

**Competitiveness of UK manufacturing industry : minutes of evidence,  
Wednesday 9 June 1993 ... / Trade and Industry Committee.**

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TRADE AND INDUSTRY  
COMMITTEE

COMPETITIVENESS OF UK  
MANUFACTURING INDUSTRY

MINUTES OF EVIDENCE

Wednesday 9 June 1993

*TRADES UNION CONGRESS*

*Mr John Monks, Mr Roger Lyons, Ms Margaret Prosser,  
Mr Bill Callaghan and Mr Chris Savage*

*ENGINEERING EMPLOYERS' FEDERATION (EEF)*

*Mr Neil Johnson and Mr Noel Davies*

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*Ordered by The House of Commons to be printed  
9 June 1993*

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WEDNESDAY 9 JUNE 1993

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TRADE AND INDUSTRY  
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COMPETITIVENESS OF THE  
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MINUTES OF EVIDENCE

Wednesday 27 June 1993

The Committee met in the Chamber of the House of Commons at 10.30 a.m. on Wednesday 27 June 1993. The Chairman, Mr. Michael J. Gove, presided.

Present: Mr. Michael J. Gove, Chairman; Mr. John Grieve; Mr. Robert Gifford; Mr. John Grieve; Mr. Robert Gifford; Mr. John Grieve; Mr. Robert Gifford.

Witnesses: Mr. [Name], Director of [Department]; Mr. [Name], Director of [Department]; Mr. [Name], Director of [Department].

Mr. [Name]: I am pleased to be here today to give evidence to the Committee on the competitiveness of the manufacturing industry. I will be discussing the current situation and the Government's plans to improve it.

WEDNESDAY 9 JUNE 1993

Members present:

Mr Richard Caborn, in the Chair

Mr Malcolm Bruce	Ann Coffey
Mr John Butterfill	Sir Anthony Grant
Mr Michael Clapham	Mr Adam Ingram
Dr Michael Clark	The Rt Hon Sir Cranley Onslow

Memorandum submitted by the Trades Union Congress (MC 8)

THE IMPORTANCE OF COMPETITIVENESS

1. The TUC represents unions in all sectors of industry and services in both the public and private sector. Improving the competitiveness of manufacturing industry is a priority not only within the manufacturing sector itself, it is also an essential part of a wider economic strategy for growth and employment across the economy as a whole.

2. Competitiveness is not simply a question of the prices of goods and services. In the sophisticated markets in which British industry must operate, it is also determined by quality, which is now a universal requirement in many markets, rather than a factor that gives an edge over competitors, and increasingly by innovation in design and product specification. Price competitiveness does of course matter, but this is not only determined by wages and salary costs, which represent only a fifth of gross output in manufacturing, and even less in many key sectors of international trade such as aerospace and electronics. Production costs are therefore determined more by factors such as the price and quality of materials and components, the cost of capital, and the efficiency with which resources are managed.

3. The TUC would not deny that labour costs affect competitiveness, but it is unit labour costs, taking account of productivity differences, rather than simply the relative level of wages, that matters. The UK already has lower wage costs than its principal competitors in the industrialised world, but the UK's competitiveness remains weak because of poor productivity.

UNIT LABOUR COSTS IN MANUFACTURING

	1991		Index
	Labour Costs	Productivity	Unit Labour Costs
UK	100	100	100
USA	115	175	66
Japan	98	150	65
Germany	124	140	89
France	114	139	82
Italy	128	121	106

Sources: TUC calculations derived from: US Dept. of Labour (Labour Costs) and OECD (Productivity)

4. Clearly, the UK's lower wages are not sufficient to make up for the productivity gap with the competitors in the OECD countries, which account for 85 per cent of manufacturing imports. The pattern of UK overseas trade is concentrated on other industrialised countries, and this is particularly true of trade in higher technology goods such as electronics and aerospace. In electronics, Europe accounts for 47 per cent of the UK's imports, the USA for 19 per cent and Japan for 16 per cent. In aerospace, the USA is the dominant world industry and supplies 49 per cent of UK imports, whilst other European countries account for 30 per cent.

5. Nevertheless, it is also true that the UK is affected by competition from lower wage economies, including the newly industrialised economies such as Hong Kong, South Korea, Taiwan and Singapore. Total wage costs in these economies are only 30 per cent of the UK level, which is bound to give them a competitive advantage, both in terms of international trade and as an investment location.

6. The NIEs undoubtedly have an increasing influence on the world and UK economies, but equally it would be misleading to exaggerate the degree of their impact. The four Asian NIEs, plus the emerging economies of Thailand and Malaysia, are currently a small, albeit growing, supplier of UK imports, accounting for 7 per cent of the total import bill for manufactured goods. The greater part of these imports

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[Continued

is in relatively low technology, labour intensive industries such as clothing and footwear, textiles, toys and printed matter, although increasingly, these countries are also establishing a presence in higher technology industries such as electronics.

7. However, the NIEs themselves are not relying simply on a low wage strategy; labour costs doubled relative to the UK between 1980 and 1991. And their increasing involvement in higher technology production is primarily based on a deliberate industrial policy. South Korea, Taiwan and Singapore have established domestic semiconductor industries, initially on the basis of imported technology or partnerships with US firms, and this has helped them to develop domestic computer production. A recent OECD study concluded that this was encouraged by government support for start-up costs and research as well as trade protection. In South Korea, the government identified semiconductors as a strategic industry in 1983 and provided a \$400 million support package, and the industry there has now become the largest outside the OECD area.

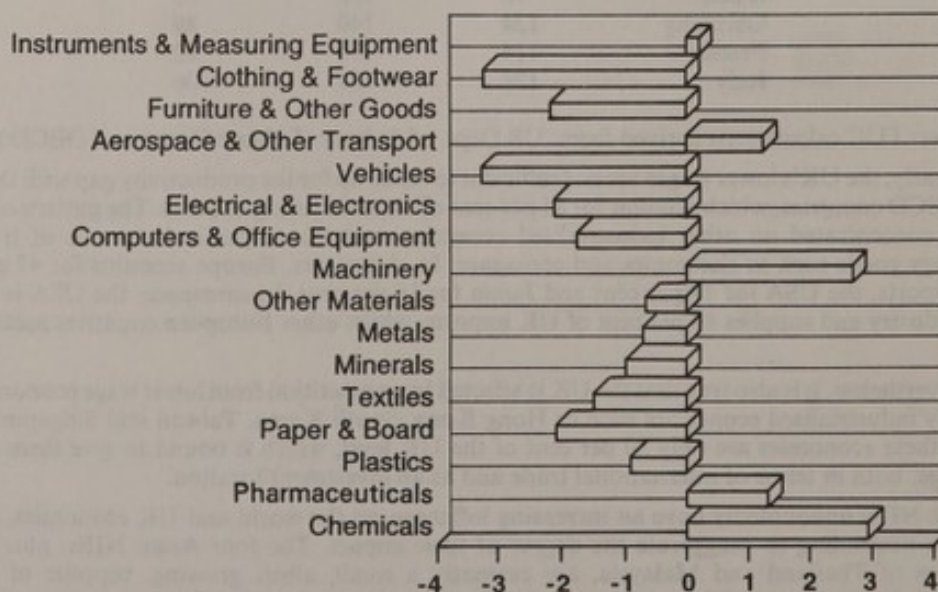
8. Whilst it is undoubtedly true that there is increasing competition from low wage economies, the real challenge to British industry comes from the higher skills and technological investment in the industrialised countries, and to an increasing extent from the NIEs themselves. The UK is not in a position to compete with the low wage economies on labour costs, and realistically it is not going to be. But nor is it yet in a position to compete with other industrialised countries on skills, productivity and innovation.

#### THE STRENGTHS AND WEAKNESSES OF UK MANUFACTURING

9. The UK's competitive position is reflected mainly in the balance of trade, which showed a deficit of £17.5 billion in 1992, £10 billion of this in manufacturing. The UK had surpluses in chemicals, pharmaceuticals, aerospace and engineering capital equipment. But these are more than matched by deficits in other sectors, notably motor vehicles, computers and electronics, and textiles and clothing.

Figure 1

### GLOBAL TRADE Manufacturing trade balances 1992

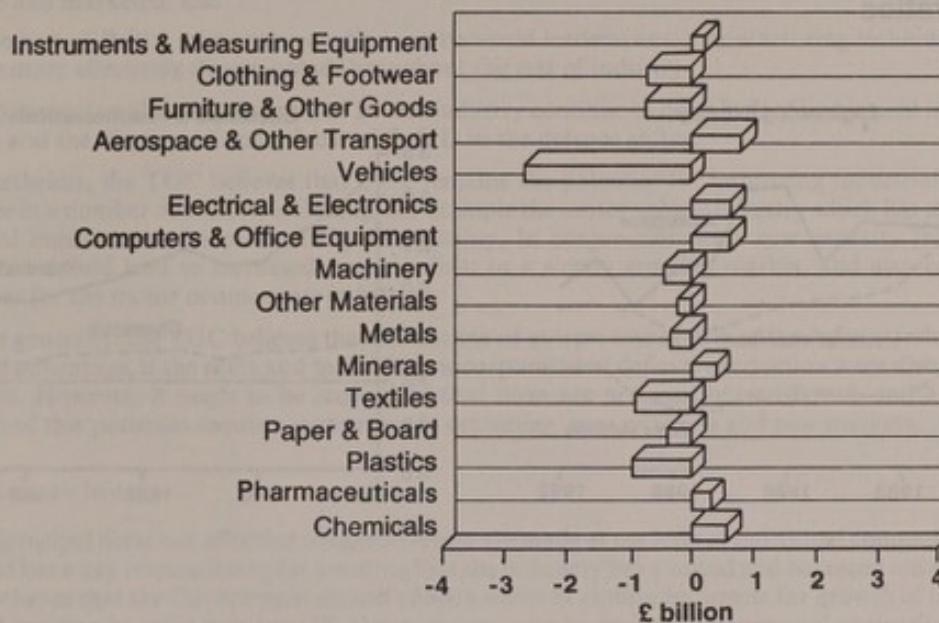


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## TRADE WITH THE EEC

### Manufacturing trade balances 1992



10. The TUC would not argue that trade needs to be balanced in each and every sector. However, the size of the overall trade deficit, and the fact that it is concentrated in a number of key industries, means that it is not going to be made up for by alternative sectors of the balance of payments, whether in manufacturing, services or other earnings. The reality that British industry has to face up to is that it is only by improving its performance in these key sectors that it is going to tackle its weak international trade balance and the constraint that this places on growth in the economy.

11. Figure 1 shows the UK's overall trade balance by industrial sector, and compares this with the performance relative to the EC. The structure of Britain's EC trade reflects a number of differences with our trade with the world as a whole. The UK appears to compete more effectively with other EC countries in some of the high technology sectors—computers and electronics, including telecommunications equipment—than it does with the world as a whole. This reflects the importance of the USA, Japan and increasingly the newly industrialised countries in global terms in these sectors. On the other hand, the UK's trade surplus in pharmaceuticals and chemicals is considerably smaller with the EC than it is for the world as a whole; in this case reflecting the importance of Germany as one of our principal world competitors in these sectors.

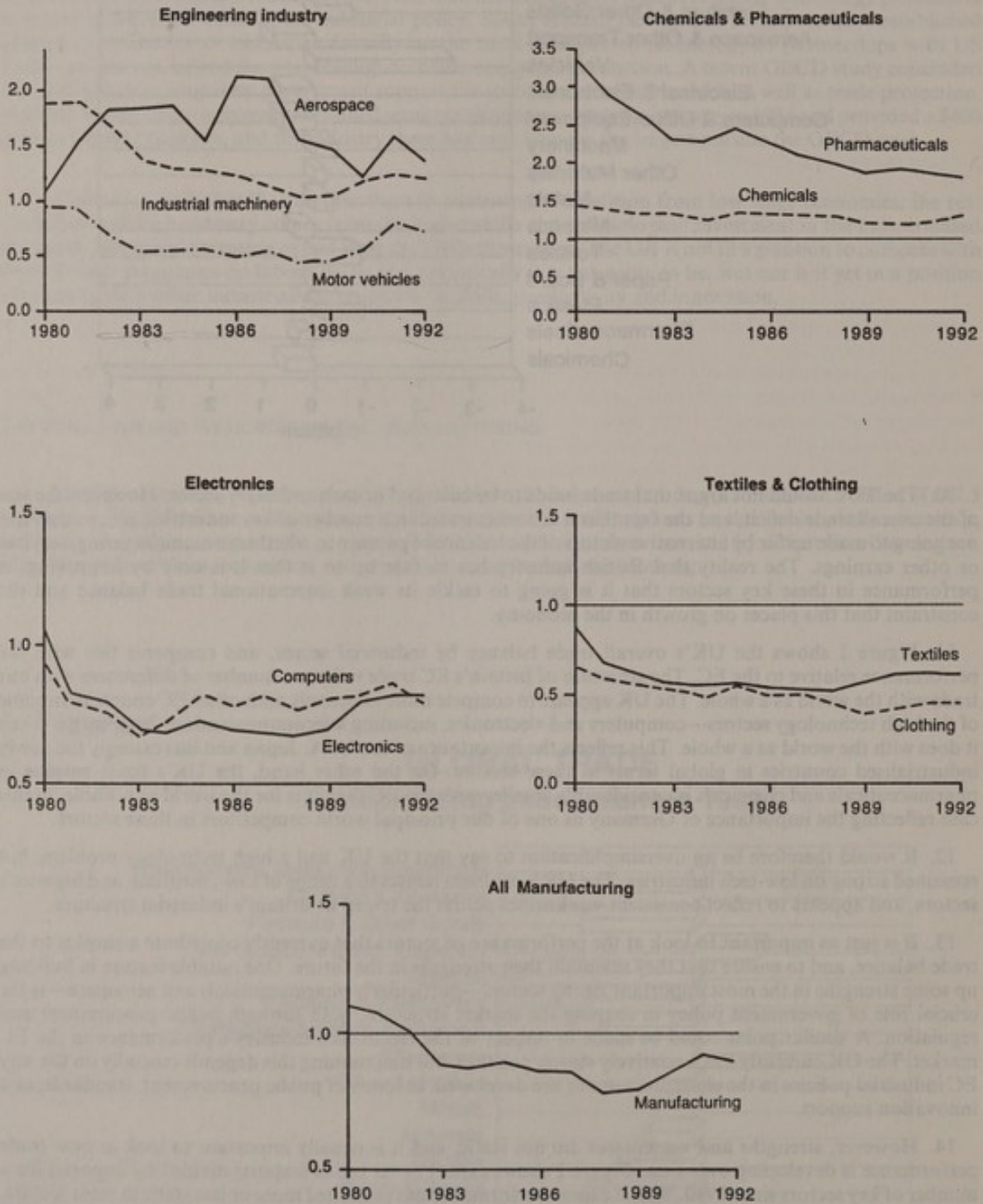
12. It would therefore be an oversimplification to say that the UK had a high technology problem, but remained strong on low-tech industries. The UK's problem relates to a range of low-, medium- and high-tech sectors, and appears to reflect consistent weaknesses across the board in Britain's industrial structure.

13. It is just as important to look at the performance of sectors that currently contribute a surplus to the trade balance, and to ensure that they maintain their strengths in the future. One notable feature in building up some strengths in the most important strong sectors—particularly pharmaceuticals and aerospace—is the crucial role of government policy in shaping the market structure, both through public procurement and regulation. A similar point could be made in respect of the electronics industry's performance in the EC market. The UK currently has a relatively strong position, but maintaining this depends crucially on the way EC industrial policies in the electronics sector are developed, in terms of public procurement, standards, and innovation support.

14. However, strengths and weaknesses are not static, and it is equally important to look at how trade performance is developing over time. Figure 2 shows export cover ratios (exports divided by imports) for a number of key sectors since 1980. Whilst export performance has remained more or less static in most sectors, import penetration has continued to rise, suggesting that the UK is failing to keep up with the general growth of international trade. In most sectors, trade performance improved in relative terms after 1989, as imports were squeezed by falling demand in the UK, but then deteriorated in 1992, as our major export markets also began to contract. And this applies in sectors where the UK currently has surpluses, such as industrial equipment, chemicals and pharmaceuticals, as well as those where weaknesses have already been translated into trade deficits. The partial exception appears to be the aerospace industry, although the trade surplus fell from over £2 billion in 1991 to £1.27 billion last year, and recent decisions to shift high technology productions overseas threatens to undermine the UK's technological capacity in this sector as well.



**Figure 2**  
**Export ratios**



*9 June 1993]**[Continued*

15. Looking beyond sectoral trade performance, the TUC would recognise that the UK has strengths in:
  - a talent for design and innovation, which could be built on if new ideas were more effectively taken up and marketed, and
  - the best of British companies continue to be world leaders; new manufacturing techniques should be more effectively disseminated throughout the rest of industry.
16. The principal weaknesses, though, of British industry continue to be its lack of investment in skills and innovation, and the disproportionate focus of R & D in the defence sector.
17. Nevertheless, the TUC believes that there remains the potential for improving industrial and trade performance in a number of sectors, including, for example the motor vehicle industry which has experienced a substantial improvement in productivity and quality. In conjunction with new capacity from inward investors, this should lead to increased output, albeit in a slowly growing market, and also creates new opportunities for the motor components industries.
18. More generally, the TUC believes that the decline of at least some parts of the defence industry could be turned to advantage, if the skills and technology incorporated in defence production were diversified into civil markets. However, it needs to be recognised that these are not readily transferred, and a successful exploitation of this potential requires investment in retraining, new products and new markets.

