



**SWP 9/88 THE BRITISH ENTREPRENEUR:
A STUDY OF THE TOP 100 OWNER-
MANAGERS**

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THE BRITISH ENTREPRENEUR: A STUDY OF THE TOP 100
OWNER-MANAGERS

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ABSTRACT

This research studied the top 100 British Owner-Managed Firms - those firms in which the founder continues to own at least 20% of the equity. The research has been designed in two stages. Stage 1 is concerned with identifying the top 100 firms, and with analysing the data available from public sources; in stage 2, the backgrounds, personal characteristics and motivations of the 105 owner-managers will be studied. This paper reports the results of stage 1.

On 12th January 1988, the British Government published a White Paper which described the new role of the Department of Trade and Industry (DTI) as being one of "encouraging enterprise". Indeed, the DTI itself was to be re-named "The Department for Enterprise". The aims of the policies outlined were to produce more competitive markets, secure more efficient markets, and create a larger market, whilst achieving a fair level of protection for both the consumer and the investor. Most of these policies were aimed business as a whole. However, there were also a number of specific measures aimed at improving the performance of the Small and Medium Sized Enterprise (SME). In particular, the "Enterprise Initiative" was launched in an attempt to improve the level of management skill within the SME by encouraging the use of outside consultants to "develop strategies for business development, improve management systems, and supplement the skills of existing management in key areas. The initiative was based upon the premise that energetic but small businesses do not have the spare resources for proper analysis and planned development. Whilst this argument is intuitively appealing - especially to consultants - the United Kingdom is not devoid of successful firms which have grown from small beginnings.

Surprisingly, apart from anecdotal data, little is known about the antecedents of the British entrepreneur. Clearly some, such as Richard Branson of Virgin Records, Laura Ashley, or Alan Sugar of Amstrad are well known personalities, but most remain virtually unknown. Despite -----

The authors are grateful to Arthur Young for providing sponsorship for this project. This paper is not to be quoted without the permission of the authors.

this, the entrepreneur has been viewed historically as a modern day buccaneer who exhibits personal characteristics such as a high need for achievement, emanating from genetic origin.

However, recent studies have suggested that whilst these characteristics may be a necessary condition, they are certainly not sufficient, nor are they exclusive to the entrepreneur. Moreover, they are often developed and honed during the entrepreneur's early years. Indeed, it is the individual's background and corporate experience which is a significant factor in explaining both the decision to start a company, and the likely success of the venture. However, whilst some work has been conducted in the UK regarding the backgrounds of the small-firm owner/manager (Storey 1982), no similar analysis of the high flying entrepreneurs has been conducted.

THIS RESEARCH

The aim of this study was to learn about Britain's successful entrepreneurs - those who currently own and manage the firms which they founded - and to monitor their changes over time. The research design, which draws heavily upon a previous study of the American "Venture 100", (Birley and Norburn 1987) was designed in two stages.

- Stage 1 - Identification of the top 100 firms and analysis of their characteristics.
- Stage 2 - Questionnaire survey of the founders of the firms.

This paper describes the results of the first annual data collection for stage 1. The analysis concentrates upon four research questions.

1. What is the profile of the top 100 owner-managed firms?
2. Are there any identifiable differences amongst firms of differing sizes? This question is aimed at identifying any possible trends in the future entry and exit of firms to the list. Thus, for example, are those firms which are smaller, and younger, with a less diluted shareholding, those which are at the bottom of the list?

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1. David Storey, "Entrepreneurship and the New Firm" Croom Helm, Beckenham, Kent, 1982
 2. Sue Birley and David Norburn, "Owners and Managers: The Venture 100 Versus the Fortune 500" Journal of Business Venturing, Vol.2, No.4, Fall 1987, 351-364

3. Are there any differences between firms in the major industry groupings of manufacturing, service and retail? For example, are the older firms predominantly in the manufacturing sector, with the younger firms predominantly in the service and retail sectors?
4. Are there any differences between the firms in the economically active region of London and the South East, as distinct from those in the rest of the United Kingdom? For example, is the list dominated by service firms in the South East, reflecting the growing "North/South divide"?

