Venture Capital and the Computer Industry: Financing Growth Companies in the UK

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In the 1980s a new form of investor - the venture capitalist - came to prominence in Britain. Venture capital seemed to have a number of defining characteristics, marking it off from more "traditional" British investment institutions. It was held to provide long-term, often equity-based, investment; it was prepared to invest high-risk, start-up and development capital; and it was prepared to invest in so-called "high technology" projects. Venture capitalists were also deemed to add value by adopting a "hands on" approach, bringing technical, financial, and marketing skills to the investments with which they became involved. Venture capital was then, a "good thing", especially in the light of general Conservative policies promoted in the 1980s, which aimed at restoring market forces to the economy, encouraging private ownership and private sector finance, and empowering entrepreneurial activity. Here we saw a private capital investors taking risks and channelling investment into high-growth sectors like computers and bio-technology. The reality of venture capital, however, frequently failed to live up to the image. In this paper we look more closely at venture capital investment in the 1970s and 1980s, comparing its origins with those of the US venture capital industry, assess why it was that this new, and promising, sector failed to live up to its expectations, and consider the experience of the computer industry in relation to this sector.

Firstly though, it is worth considering why venture capital was initially greeted with such acclaim. One of its central features - that it invested in high-risk investments, towards the start-up end of the market - gave it particular prominence. The difficulties which small and medium-sized firms in Britain experienced in attempting to attract investment had been widely debated since the 1930s, when the "Macmillan gap" was first identified. This gap, so-called after the report of the Macmillan Committee which identified it [13], was principally the result of two factors. Firstly, the method of raising funds on the London capital market, by the offer of share issues, was unavailable to small firms owing to the proportional costs of this process (advertising, underwriting fees, etc.) and the lack of an effective secondary market for share issues below a certain threshold. Secondly , the banking system, dominated by the large clearing banks centred in London, was not geared to lending long-term, being preoccupied with security and liquidity [21]. Banks took a historic view in assessing risk. If a firm had traded successfully in the past then its books would show that it was worthy of investment. Most of all a firm needed assets, essentially concrete proof of historic trading success, which could

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be used as security against any prospective investment. To invest in a start-up or early-stage project requires the opposite perspective. Predictive assessments of the likelihood of success would instead be necessary, not based on past performance or secured by existing assets, but rather on the ability of investors to judge the potential of the proposer, his product, and its market. This, the clearing banks were unwilling, and indeed unable, to do given their lack of technical and marketing expertise.

Is the "Macmillan gap" important? Does it matter that small and medium-sized firms (SMEs) have difficulties in raising finance? In Britain the response to this question is somewhat ambiguous. There has, from the turn of the century at least, been strong support for larger firms and economies of scale, heavily influenced by the notion that Britain must catch up, or keep pace with the USA. This idea reached its height in the 1960s when the government adopted specific policies designed to promote mergers in industry, and perhaps even promote European scale companies [19, 22]. Yet at the same time SMEs have been held to be vital to economic health. They are variously seen to be innovatory [12] and dynamic, rapidly increasing employment during upswings in the business cycle and generally less prone to bureaucracy and inertia. Proof of this is difficult and often contradictory in empirical terms [17, 4], nevertheless there are apparently some strong indicators, including the key role played by medium-sized firms in sub-contracting relationships in the Japan, and the importance of the Mittelstand in Germany [1]. In many ways advocacy of a vibrant SME sector rests more on faith and ideological considerations. They tap into ideas of autonomy and regionalism which are evident from Jacksonian democracy in the US, through anti-trust movements to advocates of a post-Fordist political economy in more recent times [18].

So, SME's are a "good thing" too. This is especially the case, perhaps, during the formative phase of a new industrial sector. When a new product category appears there is frequently a turbulent phase, where barriers to entry a relatively low and a large number of smaller firms are able to compete. The majority will prove to be ephemeral and mergers and takeovers will absorb many of the remainder, until an industry is consolidated perhaps at a relatively stable constituent size. This process was most clearly visible in the car industry at the turn of the century for example. The computer industry, or at least aspects of it, has exhibited a similar cycle. Some very large players, such as IBM, were in at the start, but technological innovations and new market applications, in the computers themselves, their software and peripheral equipment, have successively created openings for smaller scale firms to enter the field. Indeed, it could be said that smaller firms have been vital to the process of change, bringing a new level of commitment, flexibility, vision and creativity to the design and production process.

