Can The Private Equity Industry Contribute To Economic Recovery Following An Economic Crisis?

DISSERTATION

A dissertation submitted in partial fulfilment of the requirements for the Masters in Business Administration and the National College of Ireland

Submitted by

Eoghan O'Mahony

Submitted to the National College of Ireland, September 2013

For Karen

Abstract

The private equity has seen significant growth over the last 20 years, and as such is no longer considered an alternative investment, although the industry remains very misunderstood. While much research has been conducted into private equity, this has been done at the firm and investment level, looking at finances and returns from investments. Very little research has been performed to look at private equity and the economy. The aim of this dissertation is to address this issue, through looking at the contributions that private equity can make to an economy, especially one that has or is suffering an economic crisis.

The approach used to reach this objective was the use of qualitative research, specifically semi-structured interviews with private equity executives. Based on the research it was determined that private equity can make a contribution to the economy, through a number of avenues such as rebasing values of assets, removing distressed loans from banks balance sheets and also negotiation solutions with borrowers. This research also aims to set the foundations for future research into the macroeconomic effects and contributions of private equity.

Acknowledgements

I would like to take the opportunity to thank my Supervisor, Dr. Colette Darcy, for her advice, attention and guidance for the preparation of this dissertation. I would also like to thank the participants in the interview process. I am very grateful for the precious time given to me for my research. A million thanks to Karen for all the help while working on this research.

Submission of Thesis and Dissertation

National College of Ireland
Research Students Declaration Form
(Thesis/Author Declaration Form)

Name: Eoghan O'Mahony

Student Number: 11101237

Degree for which thesis is submitted: Masters in Business Administration

Material submitted for award

(a) I declare that the work has been composed by myself.

(b) I declare that all verbatim extracts contained in the thesis have been distinguished by quotation marks and the sources of information specifically acknowledged.

(c) My thesis will be included in electronic format in the College Institutional Repository TRAP (thesis reports and projects)

(d) ***Either*** *I declare that no material contained in the thesis has been used in any other submission for an academic award.

Or *I declare that the following material contained in the thesis formed part of a submission for the award of Masters in Business Administration from the National College of Ireland, Mayor Street, Dublin 1.

Signature of research student: ______________________________

Date: ____________________

TABLE OF CONTENTS

List of Tables

List of Figures

List of Abbreviations

ABS	Asset-Backed Securities
BVCA	British Private Equity & Venture Capital Association
CDO	Collateralized Debt Obligation
CMBS	Commercial Mortgage-Backed Securities
EU	European Union
EVCA	European Private Equity & Venture Capital Association
GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monetary Fund
IPO	Initial Public Offering
LP	Limited Partnership
LBO	Leveraged Buyouts
MBO	Management Buyout
NAMA	National Asset Management Agency, Ireland
NPL	Non Performing Loan
NVCA	National Venture Capital Association
PE	Private Equity
RMBS	Residential Mortgage-Backed Securities
SEC	U.S. Securities and Exchange Commission
SOX	Sarbanes-Oxley Act
VC	Venture Capital

1. Introduction

This chapter will give a brief introduction to this dissertation, by providing a context for the placement of the research both in terms of the literature but also why this topic is one worthy of research. An overview of the private equity industry will be given, followed by the research objectives and contributions. A description of the structure used in this dissertation is also laid out.

1.1. The Private Equity Industry

The Private Equity (PE) industry is one which has been developing over the last three decades, and is a completely dynamic and evolving industry. There is an assumption that when one is referring to PE, it is understood that you are speaking of venture capital investment in a business or company. Kaplan and Stromberg (2008) refer to a prevailing taxonomy in the US whereby the term PE is used as a synonym for leveraged buyouts (LBO), whereby a small portion of equity and a larger portion of financed debt are used to purchase a controlling stake in a business or organisation. Similarly PE is referred to as an alternative assets class used by large institutions and endowment managers, the term alternative coming from the historical minority investments used in the industry.

PE dates back as early as the 1930's with the advent of Angel investing, typically referred to as Venture capital firms, but it was in the 1970's when some of the largest PE firms in the world were formed, namely KKR, Thomas Lee Partners and Warburg Pincus. Over the last quarter of a century, the capital available to PE firms has provided higher returns than the greatest expectations. As of the end of 2009, the estimated funds and assets under management by PE firms was approximately \$2.5trn (Talmor & Vasfari, 2011). The industry is also largely misunderstood, and in print media the industry is often referred to as 'vulture capitalism'. A vulture fund is a hedge or investment fund that buys a nation's debt, struggling companies or seriously distressed assets at knockdown prices, with a view to making significant profits in the short term through downsizing, asset stripping or immediate fire-sales (Jones, 2010). This is the trend which is developing in Europe and the US. In a report by MAN Investments (2008), the market for distressed securities was particularly attractive for investment by PE and hedge funds, as the implicit value of the assets was often significantly higher than the market value being attained. Many elements such as reduced levels of lending, fewer financial transactions and diminished trust in the marketplace are currently being experienced in many financial markets and countries (Financial Stability Oversight Council, 2013). Chapter 02 will outline the various forms that PE firms take as there can be a misconception as to what PE firms actually do.

With the absence of liquidity in the international financial marketplace, since the advent of the recent financial economic crises in the US and Europe in 2007, PE firms have been able to seek out investments which can add greater value and higher returns to their investors and firms. Many banks have had to sell portfolios of their loan books in order to bolster their balance sheets, and many of these sales were experienced at significant discounts. It is in this market that PE firms have become successful as they have access to capital whereas banks and businesses are suffering from a lack of liquidity. The key objective is sourcing the correct investment, with a proportionate amount of risk, and with a view to making greater returns, over a longer period.

The breaking down of barriers between nations has allowed PE firms to prosper and expand through investment in other countries and continents. US investment firms have over the past decade invested heavily in Europe and South-East Asia, and likewise the European PE firms have followed suit. The difficulties encountered are not only financial, but also political and regulatory.

The overall aim of this research is to investigate the contributions that PE can make towards economies. The PE industry has the ability to provide innovative solutions to banking industries, investment strategies and while also having the ability to enable borrowers, in some cases, to pay down their debts while sustaining their businesses, with a view to making non-performing loans performing. Very little research has been performed into this topic area, and as such the author believes that this research direction would enable a better understanding of the industry, and remove the stereotypical view of vulture capitalism that is associated with PE.

This dissertation will look at the existing research that has been performed, and use the findings from those studies to form an opinion on whether PE firms can be defined as solutions providers. From this, the primary research conducted will investigate the feasibility of this hypothesis, and then critical analysis will determine the findings of this research.

1.2. Research Objectives and Contributions

The PE industry has not yet been fully explored, due to a number of issues such as the opacity of the transactions, the private and confidential nature of the industry, and difficulty in accessing necessary data and financials in order to determine accurate trends and analyses. The aim of this research is to analyse private equity in terms of the contribution that it can make to an economy which is or has recently gone through an economic crisis. Given this direction, the research can be distilled into one main objective, with two sub-objectives of research:

(1) Objective 1: Determine whether private equity can be described as a solutions provider,
(2) Sub-Objective 1: Determine how regulation and legislation affects how private equity can operate, and
(3) Sub-Objective 2: Determine how the banking industries and the economy can affect private equity.

While this list is not exhaustive, for the purposes of this research it can set a framework for further research into these areas. The PE industry has not been researched sufficiently at a macroeconomic level, in terms of the contributions that PE can make to an economy. The limitations of this research are covered more extensively in Chapter 6.

This research will have a view to contribute to the academic understanding of the PE industry, on a more theoretical level as opposed to practical level. There are no guidelines or findings within this research that could contribute to the success of a private equity firm, but more so to the wider understanding that these firms contribute more to the economy that would be currently believed. This research does not look at the driving forces of performance, or success of specific investments and funds, but on a macroeconomic level of the impact these firms have.

Also, this study aims to conduct the research from an economic and sociological perspective, which is a divergence from the traditional research performed previously in the area, where typically numerical and quantitative research has been undertaken.

1.3. Dissertation Structure

This dissertation aims to provide a solid grounding and understanding of the private equity industry in a macroeconomic analysis, in the broadest sense. For ease of reference, Table 1 presents an outline of the structure used in this research in each of the chapters.

Table 1 Outline of Dissertation Chapter Contents

CHAPTER	CONTENTS
Chapter 1: *Introduction*	Introduction to the term private equity and underlines the principles behind the selection of this research topic. The structure of the research is also outlined followed by the intended contributions of this work to further research in the future.
Chapter 2: *Private Equity Industry*	Presents an overview of how the private equity industry can be subdivided into different operational activities. Definition of PE as an asset class is outlined, with the purpose of allowing the reader to gain a better understanding of the topics discussed in this dissertation.
Chapter 3: *Literature Review*	Presents the academic and literary research conducted to date on the subject field being investigated. This has also been subdivided into different paths of research that have been undertaken. This is to separate the research types by topic for ease of reference and to pool the related body of work together.
Chapter 4: *Research Strategy*	Outlines the research design in detail for this dissertation. The methodology adopted, and research methods used in order to appropriately critique the subject area being investigated are shown.
Chapter 5: *Findings*	Outlines the findings obtained from the research undertaken, in conjunction with analyses of the markets and economies identified.
Chapter 6: *Discussion and Conclusion*	Provides a conclusion and implications to this research, i.e. the findings of the dissertation. Also outlined are the areas of further research which could be undertaken in order to further develop the findings of this work.

2. Private Equity Industry

This chapter will give an overview as to what private equity is and the number of derivative industries which it operates in. The various interpretations of PE are outlined and also the various investments undertaken are shown.

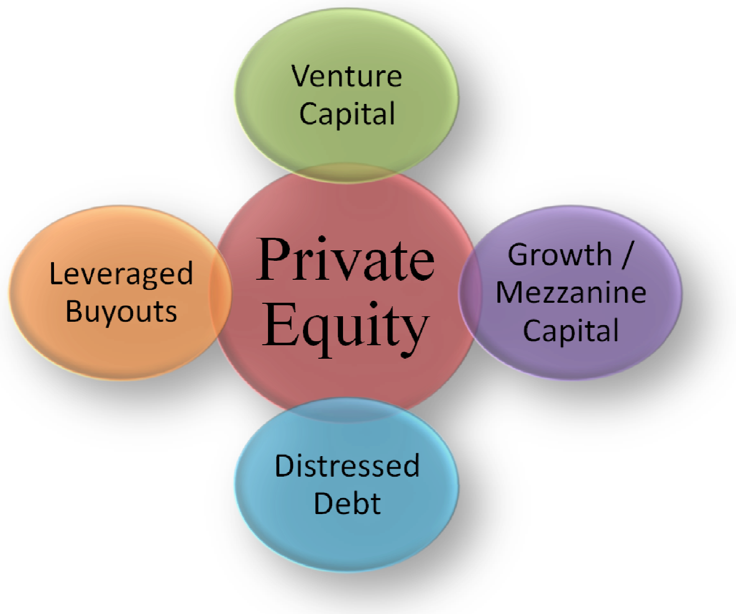
2.1. What is Private Equity

There is no one encompassing definition which can describe what private equity is, as it can take many different forms. The term is also intertwined with Venture Capital (VC), as typically in the US this is the form of investment undertaken by a private equity firm. In order to give an accurate understanding of what private equity is, it is necessary to present the various definitions and form that it can take, with a view to establishing a better understanding of the industry.

The British Private Equity and Venture Capital Association (BVCA), and also the European Equity and Venture Capital Association (EVCA) (2006) define private equity as an investment of equity into private companies which are not quoted on a stock exchange. This is investment in the securities of a business through a negotiated process, whereby the purpose of the investment is both transformational and a value-adding activity (Bance, 2004).

In order to explain the various forms of private equity, which is also referred to as an investment asset class, the following sections will give a brief overview of the these forms of private equity, as shown in Figure 1, namely; (i) *Venture Capital (VC),* (ii) *Leveraged Buyout (LBO),* (iii) *Growth Capital / Mezzanine Capital,* (iv) *Distressed Debt and Asset Backed Securities.*

Figure 1 Various forms of Private Equity

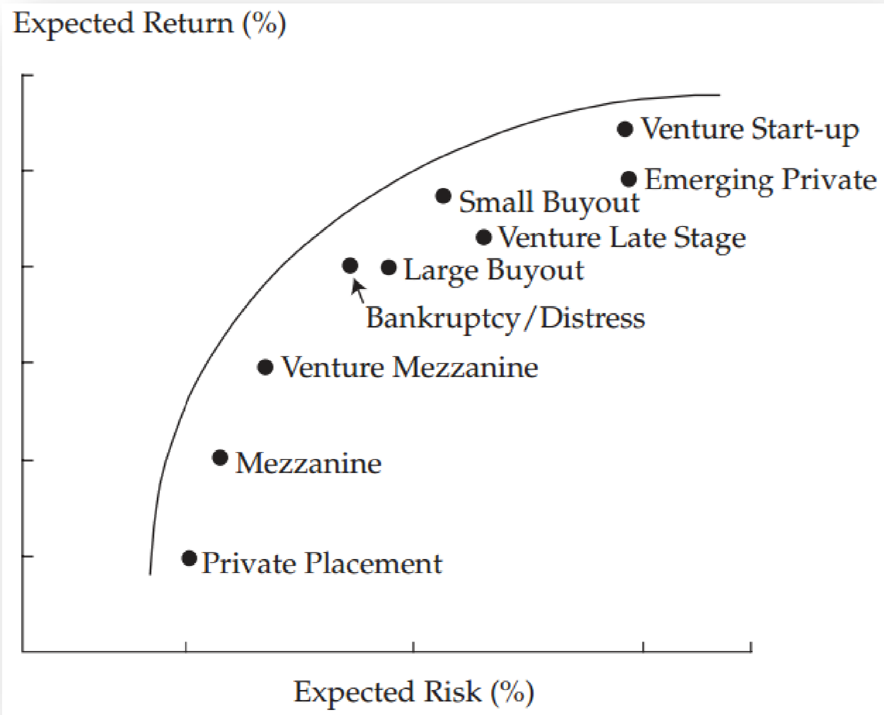


2.1.1. Venture Capital

Venture capital (VC), often referred to as seed capital, is possibly the most generally understood form of private equity, and also the form of business that the term private equity is associated with. Typically VC is when an equity investment is made by a firm into a business, generally a start up or a very young business, but it can be an investment at any stage in the businesses life cycle. VC firms can be defined as firms that invest in businesses or start-up companies, who take on an active role in the management of the business, which can be in the form of a Directorship or an advisory capacity. It is in the VC firm's interest that the company becomes successful, thereby securing their investment and also returning a profit or flow of income from the business (Shadab, 2009).

