A Study on The Human Capital Aspect of Venture Capitalists

Prepared for

Information-Technology Promotion Agency

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Executive Summary

- At the request of Information-Technology Promotion Agency, the Ignite Group conducted this original research into the human capital aspects of venture capital.

- In 2003, 157 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 in the U.S.

- How and why people enter venture capital:

  - Most venture capitalists enter through 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?:

  - 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.

  - 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.

  - 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.

Contents

Page

I. Introduction 5

II. Methodology 7

III. Descriptive Statistics of Venture Capital Respondents 9

IV. Findings 14

1. Why and How People Become Venture Capitalists 14
    - Educational Background
    - Career Background
    - Entry into Venture Capital

2. What Makes a Successful Venture Capitalist? 21
    - Important Human Capital (skills, abilities, etc.)
    - Professional Networks of Venture Capitalists
    - Due Diligence
    - Relationship with Portfolio Companies
    - Professional Development

3. Resources Inside and Outside the Venture Capital Firms 30
    - Outside Resources
    - Cooperation Inside the Venture Capital Firms

V. Case Interviews with Leading Venture Capitalists 32
- Joe Lacob, Kleiner Perkins Caufield & Byers
- Bob Kagle, Benchmark Capital
- Henry McCance, Greylock
- Carl Thoma, TC|Equity Partners
- Fred Harman, Oak Investment Partners
- Lucio Lanza, U.S. Venture Partners
- Floyd Kvamme, Kleiner Perkins Caufield & Byers
- Stuart Phillips, U.S. Venture Partners
- Jim Swartz, Accel Partners
- Bill Davidow, Mohr, Davidow Ventures

VI. Conclusions and Recommendations 52
- Why and how do people become venture capitalists?
- What makes a successful venture capitalist?
- Structure and Use of Resources Inside and Outside of Venture Capital Firms
- Lessons learned from the U.S. that may be applicable to Japanese venture capitals

Appendix: Survey and Statistics 56

I. Introduction

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 157 venture capitalists from 98 different firms across the United States. In addition, ten case interviews were conducted with experienced leaders among venture capitalists in order to provide more explanation beyond the numbers. The study was conducted in 2003.

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 <u>decrease</u> in employment by 4 million jobs; the entrepreneurial economy has created a net <u>increase</u> 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. 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

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 were returned due to faulty 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 22% and secured participation from 157 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.

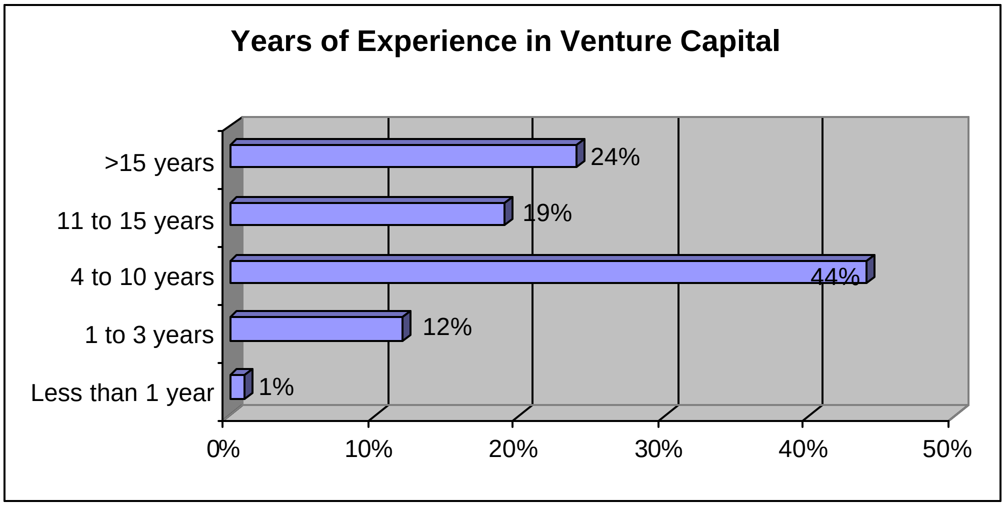
Venture Capital Firms in the Survey

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

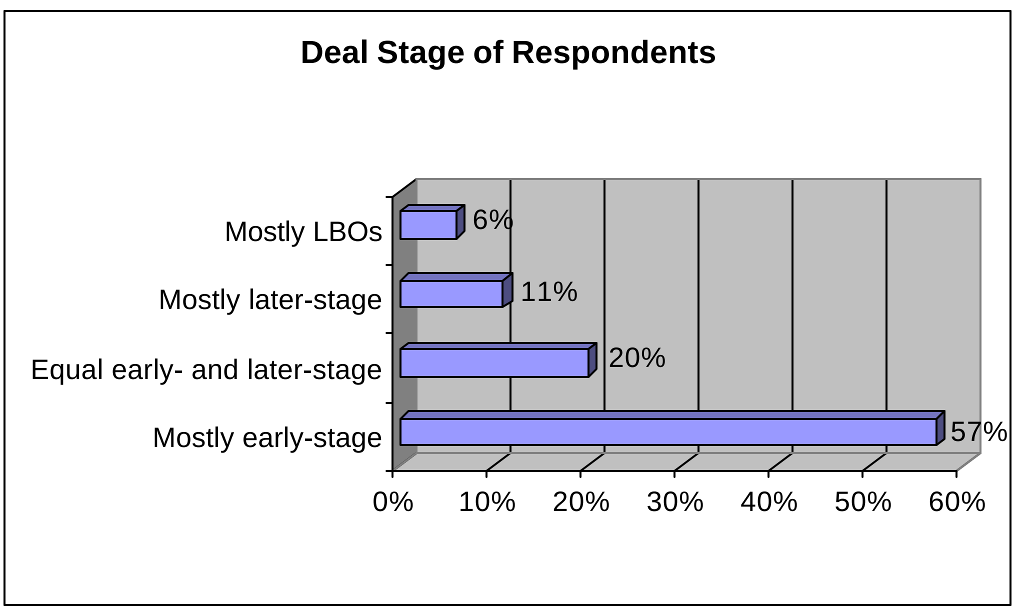
The respondents in the study represent relatively seasoned venture capitalists. 42% had been in the venture capital industry for at least 11 years. Only 18% had less than 4 years of experience in venture capital.

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 (39%)—with California (31% of total) being the largest state represented. 38% were located in the Eastern region, and 23% 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.



“Stars”

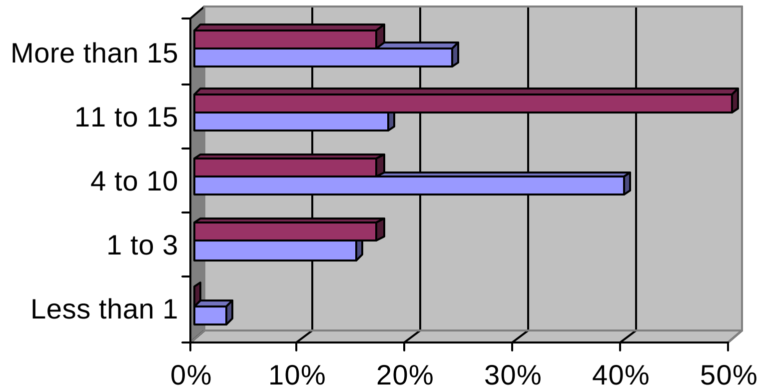
In several parts of this report, we differentiate between the responses that were given by venture capital “stars” vs. the entire sample including stars. The purpose of this differentiation was to determine whether certain factors correlated strongly with success. We developed four criteria to determine whether respondents fit into the “star.”

Self-reported “colleagues consider me one of the best investors in the industry.”
Within the top 100 funds in terms of number of IPOs in past 10 years.
Within the top 100 funds with value-creating IPOs to date (average annualized return from IPO to date).
Within the top 50 firms in historical capital commitment.
(Data based on Venture Economics)

Since there is no objective public information about the performance of individual venture capitalists, we used these proxy variables. With the first variable, we tried to capture reputation in the industry. 15% of the respondents reported that colleagues considered them one of the best in the industry. Of these respondents, we used the latter three variables to select the stars. The second criterion, number of IPOs, is a proxy for realizing large return on investment. IPOs typically bring the largest return on investment for VC firms. While the second criterion measures only financial return, the third criterion can measure the performance in terms of building sound companies. While there are plenty of examples of companies that do not grow after IPO, those companies with greater annualized return post-IPO are considered great companies. The VC firms that meet this criterion can be considered very good at either finding or helping build those great companies. The fourth criterion variable is meant to capture historical reputation of VC firms. If a VC firm performs well, it is likely that it will be able to raise the next fund with relatively more ease. A VC firm with a larger historical capital commitment can probably be considered to have good long-term performance. In the survey, we embedded another question to capture financial performance. However, 72% of the respondents reported that their funds were in the top quartile; therefore, we did not use this question to select stars. Only 6 venture capitalists satisfied all four criteria and were considered “stars”. For confidentiality purposes, names of “stars” are not identified in this report.

