

Venture capital is capital provided by outside investors for financing of new, growing or struggling businesses. Venture capital investments generally are high risk investments but offer the potential for above average returns. A venture capitalist (VC) is a person who makes such investments. A venture capital fund is a pooled investment vehicle (often a partnership) that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans.

History of Venture Capital

General Georges Doriot is considered to be the father of venture capital industry. In 1946 he founded American Research and Development (ARD) Corporation, whose biggest success was Digital Equipment Corporation. When Digital Equipment went public in 1968 it provided ARD with 101% annualized Return on Investment (ROI). ARD's \$70,000 USD investment in Digital Corporation in 1959 had a market value of \$37 million USD in 1968. The first venture-backed startup is generally considered to be Fairchild Semiconductor, funded in 1959 by Venrock Associates. Before World War II, venture capital investments were primarily the domain of wealthy individuals and families. One of the first steps toward a professionally-managed venture capital industry was the passage of the Small Business Investment Act of 1958. The 1958 Act authorized the U.S. Small Business Administration (SBA) to license private "Small Business Investment Companies" (SBICs) to provide financing and management assistance to small entrepreneurial businesses in the United States. Passage of the Act addressed concerns raised in a Federal Reserve Board report to Congress that concluded that a major gap existed in the capital markets for long-term funding for growth-oriented small businesses. The goal of the SBIC program was, and still is, to stimulate the U.S. economy in general and small businesses in particular, by facilitating the flow of capital to pioneering small concerns.

Venture capital is a phenomenon most closely associated with the United States and technologically innovative ventures. Due to structural restrictions imposed on American banks in the 1930s there was no private merchant banking industry in the United States, a situation that was quite unique in developed nations. As late as the 1980s Lester Thurow, a noted economist, decried the inability of the USA's financial regulation framework to support any merchant bank other than one that is run by the United States Congress in the form of federally-funded projects. These, he argued, were massive in scale, but also politically motivated, too focused on defense, housing and such specialized technologies as space exploration, agriculture, and aerospace. US investment banks were confined to handling large M&A transactions, the issue of equity and debt securities, and, often, the breakup of industrial concerns to access their pension fund surplus or sell off infrastructural capital for big gains.

Not only was the lax regulation of this situation very heavily criticized at the time, this industrial policy was not in line with that of other industrialized rivals—notably Germany and

Japan which at that time were gaining world markets in automotive and consumer electronics. There was a general feeling that the United States was in an economic decline. However, those nations were also becoming somewhat more dependent on central bank and elite academic judgment, rather than the more populist and consumerist way that priorities were set by government and private investors in the United States—a model that proved to have some advantages when the public's greed was strongly activated by the IPO of Netscape and other Internet-related firms. This highlighted the nearly invisible role that Silicon Valley had played in the sustaining of American economic innovation.

As of 2006 some of the most well-known VC Firms are:

- Kleiner, Perkins, Caufield and Byers
- Sequoia Capital
- Fidelity Ventures
- Intel Capital
- Mayfield
- Accel
- Benchmark
- New Enterprise Associates
- Menlo Ventures
- Draper Fisher Jurvetson
- Garage Technology Ventures