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# What Makes A Successful Venture Capitalist

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*Smart Assessment. Smarter Performance.*

"In today's environment of rapid firm growth, this study is required reading. The case interviews are the best I have seen on the subject of what makes a 'great' venture capitalist."

*Carl Thoma, Co-Founder and General Partner, Thoma Cressey|Equity Partners.*

"The study is an interesting contribution to the idea that venture capital investing is not a science but really an art."

*Steven Lazarus, Managing Director, Arch Venture Fund.*

# Executive Summary

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- In 1998-1999, 145 venture capital investors participated in the survey upon which this study was based. In addition, 10 industry leaders participated in case interviews. This is the largest study ever conducted on venture capital success factors.
- How and why people enter venture capital:
  - Most venture capitalists enter the business through personal contacts.
  - The results show that venture capitalists were attracted to the industry for intellectual stimulation, financial gain, freedom/autonomy and the thrill of building companies.
- What makes a successful venture capitalist?:
  - Soft skills were considered more important for success in venture capital than quantitative skills. The skills that were rated most important were: 1) listening skills, 2) ability to recruit talented management, 3) qualitative analysis skills, 4) coaching/counseling/advising skills. Financial and technical skills were rated least important.
  - The results suggest that there are various backgrounds among venture capitalists, but most earned one or more technical degrees, most earned an MBA, and many had operating experience.
  - Possessing a “CEO perspective” is a valuable asset.
- How do successful venture firms operate?
  - Most firms are organized as flat partnerships, where each partner has a voice in decision-making and a share of the capital gains.
  - Mentoring is the most important driver of professional development. Half of the venture capitalists in this study rated mentoring as very important in their development.
  - During due diligence, venture capitalists allocated the highest percentage of their time to management assessment and a much smaller percentage to financial analysis.
  - For an average portfolio company, venture capitalists spent 10 hours per month coaching senior management in a given portfolio company, 6 hours recruiting managers for the company, and 6 hours working to secure additional financing for the portfolio company.

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# I. Introduction

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The purpose of this study was to discover insights into what makes a successful venture capitalist.

The study has implications for venture capital firms, people interested in a career in venture capital, or public sector organizations that are interested in promoting a healthy venture capital sector.

Much of the research in the field of venture capital has been focused on the entrepreneur. Until now, no major study has been conducted that focuses the magnifying glass on the venture capital investor to uncover insights into these questions:

- How and why do people go into the venture capital industry?
- What makes a successful venture capitalist?

This study used a large-sample survey of 145 venture capitalists from 98 different firms across the United States. In addition, ten case interviews were conducted with some of the most admired leaders in the venture capital industry in order to provide more explanation beyond the numbers. The study was conducted in 1998-1999.

## **Venture Capital is Important**

Venture capital is important to study because it is an important driver in the entrepreneurial economy. Echoing the words of Peter Drucker (1985), Wetzel (1995, p. 52) described a transition in the United States from a “decaying industrial economy to an emerging entrepreneurial economy.” The entrepreneurial economy, made up of small, high-growth organizations, is providing American society with a larger source of jobs than larger organizations. Since 1979, companies in the Fortune 500 have had a net decrease in employment by 4 million jobs; the entrepreneurial economy has created a net increase of 20 million jobs during the same time frame (Bygrave & Timmons, 1992). We are motivated to learn more about what makes a successful venture capitalist in order to find ways to promote this important sector in the economy.

## **Paradox**

We observe a paradox in the field of venture capital. It is considered a part of the financial services industry, and many people with finance backgrounds occupy positions of General Partner or Associate. Yet, the job of venture capitalist appears to be centered on non-financial activities. The true focus tends to be on human capital or “people issues.” In their classic study of 102 venture capital firms, MacMillan, Siegel, and Narasimha (1985) found that the top two criteria that venture capitalists considered “essential” when making an investment decision pertained to human capital. These two elements were: 1) the entrepreneur’s capability of sustaining intense effort (cited by 64% of the respondents), and 2) the entrepreneur’s familiarity with the market targeted by the

venture (62%). In his review, Sandberg (1986) concluded that venture capitalists agree that the human capital embodied by the lead entrepreneur is the primary criterion for evaluating a proposed venture.

In their study of 52 entrepreneurial firms in New England, Stuart and Abetti (1990) found that the human capital of management was a stronger predictor of venture performance than factors related to the product, service, or financial position of the new venture.

Taking the contrapositive angle on this issue, the causes of poor performance in new ventures are widely attributed to deficiencies in human capital. Gorman and Sahlman (1989) mailed surveys to 100 U.S.-based venture capitalists. They received data from 49 respondents. One section of the survey dealt with identifying reasons for “troubled investments” in new ventures. *Ninety-five percent* of the respondents reported that a reason for the poor performance was related to deficiencies in human capital. Deficiencies in human capital were defined as “ineffective senior management.”

Having reviewed an estimated 90,000 new venture proposals in his career, venture capitalist Arthur Rock wrote that evaluating human capital is critical to a new venture’s success. Good ideas and good products are a “dime a dozen; good management and good execution are rare” (Rock, 1987).

### **Quantitative or Qualitative?**

We conducted this study partly to determine what skill-sets are important for success in venture capital. Would we find that quantitative, financial or technical skills were most important? Or would we find out that skills related to the assessment and development of the human capital of the management team were most important for success?

The evidence from past research as well as the current study suggests that the true drivers of success in venture capital are more closely related to human capital issues than financial issues. Or put another way, the human capital issues drive the success or failure of the financial performance. This report will offer a “lifecycle” approach to describing success in venture capital: why people get into the field, and then what makes them successful.

## II. Methodology

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The methodology for the study had three components:

- Archival data analysis
- Case studies
- Survey

### *Archival Data Analysis*

The purpose of the archival data analysis component was to generate insights into each of the key research questions, and to identify respondents for the survey. Archival data is comprised of web site descriptions of firms, industry trade associations, supporting service firms, as well as biographies of venture capitalists. A contact database was developed for the main survey. We also conducted a literature review of scientific articles.

### *Case Interviews of Leading Venture Capitalists*

The purpose of the case study component was four fold: 1) to aid in the pilot testing of the survey to ensure validity, 2) to generate rich stories and other qualitative data about the three research questions, and 3) to generate respondent referrals for the survey, and 4) to further validate the results of the survey and draw out their insights. Ten leading venture capitalists were interviewed. They were selected based on their high profile in the industry and reputation for success. A summary report (2 pages) from each interview was prepared to facilitate cross-interview comparisons.

### *Survey*

The purpose of the survey was to collect and analyze quantitative data on the key research questions. The survey was pilot tested with six venture capitalists in order to test for validity and reliability of the items. The overall sample consisted of U.S.-based venture capitalists. “Venture capitalist” is defined broadly as a direct investor of private equity into portfolio companies. Included are early-stage and later-stage venture capital investors. Excluded from this study are fund-of-fund managers, angels, corporate development professionals, and non-U.S. investors. General Partners were targeted. For the main study, we distributed the survey individually to 751 venture capitalists. 85 failed to reach the person due to incorrect contact information. Therefore, 665 surveys reached venture capitalists. Though this type of study typically achieves low response rates, we were pleased to experience a response rate of 21% and secured participation from 145 venture capitalists from 98 firms.

### *Analysis*

Prior to performing statistical analyses, the data screening procedure recommended by Tabachnick & Fidell (1989) was used. Data were screened for out-of-range values, plausible means and standard deviations, coefficients of variation, univariate outliers, skew, kurtosis, etc. No statistical transformations were performed. Analyses included descriptive statistics and frequencies which tell us about who responded to the survey, and what the means and standard deviations of the key variables were.

### III. Descriptive Statistics of Venture Capital Respondents

This section provides a summary of information about the venture capitalists who participated in this study.

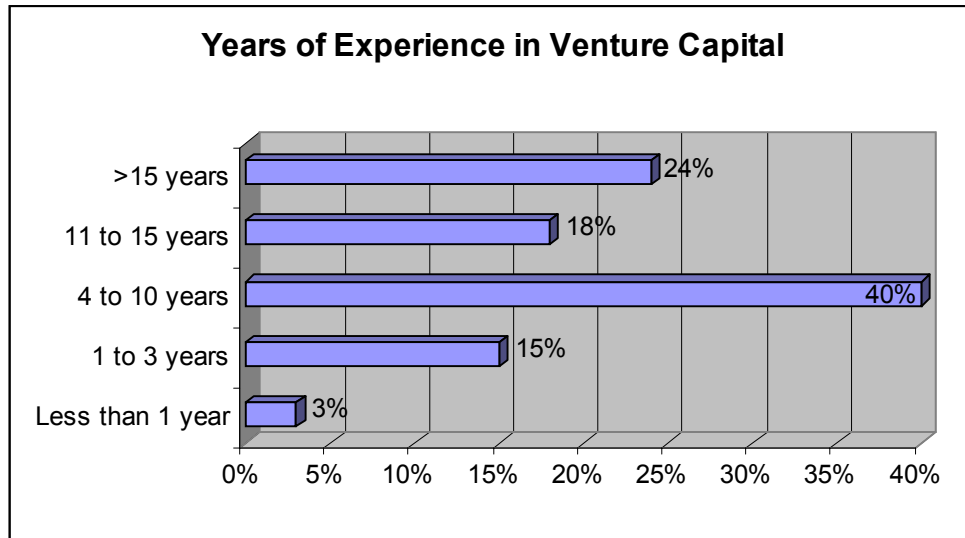
#### Venture Capital Firms in the Survey

4C Ventures	DLJ Asset Management Group	Norwest Venture Capital
Abbott Capital Management, L.P.	E.M. Warburg, Pincus & Co.	Novak Biddle Venture Partners
Accel Partners	Edison Venture Fund	Olympic Venture Partners
Advanced Technology Ventures	El Dorado Ventures	Onset Ventures
Alliance Technology Ventures	Enterprise Partners	Pacific Venture Group
Allied Capital Corporation	Forward Ventures	Patricof & Co. Ventures Inc.
Alta Partners Management Co.	Franklin Street Equity Fund	Pioneer Capital Corp.
Ampersand Ventures	Frontenac Company	Platinum Venture Partners
Anthem Capital	Galen Associates	Polaris Venture Partners, L.P.
ARCH Venture Fund	Generation Partners	Polestar Capital
Aspen Ventures	Greylock Management Corporation	Prism Venture Partners
Asset Management Co.	Hambro America Securities Inc.	Roser Ventures
Atlas Venture	HarbourVest Partners, LLC	Salix Ventures
Austin Ventures	Information Technology Ventures, L.P.	Schroder Ventures
AVI Management Partners	InnoCal, L.P.	Sequel Venture Partners
Barington Capital Group	Institutional Venture Partners	Sevin Rosen Funds
Battery Ventures	InterWest Partners	Sigma Partners
Benchmark Capital	JK&B Capital	South Atlantic Capital Corp.
Bessemer Venture Partners	K2 Capital, L.P.	St. Paul Venture Capital, Inc.
Bio Asia Investments	Kleiner Perkins Caufield & Byers	Summit Partners
Brand Equity Ventures	Kline Hawkes California L.P.	TA Associates
Brentwood Venture Capital	Madison Capital Partners	TDH
Canaan Partners	Madison Dearborn Partners, Inc.	Telos Venture Partners
Capstone Ventures, LLC	Mayfield Fund	Thoma Cressey Equity Partners
Cardinal Health Partners	Mellon Ventures, Inc.	TL Ventures
Centennial Funds	Mentor Capital Partners	Trident Capital, L.P.
CenterPoint Venture Partners, L.P.	Mid-Atlantic Venture Funds	U.S. Venture Partners
Churchill Capital, Inc.	Mission Ventures	Venrock Associates
CID Equity Partners	Mohr, Davidow Ventures	Venture Investors Management LLC
Commonwealth Capital Ventures, L.P.	Morgenthaler Ventures	Wand Partners
Convergence Partners	MPM Asset Management, LLC	Weston Presidio Capital
Crosspoint Venture Partners	New Enterprise Associates	Wyndham Partners
Crown Advisors Ltd.	North Bridge Venture Partners	

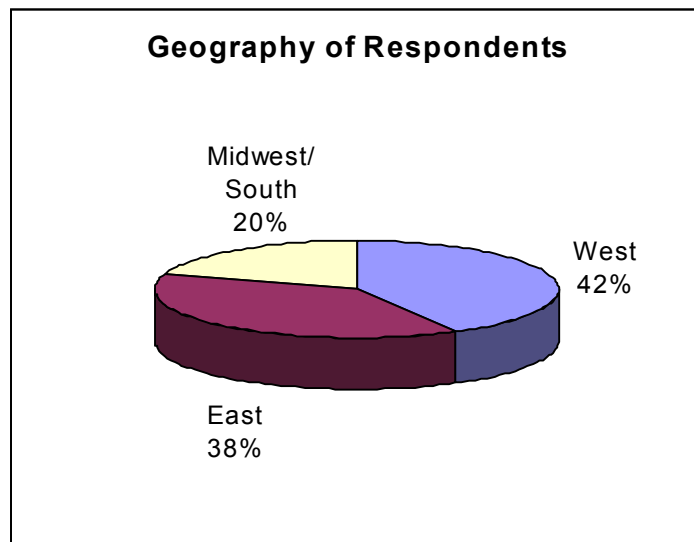
The respondents in this study were all U.S.-based venture capitalists. 95% were partners, and 5% were venture partners. “Venture partner” is a title typically used in the industry to represent a more junior level than general partner, though one that typically participates in profit sharing to some degree. Therefore, we consider all of the respondents in this study to be partners. No associates were included in this study.

