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Swimming against the tide brings its rewards

Often in the shadow of their quoted rivals, Britain's growing number of private businesses are coming to the fore, reports *Andrew Bounds*

Speedo, owned by Pentland Brands, supplies kit to the US swimming team, including Olympic champion Ryan Lochte Reuters

Andy Rubin is in a strong position to discuss the relative merits of public and private companies.

The chief executive of Pentland Brands, part of the Pentland Group that owns a host of leading sports and leisure labels including Speedo, Hunter Boot and Berghaus, has experienced life on both sides of the divide.

The company was founded by his grandparents in 1932 as the Liverpool Shoe Company, floated on the stock market in 1964 but reverted to private family ownership in 1999.

Mr Rubin's verdict: "All the evidence shows that family-owned companies outperform public companies over time. They might be more conservative in a boom, but they do better in a downturn."

The company, he notes, resisted cutting marketing or staff development costs when the financial crisis set in from 2008 onwards.

"We are working on a strategy until 2020," Mr Rubin says. "When you are listed [on the stock market] you are just focusing on the next quarter's results."

Pentland has no debt and takes a paternal approach to its 2,000-strong workforce. Its London base has a gym, swimming pool and football pitch, while staff days out have included trips to the London Olympics.

Total revenue rose 14.2 per cent last year to £1.74bn and the brands business (excluding shops) earned £531m. Non-European sales accounted for half of all sales for the first time. In 1991, the UK accounted for four-fifths of all sales.

Pentland's Speedo swimming brand is an example of its approach. After a big design and research push, sales have doubled in the past decade. At the Beijing Olympics in 2008, more than 90 per cent of gold medallists in the pool wore its swimsuits.

Rubin believes that securing the investment needed to achieve this would have been extremely difficult on the public markets, while noting that institutions have been reluctant to invest in the company because it is controlled by a family.

> 'All the evidence shows that family-owned companies outperform public ones over time.'

When Margaret Thatcher, the late Conservative prime minister, pushed through the sale of state-owned companies such as British Telecom and British Gas in the mid-1980s and hailed the UK as a nascent shareholder democracy, the victory of the public markets over private companies seemed to be assured.

The number of shareholders and listed companies grew inexorably, with almost 10m people in the UK owning stock directly prior to 2008, according to the University of Bath.

Yet as funding has dried up since the financial crisis, and banks have hoarded money rather than lend it, the spotlight has shifted towards the UK's backbone of private companies.

While two-thirds of the UK's 4.8m businesses operate as sole traders, 36,000 employ 50 people or more.

There are, by contrast, about 2,500 quoted companies, while the number of companies on Aim, the small-cap exchange set up to allow growing companies to list, has fallen from 1,694 in 2007 to 1,086 last month.

Sir Richard Lambert, chancellor of the University of Warwick, former CBI director-general and former editor of the Financial Times, says a market listing is no longer a badge of honour for many businesses.

"The stock market has not been a source of capital for British companies for a long time," Sir Richard says. "They spend more buying their own shares than they raise."

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Start planning early to avoid family failures

Next generation

Handing a business down through the family is never easy, says *Emma Jacobs*

On leaving school, Elwyn Griffiths, who manages Oaklands Farm Eggs with his brother Gareth, was sent by his father to the US. "I was told to 'travel, look and learn'. Only then could I come back to work for the family firm." There was one condition: he had to earn enough money to pay for his flight home.

So he proved himself, working on various "huge farms" before returning to the Shropshire fold, and ultimately taking over the company with his brother.

Today, Oaklands Farm Eggs employs 110 people and produces nearly 500m eggs a year.

According to a US study, nearly nine out of 10 family business owners believe their families will still be in control of their company in five years. In reality, less than a third survive into the second generation, only 12 per cent are still viable into the third, and just 3 per cent of all family businesses operate into the fourth generation and beyond.

Failure to properly manage the issue of succession planning is often to blame for this. According to Juliette Johnson, head of UK family business at Coutts, the private bank, it is often the case that "emotion blurs the vision of leaders".

Some heads of family-owned companies "make their children feel obligated to join the company, which can backfire by creating a crop of managers who aren't interested in being there", George Stalk and Henry Foley wrote in the Harvard Business Review last year in a study looking at some of the reasons why succession can go wrong.

Mr Stalk and Mr Foley suggest putting family members through rigorous performance assessments to see if they are suitable to take on the role.

Nigel Nicholson, professor of organisational behaviour at London Business School, believes that part of

Productive: Oaklands Farm sells 500m eggs every year

the problem is that the next generation is often wary of being branded as a "beneficiary of nepotism".

They should not feel this, he says, as taking over a family business can be extremely challenging. "They [the next generation] need to understand that they are contributing to that precious, intangible 'family capital'," Prof Nicholson says.

Mr Griffiths at Oaklands Farm hopes that one or all of his three nephews, aged between 18 and 24, will join the family company, although he insists they will "have to prove themselves before they can come into the business, and show they will be an asset".

One way to test family members' aptitude for business is to give them a chance to work outside the family company, either in another operation, or by investing in their own start-up.

This is known as "reverse succession", in which a company head encourages a younger relative to set up their own business to prove their ability before the parent buys back the enterprise and brings them back into the fold.

Elisabeth Murdoch is one example of this. After working for her father, Rupert Murdoch, in a senior role at the satellite broadcaster BSkyB, she left to start Shine, a television production company.

A few years later, Shine was bought by what was then called News International, Mr Murdoch's newspaper group, for £415m.

If done well, reverse succession can mean that the successor is respected by colleagues rather than being seen to have acquired their position through nepotism.

Prof Nicholson believes succession planning tends to fail when companies misread their future needs – "often because their vision is not aligned with reality".

They also misread their leadership requirements, and the kinds of people who will thrive.

He says: "They make the mistake of measuring talent as if it were a unitary fixed quality rather than something that has to adapt to needs.

"They then end up with a list of favourites groomed for succession and set in place, without realising that a good 'number two' may be a lousy 'number one'."

