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# FLOOR

News from the Centre for Business Research, University of Cambridge

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## CBR News

### Another first for Xiaolan Fu

Currently at work as a research fellow with the CBR, Xiaolan Fu will next summer be adding another success to her already impressive list of accomplishments. Her first book written in English is due to be published by Pallgrave MacMillan.

Xiaolan, who came to the UK from China four years ago, is currently working with Dr Andy Cosh of the CBR and Professor Richard Lester of the Massachusetts Institute of Technology (MIT) as part of a long-term research project funded by the Cambridge-MIT Institute (CMI) into the determinants, performance and impact of innovation performance, comparing the US with Europe, and particularly the UK.

Her book, titled *Exports, Foreign Direct Investment and Economic Development in China*, is based on research originally carried out for her PhD thesis and subsequently developed. Says Xiaolan: 'I hope my book will help to impress on policy-makers the important implications of globalisation on economic development, not only in China but in all developing countries.'

Xiaolan's expertise lies in the area of trade and foreign direct investment, industrial productive efficiency, the determinants and impact of innovation, globalisation and technology transfer and spillovers, globalisation and economic development. She has a BSc and MSc in Management Science (China), as well as an MSc in International Business and a PhD in Economics from Lancaster University. Before coming to the UK, she was an associate professor in international economics in China.

### Make a date for 02-03-04!

An unmissable date for your diary: 2nd March 2004, 1pm at the Judge Institute of Management, Cambridge's business school. Hear Dr Os Guinness speak on 'Living with divergent local values: international business leadership post 9-11'.

The lecture is part of the Cambridge MBA Distinguished Speaker Series, on this occasion jointly presented with the CBR. There'll also be a buffet lunch beforehand.

Os Guinness is a leading international thinker and an outstanding speaker on values in leadership. He is currently a Senior Fellow at the Trinity Forum, an 'academy without walls' which brings together senior leaders in business, politics, the media and culture. He has advised several US presidents and many senior business leaders on handling moral dilemmas and corporate social responsibility.

Os lives in the US, has a D.Phil. from Oxford and has written many books and was previously a visiting Fellow at the Brookings Institution.

## Editor's note

'There are around a billion people in the world living on less than a dollar a day,' says Professor Ajit Singh. 'There's no reason whatsoever for this abject poverty to continue. The world has the resources and if the global economy was growing at two per cent a year faster everybody would be better off. Poverty figures would be halved in 10 years.'

In this edition of *Top Floor* we interview Professor Singh, one of the world's most respected economists in his field. And we learn that his essential message to richer nations is that they must do more to help the poorer economies — if they wish to continue prospering themselves.

We also review two papers recently published by the CBR which investigate the nature, motivations and business realities of entrepreneurship. In her paper, *The Beer Beneath the Froth*, Dr Thelma Quince argues that there is a need to 'recognise the importance and concerns of the main body of existing high-tech small firms — the "beer" — and not be blinded by the attraction of the "froth" that is the research base spin-out'.

Meanwhile Prof Alan Hughes' paper calls for an holistic approach to technology transfer, arguing that focusing attention on spin-offs can distract from the more important axes. These, he states, remain the publication and dissemination of research output and the employment in existing firms of university-trained and educated scientists and technologists.

All good thought-provoking stuff! We hope you'll find this edition of *Top Floor* a thoroughly stimulating read.

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# Their Lordships call on CBR expertise

*Top Floor* talks to Professor Alan Hughes, Director of the CBR, who recently acted as special adviser to a House of Lords select committee inquiry into entrepreneurship in Europe.

**T**he issue of support for entrepreneurship is one of today's hot topics in European policy-making circles. How can we best promote enterprise to sustain economic growth in an increasingly competitive world? And how should it be funded?

The CBR's Professor Alan Hughes was natural first-choice when Subcommittee B of the House of Lords Select Committee on the European Union was looking for a special adviser to assist in its 2003 inquiry.

Together with CBR colleagues Dr Andy Cosh and Anna Bullock, Prof Hughes has been responsible since 1991 for the largest and longest-running UK survey of SMEs. He has conducted extensive research into the growth, financing and innovative behaviour of SMEs, and the design and evaluation of enterprise support policies.

