LEAP 100

City A.M. has teamed up with Mishcon de Reya and other expert partners to identify 100 of the most exciting, fast-growing firms in the UK. They operate at a range of scales and across many sectors, but all are in the process of making the leap to the next level in terms of revenue. We will track the challenges and hopes of this brave and economically vital group, sharing the collective portrait that emerges on this monthly spread and at cityam.com/leap-100

The founder of Smarkets is turning workplace hierarchies upside down

Sophie Jarvis

WITH the current Conservative leadership narrative resembling a combination of Shakespeare's Comedy of Errors and Julius Caesar, there's plenty speculation about which path history will take – "Will Boris get the boot?", "Will May resign?" etc.

Cue Smarkets – a stock market for betting: you bet against other betters, not the house. Founder Jason Trost's vision is to create complex bets for complex customers: instead of a punter putting £5 on Chelsea to win, Trost wants a younger, UBS version of himself to put £10,000 on a complex political bet, or just a straight up sporting bet.

After graduating from Northwestern in Chicago with a Computer Science degree, Trost was a stock trader at UBS, which he describes as a "nice employer". "They paid me well. I was in a box and you couldn't leave that box until you got to the next level." It was partly this static structure that drew Trost to the concept of self-management as a way to run a high growth company.

So what is self-management? Trost explains. "If you think of traditional hierarchy as a tree, self-management is a network." He adds: "I like to think of each worker as an airport. The leaders are the hubs like JFK and LAX, and the more junior workers are the regional airports. Both have their purposes, they're just different.

"You need the big international airports to help you get to your more remote destination – they're symbiotic, and like a network. But it's important to note that the big hubs change, as the business changes. We've just hit 100 people. Out of 100, there's three or four big hubs; then the regional hubs, of which there are 10 people; and then remote hubs make up the rest."

Trost implemented self-management at Smarkets three years ago. "It's not perfect," he says, "but I'm happy we're doing it. It's a work in progress."

Scarred by his experience of being told to stay in his box at UBS, Trost is fascinated by the prospect of employees stepping outside their roles, and how self-management encourages this.

He tells the story of one of his engineers reading about gambling regulation when a legal issue arose. "He's an engineer not a regulation guy – but he stepped up and filled that space that needed to be filled. So that's an example of it working very well."

Other features of Smarkets include: unlimited holiday, employees picking their own salary, and the ability to look up each other's salaries. The point in all three? The pillars of self-management are trust and transparency. So workers would not take excessive holiday, as that would be to the detriment of the team, and the team trusts that they will choose the correct amount of leave.

Self-management for a company might be a bit of a gamble, but for a certain type of worker, it sounds like the jackpot

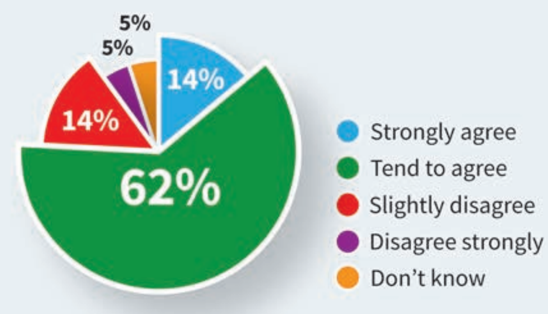
Trost compares the fate of someone being paid an excessive amount and leaving early to "a diseased red blood cell being consumed by the white blood cells". He notes that he's had problems with self-management – there's no silver bullet. But clearly Smarkets employees are as self-motivated, ambitious and contrarian as their founder – so providing everyone has the same mentality, the business thrives.

Self-management for a company might be a bit of a gamble, but for a certain type of worker, it sounds like the jackpot.

Sophie Jarvis is programmes director at The Entrepreneurs Network.

LEAPPOLLING

To what extent do you agree with the following statement: firms in the UK lack the long term finance they need to scale up successfully?



In your view, how valuable are current tax reliefs in attracting investments in UK private businesses?

TOPRESPONSES

What would encourage us to scale not sell? Access to finance and investors that aren't squeezing you for an early exit, and have a bigger appetite for risk – and bigger ambitions.

JULIA FOWLER COO & CO-FOUNDER EDITED

Often businesses face a choice – borrow to scale quickly, or sell. You can't afford to scale slowly, as a company from abroad will come in at some point and take you out.

CHARLES CRIDLAND TECHNICAL DIRECTOR YOURPARKINGSPACE.CO.UK

Treasury finance plans hope to help firms scale

MISHCON COMMENT

Michael Nouril

IN THIS month's Leap 100 poll (above), we asked our Leap 100 companies about the Treasury's consultation, "Financing growth in innovative firms". Ahead of the November Budget, the Treasury is asking why, when the UK has such a great track record in starting innovative businesses, we arguably grow so few to scale. It identifies the principal issue as a lack of "patient", or longer term, capital, and proposes a new National Fund.

However, the Treasury appears to be weighing the relative merits of funding this against the incentives provided by current tax reliefs.

What is the evidence for a patient capital gap? The Treasury cites studies which show that we under-perform in growing businesses to scale compared to the US: not only do we grow fewer "unicorn" firms (those that reach a US$1bn valuation), but UK companies also undertake fewer funding rounds and raise less capital on average.

The Leap company poll results support this: 76 per cent agreed that UK firms lack the long term finance they need to scale up.

The Treasury also points out that, while there are some positive examples of patient capital investment (e.g. by family offices, charities, and new listed patient capital funds), it is not enough.

