BUSINESS HISTORY REVIEW
WINTER 2008 BOOK REVIEW

Creative Capital: Georges Doriot and the Birth of Venture Capital. *By Spencer E. Ante*. Boston: Harvard Business School Press, 2008. xix + 299 pp. Photographs, notes, index. Cloth, $35.00. ISBN: 978-1-422-10122-3.

Reviewed by Leslie Berlin

In his introduction to the first book-length biography of respected Harvard Business School professor and pioneering venture capitalist Georges Doriot, Spencer Ante writes that "Doriot should be revered as much as other well-known business titans such as J. P. Morgan, John D. Rockefeller or Andrew Carnegie" (p. xix). Ante, an editor at *BusinessWeek*, never convinced me that Doriot merits reverence, but in *Creative Capital* he does an admirable job of introducing Doriot's work, and describing its influence, to what one presumes will be a wide range of readers.

Ante structures his book chronologically, beginning with Doriot's birth in Paris in 1899 and ending with his death in Boston in 1987. This works well, but for business historians it is most useful to think of Doriot's work as falling into three, at times-overlapping, categories: teaching, venture capital, and globalization.

Doriot, the son of an automotive engineer and a teacher, came to Harvard Business School as an MBA student in 1920. After a stint at the investment bank of Kuhn, Loeb, and Company in 1926, Doriot returned to the school as an assistant dean and associate professor of industrial management. He taught at Harvard Business School for the next four decades; his time there was interrupted only by five years' service in the U.S. Army.

Doriot called his most popular class "Manufacturing," but the syllabus contained few lessons about factories or production methods. He taught his students to manufacture their own success in business and in life, offering lectures—he eschewed the case method—on topics ranging from how to analyze an industry or a corporation to how to dress properly. The course, which required two separate research projects, was famously difficult and enormously popular; by the time Doriot was asked to retire in 1966, nearly seven thousand students had taken his class.

Doriot's career as a venture capitalist formally began in 1946, when he, along with several leading politicians, business executives, and academics from the Boston area, started American Research and Development (ARD). Though, as Ante points out, risk capital has been around for centuries, ARD established a new model with three key features. First, ARD pooled money from investors, some of them institutions, that were in no way related to each other or to ARD's founders. Second, ARD management (over which Doriot exercised almost absolute control) determined how to invest this pool of money without direction from the investors. Finally, after a few false starts, ARD sought to fund small, science-based companies or ideas for companies.

The early years at ARD were difficult. The concept of venture capital was so new that potential investors were wary. Several portfolio companies failed. Doriot had expected ARD to be profitable in three or four years. It took six.

The most important company in ARD's portfolio was minicomputer manufacturer Digital Equipment Corporation. In 1957, ARD invested $70,000 in Digital in exchange for 70 percent of the company. In less than a decade, this investment was worth $400 million. One should note—Ante does not, but David Hsu and Martin Kenney do in their article on ARD published in *Industrial and Corporate Change* in 2005—that although ARD's compounded annual return rate of 14.7 percent between the year of its founding and 1971 compares favorably with the 12.8 percent compound return rate of the Dow Jones Industrial Average for the same period, its return was actually 7.4 percent, if Digital is not included in the portfolio.

By the late 1950s, ARD was in trouble, facing pressure from the National Association of Small Business Investment Companies and a hostile Securities and Exchange Commission (SEC). In 1961, ARD became a publicly traded, closed-end fund. Eleven years later, after Doriot refused to name a successor, ARD was acquired by Textron.

As a globalist, Doriot worked to export his two great loves—business education and venture capital—beyond the United States. He began pushing for a European business school in the 1920s; in 1959, his vision became the Institut Européen d'Administration des Affaires (INSEAD). Doriot also helped to launch venture-capital firms in Canada and Europe.

Ante interviewed roughly sixty people and made extensive use of Doriot's papers at MIT and the Library of Congress. At several points, he provides excellent sketches of topics related

to Doriot's work (a brief history of the SEC, a discussion of early forms of risk capital) that provide context without sidetracking the reader.

The book does suffer from a few problems. It is extremely difficult to track ARD's portfolio companies or ARD's own asset valuation over time. There are also unnecessary mysteries: Ante notes, for example, that "Doriot did not have enough money to pick up the tab for lunch" in 1965 (p. 189). When Doriot died some twenty years later, however, he owned Digital stock worth some $52 million. How did that happen? This is important. ARD failed, in part, because its employees could not become rich while working there; the SEC did not allow ARD employees to participate in any sort of profit-sharing plan or, after ARD went public, to hold stock. Consequently, the best employees left, often to start their own venture-capital firms. Given this reality, how did Doriot become so wealthy? Also distracting are Ante's frequent lurches into largely meaningless images that compare, for example, Doriot to Yoda (p. xiv) and compensation problems to kryptonite (p. 208).

Such issues aside, Ante has done valuable work. The influence Doriot had on his students, among them President George H. W. Bush, and on the CEOs of ARD's portfolio companies was significant. Doriot was the prime mover for early venture capital, though I would argue that his influence on the modern venture-capital industry is indirect. Neither ARD's corporate form, nor its approach to compensation, nor its business model, nor its originally altruistic mission to improve the New England economy persists in the modern venture-capital firm.

Doriot conceived and largely implemented the plan for INSEAD, which today many consider the leading business school in Europe. From the long historical view, it may well prove to be his most successful startup.

Leslie Berlin is project historian for the Silicon Valley Archives at Stanford University and the author of The Man Behind the Microchip: Robert Noyce and the Invention of Silicon Valley *(2005).*