

The New York Times® Reprints

This copy is for your personal, noncommercial use only. You can order presentation-ready copies for distribution to your colleagues, clients or customers [here](#) or use the "Reprints" tool that appears next to any article. Visit [www.nytreprints.com](http://www.nytreprints.com) for samples and additional information. [Order a reprint of this article now.](#)



November 16, 2011

# Entrepreneurs Looking For Capital Investment Seek Kindred Spirits

By PAMELA RYCKMAN

On the last day of the fourth quarter in 2008, BC Krishna was trying to clinch a deal with a large, name-brand company. The transaction would have put his small start-up, Memento, a fraud-detection company, on the map. When the deal fell through, Mr. Krishna worried about how his venture capitalist investors would react — especially because it meant that Memento was going to fall short of its performance targets.

But Mr. Krishna found the guidance of one of his investors, Maria Cirino, invaluable largely because, he said, she had been an entrepreneur herself. Ms. Cirino is a co-founder of [.406 Ventures](#), a [venture capital](#) firm in Boston, but before that she spent 20 years building technology businesses.

“Maria had run a sales cycle before and knew it was complex,” Mr. Krishna said. “She had dealt with the angst of not bringing in that crucial deal, so she provided empathy and an ability to push forward. Every company goes through challenges, and the question is, How do people around the table react when that challenge comes upon us? Who’s there for you? Former entrepreneurs are the most understanding, though not necessarily the most lenient.”

Only a minority of small-business owners seek venture capital, but for those who do, it can feel like a deal with the devil. Venture-backed companies are expected to grow quickly, and their boards can impose rigorous controls, audits and metrics. A founder who takes venture capital gets the opportunity to grow but also risks losing control of the company.

One way entrepreneurs mitigate the tension in the relationship with investors is to work with venture capitalists who may have more patience during the company-building process because they have been through it themselves.

Such entrepreneurs-turned-investors have become more common recently, even as the venture capital industry contracts after years of lackluster returns. Some insiders see this as the industry

righting itself after a bubble, saying venture capital has gone back to its roots now that many M.B.A.'s lured by giant paychecks have left the field. They say they believe that venture capital is once again attracting the right mix of former founders and operators who are truly passionate about nurturing companies and who have hard-won insights that can help founders succeed.

“It’s back to the future,” said Kate Mitchell, a managing director at [Scale Venture Partners](#) and former chairwoman of the [National Venture Capital Association](#). “Silicon Valley was founded by a balance of entrepreneurs and finance types. The bubble brought a huge influx of people, but the tourists have gone home and the ratio is back to normal. A lot of the new venture firms are led by former entrepreneurs.”

Some business owners say entrepreneurs-turned-VC’s are more supportive, particularly in times of trouble or when dealing with thorny issues. Mr. Krishna, a serial entrepreneur who is now president and chief executive of [MineralTree](#), an accounts-payable security provider for small businesses that is also backed by Ms. Cirino’s .406 Ventures, recalls a time when one of his male employees was insensitive to a working mother. This human resources conundrum was not a board-level issue, but if left unchecked it could have become one.

“If I take these situations to my board members, are they going to say, ‘This person is an idiot,’ or be glad I’m opening up to them?” said Mr. Krishna, who again sought advice from Ms. Cirino. “Sometimes you need to wear your angst and emotions on your sleeve. Certain VC’s might see that as a sign of weakness, but I know Maria’s experience is so deep in these areas.”

For many venture capitalists, replacing founders with professional management, or at least providing adult supervision, is part of a well-established strategy to increase the value of companies in their portfolios. It is not always a last resort; sometimes it is just a question of when. “You don’t want someone who’s constantly thinking, ‘Should I fire this C.E.O.?’ ” Ms. Cirino said. “Unfortunately that’s the relationship the majority of entrepreneurs have with their VC’s. Some of that is the entrepreneur’s fault, if the entrepreneur never allows the VC to gain important insight into the business.”

Scott Friend, who is now a managing director at [Bain Capital Ventures](#), said his history as an entrepreneur informed the way he navigated the more difficult aspects of the relationship between founder and investor, such as structuring employment agreements.

“Everyone wants the same thing, a successful company,” said Mr. Friend, who sold his venture-backed company, ProfitLogic, a retail analytics consulting firm, to Oracle in 2005 for \$250

million and became a venture capitalist a year later. “But when it gets down to the nuts-and-bolts specifics — like under what circumstances founders can be removed from their position, what happens to their ownership stake, do they retain a board seat — it’s emotional. It forces you to think through a lot of negative scenarios.”

As a result, Mr. Friend said, he often finds himself mediating between his portfolio companies’ chief executives and other investors.

Additionally, some owners say entrepreneur-investors anticipate the needs of their growing businesses, putting in place infrastructure to help start-ups grow. Aaron Levie, chief executive of [Box.net](#), a cloud content management platform, said the entrepreneur-investors at [Andreesen Horowitz](#) have resources ready when portfolio companies reach each new stage.

Mr. Levie, for example, can use the investing firm’s internal public relations and marketing experts, and when he has new jobs to fill, he consults a “talent group” that has a database of contacts to consider.

There are, however, some pitfalls to working with entrepreneurs-turned-investors. For one, they sometimes have trouble ceding control. Successful founders are used to running the show and, as venture capitalists, they can be intrusive and overbearing. “When you’re an entrepreneur, you’re a player on the field, moving the ball,” Ms. Mitchell said. “You can directly affect the outcome. As a VC, you’re a coach. You have a front row seat, but you’re not on the field. That can be frustrating.”

Former entrepreneurs may also run a greater risk of falling in love with a company and missing a strategic opportunity to sell. “They might hold it too long — thinking, ‘If we grab one more customer or do one more acquisition...,’ ” said Kelly M. Williams, a managing director who leads a group at [Credit Suisse](#) that invests in venture capital funds. “There were plenty of companies that got stranded in the 2000 bubble, companies that turned down offers because they and their VC’s thought they could get more if they held out another year.”

In the end, business owners, venture capitalists and limited partners all counsel entrepreneurs not to jump at any offer of capital. They say what matters most between a founder and investor is chemistry, transparency and trust.

“Even though entrepreneurs think they’re selling all the time, the reality is it’s a dating process,” Mr. Friend said. “And they should be careful about the partner they pick.”

