

**5**  
**To Exist**  
**or**  
**Not to Exist**



The easiest businesses in the world to create are those that don't make any money or, worse still, lose money. One would naturally assume, therefore, that such businesses were best not created or, if they had already been created, then they were best closed. However, this ignores the fact that business, in the developed world, is much more than just a mechanism for making money. Business, like politics and unionism is both a status symbol and a mechanism for empowering individuals so that they can tell other individuals what to do and *how-to-do* it.

Many people don't like being told what to do. In a complex developed society, the number of people telling others what to do; *how-to-do*; when to do and what to say can be both overwhelming and suffocating for those that are on the receiving-end and see themselves as individuals. However, those that feel suffocated by society have a few options open to them if they wish to empower themselves. These are to:

- (i) Drop out of the mainstream
- (ii) Claw their way to the top of the corporate pyramids in existing industrial and government organisations
- (iii) Claw their way to the top of the corporate pyramids in union organisations
- (iv) Acquire power through political involvement
- (v) Start their own business.

The first option (i.e., to simply "drop out" of the mainstream and become part of a simpler culture) involves little risk, provided that one is prepared to live with little or no money (and, possibly, the food, shelter, clothing and transportation that money tends to bring) or to become a sponge that soaks up other people's money.

The second option is to acquire power by the traditional means - that is, by clawing one's way up through the corporate pyramids in industrial or government organisations and achieving some level of seniority. This too, involves little risk because the worst-case scenario is that a person will never rise beyond their present level.

The third option is to launch a side-line attack on the problem and to do the next-best thing to leadership - that is, to become an obstruction to other people's leadership by forming or joining a union or some other lobby group. This involves some risk because it normally requires people to give up

aspirations of clawing their way up an industrial or government organisation and to acquire aspirations for clawing their way up a union or lobby organisation.

The fourth option is to acquire power through political means. However, in complex developed societies, whose economies have been internationalised, this has considerable risks and few rewards - many who choose such a path ultimately discover that complex societies are part of a delicate global and national balance and need to be administered, far more than they need to be led. This, in turn, often requires being told what to do rather than being able to tell others what to do in a unilateral manner.

The final option, for those that don't like being told what to do, is to start a business. If one is unconcerned about the financial aspects of business, then the risks here are few. An individual can metamorphose from being a "nobody" to "business-person" overnight. Yesterday's house-wife can become tomorrow's leading fashion designer with her own label. Yesterday's middle-manager, who was made redundant because they were obnoxious and undesirable, can become tomorrow's public-relations consultant. This low-risk approach has significant benefits in terms of being able to impress one's friends and associates - after all, few (if any) people know whether fashion is good or bad (particularly when associated with pretentious French or Italian labels) and even fewer know what public-relations consultants do, much less whether or not they do it successfully. So, if money is of little concern, and one can select an appropriate business, then one can become a successful business-person, simply by claiming to be a successful business-person.

The business option therefore provides more than just a mechanism for empowerment and the creation of money. It also provides a mechanism for achieving self-importance and a sense of immortality. In larger organisations, people are often dismayed and frustrated to find that an organisation can run perfectly well (and sometimes better) without their presence. While many delude themselves with the notion that an organisation will cease to exist if they leave, the reality is that most medium and large scale organisations have sufficient inertia to continue regardless of the presence of any individual (and quite often, despite the presence of an individual). However, when one becomes a business proprietor, there can be comfort in knowing that a business will cease to exist when one leaves it behind - in other words, that there is some purpose to the proprietor's task. There can also be comfort in knowing that a business will grow and prosper indefinitely after the proprietor

has departed, thereby providing a lasting legacy for the proprietor and a mechanism for immortality.

The problem with the business option is that it isn't altogether fulfilling being a successful business-person unless one can tell others what to do and this, in turn, requires money in order to hire staff, purchase equipment and so on. So, if one is to have a fulfilling business with staff and equipment, then one needs to pursue one of the following options:

- (a) Spend one's own money
- (b) Have a business that actually earns its own money
- (c) Spend someone else's money.

Spending one's own money, in order to create a business, is clearly the most genuine commitment that one can have. The success or failure then becomes solely a matter for the proprietor. Unfortunately, few people have sufficient funds to float a business and to hire staff until that business earns its own money. And, many of those that do have such money, can often find more interesting ways of spending it than running their own business.

On the other hand, a number of very successful business organisations have been started by people who decided that a business should earn its own money. In other words, by people who started with extremely small amounts of money, very modest expectations and allowed their businesses to expand naturally, without borrowing. In some instances, this meant selling vegetables or textiles from a wheel-barrow or running stands, built on fruit-boxes, at local markets or by having a spouse working to provide income while a business was starting. Here again, the business has to sink or swim based on its merits and the efforts of the proprietor.

The idea of funding one's own business, or of starting small and allowing a business to grow naturally, generally lost its appeal to people who were brought up in pre-war-developed societies, where both education standards and welfare payments were relatively high. People that were brought up in developed societies often wanted to be in business to tell others *how-to-do*, rather than to actually *do* themselves. For these types of people, the idea of starting small bore little relationship to aspirations of individualism and "*how-to-do-ness*". For the most part, the small-start options were therefore pursued by refugees and poor migrants, who began

modestly and sometimes developed organisations that were of immense benefit to their newly-adopted developed societies.

Migrants and refugees have a significant role in the small business arena because they generally come from undeveloped, developing, or war-torn countries that maintain high family values. The goals of the family unit become far more important than the aspirations of the individuals within it and, so, some family members can work in other jobs, supporting an embryonic business, while others provide their services to the business at no cost. Taxation and other employment overheads can be readily minimised because the unit operates through a bartering arrangement. There is a collective commitment, and a high level of motivation, to build something of lasting financial value to the entire unit. The net effect is to provide an enormous financial injection into an enterprise without borrowing. In the longer term, the financial benefit accrues to the entire unit. This collective approach, that is used by many families to build successful business enterprises, is often also extended to entire countries, with many developing nations exhibiting the same degree of cohesion and collective effort.

Cohesion and collective-effort are not the only factors behind the success of many embryonic migrant-based businesses. In many ways, the migrant/refugee approach to business is a powerful form of niche marketing. In other words, the migrant/refugee approach to business is often successful because it is based on taking a business idea from the proprietor's birthplace and transferring it to an adopted country. This has the dual effects of fulfilling the needs of other similar migrants/refugees and of creating a new niche in the marketplace - for example, in cuisine or craft.

Many people, that have been raised in developed (particularly Western) countries, would view the notion of a business, based on a collective unit (e.g., the family), as unacceptable because it involves the relinquishment of individual rights and opportunities. So, those who are focused on business as an expression of individualism are faced with the prospect of either starting extremely small (i.e., on their own), risking their own existing money or borrowing money in order to pursue their goals. Businesses that start with one person and rely on natural growth often remain as one-person businesses for a considerable length of time (most of them in perpetuity). This is because any business has a minimum of two functions - looking for work or sales and providing the work or product. If one spends all one's time selling then one can't work or make products and vice-versa.

Individualism often loses its glitter after one realises that a one-person business amounts to little more than one person carrying out two jobs.

If one rejects the notion of a one-person business and the notion of a family-unit-based business, then the alternative is to hire staff. Even in a two-person business, this enables the owner-person to tell the other person what to do and thereby achieve individualism and empowerment. However, the hiring of staff requires considerable amounts of money that are rarely matched by immediate increases in income. The salary bill for a two-person business may increase by 100% but the productivity may only increase by 10 - 20%, generally because the proprietor has to spend 80 - 90% of his/her time telling the employee *how-to-do* (i.e., managing). So, in hiring an extra person, overheads are dramatically increased and the foundations for the corporate pyramid are laid. However, the first thing that becomes apparent is that staff motivation is altogether different from owner motivation.

A business owner aspires to achieving wealth through the creation of a successful organisation that can subsequently provide an income (without the need for work) or else be sold as an entity in its own right in order to provide a nest-egg for retirement. Superficially, it appears that by minimising the amount of money paid to staff, profits can be maximised. On the other hand, staff aspire to achieving wealth through the acquisition of personal assets such as a family home; savings; superannuation and so on. These, in turn, can be maximised by maximising income or by minimising working hours (so that individuals can have more than one job or avoid paying for services such as house-keeping, child-minding, etc.). Hence there is an obvious conflict of interests which, in the past, was often resolved through mutual exploitation:

*"...If you help me to create a successful business then I'll help you to maximise your income and to keep your job..."*

However, the management of mutual exploitation (industrial relations) has become much more difficult in developed societies because staff have come to view work as more than just a mechanism for survival and for creating wealth for themselves.