#### THE GOVERNMENT ROLE

19. The principal decisions affecting competitiveness are made at the level of individual companies, but the Government has a key responsibility for ensuring that the economy has a sound and balanced industrial base. The TUC believes that the Government should adopt a series of ambitious targets for growth of investment, R & D, and training in order to bring UK competitiveness up to the levels of principal competitors.

20. Firstly, the Government has a responsibility to develop and foster a consensus on the importance of industry, and on the key strategic goals of policy, in other words to project a vision of Britain's industrial future that is widely shared across the nation. To a great extent, this relates to intangible factors such as culture, and the seriousness with which industry is treated within government, but it is no less important because of that. Companies that are considering long-term decisions, and especially inward investors, will not only want to look at the immediate policy framework, they will also make judgements about how the policy environment is likely to develop in the future. They are therefore more likely to undertake long-term commitments if they have confidence that the government takes manufacturing seriously, and that it has developed a consensus among other institutions along the same lines. It is notable, for example, that one element that inward investors are looking for when choosing a location is the presence of local and regional organisations that recognise the importance of manufacturing.

21. The Government has a responsibility to create a similarly industry-friendly environment at national level, and to establish a consensus among the partners in industry, on the key goals. This is not just a question of industry-specific policies. It is also a question of the whole framework of Government strategy, such as the need for stable macroeconomic policies, and whether the Government can be judged to be committed to playing a central role in the European Community. Since the demise of NEDO, there has been no national forum to discuss industrial competitiveness. For the Government to talk only to employers is to narrow the focus of debate, and is more likely than not to lead to the kind of corporatism that they seek to avoid. The TUC believes that the Government should take the opportunity for the widest possible involvement in establishing and communicating the goals of industry policy.

22. Secondly, the Government has a responsibility for establishing a framework of decision-making at the company level which is conducive to long-term competitiveness, rather than simply short-term profit. The objective should be that, particularly when companies face adverse conditions, they should be encouraged to improve their performance by, for example, developing new products, raising productivity or seeking out new markets, rather than rationalising production. The TUC's submission to the Trade and Industry Select Committee on The Performance and Effectiveness of the DTI set out a number of areas where the Government could influence the pattern of company decision-making:

- improving the quality of management through better training,
- taking account of the wider public interest, including the effect on employment and industrial competitiveness as well as competition, in takeovers policy,
- reforming corporate governance to establish a two tier board structure in large firms, including a supervisory board with employee representatives to discuss strategic decisions,
- reform of insolvency procedures to give greater priority to attempts to keep a company going as a viable concern, rather than immediate resort to receivership.

23. However, such reforms are unlikely to be effective unless they are accompanied by measures to change the status of employees within the company, establishing long term employment relationships:

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[Continued

- tighter rules on redundancies, to ensure that companies consider whether there are alternative plans that could be pursued, before resorting to redundancies;
- a framework of individual rights for employees, both to protect against unfair treatment and to give positive rights to training, development and good working conditions.

24. The TUC believes that such a framework of rights would not only be desirable from the point of view of good social standards, but would also be a valuable element in encouraging firms to take a more long term approach to industrial competitiveness.

25. Thirdly, the Government has a direct contribution to make through policies to support investment, innovation and export promotion. But as the TUC's submission to the Trade and Industry Select Committee on the Performance and Effectiveness of The DTI made clear, this is not simply a question of the level of support or the quantity of capital investment; just as important is how that investment is used. British industry undoubtedly has a shortage of core capacity in manufacturing. But the TUC believes that new investment should be directed as much towards improving skills and innovation—both of which are defined as current expenditure in accounting terms—as towards increasing the capital stock. But the TUC's submission pointed out that, although the level of state aid to industry is lower in the UK than among principal European competitors, it is also true that a higher share of the aid that is given goes towards general industrial or sectorial subsidies. Apart from special regional transfers, the main use of state aids in the principal EC competitors is to support technology, small firm development, export promotion, and high technology sectors.

26. Finally, there will be occasions when it is unavoidable that the Government should act directly, particularly to assist strategically important firms in financial difficulties, such as in the Leyland/DAF case, and they should not be prevented from doing this by ideological considerations.

#### INVESTING IN SKILLS

27. Poor educational performance in general is debilitating industrial performance: According to a survey conducted for the Adult Literacy and Basic Skills Unit, poor basic skills are costing British industry around £5 billion per year. Employers argued that poor levels of reading, writing, spelling and numeracy among their workforce contribute directly to reduced efficiency and higher costs.

28. The lack of vocational skills at craft and technician levels since the demise of the apprenticeship system has been well documented; the damage to competitiveness caused by a lack of supervisory skills is less well known. The standard for supervisory training has been set by the German "Meister" system which, in 1988, produced 46,000 supervisors, 90 per cent of whom already held craft qualifications. These supervisors will have trained, over 2-3 years part time, for an average of 950 hours in order to achieve their Meister certificates.

29. In Britain, 55 per cent of all supervisors hold no vocational or higher qualification and the little training that does take place tends to emphasise management skills at the expense of technical competence.

30. The TUC has supported the national education and training targets as a key element in improving our competitiveness and investing in our workforce. British manufacturing industry has been weakened by the continual reduction in quality training as apprenticeships in engineering have been drastically cut back since 1979. The targets are important benchmarks in trying to close the skills deficit with our major competitors. There is, however, evidence that on current trends we will not reach some of the targets.

- One target is that by 1996 50 per cent of the employed workforce should be aiming for National Vocational Qualifications/Scottish Vocational Qualifications or credits towards them. Yet only 8 per cent were aiming for vocational qualifications in 1992.
- By the year 2000, 50 per cent of the employed workforce needs to be qualified to at least NVQ/SVQ level 3 or equivalent. Yet only one-third are at present.
- By 1996 50 per cent of medium to larger organisations (200 or more employees) need to qualify as Investors in People. But merely 90 such organisations out of a total of 8,000 have reached the standard.

31. The TUC firmly believes that unions must share in ownership of these targets with management. Employers must be given an obligation to open up access for all their workforce to both foundation and life-time learning. Government must also increase financial support to the training system if these targets are to be met and Britain is to have a world class workforce.

#### THE EFFECTS OF INWARD INVESTMENT

32. Inward investment has a direct beneficial effect for British industry in that it is an additional source of productive capacity and employment. Indeed, the problem for British industry is not whether there is too much inward investment, but whether the UK has created the right conditions to sustain a flow of high technology investment.

*9 June 1993]**[Continued*

33. Contrary to popular assumptions, the data that are available do not point clearly to an increase in inward investment in manufacturing during the 1980s. The share of foreign-owned companies in total manufacturing employment fell for most of the 1980s, and by 1989 had only recovered to its 1981 level of 15 per cent. Foreign direct investment, a measure of financial flows which includes takeovers, increased between 1985 and 1989, but more than half of this took the form of takeovers of existing assets rather than new investment. And since 1989, inward direct investment has fallen sharply, from 3.4 per cent of GDP in 1989 to 1.8 per cent in 1992.

34. The pattern of overseas direct investment has in fact been outwards rather than inwards. Even since 1985, the net flow of investment has amounted to a loss for the British economy of over £36 billion at 1992 prices—equivalent to more than a whole year's industrial investment in plant and machinery.

35. An increasing concern for investors from outside the EC, particularly Japanese firms, is access to the integrated European market. Future investment could be placed in jeopardy if it appears to potential investors that the UK will not participate fully in the development of the Community.

36. In addition to the quantity of inward investment, though, there is also the question of whether foreign-owned firms behave differently from their UK-owned competitors. The statistical evidence suggests that they do, and that they are doing many of the things that unions would be looking for from domestic industry. On average, they invest more per head than UK counterparts (by 118 per cent), achieve higher productivity (by 56 per cent) and pay higher wages (by 25 per cent). An immediate conclusion to be drawn from this is that inward investors are not attracted by a low paid, low productivity workforce; indeed a recent paper presented to an OECD seminar by a representative of the Sumitomo corporation, listing the factors that an inward investor might expect to take into account in choosing a location, did not even mention labour costs in the host country.

37. Statistical indicators of the different approach of inward investors are supported by experience of the performance of individual companies. This is particularly the case with Japanese-owned firms in the UK, but is not unique to them. Inward investors have led the way in the introduction of new manufacturing techniques, which have not only enhanced industrial performance in terms of productivity and quality, but have also recognised the value of employees as the most valuable assets that a company has.

38. There are also indirect benefits from inward investment, particularly the example in manufacturing techniques that it can set to existing firms. British productivity in the motor industry, for example, has risen dramatically over the last decade, and it is clear that direct competition from firms with more modern production systems has had an impact.

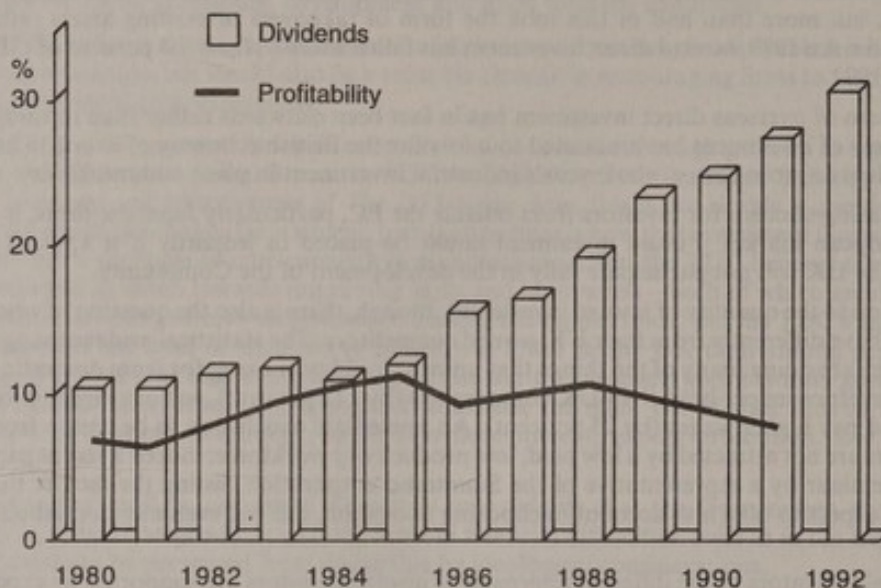
39. At the same time, it is important that the UK attracts high quality investment, and not simply assembly work, and this is reflected in a number of factors including the amount of value added, the permanence of the investment, domestic or EC content, and the technological and skill intensity of the production process. Ensuring these elements depends on the wider competitiveness of the UK's infrastructure in terms of skills and communications.

#### THE FINANCIAL PRESSURES ON INDUSTRY

40. One of the key causes of the under-investment in industry has been the short-term pressures to maximise returns to shareholders. The share of profits (after tax and interest payments) that were allocated to dividends to shareholders rose from 22.7 per cent in 1985 to 60.8 per cent in 1992. And the increases continued in spite of falling profitability since 1989. Companies have therefore had less from their own income to provide for investment, forcing them into higher borrowing.

41. The commitment to maintain high dividend payments, both during a period of rising profits and in the current recession, together with high real interest rates, has played a major part in pushing companies into rising debt, reaching £23 billion in 1989. Since 1990, companies have been attempting to clear part of this debt, causing them to squeeze their investment further, and this has been a major factor in the recession.

## Dividends rise faster than profits



Dividends: % of gross trading profit  
Profitability: Net, all ICCs

Source: CSO

42. The short term pressures on industry have a particularly damaging effect on long term investment in R&D. The Independent R&D scoreboard found that, whilst the profitability of Japanese manufacturing companies surveyed was little more than half that of the UK firms, their investment in R&D was four times higher.

26 May 1993

### Examination of Witnesses

MR JOHN MONKS, Deputy General Secretary, TUC, MR ROGER LYONS, General Secretary, MSF, MS MARGARET PROSSER, National Organiser, TGWU, MR BILL CALLAGHAN, Head of Economic Department, TUC, MR CHRIS SAVAGE, Economic Department, TUC, the Trades Union Congress, examined.

#### Chairman

166. Good morning, Mr Monks. Thank you very much for coming this morning and submitting your memorandum. Could you introduce your colleagues?

(Mr Monks) Yes. Margaret Prosser, the Transport and General Workers' Union, the National Organiser of the Union; Roger Lyons, General Secretary of Manufacturing, Science and Finance, one of the largest unions in the TUC; myself, the Deputy General Secretary of the TUC; Bill Callaghan, Head of the TUC's Economic Department; and Chris Savage, also a member of that Department, who particularly works on manufacturing industry questions.

167. Thank you very much. Can I start by referring to your paragraph 20, where you say, "the Government has a responsibility to develop and foster a consensus on the importance of industry, and on the key strategic goals of policy". What would this

mean in practice and what difference would it make to manufacturers?

(Mr Monks) Can I just say we strongly welcome the initiative which has been taken by this Committee to look into manufacturing and we welcome the change of emphasis which has taken place at the Department of Trade and Industry over recent months; it has been a long time perhaps in coming to some sort of fruition but the recognition in that Department and in the Government generally that there is a need for an active policy by the Government of the day to promote and encourage manufacturing is important. In a sense, we are not part of that initiative, as the trade union movement, and yet we are pretty well organised in nearly all the large manufacturing companies in this country and I think, if you were to look back over our economic history, you would say that industrial relations have been one of the factors which have perhaps made British economic performance on manufacturing less successful than it might otherwise have been. We are committed to getting the British economy as

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MR JOHN MONKS, MR ROGER LYONS, MS MARGARET PROSSER,  
MR BILL CALLAGHAN AND MR CHRIS SAVAGE

[Continued

**[Chairman Cont]**

competitive as possible, to improve efficiency and, in a sense, we would like the Committee to consider, in its Report, that there is a strong case for a lot more emphasis on worker involvement and union involvement in what needs to be done. Specifically, as you will know, a committee of 19 industrialists has been established, to assist the DTI; there is no formal union involvement in any of this, though there are some informal links which are maintained with the Department, since the demise of the National Economic Development Council, that has certainly been the case. In terms of specifics, we would like to see the Government recognising that partnership policies are the way in which British industry will recover.

168. What do you mean by "partnership"; tell us what you mean, in the practical sense?

(*Mr Monks*) Partnership—three-way partnership, in particular—between the Government, between employers and between representatives of the workforce, namely the unions.

169. That would be setting Neddy back up, would it not?

(*Mr Monks*) Nobody is talking about setting Neddy up in the form that it was in, but Neddy, particularly at the sectoral level, did a lot of useful work and there are colleagues here who can talk about that and I think some of the work that was done there is not going to be replicated under the arrangements which are currently being formulated in the DTI. Roger Lyons might just like to pick up that last, specific point.

(*Mr Lyons*) I was a member of one of the sector groups that was probably operating at a very effective level, a very high level, of the Engineering Group of NEDO; it included the Chair of three or four of the major manufacturing companies, myself and Bill Jordan and top civil servant input. The reports of the Engineering Sector Group and the work it was developing would have been crucially important in taking forward, on a partnership basis, an understanding of what was needed to develop manufacturing, an understanding of where the shortcomings were, particularly because of the trust which was built up there, and yet this was one of the very important sector working groups which was axed, purely, presumably, because of some animosity towards the NEDO Council itself: a tragic loss. It is not being replicated at the moment; we are the only major manufacturing country which does not have something of that kind in the key sectors of the economy and, there is an example, hi-tech manufacturing totally abandoned in the kill-off of NEDO.

170. Can I just bring you back to paragraph 20, because we want to explore the relationships of the trade unions a little bit later on, but it is specifically the area where you are seeing, possibly, consensus; what we would like to know is how that would impact on the manufacturers. Coupled with that, in 20, as well, you were saying that the Government must be sure to take manufacturing more seriously. What practical steps would you expect to be taken and how do you think that would impact upon the manufacturers?

(*Mr Monks*) If I can take two dimensions; one is to say that, in terms of recognising the importance of manufacturing, the Government need to give that signal loud and clear in all sorts of ways, one of which is to, in a sense, give a direction for manufacturing. Are we going down the low-cost route, advertising ourselves 'cheap' in Germany and selling ourselves short, I believe, in Germany, or are we actually going to say we are going to try to compete with the best and in the high added value, high quality and high wage conditions? Nobody, even the third world countries, is promising their work-forces lower terms and conditions as a way of competing. They are all, in a sense, holding up the goal of improving living conditions and, whether it is China, the Philippines, Taiwan, there has been a substantial increase in living standards, from a very low base, associated with the rise in manufacturing there. We associate ourselves very firmly with the European, Continental model of a successful manufacturing industry, one which is based on, I mentioned, partnership, one which is based on rights for workers at the work-place, one which obliges employers to work closely with unions. A lot of successful British companies do it, by the way; there have been some marvellous turn-arounds. Rover Cars is well worth the Committee looking at and the way they have done things and the way they have competed in a very difficult recession and come through that recession, we hope, in quite a strong position.

(*Mr Lyons*) The other side of that is that some of the key manufacturing companies have not been treated as they would be on the Continent; for example, the way Leyland Daf was treated here, as opposed to the way it was treated in The Netherlands and Belgium. One of our difficulties is, all reports indicate, that school-leavers and graduates do not see manufacturing as an attractive place with a long-term future. One feels that Government policies have tended to treat the closure of manufacturing a bit like terminating a television production licence, you just give another company the licence. You cannot do that with manufacturing, it takes years to build up skills and knowledge, not only of the product but of the market-place, to build up the confidence of the teams which are involved, and the dispersal of these skilled groups undermines general, national confidence in manufacturing, so the lack of long-term support leaves people with short-term doubts.

