



## Response of EURIM's Working Group on UK Competitiveness to the Trade and Industry Select Committee Inquiry into the 1998 White Paper –

### *“Our Competitive Future: Building the Knowledge Driven Economy”*

#### 1 Introduction

- 1.1 EURIM is an all-party parliament industry group concerned with the politics of the Information Society. It has over a hundred parliamentary members (including Ministers and Front Bench Spokesmen) and over seventy corporate and associate members as well as over a hundred observers from Government Departments and the Public Sector. Because of the timescale it has not been possible to go through our normal membership consultation. This response summarises the conclusions of the UK Competitiveness working group, who held a round-table workshop followed by e-mail discussions. The UK Competitiveness working group is a sub-group of corporate and associate members, which looks at the competitiveness of the UK as a place to do e-Business.
- 1.2 The group very much welcomes this opportunity to contribute to the Trade and Industry Select Committee Inquiry into the 1998 Competitiveness White Paper.
- 1.3 The group has liaised with Intellect, the UK's leading trade association for the IT, Telecommunications and Electronics industries on their submission and we are pleased to add our support to their comments. In particular we strongly support Intellect's observations that:
  - Government has yet to develop a policy framework for the knowledge economy
  - Despite the prescience of this high level document we still face the same challenges today that the White Paper identified in 1998
  - Work should be led by a Cabinet-level Minister with sole responsibility for Competitiveness.
  - Work should focus on developing the right culture, infrastructure, innovations, skills and enabling technologies.
- 1.3 The scope of the Inquiry is broad, so rather than duplicate the points made in Intellect's submission, we would like to approach the Inquiry from two perspectives.
- 1.4 Firstly we would like to highlight some additional points of our own that refer to specific areas that we feel merit attention. These are
  - i. The White Paper as a business change programme
  - ii. Education and skills
- 1.5 Secondly we wish to raise more generic, forward-facing issues around building a knowledge economy, which we explored by discussing two questions in the light of the White Paper. These are:
  - i. ***What does it take to create a knowledge economy?***  
and, on the basis of this,
  - ii. ***What does the UK need to do to attract and retain knowledge-based business?***

Whilst the feedback given in this section should be regarded as preliminary soundings, we would be happy to explore this area further with EURIM members as a whole and develop a more considered and detailed response if this would be helpful to the Inquiry as it progresses.

- 1.6 Finally we have identified priorities for government action based on our response to the white paper and our deliberations on the requirements for a successful knowledge economy.
- 1.7 In recent years EURIM has produced a series of papers that are of direct relevance to this issue, and these are listed at the end of this response and annexed accordingly.

## **Part I – Feedback on the 1998 White Paper**

### **2 The White Paper as a Business Change Programme**

2.1 We examined the 1998 white paper as a business change programme that aims to pull together a series of associated projects with the overall objective of turning the UK into a globally competitive knowledge economy. Whilst we strongly support the objectives of the paper and agree with its predictions, we feel that there are substantial gaps from the programme management perspective in the way the commitments are presented and in terms of structures for measurement and implementation. Without these, it is possible for government to execute a number of its commitments without making any positive contribution to the development of a competitive knowledge economy.

#### **2.2 Commitments**

- i. We believe that there are too many commitments and that they are not organised in a way that differentiates between end goals, major projects or one-off exercises.
- ii. The commitments do not appear to be in any order of priority. Essential and desirable undertakings should be differentiated.
- iii. There is no consistent mechanism for ensuring the commitments are implemented and how responsibilities will be allocated. Many commitments have no obvious timescale for delivery. eg *“Create an enterprise fund”* (how long will it last?) *“Boost science spending”* (for how long?) *“Create a new reach-out fund”* (how will it work, for how long?)
- iv. No mechanism is suggested for evaluating the commitments in terms of feasibility, validity or means of implementation.
- v. No measurement is proposed for assessing the success of delivery against individual commitments, as opposed to generic OECD economic indicators. e.g. *“Encourage the development of entrepreneurship skills”* (how will this be implemented and measured?)
- vi. No structure is proposed for reviewing the validity of the objectives / commitments over time. e.g. commitments may need revision to allow for developments and changes in the business market place that could not have been foreseen. For instance, broadband connectivity has emerged as one of the keys to competitiveness for SMEs but there is no scope to include this as a priority or adapt the list of commitments to accommodate it.
- vii. No structure is proposed for reviewing the validity of the objectives / commitments against progress. Commitments may need review if there are unforeseen obstacles or if progress elsewhere makes them irrelevant.
- viii. No structure is proposed for the outputs of the proposed reviews – eg *“Review government-supported skills development schemes”*. What process will such a review inform?
- ix. It is not obvious how the commitments will interact with each other within a programme framework to achieve the stated objectives.

