CHAPTER 2

Careers and Organization

After reading this chapter, you will be able to:

- Launch your career in venture capital.
- Map a career path from the most junior levels of a firm to the most senior.
- Manage your career growth.
- Quickly evaluate any investor you meet using five questions.
- Distinguish between horizontal and vertical venture capital firms.
- Plan for the future of your firm.

Launching a Career

The accepted wisdom is that there is no direct career path to become a venture capitalist. There are a handful of investors who have come from disparate backgrounds that seem to justify this position. You'll likely hear about Michael Moritz, a journalist for *Time* magazine and the author of a book about Apple Computer before he became a venture capitalist. But Moritz is an exception rather than the rule.

Venture capitalists typically come from three different walks of life:

1. Entrepreneurs who have made good and want to stay in the game as investors.
2. Executives who have spent a long time considering a certain type of industry and are technical or execution experts.
3. Those who are business school–trained and plucked out of consulting, banking, and other professional positions.

There are several ways to get hired into a venture capital firm. The first, and best, is to know someone already working for a firm. That person can be a friend, a family member, or someone you've worked with in the past. Industry insiders have the best viewpoint into who is hiring, what they're looking for, and what your chances of getting a position are. Your connection may even help you get a job at his or her firm.

Venture capitalists have a lot of casual acquaintances. A big part of their job is to collect such people; so shaking hands and swapping business cards isn't likely to score you a position. Venture investors are most comfortable working with people with whom they have worked with in the past. That's one of the reasons so many former entrepreneurs find their way into the business: They are well known to the people who do the hiring.

You can tell what some firms look for in a new hire by seeing what their partners have in common. For example, Accel Partners prefers graduates of Harvard Business School or Stanford's Graduate School of Business who distinguished themselves as being at the top of their class. New Enterprise Associates picks people who have passed through the Kauffman Fellowship Program, which provides supplementary education and career opportunities to aspiring business school students. Kleiner Perkins has followed a different strategy. It has shown a distinct preference for women and minorities and has actively pursued a pro-female hiring strategy. When hiring, it also skews toward people with PhDs.

There is one other way to become a venture capitalist: Start your own firm. New venture firms pop up like mushrooms around Silicon Valley, but few actually are able to raise money and successfully invest it. There's more on how new firms get started in Chapter 3.

In the Real World

Job Wanted: Venture Capitalist

Venture firms don't usually advertise for their positions. But they do work with headhunters and talent scouts to find people who might fit their criteria. Here's an example of a recent advertisement for a ''Pre-MBA Associate'' level position at a venture firm in the Boston area. The listing first appeared in July 2009 in a posting by The Pinnacle Group, a headhunting firm:

Qualifications: Our client is a prominent top-tier investment firm with a stellar track record in the Boston area. Their principal investment focus is in technology-based companies in sectors such as software, business services, consumer Internet, and wireless. They make investments in both VC [venture capital]

In the Real World (continued)

and PE [private equity], and have a substantial amount of their fund to deploy.

Position Summary: They are seeking an associate who will be an integral member of the sourcing team and would work closely with senior members of the firm. The position is a pre-MBA opportunity for three years, though there is the potential for a career track position for an associate with outstanding performance. The primary focus of this role is sourcing opportunities, conducting technical and business due diligence, market and competitive analysis, and monitoring of portfolio companies. They need this associate to start in late summer of 2009 to work from their Boston office.

Responsibilities:

- Assisting in the sourcing of private equity opportunities.
- Conducting due diligence of potential investment opportunities.
- Reviewing market research and developing market intelligence.
- Preparing financial models in support of investment recommendations.
- Monitoring performance of portfolio companies.

Requirements:

- One to three years of relevant sourcing experience in investment banking, private equity, or consulting.
- Experience in technology is preferred.
- Bachelor's degree with a record of academic achievement required.
- Ability to form independent investment judgments and work well independently.

