



Why Venture Capital is the Engine in all Economies

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Tuesday, April 26, 2016

Venture capital is important to study because it is an important driver in the entrepreneurial economy. Especially in like these, where the United States is experiencing a transition from a “decaying” industrial economy to an “emerging” entrepreneurial economy. The entrepreneurial economy, made up of small high-growth organizations, is providing American society with a larger source of jobs than larger organizations. Since 1979, companies in the Fortune 500 have shown a net

decrease in employment of 4 million jobs; During the same time frame, the entrepreneurial economy has created a net increase of 20 million jobs. For this reason, we are motivated to learn more about what makes a successful venture capitalist in order to find ways to promote and enable this important sector in the economy.

Furthermore, we observe a paradox in the field of venture capital. VC is considered a part of the financial services industry, and many people with finance backgrounds occupy

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positions of General Partner or Associate. Yet, the job of venture capitalist appears to be centered on non-financial activities. The true focus tends to be on human capital or “people issues.” Venture capital firms have two top two criteria to be considered “essential” when making an investment decision pertained to human capital. These two elements were: 1) the entrepreneur’s capability of sustaining intense effort, and 2) the entrepreneur’s familiarity with the market targeted by the venture. As a venture capitalist I agree that the human capital embodied by the lead entrepreneur is the primary criterion for evaluating a proposed venture.

Along this note, it is valid to mention that the human capital of management is a stronger predictor of venture performance than factors related to the product, service, or financial position of the new venture.

IS IT QUANTITATIVE OR QUALITATIVE?

Certain skill sets are important for success in venture capital. Would we in our group find that quantitative, financial or technical skills are most

important? Or would we find out that skills related to the assessment and development of the human capital of the management team are most important for success?

The evidence from past research and investments since the beginning of our family ventures in 1930s as well as many current university studies suggest that the true drivers of success in venture capital are more closely related to human capital issues than financial issues. Hence, the “lifecycle” approach describes success in venture capital: why people get into the field, and then what makes them successful.

THE RELATIONSHIPS

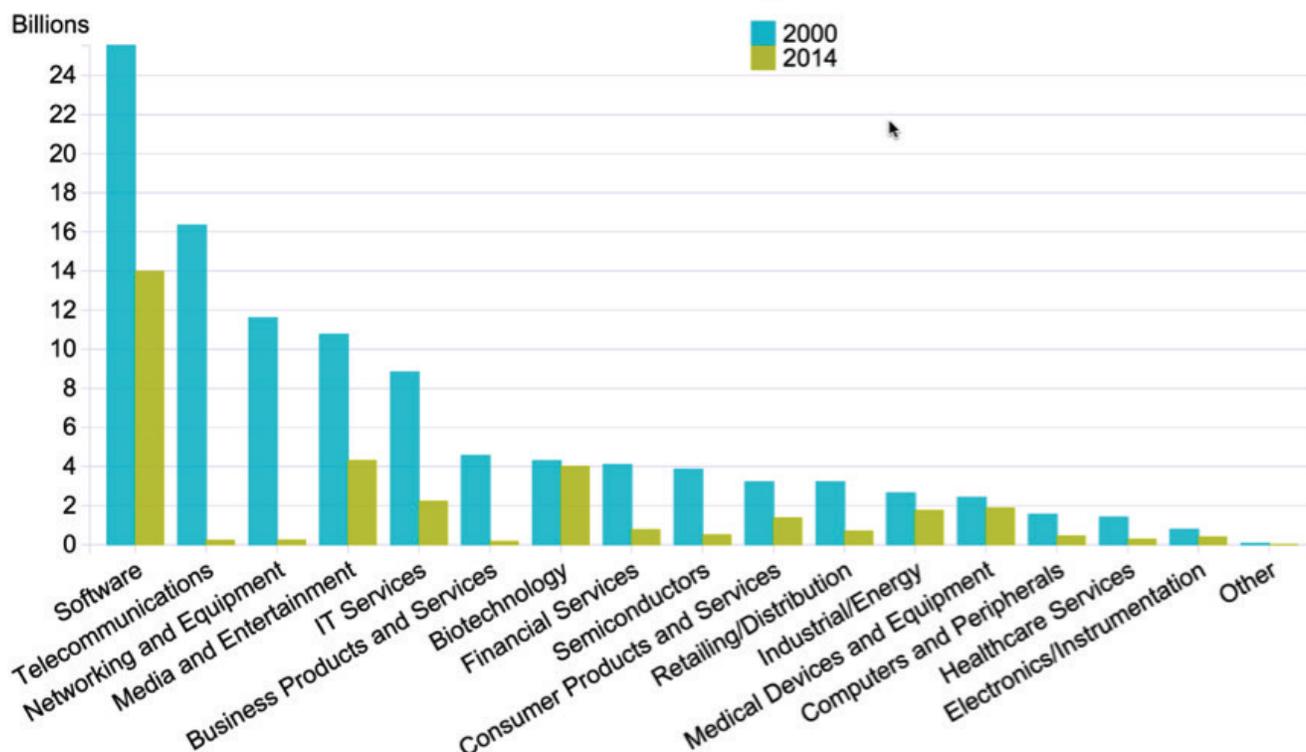
Post-investment, we as venture capitalists tend to spend most of our time coaching senior management. “Star” venture capitalists spend an even greater percentage of their time coaching senior management and recruiting managers. As one of the leading venture capitalists explains, serving as an advisor to CEOs between board meetings is one of the most important jobs of the venture capitalist. Topics of these discussions include strategy, personnel needs or problems,