The proposed solution for a new National Fund is welcome. Although not designed to be a long term measure, it would allocate public funds through the British Business Bank for investment alongside the private sector, with a view to kick-starting a new patient capital culture.

However, the Treasury is also consulting on how far to keep current tax reliefs, including EIS, SEIS, VCTs, Entrepreneurs' and Investors' reliefs.

It outlines a working assumption that the reliefs are relatively costly, do not reward longer term investment, and are not directed to the businesses with most need.

Yet in the poll, 90 per cent of our high-growth company respondents said the reliefs were valuable in attracting investment.

There is a paradox here: these reliefs were never designed to reward long term investment, but to incentivise entrepreneurs and investors involved with early-stage businesses by providing some means of mitigating the (considerable) risks they take.

Indeed, they appear to be successful in creating the very innovative companies we now want to grow to the next stage while not harming opportunity for later stage investment. It would be of concern if cutting back these reliefs squashed the very entrepreneurial ecosystem we have been so successful in creating.

A further paradox arises in the consultation's focus on businesses remaining independent. The Treasury should arguably not ignore the benefits of other options, such as a strategic sale or joint venture – these can also be successful in helping a business owner continue to grow a business.

Seeking to address the patient capital funding gap is an extremely positive and welcome step.

However, businesses will continue to need to draw on a range of funding options for differing reasons and at different stages, and care will be needed to maintain those.

All eyes on the November Budget....

Michael Nouril is a partner at Mishcon de Reya, acting for entrepreneurs and a range of investors.

LEAP COMPANY SPOTLIGHT

BOOM CYCLE

Boom Cycle offers a relaxed and enjoyable way to get fit in an environment that's more fun and less fitness than your everyday gym. Founded in 2011 by former model Hillary Gilbert and her fiance Rob Rowland, in the hope of offering an experience where you "look forward to your workout instead of it being a chore to tick off the ever expanding to do list", the company has been growing its "community of riders" at a healthy rate since. Initially a single studio, Boom Cycle has expanded to five locations, including Holborn, Hammersmith, and Shoreditch. Its staff has grown from the two founders into a 55-person workforce across the business, ensuring the comfort and satisfaction of their customers. Boom Cycle's move away from the stern, regimental way many gyms approached fitness is attracting more and more people, and Gilbert and Rowland are ensuring a broad range of interest through their two simple rules:

1. "We don't take things too seriously"
2. "Everyone is welcome"

Due to this progressive and expansive ethos, revenue has grown by 400 per cent, and it now hosts a plethora of celebrity fans such as David Beckham and Florence Welsh. Its success continues to prove that spinning studios are not just a fad – they're here to stay.

Self-management: Bliss or chaos?

MISHCON COMMENT

Sharon Tan

NOT SO long ago, Web 2.0 revolutionised the internet. For the first time, monolithic web pages created by corporate institutions met dynamic, user-generated content, and social media began to shape the way we interact. New concepts and paradigms are now emerging in the workplace.

One such paradigm is the self-managed structure, in which the traditional hierarchy is replaced by employee autonomy and control.

Employees exert control over not just how and when they do their work (so they have unlimited holiday entitlement, in effect), but also what sort of work they want to undertake.

Employees in a self-managed structure can even choose how much they are paid, based on how much they think they have contributed to the organisation. The philosophy is that a distributed peer to peer system works better than a traditional centralised one.

That theory has certainly proven itself to be correct in many contexts: Blockchain, for example. But will it be as successful in the world of work?

It certainly has much to recommend it at first blush. It continues the "millennial" trend of moving towards working arrangements that are more adaptable and integrated with an individual's life outside of work, and the proposition that people excel when they are free to play to their strengths is a convincing one. Hierarchical institutions that are overly weighed down by tradition and bureaucracy arguably prevent people from optimising their performance.

But at what point does this more indulgent way of working inhibit corporate and personal performance, rather than enable it?

Utopian attempts to reimagine the workplace can create significant problems and liabilities.

A lack of managerial accountability can create an environment in which people can coast or behave in a way that exposes the organisation to legal risk. In a self-managed structure, peers become responsible for calling out bad behaviour or under-performance. That could work in an environment where everyone is open, honest and accountable, but people tend to shy away from having difficult conversations. Whether those conversations take place could well be influenced by something as irrelevant as the popularity of the individual concerned.

That, in turn, has the potential to create a culture that promotes differential treatment and, in the worst case, empowers those who might be socially popular but who have a tendency to bully others.

Differential treatment of individuals also creates real legal risk for organisations, particularly where it involves someone who possesses a legally protected characteristic.

In such circumstances, the onus is on the organisation to explain the reason for the difference in treatment, which may be difficult to do in the absence of consistent and objective standards and responses.

What about the scenario where no one wants to do something that is perceived as boring but that is critically important to the organisation's future? Important matters, such as compliance, could easily fall between the cracks.

So, as with most new innovations, there are pros and cons. Those brave enough to trial it in their own organisations may well reap the benefits of such free-thinking: it may prove to be a useful weapon in the war to secure, and retain, the most talented individuals who might value freedom and autonomy over all else.

For those who manage to strike the right balance, the real challenge is going to be how to implement and manage it at scale.

At its heart, a self-managed, anarchic structure is reliant on openness, honesty, and trust.

It is easy to see how well it might work among a small group of close-knit colleagues; indeed, it may well be the workplace of the future.

But the challenge, as we embrace disruption, innovation and change is how to implement it successfully, in a way that retains talent and promotes the right culture while also mitigating organisational risk. Shaping Workplace 2.0 will be no easy task.

Sharon Tan is an employment partner at Mishcon de Reya.