

A report by the *Economics and Statistics Central Evaluation Team*

An Evaluation of Sector
Sponsorship Activities of
the Engineering Industries
Directorates in the Department
of Trade and Industry

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**DTI Sector Sponsorship
Evaluation 1998-99**

**An Evaluation of Sector Sponsorship
Activities of the Engineering
Industries Directorates in the
Department of Trade and Industry**

**Final Report
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Acronyms and Abbreviations:

The following acronyms and abbreviations are used in this report:

SME: Small and medium sized enterprise; the term is used in this report to refer to businesses with not more than 250 employees

TA: Trade Association

RTO: Research and Technology Organisation

ITO: Industry Training Organisation

EID: Engineering Industries Directorates (DTI)

DTI: Department of Trade and Industry

BL: Business Link

PQ: Parliamentary Question

CA: Competitiveness Analysis

ES: Economics and Statistics (DTI Directorate)

CSR: Comprehensive Spending Review

PSA: Public Service Agreement

ROAME: Rationale, Objectives, Appraisal, Monitoring, Evaluation. The reference is to a document structure used by DTI in the context of project and programme appraisal.

ROME: Short hand indication that the ROAME document in question did not include a section on Appraisal.

HMT: Her Majesty’s Treasury

Executive Summary

Background and objectives

1. In February 1998, in response to findings of the 1997 Comprehensive Spending Review [CSR], the DTI decided to undertake an evaluation of its Sector Sponsorship activities. The CSR had highlighted the fact that DTI has a body of evaluation evidence for some of its activities but little for others, particularly where activities involved staff resources in delivery, as well as programme spend, or involved a number of small programmes each below the threshold for formal evaluation, or were relatively new. All of these factors were relevant to sector sponsorship. In addition, comparison of impact across DTI activity areas was constrained by a lack of information about the relative effectiveness of different activities. The CSR concluded that these gaps needed to be filled, and that a more strategic and comparative approach to evaluation should be developed.

2. The purpose of the Sector Sponsorship evaluation was to help fill these gaps. It was to be a prototype evaluation of sector sponsorship, as exemplified by the activities of the Engineering Industries Directorate [EID], with two key aims:

- to assess the effectiveness of DTI sector sponsorship as exemplified by EID;
- to develop methodology for strategic and comparative evaluation, which can also be used more widely within DTI, to ensure that the Department has adequate evidence about the impact of its activities on industry competitiveness.

Description of EID sector sponsorship activities

3. The subject of this evaluation is “Sector Sponsorship” in the form which was established in 1992-93, by Michael Heseltine as President of the Board of Trade, and as subsequently practiced by the group of DTI Directorates which currently comprise the Engineering Industries Directorate [EID]. The central role of sector sponsorship, as described in the 1995 DTI Competitiveness White Paper “Forging Ahead”, is *“to stimulate a debate within each industry about its international competitive position and to encourage each industry to take action to improve performance....Trade associations and professional bodies have a vital leadership role....Good trade associations and professional bodies are not only influential promoters of their sectors but are proactive in helping their members become internationally competitive....”*

4. The concept of industry “competitiveness” is central to the work of sector sponsorship, and a working definition was therefore needed for use in the evaluation. This is: *“the ability to win in fair and open world markets and thereby to generate rising levels of sustainable real income”*. Real income refers here to *real GDP*. This definition encompasses three categories of factors in competitiveness which are also reflected in the Department’s analytical work in this area for the 1998 competitiveness white paper *“Building the Knowledge Driven Economy”*:

- the ability to generate income from given available resource inputs (“*total factor productivity*”);
- availability, cost and quality of resource input;
- the wider framework for business.

5. **Sector sponsorship** can be most simply defined as the process by which central government engages in dialogue with national industry and supports it - either financially or non-financially - on a sector specific basis. Sponsorship roles can encompass efforts to improve **sectoral competitiveness** in any or all of the three categories of factors in competitiveness identified in the framework. The phrase “**competitiveness activities**”, however, is used in this evaluation to refer more narrowly to efforts relating to the first two of these 3 levels only; sponsorship activities aimed at improvements in the third level (the wider framework for business) are covered under the heading “**representational roles**”.

