




Analysing the criteria of private equity investment in South Africa



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Orientation: Within the conceptual paradigm that the institutional environment may influence investment criteria, this study argues that South Africa has a unique socio-economic environment and matters such as black economic empowerment, corruption, redistribution of land and other related matters pose unique challenges to private equity investors.

Research purpose: The purpose was to determine the critical criteria that present a challenge to private equity investment professionals when considering an investment in business ventures in South Africa.

Motivation for the study: As far as can be established, similar research to identify and prioritise the investment criteria used by private equity investors has not been done or published in South Africa.

Research approach/design and method: A literature review was conducted to develop qualitatively a 51-component questionnaire, which was quantitatively tested by a convenience sample of 44 registered private equity investment professionals in South Africa.

Main findings: Descriptive statistical analysis revealed that the most important individual criteria component is the intention of co-shareholders. From a factor analysis, the most important factors are the internal and the external abilities of the fund manager to identify investment opportunities.

Practical/managerial implications: The new prioritised investment decision-making criteria may aid potential target companies, wanting to attract funding from private equity investors, to organise themselves to become attractive investment opportunities.

Contribution/value-add: A new prioritised list was developed to better understand how South African private equity investment professionals make investment decisions.

Keywords: private equity investment; investment criteria; investment decision; institutional theory; South Africa.

Introduction

Krzysztof and Sławomir (2016:129) define private equity as 'the provision of capital by financial investors to non-quoted companies with high growth potential'. Brigham, Ehrhardt and Fox (2016:22) state that private equity investors hold shares in the companies they invest in and could even control these companies' boards. A private equity fund requires two key participants, namely the fund manager, also referred to as the general partner, and an investor, also referred to as the limited partner. In combination, these two participants are referred to as the private equity fund. The private equity fund is typically organised into a limited partnership. Limited partners have unique characteristics and specific expectations, for example high net-worth individuals and other entities with vast amounts of cash; having the desire to earn an extraordinarily high return, and the willingness to accept the risk that comes along with investing in private equity funds (Tan 2018:66). Typically, limited partners can include pension funds, endowment funds, foundations, investment bankers or high net-worth individuals (Müller 2008:16). Besides setting up the private equity fund, the general partner manages the daily operations of the fund, whilst the limited partner plays a passive role (Tan 2018:68).

To grow a business requires funding, of which a substantial portion can come from private equity investors. If private equity investment is an essential catalyst for industrialisation through the funding mechanisms it provides, it stands to reason that a broad audience will be

keen to understand how private equity investment decisions are made (Gui-Diby & Renard 2015). In an emerging economy like South Africa, industrialisation can span across various economic sectors; therefore, it is incorrect to assume that private equity investors use the same investment criteria to inform their investment decisions across all these sectors. In this regard, Dhochak and Sharma (2016:23) explain that investors follow a multi-criteria decision-making process. Furthermore, private equity investors themselves are not similar – they vary a great deal in terms of legal form, size and stage of investment, motives and criteria for investing, timing, exit methods (Meglio et al. 2017:519), experience, industry preferences and affiliation (Le Nadant, Perdreau & Bruining 2018:238), which all affect their investment criteria.

Numerous studies have been undertaken internationally to identify and prioritise the investment criteria used by private equity investors (Block et al. 2019; Bodie, Kane & Marcus 2001; Dhochak & Sharma 2016; Feeney, Haines & Riding 1999; Gompers, Kaplan & Mukharlyamov 2016; Kollmann & Kuckertz 2010; Muhammad et al. 2017). However, there is ambiguity regarding the relevance of aspects that are seen to be essential and that pose challenges when private equity investment is considered. Related studies structured their investment criteria into a number of sub-sections. From the literature we grouped the investment criteria into four sections, individual specialised sector criterions, financial performance, management team and primary product in the market (Block et al. 2019; Eloranta 2018; Muhammad et al. 2017; Tyebjee & Bruno 1984). We also added two more criteria, investor- and target-specific considerations and black economic empowerment (BEE).

Within the conceptual paradigm that the institutional environment may influence investment criteria, this study argues that South Africa has a unique socio-economic environment and matters such as BEE, corruption, redistribution of land (possibly without compensation) and other related matters pose unique challenges to private equity investors. Therefore, because of South Africa's unique socio-economic characteristics, it cannot be assumed that the identified generic investment criteria for private equity investments of international studies would apply to South Africa. Moreover, as far as can be established, similar research to identify and prioritise the investment criteria used by private equity investors has not been done or published in South Africa.

To fill this gap, the purpose of the study was to determine the critical criteria that present a challenge to private equity investment professionals when considering an investment in business ventures in South Africa. To reach the objective a list of decision-making criteria was developed from the literature after the South African private equity investment professionals' views were collected and analysed to prioritise the criteria in order of importance. Private equity investment professionals' views who are employed by investment firms that are registered with South African Venture Capital and Private

Equity Association (SAVCA) were collected. From a convenient sample, 75 SAVCA members were approached. These professionals participated in their personal capacity as private equity investment experts and not as employees of any specific investment firm. In total, 44 completed a newly developed questionnaire that includes 51 four-point scale components (criteria items), which are related to the cue, 'When considering an investment in ventures in South Africa ...'.

With the aid of exploratory factor analysis and descriptive statistics, the study identified and prioritised the investment criteria used by private equity investors in South Africa. The importance thereof is that various stakeholders can benefit from a better understanding of the aspects that affect the decision of private equity investors to invest in South Africa. That includes firstly, potential target companies, wanting to attract funding from private equity investors, understanding how to organise themselves to eliminate challenges and become attractive investment opportunities and secondly, it provides a decision-making criteria list for existing private equity investment professionals to benchmark their practices against.

The next section is a literature review that was necessary to find the criteria to be assessed in the questionnaire. The subsequent sections present the method of the study, the results of the analysed data, a discussion and conclusion section and a final conclusion.

Literature review

Conceptual framework

Related studies applied theories such as the contracting cost theory that classifies growing companies with relatively high valued intangible assets are probably not able to employ borrowed funds, because the collateral value of their assets does not support such borrowings (Chipeta 2016:25). Feeney et al. (1999) presented their private investors' criteria study in the context of the agency theory, which focuses on the principle (shareholder)-agent (firm executives) problem (conflict). Kollmann and Kuckertz (2009:4) applied economics of information as a theory to contextualise their investment criteria study as 'that allows the identification of evaluation uncertainties'. Other examples are the resource-dependent theory which states that firms, as open systems, transact with other organisations (including private investors) to obtain resources such as equity funding, or the strategic alliance theory that refers to the cooperation between two parties to pursue mutual, strategic objectives (ed. Kessler 2013:659, 769). In this study, we followed Muhammad et al. (2017) who contextualised their investment criteria study with the institutional theory because 'venture capital culture is shaped according to the institutional context of a country'.

