

URL: <https://stvp.stanford.edu/clips/changing-the-venture-capital-game>

Charles Hudson, founder and managing partner of Precursor Ventures, observes that the venture capital industry's structure results in a small number of people having outsized power to decide who receives funding. He believes the best way to change the industry is to build institutions whose success changes the way other VC firms behave.



Transcript

- You read these numbers, 00:00:04,980 venture capitalists raised a \$100 billion in change last year.. But when you dive into the data, you'll realize half of that money went to maybe two dozen firms? Or so.. And what you realize is, while venture capital, there's a lot of money in the ecosystem, it's pretty concentrated in the hands of a relatively small number of firms.. And so, what ends up happening is, because those firms have a disproportionate amount of the capital, and like I said earlier, venture capitalists tend to fund what they find interesting.. The preferences and interests of a relatively small number of people are dramatically overrepresented in terms of what gets funded.. And those people are able to accumulate large amounts of capital because they have good historical returns, or they're good at marketing their funds to the kind of people who wanna invest in venture funds.. So it's not to criticize them for a lack of performance or anything, but they represent such a large concentrated pool that like, the things they like are going to get funded, and the things that they don't like are gonna have a much harder time finding access to capital.. And I think that's structural.. I think the other thing that's structural is in most venture capital firms, they're very undemocratic.. (chuckles) You have a very small number of people at the top who are in charge, who largely dictate what the firm is going to invest in, how capital's gonna be allocated across partners..

And so, what you really end up with is half of the money in the industry is in the hands of a very small number of firms.. And those very small number of firms are effectively managed and controlled by a very small number of people.. So if you really zoom out, there's a very small number of people who set the agenda for about half of our industry.. (voices drown) - Yeah.. 00:01:41,386 And it's an industry that controls innovation in the world.. - And it's interesting- 00:02:01,500 And so people say, wow, we have all of these small venture funds, like why isn't anything changing? I'm like, well, because all of those small venture funds, even if they moved in concert or maybe half the size of that core group of big venture funds, that has most of the money.. - And is there a way to change that? 00:02:17,460 So, we are in the school of entrepreneurship, we're in the entrepreneurship center, in the school of engineering.. So, every challenge is an opportunity.. - Mm-hmm.. 00:02:23,970 - This seems like a systematic challenge, 00:02:26,310 and it's almost seems like one where it's a bunch of good intentions that have created this very perverse outcome..

If you were an entrepreneur, you wanted to change it.. Do you have any thoughts on how you could change the structure? - Yeah, I mean, 00:02:38,523 I think the more existential question to me is like, we have this concentrated industry.. Do those

players behave that way because that's who they are? Or, do they behave that way because they've ascended to a tier and size in the industry where they have outside power? And I think that traditionally, like what's happened for most venture firms is like, as you're more successful, people want to give you more money.. And most VCs are not in the business of not taking money.. So, people give you more money, your firm gets larger, you become more powerful.. And my big question is like, well what's the chicken and what's the egg? Is it that like you start off with good intentions, and then as you get larger, it becomes harder to deliver on those intentions? Or, is it that the people who end up getting large have a different set of values and intentions in the first place? - Mm-hmm.. 00:03:21,286 - So, what I would say is, 00:03:22,470 if I wanted to disrupt the industry, I think the people who have a chance to break it.. I mean, I look at (indistinct) what's that fund is, 12, 14 years old? Not that.. Together Not that old.. 00:03:32,109 - Yeah, and how many billion? 00:03:34,020 - They went from zero to \$54 billion under management, 00:03:37,260 probably the third or fourth largest venture fund in the country in 15 years..

And they have, in many ways, changed elements of our business in the way that other VCs behave.. I look at Y Combinator.. Y Combinator is 20-ish, maybe 15, 20 years old also? - Yeah.. 00:03:56,220 - YC changed the way that early stage startups get 00:03:57,390 built and funded.. So, I think the way to change venture capital is to build an institution that causes everybody else in the ecosystem to behave differently.. Very hard to do.. But when you do that, you can actually change the rules of the game...