PRIVATE BUSINESS

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'Golden era' for those with confidence

Opportunities abound for those who can ride out the turmoil and make the most of overseas markets, says **Andrew Bounds**

Corporate responsibility: Danish shipping line Maersk is one of a number of large private companies looking to develop more environmentally friendly policies and operations. See Page 3 Bloomberg

Peter Marks, who next year retires as chief executive of the Co-operative Group, one of the UK's largest retailers, said in August that the British economy was experiencing the worst conditions he had seen, since he began stacking shelves in his local Co-op store more than 40 years ago.

The British economy has shrunk for three consecutive quarters, with gross domestic product falling 1.1 per cent in that time to remain 4.3 per cent below its 2008 peak. Household expenditure is also shrinking again, and is 6.3 per cent below 2008 levels.

Abroad, the eurozone remains paralysed by the debts of smaller members, while growth rates are slowing even in the emerging markets of Asia and Latin America.

Such an environment may support private companies better than public ones. They tend to be more conservatively managed, with lower debt and stronger cash flow. Many family-owned businesses have often been through recessions before.

Charlie Hoffman, managing director of HSBC Private Bank, says it is a "game-changing moment for some companies. It is Darwinian. Those who struggle are cast by the wayside. Strong businesses with strong turnover and great innovation are going to succeed.

"Economists and politicians think private businesses are important because they are good at reinvesting profits and focus less on external shareholders and less on dividends. They have a strategic vision that is that bit longer-term," says Mr Hoffman.

Ruby Parmar, head of private business at PwC, the professional services firm, says private businesses are vital not just to economic recovery but social cohesion and the government has begun to recognise that.

"They tend to be locally based, so they do a huge amount for their local communities. They make massive donations and participate in the communities they belong to, because they employ local people."

A report last year found family companies less likely to go out of business – either through insolvency or dissolution – than their counterparts. The research by the universities of Nottingham and Leeds, on behalf of the Institute for Family Business, found that the most resilient were medium-sized.

In 2009, of the 16,479 businesses that became insolvent, just 292 were medium-sized family firms. Similarly, non-insolvency related dissolution rates for the same year showed that just 8.59 per cent of medium-sized family businesses failed, compared with 9.85 per cent of non-family businesses.

Family businesses account for 28 per cent of private companies in the UK that have a turnover of more than £5m.

Fred Done, chief executive of Betfred, the family-owned betting operator with annual turnover of about £4.2bn, says that remaining private is crucial to its success. "It is my business: you are betting with Fred, you're not betting with an accountant or faceless shareholders. It's my money that's on the line, or my family money."

For those private companies with cash to spend and the confidence to move quickly, "we're in a golden era of opportunity," Mr Done says.

Nevertheless, for many business, be they private or a big plc, times can be tough. Phil Orford, chief executive of the Forum for Private Business, a group that represents and advises private companies, says that despite the economy "our membership is reasonably confident. More than 50 per cent are confident about 2012-13".

But many are feeling the strain of five years of contraction. "One-third are doing well and have built strong financial resources," says Mr Orford. "One-third in the middle are reasonably comfortable. One-third run businesses that are finding it a struggle, difficult to grow and to access finance. A small percentage of those are vulnerable and we are starting to see a rise in cost-cutting and calls to our helpline about employment."

There are 1.2m private UK companies, but just 6,000 with 250 employees or more; these are the powerhouses, accounting for well over half of the turnover generated and slightly less than half of the employment.

Nevertheless, PwC's Ms Parmar says: "Most businesses start as one-man bands. There is room for all and we need the one-employee businesses: they are our future larger businesses."

According to a recent PwC survey, 78 per cent expect revenue to increase in 2012. One-fifth are looking at new markets, including Russia and Brazil.

They need help, though, says FPB's Mr Orford. Many are held back by lack of access to finance from struggling banking and private equity sectors. And, despite government rhetoric, too little has been done to cut the red tape that ties up small companies.

Says Mr Orford: "We need to see delivery on some of the demands to make it easier for businesses to do business. We do think the pendulum has swung too far in favour of employees and it needs rebalancing."

While he falls short of backing the idea of "no fault dismissals" that would allow staff to be fired without reason, he says the controversial report by Adrian Beecroft, now shelved, contained some good ideas.

Mr Orford adds: "I think a lot of businesses are undercapitalised. They start with no capital and do not retain capital, they take it out in dividends – next year's holiday or a new car when they need to invest in better processes, systems and people to help drive the business forward."

The traditional way out – floating the company and retiring to enjoy a Bentley and swimming pool – is increasingly rare. John Kay, the academic and Financial Times columnist, recently wrote a report about short-termism in British capitalism for the government. He says: "I think conventional listing is probably a dying art. There are essentially no initial public offerings of real British businesses now and that is unlikely to change. The listed equity markets have not been a significant source of investment for UK companies for some time. The issue is how to get capital to early stage businesses."

In the past 20 years, private equity has moved from investing in growth businesses to buying and selling established ones, he says. "Small and medium-sized enterprises are not going to list but get acquired by the listed," Prof Kay predicts.

HSBC's Mr Hoffman agrees. "Trade sales are attractive at the moment: in the US, company balance sheets have recovered so there is money to make strategic purchases."

The short-term investment culture may explain why Britain has produced few multinational private businesses, such as those prominent in the US and among the Mittelstand of Germany. The government is examining plans for a small business bank along German lines.

Stuart Watson, head of entrepreneurs at Ernst & Young, the professional services firm, agrees that "we don't produce [many] worldbeaters".

Autonomy, the software company that was the poster child of high-tech companies, listed with founder Mike Lynch still in control. But Mr Lynch departed over a culture clash after its $10.3bn sale to Hewlett-Packard of the US. Mr Watson says more private British companies would become "worldbeaters" if they braved new markets overseas.

Mr Hoffman, who co-chaired its panel of judges for the Private Business Awards with Ms Parmar, is optimistic Britain will produce more large private businesses. "We found people who had no desire to sell, but wanted to grow the business. They had managed to do so in an organic way: by ploughing back profits, and innovating and funding the group through that reinvestment."

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Tighter loans make for smaller deals

Private equity

The lower end of the market in the UK is doing well, says **Stanley Pignal**

Financial district: city institutions have cut lending Bloomberg

To some people the mere mention of private equity evokes images of "barbarians at the gate" wielding billions of dollars in hostile buyouts backed by high finance.

