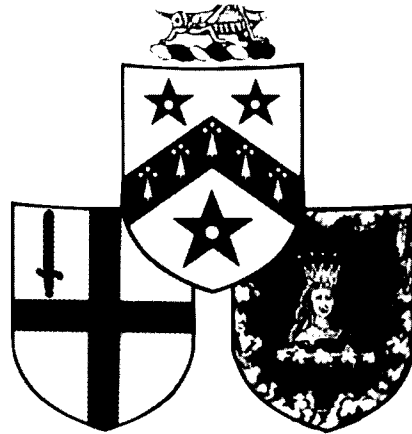


G R E S H A M
COLLEGE



EDUCATION FOR ENTERPRISE

Lecture 3

DISUNITED KINGDOMS

by

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3 December 1997

GRESHAM COLLEGE

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GRESHAM COLLEGE

Disunited Kingdoms

**Tom Cannon, Mercers' School Memorial Professor of Commerce
at Gresham College**

An English Perspective

At the end of last week's lecture I used Chesterton's description of the English reaction to entrepreneurship and industrialisation:

England certainly saw in recent centuries a progress in the sense of a process ... it was imperial in a mercantile manner: it seems now to be ending in (a) paradise of plutocrats ... But anyone attempting to show that this process affecting England actually was England, has to face and answer (the) arresting fact ... that every great Englishman with the gift of expression whom the world recognises as specifically English, and as speaking for many Englishmen, was in either unconscious contradiction to that trend or (more often) in furious revolt against it

This raises the question as to whether entrepreneurship or the entrepreneurial spirit sat comfortably with England or was an import from other nations notably Scotland, Wales and Ireland.

I suggested that there might be a difference between attitudes to enterprise in other parts of the UK and the prevailing view in England. I, then, went on to suggest that this might be linked to different attitudes to education and entrepreneurship. In essence, I was asking whether Carnegie's commitment to education and learning which contrasts sharply with the type of views closely identified with people like Alan Sugar and Richard Branson symbolises anything deeper.

Clearly, a community as diverse as entrepreneurs will find people with very different individual responses. Richard Branson is perhaps the archetypal drop-out but Anita Roddick was trained as a teacher before starting Body Shop. Alan Sugar dropped out but retained a deep affection for his school and schooling.

Migrants and Out-Groups

Analysis of the backgrounds and aspirations of entrepreneurs from different nations needs, also, to take into account the disproportionate role that migrants play in entrepreneurial activity. Scots, Welsh and Irish migrants into England were, typically seeking economic advantage from migration. Entrepreneurship is one of the few options open to the talented by disadvantaged. Locals do not face the same need to move from conventional employment to meet their economic needs.

Out-groups throughout the centuries face the same challenges. Non-conformists like the Cadburys and Barclays found business creation a means of expression. They were, also, helped by the greater sense of community that sometimes exists among out-groups. Jewish, Asian, East European entrepreneurs have played a disproportionate role in business creation in Britain – and many other countries – in part because their talents found expression in business creation.

Many of these same communities place a high value on education. The surge in entrepreneurial activity by Asians in North America and the UK over the last decade is closely associated with the priority given to education. In the USA, where data on ethnic origins is better collated, Higher Education achievement among Asians is the greatest of all ethnic groups. The same community shows the highest rate of new business creation and survival.

New Ways, Old Days

Some of best-documented tales of entrepreneurial success linked to people of UK origin exist in North America. There, it is clear that high esteem for education

and entrepreneurial success were closely linked. Few people did more to realise the economic potential of the USA and transform agriculture than Cyrus McCormick, the descendant of Scottish migrants into the USA at the start of the last century. His technological aptitude was linked with a powerful sense of the value of intellectual property; a remarkable ability to develop innovative approaches to business and powerful financial acumen. In describing his father – the true inventor of the mechanical reaper – Cyrus saw his father a person who despite lacking formal schooling was a polymath and gifted mechanic.

Forced by circumstances to cut his own schooling short, Cyrus was determined to ensure that his own children had the best education possible. Cyrus jnr. Was sent to Princeton. It was from Princeton that he graduated to join the family firm and eventually lead it into world leadership through International Harvester. One lesson that Cyrus jnr learned at Princeton was to succeed by using others. Faced with ruinous competition at the start of this century, he turned to John Pierpont Morgan for the finance and advice to save the firm and transform the agricultural machinery industry.

