Guest

Karthik Reddy (based in Mumbai) is a Founder and Managing Partner at Blume Ventures, one of India's leading tech-focused early stage VCs that was set up in 2010. Karthik is the architect of the Blume business model and investment hypothesis framework that he constantly iterates with his team members. Karthik is arguably one of the best sounding boards in the early stages of a business on capital raising, user and customer behaviour and product market fit.

Prior to starting Blume Ventures, Karthik had held a variety of roles across Financial Products Structuring, Investment Banking, Business Development, and Strategic Planning in a Large Corporate. He is an alumnus of IIT (Roorkee), IIM Bangalore and the Wharton School.

In our conversation, we spoke about his choice to go to Wharton after graduating from IIMB, his path to Venture Investing, his thoughts on what it takes to transition effectively and succeed in Venture Investing, how he picks Founders, how they could scale up their leadership capability and more.

Context to the conversation

Welcome to the 13th conversation at the Play to Potential Podcast series where I talk to people from different walks of life on topics around Leadership, Transitions and Careers. I am Deepak Jayaraman - The creator and curator of this series of conversations. My objective from this podcast is to have "Learning conversations" with a range of people and share those curated insights with you. This time, I am talking to Karthik Reddy, Managing Partner at Blume Ventures. Karthik has an MBA from IIMB, worked in Amex for 3 years and then went to Wharton to pursue his MBA. He subsequently in a range of roles including Banking, Tech, Strategic Planning and Corporate Development before setting up Blume Ventures around Late 2010. In our conversation we spoke about how he thought about his career at different points, specifically focusing on how he thought about going to Wharton after a degree from IIMB. We also spent some time on Venture Investing as a business, how it is different from Angel Investing and Private Equity Investing, what it takes to do well as an investor, and his perspectives on transitioning from other industries like Consulting and Banking into Venture Investing. We also delved into his perspectives around what differentiates great entrepreneurs from the rest. Without further ado, over to the conversation.

Transcription

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Deepak Jayaraman (DJ): And before we dive in why don't you tell us a little bit about what you do and more importantly why you do what you do?

Karthik Reddy (KR): So, I think, technology has kind of always fascinated me more by the way of personal adoption, education, just being in those markets. So, I always wanted to do something around it and a bunch circumstances led me to a collection of experiences both in the U.S. and India which made me want to be in the midst of all of it and not maybe tied to one idea or two but arguably hundreds and that's the luxury you have as a venture capitalist. So, driven by that but why do I do this versus, you know, arguably more lucrative jobs or you know higher paying jobs relative to my peers, I think, it's a tough ride but it allows me to essentially do two three things that I love a lot which is one is clearly I think I have a view on where the world is going. So, typically a good investor should have that but you can have it in various forms, you can have a market view and play on small arbitrages in the currency market or the commodities market or you can fundamentally see if you want to shape the world. So, in some sense I think there is this you have to have this notion of a little bit of idealism always tucked away with of course a healthy dose of reality to survive in the world to actually be a venture capitalist. So, I don't think that streak has ever gone away. So, I think, a lot of my friends and family think I am foolish to be thinking that way after you have turned 40 but it's what I think keeps me motivated to be in this business.

DJ: And when you say where the world is going are you saying this from a technology lens or is it a broader strategic view across dimensions?

KR: It has to be across dimensions, I think. I think, it's not technologies are always arguably a little ahead of their time relative to where people's perceptions on how it can change their life for the better are. People are very sort of prone to habit and not breaking it per se and technology is all about forcing you to break it. So, technology by itself I think is, you know, like we have been… we have sent people to the moon 50 years ago and we are contemplating it again now; so, the tech was there, how it gets applied, what the priorities are, where the geopolitics of that get applied at a micro level and at a macro level, all these eventually drive what can convert that to a big business idea. So, if you want to be cool about tech, I think, you can sit and fund R&D or be in labs necessarily and get a kick out of that; there's nothing wrong with that. And eventually I get paid to actually generate capital over capital and it's a choice I have made. So, you can't forget the fact that you have to build businesses and I don't think businesses are driven by tech but half a dozen layers on top of that. So, I mean, in a nutshell basically The Economist is my guiding light, right, so, you want to read it cover to cover so that you are informed on where you think the world is going. You may or may not subscribe to all the views but you need those kind of viewpoints is my view.

DJ: I went to IIM-A from 1997 to 1999 and then I went to London Business School. So, the question that gets asked is, why LBS after a good degree at IIM-A? I noticed you went to IIM-B and subsequently to Wharton a few years later. So how did you think about it and what do you tell people when you get this question?

KR: We're all clubbed as the double MBAs, so we're bound to get the question a lot. I met my wife while I was in the second program, so it justifies itself. Fate apart, I think, in some sense that is the answer. Mentally, I'm almost guilty of over-planning. So, in my roadmap, wanting to be in the US, wanting to do a quality MBA after I had gained sufficient experience in my field of interest, at least what I'd set out to do as an engineer, was plan A actually. So, my situation is a little different, where I actually had all these admissions and scholarships to consider and didn't unpack in IIM-Bangalore for two–three weeks, because I was still contemplating whether I should just go. And that was not for an MBA though, that was for an MS, but the plan was the same. I would go there, do two years of Master's because I needed an entry point into the US, probably in operations research or optimization, areas which I still curiously love and fund a lot of, though I don't have time to get into the guts of those. Those were areas of interest, and then I thought, yes, then it opens up an avenue to work in the US for three–four years and then the MBA is a natural extension of that, because I enjoy piecing together all the elements of tech business, etcetera. And the professors who'd come back to IIM-B convinced me that this was the place to be. They'd come back from the US. In fact, I met all of the guys who had come back from the US. That was my diligence. And it worked out OK, I think. Again, there are no regrets. So, there was a great experience at American Express for three years, a global organization sitting in India, in Mumbai. But that itch to go and work overseas and experience overseas had never gone away and I still highly recommend it to people. If there's an avenue to get abroad in any form, as long as you have a clear sight of the end goal, I think the path will figure itself out.

I tried to go laterally through a job, but none of the jobs were the kind I wanted. So, curiously, fate lead me to thinking, If I get into a very, very good B-school, then it justifies it, and I got into one, so packed up my bags and left. Didn't think that much about it. And two–three transformational things happened. As I said, I met my wife there and made great friends. So, I think, business schools are about networks. How can you not appreciate that you just bought yourself into a global network? A lot of them have come back and are LPs in my fund. Those networks still are very valuable and so, there's no second guessing that. And, actually, for the business that I do, networks are very powerful. So, it's almost like, I went and did a second MBA for all my portfolio founders, in retrospect. They're gaining from it. So, there are lot of young Indian entrepreneurs who, by choice of what I do today, are actually gaining from my networks.

DJ: They're leveraging your balance sheet of relationships.

KR: Absolutely! So, I think, there's no crime in it per se as long as you know that you have gotten something uniquely different the second time around, though, I think, the need for it is dying down. I think, if your head is clear about the end state, I would advocate differently. I don't think this fresher going into an IIM is a good idea. It's avoidable if you can. If you're just hungry for being in a classroom back again, competitive, don't want the kind of jobs that you are getting, you are smart enough, you think you can crack a CAT-like exam and go into an IIM, which still is 50% of the pass, then maybe you should do it. But today, on the flip side, opportunities for those graduates have changed dramatically. We were the last batch of IIM-B who had zero foreign placements come into the batch other than maybe Olam or some of the trading houses which came on, unfortunately, day six, day seven. They were not sexy enough. That's changed dramatically. So, if you're truly, truly driven, either you chose that first path and say, the work experience really don't matter. But if I had to put my wisdom hat on, work for three, four, five years if you can, and then go and join the MBA and, I think, that's the reality you just enjoy the class, the interactions, the professionalism, a lot more. Plan B was an extension of Rourkee.

