The Ten Percenters

Third Report
Fast Growing SMEs in Great Britain

"placing an emphasis upon quality, rather than an emphasis upon price"

outsourcing

interviews

new technologies

"...being in the right current"

management of people

"...a strong co-ordinated crew"

company culture

strategy

qualitative research

customer service
"... there are two strategies one is to have a capable crew and the other is to have the boat backed by a strong current"
This is the third part in our series of ‘Ten Percenters’ reports jointly contributed by Professor David Storey of Warwick University’s Centre for Small and Medium Sized Enterprises and Deloitte & Touche.

Professor Storey has examined middle market companies – with a turnover of between £5m and £100m – which have grown rapidly since the early 1990s. Since such firms constitute about one in ten of all companies in this size range they are referred to as ‘Ten Percenters’.

This report probes into what makes these Ten Percenters tick. It investigates my analogy of a boat moving swiftly down the river: for this to happen there are two strategies – one is to have a capable crew and the other is to have the boat backed by a strong current.

Professor Storey finds that it is demand within the marketplace which is the factor most crucial to the Ten Percenter. He provides a fascinating insight into the variety of ‘market niches’ which Ten Percenters occupy. However, what makes this report interesting is that whilst there is almost a uniformity of focus upon growing niche markets – the elements of the ‘current’ in the boating analogy – there is a much greater diversity in the internal organisation of these firms. In short the ‘crew’ appear to be organised and managed in a variety of ways.
This report has investigated, through face to face interviews with those owning/managing Ten Percenters, the factors underlying their success.

We have focused in particular on two factors which appear to be key to their ability to grow rapidly: their ability to select and develop their marketplaces and how internally they organise and manage the business.

Our conclusions are clear. When we observe Ten Percenters at close quarters we see that almost all of them are in buoyant marketplaces, most frequently in particular niches which are experiencing rapid growth, and where they have sought to differentiate themselves from the competition in a variety of different ways. In a number of instances they have been 'sucked' along by large enterprises purchasing their output or by the sheer buoyancy of demand in their niche. Some have always been in that niche and have grown with its development, whereas others have seen the opportunity and switched to the niche or created the niche in the first place. Many of these niches have been created by the development of information technology, but by no means are Ten Percenters exclusively found in the high tech sectors such as software houses and electronics manufacturers. In this sample of 46 companies only five would be described as high tech.

However, the presence of the niche is only a necessary condition; to be successful on the scale of these Ten Percenters, requires something else. That something else, which again seems to characterise virtually all these firms, is an understanding of what the customer requires and a determination, almost regardless of cost, to satisfy that requirement. Almost always the requirement is perceived as 'quality'. Interpretation of quality varies markedly from market to market - sometimes it is reliability, other times it is the introduction of new products and sometimes it is design. However it is almost never price and price alone. The skill seems to be to isolate and identify a market niche and provide something which is not provided by competitors. It is this which means that the price is but one of the factors influencing customer choice, rather than being the exclusive factor.

"A kaleidoscope of cultures"

The above paragraphs illustrate a remarkable homogeneity of approach to customers. This is in almost complete contrast to the ways in which these businesses are internally organised. Whilst some companies are managed in a highly formal and structured way, placing emphasis upon teams, training, specification of objectives and monitoring, others eschew such practices. For them, their success depends upon being 'light on their feet' and 'faster than the competition'. Being 'well-managed' is equated to a slow-moving dinosaur. The culture is informal, entrepreneurial; the management style is aggressive, dynamic and leader-orientated. These businesses describe their own internal culture as being relaxed, informal, 'shirt sleeves', 'hands on', 'laid back', 'fun'. However, we have an almost equal number which are highly professionally run, divisionalised, devolved and training-based. This diversity of approach and internal organisation reflects a virtual kaleidoscope of cultures.
All this raises the question of exactly what constitutes managerial skills. Venture capitalists making decisions about growing businesses in which they choose to invest, place considerable emphasis upon the quality of formal management. Our observation from this research is that if formal management is the ability to spot and develop a market opportunity, then almost all Ten Percenters are well managed. If however management is about formal procedures, about controls, appraisals, training, market research, job descriptions and meetings, then there are a significant proportion of the UK’s Ten Percenters which do not qualify as being at all well managed.

Having conducted the research we feel it points to the need to re-appraise exactly what constitutes good management particularly as regards smaller high-growth companies. If it is good performance which is sought, our research suggests that premier quality is the ability to identify and satisfy the market i.e. to locate the boat in the fast moving current. Of course, it is important to ensure that the ‘crew’ pull in broadly the same direction but there appear to be a striking diversity of methods by which this can be achieved – by no means always according to the management textbooks.
In 1996 we produced 'The Ten Percenters: Fast Growing SMEs in Great Britain'.

Using the ICC/One Source UK companies database we found there were 7,203 companies classified as:

- Limited
- Non-subsidiaries
- With a turnover of between five and one hundred million pounds
- With at least four years of records.

Of these, 708 or 9.8%, generated growth in turnover of at least 30% per annum over each of the previous four years. It is these 9.8% of businesses which achieved rapid growth which are referred to as the 'Ten Percenters'.

The first report examined the financial and performance characteristics of the Ten Percenters in comparison with the remainder of companies. It showed Ten Percenters were more likely to be:

- Established in the 1980s and early 1990s, rather than being longer-established businesses
- Located in London and the South East rather than, for example, the East Midlands
- Concentrated in sectors such as the manufacture of office machinery and data processing equipment or business and recreational services.