The road to J. P. Morgan was well trodden by 1905. Twenty years earlier, he had taken on the battling giants and “robber barons” on the railway industries and forced them to terminate the competition that was ruining them – and more importantly for J.P. their investors. By the early 1880s, cut-throat competition among competing railway companies had forced even William Vanderbilt to admit to the Board of the New York Central Railway that “the companies among the trunk lines have confessed that they were not making much money ... I feel the depreciation. These Barons had little faith in traditional legal processes to resolve their difficulties. William’s father Cornelius – the “commodore” had once written to rivals:

Gentlemen:

You have undertaken to cheat me. I will not sue you, for law takes to long. I will ruin you.

Sincerely yours,

Cornelius Van Derbilt

J. P. Morgan's views were scarcely more open-minded but they contained a subtle but important shift in perspective.

Faced with advice from his lawyer that on a specific issue he felt "I don't think that you can legally do that." Morgan replied "Well, I don't know as I was a lawyer to tell me what I cannot do. I hire him to tell me how to do what I want to do."

This difference in perspective partly explained why face with potentially ruinous competition, the leading East Coast Railway companies turned to Morgan to produce peace and a basis for sustainable business growth. On a famous day in July 1885, Morgan "invited" the leading protagonists to spend the day with him on his yacht *The Corsair*. During a day's cruising, Morgan forced the Vanderbilts, the Roberts and the Depews to transfer ownership of different and competing lines to each other and thus end the railway wars.

J. P. Morgan, himself, was the descendant of Welsh migrants whose father had insisted that he undertook "a first rate education" before joining the world of finance during and just after the "post war" reconstruction following the American Civil War. The combination of education, discipline and entrepreneurship allowed him to compete and "best" some of the most ruthless financiers in history notably Jay Cooke. He was already a major financial power when the crisis in railways prompted Cyrus Field the leading New York financier to invite him to intervene in the railway crisis because "many of our business men seem to have lost their heads. What we need is some cool-headed strong man to lead." It was not the last time; this highly educated Welsh entrepreneur was invited in to resolve the problems of tooth and claw capitalism.

Morgan's belief in the value of brains and education in business was share by fellow Celts who had not had a similar experience of formal education. Andrew Carnegie commented that:

There is always a boom in brains, cultivate that crop, for if you grow any amount of that commodity, here is your best market and you cannot overstock it, and the more brains you have to sell, the higher the price you can expect.

Thomas Edison developed the same theme when he said that:

The man who doesn't make up his mind to cultivate the habit of thinking misses the greatest pleasure in life.

This view of thinking was taken further by Philip Armour who said:

Business is full of men who would be at the top if only they had learned to think their thoughts out to conclusion. They know that 2 and 2 make 4, but they never stop to think 4 what.

These entrepreneurs were not always well informed in their choices about education and training. When B. C. Forbes the Scottish founder of Forbes magazine chose to sign articles for a seven-year apprenticeship as a compositor he mistakenly believed that it was people who were interested in writing compositions!

But, returning to our Welsh financier, he used a mixture of images to convey his view of the value of education for business and entrepreneurial success – in his world:

The most successful men on Wall Street ... are ... those who have received severe training, who have had some sledge-hammer blows applied to their heads to temper them, like the conversion of iron into steel.

Gentlemen Abed in England

Martin Weiner takes this notion of imagery further when he suggests that the economic development of the UK over the last century was partly shaped by reaction to the type of imagery and priorities expressed by people like Morgan. He presents two metaphors for the nation as defined by Donald Horne:

In the Northern Metaphor Britain is pragmatic, empirical, calculating, Puritan, bourgeois, enterprising, adventurous, scientific and believes in struggle. Its sinful excess is ruthless avarice rationalised in the belief that the prime impulse in all human beings is a rational, calculating, economic self-interest.

In the Southern Metaphor Britain is romantic, illogical, muddled, divinely lucky, Anglican, aristocratic, traditional, frivolous, and believes in order and tradition. Its sinful excess is a ruthless pride, rationalised in the belief that men are born to serve.

Education was central to this symbolism. The most prestigious universities and schools – even when located in Northern Britain firmly subscribed to the Southern Metaphor and rejected the Northern Metaphor. Arnold's description of the school where his "archetypal Manchester industrialist" studied, Lycurgus House Academy, was unalloyed with its contempt:

You are not to suppose from the name Lycurgus that any Latin or Greek was taught in the establishment: the name only indicated the moral discipline, and strenuous earnest character imparted there. As to the instruction, the thoughtful instructor who was principal of the Academy – Archimedes Silverpump PhD, you must have heard of him in Germany? – had modern views. "We must be men of our age," he used to say. "Useful knowledge, living languages, and the forming of the mind through observation and experimentation, these are the fundamental articles of my education creed." Or, as I have heard his pupil Bottles put it in his expansive moments after dinner ... "Original man Silverpump! Fine mind, fine system! None of your antiquated rubbish – all practical work – latest discoveries of science – mind constantly kept excited – lots of interesting experiments – lights of all colours – Fizz! Fizz! Bang! Bang! That's what I call forming a man."

