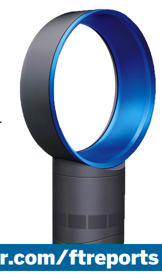
PRIVATE BUSINESS
FINANCIAL TIMES SPECIAL REPORT | Monday September 5 2011



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Same challenges – different solutions

Private companies are often nimbler, more entrepreneurial, less bureaucratic and have coped well with hard times, writes **Oliver Ralph**

The past few weeks have been an uncomfortable time for investors in stock market listed companies. Worries about the eurozone's weaker economies and the US deficit have combined with poor economic data to produce a nasty bout of summer volatility that has sent the value of their investments down by around 10 per cent.

These stock market lurches are often seen as a handy barometer for the state of the UK private sector as a whole. But publicly quoted companies are only a small part of the equation.

According to the Department for Business, Innovation and Skills there are 1.2m private businesses in the UK employing one or more people (by contrast, there are just 2,150 companies quoted on the London Stock Exchange.) Together these private companies generate turnover of £3,000bn and employ almost 19m people.

While many of these are small – 998,000 of the companies employ fewer than 10 people – there are also many sizeable businesses, including multinationals that are behind household names. They include JCB, the digger manufacturer owned by the Bamford family and Pentland, the clothing group that owns brands such as Lacoste, Berghaus and Speedo.

Economic uncertainty creates the same challenges for both private and public companies. The current bout involves lacklustre demand from UK consumers, new opportunities in hard-to-reach emerging markets and rising raw materials prices that push down profit margins. But the two groups have very different ways of dealing with these challenges.

"Private businesses tend to be more entrepreneurial and nimble," says Ruby Parmar, partner at PwC. "They don't have huge organisational structures, so they have coped well as they can make quick decisions."

Monsoon, the retail group that also owns the Accessorize brand, is a good example. It has been able to overcome a tough UK retail environment with an overseas expansion plan that many listed peers might have viewed as too risky. The group now trades in 62 countries and is looking for more overseas expansion.

Private companies also pride themselves on their relationship with employees, which can be an asset when times are tough. "People are potentially one of the strongest attributes of successful family businesses. There's a shared sense of mission and purpose ... that comes from the owners," says Grant Gordon, director-general of the Institute for Family Business.

This sense of "mission" can also help when it comes to winning business, according to Paul Drechsler, chairman and chief executive of Wates, a 114-year old, family owned construction group that has revenues of £1bn. "What we can bring to the customer is a set of values and a commitment to the long term that a public company can't necessarily bring," he says.

But perhaps the biggest difference between private and public companies is in financing. Publicly listed companies have a wide range of shareholders that they can call upon for equity financing when times are tough. In 2008 and 2009, many quoted companies launched rights issues to shore up their balance sheets, giving themselves the financial strength to see out the recession.

Private companies, many of which have a very small number of shareholders, have no such fallback option and so operate on a very different basis. According to Mr Gordon, family businesses are cautious in the way that they manage growth. "They look towards self-funding the business. Retained earnings are the most important source of funding, and they have little debt."

When the economy is strong, this caution can be a drawback. As quoted companies get the green light from their shareholders for aggressive expansion (often funded by debt), private companies take a more measured approach using retained earnings.

"Private companies are often smaller then their listed counterparts, and they don't have the luxury to make mistakes, for example with a big expansion," says Ms Parmar.

But when the economy is weak, those public companies that borrowed heavily can start to face problems with their interest payments, leaving those private competitors with strong finances in a good competitive position.

"For bigger family businesses, the recession has thrown up opportunities," says Mr Gordon. "These firms have the depth of financing to keep investing."

But that does not apply to all private companies, and difficulties with access to debt finance can be fatal for many small businesses.

"SMEs that supply us have struggled a bit in terms of finance," says Mr Drechsler. "One of the big risks for us is the possibility of supply chain failure."

Concern with access to debt finance is such that the government has agreed with the UK's

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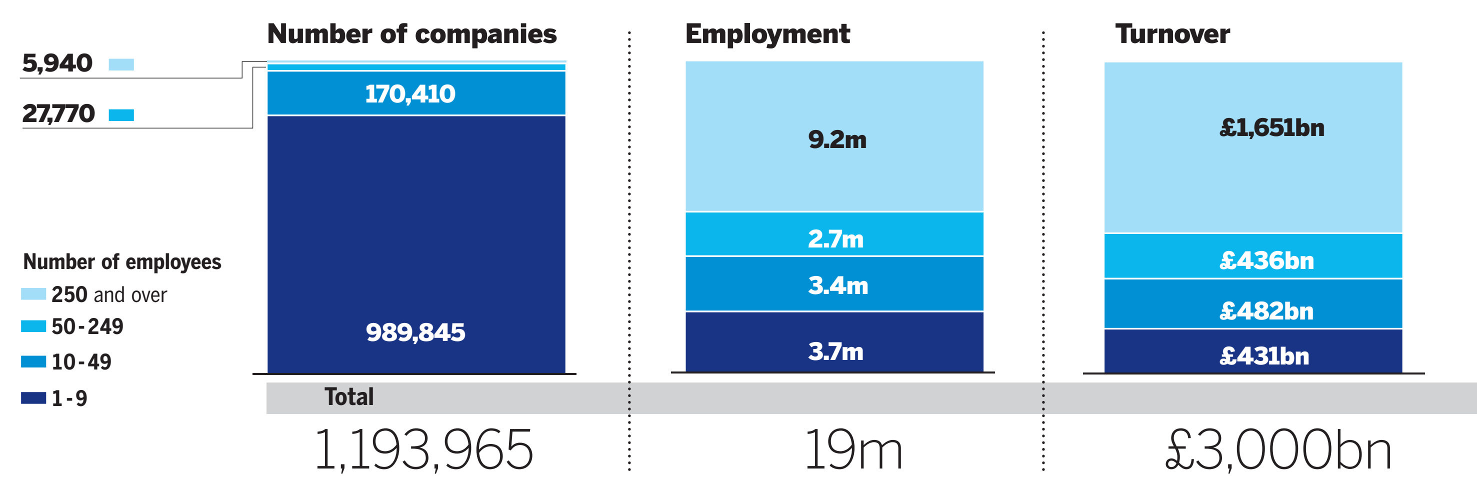
Speedo, one of Pentland's brands

A big part of the equation – UK's privately held companies



Source: Department of Business, Innovation and Skills, 2010

Private Business

Same worries, different solutions

Continued from Page 1

major banks that they should aim to lend £76bn to SMEs in 2011, although the banks missed the quarterly target in the first three months of the year.