The second report showed the results of telephone interviews with a sample of 156 out of the original 708 firms identified as Ten Percenters in the 1996 study.

It found that, amongst Ten Percenters, those which grew particularly rapidly were characterised as:

- Being in buoyant niche markets
- Focusing particularly heavily upon customer service
- Focusing upon quality rather than price.

We were less able to link performance to indications of good managerial practice such as:

- Training
- Customer satisfaction monitoring
- Profit sharing schemes
- Innovation.

Peter Morgan in his foreword to the second report observed:

"Using a boating analogy, there are two strategies (for making the boat go faster) – one is to have a capable crew and the other is to have the boat backed by a strong current. Our observation is that the Ten Percenters place more emphasis upon locating the boat correctly in the current than on the quality of the crew".

This report seeks to investigate this somewhat controversial statement. In the analogy we view the market as reflecting the 'current' and the 'crew' as reflecting the organisational tightness and managerial formality of the business.
Whilst the second Ten Percenters research report covered a wide range of issues, this report focuses much more tightly upon:

- Sectors and markets
- Strategy
- Management of people
- Company culture.

Whereas the second report utilised telephone interviews with 156 firms, this report is compiled from in-depth conversations with (normally) one senior director of the business. These conversations took between one and three hours and were tape-recorded. Such conversations were undertaken on a face to face basis with 46 Ten Percenters and constitute the raw material for this report.
Sectors and markets

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The first Ten Percenters report demonstrated that fast growing medium size companies were found in a wide variety of sectors. Whilst they were more concentrated in some sectors than in others, identifying fast growth companies by focusing upon a narrow range of specific sectors would miss the vast bulk of Ten Percenters.

The second report identified three key findings relating to markets:

- Exceptional Ten Percenters have invariably increased their market share as well as having benefited from a growing market
- Firms reporting increased market share are also much more likely to report rapid profit growth
- Those firms selling in the United States are less likely to report fast growth in profits than those selling into Germany/France.

This research serves to highlight the difference between sectors and markets. The former are classifications, generally for statistical purposes, of aggregating firms. Markets, however, reflect the sales and purchasing patterns of particular, often small, groups of buyers and sellers. An illustration of a sector might be food manufacturing, within which sales may be growing no faster than in manufacturing as a whole. However, within that sector there are highly buoyant marketplaces which contain significant numbers of Ten Percenters.

A second illustration might be a firm, the market for whose services is driven by the Information technology revolution. Such a firm might specialise in the laying of electrical cabling, and so gets classified sectorally as being in the construction sector. Equally firms in the retailing and distribution of computer software and hardware are classified sectorally as distributors, and so are classified as being in the same sectors as those distributing products where demand is significantly less buoyant. It should be clear that sectors and marketplaces are therefore very different.

Our task in this section is to examine the nature of marketplaces served by Ten Percenters, recognising that these may be spread over a wide variety of sectors.

i) Expanding

Almost every Ten Percenter is selling into a marketplace which is experiencing significant expansion. We have only two instances of Ten Percenters achieving their growth by substantially increasing their market share in a declining marketplace. This is a most important finding since it implies that a necessary – but clearly not sufficient – condition of being a Ten Percenter is being located in a growing marketplace.

ii) Niches

Approximately three quarters of Ten Percenters are in highly specific niches. Some occupy a number of niches, often in separate companies within the group, and in some instances the niches are more clearly defined than in others. Very few occupy wide marketplaces and compete directly with large enterprises. Of those which do not occupy niches, the biggest concentration is amongst those distributing/retailing computer and IT-related products and services. Here, we assume, the market is so buoyant that the requirement for a niche is minimal.

There is always money in a niche
Almost all respondents recognise the importance of the niche. They seek to both differentiate their product or service within the niche and to defend it:

“We don’t want to be over-successful in capturing the market. We want to be a minor irritant to the multinationals rather than make them so sick that they react... There is always money in a niche, rather than following everybody else. If you have something nobody else has—and you have 100% or 50% of it—that’s how you make money.” (Retailer and Wholesaler)

What is most striking is that many of these niches exist because of a whole range of special circumstances. The skill which we observe amongst Ten Percenters is to identify the niche and then ensure that customer needs are met in full.

Seven illustrations of these special circumstances include:

- Changing tastes and social change
- Growth of own labels
- Outsourcing
- Preferred supplier relationships
- Local circumstances
- New technologies
- Legislation.

Changing tastes and social change
A number of Ten Percenters have grown on the basis of changing tastes and the subsequent creation of new marketplaces. These are most familiar in the case of firms with new technologies, but there are many less obvious, yet in aggregate probably more important, changes which create market opportunities. One retailer said:

“The market for pet food has increased dramatically over the last ten years... Everybody used to feed pets with scraps but now they want to give them proper cat and dog food... People have more money and are willing to spend more on their pets and think nothing of spending £14 on a bag of dog food whereas years ago that was too much.” (Retailer)

Another illustration is the growth of single person households. This has influenced the demand for food, so that a number of foodstuffs which previously were produced in family packs are now produced in individual packs to satisfy the demands of individuals living on their own.

A third example is the considerable growth in travel and leisure activities. There are several firms in these sectors which have grown, partly on the back of overall growth in these sectors, but almost all of them have sought to specialise. Travel agents which are Ten Percenters, have all chosen to specialise geographically, or in producing “customised” leisure or business travel packages.

Own labels
At least five firms are ‘Ten Percenters’ because of the retail power of supermarkets, which are seeking to develop ‘own labels’.