Although the institutional theory of multinational corporations is not well-defined and well-specified, it identified building blocks because the 'institutional perspective advances the central proposition that organizations are socially embedded in their institutional environments' (ed. Kessler 2013:384).

Scott (2005) describes the institutional theory as a process through which structures, rules norms and routines became established as authoritative guidelines for social behaviour. Therefore this theory is based on the principle that individuals are assumed to accept and follow social norms (Tolbert & Zucker 1999). The institutional theory is relevant for this study because its emphasis is on the unique structures, rules and norms within South Africa. The intent of this study was not to compare the investment criteria of South African private equity investment professionals with other countries, but rather to reflect on existing investment criteria practices to make investment decisions.

Criteria of investment

The purpose of researching existing literature is to establish a base from which the South African situation can be assessed in detail. Related studies structured their investment criteria into a number of sub-sections. Eloranta (2018) states that literature is lacking in consensus with regard to the most important investment criterion. Nevertheless, he found that most studies followed Tyebjee and Bruno's (1984) four sub-criteria frame, namely characteristics of the entrepreneur/management teams, product, market and financial characteristics. Muhammad et al. (2017) used a regrouped version of the above, individual criterions (personality and experience) and corporate and industry criterions (product/service, financial and market characteristics), and added a third, institutional or environmental criterions (environmental and country risks and conditions). Block et al. (2019) applied the following seven criteria, profitability, revenue growth, track record of the management team, reputation of the current investor, business model, product/service and international scalability.

To explore the literature, our study applied a combination of the above and added additional sections, namely investor- and target-specific considerations and BEE. Our study include the following six criteria: (1) individual criterions which mainly focus on the sector experience and skills of the private equity investor, (2) investor- and target-specific considerations, (3) financial performance including growth, (4) management team, (5) primary product in the market and (6) BEE.

Individual sector insight criterions

The individual criterions include characteristics of the private equity investor. For example, superior investment insights are required if private equity investors expect superior returns. Gejadze, Giot and Schwienbacher (2017:259) indeed argue that private equity firm-level specialisation improves its ability to raise capital from its limited partners. A recent study revealed that an example of generic investment criteria can include high growth coupled by under-representation in public markets. (Lerner et al. 2016:8). When considering these aspects from the perspective of limited partners, that is, referring to the ability of the general partner to raise or set up the fund, Da Rin and Phalippou (2014:4) mention that one consideration is the characteristics and attributes of the

individual who manages the fund, rather than the private equity firm as a whole. The authors note that attributes such as personal experience in the industry and personal networks are important considerations.

By its very nature, private equity investors benefit from having inside information. Because the target company is privately owned and not listed on any public exchange, this practice is legal. However, the concept of insider trading could still have a significant effect on financial returns. Bodie et al. (2001:90) describe inside information as non-public knowledge that is held by persons with privileged access to such information. Brigham et al. (2016:586) state that insider trading takes place when either a buyer or seller trades based on privileged information.

Gejadze et al. (2017:260) conclude that the benefits brought by private equity firm-level specialisation outweigh the costs. Specialisation becomes especially beneficial as far as sector and geographic specialisation is concerned. Gejadze et al. (2017:261) state that experience accumulated from specialisation benefits a faster set-up of new funds and exiting of portfolio investments. Lerner et al. (2016:11) make a similar observation when stating that to identify the best investment opportunities the general partner must differentiate sectors. Limited partners must choose the general partner who is most skilled to do so.

This study proposes that having specialised industry insights could influence private equity investment decisions. It also proposes that the investment decision could be affected by the ability to appoint networked directors with the necessary expert credentials to the board of the target company.

Investor and target-specific considerations

The first focus is on investor-specific considerations, and more specifically the alignment of a target company with other portfolio companies. In this regard Goergen, Renneboog and Zhao (2019:152) raise the aspect of networked directors, who are defined as persons having 'direct or indirect connections to other corporate boards'. This link to the concept of conglomerates is closely linked to industry specialisation and networked directors. Brigham et al. (2016:577) describe conglomerates as a group of companies with unrelated products.

A study by Schickinger, Leitterstorf and Kammerlander (2018:278) suggests that private equity investors can create shareholder value by, for example linking individual portfolio companies into conglomerates, which creates synergies across the broader conglomerate. The viability of linking target companies into an existing conglomerate could potentially affect the investment decision. Put differently, the investment decision may not always be a stand-alone decision, but may be influenced by the broader investment portfolio. Le Nadant et al. (2018:240) have a similar view. They found that specialised private equity investors use their existing business networks to create more business

opportunities for portfolio companies. These opportunities can be achieved by refocusing the strategic activities of the target company (Wright, Gilligan & Amess 2009:9). However, Da Rin and Phalippou (2014:4) note that private equity investment teams often only manage 'loosely related assets' across which synergetic benefits cannot be achieved. It is argued that this actual example demonstrates the strategy of private equity investors to align portfolio companies and benefit from these synergies.

The second focus is on target-specific considerations and especially, the willingness of the target company to accept an outside shareholder. Lerner et al. (2016:14) observe that private equity investors are often sceptical about taking up a minority interest in a target company. However, within an emerging market, the founders of the company are generally sceptical about selling a majority stake.

In a study that aimed to understand the wealth creation and transfer aspects of private equity investment, Harford and Kolasinski (2014:893) found that private equity investors neither owned the majority of the target companies nor were they subsidiaries of other companies at the time of acquisition. These investments could include family-owned businesses. The second-most prominent category of target companies included companies that were subsidiaries of other companies before the acquisition.

Privately-owned companies, including family-owned ventures, are often owner-managed as opposed to having agents who manage the businesses. This position changes when private equity investment takes place. Schickinger et al. (2018) quote academic research that suggests that private equity investors find it challenging to invest in family-owned private businesses as they have different objectives, which could cause friction. For example, private equity investors may have a shorter investment horizon and be more profit-oriented than family-owned businesses. Le Nadant et al. (2018:238) indicate that private equity investors benefit when they can position themselves inside the target company, which can be achieved by appointing directors to the board. Some companies find it challenging to transition from being accountable only to themselves, to being accountable to a broader stakeholder base.

Capasso, Faraci and Picone (2014:638) introduced a concept called 'equity willingness', which is the willingness of a target private company to accept an outside equity investor. They argue that this matter is as important as the target's equity worthiness, which is the target's ability to meet the investor's other requirements. Schickinger et al. (2018:275) suggest that the possible reluctance of family-owned businesses to accept private equity investment is often associated with their 'aversion regarding socio-emotional wealth'. Within this context, socio-emotional wealth refers to the non-economic or non-financial utility that the current owners derive from their ownership, which includes personal reputation and social standing utility, for example.