There were no major differences in the descriptive background statistics for “stars” vs. “all” of the venture capitalists in the study. However, several differences existed that are relevant to the research questions (to be discussed later). Not surprisingly, ”stars” tended to be in venture capital slightly longer than the entire sample.

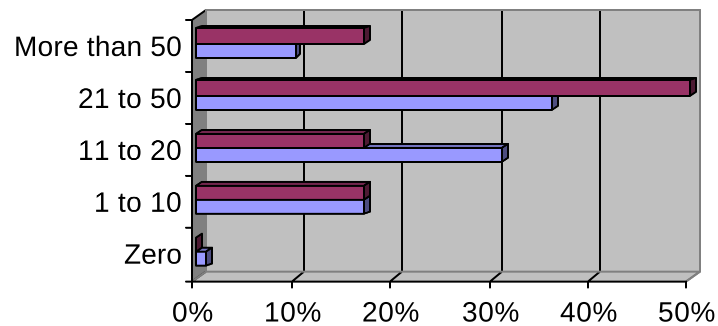
Years in Venture Capital



	Less than 1	1 to 3	4 to 10	11 to 15	More than 15
Stars	0%	17%	17%	50%	17%
All	3%	15%	40%	18%	24%

Also, “stars” tended to have done more deals than the entire sample of “all” venture capitalists in the study. This could be for several reasons. First, it is possible that the star venture capitalists are members of larger firms, and larger firms do more deals. Or it could be because they are stars, they attract talented entrepreneurs, allowing them to do more deals. There was an implicit point made during some of the interviews for this study that if you are not a venture capital star, you find deals. If you are known in the industry as a star, deals find you.

Number of Career Deals



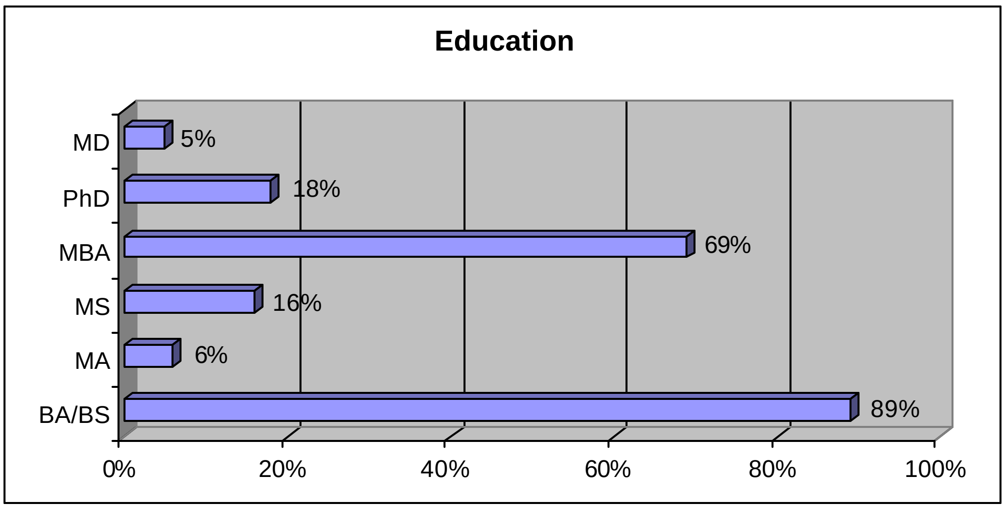
	Zero	1 to 10	11 to 20	21 to 50	More than 50
Stars	0%	17%	17%	50%	17%
All	1%	17%	31%	36%	10%

III. Findings

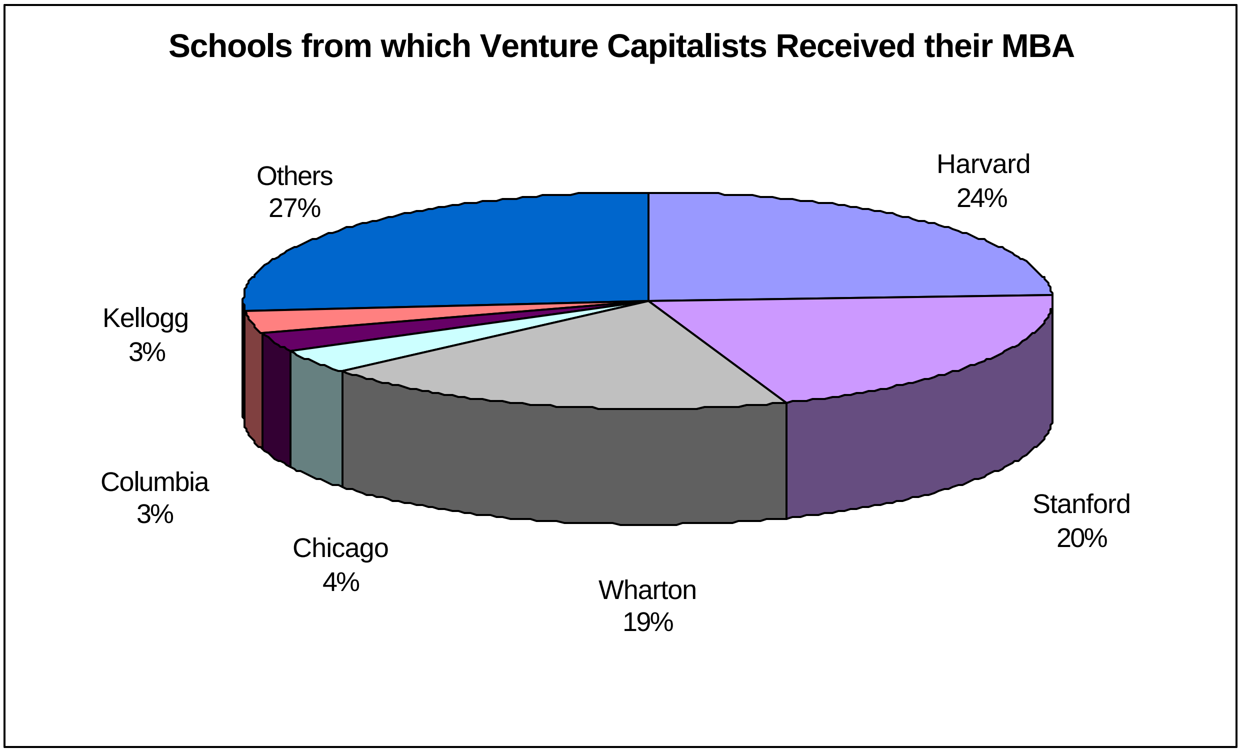
1. How and Why People Become Venture Capitalists

Educational Background

Venture capitalists in this study were highly educated. Over 80% had an undergraduate degree and 67% had an MBA. 5% were medical doctors (MDs) and 18% held Ph.D.s. Our archival research also showed that of 497 venture capitalists for which educational background data were available, 69% had an MBA and approximately 53% had one or more technology degrees and 25% 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 (24%), Stanford (20%) and Wharton (19%) 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.



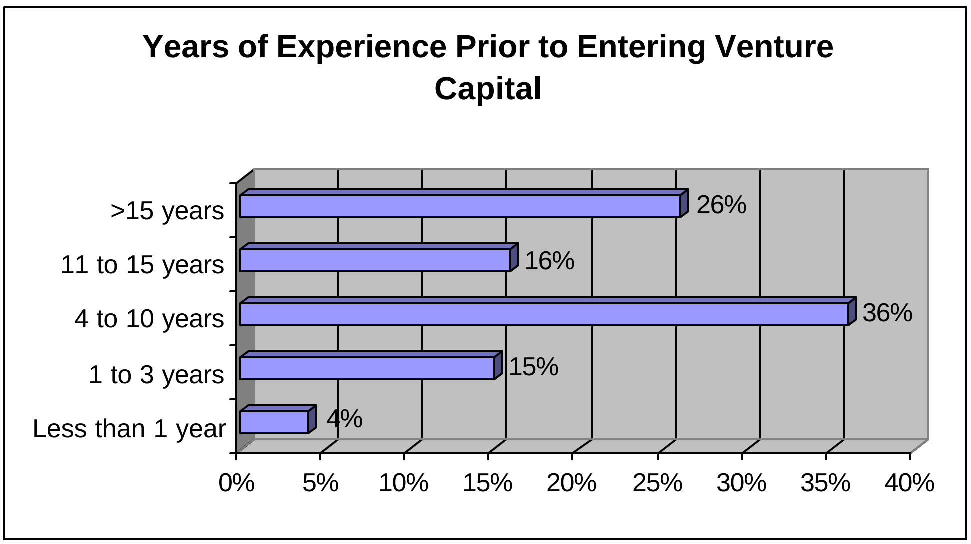
Our case study respondents generally agreed that an MBA in itself was not critical, but that the CEO perspective gained in an MBA program was a clear benefit. Also, our respondents thought that an MBA accelerated one's professional advancement and allowed high-level management experience earlier in one's career, which they thought was a key. There was also general agreement that a BS/MBA combination provided a good foundation for success in venture capital.