and using the venture capitalist as a “sounding board” for ideas.

Another important observation is the job of CEO can be a lonely one and often, a CEO needs somebody to provide an objective point of view as well as emotional and collegial support. One industry leader said that the CEO would occasionally call the venture capitalist on a Friday afternoon with a problem that is on his or her mind—so the VC can ponder the problem over the weekend as well. These are some of the ways that we in our group as venture capitalists coach senior management.

Recruiting talented management is done several ways. We have large professional networks. We use the phone a lot to ask our contacts for referrals to talented managers. Or we have breakfast, lunch or dinner meetings with leaders of a particular industry to share information and build relationships. Venture capitalists also use technology conferences to meet a lot of managers. I knew of one venture capitalist in Silicon Valley who founded an invite-only CEO conference for an industry. That way, he gets to know key managers in that industry in case he needs referrals or direct access to talent for portfolio companies.

VC Investment Favourites By Year



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The Soriano Group VC Techniques Advisory

- ✓ Make the right target audience more aware of venture capital
- ✓ Build awareness/educational programs targeting the top universities. Target both technology and non-technology major students with high levels of.
- ✓ Consider similar programs for employees of top technology corporations.
- ✓ Targeted audience should be those directly involved with technology research and development as well as those with corporate or product strategy/management perspectives such as corporate strategies, product marketing and business development.
- ✓ Start “Kauffman Program” along with marketing efforts to create awareness of attractive aspects of venture capital business such as intellectual stimulation.
- ✓ Promote role models of entrepreneurs and venture capitalists. This will also encourage acceptability of taking risks.
- ✓ Build density of venture capitalists to increase awareness as well as likelihood of contacts.
- ✓ Consider starting or enhancing an industry association that strongly promotes marketing efforts and other common interests of the venture capital industry
- ✓ The awareness/educational programs targeted at top schools as described above also may contribute to creating density. Provide appropriate financial rewards
- ✓ Encourage venture capital firm structures that allow capital gain sharing with strong upside potential. In doing so, avoid double

taxation at firm level and individual venture capitalist level.

- ✓ Build effective capital market(s) that allow quick liquidity, NASDAQ. Consider encouraging more M&A activities. Develop people correctly.
- ✓ Also consider establishing training program through long-term (two to three years or more) internship programs in the U.S. and through on-the-job training with experienced VCs
- ✓ Develop appropriate VC firm structures
- ✓ Encourage firms to establish real partnerships with little hierarchy, collaboration, open information flows and capital gains sharing
- ✓ Leverage outside resources for domain expertise
- ✓ Encourage hiring people with networks. Target those with some

industry experiences rather than new graduates.

- ✓ Encourage open sharing of ideas.
- ✓ Encourage working outside the firm (“virtual company”) Within a venture capital firm, spend time on the right operational priorities
- ✓ Emphasize management evaluation, coaching and strategizing
- ✓ Focus less on detailed financial analysis
- ✓ (The appropriate role for a venture capitalist is as an active business builder, not a passive banker.)

Mr. Marco A Soriano, President & CEO presenting to NYU Undergrad and graduate students on April 23rd, 2016 about the current VC investments in Europe.

