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**SWP 5/89      ENCOURAGING ENTERPRISE BRITAIN'S  
GRADUATE ENTERPRISE PROGRAMME**

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## Encouraging Enterprise:

### Britain's Graduate Enterprise Programme

Britain may well have been the cradle of the Industrial Revolution in the nineteenth century, but British industry can hardly be accused of continuing this domination in the twentieth century, least of all in the post World War 2 "information technology" revolution when Britain's position in the OECD League Growth Table of 24 nations has slipped from second to eighteenth. The university business schools (founded first in London and Manchester in 1966 and expanding thereafter) can scarcely be held responsible for this relative decline, but perhaps because too much was initially expected from them or because British industry's apparent continuing reluctance to undertake training and management education, (recently documented again in the Professor Charles Handy, Professor John Constable 1987 reports<sup>1</sup>), the Schools themselves have been continuously criticised as being too academic. These attacks culminated in Sir Douglas Hague's February, 1988, broadside "we are in a new industrial revolution which requires management trainees to develop 'action learning' from real experience within business and industry, rather than getting tied up with theory and academia".<sup>2</sup>

Whilst the empirical evidence of OECD League Tables and the Professor Handy and Constable Reports would hardly seem to support Sir Douglas' contention that traditional British "on the job" training will dramatically change Britain's long term performance, more serious concern must be expressed at the accusation that business schools are all "tied up with theory and academia". In the second decade of their existence, at least, thanks to generous support from the Government's training arm, the Manpower Services Commission (now the Training Commission) all of the schools and polytechnics have, even in Sir Douglas's words "been getting their minds grubby" in a series of New Enterprise Programmes and Small Business Courses, helping individuals and companies

alike in the most difficult industrial area of all, start-ups and early growth. The success and range of such programmes has been widely commented upon by Birley and Vesper (who has also looked at U.S. activity) amongst others.<sup>3</sup> A more recent offspring of this exciting educational and business development has been the Graduate Enterprise Programme, again a Training Commission sponsored initiative, aided by private sector sponsorship from BP, National Westminster Bank, Arthur Andersen and British Institute of Management, to assist first time graduates, with business ideas, to start their own businesses. Launched first in Scotland in 1983, it was developed and launched in England from 1984. Starting in 1988, nonetheless, with national unemployment beginning to decline, this training initiative has come into question both from within Government, (questioning the high cost per participant for the programme while measuring success only in terms of immediate new job creation), and from without (from academicians e.g. David Story<sup>4</sup>, claiming "that it has never been shown that the net effect of subsidising small firms is to create more wealth in the community"). This paper will attempt to evaluate the first 3 years of the English GEP (GEP 1, 2, 3 from 1985 to 1987) experience to date by:

- (1) Describing the programme concept and design, with flaws and successes;
- (2) Reviewing the programme impact on student entrepreneurship;
- (3) Outlining the business outcomes of GEP 1 at Cranfield (1985 programme), with relevance for outcome measurement;
- (4) Drawing conclusions for the design and measurement of future training initiatives of this type (i.e. GEP 4, 1988 onwards).

## 1. PROGRAMME CONCEPT AND DESIGN

The programme owed its origin to government concern that UK college graduates were less interested in self employment and small business than, for example, careers in accounting (nearly 10% of UK graduates in 1983 opted for accountancy compared with 0.3% for self employment<sup>5</sup>) and were less enterprising than equivalent graduates for example in the USA and Japan (where between 2 and 24% start their own business<sup>6</sup>).

There was also concern with graduate unemployment, running at over 10% in the depressed employment climate of the early 1980's, and with large firms reducing their graduate intake. These concerns were not set as specific objectives for the programme. Stated objectives, as such, were initially high minded but somewhat vague e.g. "to stimulate entrepreneurship and to change attitudes", MSC 1984 guidelines.

