In this paper we take a critical examination of the evolution of the enterprise networks at the EU level and we argue because of a lack of the understanding of the role of power, trust and co-operation these networks to date have not been as successful as originally envisaged. At a micro-level we analyse the continuing development of the clusters strategy within Scotland. Whilst the clusters strategy is not a carbon-copy of the enterprise networks the underlying principles of furthering economic development certainly are. So the paper is organised on the following lines. Section 1 analyses the disappearance of enterprise networks from EU policy statements. Section 2 examines the theory behind enterprise networks implementation for the European Union. Section 3 provides an overview of the business development infrastructure in Scotland, and Section 4 analyses the cluster and networking strategies specifically. Section 5 concludes the paper.

Section 1: Why Networks for the SME sector?

Over the last two decades, policy makers throughout the industrialised world have sought to encourage enterprise, entrepreneurship and SMEs for the reasons outlined in the introduction. These policy initiatives, however, can be broadly split into two types of measures, namely actions to encourage start-ups and actions to encourage growth companies. Despite this, the CEC Report (1999) comments on three areas of concerted action envisaged in the 1994 Integrated Programme, namely: improving the business

environment, stimulating business support measures and increasing the profile of support services. These concerted actions relate to three different life cycle stages of a firm: start-up and early development, the growth phase, and transfer of the business to the next generation. The 1994 'Integrated Programme for SMEs and the Craft Sector' aimed "to establish a global framework for all actions for the benefit of SMEs within the European Union, **with a view to achieving closer co-ordination and partnership between all the parties involved in SME development**" (emphasis added) (CEC 1999 p.5).

However, whilst the CEC Report (CEC 1999) identifies the seeds of the Integrated Approach to SMEs in the White Paper (1993), there is a surprising omission, there is no mention of the much trumpeted Enterprise Networks, which we have already described as being a key component of the White Paper. This is a surprising oversight given that the 1999 Report focuses on all the other aspects of support found in the White Paper and the specific aspect of the aims of the Integrated Programme highlighted above. In particular the 1999 Report emphasises measures adopted to simplify and improve the environment in which SMEs operate.

The encouragement of SMEs to co-operate in networks has primarily been focussed on potential growth firms. Within the original EU policy initiatives to create enterprise networks, the emphasis has been on the job creating potential of SMEs. Indeed, the first line of the White Paper states: "Why this White Paper? The one and only reason is unemployment" (CEC 1994 p.9). This job creating potential of SMEs arises from their "presence on expanding new markets" and "their internal organization" (CEC 1994 p.85) which creates flexibility "due to the disproportionately high level of recruitment of certain labour-force categories, notably young people and women, and the greater willingness to adapt working conditions as and when necessary". The policy initiatives, whilst calling for an integrated programme, were split into two broad categories. First, "(a) Making credible in the short term the potential available to SMEs in the single market" which focuses on the reduction of the administrative burden which could prevent SME growth and development and improving the financing of firms, and second "(b) Exploiting the dynamics of the single market in order to boost competitiveness in the medium term", which sought to support co-operation between firms by, amongst other things, providing "support for participation by SMEs in enterprise networks aimed at introducing flexible and specialized production systems" (CEC 1993 p.87).

The Report (CEC 1999) identifies ways in which attempts were made to implement the identified areas of concerted actions: "The early conception of the process of concerted action put a great deal of stress on the promotion of an exchange of ideas and best practice through the organisation of large scale-Fora" (CEC 1999 p.7). These fora brought together political leaders, business organisations, experts and practitioners in the area to be addressed. The fora led to smaller workshop sessions and structured debates to identify common problems and to examine best practice. From these initial meetings a representative committee was formed to explore the issues surrounding the improvement and the simplification of the business environment and a similar approach was adopted in helping to shape communication on the transfer of business. However, a different approach was adopted for examining the measures aimed at growing enterprises. A group responsible for supervisory, planning and co-ordinating the work developed as a steering group with representatives from the member states along with European business organisations. This differing approach was justified because of the different nature of the subject matter of the concerted actions. Business support measures cover a wide variety of practices involving many different types of agency, while legislative and administrative frameworks concern a relatively restricted number of regulations and

practices. Additionally business support conducted within a national framework may be subject to local interpretation and therefore the process both of identification of best practice and its dissemination has to be wide ranging.

