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What do ***business managers*** think about **private equity** and **venture capital?**

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Foreword

The management teams of companies backed by private equity and venture capital, or portfolio company managers, are the unsung heroes of the private equity world. The BVCA works to ensure their exceptional achievements and efforts are recognised as an integral part of the private equity model. It is time to finally ask these managers what they think of it all.

A lot of attention is given to what exactly private equity firms bring to the table through their active ownership model. While existing research highlights the skill and expertise private equity investors bring with them, thus far little attention has been paid to what portfolio company managers think of their private equity partners.

The survey addresses this gap and asks senior business leaders and managers within portfolio companies with direct contact to the private equity investors about their perceptions of the active ownership model. It therefore asks those with direct experience of private equity what they think of it, and the impact private equity investors have on companies' performance.

The view from the inside is telling. Yet it is often one that is left unspoken. As the survey suggests, the relationships created between the portfolio company management and private equity investors are long-lasting and valued. This is demonstrated by the preference shown for private equity ownership over public ownership amongst managers who have experienced both.

The BVCA works constantly to commend their work and give the portfolio company management teams a voice within the industry. Unsung and unspoken is not the way to underscore the importance of portfolio company management. The results of this survey will add much needed nuance to the active ownership debate at the core of the venture capital and private equity model.

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About the author

Colin Ellis is the Chief Economist and Head of Research at the BVCA, providing commentary and briefing on the economic environment for members and their portfolio companies. He also oversees the strategic direction of the BVCA's Research function, including analysis of trends and issues affecting the venture capital and private equity industry, and is involved in building and maintaining relationships with government, investors, academia and the general public.

Prior to joining the BVCA, Colin was the European Economist at Daiwa Capital Markets, focusing on the euro area and UK economies. Before that, he worked as a senior economist and manager at the Bank of England, where his roles included writing the Inflation Report and running the Quarterly Bulletin, as well as coordinating the Bank's regional offices. Colin has published a number of research papers and articles, covering topics ranging from investment and pricing to real-time data. He frequently speaks at a wide range of conferences and seminars, and is a Visiting Research Fellow at the University of Birmingham.

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I would also like to thank all the senior managers who took the time to respond to our survey, and provide their honest views on Private Equity (PE). The business people who manage and lead portfolio companies are a vital part of the PE story, and their help and support were essential.

Finally, I would also like to thank the BVCA Research Advisory Board for their helpful comments and suggestions, and continued support for the BVCA's Research function as a whole, as well as Antoon Schneider from McKinsey, whose previous experience in this field was very useful.

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Executive summary

Private equity (PE) firms make money by investing in and building up businesses. This ranges from venture capitalists who provide funding to small companies and start-ups, to large buyout firms that invest in international companies and brands. Fundamentally, private equity is about value creation: increasing the value of a company over a finite period of time, and then selling it to realise the gains made.

In order to boost the value of the companies they invest in, private equity investors work closely with senior managers of portfolio companies. Yet while there have been several research papers looking at these types of operational improvements and related issues such as financial structuring, there has been relatively little work looking at what those senior managers at the portfolio companies think of their private equity backers and the impact they have on the underlying businesses.

This study addresses that gap, detailing the results of a recent survey of senior business leaders and managers that asked for their views and experiences of working with private equity investors. The survey results reveal that:

- General Partners (GPs) are actively involved in the organisations they invest in, particularly regarding strategic planning and financial structuring. However, they are less hands-on in terms of the day-to-day management of the business.
- Business leaders highly value this engagement from PE investors, as well as the general expertise and contacts and networks that PE investors can bring to a business.
- Most business leaders who have experienced both public and private equity ownership appear to prefer the latter.
- A very high proportion of survey respondents would recommend private equity as potential ownership model and funding source.

Finally, the survey suggests that PE-backed businesses are well placed to drive economic growth over the next year, helping support the private sector recovery as the fiscal retrenchment takes hold. Overall, the survey demonstrates the real and lasting benefit that the private equity industry can make to the UK economy, as it seeks to genuinely create value and build lasting business in order to generate returns for investors.

1. Introduction

Private equity (PE) is all about good business. As an asset class, the private equity industry invests money over long horizons in businesses all around the world. The fundamental investment model, whether at the venture capital or large buyout end of the PE spectrum, is for PE investors to provide capital and funding to businesses, and work to support and increase the value of those companies before selling them on. In order to boost a company's value, PE investors typically take a more hands-on approach to company ownership than some alternatives, such as public ownership where shareholders often congregate only infrequently at annual or extraordinary general meetings. In contrast to public ownership, private equity investors are closely tied to their portfolio investments, often serving on the board as non-executive directors and remaining in regular contact with senior management at the underlying businesses.

This 'active ownership' approach enables PE investors to push through sometimes radical changes to both the strategy and the underlying workings of the business. In order to best do this, PE investors often change management practices, both in terms of staff and operations, sometimes completely replacing senior management teams. Bloom *et al* (2010) examine these practices in detail, finding that PE-backed companies enjoyed strong people management practices, but even stronger operations practices, suggesting that private equity ownership is associated with broad-based operational improvements in management rather than just stronger incentives. This suggests that PE investors try to change corporate cultures at portfolio companies in order to put in place long-lasting reforms. Indeed, it is critical that private equity General Partners (GPs) – those individuals who identify and manage investments for private equity houses – succeed in making lasting changes that generate long-term benefits which persist after the eventual sale of the business. This is because the fundamental value of any company should not be based on past gains that may prove ephemeral, but instead reflect the expected (discounted) value of future profits (see for example Panigirtzoglou & Scammell, 2002).