For many involved in private equity, however, the truth is more prosaic: nearly nine in 10 deals in the UK are for less than $250m (£158m), an amount that would normally not excite the KKRs or Blackstones of the buyout world, which dominate the headlines of the financial papers.

But whereas the large deals undertaken by those in the limelight have become something of a rarity, as banks have been unwilling to provide leverage and corporates shun mergers and acquisitions, the smaller end of the market is holding up relatively well.

According to Preqin, a data provider, there were 193 deals worth less than $250m in the first half of 2012, down from 267 in 2007, the peak of the private equity boom. Though a decline of 28 per cent has had an impact on the industry, it is more palatable than the 65 per cent fall in deals between $250m and $1bn, and the 80 per cent drop for those above $1bn.

Smaller deals now represent 88 per cent of the value of British buyouts, up from 74 per cent in 2007.

For dealmakers in that segment the relatively good performance is an indication of the sector's buoyancy.

Andrew Aylwin, partner at Lyceum Capital, says: "With no clear resolution to the eurozone crises in sight, and the UK having endured a double-dip recession between October and March, the performance of the country's lower mid-market during the second quarter shows the resilience of both the consistency and quality of opportunities."

Last month, Lyceum released its own research into the sector, which also showed the market holding up relatively well. The UK's strong showing stands in contrast to that in parts of Europe, where the gloomy outlook has had a far greater impact.

Many attribute the UK mid-market's resilience to the very element that makes it different from the large deals: whereas those were traditionally financed by dollops of debt, this is much harder now that banks and credit markets have scaled back lending.

Jeff Montgomery, managing partner at GMT Communications Partners,

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Valuation can be more of an art than a science

Selling a business

Various factors come into play when you try to look for a buyer, reports **Jane Bird**

Entrepreneurs dream of selling their business for a high price. Achieving this depends not just on commercial success, but also on timing, competitive pressure and market sentiment.

Selling a business can be a painful process, says Bryan Morton, who founded two private-equity-backed drug development companies: Zeneus Holdings, sold for $360m to Cephalon in 2005, and EUSA Pharma, bought by Jazz Pharmaceuticals for $700m in June this year.

"You need a strong but experienced board that doesn't panic at the slightest pressure," says Mr Morton, who admits to many "dark days" of funding challenges or delays in regulatory approval.

Having a good management team and rigorous financial processes are essential to get the best price, says Mr Morton.

"You need the sort of corporate governance that goes with running a public company, because buyers put a lot of value on your decision-making process and legal compliance."

One way to drive up the perceived value of your business is to talk about its success stories and ability to disrupt the market, says Alex van Someren, general partner at Amadeus Capital Partners, a European venture firm. "Having products or services that damage competitors is an effective way of making them want you and willing to pay a premium price."

At EUSA, says Mr Morton, the plan was to go public in 2011, but the market was not brilliant. Then, in the fourth quarter, a drug for childhood leukaemia that EUSA had been developing won approval from the US Food and Drug Administration.

This generated an unsolicited offer that showed the company's perceived value, so Morgan Stanley was hired to conduct an independent public offering or trade sale. By June 2012, the deal with Jazz was finalised.

Though a trade sale is seen as the "short, sharp" option, it still takes four to six months, says Mr Morton.

Interested buyers are invited to inspect confidential financial records, cash flow forecasts and documents such as patents and regulatory approvals. They then submit a bid price and details of finance, business development plans and conditions for closing the deal, such as whether they need approval from their board or shareholders.

"You can keep the top two or three offers rolling to see who comes up with the best offer first," says Mr Morton. "Or you can give a favourite buyer a small window of exclusivity."

This focuses minds, but it is a nail-biting time, he says. "The buyer conducts a massive investigation into all the detail and many things can go wrong, so you normally try to keep the pressure on to the last stage."

Creating a competitive environment with multiple buyers is a good way to get the best price. A bidding war with Garmin for Tele Atlas helped push TomTom's initial bid of €2.3bn up to €2.9bn, says Charles Cotton, who was a Tele Atlas board member.

The sale also came about partly because TomTom was Tele Atlas's biggest customer

Bryan Morton: There can be 'dark days' over funding challenges or regulatory issues

and the chief executives had a longstanding relationship.

Commercial partnerships such as licensing agreements let potential buyers sell your products or services.

"Eventually, they might decide life would be easier if they take over your business," Mr van Someren says.

Timing is crucial. Tele Atlas sold at the peak of the market in 2008, just before the financial crisis. It had an amazingly good exit, says Mr Cotton. "Our timing couldn't have been better."

Company value is usually calculated as a multiple of annual profit – maybe 10 or 20 times – or of average profitability for the sector.

Low-margin businesses tend to need higher volumes to achieve good valuations than those with higher profits. Companies that are not yet profitable could be valued at two to five times annual revenue, depending on size and growth rate. Valuations for those not yet generating revenues could be based on staff numbers, say $2m per employee.

"This is not very satisfactory but sometimes happens for fire sales or 'super early', where people are happy to take the money immediately," says Mr van Someren.

Sometimes, the value is arrived at in a completely different way, for example if a buyer is worried its competitor might acquire the target company. Then the price depends more on what the owners are prepared to sell for.

When venture capital companies are in control, they can choose to exit at a time that suits them, even though this might not be in the best interest of the founders who might want to hold on for a few more years, says Mr Cotton.

He says: "There is no easy formula to follow when selling a business, except when it becomes obvious that there is an exit value that outstrips expectations." Rather than being based on a multiple of sales, this may reflect people's perception of the future opportunity being so large.

The dark reality of entrepreneurship is that nobody knows how to sell a business until they have done it, says Mr van Someren. "Inevitably, this means that sometimes people get it wrong, which is why professional advice for mergers and acquisitions is so important."

Tighter loans lead to smaller deals

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which runs a €350m fund and focuses on deals between €50m and €250m, says: "There has always been much less reliance on leverage for lower and mid-market deals – because you couldn't get it."

He adds: "In the mid-market, that means you've always had to focus on the business, on the operational improvements, to add value. That hasn't changed."

Another helpful factor is that the underlying businesses being bought out are often doing quite well, points out David Symondson, deputy managing partner of Electra Partners. "Corporate UK is in quite good shape," he says.

Values of buyouts, and the profit multiples being paid, have been relatively stable. That is in part because only those businesses that have weathered the downturn reasonably well are coming up for sale, says Mr Symondson, which in turn attracts a premium.