Associated with these investments is risk, which due to the nature of the industry is generally accepted to be high, due the potential risk of businesses being able to operate at a profit and generating returns for investors. For start-up businesses, this risk is much greater than with a company which has been operating for a number of years. Figure 2 below shows a representation of the risk return profile and expectations that would identify the type of investment.

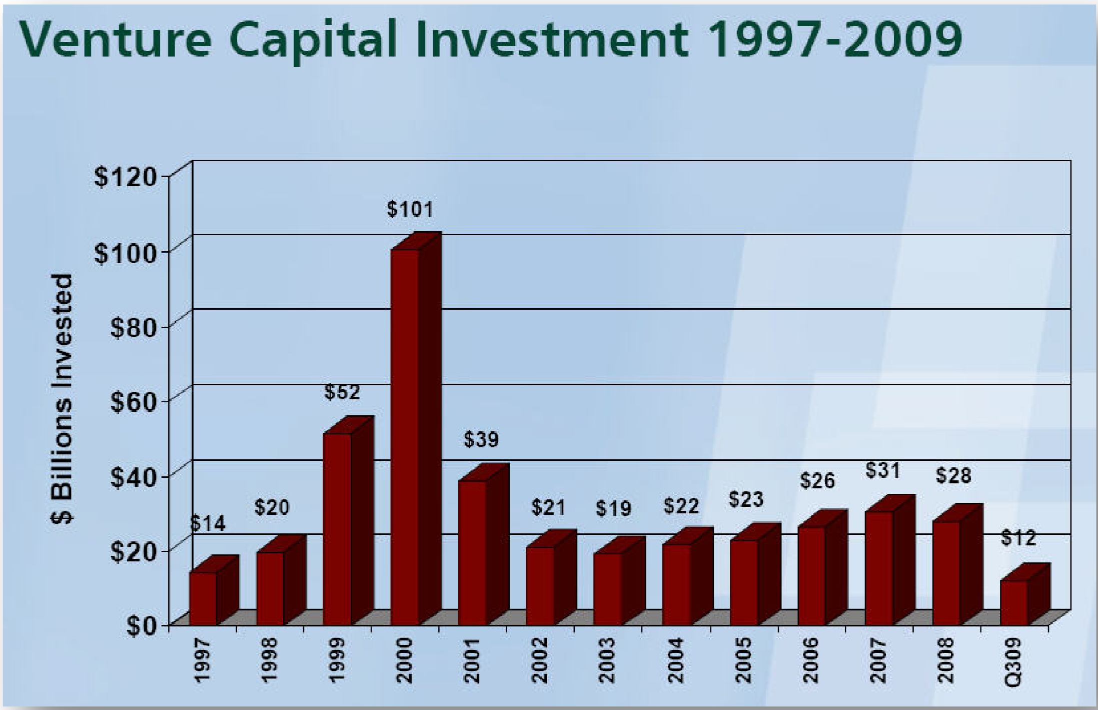
Figure 2 Private Equity Risk - Return Profile (Froland, 2005)



There is no clear regulatory or legal distinction between what constitutes a PE firm and a VC firm. While both enterprises invest in businesses, VC is assumed to be the more enterprising and innovative business, assuming more risk for a greater return on the initial investment. When a VC firm invests in a business, especially a start-up, it is not just the finance that they provide. According to the National Venture Capital Association (2013), the VC firms become actively involved with the business, usually by taking a Board seat, provide experience, and by daily interactions with the management of the business to help provide management direction and stewardship as necessary.

VC firms were highly active around the dot.com bubble in 2000, as can been seen below in Figure 3. The largest investments were associated with the evolution of the tech bubble and evolution of the internet and internet businesses. VC firms have become associated with innovation, through providing the initial funding for firms that would never have been granted finance from institutional banks, due to having a high risk profile (Samila & Sorenson, 2011).

Figure 3 VC Investment 1997-2009



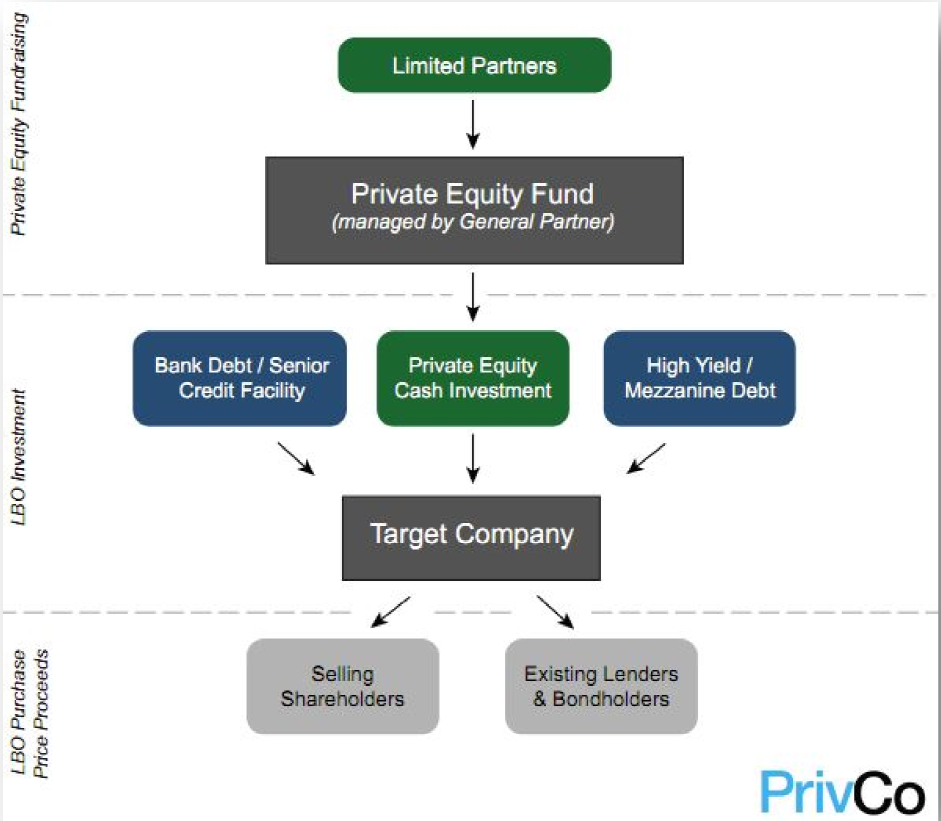
Source: http://finventures.wordpress.com/2010/03/09/venture-capital-trends/

2.1.1. Leveraged Buyouts (LBO)

The strict definition of an LBO is the acquisition of another company using a significant amount of borrowed finance, either bonds or loans, to meet the cost of acquiring a company or organisation (Investopedia, 2008). Through this financing, it is the assets owned by the company being acquired that operate as the security for the loans/bonds. Figure 4 shows the typical structure of an LBO fund. The cashflows of the business are then reviewed as to their ability to repay the interest and principal of the financing. The debt financing of the transaction can amount to anywhere between 50-85%, and sometimes can be as high as 95% (Gompers & Lerner, 2002). This process allows both PE and VC firms to invest in businesses without having to commit large portions of their capital as equity into the investments, thereby mitigating the risk of the investment.

Under an LBO, finance is borrowed to bring a public company private or back into the control of management of the business. This can also be referred to as a Management Buyout (MBO). This is sometimes done to protect the business from failure as management wish to bring the business in a different direction, improve the operations and personally invest in the business. A similar view to VC is taken by the management, whereby the view is to increase the value and profits of the business, thereby increasing the returns on their investment.

Figure 4 Structure of an LBO Fund



Source: http://esqproductions.com/lbo-basics/

LBO's have been in operation for a number of decades now. A common practice in current times, this format of acquiring a business began in the US. It can be traced back to the 1950's, but came to notoriety in the 1980's LBO boom, where Jerome Kohlberg, Jr. and Henry Kravis, who set up the firm KKR, acquired the company RJR Nabisco in 1988, the largest LBO in history at that time. What was so public about this LBO, apart from the price tag of $25bn, was the battle that occurred between management at RJR Nabisco and KKR (Greenwald, 1988).

In the US there are large private equity firms whose sole business is investmenting in other businesses through the LBO transaction type. How the VC/PE firms exit these transactions is either through a private sale, or what is typically done is an Initial Public Offering (IPO), where the business is taken public and the shares of the business are sold through a public equity offering.

2.1.2. Growth Capital / Mezzanine Capital

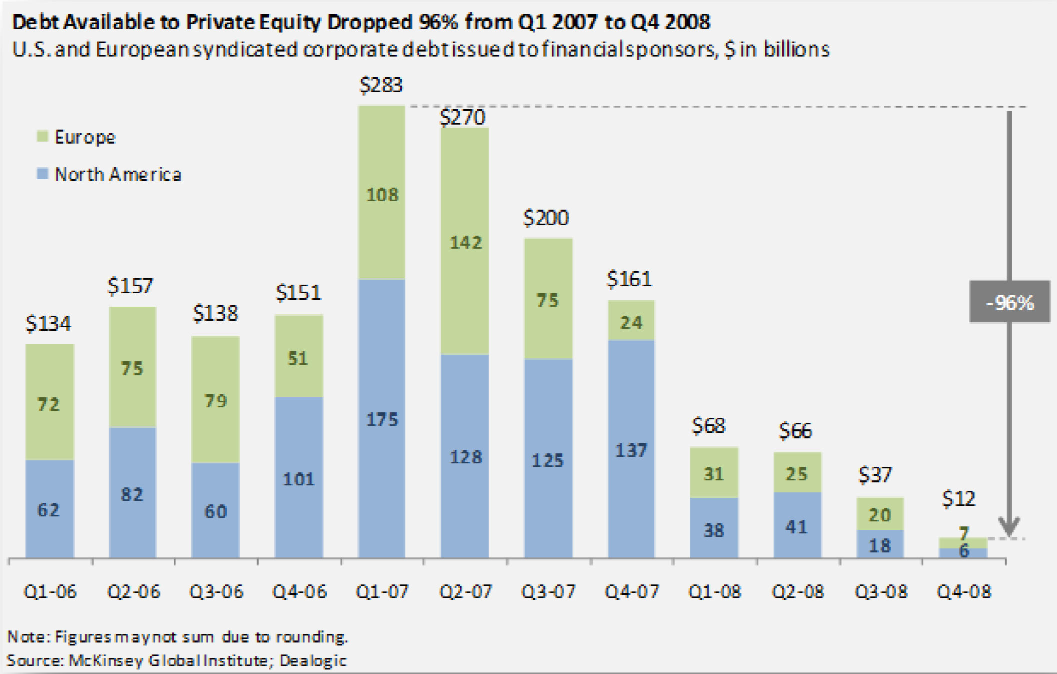
Growth capital can be described as when a minority interest or investment is made in a business in order to finance expansion of existing operations, finance an acquisition, or enter a new market, to name but a few. This financing typically does not change the controlling structure of a business, but it allows companies to obtain finance where there are factors affecting their ability to do so, such as cost of debt, availability of credit in the market etc.

Mezzanine financing can be defined as the investment finance or capital which is issued in the form of subordinated debt. Subordinated debt is usually an unsecured security, represented by an increased risk profile, and as a result shows a higher yield than other financing alternatives would have, which can be as high as 15-30% (Coval, et al., 2009).

Figure 5 shows the availability of debt finance in the marketplace over three years, from 2006 to 2008. This shows an alarming 96% reduction over 2 years from Q1-‘07 to Q4-‘08. This is the affect that the economic crisis has had on the debt markets, and identifies where PE firms can play a major role in providing finance, where other banking and financial institutions have either exited or scaled back their lending operations.

The necessity for this type of capital investment can come at various times in a business’ life cycle, whether external market forces affect the business, increasing competition on a global scale, requirement to invest in machinery or plant. All of these reasons can be identified as a necessity for the business to invest, in order to survive or respond to market forces. It may also be down to a organisations looking to increase their scale of operations, but are not able to generate sufficient cash on their own to do so. The growth capital investment will also spread part of the risk from the business owner to the investing firm.

Figure 5 Debt Available to PE from 2006 - 2008



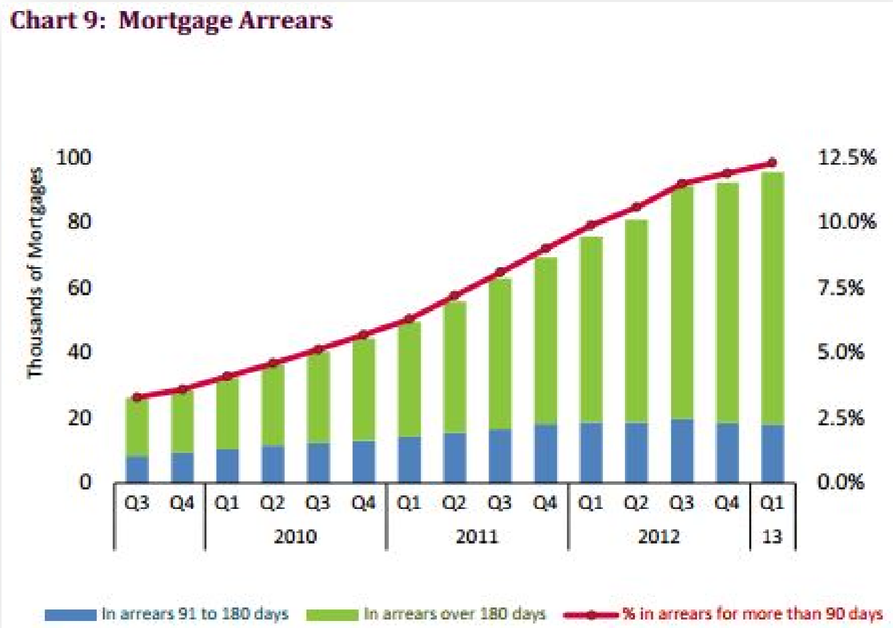
2.1.3. Distressed Debt and Asset Backed Securities.

