

**T**his is a good time to be an entrepreneur. More investors and venture capitalists like you, our target reader, are putting money into companies than ever before. In the search for above-market returns, financial institutions and wealthy families are increasing their investments with venture capitalists — their intermediaries to the entrepreneurial world. Chasing the latest cutting-edge technologies, venture capitalists are expanding both dollars and strategic direction into all stages (start-ups, mezzanine, and expansion financings) and all sectors (communications, computers, semiconductors, and biotechnology, to name a few).

As a professional in this fast-paced, disparate industry, which encompasses several hundred relatively small, private companies with diverse structures and cash flows, where can you find serious, analytical research that allows you to sift through the sustainable competitive strategies from the latest, short-term fads? There are scores of news sources offering information on the top players and who's doing the biggest deals. But no publication offers the insider's perspective on how the best deals are done or on the successful investment and management techniques currently in use. Until now.

The editorial mission of the *Journal of Private Equity*, which covers both venture capital and private equity, is to offer practical analysis and advice on the strategies and techniques of today's most successful venture investors. For example, it will show you ways to incorporate new methods of valuation, construct an innovative exit strategy, select a suitable management team, increase your deal flow, and better evaluate your rate of return. All its articles are written by industry practitioners and by top academics who both teach entrepreneurship courses and consult to industry. Our editor, James Schrager, exemplifies the best of the latter. He teaches new venture strategy at the University of Chicago and runs his own venture capital consultancy business. Please feel free to write or call Jim or me with comments or suggestions on our coverage.

We hope you find the *Journal of Private Equity* to be a good investment!

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# *The Journal of* **PRIVATE EQUITY**

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## Strategies and Techniques for Venture Investing

Welcome to the first issue of Institutional Investor, Inc.'s newest publication, *The Journal of Private Equity*. Direct investments in start-up companies and private market purchases of later-stage firms continue to grow, attracting media attention as well as wide interest among those in financial and managerial roles. JPE will provide vital and timely information for everyone working in and investing in these fields. Although our articles will come from a broad selection of authors in academia, industry, and finance, their pieces will all have one touchstone: to be of use for practitioners. JPE is published for venture capitalists, management buyout specialists, pension fund managers and other limited partners, academics, and all investment professionals to further their knowledge of this growing field.

Our inaugural issue leads off with Steven Kaplan's article reflecting on the effect that takeover activity in the '80s has had on corporate governance. He explains why LBOs and raiders have not reappeared in the '90s despite the resurgence of takeovers, and how the insights of the 1980s' takeover artists are now applied by shareholders, managers, and boards.

Paul Gompers and Josh Lerner ask a provocative question in the article that follows: Do venture capitalists bring more than money to start-up companies? Existing finance literature has lent credence to the idea of venture capitalists as "brands," serving to certify quality for investors in initial public offerings. This article challenges that view.

Next up are two articles about the nuts and bolts of operating a venture capital partnership. First, Fred Dotzler discusses how to select the management team for a start-up. Must you recruit solely from inside the start-up's industry? When can you venture into other fields for executives? His article is based on management teams from twelve companies that his venture capital firm has funded. David Rosenblatt and Andrew Thelen report on entrepreneur-in-residence programs, and pose several important questions, such as which type of venture capital firms are most likely to benefit from these programs, whether these programs increase the volume of deal flow, and how best to use the employees recruited to these positions.

Thomas Hellmann reviews the role for commercial banks in venture investments. He notes how this odd couple of risk mismatch, that is, the giant financial risk inherent in venture deals and the tightly controlled risk profiles required in commercial

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banks, can find a way to work together. Finally, Bryon Sheets introduces the various ways in which private equity investors can obtain liquidity from their investments without seeking a strategic buyer or gearing up for an initial public offering.

Our first issue clearly illuminates our goal of providing practical research on the venture capital and equity capital markets that will be of interest to academics and professionals. We welcome your comments and suggestions and would be pleased to receive your articles for consideration. For further information, please see our submission guidelines listed on the last page.

**James E. Schrager**  
Editor