

Small business in England and Wales

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El sector de las pequeñas empresas en el Reino Unido es un elemento vital en la creación de bienestar y empleo, pero muchas de ellas fracasan en sus primeros años o no alcanzan su potencial completo. La investigación académica muestra que compañías creadas por equipos de personas, más que por empresarios individuales, tienen más probabilidades de convertirse en compañías super desarrolladas. Este escrito estudia los antecedentes de negocios basados en equipo y presenta un Estudio de Casos de Tres iniciativas del Reino Unido para crear compañías Super desarrolladas.

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Le secteur des petites entreprises au Royaume-Uni est un élément vital dans la création de bien-être et d'emploi, mais beaucoup d'entre elles échouent au tours de leur première année et n'atteignent pas leur potentiel maximum. L'investigation académique démontre que des compagnies créés par des équipes de personnes, plus que par des entrepreneurs individuels, ont plus de possibilités de devenir des compagnies Super développées. Ce texte étudie les antécédents de commerces bases sur une équipe et présente une Etude de Cas de Trois initiatives du Royaume-Uni pour créer des compagnies Super développées.

1.

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I am a marketing consultant, with 13 years experience in research and strategic planning for high-technology or technology-based companies.

At the Innovation Centre, I deputise for the Managing Director, Walter Herriot, and am developing a revenue-generating marketing consultancy practice working with tenants and non-tenants on business planning, market research and public relations.

SJIC was developed by one of the Cambridge University colleges - St. John's - in 1987, to assist the growth of technology-based businesses in the city. It has 70 tenant companies (almost all under 5 years old and mostly involved in new technologies), employing 1,000 people and generating total turnover in excess of £30m a year. Over 88% of tenants survive their first five years - compared to the European average of 50% of firms failing in their first five years.

At SJIC we offer mostly small companies with prestigious accommodation in a landscaped park, plus Restaurant and Conference facilities. Our management team and network of consultants works closely with the tenants and offer administrative support, expertise in identifying and negotiating with funding sources, business planning, marketing strategy, PR, market research, technology transfer and product innovation. These support services are crucial to the success of BICs in improving the survival and growth prospects of companies - providing genuine "nurturing" or "incubation" facilities.

Some BICs are active in starting-up aspirational companies - by selecting teams of individuals with complementary skills and a shared vision. As yet, at SJIC we do not have the staff to actively participate in starting-up companies from scratch, but we are closely monitoring initiatives in this area being undertaken throughout the UK - and these schemes form the subject of my talk this morning.

2. Small Businesses in England & Wales

- Why do we need them?
- Starts & Closures in firms with Turnover up to £1m

The Bank of England recognises the important role played by small businesses in generating economic wealth. At a time when competitive pressures cause large companies

1. *Finance for Small Firms* A Third Report. Bank of England. January 1996

to downsize and contract-out, small firms are seen as a source of innovation, wealth-creation and employment.

In 1993, firms with fewer than 500 employees accounted for 63.5% of private enterprise employment. By 2000, 72.5% of private enterprise employment in the UK will be accounted for by firms with fewer than 50 employees.

So what happens to these firms? How have they coped with the recession over the last six years?

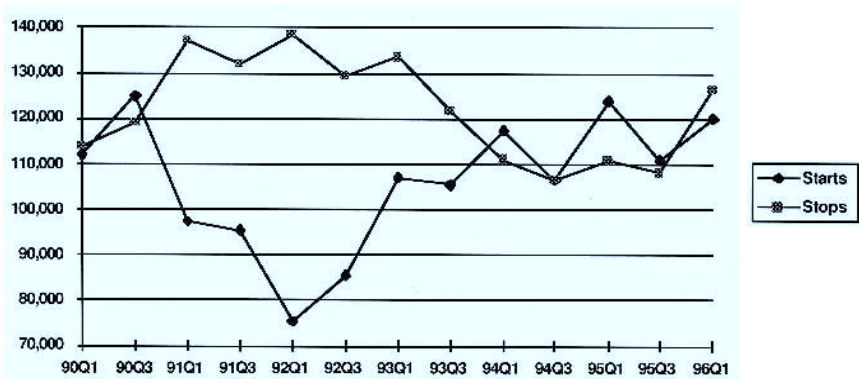
The mid 1980s saw the emergence of new employment trends, driven largely by the impact of networked PC technology and global e-mail. Almost every large company began to delayer and downsize in the face of enhanced competition and a worsening economic environment. IBM is a case in point: between 1962 and 1987 it grew from 3,000 staff to over 19,000 - but between 1988 and 1996 it downsized to under 8,000 employees.

