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Why Most Venture-Backed Companies Fail

As many as 75 percent of venture-backed companies never return cash to investors. Here is how to improve the odds with better execution.

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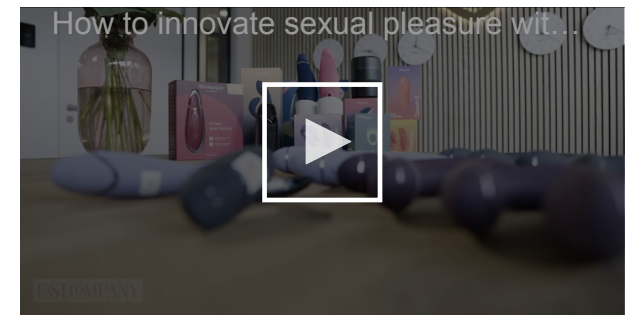
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BY FAISAL HOQUE 5 MINUTE READ

In a [recent Wall Street Journal article](#), Harvard Business School senior lecturer [Shikhar Ghosh](#) shared that the prevalence of failure in the world of venture capital is much higher than what's reported.

Ghosh's research indicates that as many as 75 percent of venture-backed companies never return cash to investors, with 30 to 40 percent of those liquidating assets where investors lose all of their money. His findings are based on research of more than 2,000 venture-backed companies that raised at least \$1 million from 2004 to 2010.

Unfortunately, I'm no stranger to those statistics. In the late '90s, I founded EC Cubed, a B2B e-commerce software platform company. Like many other founders, the proverbial door hit me on the you-know-what at the hands of the VCs who invested \$50 million to rapidly grow the company. While that



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was extremely difficult, what was even more painful was watching the company collapse soon after my departure, despite the capital infusion.

Such tales are rarely bragged about. In fact, Ghosh tells the Journal that VCs “bury their dead very quietly.” The deceased are quickly removed from the portfolio companies section of websites, never to be spoken of again.

The success rate of private equity firms isn’t much better. Money doesn’t guarantee success; only effective execution can deliver that goal. I believe improving the odds for venture-backed companies requires better execution.

It goes without saying that private equity investments aren’t for everyone. Reaping mega rewards means taking mammoth risks, and PE investments often demand long holding periods for the turnaround of a distressed company or a liquidity event such as an initial public offering or a sale to a public company. Private equity firms invested more than \$144 billion in 1,702 U.S.-based companies in 2011, according to an analysis by the [Private Equity Growth Capital Council](#). Some of the biggest investors in the PE market are public pension funds, many of which have seen [sub-10% returns](#).

Creating value from any venture is hard work and [much has been written](#) to [document the challenges](#) of entrepreneurial journeys for those preparing to set out on their own passage.

I used the term “odds” earlier to draw upon the analogy that more times than not, the strategy employed in the investments made closely resembles that of gambling—or, for those who are more innocent, wishful thinking. A play on probability: The theory that in a numbers game, some will win and some will lose, is not an acceptable approach, especially

when fund managers' fees can reach in the millions while investments may result in massive losses.

Financial Analysis vs. Operational Capabilities

Inherently, I am a self-admitted risk taker by the entrepreneurial blood that runs through my veins. However, I have always managed that risk by conducting extensive due diligence in advance of all strategic decisions I was faced with by taking measured, calculated, and operationally sound steps to ensure I had all the intelligence required to effectively execute as needed based on my choices in order to run my business.

While the venture capital industry has changed a great deal since the days of **Georges Doriot**, founder of the American Research and Development Corporation, portfolio management styles have not. The industry still places the greatest emphasis on financial analysis versus operational capabilities.

While the financial details are crucial, they do not contain enough forward-looking information to understand, track, and govern the venture performance of today's ever-changing market brought on by operational challenges and swings.

In today's increasingly unpredictable business environment, there are a number of operating difficulties that must be addressed. Some of the most critical are:

- Accurately evaluating growth potential, while balancing new innovation against operational execution.

- Developing sustainable processes to reach or exceed revenue growth goals, cut costs to preserve recurring

dividends, and protect top- and bottom-lines for portfolio companies.

Implementing strategies for building sustainable brand recognition, in concert with building brilliant management teams.

Demonstrating progressive, provable, repeatable results that will sustain the firm today and tomorrow.

Creating visibility among boards and investors of ongoing operations that provides perspectives needed to understand how to guide portfolio companies.

Saying, “But this is how we’ve always done business” isn’t sufficient for today’s challenges. That’s the old seat-of-the-pants model. Establishing specific objectives and applying reliable performance indicators are keys to a manageable process.

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Operating Blueprints

To that end, great benefit could be realized by portfolio managers using transparent operating blueprints that connect the dots between financial reporting and actual business operations in order to accurately represent such information across their holding companies.

