Book Review

Richard Branson, Losing My Virginity – how I survived, had fun and made a fortune doing business my way: Times Books/Random House and Virgin Publishing, London, 1998

An alternative title considered for this book was *Virgin: the art of business strategy and competitive advantage.* It would have been apt. This is a living case history of corporate strategy and corporate governance.

Having grown up in an enthusiastic family, Branson went to Stowe School, where the headmaster commented that he would either go to jail or become a millionaire. His entrepreneurial drive appeared whilst he was still at school, where he planned an inter-school alternative school magazine.

On leaving school he launched the *Student*, run on a shoe-string, but carrying interviews with Mick Jagger, Dudley Moore, John Lennon and the like. The relationship with the student market led to the marketing of music CDs. Virgin Mail Order Records was formed. Record stores and record making followed. Mike Oldfield's *Tubular Bells* and the gamble to produce and promote that disk themselves produced the first fortune. Subsequent signings included the Rolling Stones, the Sex Pistols, Boy George and the Culture Club, Phil Collins, the Euythmics and Janet Jackson.

Recording led to videos and the film business. Branson sold Virgin Vision, the group's film company for US$83 million to American company MCEG. The consideration was taken in shares of the acquiring company. It folded within six months. "We never made that mistake again."

The airline industry next beckoned: Virgin Atlantic, Virgin Holidays, and Virgin Cargo were formed. The airlines business was financed so that it was separate from Virgin Music

Taking Virgin public then private again

By 1986 Virgin had become one of Britain's largest private companies, with sales approaching £200 million and profits of £19 million, excluding the airline businesses. Now the opportunity came of moving from "rock market to stock market". A public floatation would produce cash and facilitate any future takeover bid. A private placement of convertible preference shares produced £25 million. The public offer for sale – 15 % of the equity – raised £30 million. The resultant equity stakes left Branson with 55%, other insiders 11% and outside investors 34%. The shares were launched at £1.40 valuing the company at £240 million. But Branson felt constrained.

> I soon began to feel that we had made the wrong decision. First, the City insisted that Virgin appoint some non-executive directors. Sir Philip Harris was recommended as a self-made man, who had made his fortune from selling carpets. We also appointed Cob Stenham, who had been finance director of Unilever and was a well-respected banker. I found it difficult to comply with the formality that they insisted we adopt. Virgin board meetings had always been highly informal affairs. Our business was not one that could be boxed into a rigid timetable of meetings. We had to make decisions off the cuff: if we had to wait for four weeks for the next board meeting before signing UB40, then we would probably lose them altogether.

There were disagreements over dividend policy. Branson wanted to reinvest profits, enhancing shareholder value that way.

> Most people think that owning 50% of a public company is a key to controlling it. While this is true in theory, to a large extent you lose control just by having to appoint non-executive directors and generally give up your time to satisfying the City... In many ways 1987, our year of

> being a public company, was Virgin's least creative year. We spent at least 50 percent of our time heading off to the City to explain to fund managers, financial advisers, and City PR firms what we were doing, rather than just getting on and doing it.

A bid was planned for Thorn EMI, and shares were bought. Then came the London and Wall Street crash of October 1987. Thorn EMI stocks plummeted, but the risks associated with a bid also rose.

> That week I had a furious argument with the two non-executive directors, whom we had brought in to represent the outside shareholders' interests. Sir Phil Harris and Cob Stenham were utterly opposed to continuing the siege of Thorn EMI . . . (I thought) the crash has changed the picture, bringing a unique buying opportunity. But everyone disagreed with me.

The stock market crash sounded the death knell of Virgin as a public company. Branson worked on the logistics of going private again and in July 1989 announced a management buyout. His attitude on the price was pertinent.

> We could probably have got away with paying less than the original price (140p). But we decided that we would offer the same price we had sold the group for on the stock market, a large premium over the 70p at which the shares were changing hands just before our announcement. . .This would mean that nobody who invested in Virgin would lose money.

By November 1988 Virgin was a private company again.

> As well as the constrictions of having to report to non-executive directors and shareholders, one of my main frustrations with being a public company quoted on the stock exchange was the short-term view investors took.

Branson also has doubts about British bankers. Some of his companies faced periodic cash flow crises. Some banks seemed less than helpful.

> Under the British banking system, banks make their money from charging high interest rates, rather than taking any kind of equity stake as they often do in Japan and Germany. British banks therefore have a greater incentive to cut and run from a company, rather than seeing it through bad times.

By 1991 debt problems had become severe and bank guarantees had to be negotiated between Virgin Atlantic and Virgin Music. Faced with hostile, and allegedly corrupt, competition from British Airways, the airline business needed cash, which put the music business at risk. Branson decided to complain directly to the non-executive directors of BA, only to be told that it was 'wholly inappropriate for the non-executive directors of a public company to report to a third party in the manner that you request. . .the proper course of action is for any such allegation to be directed to the board as a whole.' The chief executive of BA flatly denied that there had been any attempt to compete other than through normal marketing and promotion. But Branson persisted, obtained an incriminating tape recording, and the action closed with Branson and Virgin winning the highest uncontested libel payment in British legal history. Eventually Virgin Music was sold.

Branson's business philosophy

The book is a primer of Branson's approach to entrepreneurial business:

> In the same way that I tend to make up my mind about people within thirty seconds of meeting them, I also make up my mind about a business proposal within thirty seconds and whether it excites me. I rely far more on gut instinct than researching huge amounts of statistics.
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> I can honestly say that I have never gone into any business purely to make money. If that is the sole motive, then I believe you are better off not doing it. A business has to be involving, it has to be fun, and it has to exercise your creative instincts.
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> Throughout my business life I have always tried to keep on top of costs and to protect the downside risk as much as possible. The Virgin Group has survived only because we have always kept a tight control of cash.
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> Virgin's management style is informal but the management team has demonstrated itself to be resourceful and fast reacting to changing situations. Core businesses are managed by professional managers with relevant industry experience.
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> Convention dictates that a company looks after its shareholders first, its customers next and last of all worries about its employees. Virgin does the opposite. For us, our employees matter most. It seems common sense to me that if you start off with a happy, well-motivated workforce,

> you're far more likely to have happy customers. And in due course the resulting profits will make shareholders happy.

What an antidote to the conventional wisdom found in the deluge of official reports on best practice in corporate governance around the world and the proposals for reforming British company law.

This book is volume one of Richard Branson's autobiography. The next volume should be equally fascinating, covering the sale of 49% of Virgin Atlantic to Singapore Airlines, releasing an enormous war chest presumably needed to fund Virgin Financial Services, Virgin Rail, Virgin Cola, the Our Price music chain and other ventures yet to come.

"The proper governance of companies will become as crucial to the world economies as the proper governing of countries."

James D. Wolfensohn, President, The World Bank

"Integrity, transparency and fairness also serve as the bedrock of a strong and trustworthy financial reporting famework."

Arthur Levitt, Chairman, the US Securities and Exchange Commission

"A strict definition of an independent non-executive director is one we couldn't follow in South Africa because it would have meant that about 50 percent of non-executives would have been disqualified."

Mervyn King, chairman of the King Report on corporate governance in South Africa (1994) quoted in Governance, Issue 78 April 2000

"My approach to governance is that it should be forced by 'peer pressure'. I don't believe in prescription and I also don't believe that there should be a bureaucracy of people monitoring these things. Governance of corporations is an absolutely dynamic thing, so dynamic that it is impossible to legislate for."