

# The techniques of management

*L F Murphy*

Mr Murphy is Deputy Chairman of the National Enterprise Board. He gave this talk to the JO residential weekend at Keele University in March

The theme of this course is *Management today*, and my aim is to give you an introduction to the techniques of management, highlighting the problems associated with organising, controlling and assessing people. The synopsis for the course rightly says 'management is about people' and this is true, whether it be for an average size surveyor's office or a very large industrial company.

My own experience has been mainly concerned with the management of large industrial companies, and it may perhaps be helpful if I give you some general observations on the principles which I think are important if there is to be efficient management. I propose to illustrate these points by reference to the National Enterprise Board.

## Objectives

The first principle is that there should be very clear management objectives. In the case of a private enterprise company, it is the task of the Board to set these objectives. A company will never be successful unless the Board has thought out these objectives clearly and management understand and accept them. It becomes more difficult to do this when government is involved, largely because there are so many different interests which government has to try and reconcile. My own experience included 18 years in the Civil Service before moving into the private sector and I noticed a marked contrast in that private sector companies are much more single-minded in setting and pursuing their objectives. This has been one of the major difficulties for the nationalised industries. It was commented on very bitterly by Sir Richard Marsh, when he ceased to be Chairman of British Rail, that he had never been able to arrive at an agreed set of objectives for British Rail. Successive governments of both political parties attempted to use their controlling powers over nationalised industries to achieve purposes which are outside the interests and objectives of the industries concerned. For example, the rate of investment in nationalised industries has been increased, or slowed down, in order to try to influence the general state of the economy or the rate of public sector borrowing.

Prices charged by nationalised industries have been influenced, not in order to achieve profitability in those industries, but to conform to the government's views about the necessity to hold down the general level of price increases. Decisions as to whether to close down or modernise plants in the steel industry have been taken, not in the interests of the efficiency of the steel industry, but as a result of pressure for maintaining employment in politically sensitive regions.

Is the National Enterprise Board in a different position from the nationalised industries?

I think it is. First, it has been given a fairly clear set of objectives in the Industry Act, namely, to assist in the development of the economy, to promote industrial efficiency and international competitiveness and to create and maintain productive employment.

Secondly, it has been given a clear financial duty, which is to ensure that there is an adequate return on the

capital employed by the NEB. This will represent an amalgam of different rates of return on different kinds of investment. Indeed, the Industry Act requires the government to set different financial duties for the NEB in relation to different assets and activities.

This is a different approach from that of nationalised industry practice, as it recognises that there may be wide divergencies in the results achieved by the NEB's various companies at any one time. It would be nonsensical to require that each investment we undertook should have the same financial duty applied to it.

Nevertheless, the results from all the investments taken together are required to produce an adequate return on capital employed by the NEB. I think that if we could achieve a return equal to the average which has been achieved by manufacturing industry in this country as a whole, over a reasonable period of time, this would be satisfactory. The NEB therefore has to reconcile the objectives mentioned earlier with the financial duties laid upon it. This means that the NEB must operate primarily in profitable sectors of industry. Before it makes an investment it has to be satisfied that there is the prospect eventually of an adequate rate of return: it cannot make grants or subsidies.

The difference between the NEB and a private sector company is that because we are not a quoted company and are not subject to market considerations, we can afford to wait for a longer period of time for a return on our investment than many private sector investors would be prepared to do.

The task of the NEB is not an easy one. However, I believe that the Board and the executives of the NEB understand the objectives, accept the financial duty and apply commercial criteria in the selection of investments. Whether the NEB will be successful or not will depend on whether the judgments made are good ones.

## Management structure

The second principle is that the management structure, the form of organisation, should result in clear lines of authority and that executives at each level should have clearly defined responsibilities and be accountable for the tasks that they perform. Here again, there is a difference between the NEB and the nationalised industries. The recent report of the NEDC investigation into the nationalised industries brought out very clearly the degree of interference by ministers and civil servants in the affairs of the nationalised industries, with the result that there was not the clear management structure that I have referred to, nor the clearly-defined responsibilities and accountability which I think are essential. So far we have been able to avoid these difficulties in the case of the NEB. The Act and the guidelines issued by the Secretary of State under the Act lay down clearly what are the responsibilities of the NEB and what are the matters for which the NEB requires ministerial approval. There is no ambiguity.

If the Board of the NEB decides that it is not justified in making an investment in a particular industry because there is not a prospect of an adequate return on the

capital, then that is the end of it so far as the NEB's own responsibility is concerned. The Secretary of State could decide that for over-riding reasons of national interest it was necessary that the investment be made and, in that case, he could issue a directive to the NEB to make the investment, but if the Secretary of State does this, the funds for the investment do not come out of the capital made available to the NEB but have to be provided directly by the Department of Industry.

The NEB will manage the investment on behalf of the Secretary of State, but it will be treated separately in its accounts and if the rate of return on the investment should not be adequate this will then not affect the NEB's own performance on the funds that it invests. I think this arrangement entirely satisfactory, for it puts responsibility and accountability where they properly belong.

