Lecture 14: How to Operate

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I'm going to talk about how to operate. I have watched some of the prior classes and I am going to assume you have hired a bunch of relentlessly resourceful people, you have built a product that at least some people love, hopefully raised some capital, and now you are trying to build a company. You have been forging a product and now you are forging a company. And I would actually argue, forging a company is a lot harder than forging a product. Basic reason is people are irrational. We all know this. Either your parents, your significant other, your brother or sister, your teacher, somebody in your life is irrational. Building a company is basically like taking all the irrational people you know putting them in one building, and then living with them twelve hours a day at least. It's very challenging. Now there are some techniques for coping with that some people get good at it, some people don't. But that's really what operating is all about.

So basically what you are doing when building a company is building an engine. At first you have a drawing on a white board and you are architecting it, and it looks especially clean, beautiful, and pretty. But when you actually start translating it to practice it actually starts looking more like this and you're holding it together with duct tape. It takes a lot of effort from people to hold it together, that's why people work 80-100 hours a week. It's that heroic effort to keep this thing together because you don't actually, yet, have polished metal in place. Eventually you want to construct a very high performance machine. A machine that almost nobody really has to worry about every hour, every minute. And as we used to joke about at eBay, that if the Martians took over eBay it would take 6 months for the world to notice. That's eventually what you want to get to.

As Warren Buffett says, build a company that idiots could run because eventually they will. So this is what you want. Basically a performance machine that idiots can run. Now as a leader, what is your real job, what's your role? Strictly speaking there is only one book ever written that actually explains how to do this. It's rather old, written in 1982 by Andy Grove, it's quite famous, and successful. And his definition of what your job is, is to maximize the output of the organization. Your organization that you are responsible for, so the CEO’s (responsible for) everything and VP would be a part of the organization, and the organizations around you. So if you are a VPE, you are actually responsible for the performance of the product team and the marketing team because you have influence there. So this is how you measure people, and you want to focus on the output and not the input. The old adage about measuring motion and confusing progress. You are measuring only progress. And this is going to sound like a fancy and glamorous thing to do. Maybe people get excited about managing a whole large organization and being “responsible” for the output. But in practice, what you are going to hopefully learn today is that it's more about things like ordering smoothies, teaching your receptionist how to answer your phone properly, and serving as a $10 an hour TaskRabbit for your employees. So let's talk about that.

So at first, when you start a company everything is going to feel like a mess. And it really should. If you have too much process, too much predictability, you are probably not innovating fast enough and creatively enough. So it should feel like everyday there is a new problem and what you are doing is fundamentally triaging. So some things will look like a problem, and they are actually colds, they are just going to go away. So somebody is annoyed about this or that, that is a cold, you shouldn't stress about it and you certainly should not allocate all your time to it. And some things are going to present themselves as colds, but just like in the emergency room if they are not diagnosed properly they can actually become fatal. What I am going to try to do is give you frameworks for thinking about when things are colds and when things are potentially fatal.

So one of the most important things I learned at Square is the concept of editing. And this is the best metaphor I have ever seen in 14 years of running stuff, of how to think about your job. It's a natural metaphor, so it's easy to take with you everyday and it's easy to transmit to each of your employees so they can figure out if they are editing or writing. It's a natural construct, you generally know when somebody asks you to do something, am I writing or am I editing? So an editor is the best metaphor for your job. And we are going to talk about the specific things you are doing in editing.

The first thing an editor does and you have all probably had this experience in school, is you submit a paper, to a TA, a draft to your friend, and the first thing that editor does is they take out a red pen, or nowadays you go online, and they start striking things. Basically eliminating things, the biggest task of an editor is to simplify, simplify, simplify and that usually means omitting things. So that's your job too, is to clarify and simplify for everybody on your team. The more you simplify, the better people will perform. People can not understand and keep track of a long complicated set of initiatives. So you have to distill it down to one, two, or three things and use a framework they can repeat, they can repeat without thinking about, they can repeat to their friends, they can repeat at night.

Don't accept the excuse of complexity. A lot of people will tell you, this is too challenging, this is too complicated, yeah well I know other people simplify but that's not for me, this is a complicated business. They’re wrong. You can change the world in 140 characters. You can build the most important companies in history with a very simple to describe concept. You can market products in less than 50 characters. There is no reason why you can't build your company the same way. So force yourself to simply every initiative, every product, every marketing, everything you do. Basically take out that red and start eliminating stuff.

Second thing editors do, is they ask you clarifying questions. When you present a paper to someone, what do they usually do? They find some ambiguity somewhere and ask, do you really mean this? Did you really mean that? Give me an example of this? That's what your job is. So you are in a meeting, people are going to look to you. And the real thing you do, is you ask a lot of questions. And they can be simple basic questions like should we try this seven days a week? Or six days? They can be fundamental questions like, where’s our competitive advantage here? We try to do this as investors too. Some investors will ask you a billion questions about a billion things and they will have you do diligence forever. We try to narrow down to, what are the one two three four things that matter most to this company? And only focus on those things. So it allows us to be more decisive and we can make decisions rapidly. It allows us not to distract you from your day job which is actually building a company. And yet still I think we get to the highest fidelity question because we don't have all these extra extraneous details and data. Now it's hard, it's something you have to practice. But when you get good at it, every step you eliminate, Andy Grove estimated you can improve performance by 30-50%.