Nicholas Oughtred, chairman of William Jackson Food Group, the owner of the Jackson's Bakery brand and Able & Cole organic food delivery business, warns against "family recommending family".

In his case, the use of external professionals to assess potential successors has been "invaluable".

"It is very important to make the process transparent and be up front about what it is," says Mr Oughtred, the great-great grandson of William Jackson, who founded the company in Hull in 1851.

Mark Hastings, director-general at the Institute for Family Business, which represents the UK's family business sector, says the key is to plan early.

"Where it tends to go wrong is that nine times out of 10, people haven't started early enough or they are suddenly struck with succession because of a sudden death," he says.

He advises planning your successor as soon as you assume a chief executive or chairman position.

Mr Oughtred agrees on the wisdom of planning early. "I'm in my second five-year term and we are already discussing . . . as a family, my replacement," he says.

For those that lose out on the top job, Mr Oughtred advises provide them "with a constructive career plan so they get something positive out of it too".

"There must be no losers in a family succession process," he adds.

Alternative financials fill gap left by the banks

Funding options

New channels are opening up, writes *Andrew Bounds*

It is rare to find a private company ringing the bell to start trading at the London Stock Exchange – but not as rare as it once was.

The leaders of Bruntwood took to the LSE's balcony in July after selling a £50m retail bond, its first. The family-owned property group is one of an increasing number of private businesses borrowing directly from investors as banks continue to restrict lending.

Since its launch in 2010, the LSE electronic order book for retail bonds has hosted 38 corporate bond issues and raised £3.4bn.

Chris Oglesby, Bruntwood chief executive, says raising the money in a "very difficult market" was "testament to the strength of the company".

The developer of offices and other commercial property has typically relied on bank funding and mortgage-back securitisation. Before selling the retail bond, it had further diversified its funding model with a £120m 10-year facility with life assurer Legal & General, which was only Bruntwood's second-ever property loan.

The growing use of such facilities is an indication of the drought in financing available from traditional lenders. Bank and building society lending to all businesses fell 5 per cent last year, to £427bn, from £450bn the previous year, data from the Bank of England show.

One result of all this has been a proliferation of alternative funding providers, though none yet with the banks' scale.

This has, to some extent, helped narrow the finance gap between unlisted and listed companies, who are able to tap investors for cheaper, equity-based finance by selling shares on the stock market.

Banks say rising deposits by small and medium-sized enterprises also show that demand for borrowing from this segment of the market has lessened, although critics say SMEs are being deterred by high prices and onerous conditions.

One model becoming more popular among private companies is the use of asset-based finance. This includes invoice discounting – where a lender advances money against bills for order at home and abroad – leasing equipment and export finance.

According to the Asset Based Finance Association, which represents lenders including many banks, its members lent £16.3bn in the 12 months to end of the first quarter, up from £15.3bn in the comparable period a year earlier, with £24.6bn in funds available, up from £22.9bn. Customer numbers increased from 42,000 to 43,000.

This remains only a fraction of the £427bn advanced by the banks.

However, Alison Small, business development director of ABN Amro Commercial Finance, part of the Netherlands-based bank, says her company still has unused funds despite increasing advances by a quarter year on year. "We really want businesses to come to us. We have a lot of undrawn availability," Ms Small says.

Another company that has sought to fill the gap is City of London Group, after Eric Anstee, chief executive of the investment house, noted that private companies were looking increasingly beyond traditional banks.

City of London advances money for acquisitions, property and trade to a range of private businesses, SMEs and professional firms such as lawyers. "For the average SME since 2008 the balance sheet has got worse. High street banks won't lend because there is no security to lend against," Mr Anstee says.

In 2010, City of London also established a trade finance arm targeting the SME market. "We have money to lend," says William Tebbit, commercial director of the trade finance operation.

Another model is being employed by Seneca Partners, an investment group that, after setting up a £7m fund backed by wealthy individuals, has been approached by 500 companies that had been refused finance by banks. "The demand from business was massive," notes Ian Currie, a Seneca director.

Its investors rely on two government-backed programmes: the enterprise investment scheme (EIS) and seed enterprise investment scheme (SEIS), both of which give income tax relief on small investments in unquoted companies and exemption from capital gains tax when selling the stake.

Companies are bring deterred by high prices and onerous conditions

More than 4,000 companies applied for approval to accept funding through the EIS and SEIS in the most recent financial year, compared with 2,147 the previous financial year.

However, one traditional source of financing for private companies that has reduced in recent years is private equity.

The industry has cut its involvement in a range of businesses since the 2008 financial crisis after heavy losses led to investors pulling their money out.

According to the British Venture Capital Association, the UK-based industry invested £12.2bn globally in 2012, down significantly from £18.6bn in 2011.

The UK received the largest share, at £5.8bn, a reduction from £6.5bn the year before.

Within that, however, there has been a growing trend to invest at an earlier stage, with venture capital firms increasingly seeking to develop smaller, innovative businesses they can sell for a big profit.

This is a move away from what was until recently the dominant model of buying mature, underperforming businesses and selling them on to trade or private equity buyers.

The amount of venture capital invested globally rose to £708m last year from £492m in 2011.

Economic recovery raises hopes of an export boost

Overseas sales Private companies can be at an advantage when it comes to selling to new markets, writes *Sarah O'Connor*

When the economic boom turned to bust five years ago, CDE Ireland was left badly exposed. The Northern Ireland-based company designed and manufactured materials washing equipment, primarily for the construction industry, at a time when many building projects were being halted.

"We realised quickly that the big projects had dried up, the large PLCs in the construction sector had closed their doors . . . and the private guys who had money were intent on holding on to it," says Brendan McGurgan, its managing director.

Given the dire state of its home market, privately owned CDE knew it would need to export to survive. In the boom years, it had designed bespoke washing plants for customers from scratch. "We had to look at packaging what we'd previously done in a modular way that would lend itself to export and with a lower ticket price without compromising on the functionality," Mr McGurgan says.