Management of mutual exploitation has also changed because the basic ground rules of business have changed in developed countries. Stability has disappeared from the work-force and, so, employees naturally assume that a "working-life" will be composed of a number of jobs in different

organisations but, generally, with a common theme. One could refer to this as the modern definition of a "career" but, more importantly, it is a radical departure from the employer/employee relationship because each individual becomes a defacto business ("*me incorporated*") with which an employer has to negotiate. The role of "*me incorporated*" is to provide contract services to "*you incorporated*" and not to be a loyal employee because loyalty, in itself, provides no guarantees for future employment.

If one then also considers that social-welfare systems, throughout the developed world, have effectively transformed the purpose of work from survival to wealth creation and self-fulfilment, then one also has to accept that the conflicts of interest between the business owners ("*you incorporated*") and the employees ("*me incorporated*") are much more complex. One of the fundamental tenets of business success is to do the same things over and over again. Generally, repetition and focus are critical to amortising investments in research, development and tooling; improving quality; targeting marketing strategies; etc. Very few businesses that rely upon doing "*interesting*" things become successful because human interest tends to revolve around doing "*different*" things - in other words, lack of repetition. Change is an integral part of business but it is evolutionary change that tends to lead to success. Changing from one activity to another, simply because one is no longer interested in a previous activity is clearly not a formula for success. In particular, companies that tackle widely-varying tasks tend to be on perpetual learning curves that don't enable them to become the best or the most efficient (i.e., profitable) at their particular tasks. Hence, there are considerable problems for both the owners and staff of businesses in the developed world, where work is viewed as a form of self-fulfilment.

Business owners who create enterprises, because they want to do something interesting, invariably have difficulty in making a success of their business because they haven't the repetition that is necessary for them to refine their methods. "Interesting" companies are, therefore, rarely profitable companies. Nevertheless, there are still some business people who recognise the need for repetition in business, and are prepared to endure the tedium associated with it, in order to build an enterprise, or wealth, that will ultimately lead them to a more interesting life. However, in developed societies, these individuals still have to contend with employees that seek short-term self-fulfilment and have totally different objectives to the business proprietor. So, the business proprietor not only has to strive to build an enterprise based upon repetition but also to pander to employees that seek to

avoid repetition. Whereas people in undeveloped and developing countries seek jobs, those in developed societies ("*me incorporated*") tend to seek "career opportunities".

The secretary, who sees the long-term future for "*me incorporated*" as branching out into office management and public relations, is of little benefit to a company or department that only needs a secretary to type reports and answer telephones. The delicatessen owner who only needs someone to operate a salami-slicer is unlikely to be interested in the gourmet-chef aspirations of an employee. On the other hand, there is a grudging realisation that if one doesn't pander to employee career expectations then one will pay different penalties in the form of high staff turnover or, worse still, incompetent staff who are only too pleased to stay on because they are unemployable elsewhere. The problem is bad enough when it pertains to staff that are part of the core money-making activity in a business (e.g., computer programmers, designers, tool-makers, architects, etc.). However, employees that are already an overhead to a business (e.g., secretarial and administrative staff, etc.) and then further seek "career opportunities" become a downright nuisance, particularly in embryonic businesses. In many developed countries, therefore, the emergence of the "fulfilling career", combined with relatively high levels of pay and rigorous industrial relations and equal-opportunity legislation, have made the employment of staff in small enterprises less and less viable.

Company loyalty, in the era of "*me incorporated*", is another related issue that arises in developed countries and makes the employment of staff, in embryonic companies, less viable than it used to be. A common complaint amongst proprietors is that "modern" employees have no loyalty. However, many proprietors, particularly in small business, fail to realise that loyalty is a two-way street. Unless there is an economic recession, staff tend to be loyal to a company only if they believe that it is best able to fulfil the personal requirements of "*me incorporated*" - that is, a company which:

- Provides interesting (i.e., diverse) work opportunities
- Allows staff to grow personally and professionally (i.e., develop "fulfilling" careers) so that "*me incorporated*" can provide its services to other companies (in the event that the current company ceases to exist)

- Endeavours to retain staff even in times of economic hardship (i.e., provides security of tenure)
- Provides competitive remuneration for services rendered.

Unfortunately, these attributes are not the stuff of which most embryonic businesses are made. Most small organisations are too busy struggling for survival to concern themselves with career paths and packages for employees, let alone worrying about how to pay for employees during a recession when they can't even pay the proprietors a subsistence. Proprietors therefore experience frustration with the fact that their employees can always find "better" places to work during periods of good economic activity - just when they are most needed.

In as much as small organisations rarely break even, much less make a profit, the notion of "profit sharing" is unlikely to appeal to employees. Therefore, the only real mechanism that small-business proprietors have to retain staff, and to maintain their motivation and loyalty, is to offer them a significant share of the business. This, in turn, is unpalatable to many proprietors because it means that they have to give up their individualism and their ability to tell others how and what to do. It also means that they may have to give up a share of assets that they have acquired with their own money.

In some cases, technology has come to the rescue of the small enterprise, with advances in mobile telecommunications and computer technology diminishing, if not eliminating, the need for traditional overhead services, such as those associated with secretarial and typing staff. Many functions that were traditionally undertaken within an organisation can also be out-sourced, including book-keeping, payroll, printing and copying, etc. This concept (which became known as the "virtual office" in the 1980s) helps embryonic organisations to push career and industrial relations problems on to another company and to focus on the core money-making aspects of a business.

If a business decides to contract out all its services to other companies, then the owner may again be faced with the prospect of not having anyone to tell *how-to-do* - in other words, remaining as a one-person business with limited growth prospects. Therefore, the problems associated with the conflicting objectives of employer and employee need to be addressed at

some stage. However, while medium and large companies can afford to have personnel departments and staff that specialise in making life interesting and fair for other staff, the embryonic business is in a poor position to address the human-centred problems that have evolved in developed society. Again, the notion of making a family unit and a business unit one (and the same) can provide an enormous boost to small business by effectively by-passing all the problems that arise through the hiring of staff at the early stages of business development.

It would appear that the value of the family unit is held in inverse proportion to the wealth of a society, with highly-developed Western societies placing little value on the family and poorer societies placing greater value on the family. However, there are undoubtedly also cultural differences that contribute to the idea that a tightly-bonded group, with common objectives, can be immensely more powerful than a collection of individuals. Some Asian cultures, for example, tend to place greater emphasis on the well-being of the family and their country, as a whole, than they do on the well-being of any individual. This was particularly true in, say, post-war Japan, where family, corporate and national unity led to the formation of both a strong industrial base and a relatively cohesive society. The American culture, on the other hand, was the exact opposite and was constitutionally tied to the well-being of individuals, even at the cost of the well-being of the entire country.

The relationships between individualism and wealth are not really surprising because, while money can't buy happiness, it can buy a higher class of misery and the services and products that minimise our reliance upon others. Therefore, it is particularly interesting that some countries (such as Japan) have maintained the focus on family and national objectives, despite the generation of immense wealth, and have created powerful international companies based upon such principles.

As a general rule, the pursuit of individualism and individual goals is a luxury that is seldom afforded to those in undeveloped and developing countries, where the work ethic is based upon the need for survival. One therefore has a situation, in the developed world, where labour not only costs more but is motivated in an entirely different way to that in undeveloped and developing countries. This poses considerable problems for those that seek to establish businesses in the developed world without the assistance of the family unit.

For the most part, businesses in the developed world are not based upon the family unit and those that seek to be more than one-person companies, therefore, tend to be based upon the notion of borrowing money. It may seem ironic that anyone would believe that a sound basis for generating wealth is to go into debt but, nevertheless, this is the principle upon which many businesses in the developed world operate. Of course, the option of exchanging equity in a company for cash is also available through the stock markets but this is rarely available to embryonic businesses because they have little more than dreams and schemes to exchange for cash. In as much as there are many more dreamers and schemers than there are people with cash to invest, embryonic organisations that have no tangible short-term prospects are unlikely to attract such investment. Therefore, the most common alternative is for the embryonic business to borrow money. However, this in itself is fraught with dangers for the novice.

