

CRANFIELD INSTITUTE OF TECHNOLOGY

SCHOOL OF MANAGEMENT

DOCTORAL DISSERTATION

R. J. B. BRUCE

ENTREPRENEURSHIP AND CORPORATE STRATEGY

Under The Supervision of
PROFESSOR G. S. C. WILLS

March 7th 1975

ProQuest Number: 10832202

All rights reserved

INFORMATION TO ALL USERS

The quality of this reproduction is dependent upon the quality of the copy submitted.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if material had to be removed, a note will indicate the deletion.



ProQuest 10832202

Published by ProQuest LLC (2019). Copyright of the Dissertation is held by Cranfield University.

All rights reserved.

This work is protected against unauthorized copying under Title 17, United States Code
Microform Edition © ProQuest LLC.

ProQuest LLC.
789 East Eisenhower Parkway
P.O. Box 1346
Ann Arbor, MI 48106 – 1346

STATEMENT

Except where acknowledgement is given to other authors or works, this dissertation is entirely the author's own work and has not been submitted for any other academic or professional award and is submitted on the basis of conditions contained in the regulations of the Cranfield Institute of Technology.

Copyright remains vested in the author who reserves the right to publish in whole or in part the contents of this dissertation.

Copyright © Richard Bruce. 1975

ACKNOWLEDGEMENTS WITH THANKS

Professor Gordon Wills for his pertinent
comments and encouragement particularly during
the final stages and to Mary Nicholson for coping.

ENTREPRENEURSHIP AND CORPORATE STRATEGY

ABSTRACT

Entrepreneurship is examined from three major viewpoints, Economic, Sociological and Individual Psychological but no one of these approaches can adequately explain the phenomenon. Entrepreneurship is identified with a changing social process and associated with those individuals called entrepreneurs.

Corporate Strategy is an aspect of Business Policy and is seen as a determining process in the growth, survival or demise of the firm. The architect of this strategy is the entrepreneur broadly seen as chief executive and identified by task. The concept of the entrepreneur is refined and redefined leading to a distinction between the Modal and the Independent entrepreneur. Independent Entrepreneurs are categorised as either Ubiquitous or Elite.

Modal, Ubiquitous and Elite entrepreneurs are compared and contrasted on the basis of their motivations, life experiences, social and psychological aspirations, and the burden of the argument to this stage is illustrated by an interview with an Elite entrepreneur, identified as such by individuality and corporate competence.

The discussion reverts to the tasks of the Entrepreneur and their relation to Corporate Strategy. The entrepreneur is seen as a straw in the economic wind. An understanding of positive economics is mandatory for successful entrepreneurship practised by Modal and Elite entrepreneurs alike. Guidelines are developed in linking positive with normative economics, showing the importance of economics in the process of Corporate Strategy.

Employee motivation is a further mandatory task of the entrepreneur seen as corporate leader and this is related to organisation structure. The fundamental raison d'etre for organisation structure is seen as control and types of organisation are compared, contrasted and correlated with management style and personal values.

"The Lonrho Affair" describes a multinational corporation run by an Elite entrepreneur and illustrates the link between Entrepreneurship and Corporate Strategy, personal values and organisation structure and the relevance of an exteroceptive management style to corporate success.

CONTENTS

FOREWORD	<u>PAGE</u> i
<u>CHAPTER I</u> <u>CORPORATE STRATEGY</u>	
The Origins of Business Policy	2
Policy Research and the Environment	3
Some Tools of Policy Research	4
Empirical Research: Analogues and Cycles	4
Scenarios, and the Oracle at Delphi	6
Practical Reality - What They Did at TRW	7
The Chief Executive's World	8
Objectives	10
Policies	10
Strategies	11
Tactics	12
The Environment	12
Corporate and Product Life Cycles	13
The Corporate Life Cycle	16
Technology, Environment and Strategy	17
Technology and Strategy - A Life Cycle at Work	18
Stage I	18
Stage II	18
Stage III and Stage IV	19
Stage V to VIII	19
A Cycle Within a Cycle	20
Stage IX	20
Stages X and XI	20
The Resource Audit	20
The Distinctive Competence	21

	<u>PAGE</u>
Environment and Industry Characteristics	22
Rolls Royce - The Strategy That Failed	22
Estimates and Errors	25
Slater Walker Securities - Pulling the Threads Together	26
Industrial Holding Company	28
Banque d'Affaires Phase I	29
The Strategy that Failed?	29
Waiting and Watching	30

CHAPTER II ENTREPRENEURSHIP AS A FIELD OF ENQUIRY

The Entrepreneur in History	34
Entrepreneurship, Nobility and Fortune	36
Social Prerequisites	38
The Elizabethan Corporation	39
Patents, Monopolies and Innovation	39
The Social Conditioning of Entrepreneurship	41
The Protestant Ethic	43
Entrepreneurial Respectability	44
Entrepreneurship and Economic Development	45
Achievement Motivation	49
The Withdrawal of Status Respect	55
Social Change	58

CHAPTER III REFINING THE CONCEPT OF ENTREPRENEURSHIP

The Problem of Definition	62
Reference Groups	65
Opportunity, Education and Attitude of Mind	66
Revolution, Creation and Size	70
Shareholding and Control	75
The Elite and the Ubiquitous Entrepreneur	75
An Economic Approach	79

	<u>PAGE</u>
Shareholding and Control	75
The Elite and The Ubiquitous Entrepreneur	75
An Economic Approach	79
 <u>CHAPTER IV</u> <u>PERSONALITY AND THE ENTREPRENEUR</u>	
The Entrepreneur and His Firm	89
Social Mobility and Reference Groups	90
The Determining Event and Marginality	92
Social Mobility and Marginality	95
n Power	102
n Affiliation	110
The Entrepreneurial Test	111
 <u>CHAPTER V</u> <u>JOHN BENTLEY</u>	
Acquisition and Expansion	117
Asset Stripper	119
Operating Philosophy and the Toy Industry	120
Range of Products	121
A Fundamentalist	123
Background and Personal Comment	124
Australia	125
Money and Values	125
Social Influence	126
The Organisation	127
The Establishment	128
Entrepreneurship	129
Mr. Slater	129
 <u>CHAPTER VI</u> <u>AN ENTREPRENEURIAL PERSPECTIVE ON ECONOMICS</u>	
A Twentieth Century Economy	144
Potential GNP and Aggregate Demand	148
Quantity Theory	150

	<u>PAGE</u>
The Income-Expenditure Approach to Aggregate Demand	152
Consumption and the Multiplier	153
Fiscal and Monetary Policy	154
Monetary Policy	156
The Size of the Figures Involved	157
Inflation	159
Exchange Rates and External Trade	162
A Depression	166

CHAPTER VII THE DEPRESSION OF 'SEVENTY SIX

Smith and Jones Ltd.	170
Determining and Contributing Factors	176
The United States of America	178
The Next Election	178
Three Weeks in June 1972	193
Unemployment	196
The Money Supply	197
Balance of Trade	198
The Oil Price Increase	200
A Matter of Timing	203
The Crystal Ball and America	204
Italy's Golden Age	206

CHAPTER VIII MANAGEMENT BY SELF-AWARENESS

Group Situations and Man-Management	212
The Entrepreneur as Leader	213
Motivation and Management	220
Taylor's Pig Iron Experiment	220
Maslow's Need Hierarchy	220
The Mayo-Hawthorne Experiment	221

	<u>PAGE</u>
Hygiene and Growth Factors	223
Blake's Managerial Grid	225
"People" and "Production" Orientations	226
Theory X and Theory Y	226

CHAPTER IX COMMUNICATION, CONTROL AND ORGANISATION STRUCTURE

Organisation Structures	234
Personal Values, Structure, Strategy and Henry Ford	237
A Framework for the Evaluation of Organisation Structure	240
Structure, Function and Communication	240
Communication and Management Style	241
Communication and Control	242
Communication and Reciprocity	243
Scoring the Concepts	245
Resulting Totals	249
The Incredible Electrical Conspiracy	249
The Background	249
Organisation Structure, Motivation and Control	251

CHAPTER X THE LONRHO AFFAIR

Introduction	256
Company Background	256
Winds of Change	259
Lonrho in South Africa	260
Wankel and the Cash Crisis	262
Peat, Marwick's Recommendations	263
The Boardroom Dispute	266
Background	266
Lonrho Diary	266
The Board	269
The Courtroom Proceedings	270
The Legal Proceedings	271

	<u>PAGE</u>
Judgement	273
Agreed Statement	275
Press Comment and Courtroom Issues	276
Court Proceedings, Affidavits and Events	278
The Defendants' Arguments	280
Mr. Rowland's Management Style	282
Liquidity Problems	284
Events After Court	286
Twenty Four Hours	290
The Prime Minister Speaks	291
Postscript	292
Exhibits	293

FIGURES

	<u>Page</u>
1 - 1 A Modified Greek Theory of Political Cycles	5
1 - 2 The Chief Executive's World	9
1 - 3 The Strategic Pyramid	11
1 - 4 A Typical Life Cycle	14
1 - 5 An Extended Life Cycle	14
1 - 6 A Typical Stage IV Firm	16
2 - 1 Achievement Imagery and the Patent Index	53
3 - 1 Education Level: Entrepreneurs Compared with Business Leaders and General Population in Michigan.	
3 - 2 Fathers' Principal Occupations: Entrepreneurs Compared with Business Leaders	69
4 - 1 The Entrepreneurial Test	112
6 - 1 The Circular Flow of The Economic Machine	146
6 - 2 Costs of Production	162
7 - 1 Smith and Jones Ltd.	171
7 - 2 Smith and Jones Ltd. Ratio Comparisons	173
7 - 3 Some Important Economic Indicators in the U.K.	
Balance of Payments	181
Unemployment	182
Bank Rate	183
F. T. Share Index	184
Domestic Credit Expansion	185
Money Supply M3	186
7 - 4A Leads Lags and Correlations	187
7 - 4B The Stock of Money	188
7 - 4C Investment Intentions in Manufacturing Industry	189
7 - 5 Growth of GNP in Seven Major Countries	190
7 - 6 Fluctuations in Various Commodities	191
7 - 7 Some International Share Price Changes	192
8 - 1 Motivation and Behaviour A Conceptual Continuum of Human Behaviour	217
9 - 1 Organisation Profiles: A Basis for Evaluation	246

FOREWORD

INTRODUCTION

In the physical sciences, a body of knowledge is oriented toward prediction. Given certain facts, assuming certain others, controlling and manipulating different variables and arranging known facts into new configurations, all these are aspects of the search for truth and a statement concerning the future. Variables in the physical sciences lend themselves more easily to control by physical or statistical manipulation than do variables in the grey area where life experience, individual motivations and world events profoundly affect the investigator's domain. In this latter situation the variables are numerous and complex and the inter-relations between them differ in magnitude and influence. It is hardly possible to transfer a broadly based enquiry to a laboratory situation, but even were it possible - and this surely is a rationale for mathematical models of the firm or of the world - one significant variable amid a host of contributing factors can, of itself, determine the course of events. For this reason we discuss in Chapter I the problems associated with scenarios and the difficulties in forecasting. We distinguish between determining and contributing factors in the design and implementation of the process we call corporate strategy.

In Chapter II we consider entrepreneurship as a field of enquiry and in Chapter III we refine and redefine the concept of the entrepreneur. In Chapter IV we refer to the determining event in entrepreneurial motivation and in Chapters VI and VII we illustrate the difficulties and differences between normative and positive economics and the importance of determining and contributing factors. In Chapters VIII and IX we show how one factor amid a number of others can become the determining factor in an organisation structure and hence the determining factor in the success or otherwise of a corporate strategy. Thus a common aim running through the dissertation is to isolate if we can, the determining factors in the phenomena.

Entrepreneurship may be investigated from any of several points of view, economic, sociological or psychological, but any search for the determining factor is doomed from the start for it is not possible to manipulate a national social process to validate a hypothesis. In Chapter II we discuss how various investigators have attempted to overcome this problem for it is one not unique to this dissertation. McClelland is quoted as saying ".... the test of whether an increase in Achievement leads to more rapid economic development would lie in a "social experiment" in which attempts were made to introduce policies which would increase Achievement in one

country to see whether they produced more rapid economic development than in other comparable countries where these policies were not introduced."

Where Schumpeter's orientation is primarily economic, Hagen's is primarily sociological while McClelland's, conducted at the individual level is at the same time psychological, economic and sociological. Entrepreneurship as a phenomenon is identifiable by its economic consequences and the people called entrepreneurs; but what of these people? Are they identifiable by virtue of the task they perform or are they able to be seen as distinct personality types? The answer, we suspect, is that the entrepreneur may be identified both by task and by his psychological make-up. Broadly speaking, the fundamental task of the entrepreneur is the design and implementation of corporate strategy. The competence with which this is conceived and performed is related to the psychological make-up of the entrepreneur. Hence the title Entrepreneurship and Corporate Strategy.

A CONTINUUM FROM HYPOTHESIS TO LAW:

At the outset the investigator must be clear as to what it is that he wishes to investigate. Having established this he searches for relevant variables which he must include in his frame of reference. He defines his problem in experimental terms and asks himself progressively:

1. Is it so?
2. Why is it so?
3. To what extent is it so?
4. What are the conditions which give rise to the phenomenon under discussion?
5. Can these be demonstrated experimentally?

In order to proceed from hunch to hypothesis he must define his terms and refine the scope of his enquiry, reducing it to manageable proportions. We can state as a hypothesis: "there is such a thing as an entrepreneurial personality." Framed as a question this was how the author, some years ago, started his enquiry. This dissertation is the product of a scientific training, some entrepreneurial experience and considerable academic research; for an enquiry into the actiology of entrepreneurial motivation leads to a consideration of entrepreneurship, what it is and how it comes about.

We cannot consider an entrepreneurial personality in psychological terms without defining and refining the concept of the entrepreneur. Once we have done this perhaps we can go on to isolate various factors in personal make-up which are common to entrepreneurs and not found in other individuals. Perhaps therefore the author might have undertaken some empirical research using an experimental group of entrepreneurs, a control group of "chief executives" and some other group - perhaps civil servants, artists, machine operators, or secretaries - but where could this have led and of what predictive value could some isolated findings have been?

Either we choose a small sample and investigate it in depth or a large sample investigated selectively. In this dissertation we have attempted both. Using the work of other investigators the author has sought to increase his sample substantially and also to broaden the scope and validity of the enquiry. Moreover, by arranging empirically validated findings of other investigators into new combinations he contrives a new outlook on the field and its attendant problems.

We alternate progressively between hypothesis and fact and we reach the stage where the content of a hypothesis approaches the status of fact and the substance of fact approximates the status of hypothesis. Throughout, the emphasis is future oriented and directed toward prediction and practical implementation.

Brown and Ghiselli distinguish between the two term's hypothesis and theory ".... even though they are often used interchangeably. A hypothesis and a theory are alike in that they both are conceptual in nature and have as their primary function the explanation of natural events. The difference between the two concerns the extent or complexity of the area encompassed. Hypotheses are more restricted in their coverage. Theories are more general in nature. A theory may contain several hypotheses. When there are several inter-related areas of phenomena to be explained, more than one hypothesis may be necessary to account for all of the varied phenomena. The several hypotheses are usually mutually compatible and supplementary and can be fitted together into a more inclusive and comprehensive conceptual scheme of a theory."*

Entrepreneurship and Corporate Strategy is an almost all-embracing title and advisedly so, for the author has deliberately set out to provide a broad and far reaching examination of the field, the tasks of the entrepreneur and important areas for the practitioner's consideration. Brown and Ghiselli refer to a

*Brown Clarence W, and Ghiselli Edwin E. Scientific Method in Psychology, New York. McGraw Hill, 1955.

scientific law as differing from both hypothesis and theory ".... in that it has received sufficient verification and confirmation in fact to be accepted with little question. Like hypothesis and theory, law retains the explanatory function. In backward reference, it is used as a means of accounting for the occurrence of phenomena. In forward reference it is used as a means of predicting what is to occur." If we accept a continuum from hypothesis to law and we accept moreover that further work by others may overturn a generally accepted explanation of a phenomenon, then it would be presumptuous and inaccurate to describe this dissertation as anything other than a theory as conceived above.

Seen academically, the test of a discursive - as opposed to an empirical - study will devolve around whether it is a contribution to knowledge. We suggest that Entrepreneurship and Corporate Strategy constitutes - in the present state of development in these two fields - a theory and a contribution to knowledge. Seldom can any single work provide a comprehensive answer to all aspects of the problem areas under review, but surely this must be the implied intention of any serious author. This is an ambitious dissertation in that it seeks to relate corporate strategy to entrepreneurship, theory with practice, design with implementation. It may be summed up simply as:

1. What it is.
2. How to do it.

Throughout, the author has sought valid generalisations which can reasonably be drawn from a variety of proven or generally accepted hypotheses. These hypotheses have been integrated into new configurations which, to the author's knowledge, have not been so arranged in the literature up to now. Each chapter combines anecdote with analysis, theory with practice so as to provide a basis for both criticism and implementation. Before discussing the chapters in sequence we can usefully return to Brown and Ghiselli again for their comments on the criteria used in evaluating a research project for these criteria have been implicit throughout the author's investigations. "Any research study should be evaluated in terms of the number of significant questions it raises as well as the number of problems that it solves."

CONTENT AND ORIENTATION

1. WHAT IT IS:

This dissertation is orientated towards the chief executive who in Chapter I is conceived as the nucleus, the power-base of the organisation. We discuss the "Harvard approach" of the

"all-seeing, all-knowing, chief executive", with other alternatives and we suggest that, given the requirement for a strategic decision making capability, this function is performed by the Board of Directors, the Entrepreneur, the Chief Executive. Thus the chief executive is seen as a notional source of decision-making in an organisation and we are able to use interchangeably the terms entrepreneur, chief executive, directors.

We suggested above that the major task of the entrepreneur was the design and implementation of corporate strategy and thus it is appropriate that we survey the field. We identify Corporate Strategy as deriving from the broader study of Business Policy and we outline both the scope and the nature of Policy Research.

If we accept that the entrepreneur is identified in terms of both task and psychological make-up then in Chapter I we describe what we term "The Chief Executive's World" and in Chapters VI and VII we provide an Entrepreneurial Perspective on Economics, for surely an understanding of economics is a mandatory requirement for successful entrepreneurship. So too is the design of an organisation structure and an understanding of men and their motivations. These are discussed in Chapters VIII and IX; but let us revert to sequence.

In Chapter II we trace the development of entrepreneurship as a phenomenon and as a Field of Enquiry and we differentiate between economic, sociological and psychological approaches to the study of entrepreneurship. History conceived as a changing social process is important in the rise of the entrepreneur, for where once he was noble, he later appears as merchant, creator, villain and a respectable member of an emergent middle class.

Who are the entrepreneurs? Against the background of a changing social process different individuals emerge as entrepreneurs and in Chapter III we seek to refine the concept of entrepreneurship. If we accept that the tasks of the entrepreneur are those of the chief executive as they relate to corporate strategy then we must seek to integrate the concept of chief executive with that of entrepreneur, but at the same time we must distinguish between them. In order to draw the distinction and yet retain the integrity of our contention that the tasks are the same, we move to the social psychological arena. We introduce the concept of reference groups and of social mobility and we consider the opportunities which different individuals have had for education and advancement up the social hierarchy. Studies in America are quoted to show a difference between the backgrounds and opportunities of entrepreneurs seen as "business hierarchs, their backgrounds and their successes.

Thus we distinguish between the Independent entrepreneur who has made his own way and exerts effective control over his own company by virtue of the shares that he owns - we distinguish him from the Modal entrepreneur who has risen in the corporate hierarchy and occupies a position as chief executive. Indeed the tasks of both the Independent and Modal entrepreneurs are the same, but what of their aspirations, their background, their social standing? It is not enough merely to distinguish between Independent and Modal entrepreneurs for 100% of a small company may be worth considerably less than a small shareholding in a substantial enterprise. If we accept net worth as one criterion we must distinguish between types of Independent entrepreneur.

We consider research findings in both the United Kingdom and the United States and we suggest that it is an illusion and an inaccuracy to equate "Entrepreneurship" with Small Business. To be sure the majority of small businesses in the United Kingdom are run by entrepreneurs but our orientation is toward those corporations which have the capacity in time to develop into substantial enterprises. Thus we distinguish between the Ubiquitous entrepreneur - the individual running a small business small mindedly - and the Elite entrepreneur the individual whose social standing and sociological trappings compare with the chief executive of a substantial organisation. We return again to an economic approach to entrepreneurship and we contrast the views of Schumpeter with those of Kirzner. We distinguish between Schumpeter's concept of creative destruction and Kirzner's view of entrepreneurship as an alertness to an already existing disequilibrium. We conclude Chapter III with a definition of the Independent entrepreneur and in Chapter IV we proceed from the Economic to the Psychological. We consider life experience, background and aspiration as important aspects of the entrepreneur's psychological make-up.

A consideration of relevant literature on the subject of entrepreneurship confirms our distinction between the Ubiquitous and the Elite entrepreneur. In terms of life experience and social and corporate capabilities, we distinguish between the Modal entrepreneur - the man who has climbed the corporate hierarchy - and the Elite entrepreneur who has sought to make his way and his mark up the world by "doing his own thing". Life experience, background and varying competences confirm our distinction at the psychological level between the Modal the Ubiquitous, and the Elite entrepreneur. Research evidence brought together for the first time in the literature in this form, leads us to consider a number of psychological variables and enables us, by putting together the results of various studies, to take those studies further in application than their investigators did. Thus we correlate Achievement with profitability and we consider an entrepreneurial profile

incorporating such variables as risk taking, power motivation, n Affiliation, the determining event, self awareness and affective dissociation. These latter three variables are aspects of a quality we term Exteroception and we conclude Chapter IV with an "entrepreneurial test" which compares the Modal entrepreneur with his Elite and Ubiquitous counterparts. These in turn are compared with the "average" middle manager whose rise up the corporate hierarchy is dependent more on age than achievement.

Chapter V concludes the section on entrepreneurship the phenomenon and the nature of the individual. We identify Mr. John Bentley as an Elite entrepreneur and we suggest that on the basis of the preceding three chapters, the John Bentley case is a tangible illustration of what we have been driving at throughout the dissertation so far. Bentley matches the criteria which we set up in Chapter III and which define the Elite entrepreneur. In terms of his life experience, his attitude of mind and his social and psychological aspirations, John Bentley emerges as an Elite entrepreneur in accordance with the criteria set down in Chapters III and IV. Bentley provides the link between entrepreneurship and corporate strategy, for an examination of strategic decision-making at Barclay Securities Ltd. quoted on the London Stock Exchange and controlled by Bentley identifies the entrepreneur not only by his psychological make-up but also by the strategic decision-making which he undertakes in his role as chief executive.

2. HOW TO DO IT:

In Chapters VI and VII we conceive of the entrepreneur as a straw in the economic wind. National economic policies appropriately considered in the process of corporate strategy can determine either success or survival. A lack of understanding of economics, a failure to anticipate and appreciate the difference between positive economic and normative economics may spell disaster for the entrepreneur and his enterprise. Thus we move back to the concept of the entrepreneur as chief executive for the tasks are similar, and we move from personality to role. We return to the link between Entrepreneurship and Corporate Strategy.

Chapter VI provides an Entrepreneurial Perspective on Economics. It creates a framework against which the entrepreneur can view his enterprise and its financial strategies in particular, for Government exerts considerable influence over the entrepreneur through Fiscal and Monetary policies. We distinguish between positive economics - the way the economic machine works - as compared with normative economics - the way economic theory would like it to work. The entrepreneur who understands the elements of economic policy conducted nationally and internationally has a competitive edge on his rivals and does not entirely believe politicians. He is encouraged to read between the lines of political rhetoric

and determine for himself the limits and constraints placed upon Government. Chapter VI thus constitutes an overview of economic history; we seek to integrate and understand rather than to dispute, but if Chapter VI is an illustration of academic disagreement, Chapter VII is its possible consequence.

The entrepreneur seen as chief executive is the target for much of the latter half of the dissertation. The explanation for this lies partly in the author's experience as an Elite entrepreneur, a straw in the economic wind and the whole dissertation is personal to the extent that the author in his career to date was unable to find a work published or unpublished which, on its own, contained sufficient academic underpinnings to be either persuasive or respectable, or which contained enough guidelines of substance to form the basis for strategic decision-making.

Where Chapter VI provides the academic underpinnings, Chapter VII suggests that a foundation course in economics - contained in Chapter VI - supplemented by the perusal of responsible newspapers can lead to the identification of certain economic indicators of crucial relevance to corporate strategy.

Chapter VII is dramatically entitled "The Depression of 1976". We do not predict a world depression but unless something changes, unless politicians pull themselves together, then as at September, 1974 we were headed for international economic catastrophe the like of which has not been seen since the 1930s. We identify economic indicators of relevance to the entrepreneur as:

1. Unemployment
2. Balance of Trade
3. The Next Election
4. Events in America
5. The Stockmarkets in Wall Street and London
6. The Money Supply

Events have indeed changed since Chapter VII was written, but they do not alter the validity or the importance of the economic variables which we identified in that chapter. President Ford of the United States will be seeking re-election in 1976 and in early 1975 he introduced measures calculated to assist him in his campaign. To this extent, the author misjudged him, for he was identified in Chapter VII as a "fiscal conservative",

identified as the single most powerful force, apart from the Oil Producing and Exporting Countries in a scenario leading to a world depression. The scenario, like those described in Chapter I, is painted with a broad brush and with big assumptions. President Ford's economic strategies may yet have to be revised and in consequence, may yet lead either to the beginning of the end of the American economic empire or constitute a temporary hiccup in international trade and entrepreneurial survival. Stockmarket euphoria of early 1975 may yet prove to be just that for as at early March, the latest possible date for this foreword, the only change in the international economic scenario contained in Chapter VII is an act of faith on the part of the international stockbroking and share dealing community. Balance of trade in the United States and in Britain is in a parlous state. Only confidence has changed, but then, as we point out in Chapter VI, economics is a matter of confidence.

Chapter VIII is entitled "Management by Self Awareness" and it is linked with the concept of exteroception developed in Chapter IV; it is important as a contributing factor in corporate strategy and hence relates to Chapter I; it is an attribute of the Elite entrepreneur and as such it relates to Chapter IV but it exists in its own right as an examination of men and their motivations, the entrepreneur and his perceptions. In Chapter VIII we consider the entrepreneur as leader, we look at various management styles and we examine the nature and degree of group influence on the individual. We suggest that the role which industrial psychologists have created for the entrepreneur may be at variance with his personality and his attributes and we distinguish between different management styles and orientations. The entrepreneur takes a view on men and their motivations and he must include himself. Where Chapter VIII provides some academic background to motivation, Chapter IX develops motivation from the individual to the organisation level.

What is the purpose of an organisation structure? Our answer is that the rationale for organisation structure lies ultimately in control. A structure is appropriate only to the extent that it enables the entrepreneur to control what he surveys, to manipulate it, to direct it and to give it a sense of purpose.

Chapter IX focuses on Organisation Structure and we suggest that organisation structure exists for a purpose, namely that of control and communication. We distinguish between types of organisation and we again draw closer to Chapter I in emphasising the inter-relationships between personal values and corporate strategy, between the motivation and the aspirations of the chief executive and the organisation structure which he directs and designs. We distinguish between Bureaucratic, Charismatic, Organic, Traditional and Mechanistic organisation structures and we evaluate them and score them on the basis of a number of

criteria discussed and identified in this chapter. We conclude the chapter with a description of the Incredible Electrical Conspiracy in which forty-five defendants were indicted under the Sherman Act in the United States, accused of having conspired to fix prices and divide markets on electrical sales valued at \$1.75 thousand million per annum for a number of years. We suggest that at the root of this conspiracy is a chief executive unnamed and perhaps not able to be indicted for the best of reasons. We suggest however that organisation structure and its relation to control and to the overall concept and implementation of corporate strategy may be seen as a determining factor in the success, survival or demise of the corporation.

Chapter X is a case entitled "The Lonrho Affair" which draws together the concepts and the issues discussed in the preceding chapters I - IX. In Lonrho we see the chief executive, Mr. R.W. Rowland, an Elite entrepreneur (Chapters II, III and IV) manifestly successful in his corporate strategy (Chapter I), heedless of the advice of his Board and determined in his attempts to control a substantial enterprise, (Chapters IV and IX). Rowland is possessed of a degree of exteroception (Chapter IV) a competence at corporate strategy incorporating not only an understanding of his environment with his capacity for exteroception but also an understanding of men, their motivations and their frailties, (Chapters I, IV, VIII and IX). Rowland is an Elite entrepreneur running a substantial corporation. The actions and the statements of Mr. Rowland, the design and the implementation of Lonrho's corporate strategy, the doubling of its share price and the link between Slater Walker and Lonrho which boosted the share price of both organisations in late February 1975 these events serve to illustrate not only the generalised validity of the dissertation, but also the vulnerability, the humanness of their chief executives, and the link between Entrepreneurship and Corporate Strategy.

CHAPTER I
CORPORATE STRATEGY

When Alice met the Cheshire Cat in Wonderland she asked it which way she ought to go

"That depends a good deal on where you want to get to," said the Cat.

"I don't much care where - " said Alice

"Then it doesn't matter which way you go," said the Cat.

" - So long as I get somewhere," Alice added as an explanation.

"Oh, you're sure to do that," said the Cat, "if you only walk long enough."

Alice in Wonderland
Lewis Carroll

The historical use of the word strategy is closely identified with military activities. Corporate strategy no less than military strategy may be offensive or defensive; it may be short-term or long-term, but if it is not always directed at conquest at least it is to do with survival. Strategy is future oriented and purposive; it requires planning and decision making under a condition of partial ignorance. Goals must be set, policies designed and resources must be deployed and from a range of possible alternatives, one must be selected.

During recent years terms such as business policy, corporate strategy and corporate planning have become almost synonymous and a mention of any of these frequently leads to an involvement in the semantic debate as to the difference between them. The debate is avoided with difficulty, but if we are clear that our concern with corporate strategy is a concern with the decisions taken by those in power, that those decisions directly influence the survival and growth of the corporation over time and that they are to do with such variables as men, money, machines and markets, then the semantic debate is properly a matter of indifference to us.

Strategic decisions are significant decisions; if they are right the corporation may look forward to a measure of prosperity, but only for as long as a situation correctly anticipated, stays the same. Strategic decisions have a time horizon which may be measured in days or in years, they are taken on the basis of available information and chosen from a number of alternatives.

Strategy may fail either because it is ill-conceived or because it is not properly implemented. Thus strategic decisions are action decisions and they relate to some statement of what the company will be at some particular moment in time. They may be apparently to do with a particular functional area, marketing, finance or manufacturing, but the end result must be such as to attain a total balance. A successful advertising campaign unsupported by a manufacturing capacity, a low cost manufacturing operation without sufficient markets, substantial expansion without an adequate financial base, these are examples of strategic decisions, which, no matter how well conceived on their own are ineffectual in total.

Drucker (5) observes that the business enterprise is an economic institution and economic performance is both the reason and the justification for its existence. To take any decision is to take upon oneself the responsibility for its consequence and to the extent that the consequence is unknown at the time of decision, this involves risk. The economic activity of a business enterprise is thus an act of economic risk taking, and this, Drucker regards as entrepreneurship. Although he is using the term entrepreneurship in a broad sense (we shall discuss it in greater detail in later chapters) it is useful to introduce the concept here. Just as there are specific tasks of the entrepreneur, so Drucker sees a specific process of entrepreneurship which he refers to as strategic decision-making. If we accept that there is within any corporation, a locus for decision-making, a source of power, whether absolute or fragmented, which can be identified as the source of a strategic decision, it matters not whether we refer to that locus as the chief executive, the entrepreneur, or the Board of Directors. As we shall be discussing in Chapter IV, the rise of the mammoth and multi-national in recent years has led to an increasing sophistication in organisation and control. Nevertheless strategic decisions are taken and they can be traced back to a source of power capable of authorising and directing implementation. It is this locus of power that we shall refer to interchangeably as the chief executive, the entrepreneur, the executive team.

THE ORIGINS OF BUSINESS POLICY

Corporate strategy has developed from business policy and it is the Harvard Business School that has both pioneered the field of business policy and been, in recent years, the focus for a degree of controversy over its approach. An article in the late sixties (12) expressed dissatisfaction with "an all-seeing, all-knowing, all-comprehending person - the chief executive - interposed between the organisation and its environment." This, said the authors, was the orientation of Harvard and Carnegie and they favoured the approach of an outside observer asking "What is going on in this company?" and "What needs to be done now for the future?" The criticism is justified if unhelpful. Even if we accept that the role of the founder/entrepreneur is diminishing in importance it is useful to conceive of the corporation as guided by a chief executive. The Harvard Business School is neither unaware of

this type of criticism nor is it wholly guilty as charged. If the concept of the chief executive is imperfect, it is difficult to find entirely satisfactory substitutes. Perhaps the chief executive seen as a locus for decision making will suffice.

The Business Policy course was started at Harvard Business School in 1911 - 1912. Shaw, the course founder, brought to Harvard a number of outside lecturers who presented, as a basis for discussion, the problems which they were facing in their careers in the external world. These verbal presentations were the first "cases" used there and they marked one of the first attempts to bring practical business situations to the classroom. Then as now the "Harvard Approach" is concerned with the job of the general manager. It is integrative in that it requires the student to pull together the expertise he acquires in other functional areas. Viewing the concept of corporate strategy as a general approach "...the most valid literature for our purpose is not that of general statements, but case studies." (19)

POLICY RESEARCH AND THE ENVIRONMENT

If the concept of policy and its concern with strategy has not changed in orientation, at least it has changed in breadth. Policy research is concerned with long-term trends on the technological frontiers of knowledge, it has become concerned with economics, politics, the possibilities and desirabilities of war and peace; with social needs and their sociological consequences. From a consideration of the dynamic interplay between the corporation and its environment, policy research has broadened to consider not only the immediate environment which is of immediate concern to the corporation, but has considered the general environment, nationally and internationally, both now and in the future.

Policy research seeks to clarify the objectives of a nation, corporation or government body. It is to do with the alternative means whereby these objectives may be attained and it considers not only the implications of as many variables as possible in the situation, it also concerns itself with the interaction of different variables.

It is no coincidence that an aspect of policy research in the private sector is that of environmental analysis, whereas United States military terminology refers to environmental analysis as "threat analysis". Military capability requirements are drawn up in response to the systematic analysis of political developments in various parts of the world; contingency plans and strategic alternatives are devised and if either predictions concerning the source of conflict for a third world war are proved unfounded or if a variable in the situation changes so as to alter all other variables, then the research is re-started using these different assumptions. Policy research has to do with the future environment of corporate and national life and by scanning the present environment the researcher hopes to draw some inferences which will assist him in his predictive study. The Hudson Institute, The Rand Corporation in America, the Committee on the Next

Thirty Years in England, The Mankind 2,000 Project of Vienna and French Futuribles Project put together some sort of picture of the world we will live in tomorrow. Thus the Lockheed Aircraft Corporation's "Mirage" project is designed to forecast military requirements to 1980. The future environment is of some concern, not only to politicians and social commentators, but to corporations trading for profit. The communications industry, the office equipment industry, the computer industry, aerospace and electronics, to name only a few, are involved in the world we will live in tomorrow, not necessarily because they are socially concerned, but because, by the correct anticipation of a trend and the appropriate commercial response, they might strike it rich.

SOME TOOLS OF POLICY RESEARCH

The chief executive may properly be more concerned with a change in economic climate, a rise and fall in Bank Rate, share prices, or employment than with a new space probe, civil rights organisation or Middle East developments. Nonetheless, a broad appreciation of the type of research being undertaken and the tools used therein, gives him the opportunity of calling up information which he may consider relevant or of using the techniques of policy research to his own advantage.

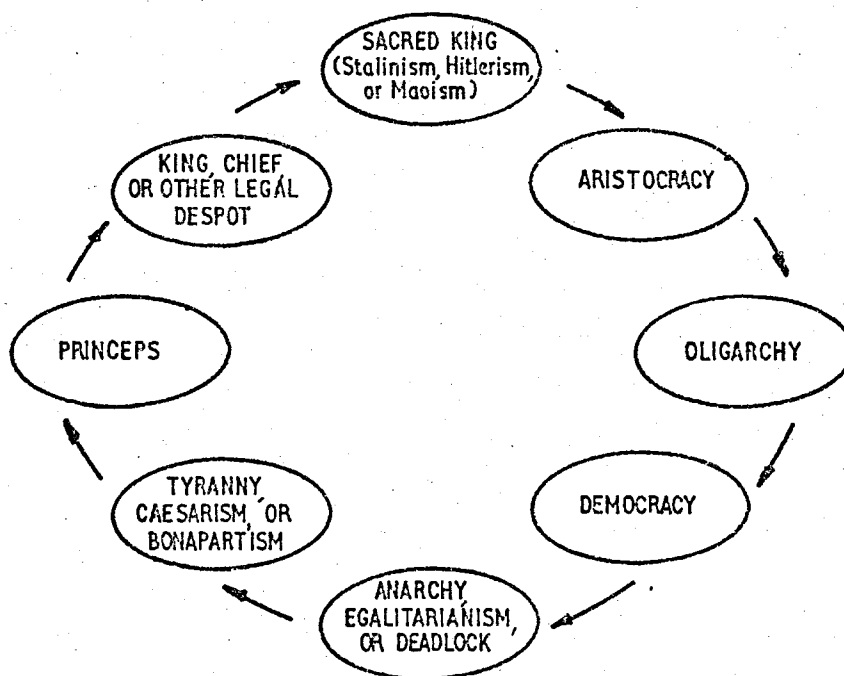
Empirical Research: Analogues and Cycles:

One of the fundamental tools is that of empirical research and analysis. Concentrating on macro-variables such as population trends, gross national product, literacy, energy sources, investigators are able to make some contingent statement about the future. Macro-variables tend to change relatively smoothly over time and trends can be extrapolated into the future with some measure of predictive validity.

Our future is determined by historical events both present and past. It is said that those who ignore the lessons of history may be condemned to live them again and so a consideration of the past, whether by means of historical analogues or other concepts and experiences taken from history, may hold lessons for our future. In the area of macro-history, various writers claim the existence of cyclical patterns. As one form of government tends to decay so gradually it evolves into another form. Aristotle, Gibbon and Toynbee have written about these cyclical patterns and an illustration from Kahn and Wiener gives some idea as to the usefulness of this approach.

FIGURE 1 - 1

A MODIFIED GREEK THEORY OF POLITICAL CYCLES



Source: Kahn, Herman and Wiener, Anthony J., *The Year 2000: A Framework for Speculation* (New York: MacMillan, 1967).

The Hudson Institute drew a comparison between the periods 1901 to 1913 and 1953 to 1964, referring to them both as "la belle époque". During these periods, according to this historical analogue, relative peace was accompanied by rapid economic growth, a considerable expansion of world trade, investment and travel. Economic developments such as these were paralleled by the emergence of social phenomena such as prohibition in the earlier part of this century in America and in the early 1960s, in the form of Civil Rights movements, discussions on Arms limitation, a dying colonialism and an ascendent and assertive nationalism.

These trends may be seen either as threats or opportunities on the corporate periphery, Civil Rights, Black Power, Flower Power and Vietnam are but a few of the events in the general environment which could have had some bearing on the total corporate effort. In the analysis of trends however, it is dangerous to regard as

causative that which is merely a correlate, but the alert entrepreneur, during the 60s and early 70s, the entrepreneur who read signs aright can have done himself no harm. Could there be some apparently improbable train of events which, foreseen or exploited could have related the Beatles to boutiques, Bob Dylan to Civil Rights and political change, cannabis to "culture"? Whether cause or correlate there can be no question that incidents and individuals given prominence by the mass media exerted some influence on the political train of events. Perhaps it was La Belle Epoque that gave economic and political momentum to the "permissive society"; perhaps not, but what will replace this already changing permissive society?

Scenarios; and the Oracle at Delphi:

A notable contributor to the technique of scenarios is Herman Kahn (10). The objective in a scenario is that by so constructing a sequence of events attention may be focused on some causal event amid a stream of others - an event which in a scenario may be seen as significant. Essentially scenarios are an "....antidote for concentrating exclusively on the forests and ignoring the trees; analysts who limit themselves to abstract generalisations may easily overlook crucial details and dynamics" (10)

Scenarios rely on the imagination and the intellect of the men who create them. The researchers seek men who, while experts in their chosen field, have a broad view on events and are unafraid to examine the pattern of cause and consequence no matter how improbable the connection may seem at first. Other forms of structured man - man interactions follow a similar pattern of inquiry in that they attempt to be entirely open minded about situations with personal prejudices, preconceptions and value judgements given as little prominence as possible.

A scenario may explore the chain of international events followed by a nuclear accident or it may consider the steps necessary for a Third World War. The current energy crisis, the behaviour of Middle Eastern and Western diplomats concerning the price and availability of a strategic resource, the Arab-Israeli situation and the well-travelled American Secretary of State have no doubt led to a number of scenarios being rewritten and revised.

The Delphi technique developed by the Rand Corporation and associated with Helmer (8) eliminates face to face interaction between group members. They may be asked; "in what year, if ever, do you expect electric automobiles to capture 10% of the United States market?" Questionnaires are analysed and recirculated to correspondents who are then invited to revise their estimates giving reasons as to why the data was abstracted from the the first questionnaire. The Delphi method is an iterative method; the same question is examined, re-examined, the assumption being that the most persuasive arguments will carry the day, so that a consensus emerges.

Man-machine interactions, where the man does the thinking and the machine does the work may also be used to some effect. Perhaps the best known of these is Jay Forrester's (6) model on the dynamics of the world system prepared for the "Club of Rome". This involves complex mathematical model-building and the consequent simulations may be used to forecast technological change.

However, the important point for our purposes is, that the inputs are provided by men and moreover these techniques represent a future-oriented attitude of mind. Free-wheeling speculation is encouraged, ideas proliferate, many are discarded but many remain as valid connecting links between events of the present and events of the future. It is not necessary for the chief executive to become involved - or even to entirely believe the value of these techniques, but he may derive some encouragement from the proposition that while the techniques may be sophisticated, it is the attitude of mind that counts.

Practical Reality - What They did at TRW:

There is some similarity between the Delphi technique and a project called the Technological Probe undertaken by TRW Incorporated and outlined by Ramo, Vice Chairman. (14) Approximately 150 individuals were asked to list the major technological change that they perceived for the future, and to consider their company's position in relation to some major technological event. They were required to give some idea as to when the events might happen and society's reaction to it. Results were circulated to the participants, refined, revised and discussed. "We expect to use the data bank of the technological probe as a check list on our plans and goals for events where the combination of potential impact and timing suggests special attention, we describe the consequences both good and bad. We then create a strategy to maximise the potential opportunities and minimise the conceivable impairments to our future". (14) Ramo records, with justifiable immodesty that his corporation made a multi-million dollar commitment to future developments concerning the American space programme before the launch of the first Soviet sputnik. TRW had assessed as highly probable a large national space programme deriving from the large inter-continental ballistic missile programme as a technological extrapolation with corollary national security, prestige and economic advantages." (My italics)

If technological forecasting is to mean anything, if it is to lead to action on the part of the corporation and profits resulting from strategic decisions, the consequence is substantial research and development expenditure. Not many companies have the vast resources which may be required for R. & D. in the space industry, but this of itself does not mean that they cannot compete: nor indeed does the necessity for large investments with high risk and long time horizons protect established companies from new entrants. Superior strategies can compensate for relative disadvantages; but let us define our terms.

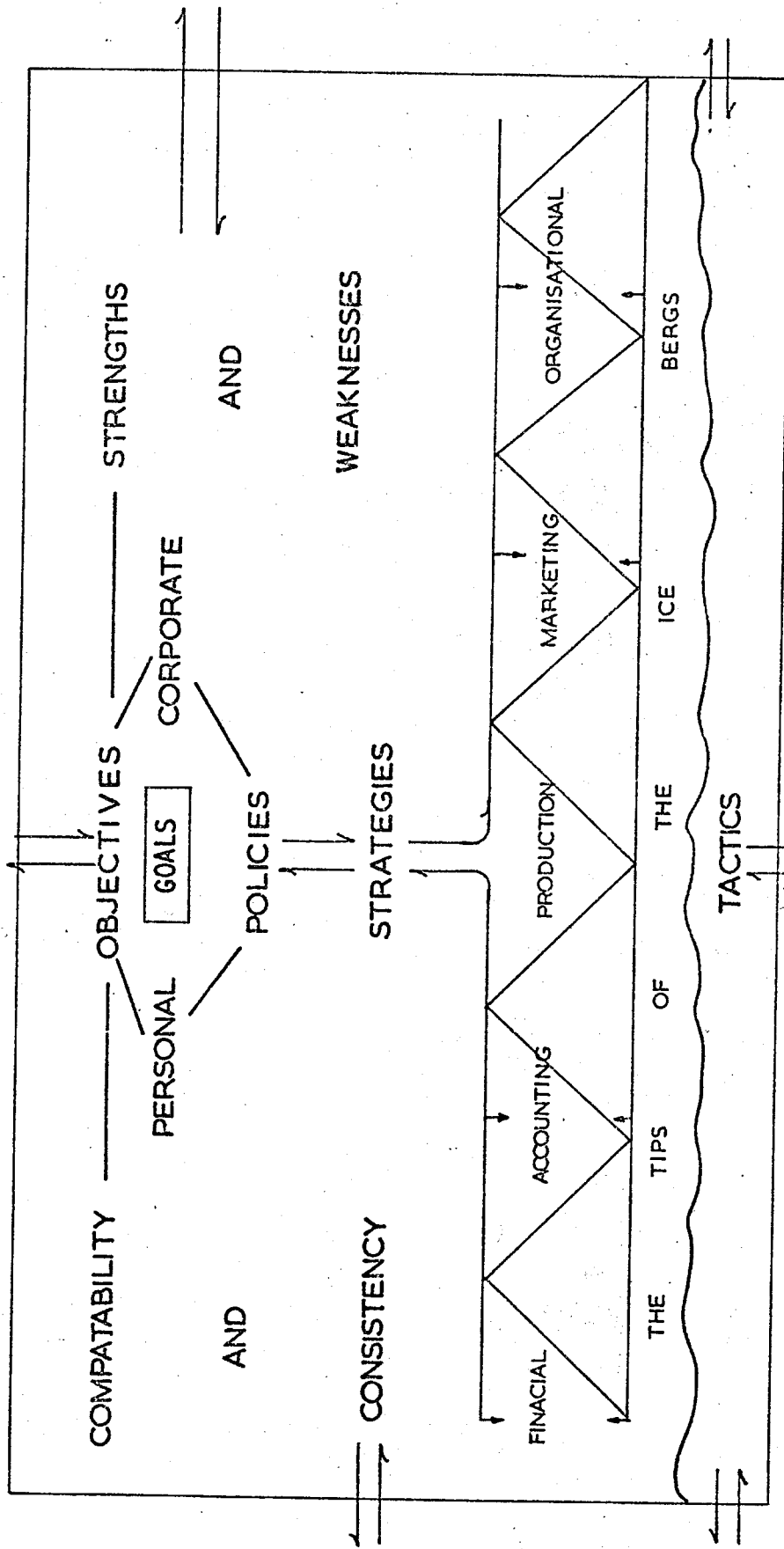
THE CHIEF EXECUTIVE'S WORLD

Figure 1 - 2 overleaf represents an organic entity, the corporation, which we can liken to a cell in the body. It has a nucleus - a source of power. It exists in an environment of other cells. It requires nutrition and it requires a means of relating to the environment which surrounds it. Its objective may be growth, but its priority is survival. In the last paragraph we have used words such as objectives, strategies, policies, in an apparently random fashion; now we should clarify some terms.

THE CHIEF EXECUTIVE'S WORLD

MARKETING — GENERAL ENVIRONMENT — TECHNOLOGICAL INNOVATION

— INDUSTRY CHARACTERISTICS — IMMEDIATE ENVIRONMENT — COMPETITION — LEGAL



N A T I O N A L

I N T E R N A T I O N A L

Objectives

Where are we going? This is perhaps the most important question for the chief executive to ask himself for from this question flow numerous others. How do we decide where we are going? Is it on the basis of what the chief executive wants, or is it on the basis of what the company can do? The corporation will have at least one limiting resource; it may be money, it may be men, manufacturing space or market share. Immediately therefore, the objective must be related to the possibilities of attaining it and these possibilities may be affected or determined by the competitive situation, world trade, legal, fiscal, or any of a number of constraints either inside or outside the company.

The chief executive must examine not only corporate objectives but personal objectives. What does he want out of the game; is it fame, is it security, political advantage or personal satisfaction and are his personal objectives consistent with those he has set down for the company? Are they long term or short term, consistent, realistic? Ansoff (2) opens a discussion on objectives with a delightful illustration from the diary of a lady quoted in the New Yorker:

Long-range goals:

1. Health - more leisure
2. Money
3. Write book - (play?) Fame /////??
4. Visit India

Immediate:

Pick-up pattern at Hilda's

Change faucets - call plumber (who?)

Try Yoghurt??

An objective is a specific statement relating to the condition of the corporation at some point in time. It must be stated specifically and in relation to a time horizon and the environment and its realism can only be judged by the chief executive's reading of the environment and his assessment of the organisation's capabilities and resources. Objectives expressed in terms of the "biggest", "the best", are neither specific nor particularly helpful.

Policies

These are long-term action decisions which result from the objective. They must be consistent with the objectives and compatible with the corporate resources. An objective expressed in 1910 to hold the highest market share of any motor manufacturer in the United States by 1930 (history is safer than forecasting) is specific. It's consequence, the policies, develop the objective into a long-term action decision expressed as:

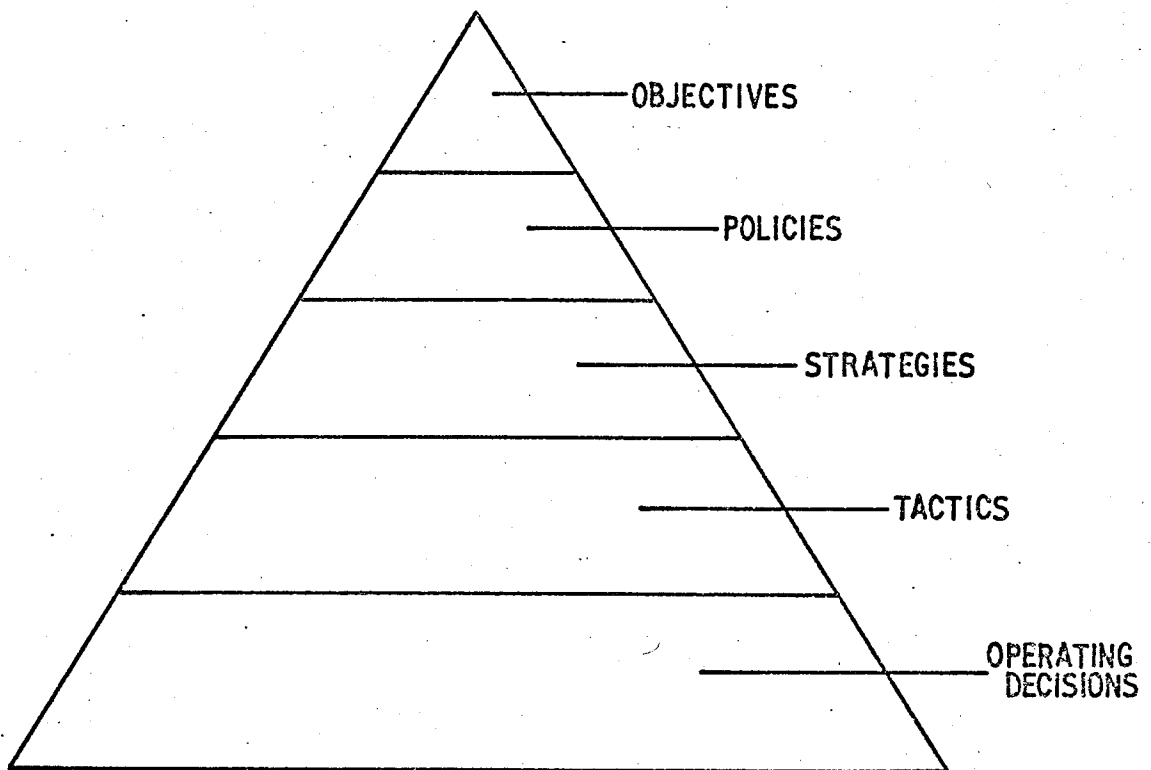
1. Develop by vertical integration and internal growth (Ford)
2. Develop by acquisition (General Motors)
3. Sub-contract as much as possible (Several others)

Each of these three policies is to a large extent, mutually exclusive and yet each of them relates to the objective and is a realistic means of attaining it. The choice is up to the chief executive.

Strategies

Strategies are expressed as a coherent and inter-related set of managerial guidelines. We can conceive the order of priorities as a pyramid or as an iceberg shown diagrammatically below. Only the tip may be showing, but there is a great deal beneath it and the action at the top determines what goes on below.

FIGURE 1 - 3
THE STRATEGIC PYRAMID



Strategy, may apparently be concerned with one functional area. Thus we may speak of a marketing strategy which may be innovative, imitative or derivative. We may consider a Financial strategy - whether growth is to be by means of retaining earnings and not paying dividends, or whether the company should be quoted on a stock market; a dividend policy (strategy?) may be adopted and an attempt made to maintain the share price at a high price earnings ratio so as to use corporate paper to finance acquisitions. We may speak of a manufacturing strategy - high volume providing economies of scale; or low volume, high quality directed toward a "luxury" market as opposed to a mass market. Strategies must be consistent with one another and in keeping with corporate objectives, policies and competences.

Tactics

As we proceed down our pyramid from objectives down towards the operating decisions, so the distinctions begin to blur. A tactic, as in military terminology may only last for one battle. A strategy is for a broad offensive, policies affect the total effort while realistic objectives appropriately conceived, refined and implemented may win the war.

The Environment

From his central position in Figure 1 - 2 the chief executive must at the same time monitor his environment for threats, scan it for opportunities or developments and relate these to his total corporate effort. Essentially he asks himself:

- (1) Where should the company be headed?
- (2) What is the best way to get there?
- (3) What specific actions must be taken to achieve the objective consistent with the policies, the available resources and the all pervasive effect of events outside the corporation?

This then is a concept of corporate strategy which conceives of the corporation as an organic entity in dynamic equilibrium with its environment; consequently, corporate strategy is an iterative process. An objective once attained is no longer an objective; events may alter the realism of the objective or the means whereby it may be attained. Corporate strategy is a continuous process; objectives, policies, strategies and their implementation require varying competences and abilities but ultimately they require a perspective and an attitude of mind appropriate to the environment.

The mid-1970s is a fortuitous vantage point from which to survey not only the experiences of the past but some dire forebodings concerning the future. We have looked at the importance of the environment and discussed some of the tools of analysis used in policy research. How many of these tools could have forecast not only the advent but the consequences of what has come to be known as the "energy crisis." Models, scenarios and strategies are having to be radically revised in the light of changing events and it is for this reason that we shall in Chapters VI and VII further direct our attention to the impact of the economic environment, an entrepreneur's perspective on economics and some extrapolations based on economic policies, political intentions and Dr. Kissinger,

CORPORATE AND PRODUCT LIFE CYCLES

A product life cycle is a well documented concept in the literature, perhaps because it is so important. To the extent that the life-cycle concept assists in anticipation, it is of value to the chief executive for if it has any basis in reality - then it is possible to use the life cycle concept as a tool in strategic planning.

Research and development expenditures may result in a new product; during the time of exploration manufacturing capacity is built, the market is tested, and in the growth phase, demand increases to a finite limit. The general life cycle concept is illustrated in a diagram used by Ansoff (1) onto which we have superimposed some further strategic variables (Figure 1 - 4). At point A a competitive breakthrough occurs which will in time render our product obsolete. Ansoff proposes a lag response to investment; managers do not respond to the threat to their product in time, they are too slow to change to a new product - market position. So at a time when they should be divesting themselves of the product and its attendant investment, they are in fact trying to stimulate sales which can only decline as the product becomes superceded. We could argue that the entrepreneur alert to environmental changes would not be slow to react to a competitive threat in the form of a new technological advance, but this is too easy. At the personal level it is difficult to adopt an entirely marketing oriented approach and write off the investment and the product. Clearly, in a typical life cycle, saturation must precede decline, but that saturation may be caused either by over capacity born of optimism or product obsolescence.

We have substituted profit for time on the vertical axis, and on the horizontal axis time for demand, but the curve does not change and it still relates to likely events in the market place. We have characterized three types of strategies as innovative, imitative and derivative following one another in a sequence. If we imagine for a moment that we are looking at the life cycle of a product manufactured by a one-product company we can appreciate the crucial relevance of marketing, for it is clear that the company will decline along with the product unless alternative strategies are adopted.

FIGURE 1-4
A TYPICAL LIFE CYCLE

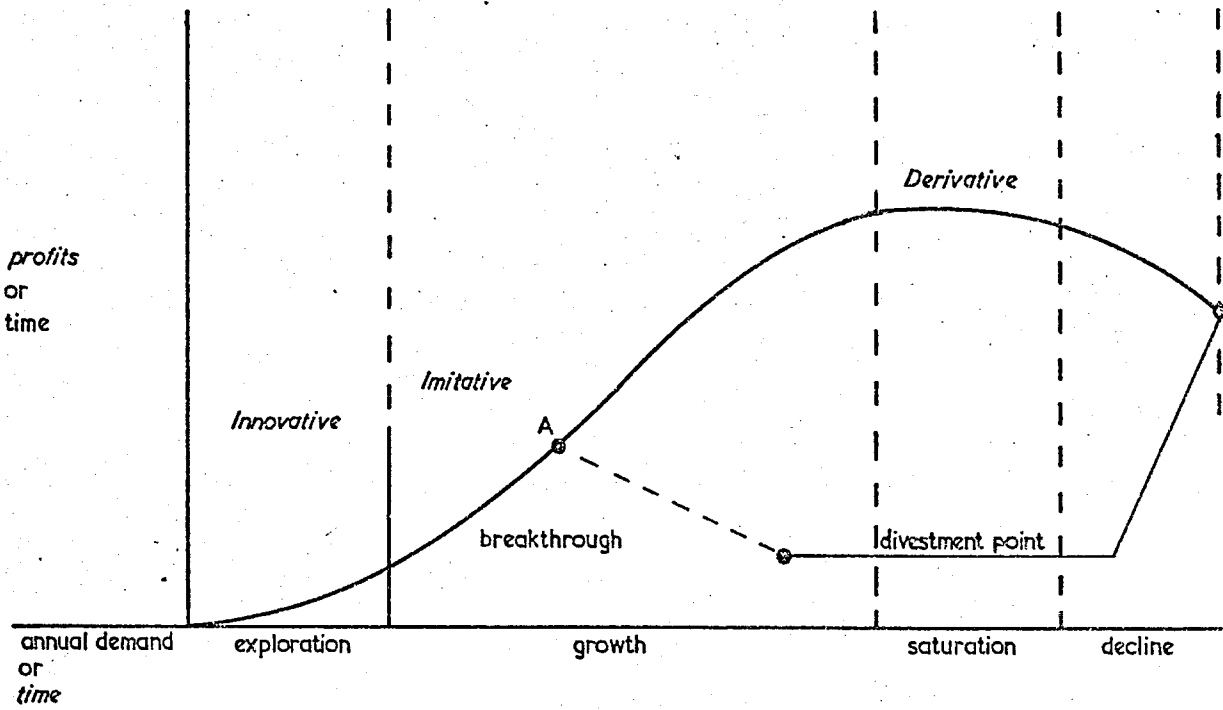
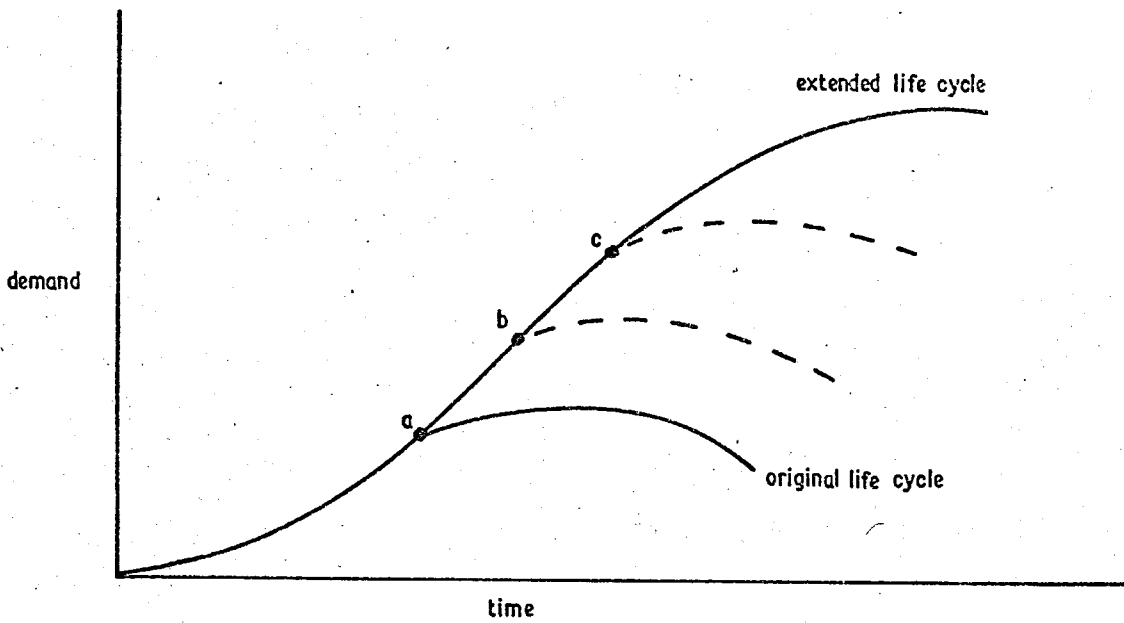


FIGURE 1-5
AN EXTENDED LIFE CYCLE



Innovative strategy is characterised by a strategic change in emphasis from R & D to manufacturing and marketing; hopefully the cash flow will replenish the R & D expenditures, but at this stage the company has put a new product onto the market and promotion is designed to introduce it effectively. Dependent upon the product and its anticipated life, pricing strategy may be designed to make substantial profits in a short time, albeit with a low volume of items. Alternatively, the product may be priced low so as to appeal to a mass market and generate a high volume offtake. The low price may discourage competition and give the company some breathing space. During this time the company hopes to recoup its R & D expenditures and finance the initial promotion designed to create a measure of brand loyalty and innovative leadership. Innovative strategies are no guarantee of longevity; they can only buy time.

Imitative strategies occur as the demand, sales and profits build up. Competition, ever watchful for an opportunity, may hang back, but the competition has likely imitated the product. The packaging may be different, the promotional fanfare may vary but the product is not substantially different in capability or function. Competitive strategies may involve differentiation on the basis of price but in an expanding market with a residue of unsatisfied demand, they are likely to be more outgoing, emphasising some unique product feature, real or invented, and seeking to avoid confrontation on the basis of price.

Derivative strategies occur as demand becomes more nearly saturated and manufacturers find themselves with excess capacity. Price differentiation and generalised paring of margins is undertaken to maintain manufacturing throughput. Promotional expenditures increase and strategies become derivative to the extent that competitors have no new product to offer although products may be updated or modified. Derivative strategies are a means for manufacturers to ride out a period during which the weak will go to the wall, leaving the field to the established leaders in the industry. Derivative strategies are defensive in the main and if the decline is not total, i.e. if there remains a solid residual demand, it is the brand leaders who are left to fight it out as, for example they are now doing in the detergent market.

As we have superimposed a vertical axis reflecting either profitability or sales for the "typical" life cycle so we can do the same with Figure 1 - 5 for the extended life cycle. The manufacturer extends his product's life by derivative strategies in what is sometimes a desperate attempt to maintain volume and utilise excess capacity. The pickings are not as rich as in the innovative or imitative phases, but the margins, if slimmer, are still profitable. When they cease to be so the product is withdrawn from the market. Corporate strategy is an attitude of mind and one aspect of it is the realisation that product obsolescence is a commercial inevitability; it is only the time horizon that is variable. But if survival is only a question of time, longevity is a matter of timing.

However, a product may be kept alive if not by product innovation then by marketing innovation, finding new uses for the product, new demands and new applications. A hair shampoo which has attained a measure of brand loyalty may have its range extended to different formulations and packages catering for normal hair, extra-dry, extra-greasy and variations on this theme. Johnson's Baby Powder, if it is good enough for baby, must be good enough for you. Treat yourself like a baby and extend the life cycle and the application of Johnson's Baby Powder. What holds for super-market products applies in principle for aerospace as for aerosols.

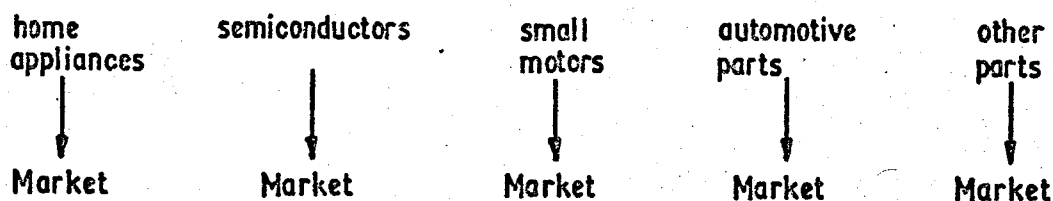
THE CORPORATE LIFE CYCLE

Were the product life cycle as we have described it to relate to the only product of a one product company then either the corporation would disappear along with its product, or it would become locked into a competitive situation by virtue of its past success. If the latter, the entrepreneur will try to diversify either into new products or into a new industry and corporate growth will make demands upon the organisation structure and its relationship with the competitive environment. Christenson and Scott suggest that "operating enterprises can "....be arrayed along a spectrum running from simple to very complex forms of organisation and that a given firm tends to move from simple to more complex forms as it grows in number of products, market coverage, and overall size." (3)

Thus a Stage I company is associated with one man management. Stage II sees the development of functional parts such as sales, finance and manufacturing, while a stage III firm is defined as having "multiple operating units where the units could buy and sell and otherwise act in the market place." (3) A vertically integrated company which mines its own ore and produces its own steel has a market at the end of a chain of events; there is one product and the relation with the market will be different to that where the company is divisionalised along product lines represented below (Figure 1 - 6) as what may be characterised as a stage IV firm.

FIGURE 1 - 6

A TYPICAL STAGE IV FIRM



Source: Berg, Norman A. Strategy Planning in Conglomerate Companies. Harvard Business Review May-June 1965

The divisions will be relatively more autonomous and have greater freedom to react to their divisional market. Although overall control is exercised from the chief executive's office, the relationship between headquarters and the divisions is more remote. Decentralised profit responsibility may be an appropriate means of exercising control for now it is not possible for the chief executive to adequately monitor all changes in all markets. The internal complexity of the organisation is affected by the product - market interaction and as we shall show in Chapter IX the choice of structure is ultimately dependent on the management style and the personal preference of the chief executive. Organisation structure is a strategic concern which, we suggest, is ultimately to do with control. Control requires information as a basis for decision making. Without information there can be no control, without control there is no information, without action, both control and information are worthless. Let us now relate our conceptual framework for corporate strategy to some observed and observable events. Let us consider too, the pervasive importance of the environment and show how what we earlier termed the general environment becomes enmeshed with the immediate environment and so affects the corporate effort.

TECHNOLOGY, ENVIRONMENT AND STRATEGY

The corporation which, through its own research and development division, achieves a technological breakthrough, which, with its own manufacturing function, produces and delivers the goods and which, with its marketing facility, creates a demand, has undoubtedly made a killing. This is so well documented as to be almost self-evident, but along this chain of events which may extend over either weeks or years, there are opportunities both for competitors and new entrants into the field or the market. Any chief executive is thus necessarily concerned with technological innovations, not only in his own industry but in allied and to a lesser extent, in distant industries. North Sea Oil in the United Kingdom has provided an opportunity for many companies hitherto not associated with the petro-chemical industry to profit from the burgeoning investment in exploration and retrieval. Companies concerned with property, food, transport, engineering, ship building, computers and electronics, all stand to gain in some way or another from a correct reading of the situation and the appropriate strategic response. Alertness to a changing environment has become one of the competences of these corporations on the periphery of others breaking new ground. To this extent, at least, technological forecasting and some corporate crystal-gazing are important.

One of the most fundamental tools of technological forecasting is extrapolation. But no matter the technique used, whatever the future to be anticipated, technological, social, political or commercial the slope of the drawn depends on the intuition and judgement of the artist. Trends may be extrapolated or, less dangerously, they may be correlated, models may be constructed, but ultimately the input is human and fallible. In isolation, the tools of technological forecasting may be merely another technique; built into a broad framework they can be devastating.

TECHNOLOGY AND STRATEGY - A LIFE CYCLE AT WORK

A framework for integrating technology with strategy may be conceived as follows:

- (1) The technological event
- (2) Social changes
- (3) The product
- (4) The creation of demand
- (5) Manufacturing takes over from R & D
- (6) Competition
- (7) Supply exceeds demand
- (8) Marketing is more important than manufacturing
- (9) The survival of the fittest
- (10) Product, market and diversification of technology
- (11) The cycle starts again.

Not all of these events happen in the same sequence, some of them parallel others in time, but some facts from the past suggest a process along these lines.

Stage I

In 1910 radio was a source of great interest to many people, technologists and amateur enthusiasts alike and in ".... the early days of the 20th century the electronics industry was radio"

Katz outlined the connection over some half a century between radio and some of the developments leading to the electronics and entertainment industries as we know them today. "The period 1910 - 1915 was the recognition of the fact that the thermionic triode was capable of providing amplification. This led to the realisation that the real function of a tube element was to provide electrons, and that high vacuum in the tube envelope was not only desirable but necessary." (11) If this was the technological breakthrough, it required manufacturing expertise to turn a concept to practical reality. It was the electric light bulb manufacturers who at that time had an expertise concerned with filaments, vacuums and protective glass envelopes and so perhaps it is unsurprising that General Electric and Westinghouse should be two early entrants into what was to become a growth industry.

Stage 2

The mere manufacture of a product will not generate demand; there must be some change of transforming an initial acceptance into a wider social phenomenon. The social change which preceded

demand may be a minor one brought about through the corporations marketing facility, or it may occur as the result of some more fundamental social event with wide ramifications, such as a war, where a prolonged confrontation finds all participants, back to the wall, seeking advantage. Technological superiority whether "missing link" or "breakthrough" is a strategic advantage and the new demands of war provide challenges for research organisations and manufacturers alike. Communication is one of several essential ingredients in the military mix.

Stages 3 and 4

Between 1915 - 1920 the demands of World War I led to numerous technological advances. The use of triode repeaters made trans-continental telephony a reality. (11) It was now possible to link up a telephone land wire, a transmitter and communicate with ships at sea. The subsequent era of relative peace marked a change from war production to a consumer orientation. If we accept the concept of radio as the beginning of the electronics industry then that industry developed by leaps and bounds during the 1920s. A rising disposable income enabled consumers to spend money on the products of the new technology. In 1921 sales of electronic products were \$11,000,000, by 1925 they were up to \$180,000,000 and in 1929 had increased to a staggering \$465,000,000. (11)

During World War I, Government and Industry recognised the mutual benefit which could accrue from co-operation. Government for its part could gain from an alert private sector in search of commercial opportunity and the private sector for its part could see not only a large potential customer, but considerable benefit to be gained through government financing research and development. The development of radar dates to the work of Taylor and Young when, working at a U.S. Government Naval Research Laboratory they accidentally observed the interruption of some experimental high frequency radio communication by a ship. In 1927 the Bell Telephone Laboratories set up a system which was the precursor of the television set. Whether developed for Government or with an eye to a mass market, research and development was proceeding apace.

Stages 5 to 8

A technological breakthrough accompanied by social changes has evolved into a product for which demand has been created, manufacturing capacity expanded; now comes the battle for survival for competition has entered the industry and total capacity has expanded substantially. Where previously manufacturing expertise was one way of attaining industrial leadership, this expertise is now commonplace. Supply is greater than demand and marketing strategies may become overwhelmingly important.

A Cycle Within a Cycle

By 1930 further social changes clouded the industry's horizon. The depression in the economy affected the sales of radio sets. Something was needed to boost sales and ingenuity and desperation combined to produce new products and expand the range of existing ones. A combination two-speed record player introduced around this time illustrates both problem and response.

Stage 9

Research continued and the market became more segmented. Some companies became specialised in particular areas. Many were too small to compete head-on with the industrial giants and sensibly limited their market aspirations to match their manufacturing expertise and their research capabilities. Between 1923 and 1934, 1,070 firms entered the radio-set business and of these 960 failed. (13)

Stages 10 and 11

The development from radio through radar, televisions and FM may be seen as trend extrapolations where the development of motor-car radios, portables and the like, may be regarded as trend correlations. Successful strategy, we have suggested, may be innovative, imitative or derivative. In a derivative strategy the corporation consciously avoids the considerable expenditures required for innovation; it is sufficiently cunning not to differentiate a product on the basis of price alone, but alert enough to assess correctly the possibilities for using the situation between the innovators and the imitators as a protective umbrella of research expenditure and busy competition to create a niche for itself on the periphery of the battle.

The electronics industry today, if we accept radio as its technological underpinnings, has expanded to include not only radio but communications, aerospace, computers, office equipment, information and a myriad of spinoffs and supplementary technological advances which, taken together have created not only a number of large-scale enterprises but contributed to some fundamental social forces at work in present day society. To this extent it conforms to the final stage of our diary of events in a growth industry. Not only have products changed, developed and proliferated, new markets have been identified and exploited, new trends created, followed and bucked. Companies have risen and fallen and some of the household words have become historical events.

THE RESOURCE AUDIT

Corporate strategy is an iterative process. This much is clear, the process may be described in terms of questions relating to where the company is going and the resource audit is a part of this continual search for threats and opportunities, strengths and weaknesses. In

the resource audit the chief executive asks himself "what are we good at?" and "where are we vulnerable?"

Tilles (20) describes resources as "action potential". Resources need not be seen in terms of men, money and machines, or as stable states. They are to be strategically manipulated and this is an active process. Resources may be individually either determining, contributing or limiting. Notwithstanding the other variables involved; lack of finance for an ambitious project becomes of itself the limiting capability; on the other hand finance may be a contributing factor for when the company's ambitions are able to be financed the spotlight moves to another area and some other resource becomes limiting.

The Distinctive Competence

It is important to identify and distinguish between the determining, limiting and contributing resources and corporate strengths and weaknesses must be recognised in the resource audit. However, it is desirable that the chief executive pursue an assertive and positive strategy deriving from strength. This is surely preferable to a continually defensive strategy based on weaknesses. Thus he asks himself: "What are we good at in particular? What is it we have, that our competitors do not have and how can this be utilised to maximum benefit?" The answers will reveal the firms distinctive competence. (20). This may be so fundamental, so simple as to be self-evident. It may be more abstract and elusive but it is peculiar to the company, and, we suggest, possessed by all companies, and is associated with a corporate identity.

In 1961, Wilkinson Sword Limited made a major assault on the razor blade market and challenged Gillette, the market leader. During World War I the Wilkinson factory produced 2.5 million bayonets and capacity production of swords. Between the wars, the company flirted with razors, pruning shears, nail clippers, scissors, cutlery and in 1961 after several years of research, Wilkinson's forged a long lasting stainless steel blade which, with its friction free protective coating was clearly ahead of its rivals. A distinctive competence may be something as simple as an expertise in cutting edges.

Wilkinson's Achilles heel was its size; profits in 1954 had been around £20,000. By 1963 they were £2 million and increased to £3 million in 1964. Gillette in 1962 had earned record profits of \$45 million and in 1964 launched their Silver Gillette. Strategies changed from Wilkinson's innovative strategy of 1961 to Gillette's imitative strategy of 1964 and battle was joined worldwide. The strategies of both companies were faultless, entirely different at the outset and entirely appropriate in terms of what we have discussed so far. The Blue Gillette had been launched before Wilkinson's major launch and it was to this that Gillette had owed a substantial amount of their record 1962 profit. It would have been foolish to have over-reacted and so they waited perhaps partly

because they had to, but partly to monitor Wilkinson's progress, for surely they would make a mistake; but even if they did not, even should customers change their shaving loyalties, Gillette, with its substantial resources could counterattack under Wilkinson's product umbrella.

At Wilkinson's, the emphasis changed first to manufacturing for in 1961 Wilkinson's were swamped with orders. Production was increased by 100% in 1962 and by 300% in 1963 and the German plant was extended and in 1964 a new plant was built in England. These investment and manufacturing decisions were in keeping with a growth in market share from 6% in 1961 to 34% in 1964. Quality control may be seen as a contributing factor which could have been determining. Had Wilkinson's not kept a stringent eye on quality, had they allowed defective blades to go through, the consequence on the users face and the company's sales could have been severe. If quality control was a continual contributing factor, marketing became determining in 1964 with the competitive launch of the Silver Gillette.

ENVIRONMENT AND INDUSTRY CHARACTERISTICS

Rolls Royce - The Strategy That Failed

Every industry has its peculiarities, its customs and its traditions. Consumer durables sales are among the first to be affected by a change in the economic environment. The toy industry must have large inventories available for Christmas delivery and these require to be financed until such time as there is an income from sales. The "rag-trade" is notorious for taking extended credit. All industries have their idiosyncrasies and an awareness of these which is probably second nature to those involved in the industry is a mandatory requirement for industry analysts, investors, or companies in search of diversification opportunities. The Rolls Royce collapse illustrates the important relationship between strategic decision-making and industry characteristics. We suggest that a retrospective consideration of relevant figures, forecasts and past successes may at least partially vindicate the top management of Rolls Royce and show the savage post mortems of this important event to have been unduly harsh.

In 1964 the newly elected Labour Government in the United Kingdom inherited a balance of payments deficit of around £600 million, the worst on record up to that time. In 1970, the U.S. Government spent some £3,800 million on aerospace products and during the same year the Pentagon invested £3,100 million on research and development not necessarily to do with aerospace.
(7)

Also in 1964 the major names in the aerospace industry prepared themselves for the \$2,000 million C-5 jet transport contract. Lockheed, Boeing and Douglas had their sights set on the airframe while General Electric and Pratt and Whitney were interested in

the engine contract. It was estimated by one source (15) that the commercial market possibilities could be in excess of \$15,000 million dollars, but there was a snag for the C-5 was the first of the defence department's fixed price contracts. Lockheed's \$1.9 billion bid was \$400 million below Boeing and \$100 million below Douglas. By 1968 the Pentagon estimated huge cost over-runs in excess of \$2,000 million on the C5 contract and Lockheed's troubles were compounded by the airforce's decision to buy only 81 instead of the original 115 aeroplanes. By January of 1970 the cost estimates for these 81 aeroplanes had risen to \$3.7 billion against the original estimate of \$1.4 billion and in February 1971 Lockheed accepted an out of court settlement to show a \$200 million loss on the contract.

