

RSA Inquiry

TOMORROW'S
COMPANY:
THE ROLE OF
BUSINESS IN
A CHANGING
WORLD

Tomorrow's Company

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*The Inquiry is very grateful to WPP Group plc
for the design of this document.*

About the RSA Inquiry *Tomorrow's Company*

In January 1993 the RSA brought together senior executives from 25 of the UK's top businesses under the leadership of Sir Anthony Cleaver, Chairman of IBM United Kingdom, to develop a shared vision of **Tomorrow's Company**. The Inquiry team's main objective was a practical one: to stimulate greater competitive performance by encouraging UK business leaders, and those who influence their decision-making, to re-examine the sources of sustainable business success.

An Interim Report, published to reflect the Inquiry's thinking at the end of its first year of work, was the subject of face-to-face consultations with more than 8,000 business leaders and opinion formers, including participants at major Inquiry conferences in Leeds, Newcastle and Exeter. The scope of the Inquiry was further extended by the formation of an *Inquiry Network*, numbering some 500 RSA Fellows, which contributed valuable input.

In addition to this consultation process, the Inquiry's research included:

- annual interviews with the chairmen and chief executives of a group of 48 mainly FT-SE 100 companies representing a cross-section of industry sectors, conducted by Greenly's
- case studies with five Inquiry sponsor companies focusing on board-level measures of success, conducted by Bain & Company, Coopers & Lybrand and Greenly's
- market research on the UK competitiveness agenda and boardroom values, conducted by MORI
- a continuing review of secondary sources (see page 32).

This document sets out the Inquiry's recommendations, based on its cumulative findings.

The Inquiry would like to acknowledge all those who have contributed to the development of this document, particularly those organisations listed on page i who have supported the Inquiry financially, members of the *RSA Inquiry Network*, and the Inquiry's Editorial and Communications Committees – under whose auspices this document has been prepared and is being distributed – both of which have been chaired by Peter Smith, Chief Executive, The Strategic Partnership (London).

This document has been drafted by Mark Goyder, RSA Programme Director, and Neil Hartley, Head of Research, assisted by Philip Goldenberg, a Partner in SJ Berwin & Co and the Inquiry's legal adviser, and edited by Linda Gatley and Eileen Scholes of The ITEM Group.

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Preface

Since the Inquiry began two and a half years ago, there has been a growing realisation that the UK's future prosperity will be determined by our ability to compete in the global economy. Government has recognised this fact in its two White Papers (1994 and 1995) on Competitiveness. But the prime responsibility for finding a way to reach the necessary competitive standards must lie with business.

The last year or so has seen deepening concern with the way in which business conducts various aspects of its affairs. While some of these concerns may be mistaken, misplaced or simply exaggerated, they must be addressed if business is to be able to play the full part it should in the development of a prosperous UK society.

As members of the Inquiry team we have therefore made it our goal to consider how **Tomorrow's Company** will achieve sustainable success in a world which is not only increasingly competitive, but also increasingly critical and vigilant of business standards.

We have tackled the sterile debate over shareholder versus stakeholder head on. We believe that only by giving due weight to the interests of all key stakeholders can shareholders' continuing value be assured. We describe this as the *inclusive* approach and have developed a framework for its use by **Tomorrow's Company**. Proving the value of this approach through current UK examples is not easy, for two main reasons. Our research made plain the often wide gap between intention and action in the efforts of UK companies to become more competitive: the alarm bells have been heard but not heeded. We also came up against the absence of appropriate measurements in areas we consider critical to modern performance analysis. This is an issue the RSA will continue to address through its proposal for a *Forum for Business Success*.

The wide range of debates we have had during our consultation process has only served to reinforce in my mind the urgency of the need for change. Of course, the UK has some companies which can compete with anyone in the world. Of course, some sectors are world-class and world leaders. But far too many companies are nowhere near as good as they like to believe, and far too few can support their claims with progress measured and reviewed at board level.

I believe this is fundamentally a leadership issue. Leadership within the company, by the board and by business within the community. Leadership that takes decisions on the basis of evidence which, if not definitive, is surely compelling. Leadership that has

the courage to put across a consistent message which is relevant to all stakeholders – giving the same vision for the company to shareholder and employee, to investor and supplier, to customer and to the community at large.

To do this, **Tomorrow's Company** – as described by the Inquiry – understands its own purpose and unique values. It demonstrates just how it is performing, and expects to perform, against them. It thereby increasingly meets the challenge of proving its progress against a range of appropriate measurements.

At the end of this document we have set out agendas for action aimed at business leaders, investors, educators and other key groups. These agendas suggest areas that each group should address to achieve sustainable success, both for themselves and for the community as a whole. While the majority of the evidence which forms the basis of this document overall – and the agendas in particular – is derived from publicly quoted companies, the Inquiry believes the principles advocated apply equally to any business, large or small, incorporated or not.

There is much to do – we hope we have shown a way forward.



Sir Anthony Cleaver
Chairman, RSA Inquiry Tomorrow's Company
6 June 1995

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Executive summary

The case for change

There are too few world-class companies in the UK. We are not creating enough new ones. The performance of UK companies is improving, but not dramatically enough to keep pace. Our focus on competitiveness remains weak, at both national and company level.

These conclusions of the RSA Inquiry *Tomorrow's Company* are confirmed by important recent evidence from a range of sources, including the Government's 1995 Competitiveness White Paper which acknowledged that the average performance of UK companies is worse than that of our major competitors.¹

Of course, some of our companies already can achieve world-class performance – and are demonstrating, through external assessment, that they are doing so. Others may not realise they are performing at world-class levels because they have not measured themselves against the best. There have been some remarkable recent success stories, with UK global champions emerging in various sectors. However, the UK cannot rely for its future prosperity on the exceptional performances of a small minority of its businesses. Among the most pressing questions to be faced today by business leaders is: what is it that stops more UK companies from joining our top performers?

Several obstacles are preventing UK companies from becoming globally competitive, including:

- complacency and ignorance of world standards
- over-reliance on financial measures of performance
- our national adversarial culture.

The need to overcome such obstacles is becoming ever more urgent in view of the rapid changes in the global market which make it increasingly complex and demanding. The major forces for change include:

- technological developments; globalisation; new employment patterns and organisational structures; the growing importance of environmental issues; and the death of deference among employees, customers and communities
- the increasing need for companies to maintain public confidence in the legitimacy of their operations and business conduct – in other words, to maintain their *licence to operate*.

As the world business climate changes, so the rules of the competitive race are being rewritten. The effect is to make people and relationships more than ever the key to sustainable success. Only through deepened relationships with – and between – employees, customers, suppliers, investors and the community

will companies anticipate, innovate and adapt fast enough, while maintaining public confidence.

The Inquiry's vision

The companies which will sustain competitive success in the future are those which focus less exclusively on shareholders and on financial measures of success – and instead include all their stakeholder relationships, and a broader range of measurements, in the way they think and talk about their purpose and performance.

In short, it is this *inclusive* approach which differentiates *Tomorrow's Company* from yesterday's companies.

Most significantly, *Tomorrow's Company*:

- clearly defines its purpose and values, and communicates them in a consistent manner to all those important to the company's success
- uses its stated purpose and values, and its understanding of the importance of each relationship, to develop its own success model from which it can generate a meaningful framework for performance measurement
- values reciprocal relationships, understanding that by focusing on and learning from all those who contribute to the business, it will best be able to improve returns to shareholders
- works actively to build reciprocal relationships with customers, suppliers and other key stakeholders, through a partnership approach
- expects its relationships to overlap and acts, with others where necessary, to maintain a strong *licence to operate*.

An inclusive approach to business leadership...

The Inquiry's own research and other recent evidence shows that a majority of UK company leaders now appear convinced that an *inclusive* approach to business relationships provides a route to sustainable success?²

During the consultation process many companies declared: 'This is nothing new. We are doing it already'. But the Inquiry's findings reveal a large gap between what most business leaders claim is important and the priorities they actually set for themselves and their companies.

For UK companies to update their approach by defining, discussing, measuring and reporting on success in more *inclusive* ways, business leaders must:

- clear up misunderstandings about directors' legal duties, so that directors make balanced judgements in terms of maximising value on a sustainable basis
- take action to create a new language of business

success, to develop effective new measurement systems, and to bring the reporting process into line.

...to investment needs...

With these changes in place, company leaders will be able to participate in a more open dialogue with the investment community. They will be able to enlist the help of investors, and those who advise them, in concentrating their minds not only on immediate performance but also on longer-term prospects.

For business leaders who are trustees of pension funds, a key test of their commitment to an *inclusive* approach will be the terms of reference and timescales they set for the managers of those funds.

...to people...

The centre of gravity in business success is already shifting from the exploitation of a company's physical assets to the realisation of the creativity and learning potential of all the people with whom it has contact – not just its employees. Education and training are therefore being seen less as issues of cost, and more as pre-conditions for competitive success.

Tomorrow's Company strives to develop and use people's full potential by:

- anticipating and responding to changes in employment patterns and in individuals' expectations
- supporting and motivating individuals in developing their capabilities within a learning culture
- adapting its organisational structure to enable people's contributions to be used effectively
- participating in exploring the future of work, on the basis that successful companies can only flourish in a successful society.

...and to society

In the Inquiry's case studies, relationships with the community have proved to be the most difficult to define and measure. Many companies are not yet sufficiently rigorous in identifying their key community relationships. Nevertheless there is evidence of a growing recognition by UK business that the community in general – as well as government in particular – has a major influence on its ability to compete successfully.

Though business alone cannot provide a complete solution to the UK's need for a more supportive

operating environment, business leaders can fulfil a significant role in creating a climate for sustainable success. They can:

- continue and increase their participation in national and local community partnerships, like Training and Enterprise Councils, Business in the Community and Business Links
- contribute to the establishment of a more open dialogue, and a closer working relationship, between business and government to facilitate joint management of the national competitiveness agenda
- put in place more effective business representation and networking structures
- work co-operatively with others to enhance supply chain performance
- help remove barriers to the birth and development of smaller businesses, for example by encouraging smaller businesses to adopt an *inclusive* approach and by finding ways to ensure that their views on the competitiveness agenda are communicated.

Making it happen

The multiple *wake-up calls* which UK companies have received, warning of the need for change in order to respond to intensifying global competition, have not yet provoked the results we all need. What has been lacking so far is a convincing framework for turning intention into action.

The Inquiry has set out such a framework, by describing how **Tomorrow's Company** can apply an *inclusive* approach as a route to sustainable success, supported by investors, educators and policy makers.

However, the *specific actions* needed to apply this framework throughout the UK business environment can be identified – and implemented – only by the people involved. To help launch this process, the Inquiry has developed agendas for action – included at the back of this document – which provide suggested guidelines for use by directors, managers, the investment community, and learners and educators.

In addition to these agendas for individual and team action, the Inquiry supports follow-on proposals for:

- the creation of a *Forum for Business Success* by the RSA
- the launch of a major *Campaign for Learning* by the RSA in 1996
- further examination by the RSA of the future of work and the needs of tomorrow's growth enterprise
- the development of a *UK Competitiveness Index* by government and business leaders acting in partnership.