However, for all its advantages, there are also pressures that will affect the mid-market more acutely.

A big risk is that investors will lose interest in smaller private equity funds. The entire European buyout industry is struggling to raise money, for one thing.

> The underlying businesses being bought out are often doing quite well

Some traditional backers of private equity, notably banks and insurance companies, are pulling out of investing in the industry in the wake of the crisis, mainly because of changing regulatory requirements. A handful of buyout groups has effectively shut up shop.

But smaller funds are impacted doubly. Those that are still investing in buyouts typically want to spread their allocation to private equity on fewer funds. Instead of backing 50 buyout groups, say, they may want to hold no more than five or 10. That means moving away from smaller funds, which just cannot absorb the bigger cheques.

It could also be that the private equity landscape is changing. Many private equity groups are now starting funds that invest not in traditional buyouts, but in acquiring the debt of companies.

In the case of struggling companies, the aim is sometimes to be at the front of the line to pick up the business if it defaults on its debt. But buying up the debt of good companies at bargain prices can also generate attractive returns.

"We've seen debt deals with returns that rival equity returns," says Electra's Mr Symondson

With banks still hesitant to lend, the market is clearly there to finance Britain's smaller companies. It may be that lending to businesses, rather than owning them, is a source of growth.

Either way, it will not resemble the "barbarians at the gate" of private equity lore.

Innovation is key to staying in the game

Investment

Spending to develop products and services is vital to growth, reports **Rod Newing**

Even in the midst of the recession, successful private companies are still generating cash. However, with little economic growth forecast, they are being very careful about where and how they invest it.

"It is a bit of a balancing act," says Andy Morgan, a corporate finance partner at Grant Thornton, a corporate advisory firm. "Growth in difficult markets is right at the top of the agenda in most boardrooms.

"If they can see the opportunity, they are prepared to invest, but they are being cautious and are testing the return on investment pretty carefully."

A survey of 300 UK private businesses by PwC, the professional services company, found that 78 per cent expect to increase their revenue and 70 per cent their pre-tax profit in the next few years.

"Private businesses need to be quick and decisive in tough times," says Edward Jones chief executive of PMB Holdings, a commercial property and leisure investment group. "While the rest of the market hesitates, many are finding this time of

> 'Small companies are driving innovation, so it is important we don't leave it up to the 'big boys' to lead the way in R&D'

uncertainty the perfect opportunity to seek out new markets, discover new opportunities and snap up cheap deals with highly attractive returns."

One of the most important growth tools that private companies are using is creativity, through innovation, design, research and development.

Most are maintaining their investment, realising it is crucial to their prosperity. Whereas the PwC survey shows the main area for growth is increasing market share (78 per cent), the second most important area is new product and service development (71 per cent), which is ahead of new geographic markets (57 per cent).

This is borne out by the latest small and medium-sized business (SME) risk index from Zurich Insurance. It found that 33 per cent see business innovation as one of their biggest opportunities and 41 per cent of owners back it with their personal assets.

'Innovation: the first casualty of a downturn', a survey from Portal, a technology and business consultancy, found that 52 per cent of 500 private businesses recognise that innovation is critical to maintaining or increasing market share.

However, only 20 per cent spend more than 5 per cent of their revenues on research and development and 31 per cent spend absolutely nothing.

Brent Hudson, chief executive of Sagentia, a technology and product development company, says that innovation is one of the few ways that British businesses can compete in global markets against businesses with lower cost structures or growing domestic markets.

"We still lead the world in innovation," Mr Hudson says. "It is a key differentiator and arguably the single most important factor for growth."

Many forward-thinking private companies are reporting that investments made since the recession started are generating positive financial returns.

Wood & Douglas, a manufacturer of wireless products, invested about £1m in a surface mount technology manufacturing facility in 2011, the largest investment the 30-year-old company has made in its history.

It has already enabled it to win an extension contract that has a value of more than £2m in this financial year. The company would not have been able to put in a bid for the contract without this facility.

Two years ago, during the global economic downturn, Thunderhead.com, a customer experience management company, tripled the size of its engineering team. Rather than focusing on small iterative product improvements, it created a disruptive product for an altogether new market. Its revenues have increased from £25m in 2010 to a forecast £45m in 2012.

Glen Manchester, Thunderhead's chief executive, says: "Innovation is critical to the future of British prosperity, and tough economic times are ideal for research and development investment.

"The need to be lean ensures that every decision on spending has the highest degree of scrutiny and it makes people strive to create markets and opportunities."

About a quarter of the workforce at WEMS International, a manufacturer and installer of wireless energy management systems, is employed in research and development. This has allowed the company to continue to innovate, providing it with an edge over its competitors that has allowed it to double turnover.

Jason Thackray, its commercial director, says: "We believe that the UK has the brightest talent in the world in terms of technology, engineering, mechanical and electrical innovation.

"SMEs are driving innovation in the UK, so it is important that we don't leave it up to the 'big boys' to lead the way in R&D. There has never been a better time for businesses to invest in this area."

Private companies have shown in the past that, by being quicker and less bureaucratic, they can approach business challenges in a different way to public companies. Investment in creativity is one area where they can successfully balance the short-term need to conserve cash with the long-term imperative to grow.

"Investment is the single hardest decision any business has to make," admits Nigel Cannings, chief technology officer at software company Chase Information Technology Services.

"You have to reinvent yourself every five years or so to make your company and your product seem fresh to the market," Mr Cannings says. "The big question is: 'What is our next big idea?'"

Pump priming: Aberdeen-based business Brew Dog issued shares privately to the public via the internet with its 'equity for punks' scheme Getty

There is more than one way to fund a company

Access to finance

Entrepreneurs have other options than the banks to obtain cash, says **Andrew Bounds**

Five years into the financial crisis and money remains too tight to mention for many private businesses. Banks seeking to build up reserves are reluctant to lend and some customers with existing facilities fear asking for more in case they face increased charges for what they already have.

Stuart Watson, head of entrepreneurs at Ernst & Young, says: "There is a mismatch between the conversations I have with bankers and those with the average client. Banks are banging on our door saying they are open for business and yet when I speak to . . . entrepreneurs they say it is difficult/impossible. The credit committee guys are wary of the risks of extending their exposure on more or less any business."

One manufacturer asked for money to expand and instead had part of its overdraft converted to a loan, says Gaynor Dykes of Northwest Access to Finance. She has some sympathy with banks: "They assess a company's risk and the risk level now is higher than it was three years ago."