Moreover, he has acted as consultant in the past to HM Treasury, the Inland Revenue, the Bank of England, the Dutch Ministry of Economic Affairs, the British Bankers Association, the Institute of Directors, the Building Societies Association, the Law Commission, DTI, DfES, Eurostat, ILO, UN and the World Bank.

'Assisting the House of Lords committee was a time-consuming process,' says Prof Hughes, 'but well worth the regular Monday afternoon involvement in the inquiry sessions over a couple of months. Essentially the purpose was to analyse and report on the implications of the recent EC green paper on Entrepreneurship in Europe.'

'In my role I was able to draw on the

strength of our pioneering work here at the CBR. I'm glad to say we are gaining an international reputation for our research, and being able to take up invitations to advise in such instances reflects well on the work we've been doing.'

## Ensuring value for money

The committee chose to focus its inquiry on the identification of priorities in setting policy for business development and to ensure that, whatever resources were to be directed in enacting it, the process would offer best value-for-money.

In terms of impact on UK entrepreneurship implied by the proposals, the committee's report recommends that Government should first take a fresh look at the structure of administering agencies involved in enterprise policy. It should aim to build on past success, for instance through greater exploitation of the Teaching Company Scheme and continuing support for schemes, such as the Grant for Research and Development. This provides funds for smaller businesses trying to develop new technologies. A review of the impact of tax policy changes on enterprise is another key recommendation.

The committee concludes that any proposed scheme to support entrepreneurship which seeks to implement the action plan based on the EC's green paper should:

- address a clearly identified market failure and have clearly specified objectives;



Professor Alan Hughes: advice to the House of Lords Select Committee

- have an agreed set of quantifiable outcomes against which monitoring and evaluation can take place;
- have a built-in costing, information and reporting system designed to provide the necessary material on which to base monitoring and evaluation.

While Prof Hughes believes the nurture of entrepreneurship is certainly a key support strategy in order to stimulate and grow new enterprises, he warns that there is a danger of overemphasising start-ups at the expense of improving the performance of the more established SME sector.

'It's easy to get carried away by the need to encourage new enterprises as a foundation for economic growth,' he says. 'But, in my view, it's also vital that we provide greater encouragement and support for existing small and especially medium-sized businesses. Middle-market firms beyond the small and start-up sectors play a significant role in the economy and to give too little attention to their needs in terms of development would be a grave oversight of policy.'

- See also our **Seeds of Success** feature on pages 6 & 7, in which we review Professor Hughes's recently published paper, **Knowledge Transfer, Entrepreneurship and Economic Growth**.

# World economy in the balance

Chris Dunn talks to Professor Ajit Singh, a doyen among international economists who has a special interest in the dynamics of the world's developing economies.

Economists don't come with much more impressive credentials than Prof Singh. In a far-reaching career he has been a senior economic adviser to the governments of Mexico and Tanzania and a consultant to UN developmental organisations including the World Bank, the ILO, UNCTAD and UNIDO.

A graduate of Punjab University with a PhD from the University of California, Berkeley, Professor Singh has been teaching economics at Cambridge University since 1965. He is currently Professor of Economics and Senior Fellow at Queens' College. He is also the author of several books and many academic papers which have influenced international academic and political thinking.

Prof Singh has led several CBR projects, including those on *Corporate Governance*, *Corporate Finance and Economic Performance in Emerging Markets*, and on *Competition, Takeovers and Investment*. The CBR has published many working papers by him, including seven in the last two years alone, on several aspects of corporate governance, competition and competition policy in emerging markets and advanced economies.

A central focus of Professor Singh's research over the past 10 years has been corporate organisation, governance and finance in relation to emerging markets. He has studied closely the dynamics that affect developing economies, with particular emphasis on the interaction between domestic and international economic behaviour.

'In almost every developing country there are big privately-owned business groups which produce a wide variety of products,' he says. 'I'm concerned with the nature of these groups, how they interact with small firms and what role competition plays in the product and capital markets internally and externally. I'm also interested in how they

finance growth, with the ultimate purpose of identifying how these countries can avoid financial crisis.'

