



SCAD

2

Prime Minister

Qa 05769

CONFIDENTIAL  
AND PERSONAL

Mus 8/1

To: MR SCHOLAR

MT

7 January 1982

From: J R IBBS


BL: Future Structure

1. In his minute dated 22 December the Secretary of State for Industry seeks support for the proposal from Michael Edwardes to split BL into two parts. This is to be discussed at the Prime Minister's meeting on Thursday, 14 January.

2. The proposal was originally put forward in July last year. At that time I pointed out that it was inconsistent with the previous stance taken by Michael Edwardes and the Board (on which it was said they were prepared to resign) that all the vehicle interests of BL needed to remain inviolate as a single entity in order to maximise the opportunity for collaborative deals - in particular, that Land Rover must be kept available as potentially a most valuable bargaining counter for obtaining some partnership deal for volume cars. To put Land Rover in an entirely separate company linked with the Leyland Group remains a complete reversal of that argument.

3. Obviously any re-organisation of BL, whether as proposed now by Michael Edwardes or in some other way, should arise from the objectives which the Government wishes the Company to pursue, and a specific decision should be based on an evaluation of alternatives. Ministers have yet to see the objectives for BL, requested by E(NI) with those for major nationalised industries. Michael Edwardes's paper contains only limited dismissive consideration of alternatives and is mostly concerned with mechanism and consequences rather than evaluation of the proposal.

4. The Secretary of State in his paper lists a number of advantages and disadvantages of the proposal. Even so many aspects are quite unclear. It is not explained how the Boards of the new companies will be structured, how large they will be or who will be on them. Nor is



CONFIDENTIAL  
AND PERSONAL

it clear how the split of present unified services will be handled or how additional costs from duplication will be avoided. There is no indication of the cost of the re-financing of loans nor of dealing with the rights of the outside shareholders. Although it is explained that the need to keep the proposal extremely confidential has, understandably, prevented full working out of details, nevertheless outline indications on all the above should have been possible. The present non-executive directors of BL are said strongly to support the proposal but it is all the more worrying if they have done so without reasonable clarification of points such as these.

5. In so far as arguments in support of the proposal are advanced some of them are at least questionable. For example, "It recognises the existence of two distinct coherent businesses which will be more effectively managed as such, rather than brigaded together in an unwieldy and illogical combine which throws up management problems beyond the capacity of a single Chairman and Board to handle." It might be said that it has taken a long time to get this admission that managing BL is beyond the capacity of the Chairman and the Board. However, in world terms as vehicle manufacturers BL are in fact fairly small and there are plenty of much larger equally diversified vehicle companies that are managed reasonably successfully; for example in Europe Renault which like BL is state owned and an integrated car and truck manufacturer. Nevertheless the problems in BL Cars and the Leyland Group remain serious and the organisation needs to be such as to attract people of high talent rather than a means of trying to accommodate lesser men.

6. I do not believe a rational decision can be taken on the present evidence. One possibility would be to ask Michael Edwardes at least to provide a rather more detailed quantified proposal together with proper evaluation of one or two sensible alternatives, including for example, the one the Prime Minister has suggested. Because Michael Edwardes



CONFIDENTIAL  
AND PERSONAL

and the Board may be deeply committed to the present proposal, and examination of alternatives involves the personal futures of some senior executives in BL, it may be that the advice of outside consultants such as McKinseys should be sought. Such a study would only need to take a few weeks and could be sponsored either by the BL Board or if Ministers wished by Government, possibly through the CPRS.

7. I am sending a copy of this minute to Sir Robert Armstrong.

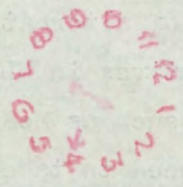
*JK*

CONQUEROR



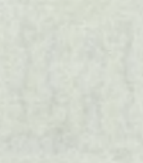
NEW YORK  
JAN 11 1902

Very faint, illegible text, possibly a letter or document header.



8 JAN 1902

CONDOR



8 January 1982

HLS 8/1

MR SCHOLAR

cc Mr Hoskyns

BL FUTURE STRUCTURE

1. I agree very much with the criticisms contained in Robin Ibbs' advice on Edwardes' proposal to split BL into two.
  
2. Using the arguments in Robin Ibbs' minute, it seems to me that the examination of alternatives suggested in paragraph 6 should not take place until the Government is clear about its objectives for BL. This need for clarity about objectives is stressed in paragraph 3 of the Ibbs minute. Over 2 years ago it was clear to Ministers that one of their primary objectives was to bring to an end the Government's ownership of BL - or as much of it as possible - by complete sale, partial sale, or collaboration leading to either. But I don't think the importance and urgency that the Government attaches to this has ever been completely understood or accepted by the BL Board itself. They do not seem to have devised these latest proposals as part of a strategy for achieving greatly reduced dependence on Government funding, as quickly as possible.
  
3. So the proposed study of structure can't start until the objectives are stated. Ideally, they would be agreed with the BL Board. But in the last resort, it is for Government, as owner, to decide its objectives - especially its ownership objectives.

ANDREW DUGUID

I agree with  
 Robin Ibb points  
 and proposals.  
 MT