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Lessons from Keith Rabois Essay 2: How to Interview an Executive

15-19 minutes

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published February 10th, 2019

This week's essay is on on how to interview an executive, though it may also be helpful to read when preparing to be interviewed.

From day 1, one of the most important jobs of a CEO is to hire incredible talent to your team. Hiring the right executive is one of the most leveraged activities a CEO can perform. Hiring the wrong one can set your company back by several quarters or even lead to a death spiral. Never building your exec team will prevent you from achieving true scale.

However, the process of interviewing an executive is vastly different than interviewing individual contributors. There are 5 traits you want to assess a candidate on. For a senior hire they should excel on multiple dimensions, but you can look for these same traits to identify high potential junior hires as well.

Summary

- First identify whether the open role is value creating or value protecting. If it's value creating, focus on ideas they've taken from start to finish even if they aren't related to the role. If it's value protecting, focus on whether they have lots of prior domain expertise related to the value you expect this role to protect.
- Assess whether they think like an owner. Do they own mistakes? Are they kept up at night by what they would do differently if they were CEO?
- Are they capable of strategic thinking? Can they keep your entire business equation in their head and even come up with new levers you hadn't thought of that can move certain variables?
- Do their strengths align with the major risks of the company? Do they diversify your leadership team's style and background?
- Are they a magnet for talent? Can they bring on people even better than themselves?

Value creation vs value protection

Inherently, startups begin without any value, therefore executives need to be taking large risks to disproportionately increase the value of the company. However, after your Series B/C, you now have a business with real customers at a decent scale. The VP of Finance or CFO of a later stage company is typically looking to protect the value that has been created. The company is now worth something and they are responsible for making sure that the company doesn't run out of money. You want them taking as little risk as possible. The first question you should ask about an executive role you are filling is whether it will be value creating vs. value protecting.

For a value creation role, you want an ambitious risk taker. You should be thinking "this person could be mediocre, but there's also some chance they become the most important person at my company". You do not want to have zero-defect hiring for value creators. If you don't make at least some mistakes in your value-creation hiring, then you are not taking enough risk on the candidates you bring in. The best candidates you interview will not have had this role previously in their career. If they are highly ambitious and risk taking, why would they be interested in doing a job they have already done before?

Value protection on the other hand is exactly the opposite. If you are hiring your CFO two years before you plan to go public, then you almost certainly want a CFO that has taken a company public before, or has reported to a CFO that has taken a company public. The person you are hiring should be calculated and conservative, with extensive experience doing exactly what you are asking them to do. Here you want to aim for zero defect hiring. A defect in the CFO who is preparing you to go public can set your company back years. Typically these executive roles are in finance, general counsel, communications, and operations, but there are exceptions. For example, Stripe hired their general counsel (GC) in their first 10 hires. Typically a GC would be value protecting, but in this case because Stripe had so many regulatory and legal risks to navigate, that their GC was one of the largest value creators out of all the early employees.

To give an example, we invested in a early stage local marketplace startup (think DoorDash, Uber, Thumbtack etc) that had to very consciously manage its margins. They decided that the first executive hire would be the VP of Finance. Now, traditionally, a VP of Finance is a value protection role. However, since this was an early stage startup, every executive should be a value creator. The company was choosing between two candidates. The first, which the company was leaning towards, had previously run finance at a local operations marketplace. In some ways, a perfect fit… if the role was a value protection role. The second, had limited experience managing margins since he came from a social media startup, but had built up a large finance team before making a switch into product and growth. If this portfolio company had been later stage, then the first hire would have been the more obvious way to go. But in this case, you want to take the risk on the candidate, who yes, might have no idea how to run finance at a local operations marketplace, but that candidate was immediately suggesting game-changing ideas in their first few interviews and doing far better on all the other traits discussed below.

The questions in a value protection interview should focus on assessing whether they already have the necessary experience needed for the role. The questions in a value creation interview should focus on understanding if they've implemented important initiatives at prior roles, and focus less on whether their prior experience lines up with this role.

Ownership mentality

Effective executives need to be able to take things off your plate, not add to it. They solve problems before you even know about them. That means they need to completely own everything within their scope and not constantly be looking to you for direction. Our favorite question which reveals whether a candidate has this mentality is to ask them "What would you have done differently at your last company if you had been CEO?"

If someone has a true ownership mentality, they have almost certainly labored over this question at night or in the shower many times, whether or not they were in an executive role. What would they have done differently if they could do things over? The ideal answers are substantive and thought-out strategies that are quite different from what their prior company was taking.

You are looking for someone who thinks about the business as an owner, not just an employee concerned with their specific role. An owner tends to own mistakes, using "we" and "I" more often than "they." It's the difference between "The marketing team's strategy was wrong" and "I failed to convince the marketing team to change direction."

Here's how I would discuss my experience at Teespring: one of the biggest mistakes we made was doubling down on a single user base and traffic channel that was in constant decline. This user base and channel took the company from $5m to $250m over just a few months, and we erroneously assumed the growth would continue. Looking back I give the analogy of the company being an addict: constantly trying to get that first high with the same drug, as the effectiveness wears down.