The possibility of borrowing money in order to create an embryonic business means that there are two management styles that tend to be applied - that is, the "*Someone Else's Money*" (SEM) and the "*My Own Money*" (MOM) styles. The basic difference is that an MOM manager picks up a pencil that has been dropped on the floor because they paid good money for it. The SEM manager leaves it there because their time is too valuable and they can always buy another one. An MOM manager drives a regular car because there are more important things on which to spend company money. An SEM manager drives an expensive exotic car because it is important for them to project an executive image, on behalf of their company, and because "*the clients will appreciate*" buying from companies with exotic cars.

Most people are familiar with the SEM style of operation because they are employees in one form or another - in other words, they are paid with someone else's money and they use equipment paid for with someone else's money. The SEM style of management also sits well with lifestyle expectations in the developed world because it enables people to indulge themselves. The problem with moving from an MOM business to an SEM business is that the motivation of the proprietor can change dramatically because, in borrowing money, the proprietor becomes nothing more than a pseudo-employee of the lender. To make matters worse, the links between the pseudo-employer and the pseudo-employee are more remote than the normal employer-employee links because the lender generally doesn't understand the business to which money has been lent.

Consider the scenario where a company employee becomes disenchanted with being told *how-to-do* and decides to run his own business in order to express his individualism and to become a *how-to-doer*. The former employee becomes a proprietor (i.e., business-man) overnight. Initially, the proprietor decides to work off his own money and let the business grow naturally. The focus is therefore on getting as much money in (from sales) as possible, so that the business can grow, but it is soon realised that this is too slow and requires too much work - this wasn't why the proprietor left his previous employment. The proprietor then decides to hire staff and purchase equipment through the SEM technique. The allure of the SEM process is significant, because the proprietor only has to generate sufficient funds to pay the lender's interest, and he can have somewhere in the order of a ten-fold increase in the money available to the business. Suddenly, money is no object, and if one is to have employees then one needs to borrow enough to have a car that is more exotic than that of the employees and an office which is better equipped than that of the employees. The proprietor's focus changes from bringing in more money to *grow the business* to bringing in enough to *pay the interest on the loan* and to maintaining the newly acquired lifestyle, by further borrowings if necessary.

The proprietor effectively becomes a pseudo-employee of the lender. However, the links between the pseudo-employer and the pseudo-employee are somewhat distant. The pseudo-employee has a new found feeling of freedom - someone else's money to spend and no-one to tell him how to spend it on a day-to-day basis. A number of proprietors therefore tend to run amok, sometimes compensating for their former periods as employees, where they were denied the ability to do interesting things; to tell others *how-to-do* or, perhaps, denied the niceties of exotic cars and well-furnished offices. The SEM approach also gives the proprietor a sense of achievement because it allows him to create a lot of activity (employment, equipment, buildings, cars, etc.) over a short period, without substantially increasing income from sales. Needless to say, unless some substance is injected into the organisation, and real sales income emerges, all that is created is a house of cards that collapses as soon as the money supply is exhausted and the proprietor is unable to pay the pseudo-employer (the lender).

The day of reckoning for the SEM proprietor is often a distant thought in the proprietor's mind as he/she borrows money. The naive borrowing philosophy is often based upon the notion that extra equipment, extra staff

and more prestigious buildings and vehicles will lead to more sales. However, the thought process here is a form of "push" logic:

*"I am incurring a debt and am acquiring more machines, buildings, cars and staff, therefore I will naturally have to get more sales to compensate."*

Many SEM proprietors don't exercise "pull" logic:

*"If I get more sales then that income will help my business to expand, otherwise there is no point expanding."*

In many cases then, the result of borrowing is increased activity and profile rather than increased business or substance.

To some extent, the "push" logic, that many business proprietors have acquired, is mitigated by the need to submit a "business plan" to the lender. The business plan is little more than a statement of how a business can "push" a market into a certain form of response, in order to satisfy a given set of business expenses and a given marketing plan. Needless to say, most business people would deny that this is the purpose of a business plan but, nevertheless, a push-based business is the end result. Sometimes, at least the business plan is reinforced with "market research" (which shows that "XYZ" is desperately required) - however, even this tends to provide very simplistic (and often unreliable) information to an embryonic business whose proprietors are not already experienced in the behaviour of the marketplace.

Many would argue that the purpose of a business plan is to estimate the potential income of an organisation and then to structure borrowings, staffing, equipment and other infrastructure around that estimate. For an established business, an estimate of income has some meaning because experience and historical data are associated with that estimate. This is further enhanced if the business is large (i.e., with a high degree of inertia) and is associated with a high-volume commodity-type product, where one can estimate, with a relatively high degree of confidence that if, say, ten million products were sold last year, then the prospective sales for the following year will be somewhere between, say, nine and eleven million. However, in an embryonic business, any estimate of income is purely speculative and, even when backed by market research, lacks any historical precedent based upon the specific business in question.

The MOM proprietor, by necessity, runs a "pull" business. If money isn't derived from sales or from the proprietor's personal finances, then the business cannot expand. Hence, the market either pulls the business forward or causes its demise. Conversely, the SEM proprietor (also by necessity) runs a "push" business. A lender generally won't provide money in the hope that the market will pull a business forward. Instead, a lender expects that the proprietor will strive for a predicted business outcome. In the final analysis, for embryonic businesses, the end result is much the same whether they decide to be pull-based or push-based organisations - the market determines the outcome and generally can't be shifted. However, from a lender's point of view, it is easier to justify a lending decision to a superior, or to a board, if it is based on some nominal outcome predicted by the business proprietor (regardless of how unrealistic or ill-founded such predictions may be).

A push-based business isn't necessarily undesirable (from a money-making perspective), provided that the business is sufficiently large to push a market into a certain shape. Unfortunately, this form of push is normally only successful when associated with extremely large organisations that can afford to expend vast sums of money on conditioning-advertising. Most small and medium enterprises haven't the inertia to condition their market-place and, hence, remain subject to its whims and idiosyncrasies. This leaves one with the dilemma of contemplating the merits of the much vaunted "business plan" and whether it has any value at all for the embryonic business.

There are really only three main components in a business plan - the projected income for the business; the projected costs associated with running the business and the methods for running/expanding the business. Most business school graduates would argue that planning the costs and methods associated with running a business is critical to its success and this is probably true in the case of an established organisation with a relatively stable market share and income. However, in an embryonic business, the only issue that needs to be considered is that making money is considerably more difficult than working out how to spend it. Hence, for the embryonic business, there is only one critical element in the entire business plan and that is the projected income. Given that, for an embryonic business, the projected income is little more than a guess (or, using a business euphemism, an "estimate") then it is self-evident that the business plan has very little intrinsic value - at least until the business develops a relatively stable and predictable income.

Many would argue that it is important to work to a business plan, even if the initial plan is never realised. There is much sense in this argument, particularly if the proprietor of an embryonic business is prepared to continually modify the plan as more data about an organisation's income becomes available. However, one then needs to ask the question - is a business plan really a plan if it is continually changing? The answer is probably not and, unless they are extremely fortunate, most embryonic businesses need to meander around, exploring a range of possibilities before they find a niche. Of course, such a concept is difficult, if not impossible, to impart to a lender who needs to justify a lending decision to superiors who, in turn, would like to assess their risks.

Engineers and scientists, who eventually elect to start their own technologically-based businesses, often find the notion of preparing a business plan abhorrent because it is based on non-scientific, and rather abstract, principles. That is, predicting the income from a new product that has no market precedent or, perhaps, predicting an income from a technically-superior product that has to compete against technically-mediocre products emanating from large established organisations. In either case, given the multidimensional nature of the problem, the predictions tend to be somewhat meaningless and, so, engineers and scientists become notorious for establishing businesses without a plan. Business school graduates, on the other hand, would argue that this is the fundamental reason why technologically-oriented businesses have such a high failure rate in the developed world. However, business school graduates often fail to realise the inherent difficulties involved in establishing a technologically-based organisation. In reality, technologically-based businesses would tend to suffer from a high failure rate, regardless of whether or not they had commenced with a business plan

A business school graduate may argue that if a proposed business has such a high risk associated with it, then perhaps it would be better not to start such an organisation. However, people in the developed world, who wish to express their individualism, now find that there are only a limited number of avenues that can be explored in terms of business opportunities. These are:

- (i) Commodity-product retailing
- (ii) Niche-product retailing

- (iii) Commodity-service provision
- (iv) Niche-service provision
- (v) Commodity-product manufacture
- (vi) Niche-product manufacture.

The commodity-based industries, whether they are in retailing, service or manufacture (or, for that matter, primary production which is not listed above) are all, increasingly, moving out of reach for the embryonic business. By definition, they are all cost-sensitive activities that rely upon factors such as:

- High volumes/sales
- High levels of repetition
- Widespread distribution networks
- High levels of automation
- Low labour costs.