The result of this influx of people onto the job market was:

- a) a massive rise in unemployment and all the social and economic problems this brings
- b) an equally massive increase in new businesses as people put redundancy money into their own ventures

3

Small Business Starts & Closures
England & Wales
1990-1996



Source: Barclays Bank

The figures used to create the chart above are:

QUARTER/YEAR	START-UPS	CLOSURES
Q1 1990	112,000	114,000
Q3 1990	125,000	119,000
Q1 1991	97,500	137,000
Q3 1991	95,500	132,000
Q1 1992	75,500	138,500
Q3 1992	85,500	129,500
Q1 1993	107,000	133,500
Q3 1993	105,500	121,500
Q1 1994	117,500	111,000
Q3 1994	106,500	106,500
Q1 1995	124,000	110,500
Q3 1995	111,000	108,000
Q1 1996	120,000	126,500

Until 1991, the number of business start-ups outnumbered the number of closures - but this was dramatically reversed with 97,50 start-ups in Q1 1991 being outnumbered by 137,000 closures. As the recession deepened, throughout 1991-1993, the closures continued to outnumber business creation. Q3 1994 saw the beginning of the improvement - with business starts and stops equal at 106,500.

In Q1 1995, business start-ups stood at 124,000 and closures at 110,500. A year later, in Q1 1996, the situation had worsened slightly - with 6,500 more closures than start-ups. There are still about 750 businesses per week collapsing in the UK.

Despite this horrendous failure rate, more than 600,000 new businesses will set up in the UK in 1996, according to Barclays Bank.² Some 62% of these new start-ups will be sole traders, employing no staff at start-up.

Business closures are expected to remain at 1995 levels - giving a 2% increase overall on 1995. There will be a genuine increase in home-based businesses, and a higher proportion of businesses with a first-year turnover of less than £50,000. This is not good news for the economy as a whole, as these small businesses do little to generate wealth or employment.

4.

What Factors Assist Firms' Survival?

Research undertaken in the USA in the 1980s - and subsequently replicated in the UK has isolated a number of factors which are critical in ensuring business success:

the strength of the business concept in terms of commercial viability/an unmet market need ideally, a product concept that has already been developed and received expert endorsement, and of which the company owns the intellectual property rights company's

² David Lavarack, Small Business Services Director, Barclays Bank. Cited in *Business Weekly* 14.3.96

financial resources (cash and assets and borrowing power): lack of finance is the main obstacle to new business formation and subsequent growth. A "birth-span" of 6-18 months is usual - and few start-ups have sufficient backing to adequately cover this period management and other personnel resources of high quality and sufficient quantity, especially in finance, management, marketing, innovation and technical areas. sophisticated management accounting and other information with which to run the business business resources which give the company a clear position in its markets (good customer and supplier relations, market share, manufacturing and distribution processes, technology, reputation) the infrastructure in which a company operates - the local business and support environment. In the high technology sector, for example, companies have gathered in specific areas, Silicon Valley in the USA and Cambridge in the UK, because they want to take advantage of the amenities of the local area:

- research universities and institutions which permit technology transfer and spin-off activity
- highly qualified workforce
- attractive locations with leisure and cultural facilities
- financial institutions
- business support services
- good transport and communication links
- local customer base
- local suppliers

5 .

How Important is the Entrepreneur?