Why create an operating blueprint? It provides two strategic enablers:

360 ° Enterprise Models (business, process, organization, technology, etc.), provide the ability to visualize end-to-end business goals and execution strategies before beginning

costly and often irreversible strategy implementations. These models create the opportunity to ask “what-if” questions and test scenarios that help vet problems and issues early on.

Impact Analyses and Scenarios provide the opportunity with which to alter factors, create multiple output scenarios, evaluate the end-to-end impact of each scenario, and arrive at an optimal solution to address or solve a problem.

An operating blueprint allows principals and a management team to work together based on converged intelligence of market opportunities, execution capabilities, and business model differentiations.

Properly implemented, operating blueprints allow fund managers to:

- Maximize ROI at an earlier stage in the fund lifecycle of each portfolio company, and collectively across the entire fund.

- Focus on long-term vs. short-term goals to ensure that the life expectancy of a portfolio company allows it to deliver more than just a one-time target.

- Increase transparency between a portfolio company and the venture fund.

- Bring large-cap business process improvements to the small-cap mindset of many venture portfolio companies.

- Prioritize and guide improved performance, value, and sustainable growth.

The Road to Success

Clearly, new ideas, strategies, and management tools are

essential as the capital markets continue to evolve. In today's volatile market, the success for a new venture is often driven by its ability to recognize significant challenges and immediately identify the strategic imperatives necessary to address, survive, surpass, and thrive despite them.

Accomplishing such goals requires new organizational structures, creating and sharing new kinds of business knowledge, understanding emerging global socio-economic models, and developing repeatable transformational processes. Such an approach within the fund management structure of venture-backed companies will allow those companies to reach their full potential.

By removing the guesswork and emotion, this fact-based and methodical approach allows entrepreneurs/management and institutional investors to come together and collectively work toward the same goal of improved business execution, which equals improved shareholder value—and that's something everyone can agree on.

[Image: Flickr user [Jon McGovern](#)]



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Serial entrepreneur Faisal Hoque is the founder of [Shadoka](#), which develops accelerators and technology solutions for sustainable growth. He is the author of *Everything Connects: How to Transform and Lead in the Age of Creativity, Innovation, and Sustainability* (McGraw-Hill) and other books [More](#)

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10-25-22 | LENOVO AND INTEL

A new Lenovo report identifies a major thinking gap—and what we can do to shrink it

In studying the current “state of thinking” globally, innovation forecaster Shivvy Jervis reveals how technology can catalyze better, more productive thought

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BY FASTCO WORKS

We're in the middle of a global thinking gap.

That's the conclusion reached by [Shivvy Jervis](#), who collaborated with Lenovo on its first-ever Think Report, published in connection with ThinkPad's 30th anniversary. The in-depth global research study examined the state of thinking today by surveying adults across the U.S., U.K., Germany, and Japan. As Jervis puts it, the events of the past few years—COVID-19 and the social and economic disruptions that came with it—have made productive thinking much more difficult, if not outright impossible. Many have gone into “survival mode” to cope with the pandemic's fallout. “That alone would keep us occupied,” she says. “It's no wonder all these other factors cut into our time to think.”

Traveling the world and running her own innovation lab, Jervis spends a lot of time thinking about how we as a global society contend with the future. “I always tell people that the psychology and

mindset aspect is as important as the predictions about technology,” she says. Lenovo’s study bears this out. Fewer than half of respondents said they spend time “thinking about how they think,” and 80% believe society needs a new approach to thinking.

Here, Jervis unpacks what led to this thinking gap, identifies approaches for improving our thinking processes, and reveals how technology can catalyze better thinking.

What are some of the disruptions currently affecting our ability to do our best thinking?

Shivvy Jervis: Whether you’re working virtually or in-person, managing people dynamics and interpersonal relationships takes up a lot of head space. It calls for an emotional and intellectual investment. Adapting to how different people perceive you and being able to persuade, negotiate, and rally people to work together is time consuming. There’s not enough distraction-free time to elevate your thinking.

There have also been more curveballs, coming off the back of a global pandemic. All industries and ecosystems have had to face completely new challenges and respond quickly. Consumers’ mindsets are also changing rapidly. Focusing on responding quickly can impede our ability to do our best thinking.

How do less productive thinking styles differ from our “best” thinking?

Think back to a time when someone put you on the spot and you needed to make a decision *now*. It doesn’t give you the head space to collect the information you need. That kind of thinking doesn’t allow us to be as informed as we’d like, and it can trigger fight-or-flight mode. Making complex life, business, or core value-based decisions on the spot can be very detrimental.

**What's a good road map
people can follow to get
them practicing more
elevated, productive
thinking?**

First, they must be convinced of the value of healthier thinking. Without that, there's going to be zero motivation, because people won't move towards goals they don't believe in.

Second would be to show and tell—seeing more examples on social and mainstream media of what people can achieve when they're able to engage in deeper thinking. On TikTok and YouTube in the past year, people have posted positive, heartwarming success stories like: “Hey, I was really struggling. I changed my schedule; I gave myself two extra hours just to brainstorm, ideate, think... and my life got

better because I was able to think better.” Seeing that is so powerful.