Whilst the intention of this close involvement is mostly to add value through specialised expertise, as noted in previous studies, the motive to overcome information asymmetry and avoid a possible agency problem should also be considered. Schickinger et al. (2018:275) comment that empirical studies suggest that an 'owner-owner agency problem' could occur when the current shareholders retain a majority interest after private equity investor buy-in. Le Nadant et al. (2018:240) had similar findings and went so far as to state that private equity investors want to control the boards of portfolio companies. Whilst the concept of control seems to be important, Lerner et al. (2016:8) found that the performance of majority investments (where investors have control) is similar to minority investments.

These arguments raise questions regarding the ideal equity stake that the private equity investor should pursue. Is it necessary to gain control over the board? The arguments further raise questions about the desirability and potential value of follow-on rights.

Financial performance

Several concepts are included in this section, of which the first is growth. Private equity investors focus on companies operating within growth sectors (Lerner et al. 2016:8). Previous studies revealed that growth prospects are critically important. Block et al. (2019) and Schickinger et al. (2018:275) suggest that growth potential is probably of primary importance in the decision-making process. Within the South African context, Van Niekerk and Krige (2009:11) found that investment growth is the most critical driver of financial returns to private equity investors.

Wright et al. (2009:7) propose that although value is created occasionally by merely improving efficiencies, strong growth is the objective at other times. The authors argue that when substantial growth is the objective, incentivising the management team through equity holding becomes essential. Gompers et al. (2016:450) confirm that equity incentives form part of the financial engineering that private equity investors bring to their portfolio companies.

The second focus is on the ability to restructure the balance sheet of the target company. Pozen (2007:81) echoes general public sentiment by stating that private equity investors often achieve superior returns by only leveraging the target company after acquisition. If this is the case, it raises the possibility that the extent to which the target's balance sheet could be leveraged influences the investment decision. Gompers et al. (2016:450) categorise this as part of the financial engineering done by private equity investors, which is a crucial consideration in achieving superior financial returns.

Private equity investors typically seek to extract the maximum value of their investment at the exit point. Therefore, these investors are said to be exit-driven (Reynolds 2015:10). In this regard, the third focus is on the exit strategy. This topic could have been discussed in the previous section;

however, we link this to performance. In this regard Schickinger et al. (2018:275) mentioned that a private equity investment transaction could carry transaction costs, which in itself could result in minimum investment thresholds to be set and more significant transactions to be favoured. The authors further state that the absence of a defined exit route could be detrimental to the transaction.

Whilst previous studies agree that private equity investments have a longer-term nature, this reference seems to have different interpretations. It raises questions as to the actual tenure of private equity investments. It is also worth investigating the most likely exit routes for private equity investors in South Africa. Furthermore, there is a view that if private equity investors take on a longer investment tenure, a higher rate of return would be required to compensate for the lower investment liquidity and higher perceived investment risk (Lerner et al. 2016:11). The possible link between the required investment returns and planned investment tenures should also be investigated.

The fourth and final focus is on financial return expectations. When investment returns in North America and Europe are considered, private equity investments outperform investments in public companies (Harris, Jenkinson & Kaplan 2016). Although a paper presented by Missankov et al. (2008) is now dated, it is still a relevant point of reference. They suggest that the financial performance of private equity funds over 13 years, ending 2005, exceeded that of public investments by up to 18% per annum. More recently, the SAVCA (2018:27) reports that the pooled returns for private equity in South Africa are significantly higher than those achieved on public markets with an average difference of 7% over the 10 years ending 2018.

Attractive financial returns are a crucial consideration for private equity investment (Block et al. 2019; Dhochak & Sharma 2016; Schickinger et al. 2018:275). Wright et al. (2009) ask the question, 'Do private equity investors earn superior returns?' The authors propose that private equity investments return value to their investors by 'creating value within an investment'; 'by appropriating value from vendors by buying under-value'; or 'a combination of the two'. Put differently, private equity investors transform the target into a significantly more valuable business; they acquire the shares at a below market value price, or they use a combination of these methods. When attempting to understand how private equity investors in South Africa create value, financial returns are essential mechanisms to consider. The questions that arise are: 'How do private equity investors measure returns?'; 'What are the actual return expectations?', and 'How is investment opportunities evaluated financially?'

Considering the management team

Block et al. (2019) state that the track record of the incumbent management team is a crucial consideration of whether to invest. However, it is unclear which aspects of the track record are being considered. Gompers et al. (2016:451) note

that top management is often replaced either before or after investing. If this is the case, it suggests that private equity investors look for something very particular in the management team. Pozen (2007:85) states that private equity investors prefer that members of the executive management team of the target company hold a material equity interest, mentioning numbers of up to 20%. The findings by Gompers et al. (2016:450) are similar and they emphasise that private equity investors provide strong equity incentives to management teams of its portfolio companies. Incentives ensure that the executive team focuses on adding value for shareholders by avoiding the so-called agency problem. Le Nadant et al. (2018:240) confirm that equity incentives encourage managers of portfolio companies not to waste money.

Regarding early-stage private equity investment (i.e. the start-up phase), Dhochak and Sharma (2016:977) argue that the personality and experience of the entrepreneur are the most crucial considerations for venture capital investors to consider. If the track record and the general characteristics of the management team are regarded as essential investment considerations, it is appropriate to ask, 'Which general management characteristics are being considered and how important are these?'

Position of primary product in the market

It is argued that the primary use of the product or service provided by the target company influences investment decisions. Block et al. (2019) mention that the concept of 'value-added' becomes essential. In this sense, the target company provides a product or service that is complementary to the original product, in which case, the demand for the original product should be well understood. It could be that the target company has always had an excellent product, but did not have proper marketing channels. New marketing channels and technologies, such as e-commerce, allow small businesses to expand their sales rapidly and effectively to a broad target market. This growth, and further opportunities exploited by food companies, has attracted private equity investments (Daks 2017:11).

Dhochak and Sharma (2016:977) show that the products or services produced by the target company rank as one of the significant issues considered by private equity investors. The authors found that investors strongly consider product characteristics that lead to differentiation, such as a unique and patented nature of products.

Black economic empowerment

In South Africa, BEE potentially plays an important role where private equity investment decision-making is concerned. To this effect, Portmann and Mlambo (2013) suggest that BEE is an essential consideration in private equity investment in South Africa. The authors quote Missankov et al. (2006:56), who estimate that more than 90% of total private equity transactions in South Africa have a BEE element. Reynolds (2015:18) affirms this view by stating

that private equity investments in South Africa facilitate broad-based black economic empowerment (BB-BEE) shareholding and that many private equity transactions have a BB-BEE element. Dhochak and Sharma (2016:978) declare that institutional and regulatory environments are amongst the critical investment criteria to be considered, which elevate the aspect of BEE in South Africa.

Alessandri, Black and Jackson (2011:230) state that BEE transactions closely resemble corporate and social responsibility actions by corporate South Africa, which are encouraged by the South African government. These BEE transactions involve selling equity stakes to black investors or investor groups. Within this context, a BEE transaction intends to achieve social benefits. There may, however, also be potential economic gains, which include access to government contracts and access to other new markets. These, together with potential improved social capital, offer opportunities for new business.

