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**SWP 2/89 LESSONS OF SUCCESS: CASE HISTORIES
OF EIGHT SUCCESSFUL COMPANIES**

PAUL BURNS
Natwest Professor of Small Business
Cranfield School of Management
Cranfield Institute of Technology
Cranfield
Bedford MK43 OAL
United Kingdom

(Tel: 0234-751122)

(Fax: 0234-751806)

and

TONY KIPPENBERGER
Director, Winchester Consulting Group
7 St Peters St
Winchester
Hants

(Tel 0962 56495)

LESSONS OF SUCCESS
CASE HISTORIES OF EIGHT SUCCESSFUL COMPANIES

by

Paul Burns
National Westminster Bank Professor of Small Business
Cranfield School of Management, Cranfield, Beds MK43 OAL
Tel. 0234 751122

Tony Kippenberger
Director
The Winchester Consulting Group, 7 St Peter's Street, Winchester, Hants
Tel. 0962 56495

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ABSTRACT

This paper looks at eight entrepreneurial, successful businesses which were set up, from scratch, by people with very little capital - true entrepreneurs. It looks at their motivation for setting up these businesses in terms of 'push factors', their desire for independence and their perception of opportunity. It also explores the business partnerships they have entered into and their approach to risk taking. Finally, it looks at the problems they had in setting up the business and the qualities needed to overcome them. This research lends support to a number of theories about entrepreneurial characteristics and behaviours.

THE STUDY

Entrepreneurship was once compared by Peter Kilby to the Heffalump:

"It is a large and important animal which has been hunted by many individuals using various ingenious trapping devices ... All who claim to have caught sight of him report he is enormous, but they disagree on his particularities. Not having explored his current habitat with sufficient care, some hunters have used as their bait their own favourite dishes and have tried to persuade people what they have caught was a Heffalump. However very few are convinced, and the search goes on"

*(Kilby, Hunting the Heffalump:
Entrepreneurship and Economic Development, 1971)*

Over the last two years a series of 'Heffalump case studies' were developed for teaching purposes at Cranfield School of Management. Unlike the other hunters, these were based on the real thing; owner managers of eight successful, entrepreneurial firms which were started from scratch by people with very little capital of their own. They were based on desk research and a series of detailed interviews and now form the basis for the book *Entrepreneur* (Burns and Kippenberger, 1988). The research into these businesses lends support to a number of theories about entrepreneurial characteristics and behaviour.

The eight businesses were selected almost entirely on the basis of a spread of business ideas, a number of different industries and a variety of relationships between founders. Further details on the entrepreneurs and their businesses is given in Appendix 1. They comprise:

Entrepreneur	Company	Launch	Current Status
David Bruce	Bruce's Brewery	1979	Sold 1988 for over £6m
Cecil Duckworth	Worcester Engineering	1962	USM listing, 1986
Richard Gabriel	Interlink Express	1981	USM listing, 1986
Pamela Gray	Sphinx	1983	Turnover over £6m
Sophie Mirman &			
Richard Ross	Sock Shop	1983	USM listing, 1987
Bob Payton	My Kinda Town	1977	Turnover over £11m
Arun, Nitin &			
Milan Shah	Pepe	1977	USM listing 1985
Robert Wright	Connectair	1984	Sold 1988 for over £6m

Their backgrounds are diverse. Only three of the eleven entrepreneurs had self-employed parents (Richard Gabriel, Sophie Mirman and Richard Ross). The rest have a range of working class, blue collar and professional backgrounds. One has a doctorate (Pamela Gray), two have masters degrees (Bob Payton, Robert Wright), one an HND (Cecil Duckworth). The rest left school at various ages although two (Richard Ross and Arun Shah) went on to obtain accounting qualifications. Conclusions regarding social background or education cannot therefore be made.

The key factors binding them together is the fact that they are unquestionably successful entrepreneurs. Four companies now have a USM listing and two have recently been sold as successful going concerns, thus having their success acknowledged by outside investors. Each company was founded, and brought to its current success, by the owner managers, thus proving their entrepreneurial antecedence.

Stevenson and Sahlman define entrepreneurship as: "The relentless pursuit of opportunity without regard to resources currently controlled" (Stevenson and Sahlman, 1988). The owner-managers studied fit this definition since, when they started their own businesses they had very little capital of their own and largely used the resources of others to pursue the opportunities they perceived.

