

**Competitiveness of UK manufacturing industry : minutes of evidence,  
Wednesday 7 July 1993 ... / Trade and Industry Committee.**

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TRADE AND INDUSTRY  
COMMITTEE

COMPETITIVENESS OF UK  
MANUFACTURING INDUSTRY

MINUTES OF EVIDENCE

Wednesday 7 July 1993

SOCIETY OF MOTOR MANUFACTURERS AND TRADERS

*Mr Roger King, Mr Michael Hollingsworth and Mr Robert Lawrie*

GKN PLC

*Sir David Lees and Mr Trevor Bonner*

NISSAN MOTOR MANUFACTURING (UK) LTD

*Mr Ian Gibson, Mr Peter Hill and Mr Daniel Ward*

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7 July 1993*

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WEDNESDAY 7 JULY 1993

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MANUFACTURING INDUSTRY****MINUTES OF EVIDENCE****Wednesday 7 July 1993*****SOCIETY OF MOTOR MANUFACTURERS AND TRADERS******Mr Roger King, Mr Michael Hollingsworth and Mr Robert Lawrie******GKN PLC******Sir David Lees and Mr Trevor Bonner******NISSAN MOTOR MANUFACTURING (UK) LTD******Mr Ian Gibson, Mr Peter Hill and Mr Daniel Ward***

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MANUFACTURING INDUSTRY  
COMPETITIVENESS OF UK  
COMMITTEE  
TRADE AND INDUSTRY

Wednesday 7 July 1993

Witnesses: Mr. John G. Giddens, Director General, British  
Manufacturing Federation, and Mr. John G. Giddens

WITNESSES

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INFORMATION CENTRE  
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Members present:

Mr Richard Caborn, in the Chair

Mr Malcolm Bruce  
Ann Coffey  
Sir Anthony Grant  
Dr Keith Hampson

Mr Adam Ingram  
The Rt Hon. Sir Cranley Onslow  
Mr Barry Porter

**Memorandum submitted by the Society of Motor Manufacturers and Traders (MC 45)**

**INTRODUCTION**

i. The automotive industry is global and fiercely competitive. Most of the major companies are international in nature and have international supply bases to varying degrees. Relationships between vehicle manufacturers and components suppliers are being fundamentally restructured as the unending drive for increased competitiveness is forcing manufacturers to eliminate waste from every aspect of the business in an attempt to achieve maximum cost-effective operations. Underpinning all of this is the recognition that the primary focus must be on quality. UK based vehicle and component industry companies must therefore respond to these challenges if they are to survive.

ii. The EC-Japan Understanding has provided a transition period during which the motor industry in Europe can adjust to become fully competitive with producers anywhere in the world. It is vitally important that the UK stays within all the provisions of the EC-MITI Understanding so that the appropriate programmes including some of those outlined in the "Bangemann Report" can be implemented. Much has already been achieved in raising the competitiveness of the UK motor industry but a great deal has still to be done.

*Q1. Balance of trade in the UK automotive sector*

1.1 In the 1970s the UK motor industry almost consistently achieved sizeable balance of trade surpluses. By the early 1980s, however, a decade of capacity reduction and industry restructuring had severely depleted the local manufacturing base and this began to take its toll on the industry's balance of trade. This was reflected in a sharp reduction in motor industry exports (these accounted for only 6 per cent of total UK exports in 1984 compared with almost 15 per cent for most of the 1970s) whilst the re-sourcing of vehicles and components by pan-European suppliers led to a big increase in imports to meet UK demand. As a result, the sector rapidly moved into deficit; from less than £1 billion in 1982, the deficit expanded to reach a peak of £6.5 billion in 1989.

1.2 Signs of improvement began to emerge from the mid-1980s, however, as a strong domestic market gave manufacturers the confidence to invest in UK production facilities and provided the stable base from which manufacturers could expand abroad. This trend accelerated when the UK market slipped into recession as manufacturers sought to offset poor home sales by increasing exports. As a result, by 1992, the motor industry again accounted for 10 per cent of the nation's export earnings. At the same time, the recession in the UK vehicle market led to a significant reduction in import volumes, and a gradual reduction in the motor industry trade deficit. This fell to £1 billion in 1991 from £6.5 and £4.6 billion in 1989 and 1990 respectively but increased again in 1992, to £2.9 billion, as imports began to recover and export markets contracted.

1.3 The short-term outlook for the motor industry balance of trade is fairly discouraging. Contracting Continental markets will limit the prospects for UK export growth this year, while the recovery in the UK market will be accompanied by a recovery in import volumes. Over the longer term, however, the prospects brighten considerably. Japanese badged production capacity in the UK is scheduled to exceed half a million cars by the mid-1990s—the vast majority of which will be delivered to overseas, mainly European, markets. It is essential that no restriction is placed on these cars by other EC member states. When taken in conjunction with the increased export orientation of longer established manufacturers this bodes well for future industry exports and raises the possibility of a motor industry trade surplus in the second half of the 1990s.

*Q2. Strengths and competitive exposure*

2.1 The automotive sector of the UK exhibits a high degree of exposure to international competition. Most vehicle manufacturers are pan-European if not multinational and this organisational structure is increasingly the case with component suppliers. For example, of total car sales in 1992, 55 per cent were imported. Exports accounted for 47 per cent of all cars produced in the UK during 1992. A recent SMMT analysis identified a number of strengths which were exhibited by the UK motor industry. Most notable amongst these were:



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- the presence of large multinational companies as vehicle and component manufacturers in the UK
- a large, highly competitive domestic market albeit emerging from recession
- the availability of a good quality labour force
- leading edge technology as shown by the UK dominance of motorsport
- world-recognised independent R and D, engineering and design centres
- internationally competitive manufacturing and employment costs.

Q3. *What have been the main differences between the more and less successful companies in your sector in recent years?*

3.1 Many factors differentiate between the more and less successful companies in a fiercely competitive global automotive market place. Whilst no single factor is responsible for success there is a common theme. The most successful companies have:

- established clear customer-focused objectives and effective strategies (short and long-term) to achieve them
- understood their total business processes and how to undertake these most successfully through effective involvement and management of people—teamwork, and deployment of resources
- put in place a process of continuous improvement throughout the company and a determination to eliminate waste and reduce costs
- achieved competitive advantage in product and or process technology.

Effective company-wide communication is a key factor.

3.2 The successful companies, frequently influenced by "world-class" associates who are often Japanese, have seen the benefits of employing participative leadership. This observation is valid for companies that have not had the advantage of starting from a greenfield site. There are notable examples of companies which are turning poor performance into success by reorganising and implementing the above approach.

Q4. *How do the problems and opportunities facing small firms in your sector differ from those facing large ones?*

4.1 The usual definitional problems arise here. Most of the truly small firms in the automotive sector are component makers, distributors or ancillary service providers. Though there are a number of relatively small, specialist vehicle makers the comments here will refer mainly to the component sector.

4.2 The changing industry structure presents challenges and opportunities for all component manufacturers whether or not they are first, second or third tier suppliers.

4.3 New demands and disciplines are required for suppliers to build new kinds of relations with their customers, fit into development programmes and be able to make the necessary contributions to the process of continuous improvement. Taken together these constitute a step-change in the role of suppliers with respect to innovation. Suppliers need to anticipate these changes or their survival will be in jeopardy. Their task is made more complicated by the fact that individual vehicle manufacturers are each following their own route to restructuring and tiering the supply base, and in perfecting their models of supplier relations.

4.4 The ultimate industry model involves substantial delegation of both product and process innovation to suppliers. Japanese vehicle manufacturers in Japan have delegated extensive responsibility for innovation to their suppliers in both of these areas. In Europe, the Japanese-owned vehicle manufacturers are initially emphasising the delegation of process innovation whereas the "European" vehicle manufacturers are emphasising the delegation of product innovation. Suppliers will therefore have to deal with a "mixed model" of innovation for some time to come.

4.5 The resulting relationships fall into two generic kinds; contracting for capability, which requires a wholly different management attitude, organisation and approach to innovation compared to contracting for delivered product alone on an order-by-order basis.

The implications for suppliers in meeting this mixed model are that they must:

- understand the emerging structures of the delivery and innovation chains of the different vehicle manufacturers
- choose the right positioning with respect to them
- acquire the capabilities required for competitive survival in their chosen positions.

The difference between qualifying and differentiating capabilities is crucial.

4.6 Quality and service will determine those companies which are considered as potential suppliers. These will in turn be differentiated by cost and product performance. A commitment to reducing costs through continuous improvement will also be a requirement.



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4.7 Low cost must be engineered into the product from the first—and engineering is not playing its full role in this today. Continuous improvement is essential to achieving competitive success through superior cost and quality.

4.8 First tier suppliers must seek a proactive role in vehicle projects and maintain this throughout the product life cycle. This will require the development of major new market-driving capabilities. Innovation and design responsibility will increasingly be delegated to them and engineering capabilities are becoming a qualifying factor.

4.9 Second and third tier suppliers will have to align themselves with their chosen first tier customer(s) and be proactive in material/component process and design in order to remain the preferred supplier.

*Q5. The role of the government*

5.1 Improvement in the competitiveness of UK automotive manufacturing requires above all a stable economic background; low interest rates, stable exchange rates and prices. Most particularly there should be no suggestion of a return to the use of the industry as an economic regulator. Investment in manufacturing requires a long-term commitment by government and business.

5.2 Widespread agreement has re-emerged that the prosperity of the UK is dependent on the existence of a strong and healthy manufacturing industry. Clearly the government has some responsibility to assist its growth and promote its competitiveness. This is particularly true in the case of key manufacturing sectors such as the automotive industry.

5.3 During the last decade government support to strengthen the UK automotive industry was not especially apparent. The absence of any clear long-term cultural commitment to encourage the growth of manufacturing industry supports this view, as does the number of different Secretaries of State for Trade and Industry holding office during that period.

5.4 A recent study comparing Japanese and UK automotive companies shows that the majority of UK plants have some way to go to reach the "world-class" standards of performance in productivity and quality set by the Japanese. Some are thought to be approaching world class standard. There is no doubt that Japan's strong industrial policy and support from MITI has helped Japanese companies to achieve the strong position they hold today.

5.5 More recent UK government policy has resulted in some increased focus and support for the automotive sector through the reform of the DTI's Vehicles Division in July 1992. This is welcomed but the resources allocated specifically to automotive industry support are still small. Governments of the leading industrialised nations such as Japan and Germany, which have strong automotive sectors, are believed to give more significant support. Although there has been change in some UK government departments in the attitude to manufacturing industry there is now a need for a greater appreciation of the contribution of manufacturing to the UK economy throughout government.

5.6 To achieve the quantum leap needed to ensure that UK manufacturing industry regains its place amongst the world leaders requires cultural change on a national scale. A coherent government strategy is needed to achieve this. There must be a willingness by government to listen to and work with industry and its people. There is evidence that this is beginning to happen. At the same time there needs to be heavy investment in education and training to support the process of change.

5.7 In the UK we tend to produce a small elite of highly educated people who are capable of brilliant creative work. There is a very wide spectrum of abilities in the UK population the vast majority of whom have received no tertiary education. In Japan, around 37 per cent of 18-year-olds go on to tertiary education, at least double the UK rate, despite the fact that until the 1960s participation in tertiary education used to be lower in Japan than in the UK. Since then a whole generation of the Japanese workforce has passed Britain in terms of their education.

5.8 The high value placed on education and the willingness to spend money on it are also seen at company level. In Japan continuing professional education is the norm. Companies impress on their managers the vital responsibility they have for training their own staff well. In the UK the long established apprenticeship scheme has been allowed to decay leading to a shortage of competent technicians. This may in part be due to the high costs involved in implementing a traditional apprenticeship scheme.

5.9 A particular area of weakness is UK "management practice" and it is important to make the distinction between what managers do, or aspire to do, and how they set about doing it, ie management style. Although there have been some changes in management practices in recent years they have generally resulted only in marginal improvements, because they failed to enrol the majority of the work force in the activity of performance improvement. Companies that have rethought their style of management, often as a result of experience with an associated, sometimes Japanese, company have been able to make significant improvements in performance.

5.10 Manufacturing industry is short of the management skills which will enable it to reach fully competitive performance levels. Many of the DTI initiatives remain preoccupied with the technology of



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management and what should be done, rather than how to create a culture in which successful exploitation of ideas is possible and even probable. This can only happen if there is a move to a more participative management style. Given the strongly hierarchical heritage in the UK such change is a major challenge that needs government assistance to achieve any real progress.

5.11 A great deal of the legislation which affects the motor industry is now determined at European level. It is clear that the government has an important role to play here as the negotiator on behalf of UK manufacturing industry.

*Q6. Inward investment into the UK automotive sector*

6.1 The 1980s was a decade of considerable adjustment and restructuring in the UK automotive industry. This continues. As a consequence the nature and character of the automotive sector has altered radically. Some companies retain certain aspects of their original UK national identity, but increasingly the concept of a UK automotive industry is no longer meaningful. Increasingly there is an automotive industry in the UK. This has been led by considerable inward investment from Europe, the USA and most conspicuously from Japan.

6.2 There is no authoritative estimate of the extent and composition of the value of this investment nor its overall contribution to National income and employment. However, its impact on management, labour practices and overall productivity has been extensive. This is true of both the way it has been implemented and the philosophy of the companies leading the way. It needs to be stressed that many of the changes were planned or were taking place before the entry of the Japanese. Moreover, in some sectors of the industry, for example, in design engineering and motorsport, the UK already had and retains an internationally recognised lead.

6.3 Investment by Japanese companies has attracted more of the attention than that from companies whose headquarters are in the UK, Europe or the United States. Nissan, Toyota and Honda have invested over £2.2 billion since Nissan made the first entry into the UK in 1984. However, exclusive concentration on the inward investment activities of Japanese companies ignores investment by established players. General Motors, for example, invested £190 million in its Ellesmere Port engine plant, providing 450 jobs; and Ford has announced plans to invest £700 million in Jaguar. Component suppliers have also invested heavily. Clearly there is a need to have a clear focus on all inward investment activity and for it to be placed in the context of the internationalisation of the automotive industry.

6.4 Inward investment makes both a qualitative and a quantitative contribution to the UK manufacturing base. In quantitative terms it generates income, employment and contributes to the UK trade balance. In qualitative terms, the core contribution which the Japanese companies are making rests on four principal factors:

- a commitment to total business quality
- a system of "lean" production
- flexible and adaptable team working
- emphasising responsibility and partnership as key elements for supplier and worker.

6.5 These activities have been assisted by their establishment on greenfield sites, relatively free from traditional custom and practice. In essence they have set some powerful benchmarks for competitive survival.

6.6 Employment has also been affected by Japanese inward investment. Including the Isuzu relationship with Vauxhall (IBC), around 11,000 jobs are directly attributable to these investments. Additional indirect employment effects are more difficult to estimate.

*Q7. Production overseas*

7.1 A substantial number of UK-centred SMMT member companies carry out some of their manufacturing overseas. This applies to the car and commercial vehicle manufacturers and increasingly to the larger component suppliers. There is no simple explanation of why this is so. In some cases the reason is historic and may relate to an acquisition of a company in an overseas market. In other cases it is caused by the need for proximity to customers who may be based in France, Germany, the US or wherever. In yet other cases it may be because design and engineering decision making does not reside in the UK. Lean production techniques may mean that the trend for large manufacturers to operate in many countries will intensify.

*Q8. Changes in management practices*

8.1 Considerable changes in management practices have taken place in recent years. The 1990s will continue to be years of adaptation and change in the management of the automotive sector. UK and European based companies face changes in market regulation, increased environmental constraints on their operations and products and the need to meet the competitive challenge of world class Japanese automotive assemblers and suppliers. Most component manufacturers and vehicle assemblers now recognise that



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competitive success depends on maintaining a high degree of process and product quality. In recent years, however, the focus on quality has broadened to one of Total Quality Management (TQM). The emphasis is on continuous improvement and development of all products, processes and people throughout the whole company. Consumers' needs and perceptions remain pivotal, but there is increased weight given to optimising and improving the total company effort through the interaction of its people and processes with its products and customers.

8.2 Currently Total Quality Management can be characterised more as a beacon of good practice than a creed which has gained widespread application. It is already in operation in some vehicle assembly and component supply plants in the UK. The Japanese term Kaizen—continuous improvement—encapsulates the approach taken. It is embodied as the integral part of all workers' activities and is applied in a context of teamwork. It is further channelled by delegation of responsibility to empower the individual and the team to encourage and facilitate ownership and control over the product and process. The advantages of a greenfield site and the break with traditional industrial practices have clearly been powerful factors in the success achieved. The emphasis on TQM does seem to be a key influence in underpinning that success.

8.3 Throughout the automotive sector as a whole, component suppliers and established assemblers are making strenuous efforts to reach the quality, efficiency and productivity standards being set by the best practices. This has been markedly so for those companies which are direct suppliers to world class plants. The extent to which quality and lean production methods have been introduced varies from company to company. Typical responses include all or some of the following: increased use of sub-contracting and outsourcing; just-in-time delivery; right first time production strategies; teamworking; flexible working; benchmarking. Above all companies have been moving away from rigid functional demarcation, seeking and achieving flexibility and mobility from employees. However, in 1992 short term considerations have affected most companies. There were redundancies and short time working at a number of vehicle assembly plants. Many component suppliers also had to limit output and more to short-time working.

8.4 Changes in labour practices, such as teamwork and flexibility, have attracted much attention, yet important changes have also been taking place in materials handling, storage and supply logistics. This, more often than not, goes hand in hand with lean and optimal production strategies. Some inward investment may have been a catalyst for such changes. The pace and scale with which such practices are spreading throughout the component and assembly industry is variable but the movement has been underway for some time.

8.5 Effective dissemination of these practices comes through a number of channels;

- competitive markets
- the presence of world class assemblers and component suppliers in the UK and European markets
- effective partnerships between suppliers and assemblers
- an effective technical press and promotion dissemination through professional bodies and industry associations.