The Report (CEC 1999), in examining the results of the various seminars workshops and activities initiated by the steering group, identifies key issues and good practice for business start-ups. The key issues are placed into the following categories: training and information, finance and incubators. Dissemination of best practice is seen to be of key importance and the Report argues that the identified best practice has already started to influence the implementation of policy throughout the member states. The section of the Report dealing with support measures for enterprises in the growth phase again identifies three broad areas of support measures: training, finance and the promotion of co-operation. But the co-operation is specific to transnational co-operation. There is no mention of developing co-operation between agencies within individual member states or indeed within specific regions. However, in a follow-up exercise the Concerted Action Steering Group organised a series of seminars in 1999 and early 2000 to examine, amongst other issues around business support services: “strategic support services, such as benchmarking, supply chain management strategies and co-ordinated services, particularly at a regional level” (CEC 1999 p.29). Included in the issues raised after the first seminar, it argued that “partnership and co-operation are key, particularly in value chains and industrial clusters” (CEC 1999 p.29).

The main focus for this paper is covered in the third concerted action: namely, increasing the visibility and effectiveness of support services. However, their discussion around this concerted actions are rather restricted to the method of delivery and to noting that there may be problems of duplication. Whilst there is acknowledgement that delivery could be at the national or regional or European level, there is little recognition of the significance of this. Similarly, given the spatial implications of organising production amongst SMEs within clusters, networks, supply chains and industrial districts and the already noted emphasis in early policy initiatives on enterprise networks, it appears worthwhile to explore this anomaly further.

Section 2: Situating Enterprise Networks

Networks have become all things to all theorists and policy makers, in the words of Markusen (1999) they are “Fuzzy Concepts”. We are not attempting to unravel this fuzziness in this paper but it is important to analyse what the EC White Paper (1993) understood by the concept. To cite once again: “Another means of fostering cooperation would be to provide support for participation by SMEs in enterprise networks aimed at introducing flexible and specialized production systems” (CEC 1993 p.87). This suggests that the concept of the network within this context is akin to the analysis found in the literature on industrial districts (Pyke et al 1990). Further, theorists of “clustering” have utilised the concept of “productive systems” to define their concept of a cluster. Steiner (1998), for example, argues that a cluster can be regarded as a ‘regional productive system’. In a similar vein if a ‘productive system’ is to be understood then the importance of supporting research and technical studies, applied to the peculiar environment of the area under investigation, are crucial, with strategies and associated action plans formulated (Jud and Steiner 2000). Within the European Union context, both the Regional Innovation and Technology Transfer Strategies and Infrastructures (RITTS) programme and the Regional Innovation Strategies (RIS) programme have both

promoted the idea of bottom-up approaches to encouraging and facilitating change and innovation through networking and partnership.

That such policy frameworks can be traced back to the 'notions of industrial districts, clustering and system areas and ... the themes of innovation strategies, institutional thickness and the embeddedness of development' (Kafkalas and Thoidou, 2000, page 115), means that the acceptance of intelligent regions and learning regions has been pervasive and fairly rapid across Europe in their wake. The body of work underpinning this knowledge-based model of economic development has been well rehearsed by Enright amongst others (UNIDO 2000a) and he, along with most authors, seats the approach within the theme of flexible productive systems. SMEs are often seen as having been provided with a new potential for niche operations with the breakdown of the dominant Fordist production system.

