

**DTI - the department for enterprise : presented to Parliament by the Secretary of State for Trade and Industry and the Chancellor of the Duchy of Lancaster by command of Her Majesty, January 1988.**

**Contributors**

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DEPARTMENT OF TRADE AND INDUSTRY

# **DTI — the department for Enterprise**

*Presented to Parliament by the Secretary of State for Trade and Industry  
and the Chancellor of the Duchy of Lancaster by Command of Her Majesty  
January 1988*

LONDON

HER MAJESTY'S STATIONERY OFFICE

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## OBJECTIVES OF DTI

The needs and demands of society can only be met by increasing prosperity. The prime objective of the Department is to assist this process throughout the economy and to champion all the people who make it happen, rather than just individual sectors, industries or companies.

We work with business to promote best practice and within Government to create a climate that stimulates enterprise and reduces red tape.

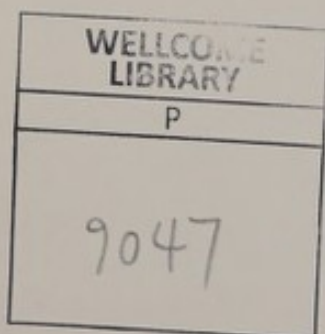
Business flourishes in a competitive and open economy and we aim to secure this both at home and abroad. We will continue to promote the growth of international trade and work towards a single market within the European Community.

We seek to:

- produce a more competitive market by encouraging competition and tackling restrictive practices, cartels and monopolies;
- secure a more efficient market by improving the provision of information to business about new methods and opportunities;
- create a larger market by privatisation and deregulation;
- increase confidence in the working of markets by achieving a fair level of protection for the individual consumer and investor.

We will encourage the transfer of technologies and cooperative research, the spread of management education and the growth of links between schools and the world of work.

Our objective will be to produce a climate which promotes enterprise and prosperity. In all our work we will take account of the differing circumstances of the regions and of the Inner Cities to enable those who live there to help themselves.



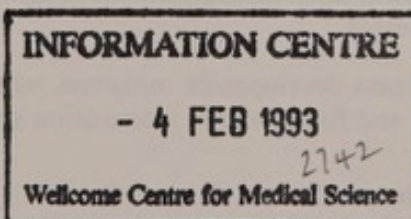
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DTI — the department for Enterprise

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1. This White Paper describes the role of DTI in encouraging enterprise, one of the major economic goals of the Government. It sets out the main policies of DTI and announces changes both in those policies and in the organisation of DTI.
2. The creation of DTI in 1983, bringing together industry and trade, was in itself significant. It recognised that we compete in an international economy, both within the European Community and as part of an increasingly interdependent economic world. It acknowledged that the progress of economic and technical development had increased the importance of the service sector. It concentrated in DTI major Government concerns with business.
3. Now, at the start of a new Parliament, new objectives have been set for DTI and policies have been reviewed in order to assist in the process of increasing prosperity throughout the economy and to champion the cause of all the people who make that happen.
4. The central theme for our policies remains the belief that sensible economic decisions are best taken by those competing in the market place. The responsibility of Government is to create the right climate so that markets work better and to encourage enterprise. The aim of our policy is thus to encourage the process of wealth creation by stimulating individual initiative and enterprise and by promoting an understanding of market opportunities combined with the ability to exploit them.
5. The way to wealth creation lies through business and individuals working efficiently in open competitive markets. The characteristics of such policies are likely to be long term rather than short term, tackling underlying causes rather than symptoms, applying across the economy as a whole rather than concentrating on particular sectors or industries and working with industry to facilitate change rather than dictating changes from above.
6. Many Government policies contribute to the process of increasing prosperity throughout the economy but DTI plays the key role in encouraging enterprise.



## SUMMARY OF MAIN POLICY CHANGES AND INITIATIVES

### **Competition Policy** (Chapter 2)

— Fundamental changes in the Restrictive Trade Practices Act. These would prohibit agreements with anti-competitive effects, and provide stronger powers for the investigation of suspected illegal cartels. There may be exemption for agreements which are on balance beneficial. A Green Paper will follow.

### **Mergers** (Chapter 2)

— New legislation is proposed for

- (a) a voluntary procedure to give the Director General of Fair Trading (DGFT) advance notice of proposed mergers, with automatic clearance for simple cases within four weeks;
- (b) new powers for the DGFT to secure legally binding undertakings from parties to a merger that they will remove any anti-competitive aspects, without the need for an investigation by the Monopolies and Mergers Commission.

### **Deregulation** (Chapter 2)

— New legislation is proposed to reduce the costs of complying with the Companies Act, particularly for small firms; to remove business lending and hiring from the Consumer Credit Act; and to increase self-regulation under the Weights and Measures Act.

— A deregulation White Paper will be published in the summer.

### **The single European market** (Chapter 3)

— In April, a major campaign will alert companies to the implications of, and opportunities offered by, the single European market.

### **Business and education** (Chapter 4)

— There will be an initiative to bring education and industry closer together by encouraging commercial work experience for teachers, work experience for young people before they leave school and participation by businesses in schools.

— There will be new DTI support for the use of Computer Aided Design and other forms of advanced technology in schools and Further Education colleges.

### **Business development** (Chapter 6)

— A range of new business development initiatives covering design, marketing, quality and management of computer-aided manufacture, will encourage the development of management skills through the use of outside consultancies by small and medium-sized businesses.

— The range of business development initiatives will be extended in April to cover business planning and financial and information systems.

### **Regional Policy and Inner Cities** (Chapter 7)

— There will be easier access to consultancy services for small and medium-sized businesses in Development Areas and Urban Programme Areas.

- Investment and innovation grants will be available to small firms in Development Areas.
- The Regional Development Grant scheme will be ended.
- The English Industrial Estates Corporation will increase substantially its provision of managed workspace, primarily in inner cities.

**Innovation** (Chapter 8)

- Greater emphasis will be placed on technology transfer — especially linking educational institutions and industry — for small firms, for the regions and for new technologies.
- Greater emphasis will be placed on collaborative research on both a national and European scale. A new programme of collaborative research on superconductivity is being launched and there will be a national information technology initiative.
- Initial assistance will be given to technologically-advanced projects in small companies, and to a very restricted number of projects offering exceptional national benefit. There will be less support for projects in single companies.

**Business and Government** (Chapter 9)

- There will be greater emphasis in the work and organisation of DTI on good communications with business throughout the economy, especially at a local level.



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## CHAPTER 1

**“The needs and demands of society can only be met by increasing prosperity. The prime objective of the Department is to assist this process throughout the economy and to champion all the people who make it happen, rather than just individual sectors, industries or companies.”**

*DTI Objectives*

### **ENTERPRISE: THE ROLE OF DTI**

1.1 Enterprise is fundamental to a dynamic and growing economy. Lack of enterprise played a major part in the relative decline of the British economy; its return has played a major role in the recent economic revival. The key to continued economic success lies in the further encouragement of the enterprise of our people.

#### **The past: economic decline**

1.2 The seeds of economic decline can be traced back over a hundred years. After 1870 the UK's growth rate was persistently below that of the United States, France, Germany, Italy, Sweden and Japan.

1.3 The enterprise of the nation appeared to have been lost. The education system discouraged young people from working in business and neglected the skills of management and innovation. No training was available for the great mass of people at work; such training as did exist was too often rigid and anachronistic. The ability of the economy to change and adapt was hampered by the combination of corporatism and powerful unions. Corporatism limited competition and the birth of new firms whilst, at the same time, encouraging protectionism and restrictions designed to help existing firms. Trade unions opposed changes in working practices and fed the inflationary expectations of their members.

1.4 Although the UK's post-war economic performance appeared good by the standards of our recent past, its poor relative performance revealed these underlying weaknesses in the economy. From the early 'fifties until the end of the 'seventies the UK was bottom of the league table in economic growth, in the level and the growth of productivity, and in the efficiency of investment. High and accelerating inflation compounded those problems, leading us in the end to borrow heavily from the International Monetary Fund in 1976.

1.5 During this period, increasing Government intervention in the economy brought not only the burden of higher taxation but combined it with a complicated tax system. As a consequence, the process of decision taking was distorted. Government intervention directly affected the fortunes of companies and industries, protecting those industries which were unable to adjust to world conditions, yet often neglecting the potential of new companies in emerging sectors. Social attitudes mirrored these attitudes to enterprise; business and profits were disparaged and money making itself was despised.

1.6 The result was an inefficient economy. The symptoms were readily apparent: reduced and inefficient use of investment, low productivity combined with high wage growth, poor industrial relations combined with weak management and a

continuing lack of technological innovation. Britain failed to compete successfully in world markets and suffered a relative decline in its ability to generate wealth.

### **1979: the turning point**

1.7 The change in policies in 1979 marked the major turning point. Two primary economic aims were set: the control of inflation and the encouragement of enterprise. It was recognised that "supply side" policies to encourage enterprise had to be wide-ranging and consistent.

1.8 Since 1979 the whole climate for wealth creation and enterprise has improved. The control of inflation has been the foundation on which businesses and individuals have been able to plan with confidence. The changes in the tax system have restored incentives and rewards for individuals. Changes in financial markets and the return of venture capitalists have encouraged smaller businesses. Business start-ups now have a network of advice and financial help, encouraged by the Government. Deregulation and competition have given people more scope to develop their businesses. The links between education and industry have been strengthened in schools and in further and higher education. The need to encourage enterprise has infused a wide range of Government policies.

1.9 There have been major changes in the economy. The recession between 1979 and 1981 demonstrated all too clearly the weakness of an economy which, over many years, had become uncompetitive and unresponsive to change. Conditioned by years of inflationary expectations and inflexible working practices, the economy, and the labour market in particular, could not respond to the second oil price shock and the consequent strengthening of sterling. As a result, output fell and the economic recession was more severe in the UK than in its competitors.

1.10 Since 1981 the economy has been transformed. Instead of being bottom of the league, the UK is now second only to Japan in terms of growth of Gross Domestic Product (GDP). We are top in terms of productivity growth. Output growth since 1981 has been double that for France and Germany and the economy is growing at about twice the world rate. The UK's share of world trade in manufactures has recently been broadly stable after many years of decline. And, alongside major improvements in profitability and productivity, there has been a significant growth in enterprise since 1979, with the number of self-employed up by a third and the net number of businesses increasing on average by 500 a week.

### **The future**

1.11 In future, the economy will have to adapt to the pressures exerted by the increasing pace of innovation and changes in consumer demand, and respond to the lower oil trade surplus. Manufacturing, the service industries and earnings from overseas will all have a major role to play in the UK's adjustment to lower oil production.

1.12 There is still much to achieve. Despite rapid productivity growth in recent years, the level of productivity remains, on average, about one-third to one-half lower than our competitors'. Private sector R&D is a smaller proportion of GDP and is growing more slowly than in most major competitors. The training and skills of managers and other employees are low compared with principal competitors. The enterprise culture and the efficiency and competitiveness of industry and commerce need further encouragement. That is the role of DTI.

### **The philosophy: open markets and individuals**

1.13 The keynote of future DTI policies is enterprise; its two foundations are open markets and individuals.

1.14 Open markets are the best guarantee of incentive and efficiency. Closed, insular markets kill enterprise and effort, with a consequent loss of dynamism. But open markets are not to be confused with unfettered market forces, for these can lead to closed, protected and monopolistic conditions. DTI will strive to promote open markets through the exercise of its competition policy, through privatisation, deregulation and international trade negotiations. Regulation has sometimes limited the operation of open markets in the past but it can be used, and will be used, to encourage competition and to ensure that markets work properly and enjoy the confidence of informed investors and consumers.

1.15 Individuals need positive encouragement to participate actively in the challenge of creating prosperity, if only to combat the past anti-enterprise bias of British culture. DTI will seek to bring business into education and encourage education to consider the needs of business. It aims to expose more young people to the excitement of running a business and working in business. DTI policies also seek to raise the skills of individuals, particularly through developing management skills. The encouragement of self-help will be an important part of DTI's new initiatives and of the innovative approaches being developed in inner cities.