**Sir Anthony Grant**

171. Can I just pursue paragraph 20, which I think is very interesting. First of all, I very much share what is, I think, your view, that we have neglected manufacturing industry in recent years and we have got to do something about it. I am interested in your phrase, where it says: "intangible factors such as culture, and the seriousness with which industry is treated within government". It seems to me that the contrast always, between this country and, indeed, say, Germany and certainly Japan, is that if a person is an engineer, or a manufacturer, abroad he is treated as someone really rather splendid, he is very well remunerated, he can perfectly well be the Chairman of the Board and his status is as high as that of anyone in the land. Here, stop the man in the street and say, "an engineer", they say "Well, it is a

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MR JOHN MONKS, MR ROGER LYONS, MS MARGARET PROSSER,  
MR BILL CALLAGHAN AND MR CHRIS SAVAGE

[Continued

**[Sir Anthony Grant Cont]**

rather grubby chap, actually, in overalls, who repairs my car rather badly and also he is probably a bolshy trade unionist". There is this sort of attitude. What I am asking is this, we have got to get away from this one but how can we do it and what contribution can you make, actually, to this particular thing and, in fact, I am not quite certain what the Government can do about this particular cultural problem?

(*Mr Lyons*) My union has many professional engineers in membership, a number of whom have been tossed to the four winds. One good example is that the aerospace and defence industries in Bristol have made more than 2,000 professional engineers redundant; that is not going to give any confidence to people to study engineering and if they do graduate in engineering to keep as far away from manufacturing as possible and that is in the hi-tech centre of Bristol rather than the traditional, smoke-stack centre, where there might be other factors. The intangible factor, such as culture, is the area, because of its intangible nature, that is not easy to put one's finger on, but if you go to Bristol you are more likely to see a professional engineer driving a minicab than at work in engineering.

172. Would you agree with me, actually, that the one major contribution would be the encouragement of—and, here, I say I was a pioneer of wider share-ownership and, indeed, of co-partnership with industry long before the Liberal Party ever thought of it—but would you say that an encouragement from this sense is extremely important, so that we get away from this "them and us" idea, that there are "us", who sweat it out in the factories, as engineers in overalls, and "them", actually, who juggle the money in the City? Do you think it is important to overcome that area?

(*Mr Monks*) I accept a lot of your cultural analysis of the difference. I can remember, about four years ago, giving a talk at the London Business School and asking how many people on the MBA course were going into manufacturing; I think there were two out of 200 and the rest were heading for the professional occupations or the City, which at that stage was offering some very well-paid jobs. The cultural bias has got worse not better; it has always been there against trade and manufacturing and it has got much worse. I think it is a complex question. It starts in education, it certainly starts in the business schools, as well, it is reinforced there, and it does relate to remuneration, relative status; we give a lot of status to the professions, the German and the Dutch give a lot of status to engineers, as you rightly say.

(*Ms Prosser*) Could I just add a point to that. I think trying to deal with the cultural problem is an extremely difficult question because it goes back for so many years. If we look back to the manufacturers who made their money in textiles, for example, you would probably be hard put to find any of their sons or daughters who followed them in what used to be called "trade"; you made your mark by making money and then sending your children off to the professions. That was largely to do with the last point, which John was just making, about how people are remunerated and what status we give to certain kinds of training and qualifications, and I think one way in which the Government could give more confidence and help to break down the cultural

problem is to reconsider its attitude towards vocational training. To have farmed out vocational training on a voluntary basis to employers and to Training and Enterprise Councils, many of which have got many good aspects but which have been put into a situation whereby their main focus is to make best use of the Government grant towards training unemployed rather than looking at programmes of vocational training and up-skilling and what the differentials might be between different levels of skill, how we get more supervisors, etc., etc., rather than moving down that path, it might be more useful if the Government took a slightly more hands-on approach and accepted responsibility, in a national way, for looking at the up-skilling of people within manufacturing.

Chairman: We are going to come on to trade in a little while.

**Mr Ingram**

173. It may be worthwhile just getting it on the record first, since Sir Anthony was saying he was ahead of the Liberals, in terms of co-ownership and wider share-ownership, that actually early socialist thinkers were in advance of both of them. I thought I would just get that on the record.

(*Mr Monks*) They were Scottish, too.

174. They were Scottish, as well, that is right; that will not make the questions any easier. Just to go back to this question of the Neddies and the sectoral Neddies and, clearly, you are advocating some sort of return to a structure of a similar nature, do you think there is a mood for that within industry, do you think that industry itself is saying they need some sort of planning agency to assist them in future development?

(*Mr Lyons*) Certainly, the wiser and more successful companies take full account of the views of the employees; what concerns us is that the Government, the DTI, whilst it is listening to industrialists it still does not understand that the industrialists listen to their employees and their representatives, the DTI does not seem to want that area of information, while equivalent agencies elsewhere in the European Community do, indeed, welcome that kind of tripartite discussion and, indeed, in most of the countries there are also bipartite discussions between the employers and the unions at industry or sector of industry level. This is missing in Britain and there is the concern, we might as well flag it now rather than be accused of it later, that if there is a change in economic relationships at work, through skill shortages, or whatever, the unions will be told, "You should be thinking of the future of the industry and not just pressing for more money for your members"; I have heard it before and it is a cyclical argument. We are pleading now, we are saying, "Look, we would like to be taken into confidence, into involvement, into discussion"; there are a lot of ideas there, amongst professional engineers as well as shop-floor engineers, and they want that knowledge to be taken into account, it will give them more confidence that they have a future in their industry, there is more likelihood that their daughters and sons will come into manufacturing if they feel that it is participative. If they are locked out of the decision-making process, if Government seems

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uncaring and unfeeling about their views, then that will undermine the future of manufacturing.

175. I appreciate that, but, surely, this point, in your dealings with industrial chiefs and industry generally, do you find that there is a mood amongst those people to say that there is a need for some new structure to be brought in, is that something which has been picked up, or do you think they are perhaps satisfied because they have got an open door and, therefore, they are not too exercised about the views of the work-force?

(*Mr Lyons*) For a decade we have been campaigning for manufacturing and in the last year there has been a flurry of interest amongst employers' organisations about manufacturing, after nine years of near silence, and the CBI has moved and various other bodies have moved, the Engineering Employers' Federation has published a book called "Industrial Strategy", the words which had been abolished by the previous Prime Minister from our vocabulary, but "Industrial Strategy" is there and it is published by the EEF. We have talked to both the CBI and the EEF about these initiatives; I believe that if the DTI gave the slightest sign of support they would be willing to respond positively. We would welcome it, we would like to be able to share our views with the other views, in order that there can be a proper debate, proper exchange, on what is needed, but I do think it requires some kind of nod from the DTI that it would not see this as an unfriendly act.

**Chairman**

176. Could I ask, just for the record, then what is your actual contact, first of all, with Ministers, the President of the Board of Trade and his Ministers, and, secondly, with his officials?

(*Mr Monks*) The President of the Board of Trade has had some informal meetings with individual union leaders over the months in which this strategy has been coming to fruition and there have been some contacts with the team, between the TUC and the team, who have been developing this for him and that, in a sense, has been 'it'. Just to underline what Roger said, I think everybody has decided, in the DTI, that it is bad politics to look like the unions are part of the partnership that has been developed, and the employers, who, in a sense, welcome this door-opening for them, want to keep it open by not having us along there as some sort of impediment.

177. Why do you say that? Why do you say that that has emanated from the DTI, that they would not want to be seen to have trade unions in part of the strategic planning?

(*Mr Monks*) That is the only conclusion that we can possibly draw and I think Bill Callaghan specifically asked the President that question at a recent seminar.

(*Mr Callaghan*) Indeed. I attended a seminar at the Royal Society of Arts, at which the President of the Board of Trade was the principal speaker, and this was the culmination of a very interesting series of seminars on the role of manufacturing. I particularly asked the President whether he did not think that the absence of Neddy was leading to the development of a short-run culture and, given what he had said, points which we would agree with him on, about the

importance of education and training, was not the encouragement of the 'hire and fire' culture, short-term attitudes, inimical to investment in human capital. I have to say that his reply was—you will have to read it for yourself, I can send you the copy—he was attracted, for example, by Japanese models of employment stability but he did not see a union role and he made that rather explicit.

(*Mr Lyons*) We have raised with Ministers the problem that in Japan the unions are involved, not only at company level but also in discussions with Ministers and at industrial sector level; they do not seem to know this here, the Intelligence Service does not tell them that side of Japanese life.

**Mr Clapham**

178. Before we leave the role of Government, could I ask Mr Monks, in paragraph 23 of your submission we see that there are two particular items which are referred to and could I ask what measures are needed really to encourage long-termism, because you are saying that long-termism is unlikely to be effective unless accompanied by certain changes. What would that mean, in practice?

(*Mr Monks*) Mr Clapham's question, in a sense, follows on from an earlier one from the Chair about what are the specific measures and I think we believe that there are a number of things which can specifically be done. Firstly, the change in company law: at the moment Britain is virtually unique in the primacy given to the obligation to the shareholders, very important it is, but it is more complicated than that in certain other countries, there are other obligations which are reflected in the law to the local community, to the work-force, for example, features in other northern European countries, and we suggest, in paragraph 22, that a two-tier board structure would certainly have some advantages. To be honest, it protects the governance of the company against the need to maximise short-term profits and to dance to the City tune and it does mean that it is some protection and some strengthening of the forces that are in favour of investment and in favour of research and development and in favour of security and using security as the base for change, which is the Japanese way, by the way, not change through fear or the contract culture and all those things which are spreading quickly through British industry at the moment; so, that particular provision, as well as the one, to which Mr Clapham draws attention, in paragraph 23. We do know, for example, that it is extraordinarily difficult, in some European Community countries, to declare compulsory redundancies, extremely difficult, and approval has to be sought from the local public authority; the obligation on the employer to employ gainfully the work-force on something else is a major factor in developing new product lines and a force for innovation. We have never managed it like that and, companies in a bit of trouble with the product line, the whole culture is, "close it down", or "sell it", or something like that.

(*Mr Lyons*) It is the cheapest country in Europe to make people redundant.



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**Ann Coffey**

179. Just following on from that, there has been quite a lot of discussion about attracting inward investment and one of the Ministers, in particular, has said, again and again, that if the labour costs go up, if employment legislation is made more strict in this country, that is going to mean that inward investment is not going to be attracted here and is going to go elsewhere; in other words, the lower the labour costs the higher your competitiveness. Have you any comments on that?

(*Mr Monks*) Yes. We actually do not accept that analysis and we have been delighted, in the main, with the success of the inward investment initiatives. We are concerned that they are drying up a bit and other countries, including those with higher social costs, such as Germany, are doing now rather better on attracting new Japanese investment than we are, we having had a significant lead, and that is partly because they are more concerned about the better skill base in Germany than perhaps the lower social costs which exist in Britain. We do not detect from the companies with whom we have got agreements—Toyota, Nissan, quite a few of the electronics companies in Wales—that labour costs have been a significant factor; proximity to markets has been a factor, the attraction of a particular area has been a factor. Labour costs are part of the equation but not perhaps the key part of the equation and we do not detect this horror of the social dimension of the European Community among many of the inward investing companies that the Government seem to. I think some of the inward investing companies quite like the freedom to impose their own industrial relations system, as opposed to adopting a national pattern which is strictly regulated by law, I think they may do that, but in terms of costs that is not the way they see their future, Toyota wages are high.

180. I wondered what your comments would be, because are you aware that there was a study done in Japan recently, quite a widespread study of companies, to rate the factors which influenced their investment abroad, and social costs, labour costs, came very low down in that particular study and I wondered, in fact, if you had seen it?

(*Mr Lyons*) In paragraph 36 of our report we go even further, we point to a statement by Sumitomo Corporation which does not even mention labour costs in the paper to the OECD, it does not even mention it at all. Higher in paragraph 36 we point out that the inward investors pay 25 per cent higher wages, on average, in Britain than indigenous companies in the same industries; this is very significant because it means that they are not coming here for low wages and we are very concerned that a degree of political rhetoric is coming into these discussions and we have got to look very coolly at the facts, and your Select Committee has that opportunity. The facts are that we are not attracting inward investors based on low pay. The tragedy is that since 1985 over £36 billion has left the country—left the country—we are not talking about inward investors we are talking about British capital, and that is the question that I think we have got to look at, that is the missing link, the equivalent of an entire year's investment in industry has left the country. The inward investors are coming here for very

different reasons than that money leaving Britain but certainly they do not come here for low pay.

**Sir Anthony Grant**

181. What is the main reason they are coming then, would you know; what do you think is the main reason?

(*Mr Lyons*) It varies. There have been inward investors for a long time, American companies, for example, Ford, GM-Vauxhall, etc., so we must not imagine they are all from Japan. If you just take some of the Japanese companies, they come here for specific reasons which have been identified; amongst them are the English language, which is probably the most important one. Secondly, the help they have received very often from local authorities or local agencies has been important, even where there has not been the same level of local assistance; for example, Derbyshire and Nottinghamshire, which are not fully assisted areas, have been extremely helpful in inward investment by Japanese companies. But they have not come for low wages.

**Mr Bruce**

182. Whoever claimed the authorship of worker share-ownership, I am glad at least there is recognition of who has been driving the debate. I was interested, in particular, when you made reference to the two-tier board structure, because I may also say that that is something that we have supported over the last two, three elections specifically and, indeed, it goes back further than that. However, what you have also said is about the cultural divide between management and unions and particularly *vis-à-vis* the Government. What is the attitude, first of all, of management and then Government towards the two-tier board; is there not a sort of resistance to it, a feeling that this is another element of bureaucracy, just give the trade unions another opportunity to block progress? Is that a fair comment on the sort of feedback you get?

(*Mr Lyons*) Most of the larger companies we are dealing with are multi-national companies and they all live very happily indeed with the two-tier boards in all those countries where they exist. For example, ICI has a two-tier board in Germany, ICI Deutschland; there has never been a single hint of complaint by ICI over the operation of that board. There is extensive industrial democracy in other European Community countries; no complaint from Holland or Luxembourg or other countries where there has to be advance notification of commercially confidential material and yet all these old chestnuts come out here when you raise it with the British end, where they seem to be under some kind of three-line whip, which is certainly not emanating from the multi-national itself, because they are living happily with two-tier boards.

(*Mr Callaghan*) Can I add one point. What it is interesting to note is the way some large European companies are anticipating possible European Community legislation. You know that there is a proposal from the Commission for what is called a "European Works Council", it is a rather misleading term, we are talking about the Council covering the enterprise, and a number of large companies have set

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up, voluntarily, with the agreement of the unions, these councils in advance of legislation because they know that they actually get a competitive advantage in being ahead of the game. So this fear of these industrial democracy systems we do note in the United Kingdom but I think it is worth noting that our successful competitors can live with these systems and, indeed, that may be one of the reasons for their success.

183. But the situation, nevertheless, is that this sort of argument is being driven just as much by management and employer representatives as by the Government, at the moment?

(Mr Lyons) We find it an aberrant position, because, surely, if, for example, a multi-national company opposes two-tier boards in Britain they should oppose them in Germany, yet they do not oppose them in Germany, they support them in Germany.

Chairman

184. What do they say to you when you ask them that question?

(Mr Monks) I think the reason for it is the power of the City and the power of the finance interests.

185. What do they say to you when you say to them, say, ICI, "You oppose it in the UK, you do not oppose it in Germany": what is the answer to it?

(Mr Lyons) The CBI; they quote it is a CBI whip.

Dr Clark

186. No; nonsense!

(Mr Lyons) That is what has been told to me by senior executives; they say, "There is a line that we have to take in Britain which we may, through the CBI, try to campaign for in UNICE, but we do not raise it through our national companies elsewhere in the European Community".

187. Mr Lyons, that is twice you have used the expression "whip". The first time you used the expression "three-line whip", implying that the Government had put some ban on this sort of consultation and management or governance of companies; now you are suggesting that it is the CBI that has the whip. It seems to me that you are obsessed by whips, if I may say so, Mr Lyons. Can I follow the Chairman's line of questioning and say that, surely, it is incumbent upon you to question these major companies—

(Mr Lyons) I have.

188. And say, "Why is it that you are not following the same tactics in this country as you do abroad?" and I will not accept the CBI, a very loose-knit organisation, is directing its major ... I cannot believe that Ford or ICI would not go down a path they thought was right simply because the CBI have said it would not be appropriate. Is it not possible, Mr Lyons, that the union structure in this country is so very different from the union structure in Germany and elsewhere that that is also a factor why British companies do not want to go down this route? Is it not possible that if the unions and, indeed, the large corporations sat down together and thought of what they both had to do to change we could get this sort of governance to which you refer?

(Mr Lyons) I reject totally every word that you just said and will explain it under two headings. First, the union structure: although it is not directly manufacturing, in insurance we are the industrial union, there is only one union in each insurance company. Allianz, which owns Cornhill, have advanced industrial democracy with us because it is a German-based company; the British-based insurance companies, which only have one union in each, will not because they say there is a British employers' view that they cannot come into line with Allianz, so we only have these rights there. On the question of British manufacturing companies who are involved in supervisory boards elsewhere, I will quote you Unilever and I think it is a useful company to quote because it is not quite a British company, it is not quite a Dutch company, and I have challenged Michael Perry, who published a statement calling for the British Government to opt out of the Social Charter, to explain whether he was speaking for Unilever NV or Unilever Plc, because we had understood it was one company. He has refused to respond to me. I have written to him, I have even written a letter in the Financial Times, an open letter to him, which was published; he has failed to say if Unilever is a British or a Dutch company, because it appears to be two different companies, one when it speaks from Blackfriars and one when it speaks from Rotterdam. That sums up the problem: when they have got their British hats on they have a different policy from when they are a multi-national.