Defining the Firms

The following criteria were used for potential inclusion of the firm in the list -

1. The owner-manager(s) must have a beneficial holding in the company of at least 20% of the equity on 30th September 1987.
2. The owner-manager(s) must either be the founder of the current firm, or a descendant of the founder, and must continue to hold an executive position.
3. The data must be publically available.
4. The company must be registered in the United Kingdom.

Data Collected

The data collected in stage 1 was constrained by the fact that it was drawn from publically available sources. Therefore, it is concerned primarily with the firm itself and includes name of the entrepreneur, industry, company status (publically quoted or unquoted), sales, profit before tax, net assets, percentage ownership, date established, and location. Stage 2 will concentrate upon the background and antecedents of the entrepreneur.

Finding The Firms

There is no list in the United Kingdom which ranks firms by size of ownership. Moreover, it was expected that many of the firms on the list would not be on the published lists of quoted companies. Therefore, the following procedure was used to derive the list of the largest 100 firms.

1. Using Sales Turnover as a measure of size a potential list of 300 of the largest owner-managed firms was compiled from the following sources:

Key British Enterprises
Hambro's Company Guide

Jordan's Growth Company Register
Kompas
Crawfords
Times Top 1000
Extel Cards
MacMillans Unquoted Companies

2. Company records were searched for ownership data, and those 50 firms which did not fit the criteria outlined above were excluded. The data sources used were:

Individual Company Searches
Textline
McCarthy
Financial Times
Company Prospectus for those obtaining a recent Stock Exchange Listing

3. Since all industries were included in the search, it was important to take account of a variety of financial structures when ranking the firms by size. Therefore, the 250 firms which remained were also ranked by profit before tax and by net assets. The three ranks were summed and a composite ranking produced.
4. The final list of the top 100 was then circulated to 40 partners within Arthur Young, but throughout the country, who had local knowledge of the corporate sector. In each case, they were asked to indicate if they had any specific knowledge which would exclude any of the listed firms, and if there were any firms which they considered had been missed in the search. This process highlighted 5 firms which were eventually excluded due to recent events - in one case, the owner-manager had been fired by the investors because of poor performance! However, whilst a number of additions were suggested, none were large enough to be included in the final 100. Therefore, whilst it is recognised that there may still remain errors in the list, it is the view of these researchers that they are likely to be minor, and unlikely to affect the subsequent analysis in any significant way.

RESULTS

Research Question 1 - Characteristics of the 100

Since this is the first time that this group has been studied in the United Kingdom, the first aim of this study was to provide a profile of a group of the largest owner-managed firms. Where possible, the aggregate results are compared with those for the top 100 of the "Business 500" published in Business, October, 1987, ranked by Sales Revenue. None of the companies were common to both lists.

1. Industry: TABLE 1

(%)	<u>British Entrepreneurs</u>	<u>Business 100</u>
Manufacturing	42	75
Service	46	12
Retail	12	13

Chi-Squared = 29.28, df = 2, 5% SL = 5.99

2. Status:

68% of the firms in the 100 British Entrepreneurs were quoted on the London Stock Exchange; all the firms in the Business 100 were quoted.

3. Ownership:

By definition, the minimum entrepreneurial ownership was 20%.

The mean percentage of the equity controlled by the owner manager was 44%, with three people continuing to own more than 90%, and two people 100%.

Seven of the firms in the Business 100 were nationally owned.

4. Age:

Mean age = 21 years, Youngest Firm = 4 years, Oldest Firm = 59 years, Standard Deviation = 11 years.

Those firms founded in the past five years were in three industries - property, leisure, and computers. The oldest firm was in heavy engineering.

5. Size: TABLE 2

(£m)	<u>British Entrepreneurs</u>	<u>Business 500</u>
Sales	52.7	3,227.5
Pretax Profit	4.0	235.2
Net Assets	15.3	N/A

6. Performance:

TABLE 3

(%)	<u>British Entrepreneurs</u>	<u>Business 500</u>
Pretax Profit/Sales	8.1	7.4
Pretax Profit/Net Assets	33.0	33.6

7. Location:

Exactly 50% of the firms were located in the economically

active area of London and the South East; the Midlands and the North of England accounted for a further 37%; 4 firms were in Scotland, 1 in Wales and none in Northern Ireland.