In the late 1970s in Britain two "good things" seemed to be happening in parallel. The phase of development of the computer industry had not yet reached a point of closure by any means. Opportunities for SMEs to enter the industry were still abundant. Entrepreneurs with technical skill, often learnt within large companies, could establish new enterprises with the prospect, if successful, of rapid growth. The attrition rate would be high, but this was to be expected at this phase in the development of the industry, and the scale of possible success easily outweighed considerations of failure. The growth of the venture capital industry provides the other half of the virtuous circle. Here was a new entrepreneurial form

of investor, ready to provide the long-term risk finance to enable growth. Moreover, here was an investor in tune with the needs of the fledgling high-technology computer industry in terms of technical and marketing advice. However, the reality proved to be less than exemplary.

In order to understand the contours of venture capital in Britain, we must look first to its origins, and here it will be useful to compare Britain with the USA. The latter can be seen to be the birthplace of venture capital, and interestingly, to be closely associated with some important computer industry developments. Bygrave and Timmons outline the early phases of the semi-conductor industry in Silicon Valley, for example, where entrepreneurial scientists and engineers were "financed with venture capital from technologically savvy, wealthy investors" [4]. This was followed by a phase of more organised venture capital investment including the financing of National Semiconductor , Advanced Micro Devices, and Intel. The ARD equity funding of mini-computer manufacturer Digital Equipment Corporation (DEC) in 1957 is still held by many observers to be the spiritual origin of venture capital. Many subsequent high-profile investments in the computer industry were, at least partially funded by venture capital, including Apple, Microsoft, and Lotus [4, 8].

Returns on many of these investments may have been rather modest, when taken over the long term, yet the impression remained that this field, at this particular time, offered the prospects of spectacular returns. Indeed, it was in the nature of venture capital that a single "shooting star" or "home run" investment was the key to success. DEC for example, by increasing a $77,000 investment to $355 million in fourteen years, accounted for almost 50% of ARD profits during its first 25 years [8]. 3i, the largest British investment capital organisation, operates a rule of thumb guideline whereby it expects only one in ten high technology investments to succeed[1], and Venture Economics calculates the figure even lower, at a success rate of only 6.8 per cent [2]. So examples of very high returns to compensate for the expectation of a large proportion of failures were very important. Certainly, in the early years of venture capital funding in Britain the trans-Atlantic influence was crucial. As Ronald Cohen of British venture capitalist Apax later recalled:

> ...in the United States the electronics industry was important proof that you could achieve unusually high returns...the first funds to be raised in the UK were raised with the example of the US funds (where) some people had been fortunate enough to invest in Apple computers and Intel, and made a lot of money out of it [11].

The growth of venture capital in Britain had other dynamics, beyond the example of the early "classic" successes in the USA. Government policy and changes in the financial markets afford a partial explanation. The government, for example, established the Business Start-Up Scheme, later renamed the Business Expansion Scheme (BES), which allowed individuals to obtain tax relief on investments up to £40,000 in unquoted equity for a minimum period of five years. (Collective funds were soon set up to manage these investments.) Perhaps, in an

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[1] Richard Summers, interviewed by author, July 1993.

indirect way these parallel the Small Business Investment Companies (SBIC) initiatives in the USA from the late 1950s onwards, which were to prove less than satisfactory in the long run despite original government intentions. In the case of the BES, investments gravitated towards property investment, particularly in hotels. Another stimulus to the activity of venture capital firms came when capital market thresholds were significantly reduced with the introduction of the Unlisted Securities Market (USM) in November 1981, again creating a parallel with the NASDAQ in the USA. Conditions of entry to the USM were considerably less complicated and cheaper than a full listing on the stock exchange and by 1985 the USM comprised over 330 companies worth a total in excess of £3.5 billion. This had the effect of creating a market for shares which would previously have presented difficulties in liquidity terms, and thus considerably enhanced the opportunities for smaller companies to float successfully. The USM also provided venture capital funds with an earlier exit and increased their ability to realise successful investments. Ronald Cohen of Apax pointed to the importance of the USM: - it was "crucial to the development of the industry...the day we decided to launch our first fund was ...when the USM was announced...we had seen from the United States that even early stage companies needed refinancing by going public and you needed a place which you could make these companies public" [11].