The case for change

Facing the realities of global competition

This chapter outlines the nature of the challenges UK companies will have to meet if they are to deliver world competitive performance. It examines how we are shaping up so far, the obstacles to be overcome, and the signposts which point to stakeholder relationships as the key source of sustainable business success.

1.1 How the UK shapes up against the world today

There are too few world-class companies in the UK.³ We are not creating enough new ones.

While it is true that the best companies in the UK are equal to any of their major competitors, it is also true that these champions remain notable exceptions. *On average*, UK companies are performing worse than their major competitors.⁴ The improvements they are achieving are not dramatic enough to keep pace.

Our focus on competitiveness remains weak, at both national and company level.

These conclusions of the Inquiry are confirmed by important recent evidence from a range of sources, including the following.

National-level competitiveness

- The UK received an overall ranking of 14 out of 41 countries in the 1994 World Economic Forum *World Competitiveness Report* (1994 WEF Report).⁵
- The same survey threw doubt on the UK's capability to progress from this position – we were ranked 32 out of the 41 countries for our in-company training, 34 for the willingness of our workforce to re-train and learn new skills, and 37 for the ability of our education system to meet the needs of a competitive economy.⁶
- The 1994 White Paper on Competitiveness – the first of its kind – acknowledged that the UK's long-term comparative decline has spanned 100 years.⁷
- The House of Commons' Trade and Industry Committee noted in its 1994 report: 'Taking the last two decades as a whole, the UK is the only major industrial country whose manufacturing output has remained virtually static'.⁸

Company-level competitiveness

- According to the 1995 Competitiveness White Paper, the average performance of UK companies

is worse than that of our major competitors.⁹

- The 1994 IBM/London Business School study *Made in Europe* showed that the UK has proportionately more poor performers which are vulnerable to competition through low investment in best practice (this has become known as the UK's *long tail of under-achievers*).¹⁰
- In the preceding IBM/London Business School study *Made in Britain*, published in 1993, only 2.0 per cent of the companies surveyed were found to be world-class in terms of performance, though encouragingly 42.0 per cent had most of the practices in place to enable them to become world-class.¹¹ However, by 1994 the figure for world-class performers had risen to just 2.3 per cent, while the contenders figure had dropped to 40.3 per cent.¹²
- The first Lean Enterprise Report on the automotive parts industry in eight countries, published in 1993, showed UK companies being outperformed by a factor of 2:1 on productivity and by a factor of 100:1 on quality.¹³
- The 1994 Second Lean Enterprise Report concluded: 'The UK shows the lowest productivity of any European country and the second worst quality. The UK is still a long way behind the class leaders and, if anything, the gap between the UK and Japan is widening rather than narrowing'. Surprisingly, this is 'despite the presence in the UK of Honda, Nissan and Toyota, and the fact that a number of component suppliers have improved their performance substantially'.¹⁴

Statistics like these have been ringing alarm bells about the poor performance of UK companies for many years.

Of course, some of our companies already can achieve world-class performance – and are demonstrating, through external assessment, that they are doing so. Others may not realise they are performing at world-class levels because they have not measured themselves against the best. There have been some remarkable recent success stories, with UK

global champions emerging in various sectors. Overall UK productivity rose 46 per cent in the decade to 1989, and in the last 10 years has climbed faster than in any G7 country.¹⁵ The UK is an open trading economy with a rich diversity of enterprises, enhanced in the last 16 years by the emergence of 900,000 new small businesses – bringing the number of small businesses employing fewer than 200 people to 2.65 million, out of the total of 2.70 million UK businesses.¹⁶

However, the UK cannot rely for its future prosperity on the exceptional performances of a small minority of its businesses. Among the most pressing questions to be faced today by business leaders is: what is it that stops more UK companies from joining our top performers?

'For a firm, competitiveness is the ability to produce the right goods and services of the right quality, at the right price, at the right time. It means meeting customers' needs more efficiently and more effectively than other firms.'
1995 COMPETITIVENESS WHITE PAPER^A

1.2 Why sustainable success has eluded most UK companies so far

Several obstacles are preventing UK companies from becoming globally competitive.

Complacency and ignorance

Complacency remains a strong inhibitor of change and improved performance. The *Made in Europe* study showed that 70.0 per cent of UK companies thought they performed at world-class levels, whereas only 2.3 per cent were found to do so.¹⁷ The 1994 BOC/London Business School survey *Building Global Excellence*, involving 21 UK companies, identified complacency combined with ignorance of world standards as a major obstacle to world-class performance.¹⁸

Some leaders of smaller businesses may regard aspirations like *becoming world-class* and *achieving global excellence* as irrelevant or unattainable. In practice many small businesses are part of a supply chain which depends for its future on global competitiveness. And it is vital for the UK's future prosperity that all businesses, whatever their size, strive continuously to raise their sights and improve their performance.

Over-reliance on financial measures

Another major obstacle identified by the *Building Global Excellence* report is the pre-occupation of UK managers with financial performance. The report commented: 'To be in a position to predict the future and discover that you need to change 3–4 years before the crisis comes, today's managers need to switch their attention away from the financial health of their companies and start measuring their strategic health'.¹⁹

Good financial performance is the UK's traditional definition of success for a business. But historic financial measures are lagging indicators: they are an unsatisfactory guide to future performance. There are many examples of apparently profitable companies which have subsequently failed.

By itself, financial performance does not gauge the overall health of the business. It neither defines competitive performance, nor measures the broader value created through product quality, speed of response and service. Companies which rely solely on financial measures of success are exposing their shareholders to unnecessary risk and denying themselves the opportunity to improve returns.

Of the 11 companies named as Britain's most profitable company by *Management Today* between 1979 and 1989, four subsequently collapsed and two were acquired.
JOURNAL OF GENERAL MANAGEMENT^B

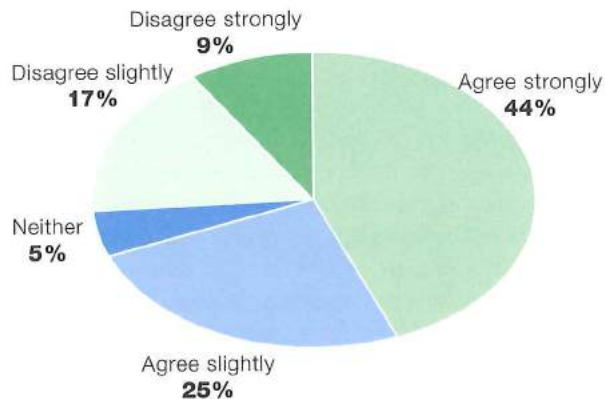
Our national adversarial culture

The climate in which companies operate should enhance not hinder competitiveness. However, the UK culture supports adversarial rivalry rather than genuine competitiveness. Our institutions, including the law and parliament, have historically been adversarial in character. So too has our employee relations practice, though in the last year the Trades Union Congress has clearly signalled its desire to move away from an adversarial approach.²⁰

In business terms, this adversarial heritage is a costly inefficiency: our appetite for confrontation and conflict is wasteful. A survey supplied to the Inquiry showed seven out of 10 business leaders believe cross-party consensus is needed on key issues prior to contentious legislation (see figure 1.1).

The case for change

Figure 1.1 **Seven out of 10 business leaders agree that cross-party consensus is needed on key issues prior to contentious legislation**



Our culture makes partnerships difficult to achieve, as shown in a 1994 study by Coopers & Lybrand, which concluded: '73 per cent of middle market companies disagree that they should operate in partnership with their larger customers, preferring instead to maintain an adversarial commercial relationship'.²¹ While it is true that using adversarial terms to describe supplier relationships is no longer the norm – as it was a few years ago – and that there are some signs of other stakeholder relationships beginning to change, there remains much to be accomplished in these areas.

Further obstacles

The *Building Global Excellence* survey suggested the following additional obstacles to world-class performance²²:

- people and their attitude towards change
- poor development of human resources
- financial pressure to cut development expenditure to meet immediate profit targets
- paying lip-service to new ideas
- top managers unaware that subordinates do not share their goals and ambitions.

1.3 Key factors in the emerging business environment

The Inquiry's consultation process confirmed that the world business climate is more complex, demanding and rapidly changing than ever before. In interviews conducted with 48 company leaders, 'speed' and 'globalisation' were the words most frequently used to

In 1993, Toyota set itself the goal of halving production costs – while continuing to improve performance – within seven years. It is on target.²³

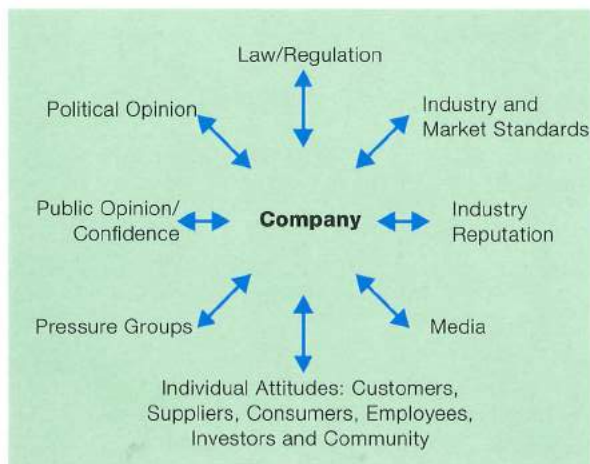
describe the new demands they face. One company reported that a product improvement gave them an edge for a mere six weeks.²³

The Inquiry identified the following major forces for change.

- *Technological developments* are transforming markets, revolutionising information and communications, and creating new possibilities for what, how and where work is done.
- *Globalisation* of markets, supply chains, work and capital, is racing ahead faster than ever before, demanding new sensitivity and a more rapid response from businesses. Global competition is producing changes in cost and quality on an unprecedented scale.
- *New employment patterns* are emerging, with the rise in importance of the knowledge worker, the growing numbers of self-employed people and small businesses, the erosion of the traditional concept of the job as full-time, permanent and male, and the consequent changes in the role and outlook of trade unions.
- *New organisational structures* are emerging, with the introduction of the networked organisation, the reduction and streamlining of corporate centres, the sub-contracting of whole functions, and the growing use of independent specialists.
- *Environmental issues* are becoming of critical importance for business, not only because of the rising threshold of public concern and expectations, but also because of the need for business to fulfil a significant role in helping to solve global environmental problems.
- *The death of deference* means pressure on companies from more demanding employees, customers and communities who expect their individual needs and values to be respected.

One other major force for change is worth considering in more detail: the increasing need for companies to maintain public confidence in the legitimacy of their operations and business conduct – in other words, to maintain their *licence to operate* (see figure 1.2). Today, a company's *licence to operate* and its competitiveness are closely linked. The process of maintaining confidence can be as positive for company performance as the loss of confidence can be detrimental.

Figure 1.2 **Various forces in the external environment combine to influence a company's licence to operate**



A company which undermines its *licence to operate* by the wrong behaviour exposes itself to a range of sanctions. Whatever the issue – from animal rights to top executives' pay – companies seen to be insensitive to changing standards can find themselves at the centre of media and public outcry.

The environment provides a compelling example. Companies which fail to accept responsibility for the environmental impacts of their operations – whether the production, consumption and disposal of their products, or the activities involved in providing their services – risk punitive regulation and taxation, as well as public hostility. Increasingly, governments at national and international levels are subscribing to the *polluter pays* principle, whereby environmental impacts will be charged to the companies which cause them. This will be reinforced by a shift away from taxing labour to taxing environmental impacts. The imposition of the landfill tax in the 1994 UK budget is an example of this.²⁴ There will be more.