### **DTI spending**

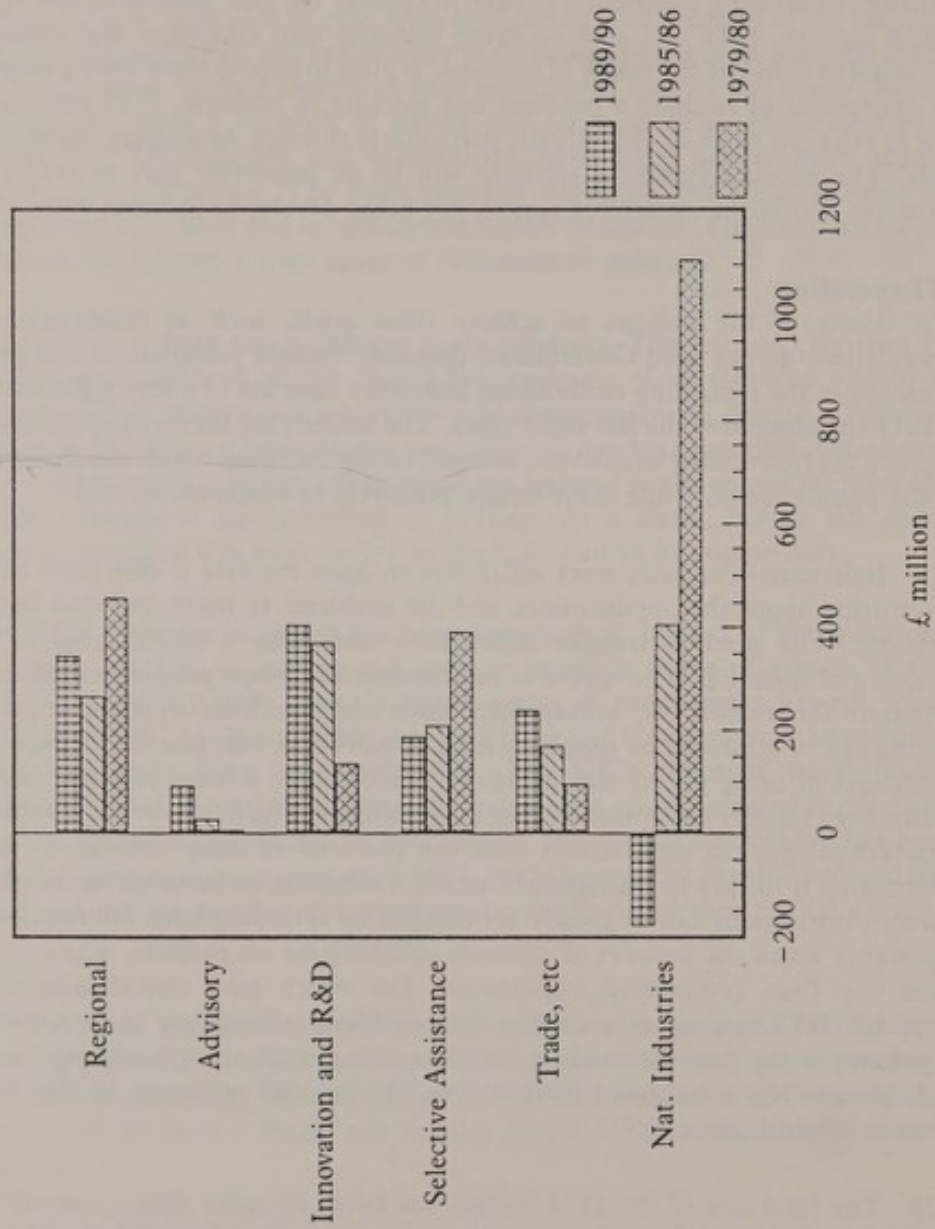
1.16 Many of the policies to achieve these goals, such as competition and deregulation, do not need Government spending. Indeed privatisation and greater efficiency in the remaining nationalised industries have led to a very significant fall in DTI spending over the last eight years. The underlying theme of spending is to improve the functioning of markets, to avoid taking decisions which should be taken by the private sector, while contributing positively to economic activity.

1.17 Individuals can only work efficiently in open markets if they have enough information about the opportunities and the problems to make reasoned business decisions. The need to transfer information underpins a whole range of DTI policies and spending. The spread of information about best practice is particularly important for small firms. Management skills and excellence in strategic decision making can be improved by spreading information about best practice and about the advantages of using expert outside advice. This will be a focus of future policies. Technology transfer can spread the use of techniques, which, while they need not be high-technology, can significantly raise the potential of many companies. Again, information is the key to management action. Collaboration between businesses and research institutions can be greatly encouraged by spreading both information and experience about the benefits of research collaboration on projects, which are still some way from commercial exploitation, but which have considerable market potential. DTI can act as a catalyst by providing information and encouraging businesses to try new approaches; once the commercial success and relevance of such approaches is accepted by business, the normal operation of the market economy should take over.

1.18 The total size of the DTI budget has fallen by more than a quarter since 1979/80 and the balance of spending within the budget has shifted. The most significant change was the decline in spending on nationalised industries while spending on innovation increased substantially.

1.19 Over the next few years there will be further substantial changes in spending. Spending on the use of consultancy services by small and medium-sized businesses will increase markedly. There will also be a shift in the type of spending within programmes, away from automatic grant and near-market support for individual companies, towards consultancy services and towards technology transfer and collaborative research. Detailed spending plans will be published shortly in the annual Public Expenditure White Paper.

Changes in DTI's spending pattern  
between 1979/80 and 1989/90



1.20 Vigorous assessment of spending programmes is important in ensuring that DTI policies are meeting their objectives and not funding activities which would have been financed in the market. Accountants and private sector advisers appraise cases for selective assistance; assessments of the effectiveness of programmes are used to review policies and their implementation.

1.21 The future policies and organisation of DTI, set out in this paper, are based on the underlying philosophy of open markets and individuals and the new objectives of DTI.

1.22 The change in approach is reflected throughout DTI's activities. DTI will be the department for Enterprise.

## CHAPTER 2

**“Business flourishes in a competitive and open economy and we aim to secure this both at home and abroad.”**

*DTI Objectives*

### A COMPETITIVE DOMESTIC MARKET

2.1 Competitive firms are the key to a prosperous economy. Competition in open markets offers both rewards and penalties. Those who produce goods and services which give the customer the best value in price and quality prosper. Competitive markets provide the spur to improved performance and efficiency in industry and commerce.

2.2 Too often in the 'sixties and 'seventies “industrial policy” was determined by pressures from special interest groups for protection and subsidy to “adjust” to competition; in other words to resist open markets. The benefits of such policies, while immediately visible, were illusory in the medium term. The costs, in higher bills for the customer and lost job opportunities elsewhere in the economy, were less visible but very real. Overall such policies contributed to the relative decline in our economic performance and in the purchasing power of all of us.

2.3 Since 1979 the micro-economic policies of the Government have been directed towards creating and sustaining open markets, by getting out of direct involvement in running parts of the economy, by removing obstacles to the flexible operation of markets and by seeking to ensure competition within the expanded private sector. “Open markets” do not mean that Government should rely simply on the operation of market forces or stand by as a passive observer of the economy. Market forces usually create open markets, but where they do not, the Government act to introduce competition and thereby efficiency.

#### Privatisation

**“We seek to create a larger market by privatisation.”**

*DTI Objectives*

2.4 Privatisation can enable an industry to thrive competitively in the market and serve its customers better. It helps to prevent the economic distortions of the past which subjected particular parts of the economy to political rather than economic decisions.

2.5 Since 1979 DTI has successfully returned a significant number of nationalised industries to private ownership and to profitability. Virtually all have flourished in the face of competition in the open market. For example, British Aerospace have quadrupled their pre-tax profits between 1980 and 1986. Cable & Wireless have increased their pre-tax profits by 450 per cent since privatisation in 1981.

2.6 The Government are committed to returning successful state industries to private hands as soon as practicable. While they remain in public ownership the Government's approach has been to expose them to the beneficial disciplines of

competition and open markets. In some sectors, world market conditions have created particular difficulties. Yet in the steel industry, despite those world market difficulties, the efforts of management and workforce in responding to greater commercial freedom have transformed BSC's performance. In 1979/80 it made a loss, after interest and exceptional items, of more than £1.75 billion. It returned to profit in 1985/86 and made a profit, after all deductions, in 1986/87 of £178 million. In December 1987 the Corporation announced half-year profits of £190 million. BSC has reached the stage where it will benefit from the commercial flexibility and freedom from Whitehall restrictions which privatisation will bring. The Government accordingly announced on 3 December 1987 their intention to introduce in the current session the legislation required to turn the Corporation into a private company and to set in hand the work necessary to privatise the Corporation as soon as possible, subject to market conditions.

## Competition Policy

**"We seek to produce a more competitive market by encouraging competition and tackling restrictive practices, cartels and monopolies."**

*DTI Objectives*

2.7 Competition policy serves to ensure that competition remains a strong force to promote efficiency and the development of markets where this is not achieved by market forces acting on their own. DTI encourages pro-competitive policies across the spectrum of Government activity. Competition law includes powers for the investigation and control of mergers, monopolies, anti-competitive practices (mainly, anti-competitive behaviour by individual firms) and restrictive trade practices (cartels and other anti-competitive agreements between firms). Law and policy on mergers and restrictive trade practices have recently been subject to a thorough review, and a number of decisions have been reached.

### *Mergers*

2.8 On mergers policy, the main, though not exclusive, consideration in determining whether mergers should be referred to the Monopolies and Mergers Commission (MMC) will be their potential effect on competition. But the Government believe that the law should continue to give the Secretary of State for Trade and Industry discretion to refer mergers on other public interest grounds.

2.9 This policy enables the great majority of proposed mergers and acquisitions which do not pose a threat to competition to be decided by the market, without intervention from official agencies. The Government believe that there are considerable benefits from allowing freedom for change in corporate ownership and control through mergers and acquisitions. Generally, the market will be a better arbiter than Government of the prospects for the proposed transactions, and will ensure better use of assets, for the benefit of their owners and the economy as a whole.

2.10 Government should intervene only where the interests of the decision makers in the market are likely to run counter to the public interest. The classic example of this is where a merger threatens to give the newly-formed enterprise a position of market power which it will be able to exploit at the expense of its customers. Mergers may, also, occasionally raise other issues which affect the public interest, and that is why the discretion to refer on public interest grounds is to be retained. Similarly, the MMC, in their assessment of mergers referred to them, will continue to make an overall public interest judgement. In practice, in assessing the public interest, it is likely that the main consideration for the MMC will continue to be the likely effect of the merger on competition, as it has been in most past cases.



2.11 In assessing the threat to competition and deciding whether to refer a merger to the MMC, the Secretary of State, and the Director General of Fair Trading (DGFT) who advises him, will continue to take full account of competition from within Europe and from other international sources. In addition, opportunities to exploit market power are often in practice limited by the threat that new competitors will enter the market; the assessment therefore takes into account the potential for competition from new suppliers, whether from domestic, European Community or other overseas sources.

2.12 In most cases, competition is likely to be the most effective means of promoting efficiency. There may sometimes be cases in which a merger appears both to threaten competition and to offer the prospect of efficiency gains. In such cases, arguments about the gains to efficiency (and thus to international competitiveness) which may flow from a merger will be considered. But the paramount consideration is to maintain competitive market conditions. Mergers which may significantly threaten competition will therefore normally be referred to the MMC for a full examination. It is for the MMC to assess both the potential damage from a merger and its potential benefits, and to reach a balanced overall judgement.

2.13 There has been widespread criticism that current merger control procedures are time-consuming and inflexible. Within current procedures, good progress has recently been made by the MMC in cutting the length of their investigations; the average time taken by the MMC over merger enquiries has come down from about six months, over the past few years, to about four months in 1987. Similar improvements are now in prospect in the handling of monopoly investigations by the MMC. Following a management consultancy study of current procedures and working methods within DTI, the Office of Fair Trading (OFT) and the MMC, the Government expect that it will be possible to make further progress in cutting the overall time taken, measured from when a merger becomes known to the OFT to the time an MMC report on it is published and the Secretary of State's decision is announced. Some of the proposed improvements in working methods and internal procedures will require minor legislative change.

2.14 In addition, two major legislative changes will be sought which are designed to enable the merger control process to operate more efficiently and flexibly: a formal, though non-mandatory, pre-notification procedure; and a new function for the DGFT to obtain undertakings from the parties in cases where it is possible in this way to remove a potential threat to competition without the need for an MMC investigation.

2.15 A number of major industrialised countries have mandatory pre-notification procedures for mergers above a certain size. These are designed primarily to prevent mergers taking place before the competition authorities can take action to prevent them. In practice this is rarely a problem in the UK, and the Government do not believe that a mandatory pre-notification requirement would bring sufficient advantages to justify the additional regulatory burden on businesses. But a non-mandatory system will bring real benefits. The vast majority of merger cases are cleared without a reference to the MMC, and the aim of the proposed procedure is to handle more rapidly and efficiently those cases where it can be established, at an early stage, that there is no serious ground for contemplating a reference.