The respondents in the study represent relatively seasoned venture capitalists. 42% had been in the venture capital industry for at least 11 years. Only 18% had less than 4 years of experience in venture capital.

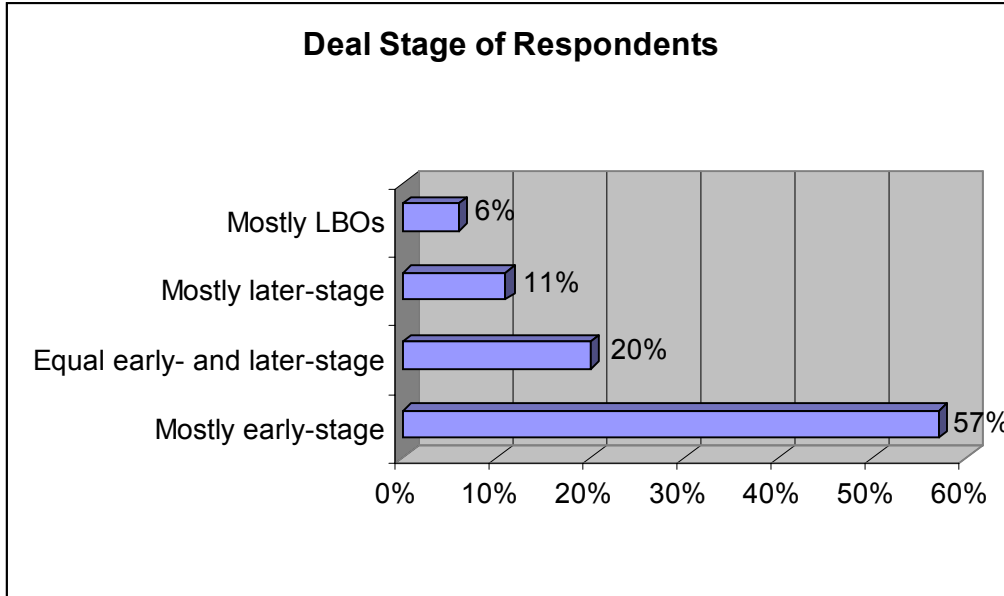
This relatively experienced sample of partners is appropriate for studying what makes a successful venture capitalist. They are well positioned to have a great deal of knowledge of what it takes to be successful in the venture capital industry.



The geographical distribution is roughly consistent with the distribution of venture capitalists in the United States. The largest pool of respondents was located in the Western region of the United States (42%)—with California (36% of total) being the largest state represented. 38% were located in the Eastern region, and 20% in the Middle West or South.



Most of the respondents (57%) responded that they focused on early-stage deals. These are investments in companies that are considered to be at the “seed” or “startup” stage. 11% focused on later-stage deals, and 20% had an even balance of early- and later-stage deals. Only 6% focused on leveraged buy-outs (LBOs) of mature companies.

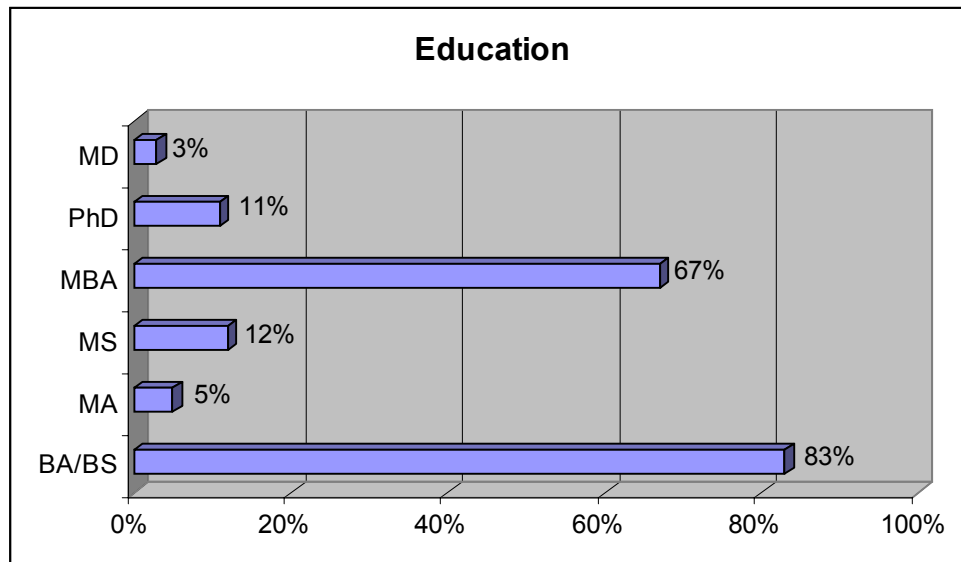


### III. Findings

#### 1. How and Why People Become Venture Capitalists

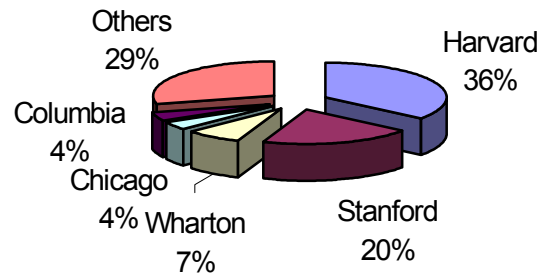
##### Educational Background

Venture capitalists in this study were highly educated. Over 80% had an undergraduate degree and 67% had an MBA. 3% were medical doctors (MDs) and 11% held Ph.D.s. Our archival research also showed that of 497 venture capitalists for which educational background data were available, 68% had an MBA and approximately 56% had one or more technology degrees and 28% had one or more advanced technology degrees.



The archival research showed that the schools from which venture capitalists received their MBA are concentrated in several top US business schools. Especially, concentration from Harvard (36%) and Stanford (20%) business schools is notable. Some case respondents valued the MBA education for building networks of people who would be useful in their later career as venture capitalists.

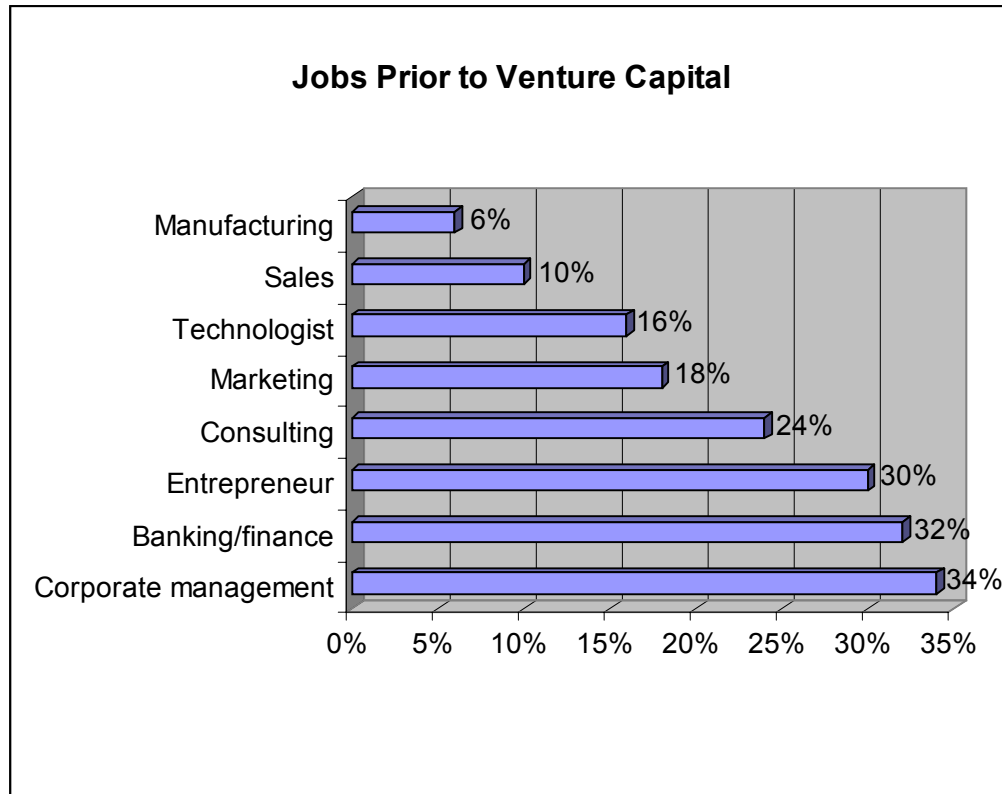
**Schools from which Venture Capitalists Received their  
MBA**  
(Archival Research)



Our case study respondents generally agreed that an MBA in itself was not critical, but that the CEO perspective gained in an MBA program was a clear benefit. Also, our respondents thought that an MBA accelerated one's professional advancement and allowed high-level management experience earlier in one's career, which they thought was a key.

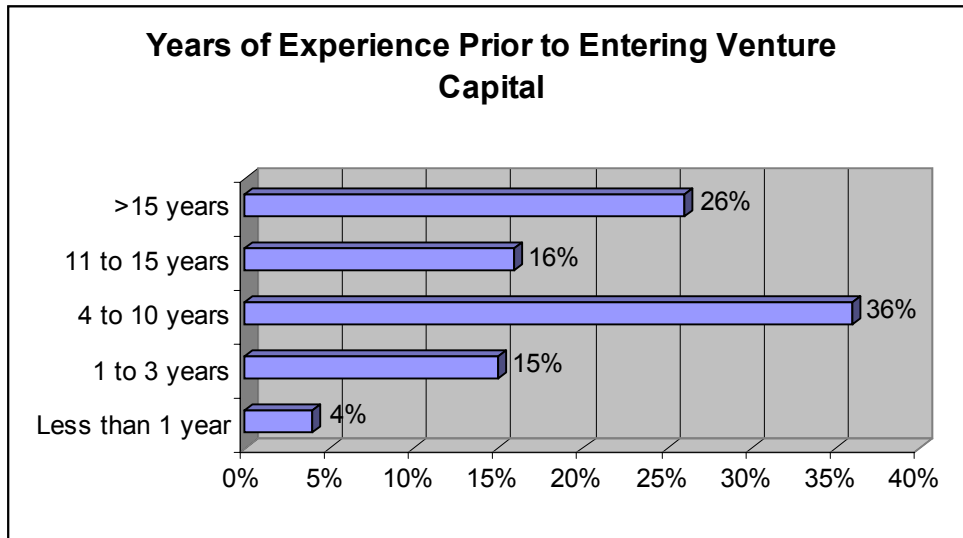
## Career Background

Prior to entering the venture capital industry, one third of respondents had experience as corporate managers, one third in banking/finance, and one third as entrepreneurs (not mutually exclusive).

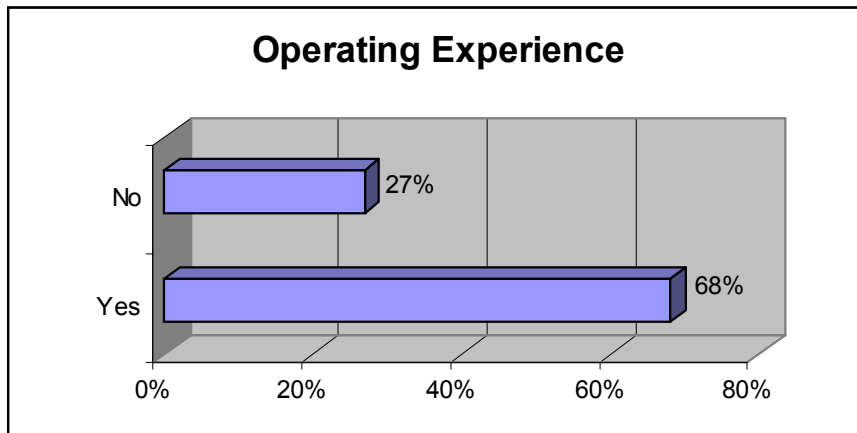


Our case study respondents highlighted the importance of management experience in terms of gaining CEO perspective, learning how to coach/motivate people, and developing the “soft skills” required managing indirectly. Several of the venture capital firms that we interviewed are de-emphasizing their associate programs in favor of working more with their networks of experienced senior managers and entrepreneurs.

Many venture capitalists had a significant amount of business experience prior to starting their venture capital careers. 81% had more than three years of prior experience, and 42% had more than ten years.

