

Manufacturing is leading the way

The Bank of England's regional agents in their most recent assessment were glowing in their praise of the manufacturing sector, stating that manufacturing was "the most buoyant part of the economy". It is refreshing to see manufacturing getting the attention it deserves and long may this continue. The Best Factory Awards last week was a timely reminder of what a hotbed of innovation and growth the manufacturing sector has become.

THE talk at the awards was not about whether manufacturing had a future in the UK but about how can we maintain this growth after years of cutting back? How can we develop the necessary skills required to fuel industry growth? Will the government match positive rhetoric about the sector with political and financial support? Interestingly a recent report by The National Association of Manufacturers in the US was asking many of the same questions of their government. The report highlights the key issues:

Lower corporate tax

The need to create a national tax climate, that does not place manufacturers in the US at a competitive disadvantage, in the global market place. They recommend that corporation tax be lowered to 25% or more, arguing that the US now has the highest tax rate at 35% of anywhere in the OECD bar Japan at 40%. The average tax rate across the OECD is 26.2%, well

below the 28% that many of our manufacturing companies pay. The momentum for a cut in the US is growing and as the largest manufacturing country in the world, a cut to the OECD average by the US would put UK manufacturing at a distinct disadvantage. Perhaps we should start to sow the seeds in government now for the need to cut corporation tax if America does so. This would maintain our competitive advantage and free up money to stimulate investment and training.

Create a regulatory environment that promotes economic growth

The Small Business Administration's Office of Advocacy in the US estimates that the cost of regulatory compliance for small companies in the US amounts to \$1.1 trillion annually, almost 2% of GDP. They see this as unacceptable. The Tax Payers Alliance and the Chairman of the Better Regulation Task Force, Sir

David Arculus, put the figure for EU economies at 10-12% of GDP.

Continue to support Research and Development

The Milken Institutes "Jobs for America" analysis concluded that increasing their R&D tax credit by 25%, and making it permanent, would see real GDP rise by 1.2% and create 270,000 new manufacturing jobs. This is perhaps a timely warning as the UK government seeks to rein in spending on scientific research as most of our competitors are increasing spending on R&D not cutting it.

Reinvigorating the workforce

The recommendation is to make it easier and less costly to hire people. The US report cites increasing labour regulations and federal mandates as factors which undermine employer flexibility and discourage the hiring of new employees. UK

manufacturing would also greatly benefit from less red tape and regulation especially for smaller manufacturing businesses where resources are more limited. However it is not just about making it easier to employ people. The UK suffers from an affliction not highlighted by the US report which is a lack of management capability. A number of reports carried out among grass roots shop-floor workers highlight how middle managers fail to provide the level of leadership, support and direction required to allow the business to achieve its targets efficiently. Historically there has been predominant focus on technical skills education. There has also been some debate on the quality of management at all levels, but very little activity to improve management. This may be caused by confusion between capability and skills. Skills provide technical knowledge of subject matter but don't necessarily provide the means to apply those skills effectively. This is especially true in large complex programmes as may be found in many large manufacturing companies. What separates success from failure is having managers who are capable of managing and motivating people. These may not be those with the most experience or the most advanced technical skills. Our experience is that UK manufacturing is guilty of promoting people out of their comfort zone based on the wrong attributes and aptitude for management. Managers need to be able to manage across levels, product lines and on a national and global scale. Management shouldn't be a right, based on tenure and aptitude in their current role. Manufacturing in the US, whilst far from perfect, would seem to be getting a better grasp of this issue.

If we want the Bank of England's regional agents to describe UK manufacturing as "the most buoyant part of the economy" 5 years from now, then the manufacturing sector needs to focus on continuing

to improve efficiency, increase productivity, identify and exploit new markets and continues to innovate and deliver products. Government needs to focus on creating a regulatory environment that promotes manufacturing growth, continues to support, not cut, research and development activity whilst ensuring we have an educational system and training programme that promotes both skills and management capabilities in manufacturing.

The government pre-occupation with making cuts, as opposed to making savings by improving operational efficiency, may mean that they fail to respond to our needs unless we keep manufacturing firmly on the government agenda. Other OECD countries already enjoy significant advantages over the UK and it's time we sought to operate on a more level playing field. Just think what we could do if we enjoyed the same level of corporation tax as Canada at 18%.



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