

**Competitiveness of UK manufacturing industry : minutes of evidence,
Wednesday 23 June 1993 ... / Trade and Industry Committee.**

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TRADE AND INDUSTRY
COMMITTEE

COMPETITIVENESS OF UK
MANUFACTURING INDUSTRY

MINUTES OF EVIDENCE

Wednesday 23 June 1993

ROVER GROUP PLC

Mr George Simpson

T & N PLC

Mr Colin Hope

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

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WEDNESDAY 23 JUNE 1993

TRADE AND INDUSTRY
COMMITTEE

Mr Michael Clegg
Dr Michael Clegg
Sir Anthony Grant
Mr Barry Porter

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MANUFACTURING INDUSTRY
COMPETITIVENESS OF UK

MINUTES OF EVIDENCE

Wednesday 23 June 1993

Mr. [Name] (Chairman)

Mr. [Name]

Witnesses: Mr. [Name], Mr. [Name], Mr. [Name]

Wolton Centre for Medical Science
- 7 SEP 1993 -
INFORMATION CENTRE

LONDON W1P 8PS
Tel: 01-225 3121

WEDNESDAY 23 JUNE 1993

Members present:

Mr Richard Caborn, in the Chair

Mr Malcolm Bruce	Dr Keith Hampson
Mr Michael Clapham	Mr Adam Ingram
Dr Michael Clark	The Rt Hon. Sir Cranley Onslow
Sir Anthony Grant	Mr Barry Porter

Memorandum submitted by Rover Group Plc (MC44)

Q1. *What are the main factors determining competitiveness in your sector or sectors of manufacturing, and which are the UK's main strengths and main weaknesses among these factors?*

1. INTERNAL FACTORS—controlled from within the industry

1.1 COST/PRICE

High cost levels relative to competitors lead to competitive disadvantage; low relative costs offer the opportunity of competitive advantage.

In the car industry, selling prices are determined in relation to the level of prices prevailing in each market. It is a combination of the prices it can achieve and the costs it has to bear that determines a company's profitability. If a company cannot, over time, sustain its profitability, then it will be unable to finance investment at levels that

- (i) maintain its competitive position in the market (eg lack of new or updated products to compete with its competitors' new and updated products; inability to respond to shifts in market demand); or
- (ii) keep its manufacturing and other (design/engineering, and selling/distribution) processes operating at levels of cost and continually improving efficiency comparable with those of its competitors.

The UK car industry competes in markets where price levels are determined locally. In Germany, France and other mainland European markets, and in Japan, USA and other export markets, UK-based car manufacturers have little influence on market price levels; they can have some influence on the prices charged for their products by local sales companies or agents. In the UK, in common with other markets, price levels have developed over the years to reflect what customers have been prepared to pay, with the largest player in the market generally acting as "price leader" and establishing what this level is for the major segments of the market. In the buyers' market that now prevails, the practice of price leadership has become uncertain, and car pricing has become a competitive weapon vigorously wielded by manufacturers.

There is no simple way of determining that the cost levels achieved by participants in the UK motor industry are more or less competitive than those of their competitors. Each manufacturer will employ his factor inputs in the most cost effective manner that he can, given the state of the art and of his investment in facilities and people. UK car manufacturers have been widely believed to be less efficient than their rivals in mainland Europe and elsewhere, with low levels of labour productivity. But the UK is also widely seen to be a good place in which to make cars and their components, because labour costs are low by international standards and its productivity is rising more rapidly than elsewhere.

Actual international competitiveness is affected by major factors that are not within the control of the industry's players eg exchange rates, inflation differentials, social costs and labour laws. At present, the UK offers good opportunities for cost competitive manufacture of cars and their components; but the effectiveness of their exploitation is governed by each company's own management culture and physical infrastructure. Some elements of the UK motor industry are getting better faster than others.

1.2 QUALITY AND RELIABILITY

Quality and reliability have traditionally been seen as major elements of a car manufacturer's competitive advantage (or disadvantage) in the market; all car manufacturers have put much effort into the improvement of their quality and reliability ratings, to improve their own competitive positions.

The improvements to quality and reliability made in recent years throughout the world's motor industry have been so large, and so widespread, that quality and reliability are no longer major differentiating factors between competing manufacturers; the differences that are still perceived to exist are being rapidly eroded. Consumer expectations of a car's quality and reliability have increased, to the point where they have become a condition of participation in the market rather than a signifier of better performance.

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This is not to suggest that quality and reliability are no longer important determinants of competitiveness; rather in the UK and mainland European markets, they are determining conditions of a company's ability to compete.

1.3 ECONOMIES OF SCALE, AND MARKET SHARE

A car manufacturer's current and projected shares of the markets in which he competes determine the product volumes he will require to satisfy demand. These set the size of the component manufacturing and car assembly activities necessary to produce them. The amount of capacity laid down is a major determinant of the cost of each unit produced; generally, a large facility producing at or near full capacity will produce each unit at lower unit cost than the same facility producing fewer units, or than a smaller facility. But the smaller capacity plant operating at full capacity will tend to have a cost advantage over the larger one operating at the same level of output. There are no rules that state where the break points come between each possibility. Selection of the appropriate type and level of capacity depends on a company's resources and its ambitions; for optimal cost-effectiveness, whatever level of capacity is installed should be exploited to its fullest extent.

The achievement of economies of scale does not depend on all a facility's output being identical or physically closely related. The Japanese have demonstrated that it is possible to achieve economies of scale in car assembly by putting a variety of different models down the same track, though it is essential for products and assembly processes to be designed with this in mind. This lesson has not been widely applied by European car manufacturers, and it is still common for a facility to be unique to a single model range, although it is not unusual to have more than one facility located at one plant. Rover has possibly done more to achieve assembly facility flexibility than most of its competitors (eg Cowley), but we are acutely conscious of the need to develop such flexibility further, and use it to work all of our assembly facilities close to their capacity levels.

One way of achieving economies of scale is to use common components in a range of different products. This is possible only so far as the component performs its function optimally in each product; the paramount importance of satisfying customer requirement precludes any possibility of compromise or sub-optimisation. Consequently, the chief opportunities for achieving economies of scale in this area tend to lie with either

- (i) volume car manufacturers, who can produce unique components and component systems for their products in large volumes; or
- (ii) component suppliers, who may be able to supply a number of car manufacturers with a common proprietary component or system.

1.4 IMAGE

Image and perceptions of a company's standing contribute significantly to its competitiveness. In the motor industry a company's image tends to be a compound of two sets of factors, that

- (i) derive directly from customers' experience of the product over its lifetime, including experiences with retail sales and services operations; and
- (ii) derive indirectly from media reports and commentaries, determining perceptions of whether a company is (eg) profitable, or a good employer, or produces desirable cars, or is technologically advanced, or sufficiently "green", etc—the list is endless, depending on public concerns and interest at any one time.

Both sets of factors are within the control of the individual company. The "direct experience" ones are all-important customer satisfaction factors, and are major elements of the purchase/repurchase decision. The fact that a majority of customers deal not with a car manufacturer but with its dealers does not change this, since the dealers are his appointed agents. A variety of syndicated customer satisfaction and brand image measures quantify each manufacturer's performance, and each company directs its efforts to the continuous improvement of its competitive scores, taking care that its customers have only good experiences with its products and dealers.

It is less immediately apparent that the "indirect" image factors can be controlled by individual companies. Yet, taking the examples quoted:

- Profitability is the ultimate measure of a company's success.
- Whether a company is seen as a Good Employer or not, is a result of its employment practices.
- If media commentators consistently suggest that a company does not make Desirable Motor Cars, then it has failed to match one or more important qualities or features in competitive products.
- Technological Standing tends to reflect the competitive value that a company puts upon having a good technological image, and the effort that is put into establishing and maintaining it, without necessarily reflecting the level of technology in its products and processes.
- Similarly, the "Greenness" of a company's image often reflects the importance that it puts into establishing its environmental credentials.

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In all these cases, a company's image is the result of its own efforts at running the business, and at "image management". It is important that nothing be claimed that cannot be substantiated objectively; increasingly discriminating consumers are unforgiving of false claims.

1.5 SPEED AND FLEXIBILITY

The continually increasing sophistication of customers' demands has created a growing trend for car manufacturers to structure the competitiveness of their operations around

(i) *Speed of Response*

- where product development processes are telescoped into a shorter elapsed time period, eg by parallel development, and by greater use of computer simulations, so that products can be brought to market more quickly;
- where vehicle order and build processes are capable of building vehicles to customer order in less time than their competitors, so that customer demand pulls the vehicle through the whole of the supply chain; and

(ii) *Product Diversity*

- Different products for different purposes, typified by the concept of the town car, the shopping-and-taking-the-children-to-school car, and the leisure vehicle; but including also cars that will respond to road and traffic control and information systems;
- greater use of common components and systems, to facilitate greater diversity of product with minimal diversity of process; and to secure economies of scale;
- flexible use of car assembly facilities, to secure maximal throughput and economies of scale in assembly.

1.6 SUPPLIER BASE

A car manufacturer's supplier base is part of his "extended enterprise" or supply chain, that is increasingly being geared to rapid and cost-effective satisfaction of his customers' requirements, and is a key element in determining his competitiveness.

The UK components industry is a low cost supplier to the car industry, reflecting the UK's low labour costs. The quality of its products has been generally poor, reflecting the poor quality then accepted by its UK customers. With a few exceptions, its technology levels have been low also.

The components industry is now undergoing major change, in response to more stringent demands put upon it by car manufacturers in the UK and elsewhere; the catalyst for these changes has been investment by Japanese car companies in manufacturing and assembly plants in the UK. Their effect is that significant elements of the components industry have started to become internationally competitive, and to be sought out as cost and quality competitive suppliers by motor manufacturers in the UK and elsewhere. They are being required increasingly to assume responsibility for the design and development of components and component systems that they will supply for their customers' new vehicles; their working relationships with the car manufacturers are developing into long term partnerships.

Rover has two groups of suppliers—"core" and "non-core". It is progressively increasing its reliance on a relatively small group of core suppliers, who are to be found among the developing group of cost and quality competitive suppliers in the UK; they will not necessarily be core suppliers to one car maker exclusively. Those elements of the UK components industry that fail to adapt to the changed system, in partnership with Rover or another manufacturer, will decline into suppliers of parts to the core suppliers' group, or will disappear.

1.7 DEALER AND DISTRIBUTION NETWORKS

It has been noted above that the motor manufacturers' chief interfaces with their customers are their dealer and distribution networks; in increasingly demanding markets this means that the quality of the dealer counts for at least as much as the quality of the product. Increasingly, manufacturers and dealers are co-operating to develop the opportunities this offers for creating a major competitive advantage.

Car dealers are almost entirely owned by different groups and companies from the manufacturers themselves. Many distributors are in the same position; but among importers into major markets outside the home country national sales and distribution companies are frequently wholly owned.

Car distribution and retailing in the EC are regulated by the Competition Directorate. A review is due to be completed by 1995 of the industry's Block Exemption from the Community's competition rules. A continuation of this Exemption after 1995 is of key importance; the ability of manufacturers to work with and through exclusive and selective distribution networks is, in Rover's view, a vital ingredient of inter-marque competition for customers, enabling the highest standards of customer care to be pursued.

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1.8 TECHNOLOGY AND THE SKILLS BASE

It has previously been stated that perceptions of a motor company's technological standing contribute to its competitive position.

The uses to which it actually puts technologies which it owns, or to which it has access, also contribute directly to its competitive position. They can do this in a number of ways that enhance the product's value to the customer:

- By building into the product significant improvements eg
 - safety features like ABS (Antilock Braking Systems);
 - improved comfort and control of the vehicle from reactive suspension systems;
 - improved reliability and fuel economy.
- By improving materials and processes, to give a better built, stronger or more reliable car; or one that is less expensive to make, buy and/or maintain.
- By providing employees with the motivation and opportunity to update and extend their own skills.

They can also do it in ways that work against their competitive advantage:

- By building into the product "improvements" that do not enhance customer value (eg the new Toyota Corolla Mk2 in Japan; or the "talking Maestro" some years ago).
- By using advanced processes and levels of automation that are not necessary for efficient and cost-effective production, or with which cost-effective production is not possible because demand falls below the levels necessary for its achievement. This is a widespread phenomenon within the car industry; perhaps the most startling recent example is that of the Japanese companies which built all-new and highly automated plants on greenfield sites in Japan, and which are now finding that they cannot operate these plants profitably.

A company which does not have in-house access to a significant fund of technology will not inevitably lose out in competition with companies that do, although it might suffer some competitive disadvantage from its restricted in-house skills. It can purchase technologies, and it can restrict its purchases to those that offer the biggest value-to-customer benefits, in the light of its own product and process strengths and weaknesses. It can focus its use of bought in process technologies so as to supplement and enhance the skills of its own employees, possibly more effectively than one which has a high investment in, and commitment to, its own research and technological resources.

1.9 COMPANY CULTURE—PEOPLE AND RESOURCE MANAGEMENT

The pursuit of greater productivity and efficiency have caused the majority of managers in the European car industry to believe that attainment of these objectives will not be possible, without a dramatic shift of company cultures away from the bureaucratic, authoritarian and hierarchical patterns that have characterised mass production industries through most of the 20th Century.

The change from the old "managers manage; employees do what management tells them to do" style stems from recognising that the real experts on many activities within a company are not its managers, but employees throughout the firm. Successful businesses are increasingly those that can attract, retain and motivate all employees to develop and use their full talents in the interest of the firm. Providing the climate and facilities, the focus and priorities, and adopting appropriate measures of performance, are the challenges facing management.

In Rover, the New Deal (see answer to Question 7) is providing employees with the security and motivation to operate in this way. We believe Rover is among the leaders of the movement for UK industry to work with a variety of educational institutions, to develop in its employees the technological and managerial expertise necessary throughout the company, for maintaining and improving its international competitiveness.

In the car industry the full effect of these changes cannot be achieved by any manufacturer in isolation from his partners throughout the supply chain. An increasing number of companies throughout the industry has started to make similar cultural and organisational changes.

The key goals sought are those of improved customer satisfaction, from greater individual commitment to the customer and the product; and of improved cost competitiveness, from slimmer organisations and more flexible use of manpower resources.

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2 EXTERNAL FACTORS—which the industry cannot control

2.1 EXCHANGE RATES

High Sterling parities have tended to make it more difficult for UK based manufacturers to compete profitably against importers into the UK, or to export profitably from UK into other markets. However other factors (inflation, productivity/unit labour costs) are also important elements in the competitiveness equation—see below.

Current UK Ratings

Strength—present Sterling parities are more helpful to the UK car and component industries than were the higher rates ruling in the period up to the UK's departure from the ERM in September last year.

Weaknesses—uncertainty about how Sterling exchange rates will move, particularly as doubts grow about the fundamental strength of the DMark; dependence upon volatile market sentiment. Lack of framework for more stable exchange rates.

2.2 INFLATION

Historically, high inflation levels in the UK relative to competitor and customer countries have tended to impair the cost and/or profit competitiveness of UK manufacturers. Mitigating factors were:

- the persistent tendency for Sterling to devalue against the DMark in the years before the UK joined the ERM; and
- more rapid productivity improvements by UK industry, particularly the car industry, as it restructured and cut out surplus capacity.

Current UK Ratings

Strength—retail price inflation in the UK is currently low relative to Germany, France and its EC partners; also relative to USA. This tends to reinforce the competitive effects of low Sterling parities.

Weaknesses—risk that UK inflation rates will increase; UK producer price inflation, which includes imported raw materials has not fallen below the comparable rate for its major competitor countries, in spite of falling UK labour cost inflation. There is an expectation that UK retail prices will be subject to the same upward pressures, though so far these have been moderated by weak consumer confidence in the slow recovery from recession.

2.3 INTEREST RATES

The automotive industry's short term borrowings tend to be used for financing working capital and day to day operations, and a reduction of rates improves competitiveness by reducing costs and increasing profit opportunity. Now that high short term interest rates are no longer required to defend a high Sterling parity within the ERM, they have been relaxed to levels that purport to support a recovery of domestic economic growth, while supporting a lower Sterling parity around DM2.50 = £1. This logic might require the stimulus of a further reduction of short term rates, to ensure continuing recovery in the UK economy. However, it seems that this will not necessarily stimulate a recovery of confidence sufficient to create a marked recovery in demand. Recent increases in consumer spending seem to have reflected individual's special circumstances, rather than a general recovery of confidence stemming from lower borrowing costs.

