

UK inward investment and the growth of the UK manufacturing sector

UKTI promote UK exports and inward investment. They have funded research into the comparative performance of UK domestic owned and foreign owned manufacturing firms by Richard Harris from Glasgow University which has thrown up some remarkable trends. The study which was published in 2009 finds that between 1984 and 2005 the number of employees in foreign owned manufacturing firms in the UK had remained broadly constant at around 750,000. The substantial decline in manufacturing employment in the UK over that period has been concentrated in UK owned firms. Over the same period foreign owned manufacturing firms in the UK increased their gross output by 200% whereas the UK owned manufacturing firms increased output by only 15%. Harris concluded that “foreign” owned plants have assumed much greater importance and look set to dominate British manufacturing in the near future.” Harris finds that the manufacturing sector, where foreign ownership was most developed, is automotive manufacturing.

Successive Governments have been committed to an open UK economy and the level outward investment from the UK has usually been more than the level of inward investment to the UK. The trend in UK manufacturing employment and output is a reflection of the more general process of globalisation. Harris’s research is available at: <http://www.ukti.gov.uk/uktihome/aboutukti/ourperformance/research/benefitsofinternationalisation.html>



Part of the explanation for the difference in performance between foreign owned and domestic manufacturing in the UK can be found in the 2007 study McKinsey carried out - a quantitative study of 4000 medium sized manufacturing firms in the US, Asia and Europe (including the UK). Managers in these firms were interviewed about 18 topics in three broad areas - shop floor operations, performance management and talent management. Each of the 18 topics was scored from 1 to 5. Analysis revealed that high scores overall for a particular firm correlated with good performance on profitability, productivity and growth. The research is summarised at: http://cep.lse.ac.uk/management/Management_Matters.pdf

If a manager scored well on a particular performance dimension they were more likely to score well overall. McKinsey concluded that the average score across the 18 topics is a reliable indicator of the overall quality of

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management.

Looking at the management score results by country, McKinsey found that management varied widely within individual countries - to a much greater extent than the variation between countries. McKinsey concluded that the biggest difference between countries with a high overall management score and a low overall management score is in the size of the tail of under performing firms.



Looking at the ownership patterns between high and low management performance, McKinsey found that multinational firms had the best overall scores while organizations owned and run by their founders or members of the founder's family performed poorly in comparison. McKinsey concluded that the propensity to employ professional managers and promote them on the basis of merit, which typifies multi-nationals, delivers better managed better performing firms.

In the UK the average management score for domestic firms was 2.85 while the score for foreign owned firms was 3.17. Sweden was one of the few countries where domestic management scored almost the same as the management of foreign owned firms - 3.13 against 3.17. In fact the Swedish domestic managers achieved the second highest score for indigenous firms - just behind the US where the domestic management score was 3.16. The gap between the management and performance of UK manufacturing compared to Swedish manufacturing as evidenced by McKinsey is the quality of management in UK domestically owned firms. McKinsey finds that the

UK sits in a second tier of companies, with a lower score than the US, Sweden, Japan and Germany, but a (slightly) better one than France, Italy and Poland.

The UK's scores for operations management were low suggesting that UK manufacturers have been slow to adopt many of the modern production techniques that have been applied with great success elsewhere. The details of the operations management metrics are of particular interest to Industry Forum given our service offerings in this area. There are three specific dimensions amongst the 18 - the introduction and rationale for modern manufacturing and process problem documentation. To get the top score on the last dimension a manager/firm should agree that 'exposing (process) problems in a structured way is integral to individuals' responsibilities and resolution occurs as a part of normal business processes rather than by extraordinary effort/teams'. Industry Forum has always sought to help firms achieve this level of capability.

What are the implications of the research for the Coalition's goal of rebalancing the economy towards manufacturing? The first point has to be the importance of continuing and indeed upscaling effort to promote manufacturing inward investment. This should involve both



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attracting new investors and a focus on existing inward investors to expand their operations. The automotive sector is currently a great example of how foreign owned firms with a long relationship with the UK are increasing their level of investment and employment and taking a larger share of world markets.

The easiest path to boosting UK manufacturing output is to support and reinforce the existing long term trend for foreign owned manufacturers here to increase their output by an average of 5-6% per annum.

Also we need to continue and reinforce the process whereby foreign-owned manufacturing primes encourage the development of the better capabilities in the UK owned firms in their supply chain. The expectations of major customers provide a powerful incentive for supply chain firms to improve their performance. There is a long history of automotive majors developing the UK supply chain and indeed this was the initial rationale for setting up Industry Forum.



The process of supply chain development is a particularly high priority for clean and renewable energy sectors where large scale inward investment is likely to take place. Much of this will involve foreign-owned majors setting up new R&D and manufacturing plants in the UK. It is vital that the UK owned firms who might become suppliers to these new investments are helped and encouraged to raise their management standards so that they can support the major inward investors in a globally competitive manner. Operational excellence is a good area to start with in raising the game of UK firms who could be able to enter inward investors' supply chains.

Policy makers often like to look for new solutions for policy goals. This research shows that there are existing solutions which have worked well so far - inward investment and supply chain development - which should be maintained and reinforced to achieve the Coalition's goals for rebalancing the economy.

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