- Dreamers
- Investigators
- Deferrers
- Doers

Research has identified four different approaches to business ownership:

1. Dreamers

Passively consider start-up as the solution to their career problems

Ideas remain stagnant and not properly explored

Fail to actively evaluate the pros and cons

2. Investigators

Enthusiastic researchers into their ideas for new business

Make little progress and not truly committed and often afraid

3. Deferrers

Focus on the reasons why they should not proceed, usually associated with family commitments, lack of time, lack of funds, lack of experience

4. Doers

Regard start-up as a serious option, and not for negative reasons such as dissatisfaction with current job

Have a differentiated product or service proposition

Analyse carefully the pros and cons, and actively resolve the problem areas

Set clear long and short-term goals

Seek advice and establish quality financial and management controls early on

It is obviously the Doers who start businesses, but there are also different types of Doers:

5 .

Doers :

- Replacement Income Entrepreneurs
- Growth Entrepreneurs

1. Those who are “craft oriented individuals,” or “replacement income entrepreneurs” who want to run “lifestyle businesses” These are people who really want to be their own boss, but are not really ambitious enough to develop a Supergrowth company; they want a good standard of living for themselves and families, but do not want to make the personal sacrifices required to build a very fast-growing, high income generating company

Replacement Income Entrepreneurs focus on creating employment for themselves, and then for members of their own families, then their friends and only - often much later - experienced managers. The owner-manager usually wants to cling on to control of the business in every aspect and his/her lifestyle and personal fulfilment are the main drivers for the business. The management team of such companies is usually inexperienced, or virtually non-existent, and the companies usually fail to grow beyond 25 employees.

2. Those who are Growth Entrepreneurs, who have high ambition - who want, right from the start, to build companies that will experience spectacular growth - which will be “Supergrowth” firms or “Gazelles” (because they leap over other companies in their creation of wealth and employment)

Growth Entrepreneurs bring in professional expertise from the start, to form a strong and cohesive management team, and strive for growth at the expense of personal wealth in the early years. They are willing to seek feedback from their markets, be innovative in meeting customer needs and invest in new systems to streamline the business.

These people also have:

- clear goals for themselves and for the company

- managerial ability and willingness to delegate responsibility and work collaboratively
- strategic skill and ability to match strengths and weaknesses of the company with goals
- willingness to undergo the requisite formal processes for creating the business (business viability assessments/planning/evaluation etc.)
- operational abilities in one or more of the functional skills (innovation, strategy, marketing, finance, planning, sales etc.)
- capabilities in terms of building and managing relationships with all potential “publics”
- plus - you name it - innovativeness, energy, integrity, perseverance, optimism, intellectual curiosity, willingness to network professionally and socially - in short, to enter into substantial personal development throughout the life of the company

7.

Which types of small start-up firms are most likely to succeed:

- Single Entrepreneurs
- or
- Teams?

There is evidence dating from the 1970s that team-based start-ups are more successful than those established by single entrepreneurs. Timmons, Smollen and Dingee published *New Venture Creation: A Guide to Small Business Development* in 1977.

Throughout the 1980s and 1990s in both the USA and UK it has become clear that companies which become Supergrowth firms or Gazelles are most likely to have been started by teams.

It has been proven that these companies have the potential to create up to three times as many jobs as other start-ups. In addition, they make a substantial contribution to regional regeneration and wealth creation. This is created not just by the companies in isolation - but also by the business support services which develop to meet their needs, and by the process of “conglomeration” (the tendency for firms in an industry to gather together in the same area, as has occurred in Cambridge and - on a larger scale - in Silicon Valley in the USA).

In the USA, during the 1980s a researcher called Brockaw published results of a study into the Top American firms³

- 306 of the Top 500 Firms in the mid 1980s were founded by teams
- 6% of Supergrowth companies in the USA were founded by a single person
- 54% of such businesses had 2 founders

³ Brockaw, L. *The Truth about Start-Ups*, Inc Vol.15, No.3, 1993

- 40% had 3 or more founders
- in contrast, 42% of firms which failed to grow had been started by one individual

In my own region of the UK, East Anglia, only 2.5% of companies achieve significant growth - (doubling or trebling turnover each year) and this region includes the successful Cambridge high technology centre of excellence. A further 7.5% achieve moderate growth - but this means that 90% of companies are not contributing much to wealth or employment.