- Outstanding interpersonal skills, persistence, and strong initiative required.
- Ability to analyze a wide variety of business plans.
- Strong due diligence and financial modeling skills.
- Strong teamwork skills and excellent work ethic.

Career Ladder

During the past 20 years, the majority of venture capitalists were white males in their late thirties to early fifties, educated at either Harvard or Stanford Business School and with a background in either operations or entrepreneurship. Venture capitalists typically work in partnerships of 3 to 10 investors with offices within five miles of Sand Hill Road in Menlo Park, California, and make $774,000 a year, according to data from Thomson Reuters. These characterizations are changing as firms diversify and expand beyond their roots.

Not all firms have defined ranks, and each firm may define its titles differently, but there are some industry norms. The compensation data for each rank presented in Exhibit 2.1 come from Thomson Reuters' annual compensation survey.[1]

Nurturing Your Career as a Venture Capitalist

Once you've scored that job as a venture capitalist, your future success will depend on your ability to pick mentors, build connections, establish a reputation, cultivate skepticism, learn patience, and enjoy what you do.

EXHIBIT 2.1

The Venture Capital Career Ladder

Position	Pay	Experience	Explanation
Analyst	$76,000 base and $48,000 bonuses	Hired after completing an undergraduate education.	The lowest professional position at a venture firm. One seldom runs into analysts at early stage venture firms, as there is less opportunity to crunch numbers or compile industry research for the type of deals early stage investors make. The bigger the fund an analyst works at, the higher his or her compensation is likely to be.
Associate	$107,000 base and $59,000 bonuses	Less than 5 years of work experience and lacks an MBA.	More common than the analyst position. Associates generally work a 2-year term before going to business school. They used to be culled from the ranks of entrepreneurs and engineers, but as firms move toward larger, more complex deals, associates are increasingly coming from financial and legal backgrounds. Associates at large venture firms make a slightly higher base salary than associates at small venture firms, but their bonuses over the past several years have been as much as 100% higher.
Senior Associate	$131,000 base and $76,000 bonuses	MBA graduates with typically less than 3 years of experience.	Support portfolio companies, oversee some aspects of execution and sit in on deals. Some will have a small taste of the carry. Senior associates at the biggest funds typically make about $110,000 more per year than their compatriots at the smallest venture funds.
Vice President	$177,000 base and $117,000 bonuses	More than 3 years of post-MBA experience.	Provide substantial support to portfolio companies and sometimes sit on boards. This position may be the fastest growing in venture capital as firms realize they need more experienced support as they tackle increasingly complex deals. The position is also considered to be a feeder for

			future principals and partners. Nearly all vice presidents get carry, as much as five times more than senior associates.
Principal	$191,000 base and $121,000 bonuses	More than 6 years of post-MBA experience.	On track to become a partner who may or may not lead his or her own deals. Principals almost always get carry and may sit on boards of directors that a firm's senior partners don't want to deal with anymore.
Venture Partner	Not tracked	More than 6 years of post-MBA experience and slightly more experience than principals.	Typically half a step up from principals, but below full partners.
Partner	$436,000 base, $338,000 bonuses, and the carried interest	Experience varies, but most partners have 15 to 20 years of post-MBA experience either investing or running organizations.	The bosses of a venture fund. Most firms have between three and seven partners who get the majority of the carried interest.
Managing General Partner	Not tracked	Experience varies, but most partners have 15 to 20 years of post-MBA experience either investing or running organizations.	A title generally reserved for a firm's founder or highest-ranking investor. Managing general partners get more money than their colleagues, either as salary or in the form of additional carried interest compensation. This title is sometimes called *managing director.*
Controller	Not tracked	Experience varies, but a legal or accounting background is a big plus.	Makes sure that all the details of deals are in order. This partner-level position usually goes to someone from a financial or legal background. The controller does not make investments and does not take board seats. They act as a resource for other partners.
Human Capital Officer	Not tracked	A background in headhunting or executive placement is a plus.	Helps recruit talent into a firm's portfolio companies. Not every firm has one, but some of the most successful firms have in-sourced headhunters to ensure that they get the best executives and engineers for their companies.