2.16 Those who choose to pre-notify their proposed merger to the OFT will be required to submit, with their pre-notification, answers to a standard questionnaire setting out basic information about the transaction and about the businesses involved. In simple cases, the information supplied in this way will be sufficient for the DGFT to advise, without further inquiry, that there is no ground for a reference. In such a case, provided that the proposed merger has been publicly announced so that third parties have an opportunity to register any objections, the

parties will be entitled to automatic clearance of their proposal if they hear nothing from the OFT within a defined period of four weeks. In more complicated cases, the OFT will need more detailed information before the DGFT is in a position to advise. In such cases the parties will have to be informed that the right to automatic clearance has lapsed; though naturally the Secretary of State will still aim to reach his decision as quickly as possible. Mergers which are not pre-notified will remain liable to reference to the MMC for a period of up to five years.

2.17 The second major legislative proposal is designed to provide a quicker and more flexible mechanism than a full MMC reference for dealing with some of the competition problems which may arise. The DGFT will be enabled to discuss with the parties possible modifications to their merger proposal, usually involving the divestment of some of the assets of the merging businesses. If the parties are able to offer divestments which remove the competition problem, the DGFT may be prepared to advise the Secretary of State against reference on that basis. Whenever it is feasible, the parties will be required to complete the divestments before the main transaction is given clearance. Where it is not possible, then the parties may be given clearance to complete their transaction first, but only subject to legally binding undertakings to make the agreed divestments within a specified period afterwards. The parties would also be required to give legally binding undertakings to keep the operations of the two merging businesses separate until the agreed divestments had been completed. If the divestment undertakings were not honoured, the Secretary of State would have powers, without an MMC investigation, to require divestment of some or all of the assets acquired.

2.18 In addition to discussing possible divestments, the DGFT will also be enabled to propose undertakings, which the parties might give to the Secretary of State about the post-merger behaviour of the new group, designed to prevent the anti-competitive effects which might otherwise flow from the merger. Any such undertakings would be legally binding.

2.19 The law contains special provisions for the control of newspaper mergers. As with other mergers it is desirable that the examination process should be completed as speedily as possible. The MMC have said that they will complete future enquiries into the general run of newspaper mergers within two months rather than the three which the law now gives them. Against this background, the Government propose to amend the law to give the Secretary of State the flexibility, as with merger enquiries generally, to specify the period within which the MMC should report. The statutory arrangements under which a newspaper merger may be allowed to proceed without a reference to the MMC in cases of financial urgency will be maintained, but consideration will be given to ways of tightening their administration. These measures will make it more difficult for the parties to newspaper mergers to argue that an MMC enquiry is ruled out by financial urgency.

2.20 DTI will shortly publish a further paper setting out more fully the background to these decisions on merger control and the details of the proposed legislative changes.

#### *Restrictive trade practices*

2.21 The other main aspect of the review of competition law concerned restrictive trade practices. The review has confirmed the belief that the legislation, first passed over 30 years ago, has fundamental weaknesses in today's business climate and that thorough-going reform is required.

2.22 The most important point is that the law is less effective than it should be in tackling seriously-damaging cartels. The DGFT currently has only limited and ineffective powers to investigate suspected covert cartels. Moreover, even if a cartel is uncovered, there are usually no penalties. The deterrent effect of the present law is therefore extremely weak.

2.23 At the same time, since the law requires registration of agreements of a certain form, regardless of their practical effect on competition, it is indiscriminately and unnecessarily burdensome on innocuous agreements between businesses. It is also based on wholly different principles from the equivalent European Community (EC) law which has direct effect in domestic law. Businesses are therefore subject to two very different legal systems.

2.24 The Government have in mind that the new national law should reflect the same principles as EC law. The basis of the new law would be a prohibition of agreements with anti-competitive effects. The emphasis on the effects of an agreement rather than its form would ensure that the many innocuous agreements unnecessarily caught by the current law would fall outside the scope of the new law altogether. At the same time genuinely anti-competitive agreements, skilfully drafted to avoid the current law, would be caught by the new law. The law would be backed by stronger powers for the investigation of suspected illegal cartels. There would be tough penalties for breach of the prohibition.

2.25 The law would make provision to exempt from the prohibition agreements which were on balance beneficial. This would include provision both for exemption of individual agreements and for "block" exemptions, set out in secondary legislation, for classes of agreement. The Government intend that the law should apply throughout the economy; subject to consultation, it is not intended that the primary legislation would provide exemption for whole sectors, as for example the existing Act provides for many professions. Exemption from the prohibition would normally need to be obtained either by individual exemption through the procedures which the new law would provide or by "block" exemption enacted in secondary legislation.

2.26 The proposed reform will be far-reaching in its effects, and further consultation will be required on the details of the proposals. The Government will publish a Green Paper shortly.

### **Regulation and Competition**

**"We seek to increase confidence in the working of markets by achieving a fair level of protection for the individual consumer and investor."**

*DTI Objectives*

2.27 Open markets mean not only free markets but informed and fair markets in whose workings the individual consumer and investor can have confidence. But regulation to that end must be kept at the minimum level necessary. Regulation can be a positive force to promote competition; but, as a general rule, neither the efficiency of open markets nor competition is improved by prescribing detailed requirements which impose costs on consumers and business and limit the scope for freedom of choice, enterprise and innovation. Regulation can also divert energy away from the primary task of meeting customer needs and creating national wealth.

2.28 Some regulation is needed to prevent anti-competitive behaviour and to provide a framework which achieves a fair level of protection for the individual consumer and investor. As part of this, it is clearly important that consumers know that products on the market are safe, that consumers and investors have the information they need to identify best value for money and that they have access to redress if things go wrong.

2.29 A balance therefore needs to be struck between regulation needed to promote competition and give confidence in the working of markets and the risk that regulation will divert economic activity and impose unnecessary costs.

2.30 The achievement of open markets and competition has been a significant aim in DTI's regulatory functions, recognising that this is essentially a long term process:

- in the telecommunications market, the Government's licensing powers are used to introduce effective competition into what was, before privatisation, a statutory monopoly. The Government have established Mercury as an effective national competitor to British Telecom. In mobile communications the introduction of competition has created a much larger market. In 1981 there were only 20,000 mobile telephones in the UK; there are now more than 260,000;
- in financial services, the 1986 Act had its origins, in part, in the removal of some of the traditional restrictions. The new structure established by the Act achieves the flexibility needed to respond to developments in rapidly changing markets, most notably in the role it gives to practitioner-based bodies. It introduces a comprehensive system of investor protection covering all financial markets, from Eurobonds to the High Street. At the same time the Act contains its own competition provisions designed to act against rules or practices which have significantly anti-competitive effects greater than are justified by the need to protect investors;
- in the radiocommunications markets, the promotion of competition and open markets is a key aspect of the way in which DTI administers the radio spectrum. DTI is currently consulting users about how the role of market forces in spectrum allocation can be increased;
- in regulation and public purchasing, use of effective industry standards promotes competition by helping to create a market in which businesses compete on equal terms. DTI promotes the adoption and use of effective and open standards. Public purchasing requirements are increasingly being based on published standards, thus widening the range of businesses which can compete for public orders. In advanced technologies, such as computers and telecommunications, regulation promotes open standards which help reduce barriers to competition arising from acquired technology or information. Compliance with defined voluntary standards is being increasingly used in regulation as an effective means of meeting public interest concerns and encouraging competition;
- in the area of copyright, patents, trade marks and industrial design, the need to ensure that the innovator's enterprise is adequately rewarded must be balanced against the adverse effect of such protection on competition. DTI has the main responsibility in Government for ensuring that the regulatory framework reflects the constant change in markets and technologies to maintain that balance. To that end, the Government have recently introduced the Copyright, Designs and Patents Bill currently before Parliament.

#### *Informed and effective markets*

2.31 Full competition, and the freedom of the customer to make effective choices, depend on the quality of information available in the market and about those who supply it. Many of DTI's activities contribute towards greater openness and transparency in the market:

- the framework of company law sets standards of financial openness in the dealings of a business with its suppliers, customers and shareholders;
- business and others make more than 14,000 company searches every working day at DTI's Companies Registration Office;
- the very broad range of factual information collected and analysed by DTI's Statistics Divisions forms an important source of intelligence about the economy and particular sectors of industry and commerce. The "Business

Trends" section of "British Business" is used extensively and about 300,000 copies of Business Monitors are issued each year by the Business Statistics Office.

2.32 In maintaining the integrity of the market place, an essential contribution to the desirable balance between free markets and the protection of the participants is made by those in DTI and in the private sector who administer the new insolvency legislation and the provisions for the disqualification from office of "unfitted" directors. Similarly, the prudential regulation of the insurance industry and the investigatory work of DTI's Companies Investigation Branch all contribute towards making markets work properly. The high degree of confidence which customers and investors enjoy as a result of these activities helps strengthen the UK as a sound base for international investment and safeguards the reputation of our financial and trading institutions, vital to their continued success in world markets.

2.33 In consumer protection, the policy emphasis will reflect the Government's belief that the best form of protection comes from consumers making well informed choices and acting in their own interests. To achieve this, information can be more effective than regulation. However, where the case is made out for regulation on safety or other grounds, the Government will not hesitate to act. Consumer Safety awareness campaigns run by DTI will play an increasing part in the promotion of consumer safety. Such campaigns can, for example, provide a cost effective way of reducing accidents in and around the house, involving no extra administrative burden on industry. DTI will continue to fund a number of bodies, such as the National Consumer Council and the National Council of Citizens' Advice Bureaux which provide an important source of advice, information and research to consumers and make a valuable contribution to protecting consumers' interests.

#### **Reducing the burdens on business**

**"We work within Government to create a climate that reduces red tape."**

*DTI Objectives*

2.34 Government policy is to keep the burdens on business as light as possible in areas where some regulation is needed. The costs of compliance with regulation take many forms: there are costs of the time of those who have to deal with officialdom, of constraints on human and material resources; costs of registration, licensing and of returns to Government.

2.35 In achieving a reduction of burdens on business across Government, DTI will continue to seek both to remove the burden of unnecessary Government regulations from business and to improve regulation where it is absolutely essential. The Enterprise and Deregulation Unit (EDU), based now in DTI, is responsible for coordinating the process of regulation reform across Whitehall. All new proposals for requirements on business are examined to see if they are necessary and, if they are, to see how they can be implemented in a way that is cost-effective both for business and for Government. Gradually, all existing requirements are being examined in the same way. The system of assessing the compliance costs of proposed new requirements on business is being further developed and departments are being encouraged to identify more targets for regulatory reform.

2.36 DTI also seeks to improve regulation in areas for which it is responsible. Deregulation will be sought through:

- new companies legislation, an objective of which will be to reduce compliance costs to business, particularly small firms;
- legislation to amend the Consumer Credit Act 1974 to remove business lending and hiring from the scope of the Act;

- amendments to the Weights and Measures Act 1985 to increase self-regulation, coupled with a duty for Trading Standards departments to inspect equipment for use in trade at reasonable intervals.

*Communication with business*

2.37 DTI must be well informed about business views and the impact of Government on business and markets. The EDU promotes better consultation with business, simplification and streamlining of essential controls, and training within the Civil Service to improve the mutual understanding between Government and business.

2.38 In the Government's work on communication with business, regulators and those running services must increasingly be seen, and see themselves, as facilitators of business. Regulators' aims need to recognise that regulation which may seem straightforward to an expert in taxation or a licensing system is often complex to business. Public sector delivery mechanisms need to offer comprehensive support and help to businesses to understand and comply with their obligations.

2.39 Achieving this improved relationship with business requires positive attitudes towards business development from officials at all levels. Training is an important feature of this. So, too, is improving consultation with business at all stages of policy development. The EDU operates with and through the deregulation units which have been set up in departments to promote the policy both domestically and in relation to the European Community.

2.40 A White Paper will be produced in the summer which will set out further progress on, and proposals for, deregulation.

## CHAPTER 3

**“We will continue to promote the growth of international trade and work towards a single market within the European Community.”**

*DTI Objectives*

### OPEN INTERNATIONAL MARKETS

3.1 Open markets internationally, including our own, are an indispensable element in promoting efficiency and enterprise at home. They are also a vital part of the UK's economic prosperity. Exports account for about a third of national product and imports are similar in scale. The creation of a single unified market in Europe by the end of 1992 is one of the main elements of the Government's policy of open markets. It will bring benefits to British business and will make fundamental changes to our domestic market.

