

**FINDING THE HIGH FLYING ENTREPRENEURS:
A CAUTIONARY TALE**

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FINDING THE HIGH FLYING ENTREPRENEURS: A CAUTIONARY TALE

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Locating new businesses has always been a problem. By their very nature, they do not appear in any listings until they are already established and have identified themselves as requiring a telephone, a credit rating, as employing others, or as registering for Value Added Tax [VAT] or sales tax. Moreover, these listings are not always publicly available, they may be incomplete or out of date, or they may not list the firm by age or by size, making the task of isolating the new and small firm both long and laborious. Indeed, the potential errors in attempting to identify the population, and thus take a random or representative sample, may be so large as totally to negate the exercise [Birley 1984, Aldrich et al. 1989]. On the surface, however, this problem should not arise when attempting to find the more established firms and their founders. More particularly, it would seem intuitively obvious that the easiest population for researchers to identify would be that of the "high flyers", the entrepreneurs who own and manage the fast growing companies. After all, in the USA lists would appear to abound and to be published in journals such as INC or Venture, or through membership organisations such as Young Presidents. Unfortunately, these lists are not compiled through any rigorous research process, but rather through invitation to readers, subscribers, members and entrepreneurs to submit candidates. Whilst this may, indeed, be an effective and, possibly, accurate method, there is no evidence to this effect. Nevertheless, in 1992, the researchers were asked by a European Task Force to conduct a pilot study to assess the viability and cost of identifying the hundred largest, high growth, entrepreneurial firms which would form the base for the creation of the European equivalent of the American Business Conference [ABC]. This group would not only provide visible role models for other entrepreneurs across Europe, but would also be an important "sounding board" for European policy in relation to the entrepreneurial firm. This research note reports the results of the pilot study.

The Criteria

The eventual aim of the project was to rank European high growth entrepreneurial firms in order to select the hundred largest. To assess the viability of this, the pilot study had two aims:

1. To identify a sample of high growth entrepreneurial firms.
2. To invite the entrepreneurs who had founded these firms to a "Forum for Dynamic Entrepreneurs" to discuss the creation of a European Network of high flying entrepreneurs.

Therefore, the first task was to agree a definition of the population. To qualify for membership in ABC.....

"A company must have annual revenues of at least \$25m and must be growing in revenues and earnings at a minimum average annual rate of two times the growth of the economy plus inflation. ABC maintains a distribution of manufacturing, service, financial services and real estate firms in its membership roughly proportional to the configuration of the economy as a whole." [ABC Fact Sheet, 1992].

Following these guidelines, and in discussion with the sponsors, the European project adopted the following general criteria:

- * Sales turnover between ECU¹10m and ECU500m².
- * Rapid growth in turnover and the creation of jobs.
- * Activity in more than one EC country.
- * Significant proportion of the equity in the hands of current management.
- * A track record of innovation.

The Data Collection Method

No data base provided the level of detail specified in the above criteria across the Community or, indeed, in any one country, particularly with regard to the last criterion. Therefore, it was necessary to set up a three stage process:

Stage 1 would identify a list of *possible* companies in each country using a single criteria from secondary sources.

Stage 2 would check details of each company against the remaining criteria also using secondary sources.

Stage 3 would:

a. Confirm the data already obtained and ascertain that which was not available from the published sources.

b. Invite the entrepreneur to express interest in attending a Forum for Dynamic Entrepreneurs in Brussels the following Spring. This was important since it was possible that, in confirming the data, we would eliminate the company from the sample.

The methodology adopted for this part of the project was three-fold:

1. An attempt to determine name of the entrepreneur by scanning the data base and by telephoning the company.

2. Mailing of an information pack to the person identified which comprised an introductory letter, a questionnaire, and Fact Sheet. The questionnaire was translated into the language of the country. A copy of the English language version is shown as Appendix 1.

3. Where no response was obtained, the [potential] entrepreneur was telephoned by a researcher speaking *in the language of the country* and a follow-up mailing sent.

