Investment in Northern Ireland

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It is generally accepted that Northern Ireland suffers from under-investment and a consideration of the figures relating to the amount of capital invested in companies both public and private in Northern Ireland and Great Britain shows that Northern Ireland is by comparison short of capital. Its population is roughly 2·5 per cent. of the population in Great Britain, but the amount of capital invested in companies registered in Northern Ireland (over £79,000,000) is only 1·15 per cent. of that invested in a similar manner in Great Britain (over £6,000,000,000) that is to say there is less than half the amount of capital so invested in this country per head of the population compared with that so invested in Great Britain. It is therefore necessary that the British investor should be induced as far as possible to invest his money in this country and the local capitalist induced to retain his money here rather than seek an outlet for it abroad.

Opinions differ as to the remedies for under-investment in Northern Ireland. Some people argue that the best way to increase the inflow of investment is to attract a greater number of branch factories controlled by British and American industrial concerns. Others argue that in times of slack trade branch factories in Northern Ireland might be among the first to be closed down. Surely the closing down of a factory would depend on costs. An up to date post war factory built in Northern Ireland would stand less chance of being closed down than one built between the wars in some other part of the United Kingdom. One well known company has in fact, taken decisions during the past twelve months or so to close factories elsewhere.

In the Isles Report the net external investment for Northern Ireland is stated to be £330,000,000. It is not clear how any major change can take place in this figure, at any rate for some years. The biggest exporter of capital, viz., the private investor is usually advised to invest his money where there is a free market and prospects of capital appreciation, and where he has a wider choice of investment. He will continue to be so advised until better opportunities for investment at home can be found.

The real trouble is to find suitable investment opportunities in this country, and it would appear that in comparison with earlier years, the market in local stocks and shares has, if anything declined. An examination of the Belfast Stock Exchange Lists shows :—

	Bank Shrs.	Rail-ways	Spinning and Textiles	Steam and Ship	Bakeries	Brewrs. Distls.	Miscellaneous
1897 : 53 Local companies. Issued Capital not stated as Stock Exchange was only 2 years in existence.	3	3	10	2	6	6	24 (incl. Belfast Street Tramways and Cavehill Tramways
1914 : 65 companies with a total issued capital of £19,059,922 (in £10,523,698 ordinary, £5,146,998 preferences and £3,389,226 debentures).	3	3	11	2	4	9	32
1935 : 34 companies with a total issued capital of £25,015,002 (in £14,886,909 ordinary, £6,394,726 preference and £3,733,367 debentures).	1	2	9	none	2	1	19
1958 . 33 companies with a total issued capital of £48,282,162 (in £21,090,432 ordinary stock, £8,558,060 preferences and £18,633,370 loan or debentures).	1	none	9	none	2	none	21

There has been a decrease in the number of local company shares in which the investor can deal due to various causes including amalgamations and " take overs ". The last mentioned are not always welcome from the employment point of view, e.g., the present Belfast Stock Exchange Lists quote one company under the Spinning and textile section which is in liquidation. The shares were purchased by direct bid to the shareholders with the object of removing a competitor, and of course employment suffers.

Although the number of local company shares has declined the total issued capital has increased substantially, but if you deduct the issued capital and loan stock of Gallahers Ltd., viz., £34,375,000 the remaining total of about £13,907,162 is small, and you can no longer regard Gallaher Ltd., as a local stock. Neither is Harland & Wolffs, in which there seems surprisingly little local investment interest, judging from share deals. In the remaining total, there are some shares with a fairly active market, e.g., Northern Banks, Inglis,[1] Belfast Ropeworks, York Street Flax Spinning Co., Ltd., Bank Buildings, and a few others, but even in these the market is narrow compared with ordinary standards.

The disadvantage of a narrow market is that you tend to get rather exaggerated price movements if the market is all one way, e.g., if it is all buyers and a moderate lot of shares comes on offer, competition to get them tends to push the price up more than perhaps is justified. The reverse can happen if the market is all sellers. Another disadvantage is that you cannot buy or sell shares

[1] August 1959. Joseph Ranks Ltd. have made an offer of 40/- cash for each 10/- ordinary of Inglis Ltd. It has been recommeuded by the Directors.

just when you want to, and delay can be inconvenient. This narrow market in local shares is another reason why people tend to invest their money outside Northern Ireland. It has been suggested to local companies that it would help the market in their shares if they made them 5/- or 10/- or £1 units. Only a few of them have taken the necessary action.

