

Talent Retention Key, Longtime VCs Say

Infusions of energy and succession plans are touted as keys to firm longevity by heavyweight VCs.

By Zoran Basich

Venture capital firms that have lasted for decades in an industry not known for longevity say a key factor in building a long-term business is to nurture young venture professionals - and eventually make room for them at the top of the firm.

But that's easier said than done, given the compensation challenges for younger investors and the presence of senior investors sometimes presenting a roadblock, said panelists at the Dow Jones Private Equity Analyst Conference in New York on Tuesday.

"You can spot in the younger guys, who the leaders will be," said Todd Chaffee, general partner of Institutional Venture Partners. "You want to bring them into a bigger role."

Institutional Venture Partners, a later-stage technology investor, was founded in 1980 and is investing out of a \$600 million twelfth fund raised last year. The firm has five general partners, including Chaffee, and six investment professionals, two of whom were added last month.

Inevitably, panelists said, younger investors may decide to move on if opportunities to advance to the top levels of a firm are blocked.

"If you hire really good people, that's always a risk," said Martin Sutter, founding managing director of Essex Woodlands Health Ventures, which has secured about \$900 million toward its eighth fund. The firm was founded in 1985 and has 25 investment professionals, Sutter said.

Losing a good member of the team becomes even more of a risk when compensation becomes a factor, as declining exit trends have pinched the pocketbook for junior investors looking to make their mark.

"The carry has not been very lucrative lately," said Terry McGuire, managing general partner of Polaris Venture Partners, referring to the compensation plan for VC professionals that is contingent on strong returns. "We have some young guys in the business that have not enjoyed the carry that some of us who founded the firms enjoy."

Polaris was founded in 1996 and closed a \$1 billion fifth fund in 2006. The firm has nearly 30 investment professionals, including five associates and three principals.

McGuire said the compensation issue was worth watching for its possible impact on talent retention but had not yet become a major problem.

"It's a cause for concern, but not enough that would cause someone to go to a hedge fund," McGuire said.

For firms that have been around a decade or more, one of the challenges is to not only smoothly integrate young talent, but in some

cases to find a graceful exit for a partner who has been with the firm for years.

"One of the attributes of leadership is succession planning. Part of that is sharing in the decision-making, not dominating decisions. You've got to encourage that," said Sutter of Essex Woodlands.

Managing a personnel shift - and creating a structure that allows such shifts to happen more organically - is a challenge for a firm's partners, said Chaffee of IVP.

"It's important to set up a structure in which incentives are aligned, to create a dynamic within a partnership where everyone's working together and trying to contribute," Chaffee said. "As people get a little older, they see the energy and talent of the young guys and decide to step back, [because] they can make money that way."

Ray Rothrock, managing general partner of Venrock, says that in identifying young talent, passion to work with entrepreneurs and fulfill a company's potential is key.

"We're looking for people who want to build something - not just buy low and sell high, but build something," said Rothrock, whose firm closed a \$600 million fund last year, its tenth. The firm was formed in 1969 by members of the Rockefeller family.

Ultimately, Chaffee said, the best scenario to ensure longevity for a venture firm is a healthy mix in which younger professionals are valued and veteran investors are guiding forces. "It's important to have a mix of the energy and hustle of the younger guys and the experience of the older guys," he said.