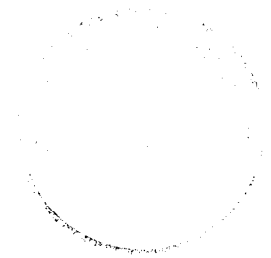




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SWP 37/89 SUCCESSFUL BRITISH ENTREPRENEURS

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Successful British Entrepreneurs

Sue Birley and Liz Watson

"The pleasure of making your first profit is extra-ordinary."

As the celebrations for ten years of "Thatcherism" gather a pace, there are increasing claims that this Government has released otherwise repressed entrepreneurial characteristics in the United Kingdom. The "Enterprise Culture" is reported to personify current attitudes; the Government's Enterprise Initiative is regularly advertised on prime time television; successful entrepreneurs are used to promote the advantages of 1992 and the Single European Market; and a telephone caller to the Department of Trade and Industry will find that it is now the Department for Enterprise! Supporters of this view will point to the increased number of people starting their own business as reflected in new VAT registrations, to the growth of the British Venture Capital Industry, or to the success of the new Unlisted Securities Market.

It is clear that enterprise has now firmly re-visited the United Kingdom, that starting your own business is a respected and accepted lifestyle more than ever in recent history. However, what is not clear is the extent to which this change can be laid totally at the door of Mrs Thatcher's past three Conservative Governments. Indeed, there has been

a Minister for Small Firms, and small firms policies in all Governments since the Bolton Report of 1971. In fact, there have been a number of other contributory factors which have forced this change. During the 1970s, volatile oil prices, the growth of competition from Pacific Rim countries, and rapidly changing technology had a cathartic effect upon the complacent, "over-fed" large companies based in Western economies. As these companies felt the hard blast of reducing margins and inadequate historical investment they began to slim down, to reduce their "unproductive" labour force, or to close down completely. The "rust belt" of mid-America, and the flattened steel towns of the north of England became a reality, and unemployment became a significant problem for the first time since the depression of the 1930s. Overnight the security of a job for life was lost. Both employed and unemployed began to consider other ways to earn a living. Government and responsible employers simply sought ways to assist and to accelerate the change.

Almost all the schemes and policies created to encourage enterprise were aimed at the new and the small firm. However few successful economies are built solely on the small firm, but rather upon the drive of that rare group of entrepreneurs who create the large, exporting firms of the future. Surprisingly, apart from anecdotal data, little is known about the antecedents of the British entrepreneur.

This paper reports the results of a study of Britain's top 100 successful entrepreneurs - those who currently own and manage the firms which they founded. To qualify for inclusion in the list the owner manager(s) had a beneficial holding in the company of at least 20% of the equity on 30th September 1987; was either the founder of the firm, or a descendant of the founder; and continued to hold an executive position. The firms were all registered in the United Kingdom, and it was important that data was publicly available. Finally, the top 100 included the largest of these firms, size being measured by a composite ranking by sales, profit before tax, and net assets.

Characteristics of the 100 firms

Contrary to popular perception, this is not a group of high technology firms, nor of small firms, the mean sales value being £52.7m, and ranging from £10m to more than £300m. Many are in basic, sometimes mature industries. They cover the whole spectrum of products including cavity insulation, sausage manufacture, agricultural feed, airlines, steel stockholding, kitchen furniture, edible oil, pvc windows and retail cosmetics, as well as computer phones and metrology equipment. They include well known personalities such as Richard Branson, Bernard Matthews and Alan Sugar, but the majority remain virtually unknown except to their customers and suppliers, and to their local communities.

The profile of the group reflects one of the major economic shifts which has been taking place in the United Kingdom. There is a concentration of firms in the service and retail sectors [58%]; by contrast only 25% in the top 100 of the "Business 500" [Business Magazine in October 1987] are in these sectors. Exactly 50% of the firms are located in the economically active areas 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. However, the age of these firms would suggest that this is not a recent phenomenon but rather a pattern which has been developing over many years, the average age being 21 years with a range from 4 years to 59 years. Interestingly, those firms founded in the past five years are in the three industries of property, leisure, and computers whilst the oldest firm is in heavy engineering.

As is often the case, these entrepreneurs constantly break generally accepted rules. For example, there was no significant difference between manufacturing firms, and service and retail firms in terms of either size, profitability, ownership or location. Manufacturing firms were not necessarily located in the engineering heartland of the Midlands, nor were service firms located in London; manufacturing firms were no larger than service firms; and

service firms were no more profitable than manufacturing firms, although manufacturing firms had been trading for longer. Whilst London and the South East was certainly an active area, there was no bias in the firms located in this area in terms of either size, profitability, ownership or age.

Characteristics of the Entrepreneurs

It would seem from these results that "breeding" is fundamental. Most of the entrepreneurs came from families in which the father had some type of small firm or self-employed experience. They were farmers, shopkeepers, publicans, builders or, even, a Master Saddler. Although some had been employed as, for example, tool-makers or policemen, none had managerial experience in large firms.

"Joining my father's business made me determined to remain self-employed".