## Cooperation is the future

The essence of Prof Singh's economic philosophy is that it's down to the advanced economies of the world to assist developing economies if they wish to continue prospering themselves. Moreover, he says, it is perfectly possible for world economic growth to advance at twice its current rate — from two per cent, as it is currently, to four — if only political will and international cooperation could be mobilised to make it happen.

'There are around a billion people in the world living on less than a dollar a day,' he says. 'There's no reason whatsoever for this abject poverty to continue. The world has the resources and if the global economy was growing at two per cent a year faster everybody would be better off. Poverty figures would be halved in 10 years.'

'The world economy is operating much below its capacity. We have sufficient resources and technological capability to expand at twice the current rate. The main constraint comes from the demand side. Rate of growth in demand is lower than the rate of supply growth — and the reason is that the economically advanced countries leave it to the financial markets to dictate how much demand is created in the emerging economies.'

'But these should be political decisions. I'm really saying it's a matter of human organisation. At the moment the advanced countries, instead of cooperating with each other, leave international development to the financial markets. But if people in what are potentially substantial markets have no money, then there's no growth in demand. Simple as that.'



**Professor Ajit Singh: 'Imperfect as they are, I believe the UN institutions are the best hope we have.'**

Certainly the economic crises which occurred among Asian economies in the 1990s suggest that free-market thinking cannot be relied upon to nurture the fortunes of emerging markets.

Prof Singh cites Korea as an example typical of the east Asian countries which had been extremely successful but suddenly descended into crisis during the mid-1990s. The factors which led to this abrupt collapse in business confidence have been widely debated, but Prof Singh believes that accepted explanations are well wide of the mark.

'Perhaps the most influential of several theories — ascribed to organisations like the US Treasury and the IMF — is called the structural theory of crisis. This says that the fault lay in microeconomic behaviour and the Asian way of doing business. It was poor corporate governance and lack of competition, leading to over-investment, along with the "crony capitalism" of relationships between government, banks and business, which were to blame.

'But this is not a view I agree with at all,' he says. 'Korea was enormously successful, having sustained an eight per cent growth rate over 30 years — unprecedented in the history of mankind. This was brought about by close government involvement with banks. It wasn't done by

free markets, it was done by the visible hand of the state nurturing business groups.

'Then in the 1990s, like other East Asian countries such as Malaysia and Thailand, they tried to establish independent financial centres. What happened was that government control weakened as the financial markets were liberalised, with the result that they had too little government involvement so they were unable to control or monitor debt levels.'

### **Failure to see the big picture**

The real culprits in the Asian economic crisis, says Prof Singh, were the big foreign banks, which failed to see the bigger picture and think long-term.

'The case of Thailand is a good example. In the 1980s there was a great wave of commercial property building in anticipation of an office rental boom, but suddenly there was a collapse of that market. This resulted in crisis on the Thai stock market and in the foreign exchange markets. Thereafter the loss in financial confidence in the region just spread by contagion. You had western fund managers suddenly withdrawing their money from Thailand and thinking, well Indonesia is just next door, so they must be having the same problems. So they started withdrawing from Indonesia as well.'

While the Asian economies are now recovering from the bad times of the late 1990s, Prof Singh believes that only by international cooperation can the world's emerging markets be developed as stable entities.

'It can only be achieved through managed trade and managed capital movement,' he says. 'And that means some level of international control backed by political will. The Asian experience proves this. The banks independently decided it was better to leave before they were left with bad debts. But if they'd cooperated it could all have been avoided.'

So who can be entrusted with coordinating this effort?

'It has to be centred around the United Nations system and its specialist agencies,' Prof Singh says. 'The rich countries don't listen to the IMF any more, even if they are given good advice. So it's inevitably down to the UN agencies to play the role of coordination. There will be setbacks, because the world is not yet ready for it, but this is the road to go. Imperfect as they are, I believe the UN institutions are the best hope we have.'

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**• For more details on Professor Singh's research, visit the CBR website: [www.cbr.cam.ac.uk](http://www.cbr.cam.ac.uk)**

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# The seeds

We review two working papers recently published by the CBR, which present significant new insights into the nature, motivations and business realities of entrepreneurship.

## Beer beneath the froth



A hazardous brew?

