

Lack of vision weakens links between industry and finance

London. Financial institutions in the City of London reject the charge that they are largely to blame for reluctance to invest in industrial research and development in Britain. Equally guilty, financial analysts argued last week, are industrial managers who fail to appreciate the importance of technological innovation and government officials who have been unable to provide a sufficiently stable economic environment to encourage long-term planning.

This genteel name-calling was one feature of a meeting held last week in London's Guildhall, at the centre of the City's financial district, by the British Association for the Advancement of Science (BA). But both sides agreed that changes are needed in the working relationship between the financial and manufacturing sectors in Britain if the "partnership" advocated in the government's recent White Paper on the organization of research is to be achieved.

But not every sceptic is convinced by the City's pleas of innocence. Critics such as the Save British Science campaign attribute a lack of enthusiasm for investing in high-technology companies on the conservatism of financial institutions such as pension funds, which assess fund managers' performance by high dividend returns.

Confirmation of the scale of the problem emerged on the same day as the BA meeting from details published in *R&D Scoreboard*, an annual report on R&D spending by British companies produced by the Edinburgh-based consulting group Company Reporting Ltd and sponsored by the Department of Trade and Industry.

The good news is that such spending, which declined during the recession at the end of the 1980s, is now on the increase. Although British industry's profits continue to fall, its R&D spending rose by 6 per cent last year, with the biggest increases in the general manufacturing sector (23 per cent) and health care (at 16 per cent, stimulated in particular by a 25 per cent growth in the R&D budget of Glaxo, the pharmaceutical company).

More sobering, to use the description of Michael Heseltine, the president of the board of trade, in his introduction to the report, are two other statistics. First, the global increase in R&D spending, averaging 8 per cent for the world's top 200 companies, was even higher than in Britain.

Second, the average spending on R&D by the top 200 companies was 4.6 per cent of sales, compared with a meagre 1.6 per cent in the United Kingdom. Furthermore, in stark contrast to many large interna-

tional corporations, British companies distributed about five times as great a proportion of their profits as dividends as the global average.

Further evidence of a structural link between a lack of long-term perspective and industry's failure to acknowledge the central importance of science and engineering comes in a study published this week by the Economic and Social Research Council.

The study, carried out by Derek Bosworth of the Manchester School of Management and Robert Wilson of the University of Warwick's Institute for Employment Research, shows that the greater the number of graduate scientists and engineers in a company's senior management, the more likely is the company to have formal management goals — and to outperform companies that lack them.

Bosworth claims that the research provides the first clear evidence that individuals with a science and engineering background are important to a company's long-term growth and profits. "They are prepared to wait longer for a payback from investment rather than concentrate on short-term profits," he says.

Technical people may also be more effective in stimulating what Robert Malpas, the chairman of Cookson Group and a former managing director of BP (the petroleum group), identified at the BA meeting as a key factor missing in many companies: the ability to stimulate a "demand pull" for technology. Noting that the government had rejected the idea of new institutions that might have encouraged such thinking, Malpas said that he had "doubts" about the wisdom of its decision.

Another need, according to David McGeekin, corporate finance director of the Midland Bank, is for new mechanisms to encourage financial institutions to invest in high-technology companies, particularly small and medium-sized enterprises (SMEs) too young to have a track record of success.

In the past, he acknowledged, the City's response to requests for finance from these companies had been "rather poor"; financial institutions and bankers would have to develop a new range of instruments that would more accurately reflect the risk-reward ratios in the SME sector.

Others at the meeting argued that there is still an inherent reluctance to take the risks needed to help small companies get off the ground — typified by the restrictive rules applied by the Stock Exchange to new companies seeking a public listing.

At least one research council is taking steps to deal with this problem head-on. Senior officials at the Medical Research Council say they intend to ask the Stock Exchange how its rules might be modified to make it easier for small biotechnology companies to raise money from British investors and institutions. **David Dickson**

Britain's top 10 R&D spenders are dwarfed by global giants

| Company | R&D spend 1992 (£million) | % Increase over 1991 | R&D as % of dividends |
|------------------------------------|---------------------------------|----------------------------|-----------------------------|
| Imperial Chemical Industries | 647 | 9 | 164.6 |
| Glaxo | 595 | 25 | 116.2 |
| Smithkline Beecham | 478 | 11 | 179.0 |
| Unilever | 461 | 8 | 98.5 |
| Shell Transport and Trading | 435 | 7 | 19.7 |
| General Electric | 417 | -4 | 161.6 |
| BP (British Petroleum) | 315 | 2 | 55.5 |
| Wellcome | 255 | 11 | 227.5 |
| BT (British Telecommunications) | 240 | -1 | 27.0 |
| Rolls Royce | 229 | 6 | 477.1 |
| All industry composite | 6,475 | 6 | 48.3 |
| Top 200 companies worldwide | | | |
| General Motors (USA) | 3,908 | 1 | 550.5 |
| Daimler-Benz (Germany) | 3,797 | 11 | 1,541.7 |
| Siemens (Germany) | 3,419 | 6 | 1,153.4 |
| IBM (USA) | 3,357 | 2 | 183.8 |
| Ford (USA) | 2,861 | 16 | 443.2 |
| Hitachi (Japan) | 2,749 | 6 | 1,422.2 |
| Toyota Motor (Japan) | 2,365 | 4 | 664.5 |
| Matsushita (Japan) | 2,212 | 9 | 1,452.0 |
| Fujitsu (Japan) | 2,073 | 19 | 2,059.0 |
| AT&T (USA) | 1,923 | -7 | 165.5 |
| All industry composite | 103,939 | 8 | 257.8 |