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IEEC 2009

Riding the Rollercoaster

- how entrepreneurs can make the most out of business-cycles

Bryn Parry

Southampton Solent University

Aims For The Workshop

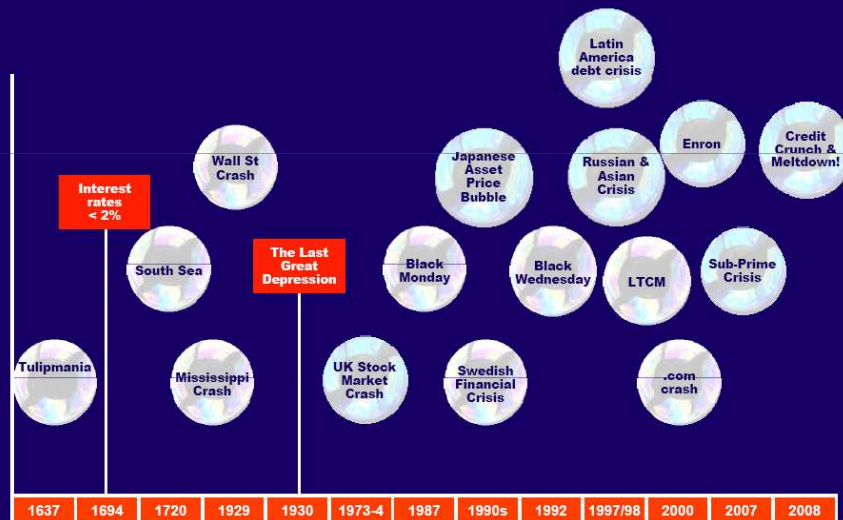
To:

- * illustrate the practicalities of **positioning-for-success** – using critical milestones in the development of Rupert Murdoch's empire
- * dispel the twin fallacies that the current recession was neither predicted nor represents typical conditions.

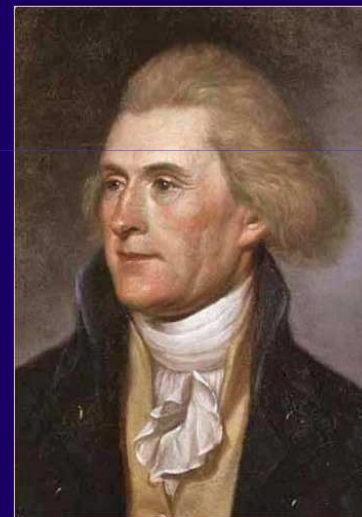
The Market Environment - Nick van Marken

Master Innholders conference - January 2009

Bubble, bubble, toil and trouble.....



Back to the future.....



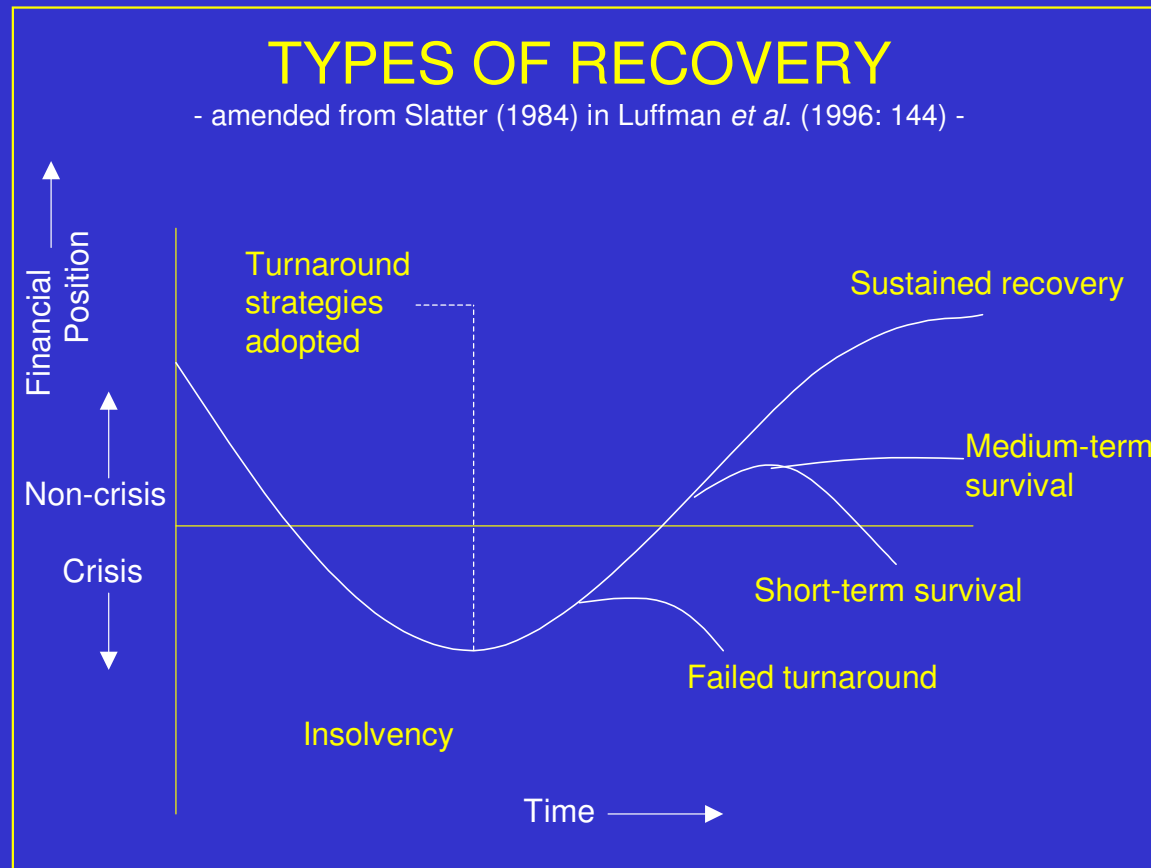
'I believe that banking institutions are more dangerous to our liberties than standing armies. If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around the banks will deprive the people of all property until their children wake-up homeless on the continent their fathers conquered.'