#### **2.3 Government Approach to Objectives**

- i. A number of commitments could be completed without genuinely contributing to the creation of a knowledge economy because targets and objectives are phrased in terms of activity that government will undertake (inputs) rather than outputs that users will benefit from. e.g. *“Provide advice to at least 10,000 start-ups a year by 2001 through business links”*. This commitment does not indicate the quality of advice, nor how much is given, nor whether it is any help. Similarly, *“Increasing DTI’s innovation budget”* does not necessarily guarantee improved outputs for businesses (unless they are consultants to central government!)
- ii. There is too much emphasis on new initiatives and projects and not enough emphasis on learning from successful projects – the reference to SMMT is a welcome exception.
- iii. The commitments do not appear to address cultural problems in government such as

resistance to change that is retarding e-government (identified in the Booz-Allen Hamilton report *"The World's most effective policies for the e-Economy"* of November 2002 which reported that the UK government lagged behind business in e-business terms and that take-up of e-government in the UK was a weakness.

- iv. There is little indication of how the different departments will interact to deliver this programme.

### **3 Education and Skills**

- 3.1 The commitment relating to Skills *"Publish proposal to meet the skills needs of the information and communications technology sector"* is disappointing because it is not in itself an undertaking for action. Despite the welcome emphasis on skills throughout the White Paper and the associated Analysis, the skills-related undertaking is the weakest of all the commitments. This is cause for concern because we believe that skills are fundamental to building a knowledge economy.
- 3.2 The White Paper says that *"Businesses must encourage and support all their employees continually to develop their skills and qualifications"*. Whilst we agree with this statement, we are concerned that it is not accompanied by a commitment to put fiscal incentives in place for in-business training, or at least to review the current situation.
- 3.3 The White Paper aims to *"Help small businesses become proficient in technologies they need"*. Again, there are no fiscal incentives proposed for training and qualifications structures and funding lags far behind business requirements. e.g. there is no funding for the Advanced European Computer Driving Licence (compare take-up with the subsidised, basic, ECDL to see the effect this has).
- 3.4 Students now need to be educated for continuous change and the White Paper promises to encourage entrepreneurship, yet the National Curriculum in its current form does not encourage creativity and precludes flexibility. Much of education is currently focused on measurement and testing, not on learning.
- 3.5 After repeated cycles of consultation and inaction, many large employers are now apathetic to UK government initiatives regarding education and appear to have solved their skills shortage by sourcing overseas.

## **Part II – The UK as a Knowledge Economy**

### **4 What does it take to create a knowledge economy?**

- 4.1 In a round table discussion, EURIM Competitiveness Group members were asked to consider what their businesses needed to be competitive in a knowledge driven economy. They agreed that to compete successfully, companies had to be allowed to create, apply, exploit and profit from knowledge on a cyclical basis. With this in mind, they identified that:
- A knowledge economy relies on the ability to exchange knowledge – connectivity is an enabler but not enough on its own
  - A knowledge economy relies on the application of inventiveness, not just inventiveness
  - A knowledge economy relies on IPR and digital rights
  - A knowledge economy relies on knowing how to price that knowledge in a global marketplace
  - A knowledge economy relies on knowing how much of that price you can keep as profit and how much of that profit you can keep after tax
  - Maintaining a competitive knowledge economy requires that every aspect of the economy is engaged in a continuous quality improvement cycle

### **5 What is needed in the UK to attract and retain knowledge-based businesses that can compete successfully in a global economy?**

- 5.1 A wider sub-group of EURIM members considered the factors that would influence the location of their international knowledge-based businesses and agreed that the following were the most important criteria:-
1. A skilled and flexible labour market
  2. Good communications infrastructure
  3. Competitive taxation – including incentives to invest in R&D
  4. A supportive, flexible regulatory environment
  5. A supportive environment for innovation
  6. English language

Then they looked at the UK in the light of this list, and their observations are recorded below. These are only intended as a collection of comments rather than a comprehensive response but they give an indication of the primary concerns raised by our members.

