Can US Venture Capital scale internationally?

by

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Abstract

Venture capital has been an important factor in driving innovation and creating wealth in the US. Even outside the US, venture capital is playing an increasingly important role, influencing many aspects of start-up companies. While the US has traditionally been at the forefront of the venture industry, in the past few years, this industry has matured considerably, removing the mystery around its mechanics and how wealth is created. Today, with the advent of globalization, a growing number of US venture capitalists is having a more international outlook and investing in non-US markets. The objective of my research is to determine how the US venture model is being scaled internationally, more particularly in the Australasian region. The General Partners of US and Australian venture capital firms have been analyzed in terms of their educational background and work experience, with a view to identify if there are any correlations in terms of their education background, type and location of their work experience.
Acknowledgements

I would like to thank Antoinette Schoar, for accepting to be my advisor and providing guidance not only on the thesis, but also to think beyond this as I go back to my career.

I would like to thank my mom, Yolande, and my dad, France, for their never ending support. Coming from a tiny, remote island on the other side of the world, for years I only viewed the opportunity to further my education at MIT as a distant dream. Yet my parents believed in me and supported me all the way to make this dream come true.

The Sloan Fellows Program at MIT’s Sloan School of Management has certainly been a major turning point for me. The program has not only helped me see outside of my previous areas of expertise, but it has also transformed the way I look at the world, by becoming more aware of the global factors that shape and influence what we do, and what it takes to compete in the world’s most advanced economy. The faculty at MIT Sloan and Harvard Business School has been a great source of inspiration for me – whether it was learning about systems theory, macroeconomics, competitive advantage or venture capital, I got the opportunity to learn from the world’s most respected leaders in their field. Yet in the background of all this intellectual stimulation and challenges, Mary Joyce has been quietly supporting me all along. I am grateful to her and thank her for the love and support she has given me.
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I. Introduction

Over the past twenty years, the US venture capital\(^1\) industry has developed into a well organized, well resourced and highly competitive market supporting new companies. The pool of US private equity funds, which consists of venture capital partnerships, leveraged buyouts, mezzanine investments, distressed debt and related investments, grew from $5 billion in 1980 to over $300 billion today [Lerner & Hardymon]. At the same time, other countries and regions have adopted the same underlying principles and management practices, thereby promoting technological innovation and fostering the venture capital industry outside the US. In the late 1990's, the growing availability of venture capital opportunities outside the US, coupled with the modest valuations relative to their US counterparts (for instance, European technology and biotechnology startups), have attracted US venture firms for investment outside the US.

Successful US venture capitalists possess a set of skills, in terms of human and social capital, that have taken years to develop – technical knowledge, operational experience, a flair in spotting potential deals and the ability to hire skilled managers.

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\(^1\) Venture Capital is part of the private equity asset class which does not include investments in listed securities, property, real estate or fixed interest securities. The exact definition of venture capital varies in different markets. In the US, venture capital is defined as a subset of the private equity asset class, referring to investments in early stage companies. In other regions, the distinction between the venture capital and private equity is less clear, with a broader definition of venture capital which encompasses both seed stage and later stage investments, as well as buyouts, expansion and turnaround financing. For the purpose of this paper, we will consider the term venture capital in the broader sense, i.e., encompassing both venture capital and private equity.
In Europe and Asia, where venture capitalists generally come from banking or management consulting backgrounds, those investors are still developing this set of skills. Yet, when US venture capitalists enter a new territory, even seasoned investors may lack knowledge of local culture and law. This unfamiliarity may result in inappropriate action or attitude which can harm their investments.

The purpose of this study is to discover insights into the factors necessary that make US ventures successful when they invest internationally. This study has implications for venture capital firms based in the US and already investing, or planning to invest in investment opportunities outside the US, more particularly in Australia.