THE TRIGGER

Most people only dream of starting their own business. Unless there is something to act as a trigger they are unlikely to do so. That trigger is usually a 'push factor' such as unemployment, job insecurity or dissatisfaction (Frank et al, 1984). It has been reported that among new owner-managers, between 20-50% feel 'pushed' (Storey, 1982; Binks and Jennings, 1986). Equally, even if prompted, the entrepreneur still needs a viable idea before they can take the risk of setting up on their own.

All the entrepreneurs had a trigger to their entrepreneurial ambitions. Cecil Duckworth was deeply dismayed by his experience of employment with a disorganised and 'unbelievably conservative' company. When he came out of National Service he had to choose what to do with his life. He decided to set up with a partner. David Bruce, Sophie Mirman and Richard Ross reached a state of extreme frustration with their employers, probably fitting the profile of 'difficult employees' (du Toit, 1980). They coped with this in very different ways. David gave everything up and started to look for a business opportunity. Richard and Sophie took the less risky approach and planned their new business while still working for Tie Rack. Pamela Gray knew that Zilog was winding down its European operation, although she too was deeply dissatisfied with the lack of vision her employers were showing. Bob Payton was faced with the prospect of having to leave London for New York to take on a new job that he did not really want.

Robert Wright realised he would never become an airline captain and was dissatisfied with the lack of challenge presented by his chosen career. Immigrants frequently become highly successful entrepreneurs (Harper, 1985). Faced with limited prospects when they came to England, the Shah brothers decided to work for themselves. They, along with Richard Gabriel, had little to lose at the time. Richard had a whole series of temporary and transient jobs after leaving school before he set up Roadrunner with his first partner.

The experience of Robert Wright, David Bruce, Pamela Gray and to a lesser extent Sophie Mirman and Richard Ross supports the notion of a mid career crisis, when career development within a larger company is blocked. This has been explored by many organisational writers (Hunt & Collins, 1983). However, these triggers are common to many people, most of whom never set up their own business. It is evident, therefore, that something else is needed: an idea that the originator believes in. For some, the idea comes first. Sophie Mirman and Bob Payton had their ideas well before they decided to start their businesses. For others, it coincides. Pamela Gray's idea stemmed from a proposal which her employer rejected at a time when they were running down Zilog's European operation. For both David Bruce and Robert Wright, the decision to start their own business came before the idea itself.

If a trigger and an idea are both necessary, the question remains whether they are sufficient to make someone take the big step of setting up their own business. For most people, there are four blocks:

- the need for a steady income
- the risk of losing what they've already got if things go wrong
- doubts about whether they have the skills and ability to succeed
- lack of capital

Clearly, motivation needs to be very strong to overcome these barriers.

INDEPENDENCE

Various studies have shown that a desire for independence is a key motivator in starting a business (Slatter et al, 1985; Hamilton, 1988). Although these may be predictable quotes they illustrate that independence was a strong motivator for the entrepreneurs in this study:

- "I realised I would have to leave the airline to get more independence" (Robert Wright)
- "Our ambition was a chain of four shops at most - our experience at Tie Rack turned us against empire building" (Sophie Mirman)
- "I did not enjoy working for other people. I just wanted to go it alone ... I just wanted to do something that was not run-of-the-mill" (David Bruce)
- "My parents were their own bosses and that appealed to me tremendously" (Richard Gabriel)

Contrary to the concept of the entrepreneurs as the 'profit maximising man' (Deeks, 1973), their attitude to financial gain was sometimes ambivalent:

- "It's all about quality of life ... I literally believe that I'm living the best life anybody can have" (Bob Payton)
- "I haven't got a million pounds in the bank, I haven't got the trappings of success. But I'm not really interested in them" (Robert Wright, *before* he sold his airline)

OPPORTUNITY

Whilst a trigger was needed to get these entrepreneurs to set up on their own and independence was a key motivating factor, they also perceived a market opportunity that they could profitably pursue. Indeed the 'opportunistic entrepreneur' is seen by Weinshall as the most suitable and likely to establish a high growth company (Weinshall, 1983). In a study of USM chief executives this opportunistic approach was seen to be prevalent, with an ability to identify 'a special niche in the market place' and to develop an 'innovative product' (Slatter et al, 1988). This approach was also very obvious in the entrepreneurs in this study. All of the businesses have ultimately created for themselves a market niche, be it based upon technological or market innovation.

