The Journal of
PRIVATE EQUITY
Strategies and Techniques for Venture Investing
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It has been written that every accomplishment is a blend of luck and skill, and it is the job of management to understand the difference. Rejoice in the luck, and remember the skills to use again. This issue we present a series of papers that attempt, in various different settings within the private equity and venture worlds, to separate luck and skill. Why do we win when we win? In addition, we touch bases on two of our continuing themes: the hiring of executive talent and the shape and texture of the international world of private finance.

The title of our lead article by Braun and Sharma says it all: Do leveraged buyouts actually improve the operating performance of the firms prior to being relisted on public markets? The answer is central to understanding what it is that private equity firms accomplish. If operating performance is not improved, then the return afforded buyouts later taken public can only emanate from two sources, which are over-all growth in the value of equity markets or the careful selection of target companies that are undervalued when compared to similar public companies. The authors develop a matched sample of private companies later taken public with a group of companies spun off directly from large public companies onto public markets. Which sample performs better? You may be surprised at the results and discussions that follow.

Bergstrom, Grubb and Jonsson tackle a piece of this problem when reviewing exits for buyouts in Sweden during the period of 1998 to 2006. They attempt to isolate the issue of operating performance effect, and in particular, if any increased value is achieved at the expense of employees. You know the theory, rich and heartless private equity sponsors come in, slash head count, and go on to make a fortune when exiting the investment. Is it true? These authors look at wage-level reductions, labor force restructuring, leverage levels, and degree of management ownership as they relate to operating impact. What matters?

How about the effects of prior relationships between buyer and target firm? Is this all about whom you know, not what you can do? Valliere, Ni and Wise review forty acquisitions of Canadian and US high technology firms to determine the effects of alliances on price-to-book ratios. They test their findings with some unique tools, not usually applied to these data and find the effects persist.

Mainprize and Hindle wonder about how best to write and evaluate an entrepreneurial business plan. How much skill is involved? Or does luck play a large role in selecting a start-up business to fund? Does it matter how the business plan is written? Do sets of principles exist which improve the venture's probability of success? All are intriguing questions, tackled by these authors.

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Everyone knows that selecting and evaluating CEOs is one of the central ways investors exercise control over the companies they own. Pratch and Jacobowitz review the issues that surround hiring an executive who may be rather independent, and along with that trait possess the leadership skills that often accompany a strong sense of self. Can we detect the balance required to achieve investor's goals that are at times at odds with the leader's? Yes, in theory, we all strive for goal congruence. But in the real world, how many of us have seen a company's CEO entertain a set of ideas that are at odds with the owners? This article posits ways to best avoid that dilemma.

Our final piece by K.B. Subhash reviews a basic issue with venture capital around the world, and that is the regional structure of VC firms. Starting with a review of economic clustering in ancient and recent history, this piece analyzes in detail the face of VC investment in Canada over the period 1995-2005, in five industry sectors, showing how each is clustered in particular locations. Reasons for these clusters are explored and compared along three patterns: political, financial, and technological support. Thinking about the resources provided for venture activity in Canada may help you think about the resources you have--and may need--in your area.

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