CHAPTER 1

WHAT IS BUSINESS?

WHAT IT'S ALL ABOUT

- What business is
- How business developed
- What types of business there are
- How business is changing
- What the future might look like

WHAT IS BUSINESS?

So, what is this thing called business? Essentially, a business is an enterprise set up to make money through selling goods or services or a mixture of the two. However, this is a bit simplistic. Increasingly, there are governmental bodies and charities that are run increasingly like businesses. At the same time, the picture is becoming blurred by organisations that are set up as businesses but look more like charities, with their aims of being "social enterprises" or "not-for-profits" and righting some social wrong. Business is everywhere.

This is all the more remarkable because until the last decade or so – certainly in Britain, less so in America – "business" was something of a dirty word. "Entrepreneur" was a sort of codeword for "wheeler-dealer".

What has brought about this dramatic change of heart? It is fair to say that a large part of it is the internet, with its promise of limitless possibilities. But there is also a much greater willingness to try things – even when it comes to careers. This is perhaps best illustrated by the numbers of business school graduates rejecting positions with investment banks and large corporations in favour of start-ups. Reinforcing all this is a change in attitude among policy makers. Young people are actively encouraged to start their own businesses for genuine reasons, such as doing good and/or creating wealth.

WHO YOU NEED TO KNOW

Sir Richard Branson

Many of today's business heroes are technology wizards who use a bright idea to launch a successful business. Branson is a more old-fashioned buccaneering type of entrepreneur who has got where he has largely on the strength of his extreme self-confidence and love of challenging the big guy. As such, he has become an inspiration to many would-be business owners and is one of the best-known business people in the world.

His best-known business is Virgin Atlantic Airways, which in the 1980s had the audacity to take on British Airways in the battle for the lucrative trans-Atlantic air travel market. A quarter of a century later, Virgin Atlantic is a major player on the travel scene, with various related holidays operations, but Branson still likes to portray the business as a young upstart battling against the established incumbents.

Branson's Virgin empire started as a mail-order record company (which hit the big time with the unlikely hit "Tubular Bells") and has moved into record shops, cola drinks, publishing, health and beauty, financial services and trains. It has not always been resoundingly successful, but Branson – bearded, long-haired and tie-less even in his 60s – always gives the impression that he is enjoying a great adventure.

A SHORT HISTORY OF BUSINESS

There is nothing new to the realisation that a successful business community is vital to a successful political system. One of the earliest examples of what we now think of as a company was the British East India Company, which was founded by Queen Elizabeth I in 1600 and over the next two-and-a-half centuries became inextricably linked with the growth of the British Empire. Perhaps even more significant were the businesses created at about the same time in the newly colonised North America. Historians cannot quite decide on which came first – Puritanism or Capitalism. But it is clear that the two are closely entwined, particularly in America, where such virtues as subordinating the individual to the group, marshalling resources to achieve a single purpose and a belief in self-help are shared by both creeds.

These early joint stock companies – ventures which raised funds by selling shares to investors who became partners in the enterprise (and thus predecessors to the current quoted companies) – paved the way for the businesses that helped develop the fledgling United States. Among these were railway companies and many types of manufacturing enterprises, which in a short period of time turned a few colonist-farmers into the factory of the world.

Similar developments were taking place in Britain, the birthplace of the Industrial Revolution. By the early twentieth century, the geographical spread of some of the businesses mirrored the reach of the Empire, with names such as Cable & Wireless and the now-defunct Imperial Chemical Industries seen as synonymous with British power and influence.

However, for sheer audacity nothing could beat the American businesses. Beefed up by serving a huge home market, the likes of the consumer goods company Procter & Gamble, the conglomerate ITT and the Ford Motor Company became huge players around the world. They used this strength to build up significant subsidiaries and own more businesses around the world than many people realised, but particularly in Europe, long before the more obvious US invasion that led to McDonald's fast-food restaurants and Starbucks coffee shops appearing in every major city.

WHO SAID IT

"What is good for the country is good for General Motors, and vice versa."
– Charles Wilson

At their peak, these businesses were immense – so big that individuals could, and often did, spend their whole career at a single employer. Thanks to mass production and the application of scientific principles of management established by early business leaders, these businesses were effectively giant machines operating in huge factories employing so many workers that whole towns depended upon and grew up around them. They also developed equally enormous offices to house the people supposedly running them. The rows of machinery minders in the factories were matched by lines of typists and other clerical workers in the offices.

What had started out as exciting enterprises had ballooned into huge bureaucracies where few people really knew what they were doing and why, and where conformity ruled. This is the dull, stultified world of the "Corporate Man", made fun of in films and novels and analysed in the sociological study *The Organisation Man* by William H. Whyte.