6. As a first stage in the evaluation, a definition of sector sponsorship was developed in the form of a summary description of the main areas of sponsorship activity. These are:

- 1) **Acquisition and maintenance of knowledge about specific sectors, including factors which influence business performance:** Sector specific knowledge underpins the ability of Sponsor Directorates to fulfil all of their other roles, and development and maintenance of its quality is therefore of paramount importance. The sectoral “Competitiveness Analyses” [CAs], covering the main categories of factors affecting competitiveness which were identified in the context of the first Competitiveness White Paper [1994], provide a basic framework;
- 2) **Dialogue, trust and relationship building:** The purpose of relationship building and maintenance extends beyond exchange of information - which

it greatly facilitates - to consultation on a range of policy and strategic issues, including regulatory and trade policy issues, legislation, and forward planning with respect to industry development and possible supportive roles for Government. Relationship building also facilitates performance of other DTI roles;

- 3) **Provision of information to both Government and industry, and commissioning research:** Sponsor Directorates serve as centres of sector specific expertise within Government. Sponsor Directorates also serve as information sources for their sectors in a variety of ways, both formal - through publications and commissioning research - and informal;
- 4) **Representational roles:** Sponsor Directorates contribute sector specific knowledge to formulation of Government policy, and represent the views and perspectives of their sectors, together with an informed critique of the industry position, in national (within DTI as well as across Government Departments), EU and other international fora. Key areas of activity relate to EU and UK legislation, industry standards, environmental regulations and standards, trade policy and state aids, etc. Sponsor Directorates also serve in an ambassadorial role to industry in communication and consultation relating to Government policy;
- 5) **Delivery of DTI and EU business support programmes:** Sponsor Directorates have responsibility for delivery and/or management of a range of DTI and EU business support programmes, including elements of the DTI Innovation Budget and the EU Framework Programmes. In the case of EU Programmes, this also involves participation in EU negotiations relating to formulation of the programmes;

6) **“Competitiveness” activities:** Sponsor Directorates undertake a range of activities and specific projects which are aimed at improving overall business productivity and performance within and across their sectors and up-grading the sector infrastructure for training and technical services. A key common feature of these activities is that they foster mutually beneficial collaboration within and across sectors, through trade associations, sector Research and Technology Organisations, Industry Training Organisations and other representative bodies, and seek to encourage these bodies to take a long term and active stance towards developing the capabilities and improving the performance of their sector. DTI funding for specific projects in this context is generally used as a catalyst, to encourage industry players to club together to work on issues of common interest, or to support wider dissemination activities than would be feasible without DTI help;

7) **Encouraging internationally mobile investment to come to/stay in the UK and to maximise spin-off benefits to the UK economy:** These activities include working closely with Invest in Britain Bureau to identify and encourage appropriate/desirable overseas investors to come to the UK. Sponsor directorate staff serve in liaison roles with a range of other interested players, including local authorities, to put together packages of support for inward investors which seek to maximise the spin-off benefits to the local economy, advising on use of the Regional Selective Assistance budget where appropriate in this context.

Resources

7. The EID currently has a total of some 150-170 staff, allocated among 8 directorates. Each EID directorate generally has 4-5 teams of 3-6 people, and

responsibility for a particular set of sectors. A few EID teams have no specific sector responsibility, but instead have responsibility for delivery of UK and/or EU innovation programmes. Some teams sponsor only 1 or 2 narrowly defined sectors, which are covered by one or a handful of representative bodies, while others have responsibility for a large number of diverse sectors, with numerous trade associations and other sector bodies. EID 4-5 and EID 8 sponsor a relatively large number of sectors, including the SME dominated engineering sectors. EID 1-3 sponsor aerospace and defence, and EID 6-7 sponsor automotive sectors, including retailing. EID as a whole encompasses a number of complete supply chains, from metals at one end to aerospace and automotive at the other.

8. EID running costs are approximately £6m per year. Budgets available to support sector competitiveness projects have varied, and have declined. Over the whole period since 1993/94 expenditure on competitiveness projects has totalled around £48m, excluding budgets for sector specific schemes such as CARAD, Launch Aid, Airbus Sales Support, The Home Shipbuilding Credit Guarantee Scheme, and the Shipbuilding Intervention Fund. Budgets for the sample of projects which were covered by the surveys for this evaluation totalled around £10m, including £1.5m for the SBAC Competitiveness Challenge (Aerospace) and £6.364m for the Industry Forum Masterclass (Automotive).