This evidence demonstrates clearly that IT IS NOT GOOD ENOUGH TO SUPPORT EVERY SMALL BUSINESS IN THE BELIEF THAT THEY WILL GROW INTO THE BIG COMPANIES OF TOMORROW. Most small businesses remain small, and the biggest differentiator between those that stay small and those that grow is that the growth companies were started by teams.

The lesson is obvious - that it is a waste of Government funds to give the same level of support to every new business; instead, it would be much more profitable to try and develop team-based businesses from a specially selected and trained pool of suitable individuals. But where to find them, and how to create successful businesses from their combined talents?

8.

What help do UK Businesses Receive?

- Too Many Sources are Too Confusing

9 .

CHART OF BUSINESS

ASSISTANCE SOURCES

There are numerous government and private sources of business support in the UK including DTI, Enterprise Agencies, Business Links, Chambers of Commerce, University Industrial Liaison Officers, Business Clubs, Banks, Solicitors, Accountants, Venture Capitalists, Business Angels, Consultancies, Business Innovation Centres etc. - but it is this preponderance of support and advice which confuses entrepreneurs and makes them reluctant to avail themselves of the support available.

What they need is to be guided through the necessary training and advice in a systematic way so that they do not waste time or money. This was the primary objective of a number of initiatives to stimulate Supergrowth team-based start-ups,

However, without this infrastructure of support services, the team-based start-ups would have found life much more difficult - it is no good establishing new companies in a vacuum, without access to professional advice and support in the wider environment.

BUSINESS AID MATRIX	BUSINESS LINK		ENTERPRISE AGENCY		INNOVATION CENTRE		DTI LOCAL OFFICE		LOCAL AUTHORITY		TRAINING AND ENTERPRISE COUNCIL		CHAMBER OF COMMERCE		HIGHER EDUCATION INSTITUTION		PRIVATE SECTOR		VENTURE CAPITAL FIRMS		ACCOUNTANCY FIRMS		SOLICITORS		BANK MANAGER		BUSINESS CLUBS		
	SH	R	SH	R	SH	R	SH	R	SH	R	SH	R	SH	R	SH	R	SH	R	SH	R	SH	R	SH	R	SH	R	SH	R	
BUSINESS PLANNING / STRATEGY																													
HUMAN RESOURCE MANAGEMENT																													
MANAGEMENT AND STRATEGY																													
RESEARCH AND DEVELOPMENT																													
COURTS																													
EXPORTING																													
PRODUCTION AND PROCESS																													
PRODUCT DESIGN																													
QUALITY ISSUES																													
MARKETING AND PUBLIC RELATIONS																													
FUND RAISING																													
PR ISSUES																													
TRAINING																													
PREMISES																													
ENVIRONMENTAL ISSUES																													

10.

UK Initiatives in Team-based Start-Ups:

- Entrepreneurship Programme, Lanarkshire
- MIDAS, West Midlands
- Teamstart Programme, East Anglia

11.

MAP



These are just three of the initiatives being run throughout the UK at present to create businesses from scratch by bringing together individuals with complementary skills, training them in areas in which they are weak, and providing mentors and financial support to ensure that they stand the best chance of survival

There is not time to talk in detail about each initiative individually, so I have consolidated the approaches and achievements in order to present a "best practice case study".

12.

Stage 1:

- Define the Scheme Objectives

The Schemes were broadly similar in their objectives:

To identify, train and support entrepreneurs to start and develop fast growth, team based businesses that would create:

- between ten and fifty jobs each and
- significant wealth from local, national and international sales in the first two years of trading.

Subsequently, to provide hands-on support for these businesses during the first two years of trading.

To achieve these objectives, the Schemes had a number of specific requirements to fulfil:

- identifying product opportunities from a variety of sources
- training the entrepreneurs in key areas of business management in which they were weak
- comprehensive market research and feasibility studies
- comprehensive business plans, developed and owned by the team
- a package of assistance with premises, rates, facilities and capital investment
- professional guidance with processes and systems
- tailored, focused training, consultancy and mentoring for between two and three years after start-up (the incubation period)

In all cases, a definite business idea was not a prerequisite to joining the scheme - product and service ideas were generated by brainstorming and through more formal means during the Programmes.