The simplest way of describing the distressed debt market is the ability for an institution or firm to purchase loans or securities, which are secured against real estate or bonds, at varying discounts. The expectation is that these firms will be able to receive revenues from the servicing of the debt, and then in a number of years, usually in the medium term which is described as 4-7 years, sell the assets or loans to another party with a view to making a profit.

Since the global economic crisis of 2008, this market of distressed and non-performing loans has grown at an exponential rate (De Haas & Knobloch, 2010). Originally identified in the US through the sub-prime mortgage crisis, and the bankruptcy of stalwart businesses such as Lehman Brothers as a result, a climate of overvalued property and overleveraged consumers and businesses eventually led to the bust cycle, and the financial crisis which gripped the US and Europe (Shiller, 2008). Both companies and households are finding it increasingly difficult to service their existing debt structures, and a market is now being created due to assets and loans being passed to entities such as the National Asset Management Agency

(NAMA), and banks selling off large portfolios of both performing and non-performing loans (Klingebiel, 2000).

Figure 6 Mortgage Arrears in Ireland (Central Bank, 2013)



What has now been created is a market where investors and private equity firms can purchase large portfolios of these loans, usually at a discount from the original issuers. The European market has been very active for these types of sales, although the demand has so far exceeded the supply in the market. According to the Central Bank of Ireland (2013), mortgage arrears in Ireland in Q1-2013 were at 12.5% of total loans were over 90 days in arrears, equating to approximately 90,000 mortgages in total (see Figure 6).

This scenario is similar for commercial and investment loans across Europe and the US, all mostly resulting from the real estate boom-bust cycle over the last decade. Typically the portfolios of these loans which are being purchased by PE firms are secured against tangible property, such as commercial and residential real estate.

3. Literature Review

This chapter will endeavour to explore and analyse the literature which has been written on the subject of private equity, with a focus on research conducted that contributes to this research. An overview of the literature will be presented, followed by an analysis of literature relevant to PE and the economy, and subsequently literature relevant to the future of the PE industry.

3.1. Private Equity Literature Overview

Mangum (2012) distinguishes between PE and VC as being identified by different deal types, structures, regulatory treatment and asset classes. The author uses a “nuanced dichotomy” term when referring to PE, being used to describe one or both faculties, without understanding the fundamental differences of the two.

Simply put, VC is an investment in a business and the people, whereas PE is an investment in a security or asset, with a view to holding the assets for a specified period. Mark Kachur, former CEO of CUNO, in an interview with Forbes.com, gave a basic distinction between the two forms of enterprise:

“I consider private equity and venture capital as opposites. In private equity, you start with the numbers, and then you try to fit everything into the numbers. In venture capital, you start with people, and then you try to figure out what numbers you can make” (Hwang, 2012).

Information regarding the level of investments and the trends adopted by PE firms is very difficult to obtain as these types of firms are typically exempt from reporting laws and regulatory requirements regarding the disclosure of financial information. Gompers and Lerner (2002) further expanded on this due to the nature of the reporting requirements of Limited Partnerships (LP’s), or lack thereof. The PE firms have no legal requirements to file financial accounts or detailed documents with the Securities Exchange Commission (SEC) in the US, and similarly in Europe to the relevant authorities, but there are requirements to file compliance returns. While significant research has been undertaken in this area, it is based more on a microeconomic view, i.e. of the firm or investments funds specifically. The informational opacity leads to a reliance on un-published reports not peer reviewed, issued by accountancy firms and bodies, and information publicly available. Barber and Goold (2007) described how the view of PE firms is construed as the firms acting in a secretive manner and returning huge returns from their ventures. Despite criticism of the industry, the size of the market has grown impressively, from approximately 500 separate funds in 1995 to over 3,000 funds in 2006 (See Appendix 8.1).

The international literature on the subject of private equity has received growing interest over the last couple of decades. Most of the research is aimed at the performance of PE at the fund level. Lerner, Schoar and Wong (2007) argue that the heterogeneity of different PE institutions and the various returns made for investors, show that there is no one specific formula that PE firms operate under, and as such returns to investors vary. Kaplan and Schoar (2005) investigated the capital flows, performance and persistence in the PE industry, specifically focusing on LBO funds and VC Funds. Through this research it was found that the average returns to investors were in line with that of the S&P 500 index. To support this research, Diamond (2011) inferred that no matter the extent or reliance on debt, it is the management of the details by experienced firms and professionals that enables magnification of returns.

Contrary to what has been discussed here, Phalippou and Gottschalg (2009) argue that the returns provided by industry associations and also provided in research to date have been overstated, showing that the average PE funds actually has underperformed the S&P 500 by at least 3%. The authors believe that there is an accepted belief that PE funds have historically performed above expectations, yet there is a severe lack of credible data and financial information available to justify this.

3.2. Private Equity and the Economy

The international financial crises that have underpinned the recent successes and growth of the PE industry, has resulted in the financial instability that European and US banks are experiencing. Subsequently these institutions have had to be bailed out or recapitalised by local Government and European Stability funds. Currently there is an ongoing struggle by government and regulatory bodies to bring the crisis to an end, and restore lending, liquidity and confidence to the financial markets. Many countries have developed the method of a ‘good bank’ - ‘bad bank’ structure, moving ‘bad’ assets or securities to one entity, the “bad-bank”, in order to keep the ‘good bank’ element of the business operating as a going concern. As a result, significant write-downs of these assets have occurred, as well as formulating new legal, tax and regulatory structures to allow this (Pinedo, 2009).

This has resulted in a new market for PE firms. With the PE firms having access to large amounts of capital, they can buy portfolios of these loans and distressed debts. These are usually secured bonds or real estate, purchased at significant discounts. Lloyds Bank sold £1.47bn of Irish loans to Apollo Global Management at a 90% discount (Reuters.com, 2012). Lloyds then sold a further £923m of a UK loan portfolio to Lone Star Funds, and £623m to Oaktree Capital Management (Askeland, 2012). As a result, the assets of the balance sheet in the bank are reduced, and incurs the bank to record significant losses in the year of sale. But what is evidenced here is only a small percentage of the portfolios of loan and NPL’s which are not available on the market currently. The banks are slow to act on realising the losses on their loan portfolios, as this may lead to a possible further recapitalisation requirement.

As the European and US financial markets are proceeding slowly through a process of recovery, these firms are now able to be opportunistic and avail of the substantial discounts being offered by the banks and other lending institutions for packaged debt-securities, backed by real estate and bonds. PE firms have access to substantial capital and these firms seem to be the only parties benefiting from the economic crises. Events such as the Lehman Brothers bankruptcy, Bernie Madoff $65bn Ponzi scheme have led to more improved regulations for financial markets. The Dodd Frank Act[1] was implemented to bring PE into regulatory environment, and with bank bailouts by local governments and the IMF/EU occurring, the marketplace has

[1] The Dodd-Frank Act, named after two US senators, was signed into US law in July 2010 as a response to the 2008 recession. This Act made significant changes to the IS financial services industry, with a view to restoring public confidence in the financial system, and acting as a preventative measure for future asset bubbles and financial crises. The full name is ‘The Dodd-Frank Wall Street Reform and Consumer Protection Act’ (Sweet, 2010).

become riskier and less trust exists within, thereby reducing the flow of capital throughout.

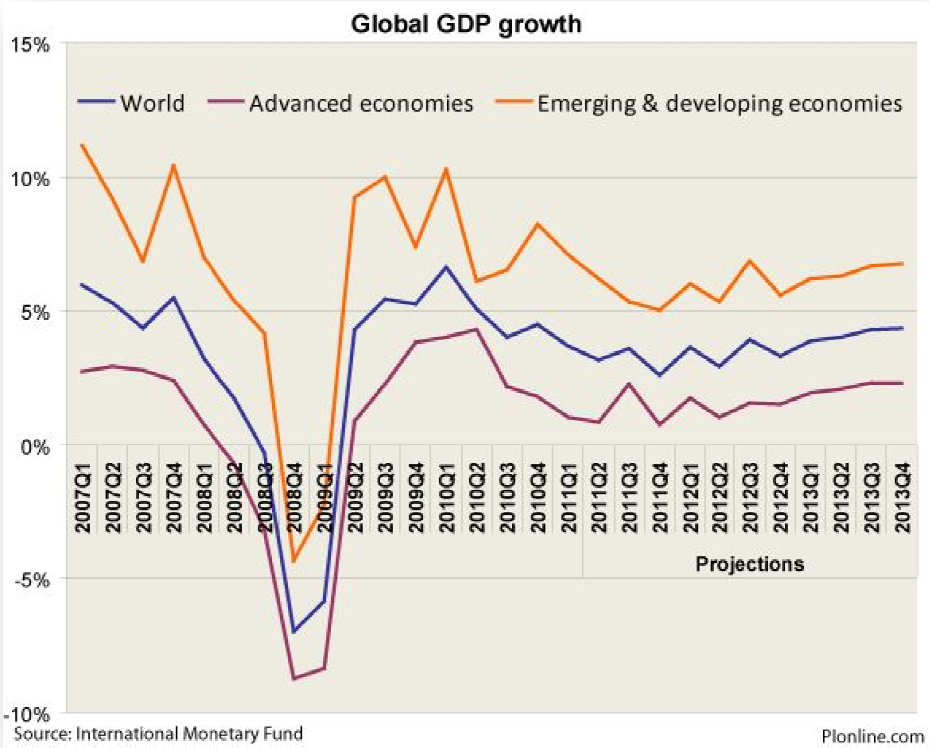
A number of studies have been able to associate the economy with credit risk. Espinoza and Prasad (2010) have shown that higher interest rates and a position of lower economic growth have the ability to trigger an increase in the number of non-performing loans. Pesaran, Schuermann, Treutler and Weiner (2006) were able to develop a dynamic global macro-econometric model which identified the correlations between losses in credit portfolios and the effects of, for example, a negative equity shock in an international context. Simply put, as financial institutions have exposure to international and macroeconomic fluctuations, the study showed that these credit portfolios must be diversified on an investment or global scale, to mitigate the overall effects and risk.

Bernstein, Lerner, Sorensen and Stromberg (2010) concluded that where PE funds have invested into industries from 2005 to 2010, these industries have grown more quickly, and through their research they were able to show that these results were not the net result of reverse causality.

Further testing of the financial institutions, based mainly on stress testing their balance sheets, is developing to allow for dynamic changes relating to macroeconomic changes over time. These forces would typically involve real GDP, or more currently GNP, interest rates and exchange rates. Beck, Jakubik and Piloiu (2013) further suggested that real GDP growth in an economy can play a crucial part in determining the number and ratio of non-performing loans, and showed this was indeed the case through analysis over the last decade. Below shows the global GDP growth rate (Figure 7), and what it represents is that at a time when distressed debt was becoming a regular occurrence, from the outset of the financial crisis in 2008, the GDP growth rates plummeted showing how many forces in the financial industry can affect each other.

A further study into the correlations between PE and economic growth showed that the increase in PE investments in an economy was associated with the increase in economic growth, analysed by GDP growth (Meyer, 2006).

Figure 7 Global GDP Growth Rate



The sale of these types of distressed assets and securities often comes under intense scrutiny in the press as the impression that these firms give out, compiled with the attitudes towards them, leads them to being called "vulture capitalists". The nature of secrecy with these private institutions does not help in swaying public opinion. In an Irish Times article, it is suggested that these firms are playing a waiting game as the Top 10 PE firms only invested €1.7bn between them in Ireland alone (Reddan, 2012). To corroborate this is the fact that these asset sales are often referred to as "fire sales", depleting the balance sheets of financial institutions and incurring significant write off's (Shleifer & Vishny, 2011).

In a report on the impact of private equity on economic growth in Europe, it identifies the activities, impacts and outcomes of PE that contribute towards economic growth, through 3 keys areas; innovation, productivity and competitiveness EVCA (2013). It could be argued in the reverse due to causality, that growth caused the PE investment, although this view has been discounted in other research (Bernstein, et al., 2010). Ultimately research has shown that PE investment has a positive effect on firm productivity and performance, reduced levels of firms filing for bankruptcy, and also that LBO's played a significant role in the recovery of the US economy in the 1980's and 1990's (Stromberg, 2009). Cernohorska, Linhartova, Sinka and Teply (2012, p. 1259) argue that PE firms have played a vital role both during and after the global crisis, through becoming a source of much needed capital for businesses in distress.

3.3. The Future of Private Equity

In an industry that is still considered young, it has seen more changes and alterations to the dynamics of how the industry operates in the last 30 years than most industries have ever seen. Given that most PE investments have a lifecycle of no more than 7-10 years, research has been undertaken to try and predict the forces and changes at work in the industry, and how it may change its structure and dynamics. The PE industry is constantly evolving, dependant on market conditions and industry opportunities, and it is difficult to determine how the industry will be structures once a full global financial recovery has been achieved (Davidoff, 2009).

Lerner (2011) identifies a number of scenarios, each one on its own plausible and realistic, as to the future direction of the industry. The most notable scenario is that of "recovery". Recovery refers to when the market is returning to pre-crisis conditions, where there were short run shifts in supply and demand. Lerner (2011) argues, supported by the research undertaken by Jensen (1989), that PE firms are forced to change their operations earlier at the start of an industry downturn, where the high levels of debt mean they need to be proactive in their responses, in order to survive a recessionary cycle.

Extensive research has been performed into the effects that PE investment has on industries, through value creation, employment, profits and returns and also sustainability. Many researchers have shown, through analyses of LBO's, that the businesses after investment from a PE firm showed increases in operating income, cashflows, decreases in capital expenditures, increase in market value and also productivity (Kaplan, 1989; Smith, 1990; Kaplan & Schoar, 2005; Cao & Lerner, 2006). As these authors argue, as long as there is a stimulus for businesses to be productive and generate earnings, the PE model is sustainable in the long term, not only due to their ability to provide capital, but because of the operational and niche expertise that these firms seem to be able to provide. Often the cause of financial distress for a firm is resultant of bad management (Thomas, 2004), and as a result the opportunity exists for PE firms to bring their extensive management experience to these businesses.

