Summary

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The Future of Technology Investment **10 May**

Key points

- Megafunds are bad for start-ups because too much money too soon stifles innovation and reduces discipline.
- The “next big thing” usually comes from where it is least expected.
- Venture capitalists base investments more on a start-up’s people than on other factors.
- Silicon Valley and the United States benefit from a culture that allows people to fail and reinvent themselves.
- The pre-eminence of Silicon Valley and the United States in technology may be threatened by the country’s new direction on immigration policy.

Synopsis

Megafunds are bad for start-ups because too much money too soon stifles innovation and reduces discipline. The influx of cash can distort the way founders go about building their businesses. It can reduce accountability and lead to waste. “Megafunds are terrible,” said Ahmed El Alfi, Chairman, Sawari Ventures, Egypt.

“If somebody is going to give me money, I will accept it,” said Ramy Adeeb, Managing Director, 1984 Ventures, United States. “But the data say that the bigger the fund, the worse it performs.”

“If start-ups get too much money, it may lead to failure,” said Nabil Borhanu, Founder and Managing Director, Graphene Ventures, United States. But the megafunds may not feel much of a pinch themselves because of their size. “Entrepreneurs need to understand that it is not about the money but about how you execute.”

Larger amounts from larger funds may have a role to play “at the right stage”, noted Charles-Edouard Bouée, Chief Executive Officer, Roland Berger, Germany, and perhaps importantly when a firm has an initial public offering in sight.

Venture capitalists generally care more about the characteristics of the people who run a start-up than other factors. “When we invest at an early stage, we are investing in the people,” said Dominic Perks, Co-Founder, Hambro Perks, United Kingdom. This is partly because “people can adapt” to new conditions, added Bouée.

The “next big thing” usually comes from where it is least expected. In the late 20th century, Microsoft ruled the roost. Starting about a decade ago, the focus shifted to internet companies such as Google. Now, disruptive firms such as Uber, which apply software solutions to shake up existing industries, are at centre stage. “People tend to look at the present as the future,” said Bouée, yet “the next big player will not come from where you expect it.”

This means it might not come from Silicon Valley. Yet the United States continues to benefit from a culture that allows people to fail and reinvent themselves. “The US will remain pre-eminent unless somebody else embraces the willingness to accept failure,” said Steve Krausz, General Partner, U.S. Venture Partners, United States.

But the North American giant may be shooting itself in the foot with its new direction on immigration policy. It could inhibit the inflow of talent from around the globe. “The US will remain in the lead, but that is in danger with the immigration policy,” said El Alfi.

For the GCC to compete in the technology sector, its key elements include geography, capital and human resources, said Borhanu. The region is close to important markets that include Turkey and Europe. Its countries have a lot of talent. Thousands of students from Saudi Arabia study abroad – in the United States and elsewhere. Many have been doing internships at US companies. But the regulatory environment must be improved and capital made available at the right doses.

Session panellists
Ramy Adeeb, Managing Director, 1984 Ventures, United States
Ahmed El Alfi, Chairman, Sawari Ventures, Egypt
Charles-Edouard Bouée, Chief Executive Officer, Roland Berger, Germany
Nabil Borhanu, Founder and Managing Director, Graphene Ventures, United States
Steve Krausz, General Partner, U.S. Venture Partners, United States
Dominic Perks, Co-Founder, Hambro Perks, United Kingdom

Moderator: **Samuel Burke**, Business and Technology Correspondent, CNNMoney, United Kingdom

Disclosures
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