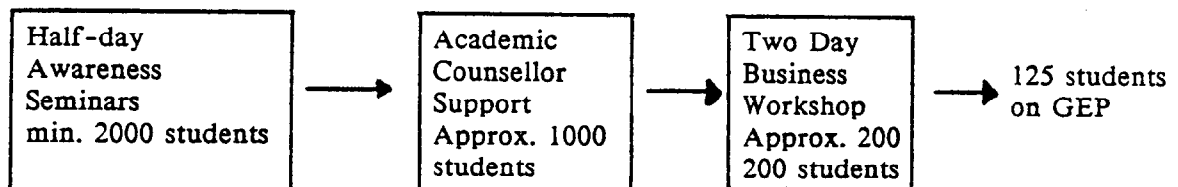
The average age of graduates on the first three English programmes was 24, with a median age of 23. Most studies of entrepreneurship and new business creation consider the early thirties to be the more common age group for launching new ventures<sup>7</sup>.

Contrary to this, in a recent study,<sup>8</sup> Dr. Christine Shaw noted that English "founders of firms in the nineteenth century, typically attained their first responsible position in their 20's or earlier (66% of sample)". The majority of these had, however, left school at 14 or earlier and had up to 10 years work experience prior to taking own company initiatives! Therefore, programme design in both recruitment and delivery, had to reflect both the lack of business experience of present day young graduates (the majority had less than 1 year's work experience) as well as the starting objectives of the government sponsors of the programme.

## Recruitment

UK pre-university and university training is deliberately specialist. However with less than 10% of UK graduates specialised in business studies (compared with over one-third in the USA c.f. Prof Constable Report), the typical student recruited to the programme needed a broadly based business development training that would be both stimulating and at the same time replicate the sometimes painful early learning experiences of starting a new business (e.g. in making mistakes, as one young entrepreneur notes: "I have no regrets about diving in the deep-end. When you're young you can make a fool of yourself. It's vital to do everything possible in those 10 years after school.... but it takes time and you've got to be prepared to make mistakes"<sup>9</sup>). To meet the admittedly broad programme objectives, therefore, the programme commenced with awareness seminars at major English universities and polytechnics, attended by just over 1000 students in 1985 rising to just over 2,000 students at double the number of seminar locations in 1987. It also provided support to students in completing a mini-business plan application form from a network of some 42 locally based academic counsellors. The process culminated in a two day selection and training weekend for all those who completed the application forms.

### English GEP Structure (1987)



Admittance to the programme was largely by self-selection as the students, guided by the application form and with positive support from the counsellor, undertook simple

first steps in market research to validate their ideas. As the number of training places increased, nearly 3 out of 4 students who completed the application forms, were finally rewarded with places on GEP or other training initiatives (rising from 40 places in 1985 to 125 in 1987 + 300 in 1988).

Analysis of pre-selection student ideas and educational background has been documented;<sup>10</sup> in terms of family background and motivation it could be noted, e.g., that amongst GEP 3 applicants more than one third of the students indicated entrepreneurial antecedents, with 38% having fathers who owned their own businesses, 12% had mothers owning their own business; 28% of the total had grandparents who had owned their own businesses! The majority (61%) were starting their own business primarily to be independent rather than to make money (22%); more than half (51%) ranked training as the most important element of GEP, ahead of counselling (29%) and money (18%). This latter interest in business training was perhaps not surprising given that nearly two thirds (68%) were just completing their undergraduate degree, with nearly half (45%) having had less than 12 months work experience.

### Training Programme

The actual training and support programme comprised some five individual weeks training at management schools, interspaced with eleven non-residential weeks of market research activities funded by a grant, culminating in a Sales Exhibition for buyers. The programme was organised around the development and presentation of a business plan for each new business. This was intended to both validate the original business idea and to provide a mechanism for attracting start-up funds for each venture. Teaching methods followed closely the "entrepreneurial-directed alternative to traditional teaching" recommended by Ulrich and Cole<sup>11</sup> included use of workbooks<sup>12</sup> with students

receiving specific instruction in skill areas, then undertaking research and applying the analysis to their own businesses. The programme used case instruction primarily for the purpose of providing role models of former students. It also used clinics with outside panels of experts (lawyers, estate and patent agents etc.).

