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Prime Minister.

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PRIME MINISTER

J.S.T. Collins
Duty desk
9/3/82British Leyland

Sir Michael Edwardes called on me yesterday morning at his request, to underline certain issues arising on the report of the Corporate Consulting Group on the future structure of British Leyland. Sir Michael Edwardes was accompanied by his Deputy Chairman, Sir Austin Bide.

2. It was agreed to seek independent advice from consultants on the British Leyland Board's proposal to split British Leyland into two separate holding companies each with a non-executive Chairman and a Chief Executive. Corporate Consulting Group reported at the end of February, and their report has now been sent to the Secretary of State for Industry. Their main conclusion is that the British Leyland Board's proposal to split British Leyland into two separate companies, composed of the Leyland Truck division and Land Rover in one group and the Cars division, Jaguar and Unipart in the other, could be an impediment to early privatisation, particularly of Land Rover. It would also not provide the quality of top management and intensity of attention to the companies' business that is likely to be needed. The report therefore recommends that the unified structure, with Sir Michael Edwardes continuing as Chairman on a part-time basis, should be retained for, say, a further two year period during which time the company would be prepared for the privatisation of Land Rover and possible subsequent division into separate corporate entities.

3. Sir Michael Edwardes made it plain that he and his Board are very unhappy about the consultants' report. They do not think that the report pays sufficient attention to the importance of splitting the company in the field of industrial relations. They think that the progress which has so far been made in dealing with militants is unlikely to be maintained if the strategy of confrontation is retained. At present, if there is industrial relations trouble in one division of British Leyland (eg the Cars division) it tends to extend to other divisions. This would be less likely to happen if the divisions were made into separate groups of companies as the British Leyland Board propose. The split would also have the

advantage of making it impossible for militants to concentrate their fire on a single Chairman and managing Board. The individual components of each group would be sufficiently separate and the interests of their respective work forces sufficiently distinct to make the task of militants greater and the impact of their activities less than hitherto.

4. Sir Michael Edwardes thought that the consultants' report had failed to address this industrial relations aspect of the British Leyland Board's proposal and had concentrated on the limited question of the privatisation of Land Rover. On privatisation, Sir Michael said that his Board took the view that it would be easier to privatise Land Rover if it was separated (with Leyland Trucks) from British Leyland Cars than if they continued under one management. If the company composed of the Trucks division and Land Rover were to prove successful, a portion of it could be privatised. If on the other hand the Trucks division failed, Land Rover could still be privatised.

5. Sir Michael Edwardes is to see the Secretary of State for Industry about this today. I told him that his next step should be to try to convince Mr Jenkin of the merits of the Board's approach as against the recommendations of the consultants. I undertook to draw Sir Michael's reservations to your attention, and I noted without disagreeing that he was likely to want in the last resort to come and see you if the Department of Industry seemed minded to accept the consultants' report; but I hoped that it might not come to that.

6. Sir Michael Edwardes warned me that he feared that there might be reports that he and the Board were ready to resign over this issue. He said that this was not the case and that any media claims to this effect should be discounted. The Board did not want to make this into an issue of confrontation with the Government and believed that they were still on course this year for achieving the targets set out in their corporate plan. But Sir Michael offered no assurances beyond 1982. Indeed, he said that he and the Board did not think that they would be able to achieve the corporate plan targets in 1983 and 1984 if they were unable to go ahead with their plans to split the company in two. If they were prevented from making the split, they would act responsibly; but they would in those circumstances have to consider whether they should withdraw the corporate plan for 1983 and later years. It was also clear from what he said that senior members of the present



British Leyland management believe that it will be easier for them to manage the enterprise if it is split as the Board now propose into two groups, and that some of them would question whether they had any future with British Leyland if the Board were not able to go ahead with their plans.

7. I took it from this that Sir Michael Edwardes was saying that, if the Government were minded to reject the Board's plans and adopt the consultants' recommendations, the Board would not resign but thought that a single concern would be unmanageable and would not try very hard to make it work. I presume that Sir Austin Bide's largely silent presence was intended to make it clear to me that Sir Michael Edwardes had his Board behind him.

8. I am not copying this minute to the Secretary of State for Industry, and Sir Michael Edwardes will not tell him that the conversation has taken place. When, however, the Secretary of State for Industry consults you and his colleagues on the matter, this minute may suggest a number of questions that should be asked.

ROBERT ARMSTRONG

9 March 1982