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Connie Loizos

Talking with Silicon Valley's Favorite Psychologist, Dick Strayer

Posted on: December 9th, 2008 Dick Strayer Strayer Consulting

Dick Strayer, a Los Gatos, Calif., psychologist, has been helping venture capital firms and their startups sort out their emotional and structural kinks for the last 26 years.
Strayer's expertise doesn't come cheap. Businesses pay his consulting firm between $50,000 and $75,000 for what is typically a four-month-long engagement, wherein teams are assessed, strategies are reevaluated, and, often, certain performers are "transitioned" out the door. Despite the expense, business is booming these days — to Strayer's own astonishment. He's working with 20 venture firms right now, and nine of those clients have signed on since September. "The only upside of this economic debacle has been a rush of venture groups that are contacting us," he says. "It's shocking." Strayer and I chatted this morning about what he's seeing — and that's plenty, from finger pointing to consolidation talks. Here's the first part of that conversation. More to come tomorrow.

You work with both VCs and startups. Which are you hearing from more these days?
The good news for us is a lot of venture firms are coming to us, driven by how they can use this [economic] opportunity to reshape their firms and get the right people in investing roles and tighten how they manage their portfolios. The bad news is that the belt tightening at young startups means most have very little money, so only in some instances are we getting involved at that level — like when there's team dysfunction or a leadership transition needed.

I'm surprised you're getting so many calls from VCs, considering that the ones likely to need you the most are also likely the most cash strapped.
We're actually seeing three categories of funds. The first are those that raised money this year or last year and are feeling pretty good. They're economizing but they have capital to spend for the next three years, and they're looking at how they can strategically take advantage of their situation, from what sectors they should be going after to which individuals at the firm don't have a history of good performance, or who have peaked and are transitioning out of the fund.

You mean GPs are using the downturn to rush out the old guys?
Well, I wouldn't say that, but sometimes a successful investor will continue his role at a firm for another fund or two, with a more minimal "sage of the fund" role. Now, with limited cash, firms are asking: can we afford the sage? They're cutting short the sage period by a full fund.

I understand the logic, though I don't envy you your job of gently "transitioning" richly paid partners out of their jobs at venture firms. Do they go kicking and screaming?
It's a reality that venture firms are very difficult places to leave. There's enormous prestige and visibility and power attached to being a VC, and you're mixing with some of the best and brightest people in the world. The pay can't be matched, either; it's a good lifestyle. So it's hard to encourage someone to leave even if their returns peaked in the '99, 2000 era and have been downhill since then.
All that said, limited partners are focusing on that generational divide. Given the cash crunch, they're applying pressure to ensure that all partners are fully investing and that those who aren't fully investing yet pulling in the highest salaries think about what's best for the firm. Encouraging people to leave their firms isn't all I do, by the way.

I’ll make that clear to readers. We don’t want people to get nervous when they see you in the doorway! Before we move on, though, can you share how your staff approaches these situations?
Our more typical approach is to do 360s and let the data speak for itself. The 360s might include feedback from board members, CEOs or partners, but it allows anonymous input that sends a message that individuals would otherwise be hesitant to send to a power player that’s not actively investing. My job is then to convey that information to the individual and to help them think about what’s best for the firm and how to leave a legacy in their remaining tenure. Sometimes it’s to be overt that they are going to step aside in the next fund. Sometimes, they decide to retake an active investing role. Sometimes they take a reduced role at reduced compensation. But this environment is severe enough that people who’ve been in funds for a long time are also thinking more actively about they pass the baton — and about how to do it sooner, without breaking the firm’s relationships with their LPs.

Are you getting calls from more seriously troubled firms, or are you a luxury they can’t afford right now?
Actually, our second type of client is those funds that were raised in, say, ’03 through ’05, and that are running out of capital to invest and asking: how do we hang on for two years [while fundraising isn’t an option]?

Firms are dysfunctional even in good times. What are you seeing behind the closed doors of these clients?
I’m involved in several where there’s a lot of finger pointing and heightened interpersonal disputes because of the economic crisis. The pain is inevitably leading to questions about who screwed up.

How can you help?
It’s difficult. My challenge there is to work with those individuals and the team and talk not about the history and blame but which look like the best options available for investors and LPs. I play peacemaker and keep it away from personal vilification. Some investments are just economic craters, but attaching blame doesn’t help that dialogue at all.

At these firms, are you recommending that multiple partners be booted at once, or do these things always happen piecemeal?
LPs have historically valued firm stability, so you tried not to cut more than one partner at the firm because it suggested instability. But I think in this environment, at least in the groups that I’m involved in, I’m encouraging them to think longer term. This thing isn’t going to be over in six months. If they are going to reposition themselves in a meaningful way, they have to act longer term.

Meaning what exactly?
In some cases, maybe it’s bringing on a whole new group and sector that has been ignored by the fund, like clean tech. And to do that, you can’t simply re-brand old players. You have to bring in a new team that can bring in the best and brightest entrepreneurs. It’s harder for those partners who are embedded in lackluster sectors to sustain their role at the firm, but at least it becomes an easier decision [to part ways] because it becomes a strategic decision.

Is there an option other than shrinking the firm?
Oh, sure, in taking stock, they’re also figuring out whether they end their investments in more poorly performing portfolio companies, or merge with another fund.

Interesting. You don’t hear of VCs merging every day.
No, but this thing just hit.

In tomorrow’s installment, Strayer tells me about the the rise of “operating partners” and how many firms are in merger talks right now, and whether GPs are having to sign on to new roles at reduced salaries.