Thus, according to UNIDO (2000b), even with the progressive domination of the global economy by multinational enterprises, SMEs increasingly are able to compete on world markets, given the right conditions. Local economic strategies are being given greater prominence in economic development and to a trend where they are seen as the natural way to counter forces of globalisation and the failure of national policies to react to local crises. Arguments that such strategies should incorporate the roles of SMEs within flexible production regimes reflect the arguments that networks of agencies and firms are the key to competitiveness, rather than the activities of individual enterprises, whether in state or private ownership. UNIDO therefore argue for 'an integrated networked approach to development - involving interfirm networks, institutions and support programmes - at the level of national regions' (UNIDO 2000b p. 1).

Such relationships between actors can be considered in terms of *vertical networks* - with firms in a supply chain, usually for and led by a larger company (Pyke 1997); *horizontal networks* - assisting groups of, usually, SMEs to act cooperatively in a learning network or more strongly into collaboration on marketing, R&D, export and trade development, joint purchasing (Cooke and Morgan 1998); and *sectoral clusters* - with elements of both horizontal and vertical networks in the promotion of an industry where collectively SMEs may be the dominant producers.

The proliferation of strategies actively created to promote networks and clusters across the world, developed and developing, may not be sustainable in any particular area and cannot be successful for everywhere. This is especially true when it is recognised that these strategies are almost universally based on IT/electronics, biotechnology and related sectors. However, UNIDO and others have identified this as the framework for economic development in the promotion of enterprise and suggest the networking and cluster approaches of such countries as Sweden and Scotland as being worthy of identification as models to be more widely disseminated (UNIDO 2000b). In Sweden, an intermediary agency, NUTEK, has been active in encouraging SMEs to collaborate together to improve their powers in linkages with technology suppliers. By strengthening their demands on suppliers - such as universities or technological institutes, it is aimed to promote technology transfer and to make it more demand driven. Enhanced coordination between the network of suppliers of technology and know-how are associated with such moves. Similarly, with regard to horizontal networking, NUTEK is encouraging SMEs to join together to create first tier 'systems capability' within the supply chains of large companies; this should also improve the ability of SMEs to access final markets.

It is to the experiences of Scotland that we now turn to examine how the opportunities to enhance competitiveness through collaboration and partnership fit in with the EC concept of enterprise networks.

Section 3: Business Development Infrastructural Support in Scotland

The re-establishment of the Scottish Parliament in May 1999 presented a renewed opportunity to address many aspects of policy formation, implementation and evaluation in Scotland. Through the Enterprise and Lifelong Learning Committee of the Parliament (ELLC), there was a capacity to investigate in some depth the operations of the departments and agencies involved in local economic development and training across the country. In particular, as its first major inquiry, this Committee examined whether there was duplication and overlap between the various institutions in the delivery of business services and published their interim conclusions in late 1999 (Enterprise and Lifelong Learning Committee 1999). To enable the Committee to be more fully informed, in early 2000 the University of Paisley was commissioned to undertake research into the activities of economic development agencies, and the results of that research support our current analysis of enterprise networks.

The University of Paisley report (Enterprise and Lifelong Learning Committee 2000) incorporated a mapping exercise with descriptions of local economic development services in Scotland, based on eighteen areas across the country. These profiles catalogued the area covered, development agency responsible for the area, European Union structural fund designation, assisted area status, key organisations at core and subsidiary levels, and the key issues facing the economy. Descriptions of the principle activities, partnerships and strategies were presented. They were based on the submissions to the Committee Inquiry, the Written Reports, the case study visits made by the Committee, and such other material as it was possible to collect and collate in the time available (effectively only three weeks were allowed for the study). The areas selected were based on either the territory of the local enterprise company or the local authority, or some combination of the two.

The research also involved a detailed discussion of a number of generic areas of activity, including business development, general business development, innovation and product development, export and trade development, property and managed workspace, and areas of training provision. Collectively, these reflected the main programmes and activities of the key players in local economic development. In each case, case study material was used to illustrate the wider picture with significant differences drawn out. In this paper, the focus is on the first two areas: business development and general business development, and the pan-Scotland cluster strategy.