At the same time, there is some evidence to suggest that different PE managers are better at different types of portfolio investment. Looking at 110 private equity deals in Europe over the 10 years to 2005, Acharya *et al* (2010) distinguish between two different types of deals: 'organic' deals, which focus exclusively on internal value creation by boosting margins; and 'inorganic' deals that focus on M&A activity. The authors find that private equity managers with operational backgrounds in consultancy or industry generate significant outperformance in organic deals, while PE managers with financial backgrounds generate outperformance in deals with an M&A focus. This suggests that specialisation – PE managers focusing on deals that draw on their expertise and experience – is an important aspect of generating returns for private equity as an asset class. It is also consistent with PE managers adding value to companies by being more directly involved their operations than public shareholders.

But while this research sheds light on the strategic and operational improvements that PE managers can make in portfolio companies, relatively little work has been done to gauge the reaction of portfolio company leaders to private equity ownership. As such, the BVCA conducted a survey in late-2010 to ask CEOs, Financial Directors and other senior managers what they thought of private equity, and whether it hindered or benefitted their organisation.

2. Sampling methodology and survey design

Given the likely subjective nature of managers' views on a complex issue such as private equity backing, we decided to proceed with a qualitative survey. This was based on surveys that the Bank of England's Regional Agents often conduct with their business contacts, in addition to their regular monthly reporting and quantitative assessments.[1] After collecting background information on the company in question – employment, turnover, and when respondents first experienced private equity – the survey asked respondents to identify either an overall benefit or disadvantage from private equity backing, or rank GPs involvement or impact on a five-point Likert scale (see box). We chose to focus on specific questions about aspects of private equity ownership, ranging from the influence PE investors have on specific company decisions to their overall view of private equity. The precise wording of the survey questions is available in the Annex.

One issue we faced when designing the survey was how to identify potential respondents. In order for the survey to be meaningful, we needed to approach people who had actual hands-on experience of working with private equity investors. However, we deliberately chose not to approach BVCA members for contacts at their portfolio companies, to avoid any suggestion that PE managers might 'cherry pick' firms. In the same vein, individual respondents' details and answers were kept entirely confidential, to ensure business managers felt free to give their honest views. To identify potential survey respondents, we used a list of PE-backed companies supplied by BVCA Insurances Services,[2] and then sought to identify appropriate leaders at those companies by researching the individual companies. During September the on-line survey was sent to individuals at 2119 companies that were backed by venture capital or other private equity investors, or had been backed in the past. The survey closed on 1 October after receiving 208 replies, an overall response rate of 9.8%.

What is a Likert scale?

A Likert scale is named after psychologist Rensis Likert, who proposed a new method for measuring survey respondents' attitudes (see Likert, 1932). When answering to a Likert-based question, respondents specify how strongly they agree or disagree with a particular statement. For a typical five-level scale, options might range from strongly disagree (1), through ambivalent (3), to strongly agree (5). While the results are still qualitative, these rankings allow responses to be collated and examined in several different ways.

1 For more detail, see Eckersley & Webber (2003) and Ellis & Pike (2005).

2 BVCA Insurance Services provides insurance purchasing benefits to BVCA members and their portfolio companies.

3. Survey results

Before examining responses to individual questions, it is useful to consider some background characteristics from the firms that responded to the survey. Overall, our 208 survey respondents worked at companies with revenues totalling almost £21bn, with a broad spread from small to large businesses (Chart 1). As some start-up companies were still at the pre-revenue stage, we also asked about employment: overall, the firms in our survey employed around 200,000 people on a full-time equivalent basis, and here too there was a broad range of firm sizes (Chart 2). These statistics allow us to examine whether small businesses have a different view of private equity compared with large businesses.

The size of the survey was therefore large enough to offer statistically valid responses. But, as we are interested in individuals' views, unless otherwise stated the results presented herein are not weighted by employment (or turnover).

The survey respondents also covered a broad range of experience of private equity. We asked individuals when they had first experienced PE, in case those with less exposure to the asset class had different views, perhaps because they were not yet used to the way GPs work. In the event, our survey covered individuals who had worked with private equity backers since the late 1970s and early 1980s, right up to those who had only started working with GPs during 2010.

Finally, our use of Likert scales throughout the survey allowed us to construct net percentage balances, based on the responses we received. Where we report these net balances, they were constructed by giving 'slight' or 'marginal' half the weight of 'significant' or 'strong' ones. As the Likert scale presents a pre-set quantitative ranking, this process was relatively simple.

3.1 How involved are PE investors in company decisions?

The first detailed question in the survey asked how involved PE investors were in influencing company decisions, to gauge which areas of business activity they were most actively involved with. Typically, involvement is likely to vary depending on the skills and experience of the GPs at the PE firms, who often sit on portfolio companies' boards. The Likert scale for this question ran from no involvement (1) to decisions taken by PE investors, rather than company management (5).

Unsurprisingly, given the financial investment involved, the area PE investors were most closely involved in was financial structure and planning of portfolio companies, with 56% of respondents noting a heavy influence, and a further 7% reporting that these decisions were actually taken by PE investors (Chart 3). Given the financial expertise that some GPs are able to bring to portfolio companies, and the financial arrangements and leverage often required to establish a controlling ownership in the case of buyouts, it makes sense that PE investors were most engaged with the financial structure underpinning PE-backed businesses.

