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INNOVATION ECONOMY

## Venture capital's grandfather Georges Doriot helped lay groundwork for 128 tech cluster

The Boston Globe

By Scott Kirsner | April 6, 2008

Without him, Digital Equipment Corp. might never have gotten started, and the electronics-testing company [Teradyne Inc.](#) might not have survived beyond infancy.

He backed an oil rig-manufacturing company run by George H.W. Bush. The current Secretary of Energy, Samuel Bodman, once worked for his Boston firm. And a half-century ago, he put \$50,000 into a company called [Ionics Inc.](#) that was trying to find new ways to desalinate seawater; GE bought the company in 2004 for \$1.1 billion.

Georges Doriot is the forgotten grandfather of the modern venture capital industry. His Boston firm, American Research and Development, or ARD, helped lay the foundation for the Route 128 technology cluster.

"After World War II, all the textile mills had gone away, and war time production was going away," says Spencer Ante, a Business Week editor who has written a new book on Doriot, "Creative Capital," that is hitting stores this week. "Doriot and ARD were really trying to revive the New England economy after the war."

Doriot also played a role in shifting the focus of the US economy, from one that regarded big conglomerates like [US Steel](#) as its pillars to one that now lionizes nimble, fast-growing start-up companies like Google. Ripples of Doriot's influence can still be seen in the local technology and venture capital landscape. "He was one of the great figures of the twentieth century, as much as J.P. Morgan and Andrew Carnegie," says Ante. In 1921, Doriot, a young veteran of World War I, became the first French-born student to enroll at Harvard Business School. He later joined the faculty, teaching manufacturing strategy.

When World War II began, President Roosevelt personally urged him to become a US citizen so he could assist with the war effort. Doriot did, and he rose to brigadier general, ensuring that US troops were supplied with trucks and combat boots. In 1946, he returned to Harvard and incorporated ARD.

Ante refers to the firm in his book as the first professional venture capital entity that accepted money from sources other than wealthy families. It became the first publicly traded venture capital firm. And Doriot "democratized finance," Ante says. "Anyone, anywhere who had a great idea could approach the company."

But Doriot was as much focused on the personal qualities of the founding team as the soundness of the business idea. "His famous saying was, 'I'll take an A individual with a B idea over a B individual with an A idea,'" says Dan Holland, who began working for Doriot as an associate in 1969, helping identify and manage investments.

Tom Hagan was interviewed by Doriot before ARD put money into an electronics start-up that Hagan cofounded, Adage

Inc., around 1960. "He said, 'Tell me about your hopes and your dreams,' in his thick French accent," Hagan recalls. "And he was absolutely serious. He wanted people who would work hard, were dedicated, and cared about the interests of the shareholders."

Ante credits ARD with the very first venture capital home run in 1957, when Doriot gave \$70,000 to Digital Equipment founders Ken Olsen and Harlan Anderson in exchange for 70 percent of the fledgling minicomputer company. Within a decade, when Digital went public, ARD received 500 times its original investment in proceeds.

An ARD investment in the early 1960s also kept Teradyne alive, at a time when the company had 50 employees but zero revenue. Today, the North Reading company has a market cap of \$2.3 billion and is one of the only Doriot-backed companies still a factor in New England's innovation economy.

But organizing ARD as a public corporation became the firm's Achilles' heel, leading to hassles from the Securities and Exchange Commission and the Internal Revenue Service, and limitations on Doriot's ability to issue stock options to his employees. The SEC "felt it was a conflict of interest for officers of ARD to own stock options in the companies they invested in," Ante says.

Top employees began to splinter off. Two ARD alums, Charlie Waite and Bill Elfers, created Greylock Partners in 1965, a firm that has put money, over the decades, into companies as diverse as [Filene's Basement](#) and Facebook. Holland and another ARD employee, James Morgan, created Morgan, Holland Ventures in 1982 - a predecessor to Flagship Ventures, a Cambridge firm best known for its biotech and nanotech investments. Ex-ARD employees also helped shore up the struggling venture capital division at Fidelity.

Doriot never knighted a successor, though one tantalizing possibility was a young [Hewlett-Packard](#) employee (and former Doriot student) he tried to lure eastward. Tom Perkins "did have a serious interest in going to work for ARD, but the compensation issues were ultimately a stumbling block," Ante says. Instead, Perkins cofounded Kleiner Perkins, the Silicon Valley venture firm that helped launch [Genentech](#), [Amazon.com](#), [Compaq Computer](#), Lotus Development Corp., and Google.

Ante's book makes the case that the establishment of a venture capital community in Silicon Valley by people like Perkins and Arthur Rock (a backer of [Intel](#)), coupled with the microchip innovation that flourished there in the 1960s and 1970s, catapulted the Valley past New England. "By the early 1980s, the Valley reached escape velocity with the creation of companies like Apple," says Ante.

Hagan believes that the success Doriot had with Digital may have provided an unhelpful prototype for later New England investors.

"They started making money right away with that \$70,000 investment," he says. "That set a standard that said that paying the salaries of a few people over six months should get you to profitability, and that led to the notorious stinginess of VCs in Boston."

Greylock partner Bill Helman has a more positive perspective. He says Doriot is still an icon at the firm. "The principles of General Doriot were all about building companies," Helman says. "If you do the right things, it will follow that you will create sustainable shareholder value, and returns for your limited partners."

But while Greylock is still technically based in Waltham, its Silicon Valley office now employs more people. In the 1990s, Helman says, that group began to grow because "the opportunity set in the Bay Area was more fertile, more robust."

It was a West Coast Greylock partner, David Sze, who made one of the firm's more notable recent investments, in the social networking site Facebook. (Last year, venture capitalists invested \$13.8 billion in California companies and \$3.4 billion in New England companies, according to PricewaterhouseCoopers.)

ARD was at one point acquired by [Textron Inc.](#) of Rhode Island and then spun back out as an independent entity. It still exists, but it doesn't disclose much about its activities. There's no website.

The firm's lone remaining partner, Frank Hughes, says ARD's most recent fund was raised in 2004 to invest in six to 10 companies, none of which he'd mention by name. The company's voice mail system describes the firm's investment focus - information technology and engineered materials - without invoking the little-remembered name of Georges Doriot.

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