The Data Bases

The first criterion adopted in filtering and qualifying firms was that of size, as measured by sales turnover, since this was the data most likely to be readily available as a screening variable in all data bases. However, even this simple criterion created problems. There was no list in the United Kingdom which ranked firms by size [Birley and Watson, 1989] nor, we discovered in any other of the EEC countries. Therefore, it was necessary to use the lower limit of our criteria as the limit for the sampling procedure. Five sources were screened in order to obtain a preliminary list of *possible* firms.

1. **On-line data-bases:** Whilst these sources provided the opportunity for rapid access to current data, they did not provide historic financial records. Perhaps more important for

¹ European Currency Unit: 1ECU = \$1.32

² Range approximately \$13m to \$660m

academic researchers, however, was the fact that there was a significant, and prohibitive, charge for the time used.

2. CD-ROM discs: As in many aspects of European life, there was no uniformity in the data available on CD-ROM discs. They varied by type of data available, by the level of detail, and by the level of accuracy. However, they usually offered up to three consecutive years of selected financial data. Moreover, they were available in the INSEAD Information Centre, and so constituted the most cost effective and easily manipulable data source available for the purpose.

Discs were only available for the United Kingdom, France, Germany, Belgium, and The Netherlands. However, since a large number of companies fell within the turnover bands stipulated, particularly within the ECU10m to ECU20m range³, sampling techniques were adopted to reduce the numbers to a more manageable level for printing and down-loading purposes.

3. Business Directories and Specialist Publications: Directories and specialist publications were consulted, particularly for those countries where CD-ROM was not available. Duns Europe directory was the most widely available and was used to augment or to fill gaps left by the CD-ROMs.

4. Formal Networks: This approach involved targeting key contacts well-positioned to have an up-to-date knowledge of the most dynamic organisations within their remit. This mainly involved investors, ministries, local business organisations, and the business press.

5. Informal Contacts: The opportunity was taken to draw upon the informal networks of Sue Birley and Dan Muzyka. These ranged from other European Management Schools, editors of business publications, and experts in the financial services field. Where formal information sources were weak, these proved to be critical.

Results

The following results in each country⁴ were obtained after nine months and 326 researcher-days of effort.

The United Kingdom: Fifty companies were selected for secondary screening from a data base of 350 of the leading entrepreneurs in the United Kingdom [Birley and Watson, 1989; Birley et al., 1990]. This list was further augmented by 150 companies selected from CD-ROM and from contact with Venture Capital organisations. *Positive Responses = 12 [6%]*

France: Forty five high growth companies were identified using the CD-ROM disc for France, plus 100 companies from Duns Europe Business Directory. *Positive Responses = 4 [2.8%]*

Germany: Initial progress with companies in Germany was very slow due to the failure of a key source to deliver the agreed data. Moreover, the CD-ROM and Directory search was disappointing, identifying only forty companies. *Positive Responses = 8 [15%]*

³ Approximately \$13m - \$26m

⁴ Note that at this time, only the twelve countries listed comprised the member states of the EC.

The Netherlands: A team of experts from industry and from the financial sector in the Netherlands met and identified 36 possible companies. Unfortunately, whilst this was promised for the beginning of July, it did not appear until October. It was augmented by 72 companies from CD-ROM. *Positive Responses = 7 [6%]*

Republic of Ireland: Data base information was not available in the Republic of Ireland. Therefore, contact was made with venture capitalists, business journalists and academics resulting in a list of twenty five companies. *Positive Responses = 4 [16%]*

Italy: Political problems in gaining the commitment of a key personal contact, in large part due to budgetary constraints, and the poor level of Italian company data, delayed the progress of this part of the study. Moreover, no data base was available, except at a prohibitive cost. Therefore, informal contacts were used resulting in a sample of 100 potential companies. Unfortunately, the data which was due to arrive by the beginning of September was not received until the second week of October. *Positive Responses = 2 [2%]*

Belgium: The primary source of data for Belgium was CD-ROM, qualified by personal contacts in the country. The screening process resulted in a list of twenty six potential companies. *Positive Responses = 0 [0%]*