All these, in turn, require enormous amounts of capital in order to produce outcomes that are in keeping with the cost-sensitive market demands. Moreover, the value of commodity products and services has historically tended to diminish in contrast to the value of labour input. For example, the value of products such as cotton, wool, paper, textiles, clothing and footwear, etc. has been in a relatively steady state of decline during the course of the 20th Century. The challenge for those that pursue business in these markets is therefore to:

- Reduce costs annually (a seemingly impossible objective over a long term but one that is made more viable with emerging technological innovations)
- Remain competitive against rival products and services that emerge through technological innovation (e.g., synthetic

textiles that are a substitute for natural fibres; magnetic and optical storage media that are a substitute for paper, etc.) or through low-labour-cost developing countries

- Develop new applications and new markets for products and services
- Develop techniques and processes that can add greater value to existing products and services.

All of the above challenges are substantial in their own right. However, at the very least, companies involved in commodity-type activities are sufficiently large, and have sufficient inertia, to tackle such problems over a realistic time-frame. Inertia is an important attribute in a company because it allows some latitude in decision making. In a small (embryonic) company, decisions and business plans tend to either be altogether right or altogether wrong - the wrong decisions can spell the end for a small organisation. In a large organisation, however, there is enough inertia to accommodate decisions and business plans that are partly wrong, partly right or (in some cases) altogether wrong. As long as most decisions are reasonable, a large organisation can continue to function for some time because it has enough inertia to enable it to meander away from the correct path, from time to time.

Inertia, in a large organisation, also buys time in the decision-making process. The likelihood of a competitor emerging overnight and taking a significant share of a large organisation's market is very small and, so, provided that the large organisation endeavours to remain reasonably responsive or pro-active, then it has time to contemplate its courses of action.

The characteristics that give an organisation inertia are self-evident. Size brings with it an enormous (and often unique) infrastructure; distribution channels; product-support networks; large-scale marketing and advertising programs (i.e., an ability to condition the market); networks with senior management in client companies (i.e., an ability to condition clients); links to government and policy-making (i.e., an ability to condition political leaders); import and export capability (i.e., the ability to change with changing international pressures and trends); etc. Moreover, the whole of a large company is more than just the sum of the parts. For example, a company that employs ten thousand people in order to make passenger aircraft cannot simply be duplicated by a person who has sufficient money to buy ten

thousand equivalent staff and related equipment. A large organisation is a complex web of expertise, departmental links and procedures that are often established over many decades of operation. The inertia is also particularly evident in terms of expertise. The loss of an individual or group of individuals can be devastating to a small company but it does not diminish the capacity of a large organisation. Expertise in a large organisation is manifested in many small pockets, and individual expertise has little meaning to the overall organisation.

Unfortunately, for those contemplating the creation of a business, inertia is not something that can be bought as an entity, unless of course one has sufficient funds to purchase an existing organisation with inertia. However, given that few have the funds for such an exercise, the bulk of businesses need to start in a small embryonic form and tackle their own particular problems without the benefits of inertia. Many small organisations do not have the capacity to provide commodity products and services. These organisations therefore need to concentrate on the fulfilment of a niche, through specialised products or services. This, in itself, creates problems because, by definition, the niche restricts the size of the organisation. If, on the other hand, the niche becomes a lucrative area, then the small organisation has to compete with large (high-inertia) organisations that recognise the potential benefits of the niche. Therefore, it would appear that the only mechanisms available to small organisations are to either continually search for new niches or to expand in synchronism with a burgeoning niche (and thereby have the ability to ward off larger competitors that may enter their sector of the market).

The biggest problem that a small organisation has is that, initially, it is no more than the sum of its parts - that is, a collection of individuals and equipment that have been assembled through funds from the proprietor or from a lender. This has enormous implications because any individual within the company, that has some initiative and can recognise the loose relationship between the parts, can theoretically approach a lender and establish a clone company, taking all the best attributes of the original company and transferring them to a green-fields site. In other words, if person A can start a business, by borrowing money, then so can person B and so on. Initially, therefore, the small enterprise is a collection of individuals that each have a unique, and potentially, critical role to play in the success of the organisation - in the worst case, a collection of indispensable people that have the potential to leave.

In a large organisation, even an enterprising individual would have difficulty in replicating the activities undertaken by that organisation. This is true even where the activities do not require large amounts of capital equipment and are service activities that can, for example, be undertaken with no more than a personal computer and a telephone. A person who is, say, a financial, computer or engineering consultant in a large organisation derives their income as a result of an enormous marketing and advertising campaign that is provided by the large organisation, and through the reputation and network of links possessed by that organisation. Even if it was possible for the individual to leave the organisation and provide the same service to the same clients, the chances of the individual making a success of the new business (or, even earning the same amount as before) are remote. Again, the inertia of the large organisation means that it can not only recoup its investment in marketing and advertising, and in an individual employee that provides a service to a client, but also, derive a profit from the entire exercise. A scaled-down version of a large enterprise does not necessarily lead to a smaller enterprise whose fortunes are in proportion to its scale.

The other aspect that is unique to small organisations is that, in targeting niche markets, they tend to have a lack of repetition. Repetition in business is the mechanism that creates links between people and departments because it involves planning, transfer of information and so on. Organisations that are biased towards one-off projects don't have the same interdepartmental and interpersonal networks because each project requires different groupings of staff. So, while diversity means that employees have interesting work, and can build their professional skills and individuality, it also means that the ties that bind them to their company are tenuous at the very best. It doesn't take very long for an individual to recognise that a group of projects, that can be handled by one person, with a personal computer and a telephone, can also be the basis of a new business that the individual can start in his/her own right.

The other disadvantage of a small organisation, from a proprietor's perspective, is that every aspect of the business is laid bare for almost every member of staff to observe and learn from. Whereas, in a large organisation, an individual may only ever see a small portion of, say, the "accounts payable" division, in a small organisation, they are exposed to marketing, advertising, engineering, design, project management, manufacturing, quality control, accounts and so on. In other words, they can learn about the function

of an entire organisation, and potentially gain sufficient skills to start a competitor organisation.

One of the most critical problems for the small embryonic organisation, as it endeavours to retain key people, is a perceived inability to provide security of tenure to its staff. Needless to say, in a competitive world, there is no absolute security of tenure in any company or government department but, nevertheless, there is a perception that large organisations provide better security than small organisations. The inertia of a large organisation theoretically enables it to substantially retain staff even during periods of reduced economic activity. In reality, there is perhaps a greater security of tenure in a small organisation because each employee is a valuable asset that is critical to its success. In a large organisation, there is, by necessity, a need to structure the organisation so that no individuals (other than those doing the structuring, of course) become indispensable or irreplaceable - otherwise the organisation could be held to ransom by those individuals. Hence, there is less incentive for large organisations to go to extreme lengths to retain staff during lean periods.

Staff, in large organisations, often recognise the fact that they are just another spoke in the wheel and that their presence makes little difference to the ongoing operation of the enterprise. Some industrious individuals within a large organisation also recognise the difficulties of asserting their individualism through the traditional channels of promotion, unionism or of starting their own small enterprise. Their solution is to build empires within the large organisation and thereby ensure their tenure and their authority within the enterprise. Many such empires have been built over the years, with the most obvious ones being centred on trivial areas that can have a profound effect on others in the organisation - the stationery supply; the photocopier; the car pool; the building maintenance and so on. While those involved in small embryonic businesses can take comfort in knowing that such empires exist within large organisations, and create numerous invisible overheads, the reality is that the inertia of the large organisation can often absorb them and still allow the enterprise to be competitive. In some cases, the ability of individuals, within large organisations, to create empires (often of illusory importance) gives them a sense of purpose and an incentive to remain with the organisation.

From a small business perspective, the point is that large organisations can withstand enormous inefficiencies in management structures, work-

practices, overheads, empire-building and the like and still be competitive because their sheer size creates a defacto monopoly that can generally only be challenged by competitors of a similar size (and with similar inefficiencies).

The above points highlight the fact that a small embryonic business needs to rapidly move from being a collection of individuals and equipment to being a cohesive unit that is difficult to duplicate. A business organisation must become more than the sum of the parts if it is to survive, maintain its staff and a competitive position in the market-place. The reality, however, is that few small enterprises ever become more than the sum of the parts and, hence, there are often many, similar, small organisations competing for the same clients.