Rationale

9. Two main elements of an economic rationale for sector sponsorship were considered by the evaluation, which can broadly be summarised as relating to **“government failure”** on the one hand, and to **“market failure”** on the other. **The phrase “market failure” is used in this context to refer to circumstances in which there are potential net economic benefits which would not be realised by the private sector unaided.** For there to be an

economic rationale for Government action based on market failure, it must also be possible for Government to do something useful to address the problem, through means which ensure that the overall net economic benefits exceed the (direct and indirect) costs of intervention. The elements of a rationale considered by this evaluation were:

- a) **Sponsorship as means of reducing problems of “Government failure”** which would otherwise weaken economic performance. This part of the rationale relates to knowledge, dialogue and relationship building, and information and representational roles (“Activity areas 1-4”), which account for approximately 55% running cost resources. Potential benefits include: better informed Government, giving rise to better and more effective policies with respect to the overall framework for business, thereby enabling stronger overall economic performance and higher sustainable levels and growth of GDP.

Counter -hypothesis: Sponsorship as a vehicle for industry lobbying which distorts Government decision making by giving too much influence to particular sectoral interests at the expense of the interests of the economy as a whole, thereby weakening overall economic performance.

- b) **Sponsorship as catalyst for improvement in industry “competitiveness”:** This part of the rationale relates to sector sponsorship Directorates’ roles in competitiveness activities. The general economic rationale for business support activities is to address problems of market failure, which would otherwise prevent or hinder realisation of potential economic benefits, in areas where Government is able to do so in cost-effective ways. (A summary formulation of this general rationale is set out in HMT Green Book Annex E.) The specific economic

rationale for sponsorship roles in providing support to business is based on the **relative efficiency of sector focus and sponsorship mechanisms.**

Counter-hypothesis: Sponsorship support as dead-weight waste, distracting industry resources from alternative uses which would have generated at least equal overall economic benefits and/or supporting activities which would have been undertaken just as well without Government involvement. Risk of hindering healthy dynamic market processes, and hence overall economic performance, by providing support to weak businesses or sectors which slows down or stifles transfer of resources to stronger, more dynamic businesses and/or sectors.

10. In order to assess the “Government failure” rationale, the evaluation would need to identify and assess the specific contributions to Government policy, and to related mechanisms for effective consultation with business, which are made by sponsorship through: sector specific knowledge, dialogue, relationships and trust, provision of information to both industry and Government, and representational roles.

11. In order to assess the rationale for sponsorship as a “catalyst for improving competitiveness”, the evaluation would need to assess both:

- a) the extent to which the competitiveness activities which are undertaken are in fact efficiently targeted on addressing problems of market failure, and appear to have generated sufficient additional economic benefits to at least justify their cost; and
- b) the extent to which sector sponsorship mechanisms provide a relatively efficient means of addressing problems of market failure which would otherwise weaken industry competitiveness.

12. In order to test the hypothesis that sponsorship may be supporting relatively weak businesses, which might be to the detriment of market processes, the evaluation would need to establish whether the supported businesses were, on average, stronger, weaker or on a par with the UK average prior to their participation in the supported activities.

General findings and conclusions:

13. **The overall conclusion is that there is a sound economic rationale for sector sponsorship, with strong positive synergy between information, dialogue and representational roles on the one hand and the role of sponsorship as a catalyst for competitiveness on the other.** The quality of personal relationships and dialogue between EID staff and trade association directors general is at the core of both. Co-operation on competitiveness issues raises the frequency and depth of dialogue, and helps to build up trust; trust encourages openness in dialogue on policy issues, and strengthens industry confidence in the policy process.

14. **The ‘confidence factor’ reduces policy-related investment risk, and is very important in encouraging the renewal or up-grading of existing investments in the UK.** It is a significant influence on marginal location decisions where the best available alternative strategy is to relocate production to another major industrialised country. This in turn encourages wider industry participation in positive action to address competitiveness issues. When firms expect to remain located in the UK, and have confidence in the policy process, they have more incentive to invest in productivity enhancing improvements to competitiveness than they would if they were considering locating somewhere else instead.