Phil Orford, chief executive of the Forum for Private Business, says: "Three years ago, SMEs had £54bn in loans and £54bn in deposits. Now it is £58bn of deposits and £44bn of borrowing."

Banks claim they are doing their bit, with a £2.5bn Business Growth Fund making long-term capital investments of £2m to £10m, the so called "equity gap", where companies struggle to get funding. They are also deploying the government's credit easing scheme, which allows them access to cheaper loans themselves if they lend to SMEs.

Charlie Hoffman, managing director of HSBC Private Bank, says: "The market remains open and there is an appetite to help UK business. This year has been quiet. But pricing in the loan market has stabilised in the first half. Corporates are benefiting from historically low interest rates."

There are public sector loan and equity funds as well as entrants offering anything from equity funding to advancing cash against invoices. The Centre for the Study of Financial Innovation, a think-tank, predicted some would be household names within a decade, including challenger banks such as Aldermore and Metro Bank.

There are peer-to-peer lenders, such as Funding Circle, which match investors' money with companies seeking funds. Under its Business Finance Partnership, the government is inviting bids for part of the £100m it is making available through "non-traditional lending channels".

Overseas companies are also entering the market. Boost Capital, a decade-old US business, arrived in the UK in May. It advances money against credit card payments that have not yet arrived, charging about 0.35 per cent. It provides £5,000 to £500,000 and has advanced £300,000 so far. David Abbott, UK managing director of Boost Capital, says: "Cash advances are an extremely popular alternative funding method for consumer-facing small businesses."

For larger companies, Axa Private Equity of France is now offering "unitranche" financing.

Cécile Mayer-Levi, head of private debt at Axa, says it blends senior debt and subordinated debt to relieve the burden of early repayment. "It is a flexible method of financing that enables the company to preserve

> 'Cash advances are an extremely popular alternative funding method'
>
> **David Abbott, Boost Capital**

free cash flow for development and future growth."

Some private companies have created markets of their own with small bond issues, aimed not just at generating a return for investors and a connection with a brand. They include Hotel Chocolat, the chocolatier, raising £3.7m from a three-year "chocolate bond" where the return is paid in chocolate to members of its tasting club.

King of Shaves, the shaving goods company, was a pioneer. Will King, its founder, said the £627,000 shaving bond it launched in 2009 came partly from customer demand.

"It wasn't a lot of money but it was perfect – it got huge publicity, 'shave and save', my word is my bond' and so on. It was 6 per cent plus free product. In 2009, the deposit rate was 0.5 per cent. We had people borrowing money to invest."

Mr King is looking at a second issue but with different mechanisms. "I was very impressed with Brew Dog," he says.

The Aberdeen-based brewer issued shares privately to the public via a Financial Services Authority approved online platform to build a brewery. In January, its "equity for punks" issue hit its £2.14m target with 7,000 investors invited to an annual meeting featuring bands and beer.

But regulators advise caution. Some online matchmakers have gone bust, leaving savers out of pocket, while small growth companies offer no guarantee of repaying bonds.

Mr Watson at E&Y says small company bonds appeal to rich individuals but, to take off, they need a large market or to be bundled together to spread risk.

They will have to grow fast to bridge a gap estimated at £84bn to £191bn by 2016 across business as a whole, according to a report for the government by Tim Breedon, chief executive of Legal & General. He proposed a loan aggregation agency to ease the funding needs of businesses too small to access large pools of capital.

It remains to be seen if the government is prepared for such radical action.

Contributors

Andrew Bounds
Northern Correspondent and Enterprise Editor

Andrew Baxter
Senior Writer, Special Reports

Stanley Pignal
Private Equity Correspondent

Jane Bird
FT Contributor

Rod Newing
FT Contributor

Charles Batchelor
FT Contributor

Sarah Murray
FT Contributing Editor

Adam Jezard
Editorial Production

Steven Bird
Designer

Andy Mears
Picture Editor

For advertising details, contact: **Robert Grange** on +44 (0)20 7873 4418, email: Robert.Grange@FT.com; or your usual representative

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Freedom can boost sustainable credentials

Corporate ethics

The alternative ownership structure offers notable advantages, says **Sarah Murray**

In a recent survey of corporate responsibility reporting,* KPMG found that publicly listed companies were generally further advanced than companies with other forms of ownership.

However, while private companies may not report on this area of performance as frequently, their ownership structure offers certain advantages when it comes to pursuing strategies that take account of social and environmental impact.

In some ways, of course, private companies are less subject to scrutiny than public companies and they therefore may have fewer incentives to apply sustainability principles to their business practices.

Peter Lacy, managing director for Asia-Pacific of sustainability services at Accenture, the consultancy, says: "In the plc world, there has been steadily rising pressure to think more about corporate and social responsibilities, whether because shareholders and institutions are exercising their stewardship duties or because of internal pressure from employees.

"Private companies face some of these pressures – but not all."

Moreover, privately held companies do not have the same reporting requirements as publicly listed companies.

"Private companies are not used to being transparent," says Michael Sadowski, vice-president at SustainAbility, the consultancy. "So, because of their very nature, we don't hear so much about them or their sustainability efforts."

However, this lack of formal scrutiny can work both ways for private companies.

Without the need to produce quarterly reports, they are able to pursue the longer term strategies needed to develop low carbon manufacturing processes or find renewable alternatives to diminishing natural resources. These are strategies that publicly listed companies – with pressure from financial markets to demonstrate regular profit increases – sometimes find hard to sell to shareholders.

David Grayson, director of the Doughty Centre for Corporate Responsibility at Cranfield School of Management, says: "When you are not publicly quoted, if you choose to adopt a longer term, more responsible perspective, you have greater freedom than if you have to report quarterly results."

Even if they are not listed, sheer size and brand recognition can put private multinational corporations under as much scrutiny as publicly held companies. Activists are ready to campaign against any corporate practices they deem environmentally or socially damaging, whether their target is a publicly listed entity or not.

Some large private companies have become prominent advocates for more sustainable approaches to business activities.

For example, Denmark's Maersk, the privately-held container shipping line, has developed vessels with engines 20 per cent smaller than its previous E-class ships and that travel more slowly to save fuel and cut carbon emissions.

SC Johnson, the US family owned cleaning products manufacturer, has developed Greenlist, a rating system it uses to assess and improve the impact of the materials used in its products on the environment and human health.

Wates, one of the UK's largest private construction companies, is working with its suppliers, contractors and employees to minimise the environmental impact of its business.