This cosy world of golf clubs and long lunch breaks came crashing to an end in the 1970s, when a sudden rise in the oil price by the increasingly assertive oil-producing nations of the Middle East challenged the whole basis on which business in countries such as the United States and Britain was conducted. A serious recession on both sides of the Atlantic paved the way for the arrival of Margaret Thatcher in Britain and Ronald Reagan in America and, with them, a robust "market forces" approach to economics. In the 1980s, a chill wind blew through the boardrooms and across the factory floors of both nations. And, when it was realised that in Germany and Japan, the two nations supposedly defeated in the Second World War, industry was in much better shape, producing better, more reliable products at better prices, a heavy bout of soul-searching set in.

Suddenly, management gurus, notably the charismatic and evangelical Tom Peters, and their theories about "quality", "excellence" and "customer service" were all the rage. In fact, there were so many theories – often contradicting each other – that they were quickly termed fads and ignored by embattled workforces and management teams alike. This was also the period when service industries began to take over in importance from manufacturing. It was the time of deregulation of the financial markets and the arrival of the "Masters of the Universe" on Wall Street and in the City of London. It was also the era of "yuppie" excess. Although nobody at the time realised it was small beer compared with what was to come in the early years of the twenty-first century, it was still seen as unattractive. It was hard to admit to being a merchant banker in polite society.

Despite, or because of, the emphasis on financial engineering at the expense of real engineering, businesses were in no state to cope with the next big recession, which came in the wake of the first Gulf War in the early 1990s. This led to great swathes of job cuts across whole industries that were euphemistically described as "downsizing" or even "rightsizing". It also led to a renewed focus on market forces and the arrival of the term "shareholder value", for a concept designed to improve businesses' focus on their main purpose – making money, or creating value, for shareholders. Conglomerates were "demerged" and "focus" became the watchword.

Business became a lot more efficient. But it also became a lot less enjoyable. The failings exposed by the 1990s recession led to a fresh bout of introspection and the realisation that perhaps business had lost its way.

Some people saw a link between the superiority of Japanese and German goods – particularly in such areas as cars and consumer electronics – and these countries' companies were run differently from the Anglo-Saxon model. In Japan, the concept of a job for life had benefits in loyalty and a readiness to take a long-term view, while Germany had the consensual approach to management common across much of continental Europe, where workers' councils typically had much greater influence than the trade unions in Britain and the United States. However, as time wore on – and Japan and Germany both endured difficult economic periods – the Anglo-Saxon, and, it has to be said, increasingly American, view held sway.

Although some of them drew from other cultures, the gurus and consultants who were growing ever more important in business were largely American. As a result, business premises across the world began to ring with American terms such as "double whammy" and "ball park figure" and managing directors became chief executives or CEOs, a title that Peter Drucker, the guru of gurus, had previously said was peculiar to America.

Some of the analysis of "what went wrong" that followed the early 1990s recession, and the spectacular collapses that accompanied it, took place in Britain. For example,

WHO YOU NEED TO KNOW

Peter Drucker

Peter Drucker was without a doubt the doyen of management gurus. Born in Austria, he moved to the United States in the 1930s and published his first book – an examination of General Motors entitled *Concept of the Corporation* in 1946. Over the next half century he covered a huge variety of management topics, along the way identifying many notions that would become central to business thinking, such as the "knowledge worker" and "managing by objectives".

In the key work *The Practice of Management* (1954) he offered his view of the first principles of management and wrote what has come to be regarded as one of the key statements of management thinking: "There is only one valid definition of business purpose: to create a customer."

Always prolific and provocative, he continued writing and consulting into his 90s and applied the thinking that had originated in the study of large organisations to entrepreneurship and non-profit organisations. But he remained remarkably consistent – the tasks for the manager of the future that he set out towards the end of his life had in fact been identified by him years before.

the Cadbury Committee came up with a code on corporate governance that did much to pave the way for the improvements in that area that have followed, while the Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA) initiated an inquiry that gave rise to the ongoing experiment with "Tomorrow's Company".

But it was, of course, in America that business was really born again. Particularly in California and in a small area that came to be known as Silicon Valley. The area, close as it is to the prestigious Stanford University and its mighty engineering faculty, had long been a centre for business, giving rise to what would become the computer giant Hewlett-Packard and many others. However, it really came into its own when it became the de facto centre of the world's high-technology businesses. Sure, Microsoft was based in Seattle, a few others came out of the area around Boston and some were even spawned around Cambridge University – Silicon Fen. But the vast majority of the new technology businesses and – more importantly – the new attitudes came out of Silicon Valley.

One aspect of this approach – involving employees or customers in the ownership of the business – had been tried before. Indeed, Britain has at least two long-running success stories in this area – the financial services and retail group the Co-operative Society and the retail company the John Lewis Partnership.

