

Talent and venture capital

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The economic model valid in Spain over the last years, based on real estate, low value-added industries, mass tourism and consumption as the dragging forces of the economy, is about to collapse. Although there is still a high degree of uncertainty, there are figures and evidence to believe that what is occurring is about to become the deepest change since industrial revolution. This radical shift in the economic model will have consequences affecting even the system of social values that has been in place during the last decades.

Key future drivers to generate innovative projects

During the next years, it is highly probable that we experience the coexistence of a bipolar world in the field of economy: on the one hand, a declining, obsolete economic structure, and on the other, the consolidation of a new generation of companies and value creation that will be largely based on two key concepts, innovation and knowledge. This means that we will experience times of deep change that will pose both challenges and opportunities.

The fact is that most of what used to define how important processes of economic and social knowledge worked so far is being reshaped out of an incipient definition of new rules of the game.

In the best of cases, we see a shift from capital-intensive processes that have been driving productive economy over the last years to knowledge-intensive ones that are dominating the most thriving areas of the world economy. It is a complex process with many factors intervening, of which four, fully interrelated, stand out:

- ▶ The importance of innovation and its new fields of application.
- ▶ Technology and its potentialities.
- ▶ The new stage of globalisation we are in.
- ▶ Finally, the advent of talent and knowledge as the most valuable raw material of our times.

In connection with innovation, some points need to be made:

- ▶ 99% of all scientists appeared in the course of history are still alive.
- ▶ It is considered that the amount of information created by society over the last two years

surpasses the volume of information gathered during the whole history of humankind.

- ▶ Only in IT, patents registered in one year are six times the number in the end of the 1980s.

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For all this potential to turn into innovation, scientific and technological inventions and knowledge need to become real solutions, and this is what is occurring in an accelerated way for the first time in history:

- ▶ Business is bringing most vitality into turning knowledge into innovation.
- ▶ Out of more than 1000 companies listed in the Fortune 500 since 1962, only 16% have survived. This shows the existing high level of competitiveness and the difficulty to keep sustainable innovation efforts.
- ▶ When talking about innovation we do not refer to R&D only. Innovation has no limits today; to innovate is to combine technology, but especially knowledge of business processes to create new products and solutions that make a clear difference through their tangible value.
- ▶ In fact, we are experiencing the birth of a new area to apply innovation: knowledge-based services and economic and social processes.

As in other times, all this innovating excitement is based on the potential emerging from new technological infrastructures that are mainly the result of digital convergence of IT and communications and affect a wide range of economic and social sectors. It is significant that according to the American Semiconductor Industry Association, the 2007 worldwide production of

transistors outnumbered the amount of cultivated rice grains.

In the course of market deregulation, opening and integration over the last decades, we have seen a deepening of globalisation in terms of trade, industrial processes and capital flow. What is really new and relatively recent is that availability of knowledge and talent has also become global.

Talent and innovation

When talking about globalisation we automatically think of emerging economies. What is really significant about the development of the latter is not so much their progressive role as the planet's factory but their drive not to get stuck and try to become part of the spaces of excellence in innovation and added value.

As a consequence, more engineers are now graduating in China than in Europe and the United States together, and in Indian Bangalore there are more computer engineers graduating each year than in the whole United States.

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The value of talent and knowledge based in a country (in companies, organisations and individuals) will frame its position in this world of global knowledge. In a country like Spain, and more precisely a territory like Catalonia, this is a challenge rather than a drama; it is to be regarded as an opportunity, not a threat. Europe is still the region attracting most foreign investment in the world, both in industrial areas and in services and R&D. This is mainly due to the preservation, at least for the time being, of a

distinct value in the quality of its talent and the qualifications of its human resources. Europe takes 39% of global investment compared to 31% in Asia, though the gap is closing and growth patterns oblige us to double our efforts in training, talent attraction and innovation capacity.

Until recently, disruptive technologies that have determined human development used to concentrate especially on physical capacities. However, current technology is addressed at developing neurones and replaces the current focus on increasing muscular strength.

The main driver of business success has been historically access to capital. Now a new decisive factor is coming in: access to talent. It is very important to point out that talent does not replace capital, but they need to go hand in hand, though this point needs to be analysed thoroughly due to qualitative change in the capital-talent binomial.

This point strengthens the present and future role of venture capital in this shift in the economic model. The virtuous circle includes strong cooperation between universities, business and innovation stakeholders – among which venture capital – that make up the so-called ecosystem of innovation.

As a territory, we need to be able to innovate, generate excellence and compete in areas of high added value. Otherwise we are doomed to compete at the difficult lower levels of the international value chain.

The important present and future role of the venture capital industry

Venture capital is the part of the value chain allowing for innovative ideas to become business projects. When referring to venture capital we mean any kind of direct investment in

companies, either through business angels or structured instruments (venture capital societies and funds).

Venture capital is neither more nor less important than other elements of the ecosystem of innovation like universities, entrepreneurs, business schools, specific consulting companies, etc., but its existence is crucial to consolidate the process of creating value and wealth through innovative projects.

