

# **Fundamentals in Venture Capital and Building Innovation Ecosystem**

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# Advanced Science Does Not Alone Translate into Commercial Success

- **Benefits of** Entrepreneurial Society cannot be achieved without **Risk-Taking**
- Fundamental Drivers of human behavior are same everywhere in the world . . .
- **“Profit Motive”** to meet **Market Demand** promotes efficient allocation of Scarce Resources



**What works in Silicon Valley can be adapted to work in Bulgaria**

# Money Is a Critical Driver in Innovation

- **Market Demand** (real and anticipated) and **Profit Potential** dictate Capital Flows
- Professional **Investors** (VCs, Angels) **decide** what innovation to invest in
- When Money Is Deployed successfully, It **stimulates Multiplier-Effect:**
  - Focuses R&D attention
  - Gives edge to the innovation funded



**If Bet Correct, more Capital Attracted  
to the Technology and to Competitors**

# Steps in Building Innovative Firms

- Have a marketable technology
- Financing and executing R&D
  - Self investment, grants
  - “Friends, Family and Fools”
  - “Angel Investors”  Venture Capital
- Managing the business and tech development
- Marketing the proven technology
- Growing the company



**Conceiving and Building High-Tech Firm Is “High Risk Business”!**

# Practical Issues Facing SME Entrepreneur-Innovators

- Working thru Stages of Tech Development
- Understanding **Market** & Dealing Globally
- Anticipating **Rapid** Tech/Demand **Changes**
- Cost of Protecting IP and of Litigation
- Building **TEAM** and relationships of **TRUST**
- Financing through to Commercialization



**Business Is Built by “Trial and Error,”  
and a little **Luck** Helps!**

# Professional Venture Capitalist

- Brings Capital, but also
- Identifies Technologies with Best Potential
- Mentors and Creates Management
- Adds Commercial and Technical Judgment
  - International contacts, marketing and sales
  - Good management practices (financial, HR, etc.)
  - IP protection support
  - Additional Fundraising



Help Keep Innovator Focused on  
PROFITS, GROWTH

# What Financial Investors Want

- **Superior Returns** thru Capital Appreciation
- **Fundamentals Critical to Success:**
  - **Good Management** with a Track Record
  - Committed Innovator-Owner **“at risk”**
  - **Real Market** for products/services
- **Other Factors:**
  - **“Common Vision”** with entrepreneur
  - **Realistic Development Plan**
  - **“Cash Flow”** sufficient to reach Break-even?
  - **Unique Technology/Patents/Barriers/First Mover**



**Ultimately, Financial Rewards Have to Be Commensurate with the Risks**

# Some Basics in Preparing to Deal with Financing Sources

- **Know your Business**, Tech and Company
  - What Are Company's Objectives? Its Core?
  - What Is the Capital Being Used for?
- **Know the REAL Market**
  - Who? What? Where? How?
- **Be Honest** and **Be Realistic**; Put Yourself on Other Side of Table
- Ask **What Does this Source of Capital Bring** You? How Will this Source Add Value?



**Taking on Equity Investors Creates Long-term Relationship – like Marriage**



# “Marriages” Can Be Stormy Relationships

- How to Structure Relationship?
  - Legal and practical issues
- Sometimes, Big Gaps in “Understanding”
  - Professional VC and small innovator have different perspectives and concerns
- Frequently, Widely-Divergent “Interests”
  - Issues of control, protection, etc.