PE investors were also closely involved with strategic goals (Chart 4), and tracking progress against those targets. Over 40% of respondents reported a heavy influence from PE investors, with a further 36% noting a moderate involvement. This confirms that private equity is an active form of company ownership and that GPs work very closely with portfolio companies, including helping to manage businesses through the recent recession.

On a day-to-day basis, private equity investors give management more freedom to make decisions and get on with the task of generating sales and managing the workforce. General Partners do get involved in crisis

Chart 1: Turnover of respondent firms

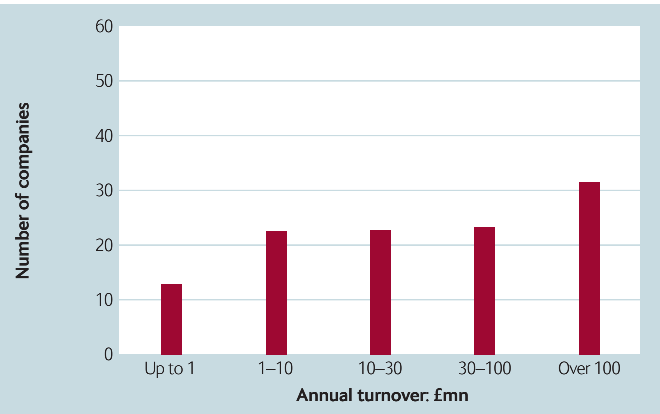
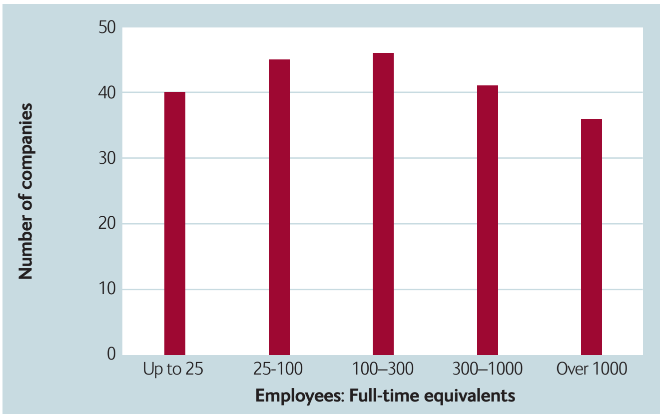


Chart 2: Number of employees at respondent firms



management, with 42% having at least a moderate involvement when adverse shocks hit businesses (Chart 5). But over a third of managers reported that GPs had no involvement in production, employment or marketing decisions (Charts 6 and 7), and over two-thirds reported that GPs were uninvolved with wage bargaining and union issues (Chart 8).

These results suggest that, while private equity investors are closely involved with the financial structure and overall strategy of portfolio companies – and are able to step in and support management when crises erupt – they do not exert undue influence over other aspects of the business, giving company managers more freedom to make day-to-day decisions.

