

MARKETING MECHANISMS ...

In return for financial support, portfolio companies should expect to accommodate their investors on several levels. Venture funds typically expect rights such as:

- A seat or seats on the board of directors
- Approval of the annual company strategy
- Approval of all expenditures above a certain preset level
- First refusal on future financing and anti-dilution protection
- Guarantee that the entrepreneur remains with the company

Since a fund will have many investments, the above conditions are meant to protect the fund's investment against problems within the control of management; notwithstanding this, the fund managers typically abstain from managing their portfolio companies, so a great deal of latitude is given to the management to pursue their mission.

Industry representatives list reasons why proposals can go awry. The most common have to do with the management of the portfolio company. The management may show too little commitment, financial or personal, or it may simply be inexperienced in the field of SMEs. Another consideration is the perception that there is an incomplete team in place, or overdependence on a certain individual. Other objections have to do with the company's strategy, as it may have tunnel vision and be too narrowly focused, or lack comprehensive research. Also, while all these factors may be in the company's favor, if the market is too small or competitive, and growth will be slow, the chance for investment will be greatly diminished.