For most of us, mention of a university ‘spin-out’ conjures images of a thrusting young graduate with a potentially marketable high-tech idea and the intention of getting very rich very quickly.

But this impression is inconsistent with the findings of an ongoing Centre for Business Research investigation. Indeed, a paper recently published by the CBR’s Thelma Quince, together with CBR associate Professor Hugh Whittaker, counsels firmly against taking such a narrow policy focus.

Dr Quince argues that there is a need for policy and popular perception alike to ‘recognise the importance and concerns of the main body of existing high-tech small firms — the “beer” — and not be blinded by the attraction of the “froth” that is the research base spin-out’.

‘There is a danger,’ says Dr Quince, ‘of implicitly promoting a particular business model: one emphasising personal financial gain and venture capital funding, which may be at variance with those prevailing among the broad spectrum of existing high-tech small firms.’

Dr Quince’s paper, incidentally, has already made its mark by winning a best paper award at the International Council

for Small Businesses’ 2003 World Conference in Belfast.

The title of the work, one in a series of papers reporting on ongoing CBR research into SMEs, is *The Beer Beneath the Froth: Preliminary Findings from Case Studies of 25 Small High Technology Firms*.

The authors warn that the ‘characteristics, preoccupations and problems of the vast bulk of small firms operating in high-tech sectors, and making a contribution to international competitiveness through innovation and export, may be overlooked in the current policy climate’.

### A ‘model’ mismatch

Over-emphasis on the ‘froth’ by policy-makers is explained chiefly by an inclination to emulate the US which, since the 1990s, has been notably more successful in spinning out new ventures from research institutions than we have been in Europe. However, the paper points out that a policy simply designed to ‘pick winners’ has a detrimental effect on the main body of SMEs.

The 25 UK businesses studied in depth by the research provided a revealing response. ‘We don’t fit the model,’ most said. Far from the early-exit motive associated with the popular model, the entrepreneurs surveyed expressed concern for much wider and more long-term objectives.

Moreover, despite a prevailing impression that high-tech entrepreneurs are relatively young academics, only five of the firms Dr Quince studied were set up by people in their twenties. Among the rest, seven were founded by people in their forties, and three by people in their fifties.

‘The studies suggest a complex of motivational factors,’ Dr Quince says, ‘including the three “I”s of Intellectual satisfaction; being Instrumental in effective change; and obtaining satisfaction Indirectly through the actions of others. Although generally seeking substantial growth, the entrepreneurs were cautious about recruitment. Their own orientations toward personal development were reflected in promoting employees’ personal development... It is the crucial role of personal relationships which emerges, and which simplistic policy measures cannot address.’

# of success

## Taking science to market

**T**he question of the appropriate emphasis to be placed on university-based spin-outs in technology transfer also emerges as a feature of a thought-provoking new paper recently published by Professor Alan Hughes.

Under the title of *Knowledge Transfer, Entrepreneurship and Economic Growth: Some Reflections and Implications for Policy in the Netherlands*, Prof Hughes examines the relationship between entrepreneurship, university spin-out activity and economic growth.

'A linear approach to the innovation process, with basic science at one end of a chain and commercialisation at the other, is misleading,' says Prof Hughes. 'The reality is more complex and incorporates important areas of activity where consideration of use and the pursuit of basic science go hand in hand.'

The paper stresses the need for an holistic approach to technology transfer, arguing that focusing attention on spin-outs can distract from the more important axes which, states Prof Hughes, remain the publication and dissemination of research output and the employment in existing firms of university-trained and educated scientists and technologists.

'A key driver of overall productivity growth is productivity growth in existing firms,' he says. 'The direct effect of new entry is considerably smaller, and university-based spin-outs are a tiny proportion of overall start-ups. The impact of new entry is greater over the longer term and plays a bigger role in more technologically turbulent industrial settings. Technology-based start-ups have most potential in those settings.'

### Productivity growth drivers

Prof Hughes also argues, however, that an emphasis on technology-producing industries as conventionally defined ignores the critical role played by technology-using industries. These sectors put new technology into practice, diffusing it through the economy and driving up productivity levels. The impact of this in sectors such as retailing and wholesaling, which are large employers, has

far-reaching effects on overall productivity growth.