*Q9. What do you regard as the main influences on the level and quality of Innovation in your sector?*

9.1 Experience demonstrates that a core manufacturing industry like the UK automotive sector cannot afford to stand still. It has to adapt continuously to, and aim to anticipate, developing market and supply needs including regulation. The automotive sector has had no choice but to innovate both its product and its processes. Above all else successful automotive companies have nurtured organisational and management structures that are responsive to change and which facilitate effective commercial application of new ideas.

9.2 There are three main aspects of the innovation effort in the automotive industry; external influences, the role of company culture and organisation and the extent of a firm's cross sectoral activity.

9.3 The first factor applies predominantly to product innovation and has been driven by a combination of regulation and market instruments. The need to improve active and passive safety of vehicles while reducing noise, emissions and fuel consumption has made innovation an imperative, changing dramatically the processes by which cars and trucks are designed, developed, made and marketed. This process can be seriously disadvantaged by recessionary upheavals. Investment must be amortised; this becomes a major problem when sales are fluctuating substantially and adequate finance cannot be assured.

9.4 The important factors in process innovation are whether, how and with what success firms meet the challenge and can channel the ideas generated by workers. This requires the presence of a skilled and educated workforce and a labour market with relatively few barriers to mobility. It also requires that:

- firms have a clear sense of direction and purpose
- there is a core emphasis on the achievement of quality throughout the company, its processes and systems and along its supply chain
- People are recognised as a firm's unique asset; they are enabled through flexible and team working practices and training to act on their ideas to improve their inputs to the Company's activities



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- that monitoring and comparative benchmarking are integral to the setting and achievement of quality standards
- ideas for innovation are effectively captured and applied and the individuals/groups recognised and rewarded
- that through an active policy of outsourcing and close cooperation with suppliers' ideas can be effectively transmitted up and down the supply chain.

9.5 The final aspect to innovation in the automotive sector can enable a company to apply and enhance its core technological, manufacturing and marketing skills laterally across a number of sectors and vertically along the supply chain within a sector. The presence of many automotive suppliers in aerospace is perhaps the most relevant example. Professional networking, links with R&D activity in higher Education and the application of engineering innovation and refinement of motorsports development provide additional spurs to innovation. In this context the sum of the innovation effort in the automotive sector can be seen to be much greater than its constituent parts.

#### Q10. *Commercial Infrastructure*

10.1 Many of the aspects which relate to a wide definition of "commercial infrastructure" have been considered in other sections of this memorandum. One additional aspect which concerns the UK automotive industry is the problem of traffic congestion. The competitiveness of the vehicle manufacture in this country requires an effective road and rail network where congestion is minimised. This is a requirement for both the supply of and the demand for vehicles. Motorists and freight operators need to be confident and certain that they are able to use the vehicles in which they invest, responsibly but as freely as reasonable. Manufacturers and suppliers must know that product deliveries will be made when they are needed.

#### Q11. *Financial Institutions*

11.1 Over the years, the motor industry has acquired a relatively high risk image. This was largely earned during the boom and bust business cycles of the 1970s and early 1980s. By the mid-1980s, however, the industry's image had begun to improve as rising domestic demand and increased foreign and local investment had seemed to signal a period of prolonged and steady expansion for the sector.

11.2 Clearly the 33 per cent slump in vehicle sales between 1989 and 1992 once again highlighted the erratic and, at times, highly volatile nature of vehicle demand. This will have done little to improve the perception of the motor industry as a high risk investment.

This perception certainly influences the way in which financial institutions view the prospects for companies within the sector and the terms under which they are prepared to finance them. Many institutions burnt their fingers during the latest recession to hit the industry, and this will continue to colour their attitude to the sector for some time to come.

Other more specific relationships between member companies and their financial institutions are commercial activities on which we are unable to comment but SMMT members are convinced of the need for long term commitment by financial institutions towards manufacturing industry.

15 June 1993

#### Examination of Witnesses

MR ROGER KING, Director of Public Affairs; MR MICHAEL HOLLINGSWORTH, Chief Economist and MR ROBERT LAWRIE, Head of Quality Improvement, the Society of Motor Manufacturers and Traders, examined.

#### Chairman

572. Mr Hollingsworth, thank you very much for coming to the Committee. Could you introduce your two colleagues?

(Mr Hollingsworth) Thank you, Chairman. On my left is Mr Roger King, who is the Director of External Affairs at the SMMT, and on my right is Mr Robert Lawrie, who is the Head of Quality Improvement.

573. Can I thank your organisation for submitting your memorandum. It is extremely interesting and very concise. Referring to the introduction and indent (ii), you say "Much has already been achieved in raising the competitiveness of the United

Kingdom motor industry but a great deal still has to be done". Could you tell the Committee, is it possible for the United Kingdom motor industry to become more competitive?

(Mr King) Thank you, Mr Caborn. Yes, indeed, it is, although it is going to take some while to raise the industry, in particular the component industry, up to world-class levels to any great degree. Most research would seem to indicate that a small percentage are world players, in the true sense of the word, and that there are a substantial number of parts of the industry which have set in place the mechanisms in order to reach that kind of status. Somewhere, in one report from IBM, it states that about 40 per cent are



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MR ROGER KING, MR MICHAEL HOLLINGSWORTH AND  
MR ROBERT LAWRIE

[Continued]

**[Chairman Cont]**

in active pursuance of world-class standards. There does remain a worrying percentage which perhaps is still floundering a little in trying to establish the correct procedures for developing their businesses up to an acceptable standard. As far as the prime manufacturers are concerned—the motor manufacturers themselves—certainly there are some outstanding examples—Nissan, Rover and Vauxhall are three examples—where standards, certainly in the case of Nissan, are probably the best almost in the world, whereas Rover are approaching very good standards in sections of their business and are determined to meet, for the kind of product they produce, a very high standard indeed. May I, at this stage, introduce your Committee to a report on the British Automotive Component Industry that we only completed this very morning?

574. A good commercial for you!

(Mr King) A good commercial, but there is no charge on this one, Mr Chairman! That indicates the first in-depth study that we have embarked upon as a trade association into the length, breadth and depth of the component industry. We polled, or questioned, or asked, 300 of our members to respond. We got a third response, largely from the bigger players but also from a cross-section of the industry, and from that the Cardiff Business School, who conducted the survey on our behalf, was able to make some quite interesting extrapolations from the evidence which reveal that a lot of the component players are very sincere in establishing themselves as world-class players, based on the fact that the United Kingdom motor manufacturing sector is probably the only area of Europe which is due to expand and is expanding substantially in its output. If they want to be part of that they have got to meet world standards.

575. On the assumption that you are right and our competitiveness is increasing, would you expect to see a significant growth in activity related to that competitiveness? As the competitiveness goes up to world standards then the growth factor follows that as well?

(Mr King) If the manufacturing side of the industry continues to expand in the way it has—up from a low point of 800,000 a few years ago to round about 1.3m this year, rising to 2m by the end of the decade—the opportunities for all those supplying to these businesses is very considerable indeed. There has been a substantial arrival of inward investment from Japan, from most of Europe and from the United States, which has acted as a substantial catalyst to indigenous manufacturers to get their act together or disappear from the business scene. There are signs that some have not made it but those that are getting their act together will certainly join in the benefits of being able to supply componentry into an expanding product base. In so doing, they will be able to offer their products to the European manufacturers elsewhere.

Chairman: We are going to explore some of those issues specifically later on in the questioning; I want to get the overview to start with. Could I ask Mr Ingram to come in?

**Mr Ingram**

576. Just following on the point you made about the three cited manufacturers which were at a particular level—one at the level of perhaps the leader in world standards and the other two catching up very rapidly—how much difference is there between those three and the rest of the manufacturers within the United Kingdom?

(Mr King) That is very difficult for us to be able to say. There clearly is a substantial gap and it depends upon the profile of the company concerned and the way that it has embraced new methods of manufacturing. I believe you have heard from George Simpson, the Chairman of Rover. They embarked upon their process in 1986 and would consider themselves to be well along the track of making themselves a very efficient company, but he would be the first to admit, I am sure, that world-class standards do not stand still and that despite an enormous amount of work the standards have moved further forward and, undoubtedly, the advantage that the new Japanese factories (or new British factories, if you like) have coming into the United Kingdom is building on a green field site where you can make a very substantial investment in modern manufacturing methods. One figure may serve the Committee's purpose in distinguishing that: in operating on a greenfield site, Nissan, from the moment it assembles the body in white till it goes to the trim shop, needs a vastly lower number of bodies in progress than at some plants like Rover, where, for historic reasons, working from a brownfield site, they have to transport by an extensive conveyor system from their body line section to where the car begins its painting and assembling. All of that is cost, and that is something that, short of redeveloping on a greenfield site, Rover cannot overcome in terms of outright competitiveness. It can, of course, seek to develop other techniques elsewhere to try and close that gap. There are signs that other manufacturers are trying their level best to improve on their standards, but perhaps Mr Bob Lawrie can talk a bit more about the quality that some of the businesses are trying to establish.

577. The point I had in mind was that Ford was not mentioned as one of the companies; that was not one of the three you listed. Just how far short is Ford from reaching that level of high standards that you are setting?

(Mr Lawrie) I think that would not be a fair question to answer per se.

578. With respect, if you are citing three as being the leaders in the field in the United Kingdom sector and one a world leader, then that means the others are not of that standard and if you have a view about those that are setting the standard you must have a view of those below the standard.

(Mr Lawrie) I think with respect you quoted those as obvious examples, but it is fair to say that all of the car manufacturers operating in the United Kingdom have made substantial efforts to improve their move towards world class standards and competitiveness. They vary and they vary because they all have different problems to deal with and the scope of their extended enterprises which covers their whole supply base really makes that problem a very significant one.



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MR ROGER KING, MR MICHAEL HOLLINGSWORTH AND  
MR ROBERT LAWRIE

[Continued]

**[Mr Ingram Cont]**

That is why companies who have arrived at greenfield sites who have been able to start from scratch have a significant advantage. They have been able to set the rules from the word go and the other companies have got a much bigger problem to bring up to standard those suppliers that they have had for a number of years.

579. But we are trying to establish the competitiveness of British industry and we have been told three companies are reaching that sort of level of standard—one in excess of the other two. What I am trying to establish is by how much the others are short and if it is only about greenfield site development, then clearly there is a solution to that. You close down existing factories and move on to other parts of the country. Is that likely to be the solution to that particular problem?

(Mr Hollingsworth) I would say that is an unlikely solution. I think perhaps it is the case that the variation in quality and the improvements that have been made may be greater in the components side of the industry than in the vehicle manufacturers. I suspect that the vehicle manufacturers may be slightly closer together, whereas if you take the various tiers of the component side (which of course is vitally important for vehicle assembly) the same kinds of improvements are needed there and again, many of these are moving in that direction and many of them would argue that they are world class, but lower down the supply chain the variation may be very much greater.

(Mr King) I think it would be true to say that Ford at Dagenham have achieved huge productivity gains over the last two years or so, since they embarked upon a process of a one-model plant, principally the Fiesta, and so good have their productivity gains been that they are the lead plant for the introduction of a new Fiesta in a few years time. That is generally considered to be a major award of merit for any car manufacturer—the lead plant for establishing the run of a new product. It also has implications because engineers need to be nearby in the design and development—certain production engineers—to ensure that that car can be assembled in as effective a way as possible so that would not be done by Ford management unless they were very determined and indeed making considerable progress in meeting the kind of productivity and standards which other manufacturers are setting.

**Dr Hampson**

580. May I take it back one step? This whole debate about manufacturing in this country is riddled with nostalgia for the great days when we had powerful industries dominating the world—one of course being the motor industry. In your submission in the introduction or the very beginning you do make a point of stressing how there is this big turn around in the balance of trade from the 1970s to the 1980s in that we dropped by more than half in proportion to United Kingdom exports, but is it not that we made mistakes in your industry in the 1960s? In the sense that there is a time lag it shows in the 1980s the decline but actually in the 1960s and the early 1970s the industry went wrong, did it not? What did we do in this country that got us in such a state in

a critical industry like this, and what are the lessons to be learnt?

(Mr King) It certainly was not failure to invest in technology, because most of our manufacturers at that time were very much at the cutting edge, if one can use that expression, of technology. Principally the old British Motor Corporation reinvented front wheel drive, independent suspension and an enormous interior space for the overall size of the car and a whole chain of cars were developed including the 1100 and the 1800 range which represented a very substantial development in auto technology which every manufacturer in the world has since copied. What really went wrong is that perhaps those cars were technologically very attractive but the ability to be able to put them together with the right kind of quality and reliability was sadly lacking and I think the concept of KAIZEN, continuous improvement and team working (which is now very much the principle) were totally absent. Those rather autocratic regimes which existed exacerbated the gap between the company directors and the people on the shop floor and the engineers were turning out products which the manufacturing side could not really put together, so that spelt out problems. Of course, also there were the allied problems of industrial difficulties—piece work rate, measured day work evaluation schemes—all those things combined together to cause the industry to almost disappear altogether by the early 1980s. It is perhaps worth noting that if you look in the world at prime manufacturing industries, there is no (as I understand it) recorded incidence or example of a prime industry being operated in a particular country that, once it gets into a spiral decline, can actually be reversed into a position where it is actually going to be better than it ever was in the halcyon days of 1972 where 1.9 million vehicles were produced in this country—many of them kit cars for production at plants overseas. That is no longer the case, so we will be in that position by the latter part of this decade, and that is almost a unique achievement—well, it probably is a unique achievement—in the world.

**Ann Coffey**

581. Can I ask you further about that? I have been listening very carefully to what you have said about the difficulties in the car industry. Are you saying that is an indictment of British management?

(Mr King) I do not think you can point the finger and blame British management—

582. I am just drawing out what you were saying. You described what seems to me to be problems relating to very poor management.

(Mr King) I thought of this myself, and wondered what would have happened in the late 1960s/early 1970s if one of our bigger companies, Rootes (or Chrysler as it then was) or BMC, for example, had actually decided to embrace the teamwork concept and to sort out its particular problems at the time and I do not think even if there was an absolutely determined management resolutely desiring to implement best Japanese practices as then understood that they would have got very far because the actual climate in manufacturing, the climate within the nation, was not conducive to appreciating that we could learn from others. We were still in a



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position where we considered that we were pre-eminent; that the best way of doing it was the way we were presently doing it.

583. Is not that an indictment of British arrogance: management arrogance?

(*Mr King*) I am putting a personal view here. There has not been much in the way of an investigation into where we have come from and why it all happened, but I would not subscribe to the popular view it was entirely the fault of Red Robbo and the Cowley mole and people of that ilk. It was very much a failure to work as a team within the factory which, when implemented at factories like Nissan and Rover and others actually releases in the British people the talents and skills and productivity which makes them very difficult to beat in an international climate.

**Sir Anthony Grant**

584. On this point are you saying in fact that in the 1960s or early 1970s the Japanese methods of teamwork and so on would not be acceptable to the workforce in Britain?

(*Mr King*) I do not think it was ever put to them, Sir Anthony, but I am not sure if management had decided that is what they wanted to do with all that it implies and what we understand to be the system operating today that they would ever have been able to do it, partly because it would have meant thousands and thousands having to leave their jobs as no longer being necessary and I do not think the climate existed then to embrace that concept.

**Sir Cranley Onslow**

585. When you look back at the decline in domestic manufacture and the penetration of the Japanese cars into the market, do you see any connection between the very successful penetration of the dealerships which the Japanese built up and is not there some criticism to be levelled at the failure of British manufacturers not merely to make but effectively to sell their product?

(*Mr King*) That may be true to a certain extent. I think what actually happened is that as market share declined from the British manufacturers, so they could not possibly service or have as big or elaborate distribution system as they once had. In the good old days of BMC they had 40 per cent. of the United Kingdom market and Austin dealers and Morris dealers and Wolsley and Riley dealers all existed and sometimes two Austin and Morris dealerships were in the same high street. The moment the company decided to market its product under the BMC label with various brand badges engineered onto the front of its cars it axed a large proportion of its dealers. There was no point in having two in the high street. It was at that moment in time that coincided with the arrival of the Japanese who were only too willing to scoop up available dealerships—and, indeed, European manufacturers as well. So it really was not anybody's fault, in that sense of the word; you can only service a certain number of dealerships and, indeed, that process is still continuing, dealership shake-outs still occur as reductions are made and bigger territories are given to those dealers to provide the superior back-up service which is now needed.

**Mr Bruce**

586. I wanted to press the point that what you seem to be implying is that the British car industry has responded to the arrival of the Japanese in the United Kingdom. Would you go one step further, if the Japanese had not arrived here, would they have taken these measures that you are now saying have accounted for their turn-round?

(*Mr King*) Most unlikely, because there would not have been much of a British industry left. The fact that this competition has come in has galvanised things. There was a school of thought that said with the arrival of the Japanese some of our established factories would depart, because the heat would be too great. It does seem that the arrival of the Japanese and their attention to productivity and their demands upon their component suppliers has actually galvanised indigenous manufacturers to try and match those requirements, given the constraints upon their production facilities. We are now seeing growth in productivity at Ford, at Vauxhall, at Rover, which one would have thought totally impossible ten years ago.

587. This has been a change not just towards technology but towards management techniques and labour relations?

(*Mr King*) Indeed. In our particular organisation we are a very free-roaming operation, and Nissan operatives will meet with Rover operatives and Ford, and they will all have an interchange of views and will all be telling each other best practices they have established in working relationships between the workforce and management—or the associates, as most companies call them now. There is very little demarcation.

**Dr Hampson**

588. Your submission describes the two different models of supplier relationships as Japanese and European. Do you think the Japanese practices are going to oust the European, or is there going to be a fusion of suppliers?

(*Mr Lawrie*) That is an interesting question. There is no doubt that the Japanese management practice and techniques have demonstrated to industry in the United Kingdom that there is much to be learned, and has actually produced significant results. The European industry, I believe, is waking up to that, and because it is not just a national industry, it is very much a global industry, practices disseminate across the European framework fairly regularly anyway. I would say that most companies operating in Europe look towards British manufacturing practice, as led by Japanese views, as actually going to lead the way. It is a model for them to follow. As my colleague has mentioned, we certainly have, within the SMMT framework, a number of committees who share their experiences, and you can call that benchmarking if you like.