The company also adapted its technology for new sectors, including mining and environmental processes. Since then, it has grown sharply and renamed itself CDE Global to reflect its broader horizons. Turnover is expected to be £42m-£45m this year, up from about £3m a decade ago.

Britain's politicians and central bankers wish that more companies were like CDE Global.

Construction, financial services and public sector spending were the engines of Britain's growth in the decade before the financial crisis, but they could not sustain the economy in its aftermath.

To fill the void, policy makers thought Britain would "rebalance" towards net exports and investment, helped by the 25 per cent fall in the value of sterling. It did not work out as they had hoped.

Britain's trade deficit narrowed from £36.7bn in 2007 to £33.9bn last year, but economists had expected much more progress than that.

The sovereign debt crisis in the eurozone, which buys half the UK's exports, was partly to blame, along with a pervasive sense of uncertainty that deterred companies from taking risks. Britain's private businesses also had to contend with a credit drought as banks cut their net lending to non-financial businesses.

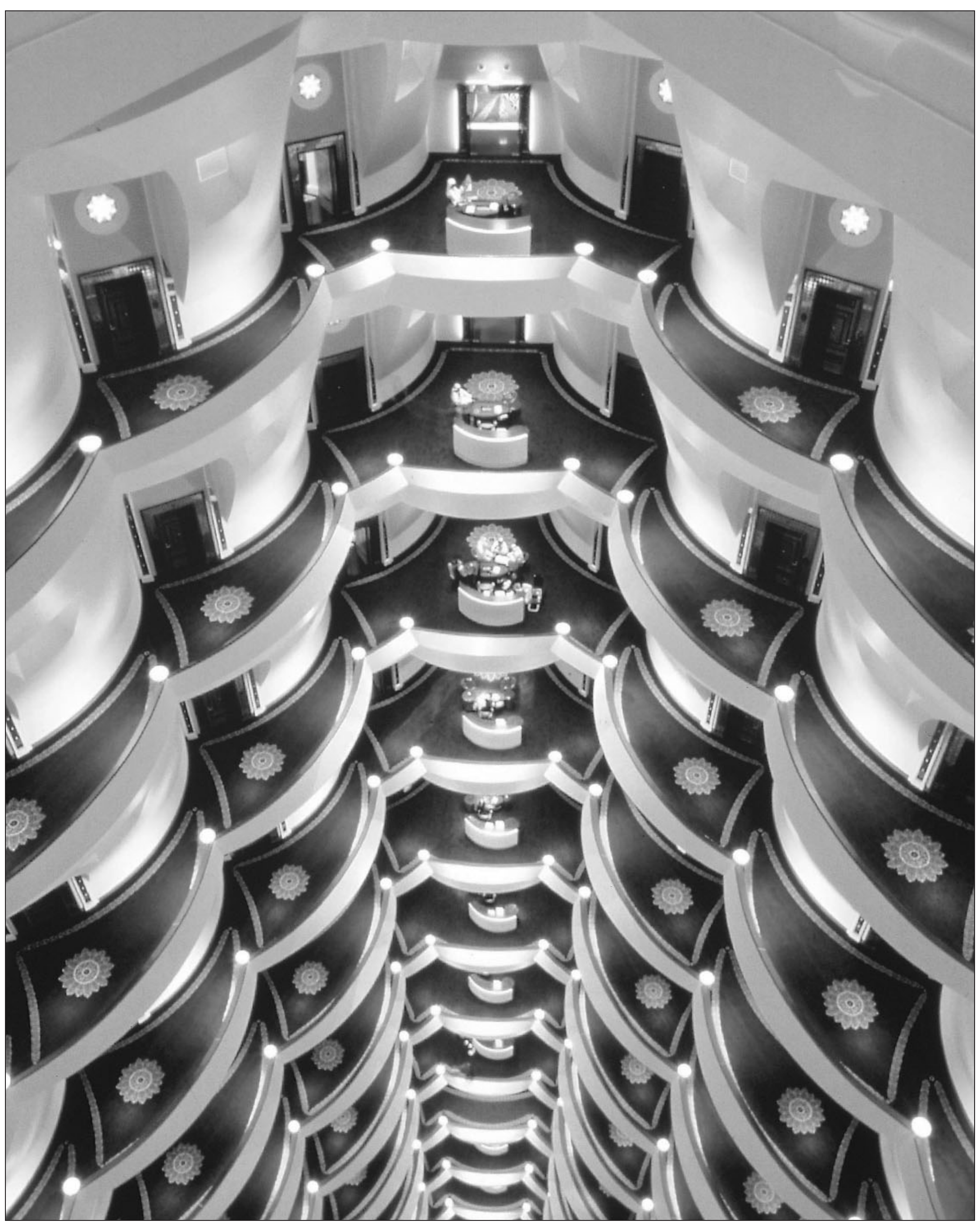
But with confidence picking up amid signs of a recovery in the UK economy, companies are becoming more enthusiastic about exports.

Roughly 70 per cent of respondents to a recent survey by EEF, the manufacturers' organisation, said they were planning innovation to help them export to new markets in the next three years. In the latest quarterly survey by the British Chambers of Commerce, service sector companies reported the fastest export growth since the survey started in 1989.

There is some evidence that being a private company can be an advantage when it comes to exporting. CDE was able to invest more in innovation in 2007-08 than at any time in its history, partly because it did not have anxious shareholders and analysts poring over its quarterly accounts.

Petroleum Experts, an Edinburgh-based company that exports engineering software to more than 80 countries, also cites private ownership as one of the reasons for its success.

"It is absolutely critical," says James Woodrow, one of the directors. "As a private company you can look



Key customer: Ulster Carpets supplies leading hotels including the Burj Al Arab in Dubai

to the long term. We are in the research market, we make mistakes. It means we can go down a road, if we make a mistake, we can come back and review what we've done, and we've learned something."

Ulster Carpets also believes its ownership structure has helped. The company sells carpets to cruise ships and hotels around the world, including the Burj Al Arab hotel in Dubai and Waldorf Astoria in Florida. "The fact we're a private company means we have been able to adapt in a very proactive way to the changes in the market," says Elaine Patterson, the company's contract sales director.