A number of additional issues were not covered in the main sections of the report but were discussed in more detail in the commentary. Their relevance here is that they described the creation of the conditions for a particular form of support landscape, with the strong partnership approach described dominating over single agency actions in overcoming duplication and overlap in Scotland (Danson et al 1977; Cameron, Danson and Fairley 2000). Yet, as examined below, this public-public partnership model was less well developed for and with the private sector participants in economic development.

Thus through European Partnerships, Strategic Structural Planning institutions and across many other instruments of business and economic development, there is a significant institutional thickness (Morgan 1997) of public and semi-public sector agencies, community, voluntary and trades union bodies to provide a series of often critical support mechanisms. It is interesting that many of these are hidden and so not fully appreciated as crucial to the effective and efficient operation of development; The

Scottish Low Pay Unit, for instance, is not infrequently contacted by SMEs for information on such topics as minimum wage rates, hours of work and statutory rights. Although such informal dialogues exist, since the early 1970s, economic development support in Scotland primarily has been delivered and co-ordinated through the two regional development agencies (RDA): Scottish Enterprise and Highlands and Islands Enterprise. **They have responsibility for the integrated delivery of economic and business development initiatives, the provision of training and the implementation of measures to secure the improvement of the environment in Scotland.** Each RDA operates through a network of local enterprise companies, which themselves usually function through partnerships with other agencies. Making the myriad of such involvements clear by mapping how the various institutions were inter-linked and related was a primary task of the ELLC study and the following diagram attempts to capture the essence of the complexities in a typical area of Scotland. The accompanying table presents this information in an alternative form. These typical arrangements are becoming increasingly formalised along these lines, with the publication of the 'Framework for Economic Development in Scotland' (Scottish Executive 2000) in particular promoting the concept of a local economic forum in each area.

DIAGRAM 1 ABOUT HERE

TABLE 1: Economic Development: The Typical Scottish Area Model

Local economic company (LEC): Joint Economic Strategy; Economic Forum; Training & Learning Forum; Business Development; General Business Development; Innovation & Product Development; Export & Trade Development; Property & Managed Workspace; Training for Young People; Training for the Unemployed & Social Inclusion; Provision for Workplace Training

Scottish Enterprise National (SEN): some depending on area; Innovation & Product Development

Local government (LAs): Joint Economic Strategy; Economic Forum; Training & Learning Forum; Business Development; General Business Development; Innovation & Product Development; Export & Trade Development; Property & Managed Workspace; Training for Young People; Training for the Unemployed & Social Inclusion

Chamber of Commerce: Economic Forum; Training & Learning Forum; Business Development; General Business Development; Export & Trade Development

Enterprise Trust (ET): Business Development; General Business Development

Area Tourist Board (ATB): Economic Forum; Business Development

Careers Company: Training & Learning Forum

Employment Service: Training & Learning Forum; Training for the Unemployed & Social Inclusion

Training Provider: Training for Young People; Provision for Workplace Training

Non-departmental Public Bodies (NDPB): Economic Forum

Scottish Trade International (STI): Export & Trade Development

Prince's Scottish Young Business Trust (PSYBT): Business Development

Higher Education Institutions (HEIs): Economic Forum; Training & Learning Forum; Innovation & Product Development

Further Education Colleges (FE): Economic Forum; Training & Learning Forum; Training for Young People; Provision for Workplace Training

Scottish Council for Development and Industry (SCDI): Export & Trade Development

Employers/private sector: Economic Forum; Training & Learning Forum; Property & Managed Workspace; Training for Young People

Trades Unions: Economic Forum; Training & Learning Forum

Voluntary sector: Training & Learning Forum; Training for the Unemployed & Social Inclusion

Community sector: Economic Forum; Training & Learning Forum; Training for the Unemployed & Social Inclusion