Much research has been done the venture capital industry in the US. However, as businesses become more global, investment opportunities are spawning from markets other than the US. Moreover, the collapse of the Internet bubble in 2001 has resulted in a change in US venture capital industry. Today, the pendulum has swung the other way, with many venture capitalists chasing few deals. This increased local competition has led to a growing trend for some US venture capital firms to expand internationally. The biggest growth to date has been the European market, but as the global economy recovers, the Asia Pacific and Australasian region, having a significant percentage of the world’s population, is likely to be a growth area.
1.1 Differences between US venture capital and other countries

1.1.1 Partnership Structure

The majority of early stage funds in the US are structured as Limited Liability Partnerships (LLP). This form of legal structure allows individual partners to raise a fund without carrying the tax and associated liability of a company structure. The limited partnership is made up of general partners and limited partners. The limited partners invest capital but do not participate in the active management of the fund, while the general partners manage the fund on a day to day basis in return for management fee and a share of profit ("carry") in the fund. This partnership structure is well developed in the US, with the roles of the limited partner and general partner being well defined. The limited partners usually consist of pension funds, university endowments, foundations and individual investors who know the venture capital firm well. When a venture capital firm wants to raise a new fund, it will target a select group of potential limited partners, who will consider the general partners’ track record before committing capital to a new fund. The limited partner takes into account each general partner’s individual track record, as well as the track record of those general partners together working as a team. With limited partners getting more selective in placing their funds, it is becoming increasingly more difficult for general partners without a solid track record of top tier returns to raise new funds.
Outside the US, the legal structure of a venture capital firm can be different to the limited partnership, though some harmonization can be seen as some markets mature. For instance, an investment trust used to be the vehicle of choice for venture capital investments in Australia, but high taxes remained a deterrent to foreign investment. However, the Australian government has now established a more internationally competitive framework for venture capital investments by amending their laws to allow for the creation of Venture Capital Limited Partnerships (VCLPs) and Australian Venture Capital Fund of Funds (AFOFs). These new fund structures try to emulate the success of US structures by providing:

i. a US style LP structure, i.e., a flow through structure for tax purposes;

ii. exemption from capital gains tax for a wide cross-section of foreign investors;

iii. limitation of liability via State reforms (in Victoria and New South Wales), giving similar advantages to the State of Delaware.

Hence by enabling foreign pension funds and other tax-exempt investment groups to invest in Australian private equity opportunities without incurring local capital gains tax, these amendments have an immediate impact on the ability of Australian GPs to attract foreign capital.
1.1.2 Labor Laws

Entrepreneurs have long been at the fore of job creation – in both developed and developing countries, small and medium enterprises provide the bulk of employment opportunities. Privately-funded research and development and vigorous competition in the marketplace are equally important generators of economic growth and jobs. On these points, the link between an entrepreneurial private sector and dynamic job creation is clear [Economic Reform Today].

However, many factors which are almost taken for granted in the US venture capital industry are not present in other markets. For example, most countries in continental Europe have a legal system which punishes failed managers or directors, which can significantly stifle entrepreneurial spirit and discourage risk-taking. In Germany, the director of a company which goes bankrupt is barred from acting as a director in another company for seven years. The punishment is not only from a legal standpoint – there is also a social stigma in which the society sees these entrepreneurs as failures and not willing to give them a second chance. These rules and regulations tie the hands of entrepreneurs, forcing them to employ fewer people than they otherwise would, impeding the entrepreneurial innovation and investment in new technologies that drive job creation.
In addition, restrictive labor laws often make it difficult for young start-ups to attract the right talent. On the contrary, in the US, the industry understands the nature of recruiting, termination and stock options, which make it easier for venture capitalists to hire the appropriate people, fire them if they don’t perform, while compensating them for the risk taken by joining an unproven venture.

Another advantage that the US industry has is that America is perceived to the rest of the world as being a land of opportunity. As a result, the country is in a fairly unique position to be able to attract the smartest and brightest minds from all over the world, who in turn keep driving innovation and entrepreneurship. In Australia, the government intervenes in the labor market in a more structured way. The department of labor actively monitors the economy to identify the key skills that the country needs. Skills that are in high demand are allocated more “points” by department of immigration, thereby attracting immigrants that are able to fill the skills shortage in Australia.

While this approach may help Australia in bridging their skills shortage, the same interventionist approach in the labor market stifles innovation by not encouraging more entrepreneurs to take risks and bring new technologies to market. Australia's labor market arrangements are in peculiar in the extent to which third party intervention can occur in management decision-making on employment and in the extent to which they create a risk-averse culture that is cautious about innovation, thereby creating institutions that are relatively discouraging to investment and employment creation. These interventionist arrangements undermine the basic
function of management and create a culture under which management too often thinks first about whether a change is going to be accepted by unions and/or the Commission rather than whether it will improve efficiency. Innovation and change are, accordingly, less likely to occur here than in other less regulated labor markets. Fortunately, there is some pressure to deregulate the labor market with a view to making it more flexible and competitive.