> 'You see a sense of stewardship and a longer-term vision with family businesses'

By contrast, Koch Industries of the US is known for the generous funding that its owners, Charles and David Koch, billionaire industrialist brothers, give to anti-climate change initiatives and their opposition to the introduction of regulations limiting greenhouse gas emissions.

"It's very dependent on individual ownership," says Mr Lacy. "Private ownership is a permissive state, not a causal state – it's not more or less likely to indicate a commitment or level of performance."

Yet private ownership does often come with an added pressure to run the business responsibly, particularly in the case of family businesses. And that pressure is linked to the family name.

"You tend to see a sense of stewardship and a longer term vision with family businesses," says Mr Grayson. "Which is not surprising, because it's your name on the van that's causing pollution in the village or on the factory chimney that's belching out smoke."

Mark Hastings, director of the UK's Institute for Family Business, agrees. "Values, responsibility and the relationship with customers, suppliers and the broader community are locked into the DNA of a family-type organisation," he says.

Mr Hastings argues that because family businesses often try to act in ways that reflect the values of their founders, this can engender a lasting culture of responsibility in the organisation.

Moreover, while private companies do not have to report to shareholders, technology and new media have created pressure for increased corporate transparency, regardless of ownership structure.

Mr Hastings says: "If you look at how companies talk about themselves on websites and social media, you see a lot of openness about issues that are critical in the area of sustainability."

"The prime driver is that it's what customers are looking for – and you can't just talk about it. You have to show that it's part of your business model."

** KPMG International Survey of Corporate Responsibility Reporting 2011*

Going green: building company Wates is aiming to minimise environmental impact DreamsTime

Time to recognise and help start-up founders

Entrepreneurs
RUBY PARMAR

The popular face of entrepreneurship in the UK is usually to be found among the Sir Richard Branson types – viewed more as celebrity than entrepreneur – or with the "dragons", equally viewed by some as "villains".

By contrast, we tend to look fondly on the US, where entrepreneurship is built into the country with an enviable efficiency.

Even if we celebrate homegrown entrepreneurs, we can be quick to castigate them and their enterprise when, and if, it takes off. Should it be sold for profit and they move on to another venture, or should they move a business from home (which is where 60 per cent of small businesses start) to city offices, our entire rhetoric changes. It seems the only thing worse than a "villain" is a "villain" that makes money.

This state of affairs has often confused me, as it lacks all understanding of what it is to be an entrepreneur and their valuable place in society.

Derived from French, "entrepreneurs" are defined as enterprising individuals who build capital through risk and/or initiative.

They use their roles as innovators to shatter the status quo of existing products while not only searching for but also responding to change in order to exploit its opportunities with new products and services.

These businesspeople are traditionally dynamic, creative and risk-taking individuals using innovation as their weapon of choice to create immense wealth in even the hardest of economic climates.

So we should celebrate their success, as it benefits all. We also forget that the majority of Britain's entrepreneurs are self-made, hard working people who come from diverse backgrounds and will have had to endure incredible amounts of failure and both personal and financial sacrifice in order to pursue their ideas.

We forget that they create jobs and wealth for workers and the economy and do not recognise just how much they give back to the economy, business and society.

Even in these times of austerity, entrepreneurs are not shying away from expansion in the UK market. As the latest findings from the Investec Entrepreneur Confidence Index demonstrate, despite the negative feeling about the country's economy, 81 per cent of entrepreneurs are expecting their profits to grow, 63 per cent expect their UK workforce to grow and 41 per cent see the launch of companies or products as likely in the year to come.

Sir Richard Branson typifies our view of those who start businesses

These findings are encouraging, as they show entrepreneurs are continuing to find and create business opportunities. In particular, throughout the country there are entrepreneur-led investment clubs that are proving integral to a society where the availability of credit for small businesses has fallen.

Entrepreneurs are not relying purely on financial injections to help boost fellow entrepreneurs and start-ups; they are pitching in themselves.

Geoff Hodgson, a north-eastern entrepreneur, is a great example of the new entrepreneurial guise. As a big believer in supporting and nurturing business talent he has moved to mentor and act as non-executive chairman for the virtualisation technology specialists SITS Group.

Another example is Entrepreneur First, a non-profit training and mentoring graduate scheme helping fresh graduates find the skills to start their own companies.

The scheme, launched in September 2011, was announced by David Cameron, prime minister, and backed by entrepreneurs, students and corporate sponsors.

Now run as a day-to-day community interest company, the scheme highlights how, by engaging with government, entrepreneurs are calling for teachers to develop 21st century technology skills.

Nowhere has the shift been made clearer than around London's Old Street roundabout.

Once simply an area with cheap office space, it is now a symbol of transformation that has seen hundreds of start-ups colonise what is now dubbed "Silicon Roundabout".

With encouragement from investors and long-term entrepreneurs, Old Street roundabout has become a huge industrial cluster and will no doubt create significant wealth for both the individuals and our economy.

Though we may not traditionally recognise it, this type of entrepreneurship is invaluable to society.

In many respects entrepreneurs have become the unrecognised heroes of British business.

Ruby Parmar is partner and head of private business at PwC

Communications Companies still need to employ a mixture of methods

The private business has more scope to craft its communications strategy because it is free of the financial reporting requirements that burden listed companies. But it can also struggle to achieve the media profile it needs to reach target markets and potential customers.

Alongside the traditional marketing tools available to companies – press and TV advertising, public relations and the business lunch – social media have emerged as an important, if sometimes uncertain, means of communicating with consumers. Many managers are still struggling to adapt to the challenges posed by independent bloggers, Twitter and Facebook.

Senior managers in a public company can spend between a quarter and a third of their time on shareholder communication, says Tim Ward, chief executive of the Quoted Companies Alliance. "But the fact that you are on Aim or the main market saves you having additional conversations with customers and suppliers. In pitching for a big contract, a private company will have to go further to explain what it is and how it is funded."

Handled well, social media enable a company to talk directly to its customers. Phil Morgan, director of policy and communication at the Chartered Institute of Public Relations (CIPR), comments: "They allow a company to get its message out there without the [traditional] media having the opportunity to mediate or editorialise the conversation."

But instances of companies mishandling the social media highlight the risks involved in engaging in a wide-ranging, unstructured dialogue. An apparently innocuous Facebook posting by Volkswagen, the German carmaker, asking what customers would like the company to do in 2012 prompted many adverse comments on the company's environmental policies.

