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The Venture Capital Cycle (MIT Press)





Synopsis

In The Venture Capital Cycle, Paul Gompers and Josh Lerner correct widespread misperceptions about the nature and role of the venture capitalist and provide an accessible and comprehensive overview of the venture capital industry. Bringing together fifteen years of ground-breaking research into the form and function of venture capital firms, they examine the fund-raising, investing, and exit stages of venture capitalists. Three major themes run throughout the process: venture investors confront tremendous information and incentive problems; venture capital processes are inherently interrelated, and a complete understanding of the industry requires a full understanding of the venture cycle; and, unlike most financial markets, the venture capital industry adjusts very slowly to shifts in the demand for and the supply of investment capital. This second edition has been thoroughly revised in light of recent research findings, and includes six new chapters. The first part, on fund-raising, now includes a chapter that examines what determines the level of venture capital fund-raising and how tax policy influences the demand for venture capital. Three new chapters in the second part, on investing, examine what kind of distortions are introduced when the venture capital market goes dramatically up, a question prompted by the 1999-2000 market bubble; demonstrate that the venture capital industry does indeed spur innovation, an important determinant of economic growth; and examine whether and under what circumstances governments can be effective venture capitalists. Two new chapters in the third part, on exiting venture capital investments, discuss whether venture capital firms affiliated with investment-banks are prone to conflicts of interest with public offerings and how lockups on initial public offerings are used to limit conflicts of interest.

Book Information

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Customer Reviews

We used this book in an MBA course on Venture Capital here at the University of Michigan b-school. I think this is an excellent book. First, do NOT expect to be a book full of venture capital anecdotes. While that is always intersting, this book is a serious treatment of what the venture capital business is about: how funds are raised, how venture capitalists arrange deals to ensure adequate compensation for their risk, how investments are staged, how the investments are managed, exit strategies and methods, and more. This is a lot to cover in a book of approximately 350 pages, but it is all covered very well. The writing is guite clear and readable. Though this is not a book for the general reader, it is not difficult to read if you have some background understanding of business theory and a touch of finance. What is so helpful about reading this book is that people seeking venture capital will understand more about why things are structured they way they are. It isn't just arbitrary greed and control. It is a business deal that requires an expected positive return you know - making money (which does concern self-interest (greed) and structure (control) - but with slightly more reasoning). While people seeking to make venture investments will immediately understand why they need something like this book and a whole lot more. I believe it is essential for people seeking investment money to also have a significant understanding of this process. Why? Because the venture capitalists understand this process completely and the people seeking investments usually don't do enough of these deals to really know what is going on. And if they are too blind they will be sheared like sheep.

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