Thomas Jefferson 1802

Format of Workshop

- * critical milestones in the development of Rupert Murdoch's empire
- * compare and contrast historical exemplar(s) with current entrepreneurs/intrapreneurs, of interest to the audience members - debating how they manage(d) to ride the peaks and troughs of various cycles:
 - *Sir John Reeves Ellerman* [first baronet (1862–1933)], of *Ellerman Lines*
 - *Baron Kysant*, of *Royal Mail Lines* group
 - *General von Lettow-Vorbeck*
 - *Darien Scheme*
- * review

A Strategic Approach to the “Types of Recovery”



Rupert Murdoch & *NEWS CORPORATION*

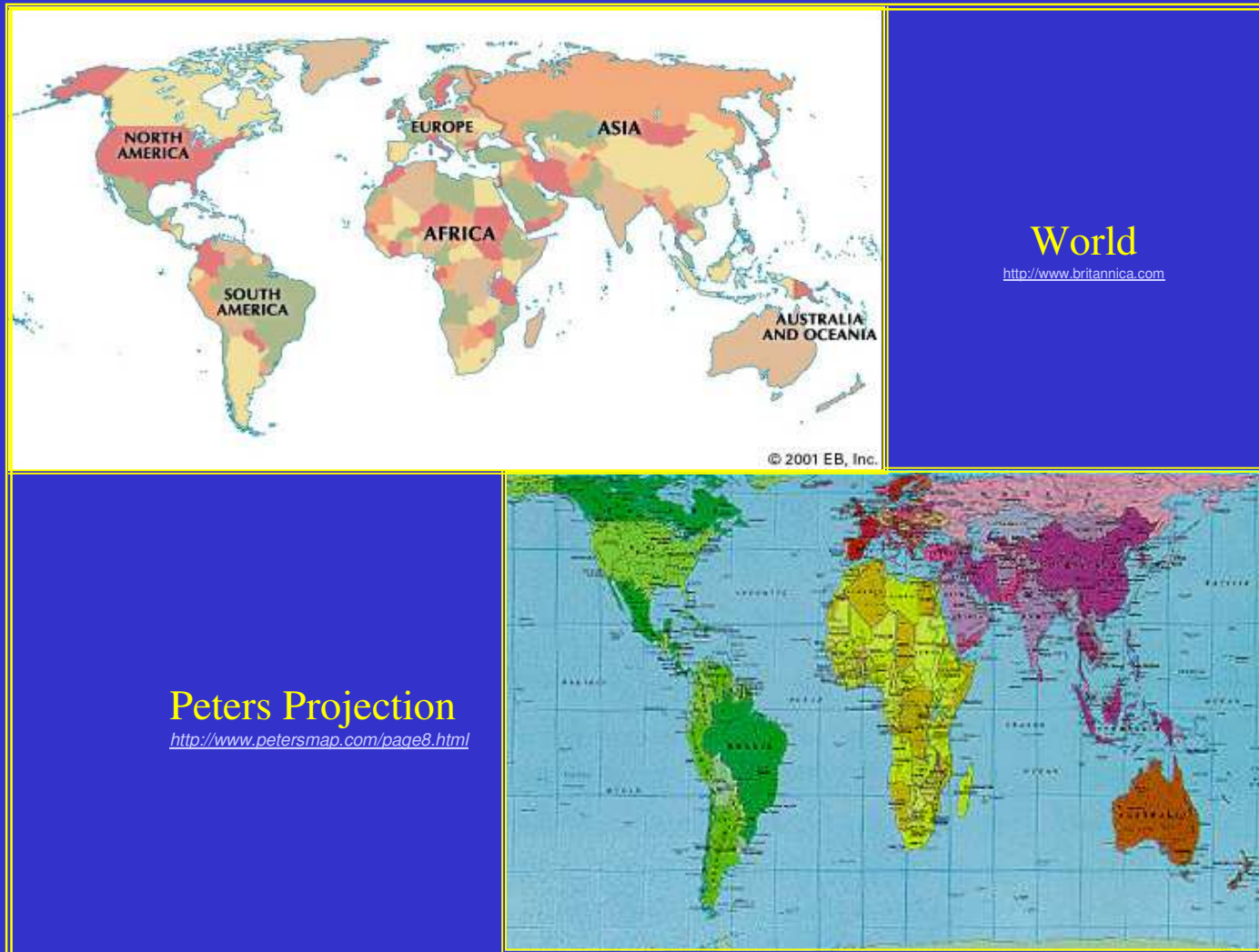
In the ^[1997] film “*Tomorrow Never Dies*”, Murdoch’s ‘*strategic focus*’ is ‘enhanced’ to provide the template for the villain

