

Institution: Imperial College London Business School		
Unit of Assessment: C17 Business and Management Studies		
Title of case study: Impacts on the behaviour, capacity and practices of private and public sector organisations in the early-stage business financing ecosystem of the UK		
Period when the underpinning research was undertaken: 2008-2019		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Mike Wright	Professor of Entrepreneurship	09/2011 - 11/2019
Period when the claimed impact occurred: 2014-2020		
Is this case study continued from a case study submitted in 2014? N		
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>Through a sustained programme of research linked to unique database creation Professor Mike Wright and colleagues have, through the Centre for Management Buy Out Research (CMBOR), generated impact of extensive reach and significance relating to entrepreneurial finance and early-stage business growth in the UK. As defined in the REF criteria, this impact consists of its effect on the activity, behaviour, capacity to meet objectives, and the practices of multiple private and public sector organisations in the entrepreneurial and early-stage financing ecosystem of the UK. It has taken the form of changes in these dimensions of impact for the National Endowment for Science and the Arts (NESTA) in relation to guidance on the management of accelerators; the Institute of Chartered Accountants in England and Wales (ICAEW) with 180,000 members in 148 countries (Source 3); major private equity firms Equistone and Investec; and the British Venture Capital Association (BVCA) representing, in 2019, 725 member firms with over £500 billion under their management (Source 9). Finally, research by Professor Wright (in collaboration with Professor Wilson of Leeds University) quantified, for the first time, the extent of an early-stage equity funding gap for knowledge intensive businesses in the UK of over £2 billion per annum. This research had the impact of leading to the relaxation of EU state aid funding limits in this area. It enabled the UK to be the first country to take advantage through increasing, in 2018, the upper limits on fund raising in the Enterprise Investment Scheme (EIS) and the Venture Capitalist Trust Scheme (VCT). These schemes in 2018-19 were linked to over 50,000 investors claiming tax relief and were responsible for over £2.5 billion in funds raised by early-stage firms (Sources 10 and 11).</p>		
<p>2. Underpinning research (indicative maximum 500 words)</p> <p>The research underpinning these impacts is based on a co-evolving programme of unique large-scale database creation and empirical research based on it. In turn, the latter leads to database enhancement, as new research questions require specific additional dataset creation.</p> <p>This has generated a live comprehensive database of the population of about 35,000 European-wide buyout, and related private equity backed transactions, covering the period from the late 1970s to date. In the current REF period, the data has formed the basis for quarterly reviews of trends that have enabled practitioners to enhance their sector knowledge and inform their decision-making. It has also been the basis of numerous academic publications having impact in the current REF period, including work on financial distress and resilience in venture backed firms, incubator policy, and estimating and addressing the UK equity gap (Refs 1,2,3,4,5).</p> <p>In the current REF period, specific research-focussed databases were constructed and analysed combining CMBOR data with, for example, Companies House financial and director data, and</p>		

credit rating agency data. These were required for commissioned reports for HMT and BEIS and academic publications. These measured respectively the UK equity gap and regional patterns of venture capital funding (Ref 2 and Ref 6). This work generated and analysed datasets comprising several millions of company-year observations. Further novel databases were constructed and analysed in work on accelerators funded by NESTA and also published both in a report and an academic journal (Ref 1).

This programme of research in the REF period was carried out at CMBOR at Imperial College Business School principally by Mike Wright, along with Bart Clarysse and in collaboration with Nick Wilson of University of Leeds. It generated specific findings leading to the impacts described in Section 4 below.

The research programme included a deliberate strategy to maximize the impact of CMBOR output and to continually enhance the database platform via twice-yearly meetings with senior level CMBOR sponsors. This occurred through regular informal meetings and regular business sponsored web-based reports and assessments of UK and international venture capital and buyout trends. From 1/1/2014 to 31/12/2018, CMBOR logged 380 items of media coverage, including 'world quality' media (Financial Times, Times, Wall Street Journal, Economist and BBC Radios 4 and 5). CMBOR research has also been disseminated indirectly through the British Venture Capital Association (BVCA) and the Institute for Chartered Accountants in England and Wales (ICAEW), sending copies to their members as well as using the research in making cases regarding private equity to policymakers (Source 5.3).

Specific findings include the following:

Equity funding gap: For the first time, this research provided systematic evidence on the size of the equity-funding gap for entrepreneurial firms in the growth phase beyond start-up. These firms face the challenges of scaling-up and if they can achieve it, they will make a significant contribution to economic growth in the country (Ref 2).

Accelerators: Heterogeneity of new funding and support providers: This research provided the first systematic evidence that accelerators have different objectives and impacts. These relate to whether they seek to build ecosystems, or provide a conduit to identify investment opportunities, or aim to stimulate welfare through job creation. These different objectives influence the elements of the accelerator programme and cohort recruitment, as well as the management structure of accelerators (Ref 1).