**Not Always Easy to Avoid  
Continuous, Destructive Battles**

# Some Experiences with Problems Affecting Tech SMEs

- **Unsophisticated Developer** unreasonably fearful that “someone” would “somehow” take advantage, and he refused to cooperate!
- **Devious Owner-Managers** starting new business with “similar” technology!
- **Innovator-Manager’s inability** to balance cash management and technology potential
- Local Co-Investors active in related business



**Great Technology, IP Rights and Money  
Cannot Overcome Human Deficiencies**

# Lessons Learned from Experience

- **Fundamentals are same** in Budapest and Boston; Silicon Valley and Sofia
- **Critical Mass of Capital Is Needed**
- **Professional Fund Managers** with an equity stake in the deals are **COMMITTED** to the **capital** – not short-term “project managers”
- **Overwhelming majority control needed** to influence change; otherwise, the **financial investors are at mercy of owner-managers**, who control internal operations, technology and oversight of their activities

# Lessons Learned from Experience

- “Technology has no borders,” so development and investment decisions need to be broadly assessed
- Small markets offer a **shortage of skilled managers for growth, or experienced co-investors and limited strategic investors** interested in buying local tech firms making it difficult to achieve **EXITS**
- Emerging country entrepreneur-innovators frequently lack experience in building-up and selling their businesses for substantial capital gains. Thus, **equity capital seen as a “cheap loan,”** and use it without appreciating value in growing the business with a partner who shares in risks and benefits

# “Silicon Valley” – ???

- Not a “Physical Place” – but a **“MINDSET”**
- Not “Decreed” – but conducive conditions **“CREATED”** from bottom-up
- Not just Triple Helix of “University-Industry-Government,” – but **multitude of diverse players**
- **A “Free Market” of “Risk-Takers” seeking rewards**



**Adapting Silicon Valley Concepts to  
Local Objectives, Needs and Conditions  
Is a “Process”**

# “Building Blocks” of Silicon Valley Model

- Universities with their “Brainiacs”
- Facilitators (incubators, tech parks, clubs, etc.)
- Business Service Providers and Seasoned Professionals
- Entrepreneurial Start-Ups
- Access to Venture Capital



**Innovative Government Will Be “Key”  
to Stimulating Conducive Ecosystem –  
Rewarding Risk-Takers**

# Building Polish Capabilities for Financing Innovation

- Extensive Polish Gov't program of **grant support**
- Strong, **commercially-focused** private equity industry, jump-started by PAEF in 1990, now with BILLIONS in capital, to finance growth
- **Krajowy Fundusz Kapitalowy** financing jump-start of Polish VC industry to fill “equity-gap”
  - \$300 million fund-of-funds, capitalizing new VC funds with investment limit in innovative SMEs of 1.5 million Euros
  - With KFK committing up to 50% of a VC fund's capital, ~\$600 million will be available to invest in Polish tech entrepreneurs
  - Approx. \$250 million committed to 15 VC funds

# Reforms in Polish Education and in Support for R&D

- Internal Reforms
  - Increased autonomy from gov't
  - Orient University curricula toward market needs
    - “Practical preparation” and move from production to knowledge/services
- Reforms Driven by Acts of Parliament
  - Refocus of grant support strategically, focus on achievements, and requiring participation of business (thus, creating TTOs)
- Distancing Science and R&D from Politics
  - National Center for Science (NCN) financing basic R&D
  - National Center for R&D (NCBiR) allocating R&D funds to institutions and companies



# Independent Enablers and Facilitators of Innovation

- **US-Polish Trade Council** links Poland and Silicon Valley, and now has established “**US-Poland Innovation Hub**”
- **Intellectual Property Management Institute**, consortium of Polish universities, bankers, etc., developing IPR regime
- Workshops for Polish Rectors and academicians in Silicon Valley
- “**Top 500 Polish Innovators**” introduced to “best practices” at Stanford University and Berkeley
- **Global Technology Symposium** attracts participation