Current UK Ratings

Strength—Short term rates in the UK are currently below their equivalents in the EC.

Weaknesses—Short term rates are significantly higher than their equivalents in USA and Japan. Risk of upward movement of UK rates if inflation accelerates, or Sterling depreciates, significantly against major EC comparators.

2.4 STRONG AND STABLE ECONOMY AND MARKET

The UK car market reflects the state of the economy, but its fluctuations tend to be more extreme than the economy's. Since 1989, real GDP and Consumers' Expenditure have fallen by some 2-3 per cent; the market fell by over 30 per cent, demonstrating that purchases of cars by companies and individuals are easily deferred when confidence in economic prospects is low and the cost of borrowing high. The converse, that car demand recovers more rapidly when there is an upturn in the economy, is currently being demonstrated. But the

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improvement in the car market is not as rapid as was its decline, and its continuation is not in present circumstances assured.

Fluctuations in demand of this magnitude present severe problems to the car industry. Their management requires manufacturers and component suppliers to assume an anti-competitive cost burden, by either

- (i) retaining manpower in anticipation of the recovery, and incurring labour and related expense in excess of what is required to produce the output demanded; or
- (ii) reducing manpower to the level necessary to produce the reduced volume, incurring thereby the additional costs of redundancy, rationalisation.

The elimination of cyclical fluctuations in the car market is probably not possible. Their reduction to a more easily managed level requires:

- more stability in the economy;
- confidence that growth will be continuous and balanced, with minimal risk of "boom and bust";
- a significantly greater level of confidence that the UK economy is structurally sound; and
- a commercial infrastructure that puts more emphasis on long term commercial and financial success, and is less concerned with short term financial performance.

Ignoring cyclical fluctuations, underlying growth in the UK car market is likely to continue slowly, at not more than 1-2 per cent per annum on a market whose ongoing level, once recovery is complete, will be around 2 million units annually. This rate of growth is broadly in line with other developed countries. The UK market is currently the fourth largest in Europe, and by virtue of its size now the rest of Europe is in recession, it is an attractive market for competitors based in mainland Europe.

Current UK Ratings

Strength—The present slow recovery of the UK economy presents an opportunity for investment, to supply increasing demand from mainland EC as recovery gets under way there, without triggering a boom that would inevitably end in bust.

Weaknesses—The present slow recovery of the UK economy is at risk to the deepening recession in mainland EC. In the UK, rapid and/or unbalanced growth could restart the "stop/go" cycles that have characterised the UK economy for so long. Slow growth of the UK car market.

2.5 NEUTRAL FISCAL STRUCTURE

The structure of a car market, and ultimately its size, can be affected by fiscal structures that discriminate in favour of, or against, particular segments. Some recent examples with the EC have included:

- Registration taxes based on engine size (France)
- Discriminatory taxation against 4 wheel drive vehicles (Italy)
- Personal tax structures that have favoured company car drivers (UK)
- Tax incentives favouring less environmentally harmful vehicles (Germany, Netherlands)

Such fiscal discriminations do not necessarily distort competition, but there is always a risk that they may have that effect.

In the UK recent changes to company car legislation will eliminate the distortions in the company car tax structure. Removal of Special Car Tax eliminates a tax inequality between the UK and neighbouring EC markets.

Current UK Rating

Strength—The UK car market currently is virtually clear of distorting fiscal structures.

2.6 LABOUR LAWS, LABOUR RELATIONS AND SOCIAL COSTS

UK labour laws and social costs favour the competitiveness of the UK car industry *vis a vis* its competitors in mainland EC. This has tended to compensate for levels of productivity in the UK that have been below those elsewhere, but which are improving. However, it is becoming apparent that the onset of recession on the mainland is causing a deterioration of the productivity of car manufacturers there.

A key aspect of the debate between the UK and its EC partners about the Social Chapter, relates to the prospect that the UK could lose this competitive advantage. In mainland EC, the real subject of concern ought to be that labour laws and social costs already detract from the competitiveness of industry versus Japan and USA/NAFTA, and it would not be wise to widen this competitive gap in the present recession. M. Delors has recently drawn attention to this pattern, and it should become a focus for action by the EC, it could tend towards reducing the UK's competitiveness.

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Labour relations in the UK car industry are appreciably better than they have been, although the occasionally high profile dispute still occurs. Improved labour relations are a significant factor behind the success of the UK car industry in implementing flexibility agreements and the new company and resource management cultures previously discussed.

Current UK Rating

Strength—The situation is supportive of the competitiveness of UK industry.

2.7 EDUCATION

There is some evidence that educational standards in the UK are not always as high as they are elsewhere within the EC, notwithstanding a number of internationally recognised centres of excellence within the UK system. As a result, there is widespread disquiet that the UK education system might not be producing the right people, at all levels, for manufacturing industry to maintain, let alone improve, its international competitiveness in a rapidly changing world.

Since competition is about the acquisition and use of knowledge, a nation's ability to exploit new technology is a function of the overall standard of education of its population. All nations, not just the UK, are engaged in a search for ways of raising educational standards, and for education systems that are not dependant on rigid curricula and which promote creativity and innovation.

Increasingly, UK industry is looking to find its own remedies for the perceived problems of inadequacy in the educational system. Rover is one of the leading participants in these developments, and is working closely with a variety of educational institutions to develop mutually beneficial programmes for continuous learning by individuals throughout their school, college and working lives. The effectiveness of this response would be enhanced by the improvement of the nation's basic educational standards; in a changing world a policy of continuous improvement is as relevant here as it is in industry.

Current UK Rating

Strengths—the UK education system at its best produces high quality very effectively, and is responsive to demand.

Weaknesses—the UK education system is patchy in its effectiveness. Much of it is dominated by obsolete values; the prestige of engineering and other technological and managerial disciplines is low.

Q2. How are your own manufacturing activities divided between the UK and overseas, what are the main influences on that division, and how has the division changed in recent years?

1. Rover's manufacturing activities are wholly UK based.
2. The reason for this is that Rover has adequate capacity at its UK plants for all its present and currently foreseen requirements.
3. There have been no changes to the location of Rover's manufacturing activities since the company was acquired by British Aerospace in 1988.

Q3. What proportion of your supplies come from UK firms and overseas firms respectively, what are the main influences on the division between the two, and how has the division changed in recent years?

In 1992, Rover Group spent £2.2 billion on production material supplies. Of this, 81 per cent UK sourced and 19 per cent sourced from elsewhere. Purchases from Honda accounted for 8 per cent points of the total non-UK material.

Main factors which influence the choice of overseas suppliers are:

- Honda design input into Rover cars, requiring sourcing of some key components from Honda (e.g. some engines and transmissions)
- Unique technologies available at some European suppliers (e.g. Bosch in Germany) but not available from UK suppliers

The main factor which favours UK suppliers is the logistics benefit in terms of local presence and language:

- it supports just-in-time delivery and rapid response to production schedule changes
- it enables close design cooperation and simultaneous engineering during new product development

UK suppliers have become increasingly competitive in terms of cost, quality and technology and, based on the logistics benefits, would normally be our preferred source.

In the past few years, the percentage of UK-sourced material supplies has been virtually constant.

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Q4. In what respect, 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 to your competitors' by their governments?

The health of manufacturing industry depends in large measure on the health of the domestic and commercial environment in which it operates and we have already given our view on the key factors which have a bearing on this in our answer to question one.

We believe that Government is increasingly taking account of industry views in developing UK legislation. For the motor industry, the new orientation of the DTI and the re-establishment of the Vehicle Division as a liaison body with the objective "an informed dialogue and constructive partnership between Government and business" is a development we strongly endorse. We detect a greater willingness to consult widely on legislative proposals which affect the motor industry, recent examples being the consultation exercise undertaken by Inland Revenue on the reform of the structure of Company Car Taxation and the review, still under way, of policies to address Climate Change. A more general example is the current exercise on deregulation, which seeks to simplify legislation and in which industry representatives are playing a key role.

The competitive environment in which the UK motor industry operates is, however, increasingly affected by European Community decisions, in which all EC Member States participate. Again our perception is that HMG takes an active role in pursuit of UK interests.

For instance, it is clearly important for the UK economy that the production from the recently established Nissan, Toyota and Honda factories should have unrestricted access to other Community markets, some of which have historically been unreceptive to Japanese imports. HMG has been successful in ensuring that such barriers do not operate for the UK production of Japanese manufacturers. This has important implications for established UK car manufacturers too, since barriers elsewhere inevitably would have required the UK car market to absorb a greater proportion of the production of these factories, which could have resulted in major market distortions.

Rover shares with HMG a belief in open market principles and the operation of market forces as fundamental ingredients of competitive success. However, this is not always the approach in other Community countries and it is important that Government pursuit of these principles for the UK does not disadvantage UK manufacturers. It is important, for instance, that the UK should remain subject to the provisions of the EC/MITI consensus on the liberalisation of the car market to Japanese imports. If the UK market were to be declared an open market unilaterally by HMG, while certain other member states remain much more restrictive in their acceptance of Japanese imports, that could lead to an unreasonable increase in the competitive pressures on the UK car market.

On the broader international front, whether the European Community as a whole is as effective in supporting manufacturing industry as its major competitors, is questionable. In respect of the motor industry, for instance, the EC/MITI Consensus on EC car market liberalisation was accompanied by a comprehensive statement on how the structural adjustment process within the Community's indigenous motor industry would be assisted. Thus far little has been delivered despite a very severe recession which has affected every car market and manufacturer in the Community, making the adjustment process that much more painful. By comparison, the Japanese Government recently announced an employment adjustment subsidy programme, whereby the motor industry can obtain government assistance where companies are forced to lay off, retrain or transfer employees. Similar support is envisaged by the Community programme but has not yet been given effect.

As far as Rover is concerned, HMG has been very supportive where specific trading issues have arisen, a current example being the concerns that have arisen over tariffs on Range Rovers exported to the USA.

The extent to which the support received by our competitors from their Governments compared with the support we receive is difficult to assess. Most countries that are host to major car industries have regard to the interests of the manufacturers involved. The forms of assistance vary from general policy support of the type described for the UK, to more specific assistance. The latter include the Italian luxury tax on off-road vehicles which almost exclusively affects Japanese imports (but also Land Rover products), recently announced French Government (and Commission approved) state aid ECU of 31.5 million to Renault and PSA for representing 32 per cent of the cost of a joint research project on car and road safety, and substantial aid to Fiat restructuring relating to the relocation of facilities to Mezzogiorno in the South of Italy. However, the circumstances under which these examples of involvement arose were specific, and it is difficult to make comparisons between them and the UK.

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Q5. *What effects has recent inward investments had on the motor vehicle industry, including your own suppliers?*

The recent inward investment in the motor vehicle industry is most commonly associated with the establishment of UK assembly plants by the three Japanese car producers, though inward investment by established multinational manufacturers has continued, while some continental component suppliers such as Bosch have also set up plants in the UK.

The main effect recently on the motor vehicle industry has, however, been as a consequence of investment by the three Japanese car producers. As production by Nissan, Toyota and Honda increases, competitive pressures in car markets throughout the EC will intensify and established manufacturers will experience almost inevitably, a loss of market share and volume. This additional market pressure will build up faster as a result of these investments than if it had resulted simply from the progressive liberalisation of Japanese imports which is envisaged by the EC/MITI Consensus.

Inward investment does, of course, have a beneficial effect on the UK economy provided the additional employment and output that results is not a substitute for that of established producers. The establishment here of Japanese car manufacturers has also provided an important stimulus for the improvement of quality and productivity, exposing UK component suppliers in particular to Japanese standards and best practice. From Rover's own experience of working with Honda, this can be of great value in the rapid assimilation of new methods and the benchmarking of world best practice.

Rover's relations with its suppliers reflect these influences and the programmes that Rover has adopted to enhance its own competitiveness. We would expect other manufacturers, whether newcomers to the UK or not, to be seeking similar improvements from UK suppliers and assisting in their achievement.

Component manufacturers have, of course, joined Japanese car producers in investing in the UK, and this has involved both Japanese and EC based companies. For the component industry generally, the establishment of Japanese car plants in the UK has provided a major growth opportunity. However, there is also a risk attached to this process: to the extent that design and development is conducted in Japan by Japanese component companies, the technological base of indigenous Community supplier industry could be weakened.

The net result of this inward investment however, should be of benefit to the UK economy. As UK car and component production develops, we would expect the negative balance of payments recorded by the motor industry in recent years to become positive, with exports increasing and imports decreasing as UK production by the Japanese producers substitutes for cars that would otherwise be imported.

Q6. *What are the main influences on your level of investment? What proportion of your recent investment has been to increase capacity?*

During the past five years, Rover Group has invested approximately 4 per cent of its annual turnover in R&D and 6 per cent in capital expenditures for facilities and tooling. These levels are normal for the car industry.

The main driver of investment is the development of new products in order to remain competitive and maintain market share. A second, important driver of investment is legislation where we have major investments associated with engine emissions and fuel economy and the prevention of emissions from manufacturing plants.

The key constraint on investment is business profitability and cash flow. The downturn in the UK car market has been the major influence on this. For the near future the downturn in mainland Europe may also be an influence.

In the past 2 years, approximately 7 per cent of total capital expenditure has been devoted to capacity expansion. This has all been associated with installation of advanced "Tri-Axis" stamping presses at our Swindon plant which now supplies Honda UK in addition to Rover. With the depressed condition of the UK market, no investment in added vehicle or engine manufacturing capacity has been required.

Q7. *Have you adopted any significant changes in methods of management in the last five or so years?*

The appointment of a new Management team from 1986 and subsequent sale to British Aerospace (1988) have led to radical change in the management processes at Rover Group. The three key focusses for change have been the customer, employees and the whole-hearted adoption of Total Quality:

(i) *The Customer:*

Rover has formulated its vision to be "internationally renowned for Extraordinary Customer Satisfaction". Specific measures have been defined and a five year (1990-95) plan established to achieve the vision. We are presently on-target to deliver this and newer Rover models (e.g. 200 and 400) are already achieving best-in-class ratings for customer satisfaction.

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(ii) *Employees:*

"Success Through People" is the overall vision of what Rover is striving to achieve with its employees (now all known as "Associates"). Success Through People constitutes a wide range of initiatives, all of which are targeted at achieving the best contribution of all associates towards delivery of Extraordinary Customer Satisfaction. Examples of specific changes have included the following:

- The use of employee opinion polls on a regular basis since 1986 in order to guide and measure progress
- An organisation structure designed to motivate and empower people, at all levels of the organisation
- A focus on multi-functional teamwork and dedication to continuous improvement
- The harmonisation of hourly and salaried staff terms and conditions
- The de-layering of the organisation to the minimum number of grades (now only 7, compared to 10 + for other Western car manufacturers)
- Formation of a single bargaining unit representing all Associates
- In April 1992, the agreement to the "New Deal" which provided for major improvements in productivity and flexibility in return for assurance of long-term job security

(iii) *Total Quality*

Rover Group commenced its Total Quality activities in 1986 and was among the first of the European vehicle manufacturers to do so.

The focus on processes, measurement and continuous improvement is now thoroughly embedded in the corporate culture. At any given time there are, literally, hundreds of multi-functional Quality Action Teams working across all levels of the organisation.

A Quality Strategy has been developed covering each of the major business processes and definitive year-by-year milestones set for improvement. This is then further broken-down to individual department or work-cell such that everyone in the Company is aligned towards the same goals.

Q8. *How do you seek to promote innovation in your firm?*

In Rover's perspective, Innovation is not just about technology... it is about harnessing the creative energies of every Associate to improve every aspect of the business. Innovation in customer handling can be just as important as in Engine Development.

The mechanisms used to promote innovation are derived mainly from the approaches used to generate Success Through People. Some of these include:

- Associate involvement in multi-function teams and the empowerment to make change, thus stimulating the sense of team achievement.
- The promotion of a "can-do" mentality. Don't accept traditional ways, find a better one.
- An emphasis on continuous improvement supported by strong participation in the suggestion scheme (over 1 suggestion per employee in 1992) and benchmarking of best-practice world-wide.
- Rigorous attention to Corporate and Personal learning to ensure that the organisation and individuals have the skills needed to succeed.
- A Total Leadership programme designed to challenge the attitudes and behaviour of managers to ensure they are obtaining the best from their fellow Associates and are not stifling ideas.