Spain: No CD-ROM was available for Spain. Therefore the search relied upon informal contacts in the academic world and within Trade Associations. Twenty five possible companies were identified. *Positive Responses = 3 [12%]*

Greece: No CD-ROM was available for Greece, nor did the researchers have any strong, relevant, personal contacts. Therefore, a Greek-speaking member of the team spent a week in the country searching business directories and developing contacts with commercial associations, the business press, and financial experts. Through this mechanism, 100 potential companies were identified. *Positive Responses = 2 [2%]*

Denmark: Since no CD-ROM was available in Denmark, the use of personal contacts was crucial. Unfortunately, the key contact organisation which had agreed to provide a list by the end of September withdrew in October having failed to deliver even one name. Nevertheless, a visit and the establishment of direct contacts resulted in 16 potential companies. *Positive Responses = 0 [0%]*

Portugal: By the time Portugal was reached, the lack of up-to-date publicly available information in either CD-ROM or business directory format, combined with increasing evidence from our telephoning that the southern European countries did not seem predisposed to sharing their company information, suggested that the only viable strategy was to establish contact with key professionals. Therefore, a meeting was arranged with a important contact in the banking sector with a view to sending out an individually targeted mailing. However, the mailing was not completed. The meeting took many months to arrange and was, eventually, delayed further due to the poor response rates from elsewhere. In the event, and with the agreement of the sponsors, investigation of Portugal was cancelled as it transpired that the fastest growing firms in this country were, in fact, infrastructure organisations such as banks which did not fit our commercial criteria. *Incomplete.*

Luxembourg: A business directory data base was used to select 36 companies. *Positive Responses = 0 [0%]*

The Recommendation

In short, the exercise was a disaster and we advised our sponsors that the project as defined

was not viable, both technically and financially, since:

- a. The secondary sources did not provide sufficient data to isolate the **population** of entrepreneurial firms across Europe as they were defined.
- b. Even where potential high growth independent **firms** could be identified, this did not automatically qualify them as **entrepreneurial firms** - those in which the founder continued to hold a major portion of the equity and was active in a managerial capacity.
- c. After nine months 326 researcher-days of work, and significant expense, 800 **potential** companies were identified. All were contacted at least once and over 700 of these were contacted twice by mail and at least once by telephone. By the time that the exercise was abandoned, only 43 [5.4% response rate] had provided qualifying data and had agreed to participate further.

The real aim of the study had been to gather together a credible group of successful entrepreneurs to create a European network to advise government. Our recommendation was to relax the requirement for those running the hundred largest and fastest growing businesses and to aim for a quota per country. The quota could be determined by country size and the entrepreneurs identified by nomination from the advisory network. After all, simple arithmetic leads to the conclusions that the number per country would be small and, consequently, relatively visible.

The Lessons for Researchers

One of the major problems in conducting research in the field of entrepreneurship is in defining and identifying populations and samples. Previous papers have concentrated upon the issues associated with finding new and small firms. This project was at the opposite end of the spectrum - the high growth, successful entrepreneurs who, it may be assumed are reasonably visible. Certainly, this was the assumption of our sponsors. However, it proved not to be the case. Therefore, we offer the following list of lessons for researchers, particularly those unfamiliar either with data collection in Europe or with cross-national studies.

* **Set few simple criteria.** We knew that it would be difficult and that each criterion which was added would add to the difficulty, probably exponentially. We were correct. Nevertheless, our paymasters insisted that the criteria listed above were those which were the minimum. In particular, the sponsors were very clear about their wish for "innovative" firms. However, this was never defined in any reasonably operationalisable sense and, in the event, was quietly dropped from the list.

* **Be clear on your target unit of analysis.** In our case, we were ultimately concerned with identifying the entrepreneur. However, we were forced first to identify potential firms. In reality, this was always likely to be a tortuous process.

