MONITORING IN VENTURE CAPITAL/PRIVATE EQUITY INVESTMENTS

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Investment Monitoring Has Other Names

- Post Investment Monitoring
- Post Investment Risk Management
- Post Project Management
- Value Enhancement Analysis

Overview Of VC Monitoring

- It defines what monitoring and evaluation are,
- Why they are extremely important in VC Investment
- How they are planned,
- How Venture Capitalist design a system that helps to monitor and an evaluation process that brings it all together usefully.
- It looks at how information is collected
- Finally it raises, and attempts to address, some of the issues to do with taking action on the basis of what you have learned

Monitoring And Evaluation Processes

- Overview
- Basic principles
  - >Planning for monitoring and evaluation
  - >What do we want to know?
  - >Different kinds of information – quantitative and qualitative
  - >How will we get the information?
  - >Who should be involved?
- Best practices
- Resources

Overview

- Monitoring and evaluation enable a venture capitalist to assess the operational quality and financial impact of investment made with a view to increasing the investors values and Networth in additional to enhancing the continuing operational metrics of such investment to the exit stage.

- Effective post investment risk management involves a combination of an independent monitoring of the activity in the relevant areas of the investee company and providing remedial solutions to protect the integrity of the investment.

- It involves maintaining a close dialogue and contacts (both documentary, verbal, formal and informal) and frequent exchange of information between the VC and the investee companies

Basic Principles

- Monitoring is the systematic collection and analysis of information concerning the project as it progresses. It is aimed at improving the efficiency and effectiveness of a project or organization. It is based on targets set and activities planned during the planning phases of work. It helps to keep the work on track, and can let management know when things are going wrong. If done properly, it is an invaluable tool for good management, and it provides a useful base for evaluation.
- Evaluation is the comparison of actual project impacts against the agreed strategic plans. It looks at what the VC sets out to do, at what is accomplished, and how it is accomplished. It can be formative (taking place during the life of the VC Investment with the intention of improving the strategy or way of functioning of the investment). It can also be summative (drawing lessons from a completed investment that is no longer functioning). This is like a difference between a check-up and an autopsy!
- What monitoring and evaluation have in common is that they are geared towards learning from what you are doing and how you are doing it, by focusing on:
  - Efficiency
  - Effectiveness
  - Impact

- **Efficiency** tells the VC that the input into the work is appropriate (expected value) in terms of the output. This could be input in terms of money, time, staff, equipment, value enhancement and so on. When a VC runs a project and is concerned about its replicability, then it is very important to get the efficiency element right. Remember one of our capital objectives – to execute further tranches from IFC!

- **Effectiveness** is a measure of the extent to which investment programme or project achieves the specific objectives it set like meeting targets, exiting successfully with enhanced financial metrics for the VC/Fund Manager.

- **Impact** tells the VC whether or not he made a difference to the problem situation. Before he decides to get bigger, better or to replicate the project elsewhere, the VC will be judged on the impact of what had been done. Our long term objectives include enhancing the living indices of these war-torn countries.

Why Is Monitoring And Value Enhancement Important?

Remember

- People do what you inspect (obligatory) and not what you expect (optional)
- If you can't measure it, you can't manage it
- If you don't have a road map, any road will take you anywhere
- If you can't stand for something, you will fall for anything

Monitoring And Evaluation Can:

- Help identify problems and their causes;
- Suggest possible solutions to problems;
- Raise reliability questions about assumptions and strategies;
- Push to reflect on where the investment is going and how the VC is getting there;
- Provide the VC with information and insight;
- Encourage the VC to act on the information and insight;
- Increase the perception that the VC will make a positive developmental difference.

How Is Effective Monitoring And Evaluation Achieved

- Execution of good Shareholders Agreement and other legal documents
- Appointment of VCs on the Board of Directors
- Regular Board meetings (ordinarily quarterly but depends on the compelling issues)
- Instituting co-signatories concept with functional mandates
- Appointment of CFOs
- Appointment of Inventory Controllers ICs
- Establishment of operations committee
- Unscheduled regular site visits
- Monitor the monitors and evaluate the valuators
- Timely provision of applicable reports, reports and reports. The reports can be:

  >Monthly reports (including variances)

  >FLASH Reports

  >Action Plans

  >Working Capital Reports

  » Inventory

  » Account Receivable

Monthly Reports

- Provides concise and accurate overview of the investee company's performance on a monthly basis
- The report is a precursor or forerunner to hoisting the red flags
- The report must include a comparison to budget with accompanying variance measurements
- The report should be used as a basis for further discussions with the management on what is working, what is not working and what can be done to improve what is not working

Flash Reports

- This is prepared on weekly basis
- Provides a brief one page overview for the company management and fund staff
- Provides information only on key performance areas of the company
- Can be used as a basis for discussions between company management and the fund staff

Action Plans

- Provides a one page review of

  >What needs to be done

  >Who will do it and

  >What is the timeline

- Can be reviewed periodically by company management or fund management to check progress

Warning Signs

- Late Payments (fees, interests, redemptions, taxes, suppliers etc)
- Variances are mostly adverse
- Late reports (operational, financial and statutory)
- Poorly prepared financials
- Declining quantitative indices
- Large inexplicable changes in balance sheets (mostly items of current liability)
- Unavailable entrepreneurs
- Large thefts
- Major adjustments in the financial figures
- Significant changes in management

External Red Flags

- Technological changes
- Government policy change

Warnings Through Personal Experiences

- Entrepreneur relocates from the business
- Entrepreneur becomes inexplicably combative or defensive
- Entrepreneur stops communication or provides flimsy excuses
- Relocating the business or major asset component from the present site
- Establishing another personal business
- Recurring request for IOUs or bridging funds
- Entrepreneurs who are in love with technology and engineering often create problems.

Pitfalls Of Monitoring

The quickest way to blow it as a monitor of a company is to do one of the following.

- Appear Only When There Is Trouble
- Appear indifferent to reports or feedbacks
- React to Problems
- Establishment of self-serving relationship with promoters
- Pain Factor

Tips On Monitoring

- Believe and respect the partnership
- Understand the business and the products/services
- Keep up with the industry and the competition
- Read wide about the business through trade subscriptions and local trade associations
- Know the people in the business (internally and externally)
- Spend quality time with the CEO (formally and informally)
- Track performers

THANK YOU

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