(Ms Prosser) Could I just make a point, in response to that. I do think that that is the wrong tack. There is ample evidence of unions and management sitting down and discussing change. It is in our interests, as much as it is in the interests of the owners of the company, to keep a company going and if you look particularly at the vehicle-building industry and the dramatic changes in productivity arrangements and union arrangements that have taken place there, because we knew that if we did not change perhaps the inward investing companies might take more of an edge so it was in everybody's interest to change, there is ample evidence of that. There is also ample evidence to demonstrate that the question of Works Councils is not the bogey to companies that the Government appears to think it is and whether or not the use of the term "whip" is appropriate or not is not something we necessarily need to get into debate about, but the Government has been quoted, only this week, as saying that if the European Community persists with its programme for European Works Councils they will use their veto, they will not support it, and so we know that they are very much against it and they are putting that atmosphere around. I think that the words which John Monks started to say are far more appropriate and I think the pressure comes from finance, short-termism, from shareholders, dividends; all of that, the way in which that is structured in this country, so completely differently from elsewhere, is much more the factor that imposes—

Dr Clark: May I say that throughout the whole of the 1960s I worked in ICI as a plant manager, I was very active in Works Councils and we are now talking about 30 years ago; they were, in my opinion, very useful, constructive and I would not have been without them and it seems incredible that 30 years

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down the road what ICI was doing in 1963 is not being done in other companies now. I entirely endorse your comments about Works Councils and I am sorry that things such as Works Councils, which can only be powers for good. I can see nothing evil or wrong or unhelpful in Works Councils, it is either neutral or good, it does not go below the neutral line, ever. It is a shame that they do not come into industry more often.

Chairman: I suppose the irony of all that is that, with an engineering industry, one of the reasons why you had a Works Council in that was because a consultative committee was set up actually during the Second World War so we could actually increase the productivity for munitions. They were cancelled somewhat by the York Agreement; but, there you are.

**Mr Clapham**

189. Mr Monks, can we just explore that attitude of trade unions a little further. Do you have any examples whereby unionised firms have shown quite clearly that they are more responsive to introducing or accepting new techniques on the shop floor?

(Mr Monks) Yes. Just a few facts and figures I often chuck into this debate, that something like 47 out of the top 50 British companies are strongly unionised, there is quite a bit of publicity on the two or three, such as IBM, who are not but the vast majority are, and they account for the vast majority, around 60, 70 per cent of British exports. Various surveys that have been done and the Work-place Industrial Relations Survey which the Department of Employment sponsor, done by the Policy Studies Institute and ACAS, do show that on technological change often the unionised companies, and this was greeted with some astonishment when it first came out but it has been confirmed in the latest survey, actually can often be quicker to change than the non-union sector. Why? It is difficult to explain any precise reason; it could well be because the management have to take rather more note of work-force opinion when it is represented and organised in some representative forum, such as a union, than when there is no pressure. There is certainly no evidence, by the way, that where unions do not exist there is any alternative model of representation which has grown up as another way of doing it and the non-union sector is authoritarian, with one or two exceptions, such as the John Lewis Partnership and companies which have got an idiosyncratic, useful and successful in some cases, model. Yes, we have got absolutely nothing to apologise for, we should be beating our breasts and saying a lot more about these positive achievements and taking pride in good industrial relations at places such as ICI. The problem with ICI is that not enough other British companies followed its model, including the engineering industry. There were not too many ICIs in the engineering industry, in terms of long-termism, research and development and keeping up with the world-class companies.

190. How would the TUC then suggest that the dissemination of new manufacturing techniques could best be pressed?

(Mr Monks) I think Roger referred, earlier on, to this exercise he was on in the NEDC, which included

some of the senior industrialists, and I think they developed what we could call the "Marks and Spencer approach"; nothing particularly Japanese about it.

(Mr Lyons) No. We did have the Managing Director of Nissan involved in one particular study and we looked at the question of new manufacturing techniques, lean production, supervisory skills, all the bread and butter issues which are needed by a successful manufacturing base, but the difficulty is that if you start talking about individual companies you start going off into a tangent. In general terms, I think the DTI should be actively bringing the sides of industry together, all of them, professional managers as well as owners; that is something which is forgotten, very often, that the short-termism is at one level in an organisation. In ICI, possibly, the professional managers have more say and, therefore, the long-termism is endemic in the organisation's thinking and the strategy can be understood then and is the agenda for discussion and debate and there has been major technological and work-place change in ICI as a result and you will not hear ICI complaining about any impediments. If the DTI could encourage that kind of co-operative partnership in other sectors that would be the best thing they could do for unblocking the road forward.

Chairman: Could we move on to City and industry relations and call Malcolm Bruce, because it is an area which you have expanded on in your documentation.

**Mr Bruce**

191. Perhaps I can pick up on something which Margaret Prosser said, when we were discussing this cultural problem, that she actually quoted the City institutions and the requirements for national institutions as being perhaps a brake on bringing this forward. Could I ask to what extent you feel the attitude of the City is unhelpful to industry, particularly in meeting our investment and our export objectives?

(Mr Monks) Pinning this down is not easy and in discussions that we have had with the City over the years we have found plenty of people who have known quite a lot about particularly manufacturing industries and exhibited a degree of commitment to it, which has rather countered the general impression, prejudice, that we have got that the City know absolutely nothing and care very little for large chunks of British industry unless it is pretty blue chip and has got a secure relationship. Myself, I think the City have a major effect, in that the rules of corporate law are designed for their benefit, in the main. It goes back to our world-wide trading patterns and it goes back to the Empire and all that, as well, but the fact is that we do note that in economies which are more intrinsically provincial, where banks see themselves bound up with the local firm, with an interest in protecting that firm and its long-term investments and a sense of relationship to the community, which you do see in the banking systems in some of the European countries, I think they have proved a better bet than our free market in money, internationally very aware and not too aware of the need to support little firms in the north of England.

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192. Do you have any specific examples? In paragraph 36, you quote that foreign companies invest, on average, 118 per cent more than their UK counterparts. Presumably, the City institutions are a fairly important source of investment funding, so is there a difference?

(*Mr Lyons*) Yes. The institutional investors which British manufacturing companies rely on have a differential level of support. If you take, for example, the research which is available, total cost of capital for investment, taking account of dividends, interest payments and taxes, is 30 per cent higher in Germany than in Britain and for a R&D project with a ten-year pay-off it is 60 per cent higher and there is a report by the DTI's R&D Scoreboard that the profitability of Japanese firms in the survey was little more than half that of UK firms, investment in R&D was four times higher and the best report from the Scoreboard of the DTI is in today's Financial Times: Britain behind in R&D. This is partly because of the short-termism of institutional investors in the framework of decision-making.

193. In paragraph 40, as well, you gave a statistic which, I must say, made me fall off my chair when I read it last night: dividends to shareholders rose from 22.7 per cent of profits in 1985 to 60.8 per cent of profits in 1992. That seems to say it all. Basically, the City is saying, "Give us our dividends and to hell with your long-term commitment"; is that not, in fact, the nub of our problem?

(*Ms Prosser*) Yes. It is a structure which says that the first responsibility goes to the shareholder and the shareholder, therefore, calls the tune.

194. Unfortunately, it is also our pension funds; that is the wider ...

(*Mr Callaghan*) Certainly, the institutions play a big role. When a leading figure in M&G said the firm should pay out in dividends, that view was very influential, I think, in the City.

195. It got rid of the BP Chairman?

(*Mr Callaghan*) Indeed. I think what is interesting here is that, obviously, I think it is wrong just to say pick on the City and say, put it in the spotlight, that it is totally the fault of the City; I think there are also attitudes in companies, as well. Just to speak of, you said, the institutions provide most of the new money; in fact, there is very little new money which comes via the institutions, most investments, in fact, come from companies themselves and companies impose very high discount rates in their own calculations, particularly in terms of hi-tech projects. I was just reading a report by Professor Stoneman, at the Warwick University Business School, for the ESRC, on the discount rates that companies themselves impose; it says two-thirds of firms were using discount rates of between 15 and 24 per cent for looking at new projects and it is not surprising that with such high hurdles that they are setting themselves they are not investing very much. Obviously, it is the fear of takeover, which is very prominent in the British system, and I think, also, fears about economic instability; a lot of British companies, those who have invested, some of them have got their fingers badly burnt in the past few years and the sort of 'boom and bust' scenario that we have had is not really conducive to long-run

thinking. This is, I think, as John Monks has said, a complex matter but what is very special about the British system is the very strong power of the institutions and the fact that in our competitor countries banks provide more equity finance rather than loan finance and companies themselves have got shareholdings in other companies. There is a much greater degree of crossshareholdings which provides for a much more stable industrial and financial structure.

**Sir Anthony Grant**

196. I am very glad to hear what Mr Callaghan says because, in point of fact, it is too easy to just in a blanket way blame the City, which after all is a market, that is all it is, under the existing system and I do not think it is perfect. I spent some 20 years of my life working in it, but I hope you will agree with me that there has been a recognition, very recently, in the City that all is not well and that the, what we call, "merger mania" and "takeover frenzy" did get out of hand in recent years, though it was probably necessary in order to shake up incompetent management, but it can go too far. The question I would like to ask you is this: would you agree with me that in recent years there has been too great an attraction for the brightest people to go and work in the City, shuffling paper or staring at screens, that they get greater rewards than if those very bright people went out to, say, the North East or North West and struggled to organise and manage a manufacturing company, and would you agree with me that the only contribution a government can make to this would be in the taxation system, to see that as great if not greater rewards were available to managers and, indeed, directors in manufacturing in the far reaches of our country than to coming down to the Square Mile?

(*Mr Callaghan*) I certainly agree with your point about the relative rewards; I think there is more that Government could do. I think Government could be doing much more to encourage the provision of links between industry and finance at the local level; I think we have already touched on the fact that the British system is very, very London-centred, we do not have regional capital markets where people can have a sense of investment in their local industry, we do not have mechanisms which bring together the different players, TECs, financial institutions, local authorities, companies, to create strong regional economies. I think one of the quite striking features of the British scene is that, in contrast to many of our competitors, we do not have this concept of thriving local regional economies which can act as some sort of pole of attraction. Look at what is happening in parts of northern Italy, in parts of Germany, where you do have this very strong, close partnership between industry, the trade unions, finance, local authorities, and so on; I think that is what we lack in this country.

197. In spite of that, would you agree with me, therefore, that Government should at least be very wary of introducing a tax regime which would deter the brightest people from engaging in the management of companies, in manufacturing or otherwise, to be very hesitant to increase taxation, as a deterrent?

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[Continued

[Sir Anthony Grant Cont]

(Mr Monks) I am not quite sure what you mean by that; it is almost a differential taxation approach.

198. What I am meaning is that if you increase direct taxation too much on people who are actually earners you are going to deter people from becoming managers, directors, or whatever it is, in the places where there is manufacturing, and encourage them just to become dealers?

(Mr Monks) I think, after what has happened in the 1980s to executive pay and at the same time as taxation has come down on top incomes and executive pay has, frankly, rocketed and is still rocketing, that is probably one of the less relevant things that you have said this morning.

199. Before I leave that, on the contrary, I think actually this is very, very relevant. The question is would you agree that to impose further direct tax burdens upon the sort of people who are going to run manufacturing industry or who are going to be directors, or whatever you like, or executives or rising ones, would not encourage them to participate in that activity which we want so much?

(Mr Lyons) A regime which is based on growth will, through manufacturing, pay a lot more into the tax authority than an ailing sector; the manufacturing in many sectors is ailing, we have gone out of manufacturing so we have gone out of paying taxes completely in some sectors and, as far as individuals are concerned, I think that people in a democracy have to pay an equal burden.

Dr Clark

200. Mr Monks, my background is chemistry, I am a chemist, but what I wish to say I think applies equally to manufacturing in the engineering industry as it does to manufacturing in the chemical industry and I wonder if you would care to comment on a view that I am now going to express. I have been at meetings with people from the chemical industry when they have said, "We are not getting well enough trained scientists to help us run our chemical industry in the future, so we shall find £200,000 which we shall allocate for books on chemistry in primary schools and that is our contribution". I say to that, absolute poppycock; what is the point of allocating peanuts, which £200,000 is, to primary schools throughout the country, to try to encourage youngsters to study chemistry or science, and the same would apply to engineering, when, in actual fact, what you have got to do is, by setting the right salary levels for beginners and, indeed, intermediate people, in industry and engineering, you have got to indicate to them, when they are 12 and 13 and first begin to know what salaries and money is, that it is a worthwhile, well-paid career? Would you care to comment, Mr Monks, on the fact that many British companies might take an engineer or a scientist at the same time as they might take someone who studies sociology and politics at university: the former they will put into a bench or a lathe or a workshop and say, "Do four years apprenticeship and four years learning on X amount of money"; the second one they will pay 2X amount of money and call them a commercial manager, a patents attorney, a marketing manager or a strategic thinker? Has not industry got it wrong in the fact that they are not sending the right signals all

the way down the line by paying skills the appropriate rate and if they want to attract a whole reservoir of skills coming up through the system they have got to signal that, by paying properly to people who start and people who progress in industry with those right skills?

(Mr Monks) I agree with that, absolutely; I agree with you, in terms of the signals that are sent out. I think it has probably got something to do with, this is the trouble with this debate, that you no sooner get some agreement on one thing than you go back somewhere else and you get then to the rather narrow quality of some engineering higher education in this country and the fact that you then probably end up in the A-level system and the early specialisation which takes place in English schools as opposed to Scottish schools. But I do agree with you, I think that is absolutely right. Roger's union represents many of the engineers and more generalist managers, as well; I do not know what he thinks about it but that is certainly my own experience. Before working for the TUC I was working in the electronics industry as a junior manager and that was certainly the situation, as you described it.

Chairman: I think there is a certain unity of purpose there and the time is going on. I just wanted to get on to the training part, which I would like Ann Coffey to come in on, just to deal with this question of the TECs.

Ann Coffey

201. I think you touched on this earlier on and I just wondered, given the comments that you have made about the problems with training, how you resolve those difficulties. Because, as I think you indicated, there is a problem, particularly, with the Training and Enterprise Councils, in the way that their grants are allocated and the expectations of what they deliver for their grants and I think there has been a certain amount of concern over the years that that actually takes training down to the minimum level and does not offer the potential for higher skills training. I wondered if you had any thoughts on what might be positively done about that, either in altering the present system or what could be done perhaps in bringing training much more into the responsibility of the employers?

(Ms Prosser) Firstly, we, of course, objected to and were not supportive of the change from a levy grant system to the current TEC system and a system of voluntarism and, indeed, the Government's White Paper at the time reflected that what a pity it was that under a voluntary system over many, many years most employers had put very little into training but, nevertheless, continued upon the path of saying that this would be better done in a voluntary way in the future. There is, of course, a big difficulty about the system being voluntary because that does not generate sufficient income and sufficient involvement. The other problem with changing from the old levy grant system is that there is not sufficient concentration on a sectoral-based approach. We would, I think, accept that the old system of Industrial Training Boards clearly needed to be looked at and needed attention which would take it away from being such a broadly national system, in the sense that that, as it was, did not come down

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[Continued

*[Ann Coffey Cont]*

sufficiently into the regions, into the localities and into the particular enterprises. Nevertheless, the baby, we thought, was thrown out with the bath water and we would much prefer that there was a system which required companies to invest in training and which took a rather more sectoral approach, because that is where the expertise is, that is where the interest is and that is where we feel advances will be made. This links back to the point which was being made before, in the sense that we leave it rather late, in this country, to train anybody to do anything, accepting entirely the early specialism problem about A-levels and, indeed, O-levels, but, nevertheless, we do not invest in young people in the kinds of skills that they need to go into this kind of industrial work and unless we accept that we need well-paid, well-trained teachers that are able to impart those skills, even at junior school level and certainly throughout senior level, then we leave it a bit too late to then bring people on stream for that kind of vocational training and education, and a much greater link between the DTI, the Department of Employment and the Department for Education and Science on this matter would be helpful.

202. I know that there are wider issues involved, obviously, because where you are talking about training you then go on to talk about education, but I wondered if you had any specific comments on the way that the Training and Enterprise Councils are able to deliver training, particularly to 16- to 19-year-olds, because the reality of it is that they are the ones who have now got the only training budget available?

(*Ms Prosser*) That is the reality and I think my earlier comments alluded to the fact that the Training and Enterprise Councils have, to a large extent, had their eye taken off the ball by virtue of the fact that

they are required to spend the vast majority of their time administering a budget which is about training the unemployed, which, of course, is important, but the same organisation is finding it difficult to do everything. Unless there is an opportunity to bring together people in a geographical way, as well as a sectoral way, then it is impossible for us to have any kind of national picture of what the training requirements are. Indeed, a question was asked in the House some months ago about the numbers of people being trained in particular areas and there was no ability, from the Department of Employment, to provide that answer because they no longer keep national statistics, so there clearly is a range of things that need to be done which will focus attention on the requirement to skill people to promote manufacturing, which clearly is not happening in the Training and Enterprise Councils.

**Chairman**

203. On that note then can I thank you very much for coming, Mr Monks and your colleagues, and we may want to follow up one or two of the questions in writing, over the next week or so. Thank you very much.

(*Mr Monks*) Thank you very much. Mr Savage has brought some copies of a TUC Charter for a World-Class Britain, which we would just like to leave with the Committee, showing our commitment to many of the things which are going on in this very important area.

Chairman: It is a pity we are not on television, because you cannot get the commercial in. Thank you.