In the specific area of technological innovation, all of the above factors equally apply. However, we recognise our relatively limited R & D resources and seek to achieve maximum benefits in high-value areas such as engine design and control systems.

In order to achieve best leverage of our R & D resources we fully utilise the benefits of collaborative research:

- with Honda
- with other European manufacturers
- with individual suppliers
- with Warwick University
- through joint projects with BAe

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[Continued

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 e.g. skills base, communications, the professions?

Rover has no comments to make in response to this question except to refer to the growing problems posed by road congestion. As car manufacturers we have an obvious interest in the establishment of solutions that combat congestion while preserving mobility. This will not be an easy issue to address since a comprehensive strategy involves consideration of such issues as public transport networks, modal shifts, traffic management, telematics and land use planning.

We have discussed how education can contribute to improvement of the skills base and competitiveness in Section 2.7 of our reply to Question 1.

Q10. Do the attitudes of financial institutions harm the UK's manufacturing competitiveness, e.g. as regards dividend policy, timescales for making a return on investment, takeovers? Please give examples.

Rover's relations with the financial institutions are generally good. In terms of issues such as dividend policy and timescales for return on investment, these are questions for our parent company, BAe, and cannot be answered in isolation by Rover Group.

15 June 1993

Examination of Witness

MR GEORGE SIMPSON, Chairman, Rover Group plc, and Deputy Chief Executive, British Aerospace plc, examined.

Chairman

434. Good morning, Mr Simpson. Can I thank you very much for coming before the Committee this morning and also for submitting your memorandum, which the Committee has found extremely useful. If I can start the questioning, this is really around the image at 1.4 on page 3 of your document. I think everybody knows that Rover has suffered in part through a poor image and this has now been completely altered. Can you tell us what positive steps you have taken to bring about this quite dramatic transformation?

(Mr Simpson) I think the fundamental part of image management is really in our business about product range, and many years ago, probably in 1986, we decided that we had completely to transform our product range. Since that time Rover Group has spent around £200 million per annum on developing its product range. I guess with the launch of the Rover 600 just a few months ago we effectively completed "painting the Forth Road Bridge" for the first time and now have a completely new range which is very competitive in every sense of the word. I think once you have a basic product range available you can start to work on the other things which are very important in image terms, that is, your dealer network and market communications, and in recent times the focus in Rover has been to continue spending money on such areas. I think the combination of these things has resulted in the transformation to which you have referred.

435. In the wider context, how widespread are the negative images of British manufacturing, because you have gone through this quite traumatic change in that sense?

(Mr Simpson) It is very difficult for me to say because one is obviously consumed by one's own company, so I really do not have a particular view on the general view of British industry. I have to say in recent times I believe that things have generally improved across the whole of British industry and

Rover is perhaps a leading example of what can be achieved.

436. Do you have any concern about the role of the media in this country, particularly as regards the motor industry or manufacturing? You have considerable international experience as well?

(Mr Simpson) I have the media behind me so I have to be very careful.

437. Say what you want.

(Mr Simpson) The media do have a very important role in developing the image of a car company. However, I believe it is up to a car company to produce products and communicate with the media in such a way that they in fact present a very positive aspect of one's company. I think in general terms, although there are some very extreme examples, the media are reasonably fair on car companies, in particular United Kingdom car companies, and Rover has no complaints on that score.

Chairman: You are very kind! Could I move on to relations with suppliers and ask Dr Clark to come in.

Dr Clark

438. You say you have the media behind you. How very lucky you are. We wish we had the media behind us! When the CBI gave us evidence they commented on the fact that there seems to be an absence of a strong national champion in this country of motor car manufacturing. Does that mean that Rover, as perhaps the leading British manufacturer, feels it has a special responsibility in that regard?

(Mr Simpson) I do think we have a special responsibility in that regard. We are the United Kingdom's biggest manufacturer, biggest exporter, and, as you see from our evidence, 80 per cent. of what we buy into the company, which is some £2.2 billion-worth of materials per annum, comes from the United Kingdom base, so I think in many senses and in reality Rover is a very important part of the British motor industry. Therefore, I accept that we

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MR GEORGE SIMPSON

[Continued

[Dr Clark Cont]

have to show some leadership in the recovery of the industry in the United Kingdom and I believe we have done it.

439. Your exports now are excellent and I congratulate you on that and I hope they continue, but is it not a fact that if you do not have a good home market it is difficult to get an export market, not simply because you are wanting volume, and volume reduces your unit costs, but also if you cannot sell your product at home why should you expect people abroad to buy it?

(Mr Simpson) I would agree with what you say. I think the home market is an extremely important element of a car company's competitiveness. If you look at most of the successful car companies in the world global industry, you will see all of them have a very substantive home base.

440. Staying with the home market for a moment, I think you have said, or it has been said, that United Kingdom component suppliers are becoming increasingly competitive. If that is so, why has not the proportion of United Kingdom component supplies in British motor cars increased in recent years?

(Mr Simpson) Speaking for Rover, the percentage of British components in our cars has been very stable for some considerable time and, as I say, we have about 80 per cent. of our components sourced in the United Kingdom. I do believe that the component industry in general terms has moved on dramatically in the United Kingdom in recent years. There are some exceptions to that but generally they have a much improved capability. I also believe that the inward investment policy of the Government of the Japanese coming to the United Kingdom has been a very important impetus for needed improvement in the component industry. So I think they have improved but I think where we will have a problem is that although the major companies are seen to have improved quite dramatically, some of the smaller companies and medium companies perhaps have not been moving at the same rate and as car companies develop a two-tiered approach to component supply, i.e. we tend to use core suppliers and a smaller number of suppliers relating directly to the manufacturer, then our ability as a manufacturer to develop the best practices and the productivity and the capability of these smaller suppliers is now that much more difficult. So I think the real place for focus and for improvement in the British component industry is perhaps in the small and medium companies rather than the big companies, because they have learned the lessons and are already moving quite fast.

441. You are saying that because you think the situation in the big companies is already satisfactory?

(Mr Simpson) Not all big companies but I think in most of them. In our business we have seen dramatic improvements in productivity and quality in recent years.

442. Does that mean—and this is the core of my question—you are buying a greater percentage of components from British suppliers than you were before?

(Mr Simpson) No. The situation at Rover is that we have always had a very high off-take of British

suppliers but what we are saying is that that is more secure than it was previously.

443. I did for three or four years some years ago work in the component supply industry and when I saw a comment made by the Managing Director of Toyota that the relationship between the component suppliers and the British motor industry has always been one of confrontation it rang a bell with me, but do you think that situation has now improved, so that we have gone from confrontation to partnership?

(Mr Simpson) Absolutely. That is one of the fundamental changes that has taken place in recent years. There is no way that a car manufacturer can be successful unless he has a very successful relationship with his supply base and with his distribution network. Therefore, one of the major changes which has happened in the industry and certainly in Rover in recent years is an awareness of the need for the whole process to be efficient and, therefore, the nature of the relationships to become more trusting and more partnership based.

Dr Hampson

444. I do not want obviously to knock the enormous achievements which have taken place in Rover, but what is your answer to the charge that the revival stimulated by the Japanese is primarily resulting in assembly work rather than true manufacture, and that although it massages the trade figures very handsomely, what we are talking about are re-exports of imported stuff?

(Mr Simpson) That is not the situation at Rover. We have a design capability, a manufacturing capability and a sales capability. The relationship with Honda has been extremely valuable and helpful to Rover. However as far as I am concerned Rover continues to play its full part by maintaining a full capability to design, develop and manufacture motor cars, therefore there is a very, very high content of Britishness in any Rover car which is made or exported.

445. Could you highlight, then, what is the proportion that, in a sense, is re-exports? What scale is coming in?

(Mr Simpson) In Rover's case, as I said, 80 per cent of our component trade is sourced within the United Kingdom. The other 20 per cent is split 8 per cent from Honda—and that is very much a function of the design relationship we have with Honda, so we buy a number of components from Honda in Japan—and the other 11 per cent is mainly where companies offer unique technologies, particularly in Europe, therefore we have no opportunity to go to the UK supplier for these particular components.

446. Slightly switching the subject, how much do you see the European car companies becoming very much second-class citizens in the world market, faced with not just the Japanese and the revived American companies—this Committee is going to look at Taiwan and Korea—but particularly those two where it is the case, is it not, that the Taiwan Government has now put together nine companies to penetrate the car market, and Korea is intending to more than double its output?

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MR GEORGE SIMPSON

[Continued

[Dr Hampson Cont]

(*Mr Simpson*) I do not believe there are any fundamental reasons why a UK-based or a European-based car company cannot be world class and cannot compete within the global motor industry. I see no factors which should prevent that happening, either internally or externally.

447. You do not think our cost structures are way out of line with what is going to happen in Korea and Taiwan?

(*Mr Simpson*) No. There are certain difficulties in competing with these nations, and they are very, very aggressive in industrial terms. I see no reason why we should not be able to compete with them.

448. Finally, what about the reverse picture? When this Committee last went to Taiwan the streets were just flooded with German up-market cars and, naturally, given the cultural connections with America, with a lot of Detroit models, but none of yours much.

(*Mr Simpson*) We do have a distributor in Taiwan. He was changed recently because performance was not very good, but it is not a major market for Rover. I am sure that if you continue to visit Taiwan, Dr Hampson, you will see an increasing number of Rover cars.

Mr Bruce

449. I was interested, Mr Simpson, in the fact that you were implying that the impact of Japanese inward investment into the United Kingdom was primarily beneficial, were you not?

(*Mr Simpson*) Yes.

450. That is your view?

(*Mr Simpson*) Very much so. Clearly, the existence of Japanese manufacturing capacity here is going to put an increased competitive pressure on everybody who sells in this particular marketplace, and that will affect Rover just as it affects everybody else. If anybody in this world thinks that they are going to keep the same market share as they did before the Japanese transplant capacity came to the United Kingdom, then that would be a very, very misleading position to take. Having said that, taking the thing in the whole, I believe that the policy of inward investment is probably a good one, it raises competitive standards. It has already raised and been an impetus for change in the component industry in the United Kingdom. I think the important thing there is that the capacity from the transplant factories is actually deployed in exports and is not deployed in the United Kingdom.

451. I appreciate that, but I picked up a note of concern. You are implying that nevertheless you have to accept that this is just going to reduce your share of the market, is that right?

(*Mr Simpson*) It is going to reduce everybody's share of the market. If you look at what happened in America when the Japanese transplant capacity went there, clearly the number of cars they produced had to be redistributed throughout a car population of 12 million, it was not growing. That caused a redistribution of market shares, and that will happen in the United Kingdom. That is not in itself an important factor. The important factor is that the transplant capacity which has come to the United

Kingdom must turn out to be incremental rather than substitutional, and that can only be achieved if in fact that incremental transplant capacity is deployed on import substitution and is deployed on exports.

452. So the net effect would be a smaller share of the larger market?

(*Mr Simpson*) For the indigenous players in the United Kingdom. But the increased capacity would help employment, help economic growth and help exports.

453. On the point about components, are you satisfied that these plants which are now established here will continue to act as positively on the component supplies side, and that there will not be a transfer once they are established back home?

(*Mr Simpson*) No, I think the Japanese have learned their lessons from the North American situation where they did tend to import a lot of their component manufacturers. There have been Japanese component manufacturers coming into the United Kingdom, but not on a large scale. I think they would prefer to use local sources, for all sorts of business reasons, if they possibly can. It is up to the British component industry to show that it can meet the standards of the Japanese, and then I do not think that would be the case.

454. They are responding?

(*Mr Simpson*) They are responding, and in fact the Japanese are showing also that they are willing to take some of the earlier parts of the process like design and development from Japan and bring it into Europe and the United Kingdom. So rather than the fear you have, I suspect that there is a shift in the other direction.

Sir Cranley Onslow

455. You mentioned just now that you need new technologies which you have to buy in. Can you give us some examples?

(*Mr Simpson*) I am not a technology expert, but I can perhaps give you an example. We use Bosch in Germany for some electronic management systems on diesel engines. These at this point in time are not available in the United Kingdom, so in that case we go to Germany and we go to Bosch. There will be other examples like that specific technology where we cannot get it in the United Kingdom.

456. Do you think we should be trying to manufacture these products in the United Kingdom?

(*Mr Simpson*) I think there should be much greater focus within the United Kingdom on the possibility of import substitution. 55 per cent of all cars in the United Kingdom are imported. I am sure that if you look at a lot of other major industries in the United Kingdom you would see the same kind of pattern. Although the Government is quite switched on to export opportunities, I think there is another opportunity which is import substitution. If we could concentrate on getting data and information about where imports come from, what quality standards they have, what cost characteristics they have, there is an opportunity for British business to make gains there and, of course, affect the balance of trade in the same way that increased exports do.

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MR GEORGE SIMPSON

[Continued

[Sir Cranley Onslow Cont]

457. Is not that something on which industry should be giving a lead?

(*Mr Simpson*) Obviously the effective companies will be looking for these opportunities all the time. I am just saying that I think that perhaps there is a role for Government and government departments to play here in identifying these kinds of opportunities and spreading the data around British companies.

Mr Ingram

458. When you say that the Government should be doing this, you are obviously saying that they are not doing it. What representations have you made to Government to seek that type of support and that type of approach?

(*Mr Simpson*) I have just explained really a personal point of view. I think it is something that the Government can do. As far as Rover is concerned, we are always continuing to develop our sales in the United Kingdom and to develop as much United Kingdom sourced component business as we possibly can. Therefore, from a Rover point of view, I have no need to make representations to the Government. My comment was more a general one as an industrialist watching what is going on around me. I do think the people who should be making representations are those people who believe that there are real opportunities in their sector of business, as I say, to make gains in that area.

459. Surely as a UK-based industry it would be more in your interest to have UK-manufactured key components of cars? You mentioned diesel engines where Britain at one time had a technological base here and does not seem to have one anymore. I am trying to get from you what type of pressure can be brought to bear to try to get that resurrected, if it is possible?

(*Mr Simpson*) How I would tackle this problem as a businessman would be to go to speak to the people in the United Kingdom who make, or could make, that technology and try to convince them rather than convince the DTI or anybody else.

460. Do you think the DTI has a role to play in encouraging that type of activity?

(*Mr Simpson*) I think the focus that you are suggesting would be something that the Government could usefully focus on.

Dr Clark

461. Mr Simpson, following Sir Cranley Onslow's question when you talked about the high-technology items that have to be bought from outside because we do not have them, and going back to my question when you said that 80 per cent. of components in Rover were sourced in the United Kingdom, could you tell me whether the 80 per cent. is in number or in value?

(*Mr Simpson*) In value.

Dr Hampson

462. This is really generally based on these other questions. There is disturbing evidence in America now that it is really the donor country that benefits most from inward investment such as you have benefited from as a company rather than the host

country. Do you have any view on that? We are probably one of the largest when it comes to inward investment yet our trade figures are one of the worst.

(*Mr Simpson*) I think as far as the trade figures are concerned you have to give the inward investment time to work and production will build up from the three transplant factories in the United Kingdom very significantly over the next few years, and when that happens, as long as we achieve a high percentage of exports, then the balance of trade figures in the longer-term will change as a function of our inward investment. I have no doubt about that. On the question of whether the donor countries are the ones who benefit most, I think I answered that earlier by saying that there is some evidence that the Japanese who have invested in the United Kingdom have learned from the North American lesson and, indeed, do not, first, set up as many component factories in the United Kingdom or Europe but try to use indigenous capability, and I think that is important, but secondly, they are beginning to think in terms of setting up design and development capability again within Europe and the United Kingdom. Therefore, there is an extension of their role just as manufacturers and I think, therefore, they have probably learned that it is not a sensible thing to do and therefore not something that the country wants.

Sir Cranley Onslow

463. One area of car manufacture that this country still dominates is racing car manufacture, which is very high technology. Do you have any relations with them? Are they pace setters?

(*Mr Simpson*) They are pace setters and an outstanding example of British technology. We do not have any formal relationships because formal relationships with racing car companies are very expensive.

464. It might be worth it!

(*Mr Simpson*) What we do do is to have many informal contacts with most of the people in the motor racing business and we do have technical discussions with them from time to time.

Chairman: Could we move on to competitiveness and markets. Sir Anthony Grant?

Sir Anthony Grant

465. Mr Simpson, you say on page 2 of your memorandum that quality and reliability are no longer major differentiating factors between competing manufacturers. If that is the case, are you saying that price is the crucial determinant in competitiveness?

