


EXECUTIVE SUMMARY



Entrepreneurs create jobs and stimulate growth but they cannot succeed in a vacuum. They need a hospitable environment in which to operate—a kind of ecosystem in which capital, universities, companies large and small, growth stock exchanges, competition policy, laws and infrastructure all foster entrepreneurial ideas and bring them to commercial fruition.

Capital is the lifeblood of entrepreneurial innovation. That usually means private equity in the form of venture capital. This intimate and fruitful relationship between the private equity industry and the entrepreneur forms the double helix of this report's title.

The report has six sections. The first four sections broadly follow the entrepreneur from the birth of an innovative idea to the creation of a public company. The fifth section, on social investment, shows how the private equity industry is using its skills for social as well as financial objectives. The sixth section presents the personal conclusions of Sir Ronald Cohen, Chairman of Apax Partners Holdings. These are our main findings:

1 ENTREPRENEURSHIP

The correlation between entrepreneurship, job creation and economic growth has been firmly established. Governments everywhere have absorbed this message and many of them are now moving to encourage start-ups and new businesses. According to a forward-looking index produced by the Economist Intelligence Unit for this report, north European countries will provide the most hospitable framework for entrepreneurs globally, with the Netherlands, Denmark and the United Kingdom filling the top three positions. But around the world government policy, the availability of finance and increased entrepreneurial experience are all helping to make the prospects for entrepreneurs brighter than ever before.

2 TECHNOLOGY

The technology achievements of the past 20 years will be rivalled by those of the next 20. These are not the easiest times to finance innovative technologies. But the role of innovation and the venture-backed entrepreneur is as important as ever. In IT, entrepreneurial activity will focus on the trend towards mass customisation, from reprogrammable chips to the personalisation of entertainment and educational experiences. In telecoms, smaller innovative service companies will work alongside large network operators. And in biotechnology, the technological advantages of the biotech firms will confirm their dominant role in delivering the next generation of drugs for large pharmaceutical companies.

3 PRIVATE EQUITY

The private equity industry is set for rapid growth over the next ten years, with pension funds in the United States and Europe likely to double their allocation to the asset class. Growth will be driven by a narrowing in the perceived risk differential between private and public equity portfolios, easier access to private equity funds for investors, better exit opportunities through the financial markets and continued outperformance by private equity in terms of returns. Within the industry, scale will be increasingly important for funds in order to spot trends and deliver value to companies and investors.

4

CAPITAL MARKETS

Growth stockmarkets, with their shorter reporting-history requirements, are critical in enabling new businesses to expand. There is pressure on European national exchanges to consolidate into regional and even global exchanges, but politics and local interests are delaying progress towards a pan-European capital market. The costs of continued fragmentation in Europe are reflected in a lower level of early-stage investment than the United States, which is already threatening Europe's lead in mobile telecoms.

5

SOCIAL INVESTMENT

Private equity and social investment—financial transactions intended both to achieve social objectives and deliver financial returns to investors—make an odd-looking couple. But social private equity offers a sustainable and profitable model of capital allocation to “under-invested” communities, and is already creating jobs and entrepreneurial role models in the United States. With the launch of the United Kingdom's first community development venture fund in May 2002, social private equity is positioned to evolve into a new segment of the venture capital industry.

6

IN CONCLUSION

Despite its extraordinary success over the past 30 years, private equity is still an industry in its infancy. If the sector has grown tenfold over the past decade, it is likely to do the same again in the coming ten years. That growth will help drive greater dynamism in the economy as a whole—there is almost no limit to what can be achieved by new companies in new sectors with high growth prospects. But with success comes responsibility. We all have to be very conscious of widening disparities in wealth, and of the scope for creative economic development in areas that have not attracted investment in the past.