Turning to the market in Northern Ireland Government, Corporation and Public issues you find that this is also a narrow one. The total issued stock is about £48,689,511. When these stocks are issued, only about 10 per cent. of the total applications come from Northern Ireland and the balance is raised in London, and that is where the market in these stocks is established. Brokers in Belfast, even in London have great difficulty in buying any of these issues, as they seldom come on offer. The average investor is therefore forced to go elsewhere for investment opportunity and more recently H.P. Finance Companies have been attracting capital. The Unit Trust movement is becoming popular particularly with the small investor, and there is evidence that more Unit Trusts will be formed.

One difficulty in seeking a local investment is that over 90 per cent. of our industrial concerns are private companies and they are not likely to attract money from the investor here or in England, except in special circumstances. A few of these private companies are large, with millions of capital employed, and are prosperous concerns. If they required fresh capital, or a placing of their shares, it is doubtful if they would come to the Public. It may be that they do not want the Public as shareholders, or for good business reasons do not want publication of their accounts.

This handicaps the growth of the local Stock Exchange which should have a reasonable flow of new issues if it is to fulfil its proper function.

The Belfast Stock Exchange receives applications for Official Quotation from companies like Gallahers, Dunlop Rubber Co., Associated Electric, Shell Transport and a number of other large companies, but few from local companies, certainly not to the same extent as Exchanges across the water, even those comparable in size. Our applications are either bonus issues but are not new capital issues or they are London sponsored issues, with Quotations obtained jointly in London and Belfast.

This is unfortunate because investors anywhere do not confine themselves to their own localities for investment, and an attractive local industrial issue could bring investment money from outside Northern Ireland.

Perhaps some of our prosperous private companies might consider the advantages of a Stock Exchange Quotation, or placing of shares through Brokers to the public, from estate duty and tax points of view. The valuation of shares quoted on a Stock Exchange for estate duty purposes is usually an easy matter, but to arrive at a valuation of shares in a private company is troublesome and not always satisfactory to the estate. In regard to tax, very often old established family concerns controlled by five or fewer persons may become liable to a surtax direction, if they do not distribute a reasonable amount of their profits to their members.

One of the advantages of a limited liability company is that it is generally not liable to surtax and is not when 25 per cent. of its equity capital is held by the Public and if the shares are dealt in on a recognised Stock Exchange in the United Kingdom. Furthermore it will be appreciated that the publicity by way of advertisement in the Press and prospectus details sent to every Stock Exchange in Great Britain—given to a successful Company by the introduction of its shares on a Stock Exchange can result in a wide increase in business contacts and the new shareholders who will be mainly business men, may be able to assist the Company as suppliers or users of its products, or in other ways. There is also something of a prestige value of a Stock Exchange Quotation because of the stringent Quotation requirements.

The Neville Industrial Securities Ltd., Birmingham—an issuing house, state that in their experience of converting the family business into a Public Company, the disadvantages sometimes envisaged have little substance and are far outweighed by the benefits to be obtained. They usually find that after flotation the family business enjoys a new lease of life, the death duty worry is out of the way and the Directors feel that expansion and enterprise are again worth while. Further since their friends and associates are often shareholders the Directors and Executives feel a new sense of responsibility and pride in the progress and prosperity of the business.

The Isles Report refers to the limitations on investment due to the capital market and states that investment also tends to be restricted by defects in the provincial capital market; defects which make it hard for managements both those of old firms wishing to extend the scale of their operations, and those of new firms wishing to start up, to get the necessary capital. I agree with some of this but I have found little desire on the part of old established firms to raise capital by way of a share issue. In fact it could be said that even taking into account the decline that has taken place in the textile industry, some of the new issues in recent years by local companies look to have been good sales by the owners, e.g.,

