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PRIME MINISTER

The attached note summaries the main themes from Monday night's discussion. If you agree, I will send this to the Treasury, The Department of Industry and CPRS.

Would you like to ask the Chief Secretary for reactions to the issues raised on stock relief; the effect of Section 54 of the Companies Act; the possibility of offsetting patent costs against personal tax liability? Similarly, Mr Baker might be asked for reactions to the comments about the difficulty for private inventors of finding an informed, competent, single point of access in the public sector, and the possibility of devising a brokerage role, either through NIDC or elsewhere; and the suggestion of some kind of award for entrepreneur work within universities.

There is some continuing interest in the occasion. I think it would be well worth publishing the short ACARD paper, after giving Dr. Spinks an opportunity to revise it in the light of the discussion. Agree?

At the weekend, we will put to you reactions from several of those who were present, making suggestions as to how we might modify that format if you felt it would be useful to hold similar functions in the future - whether on different issues or repeating some of those raised this week.

Hardly on very much
not. *MP*

28 January 1981

I will also raise with DES the university issues.

NOTE OF A DISCUSSION AT THE PRIME MINISTER'S RECEPTION FOR
INNOVATORS AND FINANCIERS AT DOWNING STREET ON MONDAY 26 JANUARY

The Prime Minister introduced a discussion lasting about 90 minutes. She confirmed that the Government were seeking ways to ease the development of new business, and improve the rate of creation of new jobs. After reading the case history of a project developed by an individual inventor, she had asked ACARD to produce a short report on exploiting inventions. Her guests had all seen a copy of the report, and she would like to use themes from this report to introduce a discussion on any issues which her guests felt could usefully be raised.

The following notes record the main themes that emerged in the discussion.

Problems in getting new ideas considered and the role of the NRDC

Potential innovators needed multiple access points to finance and advice. Any decision to back a new project was a matter of judgment: a very small proportion of new ideas were taken up, and no individual nor corporate judgment could be perfect. There were already a range of access points, but inventors sometimes failed to take advantage of these - for instance, 14,000 branch bank managers in the country would each apply personal judgment to an application, although someone seeking project finance might not go beyond his own branch. The banks officially now had more adventurous lending policies but the implementation of these varied. Firmer instructions to local managers were needed.

Individual inventors often had a limited appreciation of the process by which potential sources of finance would reach a judgment. An inventor tended to be absorbed in his own vision of his concept in operation: but a financier would be looking primarily for proven or potential management skills, and then at technical feasibility, financial viability, and patentability. The inventor often lacked the presentational skills required to sell his idea,

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perhaps because of a failure to appreciate the key criteria. He needed to be able to marshal his ideas in the expectation of critical questioning. There was a need to educate inventors in this area: the NRDC might be able to play a part.

The inventor seeking finance found difficulty in relating to many of those who had to make an assessment of prospects for a new product. In the private sector, they might have to deal with a banker with no technical background - although ICFC, for example, were developing a national network of offices with young entrepreneurial managers. In the public sector, inventors tended to find that a decision fell between numerous committees, and that those who were apparently forming the judgment lacked both technical skills and entrepreneurial experience.

The inventor often needed more than finance; he wanted management advice, access to markets etc. Existing firms were best placed to provide these. The heads of small successful companies had the vision and drive required.

The ACARD report, whilst advocating multiple access points, limited itself to the existing institutional structure. Many inventors felt inhibited by this. On the other hand, the institutional investor was able to take on some high risk projects precisely because its range of investment provided cover.

Public sector finance was apparently available from a wide variety of sources, but with widely differing ground rules. The private inventor felt lost in a maze. There was scope for a brokerage function, to present a possible business "package" to the source most likely to meet his need: again this seemed to be a possible role for NRDC.

Inventions did not necessarily lead to innovation: innovation did not necessarily lead to business success. The individual invention could only play a small part in meeting national requirements for new products. A product which was to support an entire business would have to be very much better than one required merely to extend a product range. For the national economy, the crucial blockages might lie more in the area of

how small businesses developed into larger ones.

The exploitation of university inventions

Our university and polytechnics structure had developed from traditions which provided no incentive for innovation. Promotion opportunities in universities depended on the traditional pattern of research followed by publication. The polytechnics had tried to emulate the universities. Where university staff were capable of developing and marketing ideas, there was little financial reward, given the virtual NRDC monopoly; even if they were in a position to cash in, the prevailing ethos would treat this as immoral. And it was difficult to find support for development work in a university. The British tradition of research leading to publication simply presented British results, free, to entrepreneurs in the other highly developed economies who were our main competitors.

One aid to change the traditions might be an award, on Queen's Award lines, for entrepreneurs within universities.

Those trained in the universities who had the potential to develop new products tended to be swallowed up into a small number of large firms, and then often in a service rather than a manufacturing role.

The universities tended to relate only to large business. Under present arrangements, their main effect on small business was only indirect, in the sense that most small businesses were developed by people breaking away from larger groups. But these were perhaps the people best placed to start new firms.

Tax Incentives

Despite some moves by the present Government, British personal tax incentives still heavily favoured life insurance, building societies and pension arrangements. The process of investment in

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new products needed not only comparable treatment but positive fiscal discrimination. On the other hand, those who argued for comparable treatment for new investment rarely seemed to suggest that the balance could be restored by withdrawing advantages from those forms of investment which now received more favourable treatment. Further, those involved in trying to invent new products were usually strongly motivated by ambitions for personal wealth. There was an important process of paring down new ideas to those few with real prospects. It would be a mistake simply to ease the path for other new inventions, thus creating a much higher failure rate. The Tax reliefs for the costs of patenting could be of great assistance to the individual inventor - he often started work when still employed by others, and a provision for offsetting these expenses against PAYE might be useful. The proposals for changes in the stock relief system, set out in an Inland Revenue Green Paper, were likely to remove an important incentive to the growing small business. These proposals could have an extremely damaging effect if implemented in their present form.

More should be done to encourage stock option rewards for new start-ups and demergers. Section 54 of the Companies Act, which had been designed to discourage asset stripping heavily favoured larger companies.

Premises and Local Assistance

The environment to develop ideas was of great importance. Lack of suitable premises at acceptable cost was a major constraint. In present circumstances, many large corporations were shaking out workers, but accepted some responsibility for encouraging job creation in the areas where they were major employers. Such corporations could make an important contribution in helping to provide facilities in redundant buildings.

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There were many ideas for new products and services around. But these ideas needed skilled assistance to extract money and services from the system. Local advisory organisations could help provide this. There was signs of healthy developments in filling this role.

This kind of service could help encourage the constructive investment of redundancy payments.

Conclusion

The Minister of State at the Department of Industry and the Chief Secretary to the Treasury both made it clear that they had listened carefully to the proposals raised in discussion, and that they were ready to take these into account in developing future policies.

The Prime Minister congratulated her guests on the quality of their contributions - both written and spoken - and invited them to write to her with any further reflections relevant to the issues discussed.

28 January 1981