Students were motivated by the personal, practical focus of the training (e.g. developing own sales brochures and press releases, some of which were examined as case examples and considerably improved upon by local sponsor, First City Advertising). Practical business support for students on GEP was provided by private company sponsors, in the form of product development aid to help develop prototype by BP, bankers panel advice by National Westminster Bank and accounting assistance from Arthur Andersen for the year following the completion of training. Finally, it was found necessary to increase the training time allocated to practice selling training (e.g. each student was involved and videotaped in a selling exercise, increased sales exhibition training etc.) following feedback from earlier course participants who had started trading. While finance training was modified to increase time on breakeven and cash-flow analysis, with less on contribution accounting and return on investment analysis.

## **2. IMPACT ON STUDENT ENTREPRENEURSHIP**

To determine the impact of the GEP on student entrepreneurship, two questions need to be asked:

- 1) 'Would these student entrepreneurs have undertaken their enterprises anyway, without the costly support framework of the Graduate Enterprise Programme?'
- 2) Has failure to be selected for the GEP reduced the number of potential business start-ups?

In answer to the first question, during the selection workshops for GEP 3 in March/April 1987, some 214 applicants for the GEP programme completed a market research questionnaire on their intentions regarding starting their own business.<sup>13</sup> Only one out of ten indicated that their interest in starting their own business derived from the GEP programme itself; but out of the remaining nine, one half indicated it had not been their intention to start up immediately after graduation. The GEP programme, therefore, has provided an incentive for young people to accelerate and bring forward the timing of their projected business start-up. This, after all, is what might be perceived as a legitimate purpose of any educational experience: to provide concentrated skills training and "real world" experience, short circuiting the necessity for young people to gain experience by actually being employees and perhaps in the process losing their original entrepreneurial ambition. To further confirm this assertion, just over one third of the applicants (36%) indicated that they had actually already received offers of full-time employment. Following selection, few students failed to attend the GEP training (90% acceptance rate following selection). We might conclude therefore that just over half of the participants on the programme owe their start, or more importantly the timing of the start of their own business, to the encouragement of the GEP programme.

To answer the second question, some 92% of the 214 applicants, when asked during the 2 day business workshops for GEP 3, indicated that they intended to set up their own business regardless of whether or not they obtained places on the GEP (perhaps a not unnatural response during selection). A further survey of unsuccessful applicants for GEP 1 and 2 programmes produced a small response (19 only out of 75 mail outs, due to address location difficulties). This survey confirmed that 18 out of the 19 had intended to set up in business, regardless of GEP places but in the event, following a negative decision, only 6 of the 19 did actually set up their business after graduation. To the

extent, therefore, that two thirds did not proceed with their earlier entrepreneurial intentions, the GEP has to accept either that they have reduced or at least delayed some potential business start-ups; however, in response to a further question, nearly two thirds of respondents accepted that they thought the GEP selection decision was correct, validating, therefore, in some measure the selection process.

Furthermore of the six who set up in business, and who clearly did not think that the GEP selection decision was correct, five indicated that their business was currently trading profitably; none of their success is due to GEP! But at least they were not deterred from starting up by the GEP. As nearly all found some benefit in the two day selection weekend teaching workshops, one might at least conclude that really determined and potentially successful entrepreneurs are not dissuaded by selection decisions, and their original ideas should have benefitted from the workshop experience.

In conclusion, therefore, as participants on GEP are selected on the basis of their own entrepreneurial character and the potential of their business ideas, the impact of GEP on student entrepreneurship is primarily in providing an opportunity to accelerate the time of good potential business start-ups. The benefits of such a process, we will now examine.

