ProFile

Rock on

Bob Pavey is Chairman of the Management Committee of Morgenthaler Ventures, a venture capital and private equity firm founded in 1968 and headquartered in both Ohio and California. With volume off significantly in many segments of the private capital industry, we felt it was a good time to visit with a manager to gain a sense of how he feels about the market.

Bob Pavey of Morgenthaler Ventures

Q What distinguishes Morgenthaler Ventures?

We continue to think that the entrepreneurs are the rock stars, not the venture capitalists. That means we win only if our companies are very successful.

Q One of the characteristics of Morgenthaler Ventures is that, while it has missed some of the highs, it has also avoided most of the lows. How have you done this?

Our firm's early learning from Dave Morgenthaler, our founder, was that the key to success is to make a number of good investments and not be too worried about missing the next spectacular win. Many of the companies that come into our shop have the potential to become spectacular winners. But we have to feel free to walk away from them if they don't fit into our culture and if they aren't the type of people we think we can work with.

Q What are the cultural red flags that you see from otherwise potentially successful entrepreneurs that make you want to walk away?

The entrepreneur who has a "fabulous" vision in his own mind, but who is unwilling to partner with investors. He or she has to be smart enough to recognize that we don't want to run the company, but we really do want to have a significant say at the board level.

Q Morgenthaler is unusual because of its balance: not only stage-independent information technology companies, but also life science investing and middle market buyouts. Why cast such a wide net?

Our approach is based on the fundamental idea that we'll never be as good as the entrepreneurs at picking the best opportunities. That means that we're not always going to be able to find them at the early stages or in one general industry.

Q What is the importance of investing in down cycles?

It's the same reason that every reader of this publication knows: that you have to practice an effective asset allocation policy. You don't want to get whipsawed by the emotionalism of investing, which is putting all your money in at the top of markets when it looks easy and not investing at the bottom when it looks hard.

Q What are some of the Morgenthaler policies in place to make sure that the firm doesn't become a dysfunctional family?

The important thing is to never get into the rock star mode, in which one person believes he's carrying the firm. We all have cycles where we look as if we're smarter than we are and, maybe, cycles where we don't look as good as we are. But we don't divide the gains up in a fund based on individual performance in that fund. So no one has an incentive to grab more money than he can put to work intelligently.

Both venture capital investing and company-building are about people. We don't want to work with people who aren't really smart. So, we're going to work with really smart people, and that means that frequently they will have strong opinions. The key to working with people who are smart is to make sure they're the kind of people you want to be around and genuinely like so that you can put up with, respect and even want differences of opinion. That's one of our rules inside the firm but also for the people we back. ■

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