Yet it can also be hard for smaller private businesses to know how to break into a foreign market.

Ms Patterson says the secret is research – a lot of research. The government is trying to help, through both UK Trade & Investment, which offers advice, trade missions and grants, and via ministerial "trade envoys" for specific markets.

But business groups complain the help is hardly comparable to what Germany offers to its famous Mittelstand, the network of medium-sized companies that powers the country's exporting success.

"We spend 0.05 per cent of GDP on trade and investment," says Adam Marshall, policy director at the British Chambers of Commerce. "If our successive governments are actually serious about rebalancing, we may need to do a little better than that."

Mr McGurgan says patience is also important, noting that it usually takes his company two to three years to start realising a return from a new market.

"I think the expectations of aspiring exporters is that they're going to be met at the airport with lots of customers handing them orders," he says. "That's certainly not the case."

Swimming against the tide brings rewards for private businesses

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Sir Richard says that during his time at the CBI, he found "a load of companies out there doing a good job and making a lot of money, who want nothing to do with the [stock] market".

There has been a rise in established companies raising further finance for development on Aim. While new issuers raised just £707m last year, secondary fundraising reached £2.4bn in 2012. That said, it is still well short of 2007's £16.2bn record fundraising total.

Yet, Sir Richard adds, the short-termism of the markets means that UK investment as a percentage of GDP currently ranks 159th in the world, according to a report in The Economist. Sir Richard's warning is blunt: "If companies are not building new plants in the UK and putting money into research and development then we are stuffed."

Quorn, the meat substitute maker, is another business that has prospered since going private. Sales were shrinking when it was part of Premier Foods, so Kevin Brennan, chief executive, led a buyout in 2011 backed by Exponent, the venture capital group.

"It [Quorn] was lost inside a large group," says Mr Brennan. Quorn grew sales by a fifth in 2012 to £131.6m, and is spending £30m to boost capacity.

Quorn may have benefited from VC backing, but many others start with more basic funding.

Nica Burns, a stage actress and producer, remortgaged her house to buy four West End theatres – the Apollo, Lyric, Garrick and Duchess – with Max Weitzenhoffer, her US business partner.

"It was every penny I could scrape together," she says. Ms Burns has since bought two more, and her company, Nimax Theatres, will have net revenues of £14m this year.

The theatre trade is unlike other industries in that a few huge successes are expected to make up for the many lossmakers.

As only one in five West End shows makes money, it would be difficult to run Nimax as a listed company.

"There is no magic formula," Ms Burns says. "We need 15-16 shows a year [and] it depends on me to get it mostly right."

She adds: "We have no desire to float. We love being a private company."

At Dr Martens, the lesson is that private businesses can be highly adaptable. After running up losses in the 2000s, the bootmaker has enjoyed a recent resurgence thanks to endorsements from celebrities such as singers Rihanna and Jessie J. Sales rose in the 12 months to March for the fifth consecutive year.

The same flexibility was evident at Moo.com, an online stationer that is part of the technology cluster in London's East End.

In 2010, the company took a gamble: it shut down its website for several months to carry out a complete overhaul. The decision – which sacrificed short-term sales for the sake of long-term advantage – illustrates the flexibility that comes from running a private business.

159th

The UK's world ranking for investment

"We can explain things in a detailed way to our limited group of shareholders, [and] we can move very quickly," says Richard Moross, Moo.com chief executive. "You can change your mind, because you don't have to convince millions of people."

That is not to say that everything in the garden is rosy. Simon Derrick, brands and communications manager at Blue Skies, which produces fresh-cut fruit and other products from its network of factories in developing countries, including Ghana, admits that raising money is harder as a private company.

The UK government has moved to help stimulate non-bank lending with £300m from its new £1bn business bank going to alternative lenders. It has also persuaded high street banks to set up the Business Growth Fund to invest in private businesses.

Yet more will need to be done if Britain's private business are to rival Germany's famed, globally successful Mittelstand small and medium-sized private companies.

According to a report by GE Capital, the UK's midsized businesses make up about a third of private sector GDP, while the Mittelstand companies account for more than half of German economic output.

Additional reporting by Henry Mance

Private Business

Call for more staff-owned companies

Alternative structures

An increasing number of UK businesses – large and small – are offering stakes to their employees, writes *Hannah Kuchler*

Cut above: John Lewis is the most visible example of an employee-owned business in the UK Charlie Bibby

The British government is on a push to paint the UK economy bottle green, heralding John Lewis, the department store favoured by the middle classes, as a model of employee ownership that thousands of private businesses could follow.

Nick Clegg, deputy prime minister, is an evangelist for what he calls a "John Lewis economy", where staff are given a stake in the company they work for – and a say in how it is run.

While the government is consulting on tax breaks to encourage staff ownership, the number of employee-owned businesses has already risen more than 20 per cent since the start of the financial crisis in 2008, according to Co-operatives UK, a trade body.

Some workers have bought companies that may otherwise have closed during the crisis, saving their jobs, while others see it as the perfect model for the knowledge economy.

John Atherton, membership officer at Co-operatives UK, believes Britain could follow countries such as Italy and the US, where employee-owned businesses are much more common.

"We are seeing a lot of growth, with people working in architecture, media, PR and consultancy. Staff at very knowledge-based, small, agile businesses are looking to become their own bosses more and more, rather than having someone else share in the benefits," he says.

Mr Atherton says employee-owned businesses have higher productivity rates, fewer sick days and better staff retention rates. Employee-owned co-operatives are also more likely to survive, with 90 per cent still in business after three years compared with 65 per cent of conventional companies, according to Co-operatives UK.

"When you marry financial benefit with real ownership [and] control over the business – that's where you get the best performance," he says.

Paul Dolman-Darrall founded Gamevy, a London-based online game show company, as an employee-owned business after seeing the structure succeed when he worked at John Lewis. As the company grows, Mr Dolman-Darrall's shareholding in the fledgling group could be diluted to as little as 1 per cent, but he still believes it is good business.