589. We had some other evidence which said that the Japanese pick successful suppliers, groom them and develop a relationship with them, and the supplier gets "locked" into a relentless process. Do you think it is potentially unhealthy and that there is a danger to suppliers in that relationship?



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(Mr Lawrie) I think there are challenges in there for suppliers. Suppliers obviously at the moment in the United Kingdom have an opportunity to either supply directly or indirectly most of the vehicle manufacturers, depending which level you look at. If you go below the first tier to the second and third tiers they probably supply most of them. Therefore, they are getting their knowledge and their training, so to speak, from various sources. If you look at the way Nissan, in particular, are reacting and dealing with our suppliers, they are very much focused on particular suppliers and are working with them to encourage them to improve. There is a very substantial effort being made by those companies to do that. Other vehicle manufacturers recognise that process too, and are trying to emulate similar practices. I think that the suppliers who are in a position of providing various vehicle manufacturers at the moment themselves will have to go through a process of saying "How many of these vehicle manufacturers can we actually afford to supply? Who should be our prime customer?"

**Mr Porter**

590. Have Nissan, in effect, established a sort of national curriculum?

(Mr Lawrie) I suppose you could call it that.

**Dr Hampson**

591. Is there not a danger of the supplier getting to be over-dependent on a particular manufacturer?

(Mr Lawrie) I am not sure that I can really truthfully answer that question.

592. When we looked at the CBI report "Making it in Britain", it was pretty damning about your industry. Would you like to comment on what it had to say?

(Mr King) I do not think we would necessarily agree with what the CBI says. We have gone through, as an industry, an appalling cycle, and as I explained earlier we were perhaps in a position of terminal decline. That position has been reversed and we are the only industry in the United Kingdom that will double production over a ten-year cycle. If that is a criticism of us, then more of it, please! The enormous amount of inward investment that has taken place, and the investment that continues with existing United Kingdom companies to capitalise on the only area of manufacturing in this country that is going to grow in this way is, again, very substantial.

593. One of its main focuses was criticism at the lower tiers of the supply chain. Do you think that that was valid? Are our suppliers capable of doing what is going to be expected of them?

(Mr Hollingsworth) I think a great deal has already been achieved, but I think perhaps what is more encouraging for the future is a much greater realisation of what still needs to be done. I think, yes, the lower tier suppliers can make those improvements, and many of them are putting in processes to set that in train. I think also what is encouraging is that there is a much greater realisation that we are talking about an entire chain, from the lowest level of component makers through to the vehicle assemblers, through to the dealers and

distributors whose job it is to sell—tying this in with the questions that were asked earlier.

**Mr Bruce**

594. Is the problem that the smaller automotive manufacturers and suppliers tend to ride with the market and accept their part of the trade cycle, and that there has not been enough, really, marketing and forward planning in that sense? The impression one gets is that the West Midlands is doing badly and the East Midlands is doing well, because that is the way the motor trade is going, and there is a lack of will to take control of the situation, rather than be a victim of it.

(Mr Hollingsworth) I think there may be an element of cyclical fluctuation there. I think there are many other things as well. Many firms are much smaller than the more successful ones and more adaptable ones, and they may lack specialist expertise. There may be a far wider range of skills needed, therefore, in individuals, and it may be much more difficult for them, but they need to talk to those who already have these processes in place. We are attempting to facilitate that.

595. That means the larger companies and the main purchasers have to change their attitude towards them.

(Mr King) I think, to be fair, most of the vehicle manufacturers and prime component manufacturers have supply development programmes of one sort or another, and certainly we, the SMMT, are working with the DTI to address that situation. We have had a couple of series of workshop programmes running during the course of last year and this year, which are on-going at the moment, to identify the major issues and concepts that are needed to address these areas, but of course by definition that is relatively limited when you think of the number of suppliers there are in the industry. We are on the verge, through our various committees, of developing other moves which will take us further down that road.

**Mr Ingram**

596. I want to move on to management and training but can I just deal with one aspect of this manufacturer and supplier link first? Is there any evidence that, say, a manufacturer such as Nissan is locking in a prime supplier and would be unhappy if that prime supplier was also supplying to Toyota or any other company?

(Mr Lawrie) Not at all.

597. Is there any evidence?

(Mr Lawrie) Not at all—in fact, quite the reverse. In fact, I have heard it expressed by Nissan representatives that they would have no problem with that at all. They would welcome it.

598. Can I move on to the management and training side. In your memorandum in paragraph 8.2 you talk about "total quality management" and you say "Currently TQM can be characterised more as a beacon of good practice than a creed which has gained widespread application". Tell us how widespread this whole concept of TQM is and is it your view that it is a passing phase and that more new



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ideas are coming forward in terms of the best working practices, or not?

(Mr Lawrie) If I may answer that, to be totally honest it is not widespread enough. There is certainly a knowledge of the phrase! Whether or not the practice is there is another matter. We recognise it is a very long journey. There are significant changes involved in it and I am not sure we understand all that are involved in it. Through my department within SMMT, as I mentioned earlier, we are able to talk to a number of committees which involves all of the leading manufacturers and they are trying to share as far as possible common views on what is good practice and how TQM and other quality standards should be interpreted for the benefit of the industry, and I think it would be fair (without having a critical measure—an accurate measure—of it) to say there is a significant way to go before a number of the companies particularly in the lower tiers of the supply chain are using anything like TQM.

599. Where do the problems lie? Why do they resist it? Why are they not supportive of it?

(Mr Lawrie) There are many elements of that—understanding, learning, structural problems, history—but I think most companies recognise they are on a road and they are doing what they can to go down that road as quickly as possible.

600. Could Government help with that?

(Mr Lawrie) Yes they can, and I think they are. They are beginning to understand those issues and as you probably noticed somewhere in the report we refer to particularly the vehicles division of the DTI and the establishment of that as a very good step and we believe it is fundamentally necessary for us to establish good dialogue with them so they understand and can facilitate solutions to the problems that we have got.

601. Is there evidence of that being heavily promoted or just one issue which is currently a good idea and being spoken about? Is there money and resources being put in by Government and indeed by your association?

(Mr Lawrie) Money and resources in a general sense across all industry in general mechanisms. I think there is now more of an awareness that that should be more focused particularly into prime manufacturing sectors. We would obviously welcome greater investment in the activities that we believe our industry needs to be pursuing so we would like to see more of that.

602. On this whole question of training, you say under paragraph 2.1 of your memorandum that the availability of a good quality labour force is a strength of the industry (leaving aside the historical aspects we have been discussing earlier). There seems to be a leap between what we have been describing as not a good quality labour force to all of a sudden having a good one. Then later in your memorandum you say in paragraph 5.6 that there is a heavy investment in training. How do you reconcile those two statements? If there is a good quality labour force then it must be well trained and yet you are wanting more training. How do you reconcile those two positions and what is the point you are making in your memorandum relative to that?

(Mr King) I think our members certainly have found that the opportunity of introducing relatively modestly educated personnel into the working environment requires more investment than they believe they should be having to endure, but they are nonetheless receptive to training and some of the examples of that can be seen at Swindon at Honda, at Nissan in Sunderland, where the work force (a predominantly young work force) has responded extremely well—exceptionally well—to the demands placed upon it by heavy investment by the companies concerned in training and of course that is replicated elsewhere—certainly in vocational training which most manufacturers of car assemblies, the bigger players, embrace. That encourages the thought processes to improve product quality by giving the opportunity for that kind of training scheme. I think where we might suggest some changes is in trying to re-establish perhaps the old apprenticeship scheme by a different name. That is something that has tended to fall by the wayside, and also the traditional gap in the United Kingdom between education and training as represented by different departments of state handling it and the idea that education is also training. It is very difficult perhaps to ensure and maintain a cut-off point where you finish your formal education and then actually have to go back into a kind of training scheme. It might well be a way forward that perhaps we would think was worth looking at if the education department also covered training so that young people who are not very academically qualified at school could have the opportunity of getting hands-on experience training within our educational system earlier than they traditionally do. Rover Learning Business has a very close relationship with many schools in the Birmingham area and that can be seen to be an exceptionally good way in getting youngsters attracted to manufacturing as such and expanding their outlook so they will respond to that kind of training. It is a catalyst in effect. The education system at the moment does not pick up the excitement of manufacturing and the desire to involve themselves in engineering and technology of this kind, and that is something that we really ought to address.

603. Has more been learned in those particular areas of deficiency in training between schools and manufacturing industry? Do you perceive any change in Government thinking on this or not?

(Mr King) Not directly. I think the Government has done what it can within the constraints of trying to improve training systems and in some respects it has been quite beneficial, but what I think we would be saying is that we want a whole new approach to that to try and harness what must be and is a very inventive race. I mentioned the technological lead we had in the 1960s and 1970s; we still are capable of maintaining that lead but we are not yet perhaps harnessing the resources and talents of our young people at an early enough stage. Studies are showing that in Japan the teamwork concept is visible in children who are four years of age: they play team games. Here we always put the emphasis on individual achievement.

604. Can I ask whether you have made specific submissions to Government as to where you see the



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deficiencies are, and how they can be improved? You represent a wide section of the manufacturing industry in this country. Have you made representations in that area?

(Mr King) Not directly, no.

605. Do you intend to?

(Mr King) Well, certainly we will be looking at it, because I think in view of the memorandum we have presented we would want to follow up some of the thoughts that have come to our notice as we have prepared it.

(Mr Hollingsworth) On training, if we are talking about a process of continuous quality improvement, we must be talking also about a continuous process of training. The two things go hand in hand. I do not think training was ever something you did when you started your working life and that was the last thing you did, but if that was ever the case (and I doubt that it was) it certainly is not the case now.

**Sir Anthony Grant**

606. On this particular point, training of course is the responsibility of the Department of Employment and education (not unnaturally) the Department for Education. Are you saying in effect it would be sensible to take training out of the hands of the Department of Employment and perhaps put it into the hands of the Department for Education or vice versa, or indeed that they should both get their act together because at the moment actually there seems to be a gap between them?

(Mr King) I think I should say that I am talking from my own personal observations here, and not necessarily giving the views of the Society on this. What we do know is that in order to capitalise on the opportunity that we have got certainly in this sector of manufacturing, we need a ready supply of young, enthusiastic people with an open mind and keen to involve themselves in manufacturing—not as a last resort or, as that old hackneyed cliché says after a school trip has been round a car factory, “If you do not pass your exams, you could end up here”. That is a travesty of the system that we want. To that extent, maybe we should be looking at dove-tailing more permanently the moving on from a formal, academic education into a practical education, maybe before they leave school at the age of 16, which does mean, perhaps, looking at that kind of co-operation.

607. I appreciate that. As an industry body I imagine that you have regular dialogue with your sponsoring parties and the DTI and have close relationships with them. Do you have similar relationships and dialogue with either the Department of Employment or the Department of Education on this rather important matter?

(Mr King) Not directly.

608. If not, would you welcome it?

(Mr King) We will certainly look at that.

Mr Ingram: Have you asked for such a relationship? Has that been actively sought?

Chairman: The answer to that was no.

**Mr Ingram**

609. I do not know whether it has been asked and refused or whether it has not been asked for. Has it been asked for and refused? Have those departments said they do not want to talk to you on these issues?

(Mr King) As far as I am aware, we have not formally asked to see anybody. We are just making observations here based on our thinking as we have researched our memorandum, and that is something that, perhaps, we would wish to examine.

**Dr Hampson**

610. May I pursue that, because although I have agreed with much of what was said about the culture in the schools, it is not new. I remember the Finneston Report in 1979 was arguing exactly that. What has the Society, or your component parts of the industry, done to try and change that climate in the schools? Do you have any relationships, or any strategies for getting children in the schools to appreciate more positively the manufacturing industry?

(Mr King) I mentioned before and, I think, George Simpson mentioned the other day, Rover's performance in relating to schools and fitting out technical training centres—Rover Rooms—in their corporate image, and indoctrinating (if that is the right expression), or introducing, young people to the basic skills of engineering and manufacturing. I think it is true to say that similar relationships exist with Peugeot, Vauxhall, Ford and others. So the industry is doing a great deal to actually bridge that gap between the academic world and the real world, if you like, of manufacturing, which I think the industry has had to go out and do itself.

611. Is it only in the schools in the areas of the plants, or is it generally, across the nation?

(Mr King) Within the area of the schools themselves. We, as a Society, have just published a national curriculum study based on the motor industry, which is a course of papers designed to interest young people in working on a series of a dozen projects allied to motor manufacturing, complete with a computer programme where they can sit and design a car on a screen. We produced this a few months ago and it is now on general release. We think this, as far as a trade association goes, helps reach out to young people, aged 14 to 16, in the schools to introduce them to the excitement of manufacturing, which we believe is sadly lacking.

**Chairman**

612. Can I mention my experiences of a thing called “pride in the job”, which I think the SMMT ought to take on board? First of all, I am apprentice trained, and when I left school I was the pride of the craft that I joined, and that was right across the industry. My son went into a major dealer (I will not name the company) with two others, on YTS, at 18 years of age. They were all three of them put into the office. One was kept on and the other two were dispensed with. Nothing happened after that to assist them in their continued training. Luckily, my son went back into the same company but at a different garage. What I would suggest is you cannot treat young people like that. They have got to have (a)



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pride, and, (b) they have got to have some stability that at the end of it they are going to achieve their objective. That is my personal experience with my own son. I would suggest you have got to look at your industry very seriously and, perhaps, give them pride and give them stability because without that you will not create a climate whereby good young people will come into it.

**Ann Coffey**

613. In a sense this follows on from what you were saying, Chairman. In the evidence you have presented you stressed the importance of continued innovation and identified some of the factors. One of them, you say, is the role of company culture and organisation. Would you like to expand on that? What do you mean by that? What sort of company culture and organisation?

(Mr Lawrie) It is a multi-faceted question.

614. It is in your evidence. You put it there.

(Mr Lawrie) Really, we are discussing a very broad problem, and it revolves around the essence of knowing how to involve everybody in an organisation in an effective way to achieve the products that that organisation produces. That relates to many issues.

615. Can I suggest something to you? One of the main differences between Japanese culture and our culture in managing the workforce is the fact that the Japanese always offered their workforce stability and encouraged them to be part of innovation. In return for that they have kept their jobs, and they have been part of that company identity. That is something that has never been evident in British management culture. The experience of the workforce is that they are the first for the chop when the company moves on. I would suggest to you that part of the problem with the workforce in this country is a total lack of trust that the company's objectives in the long-term are going to meet their needs for a stable and secure employment. How do you suggest that that situation is improved, because unless that situation is improved I do not think you are going to involve the workforce.

(Mr Lawrie) I could not agree more with what you say, and I think you are seeing evidence of the company culture actually changing to address those situations, and it is really happening as a result of competitive pressure. There is a slow education process for all the companies that are wanting to continue manufacturing the products that they do. You only have to look at the example of Nissan (and I am sorry to keep repeating particular examples, but I think we have a lot to learn from them) you will see how much they have invested in individuals to realise those individuals' potential, recognising that the sum of all of those adds to an enormous amount of resource for the company. Other companies who are, perhaps, coming from a more traditional viewpoint now recognise what needs to be done. Other companies further back down have got other problems to grapple with as well, and it will take them some time to realise that. We cannot change it overnight, it will take a significant time to do it. Yet, at the same time, companies are going to have to look

at doing that fairly quickly, because otherwise they will not continue to exist.

**Mr Porter**

616. I think it is important that rather than looking upon Tokyo as an Eastern Jerusalem where everything is wonderful, the fact of the matter is that as a result of competition from other countries in the Far East we are getting a rise in unemployment in Japan itself, and the concept of a job for life actually is not there now, is it? Let us not pretend that one can pick up this wonderful company ethos and work practice and translate it to the United Kingdom and all will be well. Of course I would love to be able to do that and to be able to say to young people "Yes, if you want it you will have a job and a career within this one company". It does not work like that, and it does not even work like that in Japan.

(Mr Hollingsworth) It is true that the Japanese economy has undergone considerable change in recent years. It is true that some of the manufacturers have announced some closures, and some are actually pulling out of car production. I would not disagree with what you say about the need for stability but it is very difficult to provide that stability where you may face a very unstable domestic market. To try to plan the stability of your workforce and to involve them is actually rather difficult when your market falls by 30 per cent over a period of two years. I am not saying it is not possible, I am saying it is difficult.

**Ann Coffey**

617. What I am saying is the problem is what the workforce feel in this country; that, at the moment, if anything goes wrong in a small profit margin, then they are the ones for the chop—the first thing that happens happens to them. It is that experience which is the problem. You were talking earlier about how to persuade people to go into manufacturing, but when young people make choices about jobs what they want to look at is continuity of a job that is in their control. If they perceive manufacturing as only offering them instability and the experience which the Chairman has had, you will find it difficult to attract them. Surely there must be stronger messages, on advice from you, to companies about how you put that message across to the workforce, and to government as well.

(Mr King) I do not think you can ever say to anybody "We can offer a job for life" although companies like Rover have got as near as they can, given the flexibility arrangements they have made regarding moving people from one job to another. That is something which would have been impossible a few years ago and of course in seeking to emulate best Japanese practice it is not a question of just being able to ape what the Japanese do and say "Well, if they have done it all these years we must do exactly everything similar". It is adapting what they do and building on to it a substantial number of good British practices as well, so it is not just doing away with the British system and adapting an alien creed and trying to make it work; it is learning from what the Japanese have done and embracing that which British people



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are best able to accommodate in their own minds and their own actions.

**Ann Coffey**

618. Offering people stable jobs is not an alien thing to do.

(*Mr King*) No, but you can offer people a relative stability if your product is of the right quality and the right price and of the right technical achievement also. Who would have thought indeed Land Rover is in the business of taking on people and is now producing more vehicles since 1948? Why is it doing that? Because it is making a good product. Its engineers work with the work people on the factory floor, and the whole thing is a team work concept and they will say when they started their advisory scheme for their employees that 10 per cent. of their work force two or three years ago came forward with suggestions. That figure is now over 300 per cent. of their work force, so somebody is putting in many suggestions, because they have released the ability of their work people. That is reflected by growing market demand in the United States and now exporting products to Japan—the only (as far as we know) product designed, developed, and manufactured in a country which has nothing to do with Japan, and which is actually having a Japanese label put on it. Now that is the way you give stable jobs. That is the *only* way. There is no other way that we know of.