Career Background

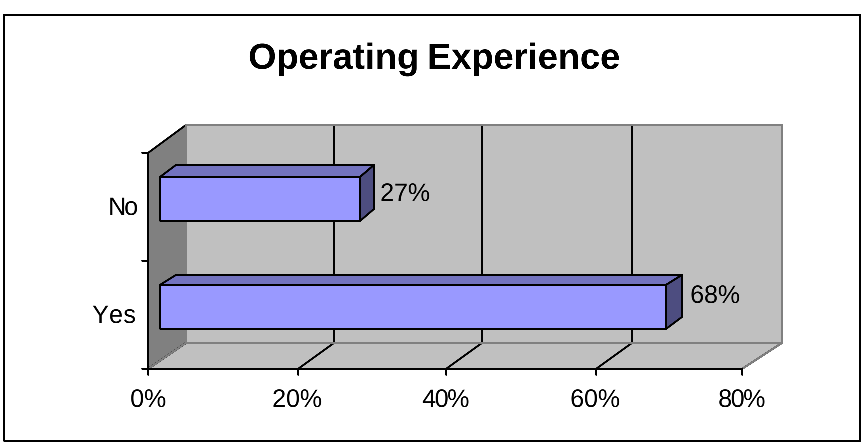
Prior to entering the venture capital industry, one third of respondents had experience as corporate managers, one third in banking/finance, and one third in entrepreneur (not mutually exclusive).

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.

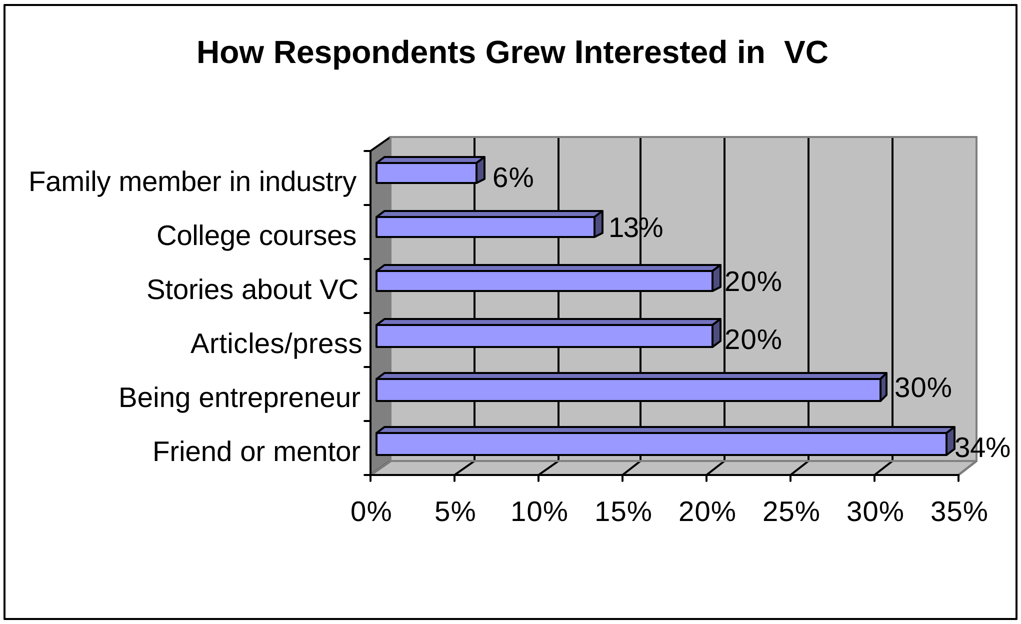


In addition to overall business experience, which may include non-operating experience such as consulting, most of the respondents had operating experience.



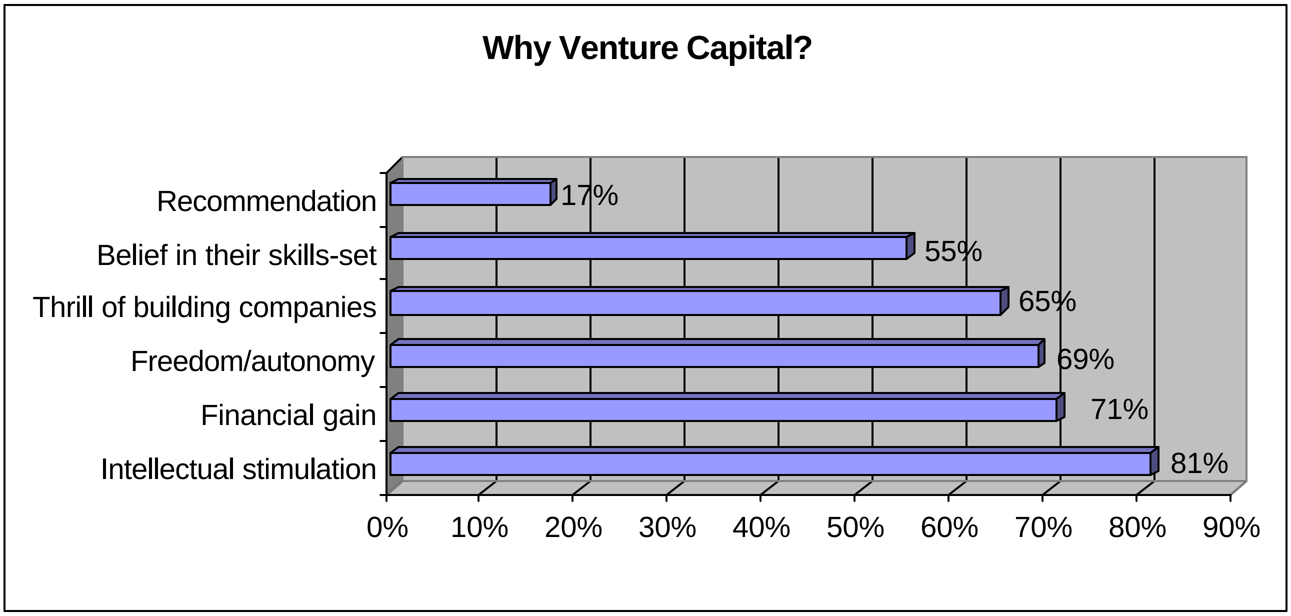
Entry into Venture Capital

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. One case study respondent expressed the intellectual stimulation; "meeting exciting people" and "as an engineer it is the best way to apply your technical knowledge," as well as "stay involved with strategic issues as opposed to detailed everyday issues."

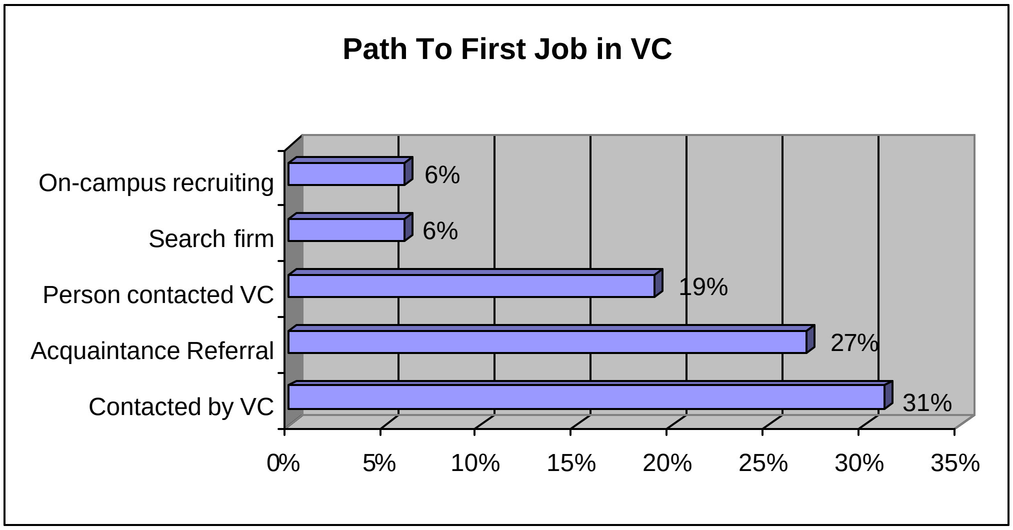


The opportunity for significant financial gains is an obvious incentive, and the size of the gains can be large. For example, *Fortune Magazine* estimated that Kleiner Perkins Caufield & Byers, one of the best-known venture capital firms in the United States, experienced positive cash flow of at least $210 million over 1996-1997, which delivered a healthy profit to the Firm's twelve partners. The structure of VC firms also plays a role in financial gain. Typical VC firms are formed as partnerships and take 20 –30 % of all capital gains of the funds they manage (called "carried interest"). This carried interest is distributed among the partners in a firm.