#### **The single European market**

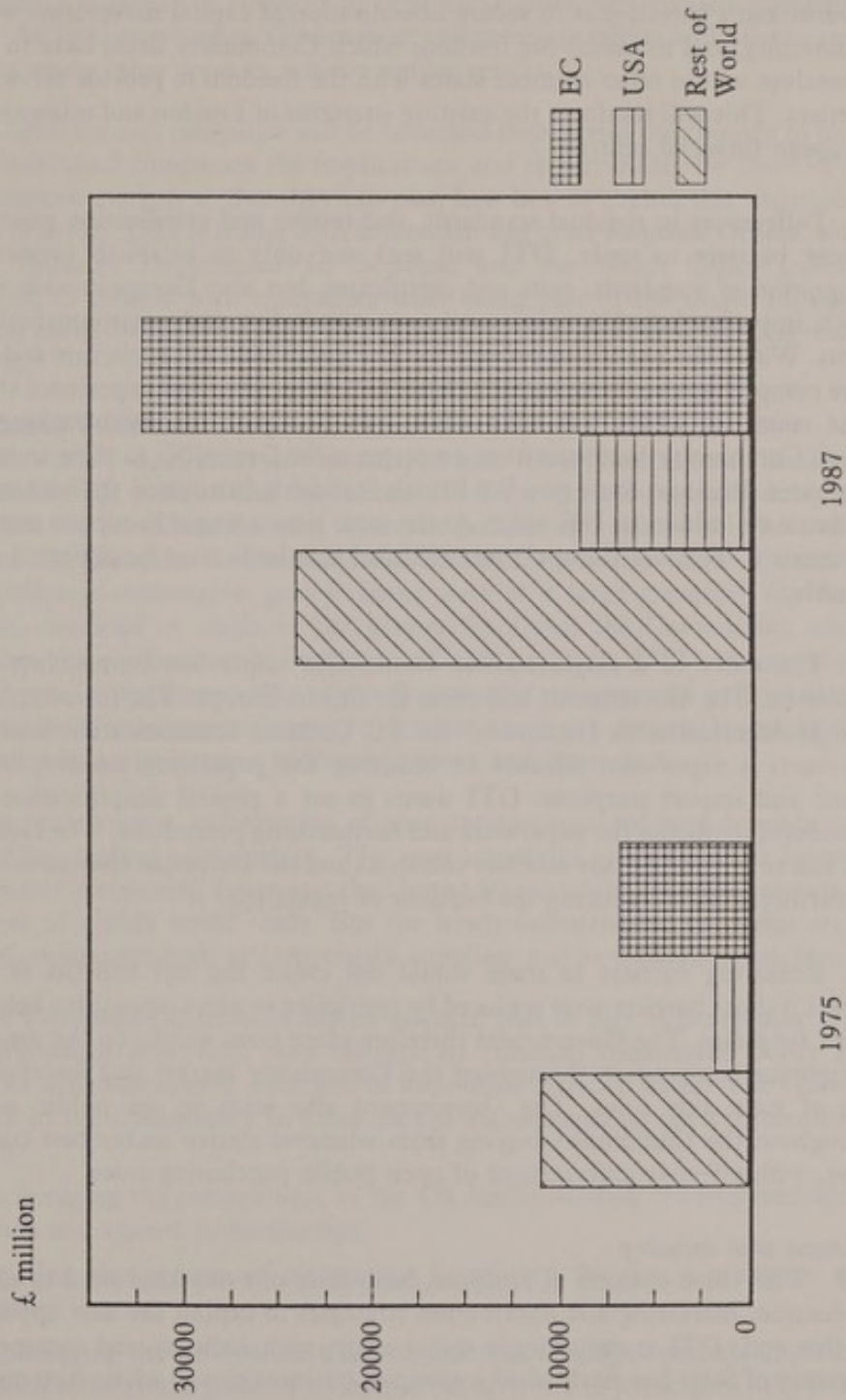
3.2 In the past the single European market has tended to be seen as something separate from domestic concerns. This perception ignores the fact that consumers rightly take for granted that their range of choice embraces all European goods. In the economic and legal framework within which business operates, European and domestic concerns have become inextricably intertwined. Half of the UK's exports of goods already go to other Community countries. The chart shows the rapid growth in the proportion of UK exports going to other Community countries.

3.3 Yet much more needs to be done before there is genuinely a single market. The remaining segmentation of the European market raises barriers to enterprise; it leads to inefficiency, reduced international competitiveness and wasted resources. Creating a single market presents the UK with a challenge and an opportunity. It is a challenge, because the actions which business and Government take over the next five years will determine how far the UK will be one of the more prosperous parts of the European economy. It is an opportunity, both because of the potential for wealth creation and prosperity which a single market of 320 million people can release and because the UK is well placed to benefit from that potential. Ours is now one of the fastest-growing and most dynamic economies in Europe.

3.4 Simply removing barriers to trade and establishing common rules is not enough. British business must also respond to the challenge and opportunities of the single European market. Its decisions on investment, corporate alliances and ability to build market share over the next five years are crucial. The Government's priorities in helping to establish this single market reflect both these points.

3.5 The Government are working to ensure that the single market in goods and services is achieved, and in ways beneficial to the UK. Responsibility for this is shared by a number of departments. The Government want to see that industry and commerce understand and prepare for the fundamental changes in the way the European market operates which will take place between now and 1992. To that end, DTI wants to establish a closer partnership with business so that Britain's commercial interests can be taken into account. Within Government, DTI takes the

UK trade with EC, USA and the Rest of the World in 1975 and 1987





lead in seeking the views of business, the City and the professions; in representing these views in Brussels; and in coordinating Government policy towards the single European market in general.

#### *Key activities*

3.6 The Government's aim is to remove obstacles which inhibit any firm's ability to operate across frontiers, selling goods and services of every kind. Financial services are, in particular, an area of great competitive opportunity for the UK. The Government's objective is to secure liberalisation of capital movements within the Community, and to match the freedom which Community firms have to establish themselves within other member states with the freedom to provide services across frontiers. This will reinforce the existing strengths of London and other established European financial centres.

3.7 Differences in national standards, and testing and certification practices, can impose barriers to trade. DTI will seek not only to establish greater mutual recognition of standards, tests and certificates, but also European-wide standards which impose minimum rules consistent with safety and environmental requirements. Where the need is to provide for European-wide infrastructure and services, more comprehensive European standards will be sought. Past experience shows that those countries which put most effort into European standards-making tend to secure Community harmonisation on terms most favourable to their industry and commerce. Business must give the British Standards Institution the backing needed to ensure an influential UK voice. At the same time a single European market must not create a "Fortress Europe"; international standards must be preferred wherever possible.

3.8 The move to a single market should also imply less bureaucracy and less regulation. The Government will press for this in Europe. The introduction of the "Single Administrative Document" for EC Customs documentation from January represents a significant advance in reducing the paperwork needed for export, transit and import purposes. DTI wants to see a general simplification of trade procedures, reducing the paperwork and harmonising procedures. The Government will aim to persuade other member countries and the European Commission to look for further ways of reducing the burdens of regulation.

3.9 Removing barriers to trade would not create the full benefits of an open market if those barriers were replaced by restrictive or anti-competitive behaviour or unfair subsidies. The Government therefore place great weight on the maintenance of vigorous competition throughout the Community market and forceful application of state aids rules. The Government also want to see public authorities throughout the Community buying from whatever source makes best commercial sense, with effective enforcement of open public purchasing rules.

#### *Dialogue with industry*

3.10 With these changes in prospect, businesses of every kind need to adapt their production, marketing and distribution strategies to exploit the new opportunities. To this end, DTI is mounting a major effort with industry and commerce. The Secretary of State has established a group of businessmen to advise him on strategy. This will be supported by working groups covering key industrial and commercial sectors, including small firms, which will consider the implications of the various proposals and give advice on where the UK's interests best lie.

3.11 The establishment of the single market will be an evolutionary process. As a recent example illustrates, there is much that can be done between now and 1992, by DTI and business working together, to put British business in a good position to reap the benefits.

3.12 Over the last two years, DTI and British telecommunications manufacturers and operators have cooperated to secure agreement in Europe on the launch of a European-wide mobile communications network for the beginning of the 1990s. The European-wide market which will result gives European industry the opportunity to take a lead in mobile communications. DTI led the UK effort necessary to bring together national governments, telecommunications operators and manufacturing companies and to secure agreement in Europe on common technical standards. At the same time, British manufacturers are forming trans-national collaborative alliances to help break down nationalistic purchasing decisions. As 1992 approaches, Government and company efforts will need to come together in many other areas to achieve similar results.

3.13 In April a major campaign will be launched throughout the country to bring home to individual companies the implications and opportunities for them of the single European market, so that they can plan how best to exploit this situation in their own interests. DTI is ready, both in London and in its Regional Offices, along with the Industry Department for Scotland and the Welsh Office Industry Department, to discuss with companies what being part of the single European market may mean for them and how we can work together to achieve the best results for the UK.

#### **International Trade**

3.14 The world's economies are interdependent. The Government's ability to pursue liberal trade policies and the success of efforts to secure open international markets thus rest in substantial part upon the policies and actions of others. As a member of the European Community, the UK shares with the other 11 member states a common commercial policy. Being part of a large grouping has many advantages, not least in terms of the greater force that the Community, acting together, can bring to bear on the resolution of trade problems. DTI will continue to play a full part in the formulation of the Community's commercial policies and in the conduct of its relations with other major countries and groups, to ensure that these develop in a way attuned to Britain's views and interests.

3.15 The maintenance and creation of open international markets depends on a number of key trading relationships. The most important today are those between the European Community, Japan and the United States, which together account for 60 per cent of visible world trade. But the newly-industrialised countries are of increasing importance both as competitive suppliers and as expanding markets.

3.16 The European Community has an essential part to play in developing those trade relationships positively, both through its common commercial policy and through the macro-economic strategies of individual member states. The Government work in the Community to press for the maintenance of open international markets by:

- encouraging the commitment of the US Administration towards multilateralism and against protectionism;
- assisting the process of integrating Japan into the world economic and trading system;
- encouraging the newly-industrialised countries to adopt commercial policies which reflect their growing economic strength and to participate fully in the international trading system.

3.17 The improvement of bilateral relations with all trading countries has to be reinforced by efforts to improve the multilateral trading framework. Over the last 40 years, the General Agreement on Tariffs and Trade (GATT) has been a major force for stability and liberalisation in world trade. But this framework is not comprehensive. Many of the basic mechanisms and disciplines of the GATT need to be strengthened. Substantial barriers remain throughout the world to open

markets for goods and services. These issues are to be tackled in the new round of international trade negotiations, known as the Uruguay Round, which is due to be concluded in 1990.

3.18 DTI will work through the European Community to reinforce the GATT system and to reduce further the remaining barriers to trade. The Government's specific objectives in the Uruguay Round will include:

- a lasting solution to the problems of excessive protection and subsidies in agriculture which has led to massive over-production and the destabilisation of the world market;
- the liberalisation of services, which account for a growing proportion of world trade;
- stronger and more enforceable protection for intellectual property;
- the progressive acceptance by the more advanced developing countries of the full range of GATT obligations;
- effective procedures for the settlement of disputes in GATT.

3.19 Success in the Uruguay Round will represent a major step forward towards achieving a genuinely open world trading system from which all countries, and not least the UK, will benefit.

#### **Open markets for investment**

3.20 The free flow of international investment is an essential counterpart to open markets in international trade. Outward and inward investment is best guided by the business decisions of individual companies. This is why the Government abolished exchange controls in 1979. The UK has built up a large and diversified portfolio of external assets and is second only to Japan as a net overseas investor. The net contribution to the balance of payments from overseas investment is now around £5 billion a year. As important to the health of our economy as this revenue stream is the effect on British companies and institutions of the exposure to new ideas and technologies.

3.21 Inward investment contributes significantly to our economic growth and brings wider benefits through innovations in products, technologies and management practice. The examples set by inward investors are noted and followed not only by their UK competitors but by their suppliers as well. Whole areas of British business have been able to adapt better and faster to change than they would in an economy closed to inward investment.

3.22 The Government's policy is, and will continue to be, to encourage inward investment both as an exemplar to domestic industry and as a valuable way of building the strength of the economy. DTI's Invest in Britain Bureau (IBB) was specifically created to publicise the advantages of Britain as a location for internationally mobile investment. It coordinates promotional activities by UK bodies and advises overseas firms on establishing or expanding facilities in Britain.

3.23 British companies need the same access to investment opportunities abroad as foreign companies have here. DTI works with business to achieve that. The Government have, for example, worked successfully with business recently to gain authorisations for British financial institutions to participate fully in overseas financial markets; and to help secure a licence for Cable and Wireless to invest in the operation of one of Japan's competing international telecommunications networks.

## CHAPTER 4

**“We will encourage the growth of links between schools and the world of work.”**

*DTI Objectives*

### **BUSINESS AND EDUCATION**

4.1 The competitiveness of industry and commerce depends on our ability to harness the energy, develop the intelligence and promote the enterprise of our people, especially amongst the young. Achieving that needs action by all of us: by individuals, by employers, by education and training providers, by professional bodies, and by the Government. Considerable progress has been made in recent years but more can be achieved.

