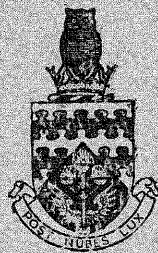
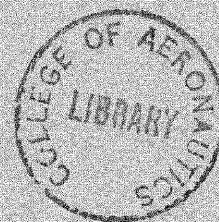


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THE COLLEGE OF AERONAUTICS
CRANFIELD

BUSINESS IN EUROPE NO. 4

by

Members of the Cranfield Management Development Programme No. 5

December, 1966

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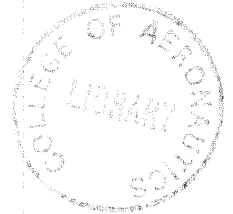
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March, 1967

THE COLLEGE OF AERONAUTICS

DEPARTMENT OF PRODUCTION AND INDUSTRIAL ADMINISTRATION



Studies of four aspects of business in Europe

- by -

Members of the Cranfield Management Development Programme No. 5

Preface

The Cranfield Management Development Programme is an intensive ten week course for middle management aged 28 - 38. The courses which are held twice yearly started in 1964; the fifth of these, MDP 5, was held from October - December, 1966. The members of the course are drawn from a variety of businesses and have previous experience in one or more of the main fields of business activity, e.g. general management, marketing, production, finance.

As part of the course two weeks are devoted to studying business conditions in Europe. For this tour the members are formed into small groups who study particular projects. Throughout the visits the emphasis is on discussion with Senior Executives.

The specific objectives of the European Tour are:-

1. To expose members to business problems in different European environments and to provide an opportunity to discuss business problems with European managers.
2. To study the problems that confront British companies who do business in or with European countries.
3. To use this exposure to a new environment to effect some measure of re-evaluation of their past business experience in the United Kingdom.

MDP 5 were in Europe from 20th November to 2nd December 1966, during which period the following cities were visited; Paris, Milan, Zurich, Frankfurt and Brussels. In each city discussions were arranged with a representative cross-section of the business community. These included British Embassy Staff, British Chambers of Commerce, Local Bankers, Industrial Companies, Advertising Agents, Trade Union Officials, Management Consultants, British Subsidiaries and the E.E.C. Commission.

This report is split into four parts representing the work of the four project groups.

The time available was not sufficient for a study in depth of any of the chosen subjects. Nevertheless the large number of interviews and frank discussions with British and foreign businessmen enabled the writers to gain an insight into many aspects of European business. The report must necessarily concern itself largely with opinions - those of the writers and the persons interviewed. These 'opinions' may be challenged by some readers of this report who may not agree, for example, with the statements regarding British design and exports. Perhaps the views expressed are not always in accord with the facts; indeed we would hope not. But it cannot be ignored that many of these

strictures were repeated frequently in several countries. True or not, these opinions are widely held both by British and European businessmen who live on the continent. As such we make no apologies for reporting them.

Course Members

Philips, N.V., Eindhoven	Dr. W. Barents	Executive of Commercial Organisation
British Aircraft Corporation (Operating) Ltd.	M.F. Griffin	Head of Work Study
Rootes Motors Ltd.	C.S. Inglefield	Executive Assistant to Managing Director
Smith and Nephew Southalls Ltd.	R.M. Knight	Sales Promotion Executive (Export)
Rootes Motors Ltd.	P.J. Lovell	Manager - Product Planning
Shell-Mex and B.P. Ltd.	T.J.L. Martin	Manager Shell Retail Planning
Thomas De La Rue and Co. Ltd.	R.E. Rochford	Assistant General Manager
N.G. Bailey and Co. Ltd.	C.D. Watson	Contracts Manager
Shell International Petroleum Co. Ltd.	H.H. Wilson	Senior Assistant to Area Co-ordinator for Kuwait, Oman, Qatar and offshore Iran.

Itinerary

Paris

<u>Company</u>	<u>Industry/Business</u>	<u>Person Interviewed*</u>
Metra International	Management Consultants	M. Michel Drillet
Chamber of Commerce	Import and Export Advisory Committee	Mr. P.T. Simpson-Jones
Federation des Importateurs de la Metallurgie et de la Mechanique	Import/Export Organisation	M. Colin de Terrail
Lloyds Bank, Europe	Banking	Mr. H. Briant, C.B.E.

Lunch Speaker - 21st November - M.F. Lagandre,
President Confederation Francaise Democratique du Travail

Dinner Speaker - 21st November - Mr. E.A.L. Iremonger
British Chamber of Commerce.

Milan

Ronson-Italia	Subsidiary of Ronson	Mr. John di Vita
L.P.E. Italiana	Advertising Agency (Subsidiary of London Press Exchange)	Mr. R.L.S. Beatson
Ente Nazionale Idrocarburi	Oil Company	Dott. Notari
Credito Commerciale	Banking	Dott. Spinelli
Assolombarda	Industrialists Association of Lombardy	Dott. Vittadini

Dinner Speaker - 23rd November - Mr. J. Walters,
President-Elect British Chamber of Commerce for Italy

*The senior person present is named. Most companies visited made available for discussion four to six of their senior managers.

A number of prominent local and British businessmen participated in the discussions after dinner in each of the cities visited.

Zurich

<u>Company</u>	<u>Industry/Business</u>	<u>Person Interviewed</u>
Ford Motor Company	Motor Marketing	Mr. J.R. Brennan (Managing Director)
Alcan S.A.	Aluminium	Mr. J.S. Woods (Managing Director)
Masius A.G.	Advertising Agency	Mr. P. Redsell

Lunch Speaker - 25th November - Dr. M. Homberger,
Swiss Bank Corporation.

Dinner Speaker - 25th November - Mr. Max Eschler, Jnr.
Urania Accessories.

Frankfurt

British Consulate- General		Mr. J.D. Lewis
Dunlop Co. A.G.	Rubber	Dr. Bohrer (Social and Personnel Manager)
I.C.I. Deutschland	Subsidiary of I.C.I.	Dr. F.T. Hamblin (Managing Director)
British Trade Council		Mr. D. Knights (British Rail)
Auslandsabteilung of the Bank fur Gemeinwirtschaft A.G.	Banking	Herr Wagner
Frankfurt Exhibition Grounds		Herr Steidle (Director)
A.C. Nielsen Co.	Market Research	Mr. R. Railton

Brussels

<u>Company</u>	<u>Industry/Business</u>	<u>Person Interviewed</u>
British Embassy	Commercial Dept.	Mr. J.R. Wraight C.M.G. (Commercial Counsellor)
British Chamber of Commerce		Mr. G.B.F. Cousens
Electrogaz	Electrical	M.L. Vandenplas
Ford International	Motor Marketing	Mr. Lloyd Thomas (Public Relations Manager)
Federation Generale du Travail	Trade Union	M.G. Gogne (National Secretary)
Whitbreads Ltd.	Beer	Mr. P. Dyson (General Manager)
Association Belge	Banking	M.J. Jussiant Banque de Bruxelles M.A. Delvaux Societe Generale du Banque M. Grosfils Banque de Bruxelles M. Leemans Banque Lambert M. Thielmans, Kredietbank. M. Raymackers, Counsellor
Confederation des Syndicates Chretiens	Trade Union	M.R. Blancke
E.E.C. Commission		M.C. Becker Deputy Spokesman

Dinner Speaker - 1st December -
Mr. W.J. Wilkinson, Manager Barclays
group of Banks in Belgium and Luxembourg.

THE PROGRESS OF THE CONSUMER REVOLUTION
IN FIVE EUROPEAN COUNTRIES

- by -

R.M. Knight - Smith and Nephew-Southalls Ltd.

T.J.L. Martin - Shell-Mex and B.P. Ltd.

Foreward

Opinions expressed in this paper are individual views and in no way reflect attitudes or policies of employing companies.

This paper represents impressions gained from a 12 day tour of five countries, which involved visits to organisations not necessarily concerned with consumer marketing. Therefore, direct parallels cannot always be drawn between countries, as the same types of organisation were not seen in each.

Though a wealth of statistics was made available, little of it can be considered of sufficient validity to provide acceptably accurate quantification. Again parallels between countries are difficult to make because of widely differing statistical bases. Hence any figures quoted can do more than illustrate trends in the broadest terms.

In sum, although the tour was most valuable, this paper should not be regarded as more than random individual interpretations.

The Progress of the Consumer Revolution in Five European Countries

This is related to new approaches in Consumer Marketing, and seeks to give impressions of the market place where ultimate buyers pay actual money for specific goods and services.

Introduction

A short tour of five countries afforded an admirable opportunity to examine the progress of the Consumer Revolution in Europe, to make comparisons with the U.K. and to identify opportunities for British Commerce. The conclusions reached are in no sense offered as a properly quantified evaluation, but rather seek to give impressions and indicate trends, illuminating them, where possible, with factual information.

It is perhaps best to begin by attempting a definition of the Consumer Revolution, and by trying to relate it to its place in the economy of free Western society.

Definition of the Consumer

Who is the Consumer? In our sense he is an individual whose purchasing power has exceeded his basic needs for food, clothing and shelter. He has, therefore, become a potential market for items that will diminish his domestic labour and add to his comfort and convenience. As his prosperity grows he looks more and more to goods that will increase his leisure. And having achieved this leisure, he seeks more and more consumer services to enable him to enjoy it to the full.

An analogy may be made between 19th Century movements in Western Europe which set man free politically (largely as a result of improved communications), and the Consumer Revolution which can set 20th Century man free economically. The corollary of freedom and power to exercise one's political choice is the ability and means to exercise one's economic choice.

The Nature of the Consumer Oriented Society

The essence of a consumer oriented society is that the individual must be paramount, and not the State. It is also a fair society, as its growth depends on the continuous spread of increased purchasing power to lower levels of the community.

Another important characteristic of the consumer revolution is that power is exercised from the home, and not just by the wage earner in his place of work. Whilst it claims the participation of the whole family, it is even more a female revolution; it sets woman free in economic terms, thereby giving her a power probably more potent than any she gained from female enfranchisement.

The Economic Role of the Consumer

The significance of the consumer revolution should be related to a country's economy as a whole; but first, the purpose of business should be identified. There is, now, general acceptance that production and survival are not the prime purposes of business, but by-products of the prime purpose. It is, however, still widely held that making or maximising profits is the essential aim. Peter F. Drucker in 'The Practice of Management' seeks to demolish this concept. He states that the purpose of business lies outside business and in society, because business enterprise is an organ of society. In short 'There is only one valid definition of business proper: to create a customer'. He goes on:-

'For it is the customer, and he alone, who through being willing to pay for a good or for a service, converts economic resources into wealth!'

If this view is accepted, then the creation of a customer is the beginning of the economic cycle, and not the production of goods. The customer per se is not, of course, enough; he must be a customer with a need. The function of marketing is to identify the need, and this may have even to go as far as making the customer aware of his latent desires and of the potential means of satisfying them.

Production and distribution are not only significant in the satisfaction of these needs, but together with marketing and other services provide employment for the consumer from which he derives his purchasing power.

The functioning and importance of this cycle is clearly exemplified in countries where the production of that archetypal consumer durable the motor-car (for most people their greatest single investment, unless they are home buyers) has become central to the whole economy. The successes and vicissitudes of the motor industry are prime indicators of economic health in, for example, both Britain and the U.S.A.

The Importance of Consumer Services

The motor-car and other familiar consumer durables such as radios, television sets, refrigerators, washing machines, telephones, are all important factors in the production cycle, and because of their very tangible presence seem to typify the rewards of the consumer revolution. This perhaps fosters the belief that production of goods alone is significant in the economic cycle.

This is far from the case; the offering of marketable services is also significant, and is likely to grow in significance, because the affluent consumer has limits to his desire to acquire artifacts.

It has been suggested that although he is apparently buying machines, he is really buying other things; sometimes status (which is very important), but also comfort, convenience and leisure. In the second stage of the revolution leisure begins to become more important as opposed to purchasing power (apparently many German workers are now reaching this conclusion). But leisure requires to be filled, and here the consumer becomes a market for services; entertainment, education, security. These can be equally important both as profit producers in the economy, and as facilities relevant to the consumer revolution. To discriminate by taxation against the provision of services in favour of physical production is, therefore, to make false economic distinctions for no perceptibly valid reasons.

The Role of Government

Interference by Government in economic processes can thus hinder the consumer revolution, but Government does have a very positive role to play; namely, in legislation designed to protect the consumer. Such legislation has a long history (for example from medieval times concerning weights and measures and usury) and is likely to increase in scope and effectiveness as Governments appreciate that consumers and voters are one and the same people.

The Organised Consumer

An essential step in the progress of the consumer is for him to recognise the potential strength available from concerted action. To become aware of himself and of his rights, which are essentially freedom from exploitation and freedom of choice, he must disseminate information from resources sponsored by himself. Armed with this he can make himself aware of a range of criteria and defend himself against potentially hostile elements (e.g. government, monopolies, organised labour).

The organised consumer has indeed the potential (whether or not he ever comes to use it) of exerting forces at least as powerful as those used by organized labour today.

There are those who would condemn this concept of the consumer as materialistic, worldly, sybaritic, even degenerate. This cannot really be sustained. In many places in Europe it can still be seen that material poverty is generally accompanied by disease, crime, illiteracy and political instability or oppression. It is less easy to oppress a man who is well-fed, well-clothed and well-informed. Having bought his own stake in society he will be less willing to see it put in jeopardy on ideological or nationalistic grounds. This trend can be perceived even in authoritarian societies, as they progress slowly towards affluence.

Moreover the freeing of man from manual toil and the creation of further leisure affords opportunities of enriching his mental life. But this means that educational and moral forces must keep pace with material growth: liberal education and the arts must not be excluded by undue emphasis on technological know-how.

The European Scene

It is now necessary to examine the process of these trends in five European countries, and to compare the situation in those countries with that in the U.K. and even in the U.S.A., where the Consumer Revolution began, was first recognised, and is most advanced. This can be done by establishing the current stage of the revolution in each country and by identifying the forces encouraging or retarding it. It is also important to recognise situations that may be of assistance in forwarding the revolution in Britain; most of all, however, it is necessary to try and indicate opportunities for British Commerce and Industry in promoting and satisfying consumer needs in Europe.

Comparisons with the U.K.

It is possible to find in Western Europe certain common conditions and habits that markedly differ from those prevailing in the U.K. These influence both consumers' attitudes and the way in which commerce can or should approach the consumer. Broad similarities between countries visited suggest it is the U.K. which has deviated from the European norm.

The consumer, or potential consumer, seems to be more of an individualist than he is in the U.K. The idea that the British are individualists par excellence may well have become one more traditional fallacy.

The reasons for the increasing 'oneness' of British society are not far to seek. Social legislation for over fifty years has sought to diminish distinctions of class and income. Europeans do not seem to be so class-conscious, although this is difficult for a foreigner to detect. The French are hierarchically-minded, which is not quite the same thing:

for example they have an exaggerated respect for the 'fonctionnaire', which is very properly withheld from British officialdom. As far as personal possessions are concerned, Continental tax systems are not, in general, as inimical to the accumulation and inheritance of wealth as the British.

Another factor which creates a community of outlook in Britain is an obsessive respect for rules, in which we at least equal the Germans, from whom we doubtless inherited this characteristic. In France, for example, there appear to be far more rules governing commercial and private life; but the inclination and opportunities for evasion are greater. About a third of the population do not pay Income Tax (whether or not they should), hence the emphasis on indirect taxation (i.e. on consumption). In Italy income returns are almost always grossed up by the revenue authorities, and therefore a factual return is likely to attract more tax than is really due.

In England we are an insular, heavily urbanised, virtually monolingual community with a long industrial history, in Europe national characteristics spread across frontiers. Switzerland has three main languages, Belgium two. Parts of rural France are virtually in the 19th Century, parts of Southern Italy virtually in the 18th, both in terms of culture and of material progress.