(*continued*)

EXHIBIT 2.1

(Continued)

Position	Pay	Experience	Explanation
Partner Emeritus	Not tracked	Must be a retired partner of the firm.	A retired general partner who works more on his golf game than on making investments. Firms sometimes offer this honorary title to project a sense of continuity and to remind both entrepreneurs and limited partners of past success and excellence.
Entrepreneur in Residence (EIR)	Depending on an EIR's experience level, they might expect to earn as much inside a venture firm as at a mid-sized private company	Someone who has made a lot of money in the past.	Each firm has its own policy for EIRs, but it is generally considered to be a temporary position lasting up to 18 months where an entrepreneur works on a new start-up. The EIR sits in on deal pitches and advises the general partners, when appropriate, on the technical barriers or execution challenges startups face. During this time, the EIR is also looking for a compelling new opportunity to apply his or her particular skill set. Some firms call EIRs by different names. For example, Sequoia Capital calls them ''Entrepreneurs in Action.''

Picking Mentors

The first step to learning a new skill is finding a teacher. A good mentor in the venture business is someone who has spent more time doing deals than you have. This person need not be successful. In fact, there's a lot to be learned from failure and a lot to be taught about how to deal with it. Learning from a successful person is like learning from a captain that has only sailed on sunny days. You're most likely to need a mentor when the clouds darken, the wind kicks up, and the waves start rolling ever higher. Pick somebody who has weathered the storm. Venture capitalists may build great returns by spending time with winners, but they make their reputations based on how they work with the companies that look like losers.

Most firms assign junior investors as a subordinate to one or two general partners and it's easy to look up to that person as a mentor. After all, the senior people in your firm know best how business is done in your office and may spend a fair amount of time explaining it to you.

It's important to learn what you're told, but there are two good reasons to look for outside help as well. The first is that your interests and the interests of the firm's senior partners may eventually diverge as you take on more power and threaten their fiefdom. They also have an incentive not to share the rewards of investing with you—even when you deserve them. Experienced outsiders may help you view what goes on at your firm with greater skepticism.

The second reason to look to outsiders for guidance is that they may help you approach problems differently. Firms can suffer from uniform thinking, or can fall into patterns of operation. Creativity is seldom promoted inside an organization, but an outsider may have unique insights that can help you.

You can have many mentors. You may go to one person for help doing deals, another for help running board meetings, and yet another may be a source of insight into firm politics. The more sources you can cultivate, the better informed you will be.

Some people are reticent to approach potential mentors, thinking that these people are too important, too busy, or too disinterested. These perceptions couldn't be further from the truth. Most people love giving advice because it makes them feel knowledgeable and useful. Asking someone for advice is a great compliment.

Mentors can play one more important role—they can help you get your next job. A good mentor may know just the right opportunity for you and can be in a position to recommend you for it. At some level, they may feel invested in you and take great pleasure in seeing you do well.

Building Connections

Your connection to a mentor may be your first and most important connection, but it's only one of many you'll need to be successful. Constructing a powerful Rolodex takes time and effort, but pays off handsomely in the venture business. The three most important connections to make are to experts, engineers, and entrepreneurs.

Experts can help you evaluate new technologies and understand emerging opportunities, and may even be a source of innovation themselves. Experts can include university professors, engineers, or industry analysts. Making friends with these people usually means paying great compliments to their hard-won knowledge. If you'd spent your life trying to understand the complexity of optical division multiplexing (an important part of the fiber-optic communications business), wouldn't you be happy to have someone treat your insights as important?

Engineers may be your future employees. It's good to ingratiate yourself with them as you may someday be wooing them to work at one of your portfolio companies. Engineers are also a good source of practical understanding. The expert may know that a new technology is possible, but an engineer can tell you if the technology can be translated into a product. Many start-ups go under because they lack the ability to turn a product into something they can sell a thousand units of.

