

# Entrepreneurship and Business Performance: Europe in the Twentieth Century<sup>1</sup>

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Does entrepreneurship make a difference –in terms of business performance? The expected answer is undoubtedly a resounding ‘yes’, given the importance of innovation, opportunity seizing, sound decision making, and other features of ‘entrepreneurship’ in business development. Yet the matter is worth a closer look. So far as I am aware, there has been no attempt at systematically relating business success with business leadership. This paper is a first step in this direction. It is divided into four parts. Part one defines the notions of business performance and entrepreneurship in the context of this analysis. Part two considers the most successful British, French and German companies at five key moments in the twentieth century, looking at levels of return and national and sectoral distribution; while part three deals with their leaders –ownership, control, career patterns, education and social background. Finally, part four attempts to provide some preliminary answers.

## I

Business performance can be defined in a number of ways and there is no general agreement about its actual meaning.<sup>2</sup> For Alfred Chandler, for example, the most successful firms are those which have made the ‘three pronged’ investment in production, management and marketing, with longevity being the only approximate measure of actual performance. Business performance can be assessed at firm, industry or national level, as in Michael Porter’s notion of ‘international competitive advantage’, which is measured through the exports record of industries based in a particular country. From a macro-economic perspective, performance tends to be measured in terms of productivity growth.

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<sup>1</sup> Draft paper. Not to be quoted without the author’s permission. All comments welcome.

<sup>2</sup> For a good discussion of the various definitions of business performance, see T. Gourvish, ‘Assessing Business Performance’, in Y. Cassis and A. Colli (eds.), *Business Performance in the Twentieth Century: A Comparative Perspective*, Cambridge, 2009 (forthcoming).

For others, performance is best assessed by a firm's innovative capacity. Performance can also be measured in a more qualitative or even subjective way, using such criteria as job creation or contributing to national greatness.

Nevertheless, profits and profitability remain the most common way of assessing business performance. There are many possible ratios of profitability, which cannot be discussed in detail here. Return on equity (ROE) is probably the most widely used and has been selected for the purpose of this study. It is a ratio, expressed as a percentage, of net profits to shareholders equity. Net profits are profits after tax, while shareholders' equity comprises paid up capital, reserves, balance carried forward and other undistributed profits. Ratios have been calculated around five benchmark years (1913, 1929, 1954, 1972 and 1989), on the basis of a three years' average, using the sample of companies established for my analysis of European big business.<sup>3</sup>

Entrepreneurship is almost equally difficult to define.<sup>4</sup> Economic theories of the entrepreneur include, in particular and from different standpoints, Frank Knight's decision maker within an uncertain environment; Joseph Schumpeter's innovator and 'creative destructor' –undoubtedly the most famous, but also the most comprehensive theory of the entrepreneur; Israel Kirzner's arbitrageur and speculator; and Mark Casson's judgemental decision maker. Two notions of the entrepreneur should prove especially fruitful within the context of this study: a 'strong' one, deriving from Schumpeter and a 'weak' one, deriving from Casson. While the former best describes exceptional actors in the business world (creators of new industries, innovators, predators and other big movers), the latter can be more readily applied to the decision-making

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<sup>3</sup> See Y. Cassis, *Big Business. The European Experience in the Twentieth Century*, Oxford, 1997. The research project 'The Performance of European Business in the Twentieth Century' also used holding return (the return realized by a hypothetical investor who bought a share in a company and sold it a year later) as a complementary measure of performance (See Y. Cassis and Study' C. Brautaset, 'The Performance of European Business in the Twentieth Century: A Pilot, *Business and Economic History On-Line*, 1, 2003; and Y. Cassis and M. D'Alessandro 'The performance of European business in the twentieth century: a quantitative approach' in Y. Cassis and A. Colli (eds.), *Business Performance in the Twentieth Century: A Comparative Analysis*, Cambridge, Cambridge University Press, 2009, forthcoming). This measure, however, has not been used in this paper because of lack of data on the leaders of the companies included in the performance project.

<sup>4</sup> See R. Swedberg (ed.), *Entrepreneurship. The Social Science View*, Oxford, 2000; Y. Cassis and I. Minoglou, 'Entrepreneurship in Theory and History: State of the Art and New Perspectives', in Y. Cassis and I. Minoglou (eds.), *Entrepreneurship in Theory and History*, Basingstoke, 2005, pp. 3-21.

process of 'ordinary' business leaders –even though Casson's concept is sufficiently flexible to embrace all sorts of entrepreneurial activities, including the most creative.

