

CHAPTER 1

INTRODUCTION

In this first chapter, an introduction will be given to the readers, regarding the parameters and background included for this research paper. A further discussion of the problem that motivated this work will be discussed, followed by the main purpose of analyzing this subject.

1.1 Background

It's no secret for the whole world that Taiwan's high-tech industry has stimulated the island's economy through generation of leading technologies, creation of highly-skilled jobs, strong international expansion and the origination of today's knowledge-based economy established in the country.

According to the Taiwan Venture Capital Association and several experts in the field, a great proportion of the success that the domestic high-tech industry has had over the years is due to the development of the venture capital industry initiated more than 20 years in the island.

Research previously done by Hellmann and Puri (2000) including more than 145 companies located in Silicon Valley, California, concluded that venture capital investments encourages innovation inside their organizational structure. Their work also indicates that a venture capital-backed start-up company would require less time to bring a product to market than a company financed by traditional methods.

Organizational competitiveness in this type of enterprises may also be upgraded thanks to the common added-value resources that venture capital companies provide not only at the beginning of the investment process but during the whole period of time the venture funds are invested in the start-up company.

In Taiwan there are several venture capitalists allocating their assets into start-ups almost on a daily basis. These venture capitalists however, belong to companies with different business models and structures. Just to mention a few, there are venture capital companies which follow a more traditional approach of private equity

investments; there are also industrial banks, insurance companies, commercial banks, asset management companies and even securities firms and financial holding companies immersed in this private equity market. They all seem to look for the same thing: the next wave in high technology that will bring them a skyrocketing financial return according to the high-degree of risk that these type of investments required.

However, there are quite a lot of factors that these venture capitalists must consider in order to invest in young enterprises. Firstly, as we will see further, these different players possess funds which origins are very diverse and which evidently, have different risk-tolerance attitudes and restrictions. Also, governing laws are mostly different for each corporation. As we will analyze deeper in this paper, these companies also boast different types of resources destined to assess the potential and risk of each investment option; to supervise the status of their investments; to offer those investees different added-value services. The fact that these venture capitalists have such different structures seems to be that they may also have different investment strategies.

The method of investigation was to conduct a series of interviews with a variety of managers in those VC players and to review publicly available information. This paper is an exploratory analysis; it does not attempt to collect systematic data, but rather takes a more anecdotal approach to the subject matter.

1.2. Purpose

This thesis will try to scrutinize inside the investment strategies among a selected group of Taiwanese financial institutions involved in venture capital in Taiwan; after identify their the main framework of that strategy, a comparison will be developed in order to determine how different or similar they are; probable reasons for these differences will be discussed along with the effect that they have on the investment patterns.

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1.3. Potential Readers

The outcome of this thesis might have a special interest for venture capital firms that can identify themselves with the circumstances mentioned in the background since this paper includes several ways in which different players treat their venture capital

investments. High-tech firms that currently are or will be in search of venture capital investors might also be interested in this subject, in order to have a better picture of how some venture capitalists do business in this field and the way both parties should negotiate before closing up a deal.

1.4. Scope

Between the financial institutions involved in venture capital investments that are included in this paper, we have three “traditional” venture capital companies; an industrial bank; an insurance company. The industrial bank studied also has a subsidiary doing venture capital investments labeled as an asset management company, which was also analyzed.

1.5 Delimitations

This thesis is limited to researching Taiwanese financial institutions involved in venture capital investments and their investment strategies. It focuses on the main framework in which those entities develop their investments and the rationale behind those decisions. To preserve anonymity, all names of the institutions and the interviewed executives have been withheld.

This paper does not intend to decide whether one firm is better than other in terms of competence or deal performance as previous documents have done.

1.6 Choice of research topic

Taiwan boasts one of the most dynamic venture capital industries in the world. But as it will be shown further, venture capital is one of the investment options that carry a considerable high risk for those who provide the capital to start-up companies.

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It's quite interesting that even insurance companies in Taiwan are involved in this form of investment, since insurers by principles must be rather conservative when allocating resources that are required to generate a return.

Several researchers have studied the industry from different perspectives but according to the Taiwan Venture Capital Association (TVCA), few have focused on the investment strategies implemented by those who participate in venture capital.

It's therefore an attractive challenge for a foreign MBA candidate in Taiwan to research this field, especially since several barriers such as language, lack of networking and experience in the industry, make it more difficult to examine it.