1.1.3 Mindset

Another factor which is different in other countries is the cultural attitude towards individualism and entrepreneurship – a well educated workforce on its own is not sufficient to spark innovation. That workforce must be willing to take risks and their culture should embrace this attitude instead of punishing those who fail in their endeavors. Otherwise, few entrepreneurs will be willing to risk starting a new company. Without a constant stream of enthusiastic entrepreneurs, the venture capital market cannot thrive and develop. In the US, many business people see failure as a valuable experience that helps an individual learn and grow. Indeed, research has proved that US entrepreneurs usually fail at least three times before succeeding in a startup [Ed Roberts].

Despite the fact that the ability to innovate has become an essential factor for nations to compete on the global market, most countries outside the US have not attained the level of innovation and competitiveness of the US venture capital.
According to the Global Competitiveness Report 2003-2004 [World Economic Forum], the US ranked 2nd out of 102 in growth and business competitiveness, while Australia ranked 10th in growth competitiveness and 11th in business competitiveness. This business competitiveness index highlights a key finding – according to Michael Porter, “while a sound fiscal and monetary policy, a trusted and efficient legal system, a stable set of democratic institutions and progress on social conditions are necessary to a healthy economy, they are not sufficient. They provide the opportunity to create wealth but do not themselves create wealth. Wealth is actually created at the microeconomic level of the economy, rooted in the sophistication of actual companies as well as in the quality of the microeconomic business environment in which a nation’s firms compete. Unless these microeconomic capabilities improve, macroeconomic, political, legal, and social reforms will not bear fruit”. Hence for a nation to succeed in a particular industry, it is ultimately because their home environment is the most forward-looking, dynamic, and challenging, where differences in national values, culture and history all contribute to its success. Thus, the government can only provide a favorable environment to the growth of venture capital, but the efforts still need to be driven by the entrepreneurs and firms themselves.

According to the Queensland Government, despite Australia’s long history of successful entrepreneurs such as the Hills Hoist and developing scientific marvels such as the bionic ear, transforming Australia’s skepticism or reticence towards entrepreneurship will be challenging. While entrepreneurship has had an attention-grabbing, colorful history in Australia, it was mainly focused on famous individuals
who made considerable profit or failed spectacularly. To a large degree, Australians still believe that entrepreneurship lacks social legitimacy and is not a goal to aspire to. Hence more conservative professions, such as medicine or law, are considered more respectable.

1.1.4 Cultural Aspects

In the US, an experienced and successful general partner often brings in the venture firm, both human capital (in terms of management skills and domain expertise), social capital (access to business networks) as well as financial capital. In emerging markets such as Eastern Europe and Africa, venture capitalists have other kinds of cultural hurdles to overcome. Widespread corruption makes it difficult for these nations to enforce laws, with “entrepreneurs” seeking to extract rather than create value. In such markets, the presence of bribery and corruption makes it hard for venture capital to flourish under these conditions.

In case of Australia however, corruption should is not an issue - according to the Corruption Perception Index 2003 by Transparency International, Australia ranked 8th least corrupt country out of 133, while the US itself ranked 18th.

Luckily, with the globalization of businesses and disappearance of economic borders, the general cultural attitudes toward risk-taking and entrepreneurship are sweeping many regions of the globe. Attitudes that used to discourage entrepreneurship in the
past are changing, and successful entrepreneurs are now admired for their successes. Indeed, an active, profitable venture capital sector can only exist in markets where such entrepreneurship and risk-taking are rewarded and valued.

1.1.5 Maturity of the venture capital industry

Most of the venture capital industry outside the US does not have the breadth and depth that characterizes this industry as it currently is in the United States. Figure 1.1 summarizes the state of the private equity industry in various regions in the world. The industry is mature in the United States and the United Kingdom, while it is still maturing in continental Europe and Australia. For instance in Australia, while the enforceability of rights, accounting and due diligence are comparable to the US standards, the country is still lacking in terms of the entrepreneurial culture, the availability of attractive investment opportunities, experienced investors and public market exits. As a result, there is less deal flow, investment and skill specialization.
Fig. 1.1 Maturity of Venture Capital Industry in different regions
Source: Australia Venture Capital Association Limited