Resilience and distress in private equity: Comparing matched private equity backed buyouts and non-buyout companies in the population comprising some 13 million company-years, private equity backed buyouts were shown to be less likely to become insolvent than comparable non-private equity backed buyouts and listed companies, and were more likely to perform better through the economic recession. This was the reverse of prior perspectives on the sector (Refs 4 and 5).

Practical challenges and the implications of trends in private equity: Based on collaboration with a practitioner co-author, CMBOR data and a comprehensive review of approximately 200 papers, an ICAEW sponsored book was written to provide a comprehensive explanation and assessment of private equity and buyouts for practitioner and educational use (Ref 3).

3. References to the research (indicative maximum of six references)

1. 1.Pauwels, C., Clarysse, B., Wright, M. and Van Hove, J. 2016. Understanding a new generation incubation model: The accelerator. *Technovation*, 50–51: 13–24.
2. 2.Wilson, N., Wright, M. & Kacer, M. 2018. The equity gap and knowledge based firms. *Journal of Corporate Finance*, 50:626-649.
3. 3.Gilligan, J and Wright, M. 2014. *Private Equity Demystified*. London: ICAEW, 3rd edition. (4th edition in preparation.)

4. Wilson, N. and Wright, M. 2013. Private Equity, Buyouts and Insolvency Risk. *Journal of Business Finance and Accounting*, 40:949-990.
5. Wilson, N., Wright, M. Siegel, D.S., 2012, Private equity portfolio company performance during the global recession, *Journal of Corporate Finance*, 18:193-205, July
6. Wilson, N., Kacer, M. and Wright, M. 2019. Equity Finance and the UK Regions: Understanding Regional Variations in the Supply and Demand of Equity and Growth Finance for Business. BEIS Research Paper, Number 2019/012, July

All of the journals in which the articles in this list appear are leading in their fields.

4. Details of the impact (indicative maximum 750 words)

Impact significance and reach

The research has had a significant impact on policy in the UK and EU. It has led to improved practice and organisational ability and capacity via its effects on Equistone Equity Partners, Investec Bank, the ICEAW, the BVCA and NESTA. These impacts are discussed in turn below.

Impact on policy to close the equity gap

CMBOR's equity gap report, produced for HM Treasury, and subsequently published as Ref 2, had a direct impact on EU state aid policy and hence the ability of the UK government to change policy towards the EIS and VCT schemes. These schemes are designed to support funding for knowledge intensive smaller businesses by offering tax breaks to investors. The research provided clear evidence that there was a market failure inhibiting access to equity for these firms and the scale of the gap. Sue Catchpole, Deputy Director, Enterprise and Property Tax Team, HM Treasury comments that: *"Professor Mike Wright, along with Professor Nick Wilson of Leeds University Business School, provided a comprehensive report on the size and scale of the equity gap in the UK, with a particular focus on knowledge intensive firms, to a very demanding timescale. The UK 's proposed limits for EIS and VCT were directly based on estimates provided in the report, which was submitted to the EU Commission. This analysis enabled the UK to be the first Member State to gain State aid approval for limits to the schemes which went beyond the basic EU rules."* (Source 5.1). The subsequent Finance Act 2018 incorporated provisions, which increased the annual amount a qualifying knowledge intensive company could raise under the EIS and VCT schemes from £5 million to £10 million for shares issued on or after 6 April 2018. The EU report setting out the relevant change in state aid regulations specifically refers to the CMBOR report (Source 5.11: page 3 and footnote 7).

NESTA and accelerators

CMBOR's Report on Accelerators to NESTA - 'A Look Inside Accelerators' - was also published as an academic paper (Ref 1). Its impact included shaping NESTA's own understanding and behaviour as a national organization in this area. It demonstrated the different types of accelerators and their programmes, and significantly influenced the industry guidance that NESTA produced (Source 5.2). The impact here was both in terms of improving practical management advice through NESTA's advisory role but also in enhancing the position and effectiveness of NESTA itself. Dr Christopher Haley, Head of New Technology & Stakeholder Research at NESTA writes, *"The beneficiaries of this report and practice guide included both policymakers and accelerator managers, as well as NESTA itself. It helped shape NESTA's own thinking on accelerators and has received 5,507 unique views since publication on 11/02/15 [...] it made an important contribution to shaping our understanding of the role and operation of accelerators, especially regarding the differences in potential models and sources of funding. Drafts were influential in shaping our 'Startup Accelerator Programmes: A practice guide' (NESTA 2014), [...] which has also been downloaded several thousand times"*. He also writes that *"the report and the subsequent practice guide had an important impact in enhancing NESTA's standing both as a source of informed research-based advice, and of guidelines for practical implementation in the accelerator space."* (Source 5.2).