15. **In order to realise the full potential benefits of sector sponsorship, it is essential that sponsorship roles should be**

carried out according to certain clearly defined standards. Integrity is paramount. The quality of dialogue and information exchange, both with industry and within government, must be reliably high and trustworthy. Sponsorship support for sector competitiveness activities must be focused on facilitating dynamic positive response to changing opportunities and challenges in an open international economy, and must not subsidise inertia or substitute for efforts which industry could, and should, otherwise make on its own behalf. Support for competitiveness activities needs to be prioritised through an open consultative process, involving all the significant sector representative bodies, including ITOs and RTOs as well as trade associations.

16. **The evidence considered for this evaluation indicates that EID sector sponsorship has met these standards to a considerable degree. However, there is evidence of weaknesses in particular areas, which the evaluation recommendations are designed to address.**

17. **The evaluation findings indicate that effective sector sponsorship needs to be relatively staff and running cost intensive, but balanced by modest access to funds for support of competitiveness projects and research.** There is evidence that current staffing levels are too low in some of the EID teams which cover numerous sectors [EID 4-5 and EID8], to permit sponsorship roles to achieve their potential. These include the teams which are responsible for most of the SME engineering sectors.

Conclusions relating to information, dialogue and representational roles

18. **Economic rationale:** The economic rationale for sector sponsorship information, dialogue and representational roles was assessed by establishing what would be the most likely outcome in the absence of EID sector sponsorship, and comparing the costs of

sponsorship with the estimated costs of the most likely alternative. The main conclusions are:

- **lobbying would *not* be reduced in quantity in the absence of sector sponsorship, but it *would* take much less efficient forms.** Industry position statements would be based on lower quality information and would contain less useful information for government; also the interlocutors would more often be private consultants, and they would have lower incentives to reflect wider industry or public interest in their stances. Lobbying methods would also be more expensive;
- **industry lobbying positions would be somewhat less well aligned with wider national policy perspectives:** EID sector sponsors are able to convey information, and a wider perspective, which their industry contacts value greatly, and which to an extent does result in modification of industry positions (although not often in full scale changes of industry position on a policy issue);
- **representational functions of trade associations would continue by alternative channels:** Representational roles of trade associations are generally the strongest factor motivating businesses to work together through such associations. However, the incentives for trade associations to take leadership roles in productivity enhancing competitiveness activities, and in stimulating related industry investment in public goods for the sector, would be lower;
- **policy risk for business in the UK would be greater for all sizes of firm:** The knowledge base for government policy development and implementation would be significantly weaker, and the risk that policies might fail, or have unintended adverse consequences at

sector implementation level, would be significantly greater. The risk to business in the UK of unanticipated policy changes, affecting business cost and revenue profiles, would be significantly greater, and would translate into higher perceived risk associated with long term investments in productive capacity in the UK. Policy risk would adversely affect investment to up grade productivity in SME sectors as well as investment by large firms;

- **the estimated annual value to industry of EID sector sponsorship dialogue, information and representational roles exceeds total EID running costs by nearly £18m to £6m, or 3:1.** This estimate reflects the costs which industry would otherwise incur by using commercial lobbying services and employing additional staff, and implies real economic efficiency gains from sponsorship which are sufficiently large to validate the economic rationale for these activities.

19. **Performance:** The strong evidence of high trust relationships with industry demonstrates that EID sector sponsorship has met the requisite quality standards for information, dialogue and representational roles to a considerable degree. However, there is evidence of significant weakness in the following areas:

- **assessing the quality of information received against independent sources and theories:** This requires more use of independent, objective sources of statistical data on the one hand, and better links with key sources of high quality independent analytical work on the other. In some sectors this weakness is compounded by the poor fit between sector definitions used by industry, and those used for official sources of industry statistics;
- **synthesising information for use by other government directorates:** This

requires greater use of standardised formats, and presentation in a form which can be related more clearly to concepts used by policy directorates and central analytical work in the DTI;

- ➔ **provision of timely information about EU policy initiatives:** There is a need for EID staff to improve their contacts with other divisions of government that are in regular touch with Brussels, so that they can achieve a more timely response to emergent EU policy issues;
- ➔ **gaps in relevant intermediation links, in particular links with DfEE and OST:** There are some indications that a stronger EID role in intermediating between industry ITOs and DfEE, and between RTOs and OST, might facilitate greater effectiveness in addressing UK industry needs in relation to education, training and technology, by making use of EID's comparative advantage in sector knowledge. There is a risk that gaps in sector based dialogue channels in these areas may be resulting in policies having unanticipated adverse effects on some of the engineering sectors, in particular with respect to training and education.