In March 1968 Rolls-Royce signed a contract worth £150 million to develop and deliver by November 1971 the R.B.211 engine for the Lockheed Tristar. One aspect of this contract was a possible penalty of £50 million for late delivery. By February, 1971, Rolls Royce was in receivership and in August 1973 the Department of Trade & Industry produced a 430 page post-mortem in which inter alia it was said that the directors of Rolls Royce "failed properly to discharge the responsibilities of stewardship which rest upon the directors of a public company".

Perhaps an aspect of strategy in the aerospace industry is a recognition of the difficulties facing a government which allows a major defence contractor and employer to fail, and Rolls Royce was Britain's biggest defence contractor. Rolls Royce had considerable experience of government involvement not only in providing World War II aeroplane engines but more recently also and the company had an expertise - a distinctive competence - in problem-solving, engineering and cost overruns. A British government investment of £33.6 million, added to £90 million of Rolls' own money had launched programmes for the Dart, Avon, Tyne, Conway and Spey engines and total business from those engines was estimated at £1260 million, 75% for export.

By the 1970's almost every defence contractor in the United States had had its problems, among the more spectacular of which were the TFX (F-111) fighter plan at General Dynamics, the Boeing SST and the Lockheed C-5 transport; but success could be just as spectacular. While government poured development finance into military projects, private enterprise looked to the commercial possibilities for the eventual pay-off. This then was the industry in which Rolls Royce was expected to compete. The British government was neither desirous nor capable of funding development costs of this magnitude and Rolls Royce could not do it on its own. How sensible therefore to go in search of development funds as part of a major initial contract which, once the engine had been developed and financed by American money would have left Rolls Royce with a clear technological lead over its American rivals. Rolls Royce would then possess a major technological asset which could generate further substantial revenues. We suggest that it was in 1968, that Rolls

Royce was faced with a clear alternative; either they were playing out of their league and they should alter course, or they must stay in the big league and do everything they could to break into the American market. Development costs in this industry can only be recouped by long production runs which in turn depend on substantial sales, and this sort of demand is determined in America. We suggest that Rolls Royce had to take the gamble, knowing it was a gamble or be left behind by the advances which the Tristar engines represented.

At the 63rd Annual General Meeting of the company held in July, 1970 the Chairman, Sir Denning Pearson, reported with some pride that the company had received the Queen's award to industry for the fifth year in succession and exports during these five years had totalled over £410 million, but not all the news was good. The directors considered it prudent to make a special provision of £20 million "against the risk of non-recovery of total development cost of the RB211 - 22. Even though today's estimates of sales and costs would achieve full recovery of total estimated development expenditure." (16) In addition to this provision the company incurred losses to the tune of £2 million on fixed or maximum priced development contracts with the British and other governments.

Rolls Royce directors, we suggest, knew the aerospace industry and its characteristics. Indeed, the Chairman, at the same meeting pointed out that losses on this type of contract were not peculiar to the United Kingdom. The Pentagon, he said, was now envisaging the greater use of cost/incentive fee or straightforward cost reimbursement contracts.

The directors recommended a final dividend of 3% which together with the previous interim absorbed a total of £3.9 million of the £4.2 million profit. This, it could be argued was the height of irresponsibility. The notes to the accounts show that the £20 million provision had merely reduced research and development which was shown as an asset in the consolidated balancesheets. A superficial reading of the figures would have shown a reduction in R & D from £12 million to £3.5 million while retained profits were reduced by approximately £10 million. On the face of it Rolls Royce directors should have passed the dividend at the very least, but Rolls had done this sort of thing before. R & D had been capitalised since 1961 in keeping perhaps with the nature of the industry, but more important perhaps to make the company appear attractive to shareholders and enable fresh funds to be raised. Perhaps, therefore, the directors were right to pay the dividend for if they did not, the next time they went in search of capital, their blue chip reputation might have lost some of its lustre, making capital that much more difficult to come by.

Estimates and Errors

Over-runs and over-optimism are characteristics of the aerospace industry and it is no surprise to find the techniques of technological forecasting described earlier in common usage by the major companies in the industry. Nor is their fallibility any surprise for the state of the art and the myriad of changing variables, events and vested interests do not lend themselves to accurate forecasting. Big assumptions can lead to errors on a grand scale particularly when we consider that horizons and the lead times between development and demand extend over periods as long as ten years.

In November 1962, for example, Britain and France agreed to establish a consortium of British and French interests to develop a supersonic transport to be called the Concorde. Concorde was to stay within the present state of the technology with a top speed of 1450 m.p.h. The American SST on the other hand, first announced by President Kennedy in June 1963, was to test the frontiers of aerospace technology, but, notwithstanding this President Kennedy declared ".... in no event will Government investment be permitted to exceed \$750 million" (18) By 1969 the U.S. government estimated that its cost burden for the development phase of the SST would be \$1.3 billion out of a total \$1.5 billion estimate, and the SST project was later cancelled. Concorde's development costs, from an estimated £140 million in the heady days of 1962 were estimated at £730 million in 1970, increased to £970 million in 1972 and reached four figures by 1974. Rolls cost escalations on the RB211 contract increased from \$156 million to \$600 million in 1970. They may be more sympathetically viewed when seen against this background. If Rolls Royce is to be blamed then so should others. Perhaps the explanation lies in the nature of the industry, which, armed with crude forecasting tools and a continually changing environment, can hardly be considered a low risk area.

During the debacle which attended the collapse in 1971, it was widely observed that the Rolls directors were strong on technical ability, but "strangely silent when finance or management was mentioned." (15) . Perhaps this is true, but it was in 1961 that accounting methods were changed so as to permit R & D expenditure to be capitalised. The directors had in 1969 made a provision of £20 million against losses and a respected firm of auditors, mentioning the provision, considered that the directors' report gave "a true and fair view of the state of affairs as at 31st December, 1969 of the company and of the group and of the profit of the group for the year ended on that date."

One estimate in late 1972* could be regarded as at least a partial vindication of the Rolls Royce strategies. At August 1972 Lockheed had 164 Tristars on order, 110 "first buys" and 54 second buys or options. At a price of £13½ million per aircraft Lockheed would break even on sales of 275 aircraft. Looking ahead to 1980,

the total market for Tristar and its McDonnell-Douglas competitor was estimated at 750 aircraft. Lockheed thought it ought to get 300 of these with the normal Tristar and they saw a market for 600 more aircraft in the broad extended range category. Assuming - and this illustrates how big the assumptions are - that Lockheed were to get 150 of these additional 600 aircraft, sales of Tristar would total 450. This would give Rolls Royce the potential for 1350 RB211 engines and assuming spares at a third of this total revenue could be as high as £900 million.

If this is a dramatic illustration of the nature of the aerospace industry it must also be seen as a partial justification for the strategic decisions and the commercial judgements of the Rolls Royce board. Arguably they should not have taken a fixed price contract on what turned out to be unfavourable terms - subsequently renegotiated with Lockheed. Their finances and control systems were poor and this is an area in which the directors invite criticism, but on balance, it is difficult to see how Rolls could reasonably have done otherwise; only the future will tell*.

If Rolls Royce is a dramatic illustration of the link between strategy and industry characteristics, it is also a study in control systems, long term objectives and strategic decision making. Perhaps, considering the nature of the industry, it was inevitable that Rolls Royce should cease to exist as a symbol of pride and private enterprise, perhaps aerospace research and its funding is properly a matter for government with an eye to national interests and balance of payments.

SLATER WALKER SECURITIES - PULLING THE THREADS TOGETHER

Whatever the academic underpinnings for policy and its scope for back-seat commentary and post-mortem criticisms, the ultimate test of a strategy is its success and this must surely be assessed in earnings per share. The rise of James Slater is not only an illustration in success it is also a partial rationale for the following chapters. Chapter IV may or may not be meaningfully applied to Slater the Elite entrepreneur; in any event, he will probably read it with interest and also Chapters II and III which deal with entrepreneurship as a field of enquiry and refine the concept of the entrepreneur. He would not, we suspect, disagree with the choice of later chapters which move from the conceptual to the practical, for in later chapters we consider the importance of economics and the economic environment, the importance of timing

*Export deliveries of RB-211 engines and spares in 1974 were in excess of £100 million. More than 100 Tristars had been delivered. "The RB-211 although developed as an aircraft power plant has been ordered for pumping natural gas by three customers" (Financial Times 18/2/75). Tristar orders total 209 of which 155 are firm contracts.

and the relevance of man-management to organisation structure and control. These are areas in which Mr. Slater has manifestly demonstrated his competence and his comment that "each new stage of Slater Walker has actually started happening before the strategy for it was found", (9) is at once controversial and realistic.

The son of a North London builder, Slater took up accountancy and on qualifying in 1953 he spent two years sorting out the problems of a small group of industrial companies. He moved into the motor industry and when Lord Stokes, chief executive of British Leyland, took over AEC, one of the prizes was Slater who later became Lord Stoke's right hand man and is still on the Board of British Leyland. Slater's stock market expertise, while pursuing a successful career as what we later define as a Modal entrepreneur, increased his nest-egg from £2,000 to £50,000. His "system" was the recognition that the stock market was slow to revalue what had previously been loss-making situations which had turned the corner.

Slater cannot have been unaware of the influence of the press nor can he have disregarded the connection between contacts, politics and competence. At a dinner that was organised for a number of successful young businessmen who had been featured in the Evening News, Mr. Slater met Mr. Walker, co-founder with him of Slater Walker Securities and later to become a minister in the 1970 Conservative Government cabinet. In 1964 Slater & Walker bought 48% of H. Lotery for £720,000. They took control of the company in July, 1964, changed its name to Slater Walker and a few months later they sold a Lotery-owned office building for nearly £2 million. By 1973 the net assets of Slater Walker were £258 million.

We can broadly categorise Slater's strategy as:

- 1964 - 1968 "Asset stripping" - Industrial Holding Company
- 1969 - 1973 International Investment Bank - Bank D'Affaires
- 1973 - Waiting and watching.

If Slater's personal motivations are something of an enigma - his corporate objectives may be seen in terms of consistent growth in earnings, assets and dividends. Slater Walker's expansion over the past decade has required that the chief executive's perspective on the environment is a global one. His competitive environment is both politically influenced and stock market oriented. His policies are articulate, his strategies pragmatic, his tactics masterly and his operational efficiency decisive and ruthless.

Slater on the Board of Rolls Royce might have influenced events to good effect. "It is essential for there to be very strong central financial control. In this context therefore accurate monthly profit and loss figures are vital, together with budgets and a detailed of all variances from those budgets. Similarly there should be close central control of group liquidity." Extracts from his speech given to an investment seminar sponsored by the Investors Chronicle in 1968,

are worth recounting. His orientation was not toward technology or the esoteric aspects of policy research, but it was articulate: "I believe that there is very considerable potential in this country for the development of new and far stronger industrial holding companies - Slater later proved it. He was not an "asset stripper" pure and simple, nor was he a conglomerate of diversified and ill fitting interests. "Each new acquisition should fit reasonably well into an existing division of the company or be of sufficient size to be the nucleus of a new division." The importance of size and its relation to organisation structure was "one of the most vital points of all as otherwise management becomes an almost insuperable problem. Relatively large companies usually have management in depth and are not wholly dependent on one or two men." Slater forecast his strategy and then went ahead to implement it.

Industrial Holding Company:

In the 1964 - 1968 expansion, Stock Market oriented throughout, Slater increased earnings per share from 0.81 pence to 7.98 pence at 77% p.a. compound. Assets per share rose from 11.87p to 67.5p at 54% compound. Both assets and earnings were important in the grand design and Slater's reading of his corporate environment during this period was faultless but flexible. He recognised that he would make mistakes and he appreciated that the environment would change. "I believe that the basic theme should be to build up earnings per share and then reverse into assets. From these assets, cash could be generated by selling off loss-makers and reinvesting the proceeds in further earnings. As further earnings are generated the cycle is repeated. By doing this, assets per share are kept moving up in line with earnings per share and it is these increased assets which provide a firm base for future development." Earlier Slater commented that good asset backing would provide ".... an essential buffer and reserve for bad times. It is a very dangerous policy to be purely earnings oriented and this, to my mind is one of the main reasons for past failure." The logic is impeccable and the strategy persuasive. The expertise of Slater the strategist was well matched by Slater the shop-keeper who disposed of soiled or troublesome merchandise on the basis of its potential and not its purchase price.

The stock market boom and decline of 1968 must be seen as an important event in Slater's change of strategy. Formerly, by "smoothing" his growth in earnings per share and maintaining a high stock market quotation for his shares, an optimistic price earnings ratio enabled him to buy companies for Slater Walker paper, realise their assets for cash, reinvest that cash in the next asset situation and keep the ball rolling. In 1968 Slater Walker's price earnings ratio fell from 38 to 20. Either Slater must bide his time, pursue the same strategies or he must change tack.

Perhaps Slater had anticipated a stock market decline; this may have been the reason why, not content to rely on the vicissitudes of the U.K. economy, he sought to generate profits elsewhere. In

August 1968 he bought 75% of an investment bank based in the Bahamas and in December 1968 he launched Slater Walker Trust Management (Bahamas) Ltd. Slater Walker International fund was launched in March 1969. This was an open ended fund aimed at capital growth with an international investment policy. This may well have been the vehicle for Slater Walker to go international using his expertise and his shareholders money for by this time Slater Walker had arrived.

Banque D'Affaires Phase I:

In 1969 the Slater Walker Board made a policy statement. It had decided to concentrate on developing as an international investment banking business. Towards the end of 1968 Slater had bought control of Drages, a financial subsidiary of Sir Isaac Wolfson's Great Universal Stores. "This acquisition provided substantial cash resources and more important, we also obtained 50% of the ordinary of Ralli Holdings." The 1968 Annual Report regarded the acquisition of control of Ralli Holdings - Slater bought a further 25% in January 1969 - as a "... major step in the development of your company. Its subsidiary, Ralli Brothers (Bankers) Ltd. is fully authorised to carry on all forms of banking business and we intend during 1969 to establish our headquarters in the City of London by moving to Ralli House." Both the acquisition and the move from the West End to The City underlined the change in orientation from industry to investment.

Within two years Slater Walker disposed of over £40 million worth of industrial interests and reduced its employment from 20,000 to around 2,500. Slater's disengagement was described by one source (9) as "one of the most fundamental and successful business re-organisations to have been achieved in the commercial world".

The industrial holding company evolved into an investment bank, a Bank D'Affaire which could take a strategic stake in companies, lend them money, help them out, seek merger partners and, most important, increase Slater Walker's earnings per share. Slater kept to the letter of the "City Code" which required that the holder of more than 10% in a quoted company must declare his intentions for with just under 10%, Slater Walker had sufficient of a strategic stake either to launch a bid on its own or benefit from a rival bid. For example in 1971, with just under 10% of Cunard equity, Slater sold out to Trafalgar House Investments which had bid for Cunard, doubling his money. "Never one to think small Slater claims to have a key position in every major potential asset situation in Britain". (9)

THE STRATEGY THAT FAILED?

At the end of April 1973 Slater Walker announced an offer of three shares of Slater Walker for every four of Hill Samuel, a dynamic City Merchant Bank headed by Sir Kenneth Keith. Had the merger gone through, the resulting company would have had total assets of £1500 million, it would have been renamed and Slater was prepared

for a position as number two in the combine. There was speculation that Slater was now ready to get out. Initially the press received the news of the merger proposal with enthusiasm but later began to look upon the concept with austere disfavour. Whether it was press comment, a recognition that management styles were different or doubt as to whether the employees of Slater Walker and Hill Samuel would be able to work together - perhaps a combination of all these factors and more, but the merger did not go through.

In view of Britain's rapidly changing orientation from her former Empire and towards Europe, perhaps the merger could have established Slater Walker/Hill Samuel as a major force in International and European Investment Banking. Perhaps Slater was motivated by a desire for "respectability" for Hill Samuel was the real thing, its origins traceable, prior to the 1950s to family bankers born in the purple. The possibilities for speculation are infinite.

Waiting and Watching:

Slater moved decisively after the abortive Hill Samuel merger but his strategy, although dramatically changed, remained stock-market oriented for surely this is his corporate distinctive competence. Some time after the 1972 share boom and with shares very sensitive, Slater described share prices as unrealistic. He went further, suggesting a figure of 350 as a realistic level for the Financial Times Industrial Share Index. This compared with the 1972 peak of 540 and coming from a man whose ability to read trends was now legend, made for a bad press. Criticised as almost anything from unpatriotic to slightly mad, Slater remained unrepentant. Prior to the merger proposal Slater Walker had been represented in the Bahamas South Africa, Canada, Australia, Singapore, Hong-Kong, Belgium, France, Holland, Spain, West Germany and the United States. Now Slater's global chess-game - as Fortune magazine described it once - became defensive. It seemed that almost everything Slater Walker owned was up for sale. Slater retreated into cash, describing it as a "flexible" asset. In the light of Chapters VI and VII this must be seen as an entirely appropriate strategy for Slater was, of course, right about the Stockmarket. From its 1972 peak of 540, the F.T. Index had moved below 150 by the end of 1974.

The most fitting end to this chapter is an anecdote, perhaps apocryphal and entirely relevant, for during this market slide, it is rumoured that Slater received a memo from one of his analysts containing a list of suggested Stockmarket purchases. Surely, suggested the author, unless the ball game has changed these shares were a bargain at current price levels. Slater wrote on the memo: "The ball game has changed", and went on selling. By mid 1974 Slater Walker had accumulated £156 million in cash.

CHAPTER I

REFERENCES

1. ANSOFF H. Igor Corporate Strategy
 McGraw Hill. 1965
2. ANSOFF H. Igor (Ed.) Business Strategy
 Penquin. 1969.
3. CHRISTENSEN C. Roland Review of Course Activities
 and
 SCOTT Bruce R. Lausanne, Imede. 1964 Mimeograph
4. DENNING Basil W. The Integration of Business Studies
 at the Conceptual Level
 The Journal of Management Studies
 February 1968

 Policy and Research - Its Aims and
 Tools. Imede, Lausanne, Switzerland
 1972
5. DRUCKER Peter F. Based on a Presentation at Harvard
 Business School quoted in The Journal
 of Business Policy.
 Vol. I No.I Autumn 1970
6. FORRESTER Jay W. World Dynamics
 Cambridge Wright, Allen Press
7. GRAY Robert Rolls on the Rocks.
 London. Panther 1971
8. HELMER Olaff Social Technology
 New York - Basic Books 1966
9. Jim Slater's Global Chess Game
 Fortune Magazine. June 1973
10. KAHN Herman The Year 2000: A Framework for
 WIENER Anthony J. Speculation.
 New York. Macmillan. 1967
11. KATZ Robert L. Management of the Total Enterprise
 New Jersey. Prentice Hall. 1970
12. MEMBERS OF THE MANCHESTER Integrated Organisational Strategy.
 BUSINESS SCHOOL GRADUATE Journal of Management Studies
 SEMINAR Feb. 1969

13. MILLER Rogers ET AL Manufacturing Policy
Homewood, Illinois.
Richard D. Irwin. 1964.
14. RAMO Simon Towards a Scientific Anticipation
of Change. Managerial Planning.
September/October 1970 (TRW)
15. ROSS Joel E. Corporate Management in Crisis
and
KAMI Michale J. New Jersey. Prentice Hall. 1973
16. ROLLS ROYCE LTD. 63rd Annual General Meeting.
Statement by the Chairman.
21st July, 1970
17. ROLLS ROYCE LTD. Annual Report Year Ended
31st December 1969.
18. SETHI S. Prakash The Supersonic Transport
A Case Study in Government-Industry
Co-operation and the Determination
of National Priorities.
Berkley University of California
1970
19. TAYLOR Bernard Business Policy: Teaching & Research
and
MACMILLAN Keith Bradford University Press. 1973
20. TILLES Seymour How to Evaluate Corporate Strategy
Harvard Business Review.
Vol. 4. 1963
21. SUNDAY TIMES Where Was Whitehall When Rolls Light
Went Out? August 5th 1973.

CHAPTER II

ENTREPRENEURSHIP AS A FIELD OF ENQUIRY

"The prudent, penniless beginner in the world labours for wages awhile; saves a surplus with which to buy tools or land for himself, then labours on his own account another while, and at length hires another beginner to help him."

Abraham Lincoln. 1861.

In 1863, Lincoln declared, "Property is the fruit of labour, ... that some should be rich shows that others may become rich, and hence is just encouragement to industry and enterprise." A people's President of the 1860s, Abraham Lincoln was speaking the language of entrepreneurship. Lincoln's words are a recurrent theme which pervades American society; a theme in part founded on fact and a theme idolised in myth. Lincoln's words carry a message of hope for the small man and at the same time they rationalise privilege and vested interest.

It was not in America that entrepreneurship had its beginnings although it is a matter of record that a substantial body of literature has emerged from the North American continent on the subject of entrepreneurship. It is no coincidence that the Harvard Business School, one of the prestigious American Business Schools, saw fit to set up a Research Centre in entrepreneurial history in the 1950s from which a valuable perspective has emerged not only on entrepreneurship in the United States but also of its historical underpinnings. It is interesting to note the pervasive influence of the Protestant ethic in American enterprise and it is significant that much of the research on entrepreneurship has been financed by entrepreneurs and written by academics, but it is to Europe that we must look for the beginnings of entrepreneurship while it may be to America that we must look for its succour. How would Lincoln have reacted to C. Wright Mills' view of the American farmer as a real estate speculator as well as a husband-man. What would he have thought of Thorstein Veblen describing the American farmer as "cultivator of the main chance as well as of the fertile soil"? (15)

The word "entrepreneur" spans a status polarization of society running from a convenience store whose ability to make a minimal profit is dependent upon the devotion of its proprietor, to the sophisticated power politics of the motorcar magnates. While at first sight it is plausible to bridge this gulf in terms of individual characteristics, it is difficult to ignore the influence of a nation or society which has spawned the individual entre-

preneur; while history is sadly lacking in its description of the individual personalities of entrepreneurs, it is filled with the record of their deeds.

What is an entrepreneur? We all know entrepreneurs and we all know what we mean by the word, but why is it that we use a word of French origin to describe an ill defined mid-atlantic phenomenon? Why is it that Marxists hated them and capitalists revered them?

The noun entrepreneur derives firstly from the word entre (meaning between) and the verb prendre (to take). Literally, therefore, the word describes someone who takes between (a middleman), but its origins have become obscured over time. It is appropriate therefore, that we look to history to help us out in our enquiry, and to Europe and its part in history to complement, clarify, define and predict.

THE ENTREPRENEUR IN HISTORY

History is a record of men, their failures, aspirations and their achievements. History is also a mass of detail which, to the non-historian, can be desperately confusing; but from the details of history, from the record of men's deeds we can infer retrospectively their aspirations and their ideals. This is not a treatise about history, nor is it written by a historian, but it should be possible for a non-historian to provide some perspective on entrepreneurship through a judicious selection of events.

History refines and depersonalises the men who make it; it is difficult enough to assess the personal motivation of people we know; how much more difficult is it to determine the forces which drove men in history to achieve great things; but we must try. It is not enough to consider motivation in isolation, for man is a product of his society and men who mould the society of the future are inevitably influenced by their present milieu and their past heritage.

Psychologists have been working on the motivation of present day man quite as industriously as historians have been recording the deeds of his ancestors. In Chapter IV we shall be concentrating on the motivation of what we have called the Elite Entrepreneur, but for the time being it is important to look at the past in order to arrive at some perspective on the present and future.

Entrepreneurs are distinctive; they stand out as different from their fellow men if only by virtue of the record of their achievement. They are products of their society, but in present day society they do not constitute a class in the sociological sense of their being distinct from capitalists, employers or the

aristocracy. In the more egalitarian societies which characterise the twentieth century it is theoretically possible for entrepreneurs to emerge from almost any of the strata of society although we shall later discuss the constraints of background, opportunity and big business.

In the period during and preceding the industrial revolution privilege, vested interest and the mores of the various European societies made rapid upward social mobility very difficult. Monarchs were not accustomed to their subjects getting out of line and the growth of a more egalitarian society has been characterised over time by power yielding to power. Seldom is it that privilege has succumbed to the dictates of social justice. Accordingly, economic development has closely paralleled political advancement and alongside both of these we can view the development of entrepreneurship as a phenomenon.

Karl Marx's view of the essence of capitalism as the concentration of ownership of the means of production in the hands of a small class was perhaps, when seen from the twentieth century, a matter of common sense. Those who owned no property and had not the wherewithal to accumulate capital had only their labour to trade. The development of more efficient means of production had its social consequences in poverty and exploitation and, if this was an inevitable historical process from feudalism to a better way of life, the structure of society in terms of the numbers of "haves" compared to the number of "have nots" was not substantially changed until labour began to be organised. In social terms, therefore, entrepreneurs were not always a good thing; but now that some of the more unacceptable aspects of their social behaviour have passed into history perhaps we can view their iniquities and misdemeanours as Marx did, as aspects of a historical process, and look at some of the factors at work in Europe and England which are most easily identified with the rise of entrepreneurship.

In view of the prevailing inequality of opportunity in the sixteenth century it is hardly surprising that many entrepreneurs came from the upper stratum of society, particularly when we find, some three centuries later, that the capitalist is still the owner of his craftsmen's tools. Getting ahead was quite a problem in those days.

The structure of society, its human constituents and its political organisation make it difficult to diagnose the underpinning of entrepreneurship in terms of a single causative factor; various writers have emphasised one variable above others, ranging from a profit motive, a distinctive life style, religious influences or simply greed; but no single factor provides a persuasive explanation for what is undoubtedly a multi-factorial phenomenon.

McClelland (10) refers to the Communist Manifesto wherein Marx and Engels observed a growing specialisation in the economy

which destroyed the intrinsic and non-monetary value of various developments. He suggests that Marx and other economists endowed man with a psychological characteristic known as "the profit motive". The picture of the capitalist - and one not that far removed from reality - was of a man driven by greed, willing to participate in any undertaking provided it increased its profits. By taking this view of capitalist motivation, "pills are as good as poetry, and a hat factory may be more successful than a bookstall. A firm making sewer pipes, cheap dresses or artificial flowers, may be more successful than one producing elegant china." (10) By such a perspective on his undertaking, the capitalist destroys the qualitative worth of what he is doing. McClelland points out that the "dignity of labour" of the traditional artisan is lost, and achievement is measured simply by the one quantitative standard of how much money it is worth.

What are these writers saying? Certainly, there is more than a grain of truth in their observations, but perhaps what they are referring to is not so much "the profit motive" or the "achievement motive" but rather an anticipation of success which can be measured in both qualitative and quantitative terms. Money as the quantitative variable can be turned to a number of uses amongst which are the acquisition of either more money or or the symbols of status; in order to acquire these, money is a mandatory prerequisite.

Money regarded as a symbol of success complicates the issue but makes for a more reasoned view. Concepts such as the profit motive and the "market forces" explanation of economic motivation are superficially persuasive but are neither entirely convincing in the case of the profit motive nor particularly civilised in the case of market forces. This type of explanation of events, where almost anything from unemployment to conspicuous success can be superficially attributed to having the right product in the right place at the right time is the visible tip of a conceptual iceberg. While academics and philosophers indulge in laborious and sometimes tautological explanations, the entrepreneurs are getting on with it. A series of zeros at the bottom of a profit and loss account is many more times persuasive than the explanation as to how they got there, but get here they did, and if we are to regard money as a symbol of success, if its acquisition is motivated by the anticipation of further success then let us look at a possible explanation of how it was regarded in the days before accountants became necessary and businessmen became respectable.

ENTREPRENEURSHIP, NOBILITY AND FORTUNE

It took money to provide the civilisation of Florence during the Renaissance and one of the consequences of the availability of money was an artistic exuberance which the world has not often seen. Money arose out of trade, but what

motivated the desire for trade? Giovanni Medici was a great merchant banker whose interests spread to many parts of Europe. The second generation, Cosimo Medici, consolidated his father's achievement and his family's fortune while Lorenzo the Magnificent became a great patron of the arts. Clearly a profit motive can not adequately explain the Florentine Medicis.

Lane (8) in his "Andrea Barbarigo" implies that the nobility of Venice during the fourteenth and fifteenth century returned to business every three or four generations so as to replenish family fortunes which had been diminished by life on the estates or service in government. Stone (14), writing of Elizabethan England suggests that some of the leading entrepreneurs of that time were members of the nobility who required money to maintain their expensive style of living. Gough in his most scholarly account of the rise of entrepreneurship in England (6), asks how far the rising entrepreneurs were aware of the role they were fulfilling. Referring to Stone, he suggests that although they needed money, some of them desperately, ".... the lives of few social groups have ever been less dominated by the profit motive". Stone feels that "Elizabethan peers would have been both astonished and disgusted to hear themselves described as men of business".

Their main concern, it seems, was to finance ".... the various ways of conspicuous consumption, the maintenance of port and hospitality" Both Gough and Stone feel that the entrepreneurs who emerged from the nobility at that time did not simply aim at acquiring a larger income but wanted an occupation to enable them ".... to pass the time without suffering the torments of boredom". But by no means all entrepreneurs came from a leisured class in search of relief from boredom. Nevertheless, ".... the fact remains that, apart from economic incentives or the profit motive, all these men were possessed, in varying degrees, by a restlessness and energy which made it impossible for them to be content with a life either of idleness or of mere routine". (6)

It would be difficult to evaluate the historical importance of some entrepreneurs purely in terms of the profits that they obtained from their ventures. Some of them sadly misjudged the anticipated return on their capital but nevertheless created something of historical importance. It would be a mistake to rely too heavily on the profit motive as an explanation, or indeed even the anticipation of success, although this is perhaps more plausible. Perhaps even the restless driving forces which drove these men could be explained in terms of a desire for immortality, the wish to preserve the line; and we shall be looking more closely at motivation in Chapter IV. Whatever it was that drove these men, they could not have done what they did alone; they could not have achieved what they set out to, or even contemplated certain of their schemes had it not been for an appropriate social climate which regarded money-making as respectable although whether such respectability arose out

of necessity or envy is uncertain.

SOCIAL PREREQUISITES

We have seen that the Elizabethan nobles would not have been pleased to have been considered as businessmen; and, of course, there is a stigma about business among those who do not participate in it even today, while those who are involved in the acquisition of wealth frequently plead for understanding, consideration and admiration. The image of business is often tarnished but the respectability of a better than adequate income, preferably from private means, frequently goes unremarked. This is one of the paradoxes of society and has been so for many centuries. Money does buy respectability, and inevitably (and quite justifiably) those involved in the making of money must persuade themselves of their value to society. Whether they do this by having buildings named after them, or by anonymous philanthropy or by the efforts of public relations consultants, ultimately they all try to buy respectability, immortality, and understanding in some form or another. It is a fact of life and the inevitability of this may in part explain the involvement of the nobility in business; but while the nobility may have managed to create a measure of understanding among their peers, envy among their inferiors and distaste among their betters, respectability alone was not enough. There had to be opportunity.

We are faced with something of a chicken and egg situation. Which came first, the respectability or the opportunity? And was respectability the consequence of an accident of birth or was it the result of a climb up the ladder of fortune? Whichever came first, there is little doubt that a discussion of entrepreneurship must at least touch on all of these factors, but we do not wish to create the impression that entrepreneurship was the exclusive preserve of the aristocracy in the fifteenth and sixteenth centuries. This period just happens to be a time in Europe and England during which a number of significant developments can be identified. If we accept (and there is some reason to do so) that achievement motivation is positively correlated with entrepreneurship as McClelland would have us believe, then we can accompany him in his search for achievement imagery in literature to as far back as 900 B.C.

Let us turn therefore from the inferred motivations of men. We do not really know why the ruling classes turned to entrepreneurship and of course not all of them did so. Some turned to politics, some to sport and some, particularly in the Middle Ages, to war, while some merely squandered their wealth in one or other of the many delightful ways which privilege and material over-abundance permitted.

THE ELIZABETHAN CORPORATION

One of the prerequisites for any entrepreneurial venture is money. That this commodity was more plentiful among the upper classes and was more easily available to them is by now self evident, but even the most adventurous and ill advised of the nobility could not help but to do some elementary arithmetic so as to compare the size of his intended undertaking with the risk to his own fortune. Gough (6) points out that shortage of capital had been a marked weakness of medieval and early Tudor trade and argues that the adoption of the joint stock technique was probably more important than the new mechanical inventions of the time. He draws the distinction between the Joint Stock Companies which were first started under Queen Elizabeth I and those "regulated companies" of the later Middle Ages which were more for supervising and controlling the trading operations of their individual members. Joint Stock Corporations differed from partnerships although they may have had their beginnings there.

Partnerships were a means of sharing profits in definite proportions and in terms of a partnership agreement, but there was no transferability of shareholdings to a third party. Thus, it was possible for larger enterprises to be undertaken since the members of a Joint Stock Company could transfer shares and the proportion of the profit taken by any individual was directly related to the number of shares owned. This enabled the raising of capital from landowners, merchants or others who had resources that they were willing to risk but who did not themselves propose to take an active part in the ventures; consequently, larger ventures could more easily be undertaken. It is worth noting that the Elizabethan corporation was not the same as the present day Limited Liability Company; shareholders in Elizabethan times assumed unlimited liability and might be called upon to contribute more capital to the venture, not by way of a rights issue, but as an obligation.

PATENTS, MONOPOLIES AND INNOVATION

If the Corporation provided the facility for entrepreneurial adventure it still remained for the entrepreneur to perceive and exploit an opportunity, and here again the social structure of the time conferred great advantages upon those of noble birth. An inventor may well have had an idea of considerable importance and potential profitability but if he had no capital his venture could not get off the ground. By the same token capital alone was not sufficient so ideas and inventions had somehow to get together with capital and, having done so, what better means of exploiting an opportunity than monopoly. In the same way as monarchs dispensed favours to their nobles in good standing, so, in the fifteenth and sixteenth centuries, what better way of pleasing both themselves as monarchs and their nobility than granting of monopoly rights over something? Gough observes drily (6) ".... since in return for granting a patent of

monopoly the Crown demanded a royalty or rent, there was an obvious temptation for needy monarchs to regard monopolies as a means not only of satisfying greedy courtiers but also of increasing their own revenues. Since the result was that prices rose without any improvement, but rather a deterioration, in the quality of the article produced, monopolies naturally aroused public complaint". But of course monopolies were not all bad, at least not as we imagine they were originally conceived.

Patents of monopoly for manufacture were first introduced into England in the mid sixteenth century, originating from Italy, and were, quite probably designed to encourage genuine inventions. It did not take much royal imagination to recognise that while monopolies could confer considerable advantages on the inventor they were potentially a source for economic advancement for the country as a whole; not least of the potential benefits was in the field of warfare and in this regard it is perhaps no coincidence that the manufacture of gunpowder and various forms of advance in metallurgy were brought to England from abroad.

Whatever the monarch's intentions, however, the system of patents of monopoly was open to wide abuse and in 1624 the Monopolies Act was passed in England. This set a time limit on the monopoly rights and can be seen as the precursor of modern patent law which, too, sets a time on a patent. Then, as now, however, it was possible to find a way round the patents so as to abuse the system and make a mockery of the legal process. One of the principal differences between the seventeenth century and the present one is that in the seventeenth century patents and the rights of patentees were too well protected. Now the pendulum has swung full circle and the small inventor of the twentieth century has little practical protection against the giant corporations who can afford protracted patent litigation and in so doing force the small man into financial ruin - and take his patent into the bargain!

Privilege and patents, monopolies and money-making are of interest but there has to be some fundamental reason for forming a corporation, acquiring a patent or obtaining a monopoly. There must be some process, some product, or some idea which has a market value. There must, to put it briefly, be an anticipated profit whether national or personal. Whatever the invention, idea or process it is likely that it will lead to economic development of some sort, whether it be a significant advancement of national importance, or whether it be a source of personal profit to an individual. Economic history abounds with examples of both national and personal significance. Whether it is the harnessing of water power in the sixteenth century or steam in the eighteenth it is not our purpose to detail the individual processes. We are trying to provide a perspective of the entrepreneur in history, and history is an amalgam of a number of these developments which, taken together, constitute economic progress.

Our inquiry is not concerned with the detail of development but is directed towards accounting for increases in the rate of technological innovation. It takes time for patents to be reflected in technology and even more time for technology to be reflected in economic progress, so it will not be the patents or processes themselves which guide our enquiry but rather the social conditions which both encouraged and followed innovation. For this reason we should turn our attention to the social conditioning of entrepreneurship and the qualitative factors which contribute to this grey area of economic and entrepreneurial development.

THE SOCIAL CONDITIONING OF ENTREPRENEURSHIP

In essence there are two main fields of enquiry which have occupied us for this chapter and with which we now continue. These are:-

1. the influence of society on the entrepreneur
2. the influence of the entrepreneur on society.

The Elizabethan corporation illustrates some of both for without entrepreneurs there would be no need for corporations and without corporations the entrepreneur could not have attracted sufficient capital to develop in the ways outlined above; and having so created a climate of entrepreneurship the entrepreneurs themselves through their ventures exerted some influence on society, frequently for the good in economic terms, often for the worse in social terms. If one thing is clear it is that the concepts and problems are so interrelated that it is difficult to distinguish between determining and contributing factors in economic progress; but some factors were extraordinarily powerful, some explanations extremely persuasive. We are not seeking a check list, we are seeking a perspective which stands up to the rigorous demands of common sense.

Surely one of the most pervasive influences on man as a social animal from his very beginnings has been that of religion. Man has been curious both about himself and about his environment, social economic and physical. The gods of fire, of the sun and of the rain at one stage constituted an attempt at explanation; for that which man has not understood he has made mystical and that which is mystical he has feared and respected. Power has frequently accompanied the spread of religious faith and while the bona fides of many of the faithful are not in question, the fact remains that faith and power, power and politics, politics and privilege, have all too frequently gone hand in hand to influence various societies significantly through the ages. Not least of these influences has been the spread of Christianity throughout Europe and many other parts of the world.

We referred to the Medici family in fifteenth century Florence and perhaps we can usefully illustrate the complexities outlined above by a concrete example. Felix Gilbert (8) creates a fascinating perspective on Florence in the sixteenth century. In 1494 the Medici regime collapsed after sixty years and the people of Florence were left with the task of setting up some form of social organisation which could enable them to replace the control exercised by the Medicis. It is interesting to note, and we shall be dealing with control in some depth in Chapter 9, that one of the means whereby the Medicis exercised control was through the structure of the political organisation in Florence. Gilbert observes that the Medicis ruled behind a republican facade, carefully preserving the fiction that the citizens of Florence were the rulers of their city. In fact, the various Councils, the Council of the Seventy and the Council of the Hundred had been established by the Medici to complement an early complex system of Councils. The Councils were composed largely of patricians friendly to the Medicis and power was fragmented so as to give the Medicis the final say in matters of policy. Consequently when the Medicis were overthrown in 1494 some means had to be found for managing the conduct of foreign policy and of wars, of justice and of finance. Another very characteristic aspect of government in Florence was the short tenure of office - again enabling determined vested interest to carry the day.

On the economic front too there were problems. The last years of the fifteenth century and the early sixteenth century were characterised by economic problems with poor harvests and continual warfare causing a cutback in industrial productivity, and restricting trade. Unemployment, rising prices and a lack of say in the government caused dissatisfaction on the part of the citizenry so exacerbating the problems of government. Moreover the wealth of Florence was concentrated in the hands of very few. Florence's power in Europe depended on the economic activities of these few men, most of whom had been loyal to the Medicis and who had businesses all over Italy while they traded in France, Spain, the Netherlands and England. Understandably therefore this group of men constituted a strong force of vested interest and when they joined with members of the middle classes in determining policy it is hardly surprising that their trading and personal interests came to the fore.

The Florentines saw themselves as men of reason and they had a realistic view of their standing vis a vis the great territorial states which had grown up outside Italy. Reason was the weapon which they believed could compensate for their lack of military strength. "In 1496 when other Italian powers took up a threatening attitude because of the Florentine loyalty to France it was said two ways were open to Florence; to resist either with force or intelligence. And it does not appear pos-

sible that we can resist the whole of Italy relying on force. We must take the alternative; intelligence". (5) Reason was deeply rooted in Belief, for Reason came from God. Thus, when we add political complications to Florence's problems we can see all too clearly the religious influence extending over the whole range of Florentine life, political, economic and social.

How must the Florentines have felt when their traditional alliance with France combined with their strong trading links, became complicated by the appearance of French armies in Italy, first under Charles VIII and then under Louis XII, his successor? The Florentines were faced with an almost impossible choice between France and the Church State. On the one hand, ".... an abandonment of the French alliance would mean an end of Florence's most profitable economic enterprises. On the other hand, conflict with the Church State could be equally damaging for the Popes could employ the weapon of the interdict which the Florentines feared for material rather than for spiritual reasons. When a state came under an interdict its citizens lost all legal protection everywhere in Christendom; an interdict therefore would permit the robbing of all possessions of Florentines wherever they were - in Rome, in Naples, in England or in any other place." (5)

This thumbnail sketch of Florence between the fifteenth and sixteenth centuries illustrates the complex inter relations between economics, politics, entrepreneurship and religion. It forms a useful basis for us to consider the influence of society on the entrepreneur, and the entrepreneur on society, with the whole overshadowed by religion.

THE PROTESTANT ETHIC

What is the explanation for the considerable economic progress in the early modern period in stark contrast to that of the Middle Ages? Can we find it in a Catholic Church which frowned on personal gain during the Middle Ages in contrast to encouragement from the Protestant leaders after the reformation? How very much simpler things would be if we could. We must be careful, ".... not to make mistakes in dating and to regard as causative what only became prominent in later years". However ".... though it may be hard to say exactly what the connection was, this is not to ignore or deny the existence of any connection between Protestantism and the rise of capitalism, or to regard the connection as purely fortuitous. Whatever it was, however, we cannot treat it as one of simple cause and effect." (6)

In Max Weber's theory concerning the Protestant Ethic (16) he suggests that Protestants, influenced particularly by the teachings of Calvin, were more energetic and more successful in

business ventures than were the Catholics. God imposed a predestined order on secular life with the individual as an instrument of the Divine Will. Frugality was more important than pleasure and the careful and diligent investment, accumulation and reinvestment of the fruits of frugality meant that money was not devoted to consumption but rather to the rational pursuit of further gain. This attitude, Weber argued, was an important determinant in an ascending spirit of capitalism accounting in large measure for the rise of capitalism in the West and its spread to the outposts of Western influence.

If Weber's thesis is considered contentious - and many writers consider it so - at least one of its most important contributions was to draw attention to the importance of human values and aspirations which were deeply rooted in religious tradition. It would be difficult to dispute the contention that individual values are substantially affected by those in wider society, and it is an easy step to re-emphasise the powerful influences exerted by the Church even up to the present time. Calvinism encouraged the accumulation of capital, capital was a prerequisite for entrepreneurship and success was a concrete illustration of the Divine Will at work; but there is an immediate paradox in this explanation.

While Calvinism may have introduced a measure of caution into entrepreneurship, Cole (2) points out that the strictly Calvinist Dutch merchants who launched the East and West India Companies of the early seventeenth century ".... did not in their personalities, conform to the type of the ascetic, frugal and calculating Protestant. They were instead 'men of splendour and bold action'". Cole refers to other research findings to stress economic opportunity as a prime requirement. Religion, unaccompanied by economic opportunity will not of itself stimulate entrepreneurship or economic progress; there must be some other factors at work as well. We saw a number of interrelated factors in our discussion of Florence and the Medicis and this quite properly leads us from the consideration of purely religious influences to a further examination of the social conditions which foster economic progress.

ENTREPRENEURIAL RESPECTABILITY

We have already touched on the point that the entrepreneur is almost by definition different from the other individuals who comprise society, although we were careful to point out that entrepreneurs could not be considered as a class in the sociological sense. One of the most important aspects of entrepreneurship is social mobility. Unless there is some means whereby an individual can rise socially and economically in a given society, there is no facility for entrepreneurship within that society. The caste system in India is a dramatic

illustration of a lack of social mobility in a society. If it is completely impossible for a man to proceed from a lower caste to a higher one by virtue of individual enterprise, then why be enterprising? Society therefore must contain within its social structure some means for advancement in both economic and social terms

The nobility may look down upon the nouveau riche, but as long as they do not have the means entirely to prevent an individual from accumulating wealth and thence status, the possibilities for social mobility may be limited but at least they are present. Social esteem goes hand in hand with social mobility, for if social mobility is the observable phenomenon, social esteem arising from it may well be the motivator. Thus there must be both a preparedness on the part of society to accept and a toleration on that society's part for the accumulation of wealth; hence the purchase in some form or another - whether by money or by lifestyle - of status. There must, be ".... the toleration of making money, of activity in business. (2)

A perspective of history reveals a change from a feudal and highly structured society to one where economic advancement for the individual becomes a respectable and permitted activity. Starting with the nobility who needed money to support an expensive life style we progress to a society, common to many European countries, where entrepreneurship and money making, initiated out of necessity by the nobility, is grudgingly opened to those slightly lower down the scale.

ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT

In the preceding section we have at least established that entrepreneurship is associated with economic development and we have also noted the presence of various other significant factors which have both aided and accompanied economic development. Early modern Europe in the sixteenth century and thereafter abounds with examples of significant events and if no single factor can be identified as causative at least we have provided a social backcloth to the phenomenon of entrepreneurship.

The aristocracy's need for added income to sustain its way of life and the fact that its membership had more access to capital and royal favours than did those lower down the social scale, is associated both with the Industrial Revolution and the respectability of money making. Significant projects required significant amounts of capital and, whether innovation was an entirely antecedent or partially consequent phenomenon, the industrial products of innovation required capital to initiate a project and access to further capital to sustain it. It is no coincidence that we can see in the development of corporations in Elizabethan times a marked resemblance to corporations

of today. It is interesting to reflect on the developments in patent law, the close connection between patents and monopolies in European history and the conceptual distance between patent and monopoly in twentieth century enterprise. Over-shadowing the whole social process we have observed the influence of a religious value system which either accommodated itself to economic development or determined it through the rise of a Protestant ethic.

What is economic development and what relation does it bear to entrepreneurship? Certainly it is associated with it, for economic development we suggest, could not have preceded entrepreneurship, broadly conceived. Did entrepreneurship precede economic development or were they merely associated? Was economic development purely an economic phenomenon while entrepreneurship paralleled it as a social one? Perhaps one of the most definitive academic rallying points for these sort of questions was Joseph Schumpeter.

Schumpeter was from 1932 to the time of his death in 1950 Professor of Economics at Harvard University. Perhaps his best known work was "The Theory of Economic Development", sub-titled "An Enquiry into Profits, Capital, Credit, Interest and the Business Cycle". The English edition was published in 1934, but Schumpeter dates some of his ideas back to 1907 while all of them had been worked out by 1909. The book was published for the first time in German in 1911 and has thus been an important economic text for over sixty years.

While Schumpeter was trained in the Austrian tradition of economic theory, Max Weber was a representative of the German historical school and it is particularly interesting to speculate what effect Weber's Protestant Ethic, first published in 1904 may have had on Schumpeter. At that time Schumpeter was twenty-two, a brilliant graduate student in Vienna, destined like Weber to exert a significant influence, not only on pure economic theory, but on its relation to the wider social process. Clearly Schumpeter was not unaware of Weber's work, and indeed in his own "Theory of Economic Development" he observes that economic development is an object of economic history ".... which in turn is merely a part of universal history, only separated from the rest for purposes of exposition". (13) Because of the fundamental dependence of the economic aspect of things on everything else ".... it is not possible to explain economic change by economic conditions alone. For the economic state of a people does not emerge simply from the preceding economic conditions, but only from the preceding total situation".

Economic development cannot be explained in purely economic terms, but nevertheless Schumpeter feels it desirable to concentrate on an economic explanation, for, as he points out in a

note to the 1934 edition, if there is not some separation ".... it means spoiling the fruit of all if they are not kept apart and each is not allowed the right to grow by itself". Schumpeter's assumptions about psychology are minimal, but in the context of the above comments, and particularly considering the developments in psychology since the turn of the century, these minimal assumptions, if removed, do not detract from the main thread of Schumpeter's argument.

Nevertheless, he does very firmly link the entrepreneur with economic development, pointing out that he regards the entrepreneur as the bearer of the mechanism of change. His view of development is a closely reasoned economist's view. He sees development as a distinct phenomenon, conceiving the several processes in the economic system as partial phenomena of a tendency towards an equilibrium position. Real development is a disturbance of equilibrium which fundamentally alters and displaces the equilibrium state previously existing.

The United Kingdom economy experienced boom conditions in 1972; the sale of consumer durables, washing machines, colour television sets and new motor cars increased substantially along with the cost of living, share prices and property values. These factors could not be construed as real development and would probably not have been so viewed by Schumpeter. Development in his sense is that kind of change arising from within the system ".... which so displaces its equilibrium point that the new one cannot be reached from the old one by infinitesimal steps." The point we have made with consumer durables, Schumpeter makes with stage coaches, pointing out that we can add successively as many stage coaches as we please, but we will never get a railway thereby.

Development then is the carrying out of new combinations and would cover inter alia the following five cases which he cites:

1. The introduction of a new good - that is one with which consumers are not yet familiar - or of a new quality of a good.
2. The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new and can also exist in a new way of handling a commodity commercially.
3. The opening of a new market, that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before.

4. The conquest of a new source of supply of raw materials or half manufactured goods, again irrespective of whether this source already exists or whether it is first to be created.

5. The carrying out of the new organisation of any industry, like the creation of a monopoly position or the breaking up of a monopoly position".

While we have not detailed individual developments in our historical perspective thus far, it is not difficult to relate, if only by inference, our perspective to Schumpeter's criteria, and arising from this of course there must be identifiable changes in the social process associated with economic development. One of these is entrepreneurship.

Let us digress for a moment. By no means is it the entrepreneur's exclusive responsibility to see to it that society reaps the benefit of his efforts. We could view him as one of a number of partial phenomena in the displacement of the economic equilibrium; arising out of the combined efforts of several entrepreneurial ventures, society in time will either benefit or not. Unbridled entrepreneurship is as undesirable as unthinking sanction; the bridle must curb not destroy; but there must be reasonable curbs on entrepreneurial enthusiasm and desire for gain. Entrepreneurs are not the heroic figures that some writers have made them out to be. Not by the wildest stretch of imagination can we infer that the entrepreneurs in history, taken collectively, had the good of society at heart although some of them did. Many of them were inspired by motives that were less than admirable and some of them were downright villains, preying on poverty and seeking advantage wherever they might find it.

Whatever sanctions there may properly be upon enterprise, two things have stood out as essential conditions for entrepreneurship which contrast starkly free enterprise with a planned economy. In the first place there must be control over the means of production and in the second place there must be access to capital. The former point has been a fundamental assumption of the discussions so far and is as relevant for an economic perspective to-day as it was in history. On the latter point, the access to capital, we must dwell briefly.

If new combinations are to be created and if new productive means must be found then so too must be found a means to finance development. Either the entrepreneur has the capital at his disposal, which may or may not be tied up in disposable property and which can release capital, or he must borrow. At the individual level he can borrow from a financial institution, provided that those who are in the business of lending perceive his project as viable, or, as in the case of the Elizabethan corporation capital can be put together from different sources. What about the ultimate source of this capital?

If we view capital as a national resource, it is not limitless, it must come from somewhere. Schumpeter provides the conventional answer, namely that capital comes out of the ".... annual growth of social savings plus that part of resources which may annually become free". Logic tells us however that if the residue of previous development cannot provide adequate capital and if we are determined to look elsewhere, then we must create new capital and new purchasing power. The problem, and this is a problem of government, is to ensure that the new purchasing power created is not merely spent on consumption but contrives to create an imbalance in the economic equilibrium, so that while added purchasing power may very well be a consequence, the principal objective must be to direct capital toward new investment which can in turn create a measure of self-generating growth for the economy as a whole.

This is a thorny economic problem and not one which is within the scope of this chapter. We shall be returning to economics in Chapters VI and VII when we shall be discussing positive economics - the way things actually do work - as compared with normative economics - the way things might work if economists had their way. There is a link which we cannot pursue here, but which is worth noting, between Schumpeter, trained in the Austrian tradition and Milton Friedman the distinguished and controversial representative of the Chicago School of Modern Economists.

We have looked at the entrepreneur as the bearer of the mechanism of change associated with economic development, and we have looked at the phenomenon of economic development both from the point of view of definition and from the factors associated with it. We have established that no matter how desirable it may be to separate economics from other factors in the social process, economics of itself can do no more than contribute to a perspective, it cannot provide it. How fortunate if we were able to predict economic development before it takes place through some variable which can bring together the entrepreneur, the social process and economic development. David McClelland believes that he has something to say.

ACHIEVEMENT MOTIVATION

"In a sense the test of whether an increase in n Achievement leads to more rapid economic development would lie in a "social experiment" in which attempts were made to introduce policies which would increase n Achievement in one country to see whether they produced more rapid economic development than in other comparable countries where these policies were not introduced". (10) The logical extension of many scientific hypotheses is slightly crazy, but the hypothesis suggesting a link between n Achievement and economic growth is anything but.

In a scholarly work carefully documented and drawing heavily on a substantial body of empirical research findings, many of them his own, McClelland creates a fascinating if not an entirely persuasive picture linking Achievement to economic development. The experimental design is impressive. Viewing man as creator of his environment he uncovers achievement related imagery in stories which may be presumed to reflect standards of importance to various cultures not least the American. Achievement is viewed as a need, like any other need. But since actual achievement may not necessarily be considered a satisfactory index of the strength of the assumed need to achieve ".... any more than dating can be considered a safe measure of the strength of the hunger drive" (11) the interpretation of spontaneously expressed thoughts may be expressed quantitatively in a score of Achievement.

The expression of the need must not be conscious from the experimenter's point of view; correctly interpreted fantasy and a standardized means of interpreting it are far more reliable indicators. If we can assume that stories, folk tales and the various spontaneous writings which emerge from a society are representative of a value system which that society upholds and are at the same time truly spontaneous, then by so doing, we get an idea of what the society was like at the time even though it has long ceased to exist. It is perhaps permissible to score stories for achievement imagery in the same way as controlled contemporary experiments.

Two groups writing a story around an open ended picture may well be expected to produce differing results if the experimental group receives different instructions to those given to the control group. For example male university students were introduced to the situation (McClelland et al 1953) by being told that the tests that they were taking directly indicated an individual's general level of intelligence and also brought out whether or not he was suited to be a leader. Such a challenge to an American male could hardly fail to produce a different response to that of another American male who had received different and entirely neutral test instructions. This then was one of the first building blocks of McClelland's hypothesis which led him to postulate the existence of a need for achievement. The methodology is beyond the scope of this enquiry and one is bound to say that if some writers have regarded it as less than ideal nevertheless it was McClelland and not they who undertook a Herculean task and performed it admirably. A body of knowledge may only be increased by discussion, debate and argument and if McClelland contributed the topic, his opponents have very properly created the controversy.

As to what achievement motivation actually is this is in some respects difficult to entirely establish. Burris, (1) discussed openly with some university students the achievement

imagery in their imaginative stories. Matched control groups were counselled in terms of how to study or not counselled at all. At the end of eight weekly counselling sessions it was found that the subjects whose achievement motivation had been discussed with them showed a significant rise in scores of n Achievement in a second administration of the same phantasy test. It appears that Burris was testing n Achievement but like many nebulous concepts perhaps all we can say, rather unkindly, is that it proves he was testing something called n Achievement, but maybe only the scores have changed. Burris followed this up by checking on school performance and found that those whose n Achievement scores had been increased in the counselling sessions showed a greater increase in marks in the following term than did two control groups of peers.

So we know that there is such a thing as n Achievement, we know, but cannot entirely describe, what it is, and we assume that it may be varied depending on stimuli in the individual's culture. From here McClelland expands the argument on to an economic front. Bringing together concepts of motivation, economic development and cultural influence he leads us into a discussion on various correlates of economic development.

Anti traditionalism is, according to McClelland, probably the most widely accepted rationale for some nations developing more rapidly than others. Those that develop more rapidly are more willing to break with the traditional strictures on their society and to accept the social and technological innovation of a new order. At the same time there are "universalistic" as opposed to "particularistic" norms for acceptable behaviour and in this regard McClelland points to a code of laws which applies equally to all individuals in the society, regardless of birth. This relates to a further correlate whereby achieved status distinctions should be more easily discernable in rapidly developing economies whereas ascribed status (status based on criteria bearing little relation to either potential or achievement) would be prevalent in slow growth situations. A prime example of ascribed status is a country such as South Africa where no advancement is possible beyond a certain limit to an individual with the wrong colour skin. And of course this is one of the difficulties which McClelland must face. South Africa under a ruthless and single minded white minority displays many of the worst excesses of oppression, intolerance and iniquity alongside an economy and a minority value system which might otherwise have delighted McClelland.

In South Africa a powerful Church provides an almost magical justification for the ideologies of government. A Church which takes a positively flat earth view on things and which has a naive belief in miracles, can in no sense of the word be regarded as rational and yet rationality is one of the criteria and one of McClelland's correlates for economic growth. Perhaps one is slightly unfair to McClelland because he does point out that he is talking about rationality in planning and hence its relation to a

system of production. But the important point is that McClelland's tests are unable to completely incorporate the nuances of the various societies of today, and if this is true of contemporary society how much more must it be true of a retrospective analysis?

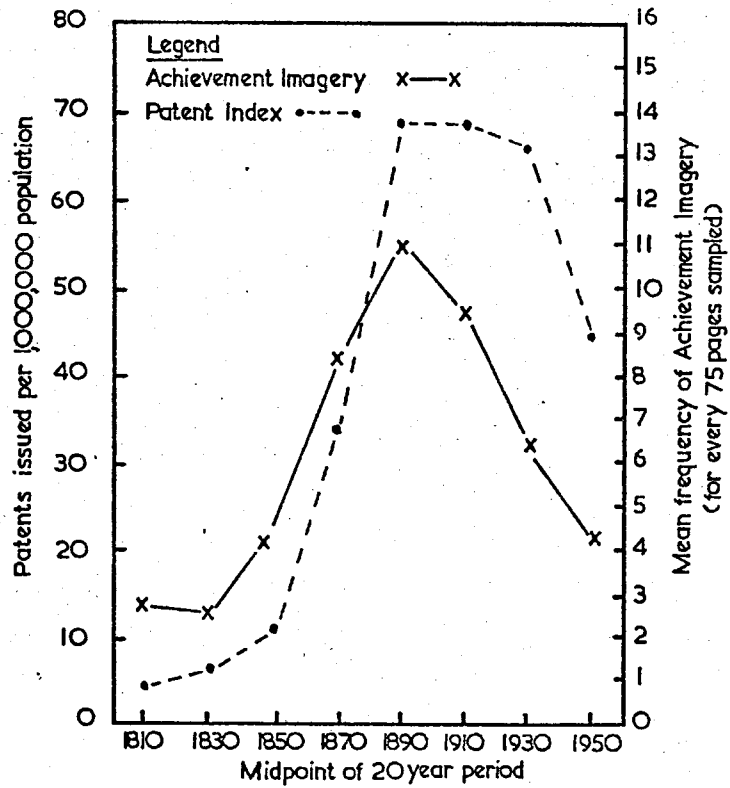
Nevertheless McClelland's correlates which include such things as "collectivity" versus "self orientation", "optimism", "affective neutrality" and "functional specificity" have considerable value even though they have been dismissed by at least one writer as a "laundry list" of factors. (18)

While McClelland does not for a moment assert - as some writers have thought - that Achievement is the single prime mover in economic development, he nevertheless has some fairly immodest claims concerning its universality. He sees Max Weber's Protestant ethic for example as a special case of a general increase in Achievement produced by an ideological change. This is a tenuous assertion, but the fact remains that McClelland has produced a highly original and extremely valuable contribution to knowledge. There is little doubt that entrepreneurship is associated with economic development but de Charms and Moeller (1961) persuade us that a rise in achievement imagery precedes economic development as reflected in a patent index, at least in America. The graph of their findings is reproduced below.

FIGURE 2-1

ACHIEVEMENT IMAGERY AND THE PATENT INDEX

1810 - 1950



Sampling every third page of four American text books considered typical of each twenty year period from 1800 to 1950 they obtained attainment imagery scores as plotted above. It can be seen that a wave of achievement motivation rises from 1800 to a peak in 1890, dropping thereafter. On the same graph they represent the number of patents granted per one million population, but there is an important caveat to this representation. On the face of it their findings are by no means conclusive. The patent index appears to rise at more or less the same rate as the achievement imagery. If we accept that the patent index is indeed related to economic growth and that it takes time for patents to be reflected in economic development then ".... the psychological and technological basis for American prosperity in the early twentieth century appears in the records of the late nineteenth century". (4) The next logical assumption is that the link between the two curves would be the entrepreneur.

McClelland has demonstrated the inter-relation between entrepreneurship, economic growth and the values of a society in much the same way as Max Weber hypothesised them. Moreover, it appears that while society's values condition an entrepreneurial response, that response is reflected and can be measured, prior to the actual growth. His is a persuasive argument and more than ever underscores the importance of the entrepreneur in economic development and hence in the social process.

Looking back through history we have seen the presence of some observable economic phenomenon which, to use Schumpeter's terms, creates a fundamental shift in the equilibrium of a society and this shift is irreversible. Schumpeter, making minimal assumptions about psychology, drew a picture of a number of economic variables coming together to produce a significant re-organisation of the social process. Whereas McClelland's and Weber's explanations are primarily sociological, Schumpeter's is primarily economic. But clearly a fundamental change can only be brought about by individuals in a society and these individuals, we have loosely termed, entrepreneurs.

None of the writers so far is prepared to categorically assert that his is the only explanation. None of them rules out the importance of other variables, although, understandably they feel that the variable that they have chosen is a fundamental if not a primary determinant. The picture of economic growth is interwoven with both determining and associated variables. There are certain factors which foster and nurture the phenomenon of growth. We have, for example, looked at the respectability of money making as one of them. Another is access to capital and we have seen that those most likely to have access to capital are the elites in the society. Moreover those who create significant economic change must have control over the productive means of giving that change the further impetus it

requires to become irreversible in time; the entrepreneur's influence on society bears a dynamic relation to society's influence on the entrepreneur. What is it that precedes the phenomenon of entrepreneurship?

THE WITHDRAWAL OF STATUS RESPECT

Economic growth is clearly associated with political and social change, but this does not mean that economically underdeveloped societies can change their growth pattern merely by imitating the economic processes which have occurred in developing societies. An economic explanation is as insufficient as a purely sociological one but if we assume that purely economic factors may at any suitable time be built into a societal explanation - assume for example the presence of unexploited natural resources - then we are free to concentrate our attention on the sociological changes which must accompany economic development. Thus, in the same way that Schumpeter saw an irreversible shift in economic equilibrium so it is reasonable to look for a shift in the value system of a society.

Everett Hagen (7) refers to two important studies, one by Lipset (9) and one by Coleman (3) which demonstrate a correlation between economic change and a transition from authoritarian to "competitive" politics in Asia, Africa, and Latin America. He maintains that the same relationship is found in every country elsewhere which has experienced economic growth. Economic growth clearly involves a significant transition from one type of society to another and Hagen feels that the existence of problem solving ability - and of course the willingness to use it - is one requirement for this transition. Creative ability, however, is not of itself sufficient; it could, for example be directed towards art, politics, or philosophy and therefore a further requirement must be that the creative energies of individuals are channelled into industrial innovation.

Hagen suggests that the traditional state of a society is associated with a low level of creativity whereas the reverse would apply for a growth oriented society. In economic terms it would be easy to categorize a traditional society as one which perhaps for years has been agriculturally based and which has shown no observable technical progress, but Hagen is more interested in two other characteristics of traditional society and here we can see some relation between Hagen and McClelland. Firstly, a traditional society is essentially a hierarchical structure so that each individual, depending on his place in the hierarchy, both receives and dispenses an authoritarian view of things. He is submissive to the authoritarian decision of his superiors and in turn passes this authoritarianism on to those below him who are expected to be submissive towards him.

Secondly, status in this type of society is not earned but inherited. Thus there is little room for social mobility and hence little prospect of social change. McClelland's use of the term "particularistic" and his observation of the difference between achieved status and ascribed status bear some considerable similarity to Hagen's observation. Moreover it would not be difficult to fit a highly structured religious framework into the discussion, as Weber did. A highly stratified European society with a wide gap between nobility and peasant together with a relatively inflexible hierarchy in the Church, gives Hagen's description added validity. In this sort of society everybody knows his place and perhaps, more important, there is neither the possibility - nor indeed the desire - for that place to be changed.

One further point is important. This type of society persists because the individuals who comprise it are essentially satisfied with the status quo. This is not a society where the masses are kept in their place by force; those at the lower levels of the hierarchy, which comprise the majority of the population, are not fighting the system, they are perpetuating it. We may make a general observation to the effect that in societies which undergo radical social change it is not the peasants alone that inspire radical social change from a traditional society to a more egalitarian one. It is those who already, for one reason or another, are experiencing some social mobility. We are talking therefore of the aspirant rich rather than the desperately poor. Maybe the nobility initiate the change but it is those anxious for a larger share of the national cake who give change its momentum.

In discussing traditional society therefore we are discussing not so much a static structure but rather an ingrained set of attitudes which has become self-perpetuating. The individual in any society tries to justify himself to himself. If he was born to privilege then it is likely he will justify to himself that he is inherently superior to others. By the same token those individuals occupying different places in the hierarchy, with no reasonable chance of changing their status are likely to accept their role somewhat passively. This is a reasonable sociological axiom but let us look a bit more deeply into it to see if we can find an explanation; for we are talking not so much of a formal structure but of an attitude of mind and we suggest that that attitude of mind perpetuates itself because it is essentially satisfying to the individual. Because it is so satisfying he has no need to seek other means of psychological satisfaction. If there is no need to seek further psychological stimulation through action which is contrary to the mores of a particular society, then that society is likely to remain static.

The above outline is not an explicit part of Hagen's theory but perhaps it is permissible to insert it here. Hagen moves on to the concept of creativity by way of further explanation. He contrasts a creative with an uncreative personality, correlating an uncreative personality with low need Achievement, low need autonomy, high need dependence, high need submission and dominance and a somewhat deterministic view of the world. Conversely high creativity would be associated with high need Achievement, high need autonomy and ".... a sense of the phenomena about one as forming a system which is conceptually comprehensible" (7)

Hagen seems to be implying that if the world about us is conceptually comprehensible then because we understand it we can master it. "A person who has high need achievement feels a sense of increased pleasure when he faces a problem or notes a new or irregular phenomenon in a field of interest to him; by the pleasure he anticipates in using his capacities he is drawn to use his energies to understand and master the situation. A person with high need autonomy takes for granted that when he has explored a situation in an area of interest to him, his evaluation of it is satisfactory. He does not think he knows it all; he seeks ideas; but when he has thus gained a perspective he assumes that his discrimination and evaluations are good; he feels no anxiety about whether the judgements of other persons differ from his. He does not rebel against the conventional view for the sake of rebelling, but neither does he accept it because it is generally accepted" (7). In other words, Hagen seems to be saying that the high creative person, not found in traditional society, has the self confidence to use his problem solving capabilities to achieve something and at the same time he can face the consequence of his evaluation and his action, with relative equanimity. The reader will see more of this general theme in later chapters where we discuss entrepreneurial motivation and the aetiology of independent entrepreneurship.

Hagen's explanation which we have supplemented, confronts us with two distinct personality types. The authoritarian personality type, Hagen feels, explains why many people in traditional societies, not only are prepared to follow traditional methods, but almost compulsively cling to them. Moreover Hagen looks back at parental attitudes to further clarify his position.

The mother who treats her child over-solicitously is effectively keeping him from using his initiative. The use of initiative alarms the child because the child perceives that it alarms the mother hence causing him anxiety. By passively obeying instructions therefore he manages to avoid anxiety and achieves a relatively stable state of mental equilibrium. Thus lack of initiative is continually reinforced not only by any individual but also by wider society as well as through other love objects in his social

constellation. We are therefore faced with a self perpetuating system. Parental attitudes create an authoritarian submissive response in children which is reinforced by wider society. The children themselves as they mature and create will in turn engender similar attitudes in their children.

This sort of explanation is one which is not peculiar only to Hagen. It is to be found in many serious psychological and sociological writings. While not strictly on the subject of authoritarianism perhaps it would be useful to digress briefly to find support in principle for this view on psychological determinants of personality.

Winterbottom (1953) undertook a study to discover how parents, or more particularly mothers, produced a strong interest in achievement in their sons. Her findings were that mothers of high n Achievement eight year old boys expected their sons to master various activities relatively early on. The boys were expected to know their way around the city, make their own friends and do well in competition as well as being active and energetic and try hard to accomplish things for themselves. Low n Achievement children had more restrictive mothers. The parents had to approve of their sons playmates and were not expected to make important decisions by themselves. In essence therefore the mothers of sons with high n Achievement expected their children to achieve self reliance and mastery at an earlier age. Winterbottom's findings are an interesting complement to what has been discussed above. If nothing else, parental attitudes have a significant effect on children's behaviour and in the context of the above discussion it is quite reasonable to draw an analogy between authoritarianism in parents and its consequence in the behaviour and attitudes of their children. But if the attitudes are self perpetuating, how is the vicious circle to be broken?

SOCIAL CHANGE

Hagen felt that there was some important historical shift which occurred during the transition from the traditional state to continuing economic development. This historical shift caused some groups or ".... groups of the lesser elite, who previously had had a respected and valued place in the hierarchy, to feel that they were no longer respected and valued. This derogation in some societies consisted of explicit indication of contempt for the functions or position of the lesser elite, in others of behaviour by a new higher elite which seemed immoral, unmanly or irreligious to the group below them and thus indicated contempt for the moral standards of the lesser elite". (7)

Hagen refers to such events as the "withdrawal of status respect" from the group no longer accorded its old place. In other words a group which originally was highly respected within the traditional hierarchical structure of the society has somehow come to lose this respect. An anxious driving type of creativity is engendered in the group which has lost status respect and Hagen

speculates as follows: "I suggest that among the adults of the first generation so affected, the reaction is anger and anxiety. Their children however, seeing their parents role in life causes anxiety, do not find it a fully satisfying model. Alternative roles are in general not open to them, and so they respond by repressing somewhat within themselves their parents' values - by ceasing to have any role values with the same clarity and intensity their parents did".

The process is cumulative over succeeding generations so that in some subsequent generation there appears pronounced "normlessness". The group which experiences this normlessness, no longer has the traditional values to cling to and so it must make values of its own, which, in the fullness of time, it does. This is by no means an instantaneous process and it is this "withdrawal of status respect" that Hagen feels can account for a variant individual. In most aspects of his behaviour he is traditional and authoritarian so conforming to the society that has influenced him but then he dares to be bold and creative in some other aspect. Hagen feels that Henry Ford, J.P. Morgan, and other such legendary entrepreneurial figures emerge as creative individuals alienated from traditional values with a drive to prove themselves both to themselves as well as to others.

The outcome of an alienation from traditional values, precipitated by a withdrawal of status respect, is an "innovational" personality. The individual will turn to some role model with which he is familiar or with which he can identify, but this role model must bear some relation to the opportunities in the real world.

In this chapter our orientation has been concentrated largely on the society which influences the individual, discussing various factors, economic, social and political. In the following two chapters, we will focus more on the man, the product of a society. We shall be investigating the influences on the individual exerted by his environment, background and circumstance and we shall consider the problem of definition, which thus far, we have set aside in order to paint a backcloth against which to consider the man who is called the entrepreneur and the phenomenon which we call entrepreneurship.

CHAPTER IIREFERENCES

1. BURRIS, R.W. The Effect of Counselling on Achievement Motivation. Unpublished Doctoral Dissertation. University of Indiana 1958. Quoted in McClelland 1967 (10).
2. COLE Arthur H Business Enterprise in Its Social Setting. Harvard University Press. 1959.
3. COLEMAN J.S. with Almond G.A. et al. The Politics of the Developing Areas. Princeton University Press. 1960.
4. De CHARMS R & Moeller G.H. Values expressed in American Children's Readers. 1800 - 1950 J. Abnorm. Soc. Psychology. 1962.
5. GILBERT Felix Machiavelli and Guicciardini. Politics and History in Sixteenth Century Florence. Princeton University Press. 1965.
6. GOUGH J.W. The Rise of the Entrepreneur. B.R. Batsford. London. 1969.
7. HAGEN Everett E Journal of Social Issues. January 1963 pages 20 - 34.
8. LANE Frederic C Andrea Barbarigo, Merchant of Venice, 1418 - 1449. Baltimore 1944. Quoted in Cole 1959.
9. LIPSETT S Some Social Requisites of Democracy: Economic Development and Political Legitimacy.. Amercian Political Science Review Vol. 53. March 1959.
10. McCLELLAND David C The Achieving Society. The Free Press. New York. 1967.
11. McCLELLAND David C., Atkinson J.W., Clark R.A. & Lowell E.L. The Achievement Motive. New York. Appleton - Century - Crafts. 1953.
12. MILLS C Wright White Collar. New York. Oxford University Press 1953.

13. SCHUMPETER, Joseph A. The Theory of Economic Development. Oxford University Press by arrangement with the President and Fellows of Harvard College 1961. Reprinted 1969.
14. STONE L. The Nobility in Business. Papers entitled "The Entrepreneur" presented at the Annual Conference of Economic History Society in Cambridge (UK), April 1957, published by the Research Centre in Entrepreneurial History. Harvard University.
15. VEBLEN Thorstein Quoted in Mills C. Wright. White Collar. New York. Oxford University Press 1953. See also: Theory of the Leisure Class New York. Macmillan 1912.
16. WEBER Max The Protestant Ethic and the Spirit of Capitalism 1904. New York. Scribner. 1930.
17. WINTERBOTTOM Marian R. The Relation of Childhood Training in Independence to Achievement Motivation. Unpublished Doctoral Dissertation. Michigan University 1953.
18. YOUNG Frank W. A Macrosociological Interpretation of Entrepreneurship in Kilby. Peter Kilby Entrepreneurship and Economic Development. The Free Press. New York. 1971.

CHAPTER III

REFINING THE CONCEPT OF ENTREPRENEURSHIP

"He's a poet, he's a vicar
 He's a prophet he's a pusher
 He's a pilgrim and a preacher
 And a problem when he's stoned.
 He's a walking contradiction
 Partly truth and partly fiction
 Taking every wrong direction
 On his lonely way back home."

The Pilgrim. Chapter 33 Kris Kristofferson.

THE PROBLEM OF DEFINITION

One common theme running throughout the previous chapter was that there was no single identifiable determinant in the phenomenon which we called entrepreneurship; implicit also in the mainstream of the discussion there are two further important themes. In the first place we hardly defined in specific terms what exactly we meant by entrepreneurship. Thus far the omission has been intentional and following from this comes the second tributary in the discussion; entrepreneurship is a dynamic phenomenon and as such is subject to varying interpretation depending upon not only the academic leanings of certain writers but also on the condition of a society and its place in history.

Perhaps the problem of definition arises from both the dynamism of entrepreneurship and its multi-disciplinary nature. Economics might seem to hold the key to defining the concept of entrepreneurship for there is some clear economic consequence to the phenomenon. Without entrepreneurship economic growth could not take place, this would now be difficult to dispute. There are problems in defining entrepreneurship in terms of real growth in the gross national product over time and there would be difficulties in defining it in terms of various other economic indicators; so perhaps Schumpeter's concept of an irreversible shift in economic equilibrium is, for the time being a satisfactory general conception, although there are certain matters on which we later take issue with Schumpeter. More and more over time entrepreneurship has become, at first associated with, and increasingly, synonymous with economic growth. We should be interested not so much in rigorous definition as in conceptual understanding, but these go hand in hand for we cannot define what we do not understand and we cannot understand what we cannot define.

The entrepreneur is the individual who contributes to entrepreneurship and economic growth, but how shall we define him? If society is in a continual state of dynamic equilibrium and if that equilibrium point is irreversibly if gradually shifting we can identify the phenomenon of entrepreneurship and we attribute it to the actions of those we call entrepreneurs. Perhaps, if we can refine the concept of the entrepreneur we can more closely identify an aetiology and so complement our understanding with prediction.

We set an arbitrary date in history for the commencement of our enquiry and we noted the process whereby the nobility of the mid sixteenth century sought some means of enriching themselves. They were the ones with access to capital and royal favours; they were in a uniquely powerful position of privilege and influence and these factors, combined with opportunities in their environment led us to identify the entrepreneur of the sixteenth century with the nobility of that period.

As controller of the means of production of that time we can identify other entrepreneurial types. Changing mores of society were associated with the rise of the entrepreneur from the stratum of society slightly below the nobility and we saw the emergence of a well-to-do merchant class. As well as controlling the means of production therefore the entrepreneur, seen economically, became a "factor of production" himself. From mercantile pursuits we can identify a "sedentary merchant"; an element of professionalism begins to become associated with the entrepreneur. This is no longer a pursuit which is taken up to occupy noble minds nor is it merely undertaken to provide money to sustain pleasure; the entrepreneur becomes an identifiable person who sees a career for himself in commerce associated with the conspicuous symbols of success. His motivation at this stage does not perhaps conform to the rigorous value system of Calvinism or Catholicism at that time and his motivations become very much more obscure.

Under the influences of a changing society however the entrepreneur emerges as a concept almost synonymous with "capitalist" or "risk-taker". But if he is contributing capital to a project, if he organises a project, then perhaps we may call him a "projector". Organisation requires decision making and so the entrepreneur assumes the role of "decision maker". From here it is an easy step as we trace the development of society to the present time, to view the entrepreneur as a "manager" or perhaps, more graphically a "tycoon".

Entrepreneurship is a phenomenon identified with a changing social process. Entrepreneurship can be approached from a variety of stand-points, most frequently Sociological, Economical and Individual and it is not a static phenomenon. When we chart a path through history we do not see the same man emerging as the entre-

preneur; where once he was noble he later became a challenge to the established order; where once he was a hero, a source of both myth and inspiration, he increasingly becomes identified with the broad concept of "manager". In developing economies the entrepreneur performs an important economic function and if it is performed with a disregard for the prevailing mores of the society, if he emerges as an exploiter of poverty and a target for social self righteousness at least economists are comforted by the beneficial effect he exerts in purely economic terms. In the sophisticated and advanced economies of the Western world, the multi-national corporation, the conglomerate, and the corporate household word has assumed many of the functions which the entrepreneur once performed. The concentration of corporate power into fewer and fewer hands has quite reasonably led commentators to identify entrepreneurship by the tasks that the entrepreneur performs both in the corporation and in society.

Against society's changing perception of the individual entrepreneur, set against the background of a continually changing social process, it is understandable that few, if any, definitions of the word entrepreneur are entirely satisfactory. By function, the entrepreneur is not easily distinguished from the chief executive of any corporation. By economic usefulness the entrepreneur is perhaps appropriately identified with "management" and the strategic decisions which top management is required to take; by obligation the entrepreneur as manager must give way to his subordinates, he must ensure succession and he must bow out at the appropriate time. By individuality, - by personality, by background and by motivation we shall be distinguishing between the independent entrepreneur as defined for our purposes, and the manager.