One respondent said:

“The market has changed in that the multiples have made strategic decisions to build their own label business and squeeze out the brands. They have introduced two-tier brands, they have a very good quality copy of the brand and are also trying to compete with the discounters. So the market has changed for us — there has been a greater emphasis on own-label which has helped us to develop the business... It’s not going to disappear, it’s here to stay, because it’s now too profitable for the supermarkets... I can only see it increasing into other product lines.” (Food Manufacturer)
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The role of the supermarkets has been to identify, very often small, enterprises serving a local market but producing a high quality product, and to offer to take not only the whole of the firm's current output, but generally substantially more. Supermarkets therefore, are like a giant vacuum cleaner sucking up a few hand-picked suppliers capable of satisfying their stringent quality requirements. Whilst margins may be thin on this type of work, the sheer scale of the orders adds considerably to the profitability of the supermarket supplier.

Outsourcing and preferred supplier relationships
A not dissimilar development is the growth of outsourcing. Many large enterprises now seek to outsource many of their services, stimulating a demand for organisations able to supply individuals with skills in information technology, provision of secretarial services etc.

A second type of growth for Ten Percenters is the trend amongst giant enterprises towards having a small number of 'preferred suppliers'. These suppliers are normally required to undertake quite a wide range of activities. To become a preferred supplier requires them to obtain this expertise, often achieved by purchasing other companies. As in the case of the supermarkets, giant enterprises provide a powerful incentive for some small firms to become substantially larger over a short period of time.

Local circumstances
Buoyant niche markets can exist because of special local circumstances. Examples of firms in this survey are house builders in geographical areas which are less prone to cyclical downturns. Other instances include the growth of a transport firm to satisfy a special large local business.

things could not go on
as they had in the past

New technologies
The most obvious example of the development of new markets within the last ten years has been the growth of the information technology industry. Not surprisingly, firms in this sector are well-represented amongst Ten Percenters but, as noted earlier, they do not always appear in the most obvious 'sectors'. Of course there are software houses which produce specialised computer programmes, but almost as interesting is the presence amongst Ten Percenters of firms stimulated by information technology, but in conventional 'sectors'. For example, Ten Percenters selling computer equipment and software are found in the distribution sector; firms installing cabling to enable data transmission to take place are found in the construction sector. Those using I.T. for producing labels for retail outlets are in the printing industry.

Furthermore, Ten Percenters in highly conventional industries have often obtained a huge competitive boost from installing new I.T. systems. One manufacturer said:

"Four years ago our I.T. department was someone working in a farmhouse in Hereford and one other person ... now we have 15 direct staff and four subcontractors .... We used to have manual books and tickets for each customer ... now we have an autoplant system and we are working on shop floor data capture with bar code swiping." (Manufacturer)
Indeed the embracing of new technologies, even by those outside the I.T. sector is a characteristic of Ten Percenters which we will discuss in more detail later on.

Legislation
Governments can be vitally important, often unintentionally, in creating new marketplaces.

One example is health and safety legislation, a cause of considerable irritation to many Ten Percenters, but which has often acted to exclude competition. Food legislation in particular means that only those firms fully capable of compliance can remain in the marketplace. Firms may need to grow, often to a considerable size, in order to make it fully economic to comply with the legislation. In this respect some legislation can foster growth.

In another context a security company clearly recognised the role of government:

"The Thatcher government in the mid ‘80s made it clear to businesses that they were responsible for their own security and for looking after their own assets. Many businesses have been reliant on the police for crime prevention advice, but a market opportunity opened up when large businesses realised that things could not go on as they had in the past." (Services Firm)

Finally, an I.T. specialist company which grew rapidly, focused on providing specialist programmes to help new businesses and the public utility sector.

The central point here is that Ten Percenters are heavily concentrated in these special niche markets where there is clearly considerable opportunity to grow. What is also observable is that these reflect not single changes in the economy but a wide and diverse set of developments each of which facilitates the growth of a small number of Ten Percenters. These are not macro-economic developments affecting large numbers of enterprises, but instead a diverse range of special changes going on within the economy reflecting changes in tastes, the ability of firms themselves to be innovative, and efforts by larger enterprises to become competitive in world marketplaces.

Although it is not true in all instances, in many cases there is a huge market ‘suck’ factor which pulls these Ten Percenters along. Sometimes, as in the case of software, it is the enormous growth in the market as a whole and the opportunity which this provides even for smaller players. In other cases it is the key role played by major businesses which have ‘nurtured’ hand-picked Ten Percenters which have made the transition into middle sized companies. Clearly this is apparent in the growth of supermarkets, but it is also apparent elsewhere, most notably in the development of outsourcing. Obtaining the goodwill and then the associated orders of a multinational was as vital for the security firm as was becoming a preferred supplier for the engineering firm."
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iii) Competitive

It might be expected that these marketplaces would all be highly competitive and in the majority of cases they are. In some marketplaces the competition is clearly fierce, but in others this is less the case. For example, in several of the buoyant markets supply seems unable to keep pace with demand as one respondent said:

"I think there is room for us all at the moment". (Retailer)
and another said:
"The market is competitive, but with so few suppliers it isn't cut throat". (Manufacturer)

We also observe that markets in which competition seems to be most fierce, or is perceived as being most fierce, are those where the niches are widest. The more that Ten Percenters are able to both narrow the niche, yet still ensure that demand is buoyant, the less competitive is the marketplace.

