Venture Capital: No Opportunity for Exits

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Mr. Livada, you have a lot of experience in the area of innovation. What is your sphere of specialization in particular? My involvement in this whole subject of innovation has 2 parts to it. One is that I've been a consultant for over 35 years now in the area of innovation. I used to work for regular consulting companies before Weybridge Partners started, which is a private group that I've organized and that I'm running. But the focus of my entire career has been to work with companies and to help them realize commercial value of their technology efforts. For the first 20 years I worked exclusively with very large companies, what you may call “the Global 300” — General Electric, General Motors, Siemens and so on. These are the companies with very large technical capabilities, but they are looking how to maximize efforts that they are putting into research and development, in creating new products, in doing businesses etc. And then I started Weybridge Partners and continued to do a lot of work with those very large companies. But I also have done more work with start-ups and entrepreneurs in very small companies, emerging technology companies. That's one component of my business and my involvement with innovation. The other part is that for 20 years I have been affiliated with the Sloan School of Management at MIT, which is the business school at MIT, working on issues of management of technology and innovation. I now teach a course called “Corporate entrepreneurship”, which is looking at how large organizations struggle with idea of entrepreneurship and innovation. The Sloan School has been really the pioneer in the issues of innovation and entrepreneurship. The work that the Sloan School has done started in the early 1960-s and it has been going on ever since.

You are the judge of Innovation Competition organized by the Massachusetts Technology Transfer Center. How important are these competitions? I've been involved with several innovation competitions and believe that competitions are very productive activities. They attract the interest of people, they are fun and they create interesting social networks. They make people participate and think creatively. We started at MIT what is now the 100 K competition many years ago. The first one was, actually, 10 K competition. Over the years it has been a spectacular event and one of the most interesting things about it is that students run it. Is it the main driver for entrepreneurship? — No, it isn't, but it's a wonderful activity that attracts people, and results are very good in terms of proposals that are being put on the table. With my limited experience of what it did in Eastern Europe I again think it was a good start for bringing attention to innovation, getting young people excited and involved, and an opportunity to do something fun, and also to benefit in a relatively simple way. So I am a strong believer in these competitions. I think they work and we are seeing a proliferation of them all over the places.

Being the judge, how do you choose between different projects? How do you measure the quality of projects? As far as judging you have to have a good deal of discipline, which means that there has to be a very strong process in place that allows you to go through a very large number of proposals and select a few finalists in an efficient way. Once you select a couple of them for the final round, there is a kind of intuition that helps judging. Also, it is important that you have judges that have experience in entrepreneurship.

So you need a combination: you have to have some rules of the game on how you go through the first round when you deal with very many proposals and select 10 percent of them. But once you get 10 percent, you try to get it down to 2 or 3. Then there are fewer rules while judges' knowledge and intuition are more important. You can't really pick with a 100 percent certainty a winner.

You have been working primarily with large corporations. To your mind, how big is the role of companies compared to that of government? That's one of the really intriguing issues here. I don't think that anybody really knows what the answer is. And by the way, I worked with global companies but my real knowledge and expertise is mostly on the US system. In the US there is now a growing debate on what is the role of the various components of this system — the role of the corporation and the role of the government. How can they be complementary? We are trying desperately to figure out what even these components are? Because when we track some numbers, we don't really track good enough numbers. It's got to be complementary. There is no question about that.

In the US when you talk about research and development, the two largest components of it are the private corporations and the government. But until recently we only tracked very large private corporations. We are beginning to better understand this. We don't have the data because we track research and development as a single number as opposed to separate research from development. We know what the government is doing in the two areas, but as far as large corporations are concerned, we have never separated R from D. But what it looks like at a very crude level is that the private corporations have the largest role in development, but in research it's got to be an interesting balance between what the government supports and what private industry supports.
INNOVATION TRENDS

How did the economic crisis influence the venture capital market in the US?

There are a few things to consider when looking at the venture capital market in the US after the economic crisis. One is the amount of money that venture capitalists are willing to invest in new companies. The amount of money that venture capitalists are willing to invest in new companies has decreased significantly since the crisis. In fact, the total amount of venture capital invested in new companies in the US has decreased by more than 50% since the crisis.

Another factor to consider is the amount of money that is being invested in new companies in different sectors. For example, the amount of money being invested in technology companies has decreased significantly since the crisis. In fact, the total amount of venture capital invested in technology companies in the US has decreased by more than 70% since the crisis.

So, in summary, the economic crisis had a significant impact on the venture capital market in the US. The amount of money being invested in new companies has decreased significantly since the crisis, and the amount of money being invested in different sectors has also decreased.
are slightly different, but they align pretty well together. Each one orchestrates its own program.

