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Prime Minister

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2 PPs

10 DOWNING STREET

30 April 1982

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON SW1

Dear Geoffrey,

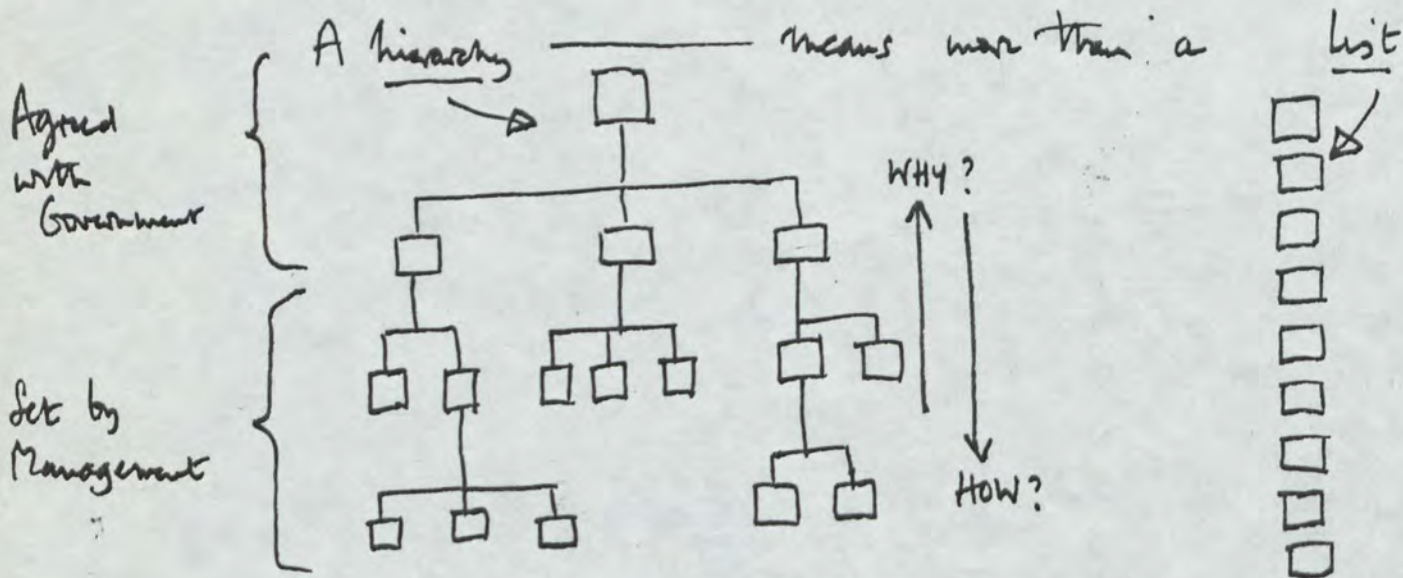
NATIONALISED INDUSTRY DRAFT OBJECTIVES

Your minute of 26 April says, in paragraph 7, that E(NI) had completed the examination of general principles of setting objectives. However, I noted some points at the discussion at E(NI) on 21 April, and I think it is worth putting them on paper, because it is so important to clear away all possible misunderstandings. In no particular order:

1. Everyone agrees that each NI is different and a "standard blueprint" is impracticable. In fact, CPRS never proposed a standard blueprint; simply a general approach which could then be tailored. The political dimension alone makes each NI virtually unique.
2. The operating budget, and operating management role, are crucial. But they cannot possibly be the total answer. For example, how could NCB or Government approach a decision like Belvoir by reference to an operating budget, but without reference to any long-term political/commercial/economic objectives? (Of course, for some "steady state" industries - water might be one - long-term objectives may be both easier to set and have much less influence on management decision-making.)
3. Everyone agrees that the appointment (and thus the selection process) of a new Chairman is the right moment to establish new objectives. But this raises two points. First, it would be better not to attempt the objective-setting exercise at all, than to agree a set of platitudes on a sheet of A-4 in order to appease a recalcitrant Chairman whom it would be difficult to remove for 2 or 3 years. This would simply help to discredit the idea of objectives and prove that it was "all a waste of time". Second, why not (and I think this was what we agreed) use the objective-setting exercise to calibrate the attitudes (and intelligence) of existing Chairmen and so sort out those who really mean it when they speak in favour of clear objectives, and those who are just making the right noises?
4. This approach is also more realistic as regards time. My guess is that it will take months rather than weeks to produce objectives which really mean anything. Much of the work can still be done, even where the Chairman is temperamentally opposed to its consequences.