The Scheme managers undertook substantial research into academic research into team-based start-ups in order to clearly formulate their own approaches.

13.

Conceptual Framework

- Ideas Generation
- Implementation

In 1992, extensive research was undertaken by the Americans Kamm and Aaron and

published as "The Stages of Team Venture Formation" in *Entrepreneurship: Theory & Practice*, January 1993. They conceptualised the formation of team-based businesses in two distinct stages:

1. Ideas Generation

A lead entrepreneur may have an idea for an unmet market need, and start to progress the idea through a feasibility stage by involving other people from his or her network. Alternatively, a group of people may come together because they like the idea of working with one another; they may or may not have a business idea at the beginning of the relationship. These are typical starts to team-based ventures.

2. Implementation

In this second stage, the fledgling team begins to take decisions, probably in roughly this order:

- partner recruitment issues, including sources, criteria and inducements
- team maintenance issues. The team must include someone skilled in - or at least very interested in - human relationship issues. The team should be cohesive at least until the venture is formed, but it does not have to retain all the original founder members
- agreement of roles within the team, and the decision to use the company's mission or common goal to resolve conflict
- boundary issues, such as who is allowed in to the team (including or excluding family members). Successful teams resolve any conflicts by allowing everyone some degree of participation in recruitment, termination and reward decisions

In addition to this approach, the British researchers Jacobs & Pons, also in 1993,⁴ consider it essential that the successful team contain complementary skills right from the start. They also identify the core competence (the most important skill) as:

- the ability to build and manage relationships

Once the methodology had been defined and agreed, the second stage was to find funding to cover the majority of the costs of helping team-based start-ups.

14.

Stage 2:

- Find the Funding

Depending on the region, funding was available from Europe - as in the depressed mining, steel and heavy manufacturing areas of the Midlands and Scotland.

4. Jacobs, R & Pons, T. "Developing a New Model of Individual & Team Competence in Small Business". *16th National Small firms' Policy & Research Conference*, Nottingham, UK, 1993

Other funds were available from national government sources for regional regeneration, local councils, and from companies such as Banks, Management Consultancies and Venture Capitalists. In some cases, companies provided professional expertise free of charge, for research and mentoring, instead of providing funds.

Money was also diverted from other business or individual support schemes, such as unemployment benefit and training & enterprise allowances.

15.

Stage 3:

- Build the Support Team

In each case, the third stage was to bring together the organisations which would bring expert knowledge to the new start-up companies - the key business influencers. In all three cases, a consortium was formed from private and public organisations with complementary skills. These included:

- management and business schools
- consultancies
- development agencies (regional regeneration)
- chambers of commerce
- district councils
- city councils
- successful large and small firms
- business links
- training and enterprise councils
- banks
- accountants
- venture capital firms

A Programme Director was appointed, with the agreement of all the support participants, with the remit to act as facilitator and catalyst.

All the appointed support personnel were practitioners with a successful track record in business and/or consultancy, and all were asked to guarantee a minimum commitment to the schemes.

Premises for the Seminars and Residential Weekends were also provided by the Support Team organisations - e.g. management consultancies and business schools (seminar rooms, library facilities, IT equipment, residential facilities).

16.

Stage 4:

- Define the Scheme Participants

The first task in this stage was to define the target market for the Scheme; in all cases, it was felt that individuals with professional and managerial experience should be the focus, as this would reduce the requirements for extensive training. This was refined further, to exclude individuals who had been owner-managers of existing companies which had failed.

Lists were drawn up of the functional skills required for successful management teams. Based on the research literature, all the Schemes required participation from individuals with skills in:

- management/human resources
- marketing
- finance
- technical/production

It was also essential to identify early on in the selection process which candidates were Replacement Income Entrepreneurs and which were genuine Growth Entrepreneurs.