Despite the fact that the study focussed upon the largest owner-managed firms, the companies were, in fact, many times smaller than the Business 100, although the mean performance was almost identical. The difference in size is not surprising, as many entrepreneurs will have felt the need to adopt a strategy of diluting their shareholding in order to raise funds for growth. Accordingly, a number of entrepreneurs are excluded from the list because they have already diluted below the limit of control of at least 20% of the equity. Indeed, the rate at which firms enter and exit the list as a result of this criterion will be an important research question in the longitudinal analysis. Initial analysis of these data did not support the hypothesis this was related to age - that those older firms would also be the firms where the owners already show significant dilution (Pearson Correlation Coefficient = -0.084, P = 0.201).

The profile of the group would appear to reflect one of the major economic shifts which have been taking place in the United Kingdom. Thus, there is a concentration of firms in the service sector, and in London and the South East. However, the age of the firm would suggest that this is not a recent phenomenon, as is often portrayed in the press, but rather a pattern which has been developing over many years. Moreover, there is no apparent bias in the industries represented. For example, manufacturing firms include sheet metal working, water treatment, and food manufacture, as well as the more technology based computer equipment firms; service firms range through leisure, employment agencies, and road haulage; and retail includes drugstores, sportswear and car dealers.

Research Question 2 - Comparisons Between the Rankings

Since the firms are ranked by size, and since it is reasonable to infer that growth is a prime objective, the question arises as to whether there are any identifiable difference between the firms at different points in the rankings which would indicate future entry and exit trends. Therefore, the firms were grouped into quartiles, and for the metric data, "t" tests were conducted to test for differences between the mean values in the top and bottom quartiles using the pooled variance estimate. The results are shown in table 4 below.

Chi-Squared analyses were conducted for the non-metric data. The results are shown below.

Quartile Position by Industry, Chi-Squared = 1.27
Quartile Position by Status, Chi-Squared = 1.10

Quartile Position by Location, Chi-Squared = 0.36

Degrees of Freedom = 3, 5% SL = 7.81, No significant differences.

It was to be expected that the size measures would display significant differences since they were originally used to compile the list. However, it is interesting to note that the larger firms show margins which are almost twice those for the smaller firms. This is a curious result which justifies further study, since it would not appear to be explained by age, by industry, or by location. Beyond this, there does not appear to be any clustering of firms by position within the list.

TABLE 4

<u>Variable</u>	<u>Mean</u>	<u>Standard Deviation</u>	<u>Standard Error</u>	<u>T Value</u>	<u>2-Tail Probability</u>
<u>SALES (£m)</u>					
Top 25	106.2	71.7	14.3		
Bottom 25	24.4	7.7	1.5	5.67	0.00**
<u>PRETAX PROFIT (£M)</u>					
Top 25	10.9	14.3	2.9		
Bottom 25	0.8	0.6	0.1	3.49	0.02**
<u>NET ASSETS (£m)</u>					
Top 25	41.7	26.5	5.3		
Bottom 25	3.7	2.6	0.5	7.13	0.00**
<u>PRETAX PROFIT/SALES (%)</u>					
Top 25	11.0	7.4	1.5		
Bottom 25	4.4	4.5	0.9	3.77	0.00**
<u>PRETAX PROFIT/NET ASSETS (%)</u>					
Top 25	29.6	22.3	4.6		
Bottom 25	28.6	15.1	3.0	0.19	0.847
<u>OWNERSHIP (%)</u>					
Top 25	43.4	20.7	4.1		
Bottom 25	49.4	20.5	4.1	-1.03	0.308
<u>AGE (Years)</u>					
Top 25	23.6	13.2	2.6		
Bottom 25	17.7	9.6	1.9	1.8	0.078

 ** Significant at 1% SL.

Research Question 3 - Comparisons Between Manufacturing, Service and Retail

General statistics on the changing industrial pattern in the United Kingdom show a clear decline in the manufacturing sector, and a countervailing growth in the service and retail sectors. Therefore, this data was analysed to see whether such a pattern was reflected in microcosm in the list of the British Entrepreneurs - those firms which potentially form the industrial base of the future. Results for the non-metric data are shown below, and in table 5 below for the metric data.