Chairman: Can we move quickly on to the role of Government with Sir Anthony?

**Sir Anthony Grant**

619. Fairly quickly on this, in paragraph 5.1 of your memorandum you say first of all that you want low interest rates and stable exchange rate. Are you reasonably happy with that at the present time?

(*Mr King*) Well, no. We are seeing an increase in the value of the pound at the present moment which day by day erodes our competitiveness and it is absolutely essential that we do not allow the pound to increase in value undermining the gains that we have been able to capitalise on by the reduction of that.

620. Would you therefore welcome a lower interest rate?

(*Mr King*) If that was a mechanism I think to establish a reduction in the value of the pound yes, of course we would. By the same token, nothing erodes customer confidence more than the prospect of paying higher taxes sometime in the middle of winter at a time when car production does tend to go down in the depths of winter. If we have a budget that piles on tax increases I am not sure what that is going to do with production line performance.

621. I am sure the Chancellor will note your views! You also say in the same paragraph that you do not want particularly to return to the use of the industry as an economic regulator. How did that happen in the past? Were there any other industries other than yourselves in that respect?

(*Mr Hollingsworth*) It has happened in the past through the use of fiscal and monetary regulation which was changed often at a moment's notice which made it very much more difficult or very much easier

to buy cars, and we were fearful a couple of years ago that we might be seeing a return to that with increases in the taxation on vehicles. In the past it was done mainly through hire purchase controls, but we were rather fearful we were going to see the taxation system used in a similar way. Fortunately that fear has receded.

622. I understand—thank you very much. Quickly on the role of the DTI, who you really seem to want in paragraph 5.10 to do something to improve management skills. What exactly do you mean in that paragraph? “Given the strongly hierarchical heritage in the United Kingdom”, you say, “such change is a major challenge ...”. What does that mean? I am intrigued.

(*Mr Lawrie*) I think probably, or definitely, we are alluding to perhaps an opportunity here for a cultural change in the way which is proceeding in the motor industry—at least in elements of the motor industry—perhaps to be reflected across a broader spectrum of the United Kingdom: taking the best from that and applying it to the way we actually live our lives here today, learning how to involve people more effectively to produce a better national result.

623. Yes, but you are not suggesting, are you, that the DTI and Government just suddenly passes a law saying “There is going to be a less hierarchical attitude”?

(*Mr Lawrie*) Not at all. I think what we would like is a better mechanism and I think this is beginning to happen for the DTI to be able to understand what is going on in manufacturing industry and to support it in a way which will enable it to flourish.

624. Two very quick ones: how does your support for your industry compare with other European countries supporting their motor industries?

(*Mr Hollingsworth*) Our members operate throughout the Community—in fact many of them are global—and we are led to believe from them that (not always publicly) there is greater support in some of the European countries than here. We have of course had some notable exceptions to that. There was very considerable support and there has been very considerable support for inward investment into the United Kingdom which has been extremely beneficial as we have tried to demonstrate this morning, but I think there our members would argue that there was greater support.

**Chairman**

625. What do you mean by “support”? In which areas? Training? Investment?

(*Mr King*) I think it is a question of the comforter—the “feelgood” factor which has been lacking in terms of Government respectability towards manufacturing. The attitude that seemed to be was “Well, manufacturing is going to decline but we have got the City, we have got the financial institutions to fall back on and therefore it really does not matter quite so much” and, true or false, it has been inculcated into the manufacturing sector that in fact we are not as significant as we were. That feeling has been reversed of late and the belief now is that the Government is very much more determined to ensure that industry does prosper.



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MR ROGER KING, MR MICHAEL HOLLINGSWORTH AND  
MR ROBERT LAWRIE

[Continued]

**[Chairman Cont]**

626. When you say that, Mr King, does that mean that what the Germans are doing or the French is actually saying "You are very good at manufacturing", because that is what you are quantifying as support.

(Mr King) We are very good in manufacturing.

627. No. Are you saying to us the support the Germans and the French and the others are receiving is that their Government are saying "You are very good at manufacturing; we really like you"? Is that what you are saying is the only support they are getting?

(Mr King) No. What we are saying is "Look—here we are. We have probably got the best opportunity in 40 odd years to capitalise on a renewed enthusiasm and determination within manufacturing—some extremely good, others average, some with a long way to go but they will catch up as they see what prospects open up"—

628. That is not the question. In your memorandum you say that at the European level, European governments are giving greater support to their motor industry than is the case in the United Kingdom. Please quantify it.

(Mr King) Well, it is a feeling of course, as my colleague has said, that this is a perceived belief that various soft loans, various encouragements in research grants and so on are available to other European car manufacturers which are not available to ourselves.

629. Do you want them to be available to yourselves?

(Mr King) I do not think we need to say they ought to be available to anybody. These kinds of things should be funded within the industry on a European-wide basis.

630. So what are you actually asking the British Government to do then?

(Mr King) To make absolutely sure (trying not to over-use an expression) that we will play on a level playing field, and that we really do mean in a single market, with a single approach.

(Mr Hollingsworth) And to ensure that taxation and other regimes do not discriminate in the United Kingdom against manufacturing. Having realised that manufacturing is important, we want them to capitalise on that and make it clear throughout Government that the needs of the manufacturing industry will be looked at.

**Sir Anthony Grant**

631. Have you given positive evidence to the Government of any discrimination in this respect?

(Mr Hollingsworth) We are in constant dialogue now, particularly with the vehicles division of the DTI: that is the major route that is used by the Society to draw attention to, for example, some

environmental concerns (not that we are seeking to duck responsibilities in this area but the need to introduce them in a way that manufacturing is not disadvantaged).

632. Yes. You see just broadening that, my very last question is this: you say in paragraph 5.5 that you believe that Japan and Germany given significantly more support to their motor industry. Well, do you have any evidence of this, and, if so, what have you done with it?

(Mr King) We are not able to present any evidence, all we are saying is that it is our belief, obtained from members. We have a number of interesting situations which we are in the business of looking at to see if we can come up with some hard and firm evidence, but it would be wrong of us, as a trade association, not to express to you the generally conceived view of our members that things have not been quite fair.

Sir Anthony Grant: We actually want to know how substantial this belief is.

**Chairman**

633. When you have done that, would you let us know?

(Mr King) Yes.

**Dr Hampson**

634. As an aside to that, I do not see anywhere in your paper what must be one of the fundamental differences, which is actually productivity, and whether or not there is any way in which government can assist that. Are we now at about the same levels as others, such as France or Germany, or do the Germans, particularly, still have a big productivity lead? Is this one of the really difficult areas that the industry faces?

(Mr Lawrie) I think it is very difficult nowadays to disassociate productivity on its own away from quality—we should be looking at both. Certainly earlier this year there was a, probably, well-known benchmark study carried out by Cardiff Business School and some well-known consultants on benchmarking productivity and quality in the United Kingdom automotive industry companies, comparing them with the Japanese. (I am sorry to use that example again because we tend to use them as a measure.) The Japanese plants had a number of them in "Best in Class" in terms of quality and productivity, but no one United Kingdom plant out of the 20 companies or so looked at fitted into that category. There were some producing good quality and some good productivity, but not the two together.

Chairman: On that very sobering note, Mr Hollingsworth, can I thank you very much for coming to the Committee this morning.



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## Memorandum submitted by GKN PLC (MC 48)

## ANSWERS TO QUESTIONS RAISED BY THE TRADE AND INDUSTRY COMMITTEE

Q1. *About GKN plc; what motor components does it produce, what percentage (approximately) of UK output is exported, how have output and sales changed in recent years, what is its ownership structure, and does it have any joint ventures?*

1.1 GKN plc is an international Group, with headquarters in the UK, that is engaged in Automotive and Engineered Products (75 per cent of sales) and Industrial Services (25 per cent). Annual sales are in excess of £2.5 billion, of which some 40 per cent are from its UK operations. There are 28,400 employees worldwide.

1.2 The Group is a major manufacturer of a range of components for automotive use (car/light vehicle, truck, agricultural tractors etc.), as illustrated in the briefing sheets attached. These activities account for about £1.4 billion of the Group's sales. The approximate breakdown of automotive sales by major component types, and split between UK and overseas production, is as follows:—

Component Type	Origin (as % of automotive sales)	
	UK	Overseas
Driveline systems		
— car and light vehicle	9	59
— truck	—	8
Axles		
— car and light vehicle	3	—
— truck/off-highway	3	—
Agricultural Power Take-Off systems	—	6
Other (pressings, wheels, sub-assemblies, sintered parts etc.)	10	2
	—	—
TOTAL	25	75

1.3 The dominant activity in terms of turnover, profitability and reputation is the design and production of car and light vehicle driveline systems; GKN is a world leader with a 30 per cent share of the global market for constant velocity joints (CVJ), the key component in front-wheel drive vehicles. There are major CVJ production facilities in the UK, Germany, France, Spain, Italy and the USA, plus joint ventures in other countries (see later).

1.4 About 25 per cent of GKN's automotive components are produced in the UK. Exports to external customers account for approximately 25 per cent of this UK output, and exports to other GKN operations a further 13 per cent.

1.5 The importance of automotive components has increased over the last decade from around 33 per cent of GKN's sales to nearly 60 per cent now. Primarily, this has resulted from growth in demand for CVJs (due to the conversion of cars to front wheel drive and from new applications such as independent rear suspension and four-wheel drive). Major new plants in the USA, a large acquisition in Spain and organic growth in the Continental European markets have resulted in an increase of 2.5 times in overseas output. UK volumes have followed the pattern of domestic car production; a long period of decline has been reversed in recent years, stimulated by the Japanese 'transplants', but output is still slightly below the 1982 level.

1.6 GKN plc is a holding company with a wide range of institutional and private shareholders (the largest holding is 4.2 per cent). It conducts its operations through some 120 operating companies. Mostly, these are wholly owned though GKN does participate in joint ventures/minority interests that account for around 20 per cent of Group sales. Within the automotive sector, driveline technology has been licensed to local producers in ten countries and minority interests are held to influence the direction of these businesses. These are small (less than 5 per cent of sales); the major joint ventures/minority interests are in other parts of the Group (notably GKN-Brambles in industrial services, UES in steel, and Westland in defence).

Q2. *Who are your main competitors, and how important is price to your competitiveness, compared with other influences such as quality and reliability?*

2.1 Within the main CVJ business, there are three types of competitor:—

- Customers, ie vehicle original equipment manufacturers (OEMs) with in-house manufacturing capability, using both licensed GKN technology and non GKN technology. These include Ford, Fiat, VW-Audi-Seat, PSA, Renault, GM, Toyota, Honda and Nissan.
- Tied component manufacturers allied to vehicle manufacturers. These include Saginaw (GM), Atsugi (Nissan) and Toyoda (Toyota).



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- Independent component manufacturers. These include NTN and NSK, both of whom are Japanese component suppliers that do not, as yet, compete in Europe.

2.2 In other components, competitors differ from sector to sector but tend to be significant international players such as Dana, Rockwell, Eaton (all USA), ZF, Thyssen (both Germany) and Benteller (France). GKN has no major UK-based competitors in the automotive area. OEM in-house production is also a significant factor.

2.3 Price pressure has long been a major competitive feature of the automotive industry, although the nature of price competitiveness varies during the supply cycle:—

- At tender stage, although price is still an issue, product performance criteria, quality and engineering capability tend to dominate and only become subordinate once the vehicle application requirements are satisfied. During this period, the product will have been specified and target prices established.
- The successful supplier will subsequently be locked into a relentless process of cost reduction and quality improvement to which a positive competitive response is vital for continuance and repeat business.
- This pattern is typical for traditional western European vehicle manufacturers. Japanese vehicle builders differ in that, in the early stages, the overall business quality and total supply capability of the company feature strongly as competitive requirements, and require a long period of assessment.

*Q3. What is the nature of your relationships with the vehicle manufacturers you supply, and how have those relationships changed in recent years? Do your relationships with Japanese firms recently established in the UK differ from those with longer-established vehicle manufacturers?*

3.1 Relationships with traditional European OEMs are characterised by the requirements of longstanding licence agreements granted in exchange for purchase commitments. These have always required continuous communication at a technical level, with an obligation for GKN to demonstrate technical leadership and supply substantial product, process and application engineering support. Price pressure is considerable but has tended to be restricted to somewhat protracted yearly discussion, leaving the supplier to resolve internally any routes to agreed cost savings in support of price concessions.

3.2 GKN's relationships with Japanese manufacturers started a number of years ago in Japan, in anticipation of the "transplants" (whereby the main Japanese OEMs have established overseas production facilities, notably in the UK and USA). These are now well established; since the mid-1980's, worldwide sales to the key Japanese producers have grown from almost zero to £126 million in 1992.

3.3 Japanese OEMs expect a long-term commitment but not one founded in contractual caveats. Capability requirements are high in all respects of business and product performance, and long supplier assessment processes are common. Technical competence is essential to support the Japanese view that the supplier will be "expert" in its field; this is not left to chance but is under-pinned by demanding product performance testing and approval procedures.

3.4 Quality is first and foremost, and pervades all interchanges with the Japanese OEM. Once established as a supplier, the improvements required in cost and quality can only be met by an organisation committed to that philosophy at all levels. Japanese manufacturers will make available improvement teams to assist suppliers, but effective use of this help requires an open commitment to improvement and self analysis not always common in traditional European component manufacturers. The Japanese approach to customisation and model variants demands greater complexity within demanding cost constraints, resulting in the need to develop a more flexible manufacturing capability.

3.5 Relationships vary from customer to customer, but the trend is for the longer established European OEMs to move towards the practices and requirements of the Japanese transplants, thus creating a greater interdependence of supplier and customer.

*Q4. Has the presence of Japanese vehicle manufacturers in the UK had any other effects on the way your business is conducted?*

4.1 Supplying Japanese customers demands transparency of operation and the commitment of all the people in an organisation. The opposing forces of Japanese target pricing and UK shareholder returns are difficult to reconcile, requiring new levels of performance and ways of working. If target prices are not achieved, Japanese customers will offer to help find cost reduction opportunities. For this approach to be successful, it is necessary to be open about operating costs and business practices to a degree that is uncomfortable to traditional European manufacturers.

4.2 Japanese just-in-time delivery requirements have forced implementation of more flexible manufacturing systems and shorter response times, in order to be able to supply to schedule whilst decreasing inventory.



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4.3 The continuous requirement for improvement in cost and quality cannot be met without the full involvement of all employees. Better use of the skills and experience at all levels is essential, demanding organisational as well as cultural changes to ensure empowerment at the correct level. Only in this way can adequate cost reduction and improved asset utilisation be achieved.

Q5. *Approximately what proportion by value of your own supplies is imported, and what are the main reasons for purchasing supplies overseas rather than in the UK?*

5.1 GKN's UK automotive operations purchase bought-in materials and supplies to a value of £160 million per year. Of this, some 36 per cent is imported, though this varies between operations:—

<i>Component Type</i>	<i>per cent of Materials etc. Imported</i>
Driveline systems	44
Axles	57
Other (pressings, wheels etc).	18
WEIGHTED AVERAGE	36

Since the mid-1980's, this level has increased significantly, from below 20 per cent at that time.

5.2 Within driveline systems, imports are primarily components that cannot be sourced in the UK. However, customer-specified parts (e.g. some Honda-produced CVJs have to be imported for eventual fitment to Honda/Rover cars) account for about 20 per cent of the total and, currently, cross-supply from GKN's other European operations a further 20 per cent (increased UK exports will eliminate this cross-supply deficit in 1994). Axles Division has been forced to source worldwide, even though most of its supplies are available in the UK, through extreme pressure on prices. "Other" operations import materials not available in the UK (e.g. metal powders for sintered components).

5.3 Supplies of plant and equipment are now dominated by imports, because the UK manufacturers of many types of capital goods (e.g. machine tools) have contracted greatly. The proportions of equipment imported for recent investments in the UK driveline business (over 50 per cent) and in the pressings operation (around 75 per cent) demonstrate this.

Q6. *What proportion of your own manufacturing is carried out overseas, and what are the main influences on the way in which your manufacturing activities are divided between the UK and overseas?*

6.1 As shown in the response to Question 1., about 75 per cent of automotive component manufacture in GKN is located overseas. This is driven by the demands of the OEMs. Their philosophy is to build cars where people use them, so GKN as a component supplier has had to follow.

6.2 To ensure that GKN continues to expand its global position, its strategy is to establish and maintain a manufacturing presence in all major vehicle producing regions. The international vehicle industry cannot solely be served by exports from the UK or a few European sites. Reasons vary from market to market and are usually a combination of the following:—

- Customer preference for local sourcing.
- Just-in-time delivery pressure.
- Local content requirements.
- High import tariffs or other import restrictions.
- Logistical costs and problems associated with shipping small quantities around the world.
- Currency exposure on transactions.
- To meet competition as and where it arises.

The worldwide network of facilities now established does not attempt to satisfy 100 per cent local content requirements or produce the whole product range in each location. A significant amount of cross-shipping is designed to limit investment risk, maximise capacity utilisation and reduce cost, but maintain the ability to produce locally assembled products.

6.3 Initially, the location of overseas facilities arose from the acquisition of CVJ manufacturers, starting in mid-1960's in the UK and continuing throughout the 1970's in Continental Europe. Expansion followed to support the growth of the major vehicle producing nations of Germany, France, Italy and Spain. Continental European sales now account for 55 per cent of GKN's automotive output.

6.4 The North American market for front wheel drive cars developed later and was originally supported from our European facilities. It was not until the early 1980's that two new manufacturing plants in North Carolina began production. Sales have since grown to around 15 per cent of GKN's automotive output. A third facility is now being established to meet the substantial demands of recently-won new business.

6.5 Joint ventures exist in Brazil, Argentina, Mexico, India, Malaysia, China, Taiwan, Slovenia, South Africa and Australia; driveline technology is licensed to these local joint ventures and they supply local markets. They do not export significantly and remain small (around 5 per cent of GKN's automotive sales).