Companies and industries which ignore the need to maintain their *licence to operate* may well be surrendering the initiative to competitors. Moreover, in continuing to act as if major shareholders are the only group to which they must pay account, they may colour the financial community's view of the quality of management, and in fact endanger the interests of the very group they seek to satisfy.

1.4 Relationships as the underlying source of competitiveness

As the world business climate changes, so the rules of

the competitiveness race are being rewritten. The effect is to make people and relationships more than ever the key to sustainable success.

Only through deepened relationships with – and between – employees, customers, suppliers, investors and the community will companies anticipate, innovate and adapt fast enough, while maintaining public confidence.

A company's relationships cannot be compartmentalised. Evidence to the Inquiry from Bain & Company shows a close correlation between employee and customer loyalty.²⁵ Competitors may also be customers. Employees, customers and the general public may also be shareholders.

For large companies like Marks and Spencer with 15 million customers and 50,000 employee shareholders, BT with 25 million customers, many of whom are shareholders, and Abbey National with 2.5 million shareholders, most of whom are customers, these interdependencies are self-evident. They are equally real for many smaller companies.

The company whose communication with all of these groups is not rooted in consistent values will expose itself to lack of credibility, loss of confidence and damage to its reputation. Increasing interdependence is amplified by the global power of the media.

There is an ever-growing body of evidence – corroborated by the Inquiry's consultation process – for a strong correlation between issues concerning people, including relationships, and sustainable business success. For example:

- PIMS' statistical research on over 3,000 businesses in North America and Europe confirmed 'intangible factors' – especially intellectual property, innovation and quality – as the strongest drivers of competitive achievement²⁶
- Kotter and Heskett studied 200 companies over 20 years and clearly correlated superior long-term profitability with corporate cultures that express the company's purpose in terms of all stakeholder relationships²⁷
- John Kay's *The Foundations of Corporate Success* defines success in terms of value added, and – arguing that outstanding businesses derive their strength from a distinctive structure of relationships with employees, customers and suppliers – explains why continuity and stability in these relationships are essential for a flexible and co-operative response to change²⁸
- winners of the Baldrige quality award, which has been in place in the USA for seven years – and

The case for change

- which, like other national and international quality models, covers performance in all key relationships – show above average financial returns²⁹
- statistics produced recently showed UK companies with a reputation for putting people first – as demonstrated by their core backing for Investors in People – outperform the national average on a range of financial measures (see figure 1.3)
 - a recent Department of Trade and Industry (DTI) study showed that nine out of 10 of the most successful companies fulfil four key criteria – they are led by visionary champions of change, they unlock the potential of their people, they know and exceed the expectations of their customers, and they constantly introduce new, differentiated products and services³⁰
 - in *Frontiers of Excellence*, Robert Waterman concludes: ‘Companies that set profits as their No 1 goal are actually less profitable in the long run than people-centred companies’³¹

- management consultancy McKinsey’s Value Based Management system requires a deep understanding of the value drivers in a business and how they interact – for example in relation to the interests of employees, customers and shareholders – enabling the company to compare the value added by different strategies.³²

‘If there’s one overriding lesson from our experience, I think it’s that there are indeed great rewards for organisations that pay as much attention to the engineering going on in the so-called “soft” side of their business as the “hard” side.’

BOB LUTZ, PRESIDENT OF CHRYSLER CORPORATION³

Figure 1.3 **UK Investors in People (IIP) companies outperform the national average on a range of financial measures**

Performance measure	National average	IIP average
Return on capital employed	9.38%	18.93%
Pre-tax profit margin	3.03%	4.67%
Sales per employee	£77,447	£122,108

The Inquiry's vision

Tomorrow's Company competing at world-class levels through adoption of an *inclusive* approach

This chapter demonstrates how an *inclusive* approach to all key business relationships makes the difference between success and failure. It describes a framework in which **Tomorrow's Company**:

- defines and communicates its purpose and values
- develops a unique success model and applies it through matching measurements
- places a positive value on each of its relationships
- works in partnership with stakeholders
- maintains a healthy reputation.

2.1 What business itself can do

The long-term comparative decline of the UK must be arrested. Much of this decline can be arrested by business itself.

To meet the demands of an increasingly global operating environment, companies are moving towards partnership, teamwork, shared values and shared goals. They are beginning to focus less exclusively on shareholders and on financial measures of success – and instead to include all their stakeholder relationships, and a broader range of measurements, in the way they think and talk about their purpose and performance.

It is this kind of *inclusive* approach which creates the opportunities companies need if they are to achieve competitive success, today and into the future. Without it, they miss out on valuable learning experiences, expose themselves to risk and fall behind.

In short, **Tomorrow's Company** is one which adopts an *inclusive* approach as the route to sustainable success.

2.2 Defining and communicating purpose and values

TOMORROW'S COMPANY is clear about its distinctive purpose and values.

YESTERDAY'S COMPANIES do not see the need to have a distinctive purpose or values, and often confuse purpose with measures of success (for example upper quartile earnings per share) or are content to leave the definition of their purpose to habit or to others.

TOMORROW'S COMPANY defines its purpose in a way that inspires whole-hearted commitment to achieving goals which are shared by all those who are important to the company's success.

YESTERDAY'S COMPANIES define their purpose in a way that excludes some of the people who are important to their success.

TOMORROW'S COMPANY communicates its purpose and values in a consistent manner and acts in a manner consistent with its statements, enabling it to give a clear lead in all relationships.

YESTERDAY'S COMPANIES have different messages for different audiences (for example to providers of capital, employees are labour costs to be cut, while to the employees 'you are our greatest asset').

2.3 Developing and applying a unique success model

TOMORROW'S COMPANY develops a clear success model of its own. Both for the company as a whole, and for each of its business activities, it is able to define unique advantages and show how these will be exploited to achieve sustainable success. The model includes an explanation of the importance of each relationship to the company's success – in other words, it identifies not only what, but also who, will give the company the capability to succeed.

YESTERDAY'S COMPANIES take it for granted that 'everyone knows' what success is, and allow existing systems of measurement to define it for them.

The Inquiry's vision

TOMORROW'S COMPANY matches performance measurement to its purpose and success model, so that it can assess areas of risk, the health of relationships and the degree of renewal, and can anticipate fully its opportunities.

YESTERDAY'S COMPANIES are content to measure returns. Because they have no, or inadequate, measures of the value embedded in their relationships, they have to take hard decisions in the dark. They risk destroying value rather than creating it.

TOMORROW'S COMPANY measures what matters most for future success. It accepts that competitiveness will be driven by change and will constantly be redefined for the company through an iterative process between itself and its key stakeholders.

YESTERDAY'S COMPANIES measure what they have always measured in the past.

2.4 Placing a positive value on relationships

TOMORROW'S COMPANY values reciprocal relationships. It thinks *win-win*, understanding that by focusing on all those who contribute to the business, it should improve returns to shareholders without in any way diminishing the company's accountability or focus on returns.

YESTERDAY'S COMPANIES are locked in adversarial relationships. They think in terms of *zero-sum*, imagining that if they were to make customers, employees, suppliers or the community more important, the shareholders would be the losers.

TOMORROW'S COMPANY is managed by people who can hold collaboration and competition in their heads at the same time, and see the company's identity as including all stakeholders.

YESTERDAY'S COMPANIES are managed by people who see only themselves and their immediate colleagues as *us*, and everyone else as *them*.

TOMORROW'S COMPANY aims to learn from all its relationships. It thinks of itself as an adaptive organism. It sees every relationship as a nerve end, connecting it with new intelligence about the marketplace and the opportunities or threats it contains.

YESTERDAY'S COMPANIES think of themselves as machines in which decisions are made and 'driven down' by those at the top. Because they refuse to see key relationships as learning opportunities, they quickly get out of touch. They deny themselves opportunities to reduce costs and to enhance the performance of their products, and become uncompetitive.

TOMORROW'S COMPANY maintains a global perspective and is ready to work with others whose cultures are different from its own.

YESTERDAY'S COMPANIES assume that everyone else will learn their culture and language.

2.5 Working in partnership with stakeholders

TOMORROW'S COMPANY aims to retain and to develop new business with customers as part of a relationship which creates value for both parties. It seeks demanding customers who will help it drive innovation and competitiveness.

YESTERDAY'S COMPANIES see customers only as a source of revenue and profit, and sales only as transactions. They compete on price and are content with undemanding customers.

TOMORROW'S COMPANY views key suppliers as true extensions of the company. It sets *target costs* and pursues them jointly with suppliers, sharing information and new ideas to reduce waste and improve performance.

YESTERDAY'S COMPANIES regard suppliers as interchangeable vendors. They see cost cutting as a *zero-sum* game by which profits are increased only at the expense of suppliers.

TOMORROW'S COMPANY manages skills, learning and creativity. It bases employment relationships on respect for the individual and a climate of openness and trust, and creates a framework for people to develop their capabilities. It is honest about risks, pays attention to how it shares success with its partners and is willing to be challenged by its people. It prizes diversity.

YESTERDAY'S COMPANIES manage effort. They base employment of people on buying identified qualities or skills for particular tasks. They expect conformity.

TOMORROW'S COMPANY identifies long-term shareholders with the sustainable success of the business, and seeks to increase their confidence and understanding by sharing information.

YESTERDAY'S COMPANIES view shareholders as unforgiving, and disclose as little information as possible.

TOMORROW'S COMPANY recognises its interdependence with the community in which it operates. It develops leadership strategies which strengthen both the climate for business success and the community itself.

YESTERDAY'S COMPANIES stick to an insular view. They see the communities in which they operate as either a neutral factor in their success or a potential source of interference to be resisted.

2.6 Maintaining a strong *licence to operate*

TOMORROW'S COMPANY expects its relationships to overlap and seeks to reinforce the commonality of interest between them. It recognises that its long-term future is enhanced by a supportive operating environment and acts, with others where necessary, to strengthen its *licence to operate*.

YESTERDAY'S COMPANIES think of stakeholders in terms of either separate transactions or conflicting priorities. They are reluctant to acknowledge the concept of a *licence to operate*, often clinging to the notion that the law adequately describes the public acceptability of business conduct.

TOMORROW'S COMPANY recognises the critical importance of achieving environmental sustainability in the interests of all stakeholders and accepts the challenge this poses.

YESTERDAY'S COMPANIES view environmental concerns as peripheral and react defensively when issues arise.

An *inclusive* approach to business leadership

Introducing new guiding principles for action

This chapter examines what business leaders can do to show the way in updating the approach of their companies – by defining, discussing, measuring and reporting on success in more *inclusive* ways.

3.1 Accepting the need for change

According to the Inquiry's own research and other recent evidence, a majority of UK business leaders now appear convinced that people and relationships are more than ever the key to sustainable success. They acknowledge all the change factors described earlier – the impact of technology, intense global competition, increasing volatility and risk in their external environment, and the need for greater speed and flexibility.³³

During the consultation process many companies declared their agreement with the Inquiry's interim recommendation for an *inclusive* approach and claimed: 'This is nothing new. We are doing it already'. The Inquiry's findings refute these claims. There is a large gap between what most business leaders claim is important and the priorities they set for themselves and their companies.