This, coupled with the importance of improving productivity in existing firms, says Prof Hughes, means that increasing the rate of innovative university spin-outs is unlikely by itself to lead to major short-term shifts in macroeconomic performance. Moreover, 'the direct impact through the growth of such firms and the indirect effect they may have on technology-using sectors depends critically upon management competence and organisational innovation. This points to the development of educational programmes in business schools which combine technical with managerial competence, and mobility of experienced managers across size classes of firms.'

Growth after start-up is critical if spin-outs are to impact on productivity performance at an aggregate level.

To reap the economic benefits of university-based scientific and technological research requires, says Professor Hughes, 'a major commitment to the full range of university/industry dimensions along which knowledge transfer occurs. To focus on spin-out activity alone is to over-emphasise one aspect of a complex process and neglect significant avenues of exchange.'

“ A linear approach to the innovation process, with basic science at one end of a chain and commercialisation at the other, is misleading ”

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• Copies of the two papers reviewed here, working papers 272 and 273, can be downloaded from the CBR web site, [www.cbr.cam.ac.uk](http://www.cbr.cam.ac.uk). Hard copies are available at £5 apiece from [publications@cbr.cam.ac.uk](mailto:publications@cbr.cam.ac.uk)

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# Coming & goings at CBR

## Farewell to Yushi...



While based at the CBR on a visit from his native Japan for six months, Dr Yushi Inaba spent more time travelling than in the office. He was carrying out research into 'Reorganising Regional Regeneration' and visited several smaller cities including Cardiff, Bradford and Newcastle as part of his work. Yushi completed his PhD, in

Japanese regional development, at Cambridge last year. And some of his previous research has already been published by the CBR. (See CBR Working Paper 183: *Creating New Local Industry through Inter-Organisational Collaboration: A Japanese Case*). This research included a fascinating case study of some economically deprived areas of Japan, and ways in which local people had found ways to reinvigorate them.

Earlier this year Yushi Inaba returned to Cambridge, to the CBR, with funding from the Japanese government, to look for similar types of regional regeneration in the UK.

'What I am interested in,' he explained, 'is the ways in which local companies, local entrepreneurs and non-profit organisations are working together to create new industry in areas where traditional, heavy industry — like ship-building and steel-refining — have declined.'

'Sometimes intervention by central government doesn't succeed in creating new industry, although it can be useful in developing a new infrastructure. But local people have the motivation and impetus to get new industry going, and interestingly they usually do so, capitalising on an area's existing strengths.'

Yushi returned to Japan in the autumn, but he is grateful to his hosts at the CBR for letting him stay here to carry out his research. 'Andy Cosh, Anna Bullock, Jocelyn Probert and Christel Lane, gave me advice based on their work into regional development,' he said. 'I also found it very easy to talk to people here at the CBR and swap ideas with them, and I'm grateful for that.'

## ... and welcome to...

### Céline Druilhe

Céline joined the CBR in June to work on the project funded by the Cambridge-MIT Institute on UK and US universities, comparing their role in systems of innovation. Her research interests include technology transfer from university to industry, and she studied this for her PhD, looking in particular at the emergence of spin-outs from Cambridge University.

She has a Master's degree from the University of Paris IX-Dauphine, as well as an MPhil in Management Studies and a PhD, both from Cambridge.

In 2002 Céline was awarded the Laski Senior Studentship at St John's College, Cambridge. She has worked as a research assistant at the Ecole Nationale Supérieure des Mines de Paris and has also engaged in a number of consulting projects for technology transfer organisations in France and the UK.



### Beth Ahlering

Currently working towards a PhD, Beth joined the CBR in October to take part in the research project on corporate law and economic performance.

A fundamental revision of British Company Law is now underway. The research team is studying the link between company law and competitiveness, and the many unanswered questions about it.

'The research is compelling because it combines legal and economic questions in new ways, creating a very rich area of enquiry,' says Beth. 'But most important are the resulting policy implications. By empirically exploring the relationship between legal structures and economic outcomes in many different countries, we can identify the economic costs and benefits, as well as the social desirability, of different corporate governance systems. Our hope is that the research will be global in scope, but national in application.'