* **Data bases are not uniform, nor uniformly available.** The collection and analysis of financial information is not always consistent on a European-wide basis, although the quality of, and access to, available data has improved since the pilot study. For example, Dun and Bradstreet European Financial Records database now provides an on-line financial capability; and in the UK, the "Fame" CD-ROM now provides up to 5 years data. Nevertheless, this lack of uniformity continues to be exacerbated by the variety of data base suppliers and their lack of consensus as to the data presented.

* **Specialist publications may be useful in individual countries.** We used a number of publications which listed venture-backed companies. This included annual reports from

venture capital companies and, in the United Kingdom, Venture Capital Report. We also scanned the lists of the wealthiest individuals which are regularly produced by the media. However, whilst confirming some of those already identified, this process failed to produce any firm which was not identified elsewhere.

* **Even where available, data bases often fail to provide reliable data.** In many cases, preliminary screening of companies on the telephone highlighted significant errors in the data which we had collected, an experience which one of our researchers had already encountered some years previously in the USA [Birley 1984]. In our view, it is crucial for researchers to check the reliability of data accessed through these sources, particularly in any study which involves the manipulation of these data.

* **Data bases are often out of date.** Our sponsors were very concerned to identify companies which fit the growth criteria and were profitable - **currently**. This was not possible from the data bases, which were usually at least one year out of date. Our current experience is that this situation has not changed. Therefore, it is important for researchers to be clear on the impact on their study of either untimely data or samples based upon differing time periods.

* **Practitioners and policy-makers do not always understand the problems of data collection.** At the risk of sounding apologetic, the researchers had a significant amount of experience in this field and had warned the sponsors of the technical problems and the time and cost involved. Nevertheless, we failed to transmit our message. They simply did not believe that such a simple task could create such obstacles.

* **Contact in the language of the country is essential.** It was clear from the telephone contacts that our response rate would have been even lower without all contacts being conducted in the language of the country.

* **Informal contacts are crucial but not always reliable.** Perhaps more important, such contacts do not have the same urgency as the researchers.

* **Academics need to be involved:** Academics are very jealous of data and particularly of contacts. Moreover, as we found, they have a tendency to wish to discuss and redesign the methodology adopted rather than to offer potential names and addresses.

* **Attitudes to surveys vary by country.** This is intuitively obvious but, at the risk of sounding anecdotal, is worth repeating. For example, in the UK, respondents are used to questionnaires and are, relatively speaking, happy to provide data which, in any event, could be obtained through a search of publicly available company accounts. However, they are not particularly interested in joining European clubs. In Germany, there is a national culture against responding to anything which emanates from without the country. Indeed, all our positive responses came via our German colleagues. In Italy, "low profile" to all request for information is the general attitude!

* **Entrepreneurs are motivated by self-interest.** We knew this. Like good researchers, we knew that we had to offer something in return for the data. Unfortunately, and despite our urging, the practitioners and Government agency which were sponsoring the project did not wish to be identified. Therefore, we were left with relying upon the credibility of ourselves, our institutions and our informal contacts. We were offering involvement in a project which was at the conceptual stage. This was just too "academic".

* **Timing is crucial.** Quite simply, there is little point in attempting to conduct surveys in Europe during the summer months. Since two of our team resided in France, we were very

aware of this but still failed to avoid the "*Grand Depart*" effect - the summer holiday - despite having started the project the previous January.

*** American style public forums are not attractive to European entrepreneurs.** Despite the fact that we were offering the opportunity of direct access to Government and an opportunity to influence policy, the informal feedback which we obtained can be generally described as "lukewarm". Most already participated in some way but through their own, usually national, networks. They saw no real need to come together as a group. They did not want to be part of any public directory or programme which would gain them "undue" recognition, although they may have been willing to join a group on the basis of a private, networked approach.

Overall, we would caution that obtaining a statistically validated, representative, Europe-wide list of successful entrepreneurs is virtually impossible, even with an inexhaustible supply of both time and money! However, this is not to suggest that we abandon the study of this very important group of entrepreneurs but, rather that sample surveys are not appropriate. Indeed, since they are, by definition, outliers, case studies and small scale purposive samples which rely upon qualitative analysis would be more appropriate.

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