DJ: You've been an investment banker, you've worked on the tech side, and you've worked in corporate roles. What was the trigger for you to get into early-stage investing, if you were to think about the time you took that step?

KR: Series of steps. So, when I went to the US, I went writing my essays and my essays basically said that I wanted to be a Wall Street guy. So, that was the natural path because I didn't know anything else. I landed there and this was the 1999 boom year in the Valley. So, I was there and I did a Silicon Valley trek and a Seattle trek, and it was transformational. I actually went for a demo day, like demo session or a conversation in Amazon, in Microsoft. So, we were looking at all the cutting-edge companies back then and, I think, it was like a switch went off saying this is where I want to be. Not necessarily the Valley per se but at the middle of understanding how technology can be transformational to business. And that could be sitting inside of a financial services company, sitting inside of a telecom company, those were the kinds of jobs I started looking for suddenly.

Unfortunately, it never played out. The bust happened before even the summer internships. And in the US, it's very specialized, so either you take this leap of faith and somehow stick around in a geography and make it work, which may have happened. But when you combine visa issues and all that, it becomes complicated. So, took the view that let me try and get as much work experience around these areas that I like. And as a result, I got like this mishmash of work experience over a decade in a telecom software start-up, a Reuters-owned company which was basically a tech-led brokerage, what were called ECNs (Electronic Communication Networks). When that company got sold to NASDAQ, the trigger was like I'm still not doing what I want to do and maybe I should come back to India and invest five years in figuring out what I can eventually get into. And venture was always on the top of my mind. These firms that you see today, the industry was just getting born then.

DJ: And why the move to India? Why was that a part of the equation as against doing this in the US?

KR: I think it just takes much longer if fate hasn't dealt your cards well. So, if you're in the wrong industry, wrong geography, no visa, you need a visa sponsorship, you don't have experience, it's a very specialized economy. I tried all of that. It's not that I didn't try. Had a start-up idea going, thought maybe India is the right market for it, so I should come and sit here with that idea. So, there's a bit of everything. Came here and realized that I have run out of all my savings with this idea and I need to get back into the work force. And again, struggled, because no one could slot me here as well. The venture guys were just starting, so nobody was interested in taking one more US-returned guy, who just had ideas and energy, early thirties back then.

So, again, in India, I had a multitude of experiences, both looking at media and telecom as a banker and then working eventually with The Times of India Group, which was fascinating because it's such a vast array of media that you get exposed to. And in that process, thankfully, I started getting engaged with the early-stage ecosystem because Times was thinking of a corporate venturing program. So, all of these, I think. One, it came together and again, if I take a step back, I know I have a lot of young 32-year-olds in the team, but there is no substitution for just the wisdom of working 15 years across a multitude of industries, multitude of roles and I honestly think it makes me a better venture capitalist. So, like all entrepreneurs learn on the job, they are not born CEOs or CTOs etcetera, similarly, I learnt. I could have started at 32 and learnt on the job. I think I am better for the richer experiences that I gained. All of them add up.

So, eventually, to me, it somewhat ties into the first question, what do I do and why I do this? I think, working with a proxy for what I could have done if I could clone myself is what I eventually ended up funding, I think.

DJ: Sort of vicarious involvement.

KR: Absolutely! So, it's one step removed. It's actually many steps removed. But I enjoy the actual active engagement with those founders, rather than the passive. So, you can sit in later-stage companies and really not have that much of a touch with the core of the business or you can do early stage VC and actually influence a lot of things. We have done everything from stitching two co-founder teams together to naming a company to all of those. So, you could have done that three times perhaps in your lifetime, each one of those things. Here, I think, I do those two–three times in each cycle, and you are able to influence that. And the friendship and trust that you build with these founders is just fantastic. But you have to enjoy it, honestly, and I try to tell people that it's not something you can just copy your playbook; it has to be a personality. We have tried very hard to see whether we can distil that culture into the firm and not everyone is going to be a clone of me but the most important facets of what makes us Blume is something I try to enforce back into these kids as well.

DJ: What are the two–three elements of your culture which makes a Blume distinctive?

KR: So, I think, clearly it's to respect what an entrepreneur is trying to do. And a lot of the times, I think, people who have capital or people who've made it are, sort of, dismissive of a point of view which is not this. You can be dismissive by saying a polite 'no,' but you don't have to be dismissive of their effort to be an entrepreneur. It feels very basic when I'm saying it this way, but it's so difficult to actually not lose sight of the fact that it's some kid or a middle-aged guy who's taking his life, trying to make something out of themselves, and you're just being dismissive of the effort because for some reason you think you are a cool VC and it's not a fundable idea and you are smarter than that other person. Those are like big, big red flags. I've actually rapped colleagues on the knuckles if I even sense it in an email. It just feels like an anathema of why we exist. So, that's one.

Second is, your own point of view and your ability to defend it. As an early-stage investor, if you're copying somebody's point of view, you might as well leave the job. It might be wrong and I am willing to pay for that learning, which is why we are so picky on managing risk. Don't ever lose too much money, because it's all learning. Don't ever say you knew this for sure, you don't. You are going to lose money, so make sure you lose as little as possible. Correct it, iterate, and bake it bigger. But if things start working, then you double down, triple down. So, driving those philosophies around risk management, I think is very important.

Not everybody comes with it in their head, but, for me, it's a guiding force, especially in venture, because nothing is set, nothing is established. Ten-fifteen things can go wrong. We've just seen, when we do 100-plus companies, their patterns, but you can't predict them in advance. It's like walking into a party and saying I know these three couples will get divorced. How can you really know? You have social banter with them. But don't they? Yeah, in 10 years, three out of 25 get divorced, they do, right? Why is it any different in a start-up environment? So, there are so many things that can go wrong and you shouldn't lose sight of the fact that you know what's going to work for sure. So, you keep hedging against that. I think, that philosophy of understanding what founder's problems are and trying to solve for them is very, very critical process; it's not like board meeting to board meeting. And for that, you will have to gain an immense amount of trust from the entrepreneur.

I'll be honest the disclosures that an entrepreneur on average makes to Blume today, in 2017, versus when we started, in 2011, must be a scale of 3:1, 4:1. And that's just because…

DJ: A function of the trust?

KR: One is that and, of course, the brand building helps. But even then, they're just cynical. You walk into a room you're an investor at the end of the day first instinct of the human being is to hide all the flaws. And you actually have to have that kind of a relationship with the founders that they're exposing all the flaws. Only then can you solve for them. We've had like co-founder splits announced to us after virtually one side has served the papers to the other. That's ridiculous when you put it in context. But yeah, because you're an investor, you've been kept out of the conversation. I know I've touched upon a lot of points, but that's the DNA of our investors. You should be able to intent that kind of behaviour from a founder. So, it's a long cycle. How much ever we blog about this or we talk about this, it takes six months, a year, two years for them to eventually say I will come to you with everything as long as you have time and then you say no, no, I don't have time.

DJ: It's about creating the climate for that conversation, right?

KR: Eventually, you put your hands up and say, I can't solve anything. It's a tightrope. You want to be a partner but you have to draw lines.

DJ: Picking up on a couple of things, much nuanced points about having a point of view and having the humility, if I may, I think, it's a growth simplification of the first point you made. But how does that translate into how you hire? How do you look for these traits which are quite hard and nuanced?

KR: Very, very challenging. So, hiring has been a little serendipitous in that sense. It's been self-selected, let me say. So, if it's someone who's actually coming and literally putting a resume and saying, I think you're an interesting firm, I want to work with you that might be a good starting point, and there is no harm. That's the right way to write a mail, but it's never going to be how or the reason why it eventually materialized into a potential hire. So, all our hiring has actually been through networks, relationships built over anywhere between six months and 18 months. I think, they need to want it more than I want them, to be honest. So, they need to want to come and learn about what our motivations are. It's almost like a conversation that you are having with me right now. So, if they haven't had the curiosity to come and actually ask me why I do what I do, what's the philosophy of this firm, what are we building towards, then they're thinking it's another job.