The popular concept and stereotype of the entrepreneur embraces independent commercial action undertaken by a variety of individuals from men with barrows to a chief executive somewhere between Billy the Kid and Paul Newman at his sophisticated best. One of the aspects that is immediately apparent in this popular conception of entrepreneurship is that of independence. The entrepreneur is his own man by choice and hence by commitment. If he fails he is not told; "You did your best, but your annual bonus is reduced." He is totally involved with his enterprise, its success is his own success and he must bear the consequences of failure himself. He may be seen as a ruthless tycoon intent on changing his environment and his circumstances, but if, as manager, he fails, if his political position in an organisation becomes untenable, he can move to another. If as owner-manager, his enterprise should founder, it is a man as well as a corporation who is both financially and psychologically destroyed. Let us define our concept of the entrepreneur and then let us review the concept through the different approaches, Sociological, Economic and Individual.

We see an Independent entrepreneur as an individual whose decisions directly determine the fate of a commercial enterprise over which he exerts control by reason of shareholding and in which he operates as an executive policy-maker. He is entitled to the proceeds of the disposal of his shareholding. He is not a nominee, he is the king-pin of the enterprise.

REFERENCE GROUPS:

Who are you? Three-quarters of the people asked this question in two studies (22) replied with their name. The majority of responses then went on to place individuals in a social context in terms of the role they performed in the family, their religious, political, social affiliations, their occupation and their social status. People relate themselves psychologically to groups with which they identify. They hold similar attitudes to those held by a group and they move in the same social strata whether in fact or by aspiration. Thus, the individual's membership group need not be the same as his reference group. He may be a member of a particular group for a variety of reasons which could include physical proximity or occupational necessity; he may even hold certain attitudes held in common by the members of the group, but notwithstanding membership, the group to which he would, in an ideal world, like to belong, his reference group can be more influential to the individual, his future career choice and value orientation. He will likely hold a "cluster" of attitudes which he perceives to be those held by his reference group.

No less than others, the entrepreneur is a product of the social process in which he grew up or with which he has identified. He has a perception of himself as an individual in relation to a society, a nation, a sub-group. He has a concept of himself in relation to his environment and he will behave accordingly. It is likely that there will be some consistency in his behaviour from one situation to another. This consistent pattern of behaviour may result from his life experience, his inherited characteristics and his attitudes towards his personal environment. The emergence of his being is influenced by his abilities to give and take with other individuals and his identification with, or his dislike for, patterns of existence. The entrepreneur as we have defined him is a man among men and if he is distinguished from his peers by virtue of his self-perceived entrepreneurial status, his personality is no less the outcome of both heredity and his life experience than is that of his fellow citizens.

In the previous chapter we suggested that entrepreneurs did not form a distinct social class. Nevertheless they are, by virtue of their entrepreneurship, different from their fellows. Perhaps they are the outcome of a class, for the entrepreneurial response may be stronger in one social class than in another relative to its size in relation to the total population. Certain classes may produce proportionately more than their fair share of entrepreneurs. In this regard perhaps the supply of entrepreneurship parallels not only the respectability of money-making as a

phenomenon in a society but it is also the consequence of a particular section of the population having more opportunity to become entrepreneurs. This opportunity may be a function of education, family background or the individual's place in the hierarchy of money and status in a society.

OPPORTUNITY, EDUCATION AND ATTITUDE OF MIND

The logic for equating entrepreneurship with management is persuasive if only because there is less opportunity in the advanced capitalist economies for the individual to wield economic, industrial and political influence through the enterprise which he has built up. Increasingly the entrepreneurial function has been assumed by the corporation although quite probably that corporation has been one which was founded by an entrepreneur, which grew substantially under his guidance until his retirement from the scene and which has endured after his passing. The social fabric of the United States presented a golden opportunity for a number of men whom we now regard as entrepreneurs. Eli Whitney, Edison, McCormick, J. P. Morgan and Henry Ford have an assured place in the history of the United States; the organisations that they founded and built up have prospered in subsequent years under the guardianship of professional managers and inheritors. The mere creation of a number of significant and enduring enterprises places a limit on the opportunity for others to create enterprises similar in activity and in size. Economic opportunity is not limitless in a free enterprise economy for where previously a number of individuals were competing with one another for an opportunity to print their name on history and to make a great deal of money by recognising an opportunity and being the first to exploit it, now the competition has increased. The alert chief executive, the professional manager in the large corporation, regards it as his duty to scan his environment for opportunity while at the same time managing an already substantial enterprise. Thus he is performing the same function as the entrepreneur, although as an individual his characteristics and his motivation may be entirely different.

The manager, no less than the entrepreneur, may find himself totally involved in his managerial responsibilities, but his attitude of mind is likely to be different from that of the entrepreneur. The ownership of a business in a free enterprise society operates as a source of both myth and inspiration; it derives from an urge for independence and a desire to be left alone. Collins et al see it as an effective safety valve in society. They regard it as "... in a sense a kind of permanent revolution which does not involve direct attack on the established citadels of power." Instead of having to rise up a hierarchy of authority figures however, the Independent entrepreneur is seeking freedom from authority. His reference group is not the same as that of the manager who is required to move progressively

through an established hierarchy and adapt his role to a particular situation. Times have changed since Alexis de Tocqueville observed; "In the United States as soon as a man has acquired some education and pecuniary resources, he either endeavours to get rich by commerce or industry or he buys land in the bush and turns pioneer. All that he asks of the State is not to be disturbed in his toil, and to be secured of his earnings. Among the greater part of European nations, when a man begins to feel his strength and to extend his desires, the first thing that occurs to him is to get some public employment." (11)

Now, nearly one and a half centuries later, America still operates largely according to a doctrine of laissez faire; competition is encouraged and entrepreneurship respected but America, whose people derive from a European heritage which they have adapted to their style of life, has bred a vigorous middle-class, whose members, while they may admire many aspects of entrepreneurs and entrepreneurship, are increasingly drawn to make their careers in the large corporation. The trend is perhaps similar to what de Tocqueville observed in Europe. The enterprise which flourished under entrepreneurial influences and which survived the entrepreneur has grown and prospered perhaps through the efforts of his decedents but as generations pass, increasingly the professional manager comes into his own. Education and social standing are two important variables in this process.

We looked previously at the social conditioning of entrepreneurship and we considered such factors as the respectability of money making as an essential pre-condition. We were considering change in less developed societies and we were looking to history for many of our guidelines. Cochrane (8) suggests that a society, through its culture and its circumstance, evolves a modal type of personality and it is to him that we owe our concept of the modal entrepreneur seen as a corporate executive; ".... it seems reasonable to suppose that a generation of executives was being trained with fewer fixed values, less secure principles, greater tendencies to be influenced by those around them, in a word to be good organisation men". The executive plays a role conditioned by his background, his childhood experiences and the values which have been imparted to him by his parents, together with those values he has absorbed from wider society.

Education and background feature as important variables in the comparison of entrepreneurs with corporate executives. The Modal Entrepreneur is therefore similar to the business hierarchy, the executive, or, broadly speaking, the manager, for these men are ".... reared in the equalitarian atmosphere of an outgoing, pragmatic, democratic society. They are taught from childhood on that co-operation for mutual benefit is good, and the type of individualism they develop does not stand in the way of easy relations with their peers." (8) Individuals they may be, but Independent entrepreneurs by our definition, they are not.

Studies throughout this century, particularly in America confirm a growing difference in background and education between entrepreneurs and corporate executives. A few of these studies have become classics and among these is undoubtedly the study by Collins *et al* of the motivation and tribulations of 110 entrepreneurs in the Michigan area. (10) Another classic study was conducted by W. Lloyd Warner and James C. Abegglen. In their "Big Business Leaders in America" (23) they studied by questionnaire 8,562 executives and in addition personally interviewed a number and administered a Thematic Apperception Test to them. The broad trend which emerged in these studies supports our distinction between a Modal entrepreneur and the Independent which we have defined and later we shall refine our definition of the entrepreneur, both in terms of size of the corporation which he administers, and in terms of personality characteristics and abilities and we shall thereby distinguish between the Elite entrepreneur and the Ubiquitous entrepreneur.

EDUCATIONTABLE 3 - 1

EDUCATIONAL LEVEL: ENTREPRENEURS COMPARED
WITH BUSINESS LEADERS AND GENERAL POPULATION
IN MICHIGAN

Educational Level	Percentage of Entrepreneurs*	Percentage of Business Leaders **	Michigan Percentage of Population 25 Years Old and Older in 1960***
Less than high school	17	4	37
Some high school	19	9	22
High School graduate	25	11	26
Some college	19	19	8
College graduate	20	57	7
TOTAL	100	100	100

* Number of entrepreneurs reporting level of education, 84.

** From Table 39 in Warner and Abegglen, "Occupational Mobility in American Business and Industry", op. cit., p.96

*** Computed from data appearing in U.S. Bureau of the Census, U.S. Census of Population: 1960.

Source: The Enterprising Man, Collins, Moore & Unwalla, op. cit., p.237

Perhaps the most striking figure in this comparison is that 57% of business leaders were college graduates compared with a mere 20% of entrepreneurs. We also see that it is not easy for individuals with less than a high school education to become business leaders; the majority of business leaders have been through the educational system, have probably absorbed the values which it has imparted and perhaps rather than become Independent entrepreneurs they have opted for a career in a corporation.

TABLE 3 - 2

FATHERS' PRINCIPAL OCCUPATIONS: ENTREPRENEURS
COMPARED WITH BUSINESS LEADERS

Fathers' Principal Occupation	Percentage of Entrepreneurs*	Percentage of Business Leaders**
Unskilled or semi-skilled laborer	18	5
Skilled laborer	12	10
Farmer	19	9
Clerk or salesman	6	8
Minor executive		
(including foreman)	2	11
Owner of small business	25	17
Major executive		15
Owner of large business	1	9
Professional men	10	14
Other	6	2
	99	100

*Number of entrepreneurs reporting, 80

**From Table 5, Warner and Abegglen, "Occupational Mobility in American Business and Industry", op. cit., p.45.

Source: The Enterprising Man, Collins, Moore, & Unwalla. op. cit., p.239

None of the entrepreneurs in this sample were the sons of major executives and yet 15% of business leaders came from this background. We would expect a very low percentage of business leaders to have come from unskilled backgrounds and we can see in general that business leaders are more steeped in the middle-class tradition than are the entrepreneurs.

Opportunity plays a part in this process. The sons of unskilled labourers, the children of lower middle-class parents, will very probably have absorbed a different value system and will have been exposed to social situations different to children of middle-class parents. Accordingly they will be less likely to see their future role in life as one of progression up a hierarchy; they will be less likely to perceive themselves in the role of the middle-class executive; but even should they aspire to executive status and a cluster of attendant attitudes and values, there still remains the task of climbing the ladder.

We have identified education as a significant factor in the career of the business leader. The longer he stays in the educational system the more adept does the student become at dealing with life situations in a middle-class environment. He gains, through his education, an adroitness at dealing with the nuances and subtleties which make him acceptable in a social environment. The man who has not been through this education process has to learn by his experience of life; he is not instructed in life. He is less likely to get a helping hand from his parents; but even should they share his ambitions for social advancement and be willing to give what help they can, it is probable that assistance will be orientated toward education as a means to advancement. They will not have the power to generate opportunities in a business environment nor will they have the financial wherewithall to launch their son in a business career on his own account. If social advancement was difficult during the time that the aristocracy reigned, the new corporate aristocracy has made social mobility no less difficult for outsiders if easier for its sons. As C. Wright Mills points out: ".... the best statistical chance of becoming a member of the business elite is to be born into it." (16)

In a study of a 185 American business leaders between 1901 - 1910 William Miller found that only 14% had founded their own businesses. Almost half of the sample were men who rose through a hierarchy in an existing business and 25% had inherited their business through family connections. The remainder of Miller's sample were lawyers. By 1950, in a further study of 159 big business presidents, only 2½% had started as self-employed. These findings we suggest, support our distinction between the Modal entrepreneur and the Independent. (15)

REVOLUTION, CREATION AND SIZE:

If the act of entrepreneurship is an acceptable means of revolution within an established social order, it is also an act of creation. Through his enterprise the entrepreneur expresses himself as an individual. He extends the parameters of his influence and creates his own personal environment; both his being and his corporation are labelled private property and encroachment is not encouraged. Seen as an act of creation and a means of self-expression, entrepreneurship can scarcely be distinguished from other creative acts. Merely to look at the motivations of

entrepreneurs may lead us to assume that it is only they who possess certain motivations deriving from particular life experiences. Society, however, condones other acts of individual self expression and revolution. The pop-star who writes a revolutionary song may be regarded as an entrepreneur if he acts as his own agent and produces his own records. The author who both writes and publishes, the professional golfer who signs his own cheques; these people share with the entrepreneur, the characteristics of self-perceived marginality. They have consciously chosen a role which is unconventional and out of the ordinary and they like it.

Personal characteristics and motivations are an important aspect of a definition of entrepreneurship. In psychological terms we can distinguish between the Independent entrepreneur as we see him and the Modal entrepreneur, but motivation, reference groups, attitudes and the sum of factors which add up to the mystique of individuality are not, of themselves sufficient to distinguish entrepreneurs from other self perceived marginal members of society.

In our definition of the entrepreneur we have said nothing about size. Our definition could include the corner grocery store trading under limited liability and it could include the activities, not only of men like Mr. James Slater* in this country, but also his industrial peers who just happen to own some shares in the organisation which they acquired over time as they have progressed up the organisation hierarchy. If we only intend to explore entrepreneurship as an economic or sociological phenomenon, our definition as it is will suffice and perhaps it is not as tidy as the definition of other authorities. Through our definition we can immediately distinguish between the managerial entrepreneur and our own, but the concept needs to be refined further if only in order to take account of size.

We should distinguish between the Ubiquitous entrepreneur and what we term the Elite entrepreneur, but if we were to do this purely on the grounds of size we would have to choose some arbitrary cut-off point. Perhaps we could define the Ubiquitous entrepreneur in terms of the company which he has founded, which has been in business for not less than five years and which has not less than 200 employees. In so doing we, at least, illustrate a perceived difference between Ubiquitous entrepreneurship - the type of activity which is ever present in a free enterprise society - and Elite entrepreneurship, the type of activity which generates employment to a more significant degree and where the

*Joint founder and Chairman of Slater Walker Securities, capitalised recently at substantially over £100 million on international Stock Exchanges; share values have since declined with the market trend.

enterprise has both the capacity and the opportunity for growth. If the Ubiquitous entrepreneur is a desirable phenomenon in a free enterprise society, the Elite entrepreneur is, we suggest a desirable influence.

Recently in this country, some concern was expressed at the health of the small firms sector of the economy and this led the government of the time to establish a Commission of Inquiry into Small Firms. The Bolton report as it has come to be known, was seen as a positive step to remedy the lack of information and interest in the small firms sector of the economy. A statement by Mr. John Bolton (3rd November, 1971) mentioned a number of points which the committee had considered to be important and we can see that they too were forced to adopt some arbitrary criteria in deciding on what constituted a small firm.

They were mainly concerned with the owner managed business and they adopted the following definitions:

Manufacturing	- 200 employees or less
Retailing	- turnover £50,000 or less
Wholesaling	- turnover £200,000 or less
Construction	- 25 employees or less
Mining	- 25 employees or less
Motor Trades	- less than £100,000 turnover
Miscellaneous Services	- less than £50,000 turnover
Road Transport	- 5 vehicles
Catering	- all caterers except multiples or brewery managed Public Houses

The emphasis of this report was properly directed towards the smaller firms for this was the brief. What the report could perhaps not adequately identify, was the small firm which had the capacity for sustained and substantial growth, for surely this is one of the reasons for us to be interested in small firms. In a free enterprise economy and in a society which permits relative freedom for the individual to make his own way it is appropriate both from the democratic and from the economic standpoint that a healthy small firm sector be encouraged. It is important that inventors have the opportunity to exploit their inventions both for their own benefit and for that of society should their inventions prove significant, and it is in these societies that competition is encouraged, that management be not allowed to become

complacent, monopolistic and sterile. At the same time it is important that entrepreneurs make some contribution to the community in which they live. There is a delicate balance between unbridled opportunism and excessive central direction. Already the major corporations constitute a substantial barrier to the entrepreneur.

Banks and the venture capital institutions are run by executives who are properly wary of backing entrepreneurial ventures and the large corporations are continually on the look-out for new ways to increase their corporate earnings. The difficulties which confront the entrepreneur are nothing new; for generations he has been confronted with barriers to entry into independent commercial activity whether by lack of money, by social standing or by the wrong connections. If we are to preserve a tradition of entrepreneurship and if this tradition is to feed through to the economic advantage of wider society it will not be done by pampering or by subsidy. The entrepreneur has always made his own way and provided the social conditions for entrepreneurship remain, provided Government uses its power wisely, curbing the monopolistic excesses of corporations while at the same time controlling the political excesses of ideologists, entrepreneurs will make their own way as they have before, by determination and not by statute.

With some foreboding, the Bolton Committee decided there was no case at the time for discrimination in favour of small firms. Their main finding was that the U.K. small firms sector, though still a large and vital component of the industrial structure was declining steadily in its size and in its share of economic activity. One of the problems that the committee faced was whether the situation at the time of its report, justified special measures of support for small firms. They believed that the decline in share of economic activity was largely attributable to inevitable and even desirable changes in technical processes and in the size of markets and that before it reached dangerous proportions the natural resilience and inherent strength of the small firm would assert themselves. They observed that small firms suffered from inequity and disabilities usually as a result of unintended neglect by governments and their recommendations were designed to give small firms a chance to compete on equal terms with large ones.

The consequence of their report was the establishment of a Small Firms Division of the Department of Industry under a minister designated as responsible for small firms, whose main function would be to monitor the health of the sector and to ensure that in future its interests would not be allowed to go by default. If it later proved necessary, action could be taken to preserve a viable small firms sector. Purely by reason of the numbers involved Government with its eye to the next election and an identifiable source of votes would be foolish to ignore the influence of the small firms sector. Perhaps one of the most significant outcomes of the Bolton Report has been the extent to which small businesses have taken to themselves a new perception of their identity and their role. It

could be argued that the report was influential in uniting small firms in a political sense and giving independent entrepreneurship a boost.

On the basis of the definition used in the Bolton Report, (5) there were about 820,000 small firms in the industries listed in their definitions and these accounted for some 14% of the Gross National Product and 18% of the net output for the private sector. They accounted for 93% of all firms in the industries selected and they employed some 4.4 million people. Had the report included agriculture and the professions there would be at least 1.25 million small firms accounting for about 19% of Gross National Product and 24% of the output of the private sector, employing some 29% of the employed population - more than the entire public sector. This last statistic might lead us to enquire as to why the public sector employs some 29% of the employed population but perhaps we should not pursue this here.

Clearly the Bolton Committee selected an arbitrary cut-off point and it was probably appropriate that they did so, but if the definition of small firms were expanded to cover all owner managed businesses regardless of size - and there are many larger than the size limits the Committee used - we can readily appreciate that the supply of industrial entrepreneurship in the United Kingdom is not in danger of drying up and its influence is substantial. Provided politicians recognise entrepreneurship as desirable both from the point of view of individual freedom and from an economic viewpoint we need not overly concern ourselves with the problem of supply although we may properly be concerned at the impact of vote-catching devices as an influence on entrepreneurial opportunity.

Our concern is not limited to the men who run stably small companies which do not have the capacity for growth - those companies which even had they this capacity by reason of their product line or a particular corporate expertise, once they are on the growth path, they outstrip the entrepreneur's capacity to run them. It takes different skills and an entirely different expertise to build an enterprise which rates as significant among its corporate peers and here immediately is a further distinction between the Ubiquitous and the Elite entrepreneur. There is a difference in attitude of mind and ability between the man who runs the grocery store and the man who has built up a chain of them, but many entrepreneurial ventures start off small and as they grow the founder who, perhaps at the outset owned 100% of the equity, has gradually ceded equity in return for finance. For this reason, yet another aspect of our definition requires amplification.

SHAREHOLDING AND CONTROL:

We have defined the Independent entrepreneur as an executive policy-maker in a commercial enterprise over which he exerts effective control by reason of his shareholding, and perhaps we should now select an arbitrary cut-off point as 10% of the total equity of the enterprise.

We choose 10% because in the first place this is the level beyond which according to the "City Code"* an investor is required to declare his interest in the equity of a publicly quoted company. Another reason is, as we shall see in the Lonrho situation, 10% is an important figure in English Commercial Law; 100% of a small business is, in money terms frequently much less than 10% of a substantial enterprise which is effectively controlled by one man and while the tasks which the entrepreneur is required to perform may be quite as complex in the smaller firm, both pay off and down-side money risk in absolute terms are likely to be considerably less in the case of a small firm.

We suggest that a 10% equity shareholding assists the distinction between the Modal entrepreneur and the Independent entrepreneur and it is in accord with our definition, for it takes into account the possibility of both acquisition and dilution of control. The founder or innovator who establishes a business and sees it grow under his direction may have to cede equity in the enterprise but still he controls the corporation by virtue of his shareholding. Similarly, the individual who acquires a shareholding of 10% or more, likely controls because of that shareholding. Not so the executive who over time acquires an equity holding through stock options over time. He is not, by our definition, an Independent entrepreneur for it is not by virtue of his shareholding that he effectively controls the corporation; it is because he has played the game well and has not missed his footing on the corporate ladder.

THE ELITE AND THE UBIQUITOUS ENTREPRENEUR

We should now further distinguish between different types of Independent entrepreneur. This is not merely an academic distinction as we shall see in the next chapter when we consider psychological factors in the entrepreneur's make-up. It is important not only in psychological terms, but it has some ramifications both sociologically and economically.

*The City of London is the home of the London Stock Exchange and within one square mile, there is contained the largest concentration of Banks, Stockbrokers and Financiers in the United Kingdom. The Takeover Panel provides guidelines on corporate behaviour and it selected 10% as a level beyond which a company or an individual should declare his intentions regarding a holding built up in a quoted company

Of the 820,000 companies identified by the Bolton Report we could reasonably assume that the majority of these were run by Ubiquitous entrepreneurs in that they are more likely to be stably small businesses... Thus one of the distinguishing features between the Elite and the Ubiquitous entrepreneur is the size of the enterprise that he controls for this inevitably affects his personal net worth. We suggest that out of this mass of stably small companies, there exist those companies which through both the abilities of their chief executives and through their particular corporate competences have the capacity for growth. In the same way as Pareto (17) defined "elite" to distinguish a class, so we use the term to distinguish between entrepreneurs: "Let us assume that in every branch of human activity each individual is given an index which stands as a sign of his capacity, very much the same as the way in which grades are given in examinations in schools. The highest type of lawyer, for instance will be given 10. The man who does not get a client will be given 1 - reserving zero for the man who is an out and out idiot. To the man who has made his millions - honestly or dishonestly as the case may be - we will give 10. The man who has earned his thousands we will give 6; to such as just manage to keep out of the poorhouse 1, keeping zero for those who get in and so on for all the branches of human activity So let us make a class for people who have the highest indices in their branch of activity and to that class give the name of elite". (6)

Our Elite entrepreneur will score high on Pareto's scale but immediately we are faced with the difficult choice as to where to place him on the scale; perhaps we could place him at 6 or over for it is certain that the majority of stably small companies run by Ubiquitous entrepreneurs, companies without the capacity for growth and men without the abilities to achieve it, will rate fairly far down Pareto's scale. The Ubiquitous entrepreneur is the man who, desiring to be independent, happens to choose business as a means of achieving both independence and a sense of self identity. The Elite entrepreneur is the man who consciously decided to make his career in business and who set up a plan to achieve it. This plan may have included working as an executive for a major corporation in order to gain experience. The urge for independence is stronger than the urge to claw his way up the hierarchy; nevertheless he aspires to the same standing as the corporate executive, the Modal entrepreneur; he wants for himself the same socio-economic trappings possessed by his modal peer and he has achieved what he set out to achieve in terms of wealth, status and power. He is as much his own man as the Ubiquitous entrepreneur, but he is more successful and his success was due more to judgement than to luck.

It is difficult to set an arbitrary criterion of net worth but surely net worth must count as a distinguishing feature between the Ubiquitous and the Elite. For reasons of both convenience and illustration we might choose a figure of £100,000 as an arbitrary cut off point. We choose this figure because it is an

amount of money which according to the wealth distribution of the British population would mean that the entrepreneur was wealthy in relation to the rest of the population. Collins et al (10) in their study did not distinguish between Elite and Ubiquitous entrepreneurs as we have done, although in their initial sample they chose firms with twenty or more employees which had been started between 1945 and 1958. Their research was undertaken between 1960 and 1962 and thus by one criterion at least, that of survival, their entrepreneurs were successful; but if we are to set a variety of arbitrary criteria to distinguish between Elite and Ubiquitous entrepreneurs how are we to identify the potential Elite entrepreneur? How are we to determine whether he will indeed arrive? How are we to distinguish between the drifter, the man who becomes an entrepreneur because he will not or cannot hold down a job and the Elite, the man who can get a very good job but decides to be master of his own destiny?

These are questions which, if they need not be answered in terms of the definition we have chosen, are nevertheless important considerations in the supply of industrial entrepreneurship in a free enterprise society and they have important economic and social consequences. Collins et al have identified their entrepreneur as the man who starts a business. By our definition, acquisition is also included as is invention and innovation. We thus incorporate - although in large measure we agree with - their definition of the entrepreneur as "... the innovating entrepreneur who has developed an on-going business activity where none existed before." (10) This is perhaps too narrow a definition for our purposes for it excludes the man who acquires an already existing enterprise, or who buys effective control of a public company and in so doing aggrandises, in Cole's terms, (9) the total enterprise.

If we are to conceive of entrepreneurship as both desirable and economically beneficial then the man who shakes out the dead wood of a dying enterprise and rejuvenates it, albeit for his own gain, is making some contribution both to competition and to economic advancement. Similarly the entrepreneur who has inherited a business and who develops it is no less an entrepreneur than his father in terms of the tasks which he is required to perform. In economic terms he is still an entrepreneur and if his personality characteristics differ from those of the Modal entrepreneur, perhaps the distinction is not as significant as in the case of the founder, the man who pulled himself up by his bootstraps or the man who with inherited money, acquired an on-going enterprise. Perhaps it is here that the distinction between our Independent entrepreneur and our Modal entrepreneur appropriately begins to blur.

Let us consider in more detail, the concept of what we have termed the stably small company. We suggest that this company is headed by a man who by his personality, characteristics, competences and perhaps his aspirations, cannot or will not steer

his corporation on a path toward great things. Perhaps it is in the nature of the corporation's product line, its place in a competitive environment or the aspiration of its chief executive that it has not the capacity for growth. This stably small company will likely be headed by a Ubiquitous entrepreneur, and perhaps we could use the turnover definitions in the Bolton Report as our arbitrary cut-off point.

The desire to be independent derives from a variety of influences and it was this urge which Boswell (4) identified as the strongest force underpinning all the other elements which led to the decision to found a business. Of the 31 founders in his study of 64 companies in the United Kingdom, only five or six had been able to start with some inherited money. All the others were pure bootstrap operations starting with small self-accumulated savings - typically around £400 to £500 - commencing business from premises which were usually a back street shop or a disused garage. It is here where the entrepreneur is perhaps at his most vulnerable. A recent study in the United Kingdom suggested that 79% of all business failures occurring in 1965 were of firms less than ten years old and 62% were under five years old. (7) In the United States the vast majority of business failures occurred before firms were ten years old. (18) Survival is not an easy matter and typically the entrepreneurs in Boswell's study worked seven days a week with considerable personal sacrifice which was felt by their families.

In a further study of company records at Company's House in the United Kingdom Boswell found no overall significant relationship between size and age of the firm. In the early days the entrepreneur is the firm and survival must ultimately depend upon the entrepreneur's competence. Similarity in size is thus more appropriately identified with competence than with age. Over 20% of the already fair sized firms employing between 100 and 199 people were founded after 1945 and about one third of the smaller firms employing fewer than 100 had been established before 1900. Boswell categorized management type and found that while founders dominated the post 1945 firms, inheritors were strong in the firms founded between 1900 and 1944. The proportion of firms run by what Boswell called newcomers appeared to rise with increasing age, and much as we would expect, single entrepreneurship tended to recede as firms got older, control was divided and absentee ownership increased. Boswell studied 318 firms through an investigation of accounts and returns filed at Companies House - a locus for this type of information in the U.K. where the submission of certain information is mandatory.

He found that 25% of these were subsidiaries of other companies, 20% had been taken over by bigger companies at one point in their history, mostly during the 1960s, and surprisingly few fell into the category of single entrepreneurship with one working director who owned all or most of the shares. Over one-third

od firms were founded before 1900, half before 1918 and only 21% founded since 1945.

Boswell's findings confirm in many respects the findings of others and in economic terms they are rational. Perhaps the trend towards greater concentration of corporate power has left fewer openings for Independent entrepreneurs to flourish. This may be one of the conclusions we can draw from Boswell's figures but while the share of economic activity of small firms is declining the Bolton Report does not lead us to fear the entire demise of the Independent.

Economic considerations such as the possession of capital, business experience and a familiarity with business culture deriving from background, provide some link between the sociological characteristics of the entrepreneur, his educational achievements and the nature of business activity which he selects to achieve his goals. Not only do Boswell's findings support our desire to link sociological, economic and (later) psychological factors, but they also provide some further support for our differentiation between the Elite, the Modal and the Ubiquitous entrepreneur. We need not exclude inheritance and acquisition from our frame of reference.

A number of studies support the importance of economic factors, not only in the United States and in the United Kingdom, but in the Philipines, India, Pakistan and Turkey (2) (3) where pressure from import controls led an economically alert diversity of individuals to start manufacturing for profit at home. Economic factors can help us explain the decline of the craftsman entrepreneur and his replacement by an adequately financed competitor, but if we can identify more directly the influence of economic factors we regard social factors as being quite as important and perhaps more fundamental.

AN ECONOMIC APPROACH:

Redlich (19) sees a tripartite division of the entrepreneurial function into "... capitalist, i.e. supplier of funds and other non-human resources for the enterprise, manager i.e. supervisor and co-ordinator of productive activities and entrepreneur in the narrow sense of the term i.e. planner, innovator, ultimate decision maker in a productive enterprise." Our view of the entrepreneur, while we do not disagree with Redlich's observation, to the extent that it constitutes a dynamic development, nevertheless tends towards the narrow sense in which he uses the term. Viewed as the ultimate decision-maker in a productive enterprise we can bridge a gap between the economist's view of the entrepreneur and other viewpoints and at the same time we do the economist no injustice. Hoselitz (13) comments: "A study of economists' opinions on entrepreneurship leads to strange and sometimes contradictory results. Some writers have identified entrepreneurship with the function of uncertainty-bearing, others with the co-ordination of

productive resources, others with the introduction of innovations, and still others with the provision of capital."

Increasingly we find ourselves involved in the role which the entrepreneur performs, in other words, we revert again to a perception of entrepreneurship in terms of tasks whereby we can again bring the Modal entrepreneur and the Independent entrepreneur together. In their contribution to economic development, not only do they adapt to the social trends, but in adapting to them, we can argue that they are adapting first, hence recognising a situation of disequilibrium and so becoming agents of social change. As such it is arguably the Modal entrepreneur who acts as the most identifiable agent of change while it is competition, the market process and ultimately the Independent entrepreneur who keeps his Modal peer on his toes. Perhaps it is inevitable in time that the Modal entrepreneur will assume supremacy, but it is important to keep alive the flame of independence. The tasks in terms of alertness to disequilibrium and the corporate response thereto, are similar.

Schumpeter (21) introduces a simplified and controversial view of the entrepreneur more related to task and role than to economic activity when he suggests that the ".... carrying out of new combinations we call 'enterprise'; the individual whose function it is to carry them out 'entrepreneurs'". Schumpeter feels that this definition distinguishes - and so it does - between entrepreneur and capitalist for the entrepreneur is not merely the provider of capital. He may be a borrower, but he uses capital to carry out new combinations. Schumpeter earlier (see Chapter II) defined the carrying out of new combinations and saw this process as including the introduction of a new good, a new method of production, the opening of a new market, the conquest of a new source of supply, or, more significantly " the carrying out of the new organisation of any industry like the creation of a monopoly position or the breaking of a monopoly position."

The tasks of the varying competences required to organise a corporation are similar for both the Independent entrepreneur and the corporate executive and the function that he performs in economic terms is not significantly different. The distinctions that we have drawn between the Elite entrepreneur, the Ubiquitous entrepreneur and the Modal entrepreneur are more relevant to social psychologists than to economists, although from society's point of view it may well be through a study of the social and psychological factors in entrepreneurship that in the long term a healthy entrepreneurial element will be maintained.

Kirzner (14) differentiates between hunters and those who hire hunters and hence provides a useful link between a social psychological approach to entrepreneurship and an economic one.

This link he describes as "alertness". The hunter who can differentiate between a good place and a bad place to shoot possesses a degree of alertness. If we consider alertness as a measure among others, of entrepreneurship, it can apply whether money is involved or not; but once we bring money into the picture whether as a wage or a profit earned for alertness then the man who hires the hunter is, in economic terms, displaying more alertness than the hunter himself provided that the hirer can obtain the services of the hunter without the latter recognising that he could sell them for more. Kirzner believes that competition and entrepreneurship are inseparable and we can see this by taking this analogy further. The entrepreneur has hired the hunter at a wage such that the entrepreneur benefits. The hunter is alert enough to know where to hunt, but he is not alert enough to recognise that he could sell his services elsewhere for a higher wage. Rapidly, however, his lack of awareness changes; for somebody else, a competitor, or a number of them will drive up the hunter's wages in an attempt to reap their own entrepreneurial profit until the time comes that an equilibrium point is reached.

This leads us to another important aspect of Kirzner's view and a point where he takes issue with Schumpeter on the issue of equilibrium. Kirzner conceives the various processes in the economic system as partial phenomena of a tendency towards an equilibrium position. Schumpeter's view of entrepreneurship was in terms of the creative destruction of an existing equilibrium by the process which he termed entrepreneurship and in this Schumpeter regarded the entrepreneur as a bearer of the mechanism of change. We are not being overly pedantic in pointing out that an equilibrium is what it says - an equilibrium. In a perfect world, assuming perfect information available to every individual and assuming no competition, then an equilibrium process would obtain in perpetuum. A more reasoned view of equilibrium would be we suggest, as a dynamic phenomenon comprising a number of discrete disequilibria which together comprise a state of dynamic equilibrium. Nevertheless the problem in economic development according to Schumpeter is how to shift this equilibrium point irreversibly. Schumpeter's view is that this is done by a process of creative destruction and that the entrepreneur is the agent.

Our consideration of dynamic equilibrium constitutes an attempt to bring Kirzner and Schumpeter closer together, for a state of equilibrium does not encourage competition and here Kirzner takes issue with equilibrium theories. Competition, to the equilibrium price theorist, refers to a condition where, with so many participants in a market process, there is no room for additional entry. This is the very reverse of the layman's use of the word competition. These equilibrium theories failed to perceive that the characteristic features of the real world were simply the manifestations of entrepreneurial competition ".... a process in which would-be buyers and sellers gropingly seek to discover each others' supply and demand curves. The new theories

fashioned new equilibrium configurations - based as was the theory of perfect competition, on given and known demand and supply curves - differing from the earlier theory only in the shapes assigned to these curves". (14) Kirzner thus challenges the very foundations of equilibrium and its relation to entrepreneurship by his concept of alertness.

Alertness - and hence presumably the anticipation of profit deriving from action - involves the perception of a state of disequilibrium. Thus the entrepreneur is seen as a responding agency, the entrepreneur responds to a state of disequilibrium and does not merely change an existing equilibrium by a process of creative destruction as Schumpeter sees it. Although, in this matter, we might lean towards Kirzner rather than Schumpeter, the economic fact remains that entrepreneurial activity changes what we have termed a dynamic equilibrium situation and has its economic impact in this way. Kirzner's view is more attractive in that it regards the entrepreneur not merely as a source of innovative ideas but as being alert to opportunities which exist already; perceiving them and exploiting them. Thus entrepreneurship bears an important relation to both competition and the market process by virtue of the superior awareness that the entrepreneur has of opportunities in his environment, but how does he exploit these opportunities and how does he bring a number of productive factors together for his own advantage?

It is perhaps significant that Kirzner was writing during the 1970s whereas Schumpeter reflected a view which predated him by some forty years; some of Schumpeter's ideas went back seventy years. Kirzner's observations are timely in the sense that he does not equate entrepreneurship necessarily with innovation. The process of marketing a new underarm spray may be regarded by some as an innovation, but surely it is not. It is merely an imitative act, it is a part of the competitive process and where Schumpeter would not have equated this with entrepreneurship, Kirzner would probably permit us to regard it as such. This is a useful extension of the concept of entrepreneurship, but this academy does not regard yet another underarm deodorant as a great economic leap forward! Nevertheless imitation is an important aspect of both competition and entrepreneurship and if through this example we can underscore Kirzner's contribution in linking entrepreneurship, competition, the market process and alertness to disequilibrium then we are ready to consider the process whereby the entrepreneur, in Schumpeter's terms, brings together new combinations.

The man or the corporation who invented the aerosol spray was, perhaps in Schumpeter's terms, an entrepreneur when he did it, but Schumpeter would not so regard the man who went into competition with him. Kirzner would, and so would we. Perhaps as has been suggested for generations now, man has invented all he needs. The time has probably passed for the "Eureka" - type

innovation. Research and development is undertaken on a massive scale by massive corporations and it is difficult for the Independent entrepreneur to compete on an equal basis. The corporations, who through their research and development activity do manage to innovate are indulging in an activity of an entrepreneurial nature. In economic terms therefore, it is not unreasonable to consider the entrepreneur as in many respects equivalent to the corporate executive, to equate what we term the Independent entrepreneur, with the Modal entrepreneur does no disservice to an economic viewpoint of entrepreneurship for us to draw this distinction and it assists us in our inquiry. Economists might have no great quarrel with our definition. Although they may say it is too narrow, they would accept it as an element of what they consider entrepreneurship, but it is when we get down to the role and the function of the entrepreneur that, having considered in part the economists viewpoint, we strike more fundamental issues.

The entrepreneur as an individual comprises a combination of factors which inter alia include background, personality, his financial resources, his ability to perceive opportunities and his competence to exploit them. To these, we must add the sheer hard work, to say nothing of the risk, which underpins his entrepreneurial activities. Perhaps we are looking at a phenomenon of multiple entrepreneurship for it is, according to Aitken the association, not the individual that exhibits entrepreneurship. (1) "The search for individual entrepreneurs rests on fallacious logic, tends to result in biographical antiquarianism, and adds little or nothing to our understanding future work in the tradition of entrepreneurial history will be concerned largely with studies of economic organisation at the level of the individual enterprise and of the economy as a whole." While this does not exactly encourage our view of entrepreneurship, we must agree with Aitken's view that it is an association and not an individual necessarily that exhibits entrepreneurship; but really we must take issue with other of his comments, although we must concede his point that biography unaccompanied by analysis will add little to our understanding. The activities of entrepreneurs have spawned a vast literature upon the subject ranging from the anecdotal to the analytical. If Aitken is referring to anecdote then we are with him, but surely an analysis of not only the role of the entrepreneur, but the person who performs this role, must increase our understanding.

Indeed "multiple" entrepreneurship exists; it is the outcome of an increased complexity in the relationships between and surrounding business organisations not only that but increasingly the corporation, the activities of the Modal entrepreneur, are replacing those of the Independent entrepreneur, but the latter still has an important part to play in a sociological economic and political sense.

However, it is the tasks that are similar no matter who it is, Ubiquitous, Elite, or Modal entrepreneur who carry them out.

Despite our previous observations, perhaps - and we can only hypothesise - Schumpeter would have taken the same view as Kirzner on the issue of underarm deodorants for he distinguishes too, between the shareholder as a capitalist and the shareholder as an entrepreneur in much the same way as our definition does. A shareholder per se is not an entrepreneur but a shareholder who, by virtue of his shareholding, controls an organisation, and occupies an executive position therein must be an entrepreneur. However, Schumpeter does not agree that the running of an on-going business constitutes entrepreneurship. He draws towards the position of J. B. Say (20) in suggesting that the entrepreneur's function is to combine the productive factors and here we agree with him, but we cannot agree that it is merely routine work done in the course of running a business. Running a business is not routine work in a competitive situation. Where, more than a century ago, the capitalist was synonymous with the entrepreneur because the manufacturer at that time was likely to be both, now there is an important distinction between entrepreneurship and capital, between innovation and imitation. When capital is combined with executive risk, shareholding and total commitment to an enterprise, it constitutes twentieth century entrepreneurship of the independent kind; to exclude shareholding merely confers upon entrepreneurship, the antecedent "Modal". Schumpeter does not concede that inheritance of the pecuniary results of entrepreneurship makes an entrepreneur and here we must agree; but the inheritance of a substantial shareholding in an on-going enterprise or the acquisition of such shareholding - and this Schumpeter would not probably concede - provided it is accompanied by the facility for executive policy making and decision making which can directly determine the fate of the enterprise must be considered as entrepreneurship. The economic function performed is the same, the role is the same, the tasks are similar, and if we accept a theory of disequilibrium which tends towards equilibrium through the activities of those alert factors in society which we choose to call entrepreneurs, then we have not dismissed other writers views on entrepreneurship out of hand, but we have refined them.

We have drawn a distinction between the entrepreneur and the capitalist. We have suggested that entrepreneurship and competition are not logically separable and that the entrepreneur's role in the market process is fundamental to the functioning of that process. In broad economic terms, therefore, we have attempted to integrate rather than to dispute. We have gone further however and we have distinguished between the Independent entrepreneur and the Modal entrepreneur. We have distinguished (and we shall take this point further in Chapter 4) between the marginal man who perceives him-self as marginal, who sees himself as outside of the main stream of social and economic activity,

who perceives an opportunity and exploits it whether for the good of his corporation or for his own benefit. The Independent entrepreneur is the corporation. He set it up as a creative act of self expression, a revolutionary activity which society condones, but in this act of revolution, has he merely revolted without thinking or has he set up a consistent life plan which in time will lead to an anticipated reward?

The Elite entrepreneur rises to the position of an elite among elites, the Ubiquitous entrepreneur founded a business because perhaps he could not get a job. The Modal entrepreneur, the business hierarch, directs the activities of a corporation on a professional basis. He has absorbed and he reinforces the social conditioning that has made him what he is. The role that he plays is no less important, and perhaps more so in economic terms, than the role that the Independent entrepreneur plays, but in political terms it is important that there remains the facility for Independent entrepreneurship in a free enterprise society. It acts as a safety valve, it enables Government to legitimise the status quo by pointing to examples of conspicuous success. "If they can do it, then so can you."

It is perhaps the Modal entrepreneur who, through his activities, confers the greatest immediate benefit on society, but it is the Independent entrepreneur and the possibility of independence that underpins the health of a free enterprise society. In the next chapter, we shall be considering the difference between the Elite entrepreneur and the Ubiquitous entrepreneur in terms of their life experiences, and their personality characteristics and we shall compare the corporate executive with his independent counterpart, but in view of what we have discussed in this chapter, the various views on entrepreneurship held by different authorities, we can perhaps more confidently restate our view on the entrepreneur as an individual whose decisions directly determine the fate of a commercial enterprise over which he exerts control by reason of shareholding and in which he operates as an executive policy maker. He is the man who is entitled to the proceeds of the disposal of his shareholding, he is not a nominee, he is the king-pin of the enterprise.

CHAPTER IIIREFERENCES

1. AITKEN Hugh G. The Future of Entrepreneurial Research Explorations in Entrepreneurial History, Second Series, Harvard, Vol.I 1963-1964
2. ALEXANDER Alec P. Industrial Entrepreneurship in Turkey: Origins and Growth. Economic Development and Cultural Change. VIII July 1960. Part I
3. BERNA James C. Industrial Entrepreneurship in Madras State. Bombay. Asia Publishing House. 1960
4. BOSWELL Johnathan The Rise and Decline of Small Firms George Allen & Unwin. London. 1972
5. BOLTON REPORT Report of the Committee of Inquiry on Small Firms. Cmd. 4811. H.M.S.O. London 1971
6. BOTTOMORE T. B. Elites and Society. Pelican Books. 1966
7. BUSINESS FAILURES IN BRITAIN Business Ratios. Summer 1970
8. COCHRAN Thomas C. The Entrepreneur in Economic Change. Explorations in Entrepreneurial History Summer 1965 Pages 25 - 37.
9. COLE Arthur H. Business Enterprise in its Social Setting Cambridge. Harvard University Press. 1959
10. COLLINS Orvis F. The Enterprising Man. East Lansing. MOORE David G. & UNWALLA Darab B. Michigan State University 1964.
11. DE TOQUEVILLE Alexis Democracy in America. New York. Oxford University Press. 1947
12. DEROSI Flavia The Mexican Entrepreneur Paris OECD Development Centre 1970
13. HOSELITZ B. F. Entrepreneurship and Economic Growth. American J. Econ Sociol 12. 1952.
14. KIRZNER Israel M. Competition and Entrepreneurship University of Chicago Press 1973.

15. MILLER William The Business Elite in Business Bureaucracies in W. Lloyd Warner and Norman Martin. Industrial Man. New York. Harper Bros. 1959
16. MILLS C. WRIGHT Quoted in Derossi. Flavia Op. Cit.
17. PARETO VILFREDO Quoted in Bottomore. Op. Cit.
18. PRESIDENT'S TASK FORCE ON IMPROVING THE PROSPECTS OF SMALL BUSINESS. U.S. Government Printing Office. 1970
19. REDLICH Fritch Quoted in Hoselitz 1952. Op. Cit.
20. SAY J. B. Quoted in Schumpeter. Op. Cit.
21. SCHUMPETER Joseph A. The Theory of Economic Development Oxford University Press by arrangement with the President and Fellows of Harvard College 1961. Reprinted 1969.
22. SHERIF MUZAFER Social Interaction (Selected Essays) Chicago Aldine Publishing Company 1967 Page 231
23. WARNER W. LLOYD Big Business Leaders in America. New York. Harper Bros. 1955.
and
ABEGGLEN J. C.

CHAPTER IV

PERSONALITY AND THE ENTREPRENEUR

"The mass of men lead lives of quiet desperation"

Henry David Thoreau - Walden.

Ours is not the only attempt to refine the concept of the entrepreneur. Cole (3) many years ago put forward the idea of a succession of entrepreneurial types which emerged over the decades as successively: rule of thumb, informed, and sophisticated. Some twenty years later he added a fourth stratum of evolution which he called mathematically advised. We suggest the distinction between Ubiquitous entrepreneur and the Elite, is more tidy. Although Cole did not differentiate between the Modal entrepreneur and the Independent as we have done we can identify his train of thought as not dissimilar to ours. Cole's emphasis was more on the social conditioning of entrepreneurship than on emerging entrepreneurial personalities, but he too, found it important to distinguish on the basis of some criterion of sophistication and social status deriving partially from background and the state of development in the surrounding society.

We would not disagree with a conceptual continuum leading from Ubiquitous to Elite for at what stage is it in the individual's life cycle that we identify him? Clearly there is a necessary period of time during which the individual is gaining experience, building his knowledge and getting ready to strike out on his own. The Ubiquitous entrepreneur may move from job to job at a relatively low level in the social hierarchy whereas the Elite has subordinated, for the present, his independence in order that he shall acquire the experience which he perceives as necessary for his financial and social advancement.

If we consider the life cycle of the middle class male in an advanced society such as the United States or United Kingdom, we can readily appreciate that the formal education process commencing at the age of 5 or 6 may last for up to 20 years. This experience of an established order of things is denied to the young man who precipitately leaves school, leaves his job, or leaves university, not because he has any fixed plans as to what he will do, but merely because he finds his relationship vis a vis his superiors, intolerable. If this is one of the likely career patterns of the Ubiquitous entrepreneur, a man who we later suggest would score high in a power, and reject authority figures, then he has a long way to catch up in the university of life. He has chosen to educate himself and this places him at a disadvantage. It is difficult for a man from a background of

comparative privilege to trade down. A graduate recently commented to the author "I can't afford to be an entrepreneur, I have little money and with my education I can command a reasonable salary. I just can't afford to buy a truck."

The enterprise that the entrepreneur sets up or acquires, takes on, at least in part, his individuality. The business is a projection of himself and it is a validation of his self-identity. It is inconsistent for a man with a Ph.D. to start a trucking business from a small capital base and with only one truck, but it is not inconsistent for him to follow a career pattern which involves working for a large corporation, waiting until he is ready, and then hiving off, perhaps with one or two associates, perhaps to fulfil a market need which the corporation has ignored and to which he has become alerted. Perhaps at a stage in his career when his course seemed set fair, he loses his job. Not only is it the time in the individuals life cycle that is important, it is his reaction to the event which for him - and perhaps not to an outside observer - is the determining event. We shall return to this concept later in this chapter for we consider it a crucial and distinguishing criterion between the Independent and the Modal entrepreneur.

THE ENTREPRENEUR AND HIS FIRM

Smith (13) using the same sample as Collins et al constructed an "ideal type" of entrepreneur and attempted to find a relationship between the entrepreneur and his company. Using criteria which included background, education and work experience he differentiated between the "craftsman entrepreneur" and the "constructed opportunistic entrepreneur." He attempted to show how the social conditioning and social orientation of the constructed craftsmen entrepreneur affected his characteristic behaviour in building a company. Smith differentiated between orientation and role. "Role refers to the manner in which the rights and duties inherent in a social position are put into practice; orientation, as here conceived, refers to the theme underlying the complex of social roles performed by an individual. It is the (tacit or explicit) theme which finds expression in each of the complex of social roles in which the individual is implicated."

Merton (10) using his concept of orientation differentiated between local and cosmopolitan "influentials". The localite confined his interests to his community. "Devoting little thought or energy to the Great Society, he is preoccupied with local problems to the virtual exclusion of the national or international scene. He is, strictly speaking, parochial. On the other hand the cosmopolitan type is oriented significantly to the world outside. He regards himself more as a citizen of the world than a citizen of a small town.

SOCIAL MOBILITY AND REFERENCE GROUPS

Immediately we detect some similarity between our Ubiquitous and our Elite entrepreneur. If social mobility and background are important, then we can readily see that the individual who comes from a blue collar background has far to go. The craftsmen entrepreneur - who would probably approximate our Ubiquitous entrepreneur - exhibits narrowness in education and training accompanied by a low level of social awareness and low social involvement. He feels lacking in competence when dealing with his social environment. On the other hand the constructed opportunistic entrepreneur (more nearly our Elite) has had more years of formal education and is possessed of a higher social awareness and involvement. He is confident of his ability to deal with his social environment and is future oriented. Essentially his behaviour is directed toward the attainment of a goal, and this goal is defined by the individual in terms of what he would like to be. He sees himself as belonging one day to a particular group, which reference group may differ from his present membership group.

We suggest that the Independent entrepreneur models himself on some person or persons who appear to exhibit the characteristics, attitudes or values which he regards as desirable. In so doing we suggest that he anticipates his arrival at his goal by indulging in behaviour, not only calculated to achieve his goal, but which imitates that of persons who are already there. He indulges in a process of anticipatory socialisation. He adopts the values, attitudes or actions of the group to which he aspires, before he has joined.

The individual who has his sights set on a path of upward social mobility, calculates, plans, implements and achieves in gradual stages. No matter that his plans change with changing circumstances, he is able to defer immediate gratification in favour of a more substantial future reward. Thus, for example, the young man who spends his all on immediate consumption is immediately gratifying an urge; the man who saves with some future return in mind, defers his gratification. In the educational sphere, the individual who spends five years at university differs from the man who goes out to work immediately. The university student defers immediate gratification and tolerates a measure of frustration, subordinates his desire for present independence for a future goal.

Social mobility thus requires personal discipline and anticipatory socialisation, deferred gratification and frustration tolerance are aspects of a future orientation. The individual has a conception of the reference group to which he would like to belong and he takes the appropriate steps to ensure his eventual arrival. We suggest that the Elite - and probably the Modal

entrepreneur thinks more in terms of the future than of the present he is able to defer his need for gratification whereas the Ubiquitous entrepreneur is oriented more toward the immediate present.

In the process of growing up the child is influenced by parental attitudes. A child from a deprived home will likely take what he can get when he can get it, but the child from the relatively secure middle class home where the parents tend to impart middle class values may develop a rather different outlook on life. The young child's role model is likely to be his father and if his father is by occupation, a labourer, a skilled artisan, a white collar worker, a professional man or a corporate executive, the child's perception of manhood and what he will become, will vary according to the role model which he adopts. Deferred gratification is an attribute which middle class children are likely to possess more than those from a more humble background. We do not suggest that it is impossible for the boy from working class or deprived background to achieve pre-eminence in a free enterprise society but it is more difficult if only for the reason that he has further to go. Background and education are important, and for reasons of circumstance rather than ability, we suggest that the Elite entrepreneur is likely to have come from a middle class background and that a part of that background has incorporated business culture. He identifies with business culture, he identifies with the managerial role and he aspires to be at least as socially acceptable as the corporate executive.

A progressive upward shift in the role models with which the individual identifies immediately distinguishes between the Ubiquitous and the Elite entrepreneur for the latter is able to tolerate situations of frustration and puts up with his irritation with the dictates of authority in the interests of his long term future. The Ubiquitous entrepreneur quits, cuts himself adrift and moves on.

Contacts are important. The social group with which the individual identifies and with which he associates is likely to differ. The Elite entrepreneur can be expected to identify and associate with members of the establishment to which he aspires. He adopts the establishment's value system at least in social situations and is able to analyse his surroundings and adapt to them. He has an ability to analyse and a capacity to adapt which the Ubiquitous entrepreneur does not have. Although we may conceive of upward mobility on some continuum from Ubiquitous through Elite, the Ubiquitous entrepreneur recognises his limitations and stops at a particular stage whereas the Elite entrepreneur carries on. Through a correct perception of his social milieu, the individual adjusts himself to his environment. This is a two way process for it requires a perception by the individual of the "right" thing to do and responses from his peers, his superiors.

or his associates either lead him to assume that he is on the right path or make him change tack. The Elite entrepreneur is able to identify a role model and associate himself with it through the process which we later term exteroception. The Ubiquitous entrepreneur, perhaps does the same, but because his is an avoidance rather than an approach reaction there comes a cut-off point beyond which he cannot progress for he is too wrapped up in himself, his present situation and his past problems.

Role models, reference group behaviour and a desire for mobility up the social hierarchy of a society are not the preserve of Independent entrepreneurs alone. One aspect of Independent entrepreneurship which is, we suggest a distinguishing feature is that of marginality and this relates to reference group behaviour, role models and social mobility. If these are observable phenomena in the rise of the Independent entrepreneur and if they are distinguishing variables, we have still to consider the aetiology of these phenomena and this we suggest, relates to what we call the determining event.

THE DETERMINING EVENT AND MARGINALITY

An event occurs in the individual's life which causes his world to fall about his ears; emotionally he is bereft and all he has left is himself, no matter that his material welfare is catered for, his frame of reference is abruptly shattered. We suggest that this crucial variable distinguishes of itself between the Modal entrepreneur and the Independent. All men have had unpleasant life experiences but they either succumb to them, face them or seek a way round them. A fundamental motivation in this scheme of things is the resolution of what for the individual constitutes an intolerable state of anxiety. We doubt that the Modal entrepreneur experiences such an event, but even if we accept that he does, it is the individual's reaction to the determining event that is important. The Modal entrepreneur resolves his conflict situations by conventional means but not so the Independent. This becomes the most significant event in his life; it was not obviously at that stage that he decided to become an entrepreneur, but it is that event to which he relates his career progression.

As a result of this determining event the individual's perceived role is significantly different to the role in which he previously saw himself. His reference group ties have been cut, he recognises himself now as a marginal individual. He has no fixed cluster of beliefs or attitudes to hold on to, he is normless and drifting. As a result of this role deterioration, the individual must restructure his self identity; he must find a new frame of reference, a new reference group and he can only do this by continual searching of both his environment and himself. Collins et al do not give this aspect of role deterioration so emphatic

a treatment, although it is a theme which, on careful reading, we see running through the lives of their subjects. Let us be clear, we have no quarrel with Collins et al, we merely wish to expand on an important theme and move it towards our own process of integration.

We suggest that a determining event can occur at any time in the individual's life. We go further, and we suggest that for the man who has sought a socially more conventional solution to his particular problem, the problem ceases to be a problem and becomes merely another life experience and this is an important variable in distinguishing between the Modal entrepreneur and the Independent entrepreneur. The individual faces himself and takes some crucial decisions which may, if he has not faced himself honestly, be largely subconscious. A train of events is set in motion and dependent upon the individual's reaction to this role deterioration, he will determine that this event, which he regards as a betrayal, must never occur again and threaten him so.

Let us distinguish between emotion and rationality. Any reaction, attitude or belief has both an affective or emotional component and a cognitive or rational component. The individual who loses his temper in a situation is dominated by his emotion rather than his rationality; the individual who controls his temper and takes some objectively rational action in response to a situation, is behaving more rationally than emotionally. Cognition governs affect and we see this process as a capacity for affective dissociation. (The phenomenon of cognitive consistency is further amplified in Chapter VIII).

We suggest that one reaction to a situation of role deterioration is to deaden the emotion which it elicits. The individual realises that if he reacts purely emotionally he will succumb and be dragged down by the situation. He has, we recall, nothing left but himself. He and he alone is the means to dealing with the situation and this is an important lesson in affective dissociation. He becomes centred in self, egocentric, he must now ensure that the world and external events revolve around himself. He becomes what we might loosely term, selfish and is inconsiderate of others.

We suggest that the Ubiquitous entrepreneur does not entirely face his conflict situation; his solution to the determining event is to resist almost any curbs, no matter how reasonable, which authority places upon him. He is possessed of a profound distrust of authority figures and he reacts against them. He may drift for a while, moving from job to job, leaving his job apparently on the spur of the moment and, moving on, he projects his distrust of authority onto authority figures. They are grey shadows, to be distrusted. He develops a need to dominate relationships in the

work situation and founding his own business is a means whereby he can not so much be in authority, but prevent authority from curbing his autonomy.

The Elite entrepreneur is more able to come to terms with his determining event. He too, through this event, develops a capacity for cutting emotional ties when he finds them either threatening or unprofitable. He develops a capacity for affective dissociation; emotion is divorced from rationality and he is able to identify situations in more objective terms, to see them as they are, unclouded by emotion. Perhaps he drifts, but it is not an aimless drifting it is for the purpose of gaining experience and when he has found that a situation fails to teach him anything, he moves on. We suggest that the Elite entrepreneur would score high in Achievement whereas the Ubiquitous entrepreneur may either score high or not, for his is an avoidance rather than an approach reaction. The Elite entrepreneur, like his counterpart would be possessed of a restless driving energy; he makes a life plan for himself which is directed towards gaining control of his destiny through controlling a situation. He is not running from authority figures, he merely wants to become one of them, but on his own terms.

The child whose father has died views death as a desertion, for the child has little conception of the meaning of dying. Fathers die in different ways; the father can physiologically pass on, he can leave the home or he can withdraw emotionally from the family situation. Any of these, in a psychological sense, constitutes desertion and it leads to a distrust of what, up to that time, had been a respect for the authority figure. The individual who experiences this loss is cut adrift emotionally at least. Perhaps symbolically he feels it important to assume the role of the father; perhaps he has just totally lost faith. However, the determining event need not necessarily arise out of grinding poverty, it need not concern the father leaving home, it may indeed be the first business failure, but entrepreneurs, when questioned, invariably relate the fact that they are in business on their own account to some determining event which must have caused role deterioration.

Author: "Why did you go into business?"

Entrepreneur: "Because I was interested in electronics/mechanical engineering/commerce"

Author: "No, think about it, why did you really go into business for yourself?"

Entrepreneur: "My father was bankrupted when I was eleven and we had to move house."

"My father left home when I was twelve".

"I was brought up as a Catholic and sent to a Catholic school; when I was eleven I realised it was all a sham."

"For most of my life I had prepared myself for entry into the army, but when I got there I found I was colour-blind and they would not accept me."

"I had hoped to be a Doctor, but I was thrown out of medical school"

With prodding, invariably the entrepreneur harks back to some determining event. We do not suggest that when that event occurred the individual said to himself "now I am going into business for myself." It is in retrospect that the individual recalls a particular event which he regards as determining. It may be the death of a father or his desertion whether physically or emotionally; it may be failure at something that he has set his heart on; it may be that, as in one case in the author's experience, the entrepreneur lost his job as director of a company because the chief executive had been doctoring the accounts. This event determined him to go into business for himself where he, and he alone would carry the burden of responsibility for success or failure. He and he alone would decide his future, and through this event he develops a capacity for affective dissociation, a desire for autonomy and, particularly in the case of the Elite entrepreneur, a degree of social mobility aspiration.

SOCIAL MOBILITY AND MARGINALITY

An entrepreneur in one interview (4) was asked to explain his success in his own business. His answer was a story about a little boy who came running to his father, crying "Dad, Dad! I just saw a dog chasing a rabbit, the rabbit got away by climbing a tree!"

"Son," said the father, "You know a rabbit can't climb a tree."

"Well, he can," said the little boy. "if he has no other place to go."

The determining event has been a driving force in the entrepreneur's life, and whether by intention or by design, if he is to be successful in his quest for independence, social mobility is an inevitable correlate, but how far does the individual climb?

Reference groups, role models and social mobility are important in the matter of marginality. The immigrant who changes countries, the child who changes schools frequently, or the family whose source of income is abruptly terminated, these events have in common an upheaval in the individual's life so that his reference group aspirations no longer seem achievable without a substantial change in approach to his newly acquired problems. The immi-

grant must find a job and establish a place for himself in a society, the child must make new friends and the family must seek a new means of earning a livelihood. Not only have the membership groups changed and the reference groups become more distant, the individual is no longer able to anchor himself securely. He must now seek another group, he must rapidly adapt to his changing circumstance and he must seek some means of resolving the conflict situation in which he now finds himself. At this moment of time, the individual is a marginal person. While the circumstances which bring this marginality about may differ, we see the concept of self perceived marginality as a further distinguishing criterion between the Independent and the Modal entrepreneur.

The marginal man has cut adrift from the established patterns of a lifetime. He has become an outsider looking in and his perceived role is now significantly different to the one in which he previously saw himself. The act of migration is a useful illustration of marginality for when a migrant arrives in his host country his social position is undefined. He is not committed to strict conformity with the mores of the society for he has not experienced the nuances and subtleties of social interaction in his new-found home. He must learn them, he must build a self identity for himself which will incorporate a perception of his role vis a vis his social milieu. Society for its part, tolerates a degree of deviance from an outsider which it may not condone in one of its own and the alert migrant tries to adapt his former value system to his present environment. As an outsider, he is perhaps more capable of analysing his situation than is a homegrown product. He seeks to carve out a niche for himself in society, for by so doing he will achieve the status to which he aspires.

It is significant to observe the relative disproportion between entrepreneurs who derive from foreign background as compared with those who have grown up in a known environment. In a study of Columbian industrialists, Lipman (9) found that 41% of the sample of business men in Bogota were shown to be immigrants from other countries. A still higher proportion was found in Argentina (6) - over 60% in 1935 - and Imaz (6) discovered that 45.5% of the 286 most important businessmen listed in the Argentine Who's Who, were foreign born. Briones (6) found that 76% of business men in firms of over 100 employees in Chile were of foreign origin. Collins et al (4) compared the nativity of entrepreneurs with that of business leaders and this in turn with the nativity of the United States white population in 1960. Nearly 20% of the entrepreneurs in their sample were foreign born compared with only 5% of business leaders, which in turn compared with only 6% of foreign born in the total population. When we consider further the social origins of the sample in terms of their fathers, we find that 35% of entrepreneurs were descended from foreign-born fathers compared with only 15% in the U.S.A. white population in 1960

If we accept marginality as an important distinguishing variable between the Independent and the Modal entrepreneur we do not suggest that its origins lie solely in birth place, but more generally in background and life experience. The economic and social influence of minority groups in a society is well documented. The Protestant Ethic was an example of a communally-held value system which, according to Weber (15), had a more than proportional effect on the course of events. Religious background, and a minority group ethic may have the same consequences for the individual as migration. As an example of an integration between marginality and achievement, perhaps the Jewish people are the most striking example. There are only an estimated 13 million Jews in the world today, a civilisation, an ethic and a tradition which has survived for centuries, and whose social and political influence through economic advancement and cultural stimulation has been out of proportion to its numerical strength.

In the broader sociological perspective, we see marginality in Hagen's (8) "withdrawal of status respect." He saw a disadvantaged minority group as important in the supply of business leadership and economic growth and there are a number of historical examples supporting him, *inter alia*, the Protestants in France, the Samurai in Japan, the Jews, and the Parsees in India. Hagen sees a derogation in some societies in the role of those who were hitherto regarded as the elite, for through a withdrawal of status respect, the elite is no longer accorded its old place. Over successive generations - "there appears pronounced 'normlessness', shiftlessness, anomie, ... I suggest, there gradually emerges a group of individuals, creative, alienated from traditional values, driven by a gnawing, burning drive to prove themselves (to themselves, as well as to their fellows)".

Where Hagen sees a sociological process and a group reaction in the case of less advanced countries, we suggest there is a similar process, a similar normlessness, occurring at the individual level in an already established economic system. The Independent entrepreneur is a particular case of self-perceived marginality. Not only is this marginality perceived by the individual in isolation, it is reinforced by his intercourse with others in his social milieu. A variety of indicators and cues from others confirm his marginality to him. He is considered to be socially peculiar and this exacerbates his already confused self image and motivates him to set it to rights. He looks to achieve social recognition so that he can thereby recognise himself. He needs, like all of us, an external validation for his self concept and this he gets through his interaction with others, his membership group and his reference group.

If marginality is an identifiable phenomenon, we should proceed further and look to the aetiology of the individual's marginal role and beyond it, to the means whereby he seeks to reduce the anxiety which has been generated by his marginal situation. We have already

considered a migrant as a marginal individual, but what caused his migration? We have considered marginal religious groups. They remain marginal because they refuse to adapt wholly to the mores of their social constellation. They adapt, but they remain outsiders for an important factor in their being, is the recognition that they are different.

Marginality combined with a background and a familiarity with business culture can be an important contributing factor in Independent entrepreneurship, but the marginal product of a working class background, the son of a manual worker whose father's occupational experience produces a highly negative attitude to management and who lives in a community of similarly disposed people, will be far less likely to choose the owner-manager role than will his marginal peer who derives from a background in which business has been a pervasive presence. If business culture is part of the individual's frame of reference, then he is able to identify with the values or beliefs associated with business.

The marginal individual without a frame of reference that incorporates business culture will more likely seek to resolve his marginal status by other means. Perhaps he will reinforce it by looking to a political or religious ideology which opposes business, perhaps he will just drop out, perhaps he will adopt a role in life which, while it opposes an established order, does not oppose it by playing the same game.* Thus, while the reaction to a perceived marginal situation may differ from one person to another, it is psychologically essential for the individual that he resolves the conflict and discrepancy between himself and his social environment.

Curran and Stanworth have suggested (5) that very often the owner-manager of the small business is a socially marginal person. They mean by social marginality, a situation in which there is discontinuity between the individual's personal attributes - for example, his physical characteristics, intellectual make-up, social behaviour patterns - and the role or roles which the individual holds in society. The adoption of the role of entrepreneur is, according to them, a behavioural response to a perceived marginal situation but, and this is an important outcome of their observations, they do not suggest that every person who becomes an owner-manager is a socially marginal person.

*Examples of these forms of social revolt (or social awareness?) include Timothy Leary, Baba Ram Dass - formerly Dr. Richard Alpert, a Harvard Professor. A fascinating account of alternatives to entrepreneurship is contained in "The Electric Cool Aid Acid Test", "The Politics of Ecstasy" and "Be Here Now."

Second generation entrepreneurs seem to have a much lower level of social marginality. They usually admitted that had they not inherited their position they would not have set up their own firm. Yet these second generation entrepreneurs are, by our definition in the previous chapter, quite as much entrepreneurs as were their forefathers; but if they have done nothing to the business other than to maintain it on a caretaker basis, then surely their achievement is not the same as those who have prospered and who have substantially expanded the enterprise. Our definition included those entrepreneurs who acquired an ongoing concern and developed it.

Perhaps it is here, in the second, or subsequent generation, that the difference between the Modal and the Independent entrepreneur begins to blur. The second or third generation entrepreneur who inherits his position is less marginal than his parental predecessor, but if he is less marginal in life experience, he has still opted for a career in business on his own account and almost of itself, this sets him apart from others who have chosen a career in a corporate hierarchy. To this extent, therefore, he remains marginal, but marginal within limits. We suggest that it is unlikely, if he runs his inherited enterprise on a caretaker basis, that he has experienced the marginality which role deterioration and a determining event confer on the individual. If the enterprise is substantial, he becomes at the same time Elite and Modal - Modal in the sense that he has succeeded to a position, but Elite by definition in terms of task, size of corporation and responsibility.

If the enterprise is that which may, by our definition be run by the Ubiquitous entrepreneur, then he remains a Ubiquitous caretaker. However, should he be the means whereby the enterprise grows substantially, there is a need for him to develop, change role models, progress upwards in terms of social mobility and thus at various stages in his developed, he is marginal.

We suggest that the aetiology of social marginality is to be found in role deterioration and some determining event. At the time of the determining event, the individual is necessarily socially marginal and perhaps we can now relate these concepts to *n* Achievement. We can take the results of the projective tests further however, for McClelland considered not only *n* Achievement, but, through his tests, identified what he termed *n* Power and *n* Affiliation.

Although the aetiology of *n* Achievement can, we suggest, be found in the reaction to a determining event, it can be due to nurture. McClelland saw *n* Achievement as a correlate of entrepreneurship. His view of entrepreneurs is directed more toward the Modal entrepreneur with an emphasis more on social conditioning than marginality and role deterioration. It is important that we distinguish between nurture and deprivation, between an approach and an avoidance reaction.

A number of studies have pointed to a high level of n Achievement in entrepreneurs, broadly defined. We can perhaps appropriately link our concept of the determining event to that of independence or self reliance, but a critical distinction is whether the individual has learned self reliance through being coaxed into it through his upbringing, or whether it has been forced upon him through circumstance. Winterbottom (16) found that the mothers of sons with high n Achievement tended to expect "self reliant mastery" at earlier ages than mothers with sons of low n Achievement. The mothers of high n Achievement sons fostered independence. The mother is encouraging the bird to fly; she is giving him his wings and encouraging him to use them. The mothers of low n Achievement sons tended to be more restrictive and the sons tended to be more dependent upon adults; here we see nurture at work.

McClelland quotes a cross cultural study which yielded some further results on the effect of restrictiveness. Those cultures which punished children for failure to be obedient, responsible or self reliant tended to produce folk tales containing less achievement imagery. Rosen and D'Andrade (1959) observed parent child interaction in forty families. ".... Boys were asked to build towers out of very irregularly shaped blocks. They were blindfolded and told to use only one hand in order to create a situation in which the boy was relatively dependent upon his parents for help. His parents were told that this was a test of their son's ability to build things, and that they could say anything to their sons, but could not touch the blocks. A performance norm was set for the experiment by telling the parents that the average boy could build a tower of 8 blocks, and they were asked to write down privately their estimate of how high they thought their son could build his tower." How much help did the parents give their children? How self reliant did they expect their son to be and how masterful? The mothers and fathers of boys with high n Achievement tended to set higher standards for their children than did those of lower n Achievement boys.

We suggest that n Achievement can be nurtured or it can be forced upon the individual by exogenous circumstance. This is an important distinction for if both Modal and Independent entrepreneurs are possessed of high n Achievement, at what stage do we distinguish its origins and indeed, can we so distinguish between the aetiology of a particular phenomenon whose measurement says nothing about its origins? n Achievement is a useful link with a number of other variables. n Achievement is a macro-variable for which there is a multi-disciplinary explanation and recent studies have shown a correlation between n Achievement and corporate success in the case of Independent entrepreneurs; but we suggest that its aetiology is different for the Independent entrepreneur as compared with his Modal counterpart.

The Modal entrepreneur, as we have seen, climbs an established hierarchy and it is likely that his frame of reference is relatively stable. Socially he is conditioned to the mores of corporate life and there is likely to be less conflict between his aspiration and his attainment, between his perception of what he is as compared to what he would like to be. His individualism is subordinated to teamwork and he likely sees himself as integrated into the scheme of things in a way which is psychologically satisfactory.

We could reasonably expect to see both a concern for social mobility and a high level of n Achievement in the Modal entrepreneur, and yet one of the apparently surprising outcomes of the Collins et al T.A.T. administration was the lack of social mobility drive. Their entrepreneurs were geographically mobile but not manifestly concerned with social mobility. This is all the more surprising if we consider a further observation by McClelland, supported by Smith (13) and Merton's (10) observations on the outlook of what Smith called the "constructed opportunistic entrepreneur" and what Merton saw as the "cosmopolitan influential." They are not narrow or parochial, they regard themselves as citizens of the world, not citizens of a town. We used this concept of orientation and role to differentiate between Elite and Ubiquitous entrepreneurs; McClelland uses geographical mobility in support of his views on n Achievement.

"We do not yet know whether individuals with higher n Achievement tend to travel more, but all these data suggest that they do. If they do we may have uncovered another clue as to why people with high n Achievement tend to make successful entrepreneurs: they travel more and by travelling are exposed to more information that might be put to use in their business. By definition it is the entrepreneurs job, particularly in the early stages of economic development, to put various pieces of information together in a plan for a new undertaking." Travelling involves a cutting loose of ties; it is a lonely business.

For some, travelling is a necessity, it is a part of their job, for some it is a means of running away from their problems. The Independent entrepreneur symbolically has packed his problems in his suitcase and he has no fixed emotional abode. The executive travels because he has to, some Independent entrepreneurs travel not in order to get somewhere but in order to get away from something.

"A good son would try to live near his parents even if it means giving up a good job in another part of the country, - agree, disagree?". Strodbeck (14) showed that upwardly mobile Jewish males in the United States disagreed much more with this item than did boys of South Italian extraction. The latter were generally much less mobile in American society, they were less willing to leave home. We can assume that they were tied emotionally (and perhaps religiously) to the immediate

surroundings and the ultimate reward for a good life than were those who valued the here-and-now more than the hereafter.

If both the Independent and the Modal entrepreneur are willing to try new experiences and are scanning their geographical limits for opportunities, why is it then that this lack of social mobility is so apparently inconsistent with their level of Achievement? Perhaps, as we have said above, - and here we draw closer again to Collins et al, - the Independent entrepreneur is not travelling towards something, but away from something. He is seeking the solution to an unresolved conflict situation which may date from his childhood, early manhood and to the determining event

There is a restlessness about the Independent entrepreneur. Perhaps we could relate this restlessness to need achievement; continually the individual must prove himself to himself and enough is never enough. We see this restlessness in Hagen's macro-sociological explanation of entrepreneurship where the withdrawal of status-respect leads to a burning desire for a type of achievement, and we see in Collins et al findings a restlessness deriving from an unresolved conflict situation. ".... Here are statements of what the entrepreneurs themselves believe to be the kind of character structures emerging out of these early times of deprivation. The keystone of the character development is often what they would call "self reliance" or "independence". It implies a high degree of, and need for, autonomy. These men conceive of themselves - and this conception is more than a little grounded in reality - as men who travel light, travel fast, and travel alone."

n POWER

McClelland looked not only at the need to achieve but also at two other important variables which he called n Power and n Affiliation. He defined n Power as a concern "with the control of the means of influencing a person." The individual tries to achieve a position of dominance by forcing a situation, demanding something, trying to put a point across or giving an instruction. The relationship is dominance-dependent in that there is a superior person and a subordinate in the situation. We could expect some difference in the need for power as McClelland defined it, between the Ubiquitous, the Elite and the Modal entrepreneurs. To the author's knowledge no empirical findings are available which can lead us to state with certainty that n Power is a differentiating variable, but we suggest it is likely.

Schrage (12) investigated 22 Research and Development companies selected at random, whose activities ranged from pure service or consulting organisations, to those whose prime emphasis was on the manufacture of propriety products designed and developed

internally. Profitability was used as one criterion and tests were administered, enabling the investigator to compare scores on behavioural tests with an index of success which related to profitability.

Schrage found it, as we do, difficult to accept that all entrepreneurs would be high in achievement motivation, continually seek accurate feedback about their companies and exhibit anxiety only in the face of bad news, - the implication being that in the absence of bad news they are relatively complacent. This, he saw as McClelland's view of the entrepreneur, and he contrasted it with Collins *et al* and borrowed from them what he considered to be the particularly relevant dimension of power motivation.

The individual who is scored high in power motivation seeks positions of authority and is deeply concerned at influencing others while at the same time being resentful of authority figures influencing him. These people are more wrapped up in their concern over authority issues than they are with problem solving. They are anxious men not only in the face of bad news, but because they are driven by an unresolved conflict situation in their past.

We suggest that the Ubiquitous entrepreneur is moving away from structured authority situations. His motivation is not to be controlled. The Elite entrepreneur, on the other hand is searching for unstructured situations which he can himself control. Thus, the Elite entrepreneur comes to terms with the concept of authority and he sees himself in a superior role. The Ubiquitous entrepreneur avoids situations where he can be controlled and so creates a situation in which he makes his own decisions.

These are different reactions, different motivations and different individuals. We can see a distinction here between an approach and an avoidance reaction. Perhaps this explains further the apparently surprising lack of social mobility drive between the Collins *et al* entrepreneur and that of McClelland.

Schrage found a correlation between Achievement and profitability through a score of "total awareness." He found that achievement motivation increased the entrepreneur's awareness of his customers and employees, whereas power motivation blurred this awareness. A score of total awareness comprising scores relating to the individual's perception of the market, his employees and himself, had a strong influence on profits and Schrage concluded that total awareness increased profits significantly.

We suggest that the apparent contradiction between McClelland's model and that of Collins *et al* is now easily explainable and supports our concept of the Ubiquitous and the Elite entrepreneur. There is no reason for us not to accept both models for we suggest that they refer to different phenomena; McClelland's view of the entrepreneur is more akin to our Modal entrepreneur, whereas that

of Collins et al is more akin to our Independent and leans more towards the Ubiquitous than the Elite. There is no reason why all three may not have a high need to achieve, but we suggest that the Ubiquitous entrepreneur has a higher n power which is shown in a manifest concern for, and preoccupation with authority situations. This concern distorts his perceptions and limits his ability to advance both socially and emotionally.