In England, therefore, we have a more compact, homogeneous community, more accessible to and more influenced by national institutions. This is particularly important in regard to communications, which are an essential in developing consumer markets. (Also, an almost common language has probably made us more susceptible to advanced American marketing influences).

In Europe no national radio organisation enjoys the authority and respect that still attaches to the B.B.C. A relatively small number of national, high-circulation newspapers is also an essentially British phenomenon; in Europe the local press has far greater importance than in the U.K. Readership levels are also lower; the U.K. enjoys the highest in the world. Television plays far less part in European life than in Britain: conversely the cinema in Europe seems to have retained its popularity.

No European country has retail chains developed to the same degree as in Britain. Although a disadvantage to the consumers this has so far saved them from horrors like Slough High Street. Similarly other consumer services are less centralised on the continent.

Other continental influences not, or no longer, paralleled in England are:-

The Family: Family influence and solidarity are still of considerable importance, especially in France and Italy.

Women: Continental women have not achieved the level of emancipation of their English counterparts except, perhaps in Switzerland where paradoxically they remain voteless. In Italy the lack of opportunity for divorce places women in a subordinate position, and in Germany traditional respect for the husband and father has not greatly diminished.

The Church: At the least, the continent is less irreligious than Britain. The influence of the Catholic Church is particularly strong; even in nominally Protestant countries like Germany and Switzerland Catholics form a powerful numerical minority that a more effective membership may more than compensate.

Without analysing cases, it cannot be denied that, in general, European areas where the Roman Catholic Church is strong, tend to be less developed commercially and materially.

Peasants: In England the Black Death caused such a shortage of labour that peasants as a commodity disappeared. The European peasant is still present, sometimes in only a very slightly modernised form. He is characterised by resistance to change and is a powerful influence for conservatism, particularly in France and Italy.

Housing: Urban continentals tend to be flat dwellers and rent payers in marked contrast to the British semi-detached ideal. This has clear implications in leisure habits, especially in regard to holidays. In general, European workers get longer annual leave than their British equivalents and enjoy far more public holidays.

Some effort has been made here to distinguish, however superficially, between the atmospheres in which British and European consumers live. It is a fundamental error in marketing, to which the British are particularly prone, to assume that foreign markets are merely extensions of the home market.

Even the foregoing reveals that facile transpositions of British marketing approaches could be costly and ineffective. A preponderance of rural and small town dwellers suggest purchasing priorities that will differ from those of urban masses in the U.K. Distribution to a scattered population is more difficult and expensive; especially through a proliferation of relatively unorganised retail outlets. The mass market is more elusive because approaches through familiar mass media are often not possible.

To avoid multiplying generalisations of this nature, it is now proposed to look at aspects of European markets in more detail and under specific headings.

The Consumer as an Organised Body

Where consumers begin to feel their importance as influences upon the producers and sellers of goods and services, they will organise for themselves a protective, and potentially offensive, body, to sanction goods and services offered to them in the market place. This assertion is based on reactions in the U.S.A. and the U.K. to the variety of highly competitive goods and services on the consumer market.

It is thus significant that in none of the countries visited in Europe was there a Consumer Organisation, either at local or national level with the effectiveness and influence of the Consumer's Association in the U.K. Nor was there evidence of the same level of support for other Consumer groupings such as the A.A. and R.A.C., the Railway Travellers Association. In France, Italy and Germany such organisations were reported to exist, but to have no power and little support.

In Italy, a magazine, Quattro Soldi (Four Coins) is published by a body purporting to represent consumers: considerable doubt is cast upon its validity, however, since it accepts advertisements, and its circulation is very limited. Neither was there evidence of such Radio or T.V. programmes as the B.B.C.'s 'Choice', nor any obvious sign of product guarantee labels such as our Design Centre Awards, Woolmarks, Kitemarks and Good Housekeeping Certificates.

Government Support

The absence of any direct Government subsidies or propaganda in support of consumer organisations is in line with the very limited pro-consumer legislation in force in most of the countries visited. Resale Price Maintenance is practised in Switzerland, but is said not to be detrimental to the consumer: in other countries it is not practised, although systems of 'recommended' prices exist. Trading hours on the other hand are much less controlled than in the U.K. and the consumer is therefore very well served in this respect, being able to obtain goods, particularly groceries, between 6.30 a.m. and 9.0 p.m. except in the centres of large towns.

Protective legislation is restricted to controls upon cigarettes, strong drink and drug advertisement in Italy and Switzerland, price control (a counter-inflationary measure) in Belgium and France and some general rulings on Weights and Measures and Content Description common to all the countries visited. The Common Market Council in Luxembourg is known to be pro-consumer in that it is against monopolies, but no positive action has been proposed. In France itself, a Budget has been set up to establish an organisation for the protection of the consumer but this has not yet been utilised. There is however a French law which prohibits 'mark-ups' exceeding 45% on all other than technical or luxury goods.

Limited legislation in Switzerland forbids time-limits to be set on

in-store promotions, and requires a licence to be obtained by retailers before holding a Sale. Otherwise specific pre-consumer legislation is absent.

Conclusion

It can be concluded that organisation of the consumer has not taken place in these major European countries to an extent where his views have an important effect upon producers or upon Government. It is useful to understand why this might be so.

First, it is relevant to note again, that the extent of U.S. influences has been greater in the U.K. than in any other European country, due to the common language and the close post-war ties. Both local and national consumer organisations have been part of American life for 20 years.

Secondly, as has already been indicated, female emancipation in Europe is not so advanced as in Britain. In Belgium, France, and Italy in particular, the place of the woman is in the home, where she is expected to work, devoting little time to exercising her discretionary purchasing power except at the lowest level (i.e. in the vegetable or fish market). This situation does, of course, reflect the relative standards of living in these countries, but is endemic to countries not very far removed from quite unsophisticated economies.

Thirdly, cultural dichotomies which mitigate against any formalisation of standards and tastes, exist in at least three of the countries visited. Belgium has its Walloons and Flemings, Italy its North and South, Switzerland its German, French and Italian sectors: and it could be argued that even Germany and France are hindered by regional influences from agreeing common criteria for product selection.

Switzerland and Belgium, both market-places for the goods of all European nations, are already bemusing their consumers by the wide choice of goods and services which they import: in Belgium 70 makes of motorcar, beer from six different countries, toiletries from E.F.T.A. and E.E.C. countries and the U.S.A. and cigarettes of all prices and qualities. If, as was seen to be the case, consumers there were not already uniting to sort the wheat from the chaff it is likely that they will do so in the near future.

Profile of the Consumer

Not only is it true to say that there is no easily definable profile of the consumer throughout the five countries visited: it is also a fact that there are no distinct national profiles. This is due to the economic cultural and linguistic divisions in those countries, as, for instance the cultural split in Switzerland between the French-speaking West and the German-speaking East, and the economic division in Italy between North and

South of the Appenines. The best impression of the diversities of consumers in the five countries can perhaps be given by a wide selection of indicative examples.

France

A large French Market Research Company claims that adherence by French people to Cartesian philosophy makes them receptive to new ideas, but the Company itself admitted that it was not possible to classify consumers in France by income, since heavy income tax and primitive inheritance laws provoked false declarations and hoarding of income, thus rendering classification useless. In a country three times the size of the U.K. there is still a substantial peasant population and although migration to the towns continues at 5% p.a., there is a great income gap between farm workers and the professional and commercial/industrial classes living in and around the big towns.

France had more passenger cars per 1000 of population (in 1965) than any European country except Sweden, and less houses with bathrooms than all but Belgium, Italy, Spain and Portugal (1962 Figures). She has more people living in fewer houses, with less electricity, than most European countries and yet the cost of living in Paris is second only to that in New York. If those contrasts seem marked it is because France is still in the midst of an industrial revolution.

Italy

Italy has only recently begun hers, and the contrasts verge on the incredible. Twenty-five percent of her population is not rateable as consumers, as their discretionary spending power is nil: 11% is illiterate, including 20% of all housewives. Yet in the six Northern Provinces 58% of all homes have a refrigerator, compared with 45% in the U.K. and 38% in Holland.

If it is not surprising to learn there is little sale for powdered coffee, it is perhaps remarkable that more homes own T.V.'s than buy toilet paper! And with 28% of the population engaged in agriculture it is strange that indirect (i.e. regressive) taxation should be punitive: this however, is necessary because income tax invasion is a national sport and revenue can be assured by no other means. Although consumption has increased 58% and salaries by 70% in 8 years, 60% of all consumers are in the Iron Triangle - Milan, Turin, Genoa and constitute 45% of the population.

In Italy there is still a 'great divide' between the rich and poor, and apart from cities such as Rome, Naples, Bologna, and Florence, 'consumption' is the prerogative of the North, where industry is booming and where as yet a suburban middle class is unformed.

Switzerland

Switzerland forms a striking contrast both in culture and economy. Her consumers are classless and individualistic. Three-quarters of her population live in flats, with more telephones per 1000 than any European country except Sweden: every house has electricity (Switzerland is the only country in the world which boasts this) and 69% have bathrooms (78% in U.K., 52% in Germany, 88% in the U.S.A.).

This extremely high standard of living has been achieved, and is maintained, by a hard-working population, speaking three languages and occupying 25 Cantons, and enjoying a rate of taxation between 10 and 20% on earned, and between 11 and 23% on unearned income. This unusual formula for economic success has been aided by many years of neutralism and by a lively money market and the tourist trade.

Although themselves intensely provincial, Swiss consumers have a wide choice of products from countries all over the world. They are not price-conscious and admire quality, so their market is dominated by better class products. Even the farmers in the mountains are neither poor nor illiterate, but it is significant that women are not regarded as deserving of a vote. This fact perhaps illustrates a certain lack of sophistication in the Swiss, and this view was borne out by an International Advertising Agency.

Germany

In Germany the consumer has been benefiting from the vastly improved standard of living resulting from the post-1950 growth of industry and commerce. There are more T.V.'s per 1000 population and more houses with bathrooms than in all European countries except Sweden and Britain, more motor cars per 1000 than in all the countries visited except France; and a level of consumption equivalent to that in the U.K.

Despite this, 3.2 millions, 12% of the population, are engaged in agriculture and have a standard of living well below that of their counterparts in Switzerland or Great Britain. Differences between Northern and Southern Germans are particularly noticeable and affect consumer patterns, as have the influences of Occupation Forces, particularly the Americans, and foreign investment. These latter influences have tended to make producers more conscious of the consumer, who remains, thrifty, price-conscious and not especially imaginative.

Belgium

A much more complex structure is revealed in Belgium, where 9½ million people form a highly competitive market in which all European countries and U.S.A. are represented. Belgium is inhabited by two distinct races, the Flemish (two thirds) and the Walloons (one third) and though attempts are made to play down their difference there are serious moves towards federalism.

Sixty per cent of total retail sales are made in five main urban areas (Brussels, Antwerp, Liege, Ghent, Charleroi) and in the largest of these the choice offered to consumers is very wide.

Belgium has more radios, T.V.s and telephones per 100 population than France, better housing, but fewer motor cars. Although highly industrialised and exporting twice as much per capita than the U.K., she remains a 'small shop' economy. Differences in the cultures of the two races are not specifically evidenced by the consumer, particularly in bi-lingual Brussels: price-consciousness and a desire to haggle are characteristics shared by both races. Though the Common Market has carried the Belgians, and particularly the population of Brussels to greater prosperity than they had reason to expect, over half the population is still engaged in agriculture, and the moribund coal and steel industries in the South prove a depression in the overall level of demand. It is likely that whereas in the past the main body of consumers was Walloon, in the future the purchasing power will be in the hands of the Flemish in the North where so much of the new Belgian industry is developing.

Intermediate Summary

Against these differing backgrounds consumer attitudes and tastes in the five European countries are impossible to formalise. The Common Market has not been in operation long enough for a community of consumer interests to be sought. Each member country is hurrying to develop itself to meet the full challenge of Customs Union in 1968 and each seems to realise that upon its economic, political and social stability at that period will depend its competitiveness in the mass market that will be opened to it. In each country consumers are becoming aware of the extent of choice which will be theirs, but in most they have had only a taste of it. In all the countries visited except Switzerland, recent economic progress has been out-stripping the ability of the consumer to adjust his needs and producers have been happy to satisfy long-frustrated demand. Increasingly supply is now in line with demand and consumers can pick and choose. When they can select from the goods of six nations, producers will have to take much greater pains to woo them.

Much of this customer-winning will take place at the point of sale and it is profitable to examine next the scope and development of Retail Outlets and of Sales Promotion and Advertising.

Retail Outlets

In a sophisticated consumer-oriented Market retail outlets are designed to facilitate the choice by the buyer of the product which satisfies his need. In order to give full time for consideration of goods on offer, such outlets are often 'self-service'. Where this approach is not possible, as with items of clothing, consumer durables, etc., priority is given to display of the available merchandise and care is taken

to provide sales assistance at the psychological moment. Both these methods require space and so outlets tend to be bigger; they require higher stock-levels and high turnover and must therefore have sound financial backing, usually by being one outlet in a chain, or one department in a Store.

If this is over-simplifying the structure, it does at least pinpoint some important characteristics of the Consumer Revolution, and highlight the features that are at variance in the five countries visited.

Italy

If we begin at the farthest end of the scale we observe the structure of the Italian retail market:

In Germany 93.7% of Distribution is 'organised' (i.e. carried out systematically via wholesaler/retailer or producer/retailer links on a monthly account basis); in Holland this figure is 97.8%. In Italy the figure is 11.9% - by far the lowest in either the E.E.C. or E.F.T.A. There is one Retail Outlet for every 90 people in some parts of Italy, only 1.6% outlets is grouped and there is an average of 1.8 persons serving in each shop.

The proliferation of small shops is endemic to the peasant economics of Southern Italy and parts of France, and effectively prevents direct selling. Service is given to the consumer and a reasonable choice is available, but the cost of three daily visits to a food shop, for example, and purchasing in very small quantities, is considerable, added to which, stock tends to be kept unhygienically and beyond a safe time limit. Street traders in Italy hold 26% of all retail licences and thus deprive shop-owners of even a meagre living by further proliferation. While Northern Italy is considerably more advanced in this respect, it is still well behind other E.E.C. countries.

France and Belgium

Moving further up the scale, the French, and Belgian retail structures are still very much dependent upon the small man. While this is not so true of Paris and Brussels and other large towns, it still applies widely. In France large retail concerns accounted for 16% of all retail sales in 1962 and it is planned (Fifth plan) that this figure should grow to 24% by 1970. Variety chain stores and department stores (Printemps, Galleries Lafayette, Nouvelles Galleries etc.) are expanding their influence and self-service outlets for food have increased tenfold in the last eight years. Super-markets also are growing but still number less than 750, and their growth has inspired retailers to group themselves into voluntary chains, mostly selling food. Mail-order sales represent only 1% of the total (3.5% in the U.K.) but the intervention of the big German Mail-Order firm 'Quelle' may inspire a development in this field.

The pattern has been similar in Belgium and development has been concentrated in and around Brussels and Antwerp. Here also the advance towards more consumer oriented outlets was begun by the big department stores, but there are now independent self-service stores and supermarkets and two drive-in Banks in Brussels. The influence of the small retail outlet is still strong in all three of these countries, in some preserved by wholesale chains, but more generally due to the fact that it is often run by the wife while the husband is out working, and to the predilection of 'underprivileged' housewives for a gossip over their purchases. A gradual rationalisation, however, will cause a marked decrease in outlets over the next five years.

Germany and Switzerland

Germany and Switzerland are nearly comparable in the structure of their retail outlets, although those in Switzerland tend to be smaller and to concentrate particularly on product display, for which the Swiss have a flair. However, while supermarkets and supercentres are mushrooming in Germany, largely influenced by U.S. techniques and financed by U.S. money, there is a parallel development of Direct Mail business by giant concerns like 'Neckerman' and 'Quelle'. These outlets handle articles from sides of pork to magazines and are quickly increasing their share of retail sales. However, three-quarters of all retail sales in Germany are made in independent outlets. Multiples account for only 10% and consumer co-operatives, mail-order firms, vending machines etc. for only 7%. Outlets themselves are the biggest of all E.E.C. countries and include 1000 Supermarkets and 53,000 self-service stores, 71% of which sell goods other than food stuffs. It is noteworthy that Germany has more self-service outlets than any European country. Food retailing is organised by such well-known chains as Spar and Vivo and by large retailers' co-operatives. The largest of these latter, Edeka, accounted for 22% of all food sales in 1963.