This was not a problem in itself, but the company's response triggered a communications meltdown. As the responses multiplied, VW first failed to respond and then attempted to remove the post and began deleting some of the comments. This triggered even greater anger among online commentators, who deluged the Facebook post with critical messages.

Thomas Brown, head of insights at the Chartered Institute of Marketing, says: "Ten years ago, companies defined their message and pushed it out, but now things are in the form of a conversation, which is more challenging.

"Companies face increased scrutiny from consumers. You have to join in the online conversation. You ignore it at your peril, but you take part at your risk."

The challenges that face managers attempting to make good use of the social media are fourfold, says Mr Brown. They comprise the cost involved in both time and money; the fragmentation of media outlets and the challenge to choose the right ones; the sheer volume of messages generated by online conversations; and the problem of measuring the outcomes of different approaches.

Handled well, social media enable a company to talk directly to its customers, but mistakes have highlighted the risks involved

"Arguably, private companies should be more nimble at communicating, because they are less enmeshed in regulation," says Mr Brown. "They can think more long-term, because they don't have a financial calendar that drives what they do quarter by quarter."

JCB, a family-owned company and the world's third-largest manufacturer of construction equipment, with 2011 revenues of £2.75bn, says it is looking hard at using social media, though it still puts most of its communications effort into more traditional means of reaching its business customers.

"We are aware of the impact of social media," says Alan Blake, chief executive. "When I talk to my marketing team, that is one area where they put a lot of energy. But our research has shown that the workers on a construction site and the farmer are more focused on the web than on Twitter or Facebook. Our website is a big part of our marketing strategy." JCB focuses on descriptions of the company's product range, its parts and support services, and where to find its dealers around the world.

"We talk to our biggest customers face-to-face about their experience with our products and what they expect," explains Mr Blake. "We invite customers to our factory every day. We have 10,000 people visit a year and we have knowledgeable retired employees who act as hosts." The company is also regularly represented at international trade fairs.

Angus Maitland, chairman of Maitland, a PR company says: "The difference in the approach to social media is not so much between private and public companies, but between consumer- and industry-facing businesses. The social media are often a source of stories for newspapers, so they have become part of the mainstream. But what you don't get in the social media is considered analysis of the sort you would get in newspapers. So there is plenty of space for the conventional media."

Mr Morgan of the CIPR, says: "Successful communication involves a mixture of methods, including media relations, social media, advertising and marketing. You would not play golf with only one club."

Charles Batchelor

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Entries surge in second year of awards

Andrew Baxter reports on the judges' findings and looks at the stories behind the winners in each category

The second year of the Private Business Awards, the only UK awards to focus solely on privately held companies, was even more hard fought than the inaugural programme last year, with nominations rising by 50 per cent to 600.

Competition was intense in the 10 categories, which include one new one this year, Rising Star of the Year, while International Business of the Year has been renamed Exporter of the Year. Winners were announced last night at an event in London.

The main sponsor of the awards, PwC, and associate sponsor HSBC Private Bank, were both taken aback by the number and quality of entries.

A huge effort has gone into the judging process, first at regional level and then at a national judging day in July, where judges included some of the UK's most successful entrepreneurs. "Companies felt they were being judged by their contemporaries, not just a bunch of suits," says Charlie Hoffman, managing director of HSBC Private Bank and co-chair of the judging panel.

Private Business of the Year

Award sponsored by HSBC Private Bank.
Winner: **JCB Excavators**
Also shortlisted: R. Griggs Group, Petroleum Experts (Petex), Westbury Street Holdings

Accolades are almost two a penny for JCB – it has won 27 Queen's Awards for Technology and Export Achievement – but now it has been named Private Business of the Year, beating strong competition from a shortlist that was whittled down from a regional list of nine to four.

The award recognises the achievements of the Staffordshire company, which has grown into the world's third-biggest construction equipment brand, with 22 plants on four continents, more than 11,000 employees and more than 300 machines in its product range.

The company is owned by the Bamford family and its chairman, Sir Anthony Bamford, has been at the helm since 1975.

Mr Hoffman says: "The strategy of being built on pillars of research and development, design, engineering excellence and manufacturing skills around the globe has put JCB in a really good position."

The company had a "phenomenal" 2011, he says, with earnings before interest, tax, depreciation and amortisation up from £235m in 2010 to £355m, and revenues up from £2bn to £2.7bn.

Recent developments, noted with approval by the judges, included: the construction of a £63m factory in São Paulo, Brazil, to make backhoe loaders and large excavators; the announcement last year of a £31m investment over three years to develop engine technology to support the product range from 2015, creating 350 jobs around the group (the project is backed by the UK government's regional growth fund); and, in one of the biggest investments in JCB's history, the development of the JCB Ecomax T4 engine in readiness for incoming emissions legislation for mid-range machines.

The judges were also impressed by JCB's big gains in the emerging markets of Russia, China, India and South America. Ruby Parmar, partner and head of private business at PwC and co-chair of the judging panel, pointed to "a huge sense of pride [at JCB] about being a British company that has performed so well, as shown by the fact that people don't say 'there's a digger' but 'there's a JCB'."

R. Griggs, maker of Dr Martens footwear, was another strong contender, following its revival under chief executive David Sudden (*see next category*), as were Westbury Street Holdings, the food services and hospitality group, with what Mr Hoffman calls its "great mandates across different institutions and large corporates", and Petex, which supplies petroleum engineering software tools: "incredible R&D, small workforce, very good figures, a very strong story".

CEO of the Year

Award sponsored by ECI Partners LLP.
Winner: **David Sudden of R. Griggs Group**; also shortlisted: Andy Freeman of EBC Brakes, Phil Doye of Kelway, Simon McMurtrie of Laithwaites.

The bare figures of the turnround engineered at R. Griggs since David Sudden joined the company 10 years ago tell only part of the story.

The company had lost its way, with sales dropping sharply between 1999 and 2002, but these have now almost recovered, helping the maker of Dr Martens' footwear return to profitability.

Operating expenses have been halved along the way, but Mr Hoffman says the key has been Mr Sudden's versatile management style – much tougher and autocratic in the early years when the company was in turnround phase, but now more inclined towards empowering the management team to be entrepreneurial.

Staff are given a great deal of autonomy to make their own mistakes, says Mr Hoffman, so long as they are not betting the house. For example, Mr Sudden was not sure originally about "vegan-friendly" boots, but the team went ahead with the concept and it is now one of the most popular ranges in the US. Conversely, Mr Sudden's colleagues were not sure opening a New York store was the right decision, but it is one of the most popular.