It is one thing to describe the aetiology of a syndrome, but it is quite another to hypothesize as to its cure - and indeed are we really in search of a cure for a diffuse restlessness, deriving, we suggest, from a determining event, a situation of self-perceived marginality? Perhaps, in order to be assured of a supply of industrial entrepreneurship of the Independent type, we can argue that the cure, in economic terms, is worse than the disease! The tasks, in commercial terms, are similar for both Modal and Independent entrepreneurs. If he succeeds in these tasks, if his business prospers and if he achieves recognition in the eyes of society, if he achieves success in his own terms, then we are properly involved in a consideration of personality characteristics that distinguish the Independent from his Modal peer. Entrepreneurship involves risk; it requires an investment in something in which the entrepreneur believes in order to yield a return, but in one case the investment is more emotional than financial. Let us consider the question of risk, for in this respect we can again distinguish between the Ubiquitous entrepreneur and the Elite entrepreneur - both Independent, but both as different to one another as the Independent is from the Modal.

GAMBLING AND RISK-TAKING

Risk is a measure of the probable outcome of an action. In financial terms a high level of risk is usually compensated for by a higher possible return, moderate risk usually involves moderate return and low risk invariably means investing in what is perceived by many investors to be a secure investment, but in psychological terms too risk can be considered as a function of anxiety and motivation. The individual who undertakes a task set for him by the experimenter, if he cares nothing as to the outcome of his actions, may find himself in a situation of low psychological risk. If the outcome of his actions is important to him, he will be more motivated to increase the probability of a desired outcome, by applying himself to the task in hand. We can immediately see a distinction between the statistical and the psychological probability of an event. Statistical probabilities lend themselves to more objective mathematical analysis although perhaps we can argue that in an investment situation, the probability of success is ultimately, subjectively assessed. The individual who recognises that he,

through his actions and his efforts, can increase the probability whereby his actions lead to a desired consequence is taking a more subjective view of the situation and this relates to his desire to succeed or perhaps, and this is important, his fear of failure.

We suggest that the Independent entrepreneur takes more of a psychological risk in his enterprise than does the Modal entrepreneur. In the case of a new investment by the corporation, the Modal entrepreneur will likely have contrived a political situation which leaves him at least with an excuse and quite probably, for this is in the nature of corporate politics - a subordinate quietly selected as a sacrificial lamb. Even in failure, the Modal entrepreneur can triumph psychologically but not so the Independent.

His decision to invest is his decision, and his alone. Although he may be aided by advisers, he and he alone takes either the blame or the credit; in his case financial risk is more closely associated with psychological risk. The Independent entrepreneur is risking not only his money but his self esteem; the psychological return on investment is entirely different. He will assess the situations which can influence his self esteem. He will decide and he will evaluate the risk that he is taking in exposing himself to situations or in tackling problems. It is his self confidence that is at stake; if he takes on a task which he perceives as being manifestly easy, it does nothing for his self confidence, but if he takes on a task which he perceives as being difficult but achievable, his self confidence will receive a boost. This subjective perception as to the outcome of an event is as relevant to promiscuity as it is to investment and entrepreneurs are not noted for their backwardness in the latter domain.

Atkinson (1) in a carefully reasoned and complex article discusses the relation between risk and Achievement. McClelland, he says, has presented arguments to support the idea of motives as "relatively general and stable characteristics of personality which have their origins in early childhood experience. The idea that a motive may be considered a capacity for satisfaction is suggested by Winterbottoms (16) finding that children who are strong in Achievement are rated by teachers as deriving more pleasure from success than children who are weak in achievement motive. If we accept this view of a motive as a relatively general and stable characteristic of personality let us look more closely to see just what it is that is being satisfied. There must be some cue which sets in motion the individual's response to a situation. The immediate response is, let us suggest, one of anxiety - and here the layman's use of the word is perfectly adequate for our purposes. The individual's motivation is to reduce anxiety. If he perceives that a problem is capable of solution, he may merely solve it. If it is an easy problem then it is unlikely that he will become over-anxious about it and his motivation to solve it may be correspondingly diminished.

A difficult task is one in which the individual's perceived probability of success is low; a task which the individual regards as easy will be one in which his perceived probability of success is very high. Atkinson was particularly interested in motivation when uncertainty regarding the outcome was greatest. It was in this situation that he considered motivation to achieve, to be at its strongest i.e. when there was a 50:50 chance of success. Atkinson offered female college students a modest monetary prize for good performance in two twenty minute tasks. "The probability of success was varied by instruction which informed the subject of the number of persons with whom she would be in competition and the number of monetary prizes to be given. The stated possibilities were $\frac{1}{20}$ $\frac{1}{3}$ $\frac{1}{2}$ and $\frac{3}{4}$. The level

of performance was higher at the intermediate probabilities than at the extreme for the subjects having high thematic apperceptive n Achievement scores and also for subjects who had low n Achievement scores, presumably a more fearful group. Those individuals with a high n Achievement would pick the intermediate probabilities because they would regard them not only as a challenge but as a challenge which, in their view could be successfully met.

The individual high in n Achievement therefore takes on tasks of intermediate difficulty. Those individuals low in n Achievement take on tasks that are either very easy or very difficult.

When confronted with a task, the individual feels a measure of anxiety and his actions are calculated to relieve that anxiety. We can appreciate that if an individual's actions are directed toward reducing anxiety, one means of dealing with the situation is not to try at all. Another is to take on a task of such difficulty that he is almost bound to fail. The latter alternative will permit the individual to rationalise failure to himself for failure will carry no great stigma. Let us see how we can relate these findings to entrepreneurship, which we already associate with a restlessness which in turn may manifest itself as a high level of n Achievement.

There is a crucial distinction between an outright gamble and a calculated risk, between blind faith and reasoned self confidence. The link between these apparent extremes is the individual's subjective assessment as to the probability of the outcome. With information, an individual is able to assess probability but without information, with no guidelines as to the probable outcome of the situation the individual is in the dark. He learns from his experience and in part that experience is influenced by his perception of his own capabilities. If he has been confronted by a similar situation before, this will be built in to his frame of reference. If he never experienced anything like it he may learn from his experience and either he will solve the problem, walk away from it or seek some other means whereby the anxiety which the problem has aroused can be ameliorated.

The Independent entrepreneur is left with a feeling of never being quite able to reach any satisfactorily definable and rewarding goal. His response to this is a renewed striving for further, equally unsatisfactory goals. Hence his feeling of restlessness and need to move on to new fields. "In the eyes of his associates, however, he is apt to be perceived as a man who never rests content with past successes, but must ever strive anew for additional triumphs." (4) Again we see the manifestation of an unconventional approach to life's problems. The entrepreneur has sought somehow to solve his conflicts, the situations which provoke a feeling of anxiety in him, not by merely walking away from them, not by accepting them passively, but by seeking a way out of situations and involving himself in new ones.

On the question of authority we are in agreement with Collins et al. It is not necessary that the entrepreneur was rebellious as a child, what is more important is that the area of autonomy in his life remains, and will probably ever remain, a sensitive area. Never mind that he has achieved occupational autonomy by establishing his own business, it could all go bad, independence might be swept away from him by some Machiavellian authority figure or by some quirk of circumstance. He is fighting a battle not only with his environment but with himself, and a fight with himself cannot be won.

Atkinson observed that the individual, strong in achievement motive, will continually look for new and more challenging tasks as he masters old problems. "If constrained, the person with a strong achievement motive should experience a gradual loss of interest in his work." (1) Once a task has been mastered, once a situation has been understood and dealt with the entrepreneur moves on to new fields. We suggest that the Elite entrepreneur, high in Achievement, will take calculated risks. He will go to the trouble of obtaining information which he considers both relevant and useful to him. The Ubiquitous entrepreneur, on the other hand, is a gambler. He sets his aspirations either defensively high or defensively low and this ties in with the Collins et al observation: "The observable career pattern might take on the aspects of a rather hair-raising roller-coaster ride - a succession of ups and downs, dramatic reversals of success and failure, streaks of seemingly good and bad luck."

The Ubiquitous entrepreneur's restlessness may well be manifest as high Achievement in some cases, but he is a gambler. Typically he does not solve problems by searching and scanning his environment for information. He gambles with himself, with situations, he reacts precipitately, emotionally although at some stage, he settles down, sets his level of aspiration defensively low and controls the expansion of his business at an unadventurous, secure level, until such time as, yet again some authority figure threatens; he reacts and the roller-coaster starts downward again.

THE QUALITY OF EXTEROCEPTION

The Elite entrepreneur, who takes calculated risks, has a capacity to sum up situations, the ability to scan his environment for relevant information and the motivation to seek and deal with challenging situations. His perceptions are less distorted by his own problems. We would expect him to be high in Achievement, relatively low in Power - unlike the Ubiquitous entrepreneur - and we would expect him to be possessed more of the quality we term exteroception.

Through the activities of his enterprise the Independent Entrepreneur expresses and confirms himself to himself. By a process of exteroception he continually decides whether he measures up and if not why not. We suggest that this quality of exteroception is evident more in the Elite entrepreneur than in the Ubiquitous entrepreneur. Exteroception is related to social mobility, it is related to the need for achievement, it is a continuous process of self doubt, self awareness and self analysis. Our concept of exteroception incorporates what Schrage (12) has called "veridical perception" which he defines as "... the act of recognising people, things, or situations as they truthfully are, rather than attributing to them qualities which are the products of one's emotions or imagination." A critical aspect of Schrage's concept and one no less important to ours, is the use which the individual makes of his observations.

Continually the individual is in search of feedback; he seeks it, he analyses it and he adapts himself on the basis of what he learns from his experience. Exteroception relates to the product which the individual manufactures, his relations with others, his aspirations and his probability of attaining them, in a sentence, his gradual careful calculated process towards a state of being which he regards as desirable.

Exteroception is a term which we have derived from biology. Crustaceans and segmented creatures have exteroceptors which they use to feel out their environment. They are cautious, for their survival is in the balance, and carefully they feel through their exteroceptors the state of the world around them. Exteroception in our sense is an iterative process. Exteroception embraces not only the characteristic abilities of the entrepreneur but the tasks and the function that he must perform in order to survive and prosper. The individual may well have a need to achieve, he may identify with a reference group which is different to his membership group; there is a social status or a perceived state of being to which he aspires. Even assuming he recognises correctly his situation in relation to that of his peers and the levels to which he aspires, he must adapt himself to his environment for in this way he is able to forge ahead. In order to adapt he requires information, he needs

to understand how the land lies and so continually by the process which we call exteroception, the entrepreneur compares himself to the world around him, he analyses what it is that he wants and how he may acquire it.

In order to make profits, the entrepreneur must have some knowledge of his market; is he manufacturing a product which is in a decline stage of its life cycle; is it about to be superseded by a competitive product at a lower price; is his financing adequate and appropriate? He must keep a total situation in balance all the time; he must ensure that his employees are both productive and satisfied and these are all aspects of what we term exteroception. If the entrepreneur cannot change with his organisation as it grows, if he cannot adapt to a new role, his organisation will outgrow his capacity to manage it. Schrage's concept of veridical perception seen as the act of recognising people, things or situations as they truthfully are, is an important variable and our concept of exteroception, while more broadly based, does not contradict Schrage. We merely feel that exteroception is more of a total concept in that it involves a link between the tasks which the entrepreneur must perform, his adaptation to his environment, his ability to change based on a truthful and relatively objective perception of himself. We include self awareness in our concept, not as a correlate but as an aspect. Exteroception incorporates an ability to assess the probable outcome of events with relative accuracy based on a continual monitoring of the environment, a knowledge of self and a recognition of the individual's limitations. Without information, the perceived probability of success of an action is high. The alert entrepreneur learns through a knowledge of results and seeks feedback which he can utilise to his advantage. He learns rapidly and he recognises the value of information. He does not act precipitately or let his emotions govern his rationality, he is conscious of what he is doing and when he takes a decision it is taken on the basis of available information and not in vacuo. The individual who scores high on exteroception understands himself and his social milieu.

Schrage used the term "anxiety" in the sense of self awareness and for our purposes we find this more satisfactory for we do not wish to confuse it with an agitated emotional state. He found that self awareness went hand in hand with an awareness of customers and employees. He recalls that in one particular case one of the entrepreneurs in his study knew more about the interviewer after the first fifteen minutes than the interviewer knew about him! Schrage's ideal entrepreneur could be considered as being totally aware of both his own feelings and aware of others and this ties in neatly with our concept of exteroception. In order for the individual to compare himself with his external environment, commercial, social and psychological, he must have an accurate awareness of himself; he must know who he is. Thus the individual who is preoccupied with authority situations can easily

reach the stage where this preoccupation distorts his perception of himself in relation to others. We could expect the man with high n Power to rate worse on exteroception than the man high in n Achievement and low in n Power.

Our Elite entrepreneur will, we suggest, rate high on exteroception, his business will be relatively more profitable - we recall Schrage's relationship between profitability and self-awareness - he will score low in n Power, he has a better developed capacity for affective dissociation, he takes a calculated risk, not a gamble. He is, we suggest, no less of a socially marginal individual than is his Ubiquitous peer; he too, we suggest has experienced role deterioration deriving from a determining event, but he has come to terms with the realities of the world, authority figures, and himself.

n AFFILIATION

This is the final distinguishing criterion which we shall use in our comparison of Modal, Elite and Ubiquitous entrepreneurs. Affiliation imagery was scored by the same projective techniques as used for n Power and n Achievement. "....When the story contains some evidence of concern in one or more of the characters over establishing, maintaining, or restoring a positive affective relationship with another person. This relationship is most adequately described by the word friendship." As we bring this Chapter to a close, let us add another individual to our three types of entrepreneur. We will call him an "average manager"; a man who, with or without a university education, has entered a corporation, is not destined for great things, but is holding down a job in lower middle management from which he is unlikely to progress to any significant degree beyond a series of promotions which will largely depend on his age. This individual is relatively content, relatively secure, he has friends, he is average. We introduce him into our scheme of things at this stage, partly to facilitate comparison and partly to emphasise, as we near the end of our enquiry, that the distinguishing criteria that we have selected here are a matter of degree. We do not suggest that entrepreneurship, whether viewed from an economic, a sociological or an individual perspective, is a simple matter, and the reader who has persisted and who has followed our enquiry in these three chapters will no doubt agree with this observation!

French (7) showed that in selecting working associates for a problem-solving situation, individuals with high n Achievement selected experts rather than friends. This is what we would expect from the successful entrepreneur, for achievement will be more important to him than friendship, whether he be Modal, Elite or Ubiquitous, but the aetiology of this relative difference in n Affiliation will differ. Of course the Modal entrepreneur must take an objective view on a situation in a business setting for this is his job.

Individuals possessed of high n Affiliation tend to be "approval-seeking" (7). They select, in an experimental situation, faces rather than neutral stimuli. To this extent no doubt, they are "average", they form human relationships which are based on friendship rather than on profit - whether material or emotional. The average manager will be possessed of a degree of n Affiliation greater than any of our entrepreneurial types, but while n Affiliation may be the same - positive or negative - for our entrepreneurial types, in the commercial situation, the aetiology of this relatively low n Affiliation will differ. In the case of the Modal entrepreneur, it is part of his job and hence an aspect of his characteristic behaviour. In the case of the Elite entrepreneur he has, through his greater self-awareness, contrived a degree of n Affiliation in certain situations, whereas the Ubiquitous entrepreneur, who has not achieved the same degree of self-awareness, possesses this quality in varying degree dependent upon the situation in which he finds himself. We have distinguished between nurture and deprivation, between approach and avoidance in the case of both n Achievement and n Power. n Affiliation, we suggest is little different in its psychological underpinnings, for we suggest that this too, is related to the determining event.

The Independent entrepreneur has learned through his life experience, not to trust people or situations, for they can - and probably will - let him down. He has developed this capacity for affective dissociation through force of circumstance rather than through nurture and training. Accordingly, we can expect the same relative quality of low n Affiliation to be present, but for different reasons.

THE ENTREPRENEURIAL TEST

Let us draw together the concepts which we have considered in this chapter. We will use n Affiliation as an example of one distinguishing criterion in the entrepreneurial personality. In Table 4 - 1 we have derived a series of scores which arise out of our discussion. The average manager will be relatively high in n Affiliation, he is relatively "innocent" or "normal", relatively lacking in cunning, deviousness, political abilities and social awareness. We suggest he is sufficiently naive to be able to be friendly! Thus we score him positively on n Affiliation.

The Ubiquitous and the Modal entrepreneurs will be friendly in some situations and otherwise in others, depending upon how they evaluate the situation; the Elite entrepreneur, on the other hand, has a unique capacity to stand alone. We do not suggest it is a "good thing", we merely suggest it as a probability. Clearly, we are in the realm of relativities. We do not suggest that there is any single criterion which can, of itself, enable us to distinguish between entrepreneurial types and the general population.

It is a matter of degree. We illustrate this by Table 4 - 1. There is no suggestion that the total scores in the Entrepreneurial Test are the final word on the subject, but we suggest that, through our discussion in this Chapter, we have isolated and brought together a number of important variables which, taken together, and not in single isolation, lead us to conclude that there is an entrepreneurial personality. It remains for investigators to construct a test which is statistically valid and reliable. If we can differentiate between those entrepreneurs who are likely to succeed, if we can identify potential entrepreneurs through some reliable test administration, then this will constitute a step forward. The significance of this observation will not be lost on Venture Capitalists at least.

We invite the reader to participate in the Entrepreneurial Test, and there is a column left available for his participation as a reward for his persistence thus far. If entrepreneurship, as we have suggested, is a matter of degree, if there is some merit in our suggestion of a continuum between the Ubiquitous and the Elite entrepreneur, then we should be able to illustrate at least, some significant differences in the total scores. We suggest that differences between the average manager (-5), Ubiquitous (+2), Modal (+5) and, in particular Elite (+15) are sufficient of an illustration.

TABLE 4 - 1

THE ENTREPRENEURIAL TEST				+ or - or 0
	Modal	Elite	Ubiquitous	Average Reader
Role deterioration	-	+	+	-
Determining event	-	+	+	-
Marginality	-	+	+	-
Exteroception	+	+	0	0
Frustration Tolerance	+	+	-	0
Deferred Gratification	+	+	-	0
Anticipatory Socialisation	+	+	0	0
n Achievement	+	+	0	0
n Power	0	0	+	0
n Affiliation	0	-	0	+
Affective Dissociation	0	+	+	-

TABLE 4 - 1 (Contd.)

THE ENTREPRENEURIAL TEST + or - or 0

	Modal	Elite	Ubiquitous	Average	Reader
Social Mobility	+	+	-	0	
Risk-taker	-	-	+	0	
Role Model Adaptation	0	+	-	0	
Parochialism	-	-	+	0	
Social Awareness	+	+	+	0	
Future Orientation	+	+	-	0	
Education	+	+	-	0	
Background	+	+	-	0	
Egocentricity	0	+	+	-	
Self Awareness	0	+	-	0	
Diffuse Restlessness	0	+	+	-	
<u>Scoring</u>	<u>Arithmetic Totals</u>				
Score +1 for a +	+	10	18	10	1
-1 for a -	0	7	1	4	15
0 for (indeterminate)	0 -	5	3	8	6
GRAND TOTAL:		5	15	2	-5

We now invite the reader to score himself, and we invite him to score as well, John Bentley, the Elite entrepreneur, whose story, in part, is contained in Chapter V.

CHAPTER IVREFERENCES

1. ATKINSON J. W. Motivational Determinants of Risk - Taking Behaviour. Psychological Review. Vol. 64 No.6 1957
2. ATKINSON J. W. (Ed.) Motives in Fantasy, Action and Society Princeton. N.J. Van Nostrand 1958
3. COLE Arthur H. The Entrepreneur - Introductory Remarks American Economic Review Vol. 58 May 1968 pp 60 - 63
4. COLLINS Orvis F. Moore David G. and Unwalla. Darab. B. The Enterprising Man. East Lansing Michigan State University 1964
5. STANWORTH M. J. K. and CURRAN J. Management Motivation in the Smaller Business. London. Gower Press. 1973
6. DEROSI Flavia The Mexican Entrepreneur. Paris OECD Development Centre 1970
7. FRENCH Elizabeth G. Effects of the Interaction of Motivation and Feedback on Task Performance. In J. W. Atkinson (Ed.) 1958 op cit.
8. HAGEN Everett E. On the Theory of Social Change. Homewood. Illinois Dorsey Press. 1962
9. LIPMAN Aaron Social Background of the Bogota Entrepreneur Journal of Inter-American Studies Vol. 7 No.2 April 1965.
10. MERTON Robert K. Social Theory and Social Structure. Glencoe. Illinois. Free Press. 1957
11. ROSEN B. C. and D'Andrade R. G. The Psychosocial Origins of Achievement Motivation. Sociometry 22 1959.
12. SCHRAGE Harry The R & D Entrepreneur: Profile of Success. Harvard Business Review Nov - Dec 1965
13. SMITH Norman R. The Entrepreneur and His Firm. Occasional Paper to Graduate School of Business Administration. Michigan State University 1967.

14. STRODTBECK F.L. Jewish and Italian Immigration and Subsequent Status Mobility in D.C. McClelland et al Talent and Society. Princeton Van Nostrand 1958.
15. WEBER Max The Protestant Ethic and the Spirit of Capitalism 1904. New York. Scribner. 1930.
16. WINTERBOTTOM Marian R. The Relation of Need for Achievement to Learning Experiences in Independence and Mastery in J.W. Atkinson (Ed) Motivies in Fantasy, Action and Society. Princeton N.J. Van Nostrand 1958 pp 453 - 478 op. cit.

CHAPTER VJOHN BENTLEY

"The establishment is a great big game and a lot of them are like a bunch of public schoolboys setting fire to each others newspapers."

John Bentley 1972

In 1959 the net profit before tax of Barclay and Sons Ltd. was £6,336 and by 1968 it had risen to £64,000. By 1969, following its takeover by John Bentley the net profit had risen to £350,000 in 1972 to £1.1 million and its chairman was a millionaire. At the age of 32, estimates of Mr. Bentley's net worth varied between £2.5 and £3.5 million based on the value of his 12% holding in Barclay Securities, Ltd. the conglomerate which had expanded so rapidly under his control.

In discussions with the casewriter, Mr. Bentley was very forthcoming on various occasions extending over a year; not only was he prepared to talk about his management philosophy but he recalled various incidents during the course of his career which he felt had influenced him. It was not only to the casewriter that he was approachable but numerous newspaper articles and occasional television appearances between 1971 and 1973 made him well known to members of the public and to the business community alike. Admiration, frequently accompanied by envy, greeted his earlier successes, but less favourable comment characterised him as an asset stripper in the social and political climate of 1973.

Table I overleaf shows an abbreviated earnings record for Barclay Securities Ltd. and Exhibits I and II outline acquisitions and disposals during the period 1969-1973 together with the valuation of the group's assets and liabilities in early 1973. The case otherwise comprises Mr. Bentley's viewpoint on a number of matters related largely to his personal and management philosophy.

Case prepared by R. J. B. Bruce of Cranfield School of Management as material for the Entrepreneurship and New Ventures Course. The case was made possible through the co-operation of Mr. John Bentley. Copies may be obtained through the Case Clearing House of Great Britain and Ireland, Cranfield Institute of Technology, Bedford, MK43 0AL, England.

Cases are not designed to illustrate either correct or incorrect handling of administrative situations.

Copyright © Cranfield 1974.

TABLE IBARCLAY SECURITIES LIMITEDEARNINGS RECORD

	£	£	Pence	Pence	
	Profits before tax	Capital	Earned per share	Share price High	Low
1959	6,336	97,884	n.a.	n.a.	n.a.
1968	64,583	150,000	2.54	n.a.	n.a.
1969	351,275	596,424	3.33	63	12
1970	1,146,021	1,107,231	6.92	121	55
1971	2,150,000*	1,185,303	10.47	197	67
1973	1,127,116 ⁺	1,951,044	3.46	257	175
				171	83
				**99	72

*unaudited

⁺unaudited
to 30th June**adjusted for
capital increaseACQUISITION AND EXPANSION

At the end of 1971 Barclay Securities, in its biggest ever deal, bought Triang Pedigree from the Lines Bros. Liquidators* for £5.28 million in cash. Of this amount, £3.6 million was for Triang Pedigree itself and the remaining £1.68 million was for the freeholds of the companies' factories in Merton and Birmingham. This made Barclay Securities the biggest toy group outside the United States, but this deal like a number of others which Mr. Bentley had master-minded, invited criticism from many quarters.

Four months after the Triang deal, in April 1972, Barclay Securities bid for British Lion, an old established production and distribution organisation in the film industry. In November 1971 the group's toy interests had been amalgamated to form the

*Lines Bros. Ltd. was, until a receiver was appointed, the largest privately owned toy group in the United Kingdom. Following a period of receivership after the group got into financial difficulty, the group was broken up, liquidated and some parts of the group, like Triang, were sold as going concerns.

Barclay Toy Group and a year later by October 1972, the Group's media interests were quoted separately on the London Stock Exchange as Lion International Ltd. Prior to the quotation of Lion International, Mr. Bentley had sold his Mills and Allen Media interests to Lion International for £9.66 million and a few months before that he had been involved in a £7.0 million share exchange, selling Barclay & Son Ltd. the group which he bought in 1969, to consolidate the Group's interests in pharmaceuticals. These deals illustrate in part, Mr. Bentley's strategy in concerning himself with reorganising two or three sections of industry at any time, and Exhibits 1 and 2 contain a chronology of acquisitions and disposals undertaken during Mr. Bentley's chairmanship. Exhibit 3 is a valuation of the company following the approach from Vavasour and Exhibit 4 describes, in part, the negotiations.

By 1972 the group was heavily involved with pharmaceuticals, toys and media. In addition, Barclays Securities held a 51% interest in Interfile, an industrial information service to overseas businessmen through which they could obtain information on companies through any office of British European Airways, British Overseas Airways Corporation or Barclays Bank International Ltd.

Mr. Bentley referred to outdoor posters as a "fragmented industry" which his group had substantially reorganised. By 1972, British Posters Ltd., a recently formed consortium conceived by Barclay Securities combined the largest undertakings in the industry to offer a highly competitive service to television, the press and other media. Another arm of his media interests involved a link of Mills & Allen with Pearle & Dean and Westminster Press. In joining several subsidiaries of British Lion and Pearson Longman, Barclay Securities had produced a company to offer services in advertising, programming and technical work to potential commercial radio station operators and at that time commercial radio stations were becoming increasingly interesting to a number of major groups in the United Kingdom.

Barclay Securities had just computerised all their poster sites throughout the country and they planned to sell posters "as they have never been sold before". Advertisers would be offered defined campaigns with a choice of their campaigns lasting for weeks or years. The Group's Mills & Allen subsidiary had exclusive U.K. rights to a multi vision changing poster unit which would permit five times as many posters to be shown on the same site. In addition the Group's Leonard Ripley subsidiary had applied for patents for a double printing process for the display of back-illuminated posters: but Mr. Bentley's first major foray into industry had been in pharmaceuticals.

In the two years since his purchase of Barclays & Sons the turnover on pharmaceuticals alone had more than quadrupled to £12 million. Again he had consolidated various private companies

into a major unit. In addition his group was taking on products on a sole licence basis in the U.K. and were deliberately marketing them, something which in Mr. Bentley's view had not been properly done before by any pharmaceutical distributors. As well as the wholesaling activities therefore, the Group had a national sales team which visited chemists shops and stores to sell various exclusive lines.

ASSET STRIPPER

Mr. Bentley was sensitive to the unfavourable allegations that had been levelled at him and in particular at the fact that he had been branded as an asset stripper in various unfavourable articles in the press and even in comments in the House of Commons. He had experienced considerable problems over his purchase of British Lion. Part of British Lion assets were the Shepperton Studios comprising some 60 acres of land, which, if the studios were closed down could be developed. He regretted the necessity of closing one of the toy plants - a move in which a thousand men were made redundant. "If I hadn't arrived 3,000 men would have been laid off. The ones that did have to go got double the redundancy pay they would have got from the liquidators and we spent a million pounds more than we needed to in trying to get the company back on its feet, but we couldn't do it. It wasn't fair to our shareholders."

"I am not an asset stripper, though outsiders call me that. I've only once had to make workers redundant, but the Unions think I do it all the time. I've had threats on my life, left-wing writers attack me saying all mergers are evil, and unfortunately it is now spreading to the establishment. In a time of economic crises, pay restrictions, when the stockmarket itself is collapsing, they can't understand my success. When they themselves were successful they said nothing - that would have meant pointing a finger at themselves. But now they are joining in, saying that if he's making money when I am not he's got to be wrong."

"I don't like being branded as a wheeler-dealer. At Barclay Securities we're just a young earnest bunch of guys all sincerely trying to reorganise and reutilize companies to the best of our ability, doing what the country needs to be done. I don't expect the general public to understand but now its got to the point where I go out to dinner and people point at me. Unions are always asking me if I can guarantee the mens' jobs. I say I can't guarantee my own job!"

"What I am trying to do is to get a return for every piece of plant, every pound spent, every person employed. And if one is going to do that, which I believe is one of the ways of keeping free enterprise going, I have got to be detached from the situation; I have got to try to be unemotional. It's true, I don't know old Joe on the factory floor, or his moans and groans. If I listened to everybody I would be swayed from taking the right decision, but now I am being swayed. I am terrified of buying any business

which would involve one redundancy. It's got to be bad for the country. British business is full of bad management. How else can they be got rid of except by firms like ours."

"Every time I move I find the usual examples of British management gone to fat. There was one bankrupt firm where the Managing Director's chauffeur was living in a flat worth £40,000. Another Chairman had just bought a second Rolls so he could have one in the north and one in the south, yet the company he was responsible for was losing £80,000 a year. At Dorlands*, their company had a total of about twenty-five directors pulling in £300,000 a year in salaries. That was equal to the company's annual profits and yet between them they only owned 0.5% of the shares."

OPERATING PHILOSOPHY AND THE TOY INDUSTRY

Mr. Bentley's entry into the toy industry illustrated his approach to involvement in any industry. Essentially this involved acquiring a small company in the industry and using that company as a basis for investigating and analysing what could be done in the industry.

"We look at a sector of an industry or an industry and we say to ourselves: 'here is an area in which companies are traditionally managed, with family management, with many private companies, with problems of death duties and that kind of thing.' You find that in this type of area companies tend to be fairly easily available. We look for an area rich in assets and managements who do not particularly appreciate that their assets can be used in a much better way and where few new ideas have come into the industry for a long time. We take an experimental step into that industry - we've always done this. We buy a smallish business first to test the water and always buy into a business where the assets are considerably greater than the amount we pay for the company, so if we do go totally wrong all we have to do is wind the whole thing up, close it down and put the money in our pockets. Fortunately that has never happened, but there have been industries in which we have operated and then moved out - the jewelry industry for example."

"I thought we could do a lot for retail jewelry. Also I had what seemed a unique idea for a department store. We tried both of those; jewelry we tried for about six months and the department store for about fifteen months, but eventually we came out of both having improved the profits by about 25%."

*An advertising agency acquired by Barclay Securities.

RANGE OF PRODUCTS

Mr. Bentley elected to operate in different sectors of industry because he believed it was safer from an investment point of view. It was known that he was a buyer of companies and therefore by operating in different industries it made it more difficult for people to anticipate his next move. Notwithstanding this he never lost his perspective of the total group operation. Mr. Bentley did not regard his organisation as a conglomerate.

"The trouble with most conglomerates is that they just go for a single situation without any real objective other than a fast profit. We concentrate on a very positive objective for each of our three divisions so that at any given moment it would be possible to float off any one of them and sell it as a completely autonomous, separately managed, viable company. But where we get peripherals, assets that we don't need, we sell them off very quickly."

Regarding his investment in the toy industry Mr. Bentley pointed out that he did not consider his group to be a toy group. Toys were Barclay securities smallest division and despite the fact that they were making money out of toys it was an area in which institutional investors did not favour because "so many companies caught such terrible colds in the past couple of years."

Mr. Bentley felt that the cyclical nature of the toy industry was caused by the manufacturers stampeding retailers into "gimmick items". He pointed out that manufacturers had made toys into a fashion industry "just like the rag trade" he felt it was important to achieve some balance between too many products and a one-product company.

One product companies were the type of company that failed so frequently. "Stock Exchange records are full of one-product firms that have done tremendously well and then suddenly collapsed. You can't successfully patent toys. Therefore, if one firm comes up with something good, everybody follows suit. As to why the toy trade has collapsed in recent years, I think it is not really a question of the toy trade but a matter of individual companies."

Mr. Bentley referred to Lesney*, a quoted company, which had pioneered "match-box" toys, as a special case. In his opinion it was not a toy company at all, it was a die casting company. "It has two men who are brilliant die castors, Smith and Odell. They found a way of producing those tiny little toys, in fine form and half of their success, I think, was due to the design - the fact that the models were small and well engineered. The other half was because the toy was so small it could go into a well packaged little cardboard box. It could sell in confectioners and tobac-

*A fascinating account of the fortunes of Lesney Products & Co. Ltd. is contained in a case series written by Professor C. J. Constable of Cranfield School of Management.

consists, in shops all over England and indeed all over the world."

"Toys had never been marketed in this way before. The idea caught on and it caught on in a big way, but it was a once and for all thing. At one stage Lesney was capitalised at one hundred million pounds - absolutely incredible for a one product concern. At that stage they should have reversed into Vickers* or something like that but they didn't do it and missed out on a golden opportunity."

"Lesney was so successful that other manufacturers started copying them. When American competition changed the fashion in die-cast toys the whole market collapsed and Lesney had not taken steps to protect themselves from that. At that stage, at the £100 million capitalisation stage they should have diversified right out of toys. The company was too big to be only in toys. Certainly they should have extended their product range, but they should have picked off the other large toy companies for a start and then when they had reached the £100 million stage they should have brought some large industrial companies, an engineering company, for example, as Lesney has such expertise in this field."

Commenting on his recent acquisition from Lines Bros. Liquidators he pointed out that Lines Bros. was a completely different situation, as it became larger it became extremely difficult to administer. With a number of small units spread around the country, the company required a great deal of management time and effort and Mr. Bentley's feeling that the directors could not find the management to control the situation. A further drawback in the toy industry was the number of lines that various companies kept active. Sebel and Chad Valley, both acquired by Barclay, had about 600 lines each and under Barclay Securities control these were cut down in both cases by 75% after which new products were added to bring the total number of lines up to about one-third of the original. By reducing production to known "non-gimmick" lines it was possible to run production lines constantly from the 1st January on exactly the same schedule throughout the year. This, in Mr. Bentley's view was something the industry had not done before, but of course it brought with it a number of extra problems.

One of the problems of the toy industry was that the trade financed the retailer to a certain extent but another problem was that of stocking. Costings by Mr. Bentley's group had revealed that it was cheaper to hold larger inventories provided that they had cheap warehousing facilities available. Mr. Bentley pointed out that Lines Bros. were warehousing in the middle of Croydon, (near Central London).

*A major British engineering, shipbuilding and aerospace corporation.

A FUNDAMENTALIST

Costing was a problem in the toy industry and this was another advantage in cutting back the number of products.

"It constantly amazes me how many companies in the U.K. do not properly cost their items regularly and keep their costing up to date. They do not take account of the fact that costs are changing all the time - that prices of materials are changing. Often if you analyse a balance sheet properly you find that one of the biggest items on it is stock. You may find that there is fifty weeks supply of such and such on the shelf where there should be a five weeks supply. You must analyse every single item. It is so fundamental, but the majority of British industry does not have tight control over its business. Certainly this is so in the smaller companies."

"I have no management training and no qualifications of any description and in a sense I suppose this could be a disadvantage. I've got a theory that through not going to university I have an advantage in that my mind is totally untrained. Perhaps this means that never in my life have I been told that A follows B and because my mind is so totally untrained I cannot conceive of precedents. Of course, I do set my own precedents in that I repeatedly come across a situation similar to that which I have seen before. These are my own precedents which I have had to work out for myself. A number of the guidelines I have worked out are as simple as turning out the light when you leave the room. They are so fundamental it isn't true."

"We buy companies very frequently and find that the stock factor is of vital importance. You buy a company for say, half a million pounds and it may well be that half of that figure is wrapped up in stock. You can reduce that to £100,000 or £150,000 and so you have an enormous part of the cost back in your pocket. When buying a company, I merely look at the largest items on the balance sheet. You find they usually are items of property. You consider the property and ask: do they need to be in that building? Could they be in a cheaper building? Could they be in a rented building? Do they need to be in that area at all? Wouldn't it be better if they were somewhere else? You ask yourself can a saving be made on this property? and very frequently it can. In most cases it can."

BACKGROUND AND PERSONAL COMMENT

Mr. Bentley was educated at Harrow, a famous British Public School. He found that he disliked school and paid very little attention to what was going on there; he tended to accept without question the material wellbeing of many of his school companions and pointed out that although he came from a very comfortable background, his father could not really comfortably afford to send him to Harrow. His father, a Brighton stockbroker, died when Mr. Bentley was seventeen. This caused him some considerable emotional distress and also necessitated his leaving Harrow.

"My father lived very well and he did something of which I thoroughly approve, he spent his money while he had it and didn't leave it to his children. He left a certain amount of money in trust for me, but that was to be paid when I reached the age of twenty-five so I had the prospect of eight years ahead of me with no money."

"An uncle of mine suggested that I either go into the Stock Exchange or to Lloyds and I had no really strong feelings about either. I was quite interested in the financial world. I used to read the financial part of the newspaper at school, so I took a job as a messenger boy in a stockbroker's office for which I was paid £5 a week. 'Messengers were terribly badly paid, but as I didn't have contacts in the City that was about the only way to get in there.'"

During this period Mr. Bentley got to know his way around the City, still as a messenger boy.

"I knew where all the banks were and what firms specialised in different types of financial transactions. After three months as a messenger I became a transfer clerk and then subsequently a junior to Samuel Simpson.* He was a big dealer, he would deal in hundreds of thousands of pounds in the morning and I would help him out in the afternoon because from 3.30 p.m. onwards he was stoned. By the time I was nineteen, Simpson left the firm. I didn't like any of the other partners in the firm and the prospect of spending years commuting from Brighton to London and working for a pittance didn't appeal to me. I suppose it is debateable as to whether I left or was fired, because at that time I was going out with a girl who worked in a night club and I used to fall asleep at my desk. I decided to go to Australia and left within the week."

*Disguised name

AUSTRALIA

In Australia too Mr. Bentley had problems. "I was always trying to see the boss of the firm Sir Ian Potter about some ideas which I thought were brilliant and why I should be promoted, but he wouldn't see me. In the end I barged into his room one day when he was having lunch and that was the end of that."

Mr. Bentley had five different jobs in Australia prior to his return to the United Kingdom. During the time he was in Australia and also before he left he had been playing the Stock Market regularly. In London in 1959 he had played the bull market of the time on an hourly basis and in 1961, 1962 and 1963 there was a bull market in Australia in which he invested with some success making several thousands pounds by the age of 23. One major source of profit to Mr. Bentley was his investment in the steel industry on which he made a substantial profit when the government denationalised the industry. At the age of 23, and on his return to the United Kingdom, Mr. Bentley set up on his own as a financial analyst, deciding that he would rather work for himself, but this posed problems for him. "I'd put up quarter million pound ideas, or apply for £20,000 jobs, but when people met me they wouldn't believe I was capable of it."

It is worth noting the casewriter's surprise when Mr. Bentley told him of the "blazing rows" that he had with people in the stock-broker office in which he worked. At all times Mr. Bentley had been candid, courteous and approachable, commenting about his younger days: "at that age you can afford to be opinionated, but I don't try to upset people, I try to understand them and find out what they like."

MONEY AND VALUES

"I didn't start off to be a millionaire. I was as amazed as anybody when I found that I could do it. If you gave me £100 now I could double it by this evening. It is a knack I found I had. It was when I met real financiers and politicians that I began to gauge them and think 'if that's the way they are, I'm fairly alright. If they made it why not me? I'm not senile, I'm fit and able to meet anyone on even terms.' I was surprised for a long time that I could do it. Now I know I measure up. I'm not a fluke."

"At one time men competed at archery, spear throwing or whatever, now the business world provides the arena. It's just another form of animal behaviour. You've got to be fighting fit to survive. In a sense this is both good and bad."

"I think people have the capacity to change with circumstances although that is not necessarily going to make a better world. I don't believe man has progressed that much that we can't get back to the jungle in one minute flat. It is in man's nature to be aggres-

sive, but I think one goes through various phases. When one does go through an aggressive stage one would clearly hope to win and equally clearly I have been going through an aggressive stage."

"Of course I don't think money is everything. It is a strange thing, if you have too much of it it can make you cautious. I know that I don't operate cautiously. I think you can overdo caution to the extent that you can lose money. "It is strange that I should be talking like this at the age of 32; usually it is when people are 64 that they start unloading themselves and pontificating."

"What I would really like to do is to retire and become a philosopher, but I don't know whether people would be particularly interested in reading what I had to say. In my spare time I try to read a certain amount and at the moment I am reading through a number of Bertrand Russell's works, not I suppose with any intention of actually retiring and being a philosopher - certainly not in the immediate future. But one of the things I work for is to be able to have enough freedom to do as I wish. There are plenty of things that are more important than money."

"people want different things out of life and I suppose I've had more than most, and I've enjoyed it. People say here's John Bentley, he's worth three million pounds and they're impressed, but they shouldn't really be. It's just been a game with plenty of purpose and the only excitement and satisfaction is doing it yourself."

Mr. Bentley had no regrets about any decisions in his business life - even the things that went wrong, but he regretted that his marriage failed. "There were so many reasons. In some moods I blame myself, other times my wife. I don't know the truth except that women seem to have different ambitions from men. She wasn't interested in me making pots of money. Power and success just didn't attract her. You could say she had the right values, but it wasn't right to hold those things against me. She wanted more normality. I didn't give it to her, so it was my fault. I did try though; at twenty-five I retired for six months with a large house, two acres of garden, I really got stuck in, clearing it everyday, playing with the kids and my wife thought it was great, but it wasn't enough for me. She didn't accept that I needed new things to attract me. I must have projects all the time. She wanted an end in sight, whereas to me the only end is a new project."

SOCIAL INFLUENCE

While making money had not been the end, it was a means to a number of ends, and Mr. Bentley felt he would like to exert some useful influence upon society. "In a sense I have done this through my company and my business. I'm an example of free enterprise.

I don't call myself a capitalist, I'm all for Communism in theory but it doesn't work in practice. As for Socialism that's the worst of all; it destroys the freedom of the individual, encouraging people to be resentful. Everybody is reduced to the lowest level, not raised to the highest. Socialism is the sour grapes religion, it stultifies life and it's an inhuman creed. I'm all for helping the incapacitated, the elderly, the crippled, the weak in mind; but able bodied people have got to look after themselves. I'd give them a bowl of soup, a roof over their heads, the two basic human needs, after that they're on their own."

"People are important to me and many of the things that are said about me are beginning to spoil all the fun. In the last three months the pleasure has begun to go. I don't know how politicians ever manage being attacked and lampooned all the time. I've thought about politics but really I am as interested in doing something useful beyond politics. I know it sounds arrogant - but something socially useful."

THE ORGANISATION

"One of the important things in this organisation is to get other people to understand my whole approach. I find that I have to impart my approach to situations to the people who work for me. To start with one has got to watch them closely pull them up when necessary, praise them when appropriate, bully them if they get out of line. I don't try to brainwash them - it is really a question of having an adaptable mind. I believe in being totally flexible, so it is probably a good idea I am not let loose on the other companies in my group, but of course I have the final say in any decision that has to be made. Nevertheless I can't run every company and while I try to suggest things occasionally to my managers, I will never force them. For one thing I haven't the time. So what I have to be sure of is that I've got the right people in my organisation."

"I don't like firing people: I would like them to see things my way and understand the approach that I have to the business. I certainly don't want an entire bunch of entrepreneurs here, if I've got a technical problem I need a technical man, and I certainly am not technical. I interview my key men myself and I spend some time on it - I suppose I'm about as unorthodox at interviewing as you are."

"Of course I exploit people as well, but I think that a lot of people from Business Schools are exploited more. They get jobs in big companies, particularly in big American companies, where they bandy technical management words around with men wearing steel rimmed glasses and shaven heads - technical terms I don't understand, and don't need to."

"I like the idea of letting people develop. We give people tremendous autonomy here in the group. It is good for them and it is good for us. For one reason at least we can hold somebody

responsible and I like to encourage people to develop as far as they can, and that doesn't mean to learn a lot of long words."

My conception of high finance is being able to add, multiply and subtract up to ten. The rest is a matter of noughts, but what I always do whenever I go into a deal is that I have to be able to see a way out. I don't buy a name, I buy assets and I have to see that there is something more to be done to a business than has already been done. The people who put money into Rolls Royce didn't realise that Rolls Royce was in a contracting business and any contracting business is speculative. What they were doing was buying the name without working out what was underneath it."

THE ESTABLISHMENT

"People, particularly members of the establishment, think 'I'm an impudent whippersnapper, but my impudence is always subordinated to profit. If I made a bad move I couldn't afford to be impudent any longer, but I am bound to admit that the more impudent a deal the more enjoyable it is, as long as it is financially right.'"

"Of course now the establishment is prepared to open a few doors for me and like most of them I am ready to try to look outside of myself and exert some influence. Traditionally people who were born well and made money tended to go in for patronising things, like affecting the arts in some way. In some way I would like to do the same but I am not quite sure how. I don't really believe that man has progressed in ten million years - we're all pretty much the same. You look at that spade out there pushing a brush," (pointing to a painter outside the window) "he just hasn't had the breaks. In the old days the establishment was born with the ability to exploit others - maybe they were not born with the ability, but certainly many of them were born with the opportunity. This is the opportunity which I now have, but I wouldn't like to encourage in my company the formation of an exclusive club."

"One of the main reasons I suppose I left this country to go to Australia was because I was fed up with the establishment, and the way they did things. The establishment is a great big game and a lot of them are like a bunch of public schoolboys setting fire to each others newspapers. There was such an accent on age when I was younger and seniority was so important, but I think that is breaking down now. I think it is partly the result of a birth boom after the war although I wasn't part of that. After the war people had had enough. They wanted to settle down and they became dreadfully conservative. They oppressed youth in order to get peace and now they don't understand what is happening in the world."

"I was lucky to be a part of that splendid generation that has taken everything with it. I was lucky to be a part of the Beatles' generation and I have a lot of interest in what is going on among the youngsters. Many of them are wandering around Europe or America with guitars looking for something and I am pleased they are. The establishment doesn't understand them and perhaps they don't understand themselves, but it is a good thing that they are trying. That sort of thing is probably one of the few alternatives to enjoying my work the way I do at the moment."

ENTREPRENEURSHIP

Asked whether he saw himself as an entrepreneur Mr. Bentley commented that there was so much written about the subject of entrepreneurship that the issue often became clouded.

"One reads so much about entrepreneurs, but I think a fair definition is 'someone who is in business for himself'. Certainly that is the way I see myself. That's what makes me tick and I couldn't really be anything else. I know that we are running a considerable turnover here, but I think I would become bored once I became institutionalised. In that case I think I would tend to let go of the reins and hand over to someone else. But there are different types of entrepreneurs and I don't agree with many people's views that an entrepreneurial venture is essentially a short term one."

"Hal Geneen of ITT, for example, is an entrepreneur, but he is very different to me. He is an old style autocrat and I think he sees himself in the King role, he is after power. Max Joseph is another entrepreneur who has had a pretty long run - he's been going for twenty years. (Mr. Joseph had recently through his Grand Metropolitan Hotels Group acquired control of Messrs. Watney Mann in a £400 million takeover bid.) And then there is Jim Slater."

MR. SLATER

Mr. Bentley had a very high regard for Mr. Slater. "One of his main strengths is that he is very good at assessing people, but he often upsets them by his abrupt manner. He likes to get things done quickly and when I first started working with him our conversations were very amusing. Jim dislikes lengthy conversations. To talk to him on the telephone was absolutely hopeless - he never actually said goodbye and of course I used to do the same to him. Most people used to kow-tow to him and agree with everything three bags full Mr. Slater and maybe that is one of the reasons we seem to get on, because I don't."

In 1965, Mr. Bentley had approached Mr. Slater, who by that stage had established himself in the investment field. Describing how they had first met Mr. Bentley became visibly excited while describing the deal he had taken to Mr. Slater.

"The deal that I took to him was the best deal that the City has seen in a hundred years. It was the coup of coups. It involved taking over the Scottish Life Association which at that time was capitalised at £2.5 million yet controlled book investments worth £40 million and had hidden reserves of another £60 million. I wanted a million pounds out of it so that I could retire and do the things that I wanted to do, but as it was I only made £40,000. Anybody who had bought this company as it was could have walked off with £60 million and I knew it."

"I just walked in off the street. I had read in the Financial Times in the Men and Matters column about Jim and it looked interesting so I had memorised it and thought I would go and see him when I had a situation. I didn't have an appointment with him, I just walked in off the street and made it fairly clear that I was not going to be removed. Obviously one had to be brief. If you are going to see someone about a deal you must always have a memorandum. Never write long letters to company chiefs, but set the whole thing out very briefly and if they are interested they will read the rest of it. All I had at that stage was £20,000 and I invested the lot with Jim."

"I suppose I consider myself a failure not to have pulled off that deal, but then I suppose we would all have been so rich so quickly that it would have taken the fun out of it! Still that is what got me started."

Asked how the money from his father's estate had helped him, Mr. Bentley pointed out that it had been held in trust for him until he was twenty-five.

"When I got the money I put it straight into a house. I didn't buy it with a mortgage, I was rather old-fashioned about it. I've still got the house, it is the one unencumbered asset that I have."

BARCLAY SECURITIES LIMITED

EXHIBIT I

ACQUISITIONS AND DISPOSALS, 1969 to 1973

P U R C H A S E S

1. PHARMACEUTICALS

June 1969	J.T. Morgan & Co. (Swansea)	2.5 m ord. shares of 2/-
July 1969	W. Hinds (Holdings)	1.5 m ord. shares of 2/-
Nov. 1969	Jaynor Ltd.	1.080 ord. shares of 2/-
Dec. 1969	J.H. Haywood Pharmaceuticals	384,240 " shares of 2/-
May 1971	Reynolds & Branson of Leeds	£200,000 cash
	(N.A.V. £496,000)	+£180,000 subject to profits
May 1972	24% Weston Pharmaceuticals	Sale of Barclay & Son

2. MEDIA

April 1970	Parlative Publishing	425,000 ords. of 10p.
Aug. 1970	Mills & Allen Ltd.	3,875,875 ords. (£4.1m)
Nov. 1970	Leonard Ripley & Co.	333,331 ords. of 10p
31st Mar. 1971	Dorland Advertising Holdings and Subsidiaries: Outdoor Publicity Dorland (City) Ltd. Brockie Haslam	£356,118 of 10% part convertibles

EXHIBIT I CONT.

May 1971	North Staffs. Poster Services	£95,000 cash
June 1971	General Poster & Publicity Co.	£412,000 in 10½% conv. loan
October 1971	Trafalgar Advertising Ltd.	n.a.
December 1971	Europa Posters Ltd.	£7,000 cash
	(N.A.V. £6,500)	£18,700 Conv. unsec. loan
February 1972	Franco Signs (South Africa)	
	50%	
	100% of Franco merged into Advertising Displays (Pty) Ltd.	£307,000
	50%	deferred over 2 years
April 1972	British Lion	2 ords and 370p Pary Conv.
	53% acceptance	for every 2 B.L. shares
		Cash of 135p per share
		backed by Slater Walker
	British Lion to maintain its quotation.	
October 1972	Media Interests to be quoted as Lion International	
3. <u>TOYS</u>		
April 1970	D. Sebel & Co.	436,363 ord. shares of 10p
		£196,364 9% unsec. conv. loan
March 1971	Chad Valley Co.	£623,250 10½% part convertible loan

EXHIBIT I CONT.

Nov. 1971	D. Sebel & Co. Chad Valley Co.	Amalgamation to form the Barclay Toy Group
Nov. 1971	Chiltern Toys Chas. E. Methven	
	Triang Pedigree (N.A.V. £5 m)	£3.6 m cash
Nov. 1971	Triang Factories from Lines Bros.	£1.68 m 6 months deferred payment
4. <u>INTERFILE:</u> 1970	40% of equity Industrial Information Service to overseas businessmen through any office of B.E.A., B.O.A.C. or Barclays Bank International	
Dec. 1971	11% of Interfile making 51% equity	26,667 Ord. 10p shares £10,000 cash
5. <u>PROPERTY:</u>	Townshire Property Co.	
		66,500 ord. shares
6. <u>TOILETRIES:</u>		
Nov. 1971	Osborne Garrett Nagele Ltd. N.A.V. £610,000 30/12/70	£820,000 cash
Dec. 1972	Bellair Cosmetics Belle Pharmetics Cartwrights (Rawdon) (Leeds) Lakeside laboratories (Leeds)	£1 m approx in cash

EXHIBIT I CONT.7. MISCELLANEOUS

Feb. 1973

A.D. International

888,000 Ords. purchased in
the stock market

EXHIBIT 2S A L E S

<u>DATE</u>	<u>NAME</u>	<u>PRICE</u>
6th April, 1971	J.T. Morgan & Co.	£450,000
29th April 1971	Dorland Advertising Ltd. Dorland Recruitment Ltd. W.S. Crawford Ltd.	£750,000
	Dorland Advertising Holdings retain 20% in the new group	
	Mills & Allen:	
	Property	£1.95 m
	Office Equipment Division	£350,000
	Mills & Rockley's Electronics	£265,000
	TOTAL:	£2.76 m
	(Remainder of Mills and Allen showing £750,000 profit p.a. retained, giving an effective purchase price of 1.8 times pretax profits.)	
May 1971	Link of Mills and Allen with Pearl and Dean and Westminster Press.	
September 1971	£286,000 cash realised from General Poster	
November 1971	Property of W.S. Crawford	£975,000 cash
November 1971	Dorland (City) Ltd.	£559,000 cash
	Brockie Haslam & Allen	£70,000 cash

EXHIBIT 2 CONT.

<u>DATE</u>	<u>NAME</u>	<u>PRICE</u>
April 1972	Sale of Osborne Garret	£1.2 m
May 1972	Barclay & Sons	£7 m
		Share exchange of Weston Pharmaceuticals shares
		Cash £3.5 m
September 1972	Mills and Allen Group	£9.66 m
		£4 m 7½% Conv. Red. Pref.
		£5.66 m as to Ords. of British Lion shares at not less than 135p per share.
December 1972	Chad Valley Co. Triang Pedigree D. Sebel & Co.	£1.8 m Cash Undisclosed Undisclosed
January 1973	Offer for Barclay Securities Ltd.	7 Ords. of Barclay in exchange for 1 Ord of 25p in J.H. Vavasseur and 330p of 10½% part convertible subordinated unsecured loan stock 1983 and 35p in cash.

EXHIBIT 3BARCLAY SECURITIES VALUATION 14th MARCH 1973

<u>ASSETS</u>	<u>£m</u>
Quoted Investments:	
Lion International	8.4
Bellair Cosmetics	0.9
Other:	
Ordinary Shares	1.8
Pref. Shares	2.0
Debentures	0.3
Unquoted:	
Lion Int. Pref.	4.0
Advertising Displays	0.6
Fixed Assets:	
Property at Cost or Valuation	1.7
Others	0.1
Loans	1.3
Current Assets:	
Debtors	1.1
Cash	1.2
Total:	<u>£23.4m</u>
 <u>LIABILITIES</u>	
Current:	
Creditors	2.1
Taxation	0.1
Deferred	0.2
Loan Stock	6.7
Total:	<u>£9.1</u>
Nett Asset Value:	£14.3m
Equivalent to:	73.3p per share

EXHIBIT 3 CONT.NOTES:

- (1) A 40% interest in Wimbrel Properties is valued at £40. Wimbrel properties was formed to develop a 21.5 acre site in South West London for which finance had been arranged.
- (2) Lion International and Bellair are valued at market price which, in the Barclay Directors' opinion understated the value ascribed to a controlling interest.

Source: Extel British Company Service 19.4.73.

EXTRACT FROM THE SUNDAY TIMES BUSINESS NEWS28th JANUARY, 1973STRIP THE STRIPPER BID

In a weary week the City came face to face on Thursday with the supreme irony - the most castigated of Britain's asset-strippers, John Bentley of Barclay Securities, being stripped to the fundamentals by Vavas seur in a surprise £17m bid for the cash rich Barclay.

Vavas seur made no bones about its intentions - turning most of Barclay, except the posters and movies group Lion International, into cash that would help stoke up its own banking and property ambitions. Bentley's own policy of remaining highly liquid - there is £7m of cash and securities in the Barclay balance sheet - made the deal doubly attractive.

And just because the market was plunging, and Barclay's main assets are shareholdings in Lion International, chemists Weston Pharmaceutical and cosmetics-makers Bellair, the asset value on Thursday was down to around £17.5m. If you take the highs of each of Bentley's investments over the past 12 months, Barclay would be worth £28m plus. and that price Vavas seur would not - and maybe could not - pay.

OPEN SECRET IN THE CITY

The Vavas seur bid offers paper in exchange, effectively, for Barclay cash. The paper is partly in Vavas seur's own modestly valued shares, but mainly in partially convertible loan stock. The offer was, as John Bentley admits, "very well timed. I'll give them that." It came after the disaster to Bentley's image of The Triang Toy deals "a great mistake, in retrospect." Bentley not only appeared the wicked share-dealer, closing plant and creating expensive redundancy. He also lost money.

Chad Valley went for £1.8m and the rest for "an undisclosed sum." And the spinning-off of Lion International the old British Lion film company stuffed with high-earning poster businesses Mills & Allen and Leonard Ripley, launched the even more explosive issue of Shepperton Studios.

Internal wrangles about how tough to play the Shepperton affair pushed Jeremy Arnold out of his respected position as managing director of Lion. Bentley, who was in fact interested in keeping going 15 acres of what is actually redundant studio was painted as arch-enemy of film unions and film makers. The mistakes and the image problems halved Barclay's share price in six months.

The value of the component parts sank too. Lion has tumbled a fifth from its issue price in November. Westons is down a third from its 1971-72 high, and the exact value of Barclay's assets is now anyone's guess. Bentley shyly refused to say just what was left on the books after the toy disposals.

It was an open City secret that Bentley was looking for a buyer - not just for his own 12% holding in Barclay. The prime candidate was Gerald Caplan's London & County. It made sense for Caplan to do a deal with Bentley - he had, after all, pulled off much the same trick successfully with Christopher Selmes outfit, Drakes.

Moreover, London & County owns 21% of Westons, the chemists chain of which Barclay holds 23.5%. The links were obvious. But around the New Year that deal evaporated. Partly it was sheer inaction - talks had never got as far as trying to establish a firm price according to Bentley, although the level was likely to be over the 100p mark, against Vavas seur's 84p valuation for the Barclay bundle.

Caplan spent Christmas in Miami. By the time he had returned, Bentley was off skiing for ten days. On reflection, London & County still had Bentley's admiration as a go-go outfit. But Caplan's men had decided that it was too early to digest yet another bright young team and the cash it produced.

Caplan's interest died. On Friday, as Bentley went to a long lunch with Slater Walker, his advisers to consider action on the Vavas seur bid, Caplan was out of the country, scouting unquoted banks in Europe. "If Mr. Caplan is still interested in Barclay," assistant Wolf Perry said, "he wouldn't be out of the country today."

At the point when the Caplan deal collapsed, Bentley heard rumours about Hambros's interest in Barclay Securities. Christopher Sporborg at Hambros had been adviser to the old British Lion board. Sporborg had declined the privilege of acting as issuing house to the revamped Lion International because he claimed to know nothing about the poster businesses that Bentley was injecting. But according to Bentley, he did take the opportunity in the months after the issue to have a fairly close look at how Lion International - and Barclay as a whole - was operating.

'NOT GOING TO PUT PRICE UP'

It was Sporborg who made a middle-of-the-night telephone call to Bentley in New York last week to tell him of the Vavas seur bid. Hambros was offering cash for Bentley's 12% stake, around 90p at that stage according to Bentley's midnight memory of the conversation. The present bid is in paper, with no cash alternative.

Vavas seur's bid for assets follows its quest for real respectability - next month Sir Gordon Newton, former editor of the Financial Times, joins the board. Under the aegis of three bright young men - Jeremy Pinckney from Hambros, Gerry Thomas and David Stark - it blossomed into financial services in 1968, swinging away from the traditional merchanting and commodity broking into anything from foreign exchange dealing or second mortgages to unit trust management.

The only blot on a fine earnings record stems from a hefty £500,000 bad debt problem in 1971 in an inherited metal broking firm. Vavas seur has a contract advertising business - which is part of the reason why it will keep Lion International if the bid succeeds. And it shares the property enthusiasms of financiers with relatively low assets - which is a central reason for wanting Barclay's cash.

Vavas seur first put Barclay on its agenda at the start of this year, according to chief executive Stark. "We'd have liked to do a deal with investment trusts, but all the ones in the £10m range were gobbled up five years ago," he explains. "Our profits are good, but we need more money to broaden our capital base and put cash into our banking and property divisions. It isn't for second mortgages - we get the cash for that from Midland Bank." Bentley is scathing about Vavas seur's second-mortgage line. "I got out of that business 12 years ago."

Stark sees Barclay purely as a dealing company--two secretaries, four motor cars, an expensive office in the West End and a couple of analysts." His designs on the Bentley empire became serious on Monday, January 15. The final decision to go ahead was reached over dinner with Hambros last Sunday night. Stark says flatly of his 84p valuation for Barclay: "I am not going to put the price up. We wouldn't have done the deal at £23m.

Well, they all say that. But since Vavas seur is effectively pushing out a rights issue to get cash through this takeover scheme, it does ring truer than some statements from bidders.

Bentley (with 12% of Barclay) and Slater Walker (with another 12½%), are adamant that the price is too low, although in sinking markets for the shares that make up Barclay, the idea of an acceptable price is pretty theoretical. Barclay and Vavas seur know little about each other. This week's meetings between the two should at least remedy that.

If Vavas seur is prepared to up the value of its offer, and Bentley is convinced that Vavas seur, likely to promise a £2.9m profit this year against £1.3m last year, is a good share for his temporary retirement from business, then the deal could still be on. But since an agreed marriage is the only real possibility - Vavas seur and Barclay are much the same size - and neither side has had especially loving things to say about the other, there is more likely to be a fireworks display.

One bidder has already talked with Slater. Two others have tried to open negotiations since the Vavas seur deal was announced. The market pushed Barclay above the 84p offer up to 91p on just those hopes.

The key to the price for Barclay is not the fundamental value of the shares. It is how quickly Bentley wants to get out. And it is highly unlikely that a man with a developed sense of his own worth will quit while Barclay is on the floor. Somebody has got to pay more for the outfit. The somebody could still, conceivably, be Vavas seur.

Michael Pye.

CHAPTER VI

AN ENTREPRENEURIAL PERSPECTIVE ON ECONOMICS

"The composition of vast books is a laborious and impoverishing extravagance. To go on for five hundred pages to develop an idea whose perfect oral exposition is possible in a few minutes! A better course of procedure is to pretend that these books already exist and then to offer..... a commentary."

Gorge Luis Borges. "Fictions"

Problems have been identified and cures put forward but the economics of the world still experience cycles of prosperity and dark periods of gloom. Perhaps politicians have not the same enthusiasm for economic experimentation as those who write about it. This is understandable for no sensible nation is likely to depart from a known economic practice, however imperfect, unless it can be sure that to replace it will confer benefit upon society with little downside risk. The economic literature is vast and complex and debate is alive and well. Eminent economists disagree, allegedly on fundamentals, with other eminent economists and gradually their points of common agreement are absorbed into the practical planning of the social process. It is a gradual process and there is still far to go.

Malthus, in 1827, recorded that the differences of opinion among political economists had been a frequent subject of complaint. John Stuart Mill's attempt to contribute to the debate (contained in his *Principles* (1848)) was well received, but like other contributions which stimulated debate, Mill had twenty years later accepted criticisms of his theories. The fact remained that the conclusions of orthodox theory were at variance with events in the real world. Essentially today, no less than in the previous century, we are concerned with the gulf between positive and normative economics. Positive economics broadly deals with the world as it is, Normative economics considers the way the world should be. Normative economics tells us what is desirable while Positive economics allows us to consider how, despite imperfections and problems, the world goes on.

Economics considers the efficient use and allocation of resources in a society. Resources such as manpower, raw materials and capital can clearly be more efficiently utilised if there is some economic philosophy to act as a guideline and if there is a source of information covering inputs and outputs. The term "economics" derives from two Greek words *oikou* and *nomos* which together convey the meaning of the rule or law of the household. Economics is the art of good housekeeping. Conceptually, this poses few problems, but in

practical terms the gathering of information and the appropriate deployment of resources leads us into complex problems.

Prudent housekeeping and the allocation of resources has always been desirable in any society and one of the earliest references to accounting derives from the Hsia dynasty (2,206 B.C. to 1766 B.C.). During this dynasty a lunar calendar was established dividing a year into twelve months or 29 or 30 days each. From this develops a distinction between a calendar year and a fiscal year, which distinction was used in the Chou Dynasty (1122 B.C. - 256 B.C.). In an agricultural economy financial and budget plans were based on the economic and harvest conditions in the State. Were Government to have used a calendar year there would have been insufficient time to collect data on the condition of the economy and in any event there could be little merit in utilising scarce resources for the collection of data at the very busy harvest time; hence the fiscal, as opposed to the calendar year.

Agricultural economies, perhaps more than industrial economies, are subject to cycles of prosperity and gloom. In the advanced economies of the twentieth century, demand for goods and services can be stimulated by fiscal and monetary means, but natural supplies of good weather and abundant harvests are not so liable to manipulation. Philip Fu (3) has shown that a distinctive feature of Chou governmental accounting was its use of various funds. A surplus budget without over-taxation was a basic aim of Chou financial management, but despite an elaborate budgeting and information gathering system a reserve fund was established to cover the deficit of budgeted expenditure and to meet unbudgeted expenditures. The Chinese planners recognised that they could not rely on a surplus and the reserve fund recognised this as a fact of life. In addition to a reserve fund there was a sacrifice fund which derived from taxes of both money and kind. This fund ".... probably constituted a major portion of government spending." (3) Taxation was levied to finance government spending and reserve funds were set up to allow for unplanned expenditures or unpredictable conditions. The Chinese recognised the need for data-gathering so that economic planning could bear some relation to events in the real world.

The elements of economic planning were thus evident four thousand years ago and although Economics has become more sophisticated, many basic reasons for its existence as a discipline are similar.

A TWENTIETH CENTURY ECONOMY

Economists regard the entrepreneur as the notional source of investment decision in a free enterprise economy. For our purposes we will use the entrepreneur as a general economic concept in this

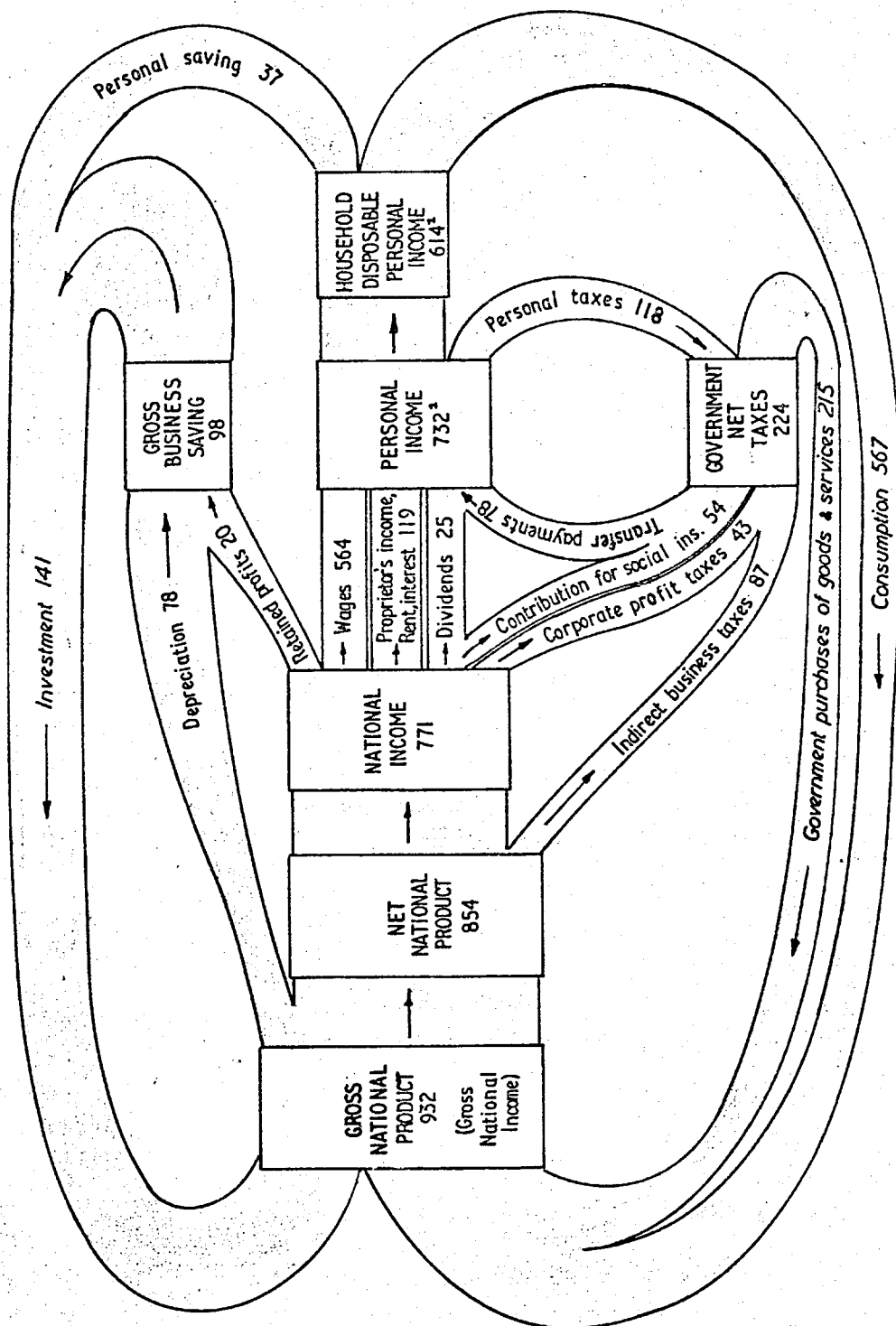
chapter, rather than as a specific individual, but it is the practicing Chief Executive who has been the subject of this book and who perhaps can best benefit from an illustration of the economy in which he plays such a vital role.

Net investment in Figure 6 - 1 is, from the economist's point of view, undertaken by the entrepreneur and net investment after depreciation is one of the inputs into Gross National Product (GNP). In 1969 entrepreneurs invested \$139 million in adding to or replacing real productive assets. In other words they were adding to the store of the nation's wealth by investing and from this comes an important observation. Entrepreneurs will only invest in capital equipment if they can reasonably anticipate a stream of earnings flowing from that investment. Immediately this raises a further problem. If the stream of earnings flowing from merely placing money on deposit is higher than the anticipated stream of earnings from investment in capital equipment, then it is unlikely the entrepreneur will invest. The money that may be invested in shares or in a bank is not adding to the real productive output of the nation; it is only that which is invested in the form of additions to, or replacements of, productive assets which can produce a return on the investment that is counted as real investment. Investment must be distinguished from saving, and this is done in Figure 6 - 1.

The money that the entrepreneur has available for investment has been earned by selling goods or providing services. Although retained profits in our diagram account for approximately 20% of the gross business saving in 1969, depreciation accounts for substantially more. We are not concerned merely with the re-investment of profit; we are concerned with cash flow. The cash flow of an on-going enterprise generates the funds to finance the purchase of further productive assets. In addition to reinvested profit and the cash flow from depreciation, investment incorporates an important element of personal saving. Income is either consumed or it is saved but there are various means whereby a consumer can consume or a saver can save. These relate to the individual's perception of the outcome of his actions.

Saving implies not spending and the decision as to whether to save, invest or consume depends on the individual judgement of the householder. How he chooses to consume or spend his income will determine the demand for goods and services provided by entrepreneurs. Entrepreneurs will only invest in the productive assets to provide those goods and services if they are persuaded - rightly or wrongly - that the anticipated stream of earnings that they may expect is satisfactory. This is a personal and subjective decision and is influenced by the individual's perception as to the state of the economy. But who decides upon the state of the economy?

FIGURE 6 - I
THE CIRCULAR FLOW OF THE ECONOMIC MACHINE
BILLIONS OF DOLLARS 1969



¹Excludes net interest paid by consumers*

An apple seller who had saved up enough money to send his son to Business School was told by his son that the economy was in recession. "You will be lucky if you sell half of what you sold last year, Dad, and you will have real problems if you buy the same amount and get left with it." The wisdom of Business Schools is not to be ignored and the apple seller duly took his son's advice. On the first day of trading with his new inventory of apples which had been halved, he ran out of stocks at 11.00 a.m. The punch-line of the story is "Gee son, if you hadn't told me we were in a recession I would never have known!"

When expectations are rising, when the anticipation of future profits is rosy and the returns are rich, entrepreneurs will invest. When times are hard, when the economy has turned down, when unemployment is high, when expenditure is low, and when people are lacking in confidence, the anticipated return is low and there is a corresponding reluctance to invest. From a simple diagram we are becoming increasingly involved in the motivation of investors and consumers, and we are in the hands of politicians and the mass media. This is the stuff that economics is made of. Decisions are not rational in a free market economy; they bear neither the hallmarks of analysis nor of rationality and it is this problem with which the economist is faced. It is in many respects a matter of confidence, and this raises the complex debate about confidence and equilibrium.

A state of equilibrium requires a view on the future. If the economy is to continue in a state of happy equilibrium then we are all comfortable, and the world is good to us, but what if that equilibrium should be disturbed? What if the oil producing nations should force on an (apparently) unsuspecting world a substantial price increase? Confidence is immediately upset, and rightly so; no matter if we have the wherewithal to produce the requirements of our consumers; do we have the energy at reasonable cost to run our machines?

Keynes (5) described money as an all important ".... link between the present and the future", money can be channelled to investment, it can be saved, it can be spent; it is a flexible resource in a free enterprise economy and the choice as to its disposal lies with those who earn it whether they be entrepreneurs consumers or Government; for Government plays a substantial role not only in the collection of taxes, the potential reduction of consumer spending - but also in the way in which the revenues accruing to governments are allocated to providing goods and services. We are involved in the ".... problems of the real world in which our previous expectations are liable to disappointment where expectations concerning the future affect what we do today". A theory of shifting equilibrium, while it must be pursued in terms of money, still ".... remains a theory of value and distribution", and not merely a theory of money. Money can be invested, it can be saved, or it can be spent on immediate consumption and this applies to government quite as much as it does to consumers; but Government as an organised body wields most influence.

It is Government that determines in large measure our rising or falling expectations of profit and of return on investment. It is Government which in the mid-twentieth century can regulate the supply of money, can stimulate expenditure by consumers - based on rising expectations - or can invest money in public works, welfare or, in the United Kingdom, in nationalisation. The politicians in Government can determine the profitability, the survival or the demise of entrepreneurs and it is important to heed the warning signs and to take appropriate action. We shall be considering how entrepreneurs can respond to the various economic indicators so as to use them to advantage later; but, for the present as we can see from Figure 6 - 1, we are involved in the make-up of the Gross National Product, (GNP), the composition and the deployment of the value of all goods and services produced annually by the nation.

POTENTIAL GNP AND AGGREGATE DEMAND

Economics deals in large figures and real situations. If the figures are not entirely accurate - and we shall be looking at this aspect of economic analysis later - they are certainly substantial; but whether we can be exact about figures or not, there must be some finite limit to a company's ability to produce and consumers' capacity to consume. Each year when the accounts of the nation are drawn up they represent a state of static equilibrium for a calendar year; everything is accounted for and the books balance. In this state of static equilibrium Gross National Income (GNI) is equal to Gross National Product (GNP). GNI comprises the arithmetic sum of all incomes earned in the production of GNP and is always equal to GNP: but if the books balance at the end of the year and the big figures on one side are equal to the big figures on the other side, the composition of the balancing figures can vary substantially from year to year. Investment may be curtailed, Government's spending may be cut or increased, the consumer's desire and ability to save will vary depending upon how much of the economic potential has been utilised in the year under review.

Let us return to Figure 6 - 1 and let us halve retained profits and reduce net investment by 10%. At the same time we will cut personal saving by 20% because the state of the economy is uncertain and there is a certain level of unemployment. Those who are unemployed are having to use up their savings and those who are not unemployed are finding that the going is tough. Let us reduce consumption by 10% because consumers are spending more on necessities than on luxuries. Government too perhaps would like its expenditure cut, so let us take 2% from Government. The consequence of these cuts is to reduce Gross National Product by 10% and that is a very substantial reduction. In our example it would involve \$93 thousand million - about five times the total turnover of General Motors, the biggest motorcar manufacturer in the world and the largest company in the world. Figures expressed in percentages are not quite as frightening as those expressed

in money values or jobs and we should be clear that a cut of 10% in Gross National Product would amount to a major economic crisis even allowing for the effect of inflation upon our figures. The actual output of the nation would be far below its potential and times would be very hard indeed.

There is a crucial distinction between Actual and Potential output. The problem is either one of insufficient markets or of insufficient production; it is a problem of the equilibrium between supply and demand. When Actual output is equal to Potential output, Government is able to announce that things have never been better and all is well with the world; consumers have enough to spend and producers are having no great difficulty in meeting demand and there is little slack in the system. When Actual output is equal to Potential output there is no slack in the system. A small increase in demand is likely to cause disruption. Entrepreneurs are seeking labour and they want to borrow money to invest in plant and equipment in order to satisfy the demand. Consumers for their part are looking to satisfy their expectations for comfort and a little luxury. In this situation labour is in a powerful bargaining position, but entrepreneurs are in a satisfactory market position; they can sell all they produce and it probably would not matter if they raised their prices. Consumers want delivery and would perhaps be prepared to pay a higher price to ensure faster delivery. In this sort of situation it is very difficult to control both wages and prices; the economy is over-heating and the stresses and strains on a nation and on a situation in which there are so many individual inputs is difficult to control except in the crudest terms. Government, until it is satisfied that action is necessary, will invariably stay its hand for fear of being seen to be unsporting. An answer to this type of situation is to increase the potential capacity of the economy and this can only be done by investment, by increasing productivity or by importing the goods that are needed from abroad so as to satisfy the unfulfilled demand.

In the long term a nation must trade at a profit; it must be able to pay its way and therefore, in broad terms, its exports must exceed its imports. The situation in which Actual output is equal to Potential output and there is no slack in the system means that the balance of trade will be influenced in the absence of any action by Government to curb imports. Foreign producers will begin to compete with national corporations for an increasing slice of the consumers' expenditure and unless Government is careful, the situation can get horribly out of control.