While this modernising influence is present in Switzerland it is not quite as powerful. Out of 17,000 retail outlets in Switzerland 4,700 are self-service, and 55% of all grocery business is conducted in this way, with a continued move in evidence towards more supermarkets. The accent is on styling when these new outlets are built, and Migros, the large retail chain (similar to Tesco) although selling at low prices, accepts only high quality products for sale. These two features demonstrate clearly the way in which retail development suits itself to the specific needs of the consumer. An interesting phenomenon in Zurich was a Drive-in Secondhand Car Salesroom, another effort to cater for the affluent Swiss.

This then is an indication of the pattern of Retail Outlets in the five countries and the reasons for the wide divergences can perhaps now be seen. Clearly the numbers of small outlets will drop sharply as they face the competition of the big stores and supermarkets, and the growth of these latter must respond to the growing sophistication of the markets and the changing attitudes and needs of the consumer. As leisure time becomes

more important, so shopping time will need to be minimised and the maximum choice offered both of quality and price. These things will be achieved by the provision of self-service and department stores, supermarkets, 'one-stop' shops, discount houses and direct mail services. And, increasingly, retail outlets will have to make provision for car-driving shoppers, denied street-parking facilities.

In one aspect of retailing the Continental Consumer enjoys a uniformly high standard, that is, in petrol retailing and motorists' services. This is because petrol retailing is concentrated in the hands of international companies who have the resources, know-how and competitiveness to provide first rate service, without regard to frontiers. In this respect the Continental Consumer may continue to have an advantage over his U.K. equivalent, as in this country not only is oil company ownership of retail petrol outlets at a much lower level than on the continent, but virtually frozen at this level by Government action.

The Roles of Sales Promotion and Advertising

Two features inseparable from the Consumer Revolution, since they act as stimulants to the consumer to use his power of choice, are sales promotion techniques and advertising, the first employed more specifically in the 'market place' and the other used to create awareness both of needs and the means of satisfying them at any time when consumers might be receptive.

Although available statistics are notoriously unreliable, it is fair to state that only Germany among European countries spends much on advertising as the U.K. France spends less than half this amount (about £4. 17. 0. per cap.) and Italy just over half the French figure (£2. 15. 0. per cap.). Belgium and Switzerland spend less than Germany but more than France.

Advertising

Several features distinguish Continental from British advertising:

- (a) Television is much less used.
- (b) There is no proper national press coverage.
- (c) Controlling legislation is more in evidence.
- (d) Market Research and the other services are less well developed.
- (e) Sales techniques are generally less sophisticated.

In fact, advertising in Britain is several years further towards the U.S. pattern than in Continental countries.

Fourteen million people watch television in Italy, but advertising is arranged through a State-run network which permits only 27 spots a day of 40 seconds each, and allocates these on an ad hoc basis, thus eliminating scientific management of this medium.

National networks are not effective in France, Italy, Belgium and Switzerland due to cultural differences and the size of the larger countries, and even in Germany development is well behind the U.K. Without the full use of this important medium, and with added legal bans (no tobacco advertising in Italy, no drugs, no tobacco and no alcoholic drink in Switzerland) concentration is upon press coverage.

Since no country has a truly national press, local papers are used and cost more in terms of coverage than in the U.K. Moreover the layout of these would make any British editor weep and any advertiser despair. Magazines are very widely used and poster advertising is a feature of Italy, France and Switzerland, due principally to the lack of alternative media, and to the desire to attract those less sophisticated consumers who do not buy magazines.

This last does not wholly apply to Switzerland but the Swiss have a great reputation for graphical work and lack other media. An endearing trick of Italian Agencies is apparently to concentrate a client's poster coverage around his home and office!

Cinemas are still full on the Continent, and in Italy about 60% of the audience consists of young men under 35, many of whom are unable to be out with girl friends because of the strict practice of chaperonage: as much as 5% of all national advertising is in the cinema. Cinema is still an important medium in Switzerland, France and Belgium and even Germany.

Sales Promotion

Sales promotion techniques are as varied as those employed in the U.K., but not as widespread. While there are trends towards the spread of point of sale material, window stickers and in-store displays, current techniques are limited in many countries by the small size of most outlets and the small number of self-service stores and supermarkets which best lend themselves to such methods. And even in Switzerland and Germany supermarkets still reject tumble displays, special offers, gimmicky presentation and other features of rapid-turnover outlets in the U.K. and U.S.A. Stamps and coupons, premiums and competitions are present to varying degrees in all the markets visited, but there was little evidence of the use of loss-leaders, fighting brands and banded packs, an indication perhaps that producer and retailers do not operate quite as closely as they do now in Britain.

Agencies

A word should be said about the place of the International Advertising Agency (of U.S. or U.K. origin) in Europe. Due to the slowness of local national agencies to adjust themselves to new developments beyond the scope of media planning and artwork, Europe has been invaded by the international giants, who are now slowly assuming unassailable positions in the markets.

In Italy, one third of total expenditure on advertising was incurred by foreign-owned companies and their average budgets were 42% above those of similar Italian companies. Small wonder that there is only one Italian advertising agency in the top ten agencies! Similarly in Switzerland, U.S. and U.K. agencies are able to offer so much better services to clients that the Swiss agencies cannot effectively compete.

Although many of the well-known international firms have established themselves in one or more European country, they are finding progress rather slow. Apart from the vagaries of clients, there is legislation in Italy disallowing (for tax purposes) expenditure on advertising of more than 10% of turnover, and traditional patterns of distribution and linguistic and cultural difficulties make research and customer-identification difficult.

In the more sophisticated markets better progress can be made, local (i.e. national) agencies still tend to specialise instead of offering comprehensive marketing services, and basic statistics of market segmentation are undeveloped. Investment in these countries is not as yet bringing in worthwhile returns and expenses connected with research are high.

Finance for the Consumer

The provision of consumer credit does not in general seem to be as sophisticated or as varied on the Continent as in the U.K., where the consumer has the varied apparatus of H.P., credit bankers, budget accounts, personal loans from joint stock banks, overdraft etc. On the other hand he appears relatively freer from Governmental juggling with interest rates, and size of deposits.

In Germany, for example, the concept of consumer loans has developed slowly because traditional German morality dictates a preference to save for an object before buying it. None the less the forward-looking Trade Union Bank (Bank fur Gemeinwirtschaft A.G.) allows a lower than normal rate of interest on consumer loans. Other banks offer loans, but are cautious, despite the fact that all borrowers are placed on the records of a central agency of borrowers, which shows their credit status and the manner in which they have conducted their accounts! As a rule of thumb a loan does not exceed three months gross salary and is repayable within three years.

In Switzerland there is a relatively small percentage of consumer items bought on credit. Most cars even, are bought for cash rather than Hire Purchase - this partly a result of Swiss affluence (savings are easier to accumulate) and partly because bank credit is usually freely available at rates of interest markedly lower than in the U.K.

In France there does not seem to be great official enthusiasm for Hire Purchase. The police magazine even has suggested that H.P. transactions are a cause of growth of crime. H.P. companies cannot appeal directly to the public for cash and the consumer has to pay 9% - 10% interest on a non-declining balance. The French Government does from time to time vary deposit rates

and periods of repayment, but with less frequency than in the U.K. A common practice for obtaining credit in France is by signing, say, 18 bills of exchange dated over 18 months. The selling company then gets these discounted at a bank.

A similar practice is widespread in Italy where many credit techniques originated. Indeed a statue is erected to the inventor of the bill of exchange. 'Tick' is a long and honourable tradition in Italy and the willing provision of credit by small retail outlets has helped to prolong their survival in the face of more sophisticated retailing concerns.

The banking system of Italy is complex with different kinds of banks for long, medium and short term loans. The Banca America-Italia has, however, just (cautiously) begun to make personal loans as they are understood in the U.K. Guarantees or collateral are required. Normal overdrafts cost about 7% in interest with an additional $\frac{1}{8}\%$ if the maximum overdraft is taken up. If collateral is provided, however, rates are lower.

Other familiar forms of credit such as Credit Cards are available in Europe but as far as could be seen none was of European origin. There are certainly none of French origin. Credit Cards appear largely to be used by tourists and so the familiar signs are most frequently seen at hotels, restaurants and shops likely to be frequented by tourists.

One interesting variant which is of European origin is the FICHEL card. This, perhaps typically, is not a credit card, but a discount card costing about £3 per annum. The subscriber gets a book listing participating shops, restaurants and garages etc. by country and city; also listed are the discounts available, usually between 10% and 15%. The commercial participant gets an identification sign and the advantage of being listed in the book. Fichel now operates in the U.K.

In sum, it appears the European has more difficulty in getting personal credit than his U.K. counterpart, although he tends to pay less for it. This has almost certainly been a retarding influence on the consumer revolution in Europe.

Home Ownership

This is a theme associated with consumer credit and although no figures were to hand it appears that the desire to own a small home with a patch of land is predominantly English.

Most urban continentals are flat dwellers. Hence space for consumer durables is limited, and communal facilities such as washing machines are available.

Leisure habits are also affected by this mode of life. There is a desire to go to cafes and cinemas in the evening; and a demand for long

holidays away from home that appears more marked than in the U.K., despite the far greater prevalence of public holidays in Europe. It is not clear whether flat dwelling results from an aversion to domestic chores and gardening, or because it enables people to live closer to city centres. (It certainly has the effect of keeping centres alive at night in marked contrast to the U.K.). Most probably it is essentially a function of economics and availability.

One suspects, however, that flat dwelling and house renting, as opposed to buying, results not so much from social preference as of a lack of well-organised building societies. In France there are no building societies as such, and though all Governments and banking systems in the countries visited lend money for housing this seems largely for commercial or communal development. These of course, achieve greater density, and so a better return, from apartment building.

In Germany purchase of flats does occur and some banks co-operate by advancing the substantial key money or rent in advance, which is payable over 4 years.

It is believed that in the ideal consumer society the consumer owns his own home (whether flat or house) and in this respect Britain appears to be in advance of many European countries, (and also free of that Continental scourge, the Concierge, who apart from being obnoxiously curious is apparently prepared for a consideration, to pass information about one's affluence to the Revenue, if one's tipping has been insufficiently lavish).

Ownership of Business Equity

A feature of American society is the wide ownership of shares: so that in the U.S.A. one's postman is likely to be a keen scanner of the Dow Jones Index. While Britain is less advanced than this, the growth of the Unit Trust movement has been significant in recent years. The Continental saver tends to use savings banks, and lacks building societies as alternative repositories for investment. Information on personal savings practice is difficult to obtain largely because the inhabitants of most of the countries visited are reluctant to reveal anything that could betray them to tax gatherers. The Swiss are reticent on other grounds. An essential of the Consumer Society is wide public ownership of shares. In fact in Belgium, Germany, Italy and France the Stock Exchanges appear to be in a very sluggish condition, and even the Swiss Exchange, although active, has a much narrower range of quotations than London or New York.

In France the Government makes about 80% of the issues. Even so, industrial issues attract 6% for bonds, as opposed to 2% for equities. In Italy businesses still tend to be large family holdings which prefer not to make issues to the public at large.

With this somewhat costive atmosphere on the exchanges it is not surprising that unit trusts have not made a great impact. In France units

have been offered, but for sums of 200 francs (approx. £14) per unit. The French felt that smaller units would attract 'undesirable' investors.

In Germany some banks operate unit trusts, but these come under severe competition from the door to door selling tactics of the well-known 'Fund of Funds'. It is not clear whether the success of the latter in Europe is a result of high powered selling techniques, or of a latent desire of the small saver to invest in equities.

Conclusions

In attitudes towards European achievements, Britain in her present mood of uncertainty appears to oscillate between complacency and self-abasement. On the one hand according to the testimony of one importer of motor cars exported British products require more rectification than their German counterparts. Yet on the other hand British goods in Italy and Belgium still imply quality. Stories about late delivery and unanswered correspondence are widespread but by no means universal. Our conclusions, however, on consumer services and retail marketing in general are unequivocally that the U.K. is well ahead of Europe and, most importantly, ahead in know-how and techniques.

In the last war Britain and Russia were the only European combatant nations not to suffer military defeat. It therefore comes as a shock to find the average standard of living is higher than Britain's, not only in neutralist Sweden and Switzerland, but also in France. Germany and Belgium are now broadly parallel with us, but have a more rapid growth rate. Thus we have a somewhat paradoxical situation. The consumer is better served and better organised in the U.K. but may well have greater potential purchasing power in several European countries. To adapt Chou En Lai's dictum in Africa, 'In Europe the prospects for Consumer Revolution are excellent'.

It may be easiest to consider some of the things the consumer has in Britain that he, to some degree, may lack in Europe; and then to see if there are not opportunities of exporting them. This does not, in this context, mean consumer durables (although the opportunities are enormous despite internal competition), but rather services and techniques.

1. Market Research - to identify the consumer and his needs.
2. Advertising - to make the consumer aware of what is available.
3. Advanced methods of retailing - so that he can shop comfortably and conveniently.
4. Credit - so that he can more easily acquire his needs.
5. Organisation - so that he can protect himself and make his needs paramount.

6. Opportunities to acquire a personal stake in the country's wealth - in the form of home ownership and equity holdings.

Taking these in order:

1. International advertising agencies and market research organisations such as Ogilvie and Mather, S.H. Benson, L.P.E., Masius and A.C. Nielsen have been in Europe for some time and in general are ahead of the field in countries where they operate.

There is, however, still enormous scope for others to follow them; in particular there is much work to be done on consumer profiles and habits, retail outlet evaluation, media research and attitude surveys before continental countries become as well docketed and ticketed as the inhabitants of the U.K. There appears to be much base work needed to sell the idea of surveys to the European man in the street.

This is a field where British reliability and integrity can be a valuable selling point to continental traders who need such services.

2. France and Italy represent the most fruitful field for developments in advertising since the expenditure per capita there is the lowest of the five countries visited. Opportunities in France will grow enormously when the power of peripheral TV stations (in Luxembourg, Monaco and Andorra) is increased and something like nation wide commercial coverage is attained.

It is also likely that the circulation pattern of European newspapers will move towards English patterns as increasingly sophisticated advertisers concentrate their investment in those with the widest coverage. Without advertising revenue smaller papers will wither away.

Advertising agencies operating on the continent have perhaps even more than in the U.K. opportunities to provide comprehensive agency services to the client i.e. advice on research marketing, distribution, display.

3. Retailing methods are advancing on the continent, but, with Switzerland and some of the advanced supermarkets appearing in Belgium as an exception, layout, display and packaging even in self-service and department stores fall far below the British standards. Here there seem not only opportunities for exporting expertise, but for exporting shops and even chains. The success of international style petroleum retailing has been noted, and there seems little reason why pioneering work of W.H. Smith in Paris and Brussels and Galleries Lafayette in London should not be emulated.

There are Marks and Spencer boutiques in some continental chain stores, but it is believed that the appearance of complete shops like Marks and

Spencer or Sainsbury in their English layout and decor would have a dynamic effect in main European shopping centres. It was after all Christian Dior who said, after visiting the Oxford Street Marks and Spencer, that it afforded British women the chance of being the best dressed in the world.

Of course such transpositions would be much facilitated, and perhaps even only then practical, if Great Britain attained entry to the Common Market.