Chart 3: Influence of PE investors on financial structure and planning

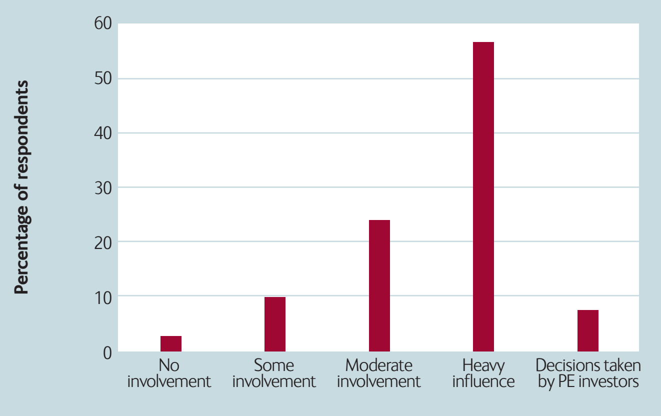


Chart 4: Influence of PE investors on strategic goal setting and measurement

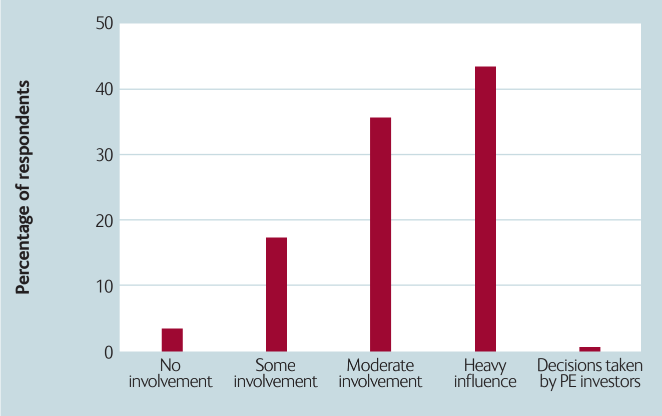


Chart 5: Influence of PE investors on crisis management

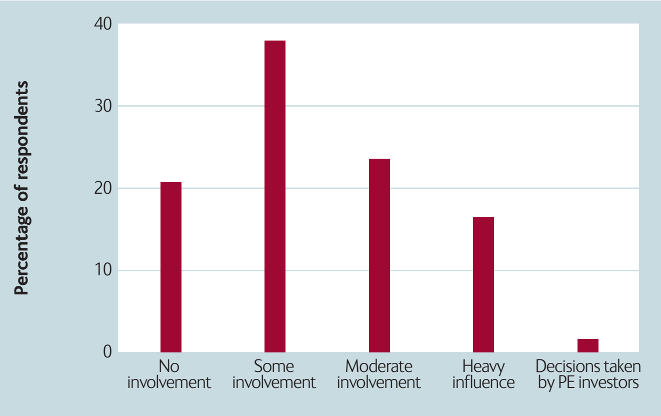


Chart 6: Influence of PE investors on sales and marketing activity

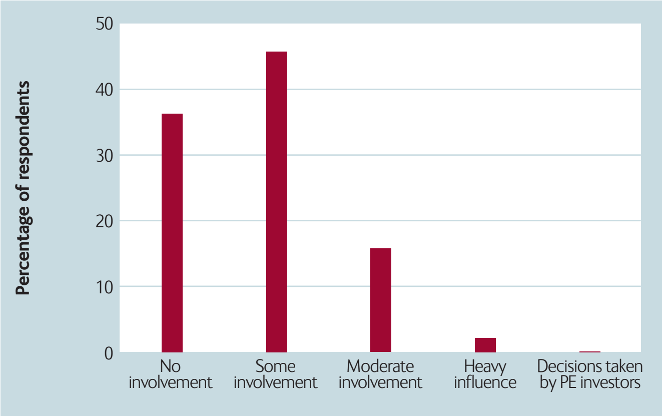


Chart 7: Influence of PE investors on production and employment

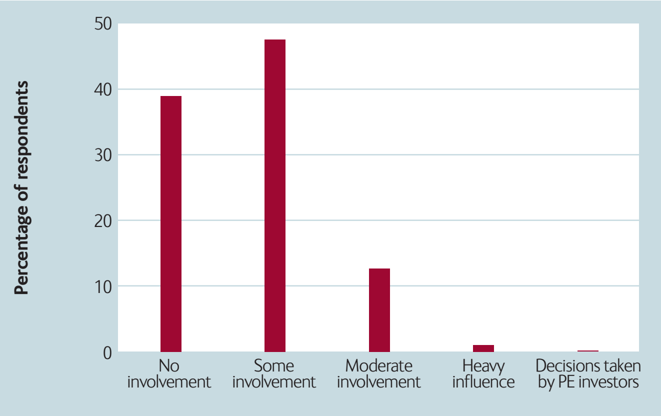
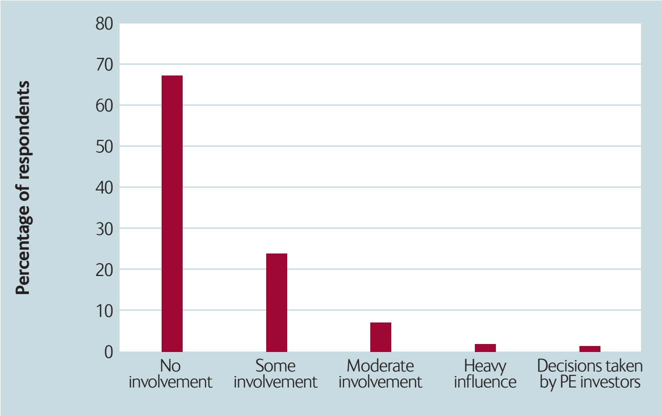


Chart 8: Influence of PE investors on wage bargaining and union engagement



3.2 What are the key benefits or disadvantages of PE ownership?

The second survey question asked whether PE ownership was an advantage or a detriment to the business. In the case of venture capital, this ownership is typically partial, whereas PE firms often own companies outright in the case of buyouts. The Likert scale for this question ranged from PE backing being a significant disadvantage (1), through no impact (3), to PE ownership being a significant benefit (5). The 'disadvantage' options were included in case portfolio company managers thought that PE investors had a negative impact – for instance, if the managers thought that PE investors were micromanaging and too involved in the running of the business, or were trying to guide it in the wrong direction. Overall, the net balance of respondents thought that PE ownership was beneficial for their businesses (Chart 9), although a notable proportion believed that PE backing had no significant impact on their company (Table A).

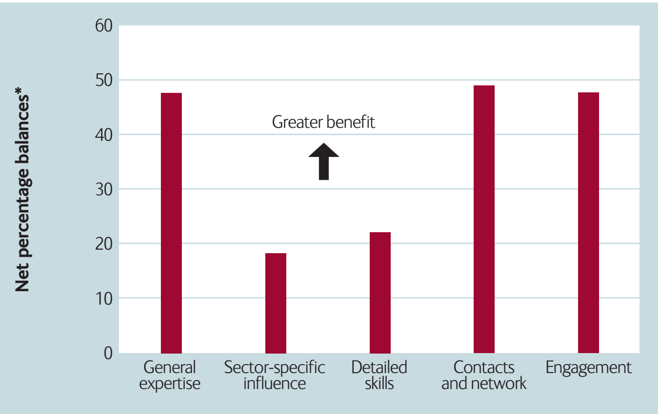
Company managers appear to value three particular qualities from GPs: general business expertise, contacts and networks in the business community, and engagement on key issues for the business. Furthermore, these benefits were viewed consistently across different-sized businesses. Table B and Chart 10 present responses by firm size, splitting out smaller companies (those with less than 250 staff) from larger enterprises. The overall differences between the two groups were small, suggesting that firm size does not limit the benefits that private equity investors offer to companies. (Indeed, weighted and unweighted results were broadly comparable across the survey as a whole.) The responses clearly indicate that private equity does more than just provide finance for its investee companies: it also gives managers access to valuable skills that help those businesses develop. These skills are likely to be especially valuable for small businesses, which often do not have the budget to buy-in expertise from external consultants and other experts.