In the US the strong presence of the start-up sector keeps fueling innovation, to which the venture capital industry provides the financial resources required to build their businesses. US venture capital investors understand that the risk in investing in early stage companies is high, but that the potential reward is also high. While a healthy venture capital industry can bring economic prosperity, it can only thrive if the right conditions are present. If we take the international patenting output (measured as the number of patents produced per population of 1 million) as an indicator of the rate of innovation, then we witness concrete evidence that innovation is indeed more thriving in the US compared to the rest of the world, as depicted in figure 1.2.
1.2 **Trends in capital raised and overall performance**

While the aggregate amount of venture capital funds raised in Australia during the past 10 years is much smaller than in the US, the overall trend has been similar – with a growing increase in funds raised from the mid-1990s, peaking in 2001 and declining thereafter. The average size of a typical early stage fund in Australia is $64.8M.
Fig. 1.3 Capital Raised in Australia from 1993-2002
Source: Thomson Venture Economics, 2002

Average Fund Size in 2002 ($A Millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>Fund Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund of Funds</td>
<td>253.9</td>
</tr>
<tr>
<td>LBO</td>
<td>234.2</td>
</tr>
<tr>
<td>Generalist</td>
<td>126.4</td>
</tr>
<tr>
<td>Later Stage</td>
<td>94.1</td>
</tr>
<tr>
<td>Expansion</td>
<td>86.4</td>
</tr>
<tr>
<td>Early Stage</td>
<td>84.45</td>
</tr>
<tr>
<td>Balanced Stage</td>
<td>85.6</td>
</tr>
<tr>
<td>Seed Stage</td>
<td>22.5</td>
</tr>
<tr>
<td>Mezzanine Stage</td>
<td>15.5</td>
</tr>
<tr>
<td>Turnaround</td>
<td>9.95</td>
</tr>
</tbody>
</table>

Fig. 1.4 Average Australian Fund Size by category
Source: Thomson Venture Economics, 2002

Nevertheless, despite the smaller size compared to the US, over the lifetime of the fund, the top quartile Australian GPs are demonstrating comparable to the US GPs, as shown in Figure 1.5.
Performance Universe of 17% pa Model Funds

(Proportion of funds for each vintage year from Venture Economics Aust & US surveys is noted. Model US and Aust universe max, top quartile, median, lower quartile & min on right)

Fig. 1.5 Performance Comparison between Australian and US Fund

Source: AVCAL/Quay Partners: The Case for Private Equity
II. Methodology

2.1 Data Collection

The data for this study has been obtained from Thomson Venture Economics, Galante’s Venture Capital and Private Equity Directory, the Australian Venture Capital Association Limited and the published biographies of the management team of the individual firms. The firms were selected according to the criteria below, which yielded a total of 282 US General Partners and 69 Australian General Partners for which their educational background and work experience details were publicly available.

2.2 Data Verification

The data on the General Partners from Galante’s Venture Capital and Private Equity Directory was verified by checking the management team on each firm’s website.

2.3 Qualification Criteria

The US firms surveyed in this study meet the following criteria:

a) The firm invests in venture capital, buyouts, mezzanine and private equity

b) The firm is headquartered in the US, with a sub-location in the Australasian region

c) The firm is not:

i. an affiliate or subsidiary of a commercial or investment bank

ii. a corporate subsidiary or corporate venture program
The Australian firms surveyed in this study meet the following criteria:

a) The firm invests in venture capital, buyouts, mezzanine and private equity

b) The firm is headquartered in Australia

c) The firm is not:
   a. an affiliate or subsidiary of a commercial or investment bank
   b. a corporate subsidiary or corporate venture program

For each firm, the General Partners, including the principals and senior associates, were targeted.
III. Findings

3.1 General Partners’ Educational Background

In the US, it is common for venture capitalists to come from an operating background. The transformation from entrepreneurs with operational expertise in venture capitalists is often seen as a natural progression in their career path. Given their operational experience, US venture capitalists often take an active role in managing their portfolio companies, continuously monitoring their progress to determine if the objective pursued remains appropriate and whether the selected management team is capable to deliver within that environment. This active monitoring allows the general partners to minimize losses and maximize gains by anticipating possible problems and getting timely information on which appropriate corrective actions can be taken. For instance, while new entrepreneurs may know their product well, they can be less knowledgeable in the other aspects needed to make their business succeed. US venture capitalists, often not only come with operational experience, but they have also developed expertise in the areas that the entrepreneurs need, such as managing the firm through the growth phase and launching the product commercially. Besides, venture capitalists usually have access to a strong network, putting them in a better position to select the appropriate team with the right skill mix which can increase the odds of business success.