The ability of Ten Percenters to achieve this over a long period of time must be open to question but, in the vast majority of the cases which we have examined, those firms have achieved exceptional rates of growth in sales over a five or six year period. It certainly suggests these markets are far from transitory.

iv) Cyclical

In the majority of cases these marketplaces are not particularly susceptible to macro-economic and other changes. However, in some instances there is a strong sensitivity to the economy. Illustrations of this are reflected in the comments of the recruitment company:

"Firms in our sector seem to feel the economic cycles incredibly strongly. At the moment we are having a surge out of all proportion to economic growth in the country as a whole. Then, as soon as there is a slow down, we will go through a bad period out of all proportion. During the last recession recruitment companies were closing down left, right and centre". (Recruitment Firm)

v) Exporters

Almost two thirds of the Ten Percenters export to some extent, but only about half are significant exporters. Those which do, vary the dependence they have upon the export market. The majority of firms focus heavily upon Europe, rather than wider export markets. Their experiences in selling overseas are worth reporting. Two general lessons emerge:

- To be successful in Europe it is necessary to clearly differentiate the product from one European country to another and ideally to give the impression of being a French company when selling in France or a German company when selling in Germany.
- The American market is generally much more competitive than the European market. U.S. consumers are vastly more demanding as well as nationalistic, bordering upon jingoistic.

The following quotations reflect the above observations:

"The U.S. is difficult because it is very, very big. The market works differently from the UK in terms of who you sell into and the customers are particularly demanding in terms of quality and price". (Manufacturer)
vi) How did they get there?

Many Ten Percenters recognise that they arrived in their chosen marketplace through either good luck or having particular specialist knowledge which happened to be in high demand, or through trial and error. The role of luck in arriving in the marketplace should not be underestimated; indeed it is not underestimated by a number of the respondents:

"It was a big opportunity at the time, although I didn’t identify it in such a clear fashion. I happened to get into the market before it was established". (Software Company)

"To be fair we’ve been very fortunate". (Hardware Company)

To imply an element of good fortune in identifying the niche does not, of course, imply a lack of awareness on the part of the business or its owners in exploiting that niche. In other words, although there may be a chance element in being within the niche, the skill of the Ten Percenter is to exploit the niche significantly better than the competition.

Perhaps this is most accurately reflected in a Senior Director talking about his business:

"If you listen to our Chairman he will say we were lucky, we were there at the right place at the right time and took advantage of the right technology. But I think we were clever enough to recognise that we had to use the latest techniques and we have a combination of highly capable technologists with highly capable businesses, sometimes in the same skin". (Software House)

How then did Ten Percenters seek to develop their businesses? It is to the issue of strategy that we now turn.
In the second Ten Percenters report we found:

- Ten Percenters regarded themselves as significantly better than their competitors in the area of customer service, understanding customer needs and quality of product or service.
- Amongst Ten Percenters those performing most spectacularly were those likely to view themselves as having a better understanding of customer needs.
- Ten Percenters do not seek to compete primarily in the areas of low selling prices or access to credit.

In this report we examine these areas in more detail. In particular, we seek to identify those strategies which Ten Percenters have used both to develop and to defend the niche markets which they occupy.

i) Quality

Almost all Ten Percenters view ‘quality’ as either their key comparative advantage, or at least a major comparative advantage which they have over their rivals. Only three firms did not view ‘quality’ as a key comparative advantage.

The term ‘quality’ however seems to mean different things in different contexts. For example, the recruitment agency viewed its ‘quality’ as identical to its ‘ethics’:

“We operate on an extremely high ethical standard and focus entirely on quality which makes us, from a pure business sense, relatively inefficient, at times, but I think it has paid dividends in establishing the brand that we have”. (Striker Firm)

On the other hand the notion of ‘quality’ employed by the engineering firms is much more associated with a formal quality standard such as ISO9000. It is also about an attitude of ensuring that the informal - almost measurable - quality is maintained:

“Product quality comes down to your quality department, and you having somebody there who is prepared to stand up and say ‘No, I’m not letting this go out the building in that state’. . . . Here there is a constant conflict between production and quality and that is inevitable. The quality manager is looked upon as the prima donna of the industry, a bit like restaurants where the chef is the prima donna, and there is a very good reason for it because he signs the release note to say the product meets that standard.
In that respect he is the most important and has to be very strong-willed – too damned strong-willed sometimes.” (Manufacturing

However for businesses in the service sector in particular, very different notions of quality exist. For example, for the electrical maintenance firm, the ‘quality’ which they provide is the guarantee that the customer could talk, 24 hours, to a technical specialist – not simply someone who took messages – who is able to help them in the event of a breakdown. In the case of a haulage firm, ‘quality’ was a guaranteed reliability of delivery. In other instances ‘quality’ meant a business which was run within the law. In some cases people would use phrases such as: “there’s so many cowboys out there” implying that a quality business was merely one which was not run by cowboys!

In almost all instances the notion of quality is clearly linked to satisfying the requirements of the customer. A total emphasis in almost all these businesses is customer requirement. Ten Percenters clearly recognise that the effort to retain customers is a fraction of that of obtaining new customers. Whilst the nature of ‘quality’ differs from one business to another, the emphasis which is placed upon it is, for virtually all Ten Percenters, paramount.
ii) Innovation

About half of Ten Percenters claim to be innovative, to the extent that it is a factor which significantly influences their competitiveness. Furthermore, where they are innovative, they view this as their key competitive advantage over their rivals.

The nature of that innovation varies considerably and it is not exclusively found in high tech firms.