"It's a bit like renting your house or owning your house. It might be the exact same property but you look after it differently," he says. "The effect may be very, very small to begin with but the tiny differences mount up over time."

At nursery chain Childbase, founder Mike Thompson says his stake in the business is worth more even after it has been watered down through him selling shares to employees. He says employee-ownership has helped Childbase grow revenue and profits for 12 years, while many of its nurseries are regularly ranked outstanding by the inspection service Ofsted.

Each centre sends a representative to a council that oversees all major decisions, including the recent acquisition of another chain.

"They can't say: 'Mike's said we're going to do this,' they have to say: 'We've all said we're going to do this.' And if it is a poor decision, we all have to live with the consequences," Mr Thompson explains.

He believes employee-ownership can shape an industry that has too long been a "career of last resort" into one where "trust jobs" such as looking after young children are valued.

But while many employee-owned businesses support the model, some are frustrated with how difficult they can be to form. Mr Thompson calls the process "painful" and "expensive" and criticises the Inland Revenue for what he says are low valuations of companies that want to sell shares to staff, and limits on the amount that employees can invest in shares.

The government is consulting on creating £50m of tax breaks, announced in the March budget, including capital gains tax relief for entrepreneurs who sell businesses to their staff. But Mr Dolman-Darrall is sceptical about whether this will be enough to create a new wave of employee-owned companies.

"The £50m is a tiny incentive that really does not make up for the disadvantages," he says.

Joseph Lampel, professor of strategy at Cass Business School in London, says that while there is "a lot of idealism attached to employee ownership", such companies will never be the majority.

While he can envisage the number of employee-owned companies growing from the current level of 2-3 per cent of the economy it will never get beyond the low double digits.

"They are not subject to exuberant expansion," Prof Lampel says of staff-owned businesses. "They aren't opportunistic acquirers: in economic booms some companies can raise capital at a low cost – they don't do that. And they don't hire very quickly because once they do hire, they have a new owner."

Despite that, Prof Lampel thinks the growth of employee ownership could be a stabilising force in the economy.

In particular, he notes that constraints on the potential to take profits make employee-owned businesses more consistent, while they are also more likely to grow by adding customers rather than via acquisitions.

Use your loaf and bring in the experts

Family businesses

Outside hires can be the key to success for even the most traditional groups, writes *Paul Solman*

When Thomas and Ellen Warburton began baking bread in 1876, they could not have guessed that their descendants would still be running the business well over a century later.

From modest beginnings in a small shop in Bolton, Warburtons has grown into one of the UK's largest grocery brands, with 4,500 employees and turnover of about £500m a year. Yet the company remains a family-run business, owned and managed by the descendants of its founders.

"We are the fifth generation," explains Ross Warburton, an executive director who, along with his cousins Brett and Jonathan, has led the company since their parents and uncles retired in 1988. "It's still the family firm, although we have a seriously experienced team of senior managers who help us."

The UK's 3m family businesses generated revenues of £1,100bn in 2010, according to the Institute for Family Business, an industry group, employing more than 9m people, or 40 per cent of total private sector employment.

"Family businesses' contribution to the economy is growing, their turnover is growing and the number of employees is growing," says Mark Hastings, IFB director-general.

According to Mr Hastings, long-term planning is the key to the success of family companies such as Warburtons. He says: "The way a family business approaches its business is that it's always trying to pass on something better to the next generation.

"What that means is they take a long-term time horizon for how the business is going to grow and develop, and on investment and payback."

Wates Group, a Surrey-based construction company, was founded by the Wates family in 1897. James Wates, chairman, believes the difference between family businesses such as his and other types of corporate entities is "stability".

"Knowing that a family stands for – and behind – the business confers a sense of continuity and adds an extra dimension to the day-to-day professional operations," he stresses.

Mr Warburton says not being beholden to outside investors is another key difference: "As a business that is owned and run by the family, we have not had the pressure from shareholders to diversify.

We have been able to take a long view with investment, and a lot of profit has been recycled back into the business."

He adds: "Having our name above the door has also meant we have to get it right when it comes to quality."

While Warburtons and Wates have their origins in the 19th century, some of the UK's oldest family companies have been around for even longer.

Richard Hoare founded C. Hoare & Co in London in 1672, and the private bank has been owned by his descendants ever since. Though outsiders have held a number of senior posts – including Jeremy Marshall, the current chief executive – seven partners in the bank are cousins from the family. "We are not trying to maximise profits; our mission is to perpetuate a profitable family business," says Alexander Hoare, part of the 11th generation of the family to run the bank.

"When you're aiming for perpetuity, growth is not necessarily a good thing," adds Mr Hoare, who was chief executive for eight years to 2009. "We are aiming for something that is small and simple enough for our family to carry on running it. What you want is sustainability."

Although C. Hoare & Co has been around for more than 300 years, one of the biggest challenges faced by family businesses is to survive beyond the first generation.

According to US research, less than a third of family firms actually make the transition successfully to the second generation, while only about one in 10 reach the third generation.

Some succumb to the commercial pressures that threaten all entrepreneurs, while others sell up or see advantages in abandoning the family structure.

> 'Having your name above the door has meant getting it right when it comes to quality.'

Corporate governance is another area where family enterprises may sometimes be weak.

While many are as stringent and transparent about governance as any publicy quoted company, a 2011 study by law firm Veale Wasbrough Vizards and the University of the West of England found that almost two-thirds of respondents had informal or no corporate governance structures in place.

"Family businesses should and do follow best practice on governance," Mr Warburton says. "We have had non-executive directors on the board for 35-40 years. They are a real help in offering a critical eye and give us some tough love when we need it."

By and large, however, the challenges for family companies are the same as those faced by most businesses – listed or private.

Marcus Arundell's family founded HomeLets of Bath, a management and residential letting agency, in 1992. His concerns are typical of any small business: cash-flow, human resources and how to grow.

Yet even though HomeLets of Bath is only 20 years old, Mr Arundell is committed to keeping it in the family. "We feel we've started a legacy," he says.