If we return to our flow chart we can see that we have implicitly discussed most of the major items feeding into Gross National Product. It requires investment to create real produc-

tive capacity and it requires consumption either on the part of Government or on the part of consumers to provide a market for the goods used. Government, purely by virtue of its spending power, can influence the cycle, but its most important role is in trying to keep the economy under control by means of economic policy; to stimulate demand where it is necessary, to encourage investment where appropriate and to give the green light to consumer expenditure when it is politically timely and economically advisable. This is done by means of both Fiscal and Monetary policies which influence Aggregate Demand.

Aggregate Demand is the total quantity of purchases that consumers, investors and Government are willing to undertake. Unsold stocks accumulate in producers warehouses if there is an insufficient off-take. This will cause entrepreneurs to cut back. If Aggregate Demand is less than the Potential GNP then the actual GNP will fall below its potential. In a recession or a depression it is not the nation's productive capacity that falls, it is the capacity for consumers to spend that is at issue. It is not the economic statistic that causes entrepreneurs to cut down their investment, it is the reality of mounting unsold stock. There are two principal approaches to the problem of Aggregate Demand and from our circular flow diagram it will be easy to appreciate that one approach will be one of demand and the other, that of supply; both are tied up with money, the all important ".... link between the present and the future" (5).

QUANTITY THEORY

The Quantity Theory approach emphasises the role of both the Quantity, M , and the Velocity, V , of money. Assume a certain level of demand, then in money terms, MV the amount of money determines the level of purchases. If one thing is not required, another will be required and a state of equilibrium will be attained. The assumption is that under a flexible price and wage system all the goods that can be produced by the nation can be sold. By expanding the supply of money not only can we stimulate investment because money will be available, but we can stimulate demand at the same time so that the investment which generates production will find a ready market because consumers have the wherewithal to consume. Investment must be financed, consumption must be paid for, and the money must come from somewhere. Merely to create an abundance of money, largely by way of credit is no way to ensure stable growth unless the nation's productive capacity is equal to the demand that is placed upon it by the creation of easy money. Entrepreneurs will find themselves in competition with overseas countries willing and eager to capture the demand which they are unable to fulfill

One problem about an increase in the money supply is that investment takes time to feed through to manufacture. Factories must be built, machinery must be ordered and installed and all this takes time. A straightforward "easy money" policy runs the risk of stimulating consumer demand without giving the manufacturer time to deliver the goods. Expectation too is important. Merely because money is easy to come by does not mean that consumers will borrow it. Entrepreneurs who read the economic signs right may invest in bad times in anticipation of an upturn in demand which will yield profit. The Quantity Theory of money is perfectly respectable if it takes account of the time for demand to influence supply and the time it takes to stimulate that demand. Consumers, we assume, are not as economically alert as entrepreneurs.

We can express the important elements of the Quantity Theory simply as an equation $MV = PT$ where M is the quantity of money (coins, notes and bank deposits), P is a general index of the level of prices and T is the index of the volume of transactions per unit of time. V is the velocity of circulation and represents the number of times that a unit of money on average is used to make a transaction in the unit of time. Thus T , representing transactions per year, is different to V which is the number of times that a unit of money changes hands during a year. We can see that $MV = PT$ because PT now represents the value of the sum of all transactions made during a period which require the use of money. MV is the sum of all the units of money used in making those transactions, but this does not tell us very much except to confirm mathematically that which is logical. Let us look at the MV side again.

If we increase M - if we increase the supply of coins, notes and bank deposits without increasing the velocity of circulation - it will have an effect on both P and T . Either the volume of transactions will increase, or prices will rise. In a practical business situation, assuming no price restraint or wage restraint, if the volume of a manufacturer's business increases substantially - i.e. if T , the number of transactions, increases - either he must manufacture more which will probably involve him in investment in new plant or, if he has the spare capacity, it will necessitate an increase in working capital. Alternatively he will raise the price such that at a particular price and a particular quantity of manufacture, the supply exactly equals the demand. If business is going well and employees see this manufacturer making super-profits it is perhaps only human nature that they will want to share in his prosperity. Alternatively, because the economy is booming, there may be a scarcity of labour and so the manufacturer is willing to pay higher wage rates to assure himself of sufficient labour. This will take place over a period of time and it is not as cut and dried as the example would suggest; but we can see in this example the roots of inflation.

It is ironic that the PT side of the equation surprises governments. It is not long after an increase in money supply and a prosperous economy that public figures express their concern at how prices have risen. Trade Unionists maintain that wages are not keeping up with prices; Industrialists respond by saying that if wages are increased, prices will rise still further. Government, with its eyes on the next election, usually remains firmly committed to sitting on the fence.

Keynes (5) in his General Theory complains that Economics has been divided into two compartments with no doors or windows between the Theory of Value and the Theory of Money and Prices. Hansen (4) clarifies the situation by suggesting that the ".... traditional analysis deals with the elasticities of Supply and Demand. But in the theory of money, the elasticity of supply has in the simpler Quantity Theory discussions become zero, and Demand has been thought to be proportional to the quantity of money. Keynes, however, wishes to introduce a concept of elasticity no less into the theory of money than in the theory of value. Accordingly he is concerned with (1) the elasticities of prices in response to changes in Aggregate Demand, (2) the elasticity of Aggregate Demand in response to changes in the quantity of money. The Theory of Money and the Theory of Value would thus become integrated into one theory." (4). Joan Robinson, writing many years ago in 1937 felt that in inexperienced hands the Quantity Equation could lead to great confusion. One of her criticisms about the Quantity Theory was that it led people to discuss changes of prices without establishing the aetiology of those changes. Is a rise in price due to a change in demand ".... such as the rise in prices which accompanied an increase in investment or a reduction in thriftiness"? Or is a change of price due to the supply side of the equation such as the rise in prices produced by a rise in money wages? "For detailed discussion of changes in trade activity the Quantity Equation is a weak and treacherous instrument. But when we are concerned with broad problems of the movement of prices over the course of generations, it comes into its own." (7) The Quantity Theory according to Hansen concentrates attention upon the behaviour of the Central Bank "which behaviour expresses itself in the quantity of money". Keynes' theory however concentrates attention upon the ".... behaviour of the community"

THE INCOME-EXPENDITURE APPROACH TO AGGREGATE DEMAND

As we have expressed Quantity Theory as an equation, $MV = PT$, so we can express an equation which emphasises the role of investment outlays, I and consumption outlays, C , such that $I + C = Y$ where Y represents Aggregate Demand. "If the Keynesian system of economics consists simply of definitional equations such as $I = S$, and $I + C = Y$ " observes Hansen, "we could safely dismiss the General Theory from serious consideration. Economic analysis cannot make progress with such truisms as "actual purposes

(demand) always equals actual sales (supply)". Nor is our understanding of the functioning of the economy deepened significantly by the proposition that "actual investment equals actual saving". (4). However, Hansen does not feel that the General Theory can be safely dismissed.

The Aggregate Demand function was an area which Keynes felt had been neglected. It was necessary to analyse both the consumption function and the investment/demand function and economics required a view of a dynamic rather than a static equilibrium. We must therefore consider the factors influencing both consumption and investment. Equations such as $MV = PT$ and $C + I = Y$ do not explain anything. They merely represent a state of affairs at a notionally static moment in time in much the same way as a corporate balance sheet represents the state of a company at a particular moment in time. Neither an annual balance sheet nor an economic statistic can monitor continuous changes, but an analysis of component elements, how they change, how they are influenced both by one another and by exogenous circumstance, provides a useful predictor for the future in the right hands.

CONSUMPTION AND THE MULTIPLIER

We should now return to Figure 6 - 1 through which we examined the input of investment into the Gross National Product. The largest input into Gross National Product is consumption which derives from the household disposable income. Let us not yet concern ourselves with how the household disposable income comes about and be content with noting its division into personal saving (37) and consumption (576). Let us moreover observe that while demand for investment goods and the willingness to invest depends upon expectation of profitability, the demand for consumer goods depends upon the disposable personal income of consumers, how much of it they save, and how they propose to spend it.

Depending on their perception of the economic climate and the feelings in their bones and in their pockets, consumers can elect either to spend or to save, i.e. not to spend; but what happens when income either increases or decreases? It is not possible to say an increase in income will cause an entirely proportional increase in consumption expenditure. Nor is it correct to relate a decrease in income proportionally to a decrease in consumer expenditure. We are faced with a lag effect. Consumers are loth to decrease their standard of living following a period of prosperity and they are correspondingly cautious about expanding their expenditure when they have just been through hard times. In essence, we can say that any change in the numbers in our circular flow will have an influence upon the other numbers, but let us pursue this a little further, for the analysis of the consumption function and the effects of the employment and the

investment multiplier were some of Keynes' more important contributions.

If the employment of a man in one industry results in the employment in say, consumer goods industries of two other people, then the multiplier is two. If Government spends £1,000 million on public works and if as a result consumption expenditure rises by £2,000 million, then total expenditure will increase by £3,000 million and so the investment multiplier would be three. So much for an exercise in multiplication! Clearly there are a number of variations on the same theme and a number of variables can influence the size of the multiplier.

If all household disposable income is not directed towards consumption but some is saved, then from our diagram we can see that saving will lead to investment and this "leakage" or diversion from consumption spending will have its effect somewhere else in the circular flow. We can state with certainty that any initial change in spending will change Aggregate Demand and we can state with certainty that any change in investment will have an effect on consumption and a change in consumption expenditure will have an effect on investment. To go further than this would be not only to depart from the purpose of this section but would lead us into a complex contemporary economic debate which, throughout this chapter we have sought to avoid.

We have established that investment, consumption by householders, and government expenditure all contribute in different proportions, for different reasons, to Aggregate Demand and Gross National Product. Moreover, we have established that consumption does not bear a direct and immediate relation to household disposable income. Employment is related to investment, investment is related to the anticipation of profit through sale of an increased quantity of goods and this in turn is dependent upon the marginal propensity of consumers either to consume or to save. This decision is dependent not only upon the consumers perception of the economic climate, but also is dependent upon how much money is available. This in turn must depend upon employment and if only to emphasise that there is no easy road to economic analysis we can observe that employment depends upon investment and the creation of jobs by entrepreneurs, that consumption influences the entrepreneur's willingness to invest and that government purchases of goods and services can materially influence the whole. Government influences not only by its purchases but by its policies. Let us consider the means whereby Government can regulate the national economy.

FISCAL AND MONETARY POLICY

If Government is to regulate the movement in one part of the economic process it must anticipate an effect upon the whole. Dependent upon which part of the economy Government chooses to direct its attentions we may be faced with either a direct

relationship between government action and a section of the economy or - and this is where the multiplier effect and Government problems themselves multiply - an influence on one part of the economy may result in an effect far greater than the initial input, an effect perhaps far greater than Government anticipated. It is only when we are sure that those numbers are accurate that we can be certain as to the effect of government action.

Statistics take a considerable time to assemble and statistics cannot talk, they must be interpreted. We have mentioned a lag effect in relation to consumer spending, in relation to investment; now we must draw attention to the lag between action and the statistical expression of its consequence. Information is required in order for policy makers to take decisions and implement them. If we return to Figure 6 - 1 we will be able to see where the parts of the economy are influenced respectively by fiscal and monetary policies.

Fiscal policy is the housekeeping policy of Government. Government may raise or lower taxes, both personal and corporate and it may raise or lower its expenditure on goods and services; it may initiate or it may cancel public works and by so doing it can exert an influence on the make-up of the Gross National Product. This feeds through to all other sectors of the economy. Thus when demand is low, perhaps unemployment is high and the economy is in a recession. By increasing its expenditure and by decreasing taxes, Government can stimulate both investment and consumer demand. From what we have said about the multiplier we can see that an initial change in either government spending or taxation will have an effect which will be a multiple of the initial action. It is appropriate for Government to increase its expenditure on public works, new projects, aerospace research, for example - when actual GNP is less than potential GNP. However, in a situation of "full" employment, when the economy is being stretched, when manufacturers are hard put to meet the demands made upon them by consumers, Government needs some means to prevent actual GNP from exceeding potential GNP, for when it does, as we have shown through the $MV = PT$ equation, inflation is the consequence.

Labour rates increase and prices increase and Government would be foolish indeed to add to the nation's problem by announcing new projects requiring further resources. An answer to this problem must be to expand the potential, i.e. to see some real growth in Gross National Product, but this is not always practicable, certainly not in the short term. So where before, Government was trying to encourage investment and consumer demand, now it must institute deflationary policies. We have seen that a reduction in disposable income may not necessarily result in an immediate restraint of spending. Householders tend to regard the highest standard of living they have ever reached as a norm and they will only reluctantly cut their standard of living.

Consumption falls proportionately less than income. This so-called Duesenberry hypothesis (2) is another example of a lag effect. Consumers who have grown accustomed to a certain standard of living are faced on the one hand with a psychological expectation of what they think they deserve, while at the same time there is a very real pull in the opposite direction - that of a declining income. If this is so for a declining income, i.e. if consumption falls less than proportionally to a declining income, the reverse also holds true. Consumption rises proportionally less than the rise in income with the start of a boom period.

This Duesenberry hypothesis, if it is correct, will influence saving, too. In the short term, consumers, in order to maintain a standard of living, may draw on their savings. The picture will further be complicated if the consumer who, by this stage may be unemployed, is receiving unemployment benefit from Government.

Keynes points out that a large amount of unemployment will be likely to be associated with negative saving ".... because the unemployed may be living either on the savings of themselves and their friends or on public relief with the result that re-employment will gradually diminish these particular acts of negative saving." (5). As the economy emerges from a recession or depression, when income begins to rise, consumption may rise slightly because consumers, conscious of having spent their savings, are now trying to replenish them. Thus, the marginal propensity to consume may be low. As things improve, however, a larger proportion of the increase in income will be consumed. The "normal" ratio of saving to income is a matter of debate. Whether once a certain savings level has been attained, the marginal propensity to consume will increase, or whether it is a constant proportion which subsequently declines at the height of a boom is a matter on which Duesenberry does not agree with Keynes, but policy-makers who do not appreciate this lag effect, the "push-button economists" who expect their policy decisions to have an effect by next Thursday, will be sadly disappointed, not only in the failure of their policies, but in the response of an electorate.

MONETARY POLICY

Fiscal policy is only one of the tools at Government's disposal. Through monetary policy the Government can influence the supply of credit and the terms upon which it is granted. There used to be a time, it is rumoured, that Government monetary policy and the extent to which banks could supply credit to consumers was dictated by the eyebrows of the Governor of the Bank of England. Government can exert an influence upon the money supply by raising the Bank Rate or Government can float loans

which also take money out of the economy. It can alter ratios of bank lending in relation to borrowing and impose credit ceilings, ceilings beyond which a bank may not lend without penalty. Both through the means of Fiscal Policy - taxation and government spending - and by Monetary Policy - the control of the money supply - Government can exert a profound influence upon what we call a free enterprise economy. Economists disagree on the relative effectiveness of Fiscal as compared with Monetary policy. It may be that Fiscal policy at variance with Monetary policy will cancel out the overall effects of either. It would hardly make sense for Government to increase taxes and at the same time to increase the money supply in the hope of stimulating demand. Whichever is more important in influence - and there is considerable debate on this matter - the fact remains that unless the two policies complement each other, the intentions of Government are likely to be frustrated.

THE SIZE OF THE FIGURES INVOLVED

There is a beguiling exactness in numbers: Government economic policies are based on historical occurrences expressed in economic statistics and they are complemented by economic forecasts which, at best, incorporate both assumptions and potential errors. Enthusiasts on The Accuracy of Economic Observations could refer to a book of that title by Oskar Morgenstern. The author does a first-class job and Norbert Weiner having read Morgenstern's book observed that economics was a one or two digit science. Morgenstern illustrates his point in a variety of ways. He records that in the testimony of June 16th, 1949 at the hearings before the Joint Congressional Committee on Atomic Energy, it was brought out to the great consternation of the public and the committee that the weighing of all the gold in Fort Knox could be achieved only with an error of something like plus/minus \$20 million, yet the official record for June 30th, 1960 was given as \$12,483,415,000. "This means that the gold stocked there is known at best to only four significant dollar digits instead of the alleged eleven, which is a more reasonable assumption."

Looking further into history he observes that ".... from January 1900 to October, 1907 Germany reported accumulated net gold movement to Germany of £29,000,000 in excess (my italics) of that reported by the United Kingdom." This £29,000,000 discrepancy is 156% of the cumulative amount reported by the United Kingdom. Considering the importance that contemporary economists and politicians attach to gold one would have thought that they could have got at least that right.

We, as consumers, are comfortable with percentages. An investment of £100 at 1% will bring an investor £1 per annum return on his investment; at 5% he will get £5 and at 10%, £10;

1% or 3% or 8% are not large percentages; they are not large returns; they are figures with which we are accustomed to dealing. If we return to diagram 6 - 1 and add 8% to the Gross National Product, undiluted, and if we direct it all in one direction, we can either double personal saving, we can increase net investment by 50%, we can eliminate corporate profit tax, and have enough for the contributions for social insurance left over. It is a profound change on the economy if it is applied undiluted and it involves about \$74,000 million.

The sums of money involved are enormous. So far we have been illustrating - and only illustrating - for the purposes of illustration, that the sums of money are enormous; we have not complicated the illustration by a multiplier nor, let us emphasise, is it likely that the Gross National Product can increase suddenly by 8%; but in terms of a business cycle and the influence of economic policy on the nation, we are involved in the living standards of the electorate and the future of a Government. Our figure of 74.56 expressed merely as a figure and not in thousands of millions of dollars is not too discomfoting perhaps, but it is sufficient to increase consumer demand by 13.3%. Let us look at the reverse side of the coin. Consumption in 1929 in the United States stood at \$149 billion; in 1932 it was \$115 billion, a decline of 18%. That was the depression that everyone wants to forget.

Morgenstern expresses persuasively the magnitude of the tasks involved not only in economic policy but in merely collecting the data which will form the basis for government policy; ".... the representation of the highly complex modern economy by a hundred industries or activities is in fact not very detailed, but if the sales of each industry to each other industry are arranged in rows and the purchasers of each from all others in columns, we obtain a table $100 \times 100 = 10,000$ fields" "If we were to represent the American economy by 200 different activities there would be 40,000 fields, a truly formidable number of possible inter-connections." (6) Not only is data collection a formidable task, there remains the task of assembling it in meaningful form as a basis for action. Norbert Weiner, discussing the advances and importance of technological breakthrough in data capturing and processing, emphasised the problems of the mathematician and his use of computers for ".... it is already becoming clear in the use of these machines that they demand purely mathematical techniques of their own, quite different from those in use in manual computation or in the use of machines of smaller capacity Unless care is exercised in setting a problem up, these may completely deprive the solution of any significant figures whatever" (my italics).

An appreciation of the circular flow of economic activity, the concept of a multiplier or an accelerator and the Fiscal and Monetary influences that Government can bring to bear on

the economy are of crucial relevance to the entrepreneur. A recognition of lags and leakages enables the entrepreneur to anticipate broadly the course of the economy over the next year at least, provided he has a basic understanding of the working of the economic machine. We have considered the symptoms apparent both in an upturn of economic activities and in a downturn. We should now consider the longer term outlook from a vantage point in the mid-1970s, for at the time of writing some commentators feel that world economics are heading for a time of austerity, others that they are heading for a depression on the scale of the 1930s, while yet more, and possibly the majority, feel that somehow we will muddle through.

INFLATION:

Inflation is a bogey, but there is some justification for concern when the country's balance of trade is to be upset. Inflation on the face of it, requires two conditions. In the first place the level of unemployment must be so low that an increase in demand provokes an irresistible rise in wage demands, and in the second place an increase in the money supply occurs. Inflation is anathema to many governments and there are valid reasons for this. Before discussing these reasons we should briefly describe the euphoria which accompanies a boom and which is swept away, usually very fast, by some loss in confidence.

A boom represents a change in the economic equilibrium, if only for a short time. Government's hope is that new investment and through this, the ability to produce more goods will lead to an increase in potential Gross National Product but Government is faced with a problem of lags. As the nation emerges from a recession there are likely to be large excess reserves in the banking system as a result of economic activity immediately preceding the start of the boom. Interest rates are relatively low and the authorities are prepared to pursue easy money policies which in turn are pursued by the bankers in their lending. As the boom gathers momentum, not only do share prices rise but, with additional credit freely available the purchases of consumer durables such as furniture and television sets will increase along with a rise in motor car sales.

It is easy for consumers to delay their expenditures on non essentials, it is easier to keep the car for another year, the dining room suite and the furniture in the drawing room may be re-covered rather than renewed; but with credit freely available not only do the sales of consumer durables increase but so do such important purchases as houses. Fuelled by a mixture of optimism and uncertainty, antiques, paintings, farm-land and claret are purchased as "hedges against inflation." Perhaps a speculative bubble starts and there is a rush to buy a particular share because of its long term prospects, earnings yields become a criterion for investment and dividends which, according to stockbrokers, will be eaten up by the ravages of inflation and taxation are disregarded. Government through

the Central Banks attempts "moral suasion" which, in a boom atmosphere is much like whistling at the wind.

Nobody agrees with the Central Bankers, they believe the boom can go on forever and some of them say so. In this sort of situation, euphoria is substituted for analysis; this is the time it is discovered that the Almighty makes more people and not more land. People buy land, they buy it to build on, they buy it to resell at a higher price, scarce resources become scarcer and housewives become investors and authorities on property values. Ultimately this must be paid for.

As there is a multiplier at work in various sectors of the economy so there is an accelerator effect in the growth of the money supply. A pound deposited in cash at a bank will enable the bank to lend a multiple of that amount, for banks are permitted, according to the custom of the society to lend more than is deposited in much the same way as an investor with £100 can buy equipment for £200 by borrowing a £100. Gearing operates in banks too, the assumption being that what is lent is relatively secure so that when a depositor requires his money it can be refunded. It is assumed that not all investors will want all their money back at the same time. Here again, it is a question of confidence. If all investors want their money at the same time, the bank will have to recover the money it has lent at short notice, but this may be impossible. A vicious circle of this kind, if allowed to proceed, can render banks insolvent, shake the confidence of investors and cause a "run" on banks throughout the country as investors flock to withdraw their savings.

On the issue of inflation, one fact is indisputable and that is that without an increase in the money supply inflation cannot continue very long. If M in our $MV = PT$ equation is reduced then other parts of the equation will be correspondingly affected. Inflation does not derive simply from an increase in the money supply, nor is a decrease in the money supply, centrally imposed, the only way to treat an unacceptable level of inflation. It would be difficult to dispute the contention that a decrease in the money supply would in time, cause the rate of inflation to moderate. The problem is one of priorities for it is possible that the cure can be worse in its social consequences than was the disease. Rampant inflation in the German economy in the 1920s was in part, attributable to the German government of the time "printing" money. Such inflation has not been seen in the advanced economies of the world, but the issue by the German authorities of the Rentenmark, supposedly backed by all the productive assets of the German people, did much to alleviate a situation of monstrous inflation by effectively replacing one unit of money with another and so generating some confidence. By November 1923 the German mark had sunk to one million-millionth of its pre-war value.

Perhaps this was the consequence of the First World War, certainly it caused suffering and starvation, perhaps it was here that the beginnings of the Second World War originated, probably the advanced countries of the world will see nothing like it again, but this, to many people is what unchecked inflation can lead to. If for no other reason, governments make strenuous efforts to hold down the rate of inflation. "Demand-pull" inflation occurs when demand for an item is not matched by its supply, where consumption is excessive in relation to potential GNP. This phenomenon is usually seen in a "boom". Entrepreneurs compete for labour while consumers compete for products; prices, wages and profits increase, the latter both through low consumer and government resistance to higher prices, and in particular, through the increased flow of products through factories where entrepreneurs can take advantage of mass production techniques and economies of scale. Aggregate purchasing power in the economy is not reduced since wage rises offset the rise in prices, so perpetuating the initial demand; but only for a time.

Inflation is expressed as a rise in a consumer price index, usually regarded as representative of the general price level and labour negotiators, no less than governments keep a check on this indicator. They have no wish for the increase in prices to effectively reduce their members' purchasing power. It takes time for an increased wage settlement to be reached and it takes time for the influence of this increased wage settlement to be felt in the price index and in the level of consumer spending. For this reason, "demand-pull" inflation can lead to "cost-push" inflation. In an economy whose Actual GNP is rapidly approaching its Potential, shortages will occur and the entrepreneur is willing to pay more for his raw materials whether they come from overseas or from within the country, for he is assured that he can sell them at a higher price and maintain his profit margin. There comes a time however, when the entrepreneur does not feel confident that he will be able to sell all that he produces. Although he may cut back on his labour force, although inventories may fall, he cannot immediately reduce his costs of manufacture which may depend upon mass production and economies of scale. Thus, if demand falls in the face of rising labour costs, "cost-push" inflation is the result. A variant on this theme is also popularly called "stagflation" implying wage and/or price inflation without any expansion in output, without any growth in the Potential National Product and very probably with zero growth in the Actual Gross National Product.

If a country were entirely self-sufficient and the currency within that country were not required to bear any relation to the currencies of other countries, then inflation would be no major problem because money would be a commodity, a thing which could be exchanged for other things and at worst, if money were to be

considered less desirable than possessions, those with possessions would be better off than those with money. At worst there might come about a redistribution of wealth.

However, no country in the international community is entirely self supporting. While they may be potentially self sufficient and desirous of maintaining their independence from international monetary influences, few countries can resist the temptation to expand their influence across their borders. Governments, quite properly, follow nationalistic policies, designed either to give the people in power more power or to raise the real living standards of the bulk of the population; in raising the living standards of a population the government hopes to remain in power over a relatively satisfied electorate or proletariat. Economics is again interwoven with politics, with power and with trade.

EXCHANGE RATES AND EXTERNAL TRADE

Consider three countries, the United Kingdom, Westland and Eastonia and let us assume that both Westland and Eastonia have a similar type of economy; they are relatively poor countries dependent on the soil and on labour intensive industries for their trade. Perhaps they have a large and not very prosperous population and let us assume that both populations are skilled in the weaving of textiles. Let us also assume that both countries grow crops of cocoa surplus to their own national requirements and therefore able to be exported. Britain for its part is unable to grow cocoa which it requires and the cost of hand woven textiles is substantially higher in Britain than it is in either of our two hypothetical countries. However, because Britain is an industrialised nation it has the facility for manufacturing tractors in long production runs so that it can take advantage of economies of scale which the other two countries can not, even assuming that they had a manufacturing facility which could produce tractors. The picture might look something like this:

TABLE 6 - 2

COSTS OF PRODUCTION

	<u>Britain</u>	<u>Westland</u>	<u>Eastonia</u>
Tractors	£1,000	\$2,000 (£2,000)	Fr.2,000 (£1,000)
Woven Textiles	£500	\$100 (£100)	Fr.100 (£50)
Cocoa	n.a.	\$200 (£200)	Fr.200 (£100)

Westland and Eastonia wish to buy tractors and Britain requires both woven textiles and cocoa. If the British pound is equal to the Westland dollar which in turn is equal to the Eastonian Franc, then it can be seen that it pays both Westland and Eastonia to buy tractors from Britain rather than produce them in their own countries; it pays Britain to buy woven textiles because for one tractor Britain can get either ten units of woven textiles or five units of cocoa.

Now let us assume that the Westland dollar is worth half the Eastonian franc and hence worth half a British pound. Let us convert both the dollar and the franc values to pounds (shown in brackets) and the situation changes dramatically. It still pays Westland to purchase tractors from Britain because it costs £2,000 to manufacture a tractor inside the country and yet only £1,000 to import it. Westland can therefore either buy a tractor with (1) British Sterling or (2) it can exchange a tractor for ten units of woven textiles or (3) for five units of cocoa. On the other hand Eastonia will require twenty units of textiles or ten units of cocoa. Clearly Britain will want to trade with Eastonia rather than with Westland because she gets more for her money or a better exchange of goods. In order to compete with Eastonia, Westland must either reduce its cost of production by half, or it must depreciate the value of its currency in relation to the pound such that Britain can get the same deal from both Westland and Eastonia.

This is a simple illustration of exchange rates in operation and illustrates why different countries have different rates of exchange. Incidentally, it also illustrates the power of the advanced nations of the world in exchanging capital goods for primary products. With much of the Third World nowhere near as industrialised as the advanced countries, those advanced countries are in a more powerful bargaining position for they have the primary producers competing with one another whereas they as advanced countries are perhaps better able to adjust their prices. Devaluation by Westland makes it more expensive for that country to buy tractors from abroad and less profitable to sell its primary products, but it is better to devalue than sell nothing at all.

We have effectively established an international monetary system and we have shown a relation between one nation's currency and that of another; moreover we have shown that it is important for a nation's currency to bear an appropriate relation to the currency of its trading partners, for if it does not that nation will be unable to sell its goods and consequently will be unable to pay for the goods which it wishes to import. Let us assume that we have sorted out the exchange rates in some unit which, for the sake of argument we can call the British pound and now let us return to Figure 6 - 1 for some further illustration.

We have seen that Gross National Product is the same as Gross National Income. Let us call this Y. Y is made up of Investment (I) Government Expenditure (G) and Consumption (C). So we can express this as:

$$Y = I + G + C \dots\dots\dots (i)$$

However, if we trace the path of these variables backwards, we can see that Y is also comprised of Consumption (C), Taxes (T) and Savings (S). Thus we can express this as:

$$Y = C + T + S \dots\dots\dots (ii)$$

It follows from this that:

$$C + T + S = I + G + C \dots\dots(iii)$$

However, in these equations, we have ignored both imports and exports. We have ignored International Trade which we have regarded previously as all important. Let us assume that Exports (X) are equal to Imports (M) such that:

$$M = X \dots\dots\dots(iv)$$

We do no great injustice to equation (iii) therefore, if we add M to one side and X to the other which gives us:

$$C + T + S + M = I + G + C + X \dots\dots (v)$$

The situation is in balance and we are apparently trading satisfactorily.

If we increase M in equation (v) then in order to balance we must either increase I or G or X. Investment increases and we may be importing capital goods which in time we will use to produce products for export. Alternatively G must increase but if both G and I remain steady, somehow Y, national income, will decrease. Thus by importing more than it exports a nation is effectively reducing some variable in the economy if it is not increasing exports. The external world has a material influence upon the wellbeing of a nation and by increasing imports, a nation is obtaining trade credit in much the same way as a business obtains trade credit, it must be paid back somehow and sometime. Neither a country nor a corporation can live off credit for ever and if no way is found to increase exports in order to balance the trade deficit our country will be heading for trouble in the long term.

One way of getting out of this trouble may be to devalue the country's currency. This will make imports more expensive than the home produced product and will also make exports more competitive in world markets. However, if one country can do it, then so can others. This means that ill-considered depreciations of a nation's currency may be countered by further ill-considered

depreciation of competitive currencies such that we will end up back where we started from, except that our currency has depreciated.

A further brief look at our equations will tell us that if we have increased (X) our exports, then our national income (Y) will rise, all other things being equal; but since national income (Y) comprises various constituent parts we can either increase our Consumption, increase our Investment or increase Government expenditure. We are in a happy position internationally and life at home is improving. Government's national policies cannot be dictated by external influences and we as a nation are very much left to our own devices by the rest of the world. Let us, however, return to the opposite situation, where imports exceed exports.

Imports must be paid for and, much like a business, we can finance our deficit for a certain length of time. Unlike a business a nation has more ways of financing its deficits and unlike a business, a nation cannot be put into receivership, although coalition governments are not unknown in severe economic adversity. A continued deficit must lead to a reduction in Gross National Product, in Gross National Income and hence must feed through to affect the living standards of the population. A government which is seen to be, by its economic policies, incapable of coping with a persistent decline in living standards over time, a persistent rise in the cost of living, a government which apparently lurches from crisis to crisis will not be a government for very long in a democratic society. Discontent will grow on all sides and if we accept that a government has control over three particular factors, all of them inter-related, we can appreciate the consequence of failure to cope with the country's economic problems.

Directly or indirectly, Government has control over the Means of Production, the Means of Consumption and the Means of Coercion. Production involves labour, employers, capital and raw materials as well as the purchase and manufacture of capital goods. Consumption is affected by the amount of disposable income in the hands of consumers and Government is able to control and vary both production and consumption by properly considered demand management and by an intelligent handling of the differing vested interests in society. Fiscal and monetary policies, as well as being economic tools, are political tools, but when fiscal and monetary means fail, Government is thrown back on its control over the Means of Coercion. If mass unemployment should lead to domestic disturbance then some means must be available to curb that disturbance. If strikes threaten to cripple the economy then they must be dealt with and if sections of the population refuse to conform with the dictates of Government then the ultimate backing for the law of the land is coercion. Coercion, repression and the dominance of a minority vested interest is nothing new to the poorer countries of the world. In a planned economy, idealism is reinforced by the threat of coercion and in what might be termed a free enterprise

economy and in democratic societies, the law is backed by a political force strong enough to enforce it if need be by coercion.

It is no wonder that politicians shrink from policies which can result in a high level of discontent and unemployment. Unpopularity may be followed by catastrophe.

A DEPRESSION

The economic machine, consisting as it does of so many inter-related parts oscillates between periods of optimism and periods of pessimism, periods of good times and periods of lean times, but seldom does it lurch into catastrophe. John Stuart Mill said that a depression could be called ".... a glut of commodities or a dearth of money." It was a ".... temporary derangement of markets" and was the consequence of an ".... excess of speculative purchases." Its immediate cause was a contraction of credit and in the restoration of confidence lay its cure. Marshall (in his Principles, 1890) agreed with Mill that the chief cause of depression was a lacking in confidence, largely the aftermath of reckless inflations of credit. Confidence or rather the lack of it means that ".... though men have the power to purchase they may not choose to use it." Many contemporary economists would regard the role of confidence as a central issue in business cycles but confidence is a symptom of a variety of factors, as we have seen.

A depression is not a necessary evil, it is not the inevitable consequence of a boom and it is not beyond the wit of man to prevent a recession from becoming a depression, but what does seem to be beyond the wit of man is to reach reasonable agreement with other men. This academy is not suggesting that there will necessarily be a depression on the scale of the 1930s; only that the present symptoms and recently past happenings bear an uncanny resemblance to events in the United States of America in the 1930s. If governments can genuinely get together with employers and unions, if national governments will consult other national governments not in a spirit of self-interest but as a community of troubled men, if there can be rapid international monetary reform, support for the weaker countries by the stronger, if everybody maintains both the letter and the spirit of international co-operation, then there will not be a depression. The advanced economies of the world will climb out of their predicted recession, Space Programmes and Channel Tunnels will receive enthusiastic support and history will record that it was a close thing.

If reasoned dialogue had prevailed in 1914, 1929 or 1939 the world would have been saved much suffering. Perhaps history is only one generation deep, perhaps it is necessary in order that wisdom shall prevail in one generation, that a previous generation

has had to bear the consequences of self interest, rhetoric, procrastination and hasty judgement. According to many economists, for purely economic reasons, excluding political short sightedness and administrative ineptitude, the depression of the 1930s need not have happened. No doubt, others and perhaps these same economists will make the same comment about the mid-1970s.

CHAPTER VIREFERENCES

1. DAVIDSON Ralph K. et al Economics, An Analytical Approach
Homewood. Illinois.
Richard D. Irwin. 1962.
2. DUESENBERY James Income, Saving and the Theory of
Consumer Behaviour.
Harvard University Press.
3. FU Philip Government Accounting in China
During the Chou Dynasty.
(1122 BC - 256 BC)
Journal of Accounting Research.
Spring. 1971.
4. HANSEN Alvin H. A Guide to Keynes.
New York. McGraw Hill. 1953.
5. KEYNES John Maynard The General Theory of Employment,
Interest and Money.
Harcourt, Brace & Company. 1936.
6. MORGENSTERN Oscar K. On the Accuracy of Economic
Observations.
New Jersey. Princeton University
Press. 2nd Edition. 1965.
7. ROBINSON Joan Introduction to the Theory of Employ-
ment. London. Macmillan. 1964

CHAPTER VII

THE DEPRESSION OF 'SEVENTY SIX*

"I do not propose to write an Ode to Dejection but to brag as lustily as Chanticleir in the morning standing on his roost, if only to wake my neighbours up."

Henry David Thoreau. Walden.

The depression of the 1930s is perhaps best remembered for the "Great Crash" of 1929 when during some dark trading days over a period of about three weeks, Wall Street plunged in a frightening spectacle of panic selling and forced sales of stock bought on margin. On Thursday, 24th October, 1929 The Times (of New York) industrial Index opened at 542. By Wednesday, 13th November it stood at 224. By June 1932 it stood at 58.

The Gross National Product of the U.S.A. was \$104.1 billion in 1929. In 1930 it was \$91.1 billion and in 1933 \$55.9 billion. Consumption fell from \$78.9 to \$46.4 billion over these years, a fall of about 40%, but the fall was not a uniform fall over all sections. Consumption on consumer durables decreased by over 60%, that on non-durables by about 40% and that on services by over 35%. Nett private investment fell to zero and confidence was at a nadir. There were nearly 13 million people unemployed by 1933, a horrifying increase on the 1929 figure of 1.6 million

In May 1972, the London Financial Times Industrial Share Index stood at about 543 and on 28th September, 1974 it rose 5.2 points to 186.8. Perhaps the event that will be best remembered during the two and a half years from 1972 will be the action of the Oil Producing and Exporting Countries (OPEC) when they effectively quadrupled the price of crude oil to their international customers. If the International Community does not halt the potential decline into catastrophe, perhaps the resulting depression will be called the Depression of 1972 for perhaps it was.

*These two chapters were finally written in late September 1974. The author does not intend any revision prior to publication - scheduled for January, 1976; if Chapter VI contains a theoretical exposition Chapter VII may be the practical consequence.

in 1972 that its origins lay; or it will be the Depression of 1973, when the OPEC oil increase occurred. Perhaps it will be the Depression of 1974 because this was the year in which dire warnings were uttered by some and ignored by others. We will only be certain of the outcome later and catastrophe, if it occurs will be manifest in human suffering on a grand scale at some stage, perhaps in 1976, for by then the picture should be clearer.

Economics is important to entrepreneurs although economic policy and international events are matters over which they have little control. We shall attempt to isolate economic indicators which the entrepreneur as chief executive can usefully monitor in order that his enterprise shall neither collapse through a failure to read the economic signs nor that he miss an opportunity to expand his organisation when appropriate. Not only will we be considering the entrepreneur as a notional source of investment, we shall be considering him as a straw in the economic wind. The chief executive has a business to run and he cannot spend his time looking for signs with the same enthusiasm as the economist. He could usefully make the Financial Times his daily reading and perhaps if he were to read the Sunday Times on Sundays he would at least be in possession of relevant information, but how to interpret it? Against the background of the previous chapters let us see if, through a judicious selection of events from the Financial Times, the Sunday Times and various easily obtainable news media, a situation emerges which is consistent with our background analysis.

SMITH & JONES LTD:

Assume that Smith & Jones Ltd., have £500,000 to invest at a time, in the United Kingdom when interest rates (let us say in early 1973) on bank overdraft were being quoted variously at between $2\frac{1}{2}\%$ to 4% over Minimum Lending Rate - the base rate determined by the Central Bank - which at that time was an alarming $9\frac{1}{2}\%$. Smith & Jones anticipate a return on their investment and they must have some idea of the criteria against which they will evaluate their success or otherwise.

At a time when in this country inflation was in the region of 8% to 10% depending on to whom one talked, one could look for an increase of 10% per annum in sales as one criterion. Given then that at a time when the entrepreneur had to pay something like 13% in order to borrow money and that for no effort he could get 10% by merely lending his money to a bank, one could set up some criteria based on both inflation and interest rates.

If Smith & Jones invested their money at 10% they would receive a profit before tax of £50,000 for doing no work. If we add 5% for their expertise it does not seem unreasonable to look for a return on shareholders' funds of 15% before tax. Similarly it would not be unreasonable to look for a return on capital employed of 15% since in order to borrow money they would have

had to pay 13% and there could be little point in borrowing at 13% unless they made at least 2% more so we have taken a figure of 15% return on capital employed. We have also taken a return on assets figure of 15% since if we assume that they would have had to borrow money to buy an asset, they should not have bought the asset unless they could earn more than they are paying in interest.

The arbitrary criteria then become

- * increase in turnover of 10% p.a.
- * return on shareholders funds of 15%
- * return on capital employed of 15%
- * return on assets of 15%

From Table 7 - 1 we can see that Smith & Jones have opted to go into a business which is capital intensive relative to the funds available. They have invested £350,000 in fixed assets and have therefore left themselves a working capital of £150,000. They have generated sales of £1m and made a net profit before tax of £60,000 or 6% on sales. In order to do this they have had to permit turn-around credit to their debtors of £100,000 and they have their stock and work in progress at £150,000. Part of this they are financing by owing their creditors £100,000.

TABLE 7 - 1

SMITH AND JONES LIMITED

	No Debt	Debt (1)	Debt (2)	Debt (3)
Sales	£1m	£1.5m	£1.2m	£900,000
Shareholders' Equity	£500,000	£500,000	£500,000	£500,000
Fixed Assets	£350,000	£450,000	£450,000	£450,000
Debt	Nil	£200,000	£200,000	£200,000
Current Assets:				
Stock	£150,000	£300,000	£400,000	£450,000
Drs.	£100,000	£180,000	£125,000	£160,000
Cash	Nil	£80,000	£5,000	Nil
	£250,000	£560,000	£530,000	£610,000

TABLE 7 - 1 (Contd.)

SMITH AND JONES LIMITED

	No Debt	Debt (1)	Debt (2)	Debt (3)
Liabilities:				
Debt	Nil	£200,000	£200,000	£200,000
Creditors	£100,000	£110,000	£80,000	£80,000
Bank Overdraft	Nil	Nil	Nil	£80,000
	£100,000	£310,000	£280,000	£360,000
Working Capital	£150,000	£250,000	£250,000	£250,000
Capital Employed	£500,000	£700,000	£700,000	£700,000
Net Profit Before Tax	£60,000	£90,000	£70,000	£45,000
Interest Charges	Nil	£20,000	£20,000	£50,400
Net Profit Before Tax and After Interest	£60,000	£70,000	£50,000	(£5,400)

TABLE 7 - 2

SMITH AND JONES LIMITEDRATIO COMPARISONS

	No Debt	Debt (1)	Debt (2)	Debt (3)
Profit: Sales	6	6	5.8	1055 Loss
Remaining profit figures are after deduction of interest but before tax				
Profit: Shareholders' Funds	12	14	10	1055 Loss
Profit: Capital Employed %	12	10	7.15	1055 Loss
Sales: Capital Employed	2	2.14	1.72	1.28
Profit: Total Assets %	10	7.08	5.1	1055 Loss
Sales: Stock	6.67	5	3	2.0
Current Assets: CA Current Liabilities: CL	2.5 : 1	1.8 : 1	1.9 : 1	1.69 : 1
Equity: Debt	5.1	1.61	1.78	1.38

Equity: Total of the shareholders' equity plus retained earnings

Debt: Total of long term debt plus remaining current liabilities

In the first example (No Debt) their return of 6% on profits to sales is an indeterminate criterion but they have not achieved the required 15% return on their shareholders' funds or on capital employed which, since they have incurred no debt apart from creditors, remains substantially the same. They have turned their capital over twice in their one year of trading. Not only that but they are trading efficiently as indicated by a sales to stock ratio of 6.67 since they are managing to turn their stock over and ship it out more or less as soon as it is produced. At the same time they are watching their debtors and using their creditors to provide debt but this is not excessive since with a current assets to current liability ratio of 2.5 to 1 they are easily able to service their creditors.

Their ratio of equity to debt, however, is high at 5 to 1 and so it would appear that they have a fair amount of debt capacity available and a bank might readily be prepared to lend them £200,000 since they would have to lose £300,000 of their own money before the bank's money was in danger.

On the face of it Smith & Jones, while they are trading efficiently, are not paying sufficient attention to their financial management. If they could use that £200,000 of theoretical debt capacity they could use £100,000 to buy new machinery and a further £100,000 as working capital. This seems an eminently acceptable business risk both to them and to their bankers. Unfortunately, sales are difficult to forecast and sometimes it is not possible to maintain the same margin on sales with increased sales in a contracting market. We have assumed, in Debt (1) that they are able to maintain their margins and increase their sales by 50% to £1.5m. They are now employing a total capital of £700,000 as opposed to £500,000, their net profit before tax has increased by 50% to £90,000 and their net profit after a bargain basement interest rate of 10% on £200,000 has increased to £70,000. It seems that in this instance their decision has paid off, for while their profit to capital employed has dropped from 12% to 10%, their profit to shareholders' funds has increased from 12% to 14%.

It is quite acceptable therefore that their profit to total assets has dropped from 10% to 7% and while they are experiencing a certain amount of difficulty in coping with the volume, a sales to stock figure of five is very good. They have, however, come to the end of their debt capacity since it is unlikely that the bank will lend them any more and they are using their creditors' funds to finance the increase in stock and the increase in debtors, although they are hardly upsetting their creditors. Should they wish to expand their sales they are still in a position to do so by monitoring their debtors more efficiently and using more of their creditors' finance. They have, however, probably borrowed too much money since they have £80,000 in the bank in cash. Nevertheless it was a shrewd investment decision.

In the third example - Debt (2) - Smith and Jones begin to realise that all is not happening the way it does in a Business School. They have found the market changing so that instead of achieving their budgeted figure of £1.5m in sales they have only reached £1.2m and they have had to cut their profit slightly in order to achieve this. They cannot see that they have borrowed too much money since they only have £5,000 in the bank and they are finding the interest charge of £20,000 rather onerous as it has reduced their profit from £60,000 to £50,000. Consequently, their return on their shareholders' funds is only 10%, that on the capital employed is only 7% and their return on assets has dropped from 10% with no debt to 5%.

Since they are a continuous process operation their manufacturing costs depend on volume and because they have continued to manufacture without being able to sell their products their inventory has risen substantially and has used up a great deal of their working capital despite the fact that they are monitoring their debtors. Nevertheless they can still use some creditors' money but the bank would in no way be prepared to lend them any more. Their profitability bears no relation to the criteria that they set themselves and they are beginning to regret their decision since now they are locked into a company making a single product which they find difficulty in selling. What they have done is to make themselves vulnerable and while they are not exactly in trouble yet they must certainly have second thoughts about further expansion.

By 1974, (Debt 3) Smith & Jones' are trading at a loss. Perhaps we could assume that the decision to invest was taken in 1973 believing that the Conservative Government's "gamble on growth" would succeed. Another company has, let us assume also gone into the same business; interest rates which were an already staggering 13% have now increased to 18% and demand has fallen off. Competition has increased and their margins are now reduced to 5%. Their bank manager is uttering dire warnings about the state of the nation's economy. He has just had a directive from head office and will they please do something about their overdraft. He would like to help them but they are already substantially over their agreed overdraft facility and a directive is a directive but thank-you for a splendid lunch, he really did enjoy it, and he wishes them the best of luck.

Smith & Jones are not the only people with bank managers. Their debtors, who up to now have paid their accounts fairly promptly are now getting more difficult and are threatening to take their business elsewhere unless they are given better credit terms. Debtors have therefore risen from £125,000 to £160,000 and this £35,000 differential, added to the £50,000 increase in stocks, largely accounts for the increased overdraft on which

an interest charge of £14,400 is payable. Smith & Jones are now a loss-making enterprise. How could they have avoided this and what action should they now take?

They should have attempted to consolidate their assumed past success, to pay back the bank, to reduce their indebtedness as far as possible and to lower their ratio of borrowed money to equity. In so doing they would save the interest charge against their profits which in a highly geared situation can eat away the profits altogether. They trim their sales for survival which means that they must turn down orders if their factory is full and in no way should they borrow money in order to erect new production facilities. Let them borrow working capital in this situation, let them by all means pay their employees more in exchange for additional productivity. They should have realised that prices would level off, money would become scarcer, interest rates would rise and demand for their products would fall - it may take a while, there is a lag in the economic machine - but they will fall. By declining the Chancellor's offer of easily borrowed money with which to erect new capacity to buy new machines, to increase the profits of the capital goods manufacturers and to increase the real productive assets of the country, they ensure that they survive at least longer than their more adventurous competitors and in so doing perhaps, in the medium term they could plan for an increased market share when the upturn comes.

Economic strategies and the laws of the land have evolved to assume self interest in most things. While morality is no less desirable in a society dominated by self interest, morality does not require an investor to invest at the whim of a government. It is not the responsibility of an entrepreneur to bolster a falling Stock Market by heavy buying nor is it his function to bail a government out of a zero sum strategy by following good money with bad. A prudent anticipation by the individual, of the consequences of political and economic short-sightedness does not defeat the state of moral and social well-being of a society. It is not our function either to change economic policy, unless we are economists with the political will and power so to do; it is not our function to follow blindly when our logic tells us that this is wrong; then what economic indicators could we look to for guidance? Let us now bring determining and contributing factors to the fore.

DETERMINING AND CONTRIBUTING FACTORS

The assumption by General Spínola, of leadership in the Portuguese Government is just one example of an interesting event in the 1970s. Portugal could not afford the oppressive means whereby she kept control of her colonies in Africa. A change of power leads to various consequences, but it is difficult to decide when an event will become determining or remain contributing.

When Frelimo gains control over Mozambique, realising that Mozambique provides a substantial labour requirement for the South African goldmines, do we regard the Frelimo situation as a determining factor or is it merely a factor which could contribute to a rise or fall in the bullion price? Perhaps the bullion price will rise because South African mines become paralysed and cannot produce gold. Perhaps the bullion price will fall because other countries in the international community will conclude that gold is not necessarily a panacea for international monetary ills.

In 1971, the United States, apparently a willing participant in the establishment of a two-tier gold price, effectively demonetised gold by refusing to change it for dollars. Was this a determining factor? At one time France was mounting a concerted attack on the United States dollar. There is to be a time (January, 1975) when United States residents will be allowed to hold gold. In mid-1974 Central Banks were enabled to pledge their gold holdings as collateral for loans from the international community. It is difficult to distinguish between determining and contributing factors, but there is a stage at which a contributing factor, combined with others like it, others which influence the situation but which of themselves do not change it, when these contributing factors are summed, the last event becomes determining.

There is no single identifiable determining factor that leads this academy to fear a depression but let us examine some events reported in responsible newspapers in the United Kingdom and let the reader conclude which are determining, and which, contributing. Perhaps gold is a commodity in the sense that it is subject to the tangled web of political and economic uncertainty that affects any commodity. Without further qualification, let us record a free market bullion price of \$180 per fine ounce, and let this stand as a benchmark.

Retrospectively most events are justifiable; we see in recent history, the one factor which we have ignored which has changed the total picture and with sufficient research we can usually justify and explain past events, but how do we predict the future? Should we as entrepreneurs, keep our eyes on the price of maize when we are manufacturing vacuum cleaners. Should we keep our eyes on the price of rubber when we are manufacturing chocolate, and coca is our major commodity? As chocolate manufacturers we must react to the realities of the world situation, but a commodity market is difficult to read and so is an international money market. It is no coincidence that Dunlop sustained commodity trading losses in its rubber dealings, that Rowntrees lost something like £36 million through unauthorised speculation on cocoa futures and that Lloyds Bank announced a currency dealing loss of £33 million through unauthorised currency dealing at a Swiss Branch. Perhaps prudence and caution can mean in the short term that competitors appear to have the edge on us.

Prudence is frequently mistaken for corporate cowardice, but an appreciation of economics as a determinant of corporate strategy and the relevance of international trade to national economic policies may mean the difference between long term prosperity in contrast to glamorous but short-term success. What might we as alert chief executives have predicted in 1972 and how could we have interpreted a number of events reported in the daily newspapers?

THE UNITED STATES OF AMERICA:

In the first place we could look to America to see the situation there. The anticipated state of the American economy is reflected in the behaviour of the New York Stock Exchange and in Wall Street and if we accept the importance of Wall Street as an American economic indicator we should add that American trade accounted for 45% of the 24 nation total of OECD trade in 1973 (Sunday Times 21/7/1974), and United Kingdom exports amounted to \$6,000 million in 1973. Events in America have a substantial bearing on events abroad both political and economic. The Saturday issue of the Financial Times publishes a weekly analysis of the behaviour of the Dow Jones Index and Wall Street. It is concise, readable and relevant.

America is possibly one of the most self-sufficient countries in the world and the most highly industrialised. The American economy influences virtually every economy in the world to some extent. American grain harvests are looked upon as the bread basket of the world and when the American economy turns down, the effects are felt world-wide. Even if the United States does not keep its balance of trade in surplus at all times, at least its visible balance is capable of remaining in surplus and the money earned from invisibles is considerable. The United States is also a supplier of credit to other parts of the world; it will finance the purchase of its capital goods or services by dollar loans, usually with strings. The United States as a nation has never been backward in extending its influence throughout the world when it could see political or economic advantage in such action and the Nixon-appointed Secretary of State, Dr. Henry Kissinger is no amateur at power politics. In all probability, it will be to the United States that we shall look for the aetiology of a world depression and to the United States that we shall look for salvation.

THE NEXT ELECTION

In 1971 the American economy seemed set fair and the President of the time was confident of his re-election in 1972. Entrepreneurs no less than Mr. Nixon could reasonably have kept their eyes on the next election for it was unlikely that the President would do anything to spoil his chances of getting re-elected. He was unlikely to put the brakes on the money supply, he was unlikely to dampen an exuberant economy and a rising stock market.

Perhaps this is the time that entrepreneurs should have been investing in factory space in increased capacity in capital goods, while they could get them. It was at this time in the United Kingdom that the Stock Market was beginning to recover and rise substantially. It was at this time that bank rate was low, that unemployment was rising and there was a continued surplus trend in the balance of payments throughout 1971 with a surplus of £300 million by the end of that year. The Chancellor was expressing optimism about the future and encouraging investment, no doubt in an attempt to get the rate of unemployment down, but quite possibly because the effects of America's prosperity were being felt elsewhere.

International trade is one means short of warfare, in which countries can influence their trading partners both economically and politically. Clearly the nation which wields the most influence is the United States. The U.S.A. is now the world's largest exporter of rice and two-thirds of the world's soya-bean crop is produced there, accounting for 90% of the world's soya-bean export. The United States is the world's leading supplier of wheat and feed grains and "....., together with Canada the U.S. now controls a larger share of the world's grain supplies than the Middle East does of the world's oil." (Sunday Times, 21/7/74).

At a time when 60% of the developing world has been on the verge of starvation for years, America and her people enjoyed the highest standard of living in the world. Food and economic development programs are part of American Foreign Policy, but these are influenced by trading possibilities as well as humanitarian considerations. President Nixon was not demonstrating any particular change in American Foreign Policy when he declared in 1973, "I have made this basic decision. In allocating the products of American Farmers between markets abroad and those in the United States we must put the American consumer first." This statement was made after the President had imposed a sudden curb on soya-bean exports.

There are nearly four thousand million people in the world and less than ten per cent of them live in America. Whatever the morality of world inequalities, there is no way that the advanced countries of the world can solve the developing nations' problems by way of grants and donations. It is not possible, nor is it human nature to try. This situation has pertained for very many years through trade cycles, through famine and through wars. It is not a particularly flattering comment on humanity, but it is difficult to dispute that the rich nations are hardly likely to share their wealth unless there is some advantage to them in so doing. A major re-orientation of the balance of power and wealth would be strongly resisted by those who are both powerful and wealthy; if world wide warfare is no longer a possibility without the risk of total annihilation then balances must be redressed by trade and the meek shall by no means inherit the earth.

In the early 1970s there was relatively simultaneous expansion in economic activity and national prosperity in many major trading nations of the world. In 1972 this was reflected in booming stock market prices on Wall Street, in London, Hong-Kong, Tokyo, South Africa and Australia as well as in many countries in Europe. It was unusual that the major trading nations had expanded their economic activities simultaneously, but, having considered the American situation, let us return to the United Kingdom. If Wall Street and the next election are two indicators of relevance then we can turn our attention to other national indicators such as unemployment, the balance of trade situation, the money supply and interest rates.

Table 7 - 3 gives the figures for some important economic indicators in the United Kingdom for the ten year period 1965 - 1974 and Figures 7 - 4 et seq. show diagrammatically some leads and lags and correlations in the economic process. These may be useful to the reader in assessing the relevance to himself and his corporate effort of indicators including unemployment, the balance of payments position, minimum lending rate, the Financial Times 30 Share Industrial Index, the Money Supply and (later) GNP and commodity price fluctuations.

TABLE 7 - 3

BALANCE OF PAYMENTS

	Year	J F M	A M J	J A S	O N D	Year	J F M	A M J	J A S	O N D	
Visible	1965	-40	-84	-64	-49	1966	-72	-70	-43	+112	Balance of Payments. Seasonally adjusted; visibles + invisibles = Current balances. Source: Financial Statistics No.152. December 1974 HMSO
Invisible		+40	+41	+50	+57		+29	+41	+32	+55	
Current		-6	-43	-14	+8		-43	-29	-11	+167	
Visible	1967	-40	-91	-96	-330	1968	-167	-216	-153	-123	
Invisible		+60	+21	+65	+98		+73	+114	+118	+74	
Current		+20	-70	-31	-232		-94	-102	-35	-49	
Visible	1969	-129	-48	+34	--	1970	+59	-46	-77	+55	*Projections £ million
Invisible		+148	+144	+130	+170		+193	+181	+157	+163	
Current		+19	+96	+164	+170		+252	+135	+80	+218	
Visible	1971	-52	+105	+172	+60	1972	-121	-64	-284	-208	
Invisible		+187	+179	+213	+186		+205	+185	+174	+185	
Current		+135	+284	+385	+246		+84	+121	-110	-23	
Visible	1973	-351	-399	-602	-1003	1974	-1279	-1363	-1162	*-435	
Invisible		+159	+202	+330	+466		+315	+373	+381	+130	
Current		-193	-197	-272	-537		-964	-990	-781	-305	

TABLE 7 - 3

UNEMPLOYMENT

Year	J F M	A M J	J A S	O N D	Year	J F M	A M J	J A S	O N D	Source: Economic Trends January, 1975. No.255 H.M.S.O. Unemployed excluding school-leavers and adult students Monthly averages shown quarterly in thousands
1965 %	332.1 1.4	338.1 1.4	352.8 1.5	328.0 1.4	1966 %	302.1 1.3	314.5 1.3	352.2 1.5	444.1 1.8	
1967	515.7 2.2	544.7 2.3	559.8 2.4	569.3 2.4	1968 %	573.7 2.4	580.9 2.5	576.6 2.4	567.6 2.4	
1969 %	562.3 2.4	557.2 2.4	566.7 2.4	580.2 2.5	1970 %	586.9 2.5	597.8 2.5	606.8 2.6	617.5 2.6	
1971 %	668.5 2.9	750.3 3.3	813.1 3.6	871.6 3.8	1972 %	908.2 4.0	879.4 3.3	846.5 3.8	785.4 3.4	
1973 %	700.0 3.0	636.4 2.7	591.4 2.5	156.0 2.2	1974 %	570.1 2.5	579.5 2.5	629.0 2.7		

TABLE 7 - 3

BANK RATE

Year	J	F	M	A	M	J	J	A	S	O	N	D	Year	J	F	M	A	M	J	J	A	S	O	N	D
1965	7				6								1966							7					
1967	6½	6			5½					6	6½	8*	1968		7½						7				
1969	8												1970		7½										
1971				6				5					1972						6				7½		9
1973	8½	8½	8½	8½	7½	7½	11½			11½	13		1974	12½	12½		12	11½							
1975		11½																							

* In the same month. Bank Rate (Minimum Lending Rate from 13.10.72) Where Changed only %
Source: Economic Trends No.254. Dec. 1974. H.M.S.O. London.

TABLE 7 - 3

F.T. SHARE INDEX

(Quarterly averages)

Year	J	F	M	A	M	J	J	A	S	O	N	D	Year	J	F	M	A	M	J	J	A	S	O	N	D		
1965	339	348	335	(341)	339	350	331	(340)	318	323	330	345	350	341	1966	345	355	348	345	363	368	346	308	306	300	294	306
									(324)			(345)				(349)		(359)			(320)			(298)			
1967	317	316	322	(318)	338	343	348	(343)	353	356	373	393	408	392	1968	401	413	413	448	464	466	481	491	509	488	489	493
									(361)			(398)				(409)		(459)			(494)			(490)			
1969	510	480	471	(487)	466	432	399	(432)	378	376	384	376	379	393	1970	414	403	393	385	343	336	341	341	348	369	335	331
									(379)			(383)				(403)		(355)			(343)			(345)			
1971	341	331	323	(332)	355	370	375	(367)	417	405	423	412	414	456	1972	489	495	507	522	534	500	503	524	492	482	492	509
									(415)			(427)				(497)		(519)			(506)			(494)			
1973	496	454	445	(465)	464	457	465	(462)	431	423	418	438	401	330	1974	325	316	297	290	297	267	255	223	203	199	181	150*
									(424)			(389)				(312)		(285)			(227)			(177)			

Financial Times Index of Industrial Ordinary Shares 1.7.35 = 100

Sources: Financial Statistics January 1965, July 1966, February 1968, December 1974.
 Rounded to nearest whole number.

*Estimate

TABLE 7 - 3

DOMESTIC CREDIT EXPANSION

Year	J	F	M	A	M	J	J	A	S	O	N	D	Year	J	F	M	A	M	J	J	A	S	O	N	D
1965	-135			528				188		550			1966	-133			462				184			276	
1967	-419			491				803		891			1968	117			934				173			777	
1969	-550			-90				61		432			1970	-944			711				483			794	
1971	-586			262				296		1171			1972	520			2373				1191			2794	
1973	924			1675				2691		3349			1974	717			1927				1493				

Domestic Credit Expansion. £ million

Source: Financial Statistics No.152. Dec. 1974. H.M.S.O. London.

TABLE 7 - 3
MONEY SUPPLY M3.

Year	J	F	M	A	M	J	J	A	S	O	N	D	Year	J	F	M	A	M	J	J	A	S	O	N	D
1965	-232			464				181		502			1966	-98			206				139		289		
1967	-244			465				532		556			1968	-226			541				188		649		
1969	-301			-52				199		657			1970	-430			733				387		896		
1971	15			471				452		1428			1972	460			1698				955		2186		
1973	894			1528				2329		2462			1974	463			946				829				

Changes in Money Supply M3 (Unadjusted). Quarterly figures. £ million.

Source: Financial Statistics No. 105. January, 1971 and No.152. December, 1974

FIGURE 7-4A
LEADS, LAGS AND CORRELATIONS
SOME IMPORTANT ECONOMIC INDICATORS IN THE
UNITED KINGDOM 1965-1974

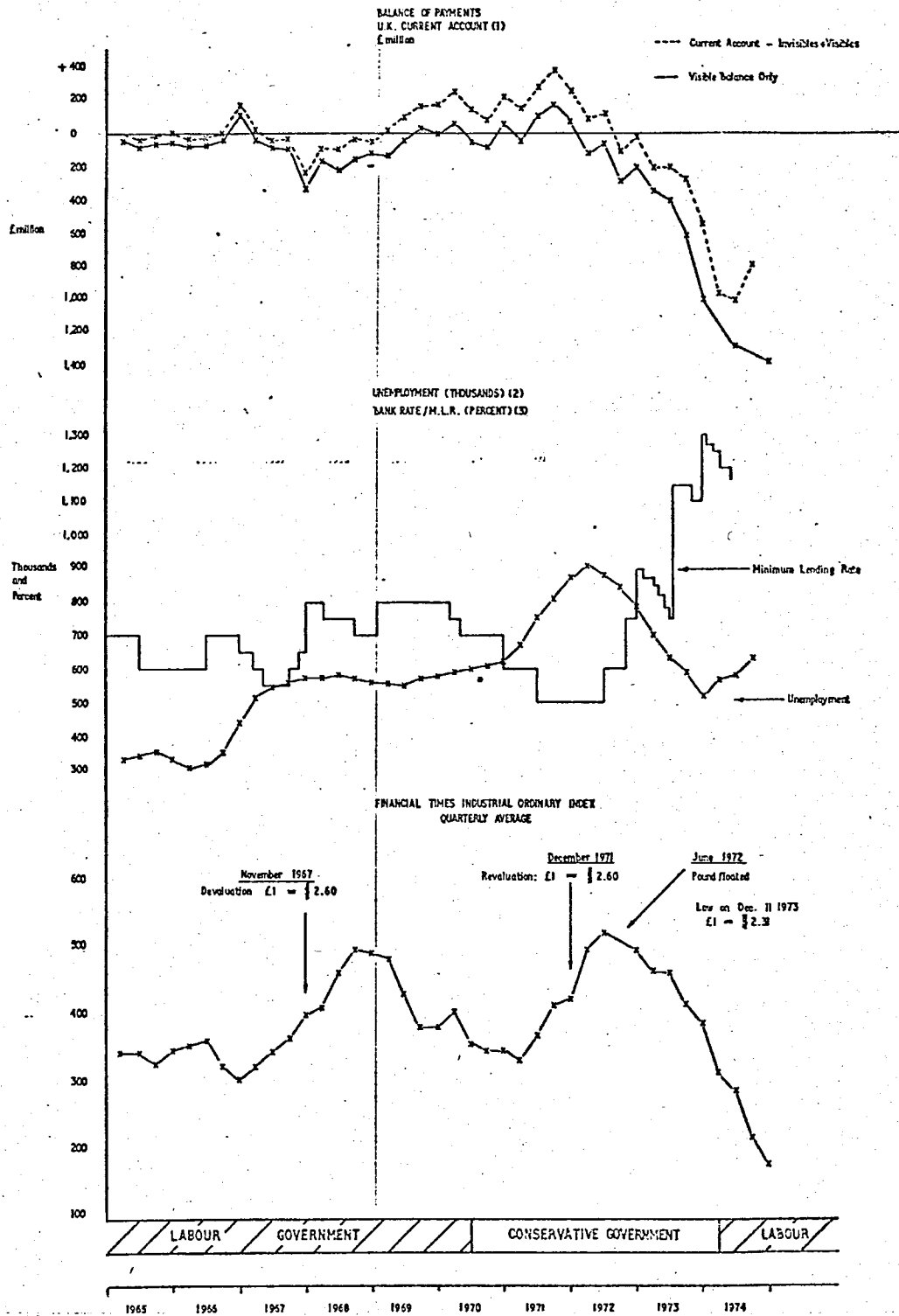
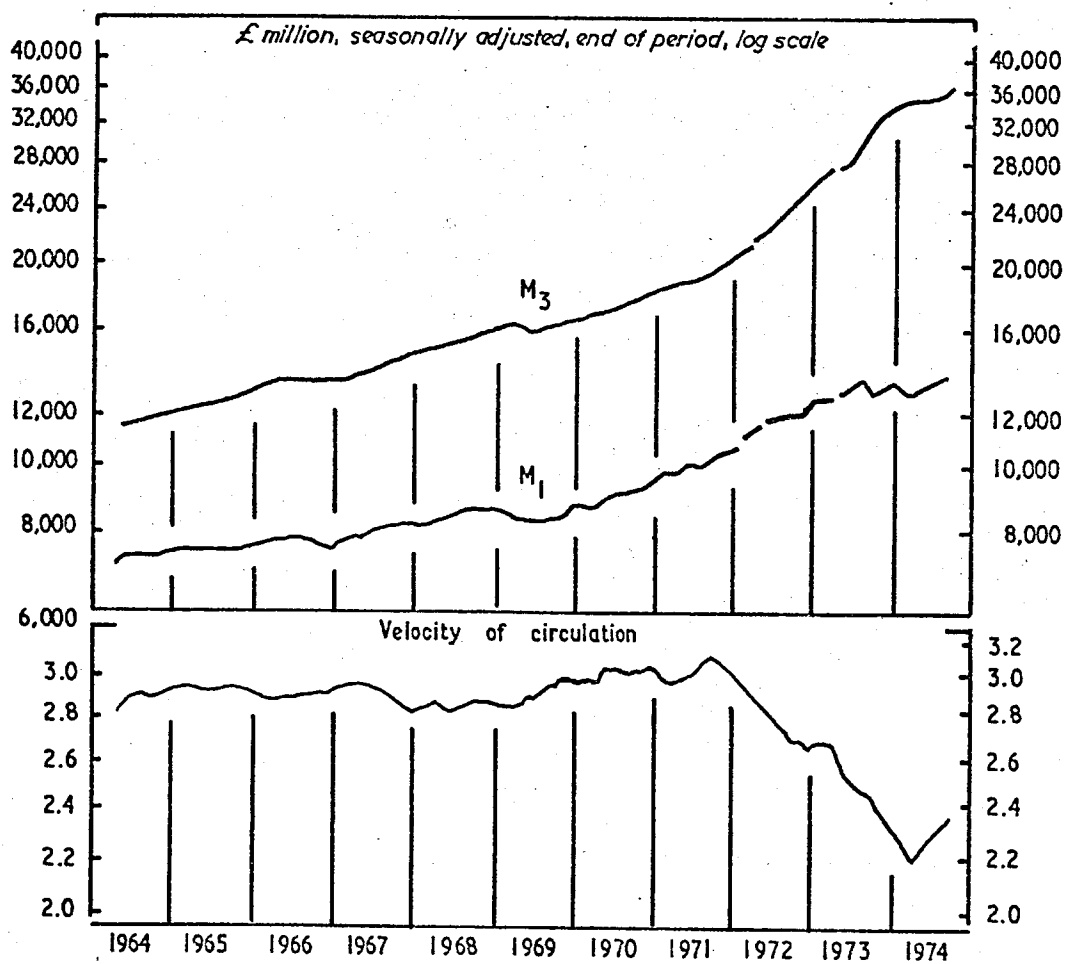


FIGURE 7-4B
THE STOCK OF MONEY



Source: Economic Trends Jan. 1975 No. 255 H.M.S.O.

FIGURE 7-4C
INVESTMENT INTENTIONS IN MANUFACTURING INDUSTRY

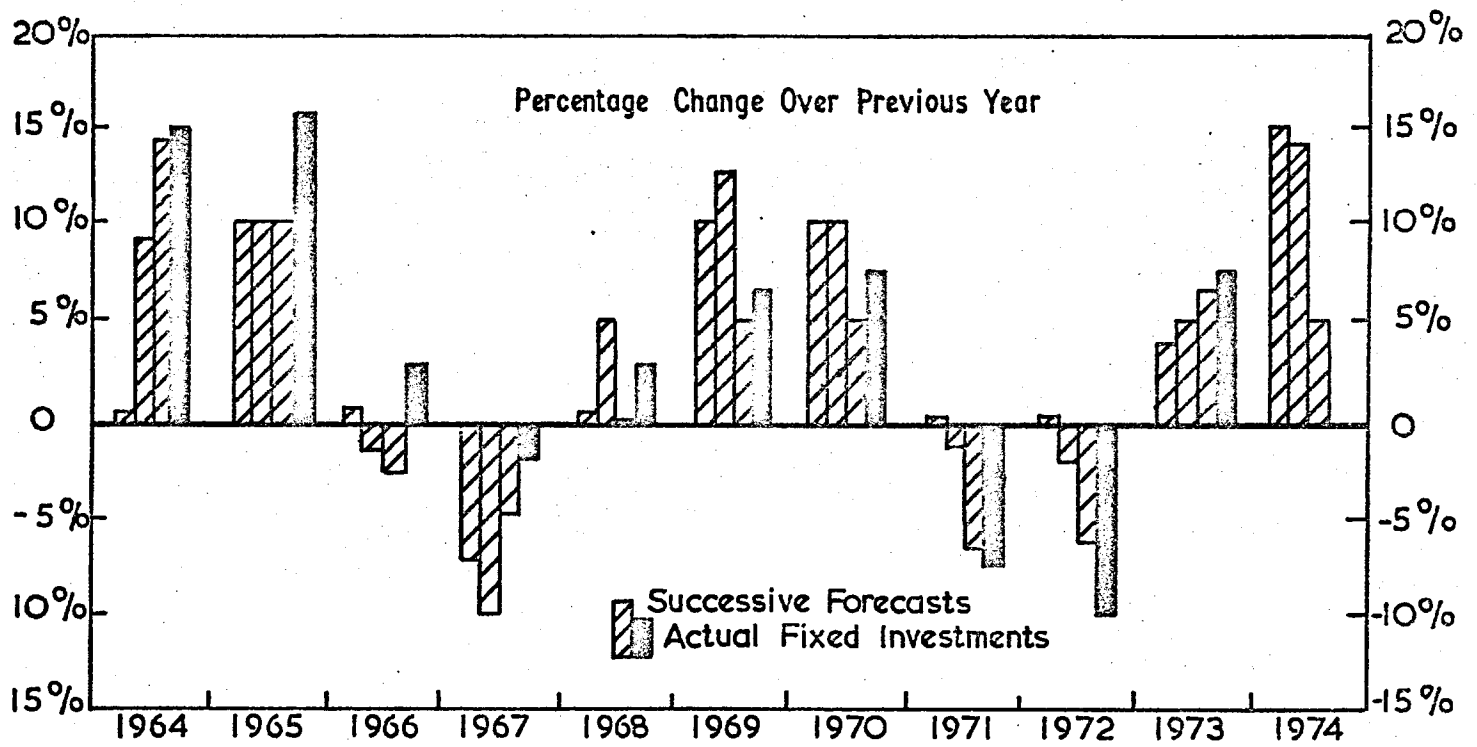


FIGURE 7-5

GROWTH OF GNP IN SEVEN (SIX) MAJOR COUNTRIES %

SOURCE: O.E.C.D. ECONOMIC OUTLOOK
FINANCIAL TIMES 1. 8. 74.

SOURCE: NIESR
SUNDAY TIMES 16.6.74

	Average 1959-60 to 1970-71	From Previous Year				From Previous Year				1974				1975		1961-71		1973	1974		1974 forecast
		1972		1973		1974		1975		1976		1977		1978		1979		1980		1981	
		I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II	I	II
Canada	4.9	5.8	7.1	5	-0.5	6.9	2.7	-2.75	1.5	3	7.25	10.2	5.5	6.7	4.7	1.0	3.8	4.0*	2.5	4.5*	2.1
United States	3.9	6.1	5.9	-0.5	12.9	6.6	5.5	4.75	4.5	4.25	4.25	4.6	5.3	5.9	1.0	3.8	4.0*	2.5	4.5*	2.1	2.1
Japan	11.1	9.4	10.3	-1.5	4.75	6.6	5.5	4.75	4.5	4.25	4.25	4.6	5.3	5.9	1.0	3.8	4.0*	2.5	4.5*	2.1	2.1
France	5.8	5.5	6.1	4.75	6.6	6.6	5.5	4.75	4.5	4.25	4.25	4.6	5.3	5.9	1.0	3.8	4.0*	2.5	4.5*	2.1	2.1
Germany	4.9	3.0	5.3	1.75	9.1	9.1	0.3	2	3.5	4.25	4.25	4.6	5.3	5.9	1.0	3.8	4.0*	2.5	4.5*	2.1	2.1
Italy	5.5	3.4	5.4	3.5	4.2	4.2	9.8	2.5	0	1.5	1.5	4.9	6.4	6.4	4.5*	4.5*	4.5*	4.5*	4.5*	4.5*	4.5*
United Kingdom	2.9	3.5	5.4	-2	8.4	8.4	0.4	-6	4.5	1.25	1.25										
Total (6) of above	5.3	5.8	6.5	0.5	8.1	8.1	3.0	-1.5	2.75	3.75	3.75	5.0	6.3	6.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1

Estimates and forecasts seasonally adjusted at annual rates

(a) G.D.P.

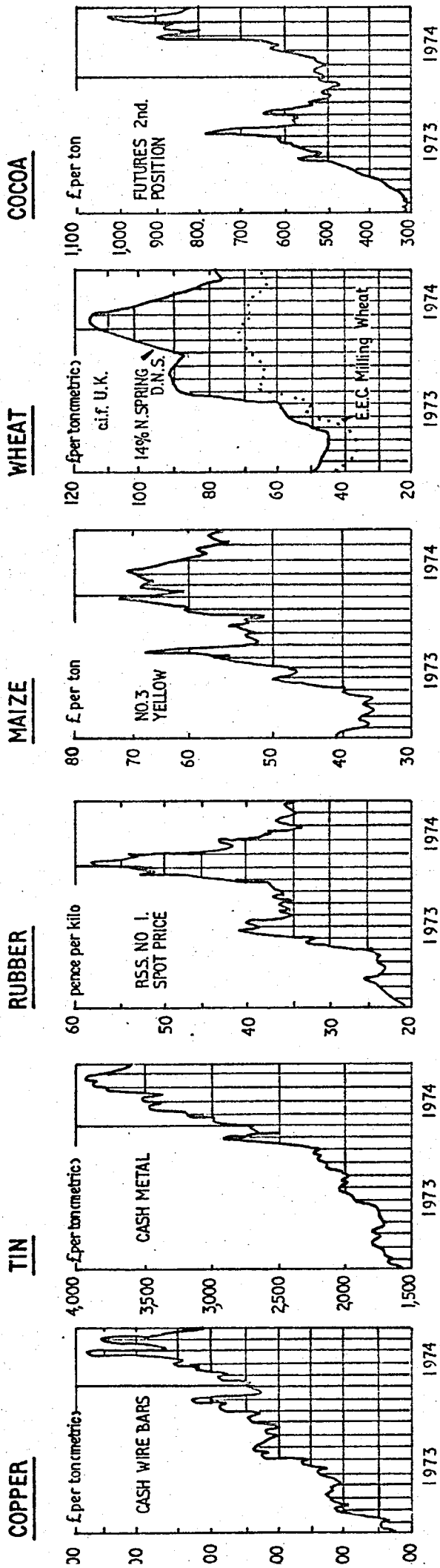
(b) 1973 weights and exchange rates

* "Before latest measures"

FIGURE 7 - 6

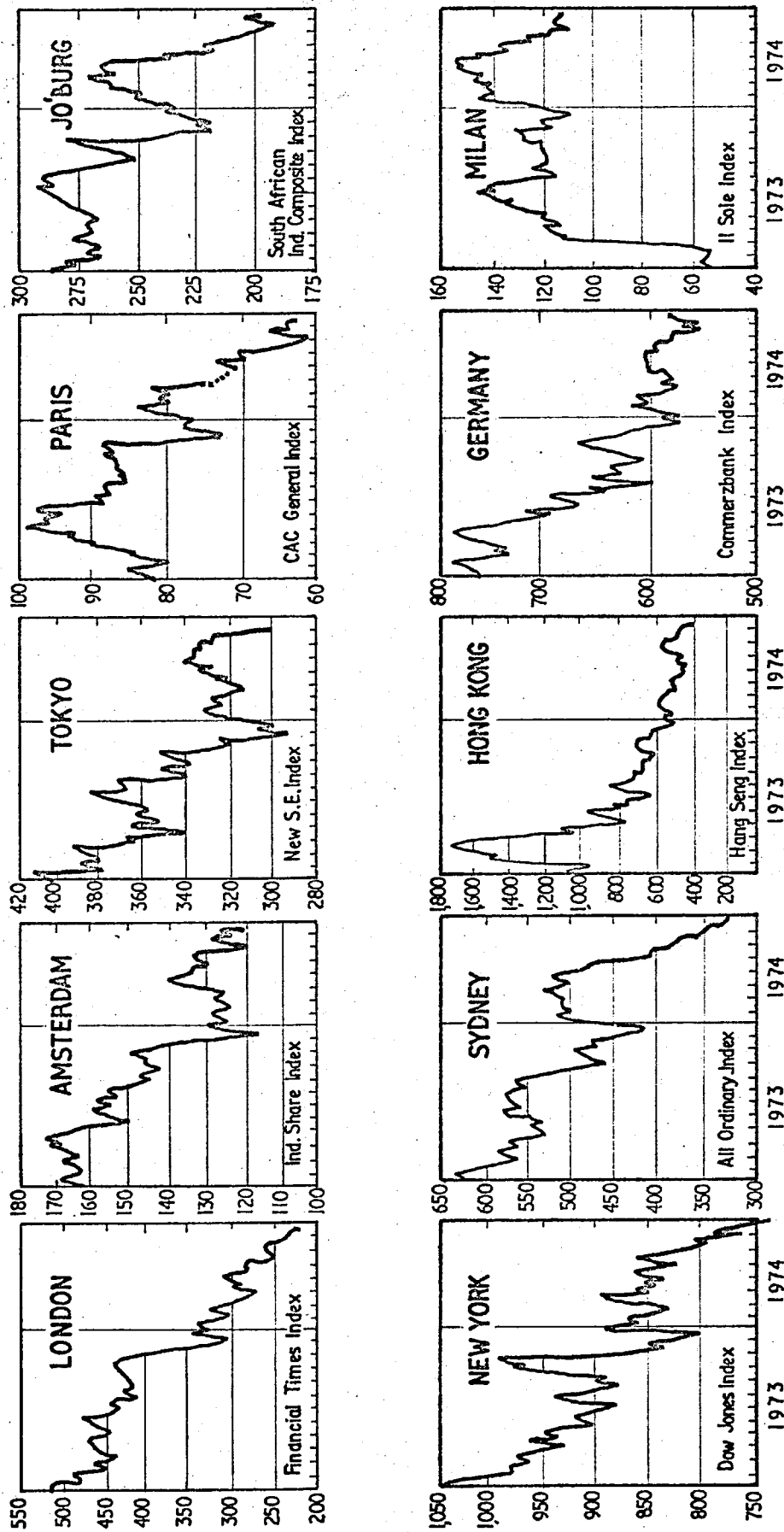
FLUCTUATIONS IN VARIOUS COMMODITIES:

COMMODITIES OVER THE PEAK



Source: Financial Times 3.6.74

FIGURE 7-7
SOME INTERNATIONAL SHARE PRICE CHANGES



Source: Financial Times 16.8.74

THREE WEEKS IN JUNE, 1972

In May, 1972 the Financial Times Index reached an all time high which has not since been reattained: at around 543 in May, 1972, investors who had entered the market in October 1971 would have felt well satisfied for many of them had at least doubled and sometimes quadrupled their investment. On June 1st 1972 the Financial Times reported that equities had come under the demoralising influence of gilts and the thirty share index had fallen 5.9 points to 518.4. On the 2nd June gold rose 25 cents to \$59.35 and the FT index drifted 1.8 to 516.6. The Wall Street Journal reported (5/6/72) with the pound equal to \$2.6119 that "Britain is heading into an economic upturn and everybody is worried stiff."