However, it was the first time that a significant group of companies had adopted such an approach. Moreover, it looked so attractive that many other businesses had to start following suit in order to avoid losing their best people.

There has been much comment in recent years about businesses moving away from their original purpose – as expounded by the late Chicago free-market economist Milton Friedman – of being to maximise profits for shareholders. Companies have been encouraged to look

WHO YOU NEED TO KNOW

Charles Handy

Charles Handy is more quietly spoken and more circumspect than many management thinkers. Nevertheless, he has been hugely influential in imagining and describing many aspects of the current workplace.

For example, he developed the "shamrock organisation" as a way of explaining how many businesses would be built around cores of essential executives and workers supported by outside contractors and part-time help. He has also pioneered the concept of the "portfolio career", both in his own way of working and in describing it in a series of accessible and popular books. Reacting against the old split between work and play, Handy sees people dividing their time between work for which they get paid, free work for friends and charities, studying in order to keep up with their professions, working at home and leisure.

Having begun his business career at Shell, he was an early teacher at London Business School before becoming best-known for his talks and books, such as *The Future of Work* (1984), *The Age of Unreason* (1989) and *The Empty Raincoat* (1994).

at the interests of stakeholders other than shareholders, to engage in corporate social responsibility, even to look for a new form of capitalism.

But what has really made business attractive is that people who previously would not have dreamed of going into commerce suddenly saw it as a way of "making a difference", of getting things done (roles previously answered by public services) and, above all, of having fun.

Having thrown out the notions of loyalty and paternalism in response to market forces, business is now returning to something similar. Companies now queue up to be included in the lists of the best companies to work for, they constantly add to the services they provide for their hard-pressed staff and they encourage them to use mobile technology so that they can work flexibly (critics inevitably say this means working longer). Almost without exception, they are also anxious to stress the good they do in their communities through supporting charities, supplying schools with computers, regenerating rundown areas and the like.

This work hard, play hard approach and almost cult-like devotion to the company that you currently work for harks back to the earliest days of industry, when – just as now – there was a blurring between work and life and a belief that business could change the world. Indeed, Google – towards the end of the first decade of the twenty-first century perhaps the most ubiquitous new company of them all – has been described as "a religion posing as a company".

It is really not going too far to say that business has become a way of life. Which makes this book all the more important.

That said, most people's idea of business – unless they are involved in it – is of the sort of large international affairs that attract coverage in the media through takeovers, strikes or involvement in catastrophe. In truth, though, such businesses are the exception. There are many more businesses that do not attract any attention at all.

Here, we will look at the two main types of business – big business and small and medium-sized business.

BIG BUSINESS

Although they only make up a tiny proportion of the businesses in the world, one could be forgiven for thinking that big companies were the only ones in existence. Most of the coverage in the media is given over to them. And they also attract the greatest criticism from politicians, commentators and the public at large. This is because they are seen as increasingly powerful in a world where ease of communication and other technological developments are enabling more and more companies to act on a global scale.

WHO SAID IT

"Big companies are small companies that succeeded."
– Robert Townsend

The most obvious illustration of this is the fact that, thanks to the internet for instance, you no longer have to wait to visit the United States to buy goods from an American retailer. More importantly, large companies are able to make their goods in one part of the world – typically where costs are low – and sell them in another – typically where prices are high. This is globalisation, an increasingly hotly debated issue that will be discussed fully in the next chapter, on the economy.

Some of these large companies are privately-owned. But most of them are publicly-owned. This does not mean that they are controlled by the state – the very opposite, in fact. They are so called because they offer shares that can be bought by the general public through a stock market, such as the London Stock Exchange (LSE), the New York Stock Exchange or the Paris Bourse. In Britain, such companies carry the letters PLC after their name – for public limited company.

The reason why such companies attract so much attention is that – because their shares are publicly traded – the directors are required to make public anything that might influence an investor's decision to buy or sell the shares. Such information includes details of trading, departures or arrivals of key staff and, of course, whether another company has expressed an interest in buying the company (a takeover). Most of the shares in such companies are held by professional investors – "financial institutions", such as insurance companies and pension funds, which have teams of people following the affairs of the companies in which they invest, but individual investors are required to be given the same information. Hence, the pages of news and comment in the serious newspapers.

However, it is not all about simply providing information. As we have seen already, business has become interesting in itself. This is partly because more members of the public are "involved" through owning houses and holding shares (either directly or through their pensions) than used to be the case. But it is also because large companies – and those running them – have become newsworthy like never before. Some chief executives are so familiar that they are almost celebrities. This might to some degree be attributable to the spectacular pay and benefits that some enjoy. But it is also testament to the increasingly important role played by big business in the affairs of everybody. Increasingly, we buy our groceries from multinational supermarket chains, our books, CDs and clothes from international internet companies and our electricity, water and other services from international utilities. Moreover, as the 2008–2009 financial crisis made all too apparent, our banks are not confined to our own high streets. They are becoming more global in reach – and, as such, entwined with each other.