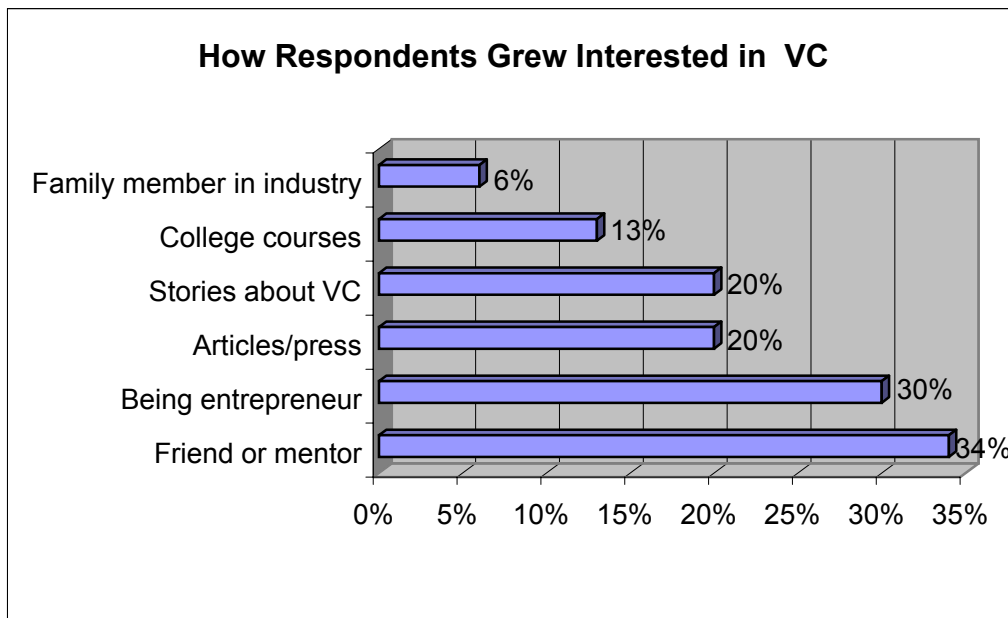


In addition to overall business experience, which may include non-operating experience such as consulting, most of the respondents had operating experience.



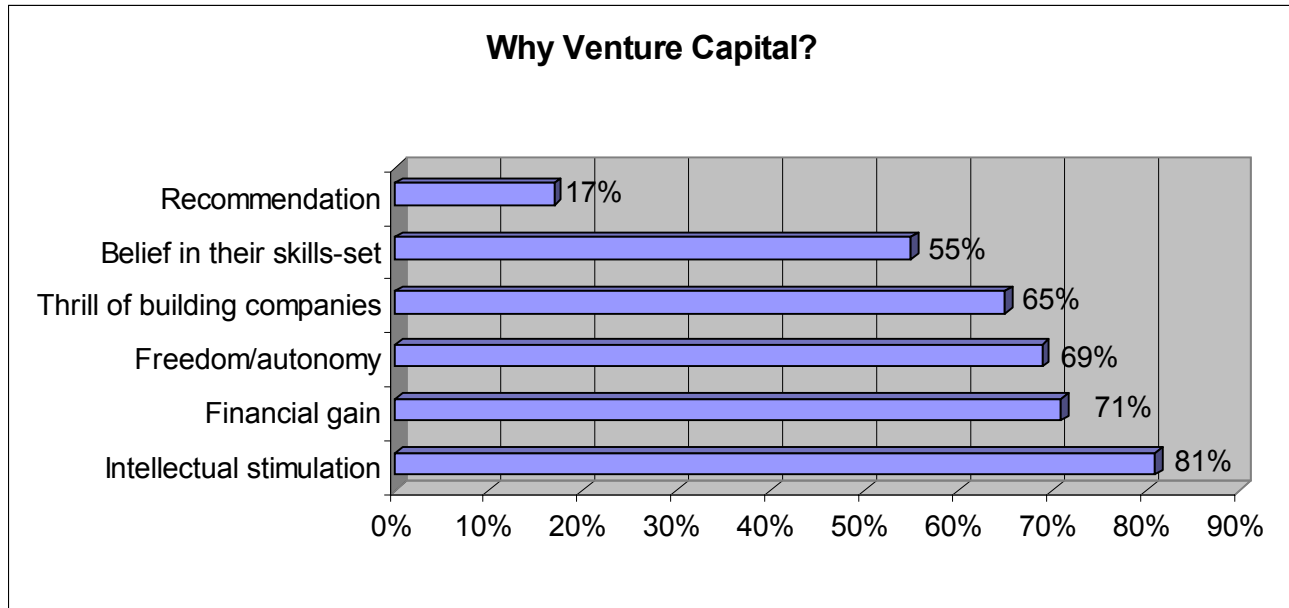
## Entry into Venture Capital

Our survey and interviews show that most venture capitalists became interested in the industry and found a position through their personal or professional networks. The primary reason that people became interested in the field of venture capital was that a friend or mentor told them about the field (34%). The second most common reason that venture capitalists became aware of the field was due to their experiences as an entrepreneur prior to becoming a venture capitalist (30%). Many of the case study respondents also happened to be acquainted with some venture capitalists. Relatively few became interested in venture capital through their formal education.



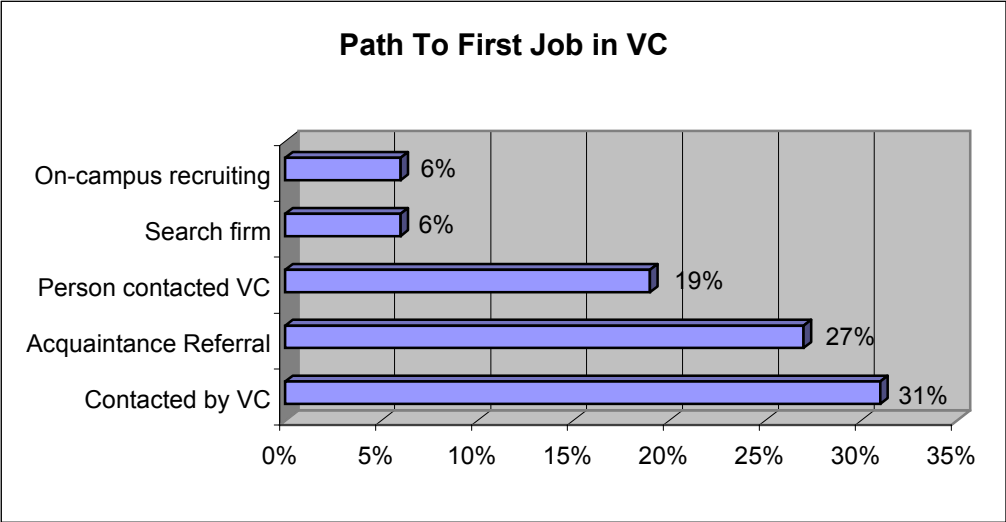
The media does play some role in educating people about venture capital. Twenty percent of the respondents reported that articles in the press about venture capital or venture capitalists played a significant role in their becoming aware of the industry.

Primary reasons why venture capitalists chose a career in this field are intellectual stimulation (81%), the opportunity for financial gain (71%), freedom/autonomy (69%) and thrill of building companies (65%). They were also drawn to the field because they believed their skill-sets were applicable in the industry. Venture capitalists typically are exposed to many business plans in a year in many different industries.



The “thrill of building companies” was cited by 65% of the respondents as a reason for going into VC. Many venture capitalists like the challenge and excitement of building successful businesses that create jobs and bring new technologies to market. This theme was strongly supported in the case study interviews.

The most common path to the first job in venture capital is being contacted by the venture capital firm directly. On-campus recruiting and executive search firms were each involved in finding a first job in venture capital for only 6% of the respondents. It may also be that since venture capitalists regard operating experience as very important in their professional development (see section “Professional Development”), VC firms may not be looking for recent graduates as much as they look for seasoned people through their professional networks.



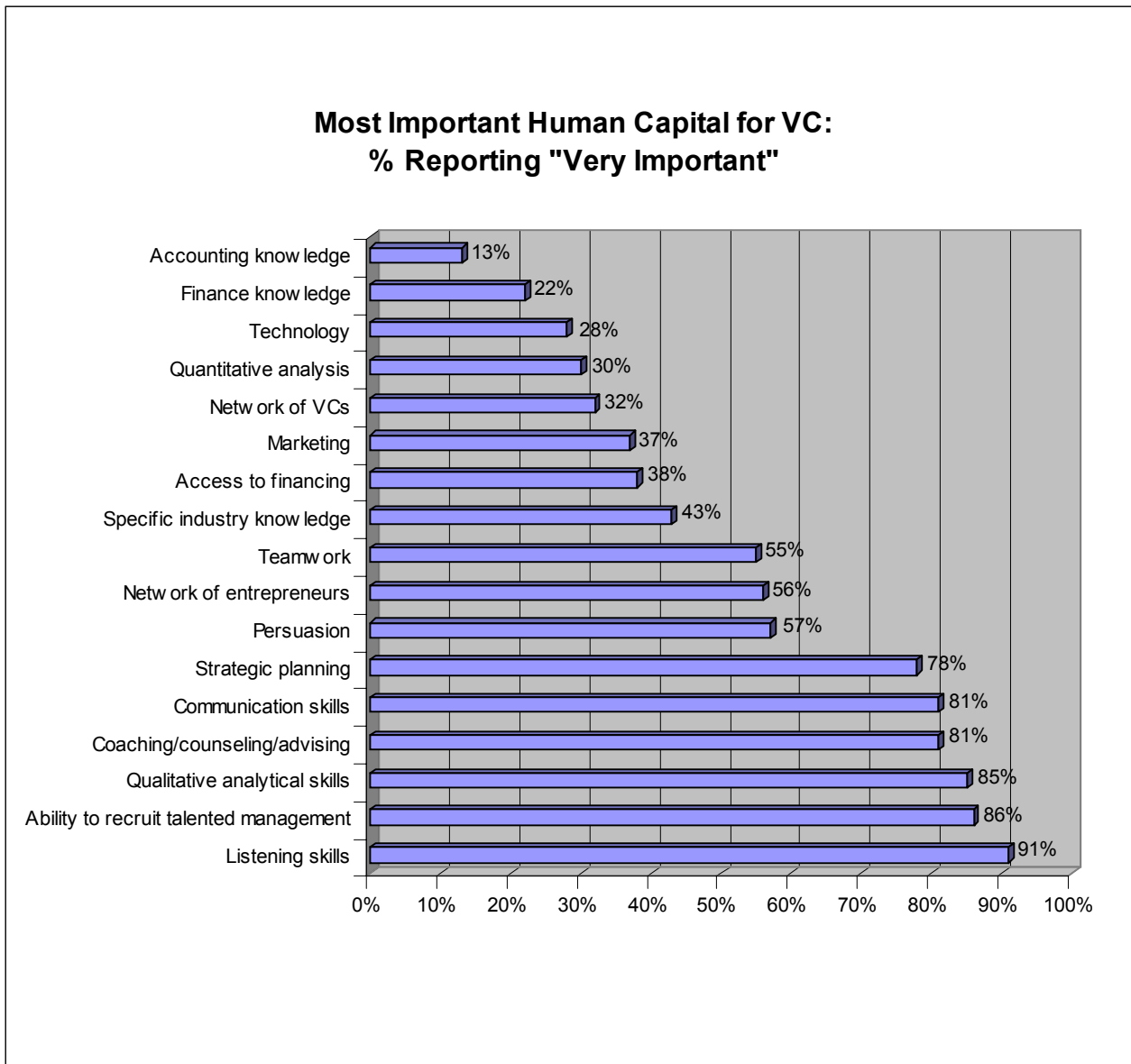
Many of the venture capitalists in this study were contacted by the venture capital firm directly. Venture capitalists tend to build and maintain large professional networks and, according to our interviews, they rely heavily on those networks to identify candidates for their firms.

The second most common path to the first job in VC was through a personal or professional referral. Again, this informal network is widely used to connect people with jobs in venture capital.

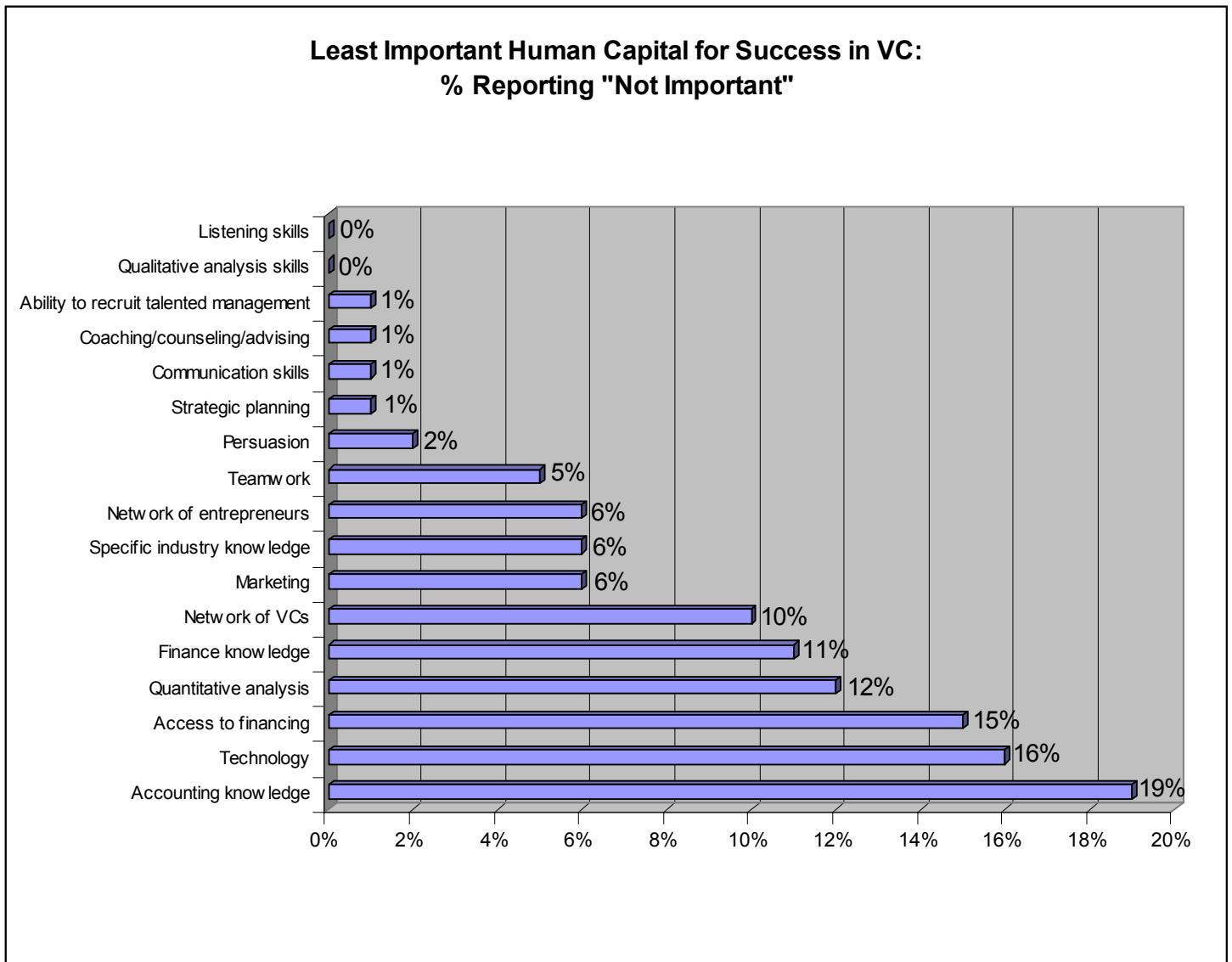
## 2. *What Makes a Successful Venture Capitalist?*

