4 Manufacture and Commerce

This Chapter will analyse in detail local and regional shareholding in companies concerned with manufacture and commerce. Like the following chapter which deals with the land development companies, it will be in two parts. The first will discuss aspects of state control in the companies, trying to show how shareholding differs from alternative methods of intervention and how it facilitates private investment in manufacturing and land development. The second part will show how state shareholding is structured organisationally to facilitate viability, and how it contributes towards making firms and projects profitable. We will be concerned in both parts of each chapter to demonstrate what control and profitability mean in concrete terms.

I FACILITATION, INFLUENCE AND CONTROL

The state has acquired equity in order to make a company viable and also to make it an attractive investment for private capital. The HIDB regarded grants and loans as one-off methods of financing which were increasingly inadequate by themselves. Grants and loans did not alter the capital structure of firms in such a way as to make them more attractive to private capital. No special directors were appointed when grant and loan support were given and by 1976 the HIDB had decided that equity was probably needed in all cases.

Through its shareholding the Board aimed to intervene in the total capital structure of a firm to assist it through a crucial period where it needed a better capital structure or capital for growth. Assistance in the form of equity reduced a firm’s gearing ratio, often from an unacceptable level. In addition, where equity was provided special directors were often appointed to the company’s board if a particular skill or specialism was needed in the field of finance, marketing or other activities which would benefit the firm. By 1976 the Board had appointed 11 directors to 8 of the 23 companies in which it had equity. The Board did not need majority shareholdings for these purposes. Sharing in a small part of a firm’s risks with a minority shareholding helped the HIDB act as a catalyst for private investment in firms.

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Board expenditure was met from both grant-in-aid and receipts (for example, loan repayments). By 1973 the limits of the total HIDB assistance were £150,000 for any one project or £300,000 with reference to the Scottish Office. Where equity was concerned, there was an upper limit of 40 per cent which the Board could acquire in any one firm. In exceptional circumstances a higher proportion of equity could be acquired with the permission of the Secretary of State. For instance, in 1977, after our research was completed, the HIDB acquired its first majority holding of 75 per cent in Lewis Stokfisk Ltd, a fish drying development in the Western Isles. Within its budget and rules there was technically no limit to the amount of money the Board could spend on equity, although equity was not to be considered as the primary instrument of assistance. Between 1968 and 1976 the proportion of its budget used for this purpose was small, at about 3 per cent. (See Table 4.1). Shareholding, however, entitled the HIDB to profits which could be reinvested in the Highland economy and used in addition to grant-in-aid.

Firms in which the Board owned shares were all small in size (the largest had 250 employees), reflecting the character of industrial experience in the Highlands. The Board once investigated the possibility of buying shares in a parent company which owned a subsidiary in the Highlands so that its shares could be used to assist the subsidiary. But it was advised against this due to the restrictions in the Board’s Act.

Normally, firms made an application to the Board for financial assistance, though an approach could be made the other way round, and the Board also played an active promotional role by attempting to interest people in setting up a particular venture. The Board decided on the basis of the location of the firm, its activity, commercial potential, and the Board’s own financial budget whether and how to fund the firm. Equity was acquired with the consent of the firm, though it was unusual for this to be refused. It was part of the arrangement with the Secretary of State for Scotland and the Treasury under which the Board’s financial activity operated that the Board’s powers to take equity should not be exercised in such a way as to force a company to accept conditions which were objectionable to it.

Shareholding in manufacturing and commercial companies gave the HIDB influence over industries as well as individual firms which were part of those industries. In the case of Clansman Holdings Ltd the HIDB was concerned to retain economic activity in the Outer Hebrides. One way was to help restructure the Harris tweed industry which had been suffering a decline due to foreign competition and overcapacity. Clansman Holdings had been formed in 1972 to bring together all the various aspects of the industry – except weaving – by the merger of two companies. In 1973 there was a further merger and the HIDB put £80,000 (including share capital) into the company in order to help the consolidation. After the company continued to make losses the HIDB intervened again. It laid