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6.6 In the last decade, the proportion of GKN's automotive sales arising in the UK has fallen from over 50 per cent to around 25 per cent because of reduced UK vehicle production. The recent recovery in car production is reversing this trend, and some UK growth is now expected as the influence of the Japanese transplants grows.

Q7. *In what respects, in your view, does the Government have responsibilities to promote the health of manufacturing industry, and to what extent is it satisfactorily discharging those responsibilities at present?*

7.1 The question of whether manufacturing matters to the UK economy has been much debated. GKN's view is that a strong UK manufacturing base is essential both to the well-being of the country and its own future. It believes that manufacturing and service industries are interdependent; both must prosper to create wealth and employment.

7.2 GKN is probably typical of the surviving UK manufacturers, which have realised great improvements over recent years; productivity has risen rapidly (although it is still below the world's best), whilst management practices, industrial relations, quality and product performance have all improved dramatically. Even so, there has been a serious decline at the macro level; the manufacturing sector has fallen from 30 per cent of GDP in 1979 to 20 per cent now (as compared with over 30 per cent in Germany and Japan), causing an imports surge and a deficit in manufactured products for the first time since the Industrial Revolution for which the service sector cannot compensate. An every-day implication for companies such as GKN is that the UK supplier base has been reduced (see response to Question 5.).

7.3 The inescapable conclusion is that industry alone cannot correct this position and that it is in the interests of the Government to support manufacturing fully. Key areas of support should include:-

- *Management of the economy*—A stable economic climate is essential to manufacturing industry because lead times and investment decisions are long-term. Stable exchange rates, low inflation and a competitive cost of capital must be maintained. Recent gains in UK competitiveness following devaluation are encouraging; inflation, unit wage costs and exchange rates now compare well with our major competitors. These gains must not be eroded, and previous volatility needs to be avoided; economic cycles in the most successful manufacturing countries (Germany and Japan) have been less severe than in the UK economy.
- *Ensuring a 'level playing field'*—Support for industry through export assistance, R&D support, use of public sector purchasing, investment aid etc. is a feature of many foreign countries. There are good examples in the UK; inward investment (particularly in the automotive industry) is now generally accepted as beneficial, world class UK industries (pharmaceuticals, defence, aerospace) have been greatly assisted by public sector purchasing, and recent improvements in export credit can only assist exporters. However, Government support has, historically, been patchy, and UK industry has probably not benefited to the extent of its foreign rivals.
- *Maintenance of the infrastructure*—Industry cannot survive in an advanced economy without a sophisticated infrastructure. In general, the standard of the UK's infrastructure is high, though there are some weaknesses in the education and training system; the infrastructure needs are considered in detail in the response to Question 10. The challenge for the Government is to ensure that these standards are maintained, often in the face of ageing facilities and over-use, at an acceptable level of costs.
- *Stimulation of Public Investment*—Government investment is not only necessary to maintain the nation's infrastructure (both "hard" and "soft", in roads, education/training etc.), it is a major source of business for industry. This is particularly important at the present time because economic recovery must be led by investment and exports, not by consumption. Although public expenditure has increased by 20 per cent in real terms over the last decade, there has been no growth in capital spending, and there is a case for some redirection of resources.
- *Promotion of an "Industry Matters" culture*—Through the DTI, the Government must promote a cultural framework that emphasises the importance of industry to the nation, supports its active development (particularly at the Treasury) and encourages young talent that it represents a worthwhile career. Frequent changes at the DTI (eg 13 Secretaries of State in as many years, the demerging and merging of Trade and Industry) and the apparent Government bias towards services have not helped. However, recent signs such as the raised profile of the DTI, alleviation of the Advanced Corporation Tax burden and the White Paper on Science and Technology are more encouraging.

7.4 There does now seem to have been an increased acceptance of the importance of manufacturing to the nation. The Government needs to get closer to industry in order to understand its needs better and to build on the recent improvement in manufacturing performance. Preferably, a cross-party consensus should be reached; long-term decline will take decades to reverse and changes of direction every few years would be disastrous.



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Q8. *What are the main influences on your level of investment?*

8.1 The drivers of manufacturing investment within GKN's automotive components activities are:—

- To provide additional capacity to serve new business.
- To improve manufacturing performance (reduce costs and raise quality).
- To develop new products and processes to maintain technical leadership, to support the increasing customer demand for a vehicle systems capability, and to enhance the Group's core competencies (GKN ranked 21st in the recent "UK R&D Expenditure Scoreboard").
- To protect the fabric of the business by replacing outdated plant, meeting statutory obligations (eg health and safety, environmental controls etc.), as necessary.

8.2 The overall level of investment is to some extent controlled by affordability, although at present GKN is not cash constrained. Good global spread, a strong balance sheet and control of working capital have enabled it to maintain its average level of capital investment around 150 per cent of its depreciation charge over recent years, despite the effects of the recession on profits.

8.3 Investment prioritisation is driven by the strategic significance of the business to the Group. Core businesses such as driveline systems are the first priority and, if necessary, a longer-term view is taken of investment in them; a shorter payback would be sought from an investment in a non-core business.

8.4 Within a given business, decisions to invest in any particular country are driven by local demand considerations. Because manufacturing investment decisions are long-term, factors such as local wage rates, cost of money, currency exchange and taxation that can fluctuate over time are not major considerations. Investment in UK operations has totalled around £150 million during the recession, even though their financial performance has not been satisfactory; vitally, overseas profitability has enabled GKN to support ongoing manufacturing investment in the UK through this period.

Q9. *How do you seek to encourage innovative ideas in your firm?*

9.1 The approach being developed across the Group is one of "continuous improvement" in which all are motivated to take responsibility for improving what they do and how things are done around them. The important features are to get everyone doing this all the time and not assuming that how things are done now is the best way. This process of change will take time and continuing effort.

9.2 A number of facilitating actions are being taken within the Group's operating units to encourage innovative ideas not only to be generated but, importantly, to be implemented:—

- *Development of an environment for innovation*—Employees are encouraged to participate in all aspects of their business. Ownership of the business processes they operate is essential and less hierarchical structures are encouraged to enhance empowerment of changes. Teams which cross several functions are put together to address business tasks and facilitate innovation in business processes rather than functional specialism.
- *Create and communicate the need for change*—Employee awareness of the competitive position of a business (or their part of it) is essential to understand the "degree of improvement required". Systematic benchmarking of best-in-class performance by business process operating teams provides not only clarity of the performance gap but also a means to close that gap.

Initiatives within the operating units are supported by a Group communications programme to encourage involvement at all levels. Investors in People accreditation is being sought for all UK locations (including the Group Headquarters), and Group-produced videos and magazines regularly communicate the performance, prospects and achievements of GKN to its employees.

- *Training and education*—Development of the skills to solve problems systematically in a team environment, and of opportunities for upskilling of all people, are being actively pursued. A specific initiative within the driveline business has been the setting up of our International College of Engineering; it aims to provide a platform for sharing and improvement of engineering knowledge from both within the Group and from external experts (including our supplier base).

An important element in upgrading our engineering and innovative potential is the GKN Group Graduate Development Programme. A two-year programme of assignments and training (including mandatory international experience) provides 'hands-on' experience to prepare the graduates for substantive first appointments within our technical and management structures.

- *Suggestion schemes*—Widespread company-based suggestion schemes seek to encourage individual initiatives and reward successfully implemented improvements. As an indication of the standard, our main German automotive operation recently won a national award in competition with some 230 other companies for the number of suggestions generated and implemented through its scheme.
- *Recognition and rewards*—Team generated innovation is given recognition in many different ways. Within manufacturing areas this is often by inclusion of successes in 'House magazines' or by



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presentation of ideas to senior management for sanction and implementation. Often, non-monetary recognition in the form of small company associated gifts or social events is used.

Within the driveline business there are annual awards for the best ten technical innovations, specifically to encourage engineering excellence. Winning team leaders are invited to a special event to present their innovation and receive a commemorative gift. Framed certificates are presented to each employee's company and are becoming symbols of the innovative capabilities of the company.

*Q10. What are the main areas where the quality of the UK's infrastructure (in its widest sense) is either helpful or harmful to your competitiveness?*

10.1 The UK's physical infrastructure (i.e. transport, telecommunications, utilities) is of the standard that would be expected of a major developed economy and is not, therefore, an issue in relation to other nations. From GKN's viewpoint, transport is generally adequate, with a comprehensive road network (albeit somewhat overcrowded) and, although the railways (both passenger and freight) are below the standard of Continental Europe, good air/sea links are advantageous in running an international Group. Telecommunications and utilities (water, electricity, gas etc.) all function well, with low levels of breakdown. Our prime concern is that the UK's infrastructure (both public and private) tends to be old and that this could lead either to damaging deterioration in service or excessive price rises.

10.2 We find the standard of support services high. Financial institutions compare with the best in the world in terms of quality, range and choice, as do other professional services (legal, accountancy etc.). The provision of health and social security is at a level that does not require much 'topping-up' by industry, and costs compare well with other countries (e.g. the cost of health care is a major drain on our US businesses). A wide range of support services (distribution, waste disposal etc.) is readily available. However, as indicated in the response to Question 5., the decline in the supplier base is a cause for concern.

10.3 The nature of education and training, and the consequent effect on the skills base, is a major problem for us. The supply of skilled people is critical to our success and this has implications in terms of new recruits, training of existing employees and cost:-

- It is clearly very important that our new young recruits are well educated, have appropriate vocational training and are well motivated and equipped to perform well.

Comments about the secondary education system are probably not so different from what they would have been forty years ago—the top slice output is excellent by international standards, the bulk of the remainder is not. The weaknesses are in basic literacy and numeracy and in the limited level of vocational training amongst those who might become technical operatives and technicians. Some of these weaknesses have to be overcome by in-house training, some by designing jobs that accommodate the limitations (which is becoming increasingly difficult).

At graduate level, the standard of the best is again excellent. However, the low number of graduates, and particularly engineers, going into industry gives particular cause for concern. It is not a new problem but is not getting better. The attractiveness of industry must partly be in our own hands, but actions and career advice that recognise the excitement and value of manufacturing industry (e.g. the recent "Industry Matters" initiative) would be helpful.

Difficulties also arise in respect of engineering graduates because the length of course is shorter than that of comparable courses overseas (typically 3-4 years as against 6 in most Western European countries). The main difference is that there is only a minimal input of industrial experience and basic vocational training, so the Group's Graduate scheme has first to train its UK intake to raise them to the same level.

- The greater issue in the immediate term is the quality and effectiveness of those we already employ. Improvements in the standards of school leavers and graduates will take some time to impact on overall performance.

As far as internal training of existing employees is concerned, the prime responsibility rests with industry. The ability of Government to improve this process has proved to be limited. Provision of more vocational training prior to young people going into employment would help. Improving systems for training and qualifications (National Vocational Qualifications etc.) can assist over time, helping individual motivation and organisation of training.

- The result is that the cost to industry of training is higher than it need be. Reducing the cost by subsidy to those who do it (from taxpayers or employers who don't train) has proved to be difficult to implement but should possibly be re-examined; in the absence of a new approach, success will depend on individual company efforts acting in their own interest. More effective basic education, followed by more state funded vocational training, would create a better raw material for industry.



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[Continued

Q11. *Are there ways in which the attitudes of financial institutions have caused you difficulties, e.g. as regards availability of finance, dividend policy, timescale for making a return on investment, decisions on overdrafts? If so, please give examples.*

11.1 Generally, the cost and availability of finance is not an issue for GKN. It is a well established Group with a good reputation and strong balance sheet, so it has a high credit rating. As a result, it can and does source finance internationally.

11.2 It is, however, influenced by its shareholder base being largely UK-domiciled. Traditionally, UK investors have sought a high proportion of their income from dividends on equities, as compared with countries such as Germany where other sources such as bonds are the prime source of income and equities are held more for capital growth. This is largely because UK equities are held more by pension funds etc. than by banks and other corporate entities, and because equities have been seen as an inflation hedge. It is particularly the case for traditional manufacturers such as GKN which are regarded as 'yield stocks', i.e. sources of high and increasing dividends rather than capital growth.

11.3 The consequence is that UK companies distribute a relatively high proportion of earnings as dividends, putting pressure on the company to earn high rates of return and reducing the internal funds available for reinvestment (in times of recession, surplus funds can be eliminated completely). Consequently, UK companies are relatively risk averse and tend to seek growth primarily through acquisition. There is also pressure, particularly during a recession, to reduce discretionary costs such as R&D in order to protect the dividend; a reduced dividend can have serious consequences in terms of lower share price and possible predatory takeover. GKN has successfully resisted these pressures, and maintained spending on R&D, training etc., through the current recession.

11.4 The extent to which this situation affects UK companies adversely is debatable. There is a counter-argument that it promotes greater efficiency, and it is certainly the case that the UK has more major corporations relatively speaking than Germany. However, it is indisputable that Germany's manufacturing performance has been superior, and a contributory factor could be that its financial system has prompted greater growth in the small/medium business sector.

17 June 1993

#### Examination of Witnesses

SIR DAVID LEES, Chairman and Chief Executive and MR TREVOR BONNER, Managing Director, GKN Automotive Drive Line Systems, examined.

#### Chairman

635. Sir David, thank you very much for coming to the Committee this morning. Could you introduce your colleague?

(Sir David Lees) Good morning, Chairman, ladies and gentlemen. My colleague, Trevor Bonner, is one of our three Managing Directors. He looks after approximately three-quarters of the manufacturing businesses of the GKN Group and covers, in particular, the international drive line business, and he may be in a position to help you, perhaps, with one or two comments on an international as well as a United Kingdom basis.

636. Thank you very much. Can we also thank you for your memorandum and the back-up documents you have submitted to the Committee as well? In your memorandum, you say, at paragraph 1.4, that 25 per cent of your automotive components are produced in Britain, and then you go on, in paragraph 5.1, to say that you also import 36 per cent of supplies for manufacturing components. Could you, therefore, tell us—apart from the location of your headquarters—to what extent you are a British company?

(Sir David Lees) Yes, I can. If we take the totality of GKN, which is approximately three-quarters manufacturing and one-quarter service businesses,

we are today, 1993, approximately two-thirds non-United Kingdom business and one-third United Kingdom business. In 1980 we were the exact reverse of those percentages, or proportions.

637. What is the necessity to follow vehicle makers rather than actually export from the United Kingdom as a supply base?

(Sir David Lees) I suppose, at the risk of being over-simplistic in answering too briefly, the prime reason is that it is what our customers want. Our customers want to be supplied, basically, from the country in which they themselves are primarily operating. It is for that reason that we have built up, over the last 15 years (rather longer than that, probably) manufacturing bases in all of the major countries in the world which produce motor vehicles.

638. On that basis, perhaps from 1980 to 1993, does the research and development tend to follow those plants as you develop outside that? If that is the case—and you have given the figures as two-thirds and one-third and the reverse over that period—is that the same proportion of research and development?

(Sir David Lees) No, it would not be. There is a higher United Kingdom content than the proportions of the group overall. Basically, our research and development operates in this way: we



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SIR DAVID LEES AND MR TREVOR BONNER

[Continued]

**[Chairman Cont]**

have a major development centre in Wolverhampton, we have a major development centre in Germany, we have a rather smaller one in America and we are in the process of building in Japan a rather small but specialist one. The main development centres are located in the United Kingdom and in Germany, but of course within each and every plant there is not much research going on but there is quite a lot of product development, product engineering and process engineering going on. So that is also established in the local plants.

639. Going back to supply base, as you say it has changed from two-thirds to one-third.<sup>1</sup> Is that likely to continue, or are we likely to see the reverse of that in the next period of five to ten years? Is that likely to reverse back into coming back into the United Kingdom?

(*Sir David Lees*) I think the proportions will reverse back a bit. I do not think they will reverse back a lot because we see ourselves essentially, particularly in our core car automotive component business, which is drive line business, as a world player and supplier. We have something like 31 per cent of the world market in our own components, so we have to be based all over the world. But the impact of inward investment in the United Kingdom (and quite clearly I have Japanese transplants in the front of my mind but also some revival of the British motor industry) does mean that we have been investing more in the United Kingdom recently, and I would expect the proportions therefore to change favourably towards the United Kingdom, but not by a great deal.

**Dr Hampson**

640. I see, in paragraph 2.3, you stress that customers are no longer buying on price alone. I wanted to press you on that. Is price the critical factor?

(*Sir David Lees*) It is absolutely fundamental to supply that we have a product that is of high quality and absolute engineering and technical competence. Without that we do not get off the starting point. It would be, I think, a mistake to say that price is everything. It is not, because, quite clearly, the *quid pro quo* for those qualities that I have referred to is a great deal of engineering technical back-up. It would also be quite wrong to give you any impression that the market is not an extremely tough and competitive one, and price does feature very largely and frequently in discussion with our customers.

641. Do the Japanese customers differ from your other customers where price is concerned?

(*Sir David Lees*) I would say not. I think that the industry is competing heavily with itself, within itself, and I do not think that price pressures are really fundamentally any different between Japan and our other customers. I do not know whether Trevor Bonner would like to add to that.

(*Mr Bonner*) I think that perhaps was the case a decade ago, but with the increasing globalisation of the industry, particularly with the Japanese

manufacturers setting up operations outside Japan, you have seen a convergence in industry practices.

642. You heard following on from the last question to the previous witnesses on productivity how important or not it might be now, and on balance I think you say in paragraph 7 that you are below the world's best. Are you likely to eliminate that disadvantage or, like the previous witnesses, do you not see it as a central problem?

(*Sir David Lees*) Oh, I think productivity is a very critical issue, and as part of the competitive pressures on us it is essential that our productivity levels are of the highest possible order. If we say overall we are not at the top of the league it is not to say that some of our plants are not. We have the advantage, of course, by having plants situated all round the world, of being able to make some comparisons of productivity in various plants and I think there are two things that may interest you: one is that, of our five main locations which are America, Spain, France, Germany and the United Kingdom, in absolute terms our productivity in the United Kingdom would be at the bottom of that league or near the bottom of it. If we look at productivity improvement, and take 1985 as a basing point, then the territory where productivity has improved most is actually the United Kingdom, so in a sense the conclusions you draw from that I think are that the United Kingdom has come from behind but is actually now catching up reasonably quickly.

