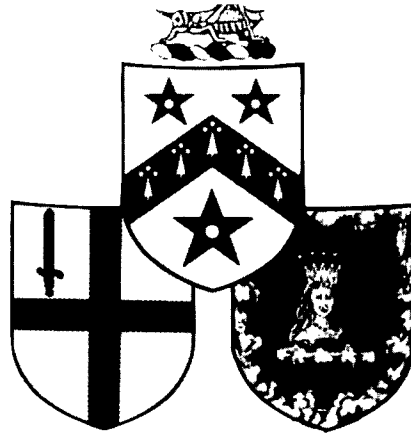


G R E S H A M

COLLEGE



EDUCATION FOR ENTERPRISE

Lecture 5

FROM AGNELLI TO WOO-CHONG

by

**PROFESSOR TOM CANNON CIM FInstEx FRSA FCIM
Mercers' School Memorial Professor of Commerce**

19 February 1998

GRESHAM COLLEGE

Policy & Objectives

An independently funded educational institution, Gresham College exists

- to continue the free public lectures which have been given for 400 years, and to reinterpret the 'new learning' of Sir Thomas Gresham's day in contemporary terms;
- to engage in study, teaching and research, particularly in those disciplines represented by the Gresham Professors;
- to foster academic consideration of contemporary problems;
- to challenge those who live or work in the City of London to engage in intellectual debate on those subjects in which the City has a proper concern; and to provide a window on the City for learned societies, both national and international.

Gresham College, Barnard's Inn Hall, Holborn, London EC1N 2HH

Tel: 0171 831 0575 Fax: 0171 831 5208

e-mail: enquiries@gresham.ac.uk

GRESHAM COLLEGE

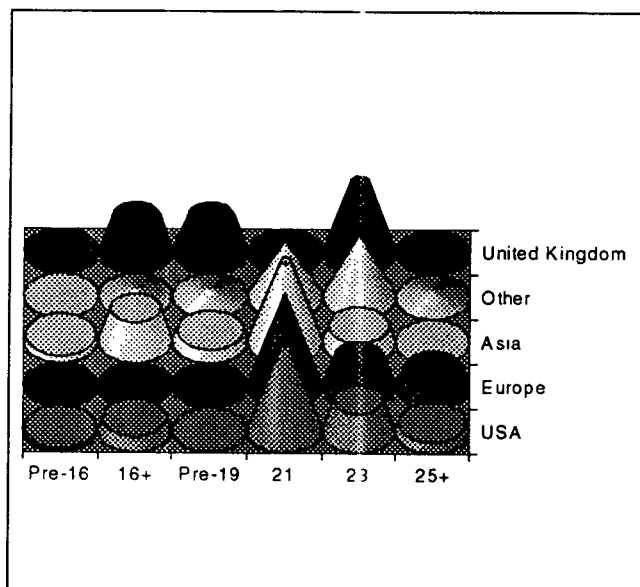
From Agnelli to Woo-Chong Tom Cannon, Mercers' School Memorial Professor of Commerce at Gresham College

A Common Currency

The claim that education – especially post school – and enterprise are not compatible is not confined to the Anglo-Saxon countries. Recently, the Sunday Times reported the case of a 70 year old Entrepreneur, “educated only to primary level, who employs 50 people making 2,000 satellite dishes a year.” He learned how to make the prototype from books and magazines. Robert Kiyosaki – a successful Asian entrepreneur argues that “school trains you to become an employee or a professional employee ... teachers assume that when students graduate they’ll have a nice, safe, secure pension for the rest of their lives.”

Dropping in and Dropping Out

The popularity of this image contrasts sharply with the data which exists on the education and training of successful entrepreneurs in different parts of the world. Analysis of a sample of contemporary entrepreneurs indicates a surprising amount of similarity in their educational backgrounds.



These data show that very few successful entrepreneurs “dropped” out of school before completing high school. The numbers who start their business with nothing more than a high school education are significant in the United Kingdom and Asia.