The cyclicality of the PE industry is referenced in much academic literature, often through the 'boom-bust' scenario, but more so around the availability of financing and the cost thereof. Applebaum and Batt (2012) argue that the boom-bust scenario is impacted by the availability of cheap finance, where the level of leveraging in businesses is driven by the cost of debt. As a result, PE deal volume increases and firms are acquired using greater leverage, and subsequently deal risk increases as higher repayments for financing are required. They put forward that these highly leveraged firms experience greater distress in times of economic pressure or downturns. What this can imply is that PE firms follow into markets where the availability of finance is cheaper, resulting in less capital commitments from the PE funds, reducing the risk to their investors, but increasing risk on the firms they invest in. The benefits of this to an economy could be argued either way, but ultimately the niche has been defined for PE to operate within, especially when it come to LBO's and MBO's.

Lerner (2011) further adds to this scenario, that the PE industry can drive and enhance other intermediary markets, such as professional consultancy firms, accountancy firms, legal firms and management firms. As a result of the exposure to the PE transactions and market, these other ancillary firms and industries are enabled to benefit also, through earning fees for services provided. The resulting effect is that through greater exposure, the productivity and efficiency of transactions increases, and associated costs are reduced. All parties are becoming more efficient in the process, with the knock-on effect that more industries develop a greater understanding of the PE industry activities. It can be summaries that this increased understanding or familiarity with standard processes and methods makes the long term prospects for the industry more attractive (Lerner, et al., 2007).

In the book "The Buyout of America" by Josh Kosman (2009), it is argued that the large financings and leveraging structures that PE use could set in motion another financial crisis due to overleveraging and subsequent defaulting on payments.

Contrary to this, the Private Equity Council (2009) emphatically argue, by relating to prior research conducted, that Kosman has fundamentally misunderstood the PE model, and has allowed his personal bias to distort the books view of PE. Ultimately as research in this area is historical, it is difficult to completely determine if Kosman's view of the PE industry in the future, whether biased or not, can be considered inaccurate. Other authors argue that, given the reduction in the availability of credit and financing from banking institutions, the demand for distressed debt is likely to increase over the coming years (Ang, et al., 2011).

4. Research Strategy

The purpose of this chapter is to outline the direction used by the author for this dissertation. In the first section, the approach taken by the author, using a philosophical perspective, will be outlined to show the thinking which has underpinned this research. In the second section, the qualitative methods will be outlined, finally followed by the discussion of the research evaluation.

4.1. Research approach

In order to address the research question which is posed in this dissertation, what role, if any, can PE can play as part of guiding economies into growth and recovery, it is necessary to evaluate the various processes, methods and alternative techniques available to a researcher. Given that the PE industry is by its very nature secretive, as many of the methods and operations used by the firms is proprietary and confidential information, the chosen design of research is a reflection of this.

The research will follow an interpretive approach as the research will be focused on the qualitative interview process and findings. From an epistemological perspective, the research will develop and may be directed in different ways due to the nature of unstructured interviews. As this is a naturalistic approach whereby the findings can be value laden due to the subjectivity of the researcher/interviewer, and as the researcher works in the PE industry, every care has been taken to remain objective. Angen (2000) offers a number of criteria to be used when assessing the research from this perspective, namely:

- Careful consideration of the research question
- Carry out the research in a respectful manner
- Use a written account that will develop persuasive arguments
- Ethical and Substantive Validity.

Research is usually guided with a view to finding an answer to a question posed, typically through some form of deductive reasoning. The risk with this method, in connection with middle-range theory, deductive reasoning can be used in sociology to principally guide empirical inquiry (Merton, 1967, p. 39). This could be described as an accurate interpretation as research is typically driven by the understanding, interpretations and objectives of the researcher. As all research begins with a question, the route taken to reach the objectives is often bound within the constraints of accessibility, relevancy, validity, time and subjectivity.

Qualitative research has been described as an emotional labour, in that it is necessary to suppress feelings and emotions so that the reader achieves the same understanding as the author (Hochschild, 1983). The purpose is for the researcher to determine, understand and find specific patterns within the scope of the research. The style of this research leads to information being collected with a view to answering the question posed in this body of work. Ontological assumptions and aims predicate the research style and routes used to answer this research question. This is further evidenced in the work undertaken by Kuhn (1970) whereby the definition of a paradigm was developed, 'a cluster of beliefs and dictates which for scientists in a particular discipline influence what should be studied and how the research should be done'.

4.2. Research methods and design

It is important to determine if the research undertaken here is best served by using either a quantitative or qualitative method of research. As both methods may be used to research a given topic, it is important to determine the most pragmatic and reliable form of research so that the results achieved are more reliable and credible.

The method which will be used is of a qualitative nature, where semi-structured interviews will form this basis. As this approach could lean towards a more value laden approach when analysing the responses given in the interviews, an attempt has been made by the researcher to remain unbiased, as previously noted the researcher works within the Private Equity industry.

4.3. Qualitative research

Questionnaires, surveys, focus groups and structured observations (sometimes referred to as ethnography), can form the method called cross sectional study. The purpose therein is to study an entire population or subset, whereby the information gathered from the multiple methods is analysed and correlated to represent a single point in time (Bryman & Bell, 2011). This form of research is not deemed appropriate to the research question being posed in this dissertation.

There are a number of metrological tools which can be used to collect data, and it is important that the correct method is chosen. Many of the data collections tools which are available to a researcher were not considered appropriate for the purposes of this research by the author. This is due to the necessity to extract the relevant information required, time constraints and the risk of contaminating the results of the data, usually associated with focus groups (Morgan, 1993). Focus groups are an acceptable form of qualitative study, but for the purposes of the research, the author does not deem that they are appropriate to this research, as stated by Morgan (1993). Due to the secretive nature of private equity, a focus group may not derive the most direct responses from the participants.

The case study approach to research has been a regularly used method in research, especially in the area of business and finance. Access to organisations in this industry is very difficult due to the nature of the work involved, and the proprietary structures and organisational processes used by private equity firms. Suman, Sharan and Sachan (2012) conducted research into the PE papers published from 2005 to 2011, 284 papers in total. In their analysis of the methodologies used, only 5.6% of the journal articles us a case study approach, with the most common method being mathematical models through quantitative analysis.

Yin (1994, 2003) refers to the case study method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used. In-depth analysis can be achieved through this method, but for the purposes of this research, it is not deemed appropriate by the author due to the micro-economic level of information resulting from this form of research. As the author works within a private equity firm, a case study analysis could un-intentionally show bias in the research.

4.3.1. Interview Participant Selection

Following careful consideration, the interview sample has been chosen based on their area of work and their relevance to the body of research. This is commonly referred to as purposive sampling as the researcher is selecting the interview candidates on their determination of suitability for this study (Bryman & Bell, 2011).

In response to the considered limitation that the participants all work for the same private equity firm, the selection of these individuals was done so as to cover a number of different aspects and operational structures and experiences within the private equity process, from Treasury services to due diligence and accounting frameworks. Although these areas are not referred to specifically in the conducting of the interviews, the experience of working in these departments frames the attitude, opinions and experiences of the participant when responses are given to questions posed. As this research is explorative in nature, it is the authors' opinion that seeking answers, knowledge and input from this range of qualifications can only benefit this research.

In order to provide a better understanding of the approach used to select the sample of interviewees, some basic information is provided to indicate the relevance of the participants to this research, while showing their experience in the private equity industry. The identities of the participants will remain anonymous for the purposes of this research, as no benefit in disclosing the identities would be achieved in this research.

<u>Participant 1:</u> is the Managing Director of the Irish subsidiary of a US PE firm, which is headquartered in Dallas, Texas. The firm has been established since 1995, with the Irish entity established in 2000. He has over 13 years experience in the private equity and financial services industry, he has experience in dealing with deal selection, due diligence, asset valuations, organisational and deal structures. In addition to this experience, he also has an in-depth knowledge into the workings and accounting of PE deal structures from top to bottom.

<u>Participant 2:</u> is the Senior Vice President and Executive Director of the European Operations, Shared Services and Treasury departments for the same PE firm. He has over 10 years experience in the industry, attained in Japan and Ireland working for multiple private equity firms. With the international experience of this interviewee,

valuable insight can be given in relation to private equity firms working in economies that have undergone a crisis.

Participant 3: is the Executive Director of the Irish asset management company of the PE firm. He has over 20 years in banking and private equity experience, previously working for an Irish bank in the US, managing their lending division. The international experience of a banking industry in international markets through boom and bust scenarios is very relevant to this research.

The response rate to the interview sample was 100%. It should be noted that as the author works for the same PE firm as the interview participants, access to executives in other private equity firms would have been difficult to attain as the belief may not have been that of seeking academic knowledge. Given the nature and lack of transparency in the industry, access to a researcher who works in a competing private equity firm would have been restricted. It is also the author's opinion that any answers given would have been undermined by these circumstances, thereby reducing the reliability of the data gathered.

It is important to note that although the participants work in the same firm, they are located in different office locations, and are working in different departments. The benefit of this is the reduction of the possibility of dilution of data regarding corresponding comments received in the interview process. It is the authors understanding that no conversations took place between the participants regarding the interviews or questions posed. This is relevant to ensure reliability of the results, and that the opinions formed and given are the participants own beliefs and responses.

4.3.2. Interviews

According to a number of authors such as Patton (2002) and Yin (1994, 2003), interviews can generally be classified into a number of types: (i) structured, (ii) unstructured, and (iii) semi-structured. In all of these forms, the interviewer guides the process through a specific format of questioning, whether pre-determined or in a responsive style determined by the answers given by the interviewee.

The primary research approach which was adopted here will be the personal, semi-structured interview, in order to obtain information and gather respondents' views to conduct this research. A list of questions was used by the author as an interview guide (see Appendix 8.2), to ensure that specific topics are covered during the course of the interview. The questions were not followed in order, and additional questions were asked depending on the responses given by the interviewees, whereby further analysis or probing was deemed informative. Burgess (1984) describes this type of interview as a conversational style, whereby the direction of the questioning and interview can be dynamic depending on the answers given relating to relevant or appropriate topics.

Prior to the interviews being conducted, a thorough investigation into the subject topics which are covered in the literature review in this dissertation was performed. This was necessary so as to prepare the interviewer to ask appropriate questions, backed up by the relevant research. It is the author's opinion that an informed question has a better chance of receiving a more accurate and informed response from the interviewee. The purpose of this preliminary research for the interviews is to enhance the confidence of the results obtained from the interview research, and thereby increasing the overall research process efficiencies (Eisenhardt, 1989).

Each interview participant was fully advised of how the interview will be used in the basis of this research, and the matter in which it will be used throughout the dissertation. The participants were advised of the ethical and security issues and the methods of storage of the transcripts, which are outlined separately. Each participant was requested to review and sign a 'Consent to participate in Interview Form', which further outlined the purpose of the research, while also giving their consent to take part in the research undertaken here (see sample form in Appendix 8.3). Consent has been given by each of the participants for their identities to be disclosed, but as previously noted, for this research no benefit would be attained from using their identities, and as such they will remain anonymous.

The interviews were conducted in a quiet room where there were no distractions experienced. All interviews were recorded on an Apple iPhone 5®, and then this recording was brought offsite and downloaded onto a secure PC. Recordings will then be deleted from the iPhone in order to ensure no access to data or the recordings could be gained unless authorised. The interviews were then transcribed by the author into MS Word, which were then subsequently reviewed using content analysis, which is described in the next section.

4.3.3. Content Analysis

Miles and Hubermann (1994) identified that there are three different approaches to adopt for qualitative data analysis: interpretative, social anthropological and collaborative social research approaches. As referred to earlier the approach to be adopted for this research will be interpretative. There are many methods by which content analysis can be approached, most notably the basic approach of Grounded Theory (Glaser, 1978). Further to this, the approaches used by Strauss and Corbin (1998) will be applied when conducting the content analysis on the interview transcripts.

The purpose of content analysis is to analyse verbal, written or oral communications, developed through themes or patterns and words (Cole, 1988). From the development of these themes, categories can be created in order to help draw conclusions from the data (Kynga, 2007).

Following the objectives of this research, a coding guide has been developed, as seen in Appendix 8.4. The themes, keywords and phrases were highlighted in the interview transcripts using a colour guide, which is evidenced in Appendix 8.5.

4.3.4. Research Ethics

As there is a potential to obtain confidential information from a research process, and from the research approach used in this dissertation, relevant approval was obtained from the management of the researcher's firm for preparation of interview questions and arranging interviews with colleagues working in international offices. All interviews were conducted in a confidential manner, and the interviewees were asked to sign a consent form to participate in the interviews.

All research undertaken here has been conducted within the principles and guidelines of the Sociological Association of Ireland (2012), in order to understand and preserve the ethical actions and activities undertaken to prepare this research. While conducting this research, every effort has been made to ensure that the four guiding areas of ethics as set out by Diener and Crandall were adhered to (1978), which includes; (i) lack of informed consent, (ii) deception, (iii) invasion of privacy and (iv) harm to participants.

As referred to earlier in the chapter, the recordings of the interviews will be saved on a secure drive which only the researcher can access, which is also security protected. Transcripts of the interviews have also been saved in the same manner, with a secure identification key required to access the documents.

4.4. Research Evaluation

As qualitative research, by its very nature, does not make use of statistical or mathematical methods to produce results, the issue of validity and reliability can be questioned. Whether a biased opinion of the researcher, generalizations or even a misinterpretation of evidence given by participants, these can all affect the results achieved. As referred to previously, the results garnered from this research must be reliable, credible, replicable and dependable. These characteristics are set out by Guba and Lincoln (1994) in their alternative criteria for evaluating qualitative research, namely trustworthiness and authenticity. These new guidelines were created so as to clarify that qualitative data is not fully absolute based on one account or version of events. An individual's perception of a market, occurrence or event is affected by their own beliefs, understanding and interpretations of those events.