## **Functions of the National Enterprise Board**

The NEB has three main functions: a source of finance for industrial investment, an agency for the promotion of industrial rationalisation and restructuring and a State holding company for publicly-owned shareholdings.

As a new source of finance NEB supplements, but does not displace, existing sources of finance in private and public sectors. Large profitable companies are able to finance their requirements but gap exists in smaller companies finding new equity finance for expansion.

The NEB is not the only vehicle for supplying this need: others are Equity Capital for Industry and such new enterprises as the joint companies set up by the Gas Board Pension Fund, the Midland Bank and Samuel Montagu.

The NEB is also endeavouring to help exports by forming joint ventures with private sector companies.

Its second function is to help in reorganisation and restructuring of industry. This is a revival of functions of former IRC.

Thirdly, there is the State holding company role. The NEB has inherited a number of shareholdings previously held by government eg British Leyland, Rolls-Royce, Alfred Herbert, Ferranti, ICL and so on.

Is a State holding company a good idea? First, whether we like it or not, we find ourselves today with these substantial companies in which there are State shareholdings, some acquired under a Conservative Government, like Rolls-Royce, some acquired under a Labour Government, like British Leyland. In my view, the consequence of allowing such companies to disappear altogether would be extremely serious both economically and socially.

British Leyland exported goods worth one thousand million pounds sterling in 1976, comparable with benefit from North Sea Oil in 1977. It employs 165,000 people in the UK. In addition, a considerably larger number of people are employed in the whole range of industry which supplies British Leyland. These companies cannot be kept in existence indefinitely if they do not produce satisfactorily and sell their goods in competitive markets at a profit.

No one can compel the British people, much less foreigners, to buy British Leyland cars if they are not of the requisite quality and price and design and delivered on time.

No British government can compel the airlines of the world to buy Rolls-Royce aero engines if they cannot compete successfully with Pratt and Whitney and General Electric. I think, however, it is right that when

companies such as these do get into difficulties which are too large for the private sector to deal with, a reasonable time is given to see whether they can sort themselves out and get back to a successful operation. This will be determined in the last resort not by my wishes, nor by the decisions of the NEB, nor by the decisions of the Government, but in the market place.

However, as I have said, these shareholdings exist and someone has to take responsibility for them and look after them. In my view, there is a very strong case for an organisation such as the NEB to do this. Its Board is composed entirely of experienced businessmen and trade unionists. Its staff has been recruited from industry and the City and I think this is more likely to be successful than having the task carried through by ministers and civil servants.

How does the NEB set about its task? First of all, in those cases where it controls companies, it has the duty of appointing the boards of those companies. It approves the annual budgets and long term plans of those companies and it monitors their performance in comparison with their plans. Having appointed the Board, however, it leaves those Boards with the job of managing the companies within the agreed policies and the NEB does not interfere in day-to-day management.

At the time when the Government's shareholding in Rolls-Royce was about to be transferred to the NEB, a good deal of concern was expressed by the Chairman of Rolls-Royce, Sir Kenneth Keith, that the NEB was going to interfere excessively in the running of the company. He had over the years built up a good working relationship with ministers and senior civil servants in the Department of Industry, which by and large left him with a degree of managerial freedom which he feared the interposing of the NEB between him and the Government would curtail.

After a good deal of diplomacy on the part of Lord Ryder and myself, we reached agreement with Rolls-Royce on a Memorandum of Understanding which spelt out the relationship which would apply between the NEB and Rolls-Royce. One of the most important things that the Memorandum said was that the NEB had no intention of usurping the responsibilities of the board of Rolls-Royce or to intervene in the day-to-day management of the company and that, as a general principle, Rolls-Royce was expected to continue to operate as far as possible on a normal commercial basis, like a company in the private sector.

The Memorandum then went on to set out the responsibilities of the NEB, as the controlling shareholder, and its various obligations to Government, and the obligations which these in turn imposed on Rolls-Royce – like the need to get our approval for capital expenditure proposals, above a certain size, the production of annual and long-term plans for our approval, and the provision of regular financial data so that we could monitor progress. Nothing in these arrangements was in any way different from the relationship that would apply between a parent company and a subsidiary in the private sector.

Now that the new arrangements have been in operation for over a year, I am glad to say that Rolls-Royce are a complete convert to the idea of the NEB, and have said that they would be most unhappy to have to go back to the old arrangement of being under the direct scrutiny of the politicians and the civil service.

We think, therefore, that the style of management that we are following and the organisation that we have created conforms to the second of the principles that I have enunciated above.



## Incentives

The third principle is that there should be proper incentives for management. If management succeeds, it should be properly rewarded and if it fails, then it should be removed. Unfortunately, the present situation in this country in my view does not give adequate incentives to management. Some of you may know that I was a member for two and a half years of the Royal Commission on the Distribution of Income and Wealth and I think I cannot do better than to quote the last two paragraphs of the Addendum to the Second Report of the Royal Commission on Higher Incomes from Employment which was signed by Sir Neville Butterworth, Mr Cox and myself:

Many witnesses in evidence have drawn attention to the crucial part which the top management of industry and commerce

must play if the creation of additional income is to be accomplished. These same witnesses pointed out that the rapid erosion in the real value of management salaries, if not checked, would in their view have a serious effect on the willingness of top managers to undertake the arduous and exacting duties which their positions require. If rewards continue to be reduced, willingness to take risks and promote entrepreneurial enterprises will correspondingly be inhibited.