And these things hit me like a bag of bricks about a year-and-a-half ago. We were trying to draw out a first fund, all our colleagues that's how we introduce each other in every mail; there's no designation per se, it's just a name card they were underpaid like crazy. We just had a tiny fund, very little fees. So, their motivations had to be that they're coming here for the learning literally, and I was OK with that. I couldn't afford the pay, so I said, anyone who wants to learn I will get a decent amount of work out of you, and I'm paying you a pittance anyway, so there's no debate about that. But the equations were changing dramatically in fund two. So, people were like we are tired of being underpaid. We have done the learning. Now, you need to make a judgement call on whether we are the right people for the future. These are my demands. I want to be close to market comp, I want this kind of a carry. To me, intuitively, they felt outrageous. So, I went back to the drawing board and, for the first time, assessed what am I building, who are these guys, are they aligned with me, how do you align incentives for a venture capital firm, and realized that you can't fake it. It's the same journey that I am on. It's what they need to be on for them to be able to make a lot of money. Otherwise, they can take the learning and go.

You can start a firm. I don't know if you've noticed, there's been a little bit of a trend in VCs where lots of analysts and associates, etcetera, have actually joined start-ups or are doing start-ups themselves. So, I actually advocate the other way around for joining the firm. I almost mandate that you must have done something entrepreneurial and if you haven't then go and join a firm which is doing something, sit there for a couple of years. You've placed a bet; I am not guaranteeing you a job. We did that for one of our guys, Rohan. We poached him back from our portfolio company. At that point, we truly did not have the ability to hire one more person, but he took on the challenge and it paid off for him. He went there, played a more generic role, biz dev, corp dev, etcetera, and those were the kind of skills we wanted back in the firm. So, I think, it's not a boilerplate set of skills and that's the biggest challenge. So, you're testing more for this…

DJ: Intrinsic, some of the inner drivers…

KR: I think, the other part can be trained and it's not about complex DCF analysis or…

DJ: And that stuff doesn't show up on the CV. That's the challenge.

KR: Yeah. And even if it did, it's not that relevant for us. And as we're growing, we're learning, so we can teach them as well. What makes a great IPO company? Learning it too. Because I checked it like 10-crore valuation. So, I'm shooting something which has grown 100 times in value. So, in that journey we are trying to chronicle our stories and teach them. So, I think, I'm only looking for the basic ingredient.

DJ: Why don't we double click on the life of a VC investor? How does the pie-chart of time look like, in terms of where you spend energy and time?

KR: I wear two hats every day, which is that of the entrepreneur and my day job which is like going and actually managing a portfolio in a pipeline process like a VC. Some of my peers have the good fortune of having the fund-raising, the organization-building not be a part of their role. In my case, unfortunately, that's part and parcel and there are obviously seasonal peaks and ups and downs. So, we've just normalized that. Like when I'm going to China for a week, it's all a particular type of learning and job. If I am going to the US for two weeks, it's almost all investor related. It spikes at 50%.

So, longer term, over the year, I think, what's happening is, I am spending about 20% on fund-raising which is my raw material, who are my investors. It's not like a typical start-up which has investors, who might spend 5% of their time on investors. I have to spend 20, because that's my business. Money is my raw material. So, they are my customers too. So, I have a two-sided marketplace, for taking capital and giving capital. So, I have to cater to the entrepreneur wanting to love me and my investor wanting to love me, eventually. That's when a great VC firm is made, so I have to focus on that aspect. And then, the running of the business, the administration of the business, small things like logo, the brand, what you do for agreements, what should the menu be, everything. You have to have a final checkpoint, because your brand's at stake.

So, I would say, the fundraising is clearly 20%, I would say the organizational stuff is 15 to 20%. So, that unfortunately takes away unfortunately I say because I would rather do the other part 100% but it's a trade-off. I mean, would I work for someone else or do I work for myself and get the upside. That's a trade-off. So, 40% goes towards my entrepreneurial hat, which is, I have to run the business, I have to bring in the moolah. It's like the CEO kind of hat. It's not like there is a CEO role, but I am saying…

DJ: It's an institution-building kind of hat.

KR: Correct. And then, the other 60%, I would say is one-third pipeline, two-third portfolio. So, the pipeline, once in a while, you feel like I don't need to invest right now, so I should now just take a break from it, but actually it's your fodder for learning. So, if you're not meeting enough young people, different technologies, often enough, you can get rusty very quickly in this industry.

DJ: That's how you stay current in the market, right?

KR: Absolutely! That's our business. We have to be ahead of the curve. So, if you are not seeing what's at the peripheral edge of the curve, then you're already behind. So, you can't distance yourself too much, but on the other hand, your money is already sunk into your portfolio, so that is the biggest chunk. I think, if you go to one level lower, since we're on the topic, I think, the other two parts will shrink to about 10–15% at most, what value they're giving back to the organization.

And they would also similarly have a two-third, one-third split, but it will be of a much bigger chunk of their time, more like 80–90% of the time is available, unlike 60% of all time.

DJ: What are the must-haves and or nice-to-haves, both in terms of experiences and traits, for people to succeed in this profession? Specifically, I am curious about what's different here versus investing at different points of maturity, let's say, PE investing or seed investing. I'd love for you to double click on your take on what's a recipe for success.

KR: So, I think seed and VC are somewhat similar, traits are about the same. I think, the weightages are different. What I mean by that is so, at least, I am a strong subscriber and I think, broadly, the whole world will agree to the same traits that in seed and venture, market view becomes important because market sizing is very important. In seed and venture, you're playing lot of high-risk bets and hoping that some become massive, which means you can't ignore market sizing anymore. Angel is very different. Angel, you're playing for your own money. So, I don't mind putting money in a beer house which gives me 10 times the money, but if that journey was 10 crores to 100 crores as a VC, it's totally uninteresting. Because I'm not looking for predictable small multipliers, in dollar terms. That's the difference, which, by the way, is more like private equity investing.

DJ: The risk-reward profile is very different is what you are saying.

KR: Yeah, absolutely! So, if you're doing seed and venture, therefore, every bet you're making, you're hoping that you're shooting for the moon, relatively speaking. So, one could be a 100-million-dollar moon, one could be a billion-dollar moon, but they are moons nevertheless. So, when you're shooting for that then you have to truly want and enjoy shaping your views from the market and where the world is going. You can't sit in a corner and say I am distanced from everything and I can build despite that. Everything, all market forces, influence you customers, regulators, who'll put money into your company next, IPO markets eventually, and then, of course, what every VC on the planet will tell you founders–team, founders–team, founders–team. So, your entire judgement is on judging people, and which is what I've realized is a super tough job, judging where people might be 5–7 years from now, in terms of their maturity, their ability to scale an organization. Do you see this guy as a CEO of our 100% company? Because reality is, nine out of 10 times, that's the odds you're playing for. You're not going to get in a professional CEO at that level and it's not about him and two buddies somehow figuring it out. Can you scale to that? Those are not trivial is what I've realized.

In private equity, all these risks are stripped out. You're not playing for any of these risks actually. You're just playing for business model risks, founder integrity, because you're giving him a boatload of money. In India, the fear typically is, people when they're giving that money to these founders, they figured out the founder got here without too much money, he knows how to cut every corner. So, can I trust him to use my money wisely or only in his self-interest? And that, arguably, is a problem everywhere, but I'm just saying the value systems and the ethics and lines are greyer in some parts of the world than in other parts. There are not as many black-and-whites in India. So, private equity then becomes understanding competition, understanding whether this business model is viable, understanding whether I can grow 3x–4x, and also knowing that I never want to lose money on this. So, look at the mindset shift. I am actually modelling an Excel model, showing it to my LPs and saying, I'll lose money four out of 10 times. It's built into the DNA. And there, the guy says I can't lose money even in one out of 10 bets. I've spoken to three–four PE investors and that's what they tell me.