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5. In my paper, I suggested that Chairmen who really wanted objectives would have an interest in defending the new framework, once it was developed. I was referring to the fundamental dilemma you mentioned in the discussion - what happens at a change of Government? What is the effect of the mere knowledge that there could be a change of Government? There is no completely satisfactory answer to that dilemma, but the right objectives, the right corporate strategies and the right Chairmen could add up to a regime robust enough (particularly if it involves, and is fully supported by, Departmental officials) to withstand the sillier ideas of future Governments.
6. No-one is suggesting that more precise objectives should imply a ridiculous precision in execution. We're not proposing a piece of paper that requires "pits numbers 1-15 to close in the 23rd week of 1983 - or else". But the Chairman must commit himself to some deadlines which he really tries to achieve; otherwise he need never even start to think about anything which he knows will be difficult.
7. There is a danger of considerable confusion as a result of laundry lists of objectives. The confusion disappears if the lists are arranged as hierarchies. This is because a structured hierarchy contains more information than a list:



Many items on lists turn out to be "sub-objectives"; that is, part of the how rather than part of the why. For example, although closure of uneconomic pits is an important matter, it is not in fact an objective. The NCB is in the business of providing coal within financial constraints. It does not exist for the purpose of closing old pits. It may close certain pits in order to deliver coal within financial constraints. So pit closure becomes a subsidiary objective, part of the "how".

8. This raises a further question. Is such a subsidiary objective to be left within the "span of discretion" allowed to NCB management, or is it something the Government will oblige the NCB to do? Almost certainly, it will be the former. For example, if NCB were able to find ways of greatly increasing

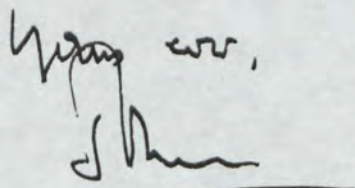
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productivity in the better pits, it may be able to satisfy the financial constraints and marketing requirements without closing so many old pits. Of course it will still be better if they can close them, but it is for management to decide to what extent closure of uneconomic pits is the sine qua non of meeting their performance criteria within the constraints of time (including management time - a very scarce resource) and money. In any case, if Government obliged NCB to close uneconomic pits by a certain date, then Government would be doing one of two (equally unacceptable) things. It would be intervening directly in the management of NCB by, in effect, making the judgment that pit closure is a sine qua non; or it would be elevating pit closure to the status of "top-of-the hierarchy" objective, to which all other objectives should be subsidiary - which would be crazy.

9. This raises yet a further point. As I said in my paper, good industrial relations, or, more specifically, improved employee involvement, cannot be a major objective for a particular NI. But good industrial relations, or improved employee involvement in NIs, may itself be a sub-objective of Government, contributing to the Government's broader aim of improving the industrial climate and weakening the influence of trade unions in the economy as a whole. So for the Government, employee involvement in NIs may be a subsidiary political objective; for NCB, it will simply be a "policy", part of the way they run their business.

I hope these comments will reduce the chances of further misunderstanding. This is an area where there is really no half-way house between being precise almost to the point of pedantry and just abandoning the whole exercise as too difficult. With nearly 2 million people employed in the NIs, 10-15% of the country's total fixed investment and something like 10% of GDP, I believe the rigorous definition of terms used is important.

I am copying this letter to the Prime Minister, other members of E(NI), John Sparrow and to Sir Robert Armstrong.



JOHN HOSKYNS

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