20. **The quality of dialogue on policy issues is generally significantly lower in the case of large firms, where government relations specialists are often the main EID interlocutor, than is the case in EID dialogue with sector representative bodies.** Accordingly, there is a particular need for EID to develop a stronger basis on which to assess and critically challenge the lines of argument which are presented to them by large firm interlocutors.

21. **Wider issues:** There is evidence of considerable compartmentalism in information flows across DTI, and of language and cultural barriers which inhibit dialogue between sponsor directorates and policy directorates. These factors contribute to weakness in the extent

to which EID sector sponsors have been able to use their knowledge to meet relevant information needs elsewhere in the Department and wider Government.

The main conclusions are:

- ➔ **barriers to dialogue between policy directorates and sponsor directorates matter, and have adverse implications for the policy making process.** There is significant scope for general policies to have unintended consequences at sector level;
- ➔ **DTI policy directorates need a better understanding of the types of knowledge which sector sponsors can contribute, and of the ways in which sector specific implications can have important effects on the overall impact and success of general policies;**
- ➔ **there is a need for the policy directorates to make more use of sector directorates as a mechanism for active consultation with industry on policy issues in areas where sector effects are likely to be particularly important.**

22. **The overall effectiveness of the Department could be significantly improved by addressing these areas of weakness and strengthening horizontal channels of internal DTI dialogue.**

Conclusions relating to sector sponsorship 'catalyst for competitiveness' roles:

23. **Economic rationale:** The main conclusions are:

- ➔ **in most sectors sponsored by EID, especially the SME dominated sectors, sector sponsorship mechanisms have proved highly conducive to eliciting project proposals which are consistent with the general economic principles of rationales for public sector**

intervention. The main focus of financial support, in most of these sectors, has been on up-grading sector public goods, in areas which have been selected, through consultative processes, as priorities in light of constraints on productivity and performance which were identified in competitiveness analyses. In a few sectors, however, the influence of dominant large firms on trade associations has resulted in a tendency to focus on projects which have relatively weak economic justification;

- ➔ **sector sponsorship mechanisms provide a relatively efficient approach to addressing market failures which would otherwise prevent business from realising potential economic benefits. This partly due to the important role of DTI reputation, and non-financial forms of support, in persuading businesses to participate in co-operative sector competitiveness projects, and to contribute to investment required for upgrading sector public goods, common sector resources and services. Funds from an alternative source would not carry the same weight.** A second key factor in the relative efficiency of sponsorship mechanisms is that **the competitiveness analyses and associated consultative processes, combined with the practice of requiring industry to bear at least 50% of the costs, have provided effective means of establishing priorities;**
- ➔ **sponsorship mechanisms for agreeing sector competitiveness priorities tend to be aligned with the more dynamic elements in the sector.** Mechanisms for agreeing priorities with industry have generally sought to involve all the key representative bodies, the RTOs and ITOs as well as the trade associations, and there is evidence that the combined membership of these bodies tends to be influenced by the stronger and more

dynamic elements. **Project participants have tended to be markedly more export oriented (except in aerospace), larger, and also more growth oriented than non-participants;**

- ➔ **sector sponsorship has had a significant positive impact on capacity building and positive ‘culture change’ among industry representative bodies in many of the sponsored sectors.** There is diversity across sectors in the extent to which there is interest, and/or suitable leadership in sector business organisations, to take forward activities of this type;
- ➔ **institutional capacity building in sector representative bodies has economic importance because of the need for intra-sector co-operation to provide sector public goods and services, e.g. research, and training and technical services;**
- ➔ **the impact of sector sponsorship on sector representative bodies has been particularly important in the historical context of increasing openness to international trade because of the importance of investment in up-grading sector training and technical services and other sector public goods in enabling industry to adjust effectively to new patterns of international comparative advantage;**
- ➔ **in the absence of sponsorship, the UK SME dominated engineering sectors would have had greater difficulty achieving dynamic adjustment to international competition.** The changing structure of international comparative advantage has required engineering sectors to shift focus to specialise in areas of **intra-sector comparative advantage**, and to develop new forms of relationships with customers. These dynamic adjustments

have required both **culture change** and **new investment in sector public goods and shared resources**, - where **sponsorship has been a significant facilitating factor** - as well as new investment in skills, technology and equipment by individual firms;

