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Summary

Those Glowing Tales of Working at a High-Tech Startup vs. the Truth

"Employees get stuck repeating these narratives that they know are not true," an AOM scholar says./Shutterstock

By Michael E. Bratsis

Stories about working at startups seem to be all sunshine and rainbows, with everyone crossing their fingers for that privately held unicorn company worth $1 billion.

Everyone ignores the fact that even in fairytales, unicorns are rare.

Four AOM scholars decided to study "the persistence of unrealistic generalized startup labor narratives, which promise autonomy, rapid career growth, and significant financial rewards, despite high failure rates and unmet expectations" at high-tech startups funded by venture capitalists (VCs).

"Employees go in expecting a number of things—that they're going to learn a lot, they're going to have impact, that they're going to grow with the firm if it grows, and that they will have a lot of autonomy and control. But really, none of those end up being true," said Matthew D. Regele of Xavier University. "They don't learn much that's transferable. They tend to be tightly networked within the startup ecosystem, and that limits their ability to leave because they don't have the connections. Startups end up being all-demanding and all-consuming. And even in fast-growing, successful startups, employees end up not getting promoted often, because the VCs bring in outside managers. So the employees end up stuck there. The only way that they can even get one of those other startup jobs is to repeat these narratives and convince people that what they have learned is relevant for other startups."

"Employees get stuck repeating these narratives that they know are not true," he said.

The *Academy of Management Journal* article, "Falling Off the Unicorn: The Maintenance of Unrealistic Startup Labor Narratives"—by Regele, Rodrigo Canales of Boston University, tech startup (Smatch) founder Max-Gunnar Groberg, and Ellab Validation & Monitoring Solutions business analyst Nazanin Eftekhari—explains why founders, VCs, employees promote false narratives about how great it is to work these startups.

Three interrelated factors fuel the false narratives, the authors wrote:

- "Misaligned incentives between employees and investors." Employees and founders are fully invested in a single firm, while investors succeed if only one out of 10 firms in their portfolios succeed. In addition, the primary goal of most employees and founders is a growing, sustainable firm, while investors would rather kill off those "good enough" firms so they can focus resources on fast-growing firms that they can leverage to generate outsized returns.
- "Social pressures within the high-tech startup ecosystem." Dissenting voices are suppressed to maintain appearances of success.
- "Structural features of the startup labor market that trap employees in precarious positions." Limited opportunities for leaving and the stigma of failure make it difficult for employees to challenge the dominant narrative, creating a cycle that benefits investors and founders at the employees' expense.

The authors based their findings on 86 interviews with founders, VCs, and employees at successful and failed U.S. and Danish startups in biotechnology, software, hardware, and manufacturing between August 2014 and March 2016. Interviews averaged 90 minutes, and some of those interviewed worked in more than one of the three roles.

Study participants described their experiences across four stages of the startup lifecycle:

1. Resource acquisition
2. Launch
3. Growth and adaptation
4. Exit

Stage 1: Resource acquisition

Investor: *"They have no idea how a company might grow. And there's no product yet. It's all just make-believe and there's nothing wrong with that. … The entrepreneur keeps trying to push the dream forward and it becomes like a magic trip that brings everyone along. You say watch my left hand while your right hand picks the pocket and the entrepreneur says, 'Now we've made our sales number (but our profit number sucked), our sales number was really great (but our profit numbers sucked).' And what the entrepreneur is really saying is this isn't a business yet. … But they might just turn it around."*

Founder: *"He ended up joining the company and he is coding for us. He had to take a huge salary cut, from$120k to $80k. We do give him health insurance, but it is nowhere near as good as what he had before. Do I think this was a good financial decision for him? Probably not. But I have to hire what is best for my company … so I use all these nonpecuniary things that he cares about. … Huge financial cost, but he is not thinking of it that way."*

Employee: *"I really, really, really wanted to be a part of it. And I was willing to commit myself to, like, no salary if he would give me equity. And I asked for, I think it was 1%, because I was like the fourth person there. So even though I was the 'intern for the intern,' I was like, 'Hey, you're really not paying me and that's cool because I believe in this, and I think it's actually going to take off. You give me 1% and I'll make it work."*

Stage 2: Launch

Investor: *"A surviving, somewhat successful startup isn't very interesting to [investors]. Why bother? We don't actually care to just get our money back. We need to have big wins. And so, if there is a small chance for a win, a big win if you keep going, we'll say keep going [with an aggressive strategy] even if less-risky approaches are available."*