It is possible to argue that there are different reasons for this phenomenon in these societies at this stage in their economic development. Authors like Fukuyama¹ would argue that most Asian societies would place a high economic utility on education – including for business ownership. There have, however, been barriers to access to all forms of education for the poor in many Asian societies. Talented entrepreneurs would, simply, be barred from many educational opportunities. This has not been the case in the UK for most of this century.

The UK is unusual in the numbers of first generation entrepreneurs who complete their High School education, go on to college but drop-out before entering Higher Education. This may, partly, be explained by the relatively elitist nature of higher education in the UK until recently. There are striking similarities in the proportions of first generation entrepreneurs who start successful businesses after completing their first degree. This is the “peak” level of formal, educational achievement in Europe, the USA and Asia. The numbers who go on to start their own, successful business after postgraduate education is relatively small apart from the UK.

Opportunities and Threats

In many societies, business ownership is the only route to economic success for the talented, commercially minded individual. Analysis of the most successful business leaders and entrepreneurs in Asia shows that none have reached the top of large corporation with some advanced form of post 19 education.

¹ Fukuyama. F. *Trust* London, Hamish Hamilton, 1995

Asia's Business Elite

	Entrepreneur	Manager
University/College	18	18
Non University	14	0

Significant numbers of entrepreneurs have achieved massive success without attending university. This group includes people like Liem Sioe Liong of Salim Group and Li Ka Shing who have had little formal schooling but their talent drove them to success. It seems, however, that almost regardless of ability, they could not reach the top as managers without some form of higher education.

Fukuyama² links this with the structure of education in, say, Japan:

“Japanese society can be highly egalitarian and meritocratic, but the opportunity for social mobility usually comes along only once in a lifetime, when a young person takes the gruelling exam for entrance into a Japanese university. The exams are open to all and graded objectively, and it is on the basis of them that universities admit students. The quality of jobs available after college depends heavily on which school one went to (more so than one’s actual performance at school), and once in the company, there is very little opportunity to leapfrog one’s peers on the seniority ladder. The company may move workers around at will, but these individual workers usually have relatively little say in the matter. A student who fails to reach the cut-off at the entrance exam stage is virtually barred thereafter from working in the large company sector with its good jobs and salaries, though there may be opportunities for employment in the small-company sector.³ (Japanese school children feel themselves under intense pressure to succeed, sometimes from the moment they enter kindergarten.) All of this stands in sharp contrast to the

² Fukuyama *ibid*

³ Michio Morishima, *Why has Japan “Succeeded”? Western Technology and the Japanese Ethos* (Cambridge: Cambridge University Press, 1982), p.174

United States, where it has always been possible, even at an advanced age, to start over again after failure.”

Determination

The only way to build a successful business life after this type of failure is to start your own business. The nature of these pressures is vividly illustrated by Akio Morita's comments:

“[his father] was determined to give me a business education, starting very early in life. Father was conditioned by the times, and because, as the family's eldest son, he had had to give up his schooling to rescue the family fortunes, he remained a very practical ... businessman.

[...he got into electronics]... I became so engrossed in my electronic tinkering that I almost flunked out of school. My mother was called to the school often for conferences about my poor academic performance. The principal was concerned and annoyed by my lack of interest in conventional studies. I remember that we used to be assigned desks in class, according to our grades. There were two hundred and fifty in our class, divided into five groups of fifty each. The top student of each group was head boy, and the seats were assigned from the back of the room in descending order of achievement. I was always seated up front under the eye of the teacher, with the slow learners.

...I was good at maths, physics and chemistry. .. I would always get below average grades in geography, history and Japanese....

When I entered the final year of middle school, I told my parents and teachers that I would take the science department examinations for the Eighth Higher School - in Japan in those days, our school curriculum was very advanced, and higher

school included what in the US would be the first two years of college.”

Self Help and Co-Determination

This split between the highly educated elite who achieve success through education and professionalisation and the entrepreneurs who “dropped out” partly explains the popularity of broad economic maxims among Japan’s entrepreneurs. The ideas of Samuel Smiles retained their popularity in Japan long after they disappeared as popular writings in the UK:

His ideas have a greater consonance with the Japanese faith in a highly integrated and motivated workforce which retains considerable control over its work.