There remain, however, some problems. Does the concept of entrepreneurs apply to a single person or to a team within a large corporation? While the entrepreneurial role of Chandler's managerial hierarchies should in no way be overlooked, business leadership has often be embodied in a single individual, with whom a firm's success or failure has tended to be identified. This individual could be either a 'strong' or a 'weak' type of entrepreneur. This notion of entrepreneur as business leader eschews the question of ownership, which becomes meaningless once a firm's owners consist of a myriad of small shareholders: such an entrepreneur can thus be owner manager or salaried manager and, from an administrative point of view, holds a number of senior positions within the firm, though usually that of chairman or chief executive. One leader has thus been (fairly easily) identified for each company included in the analysis.

## II

If performance is measured in terms of return on equity, Europe's most successful companies can then be considered as those achieving a return of 15 per cent or more at any of the five benchmark periods. The choice is not entirely arbitrary. In their 1995 report, the directors of the French banking group Paribas declared 'an ambitious target of profitability', which was 'to reach a 15 percent return on shareholders' equity'.<sup>5</sup> Interestingly, investors in the iron and steel industry in nineteenth century Britain also considered a 15 percent return on shareholders' funds as a fair expectation.<sup>6</sup>

Only a small minority of companies –13.7 percent– managed to reach that target throughout the century (Table 1).<sup>7</sup> The proportion, however, varied considerably between periods, with a 26.3 percent high in 1989 and a 4.1 percent low in 1955, the other years being closer to the secular trend (15.6 percent in 1913, 14.9 percent in 1929, and 9.5 percent in 1972). The proportion was also different between countries, with 17 percent of the British companies, 14.8 percent of the French, but only 8.6 percent of the German

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<sup>5</sup> *Le Monde*, 10 April 1995.

<sup>6</sup> R. Church, T. Baldwin and B. Berry, 'Accounting for Profitability at the Consett Iron Company before 1914: Measurement, Sources and Uses', *Economic History Review*, 47, 4, 1994, p. 716.

<sup>7</sup> The percentage has been calculated on the basis of the sample of companies used for the analysis of profits and profitability in Cassis, *Big Business*.

Table 1: Europe's top performing companies: Britain, France and Germany, 1911-1989 Return on Equity (%)				
1911-13	1927-29	1953-55	1970-72	1987-89
Gafsa (47.3)	Gramophone (35.4)	Woolworth (20)	Carrefour (43.7)	Hanson (54.1)
Rio Tinto (38)	Banque de l'Indochine (31.7)	Hachette (18.3)	M&S (30)	Haniel (41.7)
De Beers (33.6)	Say (29.5)	Banque de l'Indochine (15.8)	Otto Versand (23.7)	BTR (36.2)
Chatillon-Commentry (33)	Michelin (23.5)	GUS (15.3)	Tesco (22)	Promodès (30.4)
Hoechst (29.5)	Austin (19.4)	BMC (15)	L'Oréal (19.7)	Rio Tinto (29.6)
Bayer (25.5)	Guinness (18.3)		Thorn (18.3)	Saatchi (28.8)
Longwy (24)	BAT (18.2)		Daimler-Benz (17.2)	Grand Met (28.7)
BASF (22.5)	Rio Tinto (18)		L'Air Liquide (15.5)	Unilever (28.1)
Phoenix (21.2)	Schultheiss (17.9)		Varta (15.5)	Peugeot (27.5)
Marine (20.2)	Gafsa (17.3)			BT (25.8)
Amalgamated Press (19.6)	Imperial Tobacco (17.1)			Daimler-Benz (25.3)
Shell (18.5)	Morris (17.1)			Bertelsmann (25.1)
Nord-Est (18.4)	Watneys (16.7)			Carrefour (24.1)
Siemens & Halske (17.2)	Bon Marché (16.5)			BAT
J&P Coats (15.9)	Shell (16.5)			M&S (23.1)
Krupp (15.8)	Mines de Marles (16.1)			BA (22.1)
Burmah Oil (15.7)	Boots (16)			ICI (20.6)
	De Beers (15.8)			Tesco (18.4)
	Mines d'Aniche (15.7)			Pechiney (17.9)
	Dollfuss-Mieg (15.5)			Saint-Gobain (17.7)
	Siemens & Halske (15.1)			L'Oréal (16.3)
				Rhône-Poulenc (16.3)
				Dalgety (20.8)
				Hachette (15.8)
				Hoechst (15.8)
				GEC (15.7)

achieving a rate of return higher than 15 percent throughout the century. As a result, nearly half of the most successful European companies were British, about a third French, and just under a fifth German. However, there were marked differences in some years: the British companies did exceptionally well in the late 1980s (42.4 percent with a rate of return higher than 15 percent), the German particularly badly in the late 1920s (4.9 percent) and early 1950s (0 percent).