### 3. BUSINESS OUTCOMES, GEP 1, 1985 - DOES THE PROGRAMME WORK?

Although initial objectives for the English GEP were general rather than specific, quantifying the business outcome for each student was recognised at the outset as being a necessary task for three major reasons:

- a) to permit training programmes to be revised in the light of actual student business experience;
- b) to encourage students to maintain contact and to provide a self-learning device on their own achievements;
- c) to ensure that Government as the main sponsor, and the private sponsors, received "value for money"<sup>14</sup>.

To this end a voluntary quarterly audit report was designed (subsequently semi-annual) and a data base established at Cranfield. A first summary was made for GEP 1 students after they had been trading for 18 months (therefore, they had passed beyond the further 12 months Government's assistance of £40 per week provided by the Enterprise Allowance Scheme to those who qualify in starting their own business). Three quarters of the 36 starters were still fully employed in their own enterprise, with only 17% having entirely abandoned their original venture in favour of full-time employment, 8% continuing with part-time employment. This compares to the 41% first eighteen months failure rate quoted by Ganguly<sup>15</sup> and is about the same as other start-up courses<sup>16</sup>, although the age of participants is considerably younger. In addition, several in employment claim to be considering new entrepreneurial activity (e.g. "when funds improve"); none are unemployed. Of the 26 businesses currently still trading, 85% reported that they were trading above break-even point (one, below break-even, has a 2 year lead-time in bringing his kit-cars to market), and 70% reported that they were "confident" or "very confident" about the future.

Exhibit 1 gives the second indication of the financial performance of those still pursuing their own business activity after two and a half years trading. Having been encouraged to start trading with high prices to match short supply, it can be seen that with growth and the extra overheads required, turnover has increased faster than net profitability.

Grouping the GEP 1 businesses and regarding it as a single holding company (with business lines ranging from Dockspeed freight transport, through the manufacture of folding bicycles to the sale and distribution of plastic greeting cards) it can be reported that in the second full year's trading, 1987, GEP 1 Company sales turnover was £2.2 million, net profit was £208,000, giving a margin of 94% on sales (excluding a £42,000 property asset windfall and after deducting losses of those businesses below break-even). The total investment cost for the MSC in this programme was approximately £250,000 (with just under half the cost being for student accommodation and allowances). Supporters of the programme, therefore, might view the GEP 1 Company as an investment producing an eighteen month payback, a simple return on investment of more than 60% per annum! This would ignore however, the further, usually small, amounts of private sector investment and the fact that "net profit" is mostly calculated prior to owner's drawings. The figures, therefore, simply provide a first indication of the wealth created and strong underlying health of the businesses.<sup>17</sup>

Viewed in employment outcome terms, however, a legitimate concern of the primary Government sponsor, results have not been as encouraging. Current full-time employment, including owners, stands at 55 for the latest 18 businesses reporting; together with a reported 32 part-time workers (including 14 full-time for 10 weeks at Oxford Activity Camps) and some 20 indirect workers (including agents for plastic cards, clearly carrying other people's merchandise lines as well). These low employment levels, however, should be seen in perspective, given the relative youth of the student entrepreneurs. For 23 year old business owners, business school training and counselling has consistently emphasised the need for caution in early start-up stages e.g. the use of part-time employees has constantly been encouraged during the early phase of development, while the entrepreneurs learn to manage and to react to markets. Similarly, caution has been advised in not entering into any long-term property

commitments and sub-contracting recommended rather than direct manufacturing. Clearly, for graduate entrepreneurs, profits have to be earned and credibility track records established before any significant finance can be attracted into the business. A few case examples make these points more clearly:

- a) One of the firms, Dockspeed, has been the largest direct employer in GEP, with 5 full-time employees; each employee, however, has been clearly based on a newly leased vehicle, following leasing company satisfaction with the profit progress of the freight transport company;
- b) Howard's Originals, a novelty greeting card company, despite being the most consistently profitable company (over £10,000 p.a. net profit in each of first two years) has only now, 2 years after starting trading, obtained a significant loan. This will enable the company to move from home to rented premises and to engage for the first time a warehouse employee;
- c) Two further GEP 1 innovative ideas, Anthony Robinson's holograms contract with Rigby Electronics and Mark Sander's folding Strida bicycles have provided no recorded full-time employment other than for the entrepreneurs themselves, as all their work is sub-contracted to licenced manufacturers. A Strida bike assembly company has been established, however, with private capital, 24 full-time employees and a manufacturing output of 15,000 bicycles p.a.; Rigby Electronics, equally, have invested over £20,000 in worldwide patent protection rights on Robinson's holograms, indicating the confidence the company has in the potential of the product.

In Conclusion, therefore, at least some eighteen new businesses have been satisfactorily started, with a positive, if modest, return to the entrepreneur owners and a capacity, as yet not fully determined, to make a real contribution to new employment, particularly

over the period of some 2-5 years after start-up. A data base for GEP 1, 2 and 3 training programmes and a mechanism (semi-annual reports) to monitor progress exists at Cranfield. In judging the performance of GEP business outcomes, therefore, difficult though they might be to assess, measurement of wealth creation should come first, as this is the only sustainable way of creating genuine new employment, and a suitable time span allowed to measure the subsequent employment achievement.

#### 4. CONCLUSIONS

It is still too early to conclude whether the GEP works or not. This report was written to provide a further illustration of business schools' involvement in the "front line" business world and to provide some evidence from a specific MSC programme to fuel the debate on public and private support for small enterprise training. In a climate of almost total private company aversion to financing or assisting "high risk" start-ups, one might maintain that as long as the financial and employment returns for such investments are positive (and closely monitored) then Government is right to create "infrastructure" upon which the private sector can subsequently build by providing further venture capital and private investment (which is clearly what most venture capitalists prefer to do, well after "start-up"). In this respect the training (not financing) of graduate entrepreneurs is no different to the clearance and refurbishment of inner city areas, in that it is a necessary pre-requisite to further development by encouraging subsequent future private investment. The examples of Strida Bikes (which attracted over £1 million of private investment) and Rigby Electronics are encouraging in this respect.

Nonetheless changes in design and administration would improve the specific GEP and similar programmes:

1) Set clear objectives for the trainer and the trainee:

As data on the effectiveness of such programmes is assembled, a redefining and a re-setting of specific business outcomes should be undertaken. Objectives such as "encouragement of entrepreneurship" cannot be assessed and more measurable financial as well as employment objectives should be set;

2) Evaluate each Programme in Input and Output terms:

Management within Government departments by cost input comparisons amongst programmes should be modified to include financial output measures (turnover, net profit and number above/below breakeven) and pay back (financial and employment) time horizons and targets compatible with the age and experience of programme participants.

3) Monitor these objectives regularly:

Monitoring of such programmes should become mandatory rather than voluntary upon participants and institutions. This does not mean a host of inspectors, auditors or forms, but a simple requirement for participants accepting places on such programmes to file management reports to the usually supportive provider data base so that future education, guidance and an informal review might take place. This suggests also that Government requires the management and provision of data be mandatory upon the providers of training, with access for independent verification.