Now the next thing you do is you allocate resources. So the editor construct, this is what editors do all the time. They take editors from the Mideast, covering the Mideast and they move them to Silicon Valley, because Silicon Valley is more interesting. Or they move them to the sports section because they want to compete on the basis of sports journals and other publications. So that can be top down, where I take a whole bunch of resources and people and say, we are now going over here. We are going to compete on this basis. Then next month, next quarter, next year well that Middle East coverage is getting boring, we don't want to do that anymore. Let's go chase after something else. Or it can be bottom up, just like journalists mostly come up with their own stories.

The people who work with you, generally, should be coming up with their own initiatives. So a reporter, generally, who covers Google will come up with the interesting stories that they are hearing in ether and propose one or two to their editor for approval. But it's not the editor saying, go cover Google and this is the angle I want. Once in a while they do that, but its not the meat and potatoes of what a journalist does every day. Your goal over time is to use less red ink every day. So one way of measuring how well you are doing at communicating or talking to your colleagues about what's important and what's not, about why some things are important and why some things are not. It's how much red ink you are pulling out in a day, it's okay if you are having a bad day and the red ink is all over the place. But it's not okay if the red ink next month is more than it was last month, and next quarter more than this, so measure yourself by how much red ink you’re creating.

The other thing that is very important that actually isn't as intuitive to a lot of people, is the job of an editor is to ensure consistent voice. So if any of you read The Economist, you can tell that there is one consistent voice. You can pick up any article, any post in The Economist and it feels like it was written by the same person. Ideally, your company should feel, on your website, on PR releases, on your packaging if it's a physical product, anywhere on your recruiting pages it should feel like it was written by one person. That's extremely difficult to do. And at first you are going to be tempted to do that yourself, which is okay for a founder to do that him or herself initially. Over time you do not want to be doing all of the consistent voice editing by yourself. You want to train people so they can recognize differences in voice.

See this website page, it looks very different than this recruiting page. You start asking questions, why is that? Is the reporting messed up? Is one of the leaders over here not really understanding the voice of the company? You have to fix that over time, but you want to start with the objective that everything should feel the same. It's quite difficult to practice, almost every company has one piece of the organization that isn't on the same voice. At Apple, which is notorious, even under Steve's regime, which is notorious for getting this right, if you asked someone who worked at Apple, asked them about the internal tools about recruiting, do they really feel like Apple products? All of them will tell you no. So you are never 100%. But you definitely want to get as close to that as you can.

Next complicated topic is delegating. So just like the other metaphor on editing is writers do most of the work in the world, editors are not writing most of the content in any publication. So that is true of your company, you shouldn't be doing most of the work. And the way you get out of most of the work, is you delegate. Now the problem with delegating is that you are actually responsible for everything. The CEO, founder, there is no excuse. There is no, there is that department over there, this person over there screwed up. You are always responsible for every single thing, especially when things go wrong. So how do you both delegate but not abdicate? It's a pretty tricky challenge, both are sins. You over delegate and you abdicate, or you micromanage, those are both sins. So I'm going to give you a couple techniques for solving this.

First, and this actually came from High Output Management and Andy Grove, is called task relevant maturity. It's a fancy phrase for, has this person ever done this before? It's really simple, how mature is this person in doing something? And the more they have done the exact same task before, the more rope you are going to give them. And the more they are trying something new, the more you are going to instruct them and constantly monitor. This is a basic concept but it's worth keeping in the back of your brain. The interesting implication, and this is pretty radical, is that any executive, any CEO, should not have one management style. Your management style should be dictated by your employee. So with one particular person, you may be very much a micromanager because they are quite low on this scale. And with another person,, you may be delegating a lot because they are quite mature on this scale.

So it's actually a good thing if you do reference checks on somebody and half the people you call say they are a micromanager and the other half say they actually give me a lot of responsibility. That's a feature not a bug. I didn't understand that at first at all. I used to be befuddled when people would do reference checks on me and come back with this complicated mosaic. Then I finally figured out that maybe I was doing my job correctly. So then I taught others that this is the way to do it.

A more nuanced answer that I came up with, is how to make decisions. Delegating vs doing it yourself. You don't want to do it yourself too often. So I basically borrowed from Peter, this is my first two by two matrix ever in my life, but he taught me something at least. You basically sort your own level of conviction about a decision on a grate, extremely high or extremely low. There's times when you know something is a mistake and there's times when you wouldn't really do it that way but you have no idea whether it's the right or wrong answer. And then there is a consequence dimension. There are things that if you make the wrong decision are very catastrophic to your company and you will fail. There are things that are pretty low impact. At the end of the day they aren't really going to make a big difference, at least initially.