Although BEE offers social and economic benefits, Alessandri et al. (2011:230) remark that BEE transactions are expensive. A BEE-driven private equity transaction becomes expensive when it causes distributions to shareholders, which results in less cash being retained in the business to fund growth. Critics highlight that only a handful of black people benefitted from BEE. Black investors or investor groups usually do not have the financial means to fund investments, which leads to a highly leveraged transaction that brings with it a significant financial risk. Alessandri et al. (2011:239) explain that during an average BEE transaction, 20% of issued shares are sold to a BEE investor. It is also suggested that some BEE transactions are executed at a premium, whilst others are executed at a discount. If true, it contradicts the previous notion that all private equity transactions are at a discount.

Within the context of the referenced research, it is appropriate to ask: 'What role does BEE play in private equity investment?'; 'Does this aspect attract different investment criteria?'

Summary of literature and research questions

With the purpose of the study in mind – to determine the critical criteria that present a challenge to private equity investment professionals when considering an investment in business ventures in South Africa, the literature review included six sub-sections of private equity investment. From the above review it is clear that numerous private investment criteria items are found in the literature. Furthermore, it can be argued that all the items are not equally important and that a list of many criteria items can be clumsy with little support in practice. To refine the research, the following research objectives are stated:

- To determine a list of criteria items that may be relevant to the South African context.
- To determine the relative importance of each of the above criteria items.

- To determine which of those individual criteria items 'belong together' by grouping them into sensible constructs.
- To determine the relative importance of each construct.

Research method

Methodological approach

A mixed-method approach was followed, including qualitative and quantitative research. The qualitative phase of the study aims to reach the first objective, to determine a list of criteria items that may be relevant in the South African context. This comprises the literature review as base and personal experience, especially experience in finance, to develop a questionnaire that includes a list of individual criteria-items that may be relevant in the South African context. The quantitative phase was performed to reach the second, third and fourth objectives: to determine the relative importance of each criteria item, group the individual criteria items together into constructs and to determine the relative importance of each construct, respectively. In this regard, exploratory factor analysis was applied to reduce the number of criteria-items into constructs. Descriptive statistics was used to rank the individual items and the constructs according to their relative importance.

Measuring instrument

The research design of this study aligns with the designs applied by Dhochak and Sharma (2016:964–983) and Mishra, Bag and Misra (2017:52–68) whilst studying the investment criteria used by private equity investors in India.

A questionnaire was developed to collect data from the participants. Section A of the questionnaire collected demographic data from the participants. The qualitative part of the study includes the design of Section B of the questionnaire. The researchers designed this part of the questionnaire primarily for the purpose of this research and based the questions on the secondary literature research detailed in the literature review section. Care was taken to ensure that the secondary literature studies were relevant to the purpose and objectives of this study, but with the caveat that these literature studies were done in North America, Europe and Asia, where different economic conditions prevail. A content analysis was done to a more comprehensive literature review than the one presented in this article. A manual process was preferred to code words and phrases as the literature may contain a number of synonyms. From this coding a number of questions were developed and the researchers made sure that all six sub-sections in the literature review were covered. Section B included 51 statements (individual criteria-items/components) to determine the critical criteria used by private equity investors when making investment decisions. Table 1 exhibits the 51 individual criteria items. This list accomplishes the first research objective.

TABLE 1: Survey questionnaire: Descriptive statistics ($N = 44$).

Component (statement)	Mean	SD
1. How necessary is it to have existing industry-specific insights (e.g. in agro-processing) when considering an investment opportunity in that sector?	3.41	0.787
2. Being recognised as a sector specialist (e.g. in agro-processing) improves my ability to raise funds from limited partners.	3.34	0.776
3. Limited partners are more likely to invest in the fund I manage if I have a demonstrable track record in the industry in which the fund will invest.	3.66	0.526
4. Having an existing investment track record in a specific industry (e.g. agro-processing) assists with efficiently concluding the transaction.	3.32	0.639
5. Having an investment track record in a specific industry (e.g. agro-processing) assists in identifying investment opportunities.	3.39	0.722
6. I am generally more confident in my ability to invest successfully in industries that I am familiar with.	3.41	0.658
7. Having specialised industry expertise (e.g. in agro-processing) assists in the due diligence process as pertinent matters are more readily identified.	3.70	0.509
8. I am generally keen to consider investing in agro-processing.	3.43	0.728
9. Industry specialisation (e.g. in agro-processing) is necessary to achieve superior investment returns.	2.39	0.993
10. Sector specialisation narrows down investment opportunities that affect the fund performance adversely because of associated opportunity costs (taking too long to find investable assets).	2.57	0.661
11. Synergetic benefits with existing portfolio companies are an important investment consideration.	2.45	1.022
12. The fund I am involved with is more likely to invest if it obtains a controlling interest in the target company through the investment.	2.57	1.087
13. The fund I am involved with is more likely to invest if I can influence board decisions after investing by having representation on the board of the target company.	3.77	0.424
14. It is more difficult to negotiate a transaction when the target company/business is family owned.	2.55	0.848
15. I prefer to avoid investment opportunities where the target company is family owned.	1.48	0.628
16. I am generally keen to invest in family-owned businesses.	3.07	0.789
17. I found that the business objectives of family-owned businesses differ from those that are not family owned.	2.89	0.655
18. The intentions of co-shareholders are important to consider.	3.89	0.321
19. Having the ability to significantly influence board decisions makes it possible to achieve superior financial returns.	3.48	0.590
20. The mandate of the fund I am involved with stipulates that the boards of the portfolio companies must be made up of suitably qualified business professionals.	3.00	0.915
21. Top management of the target company is often changed soon after investing.	1.98	0.762
22. I am generally in favour of providing share incentives in the target company to top management of the target company.	3.68	0.471
23. The fund I am involved with is an active investor.	3.52	0.762
24. I prefer to invest in target companies that recently showed strong financial performance.	3.30	0.668
25. The prospect to grow revenue of the target company is an important investment criterion.	3.84	0.370
26. The prospect to reduce operating costs of the target company is an important consideration.	2.70	0.632
27. The prospect to cut operating costs is more important than the prospect to grow revenue.	1.48	0.549
28. The prospect to grow revenue is more important than the prospect to cut costs.	3.61	0.538
29. Target companies that have assets that can be leveraged with additional debt are generally more attractive investment options.	2.77	0.711
30. The prospect of selling surplus assets after investing and using the proceeds to declare a special dividend is an attractive investment strategy.	2.27	0.845
31. Improving productivity in the target company is an important consideration.	3.45	0.663
32. The target company achieving an optimal capital structure through the investment we make is an important investment consideration.	3.52	0.505

Table 1 continues on the next column→

TABLE 1 (Continues...): Survey questionnaire: Descriptive statistics ($N = 44$).