Founder: *"Even when I'm speaking with my bes5t friends about their ventures, it's impossible to know the full truth of [the] health of the venture because even your closest friends will be … in sales mode. They cannot speak to you truthfully about it, the picture is always rosy. It has to be."*

Employee: *"The two different strategies are going for the home run versus hitting singles. But I don't think for most startup teams the main goal is to hit a financial home run. I think that's a nice thing if it comes, I think the goal is to create something (that lasts). … Investors, on the other hand, only care about home runs."*

Stage 3: Growth and Adaptation

Investor: *"Employees are like mushrooms, they're fed bullshit and kept in the dark."*

Founder: *"Investors keep pushing for increasingly aggressive milestones (and timelines) and ask you to zero in only on the avenues with the most potential, leaving other alternatives behind. … You look at the milestones and you ask, are they 10% to 20% achievable? If they're 10% achievable, let's go for it. Only if there's no way to achieve it, then I'm not going to agree to it. … The tension is that as a startup you have … investors. It's no longer about your preferences. You're not in the driver's seat."*

Employee: *"You can't have a plan B in [a startup]. You can only have a plan A, and you have to put all in, all the time."*

Stage 4: Exit

Investor: *"We ultimately sold them to Facebook, but the founder was a brilliant, charismatic guy. … We only made two-thirds of our money back, but it was still the best investment we've ever made. Why? Because it's a great story of a great entrepreneur. … It gives us the opening to do another deal down the line."*

"While investors and founders reaped the benefits of success and minimized the personal costs of startup failure, employees were typically unable to do either," Canales, Regele, Groberg and Eftekhari wrote. "If the startup succeeded, they were somewhat better off, but the returns they received almost never matched their expectations … It became clear during our interviews that startups could leverage options as a hiring and retention strategy, in part, because … not a single employee in our sample had an estimate for the value of their options. … Several investors in our sample mentioned that the most disgruntled employees were often those in firms that reached successful liquidity events, as the value of their windfall typically fell far short of their expectations. Our data also made it clear that founders and investors were well-aware of these misperceptions."

"We do not intend to suggest that startup employment is necessarily a terrible experience only pursued by uninformed, naïve, or masochistic individuals," the authors wrote. "Much like free divers, back-country skiers, and free rock climbers, our interviewees often described a unique or even addictive level of meaning, exhilaration, and flow from their startup work. Yet, there are fundamental differences. Participants in extreme sports are not promised and do not expect unrealistic benefits beyond the experience itself. They are also conscious of the risks. In contrast to startup employees, they are fully aware that they are diving without a tank or climbing without a rope."

"VCs using a portfolio strategy are going to invest in 10 firms in the hope that one hits it really big," Regele said. "Whereas, if you're a founder or employee, all your eggs are in one of those 10 baskets. Founders and employees are not diversified at all. And as a result, that puts them at more risk."

"It was pretty shocking to hear from VCs how they fully recognize a lot of this was going on. And it bothered some of them to an extent. But on the other hand, it's like, 'Well, I have to generate returns for my investors.' So, they're acting in their own interests and in the interests of their funds." They also all described how the competitive dynamics between funds create additional pressures to conform to the model and its expectations.

Recommendations for employees, founders, and investors

"Many of the **employees** understand how VCs work. They understand that the majority of businesses fail. But they have sort of a lottery ticket mindset," Regele said. It's important for employees to "try to really understand what it's like to be working in a startup, and that there are tradeoffs. It can be a good opportunity, but there is a lot of risk, and it might be harder to find another job after, so it could actually slow down your career. Make sure you do your research. And if you do join, try to maintain connections outside the startup ecosystem, have a broader network, so you can make reasonable comparisons to what you're experiencing versus what people are experiencing in more traditional jobs."

"**Founders** are in a tricky spot," he said. "I think a lot of them don't know it until the first time they take money from investors. But once they take the money, they're beholden to those investors. That really shifts the control away from founders, and it might push them down paths that they don't necessarily want to go. It makes it hard for founders to be honest with the employees. Part of the lesson for founders in terms of negotiating deals is spending more time negotiating things like learning opportunities for employees, and even for themselves. Those things are rarely thought or talked about."

"I think there are possibly opportunities for **investors** who do take a different, more sustainable approach—they might actually get more out of founders and employees."

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