### Human Capital

Our survey shows that success in venture capital is largely driven by mastery of “soft skills”. The survey respondents reported that the most important attributes for success in venture capital are not accounting knowledge or corporate finance; in fact these two dimensions of human capital were rated least important. The human capital attributes that were most often considered very important were: 1) listening skills (91%), 2) ability to recruit talented management (86%) and 3) qualitative analytical skills (85%).

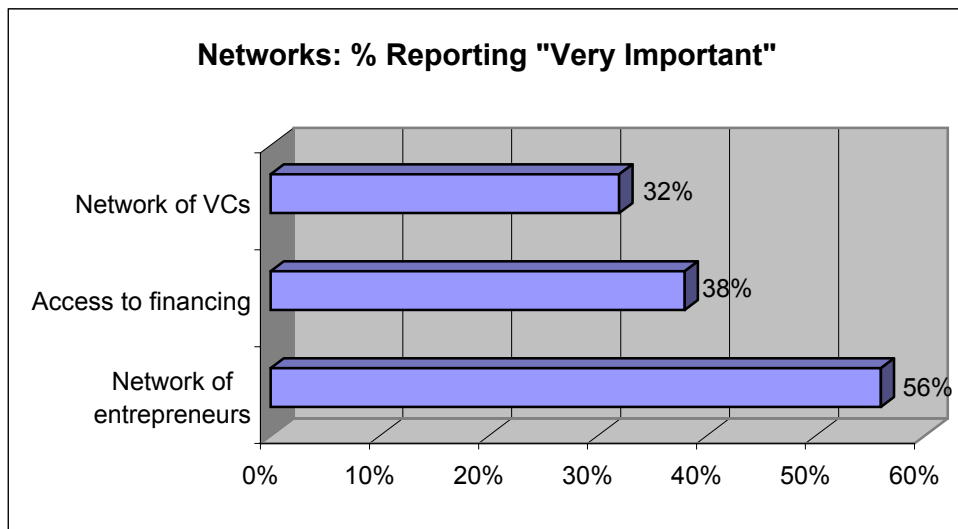


The chart below shows the percentage of venture capitalists who said that a particular human capital attribute was “not important”—the reverse of the previous question. Again, the quantitative and technical dimensions of human capital are most often cited as less important for success in venture capital.



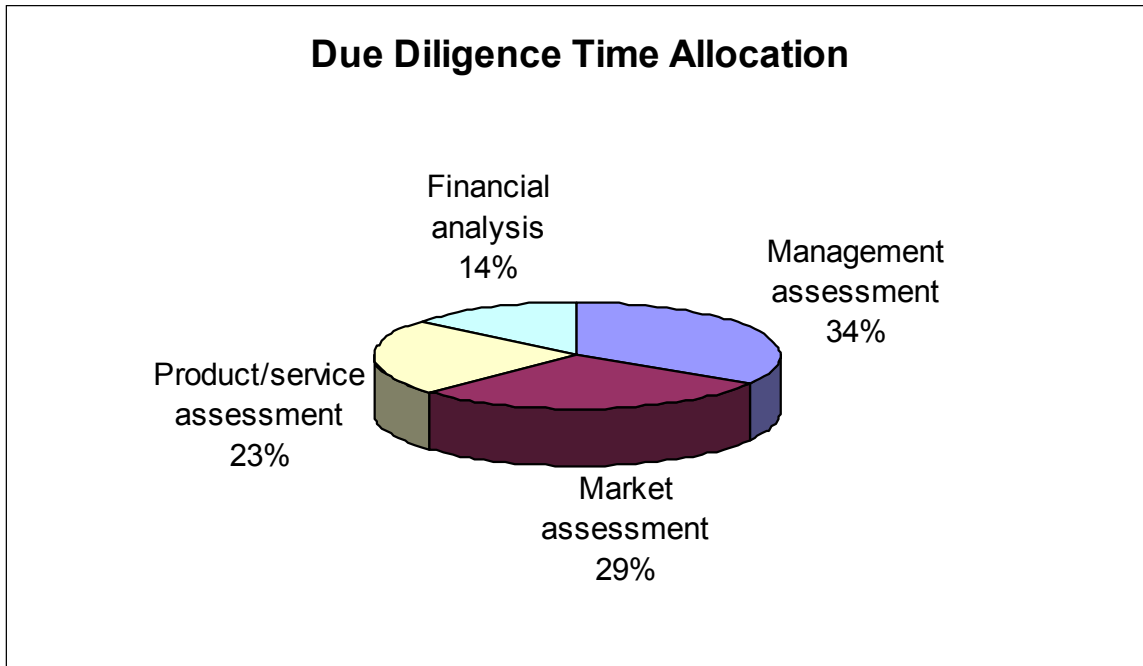
## Professional Networks

Venture capitalists assemble informal networks of people for various purposes. Some common uses of these networks are to gain access to entrepreneurs to source deals and to manage their portfolio companies, to lenders to help finance growth, and access to other VCs to syndicate deals and spread risk. Our case study respondents also emphasized how venture capitalists utilize their networks of entrepreneurs and experts to get feedback during due diligence on the quality of a concept and a startup companies management team. The results of this study suggest that venture capitalists value their network of entrepreneurs the most. 56% reported that their network of entrepreneurs was very important. This finding is consistent with the earlier findings that venture capitalists think that ability to recruit a talented management team is one of the most important human capital attributes of a venture capitalist.



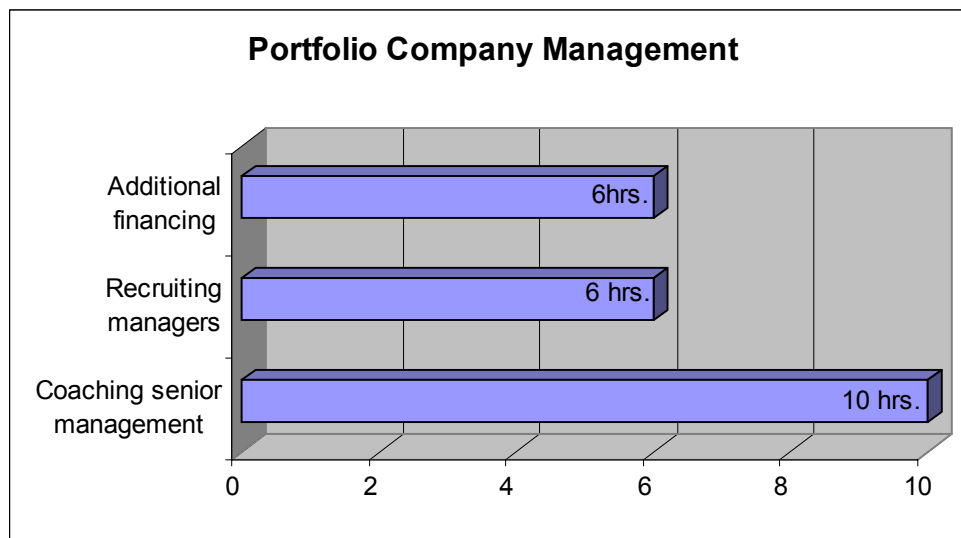
## Due Diligence

Our survey showed that venture capitalists typically spend more than 50 hours on due diligence prior to making an investment decision. They allocate time to four main activities. The highest time allocation is management assessment.



## Relationship with Portfolio Companies

Post- investment, venture capitalists tend to spend most of their time coaching senior management. As one of the leading venture capitalists in our study explained, serving as an advisor to CEOs between board meetings is one of the most important jobs of the venture capitalist. Topics of these discussions include strategy, personnel needs or problems, and using the venture capitalist as a “sounding board” for ideas.



Several of our case study respondents suggest that an important role of the venture capitalist is to provide this informal sounding board to management. Furthermore, they mentioned that the job of CEO can be a lonely one and often, a CEO needs somebody to provide an objective point of view as well as emotional and collegial support. One industry leader said that the CEO would occasionally call the venture capitalist on a Friday afternoon with a problem that is on his or her mind—so the VC can ponder the problem over the weekend as well. These are some of the ways that venture capitalists coach senior management.

Recruiting talented management is done several ways. Venture capitalists have large professional networks. They use the phone a lot to ask their contacts for referrals to talented managers. Or they have breakfast, lunch or dinner meetings with leaders of a particular industry to share information and build relationships. Venture capitalists also use technology conferences to meet a lot of managers. One venture capitalist in Silicon Valley founded an invite-only CEO conference for an industry. That way, he gets to know key managers in that industry in case he needs referrals or direct access to talent for portfolio companies.

## **Professional Development**

In looking at their experience prior to entering the VC industry, respondents tended to value experience more than education. Operating experience (refers to experience gained by leading a company or business unit, typically including profit & loss responsibility) and mentoring each played a very important role in the development of 50% of the venture capitalists. Many case study respondents emphasized the importance of mentoring. Mentoring in this situation involves participating with senior venture capitalists at various meetings such as negotiations with management team, board meetings of portfolio companies and internal investment meetings, listening and learning how senior people interact with entrepreneurs, being given responsibilities and exercising one's own judgement, etc. In other words, on-the-job training under implicit and/or explicit guidance from senior venture capitalists is important.

Operating experience before entering VC industry and mentoring through on-the-job training are reported as being critical to succeeding as a venture capitalist.

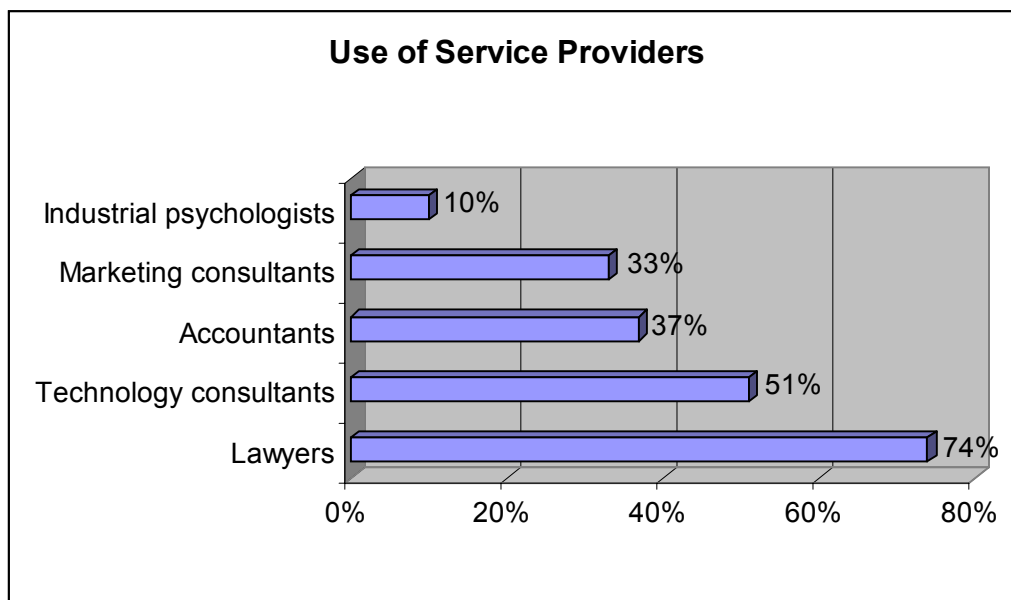
An MBA education was considered very important by only 23% of the respondents (even though 67% had MBAs), and 26% considered a technology education very important (although many had one or more technical degrees). Many case respondents also confirmed this point.

The least helpful sources of professional development were venture capital industry conferences (2%) and magazines/books related to venture capital (9%).