The final major difference between private and public companies is the level of publicity that they are able to attract. Quoted companies, with their regular announcements and fluctuating share prices, generate interest from investors that can also help when it comes to publicising the company's products and attracting new employees.

"For all the input they give to the economy, private businesses don't get much recognition and have very little voice," says Ms Parmar.

With this in mind, PwC is sponsoring the first Private Business Awards, designed to highlight the achievements of companies that are majority owned by either individuals or a family – listed companies are excluded, as are companies that are majority owned by private equity funds. The awards cover calendar 2010.

There are nine awards – private business of the year, chief executive of the year, family business of the year, technology innovation of the year, social enterprise of the year, employer of the year, private businesswoman of the year and high growth business of the year.

More than 330 companies were nominated for the awards, and the judging panel reduced that to shortlists of five or six for each category before voting for the winners.

A total of 37 companies have made it on to the shortlists, including Pentland, Gocompare.com, 99p Stores, Dyson and Virgin Active, along with nine business leaders including Stella David at William Grant & Sons, Halcrow Group's Peter Gammie and Karren Brady of West Ham United. Together the shortlisted companies employ

Karren Brady of West Ham United is on the Business Woman of Year shortlist

95,000 people and generate revenues of £17bn.

The panel consists of 18 people with links to private business.

They include Mike Balfour, the founder of Fitness First, Linda Bennett, the founder of fashion chain LK Bennett, Charles Dunstone, who set up Carphone Warehouse, Rupert Heseltine of Haymarket Media and Sir John Ritblat, the honorary president of British Land. They met in June to formulate the shortlists and choose the winners, which will be announced this Thursday at London's Savoy Hotel.

For those that succeed, there will be the public recognition that goes with winning an award, and the chance to close some of the publicity gap with listed rivals.

Moving experience: staff loading cargo into a truck at a Bishop's Move warehouse. The company was founded in 1894

Ownership model has pros and cons, relatively speaking

Family businesses

Successful firms balance the needs of the business, owners and family dynamics, writes **Rod Newing**

The successful involvement of a family in a business gives it an advantage over other businesses. "They typically outperform non-family owned firms over a long time," says Ajay Bhalla, professor of global innovation at Cass Business School.

"The family wants to create a legacy, by transferring the business to the next generation and extending the family's reputation, which is closely aligned with the firm's. They are more risk averse and shed fewer people."

According to the Institute for Family Business (IFB), family firms comprise 65 per cent of the total 4.5m private sector enterprises in the UK. They have a turnover of more than £1,000bn and account for more than 30 per cent of GDP and more than 40 per cent of private sector employment.

"Their turnover is double that of the private equity sector and they employ more people in the UK than all FTSE companies combined," says Grant Gordon, the institute's director-general.

Successful family firms have found a way to balance the needs of the business, the owners and the dynamics of the family. One of the oldest is Mornflake, a miller, which was founded in 1675 and is currently managed by its 15th generation.

These firms have their advantages and disadvantages, which get more complex with each generation. They start with a strong entrepreneur as both owner and manager, but after a few generations a complex network of family members become reliant on the business. Some work as directors, staff and non-executive directors, while others work outside the company or are non-working shareholders. There are also trustees and non-family shareholders.

Some family members are concerned with salaries, others with dividends and some want to grow long-term value for the benefit of future generations. Successful family businesses need to establish a mechanism to balance the conflicting interests of these groups, covering areas such as business strategy, salaries and dividends.

"Finding that balance is often quite difficult," says Melvyn Carter, a partner with Carter Backer Winter, an accountancy firm. "I estimate that only 20 per cent truly achieve it, although there are plenty of others that survive and 'tick over' for the owners."

Governance procedures include non-executive directors from outside the family, structuring the business under each family member, family councils, shareholder agreements and third party mediators. Charlie Tee, senior associate in the family business team at Withers, a law firm, says that while a successful governance structure clearly sets out the respective roles, agreement from the key individuals and the way it is implemented are crucial.

"The rewards of a successful business are clear for all to see," he says, "so there is no disagreement as to the financial benefit each family member should take from the business. The main tension is often between those who work in the business and those who do not. Governance prevents 'knee jerk' reactions from shareholders taking a short-term view or negative impact on the family dynamics."

Research by PwC on behalf of the IFB shows that the main reasons for tension are performance of family members actively involved in the business (43 per cent), strategy (43 per cent), family salaries (32 per cent) and not consulting the wider family (27 per cent).

To balance this, Henley Business School finds the main advantages are emotional commitment to the business; closely coupled ownership and management; and a long-term view. "It

> Family directors have the natural desire to give relatives a chance in the business, even if outsiders have stronger track records

is difficult for firms with an alternative ownership structure to replicate these advantages," says Abby Ghobadian, professor of organisational performance. "Many are actively addressing the disadvantages, such as succession planning, nepotism and family feuds."

Charlie Mullins founded Pimlico Plumbers in 1979 and now employs his wife, two sons, two daughters and two sons-in-law, with his three oldest grandchildren helping out at the weekends and during holidays. Also employing other families, he says that they work for families, so they have a better feel for their customers' needs and priorities and offer a more personal service.