In the ^[2002] film “*Black and White*” Murdoch’s desire that ‘*right be done*’ is ‘enhanced’ to provide the driving force for overturning a famous ^[1959] injustice

For a ^[2007] BBC profile of Rupert Murdoch [that mirrors what we’re discussing here] see: <http://news.bbc.co.uk/1/hi/business/6925738.stm>

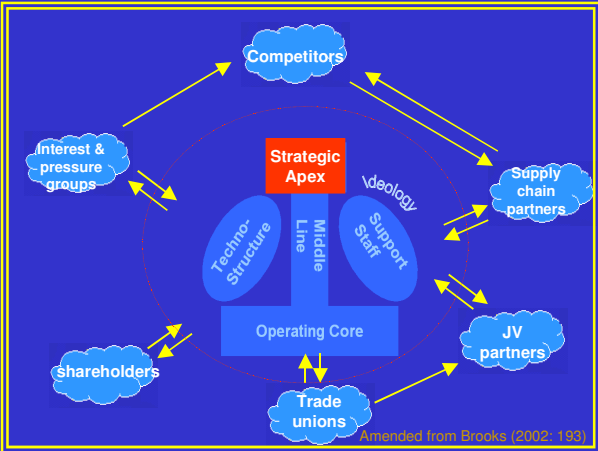
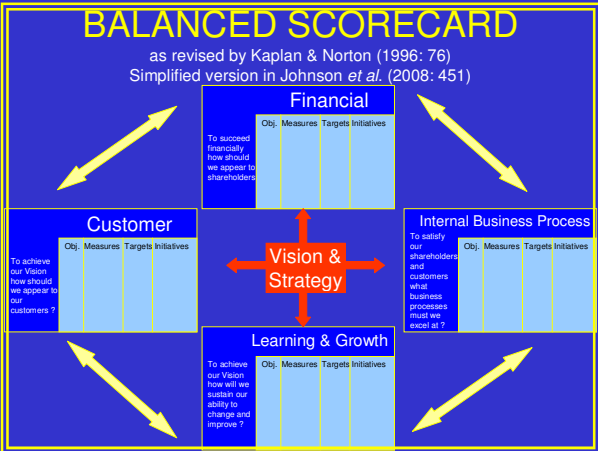
How Does Murdoch See the World ?

Is *News Corp's* geographical evolution *Deliberate, Emergent* or *Accidental* ?
Is *News Corp's* business activity evolution *Deliberate, Emergent* or *Accidental* ?



BALANCED SCORECARD

as revised by Kaplan & Norton (1996: 76)
Simplified version in Johnson *et al.* (2008: 451)



Key milestones:

1923: *Sir Keith Murdoch* establishes *The News* newspaper, Adelaide, Australia

1968: Rupert Murdoch acquires the *News of the World*, Britain; then *The Sun*, making both brash down-market tabloids

1973 Murdoch acquires his first *US* newspaper

1981: Murdoch acquires the *Times* and the *Sunday Times*, Britain

1983 Murdoch explores satellite TV in Britain – *Sky Television* launches in 1989

BBC videoclip on Sky's launch: <http://news.bbc.co.uk/1/hi/entertainment/7860562.stm>

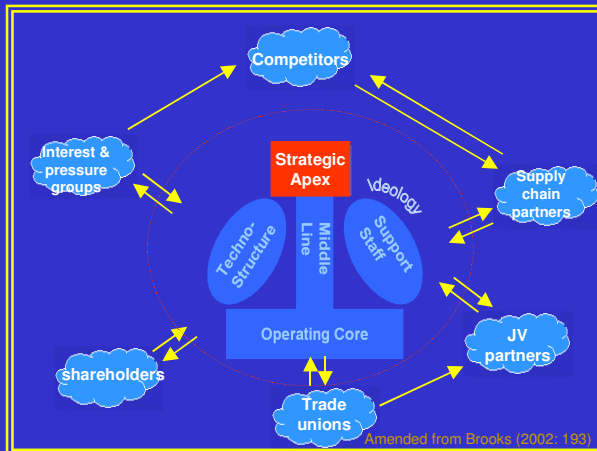
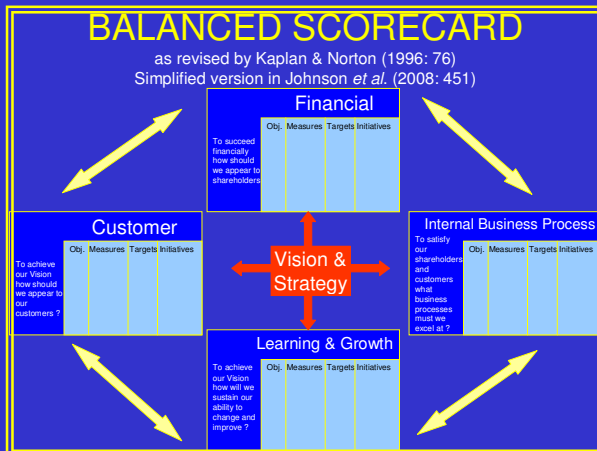
R4 Media Show [4th February 2009] audioclip on Sky's launch:

http://www.bbc.co.uk/radio4/factual/mediashow/mediashow_20090204.shtml [18:30-20:00 and 23:00-23:30]

BSB was the 'official broadcaster', Sky 'were the pirates' – originally expecting movies [not sport] to drive demand
In that first year did Sky:

- lose £2m. p.w ?

