



The Weekly Read

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Charley Polachi, Executive Recruiter

By Todd Rose

We interviewed [Charley Polachi](#), Founder and Managing Partner of [Polachi & Company](#) a Sherborn, MA-based executive search firm focused on the venture capital, private equity and technology markets. Read on to find out why Charley says that for the venture firms that hire him, “there is a list of schools, in some cases several graduate and undergraduate, and if you didn’t go to both of those, you probably don’t need to apply.” And why GPs often ask him in the eleventh hour of hiring a new Partner: “Well what do you think Greylock will think if we hire this guy?”

General Partner Searches for VCs

***Seed Capital Partners:* A lot of people would argue that the notion of outsourcing partner level searches for a VC firm is fundamentally counterintuitive. For one, personal chemistry, trust, and accountability are all fundamental ingredients in a partnership. Moreover, VCs by nature are networked individuals. What is it, then, that you provide for VC firms that they can’t do on their own?**

Charley Polachi: Prospects and focus. Venture guys do deals, but they don’t do staff. They are inherently networked and they do much of the staffing for their portfolio companies, but the fact remains that the glory of the business is not about having great partners or a great CEO; it’s about doing a fabulous deal. We can put structure around the recruiting process. Recruiting a general partner for an existing partnership is like finding one spouse for seven or eight people. Imagine trying to get eight people to agree on whom they want to live with for the rest of their life. Second, we can handle all the approaching and rejecting, and both parties can hold up their heads and be dignified regardless of the outcome. We also track the industry more than the industry tracks itself.

Given that personal chemistry and fit is such a requirement, how do you go about evaluating the chemistry between a partnership and a potential GP?

I can tell you that you can probably hire two CEOs for portfolio companies faster than you can hire a general partner for a VC firm. Depending on the size of the partnership, it can take many, many months to get somebody hired. What happens is that everybody wants the rock star that they don't know. By definition, if you are a rock star in this industry, everybody knows you. Anyone you can get you don't want, and anybody you can't get you want. So, they want us to go find us someone terrific whom they don't know about.

Generally, there are five key criteria VCs use when they go to hire: **pedigree, fit, experience, peer review, and familiarity.**

Pedigree is very specific firm by firm. There is a list of schools, in some cases several graduate and undergraduate, and if you didn't go to both of those, you probably don't need to apply.

Why do venture firms care so much about pedigree? Doesn't that seem kind of myopic?

Yes. But regardless, there are five data points that we have discovered and pedigree seems to be one of them. You don't see too many guys from state colleges in the venture business. It goes back to the legacy of how VCs got hired themselves, when they were picked out of Harvard Business School.

Fit is the intangible dynamic of five meetings, three dinners, and a few bottles of wine. We may get a phone call the next morning saying, "This guy is absolutely awesome. He fits." And I will ask, "Well, tell me more." And the partners can't. They just say he fits. But if he doesn't fit, they can take half an hour trashing him for the wrong socks. They can go on and on about non-fit, but when I ask what constitutes fit, they can't articulate it.

With respect to **experience**, the assessment is made on the least amount of information available as to whether or not you have been successful. You're a hero or a zero based on guilt or glory by association. I can put 50 names on a whiteboard and sit down with four partners and I'm lucky if I have five names left, because everybody has an opinion and they can shred everyone based on what they know from the public domain.

Peer review is confronting this question in the eleventh hour of the search when you're about to make an offer. The managing general partner leans over and says, "Well what do you think Greylock will think if we hire this guy?" It's very similar to evaluating a deal that you really like. If, in the process, you find out that Highland, Matrix and Greylock all passed on it, you think to yourself, "They are smarter than I am, maybe I will pass." Same thing happens in the hiring process. Their question is: "Is this guy going to help us to be perceived as a top-tier fund, or is hiring him going to push us down to a second-tier fund?"

The fifth point is **familiarity**. Many times, one of the general partners throws a name on the table at the eleventh hour and it turns out to be the name of a roommate from business school. Often, they wanted to hire this guy all along but couldn't do it because it would be hard to sell to the partnership. So instead they propose the guy at the end of an exhaustive search, after evaluating 15 or 20 others, and settle on him because they know him. They are trying to minimize the risks. They will opt for someone who has lived with them; they will opt for someone they have backed twice.

When you mentioned guilt by association, that implies that folks who might have had an instrumental role in building a company or developing a novel product lose points on experience if the company ultimately went sour?

That's right. Or they could have been in the room when the Akamai deal was inked, and they're suddenly invincible. As I said, you are deemed to be a hero or a zero based upon the least amount of information available.

Can you give a rough estimate of how many GPs are out there in the Boston area looking for new gigs and how many slots there are available?

Nobody's actively looking so I can't gauge that for you, but I would guess right now there are probably five or six ongoing searches. We placed six partners in the last 12 months, which is unprecedented. Typically, I will place one per year and two in a great year. Clearly, there's something interesting going on in the market right now.

Salary and carry got a bit out of hand in the late '90s. What changes have you witnessed over the past couple of years in terms of what new GPs are willing to accept in terms of compensation in joining a partnership?

