

This is the first in what will be an on-going series of interviews with entrepreneurs and people who work closely with entrepreneurs.



Attorney, David H. Oden, is a partner with Haynes and Boone, LLP. He works in the areas of venture capital, corporate securities, mergers and acquisitions and general corporate matters. David is focused on providing counsel to emerging businesses. David is counsel to RENN Capital Group, Inc. (investment adviser), Renaissance Capital Growth & Income Fund III, Inc. (one of the funds managed by RENN) and Integrated Security Systems, Inc. (one of our portfolio companies), among others.

We wanted to interview him because, having worked with countless venture capitalists and entrepreneurs, David has tremendous insight into the world of entrepreneurial CEO investing. Additionally, David is an entrepreneur in his own right as he was instrumental in establishing Haynes and Boone's Richardson office.

We asked David to list the characteristics of an entrepreneur. First, entrepreneurs must be captains of their own ships. They must be in control of their own destinies. To be clear, David isn't saying that entrepreneurs must be captains. What he means is that entrepreneurs themselves feel compelled to be captains. Second, entrepreneurs, before they became entrepreneurs, probably made bad employees. They were unable to conform to someone else's idea of how things should be done. Their bosses were most likely "idiots".

Third, entrepreneurs are bull headed. They want things done their way and they don't take advice from anyone. From David's standpoint, entrepreneurs usually make for non-compliant clients. If you want to them to do the right thing, you better take your time in convincing them because if you try to move them all at once, you'll have a fight on your hands. Fourth, entrepreneurs are flexible and adapt well to change. As David pointed out, Plan A never works. It's what you do after Plan A falls apart that matters most. Fifth, entrepreneurs have an above-average tolerance for risk. This is something we've heard before, but David put an interesting spin on this oft-cited characteristic of entrepreneurs. He suggested that it may not be a higher risk tolerance after all; it may be that entrepreneurs don't perceive starting new businesses as risky. Entrepreneurs simply believe in the opportunities that have presented themselves and are confident in their abilities to take advantage of those opportunities.

David's CEO clients fall into three categories:

1. Technicians. These people generally have technical backgrounds, e.g., engineers. These types of people are very closely aligned with their businesses as they may have created the technology upon which the businesses were built. As such, these kinds of CEOs are more emotional about their businesses.

2. Salesmen. These are the people who can sell water to a drowning man. The importance of selling cannot be overstated. Greg Gianforte, founder and CEO of RightNow Technologies, would certainly agree with that statement. He has a sign on the wall of his office that reads: “Nothing happens until somebody sells something.” The difficulty with these people is that they don’t care about anything other than selling and they won’t be bothered with details. They don’t notice, for example, that their cost structure is out of whack. According to David, salesman CEOs are the best kind of legal clients because salesman CEOs break things, but don’t fix them.
  
3. Managers. These people are likely to have a financial background, e.g., former investment bankers. According to David, these are people who are simply riding a horse for the sole purpose of creating wealth. Like riders for the Pony Express, they will ride their horses into the ground if it will get them to where they want to go. Manager CEOs are David’s least favorite clients. Why? David enjoys the relationship side of the business (he counts most of his clients as friends). Manager CEOs are more interested in making money than they are in establishing relationships. Therein lies the fundamental difference between entrepreneurial CEOs and

manager CEOs. Entrepreneurial CEOs want to build something; manager CEOs want to make money.

David shared a number of interesting stories about the entrepreneurs he’s worked with over the years and we thought we would share a few of them with you. These stories highlight some of the characteristics of entrepreneurial CEOs.

For the first story, we go back to the start of David’s career. He had just finished helping his clients (a couple of gentlemen in their 60s) sell their business for a handsome sum. Most of the folks in the room were gathered at one end of a conference table. One of the selling principals stood alone at the other end of the

table. He was standing, but he was leaning forward with his hands on the table. David approached him

“I enjoy doing what I do because I get to help people achieve the American dream.”  
David H. Oden

and said, “Sir, I have your money.” The man didn’t respond. David then slid a check for \$25,000,000 across the table toward the man. The man raised his head slightly and with tears in his eyes, said: “There goes my baby.” That is an entrepreneurial CEO.

David’s second story addressed the concepts of risk tolerance, decision making and flexibility. In this case, David’s client was an entrepreneur running a company with revenue of \$150,000,000. The company was doing well and had an opportunity to do even better. However, like most opportunities, this one came with risk.

The company's biggest client was poised to become an even bigger client. Having assessed the concentration risk, the CEO decided to accept the added business from his biggest client. At the same time, he tried to grow the rest of his business – to diversify his client base. Ultimately, he couldn't do it, his biggest client left and the business collapsed. However, he cut expenses, survived and later prospered again. Did the man make a mistake by taking on such a big client? Even with hindsight, it's difficult to say. He made an accurate assessment of the risk. He just couldn't grow the rest of the business fast enough to offset the growth of his biggest client. In the end, it was his flexibility that allowed him to succeed. He took a chance and when it didn't work out, he adapted to his new set of circumstances. That's what entrepreneurs do. They succeed, but only after going to Plan B.

The third story was told in response to the question: "Who is the most successful entrepreneur with whom you have worked and what is it that made him so successful?" David described a man who worked as a vice president of a division of a big consumer products company. When the parent company became disinterested in this division, the man bought it from his soon-to-be former employer. The man then took the company from \$500,000 in revenue to \$200,000,000 in revenue. According to David, this entrepreneur's greatest attribute is that he is equally skilled in seeing the big picture and in handling small details. Indeed, it is rare for a single person to possess both traits. Additionally, David said that this man would be successful at anything he tried. We are not surprised by this statement. Talent is talent. For example, in the

world of sports, Dave Winfield, a member of the Baseball Hall of Fame, was also drafted to play in the National Basketball Association (NBA) and the National Football League (NFL).

Having heard some tremendous stories, we asked David to step back and offer some insights into the past, present and future of entrepreneurship. According to David, the entrepreneur is given more credit now, i.e., his status has improved. Years ago, we admired the person who spent 30 years at a Fortune 500 company, perhaps someone who worked his way up from the mail room to the executive suite. Today, we admire the entrepreneur, someone who has built something from nothing. People now recognize that small business is a vital component of our economy. As a result, small companies' access to capital has improved. Venture capital and private equity are readily available. Angel networks are commonplace and the micro-cap investment community is well developed. In addition, entrepreneurship is now being taught at the university level.

All of that seems positive. What hasn't been positive is the post-Enron regulatory environment.

As David said, it is unfortunate that we no longer trust our boards of directors to act as watchdogs. In the past, we allowed boards to exercise some discretion. Now, boards are being told what to do. We have replaced thoughtful consideration with checklists. However, as David has observed, regulation is a

<p>“Board members should own stock – to ensure that they are acting in the best interest of the shareholders.” David H. Oden</p>
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pendulum. The movement is slow, but inevitable. During the Reagan administration, the regulatory environment was favorable. After the collapse of Enron, the environment became more restrictive. Now, the pendulum is swinging slowly toward a more favorable environment. The movement is slow, but inevitable.

As for the future, David sees the continuation of a trend. Wealthy individuals, rather than retiring, are becoming micro-cap investors. David's experience with investors mirrors our own experience with entrepreneurs as we are seeing an increasing number of wealthy individuals, after long careers with larger firms, shunning retirement for the opportunity to become entrepreneurs. Entrepreneurship and the investment community that supports entrepreneurship are alive and well.