5.2 A skilled and flexible labour market – skills

“Government needs to stop consulting on education and do something”

“Competitive businesses rely on staff working 100% of their time and cannot afford the additional “headroom” of 10 -15% for continuous betterment training. Fiscal incentives for in-business training are essential”

“We need to get better at bridging the boundary between education and exploitation”

5.3 Good infrastructure

“Broadband roll-out was left to market forces and look where that got us.”

“The regulator has failed to bring about connectivity, 200 of 7000 exchanges are unbundled – it’s a fiasco”

“SMEs reported that for them, the two principle keys to competitiveness were connectivity and skills, yet connectivity has been left to market forces and there are no tax breaks for skills”

5.3 Competitive taxation regimes

“Taxation regimes in the UK are extremely complicated which makes it difficult for businesses to predict the tax burden before establishing themselves”.

“R & D tax breaks are a real step forward but the incentives could go a lot further”.

“Tax breaks or fiscal incentives for in-business training are urgently needed”.

“SMEs report a crippling lack of clarity over the application of IR 35”.

“Thank God we don’t get all the Government we pay for”

5.4 A supportive flexible regulatory environment

“The introduction of competition to the directory enquiries has been a fiasco and has increased costs for consumers and lowered quality of service”.

“Government must conduct an impact assessment for any new regulation to establish its effects on the knowledge economy.”

“Government aims to reduce the regulatory burden for SMEs yet a record number of regulations has been issued in the last parliament”.

“Government has to give careful consideration to the implications of open source software on IPR”.

5.5 A supportive environment for innovation

“In the UK a disproportionate amount of government research funding goes to pure science as opposed to applied sciences (compared with other G7 countries)”

“Government needs to change its emphasis on inventiveness to innovation, which is the *application* of inventiveness.”

**6 Priorities for Government Action**

6.1 View the White Paper as a business change programme and apply programme management techniques to ensure there is a polity framework for delivery, that there are means of implementation and facilities for evaluation.

6.2 Review fiscal incentives for in-business training.

6.3 Conduct impact assessment for new regulation, or at least apply these two tests before proposing any new regulation:

- Does the proposed regulation help improve our international competitiveness?
- Does it actually help protect the consumer or improve service to the customer? (competition does not necessarily improve quality of service or reduce price).

6.4 Re-think the way targets and objectives are currently set and make them delivery- and output-oriented rather than structured around inputs and departmental budgets.

6.5 Think a bit more about *why* things are done – for instance, why are budgets set on an agrarian calendar? Why are profitable, 21<sup>st</sup> century knowledge businesses taxed to subsidise unsustainable, ailing, 19<sup>th</sup> century industries?

6.6 Change the way success is defined in the Civil Service, which often centres on getting legislation or regulation through parliament rather than the benefits to business or consumers.

6.7 And, fundamentally, seek to remove critical barriers to the agility of the market.

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- 7**      **Related EURIM documentation - Annexed by letter**
- A      EURIM Briefing 29 – A Shock to the System – Joined up Electronic Government
  - B      EURIM Briefing 30 – Making a reality of Consultation
  - C      EURIM Briefing 31 – Change Management for e-Whitehall – Delivering change in the public sector
  - D      EURIM Briefing 33 – The Critical Success Factor – Delivering Modernised Government through Programme Management
  - E      EURIM Briefing 35 – Modernising Government – Time for The Next Steps
  - F      EURIM Briefing 37 – Making IT Work – the Pre-Conditions for Public Sector Systems Success
  - G      EURIM Occasional Paper - Checklist for Programme Review