(*Mr Simpson*) No, I think there are a number of things which are fairly important in establishing competitiveness as far as a car company is concerned. Quality and reliability are a qualifier rather than a differentiator. In other words, unless you have a very high level of quality and reliability you will not be in the market for very long. But the other factors, of course, are cost competitiveness, the existence of a desirable product range, the existence of a strong image, as we mentioned earlier, the existence of a good distribution network, so there is a whole number of things, as we tried to point out in our evidence to the Committee. Competitiveness in the

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MR GEORGE SIMPSON

[Continued

[Sir Anthony Grant Cont]

car business is a very wide issue. It is not any one of these single things and at the end of the day the single phrase we use to manifest what I believe is the important thing is the development of an overall organisational capability. That is the most important thing. It is an amalgamation of the things I have mentioned to you and I believe why Rover is successful today as opposed to yesteryear is because it has developed an organisational capability to respond to the marketplace, to provide desirable products, to generate high quality and reliability levels, to develop its distribution network, etc.

466. But you still seem to be concentrating a tremendous lot of your advertising expenditure on quality and reliability as the main factor?

(Mr Simpson) We wish to position the company up-market. That has been a very important part of our strategy. Rover does not have the possibility to be a lowest-cost producer in our business, for a whole number of reasons, and therefore Rover's strategy has been very much about being up-market and it is a function of what we have done with our products, it is a function of what we have done with our dealers, it is a function of market communications, and we have pushed the company up-market, and obviously quality and reliability is an important element of that.

467. In view of the changed circumstances on this question of quality and reliability, do you think competing firms will be able to differentiate their products sufficiently to charge a premium price in order to get better prices?

(Mr Simpson) Yes.

468. In order to achieve economies of scale you say somewhere in your memorandum that there is a need for either volume car manufacturers or volume component manufacturers. Do you see any place for an increase in the participation of small- and medium-sized firms in this respect?

(Mr Simpson) I do not understand.

469. Do you think there is a place for an increase in the participation of small- and medium-sized firms in achieving economies of scale for either manufacturers or component suppliers?

(Mr Simpson) I do not understand the relationship between their increased involvement and economies of scale. I would say there is a role for small and medium enterprises to play in the supply to the motor industry. That is a very important role, as I said earlier. Unfortunately, it is becoming a little bit distant from the main manufacturers as we all head towards a much more limited population of core suppliers that we use and we leave the management of these smaller suppliers to our core suppliers, but there is a very important role to play there and the major component suppliers have a very important role to play in maintaining the competitiveness of these small and medium enterprises.

470. Is it a definite company policy to encourage these small- and medium-sized firms?

(Mr Simpson) Where they are appropriate, but the direction that the industry is going in is two tier in its supply arrangements so that we deal with fewer suppliers and larger suppliers. That does not displace the small supplier but it puts the relationship between

the car manufacturer and the small supplier into a different relationship.

471. Is it still the case that in the United Kingdom the cost structure depends more on low input prices than on high productivity compared with our competitors overseas?

(Mr Simpson) I think high productivity is a very small part of competitiveness in the motor industry. Labour only accounts for about 15 per cent. of our cost structure and I think over the years there has been far too much emphasis on labour productivity in our business. It is much more important for a company to have the right investment levels, to have the right technology available, to have collaborative arrangements which are supportive to it, to have a supplier capability that allows these objectives rather than just necessarily labour productivity.

Mr Ingram

472. You have mentioned a number of times the changes in your component suppliers and in response to that exchange about the dealer chain, the dealer network and those changes which have taken place there which have helped the company, you used the phrase about what you have done to your dealers. What exactly have you done to your dealers?

(Mr Simpson) Basically we recognise they form a very important part of the chain. They are our interface with our customers and traditionally, because of their history and their background, they have not been the most efficient part of the chain. Having said that, they make up something like 25 per cent. of the cost structure, so it is an area that we have had to concentrate on. There are two initiatives that Rover have been involved in. One was completely restructuring the way we distribute our products so that we no longer have hundreds of thousands of vehicles between the end of the line and the customer and we have, in fact, introduced what we call lean distribution, which has changed very much the dealer's role. For example, he no longer has large stocks of vehicles on his premises. We manage that process for him. He just gets the factory fresh vehicles for the customer when he needs them. That is a very important change. The other thing we have done is to convince them about the rightness of total quality management. We have helped them by introducing new, up-to-date I.T. methodologies into their business. We have helped them by introducing things like Rover commitment and the customer charter. So their role is changing very dramatically. For example, Rover will introduce in the next few years a central diagnostic capability where every customer's car will be plugged into a local computer which will be analysed at Rover Group rather than on the dealer's premises and a correct fault analysis will be undertaken, the corrective action will be identified and the dealer will merely be required to carry out the instructions from Rover Group. So there is a tremendous change in the role the dealer network is playing. At the end of the day his role is going to become very much the personal customer interface role.

473. Is that new and innovative to Rover, or is that something you have borrowed from elsewhere?

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MR GEORGE SIMPSON

[Continued

[Mr Ingram Cont]

(*Mr Simpson*) Rover I believe are ahead of the field, particularly in distribution efficiency measures. I think they are quite well ahead of the competition in that respect. Of course, when you are developing things like information technology it does take time. The fact that we are ready to launch these things is a very important and competitive advantage for us, because even if people want to copy, it will take them time to catch up.

Chairman

474. On this particular point, in terms of the training of the mechanics, is that done in-house to Rover, and do you train them on the job?

(*Mr Simpson*) Yes.

475. What types of grade of skill do you need?

(*Mr Simpson*) We have a central training function, therefore all of Rover's mechanics come in to Rover to be trained. What I was explaining was that cars are becoming very complex electronic pieces of equipment these days, and really it is quite difficult to ensure, through a 700-dealer network, that the standards of repair, maintenance, warranty and service are all the same. One of the ways we can achieve that is by these developments in IT of being able to control that syndrome.

Mr Ingram

476. I want to make sure I understood correctly what you said in your answer. You said that your labour costs only represent 15 per cent. In your memorandum, under 2.6, you made comment about the whole question of labour laws, labour relations and social costs. You said that "In mainland EC, the real subject of concern ought to be that labour laws and social costs already detract from the competitiveness of industry versus Japan and USA/NAFTA." If it is 15 per cent as a cost base, to what extent are you worried about it—10 per cent of 15 per cent, or 1 per cent?

(*Mr Simpson*) In our business it is so competitive that we have to be concerned about every penny of cost. Although labour in itself only accounts for around 15 per cent of our costs, we have to concentrate and make sure that we get the absolute maximum out of that labour cost, and that we save every penny, so we look at all dimensions of our cost structure. Therefore, this issue is important.

477. Just how important is it? You are making particular reference to this here, and I am trying to establish just what proportion of that small part of your total costs you are worried about.

(*Mr Simpson*) Compared with trying to get our component suppliers to be more efficient, it is relatively unimportant. 60 to 65 per cent of our costs come from outside suppliers, so that is much more relevant and more important. However, as I say, one has to look at 100 per cent of the cost structure, therefore in that context it is important.

478. So are you seeking a tougher labour law regime in this country?

(*Mr Simpson*) No, I think the labour law regime we have here is sufficient to allow progressive managements to manage their business efficiently. I have no problems about the environment we work in.

479. So you are seeking reductions in terms of your social costs and in terms of relations with your employees?

(*Mr Simpson*) I think our social costs are better than the average European social costs, and I think that is a competitive advantage which we ought to hang on to.

480. By how much is it better?

(*Mr Simpson*) I am not sure of the precise percentage, but it is significantly better, and I see no reason why we should give that up. If you need an answer to the precise percentage, I shall provide it for you.

Mr Ingram: That will be very helpful.

Sir Anthony Grant

481. You would be against the implementation of the Social Chapter of the Maastricht Treaty as far as the United Kingdom is concerned, is that right?

(*Mr Simpson*) It is a very leading question, but I think my previous answers have given you some idea!

Mr Ingram: It is just as well you do not have a vote!

Dr Hampson: Can I ask our witness about two aspects of the "Made in Britain—The true state of Britain's manufacturing industry" report?

Sir Cranley Onslow

482. Just before you do that, on the subject of dealership, in your evidence, Mr Simpson, you stress the importance of the block exemption continuing after 1995 because, you say, "the ability of manufacturers to work with and through exclusive and selective distribution networks is, in Rover's view, a vital ingredient of inter-marque competition". Are you convinced that the Department understands the importance of this to your industry?

(*Mr Simpson*) One of the messages I would like to get over to this Committee is that the quality and quantity of dialogue with government departments, and particularly the DTI, has improved dramatically in recent times, and that is a fact. So that is one thing I would like to register. Having said that, this is a subject on which we have communicated extensively with all government departments, and we believe they understand the arguments. We are not yet, at this time, very clear about what their position is.

483. Can you measure the impact if this block exemption is not continued?

(*Mr Simpson*) It will be very, very serious for all European car makers if it is not. It will make it extremely difficult for a company like Rover to deliver the kind of service levels that it wants to deliver to its customer. It will be very, very difficult for us to differentiate ourselves. It will be very, very difficult for us to control our distribution efficiency, if you like.

484. Are your interests shared by other European car manufacturers?

(*Mr Simpson*) They are indeed.

485. Do you combine to make this point of view known to the EC?

(*Mr Simpson*) We do indeed, both through the SMMT in the United Kingdom and AECA in Europe.

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MR GEORGE SIMPSON

[Continued

Dr Hampson

486. My point is that we talk about these very broad aspects of restraint or otherwise on companies, but one of the things that struck me about this report is the focusing on actual practice and performance in the company. One of the conclusions was that "the biggest inhibitor to achieving business objectives is not lack of funding, government policies or interest rate stability"—and I think we could add in some of the things we have just been talking about—"but the ability to implement change quickly enough." What would be your judgement on that?

(*Mr Simpson*) One gets back to organisational capability. I think that in our reply to you we have tried to indicate that the changes which have gone on at Rover have gone on at a very, very fast rate indeed, and that is because we have been able to convince our employee population that unless very significant changes took place it would be unlikely that we would be able to compete in a global motor industry. By creating that picture to them they have been very, very responsive and we have been able to change at the desired rate. I do think the point that is made is very valid.

487. In other words, a large part of our manufacturing industry, including the car industry, until recent times has actually suffered acutely from that very problem, and now it has changed. One of the other aspects, though, which intrigued me was that there was also the critical point here in which it says that the food industry is very strong, but the automotive industry and other industries that it cites on the other hand consistently lag in terms of both practice and performance. You probably think that in Rover's terms that is not true, but is it true everywhere else?

(*Mr Simpson*) We are at the beginning of the journey. We have made a lot of progress in recent years. In generic terms, we think we can now compete with the best of the Europeans on most of the important measures in the car business. We have a considerable way to go to be able to compete across the range with most of the Japanese manufacturers in the car business. That is not to say that our sights are not set on achieving that, but at this point in time that is where we are on the development to being a world-class company.

488. Finally—and this relates to what Sir Anthony Grant was talking about in terms of boosting smaller and medium sized companies—it says here that the ideal size of a manufacturing site is between 50 and 200 employees, and that smaller sites do not adopt best practices and larger sites tend to perform less well. What is your comment on that?

(*Mr Simpson*) Strangely enough, that is not Rover's experience, and probably the plant in Rover which has moved the furthest and fastest over the last few years is our Longbridge plant which employs 11,000 to 12,000 people. That has not been our experience.

Chairman: Perhaps we could move on to innovation and management which takes us further down that course.

Mr Clapham

489. Mr Simpson, I am particularly interested in your answers to Question 8 which appear at pages 18 and 19. You set out there the kind of things which have come through your particular approach, which is Success Through People. Could you tell us what kind of response you have had from the factory floor to that approach? Has that approach come about because of the Japanese influence as a result of the collaborative venture?

(*Mr Simpson*) I think the inward investment threat and the lesson that we learnt from what happened in North America was a very powerful message to United Kingdom management and to United Kingdom employees. I have found in business life unless you create a crisis it is sometimes difficult to get the best effect you want in a situation. What we were able to do in Europe in Rover was not to create a real crisis but to be able to project in five years' time that there would be a theoretical crisis in the United Kingdom motor industry if we did not change and allow the transplants to come in. What would happen would be that capacity would be substitutional not incremental and the people at Rover would probably not be working at Rover but might be working in another car company but certainly not at Rover. By being able to paint that picture, to paint what changes had to be made, i.e. what the company was going to look like in five years' time to be competitive in the motor industry, we were able to get a tremendous motivation in our management and our employees to change and that has manifested itself in what we call the new deal where, in return for job security, we have total flexibility and a total commitment to the company's competitiveness and I cannot stress enough how much that contribution is a factor in Rover's success.

490. So it is spreading through into Rover in a much more involved way from the shop-floor than previously?

(*Mr Simpson*) Absolutely. We recognised that expertise did not just reside in our management but very considerably in our employees and in releasing that talent, and we have been able to move at a much faster rate than ever we could have done before. Indeed, that fast rate of change was not just dependent on a few people at the top of the company, it was dependent on 31,000 people changing something every day, and this is a very significant change.

491. Taking that a step further, you now have your 200, 400 and 600 series all set out and the Design Council states that Rover is a company whose fortunes have come about as a result of being able to offer a well-designed product. What kind of things are you looking to in the future?

(*Mr Simpson*) Design is a very important part of any car company's activities and we have focused on changing our engineers' focus over the years so that they not only design for style—and I think the British car industry has a reputation for that—but they design for cost and they design for quality, and the focus on these two elements has been a big part of being able to make the changes we have achieved in recent times at Rover.

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MR GEORGE SIMPSON

[Continued

[Mr Clapham Cont]

492. As well as designing for quality, obviously one is looking at designing for, should we say, public acceptability of the model within the modern model ranges, so you are constantly, presumably, looking at new body design, etc. that is pleasing?

(*Mr Simpson*) Yes. The design effort tends to be driven by what the customer wants these days, so we spend an enormous amount of resources and time on researching the customer and what is happening in the marketplace and that tends to feed back into where the focus in design is going.

493. How long does it take from a customer ordering a car to its being delivered?

(*Mr Simpson*) It varies tremendously. It used to be a very long time. The distribution policy allows it to be much faster these days. What we have to do is break our product range into what we call core vehicles, which are these specifications which are more or less standard. If you order a core vehicle from Rover Group you can expect to get it within a matter of two or three weeks almost every time. We can guarantee that. Unfortunately, in the car industry there is a very wide range of derivatives and specifications and it is impossible for any company to have one always available for the customer. Say you asked for something in the 20 per cent. bracket, we might take eight weeks to deliver but we would give you a delivery date and meet it. That is different from times gone by. So if you are ordering a core vehicle it can be delivered within two or three weeks. That may not be the case in August, when there is a huge peak in the United Kingdom market, but generally that is the case. If you order a complicated specification it is eight to ten weeks.

494. Does that mean production is moving more towards individual design rather than a mass product?

(*Mr Simpson*) No, production is moving to be much more flexible. For example, we now put different kinds of cars down the same assembly line. That is the normal technique and that allows us to respond to customer demand much more quickly.

495. Does that kind of flexibility conflict with cost? Does it push costs up?

(*Mr Simpson*) Flexibility does not conflict with cost. Complexity tends to conflict with cost.

Chairman

496. In your memorandum at page 6 you say that technology can work against competitive advantage. Can you give us any examples of where this is occurring in the United Kingdom? It is the bottom of page 6. It says: "They can also do it in ways that work against their competitive advantage"?

(*Mr Simpson*) I think we have provided the perfect historical example of that in the "talking Maestro" that we provided the customer with which spoke to you when it had faults. That was very innovative, very cost-effective, but nobody wanted it and it was an out-and-out failure. Therefore one has to be careful. This is why I said that customer research of the customer requirements is the thing that should drive what a company does, not the engineers or the marketeers within the company, and that is an important change we have learned in the United Kingdom in recent times.

497. What is the best source of advice to companies looking to invest in the appropriate technology?

(*Mr Simpson*) As I say, customers drive that to a certain extent and Rover has a major problem because we are not the biggest player in the world and, therefore, we have to focus where we invest in technologies. We have chosen intelligent engine management systems, four by four drive lines. We have chosen these particular areas, which are important to Rover, to invest in-house in innovation and technology. The great thing about the car industry today is that there are a number of other ways one can have technology or gain access to technology—through one's collaborative arrangements, and Honda is an extremely good example of that, through one's educational relationships, through universities, where we get very good ideas, and increasingly through our relationships with our suppliers, where we get access to the technologies they are applying. So although it is important for a company to have its own source of in-house technology, that is not the be-all and end-all of being successful in the car industry.