To improve the understanding of how economic development services are delivered on the ground across Scotland, the generic areas of activity described above were addressed in greater depth. Reflecting the main programmes and activities of the key players in local economic development, there was a particular focus on the co-ordination and delivery of business development services, in line with the remit of the Committee. The research, therefore, demonstrated a fairly structured approach to supporting and signposting new, small and medium enterprises in Scotland, with a local formalised business support network active in each region. However, there was but sparse evidence of enterprise networks as described and encouraged by the EC in the early 1990s. At best mentoring programmes were being proposed, but a weak Chamber of Commerce movement and a local Export and Trade Development Partnership were the only consistent pattern of mutual support identified.

Clustering and Networking Strategies

The research confirmed that all local enterprise companies (LECs) provide some form of start-up support to new businesses. However, there proved to be considerable variety in the form in which start-up support and aftercare is delivered and provided across LEC areas. Even within these areas, large variations can exist in the type of support and training provided depending on the delivery mechanism employed; where Enterprise Trusts deliver support rather than one agency or organisation across the LEC area this was especially the case. There was diversity of support for potential start-ups, with the LECs offering segmented assistance according to whether the enterprise was considered to be 'high-tech', high growth, lifestyle, etc. This allowed the authorities to reconcile consistency with flexibility and integration of support. In some areas, networks and business fora were an important mechanism for providing support through aftercare, with an active business forum occasionally facilitating early stage start-up clients with the opportunity to network, share experiences, problems, express needs and gain business. Undoubtedly, providing intensive aftercare is expensive in terms of resources, and it is notable that the ELLC did not explore how the LECs could be encouraged to introduce innovative mechanisms to cope with larger numbers of clients receiving basic advice support, perhaps through informal networks and business forums. Computer-based provision for some clients and for dealing with initial advice is currently being trialed by Scottish Enterprise on a pilot basis in rural areas such as Dumfries and Galloway, but this remains an isolated example of the promotion of overt networking activities.

Beyond these activities, the key players are involved in a range of other programmes and policies which seek to address market failures in the areas of finance, labour and land. The topics covered in the report to the ELLC were not exhaustive of all the issues, therefore, nor do they account for all the types and forms of intervention. In particular, the RDAs have been promoting the concept of sectoral clusters as the way to implement strategies for improved competitiveness. The 'Clusters Approach' of Scottish Enterprise has been analysed in previous papers (Danson and Whittam 1998 and 1999), with the RDA arguing that if regions and nations are to be competitive in the next century they must be at the forefront of knowledge production. In order to compete, Scottish Enterprise (SE) readily acknowledges that the information and ideas created and developed through clustering are reliant on strong partnerships and that if synergy is to be maximized then the whole process of the knowledge based economy is dependent upon ... "working to build trust and a shared vision" (Scottish Enterprise, 1998, p1). The envisaged strong partnerships will ideally consist of customers, suppliers, competitors, universities, colleges, research bodies and the utilities, in other words will be a private/public sector mix. This is hardly surprising given the nature of the output produced, namely information, and the notoriety of the private sector to under-invest in research and development. SE recognise, albeit reluctantly, that there is a spatial element attached to the idea of achieving a competitive advantage through the establishment of a 'Learning Economy' within the globalised economy, with the spatial dimension at a regional or a national level or indeed it can transcend state/regional boundaries.

DIAGRAM 2 ABOUT HERE

A significant problem for the network of local enterprise companies (LECs) is how to operationalise this national strategic approach at the sub-regional or local level. There is no simple mapping between the bottom-up set of partnerships - usually horizontal

networks - described in Diagram 1 and the sort of industrial cluster described in Diagram 2. Anecdotal evidence from some regions of Scotland, and from rural and smaller urban areas especially, confirms that localities at distance from the geographical core of the economy have difficulties in applying the cluster strategies in their domains. A lack of a sufficient range of the components of a food or electronics sector in a region curtails attempts to create a local cluster, while distance, lack of economies of scale and the costs and availability of business services will restrict participation in national or international established clusters.

