

# Enterprise in a globalised world

Globalisation presents huge challenges for the UK, and for all industrialised countries. Jobs are more mobile than at any time in the past. At the same time, new industries have sprung up at home, driving up the demand for highly skilled workers. These are the outward signs of a fundamental transformation in the world's economy and culture, as profound and far-reaching as the first Industrial Revolution.

Two hundred years ago next month, Richard Trevithick's steam engine marked the beginning of the 19th century's communications revolution. Industry and invention overtook land and agriculture as the source of national power and wealth. The changes of the railway age were, to the people of the time, as disruptive and transformative as globalisation is today.

Now, industrial power is giving way to creativity and innovation as the driver of growth. It is only 12 years since Sir Tim Berners-Lee invented the World Wide Web, and only 32 since the sending of the first e-mail. We are seeing a long-term economic shift, towards a world where innovation, design and creativity are the foundations of national prosperity.

For an economy to be competitive in this new world, the driving forces must be innovation, knowledge and enterprise. The leading economies will need to be flexible, responsive both to changes in the marketplace and to technological innovation. Most of all, the successful economies will see a cultural change from 'work' to 'enterprise'.

## Panel I: Building a global company

Faster and more effective communication technologies are breaking down the geographical boundaries that used to limit companies' ability to find customers, site their operations and work with suppliers.

Ideas and capital cross national boundaries with ever increasing ease and companies must keep up with the changing demands of their customers and investors. Managing intellectual and knowledge capital is critical for successful innovation. The challenge within a global marketplace is not a scarcity of information about customers, competitors, suppliers and market trends, but rather an abundance of information creating complexity that needs to be managed.

For a global company the choice of location for its activities becomes more important as it pursues competitive advantage. Supply chains increasingly cut across national boundaries as the most efficient and effective sources of production are sought out. High-value, hi-tech, innovative operations may be conducted many thousands of miles away from the low-value, high-volume end of the same business process.

Businesses are starting to seek out these opportunities and use them to their advantage. The OECD records that imports to the EU from dynamic Asian economies and China rose from 0.72% of GDP in 1972 to 1.9% in 2001. This creates both challenges and opportunities for developed countries, which need to upgrade their skills and technologies and increase enterprise to ensure strong economies.

Developed economies are all experiencing a shift to a more service-based economy with service sector exports reaching over £80 billion for the UK in 2002. Service sector imports are also rising, in 2002 they amounted to

over £70 billion. At the same time, local demand for manufacturing products is growing in developing countries, providing a further incentive to relocate operations.

## Panel II: Economic reform in Europe

In March 2000, European Union Heads of State and Government met at Lisbon and committed themselves to a new strategic goal – a ten-year strategy of far-reaching economic reform to make Europe the most competitive and dynamic economy in the world with full employment and social justice. As part of this strategy, the EU set itself challenging targets and objectives for employment, research and innovation, the Single Market, social cohesion, and sustainable development.

Significant progress has been made in recent years towards realising the strategic goal set at Lisbon. The EU has introduced a series of important reforms, including major overhauls of the regulatory frameworks for telecommunications, energy and competition, and new steps to promote investment in research and development.

There is evidence that these economic reforms are delivering some success. On employment, for example, around six million jobs have been created in the EU since 2000, raising the employment rate from 62.5% to 64.3%. However, the continuing performance gap with global competitors such as the US show that there is still much more to do if Europe is to meet its goals.

If the EU is to improve its economic performance it is essential to foster an environment that supports the key drivers of productivity - competition, investment, innovation, enterprise and skills. These drivers are interdependent and complementary: skilled workers may encourage firms to invest in more technologically advanced capital, while strong competition will promote greater incentives for firms to innovate and improve efficiency. Improving the drivers of productivity growth is therefore crucial to achieving the Lisbon goals.

Enterprise and innovation are crucial drivers of progress towards the Lisbon goals, enhancing economic flexibility and productivity within an economy. By helping to generate economic prosperity and employment in deprived areas, enterprising firms and individuals can also make a positive contribution to Europe's social goals.

To compete effectively in an integrated and competitive global economy, Europe needs to improve its capacity to innovate and to foster an entrepreneurial culture. A thriving and dynamic small business sector can make an important contribution to productivity growth across the Single Market, driving competition within the European economy and providing continual incentives for investment, innovation, efficiency and quality improvements.