Component (statement)	Mean	SD
33. Having a likely exit strategy in mind is important when making the investment decision.	3.66	0.680
34. The net asset value, as stated in the most recent annual financial statements, is generally a good indication of the market value of the target company.	1.52	0.762
35. I would generally not pay a premium to the recorded net asset value per share.	1.77	0.803
36. I generally use the discounted cash flow method when valuing the target company.	2.95	0.806
37. Receiving annual cash dividends from the investment is more important than achieving capital gains.	1.80	0.734
38. The prospect of annual cash dividends is a crucial investment consideration.	2.45	0.848
39. Achieving capital gains is more important than receiving annual cash dividends.	3.18	0.786
40. The anticipated return on investment, consisting of capital growth and dividends, is the most important investment consideration.	3.82	0.446
41. Ultimately, capital gains on exit of the investment are the principal source of superior returns.	3.61	0.655
42. The ability to generate free cash available for distribution to shareholders is more important than generating high operating profits.	2.82	0.971
43. High financial leverage introduces unacceptable risk and disqualifies the investment opportunity.	2.43	0.789
44. The competence of the incumbent management team is the most important investment consideration.	3.45	0.663
45. The proven demand for the product being manufactured is the most important investment consideration.	3.05	0.371
46. I am more likely to invest when the target company produces highly innovative products even though demand for the product is yet to be proven.	1.68	0.674
47. Understanding consumer trends is an important consideration when making investment decisions.	3.82	0.390
48. I will be reluctant to invest if the target company cannot export its products.	1.66	0.713
49. The BEE status of the target company is a crucial investment criterion.	2.48	0.876
50. I am keen to invest in companies not complying with BEE codes as I will bring the necessary BEE compliance to the company.	2.48	1.023
51. Complying with BEE codes is considered to be a competitive advantage.	2.98	0.628

SD, standard deviation; BEE, black economic empowerment.

The researchers formulated statements for each of the sub-sections identified in the literature review. The 51 statements were closed-ended, and a four-point Likert scale was used to rate the responses with the options, 1 = 'Not at all', 2 = 'To a small extent', 3 = 'To a moderate extent' and 4 = 'To a large extent'. The statements shown in Table 1 also exhibit the mean and standard deviation of how each question was answered.

Statements 1 to 10 cover the literature under the heading 'Individual sector insights criteria' to determine the importance of industrial specific knowledge from the private equity investment expert. Statements 11–23 and 33 concern 'Investor and target specific considerations', 25–32 and 34–43 concern 'Financial performance'; Statement 44 concerns 'Considering the management team'; Statements 45–48 concern 'Position of primary product in the market', and the researcher intuitively added questions to cover topics such as 'BEE' that is unique to South Africa in Statements 49–51.

Population and sample

This study focused on individual private equity investment professionals who are employed by investment firms that are

registered with SAVCA. These professionals participated in their personal capacity as private equity investment experts and not as employees of any specific investment firm.

The SAVCA 2017 Members' Directory records the names of 106 full member firms (SAVCA 2017). The personal email addresses of 75 private equity investment professionals were obtained from the SAVCA 2017 Members' Directory, which formed a convenient sample for the study. In total, 44 responded with a response rate of approximately 60%.

Analysing primary data

Data from the completed questionnaires were initially captured on an Excel spreadsheet after which it was further analysed by the latest SPSS software. This quantitative data from Section B was first analysed descriptively to establish the mean and standard deviation of each of the 51 components. Exploratory factor analysis was applied to determine which of those individual criteria items 'belong together'. Therefore, the components were loaded onto four initial constructs through initial exploratory factor analysis. These components were evaluated statistically for sampling adequacy using the Kaiser-Meyer-Olkin (KMO) test and for sphericity using Bartlett's test. Kaiser-Meyer-Olkin test results in the range of 0.60 to 0.70 are considered mediocre to good, which are acceptable for analysis (Howard 2016:52).

Subsequently, Cronbach's alpha was used to test for construct reliability. Reliability refers to the ability of the instrument to measure consistently. Cronbach's alpha indicates internal consistency of the construct (reliability), which it expresses as a number between zero and one (Tavakol & Dennick 2001:53). Depending on the construct tested, different results could be deemed to be appropriate. For example, Field (2009:675) states that whilst a value of 0.8 is appropriate for an intelligence test, a value of 0.7 is acceptable for ability tests. The author further notes that when testing psychological constructs, values below 0.7 are obtained because the constructs are diverse.

It may be challenging to get an acceptable Cronbach's alpha value whilst testing a construct with a few components. Pallant (2010:100) suggests that for small numbers, for example, less than 10, the researcher may opt to report the mean inter-item correlation. Clark and Watson (1995:309–319) explain that a mean inter-item correlation between 0.15 and 0.55 is acceptable. Therefore, this study used the mean inter-item correlation.

Finally, to determine each of the individual criteria items' and the newly found constructs' relative importance, descriptive statistics (mean and standard deviation) was calculated where the mean values were used to rank them.

Research findings

Demographic data

Section A of the questionnaire collected demographic data from the participants. The first question focuses on the role

of participants in their respective organisations. This information is essential as it shows that participants occupy senior decision-making positions, which adds credibility to their responses and the study. Based on the qualitative information obtained, the respondents were categorised as executive (important decision-makers, but not directly involved in the investment negotiation process) or investment principals (directly involved in the investment process). In summary, 53.6% of respondents were classified as investment principals, whilst 46.4% were classified as executives. Further demographic data from the questionnaire reveals that 67.4% of the 44 participants had more than 5 years' experience, and that 37.2% have been in their current positions for more than 5 years.

Criteria used by private equity investors when making investment decisions

The results of the 51 components in Section B of the questionnaire, which tested the views of the participants of how they approach their private investments, are shown in Table 1. The descriptive statistics mean value and standard deviations are shown for each component. The second objective is hereby accomplished as this table implies that, higher the individual criteria items' mean values, the higher is its relative importance.

Exploratory factor analysis

Exploratory factor analysis was used to analyse the 51 components of Section B of the survey questionnaire. A principal component analysis extraction method was used with Oblimin rotation to reduce the data from the 51 components to a more manageable number of factors for further analysis. To reach the third objective the results of the initial exploratory factor analysis were considered against the qualitative research detailed in the literature section. The extracted components were labelled according to the following four constructs: (1) Ability to identify investment opportunities, (2) Realising value, (3) Target company characteristics, and (4) Making an impact on the target company. As this classification was not yet crystal clear, further factor analysis was performed on the items loading under each of these four factors. The results are discussed below.

Ability to identify investment opportunities

The components (survey questions) loaded under this factor are detailed in Table 2. Each component's number as it was in the questionnaire is shown on the left of the table, with the subscript that indicates each component's overall ranking as from Table 1 (Second objective). Note that the components are mostly from statements one to 10 in the questionnaire that focuses on specialised sector insight.