"We are all 'drinking out of the same teapot'," says Mr Mullins. "We all know what we are doing, where we are and what is going on. However, we never get away from work. Some people say they can't work with their families, but I can't work without them."

One of the most difficult issues concerns employing family members. Family directors have the natural desire to give relatives a chance in the business, even if people outside the family have stronger track records.

"Family businesses are often created and taken to scale by a dominant individual," says Richard Crane, an audit partner in the entrepreneurial business group at Deloitte.

"It is very rare for more than one member of a family to have the required skills to drive the business in an increasingly competitive environment.

"Strong non-executive directors can be the key, or dividing the business areas between family members."

Removal company Bishop's Move was founded in 1894. Nigel Bishop, franchise director, says many potential family members have learnt their trade working for competitors. The board selects the best candidates and the process starts at an early age, once the individual shows a desire to choose the business as their career.

The IFB's Mr Gordon says the best family businesses are good at stewardship, balancing the short, medium and long term.

"The owners put the business first and show restraint in what they take out," he says. "The family also brings personal identification, vision, mission and important values. The non-family people in the business have a stronger sense of loyalty and commitment, which unleashes their energy and capabilities."

Rich rewards for firms that clear hurdles

Exporting

Understanding cultural differences is vital to opening the door in emerging markets, writes **Jane Bird**

A sure sign of success when you are doing business with someone in India is being asked to that person's home for an evening meal.

In the UK, you might meet a contact for a business lunch, and there would be no obligation on either side. But in India, the family meal in the evening is where business relationships get cemented.

This is just one of the cultural differences that can cause problems when doing business in emerging markets such as India, explains Simon Poole, chief executive of Kent-based Pro2, which provides professional drivers.

Another difference is that India is a very deferential country, where people are keen to help, he says. Misunderstandings can arise even though English is widely spoken.

"Indians love to say yes even when they mean no." This only becomes apparent when they fail to respond to repeated e-mails and phone messages.

Mark Cotgrove, vice-president of emerging markets at Nimbus, a Hampshire-based software company, agrees cultural differences can cause problems in emerging markets. Knowing the people you do business with is often the key to purchasing decisions, he says, unlike in more developed areas where organisations are keen to avoid accusations of nepotism.

It makes sense in countries such as China, where the culture is very different and there may be a history of people feeling they have been cheated by foreigners in the past.

Underestimating the importance of this nearly cost Nimbus its business in China, set up five years ago under a local manager who was not fluent in English.

Many Britons are not good linguists and tend not to realise how crucial it is that your top person speaks both languages fluently, understands both cultures, and is completely loyal to you, says Mr Cotgrove.

"Otherwise, it is like trying to steer a ship completely rudderless – you have no idea what is going on or if what you are being told is reality." Since appointing a Hong Kong national, last year, who is fluent in English and has worked in North America, the business in China has taken off.

Overcoming such hurdles is crucial for UK companies that want to benefit from the world's fastest-growing markets. Croydon-based SLE, which makes infant ventilators, generates 60 per cent of its annual £12.5m sales in emerging markets.

India and China are investing heavily in healthcare to establish their international prestige, says Martin Pearcy, sales director. "In Europe, it's largely a replacement market and there are a lot of competitors, whereas 85 per cent of our sales in India and China are to new customers."

But the sheer size of the emerging markets is a big challenge for small UK-based ventures. While large quoted companies have deep pockets to fund the learning process, private enterprises may lack the resources to keep going long enough to become established.

SLE recognises that it cannot afford to appoint country and regional managers to cover such a vast area, so it signs up partners, which it trains to provide after-sales support and service. But this is difficult and expensive.

In Russia, for example, there can be lots of paperwork and contracts that seem cumbersome, says Mr Pearcy. "Without correct paperwork in the right order, your goods can be blocked at the border. It's not for the faint-hearted."

In China, market information is not shared as it is in the UK, so it is difficult to understand how well you are doing, Mr Pearcy says. "In India this is much easier."

Coping with the differing regulatory environments also presents challenges to companies such as SLE – medical equipment needs government approvals for import. In Russia, the company supplies its ventilators as components so that they can be assembled locally, creating work and benefiting from the country's lower labour costs.

For Nimbus, the challenge has been to explain what its business process management software does. There is a huge education task, says Mr Cotgrove, because "most people don't know it exists".

This has made it easier for Nimbus to expand in relatively mature markets such as Turkey and South Africa.

> Private enterprises may lack the resources to keep going long enough to become established in developing markets

Another problem for private companies is the expense of protecting their intellectual property. "You have to decide how much you are prepared to spend policing and defending it," says Mr Pearcy.

"Lawyers often talk about what you should budget, but they do not always realise that for companies it could be a bottomless pit."

Even getting paid can present a problem in sectors such as construction, where there may be a number of companies in the supply chain.

Government delegations can be a huge help when venturing into emerging markets, says Peter Bonfield, chief executive of BRE, a Watford-based building consultancy, who has been on various UK Trade & Investment missions. These have been central to the company's success in countries such as Brazil and China, he says.

"They have helped us meet local companies, establish credibility and showcase what BRE does. Thanks to trade agreements at the government level, there is now a fast-track route into what can be quite mysterious marketplaces."

Once UK private companies are established, they can often be more flexible and responsive than those that need to worry about shareholders. Mr Pearcy expects emerging markets to account for 80 per cent of turnover within five years. "By that time, we'll probably be calling them 'prime' markets rather than emerging ones," he says.

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Future lies with the young, gifted and private

Opinion
RUBY PARMAR

Private businesses are the unsung heroes of the economy. There are around 1.2m of them in the UK, employing 19m people and with turnover of more than £3,000bn, providing a vital backbone to support the economy.