4.2 Bridging the historical divide between business and education is vital to encourage the enterprise culture, to encourage young people to work in industry and commerce, to bring greater relevance to their education and to prepare them better for working life. Employers too will benefit from active involvement with education and an understanding of the strengths of the system. Much has been achieved in recent years by DTI together with the Department of Education and Science (DES), Department of Employment (DE), the Scottish and Welsh Offices, the Manpower Services Commission (MSC) and voluntary and other organisations. DTI's role in this process is to encourage business to work with education at all levels.

#### **School/employer links**

4.3 DTI will work closely with other departments in further encouraging and helping employers to develop good links with schools. In particular, DTI will take action to introduce employers to people and organisations that can help them to become actively involved in education.

4.4 Already there are many instances of schools and employers working successfully together, supported by a wide range of programmes run and financed by existing voluntary and other agencies and by Government. The pilot network of City Technology Colleges, sponsored by the business community with financial support from the DES, will directly involve employers in the management of secondary education and create a new kind of partnership between schools, industry and commerce. Curriculum reform, new examinations and the Technical and Vocational Education Initiative are also having a significant effect in the classroom, and are helping a large number of young people to relate the world of work to learning in the classroom.

4.5 To take this process further the Government will, with employers, work towards the achievement of the following objectives:

- every year, 10 per cent of teachers should have the opportunity to gain some personal experience of the world of business;
- every young person should have two or more weeks of work experience, suited to his or her ability and needs, before leaving school;

- every trainee teacher should gain an appreciation of the needs of employers and of the importance of links between schools and employers.

The achievement of these objectives will need the active involvement of a wide range of employers, large and small, in the private and public sector.

4.6 There are many other ways in which employers can assist and influence their local educational system. DTI will publicise a range of possible activities, including those already carried out by the private and voluntary sectors and by other departments. Employers will be helped to find out about these and decide on the most suitable options for their companies. They will, in particular, be encouraged to become more involved with their local schools and Further Education (FE) colleges. Employers have much to contribute to:

- the development of the curriculum;
- school and college management, especially through involvement on governing bodies;
- the promotion of enterprise activities in schools and FE colleges.

#### **Technology in education**

4.7 The Government also wish to ensure that young people become aware of the value of information technology (IT), and that IT is used across the curriculum. DTI will complement the Education Departments' strategy on IT in schools by encouraging the use of education databases. DTI is also immediately making available over £5 million to support Computer Aided Design and other forms of advanced technology in schools and FE colleges. This support is also available to help initial teacher training establishments and Local Education Authorities to gain experience with interactive video. When young people are regularly using technology to enter, use and manipulate information at school, they will be better placed to help industry and commerce to compete effectively.

4.8 DTI has a similar part to play in helping schools to make use of other recent developments in science and technology, and will continue to influence and participate in the development and introduction of appropriate science and technology equipment and resources in schools.

4.9 There is a growing response by the Further Education sector to the changing needs of industry and commerce, particularly in relation to MSC's work-related Non-Advanced Further Education programme. DTI will continue to work with other departments, Local Education Authorities, FE colleges and industry to influence the development of facilities to meet these changing needs.

#### **Higher education/employer links**

4.10 If Higher Education is to help produce the highly qualified manpower the nation needs, good links with industry and commerce are vital. The relationship involves information and ideas as well as finance. Companies benefit from the services and enterprise offered by Higher Education Institutions (HEIs). HEIs benefit from both the immediate income and the diversification of their funding base. Their staff and students are able to get close, up-to-date experience of business.

4.11 Such links have multiplied and strengthened over the past six or seven years, though much remains to be done. University income from industry grew from £23 million in 1981/82 to £59 million in 1985/86 and polytechnics attracted some £25 million in 1986/87. DTI has contributed to this welcome and important development through its support for a wide range of programmes including: collaborative research programmes; the establishment of industry clubs; the

purchase of equipment for use by HEIs in collaboration with industry; the development of new engineering and other industrially relevant courses; and the establishment with DES and MSC of a network of Regional Technology Centres. The successful Industry Year Award for Collaboration between Industry and Universities, Polytechnics or Colleges highlighted and encouraged many excellent examples of collaboration.

4.12 Collaboration between industry and HEI's will continue to be encouraged. DTI will be launching another collaboration Award this year and a guide to good practice is being prepared to help potential and existing participants to overcome the problems and maximise the benefits of collaboration. Through the Enterprise in Higher Education Initiative, MSC is collaborating with HEIs to enable them to set up programmes to develop more enterprising graduates, aware of the needs of industry and commerce and with direct commercial experience. Institutions will need to get commitment for further funding from employers.

4.13 A highly successful means of promoting active partnerships between HEIs and industry in recent years has been the Teaching Company Scheme, sponsored jointly by DTI, the Science and Engineering Research Council (SERC), and others. Under this scheme young graduates undertake key projects in companies under the joint supervision of academic and company staff. The scheme has proved a valuable means of developing the technological and managerial capabilities both of the young graduates employed under the scheme and of the collaborating industry and education partners. It is proposed to increase its size substantially by 1992 and to base an increasing proportion of programmes on smaller and medium-sized firms.

4.14 In partnership with industry, Higher Education and others, DTI will be promoting a number of initiatives in engineering education:

- support for course development, including new equipment, for universities, polytechnics and the Scottish Central Institutions as they increase substantially the supply of manufacturing systems engineers. DTI will provide funds in conjunction with DES, the Scottish Education Department, the higher education funding bodies and industry, particularly the industrial affiliates of the Engineering Council. This is a direct response to the views of employers about the engineers they will want to recruit to senior positions in the future;
- HEIs will provide more courses for engineers following the successful model of the SERC's Integrated Graduate Development Scheme. DTI will contribute funds towards a tripling of the number of experimental schemes aimed at enabling engineering managers to follow advanced courses in new technological systems whilst continuing their careers in industry;
- new courses leading to a general engineering degree will be set up and monitored in a pilot scheme run by DTI in conjunction with the Engineering Council and other bodies.

4.15 The Government's main role must be to encourage. The real initiative rests with individual institutions and companies across the country to recognise and make the most of the mutual advantages brought by closer links.

## CHAPTER 5

**“We will encourage the spread of management education.”**

*DTI Objectives*

### MANAGEMENT

5.1 Management which is educated, trained and aware of new opportunities is the spearhead of a competitive business. Post-war British management was badly hampered by a lack of investment in education and training and an unbalanced climate in industrial relations. Although the best companies were well up to world standards, across a wide range of sectors there was inefficient use of manpower and machines, inadequate concern about quality, insufficient attention to design, innovation and development, and poor delivery performance.

5.2 Management weaknesses have their source in the whole culture of society including business/education relationships. But two specific sources of management weakness in the UK can be identified:

- the first lies in the training and development of individuals and particularly managers. Recent reports, notably Professor Handy's "The Making of Managers", provide evidence of the efforts being made by our competitors in developing their managers and the need for comparable efforts by the UK. One-fifth of the largest UK companies make no provision for management training; one-third of middle managers have had no training since starting work;
- the second lies in the failure of individual firms to develop managerial competence in functions which are crucial to competitive success. That is not helped by a paucity of information about best management practices.

5.3 Experience suggests that market forces on their own will not bring about the necessary improvements in the quality of British management, or, at any rate, not quickly enough. DTI, with other Government departments and the Manpower Services Commission, is working in partnership with industry to improve management education and development and to spread awareness about best management practices.

5.4 The Government strongly welcome the energetic steps being taken by industry to respond to this challenge, and particularly the Charter Group initiative launched by the Confederation of British Industry (CBI) and the British Institute of Management (BIM) on 3 November 1987. The Charter Group initiative aims to establish a code of best practice for management development, to which employers will be invited to commit themselves through membership of the Group. This followed discussion in the Council for Management Education and Development in which industry, together with education and relevant Government departments, is able to set out views on a national framework for the training and education of managers at all levels. The aim is to create a structure which will provide ladders of opportunity to all those interested in developing their managerial capabilities to the full for the benefit of themselves, their companies and the national economy.

5.5 The Government is convinced of the need for industry and commerce to be successful in improving the training and development of its managers and DTI is leading the Government's strong support for the Charter Group initiative. It will seek to ensure that this initiative reaches the widest possible audience, in particular among small firms; and modest financial assistance is available if it is required to fund experimental approaches to management development. DTI intends to join the Charter Group as a full member.

5.6 Business is best placed to identify its own needs for improving managerial competence and to implement the right solutions. But reliance on business alone is insufficient. Government can help to set the national framework for management education and training and to spread information so that individual firms are encouraged to identify their management development needs and to take action on them.

5.7 Some management practices have a widespread application throughout industry and commerce. DTI has run or supported campaigns to spread awareness about the need for best practices in areas such as quality and design in the management of British companies.

5.8 Quality is relevant not just to a product or service but also to the motivation and attitudes of everyone in a business. The national Quality campaign puts across this message and has already reached well over 60,000 companies. This approach to quality has been strengthened by a system of national accreditation to ensure consistency of performance and independent certification services. The standards-making process has been encouraged and DTI has forged closer links with the British Standards Institution aimed at meeting industry's needs and improving competitiveness.

5.9 The aim is to support and encourage initiatives which bring an increased understanding of the elements involved in the quality approach and the benefits to be secured. Work on standards will be developed both internationally and as part of our commitment to the single European market, to achieve harmonised European standards and the development of a Community policy on testing and certification, so leading to the adoption of mutual recognition arrangements.

5.10 Design has a major impact on the acceptability of products to consumers. It affects appearance, aesthetic acceptability, ease of use, reliability and maintenance, safety, and ease and costs of manufacture. All are key influences on market success or failure.

5.11 DTI funds the Design Council and other agencies to increase understanding about the relevance of design. During 1987 DTI launched three Product Design Advice Centres in Warrington, Halifax and Glasgow. This is a pilot initiative to help local firms identify and pursue new, market-led product opportunities with international potential. Each of the firms assisted is offered a tailor-made package of expert consultancy, including areas such as design and marketing, to develop such new opportunities into marketable products.

5.12 DTI will continue to spread awareness of the need to exploit design and link it with marketing, quality and production. New initiatives in design and management education will be encouraged to produce designers with the right skills to meet industry's needs and managers who understand the potential of design for their business.



## CHAPTER 6

**“We seek to secure a more efficient market by improving the provision of information to business about new methods and opportunities.”**

*DTI Objectives*

### **BUSINESS DEVELOPMENT**

6.1 High quality management is essential for the competitive businesses which alone can create a prosperous economy. Improvements in links between business and education, management development and information about quality and design all help to provide the long-term foundations for management of high quality. But the need to improve management skills demands immediate action, especially to spread best management practices across industry and commerce.

6.2 Management skills can be improved by training, and a wide range is available through Business Schools and colleges and through various programmes managed by the Manpower Services Commission. However, many small and medium-sized businesses face particular difficulties because management can rarely be spared away from the work place for training and because a wide breadth of management skills is required in a small number of individuals. Energetic but small businesses simply do not have the spare resources for proper analysis and planned development.

6.3 An immediate addition to management resources can be made by the use of outside professional expertise. Outside consultants can develop strategies for business development, improve management systems and supplement the skills of existing management in key areas. The use of private sector consultants by small and medium-sized businesses is limited by lack of information about their relevance and uncertainty about the cost-effectiveness of using them. The market is failing to provide sufficient information to raise the quality of management.

6.4 The Government have run a number of schemes to encourage the use of private sector consultancy by small and medium-sized businesses in particular functions. Those schemes have been run on a small scale and have covered limited aspects of management performance; they have not been strongly promoted. Even so, demand has been high and the available evidence suggests that such schemes can be an effective use of public money to improve business performance.

#### **Business development initiatives**

6.5 The Enterprise Initiative which is being launched now (and is described in Chapter 10) will include a set of initiatives to encourage the development of management skills through the use of outside consultancy services by small and medium-sized businesses. It will support private sector consultancy projects in a wide range of key management functions. The new initiative aims to raise the level of management performance in such businesses and to encourage them to use outside consultancy services as a regular part of their management strategy. The whole aim of the initiative is directed towards self-help through critical self-analysis.

6.6 More than £50 million is being provided for these business development initiatives in 1988/89. This will initially support 1,000 consultancy projects every month. The budget and the number of projects supported each month will be increased further over the subsequent two years.

6.7 The initiatives will be available to independent businesses or groups in both manufacturing and services which have fewer than 500 employees. The emphasis is on businesses where information about the value of such outside services is likely to be limited and where existing management skills are unlikely to cover the full range of management functions.

