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Is Boston Still a Venture Capital Hotbed?

By Claire Cain Miller

Waltham, Mass., and Route 128 were once compared to Menlo Park, Calif., and Sand Hill Road, but is the Boston region losing its entrepreneurial edge?

The latest evidence that it may be: Greylock Partners, which was founded in Massachusetts in 1965, is moving its headquarters to Silicon Valley.

“Looking at Greylock’s history, for a long time, Silicon Valley has been dominant, in terms of money invested, returns and headcount,” said Bill Helman, a Boston-based partner at Greylock since 1984. “Silicon Valley is the most important market for what we do. It’s important we can say we’re Silicon Valley-based.”

Boston’s venture capital and start-up industries, once fueled by the minicomputer boom, have been shrinking in recent years. The amount of venture capital invested in Boston companies fell from $3.9 billion in 2007 to $3.3 billion in 2008, while investment in Silicon Valley start-ups stayed steady at $11 billion, according to the National Venture Capital Association.

Greylock will keep a small office in Waltham with two full-time partners, but its back-office staff will move to California, where Greylock plans to hire additional partners. Greylock is also moving its San Mateo offices to Sand Hill Road in Menlo Park.

The decision was an obvious one for Greylock, Mr. Helman said. Three-quarters of its portfolio companies and 90 percent of the market value of its portfolio are on the West Coast, he said, including almost all of its consumer Internet companies.

It has had some significant successes in East Coast start-ups, including OutlookSoft, which was acquired by SAP in 2007, and Constant Contact, which went public in 2007. But the majority of interesting opportunities – including Greylock investments Digg, Facebook and LinkedIn – are now on the West Coast, Greylock partners said.

Mr. Helman said the firm questioned whether the full-force shift to Silicon Valley was cyclical and the Boston start-up scene would recover, but concluded that it was permanent.

“Do I think it’s going to zero? No. There will continue to be interesting opportunities and venture capital will be and is successful in Boston, but we have a responsibility to investors to get them the best possible returns and geography is part of that,” he said.
In January, Paul Graham, founder of the start-up incubator Y Combinator, announced that it would no longer operate in Cambridge, only in Silicon Valley.

In an interview with the site Xconomy, Mr. Graham said that in Silicon Valley, investors are less frightened of risky new ideas, lawyers are more familiar with start-up deal terms and entrepreneurs have more support from other founders and advisers. The differences start early; Stanford students think about working at start-ups while MIT students think about working at big companies, he said.