The issues and challenges that private businesses face and also the way in which they interact with the economy and their surroundings often differ from listed companies.

Private businesses are not beholden to external shareholders but their responsibilities to their employees and communities are felt keenly: social enterprise and supporting their local communities is something private businesses believe in very strongly. Private businesses' contribution to the economy is substantial but their social contribution is just as important.

Private businesses range from small high-technology start-ups to large global concerns. And of course, many private businesses are family owned. In spite of the difficult economic conditions, PwC's latest global survey of family-owned companies suggested that many in the UK had come out of the recession far better than their listed counterparts. They had prepared themselves well, both financially and strategically, and their careful planning was clearly paying off.

With sluggish growth in the economy since the financial crisis, the UK needs to develop its ability to export through enhanced innovation and intellectual property. The government has instigated a number of measures that will help high-technology companies. For example, the increase in the R&D tax credit to 225 per cent for small to medium enterprises (SMEs) will allow companies to invest in the innovations of the future.

The extension of the Enterprise Investment Scheme (EIS) will also incentivise entrepreneurs to get involved in young companies at an early stage and their business expertise will increase the chances of success.

These schemes, accompanied by reductions in the level of business taxes and simplification of the business tax regime, will be a boost to high-technology businesses and will give them more freedom to invest and more encouragement to create the innovations and creations of the future. This will in turn help to realise the government's vision of the UK as a high-technology economy.

The future for private business, although there are challenges to be faced, gives cause for optimism. Another PwC survey, its Enterprising UK 2011 study of UK private businesses, found just over three-quarters of private

Optimism is encouraging but some concerns linger, says Ruby Parmar

businesses expect their revenues to increase over the next 12 months: it seems that ambition is still alive and well.

Many of these firms expect the biggest opportunities to come from emerging markets. Many private businesses have told us that they expect to see a surge in demand from developing overseas economies, with one in five already planning to expand into China and a similar proportion looking to explore the Indian market.

While this optimism is encouraging, some concerns still linger. With increased demand from developing markets comes the risk of greater competition: almost nine out of ten participants in the UK survey have said they are worried they might lose vital business to competitors who can undercut their costs.

Inflation is also a concern for the vast majority, as is the UK tax regime. Three-quarters of respondents see this as unsupportive of enterprise. Of our respondents, 77 per cent told us that the rise in VAT to 20 per cent has had a negative impact on their business, and almost everyone agreed that the rise in National Insurance contributions will only add to their problems.

Over the coming years, the business landscape in the UK will undergo radical change. Employers will have to adapt to cope with the demands of Generation Y and the full impact of the changes to the university education system will begin to be felt.

This may lead to a shift in demand for more apprenticeships as students seek to learn relevant skills on the job rather than at university.

Enterprising businesses are already concerned about their ability to compete in the war for talent and find the right people to help them grow. Of those who responded to PwC's survey, more than three-quarters of businesses that were currently searching for new talent said that they felt the number of candidates with relevant degrees needs to increase in the future, and almost all said they needed better access to technical expertise.

The UK faces significant challenges as we deal with the aftermath of the financial crisis. Global economic concerns such as the Eurozone debt crisis, the US budget deficit, the shift in focus from west to east and the increasing prices of food, oil and other commodities will all have an effect on the UK economy.

But it is UK businesses, most crucially young private businesses, that will have the energy and enthusiasm to drive Britain forward and deliver the kind of growth that the economy so sorely needs.

Ruby Parmar is a partner and head of private business at PwC.

Chiefs relish being away from media limelight

Leadership

In unquoted companies, building the business takes precedence over sticking to the rule book, writes **Jonathan Moules**

Along with many chief executives, John Timpson has spent time in both publicly quoted and privately owned businesses. But the no-nonsense head of Timpson, the shoe repair business he bought out of Hanson Trust in 1983, leaves no doubt that he prefers his current position, leading a private family-owned company.

"A lot of the life in a plc is about filling in the governance bits," he says. "You are running the business in order to satisfy the rules.

"In a private business you haven't got that. You must have a much stronger bond with your staff and interest in the relationships with your colleagues."

It is an opinion shared by many private business heads, who for the most part seem to relish being out of the media limelight in order to spend their time working on building a business.

Mr Timpson believes the key is to get to know your staff and he practises what he preaches on this point: during 25 years as chief executive of Timpson he set aside time every week to visit each of the company's branches.

The tradition has been continued by his son James, now managing director, who faces a considerable task given that Timpson now has about 800 stores across the UK.

"The biggest strength we have is we allow the people in the business to get on with it," Mr Timpson senior says.

Leaders of private businesses are entrepreneurs, according to Mr Timpson, who gives the impression that those who run publicly quoted companies are more skilled as technocrats.

It is not that there are not many good examples of entrepreneurial chief executives of publicly quoted companies – Sir Terry Leahy, the former Tesco's chief executive, or Charles Dunstone at Carphone Warehouse to name two. It is just that in private businesses, these type of people just seem to be more common.

Not everyone agrees with this division. Richard Emerton, managing director of the board and CEO practice at executive search business Korn Ferry, says the differences in the skills of chief executives of publicly quoted companies are often indistinguishable from those running privately owned businesses.

The exceptions to this come in the strategic goals the executive will face, he adds. In a private business, whether that is one owned by a family or backed by private equity, the strategic goals are usually fairly narrowly defined because the shareholders are closely aligned. In contrast, in a publicly quoted company, whose shareholders range from short-term hedge funds to long-term pension funds, the strategic goals are often less clear.

"In a private-equity backed or family owned business the owners have a clear set of objectives, therefore the chief executive will know exactly what he needs to do and he will go and do it," says Mr Emerton.

"In a public company the language of the shareholders is much more disparate. The chief executive therefore needs a greater degree of strategic capability."

Good chief executives can easily move between publicly quoted companies and privately held ones, according to Mr Emerton.