4. The same conditions would apply even more forcibly to the operation of credit houses in the continent, and in this sphere national rules and regulations would clearly be very material. But after all banking can be international in 'operation', and consumer oriented organisations such as American Express continue to operate in many countries.
5. European countries appear greatly to need life to be put into their embryonic consumer movements. As noted, the only consumer publication encountered had forfeited confidence by accepting advertising. Here could be an opportunity to capitalise on the concept of British integrity which is still gratifyingly widespread in Europe. Could not the Consumer's Association internationalise itself? After all many consumer durables now evaluated in 'Which' are of European manufacture so much of the necessary testing is already done. Needless to say an additional platform for British goods would be provided without integrity being impaired since home products are by no means always listed as the best buy.
6. One lacks sufficient knowledge to suggest that British Building societies should internationalise themselves. Technical difficulties may be too great. It is inescapable, however, that Europeans seem sadly to lack the aimable presence of large organisations like the Halifax and the Abbey National, both as aids to home ownership and as repositories of small savings.

The startling success of the Fund of Funds appears, however, to indicate that the internationalisation of mutual funds is a real possibility. It is true that present economic difficulties may not make the London Stock Exchange very attractive to small foreign investors; but it could hardly be less attractive than the moribund Bourses of Western Europe. This again is another matter that would be much eased by entrance to the Common Market, and by the development of the market itself as Market laws replace National ones.

One inevitably returns to this point. Entry to the Market is notably the essential for success in consumer marketing, but non-entry will inexorably exclude Britain from a vast consumer society, growing in wealth, and waiting to be organised and led in to the Consumer Revolution. Even the French consumer might consider the advantages of associating with a country that knows how to get its milk delivered (unknown in

Europe) or even one whose banks deign to give a personal statement of account more than twice a year (French Banks won't).

Finally it must be said that it is apparent from European experience, exemplified most clearly in Switzerland and Belgium that the consumer fares best, and has the greatest choice, where the market is most free. In political terms, that is, where capitalism has fewest restraints. This provokes the thought that perhaps the consumer is best off where he can dispose of most of his income himself, instead of having it redistributed to him by a paternalistic state. Certainly, competition and the power of the purse seem to protect Swiss and Belgium consumers from exploitation. Even they would be better off if they were acting in concert as a palpable body. And it may well emerge in the new European Society that consumer self-help is more effective than universal centralised welfare.

CONSIDERATIONS AFFECTING THE EXPORT OF CAPITAL GOODS
TO EUROPE

- by -

M.F. Griffin - British Aircraft Corporation (Operating) Ltd.

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Introduction

We set out on our tour of Europe with the intention of compiling a fairly detailed report on the trends of the capital goods market in the countries visited. However, we were surprised to find that very little factual information was known about this important subject by any of the commercial attaches, Chambers of Commerce, bankers, trade unions, etc. that we met.

There is plenty of detailed information on the consumer market collected by advertising agencies and official bureaux, but none of our contacts (including these agencies and commercial attaches) had heard of any organisation concentrating upon industrial marketing.

The report contains, therefore, the small amount of information we were able to obtain, plus the criticism made by Europeans of British efforts in the export market.

We would mention, naturally, that the tour was brief and our contacts limited so our comments must be tentative. However, the individual statements quoted are factual and can be substantiated.

The European Market

Before we consider individual countries let us look at the total European market for British goods.

A recent Financial Times survey estimates that 40% of our total exports now go to the European countries of which more than half is to members of the E.E.C. In spite of E.E.C. tariff barriers a 4.5% increase is expected in 1966.

With the real possibility of our joining the Common Market in 1967 British exports are likely to have price advantages in many fields particularly capital goods, whilst the Commonwealth and Sterling Area share of our trade will continue to decline.

Conversely when we are members of E.E.C. our domestic market will no longer be protected. Therefore British manufacturers must treat the European market at least as seriously as their U.K. customers.

Brief review of market by country

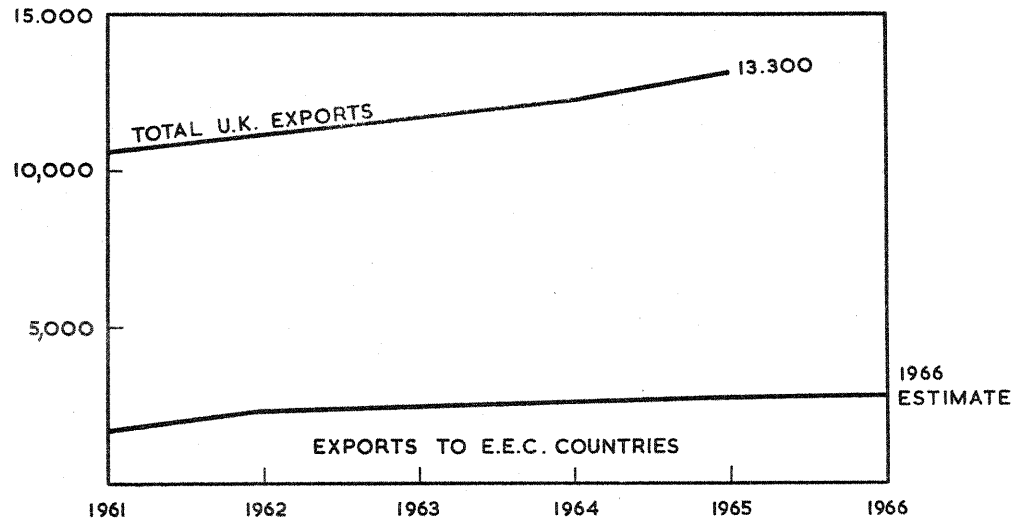
1. France

France has a preponderance of small and medium sized firms which are conservative and do not accept innovation easily. A tradition of protectionism leads them to look inside the country for their requirements, although all industries are forced to import because none is self sufficient.

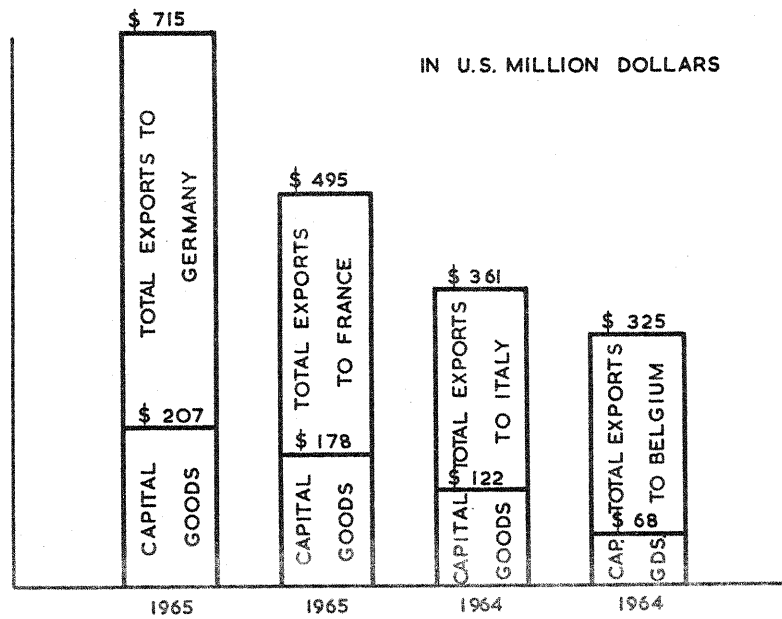
The Common Market is forcing firms to merge so the capital goods market

EXPORTS TO E.E.C. COUNTRIES.

MILLION
U.S. DOLLARS



IN U.S. MILLION DOLLARS



is growing; so is industrial production, which rose by 38% between 1958 and 1964.

Even when imports in general were restricted, successive French governments gave priority to capital goods, therefore recent liberalisation of trade did not affect this sector.

A prices freeze imposed in 1964 has cut profit margins to the bone and slowed down the rate of investment. It reduced the return on equities forcing investors to finance by bank loans. Since the government has a very tight control on the banks money is available only for approved projects. Priority is given to road building and the development of distressed areas, for which there are special investment incentives. No particular industries are favoured by the government and there is no aid towards modernisation and technical advance.

The commonest form of finance for capital goods is through 6% bank loans guaranteed by the government 'Caisse des Marches'. It is not uncommon for French customers to pay cash for their imports. To reach the market there are plenty of trade associations; the many trade journals are widely read. Selling should be directed at technicians, and much business is done over lunch.

Delivery is more important than price and Germans are beating us on this score. We were told that it is better to lose an order by quoting a long delivery, and have another chance later, than to break a delivery promise and never have another chance.

British exporters were criticised on delivery and on the fact that they send salesmen who do not speak French or understand the country. We tend to use too many agents to cover the country, and neither supervise them closely enough nor give sufficient technical backing.

Correspondence should be in French, and dimensions should be metric; the French seem particularly chauvinistic on these points.

We were advised that verbal agreements tend to be discounted in France.

2. Belgium

Brussels - now recognised as the Capital City of the E.E.C. - has enjoyed a wave of prosperity that has recently come to an end and has forced a period of consolidation in business circles.

A country divided by a language barrier (which is not as acute as the press tends to make it), Belgium has its own industrial problems, such as the closing of coalmines and steelworks, which it seems to be dealing with very sensibly.

Belgium is traditionally pro-British, respects the quality of British goods and looks forward to the day when the U.K. joins the E.E.C. mainly due to the E.E.C.'s lack of advanced technology. A country that lives by exporting, Belgium now exports twice as much per capita as the U.K. However, the U.K. has held on to her 8% share of Belgium's imports in spite of considerable tariff barriers whereas other non-E.E.C. countries have dropped their share. Small companies are gradually merging and the need for modern machinery is prominent.

A great effort by the Board of Trade, British Chamber of Commerce and British companies in Belgium, is being put into the 1967 British Week in Brussels. A large amount of money is being spent by the Board of Trade to stimulate trade; aimed though it is at the consumer market, there is no doubt however that British Capital Goods exporters would do well to cash in on the goodwill that will obviously be flowing at the time.

The Belgian businessman is a hard bargainer - very interested in price and as would be expected responds favourably to a well timed price discount.

3. Switzerland

Switzerland is a small country with a traditional respect for individuality. It boasts of a constitution based on 'Government from the Bottom', a citizen army, and a free market.

Therefore it is a very competitive market where individual tastes must be met, and a genuine pro-British feeling does not prevent German aggressiveness from securing most of the market. The Swiss themselves live on their exports and are especially critical of the shortcomings of others in a field they know well.

Swiss industries are small and diverse, therefore they are interested in flexible general purpose machines, but expect customer modifications and adaptations to be incorporated.

Quality and design are the prime considerations, and whilst British quality is generally accepted, our image is honest, stuffy, conservative, and dull. We lack design flair but are considered good to do business with.

There is no language problem, for most Swiss are tri-lingual, but they insist that drawings etc. should be to continental standards, (even to the method of folding them!) and B.S.I. design criteria are less appropriate to the market than their German and French equivalents.

Publicity is expensive because of the smallness and diversity of the market. But there are plenty of good Swiss agents. An advertising agency suggested that a British firm entering the market would be advised to ensure that its products were suitable, by means of market research, before launching

them. Assumptions on this point are likely to prove unfounded.

Agents should be visited frequently by technicians who know the product well, and have sufficient authority to make decisions on the spot. Our failure to do this has led the Swiss to think of Britain as a far distant country, unlike Germany which is just across the border.

4. Italy

It is recognised that whereas Italians respect the quality and know-how of British products they still prefer that the product has a distinct Italian 'flavour'. As an example the mini motor car became a huge success when assembled in Italy on the propaganda line, 'Now the mini is Italian'.

The iron triangle in the North of Italy based on Genoa, Turin and Milan should be the starting point for any prospective exporter. 45% of the working population live here, and have moulded an Italian style Birmingham with the difference that they have increased Italian industrial production in the last ten years by 50%. Labour costs however have risen considerably as a result of legislation by a union/labour oriented Government. This is forcing Industry to look very earnestly at improved and automated machine methods. Foreign companies have taken the lead in automation.

Publicity coverage of the Italian industrial market is difficult due to the lack of technical journals and of trade associations. Best results will be obtained by utilising a British or American advertising agency to advertise in the well read localised newspapers plus direct mail tactics. Then when the product name is known, follow-up should be by personal contact.

Italy knows that it is economically the weakest country member of the E.E.C. and that it has a long fight ahead to combat the Common Market invasion which will really be felt in 1968 when all tariff barriers are down. With expansion of industry and Government incentives to revive the South all the prospects point to a wide open market for the bright and efficient exporter.

5. Germany

Germany is by far the biggest exporter within the Common Market, and therefore our biggest competitor. She has achieved this mainly by her expertise at sales and service, which are no doubt doubly necessary to overcome the lingering prejudices against the German nation.

She is also the biggest importer in the E.E.C. and so offers the best opportunities to Britain. However at the present time the capital goods market is difficult because of lack of domestic credit, though it is expected to be eased under a new Chancellor.

Industry was deliberately dispersed throughout the country by the NAZI regime, and is thus difficult to cover. However Trade Fairs, particularly Hanover, plays a very important part in German marketing, and are particularly suitable for small exporters. It is essential that technical representatives with decision making authority and the ability to quote prices in any currency attend such fairs. They should speak German, and salesmen in general should be of German nationality.

Personal contact is valued; it is not difficult to obtain interviews with top men in industry, but rapid follow up of customer enquiries is expected. Experienced traders say that Germans are pleasant and honest people to deal with. They will argue and discuss a great deal, and drive hard bargains, but once agreement has been reached there are no second thoughts. There are no great criticisms of British deliveries, with one or two notable exceptions, and the quality of our goods is regarded as very high, particularly of the more sophisticated machine tools.

There is no special investment help by the German government except to establish industries near the East German border, and for the aircraft and defence industries.

British Export Goods

The British Government is doing all in its power to encourage British manufacturers to export. Rebates are given on all exports. However, this tour has shown us that Great Britain must be more selective in its prize giving and that exporting for export's sake could very soon ruin the acceptability of our finest quality products.

We would like to show a selection of answers received to the question:-

'What is your experience of trading with the U.K.?'

1. 'In this very competitive market British quality is recognised but the word of an Englishman when making delivery promises is now considered a bad joke.'

(ITALY)

2. 'British quality is still regarded highly but design is still very British, conservative, lumpy and dull whereas the Germans are designing for our particular tastes. Agents' communications with the U.K. are rather bad, measurements are invariably quoted in inches and there are many small annoying items which are different from the norm of European trading.'

(SWITZERLAND)

3. 'There is still a certain amount of 'snob' appeal surrounding British goods mainly because your goods are of a high calibre but your deliveries are notoriously bad and all promises are questioned

as being quoted in 'Colonial time' and not real time.'

(FRANCE)

4. 'We do not consider German goods superior to all others; many U.K. products are the best that can be found in the world, but you must be more aggressive in your sales methods. Use German salesmen and stress must be made of the essential personal contact that we demand.'

(GERMANY)

If we conclude from the above points of view that U.K. delivery dates are far from acceptable than we must also look into the methods of selling our goods abroad.

The majority of exporters use an established agency in each country. The agents encountered however were not well supported with either literature, sales aids, promotional material in the local language or technical backing in the shape of men who knew the product well, how it was made or more important, how it could be altered to suit local requirements.

In Europe - and we cannot stress the point strongly enough, a Very Competitive Market - the U.K. exporter is not just competing against a few interested local manufacturers but a whole Continent of very hard selling businessmen who both give and expect to receive instant personal attention whenever a request is made. 'British understatement' is not understood on the Continent and more could be sold if the exporter would only boast of the virtues of his goods.

Continental expect to be treated, wined, dined and sold to in the way to which they are accustomed. They expect a salesman to:

- (a) Know what he is talking about.
- (b) Have the authority to discuss what the Company can offer.
- (c) Speak in at least one language other than English.
- (d) Talk metric and show designs in metric.
- (e) Be able to conclude a negotiation without referring continually back to the U.K.

Whilst each of the points mentioned is not always essential any one weakness will of course put the British salesman in a 'one down' position.

British businessmen must realise that a trip to Paris, Berlin or Brussels can be carried out certainly more quickly and at times more cheaply than travelling from London to Newcastle.