**Chairman**

643. When will it catch up in absolute terms then?

(*Sir David Lees*) I think it will take it some time yet to catch up.

644. Three or five years?

(*Sir David Lees*) Yes, I should think so, because I think as has been said before the world around us is not standing still, so the United Kingdom not only has to improve but actually improve at a faster rate than our other overseas plants are improving.

**Dr Hampson**

645. Finally, where do the Germans figure? Are they at the top in terms of the motor industry? Which is the major threat?

(*Sir David Lees*) In our particular experience actually the Germans are *not* at the top. In our experience our American plants have done particularly well and Spain and France would be ahead of the Germans.

**Mr Bruce**

646. Just picking up that point, it seems to me GKN is an international multi-national company. You have got all these overseas experiences and yet you are British based. Why do we have to take so long to learn from your experience overseas and bring it back home? As a supplementary to that, we are constantly getting an argument that the British motor industry has responded to the Japanese inward investment. Why did we have to wait for the Japanese to invest here? They are, after all, taking the market away from us. In both these contexts it seems

<sup>1</sup>Note by witness: GKN as a supplier to the automotive industry, not the geographical distribution of suppliers to GKN.



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SIR DAVID LEES AND MR TREVOR BONNER

[Continued]

**[Mr Bruce Cont]**

to me we are slow in seeking out best practice and then bringing it back home and applying it.

(*Sir David Lees*) I do not think that is necessarily fair as far as we are concerned. I think we have applied best practice across our plants as rapidly as we can, and I must make the point if we come back to productivity that productivity has been improving in all our plants all over the world. The United Kingdom has actually, as I have just said, improved the most rapidly. I think the point I would like to make, Chairman, if I may is a point that was alluded to at the very end of the evidence given by the last witnesses which actually comes back to stability: we make a point in our written submission about economic stability. The problem is that in the United Kingdom we have had two, in the last decade, very significant recessions. If we look at our competitor countries they have not had that experience—at least not until quite recently anyway—and I do think that if you try and operate in macro-economic conditions of boom and bust then the potential for productivity gains is that much less, quite evidently.

(*Mr Bonner*) Can I just add perhaps two or three comments there: firstly, we have been visiting Japan on a regular basis since 1978—in fact, the year in which we signed our first licence agreements with Toyota and Nissan—so we certainly did not wait until they arrived with transplants in the United Kingdom in terms of trying to learn best practice. Secondly, we have also been encouraging dissemination of best practice within the GKN group over a similar period of time. The fact that the United Kingdom is still behind is relevant but the rate of improvement over the last seven years or so has been stimulated by that exposure to best practice, and thirdly, without the overseas element of our business and therefore the total volume, we just on a United Kingdom manufacturing base would not be able to justify and sustain the level of research and development expenditure and investment that we have made in recent years also in the United Kingdom.

647. Just a final point: you did say I think in 3.2 that your relationship with Japanese manufacturers started a number of years ago in anticipation of the transplants. The problem, it seems to me, for British industry and not just the motor industry is if Japan is a major competitor both at home and abroad, we have to ensure that we are following their practice—not just waiting for them to be investing in our home market. Is that not right?

(*Sir David Lees*) That I think is absolutely right—

(*Mr Bonner*) Absolutely.

(*Sir David Lees*)—and it is interesting when you look at who our competitors are in terms of our core component supply. They are Japanese actually. The biggest single competitor we have world-wide apart from the OEMs themselves is the Japanese company, NTN. It has about a 15 per cent. world market share and we therefore find ourselves as a British-based company competing with a Japanese component supplier in exactly our field and we find ourselves winning against them.

**Sir Cranley Onslow**

648. Can you be a bit more specific about the improvement you have achieved in Britain? Has that been through changes in working practices or introduction of new equipment or the gaining of new markets, or what in particular?

(*Sir David Lees*) I think the honest answer is that it is a combination of a whole host of things. We have as a practice continued with our training programmes and management development programmes irrespective of the peaks and troughs of economic condition. I heard the word "apprentice" mentioned in evidence previously: we have kept up apprenticeship programmes in our main plants, but I think the thing that has perhaps changed the most in the last ten years really has been the whole cultural change in terms of attitude between management and employees, and we have made I think significant strides in that area and I am not making the point that management was perfect before and the trade unions were not—I do not believe that to be the case. I think both sides of the industry have made significant progress, and as a result we are a more effective unit.

649. In catching up still further, as you have to do, how critical is investment?

(*Sir David Lees*) Investment is critical. We typically as a group, taking the good years and the less good years, invest something like 150 per cent. of our depreciation and I think that is a sustainable level. If you widen the question to the United Kingdom as a whole, and it is a point that the CBI have made on more than one occasion, the record shows that in manufacturing industry the United Kingdom has under-invested over the last ten or twelve years, and I believe it is essential that the United Kingdom corrects that imbalance.

650. How would you like to see that done?

(*Sir David Lees*) Quite clearly economic stability is an important platform. If there is not stability in the economy then companies or individuals are not going to be disposed to invest, or not to the same extent. I personally would like, actually, to see recognition of our national shortcoming in manufacturing investment, and I would certainly like to see the Chancellor, when he comes to his second Budget later in the year, to at least maintain the investment allowance regime that was brought in by his predecessor for one year only, which is, of course a 40 per cent first year allowance. I think that would be helpful.

**Sir Anthony Grant**

651. On the question of investment generally, Sir David, in your paragraph 11 you enter into the very interesting, almost philosophical, debate as to whether it is appropriate for industry to have the Anglo-Saxon system which favours the shareholders, or the European system which tends to favour the management—something which has exercised the mind of this Committee a number of times. I am not quite certain what conclusion you came to. On the one hand you point out that our system encourages efficiency, and on the other hand you say the European system—in Germany at least—results in their manufacturing performance being superior.



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SIR DAVID LEES AND MR TREVOR BONNER

[Continued]

**[Sir Anthony Grant Cont]**

What is your evaluation of the effect of financial institutions on our industry? Would you want any change?

(*Sir David Lees*) I think it may well be that the cultures of each country and the institutions of each country are probably best-served by what they have. I am not advocating in any way—and would not advocate—a transference of the German system of corporate governance, for example, to the United Kingdom. My own direct experience of relationships with the financial institutions have, frankly, not been at all unsatisfactory. I believe that the key issue is open communication between the company and its shareholders, and I think if the shareholders actually understand what the company is doing and what its medium and longer term objectives are, then many institutions will take a medium and longer term view. If communication is weak then I think that it is less likely that you will get that support. We have been supported, certainly, by our shareholders without any difficulty through some quite difficult times.

652. You do not go along with the rather growing criticism that short-termism in Britain tends to spring from the short-term view taken by pension funds or institutions in the City?

(*Sir David Lees*) I think, Sir Anthony, it is an overstated remark. Clearly, there are short-term operators in financial markets; there always have been and there always will be, but, you know, industry itself can be quite short-term when it is actually talking to the pension fund managers that manage its pension funds. So I think the argument can be slightly circular, and I, frankly, think that if the short-termism argument is stressed too much it is actually an overstatement.

653. In paragraph 11.3 you do say that the tendency has been to grow in British industry through acquisition rather than taking other risks. Do you think this has reduced our industry base in any way—this policy of “takeover mania”, as I sometimes call it, compared with generating growth inside the industry?

(*Sir David Lees*) You are talking, Sir Anthony, to someone who has not really indulged, personally, in “takeover mania”. We have grown—our group and our core products—almost entirely through organic expansion, so it would be unsurprising, perhaps, if I was not a supporter of that approach. That having been said, there will be occasions where the acquisition of one company by another does genuinely add value to the whole. So I would be very careful not to put myself in a position where you might turn round and say to me “Look, GKN, you have now made an acquisition and you said you would not”, but I actually think our businesses and our core products and services have been best served by organic expansion.

654. The very last question—at least from me: In 8.4 you mention the factors which govern your investment decisions and things which do not affect them. I was rather surprised to see that you do not regard the cost of money as a major consideration in investment decisions.

(*Sir David Lees*) Of course, the cost of money in absolute terms has to be factored into the returns that one would expect from an investment. I think what

we are getting at here is that major investments in our business are of themselves long time-scale events, and we cannot tell what, at least, the short-term cost of money may be by the time that investment has fructified. Obviously when looking at any major investment project we are very much governed by the weighted cost of capital as a group as a whole.

**Dr Hampson**

655. What is the proportion of your turnover that you invest in R&D?

(*Sir David Lees*) The proportion of our turnover (or of our relevant turnover, because, as I said earlier on, Dr Hampson, part of the group is in the service business) is about 4 per cent. In the latest league table of R&D that was published, GKN featured as number 21 in the league.

656. Is it a worthwhile effort to have those sort of score boards?

(*Sir David Lees*) I do not have to put the effort into preparing them, I would have thought they were of very doubtful value, but obviously somebody thinks they are.

657. Has your R&D been squeezed because of the recession?

(*Sir David Lees*) No, it has not. It has been in the order of 4 per cent of relevant turnover now for sometime. I do not think it is being squeezed out.

**Mr Ingram**

658. I am sorry for missing some of your earlier comments. Can I deal with this relationship with customers? There has been a traditional understanding that there has been a bit of an adversarial relationship with your sector of industry and those that you supply. That has now been replaced with a greater degree of partnership. Exactly what is happening to this area? Why has that whole cultural change been brought about?

(*Sir David Lees*) I think this is something on which I would like Mr Bonner to certainly add his views to mine. My response, Mr Ingram, I think, would be to say that we see ourselves, essentially, as a first-tier supplier supplying a very major and important component to our customer, and if we are to be of maximum value to our customer we have got to input into the design and engineering of the component, or alternative components, at a very early stage in the design and development of vehicles. So we are not just making a product to the customer's drawing, we are actually participating in the choice—if that is the right word—of the product that will be most effective for his particular vehicle. If you accept that as a premise, then that of itself, of course, develops a relationship at a very early stage, long before you get to pricing, with the customer, which is much more of a partnership nature. That goodwill is not so great that when you come to the price issue there is not a fiercely-fought battle, but at least in the early stages that relationship between supplier and customer is there in the partnership sense.

(*Mr Bonner*) I think I would add two comments. Firstly, I think if one goes back to, perhaps, the 1960s and early 1970s, there was an over-concentration in the purchasing departments of our customers on price. Certainly quality and innovative capability of



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SIR DAVID LEES AND MR TREVOR BONNER

[Continued]

**[Mr Ingram Cont]**

suppliers have become more important over that period. That has, without taking away the focus on price, helped to build this more partnership-type relationship between suppliers and customers. I think the second thing is that the industry has been largely again led by practice in Japan and is beginning to tier itself. The vehicle manufacturers have reduced the number of direct suppliers to themselves and encouraged the supply of modules, sub-systems and, increasingly, systems with many suppliers to the industry now becoming suppliers to the suppliers rather than directly to the vehicle assemblers themselves, and it is obviously much easier to have a deeper relationship with, say, three hundred suppliers than with perhaps the 1800 or 2,000 that one had in the past.

659. In your memorandum under paragraph 3.1, when you say that "Relationships with traditional European OEMs are characterised by the requirements of longstanding licence agreements granted in exchange for purchase commitments", clearly that is part of the traditional relationship. I think what you are saying is that a change is beginning to creep in if it is not already there, and to a great extent. What really does this mean, in effect? Does this mean you are actually having to sign away the rights of your products, the intellectual property in order to get that relationship with the new deals you are having to strike with your manufacturers?

(Mr Bonner) I think GKN's situation is rather special in this connection and that is as we grew our business with drive line systems, starting from the late 1950s, we tended to share the production of our components with our customers. There was not at that time a second supplier in the European market, largely because of patents held by GKN. Most customers at that point in time wanted at least two sources of supply and the arrangements that we came to really were to license our customers to manufacture a proportion of the product volumes in exchange for a supply arrangement for us for the remainder. That tended to mean that even going back to the 1960s we had long term relationships with our customers which was slightly unusual in the industry of those days and when one talks today of partnerships and the more longer term relationships with, for example, the Japanese vehicle manufacturers, in a sense we are used to that over the last twenty years or so. The component industry in general has not been in that position so there were, perhaps, five suppliers of a particular component to a vehicle manufacturer and he played on price in terms of how much he was going to source for that particular year to each supplier. So our experience is not particularly usual for the component industry in Europe in that regard.

660. You may have heard the question which was asked earlier of the previous witnesses, SMMT, about this belief that is around of maybe a locking-in mechanism. For instance, if you are a main supplier to, say, Nissan, they are not happy with a relationship developed with Toyota because of the very close supplier/manufacturer relationship. The answer the previous witnesses gave was that there was no evidence of that happening. Would you back that up?

(Mr Bonner) Absolutely. There is absolutely no evidence of that. In fact, many of our customers actually encourage us to be a multi-customer supplier in the sense that obviously, by being in that position, we have access to experience over the years with the application of our products in many environments and that can only help us in terms of our future developments, and in terms of supporting that particular customer.

661. Just finally in relation to this whole section paragraph 3 of your memorandum, you talk about the fact that the European manufacturers are slowly moving towards the culture of the Japanese transplant philosophy. Can I quote you the words of one of those manufacturers, and it was evidence that was given to the Employment Select Committee in March and I know you gave evidence at that time as well? What was said by Nissan at that time is "What we have got to do in this country is to be high wage, with a high quality work force, achieving high productivity and high quality products. That is the equation we need—not low wage, low quality, low productivity. That is doomed to failure and disaster and will have a major adverse impact on us as a manufacturing nation." Would you agree with that analysis?

(Sir David Lees) Yes.

662. So tell me what your view is in relation to the Social Chapter then?

(Sir David Lees) I think we have got to be very cognisant of the fact that Europe as a whole has got to be competitive in the world as a whole. Europe is not just a solitary unit and I think that one of the quite serious problems that Europe as a whole faces is its competitive position in the world as a whole. I note that when it comes to social costs, the social costs as opposed to the direct wage costs in the United Kingdom are lower than those in most of the continental European countries and I think in terms of absolute competitiveness that will be important, but that is not to say that we should not be high wage providing we are a productive and efficient economy.

663. And of course there is evidence that the French and the Germans can achieve that with the Social Chapter.

(Sir David Lees) Well, if you look at the most recent numbers on unit labour costs, for example, what you would see I think is the United Kingdom actually competing very favourably now in unit labour costs with the Germans.

664. What would you say in terms of the EEC's annual labour report due to be published today which knocks that argument down? It is in today's Financial Times that the annual labour report is expected to attack Britain's claim and I think this is your claim as well that "rising social welfare costs hurt competitiveness". Are you saying you would completely contradict that analysis?

(Sir David Lees) I would say that when we compare total labour costs, direct and indirect, in the United Kingdom with those for example of America and Japan, we are in considerably better shape than, for example, the Germans are.

665. You have companies in Germany?

(Sir David Lees) We have.



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SIR DAVID LEES AND MR TREVOR BONNER

[Continued]

**[Mr Ingram Cont]**

666. What differences in practices do you adopt relative to, say, employee consultation and employer relationships between that aspect of your company and, say, the British wing of your company?

(Sir David Lees) Well, we follow the practices of the country completely in the country in which we operate, so we would follow the German practices in Germany.

667. Where are the best practices?

(Sir David Lees) I do not think it is very easy to say that they are better in one country than in another. I think, as I said in answer to an earlier question, that the best practices can be developed in the individual country. I think it is very important and we have seen considerable evidence of it that consultation in the United Kingdom between management and the work force develops in the way it has over the last ten years, that is, a more voluntary system. I think it works in the United Kingdom. In Germany the system is a bit more formal and many Germans will say it works perfectly satisfactorily there.

668. What is your view as a practitioner in both countries?

(Sir David Lees) I am quite comfortable with the United Kingdom practice with our United Kingdom businesses, and the German practice in Germany.

**Sir Cranley Onslow**

669. Can I put Mr Ingram's question the other way round? If you were to see the German practices in your British plant, would it help or hinder your attempt to improve productivity?

(Sir David Lees) I believe it would hinder.

Mr Ingram: I think there is more to be explored in all of this, and perhaps it would be worthwhile looking at the Employment Select Committee's exchanges which took place at that point in time.

Sir Cranley Onslow: I hope they will look at ours too!

**Chairman**

670. Moving on to education and training very briefly, in your memorandum you suggest on page 11 that employers who offer training should be subsidised by those who do not. How would this

work? I think you are critical of the old levy grant system that was previously employed, so how would you actually see that operating?

(Sir David Lees) This is a difficult point because the previous grant/levy system was, I believe, not considered to be actually effective. On the other hand, I think we would all agree about the importance of training, that this is absolutely paramount, and it does seem to me to be quite a difficult proposition that some companies should indulge quite heavily in training, and others, perhaps, less so, when there is a national overall requirement for training. I am not advocating, necessarily, a return to the grant/levy system, but we make the point simply to emphasise the fact that there are those that train quite a lot, and there are those that train not quite so much.

671. How would this work and how would you want it to work, because you have posed the question here. I do not disagree, I think you are absolutely right. I think GKN is commendable in the way that they have kept their apprenticeships, so I think you are absolutely right. But, as you well know, what you have put in your document is not a universally accepted view.

(Sir David Lees) I do not have an immediate solution, but I think the issue is there and it is a matter which does deserve, perhaps, a little more attention.

672. I think you are absolutely right. I am trying to get from you how you think the thing should operate. We have had the apprenticeships, the levy/grant systems, the development of module training with the DTIV, and all that. All have commendable answers for bringing all that together and being able to fund that in the interests of UK Limited, and I would greatly subscribe to what you have said this morning. May I thank you very much, Sir David, for coming to see us this morning. There may be one or two areas which we will want to follow up, not so much on the Social Chapter, but on other areas of fact, rather than opinion.

(Sir David Lees) We will be delighted to help.

Chairman: Thank you very much.

