

business backbone

Close-up of the Sail footbridge across the Tawe in Swansea's SA1 development, designed by Rowecord, one of Wales's leading indigenous SMEs.

rhys david argues we should focus on promoting medium-sized companies to build our economic base

Why, despite all the efforts put into turning it around, including the spending of more than £1bn of EU Objective One funding, does the Welsh economy remain a persistent and perpetual laggard? Table 1 shows how far down the league table Wales finds itself, and especially the west Wales and the Valleys Objective 1 region.

The excessive size of the public sector has been the favoured culprit of recent years, and it is certainly true that by international standards it is large, at two thirds of Welsh Gross Domestic Product. Yet, we don't have armies of public servants dusting the statues in Cathays Park or shampooing the sheep in Senghenydd, and while we may or may not have too many bureaucrats servicing the Assembly Government, they represent only a small proportion of public expenditure.

The evidence would not seem to suggest we have too many nurses or teachers, street sweepers or park keepers. Our public realm is probably staffed – give or take some adjustments – at about the right level for a modern advanced industrial society, particularly one with an ageing population requiring a high level of services.

The real problem, as former Welsh Secretary, Peter Hain among others, has identified, is the private sector, which represents far too small a share of Wales's economic output. Moreover, as has perhaps not been properly recognised to date by policy-makers or economic analysts, it is where the deficit exists – in sound medium-sized companies with strong roots in Wales – that the main difficulty is concentrated.

While much attention is rightly given by policymakers to small entrepreneurial businesses, particularly those in modern sectors such as new media, information technology, and the biosciences, as well as to the largest Welsh businesses, such as Airbus, the gap in the middle tends to have gone largely unnoticed. The structure of the Welsh business sector and the part this plays in our overall economic performance and competitiveness, is not being factored into the economic equation.

Figures that appear annually in business league tables produced, for example, by the Western Mail and Wales Business Insider and their respective partners illustrate the point. At the top end of the scale, according to figures collected in Insider's *United Kingdom plc*, Wales has just three companies with a turnover in excess of £1bn. This compared with 19 in Scotland and seven in the North-East, the latter probably the nearest comparable region to Wales. Other regions are broadly similar to Scotland, the East Midlands having 15 £1bn plus companies, the West Midlands 21 and Yorkshire and Humberside 17, with only Northern Ireland having fewer than Wales.

But it is not just at the top that the gap appears. Even more worryingly, further down the list, the 25th biggest company in the South-West of England has a turnover of £658m, in the East of England £838m, in Scotland £771m and in the North East £273m. For Wales the figure is £185m. There is a swathe of middle-sized companies missing in Wales, with all the employment, career opportunities, research activity, business service support, distribution requirements and wage contribution to the local economy that this implies.

The position is much the same if market capitalisation, representing the total value placed by investors on a company is used – in some ways this is a more accurate measure of company size. Only six Welsh companies are quoted on the main London stock exchange, far fewer than in other comparable British regions, with a further 18 on the secondary Alternative Investment Market (AIM). Business Insider lists just 26 Welsh

companies that have a stock exchange quote, a list dominated by Admiral Insurance, which at more than £2bn accounts for more than half the total value of Welsh quoted companies.

While over the past three years the number of Welsh quoted companies in both exchanges has increased by just one, membership of the list has changed considerably. Ten companies have left over that period, mainly through take-over or reversion to private sector status. These include the major retailer Peacock Group, business supplies provider PHS, BBI Holdings, Biotrace, and Ubiquity. They have been replaced by such newcomers as Amerisur Resources, media groups Boomerang and Freshwater, Tinopolis (soon to leave the AIM market), the electronics group Enfis, the property group Eatonfield, and miners Energybuild.

The Western Mail has a much more generous interpretation of what constitutes a Welsh interest stock, including various businesses registered outside Wales that actively trade here. Even so the list has been shrinking. In 1998 its Welsh interest share selection contained 80 companies, including such names as Cardiff steelmaker ASW (subsequently absorbed by Celsa), Hyder (re-organised into Welsh Water), airports group TBI (acquired by Spanish company Abertis), Biotrace (acquired by 3M), Iceland supermarket owner, Big Food Group (now part of Icelandic Baugur group) and medical technology maker, Gyru (acquired by Olympus, the Japanese camera group).