No doubt these remarks will appear rather naive to many exporters but the fact does remain that Great Britain can so easily obtain a reputation of mediocrity in Europe and the bad exporter can ruin the market for everyone.

Aids to Potential Exporters

The view 'X seems a good country that is sure to buy our product', so many times tried and so many times failed, must be forgotten allowing a sensible and scientific approach to the problem of exporting.

Before any work is done in the field a certain amount of homework in the study of literature obtained from local Chambers of Commerce, C.B.I. and the Export Services Department of the Board of Trade must be carried out. Up to date information covering all aspects of an individual country are available through the Export Intelligence section of the Board of Trade. Once this has been covered a visit to the country - well organised and well timed will be arranged by either the Commercial Consuls or the British Chamber of Commerce.

Various reports have been voiced in recent years concerning the value of the Commercial Departments of the Consulates, but in general on our tour the calibre of the local commercial people was found to be high although there are some which far outshine others.

Given the time and all the necessary information about the product or products they will line up retailers, prospective agents, Government officials etc. to make the businessman's visit as full and worthwhile as possible. Participation in Trade Fairs, exhibitions, etc. can also be arranged for the small and medium sized companies as long as the company does not expect Consulate Department to man his stand! Many Trade Fair participations fail due to British goods being shown - without representatives of the producer being present.

Export Rebates

Unfortunately our brief tour encountered a feeling of impotence on the part of Commercial Councils, British Chamber of Commerce etc. as to the action they could take to improve the image of British products. Take an example of a consumer durable product which is well known on the local market but has consistently given an extremely bad delivery service and an even worse after sales service, consequently losing ground to other continental manufacturers. These facts are known, seen and felt in the market area, by British Officials and Trade Associations who receive the embarrassing complaints at frequent intervals in their working and private lives. They know that this particular exporter is gradually denigrating the image of all British goods but are powerless to intervene unless the agent makes a complaint to them officially. A letter will then be sent to the Board of Trade in London who can only bring the facts to the notice of the exporter. Apart from this they can take no action. This same exporter who no doubt is operating in several countries and may be putting up the same inept performance in each of them, is actually being rewarded by the Board of Trade even though he may be ruining the market for British goods in general.

The exporter concerned should be excluded from all export rebates and

privileges, including the E.C.G.D. coverage, for the harm that he is doing. How this can be organised must, we feel, come under the umbrella of the British government officials throughout the world. The local agent who no doubt has been complaining for some considerable time to the exporter without success has very little power and the impression is that his grumbles are placed with similar grumbles from other agents and filed neatly away in G.B. by the Export Sales Manager. If however the Export Sales Managers' boss, be he the Managing Director or Chairman of the Company, received a jolting letter from H.M. Commercial Consul in X country detailing the markets reaction to this inferior service we would suggest that sparks would fly and the situation be corrected forthwith.

Conclusion

British manufacturers exported £4,700 millions in 1965 which was an increase of 7% on 1964. A great deal of hard work and technical skills were required to achieve this and all praise must be given to the companies concerned, however how much more could have been achieved if all exporters were as good as the best? Also how much more of the capital goods market could we get if we treated it more like the consumer market using market research investigations and professional advertising agencies?

THE ORGANISATIONAL STRUCTURE OF SUBSIDIARIES OF
INTERNATIONAL COMPANIES IN EUROPE

- by -

Dr. W. Barents - Philips' Gloeilampen Fabrieken N.V.

H.H. Wilson - Shell International Petroleum Co. Ltd.

Introduction

The purpose of our investigation during the European tour was to try to establish the effect of the various national environments upon the organisation of subsidiaries of international companies operating in the five countries visited. It was also our intention to find out to what extent organisation can be dictated by the parent company in a centralised organisation, and to what extent the parent is endeavouring to adapt the organisation of its subsidiaries in the changing environment of Europe. In this latter respect we were particularly interested in the regionalisation and internationalisation of staff in foreign subsidiaries and their progression within the company.

Country Subdivision

1. France

(i) Businesses Visited

In Paris discussions were held with the management of the Anglo-French joint venture Metra International and with Society d'Economie et de Mathematique Appliquees (S.E.M.A.), the French holding company of this venture; with the Federation des Importateurs de Metallurgie et de la Mechanique and with the Paris subsidiary of Lloyds Bank.

(ii) Influence of National Factors on International Companies

As a member of the Common Market, France is well known to be very reluctant to support the idea of a supra-national E.E.C. Government.

One of the basic reasons for this is perhaps the very active role the French Government plays in French business life. The laissez-faire principle that finds its origins in France is nowadays abolished. For example: All the commercial banks are closely controlled by the Banque de France i.e. the Treasury.

(iii) Finance and Tax Regime

37% of total Government income is formed by the corporation, service and turnover taxes. These tax regulations are very complicated and, as we understand, it is a real French art to avoid paying all the tax duties with the help of legal means. The turnover tax especially (20%) is, if possible, passed on to the next link of the distribution chain. This practice of tax evasion has been aptly described as the Slalom technique. The French stock exchange is underdeveloped; this is mainly due to the extent of direct governmental influence on business - even the announcement by General de Gaulle of the free external convertibility last July did not have any affect on improving the position of the Bourse de Paris. For this reason the Banque de France and her satellites are the main sources for forming new capital. If a planned subsidiary of an international company fits into the 'national

plan', that gives guide lines to the economy and any company in France, favourable loans and interest rates can be obtained. Otherwise the needed capital may have to be supplied by the parent company.

The tax regulations and the limited and conditioned capital supply make a logical policy vis a vis a French subsidiary impossible.

On the one hand the French Government does not prevent foreign investment, but as can be learned from the Simon and Bull cases, take-over bids for existing French companies are not welcomed. On the other hand, a majority holding of the share capital by the parent company is recommendable from a management point of view.

(iv) Management and Staff

Because of the tax regulations it is a necessity to give the subsidiary a French character by appointing a Frenchman to the Board of Management, and to adopt the French auditing system. In this way it is possible to avoid the full tax burden imposed upon foreign companies who do not have the knowledge or opportunity to avoid it. For example, the profits made by a foreign subsidiary can be remitted on application to the Banque de France. Proof, however, must be submitted that taxes for the year have been paid. It is for these reasons that a French subsidiary should have a decentralised intercompany structure in order to be managed in an economical way.

The discrimination against foreign subsidiaries with the help of the tax and financial measures of the French Government does not attract international companies who have a centralised organisational structure. If however an autonomous subsidiary can be accepted, many reasons favour having a subsidiary in France. One reason quoted to us was of a political nature - that France was the most difficult market of the Common Market and if you could succeed in France you surely could do this in the E.E.C.

This again illustrates the enormous negative power France has, of quite illogically attracting foreign investment by creating a challenge by erecting a barrier of discriminating restrictions. Economically there are several positive arguments for having a French subsidiary. The labour market and labour relations are favourable compared with other European countries; the French staff in general is of good quality (it has, however, to be kept in mind that compared to the British or American people who give great emphasis to a pragmatic approach, the French manager is more logical in approaching problems); and last but not least the French market is less competitive than in other countries due to the above mentioned restrictions.

(v) Organisational Pattern

We were unable to glean sufficient information from the visited companies about the nature of the communications between subsidiary and parent

company to draw any general conclusions but these are, of necessity, very loose and mainly of a financial nature.

Management and staff of subsidiaries in France are mostly French.

It is expected that when the Common Market is fully established a more international staff progression and a centralised policy of the parent company will be necessary in order to curtail the present national attitude of the French subsidiaries which is currently required to establish their place in French industry and trade.

2. Italy

(i) Businesses Visited

In Milan discussions were held with the management of two subsidiaries of international companies, respectively Ronson Italiana and London Press Exchange (L.P.E. Italiana). In addition visits were made to the Italian International oil company (E.N.I).

(ii) Influence of National Factors on International Companies

Of all countries in the Common Market, Italy is the least developed economically and is literally being pulled 'by its boot straps' into the modern industrial world.

The national approach to business in Northern Italy is energetic but conservative, particularly where family businesses are concerned. The rather loose and ambiguous nature of legislation on financial and particularly labour matters leaves considerable latitude for management manoeuvre in these fields.

The Italians are enthusiastic members of the Common Market and accept 'internationalism' as a logical outcome of this membership. As a result of this philosophy the Italians welcome the influx of foreign capital into their country and have not attempted to hinder the setting up of foreign subsidiaries by restrictive financial legislation or by limiting the inflow of foreign staff to fill posts in such subsidiaries.

(iii) Finance and Tax regime

The Italian lira is now a strong currency reflecting financial health. Financial administration is complicated by legal ramifications and unorthodox auditing procedures. However, there is no mandatory participation of Italian capital in foreign subsidiaries which thus operate within the same financial regime as that applicable to Italian companies. In the absence of mandatory participation, international companies tend to set up wholly owned subsidiaries. However, in the case of very large firms, joint ventures with Italian companies are not uncommon although the international companies almost without exception hold more than a 50% interest.

The tax authorities are encumbered with a mass of imprecise laws and their task is complicated by a national attitude of irresponsibility toward taxation. Tax evasion on a personal and corporate level is endemic, to such an extent, that 'clean' tax returns provided by a foreign subsidiary are regarded with suspicion by tax authorities. As a result foreign subsidiaries are encouraged to make excessive expenses claims in order to provide the authorities with the opportunity for making reductions. There is no legislation which impedes the repatriation of profits to parent companies of foreign subsidiaries.

(iv) Management development and staff progression

Because of the liberal attitude of the government to the import of foreign staff, the decision to use English or Italian staff in a British subsidiary is governed largely by economic and public relations factors and by the scarcity of qualified Italians on the market. There is certainly no disadvantage at present in employment of British nationals since the ethics and expertise of U.K. businessmen are admired. Nonetheless, because of the complexities of the Italian legal and tax systems it is essential for a foreign subsidiary to obtain the services of a first class Italian lawyer and tax adviser at the outset in order to avoid subsequent legal and fiscal wrangles.

In regard to permanent staff there is a trend for foreign subsidiaries to train Italians for eventual replacement of expatriates in all senior staff positions except that of the chief executive. In the field of advertising it was considered essential to employ Italians in order to maximise penetration into the highly subjective local environment. On the other hand some U.K. companies still recruit British staff because it is easier to teach a good functional man the Italian language than to obtain and train an Italian in a new function. Furthermore, because of the scarcity of qualified Italian staff the salaries which they demand are often far higher than those paid to their British equivalents.

The Italian attitude to modern staff training methods is demonstrated by the E.N.I. technical school which runs a one year course for graduates from many nations entering the petroleum industry, and is recognised by U.N.E.S.C.O. as the only school in Europe qualified to teach on hydrocarbons. E.N.I. officials admitted that this school was, to some extent, a prestige establishment in competition with P.R. projects of other major international oil companies. A reflection of E.N.I.'s own management progression policies is the recent closing down of their management training course, after only two years in operation, because those chosen for the course regarded it as a passport to higher management positions and were indignant if promotion was not forthcoming. It would seem from this that E.N.I. is so rigidly centralised that it is incapable of placing the stream of new managers within its organisation.

(v) Organisation Pattern

Because of the unrestrictive environment in which foreign companies

can work in Italy the organisational evolution of subsidiary companies can be dictated by the parent company without hindrance. The pattern which evolves is one in which a strong central control is exercised during the period of 'break in' to the market with a gradual decentralisation and increase of autonomy as the company becomes established in the market and as local staff is built up and trained in the functional expertise emanating from the parent. As maturity is reached the technical advice and functional lines of communication weaken and financial control becomes the only rigid link with the parent company.

L.P.E. Italiana has reached the mature, autonomous and decentralised situation rather fast because the nature of its business has necessitated a very close identity with the local environment. In a virtually autonomous state, with the Chief Executive as the only non-Italian, the company is expanding rapidly with a growth rate of 43% in 1965 and an expectancy of ranking as No. 2 in share of the Italian market by 1967.

In comparison to foreign international companies the E.N.I. organisation appears to have retained a rigidly centralised structure with financial and functional control being exercised on overseas subsidiaries. The same organisational philosophy seems to be typical for large Italian industrial empires under family control.

3. Switzerland

(i) Businesses visited

In Switzerland three subsidiaries of international companies were visited, these were: the Ford Motor Company, a distributing subsidiary of Ford International in Brussels, Alcan S.A., the regional marketing head office of the Canadian Aluminium company of the same name, and Masius Ltd., a subsidiary of the British advertising agency.

(ii) Influence of national factors on International Companies

Switzerland, because of its geographical position, its ethnic mixture and because of the trading history resulting therefrom, is internationally minded beyond the bounds of its immediate neighbours. For these reasons, coupled with a favourable financial/tax regime Switzerland has been an attractive location for regional headquarters of international companies in Europe.

Although the Swiss people are proud of the degree of national unity that they have achieved, nationalism is not a feature which works against international business and, apart from recent government legislation aimed at restricting the growth of very large foreign firms (a factor which led to the withdrawal of some American subsidiaries), there is no discouragement to foreign businesses in the country.

The success or failure of foreign enterprises in Switzerland, depends to

a very large extent upon the competitiveness of the business and its ability to satisfy the stringent quality and delivery date requirements of the market. Thus, in some fields, such as advertising, where the Swiss themselves are backward, the industry leadership is being acquired by foreign firms and agencies.

However, where several foreign firms are competing in the same field there is some national prestige advantage to be obtained from manufacturing or assembling in Switzerland rather than importing from abroad; in the motor industry for instance, General Motors and Chrysler have this advantage.

(iii) Finance and Tax Regime

In Switzerland there is considerable financial and tax incentive for foreign companies or subsidiaries to set up business in the country. The only major complication arises from there being no legislation to provide for double taxation relief and to avoid this penalty foreign companies selling products manufactured outside Switzerland are generally set up as trading subsidiaries of parent companies and are not incorporated in Switzerland.

(iv) Management Development and Staff

Until recently there was little restriction to the use of expatriate staff by foreign companies in Switzerland. However, because of the heavy influx of foreign labour and staff into Switzerland the Government has now tightened up on provision of work permits for foreigners which may create problems for some international companies, particularly those with regional head offices such as Alcan and Chrysler.

Management development courses are run by Alcan in Geneva and Ford can utilise training facilities in their Brussels regional office.

Although the tendency is to reserve the position of Chief Representative of foreign subsidiaries for a national from the country of the parent company this is not always the case. Staff progression in international subsidiaries does appear to be developing on a European pattern towards eventual interchangeability of European management staff between European subsidiaries.

(v) Organisational Pattern

The organisational pattern of international companies in Switzerland displays considerable variety since neither legislation nor commercial environment favour any one particular structure. Variation between companies visited runs from the almost complete autonomy of Masius Advertising Agency, to the regional head office of Alcan which is itself directly controlled by the Canadian parent, and to the Ford distributing subsidiary which is largely controlled from Ford International's regional office in Brussels.

Alcan were currently being investigated by management consultants who are to propose organisational changes. At present all functional and R and D advice comes from the Canadian parent but since 40% of Alcan's business is in North America the writers feel that some of the advice given may be better orientated to the American market than to the European and middle eastern markets covered by Alcan S.A. In Switzerland Alcan also has a manufacturing plant which is completely separate from the Regional marketing office and reports direct to Alcan's manufacturing function in the Montreal head office. A more effective regional organisation might be to co-ordinate marketing and manufacturing under one roof in Switzerland.

Looking to the future, it is likely that Switzerland will lose some of its appeal as a centre for regional headquarters, since with the rapid evolution of the Common Market the European commercial centre of gravity will move towards the industrial hub of the Benelux-Ruhr area.

This may well explain the decision of Ford International, I.C.I. (Europa) and Euro Shell to place their regional offices in Brussels.

4. Germany

(i) Businesses visited

In Frankfurt discussions were held with the management of:

Dunlop Co. A.G. Hanau
I.C.I. Deutschland
A.C. Nielsen Co. G.m.b.H.