SMALL AND MEDIUM-SIZED BUSINESS

These tend to be private businesses, so-called because they are not owned by outside shareholders who buy and sell an interest in the company through a stock market or stock exchange. Private businesses account for the vast majority of businesses – even if you would not believe it to judge from the amount of media coverage. But avoiding attention is highly attractive to many of the people running these businesses, which range in scale from tiny start-ups to international operations that are the equal in size to many well-known public companies.

Historically, many private businesses, especially in Britain, have "gone public" because such a route offers one of the most effective ways of raising funds for growth. It is also highly attractive because – for the most part – investors leave executives to get on with running the business. However, the increased activity of the venture capital, or private equity, market has enabled many such businesses to obtain the funds they require without having to float the business on the stock exchange. Another route has been for established private businesses to buy all or some of a younger business and so provide the means for expansion. This means that they can continue to enjoy the advantages of being private – particularly the ability to set a strategy that they believe in and do not have to justify to outside shareholders – without worrying about cash. For example, many of the companies that were in the vanguard of using business to further social good were private because their owners were able to take this approach without having to explain it to outsiders. Among these is the California-based outdoor clothing and equipment company Patagonia, whose founder Yvon Chouinard is a committed environmentalist who has for many years pledged that the company give at least 1% of its annual sales to environmental causes.

It is not unheard of for company founders to "float" their businesses on the stock market only to take them private again when they realise that they might have been better off as they were. Sir Richard Branson's Virgin Group is a prime example.

It is fair to say, however, that this problem is not peculiar to public, or quoted, companies. Some companies decide against joining the stock market for fear of losing control only to sell a stake in the business (equity) to a venture capital or private equity business. Since such investors often want to arrange an "exit" within five years or so, this relationship can be just as uncomfortable as the one with the stock market investors.

Private businesses are particularly popular in Germany, where the *Mittelstand*, largely funded by a network of regional banks that often take stakes in the companies, has developed as a powerful alternative to the listed company approach and accounts for much of the country's industrial strength. The United States, too, has a strong tradition of private businesses. Because of the country's vast size, companies can establish highly successful regional businesses with strong links with their local communities away from the attention of the markets. In Asia, there are many business empires, often owned and operated by families, which are highly successful without being publicly listed.

Private businesses take many different forms. A significant proportion of businesses start out literally as one person working from home – and many stay that way. The simplest way for such a business to organise itself is to register as a Sole Trader. The details of what this entails, along with the rules and regulations surrounding other business structures, are more fully discussed in Chapter 3. But in its essence such a form is generally all right for a small business operating from the founder's home, but less appropriate once it grows to include other people and premises.

One of the most common types of private business is the Family Business. Such concerns are the bedrock of enterprise around the world and they range from farms to retail empires. Many of them have grown up to the point where they become large public companies. Many of the world's largest and most successful companies retain a strong family identity. They include Cargill in the United States, Samsung in Korea, LVMH in France, BMW in Germany, Clarks Shoes in the United Kingdom and H&M in Sweden.

The mixing of family and business can be so fraught with issues that it is hardly surprising that so many of the television dramas featuring business centre on family firms. Yet various studies have shown that companies listed on stock markets that have some family ownership outperform those without it.

More than this, however, family businesses are seen to be a good thing in themselves as if they are somehow more worthy than other kinds of business. We talk admiringly of how a favourite shop or supplier is "a nice family business", while even some of the largest businesses continue to stress their family origins and conglomerates often talk of their "families" of businesses.

This slightly unexpected (in a world excited by technology and change) enthusiasm for cosiness and old-fashioned virtues is reflected in the renewed interest in mutuals, co-operatives and community interest companies. Again, the legal aspects of these forms of business will be discussed more fully later. But what is important about them is that they set themselves up as being run for the benefit of their customers rather than outside shareholders.

WHAT YOU NEED TO READ

- The fascinating story of how business as we know it has developed over the past few centuries is told in various accounts. Richard Donkin's *The History of Work* (Palgrave) and Anthony Sampson's *Company Man* (Harper

Collins) look at it from the point of view of the people, while *The Company* (Modern Library) by John Micklethwait and Adrian Wooldridge concentrates on the phenomenon of the business entity. Similar territory is covered in the early parts of *The Puritan Gift* (I.B. Tauris) by Kenneth and William Hopper. Niall Ferguson's *The Ascent of Money* (Penguin), from the television series of the same name, is a sweeping account of how finance has oiled the wheels of history.

IF YOU ONLY REMEMBER ONE THING

Business is an essential part of the modern world. Over recent centuries business has evolved to do many things – create wealth, meet human needs and play a part in making the world a better place.