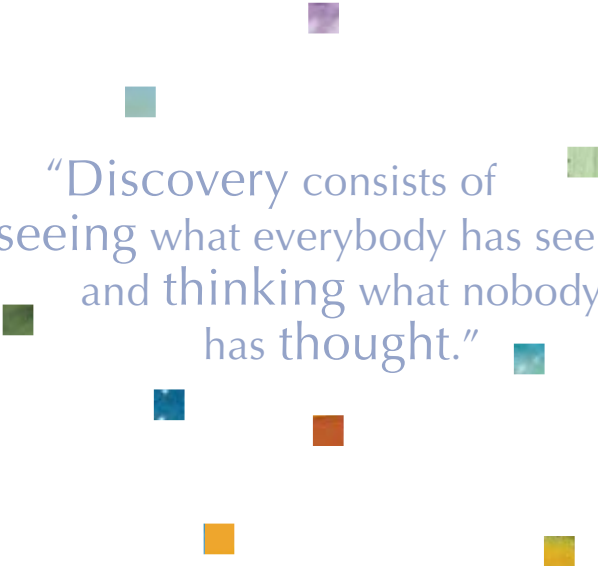


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“Discovery consists of  
seeing what everybody has seen  
and thinking what nobody  
has thought.”

KAUFFMAN Thoughtbook 2009

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## The State of Entrepreneurship in Europe—An Investor’s View

An Interview with SIR RONALD COHEN

Cofounder and former Chairman, Apax Partners; Author, *The Second Bounce of the Ball: Turning Risk into Opportunity*

*The word “entrepreneur” is French in its origins, but in France and many other countries throughout Europe, there are many fewer entrepreneurs than there are in a country such as the United States. In decades past, this was partly a problem of mindset—the idea of launching a business was not embedded into European culture or education. That’s changed, but now the big obstacle is a dearth of opportunities for early-stage growth companies to raise capital through the public markets.*

*Sir Ronald Cohen has been working to promote entrepreneurship in Europe. As one of the founders of Apax Partners, the leading European-based global private equity firm, Cohen was one of the continent’s first private-equity investors. He has been a backer of ventures involving Sir Richard Branson (Virgin) and Stelios Haji-Iannou (EasyJet), and of companies like Sally the Sheep, Calvin Klein, and Tommy Hilfiger.*

*He left Apax Partners in 2005 to concentrate on a range of philanthropic activities and, in 2007, his book on entrepreneurship, *The Second Bounce of the Ball: Turning Risk into Opportunity*, was published. Here he shares his thoughts on entrepreneurship in Europe, both in terms of what’s working and what’s not.*

What was the state of thinking about entrepreneurship when you were starting your career in business?

I enrolled at Harvard Business School in the fall of 1967, as the entrepreneurial wave was starting to form, but those who noticed it were in the minority. This was a time when a minister in the French government, Jean-Jacques Servan-Schreiber, published a best-selling book, *The American Challenge*, which argued American corporations—big business—were destined to dominate Europe and the world over.

But this analysis overlooked the disruptive effects of new technologies, which would cause large, established firms to lose ground and shed jobs. Innovative companies, such as DEC, reflected the advantages the United States had over Europe. The education system was better, particularly in the area of new technology. The business culture welcomed innovation and encouraged competition and risk-taking. And there was much easier access to capital.

How has entrepreneurship in Europe changed over the past thirty years?

Entrepreneurship requires an enabling environment, including low rates of tax on capital gains, supportive stock markets, and policy initiatives to support enterprise and small businesses. Thirty years ago, there was no such environment in Britain or any other European country. Just as troubling, there was a prejudice against wealth creation and risk-taking. Many people thought it was in the nature of the British, the Germans, and the French not to take risks and be entrepreneurial.

That has changed. The transformation of attitudes is far from complete, but the reality is that almost everybody would like to make capital if given a real

chance to do so. Fundamentally, there is now little difference between an American and a European entrepreneur, even if, despite the huge increase in their numbers in recent years, there are still far fewer entrepreneurs in Europe than in the United States.

But to this day, European high-tech entrepreneurs are at a serious disadvantage to their U.S. counterparts because there is no European equivalent of the NASDAQ stock market, which provides a serious and liquid market for early-stage companies. The consequences are that European investment in early-stage companies is about half the level as in the United States, and Europe has fallen far behind in technological innovation. So acute is the gap now with the United States that a high-tech entrepreneur starting out in Europe would have to think seriously about whether he or she might not be better off relocating to the United States, where there is likely to be a more receptive stock market when the time comes to raise substantial funding for the business.

#### What are some other pros and cons related to European entrepreneurship today?

One positive development has been the adoption of the euro, which has helped to create price transparency and a more efficient, competitive environment. But Europe is still divided by national boundaries that cause the overall market to be quite fragmented. Just as there are linguistic barriers, national silos still persist. There are still no uniform rules for raising money in all the different European Union countries, which means submitting to separate registrations in every country where one wishes to engage in fundraising.

It’s also still the case that if somebody fails in Europe, the stigma can make it difficult to try again. In the United States there is a much healthier view, that

enterprise is a process of trial and error: If your venture fails, people accept that the experience will stand you in good stead when you begin again. In Europe, it can be interpreted as “trial by ordeal,” that you are not worthy of success.

How do you see entrepreneurship in Europe relative to how it works in some of the world’s emerging markets?

I think it is an advantage for countries like China and India to develop an entrepreneurial society, given that they have less mature, high-growth markets where entrepreneurship can be quickly and richly rewarded. If governments understand the role of entrepreneurship and the system required to support it, they can progress quickly to build an entrepreneurial economy. The case of Israel is instructive. In the last fifteen years, high-tech entrepreneurship has developed into a very significant segment of the economy and created powerful role models for entrepreneurial Israelis.

Are there any other policy changes that would promote entrepreneurship in Europe (or elsewhere)?

I think Europe must maintain low levels of tax on capital gains and work harder to create a single financial market and a stock market on the lines of NASDAQ, which focuses on entrepreneurial companies.

Regardless of country, what distinguishes successful entrepreneurs from everyone else?

They have the confidence and the determination to turn risk into opportunity where others would only see risk.