**Supplementary Memorandum submitted by the TUC MC 80****Q1. What was achieved by the sectoral divisions of NEDO?**

The Economic Development Committees and subsequently Sector Groups of NEDO carried out a range of practical projects of direct relevance to their sectors. Examples include:

- the Engineering Sector Group initiated a "Strategy For Success" to disseminate the best manufacturing practices throughout the industry. At the time of the abolition of NEDO, the Sector Group was looking at ways of promoting best practices in the motor components industry, in anticipation of the increase in vehicle production in the UK and the increasingly exacting standards set by manufacturers. A number of the features of best practice, such as the development of the role of supervisors, were also extended to other sectors.
- The Knitting EDC identified and lobbied successfully for a technical change to the way VAT paid by exporters could be recovered, bringing forward payments worth millions of pounds for exporting firms.
- The Clothing and Knitting EDCs, followed by the Garment and Textiles Sector Group, initiated a series of manufacturers/retailers panels to inform manufacturers about marketing opportunities and therefore promote import substitution. Similar work across NEDO sector groups spun off into other import substitution initiatives such as "Better made In Britain".
- The Construction Sector Group developed a proposal for a registration scheme for construction operatives which is now approaching implementation, and should help to tackle the casualisation of the industry and poor health and safety standards.
- The former construction-related EDCs established a Large Sites Agreement to promote good industrial relations and cooperation between unions on large projects.

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[Continued

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Q2. *Local and Regional organisations that recognise the importance of manufacturing.*

Organisations such as Scottish Enterprise have fostered a climate to welcome inward investors, with active involvement from unions. Successful regional partnerships exist in, for example the West Midlands, Yorkshire and the North West, and economic development organisations such as Lancashire Enterprises and the West Midlands Enterprise Board also make an important contribution. Local authorities can have a key role to play, and the legislation now provides for an explicit economic development role. But this is not reflected in adequate resources, and their role is not fully recognised by the Government in consultations on industry policies. The TUC also believes that TECs could make an important contribution, if they had sufficient resources to develop their enterprise activities. The now defunct National Training Task Force carried out a study of the Enterprise role of TECs, and concluded that TECs should work in partnership with other bodies particularly in developing local economic strategies. It appears to the TUC that there is a plethora of organisations, operating with the support or sanction of Government, in the field of economic development, and whilst they do not always overlap, the Government could assist by establishing a clearer focus for local and regional development.

Q3. *Britain's vocational training deficiency has been criticised for more than a century. Why do you think no concerted action has ever been taken? Do recent changes such as the TECs offer hope of narrowing or removing the skills gap between Britain and its main competitors?*

It has been argued that since its high-point in the mid-nineteenth century the UK economy has been in steady decline. Since that point it has lost ground, first to Germany and France and then, in twentieth century, to the USA and Japan. Failures of the education system are commonly adduced to explain this phenomenon: the slow development in the UK of a technical education; the dominance of examinations, which reinforce the higher status of academic values over practical skills; the valuing of pure science over applied science and engineering; the lack of support for "enterprise"; a lower level of recruitment of graduates into industrial management as compared with the UK's competitors, inadequate marketing skills, stemming from national insularity and negative attitudes towards foreign cultures and languages. These are just a few of the apparent failures for which UK education is held responsible. Underlying them is the belief that the culture of the UK is biased against its manufacturing industry and attaches higher status to finance and the professions.

These criticisms were set out in a Department of Industry discussion paper in 1977 during the great Education Debate.

Even more important is the reluctance of employers to train and keep training all their workforce. During the period of economic uncertainty in the early 1960s, tensions underlying an unplanned, uncoordinated system for training necessary workers surfaced. The costs of training were not distributed within industries. Large established companies provided qualified labour for the entire industry; transferability of skills allowed smaller, new or expanding competitors to "poach" qualified workers with offers of better wages. By 1964 a Conservative Government set up the Industrial Training Boards (ITBs) to secure industry-wide financing of training. The ITBs mirrored the partnership within industry with unions involved in tripartite decision making. The ITB structure supported the apprenticeship system based on craft training by determining standards and operating the levy grant system. The benefits of such a system was that there was employee "ownership" of qualifications which had a high currency value in the world of work. The perceived problems with apprenticeships as designed and operated were that they were based on the exclusion of many workers who might have benefitted from such high skill training and were based on time-serving.

The creation of the MSC in 1973 which the TUC supported and on which it was represented meant that the Commission took over responsibility for the funding of ITBs from the Treasury. It was also accompanied by the movement of ITBs changing the barriers of the skilling process to generate the skilled labour required.

The rise of voluntarism in the early 1980s with the demise of MSC and the abolition of almost all the ITBs and the establishment of employer led TECs meant that there was no strategic skill training planning at national and sector levels. During this time apprenticeship particularly in the engineering industry were drastically cut. The direction of government policy was training young people to alleviate unemployment rather than training them for skilled jobs.

The TUC has encouraged unions to become involved in the work of Training and Enterprise Councils. The TUC is represented by a trade union officer on 62 out of the 82 TECs. The TUC has welcomed the devolved powers given to TECs to assess local skill needs and devise local training plans. But the TUC has continually argued that there needs to be a robust national and sectoral framework within which quality training could be planned and delivered to all in the labour market. Such a strategy could help close the skills gap with competitor countries and tackle future skill shortages which will hamper economic recovery in the future.

Since 1979 the dramatic fall in apprenticeships has resulted in a very narrow base of craft skills. According to the National Institute of Economic and Social Research (NIESR)<sup>1</sup> lack of sufficient craft skills has increased the demand for technicians to plug the gap and has consequently resulted in ineffective deployment

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<sup>1</sup>"Intermediate Skills in the Workplace" National Institute Economic Review May 1991.

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[Continued

of such highly skilled employees. And according to the NIESR study "TECs are well equipped to respond to local deficiencies but not to national ones".

The TUC has long argued that there should be a levy on business to pay for training people in work and this view is shared by half of TEC directors according to a Financial Times survey.<sup>2</sup> Without such a system employers will rely on recruiting employees from other companies who have trained their staff. Alternatively they will train their staff in narrow skills rather than transferrable skills to reduce their "marketability" to other companies.

The TUC would not wish to be prescriptive about how such a new system could be designed and the role played by TECs and industry training organisations (ITOs) within it. But it clearly must be flexible, avoid the bureaucracy of a paper chase for exemption status, and meet the needs of small and medium enterprises as well as larger companies.

The TUC however firmly believes that the Government must as a matter of urgency instigate a debate with the partners in the training system—TECs, the education service, ITOS, employers and trade unions—on the type of national system that we require to meet the demand for skills. It should particularly address issues such as the modernisation and expansion of craft apprenticeships based on NVQ standards (Level 3). It also needs to examine the balance of funding of craft training between employers and the public purse. Finally, such discussions need to address how TECs can co-operate more with each other regionally and work more closely with ITOs sectorally to meet the nation's skill needs.

*Q4. Does state aid need to be redirected?*

The TUC would support a more targeted approach to industrial assistance, focused more on technology and export promotion, and also recognising that investment needs to be directed towards skills and innovation as well as physical capital. However, this is unlikely to be achieved within the existing industrial budget, and whilst the TUC's approach is not based on crude industrial subsidies, a modest and targeted increase in the DTI budget could be beneficial.

*Q5. Insolvency procedures failing to keep companies going as viable concerns.*

The TUC does not routinely collect information of this kind, but a resolution adopted by the TUC 1991 was prompted by a number of cases of concern, including the following:

- The Leicester firm TW Kemptons which had won the Queen's Award for Exports, but was forced into liquidation because it had borrowed from banks at high interest rates in order to invest in modern equipment.
- Coxmore knitwear and Burlington footwear, which produced high quality shoes under the Hush Puppy brand name, are examples of firms where proposals for management buy-outs of at least parts of the businesses were turned down by the receivers. Although it is impossible to judge whether these proposals were viable, it did appear to unions that the receivers did not allow sufficient time for alternative plans to be considered.

As a result of these concerns, the TUC has supported greater use of administration procedures when a company faces financial difficulties.

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## ANNEX

TRANSCRIPT OF EXCHANGE BETWEEN MR CALLAGHAN AND PRESIDENT OF THE BOARD OF TRADE AT THE RSA SEMINAR

Bill Callaghan (TUC): Whatever NEDO's faults, it did encourage the social partners to think about the long term. Perhaps this country lacks institutions, not necessarily at Government level, which encourage the social partners to do this. My question concerns people. If they are really our greatest assets, is the attention you rightly give to education and training really compatible with a short-run hire-and-fire economy?

Michael Heseltine: I am attracted to much of the culture associated with Japanese industry, although it is important to recognise a number of things that are lost to sight. The Japanese come from a background of long-term growth, often at a high level, and their cultural and social assumptions about the capitalist system have been compatible with the long-term obligation of employment. Now they are under the sort of pressure that comes with an economy that is growing at only two or three per cent a year, and they are beginning to have troubles with this long-term commitment to employment.

We must also remember that while the Japanese economy is deeply competitive in the trading sector, it is deeply uncompetitive in the non-trading sector. It sustains people to work in fields where the pressures of

<sup>2</sup> Financial Times 10 May 1993.



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competition in our society would not allow it. This is accepted as part of the cost structure in the non-trading economy. The Japanese have been part of the trading world for only 130 years and the set of assumptions on which they operate are very different from ours.

I like the Japanese attitude to employees. I have to say though—you will find this uncomfortable, and we will probably not agree about it—that in the post-war world there was a huge punch-up in Japan between the trade union movement, which wanted to represent work people, and the bosses, who wanted their employees to have their own internal associations. The bosses won, and the trade union movement was greatly weakened in the process. I believe that you are more likely to get the best results from your workforce if its representatives are within the company rather than outside it. I know this is a controversial statement, at least to this audience.

#### **Memorandum submitted by Engineering Employers' Federation (EEF) (MC 9)**

##### **INTRODUCTION**

The EEF is the Engineering Employers' Federation. As the "voice of engineering", the EEF represents the interests of the UK engineering industry, so that engineering's important contribution to the prosperity of the nation can be fully recognised and understood.

The EEF has member companies of all sizes, from all major sectors of the industry. The EEF includes 14 regional associations and the National Engineering Construction Employers' Association. The Engineering Training Authority is also affiliated to the EEF.

The Committee has asked the EEF to answer 11 specific questions, which are addressed in this memorandum.

##### **SUMMARY**

The UK manufacturing sector is too small—as shown by the persistent national deficit in international trade.

To sustain UK living standards, the nation's manufacturing strengths must be concentrated largely in high technology, high growth sectors. In the 1980s, the strongest UK manufacturing sectors were not high-technology, high growth ones.

The future success of the whole UK economy depends crucially on shifting resources into investment in manufacturing industry, technology and infrastructure. The government must make this shift of resources the prime objective of its immediate economic and industrial policy.

The UK government should take a 30-40 year view of the direction of industry and technology, and should set its long-term policy accordingly.

UK financial institutions have a short term outlook. They seek unrealistically high investment returns. Pressure for consistent dividend growth means that UK manufacturing industry is unable to reinvest as high a proportion of its internally generated cash than is possible in foreign manufacturing industries.

*Q1. How would you characterise the general competitiveness of UK manufacturing at present? What do you regard as the main strengths and weaknesses of UK manufacturing?*

##### *General competitiveness*

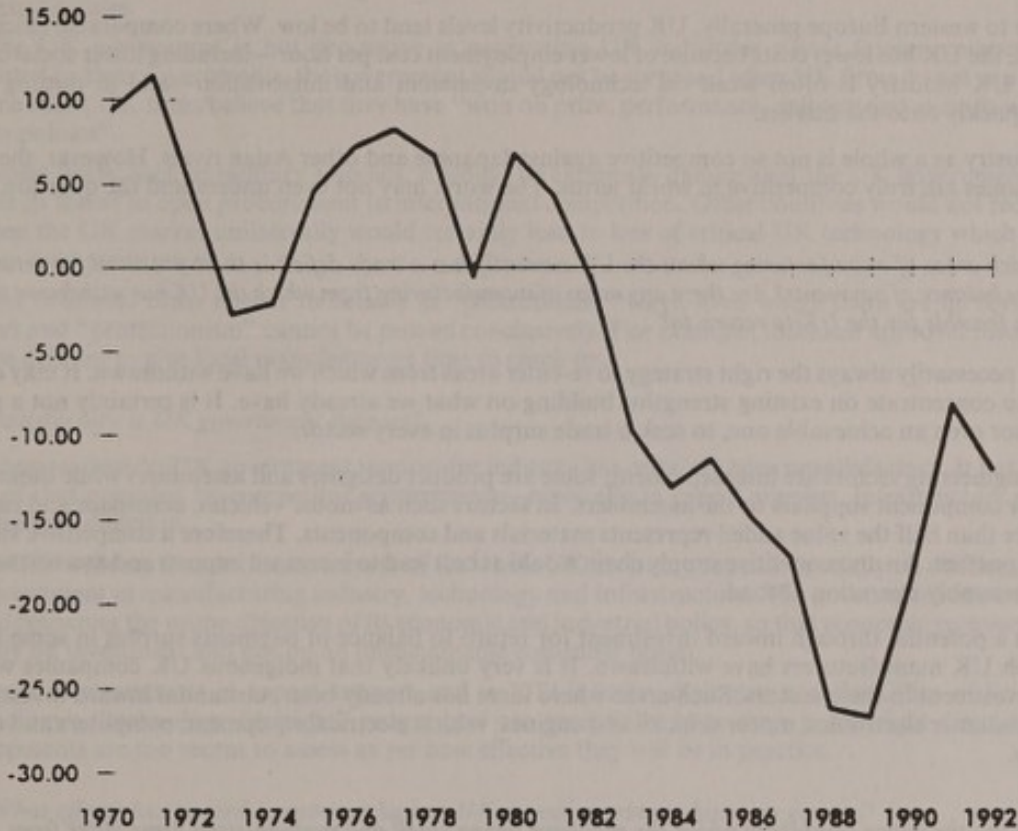
The UK manufacturing sector is too small—as shown by the persistent national deficit in international trade. Manufactured products make up some 70 per cent of the UK's total trade in goods and services. The alarming deterioration in the UK's manufacturing trade balance during the 1980s can be seen in figure 1. The improvement in the trade balance from 1989 to 1992 reflects the UK recession, which temporarily reduced demand for imports, rather than a sustainable achievement.

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Figure 1:

UK trade balance in manufactured products 1970 to 1992 £ billion per year in 1993 money



Source: EEF staff calculations from CSO data

"Competitiveness" at national level—as distinct from any one particular sector—is best measured by the ability to sustain economic growth and rising living standards. To sustain high and rising living standards, UK manufacturing must be competitive against the industries of other advanced economies. Competing on cost alone against low-cost developing economies would result in the UK having developing-country living standards.

It is therefore important that the UK's manufacturing strengths should be concentrated largely in the high technology, high growth products which characterise advanced economies. These are largely, although not exclusively, products of the engineering industry.

#### *Strengths and weaknesses*

In the 1980s, UK demand for engineering products grew much faster than the demand for other manufactured goods. However, this increased demand was met disproportionately from imports, and the trade balance in engineering products deteriorated much more than that in other manufactured products.

There are some high technology products in which the UK does have a trade surplus. These include process plant, pharmaceuticals and aerospace equipment. In telecommunications equipment and electronic capital goods UK exports and imports are approximately in balance. In computers and office machinery there is a trade deficit but, unlike most manufacturing sectors, the trade balance trend has been improving since the early 1980s. These are all sectors with strengths which can be built upon.

However, the strongest UK manufacturing sectors in the 1980s, as indicated by their export/import ratios, were not high-technology, high growth ones. They include whisky and gin; tobacco; asbestos goods; and munitions and small arms. All of these have been declining markets, and seem unlikely to become growth sectors.

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[Continued

### *Engineering industries*

Much of the engineering industry is disadvantaged by insufficient investment in r&d, product development and manufacturing facilities. This reflects the unrewarding environment in which UK engineering has been operating for many years.

Relative to western Europe generally, UK productivity levels tend to be low. Where comparable efficiency is achieved, the UK has lower costs because of lower employment cost per hour—including lower social costs. However, UK industry is often weak on technology investment and innovation—and at putting new products quickly onto the market.

UK industry as a whole is not so competitive against Japanese and other Asian rivals. However, the best UK companies are truly competitive in world terms. The worst may not even understand the question.

*Q2. In which areas of manufacturing where the UK currently has a trade deficit is there potential for returning to a positive balance of payments? Are there any areas of manufacturing from which the UK has withdrawn which it would be feasible for the UK to return to?*

It is not necessarily always the right strategy to re-enter areas from which we have withdrawn. It may often be better to concentrate on existing strengths, building on what we already have. It is certainly not a good strategy, nor even an achievable one, to seek a trade surplus in every sector.

Many engineering sectors are interdependent; some are product designers and assemblers while others are material or component suppliers to the assemblers. In sectors such as motor vehicles, aerospace and capital plant, more than half the value added represents materials and components. Therefore a competitive supply chain is important. An uncompetitive supply chain would at best lead to increased imports and at worst would force the assembly operation abroad.

There is a potential through inward investment for return to balance of payments surplus in some fields from which UK manufacturers have withdrawn. It is very unlikely that indigenous UK companies would commit investment in these sectors. Such areas where there has already been substantial inward investment include: consumer electronics; motor vehicles and engines; vehicle electrical equipment; computers and office machinery.

*Q3. What are the major respects in which the problems facing small and medium-sized firms differ from those facing large firms, and do the UK's strengths and weaknesses in that sector differ from those among large manufacturing firms?*

Many small and medium-sized firms (SMEs) are finding that their traditional large domestic customers are now sourcing from abroad.

SMEs find it more difficult to access the latest manufacturing technology. In part, this is because much of the development work is now undertaken overseas and SMEs are remote from the source of new ideas and innovations.