Encouragingly, the newcomers do include a number of companies from high technology sectors, such as Chromogenex, IQE, Netalogue, Newport Networks, Pure Wafer, and Spectrum Technologies, as well as media businesses such as Tinopolis, Boomerang, Enfis, and Freshwater, plus a handful of energy and resources groups and financial services companies. However, with the exception of Admiral and Moneysupermarket.com, the north Wales price comparison website, the market capitalisation of most of these companies remains generally very small.

This matters in a number of ways, which current economic development policy does not seem likely to rectify. Companies come and companies go and Wales slowly makes progress in developing a more modern manufacturing and services base. Yet Wales's stock of strong medium-sized companies remains small. Certainly, it is not growing fast enough to help create an economy comparable with other regions of the UK or indeed, other dynamic parts of the European Union, including some of the recent new entrants.

This impacts on Wales's ability to offer a wide range of career opportunities, but there are other consequences. Our underdeveloped private sector means the opportunities for the professional services sector to grow in size and sophistication are limited unless it seeks to work extensively outside Wales. Insider's figures show that in the period under review – end October 2006 to end October 2007 – the biggest deal done in Wales was the stock market flotation of Moneysupermarket.com, at £366m. However, the tenth biggest was a massive drop down to a £15m management buy-in. In contrast, Scotland registered a top deal of £11.6bn, for the take-over of Scottish Power by Spanish energy

table 1: GDP comparisons between Wales and other EU countries and regions

| | |
|-------------------|-----|
| Inner London | 303 |
| East Wales | 115 |
| Luxembourg | 264 |
| Germany | 115 |
| Brussels | 241 |
| France | 112 |
| Hamburg | 202 |
| EU | 100 |
| Prague | 160 |
| NE England | 96 |
| Ireland | 143 |
| Wales | 92 |
| Netherlands | 131 |
| W. Wales/ Valleys | 79 |
| UK | 119 |
| Czech Republic | 77 |

Source: Eurostat 2008

table 2: Middle-ranking UK companies by region

| Region | Number £1bn+ | Leading Company | Turnover £bn | Biggest Non-Retail £bn | 25th biggest by turnover £m |
|-------------|-----------------|--------------------|-----------------|---------------------------|--------------------------------|
| S. West | 15 | Somerfield | 5.2 | 4.7 | 658 |
| East | 15 | Tesco | 42.6 | 9.5 | 838 |
| E. Midlands | 15 | Pendragon | 5.1 | 2.3 | 566 |
| W. Midlands | 21 | E.On | 6.9 | 4.8 | 744 |
| NW | 17 | Unilever | 26.7 | – | 757 |
| Y&H | 17 | Asda | 14.8 | 3.1 | 575 |
| N. East | 7 | Barratt | 2.43 | – | 273 |
| Scotland | 19 | Standard Life | 15.3 | – | 771 |
| N. Ireland | 0 | Viridian | 0.98 | 832 | 167 |
| Wales | 3 | Novelis | 1.6 | – | 185 |

Source: Insider United Kingdom plc

table 3: Welsh-headquartered companies by turnover

| Company | Sector | Turnover £m | Period: year ending |
|----------------|--------------------|----------------|------------------------|
| Redrow | Construction | 796 | 30/06/07 |
| Admiral | Insurance | 825 | 31/12/07 |
| Peacock | Clothing retailing | 607 | 31/03/06 |
| Glas Cymru | Water | 578 | 31/03/07 |
| Principality | Finance | 291 | 31/12/06 |
| David Mclean | Construction | 279 | 30/06/06 |
| Capper | Food retailing | 261 | 30/04/07 |
| PHS | Services | 188 | 31/03/05 |
| Sinclair Motor | Motor distribution | 169 | 31/12/07 |
| JD Cleverly | Motor distribution | 145 | 31/12/06 |

Source: Western Mail Wales Top 300, 2007. December 2007

table 4: Welsh companies quoted on the London Stock Exchange

| Company | Sector | Market Capitalisation £m (end June 2008) |
|--------------------|-----------------------|---|
| Admiral | Insurance | 2,130 |
| Moneysupermarket | Financial Services | 596 |
| Redrow | Construction | 253 |
| Amerisur Resources | Oil and Gas Producers | 68.6 |
| IQE | Technology | 65 |
| Dee Valley | Food | 43.4 |
| Wynnstay | Retailing | 36.5 |
| Energybuild | Mining | 38.2 |
| Finsbury Foods | Food | 26.5 |
| Anglesey Mining | Mining | 25.9 |
| Eatonfield | Real Estate | 25.6 |
| Boomerang | Media | 16.3 |
| Enfis | Electronics | 8.9 |
| Pure Wafer | Technology | 8.8 |
| Freshwater | Media | 8.3 |
| Hawtin | Real estate | 5.42 |

Source: London Stock Exchange

producer, Iberdrola, and its tenth biggest came in at £744m. In the North-East of England the biggest deal was £2.2bn, and in the South-West, £10.9bn.