### ***3. Resources inside and outside the Venture Capital Firm***

#### **Outside Resources**

Venture capitalists tend to outsource know-how from service providers during due diligence. Most use lawyers and technology consultants. A few venture capitalists hire accountants, marketing consultants, and industrial psychologists for assistance on due diligence. Some of them have no associates, so they use external service providers more heavily as needed.

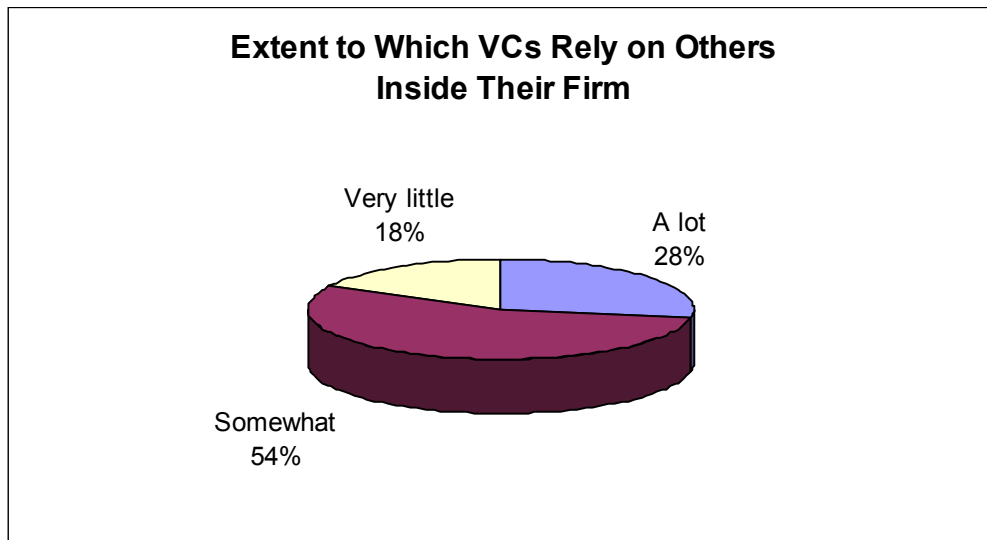


*Note: Percentage of respondents who reported using each type of service provider during due diligence for nearly every deal.*

Regardless of whether a venture firm uses associates, our case study respondents emphasized the heavy reliance on the (usually unpaid) network of contacts that is used to provide opinions and feedback on everything from the market potential to the uniqueness of the technology to the reputation of the management team.

## Cooperation inside the Venture Capital Firms

Venture capitalists tend to rely on others inside their firm. Over 80% of venture capitalists rely on their colleagues “a lot” or “somewhat”, and this reliance is even stronger for “stars.” Some of the leading venture capitalists in our case studies emphasized the importance of assembling a team of diverse skills-sets within the VC firm. The team approach brings more expertise to focus on complicated issues.



Finally, venture capitalists do not tend to use VC conferences as a professional resource. On average, they attend one or two VC conferences a year. Most focus more on attending specific industry or technology conferences. One case study respondent cited the importance of becoming “part of an emerging industry, not just an observer.”

## V. Case Interviews with Leading Venture Capitalists

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*These interviews provide additional insights on the key research questions, from a sample of leading U.S. venture capitalists.*

### **Venture Capitalist A (VCA)**

#### **Firm A**

#### **West Coast Region**

#### **Background**

VCA was a general manager of several ambulatory care facilities for a fast-growth HMO before serving as Marketing Director for another healthcare company. Since joining his firm in 1987, VCA has led investments in over thirty life science and Internet companies, including the start-up or incubation of ten ventures. VCA serves on the boards of 3 publicly traded companies, as well as eight privately held healthcare and Internet ventures. VCA received his Bachelor's in Biochemistry from the University of California at Irvine, his Master's in Public Health from UCLA and his MBA from the Stanford Graduate School of Business.

#### **How did you get into venture capital?**

VCA was a marketing professional at a biotech company near San Francisco. He was giving a presentation at a conference and sat down next to a founding partner at his current firm. They talked for a while and both decided to engage VCA as a marketing consultant to the venture capital firm. He had an idea for a startup in which his current venture capital firm ultimately invested. So he joined Firm A as an Associate in 1987 and spent several years incubating companies as the acting CEO for periods of 6 to 9 months. "My ultimate career goal was always to be a CEO of a company," he said. In the last dozen years, he has had the opportunity to achieve that goal on an interim basis as well as learn and practice the art of venture capital investing.

#### **What in your experience has differentiated successful from unsuccessful venture capitalists?**

VCA said that one thing that makes his firm successful is taking the attitude of an entrepreneur. "We think of ourselves as company builders rather than financiers," he said. Each of the General Partners at his firm has been CEO of something and is very cognizant of what it takes. Also, his firm attempts to provide service to their portfolio companies rather than just monitor their investments. "We try to help out however we can." He said that as a venture capitalist, his #1 job is to hire a great management team. His #2 job is to architect and raise capital.

One distinction that his firm makes is between Partners who are “finders” or “fixers.” He said that some venture capitalists are good finders of opportunities and others are good fixers of companies. Finders identify trends and pick up opportunity spaces that are going to be big. Fixers have a really good operating perspective and can work well with management to fix problems. He suggested that it is valuable to have both finders and fixers in a venture capital firm.

VCA enjoys the early stage of a venture. “The most fun I have is in the first year of a startup.” He emphasized the importance of the venture capitalist having strategic thinking/visioning skills, being positive, and adaptive. In order to be adaptive, listening skills are very important. “If you cannot listen to people, they will detect that. It is critical to be able to listen to be a good partner or advisor to a CEO.” In the study, we found that listening was the #1 most important skill, according to venture capitalists.

### **What resources do you use to do your job?**

VCA stressed that his firm works in teams. They all meet all day on Mondays to discuss existing investments or new investments or discuss strategy. “We will team up to evaluate deals so we can use the collective knowledge of our Partners,” he said. Investment decisions have to be unanimous at the Firm. “We use each other as sounding boards, for strategic vision, and to tap each other’s Rolodexes,” he said. Also, VCA emphasized that they use consultants or industry experts a lot. They do not have a lot of associates or staffs of analysts. One other resource is the group of managers in their portfolio companies. To build their network in one space, they founded an invite-only conference for CEOs in healthcare. “That is a great way to get to know all of the players,” he said.

## **Venture Capitalist B (VCB)**

### **Co-founder and General Partner, Firm B**

### **West Coast Region**

#### **Background**

Prior to founding Firm B in 1995, VCB spent 12 years as a General Partner with a different venture capital company. Before that, he worked for the Boston Consulting Group (BCG). At BCG, he focused on issues of corporate strategy in industries ranging from retail distribution to high technology manufacturing. He serves on the board of eight publicly-traded companies. He is a past president of the Western Association of Venture Capitalists and member of the board of trustees of General Motors Institute. VCB earned an MBA from Stanford Graduate School of Business and was a General Motors Fellow, and earned a BS in Electrical and Mechanical Engineering from Kettering University.

#### **How did you get into venture capital?**

VCB's decision to enter venture capital was not deliberate. He was working for Boston Consulting Group after business school. "I was tired of the 'dust cloud' projects where we went in, stirred up a flurry of activity, finished a project and moved on. The relationships were too short term," he said. It was his ambition to be a GM of some business, or maybe take a marketing role. A friend of his from his Stanford MBA program asked if he ever thought about VC. "But I was looking for a real job, I told him!" he said. VCB was drawn to the intellectual stimulation of venture capital, and the long-term accountability for results. So he took a paycut and joined his first venture capital firm in 1984. He and his partners founded his current firm in 1995.

#### **What in your experience has differentiated successful from unsuccessful venture capitalists?**

The key differentiator between successful and unsuccessful venture capitalists was the level of helpfulness or service that the VC provides to its portfolio companies. "In the old model, VCs took the stance of monitoring, wringing their hands at board meetings, and beating on management. We believe that it is a privilege to invest in these companies. You have to be earning that stock every time you are interacting with the entrepreneur," he said.

VCB feels strongly that VCs who succeed have a service orientation, are hardworking, and actively make introductions for their CEOs. "There is a lot of plain old hustle and hard work," he said. "Everybody at [Firm B] works really hard. Each partner has 4 to 5 business breakfasts and 3 to 4 business dinners per week."

They founded their firm on two main principles: 1) Teamwork and 2) Service. The way that they are set up the Firm is an equal partnership so everybody has same economic incentive and authority. There is no motivation for people to try to outperform their

colleagues. “It also raises the bar for attracting better talent because we still have to slice the pie equally,” he added. “So you want to make sure that the new person you add is better than you!”

On service, VCB said, “Too many VCs see themselves as the masters of the universe. The entrepreneur is the lifeblood. We are a service business. We see our role as being a stagehand rather than the star.”

**What resources do you use to do your job?**

Again, VCB’s Partners rely a lot on one another. “We have one of the best recruiters in the world. Another guy is a very astute technologist. A third Partner is a marketing, brand-oriented guy. We have pockets of functional expertise that we cannot afford to not use. We constantly use intense teamwork. We group sell and gang tackle deals. We all are present for key meetings prior to doing a deal.”

Firm B has no associates. They call other industry executives a lot. VCB added, “It is a source of big leverage. Bill Gates and other huge players are investors in our firm. We get questions answered—about people, trends, technology, etc.”

## **Venture Capitalist C (VCC)**

### **Firm C**

### **East Coast Region**

#### **Background**

VCC, General Partner, joined Firm C in 1969 after two years in the Office of the Secretary of Defense. VCC focuses on software and information technology investments and is currently on the board of six companies. He also served on the Board of Directors of Continental for 25 years until its recent \$10 billion merger with US West. VCC is a graduate of Yale University and the Harvard Business School.

#### **How did you get into venture capital?**

“I got into venture capital so long ago, none of us knew what we were getting into,” he said.

#### **What in your experience has differentiated successful from unsuccessful venture capitalists?**

VCC said, “It all comes from the mindset with which you approach the job. Some VCs who are inexperienced view their role in a board meeting as ‘monitoring’ their investments. I want people who are going to roll up their sleeves and work hard as directors. It can be counterproductive when VCs with ‘visitation rights’ are not committed to building the company as much as they are looking for a liquidity event.”

Firm C prides itself on building companies. “We want our CEOs to say that our Firm’s director was the best director they had. We are doing it as a supporting actor. We want to be remembered by the CEO, our customer, not just the limited partner. As a result, we spend more time worrying about our portfolio companies than beating the next guy for the next great deal,” he said.

VCC emphasized the importance of the venture capitalist helping recruit a talented management team. “We have a huge talent Rolodex—that is an extreme advantage for a young company. Many of the management team members from a successful venture come back to us looking for placement with the next great opportunity.” Other services that Firm C provides are helping to build a board, helping to raising capital, helping to analyze and negotiate acquisitions, helping in developing the overall strategy, and helping in implementing a liquidity event. “It is a bad idea to just ‘monitor’ your investments from the board,” he added.

Another element of human capital that VCC emphasized were interpersonal or teamwork skills. “People skills are critical—working well with others. You have to learn how to work well with the CEO, because everyone is different,” he said.

Speaking with and advising the CEO between board meetings is important, he said. “A lot of glory goes to the CEO, but it is a lonely job. They turn to their spouses, but their spouses cannot always help them. So we are the ones they call at 6pm on a Friday when they have something on their mind. They want you to have it on your mind over the weekend too,” VCC said.

This business becomes easier if one has a great deal flow. VCC said, “This business is not looking at a pile of business plans that come in. Operate in as *inefficient* a market as you can. Then you will find the best deals. It all comes back again to your people skills and picking an area of some specialization. If a venture firm or an individual VC has a reputation amongst the entrepreneurial community as being a strong value added investor with experience in building great data communications companies or great enterprise software companies, then the deal flow will come to them.”

### **What resources do you use to do your job?**

VCC said that they use partnership decision making very aggressively. Firm C has 7 partners. “One goes on a board and serves as the umbilical cord, but all partners will be helping find a VP of Sales for example. Teamwork is very important for us,” he said.

Firm C does not use outside consultants. “Outside people do not have to live with the consequences,” he said.

## **Venture Capitalist D (VCD)**

### **Co-founder and General Partner, Firm D**

### **Middle West Region**

#### **Background**

VCD began his career with a large bank where, with two partners, he helped build what became at the time one of the largest and most active private equity investment firms in the country. In 1980, he and his partners formed a firm which focused increasingly on an industry consolidation investment strategy. Firm D raised and invested a series of five successful private equity funds totaling more than \$1.2 billion in committed capital. VCD is a member of the board of the National Venture Capital Association and has served as president. VCD is a trustee and board member of several educational institutions and companies. A graduate of Oklahoma State University, he earned an MBA from the Stanford Graduate School of Business.

#### **How did you get into venture capital?**

VCD went to Stanford for his MBA, worked in Phoenix for a year, was introduced to one of his partners through a mutual friend and entered the venture capital industry in 1974.

VCD said, “When I got into the business, you were taking a step outside of the mainstream—being a risktaker. Now, superachievers have entered the business. I grew up on a ranch. My family was made up of cattlemen and cattlemen are independent. They gamble on the odds in the market (buying, raising and selling cattle in a twelve-month period). I grew up wanting to create value or wealth through facilitating transactions.”