498. Is your approach to innovation novel or standard at all?

(*Mr Simpson*) I think it is different in that it is not about creating new "widgets" or mechanisms. We concentrate our innovation into softer areas of the industry to do with customers and quality and I think innovation in those areas is perhaps even more productive than particularly spending a lot of time putting your latest technology into your motor car, so Rover's focus in the last few years has been in that area.

499. You mentioned academic institutions and I know you have a very good relationship with Warwick University. What do you think you get out of that, both ways—the two-way street, as it were?

(*Mr Simpson*) We have a lot of high-quality training there.

500. How long has that relationship been there?

(*Mr Simpson*) For ten or twelve years at least. It has been going back for a very long time and they now train a very large spectrum of Rover's people right up to PhD level, and it is very high-quality but it is also very tailored and very focused on our requirements. That is where we get the benefit. They get the benefit from having very direct access to what is going on in the manufacturing industry because they are dealing with our people.

501. Is that one of the most developed examples in the United Kingdom?

(*Mr Simpson*) I would think so. I am not really up to what the other manufacturers are doing. I think there are a range of university and manufacturer relationships and I think it is a very productive way to go forward.

Dr Hampson

502. We are often concerned—I am anyway—about the medium-sized firms—I think we over-emphasise the small ones but the medium-sized one with potential for growth but too small to be a global player currently. Therefore, what access does it have to research it can turn into development? Does your

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[Continued

[Dr Hampson Cont]

relationship with Warwick have any spin-off? Do you promote the medium-sized company to benefit from that sort of interface you have developed?

(Mr Simpson) I have to say my recollection is that most of the people who have the same relationship as we do with Warwick are the big companies. It is the Rolls-Royces and the Lucases of this world rather than the small to medium companies. That may not be the factual position but my experience is that we tend to see big companies with this relationship rather than small to medium ones and that may be an area that needs pursuing.

503. Have you thought of trying to pull through some of the medium companies you are involved with?

(Mr Simpson) As I say, we try and pull them forward by putting best practice teams from Rover into all our suppliers, so we believe we have a responsibility to drag them into the 20th century. The problem is, as I say, that relationships between manufacturers and suppliers are becoming two-tiered and we are beginning to face up to a core of 250 to 300 suppliers. We will affect them and affect their rate of change but the next step is going to be the main tier core suppliers managing them. You have to base this around the main component suppliers rather than the manufacturers.

Mr Ingram

504. I am interested in following on from some of the questions that Michael Clapham asked you in terms of this Success Through People programme which you are involved in. Can you tell us about that?

(Mr Simpson) It is a very long subject and it would take a very long time. Back in 1989, when we sat down to work out what the critical success factors could be to make a transformed Rover, one of the very obvious things was that successful people in our world—and they were, very particularly, the Japanese—got a lot more from their people than a European or British company did, therefore one of the things which we could change was the amount of employee contribution. Therefore, we set about establishing a culture, a regime and a capability to develop our people, the best example of that being the creation of a thing called Rover Learning Business which is a subsidiary of Rover which is specifically devoted to training and developing our people. All 31,000 of our people have access to training, and we spend around £40 million a year on that subsidiary. I think that our decision to look for success through that particular avenue is probably one of the most fundamental things in changing the company's prospects.

505. I was intrigued with a recent article in *The Guardian* on 2 June about a group of employers who are involved in providing some kind of employees' childcare as part of their business. The article talked about what is being done within your company and a number of other major companies within the United Kingdom. Just how important is that whole area of childcare in terms of your getting the right type of workforce into the company?

(Mr Simpson) I think the point when we get to childcare is that motivation is very important, and that as part of the motivation providing the right

environment for our workers is very important, and looking at what their requirements on childcare are is important in their minds. So as part of motivating our people we went through looking at their environment and we ended up with this. Childcare itself is not something that is a pressing requirement for the Rover Group, but it is something which helps us achieve a business objective.

506. Do you think the Government could help in any way in terms of the tax regime in this area?

(Mr Simpson) I am not sure. I think that businesses have to deal with these issues for themselves. We felt it was helping us with our employees, so we decided to go this way. So I would not necessarily look to a government solution to that particular problem.

507. Would you identify your Success Through People programme as being beneficial in terms of childcare and your social costs?

(Mr Simpson) I would guess so. All the time I am basically a businessman, and before we provided childcare facilities for anybody we weighed up what the benefits to the business would be. We worked out that by being able to give our employees a childcare facility they are going to be more motivated, they are going to make a bigger contribution, and at the end of the day we are going to get a financial payoff from that. That is the thinking behind the process.

508. So you would not disagree with the argument that social costs to a company sometimes are beneficial and in that particular case may well be so?

(Mr Simpson) In that particular case, yes.

509. Could you give me examples of it or not?

(Mr Simpson) No, not really.

Mr Clapham

510. I should like to pick up one of the points which Adam raised there. Have you found that there has been a positive response from the unions to the new culture that has now taken on in the factory?

(Mr Simpson) Yes, in most cases there has been a positive response from the trade unions. I think it has provided them with some problems in that what Success Through People is all about is communication direct from the management to our employees, and obviously in the old days that was done vis-à-vis the trade union movement. Therefore, they are having to look at this new way of working and decide what their role is in the new environment. That is something that I think is exercising the more progressive minds within the trade union movement. However, as far as I am concerned, they still have a role—and a valuable role—to play in my company and in British industry.

511. Do you see that role possibly extending in companies to a two-tier structure?

(Mr Simpson) We tried that before and it was not very successful. It may be.

512. Would you accept that there have been some benefits from the two-tier structure—for example, in the German motor car industry?

(Mr Simpson) Yes, there have been some advantages, and it does work. There are models which show that it works. It is not something I am

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[Continued

[Mr Clapham Cont]

against, it is just not something that is high on one's priority list at this time.

Mr Bruce

513. I wanted to follow up that particular point. We have had an exchange with the TUC and CBI on this issue. There seems to be a divide globally. Your attitude is much more relaxed, it seems to me, than the voice of the CBI. You say that you tried it before and it did not work. Do you know why it did not work for you, where it works elsewhere? If you were asked to do it again, how would you do it differently?

(*Mr Simpson*) I think that what I am saying I would not like to be represented as wishing to go to a two-tier system. That is not what I am in any way wishing to present. I just believe that trade unions do have a role. It is a different role from their traditional role, and I think we have to work together to make sure that it is a productive role.

514. I think the interesting point which the Committee has been developing in a number of exchanges here is that you have said that as a company you have, as a matter of policy, tried to involve your workforce much more in the decision-making process and taking suggestions from them and presumably giving them incentives for making suggestions. There is a dialogue going on that suggests you ought to create a different type of company framework which positively encourages, even requires, it. Is it your wish to say "No, don't interfere with the law, don't let us change the law", or is there not an argument for saying that we should create that climate so that the success you have achieved might to some extent be imposed on companies who are a little less innovative than you are?

(*Mr Simpson*) Anything that would help employee contribution is something of which we would be in favour. Specifically on what you have said, I do not have a view on that, I have not thought it through to be in any way authoritative on the subject. I think that anything in general terms which could increase employee contribution and help employee contribution is a very good idea.

Mr Bruce: If the CBI had taken a more relaxed view, if I may say so, we might have had a more constructive dialogue.

Chairman: I do not think Mr Simpson can answer for the CBI.

Mr Ingram

515. Is Rover a member of the CBI, Mr Simpson?

(*Mr Simpson*) Yes, but I would not like to speak for them!

Dr Hampson

516. We touched on the very high end of education a moment ago, but we have had a debate about the state of educational and vocational qualifications and the quality of state education. Do you have any reflections as to which is the bigger problem you face in terms of the quality of the people coming out of the schools?

(*Mr Simpson*) I think that all industrialists in the United Kingdom would be happier if we had a higher

level of education standards, there is no question about that. In some cases it is quite patchy, and that presents problems for industry. Having said that, I believe that is an issue for the Government to address, and I believe they are addressing it. However, the solution to that would be long term. In the meantime I believe as an industrialist that I have a responsibility, and my company has a responsibility, to take the material which is available and turn it into productive, developed, capable employee membership. We at Rover have decided to spend a lot of our resource and a lot of our time training and developing our people, so I believe that it would be helpful and would be better if we had a higher standard of education. I think that for industrialists to stand back and use that as an excuse for not making industrial progress is not something I go along with. We have in fact taken the necessary action, through Warwick, through schools partnerships, through training, through Rover Learning Business, to make sure that the people we do get are actually productive and capable.

Sir Cranley Onslow

517. Are you suffering from particular skill shortages?

(*Mr Simpson*) No. I think we would like a better flow of engineering people into the marketplace, but in general terms our retention because of our people policies is quite high. In general terms we are coping with the skill situation.

518. How many women engineers do you employ?

(*Mr Simpson*) I do not know the specific answer to that. We do have a number of women engineers and we do have a number of very senior managers in the company now who are women running in some cases quite large production units, which is quite a sight to see.

Chairman

519. Do you subscribe to the idea that the school base in the United Kingdom has come down in general over the recent past?

(*Mr Simpson*) There has been, I guess, some depreciation in that. Again, from Rover's point of view, we recognise that and we have set out our stall to make sure that the people who work at Rover get the necessary development and the necessary training so that it is not a drawback on the business.

520. Do you subscribe to the coming back to some standardisation of training across the United Kingdom in the engineering sector? The question I suppose that begs is do we go back to some formal training board, probably not in the same form as it was in the 1960 and 1970s, but do you subscribe to that?

(*Mr Simpson*) I do not have a particular view on that. As far as I am concerned I am setting out my stall to make sure Rover has the capability to train the people it needs. I am not looking to external people to provide that for me.

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[Continued

Dr Hampson

521. This question is just to polish off our Japanese stuff really. Do you think that the Government will still open the United Kingdom market to unfettered Japanese imports while at the same time the rest of the EC is limited?

(*Mr Simpson*) That is a very, very important question and I think perhaps the most fundamental issue facing the Government and the motor industry in the United Kingdom at this time. I have said before that inward investment is something that we, Rover, support. I believe we at Rover support open-market policies, but what we do need is a level playing field within the European amphitheatre and if we do get to a situation where there is a differential of openness about the United Kingdom market as compared to the Spanish market or the Italian market or the French market, then we will be very seriously disadvantaged. What will happen is the incremental transplant capacity will very quickly become substitutional and, therefore, the great opportunity which exists for the British motor industry, which is to go from making 800,000 cars a

year to making 2 million cars a year, will be dissipated. Therefore, I think that when the Government have to act as the European negotiator on things like trading policy, they really do have to take the manufacturing industry's position into account and I think this particular issue is very, very fundamental to the United Kingdom car industry or you will go back to making 1 million cars a year, there will be different people and a lot less employed.

Chairman

522. Mr Simpson, can I thank you very much and also say that we had a kind invitation from your company for the Select Committee to visit.

(*Mr Simpson*) We would be delighted to see you.

523. A simple question which was asked by Sir Cranley Onslow is which has the most robotics, Cowley or Longbridge?

(*Mr Simpson*) Longbridge, I think.

Chairman: Well, we will be visiting Longbridge, I think. Thank you very much for coming this morning.

Memorandum submitted by T&N plc (MC 38)**PREAMBLE**

T&N is a multinational company with a worldwide turnover in 1992 of £1.39 billion, of which 66 per cent consisted of automotive components. The acquisition in June 1993 of the German company, Goetze AG, adds some £350 million to turnover and raises the automotive content to over 70 per cent.

Reflecting the organisation of the world motor vehicle manufacturing industry, T&N's automotive components businesses are operated essentially on a transnational basis, with significant manufacturing activities located in North America, France, Germany, Italy and Spain, as well as in the UK. This spread of activities results in intra-Group transfers of products between these locations, especially within Europe and especially from the UK. The UK operations also remain substantial exporters to third party customers (see answer to Q 1(b) below). The technological focus of the Group remains in the UK, resulting in the generation of significant licensing and royalty income from both Group and third party overseas companies.

We have endeavoured to answer the specific questions posed by the Committee in terms of our UK automotive components activities only. However, in view of the organisation of our automotive operations, as outlined above, it is difficult to give meaningful indications of trends in UK output and sales of automotive components (see answer to Q 1(c) below). For similar reasons, our main competitors are given, in our answer to Q 2, in terms of European-wide markets rather than the UK alone.

1(A) MOTOR COMPONENTS PRODUCED BY T&N**Bearings**

Plain bearings, bushes and washers for engine and other automotive applications.

Piston Products

Pistons, rings, pins and cylinder liners.

Valve Train Components

Valve springs, guides and seats; camshaft castings and machined camshafts.

Gaskets

Cylinder head and manifold gaskets and seals.

Friction Materials

Brake linings and disc pads; clutch facings.

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[Continued

Other Motor Components

- Alternator belts.
- Stabiliser bars.
- Heatshields.
- Braided protective sleeving.
- Centrifugal filters.
- Rubber-metal bonded components, mainly for chassis and suspension applications.
- Brake shims for noise suppression.

1(b) Exports from UK

Sales of automotive by T&N's UK companies totalled over £340 million in 1992, of which 44 per cent was exports. Both the total sales figure and the export percentage include £33 million of exports to T&N Group companies overseas.

1(c) Output and Sales Trends

For the reasons given in the Preamble, and also because of changes in company structure, it is difficult to respond to this question in a quantitative way. T&N's output of automotive components in the UK was clearly affected by the recession that began in the second half of 1990. By the end of 1991, volume was down by about 7 per cent; and it remained more or less flat in 1992. There are signs of an improvement in 1993 as UK motor vehicle output picks up; and exports in the early months of 1993 are up by 6 per cent despite the sharp falls in motor vehicle output in continental Europe. T&N's sales performance through the recession has been helped by market penetration, based on an ability to meet the increasingly sophisticated technological demands being made by motor vehicle assemblers. This has been especially evident in the valve train sector, where the move towards multi-valve engines has also provided an underlying boost.

Sales values have been modestly enhanced by changes in product mix towards higher added value products. But basic prices have been contained by the sustained pressures exerted on component suppliers by the vehicle manufacturers.

1(d) Ownership Structure

T&N's UK automotive operations are all 100 per cent owned. There are no joint ventures in the UK.

2. MAIN COMPETITORS

The automotive components supplied by T&N are characterised by the high and increasing technological requirements of vehicle manufacturer customers. Most are critical to vehicle performance and/or safety, and standards are constantly rising. Thus, while price remains a vital element in competitiveness, it is increasingly bound up with the vehicle manufacturers' insistence upon total quality from components suppliers.

The total quality concept involves not only the quest for "zero defect" supplies, but also excellence on the part of the component supplier in terms of product design and development—in close and early collaboration with the vehicle manufacturer—production engineering, manufacture and delivery. In this "partnership" context the price factor is subsumed into a constant and co-operative drive for cost reductions (within the vital quality parameters), the fruits of which may be shared between the component supplier and the vehicle manufacturer.

Nevertheless, price clearly remains highly significant, since vehicle manufacturers will enter into such long-term "partnership" arrangements only with component suppliers who are capable of meeting target prices and cost reduction demands as well as delivering a total quality package.

T&N's main competitors in the *European* automotive market are listed below. The country of domicile of the competitors is shown (in brackets) where necessary, but most produce and/or sell in other European countries also. Where relevant, the ultimate parent company is also named. The competitors are not listed in any particular order of size or importance.

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[Continued

EUROPEAN COMPETITORS

Bearings

Glyco (Germany)—parent: Federal Mogul (USA)

Kolben-Schmidt (Germany)

Cofrisa (Spain)

NDC (Japan)

Piston Products

Mahle (Germany)

Kolben-Schmidt (Germany)

Floquet Monopole (France)—parent: Dana (USA)

Alcan-Nural (Germany)

Sealed Power Technologies Europa (Germany)—rings and cylinder liners only—parent: SPX (USA) with Mahle minority holding.

In-house production by certain vehicle manufacturers.

*Valve train Components**(i) Valve springs*

Muhr & Bender (Germany)

Scherdel (Germany)

Issringhausen (Germany)

Fabbrica Molle (Switzerland)—parent: Fiat

(ii) Valve Guides and Seats

Pleuco (Germany)

Bleisthal (Germany)

In-house production by certain vehicle manufacturers.