6.8 The initiatives are designed to have a significant impact on the firms which take them. The commitment of management to change is a key part of the process. That commitment is obviously greater where the management itself makes a financial contribution. So the level of DTI support will normally be half the costs of a consultancy project. In the Assisted Areas and in the Urban Programme Areas where greater encouragement needs to be given to indigenous development, two-thirds of the cost will be paid. Consultancy projects of between 5 and 15 man days will be covered, sufficient to make a significant contribution to company development especially in management.

6.9 The launch of the Enterprise Initiative now covers four key management functions which will be supported on common and straightforward terms to present a coherent service to businesses which can be easily presented and understood:

- *Design*: Good design is not simply about making a product look attractive. It is a vital ingredient in the competitive armoury of every firm. Assistance is available towards consultancy studies on the design and development of new products and the redesign of existing products to meet market, financial or production needs, as well as the more commonly understood aspects of design such as graphics, technical and promotional literature. Later, the coverage of the Design Initiative will be widened to include the broader aspects of design strategy which will have a lasting impact on management performance. These include the process of design management and a strategy for design training to strengthen firms' in-house resources;
- *Marketing*: Catering for an ever more sophisticated buyer calls not only for clear understanding of what customers want and need but also the ability to lead in establishing new market demand. That requires a strategic approach to marketing and the creation of a marketing culture which permeates the business. Support will be given to consultancy projects to help businesses develop such marketing strategies. For international markets, a key obstacle to successful exporting among smaller businesses is a widespread lack of understanding about the nature of exporting, the opportunities it offers and, critically, the resources that have to be committed if sustained exports are to be achieved. One consequence of this is that too many smaller businesses pay too little attention to strategic planning for exporting and omit export marketing objectives from their overall plans. Support is therefore being offered within the Marketing Initiative for consultancy projects to help businesses, especially inexperienced or occasional exporters, to develop a strategy and a more considered and effective approach to export marketing;
- *Quality Management*: Like design and marketing, quality management has to be an integral part of companies' overall operations. Increasingly purchasers insist that suppliers' management systems meet standards which guarantee quality. In many instances these are based on British Standard (BS)5750 or related international standards. Support is available for consultancy projects to help businesses set up quality management systems and to apply for assessment to BS5750 and other recognised schemes. Later the Quality Initiative will be broadened to advise businesses on the "total quality

approach" which has been so successfully adopted by a number of leading British companies in recent years;

- *Manufacturing Systems:* The spread of computer aided manufacturing techniques offers small and medium-sized businesses a major opportunity to improve their competitiveness and growth prospects. The adoption of these techniques is not, however, simply a matter of buying in the technology. It is at least as much about changing management systems to integrate production, marketing and design and improve quality. Support is provided for consultancy on the technology and associated management challenges of introducing Computer Aided Design and Manufacture, Computer Assisted Production Management and Flexible Manufacturing Systems.

6.10 The range of key functions will be extended in April to cover consultancy projects which help businesses with business planning and with the introduction or improvement of financial and information systems:

- *Business Planning:* Without the management skills to define and meet strategic objectives, a business is unlikely to prosper, whatever its strengths in other functions. Assistance will be available towards the cost of consultancies which will give expert advice on how to develop and implement a business plan;
- *Financial and Information Systems:* Budgeting and financial control foster stability and growth in businesses. Just as critical is the availability of information on resources, production, customers and competitors. Consultancy support will be given to help improve existing systems or to design, introduce and operate new information systems. The package will embrace budget and financial control, accounting records, use of data services and any computer and software needs.

6.11 The key management functions covered by the initiatives will change over time as management skills in the functions which have been supported improve and managers show their willingness to use consultancy services in the commercial market. Drawing attention to the importance of managerial strategies in achieving commercial success should itself help to improve management techniques and encourage the greater use of consultancy services more generally.

6.12 The Small Firms Service of the Department of Employment, through its counsellors and in particular under the Business Development Service, provides advice and support to established small businesses. In providing counselling, it aims to tackle basic business problems. The new initiatives are complementary, advising in depth on specific management functions in firms that have in general developed beyond the stage of requiring basic counselling. The services operated by the two departments will be closely coordinated.

#### *Business Review*

6.13 The initiatives will be made available to firms through DTI Regional Offices in England, and through the Scottish and Welsh Development Agencies. An important part of the service will be a free Business Review of up to two days of advice by a specially appointed Enterprise Counsellor who will have a wide range of private sector experience in the management problems encountered by small and medium-sized businesses. The Enterprise Counsellor's role will be to help the management of the businesses assess the constraints on growth and the relevance of consultancy advice to removing those constraints. The Enterprise Counsellor will work with the company to identify the most appropriate initiative.

6.14 Firms who approach the Small Firms Service but who could benefit from DTI's new initiative will be identified and referred to DTI with the minimum of bureaucracy. Enterprise Counsellors will refer firms to the Small Firms Service

when this seems more appropriate than a specialised consultancy. Some of the Small Firms Service Counsellors will act as Enterprise Counsellors, especially for smaller firms, further strengthening the bond between the services operated by the two departments and ensuring that the skills and techniques that are particularly appropriate when dealing with small firms will be available as part of the new initiatives.

6.15 It is essential that consultancy should be impartial, of high quality and provided by the private sector. DTI has therefore engaged private sector contractors, such as the Institute of Marketing, the Design Council and Industry Research Associations, who have a wide knowledge of the skills and relevance of project consultants in their field. Their role is as project managers in the provision of consultants for the key functions covered by the initiatives and to ensure that businesses are advised by the project consultant most suited to their individual needs.

6.16 These initiatives are expected to be an effective and targeted use of public money, with a significant and lasting impact on the competitiveness of the large number of businesses which take them. Businesses which raise their management standards, as a result of adopting best practices, will find it easier to generate self-sustaining growth.

### **Services to Exporters**

6.17 Lack of information and management expertise prevent many companies, particularly smaller companies, from exporting their products. Yet profitable exports make an essential contribution to the UK economy. UK exports are equivalent to 30 per cent of Gross Domestic Product — a higher proportion than in many comparable economies. Research indicates considerable potential, particularly among smaller businesses, to improve export performance.

6.18 The British Overseas Trade Board (BOTB), the export arm of DTI, in conjunction with Diplomatic Service posts overseas, helps businesses by providing information about export opportunities, overseas marketing conditions and also by assisting with market entry.

6.19 Alongside the support for consultancy projects in export marketing is a range of services for exporters developed with the help of the BOTB and its area advisory groups of business people with expertise in particular markets.

6.20 In the light of advice from the BOTB, DTI export services will be reorganised later this year to reflect exporters' needs better. Services should then match the stages through which successful exporters go in developing their business.

6.21 The aim will be to encourage companies, particularly those inexperienced in overseas marketing, to think out their own planned approach to exporting and to use DTI's export services as part of a more developed strategy for overseas business.

6.22 The policy of charging will be maintained. Where firms have to make a contribution themselves, their commitment to success is greater. Tapering rates of support have already been established for participation in overseas trade fairs and outward trade missions, on a basis which targets support at exporters new to a market. Support, but at a lower level, remains available for those who have taken part in trade fairs before, so that their experience can be available to new exporters.

6.23 Advice and information for exporters is available through DTI's Regional Offices, the Scottish and Welsh Offices and from a number of private sector sources including trade associations, Chambers of Commerce, banks and consultants and from commercial databases. DTI already works through the Chambers of

Commerce and trade associations in its programmes for overseas trade fairs and visits and seminars. It will in future work more closely with private sector organisations to ensure that help for exporters is delivered as effectively as possible and, over the medium and longer term, to increase the role played by private sector organisations in the provision of advice and information to exporters.

6.24 The aim in this, as in other areas, is to maximise use of open markets and to encourage the flow of information to enable markets to work efficiently.

## CHAPTER 7

**“In all our work we will take account of the differing circumstances in the regions and of the Inner Cities to enable those who live there to help themselves.”**

*DTI Objectives*

### REGIONS AND INNER CITIES

7.1 The problems experienced by British industry in the past have affected some areas of the country worse than others. For many decades some regions have had higher unemployment and poorer growth. Concentrations of deprivation have existed in inner cities often surrounded by areas of prosperity. Regional and inner city problems have often been caused by inflexibility in responding to the decline of traditional industries, the low rate of creation of new firms and inadequate levels of innovation.

7.2 The Government's policies in increasing competitiveness, encouraging innovation and improving the skills of individuals are even more relevant to depressed areas and inner cities than they are to the rest of the country. Those policies will therefore be intensified in areas which have suffered the greatest industrial problems. For example, the work on creating a more effective relationship between education and industry will be intensified in inner cities, including stronger schools/industry links and the use of colleges for enterprise training.

7.3 But the problems of some areas are so serious that additional measures are required. Regional industrial policy is DTI's responsibility, with similar policies administered in Scotland by the Scottish Office and in Wales by the Welsh Office.

#### **Regional Policy**

7.4 The last comprehensive statement of the Government's policy on regional industrial development (Cmnd 9111, December 1983) heralded significant changes in the operation of the main policy instruments (Regional Development Grant and Regional Selective Assistance). The aim was to make them more cost-effective. A central objective of the revised policy was that it should “encourage the development of indigenous potential within the Assisted Areas with the long-term objective of self-generating growth in these areas”.

7.5 This objective remains. But now the Government believe that it will be achieved more effectively with a change in the balance of regional policy so that the main aims of the Government's enterprise policies are properly reflected in the regions.

7.6 The changes do not reduce the planned level of spending on regional industrial measures but ensure that spending will go increasingly to policies which encourage business development. Such policies seek to achieve improvements in the managerial skills and strategies of businesses, which are so essential but which would generally not have been achieved through reliance on open markets.

7.7 New policies are being introduced to achieve these aims:

- the business development initiatives have a significant regional dimension, with higher levels of grant in Assisted Areas and in Urban Programme Areas;
- new incentives will be introduced in Development Areas from the beginning of April, based on the successful experience of the Business Improvement Services scheme. These incentives will be designed to support the wealth creation process amongst the smallest firms. Such firms often need encouragement to implement strategic decisions; they also find it difficult to raise finance for development projects. Firms with fewer than 25 employees will be able to apply for investment grants of 15 per cent towards the costs of fixed assets subject to a maximum grant of £15,000. An innovation grant of 50 per cent subject to a maximum grant of £25,000 will also be available to such firms to support product and process development.

7.8 The Government have concluded that significant development of local potential will be achieved more effectively through these policies than through the Regional Development Grant (RDG) scheme and that the RDG scheme should end. The scheme has provided "automatic" grants open to companies of any size and without any prior assessment of the benefits likely to result from the projects supported. Companies seeking Government assistance for investment projects should be required to show that they genuinely need grant in order to proceed and that their projects are viable and will produce identifiable and significant benefits. The RDG scheme does not meet these requirements and will, with suitable transitional arrangements, cease to operate throughout Great Britain. No new applications will be accepted after 31 March 1988.

7.9 This move away from an "automatic" grant regime, which makes an open-ended call on public expenditure, is both possible and desirable in a period of rising investment. Many of the projects which would have been supported by RDG will take place anyway. Grants towards the cost of investment projects which would not otherwise go ahead will continue to be available in Development and Intermediate Areas under the Regional Selective Assistance (RSA) scheme. Companies which previously expected to receive RDG for new investment projects will be able to apply for RSA but will have to demonstrate that they meet the relevant criteria, in particular that assistance from public funds is needed for the project to go ahead.

7.10 Internationally mobile investment projects will by their nature frequently meet these criteria. They make a valuable contribution to strengthening the regional economies. The changes in emphasis in the Government's regional industrial policies do not, therefore, imply any diminution of the incentive available to attract inward investment projects.

7.11 Regional policy remains based on the existing regional map. The Government have concluded that it is too soon to re-open the definition of the boundaries of the Assisted Areas which were last fixed at the end of 1984. The present intention is that the existing map should remain in place for the lifetime of this Parliament.

7.12 DTI's longest standing instrument of regional industrial policy is the English Industrial Estates Corporation (English Estates). Its task is to provide and facilitate the provision of industrial and commercial premises in the Assisted Areas and inner cities of England where shortage of private sector provision is a constraint on development. Despite recent improvements in market conditions, the private sector is still reluctant to invest in certain types of property in parts of the Assisted Areas and in some non-Assisted Area inner city locations. English Estates will continue to provide industrial and commercial premises in the Assisted Areas where there is no prospect of private sector provision. It has also been asked to give

particular priority in future to a new programme of managed workspace primarily in inner city locations and with considerable private sector involvement.

7.13 As the foregoing paragraphs indicate, the changes in emphasis in regional policy will apply throughout Great Britain. In Scotland and Wales they will be implemented through the Scottish and Welsh Offices and the Scottish and Welsh Development Agencies.