Table A: Benefits or disadvantages of PE backing

	Significant disadvantage	Slight disadvantage	No impact	Slight benefit	Significant benefit	Net percentage balances*
Access to general business expertise	1.0	2.9	20.0	52.2	23.9	47.6
Specific sectoral knowledge and experience	2.9	9.8	43.9	34.6	8.8	18.3
Detailed operational skills eg improving business processes, financial engineering	3.4	7.3	39.5	41.0	8.8	22.2
Contacts and network in the wider business community	0.5	2.9	20.0	51.2	25.4	49.0
Engagement with company management on key issues	2.9	4.9	13.2	52.2	26.8	47.6

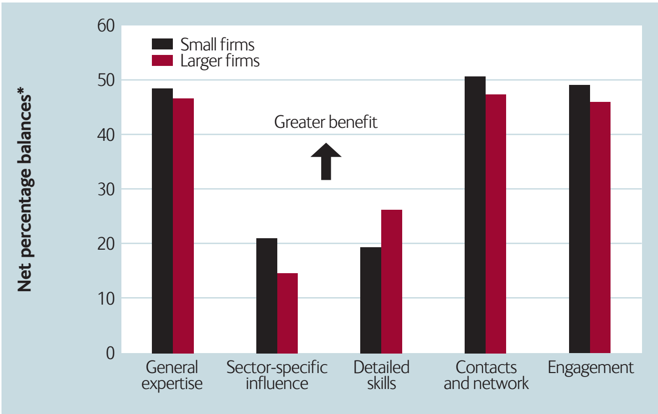
** Slight benefits/disadvantages given half the weight of significant benefits/disadvantages.*

Chart 9: Benefits or disadvantages of PE backing



** Slight benefits/disadvantages given half the weight of significant benefits/disadvantages.*

Chart 10: Benefits of PE backing by firm size



** Slight benefits/disadvantages given half the weight of significant benefits/disadvantages.*

Table B: Benefits/disadvantages of PE backing by firm size

		Significant disadvantage	Slight disadvantage	No impact	Slight benefit	Significant benefit	Net percentage balances*
Access to general business expertise	Smaller firms	0.8	1.7	20.2	54.6	22.7	48.3
	Larger firms	1.2	4.7	19.8	48.8	25.6	46.5
Specific sectoral knowledge and experience	Smaller firms	2.5	8.4	45.4	31.9	11.8	21.0
	Larger firms	3.5	11.6	41.9	38.4	4.7	14.5
Detailed operational skills eg improving business processes, financial engineering	Smaller firms	4.2	8.4	39.5	40.3	7.6	19.3
	Larger firms	2.3	5.8	39.5	41.9	10.5	26.2
Contacts and network in the wider business community	Smaller firms	0.0	3.4	18.5	52.1	26.1	50.4
	Larger firms	1.2	2.3	22.1	50.0	24.4	47.1
Engagement with company management on key issues	Smaller firms	1.7	5.9	11.8	54.6	26.1	48.7
	Larger firms	4.7	3.5	15.1	48.8	27.9	45.9

** Slight benefits/disadvantages given half the weight of significant benefits/disadvantages.*

3.3 How does PE ownership compare with public ownership?

The survey also sought to compare private equity investment and ownership with respondents' experience of working in publicly owned corporations. In total, 126 respondents – around 60% of our sample – had worked in senior roles at public-owned organisations as well as in PE-backed organisations, giving us an ample sample size with which to compare and contrast their experience. The survey asked whether PE backing compared favourably or not in four areas: short-term financial reporting; active engagement from company owners; goal setting and monitoring; and demands from company owners. Our Likert scale for this question ran from PE being much worse than public ownership (1) through to PE being much better (5).

Table C presents the full range of replies from survey respondents, with Chart 11 showing net percentage balances. As with the previous survey question, some respondents thought there was no difference in terms of ownership across the four categories in question. But where managers did perceive differences, private equity was generally preferred to public ownership. In particular, 36% of respondents thought that engagement with PE investors was much better than for public companies, where shareholders can often be remote and unresponsive, and a further 44% thought that private equity was somewhat better. This clearly indicates that GPs are more active in guiding, influencing and supporting businesses than public shareholders, consistent with PE investors having the opportunity to genuinely add value to their investee companies.

Looking at the detail for other responses, almost a third of company managers thought that private equity was less focused on short-term financial reporting – which is consistent with GPs taking a long-term view of their investments in portfolio companies, and not being overly concerned with quarterly or annual financial reporting. This reflects the fact that one of private equity's big advantages is its ability to step back from the regular process of frequent public reports and focus on strategic matters and long-term growth. This characteristic is central to the private equity business model, and company leaders appear to value it highly.