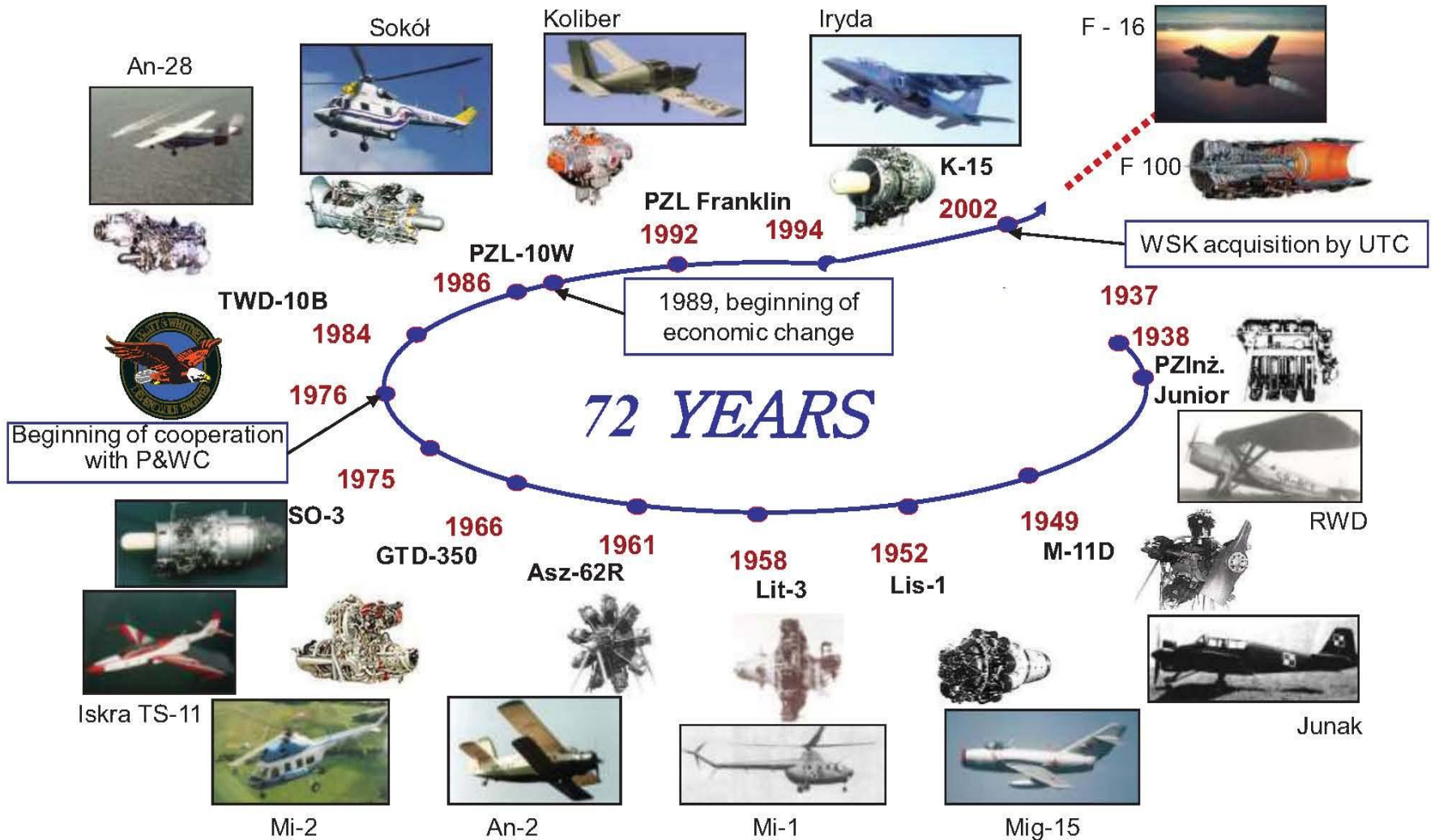
# Challenges and Opportunities

- **Speed is of Essence** – The Market does not wait
- Building Entrepreneurial **Climate of Risk-Taking and Trust** is necessary
- Creating the NEW is more important than perfecting the OLD! **Innovative Economy requires**
  - Innovative Government; and
  - Innovative Academic Environment
- Critical Mass of **Capital deployed by professionals** is essential to achieving results



**Disciplined, Commercial Approach to Decision-Making Is Way to Success**

# History of WSK Rzeszów



***“Those who will not risk cannot  
win”*** – Captain John Paul Jones, US Navy