Industry Grouping by Status, Chi-Squared=5.86, df=2, 5%SL=5.99
 Industry Grouping by Location, Chi-Squared=7.63, df=3, 5%SL=7.81

TABLE 5

<u>Variable</u>	<u>Mean</u>	<u>Standard Deviation</u>	<u>Standard Error</u>	<u>T Value</u>	<u>2-Tail Probability</u>
<u>SALES (£m)</u>					
Manufg.	59.2	63.1	9.7		
Service	50.0	49.3	8.3	0.72	0.476
<u>PRETAX PROFIT (£m)</u>					
Manufg.	5.0	11.6	1.8		
Service	4.1	4.3	0.7	0.42	0.673
<u>NET ASSETS (£m)</u>					
Manufg.	14.9	18.5	2.9	-1.03	0.305
Service	20.1	25.3	4.3		
<u>PRETAX PROFITS/SALES (%)</u>					
Manufg.	8.2	7.0	1.1	-1.34	0.185
Service	10.6	8.7	1.5		
<u>PRETAX PROFITS/NET ASSETS (%)</u>					
Manufg.	31.6	19.6	3.0	-0.84	0.404
Service	36.6	31.9	5.4		
<u>OWNERSHIP (%)</u>					
Manufg.	40.6	20.1	3.1	-0.29	0.769
Service	41.8	16.9	2.9		
<u>AGE (Years)</u>					
Manufg.	25.8	13.3	2.0	3.40	0.001**
Service	17.2	7.6	1.3		

 ** Significant at 1% SL.

With one exception, there are no overall significant differences between manufacturing firms, and service and retail firms in the group in terms of either size, profitability, ownership, status, or location. Thus, despite popular myth, the manufacturing firms are not necessarily located in the engineering heartland of Midlands, and the service firms in London; manufacturing firms are no larger than service firms on any of the three measures used; and service firms are not necessarily any more profitable than manufacturing firms. However, the manufacturing firms have been trading for significantly longer than service firms suggesting that they take longer to grow to equivalent sizes, or that they dilute at a slower rate. These tentative hypotheses will be tested in as part of the longitudinal study.

Research Question 4 - Comparisons Between London and the South East, and the Rest of the United Kingdom

TABLE 6

<u>Variable</u>	<u>Mean</u>	<u>Standard Deviation</u>	<u>Standard Error</u>	<u>T-Value</u>	<u>2-Tail Probability</u>
<u>SALES (£m)</u>					
London/SE	50.5	57.7	8.2		
Rest	54.8	46.7	6.6	-0.40	0.688
<u>PRETAX PROFIT (£m)</u>					
London/SE	4.9	10.9	1.5		
Rest	3.2	3.9	0.6	1.02	0.311
<u>NET ASSETS (£m)</u>					
London/SE	16.2	22.7	3.2		
Rest	14.5	18.5	2.6	0.42	0.677
<u>PRETAX PROFITS/SALES (%)</u>					
London/SE	9.1	8.0	1.1		
Rest	7.1	6.7	0.9	1.32	0.189
<u>PRETAX PROFITS/NET ASSETS (%)</u>					
London/SE	36.4	29.5	4.2		
Rest	29.5	17.0	2.4	1.44	0.153
<u>OWNERSHIP (%)</u>					
London/SE	46.1	20.7	2.9		
Rest	42.5	20.1	2.8	0.87	0.387
<u>AGE (Years)</u>					
London/SE	19.4	11.0	1.6		
Rest	21.9	11.3	1.6	-1.11	0.271

The significant growth of industry in London and the South East, as distinct from the decline in the rest of the country is often noted to be a recent trend and characterised as the "North/South divide". However, analysis of these data conducted above showed no significant difference between location, and either industry grouping or quartile position. Further analysis of the data supported this conclusion (see table 6 below). Thus, whilst it is certainly an active area in terms of the number of successful firms, within this there is no apparent bias towards London and the South East in either size of firm, profitability, ownership or age.

CONCLUSION

This paper has analysed the attributes of the top 100 owner-managed firms using data available from published sources. Overall, the results are remarkable in their consistency, and should provide encouragement to those entrepreneurs wishing to start their firms in those areas which are not seen as conducive to company development. Thus, although half the firms are in London and the South East, successful firms are also to be found elsewhere. Moreover, it is clearly possible to grow successful firms in either the manufacturing or the service sectors.