Clearly, therefore, size per se is not important but rather the infusion of understanding throughout childhood of the important elements of cash flow and customers in the running of the firm. Education, however, has yet to provided the right environment for the budding entrepreneur - 45% of the group left school at the age of 16 and had not pursued any further qualifications.

Whilst experience during the formative years is clearly important, so is employment experience. These entrepreneurs were, on average 31 years old when they started their firm, the oldest being 48 and the youngest 21. All had been either employed or self-employed immediately prior to starting and for 87% it was their first venture. Beyond this, the actual type of experience varied both in terms of the size of the incubator organisation, and its relevance to the new firm. Thus, 43% had been employed in firms employing up to 200 people, 23% in firms employing between 200 and 500 people, and 33% in large firms; 63% could identify no clear commercial relationship between the incubator firm and their own firm.

The Path to Success

Currently, there is no better judge of the significant events in the growth of the firm than the entrepreneur himself. Certainly the events reported in this paper are those critical milestones upon which he acted, and which he perceived had changed the path of the firm.

Starting: As expected answers to this question varied widely but the tone did not. Negative reasons of frustration were in the minority; the majority described positive motivations related to aspirations for personal and company growth such

as a "desire to make money", the "desire to be successful", or the "ability to control my own destiny and make more capital for myself and the family".

"I had always had sidelines, small private enterprises like importing or property to make extra cash. During the course of my business career starting my own business became a logical development, but every time I thought of quitting I was promoted. In the end, there came a point where there was nowhere else for me to go. The alternative was staying in the same role for the next 20 years."

The Early Days: All except one entrepreneur could identify a significant event in the early days. It was either a particular milestone such as turnover reaching £100,000, obtaining a guarantee to enable the renting of an office, or winning the first "blue chip" client, or a particular event in the trading environment such as new EEC regulations or the miners strike. Whatever the nature of the event, however, the most striking feature of all the answers is that their effect is always described in a positive manner. Three themes emerged.

Opportunities -

- * moving headquarters "enabled us to have much greater employee stability, and to be the best employer in

the area.

- * "buying a load of seconds enabled us to open our first shop."
- * the introduction of EEC regulations forced us to re-design the product.

Credibility -

- * turnover greater than £100,000 gave "market sector acceptance".
- * winning the first blue chip client demonstrated "success breeds success".

Valuable Lessons -

- * disagreement with a major supplier which "I was able to win but made me determined never to become dependent on one supplier in the future".
- * obtaining a guarantee taught the entrepreneur "to accept help despite the desire for personal independence".

Success: These entrepreneurs believe that there is no great secret to their success. Simply, it is concerned with Motivation, Marketing and Men [or Women!] - a drive to win, and a will to listen and learn, understanding the client's business, and building a strong team for the long term.

"All my employees must be able to bat and ball, to be

conversant in all techniques. They are all trained in complementary skills."

Entrepreneurs use their Network of Advisors

Mentors and role models have a significant effect on the shaping of any individual. For the entrepreneur they are crucial. Despite this, 30% of the entrepreneurs definitely stated that no-one had influenced them in their decision to start their business; for the rest, family and friends, members of their social and personal networks, were the people who gave important backing and support. In only three cases were professional advisors mentioned.

"I sold 10% of the business to my brother instead of borrowing from the banks - I could trust him!"

For the vast majority who start a business, this close network remains their primary source of advice and help. They are the small firms in the economy. What distinguished this group of highly successful entrepreneurs is that the advice upon which they drew as the business grew widened, and shifted from the social to the professional network. Thus, whilst in many cases the wife continued to be a significant influence, the rest of the family faded. By contrast, members of the firm [colleagues or employees], combined with customers, accountant, bank, lawyers and trade association

became the key advisors.

"Our major investor said that I had created a rotten management team, and that I was indispensible. I was determined to prove them wrong by growing the firm and delegating as much as possible."

This trend continues to the present day. The entrepreneurs were asked to indicate the current usefulness to them of fourteen potential sources of advice and assistance on a scale ranging from 1 [not at all useful] to 5 [very useful]. The mean scores are shown below:

Commercial

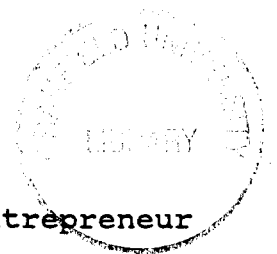
Bank	3.2
Accountant	3.4
Lawyer	3.2
Customer	3.4
Supplier	2.3
Business Contact	3.2

Professional

Trade Association	1.8
Local Authority	1.8
Enterprise Agency	1.2
Education	1.4
Consultant	2.2
Chamber of Commerce	1.1

Social

Friend	2.7
Family	3.2



The results are very clear. The successful entrepreneur relies upon those people who are closest to the business for advice and assistance - his banker, accountant, lawyer, customer, and other business contacts, as well as members of his family. Those organisations which offer a professional, usually free, source of assistance do not appear to be used or valued at all. Indeed, it is remarkable that not only are the mean scores in this section the lowest, but the levels of agreement amongst the entrepreneurs is also the highest.