The "freedom and autonomy" that venture capitalists were drawn to is a function of the way the firms are managed. In a traditional hierarchical corporate structure, one's freedom and decision-making ability are narrowed by the chain of command. In contrast, venture capital firms are typically partnerships with collegial working relationships that are based on collaboration, rather than rigid reporting relationships. Most of our case study respondents reported that they valued having more control on their day-to-day schedule.

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 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.



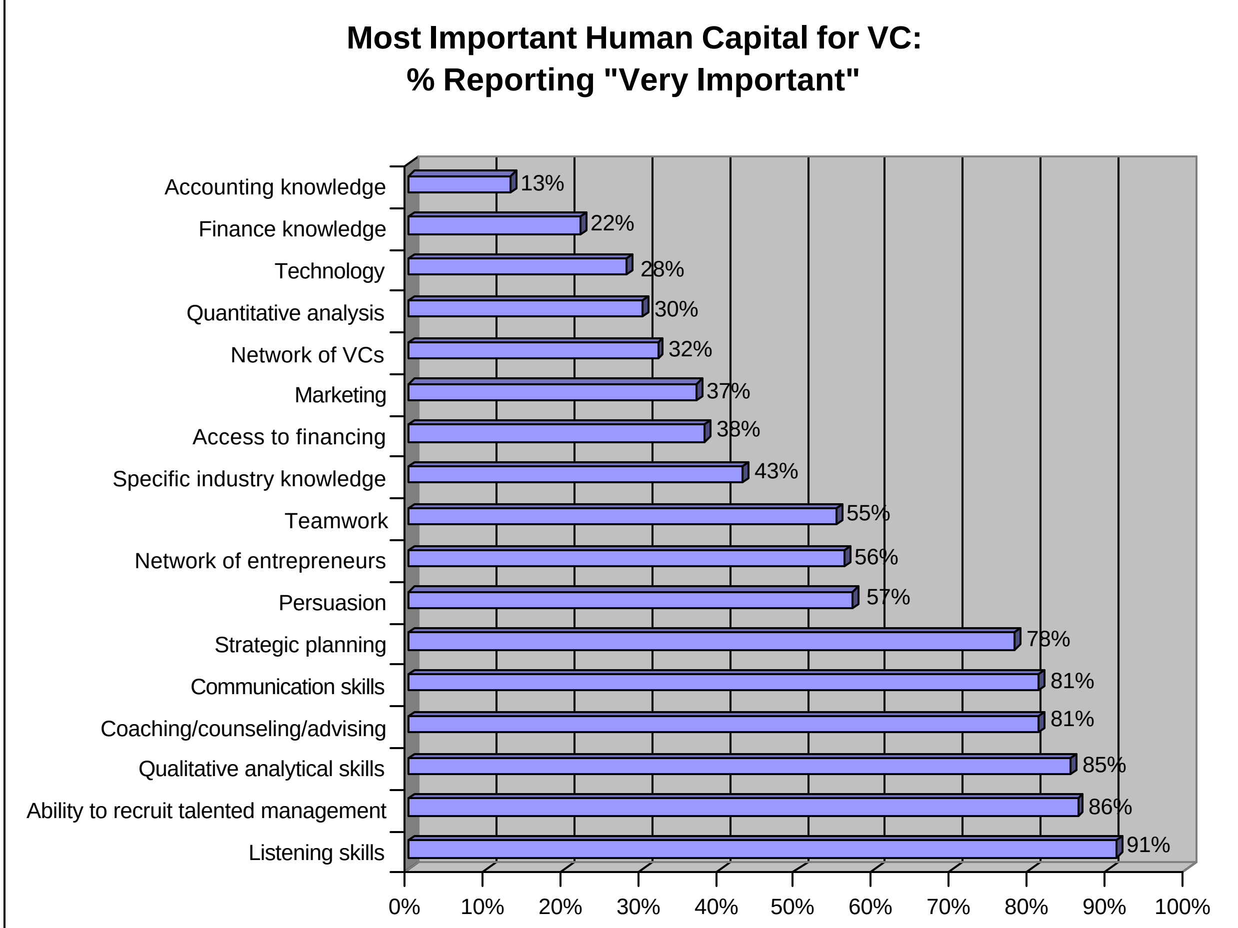
Many of the venture capitalists in this study were contacted by the venture capital firm directly. Venture capitalists tend to build and maintain large professional networks and, according to our interviews, they rely heavily on those networks to identify candidates for their firms.

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?

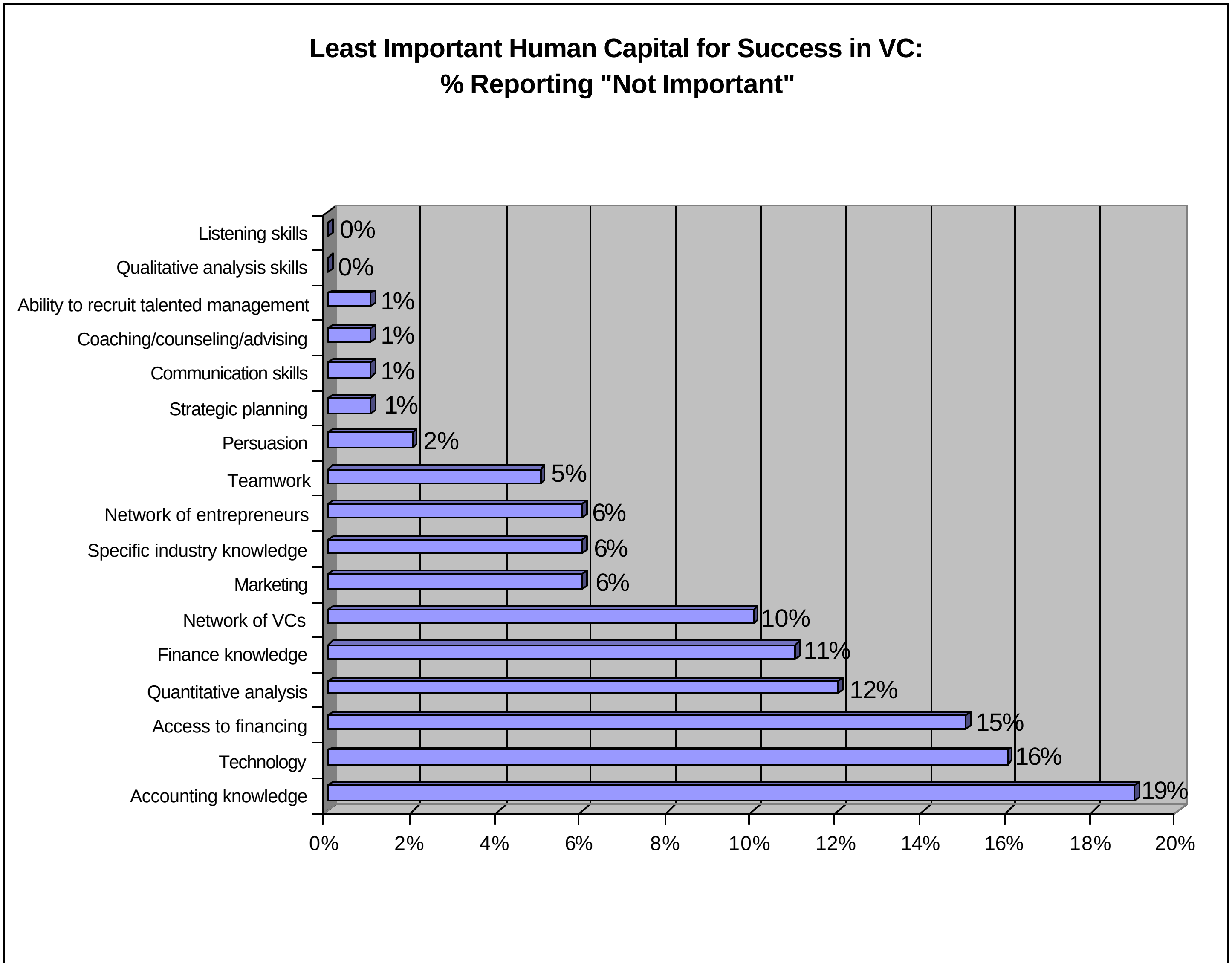
Human Capital

Our survey shows that success in venture capital is largely driven by mastery of "soft skills". This is a very interesting finding because venture capital is often considered to be in the financial services industry. 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 small group of "stars" discussed earlier generally place similar rankings on these success factors, with several differences: "Stars" placed a higher value on the ability to recruit talented management and on coaching/advising skills.