Pamela Gray based her original idea for Sphinx on setting up a UNIX software operation, because she saw a gap in the European market. This was later developed into a concept which offered 'one-stop' shopping for computer software. In the event, her business almost came to grief because she was ahead of her time. However, now that UNIX is growing fast, Sphinx is well placed to take advantage of its specialist expertise. Worcester Engineering's success has always come from innovation. In recent years, much of their success has stemmed from their revolutionary Heatslave combination boiler range which provides both central heating and hot water, without the need for a hot water tank. Again, like Sphinx, there was a considerable time-lag between initial introduction and widespread market acceptance. Much of Interlink Express's success is based on Richard Gabriel's innovative use of information technology which allows 99.6% of its parcels to be delivered the next morning. Local computers with direct access to the central computer and the use of bar coding have provided the key. In a highly competitive

industry, technology is one of the few ways Richard Gabriel could ensure such a high degree of service, and thereby differentiate his business from others.

Brewing and food are hardly innovative products. However, David Bruce is the first to admit that he isn't just selling beer, albeit real ale. He is selling the social ambience of his pubs, complete with wooden seats, carpetless floors and brass fittings. He is, in fact, selling the atmosphere that pubs used to have before the big brewers went for the mass market. While his business is not large enough to deflect the big brewers from their strategy, David Bruce has enough customers to provide him with a good profit. Bob Payton is selling much the same thing. Pizzas are really only part of the product on offer. He is selling entertainment and a glimpse of America to his customers. Both have something uniquely different to offer the customer. This differentiates them from the competition.

The Sock Shop is, of course, a classic example of the type of niche retailing which has proved so successful in the 1980s. Selling a clearly defined product range from small shops, strategically placed, has worked well in a number of retailing areas. The startling innovation was to see socks and tights as items which could be sold in this way.

Robert Wright has succeeded with Connectair because he focused his airline specifically on small gaps in the market which the larger airlines could not fill economically. He has sought competitive advantage by applying economies of small scale against those with much larger overheads. The airline business is, after all, very much a big-company industry. Apart from helping to open up feeder or commuter airline traffic, Robert has found it more difficult to be innovative in an industry where, as he says, "most of Europe's air routes have been done, one way or another, before".

The Shah brothers compete by making sure that Pepe sticks close to the needs of both its customers - the retailers whom they serve so assiduously, and its consumers. The original gap which they filled was the one left by the big jeans manufacturers, in their dealings with small UK retail outlets. Responsiveness and flexibility, based on staying close to the end-user's changing tastes, is the crucial factor in the highly competitive fashion business. For Pepe, fast response to the marketplace, rather than innovation, is the key to their success.

THE ROLE OF PARTNERS

The psychological profile of the owner manager offered by the Bolton Committee has been broadly supported by a considerable amount of other research (Stanworth & Curran, 1988). It described the underlying motivation in terms of the need to 'attain and preserve independence' (Bolton, 1971). It was therefore interesting that all the entrepreneurs had partners, at least early in the life of their business. Of course, in the case of Sock Shop the partnership is a husband-and-wife team, and at Pepe the partnership is three brothers, with a lot of help from the rest of the family. The role of the close family was seen to be vital. All the married couples leaned heavily on each other throughout the process of setting up the business.

Robert Wright was the one entrepreneur who did not have a formal business partner, even in the early stages of the business, and he was the one who seemed to rely most on the support of his wife. Like Louise Bruce and Beatrice Duckworth, she encouraged her husband's entrepreneurial ambitions. She agreed to put all the family savings on the line to set up Connectair, including selling their home.

In the same way, Richard Gabriel relied heavily on his mother, not only to set up his businesses but also to help him run them. Arun, Nitin and Milan Shah underlined the close-knit nature of their own relationships as brothers. Moreover, they were

helped by the wider support of the extended family. Only Bob Payton, among them all, laid no stress on his need for family support. Perhaps he underestimates the significance of his Jewish family background and network.

Pamela Gray, the other person apart from Bob Payton who lacked close family support, acknowledges its absence. Although she had a partner, she found that she could not share her worries with anybody outside the company and did not want to share them with those inside. 'If I had to characterise the last three years, it would be with the single word "lonely".'

