June 1, 2008

OFF THE SHELF

Venture Capital, Before High Tech

By STEPHEN KOTKIN

THE United States military — credited with spawning the Internet — also helped in the genesis of venture capital. So reveals Spencer E. Ante in “Creative Capital” (Harvard Business School Press, $35), a sometimes slow but ultimately satisfying biography of Georges F. Doriot, the transplanted Frenchman who is often called the father of V.C.

Silicon Valley was decades in the future when, as Mr. Ante writes, “Doriot learned how to become a venture capitalist” during World War II. Mr. Ante, an editor at BusinessWeek, explores the Army-business connections, a remarkable trans-Atlantic extended family of colleagues, the rise of high technology and a love story.

Doriot was born in 1899 in Paris, the son of a schoolteacher and a Peugeot engineer who started, and lost, a car business. It was the machine age, and in 1921 the young Doriot crossed the ocean to America, intending to enroll at M.I.T. He carried a letter of introduction obtained by his father to one Abbott Lowell. But Mr. Lowell, Doriot discovered, turned out to be the president of Harvard, who talked him into matriculating at Harvard Business School.

After a brief stint on Wall Street, Doriot returned to Harvard Business School as an administrator, but was needed more on the faculty. In 1929, at the age of 30, he was promoted to full professor. During the Depression, he moonlighted as a board member or executive at some 30 companies, acquiring a wealth of connections and practical experience. The world war proved to be an even bigger break.

Doriot, a United States Army reserve officer who rose to brigadier general, was appointed an administrator-entrepreneur on the home front, responsible for equipping, clothing and feeding millions of soldiers overseas. He and his staff, including many of his students from Harvard, funded research into innovative solutions. A lightweight plastic flak jacket (the Doron) saved thousands of lives. And even some failures had their upsides. Grunts found their powdered lemonade “useful as stove cleaner or hair rinse.”

Venture capital, of course, existed informally for centuries, even before the Spanish monarchy bankrolled Christopher Columbus’s quest for India and his discovery, instead, of America. But in 1946, fresh from his wartime research-and-development exploits, Doriot was tapped by the New England establishment to head the American Research and Development Corporation, based in Boston, which systematically solicited and studied business proposals seeking funds.
Back then, American banks were conservative in their lending, and “risk capital” for high-failure-rate start-ups came mostly from families like the Rockefellers, who were hard to reach with a pitch. A.R.D. was a mission as much as a business, intent on widening access to finance and proving a point against those whom Doriot deemed to be mere financiers. “I am building men and companies,” Doriot, known as the General, would say.

He had an impatient streak. He would bar his classroom door to anyone who was late, and he kept a stopwatch on his venture-capital desk. “Sometimes I use it,” he said, “to see how long it takes someone in a meeting to tell me the same thing three times.”

But his genius was to coax investors to wait through years of uncertainty as he helped to nurture companies, which one day might or might not provide a big payoff in initial public offerings. Tenacity also enabled him to found Insead, perhaps Europe’s premier business school.

Although A.R.D. would never fund more than one of every 25 proposals in any given year, it would support more than 100 start-ups. Its portfolio included atom smashers, medical devices, and George H. W. Bush’s first company, Zapata Off-Shore, an oil rig manufacturer. A Fiji tuna fishing venture died out. But a 1957 investment of $70,000 in the Digital Equipment Corporation, a transistor-based computer company, would ultimately yield several hundred million dollars.

Mr. Ante has worked through the archives — including the research notes from a never-completed book on Doriot by the late Ralph Soda — and spoke with legions of people whom Doriot influenced in his work. The plentiful testimonials illuminate A.R.D.’s winning combination of scientific ability (M.I.T.), managerial talent (Harvard Business School) and adroit impresario (Doriot). California’s venture capitalists, some of them former students of Doriot, would reinvent this formula around Stanford, as outlined in Mr. Ante’s worshipful chapter, called “How the West Won.”

In 1959, the general was compelled to retire from the Army Reserve, and in 1966 from Harvard, but he hung on at A.R.D., vainly battling the Securities and Exchange Commission over restrictions on granting stock options to his employees. A.R.D. had opted to incorporate as a public company, rather than to form a private partnership, and the top ranks kept departing to run their own, competing businesses.

In 1972, the A.R.D. board, bereft of a successor C.E.O. and in a regulatory bind, let the company fall to the conglomerate Textron. The takeover, Mr. Ante writes, proved a mess. A.R.D. would finally go private, but 20 years too late, and miss the boat on the microchip and biotechnology.

The book’s matter-of-fact storytelling is not always as superb as the story, but as the book advances it gathers poignancy. Doriot had won the hand of his Harvard-assigned research assistant, Edna Blanche Allen, a brainy beauty. Their 48-year marriage was childless; Harvard men were surrogate sons. Edna had a dream house built for the couple on the Massachusetts shore, then died of lymphoma; her ashes were scattered into the ocean. Doriot kept writing her love poems. Nine years later, in 1987, the pipe-smoking general succumbed to lung cancer. His ashes were cast from the same spot into the Atlantic.
DORIOT’S charismatic, French-accented lectures at Harvard over 40 years inspired multiple generations of leaders with firsthand stories and pithy sayings — for example, “Someone somewhere is making a product that will make your product obsolete.” His cause, venture, became ubiquitous, even in philanthropy.

Mr. Ante concludes that the general opened the doors of finance to entrepreneurs, and that he anticipated Peter Drucker, the management guru. The American military — whose pressing wartime needs and ample budget had led to science-based V.C. — awarded Doriot the Distinguished Service Medal.