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.



The emphasis on these soft skills makes sense when one considers the most important activities that the venture capitalist performs. A recent study (Elango Fried et al., 1995) found that the most important activities performed by venture capitalists were:

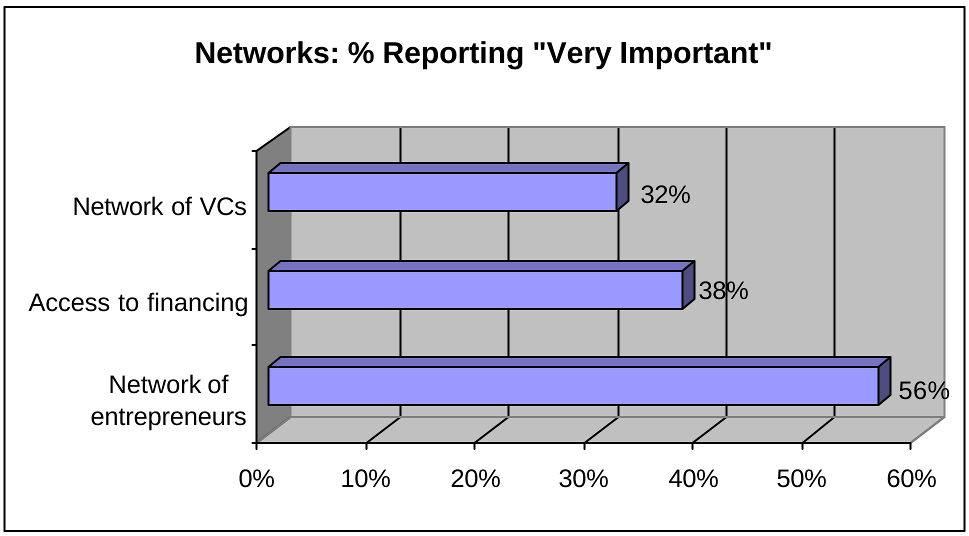
1. evaluating management
2. seeking additional rounds of capital
3. helping form and manage the board
4. recruiting management

The skills identified as important for evaluating management are: listening skills (during interviews with them or their references), ability to recruit talented management and qualitative analytical skills (for determining what human capital is needed for a venture to succeed and assessing how strong or weak the management team is in those dimensions). The skills needed for seeking additional rounds of capital are communication and persuasion skills. The skills needed for helping form and manage the board are listening skills, ability to recruit talented management, strategic planning and coaching/counseling.

The case study respondents strongly confirmed these findings.

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.



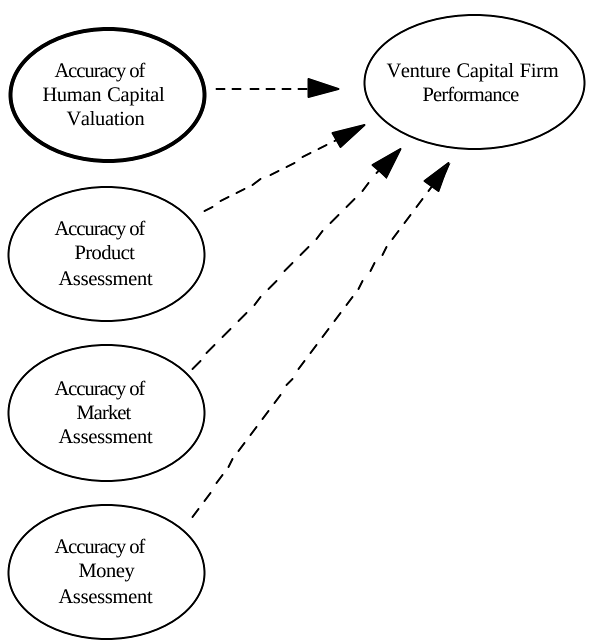
One possible reason that access to other VCs and financing is considered relatively less important by the respondents may be due to this time period. There has been a tremendous flow of investment dollars into the VC industry in the past 5 years, so access to more money (through VCs or other sources of financing) are perhaps diminished in importance. Some case study respondents noted that recently there are fewer occasions to call up other venture capital firms in their network for investment syndication. There is also perceived to be a management talent shortage. This is perhaps another reason why we see venture capitalists valuing their networks of entrepreneurs more than other networks.

Due Diligence

When deciding whether to invest in a new company, venture capitalists assess the four main factors that are expected to influence the performance of the new venture. This four-factor, or HPMM model (Smart, 1998) is comprised of factors relating to: 1) the human capital, 2) the product, 3) the market, and 4) the money.

The human capital has to do with the characteristics of the people in the venture. It is the propensity of a person or group to perform behaviors that are valued by an organization. The product assessment is comprised of elements associated with the technology, design, patents, and production of venture's products or services--what it is that the company is selling or plans to sell. The market assessment has to do with any elements external to the firm in the marketplace. These include issues related to customers, competitors, distributors, industry trends, and the growth in gross domestic product of a nation or global geographic region. The money assessment addresses any issues related to the financial position of the new venture (assets, liabilities, equity, income, expenses, cash flow, size of the investment required, valuation, etc.). Money also includes capital requirements, the cost of capital, structure of ownership, legal issues, and issues related to the firm's ability to secure short- and long term financing. Each of these four factors is typically assessed by venture capitalists before they decided whether to invest.

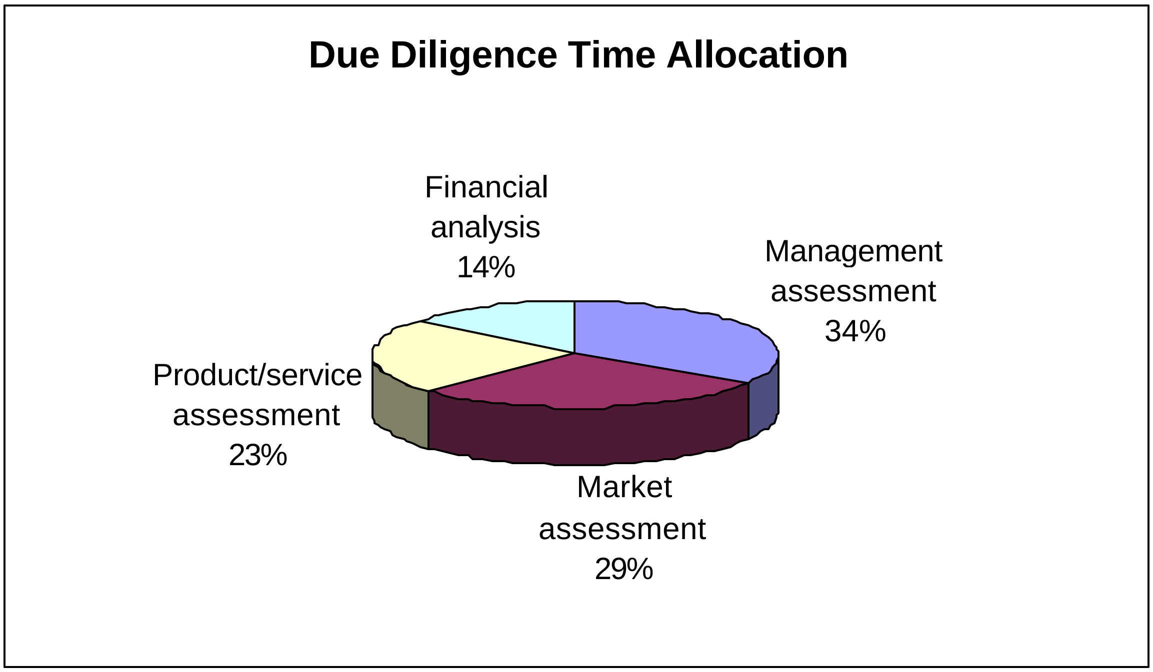
The HPMM Model of Factors Predicting Venture Capital Firm Performance



Source: Smart, G.H. (1998). Management assessment methods in venture capital: toward a theory of human capital valuation. Doctoral Dissertation. Claremont, CA: Claremont Graduate University.

Investment decisions have several possible outcomes. The outcome of an investment decision either produces a very high level of value (a "mega winner"), high level of value (a “winner”), fails to produce value (“living dead”), destroys a high level of value (a “loser”), or destroys a very high level of value (a “mega loser”).

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. This is consistent with the prevailing wisdom in the field as well as research that the success or failure of a deal is largely due to the management talent. This is also consistent with our earlier findings that suggest that soft skills related to the evaluation and recruitment of talented management are of paramount importance.