However, he notes that the traffic is usually one way, going from public to private ownership, largely because the latter is most purely about using your business skills rather than your political ones.

"In the plc world, you spent a significant chunk of your time dealing with investors who have a whole range of conflicting goals, having analysts on your case trying to persuade the market that what you are doing is wrong, and you have to get involved in public exchanges to justify your strategy.

"For many [private business] CEOs it is an absolute joy not having to deal with all that crap."

Jana Klimecki, co-founder and director of Tyler Mangan, a leadership consultancy, agrees.

"The leadership team [of a private business] is often freer to take more risk and can therefore be more dynamic in the decisions it makes," she says.

"However, private organisations are often leaner and might be more resource constrained. As a result many successful leaders in private organisations are 'doers' as well as 'leaders' and there is a relentless focus on execution and getting things done."

Lorenza Di Giovanni, a partner at executive search business Odgers Berndtson in Milan, is used to looking for chief executives of both publicly quoted and privately held companies, although in Italy there is often more call for people to lead family owned businesses.

It is not easier to find leaders for family owned businesses than publicly quoted companies, just different, she says

"For family owned businesses, we usually look for leaders who have had success in several and diverse environments, for example culture and industry, thereby demonstrating a good degree of flexibility," she says.

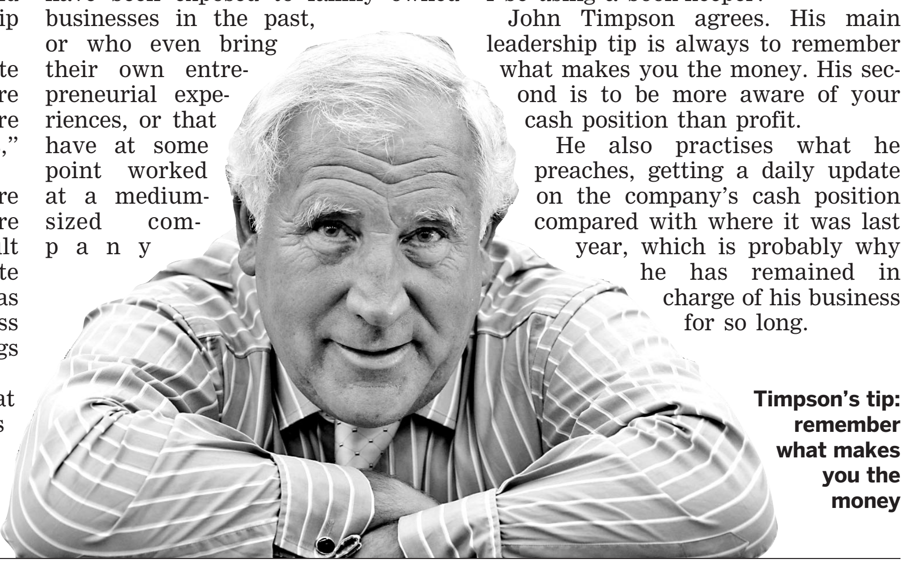
"We also look for candidates that have been exposed to family owned businesses in the past, or who even bring their own entrepreneurial experiences, or that have at some point worked at a medium-sized company where the culture and management style will be similar to family owned ones."

Brian Chernett, who founded the Academy of Chief Executives 15 years ago to help develop leadership skills in company heads, says the most common weakness among private business heads is their grasp of financial matters.

"The biggest issue we have always had [among members of the Academy of Chief Executives] is: 'Should I be changing my accountant?' or "Should I be using a book-keeper?'"

John Timpson agrees. His main leadership tip is always to remember what makes you the money. His second is to be more aware of your cash position than profit.

He also practises what he preaches, getting a daily update on the company's cash position compared with where it was last year, which is probably why he has remained in charge of his business for so long.



Timpson's tip: remember what makes you the money

Filling the gap where market has failed

Social enterprises

Rod Newing finds the sector is thriving in a stagnant economy

Although their roots go back to 1844, when the Rochdale Society of Equitable Pioneers founded the co-operative movement, social enterprises are well placed to be part of the government's "Big Society" and to address the social problems that may have contributed to the recent riots in English cities.

Social enterprises are businesses whose objectives are primarily social change, rather than profit.

"Using business for shared wealth and for social benefit is not a new concept," says Ceri Jones, head of policy and research at Social Enterprise UK, the industry body, previously known as the Social Enterprise Coalition.

"Despite the almost stagnant economy in the UK at the moment, they are doing very well," says Ms Jones. "They are set up to tackle the kind of problems we are facing at the moment and they are doing it where it most matters, in deprived areas. They are needed more and more and the market is responding."

There are 62,000 social enterprises in the UK, employing approximately 800,000 people and contributing more than £24bn to the economy. Each has its own specific objective, but the main areas include job creation, supporting vulnerable people, improving health and wellbeing, promoting education and literacy and protecting the environment.

According to "Fightback Britain", a report from Social Enterprise UK and the Co-operative Bank, their main sources of income are trading with the general public (37 per cent), the public sector (19 per cent) and the private sector (13 per cent).

Eighty-two per cent of social enterprises reinvest their profits locally, in the communities where they work. Compared with private companies, 58 per cent grew last year (28 per cent) and 39 per cent are working in the most deprived communities (13 per cent).

"Social enterprises will often work where there is market failure," says Rob Greenland, a social business blogger. "The state is no longer able to deliver and the private sector is not interested or doesn't know how to provide services in that market."

Founders of social enterprises, often called "social entrepreneurs", have a passion for social change. They combine the power of business with innovation, to focus on small-scale solutions to specific local problems. This contrasts with governments and big companies that look for generic solutions to widespread problems.

Mr Greenland does not think a social enterprise is inherently better than any other type of business. However, it can achieve great things by focusing good business practices, such as customer focus, efficient use of resources and well-engaged staff on achieving a clear social aim.