The Japanese pattern of management has many parallels with the approach adopted in Germany, where the notion of codetermination is well established. Codetermination in its broadest sense expresses the belief that workers and management share in determining the direction of the enterprise and its operations. The commitment has two parallel effects, which together sustain the commitment to integrated working practices. First, codetermination makes firms reluctant to engage in large-scale reductions in labour. As it is hard to dispose of labour, the incentive is to focus the company’s activities in those areas of business which are less vulnerable to competition.

For much of German industry this means lower volume, higher value, technically complex products and services where quality of labour is more important than price. The second effect of codetermination is that it reinforces the importance of technical expertise (*Fachkompetenz*) at the expense of administrative expertise. Managers gain status from a technical expertise that can be aligned against the worker’s expertise rather than a separated administrative expertise. Simon⁴ describes how successful German companies rate “industry specific qualifications highly ... Of the 250 member

⁴ Simon, H. (1996) *Hidden Champions*. Boston, Mass.: Harvard Business School Press

workforce at Aqua Signal, world leader in ship-lighting systems, 50 are engineers. At Hauni/Korber the more than 1500 engineers on its payroll represent almost one in four employees.”

In a sense this emphasis on integration harks back to the previous industrial revolution with its notions of craft and technical skill. Its key relevance for the current revolution lies in the bridge it offers to new technologies and markets. The new technologies provide flexibility and adaptability and are built around customer expectations of value and fit to their needs. The integrated company, dedicated to tapping these technologies and satisfying these needs, provides the way forward during this revolution.

Fukuyama argues that this structure directly affects both the degree of flexibility in the German workplace and the resilience of specific types of small and medium sized firms. He says that:

“One of the paradoxes of the German industrial training system is that while it tends to produce a strong sense of workplace solidarity, it is fed by a broader educational system that at first glance appears much more high inegalitarian than those of France, the United States, or Japan. The most notable feature about German secondary education is tracking. After four years of elementary schooling, students have to decide whether to enter one of three tracks: the *Hauptschule*, the *Realschule*, or the *Gymnasium*. The first two tracks lead into the apprenticeship system; only those passing through a *Gymnasium* can expect to go on to receive a higher education. Indeed, a student who passes the *Abitur*, or final examination, at the end of secondary education is entitled to enter any German university.

Thus by the age of ten, German children face important educational choices that will determine their occupational prospects for the rest of their life. The tracking system reflects existing class differences in German society and does little to encourage mobility; of children of working-class parents, only

fifteen percent entered *Gymnasia* during the 1960s.⁵ In contrast, university entrance in France and Japan is determined by the results of high school education - an exam that is theoretically open to all takers regardless of their previous education background. The French secondary system is much more open in class terms; in the 1960s, forty percent of students in the *lycees* (the French college-preparatory upper track) were from working-class backgrounds.

(But) the French, and not the German, educational system that leads to a workplace that is much more highly stratified into groups of differing status that find it hard to work with one another?"

Open competition with its corollary – clear winners and losers leads to a far higher drop-out rate among French than German students from all forms of education, training and development. France (like Britain) ascribes relatively low status to vocational education. In contrast “lifelong learning” is more easily absorbed within general thinking. For entrepreneurial development – especially in the new “knowledge based” economies – this culture is a powerful aid unless alternative support systems exist.

The Italian economy highlights the power of local, familial and other support or mentoring systems. The Italian economy is based on a large and dynamic small firm sector. Outside of the public sector, there are relatively few large corporations, with the notable exception of the Agnelli family’s FIAT group or Olivetti. Even in these giants, the family retains a role which scarcely exists in the USA or UK. The heartland of the Italian economy – especially in the North – are powerful clusters of smaller, family owned firms in sectors ranging from the traditional eg textiles, apparel, furniture to advanced industries like machine tools, robotics, shoemaking equipment. Their development is driven by a combination of family support, integrated education training and development and close links with larger firms.