Several small competitors with limited range of capabilities.

(iii) Camshaft Castings

Clancey (UK)

Wizemann (Germany)—parent: Mahle—see Piston Products above.

Monfort (Germany)

Fischer (Germany)

(iv) Machined Camshafts

Wizemann (Germany)—see (iii) above.

In-house machining by certain vehicle manufacturers.

Several small independent machining competitors.

Gaskets

Reinz (Germany)

Elring (Germany)

Klinger (Austria)

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[Continued

Friction Materials

BBA (UK)

Jurid (Germany)—parent: Bendix division of Allied Signal (USA)

Pagid (Germany)

Galfer (Italy)—parent: IT&T (USA)

Roulunds (Denmark)

Clutch Facings Only

Valeo (France)

Raytech Reibelage (Germany)—parent: Raytech Corp. (USA)

Automotive Belts

Hutchinson (France)

Continental (Germany)

Gates (Belgium)—parent: Gates Rubber Co. (USA)

Stabiliser Bars

Hoesch (Germany)

Krupp (Germany)

Muhr & Bender (Germany)

Uscinor (France)

Heatshields

BBA (UK)

Reinz (Germany)

Elring (Germany)

Keller (Switzerland)—parent: Reiter Group

3. RELATIONSHIPS WITH VEHICLE MANUFACTURERS

Relationships with the vehicle manufacturers (VMs) we supply have indeed undergone significant changes—for the better—over recent years. Traditional relationships which, at the extreme, were rather “adversarial” are continuing to move strongly towards longer-term “partnerships” between VMs and component suppliers—as described in Section 2 of this memorandum.

A complex set of technical and economic factors lies behind this change. Basically, the increasing technical sophistication of vehicle sub-systems has made VMs move towards “first tier” component suppliers for solutions to product design, development and production problems. This is underpinned by the economics of specialisation and scale, resulting in a continuing switch from in-house production of sub-systems and components by VMs towards outside supply.

Under the closer partnerships that are thus developing, component suppliers must make substantial up-front commitments of resources to product research and development and process optimisation as new vehicle models are designed and technical improvements sought. In return, VMs are tending to provide longer-term supply contracts, often of a minimum of three years and sometimes for the duration of the model. Single sourcing of a particular component is also increasingly common. All this makes for more stable conditions of component supply and demand.

The all-round performance of the component supplier is, however, closely monitored by the VM over the life of the contract. As well as quality (in its widest sense—see Section 2 above), cost reduction receives constant attention, often on the basis of collaboration between the VM and the supplier. The component supplier is, therefore, under considerable pressure to achieve a high and increasing level of efficiency in all aspects of business operation.

4. RELATIONSHIPS WITH JAPANESE VEHICLE MANUFACTURERS

Relationships with the Japanese “transplants” recently established in the UK are not fundamentally different from the relatively new “partnership” relations with other VMs, which have been outlined in Section 3. A point to make here is that the Japanese VMs have a longer record of such relationships with their

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suppliers at home. It is debatable whether the increased competition from Japanese VMs in North America and Europe has stimulated the move towards "partnership" relations with suppliers on the part of indigenous VMs, though it has probably speeded and intensified it.

It should be emphasised that, as with the European VMs, the Japanese VMs differ in the style and detail of their relationships with component suppliers. Generally, however, their approach to supplier "partnerships" tends to be more formalised and meticulous—probably because of their longer experience in operating such arrangements. The Japanese VMs are particularly strong in project management, covering the product design and development and production planning areas. They also collaborate especially closely with suppliers in securing "total quality" and place much emphasis on constant improvement across all relevant processes and functions. Prices and on-going cost reduction are at least as important to them as to the indigenous VMs. Their general approach results in a high degree of supplier involvement in the success of the partnership, though the relatively rigid administrative and monitoring procedures associated with this close relationship tend to be onerous.

The Japanese VMs tend to require Japanese solutions in the areas of component design and development and production engineering. This results in their preferring UK suppliers which already have licensing or other technical or business links with Japanese component suppliers, especially where the component has a high technical content. T&N has recognised this and has several such links in place. These include a small number of equity stakes in Japanese companies. We would like to have more; but there are often barriers to acquiring equity holdings, which can be difficult to overcome.

A general concern arising from the Japanese VMs' adherence to Japanese solutions in technical areas is that, in the longer term, this could weaken the UK's capabilities in automotive components technology development. In this context, it is encouraging that Nissan has now established a research and development centre in the UK, which should facilitate UK/European design input into future generations of vehicles. It is early days for the other transplants; but similar developments by them in due course would be welcome.

5. SUPPLIES IMPORTED

We take this query to refer to automotive components sold to our UK companies, which have been imported into the UK. It is estimated that only about 2 per cent of the total sales of our UK automotive companies fall into this category. Moreover, some of the imported components are re-exported via our specialist engine replacement parts company based in the UK.

The main reason for importing these components is to supply spare part specifications not produced in our UK factories for motor vehicles which have been imported.

6. OVERSEAS MANUFACTURE

Following the acquisition of Goetze AG (Germany) in June 1993, over 70 per cent of the T&N Group's output of automotive components is manufactured overseas. As indicated in the Preamble, the basic influence behind this global spread is the transnational organisation of the motor vehicle industry. While "nationalistic" sourcing policies are now tending to be relaxed in Europe, it is still often desirable and in some cases virtually essential for components suppliers to have a significant manufacturing presence reasonably close to vehicle or engine assembly plants in order to provide customers with an effective service. This is so both for logistical reasons, especially as "just-in-time" delivery requirements become more widespread, and in order to foster the closer "partnership" relations with vehicle assemblers which are referred to elsewhere in this memorandum.

The existence of manufacturing units in the main vehicle producing countries also gives global players in the components industry, like T&N, valuable flexibility regarding their own sourcing arrangements. Within this context we expect the UK to remain a vital and expanding manufacturing base, particularly where the main product design and development capability is retained in the UK—as in the case of T&N.

7. GOVERNMENT RESPONSIBILITIES TOWARDS MANUFACTURING INDUSTRY

We subscribe to the view that manufacturing plays an absolutely vital role in the UK economy—not least through its contribution to the balance of payments. It is all the more important now to promote the health of manufacturing industry because of the legacy of the 1980s when the longer-term consequences of a shrunken manufacturing base appeared to be insufficiently appreciated. We welcome the indications that the Government is now showing greater recognition of manufacturing's importance to the economy.

In our view, Government's key responsibility is to create an overall economic, fiscal and financial climate conducive to business, and to avoid policies which lead to, or magnify, large short-term swings in industrial demand. We do not advocate that Government should attempt to "pick winners" by way of industry-specific subsidies. Rather, we believe that there should be minimum Government interference at industry level over and above that necessary to ensure fair and legal trading.

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We also feel that the Government has responsibilities for the legal framework within which industry operates, regional development and the maintenance of fair overseas economic and trading relationships. In addition, the Government has responsibilities for the commercial infrastructure—which is covered in section 10 below.

8. INFLUENCES ON LEVEL OF INVESTMENT

The dominant influence on the level of investment in our automotive components operations is the new business we win from our VM customers. This is not simply a matter of meeting increasing volume requirements. Fundamental changes in product specifications and increasingly sophisticated product performance requirements can also lead to the need for new machinery to meet the changing needs. There are thus technical, as well as purely economic, forces which influence the level of investment. In addition, constant pressures for cost reductions generate needs for investment in efficiency improving plant and equipment. The automotive components industry is increasingly capital intensive.

Within this long-term framework, the level of investment from year to year is also influenced by financial considerations. Over the recent recession, many firms have had serious problems regarding their investment levels because of a shortage of finance and the high cost of capital. T&N has, however, been fortunate in being able to raise new finance and has managed its cash resources so as to ensure that we have not had to cut back capital expenditure to the extent that future business has been jeopardised.

9. ENCOURAGEMENT OF INNOVATION

From the earlier sections of this memorandum which refer to relations between component suppliers and VMs it will be apparent that we must be innovative to survive and flourish. Accordingly, management style and structure throughout the Group is geared to the generation and implementation of innovative ideas. Particularly important in this respect is the employment of high-calibre sales engineers who interface between the purchasing and technical development personnel in the VMs and our own product design and development staffs to ensure compatibility between innovation and commercial considerations.

We employ several hundred graduate engineers and scientists in our UK automotive components operations. Some 350 people are engaged in R&D activity in the UK relating to automotive components, with a further 220 working in other product areas.

T&N sets great store by its R&D activities. These are centred on a UK-based specialist R&D facility—T&N Technology Ltd—which undertakes innovative R&D focused on new product development, the improvement of existing products and the continual enhancement of manufacturing technology. T&N Technology works closely with our operating units which also conduct their own R&D programmes, with emphasis on producing practical responses to customer needs. It is important to note also that, while our overseas companies also carry out R&D work, the Group focus in the R&D area resides in the UK.

Attached to this memorandum is a reprint of a short series of articles on T&N's management of R&D and technological innovation, which appeared in the *Financial Times* in March 1993. [Not printed]

10. UK'S COMMERCIAL INFRASTRUCTURE

We feel that the UK's commercial infrastructure is helpful to competitiveness in the area of professional services and at least neutral in the utilities and telecommunications, though any reductions of costs in these areas, relative to those overseas, would, of course, always be welcome. Also helpful is the relatively low level of the "social" costs of employment in the UK compared with competing countries.

We are less happy about the UK's roads and transport systems. While recognising basic geographical disadvantages and constraints, a particular concern is the UK's ability to serve competitively—in terms of transport costs—the integrated European market.

We also feel that the UK has so far failed to get to grips with the need for fundamental improvements in education and vocational training systems. There is much evidence that the UK lags behind many competing countries in education and training—and hence in the level of skills—relevant to modern industry. Apart from the need to raise standards in general education, there is an urgent need for greater integration of school and higher education with vocational training, and for drastic improvement in standards in the latter. Greater relative emphasis and sharper focus need to be given to developing skills that are directly relevant to modern industry. At the same time, education and training systems should provide for mid-career adaptations to changing technologies and skill requirements—though improvements in youth education and training should be given first priority.

11. FINANCIAL MATTERS

T&N has not encountered difficulties on the scale of those faced by some companies over recent years in raising new finance to sustain growth and competitiveness. This relatively good experience owes much to the support we have received from shareholders when we have made rights issues.

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[Continued

As regards the cost of finance in the UK, the fall in nominal interest rates over the past year or so has been welcome. We have, however, been disappointed by the persistence of high *real* interest rates which, for long-term borrowings, are currently around 5.5 per cent. Such high real rates are at least partly attributable to the large public sector borrowing requirement, and it is hoped that the Government succeeds in reducing it significantly. If the PSBR fails to decline sufficiently, persistently high real interest rates are likely to remain a constraint on industrial investment.

As a UK-based multinational corporation, we have been adversely affected by the tax regime relating to dividend payments. During the recent deep recession, profits generated in the UK have been insufficient to allow us to recover a satisfactory proportion of the Advance Corporation Tax we have paid on our dividends. In these circumstances, ACT not only weakens our cash flow in the UK but also penalises our shareholders who, as noted above, have solidly supported rights issues to provide funds to sustain capital expenditure during a difficult period. The reduced rates of ACT announced in the last Budget will be helpful in the short term but will be of no benefit as the expected increase in UK-generated profits takes place. We await with interest details of the Budget proposals for the introduction of "Foreign Income Dividends".

The timescale over which UK companies are expected to produce returns on investments for shareholders appears to be short in comparison with, for example, German and Japanese companies (though not USA companies). The basic reason, as is well known, is the generally much greater proportion of long-term loan finance supplied to German and Japanese companies by banking and equivalent institutions and, conversely, the relatively low degree of pressure exerted by shareholders for speedy returns on their investment. The German/Japanese model appears to offer greater support for companies to undertake major capital investment projects which may strengthen the country's industrial and technological base and its share of world markets, but which pay back financially only over a very long timescale.

There are, however, increasing signs that the creation of large amounts of additional capacity in slow return projects is now incurring financial penalties; and that this investment pattern is unsustainable in the probably lower-growth world economy of the 1990's. While German/Japanese timescales for returns on investment might thus begin to come more into line with those of UK and USA companies, there are also encouraging signs of a more understanding attitude by UK institutional shareholders to well conceived investment plans offering a sustainable return over somewhat longer timescales than might once have been acceptable.

14 June 1993

Examination of Witness

MR COLIN HOPE, Chairman and Chief Executive, T&N plc, examined

Chairman

524. Thank you very much, Mr Hope, for coming to the Committee this morning and can we thank you also for the memorandum, MC38. Perhaps I can start by saying that in a recent newspaper article, the head of UK purchasing for Volkswagen said that there had been "a quantum leap in the competitiveness of UK automotive components supply base since the late 1980s". Is this an exaggeration, do you think, or has that quantum leap been made?

(Mr Hope) I think it is very variable. I think there is certainly quite a large number of companies which have quite transformed their position and indeed I think probably most companies have improved significantly in terms of quality, management, no disruption, because of course in the history of British industry that was a problem, and that has all gone by the wayside. In that sense I think from the German perspective there has been an enormous improvement, but, as I think Mr Simpson said, I do believe there is still a substantial gap between the performance of the best and what might be called some of the more rank-and-file, second-tier component suppliers.

525. Let us just explore that a little then because I think you came before this Committee in 1987.

(Mr Hope) I did.

526. I was very much a junior Member at that time, if I remember rightly. Could you tell us in terms of the best of companies that you just referred to what has been the important factors for the change of the best companies?

(Mr Hope) Well, the reality was, if you go back to British industry way back in the period that you and I are talking about, you not only suffered frankly from, I think, very inadequate management where a lot of it started and you had the problems with the unions and problems of disruption, but on top of that you had a long period of lack of investment and lack of technological development and the whole of industry had become a bit of perhaps not a place to be, and it was not a place that people wanted to go to work in if they had imagination and creation and so it was a big change which was necessary. Now, what has happened, I think, is that the bigger, or perhaps not necessarily the bigger but the better companies have not only benefited from the much improved management approach, the much improved industrial relations, the attitude indeed of the unions and so on where they have changed out of all order, but they have invested very heavily and they have involved people in innovation and technology and so on. The smaller businesses have found it much more difficult to do. I think one of the difficulties is that you only invest in technology if you actually think you have a long-term future and many of the smaller

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MR COLIN HOPE

[Continued

[Chairman Cont]

companies perceived from that point of view that they were very dependent on individual and limited numbers of customers, that they were not too sure of their bank lines because of fluctuations in the economy which of course has clearly caused periods when all of a sudden there is a credit squeeze and the next thing there is not, and I think people found it very difficult to both have the vision to invest and develop the technology and in fact I think sensibly to be able to take the risk, whereas if you look, for example, at the second-tier Japanese supplier out in Japan, they have a long history of a very close link with their customers and they are often very, very closely related to a relatively limited number of customers, and these customers have had a long period until recently of constant growth and they were also mothered by the customers, so the customers very much came along and told them what to do, showed them how to do it and, as I say, there was finance available on a less risky basis because there had been less fluctuations. Therefore, the lower-tier British industry, I think, compared with the Japanese and the Germans, both of whom had this benefit, suffered from this lack of investment, lack of technology as well.

527. From the middle 1980s to where we are now, there has been quite a dramatic change in the relationship between the supplier and the main customer and indeed that was taking place when we did our last inquiry.

(Mr Hope) Yes.

528. Do you think it has now settled down, the model with the first and second-tier suppliers, and is that going to be the model which will continue for a period?

(Mr Hope) I think unquestionably there is going to be more and more partnership between the first-tier component suppliers and the automotive industry. I think it is not only a matter of being good for the component suppliers, but actually the vehicle suppliers need it as well because the vehicle suppliers are facing a tremendously competitive world where there is going to be tremendous mayhem, I think, amongst some of them in terms of being the ones who win, survive and, therefore, they are bound to say, "We have got to have good sources, reliable sources. We have got to have a component supplier who can do a lot of the design and the development work", because that is the only way you can economically survive, so that if you, as a major component supplier, have developed the strength of the high technology of in fact being able to give the solution to the customers, then actually there is not only a partnership in the nice sense of it, but actually an economic partnership in the sense that it is at least as critical to what they are doing now for the vehicle manufacturers to ensure that they have partnerships with their suppliers as it is beneficial, I think, to the suppliers to have that partnership. Certainly it has made good progress and I think it will continue to make good progress.