Gompers [8] has pointed to the importance of ERISA legislation in promoting the resurgence of venture capital activity in the USA from 1979 onwards, in that it released pension fund capital from previously imposed regulatory constraints on high-risk investments. Here there is no legislative parallel with Britain; however, there is a similarity in the source of funds, i.e., the large pension fund and insurance companies became an important source of venture capital in the 1980s in Britain. This was channelled through independent venture capital funds such as Electra, Candover, Apax, and ECI, or through subsidiaries such as Prudential Venture Managers, Legal and General Ventures, and CIN Ventures. Other institutions entering the venture capital field included the major clearing banks which each established venture capital subsidiaries - County Natwest Ventures, Barclays Development Capital, Lloyds Development Capital, and Midland Montagu Ventures. Many Merchant Banks followed suit, subsidiaries including Schroder Ventures and Morgan Grenfell Development Capital, as did some stockbrokers, e.g., Philips and Drew's Phildrew Ventures. In addition, the largest venture capital-related investor, 3i, maintained a continuing presence in the market, funded by internal revenues and money raised on the international capital markets.

Following on from the earlier expansion of funds in the USA there was an explosive growth of funds in the UK during the 1980s. The sector numbered only an estimated 30 institutions in 1980, yet by 1990 the British Venture Capital Association (BVCA) could boast of a membership in excess of 120. The level of funds raised and invested by these institutions presents a more graphic picture of rapid growth. The amount invested by venture capital organisations, excluding 3i, in 1981 was around £200 million. By 1989 this had reached an annual peak of over £1.6 billion invested in over 1500 companies, 86% of which were in the UK [15]. Independent venture capital institutions (excluding 3i and Clearing Bank subsidiaries) showed spectacular growth in the level of funds attracted for investment, raising £1.7 billion in a 1989 alone. This growth is even more marked when international comparisons are drawn. Direct comparisons are difficult to make

given variations in classification but Britain's venture capital industry was, by the end of the 1980s, by far the largest in Europe.[1]

The pattern of venture capital funding during the 1980s is similar to that in the United States, a steadily rising trend throughout the decade, peaking between 1987 and 1989 and thereafter in steep decline. (An upward trend is evident again in the last year in the UK.) However, it is clear that this funding does not conform to the classic venture capital model which would favour long-term, risk-based investment in advanced technology sectors, of which the computer industry is one of the major components. By 1989 only 27 per cent of investments were in "technology-based" sectors. By the following year this had fallen to a mere 14 per cent [2]. This perhaps reflected a lack of technical expertise among venture capitalists - only 19 per cent of venture capital company executives in a 1989 survey undertaken by the UK Venture Capital Journal were found to have a background in technology related areas [2] - but it is more probable that it reflected a move towards what were judged to be less risky areas of investment. The move away from start-up finance is perhaps the most notable trend during the 1980s; despite being the largest venture capital investor in Europe, Britain funded the fewest start-ups proportionally [2]. Ronald Cohen, chairman of Apax Partners, summed up this trend: "towards the middle of the decade there was a general shift away from business risk. This was partly the result of burnt fingers from start-up investments in the early Eighties but also because of a move towards the quicker returns to be made from backing MBOs and exiting in a rising market." [2] The move towards quicker returns may have been a reflection of short-term pressures from the capital providers - pension and insurance funds, etc. - anxious to see a competitive rate of return on their investment [15].

Management Buy-Outs (MBOs) had steadily grown throughout the 1980s. The onset of recession and consequent restructuring, the growing publicity afforded to buy-outs, taxation incentives, and changes in the 1981 Companies Act which "deskilled" the process of organising MBOs had set the process in train. The overall

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[1] EVCA, *Venture Capital in Europe: Its Role and Development,* Venture Capital Policy Paper (1993).

Venture Capital invested per capita, 1990

	£m	£ per cap.
UK	1,400	25
Netherlands	169	12
France	588	11
Germany	392	5
Italy	152	3
Spain	61	2

Source: *KPMG/European Venture Capital Yearbook* (1991).

[2] R. Cohen, "Venture Capital is Crucial to Recovery," *The Observer*, 18 (October 1992).

number of MBOs held steady at around 300 per year from 1982 onwards. Then, as recovery was consolidated in some sectors of the economy, a steady rise began, from 1985 to the peak year of 1990 when over 465 MBOs took place [20,15]. This period also saw a considerable rise in the number of management buy-ins (MBIs) - a process identical to MBOs but involving a buy-out by a team of managers from outside the enterprise, often teams which had originally attempted an unsuccessful MBO. In 1989 147 MBIs totalling £3,599 million were completed, compared with only 5 to the value of £11 million in 1981 [20].