Taking the long view helps build a 'better company'

Corporate responsibility

Private owners are better able to resist short-term concerns, says *Sarah Murray*

On the ability of public companies' to embrace corporate responsibility, John Neill, chief executive of Unipart, believes there is one big limitation – their shareholders.

"People are trying to demonstrate a correlation between good corporate behaviour and long-term shareholder performance, he notes. "But, by and large, what drives Wall Street and the City [of London] is short-term share performance."

Mr Neill believes private ownership allows the employee-owned manufacturing, logistics and consulting group to take a longer-term view of the links between profit, society and the environment – unlike public companies whose investors may not necessarily hold shares for extended periods.

He cites the example of quant, or algorithmic, funds, which can buy and sell shares in companies sometimes in a fraction of a second. "How do you build a relationship with a computer programme that buys and sells you in a nanosecond?" he asks.

It is a view shared by senior executives at other privately owned companies. Paul Drechsler, chief executive of Wates Group, the family-owned construction company, says: "We are explicit about our intent to hold the shares for the long term and about a desire to hand over a better company to the next generation."

Free from pressure to maximise quarterly returns, private companies can pursue strategies that benefit society more broadly, argues Colin Mayer, professor of management studies at Oxford university's Saïd Business School.

"For a company to credibly commit to sustainability or corporate responsibility policies, it needs to have a long-term focus to its activities, which means it needs long-term owners that support those type of commitments," says Prof Mayer.

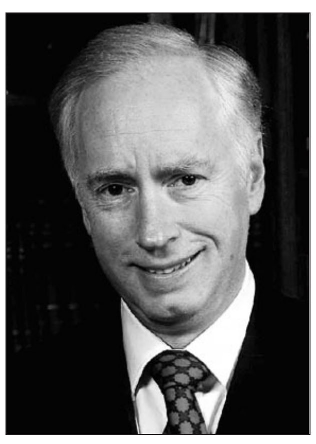
Of course, for any company, the focus for corporate responsibility varies, depending on the nature of the business.

Yet one thing many private companies have in common is that, rather than simply writing charitable cheques, they link social and environmental initiatives closely to their commercial operations.

"Philanthropy is fine and laudable," says Mr Neill. "But if you aren't competitive, you can't take care of your stakeholders."

At Blue Skies, founded by entrepreneur Anthony Pile, helping farmers in developing countries is part of the business model.

By supplying supermarket chains with fresh-cut fruit from countries such as Ghana, Egypt and South Africa, it can create employment for some of the world's poorest people.



John Neill, chief of Unipart

And because the company exports cut and packaged fruit (rather than unprocessed produce), and helps farmers secure environmental certifications, they can earn more than they would if the fruit was being cut and packed in Europe.

B4Box has also made a corporate responsibility commitment part of its business model.

The company, which operates around Manchester and northwest England, offers construction services that rehabilitate empty properties while also providing training that can help increase the supply of skilled construction workers and create jobs.

Training and employment are also corporate responsibility priorities for Wates.

Among its initiatives is the Building Futures programme, which offers accredited vocational training to long-term unemployed adults.

Mr Drechsler sees corporate responsibility as strongly related to commercial success.

"You need to make profit because if you don't, you can't innovate and reduce your impact on the environment, and you don't have the resources to invest in society," he says.

Nevertheless, some corporate responsibility initiatives at private companies do have a charitable element.

Arup, the engineering consultancy, has established a non-profit business within the enterprise – Arup International Development – that provides strategic and technical advice to development and humanitarian organisations.

In Malawi, for example, to help the government achieve its goal of providing universal primary education, teams from Arup – which is owned by a trust on behalf of employees – are developing a model for low-cost school buildings that use local construction materials and that can be run without electricity.

Arup also derives business benefits in the new skills acquired by staff working on the development projects.

Ian Rogers, a director who oversees the company's approach to sustainability, believes Arup's ownership structure enables it to make these correlations between social and environmental investments and business returns because it is not pushing to make short-term profits.

"It is the longer-term perspective we are able to give to these issues because we are not constantly looking over our shoulder at what the share price is doing," he says.

Soft skills are needed to keep your imprint on a growing business

Corporate culture

Bosses are using a variety of means to stay connected to their companies, says *Jonathan Moules*

Unlike many bosses, Tamara Littleton has no problems with her staff logging on to Facebook during working hours.

Encouraging employees to read and comment on her social media posts is a vital way for Ms Littleton, the founder of eModeration, which manages online discussion groups on behalf of companies, to stay connected to employees spread across the globe.

The company has grown in 10 years from a start-up to a 350-person operation with staff in a variety of locations in Europe and the US. Her chief operating officer is based in the Spanish city of Valencia, while the company's chief production officer works from the northeast of Scotland.

"As you grow, you can lose the family feel which was so powerful in the early days," Ms Littleton says. "It is important for us to be connected to everybody."

Social media is an obvious choice, given the nature of the business. The Facebook interactions let Ms Littleton maintain a connection as a guiding force in the company. "I can't share all my inner thoughts," she explains. "But I am very keen to share who I am and what I stand for."

Many founders understand that to grow their business they may need to become less hands-on in day-to-day operations and instead act as more of a guiding force.

How to make this happen depends not only on the type of business operated but the way it has evolved.

BrewDog, the Aberdeen-based brewer and pub operator, has grown from a small operation that in 2009 was barely breaking even, to a 190-person business with net profit of £4m on turnover set to reach £20m by the end of the year.

The company's headcount has risen eightfold since 2009 thanks to its strategy of building up a network of bars. Since opening the first in its home city three years ago it has added a further 10 venues, including one in Stockholm in Sweden.

Many of those who have come to work for the company share a love for its beers, which often have quirky names such as Dead Pony Club, 5am Saint and Punk IPA.

According to Neil Simpson, finance director, this makes maintaining the buzz about the business as its operation grows much easier. "It's quite lucky that most of the people here have a great passion for the beer," he says.

