

Short Submission by
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to



**Independent
Review of
Economic Policy**
(DETI and Invest NI)

Summary

The review, although for DETI and InvestNI, needs to encompass a wider range of interested parties including primary, secondary and tertiary education, planning and also transport in all its forms.

It is accepted that the private sector in Northern Ireland has gone through 40 years of decline from its successes of the 1960's through the troubles to the peace process to the current recession. We are now probably close to the lowest point of the manufacturing sector in 100 years and need to take drastic actions to reverse this situation before it becomes untenable.

- We need to change the perception of the Entrepreneur; we need to promote them as role models in Northern Ireland that children wish to emulate.
- We need to create an infrastructure where they can flourish.
- We need to 'import' entrepreneurs instead of companies from around the world and provide them and locals with an infrastructure to enable them to flourish.
- We need to 'use' existing local successful companies to see what they need and how their experiences can benefit other companies.
- We need to restructure InvestNI for the need of the 21st Century, not the 1970 and 80's
- We need to give InvestNI a remit to take chances with judgements against the overall performance in a period on not any individual case as at the moment. The current system has engendered a 'can't do' attitude as failure is penalised within the system.
- We need InvestNI to re look at equity and loans in the current recession as means of sustaining and creating new companies
- What we need most is joined up government with a focus on the economy and where resources are invested in the economy as a priority over all other sectors – it is the future for all of us.

Overview of the Northern Ireland Market Place

If we look at two statistics:-

- ☑ 95% of the companies in Northern Ireland employ less than 10 people
- ☑ almost 50% of employees in the private sector are in companies employing less than 50 people.

These two facts show the extent to which Northern Ireland relies on entrepreneurs.

These added to two further statistics:-

- ☑ 1 in 10 companies have sales of £1,000,000
- ☑ 1 in 100 have sales of £10,000,000

These indicate the chances of a start up becoming a major success story are very low; in fact the chances of just surviving for 3 years are probably about 50/50 at best.

With all these facts in mind setting targets in this environment is very difficult as the results are dependent on new companies being set up that are able to export outside Northern Ireland and mobile investment is becoming almost non existent. Our recent history of new start ups has not been encouraging and needs to have a completely new strategy to achieve anything in the short to medium term.

The targets being set may need to be revised away from employment to different targets like added value or intellectual property that in the short term may not make an enormous difference to the public v private employment ratios. It has taken 40 years to get to where we are and it may take another 40 to get to where we need to be, but the correct targets and directions can lay the foundations for longer term success in changing those ratios.

Directions to take

We will not return to the older heavy industries in which we once ruled the world so we need to look to new areas which are showing growth within the world and which are more resistant to recessions

We therefore need to increase the intellectual property held within Northern Ireland particularly in the Bio technology and software sectors.

The historic method of looking for mobile investment may have its place in job creation but it is not a substitute for locally based companies whose headquarters and ownership are here in their early stages.

To achieve this we need more than the flow of Entrepreneurs coming from our Universities we need to tap into other Universities across the world and provide their

graduates with the resources they need to develop projects. I am involved with one such group in the EU, Europe Unlimited based in Belgium, where they bring together Universities, Entrepreneurs and Investors.

In addition we need to bring people into the world of business at an earlier age – I presented a previous paper on this overall subject, (**appended**).

Resources in Northern Ireland

I will not go into an exhaustive list of resources but will bullet point a few:-

- ☑ An infrastructure which rewards entrepreneurs for the risks they take, e.g. reduced taxation in the early stages when funding is always limited, possibly with a form of working capital allowances for fast growth and start up companies who export, with appropriate safeguards against fraud.
- ☑ More incubator clusters, at and away from Universities, with the appropriate infrastructure to help new and developing companies in Biotech and Software etc.
- ☑ More mentors for start up companies, paid for by the Government if necessary.
- ☑ Increased management grants to improve management for one to two years, during periods of fast growth.
- ☑ Greatly increased Export Training and assistance with in Market Surveys and contacts – InvestNI does this fairly well but needs more investment and people located overseas to widen its availability.
- ☑ A complete restructuring of InvestNI, with a concentration on three areas – Exporting, Product Development and Management Training. They should not be involved in the development of factories or other ancillary activities, which are not directly related to the actual expansion of companies.
- ☑ The provision of Loans and Equity to sustain and create new companies in the current economic climate.
- ☑ A restructuring of our education system with a change in the ethos of our schools, especially Grammar Schools, to give a breadth of education about overall business area that does not exist today. The professions are not the only career choice, nor is going to University a necessity for most and we really need to explain the options to our school leavers of all ages with increased resources in the careers areas.

Appendix - originally submitted to InvestNI in 2003

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This response is in general related to potentially larger global businesses although many of the comments may be relevant to the other two sectors. It is drawn from the writer's own observations and experiences in Northern Ireland, the UK and International Markets

1. *The Entrepreneur and the Employee*

Before discussing Accelerating Entrepreneurship an Entrepreneur requires to be defined not in terms what they achieve but in terms of what distinguishes an Entrepreneur from an employee. Only when that is fully understood can sound ideas be formulated as to how they can be identified and promoted.