By 1989 MBOs and MBIs, 65% of which were in the manufacturing sector, accounted for over 22%, by value, of the total transfers of business in Britain [2]. Electrical and electronic and office machinery, as categorised by the Nottingham Centre for Management Buy-Out Research (NCMBOR), accounted for a comparatively high number of these - averaging around 9 per cent by number throughout the decade [20] A notable trend in the buy-out market from the mid-decade onwards was the increasing size of transactions. A list of all the buy-outs worth in excess of £150 million - twenty-seven in all - includes only one pre-1985 entry, all the rest taking place between 1985 and 1990 (at constant 1992 prices) [20]. This includes some very large deals including Reedpack, MFI/Hygena, Magnet and the Lawson Mardon Group, all of which exceeded £500 million at 1992 prices [20]. The average size of MBIs also rose during this period, though the figures are somewhat distorted by the very large Isosceles buy-in of the Gateway supermarket chain in 1989, worth a total of £2.4 billion. This rise in values was partly the result of increasing competition, including that from trade buyers, one effect of which was that gearing levels began to rise significantly. Though not reaching the scale involved in some of the more notorious leveraged buy-outs in the USA, deals in the UK involving ratios of 5:1 debt to equity were not uncommon by 1989, and some were higher, sometimes involving no equity at all. Larger deal size was also facilitated by the increasing resort to syndication among investors. The process of setting up larger buy-out would typically involve an initial approach to various venture capital firms, perhaps through an intermediary such as one of the major accounting firms. Tenders submitted - a "beauty parade" - would result in the choice of a lead investor, who would subsequently look for syndicate partners, frequently investors involved in the initial tendering process.

There are a number of criticisms which have been aimed at MBOs and MBIs, beyond the sheer scale and indebtedness which began to prevail. It is often said that they result in the enabling of entrepreneurs - released from the bureaucratic constraints of large organisations, leading to vibrant, growing firms. Critics have noted that a stronger incentive may be the desire to realise, at the earliest opportunity, a large capital gain, leaving the company in question, following a period of intense rationalisation, no better, and often worse, prepared to compete and grow. At best the process has merely effected a transfer of ownership and no real added value. Nevertheless, in the early eighties they remained very attractive to venture capitalists - certainly in contrast to high technology start-ups. As John Moulton, of Schroder Ventures, noted in 1992, "We have just been analysing our start-ups and there will be 60 per cent complete write-offs and 20 per cent will probably be complete write-offs and the other ones will just about pay for the losses. It's going to be a very poor return business"[11].

The pattern of venture capital in Britain then can be summed up as moving away from the traditional model, exemplified by early US deals, towards a short-

term, low-risk, large-scale investment strategy which did not favour computer-sector companies. General reasons for this trend partly lie within perceived changes in market opportunities. They may also involve more structural causes. One notable differentiation between the classic US venture capital industry and its British counterpart is its geographic location. Venture capital providers, institutional or otherwise, often formed an integral part of the clusters of industrial activity, most notable in the examples of Route 128 and Silicon Valley. These clusters themselves were not as pronounced in Britain perhaps, with the exception of areas in East Anglia and the "silicon glens" of Scotland [12]. It is clear, however, that with the exception of 3i, which has maintained a national network of offices since the 1950s, British venture capitalist remain firmly tied to London.

Another contrast may lie with the structure of the computer industry itself, which offered fewer opportunities for venture capital. The British computer industry did not experience the kind of growth which occurred in the US. From a position of near equality in the early development of stored programme computers, British manufacturers were unable to capture or maintain a significant market share, despite belated attempts to construct a national champion in the form of ICL [7,10], which itself only competed in the mainframe sector. When a significant market emerged for the minicomputer, for example, US production was immediately dominant [9]. There was no sizeable sector to "spin out" budding start-up entrepreneurs on the same scale as the USA. British venture capitalists who had successfully funded US high tech companies also maintained that, while they might find such companies to invest in Britain they often fared less well because they were remote from their customer and supplier networks, principally those in the US, "...we realised that actually the notion that you can build a global business (in the electronics industry) starting from a UK base was a wrong notion. You found yourself, having got the product off the ground, having to establish yourself on the West Coast...so the notion that you could build and international or a global business from the UK, I think, disappeared during this period"[R. Cohen, quoted in 11].