- Invest £2m. pw – 'to build the greatest satellite multi-platform distribution system in the world' ?

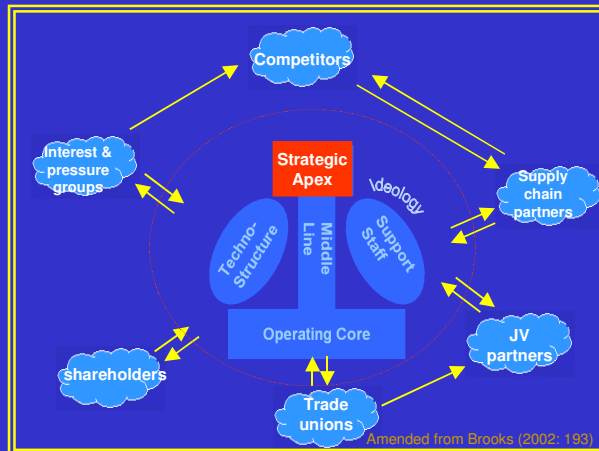
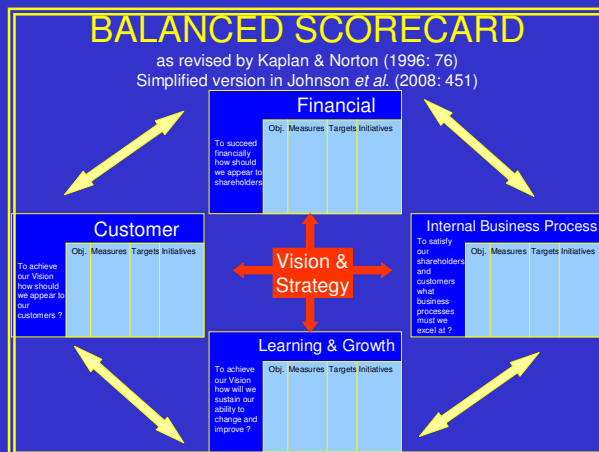


Key milestones:

1984: Murdoch acquires *20th Century Fox* film studio, U.S.A. – then *Metromedia's* TV stations

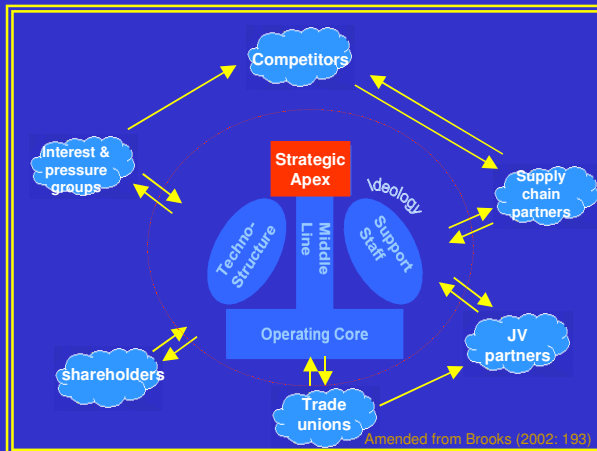
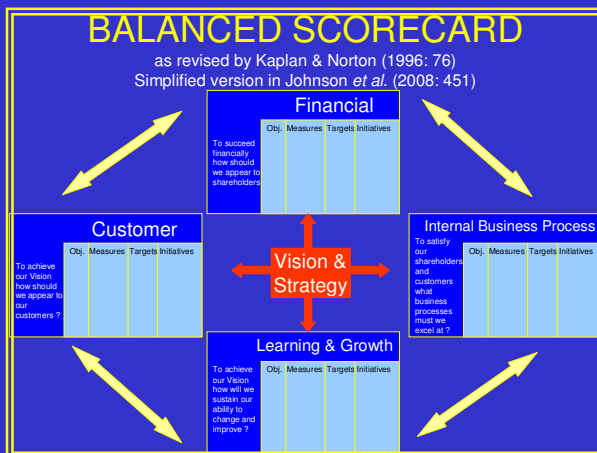
1985: Murdoch becomes a *US* citizen – to overcome barriers to media ownership

1993 Murdoch uses sports events to drive up demand for his *TV* channels, U.S.A.



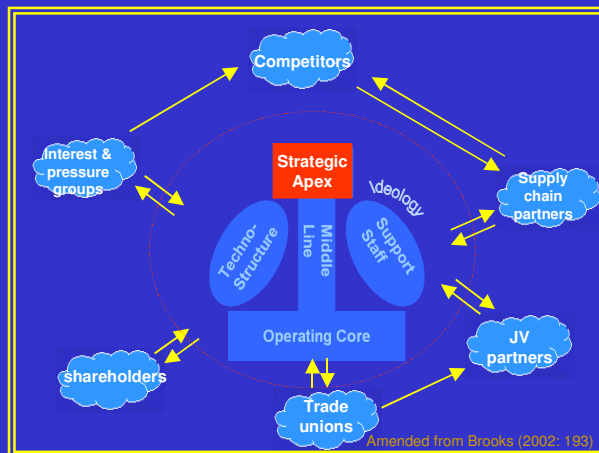
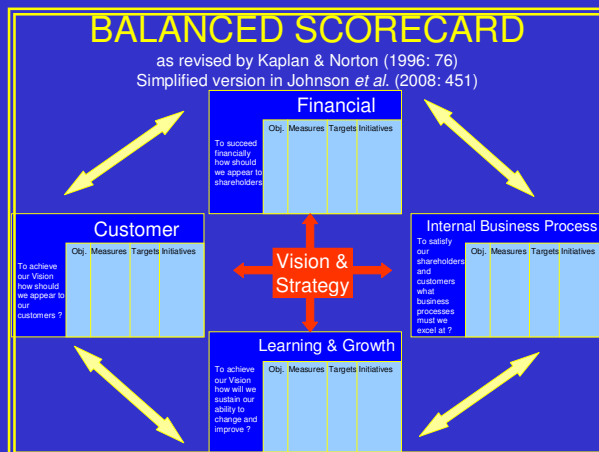
Key milestones:

- 1993: Murdoch acquires *STAR TV*, based in Hong Kong, which broadcasts to India, China and 51 other countries – planned pan-Asian [English language] service proves unviable
- 1990s Murdoch's move into China, fortuitously, aided by falling in love and having more children
- 2003 Murdoch meets strongest opposition to his seeking to impose one of his elder children in a senior management position



Points you might like to consider:

- is *News Corp* [as a *TNC*] reacting to its environment or taking charge of it ?
- is the strategy we see *Deliberate, Planned, Emergent*, or just luck ?
- is there any sense of overall *Purpose* to *News Corp* and its actions ?
- Is there a series of `steps' to *News Corp's* development, each determining the next, does Rupert Murdoch just `want to rule the world', or is he just `very lucky' ?



Murdoch, *Operation Dolphin*, Stability, Today & Tomorrow

Johnson & Scholes (1999: 786-790)

- 1990: *Citibank* negotiated a refinancing [*Operation Dolphin*] of *News Corporation's* debt - the largest and most geographically-diverse corporate restructuring then seen, it almost foundered when a small *US* bank wanted to call in a \$10m. loan.
- “The banks faced a dilemma. Theoretically, they could push *TNC* to repay all its debts. However, with the exception of a small amount in *Australia*, none of the company's loans was secured on individual assets.”

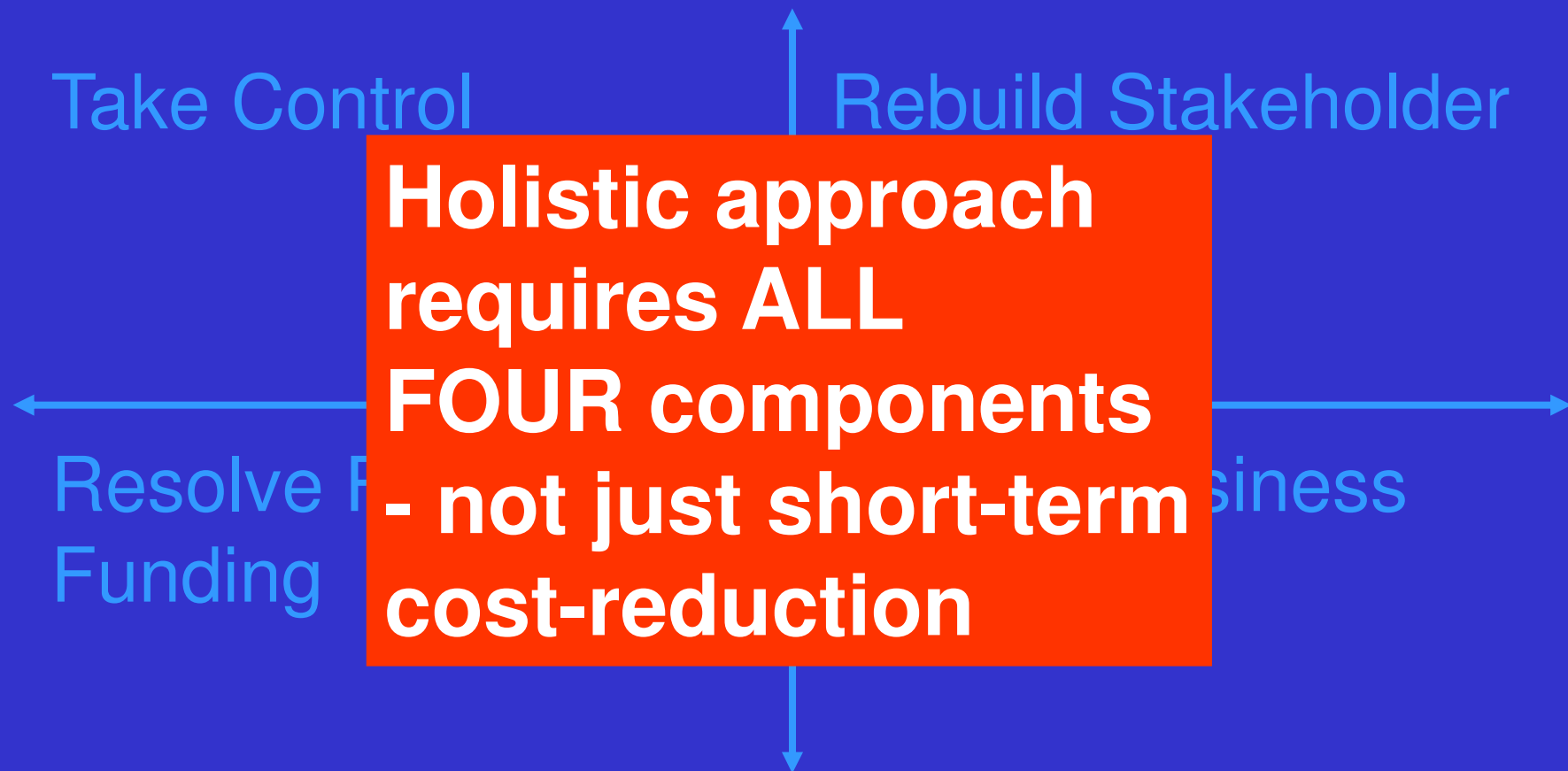
Financial Times - February 7th 2009:

http://www.ft.com/cms/s/0/ea03300a-f4b8-11dd-8e76-0000779fd2ac.html?nclick_check=1