(ii) Influence of National Factors on International Companies

One of the most striking things about Germany is that this country has made people think that the word 'economic miracle' means Germany.

This emphasis on economic achievements means that other remarkable facts about Germany are less known. However the change of an absolute nationalistic into a sincere European/international attitude of the average German is in itself far more significant if one compares Germany with, for example, England and France. The reason for this change cannot be logically explained, but it is a fact that this attitude does attract international companies to invest in the German economy.

It was very difficult to obtain exact figures but according to an estimate U.S. companies alone have obtained approximately a 40% interest in major German industry.

We had the opportunity to ask several people such as trade unionists and German bankers, about their feeling towards this important foreign influence and the answer was in all cases 'It is healthy for Germany to have

this influence of foreign capital, but since the German economy has stabilised after the rapid growth period foreign investment is expected to tail off and a natural balance will soon follow'. Germans have the same unreserved attitude towards the Common Market, and in fact they expect that the increased market will give to German industry the full advantages of an economy of large scale production. In Germany there is as a consequence a minimum of governmental influence and a true liberal trade policy which stimulates keen competition.

(iii) Finance and Tax Regime

After the war all the needed capital has been supplied by foreign investors and by international aid. Until some years ago self financing by retained earnings was a normal policy. As a consequence the stock exchange stayed underdeveloped. To strengthen the capital market a new corporation tax has been introduced. 51% tax has to be paid on undistributed profits and 15% on distributed profits. Despite this the main sources of capital are nowadays the issue of bonds and bank credits. The German banks are in this respect different from the other European banks by allowing easy credit terms of 15 years (recently due to the credit squeeze 10 years). In most cases it is therefore necessary for the parent company of German subsidiaries to supply the capital in order to maintain solvency.

(iv) Management and Staff.

The above mentioned German attitude is the reason for a highly competitive market which does not invite an international company to start a subsidiary from scratch. A normal practice is to take over an existing company with a reasonable market share. As a consequence the subsidiary is, by nature, autonomous and the management and staff both German. It is for this reason that most of the German subsidiaries are prescribing decentralised company structure. If however the parent company prefers a centralised organisation then it is necessary to educate the German staff accordingly. This is one of the reasons why many of the German staff of international companies are educated at American Universities such as Harvard, Princetown, and why the need for their own educational centres is less pressing. The American approach to business problems is therefore generally adopted in Germany and this explains the far advanced management techniques. The labour relations are excellent and great emphasis is laid upon the education of the workers who are by law represented in the boards of management by which a mutual understanding and commitment of both employer and employee is the result.

Another aspect of the German subsidiaries is that many nationalities can be found. For example, in Dunlop Co. A.G., six different nationalities were represented in management functions, in I.C.I. there were four and in Neilsen, two. The policy of free enterprise is in itself an invitation to international companies to set up a full-grown organisation in Germany. I.C.I. for example has been obliged to start its own sales company to replace

the former agents and wholesalers in order to compete successfully with Bayer and other chemical industries and thereby have the same advantages as the German companies who are near to the market. To have full use of such a costly enterprise I.C.I. has started an experiment of subsidiary regional supervision by appointing I.C.I. Deutschland as the regional co-ordinator for one of their products for all German-speaking countries.

(v) Organisational Pattern

The companies visited represented three different relationships that can exist between the parent company and subsidiary.

Dunlop Co A.G., owned 51% by the English parent company, is fully decentralised and its relation to the parent company can be characterised as liberal, whereby the latter provides R and D advice. There is only interference in cases of deficits and even in marketing problems within the Common Market the Dunlop Organisations in these countries work through a system of free co-ordination.

I.C.I. Deutschland, owned 100% by the English parent company is, as far as its marketing activities are concerned, responsible to I.C.I. Europe in Brussels.

Nielsen Co. G.m.b.H. is 100% owned by the U.S. parent company. There is a direct reporting duty for her new accounts and operations. This indicates a centralised organisation structure in the Nielsen Co.

5. Belgium

(i) Businesses Visited

The international concerns visited in Brussels included Ford International, the regional head office for Ford in Europe, and Whitbreads Ltd., a wholesale outlet for Whitbreads beer in U.K. During a discussion at the British Chamber of Commerce the commercial climate for entry of British firms into Belgium was discussed.

(ii) Influence of National Factors on International Companies

Belgium is wholeheartedly committed to the Common Market and this strong feeling of identity is further enhanced by the establishment of E.E.C. headquarters in Brussels. The country is, of necessity, an exporter of industrial goods and the per capita exports are double those of U.K.

The Common Market has given a great boom to Belgian industry and to further this boom, foreign investment is greatly encouraged.

The setting up of new industrial plant is particularly welcome in view of the steady depression of the coal and textile industries with concomitant release of labour onto the market. Special inducement is given to new industries to set up plant in the Development Areas. There is no legislation

against foreign industrial ownership or against the use of expatriate staff in foreign subsidiaries.

(iii) Finance and Tax Regime

Compared with other E.E.C. countries the financial and tax terms applicable to foreign firms entering Belgium are very favourable. Benefits include cheap land, interest rebates on loans, state guarantees of borrowing, capital subsidies and fiscal exemption.

Foreign companies agreeing to set up industries in Development Areas can be given free factory sites and exemption from local taxes.

(iv) Management Development and Staff Progression

Ford International have management and staff training facilities in Brussels. Functional staff from European subsidiaries come to Brussels for refresher courses on new developments and techniques. Ford is Europeanising its subsidiary staffs and cross postings of nationals is commonplace. Progression of staff is through merit alone and nationality is incidental. For instance, in the Brussels office there are 17 different nationalities.

When setting up its Antwerp plant in 1964, Ford brought in a team of 51 United States staff but by 1966 the U.S. staff has been reduced to a controller who will shortly be replaced by a Belgian.

This type of staff policy is perhaps typical for the large international companies entering the Common Market but there is no doubt that smaller companies, of which Whitbreads is an example, tend to hang on to their expatriate staff.

(v) Organisational Pattern

Once again in Belgium the organisation of international companies varies considerably, according to the will of the parent company, since no Belgian legislation imposes a particular structure.

The organisation of Ford International is typical of the large aggressive international companies which are following a pattern of regional decentralisation from the parent company with a relatively strong central control of subsidiaries within the region by the regional head office. Thus country subsidiaries in Europe are treated in much the same way as district subsidiaries are treated by an Area Office in the United States.

Conclusions

From the very limited contact made with International companies in Europe it is evident that a uniform type of organisation cannot be arbitrarily imposed upon subsidiary companies operating in different countries within the

E.E.C./E.F.T.A. group. National factors play a fundamental part in determining which will be the most appropriate initial organisation and how this organisation should evolve in any particular country.

In France nationalism is a strong force which is antagonistic towards foreign companies particularly if they are managed by expatriates. As a result foreign companies are constrained to nationalise their staff at the earliest possible stage and must operate in a decentralised relationship with the parent company in order to attain maximum national identity.

Italy, on the other hand, welcomes foreign companies and these are free to use expatriate staff and can establish an organisational relationship which is most suitable to the parent company. An observed pattern is that subsidiaries are strongly controlled by the parent company in initial years but become decentralised as they become established and functionally self-supporting.

In Switzerland the tax regulations are favourable for foreign companies. For this reason, coupled with the country's geographical situation, Switzerland has been a logical choice for the establishment of regional headquarters of international companies. However the commercial/legislative environment of Switzerland does not favour any particular organisational structure of companies and a great variety exists. Recent tightening up of the granting of work permits for foreigners is forcing companies to replace expatriates by Swiss staff.

In Germany many international companies have entered the market by acquisition of local firms, as a result of which international subsidiaries have built their organisation onto an already existing German staff. Thus, from this origin, a decentralised organisational structure has logically developed.

In Belgium, foreign companies are welcomed because of their contribution to a rapidly expanding industrial economy and considerable inducement is given to establishment of foreign plant in the country. Because of the very liberal attitude of Belgians towards foreign companies these are free to adopt an organisational structure of their own choice.

Considering Europe as a whole it is true to say that national factors play a considerable part in the determination of organisational structure in individual countries today. However, the rapid evolution of the Common Market will inevitably work to counter national idiosyncracies and will mould Europe into an eventual state of federation. With this in mind the present policy of some of the large international companies to set up semi-autonomous European regional offices controlling their country subsidiaries displays logical foresight. In the organisations of this type the staff development policy stems from a completely Europeanised basis with no discrimination of nationality. Thus some large international companies are preparing their organisational structure in anticipation of future political development.

AN ENQUIRY INTO THE EXTENT OF GOVERNMENT CONTROL
AND INFLUENCE ON COMPANY POLICY, WITH PARTICULAR
REGARD TO FINANCE AND LABOUR RELATIONS

- by -

C.D. Watson - N.G. Bailey and Co. Ltd.

P.J. Lovell - Rootes Motors Ltd.

C.S. Inglefield - Rootes Motors Ltd.

1. Introduction

At a time when British industry is smarting under the effect of ever increasing Government controls, like the prices and income freeze introduced in July of this year, and also at a time when any failures in British industry are largely blamed on our poor labour relations record, we were grateful for the opportunity of being able to examine the extent to which industry in certain European countries suffers the same handicaps.

During a tour covering five different countries in under two weeks it is obviously impossible to study any particular problem in depth, particularly when all our visits were prearranged and we were unable to select the people or firms we wished to visit. Of necessity therefore this report must be restricted to general impressions, and can only touch on the fringe of the problem.

In this report we deal with each country separately, covering firstly the overall economic scene and the extent to which the governments concerned influence company policy, and secondly more specifically the labour relations aspect.

2. France - Government Influences

The relationship between French industry and the French Government has been likened to a slalom race, with the government continually placing new obstacles in the way of industry which in turn goes to extreme lengths to circumvent them. This is of course particularly evident in the realm of taxation, but it is sobering to reflect that a considerable portion of the best brain power in the country is wasted on this completely unproductive cat and mouse game.

The French economic scene appears to an outsider to be something of a paradox, for although industry claims to have a very considerable freedom of operation, in fact the government exercises extremely tight financial control, mainly through the banks, and ever increasing legal controls.

Due to the low dividend yields in France, caused largely by very reduced profit levels following the price freeze, the Stock Exchange is extremely weak. The French Government is endeavouring to stimulate the capital market by the gradual reduction of the withholding tax payable on dividends (at present 12%) which is due to disappear entirely in 1967, and by allowing personal tax relief on the initial 500 NF received in dividends. This weakness forces industry to obtain new finance from retained earnings or in some cases by merging to form large industrial combines.

In addition to the nationalised industries, i.e. the railways, electricity, shipbuilding, steel, coal and aircraft, the Government controls the five major banks. This, coupled with the weakness of the Stock Exchange mentioned above, enables the Government to regulate the rate of investment to a fine degree. Extremely close control is also maintained over all other banks,

and as a rule no bank, even foreign-owned, can authorise a loan of any significance unless the clearance and approval of the Ministry of Finance has first been obtained.

Since the war the French policy for economic expansion has been laid down in five national development plans, each of which has had a different industrial emphasis. The fourth plan was completed in 1965 and the fifth and latest plan covers the period 1966 to 1970. As a general rule banks are only permitted to make loans where they are considered by the Finance Ministry to be in the interests of the national economy. This virtually means that finance will only be made available to those industries which are covered by the particular Plan currently in force, e.g. roadbuilding.

Additional Government controls were introduced to combat inflation in the Stabilisation Plan introduced in September 1963 by former Finance Minister M. Giscard D'Estaing. A strict control of prices was enforced and a board similar to our Prices and Incomes Board was established. Wages were not legally frozen but, due to the dwindling profit margins and also to the Government controls on key industries, these have been satisfactorily kept in check, except in service industries. Consumer credit was also regulated by introducing Hire Purchase limitations.

The effects of these policies on the immediate objectives were most successful and price increases in 1965 were 2.5% compared to 3.6% in 1964 and 4.9% in 1963. It is estimated that the increase in 1966 will also be less than 3%. In addition the GNP was up 3.5% in 1965 and 5% so far in 1966 which is in line with the planned increase under Plan 5.

The problem now facing the French Government is how the brake can be taken off without incurring an even more exaggerated prices and income spiral. Already there is very considerable pressure for higher wages, and the much reduced profit levels are further weakening the position of the Stock Exchange.

Considerable incentives are being offered by the French Government to encourage industries to move to underdeveloped areas. These incentives include financial assistance up to 20%, accelerated depreciation, fiscal advantages, sometimes amounting to complete tax exoneration, and housing facilities. In addition there are disincentives to discourage development in the Paris area; these are described later.

Considerable effort is made to encourage exports largely by the refunding of the T.V.A., added value tax. This tax is otherwise strictly enforced and largely takes the place of our purchase tax or turnover tax in most other European countries.

There is no legislation against monopolies although under EEC rules it is laid down that governments must protect the interests of consumers. In this respect there is legislation against the establishment of exclusive distribution chains except for certain luxury goods and the maximum mark-up

between factory and retail prices is limited to 45%. Although monopolies are not prevented by law, the French Government has been known to intervene in specific cases to assist French firms which are facing overwhelming foreign competition, e.g. petrol industry and Bull electronic machines. There is legislation preventing resale price maintenance.

Legislation has also been introduced tightening up on company organisation and administration, calling for more information from companies and requiring those quoted on the Stock Exchange to issue accounts twice annually.

In common with all territories within the EEC it is to the advantage of companies based outside the EEC to manufacture locally rather than suffer the penalties resulting from increased tariffs. In France there are additional incentives to operate through a French company in preference to establishing subsidiaries. Firstly French law requires the chairmen of companies registered in France to be French nationals unless specific permission which is hard to obtain, is received. Secondly the French people are reluctant to work for foreign bosses and also to purchase foreign goods unless they have some very strong individual appeal not to be found in locally produced goods, e.g. British knitwear and Scotch Whisky.

The preferred method of operation would seem to be a joint venture with a French company already producing a related product and, where appropriate, installing the necessary machinery to produce one's own product. In this way production can take place in a plant with French management and the product can be marketed by a French sales force and, if necessary, under a French brand name. A close degree of co-operation between French and British companies operating on this basis is apparently possible, but it was stressed that where feasible the British company should endeavour to have at least a 51% holding in the company formed for tax reasons.

This method of entering the French market has, by and large, been found preferable to the alternative of appointing a licensee for the manufacture of British goods, although this alternative is worthy of consideration if circumstances do not permit a more full scale operation.

Politically France appears to have a stable Government for the immediately foreseeable future. It is almost certain that the existing Government will be returned to power in the March elections, and, if not, General De Gaulle has threatened to take all power into his own hands by invoking article 16 of the constitution, which was designed only for use in a time of national emergency. He himself has just been re-elected to serve a further term and his health and constitution appear sufficient for him to stand again at the end of this period.

France - Labour Relations

In France the general impression gained, from employers and senior union representatives alike, was that their mutual relations were very good. This

they support by the relatively few major disputes experienced.

True to their Latin temperament however some major industrial upheavals do occur and we pointed this out to a prominent union leader during a formal discussion with him. He admitted that this was true but it was generally confined to nationalised industries such as transport and electricity. Furthermore he indicated that such strikes were normally directed at the principal cities such as Paris in order to realise the maximum effect in the shortest possible time. Such incidents were only possible when all three unions, embracing the vast majority of union members, had agreed to withdraw their members on a particular date. Only approximately 20% of labour are union members and these are centralised in the large industrial areas thus reinforcing the point that the union strength is fairly centralised, hence minimising the so-called 'wild cat' strike.

Coupled with the comments in the preceding paragraph are various other factors which seem to assist the industrial harmony which, in the main, the French enjoy. Perhaps not least among these is the fact that management also belong to a union with the aim of collectively agreeing terms of employment with the owners. This condition bridges a gulf in France between workers and management in a manner which does not exist in Britain. Apparently a rapport is built up between workers and management, since the workers feel that they are dealing with people who are not bereft of somewhat similar problems to themselves.