Dr Hampson

529. That is interesting because I think that is a lesson, is it not, of both the IT industry and the food industry? They have successes because they have very

close, open relationships and there are a lot of demands placed on the suppliers, but it is a positive partnership which has succeeded.

(Mr Hope) Absolutely. I do stress this point which is that I think there has to be sort of economic pressure on both sides. In fact I can give you an example, and I do not think it will be a smooth transition, where we have had, for example, recently in the motor industry issues of a number of companies getting into trouble and adopting frankly purchasing tactics which are suddenly designed to say, "We have just got to get 30 per cent off our component costs", and in one or two cases component and vehicle manufacturers have been almost cavalier in the sense that I have heard of stories of contracts being torn up and they are starting all over again because new component suppliers have got to do it. I think that is almost inevitable, because when you get the sort of commercial pressure of somebody who is a vehicle manufacturer who is in serious trouble, he will sometimes behave a little irrationally. As to the consequence of that, I can speak from my own company's point of view where we have had contracts torn up and have been told, "Right, you're all back in the tender again", and we have actually come out of the situation with far more contracts than we went in with. The fact is that our technological strength was much more a partnership one than a piece of paper that is the contract, and the companies were not able in reality to put us under that sort of pricing pressure position because it truly was a partnership. However, I can see that there will be pluses and minuses if this sort of thing happens to a supplier who does not have the same kind of technological strength, and it could be pretty rough.

Chairman: Perhaps we could look at the financing part of that. I will ask Mr Ingram to pursue that.

Mr Ingram

530. One of the things we hear, of course, is that large sectors of the British industrial manufacturing base find it difficult to get finance for some of the things they are doing, whether it is R & D or other development projects. You as a company do not seem to have suffered from that, certainly on the evidence which we have had from the *Financial Times* and the like and some of your own submissions, is that right?

(Mr Hope) Yes.

531. Why do you think that is? Why are you much better placed in raising that type of finance?

(Mr Hope) I believe the so-called problem of short-termism by the City is at least as much an issue which is in the mind of the executives of the companies as it is of the City, in that usually when people start talking about short-termism they mean that their company is not performing very well, there is a threat of a takeover and something like that will happen. My general view—and it is obviously not absolutely 100 per cent correct because there are cases where it has not happened—is that if a businessman is clearly focused on his business he knows where he is going, he knows what he is going to do, and that if you go openly to the City and explain the story, explain what you are going to do and are seen constantly to deliver down the track, you will, by and large, get far more

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MR COLIN HOPE

[Continued

[Mr Ingram Cont]

support from the City than otherwise. In our own particular case we would freely say that we have wrested perhaps a rather large number of rights issues which have all been very much supported, and in fact the last placing that we did was only two weeks ago when yet again the issue was substantially over-subscribed on a very narrow pricing margin. I think that the obligation is at least upon the company, in that the company needs to have this clear vision of where it is going and explain it to the financiers, and then you will get a surprising amount of support.

532. In your paper you give an indication that you think there is a move away from short-termism within the investment community, shareholders and others. What evidence do you have of this? It is something which has not really come out in terms of previous evidence we have had. There is a desire for it, but there does not seem to be much evidence of it.

(Mr Hope) Anything that is talked about a lot and considered a lot tends to move a little along that track. It has obviously been a subject which has been discussed in the City and discussed in business circles on many, many occasions. I think the sheer awareness of it has made that happen. However, I think there is evidence of a number of occasions where there have been, for example, attempted takeovers, where the institutions have actually supported the existing tenants, not always correctly.

533. One of the areas we have been looking at in the course of evidence is the German financing system and the Japanese financing system, and experiences which are happening in other competing countries. You in your paper are a bit ambivalent towards that type of approach. Could you expand on why you do not find that attractive?

(Mr Hope) If you take the Japanese financing system in which quite clearly they have benefited over the last few years from very low interest rates, very stable finance and almost preferential or very preferential terms, I think there is now growing evidence, from what has happened in Japan, that in the main people have discovered that this was founded very much on the property boom which has happened in Japan, and that what has happened is that they have invested lots of money only to finish up at the end of the time with lower earnings than they started with. I have had a lot of evidence of it in Japan. One sees that all of a sudden the cost of financing in Japan is beginning to come up to more normal standards. Similarly, we see that in Germany. However, in the United Kingdom we have had the other extreme where the cost of financing has clearly been far, far too high relative to the situation, but that now appears to be coming down. So I think that, as happens with a lot of these long-term problems, in the long term some better degree of equality is coming about.

534. I would hesitate to ask you if you have a concept of the ideal system, but do you have a preferred system, given the experiences you have and the answers you have given previously?

(Mr Hope) I do not really think there is a preferred system in that sense. What is clearly beneficial to get growth into any economy is that you do need a period of broad stability related to interest rates and to whatever cost charges you have, and they do need

to be at real levels which are reasonable, which really do allow a progressive investment policy. If you have 10 or 15 per cent interest rates there is no way that you can develop a long-term manufacturing strategy and a policy. So essentially what you need are moderate interest rates with not excessive fluctuations over fairly long periods of time.

535. Is a fixed exchange rate important to you?

(Mr Hope) No, I think that on the exchange rate I am easier about a variability of an exchange rate. The same is true in that one does not like to see wild fluctuations and huge increases in terms of this, but the idea which I think was put forward by a lot of industry is one I personally do not subscribe to, that we really have to have a very narrow band of exchange rates. I can tell you an interesting little practical story related to this. Karl Hahn of Volkswagen actually said at a conference last year that T & N had been competitive at 3DM to the pound and it was now going to "knock hell out of the German suppliers" at the current rate. In fact, we had set out to be competitive. We had a company policy that we must be competitive at 3.10DM, which was the figure we set because the exchange rate moved in those categories, and it has paid off. Obviously, though, if you have these big fluctuations I think it is not good, but there is no need for things to be too bad.

Mr Ingram: It is obviously an old story if you talk about an exchange rate of 3DM to the pound!

Mr Bruce

536. On the business about your relationship with the City and educating the City, in the article you sent us it listed six reasons why you persuaded the City that your investment policy and your R & D policy were valid. Does not that make it clear that you had to make a very sustained and systematic assault on the City to persuade them of something which you obviously believe is absolutely essential to your business? Is there not a problem?

(Mr Hope) Absolutely. There is a problem in that I think that a lot of companies do not explain themselves to their investors. I do not see why people should invest if they do not understand what they are investing in. I think that the obligation is at least upon the company to go to almost extraordinary lengths to sell their story. After all, it is all about marketing, whether you are marketing cars or products or your story to the City. So yes, it is critical that you do that, and it is absolutely fundamental. Yesterday we had nearly 70 analysts and investment institutions for the whole day from the City going through the next stage of T & N.

Chairman

537. How much time do you spend explaining your position to the City?

(Mr Hope) Gosh, I find it very difficult to calculate it.

538. Roughly.

(Mr Hope) I suppose I am in London one day a week doing some of it.

539. And the rest of your senior staff?

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MR COLIN HOPE

[Continued

[Chairman Cont]

(*Mr Hope*) We involve basically the very top directors in this, but interestingly only the top directors. We have a PR department comprised of three people, because the directors do it themselves. I do not think that anything that is not done by the top directors has credibility; it is concocted otherwise.

Mr Bruce

540. One particular item which was picked up, and I think you will not accept the way it is described, is that only about 5 per cent of T&N's so-called R&D is real research. Now, you may dispute that, but the article made the point that you have gone out and said that this is very targeted, very specific, it is to achieve market aims that the City can relate to. If you had to sustain a more broad, less specific form of research, would the job be infinitely harder, and is that just to do with the nature of your business, that you actually sacrifice the research element because of it?

(*Mr Hope*) No, you see, I think the reality when you are in business and in fact most products, unless you are in something like trying to invent a new drug, if you call that invention in drug research, although you could argue it is a specific position, but unless you are in something very, very way-out like that, most R&D business is in truly very limited real research and mostly the application of it, but I think most of what we describe as "D", a layman would describe as being real research. By "real research" we mean we may look at how to put a new element into a new material. Once we are actually putting those elements together and testing it and turning it around and turning it into an actual product, that is "D" to us and not "R", if you understand what I mean.

541. You have not had to compromise?

(*Mr Hope*) No, I do not think we have compromised that at all, no.

Dr Hampson

542. Mr Hope, you have heard an earlier question I put which was to suggest that these macro questions which yet again we have discussed about the exchange rates, skill shortages and so on are not really at the heart or they have not been at the heart of our problems, and that it is really the adaptability of British companies that when faced with change they do not readily accept and proceed with them and this report from IBM says: "The inability to implement change quickly enough is the biggest single inhibitor to business vision in UK manufacturing companies. This is the area towards which new initiatives should be targeted." (a) Would you agree with that, and (b) what are the sort of initiatives, say, that government should be part of which are instrumental in this process?

(*Mr Hope*) First of all, I in principle agree that the biggest issue is in fact merely how you create the whole culture, the vision, and all the things which are going to make the change continue, so I do agree with that. I do not like that wording, but I agree with that broad concept in principle. My view is that in fact there are relatively limited things that government can do to push that along unless you go back to where we started from. If you go back to where we started from, I think we had a position where the

whole of manufacturing was not very respectable and people did not want to go into industry because people thought, "If I go into industry all I am going to be faced with are arguments with the unions all the time", all that kind of thing, which was so negative that we started from that point of how we really recreate the whole manufacturing ethos, the culture, the wealth-making culture position, and we have gone a long way on that. I think what government can do is far rather than set specific investment incentives, which I think is always distortive and I am totally against it in real terms, is constantly try and build on that ethos, and I am very encouraged to see the current Government's re-emphasis of the importance of manufacturing and I think it is absolutely critical that that goes on and that that is maintained. I would love to see far more people in Parliament, if I may say so, who had a manufacturing background and who understood what it was about. It is that sort of situation which needs to be encouraged and in terms of the environment, if you look at, for example, the productivity where our factories are concerned, we have very international operations so we can compare almost anything, and I still think that probably our best factories are in America, which may surprise you, rather than Japan, and the real reason is when you go into America the whole flexibility, speed of reaction, thought process is far more dedicated to making their business a success than we are even now. We have come a long way, a long way, but in the US in the best factories, and there are some lousy factories in the US and real problems in the US, but in the best factories there is no doubt about it that the whole factory from the top management down, they are all dedicated to the same objectives and they are all looking at how they can run the factory with only a management and then just employees, for example, which is just the sort of thing, and cut out the middle management, which we all agree with. I think the biggest thing the Government can do in terms of this is continue to really emphasise the importance of manufacturing, to encourage education which fits into it and which has been poor. There are a lot of technicians, but we are only just beginning to see technicians who really want to be in industry. I go back to my days at Cambridge when I read engineering and I think there was a party of eight of us who used to be together and I think I am the only one left in industry. This is what is wrong. We are seeing more of that happening now so it is that and just the encouragement of a country which has things like a structure, a road structure, for example, transport, which all support the whole concept of manufacturing. That is what I think should happen.

543. Can I switch to comparisons with the Japanese? It has been so many times said that it is the Japanese influence which has been instrumental in creating all of the changes, particularly between the suppliers and manufacturers in the car industry. Would those changes have occurred anyway without the Japanese?

(*Mr Hope*) I think that is a bit of a hypothetical question and it is difficult to say. I think the Japanese have been enormously helpful. I would support Mr Simpson's comments that the arrival of the Japanese created, particularly in terms of vision, of quality and

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MR COLIN HOPE

[Continued]

[Dr Hampson Cont]

those sort of things, new levels and I think management is all about creating new vision in terms of this and that has been a major force, so I think as a component supplier we absolutely welcome the Japanese plants and so on.

544. There was an implied criticism as well in your paper. I think you almost put it that there was a real threat that we were getting too dependent on Japanese solutions in the technical area.

(*Mr Hope*) With the prolonged, almost, demise of the British manufacturing industry for a long time the number of component suppliers in particular who have retained any sort of technical initiative or technological input has diminished and I am afraid there are far too few large people left in the United Kingdom who are coming back in terms of that. I think what that has tended to mean is that the Japanese will too easily turn to their own sources for the technological development and it seems to me that one of the most critical things we have to do in the United Kingdom is try and rebuild the United Kingdom as the technical centre. It matters much less if a United Kingdom company has lots of overseas subsidiaries (it may be critical for it to operate to do that) as long as the United Kingdom is where its technological base is, because, as we said earlier, that then becomes the powerhouse and of course this, therefore, must be the risk with the Japanese that their powerhouse is in Japan. Therefore, I am very pleased to see, for example, the Nissan technical centre and Toyota setting up in mainland Europe and so on and what I am encouraged by is the extent to which the Japanese car companies are now showing they are willing to move some of their technical judgment to at least the best companies. If I may quote from a letter I received from Mr Kumi, the President of Nissan, after he visited our technical centre, he said he had no idea there was such state-of-the-art technology in the United Kingdom and that no such comparable company as T&N existed in Japan, because indeed they do not actually have a company with that product spread.

Dr Clark

545. Mr Hope, you have said to us earlier that some of your best factories were in America or some of the best factories are in America.

(*Mr Hope*) Yes.

546. You have also said that you try to locate your technology centre where you have your best factories. You said that just a moment ago. How then do you square these two? If you have your technological focus in the United Kingdom and you have got some of your best factories in America, how do you square the fact that you have just said that you try to locate the technological centre where you have your best factories?

(*Mr Hope*) First of all, we have a lot of best factories in the United Kingdom as well.

547. Good.

(*Mr Hope*) That is an important element to get over. When I was talking about the best factories in the US, I was particularly meaning related to the total attitude of their position and in that sense it is easier to do it in the US because of the environment than it is in the United Kingdom, but the United

Kingdom is still our largest manufacturing source. It is actually the source which is still having pro rata the highest level of investment put into it, so we are still very large in the United Kingdom because we believe the United Kingdom has all the potential for being probably the number one, world-class manufacturing base in terms of this.

548. For your company or for other companies?

(*Mr Hope*) I think, for anybody who does it properly.

549. So the United Kingdom has the potential to become a world-class manufacturing base?

(*Mr Hope*) Absolutely. I have no hesitation whatsoever in saying that on the evidence which we have, some of our factories in the United Kingdom are unparalleled in terms of the world.

550. You have given us some reasons why you have got your technological centre in the United Kingdom. Could you give us others? We have heard, for example, that there is probably a skill shortage, that the basic education of the people available to industry is less than industrialists would like. Those seem to be negatives. However, perhaps you have found that there is good clay that you can mould into better shapes, even if it is not in the right shape when you first get it. What are the other reasons for having your technological centre in the United Kingdom?

(*Mr Hope*) First of all, we started off with a British company and we want it to remain British. We see it in terms of that, so to some extent we started from that basis. Our first technological work was established in the United Kingdom way back in history, so that was a natural desire. Certainly we have found no fundamental reason—I go back to the same point about manufacturing base—as to why the United Kingdom has not got *all* the advantages for making it the best technological centre. I would particularly refer to innovation. We certainly find it easier to get the very special innovative people in the United Kingdom. The mental attitude of British people is extremely innovative. There is no question about it, you do get that. On top of that, provided you can manage them and deal with them properly, there are very high-quality scientists, there is no question of that. The real issue is how you turn that high-quality innovation and those high-quality scientists into an actual final end-product.

Chairman

551. Are you going to tell us how that is done, then?

(*Mr Hope*) Hard work, actually. We do not find it that difficult, and that is the thing which surprises you, but again we come from where we come from. We perhaps now have sufficient of a reputation that we do not have any trouble, frankly, in getting the cream of people we want for our technological centre. However, we do, at the technological centre in the United Kingdom, have a limited number of Germans, Americans, French and Italians as well, so they are not purely British nationals, we bring them here too.

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MR COLIN HOPE

[Continued

Dr Clark

552. If I can stay on that international theme, as we understand it, T & N manufacture, as we have already discussed, in North America and also on continental Europe. What are the factors which determine where you will expand your manufacturing base, bearing in mind that you have excellent factories elsewhere? What are the factors which determine where you should expand and invest?