“The economic crisis facing the company was the worst in its more than 50 year history, Mr Murdoch stated bluntly. In 1990, the company came within hours of bankruptcy, after heavy investments in *Sky* ... This time, however, Mr Murdoch was eager to convey that the company had learned its lesson ... “we have the reserves on hand to cover over seven years of upcoming debt repayments”.”

Components of the Discipline of Turnaround Management

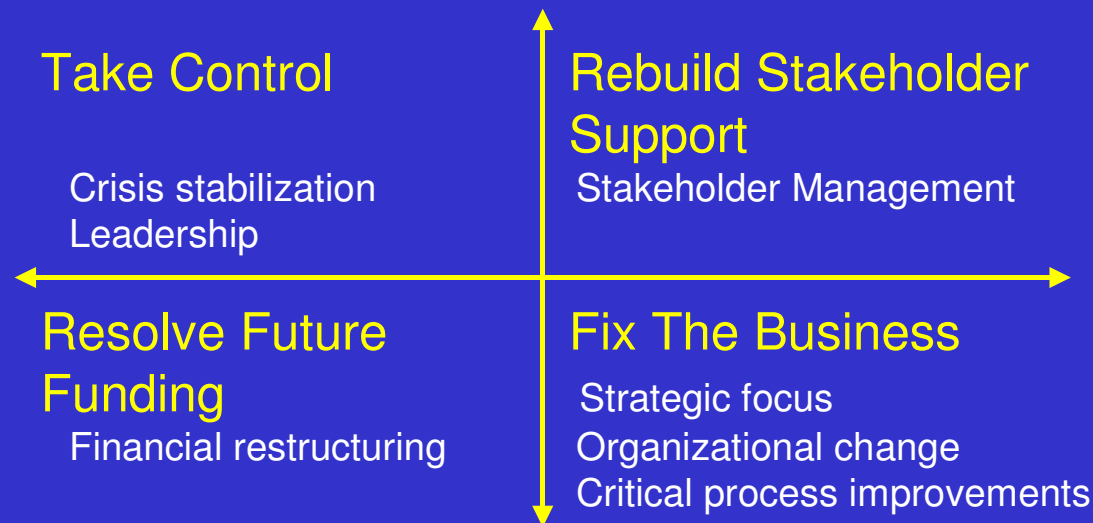
- Slatter & Lovett (1999) in Moore (2001: 304) -



A Strategic Approach to the “Components of Turnaround”

Components of the Discipline of Turnaround Management

- Slatter & Lovett (1999) in Moore (2001: 304) -



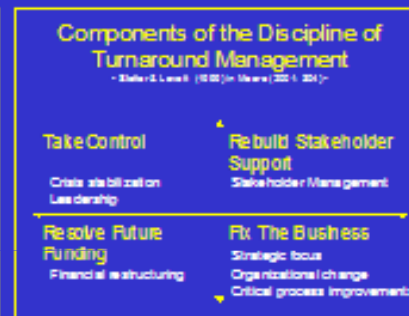
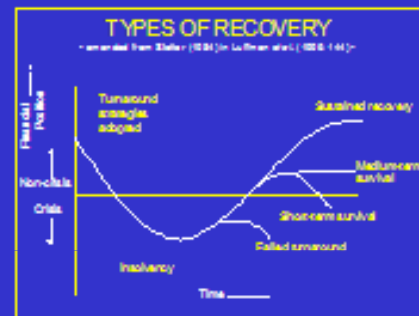
News Corporation seems to gain advantage from:

- always covering as much of this as possible, each and every day - just leaving `Fix the Business`
- seeing `recovery` when others only see `failure`
- tipping the balance, at critical times, so that competitors end in failure - was the loss of stakeholder support for the *ITV* merger really just `one of those things` ?

Compare that with *BA/BAA* and *Terminal 5*

Group Exercise

Using these two models & the factboxes, compare & contrast these historical exemplars with modern entrepreneurs of interest