#### **Inner Cities**

7.14 The primary role for DTI in working in the inner cities in England with other Government departments and other agencies is to encourage business development, enterprise and employment. Inner cities will of course benefit from the higher rates of grant for subsidised consultancy projects in Urban Programme Areas under the business development initiatives. The identification of Urban Programme Areas for particular help is a new policy for DTI and recognises the particular difficulties of such areas. A number of inner cities will similarly benefit from the new measures for Development Areas as well as Regional Selective Assistance. DTI is also responsible for coordinating the work of the City Action Teams in major cities and running 16 Inner City Task Forces.

7.15 The City Action Teams (CATs) cover all or most of the inner areas of London, Birmingham, Manchester/Salford, Liverpool and Newcastle/Gateshead. They consist of the Regional Directors of DTI, the Department of Employment and the Department of the Environment who ensure that the programmes of the three departments work closely together in those inner cities. The CATs have Action Plans to tackle the needs of local enterprise, employment and investment using a range of projects and programmes. These include support for local purchasing initiatives in London, help with developing a region-wide company database in the North East and special financial support for small enterprises in Manchester/Salford.

7.16 The Task Force programme is innovative and experimental. Like the CATs it pulls together the combined efforts of a number of Government departments and works with the private sector and local government. It demonstrates what can be achieved when policy is carefully targeted on the individuals and areas most in need. The aim of Task Forces is ultimately to work themselves out of a job in each district that they tackle, leaving behind the self-confidence and skills that local organisations and residents need to assume responsibility for economic activity in their areas. They have been successful in developing new approaches to inner city problems which can now be applied more broadly elsewhere. Experience to date has identified six main areas on which attention should be focused:

- managed workshops to provide premises for new business to start and grow in a favourable environment;
- employment of local labour to provide more jobs for people in their own communities by tackling barriers to local recruitment and by encouraging local enterprise;
- training, especially using the substantial resources of local schools and colleges, targeted on the needs of local employers and aimed at specific skill shortages and vacancies;
- Task Force Development Funds to provide help with grants and loans to new businesses and small businesses unable to secure finance elsewhere;
- schools/industry links so that young people can be better aware of the opportunities through enterprise in the world of work;
- fostering the creation and growth of locally led businesses and organisations that can ultimately take over from the Task Forces.



7.17 The objectives of the Task Forces are consistent with the focus of DTI policies in encouraging individuals to compete in the market and in providing assistance to small companies which is not available in normal financial markets. The aim of the initiative is, in short, to enable people living in the most run-down inner city areas to acquire the skills and confidence they need to compete on equal terms for the increasing number of opportunities in the economy as a whole. Indeed, although the scope for self-help may be seen as least promising in inner cities, the need for it and the potential rewards from it are even greater there than elsewhere.

7.18 Private sector involvement is essential in tackling the problem of inner cities and the Government's major aim is to increase further the participation of companies in inner city development. The Government therefore welcome the increasing commitment being made by private sector companies in supporting initiatives in inner city areas; over 200 private sector companies are already participating in Task Force activities. But more is needed than commitment to Government initiatives. Only when commercial judgement comes to regard inner cities as a worthwhile investment will the underlying economic problem have been solved.

## CHAPTER 8

**“We will encourage the transfer of technologies and cooperative research.”**

*DTI Objectives*

### INNOVATION, USING TECHNOLOGY

8.1 Successful businesses innovate, often using technology to improve their products and processes. Innovation is essential to sustain a competitive edge in world markets. The willingness and ability of business to innovate has been strengthened by the healthy economic climate in recent years. Even so, in 1985, UK industry funded R&D was a lower proportion of Gross Domestic Product than in major industrial competitors.

8.2 The White Paper on Civil R&D (Cm 185) announced that DTI was reviewing its role in encouraging innovation. The main conclusion of that review is that the balance of existing policies should be changed in order to move away from near-market R&D support. We propose to:

- give greater emphasis in collaborative programmes to longer term research between companies, and to encourage collaboration between higher education institutions (HEIs) and companies;
- give greater emphasis to encouraging and facilitating the many different aspects of technology transfer;
- end the general scheme for providing innovation grant assistance to individual companies; end the Microelectronics Industry Support Programme, the Support for Software Products and the Fibreoptics and Optoelectronics scheme; but continue to encourage small high-technology companies.

8.3 Firms themselves are best able to assess their own markets and to balance the commercial risks and rewards of financing R&D and innovation. The Government should not take on responsibilities which are primarily those of industry. The closer to the market place that innovation is taking place, the more fundamental this should be as a guiding principle of policy. In particular, firms have the best access to information about the prospects of the R&D projects they alone undertake and are best placed to reap the benefits from them.

8.4 But the Government recognise that reliance on the decisions of firms may produce a level of innovation and use of technology which fails to provide the maximum benefits for the economy as a whole. The Government's view is that DTI's innovation policy should be focused primarily on the circumstances where research is necessary before commercial applications can be developed, or where the benefits of the research are likely to be widespread, and on technology transfer. There may also be exceptional circumstances where technological uncertainties of research dissuade firms from projects which would have benefit to the whole economy.

8.5 The overall aim of DTI's innovation policy is to encourage a net addition to innovation by industry without creating or perpetuating distortions in the economy. The Government have decided that the objectives of DTI's innovation policy will be to encourage:

- industry to increase its funding of R&D and to apply new technology more effectively;
- the translation of both inventive capability and best practice technique into commercial application, ie more and better technology transfer;
- industry to make most effective use of its own and academic resources through collaborative research and development both nationally and internationally, with particular emphasis on Europe;
- innovation by small firms, especially in advanced technologies, and in the regions.

8.6 DTI will work to promote the fuller exploitation of public funded R&D together with other Government departments, notably the Department of Education and Science, and the science base.

#### **Effective Programmes**

8.7 The basis for DTI's innovation programmes is that they will achieve their objectives cost-effectively without supporting activities which would otherwise be funded by the market or for which the private sector should be responsible. Specific programmes will have testable objectives and will be time limited.

8.8 The main conditions for departmental assistance will be clearly set out and applied on a consistent basis across the programmes. Maximum grant provision will be 50 per cent of eligible costs; in appropriate cases grant rates will be tapered as the market potential becomes clearer.

8.9 DTI's Regional Offices, the Industry Department for Scotland and the Welsh Office Industry Department will play an important role particularly in technology transfer activities.

#### **Improving the environment for innovation**

8.10 The Government will seek to establish a more favourable environment for innovation in which shareholders and managers can have the information, and be more able to assess, the value of research and technology. It is for companies to ensure that their bankers and shareholders understand the advantages of investment in R&D. The reporting of R&D expenditure in annual accounts along the lines proposed by the Accounting Standards Committee (ASC) will promote this understanding. The Government do not rule out legislation in this area, although a voluntary solution through the ASC is very much preferred.

8.11 The Government have already announced improvements in the statistical information available on industrial R&D. Since 1986 sample surveys of private industry are conducted annually by DTI's statistical service with benchmark inquiries every four years.

8.12 The Government now publish an Annual Review of Government Funded R&D and have also announced a strengthened central structure for collective Ministerial consideration of science and technology priorities. DTI plays a full part in the assessment of the contribution which science and technology can make to national economic success while satisfying wider Government objectives.

8.13 DTI collaborates closely with other Government departments (notably the Department of Education and Science), seeking agreement about priorities; technology transfer between departments; efficient management of research programmes of mutual interest; and the maximum benefit of R&D funded by the Government to the national economy as a whole.

8.14 DTI also reviews new developments in the UK and elsewhere which seem likely to promote innovation and the use of technology (for example, corporate venturing) and will continue to give publicity and encouragement to best practice wherever it may be found.

#### **Collaborative research**

8.15 New technologies can transform products, processes and services in remarkable and often unfamiliar ways. The UK has particular strengths in some of these technologies in scientific research and industrial application. But exploiting those strengths often requires new collaborative arrangements both between companies and between companies and researchers in the public sector. DTI can encourage and facilitate the development of collaborative arrangements with other departments concerned; this is particularly important where technological risks are high.

8.16 Technological strengths can be exploited on a collaborative basis internationally within Europe. Few European countries can compete with the scale of resources available to the USA and Japan but collaborative research can maximise the strengths of industries and researchers in different European countries. DTI will encourage the participation of UK companies in technological collaboration with other European firms and research communities, including programmes such as ESPRIT and RACE.

8.17 There are four main ways in which DTI, with other Government departments in some cases, will encourage and finance collaborative research:

- *LINK* encourages companies to undertake joint research with Higher Education Institutions (HEI's) and Research Councils. The research will be pre-competitive but industrially relevant. Programmes currently under preparation include new technologies such as nanotechnology and industrial measurement systems;
- *EUREKA* encourages industrially-led projects with European Community and other European partners. These should both strengthen European technological capability in world markets and contribute to the completion of the single European market;
- *National collaborative research programmes* promote longer-term industrially-led collaborative projects between UK companies in advanced technologies. These research programmes in new technologies will often involve mixed scientific and technological disciplines. Such technologies are likely to have a pervasive impact on economic activity of all kinds; often characterised by high entry costs and/or technological risks; usually some distance from the market but offering a good prospect of market exploitation. DTI's role is to help establish the collaborative links both between firms and between firms and the research community at the pre-competitive research stage. Once those links are established, decisions on further collaboration and commercial exploitation should be taken by industry itself. DTI, with advice from its Technology Requirements Board, is currently running collaborative programmes in such advanced technologies as advanced robotics and gallium arsenide. A new programme on superconductivity is now being launched, linked with initiatives by the Science and Engineering Research Council;
- *General industrial collaborative projects* encourage collaboration through a variety of projects. Some foster R&D serving the interests of fragmented industries where small firms typically do not have the resources for advanced technological projects; Research Associations which pool resources can meet those needs. Some encourage the adoption of technology originating in the science base, particularly in the Government's research establishments. Some are collaborative projects only involving industrial participants in

joint research for companies with similar interests especially small and medium-sized companies.

8.18 Research covered by the collaborative programme will change over time. In the future DTI will only contribute funds to research which would not and could not go ahead without some support from the taxpayer. It will normally be DTI's policy to fund any particular project or area of work only over a specific time period and where appropriate to reduce the rate of funding over time. Companies themselves are expected to become aware of the benefits which collaborative arrangements can bring and to undertake collaborative research without any Government funding.

8.19 Within the context of the policies outlined above, the Government have considered whether the proposals in the report of the IT86 Committee should be included amongst the national collaborative research programmes.

8.20 The Government have already agreed to support ESPRIT II, for which there will be a UK contribution through the Community budget of the order of £200 million. The Government also recognise that the Alvey Programme has provided a good focus for the IT research community, which has helped to bring together different parts of industry as well as industry and HEIs. The involvement of secondees from industry, academia and the Government departments involved has also proved successful and has assisted UK organisations to participate fully in ESPRIT.

8.21 The Government nevertheless accept that some resources should be devoted to a national initiative complementary to ESPRIT, within the framework of the national collaborative research programme set out in paragraph 8.17. DTI has earmarked £29 million over the next three years for programmes in this area and SERC has plans to devote some £55 million over five years to related academic research, mainly in partnership with companies. Together with ESPRIT II, and with other programmes in this area, this provides very substantial support for collaborative research in IT. DTI will bring together all its collaborative research activities in information technology into a new unit which will continue to use people seconded from industry, HEIs and other Government departments to allow better coordination of support for European and national work in this area. The Government do not, however, intend to provide a specific programme of support for applications in IT.

### **Technology transfer**

8.22 The UK's overall weakness in industrial innovation performance lies not in the inadequacies of scientific or inventive capability, but in the transfer of that capability into commercial application. Concern about technology transfer is not confined to new technologies but extends to the transfer of best practice techniques and technologies into commercial applications, particularly by small firms and in certain geographical locations. The business development initiatives (see Chapter 6) will contribute to such technology transfer.

8.23 DTI's aim is to encourage technology transfer where the market is weakest, particularly:

- links between industry and educational institutions, Research Councils and the Government's research establishments;
- the access of small firms to the sources of technology, particularly in those localities where technology transfer networks are least well developed;
- the diffusion of new technologies likely to have pervasive applications but in novel and unfamiliar ways, often requiring changes in other aspects of existing products and processes.

8.24 The range of DTI's technology transfer programmes includes; the establishment of Regional Technology Centres (jointly funded with DES and MSC); training, demonstrator and awareness programmes in modern manufacturing techniques and technologies (including biotechnology and advanced integrated manufacturing systems); the Teaching Company Scheme (paragraph 4.13) and inward technology transfer.