In the Inquiry's interviews with 48 business leaders and case studies with five Inquiry sponsor companies, there was widespread agreement that sustainable success increasingly depends on the management of *all key relationships*.³⁴ But the findings show:

- although companies may have well-crafted and well-intentioned mission statements, their definition of their purpose is often incomplete – indeed, the need to be clear about purpose at both corporate and operational levels is not fully understood
- many companies fail to communicate their purpose effectively to customers, suppliers, the community and, in some cases, employees
- companies often define success only in their own terms – more progress is needed in defining and measuring success against factors acknowledged by stakeholders
- few companies have defined their key relationships in enough detail to provide a framework for performance management – even shareholder relationships, which most often receive attention, are not yet fully understood
- while many companies acknowledge that measures of the strength of their relationships are predictive of future financial performance, and significant

progress is being made in developing such measures for customers and employees, more work is needed to find robust measures for the full range of key relationships

- work undertaken to devise new measures of performance has yet to be put to full use – progress in implementing the new measures within organisations is slow and resistance is being experienced, often because insufficient time has been spent ensuring that the context for the measures has been established.

Additional research, conducted for the Inquiry as part of MORI's annual *Captains of Industry* survey, confirms that most companies now say they recognise the importance of long-term relationships as a source of competitive advantage. Out of 14 choices presented in the 1993 survey, the development of long-term co-operative relationships came second only to international competitiveness as a corporate priority.³⁵ In the 1994 survey, teamwork and long-term trust-based relationships were emphatically preferred by a large majority of board-level respondents to old-style, power-based, adversarial relationships (see figure 3.1). However, in practice, the measurement of relationships remains a low priority, with new measures of success coming last in the 1993 MORI survey list of corporate priorities.³⁶

What needs to change in order to clear the way for UK companies to implement an *inclusive* approach?

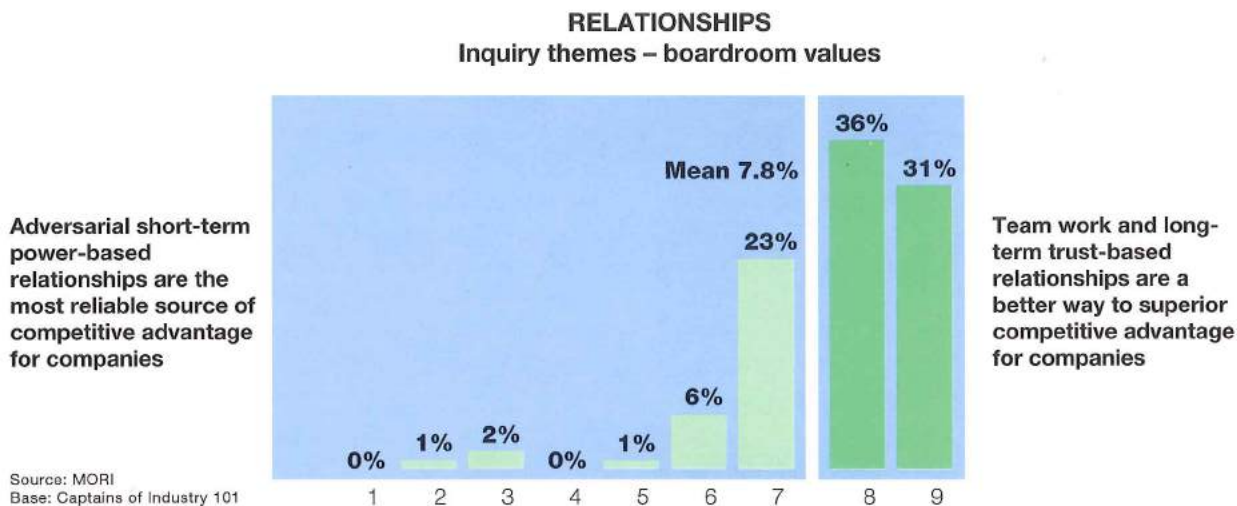
Business leaders must:

- clear up misunderstandings about directors' legal duties
- create a new language of business success
- develop new measurement systems
- bring reporting into line.

3.2 Re-interpreting directors' duties

One significant barrier to change encountered during the Inquiry is that many chief executives and many boards believe it is more important for them to concentrate their attention on pleasing the current body of shareholders than on securing the long-term health of the enterprise. When questioned, they say they have no choice: it is their duty in law.

Figure 3.1 **Almost all company directors rate long-term trust relationships higher than short-term adversarial relationships as a source of competitive advantage**



In fact directors' duties are owed to their company, not to any specific third-party group. They must, as fiduciaries, have regard to the interest of shareholders, but that obligation is not related to the holders of shares at one particular time – it is related to the general body of shareholders from time to time.

There is nothing in company law to prevent directors having regard to other interests if they judge reasonably and in good faith that to do so is conducive to the health of the company. Indeed for directors *not* to give appropriate weight to *all* the company's key relationships may well be a breach of their fiduciary duty. That duty is to arrive at a balanced judgement about maximising the company's value on a sustainable basis, and not necessarily to take a short-term view of maximising returns for current shareholders.

Once these obligations – to consider, and give appropriate weight to, *all* the company's key relationships, and then to reach a balanced judgement about how best to maximise the company's value on a sustainable basis in the interests of both present and future shareholders – are properly understood, it becomes clear that the adoption of an *inclusive* approach is more than simply beneficial for the company: it is essential for the proper discharge of directors' duties.³⁷

'Dissatisfied customers and an aggrieved public or Government Department are not conducive to the future prosperity of the company.'
PROFESSOR JIM GOWER, MODERN PRINCIPLES OF COMPANY LAW³⁸

3.3 Creating a new success language

To act *inclusively* UK companies need to go beyond the limitations of traditional accountancy. They need new criteria, new measures and a new language of success.

Conventional measures of face value have come to reflect and constantly reinforce financial measurement as the exclusive definition of success. The result is that companies have an unbalanced success model, arrived at by accident, not design.

Tomorrow's Company describes success *inclusively*, and then ensures that its measures, its reward systems and its reporting are in harmony with this description. The opportunity exists for senior managers to redress the balance between immediate results and sustainable success.

Of course, changing the scoring system will not, by itself, change the behaviour or the language of success. This is a leadership task. The new language must be extended beyond the statements of mission and values, and put to work in expressing the everyday questions which chief executives and line managers ask. Financial measurement remains important, but in **Tomorrow's Company** it is always set in the context of the success model, so that managers are not misled by a wrong definition of success.

An inclusive approach to business leadership

3.4 Establishing a measurement framework

With a new language of success in place, **Tomorrow's Company** is able to develop a framework of measurement that reflects the success model and is consistent with the purpose and values of the business. This framework will include financial components, but also feedback on the values, the health of key relationships and the performance of key processes within the business.

Some companies may use an established framework, such as the Balanced Business Scorecard³⁸. Others may devise their own – for example, by drawing on the self-assessment models developed by Baldrige in the USA and by the European Foundation for Quality Management³⁹.

Several useful principles are emerging from the Inquiry's case studies.⁴⁰ They suggest that an effective measurement system is one which:

- *manages complexity to create clarity* – it should encompass a coherent set of carefully selected key measures
- *matches the success model* – for example, General Electric's model is expressed in terms of customers, employees and cash, and the key measures are customer loyalty, employee morale and cash flow⁴¹
- *includes one leading indicator from each relationship* – for example, Unipart's supplier relationship programme *Ten(d) to zero* enables a supplier's progress to be assessed, by the supplier and company alike, using a universal ten-point scale on which progress towards zero reflects progress towards the company's strategic goals of cost reduction and continuous improvement achieved through long-term relationships⁴²
- *includes measures of the strategic health of the business* – for example, the rate of introduction of new products, the extent to which the stated values are shared by all employees, or progress towards agreed learning targets
- *enables benchmarking against the performance of world-class companies* – benchmarking is the continuous process of measuring products, services and practices against the toughest competitors or those companies recognised as world leaders⁴³
- *balances immediate results with future capabilities* – in other words, balances current performance with the development of prospects
- *includes measures which assist the board in risk assessment and management* – for example, with regard to the environmental impact of the company's operations.

3.5 Bringing reporting into line

An *inclusive* approach has a significant contribution to make in the establishment of future best practice for the reporting process.

Companies which adopt an *inclusive* approach now – and change their language of success to suit – will be ahead of their competitors in responding to the pressure for change reflected in the work of the Cadbury Committee, the Auditing Practices Board (APB) and the Accounting Standards Board.⁴⁴ These have acknowledged respectively the need for improvements in corporate governance, for increased confidence in the auditing function, and for provision of more open, thorough and meaningful reports by companies.

In its recently published *Audit Agenda* the APB pointed out, in the context of the annual report: 'The view that [directors] should have regard (in the long-term interest of shareholders) to the information needs of other stakeholders has grown in strength over recent years'.⁴⁵

Most current annual reports reflect the fulfilment of statutory obligations, a heavy bias towards financial information, and the tacking on of pages about the community, training and the environment, with little evidence of measurement.

Tomorrow's Company will produce annual reports containing clear statements about its purpose and values, its definitions of success, and its key relationships – with customers, suppliers, providers of capital, employees and the community – as well as relevant disclosure of its progress.

The Inquiry's consultation process made clear that few corporate centres yet consolidate the kind of information this *inclusive* reporting would require. And, as the Institute of Chartered Accountants' 1994-95 review of financial reporting commented: 'Non-mandatory disclosures are the first victims in the competition for space in company reports'.⁴⁶

The way forward is shown by changing attitudes to reporting on environmental performance – the one area where a trend towards *inclusive* reporting is well established. Environmental reports were produced by more than a third of FT-SE 100 companies in 1994 – six with independent verification – and in 12 of these companies there are now quantifiable environmental targets.⁴⁷

An inclusive approach to people

Creating the opportunity to release greater value from working relationships

This chapter explores changes in the world of work and the implications for **Tomorrow's Company** in its efforts to realise people's full potential. It focuses on the responsibilities of companies to support and motivate individuals in developing their capabilities within a learning culture.

4.1 Understanding the pre-conditions for success

The centre of gravity in business success is already shifting from the exploitation of a company's physical assets to the realisation of the creativity and learning potential of all the people with whom it has contact – not just its employees. Education and training are therefore being seen less as issues of cost, and more as pre-conditions for competitive success.

Yet, as mentioned earlier, the UK was ranked 32 out of 41 countries for in-company training by the 1994 WEF Report.⁴⁸ Even worse is the attitude of UK employees to re-training and learning new skills, ranked 34.⁴⁹ The UK's National Education and Training Targets for the year 2000 have already been surpassed by Germany and Japan.⁵⁰ Currently, only five per cent of UK companies are using National Vocational Qualifications (NVQs) and 72 per cent have no plans to do so.⁵¹

Such statistics are those created by yesterday's companies. They do not and will not support the UK's aspirations for successful companies and successful individuals in a competitive economy.

Tomorrow's Company:

- anticipates and responds to changes in employment patterns and in individuals' expectations
- supports individuals in developing their capabilities
- motivates people to make the best possible contribution
- adapts its organisational structure to enable people's contributions to be used fully
- participates in exploring the future of work.