General von Lettow-Vorbeck

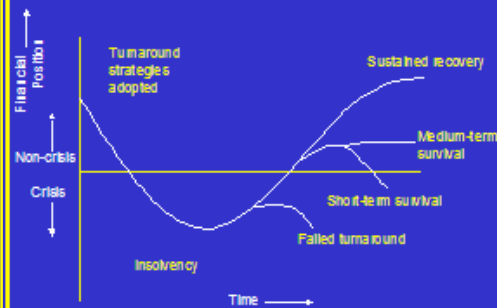
Sir John Reeves Ellerman

Baron Klysant

Darien Scheme

TYPES OF RECOVERY

- amended from Slater (1984) in Luffman et al. (1998: 144) -



Components of the Discipline of Turnaround Management

- Slater & Lovett (1999) in Moore (2001: 304) -

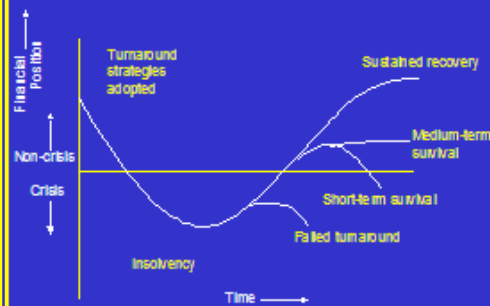


General von Lettow-Vorbeck

- [During *WWI*, as a colonel] he is credited with overseeing an undefeated guerrilla campaign in *German East Africa*; feigning an initial retreat, to draw the [overwhelming] British and Indian forces invading deeper inland, before harrying them [with a force that never exceeds 12,000 men] and leading raids into the British colonies of Kenya and Rhodesia - so as to occupy a much larger force of *Allied* troops and only surrendering some weeks after the Armistice, whilst in the midst of a series of raids on forts in Rhodesia.
- L-V trades territory for time and sees his role as tying up allied forces - that should be elsewhere, e.g. *Dardanelles*.
- receiving no supplies, after 1916, he sows crops where he plans to be and manufactures shoes, uniforms and medicine from alternative sources - he is unaware that Germany builds the world's largest airship and tries to fly it far further than any airship to resupply him.
- having learned his trade fighting in the *Boxer Rebellion*, the crushing of the *Herero*, etc., he leads a meritocracy - where he is not the senior officer and where local *Askari* integrate more effectively than with the *Allies*
- the overall legacy of this campaign for Africa is not a proud one.

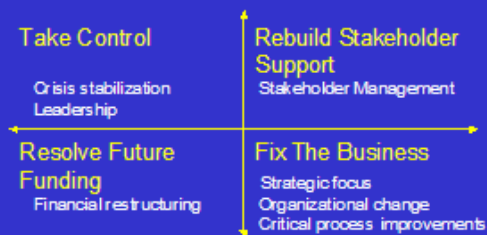
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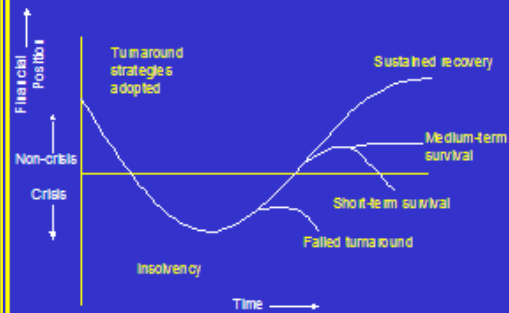


Baron Kylsant

- Owen Cosby Phillips establishes [in 1888] *Phillips & Co.*, Glasgow and began [from 1901] acquiring shares in *Royal Mail Steam Packet Company* an established line in financial difficulty – becoming *Chairman*, despite no experience of passenger or mail steamships. [turning *RMSPC* around will gain him a knighthood, in 1909]
- established commercial relationship with William Pirrie of *Harland & Wolff* shipyard, Belfast
- [in 1909, on the death of its owner] Pirrie and *Kylsant* bid for *Elder Dempster* line – other lines soon follow and a complex web of cross-holdings begins
- [when controls on share transactions relax, after *WWI*] Pirrie & *Kylsant* borrow heavily to expand; disguising debt via cross-holdings – even paying £7m. for *White Star* line, in 1927
- [in 1929] a *Bank of England* restructuring reveals debts of some £20m.
- *Baron Kylsant* imprisoned for false accounting.
- Britain's largest group of enterprises goes bankrupt.