This contrasts with Australia, where the majority of venture capitalists come from a financial background, which could result in the venture capitalists having a more
hands-off attitude with their portfolio companies. Rather than taking a direct role in
the running of their portfolio’s businesses and assisting in the selection of the
management team, Australian venture capitalists would focus more on the financial
aspects of the deal. But that does not necessarily mean that this approach is less
effective than their US counterparts. Close monitoring can be very time consuming
and venture capital firms are often understaffed. Moreover, some founders prefer to
run their firms in their own personal way and may see the venture capitalists’ close
involvement as intrusive. Furthermore, having been in close contact with a particular
investment, the venture capitalist may also get “emotional” and possibly lose some
objectivity about the investment.

Therefore, in the light of those different conditions, it seems that General Partners
working in a non-US environment require an additional set of skills to be successful
in their international investments. In this study, we surveyed US venture capital firms
with investments in the Australasian region, as well as Australian venture capital
firms based in their home country. To identify their skills, we looked at each General
Partner’s educational background (where they did their undergraduate and graduate
education), their work experience (whether they have US work experience,
experience outside their home country or worked for a US branch in a foreign
country), as well as their industry background.
3.1.1 Undergraduate Education

The General Partners surveyed in both groups are highly educated. However, most of the US GPs went to a local college, with 97% of them obtaining their undergraduate education in the US. This contrasts with the Australian GPs where over 25% of them went to college outside Australia, with a preference for European universities. Thus at undergraduate level, Australian GPs have more international exposure than their US counterparts.
3.1.2 Graduate Education

The same pattern is repeated at graduate education level, with less than 2% of the US GPs pursuing their further studies outside the US, while more Australian GPs pursue their graduate education overseas more than locally. However, while Australian GPs chose non-US overseas universities for their undergraduate education, the trend is reversed for their graduate education, where they show a clear preference for American universities (in particular, the top tier business schools). Actually, the top tier business schools are just about as popular as Australian universities at this level. This reinforces to some extent, the perception that the leading American graduate universities are amongst the world’s best, thereby attracting bright candidates from all over the world. It is also possible that Australian GPs do not choose those leading Ivy league American universities solely for their education, but also to gain access to a
network of business contacts. This is particularly true for the United States, where the private sector works hand in hand with the leading universities, unlike in many other countries where universities concentrate on academia with little involvement with the business world. As a result, in the United States, the elite universities often become an important source of innovation for the private sector.

Another observation made between the US and Australian GPs is the noticeable difference in the percentage of GPs who choose to pursue further education. Over 70% of US GPs have graduate education, while almost half of the Australian GPs do not. Nevertheless, this does not mean that Australian GPs are less educated. Some of them seem to choose professional qualifications (such as the Association of Chartered Accountants and Chartered Institute of Management Accountants) in lieu of furthering their studies at university level. It may also be possible that the Australian GPs come from a different age group.
than the US GPs, with the latter coming from a younger generation and a period where graduate education is common, being more the norm rather than the exception.

![Fig 3.4 AU GPs: Graduate Education](image)

3.1.3 Graduate Schools from which GPs received their degrees

The study showed that, for both US and Australian GPs, their graduate education is concentrated within the top business schools. Harvard came as a clear preference for both US and Australian GPs. Wharton was also highly ranked in both groups, while Macquarie, AGSM and Melbourne were favorites amongst Australian GPs.
3.2 General Partners’ International Experience

A third of the Australian GPs surveyed have worked in the US, with nearly two thirds of them having international (non-US) experience. Moreover, 57% of Australian GPs surveyed have worked for a US firm in Australia. Therefore, the majority of Australian GPs has international experience or has
been exposed to the US work culture through the US overseas branch offices. This contrasts sharply with US GPs, who tend to be more US-centric and less exposed to international work experience.
However, it is possible that the lack of international experience of US GPs may be a reflection of the market conditions under which they operate – US GPs may find that their domestic market is both large and attractive enough to spend the bulk of their time locally and consequently spend little time on non US markets.

3.3 General Partners' Industry Background

For GPs of US firms located in the overseas branch offices, and for Australian GPs, investment banking came out top as the most common industry background, which seems to confirm investment banking as a “finishing school” before they enter the venture capital industry.