A small organisation that overcomes its first key obstacle (i.e., becoming more than the sum of its parts) needs to address the issue of the niche market. In as much as those small organisations that choose to tackle large organisations, in commodity-type products and services, only have a very small probability of succeeding, most small enterprises need to begin with a niche market that is unattractive to large competitors (usually because it is too small or because it requires a degree of responsiveness or flexibility that simply cannot be provided by a large organisation). The small organisation therefore has the potential to have a market to itself or to only have to compete with other, similar, small organisations. A niche market may well be profitable for a small organisation for a short period of time. In the long-term however, the market either dries up or becomes saturated with competitors that have realised the potential of the market. In order to maintain a client base or to maintain a competitive edge, the small company therefore needs to change.

Many businesses are founded on the philosophy that change is associated with risk. However, in a world that is constantly changing, a failure to change also has a great degree of risk associated with it. In a small company, the risk can be a depleted market or a diminished market-share that occurs through increased competition. If, indeed, a niche market is diminishing, then a small company needs to change by exploring other (related) niches. If, on the other hand, a company's market-share is diminishing, as a result of competition, then the company needs to change in order to acquire a competitive advantage. While both these solutions may seem rather obvious, neither are easy to realise in a practical sense. In the first place, new niches aren't always easy to find or to move into. In the

second place, changing from one niche to another brings with it the problem that a small organisation can't achieve the level of repetition (in work) that is required to achieve quality and an amortisation of investments.

In the final analysis, a competitive advantage in business often comes down to spending money. Sometimes, a small business can only remain competitive by becoming larger (e.g., by acquiring more staff to sell or support products or by acquiring newer equipment to produce products at a lower cost). Sometimes, just being larger, in terms of staffing, gives an organisation a competitive edge because it can achieve a critical mass in vital areas. For example, a proprietor that is involved in both the selling process and the management process may not be as effective in selling or management as a person who is solely dedicated to one task. An engineering design group, composed of two people, may not have the depth of expertise required to expedite projects efficiently, whereas a team of four people may be able to increase outputs by more than 100% and so on. Therefore, an embryonic organisation that has entered into a niche market, and has found the going tough, often either needs to expand or to close. Unfortunately, once the problems arising from competition have been recognised, there is seldom enough inertia in the small organisation to enable it to continue in its existing form - in other words, the writing is usually on the wall by the time the cause of the problem is determined.

It is for these reasons that borrowing money, solely to get a small business started, is a high-risk decision, given the dynamic nature of competition in the developed world. One has to consider how the business will change and, most probably, expand over a reasonable horizon and, given an expected increase in competition, whether such change and expansion is viable from a small starting point. In recognising a need that can be satisfied by a business, one also needs to recognise that many others will also recognise the same need. So, if getting a business started is "Stage 1", then the proprietor really needs to consider "Stage 2" and "Stage 3" before borrowing any money at all.

Stage 2, in the business horizon, is the recognition of a depleted market or market share and the strategy for improving the organisation's position by change or expansion. Stage 3 is a recognition that a business, having reached some critical mass and stable form of operation, needs to have a long-term future and a strategy for ensuring a long-term future. In other words, a business manufacturing buggy-whips, for example, may reach

critical mass and may be able to manufacture profitably, but is there a long-term future in such an activity - perhaps the company needs to look at manufacturing steering wheels for cars instead.

Some might argue that the recognition of the three stages involved in the business horizon is integral to the "business plan". However, this is not necessarily the case because a business-plan, for small embryonic companies is little more than a series of financial projections based upon conjecture. A business plan is far more arithmetic than it is strategic and, by the time a business is well-enough established for a business plan to be based upon accurate projections, the plan becomes even more administrative in value and less strategic.

On the other hand, a recognition of the potential stages and critical decision points, for a business, is far more qualitative than it is quantitative. This can be as simple as a flow-chart that maps out the directions that a business should take, based on simple true/false conditions. Needless to say, most of these conditions ultimately boil down to whether or not a business is making any money - something that business plans are notoriously unreliable at predicting for small new businesses. However, the objective of the exercise is not to predict financial outcomes but to pre-empt decisions that will need to be made on which direction the business should take at each critical point, given a set of financial outcomes (i.e., "making" or "losing" money).

Many business people argue that the strategic exercise of flow-charting the decision-making process, for the various stages of a business, is all rather obvious and is taken into consideration by the business plan. However, one only needs to look at the number of companies, in the developed world, that make the statement that they will,

*"need to reduce labour costs if they are to remain competitive with emerging companies in the developing world..."*

to realise that very little strategic planning is undertaken even in large corporations, much less the small embryonic companies.

The issue of labour costs is an important one, in the developed world, because it ultimately restricts the range of businesses that can be profitably conducted. The ratio of labour costs in developed countries, to those in

undeveloped countries, can be as high as 100:1, and 20:1 with respect to developing countries. The notion that one could actually reduce labour costs in the developed world, to achieve parity with the undeveloped or developing world, is therefore totally ludicrous. However, labour costs are also roughly proportional to the infrastructure and available skills within a country, so they cannot be viewed in isolation. Nevertheless, one has to recognise that many undeveloped and developing countries have sufficient infrastructure and skills to make certain businesses far more competitive because of lower labour costs. Many businesses in the developed world therefore need to recognise that they will never be able to compete with developing and undeveloped countries in certain areas. The issue is then not one of reducing labour costs but of deciding upon the sort of activities that are viable for a given set of conditions.

The "*need to reduce labour costs*" argument, along with the often-cited "*need to reduce taxes*" argument are little more than a euphemism for "*need to get much better business leadership*" argument. They are a recognition of the fact that a business person is unable to operate a business within a given set of conditions. All businesses need to function within certain operating constraints imposed by governments through taxation, environmental guidelines, minimum pay standards and so on. While some business organisations (particularly multinational organisations that can move their operations off-shore if conditions are unfavourable) can influence nuances in government policy, the basic constraints imposed by a democratic-developed society (as opposed to government) are largely immovable because of the electoral backlash that occurs with erratic change. So, for example, a government in a democratic-developed society cannot unilaterally move to reduce minimum wages by a factor of 20 or taxes by a factor of 10 or to completely overturn environmental regulations. A business therefore has to accept that, in a democratic-developed society, the operating conditions are often immovable because they are set by a number of intangible social forces as much as by any government policy.

Business leaders, that malign the operating constraints, imposed by developed society, need to consider that both they, and their families, often derive considerable benefits by living in a society with such constraints. For example, during the 1980s, many clothing and textile companies moved their operations away from Australia, Britain, Europe, New Zealand and North America, because of the operating constraints imposed by their countries (i.e., high taxes, high labour costs, etc.). However, few business leaders in such

organisations were prepared to live (on a long-term basis) in the undeveloped and developing countries in which they chose to conduct their business. In other words, they were prepared to accept the benefits of a developed society (i.e., quality schooling, medical care, clean air, clean water, etc.) but were not prepared to contribute to the system from which they derived their own personal benefits.

The labour-cost and tax issues are of critical importance to developed countries because of the psychological elements that they introduce into the business process as much as for any cost elements that they introduce. One assumes that if all developed countries passed legislation which prohibited the boards of directors in companies (and their families) from living in the developed world, unless the bulk of their employment was provided in the developed world, then the issues of labour-cost and taxation would probably disappear overnight. However, with more and more countries seeking to compete and to attract investment and employment, many developing and undeveloped countries have put in place a Dutch-auction system to accommodate the demands of large companies. Each country endeavours to offer the lowest taxes, lowest labour costs, lowest environmental impediments and so on.

In the final analysis, there is only one truth in life and that is, that everything has to be paid for in one form or another. If companies pay low taxes and leave behind an environmental mess after they have discovered that another country is able to provide even lower taxes and labour costs, then the financial benefits (to a country), derived from having a company present, become more and more dubious. From a company's perspective, paying low taxes and labour rates also has dubious benefits if one has to wait days or weeks for production equipment to be repaired (because of a lack of technical or professional staff) or if officials need to be bribed to expedite matters or if the end-products of a business need to be transported by mule-train because of the lack of infrastructure in a country (because of its artificially low taxes). Nevertheless, one has to accept that the Dutch-auction system suited the business needs of large companies and proliferated throughout Asia in the 1980s and 1990s and will inevitably spread to the poorest nations of Africa over the coming decades. This doesn't auger well for those that wish to establish businesses with a long-term future (and commitment) in the developed world and, particularly, for small and medium-sized businesses that simply don't have the luxury of moving from country to country based upon expected tax and labour rates over the next few years.