Some of the schemes required participants to provide funding for their start-up companies - the MIDAS scheme asking for EI £10,000 from each person, to be supplemented by finance from other sources (banks, venture capitalists, business angels etc).

17.

Stage 5:

- Promote the Scheme

Low-cost advertising and networking were used extensively to draw attention to the schemes; local Unemployment Agencies were also asked to recommend unemployed businessmen who might be interested in starting their own businesses; firms with redundancy programmes were also approached for potential participants.

Radio and press interviews were used very effectively, and in some cases the Schemes were widely covered in the quality newspapers including the Financial Times. In no cases was money spent on producing glossy brochures.

18.

Stage 6:

- Select the Scheme Participants

Interested personnel were asked to attend Awareness Seminars at which the Scheme

Objectives and Requirements were explained with a “warts and all” approach so that individuals had a realistic view of what was being asked of them. Topics covered included:

- why people start businesses
- the advantages and disadvantages of starting-up on your own
- the need for a new approach to start-up, to reduce the risks to sole entrepreneurs
- the types of support which could be offered

Comments made by the participants at the Seminars were recorded, and the responses analysed. Following the Seminars, those from the audience who were interested in moving forward to the next stage were asked to complete a confidential form covering previous experience, motivation and ambition, business ideas, self-perceived skills and abilities. They were then invited to a private interview with members of the Support Team.

Many of the Scheme participants were still in paid employment when they embarked on the programmes (up to 90%), and in almost all cases their employers were unaware that they were considering starting their own businesses. The Schemes respected their need for confidentiality, and ran the seminars and workshops outside working hours.

19.

Inhibitors & Promoters
to Start-Up

On the MIDAS Scheme, candidates also underwent personality tests to assess strengths and weaknesses in terms of their potential to work in teams. These tests and the interviews looked at the Inhibitors and Promoters to start-up and the attitudes of each candidate to them:

Inhibitors to start-up:

- fear of failure
- financial loss
- risks to home and family
- long hours
- satisfaction with current job, security and income

Promoters to start-up:

- having financial resources
- desire to improve quality of life
- need for more control over career
- need to use skills more productively
- dissatisfaction with current job or salary; fear of redundancy

Experts in Occupational Psychology and management used to evaluate the candidates at all the meetings - at the informal “ice-breaker” meetings, and at the more formal seminars - and their responses to tests and interviews.

After this rigorous approach, each Scheme selected between 30 and 50 individuals committed to achieving ambitious goals and able to work in teams. It was felt that this was a realistic number of people to be managed at a time,

Those selected for the Schemes all displayed characteristics of Doers. They all demonstrated

- high levels of ambition
- strong business ideas

and some had gone even further in making:

- early attempts to plan the business
- early attempts at market research into their business proposition

Obviously, these are only indicators of success - they do not guarantee it. If they did, we would be able to "pick winners" with a very high degree of certainty, and we cannot.

20.

Stage 7:

- Training
- Product Development

The successful candidates embarked on a series of evening meetings (6:00 - 9:00), Sunday workshops and residential weekends. These commenced with team-building exercises, provisional formation of potential companies, product ideas, and training in market research, feasibility studies, product/service development and testing.

Team-building issues which were covered by the evaluators included:

- how could one build trust between members of the teams
- how could diverse individuals be "pulled together" to work effectively with one another (e.g. through shared vision; working collaboratively on assignments before the companies were founded; socialising together etc.)
- what happened if the team found it could not work together in the longer term

Functional skills training requirements of the teams were very clear. Initial priorities were:

1. Marketing
2. Buying
3. Sales Skills
4. Raising Finance
5. Developing business contacts

In all cases, the training was participative and hands-on, with the consultants "owning" each team and its needs outcome oriented in that objectives were discussed and agreed with the teams, documented, then evaluated for success in meeting objectives.