4.2 Anticipating changes in employment patterns and in individuals' expectations

The trend is towards more work being done outside the traditional *job box* – often outside the company. As companies' boundaries become more permeable, they are being forced to take a wider perspective on employment and work patterns.

The number of people in full-time jobs in the UK stood at 14.5 million in 1994 – less than 60 per cent of the total 25.5 million in employment – and the figure is continuing to fall. In the same year there were 1.2 million multiple job holders.⁵²

Companies are exploring emerging opportunities for different types of flexible working.⁵³

- 80 per cent employ temporary or part-time workers
- 65 per cent contract out
- 60 per cent use flexible work patterns
- 22 per cent use home-based workers
- 11 per cent use teleworkers.

As the balance shifts away from traditional labour markets, the competitive advantage to be derived from diversity – and from optimising people's ability to contribute – will become increasingly important for UK companies.

The UK today has growing numbers of:

- *knowledge workers* – by the year 2000, the UK will have an estimated 10.5 million managers and technical employees, compared with only seven million manual workers, reversing the situation of two decades ago.⁵⁴
- *self-employed workers* – the number of self-employed workers is now more than double the 1981 level, at 3.3 million, and according to a Henley Social Change Survey, 50 per cent of men aged under 45 would prefer to be self-employed.⁵⁵
- *female workers* – the proportion of women in the workforce is forecast to rise from 46 per cent in 1994 to 52 per cent by the year 2001.⁵⁶
- *people from ethnic minority backgrounds* – the trend towards a multi-cultural society is relevant to all UK businesses and is particularly marked in key industrial centres such as Birmingham, where one in five school leavers comes from an ethnic minority background.⁵⁷

4.3 Supporting individuals in developing their capabilities

Tomorrow's Company needs individuals with the capability and confidence to contribute to its success.

An inclusive approach to people

It therefore offers support and encouragement to individuals to enable them to embrace the opportunities which change presents, and to engage in a life-long process of learning.

Confidence and optimism come more easily to people who have a sense of their own future. Companies have a responsibility to educate employees and other stakeholders about the context of change in its widest sense. They also need to consider how best they can communicate the competitive challenge to those outside the company, and thereby influence the formation of their future employees in partnership with educators and policy makers.

Tomorrow's Company expects and encourages individuals to:

- have self-reliance, flexibility and breadth
- adopt the *learning habit* – in other words, to demonstrate that they are willing and consider it natural to continue investing time and effort in their own learning
- share a sense of the realities of global competition and understand what it means for their own working lives
- develop personal learning plans
- be aware of, and support the levels of capability expressed in, the 1995 National Education and Training Targets for foundation and life-long learning.⁵⁸

The first responsibility for continuous learning lies with the individual. But the company has a responsibility for – and a vested interest in – supporting, encouraging and inspiring that learning. Trade unions have a similar opportunity to play a role, provided that their approach is equally relevant to the needs of the individual.

Discriminating potential employees will ask whether the company provides a:

- disciplined framework for their personal learning plan, including learning targets
- mentoring system
- board-level focus on learning
- reward system linked to learning achievement
- systematic approach to becoming a learning organisation – for example, the Investors in People approach
- means of assessing the development of a learning culture – for example, through board-level targets and measures.

According to the model presented in *Learning Pays*, a report for the RSA by Sir Christopher Ball, there are three stages of learning:

- foundation – learning of literacy and numeracy
- formation – learning of employability
- continuation – life-long learning.⁵⁹

4.4 Motivating people

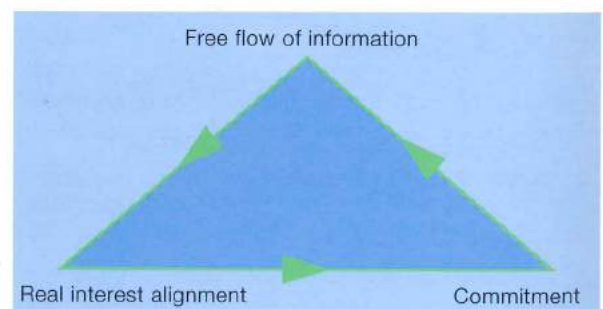
What do companies need to put in place to make sure individuals are both capable of contributing, and motivated to do so?

An inspiring purpose

Tomorrow's Company has a purpose which is understood and shared by its people and which inspires them in their work. It seeks to offer individuals work that has meaning for them. In **Tomorrow's Company**, the reward system and the company's open approach to communications are designed in such a way that both employees and suppliers feel a real interest in working to achieve the stated purpose.

A study carried out for the Inquiry indicates that free flow of information, and the achievement of a genuine accord of interest with employees, are essential elements in successful modern businesses. These elements have been associated with the generation of substantial productivity gains. Companies which demonstrate them earn high levels of commitment because they treat people as creative individuals who have extraordinary capacities to achieve⁵⁹ (see figure 4.1).

Figure 4.1. **High levels of commitment, information flow and accord of interest between people and company are all linked with business success**



'For over 80 years John Lewis has been committed to the sharing of knowledge, power and gain among all its employees, who are Partners in the business. Today, 34,000 Partners participate in the task of managing our business to serve our customers better, and they share in the profits of our success. We believe this gives us commercial advantage and distinctiveness in a highly competitive sector.'

STUART HAMPSON, CHAIRMAN OF
JOHN LEWIS PARTNERSHIP⁶

An appropriate value system

The value system operating in a company creates both opportunities and threats. Research shows that the biggest influence on the decisions people take in companies is their own personal values: professional codes, company values and other external standards are all subsumed within personal values.⁶⁰

As suggested in Bill Quirke's book *Communicating Change* – if you really want to know what a company stands for, ask its people what they celebrate.⁶¹

If a company's value system is misunderstood, or mismanaged, it produces the kind of behavioural risks which can lead to loss of reputation or even corporate tragedy. Companies need to take care to:

- define and communicate their values
- ensure that the company's values are reflected in recruitment and reward systems
- use measurements which allow them to check that the company's values are shared by individuals.

These considerations are likely to become increasingly important: in future, companies will need to rely more on their value systems to guide people's behaviour. The speed of change is such that companies will be less able to put in place rigid control systems, and detailed policy manuals will have shorter and shorter shelf lives. The dilemma for tomorrow's senior executives will be deciding what levers there are left to pull in a fast-changing organisation. Financial controls will provide only a partial view of the company. Technological expertise alone will not be sufficient. The purely economic model of the company will be found wanting.

A learning-based sense of security

In the Inquiry consultation, many people working in larger companies described the anxiety and stress created by their uncertainty about their job security,

and the corrosive effect they felt this was having on their effectiveness in serving customers.⁶²

The disappearance of the *jobs for life* culture does not mean the erosion of all employee security. Companies cannot offer certainty or static security in a specific job. What they do need to offer wherever possible is a *learning-based security*, which shows people how to build the skills they need in order to enhance their future as part of the sustainable success of the company. A study of students' attitudes shows that, realistically, what they are looking for is not job security but honesty about the risks and a clear framework for learning.⁶³

Companies need to work towards continuity in all key relationships. Studies by Bain & Company have shown that where employees stayed longer with the company, so did the customer.⁶⁴ And customer loyalty is one of the best predictors of profitability. The studies concluded: 'The longer employees stay with the company, the more familiar they become with the business, the more they learn and the more valuable they can be. It is with employees that the customer builds a bond of trust and expectations, and when those people leave, the bond is broken'.⁶⁵

If *loyalty* is too strong a word for the more flexible environment of tomorrow, then at minimum there must be *commitment*. A key question for **Tomorrow's Company**, when thinking about employees, is: 'Who will come when you call?'⁶⁶

'The key to change in a company is energising people, transforming their attitudes and transmitting your enthusiasm and passion to them.'

TOM FARMER, CHAIRMAN
AND CHIEF EXECUTIVE OFFICER OF
KWIK-FIT HOLDINGS⁶⁷

Effective leadership

Business leaders need to beware of the danger of leaving a gap between rhetoric and what happens in reality: few things destroy morale faster than this.

The Inquiry's research showed that while most business leaders accept in principle that they must change, they also admit to some apprehension.⁶⁷ The *Building Global Excellence* study of 21 UK companies noted: 'We observed high levels of investment in training at all hierarchy levels, except the top team, where there was almost none'. Some directors reported that short-term competitive pressures are causing them to neglect the development of a learning culture.⁶⁸

An inclusive approach to people

The rapid change and greater complexity of the global economy is putting increased emphasis on the quality of leadership. In **Tomorrow's Company**, senior executives lead the way in:

- articulating a clear and inspiring vision
- creating a culture and an organisational infrastructure that enables people to achieve
- maintaining the coherence of the vision, values and standards which guide the company
- ensuring that the company supports, reviews and measures key aspects of the vision, such as learning.

4.5 Providing an adaptive organisational structure

Skilled and committed individuals are wasted inside an ineffective organisation. Sustainable business success is not just about intelligent individuals – it is about intelligent organisations which are capable of learning.

A study by the Shell Group of the world's companies with the longest records of survival (all more than 100 years) suggested that among the key determinants of their success is their adaptability to change, their tolerance based on decentralised structures and delegated authority, and their sense of cohesion and active sharing of purpose and values with employees.⁶⁹ The recent *Built to Last* study of 18 of the USA's 100-year-old companies – which have outperformed the stock market by a factor of 15 over almost 70 years – examined how these visionary companies have developed learning habits enabling them to stimulate progress before the external world demands it.⁷⁰

Intensified competition, driving the need for speed and innovation, makes teamwork – including work by cross-functional project teams – ever more important. **Tomorrow's Company**:

- sets ambitious team goals, encourages learning in teams, and rewards team achievements and behaviour
- thrives on unfiltered feedback, two-way communication and upward appraisal
- encourages experimentation within the bounds of prudence, so balancing the formal with the informal and flexible
- works across boundaries
- encourages open, adaptive organisations which are quick to respond
- accepts that people have lives outside work which will enrich their skills and contributions
- helps people to reconcile and harmonise competition and co-operation.

The future relevance of trade unions will depend on their willingness to play a positive part in the development of such adaptive organisations.

'We have to create a new organisational architecture flexible enough to adapt to change. We want an organisation that can evolve, that can modify itself as technology, skills, competitors and the entire business change.'
PAUL ALLAIRE, CHIEF EXECUTIVE OFFICER OF XEROX¹

4.6 Exploring the future of work

Many people will find it difficult and challenging to cope with greater uncertainty in their working lives. All companies – including new and developing businesses, which will inevitably provide much of the work in the future – will ultimately be helped if there is a fertile environment for the diversity of work, employment and organisations.

Given that patterns of employment and types of organisation will become more diverse, and that the spectrum of work will range from unpaid voluntary work to regular jobs, this poses an issue for society which the Inquiry has recognised and to which the RSA has undertaken to return: *how can the individual be recognised and be economically independent in a society in which wealth creation does not necessarily mean job creation?*

The challenge for **Tomorrow's Company** is to anticipate the benefits of future diversity. It will work with schools. It will assist with the definition, creation and operation of widespread learning and training initiatives. It will assist local action and initiative.

