Improving Portfolio Return on Early-stage Venture Investments by Focusing on Winning Factors

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MAY 2016
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Submitted to
College of Business
in Partial Fulfillment of the Requirements
for the Degree of Doctor of Business Administration

by

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December 2015
Abstract

Venture capitalists fund only those start-up companies that possess several key “winning factors” – a competent entrepreneur, a promising product with a sizable market to support fast growth and financial projections indicating a profitable exit in a few years. They also stay involved with their investments after the funding, to assist the development. Yet most of these selected startups fail in the first few years, let alone produce profits for the venture capital at exit.

Although having winning qualities in a start-up business is no guarantee for success, the large percentage of failure invites questioning. It is postulated that the some of the failures may be due to the deterioration of one or more of the winning factors during the formative post-funding years. It is further postulated that if the root cause of the deterioration is understood well and timely, a few of these disappointments may be saved with effective corrective action, whereby improving overall portfolio return. This research attempts to find evidence to support the postulates by using multiple-case study and an administrated questionnaire survey.