When talking about «talent and venture capital» we also have to refer to the talent that needs to exist in the offer of resources (capital). In Catalonia we have a significant number of venture capital instruments that have consolidated an industry with a group of professionals with enough experience and a trend towards growth.

If we pretend that the above-mentioned shift in the economic model makes up for generated loss, it will only be possible if the new system proves its efficiency. Hence this process needs to be accelerated so as to take over from the value creation instruments that have been existing over the last decades. I am optimistic in the medium term, though in the short run it will not be possible that this sort of value creation makes up for the depletion occurring in other areas.

When talking about «talent and venture capital» we also have to refer to the talent that needs to exist in the offer of resources (capital) as we will later talk about talent in demand (business ideas and projects). Fortunately, in Catalonia we have had for quite some years a significant number of venture capital instruments that have enabled the consolidation of an industry with a group of professionals with enough experience and a trend towards growth in the years to come.

Venture capital is right now a clearly anti-cyclical industry in the terms posed in the above paragraph. It is thus not surprising that the Spanish government is preparing measures, both fiscal and to provide resources, to strengthen this activity as a key element within an optimistic future scenario.

Despite being small in size, the teams making up venture capital management societies need to have some highly significant features:

- ▶ **Ability to analyse people:** The key element to be successful when investing in venture capital is a correct analysis of the company's managing team. To be sure about this key aspect, it is indispensable to have experience, time dedication and a correct perception of people characterisation.
 - ▶ **Operational experience:** Entrepreneurial experience in the team is important. It is not recommendable that the whole team comes from fields of activity hardly related to hands-on experience in the different stages of managing that particular business.
 - ▶ **Interest and training in connection with innovation projects:** There is a high number of projects to analyse, which requires a deep analytical ability together with a solid perception related to the immediate impression created by the first contact with a project.
- Just to illustrate it, we could say that out of a thousand projects submitted, one hundred will be analysed and ten will be invested in. This indicates the pace and requirements of a team that has to face this challenge.
- ▶ **Analytical ability:** It does not refer so much to knowledge and the command of tools to analyse business projects, which it also should, but rather to the ability to get into detail through a natural inclination to deepening into subjects.
 - ▶ **Ability to manage different projects simultaneously:** Not everybody is happy having to set priorities and live with the feeling of never having enough time.

▶ **Great capacity of and readiness to work:**

This is an exciting job giving big satisfaction but also much distress. In the end of the day, it is all about «living investments».

Out of the ten projects we mentioned we decided to invest in, four will be complete failures, three will be feasible undertakings allowing a return of the amount invested, two will be solid and give a satisfactory return and one will be a great investment making up for all the rest.

▶ **Balance:** It is obvious that these characteristics can hardly be found in one single professional, so the most important in a good venture capital management team is to reach a balance between its members as to the above-mentioned characteristics.

Finally, it may be illustrative to set out the features considered necessary in venture capital managers according to a survey carried out by the European Venture Capital Association (EVCA):

- ▶ Ability to listen (considered necessary by 91% of persons interviewed).
- ▶ Ability to hire talented managers (86%).
- ▶ Ability to do quantitative analyses (85%).
- ▶ Ability to coach (81%).
- ▶ Communication skills (81%).
- ▶ Strategic planning (78%).
- ▶ Ability to persuade (57%).
- ▶ Good contacts to projects and entrepreneurs (56%).
- ▶ Teamwork (55%)
- ▶ Specific knowledge of the industry (43%).

Considerations related to talent in companies eligible for venture capital support

One way to summarise the definition of the talent required at successful companies supported by venture capital could be: «a certain deal of intelligence, a bit of creativity and lots of common sense».

It may seem banal, but after many years working with innovative companies and entrepreneurial teams, what is best appreciated is the ability to do things and processes the easiest way, to be pragmatic and focus on the importance of the market as well as the ability to be flexible and adapt to change that will certainly occur in the course of any entrepreneurial undertaking. It can be said, as if it were an axiom, that quality of human resources is the key element for the result of any company supported by venture capital (even without venture capital, this axiom would still apply!).

Talent needed at successful companies supported by venture capital requires a certain deal of intelligence, a bit of creativity and lots of common sense.

In a survey carried out recently by the US National Venture Capital Association in connection with the key factors to decide on investing in a specific project, the following factors were named by this order: quality of management, market/sectorial opportunity, business model, technology/product. A balanced management team ranged first in all interviews, with rates between 35 and 60%.

Going one step further in the analysis of what is considered to be a good management team, we find that it is about having a team as balanced as possible related to necessary competencies,

which could be summarised in the following three:

- ▶ Business vision.
- ▶ Operational experience.
- ▶ Sectorial knowledge.

Many projects have shortcomings in some of these factors, so an analysis is necessary on how to make up for them or what consequences they may have in the short term.

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Having the right people covering such needs is as important as interaction between team members. In the venture capital industry it is said that time devoted to management auditing is never enough considering the high mortality rate in this field of activity.