According to White (2000), research validity is the determination of whether the research questions have been addressed, and the aims and objectives have been met in a body of research. To the contrary, it has been suggested that the validity of a qualitative study can be affected by the researcher's perception of validity, and also through their choice of paradigm (Creswell & Miller, 2000). Following this it can also be said that the understanding of validity is altered or developed with a different view in mind, using quality, rigour and trustworthiness as tools to determine validity (Guba & Lincoln, 1994; Davies & Dodd, 2002).

In order for the evidence presented in this research to be deemed valid, a number of measures have been taken in the dissertation to facilitate said validity. An extensive overview of the relevant literature on the topic of private equity has been carried out. This was done to uncover any other evidence which has been researched in the area of private equity, any or none of which could have an impact on the findings of this dissertation. Also it was necessary to give the reader a fundamental understanding of the background to PE being researched here. PE in itself has been a largely unexplored area in qualitative terms, and this was laid out in more detail in Chapter 02, through the research of Suman *et al* (2012).

5. Findings

This chapter will outline the findings obtained from the qualitative research process with the objective of answering the research question posed in this dissertation. For transparency, these findings have been broken down into three sections; (i) the PE industry and the economy, (ii) Regulation and Legislation in the PE Industry and (iii) are PE firms solutions providers?

5.1. The Private Equity Industry and the Economy

From the interviews conducted there was agreement across all participants that there is a lot of distressed debt yet to come onto the market, as Participant 1 (P1) noted that "there continues to be huge opportunities in both the US and Europe, especially in the CDO[2] market as a direct consequence of the financial crisis". Participant 3 (P3) made the observation that the Irish banks specifically were capitalised to approximately €40bn, and that over the last two to three years only €1.5bn of assets has been sold, "and there is your gap, there is still another €38bn of debt to be written off and sold, another €38bn of stimulus to go into the economy".

It is noteworthy that all participants viewed that these assets and distressed portfolios have been slow to move to market, and all three agree that this delay is only prolonging the financial difficulties in the economy. Participant 2 (P2) proposes that the delay could be a result of the limitations put on banks, being in the public eye through government capitalisation, and now a very political situation. P2 furthers this point by saying that the "biggest obstacle that Ireland now has is NAMA, as they have housed the problems there, and are only now starting to drip feed them out to the marketplace".

While all participants indicate they believe that the problem can be somewhat political, especially in terms of debt forgiveness and the public perception, P3 commented that "it is the whole moral hazard piece, where if one person gets it, why shouldn't the other". P1 agrees with this point, saying the "floodgates would open",

[2] A Collateralized Debt Obligation (CDO) is a structured financial product that pools together cash flow generating assets and repackages them into packages or portfolios that can be sold to investors (Investopedia, 2013).

but also that the banks want to do it, but can't. Two out of the three participants believed that the European economies are not as efficient as the US in wanting to fix these issues, partly due to the legal framework, but P3 goes further by saying the reason for delay in Europe is the lack of decision making;

> *"usually mistakes become visible after a decision is made, at some point in the future it may turn out to be a wrong decision, so the easy way to ensure it doesn't happen is people don't make decisions"*

On this point, 67% of the participants believed that it is also down to country experience, whereby economies such as the US have had problems like this before, but P3 believe that Europeans have "7 year banking cycles but 5 year memories", while P1 believes the issue can be related to "vested interests" such as governments, especially when they injected significant capital into the domestic banking industry.

P3 offered an example in a recent scenario in Ireland to demonstrate the benefit that a PE firm can have and contribute to an economy. The interviewee believes that this example is a general consensus for the state of the Irish and European markets, and is an example that they use to demonstrate to other professionals the benefits that PE has to offer;

> *"an Irish landmark hotel was bought by a consortium for approx Eur287m at the height of the market in 2006/07. The market crashes. The debt is still outstanding and the interest is rolling up, and the value of the asset has dropped to below Eur100m. The banks have already written down the debt but the borrower is struggling to pay interest on the Eur287m...the borrower cannot invest 01c into the development. A PE firm purchased it for Eur67m. They are now spending Eur20m on capital expenditure, employing trades people, paying suppliers, furniture manufacturers, carpenters, plumbers etc...That is Eur20m going back into the economy that would not have happened it if wasn't for PE".*

This example offered demonstrates the liquidity which PE firms have at their disposal, and that it is not only about purchasing the assets but also investing in them, in order to add value for future sale, or to keep a business operating as a going concern. P1 offered the same example as to the benefit of a PE firm in an economy, pumping much needed investment into a "landmark hotel that would have closed down". P2 uses a darker analogy of a "rotting corpse" that would be "left there to ro if it wasn't for PE". P2 refers to Schumpeter's view on creative destruction, whereby the assets and securities are being destroyed in terms of their value and being left idle in terms of real estate, but P2 continues saying "someone has to look at the situation and say we can create something from that, that is where our opportunities lie".

In the interviews the growth of the PE industry was addressed, specifically how it has grown over the last couple of decades, and all three participants agreed that the industry has changed over the last 5 years in particular. P3 noted that "PE would very much have been an alternative investment, but it is much more main stream now, with greater allocations than in the past". P2 corroborated this saying that the "industry changes every 3 or 4 years...it is a highly dynamic industry. That is why you have to keep learning if you want to survive". As the distressed debt market has expanded since the financial crisis, new products have emerged for which PE firms are now heavily investing in.

In relation to these types of structured credit products, P2 says PE firms have "moved more into these types of investments, like ABS's[3], CMBS's[4] and RMBS's[5]. We got into them because at the time noone wanted them...we stepped in and we bought value that noone else perceived in the market. That is why we target the shadows". P3 makes the observation that the market "continues to grow, but the returns are starting to come down", and P1 believes the industry is here to stay;

> *"it is the efficient market hypothesis...typically it is individual economies in distress...PE funds have huge capital buckets to invest, and expansion is as a result of supply and demand...there is a buyer and seller for everything at the right price".*

As shown in these interviews, there is an agreed consensus between the participants that the PE industry, especially in distressed debt markets, still has a lot of activity to undertake over the coming years. While it cannot be quantified as to the exact amount of debt that will come onto the market, there is an expectation that over the next two to three years the market will be drip fed these assets.

---

[3] An Asset-Backed Security (ABS) is a financial security for which the security is a loan, lease or other receivable other than real-estate (Investopedia, 2013).
[4] Commercial Mortgage-Backed Securities (CMBS) is a type of mortgage-backed security that is secured by the loan on a commercial property (Investopedia, 2013).
[5] Residential Mortgage-Backed Securities (RMBS) is a security whose cashflows come from residential debt like mortgages, home-equity loans and subprime mortgages (Investopedia, 2013).

5.2. Regulation and Legislation in the Private Equity Industry

The form in which a market or industry is regulated affects not only the customers in the market, but also the way in which firms can compete and conduct their operations. Regulations are intentionally designed to protect consumers and businesses, usually to prevent illegal or fraudulent activities. Often regulations are drafted after an event, such as the Sarbanes Oxley Act[6] being brought into legislation following the collapse of major US corporations such as Enron and WorldCom (Forbes.com, 2003).

The causes of the crisis are not being examined in this research, but it is important to note why the participants believe the crisis occurred, as it has an immediate impact on their respective businesses. As they are in the PE industry, currently it is providing them with plentiful opportunities, and their understanding of the crisis is underpinned by the extensive experience in dealing with the fallout of the crisis i.e. the fast developing market of distressed assets and securities.

The affect of regulation on the financial crisis and the PE industry was examined during the interviews. 100% of participants agreed that the nature of regulation is that it is reactive, "you can't regulate for something you don't know exists". P2 furthered this point saying that "the horse has bolted, and I believe there is such a huge gap between the people who write the legislation, the politicians who decide it and what actually goes on in the market". P2 believes that the cause of the failure was the "regulators not regulating the banking industry", and further evidence through the participants own personal experience is that the underwriting for these loans was substandard, "the banks didn't nail down the whole security side....quality, due process and compliance were not followed correctly, it was short term greed". P2 makes an important distinction, in agreement with the other 2 participants, as offered the following consensus of their opinion;

"*If you look at the SEC*[7] *and Dodd-Frank Act, they are being reactionary to stories like Madoff. But if the SEC had been doing their job correctly in the first place, people/scenarios like Madoff would not exist. A lack of enforcement, a lack of enquiry, most importantly a lack of understanding of the industry...the void between*

---

[6] The Sarbanes Oxley Act (SOX) is legislation brought into force in the US in 2002 as a response to major accounting scandals, amending corporate rules regarding accounting disclosures for businesses
[7] U.S. Securities and Exchange Commission

the public sector and the market is so wide that he was able to get away with it for so long".

It was important to address the views of the participants on regulation, in particular to determine if the apparent lack of regulation benefited or hindered the PE industry. P3, in relation to this, said that "by in large regulation is a good thing. The lack of regulation is the reason why we are where we are today". The participant moves on from this point, noting that as regulation is a necessity in any market, "you don't want to be over regulated to the extent that you can't compete in the global environment... and the fact that PE firms are less regulated certainly helps in a number of circumstances".

The legal agreements that exist in PE firms are binding agreements with their investors, referred to as Limited Partnership (LP)[8] Agreements. P2 believes the lack of transparency in the industry is not relevant to investors, as they know exactly where their capital is being invested, through the use of the LP agreement. "The LP agreement covers the boundaries under which the PE firm will operate, and an investor should look carefully at their LP agreement". While P3 noted earlier that even though there was less but sufficient regulation for the PE industry, they also said that PE is "not a mamas and papas business, and should never be. It doesn't need to be regulated the same way as less regulation allows us to be more flexible". This point is extremely relevant as it is usually institutional investors, endowment funds and state pension funds that invest in PE. These are not individual investors, excluding some high net worth individuals. The people investing in PE are experienced professionals who understand the market, and the trust and security is gained through the experience of the PE firm, and bound by the LP agreement.

5.3. Are Private Equity Firms Solutions Providers

The term 'solutions provider' has many connotations in business. For this research the objective is to determine if PE firms play such a role in aiding economies that have suffered a financial crisis. This question was posed to all participants in the

---

[8] A Limited Partnership (LP) Agreement is when the parties have limited liability for the provisions of capital, whereby the investors will at worst case scenario only lose their initial investment (Wainwright, 2003).

interviews. The results, shown here, indicate that PE firms can act as a solution, in a number of different roles and scenarios.

100% of the participants "absolutely" believed that PE firms can provide solutions to help a struggling economy. P1 and P3 said "yes absolutely", while P2 said "Yes 100%. I am convinced it (PE) could". P2 went on to say "no organ of the state is going to do it, unless some other new or innovative methods, thoughts or solutions are brought to bear. We are a dynamic industry that would not have been there prior to the crash". This is an important comment as it shows that a PE firm cannot thrive or conduct business in an economy that is experiencing high levels of growth, a boom in effect. P2 believes that PE firms can create a "multiplier effect", whereby if PE firms enter the market, other firms and institutions will follow. P3 also iterates this same scenario, saying that "the reality is the PE firms are usually first in with the ability to provide liquidity...and once the PE firms have entered the market, then the rest come in afterwards".

This would imply that PE firms demonstrate a first mover advantage strategy, developed out of access to capital and supply of investment opportunities in the marketplace. Two of the participants refer to the effect on the Japanese and Korean markets following their financial crisis in the 1990's, where P1 points out that "if it wasn't for PE firms, Korea would not have cleaned up its mess and the Japanese banks would be still holding on to a lot of their distressed assets". When pressed further, P1 clarified their response by adding that "a solution is being provided to the banks, as they are gaining liquidity from the sale of the portfolios".

All participants have shown in their interviews that they believe PE firms offer a solution to the banks, in terms of purchasing their non-performing loan portfolios. This enables the bank to free up capital to lend to other borrowers and businesses. What is also evident from the interviews is that the solution offered by PE is not only to the banks, but also to the borrowers, according to P3;

> *"a recent deal we undertook in Ireland was a large portfolio of NPL's, where the vast majority of borrowers have been in some level of distress since 2008. The bank wasn't taking any action, and the borrowers can't borrow to reinvest in their business with having huge loans outstanding. The PE firms buy the debt at a basis lower than the bank would have had...we do a deal with the borrower that allows sustainable payments...they can then get on with their lives or businesses".*

What this is showing is that as the PE firms purchase the loan portfolios at varying discounts from the banks, they can then reach an agreement with the borrower to repay their debt, possibly at a discount depending on each individual case.

Each participant was asked the following question; Are PE firms solutions providers? The following are the extracts from the transcripts showing the responses from each of the interviewees;

> *"Yes absolutely. Take for example a recent deal in Ireland. A solution is being provided to the selling bank as they are gaining liquidity from the sale of the portfolio. We are now providing a solution to the borrowers, as banks could not make any deals with the borrowers. If they can arrange a deal with the individual borrower, depending on the purchase price paid and once the PE firm makes a return. We are providing both a solution to the seller and the borrower, where the banks don't have the mandate to do a debt write-off for the borrower"* [P1].

> *"Who else is going to provide the solution. Either the corpse is going to rot, or someone is going to make some benefit out of it. We are in there at that point in time where liquidity is not available; we are providing liquidity which is vital to resuscitate the businesses or assets we are looking at. Because the different nature of assets that get into that state, we have to be innovative as to how we bring it back to life. If it was easy everyone would be doing it"* [P2].

> *"Yes absolutely... It comes back to the rebasing of the assets. The next person who comes in and buys the assets can actually reinvest in them, and create jobs while reinvesting. It also brings efficiencies to the market. If you have a restaurant owner, he has been loathed to drop his prices because he needs to generate revenue to pay off debt that really doesn't exist. The next person in will say I want to attract more customers, so drop the prices, do up the restaurant etc. Not only does it provide a solution to the borrower, it then provided stimulus back into the economy for the next person who buys the asset, as they will reinvest in it"*[P3].

It is evident from the responses above that PE firms provide a solution to a number of parties in the economy, from the banks to the borrowers. Most notably, as referred to earlier, is the provision of liquidity in an illiquid market. The next chapter will now discuss the findings from this research.