We appreciate that no action is possible to redress the position while the current anti-inflationary measures are in existence. We feel, however, that it is essential that the problem of rewarding managements adequately should be recognised and dealt with as soon as possible.

We consider that unless this is done, the vital contribution which managers can make to the prosperity of industry and commerce and through this to a further rise in the general standard of living will be imperilled. We also feel that this would be consistent with the general long-term trend towards greater equality of income achieved by raising general living standards.

## Letter

### The Changing Nature of Professional Practice

Having contributed an article on *The Professional Surveyor and his Institution* to your November 1976 issue, I read with great interest and pleasure James Nisbet's analysis of *The Changing Nature of Professional Practice* in the April issue, which brought out several points much more clearly than I had. I should emphasise that I am writing personally and do not claim to represent the views of the Land Survey Division or any other organisation.

What interested me as a British land surveyor was the point he emphasised most: that the independent private practitioner is being increasingly replaced by the salaried employee of a central, statutory, or local government body or a large commercial corporation. This has always been the position of most of the members of our division because the first 'professional' United Kingdom land surveyors were either Royal Engineers or Royal Navy officers, or civilians working overseas in colonial departments. Later, but only since the last war, came the growth of the private, academic, and local government sectors, and then the civilianisation of professional posts in the Ordnance Survey; so the great majority have always been salaried. This is of course why land surveyors were so slow to form, or join, a professional institution; since its orientation towards private practice and the defence of this was of no interest to us, and we had relatively few temptations to behave unprofessionally or need for a disciplinary committee. All we wanted was a learned society for the exchange of information, with stiff entrance tests to make membership a worthwhile qualification.

In salaried employment, in my view, there is more difference between the attitudes of individual public or private corporate bodies to the individual professional, than there is specifically between that of government and the private sector. If, as Mr Nesbit says, increasing employment in corporate

bodies is changing the role of the professional, it may well be towards a form to which some of us have always been accustomed, and one which will also, of course, change the role of the professional institution in directions which we would welcome. Combined with rising standards of education for our profession and increasing specialisation within our Institution, these changes must be reflected in three ways which those running the Institution have in fact already started to implement.

First we must accept the increasing role of the Institution as a learned society with a high standard of entry: not only because this should in time increase the standing of the private practitioner in the eyes of the public, but because it will much more quickly establish the grade and salary which he can command in a large corporation, whether public or private. From this stems the increasing concentration during the last few years on higher standards of entry, on education, and on tests of competence. Of course the higher standards of entry and the increase in full-time further education have cut down the source of cheap apprentice labour; and other divisions are now moving towards the creation of a clearly separate technician class which outnumbers these professionals – something we have always had in land surveying in this country since the creation of the Ordnance Survey. But these technicians must be free to work on their own; and there must be a bridge to professional status for those who find, at a later stage in life, the ability to cross it.

The second change, which is also already in hand as shown by the complete separation between the examination papers of the more specialised divisions, is that the growth in specialisation is being increasingly accepted and reflected in the branches as well as at Headquarters, in the sense that there are very few subjects – except domestic ones – that a general branch meeting can now profitably discuss or which will attract more than a few per cent of the members. Consequently the professional and educational functions of the branches (and are there any others which matter?) must be exercised there also increasingly

through the divisions, and not through the branch as a whole. Insofar as this decreases the size of the units which organise meetings in the provinces it may well increase participation by their members and be beneficial.

The third change, and I see this as happening particularly on the professional practice side, should be the shift of emphasis from the behaviour of the firm to that of the individual chartered surveyor. Although most corporate employers have their own rules of conduct, which to some extent replace those of a professional institution, there are still in these bodies plenty of pressures which a true professional must resist; in this he may well find his membership of a professional institution and its rules of conduct a help. It has always seemed to me odd that we should consider all 20 or so partners of a large firm responsible for the behaviour of one or two; and we could save a great deal of time and money by concentrating on the behaviour of the individual rather than on that of the firm to which he belongs and on whether he is a partner or a director. Increasing employment of our members by corporate bodies, whom we cannot control, must surely push us in this direction, and should reduce the number of complaints to us from the public.

To sum up, I do not feel that the reduction in importance of the professional as a personal adviser and consultant need threaten the concept of professionalism or the professional institutions. It will, however, change their role and make them concentrate on what should be their proper functions. These are surely to ensure first that their members reach and maintain high standards of ability, skill and conduct and secondly that they benefit from the reputation these will earn for them. This is what Marx (Groucho not Karl) meant when he said he would not join a club that would have a bum like him as a member.

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*A further selection of readers' letters appears on pages 371 and 376.*