One writer summed up this spirit with his comment "let us live again in the past". Morris's poem "The Early Paradise" expressed the same sentiment:

*Forget six counties overhung with smoke
Forget the snorting steam and piston stroke,
Forget the spreading of the hideous town;
Think rather of the pack-horse on the down,
And dream of London, small, and white, and clean.*

In this world the entrepreneur, Hardy's "money getting bourgeois class" was a "lower form of human society (perhaps with) rough efficiency and use." But education's contribution to their creation was to be questioned – even avoided – at least in England.

The Entrepreneurial Edge

But these entrepreneurs and their enterprises are the primary source of new jobs, played a key role in technologic innovation and helped drive up productivity and per capita incomes – creating the wealth which produced the society on which the Southern Metaphor thrived. Are the traits, which produce entrepreneurial success, stifled within the Southern Metaphor or cultivated by the Northern Metaphor? Can education reinforce or counter either trend?

It is, clear that some degree of self-knowledge is important for Entrepreneurs. Aronson, for example, believes that this self-knowledge "motivates individuals to establish their own enterprises" Education can frame and shape this self-awareness besides providing other tools for the achiever. This wider notion of the contribution of education is more clearly articulated by those who, like Aronson, argue that "the self-employed are not endowed with special abilities that differentiate them from individuals in wage and salary jobs, but instead are individuals who are responding to the environmental circumstances in which they find themselves."

If empirical studies are used to address this question we find two powerful arguments supporting the notion that external factors are more important than

internal psychology to explain entrepreneurial behaviour especially if we define entrepreneurial rates as the number of organisation per capita in a population.

We find, for example *“the self-employed are significantly older than the wage employed ... (because) Entrepreneurship is rarely a person's first occupation because people need to build the skills and abilities (human capital) and savings to launch a business. In addition, young people are less likely to become entrepreneurs because time in the labour force allows an individual to develop a personal reputation and good will. This reputation is important to draw clientele from among the customers or suppliers of previous employers, an important source of customers for new businesses”*

Evans and Leighton found that “the tendency of individuals to become entrepreneurs increases from two percent for members of the labour force between the ages of 21 and 26, to nine percent for labour force participants between 56 and 60.”

Other researchers found that people tend to create businesses when they were in their middle years – 25-44 – because they had the asset base to build the enterprise and the resources to cope with failure.

This would suggest that if education helped people to establish their credibility – as in the case of Morgan – and increased their asset values besides giving appropriate skills it should increase their propensity towards self employment – all thing considered. There is, also, evidence from the USA that new firm formation rates are higher in University town than elsewhere.

Scott in a major empirical study of rates of entrepreneurial activity over time found that the rate of entrepreneurial activity varied significantly over time. This suggests that there is no “pool” of entrepreneurs who have certain traits or personality characteristics that will prompt them to create their own businesses. Instead, it suggests that external factors e.g. rates of technological change, migration or education can have a major effect on entrepreneurial activity. Scott

found that rates of technological change were among the most powerful influences on rates of entrepreneurial activity. In effect, technology was pushing those with access to the technology or the means to exploit that technology into business ownership. This is, in his view mitigated by the propensity to take risk, which is "is positively and significantly related to rates of entrepreneurship". Education, per se, has a lesser effect on rates of entrepreneurship in Scott's work.

These findings are not wholly consistent with Dolinsky's finding that the likelihood of women opting for entrepreneurship or self-employment increased with their levels of educational attainment. This could reflect the burgeoning success of a new out-group seeking economic advancement through a traditional route or wider issues to do with changes in the nature of international economies.

An American Tail

There is considerable evidence that education achievement is playing an increasing part in the economic success stories of leading UK entrepreneurs. Gordon Moore the founder of Intel moved into industry after completing his PhD at the Californian Institute of Technology. Bill McGowan the creator of MCI was in the top 5 per cent of his class at Harvard. John Wilson of Xerox fame was another graduate of the Californian Institute of Technology while Sam Walton obtained his business training at the University of Missouri. Do they represent a new or a US phenomenon is the theme for my next session.

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