



PRIME MINISTER

It seems to me that the
what point is to leave
an effective structure
when Mr. J. has gone.
I should have thought that
was worth a

~~at the~~ discussion

discussion between Mr. J. K.J.
and Mr. Ibbot at the appropriate
time - i.e. when some of the
immediate problems have been

BSC BOARD RESPONSIBILITIES resolved.
not

AC A Daymond

Prime Minister

Sir Keith seems rather
lukewarm about the proposals
in Robin Ibbot's long study
at Plan A, and he is not
inclined to interfere with
the way MacGregor is running
BSC. Would you like to
discuss with

Plan A

1 Robin Ibbot sent me copies of his minute to you of 26 September and
of the CPRS report on the duties and responsibilities of BSC Board
members which you asked him to prepare.

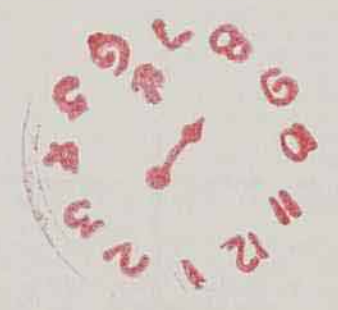
KT and Robin Ibbot?

2 At the time the study was initiated, we were concerned about
the performance of the BSC Board under Sir Charles Villiers and
anticipated that Mr Ian MacGregor might propose radical changes in
board structure and operation following his appointment as Chairman
from 1 July. In the event, he has decided against making early
changes in board structure. He has told me that he is impressed
by the quality of the management he has found within BSC and that,
given the right leadership and a better organisational and financial
framework within which to operate, the senior executives in the
Corporation will be able to bring about the required improvements
in performance. Accordingly, Mr MacGregor has retained all the
existing full-time board members, but given them rather different
executive responsibilities within the new organisational structure
which he has introduced.

B.
29/10

3 Among the part-time directors there have been two changes since
1 July. At Mr MacGregor's request I have appointed Mr Albert Frost

/to ...



28 OCT 1980



to the Board and Mr Solly Gross has been re-appointed following his retirement from the Department of Industry. Mr MacGregor has also agreed that there should continue to be two civil servant members on the Board, given the present need for both the Treasury and the Department of Industry to be in close touch with the development of the Corporation's future strategy. Finally, Mr MacGregor has indicated that he has no immediate intention of disturbing the present arrangement whereby there are six trade unionists on the Board, since to seek changes at present would be likely to bring about needless conflict with the unions.

4 It is, therefore, unlikely that there will be early changes in BSC board structure but I agree with Robin Ibbs that the issues raised in the CPRS study will need to be borne in mind during the later stages of Mr MacGregor's chairmanship to ensure that on completion of his term of office he leaves behind an effective Board and management structure.

5 So far as the detailed points raised in the CPRS study are concerned, I would like to comment in particular on the suggestion that the analogy with the relationship between a holding company and its subsidiaries is useful in considering the relations between Government and nationalised industries. There may be some benefit in a comparison of this kind but it would be misleading to press it too far. The most important difference between a holding company and the Government, which is not brought out sufficiently clearly in the CPRS paper, is that a holding company is a purely business organisation whereas Government is not. Governments have considerably less control over nationalised industries than a holding company



does over its subsidiaries; a nationalised industry has, for example, an independent statutory existence; it cannot go bankrupt; it has statutory duties quite unlike any obligation imposed on subsidiaries of holding companies; there are clear limits on the extent to which Ministers can intervene; and there are no powers to dismiss chairmen. Moreover, Departments are not well provided with those management resources necessary to help resolve business difficulties which a holding company would be expected to possess to deal with serious problems in a subsidiary. This is well illustrated on page 7 of the paper which Professor John Heath prepared for the Nationalised Industries Chairman's Group in March this year:

"Perhaps the most significant difference with the conglomerate holding company is the way in which crises would be managed. On the first sign that something is seriously wrong, the holding company would probably order an immediate investigation by an internal audit team. On confirmation of a crisis, action would be pretty swift. The Chairman of the subsidiary himself would be at risk if management was at fault, and heads would roll. A new team might be brought in with authority to make changes. In the worst cases there may be an early decision to sell the company. The private sector response would most likely be characterised by speed, a willingness to change, a determination not to allow a crisis situation to continue."

6 It should also be borne in mind that the nationalised industries



have a significant impact on the private sector of industry, for example, through input prices (energy, transport, steel) or through competition for finance for investment. Governments are therefore concerned with these effects on the private sector generally in a way which a holding company would not be.

7 I have some brief points on a number of other matters covered in the CPRS study:-

(i) Responsibilities of non-executive directors

✓ I agree that further thought needs to be given to this.

In parallel with the CPRS study, I have been considering how to strengthen the role of non-executive directors in the industries for which I am responsible. For instance, this might involve giving them greater responsibility for initiating the process of selecting Board Members (subject of course to my continuing final approval), for management development, and for participating in Audit Committee work. I intend to open up a discussion on these approaches with the Chairmen shortly.

(ii) A smaller board with a high proportion of executive directors

✓ I would like to discuss this with Mr MacGregor next year, after we have agreed a corporate plan for BSC, and before the term of office of the six trade union members expires on 1 August 1981.



(iii) Removal of board members

As the CPRS report indicates, I have adopted the practice of making appointments to the BSC Board on the basis that they may be terminated at six months' notice.

(iv) Regional representation

I agree that regional representation for its own sake is not appropriate. But regional considerations are important and must be seen to be acknowledged by BSC. In the further stage of reorganisation announced on 6 October, BSC stated that a senior executive in each region would continue to have responsibility for maintaining a regional overview of BSC's activities in that region, even though the new organisation no longer has a regional basis.

8 Although, as I have explained above, I am wary of pursuing the holding/subsidiary analogy too far, I have no strong objection to the CPRS looking more closely at the way in which holding companies with diversified interest manage their subsidiaries. I think there is merit in the CPRS undertaking a quick study of how other European Governments deal with public sector companies, as proposed by Robin Ibbs. I am sure we still have much to learn about effective management of our relationships with nationalised industries. It might be useful if the further CPRS study were extended to cover the relationship between major institutional shareholders such as insurance companies and the large companies



in which they invest. The institutions, like the Government, do not have the particular skills necessary to manage the companies whose shares they hold, nor can they easily disengage when things go wrong.

9 I am sending a copy of this letter to the Chancellor of the Exchequer, to the Secretaries of State for Wales and Scotland, to Robin Ibbs and to Sir Robert Armstrong.

KJ

28^{K J} October 1980

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