

THE ROLE OF VENTURE CAPITAL IN SHAPING THE **FUTURE OF INNOVATION**



Ayub Zakori discusses the evolution and significance of venture capital (VC) in fostering

innovation and supporting startups. Ayub concludes that venture capital is a sought-after investment strategy due to its potential for high returns, opportunities for diversification, and the unique ability to influence the growth of innovative companies.

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We have witnessed a remarkable evolution in technology from the 90s until today, with rapid advancements continuing at an unprecedented pace. As the world digitizes quickly, an increasing number of startups are emerging, eager to bring their innovative ideas to life. However, these ventures are only possible with substantial financial backing.

This need was first recognized in 1946, leading to the founding of the American Research and Development Corporation (ARDC), the first official venture capital firm. The ARDC, led by visionary Georges Doriot, broke from traditional finance by investing in private companies. Notably, they invested \$70,000 for a 77% stake in Digital Equipment Corporation, yielding one of the highest returns in venture capital history.

Other early firms like J.H. Whitney & Company and Draper, Gaither & Anderson soon followed, establishing what is now one of the most impactful investment strategies: venture capital. This approach has captivated seasoned entrepreneurs and revolutionized the way startups scale.

Although the concept of venture capital is well understood, the main reasons why investors are so inclined towards it and the benefits it offers to startups and investors is worth discussing.

The Probability of High Returns

One of the major reasons why investors are drawn to venture capital is due to the probability of high returns. It all comes down to choosing the right innovation for investment. Even so, the risks of financing a portfolio company are inarguably considerable, however the potential payoff still justifies the gamble.

The National Venture Capital Association provides the stats that vindicate this risk. As in the US alone — over the past decade, the internal average rate of return for venture capital stood at around 15% - 20%. This is a significant surge that surpasses the returns collected from the traditional public equity markets.

These returns seem more appealing when the holding company emerges as a market leader, leading to an exponential growth in the value.

Innovation and Diversification

The diversification that accompanies venture capitals is also what fuels investors' interest into sponsoring a startup.

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Investing across various industries and stages allows venture capitalists to spread risk and gain exposure to the next big wave of innovation. For instance, rapidly evolving sectors, like biotech, fintech and clean energy, to name a few, are offering ground breaking business models and technologies that are redefining the industries collectively. To be at the forefront of these innovations rewards them with both financial and intellectual gains.

The Value - Add Factor

Venture capital allows the investors to play an active role in the growth of their portfolio companies. That is what sets them apart from other

investment forms out there. Aside from fund provision, venture capitalists support their funded enterprises with mentorship, strategic guidance and access to their valuable network. The “value - add” factor here is a prominent factor that allures investors who seek more than just financial returns.

By participating in the decision-making processes and contributing to a startup's growth strategy, they can navigate the direction of the company and increase its chances of success.

To support this, we have a study by Harvard Business Review stating that startups receiving direct support from their investors are 25% more likely to succeed than those who are only provided with financial support.

This hands - on involvement yields considerable benefits and also aligns the investors interest with the long - term success of the company.

Convenient Exit Strategies

The probability of successful exits is another key factor for investors to experiment with these unfamiliar ventures. The exits — such as IPOs or acquisitions can bring significant returns.

In 2021 alone, the global venture capital market saw over \$1 trillion in exit value, a testament to the lucrative opportunities that exist for well-timed investments. These exits not only provide returns to investors but also validate the high-risk, high-reward nature of venture capital.

In conclusion, venture capital remains as the most sought-after investment strategy due to its high returns probability, its opportunities for diversification, and the unique ability to influence the growth of innovative companies. While there are considerable risks, the rewards, both financial and otherwise—make it an attractive option for investors seeking to be at the frontline of industry evolution. As the landscape continues to evolve, those who can navigate the high stakes of venture capital stand to benefit from its transformative power. **WS**