- ➔ **in the absence of sponsorship, the strong firms in the SME dominated sectors would have been less likely to achieve the level of industry commitment necessary to carry out key sector competitiveness activities.**

In order to meet the costs of investments to upgrade shared sector resources, there must be a sufficient minimum number of companies which are convinced of the potential benefits and willing to share the initial costs. **EID sector sponsorship has had a significant role in stimulating wider industry commitment to investment in such activities;**

- ➔ **in sectors where there is active dialogue on state aids issues this has diverted industry attention from productivity enhancing competitiveness activities, mainly by absorbing scarce trade association management resources.** By contrast, the industries which attach the greatest weight to the competitiveness programmes are those in which the UK economy is very open - both high import penetration and strong export activity - and global competition is most intense;

- ➔ **there is evidence of significant positive effects of supported projects on knowledge and skills, on business practices, and, especially in certain sectors, on intermediate business outcomes, for participating businesses.** These findings support the view that the supported activities have contributed significantly to culture change with positive real supply side effects;

- ➔ **additionality of participation and business effects, combined, is strong.** This is mainly because the influence of DTI reputation on the decision to participate - is strong, except in the aerospace sector.

- ➔ **the value of direct effects on participating businesses can be quantified, but the resulting measures significantly under-state the real economic effects, mainly because direct benefits to participants are only a partial element in overall project impact for many of the projects.** Techniques for measuring the wider benefits of projects with public good outputs have not yet been developed.

24. The overall conclusion is that there is a sound economic rationale for sector sponsorship roles as catalyst for competitiveness in the following areas:

- **taking the lead in developing sector competitiveness analyses [SWOTs] and competitiveness action strategies, working closely with industry through representative, open, dialogue channels and working groups;**
- **advising on DTI and OGD [Other Government Departments] financial support for sector based competitiveness activities and DTI business support programmes which involve sector representative bodies. Formal mechanisms for ensuring that DTI sector sponsors are consulted appropriately should be established, or strengthened, where necessary;**
- **providing modest financial contributions to industry-led competitiveness activities which meet additionality and market failure criteria, and which can be justified in terms of priorities identified in sector competitiveness analyses;**

- **providing non-financial support to industry-led competitiveness activities through participating in or hosting meetings, facilitating intra- or inter-sector co-operation, or through dialogue or other means, consistent with the overall priorities identified in sector competitiveness analyses.**

25. *Performance:* The main aspects of EID performance in this context relate to their roles in development of competitiveness analyses and strategies, through dialogue with industry, and to project appraisal, monitoring and evaluation. **The main conclusions are:**

- ➔ **criteria for carrying out project appraisal and advisory roles effectively have generally been met for most of the sectors considered.** The main exceptions have related to certain projects for which there is weak economic justification in the large firm dominated sectors. Existing appraisal processes have worked well for the SME dominated sectors. There is a need to address weaknesses in project appraisal to ensure that economic criteria for support are more consistently applied across sectors, and that financial support is restricted to areas where the justification for an element of public funding is strong;
- ➔ **links between the export support activities in EID, and export support services carried out by British Trade International are weak.** EID supported projects in this area have not always been consistent with eligibility criteria or policy objectives which are applied to BTI export services. Poor co-ordination across DTI in this area creates a real danger of weakening overall impact by wasting resources on rival efforts;
- ➔ **sector competitiveness analyses are of uneven quality, and many are now out of date.** Central guidance on these has been widely used, but has not been up-

dated since it was issued in 1993, so does not take account of more the recent analytical work reflected in the 1998 competitiveness white paper, 'The Knowledge Driven Economy.' The most successful competitiveness analyses were not just desk exercises, but incorporated input from surveys of key customer groups, with strong industry involvement, including input from the sector RTOs and ITOs in the dialogue process as well as the trade associations;

- ➔ **the competitiveness analysis exercise was successful in stimulating industry self-analysis and co-operative initiative to identify and address key competitiveness issues.** Much of the research appears to have been additional, and enabled industry to gain knowledge about itself which was very important in the historical context of rapidly increasing international competition. The role of DTI appears to have been significant in facilitating involvement of customer groups, and in bringing the main groups within industry sectors together, especially where representational bodies had been fragmented.