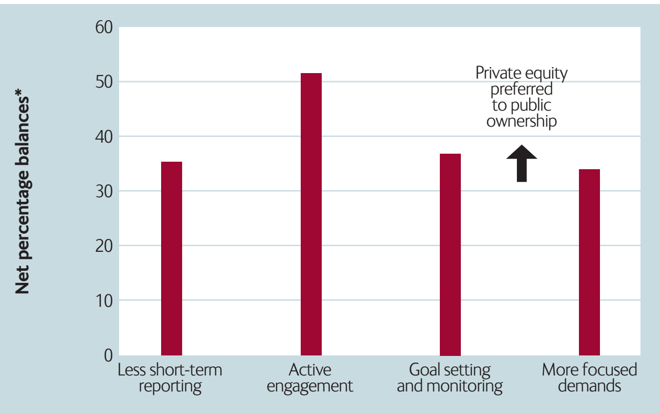
In addition, company managers also thought that PE investors were better at goal setting and being more focused in their demands compared with public market investors. This is consistent with the survey's earlier finding that GPs are heavily involved in setting the strategic direction for portfolio companies, but then give managers space to handle the day-to-day running of the business.

Table C: Comparing private equity with public ownership

	Significant disadvantage	Slight disadvantage	No impact	Slight benefit	Significant benefit	Net percentage balances*
Less focus on short-term financial reporting deadlines	6.3	11.9	20.6	27.0	34.1	35.3
More active engagement from company owners	2.4	8.0	9.6	44.0	36.0	51.6
Clear goal setting and target measurement	0.8	8.0	31.2	36.8	23.2	36.8
More focused/less diverse demands from company owners	3.2	13.6	20.0	38.4	24.8	34.0

** Slight benefits/disadvantages given half the weight of significant benefits/disadvantages.*

Chart 11: Comparing private equity with public ownership



** Slight benefits/disadvantages given half the weight of significant benefits/disadvantages.*

3.4 What overall impact does PE backing have?

Having asked for detailed responses over a range of issues, our penultimate two questions were more focused and direct. The first question asked about the overall impact of GPs on portfolio companies above and beyond their financial investment, while the second asked whether respondents would recommend private equity as an ownership model and source of funding. Around 90% of respondents stated that private equity backing was beneficial to their business, with almost 40% reporting that it was highly beneficial (Chart 12).

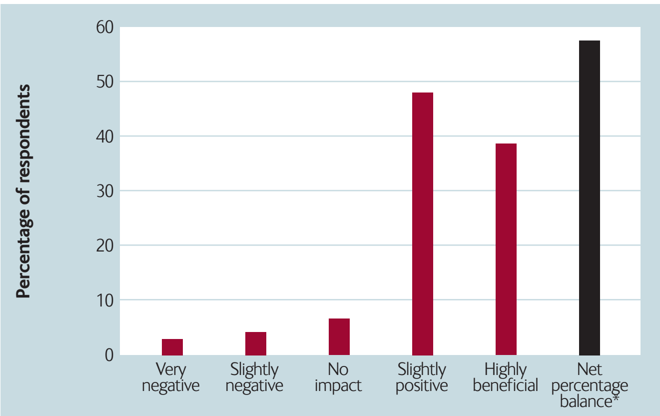
In light of this positive experience, it was not surprising that senior business managers were overwhelmingly willing to recommend private equity as an ownership model and funding source. In total, 85% of respondents would recommend private equity to other business leaders, with 46% saying they would definitely do so, and another 39% very likely to do so (Chart 13).

Interestingly, the strong recommendation was evident despite managers' varying degrees of experience with private equity. Managers with more than 10 years' experience of PE were very positive about the industry, consistent with lasting relationships being built between business leaders and GPs. Yet, at the same time, those managers whose first experience of private equity was relatively recent – in particular since 2007, which has been dominated by the global recession – were also very upbeat about private equity (Table D).

Private equity is highly valued by the business leaders running PE-backed companies, which suggests that GPs do not put undue pressure on managers, and avoid creating excessive stress and negative sentiment. And given the repeated nature of private equity, this should not be surprising – GPs are always looking for entrepreneurs who they can back more than once, as well as potential CEOs and FDs to lead future portfolio companies. Indeed, private equity houses frequently re-employ managers from previous portfolio companies in new roles. The finite nature of portfolio investments – and in particular the need to maximise returns from the next investment, not just the current one – gives PE investors strong incentives to build lasting and valued relationships with business managers, rather than pushing them too far or fast, which would risk making portfolio company managers reluctant to collaborate in the future.

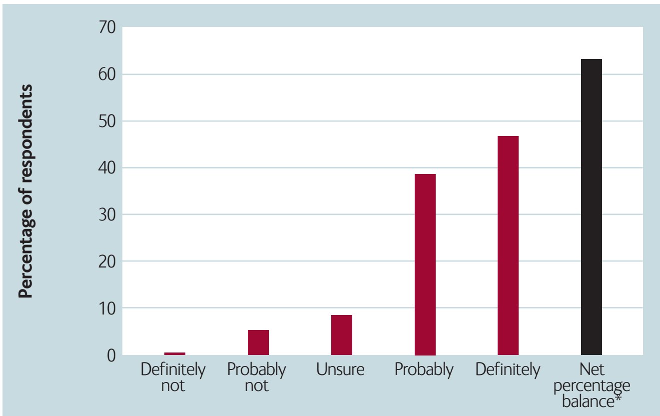
Overall, then, the strong message from the survey is that the individuals actually running PE-backed companies value the impact GPs have on the firms they lead, above and beyond their financial investment.