The company's management structure is deliberately flat to encourage entrepreneurial behaviour, and decisions can be taken quickly, says Mr Hoffman.

Of the other shortlisted candidates, he describes Andy Freeman of motorcycle brake producer EBC Brakes as "extremely charismatic, a complete petrolhead breathes his business"; Phil Doye, founder of the IT supplier Kelway, has a "quiet management style, very effective, really carries his team with him"; while Simon McMurtrie of Laithwaites, the wine merchants, has a "great vision in terms of sustainable growth and excels at empowering his team".

Private Business Woman of the Year

Award sponsored by PwC.
Winner: **Chrissie Rucker of The White Company**; also shortlisted: Lucinda Bruce-Gardyne of Genius Foods, Thea Green of Nails Inc, Sam Smith of FinnCap

Chrissie Rucker does not come across as a driven, aggressive businesswoman, says Ms Parmar at PwC: "She has a very understated style but obviously had great vision in setting up The White Company and has led it through its growth up until quite recently, taking the decision to bring in some more formal management, realising the company is now in a different phase, so getting a strong support team behind her." In March, Will Kernan was brought in from New Look Group as chief executive.

Ms Rucker set up The White Company in 1993 after failing to find good-quality, affordable white sheets on the high street. It now has 42 UK stores and 10 franchises in the Middle East, selling womenswear and home items (in restrained shades if not all white) available via catalogue or online.

Ms Parmar says the judges were not only impressed by the business and the products but also by Ms Rucker's mentoring work, helping a lot of women either as a formal mentor or through her role on the advisory board of Everywoman, the UK network that helps women in business.

"There's a lot of giving back, and this has brought her to the forefront as a role model for women in business."

Among others on the shortlist, Mr Hoffman lauds Thea Green's achieve-ments building Nails Inc; "She is passionate, focused and commercial and, above all organised, she runs the business practically from just her BlackBerry"; Genius Foods, the gluten-free bread maker, "has made a real difference to the lives of hundreds of thousands of people. That is a huge accolade to Lucinda Bruce-Gardyne"; Sam Smith at FinnCap is "is hard working, charismatic and involved directly in the day-to-day running of the company".

Employer of the Year

Award sponsored by Ozone HR.
Winner: **Instarmac Group**; also shortlisted: Almac Group, Vets Now, William Grant & Sons

The spirit of *kaizen* – Japanese for "improvement", or "change for the better" – infuses the Tamworth offices of Instarmac, which makes highway maintenance, urban regeneration and other products. There is a "bright ideas" scheme with cash prizes for those adopted.

The company is really interested in the workspace, says Mr Hoffman. Its modern offices are light and airy with "sun pipes" and an atrium, enabling staff to be safely exposed to natural sunlight, which increases production of vitamin D and a feeling of wellbeing, while the canteen area has sofas, Wii consoles and pool tables for relaxation. "They've really thought about this," says Mr Hoffman.

On the people development side, Instarmac has introduced role appreciation training, helping employees share skills and knowledge. Management training has been redesigned to empower managers to achieve better results.

Beyond the workplace, the company has invested in two holiday homes – one in Padstow, Cornwall, and the other in Tenerife – so employees can take a low-cost holiday.

Throw in Indian head massages from visiting therapists and it is no surprise the company is a popular local employer, that staff turnover has been reduced from 18 per cent in 2007 to 10 per cent today, and a recent survey showed employee engagement levels were rising sharply. "It's a very positive culture," says Mr Hoffman.

Exporter of the Year

Award sponsored by HSBC Bank.
Winner: **Otter Controls**; also shortlisted: Harris Pye Group, Innis & Gunn Brewing Company, Oliver Valves

With about 98 per cent of turnover generated outside the UK, Otter Controls was a worthy winner in what was a strong category. The company makes thermostatic cut-out controls for small domestic appliances, notably kettles electric motors for such automotive applications as windows and sunroofs, and a host of controls for other uses.

Otter makes about 100m controls a year from sites in the UK, Hungary, the Netherlands and China, with France and Germany accounting for 30 per cent of turnover and significant sales in Russia, Japan, Australia and the US.

All the company's R&D is carried out in the UK, and the judges were impressed by its innovation and development efforts, which have produced the controls for 360-degree cordless kettles and, more recently, eco-switches, infrared control components and washable components for coffee makers.

Profits grew sharply from 2007 to 2010 and the company is increasing its share of controls sold to kettle manufacturers, through organic growth and acquisition.

Costs controls are tight, but Otter has just completed a £3m upgrade of its facility at Buxton, Derbyshire. It plans to expand by offering its design service to more manufacturers and is likely to diversify its product range even further. It expects emerging markets such as South America to be big sources of demand in the future.

Family Business of the Year

Award sponsored by Berry Bros & Rudd. Winner: **OCS Group**; also shortlisted: S. Cartwright & Sons, Edward Billington & Sons, Wates Group

OCS has grown from a window cleaning service set up by Fred Goodliffe in 1900, employing one part-timer, into a global property support services group with 63,000 employees and turnover of £689m. It is owned by 200 family shareholders.

The judges were impressed by its demonstrable record of cash generation. Success is based on an operating model with low gearing, a strategic approach to developing services in high-growth markets, including acquisitions; and the divestment of capital-intensive businesses to prevent damage to its core activities. "It can be quite ruthless in that respect," says Mr Hoffman.

Innovation is another important element. The recent acquisition of EnviroComp in New Zealand – which has perfected a technique for recycling waste from disposable nappies and feminine hygiene products into compost – is aimed to position OCS's Cannon brand as the clear market leader in sustainable environmental practices. The technology is already up and running in New Zealand and a series of plants in the UK and Europe are in train.

The group has a five-year plan to expand revenues to £1.2bn, with a heavy-hitting management team to achieve it, says Mr Hoffman. It has four global regions to ensure uniformity of standards and support the growth plan.

"It's a very clear strategy, a longstanding, sustainable company and something that is relatively recession-proof – they've done very well," he says.