Entrepreneurs will pitch you their ideas. There's a funny psychology of formal pitches that puts an investor into the mind-set of saying "no." Informal pitches, by the beach or over a glass of beer, turn the adversarial tone of a formal meeting on its head. You're more likely to entertain an idea put forth by somebody you know and like than somebody that you may be meeting for the first time. Building friendships with entrepreneurs can also expose you to their ideas of what would make a good business. Often they have insights that others lack. If engineers can tell you how to turn a concept into a product, entrepreneurs will know how to make that product into something customers will want.

Over time, you may also want to cultivate connections to investment bankers, big company business development executives, other venture capitalists, and even journalists.

Establishing a Reputation

Junior investors try to make a reputation as deal-sourcing go-getters. After two years or so, an associate might expect to be promoted to venture partner. Venture partners are typically stuck sitting on corporate boards that nobody else wants—the real dogs.

This can be a big problem for emerging venture investors. A young investor can find himself putting out fires he didn't start. Eventually those companies fall off of people's résumés and out of people's minds. But at the time, it can distract from the business of finding new, more promising companies.

Worse, perhaps, when it comes to trying to establish a career, is finding a great company and then not getting any credit for your role in spotting it. Consider the case of a junior associate whose job it is to vet early stage investment opportunities for consideration by the firm. He works hard, networking with industry experts, calling customers, reading professional journals, and sifting through piles of potential deals to find just the right one.

And finally he finds a company that might be just right for his firm's investment focus and is poised to rapidly grow. His bosses at the firm are beside themselves with happiness and decide they want to invest $10 million in the start-up. But the senior partners want to negotiate the deal themselves. Then one of the partners will take a board seat at the start-up and shepherd it through its rapid growth phase.

On the web site, and to the outside world, the partner is given credit for the deal—even though it was the junior associate who did the work of finding and selecting it.

It may not seem like a big deal, but what happens if the investment is successful and the firm is able to take the start-up public or sell it for several hundred million dollars? The partner will get credit for supporting the start-up and that will attract the next round of entrepreneurs to seek him out as a potential funder. He'll be in the virtuous cycle where a perception of success creates more success. Few, if any, will remember the crucial role the junior associate played in finding and advocating the deal.

This type of credit claiming is not unusual in business. It is often the way things are supposed to work. Each firm keeps track of the junior executives it considers to be its hot prospects and always faces the choice of promoting them or losing them to another firm.

Not every firm gets it right. In fact, the problem of promoting promising young people to positions of power is one of the most pressing for venture firms. It's gotten so bad, in fact, that industry pundits have given the process a name: "succession planning."

Cultivating Skepticism

Silicon Valley suffers from a mass hysteria of optimism and it's easy to be infected whenever you hear about a new start-up's amazing technology and huge addressable market.

The sad truth is that most products never get off the ground. Most markets are captured by incumbents. Most of the time, things just don't work out, and it can be very painful to invest your heart in every company that comes along.

There's no formula for balancing skepticism with optimism when it comes to venture investing, but it's a daily necessity.

Learning Patience

Investors don't get instant gratification for their efforts. It takes years for companies to mature, launch products, sign customers, and make serious money. This is especially true for early stage investors who can expect a decade to pass before their companies fully grow up.

Beyond patience for results, young investors must also learn to be patient with the people they work with. Company founders make mistakes; they hide things from the board and can be difficult to work with as the going gets tough. These tempests are typically confined to their teapots and can blow over quickly, if an investor just waits it out and lets things happen. This is especially true when working with first-time founders or other junior executives. Tempers can be short when millions of dollars are on the line, but investors must learn to take the long view.

Junior venture capitalists must also have patience with their coworkers and senior partners. Gray-haired investors have been around the block and know which businesses work and which don't. Having the patience to listen to their concerns about a deal can pay dividends down the road.