In terms of product development, the Schemes identified business opportunities by brainstorming, or by using Registers of Business Opportunities. These comprise:

- opportunities for outsourcing offered by blue chip companies
- distributorships and licenses
- European and USA partnership propositions
- technology transfer opportunities from academic and research institutions

The business ideas generated fell into four broad categories:

- I) Production based businesses (e.g. solar systems, intercom equipment, electronic control devices, point of sale systems, generators, mountain bikes, laboratory equipment)
- II) Service businesses with large scale operations (e.g. electronic design services, expert systems, multimedia training, publishing)
- III) Replacement income entrepreneurs/self employment ideas (e.g. export marketing consultancy, quality management support, will-writing, advanced driving courses, employment agencies, servicing of medical equipment)
- IV) Resource pool candidates - people who did not want to join the teams from the start, but might want to join later or be employed as consultants (management advisers, IT consultants)

21.

Stage 8:

- Market Research

The most crucial factor in the success of fast growth start ups is the use of adequate market research to verify opportunities, The Schemes therefore devoted substantial resources to market research and product development/prototyping. The teams were given training in research methods from experts and access to information services - desk and on-line for national and international searches. Some of the Schemes also provided the teams with unemployed graduates to undertake market research at heavily subsidised rates (£40:00 per week paid for by Central Government Training for Work Programme).

Experts were again used to review the research, and agreement was reached on refining of the product/service propositions before market testing of prototypes and propositions was undertaken.

22.

Stage 9:

- Business Planning
- **Finding Finance**

About six to nine months into each Scheme, training began to focus on business planning, with the advisors assisting in the development of detailed business plans. They also covered human resource issues including recruitment and personnel management, plus substantial work on financial planning. Topics covered included sources of finance and how to raise funds by meeting each lender's requirements.

Workshops were held at which the teams practised presenting Business Plans to financiers. These were videoed and discussed so that the teams had rectified weaknesses prior to the real interviews and were fully prepared for questions.

At the conclusion of this stage, the Business Plans were presented to banks and venture capital companies and to private lenders or Business Angels

23.

Stage 10:

- Premises
- Legal
- Systems
- Recruitment

Most of the Schemes also provided practical help prior to the companies becoming official registered ventures. This included:

- assistance with identifying premises and negotiating rates, rent and leases
- buying or hiring or leasing equipment
- legal issues related to company formation and employment
- establishing systems and controls
- and recruiting employees.

On the Lanarkshire scheme, premises were available in the Scottish Enterprise Technology Park - a Business Incubator like St. John's Innovation Centre. It provides prestige accommodation, IT equipment and secretarial support to minimise the problems of the start-up companies.

24.

The Final Stage:

- Incubation & On-going Support

Once the companies were up and running, usually within a year to fifteen months of Scheme commencement, their on-going support requirements were carefully evaluated. Each Scheme was designed and funded to provide on-going mentoring, consultancy and support for the first two or three years of trading - the "incubation" period.

Surveys were undertaken to show what further training and support each company required. The primary needs were:

- Marketing Tactics (publicity, literature, exhibitions, advertising)
- Sales negotiation
- Legal assistance, especially Contracts
- Raising additional funding
- New Product development
- Building support networks
- Establishing distribution chains
- Exporting
- Computer systems
- Management Information Systems

This support from the external teams ensured that costs of recruiting specialist staff were controlled in the early stages of growth. It also ensured that decisions on recruitment could be based on knowledge of the needs of the business. Most importantly, it also provided valuable assistance as the businesses grew. Many entrepreneurs find it difficult to adjust their management style or strategic planning to meet the growth stages of their companies, so the presence of the external advisers reduced a number of these problems,

25.

The Cost

All the Schemes asked the participants to make a small financial contribution to the programmes. This amounted in each case to just a few hundred pounds. On the MIDAS programme, for instance, the fees were:

- Programme Start Fee £350 per person
- Residential weekends £150 per person
- Year 1 support £500 per company
- Year 2 support £500 per company

These were not intended to cover costs, but simply to ensure that the individuals were sufficiently committed to the programme to invest their own money in the training. Each of the successful MIDAS candidates were also asked to raise £10,000 towards the foundation of the business.

MIDAS has not yet shown any results as the companies have only just formed, but both Lanarkshire and Teamstart have financial results and demonstrate costs of between £800 and £1,200 per new job created by the Schemes. This is a tiny sum when compared to the costs of unemployment.