"Some experts also believe Britain may again devalue the pound. Indeed, even Anthony Barber, the Chancellor of the Exchequer (similar to the Secretary of the Treasury) has said the government would not allow exchange rates to stand in the way of Britain's economic recovery. A devaluation of course would lower the price of British goods abroad and thus stimulate export sales essential to this nation's health. And it would also shore up Britain's balance of payments" The Wall Street Journal observed that speculative money was still flowing into the pound sterling but while it was strong in the immediate delivery market it was not nearly so strong in the market for future delivery. "This clearly suggests jitters about the future."

The visible trade balance of the United Kingdom had worsened from a figure of £42 million from January to April to a figure of £81 million for March and £53 million for April. Peter Jay, writing in The Times (7. 6. 1972) observed that for the government to expand demand sufficiently to make a serious impact on unemployment levels would convert a forecast 1973 surplus of £250 million on current account into a deficit of close to £500 million. For the United Kingdom this would be a substantial deficit for, in 1968 the Labour administration had inherited approximately a £600 million pound balance of payments deficit which had been widely regarded as little short of catastrophic. The Chancellor in the April 1972 budget made the point in relation to the balance of payments; "it is neither necessary nor desirable to distort domestic economies to an unacceptable extent in order to maintain unrealistic exchange rates."

By June, 1972, financial and economic commentators, if not politicians, were worried. Various economic forecasts and economic commentaries could not change the fact that the British economy was heading for a substantial balance of payments deficit, at least by 1973, if the administration of the time continued with its policies, and the threat of a national dock strike sparked

off falls in both the pound and in share prices. Equities "hit by fears of labour unrest and the inflation rate had their biggest fall for four and a half years by 15.8 to 490 (Financial Times, (16/6/72). The growing threat of a major dock strike and the implications this had for the already deteriorating U.K. balance of payments was enough to spark off sustained selling of the pound. Appearing on television Mr. Barber, the Chancellor of the Exchequer, said (19th June) that the government had paid off the £1500 million pounds overseas debts inherited from the Labour administration and the country's reserves had doubled in the last year. "We are in a very good situation so far as that is concerned at the moment."

Meanwhile sterling was still under pressure and the New York Times reported (20/6/72) that Denis Healey, the Labour Party spokesman on finance, had predicted that sterling would be devalued by July or August. Mr. Heath, the Prime Minister, accused Mr. Healey in the Commons (21/6/72) of "doing his best to wreck sterling". The current account on the balance of payments deficit for the first time in three years. Exports had fallen by 3.5% in value and 4.5% in volume, whereas imports had grown by 7.5% in value and 6.0% in volume. The International Community came to the aid of the pound and Mr. Paul Volcker, U.S. Treasury Under Secretary told a congressional committee that he was not concerned by rumours of an impending sterling devaluation because "surplus countries are in no position to devalue their currencies." At that time the United Kingdom was not a "surplus country."

On the 22nd June, 1972 the Bundesbank bought over £150 million of sterling in an attempt to bolster the currency and the British Government put up the Bank Rate by 1% "In an attempt to persuade British and foreign financial opinion that it intends to restrain monetary inflation." (Guardian 23/6/72). The Wall Street Journal reported that Britain had boosted its Bank Rate to 6% in a bid to relieve the strain on the "hard pressed pound".

At 7.45 a.m. on Friday, 23rd June, 1972 a Treasury statement was issued: "H.M. Government has decided that, as a temporary measure sterling will be allowed to float. This means that for the time being the market rate for sterling will not necessarily be confined within announced limits either in respect of the U.S. dollar or in respect of EEC (1) currencies.

"It is the government's intention to return as soon as conditions permit to the maintenance of normal IMF (2) margins round parity and participation in the special EEC arrangements."

(1) European Economic Community

(2) International Monetary Fund

Unemployment in May 1972 was 861,000. In March it had been 972,000, in April 958,000 compared with the situation in April, 1971 of 774,000. The Chancellor could not be blamed for wishing to reduce the rate of unemployment. Politically in the United Kingdom a figure of one million was something to be reckoned with, but clearly all was not well with the U.K. economy in 1972 and a perceptive entrepreneur with his finger to the nation's economic pulse, a daily reader of the Financial Times and an interested observer of international affairs could not but have been concerned as to the economic future of the country and its effect on his corporate strategy

On the 29th July, 1973 the Sunday Times reported that the investment boom was hotting up ".... as industry adjusts to 11.5% interest". It was reported that "British industry is planning a massive surge of investment in new factories and new plant" The article was in no sense superficial and the informed entrepreneur might very well have decided to curtail his investment programme at that stage. The government was playing down a recent flurry in the foreign currency market. The International Monetary Fund was to meet to consider the problems of long term currency reform and the Chancellor made it clear that although he ".... would not hesitate to use the reserves to support sterling if it became necessary to protect the economy" that moment had not yet arrived. The Deutsch-mark was 37% more expensive to buy for sterling than it had been twelve months previously and although arguably this augured well for export, the entrepreneur would have been aware of escalating wage costs and supply shortages - hardly the stuff that an export boom is made of.

On the 2nd September 1973 the Sunday Times headlined "New Backing for Heath's Gamble on Growth." Two respected economists argued that it was too soon to hit the boom on the head, because already it was dramatically slowing down. "After the end of 1973 we anticipated the boom will of its own accord go bust - not with a bang, but with a steady reduction in the growth rate throughout the years." The economists believed that the government would have been correct if, on the basis of their forecast it were to resist the call for deflation. "It is a batter of risking employment and the rate of growth against the balance of payments. In the past it has always been growth and jobs that have been sacrificed. On this occasion we think the risk should be taken the other way." Clearly there was a risk in the situation and that risk was perceived. The economists feared that deflationary policies would cause a rise in unemployment which would be felt two years later. They forecast that the balance of payment's deficit was expected to be £1,300 million, the highest ever in peacetime for the year under review, 1973. The deficit was forecast to remain substantial in 1974 though it could

be halved if import prices stabilised, and equilibrium was anticipated in 1975. "The critical question then is whether the current balance can be permitted to remain in such substantial deficit for so long. If the answer to this question is that we cannot afford it, then we cannot afford full employment either." (My italics)

The facts were there but how should they be interpreted? On the basis of these facts, on the basis of what we have observed about the balance of payments, inflation and an economy whose capacity is rapidly reaching its potential something had to give. In the last chapter we considered the complexity of the economy and in considering the problems of data gathering we looked at a representation of 40,000 moving parts in the economic machine. In a "full employment" situation with shortages, rising costs, bottlenecks, with rising imports, a falling currency and labour problems, with rising interest charges and competition for scarce resources, the different parts of the economic machine become increasingly inter-dependent so that a change in one sector of the economy has more widespread effects on other sections than it would have "normal" times. How could the boom go on with a balance of payments deficit projected to be the highest ever? Perhaps politicians, having nailed their colours to the mast, had no choice politically but to brazen it out. If democracy rests on the will of a contented electorate expressed through a ballot box every few years, the electorate is fooled at least some of the time if not all of the time.

UNEMPLOYMENT

It is an unflattering comment on investors that when unemployment is high and rising so the share index is, as in this case, likely to be rising, assuming the balance of payments will stand an increase in the money supply. It has not been so far possible for a nation to work at full capacity for a prolonged period of time in a state of contented equilibrium. It is not possible for everybody in the economy to be fully employed unless there is a nationwide preparedness to move house to where the jobs are, to change jobs and to change skills.

Nevertheless it is Government's hope that the rate of unemployment be as low as possible for the unemployed do not constitute a contented electorate. One of the aims of Government - at least one of the foremost and most widely articulated aims - is the objective of full employment. A government that does not at least pay lip service to decreasing unemployment will lose votes and even if it can increase its vote by increased aid to deserving old age pensioners shortly before an election, no government willingly sacrifices votes. While most governments publicly view a rising level of unemployment with horror, privately there is more than the spectre of unemployment for a government to consider.

THE MONEY SUPPLY

In the United Kingdom, the money supply increased rapidly both in 1971 and in 1972 and it continued to grow at an average of 2% per month throughout 1973. Boom psychology manifests itself in the anticipation of future profits on an ever-increasing scale. If we are to make 20% return on our money, we are happy to pay 10% or 15% to borrow it, for, so enthused do we become with the principle of leverage and the anticipation of ever increasing profit that, with money mysteriously making money, who can resist borrowing more to make more.

When money is easy to come by and profits can be made by borrowing it, investors and entrepreneurs have their sights firmly set on the short-term in the hope that the long-term will take care of itself and there is no shortage of predictions to this effect. A doubling of the interest rate paid for money is not significant when compared with the profit to be made with the borrowed money. A rate of inflation of 10% and money costing 12% leads to various arithmetical calculations by pundits, proving that by not borrowing money one is losing money; frequently failing to point out that the borrowed money must be paid back and if something goes wrong, if prices stop going up then there is a limit to the borrowers capacity for increased borrowing. Profits go up in good times, share prices anticipate an upturn in profits, profits from shares are invested in property, profits from property are invested in agricultural land, in claret in anything that has some scarcity value, investment trusts are floated, highly geared, over subscribed but at some stage it has to end.

Money is not just made out of stock market investment it is made out of increasing factory capacity and filling it with orders, but this takes time. How much easier it is to make money without working for it. How easy it is to buy a house for £6,000 with £600 deposit and to sell it for £10,000. Margin trading does not just happen in the Stock Market it happens in property. Investors apparently work on the assumption that if something has doubled once it must therefore be a good buy because it will double again.

The Observer recorded in November 1973 just how easy it was to make money out of property. In one of the quaint Olde English ways which allows the rich to become richer, the Wandsworth Borough Council gave its approval to developers, British Land, for a redevelopment scheme at Clapham Junction station where British Land had bought up a site containing 24,000 sq. ft. of offices. The Council gave British Land permission for 150,000 sq. ft. of offices on the site. "Simply by an Act of the Council the potential value of that land has gone up from considerably less than £1.5 million to nearly £10 million." The article recorded that it was only since the return of the

Conservatives to power in 1970 that the office boom has really come into its own. In the preceding years the office development permit allowance for office space "essential to the public interest" had risen to an annual rate of nearly 10 million sq. ft. compared with 9.5 million sq. ft. destroyed during the whole of the Second World War. "At the same time London Office rents and values have risen at such a rate that in 1972 the net capital value created by the issue of office development permits can be estimated at no less than £860,000,000" which was considerably greater than the entire annual budget of the Greater London Council. It had no end.

It should have been no surprise to us to read that (Financial Times, 4/6/74) The Department of Industry's latest enquiry into Company's Capital Expenditure programme suggested that the rise in manufacturing industry's investment in that year would be not more than about 5% in real terms, compared with the 12% - 14% forecast at the beginning of the year. Table 7 - 4 derived from the Financial Times (11/6/74) explains the difference between what is forecast and what actually happens. Even though the forecasts are usually incorrect, at least they indicate the trend and perhaps we can understand Government's desire to increase investment by manufacturing industry when we look at the figures for 1971 and 1972; perhaps we can understand Government's reluctance to knock a boom on the head too soon.

BALANCE OF TRADE

There is a stage beyond which a government cannot afford to gamble with the balance of payments for in a situation where the economy is booming, if the balance of payments is negative for a prolonged period of time, inflation, loss of investor confidence and in particular, loss of overseas confidence in the unit of money is the inevitable consequence. Entrepreneurs, like Government can usefully monitor the balance of payments. It is an easy indicator to obtain for when the trade figures are announced by the appropriate authorities, they are usually widely reported in the press. When the balance of payments is in a healthy condition, Government can afford to gamble, can afford to release the brakes on the money supply and make brave promises about the future. Government is caught in a bind between unemployment and the balance of payments. Electorally it would like to keep unemployment at a low level for this means a substantially contented electorate, but internationally, for the long term survival of a nation, Government ignores balance of payments deficits at its peril. A "dash of growth" in 1964, was followed by a "gamble on growth" in 1973, the intention being to stop the "stop - go" in the economy and put the economy on an ever upward footing. Different rules are invented and different principles derived for economic policies, for political strategies and for investment criteria; but they do not last.

There is a time limit beyond which the international community will not tolerate excessive dependence upon credit without being assured that Government at home is doing its best to remedy the situation. The longer Government procrastinates the worse the situation becomes. If a government is prepared to tolerate an unacceptable inflation level and a deficit on the balance of trade in order to secure short term political advantages, it must be aware of the long term consequences of its actions but in the short to medium term, Government can finance or attempt to remedy its deficit by various means, each with its own particular brand of consequence.

We have shown that it is possible for a government to devalue its currency or, in the present state of the international monetary scene, to float its currency. By floating a currency the government is permitting it to find its own level; it is devaluing its currency if market forces force the price down and it is revaluing its currency if the arbitrageurs who deal in currency are prepared to bid it up. If, while other currencies remain fixed to some external criteria, a currency is floated and sold heavily it is being devalued. This is what Mr. Anthony Barber, the Conservative Chancellor did to sterling on the 23rd June, 1972. At around the same time he introduced what amounted to exchange controls by reducing the sterling area from a number of the former outposts of the British Empire, to include, mainly the Channel Islands. If a British resident wanted to exchange sterling for some other currency, he would have to do so by paying the investment dollar premium. Thus the Chancellor discouraged money from leaving the country and prevented the reserves from falling.

In a bland and partial rationale for his action, the Chancellor and the Conservative Government referred to their joining of the European Economic Community. Effectively the Chancellor had devalued the pound at a time when the balance of visible trade was in deficit. This devaluation arguably marked the commencement of the Conservative administration's self confessed "gamble on growth". The strategy appeared to be that by an effective devaluation of the pound and a retention of money inside the country, which could bolster the reserves, the deficit could be financed until such time as the benefits of the devaluation would feed through in increased exports because they were less expensive and in decreased imports because they were too expensive. We could assume that the Chancellor had recognised the problem which confronted him in the shape of an increased balance of payments deficit and had reacted in an apparently sound fashion.

Balance of Trade is a somewhat vague term. So far we have been talking about the export and import of visible items, items which can be seen, which can be counted. In addition to visible imports and exports however, there are the so-called invisible items; insurance, services, airline travel earnings and financial services of one kind or another are some examples of sources of

invisible export earnings. If industrialists are expanding abroad and they export the capital to invest abroad, this will be reflected as a change in the country's reserves and may result in a deficit on the total income and expenditure account of the nation. Defence spending, the granting of credit to countries with whom we trade, not only enables us to export, but it also enables us to exert an influence upon those countries, both economic and political.

A deficit can be financed provided money is coming into the country. This money will bolster the reserves of the country and enable that country to finance its deficit. As in a business, if creditors feel that the country does not have the wherewithal to repay its debts, if they are unsure as to the economic future of that country they will be reluctant to invest money in that country even though the interest rates are attractive, because the fear will be ever present that the currency of that country will be devalued. While they may obtain a high rate of return on the funds invested, that rate of return will be wiped out by the devaluation of the currency. When a nation is trading at a deficit over a period of time, confidence in that nation is diminished and other countries are reluctant to place their money on deposit there. A withdrawal of currency will weaken the reserves and if the country in question is not seen to be doing something about its internal economic situation, not only will credit be harder to come by and the terms upon which it is granted more onerous, but the reserves will be depleted by withdrawals of foreign money, fearful of a devaluation. We will be considering some of these aspects in relation to Italy in this chapter.

THE OIL PRICE INCREASE

Figure 7 - 5 overleaf compares rates of growth in Gross National Product for the 1960s and the early 1970s. It may be instructive for us to puzzle through the figures but perhaps we can also illustrate one or two points from a consideration of some significant figures. We have mentioned the importance of the United States in world trade and can see that the United States experienced a substantial growth in GNP, increasing from an average of 3.9% during the 1960s to 6.1% in 1972 and slowing substantially by 1974. Clearly a recession is evident in these figures and if one accepts the seven nations whose growth rates are given as being representative of "world trade" then we can see that with certain exceptions, there was a substantial growth in GNP in both 1972 and 1973 which had decelerated substantially by 1974.

In November, 1973, the Oil Producing and Exporting Countries (OPEC) effectively quadrupled the price of oil. Even without this enormous increase in import prices, a number of countries were importing more than they exported and as we have seen, the answer to a prolonged anticipated balance of payments deficit is either inflation or fiscal and monetary policies, pursued nationally, aimed at reducing the growth in the economy. While politicians and economists in the various nations which were experiencing prosperous times could not but have been aware of the dangers inherent in a simultaneous and rapid increase in world trade, home prosperity, and decreasing unemployment they could perhaps take comfort in the thought that if it was happening to everybody it must be good.

Most countries experiencing these symptoms are anxious to increase their share of foreign trade, to increase their exports in order to balance their imports, to attract money into their reserves and to keep an electorate contented. Those countries which can supply goods required with earlier delivery times and at attractive prices are likely to get the business and the situation in the early 1970s was a competitive one; the advanced countries, the exporters of motor cars, tractors, capital goods, those countries with a relatively high standard of living for their population were not only importing finished goods but they were competing with each other for raw materials and commodities.

It might therefore come as no surprise that the prices of various commodities rose substantially. The Third World developing countries do not have sophisticated economies and their manufacturers cannot often supply a wide range of goods. They are in many respects dependent upon the products of their soil, their minds or their labour. Sugar producers operating under Commonwealth preferences which stand them in good stead in bad times are somewhat reluctant to sell their products at prices substantially below those which can be commanded on world markets. So it is with copper, tin, rubber, cocoa, wheat, maize, ... and oil. Figure 7 - 6 shows some fluctuations in various commodities and Figure 7 - 7 shows the change in share prices over the 18 months to June, 1974, indicating how share prices tend to anticipate events.

A Sunday Times article entitled "Oil: Do the Arabs Hold All the Aces?" suggested that the balance of power began to swing to the producer countries of North Africa and the Middle East in around 1970. When America devalued the dollar - a significant event in the light of the above comments - the oil governments and the oil companies agreed to increase the price of oil to offset the effect of dollar devaluation. At this stage, twenty-two months before what we have come to regard as the energy crisis, relations between oil suppliers and oil consumers were strained. Agreements were reached and, prior to the agreed time, they were renegotiated; the oil companies were politically

powerless to resist pressure from their suppliers, prices went up and the oil companies undertook a holding operation, negotiating guaranteed supplies in exchange for higher prices. Although this article was written in January, 1972, we are not suggesting that the oil crisis could have been predicted on the basis of this article or at this time. At that stage the writer of the article felt that the Arabs would leave prices alone for a while.

It has been variously estimated that the increased income into the OPEC countries through their action will be between \$60,000 million and \$80,000 million per annum. Just to put this in some perspective we could mention that this is more than the total consumer expenditure of the United Kingdom in 1972. The oil producing countries cannot absorb all their additional income within their own economies and so they must place it where they are most confident. A considerable amount of this money has gone on short term deposit in London and New York, it has bolstered the reserves of the major industrial nations, but at the time of writing, the money is there on a short term basis, it can be removed whenever interest rates become unattractive or whenever currency rates look precarious. On the face of it, the balance of power has changed.

The administrations of both the United States and the United Kingdom may have been relieved by the advent of the energy crisis. All at once deflationary strategies became not only essential but politically possible because all could be blamed on the Arabs. Many actions which would have been inevitable anyway could be blamed on the oil price increase. The United Kingdom was running a balance of payments deficit and already this was widely forecast to be in the region of £1300 million by the end of 1973. It was estimated that the increase in oil import prices would increase the import bill by some £2,000 million, but already, without the aid of the oil price increases, the United Kingdom economy was in trouble and some action was overdue. That the oil price increase was given as the reason does not alter the accuracy of this observation.

It was hardly surprising that the OPEC countries, the best unified of the commodity producers should use their economic power to both economic and political advantage. If the copper producers could have done it they would have, if the sugar producers could have done it they would have. International agreements are not infrequently renegotiated in the light of self interest and political advantage. Something had to be the apparently determining factor in ending the boom and it happened to be an oil price increase and from this follows a consequence.

Those countries which first manage to overcome the effects of oil price increases will be those countries which have a better long-term future. The United States realises this and if, as well as undertaking economies at home the international

community can reach agreement with the OPEC countries for a reduction in the oil price so much the better. For the United Kingdom the situation is grave. Reassurances that North Sea Oil will take care of everything are dangerously misleading.

After financing an oil deficit running at something like £2,000 million a year, in five years time the United Kingdom will have borrowed £10,000 million before her own North Sea Oil comes on stream. The interest payments on this money are likely to be substantial, but even if this policy is pursued there is no guarantee that oil prices will not decrease in time. There might become a trade-off between oil and wheat, between political stability and economic prosperity. It is unlikely that advanced industrial nations, hitherto the most powerful will not resist a change in the balance of power.

The President of Gulf Oil, Eastern Hemisphere pointed out (Sunday Times 22/9/74) that exploration by all companies in the British Sector of the North Sea had cost £650 million to date. The additional expenditure required to develop new fields was substantial and Dr. Wyllie predicted that hundreds of millions more would have to be spent before substantial quantities of North Sea Oil came ashore. Oil exploration in the North Sea was uniquely expensive.

Drilling for oil at 500 feet below an unfriendly sea is difficult. In the Middle East most of the oil fields are on land and the investment cost per barrel per day of production was, until recently approximately £40; off Nigeria it is about £400, in the relatively shallow Gulf of Mexico around £1,000 and in the deeper northern North Sea about £1,500. "When the required technology to produce fields lying beneath 500 feet of water is developed, investment per daily barrel is likely to be about £2,000". If the price of oil falls by 1980, the discovery of oil will be less of an asset than was previously thought.

A MATTER OF TIMING

The entrepreneur is faced with a vexing problem. Even assuming he accepts the observations about politicians and if the opinions of this academy find favour with them, the question is one of timing. It is difficult to be a prophet of doom. It is difficult to resist the lure of investment when competitors are investing and might improve their market share, even though economic inevitabilities are correctly assessed. The entrepreneur, who, in August 1972, pulled in his horns and made preparations for a down-turn was probably reproaching himself in 1973, when, with order books full and orders coming in, he had not the capacity to execute them and so lost business. This is the entrepreneur who, in the difficult times that follow,

will probably survive, at least long enough to make contingency plans. A trader in companies, a share dealing company, an investment trust, a consumer durables manufacturer (for these are the first to feel the upturn and the first to feel the draught) this type of organisation should have been thinking very seriously with, at the most, a one year view, by August 1972. The building company that expanded too rapidly on borrowed money, the property company that used an increasing paper value of its properties to borrow more paper, to buy more assets to borrow more paper, to buy more assets; these men, skilled in the art of leverage in good times will go to the wall in the bad. Partly, it is the desire to wring all possible profits out of a venture, that all too frequently leaves the entrepreneur with an escalating interest charge, a declining order book and over-capacity.

THE CRYSTAL BALL OF AMERICA

If America were to retreat into her self-sufficient shell, if America were to curtail exports and impose import tariffs, if America were to steadfastly maintain the value of the dollar, to continue her efforts to demonetise gold, if America were to prevent grain exports to countries which desperately required them, if America were to become protectionist and if the rest of the world were to resort to competitive devaluation, then we would have a situation not substantially different to the 1930s. This is the sort of situation which is in the President's power, aided by his advisers, to precipitate. It is possible that a small town senator with a power politician as his Secretary of State, a President who is a declared fiscal conservative with willing monetarists to back him up, that this combination of factors could in total, become determining.

The Financial Times (3/8/74) reported that the U.S. Treasury Secretary Mr. William Simon had warned of his intention to run the U.S. economy below capacity for an indefinite time, keeping interest rates high and the Federal Budget in surplus. The Treasury Secretary predicted a tight monetary policy and he recalled that in the same week Dr. Arthur Burns, Chairman of the Federal Reserve, warned Congress that even a 6% money growth over the last year was too high to ensure long-term price stability. Mr. Simon claimed that the economy would remain prosperous and continue to grow under his policies, but he maintained also that demand must be held below capacity and ".... the labour market kept soft if the fight against inflation was to be won." (my italics). He made a plea for similar policies in Europe and throughout the rest of the industrial world where the problem of inflation was often more severe than in the United States. Although on his recent European tour he found many countries envious of the U.S. and afraid he was being over deflationary, Mr. Simon said that "nothing could more severely threaten the fabric of our

society than to hit the throttle at the moment when we should have our foot firmly on the brake."

Mr. Earl Butz, the U.S. Secretary of Agriculture reassured the EEC that he was not in favour of imposing export restrictions to cope with any short falls in the American harvest. The Financial Times (14/8/74) pointed out however that while Mr. Butz's reassurance was regarded as highly important, ".... it did not commit the American administration as a whole." On the 27th September, rumours that Russia had bought up to two million tons of United States grain were buzzing around the London market. The Financial Times reported: "Mr. Earl Butz the U.S. Agricultural Secretary has asked grain exporters to advise the U.S. Department of Agriculture of buying enquiries for grain received from either the Soviet Union or China. Perhaps Mr. Butz's action is more prudent than threatening, for America would not relish the possibility of a repeat performance of 1972 when Russia was able to buy up large quantities of grain at very low prices and reduce world stocks substantially. With harvest predictions becoming more pessimistic over the wheat, maize and soya bean crop in the United States there is a political justification for the U.S. to export its scarce resources, once its own needs have been taken care of, to its friends."

In mid-July 1974 the U.S. Treasury Secretary, Mr. William Simon was unable, after a tour of the Middle-East, to get commitment from the Arab oil producers to purchase special issues of the U.S. Treasury Securities. Mr. Simon's plan was with the clear intention of diverting some of the short term Arab funds placed commercially in the United States into non-marketable government securities maturing in several years time. Mr. Simon's disappointment and his appreciation of the need to prevent a sudden depletion of industrialised countries' reserves could perhaps have an effect on the United States rationing of its exports. It would be unfortunate if short term funds which comprised a substantial portion of a country's reserves could be withdrawn at short notice and for political ends. Having implemented contingency plans over their energy suppliers, perhaps the industrialised countries are now getting ready for some retaliation.

We might conclude from these articles that international trade is influenced no less by political events than by economic ones. National economic and political policies are pursued for national advantage and it would be foolish for those countries in the international community running trade deficits before the oil price increases to expect that international sympathy will not run out in time. Unless a nation takes serious steps to cure its deficit without devaluations, import curbs and the like, her credit will become exhausted, her internal problems will multiply and while help may well be forthcoming, it will

have strings attached to it. Those nations that achieve a balanced trading situation in the shortest time will be able to act more independently and assert their influence over other nations who are in trouble and who have not yet got their national economics under control.

In 1974 the delicate political situation of President Nixon his apparent interest in things international and his preoccupation with things domestic might arguably have been a determining factor in prolonging a boom, the symptoms of which became causes in 1974. Or we can argue that the determining factor in a coming world depression is the elevation to the Presidency of a fiscal conservative, small town senator from Grand Rapids, Michigan.

Perhaps the determining factor has been with us all along. It may be that the determining factor in the International Community is the inability of men to reach reasonable and timely agreement with other men without seeking to wring the maximum advantage out of the situation in the short term and so prejudice and endanger the long term. The danger is that the horse-trading will go on too long and whatever the bland intentions expressed in communiqués, the United States would like to see gold demonetized, the price of oil reduced, the value of the dollar maintained, a balanced budget, inflation cured at home and it is likely to use its substantial bargaining power to attempt to achieve these objectives. With a balance of power in the world having changed to the tune of \$80,000 million in favour of the oil producing countries there is some hard bargaining ahead.

ITALY'S GOLDEN AGE

Italy's plight in mid 1974 illustrated the time limit on international sympathy, a time when a nation's credit becomes exhausted and a time when even aid with strings becomes difficult to obtain. If we project the Italian situation onto other nations running substantial balance of payments deficits, if the volume of world trade is to be substantially reduced, then, in the long term it may suit the advanced industrial countries, for the chill winds of deflation in the advanced countries will blow horribly cold on the Third World.

The problem of a depression is how to get out of it. Once the scales have tipped beyond a certain point it becomes increasingly difficult to get the economy moving again. If one country in a depressed community of nations reflates it has still to find a market for its exports and it may still find itself with substantial balance of payments problems which will knock reflation on the head. Politically, internationally and economically the policies of the United States are at the present time (September 1974) and in the opinion of this academy, substantially appro-

priate. There is little doubt that the world economies must face a period of austerity and there is no possibility that the oil deficit can be used as an excuse not to undertake stringent and necessary economies at home.

In the same way as we related the currencies of Westland and Eastonia to that of Britain such that the pound became a common denominator or a criterion against which to measure the other currencies, so nations and investors have sought refuge in gold. Earlier in this century under the Gold Standard, a country's Central Bank quoted a uniform price for gold in relation to its national currency. The Central Bank was willing to buy gold in exchange for its currency or sell gold in exchange for its currency at that rate. Thus with major currencies linked to an agreed value for gold there was not a great deal of room for currencies to fluctuate unless by a devaluation in relation to gold, sterling or the dollar and nothing was done without consultation. In the case of difficulties, when there was a persistent outflow of gold from a country or a redemption of that country's currency for gold, various measures could be undertaken by the country in question.

Interest rates would rise and credit would be limited in the hope of attracting investment capital in the short term to attract an inflow of funds which would balance the outflow. The situation changed between the mid-1920s and the mid-1930s. Conforming to the Gold Standard and preventing an outflow of gold while at the same time attempting to manage a domestic economy was too much. International monetary negotiations have been taking place regularly since this time and while elaborate machinery has been established, while no country will convert its gold into currency if it can help it, the situation in terms of cause and consequence has not changed substantially for most of the 20th century. A country, regardless of whether it gets help from other countries, no matter what the extent of its Special Drawing Rights at the International Monetary Fund, no matter if famine ravages its population or flood devastates the crops, international aid and international sympathy have a time limit. Italy is a case in point and Italy's problem is related to gold, an issue on which at least the United States is very sensitive.

In mid-1974, Italy was running a trade deficit of over \$1,000 million a month and it was estimated that Italy might require as much as \$10,000 million in additional aid to tide it through a difficult period. The Governor of the Italian Central Bank was, in mid-1974, looking for rapid agreement to enable his country to write up the value of its gold stock which it could then pledge as collateral for loans. The Financial Times (12.6.74) reported that at the official price of \$42.20 an ounce, Italy's gold holdings were worth \$3,483 million, although at

market rates at the free market price their value exceeded \$10,000 million. With America anxious to demonetize gold and the Europeans anxious to value their gold more realistically, there was some conflict of interest in the situation. The United States was anxious to make the SDR the centre of the international monetary system, to ensure that gold was phased out. If Central Banks were prevented from buying on the free market and if the IMF were permitted to sell its gold holdings and exchange SDRs for gold with member countries, effectively gold could be demonetized. Agreement at the IMF could result in more supplies of gold coming on to the free market so depressing its price and Mr. Simon (Financial Times 12.6.74) hoped that the President of the United States would be able to lift the ban on Americans owning gold by the end of this year as part of an international agreement.

Mr. Simon added that the United States might then sell gold from its own stocks to meet private demand. Ending the ban could have a significant anti-inflationary effect, said Mr. Simon, if it did not lead to fresh uncertainties and if "the U.S. sold gold from government stocks to meet some or all of the speculative demand." The United States is not averse to the idea of increasing the influence of the dollar at the expense of gold. There is a considerable political advantage in so doing but international agreement will be very difficult to reach. The more influential the U.S. economy becomes at a time when other world economies are experiencing severe problems, the better will the United States be able to get the International Community to bend to its will. France with her own pressing economic problems is now hardly in a position to mount a sustained attack on the U.S. dollar and perhaps the United States has been waiting for the right opportunity to get its proposals pushed through.

The Italian Wholesale Price Index jumped by 41.8% in the twelve months to the end of June 1974 and the Financial Times reported (August 15th, 1974) that both houses of the Italian Parliament had finally approved the Financial Decree laws drawn up by the government in an attempt to reduce inflation, cut uncontrollable increase in the public sector deficit and lessen the pressure on the balance of payments by increasing total tax revenue by an estimated £2,000 million. The newspaper observed that the "most serious omission has been Parliament's refusal to recruit six thousand new tax officials to reduce avoidance." Tax avoidance is as Italian as apple pie is American.

The International Community was in no hurry to come to Italy's assistance despite the fact that they had allowed her to use her gold reserves as collateral for borrowing. There were still strings attached to the loans. Italy's credit had become exhausted. It should come as no great surprise to learn of the transfer from the Bank of Italy to the German Bundesbank of an

unspecified amount of gold to be valued at \$120 dollars an ounce in return for a \$2,000 million loan. In the event of default, the German government would receive gold.

The Sunday Times (1/9/74) reported that the U.S. Controller of Banks had questioned the value of existing loans by U.S. banks to Italian institutions. "Robert Mulling, the Deputy Controller in charge of International Affairs agreed this weekend that the practical effect would be to stop any further lending to Italy by U.S. Lenders Banks." A week previously a second attempt by Italy to raise a \$200 million loan for the Italian State Railways failed and with Italy planned to be \$9,000 million in deficit - nearly 6% of her Gross National Product - by the end of 1974, it was hardly surprising that officials from the IMF should want some action from the Italian government to control public sector spending and illegal exports of lira which could undermine the budgetary measures taken so recently. The international community is just not willing to rush to the aid of countries in trouble without considering the advantages and disadvantages of such action. The European economic community ministers were to consider a suggestion by Italy that the EEC should borrow Arab oil money and lend it to Italy, but Britain and France both big borrowers on the International Market would have reason to be concerned at the effect this might have on their own credit ratings for their economies were not in the sort of state where they could afford to be liberal with their assistance to those worse off than themselves.

The 1970s have in common with the 1930s a simultaneous boom in many world economies, a substantial increase in world trade, and an unwillingness on the part of politicians to tamper with a boom for fear of the consequences. Politicians killed time through indecision as they did in the 1930s, governments did not feel self confident enough to take decisive, if unpopular measures, and the mid-1970s is the legacy. "As if," commented Thoreau, "you could kill time without injuring eternity."

CHAPTER VIII

MANAGEMENT BY SELF AWARENESS

"In other living creatures ignorance of self is nature; in man it is vice."

Boethius.

In earlier chapters we considered the relation between the entrepreneur and his firm; we suggested that in the case of the Ubiquitous Entrepreneur, his perceptions and his preoccupations regarding authority had a determining effect on the nature of his enterprise. The Elite entrepreneur was future-oriented and his firm would likely have a potential for growth and might well see that potential realised. The Modal entrepreneur progressed through a corporate hierarchy and achieved recognition and influence, but one aspect which all three of our entrepreneurial types possessed in different measure was what we called exteroception.

One aspect of exteroception was self awareness and we found evidence to suggest that this was related to profitability, awareness of employees and customers and a perception of the corporate environment. We suggest it is entirely appropriate, and indeed necessary, that the entrepreneur stamps his mark on the organisation and in these next two chapters we seek to enable the entrepreneur to establish a relation between management style and organisation structure. We offer him a choice of management styles and we present for his consideration, a stratification of organisation structures. We suggest that management style and organisation structure can, at a particular moment in time become the determining factors in Corporate Strategy and in the success, survival or demise of the entrepreneur and his firm.

An organisation regardless of size, must contain a locus for decision making. The chief executive conceived as the notional power base and decision-making activity of the corporation must plan and implement policy vis a vis his competitive environment and he must co-ordinate the internal corporate activities. He must see to it that his employees, whether they are numbered in tens or in thousands are motivated to give of their best and that there is no conflict of interest between the aims of the corporation, and the aspirations of its employees. We suggest that the personality, values and characteristics of the chief executive be given more emphasis in the generalised models of the firm and that he be encouraged to integrate his perception of things

into the practical planning of its management style, organisation structure and direction of the corporate effort. Through an awareness of his likely reaction to situations, his prejudices, perceptions and his limitations, the entrepreneur is more effective. Too slavish an adherence to the consideration of the tasks of the entrepreneur, depersonalises him; and entrepreneurs who read theories of motivation, organisation structure and personality - and they will be few indeed - find it difficult to relate themselves to these issues. We seek to relate theory to practice, personality to profitability and to encourage the chief executive to integrate his perception of self into the total corporate effort.

The chief executive must set corporate goals which are not only realistic when viewed objectively but which bear an appropriate relation to the corporations environment both internal and external. Chester Barnard, who was for many years, President of the New Jersey Bell Telephone Company - a significant corporation by any standards - believed that an essential executive function was the "inculcation of belief in the real existence of a common purpose." (4) Somehow the entrepreneur must get everybody pulling in the same direction; by so doing, not only will he increase the satisfaction of his employees, but it is likely that their productivity will improve. In a growth situation, setting objectives is a dynamic process for an objective once obtained is no longer an objective; further goals must be set and the mechanisms and procedures whereby these goals may be attained must also be set in motion. People must be motivated, encouraged and egged on and the entrepreneur must take a view on what it is that motivates a person in a particular situation.

When the organisation is small, when perhaps it depends on the driving force of the Ubiquitous entrepreneur and his relations with his subordinates or fellow employees, he is dealing with a work group of manageable size. As the organisation grows, personal links become attenuated and the entrepreneur is more removed from the men on the shop floor who, if he had a problem, could always come and talk about it. Increasingly inspiration becomes more remote and the communication of corporate purpose becomes more sophisticated. Instead of management in a single group situation, Modal and Elite entrepreneurs are increasingly involved in the management of management. They are necessarily required to change as their organisations grow and they must adapt their management styles accordingly, but no matter what the size of the organisation, they will be aware, intuitively or consciously, of the importance of individual motivations and their relation to groups.

GROUP SITUATIONS AND MAN-MANAGEMENT

A group exists either by virtue of the physical proximity of its individual members or by something shared in common by those members. "All groups are social relationships, but not all social relationships are groups. A group involves some degree of co-operation among its members for the attainment of common goals without some degree of co-operation there is no group." (12) There must be some commitment to these common goals and in the social relationship that relates the individual to his group, there is an obligation on his part not only to correctly perceive the group's orientation but to participate in the attainment of the group goal. The group goal may be a production norm and the man who exceeds it may be considered as a "rate buster" and so be ostracised by the group. Membership implies obligation on the part of the group member which is not binding on non members.

Through giving his allegiance to a group and to its goal, it is likely that the individual will hold attitudes which he believes to be in accordance with those of the group. In a shop floor situation, with an anti-management group, either the individual must adopt an anti-management stand or he must accept that his group ties may be broken. Groups, depending upon the group goal the members share, may involve different degrees of commitment for different individuals. The group is more powerful than its individual members. Its influence is greater than the sum of its component parts. A group is a force to be reckoned with and if we consider the difference between a group goal which is directed towards the successful growth of the corporation and distinguish it from a group goal which involves a production norm we can readily see the relevance of groups to the entrepreneur.

One of the more dramatic illustrations of group influence was provided by Asch (3). He was concerned with the power that the group had over the individual in requiring him to conform to group pressures and adopt group norms and attitudes. He studied the effect of majority opinion by designing an experiment such that the majority of the group members were to give a clearly wrong answer to a question - for example - which of two lines was the longer. He concluded that for the most part his subjects respected the judgements that were expressed by the majority and they had great doubt about their own judgement when they disagreed. "Thus the mere assertion of majority opinion may lead susceptible individuals to agree with the majority, even on a factual matter on which individual judgement would lead to opposite conclusions."

Management situations, to the extent that they involve an attempt by the manager to influence those that he manages, are group situations and group situations are leadership situations.

A leader, by definition, is no longer a leader when he ceases to have followers and if he sets himself apart by adopting a different attitude, social role or group objective, he runs the risk of losing his position. One of the critical tasks of the leader is to ensure that his group remains committed to his cause. Within this narrow definition of leadership the entrepreneur is a leader motivating his employees towards a group goal which is both satisfying for them and profitable for him. Schumpeter (20) saw one of the most vital aspects of entrepreneurship as a special kind of leadership. The entrepreneur exerts leadership by carrying out new combinations that lead the means of production in society to new channels. We discussed the meaning of Schumpeter's new combinations in Chapter II, but another sphere in which the entrepreneur exerts leadership is in designing the organisation which for some, will enable them to shy away from authority situations, for some will enable them to exert authority over others and for some will confirm them in their social role.

THE ENTREPRENEUR AS LEADER

Leadership, no less than many other sociological concepts has changed with the times. Up to the time of the overthrow of the feudal nobility, leadership was considered a matter of inheritance. Leaders were born rather than made and while this was convenient for the aristocracy it posed something of a problem to serious investigators. The contention that leaders were born and not made led to the "Great Man" theory of leadership. (19) If greatness was a matter of inheritance, and this was something difficult to entirely establish, there must be something that made leaders great; there must be some aspect of their personality, their background or their upbringing that conferred greatness upon a man; no matter that Shakespeare had previously observed "Some men are born great, some achieve greatness, and some have greatness thrust upon them....", leadership for a time, was correlated with privilege. The "Great Man" theory of leadership led investigators to consider why the man was great; perhaps it was because he had certain traits which other men did not possess and this led to the so-called "Trait" approach. The possession of certain traits made a man a leader in any situation.

Traits were a confusing territory to explore. Bird (5) found 79 traits mentioned in 20 different studies but only 5% of these were common to four or more investigations. Stogdill (21) produced what is perhaps the most comprehensive list while Gibb (8) commented ".... the most discerning examination of the relation between those personality traits and leadership demonstrates a complete failure to find any consistent pattern of traits which will characterise leaders." A classical study by Allport and Odbert (2) identified no less than 3,000 words in the English

language that referred to personal qualities or aspects of conduct. The trait approach was by no means definitive and Bird regarded it as probable that investigators were dealing with semantics for the variety of traits cited by various investigators had much in common, but the common ground was difficult to find. The only clear generalisation to be inferred thus far was that leadership was clearly a function of the personality of the leader.

Gouldner (10) attempted to clarify this situation by defining a trait as ".... a deep going persistent motivation which may produce variable behaviour, but variable within certain limits. He integrated both personality variables and the concept of groups into the argument and suggested ".... there can be little doubt that leadership is a function of the leader. What is crucial in operative terms is whether what he brings measures with what others bring to the group." The emphasis had shifted and while we do not necessarily credit Gouldner with causing it, he certainly contributed to it. Where once the emphasis was on the leader and his ability to lead any group in any situation now, more than ever the group and the situation demanded certain things from the leader.

In both a corporate and a social context, the leader is no more a man for all seasons, but achieves his position through exerting an influence relatively greater than any other individual in the group. He is a man who becomes a leader in a particular situation, but this capability is not necessarily transferable to any situation. The corporation may outgrow the entrepreneur's capacity to manage it and the individual leader in one situation cannot reasonably expect his influence to be extended in perpetuum.

We should distinguish between types of leader. Gibb (9) conceived of three generally accepted types. First, a person may achieve pre-eminence by unique attainment; Einstein was a leader in his field and so are many men who achieve pre-eminence in a field which may not necessarily involve them in a group situation. Secondly, he may be appointed to a position by others. The appointment to a position of leadership in an established institution or organisation does not mean that the man could have risen to that position without a little help from those with influence. That he has managed to persuade those with influence that he is capable and will not disappoint them, is a measure of the individual's capacity for influence, but having been appointed to a position, there is no guarantee that he will succeed. The Conservative Party leader of 1972 will be unlikely to occupy that position beyond 1975; he has lost two elections. Mr. Nixon, the former president of the United States of America, is now no longer a leader; he failed to keep within the bounds of acceptability and will die deposed if not easily forgotten. He offended against the sensibilities of the mass of his followers - something which clandestinely he had done for many years - but something

which when brought out in the open proved unacceptable. He became increasingly out of touch and out of favour; he was too remote, too daimonic, too insensitive.

The third kind of leader may emerge from a situation as the individual who articulates the goals of his followers. In a group situation, the man who verbalises, articulates and who manages to adapt himself to changing circumstances, is a leader. the appointed leader, perhaps the Modal entrepreneur, who considers carefully the requirements and the needs of his followers, retains his position. The entrepreneur who in a growing organisation recruits the followers and stamps his mark upon them also remains a leader, but in the case of both the appointed leader and the man who rises to a position that may outgrow his ability to handle it unless he adapts to his changing role in a changing situation. The three variables of group, leader and situation are inseparable, but leadership requires certain qualities and if we cannot call these traits, at least the leadership role demands certain abilities.

Nayacakolov (18) suggests that the leadership role demands both foresight and planning ability. The leader must be able to size up the situation and interpretate it to his followers. He must ".... conceptualise their problems by closely defining the nature of their wants in relation to the available means of achieving them." He also emphasises the need for an organised group and this enables us to view the leadership situation as a goal-directed situation. The leader is perceived by his followers as a means to achieving group goals; but it is not enough merely to share the goals of the group, it is important to communicate that he has an understanding of the goals and their relation to the needs of the group. In order to do so he must take some view on what it is that motivates his followers, what it is that will satisfy them, what it is, in a word, that will make them follow. The leader participates in defining the goals, but he can only articulate goals which he believes will be acceptable to his followers.

The leader becomes a determining factor in a group situation for it is through him that goals are both perceived and articulated and the more goals that the followers can see to be attainable by a single path, (through following the leader) the more likely it is that they will take that path. Thus, as well as sizing up a situation, the leader must interpret it to his followers in such a way that he is perceived as a means to an end. He must have the ability to place himself in their shoes and interpret situations through their eyes. The leader who is too remote, too divorced from an understanding from what his followers require, too directive or too far out front ceases to be a leader. He must possess, like most people in a social situation, a measure of empathy, he must be sensitive to what his followers require through being able to place himself in their situation if not literally, then at least conceptually.

It should be clear that the leader, if he does not entirely identify himself with his followers at least must be perceived by them as "one of us". He must not operate at a level which is too far removed from that of the group, and referring to intelligence, Gibb (8) observed drily ".... the evidence suggests that every increment of intelligence means wiser government but the crowd prefers to be ill-governed by those it can understand." Here is a salutary lesson not only for political leaders but for the corporate executive. Whatever role he plays in the scheme of things, as chief executive, manager or foreman, he must necessarily take a view on motivation. Leadership is not merely a Machiavellian ability to manipulate situations to advantage, although sometimes it may be. The effective leader may be fraudulent with his followers and yet not fool himself. Self awareness, a perception not only of self and of situations, but a perception of self in relation to situations and identification with aspects of them, is important. The executive must understand not only himself but his milieu, and an aspect of this understanding is what we earlier termed exteroception.

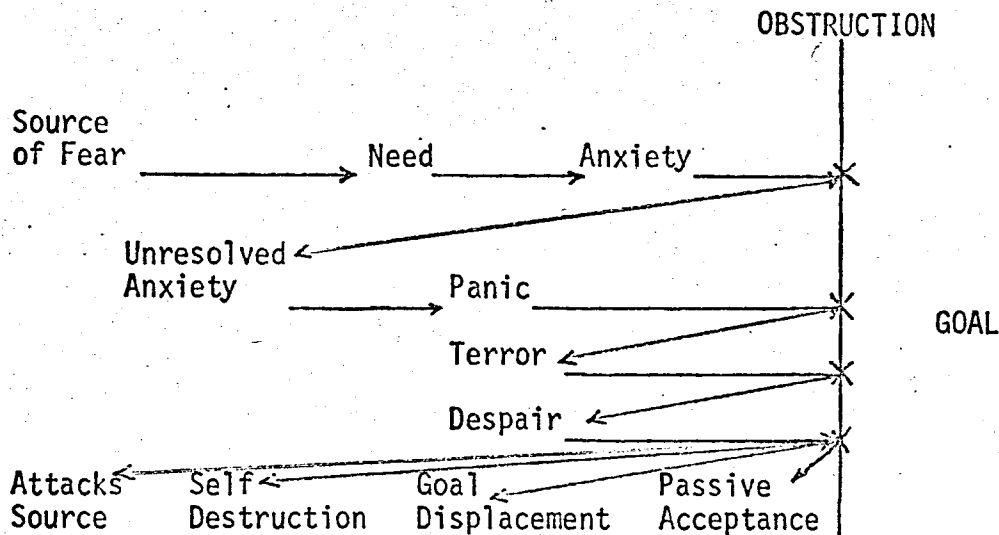
Indeed, in our consideration of the entrepreneurial personality in Chapter IV, perhaps we were, by implication, discussing not only the personality characteristics of the entrepreneur, but also those of the leader. We considered the aetiology of such variables as affective dissociation, now we see these variables reflected as the abilities and related to the tasks of the entrepreneur as leader.

Both leader and entrepreneur must take a view on the motivations of his followers for by a correctly conceived view of individual motivation his task is made easier and his probability of successfully remaining a leader is immeasurably increased.

If we accept that individual behaviour is essentially goal-directed, then what will be the likely reaction of the individual to having an obstruction placed between him and his goal? Figure 8 - 1 illustrates the individual's likely reactions to a situation of frustration when his path to a goal is blocked. We suggest that the fundamental aim of goal-directed behaviour is need satisfaction. Some "cue" arouses a state of anxiety in the individual; he wishes to attain a goal and behaviour is the observable phenomenon. The cue arouses a feeling of anxiety in the individual, and he seeks to relieve that anxiety, or at least reduce it to manageable proportions, so as to attain a relatively stable state of psychological equilibrium.

We can conceive a continuum showing possible alternatives adopted when the path to the goal is blocked. Wolff (23) used a similar type of continuum in explaining certain concepts in psychotherapy, and the author used one similar to this in a previous study.

FIGURE 8 - 1

MOTIVATION AND BEHAVIOURA CONCEPTUAL CONTINUUM OF HUMAN BEHAVIOUR

Note that each stage of the continuum is associated with an increasingly urgent form of goal directed behaviour. The aim of this goal-directed behaviour is to satisfy a need. Need satisfaction results in a state of stable equilibrium. At the end of the continuum, i.e. at the despair stage, goal displacement occurs. In other words, when the individual is unable to achieve the goal, he attempts to attain a substitute goal in order to at least partially satisfy his need.

If we follow the behaviourist school, learning is a central concept in motivation. There is a process of preparatory activity which has its consequences in goal orientated activity. In the case of a simple physiological need such as hunger, food deprivation is the need, the physiological consequence of that need - hunger - is the drive, and the successful goal activity - eating - reduces the drive by satisfying the need.

Motivation, the drive to satisfy a need can be purely psychological and once we move to the unconscious level, motives are not necessarily clear to the person who is expressing them. A man's actual behaviour as observed by others, may properly be interpreted as a symbolic representation of hidden or unconscious motives; thus strike action on the part of a labour force may be apparently about money but in fact be about something entirely

different such as group solidarity or a profound dissatisfaction on the part of individuals at a failure to achieve the goal to which they consciously or unconsciously aspire.

More recently the so-called Cognitive Theorists have increased our understanding of human motivation. Behaviour serves some sort of purpose for the individual, whether in approach or in avoidance, whether conscious or unconscious. The view that the individual takes on situations in relation to himself, the attitudes which he adopts, have motivating consequences for him. Attitudes may be distinguished from values, which run deeper and these, in turn are distinct from beliefs which run deeper still. It is possible to have an attitude, positive or negative about clam chowder and it is possible to have an attitude, positive or negative about a political principle; attitudes have motivating consequences for the individual and they serve a function for him; they lead him to indulge in some sort of behaviour in a particular situation. An attitude to clam chowder will not result in as strong a behavioural response as will an attitude to trade unions or capitalism. There is a different strength of response elicited by particular situations and this response depends not only on the situation, but on the individuals subjective perception of the consequences of that situation or event for him.

Katz (13) suggests that attitudes serve a cognitive purpose for the individual; they reassure him and confirm his idealised self image and at the same time enable him to simplify, neutralise or even deny some external threat to that self image. They help him to make the world meaningful and serve as a psychological shorthand. The employee who has a positive attitude to militant trade unionism and a negative attitude to corporate profitability is hardly likely to see the actions of management in a favourable light. The man who has not yet made up his mind is the target for management's influence. If the executive can contrive to create a positive environment, a sympathetic attitude to corporate goals on the part of his employees, his success measured by profit will likely be considerable.

Attitudes serve a function for the individual, not only do they enable him, by holding a group attitude, to identify with a group, but they give meaning to what might otherwise be unrelated pieces of information. They also protect the individual from having to think about every situation when it arises and from having to treat it as a totally new situation which he has not yet experienced. The man with the closed mind may well be happier within himself because he is able to interpret the world to his subjective satisfaction rather than see it as it really is. Abelson (1) sees attitudes as serving an ego defensive function.

"Attitudes provide a rationalisation for the individual's shortcomings and make it possible for him to face the world and himself." Thus we see that the crucial function of attitudes is a utilitarian

one, sometimes referred to as that of cognitive consistency which Cohen (7) sees as ".... a principle based on the notion that psychological structure is composed of an integrated, organised set of cognitions regarding some object or event." The word cognition denotes the image of the world held by the individual person, ".... his response to persons, things and events are shaped in part by the way they look to him" Human cognitive reactions like perceiving, thinking, imagining and reasoning all represent efforts after meaning and lead us to assume an essential rationality in human beings and their affairs. Behaviour and attitudes are not only consistent to the outside observer; individuals try to appear consistent to themselves, but this does not mean that man is rational such that each person given the same set of facts, will reach the same conclusion. We all operate partly rationally but partly emotionally and if we hold attitudes, if we are aware of our attitudes and the extent of their rationality or irrationality, we are that much more effective in analysing not only our own reaction to situations but that of other individuals.

It is relevant for the leader to appreciate the function which attitudes serve for the individual. Dependent upon the strength of the attitude that an individual holds towards group goals, corporate objectives or militant trade unionism it should be clear that the executive who can foster a positive attitude towards corporate objectives on the part of his employees has an immeasurably better chance of leading his company towards profitability and his employees to a feeling of self worth through their activities in his enterprise. It will be immediately clear that the executive who is faced with employees holding negative attitudes will have an uphill struggle for now he must try to change their attitude; he must try to change their group allegiance away from their leader and towards him.

Ruthlessness and single mindedness have a place in management. The executive who is faced with a group under a powerful leader, a group which opposes him, can perhaps best start the process of attitude change, by either persuading the leader that he is wrong - and this is the most preferable course - or by destroying the leader and assuming leadership of the group himself. In a smallish enterprise this is a realistic objective, but in an organisation which employs thousands of people it is no easy task.

We can see from Figure 8 - 1 that an obstruction to goal attainment creates a feeling of anxiety in the individual, or in the group. An unresolved feeling of anxiety leads the individual to other means of attaining his goal. He may go through various irrational stages. Emotion may cloud his rationality and he may proceed from a situation of heightened anxiety to a situation of panic, terror (we use these words in a psychiatric sense) and ultimately to despair. The consequence of despair is that the individual will either (1) accept his situation, (2) destroy him-

self - for this is a means whereby the individual employs objectively irrational methods to achieve what for him are subjectively rational ends - or (3) he may indulge in behaviour which will serve the purpose of reducing his anxiety while not practically attaining his goal. Instead of concentrating on the goal which he originally had in mind he will seek a substitute goal. In psychiatric terms, looking at dirty pictures may be a substitute for the real thing; in a corporate situation, a strike may be preferable to a wage increase.

In the case of a withdrawal of labour, goal displacement has occurred, not only that, the individual or the group has attacked the source of their displeasure for this is the fourth alternative which they are able to adopt in terms of our model. Men use irrational means to obtain apparently rational ends and if the corporate leader is not entirely up to date with the latest theories on human motivation, at least he takes a view on them, for in the work situation he must do this. Whether his view is correct or incorrect, subjective or objective, he must be aware of himself in relation to his role, his responsibilities and his social milieu. Commentators on industrial motivation and the structure of organisations, have drawn attention to the motivation of employees, how they should be organised and what needs they have. If they appear to have read the entrepreneur out of the corporation it is important for us to consider their findings and perhaps we can relate theory to practice and at the same time illustrate some of the points we have made above.

MOTIVATION AND MANAGEMENT

TAYLOR'S PIG IRON EXPERIMENT

Early in this century Taylor (22) demonstrated now, by showing a willing worker how to load a truck with pig iron, by training him in the most efficient method of work, he could significantly increase the productivity of his experimental workers. Taylor's view of the individual was of a man motivated by money and job security; those who did not produce could be fired and those who produced beyond the norm would receive a significant bonus for their efforts. Management, by this reasoning, consisted in showing the worker how to do something and making sure he did it the way he had been told; employees were treated as units of production and whatever the value judgements which civilised men may have on this view of man, it worked. Let us however examine a more significant experiment and in particular, let us consider some more sophisticated views on motivation and management.

MASLOW'S NEED HIERARCHY

Maslow's need hierarchy bears an important relation to the structure of an organisation and the style of management adopted. We now seek to bring together in some framework:

- (1) Man as an individual who has certain needs.
- (2) The means whereby man realises his needs through group behaviour and inter personal contact.
- (3) The means whereby a conception - intuitive or otherwise - of man's needs can be related to man management in an organisation.

Through Maslow's need hierarchy we can parallel the development of man as an individual and also venture briefly a view of man as a member of a group and a product of his society. Maslow (15) suggested that primary needs such as those for food, clothing and shelter must be satisfied before the individual was able to progress to the satisfaction of secondary and tertiary needs. A man who is earning less money than he requires in order to feed himself and to provide shelter and food for himself and his family, regards the satisfaction of these primary needs as an immediate priority. He is too involved in survival to be concerned with sophistication and so we suspect that Taylor's pig-iron experiment worked, in part because of the structure of the society in which Taylor conducted his experiments. The society in Taylor's time - America of the early Twentieth Century - had not been noted for its compassion. Unemployment was then and is now, a powerful motivator in a society which is less "civilised" than others of the contemporary west.

The employee who is working in order to live, has time to consider only the very basic needs for food and shelter which Maslow described as primary needs. Needs for social contact, companionship and security which, broadly speaking, Maslow defined as secondary needs, can only have a motivating influence on the individual when his primary needs are satisfied. Taylor's pig-iron experiments were successful because they concentrated on man as an efficient machine rather than man as a developing individual with requirements beyond the basic needs of food, clothing and shelter. The work of Elton Mayo (16) illustrates a development not only in the state of awareness of a sophisticated society but also in the development of man as an individual. Arguably Mayo's work confirms Maslow's view of things, and like many advances in the field of human affairs, Mayo's work contained a measure of serendipity; his findings constituted an accidental discovery.

Until the early 1930s it was accepted by many people that employees were naturally lazy and were not interested in working. Their main interest was in money and survival, and the major investigation which came to be known as the Mayo-Hawthorne experiment was carried out between 1927 and 1932. Prior to the entry of Mayo's investigators into the Hawthorne division of the Western Electric Company, one experiment in particular had aroused their

interest. A number of engineers had been conducting an enquiry into the effect of lighting conditions on productivity. Two groups of workers were isolated and the lighting conditions were varied for one group. The result was that productivity for both groups rose and no significant differences in output was found between the two groups. This was surprising indeed, for if lighting were to have an effect on productivity then surely it should apply for one group only.

Mayo and his investigators started their enquiry with six female operatives engaged in assembly work. They instituted various changes to do with payment schemes, rest pauses, shorter hours and refreshment; almost without exception output increased with each change that was made. As the number and variety of the experimental changes increased it became increasingly clear to Mayo and his colleagues that there were more variables involved than met the eye. Mayo commented that the workers were activated by "a logic of sentiment" whereas management was concerned with the "logic of cost and efficiency." Perhaps even to-day this highlights the importance of conflict in an organisation where the goals and objectives of workers and management are not the same. It underscores our assertion that it is management's job to lead such that corporate goals are perceived as group goals.

It is probably true to say that the Hawthorne experiment constituted a breakthrough in the way in which workers and management perceived both themselves and one another. It demonstrated the importance to the individual of having attention paid to his individuality; it confirmed Mayo in his wider thinking that what he called the "rabble hypothesis" about human behaviour was entirely false. Each individual, according to this rabble hypothesis, was motivated by his own self interest and was not really interested in making a contribution to the whole.

Mayo saw one of the major tasks of management as the ability to organise workers and management towards the same goals both for themselves and for the organisation for which they worked. His experiments and his writings mark a watershed in the development of industrial relations and if, before Maslow's time, his experiments confirm Maslow's hypothesis, then so much the better. The problem with Maslow's need hierarchy is that it is difficult to empirically validate, but we suggest that Taylor's pig-iron experiment bears a relevant relation to Maslow's primary needs, that Mayo's investigations highlight Maslow's secondary needs and that all three investigators, whether implicitly or explicitly, suggest an approach to man and his motivations that is persuasive and difficult to ignore. Arguably we can see the social, political, and economic development of a society mirrored in these research findings and commentaries.

Maslow's tertiary needs are more elusive. Once the requirement for food clothing and shelter as primary needs, and the requirements for security, opportunity for advancement and an ability to exercise responsibility - in short the social needs - have been satisfied the tertiary needs come into play. Maslow referred to what he called self actualisation. He seemed to be saying that once a man was fed and was in a secure job where he felt he belonged to a social group, where he had the opportunity for human contact; once these needs had been satisfied he looked for other means whereby he could fulfil himself as an individual.

Once a man is satisfied that he has achieved his objectives in one area he will move on to seek self-fulfilment in another, but as we have drawn a continuum between the Ubiquitous entrepreneur and the Modal entrepreneur, so, there may be throughout the corporation, a point at which a man decides he has enough; the individual recognises his limitations or is satisfied with his role and status in society or the corporation; He perceives that it would be foolish for him to go further. It may therefore be relatively easier to satisfy the requirements of a man on the shop floor than to satisfy the requirements for self fulfilment of a chief executive or any other individual who has already found his primary and secondary needs satisfied.

HYGIENE AND GROWTH FACTORS

More recently two investigators, Herzberg and Blake (11) (6) put forward some views on what they consider to be fundamental ingredients in man's behaviour. One of the aspects of the work situation that Herzberg particularly emphasised was job enrichment. This required that the job be developed so that the employee could find some potential within his job for his own personal psychological growth. In one experiment involving job-enrichment in a large company Herzberg and his associates demonstrated how job enrichment could pay off practically. The employees in this instance were correspondents whose job was to write letters to the shareholders of the company. These letters were first verified, checked and again rechecked by a supervisor who signed them and was responsible for their quality and their accuracy. The supervisor was also required to deal with any difficult and specialised questions.

The type of changes which were instituted and which led to the enrichment of jobs involved making correspondents directly responsible for the quality and accuracy of letters and also getting them to sign their names to every letter they sent instead of writing the letter for their supervisor to sign. The consequence was, almost invariably, an increase in both performance and job satisfaction, not only on the part of the employee, but also on the part of the supervisor who was himself able to enrich his job and introduce into it a managerial component.

There is an important distinction between job enrichment and merely loading the individual with more work. Job enrichment arose out of previous experiments by Herzberg and implied in them was a view of the needs of the individual for he differentiated between two different ranges of man's needs. A survey of 200 engineers and accountants resulted in the suggestion that job satisfaction and dissatisfaction were not merely different ends of a continuum involving the same factors but, Herzberg suggested, entirely different factors were involved. Hygiene factors were concerned with the job environment rather than the job itself but both hygiene factors and, what he termed growth factors had to do with man's need to recognise his human potential for perfection. Determinants of job satisfaction were those such as achievement, recognition, the attraction of the work itself, responsibility and advancement. It is interesting to note that the lack of these factors was not mentioned frequently in connection with job dissatisfaction. Herzberg's conclusion therefore was that these two feelings, dissatisfaction and satisfaction were not opposites but rather were concerned with different ranges of man's needs. The various factors associated with job dissatisfaction were those stemming from man's need to avoid physical and social deprivation - the needs for food, warmth, avoidance of pain, safety, security and a sense of belonging. Factors contributing to job satisfaction were the motivators concerned with growth and development. Those factors, the lack of which contributed to job dissatisfaction - the hygiene factors - involved hygiene or environmental maintenance and factors like company policy, the nature of the supervision, salary, inter personal relations and working conditions.

The important contribution that Herzberg has made to job enrichment is similar in some respects to that of Taylor. Both Herzberg and Taylor were concerned with designing jobs for employees but their philosophical stances are entirely different. Whereas Taylor was interested in simplifying work in order to increase efficiency so treating the employee as an efficient or inefficient unit, Herzberg's stand was that jobs be enriched to include both growth factors and hygiene factors. Thus, management could cater for man's need to recognising his human potential on the one hand, and to avoid deprivation on the other. There seems to be a marked similarity between Herzberg's growth factors and Maslow's concept of self actualisation, and between Herzberg's hygiene factors and Maslow's secondary needs.

If conceptually we have identified some important variables and discussed some relevant findings, perhaps now the fundamental contribution that researchers can make to the functioning of the organisation is to do with implementation. It might be argued that until some substantial breakthrough is made with regard to the nature of man we ought to be content with turning the various research concepts to practical benefit by implementing them in the work situation.

BLAKE'S MANAGERIAL GRID

Blake, like other writers on industrial behaviour, put forward two fundamental ingredients of managerial behaviour. One was to do with the task and the other to do with the people. Blake attempted to bring together in some way, the polarisation between production and people, and through his "managerial grid" (6) it is possible to place a manager somewhere on a chart with two axes representing a score on both "people" and "production". One basic assumption is that management's job is to foster attitudes and behaviour which can lead to the achievement of organisational goals, which goals are not in conflict with the needs of the members of the organisation.

By stimulating creativity, permitting experimentation and learning from their interaction with others, managers can become that much more effective in achieving a desired standard of performance. Blake advocates a systematic programme of organisational development which will incorporate and integrate a concern with production with a concern for people. He accepts that conflict will occur but if problems are faced squarely as problems and not as personal disputes the likelihood is that the outcome to the conflict will be positive. The consequence of conflict need not be a win or lose power struggle which quite possibly is resolved by reference to a third and possibly more senior party. The assumption is that agreement is possible and that the conflict can become depersonalised so increasing its chances of resolution.

The manager who scores high on both people and on production must take a view both on himself and on the people he manages. He must understand how he will behave in a certain situation and the reaction that his behaviour will elicit from others. To this extent therefore Blake is advocating management by self awareness.

The problem arises how to create the ideal manager according to the managerial grid. Managers are expected to move towards a full score on both production and people. It could be argued that in so doing the manager becomes more self aware and thereby more effective and indeed this line of reasoning is persuasive; but what of those managers who find the ideal as proposed by Blake to be at variance with their value system, with their style of management and with their personalities? Are we not perhaps asking these managers to adopt a role manufactured for them by industrial psychologists, a role for which their personalities are entirely unsuited? The answer to this difficult question is partially contained in the conception of a grid and a gradual progression towards the ideal rather than a requirement for something theoretically ideal but practically beyond the reach of the average manager.

"PEOPLE" AND "PRODUCTION" ORIENTATIONS

Likert (14) felt that there was adequate research evidence to show that departments which were low in efficiency tended to be in the charge of supervisors who were job centred. Those supervisors who were "employee centred" emerged with the best performance records, for they regarded their job as dealing with human beings and not production units. They exercised general rather than detailed supervision and tended to communicate goals to their subordinates, helping them and not coercing them to be efficient. The job centred supervisor was job oriented rather than employee oriented. Typically he kept his subordinates busy on a specified work cycle about which no discussion was either encouraged or solicited. He set time standards rather than production goals and his employees produced less.

Inevitably we are drawn back to the field of leadership. The employee-centred supervisor is essentially a leader. By understanding the people that he leads he is that much more able to communicate with them and to get them behind him. He requires to be sensible of the feelings that motivate his subordinates and he requires considerable inter-personal skills. His followers perceive him as leading them toward goals which they themselves perceive as desirable. This is different to the job oriented supervisor who forces individuals or groups towards goals which are neither communicated nor necessarily considered desirable by the group.

Managers by their actions and by their observable behaviour put across a view of man to their subordinates. The manager's behaviour is designed to elicit an appropriate response from those subordinates and in the complicated interpersonal exchange of action and re-action which occurs in his organisation, in time the individual manager will be perceived in a certain way by his subordinates and they will react in a way which they consider appropriate. The authoritarian manager will evoke either a submissive reaction from his subordinates or he may find he has no subordinates left. The *laissez faire* manager will elicit a certain response, but both action and reaction are based upon the individual's perception not only of his subordinates, but of himself.

McGregor (17) saw management as implying certain basic assumptions about human motivation. His "Theory X" characterised man as follows:

- (1) "The average human being has an inherent dislike of work and will avoid it if he can."
- (2) "Because of this human characteristic of dislike of work most people must be coerced, controlled, directed, threatened with punishment to get them to put forth adequate effort toward the achievement of organisational objectives."

- (3) "The average human being prefers to be directed, which is to avoid responsibility, has relatively little ambition, wants security above all."

The assumption that man is naturally lazy will probably result in an authoritarian and restrictive type of management; people must be forced to work and their motivation and needs are entirely represented by their observable reaction to certain behaviour on the part of management.

Taylor's pig-iron experiment seems to have had this "Theory X" as a basis for its success and indeed there may be a great deal to commend the "Theory X" postulation if it is considered purely in terms of productivity relative to some arbitrary standard.

If however we look deeper into human motivation in the human organisation a different view of man emerges and a different management style becomes so much more plausible. Management style will be determined by the view of man expressed as either "Theory X" or "Theory Y" and "Theory Y" assumptions were totally different:

- (1) "The expenditure of physical and mental effort in work is as natural as play or rest."
- (2) "Man will exercise self-direction and self control in the service of objectives to which he is committed."
- (3) "The average human being learns, under proper conditions not only to accept but to seek responsibility."

According to "Theory Y" view of things, productivity will rise along with need satisfaction. If the individual requires to expend physical and mental effort as a matter of course, it becomes management's job to see to it that such expenditure of effort is in a direction consistent with the goals of the organisation. It becomes important for management to define those organisational goals and to communicate them to the subordinates. If it is correct that subordinates are not adequately realising their potential and they are indeed searching for responsibility, then how much easier and how much more effective is the manager's task if he can be assured that the employees are pulling in the same direction. It is infinitely preferable to have an employee who is voluntarily attempting to achieve organisational goals through satisfying his own needs than for a management to totally oppose the employee's needs and coerce him to an obedience which results in continual resistance and continual conflict.

It would be strange indeed if the "Theory X" man's view of himself was the same as his view of other individuals; but perhaps this is the case for the "Theory X" man's view is likely to be reflected in his behaviour in the management hierarchy. With subordinates he is likely to be task oriented rather than individual oriented, he is authoritarian with those over whom he has control, but to those who control him he is submissive. This does not really conflict all that much. It appears that his submission to others underlines his view of man and in the category of man he includes himself. Perhaps the "Theory X" individual would score high in n Power; maybe he is similar to a Ubiquitous entrepreneur?

Either the "Theory X" man is honest, if misguided, in his view of both himself and others or he regards his managerial function as a role which can be turned on and turned off, and which is his corporate face rather than his domestic and personal character. Whichever way one looks at it, "Theory X" in the advanced industrial societies is both an undesirable and inappropriate means of managing - at least this is what the management researchers seem to be saying; but is it that bad? If the criterion at issue is whether the manager is effective in achieving corporate goals rather than whether he is effective in achieving a measure of self actualisation for himself, then perhaps "Theory X" will do. Whichever view we take, managers can surely benefit from self awareness.

We do not suggest that the ideas of these various commentators are without meaning but perhaps they fall short in that they do not stress explicitly the concept of management by self awareness. Maybe a knowledge of self can contribute to a knowledge of others or vice versa. Maybe the effective manager is the honest manager - honest with both himself and his employees. Maybe it is too much to expect for men to fit into a pattern of management designed for them by some other party. We suggest that the most effective manager is the manager who designs his own managerial grid and who uses his inter-personal skills and awareness of himself as an individual to be sensitive to the needs and desires of those whom he manages. It is perfectly possible to find an organisation trading extremely profitably and run by a holy terror who has no concern whatever for those whom he hires or fires. If the criterion is profitability and if this is the sole criterion then this can quite possibly be achieved by the exploitation of employees who need the money they earn and who fear that they may lose their job. It is perfectly possible to motivate people by money and fear. Enough money and pressure at the right times can convert a man into an efficient if unco-operative production unit. The question is whether this is desirable or expedient in the long term in an advanced industrial society. Self awareness may go a long way towards providing for management a view not only of the individual but of the place of the corporation in society at large and the personal contribution which is being made by the individual.

The effective executive regardless of whether he perceives himself as a Modal entrepreneur who has risen through a hierarchy to assume the leadership of the organisation or whether he is a manager within a hierarchy has a view on both his own motivation and those of his peers and subordinates. The Ubiquitous entrepreneur and the Elite entrepreneur both see their role in the organisation as one of leadership and through their position and their chosen role, through the activities of their enterprise and their style of management, they seek a validation of their self concept, consciously or unconsciously.

In considering the views on motivation in the industrial setting as put forward by various commentators who have achieved a degree of pre-eminence in their field we have arrived at a view on management style; a view of man and his motivations. Our aim is to enable the executive to identify his own particular viewpoint and consider it in relation to his style of management. A "Theory X" approach provides a common thread linking Taylor's pig-iron experiment with Maslow's need hierarchy; the executive could derive a score for himself on the basis of Blake's managerial grid and he could consider the appropriateness of a "production" orientation as distinct from a "people" orientation. "Theory Y" a participative style of management, requires no less a view on man's motivation than does "Theory X". Mayo's Hawthorne experiment and Maslow's secondary needs seem to bear a relation to one another and Herzberg's conception of hygiene factors and growth factors are arguably a rather more contemporary statement of Maslow's tertiary needs conceived broadly as self actualisation-but whatever view the executive may take, whatever his conception of the tasks of the leader, no matter whether he be Modal, Ubiquitous or Elite, he asserts himself through an organisation. It is appropriate therefore to consider, broadly speaking, the type of organisation in which he operates, the actions which are required of him and the means whereby he contributes to the total corporate effort which we conceive as being goal-directed.

Management style is important to executives throughout the organisation, but at a higher level of corporate architecture it is essential that the chief executive consider whether his organisation structure is appropriately related to corporate objective and whether these in turn are consistent with his own personal requirements those of his executive team and their relation to the total corporate environment. These are factors which we shall consider in the following chapter.

CHAPTER VIIIREFERENCES

1. ABELSON H. I. Persuasion: How Opinions and Attitudes are Changed. Crosby Lockwood. London. 1950
2. ALLPORT Gordon W. and ODBERT R. S. "Trait Names" A Psychological Study. Psychological Monogram Vol.47. 1936. P317
3. ASCH S. E. Studies of Independence and Submission to Group Pressure: A minority of one against a unanimous majority. Quoted in Hilgard, E. R. and Atkinson, R. C. Introduction to Psychology. Harcourt Brace. New York. 1967
4. BARNARD Chester The Functions of the Executive. Harvard University Press. 1938.

see also

BARNARD Chester Organisation and Management. Harvard University Press. 1948.
5. BIRD C. Social Psychology. Appleton Century Crofts. New York. 1940.
6. BLAKE Robert R. The Managerial Grid. 1964. Golf Publishing Company.

see also

BLAKE Robert R. and MOUTON Jane S. The Managerial Grid Advanced Management Office Executive 1962. Vol. I No. 9.
7. COHEN Arthur R. Attitude, Change and Social Influence. Basic Books. New York. 1964.
8. GIBB C. A. Leadership. Gardner Lindsey (Ed.) Handbook of Social Psychology. Cambridge. Mass. Addison Wesley 1954.