Chart 12: The non-financial impact of PE on businesses



** Slight negative/positive responses given half the weight of highly negative/positive responses.*

Chart 13: Would business managers recommend PE?



** Probably responses given half the weight of definite responses.*

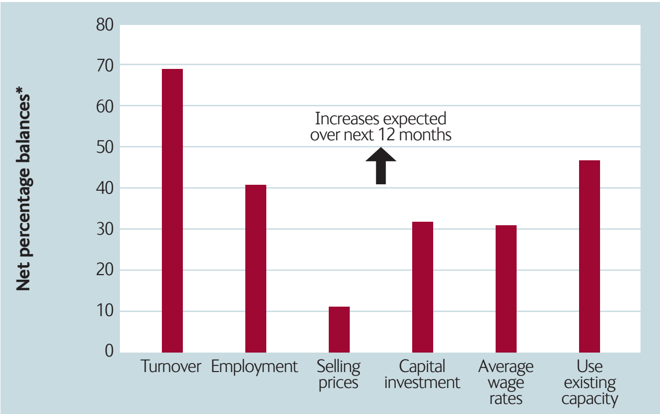
Table D: Portfolio company managers' recommendations of PE, by experience

First experience of PE	Definitely not	Probably not	Unsure	Probably	Definitely	Net percentage balances*
Pre-2001	0.0	11.5	5.8	32.7	50.0	60.6
2001-2006	0.0	3.6	8.3	45.2	42.9	63.7
2007 onwards	1.8	3.5	10.5	36.8	47.4	62.3

3.5 Business expectations over the next 12 months

The final question in our survey changed tack, and asked respondents what their expectations were for their businesses over the coming year, in order to gauge the outlook for PE-backed companies. In particular, we asked what managers expected to happen to company turnover and employment, and a range of other economic factors. Chart 14 shows net percentage balances across all economic factors. Table E and Chart 15 show the same data, but this time weighted by companies' employment (in full-time equivalents). We report these weighted data in this section to offer a sense of the potential economic impact of PE-backed businesses over the next year. However, in practice the difference between the weighted and unweighted responses was not especially large, consistent with the survey's other findings.

Chart 14: Managers' expectations for their businesses *(unweighted responses)*



** Slight responses given half the weight of significant ones.*

The clear message is that senior managers of PE-backed firms are confident that their companies will grow significantly over the next year. In fact, almost a third of respondents (weighted by FTEs) expected turnover to increase significantly, with a further two-thirds expecting a more modest increase in sales (Chart 16). Businesses backed by private equity therefore expect to make a significant contribution to growth at precisely the time when it is needed, given the fiscal retrenchment in the public sector.

Furthermore, that growth is not set to be inflationary. Managers expect only modest increases in wages and selling prices over the next 12 months, with just 2% of respondents expecting a significant increase in prices, and virtually no-one expecting strong growth in average wage rates (Table E). This implies that the expected increase in turnover is likely to reflect genuine growth in volumes, rather than just price increases, consistent with underlying inflationary pressures remaining subdued.

The reason PE-backed firms expect to grow strongly, without generating inflation, is because they also expect to employ more people, boost investment in capital infrastructure, and increase their usage of existing productive capacity. Individually, job creation, investment and capacity usage are all expected to rise less strongly than turnover, but the combination of these three factors – essentially, expanding productive capacity and using existing spare capacity – is consistent with firms being able to meet stronger demand growth without significantly raising prices, as discussed in Ellis & Turnbull (2007).

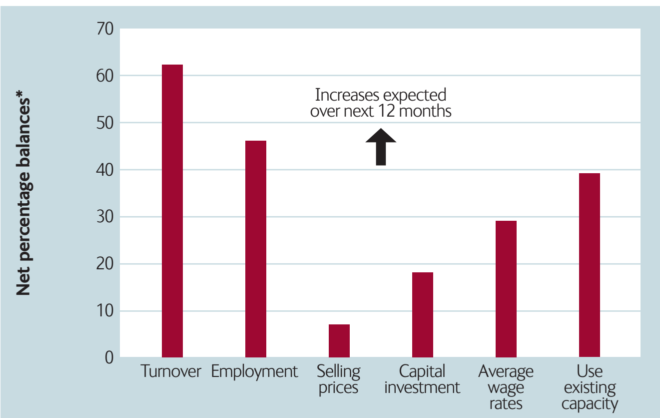
Overall, companies backed by private equity look ready to help drive the private sector recovery that the UK economy needs, creating jobs and boosting investment. At the same time, there are no signs that prices and wages are set to spiral out of control – inflationary pressures look contained.