#### **What in your experience has differentiated successful from unsuccessful venture capitalists?**

VCD explained that the great venture capitalists develop a competitive edge— a specific knowledge, focus, approach, etc. “You also must be willing to be more aggressive or go out on the limb farther than the next person. Your willingness to push the edge may seem extreme, but in reality, you are not taking nearly the risk that other people think you are because having done it 20 times before; statistically the odds are in your favor,” he said.

Additionally, VCD emphasized the importance of balanced enthusiasm. “You have to be enthusiastic, but you have to be prepared to face reality. The classic entrepreneur typically keeps on going, whereas VCs need to be ready to say no. You need a personality or mindset like a bittersweet food—you have to be optimistic while being skeptical. Have you ever seen a pessimistic set of projections? As a partner used to say, ‘You can’t be cynical but you have to be critical,’ he said.

VCD said that one of the biggest challenges facing the industry is that venture capitalists are turning from groups who have a “passion with an edge” to being asset or money

managers. “Some of that special spirit that caused our sector to bloom and create a lot of great companies in America is now turning into money managers with less focus on how to create lasting value,” he said.

**What resources do you use to do your job?**

VCD emphasized the use of team members slightly less than other industry leaders. In his model, each general partner leads deals independently, but consults the group from time to time. “You need individual confidence, to think for yourself and to not be afraid to make decisions. Utilize partner feedback to bring the best out in you, but not to make your decisions. As in athletics, your teammates help you look good. You must have a continuous quest for knowledge because venture capitalists are operating on the edge,” he said.

## **Venture Capitalist E (VCE)**

### **General Partner, Firm E**

### **West Coast Region**

#### **Background**

Prior to joining Firm E as a general partner in 1994, VCE was a general partner at Morgan Stanley's venture capital group, where he worked for seven years. He first entered the venture capital industry with the venture capital group of Morgan Stanley after graduating from Harvard Business School. Before business school, he was at a telecommunications company where he worked as an engineer and focused on developing new businesses for the company, including the formation of the predecessor to DirecTV. He has a BS and MS in Electrical Engineering from Stanford University. At Firm E, his primary investment focus is Internet and enterprise software and strategic outsourcing services.

#### **How did you get into venture capital?**

When VCE was graduating from business school, he was focusing on a career change. He did not know much about venture capital industry, but a close friend of his from Stanford who had joined Morgan Stanley's venture capital group introduced him to the field.

At that time it was increasingly evident that his career focus was on developing new businesses. He felt that the company creation process of venture capital seemed very exciting, and he thought that this was an area where he could contribute. He also thought as an engineer that he could apply his domain knowledge. In addition, VCE grew up in Palo Alto and had always felt the dynamism of the venture business.

#### **What in your experience has differentiated successful from unsuccessful venture capitalists?**

In his view, venture capitalists are a very heterogeneous group with various styles, and it is very difficult to predict who will make a good venture capitalist. Among the attributes identified in the study, there is no single one that stands out as most important. He points out, however, that soft skills that are listed as most important are indeed much more important than financial knowledge, accounting skills, etc. He added, "I would like to see the industry apply more listening skills, as we are all too busy recently and do not listen enough".

According to VCE, what is important in this business is good investment judgement. He believes that formal (university) education helps, but not very much. Also, an engineering degree will help one understand the technology, but what is more important, he says, is the judgement required to evaluate the technology. He thinks that an MBA itself is not required, but that the MBA school experience is very helpful in terms of networking with people who will likely be involved with the venture business later. He

concludes that one needs experience to be able to exercise good investment judgement, especially when evaluating management teams. In his view it takes 7-10 years to be a good venture capitalist.

According to VCE, “venture capitalists used to be generalists, but it is increasingly necessary to have a tight investment focus, for example, in a particular industry.” “You cannot be opportunistic, but have to be strategic with your investments.” He thinks that the network of VCs has become less important in terms of deal syndication as each VC fund has become larger. It is now more likely that venture capitalists are looking at the same investment opportunity at the same time. But historically, he says, venture capitalists have certain groups of investment partners with whom they share the workload.

VCE received significant mentoring at Morgan Stanley. He was given opportunities to take ownership and exercise investment judgement. Mentors also took him to meetings with management, board meetings, etc, where he observed how to interact with people. He says, “you have to observe it and absorb it.” He considers the Venture Capital Institute organized by the National Venture Capital Association to be a good outside resource for training.

### **What resources do you use to do your job?**

At Firm E, partners rely on other partners in the firm, especially the more experienced ones, for general issues that cut across industries. These general issues include deal structures and issues with management teams. For industry/technology specific knowledge, they have outside technology partners that they rely on, with deep domain knowledge in a particular industry/technology as well as entrepreneurial experience.

**Venture Capitalist F (VCF)  
General Partner, Firm F  
West Coast Region**

**Background**

VCF worked for Olivetti in Italy, mainly designing CPUs for ten years from 1967 to 1977. He then joined Intel where he served as a marketing executive and head of the microprocessor business segment from 1977 to 1983. He joined a start-up company in 1983 as Marketing VP. In 1986 he founded his own software company which was subsequently acquired by Digital Equipment Corporation. He then became an independent consultant from 1990 to 1996 during which time he also worked for Cadence Design Systems, where he was responsible for technology scouting and acquisitions.

Starting in 1990, he also worked as a venture partner at Firm F. He became a general partner in 1996.

VCF received a doctorate in electronic engineering from Politecnico of Milano.

**How did you get into venture capital?**

VCF had a unique career path, in that he often held two positions at the same time. He worked for Firm F part-time when he was involved with technology strategy at Cadence, and then decided to be a full-time general partner at Firm F. VCF has always liked to be at the forefront of technology and to define where to go when no one knows where to go. He thinks venture capital has those characteristics.

**What in your experience has differentiated successful from unsuccessful venture capitalists?**

VCF believes that a venture capitalist should be an “editor” rather than “author” of broad industry strategies, although he thinks it is unavoidable sometimes to be a “ghost writer” because there may be no one else authoring direction for a new industry.

He points out that the capability to work in situations of high uncertainty is a necessary attribute for a venture capitalist. He also thinks that a venture capitalist should be able to listen to management’s plan and not tell management what to do. Other important skills he cites are interpersonal skills and coaching/counseling skills (or being a “sounding board”).

On the point of soft skills, VCF makes an analogy between a venture capitalist and a CEO. They both have a functional domain expertise but may not be familiar with the rest of the issues that they must address. For example, a CEO with a background in marketing may not be an expert in technology. Similarly, a venture capitalist may be familiar with 20% of the issues in a proposed deal but not with the rest of 80%. The job of a venture capitalist in this case is “to ask questions about what they don’t know”.

Therefore, the soft skills to extract the fundamental issues and prioritize them are very important.

The best method for professional development, VCF says, is mentoring and on-the-job training. At his firm senior partners have junior people follow them during due diligence, board meetings, and meetings with management. They also encourage their junior people to express their opinions, especially on unfamiliar topics and to ask questions in those topics. Being exposed to the technology industries and start-up companies that they invest in, rather than the venture capital industry itself, is also important.

### **What resources do you use to do your job?**

VCF works heavily with others. Within the firm, he works with other partners with appropriate expertise depending on the technology or market of the deal. However, they sometimes assign a deal to a person who has no expertise in a particular area but has appropriate skills to work in that deal. For example, they may assign a partner with no medical technology expertise to sit on the board of a medical device company, if he has good interpersonal skills and those skills are the most important when dealing with this particular board. In short, they try to put together the most efficient and effective team that suits to a particular deal.

He also relies on outside contacts he acquired in his operating experience at previous companies, at school and in portfolio companies as well as people he has connections with as competitors of portfolio companies. He usually does not rely on one particular contact, but rather on the entire web of contacts as a whole. With this web, he tries to understand a technology, management team, etc. The first thing he does on a particular deal is to “pick up a phone and ask ‘Is this real?’” Silicon Valley, in his view, is a “loosely coupled professional services industry” which is based on “give and take”. He also uses paid professionals when the questions are within very specific areas of technologies, markets, etc.

The network of venture capitalists works beyond just financial syndication. The opinions of other venture capitalists are taken seriously when making investments. In some cases he may know a particular outside venture capitalist with a background that matches the issues the portfolio company must address and wants to work with him/her on its board. On the other hand, deal syndication is becoming more difficult as more funds are available than good investment opportunities. VCF, however, foresees that the trend will reverse again because start-up companies are requiring more money for growth.

## **Venture Capitalist G (VCG) General Partner, Firm G**

### **Background**

VCG came to Silicon Valley in 1963 and was involved in starting National Semiconductor. He served as President of a major subsidiary, which designed, manufactured and marketed mainframe computers. He then joined Apple Computer and became Executive Vice President of Sales and Marketing.

He received his BS in Electrical Engineering from the University of California at Berkeley and his MS in Electrical Engineering from Syracuse University. He joined Firm G as a partner in 1984.

### **How did you get into venture capital?**

Firm G raised its first large fund in 1983 and invited VCG to join the firm. He had no acquaintances at VCG, but some partners of Firm G at the time had come from a competitor of National Semiconductor, and they had known VCG's unique background. Firm G historically has had partners with operating backgrounds, and none from financial institutions.

VCG was attracted to the variety of companies, technologies, and new ideas that venture capital offers. VCG feels this variety is very intellectually stimulating. The semiconductor business also offered such variety but the mainframe and personal computer businesses did not. He wanted to replicate that "variety" without going back to the semiconductor industry. He is also fascinated with the "cutting edge" people in venture business industry.

### **What in your experience has differentiated successful from unsuccessful venture capitalists?**

First of all, VCG believes that a technology background is very important to success in venture capital. It is particularly important because of the way Firm G operates. The Firm is not hesitant to take technology risks, which have a lot of potential gains. These risks can be reduced by testing with early investments. Firm G therefore invests in an industry at a very early stage and tries to build the industry, as opposed to building a single company.

Secondly, he thinks a feel for a particular market is important. Thirdly, he thinks it is important to be able to understand intuitively whether an investment makes sense.

He acquired his venture capital skills through his operating experience. For example, he learned counseling/coaching skills on his previous jobs where he managed managers/corporate officers who reported the performances of their business units to him.

To do a better job as a venture capitalist, he thinks that one must learn from experiences. Particularly, experiences gained through failures make one grow.

VCG feels that his firm does not use outside training/education opportunities within the industry as much as they should, partly because those outside resources did not exist when Firm G was formed. He also thinks that an MBA education is useful although there are some limitations in classroom education.

**What resources do you use to do your job?**

He often uses the network of Firm G's portfolio companies as an outside sounding board.

## **Venture Capitalist H (VCH)**

### **Firm H**

#### **Background**

Prior to joining Firm H as a General Partner in 1997, VCH was Vice President of Central Engineering at Cisco Systems responsible for the company's IOS software that is the de-facto standard in the IP networking industry. He started working at Cisco managing about 50 people when the company had about 400 employees. When he left, he was managing a team of 1000 engineers.

He has a BS in Electronics from the University of Wales at Cardiff.

#### **How did you get into venture capital?**

When VCH left Cisco, he did not have clear idea of what to do next. He did not think about becoming a venture capitalist himself, but thought of doing consulting work for some venture capital firms. He had been aware of the venture capital business because of his work at Cisco. He approached some venture capitalists, and one of them (a business acquaintance) recommended that he consider becoming a venture capitalist himself. By chance, however, several weeks after this discussion, three separate venture capital firms, not related to his initial contact, approached him to be a partner at their firms.

For VCH, the venture capital business is attractive because it provides a mix of what he is interested in, e.g., technology, market strategy, communications industry, breadth of views, ability to work with smart people and to some extent having more control over his private life than in corporate life. He highly values the intellectual stimulation. He thinks it is exciting to see entrepreneurs, with help of venture capitalists, create businesses better than they thought they could.

#### **What in your experience has differentiated successful from unsuccessful venture capitalists?**

VCH describes that the business of venture capital is about being “a mentor, coach or facilitator” and “how you create the environment that lets other people be successful.” He therefore thinks a “recipe for disaster” for a venture capitalist is to be compelled to tell the portfolio companies what to do. Rather, the ability to mentor/coach people is important.

He thinks that one must have an intuitive sense of why a particular company will be successful. He also thinks a risk taking attitude is important. In addition, he thinks it is important to have an understanding of all the elements that drive a business, such as legal issues, marketing, engineering, market variables, human resources issues, etc. In his opinion, a venture capitalist should be both a “hunter” that finds and chases good investment opportunities, and a “farmer” that then nurtures and grows the company.

VCH confirmed that “soft skills” are much more important than finance/accounting and technology knowledge. Despite his strong technology background, he says that technology knowledge “helps, but is not a necessity.” He believes that market potential, management team and technology are important in evaluating an investment opportunity, in that order.

He acquired his venture capital skills through management experiences in his previous jobs. Working in various management positions, he learned broad skills to manage people so that they perform their best. He also keeps his “eyes open” to learn from other partners in his firm and venture capitalists of other firms.

Having a MBA, in his opinion, enables people to develop the broad perspective necessary for venture capital earlier than otherwise. He also finds the Kauffman program (on the-job-training program for MBA holders run by a non-profit organization) useful for training.

### **What resources do you use to do your job?**

At VCH’s firm, the Partners heavily depend upon each other. Typically, two or three partners work together on one deal for pulling together expertise and/or accelerating decision-making process. They leverage each other’s knowledge and networks.