For SMEs, r&d can be very costly relative to size of the business.

SMEs often find it difficult to fund new facilities and product development. They are often forced to rely excessively on overdraft funding, whereas the need is for improved, cheaper long term funding and/or greater equity capital.

*Q4. In what respects, in your view, does the Government have responsibilities to promote the health of manufacturing industry, and to what extent is it satisfactorily discharging those responsibilities at present? How does UK Government support compare with that given by competitors' governments to their own manufacturing sectors?*

### *Government responsibilities towards manufacturing*

The chief difference between UK and other industrial countries is that the UK does not have the cultural framework in which industry operates elsewhere. Government has a responsibility to help provide such a framework.

To do that, government must take the lead in developing a vision of how industry and technology can be developed to national advantage. Neither the ideas nor the action to develop them need originate with government, but government's role is essential as catalyst and stimulant. The UK government should take a 30–40 year view of the direction of industry and technology, and should set policy accordingly, preferably on a cross-party basis. Without such a background, intervention of any kind is almost bound to fail.

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*Government support for industry: a "level playing field"*

Many foreign governments support their manufacturing industries directly through export assistance and R&D assistance; and indirectly through public sector contracts and other protectionist mechanisms. Advanced country governments can and do provide such support without breaching GATT regulations or EC competition rules.

If the UK government is not pro-active in supporting UK industries whose foreign competitors are supported by their governments, the government should not be surprised when UK firms do not win business. In some cases, UK firms believe that they have "won on price, performance, delivery and everything else but lost on politics".

In some fields, such as military avionics, it would be extremely damaging if the UK government were to actuate its threat to open procurement to international competition. Other countries would not reciprocate. To open the UK market unilaterally would certainly lead to loss of critical UK technology which has been built up over many years.

Other countries often appear to behave in "protectionist" ways, even where there are no formal trade barriers and "protectionism" cannot be proved conclusively. For example, technical approval for a product may be delayed to give local manufacturers time to catch up.

*How satisfactory is UK government support?*

In the past decade, UK government support for industry has certainly been unsatisfactory. It has fallen far short of that provided by competitor governments—especially in export support, infrastructure provision and strategic direction.

The EEF believes that the future success of the whole UK economy depends crucially on shifting resources into investment in manufacturing industry, technology and infrastructure. The government must make this shift of resources the prime objective of its economic and industrial policy, so that economic recovery is based soundly on investment and not on an unsustainable consumer boom.

Recent improvements in export support and in DTI-industry dialogue; and the Office of Science and Technology's "technology foresight" programme are potentially large steps in the right direction. These developments are too recent to assess as yet how effective they will be in practice.

*Q5. What effects has inward investment had on UK manufacturing industry in general?*

The effects of inward investment have generally been beneficial. Inward investors have often provided examples of good practice in manufacturing processes and management. They have provided new opportunities for existing UK companies as suppliers; and have stimulated existing UK competitors and component suppliers to improve quality and productivity.

Inward investment has been most beneficial in areas where UK industry had become weak—eg motor vehicles, consumer electronics. It is not necessarily a good strategy to encourage inward investment into areas of UK strength, especially if this involves subsidising inward investor competition against established UK rivals.

*Q6. What are the main influences on the level of investment in manufacturing industry in the UK?*

A major factor is always the level of confidence in the stability of markets and the general economic situation. The recent recession in the UK; uncertainty about UK recovery prospects; and the recession in our main export markets in western Europe are the immediate reasons for low investment.

There are other reasons for low investment which amplify the negative effect of recession and lack of confidence. Unless they are removed, these will continue to discourage investment even as the economy begins to recover. They are:

- pressure from financial institutions to maximise short-term accounting benefits, to fund dividends rather than investment and to seek unrealistically high returns on investment.
- A fiscal bias against investment because corporation tax allowances are less than the full amount of actual investment expenditure.

*Q7. How can improved management practices be most effectively disseminated?*

No short reply can fully answer this question. Improved management and engineering education and training is essential; industry must be encouraged to train.

Supply chain initiatives by major manufacturers, to improve management practice in SME suppliers, can be very effective.

Regional networks of employers can also be effective.

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[Continued

Q8. *What do you regard as the main influences on the level and quality of innovation in UK manufacturing?*

A major influence is the degree of awareness by managements that they need to innovate and invest to be fully competitive in world markets. This awareness has not always been present.

Lack of confidence in being able to reliably to forecast market prospects is another factor. The short-term focus and risk-aversion of the UK business and financial climate has favoured growth by acquisition rather than by innovation. It has been much easier for companies to expand by acquiring others, which in itself does nothing to increase the overall level of UK manufacturing activity.

This same short-term focus and risk-aversion has led to innovation being concentrated mainly on enhancement of existing products rather than creation of new products. For long-term success, it is essential both continuously to develop existing products and to create new ones.

It is widely accepted that r&d activity in UK industry has generally been inadequate—especially in medium-sized companies. The short-term financial focus and the overriding requirements to provide cash for dividends has restricted industry's ability to afford r&d.

In UK universities, much research talent has not been directed towards industrial application.

Q9. *Which are the main areas where the quality of the UK's commercial infrastructure (in the widest sense) is either helpful or harmful to manufacturing competitiveness, eg skills base, communications, the professions?*

#### *The skills base*

In overall world terms, the UK workforce is fairly well trained. In comparison with major advanced-country competitors it is ill-trained in technical knowledge and skills. The UK has relatively few qualified engineers, technicians and craftsmen. In particular, there is a persistent shortage of well-trained and experienced technicians.

Behind this lies the deep-seated cultural bias against industry and manufacturing—deriving from the failure of industry to promote itself adequately in the education system against other careers perceived to be more attractive.

#### *Communications*

Telecommunications are regarded as good. Air- and seaports are adequate. The roads are overcrowded. The rail service is very poor.

#### *Financial and business institutions*

The UK has generally good, well-developed financial and business infrastructure. There is serious concern about the short-term and risk-averse behaviour of financial institutions; but that is a criticism of the culture, not of the institutions as such.

Q10. *What problems do UK manufacturing firms experience in raising funds, and how do these vary between manufacturing sectors and according to size of firm?*

Generally, well-managed and profitable large- and medium-sized UK businesses have been able to raise funds for their proposed projects. However, this may reflect an inbuilt conservatism in the projects put forward. Companies do not waste resources on making proposals which they know will not be accepted by their financiers.

Funding can be more difficult for smaller firms—partly because of the attitudes of financial institutions but also in some cases because their managements are not trained to draw up adequately researched and presented proposals.

Where risk is involved, or if immediate accounting profitability has been affected adversely by recession or by high investment expenditure, raising funds in the UK can be very difficult. Where possible, UK firms tend to look to the United States for funds in these circumstances.

UK financial institutions do have a shorter-term outlook than those in Germany and Japan. Aspirations for investment returns seem to be higher in the UK than elsewhere. The pressure from UK pension funds for consistent dividend growth means that UK manufacturing industry is unable to reinvest as high a proportion of its internally generated cash than is possible in foreign manufacturing industries.

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Q11. *In what respects do the attitudes of financial institutions cause difficulties for UK manufacturing firms, eg as regards dividend policy, timescales for making a return on investment, takeovers, assistance for viable firms in temporary financial difficulties?*

The attitudes of the financial institutions encourage development of enterprises by acquisition rather than organic growth. Acquisition seems much more prevalent in the UK than elsewhere in Europe.

Financial institutions claim that they take a long-term view of investment in industry, but much of the experience of UK industry suggests that in practice the approach is often superficial and focused on the short-term. This is a very difficult topic to address. Clearly there is a large amount of successful funding of industry which industrialists would not want to jeopardise by overt criticism of their financiers.

For example, the EEF is told that two years ago a financial institution took the view that it would not want to invest in any UK manufacturing company without European subsidiaries. Today, that same institution is said to regard European subsidiaries as "a millstone around the company's neck".

Unbroken, growing dividend streams are now the prime requirement of UK financial institutions—driven by pension fund requirements. This is a serious problem for engineering companies. The nature of the engineering business involves cyclical markets and requires continuous expenditure on investment and innovation. R&D and investment expenditure is often required years before achieving the associated cash returns. Equity finance which allows deferment and cyclical fluctuations in dividend streams would be ideal for many engineering businesses; but is not available in the UK.

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#### Examination of Witnesses

MR NEIL JOHNSON, Director General, MR NOEL DAVIES, Chairman of Economic Policy Committee, and Chief Executive VSEL Plc, Engineering Employers' Federation, examined.

#### Chairman

204. Mr Johnson, thank you very much for coming this morning and also for your submission. Could you introduce your colleague?

(Mr Johnson) Chairman, thank you very much indeed. I would like to introduce Mr Noel Davies, who is Chief Executive of VSEL but here today in his capacity as Chairman of the Economic Policy Committee of the Engineering Employers' Federation.

205. Thank you very much and can I say how welcome your document was last year on the Industrial Strategy; I think it was well-timed and it also, I think, was part of starting the debate on the need to put industry at the top of the political agenda, so I think it was very welcome and particularly in its timing, as well. Could I, therefore, just lead off on the first question and say that on page 5 of your submission you talk about a "cultural framework" in which industry operates and the need for Government to develop, and I quote: "a vision of how industry and technology can be developed to national advantage". What particular differences would such a framework and vision make?

(Mr Johnson) I think that our feeling, Chairman, and the feeling of our members, very strongly, is that there is a requirement for a long-term framework within which market forces can apply and within which industries can plan their future. You have kindly referred to the Industrial Strategy document, which we produced six months ago, and, in an attempt to keep our reputation for operating in a timely fashion, I can report that we publish the Interim Report today and there are copies available for Members, if they wish to have them. That document itself really runs through the progress which we think has taken place and there are some signs, certainly, of a new strategic thinking within Government, but I think it is clear that we are

looking for more actions rather than just happy sentiment and perhaps the first tangible sign of that, which we welcome, was the recent White Paper on Science and Technology, where there is a clear intent to harness more accurately for the long-term benefit of the country and industry our scientific and research and development potential.

206. On the document, on page 4 of your Industrial Strategy, how would a national strategy have actually prevented the misdirection of investment, which is a very key part of your document, into the financial services and office-building in the 1980s; what would have marked its difference?

(Mr Johnson) I think it is probably easiest to answer that by comparing our standard practice with some of our key competitor markets and, to give an example, which may be now overused but I will use it anyway because it is well-known and documented, it is quite clear, for example, that 25 years ago the German Government took a strategic policy decision to go into the aerospace business, not as a government but as a nation, and gave all the right signs and signals to their entrepreneurs that that was a direction which they wanted to exploit.

207. What were those signs and signals?

(Mr Johnson) I believe that, certainly at economic planning level, there was an indication given to the big industrial players in high technology businesses, the Daimler Benz and Deutsche Aerospace at that time was very small, that this was a strategy which would be supported by the German Government and, of course, by federal governments, as well, in the Länder, and we can see, beyond any doubt, that that direction was carried through for a quarter of a century and the result of that direction and that singleness of purpose is that there is now a strong aerospace business in Germany. I do not say that we should ape everything that the Germans do, or ape everything that the Japanese do, through MITI, but

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[Continued

**[Chairman Cont]**

there is sufficient hard and tangible evidence that that sort of strategic thinking can produce long-term beneficial results.

208. In answer to the question that I asked you, what would that type of strategy mean was different? Would it have made any difference in the UK, in terms of the investment that went into financial services, or anything, to build it, because is not the financial system different in this country, you can declare a policy but are you going to get the means to deliver that policy into the right places and part of that is finance? You probably heard the TUC, our previous witnesses, saying that they had some difficulties with the type of financial arrangements we have in this country as against the Japanese, the Germans, which tends to be much more medium- to long-term than it does short-term to medium-term in the UK?

(*Mr Johnson*) I think it is, clearly, a very complex subject, there is not a simple answer to it; if there were I am sure we would all have found it. It is not unconnected with the cultural issue, which was also being spoken of in the last session and, I think, which you touched on, Chairman, yourself just a minute ago. One of the problems which we have to face is that we are coming from a different cultural financial background and it could be argued that whereas in some of our key competitor countries a stake in a business is perceived as being just that, a stake in the business, a long-term position in the future of that individual business and, indeed, in the future of the nation, we tend to have, as I think one of your colleagues mentioned earlier, simply a market operating in businesses and in shares in the UK, which is not unique to the UK but it is predominantly in the UK and the United States that you see that syndrome, and that tends to produce a short-term thinking in the market-place. I do not know if Mr Davies would like to comment on that in a moment, from his practical experience, but it is quite clear to us that one of the things which has to change, culturally, if we are to achieve internationally best practice levels of investment in long-term projects and long-term funding, is that we do have to attack that culture and change it over a period of time, but we are not so stupid as to think that can be done overnight.

209. How do you do that?

(*Mr Johnson*) Education, training. Again, in the last discussion there was some talk of training in the schools and I think one of your colleagues mentioned the role which the chemical industry has taken, and the position, in trying to influence events. If I tell you that one of our key European competitor countries, and for all I know more than one, start their process of indoctrination quite overtly in primary schools at teaching their young people that the wealth-generating sector of their society, their industrial base, is the place for all good achievers to go, that is the sort of environment in which, over a 15- or 20-year period perhaps we will achieve what we are looking for.

(*Mr Davies*) Can I just add to what Neil has said. It seems to me that we have very good strategies for spending our wealth and if we had had, over the last few decades, a strategy for creating it so that various parts of the economy knew what was likely to be

happening a few years hence maybe the developers would not have produced the office accommodation that we now do not need and we would have invested in something else.

Chairman: Yes, I think quite a lot of us would agree with that.

**Sir Anthony Grant**

210. Following the point Mr Johnson made a little bit earlier, I think you would agree, if I understand you right, that over the last, say, decade, if not more than that, the young high-flyers, which you would actually like to attract into your industry, have gone elsewhere, namely, more into financial services and into merchant banking, or what have you. I think it is generally agreed this trend should be stopped and, if you want to attract these high-flyers back into your industry and industry generally, are there any practical steps which can be taken to do this and is there anything specific you think the Government should do to correct this trend?

(*Mr Johnson*) I think the answer is yes to both. I think, in practical terms, we, industry, have to take a pretty good look at ourselves and look at the package that we offer and I do not just mean pay, it is attractive just to think about pay, but, in fact, there is the whole issue of status and reward and self-satisfaction, job satisfaction, in the job. It is quite clear that within industry we have to take a very hard look at ourselves and see what we have on offer to the brightest and best, in order to attract them into engineering and manufacturing industry and to get this message across that they will be part of a wealth-generating process. That is something which, again, has to come through, forms part of, the education system and, to that extent, I think the Government too has a role in moulding the curriculum such that we can persuade our brightest and best young people that their first choice should be to come into a sector where they add value, where their working life adds value not only to their own standard of living but also to the whole national endeavour.

211. Are the National Curriculum and the education changes helpful in this respect, do you think?

(*Mr Johnson*) I think what we have seen so far is at least moving in the right direction; obviously, we are never satisfied that it goes far enough in our particular area, of technology and science, but certainly it is moving the right way.

(*Mr Davies*) I believe that we, in industry, have a particular role to play here by being proud of the profession and industry which we are in and we do try to persuade as many of our colleagues as possible to become governors of schools, to speak at prize-giving days and generally try to get across a pride in the industry and, therefore, encourage young people, before they have made up their minds what to do, to know the importance of our sector and how rewarding it can be, not just in terms of pounds and pence but in terms of general satisfaction in doing an interesting job.

(*Mr Johnson*) If I may just come back, Chairman, on a final point that Sir Anthony has made, you asked the question, right at the start, what led to or what can be done to change the attitude of people going into the City, for example, rather than in

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[Continued

**[Sir Anthony Grant Cont]**

industry, and I think that if we look back over certainly the last ten years we have a very hostile national attitude, culture, if you like, towards the manufacturing sector. There was an erroneous belief in the '80s that manufacturing was unimportant and, to be honest, this was supported by far too many senior people in Government. It is quite clear that that is not true and we are very hopeful that that message gets through. You cannot ignore the national environment within which that debate takes place and the more that our national leaders understand the importance of manufacturing and engineering the more I hope that that will cascade down into the nation and the public attitude.

212. You will have approved of the remarks of the Prime Minister, a few weeks ago, in this respect?

(Mr Johnson) Most definitely, yes.

#### Mr Ingram

213. Chairman, just before we move off that point, during that period what was manufacturing industry saying about those governmental changes which were imposing such a damaging effect upon the manufacturing sector?

(Mr Johnson) I can only speak for the EEF and the EEF was never happy with it and made a point of saying so right the way through the '80s. I am pleased to say, it is only perhaps in the last couple of years, that we appear to have found more willing listeners, but it is quite clear that the obsession with an expansion of the service sector has done us no good at all, as a national economy, in the past ten years and what we really need to do is concentrate on the wealth-generating sector and not the wealth-redistributing sector.

#### Mr Bruce

214. On page 5 you say, "The UK government should take a 30-40 year view of the direction of industry and technology", 30-40 years, "and should set policy accordingly, preferably on a cross-party basis". Leaving aside how you determine what is going to happen in 30-40 years and who decides that, which we might come back to, obviously, I can see why you want cross-party agreement because, otherwise, you have got no confidence or continuity, but you heard what the TUC representatives were saying about the problems of the present culture. How do you achieve a situation now where there is agreement not just between employers and government but employers, government, employees and the financial institutions, because until you have got some degree of common purpose the chances of getting an overall policy seem, to me, fairly slim?