9. GIBB C. A., The Principles and Traits of Leadership.
J. Abn. and Soc. Psych, Vol.42. p 272
Cambridge. Mass. 1954

10. GOULDNER Alvin W.(Ed.) Studies in Leadership
Russel. New York. 1965

11. HERTZBERG Frederick Work and the Nature of Man.
World Publishing Co. 1968

see also

HERTZBERG Frederick One More Time: How do you Motivate Employees.
Harvard Business Review
January - February 1968

HERTZBERG Frederick et al Job Enrichment Pays Off.
HBR March - April 1968

12. JOHNSON Harry M. Sociology: A Systematic Introduction
London: Routledge & Kegan Paul. 1963

13. KATZ D.
 and
STOTLAND E. An Analysis of the Motivational Basis of Attitudes in a Functional Framework. In S. Koch (Ed.)
Psychology: A Study of a Science.
McGraw Hill. New York. 1959

14. LIKERT Rensis New Patterns in Management.
1961 McGraw Hill

15. MASLOW A. H. A Theory of Human Motivation
Psychological Review. Vol. 50.
1943. pp. 370-96

see also

MASLOW A. H. Toward a Psychology of Being.
Van Nostrand. Princeton. N. J.
pp 142 and 159. 1962

16. MAYO Elton The Human Problems of an Industrial Civilisation
Macmillan 1933

see also

MAYO Elton The Social Problems of an Industrial Enterprise. Routledge & Kegan Paul 1949.

17. MCGREGOR D. The Human Side of Enterprise.
1960 McGraw Hill

18. NAYACAKALOV R. R. Fijian Leadership in a Situation
of Change.
Unpublished Doctoral Dissertation.
University London. 1967.

19. ROSS M. G.
 and
 HENDRY C. E. New Understandings of Leadership.
Association Press.
New York. 1968.

20. SCHUMPETER Joseph A. The Theory of Economic Development
Oxford University Press. 1969.

21. STOGDILL R. M. Personal Factors Associated with
Leadership. J. Psych. 25. 35-71.
1948.

22. TAYLOR Frederick W. Scientific Management 1947
Harper & Row

23. WOLF Z. Concepts in Therapy. An address
delivered at Tara Hospital,
Johannesburg. Published in Medical
Proceedings. Johannesburg.
18th April 1964.

CHAPTER IX

COMMUNICATION, CONTROL AND ORGANISATION STRUCTURE

" the general should be so esteemed for his qualities that the men have confidence in him, and this they will always do when they see he is always on the alert, is solicitous and courageous and that he knows well how to uphold the dignity of his position and to maintain his reputation; which he can always do if he punishes men for their mistakes, does not impose on them unnecessary burdens, keeps the promises he has made them and points out how easy it is to win, concealing or making light of things, which when viewed from afar, might suggest danger. Such things, when duly observed, are the principal causes of an army's morale, and - through its morale - of its victory."

Nicolo Machiavelli. The Discourses.

If an organisation is to grow profitably to achieve a position of pre-eminence in its environment, its structure must parallel its growth in capacity, profitability and employment. As corporate power becomes concentrated in fewer and fewer hands so the size of organisations changes and with it, the sophistication required from chief executives. If the Independent entrepreneur is to bring his corporation to the size and status whereby it can compete effectively in a multi-national corporate environment, he should develop his understanding of organisation structure.

Our concern throughout has been with those corporations which have the capacity to grow in time into enterprises of substance and here is where we leave the Ubiquitous entrepreneur behind again. Growth takes time and as the organisation grows it becomes part of the chief executive's task to ensure that his organisation will be able to survive without him. The task is more important than the individual for there comes a stage when single-handed management becomes difficult if not impossible.

Galbraith (4) suggests that what the entrepreneur created, only a group of men sharing specialised information could ultimately operate. "The entrepreneur must, in fact be compared in life with the male Apis Mellifera. He accomplishes his act of conception at the price of his own extinction" Galbraith observed that the " . . . act of combination added new plants and products and therewith the need for specialisation by function and knowledge. Sooner or later came more complex tasks of planning and control. Technology, with its own dynamic,

later added its demands for capital and for specialised talent with need for yet more comprehensive planning. Thus what the entrepreneur created passed inexorably beyond the scope of his authority. He could build, and he could exert influence for a time. But his creation, were it to serve the purposes for which it was brought into being required his replacement". One of the tasks of the responsible Chief Executive therefore, is voluntary self-immolation.

The Modal executive has been reared on this viewpoint. He succeeded to his position and if he is doing his job properly he will ensure his own succession, but for the Independent entrepreneur the task is more difficult. He set up his own organisation so that he could either avoid authority - in the case of the Ubiquitous entrepreneur, or in the case of the Elite, so that he could control. The Modal entrepreneur will retire when he reaches pensionable age but the plans which the Independent must make are more demanding and more comprehensive. Not only must he ensure his succession, he must get out at the right time. For him, the process of immolation is an almost insoluble paradox, for on the one hand he must cede control and in so doing he must deny the motivations that led him to set up the corporation. It is the Elite entrepreneur who is probably better able to accomplish this for he is more aware of his motivations.

Christensen comments: (2) " it is paradoxical that many a small business man makes 'the business' the centre of his life, strives to enlarge and strengthen it as a monument to his success, and yet fails to provide for its long run survival by taking the steps needed to develop successor management" Succession, implies to the individual that he is now dispensable and it is a bitter pill to swallow. This is a concern of bankers, shareholders and entrepreneurs alike for if they are to see the corporation prosper, they must ensure succession; they must replace the founder whether he wants it or not. The question which must confront the Independent entrepreneur is how long he can responsibly remain in total control, for if he gives up his position voluntarily he is psychologically denying his working life. One small businessman quoted by Christensen summed it up; "My banker has suggested that I bring along a potential successor. In effect he is asking me to supply the plank and then walk it!"

ORGANISATION STRUCTURES

We must find some criteria whereby we differentiate organisations, criteria which will enable the entrepreneur to decide who he is in relation to his organisation, how he perceives himself and his executive function. There is no point in designing an organisation structure merely for the sake of imposing a structure upon a situation. Organisation structure relates to function and Max Weber (10) distinguished three types of organisation as:

1. Charismatic
2. Traditional
3. Rational - Legal or Bureaucratic

Weber characterised organisations according to the authority relations within them. Why, he asked, did people in organisations conform to orders and directives? He distinguished between power and authority where power was seen as the ability to force people to obey and authority implied that people would obey orders because they perceived them as legitimate. Again we are thrown back to the concept of leadership, but to this we can now add the variable which Weber defined as legitimation, for this is implicit in any hierarchical system of authority.

Those in a position of power justify their position and communicate this justification to their subordinates. They persuade their subordinates that the exercise of power is by "right" rather than by "might". Rather than rule by confrontation and coercion it is preferable that leadership be exercised by the leader somehow persuading his followers that he, and he alone, is uniquely qualified to lead them to their goal. Legitimation applies not only to the structure of a commercial enterprise: legitimation is a concept common to Charismatic, Traditional and Rational-legal organisations. It relates not only to descriptive sociology, but to the practical application of theory to enterprise.

The Charismatic form of organisation depends upon the quality of the leader for charisma implies that the individual's authority is perceived in terms of either super-human or delegated natural powers. This does the charismatic leader no harm, and in a religious setting or a political organisation he is quite likely to reinforce through his actions and statements, this belief in his possession of divinely given powers.

The Ubiquitous entrepreneur who may have occupied a position of contracts supervisor or foreman in an organisation, might well decide to hive off on his own once he has gained the necessary experience. Perhaps he takes with him a nucleus of workmates or subordinates and sets up in competition to his former employer, probably with more faith than capital, but with great determination. Initially he aims at small contracts and the sort of work which he has seen his former employer turn down. He prospers, for his determination to succeed is communicated to his former workmates and they put their backs to the wheel. In this sense the Ubiquitous entrepreneur almost by definition, is a charismatic leader. He may be authoritarian or he may be participative, but he is clearly seen both by himself and by others as being the driving force behind the enterprise;

but charisma is not unique to the Ubiquitous entrepreneur, it can apply to both the Elite and Modal varieties. Henry Ford, Rolls and Royce were powerful men whose personalities and whose charisma substantially influenced the course of their organisations, they were Elite entrepreneurs running corporations of substance. So it is with Geneen of I.T.T.; in a very real sense his personal values and the power of his personality - in a word his charisma - have dominated a vast multi-national conglomerate; but Geneen succeeded to his position.* A charismatic leader need not necessarily be a founder, he need have no divinely delegated power, but his observable personal qualities are an important aspect of his authority and his ability to inspire his subordinates to action.

In the Traditional organisation the leader is perceived no longer as a person with supernatural personality characteristics; he is perceived more in terms of his role. Authority is exercised by virtue of the status rather than the personality of the leader and the fact of leadership is the important thing. Precedent becomes important as a means of justifying actions and authority is no longer legitimised on the basis of charisma. There is an important distinction between the Traditional organisation and the Rational - legal one. In the Traditional structure, succession is largely hereditary. The charismatic leader may perhaps nominate his successor who builds a Traditional organisation structure but he in his turn does not nominate his successor. Rules, policies and guidelines determine the course of events, and leadership becomes a matter of the individual's ability to rise in an established hierarchy and having risen, to perpetuate it.

The Rational-legal type of organisation is analagous to a machine; it is rational because it is goal-directed, but the goals are more rational than personal. It is legal because authority is exercised through definite rules and procedures. The leader of the organisation is not able to depart significantly from the rules; he must lead by virtue of his position and his observance of the rules. Bureaucracy has depersonalised him and authority is unquestioned, for authority is based on the office and the status of the man in the office. Commands are obeyed because the rules state that it is within the competence and authority of an office to issue directives. We are likely to find a Ubiquitous entrepreneur in a charismatic role. The Elite entrepreneur spans the development from Charisma to Traditionalism, while the Modal entrepreneur is found in the Rational-legal or bureaucratic organisation. This is properly the way of things for charismatic leaders are not immortal and one of their essential tasks is to ensure their succession and the future viability of the enterprise after their passing.

*A fascinating account of I.T.T. is contained in "The Sovereign State" by Anthony Sampson.

PERSONAL VALUES, STRUCTURE, STRATEGY AND HENRY FORD.

Weber would readily have acknowledged that his three types of organisation do not exist in their pure form; there is a progression from one to another. Henry Ford in his early days, ran a smallish organisation and he managed to stay on top of it as it grew. Not only was he aware of the potential which accompanied a motorcar made for a mass market but he linked this with a vision and later practical plans for mass-producing this car. He sold direct to the customer for cash, building financial resources to reinvest in more and increasingly sophisticated manufacturing capacity. Ford's management was an exteroceptive process and it related in no small way to his personal competences and characteristics. In his early career Ford may have been well representative of the Collins et al study.* One of his biographers records (7) that following his father's death in 1905, Ford emerged as a new man. For Ford, this may have been what we described in Chapter IV as the determining event. Arguably he was running from an unresolved conflict situation and he projected his inadequacies, his frustrations and his dislike for authority figures not only on to his subordinates, but on to others and he was almost pathological about it. In the case of his attacks on Wall Street bankers and especially on Jews, he ".... projected impulses on to these groups which he feared in himself. His delusions of persecution became outlets for his own aggressive impulses by projecting these on others. One year after World War II had started he denied the existence of the war by calling it "all newspaper talk to get Americans excited and spend out money on munitions". (6)

Ford was a powerful if disagreeable individual both in influence and in personality. Following his first trip to Europe, three of his most trusted subordinates made some minor changes in the model T Ford. An eye witness account described his reaction; ".... he had his hands in his pockets and he walked around that car three or four times looking at it pretty closely. It was a four door job and the top was down. Finally he got to the lefthand side of that car that was facing me, and he takes his hands out gets hold of the door and bang! One jerk, and he had it off the hinges! He ripped the door right off! God! how the man did it I don't know".

"He jumped in there and bang goes the other door. Bang goes the windshield. He jumps over the back seat and starts pounding on the top. He rips the top with the heel of his shoe. He wrecked the car as much as he could" (6).

In Chapter I we drew attention to the relation between personal and corporate objectives, and we described three mutually exclusive policies, each consistent with an objective expressed in terms of the largest market share in the U.S. motor

*Collins et al. The Enterprising Man. See Chapters III & IV

car industry by 1930. Superior strategies, we later suggested, could compensate for other disadvantages and we described three broad strategies in relation to the market as innovative, imitative and derivative. The Henry Ford saga between 1908 and 1928 illustrates the connection between personal values and organisation structure as determining factors in the total strategy for Ford's corporation was a projection of his personality, the decisions were his decisions. He created a fragmented organisation structure so that none could topple him and those who opposed him didn't last. (7) In 1908 Ford introduced the Model T and even up to 1927, would permit no fundamental changes. At first, he was the charismatic leader running a charismatic organisation. As the organisation expanded, so necessarily the structure had to change and we could view this as a partial change from the charismatic to the traditional in which authority was vested in the role of the leader rather than on his charisma; but Ford was unable to change enough. He was ferociously autocratic and in the earlier years rightly so, for there can be little doubt that his strategic decisions in the early years were almost entirely consistent. He failed however to match organisation structure to corporate development, he failed to change his obstinate preconceptions on pricing and model changes and he all but destroyed the enterprise he had initially master-minded so successfully.

With price reductions at the forefront of his mind Ford in 1909, one year after the introduction of the model T, declared that the colour would be Brewster Green with black trimmings and red stripings. Three years later he adopted his famous dictum of "Any colour so long as it's black". His strategies in manufacturing, labour relations, distribution and finance, were well integrated with his broadly conceived policies. By February 1909 Ford confided the "secret of Ford output" to a Detroit reporter: "Quantity production calls for the installation of the latest machinery and frequently the designing of special machinery. 50% of the machinery in use in our shops was designed by our engineers" Ford had conceived a strategy of mass manufacturing and interchangeability of parts and had planned its introduction as early as 1906. Somewhat narcissistically, in 1910 one of his own advertisements declared: "Henry Ford has been the greatest factor in the development of the automobile industry, greater than any other man in the world he stands out independent and alone, clear and strong, as the most dominant factor in the automobile industry of today". Ford's immodesty was justified; the substance of this advertisement was true.

In 1911, the emphasis still on cost reduction and standardisation, Ford conceived a network of assembly plants across the country. This was a reaction to freight costs as well as to distribution for now by shipping car loads of parts, twenty-six model T Fords could be loaded into each railway truck, compared

with only seven fully assembled cars. Not only could shipments be diverted but now Ford was able to take advantage of freight rates which were lower for parts than for assembled cars.

In 1912 Ford sold nearly 80,000 cars, by 1913 sales had more than doubled and in 1914 with sales approaching 250,000 cars he was the biggest motor manufacturer in the world. By 1915-16 however, competitors were adopting imitative strategies; price cuts and the moving assembly line had become standard features of the industry. The model T which in 1909 had been selling for \$950 sold for \$500 in 1914 and by 1915 the model T runabout sold for \$390.

It was no small matter to challenge Ford's position of leadership, but General Motors managed it. Where Ford sold strictly for cash, General Motors in 1919 introduced instalment selling. In the 1920s General Motors, from innovation in instalment selling moved to innovation in the used car trade. "A good used car more than meets the price of a good model T and with an instalment plan the buyer could even trade up to a better car using his model T for a sizeable down-payment." (6) G.M. also introduced the annual model and the closed car.

As if competition from General Motors was not enough, the year 1920 was a year of depression. Like the rest of the industry Ford was faced with a down-turn in demand, but still he stuck to his philosophy of price cutting and in that year he introduced the largest price cuts in the history of the industry. Where Ford's strategy remained obstinately rooted in the past, General Motors was busy adapting to the situation. Ford's market share, which, in 1921 had been 67% had declined to 46% by 1926. ".... Ford's fixation on the model T destroyed any rational relationship to the environment and the organisation turned upon itself in an orgy of self-destruction". Ford, although all powerful, was no longer all seeing.

As late as 1926 he described instalment sales as the bane of American business and he described "the Ford car" as a tried and proved product that required no tinkering. He had no intention of making a new car. In 1927 Ford lost \$30.4 million and in 1928 \$70.6 million. It was only in February 1928 that Ford dealers were supplied with the new model A. Ford's obstinacy had cost him dear and it was estimated (6) that the total costs of shutting down the model T assembly lines between May 1927 and February 1928 and the change-over to the new model had cost \$250 million. Ford's production more than halved between 1926 and 1928 while General Motors' increased by over 50%. Ford's market share fell from 36% to just over 15% while General Motors' climbed from 15% to nearly 25%.

In addition to the market-oriented strategies which General Motors adopted around the early 1920s, Alfred P. Sloan (8) created an organisation structure appropriate to the increasing size of General Motors. Sloan once acknowledged his debt to Ford for teaching him the important relation between price and volume and then totally outclassed him in other areas. It was Sloan who was the organisation builder and it is Sloan through whom we can begin to trace a process of personal and corporate development which relates entrepreneurial types to organisation structure and management style.

Arguably it was Sloan's emphasis on organisation structure and control that marked a turning point in the development of General Motors and constructed the foundations for a Rational-legal organisation as Weber would today have described it for Sloan not only recognised the importance of a new combination which integrated marketing, manufacturing and financial planning; he, together with his executives was largely instrumental in creating a decentralised management structure which contributed to a centralised corporate planning effort. There was less charisma about Sloan; he was more the Modal entrepreneur, converting initially a charismatic organisation with traditional tendencies to a Rational legal system.

A FRAMEWORK FOR THE EVALUATION OF ORGANISATION STRUCTURE

Structure, Function and Communication

An organisation exists to perform a function which we broadly conceive as the achievement of goals set by the chief executive, and communicated to the employees. The goals may be explicit or implied, but they must relate to the idea of a unified effort with some means whereby goal attainment can be measured. There must be some criteria for achievement which may be expressed in terms of increased profitability, survival, or return on shareholders funds.

An organisation comprises a collection of people who exist both as individuals and as members of the organisation. Their world and their reactions vary depending upon how they perceive themselves and how they are perceived in turn by others. Thus we may immediately include two concepts in our framework - goal orientation and individual aspiration.

Next we introduce the concept of a hierarchical authority structure; some person or persons must set the objectives, communicate them and preferably be seen by members of the organisation as the means whereby both corporate objectives and personal aspirations can be satisfied. It will be recalled that Weber distinguished between authority and power; authority was underpinned by the concept of legitimation. Those in employment perceived authority as legitimate and because the authority was

legitimate, they were prepared to obey orders. Power was a means of forcing obedience or compliance.

Authority ceases to be authority if unaccompanied by a process whereby it is either legitimised or enforceable. Unless there is a means of rewarding individual effort and censoring deviance or lack of effort, authority cannot exist. Thus we are beginning to describe not only a structure but a communication system whereby information can flow up and down the organisation, goals can be communicated, disputed, modified and achieved. There is no point in communication unless there is something to be communicated, and unless the contents of the communication have a motivating effect. Communication in a vacuum without feedback and without the wherewithal to enforce compliance if necessary, is neither motivating nor effective.

Through an organisation structure, communication is facilitated but surely the fundamental raison d'être of an organisation structure is the exercise of control. A flow of information, whether about budgets, costs or profitability in various sectors of the enterprise must lead to action on the part of management. There is little merit in communicating an organisation goal unless there is a means to move towards its attainment through management action. We identified three fundamental organisational types, Charismatic, Traditional and Rational-legal and we pointed to a relation between organisation type and the chief executive. Now we should introduce the more functional aspects of communication and control.

Communication and Management Style:

Burns (1) distinguished between what he called a Mechanistic and an Organic organisation structure. The mechanistic type of organisation requires relatively stable conditions in order to be viable and we can therefore assume relatively stable markets, manufacturing expertise and management style. There is a clear hierarchy of control and for our purposes, the system corresponds closely enough to Weber's Rational-legal system for us not to pursue it further. The Organic organisation however, is able to cope with a more dynamic set of exogenous influences. Individual contribution is more highly valued than in the Mechanistic structure and where in the Mechanistic organisation communication tends to be from the top down, in the Organic structure, two-way communication is more common. The consequence of two-way communication, is likely to be a higher degree of individual commitment to the organisation arising, perhaps out of a greater feeling of self worth, for the individual sees himself as making a contribution to the whole.

A Mechanistic or Bureaucratic organisation will likely have more specialist compartments and so the individual will find

it difficult to identify his individual contribution. This may therefore engender less feelings of self-worth. We can expect more internal conflict in the Mechanistic organisation, more power struggles, more politicking and more jockeying for position. Both Mechanistic and Organic structures develop as a consequence of factors in the external environment. The Organic structure is more dynamic, relatively more able to change and to accommodate itself to new events on its corporate periphery. The Mechanistic organisation is not as flexible and incorporates some of the stodgier aspects of bureaucracy.

Communication is likely to be two-way in the case of an Organic structure and deriving from this observation we can expect management style to be more participative; we would expect to find a "Theory Y" management style in an Organic structure whereas in the Mechanistic organisation we expect to find a more formal system of control and a greater concentration of authority at the top. Authority will likely be channelled in a well defined and carefully ordered manner and while management style may be notionally participative, it will in fact be more directive. The Mechanistic organisation is relatively more stable because its external environment is more stable and we can expect a growing stability as the organisation grows in size, age and self-satisfaction.

Communication and Control

Control requires communication and a system of reward and censure and Etzioni (3) distinguishes two types of compliance in any organisation. There is compliance which derives from the formal hierarchical authority structure and there is the compliance in which members of the organisation are committed to organisation goals and strive for their attainment. Etzioni's treatment of compliance is similar to Weber's distinction between authority and power, but more important for our purposes are the three kinds of power which Etzioni describes. He distinguishes between coercive power, remunerative power and identitive power. Not content with merely describing three types of power, Etzioni has appropriately discussed the reaction to power on the part of those who participate in organisational activities.

Coercive power depends primarily on the threat or the use of force in order to achieve compliance. This coercive power, we suggest will probably be associated with a "Theory X" management style, a Mechanistic organisation, and we would expect to see a highly formalised and authoritarian means of forcing compliance. Coercive power would be seen in a prison or in a military situation; orders are obeyed because they are orders and not to be questioned.

Remunerative power consists in the manipulation of material resources by those who control them. A higher or lower salary-cheque, wage packet or bonus payment is a means whereby remunerative power is used to achieve compliance; remunerative power results in compliance through the manipulation not of symbols, but cash.

Identitive power may be seen as the manipulation of a symbol which can be used as a means of reward or censure. A more prestigious office, a larger carpet, a newer company motor-car, a more powerful model of car, these are all examples of identitive power at work.

Communication and Reciprocity

Let us now try to pull the threads together into a practical framework which will enable the chief executive not only to identify the type of organisation he is running, but assist him to take corrective action if he deems it appropriate. An organisation structure exists to serve a function and that function is ultimately control. Control is exercised by various means and it is legitimised both by those in authority and by those in employment. Control requires communication not only of corporate purpose - not only communication which is from the top down - but feedback so that the chief executive can monitor the effects of his communication and if necessary, modify his control system. An organisation structure inevitably confers a character upon an organisation and that character is greater than the sum of the characters of the chief executive and the individuals who contribute to the corporate effort. There is an ambience or "feel" about an organisation which we subsume under the heading "character".

We can simply classify communication into (1) upward, (2) downward and (3) lateral. Lateral communication occurs between individuals or groups who share the same relative status in the hierarchy. Thus directors involved in the discussion of corporate strategy at a board meeting indulge in lateral communication, and this lateral communication will continue outside the boardroom. Lateral communication can occur at the shop floor level too. Individual group members or groups require to communicate laterally in order to monitor progress towards the attainment of group goals. Lateral communication enables concerted action whether it be on the part of executives or blue-collar employees; we only hope that both groups perceive organisation goals in the same light and this can only come about if there is communication up and down the hierarchy.

Downward communications are those between top management and the lower echelons in the organisation and upward communication is self explanatory, but unless lateral communication is accompanied by both upward and downward communications, not only is it pointless, it can be positively dangerous. In the absence of

communications from top management on the nature of corporate goals, groups and individuals at different points in the hierarchy begin to set their own goals which may well be in conflict with those of the organisation. Employees for their part need to be noticed; they need to perceive - correctly or incorrectly - that the chief executive has some idea of what they are thinking, what they are feeling and what the consequences of their thought processes might be.

If the chief executive is to accompany lateral communication only by downward communication - a directive style of management - then at least, if he does not encourage participation by way of upward communication he must keep his finger on the corporate pulse; he must monitor the results of his downward communications; are his communications understood, are they perceived as realistic, is there a measure of commitment to them? Unless he is aware of what is going on beneath him he becomes more and more isolated, less able to carry out his function of leadership.

Essentially, we are describing a process of reciprocity. Internal corporate reciprocity constitutes a link between communication and control, between the conceptualising of goals and their achievement, between a need hierarchy describing individual aspiration, management style and the type of organisation in which all these factors combine to form a consistent and integrated corporate effort. Any communication, whether upward, downward or lateral results in a reaction, significant or muted. Reciprocity implies that if the chief executive is not sympathetic to the reaction which his communications evoke in his employees, at least he is aware.

There may come a stage where a request, whether it be from the chief executive or from the shop floor, is considered entirely unacceptable by one or other party.. Unless there is a point, clearly understood, beyond which neither party will accommodate itself to the requirements of the other, the corporation makes no progress but sinks in a morass of inter-group conflict. Reciprocity differs from communication in that it implies a trade-off between what is considered theoretically desirable and what is considered practically attainable. Reciprocity implies feedback which results in action; communication in the absence of reciprocity may be aimed at nothingness and achieve nothing. In the absence of an implicit or explicit understanding of the limits of tolerance, whether by the chief executive for the aspirations of his employees, or whether on the part of the employees for the goals set for them, the total corporate effort can come to nothing.

Reciprocity incorporates the concepts of power politics, manoeuvring for advantage, withdrawal of labour and general discontent. Absenteesim, the withdrawal of labour, mindless authoritarianism or weak willed directives are symptoms of a

failure in internal reciprocity. The different parties involved do not recognise the boundaries beyond which it is unacceptable for them to proceed. Internal corporate reciprocity implies predictability and clarity of purpose. Those who manage know how far they can go, those who are managed recognise too, the parameters which define acceptable behaviour. Internal corporate reciprocity is mandatory for the success and wellbeing of an organisation whether one man business, multi-national or conglomerate.

SCORING THE CONCEPTS

In these two chapters we have been dealing with difficult areas of applied and descriptive psychology. Commencing with a view on motivation we became immediately involved in the concept of leadership and the achievement and communication of purpose. Corporate goals were distinguished from group and individual aspirations and once we began to describe types of organisation, we suggested that we could conceptualise a corporate character, a "feel" which the alert visitor, consultant or employee could identify. The concept of a need hierarchy led us into the means whereby individual needs could be satisfied and we correlated various categories of communication, management style and organisational ambience. We suggested that the structure of an organisation must be functional and the chief function of an organisation structure is control. Without control over employees, financing, manufacturing and marketing, without an exeroceptive view on the total corporation in relation to self and the corporation's activities, growth and prosperity will be affected. Let us now try to illustrate and pull these threads together through the construction of organisational profiles.

One thing must be clear from our discussions. There is no entirely pure form of organisation and rightly so for the organisation structure of a company manufacturing the same products for similar markets may differ in orientation, size and competence. The competitive and national environment may vary and if we see organisation structure as a reaction on the part of the organisation to events on its external periphery then it is entirely appropriate that we maintain some flexibility, not only in analysis but in implementation.

In figure 9-1 we have chosen fifteen categories and scored them on a continuum from 1 - 9. We choose this continuum because we wish to differentiate broadly and yet be able to score differentially; thus if we consider three categories, small medium and large, small would include (1 - 3), medium (4 - 6) and large (7 - 9). By this means we can broadly identify what we are talking about and at the same time we can refine the categories with numbers. In the United States, a

Organisation Type																	
Organic	Charismatic	Leadership Style															
		Authoritarian/Democratic/Hierarchical															
Traditional	Bureaucratic	Entrepreneurial Type															
		Ubiquitous/Elite/Modal															
Author	Mechanistic	Size															
		Small/Medium/Large															
General Electric in the 1950s		Maturity (Time)															
		1st Generation/3rd Generation															
		Maturity (Markets)															
		Innovation/Breaking Through/Established															
		Control															
		Coercive/Remunerative/Identitive															
		Communication															
		Downward/Lateral/Upward															
		Centralised/Decentralised															
		Authority-Responsibility Degree															
		Delegated Profit Responsibility Degree															
		Environment															
		Unstable/Indeterminate/Stable															
		Succession															
		Unplanned/Appointed/Elected															
		Management Style															
		Theory X/Theory Y															
		Political Awareness															
		Total															
		Need Hierarchy															
		Goal Orientation															

FIGURE 9 - 1

ORGANISATION PROFILES:
A BASIS FOR EVALUATION

small company may have a turnover of up to \$10,000,000, a medium sized company up to say, \$100,000,000 and a large company anything up to \$20,000,000,000 as in the case of General Motors. In a less developed economy with a smaller population, size becomes increasingly a relative concept and it is best left to the reader to follow the line of reasoning and by all means to question the choice of numbers.

We have not only scored the three types of organisation, Charismatic, Traditional and Bureaucratic, which Weber described, but also Burns' Mechanistic and Organic types of organisation. We suggested that the Mechanistic organisation was near enough to Weber's Bureaucratic organisation - probably somewhere in between Traditional and Bureaucratic. For comparison and completeness we have scored both Mechanistic and Organic organisations for the Organic concept is an important conceptual development. The author has entered into the spirit of things by deriving a score for the organisation in which he considered himself as an Elite entrepreneur. A time in the green pastures of academia has done nothing to alter this perception.

For the reader who may be either a Modal or an Elite entrepreneur whether in fact or in the making, we have left a line blank for his score and evaluation of his organisation. We have differentiated between three categories of leadership style. Authoritarian (1 - 3) Democratic (4 - 6) and Hierarchical (7 - 9). The authoritarian leader will likely indulge in downward communication, he perceives himself as the man in authority and responsible for the success of the enterprise and thus we can hypothesise that authority and profit responsibility will not lightly be delegated. The authoritarian leader, we suggest is found most commonly in the Charismatic organisation run by a Ubiquitous entrepreneur and thus we assign a score of (1) for Delegated Profit Responsibility indicating that the organisation is highly centralised and (1) for the Ubiquitous entrepreneur who runs it. Authoritarian leadership is of course, not solely the preserve of the Ubiquitous entrepreneur, it extends throughout industry. If we are to categorise leadership as authoritarian, then in the same organisation we will probably find the management style nearer to pure "Theory X" (1) than pure "Theory Y" (9).

The leader may gather around him men who submit to his whims and foibles who in so doing, achieve a degree of need satisfaction; thus in order to arrive at a total, we cannot realistically use Maslow's need hierarchy as a valid distinguishing criterion for the authoritarian leader running a small Charismatic organisation may be quite as satisfied as the Modal entrepreneur running a multi-national conglomerate. Motivation is as variable as individuality and the individual's place on the need hierarchy continuum cannot therefore be used as a differentiating criterion.

Similarly goal-orientation may be an important but not a distinguishing factor. The large corporation may, with a sophisticated organisation structure contrive to communicate a sense of purpose throughout. Although the task is more difficult, the Modal entrepreneur may be as effective in the communication of corporate purpose as a Ubiquitous entrepreneur communicating to a small group of his former workmates who have now joined him.

We have considered the state of maturity of the organisation and we have distinguished between maturity as a correlate of time, and maturity as measured by the markets in which the corporation is active. Thus we have chosen a criterion running from first generation (1) to third and subsequent generations (9) on our time continuum. We suggest that it is less likely that the first generation corporation has established as stable a market position as an organisation which has been running through successive generations and which has prospered. We categorised the maturity of markets - and not products - in terms of innovations (1 - 3), breaking through (4 - 6), established (7 - 9). The first generation corporation may be trading in an established market in that the manufacturing process and the demand for a particular product has become established over time, but market penetration, we suggest is quite as much of an "innovation" in its broadest sense, as is the development of a new product. Both require that the corporation becomes established in a market and this takes time. The Traditional organisation will likely be breaking through into a stable market position, whereas the Bureaucratic and probably third generation company will have established a degree of stability in terms of its markets and its products. It is not here our concern that the products may be threatened by obsolescence. We are not suggesting that the Bureaucratic corporation is incapable of innovating new products, but we do suggest that such innovation is possible because the company has a track record, a brand name, financial resources or some particular corporate expertise which has developed over time.

Coercive control (1 - 3) is differentiated from remunerative (4 - 6) and indentitive (7 - 9) control, for it is likely that the manipulation of symbols will be more prevalent in the Bureaucratic organisation, whereas money, wages and productivity bonuses will be a more general phenomenon in the Charismatic and the Traditional organisation. We can link indentitive control with what we have termed political awareness. In the Bureaucratic organisation - long established, stable and self satisfied - a considerable amount of activity will be spent on getting ahead, which may be expressed in terms of symbols other than salaries, and in jockeying for position. More time may be spent on "beating the system" than on achieving organisation goals expressed in terms of profitability, turnover or market share. These concepts become less meaningful in the large organisation

trading in an established market. The difference between a profit of £10,000,000 and a profit of £15,000,000 is not as significant to the employees as is the difference between £10,000 and £15,000 (after the entrepreneur has deducted salary, perquisites and cash sales).

We suggest that the total scores illustrate at least some broad correlates within an organisation structure. In Chapter IV we derived a total score in a similar way to illustrate the difference between the Ubiquitous, Elite, and Modal entrepreneur. The reader may care, at this stage to compare the entrepreneurship scores with the organisation ones and so derive some relationship between exteroception, management style and organisation structure. We suggest that organisation structure is as relevant to corporate strategy as are finance, marketing and manufacturing strategies. We suggest it is related appropriately to the personal aspirations and characteristics of the chief executive and his team. If the reader scores his organisation and if there is a significant deviation between his scores and those which appear above, then perhaps there is a matter requiring attention. The total scores we suggest enable differentiation. It is pure coincidence that the total score for the Bureaucratic organisation is 100, but very convenient! These figures do not of course imply that a percentage comparison is valid. They merely represent a numerical shorthand for identification purposes.

Resulting Totals:

We can readily see a differential between the Charismatic organisation, (24), the Organic structure (44), the Traditional (71) and the Bureaucratic (100). The author (at 58) regarded his organisation as moving from Charismatic to Traditional. Although, as a matter of policy relating both to morality and profitability, the wage levels for labourers were some 35% in excess of the statutory minimum - a matter of comment and not pride - this was in a country where unemployment was rife. Management style could not appropriately be related to a textbook, but necessarily to competition for this was intense. The author in this situation was authoritarian, disagreeable, but effective. So be it. Let us briefly turn to the score for the Mechanistic organisation (95). We suggested that Burns' (1) Mechanistic organisation was near enough to Weber's Bureaucratic type and we suggest that 95 is near enough to 100 for our purposes.

THE INCREDIBLE ELECTRICAL CONSPIRACY

The Background

The Incredible Electrical Conspiracy was described as such by Richard Austin Smith in the April 1961 issue of "Fortune" magazine. Forty-five defendants were indicated under the Sherman Act, accused of having conspired to fix prices and divide markets

on electrical sales valued annually at \$1.75 billion. The companies involved included such well known names as Westinghouse and General Electric. Through a consideration of some of the more interesting aspects of this case and in the context of these Chapters we derived scores on organisation structure and the correlates contained in Figure 9 - 1. We have no wish to comment here on what was once a contentious legal battleground.

After World War II, the external environment changed for General Electric and its competitors. What had hitherto been small companies now became important competitors and customers were given a wider choice of heavy electrical equipment which was similar in both design and in quality. In consequence, price became a determining factor in getting a supply contract and purchasing agents for utility companies adopted the competitive bid as an integral part of their buying strategies.

As a manufacturer of heavy electrical goods in a capital intensive industry the entrepreneur must invest in the present for a pay-off which can extend over many years. The manufacturing process requires economies of scale and if throughput and price become determining variables, it is reasonable to suppose that in an atmosphere of heavy competition, prices will fall, companies will stop trading profitably; the largest companies, the companies with cash reserves and profit retention extending over years are the ones which will survive and we can see again, the relevance of economics to a total perspective.

We have mentioned politics in relation to inter-departmental and individual rivalry within the corporation, but politics extends beyond the obvious periphery of the corporation and into a wider scheme of things. In December of 1950, Mr. Ralph Cordiner succeeded to the Presidency of General Electric and the former President, Mr. Charles E. Wilson went to Washington as Defence Mobilisation Chief. Mr. Wilson announced that the nation's electric power capacity needed to be increased by some 30% over the next three years. "The equipment industry jumped to meet that figure, and added a little more as well." (9).

We may relate Mr. Wilson's elevation to Washington, to a competitive situation in which companies, eager to prove their mettle in the corporate battleground, were growing more competitive and more influential. We can readily see that exogenous circumstance beyond General Electric's control was to have a profound influence on its trading environment. That, together with the capital intensive nature of the industry, gives us some idea as to why it was described by one G.E. executive as a feast or famine business. "When utilities decide they need more generating capacity, they start buying and we have three years of good business and then three years of bad."

It therefore comes as no surprise that in 1954, General Electric sales dropped almost \$176,000,000, the first time that sales had slumped since Cordiner had taken over from Wilson in 1950. These years 1954/5 were referred to as the years of the "white sale" (9). The electrical industry was discounting prices by as much as 40-45% from book price in an attempt to win orders and keep the manufacturing facility occupied. This, of course, did not merely have an effect on one or two years profit, the effect lasted until the early 1960s and a buyer who bought capital equipment at a fixed and discounted price for delivery some years later, had surely got himself a bargain.

ORGANISATION STRUCTURE, MOTIVATION AND CONTROL

It will be recalled that the defendants, - and these did not merely include employees from General Electric, but other significant American companies including Westinghouse - were accused of having conspired to fix prices and divide markets valued at \$1.75 thousand million annually and this conspiracy extended over some years. It is against this background that we note the succession of Mr. Cordiner to the Presidency of General Electric in 1950. Mr. Cordiner had apparently spent the previous five years planning a reorganisation. He disagreed with the highly centralised system which had been used by his predecessor and he proposed a system which involved decentralisation and rewards based on performance.

He created 27 autonomous divisions which comprised 110 small companies and he decreed that these 110 companies would be run as entrepreneurial enterprises with the chief executive setting his own budget and even making capital expenditures up to \$200,000. The head of each of these 110 units was required to design his own marketing policies and to raise or lower prices as appropriate. Executives were required to budget for a year ahead, and each year they were required to budget for more profit as a percent of sales and for an increase in market share. Pressure was intense and corporate profit goals were clearly communicated while failure or unwillingness to achieve them was not lightly entertained. In order to dismiss an executive his superior had only to go one level above himself to obtain sanction for the dismissal. Increasingly, the pressure built up and when a sales slump with pressure on profits led to leverage on the management hierarchy, perhaps there was only one way for the situation to develop.

Mr. Cordiner was particularly able to motivate men and bring out the best performance in them. "If you did something wrong, Cordiner would send for you and tell you you were through. That's all there would be to it." (9). Conspiracy in that situation may have been the only way, but Mr. Cordiner

was reputed to have been a champion of free enterprise. He was described as an "articulate advocate" of the view that price agreements with competitors were counter productive and unintelligent for they only served to reduce the particular competence of a major enterprise to that of competitors which had neither the same financial research or marketing capabilities. Perhaps, the student of business administration would argue, the answer lay in marketing innovation and research and development. Perhaps this view is divorced from the realities of a fiercely competitive situation. Others were doing it.

Mr. Cordiner emphasised that the new philosophy of decentralised responsibility prohibited meeting with competitors on prices, bids or market shares. Mr. Wilson, his predecessor, had issued a general instruction on compliance with the Anti-trust laws in 1946. It was re-issued in 1948 and 1950. "It has been and is the policy of this Company to conform strictly to the Anti-trust laws special care should be taken that any proposed action is in conformity with the law as presently interpreted (my italics). If there is any doubt as to the legality of any proposed action the advice of law department must be obtained." (9)

In 1954, despite a sales slump of \$176,000,000, Mr. Cordiner replaced the so-called Wilson directive of Anti-trust compliance with a further directive of his own; "Cordiner's directive policy 20.5 went beyond the compliance required by law and blanketed the subject with every conceivable admonition." Mr. Paxton (who subsequently resigned as President of General Electric in 1961 "for reasons of health") having succeeded Mr. Cordiner as President had, as a result of Westinghouse beating General Electric to a big turbine order at a considerable discount, taken over sales. Thus in 1954 sales and pricing policies were re-centralised. Discounts increased and in consequence, later "the word went out from Headquarters on Lexington Avenue that prices had to be got back up, and stability restored. Sales responsibility was being returned to the general managers. They certainly welcomed the news, for all during the period that Paxton had taken over sales nobody had relieved the General Managers of the companion responsibility of turning in the profits demanded. (my italics) Now with power over sales restored, they could strike a better balance between the irreconcilables of getting more market and getting more profit." (9).

Of the individuals convicted in the trial, Mr. George Burens had been appointed to head the switchgear facility. "Burens arrived on the scene in September of 1951 and busied himself solely with the job of splitting switchgear into three independent companies (high, medium and low voltage), each with a general manager and himself as general manager of the

division. Once decentralisation was accomplished, he was content for a time to let his new departmental general managers run the conspiracy." Apparently Mr. Burens had not been a willing conspirator at all times, but he was fined \$4,000 and given thirty days.

"There goes my whole life" said this veteran of forty years with G.E. waving his arms distractedly as he waited to telephone his wife. "Who's going to want to hire a jailbird?" Arguably Mr. Burens was the filling in the sandwich. He had worked his way through the organisation from the position of labourer to the position of Vice President; he had risen in the hierarchy and he was a good company man. "He used to be hail fellow well met" said a colleague who witnessed the transformation over the years, "until he was put under that great pressure for profits. Then he simply shrank into himself, everything got to be cold turkey with him - without any warmth at all."

Not only was there pressure from above, but there was pressure from within the organisation. Other executives whose profit margins were being threatened, were subjected to complaints by General Electric customers that if switchgear could offer discounts then so could their division. The solution seemed to be the stabilisation of switchgear prices, an area over which Burens had control. It is reported that Mr. Burens got into a heated argument about prices with Mr. Paxton who had succeeded Mr. Cordiner as President of General Electric in April 1958 and it was in that year that Mr. Burens bowed to pressure and talked to his competitors again.

A matter that was never satisfactorily settled was the question of top level awareness of the conspiracy.* The question at issue in relation to Burens was whether he got a direct order to rejoin the cartel from a Mr. Vinson. "If Vinson did so instruct Burens, and others, then General Electric's complicity extended to the highest corporate level, for Vinson was a member of the fifteen man Executive Office, a group that included Cordiner and Paxton." Mr. Vinson was indicted as a conspirator and the government quashed the indictment.

If history is not entirely in possession of the true facts, at least the judge had some views on the matter. "This is a shocking indictment of a vast section of our economy, for what is really at stake here is the survival of the kind of economy under which this country has grown great, the free enterprise system." He saw many of the defendants as ".... torn between conscience and an approved corporate policy the company man, the conformist, who goes along with his superiors and finds balm for his conscience in additional comforts and the security of his place in the corporate set-up". The author must needs reserve

*It seems that the 1970s have some similarity to the 1950s if not in corporate life then at least in others.

judgement; not so the judge. "I am not naive enough to believe General Electric did not know about it and it didn't meet with their hearty approbation."

The reader is now invited to proceed to the Lonrho Affair, a matter which, in the United Kingdom, achieved some prominence in the press at the time. Through the Lonrho Affair the reader is invited to consider the relation between power politics and profitability and the relation between organisation structure and management style - this time, without the author's interference.

In Table 9 - 1 we have drawn attention to four variables on our chart of structure and its correlates. Although the final score derived for General Electric is 96 compared with the Bureaucratic organisations 100; management style, communication, the environment and the issue of authority and responsibility are areas which Mr. Cordiner should perhaps have considered within the general framework of organisation structure and reciprocity.

CHAPTER IXREFERENCES

1. BURNS T.
and
STALKER J. M. The Management of Innovation.
London Tavistock. 1968.
2. CHRISTENSEN C. Roland Management Succession in Small
and Growing Enterprises. Boston:
Division of Research, Graduate
School of Business Administration.
1953.
3. ETZIONI Amitai Modern Organisations. New York.
Prentice Hall. 1964. See also

ETZIONI A. Organisational Control Structure
in J. G. Marsh (Ed.) Handbook of
Organisations. Rand McNally. 1965
4. GALBRAITH John Kenneth The New Industrial State.
London. Hamish Hamilton. 1967.
5. GERTH H. H.
and
MILLS C. Wright. (Eds.) From Max Weber: Essays in Sociology.
Routledge and Kegan Paul. 1948
6. JARDIM Ann The First Henry Ford.
A Study in Personality and Business
Leadership.
Cambridge. Massachusetts. 1970
M.I.T. Press.
7. NEVINS Allan
and
HILL Frank E. Ford. The Times. The Man and The
Company.
New York. Scribner. 1954.
8. SLOAN Alfred P. My Years with General Motors.
Pan Books. 1967. (First Published
1963).
9. SMITH Richard Austin The Incredible Electrical Conspiracy
Fortune Magazine. April. 1961.
10. WEBER Max The Theory of Social and Economic
Organisation.
Glencoe. The Free Press. 1957.
See also (5) Gerth & Mills.

CHAPTER X

THE LONRHO AFFAIR

"Mr. Rowland regarded his vision of Lonrho's future as combining the potential of independent Africa, the cash resources of the Middle East oil nations and western technology as an unbeatable force"

INTRODUCTION

Rumours of Boardroom dissension between the sixteen directors of the Lonrho Group had been circulating in the City of London for some weeks prior to April, 1973. The rumours were fanned by the delay in dispatching the accounts for the year ended 30th September, 1972, to the shareholders. On Thursday, the 19th April, 1973 the rumours were dramatically confirmed by reports in many morning newspapers that Mr. R. W. (Tiny) Rowland had applied to the High Court to prevent his dismissal as Chief Executive of the Lonrho Group. Mr. Rowland made an ex parte application to the Court for, and was granted, an interlocutory injunction to prevent eight directors from passing a resolution to the effect that Mr. Rowland relinquish his appointment as Managing Director and Chief Executive.

This was not the first time that the affairs of the Lonrho Group had achieved prominence in the Press, but what came to be known as "The Lonrho Affair" was perhaps one of the most dramatic and fully reported of any publicity that Lonrho had received to that time. Not only were some 50,000 minority shareholders involved, but the ramifications of the Lonrho affair extended from Senior Government Ministers in Africa to the British High Court, the British Parliament and involved not only an advisor to the Royal Household, but also the cousin-in-law of Her Majesty the Queen.

COMPANY BACKGROUND

In 1960 the London and Rhodesian Mining and Land Company (Lonrho) constituted an insignificant operation dominated by the South African Mining Finance Houses of Anglo American and Charter Consolidated and by the late Harley Drayton's 117 Old Board Street Financial Conglomerate. It was through the Drayton interests that Mr. Rowland became involved in Lonrho. His private businesses were exchanged for shares in Lonrho and Mr. Rowland became, along with Mr. Alan Ball, and the Hon. Angus Olgivie, a cousin-in-law of the Queen of England, a member of the control-

ling management of the Lonrho Group. In 1963 the profit before tax was £500,000 and this had risen to £19.3 million earned on a turnover of £215 million by the year ending the 30th September 1972. A ten year financial record is shown as Exhibit I and Exhibit II provides a breakdown of turnover and profitability for 1972.

The early 1960's saw the development of Lonrho within Rhodesia itself where prior to the Unilateral Declaration of Independence by that country Lonrho had already established a record for profitable growth. One of Mr. Rowland's major achievements, and one which earned him the grudging admiration of the financial community in London, was that as a one-time emigrant white Rhodesian farmer he bridged the commercial gap between the end of the British Empire and the rise of the multi-national conglomerate.

Lonrho's activities were largely concerned with Africa and Mr. Rowland involved Lonrho in the growing commercial activities of newly independent and developing countries in that continent. In a variety of complex transactions, Lonrho's apparent willingness to buy, sell or invest in any part of Africa in any industry and the wheeling dealing techniques of its chief executive, made it a favourite with investors. Its share price from a low of 25p in 1967, reached an all time high of £3.10p in 1969, and the shareholders were more than satisfied with the progress of their company under the leadership of a strong executive team headed by Mr. Rowland. Exhibit III gives a breakdown of Lonrho's principal interests as at the end of 1972. These interests ranged from ranching and mining activities through many other activities including sugar estates, general trading and particularly interests in the motor and distributive trades in various countries in Africa. Fortune magazine (June, 1973) recorded how for example Mr. Rowland bought Ghana's Ashanti Goldfields from European owners for \$36 million in 1969, giving 20% of the equity to the government. In ten months Lonrho earned almost \$10 million in profits before tax and by the year ending September 1972, for the first time in the seventy-five year history of the Ashanti mine the ore reserves had increased to over four million metric tons of ore. In December 1972, however, the government of Ghana promulgated a decree transferring the assets of Ashanti Goldfields Corporation in Ghana to a new company in which the government would hold a 55% interest. The Ghana government had previously held 20% in the United Kingdom Ashanti Company, together with an option to purchase from Lonrho, at cost, a further 20%. At the time of the Annual Report, discussions were still in progress on the subject of compensation.

Sugar was Lonrho's major profit earner. New production records were achieved for the year 1972 by the Swaziland Sugar Milling Company which controlled the Group's investment in sugar. Some 230,000 metric tons of sugar were produced from a total of

1.9 million metric tons of cane of which about 72% came from the Group's own estates. Profits after taxation and minority interests reached the figure of £1.9 million, an increase of 55% over the results for the previous year. The increased production was largely attributable to exceptionally good climatic conditions in Mauritius and to the fact that production in Swaziland was unrestricted for the first time. In the Ivory Coast the sugar scheme which was being managed by the group was nearing completion and had a planned annual output of 60,000 metric tons. The Group had recently been requested by Government to extend the capacity to 100,000 metric tons.

Lonrho had also been requested by the government of Dahomey to survey, develop and manage on its behalf, a 30,000 metric ton sugar scheme. This project would represent the most important single economic development in that country since independence, and would employ up to 2,000 people. In the Sudan, a feasibility study was being presented to the government for the growing manufacture and marketing of sugar, and the construction of sugar mills for an initial production of approximately 300,000 metric tons per annum.

Between them agriculture (£4.89 million) and mining (£4.34 million) comprised a significant proportion of the £17½ million profit earned by the Group in Africa. General trade (£3.3 million) and interests in the motor trade (£3.74 million) comprised further significant contributions to the Group's profit. Franchises covering General Motors, Ford, Mercedes Benz, Massey Ferguson, Renault, Peugeot, Volkswagon, Toyota, Honda, Yamaha, Land Rover and British Leyland products were held in many African countries. In Zambia, for example, where the local assembly plant for Fiat cars was operational by 1972, motor imports were limited and Lonrho Group was to be one of the main distributors of Fiats. On the Zambian Copper Belt the Group was the second largest bottler of Coca Cola in Africa and in partnership with the Zambian government it held a 49% interest in sixteen breweries. It also shared a brewing operation with Dar-es-Salaam City Council and operated two profitable breweries in Malawi.

WINDS OF CHANGE

Lonrho strategy if not explicit, could be inferred as being prepared to involve itself in almost any viable commercial venture in Africa and usually this involved the co-operation of, and collaboration with important commercial or government interests in the countries in which the company traded. The Managing Director of Lonrho East Africa was Mr. Udi Eecaga, the Son-in-law of President Kenyatta. Lonrho's principal representative in Central, East and West Africa was Mr. Gil Olympio, son of the former President of Togo. Mr. Rowland was personal confidante of many leading African politicians and industrialists, and it was rumoured that President Kaunda of Zambia was among his friends.

Lonrho's main interests in Zambia were in the Transport and Motor industry. After UDI* a distribution service from East Africa and the coast became a top priority for Zambia and the Local Government naturally wanted a controlling interest in this sector of transport. Lonrho's Smith and Youngson with a major part of Zambia's commercial vehicle fleet was therefore taken over. It appeared that the fleet was handed over to the government for a nominal sum and that Lonrho provided the government with a loan for working capital. Inevitably, Lonrho's activities attracted considerable public attention, not only in the host country in which these activities were carried out, but also in the press, at home, and comment was not always favourable to Mr. Rowland.

Mr. Gerald Percy, a Lonrho Director and a member of the eight directors pressing for Mr. Rowland's replacement was quoted as saying: (Sunday Times, 13th May, 1973)

"A major difference of opinion between myself and certain other executives on Lonrho on the one hand and Mr. Rowland on the other occurred in 1969 - 1970, when Mr. Rowland insisted on pursuing proposals whereby a certain African government should nationalise the assets of two other British companies in the country concerned and then transfer them to a new corporation which would be jointly owned and/or managed by such government and Lonrho. Ultimately Mr. Rowland was prevented from carrying the proposals into effect by circumstances outside Lonrho's control."

*Unilateral Declaration of Independence in 1965 whereby Rhodesia unilaterally ceased to regard itself as under the influence of the United Kingdom. During a prior Federation of Southern Rhodesia (now Rhodesia), Northern Rhodesia (now Zambia) and Nyasaland (now Malawi) a number of services were jointly shared including the Rhodesia Railways and power from the Kariba Dam.

The Sunday Times reporters suggested that the African country in question was Sierra Leone and that the companies involved in the suggested nationalisation were Consolidated African Selection Trust, (Cast) and William Baird. Apparently Lonrho's main interest was in Cast, which at that time was mining diamonds at the rate of £11.5 million a year. Lonrho saw an opportunity to strike another blow at the South African Mining Establishment and in particular against Harry Oppenheimer of DeBeers, the group whose Central Selling Organisation controls an estimated 80% of world diamond sales. If Lonrho could secure management of Cast, Mr. Rowland planned further deals with Tanzania, Russia and Israel to establish a rival world-wide marketing operation for diamonds.

The scheme failed when Siaka Stevens staged a coup d'etat and promoted himself from Prime Minister to President. Cast was later nationalised, but the management contract was granted to the existing management.

In addition to certain deals not working out however, Lonrho experienced considerable difficulties in a number of its activities, for example, in Zaire, for the whole of 1972, the local subsidiary companies continued under Government surveillance. In February 1973 the government announced that control measures had been lifted from all companies in the Cominiere Group with the exception of one which generated and distributed electric power in Kinshasa. The Zaire Government expressed the wish that this company should be controlled by the State and discussions were in progress at the time of the Annual Report. Difficulties were not merely confined to Black Africa.

In Rhodesia the Group's interests had been under the control of local boards following the resignation of all senior Lonrho executives. The Group's oil pipeline representing an investment of £3.5 million, remained closed, but the Group continued to bear the annual costs of approximately £300,000. On the 24th September, 1971, a Director of Lonrho was arrested in Johannesburg, South Africa on a charge of unspecified fraud committed between January and July, 1969. The charge was understood to have followed several months of private investigation by a minority shareholder and subsequent investigation by officials of the Commercial Branch of the South African Police into the affairs of certain local subsidiary companies.

LONRHO IN SOUTH AFRICA

The investigation sparked off by a minority shareholder in South Africa which led to the fraud allegations led to further disclosures published in various newspapers concerning the interests of Messrs. Rowland, Ball and the Hon. Angus Ogilvie. The matter concerning Nyachere Copper (Pvt) Ltd. caused some controversy within the Board and evidently led the auditors Messrs. Peat Marwick Mitchell to question the advisability of a financial interest with public company funds. It appeared that Angus Ogilvie, Tiny Rowland and Lonrho's Executive Deputy Chairman, Alan Ball, all had private stakes in this Rhodesian copper mine that had been financed to the extent of more than £3 million by Lonrho.

Nyachere Copper Mine Rhodesia started production in October, 1972 and was the sole subsidiary of a South African company H.C.C. Investments (Pty) Ltd.

When Mr. Rowland joined Lonrho in 1961 he had injected some private interests into the group in return for 1.5 million Lonrho shares together with the option to buy a further two million at 35 pence in five years time. He had also offered his half share in the Shamrock Copper Mine in Rhodesia which had been subjected to exploratory drilling by Rand Mines, but this did not form part of the original package. Some years later Mr. Rowland's partner in the Shamrock Mine Venture went bankrupt and Mr. Rowland offered to buy the other half of the shares for Lonrho. This involved a complex series of transactions as by then Rhodesia was under international embargo. Nyachere Copper (Private) Ltd. was formed in Rhodesia to incorporate the mine. The Sunday Times (13th May, 1973) reported that the remaining 50% of the Shamrock venture was originally acquired by a Lonrho associate, Corsyn, which in August, 1969 sold it to Lonrho Investments. Lonrho Investments (Pty) in turn inserted it into a newly formed South African Company known as H.C.C. (Pty) Ltd. Mr. Rowland put his half of Nyachere into H.C.C. so that as a result H.C.C. was owned 50% by Lonrho and apparently 50% by Mr. Rowland via a Swiss Company, Borma A.G. This series of transactions permitted development finance to be channelled from Lonrho's Headquarters in London to South Africa and from South Africa to Rhodesia.

Thus it appeared that Mr. Rowland held a 70% interest in his half of Nyachere while Mr. Alan Ball's Family Trust had a 20% interest, and the Hon. Angus Ogilvie's Family Trust 10%.

Borma A. G. registered in Zurich had three shareholders, Mr. Rowland (70%), Mr. Ball's Family Trust (20%) and the Hon. Angus Ogilvie's Family Trust (10%). Similar percentage shareholdings were evidently also held by Messrs. Rowland, Ball and the Hon. Angus Ogilvie in Yeoman Investments, a private company registered in the Bahamas. Originally this was apparently registered as a repository for the original two million option shares in Lonrho that Mr. Rowland bought in 1967 and Yeoman was believed to account for more than half Mr. Rowland's reported total of 12.6 million shareholding in Lonrho.

Also in the early 1970's, the group had embarked on a substantial capital expenditure programme for the development of the Western Platinum mines in South Africa. Milling commenced in March 1971 and the first consignment of matte from the smelter was shipped in January, 1972. By the year end of 1971 the Group's investment to date in the Western Platinum project was some £8 million of which £2.6 million represented 50.44% of the equity, the balance being supplied by way of loans. At that

time the platinum market was passing through a period of uncertainty and the price which the group could expect for its platinum was in no way economic.

WANKEL AND THE CASH CRISIS

Difficulties in various parts of Africa were not permitted to inhibit Lonrho's acquisition programme. On the 23rd September, 1971 Lonrho entered into an agreement to purchase the two Wankel companies, Rotary Engines GmbH and Wankel GmbH which together owned 40% of the rights to royalties on Dr. Felix Wankel's rotary engine. Originally this venture was planned to be a joint venture with Rio Tinto Zinc and British Leyland. The latter two parties dropped out of the negotiations and Mr. Rowland acted on the basis of a Board resolution of August 9th, 1971 authorising him to "purchase 100% of the share capitals of the two companies in question for a total of DM 64 million (£7.8 million)". The Board had further authorised Mr. Rowland to negotiate and vary the terms "in his absolute discretion" (Sunday Times, May 13th, 1973).

Dr. Felix Wankel and his partners had tax problems over certain lump sum licence payments due in lieu of royalties from General Motors. Lonrho agreed to buy these General Motors payments with outgoing payments roughly matching those coming in, in order to assist Dr. Wankel with his tax problems. Thus the final price paid for Wankel was in the region of £12.25 million on which gross revenues during 1971 - 1972 were approximately £1.5 million.

The various deals involving in particular the Wankel project and the Western Platinum project precipitated an urgent shortage of funds in the United Kingdom. This, together with the arrest of a main board Director visiting South Africa created a considerable amount of adverse press publicity. The Wankel deal had required £10 million in cash at a time when Lonrho's liquidity was severely strained. Moreover the Wankel purchase was taken against the advice of Merchant Bankers, S. G. Warburg, who subsequently resigned as Merchant Bankers to the Company. The Lonrho share price fell dramatically. The shares which had been quoted at a high point of £3.10 in 1969 reached a low point of 79 pence in 1970 and ranged between 93 pence and 81 pence during 1971.

In October, 1971 the Board appointed Peat, Marwick Mitchell & Company to investigate and report on the Group's financial position and future prospects, including the structure, organisation and management of the parent and subsidiary companies. This followed the withdrawal of the Company's Financial Advisors, S. G. Warburg & Company, and a summary of Peat, Marwick's report to the Board was sent to shareholders on 1st March, 1972. Bank Borrowings for the years 1967 - 1971 are reproduced in Table I below, taken from a circular to shareholders dated 22nd March, 1972 from Peat, Marwick, Mitchell & Co.

During the year ended 30th September, 1971, capital expenditure of the group amounted to £22.76 million. Capital Commitments as at the 30th September, 1971 totalled £12.71 million, a substantial decrease on the previous year.

TABLE I

30th September	Bank Overdrafts	Other Borrowings	Total Borrowings
	£m.	£m.	£m.
1967	6.6	6.9	13.5
1968	8.6	6.2	14.8
1969	19.6	24.1	43.7
1970	22.1	25.2	47.3
1971	24.0	34.7	58.7

PEAT, MARWICK'S RECOMMENDATION

The Board accepted in principle the recommendations made in the report including those on accounting treatment and certain changes in accounting procedures.

The Peat report drew shareholders' attention to the fact that too high a proportion of the Group's overall funding was represented by short term borrowing, and the Board gave priority to remedying this situation. In order to strengthen the United Kingdom cash flow of the group it was decided to distribute only £1.4 million by way of dividend to ordinary shareholders compared with £3.1 million in the previous year. Although the Directors felt that the group's profitability would remain at a satisfactory level, they felt that the dividend reduction was one appropriate means of reducing the cash outflow from the group. The dividend of £1.4 million pounds was covered 3.6 times by nett earnings.

Clearly considerable strain had been imposed on the Group by the continued expenditure on the platinum mine, which expenditure had been largely by means of short term borrowings. A further problem was that exchange controls by various countries in which Lonrho had substantial interests prevented the Group from freely remitting monies to the United Kingdom. A rationalisation programme was rapidly drawn up with a view both to strengthening group liquidity and to increasing the flow of dividends to the United Kingdom. The principal objectives of the rationalisation programme were contained in the 1971 review by the Joint Managing Directors as follows:

1. To obtain better geographical spread between countries.
2. Each territory to be financially self supporting and to increase the flow of dividends to the U.K.
3. To examine loss-making operations, or those where the return on capital was not sufficient, and either to reorganise them where this was possible, or else sell or close them down.
4. To examine the group's marketing policies for the future and set about disposing of those operations which were unlikely to fall within the pattern of future developments.
5. To press the development of those areas where the group was particularly strong.

By December, 1971, a number of the Group's interests were sold, including a Shipping and General Services company in Mauritius, a Brewing company operating in Central and Southern Africa, the Lesotho Diamond Venture, the Anglo Mauritius Assurance Company and, during March, 1972, the disposal of certain motor spare parts distribution and road transport interests.

Recommendations were also made concerning the organisation of the Group. In view of the Group's rapid growth during the preceding five years it was felt that the existing structure and management methods were no longer appropriate to a widely diversified group. This raised the problem as to whether management should be organised by functions or by geographical spread. This problem was closely allied to the financial aspects of the report since various exchange control regulations, in the opinion of the Joint Managing Directors, meant that financial management had to be carried out in many cases on the basis of territories or groups of territories.

The solution was somewhat in the nature of a compromise where the main types of operation such as sugar and textiles were to be managed as distinct units and the smaller and more varied types of operations were to be managed on a territorial basis. Each of the territories would have its own managing director and a financial controller to support him and in addition considerable changes were planned at the Headquarters in London, particularly in the areas of finance and personnel planning. As an integral part of the Group's policy it was proposed to pay more attention to developing local management in African countries. The Joint Managing Directors pointed out that they sought to identify themselves with their host countries and an integral part of this policy was to recruit and train Africans for top management and senior posts in each country.

One means of alleviating the short term borrowing situation was by way of a further share issue. Approximately 14 million ordinary shares of 25p each fully paid were issued at 73p per share in the proportion of one new ordinary share for every four existing ordinary shares. Acceptances were received from shareholders and convertible loan stockholders in respect of approximately 13.5 million shares and in addition there were applications for excess shares totalling 14 million. The net proceeds of the issue amounted to approximately £10 million and were mainly utilised to repay loans and reduce overdrafts in the United Kingdom. By subscribing for the shares to which he was entitled under this scheme Mr. R. W. Rowland increased his shareholding in the company from approximately 10 million to 12.6 million shares. The Directors interest in the shares of the Company are shown in Exhibit IV.

Messrs. Keyser Ullman Ltd. were appointed as merchant bankers to the company in April, 1972 prior to the share issue in May. As an expression of their belief in a future of the company Keyser Ullman Ltd. indicated that they wished to subscribe for ordinary shares in the capital of the company and also to be granted an option to subscribe for further shares. In July 1972, 500,000 ordinary shares 25p each fully paid up were allotted and issued to Keyser Ullmann Ltd. for a consideration of 75p per share. An option to subscribe for a further 500,000 ordinary shares of 25p each fully paid up at a price of 75p per share was also granted together with another option for a further 500,000 ordinary shares of 25p each fully paid up at a price of 100p per share. These options were exercisable in whole or in part at any time up to the 14th July, 1975. Thus by May, 1972, the immediate financial situation of the Lonrho group was substantially improved.

A further corollary to the Peat report involved the strengthening of the main Board of Directors. On the 4th April, 1972, the Rt. Hon. Duncan Sandys M.P. a former Conservative Colonial Secretary was appointed as Chairman. Sir Basil Smallpiece, formally a Chief Executive of British Overseas Airways Corporation, subsequently headed the Cunard Group prior to its takeover by Trafalgar House Investment and was at the time Administrative Adviser to the Royal Household; Sir Basil became the new Deputy Chairman of the Lonrho Group. The Rt. Hon. Edward DuCann, M.P. for Taunton and Chairman of Keyser Ullman was also made a Director. Mr. DuCann was also Chairman of the powerful 1922 Committee of Conservative backbench M.P.s.

On the 11th May, Dr. Adolf Gerber, a Swiss citizen, running the Wankel Companies was appointed Director together with Mr. William Wilkinson, a former merchant banker. Prior to joining the Board in May, Mr. Wilkinson had advocated to the original Peat Marwick's investigators that Mr. Rowland ought to step down as Chief Executive. Two further appointments included Mr. T. R. Prentice and Mr. R. F. Dunlop and this brought the total number of directors to sixteen.

THE BOARDROOM DISPUTE

BACKGROUND

It was early 1972 when the Lonrho Board was substantially strengthened as a consequence of the Peat Marwick report and it was a year later that the boardroom dispute became public as a result of Mr. Rowland's application to court. The court proceedings however were the corollary to a number of attempts on the part of various Board members, including Mr. Rowland and Sir Basil Smallpiece, to arrive at some modus vivendi and a brief diary of events appears hereunder.

LONRHO DIARY

March 19th	Defendant's memorandum addressed to Chairman
March 22nd	Discussion at Board Meeting
April 18th	Ex Parte Injunction by Mr. Justice Foster to expire Friday, May 4th.
May 8th to May 11th	Court Proceedings heard by Mr. Justice Plowman
Monday, May 14th	Judgement given in favour of defendants. Rowland agrees to pay £50,000 court costs. Agreed statement read by all parties.
May 31st	Annual General Meeting Extraordinary General Meeting

Mr. Stamler, Q.C. recalled Mr. Rowland's comment in evidence that "it is perhaps understandable that a number of harsh, thoughtless unnecessarily heartless remarks" had been made by some of his colleagues. While Sir Basil observed "with regret" that Mr. Rowland had attacked the good faith of the defendant directors and suggested that their decision to propose his removal was not taken bona fide for the benefit of the company, none of the defendants denied the vigour, energy and speculative ability of Mr. Rowland. It was because of this that the decision was taken in February 1972, some fourteen months prior to the first airing of the Lonrho affair in court, that he should remain in control and should be appointed Chief Executive. But the lines became ever more clearly drawn and various allegations became more specific and acrimonious as the second court appearance progressed over the four day period from May 8th to May 12th, 1973.

Sir Basil, who came to be regarded by the press as the spokesman for the defendants had been appointed as Director of Lonrho following the cash crisis and the Peat Marwick report. Sir Basil's appointment had been partially on the basis of Bank of England advice and was seen as part of the image building as a corollary to the report. The second court hearing before Mr. Justice Plowman took place a month after Mr. Rowland had obtained a High Court Injunction preventing his dismissal as Chief Executive and Managing Director of the Lonrho group; but this first courtroom appearance marked the end of a number of attempts by the various parties to resolve matters.

The Rt. Hon. Duncan Sandys, a former Colonial Secretary and son-in-law of Sir Winston Churchill, the British wartime Prime Minister, said that from the start of his chairmanship he had been faced with tension between members of the Board and had made continuing efforts to find some way of resolving the personal and organisational problems which had arisen. Mr. Sandys himself subsequently became a subject of much controversy in the press over his remuneration as chairman. On his elevation to the chairmanship from his former function as consultant to the Group, £130,000 was to be paid in compensation for the termination of a six year consultancy agreement together with an annual salary of £38,000 as remuneration for his services as Chairman. It was subsequently revealed that Mr. Sandys owned 200,000 Lonrho shares which had been bought with the aid of a loan from Messrs. Keyser Ullman, Lonrho's financial advisers.

On March 19th, 1973 the eight defendants privately reached the conclusion that Mr. Rowland should resign and if he did not they would move a resolution for his dismissal at the next Board Meeting. On March 22nd the matter was discussed at a Board Meeting and intensive discussions took place thereafter with a view to finding some satisfactory compromise. On 18th April, Mr. Justice Foster granted Mr. Rowland an ex parte order banning the defendants from passing, or if passed, acting upon any resolution to dismiss Mr. Rowland. The order expired on May 4th, but prior to the Court appearance, Mr. Rowland had, in his capacity as a substantial (20%) shareholder in the group requisitioned an Extraordinary General Meeting of shareholders, both as a counter to his threat of removal and to enable shareholders to decide the future of their company.

A year earlier the dissenting members of the Board would have found it very difficult to have removed Mr. Rowland. On December 31st, 1971, he agreed to offer Lonrho a £1 million facility on the condition that no change was made in the composition of the Board of Directors without his consent. The terms of the loan also specified that Mr. Rowland had to be a member of the Lonrho Board when any call was made. At the time of the March, 1973 Board Meeting however, it was apparent that the company had repaid all the amounts outstanding under that facility.

Various proposals were put forward and rejected by the Board. The possibility of Mr. Rowland's quiet departure had faded when Mr. Oliver Jessel, Jessel Securities, decided not to go ahead with the scheme to buy out Mr. Rowland's shares, followed, presumably, by an effective merger of Jessel & Lonrho operations in Africa. It seemed (Financial Times 24.4.73) that a price could not be agreed between Mr. Rowland and Jessel Securities. The Board then suggested selling to Mr. Rowland the East African interests at a favourable figure, but this proposal too was not implemented. Mr. Rowland apparently then offered to buy out his opponent's shareholding at some 140 pence per share and at a cost in excess of £1 million. (Table II) below gives the range of Lonrho's share price for the years from 1967 - 1973). During the course of the boardroom and the court appearances Lonrho's share price fell to a "low" of 55 pence on fears that the quotation might be suspended.

TABLE (II)

SHARE PRICES (pence)

1967	100	25
68	250	50
69	310	1.35
70	170	79
71	93	81
72	145	67
73	132	101

Nett Asset Value: 125

Shortly prior to the first court hearing it was understood the eight directors who opposed Mr. Rowland's policies had turned down a plan which could have involved the injection of some £8 million in the company. This would have been met by an allocation of new shares at 115 pence each, enlarging the existing equity capital at that time by approximately 10%.

Half the money was to have come from important Zambian sources with the balance coming equally from Mr. Rowland and from Dr. Khalil Osman, a Sudanese national who was managing director of the Gulf International group of Kuwait, the biggest privately owned corporation in that country. This in itself was of interest, particularly in the light of a subsequent comment by Mr. Rowland regarding his vision of Lonrho's future as combining the "potential of independent Africa" the cash resources of the Middle East oil nations, and western technology as an "unbeatable force". (Financial Times 15th May, 1973).

THE BOARD

Of the sixteen man strong Board, eight Directors were variously referred to as "the eight", "the defendants" or "the Smallpiece faction", by virtue of the fact that Sir Basil Smallpiece seemed to have emerged as their spokesman. These directors were committed to opposing Mr. Rowland's continuation as Chief Executive of the Group. Various newspapers ranging from the responsible to the sensational had enabled their readers to build up some rough picture of the parties in the Boardroom dispute as follows:

Sir Basil Smallpiece:

Accountant, ex BOAC Chief Executive, formerly Cunard Chief and Administrative Advisor to the Royal Household. Deputy Chairman at the time of court proceedings.

Gerald Percy:

Deputy Managing Director who was "introduced" by Sir Basil as his side's choice for Managing Director. Mr. Percy had been a Lonrho employee and Director for some years.

Stanley Dalgliesh:

A substantial shareholder who ran Watergate shipping which had been bought by Lonrho.

Nicholas Elliot:

A former Intelligence man who maintained a low profile with the Press. A major Sunday newspaper reported that Rowland, according to Elliot had called Mr. Percy "a dirty double crossing rat".

Dr. Adolf Gerber:

A Swiss citizen involved in the Wankel companies recently taken over by Lonrho.

William Wilkinson:

A former merchant banker and opposed to Mr. Rowland prior to joining the Board in May, 1972.

Colin McKenzie:

A former rancher and director since 1963.

Sir Edward L. Spears:

Aged 87, formerly associated with Ashanti Goldfields taken over by Lonrho.

Those in favour of Mr. Rowland included Mr. Alan Ball, an intimate associate of Mr. Rowland and the Hon. Angus Ogilvie, who formed the three man inner council of Lonrho from the early 1960's Mr. F. A. Butcher, Finance Director, Mr. R. F. Dunlop and Mr. T. R. Prentice. Also in favour of Mr. Rowland's policies was Mr. Edward DuCann, Chairman of Keyser Ullman, the merchant bankers and advisers to Lonrho, and Conservative M.P. for Taunton in Somerset.

An intriguing omission from the confrontation was that of the Hon. Angus Ogilvie, who in 1961 was reported to have been instrumental in introducing Mr. Rowland to the Lonrho group and had represented the Drayton interests since that time. Subsequently he was reported to have been at least partially instrumental in commissioning the report by accountants Peat Marwick. A cousin in law of Her Majesty the Queen and the husband of Princess Alexandra, he resigned shortly after Mr. Justice Foster had granted the exparte application to prevent the other Directors from replacing Mr. Rowland as Chief Executive. He had been variously reported as being "recuperating" or "abroad" and he subsequently resigned from the Board leaving the majority of Directors opposed to Mr. Rowland. It was reported in the Financial Times (April, 1973) that the Drayton Corporation had recently reduced its stake in the Lonrho group from 10% to 5% of the equity.

Mr. Ogilvie's resignation followed the High Court injunction of April. Shortly thereafter it was reported that Messrs. Keyser Ullman had decided to step down as merchant banker adviser to Lonrho. The move was represented as "a withdrawal" pending the outcome of the Extraordinary General Meeting planned for May 31st. Mr. Alan Ball, Deputy Chairman, indicated in a press statement that Keyser Ullman would probably be invited to take up its position again should the shareholders vote against the eight dissident directors. Keyser Ullman which said it had "consistently advised" against Mr. Rowland's replacement had apparently found its position untenable and embarrassing. Mr. Roland Franklin, a Keyser Ullman director, emphasised in his statement to the press that Mr. DuCann, the Chairman of Keyser Ullman and a Director of Lonrho would resign if shareholders voted for Mr. Rowland's resignation. At the time the defendant directors had called in merchant bankers Kleinwort Benson to advise on their position, but there had been no suggestion that they would become Lonrho's temporary bankers. Sir Basil Smallpiece's affidavit read to the court during the May 1973 hearing before Mr. Justice Plowman contained a reference to Messrs. Kleinwort Benson. He claimed that Mr. Rowland's persistence in running Lonrho as his own personal business was such that Kleinwort Benson had expressed the view, which he shared, that without Mr. Rowland's removal it would be difficult if not impossible to get reputable businessmen to join the Board of Management of Lonrho.

THE COURTROOM PROCEEDINGS

By early May it had become apparent that at least seven directors would have their services terminated by the end of the month. It was pointed out (Financial Times, 7th May, 1973) that shareholders would probably be receiving circulars giving full details of all the matters in dispute. As far as those who opposed Mr. Rowland were concerned they would probably much rather put their case in court where their remarks could carry privilege. Circulars to shareholders, the newspapers pointed out, do not carry privilege and have in the past given rise to libel actions.

THE LEGAL PROCEEDINGS

Mr. Rowland had applied for and, on April 18th, had been granted an ex parte injunction preventing his dismissal as Chief Executive of the Lonrho Group. This order granted by Mr. Justice Foster expired on Friday, 4th May, four days prior to further court proceedings heard by Mr. Justice Plowman. These proceedings lasted from May 8th to May 11th, Mr. Rowland, represented by Mr. Michael Wheeler Q.C. appeared as plaintiff with the other eight directors appearing as defendants and represented by Mr. Michael Stamler Q.C. The plaintiffs asked for a temporary order banning the eight defendants from passing, or if passed, acting upon a Board resolution to remove Mr. Rowland from office. If granted, it was requested that the order be effective pending the full hearing of Mr. Rowland's case against the eight.

After a four day court hearing Mr. Justice Plowman delivered a 14-minute judgement in which he said he was unconvinced that the court had a duty to intervene in what was primarily a matter for the Lonrho Board. He added, however that it was a matter for the defendant directors to decide whether it was either wise or desirable for them to take action in advance of the decisions of the shareholders on May 31st, now that they were free to do so. "If they do, and if on that occasion they themselves should be removed from the Board, the remaining directors could of course reappoint Mr. Rowland to his executive offices."

On the first day of the hearing, Mr. Michael Wheeler, for Mr. Rowland said the evidence was that his removal would particularly harm the company's wide interests in Africa and that it would cause senior men in the group to reconsider their position. He told Mr. Justice Plowman that the company's 47,000 shareholders, at an extraordinary general meeting on May 31st, would be asked to decide how they wanted the company to be run in the future. In those circumstances the court should intervene to maintain the status quo. Although the directors had the power to hire and fire executives, the law gave shareholders the control of the Board. "We say that in the present circumstances no reasonable Board could consider it to be in the best interests of the company, shareholders as a whole, to use their powers of hire and fire now and the operative word is now."

He contended that the Directors had known from the start that the shareholders were going to be given an opportunity of considering the matter. "Notwithstanding that, what they are now seeking to do is to pre-judge the whole issue without regard to the risk that may have for Lonrho and the damage it may do to all of the 47,000 shareholders." Mr. Wheeler asked the court to bear in mind that Mr. Rowland was suing in a personal capacity. "This is a representative action," he said. If Mr. Rowland could ascertain the wishes of the shareholders in some simple way it would be conclusive of the matter.

Mr. Samuel Stamler, Q.C. on behalf of the defendants told the judge that he proposed to address the court on the general principles of law which governed the circumstances in which a court would interfere with directors powers. Mr. Justice Plowman said that as he understood it Mr. Rowland was suing in respect of his personal right not to be dismissed except in accordance with the company articles. Mr. Stamler said that as he understood the law, Mr. Rowland's action was a derivative action. He had not brought an action for wrongful dismissal, nor had he claimed an injunction based on his contract for service.