VCH believes in having networks of people for all the aspects of venture investing activities, including hiring managers for portfolio companies, evaluating technologies, etc. He would rather “have other people take a look at the technology of a company” not only because one can not be an expert on everything but also because it is necessary to have multiple opinions when making a investment judgement. His firm also outsources professional services, mostly for market evaluations and occasionally for technology evaluation.

He thinks that having a network of other venture capitalists is important for deal referrals and sharing workloads as well as risks. He believes that by working with other venture capitalists, one can increase “eyes” to evaluate an investment opportunity and enhance the coaching function for the company after an investment.

## **Venture Capitalist I (VCI) Founding Partner, Firm I West Coast Region**

### **Background**

VCI entered the venture capital business in 1972. After working at a management consulting firm, he started with a small firm in New York whose main business was investment banking for small companies (raising money for those companies). He then moved on to Citibank, which was a center of venture capital activities in early '70s. After serving as Vice President of Citicorp Venture Capital, he founded a venture capital firm with a friend in 1978. He then founded Firm I in 1983. VCI has been active in industry affairs and has served as Director and Chairman of the National Venture Capital Association. He also served as President of the New York Venture Capital Forum. He has a bachelor's degree in Engineering Sciences and Applied Physics from Harvard University and received an MS in Industrial Administration from Carnegie Mellon University.

### **How did you get into venture capital?**

VCI was a management consultant working with Fortune 500 companies and helping their reorganizations. After a while he reconsidered his future. He became interested in small companies because he had been exposed to some small companies through his work and liked what he had seen. He also thought that he had good skills in helping other companies with strategic issues, which was applicable in the venture capital industry. He then started a deliberate search in venture capital. VCI had a personal friend in the industry, and he learned about venture capital from this friend.

Intellectual stimulation is what attracted VCI to the venture capital industry. When he entered the industry, venture capital firms were not necessarily making large amounts of money, and financial gain was not necessarily a strong incentive. He believes, however, that this will be different with younger generation of venture capitalists. Autonomy/freedom (being able to control your own schedule, etc.) is also important to him.

### **What in your experience has differentiated successful from unsuccessful venture capitalists?**

Although VCI echoes the common theme that there is a wide range of styles among venture capitalists, he points out first the importance of intellectual curiosity. A venture capitalist, in his view, must continue to be interested in and learn from new things. He points out secondly that being able to make fair and quick judgements of people is important. Thirdly, he thinks that quickly and accurately understanding the key issues in a business situation is important, just as a good basketball player would have a sense of "where you are" in a game. Other characteristics of successful VCs are; intelligence, hard-working ethics, flexibility, good negotiation skills, etc.

VCI thinks that specific domain expertise/knowledge can be learned through the job of venture capital investment. For example, he says, there were no e-commerce experts several years ago, but recently one has to be an e-commerce expert to succeed in Internet-related investments. He himself had picked up expertise in oil and gas in the '70s, and now he is an expert on telecommunication. He concludes what is important is the ability to learn. He believes that technical training can help a venture capitalist understand the technology but does not regard it as an absolute necessity.

VCI strongly agrees with the survey result that “soft skills” are more important than hard analytical skills. He thinks that a sharp analyst can fail easily in venture capital industry without “soft skills”. For example, listening skills are important because a venture capitalist must catch nuances and make decisions for next steps or for investment within a very short amount of time. Accounting and finance skills are lower priority, especially at early stage companies because there are so many uncertainties involved.

With regard to professional development, he describes venture capital as an “apprenticeship industry” and “pattern recognition business”. One must learn from experience, and looking at many start-up companies will eventually allow him/her to recognize a success or failure pattern. Mentoring is used at Firm I to train junior partners/associates. To VCI, the value of an MBA is in the knowledge gained in functional areas and the networking factor. Technical degrees are also important, but not an absolute necessity if one has strong experience in working in technology companies. In his view, operational experience is not so important, although he thinks one must have an understanding of operations.

### **What resources do you use to do your job?**

At Firm I, they rely largely on collective knowledge of their partners. There will be one person who will be an “advocate” of a deal and be responsible for due diligence, etc., but use other partners as “sounding boards”.

They also rely heavily on the network of managers in their portfolio companies for seeking advice. They rarely use paid professional in the area where they have little expertise.

He regards networks of VC firms as helpful for deal sourcing and syndication, but not as important as it used to be in the past.

**Venture Capitalist J (VCJ)**  
**General Partner, Firm J**  
**West Coast Region**

**Background**

VCJ has a long experience as a high-tech industry executive. Prior to founding Firm J, he worked for Intel Corporation as Senior Vice President of Marketing and Sales, Vice President of the microcomputer division, and vice president of the microcomputer systems division. He started his career at General Electric and moved on to Hewlett-Packard and then to Signetics Memory Systems before he went to Intel.

VCJ received his PhD in Electrical Engineering from Stanford University, his MS in Electrical engineering from Dartmouth College and his BA in Electrical Engineering from Dartmouth College. He is the author of three books.

**How did you get into venture capital?**

For VCJ, going into venture capital industry was a twenty-year process. In the early 1960's, he wanted to start a company (which did not actually start in the end) and approached a venture capitalist who later worked at leading venture capital firms. Later, VCJ started to do due diligence for venture capitalists and personally made investments in start-up companies himself. He developed a relationship with the venture capital industry by sitting on the boards of start-up companies as well as by investing in some renowned venture capital funds. By the age of fifty he wanted to start something new, and he had already a good track record of venture investing. However, with the venture industry changing recently, he thinks that it is more difficult now to start later in one's life rather than earlier.

Before he joined the venture capital industry, he had always thought the industry was interesting. Looking at his excellent return on his personal investments in start-up companies, he also believed he had good skills applicable to the venture capital industry.

**What in your experience has differentiated successful from unsuccessful venture capitalists?**

VCJ thinks that there are "50 different shades" of venture capitalists, with different skills and styles.

He believes, however, that the most value that venture capitalists can provide to companies, especially at their early stage, is advice rather than money. Therefore, being able to listen to management teams as well as have them listen to you is important. The skills necessary to do so, in his opinion, is very similar to those required for a corporate general manager, namely, coaching, listening, persuading, etc.

Looking back at his experience, he also points out that both portfolio companies and other venture capital firms valued his network and relationships within the high tech industries.

He regards finance skills/knowledge as relatively less important. Because the business of start-up companies is so unstable that there can be a great deviation from plans. In such a situation, he says, detailed financial analysis is not so meaningful. He says venture capital is a business of “judgement” rather than “analysis”.

VCJ points out the importance of the local business environment for venture capitalists to operate effectively. The culture of Silicon Valley concentration of industry, access to various professional services like investment banks, lawyers, accountants, etc. as a whole enables the effectiveness of venture capitalists.

For personal development as a venture capitalist, he thinks mentoring plays a major role. Experience gained through looking at business plans, dealing with entrepreneurs, etc. with senior partners is very valuable to junior partners. Operational experience is also of particular value especially for dealing with early stage companies. He does not think an MBA itself is very useful, while having a technical background is more important. One way for foreign countries to develop necessary talent, he suggests, is by first integrating top people with Silicon Valley and then transferring this trained talent back to the home country. Direct experience in the Valley can provide very useful experience.

### **What resources do you use to do your job?**

At Firm J, partners work as a team. There will be one partner assigned to a deal to be an “advocate”, but investment decisions are made unanimously, and other partners become sounding boards.

Outside of the firm, they use broad network of managers of portfolio companies and other business affiliates. They also use paid consultants for some issues.

## **VI. Conclusion and Recommendations**

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### **Why and How Do People Become Venture Capitalists?**

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Three steps are involved in becoming a venture capitalist – becoming aware of the industry, having contact with a firm that is hiring, and being motivated to enter.

Our survey and interviews shows that most venture capitalists in the U.S. became aware of and interested in the business through their involvement in the high tech industry, through their involvement as an entrepreneur or with a startup, or through their personal and professional network of contacts. One’s personal and professional network of contacts is important to both finding a position in venture capital and then being successful in that position.

The easiest way to enter the venture business in the U.S. is to be known to or be visible to a venture capitalist. This often means being in a senior position at a high tech company that has some external visibility, such as marketing, business development or general management.

The most common reason given for why people choose a career in venture capital is that they were attracted by the challenge and intellectual stimulation of working with emerging technologies and building new companies. The potential for large financial rewards was also a major motivation. Many survey respondents, as well as some case study respondents, also mentioned that they valued the relative freedom and autonomy of the profession, especially compared to a corporate position.

### **What Makes a Successful Venture Capitalist?**

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Venture capitalists do not fit a narrow profile – they come from a wide variety of backgrounds and exhibit a broad range of personal characteristics. But we are able to make some general observations about typical backgrounds and useful skill sets.

Soft skills are valued more highly than quantitative skills (such as knowledge of accounting or finance), and overall intelligence is also cited as very important for success. The “CEO perspective” mentioned above is also key – a venture capitalist may not know more about any specific topic than startup company management, but the VC needs the experience to know which issues are most important, to be able to accurately and quickly assess business plans and people, and to be able to serve as a mature, balanced “sounding board” for startup CEOs.

Most of the venture capitalists surveyed had one or more technical degrees, and most had an MBA. These degrees are described as being very helpful but not required for success.

The value of the MBA degree seems to be more in developing a CEO perspective, accelerating one's career and developing a network of contacts than in developing basic functional skills. The considerable concentration of MBAs from a small number of top business schools supports this "network factor" and also indicates that a high level of general intelligence is important in venture capital.

One additional factor emerged solidly through case studies. A strong personal and/or professional network is also an important asset of a venture capitalist. This is a resource that can be leveraged to provide recruiting leads, personal references, technical evaluations, management advice, financing sources and many more useful benefits. Most case study respondents valued especially highly their informal networks of experts for evaluating technologies and the market potentials of proposed business plans.

Professional development in the venture industry comes almost exclusively from mentoring and on-the-job training. "Learning by doing" is the means by which most venture capitalists surveyed polished their skills. The only outside resource discussed as a useful training activity was the Venture Capital Institute – a four-day training course held annually by the National Venture Capital Association.

### **Structure and Use of Resources Inside and Outside of Venture Capital Firms**

Most venture capital firms are small collections of individuals representing a broad range of entrepreneurial and general management experience. These individuals tend to specialize in one area of technology, and two or more will usually work jointly on each deal. Firms tend to work collaboratively, and case studies suggest that investment decisions are often made by unanimous agreement of the partners. There is minimal hierarchy and minimal staff/administrative personnel.

Venture firms tend to use outside resources in place of a large internal staff. This way they are more flexible and can use the appropriate expert depending on the particular issue. Some use paid marketing or market research firms, consulting firms, accounting firms, etc. for specific projects. But more use their informal personal/professional networks, as described above, on an unpaid "courtesy" basis.

Mentoring is the most important method for professional development within the firm, as described above.

### **Additional Recommendation for Venture Capitalists**

- Stop recruiting associates with only finance skills. It is like recruiting great programmers to be sales managers, or like recruiting great golfers to be medical doctors. Recruit the people who have the skills or abilities that matter for the field. Make these soft skills explicit in your recruitment and interviewing processes.
- Post investment, do more than monitor your investment. Think about the most valuable services you could provide: coaching and advising, recruiting management,

and securing additional rounds of financing. Set goals and milestones for *yourself* what you will contribute to making the venture a success.

- Rely more on your colleagues. Successful venture capitalists use one another as sounding boards, for referrals to management candidates, industry knowledge, and functional expertise.

The job of the venture capitalist is extremely important for the successful functioning of an entrepreneurial economy. We hope that you have found this report useful. It was our goal to provide actionable insights to help propel the venture capital industry forward, and to enable it to attract and develop successful venture capitalists.

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## Appendix: Survey and Statistics

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*Some items may not sum to exactly 100% because of rounding errors or missing values.*

### BACKGROUND

1. Are you a U.S.-based venture capitalist?

Choose one:

- |                          |        |      |
|--------------------------|--------|------|
| <input type="checkbox"/> | a) Yes | 100% |
| <input type="checkbox"/> | b) No  | 0%   |

2. What is your position?

Choose one:

- |                          |                             |                      |
|--------------------------|-----------------------------|----------------------|
| <input type="checkbox"/> | a) Partner                  | 95%                  |
| <input type="checkbox"/> | b) Associate                | 0%                   |
| <input type="checkbox"/> | c) Other, please specify... | 5% (venture partner) |

3. How long have you been in the venture capital industry?

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Less than 1 year   | 3%  |
| <input type="checkbox"/> | b) 1 - 3 years        | 15% |
| <input type="checkbox"/> | c) 4 - 10 years       | 40% |
| <input type="checkbox"/> | d) 11 - 15 years      | 18% |
| <input type="checkbox"/> | e) More than 15 years | 24% |

4. How many years of business experience did you have PRIOR to entering venture capital?

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Less than 1 year   | 4%  |
| <input type="checkbox"/> | b) 1 - 3 years        | 15% |
| <input type="checkbox"/> | c) 4 - 10 years       | 36% |
| <input type="checkbox"/> | d) 11 - 15 years      | 16% |
| <input type="checkbox"/> | e) More than 15 years | 26% |

5. What did you do prior to venture capital?

Choose all that apply:

- |                          |                               |     |
|--------------------------|-------------------------------|-----|
| <input type="checkbox"/> | a) Banking/finance            | 32% |
| <input type="checkbox"/> | b) Consulting                 | 24% |
| <input type="checkbox"/> | c) Entrepreneur               | 30% |
| <input type="checkbox"/> | d) Corporate management       | 34% |
| <input type="checkbox"/> | e) Marketing professional     | 18% |
| <input type="checkbox"/> | f) Sales professional         | 10% |
| <input type="checkbox"/> | g) Manufacturing professional | 6%  |
| <input type="checkbox"/> | h) Technical professional     | 16% |
| <input type="checkbox"/> | i) Other, please specify      | 13% |

6. Have you had any operating experience?

Choose one:

- |                          |        |     |
|--------------------------|--------|-----|
| <input type="checkbox"/> | a) Yes | 68% |
| <input type="checkbox"/> | b) No  | 27% |

7. What degrees do you have, if any?

Choose all that apply:

- |                          |             |     |
|--------------------------|-------------|-----|
| <input type="checkbox"/> | a) No BA/BS | 1%  |
| <input type="checkbox"/> | b) BA/BS    | 83% |
| <input type="checkbox"/> | c) MA       | 5%  |
| <input type="checkbox"/> | d) MS       | 12% |
| <input type="checkbox"/> | e) MBA      | 67% |
| <input type="checkbox"/> | f) PhD      | 11% |
| <input type="checkbox"/> | g) MD       | 3%  |

8. # of deals in which you have been closely involved?