Careers are not built overnight; no matter how smart you are, where you earned your MBA, or what success you've had in the past. Nobody goes from associate to managing director immediately. Your responsibility and earnings will grow with time, if you're patient.

Enjoying What You Do

This is something I have heard over and over from venture capitalists: If you're not enjoying your business, it's going to be hard to keep doing it. That doesn't mean you have to enjoy every part of what you do, or enjoy every day on the job.

Different people enjoy different things. Some investors love meeting entrepreneurs, others like deal-making negotiations and yet others enjoy nothing better than spending an evening reading technical journals. Find what makes you happy during the day and try to focus on doing more of that.

TIPS AND TECHNIQUES

Venture Capitalist Classification

How do you distinguish an experienced venture capitalist sitting on a big pile of investment funds from a junior associate? Here are useful questions to classify investors you meet:

How big is your current fund? This can have a lot of different meanings. Big funds are typically more successful than small ones, all other things being equal. Bigger funds typically mean bigger management fees for the partnership.

Following up is important on this question. You might ask what stage of investment the firm focuses on, because a firm that focuses on late stage investing may have a much larger fund than one that focuses on early stage investing.

Firms that employ more general partners have bigger funds. How much bigger? Well, balanced stage investors typically set aside $30 million to $50 million per partner for investing over three to five years. The calculus of how much each partner may be expected to invest is particular to each firm, and there are seldom formal rules put in place.

Tips and Techniques (continued)

What sectors and stages do you specialize in? Talking to a late stage information technology investor about early stage biotechnology is a little bit like talking to a Martian about the weather on Venus. The two investors focus on completely different things.

What is your position at the firm? Knowing what rank a person has at a firm can help you determine if they write checks to start-ups or support the people who do.

What companies are or were you directly involved with? Firms take generations to build up a track record. Once a strong investment history is in place, everyone at the firm memorizes the hits and will drop the names of success stories willy-nilly. A general partner will typically tell you which companies they are a director of. Expect an answer of ''I sit on the boards of X, Y, and Z.'' Associate-level investors may reel off a list of companies they did the legwork for. It's a good idea to follow up with a question about whether or not the person sits on company boards.

When was your last fund raised? This question is designed to give you a sense of how successful the firm is. The typical fund-raising cycle for a firm is every three to five years. Any firm that has not raised a fund in more than five years may be winding down.

Firm Structure and Organization

Venture firms organize themselves into two dominant structural partnerships: horizontal and vertical. Each has advantages and disadvantages. The way a firm is set up dictates how it does deals, how its partners are compensated and treated, and how the firm evolves.

Horizontal Partnerships

A horizontal firm treats every investor as equal. Imagine tenured professors at a faculty meeting, each with his or her particular specialty. Each partner has certain responsibilities when it comes to finding and evaluating investments, and each partner shares the returns when those investments pay off.

The most famous example of a horizontal firm is Benchmark Capital, a firm with a string of Internet investment hits, including eBay. When Benchmark formed its fund, it pulled together two sets of experienced venture investors and threw in an investment banking analyst and an executive headhunter. Each partner shares the proceeds of investing, called the *carry,* equally.

Author Randall Stross describes exactly how the partners did business at the time of the dot-com boom in his book *eBoys*. One of the partners would find a start-up to invest in and do an initial background check on the entrepreneurs, the market potential, and the technology. If the company seemed like a reasonable investment, the partner would bring it to the rest of the Benchmark team for a decision.

The Benchmark team would ask questions, grilling both the start-up's entrepreneur and the partner who was sponsoring the potential investment. Eventually, the partners would put it to a vote. A simple majority would approve the deal and put the sponsoring partner in charge of managing the relationship with the start-up. The gains from the investment would be split among the partners, so each partner has an incentive to pick winners and help make them successful.

Benchmark was not the first firm to establish a horizontal partnership. Many firms set themselves up similarly—it's a model that law firms, banks, and other enterprises frequently use.