Direction on this could have been expected from the recently launched 'Framework for Economic Development in Scotland' (Scottish Executive 2000). However, this places significant stress on the need for Scotland to accept the inevitability of globalisation, the supremacy of market forces, and the continuing reliance on inward investment. All these are factors which could be expected to limit the capacity of local SMEs to enter the appropriate cluster. Nevertheless, in a reference to the conditions for the successful introduction of networking, it suggests that a particular weakness in the Scottish economy is a 'failure to establish sufficient links between inward investors and indigenous businesses' while a strength is demonstrated in that the 'potential for coherence and co-operation between economic agents in Scotland is high due to small size and a relatively cohesive community' (Scottish Executive 2000 p.12).

Much of the discussion of how the Scottish economy is to be developed is based on improving vertical networks or supply chains, with better procurement links between core inward investors and peripheral Scottish contractors. Previous research (Danson and Whittam 1998 and 1999) raises questions about the likely success of such an approach, especially in clusters dominated by multinational capital with its own objectives and global strategies. As the framework is focused on stimulating growth through enhanced productivity, the role of co-operation between enterprises enters the policy environment in terms of limited horizontal networks: 'collaboration and joint ventures between productive enterprises and centres of knowledge and research' (p.13). Further, they suggest that 'the public sector may have a role to play in facilitating the development of institutional networks - both formal and informal - that are not always self-generated within the private sector' (p.29). The framework also recognises that such networks 'can promote the flow of information, knowledge and collaboration that contributes to the lowering of the costs of doing business and opens up opportunities for further advances in productivity' (p.29). When the document then suggests that intervention is justified even where there is no market failure, for instance, if they fail to deliver equity outcomes as desired, we believe that the problems facing SMEs may not have been recognised in this context. However, although intervention may be supported on social justice grounds, there is still a failure to recognise that power relations within sectors, supply chains and horizontal linkages will operate against the long term interests of indigenous and SME enterprises.

In its discussion of UNIDO's third type of networking relationship, the Scottish Executive insists all cluster activity 'will be led at all stages ... by the private sector' (p.32). They highlight that 'the importance of global networking and global alliances are as central as local networking' to their dynamic approach to economic development. They perceive clusters as arising spontaneously, and only if there is market failure in creating the essential infrastructure for a successful cluster will they intervene. It is not at all clear that this laissez-faire approach can be successful in an economy so dominated by multinational enterprises. As electronics and IT equipment - about 90% non-indigenously owned - account for over half of Scotland's non-oil manufacturing exports and the next

two industries - whisky and chemicals - contributed another 15-20% and are 80% non-Scottish, the ability of the SME sectors to influence market led cluster strategies is limited. The other leading areas of the economy, the oil and gas industry and, increasingly, the banking and financial sector, are similarly detached from many aspects of the Scottish economy in terms of ownership and control, and so the protestations of the Scottish Executive will have minor influence on them also.

Conclusions

In summary, despite the theoretical underpinnings and the recommendations of international agencies, including UNIDO and the EC, to the contrary, the role of SME networks in Scotland has been reduced to the regional or sub-regional level. Even at these levels, no priority has been established by the Government, Parliament nor regional development agency for these networks to support the creation of industrial districts, learning regions or the knowledge economy, despite the literature and evidence confirming their critical importance to competitiveness and innovation.

It has been reported that there are over 700 schemes throughout the EU to help SMEs. This proliferation suggests that the same problems as perceived and identified in our review of business services in Scotland, duplication and overlap, may well exist across the continent. Thus, as was demonstrated in the Scottish case, to improve delivery of support for SMEs policy may require partnerships in the form of enterprise networks, as a necessary step to their development. However, the public sector will have to be proactive and challenge the hegemony of the externally owned and controlled industrial clusters and vertical networks if the well-known cycles of cumulative causation and capital accumulation are not to undermine the positions of SMEs and regions alike.

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