#### **Small firms and start-ups**

8.25 The Government consider that companies themselves are best placed to assess the balance of risks and rewards of their own projects in open and competitive market conditions. The focus of Government funding should therefore be on research and technology transfer which spans companies and not on projects in single companies. But the decision to end general support for projects in single companies does not exclude funding innovation in individual companies completely.

8.26 The rise of new high-technology firms from small beginnings adds an extra element of rivalry and flexibility to the market's response to technology opportunities. This appears still to be better developed in other economies, such as the US, than the UK. Funding innovation in start-ups, the growth of new technology-based small firms and innovation in small firms in regions with a limited technological infrastructure can add to innovation throughout the economy.

8.27 The Government are therefore expanding the Small Firms Merit Award for Research and Technology (SMART) to encourage the start-up of small high-technology firms. Innovation grants for small firms with fewer than 25 employees in Development Areas (paragraph 7.7) are also being introduced.

#### **Exceptional projects**

8.28 There may be exceptional cases of single company projects which offer significant national benefits but which would not be undertaken without financial assistance from the Government. Assistance in a very restricted number of cases will be considered; the budget provision for this will be small, reflecting the small number of exceptional cases. Such projects may involve products and technology which should achieve greater recognition in world markets. Assistance will only be considered where the projects are significantly innovative and high risk, and where they are expected to generate wider and additional benefits to the UK economy.

#### **Space**

8.29 The Government currently spend around £120 million a year on civil space science and R&D. DTI is responsible for approximately £70 million of this spending. No increase is proposed. DTI has discussed with UK companies the space projects to which they attach importance. In the light of this, DTI is taking a fresh look at the distribution of support for individual European and domestic programmes. The Government will look to the private sector, if it attaches importance to the results of space R&D, to play an increasingly important role in future programmes.

#### **Other research programmes**

8.30 The innovation review did not include either DTI's research establishments or the Aircraft and Aero Engine Research and Development programme. The Government intend to review both, starting with the research establishments early this year.

## CHAPTER 9

**“We work with business to promote best practice and within Government to create a climate that stimulates enterprise and reduces red tape.”**

*DTI Objectives*

### **BUSINESS AND GOVERNMENT**

9.1 The aims of DTI policy are to encourage open, competitive and efficient markets and businesses. The main responsibility for efficiency and the achievement of prosperity lies with industry and commerce. The role of DTI is to inform, to encourage, and to facilitate; this will only be successful if DTI works in partnership with business. The basis of this partnership must be a clear recognition of different roles, good communication and mutual understanding. The achievement of this essential partnership needs a number of changes in the approach and organisation of DTI.

#### **Communications with business**

9.2 Contacts between business and government exist over a very wide spectrum. A number of departments work closely with firms in the sectors of industry and commerce or in the parts of Great Britain for which they have particular policy responsibility. The Department of Employment (DE) has specific responsibility for small firms and a considerable interest in the promotion of enterprise. In England, DE runs the Small Firms Service and has Regional Enterprise Units, both of which are an important means of communication with small firms. The Department of the Environment, through the Development Commission, is responsible for the Council for Small Industries in Rural Areas (COSIRA), which provides support for businesses in rural areas. In Scotland and Wales a wide range of services to industry are administered by the Scottish and Welsh Offices and the Scottish and Welsh Development Agencies. DTI works closely with other Government departments in taking a view of business as a whole.

9.3 At present DTI is seen in part as responsible for sponsoring a wide variety of specific industries. The danger is that “sponsorship” can give the impression of “responsibility” for particular sectors of industry. This is misleading and detracts from the message that industry is responsible for its own destiny. At the same time concentration on individual companies or sectors inhibits DTI from its real role of spreading best business practice.

9.4 Changes in the structure of DTI are being implemented which mark a clear break with traditional “sponsorship”, but improve communications with business in ways which are much more relevant to today’s problems. First, much greater emphasis is being given to issues which span all industry and commerce. Modern technology is all-pervasive in its effects, and in future divisions in DTI will be concerned with information technology, materials and manufacturing technology and encouraging the spread and application of such technologies in all the relevant sectors of business. The focus of DTI work will move away from the suppliers of technology to the users. Second, the existing “industry” divisions are being replaced by “market” divisions which will focus on the markets for particular goods and services rather than specific supplier industries. Market divisions, and the

individuals within them, will tackle broad policy issues affecting all the suppliers and customers in the market in question, rather than dealing with particular industries. Market divisions will include economists, statisticians and people concerned with European issues and with deregulation; their concern will be with issues which span the whole market. The function of market divisions is to act as the interface between DTI headquarters and businesses.

9.5 The changes in structure will be supplemented by strengthening the mechanisms for the review and evaluation of programmes and priorities. Zero-based budgeting — justifying budgets for programmes from scratch each year — will be used to ensure that programmes and projects do not continue without regular detailed scrutiny. Particular emphasis will be given to ensuring that programmes have clear objectives, testable and quantified where possible and with time limits or milestone points for review.

9.6 These changes reflect the objective to **“champion all the people who make it happen, rather than just individual sectors, industries or companies.”** DTI as the department for Enterprise must be organised to take a properly balanced view of the problems of individual sectors of industry and commerce in the context of the economy as a whole and the needs of emerging and growing sectors of economic activity.

9.7 Better communication with business is an essential aim of the organisational changes. For many businesses, contacts with DTI at a local level are desirable. The regional network is being strengthened and extended; a number of satellite offices are being set up throughout England to act as contact points with business. The intention is to have a network of some 24 satellite offices by April as well as the existing seven Regional Offices, and an additional three major sub-offices in the South East. Often these satellite offices will be located in Chambers of Commerce and Local Enterprise Agencies.

9.8 Close communication between DTI and business will be improved by greater emphasis on marketing DTI's services and running clearly focused campaigns on issues relevant to business and DTI. One theme running throughout the policy changes set out in this paper is the need for greater consistency of criteria in DTI initiatives; so, for example, the consultancy services offered under the business development initiatives have identical terms and conditions. There are a number of issues of particular relevance to business and campaigns will be run to establish a clear partnership of interest on such issues as the single European market and innovation.

### **Enterprise in Government**

9.9 Good communication with business provides essential information which informs DTI's aim of creating a climate to stimulate enterprise throughout Government policy. Of course other policies which are not normally regarded as economic — on education, social security, the environment, foreign affairs, defence and law and order — have their own legitimate objectives. But the way in which these policies are pursued, and the instruments used, can have a major and sometimes an unintended impact on business and enterprise. There is a need to influence the implementation of such policies so that they help more, or interfere less, with the essential process of wealth creation.

9.10 It is in nobody's interests for DTI to be an uncritical spokesman in Whitehall for business interests. The changes from industry to market divisions will help ensure that does not occur. But it is DTI's job to be aware of the impact on business of all of the Government's policies, and of the views of businessmen about those policies. If policies could be pursued in ways more helpful to wealth creation, such views will be made known powerfully within Government. The extent to which DTI can be effective in this critically important activity depends on individual



businessmen and business organisations putting forward their views and concerns about any aspect of Government policy.

9.11 The role of DTI in encouraging enterprise across Government has been strengthened by the addition of the Enterprise and Deregulation Unit which is responsible in working with all other Government departments for lifting the burden on business.

9.12 Understanding the needs of business and the potential for enterprise requires more than good communication with business. It calls for the active involvement of the private sector in focusing on the most important issues. DTI has a number of advisory committees of businessmen which provide an essential input into the policy formation process. The best known of these are the British Overseas Trade Board, the Technology Requirements Board and the Industrial Development Advisory Board.

9.13 Secondments from the private sector are a direct way of bringing in understanding of the needs of business as well as using skills which are not available within the public sector. DTI has traditionally used private sector secondees in the Industrial Development Unit. It has also brought in private sector expertise for particular programmes such as Alvey. Now, as part of the business development initiatives, experienced people from the private sector will be used as an integral part of the organisation of the teams of Enterprise Counsellors operating out of each Regional Office. They will also provide business experience on which each Regional Director can draw. Secondments of DTI officials to industry and commerce and DTI officials serving as non-executive directors in private sector companies also strengthen understanding of the issues facing British business.

9.14 DTI will be examining over the next few months the possibilities of using private sector expertise in a more direct way by employing outside agencies to deliver some services. One possibility is to make more use of Chambers of Commerce and other regional bodies to deliver services to exporters where they can offer a network of contacts which is close to small and medium-sized businesses with the potential to export. One other possibility is to use outside agencies such as Local Enterprise Agencies, Chambers of Commerce and firms of management consultants to provide an information and signposting service for the business development initiatives. The advantage of operating in this way would be to extend the range of DTI contacts with industry at a relatively small cost and to use wider networks of contacts with small and medium-sized businesses than is possible even through the extended Regional Office network.

9.15 One of the aims in developing and publishing the objectives of DTI was to give greater cohesion to its organisation and policies. The policies which DTI operates and the services which it offers must be limited in number, coherent in approach and tightly defined so that they can be clearly understood and recognised by people in business. They must be well marketed and promoted.

9.16 The aim of these changes in the organisation and structure of DTI is to build a close partnership with business and to create a climate for enterprise. DTI will adopt an active stance in communicating with business and will involve business as much as possible in the achievement of its objectives.

## CHAPTER 10

**“Our objective will be to produce a climate which promotes enterprise and prosperity.”**

*DTI Objectives*

### THE ENTERPRISE INITIATIVE

10.1 This paper has set out the policies and organisation of DTI. There will, of course, be further policy and organisation changes over the next few years as DTI adjusts to reflect changes in business and in the domestic and international economy, and as the effectiveness of existing policies is evaluated. But any changes will be made within the framework of the coherent and consistent rationale summarised in the objectives and described in this paper.

10.2 Is this an “industrial policy”? The phrase itself is unfortunate, because it appears to concentrate on industry rather than consider all the factors which affect the ability of industry and commerce to create wealth; it also carries the flavour of DTI taking responsibility for the fortunes of individual industries and companies. It will be obvious that neither is consistent with the philosophy of this paper.

10.3 But the Government have a coherent set of policies towards industry and commerce. That set of policies is better described as an enterprise strategy than an industrial policy.

10.4 DTI has a key role in that strategy to act as a facilitator of open markets and of enterprise, throughout its activities and in partnership with business. On open markets, it will act through the exercise of its competition policy, through privatisation, deregulation and through international trade. On enterprise, DTI activities range from stimulating the greater involvement of business in education and the spread of management education to initiatives to improve the provision of information to business about new methods and opportunities.

10.5 Now DTI is launching the Enterprise Initiative. This brings together the services provided by DTI for industry and commerce. These services will be well targeted and strongly promoted. The Enterprise Initiative will provide the most comprehensive self-help package offered to business by Government; with the business development initiatives, businesses can become more competitive using expert private sector advice; with the research initiatives, businesses can innovate and develop collaborative R&D; with the regional initiative, businesses will have greater help to develop their own potential. The services are provided in partnership with business, often delivered by the private sector and rarely offering grants of more than 50 per cent. The emphasis of the Enterprise Initiative is on transferring best practice and providing information. The content of the initiatives will change over time as the needs of business change.

10.6 Real change requires people themselves to alter the way in which they manage their businesses and approach their work. The best way of accomplishing this is to give people the scope and opportunity in open markets to compete, but also to help them acquire the skills and information which they need to compete effectively. This, DTI, the department for Enterprise, will do.

The federal government has a long history of involvement in the economy. This involvement has taken many forms, from direct ownership of businesses to the regulation of markets and the provision of social services.

One of the primary reasons for government intervention is market failure. In many cases, the free market does not allocate resources efficiently, leading to underproduction of public goods or overproduction of negative externalities. Government action can correct these inefficiencies.

Another major area of government activity is the provision of social insurance. Programs such as Social Security and Medicare are designed to protect citizens from the economic risks of old age, disability, and death. These programs are funded through taxes and provide a safety net for vulnerable populations.

*[Handwritten signature]*

The federal government also plays a significant role in the regulation of interstate and international trade. Through agencies like the Department of Commerce, the government negotiates trade agreements and enforces trade laws to protect domestic industries and promote economic growth.

Monetary policy is another key function of the federal government. The Federal Reserve, an independent agency, manages the nation's money supply and interest rates to maintain price stability and support the economy. This involves adjusting the discount rate and conducting open market operations.

Finally, the federal government is heavily involved in the provision of infrastructure. Building and maintaining roads, bridges, airports, and public transit systems are essential for the smooth operation of the economy. These investments create jobs and improve the quality of life for citizens.

In conclusion, the federal government's role in the economy is multifaceted and essential. From regulating markets to providing social insurance and infrastructure, government intervention is necessary to ensure a stable and prosperous economy for all Americans.

The federal government's involvement in the economy is a continuous process that evolves over time in response to changing economic conditions and societal needs. As the economy grows and faces new challenges, the government's role will continue to adapt and expand.





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