Turning to sectors, companies engaged in services (mainly though by no means exclusively mass retailing) proved the most successful in terms of number of companies, followed by chemicals and pharmaceuticals, and mining (Table 2). At the other end of the spectrum, textiles and, perhaps more surprisingly, banking, hardly featured at all. However, sectors had different periods of dominance. The rise of services companies was essentially a late twentieth century phenomenon, as was that of conglomerates, while the predominance of iron and steel companies was hardly disputed before 1914. Mining companies, mostly overseas ventures, performed strongly in the first half of the century, while chemical and, to a lesser extent, electrical and motor companies were present throughout the century. Conglomerates were, on average, the most profitable companies, not least thanks to the 54 percent achieved by Hanson in 1987-89, followed by mining and services, though differences were less marked than when considering the number of successful companies.

	Overall	1913	1929	1954	1973	1989	Average ROE
Services	<b>25.6</b>				<b>44.4</b>	<b>42.3</b>	24.4
Chemicals	14.1	17.6			22.2	19.2	20.5
Mining	11.5		<b>28.6</b>				25.7
Food	9.0		<b>28.6</b>				20.9
Metals	9.0	<b>35.3</b>					21.5
Electricals	7.7	5.9	9.5		22.2	3.8	19.5
Motor cars	7.7		9.5		11	7.7	20.3
Conglomerates	5.1					15.3	<b>32.9</b>
Oil	5.1	17.6					18.6
Banking	2.6						23.8
Textiles	2.6						15.7

### III

How entrepreneurial were the leaders of these companies? Considering some of their key characteristics might help answering the question. The first concerns the extent to which the leaders of high performing companies were owner entrepreneurs (Table 3). As it happens, throughout the century, the proportion of salaried entrepreneurs (55 percent) was slightly higher than that of owner entrepreneurs (45 percent). However, the percentage of salaried entrepreneurs did not become significantly higher than that of owner entrepreneurs before the generation active in the late 1980s. Interestingly, salaried entrepreneurs were more numerous than owner entrepreneurs before 1914 –a result of the achievements of a new breed of highly successful salaried managers such as Alexandre Dreux at Longwy, Carl Duisberg at Bayer, or Otto Philippi at J & P Coats. On the other hand, high performing companies were more likely to be led by owner entrepreneurs in the late 1920s (Herbert Austin and William Morris in the motor industry, Édouard Michelin and Walter Samuel, of Shell in two related industry, as well as representatives of old business dynasties, such as Carl Friedrich von Siemens, or Gilbert Wills, of Imperial Tobacco), and again in the early 1970s (with Marcel Fournier, of Carrefour, or Jules Thorn, of Thorn Electricals, amongst the founders, and Marcus Sieff, of Marks & Spencer or Leslie Porter, of Tesco, among the heirs of the founding families.

	Overall	1913	1929	1955	1972	1989
Owner Entrepreneurs	45%	47%	67%	40%	75%	21%
Salaried Entrepreneurs	55%	53%	33%	60%	25%	79%
Number of cases	67	15	15	5	8	24
No data	11	2	6	0	1	2

Most business leaders were chairmen of their company (Table 4). This is consistent with an ‘administrative’ distinction between entrepreneurs and managers. Indeed, until the very end of the twentieth century, chairmen tended to be owner entrepreneurs and chief executives salaried entrepreneurs. In 1913, for example, a single chairman was a salaried entrepreneur (Charles Fielding, of Rio Tinto); there were three (out of 13) in 1929, and again only one (François Dalle, of L’Oréal) in 1970. The proportions were finally reversed in the late 1980s, with nearly three quarters of chairmen

being now salaried managers. The only owners chairing a top performing company had either founded it (James Hanson, Maurice Saatchi, Paul-Louis Halley at Promodès and Denis Defforey at Carrefour) or taken it over (Jean-Louis Lagardère at Hachette), unlike earlier periods, especially the late 1920s and early 1970s, when inheritors tended to dominate.

	Overall	1913	1929	1955	1972	1989
Chairmen	73%	47%	87%	100%	75%	69%
Chief Executives	27%	53%	13%	0%	25%	31%
Number of cases	67	15	15	5	9	24
No data	11	2	6	0	1	2

Climbing the corporate ladder was the most common way to reach the top for the leaders of Europe’s top performing companies (Table 5). However, only in 1989 did a majority of them follow this path. For earlier generations, and on average throughout the century, founding one’s own firm or inheriting a position through family connections was a more common route. Founders, in particular, the epitome of Schumpeterian entrepreneurs, formed a consistently significant group; while the persistence of inheritors confirms, if needs be, that family ownership and control are perfectly compatible with strong corporate results.