The KMO measure of sampling adequacy was applied to test the suitability of the data for factor analysis. Thereafter, Bartlett's test of sphericity was applied to test for redundancy amongst variables to summarise the data with some factors

TABLE 2: Ability to identify investment opportunities.

Kaiser-Meyer-Olkin (KMO) and Bartlett's test	Result
Kaiser-Meyer-Olkin test	0.630
Bartlett's test of sphericity	
Approximate chi-square	159.842
df	55
Sig.	0.000
Components for factor loading (N = 11): Capabilities:	
1 ₁₈ How necessary is it to have existing industry-specific insights (e.g. in agro-processing) when considering an investment opportunity in that sector?	
Internal	0.806
External	-
4 ₂₂ Having an existing investment track record in a specific industry (e.g. agro-processing) assists efficiently concluding the transaction.	
Internal	0.804
External	-
2 ₂₁ Being recognised as a sector specialist (e.g. in agro-processing) improves my ability to raise funds from limited partners.	
Internal	0.804
External	-
3 ₈ Limited partners are more likely to invest in the fund I manage, if I have a demonstrable track record in the industry in which the fund will invest.	
Internal	0.681
External	-
5 ₂₀ Having an investment track record in a specific industry (e.g. agro-processing) assists identifying investment opportunities.	
Internal	0.508
External	-
47 ₃ Understanding consumer trends is an important consideration when making investment decisions.	
Internal	-0.346
External	-
18 ₁ The intentions of co-shareholders are important to consider.	
Internal	-
External	-0.719
7 ₆ Having specialised industry expertise (e.g. in agro-processing) assists in the due diligence process as pertinent matters are more readily identified.	
Internal	-
External	-0.651
6 ₁₈ I am generally more confident in my ability to invest successfully in industries that I am familiar with.	
Internal	-
External	0.634
9 ₄₂ Industry specialisation (e.g. in agro-processing) is necessary to achieve superior investment returns.	
Internal	-
External	0.539
10 ₃₄ Sector specialisation narrows down investment opportunities that adversely affect the fund performance because of associated opportunity costs (taking too long to find investable assets).	
Internal	-
External	-0.478
Descriptive analysis of constructs	
Mean	
Internal	3.42
External	3.39
Standard deviation	
Internal	0.51
External	0.37
Cronbach's alpha and inter-item correlation	
Cronbach's alpha	
Internal	0.791
External	0.543
Cronbach's alpha standardised	
Internal	0.802
External	0.627

Table 2 continues on the next column→

TABLE 2 (Continues...): Ability to identify investment opportunities.

Kaiser-Meyer-Olkin (KMO) and Bartlett's test	Result
Number of components†	
Internal	5
External	3
Inter-correlations	
Internal	0.448
External	0.360

†, Internal capabilities – negative component eliminated; External capabilities – positive components eliminated.

only. As shown in Table 2, the results of KMO test suggest that the data is sufficient for analysis. The Bartlett's test suggests that there is sufficient correlation between the items to do a factor analysis.

Eigenvalues were calculated to determine the number of factors included under the factor's ability to identify investment opportunities. In the construct of the ability to identify investment opportunities, two factors were identified and renamed to 'internal capabilities' and 'external capabilities', which explain 29.5% and 17.6% of the variance, respectively. The descriptive statistics are also exhibited, of which the construct mean can be used to determine a construct's relative importance. Finally, the Cronbach's alpha and the mean inter-item correlation were used to test the construct reliability as shown in Table 2. Reliability for both constructs is confirmed.

Tables 1-A1, 2-A1 and 3-A1 are similar to Table 2 above. To improve the readability of the article, these tables are included in the Annexure. Table 1-A1, realising value includes two factors, namely 'dividend and capital gains' and 'creating and capturing value'. Table 2-A1, target company characteristics include four factors, namely 'improving profitability', 'BEE characteristics', 'management' and 'family ventures'. Table 3-A1, making an impact on the target company includes only one factor, namely 'active participation'. Another factor, named 'incentivisation' was also identified, but is not shown because it only included two components. Note that in all cases, the KMO tests suggest that the data is sufficient for analysis; the Bartlett's test suggests that variable redundancies are possible and that the reliability of all factors was confirmed.

Table 3 below summarises the descriptive statistics from Tables 2, 1-A1, 2-A1 and 3-A1 of all nine factors that were identified from the four initial constructs. To reach the fourth objective, the mean score of the factors can be used to compare their relative importance, that is, higher the mean value, the higher is a construct's relative importance.

Discussion and conclusions

The first part of this section focuses on the second objective, the prioritisation of the 51 individual components as shown in Table 1. Literature review being the basis to establish the questionnaire (first objective), these individual components

TABLE 3: Descriptive statistics of factors.

Factor	Mean	SD
The ability to identify investment opportunities: Fund manager internal abilities.	3.42	0.51
The ability to identify investment opportunities: Fund manager external abilities.	3.39	0.37
Realising value: Creating and capturing value.	3.25	0.43
Target company characteristics: Family ventures.	3.15	0.50
Making an impact on the target company: Active participation.	3.01	0.51
Target company characteristics: Management.	2.89	0.68
Target company characteristics: BEE.	2.59	0.59
Realising value: Dividends and capital gains.	2.12	0.64
Target company characteristics: Profitability.	1.93	0.33

SD, standard deviation; BEE, black economic empowerment.

could be easily linked to previous studies. The mean scores of the component were used to prioritise them. The five components with the highest mean scores in Table 1 are discussed below. Component 18, 'the intentions of co-shareholders are important to consider', has the highest mean (3.89). This finding corresponds with Capasso et al. (2014:638), who introduced a concept called 'equity willingness', which is the willingness of a target private company to accept an outside equity investor. That includes, for example, Schickinger et al.'s (2018:275) view that the possible reluctance of family-owned businesses to accept private equity investment is often associated with their 'aversion regarding socio-emotional wealth'. Component 25, 'the prospect to grow revenue of the target company is an important investment criterion', has the second highest mean (3.84). This corresponds with the literature such as, Block et al. (2019), Daks (2017:4), Lerner et al. (2016:8), Schickinger et al. (2018:275) and Van Niekerk and Krige (2009:11) that emphasised growth prospects are critically important. Notably, the study of Block et al. (2019) found that 'revenue growth' as the most important investment criteria. Jointly, at third position are Component 40, 'the anticipated return on investment, consisting of capital growth and dividends, is the most important investment consideration', and Component 47, 'understanding consumer trends is an important consideration when making investment decisions', both with mean scores of 3.82. These statements' popularities are confirmed by the literature that attractive financial returns are a crucial consideration for private equity investment (Dhochak & Sharma 2016; Schickinger et al. 2018:275), and Dhochak and Sharma's (2016:977) study that shows the products or services produced by the target company rank as one of the significant issues that private equity investors consider, respectively. Both these statements' importance is in-line with Muhammad et al. (2017) who found that the 'desire for success' is the highest rated individual investment criteria. The fifth highest mean is Component 13, 'the fund I am involved with is more likely to invest if I can influence board decisions after investing by having representation on the board of the target company'. This corresponds with Le Nadant et al. (2018:238) who indicated that private equity investors benefit when they can position themselves inside the target company, which can be achieved by appointing directors to the board.

