Stanford eCorner

VC Values impact on education and non-profit world

Kim Smith, *New Schools Venture Fund*

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Smith talks about how the VC model allows for larger investments over a longer period of time. Also, the investment tends to be in organizational infrastructure rather than a service. VCs are more focused on growth than bottom-line success, she says. An entrepreneur must be disciplined and willing to walk away from people who do not share the same values.

Transcript

Well you know there's pros and cons in the VC model. The pros are you tend to make larger investments over a longer period of time. We take a board seat on everything we invest in and with that board seat comes a link between your success as an investor and the entrepreneur's success. They become the same thing. So that, those are the good things. And in the non-profit sector, the other good thing is folks who are taking a Venture Philanthropy approach tend to invest in organizational infrastructure as opposed to just direct service. We're willing to invest in the management team. We're willing to invest in the data management system. We don't come in and say, "You know, only 10% to GNA and everything else has to go to the site." which are lot of non-profit funders. So those are all good things.

I think bad things are VCs are always in a rush, myself included. They want you to grow more than you can because they just want to get to the bigger thing faster, and that's really hard on entrepreneurs because you're torn between their enthusiasm, which comes as a money so that's good but it still kind of like, "Can I get there that fast? Can we still be quality if we grow that fast?" We found... as a social investor at the table with our companies in our first portfolio, we were often looking more at the quality metrics and they were looking more at the top line growth metrics. So the for-profit VCs are even more this way and they were much more focused on growth versus bottom line success either educational or financial. It's beginning to shift obviously as the market shifts to focusing more on quality and longer term investments but I think by their nature Venture Capitalists are sort of like more factor, you know kind of guys/women. And I think that's a danger for an entrepreneur and I think for folks who are thinking about from an entrepreneurial standpoint, you have to be disciplined and you have to be willing to walk away from investors who don't share your values. You may think that you can sort of swallow that for the money but it will really come back to bite you in the end because there will be tough times and if you don't have an alignment of your values, whatever that is, it's going to be terrible down the road. So be patient and go talk to somebody else if the folks you're talking to you think are not aligned with your values. Whether your value is about a little bit slower growth because you want to get the quality down or whatever. Just be sure that you're aligned with your investors because if not, there will come a time when they have all the leverage because you need more money and they will get their way and have to be really hard on the entrepreneur when that happens because then you're not, you don't feel like you're building what you've set out to build.

So try to be sure on the front end that what you're building and what they think you're building are the same thing because then you can sort of... you can disagree on things. That's fine. I mean it's reasonable to have disagreements as long as you're actually shooting for the same target. That's the core issue, not agreeing all the time.