The pressures of starting a new business and the changes that occur during the growth phase inevitably place a heavy strain on relationships. As far as non-family partners are concerned, three people, David Bruce, Cecil Duckworth and Bob Payton, found that they had to buy back shares from equity partners. Richard Gabriel had an earlier and altogether more desperate experience involving fraud with a partner, which caused his first business to close.

All of this is not to say, of course, that business partnerships never work. Pamela Gray, for example, relies heavily on her partner Dominic Dunlop, whom she regards as indispensable, both to herself and to the company. Many of the problems that occur between business partners arise because, in a small company, there is rarely room for two leaders. For working relationships to succeed, partners often need separate areas of activity (Birley, 1988). Pamela Gray acknowledges that Dominic 'doesn't want to know about managing people, paperwork or financial things.' Those business partnerships that involve family relationships, such as the Sock Shop, Pepe and Interlink Express, have all found ways of overcoming the leadership issue, largely because relationships are based on mutual respect and separate roles. The three Shah brothers have very separate roles which avoid any danger of conflict between them. They manage by consensus. Richard Gabriel and his mother also

have very different functions within Interlink. Sophie Mirman and Richard Ross point out that, although they share an office, there is such a clear division of responsibilities that, at times, there might as well be a wall between them. Despite the separation of roles, however, they still share common goals.

Perhaps there is one final lesson about partnerships. While all of the entrepreneurs needed them to get started, those partnerships that were not based upon separation of roles, and mutual continuing respect, split up. You need a certain ruthlessness to get rid of partners as Bob Payton, Cecil Duckworth, David Bruce and Richard Gabriel did. However, they did what they thought was necessary to take control of the business they were committed to.

MANAGING THE RISK

Setting up your own business involves risk, and managing risk is an important element of entrepreneurial behaviour. It is interesting, therefore, to see how these entrepreneurs tried to manage the risk that they faced.

Robert Wright presents the classic image of the entrepreneur - the daring aviator, staking all on a risky venture. Not only did he leave a secure job without a clear idea of the business he wanted to set up, he then went on to use virtually all his own capital in starting the business. He first secured his borrowings on his house then sold it to release more funds, finally securing further borrowings against personal guarantees. There were times when he and his wife were financially completely exposed. They, quite literally, risked everything they had. Perhaps, given his decision to enter the airline industry, it was inevitable that the stakes would be high.

On the other hand, the remaining entrepreneurs managed to limit their exposure to risk more carefully, at various stages of their businesses' development. Almost

invariably, entrepreneurs are in pursuit of an opportunity that is beyond their own resources. They are known for doing more, with less. As a consequence they have to acquire the necessary finance from others. The entrepreneur is then seen, unfairly, as a gambler. In fact, he usually tries to limit his exposure at each stage and to acquire the resources needed to grow on a steady incremental basis (Stevenson and Sahlman, 1988). That way, he is building on success while limiting any damage that he may suffer.

David and Louise Bruce believed that they could make a going concern of their first pub, not least because it was one of very few freehouses in London at that time. Subsequently, each pub that they started was owned by a separate limited company. Their risk was therefore compartmentalised, with each new venture entirely free-standing. In addition, although David Bruce left his job before he had decided on a business idea, the Bruces had a personal safety-net because Louise continued with her job at BUPA. Indeed, she stayed with them until well after the first pub was a success.

Bob Payton started off with the intention of opening one restaurant. He gave himself eighteen months, after which, if the business failed, he knew he could salvage £5,000 from the lease agreement. Moreover, he knew that he could get another well-paid job in advertising if all else failed. Like David Bruce, once the first venture was a success, he too started each new restaurant with a separate limited company.

Cecil Duckworth reduced his risks by doing sub-contract engineering work for his original employer. It would hardly have made a good living, but it would probably have enabled him to develop a small engineering job shop if the boiler idea had foundered at an early stage.

Sophie Mirman and Richard Ross pursued their idea for the Sock Shop in a very cautious manner. They did not leave the Tie Rack until they were very sure of the finance they needed and they planned their escape route if things went wrong. They opened one shop to see how their idea worked. The clear intention was that one of them would have returned to full time employment if things had gone awry.