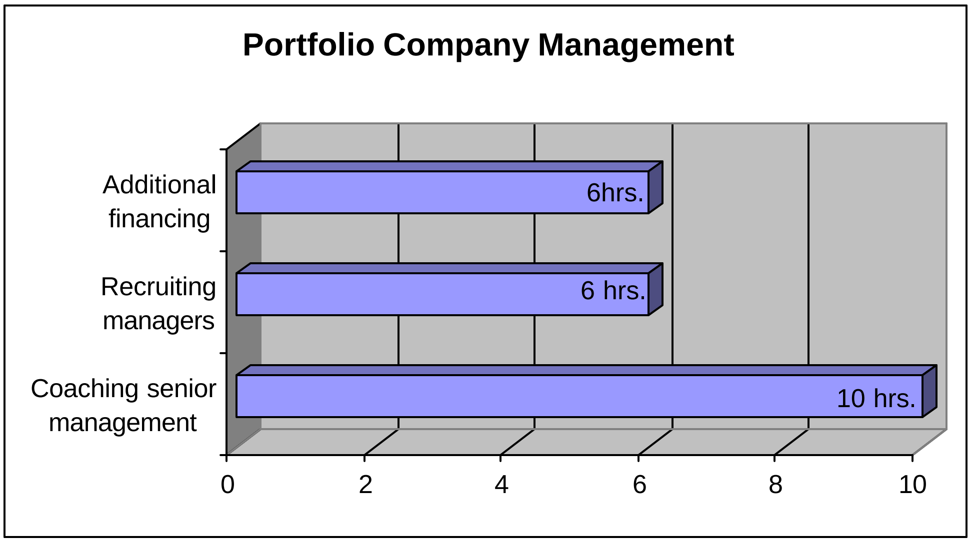


One possible limitation in the design of this study was the implied mutual exclusivity of the four due diligence activities. For example, discussions about financial analysis with management teams can give venture capitalists insights into the management team assessment. We acknowledge this limitation, but provide this result as a rough measure of the breakdown of time.

In summary, due diligence is relatively quick, assessing the quality of management receive the most attention, and detailed financial analysis is viewed as less important activity.

Relationship with Portfolio Companies

Post- investment, venture capitalists tend to spend most of their time coaching senior management. "Star" venture capitalists spend an even greater percentage of their time coaching senior management and recruiting managers. 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

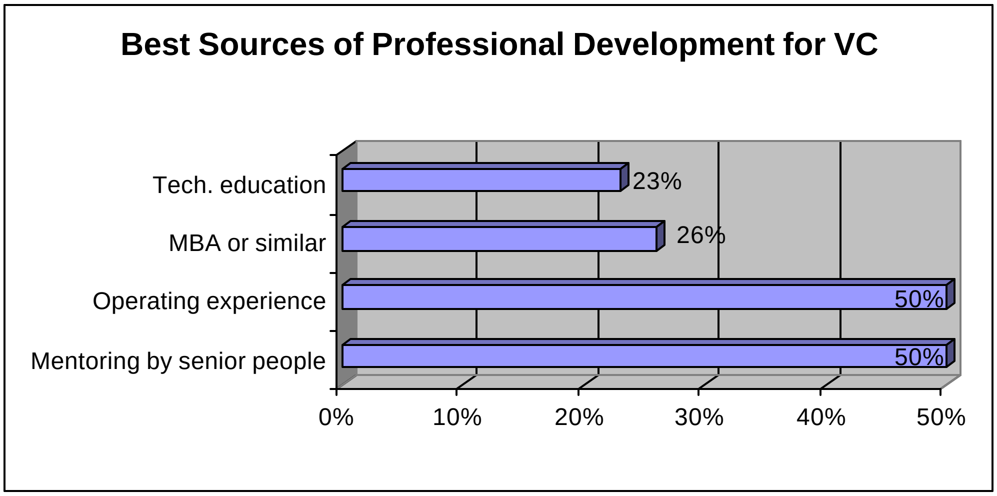
In looking at their experience prior to entering the VC industry, respondents tended to value experience more than education. Operating experience (refers to experience gained by leading a company or business unit, typically including profit & loss responsibility) and mentoring each played a very important 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. Mentoring played a more important role in the development of "stars" compared to "all".

The survey also confirmed the value of experience directly – the attribute most often cited as important to venture success was "experience". Operating experience before entering VC industry and mentoring through on-the-job training are reported as being critical to succeeding as a venture capitalist. One case respondent expressed what it takes for a venture capitalist to learn, especially on evaluating management team, as "experience, experience, experience."

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.

Why did venture capitalists not value their MBA or technical degrees more, while in fact many of them have those degrees? One possible explanation is that schools emphasize technical and quantitative skills, whereas it is the soft skills that venture capitalists value the most, and that soft skills may be best learned through direct operating experience or mentorship.

This explanation is plausible and consistent with the fact that respondents believe a set of "soft skills" is more important than hard knowledge of finance/accounting/technology and quantitative analytical ability.



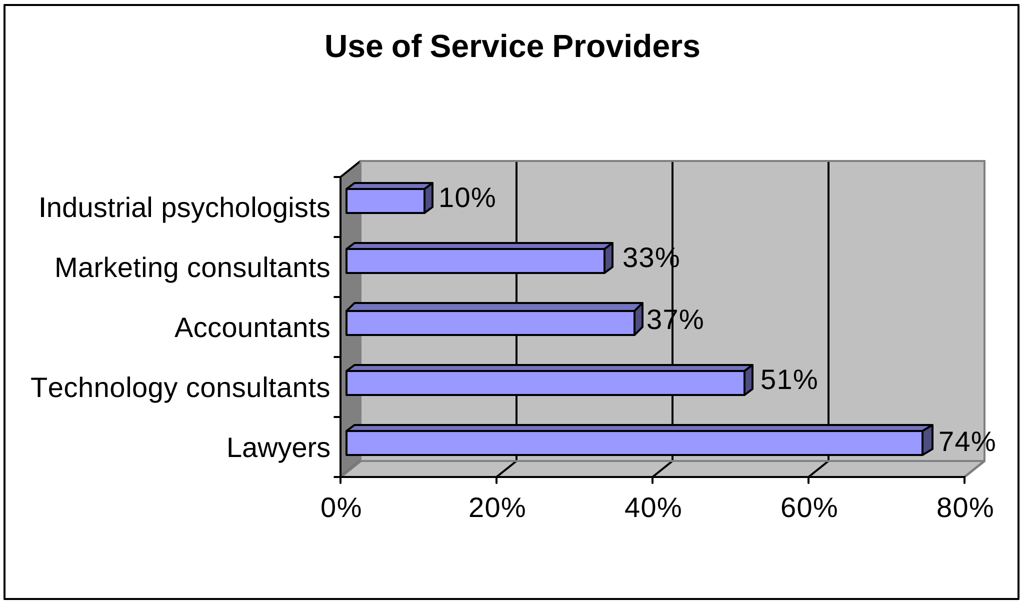
However again, this explanation does not provide an answer to "why are venture capitalists so highly educated and why do so many have an MBA from top business schools?" One hypothesis is that advanced technical degree and MBAs from top business schools may correlate with a high level of intelligence. In the question where we asked survey respondents to list freely most important attributes, "intelligence" was the second-most cited response.

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. "Stars" tend to use marketing consultants more often than "all". Leaders in the venture capital industry vary in their use of service providers. Some of them have no associates, so they use external service providers more heavily as needed.

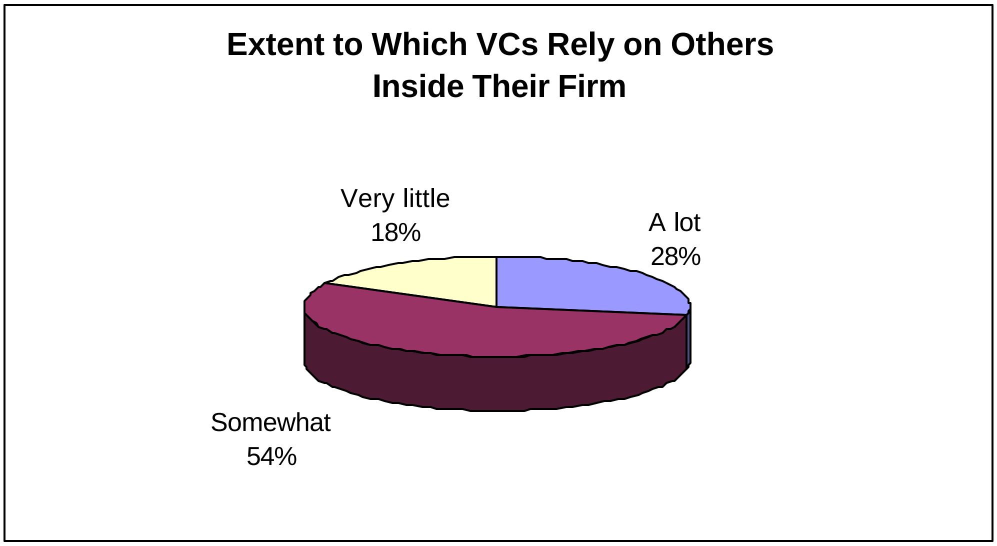


Note: Percentage of respondents who reported using each type of service provider during due diligence for nearly every deal.