Previously he had said that the defendants, his clients, accepted Mr. Rowland's concession, but the Board had the power to hire and fire. He said later it was the duty of Directors to act bona fide in the best interests of the company and he submitted that "if this sort of action is let in, a hall porter with one share in some large hotel group could come along and raise exactly the same allegations if he were dismissed." He suggested that three things were clear:

1. There was no question of a power conferred for one purpose being used for another.
2. There was no question of the absence of any ground upon which reasonable men could decide to act in the way proposed.
3. There was no question of the defendants having failed to consider any matters which they ought to have considered nor any question of them having considered matters which they ought not to have considered.

"If that is right, that is an end to it," said Mr. Stamler.

Mr. Stamler submitted that where a wrong was done to a company the proper plaintiff was the company itself. Secondly, when the alleged wrong was one which could be made binding upon the company and its members by a simple majority of the members, then no individual member could maintain an action in respect of the alleged wrong; that would be an interference with the internal management of the company.

"Unless a plaintiff can bring himself within a limited number of established exceptions he cannot sue individually for a wrong done to a company." Mr. Stamler suggested that none of the exceptions applied in the present case and he claimed that Mr. Rowland's claim was misconceived and "trebly bad".

"It is bad because this plaintiff has no business coming to this court and must wait for the General Meeting which he has himself requisitioned and of which he has made much play. It is

bad in law because the test to be applied to the Directors is that they must be shown to have acted reasonably and bona fide in the interests of the company. It is bad because the evidence demonstrates that the directors, as reasonable men, with the interests of the company at heart could not have acted otherwise."

Earlier Mr. Stamler had said that the eight directors had ample material to enable them, as reasonable men, to come to the conclusion that Mr. Rowland should be sacked as Chief Executive. In those circumstances nobody would have dreamt that this was a case in which the court could even be asked to intervene and control the exercise by the directors of their powers. It was, however, suggested that the court could and should do so for two reasons: first because Mr. Rowland had requisitioned an Extraordinary General Meeting and second, Africa.

Ten per cent of the shares were needed to requisition such a meeting. Mr. Rowland held 20%. How, asked Mr. Stamler, did that fact alter the quality of the Board's acts, motives and decisions? "If on all the facts relating to the welfare of the company as a whole, they are at liberty without constraint by the Court to come to the conclusion that he ought to be removed, how does the fact that the executive they are proposing to remove has got more than 10% of the shares alter the quality of the decision, or their bona fides or motives? Apparently, there is one law for the nine per cent and one law for the eleven per cent executive".

It had been suggested for Mr. Rowland - falsely in Mr. Stamler's view - that if he were sacked Lonrho would suffer "dire consequences" in Africa. It was suggested that Africa was threatening; "we will nationalise or sequester without compensation assets of the company if you dare to run its affairs as you in England as a Board think fit." "Was it seriously suggested," Mr. Stamler asked, "that because of those threats from Africa no reasonable Board could say that it was none the less their duty to go ahead with their decision? Unless that question was answered in Mr. Rowland's favour, that was the end of the matter." Mr. Stamler discounted the threats.

JUDGEMENT

In his judgement, Mr. Justice Plowman recalled that "voluminous evidence has been filed on both sides, and over fifty affidavits read to me, but it is unnecessary, in order to dispose of this matter, to discuss the evidence at any length and I do not propose to do so. Indeed, the less I say about the dispute the better particularly with the Extraordinary General Meeting so near." Previously the judge had made reference to the amount of publicity which the case had attracted. This ".... shows that it involves issues which transcend the legal problems which

may be involved in it. It is, however, only the latter with which I am concerned, and I shall avoid any comment upon the wider issues." Mr. Rowland had brought the action, said the judge to forestall his dismissal and had sued on behalf of himself and all other shareholders in the Company, other than the eight individual directors. The hearing was for temporary injunctions in a main action to prevent his dismissal, but in cases of this kind the main action was often never heard.

The judge said he was not concerned with the merits of the dispute. It was settled law that it was not for the court to substitute its own view for that of the directors. So long as the directors exercise their powers in what they honestly considered - not what the court might consider - was in the best interests of the company, the court would not intervene in the absence of an improper motive, and so long as there were grounds on which reasonable men could reach the same conclusion.

The judge continued that the onus of proving lack of bona fides was firmly on Mr. Rowland, and it was to be presumed that the directors were acting in good faith until the contrary was proved. Council (Mr. Wheeler) had submitted that there was nothing in the defendant's evidence to suggest any harm would come to the company if the present position was held until the Extraordinary Meeting, and that it would be a mis-use of Board powers if they were to forestall the decision of the Extraordinary General Meeting. It was only in that sense that the bona fides of the individual defendants was called into question on the present application. The notice of motion in the case was not specifically linked to the forthcoming Extraordinary General Meeting; it asked for injunctions in quite general terms. The judge said he would however, assume in Mr. Rowland's favour, that the way in which Mr. Wheeler had presented the case was consistent with the notice of motion as it stood, because if it was not, his disclaimer of any intention to attack the bona fides of the individual defendants, except to the extent which the judge had mentioned, would be fatal to his case. "Taking the evidence as a whole and in the absence of cross examination, which is always so valuable where bona fide is in issue, the plaintiff has not proved to my satisfaction that any reasonable body of directors acting in good faith could reach the conclusion that it was for the benefit of the company to remove Mr. Rowland from the executive offices without waiting for the Extraordinary General Meeting."

The fortuitous circumstances that Mr. Rowland was in a position to requisition such a meeting did not, in Mr. Justice Plowman's judgement, alter the quality of the directors' decision or their motives. "I am therefore unconvinced that it is the duty of the court to interfere in what is primarily a matter for the Board."

Mr. Samuel Stamler, Q.C. for the defendant directors had contended that Mr. Rowland's claim was misconceived in law. "I think he may be right about this" the judge said, "but I prefer not to decide this motion upon what may be a technicality and, for the reasons I have given, I am of the opinion that this motion must in any event fail.

AGREED STATEMENT

Three hours after Mr. Justice Plowman had given his judgement the parties returned to court and Mr. Wheeler said that they had been in discussion. Immediately following the judgement and before the agreed statement Mr. Wheeler had told the judge "it may be that we shall have to go to the Court of Appeal." A much more acute matter had arisen in that overnight, there had apparently been a threat of action in Zambia.

One of the principal issues during court proceedings arising out of statements both contained in affidavits and reported in the press was to the effect that Lonrho's interests in Africa could be seriously threatened in the event of Mr. Rowland's dismissal. The defendant's Council had referred to these events as "a paper tiger". At the Lonrho Head Office in the City, a few minutes before a full Board Meeting, Mr. Rowland revealed to the press that he had received messages from Zambia which warned that government action would be taken against Lonrho's £8 million interests there if he was removed from office. These amounted to nationalisation and such a move would be followed right across Africa. Mr. Rowland believed this would happen because "the way in which the eight directors tried to remove me upset my friends".

Counsel read an agreed statement in which it was stated that the majority of directors, in view of the Court's judgement in their favour, the imminence of the Extraordinary General Meeting and specific undertakings by Mr. Rowland, were prepared to defer taking any steps for Mr. Rowland's removal from executive office before the conclusion of the Extraordinary General Meeting. The statement continued: "Mr. Rowland undertakes to loyally abide by all reasonable decisions of the Board, to keep the Board fully informed of his executive activities and to do everything in his power to further the best interests of the company."

Mr. Wheeler said that on the basis of the agreed statement the parties asked the court to treat the hearings of Mr. Rowland's application temporarily as the full hearing of his action and to dismiss it with costs. The judge agreed and said that the motion would be so treated and dismissed with costs. Thus the consequences of the court proceedings were that on the basis of Mr. Rowland's agreement to pay the costs of the action, he had effectively remained as Chief Executive at least until the May 31st Extraordinary General Meeting. It was estimated in some newspapers that the costs of the court proceedings would be in the region of £50,000.

PRESS COMMENT AND COURTROOM ISSUES

Notwithstanding the legal arguments involved in the Lonrho case a considerable amount of evidence was led, largely by way of affidavits, concerning inter alia Mr. Rowland's behaviour as Chief Executive and his suitability. Both prior to and during court proceedings various other issues had been raised which are outlined below. These involved:

1. Mr. Rowland's personality
2. A consultancy agreement and payments to Mr. Duncan Sandys
3. The Wankel purchase
4. Events in Africa.

Sir Basil Smallpiece had said at a press conference following the judgement: "We are naturally delighted that the judge dismissed the action and did not grant a further injunction. We now have to consider the action we are going to take." Asked whether it was necessary for the company's affairs to have become so "personal" during the court hearing he replied, "I don't think it was, but you must remember that it was not us that took the matter to court. It was Mr. Rowland who applied for an injunction which was granted in the first instance. It followed from that that a lot of things which would have been better discussed in the Boardroom and not come out did come out in public."

It was evident both from the events in court and outside it reported in the press that personalities had played a major part in the Boardroom dispute.

For example, a major Sunday newspaper reported (Sunday Times, May 13th, 1973) that Mr. Elliott, a Director of the Group said that Mr. Rowland had called Mr. Percy, the Deputy Managing Director "a dirty double crossing rat". Mr. Rowland had made other comments concerning his co-directors at various times. A national morning newspaper reported (The Sun, Tuesday, May 15th, 1973) that Mr. Rowland had launched an astonishing attack on his "power-game" adversaries. He said the move to dismiss him came "like a bolt from the blue" the day after another director bought him champagne at the exclusive White's Club in London. Mr. Rowland claimed the eight had now backed down because his influence with Zambia could have led to the nationalisation of Lonrho's huge assets there. And the 56 year old strongman who built up a business empire with world wide mining interests after starting life as a railway porter, slammed into them one by one:

Sir Basil Smallpiece former Cunard chief:

"He has no feel at all for what goes on in Africa and I find it difficult to spend more than five minutes with him. He is a man who is terribly interested in petty cash vouchers and not much else. We are complete opposites. We could never really get on together."

Gerald Percy Lonrho's Deputy Managing Director:

"He wants my job and why not? I have got a very nice job. I think that Gerald Percy has great abilities but I don't think he would be acceptable to countries in independent Africa."

General Sir Edward Spears he said was 87 years of age.

"He does not speak to his colleagues. He holds the balance of power. He cannot die happily until he sees me kicked out of Lonrho. That is his ambition in life. But we still provide him with a Rolls and £12,000 a year."

Major Colin McKenzie he said was the "salt of the earth."

He went on: "I have known him for eleven years and when I saw his name on the list I could not believe it. He and I have always got on well together."

Dr. Alfred Gerber a Swiss Director:

"In my view he should not be on the Board of this company."

Mr. William Wilkinson was a paper merchant.

"He has produced more paper than any other man in this building. He has great capabilities but no commercial flair." Lastly was

Mr. John Elliott who he claimed was connected with MI6.

"I think he is professionally a man who moves in the shadows and the move against me was master-minded by him because it is his profession."

Sir Basil said after Mr. Rowland's outburst: "I have got beyond the stage of being offended by irresponsible comments." But he admitted he had been surprised.

COURT PROCEEDINGS, AFFIDAVITS AND EVENTS

Prior to the May hearing and following the court injunction of April in favour of Mr. Rowland, a shareholders action group was planned to unseat Sir Basil Smallpiece and Mr. C. G. L. DuCann, Mr. Edward DuCann's father was among those in favour of an action committee. But events were not confined to the United Kingdom.

A series of affidavits by representatives of Lonrho subsidiaries and associated companies in Africa and the Middle East was read in Court by Mr. Wheeler. Typical of these was one by the Chairman of Lonrho Zambia which referred to the "unique confidence" the Zambian government had in Mr. Rowland. "I am authorised by the High Commissioner for Zambia in London, speaking on express authority from the government, that if Mr. Rowland is removed from the office of Chief Executive, the Company's whole operation in Zambia would not only be in jeopardy, but would cease." It was understood that the government of Zaire, where Lonrho had considerable prospects would follow any course which Zambia took.

Mr. Wheeler, having read further affidavits commented: "Do not let it be assumed that this is Mr. Rowland acting as a puppet master. That indeed would be an insult to the government concerned. And do not assume, I beg of you, that what may be done Mr. Rowland could undo. It is simply not justifiable on the evidence to infer that nothing will happen in the next three weeks if Mr. Rowland is removed."

Previously he had suggested that not even Mr. Percy's knowledge of Africa was up to date. The reaction in Uganda, from where Lonrho gained the greater part of its profit, was not a nicely balanced commercial judgement but a personal and emotional reaction. He referred also to a press statement issued by the Ghana High Commission in London which read ".... the Government of Ghana has noted with interest the struggle for power and control going on in the Board of Lonrho Ltd. in the City of London. While the government concedes the right of directors or shareholders in a Limited Liability Company at home or abroad to engage in an internal wrangling for power and control, it wishes to state unequivocally and categorically that it will not tolerate an attempt by any such group to interfere with the sovereign interest of the Republic of Ghana. Ghana's decision to capture the commanding heights of the economy remain unalterable and irreversible. No threats from any quarter will make the government and the people of Ghana rescind their irrevocable decision to participate fully in the extractive industries of Ghana."

"The government of Ghana supports the stand taken by our brother countries of Zambia, Kenya and the Sudan in this power struggle now going on in the City of London, and warns that it will not be a party to any decision taken unilaterally in London which

may be detrimental to the smooth and efficient operation of Ashanti Gold Field Corporation (Ghana) Ltd. of which Lonrho is a minority shareholder. The government, ever mindful of its solemn obligations to the people of Ghana would like to warn all concerned that it will not hesitate to take measures to protect its interests in any appropriate circumstances".

The Financial Times correspondent in Abidjan wrote that support for Mr. Rowland had come from West Africa. Mr. Brian D. Chapman, Lonrho's most senior executive in French speaking West Africa signed an affidavit in Abidjan capital of the Ivory Coast, in which he stated that a change in the company's direction might not be acceptable to Lonrho's Ivorian associates. Mr. Chapman who had been with Lonrho for twenty years, stated that Lonrho had a management contract in the \$100 million sugar project in the Ivory coast and was involved in a \$40 million sugar project in Dahomey. The company also had an interest in the first Ivorian Insurance Company and had obtained a letter of intent to develop substantial alluvial diamond deposits in partnership with the Ivorian government.

Mr. Gil Olympio, Managing Director of Lonrho's Holding Company in French speaking West Africa arrived in Abidjan to inform Lonrho's Ivorian partners of the full import of the crisis. It was understood by the Financial Times correspondent that the Ivorian partners, some of whom had majority shares in the subsidiary companies were concerned about the "cavalier fashion" in which their interests were treated in London. They were also said to be considering whether they should be taking action to safeguard their interests. Both Mr. Olympio and Mr. Chapman made it clear that they would leave Lonrho if the attempt to remove Mr. Rowland as Chief Executive proved successful.

The Chairman of Gulf International (Sudan) Ltd., previously referred to as the largest private enterprise in the Sudan, stated that if Mr. Rowland were removed Lonrho would find it very difficult to obtain new projects in Africa and the Middle East. Many of the existing projects were likely to be reduced or disappear. "People in Africa and the Middle East have a special respect for the Company, because it is one of the very few European companies which has tried hard to understand the people of Africa and the Middle East." His affidavit said ".... this has been almost entirely due to Mr. Rowland. He is that unique European accepted by most African leaders in their homes on a family basis and to whom they can talk without reservation." The affidavit concluded that if Mr. Percy were to succeed Mr. Rowland might well find himself persona non grata in many African territories.

Another African affidavit spoke of the "lamentable" standing in independent Africa of those who intended taking over senior positions in Lonrho. "The fact that such a panel of individuals should be planning a fundamental reorganisation of the company

without so much as a casual reference to those of us who are the regional executives in independent Africa is nothing short of an unmitigated insult to our persons and our peoples."

Major General John Anderson, of Mulberry Cottage, Hoxne, Suffolk, in an affidavit read by Mr. Wheeler, said he had been on the staff of the Lonrho group since March, 1965, after Mr. Ian Smith, Prime Minister of Rhodesia at that time, had forcibly retired him as G.O.C. of the Rhodesian army. "I cannot visualise any other Lonrho director being capable of handling Lonrho's affairs in Africa with the same ability as Mr. Rowland and, due to the high esteem which he commands with African leaders, I am firmly convinced that his removal as Chief Executive of Lonrho would be very much to the detriment of the company's interests in Africa."

THE DEFENDANTS' ARGUMENTS

Mr. Samuel Stamler, Q.C. for the defendant directors read evidence in which Sir Basil Smallpiece, Lonrho's Deputy Chairman stated that he had joined the Board after the Company had suffered "a crisis of confidence." Sir Basil observed "with regret" that Mr. Rowland attacked the good faith of the defendant directors and suggested that their decision to propose his removal was not taken bona fide for the benefit of the company. He pointed out that it was only after prolonged and careful consideration that he came to the conclusion that Mr. Rowland was unfit, by reason of his temperament and lack of commercial probity to be Chief Executive of a public company. His original intention had been to resign from the London Board, a course far easier than becoming involved not only in public acrimony but in legal proceedings. He was, however satisfied that it would be a dereliction of duty merely to resign without informing the shareholders of the true position and taking all steps open to him to prevent Mr. Rowland from causing further damage to Lonrho.

Referring to statements in Mr. Rowland's evidence about the reasons for the move against him, Sir Basil commented "I find that the most charitable construction I can put on these statements is that they demonstrate Mr. Rowland's capacity for self deception." Mr. Rowland's evidence had been directed towards showing his past services to Lonrho and close personal contacts with influential people. That evidence was designed to prove that ".... he alone is Lonrho and is indispensable to it."

Sir Basil said that none of the defendants denied the vigour, energy and speculative ability of Mr. Rowland and it was because of this that the decision was taken in February, 1972, that he should remain in control and should be appointed Chief Executive. However, ".... in the considered opinion of the majority of the Board the time has now arrived when the damage which has been done and is likely to be done by the irresponsib-

ility of Mr. Rowland outweighs any benefits to be derived from his abilities and contacts." Sir Basil stated that ".... the arrangements between Lonrho and the authorities in the various countries are commercial arrangements which confer substantial benefits on the countries concerned as well as Lonrho. I do not believe that the authorities concerned would on full consideration in their own interests or those of their own peoples, unilaterally terminate such a beneficial arrangement merely because Mr. Rowland ceased to be the head of Lonrho."

The principle, but not the only reasons for Sir Basil's decision to propose Mr. Rowland's dismissal were two:

1. Mr. Rowland's persistent refusal to submit to the necessary discipline of the Board and the fact that ".... in order to get his own way he was prepared not only to override and disregard decisions of the Board and refused to consult with the Board, but also, when it seemed the best way to achieve his ends, actively to deceive and conceal from the Board material information."
2. In specific instances Mr. Rowland appeared to have acted without any regard for the true interests of the company or to elementary standards of commercial propriety. Sir Basil said that one matter that had resulted in himself and his fellow directors losing confidence in Mr. Rowland concerned an overseas consultancy agreement he made with Mr. Duncan Sandys before Mr. Duncan Sandys became Chairman. That agreement under which Mr. Sandys was to receive £50,000 a year had never been properly agreed by the Board. Sir Basil said that Mr. Rowland had not disclosed to the Board that the consultancy agreement had been terminated at a cost of £130,000 to enable Mr. Sandys to become chairman. Sir Basil said however that he was entirely satisfied that Mr. Sandys believed at all material times that all financial arrangements with him had been properly approved by the Board of Lonrho. Certainly on learning they had not, he immediately decided to refund the monies he had already received and foreswore any claim on the balance.

This matter to do with consultancy agreements was widely reported in the Press. In a sworn statement on the second day of the hearing Mr. Rowland had maintained that Mr. Angus Ogilvie and Mr. Alan Ball had "carefully considered" the amount of compensation to be paid Mr. Sandys for the ending of his consultancy agreement. Mr. Sandys had been retained on a six year consultancy by Lonrho at an annual fee of £51,000 a year. On being asked to become Chairman of the Company, Mr. Sandys consultancy agreement had been terminated and he was to be paid £130,000 in

compensation. £44,000 of this sum had been paid into an account in the Cayman islands and this amount was subsequently refunded by Mr. Sandys. In a press interview (Financial Times, 11th May, 1973) Sir Basil spoke about the company's practice of paying directors' salaries partly outside the U.K. £2,500 of Sir Basil's £12,500 salary from the group was paid into a Cayman Islands account. He also received over £2,500 in tax free expenses paid in the U.K. He commented that "I understand this is quite a common practice in companies which trade inter-nationally. My fees were arranged by Mr. Edward DuCann of Keyser Ullman."

Mr. Duncan Sandys had had £49,000 of a £51,000 a year consultancy salary paid in the Cayman Islands.

MR. ROWLAND'S MANAGEMENT STYLE

In the eyes of many people, shareholders, managers and particularly the press, Lonrho was firmly identified with Mr. Rowland. It was he who seemed to be always involved in negotiating new deals and involving Lonrho in new ventures, and clearly Lonrho's growth throughout the 1960s had been characterised by a high centralised decision-making process at the top. That this had apparently included Mr. Ball and Mr. Ogilvie did not alter the impression of public and press alike, that Mr. Rowland's views carried a great deal of weight. Even during the course of the public airing of the Boardroom dispute Mr. Rowland had continued to be intimately involved in the affairs of the company outside court. Clearly the Boardroom dispute had a great deal to do with personalities and with the Chief Executive holding some 20% of the shares of the group this was perhaps understandable. The Sunday Times referred to Mr. Rowland's approach to corporate management as both individualistic and ambiguous. Citing his generosity towards Lonrho's South African representative, the Sunday Times referred to it as ".... dishing out favours and brickbats like a medieval baron with little or no regard for business niceties and Boardroom consultation." Sid Newman of Lonrho South Africa was at one time charged with a technical violation of South African Company Law in that he had a home loan granted to him for a company for which he was a director. Subsequently, this loan was transferred into one of Lonrho U.K. based subsidiaries.

By 1974, Lonrho could expect remittances of £1.5 million from Western Platinum and at the time of the Lonrho affair, Mr. Newman's division had just reported an extraordinary six month profit of more than £560,000 on Foreign Exchange dealings. Mr. Rowland showed his gratitude by issuing instructions via the Finance Director in March of 1973 that Mr. Newman's £23,750 debt to Lonrho should be cancelled. This somewhat unorthodox method of rewarding employees aroused comment from the Sunday Times. Sir Basil Smallpiece and certain of the other defendant directors referred to Mr. Rowland's management style and personality in their case against him.

In addition to the specific instances involving Mr. Rowland's shares in the Nyachere mine in Rhodesia, the Wankel deal and the matter of Mr. Duncan Sandys consultancy agreement, the defendants expressed their concern and dissatisfaction at the way in which Mr. Rowland refused to submit to the discipline of the Board.

Sir Basil said that Mr. Rowland had been completely unable to establish a proper working organisation for the Head Office. "He has, in my opinion a total inability to collaborate in any form of team effort which is necessarily essential to the successful running of a large company." While Mr. Rowland had undoubted talent at arranging new deals, Sir Basil felt he was incapable of discharging the administrative and financial responsibilities which were an integral part of his executive function. "He has demonstrated an utter intolerance of advice and criticism to the point of being unable to work in harmony with anyone who ventures to disagree with him." Sir Basil continued "He is disloyal to the Chairman, his co-directors and many of those who work under him and is deficient in the art of human leadership and in integrity or purpose. He is unwilling to delegate authority, define responsibilities and back the decisions of his staff. He is over-emotional and is extremely ill-tempered and mercurial to such an extent that I and each of my co-defendant directors are of the opinion that he is not consistently capable of making balanced judgements."

Mr. William Wilkinson referred to "numerous ways in which Mr. Rowland demonstrated his unsuitability and lack of capacity to be Chief Executive; financial recklessness, management inadequacy, a general lack of appreciation of the duties of the Chief Executive that a public company must shoulder and the standards of conduct which he must observe." He felt that the group Mr. Rowland had helped to build up had outstripped his capacity to run it. Mr. Wilkinson said that when he discovered about an extra Dm 36,000,000 to be paid on the Wankel deal he raised the matter with Mr. Rowland who led him to believe it was not going to be a burden on the company at all. He submitted that the evidence before the court on behalf of the defendant directors showed at least eight - perhaps nine - specific occasions when Mr. Rowland refused to consider any attempt to run Lonrho in a manner other than one which suited him. He had shown an utterly untenable attitude to Sir Basil Smallpiece and Mr. Wilkinson recalled that two working papers submitted to the General Purposes Committee of the Board had been rejected out of hand by Mr. Rowland without any sensible or serious discussion.

Mr. Rowland maintained that the precise terms of the Wankel deal had been known to the Lonrho Board and to the accountants Peat, Marwick, Mitchell. On the matter of Mr. Rowland's abilities to take business decisions Mr. Wheeler Q.C. for Mr. Rowland suggested that perhaps the best way of contrasting Mr. Rowland and Sir Basil was to remember that for every £1,000 of profit or loss by Lonrho, Sir Basil stood to gain or lose rather less than 3p. Mr. Rowland stood to gain or lose just under £200.

But further evidence was led on behalf of Dr. Alfred Gerber, the Lonrho director primarily responsible for the Wankel operations. Dr. Gerber said that it had for some months been his view that much of Mr. Rowland's extraordinary wholly irrational behaviour must be caused by some form of illness, while Sir Edward Spears maintained that Mr. Rowland's conduct had in recent months been so uncontrolled, his language so immoderate ".... that I have been led to wonder whether he is entirely responsible."

Support for Mr. Rowland, however, came from Mr. Ian Hossy, a director of one of Lonrho's South African operations who insisted that in his experience ".... when Mr. Rowland shows apparent ill temper or appears over emotional, this is not done on the spur of the moment, but is a calculated move to bring forth a particular response. Mr. Rowland carefully considers everything he does before doing it, although he may deliberately appear not to have done so at all. His negotiating ability arises largely from his capacity for self control."

The Sunday Times, describing the courtroom scene commented that as the lawyers read affidavit after affidavit, sensational facts emerged and shocking statements were made, but all were greeted impassively. "Mr. Rowland himself sat on the front bench, silently planning his tactics, allowing himself a smile only when one of his former colleagues suggested he might be going mad." And indeed Mr. Wilkinson in his affidavit maintained ".... there are few days that go by when Mr. Rowland is in Lonrho's head office which do not witness extreme displays of rage which, on many occasions have caused me seriously to call in question the state of his mental health."

LIQUIDITY PROBLEMS

Conflicting views were put forward both in the Press and in court on the state of Lonrho's finances. It was revealed that, as a result of the Boardroom dispute, a plan for Lonrho to bid for Rolls Royce Motors, an offer which would have involved the issue of thirty million of the group's shares to cover 70% of the purchase, had been dropped. The Investor's Chronicle and Stock Exchange Gazette (18th May, 1973) estimated that Lonrho had planned to tender between £45,000,000 and £50,000,000 for Rolls Royce "a typically gradiose idea for a company then capitalised at between £60,000,000 and £70,000,000."

Sir Basil Smallpiece said that a specific instance which illustrated Mr. Rowland's disregard for ".... elementary standards of commercial propriety" were that total U.K. Bank overdrafts were forecast to grow from £1.5 million immediately after the Rights Issue to approximately £9 million by the end of 1973. He said he had made representations to Mr. Sandys in June, July and August of 1972, including a warning of the damage that failure to comply with the undertakings in the Rights Issue Prospectus

together with other aspects of mismanagement of Lonrho might provoke a DTI* enquiry if these were not corrected. "Again in January, 1973, on his return to work following his three month illness I warned him of the impending liquidity crisis. In early March I warned him again of the continuing danger of a Department of Trade and Industry enquiry unless he implemented the corrective action which he said in the previous September he would take." Sir Basil was replying to a statement by Mr. Sandys in which he apparently suggested that Sir Basil had not advised him before March, 1973 of specific or general complaints about the conduct of Mr. Rowland.

Both sides in the dispute clashed over whether warning of an impending Liquidity crisis had been given in February, 1973, and Mr. Rowland in a letter to shareholders claimed that "no suggestions" were made at a February 15th Committee meeting that a cash crisis was on the way. This was denied by a Mr. Gerald Percy who added, referring to a cash problem ".... there has been only one topic of conversation around these offices for at least nine months." Mr. Rowland pointed out that at a February 15th meeting Lonrho's overdraft for the end of March was forecast at almost £7 million while it actually turned out to be £5.87 million.

After the court appearances both sides made mention of the question of liquidity. Sir Basil charged Mr. Rowland with "financial irresponsibility" which he said had been a major cause of two liquidity crises since 1970. "If no change is made, it is in our view inevitable that the liquidity position will begin to deteriorate and shortly become serious." Sir Basil felt that a third such crisis could be fatal to Lonrho and the interests of the shareholders. The defendant directors alleged moreover that the group was running a "balance of payment" deficit of more than £2 million a year which could rise nearly to £3 million within a year. This negative cash flow situation was acknowledged by Mr. Rowland's side but bankers Keyser Ullman, while "not staisfied" at this situation expressed their confidence that the problem could be contained.

After-tax profits in 1972 were £6.46 million but because of the well-aiired problem of remitting earnings from the Group's extensive African interests, the net inflow was around £4 million. The eight estimated that running Lonrho from the U.K. cost £6.4 million of which development expenditure incurred by Mr. Rowland himself was as high as £1,000,000 a year. The executive jet which he used sometimes for as much as three weeks in each month to visit high ranking African contacts cost £300,000.

*Department of Trade and Industry - A Government Body

EVENTS AFTER COURT

In his judgement in court, Mr. Justice Plowman had drawn attention to the amount of publicity that the case had attracted showing that it ".... involves issues which transcend the legal problems which may be involved in it." While Lonrho did not perhaps receive the same amount of publicity after the court proceedings as it had during them nevertheless comment on its affairs came from a variety of sources

Both the Investor's Chronicle and the Sunday Times commented on the group's profitability. The Investor's Chronicle noted that over a period of eleven years Mr. Rowland had been instrumental in raising Lonrho's turnover from £1 million a year to £216 million and profits before tax and minorities from £158,000 to £19 million, but suggested that the record over the past four years was "not so hot". Net profits after minorities which was what shareholders were really interested in had, from 1969 totalled £5.01 million, £5.64 million, £4.24 million and £6.46 million and only 55% of the 1972 profits were remittable to the U.K.

Commenting on the Boardroom Dispute the article suggested that if the dispute had exposed the failings as well as the strengths of the men who ran Lonrho it had also brought into the open the real nature of the company. "It is not primarily a finance company or a trading company: under Rowland it is a political company. His vision is to open up and develop Black Africa with the aid of Middle Eastern money, to make the continent a third force in a world where North America and Russia are now in balance. Lonrho's function (which it alone, or indeed Rowland alone can fulfil) is to provide the ideas, arrange the deals and manage the projects, picking up what equity it can and taking management fees besides. The Company's future and the development of Black Africa are completely inter-dependent in Rowland's view. This is what he is up to and it calls for political skills and judgement of a high order. This is his unique speciality."

"Rowland's ambitions in Africa are laudable in our view and even one of his opponents have called them basically sensible. For the sake of Lonrho's future development in Africa therefore it seems to us that the shareholders own interests lie in keeping Rowland, warts and all. His failings are serious enough to cause concern and our view is very much dependant on the steps he is prepared to take to rectify them."

Mr. Rowland, in a circular and statement to shareholders dated 16th May, 1973, said that the issue before the shareholders was how, and by whom the company should be managed. "This is what the shareholders must decide. The style of management practised hitherto had shown a consistent growth in assets and profits."

TABLE III

Year to 30th September	Total Capital Employed	Profits before Taxation and Minorities and Excluding Extraordinary Items
		£ million
1962	3.21	0.47
1963	3.98	0.50
1964	10.29	1.03
1965	13.17	1.82
1966	15.84	3.06
1967	19.93	3.60
1968	49.97	6.14
1969	105.21	14.44
1970	117.74	14.61
1971	131.70	15.09
1972	150.56	19.30

The Sunday Times under a headline "Why Rowland is a Liability" published a comparison between Lonrho and various other groups including Inchcape, Mitchell Cotts and Booker McConnell. The newspaper summed up the consensus of opinion about Rowland: "It is all very well for Sir Basil Smallpiece and his organisation men to complain that Tiny isn't behaving in a correct way, but in the end I would sooner have the business run with a mercurial panache and money making genius of Rowland than the respectable but none too successful plod of Sir Basil." "And when it comes to social good what could be better than to back an entrepreneur of vision who's actually investing money producing sugar and platinum from wasted land, creating real wealth where it is most needed, in Africa" Notwithstanding this however the Sunday Times Financial Editor felt it was now time that Rowland went. "Rowland has quite simply not delivered the goods in sufficient quantity to justify his perilous approach to management. He is acknowledged by his critics as a master dealer and negotiator. His qualities made Rowland's first five at Lonrho's astonishingly profitable for shareholders the real test always comes when a company reaches a certain size. In Lonrho's case this really starts at the end of 1967, when Rowland, Alan Ball and Angus Ogilvie embarked on a series of

major takeovers of old African based colonial companies financed by shares issued at high prices based on the early sensational record."

"Earnings per share have on the whole continued to grow and should grow faster this year. But as the simple chart shows (Exhibit VI) other overseas traders have done much better. Companies like Inchcape, Mitchell Cotts, Booker are not carefully chosen special cases, nor are they famed for their entrepreneurial brilliance, dynamism and flair. The starting date is not specially unfavourable to Lonrho. Yet they have out-performed Lonrho because when it counted, professional management was better. And they have out-performed Lonrho without, so far as I know, unhappy boardrooms, shabby behaviour or the recurrent crises that have proved so damaging in Lonrho's case."

Mr. Rowland sent a further circular to shareholders dated 22nd May in which he referred to the Sunday Times table and published one of his own, Exhibit (VII)

Both the Sunday Times and the Investor's Chronicle commented on the Group's share price. The Sunday Times suggested that shareholders at Lonrho were no better off than they would have been in I.C.I.* and that was before the latest debacle which has cut the share price from 100p to 64p". The Investor's Chronicle felt that it would be years before Lonrho shares were regarded as serious investment by the City. "So long as they are held largely by private investors, they are likely to be lowly rated, especially as the political nature of the company comes to be appreciated. Profits could grow at a spectacular rate if all goes well; and if Rowland loses his touch disaster could ensue. Either way the City will not be directly involved. For most investment managers Lonrho has become a source of entertainment not an investment.

THE PRIME MINISTER SPEAKS

Two days after the Lonrho judgement Mr. Joe Grimmond, the former Liberal leader urged Mr. Heath, the Conservative Prime Minister to ask the confederation of British Industry to condemn Lonrho activities ".... which are fatal to any counter inflation policy." Mr. Heath replied "I hope Mr. Grimmond will not exaggerate to the extent of saying that an incident of this kind is fatal to the counter inflation policy. It is an unpleasant and unacceptable face of capitalism, but one should not suggest that the whole of British Industry consists of practices of this kind." The Prime Minister hoped the Confederation of British Industry would be prepared to make its own statement.

*Imperial Chemical Industries.

The CBI said it was in no position to comment on individual cases, particularly as Lonrho was not a member of the Confederation of British Industry. But it expressed its deep concern at the "personal conduct and integrity of the Directors."

Prior to Mr. Grimmond's questions the Prime Minister had been accused by Mr. Jack Ashley, Labour M.P. for Stoke on Trent for refusing to intervene in the "dubious morality" of some Boardroom matters yet consistently intervening in Trade Union wage claims.

Two days after the Prime Minister's statement in the House of Commons it was announced that a full-scale investigation into the affairs of Lonrho was to be undertaken by Inspectors of the Department of Trade and Industry.

An announcement from the DTI said that the Inspectors were being appointed under Section 165 (b) of the Companies Act of 1948. The Section covered among other things "misfeasance or other misconduct, or when members (shareholders) have not been given all the information which they might reasonably expect."

The work of the Inspectors would probably be mainly concerned with the question of withholding information and it was not expected that the enquiry would interfere with the special General Meeting of Lonrho's shareholders called for May 31st. Among matters expected to be investigated were those which had been included in statements made during the recent Court hearings. Among them were:

1. Mr. Duncan Sandys £130,000 compensation for loss of his post as Consultant to Lonrho when he was made Chairman of the Company.
2. The continued holding of virtually rent free Company houses by two Directors, one still occupied by Mr. Rowland with an estimated market value of £350,000.

During the course of the Court proceedings it had been alleged that Mr. Rowland had not fulfilled an undertaking to buy the house that he occupied from Lonrho. Mr. Wheeler, Q.C. for Mr. Rowland maintained that Mr. Rowland was about to do so, "but it is one thing to say this should be done, it is not quite so easy always to do it."

"I am not going to give evidence about where Mr. Rowland is resident for tax purposes; but the ownership of a large house in this country might have a material bearing on where one's place of residence was said to be for tax purposes." Mr. Rowland later, replying to a question by the Press as to whether he paid any U.K. taxes replied "That is between the Inland Revenue and myself." An article in the Financial Times (12th May, 1973) mentioned that the Department of Trade and

Industry had had a barrister in court holding a watching brief.

Other issues which were not thought likely according to the Financial Times (19th May, 1973) to come under the DTI enquiry, involved the use of tax haven islands for the part payment of fees to directors. Mr. Anthony Barber, Chancellor of the Exchequer, told the Commons that the possible use of artificial devices to minimise tax liability was a matter for the Inland Revenue which was, as a matter of course, making its own enquiries. Previously it had been reported in the Financial Times (12th May, 1973) that the income from Mr. Rowland's 20% stake in Lonrho held in the Bahamas was roughly half a million pounds a year. A further matter which it appeared would be the subject of DTI investigation was a secret offer said to have been made to Mr. Rowland by his main opponent, Sir Basil Smallpiece. It was said to have included part of the company's assets in Africa, including Zambia and East Africa and the company's executive jet aircraft as the price for Mr. Rowland to leave the company. One of Mr. Rowland's supporters was reported to have described this offer as "totally illegal" because the Board was "proposing an illegal division of the company's assets. You simply cannot sell assets to one shareholder. We took legal advice and were immediately told this."

A spokesman for Sir Basil Smallpiece (Financial Times, 21st May, 1973) referring to the proposal, made it clear that Sir Basil would not have been party to any proposal that was "illegal". Sir Basil had been in Australia at the time and no firm offer was ever made - only a proposal for consideration by Mr. Rowland. "The memorandum to Mr. Rowland said that the disadvantage of the proposal, if it proved to be acceptable to him, was that it would take some time to arrange. Among other things the approval of the Stock Exchange and the Trustees would have to be obtained. Class I and Class IV circulars would be necessary and it would be necessary to obtain the approval by ordinary resolution of the shareholders to the deal since it involved the personal interest of one of the directors."

Mr. Harold Wilson, Leader of the Opposition referring to the Lonrho Affair, called on the Government to make it mandatory for companies to disclose all payments above a given figure for consultancy and other arrangements, the provision of rent free accommodation, all figures of compensation for loss of office, real or otherwise, and all payments of salary and other emoluments which were paid outside the U.K. and outside the jurisdiction of the Inland Revenue. Mr. Wilson, who was speaking at a Conference of Mineworkers at Blackpool, said that the Augean Stable that had emerged was a graphic illustration of the system of society Mr. Heath and his government existed to sustain. Referring to the pattern in the Prime Minister's speech following the previous General Election when he promised to provide room for greater incentives to men and women, Mr. Wilson said ".... the day of free enterprise and the deification of the unadulterated profit motive had dawned and the sun would manifestly shine upon the righteous." Mr. Wilson said the "torrid sun on a foetid

swamp sometimes hastens the growth of strange and contorted jungle plants, in which still stranger creatures live."

TWENTY-FOUR HOURS

With the Extraordinary General Meeting due to take place on the 31st May, the Financial Times reported, attributing its report to a leak, that Lonrho's half year profits to March were up by £2.6 million to £3.2 million and that the "encouraging feature" was that the remitted and remittable portion had risen from £1.4 million out of £2.6 million to £2.2 million of the £3.2 million.

The news-paper, in a different article also reported that The Drayton Trust which, before the row had become public had reduced its stake in Lonrho from an initial 10% to 5% and whose Boardroom representative the Hon. Angus Ogilvie had resigned after Mr. Lonrho's original court application, announced that it was supporting both Lonrho factions.

Eight of the nine investment trusts managed by Drayton which held Lonrho shares announced "after very careful consideration" that they had voted in favour of Mr. Rowland's continued employment - and against resolutions proposed by Mr. Rowland calling for the sacking of his eight opponents. The ninth company, the Municipal Trust owning 0.3% of Lonrho however, planned to support the eight dissident directors completely by voting against their dismissal and against Mr. Rowland.

Sir Gerald Percy said he was "slightly surprised" at Drayton's overall decision. "This leaves me not knowing what Drayton's opinion of the dispute is." But, he added, "we are naturally very pleased that they approve our position and we interpret it as a vote of confidence for our action."

On the day of the Annual General Meeting and Extraordinary General Meeting Lonrho's stockbrokers, Messrs. Joseph Sebag warned the company of the Stock Exchange Council's concern at leaked information which had embarrassed the company. The directors were concerned about two principle disclosures; the details given in the Financial Times of 30th May of the earnings in two key areas, Rhodesia and Zambia, and the current forecasts for full year profits. Concern was also expressed at the newspapers' reporting of the six month pre-tax profit figure which had been officially announced some five days later.

In South Africa, the Minister of Police disclosed that after two years of investigation into the affair of Lonrho, Coronation Syndicate and Tweefontein, papers in the case had been sent to the South African Attorney General for a decision. It was reported that the probe lasted from March, 1971 to mid-February, 1973.

POSTSCRIPT

Mr. Rowland remained as Chief Executive of the Lonrho Group by a six to one proxy majority decision at the Extraordinary General Meeting on the 31st May, 1973. The eight dissident directors were removed from the Board. Prior to the Extraordinary General Meeting, Mr. Rowland had purchased more than 1.5 million extra shares in the company.

LONRHO EXHIBIT ITEN YEAR FINANCIAL RECORD

Year ended 30th September	Profit before taxation Note (i) £m	Profit after taxation, minorities and excluding extra ordinary items £m	Cost of dividend £m
1963	0.50	0.24	0.16
1964	1.03	0.26	0.16
1965	1.82	0.60	0.19
1966	3.06	1.22	0.38
1967	3.60	1.45	0.81
1968	6.14	2.06	1.42
1969	14.44	5.01	2.48
1970 Note (ii)	14.61	5.64	3.13
1971 Notes (ii) and (iii)	15.09	4.24	1.38
1972 Notes (ii) and (iii)	19.30	6.46	2.43

Notes:

- (i) Includes pre-acquisition profits arising from subsidiaries acquired principally for shares and loan stock.
- (ii) Includes associated companies.

EXHIBIT II

(Excluding associated companies)

	Turnover		Profit before taxation	
	1972	1971	1972	1971
	£m	£m	£m	£m
Agriculture	18.38	16.12	4.98	2.66
Finance	4.09	3.28	(1.67)	(1.70)
General trade	82.38	70.98	3.30	4.15
Mining	18.40	15.11	4.34	2.90
Motors	55.34	50.89	3.74	2.78
Printing and publishing	7.38	7.44	.49	.78
Shipping	1.97	2.36	.09	.09
Textiles	15.33	12.97	2.05	1.46
Wines, spirits and beer	12.63	12.73	.78	.73
	<u>125.90</u>	<u>191.88</u>	<u>18.10</u>	<u>13.85</u>
Territories				
East and Central Africa	94.51	97.76	9.01	8.58
Europe and other	39.40	29.84	.58 (i)	.26 (i)
Southern Africa	8.36	6.80	1.01	.91
West Africa	73.63	57.48	7.50	4.10
	<u>215.90</u>	<u>191.88</u>	<u>18.10</u>	<u>13.85</u>

Territories included in the above are:

East and Central Africa: Kenya, Malawi, Rhodesia, Tanzania, Uganda, Zaire and Zambia

Europe and other: United Kingdom, Belgium, France, German, Luxembroug, Switzerland, Mauritius and Sri Lanka

Southern Africa: Botswana, South Africa and Swaziland

West Africa: Ghana, Ivory Coast and Nigeria

(i) After finance charges

EXHIBIT III

The following companies materially contribute to the assets or profits of the group.

Most of the subsidiary companies shown are themselves holding companies and there are minority interests in their subsidiaries. The beneficial interest shown below represents the percentage of net profit for the year ended 30th September, 1972 attributable to the shareholders of Lonrho Limited after taking account of such minority interests.

	Country of Incorporation	Direct Interest in Equity Lonrho Ltd. %	Lonrho and Subs. %	Beneficial Interest %	Principal activities
African Commercial Holdings Ltd.	Zambia	50	50	41	Soft drink franchise, general trading
Ashanti Goldfields Corporation Ltd.	England	80	80	80	Mining
Central Africa Company Ltd.	England	100	100	100	Tea and wattle estates
Cominière S.A.	Belgium		50	28	Investment holding, motor trade, building
Consolidated Holdings Ltd.	Kenya		52	37	Newspaper and commercial printing, office equipment, import/export services
Coronation Syndicate Ltd.	South Africa		66	38	Mining
David Whitehead & Sons (Holdings) Ltd.	England		100	70	Textiles
East African Tanning Extract Co. Ltd.	Kenya		100	100	Agriculture
John Holt & Company (Liverpool) Ltd.	England		100	91	General trading, manufacturing, motor trade and wines.

Contd/Over

EXHIBIT III (Contd.)

	Country of Incorporation	Direct Interest in Equity	Lonrho Ltd.	Lonrho and subs.	Beneficial Interest	Principal activities
Heinrich's Syndicate Ltd.	Zambia	90	90	90	90	Hotels and investments in breweries
Industrial Credit Co. Ltd. (associate)	Zambia	50	50	50	50	Hire purchase finance
Kaduna Textiles Ltd. (associate)	Nigeria		33	33	33	Textiles
Loncom S.A.	Luxembourg	49	100	100	100	Interest in Wankel and Rotary engine companies
Lonrho East Africa Ltd.	Kenya	100	100	100	100	Investment holding in various trades
Lonrho Exports Ltd.	England	100	100	100	100	Export and confirming company
Lonrho Investment Co. Ltd.	Rhodesia	100	100	100	74	Mining and motor trade
Lonrho (Malawi) Ltd.	Malawi	100	100	100	85	Mining and motor trade
Lonrho Zambia Ltd.	Zambia	100	100	100	71	Building, motor trade and newspaper printing
Mobile Motors Ltd. (associate)	Malawi		50	50	50	Motor trade
Mobile Motors (Private) Ltd. (associate)	Rhodesia		50	50	50	Motor trade
Mobile Motors Zambia Ltd. (associate)	Zambia		50	50	50	Motor trade
Motor Mart & Exchange Ltd.	Kenya		71	69	69	Motor trade

Contd/Over

EXHIBIT III (Contd.)

	Country of Incorporation	Lonrho Ltd. %	Direct Interest in Equity and subs. %	Beneficial Interest %	Principal activities
National Breweries Ltd. (associate)	Zambia		49	44	Brewing
Nyaschere Copper (Private) Ltd. (associate)	Rhodesia		50	50	Mining
Swaziland Sugar Milling Co. Ltd.	Swaziland		99	92	Sugar estates
Twefontein United Collieries Ltd.	South Africa		59	55	Mining
Wankel GmbH	Germany		100	80	Rotary engine development
Watergate Steam Shipping Co. Ltd.	England		100	100	Shipping
Western Platinum Ltd.	South Africa		50	50	Mining
Willoughby's Consolidated Co. Ltd.	England	86	86	86	Ranching overseas

EXHIBIT IV

The interests of the directors and alternate directors in the shares and loan stocks of Lonrho Limited referred to on page 17 are as follows:

	Ordinary shares fully paid	Loan stock 1984/89	Ordinary shares 5p paid
--	----------------------------	--------------------	-------------------------

	Ordinary shares fully paid						Loan stock 1984/89				Ordinary shares 5p paid	
	30.9.72			1.10.71			30.9.72		1.10.71		1.10.71	
	Own Interest	As trustee	Nil (1)	Own Interest	As trustee	Nil (1)	Own Interest	As trustee	Own Interest	As trustee	Own Interest	Balance of purchase prices (4)
Duncan Sandys	67,072										Nil	75.54p
A. H. Ball	15,420			13,732							50,000	
Sir Basil Smallpeice	1,500			Nil (1)								
R. W. Rowland	12,600,000			10,080,000								
G. Percy	75,000(2)			60,000			£22,500		£22,500			
F. A. Butcher	4,612			1,000							50,000	101.67p
S. S. W. Dalglish	763,721(3)	35,000		615,180	195,848						15,000	101.98p
Edward du Cann	2,000			Nil (1)							30,000	101.77p (15,000) 75.54p (15,000)
R. F. Dunlop	4,301			Nil (1)							30,000	101.87p (20,000) 75.54p (10,000)
J. N. R. Elliott	5,223			2,488			£800		£800		30,000	
Dr. A. Gerber	26,994			Nil (1)							30,000	75.54p
C. D. Mackenzie	122,825	Nil		96,500	1,760							
A. J. B. Ogilvy	17,787	Nil		16,537	2,000							
T. R. Prentice	2,144			616							20,000	101.87p (15,000) 75.54p (5,000)

EXHIBIT IV (Contd)

[illegible]

NOTES

- 1 At date of appointment
- 2 Under the Share Option No.1 Scheme Mr. G. Percy has an option to purchase 50,000 ordinary shares of 25p each fully-paid at a price of 138.6p per share. This option is exercisable wholly or in part at any time and from time to time during the five years ending 1 May, 1975.
- 3 Mr. S.S.W.Dalglish and Mr. R.N.Dalglish have a beneficial interest in 662,725 ordinary shares of 25p each fully-paid registered in the name of R.S.Dalglish Limited. This one holding has been entered against both of these directors' names
- 4 Further calls are payable at any time and from time to time. The balances shown at 75.54p above may not be called until April, 1975; the remainder may not be called until September, 1973.

The changes in directors' interests from 1 October, 1972 to 19 April, 1973 are as follows:

Mr. R. N. Dalgliesh has disposed of 30,000 fully-paid ordinary shares

The Rt. Hon. Duncan Sandys has purchased an additional 200,000 fully-paid ordinary shares

EXHIBIT VEXTRACT FROM A CIRCULAR DATED 16th MAY, 1973THE ALLEGATIONS

The Investors' Chronicle has said that the allegations are "mud under the bridge". So they are. The attacks upon me concern the following.

WESTERN PLATINUM

I was criticised early last year for not disposing of Western Platinum "at any price" because it was a drain on United Kingdom resources. In fact it is now an immensely valuable asset and from 1974 should generate a positive cash flow to the United Kingdom of £1.5m.

WANKEL

This investment, which I have always believed to have very great potential, was introduced and negotiated by me. Despite strong opposition, Lonrho acquired Wankel and its interest is now worth substantially more than twice what we paid for it. Mr. Wilkinson himself is on record as saying "Wankel is clearly the major growth point for the next five years."

(WESTERN PLATINUM AND WANKEL ARE NOW EXPECTED BY ALL TO BE EXTREMELY PROFITABLE.)

NYASCHERE

I acquired my interest in 1957. Lonrho's interest arose from an opportunity which I passed to a local Lonrho subsidiary to acquire a 50 per cent. interest for less than £20,000, and that interest, according to Mr. Percy, is now worth £1.5 million. The mine has been financed by local loans on full commercial terms totalling £3 million without any call on Lonrho's United Kingdom cash facilities. I personally have had nothing to do with the mine, its management or finance since U.D.I. in 1966. It is significant that there was no previous criticism of this lending, either by the Auditors or by any of the Directors, although the lending amounted to £2.5 million at the 30th September, 1971.

HEDSOR WHARF

In my opinion this criticism was wholly unwarranted. At no time did I occupy Hedsor Wharf at any cost to the shareholders. I have been debited with the interest on the capital cost of the property to the Company and I have personally borne the costs of the maintenance and staff, in addition to spending between £200,000 and £300,000 of my own money on improvements to the property and its furnishings. I use Hedsor Wharf exclusively on Company business when I am in England and then only at weekends. The property will be conveyed before the end of June this year.

In any event it has always been my policy over the years to leave substantial credit balances with Lonrho and during 1971/72 I offered to lend the Company £1m to assist during its liquidity problem. In the event £0.5m of this loan was taken up by the Company in February, 1972.

MR. DUNCAN SANDYS' CONSULTANCY AGREEMENT

I have also been criticised in connection with the Consultancy Agreement made with Mr. Sandys and its termination. As I said in evidence, Mr. Ball, Mr. Ogilvy and I considered that Mr. Sandys' personal status and extensive experience of international affairs, particularly in Africa, and his acquaintance with leading figures in many foreign countries, fully justified the proposed remuneration, and subsequent compensation, in order that he might become Chairman. The whole question was investigated by a Committee of the Board including members of each opposing group which reported on 22nd March, 1973. In their unanimous report, the Committee, which included members of both opposing groups, whilst criticising the fact that the whole Board had not been consulted at the time, stated clearly that "those involved had acted in what they thought to be the best interests of the Company". Sir Basil Smallpeice himself moved the adoption of the report.

GENERAL

The Eight say that I am overbearing and intolerant. It is true that I feel strongly on some points and express myself strongly. Working intensively for the Company over long hours I may sometimes be tired, short tempered and even rude to my colleagues. I am sorry. But, as the Affidavits from so many quarters show, I enjoy the loyalty of the Managers and others throughout the Group. An occasional breach of good manners among colleagues, although regrettable, should, I suggest, be weighed against the appreciable services I am rendering the Group.

SUPPORT FOR ME

Apart from the Eight, and those of them who have been the shortest time with the Company gave the longest Affidavits, only one other person gave evidence on their behalf. He was a lawyer formerly in Zambia and now in London, whose services with the Company had been recently terminated. His evidence was expressly contracted, on the instructions of the Zambian Government, by His Excellency the High Commissioner for Zambia in London. Those who gave evidence for me, in addition to the High Commissioner, included the Chairman of Lonrho Zambia, the Managing Director of Lonrho East Africa, the Chairman and Managing Director of Lonrho South Africa, the men in charge of our mining and sugar operations, our Merchant Bankers, a number of London Directors and numerous others. All this support was spontaneous. Letters of support were given by the Government of Zaire and the Company's Stock-brokers. I am most grateful to all those who gave evidence or indicated support, at risk to their future with the Company. The Eight said that their supporters would not be identified so as not to be compromised. Shareholders should know who these silent supporters are.

Finally it is noteworthy that despite recent criticism, all acquisitions were in fact approved by the Board. No Director has ever proposed a vote of censure at the time or, indeed, during the 12 years I have been a Director. When the resolution to remove me was first put forward the Eight wished to have it passed without discussion. Only the insistence of the Chairman prevented this.

SUMMARY OF ALLEGATIONS

The position about all the allegations can be summarised thus. All the facts had been fully disclosed to the Board before the Eight acted. A Finance Director approved by the whole Board was about to take up his duties, reporting direct to the Board. The Eight were a majority.

This was a framework in which they could have kept control. One would have expected them to make further efforts before acting suddenly and without notice. Sir Basil Smallpeice could have used the time to visit at least some of the more important operations and get to know the feel of the Group. All the difficulties might have been avoided, to the great benefit of the Group, operating as it does in a sensitive area.

PROXIES

I enclose a blue form of proxy for use at the Extraordinary General Meeting. If you are kind enough to support me, please insert your name and address sign the form and return it as soon as possible. The fact that you have done so will not prevent you from attending and voting in person if you can. If you use the white form of proxy sent by the Company for the Extraordinary General Meeting, please complete it as indicated in the blue form.

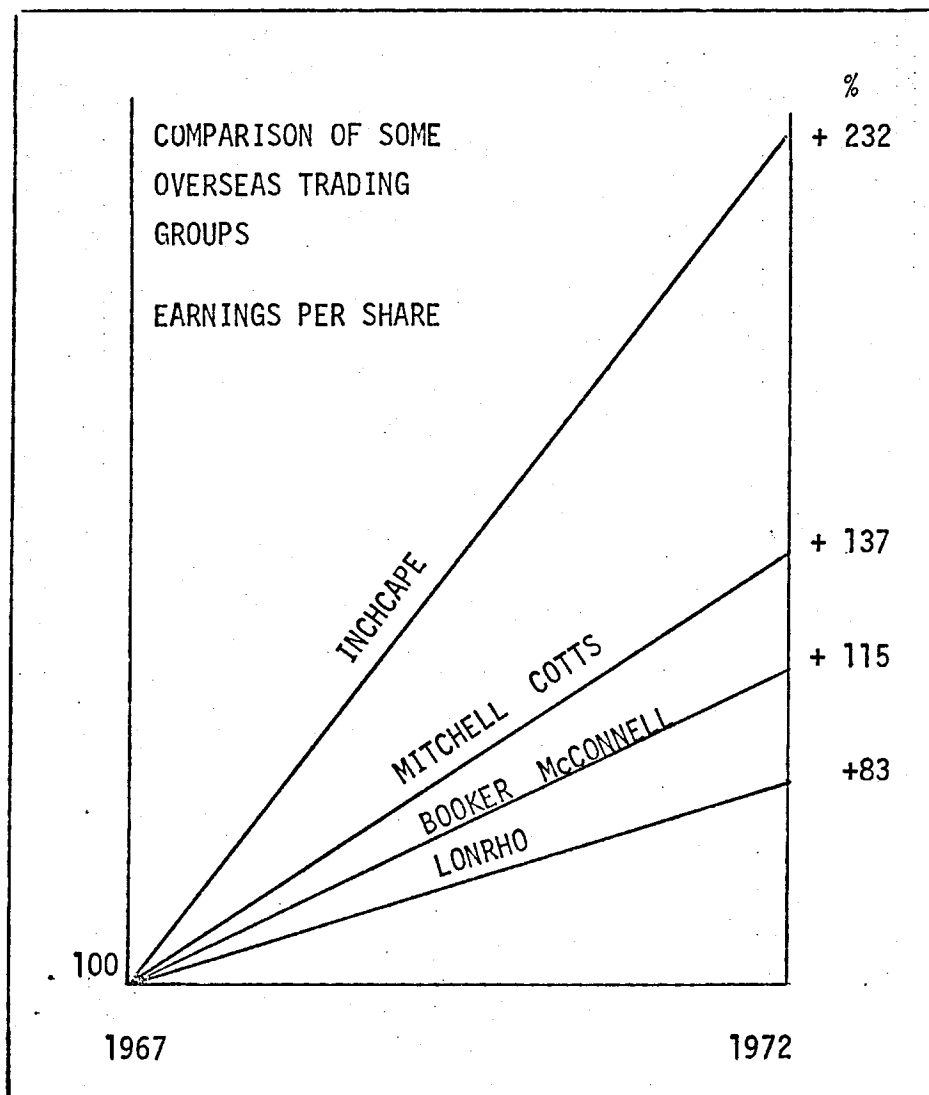
EXHIBIT VITHE SUNDAY TIMES, 20th MAY, 1973WHY ROWLAND IS A LIABILITY

EXHIBIT VII

Cheapside House,
138, Cheapside,
London EC2V 6BL

22nd May, 1973.

Dear Shareholder,

LONRHO LIMITED

I am writing to you to deal with two matters which I understand may still be worrying Shareholders. I prefer to write to you rather than make Press announcements. I know you are interested in the future of the Company and I want to be sure that all relevant facts are before you.

LIQUIDITY

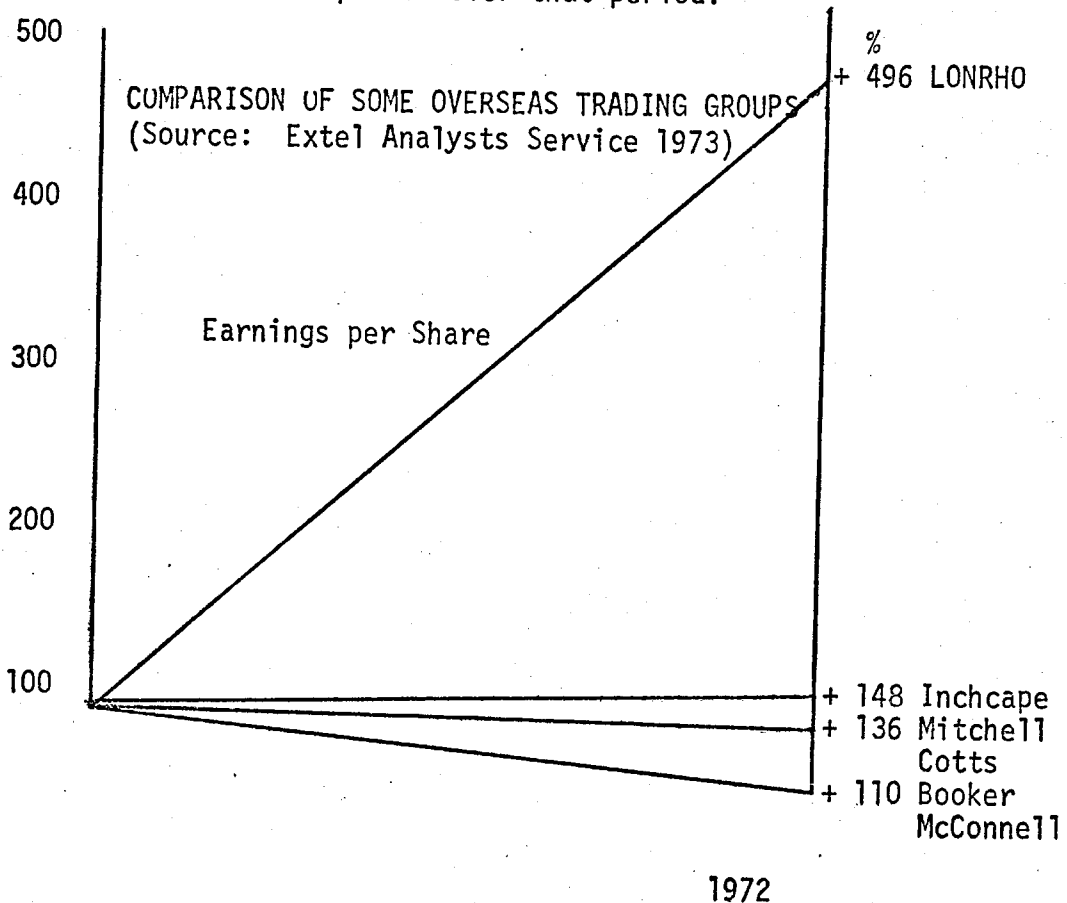
I understand that Sir Basil Smallpeice still emphasizes a feared liquidity crisis as a reason for replacing me. On 15th February, cash projections were presented to, and accepted by, the Finance Committee, at which Sir Basil was present. There were, at this time, no suggestions made by any Committee member that there was an impending liquidity crisis. The Group United Kingdom overdraft was, at that time, forecast for 31st March, 1973 at £6.98 million. The actual overdraft at 31st March, 1973 was £5.87 million - a favourable variance of over £1 million. If Shareholders support me, the Board will carry out every possible economy in the United Kingdom consistent with the growth and profitability of the Company.

Sir Basil does not deal with Africa, understandably since he has not visited Africa at all for the Company and Mr. Gerald Percy has been only once to independent Africa since the beginning of last year, namely to Malawi. Political difficulties may reduce remittances from Africa. Sir Basil does not explain how he will safeguard such remittances. It was accepted in Court, and I understand by Sir Basil, that my removal will result in loss which may provoke a liquidity crisis. This can best be avoided by supporting me, thus safeguarding present remittances, whilst United Kingdom profits are built up. My statement to Shareholders gave precise plans. Sir Basil has not done so. It must be remembered that the full Peat Report made it clear that the favourable cash flow was not expected until 1973/74.

PROFITS

The Sunday Times published a table suggesting that Lonrho's growth in earnings per share lagged behind other leading competitors. The period selected by the Sunday Times gives a highly misleading impression since it embraces the period when Lonrho was spending money on the purchase and initial development of Western Platinum and the purchase of the Wankel engine rights. These two acquisitions, which were criticised at the time, are now becoming increasingly profitable and their earnings are, of course, remittable to the United Kingdom.

If one is considering the effects of my stewardship, it is only fair to review the whole period since 1962 when I first joined Lonrho. The following graph shows the comparative performances of the same companies over that period.



TODAY THE COMPANY HAS NEVER BEEN IN BETTER HEART WITH RECORD PROFITS BEING MADE BY ALMOST ALL OUR OPERATIONS.

PROXIES

I enclose a form of proxy for your convenience. If you have not already voted and are kind enough to support me, please complete the form by inserting an "X" against each resolution in the space marked "FOR" and then signing and returning it.

If you have voted against me and wish to change your mind, you can do so by using the enclosed form. If dated after any earlier proxy, it will supersede it. The fact that you have completed a proxy will not prevent you from attending and voting in person if you can. If your shares are held by nominees, please ensure that they vote.

Yours sincerely,

(Signed) Tiny Rowland.

R. W. ROWLAND

EXHIBIT VIIIREPORT OF THE LONRHO SHAREHOLDERS'ACTION GROUP

c/o 4, Blithfield Street,
Kensington,
London W8 6RH

22nd May, 1973.

Dear Shareholder,

EXTRAORDINARY GENERAL MEETING

31st MAY, 1973

You must be as disturbed as we are to find that our Company is to be subjected to yet another investigation, so soon after the exhaustive Peat Marwick Report. The Directors have become split into two factions. As a consequence the value of our shares has fallen by nearly 40 per cent during the past few weeks, and our Company has received adverse publicity.

The Lonrho Shareholders' Action Group was formed as an impartial fact-finding body and to ensure that Mr. Rowland's future would be decided by shareholders in General Meeting.

During these past weeks, a small sub-committee of five members, who between them own about 150,000 shares, have heard the affidavits, have conversed with the leading personalities in the dispute, and with Directors in each camp. They have talked with executives from overseas, with professional advisers to the Company, with staff at all levels, and throughout the Court hearing several of the Group were in attendance each and all day, and need we say, all at their own expense.

By appointment we saw Sir Basil Smallpiece at his flat before the Court hearing, and entreated him to adopt a policy the effect of which would have been to avoid the Court proceedings and the resulting publicity, whilst allowing the decision about Mr. Rowland to be made by the shareholders. He considered this for two days and then refused.

Within three hours of Mr. Justice Plowman giving his decision in favour of Sir Basil Smallpiece and his colleagues, the sub-committee learned that instead of the Resolution to dismiss Mr. Rowland being put into effect, the matter was to be left to the share-

holders, as we had pleaded before the hearing commenced. Most regrettably, by that time, the Company had been subjected to a glare of adverse publicity, its plans had been frustrated and its very future threatened.

We were greatly impressed by the intense personal loyalty to Mr. Rowland of the overseas executives we met, and of the staff, both at home and from abroad, and his success in building the Company from small beginnings to a vast and prospering concern is incontestable.

It is very evident that the Board urgently needs to be strengthened by the appointment of new independent Directors with experience of top-grade commercial and financial management. We are glad to know that the continued support of Keyser Ullman Limited is assured, and this will be especially needed while the Company is recovering from the ill effects of recent publicity, and pending the anticipated flow of funds from Western Platinum Limited.

Every member of the Action Group is confident that, when these changes which we have been assured will be accepted with goodwill by Mr. Rowland, have been fully and properly applied and allied to his flair and genius, Lonrho will return to its former happier days of progress with profit, bringing in turn A HIGHER SHARE PRICE.

CONSEQUENTLY, ALL OUR PROXIES WILL BE IN FAVOUR OF MR. ROWLAND.

THIS IS ONE OF THOSE RARE OCCASIONS WHEN ALL LONRHO SHAREHOLDERS HAVE THE OPPORTUNITY TO SHOW THAT IT IS THEIR COMPANY, AND THAT THEY ARE DEMANDING AND EXERCISING THEIR RIGHT TO CONTROL IT.

We hope that the vast number of friends which both Lonrho and Mr. Rowland have here and abroad will be heartened and sustained by SHAREHOLDERS GIVING HIM A RESOUNDING VOTE OF CONFIDENCE.

THIS IS YOUR CHANCE TO EXERT SHAREHOLDERS' RIGHTS EFFECTIVELY, AND TO YOUR OWN ADVANTAGE.

PLEASE MAKE SURE THAT YOU COMPLETE YOUR PROXY AND POST IT TODAY.

Our sincere thanks are due to all those hundreds of shareholders who have communicated to us their support in our aims. Please accept this as our personal reply, as we cannot answer all letters individually.

Sincerely,

ERIC TAYTON (Chairman)
E. M. S. ADAMS (Mrs.)
I. G. ADAMS
D. L. PULTON (Deputy Chairman)
F. SCANNELL
B. STEIN

EXHIBIT IX

This report of the Extraordinary General Meeting was written by a minority shareholder and member of the MBA class of 1973 and expresses his personal view.

THE LONRHO EXTRAORDINARY GENERAL
MEETING OF 31 MAY 1973

R. D. TANFIELD

I feel that the newspaper reports of the meeting made inadequate reference to the atmosphere in which the meeting was conducted. I went along purely as a spectator with a slight prejudice against the establishment and consequently in favour of Rowland. Probably the majority of the audience were in the same position, there was a number with more exhibitionist intentions. There was also a minority of businessmen, probably from the City, who obviously felt that the least they could do was to turn up and vote quietly against Rowland whenever they had the opportunity.

The stage of the huge hall was occupied by about thirty people. Duncan Sandys sat in the middle of the front row separating the two sides of the Board from each other. The second row was occupied by legal advisors. Several overseas managers sat alone at the back of the stage. Photographers flitted around the stage and front of the auditorium, firing flash bulbs into everybody's face.

The meeting opened with a fifteen minute incidental speech by Sandys who subsequently explained that he was killing time in anticipation of the proxy results. His announcement of these results was wildly cheered by the audience and I was left wondering whether anything was left to be done. Sandys then announced his agenda. Firstly accepting a proposition of the resolution approving Rowland; secondly, giving Rowland and Smallpiece a chance to say a word; thirdly, throwing it open to the floor and finally after another comment from Rowland and Smallpiece, taking votes on the nine resolutions. Then he would close the EGM and open the AGM. He emphasised anybody speaking should do so for as short a time as possible and he was going to put an arbitrary limit of two minutes on each speaker.

The basic resolution was proposed by the leader of the shareholder's action group. After about ten minutes of interminable nonsense he was eventually forced to sit down by tremendous noise and catcalls from the audience. During his speech he twice called on his supporters to outclap the slow hand-clappers: but even

they got fed up eventually. The scene inevitably called to mind audience-participation at a pantomime. Sandys had then rapidly established his inability to control the meeting.

Rowland, as visitor, was quietly reasonable. He confined himself to repeating his more acceptable comments about "the eight" and he introduced four overseas managers who had committed themselves to his support. They were warmly applauded.

Smallpiece, as the vanquished party, was even more reticent. He referred merely to his letter to shareholders and his public statements. It reiterated how sorry he was that the matter could not have been settled quietly and, with dignity, he assured the audience of his best intentions throughout.

The contributions from the floor were almost completely irrelevant. Each time one speaker finished, usually to loud jeers or laughter, an absurd scene was played in which Sandys tried to select another from the 10 people standing in front of the 10 microphones, all shouting wildly. A man from Grimsby was exceedingly drunk and amusing. An old man in shirt sleeves wanted reassurance that he did not own shares in a criminal organisation. A cultured Londoner thought the whole debate could be traced to the bad, revolutionary blood of the Percy's who had caused so much trouble in the fifteenth and sixteenth centuries. Another smart gentleman managed to get out half of an anti-Rhodesian speech before Sandys remembered that he could turn off the microphone. Two serious questions were asked. One was Du Cann's opinion which he restated forcefully and rapidly. The second was why had Sandys settlement not been put to the Board; Butcher refused to give any explanation. This question gave Sandys the opportunity to make a long irrelevant oration on the embarrassment he had suffered, the first blemish to a reputation untarnished through long years of public office, etc. etc.

Eventually Sandys accepted a motion which had been put at the beginning of the meeting and which had been greeted enthusiastically by the soberer members of the audience. This was to terminate the meeting as soon as possible, since no good was likely to come of the "debate". Sandys put the resolution to the audience and deemed each carried by an overwhelming majority on a show of hands. All that is except the one dismissing Sir Edward Spears. Since Sir Edward was a personal friend of Sandys the latter totally misjudged the voting and committed himself to asking for a paper vote. Then followed a ten minute legal discussion between the lawyers and Sir Edward Spears to find a formula for a revote to avoid a needless and expensive procedure. Sandys was unable to understand the simple formula and the lawyer had to explain it to the meeting.

The dismissed directors left. Rowland managed to get photographs of himself with his arm around little Sir Basil, whose friends were trying to pluck him away. Sandys opened the AGM and as soon as he threw it open to the floor the chaos restarted. I left before the end, having been there some two and a half hours.

My feelings at the end was one of amazement that such a fiasco was implied by a public meeting. Certainly much was due to Duncan Sandys. A professional man in the audience proposed that Du Cann should take the chair for the AGM since he himself had never before been in such a badly run meeting as the EGM. Du Cann refused unfortunately.

I was also ignorant of the obvious point that resolutions would be voted by a show of hands, and only when in doubt would it go to a paper vote. Consequently, my 75 shares carried the same weight as those of the Institutions! And since I got two lots of voting papers, through not understanding the administration in the foyer, they could have counted double.

The whole affair was in extremely bad taste. I was left with an impression that the fabric of company and public procedures had split and that everybody had come along to watch the mess. This was partially confirmed when the audience was clearly shamed by a man from Ghana, speaking without microphone, who pointed out that no attempt at compromise had been made and that this company, a real one, was being savagely mutilated by the efforts of the meeting. And, by gentle implication, the meeting was in London but the company was in Africa.

EXHIBIT XSUNDAY TIMES 24/11/74T I N Y R O W L A N DTHE RISE OF THE NEW SUGAR SHEIKH

You love Tiny Rowland or you hate him. Either he represents swashbuckling, red-blooded capitalism which bends a few rules on the way to creating astonishing wealth for entrepreneurs and their backers, or he is the unaccceptable face of a system in decline. Edward Heath and lots of others saw him as the latter. To most shareholders in Lonrho, Rowland is clearly the former, much to be preferred to his straight-laced rivals who dismally failed to unseat him in the monumental boardroom struggle of 18 months ago. But like it or not, in these troubled times, Lonrho looks the company that has just about everything - gold, sugar, a vast spread of international interests, and now Arab money.

Last week Tiny Rowland pulled off what may prove to be the most important coup of his whole career. Culminating two years of tenacious negotiation, he has persuaded the Kuwaiti royal royal family to buy 8m shares in Lonrho for £6.1m, bringing their total stake in the U.K. and African trading conglomerate to 11m shares equal to nearly 14%.

Next to Tiny himself, Sheikh Nasser Sabah al Ahmed al Sabah and his brother Hamed now control the largest single shareholding in Lonrho. Their decision to subscribe for 8m new shares at a price of 76.25p a share - a new high for the year and over 50% more than Lonrho's share price at its lowest point - is an extraordinary vote of confidence in the group.

And it is one in the eye for Rowland's detractors, who are still grimly waiting for the 18-month-old Department of Trade and Industry (DTI) inquiry into Lonrho to finish.

Unless the DTI inspectors Allan Heyman, QC and Sir William Slimmings report soon, their findings are in danger of being nothing more than an historical postscript to one of the biggest boardr-om rows the City has ever seen fought out in public.

The relevance of the Kuwait deal is easy to assess. Sheiks Nasser and Hamed, both nephews of the ruler of Kuwait, run Gulf International (not to be confused with the U.S. oil giant), which has been Lonrho's partner in plans to make the Sudan a major sugar producer. Dr. Khalif Osman, managing director of Gulf International, has been co-operating with Lonrho on a joint feasibility study to create a 300,000 tons a year sugar industry in the African state. The cost will be enormous. Building factories to refine the sugar cane will cost an estimated £130m alone, not counting development of growing areas and providing a new infra-structure for the Sudan.

Arab capital is a sine qua non to finance this kind of sugar development, as most of the Western capital outlets have dried up to a trickle in the aftermath of oil price rises. And who is more likely to manage the new projects than Lonrho?

Sugar is also behind recent rises in Lonrho's profits, because the group is one of Africa's biggest producers of this suddenly to scarce a commodity. Next month - on December 12 - Lonrho is expected to publish its preliminary profits for the year to June 30 and the stock market is hoping for a pre-tax total of around £45m, more than 50% up on last year. Last year Lonrho probably produced around 300,000 tons of sugar from the half dozen mills it owns or manages in Swaziland, Malawi, and the Ivory Coast. And dramatic increases in sugar price on the world market must have provided a substantial boost to earnings.

The world-wide boom in nearly all commodity prices, especially food-stuffs, has proved a bonanza for Lonrho, which also grows tea, wattle (twigs for building), ground nuts, and grapes, as well as mining gold and platinum and raising over 100,000 head of cattle a year. Gold in particular has risen in value this year and Lonrho's Ashanti gold mine must have done well again, although part-nationalisation in Ghana make it doubtful how much profit will be made.

The coming figures could also include some disastrous results for Lonrho's Wankel engine. Rowland's £10m purchase of Wankel was the catalyst of Lonrho's liquidity crisis in 1971 which led to a Peat Marwick investigation and eventually to the board row.

Some sources are hinting that the next balance sheet may show heavy write-offs from the value of the Wankel investment.

None of this, however, will have much impact on Lonrho in the face of the Arab deal, sugar prices and record profits. The shares at 76p are now back to their price at the time of the board-room battle after sagging to a low this year of 47p. This is a better performance than most U.K. shares can boast. Almost the whole of the recovery has been in the last four weeks however, reflecting growing hopes that Rowland was at last buttoning up his Arab backing.

At least one big broker was knocking at the doors of city institutions last week, attempting to collect Lonrho stock for its clients.

But despite Lonrho's claims that its liquidity crisis is long-gone, estimated earnings per share are 20p (of which more than half are believed to be remittable to the U.K.), and there is a six-times cover to dividends, the country's big institutional investors are still not convinced.

One reason is that many have lost heavily on Lonrho shares before and some fund managers are old enough to remember when Lonrho's shares were equal to 315p each with just as rosy a future promised.

Another is that commodity prices are frighteningly volatile, which means that Lonrho's market rating should continue to reflect the risk of sudden falls in sugar and gold prices.

And without doubt the DTI enquiry is another factor. There is good reason to expect the inspectors to be extremely critical of the personal conduct of Duncan Sandys, now chairman of Lonrho; Fred Butcher, no longer finance director but still on the board; and Rowland himself.

It has to be remembered that it was Rowland's arrangement of tax-free payments to Sandys through the Cayman Islands that prompted Edward Heath's famous comment about the unacceptable face of capitalism.

Which is all the more reason why the DTI report should be published as quickly as possible. Rowland's successful coup in Kuwait, which could lead to other Arab-funded ventures in the Middle East, makes Lonrho's shares look one of the few potentially exciting investments in the London stock market. But before anyone piles in it is vitally important to know whether the skeletons in the group's cupboard are big enough to damage its future, or whether they are merely mouse-sized.

Berry Ritchie