For example, several food manufacturers were continually seeking to develop new products.

One said:

"We have developed a revolutionary technology and are putting a huge amount of effort and energy into our research and development, building up highly advanced laboratories and licensing our technology to major companies around the world". (Manufacturers)

In other instances the innovation is the fact that the service is not provided by anyone else:

"We've created our own niche by providing products and services which are not provided by any other participants in the market place. The skill in this case was identifying a service which was required but which was not being supplied anywhere else". (Service Company)

It should be noted that innovation can take place in a wide variety of contexts. For example, a travel agent attributed its growth to a movement away from low margin, high volume activity, towards being the innovator in terms of assembling a tailored package of holidays to specific countries. Another had introduced a revolutionary comprehensive ticket system which they had developed in-house, and which was generating huge interest from both customers and the larger travel agents.

In other cases innovation is more conventional such as the software firms which are seeking to continually update and develop new packages in an innovative marketplace. Here the key issue is to ensure that the customer returns to buy the next version of the updated software.

Innovation also relates to process rather than to product innovation. There are a striking number of Ten Percenters that have spent heavily on new I.T. systems which they are convinced will provide them with a huge competitive advantage over their rivals. One firm said:

"We are currently putting together a database with information on all distributors’ products, stock, price and availability. We'll pool the data and maintain it. We've had three full time people working on this project for a year and the file will be updated two or three times a day. Since 40% of sales time is taken up with collecting information for a quote, this computer system will provide massive savings in producing efficient quotes". (Distribution Company)

iii) Price

As we found in the second Ten Percenters report, almost none of these firms attribute their success in the marketplace to primarily a price-based strategy. In about one third of cases firms say price plays virtually no role and so for two thirds of the firms price plays some, but very rarely indeed, a significant role.

The firms placing more emphasis upon price are those likely to be selling to a large powerful purchaser, rather than to a wide range of purchasers or to the general public. Even this generalisation however is not appropriate in all instances with, for example, one general public retailer attributing its success to low prices.
In essence most Ten Percenters view competitiveness as a package in which price plays a role, but rarely the key or sole role. Indeed the skill of the business is to seek to identify a niche; the strength of that niche is reflected in the absence of price competition within that marketplace.

The special chemicals manufacturer summed it up best:

"It's not particularly price sensitive. There's no business in the world where price doesn't matter and buyers are getting tough but, yes, you don't have to be the cheapest if you've got the quality". (Manufacturer)

iv) Other differentiation strategies

As noted above we can consider differentiation strategies as the 'mirror image' of price. The firms which are most successful at differentiating are those having to rely least upon price to give them their comparative advantage within the niche. We have also noted that quality - in the widest sense - is the prime differentiation strategy and that innovation is also frequently used.

However there are a number of other strategies which are employed either as an alternative, or as a complement to, the innovation/quality approach.

Several firms referred to the emphasis which they place upon marketing skills:

"We have been a seriously focused marketing company. A lot of investment has been put into marketing. That's why we are as successful as we are domestically in the UK, and around the world. We have invested heavily in marketing to get where we are now and will continue to do so. It's a very important part of the company's budget and our profile". (Software House)

At its most extreme, Ten Percenters seek to, and in one case have achieved, a major 'brand image'. One has achieved a brand which is in the top one hundred world's most recognised brands and so clearly their logo is fiercely protected. But even at more modest levels, several Ten Percenters seek to develop brand recognition within their niche.

A second differentiation strategy has been the development of alliances:

"We look for areas in the marketplace where we can have something which is either unique or where we can build a partnership. We have actually built a partnership with 'X' which provides us with a way of growing the business in which they are prepared to help fund the project. It gives off extra business in other product lines and builds a relationship to guarantee to take our production from the new plant for up to five years". (Food Manufacturer)

A third differentiation strategy is to focus upon ethical issues. As noted earlier some firms seem merely to regard their own firm as ethical because it is not run by a cowboy. Others however employ a rather tighter definition, emphasising ethics in terms of a particular approach:

"We never do anything that would come back and bite you later on; stay whiter than white. There are so many opportunities when you have a growing business to take the view that it would be alright to sweep it under the carpet. If we had done that as a business we wouldn't have had a clean bill of health. We've never had anything that's come out of the woodwork that has made people worry". (Construction Company)

v) Acquisition

About one third of Ten Percenters plan to acquire businesses as a key element in their growth strategy. In addition, a small number seek to achieve organic growth by the development of new outlets.
Of the remainder, some have made an explicit decision not to continue their historically high growth rates and therefore the acquisition of new businesses is not a priority. Others have themselves been acquired and have therefore lost the power to acquire new businesses. Hence it is only a minority of Ten Percenters who are seeking to grow in the future, that have the power to acquire but are seeking to achieve that growth purely organically.

Fairly typical is the following:

"The main challenge is to identify good acquisition targets ... that will fit in with our existing businesses and which are available at the right price." (Manufacturer)

Although it would be unwise to view this as statistically significant, two of the Ten Percenters which have placed the greatest emphasis upon acquisition are in markets which are either exhibiting minimal growth or where uncertainty is considerable. One said:

"The market was actually declining as it's very mature. We achieved organic growth by making private businesses sweat that bit harder. The rest was growth through acquisition. It worked out at about 50/50." (Manufacturing Company)

Another major acquirer is in the leisure market, it is constantly seeking to acquire new businesses because of the uncertainty and fast moving character of this marketplace.