The component with the lowest mean (1.48) is Number 15, 'I prefer to avoid investment opportunities where the target company is family owned'. The result implies that family-owned target companies are definitively considered as investment opportunities. Component 27 also has a mean score of only 1.48, which is 'the prospect to cut operating costs is more important than the prospect to grow revenue'. The result means that the prospect to grow revenue is more important than the proposition to cut operating costs. This component is opposite to Component 28 (i.e. the prospect to grow revenue is more important than the prospect to cut costs). The third lowest mean score is found with Component 34, 'the net asset value, as stated in the most recent annual financial statements, is generally a good indication of the market value of the target company'. The result makes it clear that investors do not consider the net asset value as a good indicator of the market value of the target company. The fourth is Component 48, 'I will be reluctant to invest if the target company cannot export its products'. The result means that the inability to export its products does not disqualify the investment opportunity. Lastly, the fifth lowest mean score is found with Component 46, 'I am more likely to invest when the target company produces highly innovative products even though demand for the product is yet to be proven'. The result means that investors are likely to avoid investment opportunities where the demand for the product has not been proven yet.

The second part focuses on the factorization of individual investment criteria into sensible constructs (third objective) as exhibited in Tables 2, 1-A1, 2-A1 and 3-A1 and the prioritisation thereof as summarised in Table 3 (fourth objective). From the construct, 'the ability to identify investment opportunities', the factors 'fund manager's internal abilities' and 'fund manager's external abilities' have the highest overall mean values out of the nine factors, 3.42 and 3.39, respectively. The internal factor includes aspects such as the private equity investor's insights and an investment track record in the specific industry and being a sector specialist. The external factor emphasises the ability to realise the co-shareholders' intentions and having specialised industry expertise. To conclude the aforementioned, the factors cover the reputation, skills and insights displayed/possessed by the investor, which allow the investor to make superior investment decisions.

The construct 'realising value' yielded two factors, creating and capture value (ranked third; mean = 3.25) and dividends and capital gains (ranked eight; mean = 2.12). This construct covers the sources of investment returns, including: investing at the right price; realising capital gains and receiving dividends, and having a likely exit strategy at the time of making the investment. Realising capital gains was identified as the primary source of realising value. The requirement to receive annual cash dividends was identified as less important. Having a likely exit strategy in mind at the time of investing was also, generally, an important aspect.

The construct 'target company characteristics' has four factors, family ventures, management, BEE and profitability

with mean values of 3.15, 2.89, 2.59 and 1.93, respectively. Consequently, the results showed that South African investors are comfortable investing in family-owned businesses (ranked fourth) and, BEE characteristics of the target company as a factor (ranked seventh out of nine factors) was not rated as very important relatively to the other characteristics. This low ranking corresponds with the relative unimportance of the three BEE individual statements' rankings. They are, 'Complying with BEE codes is considered to be a competitive advantage', 'I am keen to invest in companies not complying with BEE codes as I will bring the necessary BEE compliance to the company' and 'The BEE status of the target company is a crucial investment criteria', which were ranked 28th, 37th and 38th out of 51, respectively. Finally, the competence of the management team is substantially more important than the profitability of the target company.

Lastly, the construct 'making an impact on the target company' yielded one factor – active participation, with a mean value of 3.01, which implies that South African private equity investors are active and want to make an impact contributing at the target company level. However, contrary to popular belief, they do not intend taking over control of the target company.

The intent of the study was to reflect on existing investment criteria practised by the South African private equity investment professionals. The institutional theory was selected to conceptualise this study as its emphasis is on the unique structures, rules and norms within South African. In this regard, this study contributes to the theory that it prioritised the 51 individual investment criteria that were found in the literature. Unique social norms that are important criteria for the private equity investment professions were indicated, for example the intentions of co-shareholders or the prospect to grow revenue through the target company are important investment criterion for them, whilst criteria such as avoiding family owned companies are less important to them.

Final conclusion

The purpose of the study was to determine the criteria used by private equity investors when making investment decisions. An analysis of the collective view of these professionals was helpful to prioritise the most critical, decision-making criteria. Because of South Africa's unique socio-economic characteristics, it cannot be assumed that the results of international studies would apply to South Africa. Therefore, there is uncertainty about the relevance aspects seen to be essential and posing challenges when private equity investment is considered.

Through literature research followed by qualitative and quantitative empirical approaches, this study identified the critical criteria that private equity investors in South Africa use when making investment decisions. The study revealed that the most important, individual, critical criteria component is the intension of co-shareholders, followed by the prospects of growing revenue through the target company. From the results of the factor analysis, the most important factors are firstly the internal, and secondly the

external abilities of the fund manager to identify investment opportunities, which cover the reputation, skills and insights displayed/possessed by the investor. If these criteria are not achieved satisfactorily, investments will not be made. The investors' ability to identify favourable investment opportunities and aspects associated with this knowledge were identified as extremely important.

Within the conceptual paradigm that the institutional environment may influence investment criteria, the value of the study is that various stakeholders can benefit from a better understanding of the priority of aspects that affect the decision of private equity investors to invest in South Africa. For example, a socio-economic matter unique to South Africa, the BEE status of the target company, is relatively not an important investment criterion to most of the private equity investors. This study may further benefit companies wanting to attract funding from private equity investors. This prioritised list will be an aid to organise themselves to become attractive investment opportunities. Furthermore, South African private equity investment professionals can use the results of the study to assess their current practices. This list will be an aid to benchmark their investment decision-making practices against the collective view of their peers. Finally, a limitation of the study is that only 75 of the 106 registered SAVCA members were included in the study's sample.

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Competing interests

The authors have declared that no competing interest exist

Authors' contributions

The content of this article was extracted from the MBA dissertation of A.H. to whom the degree was awarded in 2020. I.N. was the supervisor to the MBA study. M.O. assessed the study and drafted the article.

Ethical considerations

Approval to conduct the study was received from the Economic and Management Sciences Research Ethics Committee (EMS-REC) Potchefstroom Campus, North-West University, NWU-01379-19-A4.

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Data availability

Data sharing is not applicable to this article as no new data were created or analysed in this study.

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Appendix 1 starts on the next page →

Appendix 1

TABLE 1-A1: Realising value.