It depends upon whether you are talking about someone who is coming into the industry with no prior investing experience, typically an operating partner, versus somebody who's been doing this for 12 years, has been in three funds and has a very significant track record.

On the low end, we are seeing salaries anywhere from \$250,000 to \$400,000. On the high end, salaries range anywhere from \$500,000 to \$800,000. It's certainly also a function of the size of the fund. If you've got a small \$70 million fund, there is no way the partnership can afford to bring somebody in at an \$800,000 salary. On the other hand, there are guys in this marketplace who are taking in a million or two in management fees alone.

The worst example of excess I have witnessed was when I interviewed a 31-year-old venture professional in San Francisco. When we got to talking about compensation, he told me he made one million a year, \$250,000 in base salary and an excess management fee of \$750,000. I asked, "Why are you taking an excess management fee in distribution?" "Well," he answered, "it's in the contract. I'm allowed to do that." And I responded, "But you guys didn't invest anything last year and you are not likely to return

a dollar to any of your LPs in the near future. Aren't you worried about clawbacks and people looking at this when you go to raise your next fund?" His attitude was, we will deal with that when we get there.

This sounds very similar to what we saw in the late '90s and before. Is it accurate to say, then, that the terms really aren't changing and that venture firms are just deferring inevitable changes until the proverbial st hits the fan?**

Yes. As a friend of mine said, "VCs are waiting until the food fight is over." The difference is the carry is being distributed on a \$300 million fund versus a \$1 billion fund. Twenty points of carry on a \$300 million fund is substantially different than twenty points on a billion-dollar fund.

How do you think VCs that you've worked with fare in terms of putting teams together for the companies they back? Do they consider all the relevant important factors in recruiting management teams?

It's all over the map in terms of success. I have seen A teams get a B plan, and hit home runs and C teams get A plans and screw them up. Some of it is about luck and timing. Don't get me wrong; these guys work hard. It's a tough industry when times are good, and it's really tough when times are bad. It's more of a young person's industry every year I look at it.

Speaking of which, who, in your opinion, is doing succession planning well?

I think certainly Highland Capital. It seems to be something that these guys have been thinking about for a while. I think Summit Partners did an excellent job in transitioning to the next generation. I think Venrock, historically, has done a good job. It's a firm that has been around for a long time. I'm sure there are other funds that have done it, but in a quiet fashion.

In your opinion, is now a good time to start a new fund?

It's actually a great time to start a new fund if you have a great track record. What better time to be investing? Valuations are way down, and entrepreneurs are much more reasonable in terms of their expectations and compensation. There are a lot of foot soldiers available, here and off-shore. And real estate is almost free. I think 2003 and 2004 is going to be a time when great investments are made; and in five years you are going to see phenomenal returns.

For some of those funds in the midst of succession planning, do you see a risk of them losing their young stars who are bringing in deal flow, but who may not be seeing enough of the carry? Do you see a trend toward folks leaving and starting their own spin outs in the current economy?

Yes, and that is a problem for this industry, whether times are good or bad. I certainly know from my conversations that there are a number of folks who feel like they are carrying the fund and not getting compensated adequately. On the flip side, the older guys are saying, "Sure, but I built the platform. You wouldn't have had a chance to make these investments if I had not been doing this for last 10 to 20 years." That is an age-old conflict that you are going to find in any professional services firm. Nobody has figured that out. If I had a solution, I would probably go out and sell it. It will always be a problem unless a firm becomes institutionalized like Bain or McKinsey, where the economics are good but not outrageous.

Do you anticipate ever seeing that sort of institutionalization in the venture industry?

No, the venture industry is too local. There will be some large multi-office firms, but the small office operations investing within an hour of headquarters will remain the norm.

Executive Searches

What has the down market done to the demand for executive search services?

I think the combination of the down market and the advent of the Internet has definitely had an impact on search and recruiting staff. Akamai had its VP of Marketing job posted on Monster.com. Historically, that would have been something that a search firm would have been given.

The down economy has put a lot of good, talented people on the street. So if I were the head of human resources at any company, the first thing I'd look at is who's available.

Because of the growth of the various search engines and Internet job matching services, search firms have had to adjust and realize that we have to provide a different level of service. We've got to be more responsive. It's safe to say that you won't see any CEO positions or board members filled on the Internet, nor any general partners in VC firms. You will increasingly see VPs of finance, marketing, and engineering filled by walk-in traffic and Internet search engines. But at the end of the day, when you are hiring a CEO, it's just like hiring a GP.

How does the criteria differ in a CEO than in one for a GP?

Sometimes it's different; sometimes it's very similar. Assuming you are talking about CEOs for a venture firm's portfolio company, you are typically recruiting an executive to deal with one or more of three issues. The first is difficulty in scaling up from a management perspective. The second is increasing access to a particular customer sector. A firm might have a great product but doesn't have anyone with a Rolodex in the defense industry, for example. The third issue is window dressing: prepping a company for a sale and exit.

When you are hiring CEOs for a portfolio company, to what extent do clients dictate what they want in a candidate versus deferring to your judgment?