It was pointed out by a senior French union representative that the present function of French unions was to offer financial security to their members during this period of industrial change. Coupled with this, they also offer assistance as necessary in finding alternative employment should their members be rendered redundant through new methods being introduced by employers. On this latter point it is impressed on the employers that any intended changes, of any description, which will affect the ordinary shop floor worker must be conveyed to the union (and in turn to their members) offering as much warning as possible to permit proper and adequate action to be taken. According to our informant, employers seem to co-operate in this regard very well in this respect. Should it prove inevitable that changes proposed are coupled with redundancy, the unions also offer re-training to their members in order to have them placed in another industry, if employment in a similar industry is not available.

Wage rates in France follow a somewhat similar pattern to that of the U.K. in that they are negotiated nationally with a minimum basic payable. Areas which are highly industrialised resort to premium payments in the shape of bonuses or similar methods and it is not unusual for workers to obtain up to 50% on top of the national basic scale. Annual holidays are three weeks minimum but the usual is four weeks. It is also customary to pay an additional months wages per annum, rather like a bonus, and it was not unusual to pay an additional two months salary in labour scarce areas. In an effort to distribute the employment potential more equitably the government has levied location taxes on employers wishing to commence business in

those premium areas where employment is at a high level and accommodation and manpower very scarce. As an example of this it was quoted that this tax in the central Paris area was 100 Francs per square metre on industrial premises, and 200 Francs per square metre on commercial premises. It did not seem however to be having the desired effect, according to our informant.

One last major difference in the French approach to labour relations is that it is mandatory for the management of units employing more than 50 workers to permit two representatives of union employees to attend their Board discussions. These union representatives, who are elected by the workers in the particular factory concerned, can ask to see all the financial documents outlining the firm's performance. Needless to say management in the U.K. would oppose such an approach, at present, but it is interesting in observing the French scene that this does not appear to cause any embarrassment.

Finally it was interesting to note the level of education pertaining at top union level in France. A number of senior union men had been themselves industrial managers in the full sense of the word and others are qualified in such subjects as economics and engineering. Since management in France are generally also union members it strikes the writer that their reservoir of men with ability is far higher than presently exists in U.K. trade unions. Hence the reason why men with managerial experience coupled with higher education find their way more readily into senior French union positions. One small criticism of this was that the gap between senior union personnel and worker members could tend to cause some communication problems.

Italy - Government Influences

If it is true to say that the avoidance of tax and Government regulations is a national sport in France, this is even more true of Italy. Due to the strong Communist and Socialist influences in the Italian parliament, legislation tends to be vague and ineffective and consequently open to considerable latitude in interpretation. Indeed a considerable part of the law as administered is based on Bills which have never been enacted by parliament. The complexity of the situation was summed up by one managing director who said 'where honesty is penalised, the result is the keeping of an indefinite number of books'.

Nevertheless the Italian economy appears to be booming. In the period since the war Italy has progressed rapidly and in twenty years has dragged herself up by the bootlaces from the 17th century to the 20th century. When considering the fantastic annual growth in Gross National Product it must be remembered that this is in part accounted for by Italy's previous technical backwardness compared to the majority of other European countries. In fact the Gross Domestic Product doubled between 1952 and 1964 and exports increased 273% between 1958 and 1964.

The Italian government has an extensive direct interest and control in

industry through state monopolies and nationalised industries, and also an even wider indirect control through the extensive and diversified holdings of the Institute for Industrial Reorganisation (IRI). State monopolies date largely from the Fascist era and include many diverse and improbable industries as, for example, matches, coffee, bananas, and tobacco. IRI also dates from the Fascist days and is still an extremely active body. It is a public law financial institute which controls a number of industries ranging from mining to metallurgy, shipyards, engineering, shipowning, electrical undertakings, telephones, broadcasting, chemical companies, paper mills, printing and publishing concerns, hotels, transport and other branches of activity. In 1963 IRI proceeds amounted to 1,515 billion lire, compared to 1373 billion lire in 1962. The biggest contribution came from the steel industry with 464 billions and from engineering with 319 billions. In the sector of the steel industry, IRI proceeds represent more than half of the national total. Companies owned or controlled by IRI include, E.N.I., Alfa Romeo, and Alitalia. It was stressed that all these companies are on a fully competitive commercial basis and that they are not given any special privileges or protection by the state.

In addition to these industrial holdings IRI also has control of many of the major Italian banks including Banco Commerciale Italiana, Credito Italiano, Banco di Roma. As in France the Stock Exchange is extremely ill supported, and consequently a considerable proportion of new finance has to be raised through the banks. The Italian banking system is extremely sophisticated with different organisations catering for long term, medium term and short term finance.

One of the foremost features of the Italian Industrial scene is the prominence of a number of influential families; evidence of the extent of private family holdings in industry is that only 250 firms are quoted on the Stock Exchange. An example is the Agnelli family who not only own Fiat (which besides having about 85% of the Italian car market also manufactures aircraft, construction equipment and many other types of heavy capital equipment) but also Ferrania, the photographic company, and one of the major Italian newspapers. In order to combat the ever increasing interests and control of IRI, these industrialists form syndicates from time to time to assist firms in difficulties; this was done in the case of Olivetti.

The government is giving a great deal of attention to the problem of attracting new industry to the underdeveloped South. In 1960 the 'Cassa per il Mezzogiorno' was established to give low interest loans and other inducements to firms contemplating establishing new factories in the South and the government has also initiated some 39 projects for setting up new industrial areas.

In 1954 the Italian government introduced a 10 year national development scheme called the Vanoni scheme and in 1964 a five year draft programme of economic development was proposed as a sequel covering the period 1965 to 1969. Due to the economic difficulties in 1963 and 1964 it was decided

that the introduction of this plan should be postponed for one year.

By and large the government has shown itself to be well able to cope with economic difficulties, and in particular the successful handling of the 1963/4 inflation is most credit-worthy. In 1962 and 1963 the trade deficit increased considerably. In 1963 the government introduced severe credit control. In Italy this can be most effectively introduced, due to the extensive control of the government over the banks and also the fact that the Italian nation is particularly credit conscious. These restrictions resulted in short time working, and considerable increases in unemployment. The trend for actual earnings to increase faster than wage rates was reversed, and there was an immediate fall in consumption, particularly of imports. The result in 1964 was a balance of payments surplus - the second biggest since the war.

On the whole the Italian government welcomes the participation of foreign concerns and does not significantly limit either foreign capital or personnel.

Italy - Labour Relations

One of the first things which impresses a visitor to Italy's industrial north is the relatively high standard of living enjoyed by virtue of the boom which has swept the country over the past 10 years or so. The Italians themselves however are quick to point out that many districts in the north, even those within 20 miles or so of the now highly industrialised areas, are lagging very badly compared to other European countries. The south of Italy is still very underdeveloped and great efforts are now being exerted by both government and unions to improve this anomaly over the next few years.

Whilst very considerable strides have been made in improving the lot of the workers it is felt that even greater advances could have been attained were it not for the fact that all unions are affiliated to political parties. With such a situation it is extremely difficult for the workers representatives to present a common front to management in pursuit of improved working conditions or earnings. This situation is even more aggravated when it is realised that many of the senior union representatives are also members of parliament, or have strong political interests. Perhaps the complexity of this situation can be best appreciated if we imagine some of our largest unions in the T.U.C. tied to different political parties. Harmony is all too difficult just now and only one political party in the U.K. enjoys the support of our unions!

After the last world war efforts were made to introduce new legislation covering terms and conditions of employment. This was first attempted in 1948 but due to the friction between unions, and their representation in the Italian parliament, it proved futile. Since then numerous attempts have been made to modernise the pre-war legislation which to a great extent is still all that is available and is unbelievably based on labour laws introduced by Mussolini. With the passing of the Fascist regime some 21

years ago it is more than surprising that today reference has to be made to labour customs and agreements which then prevailed. This point was brought to light to illustrate more forcibly the problems encountered in attempting to bring labour agreements up to date. So far the political influence, as mentioned previously, has frustrated every attempt.

The three principal unions in Italy are estimated to have some 55%, 25% and 10% respectively of the total organised union membership. A further 10% of union labour is distributed throughout other small and ineffective unions. Of the three large groups, are affiliated to their own political parties; the first of which is essentially a Communist group; the second to the Christian Democrat Party, and the third, to the original Socialist Party, in that order. Presently, and since the deposition of the Monarchy, the Christian Democrat Party has held power but the feeling given was that their position was weakening. This appears to be reflected in the proportions of union membership. Unfortunately figures for trade union membership were not available since the rivalry between unions is such that they will not divulge this information.

Approximately one hundred employers' organisations cover the various branches of industry in Italy. These are members of a central organisation with its headquarters in Rome. Representatives from the employers federation meet with representatives of the three largest trades unions with a view to establishing three year agreements covering individual industries. Discussions relating to these long term agreements usually deal with two aspects, a) wage rates and hours of work, b) fringe benefits (e.g. holidays, and pensions).

Apparently these negotiations, are becoming increasingly complex, since the tendency is to deal with a multitude of possible variations to the standard rates of pay. These variations would take the form of say 'abnormal condition money' e.g. for working in a very hot or stuffy atmosphere, and many hundreds if not thousands of similar variations which inevitably arise when scope for deviation is written into standard agreements. To illustrate the complexity and arduous task of such negotiations it was mentioned that in connection with the mechanical engineering industry (of which there are fifteen sections) ten months of talks had elapsed without agreement having been reached. Very grave concern is expressed on this point with particular fear for the future Italian labour/management relations.

Closed shop principles do not apply in Italy. The unions are not constituted with legal sanction, therefore if any party to an agreement does not honour it fully the courts cannot enforce it even if it were brought before them for a ruling. Since a great deal of political bias permeates the union scene, and the laws are so complex and archaic, both sides of industry are reluctant in the extreme to resort to litigation.

Wage rates are climbing rapidly and no longer are the Italians the really poor relations in Europe. They are still probably worse off, on average at present, than any other full member of the EEC but are far from

the bottom of the European earnings league, as a whole. One would be easily misled if consideration were given to the actual take home pay alone, since coupled with this are the various fringe benefits in the shape of holidays, holiday pay, social security and so on. In total these fringe benefits can account for a further 50 - 60% of the basic weekly wage. They enjoy presently 16 days statutory and annual holidays on top of which is paid, as a kind of bonus at the years end, an additional full months salary. Since some areas are fairly wealthy and some very poor, a different cost of living index is computed for six separate zones covering all of Italy. The cost of living bonus is additive to the basic wage, as appropriate, for the zone where one is working. It would appear however that this zoning index can cause tremendous complications especially when it comes to 'abnormal conditions money' discussions.

Some employers, especially newcomers, are particularly careful in choosing which part of Italy to establish their businesses. This caution is prompted by the preponderance of communist voters, and in turn communist workers, in certain areas. It was suggested that an uninitiated employer setting up production in one of these areas would not endure for very long due to militant action on the part of the workers. Conversely in other areas, where the communist element was not strong, relations with management were good, albeit aggressive on the question of wage and conditions claims. Usually in these latter areas strikes were rare and common sense negotiations resulted in compromise agreement without resorting to the withdrawal of labour.

Switzerland - Government Influences

Traditionally Switzerland is a country where maximum freedom has been permitted to trade and industry to operate as they please with the minimum of intervention. This is a somewhat sweeping generalisation as precise regulations and tax laws vary considerably from canton to canton, although the low federal taxes are of course universal.

In the past, economic administration has been conducted largely on gentlemen's agreements between the Federal Bank and commercial banks in preference to legislation. The degree of co-operation between the Swiss banks and the government, and the mutual appreciation of each other's problems has been such that it has often been said that the real power in Switzerland lies with the Swiss businessmen and not with the Government.

However, in common with most other European countries, the economic situation deteriorated to such an extent during the early 1960's that this policy of laissez-faire and mutual trust has been replaced by more firm legislative measures. Anti-inflationary measures were introduced in March 1964 for a period of one year and were extended in February 1965.

In addition to controls on credit, similar to those in the previous voluntary agreements, the investment of foreign capital in Swiss securities, real estate and mortgages was to all intents and purpose forbidden. The

payment of interest on funds from abroad was severely limited and considerable cuts were made in building programmes. There were severe restrictions on the employment of foreign labour on which Swiss industry is very largely dependent.

The effects of these policies can be shown by the fact that in 1965 exports increased by 12.2% compared to an increase of only 2.5% in imports resulting in a 25% decrease in the balance of trade deficit. These figures compare with an increase in exports of 9.0% in 1963 and 9.8% in 1964 and an increase in imports of 17.7% in 1963 and 11.1% in 1964. However the main objective was to combat rising prices and in this respect the measures have not had the same success. Consumer and wholesale prices have in fact risen by 4.9% and 2.7% in 1965 compared to 2.3% and 0.6% in 1964 and 3.9% and 3.1% in 1963. It must therefore be expected that, as in other countries, the Swiss government will be forced to take an ever increasing degree of control to avoid a prices and wages spiral.

Switzerland is recognised as a favourable environment for the operation of foreign companies, many of which have set up European headquarters in the country. Major advantages of operating in Switzerland are the central geographical position and the ready availability of expertise in three languages; German, French and Italian. There is also a comparative freedom from government restrictions, the only major current difficulty being that of obtaining work permits for foreign personnel.

As with many European countries, the availability of finance for industrial expansion is a problem, the Stock Exchange being exceedingly depressed. There is no incentive for the public to purchase shares in view of their very high price and low yield. Most of the financing of major industries is undertaken by the big finance and discount houses, and many foreign firms in particular have obtained finance in this way. The proportion of company equity existing in the form of shares is normally between one third and a half. Short term credit is normally granted by the five major commercial banks.

Switzerland - Labour Relations

The industrial atmosphere in Switzerland is exceptionally good, so far as could be determined, particularly in management/labour relations and perhaps more so the procedure adopted to maintain this state.

With only something approaching six million inhabitants, of which just over two and a half million are employed, it could be argued that they do not have the same complexity of labour problems evident in the larger industrial countries. Be this as it may, the attitude projected was very responsible in that it was based on the recognition that Switzerland has no raw materials and depends entirely on importing and transforming these raw materials, then finally exporting them. Should any part of this cycle be jeopardised, particularly that under their complete control in their own country (that of labour relations) such a mishap could render present markets vulnerable to other world competitors.

We in Britain are not unlike the Swiss from the raw materials and manufacturing viewpoint, neither do most responsible workers have any less national pride in keeping our share in world markets. The Swiss, however, manage to avoid damage to their national economy brought about by poor labour-management relations. When a dispute occurs in Switzerland which cannot be settled at factory level, it is referred to an arbitrator mutually acceptable to both parties. The arbitrator's ruling is final and must be adhered to by both parties. As a security that the arbitrator's ruling will be accepted both parties to the dispute must lodge a considerable sum of money with him so that fines can be imposed on any party, not accepting his ruling. This whole procedure stems from a peace treaty between employers and unions and no strikes have occurred since its inception in 1937.

Meantime in Switzerland there is full employment, in fact the scarcity of labour is now one of the largest drawbacks to expanding the Swiss economy still further. The present working week is forty-four hours; workers receiving varying rates per hour, depending on the district, industry and degree of skill possessed. One example quoted, for a semi-skilled labourer in the metal industry based in a fairly industrialised area, was 5.5 Sw.F per hour (approximately 9/- per hour).

Apparently some 70% of the working population belongs to a union. Those not union members are, to a large extent, foreign labour, according to our adviser. This may seem to indicate some differentiation against foreigners, but it must be borne in mind that about 0.8 million foreigners are actually living and working in Switzerland. There is no objection to foreigners joining unions but no pressure is applied to force them; they may not belong to a union before gaining employment. It seems that the prime reason why most foreign workers are not interested in joining unions is that they regard their work in Switzerland as of a temporary nature. Many of them have left their families in their countries of origin, sending wages to them regularly, with the ultimate object of rejoining them at some future date.