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 bear 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

These interviews provide insights on the key research questions, communicated directly by leading venture capitalists from the three main regions in the United States.

Joe Lacob
General Partner, Kleiner Perkins Caufield & Byers
West Coast Region

Background

Joe Lacob was a general manager of several ambulatory care facilities for FHP International, a fast-growth HMO, before serving as Marketing Director for Cetus Corporation, where his responsibilities included the marketing and commercial development of Interleukin-2 and all other lymphokine products. Since joining KPCB in 1987, Mr. Lacob has led investments in over thirty life science and Internet companies, including the start-up or incubation of ten ventures. Mr. Lacob serves on the boards of publicly traded Heartport, Pharmacyclics, and SportsLine, as well as eight privately held healthcare and Internet ventures. Mr. Lacob 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?

Mr. Lacob 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 Mr. Lacob as a marketing consultant to the venture capital firm. He had an idea for a startup in which KPCB ultimately invested. So Mr. Lacob joined Kleiner Perkins 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?

Mr. Lacob 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 Kleiner Perkins 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." Mr. Lacob 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 Kleiner Perkins makes is between Partners who are "finders" or "fixers." Mr. Lacob 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. Mr. Lacob suggested that it is valuable to have both finders and fixers in a venture capital firm.

Mr. Lacob 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 skills were the #1 most important skills, according to venture capitalists.

What resources do you use to do your job?

Mr. Lacob 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, Mr. Lacob 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.

Bob Kagle
Co-founder and General Partner, Benchmark Capital
West Coast Region

Background

Prior to founding Benchmark in 1995, Mr. Kagle spent 12 years as a General Partner with Technology Venture Investors. Before TVI, he worked for the Boston Consulting Group (BCG). At BCG, Mr. Kagle focused on issues of corporate strategy in industries ranging from retail distribution to high technology manufacturing. He serves on the board of Ariba Technologies, Art.com, eBay, E-Loan, Sparks.com, Visionary Design, Systems and Xantel. He is a director of the National of Venture Capitalists, a past president of the Western Association of Venture Capitalists and member of the board of trustees of General Motors Institute. Mr. Kagle earned an MBA from Stanford Graduate School of Business, 1980, General Motors Fellow; BS in Electrical and Mechanical Engineering from Kettering University, 1978, Sobey Scholar.

How did you get into venture capital?

Mr. Kagle'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. But Mr. Kagle was drawn to the intellectual stimulation of venture capital, and the long-term accountability for results. So he took a paycut and joined TVI as a venture capitalist in 1984. They then founded his current firm, Benchmark, 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.

Mr. Kagle 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 Benchmark 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, Mr. Kagle 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, Mr. Kagle'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."

Benchmark has no associates. They call other industry executives a lot. Mr. Kagle 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."

Henry McCance
General Partner, Greylock
East Coast

Background

Henry McCance, General Partner, joined Greylock in 1969 after two years in the Office of the Secretary of Defense. Mr. McCance focuses on software and information technology investments and is currently on the board of ABT, Epsilon, Inc., Gradient Technologies, Narrative Communications, Praecis Pharmaceuticals, and Trilogy Development. He also served on the Board of Directors of Continental for 25 years until its recent $10 billion merger with US West. Mr. McCance was responsible for Greylock's early involvement in the software industry with his backing of American Management Systems, Inc., Pansophic, Cullinane and McCormack and Dodge and he also served on the board of and led Greylock's investment in companies such as Tellabs, Shiva Corporation, Manugistics, Information Resources, Inc. and Immulogic. Mr. McCance 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?

Mr. McCance 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."

Greylock 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.

Mr. McCance 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 Greylock 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 Mr. McCance 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," Mr. McCance said.

This business becomes easier if one has a great deal flow. Mr. McCance 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?

Mr. McCance said that they use partnership decision making very aggressively. Greylock 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.

Greylock does not use outside consultants. "Outside people do not have to live with the consequences," he said.

Carl Thoma
Co-founder and General Partner, Thoma Cressey|Equity Partners
Middle West Region

Background

Carl D. Thoma began his career with First Chicago Group where, with Stanley Golder and Bryan Cressey, he helped build what became at the time one of the largest and most active private equity investment firms in the country. In 1980, Golder, Thoma and Cressey established Golder, Thoma & Co., which focused increasingly on the industry consolidation investment strategy that Thoma and Cressey had developed while at First Chicago. Subsequently renamed Golder, Thoma & Cressey and then Golder, Thoma, Cressey, Rauner, the firm raised and invested a series of five successful private equity funds totaling more than $1.2 billion in committed capital. Thoma is a member of the board of the National Venture Capital Association and was its president-elect and then president from 1995-97. Thoma is a trustee of the Illinois Institute of Technology and a member of the boards of Evanston Northwestern Hospital Corp., Evanston, IL, and The American Center, Napa, CA. A graduate of Oklahoma State University, he earned an MBA from the Stanford Graduate School of Business.

How did you get into venture capital?

Mr. Thoma went to Stanford for his MBA, worked in Phoenix for a year and was introduced to Stan Golder through a mutual friend and entered the venture capital industry in 1974.

Mr. Thoma 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?

Mr. Thoma 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, Mr. Thoma 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.

Mr. Thoma 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?

Mr. Thoma 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.

Fred Harman
General Partner, Oak Investment Partners
Palo Alto Office

Background

Prior to joining Oak Investment Partners as a general partner in 1994, Fred Harman 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 Hughes Communications where he worked as an engineer and focused on developing new business for the company, including the formation of the predecessor to DirecTV. He has a BS and MS in Electrical Engineering from Stanford University.
At Oak Investment Partners, his primary investment focus is Internet and enterprise software and strategic outsourcing services.

How did you get into venture capital?

When Mr. Harman 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, Mr. Harman 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 Mr. Harman's 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 Mr. Harman, 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 Mr. Harman, “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.

Mr. Harman 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 Oak Investment Partners, 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.

Lucio Lanza
General Partner, U.S. Venture Partners

Background

Lucio Lanza 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 USVP. He became a general partner in 1996.

Mr. Lanza received a doctorate in electronic engineering from Politecnico of Milano

How did you get into venture capital?

Mr. Lanza had a unique career path, in that he often held two positions at the same time. He worked for USVP part-time when he was involved with technology strategy at Cadence, and then decided to be a full-time general partner at USVP.
Mr. Lanza 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?

Mr. Lanza 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, Mr. Lanza 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, Lucia 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?

Mr. Lanza 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 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. Mr. Lanza, however, foresees that the trend will reverse again because start-up companies are requiring more money for growth.

Floyd Kvamme
Partner, Kleiner Perkins Caufield & Byers

Background

Floyd Kvamme came to Silicon Valley in 1963 and was involved in starting National Semiconductor. He served as President of the National Advanced Systems subsidiary, which designed, manufactured and marketed mainframe computers. He then joined Apple Computer and become 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 KPCB as a partner in 1984.

How did you get into venture capital?

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

Mr. Kvamme was attracted to the "variety" of companies, technologies, and new ideas that venture capital offers. Mr. Kvamme 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, Mr. Kvamme believes that a technology background is very important to success in venture capital. It is particularly important because of the way KPCB operates. KPCB is not hesitant to take technology risks, which have a lot of potential gains. These risks can be reduced by testing with early investments. . KPCB 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 that a feel for a particular market and "time to market" for products are 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.

Mr. Kvamme feels that KPCB does not use outside training/education opportunities within the industry as much as they could, partly because those outside resources did not exist when KPCB 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 KPCB's portfolio companies as an outside sounding board. KPCB calls this network their "keiretsu" and works closely with them.

Stuart Phillips
General Partner, U.S. Venture Partners

Background

Prior to joining USVP as a General Partner in 1997, Stuart Phillips 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 Mr. Phillips 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. He chose USVP as he thought the firm best fit his interests.

For Mr. Phillips, 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?

Mr. Phillips 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.

Mr. Phillips 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 Mr. Phillips' firm, 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.

Mr. Phillips 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 an 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.

Jim Swartz
Founding Partner, Accel Partners

Background

Jim Swartz 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 Fred Adler in 1978. He then founded Accel Partners in 1983.
Mr. Swartz 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?

Mr. Swartz 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. Mr. Swartz had a personal friend in the industry, and he learned about venture capital from this friend.

Intellectual stimulation is what attracted Mr. Swartz 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 Mr. Swartz 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.

Mr. Swartz 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 do not regard it as an absolute necessity.

Mr. Swartz 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 Accel Partners to train junior partners/associates.
To Mr. Swartz, 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 Accel Partners, 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.