Table E: Managers' expectations for their businesses *(responses weighted by FTEs)*

	Decrease significantly	Decrease slightly	No change	Increase slightly	Increase significantly	Net percentage balances*
Turnover	0.2	2.4	0.7	66.2	30.5	62.2
Employment	0.2	6.1	13.8	61.1	18.8	46.1
Selling prices	4.3	15.7	43.2	35.0	1.7	7.0
Capital investment	0.3	6.0	59.1	26.1	8.5	18.3
Average wage rates	0.0	0.4	41.3	58.3	0.1	29.0
Use of existing capacity	0.2	0.1	35.1	50.8	13.8	39.0

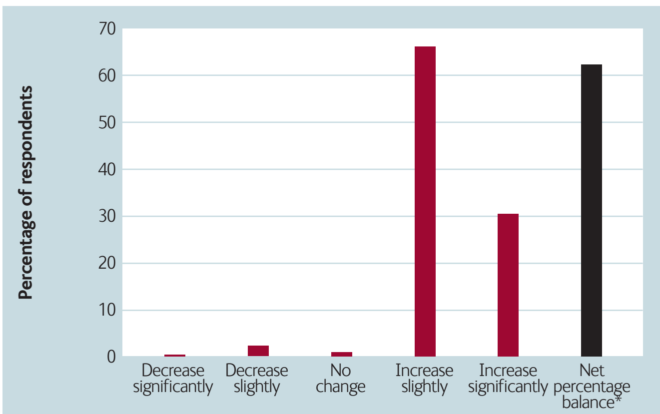
** Slight responses given half the weight of significant ones.*

Chart 15: Managers' expectations for their businesses *(responses weighted by FTEs)*



** Slight responses given half the weight of significant ones.*

Chart 16: Managers' expectations for turnover *(responses weighted by FTEs)*



** Slight responses given half the weight of significant ones.*

4. Conclusions

Private equity firms make money for their investors by backing real businesses, both in the UK and globally. Fundamentally, the PE firms make money if the value of those businesses rises over the lifetime of the investment, giving GPs a strong incentive to be actively engaged in the running of those businesses, bringing their own expertise and experience to bear in order to boost current and future profitability. Despite these incentives, the active role that PE firms play in the development of the business they back is sometimes ignored.

However, this survey demonstrates that this engagement between PE-backed companies and their private equity backers is a critical part of the private equity business model. The survey shows beyond doubt that venture capital and other private equity investors do not just invest in or buy businesses using leverage, and wait for the tide of public equity markets to rise before selling them on at a profit. Instead, GPs actively support the executives in running and managing the organisations that private equity invests in. In doing so, they bring skills and experience to bear that are highly valued by managers of those investee businesses, both in terms of expertise and active engagement. Most business managers who have experienced both public and private equity ownership prefer the latter across a range of issues, suggesting that private equity may be a good fit for many businesses. And the very high proportion of respondents who would recommend private equity suggests that GPs build lasting and valued relationships. Finally, PE-backed businesses look well placed to help drive private sector growth over the coming year without generating higher inflation, helping the economic recovery as the Government seeks to reduce the fiscal deficit. In summary, this survey demonstrates the real and lasting benefit that the private equity industry can make to the UK economy, as it seeks to genuinely create value and build lasting business in order to generate returns for investors.

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Appendix: Survey questionnaire

This annex details the detailed questions that survey respondents were asked. The survey was carried out on-line using Zoomerang.

Q1. In your experience, how involved are Private Equity (PE) investors in terms of influencing company decisions?

- Strategic goal setting and measurement
- Financial structure and planning
- Sales, marketing and promotional activity
- Production and employment decisions
- Wage bargaining and union engagement
- Crisis management

Respondents were asked to rank from 1 (no involvement) to 5 (decisions taken by PE investors).

Q2. Aside from providing equity finance, what do you think are the key benefits or disadvantages of PE ownership and investors?

- Access to general business expertise
- Specific sectoral knowledge and experience
- Detailed operational skills eg improving business processes, financial engineering
- Contacts and network in the wider business community
- Engagement with company management on key issues

Respondents were asked to rank from 1 (significant disadvantage) to 5 (significant benefit).

Respondents were only asked to complete Q3 if they had also previously worked at senior management level in a publicly owned corporation.

Q3. How does private equity ownership compare with public ownership, in terms of leading the organisation and managing shareholders/owners?

- Less focus on short-term financial reporting deadlines
- Active engagement from company owners
- Clear goal setting and target measurement
- More focused/less diverse demands from company owners

Respondents were asked to rank from 1 (PE much worse) to 5 (PE much better).

Q4. Overall, how do you rate the involvement of PE investors on your firm, above and beyond their financial investment?

Respondents were given five options from 1 (very negative) to 5 (highly beneficial).

Q5. Would you recommend private equity as an ownership model and funding source?

Respondents were given five options from 1 (definitely not) to 5 (definitely).

Q6. Finally, what are your expectations for your business over the next twelve months?

- Turnover
- Employment
- Selling prices
- Capital investment
- Average wage rates
- Use of existing capacity

Respondents were given five options from 1 (decrease significantly) to 5 (increase significantly).

Notes

Notes

The British Private Equity and Venture Capital Association (BVCA)

The BVCA is the industry body and public policy advocate for the private equity and venture capital industry in the UK. Our members come from venture capital, through mid-market, to private equity/large buyout houses from all over Britain.

Our voice is one of authority when speaking for, or negotiating on behalf of, the UK industry. Our aim is to aid understanding, clarity and transparency around the activities of our members, promoting our industry to entrepreneurs and investors—as well as Government, trade unions, the media and the general public.

We provide a growing list of services and best practice standards for our members across a spectrum of activities covering a network of interconnected committees, which focus on segment-led, legal, technical, regulatory, investor-led and service-led needs. We also provide networking opportunities, training courses, research, publications, public affairs and communications on behalf of the industry.

With a membership of over 450 firms, we represent the vast majority of all UK-based private equity and venture capital firms and their advisors. The benefits of becoming a member—whether full or associate—are wide-ranging and only briefly described above.

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