Digging for victory: JCB is Private Business of the Year (above). Other award winners include (clockwise from below): Michael Acton Smith's Mind Candy, the company behind Moshi Monsters; Dyson's Hot fan; OCS, the cleaning group; and Chrissie Rucker, founder of the White Company Getty

High Growth Business of the Year

Award sponsored by Equistone Partners. Winner: **Ella's Kitchen Group**; also shortlisted: 99p Stores, Accrol Papers, Joseph Joseph

It is not every company that measures itself in TTTPs, or "tiny tummy touch points", but this is how Ella's Kitchen describes units sold in its fast-growing, 100 per cent organic baby food business. After reaching 100m TTTPs in its first five years, the goal is a cumulative 1bn by 2017.

The business, founded by Paul Lindley in 2006 and named after his daughter, operates from an Oxfordshire barn. Revenues and profits have been rising sharply and for the year ended June 30 2011, the company had pre-tax profits of £2.2m on turnover of £30.2m, of which 32 per cent came from overseas sales.

Mr Hoffman comments: "It is a great British success story, probably the first global premium food brand for children and the fastest growing baby food company in the UK."

The company's big innovation has been to sell its baby food in resealable pouches, made from aluminium sealed between two layers of plastic. This eliminates the need for preservatives, which allows minimal processing of the food. Snack products such as Nibbly Fingers and Munchy Biccies have also been launched for older children.

Ella's Kitchen has been taking share from multinational companies, says Mr Hoffman. This year it was reported that some of the world's biggest food companies were in early talks about buying a stake, but so far no deal has been concluded. Ella's Kitchen products are premium priced, but Mr Hoffman says consumers may cut spending on other things in tough times but children are recession-proof.

Rising Star of the Year

Award sponsored by Cavendish Corporate Finance.
Winner: **Mind Candy**; also shortlisted: Logson Group, Quidco (Maple Syrup Media), Radio Design

The Mind Candy name may not ring too many bells, but mention its prize asset Moshi Monsters to parents of the UK's six-to-12 year-olds and instant recognition is likely.

Half this age group have adopted a Moshi Monster online and, says Mr Hoffman, Mind Candy has created "a brand from nowhere – brand recognition is huge".

The company was founded by Michael Acton Smith, once described as the "rock star version of Willy Wonka", and more than doubled revenues in 2010-11, increasing gross profit by 50 per cent.

Apart from adopting their own monster online, children can go on adventures, play games, solve puzzles, be creative, and communicate with their friends. There are songs and videos that parody celebrities, for example Lady GooGoo, Simon Growl, and Broccoli Spears.

More than 65m children worldwide have joined the site but Mr Hoffman says licensing the Moshi Monsters brand to merchandisers is crucial. Moshi has been expanding offline into books, magazines, trading cards, toys, videos games, music, mobile apps and cartoons. The Moshi Monsters magazine is now the best selling children's title in the UK.

The aim is to become a global media brand and also a kind of junior Facebook with very strict controls, says Mr Hoffman.

Social Enterprise of the Year

Award sponsored by Bikeworks.
Winner: **Bryson Charitable Group**; also shortlisted: Onside North West, Shared Interest Society, Turning Point Scotland (Rosie's)

Bryson Charitable Group is Northern Ireland's largest social enterprise, delivering a wide range of services from social care and recycling to skills and energy advice, developmental watersport activities and advice for ethnic minorities. The group has grown in size by about 70 per cent since 2007, and has more than 650 staff and 80 volunteers. Annual turnover exceeds £30m.

The judges were impressed not only by the wide range of social benefits it delivers, but also by the fact that it achieves this profitably, guaranteeing its own economic sustainability as profits are ploughed back into its activities.

Bryson was a recycling pioneer, which started in 1993 by providing cash payments for aluminium cans. It now offers recycling services for homes (where it provides a kerbside box pick-up service for 200,000 households), schools and businesses.

The oldest part of the group, dating back to 1906, is involved in social care, such as working with vulnerable people, providing family support, domiciliary care and other services. But Bryson is also moving with the times and – illustrating its diversity – is now piloting cloud technology for handling personal and sensitive data remotely.

The group's sustainability is bolstered by the fact that it receives 95 per cent of its income from contracts. It also ensures that 96.4p in every pound is spent on service delivery, and won 95 per cent of new business it tendered for last year.

"We'd all like to be that successful," says Mr Hoffman.

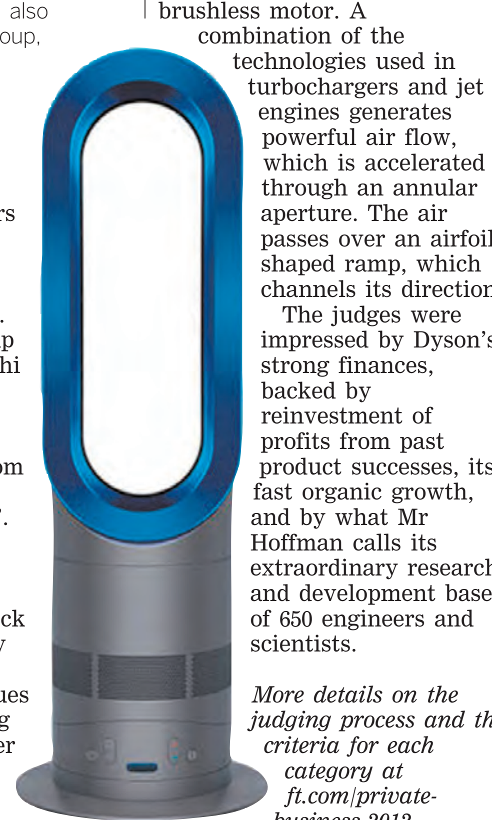
Technology Innovation of the Year

Award sponsored by Currencies Direct. Winner: **Dyson**; also shortlisted: EMSC (UK), Scott Bader, Sticky Eyes

James Dyson has made a name for himself by reinventing domestic appliances whose basic design has often been unchanged for decades.

This award is specifically for the Dyson Hot fan heater which uses "air multiplier" technology for long range heat projection to warm a room evenly. There are no fast-spinning blades or visible heating elements.

The basic technology is the same as that used in Dyson's bladeless fans. Up to 33 litres of air per second is drawn in by an energy-efficient, brushless motor. A combination of the technologies used in turbochargers and jet engines generates powerful air flow, which is accelerated through an annular aperture. The air passes over an airfoil-shaped ramp, which channels its direction.



The judges were impressed by Dyson's strong finances, backed by reinvestment of profits from past product successes, its fast organic growth, and by what Mr Hoffman calls its extraordinary research and development base of 650 engineers and scientists.

More details on the judging process and the criteria for each category at ft.com/private-business-2012