"They are firstly 'enterprises' and secondly 'social'," says Philip Wright, a partner at PwC. "By focusing on the outcome for the individual, not the provision of a service, they have a much better track record than government departments handing out benefits piecemeal."

The future of the sector looks good. Some people expect them to work increasingly with larger businesses. These have operational scale, access to funding and a growing desire to be good citizens, but lack the innovation and focus on achieving a social mission that social enterprises can bring.

Another future stimulus is the Big Society Capital group, formerly referred to as the "Big Society Bank". Not yet open for business, it will promote investment and social impact measurement in the social sector, which consist of social enterprises, voluntary and community organisations.

David Erasmus is founder of Givey.co.uk, which enables charitable donations through text messages and social media. "If we look at the current state of the economy, the age of austerity and the problems that caused us to get to where we are, the only real route out is through innovation," he says. "Social enterprises, as commercial vehicles that 'do well while doing good', will become front and centre, if they are not already, for new start-ups."

> 'A social aim is enough to pull young high-fliers away from the safety and security of the corporate machine'

With a "day job" as general manager of the small and medium business division at O_2, Simon Devonshire founded One Water, which sells bottled water and other produce, and donates all its profit to water projects in developing countries.

He believes that an increasing number of consumers are bored with the lack of differentiation on the high street. "They want to do business with organisations that are unique, interesting, authentic and have character," he says, "all characteristics that social enterprises have in abundance".

Another boost for the sector is that it is starting to attract graduates. Mr Erasmus says that whereas they are being prepared for corporate life, a whole new generation is excited by innovation and purpose.

"A social aim is enough to pull the young high fliers away from the safety and security of the corporate machine, with its ivory tower dreams and hundred grand salaries," he says. "Like the rest of the sector, we are picking up top talent for less than they would be earning in corporates, because they want their work to have purpose."

Social enterprises comfortably fill the gap between corporate moneymaking machines, which support community initiatives, and charities that depend on donations.

"There is a generally increased appetite for more ethical behaviour in business," concludes Ms Jones, "and social enterprises meet that criteria."

Images of success: private technology companies can address new opportunities and change direction quickly Corbis

Speed and flexibility can overcome lack of resources in search for innovation

Technology

George Cole talks to four private companies that have moved successfully from idea to product launch

For technology companies, the journey from idea to innovation to product launch can be both long and arduous. But can the size and structure of a company make that journey any easier?

On the face of it, public limited companies (plcs) seem to hold the pole position when it comes to launching new products, not least because of their greater resources. But bigger is not always necessarily better, says Simon Green, head of business support at Newcastle Science City.

"The big advantage for small entrepreneurial businesses is how quickly they can do things – they can address new opportunities and change direction quickly," he says. "They can also develop products outside their normal expertise, whereas a plc might be more constrained."

Four very different technology companies – Defaqto, GPEG International, Shazam Entertainment and Neural Technologies – exemplify how these advantages can pay dividends.

Defaqto is a privately owned independent financial research company, and has developed a financial products database with information on more than 35,000 products. It offers a variety of financial software tools for various clients including banks, insurance companies, government, Financial Services Authority (FSA) and independent financial advisers (IFAs). For example, Defaqto Engage enables financial advisers quickly to assess more than 3,000 financial products and 18,000 funds. Defaqto has 141 staff and a turnover of around £10m.

Kenn Herskind, chief executive of Defaqto, says, "Private companies tend to be smaller, and if you've got 150 employees, rather than 15,000, you can be much more agile. You can also undertake smaller projects and the process from concept to market is faster."

Mr Herskind adds that having shareholders who attend board meetings makes decision-making easier, because they understand what the company is doing. "It also makes it easier to engage in projects that require a bit more patience, when it comes to seeing a return," he notes. What is more, size can sometimes hinder the development of innovative products or services. "If you've got a large installed base, you can't just launch new software and tell your customers that it won't work with the current version," says Mr Herskind.

GPEG International is the UK's biggest display developer, whose products can be found in a variety of locations including Heathrow Express trains, taxis, electric bicycles and betting shop terminals. The company has a turnover of £10m and also operates in China, Korea, Italy and Germany.

"The advantage of being a small private business is that you can operate in a niche market rather than a huge commodity market place," says Nick How, GPEG chief operating officer. "Niche markets generally evolve more slowly, and so you have the luxury of time, in terms of development. Our product cycle is typically around three years, but for a consumer manufacturer, it could be three months. We also have the luxury of being able to spin ideas around and put them back on the shelf. Six months later, we can pull them off again and reassess them."

> 'If you are a private company and want to initiate large projects, it can be hard raising money'

A further benefit is that: "You can pick and choose. If something looks profitable within our niche, we can consider it," says Mr How. "We can do market research and pre-development, and put the product out to customers to test market and assess it."

Shazam Entertainment is a privately-held company based in London, with offices in the US and Korea. The company has developed music recognition technology that allows anyone with a mobile phone to identify music from various sources, such as the radio.

The service is available as a smartphone app and there are more than 150m Shazam users in 200 countries. It currently attracts 1m new users per week. Shazam is now targeting the $300bn TV advertising market with its technology. Shazam's turnover in the last financial year was £11m.

"Being a private company means you have the flexibility to innovate around your business models rapidly and find the best solutions across the market," says Andrew Fisher, chief executive. "And when you have momentum and are growing, you don't have to spend time explaining your direction to external shareholders."

Neural Technologies has developed risk management software solutions for financial services industry, telecoms market, retail and other sectors, and has a £10m turnover. Luke Taylor, commercial director, says, "We are probably more flexible in how we can adapt our road map – we can change things quickly."

But Mr Taylor adds that being a small, private company means that: "You have to justify road map expenditure and we are always looking to control costs. Trying to map innovation into the business is not always feasible. You can have lots of great ideas, but which cost money. Our R&D team interface with our existing customers to ensure that what we're developing is relevant."