(Mr Davies) Can I answer that, initially, by giving an answer I was going to give to another question, which is, I believe one of our strengths is the good relationships that now generally exist between management and employees, management and trade unions; I believe that perhaps the most important change which has occurred in the last ten or 15 years in this country has been that change in attitude and I do not believe that there is anything that management is unable to do now because of obduracy on the part of its employees, that the scope and opportunity is there to be managed.

215. I accept that. I think what we were hearing from the trade unions was that they are worried that they are being excluded from the dialogue with Government but employers are not. It seems to me that what they were saying was should not the employers now be standing up and saying to the Government, "If we are going to achieve a policy, a strategy, it has got to involve all of the relevant components" and are you not under some obligation to give a lead to try to achieve that?

(Mr Johnson) I recognise the point that you make. I think that our view, very much, based on our experience over the last few years, is that the great advances which have been made, to which Mr Davies referred, have really been achieved, yes, within a national umbrella or the changed climate, brought upon, let us be clear about it, first of all by the recession of the early '80s and more recently by this last and present recession. But, equally, they have been achieved at the local level, where at plant level, at business level, there has been a real level of understanding, an improvement of understanding, about the enterprise that those individuals are involved in and I think that we, as an employers' organisation and as the EEF, have been really very *avant-garde*, in a way, in saying that this is the place for that level of negotiation, for that level of understanding to be agreed. I think, when you get to the national level, what we are actually looking for is an umbrella of understanding, of strategic direction, yes, in which all parties are involved, but perhaps before we start to dot the "i"s and cross the "t"s of the organisation of that policy, it is quite clear to us, and one of the things that we are saying in our report today, that we need to remove the industrial strategy, industrial policy, industrial long-term planning, whatever you want to call it, from the party political ping-pong agenda. If there is genuinely to be a long-term view then there has to be an environment within which industry can believe the strategic direction laid down by Government in its widest sense and react to it. So if, for example, there is an infrastructure policy agreed by Government, in its widest sense, across Parliament, shall I say, which says we need to have a railway policy, for example, which provides us by the end of the first quarter of the 21st century with fast, efficient rail links which will communicate with Europe and from all our major centres of production, and so on, that is something which industry understands, a message which it understands, and it can then work towards. It will not be working towards it and the investment will not go in to that sort of major infrastructural statement if there is a fear that after the next General Election that whole policy will be overturned.

216. You therefore mean specific agreements about investment, or sectoral commitment, or what have you, rather than this cultural change we were talking about earlier?

(Mr Johnson) The two have to go hand-in-hand; the cultural change is fundamentally important to the atmosphere, but the relative detail of strategic decision-making and the framework within which those decisions can be taken is just as important, in the real sense, to long-term planning. Thirty and 40 years sounds a very, very long time but over 25 years, actually, we have just looked at one example where it



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**[Mr Bruce Cont]**

has delivered a major slice of industrial progress to one of our competitor nations.

**Sir Cranley Onslow**

217. How long is it since we had a national plan?

(*Mr Johnson*) I am not sure I know what you mean by a "national plan".

218. It is rather more than 25 years?

(*Mr Johnson*) Yes.

**Mr Clapham**

219. Has the EEF thought of setting up consultative procedures, as part of its strategic plan?

(*Mr Johnson*) Again, it depends what you mean by "consultative procedures".

220. Consultative procedures with the employees?

(*Mr Johnson*) Yes, that is certainly something which we embrace and recommend at business level, there is no question about that, that is best practice and that is best practice that we want to see developed.

221. Would it help at national level to create the kind of dialogue that may then be able to be fed into Government?

(*Mr Johnson*) I think that perhaps there may be a misunderstanding on it, there is actually a dialogue now. Yesterday, for example, I was talking to the GMB Congress, down at Portsmouth, and regularly have meetings really of this type with some of the trades union leaders. I think I would have to say that they agree, too, that the real place for that substantive dialogue, where employees and employers can actually decide what their long-term plan is going to be, is in the work-place, is where it affects those individuals at the work-place, at a local level.

**Ann Coffey**

222. I just wanted to follow this through a little bit on the training, seeing it had been raised. You spent some time talking about how you attract the brightest and the best into manufacturing and into engineering, but there is a fundamental problem, in terms of the skills of the work-force as a whole, because when you go below the brightest and the best, in comparison with other countries, there is not a very good level of skills training. Of course, the TECs were the instrument by which it was said that that level of training would be improved and I have become very disturbed, particularly by the figures, when you compare year-by-year, of the level of industrial placements that are actually falling. When I have pressed this further, I have been told, "We have done market surveys and there is going to be no demand, particularly for engineering" so it feels that there is a lack of encouragement about that. They say that young people do not opt to go into engineering, but there is also a key issue about the cost of training for engineering, where, given the quota system within the TEC budget, it is very difficult to deliver a quota and at the same time deliver a level of training. I wondered if you had any suggestions about how that might be overcome, very practically; we could talk about cultural changes and education changes but we have actually got a training budget, which is aimed at

providing training and I wondered if you had any particular suggestions as to how that might be used in a better way to deliver what it is supposed to deliver?

(*Mr Johnson*) In practical terms, one of the things which we have done very recently is to form a major alliance with the Engineering Training Authority, as the EEF, and part of the rationale for that was to provide a much stronger employer voice with Government in agreeing just the sort of policies that you are describing and that examination process is going on now. I think the only thing that I can say, which maybe supports something which you said earlier, is that we do have a concern that too much of the time and budget of TECs is, very understandably, in one direction, being taken up on training the unemployed rather than training for specific employment and that is something which we are examining and on which we will, in due course, form a firm view.

223. Do you think the NVQs are going to improve the situation?

(*Mr Johnson*) The ENTRA is an awarding body for NVQs and is very much involved in the process of agreeing the NVQ standards for the engineering industry. I think we have some concerns, particularly at GNVQ level, but on the specific engineering NVQs we are very supportive and, indeed, actively involved in implementing the engineering sector's part of that action.

224. What are the concerns that you have?

(*Mr Johnson*) On the GNVQs, the concern is that they will not be perceived as a genuine equivalent of the other academic level, the A-level particularly, and we, I think, need to be persuaded, or need to understand, that they will have genuine employer acceptance as an equivalent and we will not be wasting our time, wasting the young people's time, taking them through a process at the end of which they will not have an equivalent qualification. We understand the background, we understand the aspiration level; we just question, at the moment, the reality of expecting the GNVQ instantly to achieve A-level equivalent status.

**Mr Butterfill**

225. Is it not true, however, that there is still a problem with the brightest and the best, which is not entirely a problem of not producing the brightest and the best, because we have surely increased the number of graduates in science and engineering very substantially over the last few years, but they continue to feel undervalued by manufacturing industry? Two points on this. One is that whereas the City firms, the banks, the insurance companies, the accountants, and everybody else, trawl round these universities on the milk round and actively court the brightest and the best and tend to get them, there are still far too many people with Firsts in Engineering going into the City, for example, and that is partly because they are actively courted, which you do not seem to do, and partly because the rates of pay that they are offering are so much more attractive than you seem to be able to offer; that is one problem. The other is that there are other areas, for example, design, where many design graduates feel undervalued, as well. I have in my constituency the

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[Continued

**[Mr Butterfill Cont]**

Bournemouth and Poole College of Art and Design, they produce award-winning designers. German manufacturing companies, one in particular takes the three best design graduates from my College every year because they come over there and they ask for them and they get them; why are we not doing that?

(*Mr Johnson*) I think we are doing it but I do not think we are doing it enough. The reality is that the big companies, the blue-chips, the British Aerospace, the VSEs, the ICIs, the Shells, do, of course, compete on pretty well level terms with the City institutions, the banks and the accountancy companies of this world, and they join the milk train and they go around and pick what they perceive to be the brightest and the best for their business and I think, in that sector, there is not really a major problem. The major problem comes when you get to the heartland of our medium-sized engineering companies, where they are relatively unsophisticated organisations and they simply do not have access to the sort of process which the big battalions have and this is something which we, as employers, have to address, as an organisation, we have to find a way of finding a very bright young individual who might be just exactly the perfect fit for an engineering company somewhere in the North West, but at present there is no mechanism for fitting those two organisations, or people, together and I think that that is something which we have to examine with academia and with the education process. To take up your second point, however, and then perhaps Mr Davies would like to comment on the way that he sees the selection process, I do not believe that the 'brightest and best' selection process should be limited simply to the Double Firsts, we need the brightest and the best at all levels of activity and I understand fully that we are not just talking about attracting the brightest graduates but we should also be talking about the brightest 16-year-old school-leavers into engineering, as a tangible, positive decision that that is what they want to do and that is the challenge for us, culturally.

226. That is why I made the point about the people coming out with design qualifications, which are not necessarily at degree level but are equally important if we are going to succeed in the future. I am a little bit disturbed, I think your response on the recruitment of graduates is a bit complacent, because the experience that I have seen, certainly, is that you are not getting the brightest and the best and you are not attracting them in the numbers that you ought to be able to and part of it is money?

(*Mr Davies*) Can I try to answer. I think one of the problems is that we are not recruiting at the number we would like to be doing because we do not have the projects to engage them on; I think it comes back to another aspect, which I am sure you will question us on, and that is R&D and development of products, that we do find it difficult to justify an investment in those activities and thus justify the employment of these bright young people who would like to make their contribution in that sector. I think every time we make a recruitment we have to justify it on the basis of how we can use that individual to the advantage of the company and too frequently we find we cannot, under the present circumstances.

**Sir Cranley Onslow**

227. And what happens then?

(*Mr Davies*) We grow smaller.

228. What happens to the brightest and best who leave you, what do they go and do?

(*Mr Davies*) I really do not know the answer to the question, except that they do not stay in industry, they find a way of earning a living elsewhere.

**Chairman**

229. It was the MORI poll, was it not, which was revealed on the day that Nick Winterton launched his Manufacturing Council, or whatever; MORI had done the survey amongst all the graduates and at the top were all the PR companies, also the BBC, all the media, it went down through a whole range and right at the bottom were engineers, the only one which beat them was a tax inspector. That was what MORI did amongst all these graduates and there was quite a big gap between engineering skills and all the various professions and the ones which were at the top were the media and the PR companies, and the like?

(*Mr Davies*) Yes.

**Mr Ingram**

230. To go back to the exchange with Michael Clark, I am sure you were right when you said, Mr Johnson, that the unions do want to see at a local work-place the best practice being established, in terms of Works Councils and whatever else, in terms of interrelationship with the management. What the TUC representatives were telling us was that there was a need for the re-establishment of the sectoral Neddies, or something similar to that, and they said that there was a resistance from Government to allow that to be recreated. Is that your view: one, that it would be desirable to see sectoral Neddies being re-established, perhaps in a different shape and forum, and also what your view would be on the attitude of Government to that?

(*Mr Johnson*) I think, to be quite clear about it, we shed no particular tears for the abolition of Neddy in some of its forms, because I think our view was that it had become something of a 'talking shop' rather than a 'doing shop' and had mainly outlived its usefulness. On the other hand, I believe that we are facing a situation where we will require, as I described it earlier, an umbrella understanding of the way that the national strategy, the industrial strategy, whatever label one wants to tie to it, is going to be pursued and at some stage it is quite clear that that has to involve and embrace everybody who is going to be involved in that strategy. I think, again, that is a role for Government to co-ordinate that process. It is not, however, and I think this bears restating, to suggest a return to the days of picking winners and losers and lame ducks and all of that bag and baggage which too often gets tagged on, or hooked onto the moment that one starts talking about industrial strategy, industrial planning, industrial policy, it has nothing to do with all that bag and baggage of the '70s; it is all about looking forward and agreeing a long-term framework within which normal market-driven decisions can be taken.

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[Continued

**[Mr Ingram Cont]**

231. You are taking a view, clearly, this is what your documents are all about, that there should be a restructuring of that type of sectoral activity to ensure that there is a co-ordinated approach and a co-ordinated strategy for the future. The trade unions are saying the very same thing but what the trade unions were telling us in the previous session was that Government were not supportive of that particular concept. You seem to be telling us something different; are you getting a different message from Government?

(Mr Johnson) I wish I could be totally confident that we are not. I think what I can say is that we are starting to get the right signs, we are starting to hear the right words. Six months ago, when we launched the initial Industrial Strategy document, there was a large degree of scepticism, cynicism and not a little hostility towards the fact that we had had the temerity to suggest that there should be any form of long-term planning at all. I do believe, on the positive side, that in the intervening six months we have seen something of a sea-change in attitude, certainly within the DTI and hopefully within other senior echelons of Government, too. I would have to say that we have seen no sign of any change in the Treasury that they have a deeper understanding or a more working knowledge of the way that industry operates and I think that that probably is one area where we all have to make progress, not only the trades union movement but employers' organisations, as well.

232. You would positively welcome the trade union movement coming along with you in any sort of relationship with Government?

(Mr Johnson) I think, in practice, it is going to be extremely difficult, in the short term and maybe even the medium term, to start resurrecting old organisations which have become largely devalued when they are examined in the historical perspective. On the other hand, I also believe, as Mr Davies said earlier, that it is now very difficult to see the differences between the major policy issues, defended and projected by organisations such as ours and many of the trades union organisations, as well, and, indeed, by Government and by the Opposition. On the basis of the fact that there appears to be so much common ground, it seems to us to be quite clearly the right time to try to build on that common ground and build this long-term framework within which we can plan and operate.

Chairman: Can I bring in Sir Cranley Onslow, at that stage, on the City/industry relationship.

**Sir Cranley Onslow**

233. Not quite on that line, Chairman, but can I put a proposition to Mr Johnson: would you agree that small technology companies represent the greatest potential for new business and job creation in this country?

(Mr Johnson) Small technology companies: I am not sure that I would agree with a blanket statement like that. Some of our larger companies, of course, have the potential for rapid expansion, in terms of capacity, as well, to meet customer demand, but in an absolute sense, clearly, when you take all of the individual companies, because you have a spread of

activity and a spread of interest, there is clearly more potential there across the board to expand.

234. I will come back to the smaller companies in a minute but then, going back to your evidence, you say, in answer to a question, on page 8: "Generally, well-managed and profitable large and medium-sized UK businesses have been able to raise funds for their proposed projects"; so, if they have the potential to do well and they can raise the money, what is holding them back?

(Mr Davies) I believe it is lack of confidence.

235. You said: "However, this may reflect an in-built conservatism in the projects put forward"?

(Mr Davies) Yes, indeed; I think we have grown to be a conservative industry, in that we find it very difficult to justify investments into markets which have, in the last decade or so, been very uncertain.

236. So you become risk-averse?

(Mr Davies) Yes, we do.

237. How do you become risk-attractive?

(Mr Davies) I think we need to change the way in which success is measured. Certainly, in most companies, the way to grow is to acquire others, which does nothing for the overall economy it just moves ownership from one part to another. We need somehow to get back to a position where organic growth is more secure and is as well recognised and rewarded as acquisition growth.

238. So that means that you have to change your relationship with your financing sources?

(Mr Davies) Yes and maybe they have to have different criteria for measuring success. We are all guilty, I think, of encouraging a short-term view; we are as bad, when we attack our pension fund managers, as to their performance in the short-term. I believe we all need to adopt a longer-term view and I come back to Neil's point of the 30-40 years' horizon which we all need to be working towards.

239. If we have to look forward a little less than 40 years, I mean, say, three or four years, what would be the most helpful thing that you could see to promote risk acceptance and innovation in a big company such as yours?

(Mr Davies) That is such a major question I find difficult—

240. But you must have addressed it?

(Mr Davies) You asked a specific question about a company such as ours. It is difficult to avoid the overwhelming responsibility we have of coping with the cutbacks which have occurred and it is very difficult, when one is halving or thirthing the size of the company, to try to identify the small opportunities that one has to develop the new things.

241. So you are constrained by the circumstances particular to the defence cuts?

(Mr Davies) Yes.

242. Can I ask Mr Johnson then what other companies, which are not so constrained, have had difficulty in raising money for innovation?

(Mr Johnson) I cannot answer the specific question because we do not get that information through from our member companies, except in general terms, but I think that the sentiment which Mr Davies had expressed, of tending to become conservative and

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[Continued

**[Sir Cranley Onslow Cont]**

tending to become risk-averse, as you very accurately put it, is a tendency which goes across the board, not just because of constraints in the defence sector. I think that one of the things which we spoke of earlier, which is this whole long-term attitude of longer patient money and investment from the financial institutions, and I am in no sense hounding the City on this, is something which we have to find a way of addressing; it is quite clear that there is a different atmosphere in our major competitor markets and countries and one wonders if we can continually persuade ourselves we are the only nation marching in step.

243. You must have some evidence which bears on this because you do say, later on, in an answer to the same question: "Where risk is involved, or if immediate accounting profitability has been affected adversely by recession or by high investment expenditure, raising funds in the UK can be very difficult. Where possible, UK firms tend to look to the United States for funds in these circumstances." Can you cite a case?

(Mr Johnson) We do not, obviously, include in this specific evidence from specific companies, but I think that I can find some of the evidence that we received when we put this submission together and let the Committee have sight of that, if you wish.

Sir Cranley Onslow: I think it would be quite helpful to see that, because the generalisation needs to be supported if it is to be accepted.

**Mr Bruce**

244. You actually have said, in your report, on page 9, that "there is a large amount of successful funding of industry which industrialists would not want to jeopardise by overt criticism of their financiers." Would you say that at the end of the section which Sir Cranley has been talking about, about short-term and risk-averse behaviour, funding more difficult for smaller firms, UK financial institutions have a shorter-term outlook than Germany and Japan, investment returns seem to be higher in the UK? It is a pretty damning indictment of the climate in which you have to operate and yet you are kind of implying that you cannot tell us very much more about it for fear that it will get worse?