In general, however, most Ten Percenters do not have a prime focus on acquisition, although several have made them in the last five years. Where these have been made they reflect a combination of hearing, often by chance on the grapevine, about a business and reorganising so that it fits with the overall development of the core activity of their own enterprises.

vi) Implementing strategy

Strategy seeks to define and implement the competitive advantages of individual enterprises. When asked about these competitive advantages firms generally referred to the items identified above, most notably quality, innovation, service and marketing skills.

In addition, some others referred to the internal way in which the business was organised and, in particular, their ability to make decisions significantly more quickly than their larger rivals. The latter were characterised as rather cumbersome and bureaucratic compared with Ten Percenters which were 'quick on their feet'.

Two other notable comparative advantages referred to by businesses were the purchasing skills of the key entrepreneur. In one case these purchasing skills related to land acquisition for housing and in another the ability to purchase raw materials at favourable rates.

Another internal organisational advantage possessed by Ten Percenters was their information systems which enabled them to make not only better, but also quicker decisions.

Finally, but vitally important to many Ten Percenters, was attitude. It is clear that many are driven by hungry entrepreneurs and are characterised by aggressive selling. One said:

"Why we are so successful is intensity of management. We sell because we keep knocking on their doors and bothering them to death. If it means we have to be cheaper, then we're cheaper. If it means we have to provide better service then we make sure we do that. We've never given up the chase yet. We haven't won them all, but we're still chasing." (Printing Company)
This section identifies a number of characteristics of good 'text-book' or 'formal' management. The extent to which Ten Percenters achieve and implement these 'text-book' criteria are then assessed. Finally, a highly subjective formal management score for each firm is provided.

In short we are trying to provide the reader with a picture of the 'quality' of the management in these enterprises, in terms of formal management structure.

1) Training

In the second Ten Percenters report we found that approximately three quarters of Ten Percenters provided some formal training. However, in the current survey we have examined this in more detail and feel that the 75% figure may be an overestimate of the scale of workforce training.

Amongst our case studies, there are very few Ten Percenters indeed which place staff training at the forefront of their activities. The spectrum of training usage is very wide indeed.

For example, the following firms might be classified as providers of training even though they could hardly be regarded as a training-led organisation.

"We've got an old chap that goes around looking at a bit of training and operations and does the job for us". (Cleaner)

Other Ten Percenters were even less training orientated.

"Not a lot is done it has to be said. Apprentices go on day release courses, but us for us everybody else is concerned we learn on the job". (Manufacturer)

It is also important to distinguish between workforce training and that of the management and directors of the business. It is clear that the more senior the individual the less likely they were to be in receipt of recent training. One MD, after describing the training activity in his business announced with clear pleasure:

"I'm even going on a half day course myself next month - if nothing else gets in the way". (Manufacturer)

There are also major sectoral differences. For example in the software industry, and those using I.T. intensively, the key issue is to ensure that the I.T. professionals are highly aware of all new developments. Training and development are therefore at the forefront in these companies and, to some extent, this percolates through to the top management, who are more likely to devote time to training than those in more 'traditional' sectors. Nevertheless the key point remains that the more senior people are less likely to be in receipt of training.

What is also interesting is that a number of the Ten Percenters which currently provide some training recognise this has begun only fairly recently. It also seems that in a number of cases it was a response to growth, rather than a cause of growth. Several companies referred to now having reached a scale at which it was important to "get ourselves organised" and in this context the role of Investors in People (IIP) was important, this will be discussed later on in more detail.
Training expenditure was also clearly influenced by the state of the business cycle so currently, when there are major labour shortages in many industries, training budgets are higher, as are profits. An engineering firm said:

"Training has always been dictated by profit. In a good year you're going to make more of it, in a bad year it's going to be the first thing you cut... I do take the long term view; but I'm also realistic and it's easier to cut out a training programme than it is sending ourselves to see a customer," (Manufacturer)

No more than one in six Ten Percenters give a consistently high priority to training throughout the organisation, even though well over half of them recognised that their people were their main asset. There are, perhaps, only three exemplars out of the 46 firms. One of these said:

"We take a lot of people without a background in our area so there are three stages in their development. The first stage is 'Step to Success', which is a fairly structured six months of their time in the firm in which they learn all the skills they need to do their job well. Then they go onto the career ladder. The second course is 'Management is Fun'. There's a lot of in-house training throughout provided by our small training department. Step three is the 'Freedom Initiative' in which everyone is given a chance to think about their career and how the company is run. We want the people with a bit of gumption to come through and, even if they ruffle a few feathers when they initially state an opinion, we want them to present themselves as being ready for promotion." (Recruitment Agency)

But this is definitely a minority response - most Ten Percenters either undertake no training at all or have only recently implemented changes in this direction, often as "we can't go on doing it this way" type of response to pressures. In perhaps up to a half of all cases respondents make reference to having implemented changes during the last twelve months, employing consultants, Training Managers, HR Professionals, Implementing or considering Investors in People.

"Training has always been dictated by profit"

ii) Investors in People

Only four Ten Percenters have implemented Investors in People throughout the organisation. Others have at least demonstrated an awareness of IIP but found their procedures were so short of the mark that they are unlikely to continue.

