An Analysis of the Literature on the Subject of Venture Capital Funding Selection Factors and Their Impact on Return on Investment

Jalaj Patel, Department of Management, Amrut Mody School of Management, Ahmedabad

Abstract

The subjects of this comprehensive literature study are the factors that influence picking an investment and the processes by which private equity (PE) investments generate value. This report synthesizes current information on the variables affecting investment choices in PE and the tactics implemented to boost the portfolio performance of companies by examining academic papers from respected sources such as Research gate and Google Scholar. Value creation initiatives, including operational improvements, financial restructuring, and strategy realignment, are highlighted in the evaluation, along with important factors like marketplace potential, financial stability, and quality of management. According to the larger area of investment management, this in-depth examination seeks to provide a sophisticated comprehension of how private equity companies choose assets and generate value.

Keywords*: Private equity investment, selection determinants, value creation strategies, management quality, market potential, financial health, operational improvements*

Introduction

To finance businesses not traded on public markets, private equity (PE) has grown into a sizable industry in and of itself. Through diligent oversight of portfolio businesses and intelligent investments, private equity firms aim to provide significant returns for their capitalists. With this study, we want to compile a comprehensive literature analysis on private equity (PE) investment decision-making drivers and value development tactics.

Methodology

We used a comprehensive literature review to find and evaluate the proper papers. The following terms were used to search Google Scholar and PubMed: "private equity speculation," "choice elements," "value evolution," and "portfolio managing." This evaluation encompasses studies that were published in peer-reviewed journals between the years 1999 and 2023. The selection procedure adhered to PRISMA principles to guarantee a thorough and objective evaluation.

Selection Determinants in Private Equity Investment

1. Management Quality

Quality of management is a critical consideration for venture capitalists when making investment decisions. Private equity companies often place a premium on having capable, knowledgeable executive teams that successfully implement company plans and deal with market obstacles. According to research

(Kaplan & Strömberg, 2009), companies with capable executives have a better chance of meeting performance goals and providing ROI.

2. Market Potential

The target company's market potential is essential in private equity investment selections. Private equity firms seek companies that are either engaged in rapidly expanding sectors or have exclusive access to promising new markets. Investment exit plans and earnings prospects are strongly affected by a company's adaptability and market development potential (Gompers, Kaplan, & Mukharlyamov, 2016).

3. Financial Health

Another important consideration is the target organization's financial soundness. Private equity companies investigate prospective investments extensively to determine their viability, profitability, and liquidity. Since they provide less risk and more opportunity for wealth development, companies with solid financial indicators and consistent cash flows are chosen (Acharya, Gottschalg, Hahn, & Kehoe, 2013).

Value Creation Strategies in Private Equity

1. Operational Improvements

Private equity firms often work to improve the business operations of the businesses in their portfolio. Boosting efficiency, cutting expenses, and streamlining corporate processes are all part of this. Private equity firms use their operational skills to install best practices and boost performance, and they are major value generators (Cressy, Munari, & Malipiero, 2007).

2. Financial Restructuring

One method that private equity companies often use to generate value is financial restructuring. Debt restructuring, financial system optimization, and better-working capital management may be part of the solution. Private equity firms may increase their potential to profit and get out of their investments by helping their portfolio businesses become financially stable (Kaplan & Schoar, 2005).

3. Strategic Realignment

When a portfolio organization's strategic orientation is redefined to match market possibilities and dynamics of competition better, it is known as strategic realignment. Private equity firms may modify their business strategies, product offerings, or competitive edge to increase productivity and profitability. Unlocking novel sources of value and gaining lasting competitive advantage are the goals of this tactical approach (Baker & Montgomery, 2014).

Discussion

The results of this literature study highlight the complexity of private equity investment strategies and decision-making processes. Essential revenue generation techniques include enhancing operations, financial transformation, and strategy realignment; significant selection criteria include management quality, prospective markets, and financial health. These findings have significant real-world consequences for private equity (PE) professionals and help us understand the elements that drive successful PE investments.

Conclusion

Private equity financing value development tactics and selection factors are thoroughly examined in this literature study. In order to help readers better understand how private equity (PE) firms improve the financial health of the businesses in their portfolios of assets and what factors investors deem meaningful when assessing investment opportunities, this article reviews current research on the topic. Additional studies might delve into the ever-changing dynamics of these factors and approaches, providing a more detailed understanding of the private equity investing process.

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