Horizontal firms are incentivized to share information and decision making across the partnership. Such firms are built on collaboration instead of competition and can work well with the right people. It's particularly well suited to working with early stage companies that require a lot of hand holding and can benefit from the collective advice and wisdom of an entire partnership.

But there's a lot that can go wrong. There are five basic scenarios that can shake a horizontal partnership:

1. Great success
2. Great failure
3. Quick-changing market
4. An urge to invest in ever-larger deals
5. The passage of time

Good venture capital teams work together to make their best investors even better. Maybe investor X at the firm has a great relationship with the business development executive at a large corporation that investor Y is trying to sell his start-up to. Structuring a venture firm horizontally encourages this kind of teamwork among partners.

A bad baseball team has trouble fielding all-stars. When a player does prove to be good, he usually leaves for a better team and a bigger salary. Horizontally structured venture firms can have trouble keeping an investor who proves to be better than the rest of the general partners. What's the incentive to stay at a firm that redistributes a large portion of your investment proceeds to general partners who are not equally good?

The same question might apply to a different scenario. What happens when an investor is clearly not successful—investing in one dog of a company after another—and the rest of the partnership ends up paying for his yacht? It breeds resentment.

A partnership of equals cannot long stand when the partners no longer perceive themselves to be equal.

A rapidly changing market requires fast decision-making—something a horizontal partnership is not set up to do well. A strong leader can set strategy and change direction rapidly, but committees of equals generally can't.

The technology business is constantly changing. Sectors fall into favor seemingly overnight and can be out of vogue equally fast. Networking equipment was super hot in 2000, with start-ups collecting over $2.5 billion from venture capitalists, according to data from Thomson Reuters. By 2003, investment slackened to $101 million. Demand had been filled.

Moving out of the networking equipment business and into clean technology investing would have been a smart move by 2004. Not every firm is able to make such a sharp turn in direction, but firms with a strong centralized line of management are better equipped to do so.

This problem is acutely felt by horizontal firms set up to have a specific partner focused on a particular technology. A partner who spent his or her entire career working in the semiconductor business and has only invested in semiconductor-related start-ups may have a tough time adjusting to a market that no longer demands semiconductor innovations. A horizontal firm may not have the ability to either retire or repurpose its outdated partner.

Trouble with star partners, underperforming investors, and adapting to a rapidly changing market can affect any horizontal partnership at any time. But there are two major forces driving the venture capital business away from horizontal partnerships and toward vertical organizations: the demand for bigger venture capital funds and the maturation of the business.

Vertical Partnerships

The demand for venture capital, as an asset class, fluctuates with time. But limited partner demand to participate in the top funds stays insatiable. A good firm, which consistently provides returns in excess of 20 percent per year, will find itself able to raise hundreds of millions of dollars. Sometimes this is more than it can reasonably take. These high-performance firms will also see thousands of pitches from entrepreneurs each year—more than any small group could evaluate by itself.

A venture firm might find its sole limitation to be the number of hours its general partners can spend each day. To some extent, venture firms have solved this problem by focusing the time of their most experienced and successful partners on only those activities that require difficult decisions or careful negotiation.

They then hire a series of underlings to perform duties such as reading business plans, finding investment opportunities, and doing background checks on entrepreneurs. The junior staffers look for good investment targets. Middle-ranking employees evaluate those opportunities and the senior staffers make critical decisions about the investments and sit on the boards of directors.

Adding layers of support to a venture firm allows the partners to raise a bigger fund and invest in a greater number of start-ups. Bigger funds mean bigger management fees and more investments mean more chances at bat to swing for the fences. Limited partners, who are all too anxious to get a chance to invest in a top-performing fund, write bigger checks.

Sequoia Capital went to a vertical structure faster than most. Between 2006 and 2009, it hired 10 new junior investors to supplement its staff of 15 experienced partners. That was just for its U.S. investing practice. Its China, India, and Israel operations picked up even more junior staff to lighten the load for senior partners.