The Shah brothers traded all the way up from market stalls one step at a time, taking the increasing risk slowly. In the shops, they tried selling their own designs, and only when this proved successful did they move out of retailing into wholesaling. They limited their day-to-day exposure because they found ways of stock-buying on credit. Even today, most of their agents are paid on a commission basis so that, if the clothes are not sold, the agents do not get paid.

These businesses started small and grew incrementally, limiting the exposure of the entrepreneur at each stage. Two businesses, however, could not start in that way: Interlink and Sphinx. Both required a lot of money right from the start.

Pamela Gray got round that problem by persuading others to subscribe £400,000 of equity to launch the business. She reduced her exposure to £10,000, although the cost of this was the loss of 60% of the equity immediately.

Interlink had to go national from day one and Richard Gabriel therefore had to commit much of his own, and his mother's, capital right from the start. However, his use of franchising and debt factoring allowed him to spread the risk.

Yet this is not to say, of course, that these entrepreneurs did not take risks. Despite their business plans, they could never really know how long it would take for their company to become profitable. When faced by a crisis, the entrepreneurs' dilemma is deciding whether to stop what they are doing and take the initial loss, or carry on and increase both their stake and thus their potential loss. Both Richard Gabriel and

Robert Wright had to confront this dilemma early on. Richard Gabriel decided to put Interlink Couriers, his first business venture, into receivership in order to stem his losses, while Robert Wright decided to put in more money to cover the continuing losses of his airline and thus save what he had already invested.

Unforeseen problems or disaster also exposed a number of them to very serious financial loss some time after their initial start up. When David and Louise Bruce discovered that their business was no longer making profits, they had personal guarantees of £500,000 outstanding. Cecil and Beatrice Duckworth had to put their house and more on the line for the first time, after the oil crisis, in order to borrow enough money for the business to survive. Richard Gabriel and his parents had to put everything they owned between them at risk in order to lift a winding-up notice brought against Interlink early in its history. Everything that Robert and Marilyn Wright owned continued to be at risk for nearly eighteen months after the company's disastrous first year's trading.

It is a misconception, therefore, to believe that all the risk occurs in the start up phase. The evidence from these entrepreneurs is that the further down the road the business gets, the greater the risk if things go wrong.

STARTING UP

The time taken to set up a new business depends on its scale, complexity and the financial resources available. Despite the fact that all of these entrepreneurs started with very little, they managed to launch their businesses very quickly. Connectair took the longest at twenty months, but then launching an airline is difficult. However, some businesses grew out of past employment (Sock Shop, Sphinx and Bruce's Brewery), whilst others grew, incrementally, out of past self employment ventures (Interlink Express, Pepe). The Pepe Group started life as a stall in

Portabello Road, before graduating to lock-up shops and then onto fashion wholesaling. This suggests that much of the gestation period occurred before the entrepreneurs had a concrete idea for their successful ventures.

If the entrepreneurs set up their businesses quickly it was not without considerable problems. The major problem quoted was raising finance. Indeed, the financial institutions were singled out by every entrepreneur for some criticism. In the main the entrepreneurs viewed them as greedy, risk averse and lacking vision. Bob Payton was the most vociferous:

"In the UK, all the British want to do is to find a reason why it won't work. In the City, when you go and say 'I've got a great idea for a product' and tell them about it, they spend the next half hour telling you the product is no good and why there is no market for it. In the US, if you take the same idea to the equivalent venture capitalists, they will spend half an hour talking to you about how they can get in on it".

Finding finance was the biggest single problem to have faced the highly successful Sock Shop. Richard Ross and Sophie Mirman were looking for £45,000 in equity and £15,000 of overdraft and were prepared to offer 49% of the business for it. They could find no backers. Even the banks were unwilling to provide a normal commercial loan, and the couple had to turn to the Loan Guarantee Scheme to get the business started.

All the entrepreneurs found raising finance both arduous and dispiriting and thought many other people would have given up. Whilst it only took Bob Payton around six weeks, Pamela Gray had to work at it for seven months and Robert Wright spent nearly eighteen months writing and rewriting his business plans. They all thought that tenacity and perseverance were the qualities most needed to overcome the

problem of raising finance. These findings are consistent with others (Slatter et al, 1988).