DJ: When you're investing in an idea which is so nascent, how do you even mathematically model for risk? Is there an art? How much of it is an art versus a science?

KR: It's all art, actually, in the sense that the art is in the estimation. The science is in the fact that we are also shamelessly feeding off existing data. We're not geniuses that we're contemplating how this can get there. So, as much as people might say that around a Facebook, there was a proxy in Google, they might not have thought Facebook might make that much money in advertising but you have to make that proxy bet in your head, at least at a certain point. In the early days, we're essentially saying the US does that far better than us and that's why they're the mother ship of venture capital is they're able to take this punt that if this is so sticky, if people are willing to spend time with something, eventually somebody will pay. So, if you tell me, is there a science to it, of course, there's a science to it. But is there an ability to know exactly how to value it? That's an art form. That's a punt and its market specific. No disrespect to anyone in India. Firstly, you wouldn't be able to build those kinds of companies in India because we are not able to think that way. It takes 40–50 years of evolution to think that way. So, even if we did think and now, with no disrespect to my US peers there's no way I would pay the same value in an Indian market, because the market conditions are different. Your ability to monetize, that's the science.

So, apples to apples, same company, I will pay half the value in India and a lot of entrepreneurs crib and say, oh, that's not fair, my peer's getting 2x there. So, just go build in the Valley. You'll get it. You're that good, right? How many Indians have emigrated? They're co-founders in one-third of the Valley companies from what I hear. So, go do it there. You are playing for these conditions. You will also get a driver for 15,000 rupees, right? So, these are life choices, truly. There, you will figure out, you ride in an Uber, you don't need a driver, but those are life choices. You can't ask the VC ecosystem to adjust for the different market absurdity that exists in some other market. So, it is what it is. So, when people crib that oh, VCs don't get anything here, the private equity guys — it's unfair comparisons. When cycles play out, people get bolder. And that's actually the art again. It evolves because it's constantly an art form.

Since you asked that question, when I am paying some guy more than 10–15 crores of valuation firstly, where does that number come from? It's basically actually how valuable is the founder's time? How good are they? They are committing three–four years to it. How solid is the idea? But it's not about that. It's actually how much to dilute the guy, how much money does he need to get there? So, this is all scientific in some sense. And then, you're working backward and saying, OK, whatever they do with my three, four crores of money, can they prove enough traction that we can get beyond 60–70 crores of pre-money in the next round. They can't, so why would I pay more than 20? I want a 3x. That's my risk matrix. That differs from me to the next guy to the next guy. So, those are the art forms which evolve. We all learn, iterate, learn, iterate.

DJ: And you have your heuristic…

KR: It's all heuristics. In a nutshell, it's all heuristics. There's a market heuristic, there's a firm heuristic, and everybody plays by that.

DJ: If I look at people that are successful venture capitalists and look at where they have come from, in terms of the experiences they have had, what are some of the patterns that emerge? Do you have a sense of what that pie-chart might look like?

KR: Honestly, I don't. My sense is even if you take entrepreneurs and you say, can all of them become great VCs, and I don't think they can. In fact, the Valley all this is hearsay, so I haven't seen data to be honest, so I won't belabour the point too much but most people say some entrepreneurs make good angels because that's the DNA, to be helpful. They make terrible VCs because that's a different job.

DJ: And the failure mode being?

KR: Two things. There's a discipline that you have to have around managing money. When it's yours, it's a different rule book. When it's what's called OP[iu]M, in our industry very jocularly, Other People's Money, meaning…

DJ: It's addictive…

KR: It's very addictive and it's a very different proposition, it's a different trap. So, it's not the same rule book. That's why I said, you have to have discipline around how you invest, how you exit, how you return money. That's what my customers on the investors' side actually appreciate. So, if you're telling an entrepreneur who's built tech businesses, now you're going to become a financial services business, which is what it is, it's not an easy jump. Second is, the classic problem of entrepreneurs being very sure of what worked for them and almost being in denial that other models can work. I honestly believe every one of these legendary success stories is a slightly nuanced, different playbook. The broad general principles of business are about the same, but if you look at the entrepreneur himself or herself that, I think, it's a very different path. Different backgrounds, different approaches, different team structures. So, where is the playbook? And then people who've actually experienced it and built it a certain way don't know any other play and find it very difficult to adapt and give the benefit of doubt to other folks. So, fundamentally, I honestly don't know. It's a classic mix, I think. People have come from working in start-ups, building start-ups, being in consulting, and being in banking. I haven't gone and done a resume review; I am seeing who pulled it off best.

DJ: If we look at the failure modes when people move from consulting to VC investing, and then if you could subsequently talk about banking to investing, are there two or three failure modes that people should watch out for?

KR: I think, it depends how deep rooted your behaviour is in your prior industry and how married to that behaviour you are. And, I think, that will make you a poorer VC investor. I don't think it's that much about failure mode. Actually, I am an advocate that everything teaches you something. So, if you are able to take that as learning and apply, it's actually going to be very powerful; if you take that as baggage and say nothing else will work as well, it's a problem. So, let's take those examples that you brought up.

So, if you take consulting, usually most people apply very well-established frameworks and venture is all about destroying them. So, if you come and say my skill is to apply the framework and build a new one and know where the world is headed and I am going to be the innovator of that framework. And it's not like they have to be a genius, they just have to learn from the market. They see six new different types of marketplaces working, you become an advocate. So, you will see a lot of guys who, like in the US, their blogs are followed by 100,000 people, and that's because they are thought leaders in this classic consulting mindset, consulting frame. Some of these are journalists, some of them are consultants, but they have gone and applied that core skill to venture in the way they should. It can easily be a trap in the other direction and say, oh this doesn't work. That's precisely the point. Nine out of 10 great businesses in using tech happen only because they have disrupted an existing framework. So, that again is the consulting trap.

Banking, my sense, again, I might be wrong. The best bankers who have probably moved to venture truly, truly believe in very, very long-term relationships. I think, banking is conventionally a deal-making/transactional deal. There are some who will espouse that they are relationship oriented, there are some who maintain them. It's very tough when you have a year-end goal and you have a year-end bonus…

DJ: You need to keep the momentum…

KR: No, even if you worked with a great guy last year, we can't contribute to your bonus for the next three. We sold this company, let's say. What you are going to do with it? Your wealth arm might talk to him but you have no reason to. So that's much tougher. They profess that but how many actually practice it is the challenge. And in our business, you have to see the same guy for 8–10 years. My first fund guys are still thriving. Some are dead, but they still come back. So, it is only a relationship business. So, I might be reading too much into it but I feel like their transactional DNA might get in the way, especially in early stage, because it's all about nurturing not dealing with. And we did touch upon the entrepreneur pitfalls.

DJ: I am curious about the early few months whenever somebody joins a new place, whether it's a new industry or a new company or a new culture and specifically in the VC industry. What I find interesting is that it takes a while before you get a sense of how you are doing as an investor. So, what's your experience or what's your advice to people to deal with the first passage of play till the real feedback starts kicking in?