	Present Price	Issued at
Gray's Carpets 5/–ordinary	4/–	£1 per 5/– unit
5% Cum. Pref. ..	8/9	22/– per £1 share
4½% Secured Notes ..	67½	Par
4½% Debenture ..	73	Some at par and others at 98.
Kinnaird Textiles 2/6 ordinary ..	3d.	3/–
£1 preference ..	5/4½	21/3
Moygashel Ltd., 10/– ordinary ..	6/7½	20/–
£1 5½% preference	10/10½	21/–
Old Bleach Linen Co., 6% preference	3/6	24/6
4½% Notes ..	58	Par
Ulster Spinning Co., 1/– ordinary ..	in liquidation	8/3

Another factor which limits the growth of the provincial capital market and which I have previously referred to is, that issues are made in London because the money cannot be raised at home. In addition to this, large amounts of capital are needed for various schemes, e.g., reservoirs, harbour extension, and smaller sums are needed by various local authorities. This money is borrowed from the Government and with less trouble than by a public issue of stock. I am not criticising this procedure, but the effect is to by-pass the capital market.

The Belfast Stock Exchange which offers a good service to the investing public shows few signs of increasing membership, but admittedly this is common to most Stock Exchanges. It does a considerable volume of business, but through no fault of individual members the bulk of it is in outside investments. The opportunities of assisting the flow of money into local industries do not arise. Membership would tend to increase, I believe, if the local Exchange had a more active trading floor in sound local securities. I have mentioned the reluctance on the part of local companies to raise money by a public issue, yet some prosperous but moderate sized local companies seem capable of further expansion and could raise money by a share issue, but seem content to remain as they are. The Directors are in control and shares cannot be acquired by an outside group. Perhaps expansion would mean extra effort, taking a risk and there is the question of the ability of managements to cope with a larger industrial output and problems arising from it.

The Birmingham Stock Exchange, admittedly serving an area with numerous and varied industries, has been greatly benefited by the activities of the Neville Industrial Securities. The Birmingham Exchange has quite an impressive list of local stocks and the linking up of more and more local companies with a local Exchange is surely of benefit to all concerned.

The Glasgow Stock Exchange has also the benefit of an Issuing house and in the Economist of October, 18th, it is announced that the London and Yorkshire Trust, a London Issuing house has formed a subsidiary, Manchester and Liverpool Industrial Securities to act as an issuing house serving the provincial stock markets in Liverpool and Manchester. It is the first of its kind in these two cities. The principal business of the new company will be to aid local companies, which are too small for a London quotation, either by arranging a public issue of shares, or through Safeguard Industrial Investments, by acquiring a minority interest in them. There is also an Issuing house in Dublin.

If an Issuing house was successfully launched in Belfast, and it is a big " if ", I believe it could help industry, increase investment and make the local Stock Exchange more effective. To start one would be an uphill task because it could be argued that there is not enough business to justify a separate organisation. I will refer to this later, but what are the other objections.

There are so many textile companies, and particularly at the present time even a good textile issue might not be a success unless issued on generous terms.

There are a number of companies which are subsidiaries of English concerns.

Issues by large companies like Gallahers and Harland & Wolffs would continue to be made through a London Issuing house.

In Belfast we have had no practical experience of the technique of making a Public Issue, e.g., it is not an easy matter to produce the necessary detail for a prospectus, such as the valuation of buildings, property and machinery, a statement of profits or losses in respect of each of the ten preceding completed financial years, history of capital changes for three years, information about the business and its prospects, or to fix the price at which the shares should be offered to the public.

Nevertheless, we have in Belfast people with the necessary professional qualifications to undertake this work. It might be necessary to get an investment manager from London or have a local man trained. He would have to go out for business, as they have to do in London. The business just does not come into an office. As usual, good contacts are very helpful.

It would also be necessary to have a group of people, willing in good times or bad to act as underwriters of public issues. Undoubtedly most people would take the view that launching a new issue in Belfast would be risky when a large sum of money is needed. For the Gallaher 6 per cent. Loan issue, about £1,600,000 was received from Northern Ireland, but this was a first class stock, and some of the applications were from stags and therefore not firm investment.

We are not a wealthy community and unlike London, an issue brought out in Belfast would not so easily get the support of the institutional investor. Yet some of these have branch offices over here e.g., money collected by way of insurance premiums flows to London, but does not necessarily return here for investment. I would add here that the institutional investor, the pension funds and the Unit Trusts are now important influence on investment markets.

