

Preface

Private Equity, Venture Capital, and the Financing of Entrepreneurship:

The Power of Active Investing

As will be discussed in much greater depth in the Introduction, this book stems from a realization that private equity overall—defined in this volume as venture capital and buyouts but excluding hedge funds—has become a vastly more sizable and influential part of the global economic landscape over the past two decades. Yet it is immensely difficult to find a book that clearly describes the players, the dynamics, and the incentives behind the industry.

To be sure, there are books for financial academics, for investment managers, for entrepreneurs, and for people interested in tales from the trenches—many of which are very good indeed. But there seemed a need for a comprehensive introduction to private equity.

Too often, we fear that which we do not understand, or we legislate it in such a way that its benefits become distorted. And private equity does provide benefits, whether through venture capital funding of new technologies or a buyout firm's turnaround of a struggling company. While these are hardly charitable enterprises—and many failed investments have led to private and social losses—knowing how the industry functions can help understand what can go awry.

Here, we hope to present private equity in clear yet detailed way. This book tells how the fascinating world of private equity works, from start to finish, how it creates value, and where it may destroy value. We then consider various possibilities for its development in the future. With more than 60 years of combined experience as practitioners in and/or academic investigators of private equity, we explain how and why private equity does what it does. We hope you will find it as intriguing as we do.