KR: So, I think, if they've already joined, it's too late for one part of the advice, which is what we give to a lot of people who come knocking on our door, which is saying, find any avenue which allows you to work with start-ups as much as possible before formally enlisting as a VC. If you are not ready for a 10–15-year journey, it's a nonstarter. The economics are that way, leave alone just actually going through the success part, even the economics are pretty back ended. So, why're you joining if you don't believe in a journey that long. It's almost like committing to 15–20-year journey/relationships, set of relationships, even with the people who run that firm, the philosophy of that firm, etcetera, and saying, I am smart enough, gives me the job. So, we encourage a lot now given the variety of portfolio that we have. So, go join one of our portfolio companies. How can VC start-up experience hurt? It is fantastic. You will learn so much and depending on what your skillset is, even though you might be a mature 35–40-year-old, advice is always go as early as possible. If you want to sign up as a co-founder and you fall in love with an idea, even better! Go try out the journey. If you are successful, you will make a lot of money. Otherwise, you have done exactly what we asked you to do. It's like a mini-MBA without the additional cost.

DJ: The opportunity cost of time being the cost.

KR: That's the only cost, but you learn so much. Because we have portfolio choices today, we tell them, you pick a city, you pick a sector, and I will give you three. Now what's interesting and this is actually true of what happens post them joining as well is, for the first time, they realize how much they're respected by the entrepreneur and why is it any different if you already have a VC visiting card versus actually being outside pitching to that entrepreneur. It's exactly the same. Why would an entrepreneur, once he has taken your money, why would he respect you for anything other than what value you can add to him? So, if you are sitting on the outside and you don't have that agenda, you've still got to convince the guy that you are good enough to be in the firm.

And if you actually have become the VCs, so let's say this path ended in both of us agreeing that he is a good candidate and he came on board. And on day one, what locus stand does he have in the firm? Nothing. I probably trust him. The entrepreneur knows his skill, he might be six years younger than my colleague but he'll say, who is this guy? What does he know? My relationship is with you. So, we had this challenge in fund one. We picked a lot of the portfolio and then we parachuted in two–three guys and the guys only want to talk to us. So, they get habituated. This means, now the job goes back to some of the characteristics I explained 30 minutes ago. If you are not able to win over the entrepreneur by the value you can add to them, the difference you can make to their day-to-day, he is going to say I will see you as little as possible and not as much as possible. And if you're not seeing the entrepreneur as much as possible, you're not learning.

So, first six months, 12 months, clearly forget about dreaming anything bigger than just learning. Maximize the number of meetings you can go to, track the partner, track your colleague, join in for other meetings, volunteer to help where you are not asked, and win your way through because that's life for the next 20. Why would he pick your money for 500K when he has 20 other choices? It's exactly the same conundrum. Just because I have a tag called Blume, you are not necessarily a slam dunk. You have to go win over why he wants to work with you or she wants to work with you.

DJ: My colleague in my previous firm, Egon Zehnder, would say, people pick the photographer not the camera. At the end of the day, are you the person delivering the value?

KR: Which is also, by the way though you didn't ask, I will disclose it is the secret sauce in venture capital. The greatest VC firms are built on the back of a reputation that they have the ability to make the founders, arguably, successful or feel good about the journey, some of those attributes. So, they want to work with the best VCs for that reason. So, the trick of the trade is actually, it's not about you saying I know how to pick well, it's whether the best entrepreneur wants to pick you. In the US, it's truer because there is a dearth of…

DJ: Supply–demand equations are different I guess.

KR: Very different. Here, arguably, wherever you get the money from, you will work with it. It's a very compromise-oriented marriage. There, you can actually choose your partner if you're really good. So, may be not that true in India but this is valid if you want to be a great VC irrespective. That's my point. So, even if the guy is being an a!@#$%^& about it and you have 10 such founder relationships, I'm sure you're not going to get great companies the next cycle working with you. So, that's the learning basically. You have to be humble about the fact that that it's all learning for the first few days.

DJ: What surprises people the most?

KR: Obviously, the classic stereo types. People think this is a flashy, very cool business, spotting cool technology, cool founders, and cutting cheques and the fact that you're empowered to cut cheques eventually, if not in the first year, in the third year. Even in our case, for the first two years they don't feel the pain. Third year, when you say that your incentives are aligned to how your sub-portfolio performs, you are responsible for that 500K, that's when it dawns on them for the first time that they're actually responsible to someone. Now, I have to educate them and instil in them that it's not my money, it's not your money, it's somebody's money, and I have gone and put my name, my brand's name and reputation on. So, if you screw up, it's okay. I will take some of it as learning cost so that you become a better VC in the next cycle, but then don't ask for rewards and don't ask for, arguably, sticking around.

So, that's when it dawns on them that oh my god, this is about process discipline in picking, in learning what's out there. Then, cutting the cheque is the easiest part of the job. You have to actually nurture and watch this investment. And 90% of this country still hasn't figured out how to systematically exit. So, that conundrum is still in everybody's head. What have we done in the last 10 years? Have we figured out the entire cycle? So, all the sexy part is fine. And people used to rebel at oh my company got a 10-million-dollar round. What does that mean? Just means there's four more years of the journey. Then, there's more grind, there are different sets of problems. Everything is a sub journey and you feel like oh, I set a milestone but is that the end state? Is it the finish line in terms of a grand exit? It's not. It's a stage one, stage two, stage three kind of a thing.

So, initially, you used to think our job is to get it to stage one's end. And then you get it there, and you realize it's an entirely different set of problems. It's like that video game where the obstacle courses change and you don't know what they are like and you don't know your players' skills versus what the challenges of that particular market are. It's not apples to apples ever. One guy is building something which is competing against Paytm, one guy is building something which is competing against a global marketing tech company. And that's when humility dawns, and you will be saying, I have to start focusing, I have to start understanding what I am good at. That could be sector, it could be geography, it could be the type of founders, and it could be the stage of risk I am ready to take. And that's when the penny drops, I think. So, all the glamorous stuff goes away.

DJ: How do you evaluate an entrepreneur? In my head, there is a tension between two different elements, one is about the entrepreneur having a certain dogged persistence about an idea, the other is about the entrepreneur being open and willing to input when new funders come in. And it's a fine line. You don't want people on either side of the spectrum. So, how do you walk that tightrope from the judgement standpoint at the time of investing and along the way?

KR: So, I'll answer your first question, which is around, what do we look for in a founder, which actually leads into the next question. Capacity to learn, listen, not be obstinate beyond a point is very, very important in my view. And we will come to the second question but because you intertwine the two questions interestingly, the more stubborn they are in taking inputs in such an early stage of the business, the more unlikely they are to succeed in my view. Because actually at the early stage, you don't know anything. You don't know the challenges of organization building, what the problems set can expand to, which direction it can go to? And that is what actually we look for in a founder. So, all of these are interlinked. What I mean by that is, essentially, we realized that great founders have two sets of qualities around organizations. That it's not about them, it's about building phenomenally great teams and across the board. So, philosophically, you have to be willing to share rewards, you have to be willing to share responsibilities, and you have to be willing to, therefore, take inputs. You have to respect them. It's not about the paper exercise of building a team. If you are not surrounding yourself with the views of people who you respect, then why bother?

And then, extending it one step further, they have to respect that we are partners as opposed to us versus them, and again, if they don't, they will obviously disregard our inputs. The two are intertwined and these are the characteristics you're typically looking for. Do they appreciate the feedback that you are giving? So, it's a double-edged sword. That's why I said, if you are being arrogant about your views, a lot of founders become cynical about why the hell should I take the VC's views? Or anybody for that matter, let's say nine out of the 10 people in the world broadly — and we see it a lot more in India than we should in my view and which is why the Valley is the Valley, I keep saying; culturally, the Valley will not dismiss you. And because the ecosystem engages these guys, it becomes harsh. We put up more barriers and stop listening than they should even though they might have not started that way because they are getting so much pushback from customers, from investors, from some bigger company…

DJ: It's the climate that drives behaviour right?