⁵ In the manual trades (unskilled workers and agricultural workers), only five percent enter *Gymnasia* and less than two percent complete it. Maurice, Sellier and Silvestre (1986), pp.30-31.

Germany might produce In Charles Sabel's words:

“German superiors assume the opposite [from their French counterparts], namely, that their subordinates want and are able to acquire the kind of knowledge about their jobs that allows them to work autonomously. The task of the German supervisor is thus not to tell those charged with execution how to do their work, but rather to indicate to them what needs to be done. Conversely, in return for not being hedged in by a thicket of rules, German subordinates must count on their supervisors not to make abusive use of their discretionary powers. German society is “high trust” because it discourages the separation of conception and execution.”⁶

In Italy, this notion of superiority might not exist but there is a powerful sense of competence and capability which enhances entrepreneurship.

Education and Economic Models of Entrepreneurship

In his valuable paper Gunning posits push, pull and process models of entrepreneurship⁷. He says, “professional economics contains at least three fundamentally distinct and different concepts of the entrepreneur - the stipulated entrepreneur,” This type of entrepreneur pushes economic development. Alongside this, there is a powerful element of pull as his “ideal type” creates opportunities. There is, also, a series of tasks, which some people are peculiarly able to perform ie the entrepreneurial “role”. His “stipulated entrepreneur is a mechanism that simulates the discovery of given wants and/or means of satisfying them.”

Walras endorses this view when he says:

⁶ Charles Sabel, *Work and Politics* (Cambridge: Cambridge University Press, 1981), p.23.

⁷ Gunning, J. “The Idea of the Entrepreneur as a Distinctly Human Action” Mimeo 1996

...Under free competition, if the selling price of a product exceeds the cost of the productive services for certain firms and a profit results, entrepreneurs will flow towards this branch of production or expand their output, so that the quantity of the product [on the market] will increase, price will fall, and the difference between price and cost will be reduced; and if [on the contrary], the cost of the productive services exceeds the selling price for certain firms, so that a *loss* results, entrepreneurs will leave this branch of production or curtail their output, so that the quantity of the product [on the market] will decrease, its price will rise and the difference between price and cost will again be reduced. It is to be observed, however, that although the multiplicity of firms conduces to equilibrium in production, such multiplicity is not absolutely necessary in order to bring about this equilibrium, for, theoretically, one entrepreneur alone might do so, if he bought his services and sold his product by auction, and if, in addition, he always decreased his output in case of loss and always increased it in case of profit...[I]n a state of equilibrium in production, entrepreneurs make neither profit nor loss.... (224-5)

Gunning's second concept is "the *ideal type*. It is a composite of particular characteristics. For example, the ideal type entrepreneur may be a composite of (1) venturesomeness, (2) alertness to the conditions of consumer demand and supply of the factors of production, (3) innovative ability, (4) competence in managing factors, (5) willingness to bear uncertainty and risk, (6) leadership, and perhaps others."

While his third concept refers to a *role* that represents what we take to be the undeniable "category of human action" Then we must devise a means of showing how these properties come to be manifest under the conditions of the market economy. The distinguishing advantage of using the role of the entrepreneur is greater efficiency of communication. Because each of us economists, as normal[2] human actors, can form an identical concept of distinctly human action and because we can reason logically about how that

action will become manifest under particular conditions; there is no doubt about our ability to know exactly what we mean by the role of the entrepreneur. From this point of view, the role of the entrepreneur is an intuitive notion based on an *a priori* assumption about normal human beings. It corresponds to what we know intuitively about the meaning of normal human action."

Conclusion

Mainland Europe and Asia have tackled the problems of creating education for enterprise in many different ways. These range from the highly formal approaches of Germany through the less formal approaches of Italy. Korea, the home of Mr Woo-Chong's Daiwoo enterprises, represents perhaps the most formal effort to shape education --especially higher education -- around the need for enterprise. They have created the hard wiring for the past and are competing to create a new hard wired solution.