

THE JOURNAL OF PRIVATE EQUITY

VOLUME 12, NUMBER 2

SPRING 2009

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It takes a handful of important pieces to make successful investments in startups or existing portfolio companies. The expertise of the General Partners in selection of good deals comes first, and is added to equity capital, debt, effective exit routes, and of course, the right people to run the businesses. Equity capital, for experienced funds, has been in generally abundant supply due to the superb track records of good shops. The expertise of the General Partners is clearly reflected in their returns. Debt, on the other hand, is tougher to obtain in the current credit environment, and the depressed stock price levels of early 2009 lessen two favorite exits routes: IPOs and strategic sales. The loss of these financial elements in the equation for success means we work harder with the other pieces.

In this issue, we first present a series of articles on the single biggest variable in each deal: The people running the company. Much has been written about the effect of management on firm performance, yet the topic remains far messier than the numerical analyses we compute. Here we have gathered several unique angles on the effect of people--and their family and societal links--on success. We also present an article that ties this to business strategy risks. In addition, three articles are provided on international matters, one each on public financial institutions owned and funded by multiple countries, on private equity in Russia, and on Canadian private placements.

First up is a look at management buy-outs and buy-ins of family firms in Europe. Scholes, Wright, Westhead, Bruining, and Kloeckner have collected a representative sample of over 100 deals completed between 1994 and 2003. Their data maps the strategy of the firm post-deal to the ownership and management structure pre-deal. The authors review a set of intriguing questions with these data: What effects are seen in post-deal growth if the founder is still running the business? What effects are seen, on the growth versus efficiency metric, when non-family managers have equity stakes pre- versus post-deal? And what effects were seen when the private equity firm became actively involved in succession planning? Each of these pose an important question as we think about how to increase the value of our portfolio companies.

How likely are you to replace Founder-CEOs in venture capital deals? Khanin, Baum, Turel, and Mahto, collecting interview data and using statistical methods to develop a model of behavior, address the question of what type of VC firm is likely to go into a deal ready, willing and able to replace the founder. Does your firm have these characteristics? Are you one of the gun-slingers willing to fund a great idea with a weak leader? Read this article to see how you rate.

One of the most important things we do all the time is to predict success or failure in the deals we look at. There are a number of finan-

cial methods available for this, but what about techniques which measure the “capital” of the management team? Sociologists measure this by the extent to which people have education and new knowledge (human capital) or networks of important and useful individuals (social capital) that can be applied to the task at hand. Wetter and Wennberg take a few simple measures of these items and compare predictions using them with predictions from a financial model. The findings show a highly significant increase in accuracy with the non-financial measures. This article pushes us to think further on how much we rely on the numbers versus the people to judge deals.

Each start-up comes with a specific hurdle: The liability of “newness.” To solve this, start-up teams develop ways to attain “legitimacy.” Authors Dibrell, Craig, Moores, Johnson, and Davis discuss this fascinating process with an emphasis on the role of family connections in the Australian wine industry. How much does a family connection matter? This is, of course, a corollary of human and social capital, and comparisons to the article above are illuminating.

Once we have an idea about the importance of our management team, we integrate that, along with financial and market measures, into a model. This framework allows us to review all the pieces and arrive at some idea of the potential success or failure of the business. Authors Shi and Manning build upon four existing ideas (the value proposition, the organization design, the resources needed, and the profit engine), and coalesce these into an integrated framework. As we think about how these pieces fit together, this article addresses the risks inherent with each view and how best to make critical go/no-go decisions.

In the world of international capital flows, a new entity has arisen, the Multilateral Development Finance

Institution. Eight of the largest of these are explored by Settel, Chowdhury, and Orr, answering questions such as why these organizations were formed, what they have as goals, how they do their work, how big they are, and where they are located. Also noted are the size of private equity capital committed from each fund and the number of professionals engaged in running these institutions. Wonder how well they have performed or if they might be your next partner? It’s all covered in this piece.

In keeping with our interest in things beyond our borders, the final two pieces go to very different parts of the globe to report on private equity in Russia and Canada. First up is Maria Musatova, taking us to the number two spot in the emerging markets (behind only Asia), Russia. Topics covered include the challenges of investing in Russia, effects of the “financial crisis,” and a look at various active sectors such as telecommunications, manufactured goods, food and beverage, timber, and finance, among others. Curious about how many transactions are being done? You’ll find that here as well.

Our final article reviews the issue of the performance of private placements of equity in the Canadian market, asking the question of whether these investments help or hurt the performance of the underlying shares. Author Maher Kooli tests the earnings management hypothesis, wherein the size of the offering is measured against the long-term performance of the company. The data presented are based on over 400 private placements from 1996–2005. Is there “over-optimism” in these companies to be aware of as we consider investments of this type?

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February 2009