KR: In some sense, this is what we work very hard to refine. For example, we'll tell our founders that go and meet your competitors, go and have like open dialogues, learn from each other, see where you might compete in future; there is no harm. Don't sit and bitch about it without even meeting each other, which happens. That's the kind of openness we try to build because I take another view. Been in it for six years now and I don't see myself doing anything else in life. If I am doing this for another 20–25 years, I better be in an ecosystem I like to be, how much ever it's been corrupted by somebody else. I'm saying, what the hell, I'm not going to live with a crappy ecosystem and put my life through this. So, I want it to be better and I will fight it. So, I blog about it, I blog about the behaviour, because I said, if I don't fix it, then I'm to blame too. So, that's one aspect.

The other aspect, I think, is truly whether they're passionate about solving a very specific problem and not one of the other two things. So, you say, what's unique in that? I'll tell you what's unique in that. There are lots of founders who think there is a fashionable problem to solve. That's not the founder we are looking for, for one. And the classic, unfortunately, entrepreneur hat that India was willing to put on people was as long as you know *ki 'Achcha business karta hain, ya achcha paisa banata hain, woh achcha entrepreneur hain'.* That's not start-up venture investing. That's every other type of investing but it's not venture capital early stage. If you are trying to pick there and saying I want a decent probability that this succeeds. And look at the odds that are stacked against you. It has to be that this person is passionate around solving something in the world even if he is truly like hard-core Madu-Gujju style wants to make money; it's got to be around that. Then, that passion comes through and then it reflects in hiring, it reflects in your ability to build a business, capital, every element of not perfectionism but great product and brand that you build. Without that, it's just *dhandaa.* Let's get it done. And, I think, there's a huge difference. The second difference is, it's not about just the problem we are chasing, sometimes people fall in love with the solution they sell. So, they say, this product is a rock-star product. I am saying the customer doesn't think so. No, but I don't care, mine is a rock star. So, if you don't know how to listen to your customer and adapt and not lose sight of the fact that you are solving the same problem. Please focus on the problem not on the solution.

DJ: But how do you suss this out, at the time of evaluating the entrepreneur?

KR: I think, you question them on whether they have thought through what behaviour they are influencing. Why are they doing this? Where was the origin of the problem in their heart? Why did they think they should chase this idea? Sometimes backgrounds throw up cues on this. So, Sam Altman gets credit for it. A lot of us think, but he blogs it better. So, Sam Altman says, I always start with their childhood. So, you want to understand the person deeper and their motivations, not simply the fact that they came up with a cool idea in a college lab and decided they want to become start-up entrepreneurs. That might be good enough, I am not saying no, but at least ring fence the risk. That's all I'm saying.

DJ: As a start-up grows, what have been your observations around inflection points, where the organization begins to overtake the entrepreneur in terms of the leadership required? I guess in a lot of these situations, since you are betting on an exponential growth, there is risk of the business or the organization becoming too big for the person at the driving seat. Is there a pattern around when that discontinuity starts getting amplified?

KR: Again, unfortunately, I think there are too many schools of thought. So, I wish I could slot things and put a formula around it. I honestly still am struggling for it. There are legendary stories, whether that's a Steve Jobs or an equivalent. If you look at actually Elon Musk's ventures, he's only built one from scratch. All the others, he has actually gone in as that guy who needs to be parachuted to take the idea to greatness. Even Travis [Kalanick], for that matter, with an Uber idea you're not the original, original guy who thought of it; the idea was someone else's. So, therefore, there are examples on all sides is what I'm trying to say. And then you take a Jobs who was a college dropout and then he got conflicted. He had a management style he was never willing to reform. And then the guy will say, boss, you own x percentage of the company, the board runs the business, I'll tell you how it should be run and kicks him out. So, where's the playbook here? There's no playbook.

I think, what a good founder and good investors/boards should constantly educate and monitor is, should we keep looking for good people, even ahead of their time. So, you don't wait for inflection points to perfection. Then, it always becomes contentious, is my view. And so, your point, is it around the funding milestones, is it around revenue milestones? I wish it was so predictable only because the path of the start-up itself is not predictable in India. So, then trying to build predictability around any of these is very, very difficult. So, I am not joking, I have noticed a lot of firms which go either a funding or revenue or a growth spike and then actually flatten out for a bit because they're figuring all this out.

DJ: At some stage you say, maybe I should take care of the shop, look inward…

KR: So, the boards start saying, what's going on? Who's fixing this? Then, suddenly you get a sales head and realize that the co-founder is a great one-off selling, terrible sales process guy. And so suddenly you realize that sales, just by fixing it with one guy and bringing process, it went 2x next year. Something as subtle as that. But that's a lot of work. It took one year and six board meetings to convince the co-founder that he is just not cutting it.

So, my point is, there's no milestone, it's a continuum, as long as you have capital, can afford it. That's the start-up challenge, how much money do you have in the bank? Which kind of resources are you likely to pull? Who in the market is interested in joining you? Is such talent even available? And they play the playbook that you are giving them to try and solve the playbook. So, all of this is evolving as we speak. In 2011, these were like what are we talking about, boss, let's just get to the next stage. In 2015, we were saying, guys, XYZ Fresh desk has a play book in this. Dhruva has a playbook in this, enterprise; in consumer, three guys have built massive 100x scale in three years, Shopclues, Delivery, whatever, let's go and talk to them. So, we have a company called Dunzo. Arguably, it's like a pre-A company. They've raised about 2 million but it's very tiny. What is 2 million? Their hire is from Uber. Where was this guy five years ago? You would learn the job on your own.

So, I think, it's a combination of the founders themselves scaling and recognizing where they are not able to scale, point a. And then, the ecosystem giving you enough resources both in terms of capital and people and then the choice sets all come together, the answers emerge. If the board and the driver and the founders are sleeping on the wheel, somebody will overtake you or you'll miss the growth, the boost that you could have got. That's the trade-off. So, that's what I am saying. Now we have begun to realize that, you are going to be so damn conscious of this well in advance. So, I'm seeing that in one company recently. I introduced them to somebody who can be a powerhouse. That guy may not join them but I am opening five conversational paths. So, if you don't do it now, we won't be able to find the right person one year from now. That guy might join in three months and we might be home, but that's like asking for miracles.

DJ: You're right and it's just like how you spoke about hiring for Blume. It's a journey, it's never a transaction over three months. It's a journey of engagement and chemistry.

KR: We have a company called Belong, where Vijay is like obsessed about culture and fit and all of that. And that fellow will do like due diligence for everybody, on every guy, on every employee, on every investor, because it's a dream; it may or may not be as relevant in the end state but in his mind, that's the journey. So, I wish everybody thought that way. It's not about filling spots. If you want to build a truly, truly great company, the more of these ingredients I'll place, the higher the probability. Somebody can turn around and say, no, no, I did it without all this bullshit, but the point is you're reducing the odds and that's all we're trying to do. Always, increase the odds.

DJ: We spoke about risk reward and it's a portfolio approach, where if you make 10 investments, maybe a small fraction of them goes on to give you the returns, disruptive returns. If you look at the ones that don't, let's say two out of 10 grow to give you disruptive return, if you focus on the eight, are there any patterns around what the bottlenecks are, which come in the way of them meeting these returns? We can focus our attentions on the one and two and what worked well there but sometimes there are lessons in the other eight as well, in terms of what didn't go well.