That enthusiasm is cultivated by involving staff in the creation of new beers. Staff from its network are often invited to Aberdeen to work on new brews, which helps foster personal links within the business.

"We will say we are thinking about doing a Berliner Weiße beer and they will suggest adding apricots or berries to it," Mr Simpson says.

There is no financial reward for such innovations; enterprising employees are instead name-checked in BrewDog's blogs, which are widely read by customers.

For Tim Hall, founder of the Pod Food chain, staying in touch means visiting each of his 23 sites at least once every eight weeks. "It is very important to the culture that people feel they are working for an entrepreneur, rather than a corporation," he says.

Mr Hall tries to schedule his regular meetings with senior managers in Pod outlets so he can see how business is faring. He even holds some of his meetings with managers in rival food chains to ensure that his team keep abreast of what the competition are up to.

Raise a glass: BrewDog's beers include Punk IPA

One of the biggest challenges in managing a fast-growing business is recruiting people who can develop their own leadership abilities as the task increases, says Mr Hall. "Having someone with the ability to run two stores is not the same as having someone who can run 50," he notes.

He has sought to manage this problem by introducing a formal system of staff appraisals and reviewing everyone's performance every three months.

"Rather than assume people will grow into a role we write down what they need to do to reach that level and review how they are doing," he says. "That manages their expectations as much as ours."

Founders may also need to develop their own skills in leadership. Some do this through formal training while others work through peer networks.

Ms Littleton at eModeration joined The Supper Club, a networking group for entrepreneurs of established companies, who meet to discuss their challenges at private dinners.

"It's like having an executive board," she says. "Some of my best ideas come from that group."

Forging the way towards a brighter future

Sparkling performer: Sheffield Forgemasters has been transformed under the leadership of Graham Honeyman, who led a management buy-out in 2005

Awards The record number of nominations this year underscores how many UK private businesses are thriving, says *Mark Wembridge*

The third year of the Private Business Awards has proven to be its strongest to date, with more than 700 nominations – a record for the awards – adding an extra layer of difficulty to the judges' already tough decisions.

Charlie Hoffman, managing director at HSBC Private Bank (UK), who headed the judging panel, says: "We were not looking for the largest, we were looking for the best – we wanted to see companies that had solid cash flows, a strong market position, growth in products or services, and excelled during 2012."

Amid an uncertain economic backdrop, the awards – set up to highlight the cream of the UK's privately owned businesses – this year saw a further strengthening of the presence of manufacturers among the nominations, reflecting the sector's growing importance to the country.

"Private businesses are often seen as less glamorous than listed companies, so it is great to help showcase the businesses that are the foundation of the British economy," says Ruby Parmar, a partner at PwC and another of the judging panel.

The companies that won awards this year follow in the footsteps of previous winners such as Dyson, the maker of innovative vacuum cleaners, fans and hand dryers, and JCB Excavators, the Staffordshire-based group whose diggers are synonymous with the construction sector.

"We wanted to see a motivated management, businesses with a long-term strategy, those that were ambitious, and that support their local community – British businesses that punch above their weight," says Mr Hoffman.

Private Business of the Year
Winner: *Euromonitor International*
Also shortlisted: AES Engineering; Dr Martens/R Griggs Group; Logson; Walkers Shortbread

Euromonitor International's data is used by companies to understand their target audience better. With businesses constantly seeking out accurate data on their customers, the skills of Euromonitor – which has been producing data since 1972 – are much in demand.

"We are above all a research company," says Robert Senior, executive chairman. "We produce big-picture analyses of global trends, which companies cannot get from anywhere else."

Employing more than 1,000 analysts, the company produces comparable data across multiple regions that enable it to properly analyse various trends.

By offering more tailored information, Euromonitor's clients can make more informed decisions.

The group earns more than 90 per cent of its revenues outside the UK.

CEO of the Year
Winner: *Graham Honeyman*, Sheffield Forgemasters International
Also shortlisted: Paul Lindley – Ella's Kitchen (Brands); Peter Bruce – Entiér; Angus Thirlwell – Hotel Chocolat; Kevin Oakes – Steelite International

British manufacturers have had a tough time over the past decade, and the experience of Sheffield Forgemasters International has been no exception. A steel company with a 200-year history, the group was in the red in 2004, and turnover was hovering around £48m.

In 2005, Graham Honeyman orchestrated a management buyout of the company, investing three years of time, his own money and effort into securing a deal.

Almost a decade later, the group is in the black, last year reporting operating profit of £5m from revenues that have doubled since 2004 to £106m.

Mr Honeyman changed the group's focus from making bulk, low-cost products to high-technology products, allowing the company to compete on bespoke areas rather than on price.

Sheffield Forgemasters now employs 743 staff – an increase of nearly 200 since the management buyout – and some 70 per cent of employees own 100 per cent of the group's shares.

High Growth Business of the Year
Winner: *BrewDog*
Also shortlisted: Big Bus Tours; Opus Energy; Quidco/Maple Syrup Media; Sauflon Pharmaceuticals

BrewDog has thrown down the gauntlet to the big breweries that dominate the UK's beer market, and without spending on advertising.

The Aberdeenshire-based brewer was formed in 2007 by James Watt and Martin Dickie, who were "bored with industrially brewed lagers and stuffy ales".

Among their brews is Sink The Bismarck, which at 41 per cent alcohol content, was at one time the world's most alcoholic beer. BrewDog has won acclaim for its innovative fundraising – a crowdfunding model, "Equity for Punks", which has raised £3m from 6,500 shareholders.

BrewDog's revenues have near doubled year-on-year and are expected to be roughly £20m this year. Some 60 per cent of its sales are abroad, in 32 countries. Last year it opened a £7m brewery in Scotland to further fuel its expansion.

Rising Star of the Year
Winner: *Jamie's Italian*
Also shortlisted: Fourfront Group; Intelligent Energy; Moo.com/Moo Print; Spex Services

Among the UK's celebrity chefs who can be identified simply by their first name, Jamie Oliver is in the upper echelons. Alongside his cookbooks, TV shows and healthy eating campaigns, he has lent his name to the Jamie's Italian restaurant chain.