**Memorandum submitted by Nissan Motor Manufacturing (UK) Ltd (MC 22)**

Q1. Which aspects of Nissan's manufacturing is carried out in the UK, and for which markets? What proportion of its UK output is exported?

Nissan has a number of individual plants on its Sunderland site which makes the company a highly integrated vehicle manufacturer. The major activities are:

- pressing of all body panels
- body welding to complete bodysells
- painting
- engine machining and assembly
- aluminium die-casting of inlet manifolds and cylinder heads
- plastic fuel tank manufacture-blow-moulding
- plastic injection moulding of bumpers and other components



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Component companies on the Nissan site produce seats and heavy gauge pressings for direct delivery into the assembly plant; this high level of out-sourcing contrasts to European car makers which would normally produce these parts in-house. Some 132 of Nissan's 198 European suppliers are located in the UK so providing a high British content to the Sunderland-built cars.

In addition, Nissan's Sunderland plant produces petrol engines for its sister plant in Barcelona for the production of the Serena model.

In 1992, 88 per cent of the production from Sunderland was exported making Nissan the third largest vehicle exporter after Rover and Ford.

*Q2. What were the reasons which led Nissan to invest in the UK rather than elsewhere?*

The decision to begin production in Europe was taken in the early 1980s and in the subsequent studies two groups of potential countries for location emerged. The first included the UK and Spain and the second Germany and Belgium.

The reasons for selecting the UK are many and complex, however there can be no doubt that the English language is easier for the Japanese than French or German. Good communications were vital. The UK offered competitive production costs and good transport links to all the European markets. In addition the UK was Nissan's largest European market, rising to a 6 per cent share in 1989, and therefore offered a good domestic sales base for the new production operation.

Perhaps just as significant was the political dimension. The reassurance from the British Government that it would fight for the free access of British-built vehicles was an important and comforting factor at a time when it was not clear if certain countries would attempt to block the movement of locally produced vehicles. This must be seen against the background of the high risk that the investment in the first European transplant represented for a Japanese car maker in the mid-1980s.

*Q3. Were there factors which counted against the UK when Nissan made that decision, and if so, what were they? Have you any ideas as to how such problems could be remedied?*

It is to state the obvious that Britain's mediocre reputation in industrial relations was a factor against investment in the UK. An equal risk to the project was posed by the abilities of the British component supply base. Nissan's ability to develop and work with the local supply base and the labour relations issues were the key reasons for first establishing a pilot plant rather than investing in a full scale facility to start with.

The UK motor industry was still emerging from one of its most damaging and turbulent periods and at that time no-one would have predicted that Europe's most efficient car plant could be located in the UK at the end of the decade.

The fact that such a plant is in Sunderland is a subject of immense pride for everyone at Nissan. It also confirms that the ills of the early 1980s can be remedied. The Nissan approach can best be summed up by the company's philosophy which was written by the staff.

"Nissan aims to build profitably the highest quality car sold in Europe, to achieve the maximum possible customer satisfaction and thus ensure the prosperity of the Company and its staff.

To assist this we aim for mutual trust and co-operation between all people within the plant. We believe in teamworking wherein we encourage and value the contribution of all individuals who are working together towards a common objective and who continuously seek to improve every aspect of our business. We aim for flexibility in the sense of expanding the role of all staff to the maximum extent possible and we put quality consciousness as the key responsibility above all. We genuinely build in quality rather than inspect and rectify."

Management has understood from the outset that its responsibility is to reinforce at every opportunity the key aspects of this philosophy. Without this unrelenting approach it would have been impossible to win the lasting commitment of the staff.

We say that people are our greatest asset but we understand that we must also demonstrate this; the words are not enough. Hence employment conditions are common to all staff. Everyone wears the same uniform, parks in the same car park, uses the same canteens and has the same holiday and sickness entitlement; no-one "clocks on".



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[Continued]

Obviously the above represents a summary of Nissan's approach and we would be happy to expand on any particular issues.

*Q4. What sort of relationships have you sought to establish with your suppliers? Have you assisted them to improve their efficiency, or in other ways to bring their products up to the standard you require?*

From the outset we have worked to establish a relationship with suppliers very different from the traditional and largely adversarial relationship widespread in the European car industry. Car makers have historically designed in detail the vast majority of components needed for a new vehicle.

Any development work would have been carried out with a single supplier. Once the design was finalised the part would have been put out to tender with the lowest cost supplier winning the contract. Clearly suppliers working on the development of a part never knew if they would get the production contract and there was no continuity for suppliers from one new model to the next.

Nissan has adopted a very different philosophy, one of long term partnership with suppliers. Instead of potentially switching suppliers at each price negotiation we very carefully selected a small number of key first tier suppliers. With the exception of tyres we have never dual or triple sourced, any individual part will have only one supplier.

As output at Sunderland has grown so suppliers have seen their business with us grow steadily. From the total of 198 first tier suppliers 146 supply parts for both Primera and Micra production. Since 1986 we have parted company with only six suppliers and indeed only two were sacked because of quality problems.

We have worked closely with the remainder on our joint targets of Quality, Cost, Delivery, Design and Development and Management. Suppliers are continuously assessed on these criteria and there are regular feedback sessions so they can fully understand how they are performing.

In late 1988 we perceived the need to help suppliers who could see the excellent efficiency being achieved at our Sunderland plant and were keen to match the performance in their own factories. This led to the setting up of Supplier Development Teams. Following training in Japan our engineers were invited into a number of suppliers to work with their staff to tackle problems.

The key objective was to show the supplier's staff how they could solve problems themselves gaining ownership of the solutions was vital to them being carried through.

The latest step in this partnership has been to send engineers from European suppliers to Nissan in Japan for extended periods to better understand our approach of suppliers taking full responsibility for developing their own parts. This is very much building on the existing strong links between European and Japanese suppliers through technical agreements and joint venture relationships, visits have been arranged from equivalent Japanese companies into European suppliers to assist them.

*Q5. In what ways do your management practices differ from those of typical British-owned firms?*

Some of the differences are covered by our answer to question three, however it is arguably our huge commitment to training which represents one of the most significant differences between Nissan and what your question refers to as "typical British-owned firms".

#### TRAINING

In 1992 "off the job" training for our 4,600 employees averaged 7.23 days while trainees received an average of 91 days training. In the production areas "on the job" training averaged 21.4 days. In total there were 108,684 days of training in 1992, carried out at a cost of £10.8 million; 11.76 per cent of total payroll costs.

These impressive figures illustrate we believe that only by training our staff to a high degree can we expect to build the highest quality vehicles.

Everyone undergoes an annual appraisal by their immediate superior and these are used to identify the employee's development needs and the individual's aspirations. Personal development can mean specific training or in many cases lateral moves to allow people to become more "rounded".

#### COMMUNICATIONS

We spend a lot of time communicating to our staff and we like to do this face to face. Much of this takes place by managers briefing their supervisors and the supervisors discussing issues with their teams at the morning or start of shift meetings that take place every day. In addition our top directors address all staff twice a year to inform them about the business and the company's prospects. It provides a valuable opportunity for staff to raise issues that concern them.

The company council, made up of 10 elected representatives and five nominated representatives from the company, meets formally four times a year. In addition the elected members meet fortnightly to discuss issues raised by their colleagues. From these discussions they determine the points to be formally raised with the



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company. This is the forum for negotiations on employment conditions although the council has decided on many issues in the past, for example introducing speed limits on the site and deciding shift patterns according to the staff's wishes.

This commitment to communication also characterises our partnership relationship with suppliers. We continually assess the performance of our suppliers against the criteria of: Quality, Cost, Delivery, Development and Management. However, in contrast to many rivals we openly feed back this information to the supplier to help the company improve. We are also developing open book accounting.

#### STRUCTURE

In contrast to traditional Western companies Nissan has a very flat management structure with only six levels of staff below managing director. An integral part of this philosophy is that there are no formal job descriptions. These would limit people's roles and potential.

Without a rigid and multi-layered grading structure employees naturally take on more responsibility. Our experience shows that this provides great motivation to the staff and a less supervisory environment.

Relationships within the company are built on mutual respect not on conventional status. This is reinforced by everyone wearing the same uniform and the managing director and directors sitting at desks in open plan areas rather than in closed, prestigious offices.

*Q6. How do you seek to promote innovation in your firm?*

#### CONTINUOUS IMPROVEMENT

Innovation conjures up images of major schemes and ideas. Nissan's approach is very different. We encourage everyone to contribute minute improvements everyday as the summation of this effort is a significant gain for the company overall. It is easy to laud a single major step forward yet it rarely happens.

The flow of small, detail improvements from employees is rooted in Nissan's commitment to flexibility; a key part of this is Kaizen or continuous improvement. For Nissan it means the total involvement of all employees.

Kaizen is a part of everyone's work, a very different concept from the European style "ideas schemes" where thinking about improvements is seen as a special exercise. All staff can participate whether in special Kaizen teams, working alone or in the work team.

Kaizen teams are groups, usually from the same work area, who have the opportunity to learn new skills and further develop their abilities in the course of participating in team activities.

The Kaizen process is: plan, do, check, action. The process encourages logical, systematic thinking that starts by identifying aspects where improvement can be made. The process ensures everyone understands the importance of continuous improvement. It introduces tools and techniques to assist in the real understanding of situations and provides the means by which recommendations can be presented simply and persuasively to achieve the desired improvements. With experience the Kaizen process enables the team to move on from the stage of dealing with current problems to a stage whereby potential sources of concern are dealt with in advance of actual occurrence.

TCRA—Total cost reduction activities.

Innovation has many forms and harnessing the bright thinking of all employees to reduce costs and raise efficiency is a natural extension of Kaizen activities.

Cost reduction should not be seen as the responsibility of just one department. Also it is essential to have absolute commitment from the very top of the company. To look at cost reduction of the finished product we established multi-disciplinary teams to evaluate and implement cost reduction ideas.

Ideas continue to be received from all departments and the success rate is of the order of 1 in 3. Feedback is made directly to originators on the status of their ideas, in addition a room is permanently set aside for employees to view developments.

This philosophy and commitment is extended to areas such as purchasing and finance which heads the TCRA Secretariat. The success of these activities was marked in 1991 with the first published profit for the Sunderland plants.

#### DESIGN

Recently the importance of innovation within UK industry is becoming clearly understood to be of competitive importance in being capable of practical exploitation.

The focus is moving from "re-inventing the wheel" to detailed engineering of products to achieve some innovative advantage while achieving customer satisfaction.



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[Continued

The quantitative measure to judge the level of this activity is through the number of patents applied for and granted.

Within Nissan we have a pro-active patent management activity as part of our actual design and development process. This means we actively map our direction of development for a specific product technology and target specific areas for innovation, avoiding infringement but gaining some competitive advantage.

Using design reviews from the earliest stages of development we "dig out" the details of innovation until each is fully developed. We establish departmental targets for patent applications as part of our annual objectives, thereby harnessing our creative ability.

The spirit of creativity is further encouraged through the provision of an excellent working environment. Buildings, the landscape and office areas are designed to encourage innovative thought. Self-discipline, self responsibility and self motivation are the norm.

8 June 1993

#### Examination of Witnesses

MR IAN GIBSON, Managing Director and Chief Executive, MR PETER HILL, Director, Purchasing, Nissan Motor Manufacturing UK Ltd and MR DANIEL WARD, Director, Corporate Affairs, Nissan Europe, examined.

#### Chairman

673. Good afternoon, Mr Gibson. I am sorry we are a little late, but we are behind schedule. Thank you very much for coming to the Committee today. Please could you introduce your two colleagues?

(Mr Gibson) Yes, good afternoon. On my right is Peter Hill, who is our director of purchasing, and on my left is Daniel Ward, who is director of corporate affairs.

674. May I also thank you for your memorandum and your answers to our questions which I think, in many parts, are thought-provoking. Could I start the questions by saying that you have identified a large number of practices which you carry out in the UK. Could you tell the Committee how you decide what activities should be carried out in the UK and are all of these operations of a world-class performance?

(Mr Gibson) I think there are two levels to that. The first is those which we should do in the UK ourselves, that is, those which we should do completely in-house under our control, and those which we would purchase. The decision of what to do in the UK, ourselves, is fairly straightforward. It is those things which we believe are key to the product identity, that we have it totally under our own hands, and key to the product quality's integrity, when we have something to protect in that particular part of technology. Or it could be where the technology of the particular product would not be available from the supply base in Europe or, perhaps, anywhere else in the world. There is then a secondary decision that says in some cases—it is not secondary because it runs in parallel, but it is a secondary-stage decision—do we want to encourage an existing supplier to the industry to develop that technology for us, or to become involved in it? We are looking much more there, in a sense, at the scale of our individual business volume. Does it need more than our volume to support that long-term? Therefore, if a supplier gets into it he will have other customers eventually for that product and technology—not exactly the

same product, but similar—so he can make economies of scale and make it viable for us to do in Europe.

675. Of the areas you are involved in, do you believe that they are world-class? In other words, areas of a world-class performance?

(Mr Gibson) Yes.

676. How does productivity in the UK compare with that of Japan and the United States—and Spain, as well?

(Mr Gibson) Broadly we would say, first of all, that there are two comparisons. One is within the Nissan Group, where we can get fairly accurate data, because Nissan has operations across the world and not just in Japan. We would say there that we are as good as the best in Japan, and better than just about anything Nissan has outside Japan in terms of productivity. In looking at that within Europe, across businesses rather than just within Nissan, we have tended to use feed-back from the Massachusetts Institute of Technology Study, the people who produced the book, "The Machine that changed the World". I think it is fair to state that they would say that we are as good as Japan and better than the Europeans or the Americans operating in their own native environment.

677. That is on productivity. What about quality?

(Mr Gibson) The same again. It tends to be that way round. You cannot achieve the productivity unless you achieve the quality in the first place, by world standards.

678. What are the greatest strengths and weaknesses of the UK's motor component manufacturing industry?

(Mr Gibson) I find it very hard to answer that. In any country there are good and bad companies; there are both extremely good and very poor companies and it is not defined by nation.



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[Continued]

**[Chairman Cont]**

679. In the balance of good and bad in the UK, what would be good and bad in Japan, or the USA, or Spain, or Germany? Is there a greater diversity?

(Mr Gibson) I think it is fair to say that if you look at the world picture then Japan, at present, is one step ahead, in terms of its components structure, of the rest of the world, by measures of things like quality and productivity. Even nowadays, levels of ability to manage productivity change quickly—that is, in time taken from the concept to the marketing of the new product—and to component level, as well as to assembly level. I would think that the UK, as a whole, is as good as anywhere outside Japan, broadly, but I will ask Peter if he has any comments to make on that.

(Mr Hill) I think the key issue there, comparing Europe, in fact, with Japan is when you look down the tiers of suppliers and you have heard from the earlier witnesses that we are working with a fairly small first-tier group. When you go under that group to the second or third tier, that is where our current weaknesses are and where we need to put the emphasis so as to raise the performance of those people before we can match the Japanese components industry.

**Mr Ingram**

680. If I may take you back to an earlier point you were making there about your own approach on corporate philosophy, you do, in your memorandum, talk about the corporate philosophy, stressing trust and co-operation between all the people in the plant, and you have a single-union deal with one trade union, the AEEU. Just how important has that relationship been in terms of what you call this philosophy?

(Mr Gibson) It has been fundamental to it. We work very hard at it and when I say "we" I mean both Nissan and the AEEU work at that relationship. Were it a bad one—and by "bad" I mean one of mistrust—that would create issues between us that would lead to a non-positive outlook for the business. What I do believe at the end of the day is that our relationship within the business is more important than our relationship with anybody outside the business, whether that be a trade union or even a customer. If we, as a whole bunch of people involved in Nissan, communicate well together, work well together, have common objectives, understand common needs, then any outside relationship is bound to be a better one, whether that be with a union or a supplier or a customer. If we cannot get our act together within the business so that people cannot communicate well and freely and openly, then it does not matter how well any external partner tries, it is going to be difficult. In that sense I see a business as being like a very large family. If I get on well with my wife and daughters and son, then it is easy for us to get on well with the neighbours. If we do not get on well, it is hardly likely that we are going to have good relationships with our neighbours.

681. The internal relationship with the union you are saying is a very key feature of all of that and it does away with the potential for friction rather than increase it, which has always been the understood position of the motor industry in this country?

(Mr Gibson) Yes, I think openness and trust are important as the two key words to measure the relationship with both people within the business and their representatives outside the business, the AEEU in our case, and I think in that sense it matters not too much which particular union you are with as long as you have that relationship with them. What I do believe is important, for us at any rate, is that it is a lot easier to do that where you are talking about a company where you are saying that all employees are the same, all the members of the company are the same, but to then say that you have multiple union representation is almost a conflict of concept. It is not that some unions are better than others; it is that you really ought to deal with one and if you are saying that everybody is the same, why do you need more than one in terms of your relationship with them? What is then important, whichever union it is, is that you can be open and honest with them and we are with the AEEU, they are with us and there is nothing we hide from them about the business and what we are doing in that we trust them to recognise what is confidential to us as a business and that they are not going to talk about it, but we do with all our employees, and we do with our suppliers too come to that, and our suppliers have relationships with other businesses and they know things about our business that we would not want competitors to know, but the union does, our employers do, our suppliers do, and we just have to have a good enough relationship to trust them to keep it to themselves and us and not go talking to competitors about it.

682. Just on that point, and it may be a later issue, but it is something which has been raised with the previous two witnesses, this relationship with suppliers. You say you would not be happy about them going off and talking to other competitors. Does that mean that you expect your suppliers to be in effect locked into you because you have this one-to-one relationship and you establish a whole partnership relationship with them?

(Mr Gibson) It depends what you mean by "locked in", but locked in in the sense that we would not want a supplier to see that they are only working with us for the length of one contract, for one part, one model. Our view is that when we open a relationship with a supplier, it is there for as far ahead as we can see into the future, full stop, different models whenever they come, so locked in in the sense that we actually encourage people to have the business beyond us and in fact that has not been difficult because, having only arrived in 1984 and we had business elsewhere to start with, so we were a newcomer, and we would have no problem with that. We think it is one of the positive strengths of Europe in industry terms globally that the supply base is a strong one, not least because it has been dealing with many OEMs and that is not the history of the United States or Japan and that is a strength of Europe and the European supply base, so we would encourage that. What we would say is that if they know in more detail from us about the design of our next model than they would from one of our competitors about the design of his next model, we would expect them to keep that between us and them and they do.