Bill Davidow
General Partner, Mohr, Davidow Ventures

Background

Bill Davidow has a long experience as a high-tech industry executive. Prior to founding MDV, 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 from 1973 to 1985. He started his career at General Electric and moved on to Hewlett-Packard and then to Signetics Memory Systems before he went to Intel.

Mr. Davidow 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, *Marketing High Technology* (1986), *Total Customer Service* (1989) and *The Virtual Corporation* (1992).

How did you get into venture capital?

For Mr. Davidow, 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, Mr. Davidow started to do due diligence for venture capitalists and personally made investments in start-up companies himself. He developed a relationship with venture business 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?

Mr. Davidow 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".

Mr. Davidow 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 MDV, 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

In this section we summarize the findings on each of the key research questions and outline some potential recommendations for developing the venture capital industry in Japan.

Why and how do people become venture capitalists?

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?

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.

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.

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.

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 collectively 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 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.

Lessons learned from the U.S. that may be applicable to Japanese venture capitals

The conclusions outlined above apply to the U.S. venture capital industry. Many of the lessons learned may well apply in Japan and other countries, but there will doubtlessly be differences due to business and cultural factors. To be able to make firm recommendations, we would need to analyze the specific situation in Japan and identify "gaps". In the meantime, however, certain general recommendations are probably still valid. These recommendations will serve as basis for more specific action items.
Some of the recommendations may be pursued more effectively at the government level and others at VC firm/industry level.

Make the right target audience more aware of venture capital

- Build awareness/educational programs targeting the top universities. Both technology and non-technology major students with high level of intelligence should be targeted.
- Consider similar programs for employees of top technology corporations. Targeted audience should be those directly involved with technology research and development as well as those with corporate or product strategy/management perspectives such as corporate strategies, product marketing and business development.
- Start "Kauffman Program" for Japan along with marketing efforts to create awareness of attractive aspects of venture capital business such as intellectual stimulation.
- Promote role models of Japanese entrepreneurs and venture capitalists. This will also encourage acceptability of taking risks.

Build density of venture capitalists to increase awareness as well as likelihood of contacts.

- Consider starting or enhancing an industry association that strongly promotes marketing efforts and other common interests of the venture capital industry in Japan.
- The awareness/educational programs targeted at top schools as described above also may contribute to creating density.

Provide appropriate financial rewards

- Encourage venture capital firm structures that allow capital gain sharing with strong upside potential. In doing so, avoid double taxation at firm level and individual venture capitalist level.
- Build effective capital market(s) that allow quick liquidity, such as Japanese version of NASDAQ. Consider encouraging more M&A activities.

Develop people correctly.

- Start Japanese "Kauffman Program" as described above. Also consider establishing training program through long-term (two to three years or more) internship programs in the U.S. and through on-the-job training with experienced VCs.

Develop appropriate VC firm structures

- Encourage firms to establish real partnerships with little hierarchy, collaboration, open information flows and capital gains sharing.

Leverage outside resources for domain expertise

- Encourage hiring people with networks. Target those with some industry experiences rather than new graduates.
- Encourage open sharing of ideas.
- Encourage working outside the firm ("virtual company")

Within a venture capital firm, spend time on the right operational priorities

- Emphasize management evaluation, coaching and strategizing.
- Focus less on detailed financial analysis.

(The appropriate role for a venture capitalist is as an active business builder, not a passive banker.)

Appendix: Survey and Statistics

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:

[ ]	a)	Yes	100%
[ ]	b)	No	0%

2. What is your position?

Choose one:

[ ]	a)	Partner	96%
[ ]	b)	Associate	0%
[ ]	c)	Other, please specify...	4% (venture partner)

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

Choose one:

[ ]	a)	Less than 1 year	1%
[ ]	b)	1 - 3 years	12%
[ ]	c)	4 - 10 years	44%
[ ]	d)	11 - 15 years	19%
[ ]	e)	More than 15 years	24%

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

Choose one:

[ ]	a)	Less than 1 year	2%
[ ]	b)	1 - 3 years	13%
[ ]	c)	4 - 10 years	39%
[ ]	d)	11 - 15 years	17%
[ ]	e)	More than 15 years	26%

5. What did you do prior to venture capital?

Choose all that apply:

[ ]	a)	Banking/finance	36%
[ ]	b)	Consulting	24%
[ ]	c)	Entrepreneur	28%
[ ]	d)	Corporate management	33%
[ ]	e)	Marketing professional	19%
[ ]	f)	Sales professional	12%
[ ]	g)	Manufacturing professional	6%
[ ]	h)	Technical professional	13%
[ ]	i)	Other, please specify	12%

6. Have you had any operating experience?

Choose one:

[ ]	a)	Yes	74%
[ ]	b)	No	22%

7. What degrees do you have, if any?

Choose all that apply:

[ ]	a)	No BA/BS	1%
[ ]	b)	BA/BS	89%
[ ]	c)	MA	6%
[ ]	d)	MS	16%
[ ]	e)	MBA	69%
[ ]	f)	PhD	18%
[ ]	g)	MD	5%

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

Choose one:

[ ]	a)	0	12%
[ ]	b)	1 – 10	19%
[ ]	c)	11 – 20	30%
[ ]	d)	21 – 50	38%
[ ]	e)	More than 50	11%

9. What stage deals do you do?

Choose one:

[ ]	a)	Mostly early stage deals	57%
[ ]	b)	Equal early stage and later stage deals	20%
[ ]	c)	Mostly later stage deals	11%
[ ]	d)	Mostly LBOs	6%

DECISION TO BECOME A VENTURE CAPITALIST

10. How did you become interested in venture capital?

Choose all that apply:

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

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

Choose all that apply:

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

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

Choose all that apply:

[ ]	a)	Opportunity for significant financial gain	71%
[ ]	b)	Intellectual stimulation	81%
[ ]	c)	Freedom/autonomy	69%
[ ]	d)	Belief in your skills-set relative to the field	55%
[ ]	e)	Strong recommendation by others	17%
[ ]	f)	Thrill of building companies	65%
[ ]	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:

[ ]	a)	Very important	78%
[ ]	b)	Somewhat important	17%
[ ]	c)	Not important	1%

14. Teamwork

Choose one:

[ ]	a)	Very important	55%
[ ]	b)	Somewhat important	37%
[ ]	c)	Not important	5%

15. Communication skills

Choose one:

[ ]	a)	Very important	81%
[ ]	b)	Somewhat important	13%
[ ]	c)	Not important	1%

16. Recruiting talented management

Choose one:

[ ]	a)	Very important	86%
[ ]	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:

[ ] a) Very important 35%
[ ] b) Somewhat important 38%
[ ] c) Not important 13%

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

Choose one:

[ ] a) Very important 56%
[ ] b) Somewhat important 32%
[ ] c) Not important 6%

26. Access to financing (lenders or limited partners)

Choose one:

[ ] a) Very important 38%
[ ] b) Somewhat important 42%
[ ] c) Not important 15%

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

Choose one:

[ ] a) Very important 32%
[ ] b) Somewhat important 54%
[ ] c) Not important 10%

28. Quantitative analytical ability

Choose one:

[ ] a) Very important 30%
[ ] b) Somewhat important 55%
[ ] c) Not important 12%

29. Qualitative analytical ability

Choose one:

[ ] a) Very important 85%
[ ] b) Somewhat important 12%
[ ] c) Not important 0%

30. Knowledge of relevant cutting edge technology

Choose one:

[ ] a) Very important 28%
[ ] b) Somewhat important 53%
[ ] 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:

[ ] a) Very important 50%
[ ] b) Somewhat important 31%
[ ] c) Not important 14%

32. Education in technology

Choose one:

[ ] a) Very important 23%
[ ] b) Somewhat important 43%
[ ] c) Not important 29%

33. MBA or similar education

Choose one:

[ ] a) Very important 31%
[ ] b) Somewhat important 43%
[ ] c) Not important 22%

34. Operating experience

Choose one:

[ ] a) Very important 55%
[ ] b) Somewhat important 26%
[ ] c) Not important 15%

35. Venture capital industry conferences

Choose one:

[ ] a) Very important 4%
[ ] b) Somewhat important 32%
[ ] c) Not important 62%

36. Magazines/books

Choose one:

[ ] a) Very important 9%
[ ] b) Somewhat important 47%
[ ] c) Not important 40%

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

Choose one:

[ ]	a)	0 to 10 hours	4%
[ ]	b)	11 to 50 hours	44%
[ ]	c)	51 to 200 hours	39%
[ ]	d)	201 to 400 hours	7%
[ ]	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:

[ ]	a)	One of the best in the industry	15%
[ ]	b)	Very good	49%
[ ]	c)	Good	22%
[ ]	d)	Fair	5%
[ ]	e)	Poor	0%

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

Choose one:

[ ]	a)	Top quartile	72%
[ ]	b)	50% to 74%	16%
[ ]	c)	26% to 49%	2%
[ ]	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 157 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)

End

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