The recognition that small, medium and even large companies, electing to centre the bulk of their employment in developed countries, would face great difficulties, in the light of the Dutch-auction system occurring elsewhere, became widely recognised in the 1970s and 1980s. The business gurus and observers of the day devised two solutions to the problem which, at the time, seemed perfectly reasonable:

- Companies in the developed countries would focus on high-value-added activities that were knowledge-intensive and would draw upon the considerable educational and knowledge resources in the developed world. The undeveloped and developing countries would focus on low-value-added (dirty-to-produce) products that people in the developed world could buy at a lower cost
- Companies in the developed world would focus on niche markets and products while companies in undeveloped and developing countries would focus on general-purpose products.

The second solution was, of course, a corollary of the first. If an organisation focused on high-value-added products, then the market would naturally be smaller and, hence, products would need to be more-tailored to specific markets and clients.

In the developed world, one can now recognise that there are serious problems with both these solutions. The most obvious problem with the above solutions was the naive assumption that undeveloped and developing countries would be content to remain as undeveloped and developing countries forever. The reality, which became increasingly apparent in the 1980s and 1990s, was that some of these countries moved, in under a decade, from producing poor quality clothing, footwear and soft-toys, to producing reasonable quality sound equipment and tooling, to producing high quality telecommunications equipment, engineering software and motor vehicles. In other words, the progression from flint-axes to microprocessors, that took the Western World thousands of years, was replicated by undeveloped and developing countries within one or two decades.

Part of the failure to recognise this problem could be attributed to the fact that most of the developed world emerged from a colonialist mentality,

instilled over centuries. This engendered the belief that one could use a poorer country as an off-shore site for "dirty-production" and that the poorer country would be content to remain subjugated indefinitely. In other words, there was an arrogant belief that people in the developed world were somehow more intelligent than those that lived in undeveloped and developing countries. Another part of the problem could be attributed to a failure to recognise the seemingly insatiable appetite that many undeveloped and developing countries acquired for progress, in the face of enormous social and economic and environmental problems. Far from being content to remain subjugated, it became apparent that undeveloped and developing countries were beating the developed countries at their own game.

The other key problem with the above two solutions was in the notion of niche marketing. Firstly, there was a naive belief that the developed world would be able to find enough high-value-added (knowledge-based) niche markets to resolve the unemployment problems that would emerge from shifting labour-intensive (dirty) "doing" tasks to the undeveloped and developing countries. Secondly, there was a naive belief that the developed countries would be the only ones smart enough to recognise and fulfil these niche markets. In fact, neither of these expectations proved to be correct.

Knowledge-based and/or high-value-added industries tend to employ far fewer people than the labour-intensive industries that they replace. Hence, a country would need to generate many times more knowledge/value-added industries than it lost in labour-intensive industries in order to maintain employment levels. Moreover, the developed world grossly underestimated the enthusiasm and speed with which developing countries would accelerate in a technical sense, spurred on by foreign investment and widespread education programs focused on technology. By the end of the 20th Century, countries such as China and India had more technocrats than Australia, Britain, Canada, New Zealand and the United States combined. Despite the social problems in such developing countries, this technocratic surge made a mockery of the idea that the pre-war-developed nations would continue to provide high-value-added knowledge-based products and services, while developing nations would continue to provide low-cost (dirty-to-produce) products.

There are two other issues that tend to erode the arguments for the developed world surviving on "high-value-added-knowledge-based" industries. The first is that, despite all the technological innovations over the

past two millennia, people still tend to spend a large proportion of their income on food, shelter, clothing and entertainment. A society only has a limited amount to spend on high-value-added products and services. So, given the availability of, say, a \$20,000 automobile, people are unlikely or unwilling to purchase a \$200,000 automobile, regardless of whether or not it has more knowledge and value added to it. Moreover, in creating a "knowledge-based" (i.e., *how-to-do*) society, one must recognise that knowledge needs to be sold (i.e., to the "*doers*") in order to provide some value. Undeveloped countries have many "doing" activities but limited funds to spend on "*how-to-doing*". Developing countries have a mixture of doing and *how-to-doing* and a burgeoning wealth arising from the mixture of the two. Pre-war-developed countries started with enormous wealth (at the beginning of the 20th Century) but increasingly moved their "doing" activities off-shore. This left the developed world with a large *how-to-do* sector and less and less *doers* to whom knowledge could be sold (without exporting to the developing nations).

No matter how one rearranges the equations or, for that matter, the countries, the end result is always the same. There are more people on the earth than one can gainfully employ on basic activities and so one must either keep finding new (non-basic) activities or expect greater competition in existing activities. Since there are more and more people looking for new activities (and consequently discovering the same new activities), the potential income from these activities becomes less and less and, so, one has to get better and better at each new activity in order to survive.

Looking back to the beginning of the 20th Century, one can see that such business difficulties didn't exist to the same extent that they did at the end of that century. Countries were effectively isolated by distance, poor transportation and poor communications systems. Businesses could generally operate within a single country (or even a single town) and with little exposure to competition from the rest of the world. So, one could contemplate opening, say, a small hardware store or stationery store, working hard and building it into a profitable entity that could either be sold or passed on to one's successors. In the modern world, one is more likely to be swamped by multinational competitors with massive international buying power and sophisticated marketing, distribution and retail networks. One therefore needs to be far more sophisticated in one's own approach to business. Therefore, in light of the above discussions, and the ferocity of

competition in the modern world, the three stages of business decision-making (alluded to earlier) tend to be reworded in a vernacular form:

- Stage 1:       Get going - fast
- Stage 2:       Become competitive against bigger adversaries - fast
- Stage 3:       Find ways to remain better - fast.

The reasoning behind the three stages is that, in a business sense, one can no longer rely upon imagination or creativity, in isolation, for survival. People around the world, from New Delhi to New York are all being exposed to similar educational, commercial and media influences and are all being channelled into similar thought processes, albeit with different levels of opportunity to capitalise on those processes. By the end of the 20th Century, the differences between, say, an Engineering or Science course in Beijing and one in Boston became marginal, to say the least. And, if one couples this to the societal and technical changes that have led to an internationalisation of communications and information exchange, then there is little doubt that the whole world will begin to have the same sorts of ideas, with only diminishing cultural differences to add nuances to them.

The end result is that businesses, which haven't the inertia to control or stifle competition, have to rely on being svelte enough to take an idea and use it as the basis of a competitive business that can grow and improve and adapt in order to maintain an advantage over emerging rivals. This may appear to be a "motherhood" statement, that is far easier said than realised, but it does highlight an important point. Whereas business was once a means of extracting money from a creative idea, it has now changed to the extent where the idea has far less value than the creativity that goes into sustaining and growing the business. So, coming up with a new idea for a soft-drink or hamburger has little significance in business terms unless it is coupled to a multi-billion dollar marketing, distribution and retailing chain. The idea then becomes little more than a minor ingredient to the overall business.

Many smaller companies endeavour to avoid commodity-type products because of the difficulty of competing against larger organisations. Hence, the emphasis, in smaller companies, is on niches, such as fashion or, more commonly, technology, where there are always new tools and applications emerging.

If a company elects to pursue a technology-based path, then there are really only three broad options available for making money:

- Knowledge-based services
- Software-based products
- Hardware-based products.

All three have their own unique problems.

A company that provides knowledge-based services really only has one significant piece of capital and that is the knowledge embodied in its employees. This knowledge is then sold in order to acquire consulting revenue. There are two problems that become evident here. Unless the employees continually acquire more new knowledge, then the capital becomes depleted (because clients and competitors eventually acquire knowledge in their own right) and the company has nothing left to sell. This is a particularly common problem in consulting companies. It is made all the more severe because the cardinal rule for making money in business is repetition (i.e., avoiding "learning curves"). In other words, in order to make money, companies need to sell knowledge over and over again in much the same way. However, in doing so, the company has difficulty acquiring new knowledge and eventually the whole process stalls. On the other hand, if the company tackles many different tasks, then it can continually acquire new knowledge but will rarely find it profitable.

The second problem with knowledge-based consulting is that unless a company has some special benefits to offer, then it may be little more than a collection of individual employees, with nothing to bind them to the company. For example, a company that is composed of individuals that, say, provide software development services, is meaningless as an entity unless the individuals within it need to work as a team in order to produce results or, unless the company can provide marketing and support services that an individual cannot provide in isolation. If these sorts of conditions cannot be fulfilled then the end result is a constant stream of employees leaving and starting their own knowledge-based companies. Again, larger companies have an advantage because of the ability to provide special services such as career paths for employees; marketing and networking with major clients.