Wider issues:

26. *Policy towards engineering sectors:* **There is evidence of confusion, both within government and within industry, about government policy towards engineering sectors.** There are indications that policy directorates may have been **under-estimating the importance of unintended adverse consequences of general policies** - e.g. education and training policies, or the design of funding mechanisms for training and innovation - because they have been **over-estimating the extent to which these sectors will need to shrink in the context of an open international trade policy regime.** Confusion about government policy towards these sectors creates a climate of ambiguity which is detrimental to effective sponsorship and to the policy process.

27. **Sector focus vs regional or central options:** The overall level of government financial support for sector based competitiveness activities of trade associations is relatively low, with regionally based bodies such as Business Links receiving a much higher level of public subsidy. Existing guidance for programme appraisal does not provide a set of criteria which could be used to assess which of the three options would be most appropriate in a given context. In the absence of such criteria, there is a risk that allocation of public support across the three alternatives may not reflect real economic priorities, resulting in wasteful use of funds in some areas, with lack of funding for worthwhile projects in others. **There are some indications that current funding arrangements may disadvantage small sector based bodies, such as RTOs and ITOs, which are particularly important to the SME engineering sectors with respect to training and technology services.**

28. **Supply chain issues:** **There are conflicts of interest within supply chains, which have a bearing on resource allocation across EID.** Market power of dominant customers vis a vis their SME suppliers is weaker when the latter are able to export or to sell to alternative customers in the UK, and when they are able to pool their efforts to upgrade shared resources and to address key competitiveness issues. By contrast, large firm sectors have sometimes sought to claim credit for the value added generated by the SMEs in their supply chains, as if it were to be taken for granted that their suppliers had no ability to export. **The balance of resource allocation across EID needs to take adequate account of the real export potential of the SME engineering sectors.**

Recommendations:

29. The central recommendation is that sector sponsorship should be retained, and re-vitalised, and should be utilised more effectively in the policy process. Detailed recommendations are made to address the weaknesses identified and to build on the most successful examples of sponsorship. A core recommendation to this end is that a new round of sector competitiveness analyses should be undertaken, based on updated guidance which reflects the analysis underlying the 1998 competitiveness white paper, “The Knowledge Driven Economy”, and the factors identified in the “Competitiveness Index”.

Evaluation Methodology Issues:

30. The Sector Sponsorship Evaluation successfully developed and tested a framework for comparative evaluation, and a highly innovative methodology for evaluating the information, dialogue and representational roles of sector sponsorship. The framework for comparative evaluation is illustrated in Box A, which uses it to set out the main findings of this evaluation with respect to the impact of sector sponsorship on industry competitiveness. Recommendations relating to evaluation methodology for wider DTI use are made in the evaluation report.

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BOX A: Part 1. Outcomes resulting from sponsored ‘competitiveness’ projects:

[NB: See explanatory notes in BOX 1A, main report]