Fig. 3.10 Foreign GPs Industry Background

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inv Banking</td>
<td>41%</td>
</tr>
<tr>
<td>Technology</td>
<td>18%</td>
</tr>
<tr>
<td>Fin Services</td>
<td>14%</td>
</tr>
<tr>
<td>Consulting</td>
<td>10%</td>
</tr>
<tr>
<td>VCPE</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
</tbody>
</table>
3.4 General Partners’ Financial Background

Similarly, having a background in finance (whether directly in jobs such as investment banking or indirectly through accounting and finance-related jobs) was a dominant trait, common to both US and Australian GPs.
This observation is somehow puzzling – while there is a clear trend for GPs in both groups to have either investment banking experience or a financial background, it is unclear whether there is a causal relationship between the two. i.e., is a financial background a pre-requisite to become a General Partner? According to a study performed on the human capital aspects of leading US venture capitalists [Ignite Associates], financial skill was actually found to be the least important in the success of a venture capitalist. Soft skills, such as listening skills and ability to recruit talented management were rated as most important.

3.5 Fund Size, Education and Work Experience

In the sample selected for this study, the US and Australian venture firms were further analyzed to understand whether there was a relationship between the size of the funds and the general partners observed. For each venture firm, the average size of funds was calculated and summarized to get an average for the US venture firms surveyed. The process was repeated for the Australian venture firms to get the Australian average. The average obtained for each country was then compared against the fund size of each firm, to determine whether that venture firm was higher or lower than the industry average of their country.

The average fund size of the US venture capital firms surveyed in this study is $590M. When those firms are further divided between those with fund size
below and above this average, we observe that GPs in larger funds have more US undergraduate education and work experience and come primarily from a finance background. GPs in firms with an average fund size below $590M have more international education and work experience, but less finance background. The correlation between the financial background and fund size can possibly be explained by the relationships those GPs have nurtured from their financial work experience. For example, a GP who has been working as an investment banker would have developed ties with limited partners, thereby making a subsequent fundraising easier.

Similarly, the correlation between a higher exposure to US education/work experience and a larger fund size may be due to the GPs expectation in terms of the size of the capital market and available opportunities. Outside the US where the capital market is considerably smaller, a “large” fund by overseas standards may be small by US standards. For instance, the average fund size
in the survey for Australian firms is $62M - ten times smaller than the US average.

![Bar chart showing percentages of GPs in US Fund size > $590M average.]

When those Australian firms are further divided between those with funds below and above the $62M average, we observe that GPs who pursued their graduate education in the US went on to raise the larger funds in Australia. While the average Australian fund size is a good magnitude lower than its US counterpart, this observation nevertheless hints towards a possible advantage of pursuing a graduate education in the US, since the latter not only provides the opportunity for learning, but more importantly the opportunity for building strong relationships with US firms and partners.
IV. Conclusion and Recommendations

The venture capital revolution is making its way around the globe, taking on unique characteristics in each market and facing unique challenges. In this survey, at undergraduate education level, we have observed that US GPs tend to be more US-focused and less likely to have the international experience of their Australian counterparts. When it came to graduate education however, a higher percentage of US GPs pursue their education at university. For the Australian GPs who obtained graduate education, US universities were a popular choice. This connection seems to benefit Australian GPs, where the relationships developed in the US may help them in raising larger funds and achieving performance comparable to the US. However, due to the size of the Australian market (about a tenth of the US population), the fund size is correspondingly smaller. When it came to regional work experience, the Australian GPs surveyed have more international experience than the US ones – they not only had US work experience, but also in Europe or by working for a US company in Australia. In terms of industry experience, for both groups, investment banking was the most popular career industry background prior to entering the private equity field. For GPs of both US and Australian funds, those who had their education and a finance-related work experience in the US seem to be able to raise the larger fund sizes in their respective countries.
The differences observed between the US and Australian GPs may be because the Australian market is less evolved, thereby providing less opportunity for deal flow. Moreover, for Australian GPs, relationships built with the US seem to pay off by providing more opportunities, as we observed that GPs in larger Australian funds have more exposure to the US (both education and experience-wise) than GPs in smaller Australian funds. It is also possible that when US GPs invest in Australia, they feel more comfortable in dealing with Australian GPs who have a US similar background, thereby increasing their investments in such funds. In future, in order to confirm some of the hypotheses made in this survey, some structured interviews with the GPs of the firms surveyed will be conducted.
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