Germany - Government Influences

Faced at the end of the war with a country virtually in ruins, in every sense of the word, the Federal Republic of Germany has had the opportunity of building the economic and political structure from scratch to suit the needs of the latter part of the twentieth century. There is no doubt that considerable advantages were obtained from this fresh start.

Following a very rapid period of economic growth, Germany can now be said to be at the stage of economic consolidation, having reached the stage at which the economy is very similar to that of the United Kingdom, with a comparable population and gross national product.

A fairly high proportion of German industry is owned by foreign companies, particularly American. There is no restriction on foreign

investment in German industry, the concept of industrial development and full employment having been considered of greater importance than national ownership during the period of economic expansion. Whether or not this attitude will prevail during the period of consolidation is perhaps debatable. One adverse effect of a high degree of foreign ownership has already become manifest following the restrictions on overseas investment imposed upon American companies by the Johnson administration. This has resulted in American companies with large interests in Germany seeking alternative sources of funds from within Germany. This in turn has led to a shortage of readily available funds in Germany and has had a depressive affect upon the capital market. Generally, Germany has provided a reasonable environment for the operation of an overseas company with a co-operative government and labour force and free re-patriation of profits.

Of those German companies not controlled from overseas, the majority are in the hands of powerful families, such as Krupp. The Banks have roughly a 15% share in German industry.

Only a small proportion of German companies is quoted on the Stock Exchange, the majority being small concerns without access to the money market. The common form of industrial finance is through the banks and through insurance companies. Banks are not government controlled, but are influenced by directives issued through the Central Bank, (Bundesbank) operating in a manner very similar to the Bank of England. A new departure in banking, not known of elsewhere, is the existence of a bank 95% owned by the trades' unions, with the stated objective of influencing the market to the benefit of the workers. It is claimed that this bank operates in a normal commercial manner in free competition with the other German banks, except in rare cases in which ideology may predominate.

In common with most other European countries, there is no trend towards the nationalisation of industry, in fact the reverse can be said to be true, the de-nationalisation of Volkswagen being a case in point. It is stated that there is no pressure from the trades unions to extend nationalisation, but there are indications that the Social Democrat Party would at least like to extend the already high degree of worker participation in decision making in industry. Joint economic responsibility is said to be the major theme.

Government incentives to industry are practised in various forms. The development of industry in areas such as the East German border zone and in Berlin is encouraged by long term loans at low interest rates and by tax preferences. A period of ten years exemption is not uncommon in such cases.

Exports are encouraged by a system of export guarantees similar to that operated in the United Kingdom and by the refund of the 4% turnover tax on all goods which are exported. Further incentive is given by government assistance to German companies exhibiting at international fairs and exhibitions.

In summary, it can be said that the Federal Republic of Germany has built up a structure of industry and government as good as any to be found in Europe, and has succeeded in producing an affluent society and a market which can now afford to discriminate with more reference to quality than to price, which is perhaps more than can be said for the United Kingdom, which did not have the incentive of starting again from scratch after the war. What pitfalls lie ahead now that the period of growth has given way to one of consolidation it is difficult to say, but it is reasonable to suppose that with a certain amount of the incentive behind them, there might not be the same degree of unity and common purpose which has been so evident over the past twenty years and which has contributed so much to the so-called 'German Miracle'. It is, however, fairly certain that the German people will not relinquish lightly the prosperity that all levels have worked so hard to achieve.

Germany - Labour Relations

The trade union movement in Germany is founded on an industry basis as opposed to a craft basis, as in the U.K. There is a considerable number of unions but the vast majority of them, sixteen in total, are members of the 'German Trades Union Federation'. This Federation was founded in 1949 and the aim of the inaugural resolutions was to create an organisation of a standardised character. Thus any employee, despite possible differences in politics or ideology, should be able to find in this organisation the sole representation of his professional, social and industrial interests.

Some 8 million people are members of which about 6.5 million are affiliated, through their respective unions, to the Federation. Apparently civil servants are diligent in this regard and it is estimated that 75% of all civil servants are trade union members. At the bottom of the list of union members are office workers of which only some 25% belong to a union. In total approximately 40% of all workers in Germany are members of one union or other. It has been attempted through numerous discussions to reach agreement with the few remaining large unions outside the Federation. The most notable of these are the 'German Office Staffs Union' founded in 1945 and which now has almost 0.5 million members, the 'German Civil Servants Union' with some 700,000 members and the 'German Christian Trade Union' with approximately 200,000 members.

Under the Basic Law in the Federal Republic of Germany employees and employers alike have the right to form associations to protect and improve working and economic conditions, each according to his choice. Since the inception of the Wage Agreement Law in 1949 something approaching 35,000 agreements, mostly on wages and salaries, have been concluded. Under this particular Law, wage agreements can be declared universally binding. Arbitration is left entirely to the unions and employers associations. No compulsory arbitration is enforced by the State. Strikes or lock outs, are considered not to have played any significant role in recent years.

Perhaps one of the prime reasons for the very fine record of labour

relations is the policy of 'co-determination'. That is the right of workers, in certain spheres of the economy, to have a say in the running of their firm's affairs. Co-determination has a statutory foundation in that private companies and public authorities are obliged (each under a separate law) to set up works committees comprising management and employees representatives. The object is to permit the employees to express their views on social, staff and economic matters affecting them. Employees occupy one third of the seats on the board of directors of joint-stock companies, and in mining and steel one half. On the executive committees of firms in heavy industry, a 'director of labour', nominated by the employees top-level organisation, assists the technical and commercial chiefs. In this role he is also expected, if not bound, to take account of numerous aspects of the company considering the interests of the management as well as the workers.

The above outlines briefly the minimum requirements of the co-determination; it can of course be very much more elaborate and sophisticated depending upon the size of the organisation. In one company visited six various managerial committees were in existence. Three out of four of their principal committees had representatives from the employees; the other one was comprised entirely of management representatives. The remaining two committees were made up exclusively from workers representatives. One of these committees, which had two representatives of employees and four from the employer, was the Supervisory Board of Directors which was responsible for appointing, vetting and supervising the activities of the Executive Board of Directors, the latter being the only committee without employees representatives. The functions of the other committees were many and varied, but clearly defined matters dealt with included the vetting of new employees, discussions on local wage rates, redundancies, welfare, pensions and a host of other items. At first sight so many committees might appear to cause confusion but it was poignantly brought to our attention that only one strike had occurred in this factory during the past 21 years. This strike involved only six workers and the Joint Works Committee agreed to their dismissal when normal working commenced, within a day or so of the stoppage.

Wages are agreed at national level for each industry. Thus electricians, joiners, engineers, plumbers and so on in any particular works are all members of the same union, one union only being permitted. A scale of rates applies to any particular trade in the industry whereby, according to our informant, up to 40% above the basic national rate could be paid to take account of a man's ability and the general conditions prevailing. It would appear also that only six basic labour rates are in existence to differentiate between ordinary unskilled labour, semi-skilled labour, skilled, and so on. The hours of work are not dissimilar to those now obtaining in the U.K., due to the tendency to decrease the basic working week over the past few years. Holidays are also very similar with a minimum of 15 days per annum, after being at least 6 months with a company, and a further minimum at 35 years of age or over of 18 days per annum, again with at least 6 months qualifying service.

Belgium - Government Influences

Belgium is one of the smallest countries in the European Economic Community and is perhaps one of those which has obtained the most benefit from membership. Trade with other EEC countries has expanded greatly, exports having more than doubled in the period 1958 to 1965 and imports increasing just over one and a half times. Trade with EFTA countries however has shown little change during the same period, although Great Britain has been able to maintain an average 8% penetration of the Belgian market, at the expense of reduced profit margins in the hope of eventual membership of EEC.

The balance of trade has mostly been favourable since the war, although 1963 showed a deficit.

There is little foreign ownership of Belgian industry, with the notable exceptions of oil, motor vehicles and, increasingly, chemicals. Industry is largely privately owned, or supported by finance houses, and is mostly self financing. In common with most of Europe, the capital market is not well developed, although there is a conscious effort on the part of the government to stimulate the market by such measures as the issue of government bonds.

There does not appear to be any specific reason for the small degree of foreign ownership of industry, as the general policy is in favour of foreign investment. It may be that Belgian industry has been capable in the past of obtaining adequate finance from within the country, although it is possible that this state of affairs could change in the future as most companies in Belgium are currently under-capitalised and are operating on low profit margins. If the government do not succeed in sufficiently stimulating the capital market, it is possible that Belgian firms may have to look outside the country for additional finance.

The low profit margins common in Belgian industry are a result of the prevailing inflationary tendencies. Wages are related to the cost of living index and have risen by 39.5% during the three years from 1963 to 1966. Retail prices are controlled by a consultative board and were frozen for three months early in 1966. There is an additional incentive to keep prices down, resulting from the fierce competition within EEC. Thus retail prices have risen by only 14% during the same period in which wages have risen nearly 40%, causing serious problems in Belgian industry.

Strong government efforts are made to contain retail prices and it is no longer the burning subject it once was.

Typical anti-inflationary measures taken by the government are high interest rates and high levels of indirect taxation, typified by the invoice tax which was increased from 6 to 7% at the beginning of 1966. This tax is payable on every transaction up to, but excluding, the retail stage.

As with the majority of European countries, there is little nationalisation in Belgium and apparently no pressure in favour of it.

In general Belgium seems to be a successful trading nation, although there does not seem to be the same aura of prosperity noted particularly in Germany. EEC has undoubtedly been the salvation of Belgium, having given it the required degree of competition incentive. In view of her small size, both geographically and in terms of her $9\frac{1}{2}$ million population, she is undoubtedly among the most vulnerable of European industrial nations, but does have the support of both Benelux and EEC and is in an advantageous trading position geographically. Whether or not foreign, and in particular American, participation in Belgian industry will increase significantly will depend largely on the ability to obtain much needed industrial finance from her own resources or from her European partners.

Belgium - Labour Relations

This country was the last on the European tour but by no means was it the least significant. The Belgian growth rate, in terms of national output for example, over the past few years has been equally as good if not better than most other highly industrialised European countries. In fact the only nation to better them in the years 1962-64 was Sweden with 14 points increase compared with Belgium's 13. The increase in general standard of living in Belgium was ascribed, by most Belgians, to two things, one being the foundation of the EEC with them as members; the other being the successful 'partnership' existing between unions and employers federations. One senior union representative described this (partnership) relationship as the 'best in Europe'.

Three trade union organisations exist in Belgium which, in spite of their names, have no affiliation to any political party. The largest body today is the Christian Trades Union with a total membership of some 830,000; next largest is the Socialist Trade Union having almost 750,000 members, and finally the Liberal Trade Union with only about 80,000 members. Consideration of amalgamation of the two major unions immediately after the second world war was rejected due to a few fundamental differences in constitutions. In the early days of the Belgian Trades Union movement the present Socialist Union was Marxist. Nowadays Marxists are expelled and a case occurred recently, through a strike at Antwerp docks, where the Communist ring leaders were dismissed without incident. However because of the early Marxist activities the first Christian Trade Union was formed in 1886. It is founded on a Christian social doctrine in accordance with that set forth in the Papal Encyclicals.

The law in Belgium makes provision for the setting up of 'works councils'. However some unions also try to persuade management to permit their union member workers to be represented in the managerial field, as well as the production and labour aspects. Joint Committees, also obligatory, are comprised of half employers representatives and half workers representatives. They have legal status and deal purely with the social aspects of the company.

One very significant fundamental difference from the U.K. is the election of shop stewards, from candidates proposed by the union. This permits the union chiefs to select those men whom they feel are well fitted and sufficiently educated to project the unions best interests in all its aspects. Also, of course, they can school men for future elementary positions in unions with a view to them finally taking on full time union jobs in the future. Meantime in cases of disputes these shop stewards, or finally their area secretaries, meet with management to thrash out issues at stake to a mutually satisfactory conclusion. In the event of a strike being caused by a union member, without just cause, he can be taken to court by the employer and sued. Needless to say he will receive no strike pay from the union and, in extreme cases, can be expelled from it. Since there is no law governing strikes a suit against an employee may not receive support, therefore this is rarely resorted to.

Pay rates today in Belgium are established at national level with the appropriate bodies and generally are for a two year period. Since wages have increased dramatically over the past few years we were informed by a senior union representative that the present emphasis now was on 'fringe benefits'. Employers social benefit contributions amount to between 35% and 45% of standard earnings. The working week is of 45 hours and this comes in for constant criticism by the unions as they would like to see it reduced fairly quickly to 40 hours. Our union informant however, when questioned on this rapid escalation of wages and intended reduction of working hours per week, (without loss of pay presumably) expressed concern that they may not maintain their national progress if the unions pursue their ideals in too short a time. Companies can negotiate their own wage payments with union operatives above, of course, the national minimum. Wage rates can therefore vary considerably from factory to factory even for the same quality of labour. One employer visited, in a highly industrialised area, quoted his semi-skilled workers as receiving 60 Francs per hour (approx. 9/6d.). Holidays are presently 3 weeks per annum and double pay is made for them.

As in the other countries visited the level of education obtaining in the higher echelon of unions was markedly noticeable. All three union officers met were University trained; two were lawyers and the other a sociologist. The amount of union funds devoted to educating their members seemed to vary considerably. Of the two largest unions, one quoted approximately 7% of their funds devoted to education and the other quoted 40%. The latter however qualified this very large figure by saying that it 'embraced all forms of literature, publications and propaganda' emanating from them. Union subscriptions were about 100 francs per month (approximately 16/- sterling). Total union membership was given as 65% of the total labour force; the closed shop principal does not apply.

Conclusion

From this whistle stop tour of five European countries and the information collected there a number of points stand out which could well prove worthy of serious consideration in this country.

Perhaps the most important aspect was the more open approach by management to permit workers to have a very real say in their company's future. This is undoubtedly as it should be since it is after all their, and their family's, future too. Another major point was the educational standard of the senior union personnel met by us, which was most striking. Likewise the effort and cash being devoted to train the lowest office holders in the unions. Lastly and very significant was the basis of unions (generally industrial as opposed to craft) and the number of them. We in the U.K. have almost 600 unions of which some 300 have less than 1000 members.

Practically everyone in Britain would like to see our labour codes brought up to date so that we can show the world our mettle again in this modern and highly competitive age. Surely within the framework of those three salient points we could rationalise our whole industrial system and streamline it into something even better than the best on the continent?

On the more general sphere, there is a marked tendency for business men in this country to squeal before they have really been hurt. Even taking into account the latest measures introduced by the Labour Government, British industry has considerably more freedom than in many countries of Europe. Price control has long been a feature in France and Belgium and government have a tight hold on the purse strings in France and Italy especially. British industry also has the advantage of a dynamic stock market to which it can turn for funds to set-up or expand activities. The absence of this dynamism in the stock markets was most marked in all the countries visited.

Also notable was the rational attitude adopted by European governments and labour movements towards the ownership of industry. Considerations of national or foreign ownership apart, there was general agreement that industry is best left to compete freely, even in Italy with the vast holdings of IRI. In the other countries industry is largely privately or publicly owned, and is not in the hands of the state. There is considerable evidence that it is likely to stay this way and a refreshing absence of tendencies to impose state control for its own sake.

Mention must also be made of the invigorating influence of membership of the EEC particularly in Belgium and Italy. Conversely the adverse effect on British trade prospects in Europe resulting from non-membership of this body is becoming most marked. It can only be regretted, in retrospect, that Great Britain so complacently turned down the opportunity of membership of this body at its inception and we are indeed fortunate that Europe in general is still prepared to favour our ultimate entry. It was however made abundantly clear in private conversations throughout Europe that any attempt by Britain to impose conditions prior to entry would be most hurtful to them and could well prejudice Britain's chances.

There is no doubt that, should Britain ultimately join the Six, she will be reaping the benefit of ten years hard experience on the part of the original members who formed the community with no idea of what lay ahead. Britain will at least go into a venture which has proved itself to be a success, whatever may be the problems in other ways.