"We looked at Investors in People and we had a survey about a year ago which revealed considerable shortcomings in our training, which is inevitable because we didn't have any formal training programme... we probably owe it to staff to give them a bit of formalised training, getting them to NVQs etc., which we shall be doing. Whether we go for IIP or not I don't know, if we do we've got to do a lot of things that we don't particularly think we need to do, like appraisals and that sort of stuff" (Director)

Attitudes to IIP therefore closely mirror those of training in general.
Management of people

Section Five

iii) Objectives and job descriptions

A central function of Investors in People is to encourage the definition of aims and objectives at both a corporate and individual level, leading to definitions of job descriptions. The extent to which this takes place currently within Ten Percenters is very mixed. Less than two thirds of firms clearly specify objectives for all managers throughout the organisation. The spectrum of this ranges from on the one hand:

"All our senior managers are set objectives on a six-monthly basis. We had a major restructuring two years ago, a minor restructuring a year ago and are probably about to head into another restructuring. We are constantly redefining. It's a very fast moving market". (Services Company)

or

"The company has business objectives. It's broken down into sales and marketing objectives all the way down to the bottom guy. So where does he fit into that picture? If you don't have a mission statement at the top and you don't have objectives for you down the bottom, then it's a waste of time". (Manufacturer)

For other Ten Percenters a very different approach is adopted:

"The objectives and accountabilities of senior managers are ongoing. Any redefinitions happen frequently at informal meetings, normally in the local Indian restaurant". (Manufacturer)

or

"The objectives and accountabilities of senior managers are not written down. This is an entrepreneurial company and I wouldn't have ever recruited anyone who didn't know that their responsibility was to drive the company forward". (Retailer)

Another Ten Percenter, when asked about defining objectives and accountabilities said:

"That's an interesting question ... I suppose not at all, it's an on-going process. In a company like ours it doesn't work like that but it goes on all the time, but I suppose we don't do it formally, because everything is moving so fast. If we come to a standstill I suppose we might formalise it then", (Distribution)

This encapsulates the view of many Ten Percenters that their comparative advantage is being 'light on their feet'. The specification of objectives and the provision of job descriptions would be a self-imposed bureaucratic burden which would destroy, rather than enhance, their competitiveness.

In short, whilst some companies have clearly defined objectives and job descriptions which stem from this, it is not a dominant characteristic of Ten Percenters. Many feel that to do this would lose the flexibility which provides them with their comparative advantage. Probably the majority, however, are now either moving towards greater formality in this respect or already have such systems in place. Nevertheless the variation in practice is extremely wide.

iv) Appraisals and feedback

Ten Percenters were questioned about the extent to which managers were provided with appraisals and formal feedback. Clearly if appraisals exist then there will be feedback, but a number of Ten Percenters indicated that, although formal appraisals did not take place, there were many opportunities for informal feedback. Overall, less than half the Ten Percenters had formal appraisals and feedback. Very few of these involved top management, and none had 360° appraisals involving the owner.
Amongst those emphasising the informality of feedback one said:

"There is a strong sub-culture in any small society like this and if there are pockets of dissatisfaction it gets us very quickly and my senior colleagues are very sensitive to this and we address it. We don't have committees dealing with these issues". (Manufacturer)

Another said:

"I've been in companies where you have formal appraisals every six months, you set your objectives, you talk about what you've achieved. Nothing like that here. In this sort of environment if you've not done something then you get a rocket off Ray. 'Why hasn't it been done? I'd have thought you'd have sorted that out by now'." (Service Company)

v) Use of Non-Executive Directors

Virtually two thirds of this sample of Ten Percenters use NEDs. Two firms anticipate using them shortly and the remainder do not use them and have no plans to do so.

Of those using NEDs, opinions on their value are very mixed. Views are negative particularly where the NEDs are 'imposed' by outside venture capitalists, or where they are viewed as 'pals of the chairman'. However the negative comments do not only relate to these instances. One respondent said:

"I would really love to say 'yes it was really useful and beneficial'. Unfortunately when you work in a business on a day to day basis as all the management do, the NED was an irritant because he comes and asks questions and we've got to answer them". (Manufacturer)

Another said:

"We've had a problem with Non-Excs. You can't sack one without telling the market, so you've got to be very careful. I've seen too many of my friends get stuck up by Non-Excs going to lunch, having a bottle of wine and telling stories out of school. You've got to be wary". (Manufacturer)

However in other instances NEDs play a clearly positive role in 'going behind the scenes to smooth things over... which can be useful because they don't have an axe to grind with anybody', whilst others perform a useful specialist function in exercising a marketing or financial negotiation role.

One said:

"When we're having discussions with our bankers, having a very senior ex-banker on the Board is very useful, particularly interpreting some of the things we may be getting from the banks etc... Non-Excs also chair important committees such as the Audit Committee, the Remuneration Committee and bring a special perspective to this". (Service Company)

Two other reservations about NEDs coming from a minority of firms were related to the choice of individuals. In several instances the NEDs were not truly 'external' individuals, but rather close family - often spouses or sons. This, it is felt, does not provide the independence of view expected from NEDs. A second reservation relates to the choice of outsiders. In several instances reference was made to the choice of 'X' as being one of the Chairman's 'cronies', 'drinking partners', 'school friends' etc. Again, it suggests that the independence of view which NEDs are expected to provide is not always expressed.
Whilst more Ten Percenters have NEDs than do not, there is a striking diversity of opinions on their value. On balance, there may be more taking the positive view, but this is far from unanimous.

vi) Management score

![Bar chart showing number of companies across increasing level of formality.]

In our efforts to summarise the formal management of Ten Percenters we have specifically examined formal management according to eleven indices:

- Extent of meetings
- Job descriptions
- Use of market research
- Training
- IIP
- Defining objectives
- Use of Non-Executive Directors
- Financial control
- Succession plan
- Feedback
- Appraisals.