2. *What is an Entrepreneur?*

First and foremost they are non conformist, they don't believe that the 'rules' apply to them. They know most business start ups end in failure yet they will start one, two, three or even four or more businesses in an effort to succeed.

They will do anything to keep their businesses open, they don't always pay their taxes, they don't obey all the laws that exist, they cut corners but in the end the true entrepreneur will still succeed. They in fact succeed in the face of the myriad of laws and regulations that try to stifle them, this is because they won't allow them to be a barrier, they will in fact ignore them or work round where at all possible. They usually start to begin to conform to the norms when their companies are financially stable and growing and the fear of failure has gone away

Why do they succeed? - because they believe they are destined to succeed and will let nothing get in their way, they believe 'the end justifies the means'. Their belief and their ability to transmit it to others is what gives them the edge over the competition.

3. *Where do they come from?*

They almost invariably set up a business in competition with the business they have just left, this is nothing new, it is why the car industry was centred on Coventry with as many as 130 different companies there at one stage. The Entrepreneurs of the early 20th century left the newly established car companies to open up new ones of their own; many failed, by the start of the second world war they had reduced to less than 20, but some succeeded spectacularly.

Entrepreneurs typically gain their knowledge from their employers and believe they can produce a better and cheaper product or they spot a niche in their employers market. They in short think they can supply products or service niches better than their employer.

Is this a benefit or a problem? For the entrepreneur they can see no disadvantages they will 'steal' their old employers ideas, customers and employees. Their previous employer will not be quite so happy as the new company picks off their best ideas and employees, it can even end up in litigation where the old company tries to close down the new unwanted competition by sheer cost of litigation and time wasting even where they have no case.

4. How can Entrepreneurs be identified?

At an early stage at school they will be the rule benders, they won't adhere to dress codes, they will resist authority and try to be individuals. They won't necessarily be vandals or intentionally disruptive but they will be different from the crowd. They will sell things to their fellow pupils at a profit, they will see a demand from their friends for something and supply them, they will deliver papers or wash cars or chop sticks. This creates a problem as they are not what schools want their ideal pupils to be and they often lose the support of the teachers as Entrepreneurship candidates are not highly valued or considered role models in an academic environment.

They will in general be very intelligent although not perhaps in the recognised academic sense they in fact may have only a basic education, many people who are dyslexic become Entrepreneurs this may be by accident or it may be a personality trait. It is possible that due to their difficulty with reading and writing they compensate by dramatically increasing their level of verbal communication and thereby their ability to sell. They will be adaptable if one way doesn't work to solve a problem they will look for other ways that do and refuse to admit defeat.

At work they will be driven, they will work long hours, they won't accept the status quo of 'it's always been done that way', they will want to change systems and methods, and will have little time for the 9 to 5ers. They will resent bosses that they do not respect and that they feel they are better than.

They will be considered lucky by their friends and colleagues, they always seem to win or do well. It isn't luck however, the Entrepreneur can see opportunities where others cannot and they create opportunities where none existed - but most of all they can exploit them.

They will have vision and be able to articulate it to others – investors, bankers, employees, and customers will all want to be part of their dream. They will have the ability and personality to persuade others to take even greater risks than themselves, there is no logic in a company placing an important order with a new company where there are long established companies available or an employee joining an unstable fledgling company - but they do!

5. What makes Entrepreneurs remain employees?

In the twentieth century many Entrepreneurs had often a basic education, they left school at 14 or 16 learnt a trade and by the time they were in their early twenties they were fully qualified in their chosen career. They were still single and living at home with no debts or commitments and could then leave full time employment and set up their own businesses without the need to draw a large salary or incur too many overheads and at the same time not risking too much if it failed.

Today everyone is encouraged to get a degree, which means that those with any reasonable intelligence whether academic or not will in future leave university at age 21 or 22 or even older with a degree, no practical experience and a large debt in student loans. When they have

enough practical experience, and paid off their loans they will be 25 or 26 and even older and considering marriage, mortgages and families - not Entrepreneurship.

Successive Governments have therefore created an infrastructure which has the potential to severely curtail the numbers of people that will feel able to consider Entrepreneurship as a step.

It would be much better for our economy if budding Entrepreneurs could be identified at 16 or 18 and given the opportunity to work in small companies with existing Entrepreneurs for two or three years instead of going to University, for each year completed they would earn a Government credit towards setting up their own business equal to a factor of what they have saved from their salary. They could also be provided with an education in the practical theory of the business on a one or two day a week basis, which at the end could cumulate into a plan for a new business and give them a guarantee of funding for it.

This could provide a stream of young Entrepreneurs with ideas, experience and a personal financial situation which would enable them to take the first steps on an equal footing with previous generations.

It should of course be remembered that there is a another source of Entrepreneurs, those who have had careers as employees and are looking for a new challenge in their 40's, 50's or even 60's. This group will often have some capital and lots of experience to invest in their new project, they can be offered intensive workshops on running their own businesses covering the areas where they may be weak or researching business opportunities.

6. *What do Entrepreneurs do that makes them successful?*

Entrepreneurs are realistic about themselves, they instinctively know their weaknesses and look for people who can complement those weaknesses. They almost always will have someone to manage the finances of the company for them if that is not their strength which is usually the case, this can either be internal or external in the early stages of their new business.