Tomorrow's Company can engage in this issue by participating in the appropriate partnerships with education and the communities in which it operates, and by equipping its own people to build the skills they need to run independent businesses.

Overall, **Tomorrow's Company** will take responsibility for pushing people's thinking forward on the basis that it is, in the long run, impossible to be a successful organisation in an unsuccessful society.

An inclusive approach to investment needs

Convincing the financial community to provide longer-term support

This chapter discusses what investors and their advisers can do – working in co-operation with business – to apply the *inclusiveness* test in their assessment of companies. It uncovers a dialogue of the deaf between investors and companies, and suggests solutions to the problems of short-termism. It recommends that financial institutions themselves adopt an *inclusive* approach to their key relationships, to make the best all-round contribution to competitiveness.

5.1 Winning with Tomorrow's Company

Despite widespread acknowledgement that companies need to pursue new sources of sustainable success – as encapsulated by the adoption of an *inclusive* approach to business relationships – these sources as yet appear only infrequently in the measures used by the financial community. There is a view that attention to stakeholders other than shareholders would take a company's eye off the ball.

Tomorrow's Company keeps its eye firmly *on the ball* by continually re-examining exactly where its success comes from and how sustainable that success really is. It uses an *inclusive* approach to focus the board's attention on the specific activities and relationships on which the company depends for its long-term competitiveness.

These are the activities and relationships on which investors also depend for their financial rewards. An *inclusive* approach cannot, by definition, conflict with the interests of shareholders: a company which neglects other factors in order to impress its shareholders with short-term financial results is itself undermining shareholder value, and will be punished sooner or later by an efficient capital market.

5.2 How the investment community can help

What can the investment community do to help improve the competitiveness of UK business? There are two priorities.

The first priority is for investors and those who advise them to apply the *inclusiveness* test in their assessment of companies. The best fund managers and analysts concentrate the minds of company leaders not only on immediate performance but also on future prospects.

The second priority is for financial institutions themselves to adopt an *inclusive* approach to their whole range of relationships, to ensure that their own competitive position is not weakened by adversarial behaviour.

In both cases, co-operation and in particular open dialogue – with companies and with the wider financial community – is most likely to prompt significant progress.

5.3 Building a dialogue using the new success language

Many fund managers claim their investment decisions are already strongly influenced by *inclusive* factors, as reflected in the quality of company management and its strategies. In a 1994 MORI survey of 320 investors and analysts, quality of management was indeed the most frequently-mentioned factor used in making judgements about companies.⁷¹ However, in a further survey of investors, treatment of customers, treatment of employees and environmental performance were all assigned low importance as criteria in making judgements about companies.⁷² The Inquiry's own consultation process revealed that few chairmen or chief executives of quoted companies can recall being questioned specifically on the quality of their companies' relationships.

It appears that much of the discussion of *inclusive* factors which occurs within the company/investor relationship takes the form of a *dialogue of the deaf*.

- *The perception within companies* is that their discussions with investors lead them to neglect long-term strategies in the interests of immediate financial returns. Investors are perceived as placing a relatively low priority on the business fundamentals – such as customer loyalty, investment in people and supplier relationships – which will determine long-term success.
- *The perception within the investment community* is that companies are preoccupied with immediate returns and are reluctant to volunteer information about the fundamentals.

For **Tomorrow's Company**, senior executives, accountants, analysts, fund managers, actuaries, pension fund trustees and others who measure the

An inclusive approach to investment needs

company's performance all make a contribution to the common task of using the new language of success to build a more transparent dialogue.

Tomorrow's Company and its investors are able to free themselves from the trap of an adversarial relationship, and together create a climate of increased trust and deeper understanding. The company is consistent in its disclosure policy and reports both positive and negative trends. The investors make use of the wide range of information available from the company, and of the increasing volume of public information (for example Investors in People assessments, environmental reports, regulators' decisions, quality awards, and press coverage of company policy issues).

The recent report *Developing a Winning Partnership*, from a joint City/Industry working group established with the encouragement of the DTI Innovation Unit, characterises the model institutional shareholder and model company⁷³:

The model institutional shareholder:

- is open in discussions with company management about corporate strategy
- articulates investment objectives to corporate management in order to achieve mutual understanding of expectations
- provides improved training for individual fund managers to promote better industry knowledge.

The model company:

- makes an annual strategic presentation to investors and analysts, covering management vision and corporate objectives as well as financial matters
- holds improved meetings with shareholders, focusing on long-term issues and followed by feedback on performance
- recognises the importance of its annual report and accounts as a means of communication, and the need to keep abreast of best practice in disclosure.

This investor/company dialogue should include questioning about customer/supplier relationships, innovation, people, learning, and the *licence to operate*, in order to complement the financial analysis which reflects past success in these areas.

5.4 Why investors can afford to look beyond the short term

While it is true that different investors have different time horizons, *genuinely short-term* investors are usually

ill-advised to invest in company equity or long-term debt and should not be encouraged to do so.

Most investment capital derives from *long-term* savings and most fund management clients have long-term liabilities in the form of pensions, insurance contracts or, in the case of private individuals, a desire to build capital for retirement or the next generation.

However, despite this fundamental long-term standpoint, fund managers are often driven by competitive pressure to focus on short-term returns. Business managers often anticipate or react to this by distorting the timescales of their decision-making and adjusting their priorities.

The efficiency of London's equity markets is both a source of the problem and an element in its resolution.

Investment portfolio valuations can now be updated in real time and for unit trusts are published daily. Portfolio performance is usually reported quarterly or even monthly. For most investors this information provides a basis on which at any time they can liquidate investments or change managers. Fund managers do indeed ignore short-term signals from share prices at their peril.

However, an efficient equity market is also one which absorbs and discounts into current prices all available information relevant to *future performance*. Even within a reporting structure dominated by financial data, 'short-term' price changes are as frequently attributable to new information relating to a company's long-term outlook (for example, new product approvals, strategic acquisitions, or regulatory or management changes) as to current profits. With a new success language in use to enhance the flow of appropriate information, it will become increasingly possible for indicators of long-term sustainable success to feature in the market's evaluation of companies.

If fund managers nevertheless continue to pay excessive attention to the short term, it will be because for most of them their principal clients are pension funds to whom they report quarterly and who can dismiss them summarily. In fact few funds act capriciously: the average length of a client-manager relationship, reported to be around eight years, is similar to the typical period for which a fund manager holds an investment⁷⁴. Even so, the perceived lack of security in these relationships may cause damaging behaviour.

The 1990 report *Short-Termism on Trial*, from the Institutional Fund Managers' Association, concluded: 'There is nothing intrinsically wrong with quarterly performance measurement, only with the use to

which it could potentially be put by those who don't understand how such figures could be interpreted'.⁷⁵ Some evidence that pension fund trustees rely on short-term performance figures to appoint and dismiss managers was found by a 1994 study by the Chartered Institute of Management Accountants (CIMA). CIMA concluded: 'The requirement is for trustees to be aware of the problems and to set objectives for their funds which are realistic and relate to the particular circumstances of the fund'.⁷⁶

The Inquiry's consultation process suggests this is not always achieved in practice. There is a clear need for both fund managers and their pension fund clients to consider applying an *inclusive* approach to themselves. This would mean:

- agreeing specific objectives and measures of success, for each investment fund
- articulating their decision-making processes in order to offer clearer choices – for example, on investment strategies, risk tolerances, balance of income and capital growth, time horizons, policy on dialogue with companies, environmental criteria, and ethical and community criteria.

Ironically, many of the business leaders who complain about the short-termism of fund managers are themselves trustees of pension funds. A key test of their commitment to an *inclusive* approach will be the terms of reference and timescales they set for the managers of those funds.

An inclusive approach to society

Acting on the UK's urgent need to create a more supportive business environment

This chapter evaluates the importance of companies' relationships with the communities in which they operate. It describes how UK business leaders can help create a climate for success, by:

- developing community partnerships
- working with government to manage the competitiveness agenda
- improving business representation and networking structures
- enhancing supply chain performance
- clearing the way for the growth of small businesses.

6.1 Recognising the community as a key stakeholder

In the Inquiry's case studies, relationships with the community have proved to be the most difficult to define and measure. Many companies are not yet sufficiently rigorous in identifying their key community relationships.⁷⁷

'No business exists in a vacuum. At THORN EMI we are conscious of the influence our business has on communities throughout the UK both locally and nationally. If a community as a whole flourishes, the individual members of that community tend to flourish too. A flourishing community is one which is prosperous, healthy, educated, inventive and which cares for the less fortunate. All these aspects are related and any company which wishes to make a meaningful contribution to the community, as THORN EMI does, will try to address these aspects.'

SIR COLIN SOUTHGATE, CHAIRMAN OF THORN EMI¹

Nevertheless there is evidence of a growing recognition by UK business that the community in general – as well as government in particular – has a major influence on its ability to compete successfully. The community relationship looks set to play a more integral part in core business decisions, as companies learn to recognise that:

- a deeper understanding of their key community relationships will enable them to see which components are affecting their success in the current operating climate, and to develop strategies for strengthening those elements which will enhance their success

- the way they conduct their relationships with the community and with government is increasingly being seen as an indicator of quality of management
- matters of public interest are beginning to be formally incorporated in the annual audit, as evidenced by the APB's 1994 *Audit Agenda*⁷⁸
- earning the approval of the community and government, in order to maintain their *licence to operate* and preserve their right to be heard, requires the consistency between words and actions which is inherent in an *inclusive* approach to all business relationships.

What can business in the UK do to help create a climate for competitive success? Company leaders have a role to fulfil in:

- developing community partnerships
- working with government to manage the competitiveness agenda
- improving business representation and networking structures
- enhancing supply chain performance
- clearing the way for the growth of small businesses.

'IBM's community investment policy is to:

- contribute to the economic and social well-being of the communities in which we operate, thereby helping them to be better places for us to do business
- be recognised by government, customers, business partners and employees as a leader in effective and enlightened community involvement
- improve the morale and the motivation of our employees through their awareness and support for and involvement in the company's activities.'

IBM UNITED KINGDOM LIMITED⁸

'NatWest is trying to integrate its community activity into the business. We do it because we believe it is important to our business and the stakeholders in our business, which includes our staff as well as the communities in which we operate. We do not believe we can separate business interest from community interest.'

DEREK WANLESS, GROUP CHIEF
EXECUTIVE OF NATWEST GROUP¹

6.2 Developing community partnerships

The last 20 years have seen the launch of many significant business-led and business-prompted initiatives, through which company leaders take an active role in creating a climate for success at both national and local levels. These include:

- 1977 Industry and Parliament Trust⁷⁹
- 1979 Enterprise Agencies, and the Association of Business Sponsorship of the Arts⁸⁰
- 1981 Business in the Community⁸¹
- 1986 Per Cent Club⁸²
- 1988 Training and Enterprise Councils⁸³
- 1988 Confederation of British Industry's Vocational Education and Training Taskforce, leading to the establishment of National Education and Training Targets in 1991⁸⁴
- 1989 Common Purpose⁸⁵
- 1990 Business in the Environment⁸⁶
- 1991 Advisory Committee on Business and the Environment⁸⁷
- 1993 Business Links, providing support for smaller businesses⁸⁸
- 1994 re-formed Design Council focused on competitiveness⁸⁹

The trend highlighted by these initiatives is a widening of the boundaries of business interests and commitment. There are two central themes in all of them: leadership in dealing with change, and the generation of mutual benefits through partnership. Business, community and government agendas are now firmly intertwined on many levels.