## Panel III: Creating an enterprise culture

Enterprise is the lifeblood of the modern economy, contributing to employment, productivity and prosperity across the country. In an age of rapid technological change and global competition, our capacity to innovate and adapt is crucial for the health of the UK economy.

Enterprise can take many forms. One is personal entrepreneurship - people starting and growing their own businesses, providing a source of competition and new ideas leading in turn to a more efficient churn of businesses.

# Enterprise in a globalised world

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Another is enterprise among employees of existing firms. The need for this will grow as more people are employed by businesses facing high levels of change. As management structures become less hierarchical, working methods become more network oriented, and as individuals change jobs more often – individual employees will need to be able to spot opportunities, take the initiative, and adapt themselves and their areas of work to changing circumstances.

Finally, the senior managers of large companies, whether British or multinational, need to be as enterprising as small-scale entrepreneurs. They need to change and shape complex organisations, to make them as flexible as their smaller competitors.

Enterprise needs to be seen positively, not just by young people thinking about their futures, but by people of all ages making career choices and by society at large so that those who choose to engage in enterprise are supported and encouraged.

Many of the factors that contribute to perceptions of enterprise are beyond government's control. However, government can help spread information about enterprise in all its various forms and can provide gateways to both public and private sector support to new entrepreneurs. Government can also play a role in providing opportunities for people to experience enterprise at key points in their lives.

What would an enterprise culture look like? The Government's vision is of a nation in which all sections of society are better equipped to respond positively to change and new opportunities, to create and implement new ideas and ways of working, and make reasonable assessments of risks and rewards and act upon them. The spread of these skills will enable all to manage a flexible career, and help create a business environment supportive to becoming involved in enterprise.

### Panel IV: Tackling the skills gap

Sustaining a competitive, productive economy requires an ever-growing proportion of highly skilled and qualified people. While school results have begun to improve in recent years, more than eight million adults in the UK are low-skilled – a much higher proportion of the population than in France, Germany or the United States. To address this skills gap, those who are already adults must receive training to improve their skill levels.

British firms have in the past appeared reluctant to train their low-skilled workers. Once workers attain the equivalent of level two qualifications, firms appear more likely to invest in further training.

The Government has introduced several work-based routes to train the low-skilled in Britain, such as Modern Apprenticeships and Employer Training Pilots, where employers receive wage compensation for time when their staff are being trained, and training is provided with the minimum of disruption to businesses. Take-up of Employer Training Pilots has been very encouraging, with over 20,000 learners and over 5,000 employers already engaged. However, there are still too few low-skilled workers taking up these opportunities.

Government can work with business to ensure work based training schemes are more attractive to low-skilled workers and their employers, but business needs to ensure that employees can take up these opportunities to train if the UK is to move beyond the old ad hoc approaches to skills and training.

Further Education colleges provide the bulk of adult training outside the workplace. The Government is focusing on driving up performance of the sector and will need to work with business to ensure these colleges are more responsive to the needs of business and are providing relevant training.

Ensuring the right level of higher skills is also very important for promoting productivity and enterprise. Britain compares well internationally on higher skills, but it is not just the number of graduates produced that counts - the type of skills they possess is also important. In particular, the Government is committed to improving the supply of graduates with science, technology and engineering skills in response to the findings of the Roberts Review, in order to safeguard the UK's future research, development and innovation performance. Government and business both have a role in ensuring we produce graduates of higher education with the right skills for promoting enterprise in the UK.

### Panel V: EU/US economic cooperation

In an increasingly inter-connected global marketplace, traditional geographical barriers to economic activity are being broken down as global competition and innovation have increased, along with the mobility of people, ideas and capital. For all countries, globalisation is both an opportunity and a challenge. Greater openness to the global economy can increase growth and productivity, through stronger competition and technological transfer – but to realise these benefits, the goals of structural reform and more open global markets must be pursued in parallel.

For an economy to be competitive in this new world, the driving forces must be innovation, knowledge and enterprise. The leading economies will need to be flexible, responsive both to changes in the marketplace and to technological innovation. Most of all, the successful economies will see a cultural change from 'work' to 'enterprise'.

# Enterprise in a globalised world

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The priority for increasing economic openness is a successful WTO round – the Doha Development Agenda (DDA). To complement the WTO agenda, there is potential for closer economic cooperation with our leading trade partners to eliminate the most difficult behind-the-border barriers to trade.