"I have controlled running expenses rigidly from day 1. My accountant told me not to mix personal and company money. He frightened me that the Inland Revenue would find out!".

However, in case these results should engender feelings of complacency in the minds of, for example, the banker or the accountant, it must be noted that, although the highest set, the scores are still only just above "neutral". In the minds of these customers, there is still much improvement needed.

"Banks always tell you that you are over-trading and will only lend you money when you don't need it. They play no role in developing the business."

Managerial Style

"As Chief Executive I can give a good bollocking."

Inevitably, success in any business is related to managerial style, and entrepreneurs are reputed to adopt a particularly aggressive and dynamic style. These entrepreneurs were therefore asked to rank the top five characteristics which they currently value for executive success in their company. Two groups emerged. The factors which were not particularly rated were:

Aggressiveness	Appearance
Conformity	Desire for Responsibility
Intelligence	Loyalty
Self Discipline	Sense of Humour
Social Adaptability	

The factor which was mentioned most, and was generally rated the highest, was a commercial attitude in the employees which focussed upon a "Concern for Results". This was combined with the second most important factor of "Integrity", and the third of "Ambition". The other two factors which were mentioned frequently, but which did not achieve high rankings, were "Lateral Thinking" and "Creativity". "Concern for People" was ranked highly in the limited number of cases it was mentioned.

"Our organisation is highly systematised, maybe

over-managed, but the option is chaos. I expect blood, sweat and tears from my colleagues. In a way it is a test to see what they are made of."

These results are particularly interesting when compared with those from other studies. Norburn [1986] reported the attitudes of 354 executive directors of Britain's largest companies. He found that executives running companies showing turbulent performance valued "Concern for People"; those in declining companies valued "Integrity"; whilst those from growth companies, the group most comparable to this sample, showed a curious British pre-occupation with "Intelligence". In fact, these entrepreneurs more closely reflected the attitudes in the United States than at home. The same question was put to entrepreneurs listed as the Venture 100, those who had founded America's fastest growing companies, and a sample of senior executives from Fortune 500 companies [Birley and Norburn 1987]. For both of these latter groups the most important characteristic for executive success was the same as that for the British entrepreneurs - "Concern for Results". Factors which were also rated highly were "Creativity", "Concern for People", "Integrity", and "Desire for Responsibility".

The Current Business Climate

We end where we began with the effect of the current business

climate upon these highly successful firms which continue to be managed by their founders. In general, the entrepreneurs were very optimistic about prospects for the economy for the future, although this optimism reduced as the horizon was extended. Expanding on their view, the policy of the current government was viewed as "very good", "excellent", "enlightened", or "incredibly switched on", "creating the right environment for companies", "fair but uninvolved, allows market forces". Remarkably, only one person considered it to be "not as positive as it claims, no true understanding of the entrepreneurial spirit". There were, nevertheless, some qualifying remarks such as governments need to change particular pieces of legislation [for example, employment laws or tax allowances on equipment], or the need to re-introduce regional policies. Basically, however, attitudes were reflected in the following remark -

"I am not interested in Government Policy. I look after myself, they look after the country. I suppose I am arrogant."

For this group, some of whom have experienced the changing face of British politics for the past forty years, it is hardly a surprising response!

The Enterprise White Paper: The survey was conducted around the time that the Government issued and widely publicised



its Enterprise White Paper [12 January 1988]. 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 the policies were aimed at business as a whole, rather than at the Small and Medium Sized Enterprise [SME], and the entrepreneurs would have had ample opportunity to hear and to read about it. However, when asked their view of the paper and its recommendations, they displayed a high level of both ignorance and dis-interest.

"Is this a spoof question? I have never heard of it. Mind you, I only started reading the Financial Times when we got our name in it."

This lack of interest was not reflected in the question of what future policies would be of positive value to your company? Whilst five of the respondents had "no view - the buck is with us", 60% of the rest had specific fiscal suggestions, the majority of which centred around the reduction of taxation such as 100% Capital Allowances in year 1, or change accounting standards to encourage investment in Research and Development.

Black Monday: 68% of these 100 firms were quoted on the London Stock Exchange at the time of the Stock Market Crash

known as "Black Monday". The rest were essentially private firms. Despite this, attitudes from both groups were relatively similar, and reflected the positive attitudes referred to above. The Crash was certainly not viewed as a disaster, although there was some concern about general business confidence and the ability to raise finance if required. However, the overall view was twofold. First, the effect was seen as "minimal on any well run company", but second, and very strongly that it was probably needed, a "welcome reminder that everything doesn't always go up", and "helps bring the City Gents back to reality".

Conclusion

The British Entrepreneurs are a diverse and changing group. They reflect the variety of the self-employment patterns of their parents, and of their local economy. Their businesses are often in markets which are considered to be saturated or declining. Yet against all the apparent odds, they succeed. The reasons are deceptively simple. They treat problems as opportunities; they understand their limitations; they hire skilled employees, and delegate to them; they surround themselves with professional advisors, and listen to them. But most of all, they are single minded and are driven by the excitement of growing the business.

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