TYPES OF RECOVERY

- amended from Slater (1984) in Luffman et al. (1996: 144) -



Components of the Discipline of Turnaround Management

- Slater & Lovett (1999) in Moore (2001: 304) -

Take Control

Crisis stabilization
Leadership

Rebuild Stakeholder Support

Stakeholder Management

Resolve Future Funding

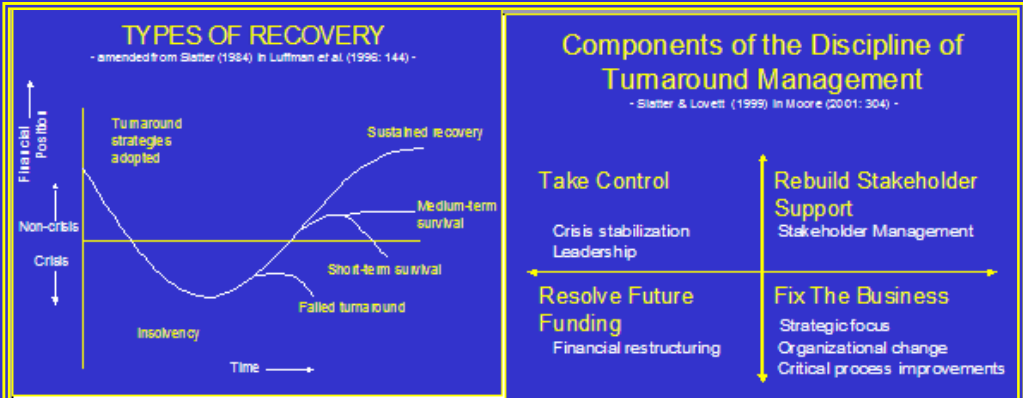
Financial restructuring

Fix The Business

Strategic focus
Organizational change
Critical process improvements

Sir John Ellerman

- had a continental upbringing, before schooling in Birmingham - claiming that conventional public schooling would have hindered his business success
- a trained accountant, he will be an 'outsider' to London's business families & groupings; relying on entrepreneurs that he [if not others] trusted, like Henry O'Hagan and Christopher Furness
- [in 1892] Britain's largest shipowner, Frederick Leyland drops dead and [at 29] Ellerman leads a syndicate that reorganises *Leyland Line*; criticised for floating the company at £800,000, they will [in 1901] sell it to J.P. Morgan for some £1.2m. in cash [twice its reputed worth].
- [having eased out Furness] Ellerman will specialise in re-organising respected lines in entrepreneurial decline - also, succeeding in brewing, property and newspapers.
- [fearing a Labour government] he re-arranged his portfolio in 1929 and so avoided the 'Wall Street Crash'; [in 1933] he left £36.7m. - 30% of the wealth bequeathed that year and dwarfing the previous largest bequest [£13.5m., Lord ~~Leigh~~ of Guinness, in 1927].

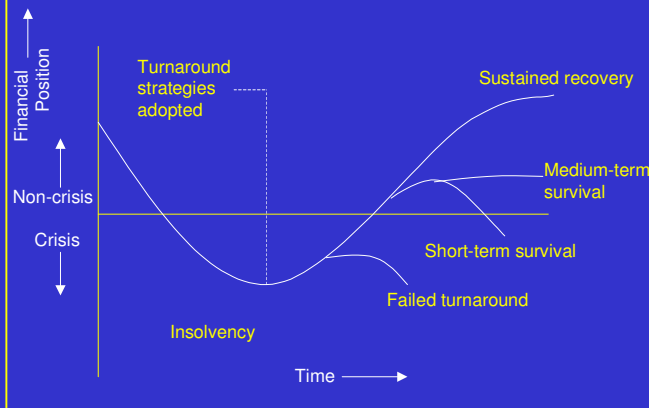


Darien Scheme

- effectively, an attempt [in 1690s] to operate a 'Panama Canal'; avoiding *Cape Horn* was a good idea, an overland route was less so.
- promoted by William Paterson [co-founder of *Bank of England*], 'The Company of Scotland Trading to Africa and the Indies' establishes a trading colony.
- the scheme's failure [in 1698] is credited with devastating the economy in Scotland [beyond the loss of some 2,000 colonists; many sent out after the colony had already failed] – a staggering £400,000 [or some 50 per cent of Scotland's available capital is tied up in the scheme] and it is seen as wiping out around one-quarter of Scotland's liquid assets - coupled with a series of bad harvests [after 1695] the ensuing economic hardships in Scotland are seen as prompting the *Treaty of Union* between Scotland and England [which provides for free trade and navigation and compensation of some £398,000 - 'the Equivalent' - for the *Darien Scheme* losses].
- management of 'the Equivalent' will give rise to the *Royal Bank of Scotland*

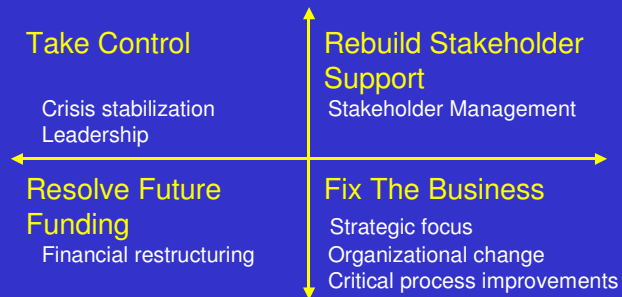
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General von Lettow-Vorbeck

- [1] http://www.amazon.co.uk/Tip-Run-Untold-Tragedy-Africa/dp/0753823497/ref=sr_1_1?ie=UTF8&s=books&qid=1252849327&sr=8-1
- [2] <http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA392278&Location=U2&doc=GetTRDoc.pdf>
- [3] <http://archive.timesonline.co.uk/tol/archive/>

Sir John Reeves Ellerman

- [1] <http://www.oxforddnb.com/index.jsp>
- [2] <http://archive.timesonline.co.uk/tol/archive/>

Baron Klysant

- [1] <http://www.oxforddnb.com/index.jsp>
- [2] <http://archive.timesonline.co.uk/tol/archive/>

Darien Scheme

- [1] <http://www.rsb.co.uk/Group-Information/Memory-Bank/Our-Teaching-Resources/The-Teaching-Resources/The-Darien-Adventure/National-Curriculum/illust-hist.htm>
- [2] <http://archive.timesonline.co.uk/tol/archive/>

Reality Check

De Geus (1997: 7-19)

Long-lived companies are:

- * sensitive to their environments;
- * cohesive, with a strong sense of identity;
- * tolerant - **decentralised**;
- * conservative in their financing.

Long-lived companies do not rely on:

- * returning investment to shareholders;
- * profitability;
- * material assets.

For an extract of the book's *Prologue*: <http://www.businessweek.com/chapter/degeus.htm>

Summary Of Workshop

We have:

- * illustrated the practicalities of **positioning-for-success** – using critical milestones in the development of Rupert Murdoch's empire
- * dispelled the twin fallacies that the current recession was neither predicted nor represents typical conditions.

References

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