The world's largest bilateral trade and investment relationship is that between the EU and US. A recent study by the Center for Transatlantic Relations at Johns Hopkins University has estimated that the transatlantic relationship accounts for up to \$2.5 trillion of commercial transactions each year, including \$500 billion of foreign trade, and provides employment to over 12 million people on both sides of the Atlantic. As a result, the EU and US are major sources of growth and income for each other.

Two studies on EU/US economic cooperation, published in May 2003 by HM Treasury, demonstrate that there remain vast potential benefits from closer bilateral economic cooperation. A report by the Centre for Economic Policy Research (CEPR) finds that the full liberalisation of transatlantic trade would lead to an annual income gain to the EU of up to 2 per cent of GDP and for the US of up to 1 per cent of GDP. The CEPR report notes that the additional benefit to the EU arises from the positive impact that openness to US competition would have on economic reform in Europe - further transatlantic integration would have pro-competitive effects on the EU's internal market and a consequent impact on growth and productivity.

A report by the European University Institute (EUI) notes, however, that the strength of the bilateral relationship masks the challenge presented by regulatory differences, rather than tariffs, that will become the main barriers to transatlantic commerce. In financial services, for example, there is increased recognition that many financial sector issues require international solutions, and cannot be resolved by the EU or US on their own. Similarly, duplicative regulatory regimes can create unnecessary costs for business and consumers.

That is why the Chancellor of the Exchequer and US Treasury Secretary John Snow announced, at the Confederation of British Industry Annual Conference on 18 November 2003, their support for the production of a study, led by the OECD, to quantify in more detail the potential benefits of closer economic cooperation, and where greater cooperation would yield the most immediate economic benefits. Making the most of the opportunities provided by our economic interdependence will be a major challenge to policymakers - and civil society - on both sides of the Atlantic.

## Panel VI: Technology and innovation

Key challenges for UK innovation are posed by opening up world markets to trade, industrialisation in lower cost countries, and rapid advances in technological change. Developments in ICT, new materials, biotechnology, new fuels and nanotechnology are unleashing new waves of innovation, and creating many opportunities, both for scientific advances and for entrepreneurial businesses to gain competitive advantage. Services, which account for 70% of output, are becoming increasingly innovation-intensive, particularly through the use of ICT. At the same time, the boundary between manufacturing and services is becoming increasingly blurred.

Developed countries like the UK will need to compete on high technology products and services, as globalisation encourages innovation through a shift towards higher value-added production and comparative specialisation. Significant Government investment in the UK science base and investment by businesses in R&D are essential foundations for this progression.

Innovation is one of the main ways in which entrepreneurial firms compete. The countries that will do best in the globalised marketplace are those that are willing to create the right environment for entrepreneurship and innovation to flourish, those that back the people with ideas, those that invest in science, and those that create the right conditions for ideas to move from the laboratory to the marketplace.

Successful innovation also requires a high level of skilled labour working alongside world-class research and learning at all levels. The Government must be unstinting in its commitment to the skills agenda. New technologies also enable international collaboration on research, and have greatly increased the mobility of research and researchers. Everyone can benefit from that mobility if Britain is made the best place in the world for all firms, whether multi-nationals or start-ups, to do their business.

These trends look set to continue and UK firms need to adapt to this environment. Globalisation will encourage innovation through the shift towards higher value-added production and comparative specialization. Significant government investment in both science and business R&D are needed to back this up.

Levels of entrepreneurship help determine the intensity with which firms compete and the ability of firms to spot opportunities and manage risks. At the same time innovation is one of the main ways in which entrepreneurial firms compete. The relationship between enterprise and innovation is interactive, complex and dynamic. Successful innovation also requires a high level of skilled labour working alongside world-class research and learning at all levels.

Two recent reports, one by Richard Lambert on business-university collaboration and another by the Department of Trade and Industry on innovation have brought two challenges clearly into focus at the front of the UK's economic policy. The UK has to ensure that it builds and retains world-class research facilities, and that the products of those research facilities are brought to market at home, producing new jobs and growth in the economy.

Britain's record in research and innovation is strong, but our record in bringing products to market is still too weak. New technologies enable international collaboration on research, and have greatly increased the mobility of research and researchers. We can benefit from that mobility if we make Britain the best place in the world for all firms, whether multi-nationals or start-ups, to do their business.