BVCA

The research and data development carried out by Mike Wright at CMBOR has had an important

impact on BVCA generally. Dr Joe Steer, former research director at the BVCA defines this impact *“in terms of the BVCA’s capacity to engage with its stakeholders across Government including ministers, their shadows, MPs of various stripes, civil servants in HM Treasury and elsewhere and regulators in several agencies.”* Moreover, he writes it has been *“seminal to the wider understanding of the private equity space....the BVCA would have been far less effective without this material.”* (Source 5.4). Dr Tim Hames, Director General of BVCA writes that CMBOR research *“formed a cornerstone of the BVCA’s response to consultation documents from both UK and European governments and regulators... work around the growth of private equity-backed businesses in the North of the UK provided evidence backing then Chancellor George Osborne’s initiative to strengthen regional growth in the UK through the Northern Powerhouse – that this initiative understood the place of non-bank finance in helping businesses grow was in large part because of Professor Wright and Professor Wilson’s work”.* (Source 5.6) Moreover, he writes that research on failure and resilience in private equity-backed business *“helped inform EU-wide moves to tighten the financial regulatory framework in the wake of the financial crisis... and meant that it did not start from a point of believing that the industry was a net negative, and (the Directive) was therefore not as damaging to the industry as it might otherwise have been.”* (Source 5.6).

Private equity firms

The CMBOR research driven database has had significant impacts on the strategic positioning, effectiveness and standing of Equistone and Investec.

Equistone has a core focus on change of ownership deals in which it has invested over £8.5 billion (Source 5.13). Christiian Marriott, Director and Head of External Relations at Equistone writes, *“We have always been keen to ensure that we consider the issue of good citizenship in terms of how we operate. This means being transparent, being open to scrutiny from stakeholders, and ensuring that we play our part in the private equity ecosystem by attempting to increase public understanding of the asset class. In this latter aspect, we believe that we have hugely benefited from our association with CMBOR. CMBOR has had a significant impact on Equistone, our global investors, and the wider business community with whom we work.”* (Source 5.8).

Investec is a bank and fund manager with **approximately 10,000 employees and hundreds of millions of pounds lent to private equity sponsors and their portfolio companies (Source 5.7)**. The impact of Mike Wright’s work through CMBOR has been to strengthen its position in the field and its services to its clients. Luke O’Mahony, Head of PR at Investec writes, *“CMBOR activity was a key element of our strategic marketing to the private equity industry, and we found the data interesting, timely and of great relevance to the industry.”* (Source 5.7).

ICAEW and private equity demystified

The third edition of “Private Equity Demystified” (Ref 3), drawing extensively on Wright’s research programme and co-written with John Gilligan a partner in BDO, was published by ICAEW in 2014. It had the impact that ICAEW were able to raise awareness and improve understanding across a wide constituency of practice and policymakers nationally and internationally. It did this by informing institute members, MPs and civil servants, and European Commission officials, as well as ICAEW members. It enhanced their capacity to develop policy positions on private equity-type investments. It was cited in the recent UK Government Patient Capital Review (Source 5.5). The book is widely used to raise *awareness and understanding nationally and internationally* through teaching at universities and training in industry (Evidence 5.3). Mr David Petrie, Head of Corporate Finance at ICAEW writes, *“ICAEW’s Corporate Finance Faculty has used the book to promote good practice, and to share findings within the wider ICAEW membership of over 156,000 and the private equity sector itself.... In 2014, the Abstract edition was printed and distributed to every member of ICAEW’s Corporate Finance Faculty of 7,000 members and 80 member organisations....the book has had a significant impact on ICAEW’s ability to attract the attention of and inform a wide range of policymakers and practitioners and on our ability to meet our obligation to serve the public interest, to explain and inform”.* (Evidence 5.3) *“Taken together these impacts across the policy spectrum and a wide range of practitioner firms and associations bodies are of wide ranging reach and significance.”* (Evidence 5.3). He also writes, *“It is difficult to overestimate the importance of his work to both private equity and the wider business community.”* (Source

5.14).

5. Sources to corroborate the impact (indicative maximum of 10 references)

1. Letter from Dr Sue Catchpole Deputy Director, Enterprise and Property Tax Team HM Treasury.
2. Letter from Mr Christopher Haley, Head of New Technology and Start Up Research NESTA.
3. Letter from Mr David Petrie Head of Corporate Finance, ICAEW Corporate Finance Faculty
4. Letter from Dr Joe Steer, former research director at the BVCA
5. Patient Capital Review 2017 (footnote 2, page 53).
6. Letter from Dr Tim Hames Director General BVCA
7. Letter from Mr Luke O'Mahony Head of PR, Investec Bank
8. Letter from Dr Christiian Marriott. Director and Head of External Relations Equistone
9. <https://www.bvca.co.uk/Membership>
10. Report by HM Revenue & Customs entitled "Venture Capital Trust: Commentary" (<https://bit.ly/3cfpmVI>)
11. Report by HM Revenue & Customs entitled Enterprise Investment Scheme Seed Enterprise Investment Scheme and Social Investment Tax Relief (<https://bit.ly/3rvoXVx>)
12. EU Report: Amendments to the existing aid schemes "Enterprise Investment Scheme" and "Venture Capital Trust scheme" (<https://bit.ly/3v5esug>)
13. <https://www.equistonepe.com/investments>
14. <https://www.icaew.com/technical/corporate-finance/corporate-finance-faculty/corporate-finance-news/obituary-mike-wright>