Mr How at GPEG points out that whether you are a private company or a plc: "The cost of development is still the same – you still have to tool-up and go through a design and testing regime."

Raising funds to develop ideas can be a challenge for private companies, but Defaqto's Mr Herskind says: "Funding isn't an issue if you are a company of our size and turnover. If you're a small company with fewer than, say, 40 employees and a turnover of £2m, you can have problems raising funds."

However, Mr Herskind also notes that: "If you are a private company and want to initiate large projects, it can be hard raising money. Private equity shareholders tend to start looking for an exit around three to five years, so after four years into a project, you may need to go back for more investment."

Flagship prize attracts strong contenders

Business of the Year

Profiles of the seven candidates from a wide range of business sectors

The Private Business of the Year category, sponsored by PwC in association with HSBC Private Bank, is the flagship award and the winner will be announced, along with those for the other categories, on Thursday.

The judges were not looking for the biggest company but the best. They wanted a company with solid cashflows, a strong market position and growth in products and services. Its managers had to be motivated, the business had to have a strong long-term strategy and be ambitious in its finances and ethics. The company needed to demonstrate, too, that it was committed to supporting its wider local community.

For success in this category the company had to exhibit the broad range of criteria for all the other award categories, except those specific to a family business. This was a tall order but the seven shortlisted nominees were all very strong contenders. Here is a short description of each of them, with a glimpse of some of their achievements.

Private Business Awards 2011 Shortlist

Private Business of the Year
Arup
Bibby Line Group
Dyson
Monsoon
Virgin Active
Wates Group
William Grant & Sons

Chief Executive of the Year
Matthew Bucknall – Virgin Active
Stella David – William Grant & Sons
Paul Drechsler – Wates Group
Peter Gammie – Halcrow Group

Employer of the Year
Arup
Instarmac Group
The Kerfoot Group
Pentland
White Stuff

Family Business of the Year
E H Booth & Co
ELTA Group
Gregory Distribution
Marshalls of Cambridge (Holdings)
Samworth Brothers

High Growth Business of the Year
99p Stores
de Poel
Euro Car Parts
Gocompare.com
Hunter Boot

International Business of the Year
Fircroft Group
Kilfrost Group
Klarius Group
Monsoon
Stemcor

Private Business Woman of the Year
Sally Bailey – White Stuff
Karren Brady – West Ham United
Cathy McCorry – Grafton Employment Group
Caroline Murphy – Murphy Group
Hayley Parsons – Gocompare.com

Social Enterprise of the Year
Bikeworks
Bryson Charitable Group
Create Foundation
Green-Works
Ulster Supported Employment

Technology Innovation
Alexander Dennis
The Jaltek Group
Oliver Valves
Petroleum Experts
Shazam

Fit for purpose: an exercise class at a Virgin Active gym

Arup

Arup is an independent firm of designers, planners, engineers, consultants and technical specialists offering a broad range of professional services. The company is a magnet for many of the world's most talented engineers and designers. International team working is the stuff of everyday life at Arup where skill networks within the firm allow easy collaboration between colleagues across the globe. Putting sustainability at the heart of its projects is one of the ways that Arup exerts a positive influence on the wider world. Its corporate responsibility is core through the firm's active engagement with humanitarian and charitable causes.

Bibby Line Group

Bibby Line was founded in 1807 and was originally a pure shipping line. During the 1980s the family decided to diversify and now the company has activities in financial services, logistics, shipping and ship management, offshore project management, retail, health and safety advisory services, woodland burials and construction equipment hire. Profits have increased considerably and more importantly the company realised the benefit of developing a balanced portfolio. A key philosophy is that decision making is best done as close to the customer as possible. Bibby is a large contributor to the local community, with more than 600 fundraising events being held in a year.

Dyson

James Dyson took five years and 5,126 prototypes to develop the first bagless vacuum cleaner. Dyson has since developed washing machines, bladeless fans and hand dryers, all of which have used pioneering technologies designed to improve the consumer experience. It is now a multinational company in 45 countries with market shares in the top three of all major territories around the world. Mr Dyson, as founder, continues to be immersed in design and development and is a huge ambassador for British engineering. Dyson's philanthropy is directed towards the education and facilitation of engineers and engineering in general through the Dyson Foundation.

Monsoon

Peter Simon founded Monsoon in 1972. The original focus of the company was always clothes with an ethnic origin from faraway places. Since starting from a market stall in Portobello, the company has grown to a turnover of more than £600m a year. It has adapted through multiple recessions, restructured, and rebranded where necessary to meet market conditions and achieve success. The international business now has 941 outlets in 68 countries. Monsoon is a founder member of the Ethical Trading Initiative. Monsoon Trust helps disadvantaged women and children in Asia through education, healthcare and income generation projects.

Virgin Active

Virgin Active is part of Sir Richard Branson's Group and operates 193 health clubs, mainly in the UK and South Africa but also Spain, Italy and Portugal. It has had a strong track record despite the recession and pressures on individuals' discretionary spend. Matthew Bucknall, chief executive, has been with the business since the beginning in 1997 and is the driving force behind it. He held his nerve during the recession when others cut back. The company is increasingly international, with only 44 per cent of revenues coming from the UK. The strategy is to do one territory really well rather than a small number of clubs in a lot of locations.

Wates Group

Wates is a family owned construction services business with the ambition to be the first UK contractor to deliver for customers on time, on budget, every time. Its financial results in 2010 reflected these efforts. Paul Drechsler, chief executive, aims to focus on building long-term relationships with customers while identifying markets where Wates can add real value. Non-family managers have acted as mentors to family members to support them to be "better owners". The commitment to social action in the company includes thought leadership on communities, improving skills and creating employment (Andrew Wates, former chairman, was on the judging panel, but did not participate in the debate or vote.)