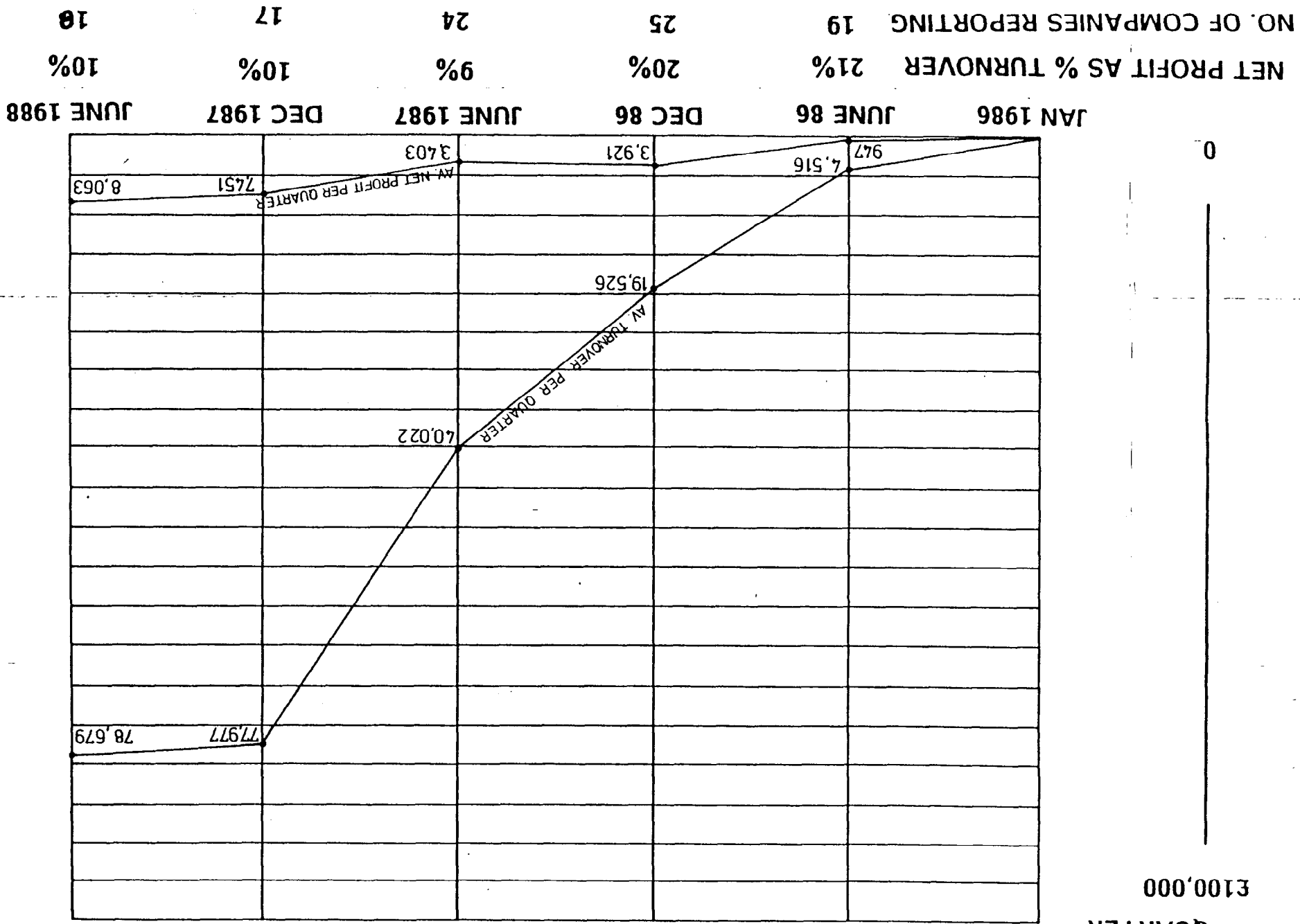
Some of these suggestions are currently being considered for the expanded GEP in 1988 and we hope they will be introduced to improve this significant graduate entrepreneurship initiative for the benefit of graduate entrepreneurs and business school providers alike. Sir Douglas Hague, please take note!

GEP 1 COMPANY TURNOVER INCREASING FASTER THAN NET PROFITS

Exhibit 1

TURNOVER PER  
QUARTER

£100,000



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- 17 Based on the evidence of the first four surveys (GEP 1, three surveys and GEP 2, one survey) student entrepreneurs seem to have little difficulty providing turnover, employee, new product/customer and break-even information. Net profit clearly creates difficulty; few of these numbers are produced by accountants or are audited. The net profit numbers and net losses reported are, therefore, best estimates and are "management accounts" not audited numbers; but our interpretation of them is that they are a good guide to the underlying health of the businesses concerned.