They are flexible and can think on the go, if a customer isn't buying what they want to sell they will try to sell them something else instead - even if they haven't currently got it available. If the products they are making aren't selling they will switch to something else that they think will sell. They aren't wedded to what they are making or doing they will change as long as the ultimate goal of making profits is still being met.

They have the capacity to admit making mistakes and to change decisions they have made instead of trying to justify their original decision. They often don't have detailed business plans or if they do they don't follow them as they react instinctively to changing circumstances. They generally aren't concerned with fine detail they work on the 'big picture' leaving others to fill in the fine details.

7. *Selecting business start ups that can be successful*

Where do Entrepreneurs succeed?

They succeed where:-

- the Entrepreneur is the first salesman for the company.
- they surround themselves with people to complement their skills.
- they are not trying to sell new ideas, concepts or products.
- they are supplying a complete product not a component.
- they are supplying markets where the end user is a company not a retail consumer.
- they are supplying goods primarily in the middle market i.e. not £1 per unit or £10,000 per unit.
- the cost of capital equipment is low.

8. *The future of Entrepreneurial companies*

It should be recognised that Entrepreneurs have the capabilities to start and grow companies to a stage where they need to become more formal with complex systems and infrastructures. There is no magic cut off point where this occurs as it is different from industry to industry but Entrepreneurs and their initial team are rarely capable of growing a very large company. In the end the Entrepreneur will start to conform to the expected norms for larger companies and they will lose some of their maverick tendencies and at that stage it is likely that their company growth may start to falter or the Entrepreneur may decide to cash in his assets. Once the company has reached a stage where it has become less controllable and needs a different approach, it will often be sold to a larger company who can instil those disciplines. This is good for the economy as the company should have by this stage spawned a new crop of Entrepreneurs to start the circle once more. If however a company remains in family for two or three generations without investing in external talent at a very senior level it is almost impossible for it to continue growing or even survive.

9. *How can Government get the best from Entrepreneurs?*

The interaction between Entrepreneurs and Government will always be difficult as Government must be accountable for the money it spends and have detailed systems to justify decisions. Entrepreneurs are the complete antithesis of this, they only want to justify decisions to themselves and often will act in ways that are not acceptable to the Government. The

Government therefore has to accept that the activities of the Entrepreneur will often not match up to their ideals of how things should be done.

To avoid this conflict Government should:-

- stop giving grants related to employment numbers, as it is not the number of employees that determines the success of a company, it is its profitability and sales growth.
- only give non repayable grants related to other benchmarks e.g. assistance with attendance at exhibitions, research and development, improvements in efficiency, interest relief and rent all payable against historic measurable marketing, development production or sales targets.
- extend the scope of the Small Firms Loan Guarantee Scheme in Northern Ireland or complement the existing scheme with a local scheme for loans, HP or leasing to replace the employment related grants.
- introduce a small guaranteed venture capital scheme say up to a maximum £100,000, administered either internally or by local VC companies, where the Entrepreneur has the option to buy back some or all of the shares on an agreed basis.
- introduce new rules relating to the contribution of the Entrepreneur to the project allowing for lesser contributions.
- consider starting a company to employ Entrepreneurs on a salary for two years, equivalent to 70% of the average of their last 24 months salary, while they set up their Business. They company could own a percentage in ordinary or redeemable preference equity of the business and sell it back to the Entrepreneur or redeem it at a sufficient profit to cover the costs of running the company. Where companies fail within the two years the Entrepreneurs could be contracted out to other companies in the scheme until they find employment.

This will allow the Government's decision making on grants to be related to specific historic activities therefore non repayable and investment loan decisions can be passed to other professional institutions using some form of Guaranteed Finance and thereby allow the two parties, the Entrepreneurs and Government, to coexist with their different outlooks. The overall reduction in grants payable can then be channelled into giving the companies more hands on practical assistance.

Consideration should also be given to the scope of eligible businesses, all Northern Ireland business should be brought under one organisation whether they be in Manufacturing, Tourism, Service or Retail. The type of assistance can then be tailored to suit their requirements it may well be in the case of retail or some services that only training is given but it would give an even spread of management effectiveness.

10. How can Government help Entrepreneurs?

Entrepreneurs want assistance from anywhere they feel is useful they do not however want to waste valuable time on activities they do not feel are contributing to the growth of their company, the areas where they could most benefit from assistance are:-

- **Market intelligence** – product specific information on which countries may be of interest for exports what the market conditions are in that country and in identifying potential clients in that country.
- **Marketing Strategy** – what options are open to them and what has worked and not worked for other companies.
- **Product Development** and production – what has worked and not worked for other companies and how can costs be reduced.
- **Funding** – what are the methods that other companies have used apart from the well trodden VC, Grant and High Street banking routes. There are many which most people have no knowledge of or where to find them.

In general Government may pay for or contribute to this provision but are unlikely to be able to provide it all internally apart from Market Intelligence as Entrepreneurs are much more likely to listen to people who have had direct hands on experience of what there advising on.