Using each of these eleven indicators for each company we have produced a (highly subjective) score to reflect management formality. In the extreme case totally informal firms would score zero and those which are highly structured would score ten. The management scores which were produced are shown in the diagram and demonstrate one key point. This is the extreme diversity amongst the ways in which these businesses are managed. Whilst there are no businesses scoring zero, 1 or 2, there are a remarkable number where the businesses are managed in a fairly informal manner. Conversely, there are a number of businesses, broadly of a similar size, exhibiting similar growth rates and being of similar age and ownership structure, which are very much more formalised. It is this diversity of practice which is most striking.

Those who run their businesses informally (i.e. have low scores) argue that the introduction of additional formality would undermine the entrepreneurial spirit and customer focus of their business. Yet it is clear that businesses which are equally customer focused and growing at similar rates do have much more formalised procedures.

It is therefore clear that the achievement of rapid growth rates is, by no means, the exclusive prerogative of tightly organised and ‘well-managed’ businesses.

In short, we conclude that the style, tightness and formal managerial procedures, amongst Ten Percenters, is not obviously related to firm performance. This is in stark contrast to our earlier findings on markets, where clear preconditions for being a Ten Percenter were market growth, customer focus, differentiation and quality.
All respondents were asked about the ‘culture’ of their business. Four dimensions of culture are shown in the diagram below.

- **TEAM** [AUTOCRATIC]
- **RELAXED** [AGGRESSIVE]
- **FORMALISED** [INFORMAL]
- **FRANTIC** [ANALYTIC]

The first is the extent to which the business is characterised by a team, or by an autocratic culture. Businesses which are classified towards the autocratic end of the scale are those where respondents described culture as being ‘leader dominated’, ‘top down’, ‘paternalistic’, ‘entrepreneur dominated’, ‘people watching’, etc. This contrasts with businesses which are team dominated such as those who refer to the need to ‘create an ownership culture’, ‘develop a team’, ‘ensure workers are interested’, ‘employ the best people’, ‘training-based’.

- When businesses are classified according to this dimension, significantly more appear to be autocratic than team-based.

The second dimension is the extent to which company culture varies from ‘relaxed’ to ‘aggressive’. Illustrations of aggressive culture include phrases such as ‘motivated’, ‘dynamic’, ‘to be the best’, ‘hard graft’ etc. This contrasts with businesses where the culture is more relaxed where phrases such as ‘laid back’, ‘don’t overwork’, ‘laissez-faire’, ‘typical software company’ abound.

- On balance, there appear to be broadly similar numbers of firms viewing their company culture as being ‘relaxed’, compared with those viewing it as being ‘aggressive’.

The third dimension is the extent to which the company culture reflects formality. Again at the opposite ends of the spectrum we have businesses which view themselves as highly informal. They place great emphasis upon informality and attempting to minimise bureaucracy. Many of these are businesses which view themselves as typical family businesses. They therefore see decisions being made by the family in informal circumstances, rather than through formal meetings. This contrasts with more formalised companies who are clearly divisionalised and devolved, and often financially led.

- Overall Ten Percenters appear to be more characterised by informal than formal cultural dimensions.

The fourth dimension of culture identified can be considered as the activity index. Some businesses’ activities are very clearly frantic, constantly seeking to satisfy customer demands, facing consistent new challenges and often undergoing organisational restructurings. This contrasts with others which seem to have a more analytical, even reflective, approach to business. Such firms are highly selective about markets they enter and the customers they seek to serve.

- On balance Ten Percenters seem to be more characterised as being at the ‘frantic’, rather than the ‘analytic’ end of this spectrum.

In conclusion, there is clearly a diversity of business cultures amongst Ten Percenters. Overall however the business cultures seem to be characterised by autocracy, informality and activity, rather than by team working, formality and analysis.
Prime sector of companies

Appendix I

1. Scientific Instruments Manufacturer
2. Distribution and Retail
3. Staff Recruitment
4. Food Manufacturer
5. Housebuilder
6. Precision Engineering
7. Food Manufacturer
8. Software House
9. Travel Agent
10. Electrical Equipment Manufacturer
11. Retailer (Software)
12. Financial Services
13. Food Manufacturer
14. Software House
15. Distribution
16. Travel Agent
17. Housebuilder
18. Food Manufacturer
19. Haulage
20. Construction
21. Transport
22. Leisure
23. Security
24. Leather Manufacturer
25. Mechanical Engineering
26. Distribution
27. Distribution (Computers)
28. Leisure
29. Distribution (Computers)
30. Staff Recruitment
31. Travel Agent
32. Retailer and Wholesaler
33. Software House
34. Travel and Holidays
35. I.T. Services
36. Electronics Systems Manufacturer
37. Retail and Rental
38. Distribution
39. Metal Manufacturer
40. Mechanical and Electrical Maintenance
41. Printing
42. Distribution
43. Distribution
44. Shopfitters
45. Furniture Manufacturer
46. Chemicals Manufacturer
## Broad Sectoral Composition

### Appendix II

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>16</td>
</tr>
<tr>
<td>Retail and Distribution</td>
<td>11</td>
</tr>
<tr>
<td>Construction</td>
<td>3</td>
</tr>
<tr>
<td>Software</td>
<td>4</td>
</tr>
<tr>
<td>Other Services</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total number of companies interviewed</strong></td>
<td><strong>46</strong></td>
</tr>
</tbody>
</table>
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