The White House has the Department of Science and Technology and tries to establish some kind of vision, strategy, but there is no centralized approach to the whole thing. And I am a great fan of not centralizing all the activities in the area of innovation because innovation is not managed through very specific engineering approaches. You’ve got to allow for a bit of chaos and confusion. It’s better to have separate, collaborative, overlapping policies from various directions that have one main direction.

In which areas the results of innovations have been the most impressive?

It depends on how you describe the areas. The thing that has driven a good portion of the US economy in the last 40 or so years has really been the emerging companies, the start-up companies, which are primarily technology-driven companies, the kind of spin-offs that you’ve seen from universities like MIT, Stanford, and so on. That has been the most intriguing aspect of the innovation system. We still don’t really understand why it has happened, but it’s been a dramatic change. If you are a part of Boston economic community for the last 40 years, the difference in the economy in this area between 1960s—1970s and now is unbelievable, and it’s all due to this really large activity of start-ups and entrepreneurship.

To your mind, how important are technological or innovation parks and business incubators?

In the Boston area we tend to think of us as of a small city being one big technology park and incubator. But we don’t have real incubators and technology parks. The economy did not grow with those kinds of things. It just spread all over the place and mostly spread around MIT, Cambridge and so on. There is a close proximity to each other; it’s a small area. But we’ve never really paid much attention to creating incubators or technology parks to attract people to a certain area because they were here. They came out of MIT, walked across the street and started a little company in Cambridge.

We have one major incubator in Cambridge now, which is nothing more than a building right next to MIT campus. It has about 100+ something companies but it’s primarily just offering them a place to start. In other parts of the country, like Research Triangle in North Carolina, incubators have had a significant impact on creating a community of innovators. But in Boston the community of innovators was originally MIT, and now it includes all the major schools in a small city of less than 3 million people.

What is your forecast for the development of the innovation system in the US?

What you are going to see is a continuation of what I call collaborative innovation, where it’s going to be a very interesting network of large corporations, universities and start-ups that interact between each other and create even bigger dynamic of innovation. What’s happening now is that the large corporations are looking for new technology on the outside, willing to spend a good deal of money both directly and supporting research in various places.

Most of the US universities are now very focused on technology transfer. In other words, they focus on commercializing the fruits of the research. There is a lot of effort put into licensing activities and spin-off activities. The faculty members of most of the major research universities are very much commercially oriented. They have gotten the message that they can be both academics and entrepreneurs. That’s changed the university system dramatically in the last 20 years. You are seeing a lot of universities doing some really significant research and then developing spin-offs and licensing new technology. Faculty is very interested in those kinds of things.

And then you are beginning to see an evolution of entrepreneurial systems in other parts of the country. It used to be an exclusive domain of Boston and Silicon Valley but it’s not the case anymore. It’s happening everywhere where you have centers of technology that are working with large organizations and you have entrepreneurs nearby, and you have venture capitalist nearby, and it all then works together to create this dynamic, which is very critical.

The other thing that is important to remember is that you can have technologists and entrepreneurs but you have to have the infrastructure that supports them just as much. The infrastructure means that you need to have the capital; you need to have the entrepreneurs, individuals that are interested in starting and running emerging companies. But then you also need bankers knowing how to provide capital and how to take care of the emerging companies, the lawyers and also the policy people that are supportive of all this. All of that supports entrepreneurs, and if this is in place, it supports very nicely. If it’s not in place, it makes it more difficult for an entrepreneur to succeed. In places like Boston, Silicon Valley and now interestingly in Triangle Park and, maybe, in Austin, Texas — those ecosystems do exist and they are growing.

What research and technological achievements may assure a technological breakthrough in the years to come?

It’s a very difficult question. You may look and see what areas today are very active. Biotechnology, and a lot of different life sciences, and robotics are beginning to be very important.

I will tell you what my theory is. What you have in the world right now is that you have an enabling technology, which is information technology that allows you to manipulate enormous amounts of data. And because of information technology we can do things that could never do before. But that’s an enabling technology and you also are seeing another very powerful trend — real understanding of matter and the nano-level. Between the ability to manipulate enormous amounts of data and accelerating understanding of the building blocks of nature, what you have is an opportunity to do a lot of different things. So we are talking about advanced materials in almost every aspect, everything that has a physical nature is being impacted by nanotechnology. Life sciences is nanotechnology too — the understanding the cells, microbes and etc. I just think that it’s a very broad space with applications across the border.

The venture capital industry is presently investing heavily in software/IT, social networks, digital media, looking for the next Facebook and understanding that in those sectors the investments needed are relatively small and the results can be quick. Beyond that, clean technologies and alternative energy technologies are getting a lot of attention but they require large investments and a long time horizon. In the Boston area for obvious reasons, life sciences, both therapeutics and devices are very popular and so are advanced materials and robotics.