Data source: PACEC telephone surveys

Outcomes:	Main Findings:
<p>Business effects: indicators of direct and indirect effects on business at 4 levels:</p> <ol style="list-style-type: none"> 1) effects on knowledge/skills; 2) effects on practices/methods; 3) effects on intermediate business outcomes (e.g. improved product quality, reduced down time, new customers, etc.) 4) effects on hard business performance outcomes (i.e. positive effects on 1 or more of: total turnover; exports; employment; productivity). 	<p>% Project participants reporting effects on their business:</p> <p>74% effects on knowledge/skills; 76% effects on practices/methods; 62% effects on intermediate business outcomes; a further 23% expected such effects in future; 27% effects on hard business performance outcomes; estimated direct business benefit to participants contacted £5,703.4k; of which: £275.9k (aerospace), £193.5k (tools), £133.7k (forging), £2,206k (auto), £544.7k 9 (ship-boat-building/marine equipment). Estimated overall DTI funding for projects covered by the survey: £10m.</p> <p>Additionality: participation and business effects additional for 69% participants; variation across sector from 56% (auto) to 91% (tools). DTI involvement an important influence on decision to participate for 70% participants, ranging from 39% (aerospace) to 100% (metals).</p>
<p>Market process effects: indicators of effects on the efficiency and quality of market processes, e.g. transactions processes and supply chain relationships, best practice and information/innovation diffusion mechanisms, vertical and horizontal networking and co-operation mechanisms.</p>	<ul style="list-style-type: none"> • 34% participants in supported activities reported positive effects on inter-firm co-operation (ranging across sector groups from 5% in ship/boat/marine equipment sectors to 71% in the forging sector); • examples of supplier assessment and bench-marking tools developed (outputs of supported activities); • examples of increased cross-sector co-operation: e.g. finance and industry (dialogue and output, e.g. development and dissemination of workbook tool to improve access to finance); • evidence of qualitative effects: positive culture change towards customer focus and more dynamic response to open markets.
<p>Input supply effects: indicators of effects on availability, cost and quality of resource inputs, including relevant business services as well as skills (both labour and management), materials and finance.</p>	<ul style="list-style-type: none"> • progress towards development of infrastructure and materials for standards based training using NVQs: NVQs written (foundry) and background research outputs (metals; tools; foundry; ship-boat); • evidence of effects on skills (including direct business effects); • examples of effects on supply of trainers, development of training services (e.g. IF engineers, skills project outcomes); • examples of research outputs [market, bench-marking, skills/training, and technical topics]; • examples of unquantified investment in upgrading and development of shared sector resources (e.g. ITO and RTO services: training and NVQ assessment; technical services).
<p>Institutional framework effects: indicators of effects on the quality and effectiveness of the institutional framework for business, e.g. effects on capacity building in sectoral (or local/regional) business organisations.</p>	<ul style="list-style-type: none"> • positive effects on TA (also RTO in foundry sector) activities, services, and culture; • positive effects on TA (also RTO in foundry sector) structure and co-operation: e.g. creation or strengthening of umbrella organisation or merger to reduce fragmentation in metals, forging and foundry sectors (Alfed, CBF, CDC, BMCA); • positive effects on inter-TA/RTO/ITO et al co-operation (e.g. forging and foundry: joint participation in DTI sponsored competitiveness working groups; initiatives begun by DTI but continuing without direct financial support); <p>Project viability additionality: £ 4,437.672k revenue raised towards project costs by charges to participants; of which, 86% was paid by the 70% of participants for whom DTI involvement was an important influence on decision to participate in the project.</p>

BOX A: Part 2. Outcomes resulting from sector sponsorship information, dialogue and representational roles:

Impact on the wider framework for business:

Outcomes:	Main Findings:
<p>Policy framework effects: Effects on the efficiency and effectiveness of policy making, e.g. legal and regulatory framework, trade and investment policy framework.</p>	<ul style="list-style-type: none"> • Important positive effects on policy process by improving knowledge of sector specific policy implications; but potential not fully realised; • Important positive effects in the efficiency and quality of industry-government and government-industry communication on policy, reducing incidence of inefficient forms of lobbying; • Evidence of sub-optimal government use of EID’s knowledge of industry, linked to weaknesses in communication with other parts of DTI and other Gov’t Departments, and gaps in information sources; • Most trade association interviewees were able to quantify the value of EID to them by estimating the costs of employing additional staff and using commercial lobbying services. The average value stated was £134k per year (per trade association), with no evidence of any tendency for the most intensively sponsored sectors to give larger estimates. Net of EID running costs, this translates into an average annual efficiency gain of £11,334k, or an average of £70k per year per EID staff member.
<p>Business climate effects: Impact on business perceptions of business climate, e.g. policy related investment risk.</p>	<ul style="list-style-type: none"> • Very important positive effects on business perceptions of policy process, with evidence of significant effects on perceived policy related investment risk and desirability of UK as location; • High levels of trust between EID and sector representative associations, developed and maintained through frequent dialogue covering wide spectrum of issues affecting industry; • In sectors where there is active dialogue on state aids issues this tends to divert industry attention from productivity enhancing competitiveness activities, mainly by absorbing scarce trade association management resources.