The new, junior employees primarily focused on Sequoia's "growth" stage investment team and its public market investment group. Each operational group was founded to invest an ever-larger sum on behalf of the successful early stage firm. The firm raised an $861-million growth fund to do both public company investments and large, late stage private investments in 2006 to supplement its $445 million early stage fund. It increased its growth operations again in 2008, raising a $929.5 million fund. These bigger funds came with big fees for managing them.

This type of progression is natural in almost any industry as the people who start a business move into higher management roles. Still, venture capital firms have been reticent to move toward a vertical organization structure for a number of reasons.

The first is that those in control are unwilling or unable to cede power to the next generation. There are substantial incentives for a senior partner to continue reaping the rewards of successful brand building well beyond the age of retirement. Succession planning is one of the most difficult problems a firm can face.

The second is a vertical structure decreases transparency. Who is responsible for arranging a successful investment? Is it the analyst that finds the deal, the vice president who vets it, or the partner who approves it? Transparency is important to limited partner investors. They need assurance that whomever they're committing money to is the person that will be able to find and finance promising entrepreneurs in the future.

The third problem is logistical. It is difficult to establish a career path for next generation venture capitalists. Some firms never get it right, holding promising candidates down, keeping them out of profit sharing, and milking them for years. Eventually those junior investors pull the ripcord and escape to higher-paying positions.

Planning for the Future

Venture firms are a lot like small, family-owned businesses. In both there's a core group of founders with a significant interest in seeing the business thrive. These founders do well, get rich, and see their wealth multiplied. They build good reputations and good people want to work with them. But the founders get old, tired, and may even become complacent as their hunger to succeed is sated.

As a company or firm gets further away from its founders, its chances of failing increase. Only 30 percent of family-run businesses succeed into the second generation, according to government studies. That number falls to 15 percent by the third generation, according to data from the U.S. Small Business Administration.

The story in family-owned businesses is familiar: Senior works hard to build the brand and give his family a luxurious lifestyle. Work is anathema to Junior, who'd rather party on the yacht than roll up his sleeves and get to work. The business slows and eventually fails.

Phasing a successful executive out and a younger executive in can be difficult. It's like giving your teenager the keys to the Porsche and closing your eyes as he roars out of the driveway.

At least when there is a family member involved there is some incentive to shepherd this person into a position of power and prominence. But because venture capital firms are partnerships, rather than hierarchical corporations, an established investor cannot automatically pass his stake in the partnership to a son or daughter. Plenty of sons (and at least one daughter) have gone on to be venture capitalists like their fathers—but usually at different firms.

Without that incentive to pass on an inheritance of control to a direct, biological heir, senior partners have an incentive to stay in their lucrative positions as long as possible. In fact, many do.

In larger, non–family controlled corporations, a company's board of directors may step in to put a cap on excessive tenures by key executives. It's not unusual to see a mandated retirement age for CEOs at large public companies.

But venture firms don't have a board of directors that can intervene. Instead, senior partners stay involved, which may mean picking up the lion's share of any financial return from deals done by the junior investors.

That's the most common complaint among junior investors and one that typically leads to the greatest friction between generations.

The most famously flubbed succession planning happened in 1999 when six junior investors left storied venture firms Brentwood Venture Capital and Institutional Venture Partners (IVP) to found tech-focused Redpoint Ventures.

The move was something you might have only seen during the dot-com boom. When else would six headstrong investors issue a press release saying they'd quit their jobs to launch a fund with a code name? The investors—Jeff Brody, Tom Dyal, Tim Haley, Brad Jones, John Walecka, and Geoff Yang—quit their jobs in August and closed their first fund in November 1999 at $600 million.

The junior partners that founded Redpoint could quickly reap all the rewards of their investing efforts instead of waiting in line to pick up a smaller piece of the carried interest left over after the senior partners of Brentwood and IVP had taken their share.

Successful succession planning requires certain key factors not found at every firm.