6. Discussion and Conclusion

This chapter will discuss the findings outlined from the qualitative research. The interpretations of the results obtained from the primary research are put forward. Other observations uncovered through the investigations performed during the course of this research are also presented. Finally, the limitations of the research and suggestions for future research are discussed

6.1. Discussion of Research Findings

The findings of the qualitative research, for transparency, have been broken down into 3 sections, which will address the research objectives.

6.1.1. Private Equity and the Economy

It is not the intent of this dissertation to analyse the economies of nations, or the determinants of the financial crisis, but it is an important element to address as it is the predecessor for the growing market of distressed debt. What you will find in this chapter is the data gleaned from the interviews conducted, and the views obtained from the experienced individuals who participated.

As noted in the literature review, the market for distressed assets and securities has seen extensive growth since the global financial crisis of 2008 (De Haas & Knobloch, 2010). There is much conjecture as to the cause of the crisis and also how long it will last. While some economies may be officially out of recession, the effect that the financial crisis has had on the financial services sector is still being felt. What was different about this financial crisis compared to previously recorded economic crises, was that it was experienced on an international scale across the world. Most economies would experience boom to bust cycles, but this would be limited to a specific economy, region, industry or country.

If the market and journalistic sentiment towards distressed debt is left aside, that being the attitude towards banks and financial institutions selling these portfolios at discounts, distressed debt is a major issue which has not yet been dealt with fully. The banking institutions, particularly in Ireland, have not been in the position to dispose of these problem assets from their balance sheets. As noted in the interviews, there is a substantial amount of these portfolios yet to be introduced to the market. NAMA and the Irish Bank Resolution Corporation (IBRC)[9] are only now beginning to sell some of their assets, but as P2 referred to this in the interview, the assets are only being slowly released on the market. The worrying scenario about this is that although when available they could present opportunities for PE firms, prospective purchasers will not wait inevitably. The risk to the economy is that these potential investors, including financial institutions and property investors, may seek investment in other countries, and the demand is far outweighing the supply, which could force prices to increase (Callanan, 2013).

The consequence of this is that PE firms could leave the market. The PE fund that investors have provided capital for, although quite substantial, is limited to the allocated capital totals. What this means is that PE firms have a limited time frame within which they need to invest in assets and securities. The investments will be made where opportunities exist, in any international market. This could have a prolonging effect on the crisis in Ireland through lack of investment, but it would be difficult to provide empirical evidence to justify this position. The basic rules of any market, whether it is financial or product orientated, is that there must be supply and demand. The supply was there, but the issue was liquidity, or the lack thereof. This is the power the PE firms hold, which is their unprecedented access to capital, supplied by their investors.

The lack of academic research in to the macroeconomic effects that PE firms can have on an economy makes it difficult to argue that PE firms can benefit an economy. As there has been no detailed quantitative research undertaken to analyse this area, the roles that a PE firm can play in an economy must be looked at individually, such as investments in businesses, and the solution that they can provide to the banks and borrowers. Some authors argue that PE had a very important role to play, both during and after the financial global crisis, through providing much needed funds to firms in distress (Cernohorska, et al., 2012, p. 1260).

---

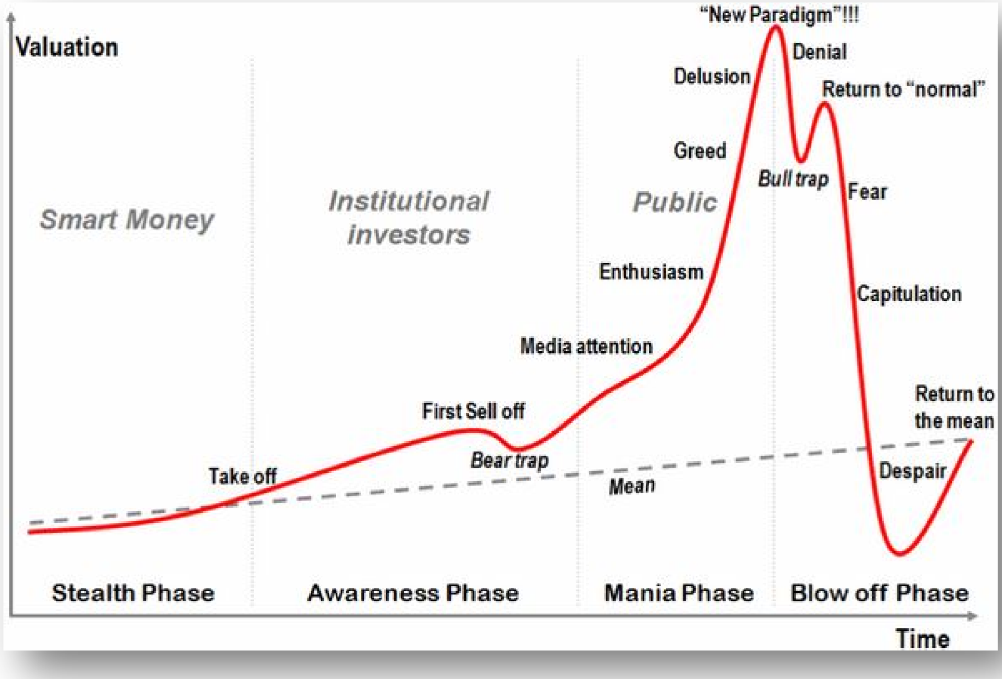
[9] IBRC is the financial institution formerly known as Anglo Irish Bank, currently in liquidation under management of KPMG.

Through the interviews, this research has been enabled to form an opinion, based on the information attained from the Executives working in a PE firm, which is that PE firms can contribute to an economy in a number of ways. Firstly, the PE firm provides employment in the economy, which is always a valuable contribution through employee taxes and the operation of the business cycle. Secondly, as shown in the literature, PE firms can provide a stimulus for innovation, productivity and competitiveness. From the interviews, a key phrase associated with PE firms is efficiencies, trying to get the most out of the assets you have. It could be argued that PE firms can contribute efficiencies to an economy, but the academic research would show that this is only on an individual business or company basis. It would require significant volumes to materially affect the efficiency of an economy.

Private equity will thrive where opportunities exist. The goal and business objectives of a PE firm are to provide a return to their investors, a yield that is higher than other investment routes such as stocks, bonds and deposits. As described in the interviews, PE firms will move geographic locations, usually targeting economies that have suffered some form of financial crisis, which until 2008 would have been limited to a particular economy or industry within that economy e.g. the banking industry in Japan following the Asian Financial Crisis in 1997. This type of economic shock reduces the prices of assets, and can then present opportunities between the cost of assets and the value which can be attained for the same assets.

Figure 8 is a chart developed by Dr. Jean-Paul Rodrique at the Hofstra University as an illustration of the market behaviours of participants and businesses during a boom-bust cycle (Behrmann, 2012). As shown in the interview with P1, the PE firms are usually the first to enter an industry experiencing financial difficulties, referred to as "smart money" in Figure 8. Once the PE firms enter, liquidity is provided to the market, and the market values of assets are rebased to a normal, acceptable level where value can be attained from them. While there is no in-depth research to propose that PE firms actually begin the boom cycle, it can be argued that they play a very prominent role in the recovery of an industry i.e. at the beginning of the new business or industry cycle.

Figure 8 Boom to Bust Cycle - Behaviour of Market Participants



Source: http://marketpredict.com/articles/mp-bubblecycle

From the primary research undertaken and the review of all available relevant literature, it is in the author's opinion that the PE industry does have the potential to contribute significantly to an economy in crisis. The notable absence of academic research into this area, specifically looking at PE in a macroeconomic context, makes this view subjective towards this research. On the basis that all interview participants, omitting the limitations discussed in the next section, are of the same opinion regarding the offering of PE firms to an economy, this objective of the research has been achieved as laid out in the research design. Future analysis of this area is deemed necessary, and covered in more detail in section 6.3 for further research.

6.1.2. Regulation and Legislation of PE

As in any industry, the legislation and regulations in place set the constraints in which a business can operate. This is normally done with a view to protecting individual, consumer or business interests in transactions that take place, and also to safeguard against corruption, fraud and other illegal activities that can have detrimental effects. The most notable fraud over the last number of decades has been

Bernie Madoff and his $65bn Ponzi scheme. While there are many explanations, opinions and accusations surrounding the operations of this scheme and why it was not uncovered sooner, the accepted cause is a failure in regulation on behalf of the SEC (Kattersky, 2013). What this shows is that even if regulation is in place, the monitoring and policing of this is vital in order to offer protection to stakeholders and investors.

The nature of regulation was discussed in the interviews, and all parties agreed that regulation is necessary, and by its very nature it is reactive to new developments. The Sarbanes Oxley Act, for example, was introduced following the collapse of Enron, thereby strengthening the guidelines and accounting reporting requirements of firms. P2 argued that there is a large disjoint between the policy makers who write legislation, the politicians who introduce it and what actually occurs in the marketplace. The findings from the interview were that the regulation in the PE industry is currently sufficient, and that as it is not as regulated as other financial services sectors, it allows the PE firms a certain amount of flexibility. This is the area where the innovations of financial structures occur, whereby firms seek to find the best investment platforms, tax structures and investment vehicles to maximise the return to the investor.

PE firms now have the requirement, in the US, of registering with the SEC and under the rules of the SEC, must implement certain compliance and regulatory procedures. While this is a development in terms of bringing more regulation to the industry, it so far has not affected the way in which firms can operate. But there was a clear statement made by the introduction of the Dodd-Frank Act, thereby imposing more regulations and legislation on the PE industry. During the interview, P3 said that “the lack of regulation is the single primary reason as to why we are where we are today”, referring to the after effects of the global financial crisis. Following from this, it was proposed that the PE industry should not be over regulated and legislated to the extent that competition on a global scale is affected.

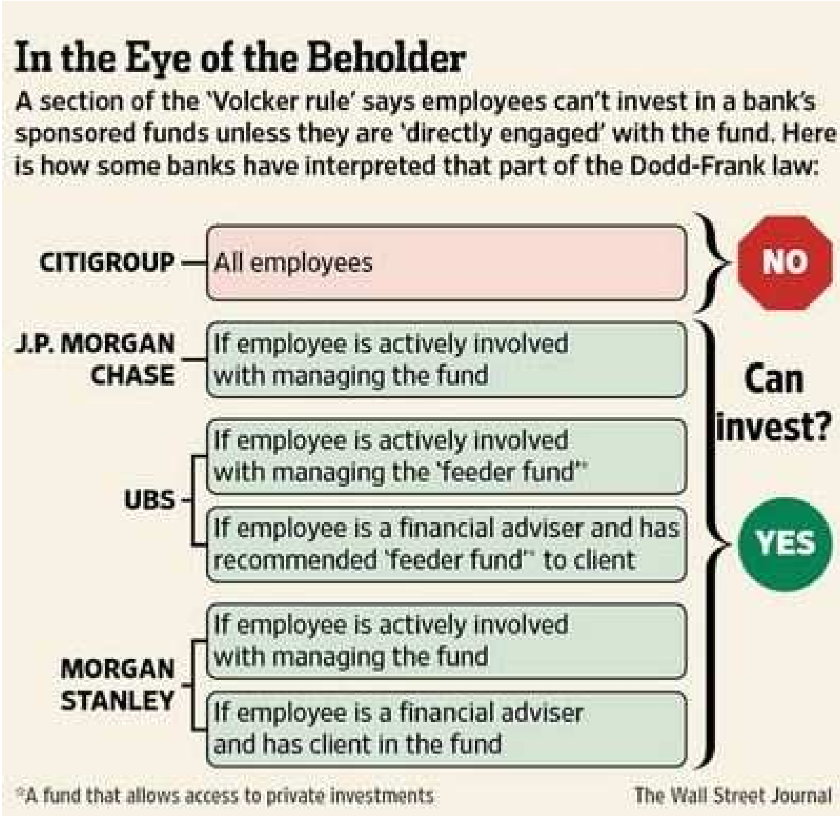
The Volcker Rule, part of the Dodd Frank Act, affects the participation of banking entities and their members in private equity. This has effectively reduced the ability of financial institutions to invest in PE, whereby a clear division must be maintained between the activities of investing member’s funds and investing their own funds

(Tarbert & Radetsky, 2011). The purpose of this is to reduce the risk of investment for banking institutions, in order to attempt to prevent the need for further capitalisations in the future. These are the type of external legislative influences which can affect the way in which the PE industry can operate, compete and invest on a global scale. P3 notes that currently the "lack of regulation" is appropriate for the activities that PE firms currently undertake. It is also strongly believed that further legislation could deter PE firms from future investments, thereby affecting the way in which they can contribute to or aid struggling industries and economies.

What is also important to understand is that legislation plays a developing role from when it is first introduced. What that means is that it can be changed or amended following its initial implementation. Figure 9 below shows the interpretations of 4 large US banks for the Volcker rule. The author believes that, as suggested by P2, there is a gap between the legislators and the industry and as such no legislation is perfectly thought out or understood.

The role of legislation can by as dynamic as an industry, although reactive. If the way an industry operates fundamentally changes, legislation must follow. The forms that financial products are now taking, new innovative ways of using financial products to make a return for a business or individual/investor, legislation can never be ahead of the market. What is relevant is that as legislation is introduced, firms are investigating other ways of conducting their business, in a legal sense. For every activity there is a rule or legal mandate, and for every rule or mandate there is an alternative solution.

Figure 9 Banking Institution's Interpretation of the Volcker Rule



Source: http://online.wsj.com/article/SB10001424127887324260204578583500020823038.html

Legislation plays an important role in the activities undertaken in industries all over the world. For the purposes of this research the legislation was looked at as an overview to determine the surface affects that it can have on the PE industry. It is the authors view that the legislation is not as excessive as in other industries, thereby allowing the PE firms to be flexible and alter the nature of their transactions. While the view could be argued that this is done for mitigation of tax expenses, and "lining the vulture capitalists pockets", as described in the interview process, this line of questioning was outside of the scope of this research. Summarily, legislation and regulation is a good thing as it protects investors in a vastly changing and dynamic transactional environment.

6.1.3. Are Private Equity Firms Solutions Providers

The phrase of being a solutions provider itself has a sense of grandeur where the PE industry will save economies in distress. The assumption of such a phrase is a one-for-all answer to the financial problems which economies and businesses have suffered since the global crisis. Although this is most certainly not the case, the objective of this research was to analyse the contributions to the PE industry can make towards economies in financial turmoil, from an individual business level to banking industries.