Typically, search committees that I have dealt with are composed of a founder or two and several of the outside investors. I usually hope to contribute to the process as an equal member, but I'm usually not in on the final decision. Again, my job is to provide options, to provide experience. At the end of the day, I'm not part of the voting when it comes down to selecting a candidate. I've probably interviewed 25,000 people over the course of my career. I doubt too many venture guys have done that. I can offer an awful lot of value in terms of evaluating people with respect to motivation, management style, interpersonal skills and development needs.

On the one hand, there are a lot more qualified candidates looking for jobs in the current market than 3 or 4 years ago, so talent is readily available. On the flip side, the security of executive jobs at blue chip technology firms looks increasingly appealing to some of these really talented folks. So with this trade off, the availability of talent vs. the security of existing positions, has your job gotten easier or harder in the down economy?

I would argue that the security is not as great as it looks. Any large company can lay people off. IBM announced recently that they are going to move up to 4,000 jobs to China and India over the next two years. So there is a company with almost \$90 billion in revenues and no guarantee of employment because circumstances change.

I look primarily for the potential for a good fit. There are some great people that just will not fit in early-stage companies. Generally, we advise clients to be cautious and to get someone who is once removed from the big companies.

Personal Experience

I'm sure along the way you have had a placement or two go sour. Can you walk us through one of those instances? What happened and how did that experience affect your subsequent searches?

When a search doesn't work out, it is typically due to a lack of crisp understanding of expectations over the first six months to a year. What were the goals? Did the hiring manager articulate them clearly? Did the recruit know how he or she was going to be measured? Clients frequently assume the person hired must know the job, when, in fact, even executives need to be oriented and focused. Sometimes it's chemistry issues, where company leaders just can't get along. Or sometimes the whole company mission changes and the company has to redirect itself toward a new market opportunity where the original person hired was not particularly strong.

Are you ever treated as the scapegoat?

Oh absolutely. It's really easy to pin the reasons why things don't work on the search guy.

So how do you manage that? How do you keep your reputation?

Keep focusing. The fact is, I have outlived most of the CEOs and many of the venture capitalists I've worked with. And what comes around goes around. Once again, today's hero is next year's zero, and then the zero becomes a hero again. That's one of the many benefits of having done this for so long. There are plenty of people who were heroes on the back of the Internet boom who are now in graduate school because they couldn't get a job.

Selecting people is such a complicated process. You do the best you can within the moment that you are making the decision. You hire the best available athlete. You try to reduce the risk that is inherent in any selection process for anything. You do a lot of due diligence and you are very clear in communicating what the mission is, what the first-year charter is, how that person will be measured, how they will be reviewed. In tech companies, people get more stock options in good times and in bad times they are laid off. There is no feedback loop. There is no sit-down annual review or goal-setting. High tech is fast tech. It's Darwinism.

So what in your opinion needs to change in high tech to correct that?

It's not going to change. Very few people talk about building large sustainable enterprises. The reality is, venture guys live from fund to fund. There is no fund 4 if fund 3 is not successful. The roots of venture capitalism go back to the beginning of the 20th century when you had no taxation. Wealthy families made money on transportation, minerals, mining, and oil, and they wanted to give back something to the community. So they used to start these businesses to brag about it. I own it, it employs 200 people and they all buy stuff from my store and they all live in my houses.

Nowadays, if I give you my money, I want a return that exceeds whatever benchmark we select or I'll give my money to somebody else.

You and your brother left Fenwick pretty soon after Fenwick was acquired. And it raised a bit of controversy. Why did you leave and, in your opinion, what is it when you acquire a search firm that you are actually acquiring? Are you buying pedigree, experience,...?

The acquisition was in June of 1998. I had a two-and-one-half-year contract that expired in December of 2000. I didn't leave until July 2001, so I more than fulfilled my obligation. My brother didn't leave until January of 2002, so he more than fulfilled his obligation as well. They bought us, we fulfilled our obligations, then decided to move on.

I think that when you buy a professional services firm you've got to look at exactly at what it is you are trying to buy: are you trying to buy brand, are you trying to buy a

bunch of professionals, are you trying to buy a practice, are you trying to take a competitor out of the market place or are you trying to establish a market presence in a geography where you don't have a presence? During that time frame, a number of search firms were bought and sold to address all of those issues.

I left because I wanted to be an entrepreneur again. At Fenwick alone, I'd run and assembled a great team for 15 years.

To the extent that you can share your trade secrets, how do you maintain and refresh your professional networks?

Executive search really is a wonderful business. You get paid by client A to go out and recruit a CEO and in the process you get to talk to 40, 50, 60, 100 prospects. Each one of those is a positioning moment for you and your firm. And the outcome of the phone call has several angles: 1) "I'm not interested" and a hang-up; 2) "I'm interested and I'd like to meet you"; 3) "I'm not interested, but I like the way you present yourself. Could you come over here and talk to us about our staffing needs?" So it's an unusual business. If you sell computers for IBM and you go into an office park banging on doors, making cold calls, maybe the CIO will see you and listen to your pitch. When he throws you out he doesn't say "Oh, by the way, why don't you stop in and see my competitors in this building and that building?"

A search is all networking. So I get paid to build my network. Every contact is either a source or a prospect. ::