William Grant & Sons

William Grant & Sons (WGS) was founded in 1887 and has two core assets: people and brands, which include Glenfiddich, Grant's, Hendrik's Gin and Sailor Jerry Rum. Last year saw its biggest acquisition, while growth is mainly outside the UK. WGS is spending on an innovative anaerobic technology, producing renewable electricity to power 12,000 homes and achieving its strategic aims of reducing environmental impact and becoming energy cost neutral. Stella David, chief executive, has made a significant impact since joining in August 2009.

Compiled by Andrew Baxter and Charlie Hoffman

Rigorous process whittled down shortlist from 400

Methodology

Charlie Hoffman, one of the judges, explains how the awards are run

The Private Business Awards were inspired by the desire to celebrate and note the achievements of the UK's finest private businesses, how their owners and their families drive to develop them, to be good employers and to contribute to their local communities.

Private businesses were defined as UK organisations that were majority (51 per cent-plus) owned by individuals or families, and which had no publicly traded shares.

All such businesses in the UK were encouraged to enter the awards, and self-nomination was encouraged. The nomination process opened in March and closed in May.

The process was very simple: people had only to provide the name and contact details of the company they were nominating and the reasons they thought the company or person deserved to be considered. Companies were then asked to give further details as part of a nomination interview.

While PwC and HSBC Private Bank, the main sponsor and associate sponsor respectively, had high hopes for the first year of entry they were both taken aback by the number and quality of businesses nominated. There were more than 400 nominations, 300 of the UK's finest private businesses had their details reviewed and PwC conducted more than 100 face-to-face interviews.

Nominations came from all industry sectors and included companies of all sizes. A judging pack was produced for each entrant, and included the last five years' financials, comprising revenue, gross profit, operating profit, employees, ownership and more.

Further notes were tailored to the individual award category and the main criteria.

Each of the UK PwC regions reviewed the nominations in their area and presented recommendations for the best candidates from their region. These were then reduced to the final shortlist with challenge and input from voting panellists Christopher Rodrigues of Visit Britain and DLA Piper's Miriam Gonzales Durantez.

Finally five shortlisted companies in each category were put to the remaining judges over two separate judging sessions in which each company was discussed and evaluated. At the end of each category award discussion each of the 18 panel members had a total of 10 points to allocate between his/her preferences, allocated 4,3,2,1; 4 being the best and 1 the worst.

The main criteria that the panel looked for in each category were:

Private Business of the Year: See article above

CEO of the Year: We were looking for a great leader, a person with vision, flair and confidence. They had to add value to everything that they worked on. They would communicate openly, with integrity and humility. However they do it they inspire the people around them. We looked at staff engagement and how the chief executive involved and motivated people. Finally in terms of financial performance and growth, what had the historic growth looked like and how much was this attributable to the CEO?

Employer of the Year: We were looking for an employer that helps people learn and improve, that cares about keeping staff happy. The company should also put money into training skills, knowledge, equal opportunities and engaging its people. It should create policies that help attract new staff and keep hold of current staff. And we considered other employment policies that showed long-term successes when compared to the best in the industry.

Family Business of the Year: Here we were looking for a business that balanced the needs and relationships of its owners with a desire to become more successful. Managers and owners needed to be responsible for the success of the business and the dynamic of the family. We were looking for a business where everyone knew what they were responsible for and one with growth potential.

High Growth Business of the Year: We wanted a business that was growing fast and profitably. It had to be gaining new customers and market share by pairing a great sales plan with a great product or service. Most importantly it had to have its development plans in place to build on current success in the future.

International Business of the Year: We looked for a business that is growing dynamically across borders, taking advantage of opportunities in new territories. We focused on high growth criteria again, ie the compound annual growth rate and absolute figures; the company's international footprint and whether it was growing fast internationally; and the clarity of its international strategy.

Private Business Woman of the Year: We were looking for a woman who has played an integral part in building a company. She might have helped it focus on customers, add community and environment to its business plan, and create opportunities for other people. We focused on what successes they had had in their own business and how had they driven this; how have they motivated and brought others with them; and what role do they play in attracting and supporting women in business?

Social Enterprise of the Year: The UK's 60,000-plus social enterprises add £24bn to the economy, and their profits go back into the business and the community. We focused on the potential to scale and grow, innovation, sustainability, social impact and how many people benefit; and on economic feasibility and whether revenues grow and are invested back.

Technology Innovation of the Year: We looked for companies that developed potentially pioneering technology in-house with commercial potential. Research focused on where the idea was born, how much is invested in R&D, what the impact is and whether it is game-changing, the ability to scale and new technology applications.

Charlie Hoffman is managing director of HSBC Private Bank (UK). He was co-chair of the voting panel, with Ruby Parmar of PwC.

VOTING PANEL

Ruby Parmar
Partner, PwC
Mike Balfour
Founder, Fitness First
Linda Bennett
Founder, LK Bennett
Neil Bird
International commercial manager, HSBC Bank
Charles Dunstone
Chief executive and co-founder, TalkTalk Telecom Group
Miriam Gonzalez Durantez
Partner, DLA Piper
Linda Fenwick
Managing director, Ozone HR
Rupert Heseltine
Executive chairman, Haymarket Media Group
Charles Hoffman
Managing director, HSBC Private Bank (UK)
Tim Hughes
Managing director, IG Index
Paul Kelly
Chief executive, Selfridges
Sir John Ritblat
Honorary president, British Land
Christopher Rodrigues
Chairman, Visit Britain
Carla Stent
Chief operating officer, Virgin Management
Simon Turner
Managing partner, Inflexion Private Equity Partners
Andrew Wates
Former chairman, Wates Group
Sean Whelan
Managing director, ECI Partners
Alastair Wilson
Chief executive, School for Social Entrepreneurs