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Context to the nugget

As an entrepreneur who has built a business, how do you engage with an entrepreneur when you are an investor? Avnish talks about walking the tight rope of providing input while holding back as appropriate.

Transcription

Deepak Jayaraman (DJ): What does it mean to be an investor after being an entrepreneur? The reason I ask is, empathy is helpful, and intrusion is not. How do you walk the tightrope of ensuring that you provide the support but at the same time you hold back so that you are not breathing down the shoulders?

Avnish Bajaj (AB): Interestingly, there are obviously a few investors I respect. There's one in particular called Fred Wilson of Union Square Ventures. So, the conventional wisdom in the US over the last 10 years it's the most mature venture environment, and I would argue even in China is that the operator investors make better venture capitalists. So, the people who have been operators in their life or entrepreneurs or some such. Interestingly, this guy just sent an email the other day and he said, if you look at me, meaning him, Mike Moritz of Sequoia, Bill Gurley of Benchmark, none of them have been operator investors. So, there used to be a school of thought, which was probably 10–15 years ago, which said that the best investors in the world will probably have operating background, but the worst investors in the world will also be the operating-background guys. And the others, the non-operating-background guys will have lower beta and can still be great investors.

The reason they would be the worst is exactly for the reasons you said and the reason they would be the best is also exactly for the reasons you said. The reason they can be best, they can empathize more, they can relate to situations more, they are able to give better strategic advice, they are able to give better operational advice, they are able to give better organizational advice, everything, because they have been there, done that. The negative is exactly the same reason. They tend to back themselves more. Instead of backing the best founder, they will back their own thesis with the founder. They get in the middle of too many things; things the founder should be doing, they would end up doing. So, the right answer is to be able to figure that stuff out in your own brain and use the positive and not the negative, I think, the best guys are able to do that. Now if you look at the...

DJ: Actually, maybe if I could ask there, what are the one or two things that differentiate the two clusters, the one at the top and the one at the bottom? What about the two clusters would you say could be different?

AB: So, it is not about the two clusters as such. I would say it's a much more philosophical answer. I think, the philosophical answer is, in my view, this business in particular, of venture investing, can be learnt but cannot be taught. So, the question is, how self-aware are you? How much of the feedback loop is working for you? Where have you realized that maybe I was backing myself and not an entrepreneur? Where have you realized that you are getting your hands in the weeds and then it becomes your problem? I think the best guys figure it out.

I have gone through that journey myself. I used to back myself. I used to be telling the entrepreneur do this, do this, and do this. The best returns I have made are when the entrepreneur tells me, no, no, no, because they know what they are doing. And frankly, if you ask me, my own personal journey, the intellectual stimulation of working with somebody who's much smarter than you and is doing a much better job than you ever can, is a whole different thing. So, it's about the self-learning loop that differentiates the two clusters.

One cluster is self-learning, I use the term outside-in, is getting signals. Mark Andreessen puts it very well, that he has four or five people he looks up to and any situation he is analysing, those people are sitting on his shoulders and he is having arguments with them. These are the kind of people who are just constantly making themselves smarter, by examining different angles, taking different points of view. Versus people who are just very inside-out, always very prescriptive, think they know the answers, don't collaborate. I think that's what differentiates great investors. So, it's not as much operators versus none. Operators, because they have been there, have a higher tendency to be inside-out, because they think they know it. The good news about non-operators is they are very open. They don't know it. Operators have a higher tendency to fall into this trap of saying; I know the answers, let me prescribe, and so on and so forth.

Reflections from Deepak Jayaraman

DJ: It was interesting to have Avnish talk about the fact that operator turned investors often figure at the top of the pile and the bottom of the pile for a different set of reasons. A similar insight actually showed up in the book Give and Take by Adam Grant. It's a lovely book and I would urge you to read it. In the book, Adam talks about three different types of people: givers, takers and matchers. He goes on to say that when you look at a bell curve of outcomes in terms of success for a minute without getting into what is success, he says that people at the bottom of the pile are often givers. He says that they are the people that often get used as door mats. He then goes on to say that strangely enough when you look at the people right at the top, they are givers too. The only thing that differentiates these guys from the guys at the bottom of the pile is that people at the top are often very strategic about how they give and that can sometimes make all the difference. A lot depends on how you walk the tightrope of providing support without intrusion going back to what Avnish was talking about in terms of how operators work with investors. Thank you for listening. For more, please visit audioboom.com and look for Play to Potential or subscribe in iTunes.

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End of nugget transcription

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Avnish Bajaj - Nuggets

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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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