KMO and Bartlett's test	Result	Dividends and capital gains	Creating and capturing value
KMO	0.610	-	-
Bartlett's test of sphericity			
Approximate chi-square	233.979	-	-
df	66	-	-
Sig.	0.000	-	-
Component for factor loading (N = 12)			
39 ₂₄ Achieving capital gains are more important than receiving annual cash dividends.	-	-0.881†	-
38 ₃₉ The prospect of annual cash dividends is a crucial investment consideration.	-	0.822	-
37 ₄₅ Receiving annual cash dividends from the investment is more important than achieving capital gains.	-	0.779	-0.310
41 ₁₀ Ultimately capital gains on exit of the investment are the principal source of superior returns.	-	-0.714†	-
11 ₃₉ Synergetic benefits with existing portfolio companies is an important investment consideration.	-	0.699	-
42 ₃₁ The ability to generate free cash available for distribution to shareholders is more important than generating high operating profits.	-	0.682	-
36 ₂₉ I generally use the discounted cash flow method when valuing the target company.	-	-0.494	-
34 ₄₉ The net asset value, as stated in the most recent annual financial statements, is generally a good indication of the market value of the target company.	-	-	-0.716†
35 ₄₆ I would generally not pay a premium to the recorded net asset value per share.	-	-	-0.710†
30 ₄₃ The prospect of selling surplus assets after investing and using the proceeds to declare a special dividend is an attractive investment strategy.	-	-	0.626
40 ₃ The anticipated return on investment, consisting of capital growth and dividends, is the most important investment consideration.	-	-	0.511
33 ₈ Having a likely exit strategy in mind is important when making the investment decision.	-	-	0.245
Descriptive analysis of constructs			
Mean	-	2.12	3.25
Standard deviation	-	0.64	0.43
Cronbach's alpha and inter-item correlation			
Cronbach's alpha	-	0.730	0.540
Cronbach's alpha standardised	-	0.730	0.551
Number of items	-	7	5
Inter-correlations	-	0.278	0.197

KMO, Kaiser-Meyer-Olkin.

†, Components 34, 35, 39 and 41 were reversed.

TABLE 2-A1: Target company characteristics.

KMO and Bartlett's test	Result	Improving profitability	BEE characteristics	Management	Family ventures
KMO	0.455	-	-	-	-
Bartlett's test of sphericity					
Approximate chi-square	431.008	-	-	-	-
df	210	-	-	-	-
Sig.	0.000	-	-	-	-
Components for factor loading (N = 21)					
31 ₁₅ Improving productivity in the target company is an important consideration.	-	-0.753	-	-	-
45 ₂₆ The proven demand for the product being manufactured is the most important investment consideration.	-	0.697†	-	-	-
27 ₅₀ The prospect of cutting operating costs is more important than the prospect to grow revenue.	-	-0.692	-	-	-
48 ₄₈ I will be reluctant to invest if the target company cannot export its products.	-	-0.593	-	-	-
28 ₁₀ The prospect to grow revenue is more important than the prospect to cut costs.	-	0.550†	-	-	-
46 ₄₇ I am more likely to invest when the target company produces highly innovative products even though demand for the product is yet to be proven.	-	-0.500	-	-	-
25 ₂ The prospect to grow revenue of the target company is an important investment criterion.	-	0.396†	-	-	-
26 ₃₃ The prospect to reduce operating costs of the target company is an important consideration.	-	-0.371	-	-	-
51 ₂₈ Complying with BEE codes is considered to be a competitive advantage.	-	-	0.765	-	-
50 ₃₇ I am keen to invest in companies not complying with BEE codes as I will bring the necessary BEE compliance to the company.	-	-	0.670	-	-
43 ₄₁ High financial leverage introduces unacceptable risk and disqualifies the investment opportunity.	-	-	0.598	-	-
49 ₃₈ The BEE status of the target company is a crucial investment criterion.	-	-	0.576	-	-
20 ₂₇ The mandate of the fund I am involved with stipulates that the boards of the portfolio companies must be made up of suitably qualified business professionals.	-	-	-	-0.778	-
17 ₃₀ I found that the business objectives of family-owned businesses differ from those that are not family owned.	-	-	-	0.739†	-
29 ₃₂ Target companies that have assets which can be leveraged with additional debt is generally a more attractive investment option.	-	-	-	-0.700	-
44 ₁₅ The competence of the incumbent management team is the most important investment consideration.	-	-	-	0.490†	-
16 ₂₅ I am generally keen to invest in family-owned businesses.	-	-	-	-	0.881
24 ₂₃ I prefer to invest in target companies that recently showed strong financial performance.	-	-	-	-	0.661
8 ₁₇ I am generally keen to consider investing in agro-processing.	-	-	-	-	0.645
15 ₅₀ I prefer to avoid investment opportunities where the target company is family owned.	-	-	-	-	-0.590†
14 ₃₆ It is more difficult to negotiate a transaction when the target company or business are family owned.	-	-	-	-	-0.485†
Descriptive analysis of constructs					
Mean	-	1.93	2.59	2.98	3.15
Standard deviation	-	0.33	0.59	0.68	0.50
Cronbach's alpha and inter-item correlation					
Cronbach's alpha	-	0.698	0.669	0.669	0.705
Cronbach's alpha standardised	-	0.718	0.688	0.670	0.711
Number of items	-	8	4	4	5
Inter-correlations	-	0.241	0.355	0.337	0.330

BEE, black economic empowerment; KMO, Kaiser-Meyer-Olkin.

†, Components 14, 15, 17, 25, 28, 44 and 45 were reversed.

TABLE 3-A1: Making impact on the target company.

KMO and Bartlett's test	Result	Active participation
KMO	0.618	-
Bartlett's test of sphericity		
Approximate chi-square	-	60.868
df	-	21
Sig.	-	0.000
Components for factor loading (N = 7)		
23 ₁₂ The fund I am involved with is an active investor.	-	0.831
12 ₃₄ The fund I am involved with is more likely to invest if it obtains a controlling interest in the target company through the investment.	-	0.723
19 ₁₄ Having the ability to significantly influence board decisions makes it possible to achieve superior financial returns.	-	0.683
32 ₁₂ The target company achieving an optimal capital structure through the investment we make is an important investment consideration.	-	0.595
21 ₄₄ Top management of the target company is often changed soon after investing.	-	0.510
22 ₇ I am generally in favour of providing share incentives in the target company to top management of the target company.†	-	-
13 ₅ The fund I am involved with is more likely to invest if I can influence board decisions after investing by having representation on the board of the target company.†	-	-
Descriptive analysis of constructs		
Mean	-	3.01
Standard deviation	-	0.51
Cronbach's alpha and inter-item correlation		
Cronbach's alpha	-	0.686
Cronbach's alpha standardised	-	0.707
Number of items	-	5
Inter-correlations	-	0.325

KMO, Kaiser-Meyer-Olkin.

†, Components 13 and 22 were initially grouped as a construct because the Eigenvalue > 1. However, further analysis shown a Cronbach's alpha score of 0.348 which is too low to recognise it as a factor.