KR: I think, all our learning comes from there. I mean it's not objective that you go and say, I'm a hedge fund, I can run this strategy and I can replicate the success. You can sit in the corner room and replicate that model. In this case, it's not. Replicating the same damn success in Delhi versus Bangalore is different, leave alone Valley here. So, you've to build a very different organization to build that same level of success. So, I think that's lost on people. Therefore, only the failures teach you very well, because you know, we've seen this pattern on three cases. What went wrong? They hired the wrong person or wrong co-founder fit or wrong investor or wrong allocation of capital, blew up money too fast. Then, you get to the business side and you say, marketplaces where you subsidize one side is OK, subsidize two sides is not. So, you pick up a lot of nuanced learnings. And what, I think, we collectively do is, we all learn from it, we all discuss it in smaller teams, we don't publish as much and this isn't the time to. We are not building in the '70s like the Valley was. In the '70s, if you learnt it, how would you even talk about it? Probably in a club dinner, literally would have to say first Saturdays, let's gather and chat, look at the choices you have. And people seem to be afraid, people seem to be hesitant. It's changing. There are people who blog about it, there are people who talk about it, very early days. So, a healthy debate is the best way the ecosystem as a whole will learn and it's not a bad thing because the entrepreneur has to be conscious of this before getting into the journey. Half of them are repeating the same mistakes which you've done five years ago. This is embarrassing. That means we are not evolving and all of us need to evolve.

DJ: If you look at the pie-chart of eight failures, just to push that further, are there any predictable patterns in terms of what that breaks into?

KR: It's broadly the same three buckets, which are selection criteria buckets. That's where it breaks. It can't be different from that. Selection criteria buckets are three-pronged: market opportunity, founders plus team, and in India they changed it from the idea/product it has a role but I would put that into the team bucket, let's say, do they have the capability to build a great product and leave it there. The third bucket interestingly, the market opportunity for the business is one thing, the structure of the venture capital market dictates success-failure too, and we put a healthy 20% weightage on that. It's 40-40-20. So, if you look at failures, it's arguably disproportionately in that venture capital bucket because you fund a niche here, you won't get funded the next round. If you build a sub-optimal 50-million-dollar business which in the US would have got acquired for 50 million, in India somebody will pay five for it. So, you can claim that it failed, but the reality might be it was a good product, limited base, was successful but it was not viable to bootstrap itself to a 50-million-dollar level, either because it's a consumer business which wasn't making money or the founders got tired because they were waiting for four years and they got to million dollars as revenue, nobody was giving them the money, they were tired of bootstrapping. So, when you look at the reasons, it will always fall in one these three buckets; within them, there will be five–six sub-variants.

DJ: What have you seen in terms of good practice for entrepreneurs to scale up their leadership capability as the organization scales up? What do good entrepreneurs do?

KR: You know, we used to joke about it in business school, what is vision, what is mission. It's almost disastrous if you don't have it in a start-up. It's counterintuitive actually. The start-up needs it more than the big organization. The big organization reflects it in the scale to which it's already been built. My last day job was in *Times of India*. You go and interview 10 people, you'll figure out the vision-mission for yourself. It's there. It might not be perfect but it will be 5 on 10 to 8 on 10 with everyone. In a start-up, you don't define that, it can be 1 to 10. A founder thinks he gets all of it, somebody down the line doesn't know. So, one, ability to articulate that, define that. It goes back to purpose: what are you solving? What are you building? Because to me, that attracts the best talent that attracts the most missionary of team members, and eventually the leadership that you might want for your company. If they're not married to the idea, and you're trying to hire them in, you better be at like a few hundred billion dollars of value. Somebody is coming for a job again. So, I found that the best founders are actually able to win the best people from the market, basis this, not simply throwing money.

DJ: Vision and purpose.

KR: Which if you had thrown money then you fall into these traps of having built organizations at random scale too rapidly without having any emotional connect with whatever you're doing. At first drop of some situation, whether it's funding or whatever, all of them will run out of the door. I'm coming up with empirical things on the fly, but it's like if you're coming up with a need to negotiate everybody's salary down by 20%, eight out of 10 times, it's probably a problem. That means there it's coming from salary, it's not coming from what you are selling. I think that the best leaders I have seen have built on that former premise having this in place. Again, all things which we in HR courses used to laugh about culture setting can go so wrong so quick, it's not funny. Because an organization is a baby. It's like teaching cuss words to a child can go very wrong. It's so fragile in that sense that if the leaders are not working around fixing that very early… Sometimes you're not capable, you're maybe not confrontational, and so you don't talk about it.

DJ: Just building on that, are they at a point in time in life and maturity to understand the nuances? Back to your point about no substitute to experience.

KR: You are right in that. So, some of them get it intuitively. That's why I think the best founders are the best founders because they just get it. Others seek help, others don't, and don't get it. So, that's your matrix. There's a disaster waiting to happen. They should ask and honestly we didn't realize that that might be the biggest ask or that box could be the biggest ask of us in the various things that people can ask. And you don't know how to offer. You can't go there and start coaching them on this. It's got to be intuitive. So, one, you try to gauge it at selection and then, you are hoping that this person acknowledges who he's got on board and knows how to ask. Which is why, for example, I feel a lot of angels to be very disappointing, because they think it's about cutting the 10-15 lakh cheque. It has nothing to do with that. It's about all of this. If you are not there for that person, you are effectively taking a blind punt on the fact that they will figure this out, entirely on their own.

So, the other interesting aspect is which I think is a good predictor of this in long term, we need to organize that data so we can actually predict this at some probability — who referred this person? So, who do they look for mentorship, who are they connected to, who has judged them enough that he thinks it's worthy enough to risk their goodwill to pass on the lead to me. All sorts of behavioural curation have already happened. So, you just take that cue and run with it. That's exactly what we are doing in one case now. Lead came through one founder. I think, he's too emotional, so he won't apply a different lens. Put it to another founder. Both founders we respect and love a lot. Both are fund one founder. Both gave thumbs up. We'll finally do the deal.

DJ: Rajeev, who's now the global CEO of Egon Zehnder, he was a partner in Delhi, he would always say, 'When you source a leader through another referral, whom you trust, who is an accomplished leader and a trusted leader, that always carries higher weightage and you can pound the table with a lot more conviction than somebody that you pick up from LinkedIn.'

KR: We get 3,000 pipeline; probably 750 to 1,000 are referred. Now, within that there are some 10 grades of references. The banker who met you at a conference also refers, your founder refers, your LP refers, and your friend refers. Everything is a different call. I wrote this in my blog and said, unfortunately, you have to come to us referred to have a decent probability of even getting heard. That's our pipeline. It's not like I don't want to help you but I want to say this upfront.

DJ: That's why Wharton has letters of recommendation. I mean, everybody can write a CV. You need some market validation.

KR: Absolutely. These cases, it's all about that. There, whatever said and done, unless the guy is a criminal or something, he just comes two years and goes away. Here, you're putting millions of dollars behind this person. This is a bigger bet. So, you better get it right as early as possible.

DJ: Three things that they didn't teach you, at two business schools, to drive home the point.

KR: I'll tell you what served me very well, and, I think, I didn't learn them in business school, just me, I think. A little bit of personality and a little bit of iterative learning that helped me understand the world better. One, is definitely importance of communication. How you communicate, when, where, why. How actually is the magic sauce. I don't think we paid any attention to it. I think, that's all you should teach in business school. How do you deal with different stakeholders in life? If you can do that, you're, like in most business situations, 80% of the way home. You might not do transactions. That's what I said. You can turn down the person. How you turn the person down is the art. How could you not teach that in business school? So, I wonder about that a lot, that's definitely number one.

The second, again it's a personality thing. We should and I don't know how you teach it but I think it's always personal; it's never business. And just the hard learning again, everything can come back to bite you and everything shapes you. So, how does business in this notion that it was described by some Wall Street dialogues of movies that 'it's business, it's never personal,' how was that again not filtered into your education? I mean, it's like going to parenting school and not knowing how to parent. And being told this is what happens in the second trimester and then in the third trimester, but when the baby comes, I won't tell you.

DJ: It's a fundamental disconnect…

KR: I feel very disturbed by that, because, unfortunately, I think, there's a one segment of the audience in the class who might think, this is what we're here for. Bang the table kind of aggressive, alpha male businessman. And I just feel like that might work for you and five people but the rest of the world, what's their opinion of that? So, that's second.