The first requirement is a strong, centralized power structure capable of driving change without total consensus. Usually this takes the form of a single managing director or firm founder. Just as firms with a vertical structure are better suited to adapt to external change, they are also more capable of driving internal changes. The best example is perhaps Sequoia Capital's Don Valentine, who founded the firm in 1972 and gradually transferred control to Michael Moritz. Valentine stays on as an advisor, but Moritz leads the firm's meetings and accepts more of the firm's investing returns than any other partner, sources say.

The second requirement is a desire to build a lasting brand. Some investors want to create a firm that people will continue to talk about decades later. When it was popular for founders to lend their own names to their firms, Valentine picked Sequoia Capital specifically so the firm could survive beyond its founder.

Steve Woodsum followed suit in 1984, naming his private equity fund Summit Partners for the same reason.[2] Beyond the branding, Woodsum knew he needed opportunities for his junior investors to grow and eventually take control of the firm. In 2000, Woodsum and his other cofounders handed Summit's management over to the junior executives they'd been mentoring for several years. It was a complete handoff and both the old partners and the new management had to make that clear to their limited partners.

The third requirement is the most likely to be overlooked, but may be just as important as the first two. Junior partners should be able to see a path of progression and career advancement. This can take several forms. Draper Fisher Jurvetson, for example, promoted one of its junior investors exactly one year after hiring him. It sent a clear signal that the firm wanted him to advance and showed other new employees what to expect.

Every firm benefits from having several investors who have progressed through its ranks to act as a beacon to other, more junior investors. Most firms express an either tacit or explicit set of steps that must be completed before an analyst can become an associate or before an associate can become a venture partner.

One of the best ways to structurally ensure that succession happens in a regular and programmatic fashion is to put promotions and pay increases in step with fundraising. Investor compensation is typically determined by agreement between the general partners and limited partners at the outset of a fund. Some firms will wait to split up the fees and carried interest for the end of each year or at the end of a fund's life cycle.

Firms such as Advanced Technology Ventures have migrated to shorter, three-year fund cycles instead of five- or six-year fundraising cycles specifically to ensure that their younger investors will get a shot at the carry sooner. One venture capitalist at an "evergreen" fund that invests the family fortune of a particularly rich Canadian, lamented his firm's lack of fundraising cycle, saying that all his buddies at other firms got promotions each time they raised a new fund.

Summary

Although there is no certain path to a career in venture capital, there are several jobs that funnel professionals into venture capital positions. If you look at the background of successful venture investors, you'll see that they were previously entrepreneurs, technical experts, or banking and consulting executives. There are plenty of notable exceptions to this rule however.

Many venture capital firms have ranks that differentiate duties and compensation. The ranks from lowest to highest are:

- Analyst
- Associate
- Senior Associate

- Vice President
- Principal
- Venture Partner
- Partner
- Managing General Partner

Once you get a venture capital job, you should pick mentors, build connections, establish a reputation, cultivate skepticism, learn patience, and enjoy what you do.

Determining what responsibilities and power an investor has is a simple matter of asking questions about his or her fund size, specialization, position, involvement with key companies, and the freshness of his or her fund.

There are two major types of firm organizational structures: horizontal firms and vertical firms. Partners at horizontal firms share the rewards of investment and treat each other as equals but can be slow to react to market change. Partners at vertical firms recognize a hierarchy of prestige and compensation and may quickly adapt to a changing investment environment, but can be easily dominated by an overbearing manager. Firms that start off horizontal may migrate to vertical structures over time to better leverage the experience and time of senior partners.

Planning the future of a firm isn't easy. Many firms do not outlive their founders. Building a lasting brand means consolidating power into the hands of a competent decision maker, committing to permanence even if it takes money away from the firm's founders, and laying out a path for junior investors to take over.

Notes

1. The 2008 Private Equity Compensation Report by Thomson Financial and Glocap Search.
2. "The Next Generation," Thomson Reuters's *Venture Capital Journal*, June 1, 2002, http://bit.ly/c4lvNi.