In some schemes, but not in these three, if companies sourced products from a product bank a royalty (typically 2%) on sales of the product is levied for the first few (say, three) years. This enables the Schemes to move towards being more self-financing and thereby reducing the emphasis on external funding or sponsorship.

26.

The Results

Each of the team-based businesses generated twice as much sales revenue per person than a "normal" business and created over 3 times as many jobs. For instance:

a normal entrepreneur can create £40,000 sales revenue by his second year of trading, and may employ one further individual, but each team-based entrepreneur can generate over £500,000 worth of revenue and employ 6 further people for every single person involved in the start-up.

The Lanarkshire scheme, over 3 years, created 30 new companies with 1,200 employees and generating sales in excess of £20m in national and international markets. On average, the companies founded have raised £120,000 each of business funding - some raised by the entrepreneurs themselves but also from European Regional Development Funds and from local companies such as British Steel and British Coal.

CASE STUDIES

Retronix

26 year old Tony Boswell was working for a Scottish company that assembled printed circuit boards for computers. He went to his boss and suggested the company take damaged PCBs from large computer manufacturers and repair them. His boss told him to "go away" - so he did. He joined the Lanarkshire Entrepreneurship Programme and in 1993 started Retronix with a workforce of 10 people. By 1995, it employed 800 people and had a turnover of over £11m a year. It repairs PCBs for companies such as IBM, Motorola and Sun Microsystems, Intel and Compaq. It is by far the most successful of the companies started up under the scheme, but there are others which have seen quite impressive growth:

Caledonian Compressor

Started May 1992 by two senior executives from a Scottish engineering company. They left secure jobs and remortgaged their homes, but by 1994 had a turnover of £2.5m and employed 10 people; in 1995 they doubled turnover to £5m and had orders from Russia, Norway and North Africa. Their five-year plan predicts a £20m pa turnover by 1999, and a workforce of between 40 and 50.

Display Products Technology

Started in 1994 by a 26 year old called David Wares, who used to work with IBM. The company repairs high-tech equipment such as liquid crystal displays for portable computers. In 1995, it employed 12 people and sales of £120,000 a year.

Core Technologies

Set up by Jim Pickard, a research pharmacist, to develop a polymer used to deliver drugs to the body through non-oral means. Core secured £1.8m of venture capital funding to carry the product through clinical trials. In 1994, it had 15 employees and doubled that number in 1995. Later in 1996 it hopes to gain a listing on the London Stock Exchange to secure further funds.

And, just to demonstrate that not all the successful businesses are high-tech:

Cairn Lodge Services

An independent motorway service station, which was opened in July 1994. It now incorporates a Motel, restaurant, shops, leisure facilities and a Tourist Information Centre. It employs over 120 people.

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In conclusion...

The academic research that has been conducted, and the practical trials I have outlined, has shown that:

there are considerable cost-benefit advantages in differentiating the start-up sector to differentiate between replacement income entrepreneurs and those with potential to succeed in teams

almost all businesses which became Supergrowths or gazelles started life as teams

there are well-proven mechanisms to resolve issues of ideas generation, team formation and team maintenance

potential candidates for team-based start-ups are willing and able to be trained in core areas such as marketing and finance

there are business influencers willing and able to devote time to supporting team-based start-ups

The UK Schemes I have described have already demonstrated success.

No-one is claiming that every single company selected for the Programmes will be a winner. But it is clear that focusing time and money in supporting experienced business people with realistic growth plans is less wasteful of tax payers' money than spreading the same

resources over a larger number of start-ups. As a result, the DTI has already committed more funding to these and similar Team-based Start-Up initiatives.

I am not advocating that this is a perfect approach even for the UK - but it has demonstrable benefits and could be applied in some degree to another country. Of course, you cannot simply transplant a model from one culture to another without adaptation - but some aspects of the UK experience may be useful to Spain.

I hope this has been interesting and thought-provoking - and I wish you all well in your business endeavours.

Further Sources

In addition to the references mentioned in the text, there are a number of other articles or publications which may be of interest.

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