The challenge is to increase business participation in such initiatives – and to maintain their incorporation of measurable performance targets – in order to continue their growing record of achievement.

6.3 Working with government to manage the competitiveness agenda

While the establishment of many of these community partnerships represents substantial progress by business in working more closely with government, there remain areas of major concern which indicate that greater efforts are needed by company leaders to formulate and assert their priorities.

- In a 1994 business survey by Opinion Leader Research, 70 per cent of respondents said they were not consulted enough by government on planned business legislation.⁹⁰
- The same survey showed 77 per cent of respondents dissatisfied with the resulting legislation.⁹¹
- Case studies suggest that a coherent business view is often absent from government decisions which affect the climate in which companies operate and hence their competitiveness.⁹²
- A MORI survey conducted for the Inquiry showed that although companies strongly endorse the way government handles many short-term issues, they have significant concerns on issues such as the provision of infrastructure and education (see figure 6.1).
- Support for these MORI findings comes from the 1994 WEF Report which ranked the UK 28 out of 41 countries on re-investment in infrastructure, 25 on both roads and railways, 16 on both ports and air transport infrastructure, and – as mentioned earlier – 37 on our education system.⁹³

'Increasingly, business people are recognising that their prosperity is directly linked to the prosperity of the whole community. The community is the source of their customers, employees, their suppliers and, with the wider spread of share ownership, their investors.'

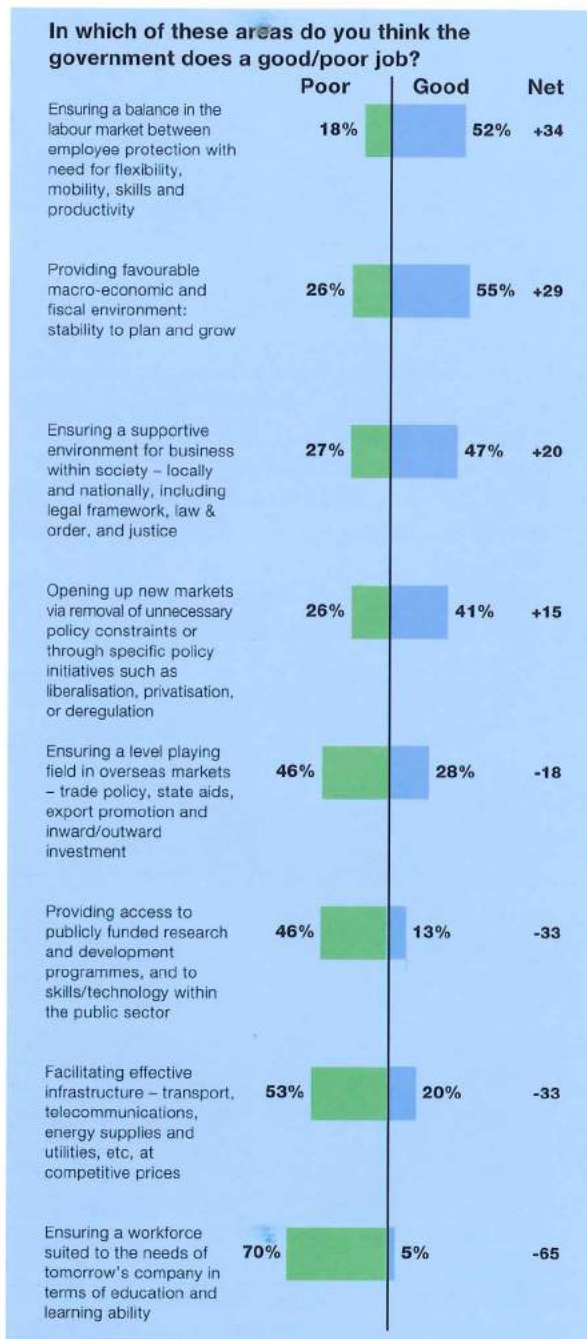
GEORGE BULL, GROUP CHIEF EXECUTIVE
OF GRAND METROPOLITAN^M

International Competitiveness Initiatives

Developments in other countries confirm the increasingly urgent need – in the face of rapid changes brought about by globalisation – for business and

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Figure 6.1 **Company directors think government does a good job in several key areas but have significant concerns on others, including provision of education and infrastructure**



Source: MORI Base: Captains of Industry 101

government to build an effective dialogue and to work together to define, measure and monitor a national competitiveness agenda.

In the fast-growing economies of the Far East, there is readily apparent government involvement in competitiveness, stemming from the need to move swiftly away from being low-wage economies to cope with an emergent China. In the USA, Canada, Australia, New Zealand, The Netherlands, Sweden, Belgium, Iceland and Finland there have been significant competitiveness initiatives by government in the last three years, often prompted by business.⁹⁴

In Europe, it is worth remembering that the political stimulus for the EC Single Market Programme was generated not out of a wish for integration, but out of the stark implications for the future arising from the EC becoming a net importer of technology-based goods in the early 1980s. The benefits of a single market envisaged by the 1989 EC Commission Cecchini Report have yet to be fully realised, but the message of competitiveness it contained is a strong driver of key EU policy areas, including⁹⁵:

- infrastructure
- research and development
- innovation, technology and advisory services
- industry sector programmes
- regional development.

In December 1994, a Competitiveness Advisory Group, proposed by the European Business Round Table, was set up to report into EU Heads of Government meetings – matching a similar system already in operation in the USA.⁹⁶ The central lesson being learned in all EU countries is that competitiveness is the key to prosperity and, as a recent German Government paper observed, to 'safeguarding the future': the competitiveness agenda is becoming a crucial meeting point for business and government in Europe.⁹⁷

UK Government and Competitiveness

In the UK, the Government's 1994 Competitiveness White Paper set out for the first time in one place a clear competitiveness agenda. It acknowledges that closing the competitiveness gap between the UK and the best in the world is a task which government cannot achieve alone. It concludes: 'Business and government have a common interest in finding solutions that enhance our competitiveness'.⁹⁸

To secure and sustain competitive advantage, the UK is dependent on two factors: productivity and the rate of profitability. These outputs will only be achieved through the attitudes, behaviour and successes of people working through

Tomorrow's Companies, not by government.

Just as the *inclusive* approach offers an adaptable framework for looking at the changing sources of sustainable success at company level, so it can also be used in identifying the links between individual company competitiveness and national economic competitiveness.

There are three elements which determine the overall impact of companies on the economy:

- first – and most important – the achievements and strengths of individual companies
- second, the effectiveness of the support networks which link companies
- third, the overall conditions in which companies operate – some of these are predetermined, like geography and sources of raw materials; others are formed over generations, like attitudes to enterprise and learning; and still others are the result of relatively recent decision-making by government and other bodies, like infrastructure, quality of education, social stability, inflation and the cost of capital.

If people in business and in government (at all levels, from regional to European) are to improve all these determinants of the performance of individual companies, they need to work co-operatively in applying the *inclusive* approach.

For individual companies, the *inclusive* approach starts with purpose and values, and the identification of key relationships, and continues with the definition of a clear success model. Only then can measures be established which help managers decide on the actions they need to take to improve performance and achieve the company's purpose.

At the national level, the current situation resembles that found by the Inquiry in some of its case study companies. While there is a recognition of the need for more relevant, predictive measures of success, there remains a proliferation of potential measures with no shared success model through which to organise them.

It is much easier for people to avoid taking action on competitiveness if there is confusion or dispute about the various statistics available. An indication of the depth of the problem is a 1994 survey which showed that only half of UK business people were aware of the 1994 Competitiveness White Paper.⁹⁹

For business leaders and policy makers the task now is to develop a clear national success model, along with a commonly understood framework for assessing the competitiveness gap and for identifying the actions needed to close it.

Development of a UK Competitiveness Index

The development of a *UK Competitiveness Index*, by business and government in partnership, would facilitate this process. Such an index should be designed to complement macro-economic statistics on inflation, output and employment – by:

- bringing together the major inputs to competitiveness
- providing a breakdown of measurements, based on sectors (for example, retail), regions (for example, Training and Enterprise Council regions) and functions (for example, progress on education and training)
- ensuring clear and unarguable communication of the realities of the UK's competitive performance. A number of potential building blocks for such a *UK Competitiveness Index* are already in place. For example:
- the UK's revised National Education and Training Targets were initiated by business and have now been developed in partnership between business, educationalists and government – these represent an agreed and vital set of functional indicators by which people in all these groups can assess progress towards the higher level and core skills needed for competitive performance¹⁰⁰
- the House of Commons' Trade and Industry Committee conducted four industry case studies and drew conclusions on barriers to competitiveness in those industries¹⁰¹
- the 1994 Competitiveness White Paper analysed the UK's performance relative to its main competitors, and the 1995 White Paper developed this into a sectoral overview of the economy¹⁰²
- the DTI has begun work on a national benchmarking service which will provide businesses of all sizes with the opportunity for a health check on their practice and performance (the *Made in Europe* study shows the UK is currently weak on benchmarking)¹⁰³
- the Employment Department and the DTI have developed and piloted five key business competitiveness indicators for use by Training and Enterprise Councils.¹⁰⁴

6.4 Improving business representation and networking structures

One way in which company leaders can facilitate the more open dialogue vital to closer working with government is by acting to put in place more effective business representation structures.

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Despite the scale and pace of change in the world business climate, the last major review of trade associations in the UK was undertaken by the Devlin Commission in 1972 when the UK entered the EEC. The Commission reported significant degrees of overlap and duplication in the provision of both services and business representation to government. At the time, there were 2,500 UK trade associations.¹⁰⁵ There are now approximately 3,600.¹⁰⁶

On the other hand, more than 60 per cent of UK businesses do not belong to any recognised body.¹⁰⁷ Most of these are smaller businesses, for whom representation via a strong trade body is particularly important because they are unlikely to have the resources to act independently.

The current structure of UK business representation is overlapping, unclear and less effective than it might be.¹⁰⁸ Since business representation needs, by definition, to be independent, the impetus for change must come primarily from companies themselves. Yet a 1994 survey of UK trade associations showed fewer than 10 per cent had been pressured by their members to change their structure. Only 43 per cent provided any competitiveness support for members.¹⁰⁹

The representational structures of UK businesses need to be reviewed from the perspective of **Tomorrow's Company**, against the backcloth of global market pressures.

Trade associations – along with other specialist bodies and business clubs – also provide a valuable forum for networking opportunities. In a global marketplace, where natural competitive advantages are minimised and trade barriers removed, effective networks are crucial in delivering a thriving, competitive economy. By reviewing, developing and resourcing UK networking structures, business leaders can make a significant contribution to improving competitive performance. The responsibility for action lies with both businesses and the organisations concerned.

6.5 Enhancing supply chain performance

Tomorrow's Company works in partnership with other businesses in the supply chain – whatever their size, and whether in manufacturing or services sectors – in order to achieve continuous improvement in products and services reaching the end customer. It is aware of and makes use of appropriate supply management techniques (such as partnership sourcing, or single supplier agreements).¹¹⁰

It is this kind of collaborative effort within a more demanding supply chain which will generate the

increased awareness and confidence many UK companies need if they are to initiate change – and which will be crucial in producing the next big wave of business improvement necessary to bring UK companies up to world standards.