It is useful to expand a bit on these concepts by applying them to a specific project like the development of a company selling cars directly through an online distribution channel, Auto.com.

Factor 1: Business vision

The team member providing this element is usually the main project promoter/entrepreneur. They need to have the skill, knowledge and experience to take the key decisions. They are people with a special feeling for human resources, relations with investors and elements linked to corporate development. They need to be able to make sure that the company concentrates on carrying out activities based on its competencies.

It will be appreciated if this person has a distinct business experience, though sectorial knowledge is not necessary, and they further need to be able to take the right decisions in connection with those aspects affecting business growth. The person taking over this role needs to be a good communicator able to assume leadership.

Adapting the specifics of this function to the degree of maturity of the company is critical. A start-up has not the same needs as a company with a given position on the market finding itself in a growth and consolidation process. Having much experience in managing a big company does not necessarily mean that such a professional will have the skills to lead a start-up.

In the case of Auto.com, the person with the business vision needs to have experience in setting up a business but not necessarily in selling cars or even in online sales, though they need to perfectly understand the structure of the industry and fully identify the existing opportunity.

The person providing the business vision is usually the promoter/entrepreneur and needs to have the skill, knowledge and experience to take the key decisions.

The key in this factor is the person's capacity to adapt to the scalability needs required as the company develops.

Factor 2: Operational experience

«Operations» is the key in a powerful founding team, and within this function it is crucial to have proven experience.

The person in charge of this function needs to focus on aspects such as business infrastructures, logistics and product development. Their function is to take decisions affecting the implementation and execution of the business plan, and they are

further responsible for the proper layout, distribution and delivery of the company's sales.

The head of operations needs to focus on aspects such as business infrastructures, logistics and product development.

People carrying out this function need to have proven experience in product development, operation chain setup, stock management and supplier selection and management.

To adjust this function to the needs of Auto.com, operational experience should take charge of designing their website, selecting internet service providers, coordinating the car delivery process and managing security related to the information system and databases.

Factor 3: Sectorial knowledge

The person providing sectorial knowledge to the team needs to assume the key factors affecting the market regarding both customers and suppliers, and especially to have the necessary relations and knowledge to consolidate the sales process. It is important to have a good address book and be able to do the first orders and establish a permanent contact with current customers and prospects.

The person taking over this role needs to have proven experience in the core business area, preferably if they come from a big company to apply it to a start-up if applicable.

In the case of Auto.com, it is important to have a wide knowledge of the car market, especially of the relation between car manufacturers and the distribution chain and of the methods distributors use to approach the public.

It has to be said that although it is important to have the three factors in the management team, this does not mean that three different people

are needed to do this job. In fact, many successful ventures such as Microsoft, Dell and Google had a founding team smaller than that. Experience shows that these functions are often taken over by a team of four or five.

The person providing sectorial knowledge needs to have the necessary relations and knowledge to consolidate the sales process.

What can be expected from a company lacking some of these factors? With all reserves due in an oversimplifying generalisation, the following may apply to the Auto.com case:

The screenshot shows the Auto.com website interface. At the top, there is a navigation bar with the logo 'auto.com.py' and links for 'INICIO', 'CONSEJOS UTILES', 'QUIENES SOMOS?', and 'PUBLICIDAD'. Below the navigation bar is a large banner with the text 'No busques más!... el auto a la medida justa' and a phone number 'LLAMENOS AL (021 452 200)'. The banner also includes a call to action: 'Publica tu vehículo y verá los resultados en menos de lo que esperaba!!'. Below the banner is a section for 'publicaciones particulares' with a form to 'ingrese aqui'. The main content area is divided into several sections: 'BUSQUEDA DE VEHICULOS' with filters for 'Marcas', 'Modelo', 'Año', 'Tipo', and 'Precio'; 'Oferta destacada Toyota'; 'Oferta destacada Mercedes Benz'; 'de-miami.com Descuentos Al Contado'; and 'Unicar.com'. The footer includes a Google search bar and the website URL 'www.auto.com.py'.

▲ The Auto.com project is a car and service company selling through an online distribution channel.

- ▶ If there is a business vision and operational experience but no sectorial knowledge, the outcome could be a well designed company, an excellent website and a perfect delivery system but poor sales results and an inconsistent offer regarding interactivity with the prospective market.
- ▶ A start-up with business vision and sectorial knowledge but poor operational experience could offer a potentially interesting project to investors, with good products/services and a satisfactory degree of initial sales but a poor operational structure that would quickly cause dissatisfaction with clients and thus on the prospective market.

- ▶ A company with operational experience and sectorial knowledge but shortcomings in its business vision could have a good service/product, nice initial sales and a fairly good operation chain, but it could face problems regarding growth management and especially human resources and the setup of a staff committed to the project.

If it is a start-up or a company in its initial stage and some of these shortcomings can be diagnosed, the conclusion would be that it is a project that can be financed by private investors but hardly by a structured venture capital organisation.

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