(Mr Johnson) No, I think that you might draw that conclusion from it but that is not what it is intended to convey. I think the situation which we have in the UK is pretty well-documented, in terms of the banking and financial institutional background against which many of these decisions are judged, and I have yet to meet a banker in the City or a head of a financial institution in the City who would disagree with the point which we make, which is that they, or that the City, the financial markets in the UK, of which we, of course, are a part, tend to judge big decisions from a different perspective from which they might be judged, for example, in Frankfurt or in Düsseldorf or in Paris, for that matter, and certainly in Tokyo.

245. And, consequently, therefore, people do not even put forward the projects because they know the answer in advance?

(Mr Johnson) And there is, we believe, a degree of that hesitancy, therefore, to put forward a longer-term funding programme which, in another market and judged against a different financial set of criteria, might well be acceptable and I think that is really what we are saying. Equally, it would be totally untrue to say that there is not sympathetic money about. The question is do we have a strategic background against which potential investors can judge the safeness, or otherwise, of their investment and that is a part and parcel, therefore, of the need for this longer-term strategic framework against which those judgements can be based?

246. Is it possible to identify a measure which might break this log-jam? The message we are getting from you, from the TUC and from the other reports that we have had is that the City is a problem, the attitude between Government and employers; I think the only positive thing we are getting is that employees and employers have a better understanding than they did have, even if it needs to be more institutionalised. Something needs to be done to break this, we cannot just talk about "cultural changes", somebody actually has to do something to bring it about: is it a Government initiative or can it be done within industry to break the log-jam and go to Government for a specific proposal?

(Mr Johnson) Unfortunately, it is like all big problems, there are a thousand answers and it is going to be doing a thousand things better than one big thing.

247. Somebody has got to come up with one answer, the beginnings of an answer?

(Mr Johnson) To give you an example, which I freely admit is an EEF hobby-horse but I will use the opportunity anyway: we need to encourage investment in industry, in capital equipment, in machinery, in order to build capacity, in order to capitalise, if you like, on the end, hopefully, of the recession, and although at the end of last year, in the Autumn Statement, there was an interim relaxation, or incentive, on capital equipment and capital allowances, it was a great concern to the engineering and manufacturing sector to see that that was not followed up in the most recent budget by an extension or even any comment on capital allowances. One very small item of those thousand things which could be done better to communicate the intent for long-term strategy would be for Government specifically to say, "Yes, we do understand that there is a need to incentivise investment, we do understand that there is a need to focus on the manufacturing sector, on the enhancement of our capacity to produce and to do something tangible about it". There is an opportunity to do that and the opportunity at the moment, it seems to me, is being passed by.

(Mr Davies) It is more than just the capacity, it is the competitiveness, because the new investment would do things more effectively than the way in which we currently make it.

248. With the greatest respect, we have had capital allowances, up and down, in the past, it has not actually changed the culture; do we not need something a bit more radical than that?

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[Continued

**[Mr Bruce Cont]**

(Mr Johnson) I think the radical thing, if I may say so, is, I believe, right now, more in the hands of the politicians, in a way, than it is in the hands of industry. The radical approach would be to have a cross-party view of the importance of long-term industrial planning and I think if we could achieve that, if we could get that signal from the politicians, from Government, in its widest sense, that the issue was being taken that seriously, I suspect you would see quite a lot of rallying around from the other involved parties.

**Chairman**

249. Can I just draw your attention, Mr Johnson, to a table which was produced by the TUC to us, it is from the CSO, that is the source, where dividends went up, from 1984, from about 10 per cent to 30 per cent, and profits fell from about 10 per cent down to 8 per cent, and the decisions to do that in engineering are decisions of Boards. Surely, that is not compatible with the type of strategic industrial planning that you have actually been putting forward this morning? You say it is politicians who have got to manage this but, surely, they are decisions that have been made since 1980, I do not doubt that there has been pressure brought upon them by the City, by their investors, but that has been absolutely disastrous, that has actually amounted to £23 billion worth of borrowings up to 1989, which your companies, a number of your companies, are having now to bear, or at least clear off, in one way or another?

(Mr Johnson) I think, if I can answer in a general sense and then perhaps Mr Davies can deal with some of the specifics, in a general sense, if you actually take that chart back, not to 1980 but back towards 1920 what you will actually see is that the return on investment, averaged out over that period of 60/70 years, has actually been about 5.6 per cent. What we saw in the '80s, which is borne out by this chart, is that real returns temporarily went to ridiculous levels of up nearer 20 per cent, 17 and 18 per cent, companies were clearly driven during that period to compete as they were really competing for money, because money going into office building was returning for that period of time 17 or 18 per cent. Again, one of the things which we have to get control over is this level of expectation, unrealistic expectation, of returns from genuine industrial endeavour, for real people, making real things to sell to other real people rather than just shuffling paper around. One of the phenomena which we saw in the '80s, which was the bubble, of course, burst by the recession, was just this graph which we see in this piece of evidence.

**Mr Butterfill**

250. I really wanted to press on this point about capital investment because there is actually a problem here, that the venture capitalists in industry, for example, say to us that they are not getting the propositions put forward to them and one of the reasons they suspect that may be the case is that in many cases managements are reluctant to give away equity, they are looking for bank finance all the time and they are not prepared to build their equity base,

whereas if you look at what happens in Germany and elsewhere the institutional involvement in equity is a very much greater proportion and the management retained equity is that much smaller. Do you see that as a problem?

(Mr Johnson) I think the problem, if I may say so, is that the venture capitalists are typically looking for 40 per cent return on investment and you simply cannot achieve that in an industrial environment. When you go to a German bank they talk about taking a ten-year view of the business, I do not want to be specific about particular companies or particular countries but, generally speaking, a German banker approached for a piece of venture capital to go into an engineering or a manufacturing business, which he sees some future in, will take a ten-year view and if you mentioned to him a 40 per cent return on investment in the first three years he would think you were completely mad. That is the problem, that is one of the problems which we have to face. Venture capital is undoubtedly available, it is whether you can achieve the levels of return which they are demanding, in order to set up the business.

**Sir Cranley Onslow**

251. Have you got an example of people expecting 40 per cent over the first three years?

(Mr Johnson) Yes, I have. I do not know whether I should show you letters, but I have—

Chairman: We will take it in confidence.

**Dr Clark**

252. Mr Davies, I would like to take you back very briefly to a comment you made, in response to the Chairman, when you were talking about recruiting, and you made a very strange comment, you actually said, with regard to the first-class engineering graduate you would see, "We would see him and wonder if there were anything we could put him to do in the company and we often came to the conclusion there was not and, therefore, we would not take him on and we would let him go". I always thought, when I was in industry, I recruited to fulfil opportunities or demand within the company; I did not actually see someone and then say, "I wonder if there is anything we can get him, or her, to do and if there is not we will not take them". It did sound to me very much as though British industry were looking to new graduates to see what they could do to vitalise existing companies, rather than having a dynamic management which would have projects in mind and then want to recruit to fill those projects?

(Mr Davies) My answer was in relation to the specific question about designers from Bournemouth, but designers coming into industry need to have a project on which to work.

253. It was not first-class engineers?

(Mr Davies) No, it was not a first-class engineer.

254. Then I apologise, I misunderstood you.

(Mr Davies) I was just referring to that specific question.

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[Continued

**Mr Ingram**

255. To go back to equity financing, on page 9 of your document you say: "Equity finance which allows deferment and cyclical fluctuations in dividend streams would be ideal for many engineering businesses; but is not available in the UK". What are you really recommending should be done then to change the culture again within the City so you have got that type of relationship with financial institutions which prevail, as you gave an example of, in Germany and elsewhere?

(Mr Davies) From my point, I wish I knew because it seems to me that engineering companies, all companies, are expected to contribute to a growth in dividends each year, no matter what is going on in the sector in which they are trying to operate; the City does seem to be unwilling to recognise that every operation will go through its cycles and will not be able to produce dividend growth every year. I would like to be able to persuade them that, in fact, as far as their earnings from our sector are concerned, it will be cyclical and will depend on the conditions of the markets that we try to serve and not be marked down so heavily if, in fact, we pause in our dividend growth or, indeed, to reduce it.

(Mr Johnson) I cannot improve in any sense on what Mr Davies has said, except to take the sort of simplistic view that what we are really talking about here is time, it is the long-term view of an enterprise, the worth, the long-term net worth of an enterprise, rather than next year's dividend or this year's dividend, which is important.

256. We are agreed on a statement of fact and a description of the relationship between you and the financial institutions but, surely, you must have views as to how that has to be altered; is it through Government action, in terms of tax regimes, or whatever? You are making a bold statement in your submission to us but you are not coming up with any conclusions as to how to solve the problem?

(Mr Johnson) I am afraid we do not have all the answers either.

257. And you expect us to have?

(Mr Davies) I believe it is individual companies; the best we can do is to have our own strategic plan and explain it to our institutions and the analysts who follow us and persuade them of the reality of the development of the company as it emerges over the coming years, covering both the development of the company itself and its dividend performance.

258. Some companies will be better able to do that than others, depending on market opportunities and on the market developments, but that does not solve the industry problem, in dealing with the engineering industry or the manufacturing sector?

(Mr Davies) Perhaps we ought to be doing it together, singing from the same hymn sheet.

**Sir Cranley Onslow**

259. Just coming back to small companies now, I imagine you have a large number of small companies belonging to your Federation?

(Mr Johnson) Yes, indeed.

260. How do you define a small company?

(Mr Johnson) Our definition of a small company, in reality, clearly, we embrace the DTI definition of a company of between 100 and 500 employees, I think, as being a small- to medium-sized business, but our definition would be anything, really, most of our companies employ more than 150 people, most.

261. And you say, in your evidence, that they often find it difficult to fund new facilities and product development and are forced to rely excessively on overdraft funding, that is a general experience?

(Mr Johnson) Yes, it would be.

262. Overdraft funding is not a very satisfactory form of financing anyway, is it?

(Mr Johnson) No, it is not.

263. Do you remember the Britten-Norman Islander, which is the most successful aircraft produced in Europe since the war?

(Mr Johnson) Yes.

264. Do you remember how often that has had to be refinanced?

(Mr Johnson) No, I do not know.

265. Will you take it from me that it is more than once? There is a refinancing problem, moving from overdraft to equity, which there seems to be no sensible provision in our system to meet; would you agree?

(Mr Johnson) Certainly, based on that evidence, I would have said so, yes.

266. In general, what have you got to say about refinancing?

(Mr Johnson) It is not something which we have specifically examined with our members. I take the point that you make and I think it is something that perhaps we ought to look at; it is not actually something which we generally become involved in in detail at company level but, in a general sense, I think it is probably something that we should look at. I do not know whether you would agree with that?

(Mr Davies) Yes.

267. I am glad to hear you say that, because it has long seemed to me that there is a very serious gap at the bottom, that small companies cannot grow sensibly from the original borrowing into a broad and stable equity base and, of course, the venture capitalists are one method of trying to bridge that gap and they want to get the return in terms of capital, I think you will find, rather than all in dividend; venture capital is a transitional exercise.

(Mr Davies) I would like to take that one on board and perhaps give you a response from our Subcommittee on these issues.

Chairman: Yes, because the terms of reference of this Committee, on this inquiry, are the productivity and the relationship with the City and it is this area that we are trying to grapple with and at least come up with some sensible suggestions.

**Sir Cranley Onslow**

268. The City, in that context, subsumes a lot of banks operating at local level, lending money to local companies, and then finding themselves in a situation where the risk becomes too intense for them to bear or the company, for some reason, cannot match its obligations and the next thing you know is that the

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[Continued

**[Sir Cranley Onslow Cont]**

whole enterprise has failed and that must be wrong. It must also, if I can put it this way, be a major deterrent to the sensible reuse of the people you have to redeploy when you have to shed a skilled workforce, because how many of the people who have left your companies go off and start enterprises on their own?

(Mr Davies) Some, but not nearly enough.

269. So there ought to be some provision there to enable them to do that, to take up new technology and run with it?

(Mr Davies) Yes, but we have sensed that, in the communities in which we are operating, that is much to do with the culture when it has been dominated by a big company and the entrepreneurial spirit has not been there to grow, it has been too easy to follow a career in one of the major companies.

270. So the big company philosophy is the enemy of the small company philosophy?

(Mr Davies) In terms of influencing the way in which the people who live in its community view their lives.

271. And to work within it?

(Mr Davies) Yes.

(Mr Johnson) But it is the friend, too.

(Mr Davies) That is true.

(Mr Johnson) There is no doubt, our experience is quite clear on this, that the prime motivator for small- and medium-sized company improvement, be it in terms of quality or productivity or general attitude towards customer supply, if you like, is the supply chain; there is absolutely no doubt the supply chain of the large company being demanding of the smaller company, in terms of its standards and operating procedures, is a very, very persuasive improver of the general level of performance.

272. And prompt payment has something to do with that?

(Mr Johnson) Yes.

273. Would you like to comment on that?

(Mr Johnson) I think we already have commented on it, along with the CBI, in that we believe that it is wrong for there to be a very protracted payment period, an unrealistic payment period, adopted unilaterally by one partner in a contract, in whatever direction that unilateral action is taken.

Chairman: Can we move on, very quickly, to management and innovation.

**Mr Clapham**

274. Mr Johnson, one of the most important factors in actually directing innovation and new techniques is, obviously, management and I think that is recognised implicitly in your document, if not explicitly. I want to just draw your attention to a phrase that you used, on page 4, it is the last paragraph on question 1, you say: "However, the best UK companies are truly competitive in world terms. The worst may not even understand the question". Could you explain what you mean by that and how such companies have actually survived the 1980s?

(Mr Johnson) I think they survived by simply keeping their heads down and quite single-mindedly doing the job that they are being asked to do by their

customers. I go back to the point I made earlier, about the influence of major customers on small suppliers; if there is a small engineering company, for example, somewhere in the Black Country, knocking out a particular size of washer and the market for that particular size of washer has continued to see them through the last ten years, simply because somebody is using it, there is no doubt that there are some of those companies who are very happy just to carry on making that particular size of washer because there is a demand for it. There is nothing wrong with that, intrinsically, except they are not really broadening their horizons and there may be potential for producing two other different sizes of washer, which they are really not taking on board. It is a major problem, which I know the Government is trying to address and DTI is trying to address now through some of the 'one-stop shop' concepts, where they can try to perhaps broaden the thinking of some of those operations. Similarly, organisations such as ours are trying to tackle it, both by having our own regional meetings and self-help groups and discussion groups and, again, through the supplier chain, trying to get the bigger users to have a more total quality approach towards their supply train and try to help some of the smaller companies to achieve the standards they are looking for. Again, unfortunately, as with all of these things, it is not simply a single issue problem and there is a whole range of things which need to be addressed to improve it.

275. What specifically might be done to broaden management's horizon?

(Mr Johnson) Training and strategic thinking. One of the things that we are trying to push at our own managers, at our own industry, as well as at Government and others, is the need for strategic thinking. If you are just knocking out that single washer and you are not thinking strategically, you will carry on knocking out one washer; if you are thinking strategically, you will automatically be thinking about doing other things and that is what we want to encourage.

276. Just taking that a step further, what differences are there between the manufacturing sector, whose trade balance actually worsened during the 1980s, and those manufacturers whose trade balance actually improved?

(Mr Johnson) Of course, the simple answer to that is customer demand, in some areas, and the undoubted effect of the first of major recession in the '80s on our manufacturing base; there is no doubt that we stepped out of some whole areas of manufacturing. The good news, however, I think, is that some of the areas that we have come back into, such as, for example, the inward investment in the motor industry, has actually been very helpful in rebuilding our capacity and in reversing the balance of payments problems and what we argue for is more of that sort of activity.

277. Specifically, what kinds of things do you see being introduced, to actually attract investment into manufacturing?

(Mr Johnson) I mentioned earlier, again, if I may, the basic fundamental issue of investment allowances and we believe that is important; all of our members

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[Continued

**[Mr Clapham Cont]**

tell us that it is important and does influence investment decisions and I believe that that is a major short-term motivator. In the long term, I am afraid the answer is the long-term answer, which is that we need this long-term strategic framework within which to plan, against which one can justify the sorts of investments which are required.

278. And as the strategic plan has obviously, as you say, had a good response, is there an indication from Government that they are likely to be looking more in the long term and there may be a favourable, should we say, climate with regard to finance being available?

(Mr Johnson) I hope so. I think the first indication which we received, as I mentioned earlier, was the long-term, the strategic nature of some of the conclusions of the Science and Technology White Paper, which we welcomed. Equally, I think we are starting to hear some encouraging noises from the DTI and from other sections of Government; but those encouraging noises really need to be turned into action and that is what we are very anxious to help with.

**Chairman**

279. And convey to the Treasury?

(Mr Johnson) And convey to the Treasury.

280. Can I just finally ask you, Mr Johnson, where we are all talking about radical change for every

sector of our society, would it be useful if we just had one organisation representing manufacturing in the United Kingdom?

(Mr Johnson) I think it might well be.

281. Will you be taking the first steps to achieve that?

(Mr Johnson) It is well-known, Chairman, and is no secret that we, at present, as the EEF, are exploring the potential for doing that, certainly with the other biggest employer organisation, which is CBI, and I believe that the more focused that voice can be the better.

282. What about the Chambers of Commerce?

(Mr Johnson) I would be very happy to talk to them, as well.

283. So you will be setting that up: the message which goes out from this Select Committee then is that the Engineering Employers' Federation are legally charged to bring CBI, the Chambers of Commerce—

(Mr Johnson) I do not know that that would be fair to my colleagues in either of the other organisations, Chairman.

Chairman: Thank you very much for your evidence today.



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