Choose one:

- |                          |                 |     |
|--------------------------|-----------------|-----|
| <input type="checkbox"/> | a) 0            | 1%  |
| <input type="checkbox"/> | b) 1 - 10       | 17% |
| <input type="checkbox"/> | c) 11 - 20      | 31% |
| <input type="checkbox"/> | d) 21 - 50      | 36% |
| <input type="checkbox"/> | e) More than 50 | 10% |

9. What stage deals do you do?

Choose one:

- |                          |  |     |
|--------------------------|--|-----|
| <input type="checkbox"/> | a) Mostly early stage deals                | 57% |
| <input type="checkbox"/> | b) Equal early stage and later stage deals | 20% |
| <input type="checkbox"/> | c) Mostly later stage deals                | 11% |
| <input type="checkbox"/> | d) Mostly LBOs                             | 6%  |

#### DECISION TO BECOME A VENTURE CAPITALIST

10. How did you become interested in venture capital?

Choose all that apply:

- |                          |  |     |
|--------------------------|--|-----|
| <input type="checkbox"/> | a) Learned about the field in college/university courses | 13% |
| <input type="checkbox"/> | b) Learned about the field from a friend or mentor       | 34% |
| <input type="checkbox"/> | c) Family member in the industry                         | 6%  |
| <input type="checkbox"/> | d) Read articles in the press that caught your attention | 20% |
| <input type="checkbox"/> | e) Experiences as an entrepreneur                        | 30% |
| <input type="checkbox"/> | f) Heard stories about venture capitalists               | 20% |
| <input type="checkbox"/> | g) Other, please specify... [     ]                      | 24% |

11. How did you find your first position in venture capital?

Choose all that apply:

- |                          |                                     |     |
|--------------------------|-------------------------------------|-----|
| <input type="checkbox"/> | a) On-campus recruiting             | 6%  |
| <input type="checkbox"/> | b) Referral from an acquaintance    | 27% |
| <input type="checkbox"/> | c) Contacted by a search firm       | 6%  |
| <input type="checkbox"/> | d) Contacted by the firm directly   | 31% |
| <input type="checkbox"/> | e) You contacted the firm yourself  | 19% |
| <input type="checkbox"/> | f) Other, please specify... [     ] | 21% |

12. What factors significantly influenced your decision to become a venture capitalist?

Choose all that apply:

- |                          |  |     |
|--------------------------|--|-----|
| <input type="checkbox"/> | a) Opportunity for significant financial gain      | 71% |
| <input type="checkbox"/> | b) Intellectual stimulation                        | 81% |
| <input type="checkbox"/> | c) Freedom/autonomy                                | 69% |
| <input type="checkbox"/> | d) Belief in your skills-set relative to the field | 55% |
| <input type="checkbox"/> | e) Strong recommendation by others                 | 17% |
| <input type="checkbox"/> | f) Thrill of building companies                    | 65% |
| <input type="checkbox"/> | g) Other, please specify... [     ]                | 8%  |

PLEASE RATE HOW IMPORTANT YOU THINK IT IS FOR A VENTURE CAPITAL INVESTOR TO POSSESS THE FOLLOWING ATTRIBUTES:

13. Strategic planning/goal setting

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 78% |
| <input type="checkbox"/> | b) Somewhat important | 17% |
| <input type="checkbox"/> | c) Not important      | 1%  |

14. Teamwork

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 55% |
| <input type="checkbox"/> | b) Somewhat important | 37% |
| <input type="checkbox"/> | c) Not important      | 5%  |

15. Communication skills

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 81% |
| <input type="checkbox"/> | b) Somewhat important | 13% |
| <input type="checkbox"/> | c) Not important      | 1%  |

16. Recruiting talented management

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 86% |
| <input type="checkbox"/> | b) Somewhat important | 10% |

- c) Not important 1%
17. Coaching/counseling/advising
- Choose one:
- a) Very important 81%
- b) Somewhat important 15%
- c) Not important 1%
18. Listening
- Choose one:
- a) Very important 91%
- b) Somewhat important 6%
- c) Not important 0%
19. Specific industry knowledge
- Choose one:
- a) Very important 43%
- b) Somewhat important 48%
- c) Not important 6%
20. Sales skills/persuasion
- Choose one:
- a) Very important 57%
- b) Somewhat important 37%
- c) Not important 2%
21. Marketing skills
- Choose one:
- a) Very important 37%
- b) Somewhat important 53%
- c) Not important 6%
22. Knowledge of corporate finance
- Choose one:
- a) Very important 22%
- b) Somewhat important 63%
- c) Not important 11%
23. Accounting knowledge
- Choose one:
- a) Very important 13%
- b) Somewhat important 63%
- c) Not important 19%

24. Experience in managing a company or business unit

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 35% |
| <input type="checkbox"/> | b) Somewhat important | 38% |
| <input type="checkbox"/> | c) Not important      | 13% |

25. Professional network of entrepreneurs/managers (as candidates for portfolio companies)

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 56% |
| <input type="checkbox"/> | b) Somewhat important | 32% |
| <input type="checkbox"/> | c) Not important      | 6%  |

26. Access to financing (lenders or limited partners)

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 38% |
| <input type="checkbox"/> | b) Somewhat important | 42% |
| <input type="checkbox"/> | c) Not important      | 15% |

27. Network of other venture capitalists (for deal flow or co-investment)

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 32% |
| <input type="checkbox"/> | b) Somewhat important | 54% |
| <input type="checkbox"/> | c) Not important      | 10% |

28. Quantitative analytical ability

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 30% |
| <input type="checkbox"/> | b) Somewhat important | 55% |
| <input type="checkbox"/> | c) Not important      | 12% |

29. Qualitative analytical ability

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 85% |
| <input type="checkbox"/> | b) Somewhat important | 12% |
| <input type="checkbox"/> | c) Not important      | 0%  |

30. Knowledge of relevant cutting edge technology

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 28% |
| <input type="checkbox"/> | b) Somewhat important | 53% |
| <input type="checkbox"/> | c) Not important      | 16% |

HOW HELPFUL HAVE THE FOLLOWING BEEN IN YOUR DEVELOPMENT AS A VENTURE CAPITAL INVESTOR?

31. Mentoring by senior people in the venture capital industry

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 50% |
| <input type="checkbox"/> | b) Somewhat important | 31% |
| <input type="checkbox"/> | c) Not important      | 14% |

32. Education in technology

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 23% |
| <input type="checkbox"/> | b) Somewhat important | 43% |
| <input type="checkbox"/> | c) Not important      | 29% |

33. MBA or similar education

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 26% |
| <input type="checkbox"/> | b) Somewhat important | 40% |
| <input type="checkbox"/> | c) Not important      | 30% |

34. Operating experience

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 50% |
| <input type="checkbox"/> | b) Somewhat important | 25% |
| <input type="checkbox"/> | c) Not important      | 21% |

35. Venture capital industry conferences

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 2%  |
| <input type="checkbox"/> | b) Somewhat important | 32% |
| <input type="checkbox"/> | c) Not important      | 61% |

36. Magazines/books

Choose one:

- |                          |                       |     |
|--------------------------|-----------------------|-----|
| <input type="checkbox"/> | a) Very important     | 9%  |
| <input type="checkbox"/> | b) Somewhat important | 47% |
| <input type="checkbox"/> | c) Not important      | 40% |

37. For an average deal, how much total time do you personally allocate to due diligence?

Choose one:

- |                          |                        |     |
|--------------------------|------------------------|-----|
| <input type="checkbox"/> | a) 0 to 10 hours       | 4%  |
| <input type="checkbox"/> | b) 11 to 50 hours      | 44% |
| <input type="checkbox"/> | c) 51 to 200 hours     | 39% |
| <input type="checkbox"/> | d) 201 to 400 hours    | 7%  |
| <input type="checkbox"/> | e) More than 400 hours | 2%  |

For an average deal, what PERCENTAGE of time do you spend on the following four activities during due diligence? (Sum to 100%)

38. Financial analysis % =  Mean = 14%

39. Management assessment % =  Mean = 34%

40. Market analysis % =  Mean = 29%

41. Product/technology/service analysis % =  Mean = 23%

FOR AN EXISTING PORTFOLIO COMPANY, HOW MANY HOURS DO YOU SPEND PER MONTH ON:

42. Coaching senior management hrs. =  Mean = 10 hours

43. Recruiting managers hrs. =  Mean = 6 hours

44. Working to secure additional financing hrs. =  Mean = 6 hours

45. Other and hrs. =  Mean = 13 hours

46. How successful would your colleagues rate your investment performance thus far in your career?

Choose one:

- |                          |                                    |     |
|--------------------------|------------------------------------|-----|
| <input type="checkbox"/> | a) One of the best in the industry | 15% |
| <input type="checkbox"/> | b) Very good                       | 49% |
| <input type="checkbox"/> | c) Good                            | 22% |
| <input type="checkbox"/> | d) Fair                            | 5%  |
| <input type="checkbox"/> | e) Poor                            | 0%  |

47. In what quartile has your fund performed in recent years?

Choose one:

- |                          |                    |     |
|--------------------------|--------------------|-----|
| <input type="checkbox"/> | a) Top quartile    | 72% |
| <input type="checkbox"/> | b) 50% to 74%      | 16% |
| <input type="checkbox"/> | c) 26% to 49%      | 2%  |
| <input type="checkbox"/> | d) Bottom quartile | 0%  |

RESOURCES

48. Do you rely a lot on the expertise of others in your firm, or are you largely self-sufficient?

Choose one:

- a) Rely on others a lot inside the firm 27%
- b) Rely somewhat on others inside the firm, but am fairly self-sufficient 53%
- c) Rely on others very little inside the firm; very self-sufficient 17%

49. Which of the following external resources do you use during due diligence for nearly every deal?

Choose all that apply:

- a) Lawyers 74%
- b) Accountants 37%
- c) Marketing consultants 33%
- d) Industrial psychologists 10%
- e) Technology consultants 51%
- f) Other, please specify... [ ] 23%

50. How often do you attend a conference or seminar in the venture capital industry in an average year?

Choose one:

- a) 0 per year 18%
- b) 1 - 2 per year 59%
- c) 3 - 4 per year 17%
- d) 5 - 6 per year 3%
- e) More than 6 per year 1%

51. How often do you attend a seminar or conference OUTSIDE of the venture capital industry in an average year?

Choose one:

- a) 0 per year 8%
- b) 1 - 2 per year 25%
- c) 3 - 4 per year 41%
- d) 5 - 6 per year 14%
- e) More than 6 per year 10%

52. Last question. If you were going to hire a general partner for your venture capital firm, what 5 - 10 human capital attributes (knowledge, skills, abilities, values) would you consider most important?

*Additional key attributes written in by venture capitalists*

Key Attribute (number of respondents writing in this attribute out of 145 respondents)

1. Experience (62)
2. Intelligence (44)
3. Honesty/Integrity (43)
4. Work Ethic (41)
5. Knowledge of Technology and Markets (30)
6. Communication Skills (25)
7. Interpersonal Skills (21)
8. Teamwork Skills (21)
9. Analytical Ability (17)
10. Entrepreneurial Network (16)

## About the Authors

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Geoff is Chairman & CEO of G.H. Smart & Company, a consulting firm he founded in 1995, based in Chicago. The firm offers quality-guaranteed services in the areas of management assessment and leadership coaching. Clients include venture capital investors, Fortune 500 senior executives, and billionaire entrepreneurs. Formerly, he worked for what is now PriceWaterhouseCoopers. Geoff has published articles or has been featured in Fortune, Red Herring, CNNFn.com, and several journals of entrepreneurial finance. He co-authored the original article on "topgrading," which was published in Directors & Boards magazine in 1997. Geoff is a frequent lecturer at the Kellogg Graduate School of Management and at venture capital conferences.

Geoff earned a B.A. in Economics with Honors from Northwestern University, an M.A. and a Ph.D. in Psychology from Claremont Graduate University, where he was a student of management guru Peter F. Drucker.



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