The logical extension to knowledge-based companies is to develop a product that provides a binding element that employees cannot have in isolation. Commonly, software becomes the first product that emerges from a knowledge-based organisation. During the 1980s, many small companies around the world began generating software-based products as an extension to knowledge-based services. This appeared to be a reasonable progression and, in many cases, was a successful progression in specialised markets such as computer aided design (CAD), computer aided engineering (CAE) and so on. As long as companies avoided direct competition with the large software houses, that dominated the commodity-software field, there was a potential for organisations to sell knowledge as software and software as knowledge.

Unfortunately, the trends established by the large commodity-software producers also had significant ramifications for the smaller software houses. Most consumers came to disassociate software with knowledge, and specialised software was often devalued as a result. The concept of intellectual property was lost as consumers made a subconscious (and sometimes conscious) decision that the market value of software was little more than the cost of the storage medium (on which it was supplied) and the cost of the manuals that described its operation. This meant that even small software houses had to become international to survive and this, in turn, required major injections of funds. Many smaller companies then decided that it was better to revert to knowledge-based roots and to add more value to their software products by providing consulting support. So, many smaller, software organisations came full-circle in order to find a market niche in which they could be competitive.

Small companies, that wish to enter into specialised hardware markets, often have the most difficult task of all embryonic businesses. Essentially, the areas that such companies can cover involve complex mechanical, electronic or combined mechanical/electronic (mechatronic) devices that have specialised applications - perhaps for industrial users. Again, small companies have very few prospects of successfully producing consumer products because they need to compete with low-labour-cost countries or with large organisations, that have massive investments in high-technology production equipment, which minimises proportional labour costs and increases quality. Even in specialised markets, however, customer expectations of product quality are enormous, compared to half a century ago.

In the middle of the 20th Century, people may have been prepared to purchase a rudimentary product that had been manufactured in a garage, from basic formed-metal and nuts and bolts, but the modern consumer expects state-of-the-art plastic mouldings with appearance and feel that can only emanate from elaborate ergonomic and industrial design and costly mass-production techniques. This isn't an issue provided that one is mass-producing products, because the cost of design and tooling can be amortised. The problem, however, is that a specialist hardware manufacturer, that may only produce ten to twenty of any one product, is expected to achieve the same standards of design, ergonomics and appearance in order to be considered as a quality producer. In a sense, the same is true of specialised software, where consumers, accustomed to general-purpose packages (that are designed to be amortised over millions of copies) expect the same standards of design and functionality in packages that may only sell a hundred copies.

To make matters worse, for the producers of specialised hardware, customers expect the same standards of service and support that they receive from manufacturers of general-purpose consumer products. They also expect the same (or better) standards of documentation. Expectations of product reliability and design integrity in specialised products are also in line with those of mass-produced products but, as few consumers would realise, these benefits largely arise from mass production techniques. All of these factors make it extremely difficult for the embryonic business to acquire a foothold in the market.

By way of hypothetical example, consider a small electronics company that, in the 1970s, may have been able to provide specialised circuits (for industrial measurement and control, say) in a general-purpose metal box with stick-on labels. In that era, documentation might have been composed of a few typed pages and support restricted to a business-hours phone number and a repair service. By the end of the 20th Century, the same electronics company, would have been unlikely to sell that type of product unless it was encased in a state-of-the-art, purpose-built enclosure (that exuded quality); packaged in glossy (artistically-designed) boxes and so on. The consumer would have expected a 12 or 24 hour turnaround in the event of breakdown - perhaps, even around-the-clock product support. Reliability expectations were much higher. Documentation would need to include professional typeset text, quality diagrams, binding and, perhaps, computer-based on-line support. All these changes made an enormous imposition that struck at the very viability of an embryonic organisation.

Many specialised hardware applications were also attacked by large competitors that recognised that the design portion of the "core" product (e.g., electronic circuit) became irrelevant, compared to the costs associated with marketing; enclosure design; quality control; packaging; support, distribution, etc. A large company could therefore amortise these more-significant costs and still provide the specialised product as a more-attractive alternative than the small company. This was particularly true in the case of industrial equipment and large-scale specialised software, where a number of large companies created suites of specialised products, that were all the more attractive because they came from large companies (and therefore provided a reassuring level of design and product stability and support stability). One of the ironies, therefore, of creating products for niche markets is that, often, the clients in those niche markets don't want to buy from niche companies but would prefer to deal with large organisations

As a general rule, large companies preferentially tend to deal with other large companies, if for no other reason than because many people in large companies don't like taking responsibility for "courageous" decisions. The old 1960s philosophy that

*"No-one ever got fired for buying an IBM"*

still held true, in various forms, in the 1990s (although fewer people were prepared to admit that such a philosophy influenced them). Putting it another way,

*"...doing the right thing"*

is seen to have far less value than

*"...being seen not to make the wrong decision".*

Any major purchasing decision in a large organisation can be justified (rationalised) on the basis that many other organisations have followed the same path, and they can't all be wrong. Therefore, in terms of acquiring technology-based products, there is a great deal of job security to be had from being a sheep, and from being second at doing things, because caution is seen as an industrial virtue. Hence, embryonic organisations not only have to contend with very real competition (e.g., extensive product support networks, etc.) from larger organisations but also with the stigma of being smaller.

There is a positive side to being a small organisation and that is the ability to innovate. In other words, the ability to create products and services that are more radical than the mainstream and to more quickly adapt those products and services to customer needs. To some extent, this ability is founded on the basis that customers expect far less (in the way of quality, product consistency, evolution and support) from small companies than they do from large companies. If a large company was to suddenly cease production of a particular type of equipment or software and switch to something radically different (that didn't provide clients with a transition path), then the ramifications would be enormous because of the number of users and the expectations that they held. On the other hand, smaller suppliers are associated with a higher level of risk and buyers tend to trade-off the advantages that they can have from advanced products and services against the possibility of not having long-term support or consistency.

Innovation in small embryonic companies does not just arise from the fact that such organisations stem from bright and enthusiastic minds. It also stems from a naive belief that all one has to do in order to succeed is to have a better product (e.g., product design) or service. In the short-term this may well be true. In the longer-term, people ultimately prefer security and stability even if it is coupled with design or service mediocrity - hence the number of large long-term-stable companies and the frequent emergence and disappearance of small companies. The other problem with being small and innovative is that as soon as one runs out of ideas (or enthusiasm, as is often the case) the competitive advantage is lost and the company goes into demise because it cannot compete against other new (enthusiastic) contenders and large rivals.

It is also interesting to note that as small companies do become larger, they begin to resemble (more and more) the larger companies that their proprietors averred they would never become. Design and service innovation becomes less and less important as the smaller company grows to have more marketing people, more administrative staff, more service staff and so on. The corporate pyramid takes shape as the aspirations of employees move from corporate outcomes to career outcomes. Every change, that an enthusiastic proprietor attempts to put forward, is met by walls of resistance that are put in place to maintain stability in the organisation. The irony is that a proprietor in a small organisation hires employees to systematise procedures (marketing, product service, accounting, etc.) and, in doing so, realises that all these groups help to stifle change in the core product. Perhaps, there is some final irony in the fact that the bulk of customers, who claim that they need innovative products and services, are really extremely conservative and, in the long-term, businesses that wish to survive have to respond to that conservatism.

The media often portrays high-technology and innovation as a panacea to economic problems. Superficially, the notion of maximising technology and innovation seems in harmony with maximising "value-adding" and hence maximising potential profit. In reality, of course, the countries that performed particularly well (economically), during the latter half of the 20th Century, were not those that were associated with high-technology and innovation but, rather, those that were associated with well-managed medium-technology. Countries such as post-war Japan and Germany, which were often portrayed as "high-technology" were actually medium-technology societies. Their universities and research organisations were geared towards low-level applied research and their companies were geared towards producing very-high-quality products based upon proven technologies (that were often developed in other countries). Businesses in these countries recognised that simply being creative and innovative in research and design was not enough if a company (and country) was to have a long-term economic future. Creativity and innovation needed to extend to areas that were traditionally viewed as uninteresting - that is, quality control, production techniques, customer-service and so on. On the other hand, companies that were solely focused on design/service creativity and innovation rose rapidly and fell, just as rapidly, when the design spark was eroded.