Research suggests that the concept of engaging all supply chain participants in raising performance levels – with the trust-based partnerships this requires – runs counter to our current national culture. Until we free ourselves from adversarialism in business relationships, our supply chains will continue to under-perform.¹¹¹

6.6 Clearing the way for the growth of small businesses

The success and growth of the UK's small businesses – which employ nearly 70 per cent of the nation's private sector workforce – is becoming an ever more accurate barometer of the overall health of our business environment.¹¹² It follows that barriers to the birth and development of smaller businesses are potential barriers to the creation of a climate for success for all UK businesses.

To reverse the relative decline of the UK economy, we need to add to the growing number of excellent smaller businesses. We need more boldly-managed, robustly-financed and internationally-aggressive business start-ups, which build on our proven ability to innovate. From the emerging pool of new and developing businesses, we must create and sustain a continuously evolving array of world-class companies, managed from the UK and exploiting global markets.¹¹³

Active leadership is needed to:

- provide encouragement – by example and through dialogue – for smaller businesses in adopting an *inclusive* approach to stakeholder relationships
- help ease the burdens of growth for small and medium-sized businesses attempting to make adjustments in the management of their key relationships as they go through processes of change, for example diversification into new territories, movement from owner-management to external private investors, or to public company status through flotation
- develop the partnerships, representation and networking structures, and improvements in supply chain performance through which the competitiveness of smaller businesses can most effectively be influenced
- find ways to ensure that the views of smaller businesses on the competitiveness agenda are both conveyed and heard, thereby helping to establish a focus for local and regional competitiveness.¹¹⁴

Making it happen

What each key group needs to do

This chapter summarises the Inquiry's recommendations for future action. It presents four agendas, each aimed at a group which has a critical part to play in ensuring that UK companies become **Tomorrow's Companies**.

7.1 Turning intention into action

The multiple *wake-up calls* which UK companies have received, warning of the need for change in order to respond to intensifying global competition, have not yet provoked the results we all need. What has been lacking so far is a convincing framework for turning intention into action.

The Inquiry has set out such a framework, by describing how **Tomorrow's Company** can apply an *inclusive* approach as a route to sustainable success, supported by investors, educators and policy makers.

However, the *specific actions* needed to apply this framework throughout the UK business environment can be identified – and implemented – only by the people involved. Appropriate actions will vary from company to company – and, in the wider community, from group to group.

To help launch this process, the Inquiry has developed four agendas for action which provide suggested guidelines for use by:

- directors
- managers
- the investment community – including analysts and fund managers; pension fund trustees and actuaries; and finance directors, accountants and auditors
- learners and educators – including individuals and parents; schools and career advisers; and management educators.

The agendas have been designed to serve as practical tools for use by individuals and teams. The Inquiry hopes people will photocopy them, share them, use them at meetings, in workshops and as the basis of brainstorming sessions – and go on to adapt them to form their own, more detailed action plans.

In addition to these agendas for individual and team action, the Inquiry supports follow-on proposals for:

- the creation of a *Forum for Business Success* by the RSA – aimed at involving company leaders, investors, auditors and regulators in developing new criteria and a new language of success, along with appropriate frameworks for measurement and reporting

- the launch of a major *Campaign for Learning* by the RSA in 1996 – aimed at communicating the importance of life-long investment by individuals in their own learning
- further examination by the RSA of the issues raised by the Inquiry about the future of work and the needs of tomorrow's growth enterprise
- the development of a *UK Competitiveness Index* by government and business leaders acting in partnership – aimed at providing a clear understanding of the UK competitiveness gap and the action required to secure progress on the competitiveness agenda.

Making it happen

7.2 Agenda for action: directors

- 1 **Company purpose and values** – Have we adopted a clear statement of purpose? Have we adopted an explicit statement of values which indicates how the company will conduct business and behave in its key relationships?
- 2 **Key relationships** – Do we know which relationships are crucial to the success of the business? How do we ensure that the company is maintaining consistent and open two-way communications with people in all its key relationships? Have we anticipated the consequences of failure in key relationships? How do we ensure that the risk of failure is being managed?
- 3 **Success model** – Have we adopted a success model for the company which demonstrates how value is added?
- 4 **Measurement** – Do we review the company measurement system annually, against its ability to support our goals, purpose, values and key relationships? Do we measure outcomes as well as outputs? Is sufficient time spent reviewing relationships? Do we receive a regular report on issues such as reputation, *licence to operate* and environmental impact?
- 5 **Reward system** – Do we review the reward system against its ability to reinforce business goals and motivate the right behaviours? Do we monitor positive behaviours such as teamworking and empowering?
- 6 **Learning organisation** – Do we accept that the company has the primary responsibility for providing a framework for learning? Which of us champions learning issues? How do we ensure that the company has a systematic approach to learning and resources to support it?
- 7 **Fiduciary responsibilities** – Are we satisfied as fiduciaries that we are acting in the interests of the general body of shareholders as it exists from time to time, and not simply current shareholders?
- 8 **Business renewal** – What steps do we take to review and obtain continued commitment to the company's long-term strategy?
- 9 **Climate for success** – What initiatives and partnerships are we involved in aimed at improving the climate for success? How do we make known our views on competitiveness issues? Have we reviewed the capabilities of our representative bodies against a backdrop of global competitiveness?
- 10 **Raising performance standards** – What networking activities do we participate in aimed at spreading best practice? Are we part of a supply chain in which all participants acknowledge their membership and work jointly on reducing costs and raising performance standards through a focus on meeting customer needs?

Do we seek reports on levels of behavioural risk in key areas of the business?

7.3 Agenda for action: managers

- 1 **Purpose** – Do we articulate the company's purpose consistently? Does the company's purpose serve to inspire commitment?
- 2 **Values** – Are we clear and consistent about values? Are those values explicit? Do we practise what we preach on openness, fairness and diversity?
- 3 **Success model** – Can we articulate the company's success model to key groups? Can they describe the model to us? Do they understand their part in adding value to the business?
- 4 **Leadership** – How successful are we in gaining the commitment of those whose contribution is crucial to the sustainable success of the business? How do we know about their level of commitment?
- 5 **Communication and involvement** – Is our communication process aimed at raising levels of understanding on all sides and aligning the interests of those important to the success of the company? Do we adapt the company as a result of communication? What programmes have we put in place aimed at enhancing the company's key relationships? For example, do we participate in any community/government partnerships? Do we have any supplier programmes?
- 6 **Reward system** – How do we ensure the company behaves successfully? Do we use a success language and operate a reward system which encourages behaviours that drive performance?
- 7 **Measurement** – Do we have a useful overall measure of management effectiveness? Do our measures match our success model? Are they applicable to the context of our business? Do we measure progress in each relationship? Are we fully reflecting the level of public interest in our business in terms of measuring our *licence to operate*?
- 8 **Organisation** – Does our structure match our sources of success? Is it flexible enough to adapt to change? How do we identify organisational barriers to flexibility and to the achievement of our company purpose?
- 9 **Learning organisation** – Do we inspire our people to learn? Is our appraisal system effective in linking personal development and learning with business goals? Do we have a systematic approach to becoming a learning organisation? Do our key people have personal development plans? Do we equip our people with transferable skills?

Do we have a programme for educating investors about the company? What kind of dialogue do we have with our customers?

7.4 Agenda for action: the investment community

Analysts and fund managers

- 1 **New success criteria** – Have we developed appropriate success criteria for assessing companies? Have we based them on *all* the company's key sources of sustainable value, such as the commitment and capability of its people, or the risk of key relationships failing?
- 2 **Promoting understanding** – Do we articulate investment objectives to corporate management in order to facilitate mutual understanding of expectations? Do we promote better industry knowledge through our training programmes?

Pension fund trustees and actuaries

- 3 **Creating a proper time-frame** – Have we set a time-horizon over which the investment performance of fund managers is to be assessed? Was this agreed at the outset, on their appointment? Is the time allowed long enough to allow reliable conclusions to be drawn?
- 4 **Consistency of judgement** – Have we set out the criteria by which we and our fellow trustees will judge a fund manager's performance? Have we set out the objectives of each investment fund?

- 5 **Assessing our own performance** – Have we made formal choices on investment strategy issues such as risk tolerance? Is the risk level of the portfolio appropriate to the interests of the ultimate beneficiaries? Have we properly balanced income and capital growth? Is our time-horizon short or long?

Finance directors, accountants and auditors

- 6 **Measuring success** – What success model is the company using? Do our performance indicators for each key relationship correlate with it? Do our measures balance historic financial performance against the strategic health of the business and its future prospects? Are we measuring risk on the right parameters? Does our measuring and reporting reflect the full context of the company's business operations?
- 7 **Helping to widen perspectives** – Does our framework of key measures cover values, behaviours and outcomes, the health of key relationships, and competitive performance levels in key processes, as well as the financial components?
- 8 **Providing the context** – Does our financial reporting provide a wider view, through appropriate information covering corporate purpose and values, and giving a relevant context for the business?

7.5 Agenda for action: learners and educators

Learners and parents

- 1 **Developing awareness** – Are we aware of the realities of global competition and what the implications are for future working lives?
- 2 **Getting involved** – Are we aware of the skills and capabilities required by Tomorrow's Company, as set out in the National Education and Training Targets? Do we require of education and training that it promotes self-reliance, flexibility and breadth?
- 3 **Learning to learn** – Have we acquired the *learning habit*? What have we done about a personal learning plan? Does our plan match likely market needs?
- 4 **Examining assumptions** – What are the preconceptions of our students about companies' future requirements and about the growth of self-employment? What assumptions do they make about their own potential?
- 5 **Altering perspectives** – Have we asked our students to read about the **Tomorrow's Company** findings? Does it alter their views?
- 6 **Setting personal goals** – Have we encouraged them to have a personal development plan, setting out their goals, achievements and development actions?
- 7 **Valuing partnerships** – Do our partnerships with businesses deliver as much as they should?

Schools and career advisers

- 4 **Our role** – What part do we play in meeting the National Education and Training Targets?
- 5 **Matching real needs** – How do we know our current educational approach, and our curriculum material, are adequate to prepare people for tomorrow's business world? Do we include students, parents, employers and the wider community in our efforts to bridge the academic and vocational divide? Do we link the concept of employability with life-long learning? Do we reflect the need for multi-skilling, rather than for qualifications matched to particular industries?

Management educators

- 10 **Assessing the curriculum** – How do we know our curriculum meets the needs of **Tomorrow's Company**? Is it sufficiently *inclusive*? Is it focused on helping us improve our international competitiveness and speed up our response to change?
- 11 **Promoting the learning habit** – Do we encourage all our students to have personal development plans and our corporate supporters to create a framework for learning?

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- 81 Business in the Community – an umbrella organisation creating partnerships between business, the voluntary sector, trade unions and local and central government.
- 82 Per Cent Club – a group of some 300 leading companies which are committed to making a significant contribution to the communities in which they operate. Qualification for membership is the contribution of no less than half of one per cent of UK pre-tax profits to the community.
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