At the time I wasn't good enough to create and implement a different strategy. We should have recognized our core strategic asset, which was a massive amount of organic user generated content. We should have focused on distributing it across a variety of channels to monetize it, setting up a feedback loop to encourage more user generated content. Whenever someone asks me what I would have done differently if I were CEO I have an almost hour-long spiel I get into.

If a candidate just answers with something simple like "oh I thought our CEO did everything right" or "The marketing team made some mistakes", then that's not someone who is kept up every night worrying about whether the company they work at is as great as it could possibly be.

Strategic thinking

This one is amongst the most difficult to assess. You are trying to figure out whether this candidate can keep a business equation in their head and understand how to pull all of the various levers that affect that business equation. One of the best ways to do this is to ask the candidate if they have any questions about your business. If they possess this skill they will absolutely want to understand your business equation and which levers you have discovered so far.

Do they zero in on what the key risks of your business are or what your structural advantages are? Are they able to understand each step of your funnel? The questions they ask should be the same questions that keep you up at night about the long-term viability of the business.

Let's take a hypothetical example here and provide some example "good" questions. Imagine you are Max Levchin and interviewing someone for a role at Affirm:

Q: "As a consumer, why would I choose to use Affirm vis a vis other lenders?"
A: "By partnering with merchants, Affirm effectively has zero marginal customer acquisition cost (CAC), allowing us to provide very small ticket loans with relatively low margin. Other lenders would be unable to service these types of loans because they would have to pay some sort of CAC, effectively requiring the size of loan to be much larger or the rate to be much higher in order to pay for that CAC. By working with merchants, Affirm is able to provide credit to an underserved area of the market."
Q: "Ok so then what prevents other lenders from using this channel now that you've discovered it?"
A: "We do have some competitors in the market, but we are seeing some cross-merchant network effects, in that once a consumer has gone through the signup process for Affirm on one merchant, our ability to provide them approval at another merchant is instantaneous. This shows up in the metric of our merchant via higher conversion rates than any competitors a merchant could consider."

Some candidates will be able to follow along and probe your logic further and further, and it should feel like fundraising meeting where an investor is trying to dig into your strategy. Some will not be able to hold everything in their head: in this case, their follow-up questions are unrelated to your core strategy and could apply to essentially any business. Ideally their questions should make you consider something you had never thought about before or uncover a lever to your business equation you never knew existed. This is especially important for a value creating role, they won't be able to create enough value just by pulling the ones that you already know about.

Filling in the gaps

When deciding what executive roles you need to hire, write down all of the existential risks to the business, and all of the strengths of the current leadership team. Wherever there is the biggest gap amongst the biggest risks is where you should focus on for hiring. For example, Stripe had little experience in law and regulations, and it was a major risk area, so the general counsel hire was most important. For our local operations marketplace, they had lots of operations and engineering background, but little experience in the effects of pulling various financial levers to affect supply or demand, so the VP of Finance was the first hire.

One of the best questions to ask a candidate is "vis a vis other smart, talented people with similar backgrounds, what are your strengths and weaknesses"? Ideally those strengths should line up with the largest risks to the business that you don't feel confident your current team can handle.

You also want to assess how this person works and how that would fit into your organization. We generally encourage our founders to surround themselves with diverse workstyles so that they can handle a diverse set of problems. Claire Hughes Johnson, COO at Stripe, recently gave a talk at the Khosla Ventures CEO summit discussing how they assess workstyles and how their recent CFO hire was a perfect complement to their current team. The relevant section is here, it's about 2 minutes long.

Assessing someone's workstyle requires doing real work with them. You want to spend at least 15-20 hours with an executive before hiring them. Have them put together real work product, whether it's a 90 day plan, or a Bezos-style memo for an initiative they want to ship. Give them real homework, like studying the last few board decks, and discuss it with them.

Leadership and a magnet for talent

This dimension is the easiest to assess out of the five, but what you are looking for here is whether the candidate has built teams before. This doesn't necessarily have to be in a corporate setting, you can look for signals from their hobbies or college days. Most executives' performance is essentially a function of the quality of the team they build around them. High output management discusses this at length. Based on their strengths and weaknesses they would ideally hire someone who can round them out. If they are coming in as a VP of Marketing, and are stronger on messaging and design, then they should have a direct report that is more analytical. Ideally they have this person already in mind and have worked with them before. You want to look for someone who is a magnet for talent. When you hire them, they have a list of 5 people who they will immediately be able to recruit in. The more senior the executive, the more their core function is to hire an excellent team.

One of the best ways to assess this is through reference calls with prior direct reports and colleagues. Did they bring this direct report into the company? Did they retain their team for an extended period of time? Did they develop their team and make them more successful?

You can ask the candidate to come up with a hiring plan. It should align with the risks you expect them to tackle, and it should align with the headcount you think is appropriate. Do they say they need at least 10 hires before they can make progress? Then they probably aren't the right fit for an early stage startup.

This is related to ownership mentality, but here you're literally handing off a portion of your business: you want someone with a strong and well-reasoned opinion about where they want to take it. You don't want a manager who is purely reactive to the opinions of those above and below them, but instead has a clear vision of how they would lead their group and what their goals would be.

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The next essay is titled "How to be an effective executive".

Thanks to Lachy Groom, Evan Moore, Matteo Franceschetti and Ryan Orbuch for helping with this one