In addition much of the expertise in computer software and hardware design and use in Britain has historically been centred around the defence-related, government research establishments [14]. These did not contain the tradition or culture of encouraging entrepreneurial scientists or technologists to start up in their own right "outside the wire" - in contrast to the experience of MIT or Stanford for example [6]. John Hustler of KPMG recently expounded the venture capitalist perspective on British university research: "I think it is different to the States...in this country...it is very interesting to see just how difficult it is to get enterprise culture into an academic. He is there, he does not want to be seriously rich, he wants peer recognition of what he has done and I think that may be one of the problems that is different in the UK to the US" [11].

The experience of the largest venture capital-related company, 3i, in investing in computer-related enterprises in the 1980s may serve to illustrate some of the above points, and also to differentiate 3i in the way it invests. The first case study is that of disk-drive manufacturer, Rodime. This company was founded in Glenrothes, part of Scotland's "silicon glen," in 1980 by a Scottish and American team which had gained experience working in the US computer giant Burroughs. 3i's investment was initially made through Technical Development Capital (TDC), 3i's subsidiary dedicated to advanced technology funding. TDC provided equity finance as part of a start-up package. The company was floated on the over-the-

counter market in New York in 1982, where shares rapidly rose from $8 to over $20. Expansion followed as Rodime established a lead in manufacturing 3.5 inch drives and extended manufacturing operations into the USA and Singapore.

Competition in the computer manufacturing field is endemically intense, reflected in rapid technological development and product obsolescence. Rodime felt this competition into the mid 1980s, exacerbated by delays in releasing new products, notably its 1" high 120 MB disk and 400/540 MB disks. The company also encountered difficulties in terms of patent enforcements.[3] In 1989 a restructuring package was necessary. Debts were rescheduled and overdrafts converted to loans. 3i invested a further £2.8 million in a rights issue, becoming Rodime's largest shareholder, with 25 per cent of the equity in the company, closely followed by the Bank of Scotland. Problems persisted however and in January 1991 manufacturing operations at Glenrothes were terminated. In August that year the other operating subsidiaries went into receivership, or Chapter 11, a holding company remaining to attempt to enforce patent settlements and trade on intellectual property rights.

In an interesting sequel to the Rodime story, 3i led an international syndicate of investors backing a 1992 start-up in Glenrothes, formed by six former Rodime employees. Calluna Technology, whose managing director Norman White was one of Rodime's founders, has been set up to manufacture credit card-sized disc drives for a new generation of palm-top computers.

The second example is that of Domino Printing Sciences. This company was founded by Graeme Minto in 1977, who had worked throughout the 1970s on ink jet printing development at Cambridge Consultants Limited (CCL) on a programme funded by ICI. Initially financed by a loan from CCL and a second mortgage on his home, Minto secured licences from ICI and CCL to concentrate on smaller applications for the technology, a method of printing, using electrostatic deflection of micro-droplets of ink. Ink-jet printing has numerous advantages over other methods, principally speed and the ability to print on irregular or delicate surfaces, making it ideal for use in the packaging industry and for business machines.

Domino approached TDC for funding in 1979. Impressed with the speed with which Minto had established Domino as a production company, TDC were prepared to overlook his lack of business experience and agreed to fund the company with a mixture of secured loan and share capital representing just over a quarter of the equity. TDC also stipulated the appointment of a non-executive director to provide experienced commercial advice. Further rounds of support and funding were supplied by TDC during the early 1980s, including guaranteeing bank overdrafts, refinancing, and funding the purchase of larger office and production facilities.

The firm experienced early difficulties in realising the true potential of its products, partly due to a poor marketing strategy and resistance of some potential customers to new, non-traditional technology. At one point the company, with its relatively high gearing, was technically insolvent. Nevertheless 3i continued its support, the level of liaison with Domino remaining very high, particularly during this troublesome period. Information supplied by Domino included monthly

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[3] Eventual royalty settlements from IBM, Fujitsu and Connor in 1991 only amounted to an estimated 15-20 per cent of the total owed by other companies.

management accounts, marketing reports, analysis of sales leads, and monthly R&D spending monitored against cash-flow. 3i's involvement was to become, according to Minto, "crucial to the firm's change in fortunes" and initial problems were eventually overcome. Domino subsequently grew to become one of the archetypal success stories of the "Cambridge phenomenon" in the 1980s. When the company was floated in 1985 the issue was 43 times over-subscribed. Expanding overseas into the US market, Europe, and the Far East, the company has grown to become the world leader in ink-jet technology, particularly active in the bar-code printing industry. 3i remains a shareholder in the 1990s, in a company now capitalised at over £100 million.