As a direct result, Wales is not very fertile ground for professional service firms such as banks, accountants,

management consultants, solicitors, and search agencies. A further consequence is that many of them choose to keep only a token presence in Cardiff or to make their Welsh operations a branch of Bristol, Birmingham or Manchester centred operations.

This is not a problem that is going to be solved very easily or very quickly. It will need something more than the usual sort of economic development policies that have been followed both pre and post devolution, generally speaking with little impact. For the most part, these have set out to offer Wales as a location within which businesses can operate profitably, whether they be indigenous, from the rest of the UK or abroad. Essentially, policy has not sought to influence the type, character or ownership of investors beyond seeking to ensure Wales secures some representation in what are perceived at the time to be growth sectors with reasonably good prospects in front of them.

What should be done? While efforts to attract inward investment, to encourage local entrepreneurialism and to stimulate research-based spin-offs from our universities must continue, we should examine just what policy measures are needed to develop an economy that more closely resembles our Celtic neighbours and other comparable UK regions. And, controversially, such a policy would seek to identify areas where there is a reasonable chance that viable businesses could be established in sectors where Wales is currently weak. Undoubtedly, this would require a degree of Welsh Assembly Government involvement.

Trying to pick winners is, of course, widely regarded as not a skill Government is likely to have and has largely been abandoned since the Thatcher era in Britain. But the same is not true of France and some other countries where the belief that specialisation through globalisation is the only viable economic route has not been embraced as fully as in the UK. It will also be argued that Assembly officials lack the skills to involve themselves in working closely with businesses in identifying opportunities and brokering deals.

Yet the limitations of globalisation have become much more apparent over recent months. The dangers of relying too heavily on a handful of powerful sectors such as financial services, pharmaceuticals and international aviation are now being appreciated. In this new climate an opportunity is being created in which Wales should stress that it is in our economic interests to develop a more balanced and sustainable economy.

Basic sectors such as food and drink, public transport, distribution, retailing (high street and internet) hospitality services, property and construction, telecoms and energy supply are key economic building blocks and are areas where efforts should be made to bring together Welsh companies that can offer a locally-based service to Welsh consumers. Once a Welsh base has been established they can expand outside Wales into neighbouring markets in England.

There are plenty of other areas where Wales is also under-represented. To take one example, the press sector is particularly weak in Wales yet the component parts that could lead to the creation of a Welsh media group are in existence. This is just one of a number of areas where Welsh companies could be encouraged to co-operate or to amalgamate to create stronger groups that can expand outside Wales, just as the



independent television production company Tinopolis has done. Ways also have to be found to ensure Welsh companies participate in areas such as new forms of energy and in providing the goods and services needed to cater for Europe's ageing populations.

Of course, Government mechanisms for supporting Welsh companies already exist, and recent changes have resulted in a simplified structure for delivering funds and advice. What is needed now is for this capacity in the civil service to be deployed in a much more active way. Instead of responding passively to company approaches, Government should take ideas to business, including in some cases suggestions for the re-organisation of whole sectors to create stronger Welsh groups that are able to compete more effectively.

These suggestions will be anathema to those who believe Government should not involve itself in company affairs other than as a supplier of financial assistance and general advice. Present policy accepts this argument and so we continue to wait for outside investors to come and take advantage of our offering of labour, finance and location to make products or provide services here *after* they have been patented, designed and modeled elsewhere.

This is a prescription for Wales to continue to operate as a largely satellite economy and to fail to secure the benefits of full involvement, including a much greater degree of ownership, in modern business sectors. Unless this happens it is hard to see how we are ever going to move up any of the economic league tables we currently prop up, including those reflecting buoyant private sector activity.

Working at Ifor Williams Trailers, at Cynwyd near Corwen, another successful Welsh indigenous SME, which is the UK's leader in the field of design and manufacture of vehicle trailers.

Rhys David, a former journalist with the Financial Times, is a Trustee of the IWA.