Third, I think, we talked a lot about it in business school, but what we were not encouraged to do is to apply it in practice a lot more. So, your thought frameworks and case studies of what works goes back to your success stories. To some extent, here and there, a professor will throw in a case study around what didn't work and you have a debate about it. My point is both teach you frameworks of how to see risks and see what works, what doesn't work.

DJ: Still at a cognitive level.

KR: Now, tell me, apply it to everything you are comfortable with and break it down and show me what can be disrupted. So, my point is, it's not about, tell me whether Uber was cool. You take an area or the professor gives an area and says traffic or cabs or whatever is broken in the city. Fix it. Come back with an idea. So, it used to be projected as business plan competitions, entrepreneurship classes. I think, that's bullshit. Everybody should go for it. That's so limiting in thinking of oh, if I can make money out of this, what is the idea?

DJ: Fascinating! It's almost like the difference between reverse engineering what's working in the world versus programming the world for the future, which is a very different mindset. B- school is often about reverse engineering what's working in the world today, which necessarily does not translate to build in future.

KR: I might be paraphrasing but there's a very famous quote: 'The reasonable man adapts himself to the world, the unreasonable man does not and the world progresses because of the unreasonable man'. Again, when you're sitting in business school, why are you educating an entire bunch of 800 people or 500 people to go and play by the playbook and not change it. So, this framework for change, I don't think is driven hard enough, and, I think, it should be part of every course, every curriculum. So, if you say you are doing HR building, where is the world going? Why is a new media outlet today projecting the future of jobs? Why isn't a business school doing it? You're supposed to be the pioneers on this thought leadership. So, it's there, in theoretical frameworks, but I don't think the students are forced to apply it. So, I missed all that. I just feel like, wow, that's all business school should have been about, these three–four things.

DJ: One piece of career or life advice that stuck with you the most?

KR: It took a long time but I think advice has come down to where I am at in life today, which is the clichéd, 'Love what you do and you'll never have to work a day in your life'. Again, once you are sitting in this position, you appreciate the earnings, the income, the learnings from everything you've done, but you wonder, 'What nonsense! Why would I do anything else?' And why isn't everyone in that position? I don't expect anyone to miraculously its luck of the draw, you can find it in your second year, you can find it in your tenth, you can find it in your fifteenth, but, I think, if you're not striving for it, you're going to be miserable.

DJ: That's an interesting point that segues to the next question, which is that one is about attributing it to luck but is there a way, again if we pick up the transition from the B-school as a moment where you make a choice in direction and then maybe subsequently how we navigate our ship, is there some headline thought on what one could do to maximize the odds of finding oneself in this position of loving what you do?

KR: I think, it's difficult. I don't have an easy solution for it, maybe goes back to one of those things they didn't teach you at B-school. It's a tough one. So, I gave a lot of soft stuff. It's not easy to build into curriculum openly and the curriculum is tough as is. They're trying to teach you every aspect of business that you can possibly cram into two years, and if you go into some of the European schools in one year, so where's the time for anything else? But if you are truly going there to change course, try to find your path, trying to see where you want to be in 15–20 years, shouldn't there be more application of time and mind to that point? So, at one level, there is, within three weeks of joining business school, the first pre-placement talks and all of that start. So, an orientation is there, but, I think, it's very bland. The company is coming and telling you what it does.

DJ: It's a series of sales pitches…

KR: By the company. Where are the people? Where are the roles? Why aren't there Q&A video/webinars with alums that are actually in the industry? So, why am I not being invited by IIM-B or Wharton to tell them what, post 15–20 years of working, where I'm at and what? The same as the blog post that you are doing. That's fascinating.

DJ: It's one of the objectives of why I am doing what I am doing.

KR: Which is amazing that you are doing it but that's what every B-school kid should be doing it at age 23. So, it goes back to the very first point you asked me: why two MBAs and how? It's the path. I am not saying I'll define the path for you. It's fraught with eight different roads, and some of it is design and some of it is fate. So, you can't judge that on day one, but at least the end goal becomes somewhat nebulously clear. That's shockingly absent in most people's thought process because you are working off a very limited set of data on what that job looks like from the outside and not understanding from the inside. Sometimes, you will talk to your guys who are two years out because the poor guys are sent to pitch. They will say '*do saal pehle*, you got hired out of Wharton or IIM-B, go talk to your kids'. What the hell do they know? It's the guy who's actually spent 20 years that knows. Let him speak passionately. I'm not saying you should diss it. Banking is great, for ABCD, not for XYZ. So, ABCD, sit up on a pedestal and tell why banking is great. Mingle with the person over a drink and say, am I this guy? Do I want to be this guy? No? Let me get the hell out of this banking role. It's as simple as that if you ask me. And a lot of choices I made were like that. I just didn't see myself as a consultant. I didn't see myself as having that discipline, that framework. I think, most people say I am a great advisor. I am a consultant in some sense. But not in that application of how the output is, arguably, fee for giving advice, whereas I wanted it to be a principal role. My wife jokes, now, you give other people money to give advice.

DJ: This podcast is titled Play to Potential, which is about individuals really figuring out what that sweet spot is that you alluded to and really, playing the best they can. In summary, any one or two takeaways for the listeners?

KR: I think, people get guided by too many conventional paths, and, I think, the world's further shifting away from conventional paths. Whether that says jobs are going away or there's constant learning in the job, all of that is true. It's always been true, it's just getting accelerated like crazy. So, the soft skills are going to matter as much as the hard skills. We touched upon a bunch of them in a different context. So, one is, you can't run away from that if you want to be very successful and very satisfied. So, a lot of people say, no, I'm not that kind of person, I don't want to do that. I don't think those options exist anymore. You have to be able to negotiate for yourself ideologically, philosophically, what are absolute cannot dos. Half the reason I like venture is, I think, it just stays out of the gamut of all these murky business practices which might already be present in a company or in the industry. You are shaping all of that, so you feel you have a lot more control. It's just not my DNA. So, you tell me, I will give you a billion dollars, go run a PE fund, I will say no, thank you, I'm happy where I'm at.

So, you can play to your potential when you know what you know best about yourself. Which is why sometimes I'm surprised how every 23-year-old thinks he can be a great entrepreneur or a business person. You don't know much about yourself. When you adapt yourself to these various situations is when you know what your potential is, what you don't like. Probably a lot of the times, lot of people really don't ever know, maybe it's a 20-year journey to get to know what they don't like. It might be too late but what you don't like informs you. So, I think, knowing one's potential itself is such a big challenge that if you are not open about discovering that, then you are always going to be sub-optimal in some sense. Might be happy, but you might not be playing to your potential. That's kind of the philosophical take I have on it.

Reflections from Deepak Jayaraman

DJ: I hope you found the conversation purposeful. Thank you for listening. For more please visit playtopotential.com. You can also catch the podcast on iTunes, Stitcher and other popular Podcast apps. If you found this conversation of value, you might also like to listen into my conversation with Avnish Bajaj and Kartik Hosanagar. Look forward to having you tune into one of the subsequent conversations at the Play to Potential Podcast series.

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Karthik Reddy - Nuggets

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- 13.01 Karthik Reddy - IIM-B, Wharton, and path to venture investing
- 13.02 Karthik Reddy - Articulating culture and hiring for it
- 13.03 Karthik Reddy - Pie-chart of time in venture investing
- 13.04 Karthik Reddy - Venture investing — What does it take
- 13.05 Karthik Reddy - Transition pitfalls — Banking, consulting to VC
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- 13.08 Karthik Reddy - Dealing with hyper-growth and scale-up
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About Deepak Jayaraman

Deepak seeks to unlock human potential of senior executive's / leadership teams by working with them as an Executive Coach / Sounding Board / Transition Advisor. You can know more about his work here.

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