Created with chef Gennaro Contaldo through a shared love of all things gastronomically Italian, the pair opening the first branch in Oxford in 2008. Since then, they have opened 30 Jamie's Italian restaurants around the UK, and expanded abroad to countries including Australia and Russia. Sales have risen almost five-fold over the past four years.

Technology Innovation of the Year
Winner: *Spex Services*
Also shortlisted: Apical; AppSense; DiGiCo (UK); Thunderhead.com

The 2010 oil spill that devastated the Gulf of Mexico turned the world spotlight on safety within the oil and gas industry. Step forward Aberdeen-based Spex Services, a provider of innovative technology to the oil and gas industry that has developed its Emergency Severance Tool (EST) in concert with Shell, the oil company.

The EST can operate at depths up to 10,000 feet, and is positioned just above the oil rig's blowout preventer – a device that plugs the well in times of emergency. It uses a contained explosion to sever through large pipes run into the well, allowing the blow-out preventer to close and prevent oil from escaping.

Spex holds the licence to sell and service the EST around the world.

Employer of the Year
Winner: *Itsu*
Also shortlisted: Briggs & Forrester Group; Express Engineering (Thompson); Pentland Brands; Sheffield Forgemasters International

Itsu, the chain of Asian-inspired restaurants, has launched the Itsu Academy, where employees can develop their skills and better understand the restaurant's brand.

It has also introduced a "champions league" system to assess the performance of each outlet, measuring customer satisfaction, profit and mystery shopper results. Restaurants are then ranked against each other, and bonuses awarded to the top-performing outlets.

The chain has grown from its two main restaurants in Chelsea and Notting Hill in 1997 to add a further 40 branches. Earlier this year, it secured £14m in financing to open a further 20 stores in the capital over the next three years.

Throughout this rapid expansion, the group's 670 employees have not only offered an appreciation of the brand, but been given the opportunity to socialise and relax with their colleagues at a quarterly Friday night cocktail bar reception.

Private Business Woman of the Year
Winner: *Nica Burns*, Nimax Theatres
Also shortlisted: Debbie Morgan – Dr Martens/R Griggs Group; Karen Hamling – ITH Pharma; Angela Rushforth – Ridgeons; Janis Sinton – TasteTech

Nica Burns, founder of Nimax Theaters

It is an oft-repeated tale amongst London's theatrical community that Nica Burns remortgaged her house in 2007 to buy four West End theatres.

"Nica really put her heart – and her house – on the line," said Mr Hoffman of HSBC.

Six years on, the bank still holds the title deed, but Burns's Nimax Theatres now owns six West End theatres, including the Palace, Lyric, Apollo and Vaudeville, and has net revenues of about £14m.

"I've had a really good year so far," says Ms Burns, who was awarded an OBE in the New Year Honours list for services to theatre, and who directed the production of *Long Day's Journey Into Night* starring David Suchet, which won this year's Olivier Award for Best Revival.

Ms Burns contracted the theatre bug in the 1980s when she spent her entire savings directing, producing and performing in H E Bates's *Dulcima* at the Edinburgh Festival Fringe.

She formed a production company and learn the intricacies of running a theatre, and eventually bought several theatres from Andrew Lloyd Webber. "Whenever I take a risk, it's the best thing I have done," she says.

Family Business of the Year
Winner: *Rigby Group*
Also shortlisted: Allied Vehicles; Oaklands Farm Eggs; Owen Mumford; Wates Group

Rigby Group is something of a Midlands success story.

Headed by Sir Peter Rigby, chairman and chief executive, Rigby Group is very much a family company.

His sons Steve and James are also involved in the business: Steve as chief operating officer and James as head of its Specialist Computer Centres division, Europe's largest private IT company by sales.

Last year was crucial for Rigby Group due to the sale of Specialist Distribution Group, its distribution arm.

The deal allowed SCC to reinvest the proceeds back into the business, and better position itself as the partner of choice for European mid-sized companies and government bodies. With annual turnover of £2.75bn in the year to March 2012, Rigby Group is one of the UK's largest privately held companies.

Exporter of the Year
Winner: *Ulster Carpet Mills (Holdings)*
Also shortlisted: CDE Global; Fever-Tree; Owen Mumford; Petroleum Experts

Few people would link Northern Ireland with high-end carpet making.

But Ulster Carpet Mills has quietly made a name for itself as a provider of luxury carpets for the world's cruise liners, casinos and five-star hotels, including the Ritz Hotel in Paris and the Burj Al Arab hotel in Dubai.

Some 70 per cent of Ulster's £55m annual sales stem from abroad, with export revenues expected to grow at 10 per cent year on year for the next few years.

Formed in 1938, Ulster Carpet Mills is a third-generation family business. The company relies on strong relationships with interior designers, who in turn provide regular sales with each new project.

Ulster Carpets also has control over its yarn supply and recently invested £1m in a yarn manufacturing plant in Yorkshire that increased the group's capacity and enhanced efficiency.

Other investments include a new £7m state-of-the-art dyehouse and energy centre in Portadown that will increase its colouring capacity.

Social Enterprise of the Year
Winner: *Blue Skies Holdings*
Also shortlisted: B4Box; East Belfast Mission; Enabling Enterprise CIC; Street Soccer (Scotland)

A focus on the positive impact that a business can have upon its environment and its people are vital to the success of Blue Skies.

Founded by the entrepreneur Anthony Pile, the company has been supplying fresh-cut fruit and freshly squeezed juice products for Europe's supermarkets since 1998.

By cutting and packing most of its fruit in the country of origin, Blue Skies believes that it not only produces a better product, but it also helps to generate more social and economic development within each country where the fruit is grown.

It is also involved in the Blue Skies Foundation, which has raised more than £400,000 for community projects in Ghana and South Africa.

The Private Business Awards were held in London on September 11 2013. For more information about the awards, including the methodology and a list of the judging panel, visit www.privatebusinessawards.com

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