

## CHAPTER 7

### CONCLUSIONS

This chapter will condense the whole study into relevant conclusions and include other important aspects that merit discussion.

#### 7.1 Conclusions to Empirical Study

One of the most striking results of this paper is that not all “traditional” corporate venture capital firms follow the same approach. VC Firm B has significantly different investment strategy in comparison to VC Firm A and C, especially in terms of investment criteria.

However, several percentages in terms of asset allocation are quite similar among different venture capitalists. The reality is that in this industry there are many smaller players that tend to follow the bigger ones, situation also confirmed by some of the interviewees. But also, it seems that top-tier venture capitalists “move” in similar directions, as looking at almost identical percentages in mezzanine stage investments from VC Firm C and the industrial bank.

Although VC Firm A believes in highly innovative technologies it also overweighs the mezzanine stage investment, meaning that the company still follows a quite conservative investment strategy. That statement can be further confirmed as the interviewee affirmed that a good business model might be more important than just a new product.

VC Firm B strictly invests in start-up companies that have been profitable for at least two years. Some experts questioned if the VC Firm B can be considered a venture capitalist which is traditionally a risk taker. But for the fact that the company provides added-value services to the start-up such as strategic business consulting and assists the entrepreneur in other activities is that it was decided to include this venture capital fund manager in this paper, especially since it proves that not all players in the Taiwanese market strictly follow the same approach for this type of investments.

VC Firm C seems to have a great advantage by having established branch offices located in major cities in Asia and the United States. Not only in terms of deal flows

but also as it claims it can provide customers with a more internationally-based network. Something like this is what a venture capitalist such as VC Firm A would need in order to expand their capabilities for doing investments abroad and not limiting those foreign investments just to start-ups founded by Taiwanese immigrants or with Chinese background. Other Taiwanese venture capitalists should evaluate the benefit/cost of setting up branch offices abroad.

However, it's important to note that VC Firm C prefers investments in China to the US, probably a confirmation of VC Firm A's belief that with ethnic Chinese entrepreneurs is easier to communicate not only in terms of language but also including cultural factors. As venture capitalists and entrepreneurs must commit to an active cooperation relationship, this factor definitely is essential to minimize future problems.

VC Firm C seems to be quite advanced in terms of analysis as it was the only interviewed venture capitalist to specifically mention the execution of sensitivity analysis factoring critical points such as R&D financing, etc. It must be especially important to do this type of analysis for high-tech start-ups which are mostly immersed in very unstable business conditions. Sensitivity analyses can provide a better picture and predictions of when, how and why things could go wrong. VC Firm C was the only company to mention an employee development program for its employees. This is truly necessary to emphasize. The high-tech industry in Taiwan changes rapidly and the innovation skills of the island are very strong. This is why it is necessary for venture capitalists to be highly updated about the future trends in technology in order to predict the evolution that both the whole industry and each venture capital company will experiment. The best example to illustrate the importance of this was provided by the Taiwan Venture Capital Association (TVCA) as it recalled when the founder of Yahoo! Inc. came to Taiwan in search of venture capital support and had many difficulties as many of the venture capitalists didn't even know what Internet was.

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It's a fact that the life insurance company must learn a lot from the other venture capitalists. Although venture capital is only a very small part of its investment universe, the reality is that the company has a lot of capital invested in this industry and it should do more to improve its capabilities and of its employees working in this type of investments in order to perform a more competitive job. It certainly has the

means to learn from and it has some resources that others don't such as a truly large network; it should exploit those resources more efficiently in order to do a more proactive venture capital investing.

The industrial bank mentioned in its general investment criteria, the importance for the entrepreneurial organization to have a balance of both a technical knowledge and business management skills. According to the literature reviewed in chapter 3, this is not easy to find in high-tech start-up companies as founders usually tend to lack management skills; that's why in theory, the entrepreneurs are not only in search of monetary resources but also of added-value services that actually have helped create what venture capital is today. In regards to the outsourcing of capital to other venture capital fund managers, the bank only mentioned "risk diversification" as a reason, but not learning from them. Although the bank has more years of experience than most of the other players in the industry, it should be possible to learn something from them, including other industrial banks, etc.

## **7.2 Criticism of Methodology**

Because of the reduced number of venture capitalists included in the original survey, the original survey is not a random sample. Consequently, an issue to keep in mind for this study, is the fact that it may not be representative of the whole reality.

Although it is ideal to survey a more representative sample, the low response rate obtained after soliciting information definitely limited this paper's boundaries.

This paper has been written entirely by a foreign MBA candidate residing in Taiwan for less than two and a half years. There is a risk that some misinterpretations of information collected have been induced by different cultural backgrounds.

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## **7.3 Suggestions for further research**

This paper is limited by the few number of companies included in the investigation. Having access to more corporate venture capital firms, industrial banks, insurance companies, plus including other institutions that also invest in venture capital such as securities firms, financial holding companies, commercial banks and corporations (TSMC, UMC) would provide more consistent means for comparison. Certain points

are not covered by this thesis but that are in essence truly interest such as the Taiwanese “gray market”; further research on these topics should be quite appealing.