The dilemma that is created, because innovative designers and creators like to have their own companies while the stable money-making production techniques and methods exist in larger companies, is not easy to resolve. There are, however, a number of mechanisms that have been put into place to resolve such problems. One of the mechanisms is where large organisations recognise that they will never be design innovators (because they simply cannot retain such staff in their organisations) and they establish alliances with small companies that can become a creative engine for the large company. As long as the small company is prepared to recognise the limited value of their design, in comparison to the massive investments that are often required to produce a commercial end-product, there is a potential to have both organisations working in a marriage of convenience.

One problem with this marriage is the well-known "inventor's syndrome", where every inventor believes that their idea is worth "millions" and that everyone is out to steal their idea. This largely stems from an inability to recognise that an idea, in the modern-world, is worthless unless it is coupled to large investments in tooling, marketing, product support networks and so on. On the other side of the equation is the larger company that often endeavours to cover enormous and unnecessary overheads (such as private planes for directors, etc.) through profits generated by "inventions". The conflicts that arise are inevitable, and potentially soluble, but the objectives of the innovative proprietor and the board of a large-company are often poles apart.

Another solution that can assist embryonic companies in growth is the concept of the "*business angel*", that was coined in the United States, but was not necessarily a new idea. The business angel is often a director and/or major shareholder of a large corporation, has considerable funds to invest, and chooses to invest a portion of those funds in embryonic companies that need to grow in order to survive. Although the embryonic companies may have a high risk, the business angel recognises that even if, say, one in five is successful, the benefits may cover any losses arising from the remainder. The probability of success is enhanced because the business angel makes it their business to provide advice to the embryonic company. In other words, the embryonic companies become a hobby for the business angel, as well as a potential source of income if they become successful. The advice provided is normally genuine because the business angel has a vested interest in the success of the small organisation.

The business angel approach has real benefits from the embryonic company's perspective because it can access potentially valuable advice as well as the funds to grow. On the other hand, one has to wonder whether the proprietor of a multi-billion dollar organisation, that employs tens of thousands of staff and produces soap-powder, say, can really provide relevant advice to a small organisation that employs five and produces specialised electronic devices. Putting it another way, a small organisation is not a scaled-down version of a large organisation and vice-versa. Advice from one quarter does not necessarily translate to another quarter. For example, if the director of a large corporation advises a small company to invest ten percent of turnover in marketing, then the advice doesn't amount to much if ten percent doesn't even add up to the cost of an employee or a color brochure.

Some of the brotherly pieces of advice, often directed from large companies or government enterprises, towards embryonic companies, include the concepts of international competitiveness and export:

*"You have a niche product with a limited market in this country, if you want to survive, you have to consider export..."*

And so it is that companies in New Zealand endeavour to export niche products to Australia; those in Australia seek to export to North America and Europe; those in North America and Europe strive to export to China and those in China busily export commodity products to New Zealand, Australia, North America and Europe. Leaving aside the difficulties associated with a small enterprise exporting to another country, there is a critical question of motivation for export.

Many embryonic enterprises experience frustration because they have difficulty in competing even in a local market. Sometimes, this frustration becomes manifested in contempt for the local market

*"...people aren't buying our product because we produce it locally - if we were selling a product from Japan, they would be lining up to buy it..."*

The problem is that what the Canadians say about the Germans is not unlike what the Germans say about the Japanese and the Japanese say about the Italians and the Italians say about the French and so on. In other words, most local markets perceive imported products to be better and more exotic than

the local products. Perhaps this is a hangover from the times when Marco Polo brought back exotic products from the East and people felt that imported stuffs were associated with the wealthy and aristocratic classes while local products were associated with the poor and common classes. The danger here is in extrapolating a frustration with imports into a motivation for export. There is also a danger in blaming the local market for not being discerning when it may well be the local product or service that is at fault.

The motivation for export can only begin in earnest when an organisation has made a success of its local market. It is extremely rare for small organisations to succeed by solely targeting export markets. Moreover, any organisation that is solely export-based really needs to address the issue of why it is located where it is (unless there is some competitive advantage to a particular location, such as low-labour cost or a favourable climate for primary production). In any event, a dissatisfaction with the results of selling to a local market,

*"They wouldn't know a good idea if they were hit over the head with it..."*

isn't really a sound starting point for sending products off-shore. The key point is that the "rest of the world" is essentially the local market multiplied many times over. The selling organisation still needs to address the issue of why a product/service will satisfy a given need in the target market better than the competitors. More disturbing, however, is the illusion that exporting and selling to a large market is much easier than selling to a small market. One has to realise that a large market may be ten times greater than the small market but it also has ten times the competitors. The increase in competition may be pro-rata but the effect is not. Clients in large markets are far more desensitised to advertising because they receive many times the amount of advertising than those in small markets.

Remarkable as it may appear, there are a number of instances where companies have performed poorly in a local market, have sought to export and have succeeded. In most cases, the failure in the local market and success in the export market aren't signs that the local market was biased against local products. It is often the case that companies take local markets for granted and assume that they are prepared to endure poor products and/or service because a local company deserves to be supported. In making a commitment to an export market, the entire culture of a company often changes when it is

realised that the expenses and risks are greater, the competition more fierce and the market intolerant of newcomers that cannot perform better than the existing contenders. Companies, seeking to export, view a new market with their eyes wide open to the competition and its products - a perspective that is seldom acquired in a local market. So, often it isn't the export market that is necessarily different, or more appreciative, it is the company that changes (for the better) as a result of having to export. Nevertheless, export is a costly and risk-filled journey of discovery for embryonic companies, particularly if the answers to problems lie at home, simply awaiting a company to open its eyes.

Regardless of whether a small organisation chooses to serve a domestic market or to enter into an export culture, the reality is that a small business will always be a high-risk proposition because it tends to have all its eggs in one basket and is subject to predators whose behaviour cannot always be predicted. In the final analysis, it doesn't matter whether the business is a hardware shop or a software house or a green-grocer or an electronics company. If the organisation is small then there is always a possibility that, regardless of its business decisions, a large competitor can cause its demise overnight - whether by opening a hardware superstore across the street; developing a more modern version of the same software; opening a large supermarket next door or developing a smaller and faster electronic circuit. While the specifics vary from business to business there are always some challenges that cannot be overcome, regardless of the planning that goes into a business.

All the above discussions may seem very negative for small business organisations but then there have always been severe challenges associated with the creation and growth of any form of business. The difference is that technology, and the emergence of competitors from undeveloped and developing countries, have made the situation considerably more complex and more difficult to deal with. However, of the businesses that are created in the developed world, a proportion naturally succeed and grow - some due to planning, some due to hard-work and enthusiasm and some due to sheer luck (that a large hardware store didn't open across the street or that a large software house didn't develop a better product and so on).

Perhaps, all these factors only mean that the probability of business success in the technology/knowledge-based developed world is now much smaller, and that the window of opportunity, for small organisations, is much more limited than it used to be. Perhaps, one also needs to conclude that the idea of starting a small business and maintaining it for a lifetime is no longer valid. The reality is that individuals, that have a desire to control their own destiny, may need to start several businesses over a lifetime and recognise that no small business can sustain them indefinitely.

Despite the obvious difficulties for small business, it needs to be noted that a large business is not a haven from the difficulties of competition and the rising tide of competitors from developing nations. Inertia can only lengthen the time taken for a large organisation to go into demise and, inertia, while being a significant advantage, can also be an insidious problem because it tends to cause a slow, and often invisible, degradation in fortunes that doesn't precipitate a crisis until it is too late to remedy. Large companies are not unlike countries, in the sense that when they achieve their basic status; corporate pyramids; comfortable offices and cars, the impetus for change and innovation disappears because of the inertia within. The whole concept of change and innovation becomes too difficult to promulgate, particularly in the presence of the corporate pyramid. Those at the apex of the pyramid are least likely to initiate and implement real change because real change could most likely manifest itself in the form of risk and hardship for those entrusted with initiating it.

One could therefore reflect upon the diminishing success rate of business in the developed countries (and the increasing success rate in undeveloped and developing countries) as being symbolic of the three generations of business (i.e., the first generation makes the money, the second enhances it and the third squanders it). Perhaps, the same is true in the case of countries - the thirst for survival diminishes after the first generation and a thirst for enhancement emerges, because the second generation witnessed the hard labour of the first. The third generation is born without witnessing the labour of the first and is accustomed to wealth brought about by the second. The third generation fritters away the gains of the past because it has lost an appreciation of how they were acquired. So, perhaps business in the modern developed world just seems harder than in the past because we have forgotten the difficulties of the past and are not prepared to be reminded of them by undeveloped and developing countries.