683. And there is this Chinese wall—I know we are talking about Japanese companies, but there is this



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[Continued]

**[Mr Ingram Cont]**

Chinese wall of understanding in terms of the relationship with you and the relationship with other manufacturers?

(Mr Gibson) Yes, and the Europeans are historically, and by that I mean those based in Europe because it does not matter where they are owned, are historically better at that than their United States or Japanese counterparts because they have always been supplying to different people.

**Mr Bruce**

684. You say you have only parted company with six suppliers. Did any of these arise out of breaches of these confidences?

(Mr Gibson) No.

685. They are all entirely related to performance and quality?

(Mr Gibson) Yes.

686. The other witnesses we have had have demonstrated to us the great benefit of Japanese investment for the British industry. Has it been entirely beneficial to you? In your memorandum you have said in considerable detail how you are training your suppliers, you have even taken them over to Japan, you have raised their standards, and your competitors are telling us how much they appreciate your good work. Is there a downside for you at all?

(Mr Gibson) That is life! We do operate in a world where we cannot have everything. There are benefits to competitors. The other way round is that there are benefits for us. Let us be clear. Firstly, there is the benefit for us in that we get out of that relationship with our supplier, we like to believe, deeper levels of trust and co-operation than another customer from that supplier who might just use the big stick rather than consulting and really getting involved in the support. What we broadly get is what our competitors get; we get a better supply base, and a better supply base means that we make better cars and that we are more internationally competitive. It is important to remember that the motor industry is that famous thing, a global industry in the way that aerospace is, and it is probably only the two of them so far, I think, on the scale of aerospace and motorcars, and we have to be as good as the best in the world that is coming, and not just the best in the world that is here, and I do not know yet whether the best in the world that is coming is going to be the Japanese, or Latin Americans or the South East Asians or the Europeans. The more that we can learn from everybody and our suppliers can teach us in the long term, the better chance we stand. It is worthwhile us investing in them so that we are more capable of learning from them what goes on in their worldwide business.

687. But from a management point of view, you are here representing a Japanese company, you are British managers who presumably worked in British companies before and now work in the Japanese context and obviously are very much in favour of it. Is the next generation going to be people like you moving out and actually helping British companies to apply these techniques? It all seems to be very slow. Everybody is saying how beneficial it is, but it is very reactive rather than people actually innovating.

(Mr Gibson) Can I disagree with you? We happen to think we are a British company. We happen to use Japanese capital, Japanese support, but my previous employer was Ford and I thought that was a British company because I joined them straight from university and spent 16 years with them. It happened to have American capital originally, but a lot of other people are in it.

688. But, with respect, it is more than just capital, is it not? You are applying quite consistently Japanese management techniques. You say you were with Ford—

(Mr Gibson) The Japanese do not say that.

689. You have adapted them?

(Mr Gibson) We have, as we have the American and British and Scandinavian and the German ones. I heard you talking to Sir David about employee consultation mechanisms. Our whole mechanism for employee consultation is the West German model. I did three lengthy stints in my working life in West Germany and I thought it was a good model and we have just installed it and I think improved it. It is not legislatively driven in the way it was when I was at Saarlouis or Cologne, it is voluntarily driven, but Japan has nothing like that. Other bits of Nissan in the world do not have anything like that. Our way of consulting with employees is purely our development. Our concept of the structure of teams on the shop floor is totally unlike the Japanese one in Nissan and totally unlike the Nissan one in the States. What we have got is ours, thanks very much, and there are other bits of Nissan that are now trying to copy us and learn from us, the Spanish one, the South American one, some South African ones and some American ones. What they are learning from us is not a Nissan model; it is our model.

Chairman: Nissan Motor Manufacturing (UK).

**Mr Ingram**

690. Do you try and pass that down the supply chain to your suppliers? Do you try and inculcate in them the same kind of approach to the workforce?

(Mr Gibson) Yes, the same type of approach to the workforce, but there it would not be appropriate. We have to recognise and I prefer to think of us as a white piece of paper rather than green fields where we did not have a prior structure to live with and we cannot go to a business that has been in existence for 70 years and has all the traditions it has in the business and say, "Create a company council from scratch". It would take them a long time to do that. What we do suggest to them is that there are lots of benefits from team work, that there are lots of benefits from employee consultation, there are lots of benefits from employee involvement in the organisation of their daily work life and that there is enormous benefit from encouraging employees to become involved and take ownership of their part of the process so that they are improving things all the time. There is a benefit to the business, which means benefit to the employees and at the end of the day it means benefit to the shareholders, whether they be in Japan, the United Kingdom or the United States. Importantly, all those benefits are achieved because they are benefits for the customer who is the guy who pays the wages at the end of the day.



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[Continued]

**Mr Ingram**

691. Do you find that in your experience, which you claim to be the best practice, some companies from other parts of world are actually beginning to get suppliers, which have a more traditional approach, and that is improving the quality to an extent?

(Mr Gibson) Yes, we are not proud. There are some of our suppliers from whom we have things to learn.

692. Who, for instance?

(Mr Gibson) There is one little business, which I will not name, that has started up only a few miles from us. It is essentially French-owned, but they came and looked at a lot of what we did and then set up their new business to supply us. That French-owned business supplies a lot of other industry customers on another site, and I happen to think that they are brilliant. We have looked at the way they have done things because they have taken some of the things that we have done and they have said that they can do those things a little bit differently. I have no objections to us getting good ideas from whoever they come from. If it is a French-owned guy employing a British workforce and applying some techniques that he has cobbled together from us and others then I say, "Good luck to him and good luck to me" because I can learn from it.

**Sir Cranley Onslow**

693. I do not know if you were involved in the original decisions by Nissan to locate in the UK?

(Mr Gibson) Only after they had made it, because they were already in the States.

694. Perhaps that influenced their decision. Would you say there was more than one deciding factor? Was there something which tipped the scale?

(Mr Gibson) First of all, you have to put it in its time context. The decision to come to Europe was made in about 1982. This was the decision to come to Europe, at that stage, because Nissan had already been in the States for a couple of years making cars. The choice of the UK, within Europe, was subject to certain influences. I think the final critical things were—not in any order of priority—one, the language; two, the fact that it was the country where we had had the longest substantial presence of selling cars in the market, so the company felt it knew the market and knew its future potential domestic customers; and three, the fact that there was, in essence, a good technological base already existing within the UK, in terms of people. It was not a country, like Greece or Portugal, at that time, where large-scale manufacturing technology would be relatively new. Those were the three key things at the end of day.

695. Now you are here and well-established, could you imagine anything happening that may cause you to regret this decision and reverse it?

(Mr Gibson) If we managed it badly, yes. We are only the size we are in the UK because we have been successful. The initial decision was very much for a pilot facility of a 50 million sterling investment, then at 1984 prices, and a few hundred people. If we had not achieved the quality, and we had not achieve the productivity, then we would not be the scale of

investment that we are now. All those were decisions justified on individual proposals, at the time, and based on performance to date. If at any time we stop performing, then we will stop growing, and if you stop growing in this business you start shrinking, and the end of the road lies somewhere facing you.

696. Do you think Government has a role to play in all that?

(Mr Gibson) Yes, it is clear that they did in the first place. All governments have a role to play, we are not just talking about the UK Government. In that case, the ability of any government had to be able to present an argument as to why this particular country had to make an inward investor feel welcome, especially a Japanese one, where they do like to feel welcome. This is part of their approach to life, as well as business, and I think the Government had a role to play and had it not done it well, at the time, then another government might have been more successful in convincing them. Nissan has a large investment in Spain in the form of MotorIberica, which makes light commercial vehicles and 4x4 off-roaders. That was also because the then-Spanish government did a good job of making Nissan feel it would be a welcome investor.

697. Coming back to the UK Government, do you think there is more it should be doing to keep your industry healthy, and Nissan, in particular?

(Mr Gibson) I think, in one sense, I would repeat what I have just heard Sir David Lees saying. The important things for business, whether inward investing or industry, are stability and predictability in what are now called macro-economic circumstances. Businesses, I think, take longer-term decisions than governments. That may sound snide, but it is not meant to be. We are talking, hopefully, of the same management team living with the consequences of those decisions 20 years from when the decisions are made. There are not many Secretaries of State that stay in the same department of state for 20 years!

698. There are not any!

(Mr Gibson) In the auto industry you are probably conceiving a project, anywhere from three to five years before it hits the customer, and it is then going to sell for five years. The facility that you have installed, as part of that you hope will live for another five years beyond that, for the next project. So it is very long term. You do not need rapid movements in interest rates. You do not need rapid movements in exchange rates. You do not need drastic changes in taxation policy about vehicles at point of sale or fuel. If there is going to be change—and there has to be—then you need some sight of what the progress of change is and where it is going to go. I think, broadly, for whatever reason, that is one area where, in my personal opinion, Japan and Germany have fared better in that there has tended to be more continuity of direction in the period of the last 25 years than in the US and UK.

**Chairman**

699. What do you mean by "continuity of direction"? Is that not just macro-economics, but a strategic view?



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[Continued]

**[Chairman Cont]**

(Mr Gibson) That is not just macro-economics, but they have tried to follow a role that says that in both cases manufacturing is important; right now, we are all talking about manufacturing in this country. As a manufacturing man, myself, I used to be disappointed when—ten or fifteen years ago—we were not talking about the importance of it. During that period—at least in my perception—there has been a lot of to-ing and fro-ing, as to whether, for example, training or engineering are important in the UK. There have been many different opinions during the course of the last 20 years. You would have found the Germans absolutely constant in their purpose that, of course, engineering was important and training was important. Those messages carry through into the national psyche because if they become consistent then they become built in. If you keep changing them, then you get different impressions existing in the populace at large.

**Sir Cranley Onslow**

700. Looking forward, it is possible to argue that the EC has provided general continuity of direction. Do you have a good relationship with the Commission?

(Mr Gibson) I do not know, to be frank. We do not come across them much.

701. You have good relations with the Government?

(Mr Gibson) Yes, I think we do.

702. And with the DTI?

(Mr Gibson) Yes, I think we also have good relations with those who are members of the political establishment. They are not always in government, at present—whether it is back-benchers that we deal with, or the other parties. I personally do not see that for an individual business, relationships with the world of politics are important, in themselves, but what I believe is that the stability that comes from the political system, and predictability that I spoke about, is important so that a business can make its plans and then be internally and globally competitive because it knows where it is going as a business, but within a framework where it can see where it is going.

**Mr Ingram**

703. So the prospect of a Labour government does not frighten you?

(Mr Gibson) No.

Sir Cranley Onslow: Any more than the prospect of a continuing Conservative Government!

Chairman: Are there any further questions from our side?

**Mr Ingram**

704. I have a specific one for Mr Gibson. We have been raising those issues elsewhere, in terms of the way in which industry and government inter-relate. I understand you were a member of NEDO—I am not sure whether it was a sectoral Neddy or not, but whatever—do you have a view on that type of partnership relationship between the Government, and industry, and even involving the work-force through the trade unions?

(Mr Gibson) First of all, I think the most important level for that is the business level. The most important relationship between shareholders or management and employees is at the level of the business because that is one that leads to survival or not. That is by far and away the most important and that it should be as close to the level of the operating business unit as possible. For us it is easy as we have essentially only three sites in this country, but it is important that we relate to the design people at the design centre at Cranfield and that we relate to the manufacturing people at Sunderland in the right way for those sites, so it is important that it be close. I do believe, wearing a non-Nissan, but a Brit hat for a minute, that a dialogue and an understanding between business, government and trade unions is an important one and that again that should be on the basis of, like all relationships, openness and trust. I think you only get those if you listen to each other and you talk to each other, whatever you are. My particular involvement in NEDO was in promoting through the engineering industry sector group the concept of training because it is one of my hobby horses and it is one of our business's hobby horses that it is an area in the United Kingdom which we are weak in in manufacturing and that I believe, I hope, is a message that has now been fairly freely accepted throughout industry.

705. You say that it is accepted generally within industry, but do you find that view has been accepted within government as well?

(Mr Gibson) Yes.

706. In which way is it manifesting itself?

(Mr Gibson) I think, one, in terms of when I look at the way or when I hear of the way that people from the DTI, or civil servants we are talking about there, talk and have their interests, and I will ask Pete to talk in a minute about something he is involved in, that you see that government, in the broad sense of the word, not just the party in power, the government machine, is much more interested about conveying messages from what one might call best practices on training and on the ways of working with suppliers to those who might not know about best practice and is actively fostering that and the spreading of that message.

(Mr Hill) We have, as I said earlier, put a lot of emphasis on work and not just with first-tier suppliers, but trying to get all suppliers generally to improve performance and this year with the DTI and SMMT have launched an initiative, *The Workshop Initiative* it is termed, which is involving in our case, where we were recently involved, six Nissan people, seven people from the vehicles division, one SMMT representative, five first-tier suppliers to Nissan and 26 second-tier suppliers and that is the first time as a workshop and not the old seminar approach, but as a workshop and that group got together and debated some of the key issues and that initiative is taking place for the rest of the year with Ford and with other vehicle manufacturers in the United Kingdom and I feel, indeed I am sure, that by the end of the process we in the industry and the vehicles division will have a much clearer understanding of the issues facing us.



7 July 1993]

MR IAN GIBSON, MR PETER HILL AND MR DANIEL WARD

[Continued]

**Sir Cranley Onslow**

707. Was that a DTI initiative?

(Mr Hill) Yes.

**Chairman**

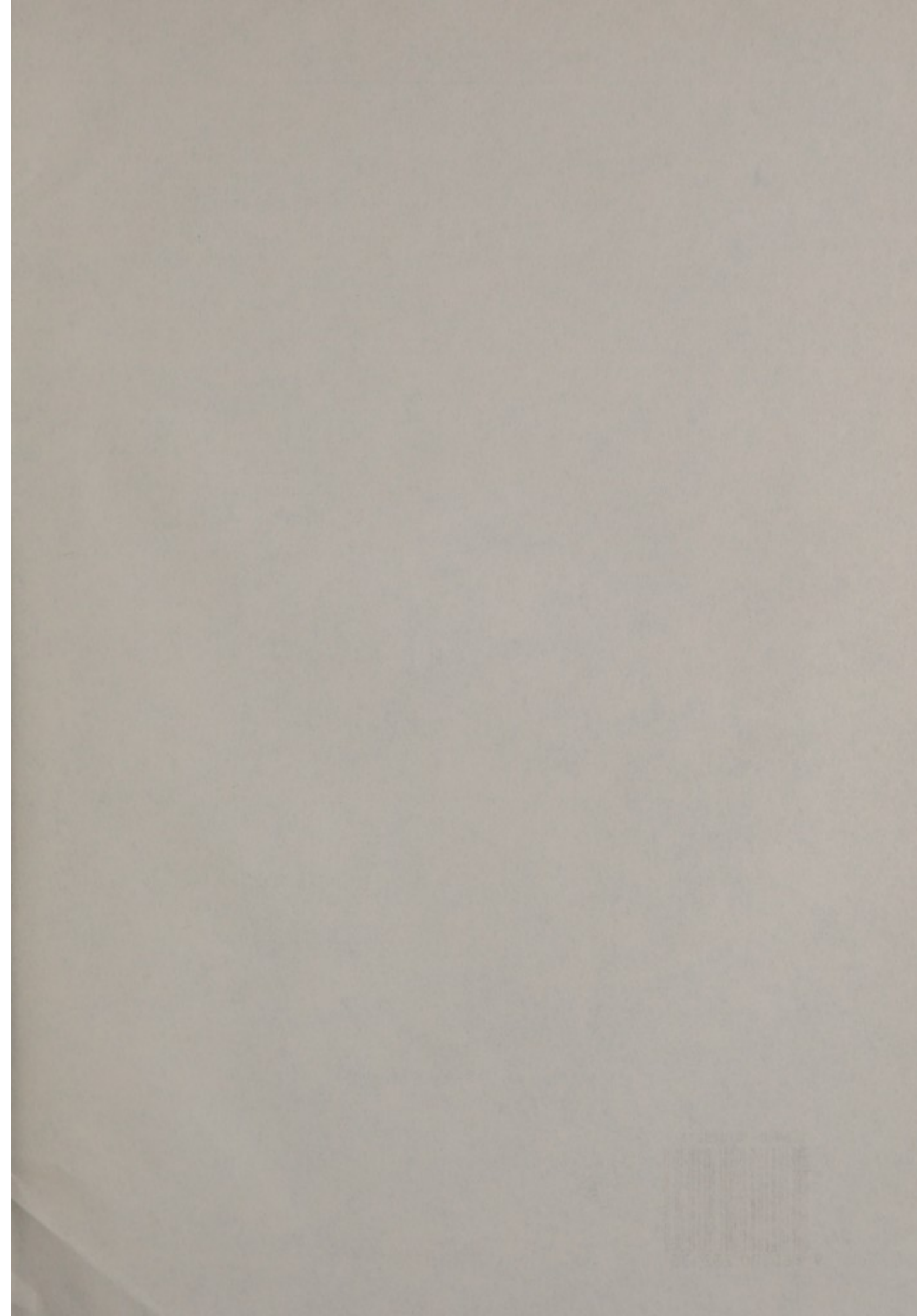
708. Is there anything further you think the Committee ought to know, Mr Gibson? We will be obviously following a number of areas up in writing to you.

(Mr Gibson) There is quite a lot, and given the time available what I would like to do, if it is not being too forward, is to suggest that as and when you find the opportunity, either all or most of you, that you

actually come to Sunderland and see what goes on because we are proud of it and we would like you to see it, but I believe it is an example of the best of the future of the motor industry and of manufacturing in the United Kingdom and in Europe and that the best way to get hold of what is different and what is the same is to go and look at it and to talk to the people there. If you do, you would then have the opportunity to put your questions to us in a more extended timescale.

Chairman: We will look very seriously at that. Can I thank you very much for coming to the Committee this morning.















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