As identified in the literature review, the academic research is specifically directed at performances of PE funds, analyses of LBO's and the performance of PE firms and funds compared to stock market returns. All of these research directions and quantitative designs only look at the micro effect of private equity, and as such do not address the research question posed in this dissertation. But like a jigsaw all the pieces must be looked at separately and pieced together bit by bit. The limitations of this question is that it is difficult to identify in an empirical and quantifiable basis the overall financial contributions made by PE. This is compounded by the secretive nature of the industry, whereby previous research has indicated the opacity of information available.

As shown in the findings, all participants in the qualitative research believe, despite admitting their bias, that PE firms can provide a solution to various parties in times of economic challenges and turmoil. Despite the limitations of the sample, the population are representative of different departments and areas of work in the industry, their substantial business experience makes their opinions valid and informed. The approach taken here to discuss this objective in a logical manner is to break it up into different aspects.

Firstly, the PE industry has the ability to provide liquidity to an illiquid market. The funds raised by PE firms from investors amounts to billions of dollars, where it is currently estimated that as of 2012, over \$3.2trn of assets are currently under management by PE firms, an increase of 4% from 2011 (Hodkinson, 2013). PE firms have access to the capital committed from investors, and based on their business strategies and the specific strategy of the investment fund, seek out value in international markets. The banks in economies are incurring huge write-downs and provisions for bad debts, and as a result the market for distressed investments experienced massive growth. Although this is not a new industry, as previously discussed this level of financial difficulty has not been experienced like this before on a global scale. PE firms are now able to step in and purchase these debts, normally at a varying discount, and this then releases capital on behalf of the bank, enabling them to lend to other businesses.

From the point of view of struggling businesses, the VC and LBO side of private equity is able to look at businesses with potential and provide them with the necessary capital injection to improve their business and aid them in weathering the storm, so to speak. Apart from improving efficiencies within the business, the ability to provide necessary capital for survival, expansion or even the ability to compete on a global scale is extremely important. These struggling businesses would not have been able to raise sufficient funding from banking and lending financial institutions, due to the risk, and as a result may have closed or gone bankrupt. The metaphor of the "rotting corpse" referred to in the interviews enables a graphic understanding of the position that a lot of worthy businesses are in. Cash is king, and in times of growth a business which is in profit but has no cashflow can close very quickly.

Secondly, a solution is provided to the borrower of the original loans or financing. In the interview with P3, the participant said that deals could be struck with individual borrowers, on a case by case basis, to recover as much of the debt as possible, and this then provides the means necessary for the borrower to continue with their lives and possibly grow their own businesses. Debt write-off is not a common occurrence, but it does happen. The opposing argument to this point is that it is very difficult to accurately assess whether borrowers are in fact being given discounts and favourable settlements. This is not information that a researcher would be able to gain access to. This line of thought is on the basis of the information learned from the qualitative analysis, and as such is taken as an existing and actual occurring scenario.

Thirdly, the PE firms prompt the rebasing of asset values to deemed normal market levels, through the due diligence process of determining realistic valuations for the debt or underlying assets. As NAMA has effectively housed most of the non-performing loans secured against real estate, especially in Ireland, the lack of sales or supply of portfolios for sale makes it difficult to determine asset values. The rules of supply and demand affect the price being requested by a seller, and also the price offered from prospective purchasers. P2 notes that "every asset has a buyer and seller", and as such a market usually finds a balanced equilibrium.

There are a number of other aspects which could be considered solutions, such as the provision of expertise in debt management, asset management and also getting money flowing in an economy. The author believes that the PE industry does in fact have an ability to contribute on a large scale to an economy, especially one in distress and thereby be in a position to prove solutions. Unfortunately, in order for this to occur there are numerous factors which must take place for this to happen. The banks need to make a decision regarding their distressed debt, NAMA will soon start selling on their holdings and the banks must realise their provisions for the losses on their loan book, and effectively start writing down debt. As there is very little chance of the latter event taking place, the economic crisis has the potential to continue for a number of years, and with no assets on the market there is no room or need for the PE industry.

6.2. Limitations of the Research

The research conducted in this dissertation is not without its limitations, as is the case with most research. There are a number of areas to consider when determining the limitations imposed on this research, and can be categorised as follows; (i) choice of research methods and design, (ii) lack of availability of relevant academic research, and (iii) lack of generalizability.

6.2.1. Chosen Research Method

The research method used is qualitative in nature, using the interview as method of primary research. Given the nature of the PE industry, whereby the activities are mainly proprietary in nature for each firm, gaining information on specific funds, activities or operations is challenging. The focus of this research is macro-driven as opposed to micro-driven; meaning detailed workings of a PE firm would not have been of benefit to this research. The PE firms deal in highly sensitive information, and any references which were made to such information in the interviews were removed from transcripts for confidentiality purposes. The resulting effect is that examples are referred to in a generalised way. This makes the repeatability of the research difficult to achieve, and as such can present a challenge as to the reliability of the results.

Interviews by their very nature can be discounted as a primary source of data as the opinions and answers given are subject to the bias and interpretations of the participants in the research. As previously noted, the participants were employed by a PE firm, and as a consequence their responses could be biased towards their personal motivations of working in the industry.

As part of the interview process, a sample size of only three participants was achievable. Access to competing PE firms was deemed unachievable as the author is currently employed by a PE firm, and access would have been restricted. At all times the author was conscious of remaining unbiased to the research undertaken, but was cognisant of this fact while preparing the interview structure and questions.

6.2.2. Lack of relevant academic research

It has been outlined in the literature review that there has been little research conducted by academics on the contributions that PE firms can make on a macroeconomic level. As a result, the study's nature has become cross sectional, whereby specific areas of research were reviewed, and selected relevant contributions towards the macroeconomic effects were considered.

Further to this, there is a reliance placed on the secondary desk research undertaken for the literature review and the academic contributions to the understanding of the PE industry. When using other forms of research in forming an understanding of a topic or discipline, it is difficult to determine the control levels used when the research was conducted, or the ability to obtain confirmations of validity. As some of the literature referred to in this dissertation is formed from qualitative methods, the research has limitations similar to those outlined here.

6.2.3. Lack of generalizability

As a small sample population, sourced from one PE firm, was used in this research, the results obtained may not be reflective of the opinions in the industry as a whole. The results may be confined to the PE industry, and not transferrable into future research of other industries. It should also be noted that this research may be limited to a specific period in time, defined by a financial crisis, and also limited to a geographical location.

6.3. Implications and Further Research

All research undertaken in a business or academic environment has the vision of contributing either on a practical or literary and academic sense. The research undertaken here has not been significantly investigated previously by other researchers, and as such will hopefully help guide future research into understanding private equity in a macroeconomic sense. This research has only touched on the surface of the topic.

One direction this research could take in the future would be to increase the sample population, across varying firms in different sectors of the PE industry. Following the research outlined in Chapter 05, in order to gain a detailed understanding of the PE industry, future research could endeavour to analyse specific companies and firms competing in the industry, with a view to gaining a more in-depth knowledge regarding the operating practices and contributions that any of these firms can specifically make towards economic recovery. Specific company financial performance and operational characteristics could endeavour to discover the true successes of PE firms, from the asset and security purchase selection procedures, the due diligence process and the active asset management that follows.

Another interesting direction that could be taken is analysing and comparing the PE industry affects on the economy on an international scale, thereby looking at two or more different economies to determine trends, similarities and potential solutions used on one economy that could be transferrable to another.

A topic not discussed in detail in this dissertation, due to the irrelevancy to this research, is the perception of the PE industry as being “vulture capitalists”. This view was addressed in the interviews with all participants. While the attitude towards this phrase was one of understanding, typically due to the nature of the industry, and the public’s perception of it through “sensationalist journalism”, a sociological understanding of the industry could aid in determining how this perception can affect the industry, from the point of view of raising capital, and also for introducing further regulations and legislation.

7. References

Ang, A., Gorovyy, S. & Van Inwegan, G., (2011). Hedge Fund Leverage. *Journal of Financial Economics,* 102(1), pp. 102-126.

Angen, M., (2000). Evaluating interpretive inquiry: Reviewing the validity debate and opening the dialogue.. *Qualitative Health Research,* 10(3), pp. 378-395.

Applebaum, E. & Batt, R., (2012). *A Primer on Private Equity at Work: Management, Employment and Sustainability.* Washington DC: Center for Economic and Policy Research.

Askeland, E., (2012). *Lloyds sells debt package.* [Online]
Available at: http://www.scotsman.com/business/banking/lloyds-sells-debt-package-1-2676659
[Accessed 09 December 2012].

Bance, A., (2004). *Why and How to Invest in Private Equity,* Belgium: EVCA.

Barber, F. & Goold, M., (2007). The Strategic Secret of Private Equity. *Harvard Business Review,* Issue Sep 2007, pp. 53-61.

Beck, R., Jakubik, P. & Piloiu, A., (2013). *Non-Performing Loans - What Matters in Addition to the Economic Cycle?,* s.l.: ECB Working Paper Series, No. 1515.

Behrmann, N., (2012). *Bubble cycle-- Momentum, delusion, despair, hope, recovery.* [Online]
Available at: http://marketpredict.com/articles/mp-bubblecycle
[Accessed 28 August 2013].

Bernstein, S., Lerner, J., Sorensen, M. & Stromberg, P., (2010). *Private Equity and Industry Performance.* No. w15632: National Bureau of Economic Research.

Bryman, A. & Bell, E., (2011). *Business REsearch Methods.* 3rd ed. Oxford, UK: Oxford University Press.

Burgess, R. G., (1984). *In the Field: An Introduction to Field Research.* 1st ed. London: George Allen & Unwin.

Callanan, N., (2013). *Bidders' fatigue here could force investors abroad.* [Online]
Available at: http://www.independent.ie/business/irish/bidders-fatigue-here-could-force-investors-abroad-29416864.html
[Accessed 29 August 2013].

Cao, J. & Lerner, J., (2006). *The Performance of Reversed Leveraged Buyouts.* No. 12626: National Bureau of Economic Research.

Central Bank of Ireland, (2013). *Financial Statistics Chart Pack.* [Online]
Available at:
http://www.centralbank.ie/polstats/stats/summarychart/Documents/ie_financial_statistics_summary_chart_pack.pdf
[Accessed 22 August 2013].

Cernohorska, L., Linhartova, V., Sinka, M. & Teply, P., (2012). The role of Private Equity during Global Crises. *In Proceedings of World Academy of Science, Engineering and Technology,* Volume 65, pp. 1259-1262.

Cole, F., (1988). Content analysis: process and application. *Clinical Nurse Specialist,* Volume 2, pp. 53-57.

Coval, J., Jurek, J. & Stafford, E., (2009). The economics of structured finance. *The Journal of Economic Perspectives,* 23(1), pp. 3-26.

Creswell, J. W. & Miller, D. L., (2000). Determining validity in qualitative inquiry. *Theory into Practice,* 39(3), pp. 124-131.

Davidoff, S. M., (2009). The Failure of Private Equity. *Southern California Law Review,* Volume 82, pp. 481-546.

Davies, D. & Dodd, J., (2002). Qualitative research and the question of rigor. *Qualitative Health Research,* 12(2), pp. 279-289.

De Haas, R. & Knobloch, S., (2010). *In the wake of the crisis: dealing with distressed debt across the transition region.* Working Paper: EBRD.

Diamond, S., (2011). Beyond the Berle and Means Paradigm: Private Equity and the New Capitalist Order. *Santa Clara Law Digital Commons,* Issue Jan, pp. 151-173.

Diener, E. & Crandall, R., (1978). *Ethics in social and behavioral research.* Oxford: University of Chicago Press.

Eisenhardt, K. M., (1989). Building Theories from Case Study Research. *Academy of Management Review,* 14(4), pp. 523-550.

Espinoza, R. A. & Prasad, A., (2010). Nonperforming Loans in the GCC Banking System and their Macroeconomic Effects. *IMF Working Papers,* 10(224).

European Private Equity and Venture Capital Association, (2006). *What is Private Equity?.* [Online]
Available at: http://evca.eu/what-is-private-equity/
[Accessed 30 July 2013].

EVCA, (2013). *Exploring the Impact of Private Equity on Economic Growth in Europe,* London: Frontier Economics.

Financial Stability Oversight Council, (2013). *2013 Annual Report,* Washington D.C.: FSOG.GOV.

Forbes.com, (2003). *One Year Later, The Impact Of Sarbanes-Oxley.* [Online] Available at: http://www.forbes.com/2003/07/22/cz_af_0722sarbanes.html [Accessed 12 August 2013].

Froland, C. G., (2005). *Private Equity in a Low-Return World.* New York City, CFA Institute Conference Proceedings.

Glaser, B., (1978). *Theoretical Sensitivity.* Mill Valley, CA: Sociology Press.

Gompers, P. & Lerner, J., (2002). *The Venture Capital Cycle.* 2nd ed. Massachusetts: MIT Press.

Greenwald, J., (1988). Where's the Limit? Ross Johnson and the RJR Nabisco Takeover Battle. *TIME*, 05 Dec.

Guba, E. G. & Lincoln, Y. S., (1994). *Competing Paradigms in Qualitative Research.* N.K. Denzin and Y.S. Loncoln ed. Thousand Oaks, CA: Sage Publications.

Hochschild, A. R., (1983). *The Managed Heart: Commercialization of Human Feeling.* 1st ed. Berkeley: University of California Press.

Hodkinson, P., (2013). *Private equity manoeuvres for elbow room.* [Online] Available at: http://www.efinancialnews.com/story/2013-02-04/private-equity-manoeuvres-for-elbow-room?ea9c8a2de0ee111045601ab04d673622 [Accessed 28 August 2013].

Hwang, V. W., (2012). *What's the Difference Between Private Equity and Venture Capital?.* [Online] Available at: http://www.forbes.com/sites/victorhwang/2012/10/01/presidential-debate-primer-whats-the-difference-between-private-equity-and-venture-capital/ [Accessed 09 December 2012].