Third would be making technology more humancentric. People think, With technology, I've got to immerse myself in my device. Actually, I see so many amazing examples of technology enabling us to develop more time for thinking. I've used it personally—like with screen-time limitations and noise-canceling headphones.

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Could you elaborate on how technology can enable better thinking today?

Nearly six out of 10 people in the Think Report said they would proactively start looking for technology to elevate their thinking. Tools that improve collaboration and communication or help with time management and remove the tedium of organizing and scheduling could be amazing game changers. Inventions that reduce distractions are also fantastic—even the simplest do not disturb settings.

What were some of the most notable cultural differences you observed between countries in the Think Report?

The U.S. came across as far more optimistic, both about trying new approaches to thinking and the future. People in the U.K. also responded highly in terms of trying new things but were more pessimistic about the future.

Japan was the biggest outlier in many categories. Japanese respondents tended to see less value in the concept of clearer and deeper thinking than other markets. This could be [because] there's a heavier emphasis on hierarchy and seniority there. But despite cultural trends to the contrary, Japanese respondents were very positive about using technology to foster better independent thoughts—75% of them responded in favor of technology helping thinking, which was higher than everywhere but the U.S.

You mentioned that in the U.S. and U.K. people were more open to new strategies for improving thinking. What are some of these strategies?

Our environment—visually, auditorily, the temperature—affects our state of mind. There’s lots of research, for example, on how incorporating greenery in the workspace has positive benefits compared to more stark, clinical workspaces. With greenery, there was a boost in creative thinking, productivity, and calmness. During the pandemic, you saw loads of videos of people doing makeovers of their little home office spaces. Suddenly, you saw a rise in demand for indoor plants in the U.K.

To what extent are we on track globally to reap the benefits of better thinking?

The five-year road map is looking much more hopeful than we might think. I’m noticing more and more companies and people thinking about legacy. What actions could we personally take now to drive positive impact for future generations? You can’t control political turbulence, recessions, and pandemics. But we can look at what’s in front of us. For example, I’ve cleared a part of my calendar in October to take a two-week breather. I’ve never done this before, and it feels liberating. From speaking with people from all over, there’s more people like me doing that. A lot of what they’re saying points to the fact that as a society, we’re on track to take more time to think better.

LEARN MORE ABOUT THE STATE OF THINKING TODAY

Lenovo’s “Think Report 2022” shows how new approaches to thinking can be potentially transformative and will be built on human-centered technology. As revealed in the report, “Technology—used appropriately, thoughtfully, and responsibly—may be the key to unlocking the potential for a level of thinking humankind has never experienced, the kind of thinking we need more than ever to solve the kind of challenges we face today.”

Get the Think Report and learn more about smarter laptops like the new Lenovo ThinkPad X1 Fold powered by Intel vPro®,

An Intel® Evo™ Design, by visiting the “Think On” site [here](#).

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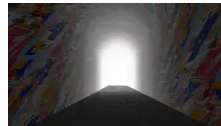
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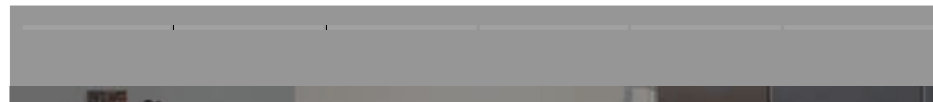
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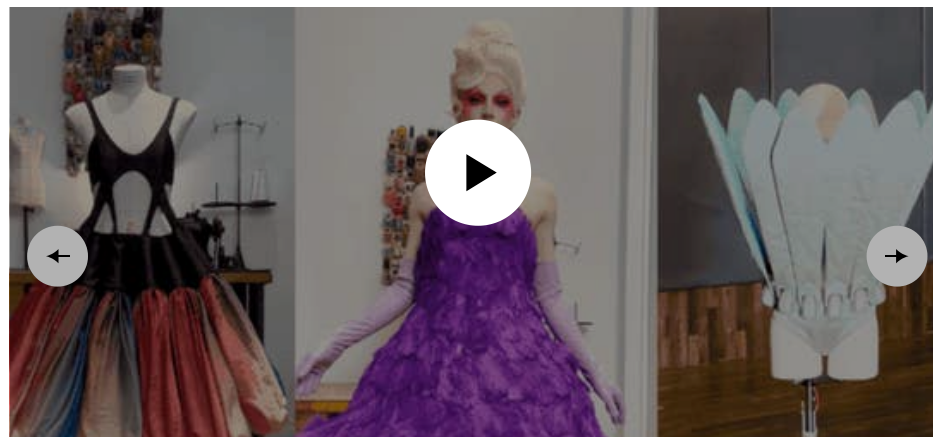


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