ARTHUR ROCK

Arthur Rock is a director with a difference. He invests heavily in the companies upon whose boards he sits. Rock has shown an uncanny ability to seek out new business ideas and evaluate the entrepreneurs behind them. He puts his money down, takes a seat on the board and aligns his interests with those of long-term shareholders.

In Silicon Valley, Rock is known as the grand old man of venture capitalism—a master of investing in and nurturing companies with new, untried ideas. What distinguishes Rock from other high-tech venture capitalists, however, is his commitment to staying energetically involved.

That, says Kenneth Oshman, chairman and chief executive officer of Echelon, has earned him the respect and trust of management and boards. "If it doesn’t sound right to Arthur, there’s probably a good reason," Oshman says.

Rock’s portfolio of ventures includes Intel, Scientific Data Systems, Teledyne, Echelon and Apple Computer. In each he has played a key role, both in raising capital and in assessing management and management’s strategy in the boardroom.

Today he continues on as director emeritus at Intel and as a director at Echelon, a company that makes devices that control automatic doors, industrial conveyors and security systems.

What distinguishes Rock as an investor/director is his long-term view. He consistently counsels management to forgo short-term stock gains for more long-term strength.

For example, several years ago, an outsider discovered that an Intel chip was prone to malfunction in certain situations. The press had a field day. Intel was initially inclined to replace chips at customers’ request. But "Arthur was very vehement about wanting to recall all the chips out there and repairing them immediately," says fellow Intel director Sanford Kaplan.

Sam Ginn, the chairman of Vodafone AirTouch and former CEO of AirTouch, seconds this characterization. He reports that Rock joined the board of AirTouch and put up a “sizable investment” at the time. Soon after, AirTouch’s stock hit a bump, and there were discussions in the boardroom about what short-term measures could be taken to help the stock. “Arthur, despite the hit to his own pocket, counseled us to take the long-term view,” says Ginn. Rock retired from the AirTouch board upon the merger of the company with Vodafone.

This long-term view also comes through in his work as audit committee chairman, a post he favors. Rock is known for championing conservative accounting methods, especially conservative forms of revenue recognition. A company can boost revenue in the short term by listing purchases that could be returned as revenue.
“He wants people to recognize that the people who put up this money are also partners and not just people to be gotten rid of.”

—George Roberts, former CEO, Teledyne

By his own admission, Rock has succeeded as an investor in Silicon Valley without learning much about the details of technology. “His main focus is not necessarily a business plan ... he wants to analyze who the guys are behind it,” says George Roberts, former CEO of Teledyne.

The son of a candy store owner in Rochester, New York, Rock graduated from Harvard Business School in the last 1950s and joined the Wall Street investment bank of Hayden, Stone & Co.

In 1957, he traveled to the West coast with a partner to evaluate the business plan of seven scientists and engineers who wanted $1.5 million to form a company. During that trip, he was struck by the wealth of business ideas that were being developed on the West Coast, and bitten by the venture capitalist bug. By 1961 he'd moved to San Francisco and joined lawyer Thomas Davis Jr. to form the first organized venture capital firm, Davis and Rock. The firm invested $3 million, and made $90 million on the investment by the time the partnership expired in 1968.

A $200,000 investment in Teledyne, for instance, which made products ranging from jet engines to shower heads, netted $1.6 million within 18 months.

In 1961 Davis and Rock invested $257,000 in Scientific Data Systems. Their investment was worth more than $100 million when the company merged with Xerox in 1968.

“Incidentally, the first time stock options were ever given to a broad number of employees... was Scientific Data Systems,” Rock says. “Max Palevsky and I developed that idea. He was the CEO and I was the chairman.”

Colleagues say Rock's biggest asset is his ability to evaluate people. He asks many questions, and listens hard.

“He wants people to recognize that the people who put up this money are also partners and not just people to be gotten rid of,” Roberts points out.

“At the first meeting everyone is on their best behavior. It’s only after a long period of time that you can find out the character of people,” Rock explains. In evaluating prospective investments, “I’d ask the same question several times in different meetings, to see if I got the same answer,” he says.

“You can tell in a conversation with him when he doesn’t like what he’s hearing. It can be debilitating when he does that, particularly when you have a lot of respect for the man,” says Andy Grove, chairman of Intel.

What is his view of the role of the board? He believes CEO succession is a major responsibility. When a CEO is appointed, Rock immediately asks him or her to start thinking about possible successors. And he invites potential successors in often to give presentations to the board. “Bringing in someone to be CEO from the outside works less than half the time,” he explains.

Rock says the Intel board started considering possible Grove successors about halfway through Grove’s tenure, and frequently asked them to give presentations to the board. Among these was Craig Barrett, who stepped into the slot in mid-1998.

“We’re on our fourth CEO,” Rock says. “Each one of them has been exceptional. I’ve never seen a case where that has happened. And it’s interesting — each of them was right in their time, and couldn’t, probably, have been the CEO at a different period of time,” he opines.

And the company’s long-term shareholders agree. Rock raised $2.5 million to invest in Intel. Last year the company boasted a net income of $6 billion. By Rock’s accounting, the original investors have gotten a return of almost 30% per year.