Investopedia, (2008). *Leveraged Buyout - LBO.* [Online] Available at: http://www.investopedia.com/terms/l/leveragedbuyout.asp [Accessed 12 August 2013].

Investopedia, (2013). *Asset-Backed Security.* [Online] Available at: http://www.investopedia.com/terms/a/asset-backedsecurity.asp [Accessed 20 August 2013].

Investopedia, (2013). *Collateralized Debt Obligation - CDO.* [Online] Available at: http://www.investopedia.com/terms/c/cdo.asp [Accessed 20 August 2013].

Investopedia, (2013). *Commercial Mortgage-Backed Securities (CMBS).* [Online]
Available at: http://www.investopedia.com/terms/c/cmbs.asp
[Accessed 20 August 2013].

Investopedia, (2013). *Residential Mortgage-Backed Security (RMBS).* [Online]
Available at: http://www.investopedia.com/terms/r/rmbs.asp
[Accessed 20 August 2013].

Jensen, M., (1989). The eclipse of the public corporation. *Harvard Business Review,* Volume 67, pp. 61-74.

Jones, M., (2010). *BBC Newsnight - UK stops 'vulture funds' picking on poor.* [Online]
Available at: http://news.bbc.co.uk/2/hi/programmes/newsnight/8610062.stm
[Accessed 19 December 2012].

Kaplan, S., (1989). The Effects of Management Buyouts on Operating Performance and Value. *Journal of Financial Economics,* 24(2), pp. 217-254.

Kaplan, S. N. & Stromberg, P., (2008). *Leverage Buyouts and Private Equity,* Cambridge, MA: National Bureau of Economic Research.

Kaplan, S. & Schoar, A., (2005). Private Equity Perfoemance: Returns, Persistence and Capital Flows. *The Journal of Finance,* LX(4), pp. 1791-1823.

Kattersky, A., (2013). *SEC Not Liable for Missing Bernie Madoff Scheme: Court.* [Online]
Available at: http://abcnews.go.com/blogs/headlines/2013/04/sec-not-liable-for-missing-bernie-madoff-court/
[Accessed 30 August 2013].

Klingebiel, D., (2000). *The use of asset management companies in the resolution of banking crises cross-country experience.* World Bank Policy Research: Working Paper Series.

Kosman, J., (2009). *The Buyout of America: How Private Equity will Cause the Next Great Credit Crisis.* New York: Penguin.

Kuhn, T. S., (1970). *The Structure of Scientific Revolutions.* 2nd ed. Chicago: University of Chicago Press.

Kynga, S., (2007). The Qualitative Analysis Process. *JAN Research Methodology,* Volume 62, pp. 107-115.

Lerner, J., (2011). The Future of Private Equity. *European Financial Management,* 17(3), pp. 423-435.

Lerner, J., Schoar, A. & Wong, W., (2007). Smart Institutions, Foolish Choices?: The Limited Partner Performance Puzzle. *Journal of Finance,* Issue 62, pp. 731-64.

Man Investments, (2008). *Hedge Fund Investing in Distressed Securities,* London: Man Group.

Mangum, D., (2012). *Private Equity and Venture Capital: What's the Difference?.* [Online]
Available at:
http://siliconflatirons.com/documents/publications/report/20120306PEVCreport.pdf
[Accessed 09 December 2012].

Merton, R. K., (1967). In: *On Theoretical Sociology.* New York: Free Press, p. 39.

Meyer, T., (2006). Private equity, spice for European economies. *Journal of Financial Transformation,* Volume 18, pp. 61-69.

Miles, M. B. & Huberman, M. A., (1994). *Qualitative Analysis: An Expanded Sourcebook.* 2nd ed. CA: Sage.

Morgan, D., (1993). *Successful Focus Groups: Advancing the State of the Art.* California: Sage Publications.

National Venture Capital Association, (2013). *NCVA Yearbook 2013,* New York: Thomson Reuters.

Patton, M., (2002). *Qualitative Evalutation and Research Methods.* 3rd ed. Thousand Oaks, CA: Sage Publications Inc..

Pesaran, M. H., Schuermann, T., Treutler, B. J. & Weiner, S. M., (2006). Macroeconomic Dynamics and Credit Risk: A Global Perspective. *Journal of Money, Credit, and Banking,* 5(38), pp. 1211-1261.

Phalippou, L. & Gottschalg, O., (2009). The Performance of Private Equity Funds. *The Review of Financial Studies,* 22(4), pp. 1747-1776.

Pinedo, A. T., (2009). Removing toxic assets from balance sheets: Structures based on the good bank-bad bank model. *Journal of Securities Law, Regulation & Compliance,* 2(4), pp. 289-309.

Private Equity Council, (2009). *What's Wrong with Josh Kosman's New Book: "The Buyout of America".* [Online]
Available at: http://www.pegcc.org/wordpress/wp-content/uploads/Whats-Wrong-with-Kosmans-Book-11-25-03-.pdf
[Accessed 22 August 2013].

Reddan, F., (2012). *The VCs eyeing up Ireland's distressed assets.* [Online]
Available at:

http://www.irishtimes.com/newspaper/finance/2012/0507/1224315684226.html
[Accessed 30 January 2013].

Reuters.com, (2012). *Lloyds sells $2.3 billion Irish loans at 90 percent discount.* [Online]
Available at: http://www.reuters.com/article/2012/11/19/us-lloydsbank-ireland-idUSBRE8AI0SP20121119
[Accessed 09 December 2012].

Samila, S. & Sorenson, O., (2011). Venture capital, entrepreneurship and economic growth. *The Review of Economics and Statistics,* 93(1), pp. 338-349.

Shadab, H. B., (2009). Coming Together After the Crisis: Global Convergence of Private Equity and Hedge Funds. *Northwestern Journal of International Law & Business,* Volume 29, pp. 603-616.

Shiller, R. J., (2008). *The Subprime Solution.* 1st ed. New Jersey: Princeton University Press.

Shleifer, A. & Vishny, R., (2011). Fire Sales in Finance and Macroeconomics. *Journal of Economic Perspectives,* 25(1), pp. 29-48.

Smith, A., (1990). Corporate Ownership Structure and Performance. *Journal of Financial Economics,* Volume 27, pp. 143-164.

Sociological Association of Ireland, (2012). *Ethical Guidelines.* [Online]
Available at:
http://www.sociology.ie/docstore/dls/pages_list/3_sai_ethical_guidelines.pdf
[Accessed 20 August 2013].

Strauss, A. & Corbin, J. M., (1998). *Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory.* CA: Sage.

Stromberg, P., (2009). *The Economic and Social Impact of Private Equity in Europe: Summary of Research Findings.* [Online]
Available at: http://ssrn.com/abstract=1429322
[Accessed 15 August 2013].

Suman, S., Sharan, S. & Sachan, A., (2012). A Review of Research Methodologies in Private Equity: 2005-(2011). *The Journal of Private Equity,* Issue Summer 2012, pp. 33-56.

Sweet, W., (2010). *Dodd-Frank Act Becomes Law.* [Online]
Available at: http://blogs.law.harvard.edu/corpgov/2010/07/21/dodd-frank-act-becomes-law/
[Accessed 23 August 2013].

Talmor, E. & Vasfari, F., (2011). *International Private Equity.* [Online] Available at: http://media.wiley.com/product_data/excerpt/03/04709717/0470971703-63.pdf [Accessed 09 December 2012].

Tarbert, H. & Radetsky, A., (2011). The Volcker Rule and the Future of Private Equity. *The Review of Banking & Financial Services,* 27(5), pp. 43-52.

Thomas, D., (2004). Contrasting Modes of Recourse for International Corporates in Financial Distress. *Foresight Business Journal,* Volume 11, pp. 12-21.

Wainwright, F., (2003). *Note on Limited Partnership Agreements.* [Online] Available at: http://mba.tuck.dartmouth.edu/pecenter/research/pdfs/LPA.pdf [Accessed 20 August 2013].

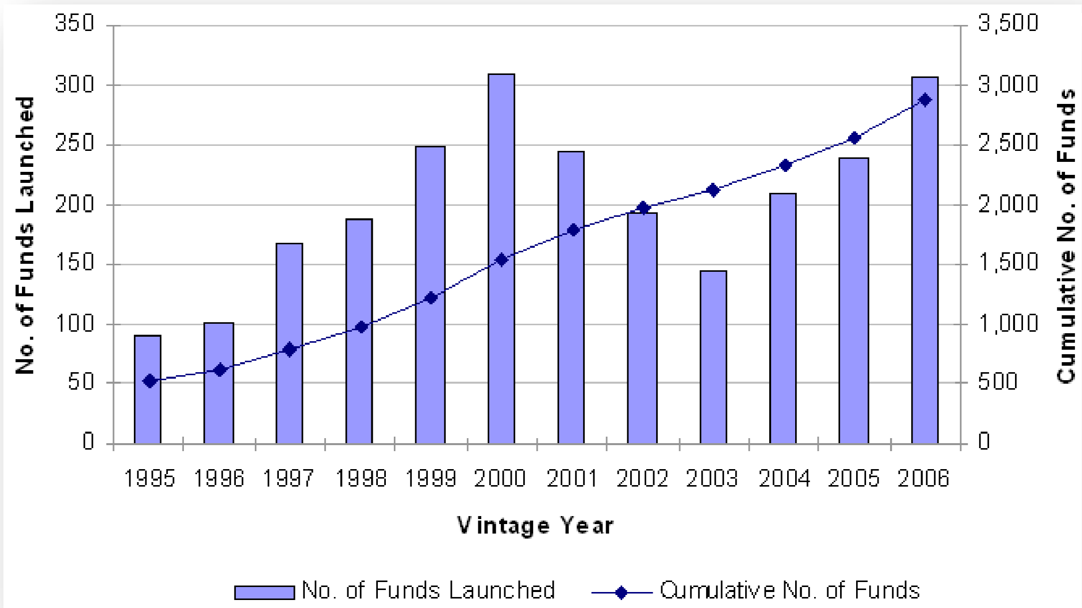
White, B., (2000). *Dissertation Skills: For Business and Management Students.* 1st ed. London: Cassell.

Yin, R. K., (1994, 2003). *Case Study Research: Design and Methods.* 1st ed. Thousand Oaks, CA: Sage Publications Inc.

8. Appendices

8.1. Appendix 1: Growth of Global Private Equity Fund Numbers from 1995-2006

Figure 10 Growth of the number of Global PE Funds 1995-2006



Source : http://www.eurekahedge.com/news/07_feb_gpe2006_overview.asp

8.2. Appendix 2: Interview Guide

Interview Questions

---

1. Tell me about your own personal experience in the Private Equity Industry.
2. How has the industry changed, if at all, over the past 10 years?
3. What is the ultimate goal of a Private Equity firm?
4. What is your opinion of the phrases "Vulture Capitalism" and "Vulture Firms"?
5. How are investments sought after?
6. Would you consider private equity firms as solutions providers?
7. Do you feel that private equity firms can benefit an economy? If so, how?
8. Is Europe the best region for distressed debt?
9. Is this market sustainable in the long term?
10. How was the market affected after the bankruptcy of Lehman Brothers, exit of large players such as Merril Lynch etc?
11. Do trust and/or confidence exist in the industry?
12. High profile deals recently of nationalised bank selling of portfolio of their loans to improve the capital on their Balance Sheets. In your opinion does this not make a bad situation worse?
13. New regulations in Private Equity Industry, SEC Regulation, Dodd Frank Act. Is this going to help the industry or hinder it?
14. Is there too much or too little regulation, transparency or legislation in the industry?
15. What do you think would improve the industry overall?
16. Where do you see the private Equity Industry in 10-20 years?
17. Any other relevant points to make in addition to what we have discussed?

8.3. Appendix 3: Consent to Participate in Interview Form

CONSENT TO PARTICIPATE IN INTERVIEW

You have been asked to participate in a research study conducted by Eoghan O'Mahony from the Year 2 MBA class at the National College of Ireland. The results of this study will be included in the dissertation by Eoghan O'Mahony for the MBA.

You should read the information below, and ask questions about anything you do not understand, before deciding whether or not to participate.

• This interview is voluntary. You have the right not to answer any question, and to stop the interview at any time or for any reason. I expect that the interview will take about 45 minutes in duration.

• Unless you give permission to use your name, title, and / or quote you in any publications that may result from this research, the information you tell us will be confidential.

• I would like to record this interview so that I can use it for reference while proceeding with this study. I will not record this interview without your permission. If you do grant permission for this conversation to be recorded, you have the right to revoke recording permission and/or end the interview at any time.

This project will be completed by September 09th 2013. All interview recordings will be stored in a secure work space until 1 year after that date. The recordings will then be destroyed. Should you wish, a copy of the recording can be made available to you.

I understand the procedures described above. My questions have been answered to my satisfaction, and I agree to participate in this study. I have been given a copy of this form.

(*Please check all that apply*)

[ ] I give permission for this interview to be recorded.

[ ] I give permission for the following information to be included in publications resulting from this study:

[ ] my name [ ] my title [ ] direct quotes from this interview

Name of Subject

Signature of Subject ________________________________ Date __________

Signature of Investigator ____________________ Date ________

Please contact Eoghan O'Mahony with any questions or concerns.

8.4. Appendix 3: Content Analysis Coding Schedule

Coding Schedule		
Research Objectives		
Objective 1: Determine whether private equity can be described as a solutions provider.	Sub-Objective 1: Determine how regulation and legislation affects private equity	Sub-Objective 2: Determine how the banking industries and the economy can affect private equity
Themes: the following themes were used as part of the coding process		
Coding: Themes focusing on solutions provision	Coding: Themes focusing on regulation and legislation	Coding: Themes focusing on the economy and banking industry
Key words: the following key words were used as part of the coding process		
Borrower	Regulation	Economy
Solution	Legislation	Financial Crisis
Efficiency / Efficiencies	Regulator	Banks
Values	Banking	Government
Rebasing of Debt	Consumer	
	Capital adequacy ratio	

8.5. Appendix 4: Content Analysis Coding Colour Guide

Colour coding guide
Private Equity and the Economy
Regulation and Legislation
Are PE firms solutions providers