	Overall	1913	1929	1955	1972	1989
Founder/Predator	21%	20%	27%	20%	25%	17%
Corporate	39%	33%	13%	40%	25%	63%
Family	28%	33%	53%	20%	50%	4%
State	12%	14%	7%	20%	0%	16%
Number of cases	67	15	15	5	8	24
No data	11	2	6	0	1	2

Between one half and two thirds of the leaders of Europe top performing companies received a university education. Not surprisingly, while just under than 40 percent of British Business leaders went into higher education, the proportion was nearly 75 percent for their French and 90 percent for their German counterparts. Conversely,

85% of those with a secondary or college education were British. And interestingly, throughout the entire century, a single founder of a large and high performing company had been to university –Maurice Saatchi, cofounder with his brother Charles of the advertising company Saatchi & Saatchi.

	Overall	1913	1929	1955	1972	1989
University	59%	54%	67%	20%	50%	67%
Secondary/College	31%	33%	27%	60%	25%	29%
Primary	4%	13%	6%	0%	0%	0%
Unknown	6%	0%	0%	20%	25%	4%
Number of cases	67	15	15	5	8	24
No data	11	2	6	0	1	2

The social background of Europe’s business leaders was firmly entrenched in the world of business, though the figures are somewhat distorted by the number of cases whose family origins have remained unknown –especially for the later benchmark period. Politics, the civil service and the professions (including teaching) complement the middle and upper middle class background from which business leaders have traditionally originated, with only a small minority rising from the lower middle and, even less, the working classes.

	Overall	1913	1929	1955	1972	1989
Business	44% (58%)	53%	67%	20%	75%	17% (36%)
Politics/Civil Service	11% (14%)	13%	13%	0%	0%	12% (28%)
Professions/ Education	11% (14%)	13%	7%	0%	0%	17% (36%)
Lower/Lower Middle	11% (14%)	13%	13%	60%	0%	0% (0%)
Unknown	25% (0%)	8%	0%	20%	25%	54% (0%)
Number of cases	67	15	15	5	8	24
No data	11	2	6	0	1	2

#### IV

The leaders of the best performing British, French and German companies in the twentieth century do not really form a distinct category of business people. Unlike, say,

family entrepreneurs or salaried managers, they extend across the entire spectrum of business leadership and thus do not appear very different from the leaders of less successful companies. Some of the characteristics of the founders of large companies, in particular their position of relative outsiders within the business world, which I had identified in a previous study,<sup>8</sup> cannot be applied to the leaders of the top performing companies. There is thus much to be said in favour of Mark Casson's definition of entrepreneurship as judgemental decision-making –a definition enabling to identify entrepreneurs on case by case basis.

However, two points can be made about the leaders of the top performing companies. The first concerns the proportion of owner entrepreneurs (whether founders or inheritors) amongst them –45 percent, as against 28 percent for a sample of European business leaders in the twentieth century.<sup>9</sup> Interestingly, the proportion of owner entrepreneurs remained high throughout the twentieth century –still 21 percent in 1989, as against 8 percent for a broader sample of European business leaders.<sup>10</sup> The proportion of founders, in particular, was significantly higher –17 as against 8 percent.

The other point concerns the type of entrepreneur at the helm of a top performing company: 'Schumpeterian' or 'Cassonian'? 'Creator' or 'coordinator', in put it in an over simplified way. Assessing to which type of entrepreneur a business corresponds is no easy task, one which requires a precise knowledge of a company's history. Nevertheless, I have attempted to assign a label to each of the 67 entrepreneurs included in this analysis. I have considered as 'Schumpeterian' or 'creators' the founders of their own company, the predators who have acquired their company, and finally those who have given a second wind to an existing company through significant innovation. I have considered as 'Cassonian' or 'coordinators' those who have presided over the development of their company without achieving a spectacular breakthrough. Those in between or difficult to assess have been grouped in a third, separate group. The result, over the entire period, reveals a higher proportion of 'creators', 46 percent, as against 36 percent of coordinators and 18 percent in between (Table 8). Not surprisingly, a majority

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<sup>8</sup> Y. Cassis, 'Company founders' in Cassis and Minoglou (eds.), *Entrepreneurship in Theory and History*.

<sup>9</sup> Figure from Cassis, *Big Business*.

<sup>10</sup> *Ibid.*

of ‘creators’ (55%) were owner entrepreneurs, while a majority of ‘coordinators’ (67%) were salaried entrepreneurs.

Table 8: Types of entrepreneurs					
‘Creators’	46%	of which Owners	55%	Of which Managers	45%
‘Coordinators’	36%	of which Owners	33%	of which Managers	67%
Others	18%	of which Owners	42%	of which Managers	58%

The Schumpeterian entrepreneur might well, after all, besides his contribution to economic development, generate higher company profits.