Although local investors are shy of local securities, they will not hesitate to buy if they consider it wise to do so, and outside investors also come in as buyers of some local shares. A really good local issue would be supported, and if it suited their requirements might be included in the portfolio of one of the Unit Trusts. It helps the sale of Unit Trusts in an area if the Unit Trust has an interest in local industry. I would urge that if one is contemplated that the information given in the prospectus or advertisement should be in accordance with Stock Exchange Regulations, and not as required by our 1932 Companies Act. The information to be obtained from the Balance Sheet and Report of some local companies is quite inadequate. It would be helpful in judging the merit of shares if we could get consolidated accounts from some of our large companies. A review by the Chairman on trade conditions and prospects would be enlightening. I include Bank Chairmen for trade reviews as they are in key positions.

It is unfortunate that the prospects of a group or association undertaking to make new issues in Northern Ireland are not more encouraging. The conversion of family businesses into public companies has increased in England because of heavy death duties. An analysis will show that in most cases these operations have been " Offers for Sale " or Placing of existing shares and in few cases has any fresh capital been introduced into the Companies by the Public. I am not here going into all the advantages of the procedure, but the main objection is that proprietors fear that the publication of the Balance Sheets and past profits of the business may help competitors or may cause the workpeople to criticise what they may think are excessive profits and that this may lead to labour troubles and wage demands. In practice I doubt if there would be any adverse results of this kind and I cannot find any evidence that there has been any such results in England. It would seem that undue emphasis is laid on this factor of availability of Balance Sheets. An efficient firm giving good service at economic prices need not fear competition. At any rate by the time the Balance Sheet is published the figures refer to the past—they are dated.

Another objection is that proprietors fear that with a Public Company there is a danger they may lose voting control. This is most unlikely as it will usually be sufficient for Stock Exchange requirements if one-third of the capital is marketed, leaving the Company director controlled or family controlled. Furthermore even if, say, two-thirds of the capital has to be marketed, the Directors or family will usually still have an effective majority at meetings, for let us face it, how many shareholders in a Public Company ever attend the General Meetings, particularly if regular dividends are being paid.

Much of what I have written has been influenced by the belief that a number of private companies could with advantage to themselves be made public companies and that this could increase the opportunity for investment in Northern Ireland. The other factor I have in mind is not new. It is that the possibility of establishing an Industrial Development and Finance Corporation even in a small way should be given serious consideration. It could do much to encourage trade and investment, and could develop into an active organisation.

I suggest its functions might include:—

(*a*) To make capital, perhaps risk capital, available on a medium or long term basis to the small and medium sized business.

(*b*) Have associated with it, a body of specialists say, an engineer, a textile manufacturer, an accountant, and a solicitor, who would help with expert advice and possibly help by establishing contracts. This is being done by the Industrial Development Bank formed by the Bank of Canada. Small businesses often need more industrial know-how, just as much as they need capital.

(*c*) Medium sized and large industrial concerns could approach the Corporation for their capital requirements, and if deemed advisable, to get this by a Public issue. The shares of a number of medium sized companies are already dealt in on Provincial Stock Exchanges, and they are encouraged to obtain quotations.

(*d*) It might possibly go into the H.P. Finance field, for it would have to make profits.

The question of raising the necessary capital is a very real difficulty. If this Industrial Development and Finance Corporation could get a Chairman and Board of Directors of the kind to inspire public confidence an appeal could be made to the Public to subscribe for say 5/- units, which like Unit Trusts could be sold at any time.

The capital so obtained could be used along the lines indicated, but it might be necessary until the capital was fully employed at home, to invest a portion of it outside Northern Ireland.

A Chairman and Board with the necessary drive and ability, employing a suitable staff could make such a Corporation a success. It would require hard work.

These suggestions, I know, will not be considered feasible in some business and professional circles. More acceptable proposals may be produced, but the opportunities for greater investment of domestic funds in Northern Ireland, and prospects of any expansion in the market for local shares do not appear very good. Unless we can find ways and means of increasing private and public capital investment in Northern Ireland, with its beneficial effect on unemployment we will have to rely on the measures taken by the Government to attract British and American industrialists, and on exhortations to local industrialists to show more initiative and expand their own companies.