They also thought tenacity and perseverance stood them in good stead for the problems they faced later on in the business because, with the possible exception of Sock Shop which has experienced almost seamless success so far, all the businesses have had more than their share of bad luck. Cecil Duckworth recovered from the oil crisis of the early seventies only to have his factory burned down ten years later. He recovered from that as well. Richard Gabriel survived floods, blizzards and a botched advertising campaign only to face a fire in his new Bristol offices followed by a fight against a winding-up order. Pamela Gray suffered an extraordinary sequence of disasters as first her financial controller and then her new finance director broke a leg. Accidents and incidents abound. One thing in business seems certain: things will go wrong. And when they do, tenacity and perseverance are valuable character traits.

CONCLUSIONS

This study of eight successful entrepreneurial businesses and their founders lends support to many of the theories about entrepreneurial characteristics and behaviour. The profile of these entrepreneurs was seen to most closely resemble the stereotype of the 'opportunistic entrepreneur'. However, all experienced strongly 'push factors' alongside a strong desire for independence. 'Contrary to the concept of an entrepreneur as a 'profit maximiser', their attitude to financial gain was ambivalent. All the entrepreneurs were strong innovative, creating for themselves a special market niche based either on technological or market innovation.

The role of partnership was also explored and found to be very important. In many cases strong family support was available. In others legal partnerships were entered

into and were important, in the early days, but usually discarded later on. Where working partnerships were successful they were built upon separation of roles, mutual respect and a commonality of goals.

The management of risk was also explored. With one exception, the entrepreneurs had an incremental approach, trying to limit exposure at each stage of acquiring resources. Interestingly, there was evidence that a number of them were forced to risk far more of their personal wealth later in the firm's development. It is a misconception that all risk occurs in the start up phase.

Finally, some of the problems of starting up were examined. Raising finance was perceived as the major hurdle, and tenacity and perseverance were seen as the major qualities needed to overcome the problem - qualities which stood the entrepreneurs in good stead for the problems and pitfalls that inevitably followed.

APPENDIX 1

THE ENTREPRENEURS AND THEIR BUSINESSES

David Bruce, founder of Bruce's Brewery

David Bruce opened his first Bruce's Brewery pub, the Goose and Firkin, in 1979 with £2,000 of his own and £21,000 of borrowed money. By 1988 he had eleven pub sites in London. They all bear the 'Firkin' name, brew their own range of real ales and have the same 'traditional, wooden-floor' feel. In March 1988 he sold the company for over £6 million.

Cecil Duckworth, founder of Worcester Engineering

Cecil Duckworth founded Worcester Engineering in 1962 with £300 of his own and £1,000 of borrowed money. The company makes central heating boilers. It was launched on the USM in May 1986 and is currently valued at over £50 million.

Richard Gabriel, founder of Interlink Express

Richard Gabriel founded Interlink Express in 1981 using his own money and franchisees' deposits. The company is a franchise network offering overnight parcel delivery. It was born out of Interlink Couriers, a company set up in 1976 and specialising in data collection and delivery. In October 1986 Interlink Express went to the USM valued at over £30 million.

Pamela Gray, founder of Sphinx

Pamela Gray founded Sphinx, a software business, in 1983. It was set up with £20,000 of her and her partner's money and £400,000 of venture capital, for which they surrendered 60% of the equity. Today the company has turnover of over £6 million.

Sophie Mirman and Richard Ross, founders of Sock Shop

Sophie Mirman and Richard Ross opened their first shop selling socks in 1983 at Knightsbridge tube station with £2,000 of their own money and £45,000 under the Government's Loan Guarantee Scheme. Sock Shop was launched on the USM in May 1987. Within a week it was valued at over £50 million.

Bob Payton, founder of My Kinda Town

Bob Payton opened his first restaurant in 1977. Since then his chain of 'Chicago' restaurants have expanded in the UK and overseas - Chicago Pizza Pie Factory, Meatpackers and Rib Shacks. Today the business has a turnover of over £11 million and he has opened a country house hotel - Stapleford Park.

Arun, Nitin and Milan Shah, founders of Pepe

The Shah brothers set up their clothes wholesaling business in 1977. Pepe had originally been a clothes retailing business which started life in 1973 on a rented market stall. Today it is a company with profits of £5 million which was launched on the USM in March 1985.

Robert Wright, founder of Connectair

Robert Wright set up his airline, Connectair, in 1984. It offers short-haul commuting and freight-handling services between the UK and Europe. In June 1988 he sold the company for over £6 million, having built it up to have a turnover of £6 million.

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