(*Mr Hope*) First of all, you have to do what your customers want, in the sense that if a customer feels that he needs to have a manufacturing source relatively local to his environment and he feels he needs to have engineers he can talk to in the local environment, then unless you have manufacturing resources, say, in France, the probability is that you will not supply the French motor industry, it is just as simple as that. So that we are bound on the one hand by the constraints of listening to our customer and providing the sort of thing which will get us the business. What we then do on top of that, of course, is to say that at the same time we want to ensure that we manufacture as much as possible in the most cost-effective locations so we maximise the profit position. I have spent some time recently explaining to the City, for example, why we have just acquired a major German company. It was about two weeks ago that we actually completed the transaction. We acquired the major German company because after having tried for years to get our fair share of German vehicle components we found that the reality was that the German customers, despite promises, said that it would be far much easier to phone Herman down the road and be able to talk to him and so on. We therefore found, for example, with Volkswagen—if I may quote this—that we had to get to somewhere like a 20 per cent price differential before we could get a UK component into Volkswagen. It was worth it to them, if you like, to have that contact there. This is changing, of course, but quite clearly what we decided was that we did need a big enough German base to ensure that we had that local contact and we had the technological links actually to ensure that we could supply pistons out of Bradford. Indeed, in Volkswagen I talked to Karl Hahn himself who said that when we get this acquisition completed we will be able significantly to increase the exports from the United Kingdom.

553. Mr Hope, may I remind you that in your evidence to this Committee—not that I was on the Committee then—in 1987 you stated that “the UK market on its own is not large enough to provide a viable base for the manufacture of motor vehicle parts”. Could you let us know whether that statement still stands today, six years later? If it does, what effect does this have on the competitiveness and export potential of UK component suppliers?

(*Mr Hope*) I think that it is very unlikely that a major UK component supplier could exist with only a United Kingdom base. Our sales to the UK market these next 12 months will be such that less than 20 per cent of our total production worldwide will go into the UK market. So that that alone gives you the issue. We export as much as we make for domestic use, so 50 per cent of our total UK output is exports. We are probably one of the largest net exporters in the

United Kingdom, because we import virtually nothing. 20 per cent is about the correct level in real terms. So we would not have the economies of scale, the clout, the financial partnership muscle, if we just were in the United Kingdom. That does not mean to say the United Kingdom is not a superb manufacturing base and one to continue to be encouraged.

Mr Clapham

554. Mr Hope, in looking at innovation, you describe your innovation as being market driven. Is that really relating to the manufacturer of the car, or is it more to the purchaser of the vehicle?

(*Mr Hope*) No, in our particular case our customers are the vehicle manufacturers. They, of course, are often very much influenced by the final customers in that sense, but our basic marketing philosophy is first of all listen to the customer. The very first thing you do is to go and listen to the customer, and even when he produces his apparently absurd statements listen to him, because quite often they come true. Some of the quality management people could not believe the high levels of quality which were first being suggested. We listened to them, and that has been a very, very useful marketing driving force to have been ahead of the game. So that you listen to the customer, the manufacturer, the car man, and you look at his environment where he manufactures. That is another thing, because what a component supplier does is that he makes it easier for the car manufacturer to buy things, so it is a question of how it works, what it looks like, how is it delivered, what sort of shape is it in. You look at all that. You inevitably pick up things such as the fact that the emissions need to be reduced, so you come up with ideas about how your product might be developed to help the customer to improve emissions. For example, we identified very early on that the diesel car was going to be marketed, particularly in France, and I think we now have 100 per cent of the diesel pistons in all the light cars in France, because we identified it and we came up with a diesel piston which does not knock around, it is quieter than anybody else's. That is the way we learn.

555. So you are constantly responsive to the manufacturers' call for you to take into consideration, for example, environmental concerns?

(*Mr Hope*) Absolutely.

556. On a recent research and development scoreboard your company came 29th. Are you satisfied with that?

(*Mr Hope*) I am glad you brought that up, because that to me shows how nonsensical these scoreboards are. What that scoreboard measured was what we spent. It also included, for example, how much per employee. It ignored the fact that we have, relative to the old T & N, 7,000 employees in Africa. They are not dealing with that sort of business at all in terms of that, but the reality is not half as much how much in total cash is spent, but how effectively you spend it. The effectiveness in R&D is at least as important, probably more so, than effectiveness in manufacturing.

557. I was going to ask you how relevant do you think these surveys are?

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MR COLIN HOPE

[Continued]

[Mr Clapham Cont]

(Mr Hope) I think statistics can prove whatever you want.

Mr Ingram

558. On your score-board, where would you place your company—first?

(Mr Hope) I believe in worldwide terms we must be very close to the top of the component companies in terms of R&D. I do not know whether we are first, but we must be in the top half dozen.

Mr Clapham

559. You obviously produce a wide range of products. Do you think in future you will be able to remain producing that wide range or will you need to perhaps focus on one or two of your products?

(Mr Hope) Well, our products are in fact inter-related. It is very surprising, but in fact it has been very deliberately developed on that basis, so that we do not take on products which do not have a benefit. For example, in material technology, plastics are used occasionally in pistons, believe it or not, so there you have your plastics knowledge, you have your metallurgical knowledge, you have your component design knowledge and they are all produced with this inter-relation. We are constantly looking at the company to make sure that the summation of the parts is greater than the whole. We believe that is one of the key elements of our success. We actually believe we are more and more likely to see more products made at T&N rather than fewer and we are not worried about that diversity. It is in fact beneficial.

560. So the object of the company would be to maintain the diversity and perhaps increase it?

(Mr Hope) Absolutely, yes, without any doubt. Can I just quote a little figure because it just might surprise people around the table, which we did happen to check last week for the particular PR purpose we are talking about. We have currently as a group over 18,800 OE contracts in place worldwide to vehicle manufacturers, so we are supplying over 18,800 different major components to manufacturers at this moment in time and that in a way is one of our strengths in that we are so widely spread we are getting all the technologies in the world.

Dr Hampson

561. Mr Hope, have you discovered some sort of magic ingredient that others have missed? How do you determine the effectiveness of your R&D?

(Mr Hope) Of course it is not perfect—no company is—but we do very ruthlessly monitor all the programmes at a very high level and I myself actually see on a regular basis the programmes, the way they are going and what the objectives are, what the final estimated income is going to be and where it is coming from. We have many systems laid down whereby we do that, so I think if there is an answer, the answer is: do not have some clever board doing blue sky, develop your R&D programmes from the operating people upwards and then monitor the programmes very carefully. There is no magical ingredient; it is all about management and the vision of management.

562. Coming from an industrial area like Leeds, I am conscious that the great sort of clusters of industrial strength which we were basing our power on at the turn of the century were in Birmingham, the Black Country, Manchester, Leeds, but these seem to be breaking down in many ways and there is sort of a lot of modern American economic theory which talks about the need to have industrial clusters which have more co-operation rather than antagonism in their relationships, as you have been mentioning earlier. Do you think that we can re-establish those sort of industrial districts and when you look at, say, Germany, southern Germany is moving that way with their technology transfer districts and so forth? Is that the right analysis and is there a solution that we are seeing in southern Germany which we can turn to here?

(Mr Hope) I certainly like the idea of general areas which have a hive of industry in a number of related technologies and so on. I think it helps this cultural point. I personally am in favour of the small-sized businesses rather than big businesses and I would argue we are generally more comfortable with factories of 400 or 500 people than we are with factories of 1,000 or more, but I think that is very much a muchness and it is much easier in a way to have a factory with a management who knows the workforce and vice versa, but, you see, with a number of those together you have all the cultural benefits to reinforce it and you then tend to get the infrastructure which is necessary for it.

Mr Bruce

563. I wonder, Mr Hope, if I can ask you about what you think the Government can do in the manufacturing industry. In your question 7 you said that the manufacturing base in the 1980s appeared to be insufficiently appreciated. You said that you are not in favour of government picking winners, which I think is generally unfashionable now anyway, but what is it you want the Government to do? Is it simply to flavour all its policies with a recognition of the impact on the manufacturing industry or is it to pursue specific policies because they will have a beneficial effect on the manufacturing industry? Can you give us an indication of what you mean?

(Mr Hope) I think I am not focusing on any specific policy. I think the trouble is that almost every aspect of government has an impact on manufacturing and, therefore, what you need is a government who does consider in virtually every decision it makes what that impact is on manufacturing and whether it is in fact going to be detrimental to the British industry or whether it is not. We have talked about the Social Chapter, for example, and it is unquestionably true that the social costs that, for example, the Germans are now struggling under is going to be a major force in making sure that the United Kingdom really comes forward in the next few years and I would have thought one would be very unhappy to see the United Kingdom industry begin to be saddled with some of the burdens of the social costs just when the Germans are actually trying to start untangling them, as indeed they are and I know that from our German operations and what goes on below the surface now related to that. It is that sort of basis of constantly making decisions. Sometimes we have felt with

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MR COLIN HOPE

[Continued

[Mr Bruce Cont]

government that if an issue crops up, the first sort of assumption of people talking to you is, "You are a bit of a rogue. What are you trying to do?" and it has got to be exactly the opposite way round.

564. I think the difficulty that, say, this Committee has if we are trying to identify what more may be done for the manufacturing industry is a lot of time what the manufacturing industry tells us is what they do not want government to do. You have identified in your paper concerns about the utilities, the road transport system, education and vocational training and so on.

(Mr Hope) I think those are very important issues, all of them.

565. I am not suggesting you can answer this question now, but do you have views as to more specific, targeted things that the Government could be doing in those areas and rather than just a general, "We need more skills, more education", are there specific areas that we should be addressing?

(Mr Hope) I would particularly like to come back to the infrastructure. I think the infrastructure is becoming a real problem to industrialists. When you have lorries stuck on the M6 for I do not know how many hours and when you are trying to get your stuff down to the airports to get it out of here, it gets very difficult and I think that is the area, and certainly if we look to the US and we go to mainland Europe we find it much easier to move goods, to put it as simply as that, and that is a very critical factor.

566. Would it help then if our lines of infrastructure did not take all our manufacturing goods right through the middle of congested England to its effective markets and should we not be providing links that avoid that?

(Mr Hope) Clearly yes, that is quite correct.

Chairman

567. You heard Mr Simpson before, slightly away from the question Mr Bruce has asked, but on academic institutions what is your relationship with them? Do you favour that development?

(Mr Hope) Again if we measure it in total quantity terms, it probably would not look as significant as all that because compared with perhaps the Rover Group, for example. We have a lot of relationships with universities, four or five really very close relationships, and indeed we tend to insist on them being project-specific so they cover a specific desire to achieve some particular end over some relatively modest timescale, maybe a couple of years or something like that, so we do do a lot, but it is done on that basis and we do select the university which we think has the best solution to that particular issue on that basis, but I think it is at least four or five major universities and indeed Warwick, as Mr Simpson does, but we are very small beer compared with them or even Lucas for that matter because they tend to like to do more general project operations.

Mr Ingram

568. Do you use our national laboratories to any extent for your research and development activity?

(Mr Hope) We have done.

569. For example, do you use the National Engineering Laboratory?

(Mr Hope) We have done, yes.

570. There is talk within the DTI that those laboratories are likely to be privatised. Do you feel that would compromise the quality of their independent research?

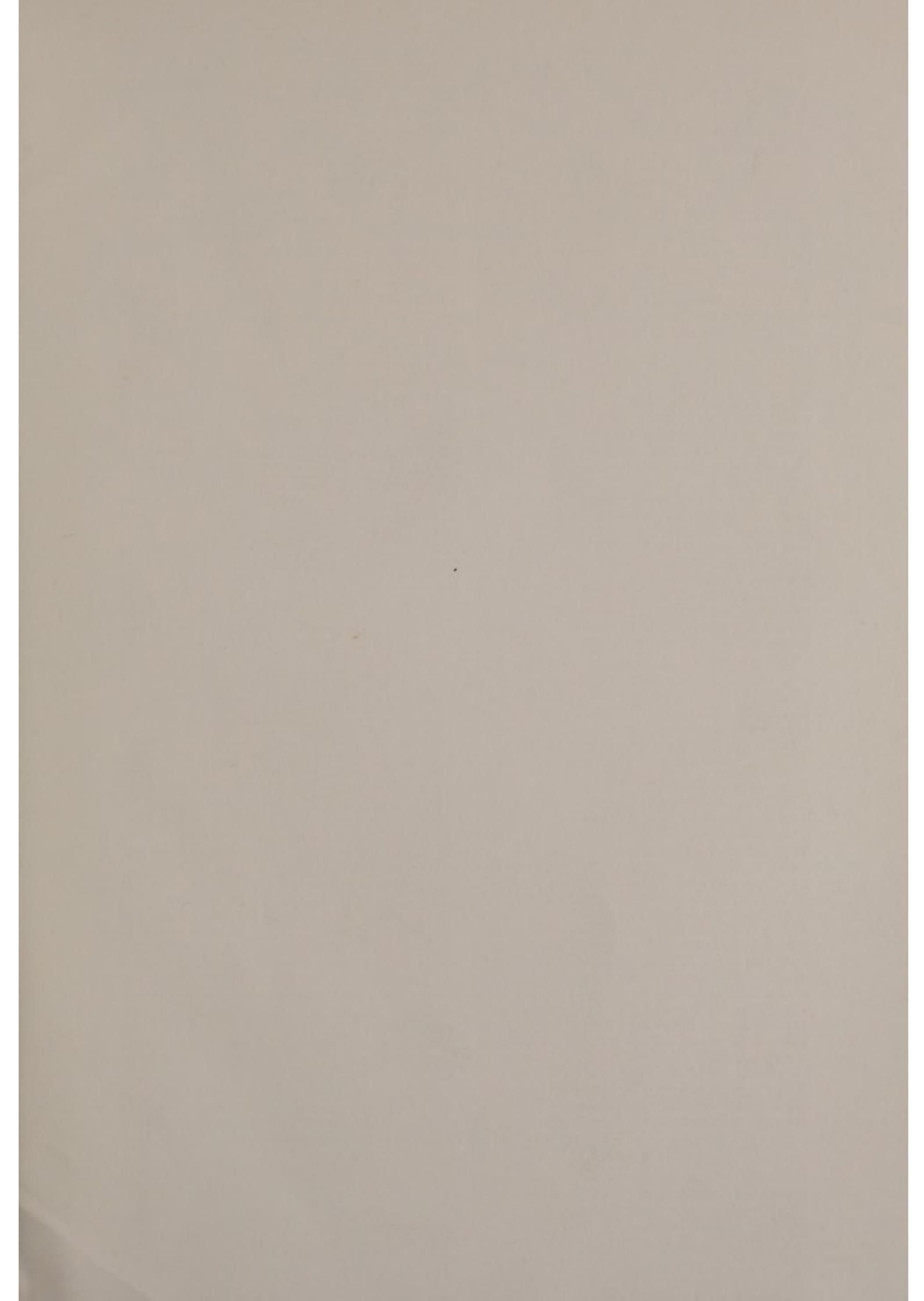
(Mr Hope) I do not think so, but I would want to see the detail obviously in terms of that. The best quality comes from a thriving establishment, and I would far rather see some of them privatised and thriving than try to remain independent and be struggling. We are back to the problem of the difficulties the Government has about making commercial decisions.

Dr Hampson

571. Finally, Mr Hope, using all your international experience, could you indicate which region of the global markets we should be focusing on and where we need to be most competitive—America, Western Europe, Eastern Europe, the Pacific Rim, the new emergent ones like Korea, Thailand?

(Mr Hope) Europe is our nearest and most natural market, I think, for the particular products we are talking about. We do see a progressive freeing of the movement of components across European boundaries. Europe is still hidebound with boundaries; the French still buy French, the Italians still buy Italian, the Germans still buy German, whatever people say. However, the market is beginning to free up, and I think that over the next 10 years we will see much more sourcing moving out of the United Kingdom and so on. So I think that Europe remains the key area which we should focus on to ensure we are in the lead. There are not many of us who are in the business other than to be in the lead. We should be the best manufacturing source and the best technological source. If we do that, there is a huge market available over a period of time. Of course, the biggest growth market is the Far East, there is no question about that, but from T & N's point of view—and I think it must be fairly typical of most component manufacturers—we see that most of that is going to have to be the provision of technology for setting up establishments out there with licence flows back, but essentially the manufacturing tends to take place in the local markets. There are big opportunities in China. We have nine products at the moment under discussion in China, so we see that as having a huge potential. Income flows will be very considerable, and all this will help to build the UK technology base. With the United States I think you have to make it in the United States; it is very difficult to export automotive components out of the United Kingdom in large numbers into the United States.

Chairman: Mr Hope, when you come back in six years' time I hope that all you have been saying and all your experiences will have come to fruition. Thank you very much indeed.





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