The third study represents the perceived need by 3i to find investments in the heartland of venture capital, the USA. In the early 1980s 3i converted TDC into 3i Ventures, rejuvenating the search for investments in high technology companies. Part of this strategy meant looking to the USA for opportunities, particularly among the clusters of new industries springing up in Massachusetts and California. Under the guidance of Geoff Taylor, recruited as managing director in April 1980, TDC made a number of investments in computer related manufacturing companies, including LSI Logic. Taylor had previous executive experience in this field, having worked for Dataproducts Corporation in the USA.

LSI Logic manufactured logic or gate arrays, silicon chips of standard design, but only partially completed at the first stage of manufacture and subsequently finished to the customers specific requirement. The idea was introduced in the 1960s but standardisation was then the norm. In the 1980s, however, more customised, flexible applications were demanded and semi-"tailor-made" chips found an expanding market, ideal for smaller "niche" producers. TDC first invested in LSI in January 1981, providing $500,000 for a 5 per cent stake in the company. This was part of a total of $6 million raised from a number of leading venture capitalists in Britain and the USA. In a move which reflected a new operating style of TDC, Geoff Taylor was appointed to the board of LSI.

These three cases may serve to illustrate some interesting points about the experience of British venture capital-style investment in computer-related companies, although it should be noted that 3i does have significant differences in terms of its origins, ownership, and operating methods to many of the venture capital institutions established in the 1980s [6].[4] Rodime is interesting on two counts. Firstly it shows that "spin-out" of entrepreneurs from large corporations is possible in Britain, albeit in this case from a US parent. Secondly, the failure of Rodime reinforced the idea that this field risky market where patent protection can be very tricky and where product cycles attain a very high velocity. Enterprises which do not get the product in circulation and do not pay constant attention to R&D and innovation can rapidly lose market share. The negative influence of Rodime may have helped to confirm general prejudices among venture capitalists. Initially viewed as "one of the great white hopes of British Technology in the 1980s,"[5] Rodime failed to make a profit after 1985 and never paid a dividend.

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[4] For elaboration see R. Coopey, "The First Venture Capitalist: Financing Development in Britain After 1945, the Case of ICFC/3i," *Business and Economic History,* 23 (1994).

[5] *Financial Times*, 27 August 1991.

Rodime may also be illustrative of a more general phenomenon, what Sahlman and Stevenson have called "capital market myopia." They singled out the Winchester disk-drive industry as representative of this trend whereby an unrealistically high level of venture capital is rapidly concentrated in a particular sector by a community of investors[4].

The cases of LSI and Domino points to a contradictory feature of British venture capital. As noted above by Cohen, British investors thought that the logical place to invest in high technology was in the USA, taking advantage of the networks existing in the techno-investment clusters in Massachusetts and California. When 3i chose to re-focus efforts on venture capital style investment - including more hands-on management, carried interest for employees[6] - it also chose to focus heavily on the USA, establishing branches in Boston, Newport Beach and Menlo Park. Not all investments in Britain were problematic, however, or unable to penetrate world markets from a British base, as Domino demonstrates. Here some particular features attributed to "classic" venture capital may have been decisive, notably the willingness to provide risk finance on the basis of an estimation of entrepreneurial capabilities, added value from management advice, and long-term commitment. During the problem phases which the company experienced, 3i imposed good financial-managerial practice and supplied further rounds of funding, eventually sharing in the company's success.

Conclusions

British venture capital was heavily influenced by the development of its earlier counterpart in the USA, particularly high-profile investments in the computer industry. However, as venture capital expanded in Britain, it rapidly moved away from the "classic" model, based on high-risk "hands-on" equity investment, which may have suited the computer industry in Britain. This shift was due to a combination of perceived market difficulties and greater short-term opportunities in investments such as MBO/MBIs. Examples from the 3i portfolio illustrate this trend, up to a point, but also show that, given an adherence to some of the tenets of traditional venture capital, successful investments could be made in this sector in Britain.

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[6] One of the principal organising features of venture capital was that employees often carried a direct interest in investments which they set up. This was common among the independent venture capital partnerships and emulated to a degree by the captives, e.g. clearing bank subsidiaries, not without some friction with traditional departments.

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