So what I basically believe is where there is low consequence and you have very low confidence in your own opinion, you should absolutely delegate. And delegate completely, let people make mistakes and learn. On the other side, obviously where the consequences are dramatic and you have extremely high conviction that you are right, you actually can't let your junior colleague make a mistake. You're ultimately responsible for that mistake and it's really important. You just can't allow that to happen. Now the best way to do that is to actually explain your thinking why. It's easy to shortcut when you get busy explaining ways in the world but it's very important to try.

When I was at LinkedIn, I had a colleague that was quite, quite talented but occasionally would get annoyed if I did not agree with his opinion on something. So I would spend a lot of time trying to persuade him why I was making a decision a certain way. And his wild card, his card he would call out if I didn't quite persuade him was, okay you're the boss. And that to me was like I was burning a lot of social capital. Every time he said that I knew I was creating a really thin line and ultimately that was going to backfire if I did that too often. You want to track the times that you are doing that.

An example of this is at Square, one of my favorite people in the world and my second hire, first marketing hire, had this program he wanted to run called Inner Square which allowed Square merchants to give out, imagine a food truck outside put out ten Squares on the counter and people could just grab them. And Kyle had this great idea that this would be an awesome marketing program. Squares would spread Squares to other people and to some extent it was on brand. So it didn't have catastrophic consequences. Each of these ten Squares didn't cost that much money, so financially we could afford to do it. But at that time, my ten years of experience said it was not going to work on a meaningful enough scale for our metrics and I preferred not to do it. Kyle was so excited about this that I decided to just let him do it. He learned that when you measure this thing, it's not massive. It doesn't create massive value for the company. It did require a fair amount of operational complexity to ship all these Squares to people and figure out how to get them, etc, etc. But it allowed him to be excited about his job and to learn how to filter future ideas. So it was totally worth letting him make the “Mistake."

The next and most important thing you do is edit the team. So these are the people you work with. Nobody is going to have a perfect team and you certainly aren't going to start that way. So what I am going to try to do is maximize the probability of success in editing the team. So I like this idea of barrels and ammunition. Most companies, when they get into hiring mode, as Sam pointed out you should defer that a bit, but when you do just hire a lot of people, you expect that when you add more people your horsepower or your velocity of shipping things is going to increase. Turns out it doesn't work that way. When you hire more engineers you don't get that much more done. You actually sometimes get less done. You hire more designers, you definitely don't get more done, you get less done in a day.

The reason why is because most great people actually are ammunition. But what you need in your company are barrels. And you can only shoot through the unique barrels that you have. That's how the velocity of your company improves is having barrels. Then you stock them with ammunition, then you can do a lot. You go from one barrel company, which is mostly how you start, to a two barrel company and you get twice as many things done in a day, per week, per quarter. If you go to three barrels, great. If you go to four barrels, awesome. Barrels are very difficult to find. But when you have them, give them lots of equity. Promote them, take them to dinner every week, because they are virtually irreplaceable because they are also very culturally specific. So a barrel at one company may not be a barrel at another company.

One of the ways, the definition of a barrel is, they can take an idea from conception and take it all the way to shipping and bring people with them. And that's a very cultural skill set. Two questions are probably occurring to you. How can you tell who is a barrel and who is not? One is you start with a very small set of responsibilities, it can be very trivial. It can be something like, I want to reward the engineers in my office at nine o'clock every night with a nice cold, fresh smoothie. This is actually a real example. I was frustrated, our engineers were working really hard, and maybe 20%, 30% would stay late in the evening and we had already served them dinner but I wanted to give them something cool to reward them. You can think about alcohol but that's a little complicated. So smoothies were probably a little bit better than pizza, which drains you of energy. But nobody could get smoothies to show up in my office at nine o'clock sharp, that were cold, that tasted good, and that were delivered in the right place that the engineers would find them.

You would think this is simple but in fact it took two months to get this done. So we had an intern start, and I think on his second day I was explaining this problem, and he said, well I will do it. And I was looking at him like there was no way. I have seen my office manager fail, my assistant fail, who were actually pretty good. This just isn't going to happen. And low and behold they show up. On time, cold, delivered at the right place, and my first instinct was great. Nothing about the smoothies, but now I can actually give him something more important that is more complicated to do.

And that's actually what you want to do with every since employee, every single day, is expand the scope of responsibilities until it breaks. And it will break, everybody, I couldn't run the world, everybody has some level of complexity that they can handle. And what you want to do is keep expanding it until you see where it breaks and that's the role they should stay in. That level of sophistication. But some people will surprise you. There will be some people that you do not expect. With different backgrounds, without a lot of experience that can just handle enormously complicated tasks. So keep testing that and pushing the envelope. The other signal to look for is once you've hired someone, with an open office, just watch who goes up to other people's desks. Particularly people they don't report to. If someone keeps going to some individual employees desk and they don't report them, it's a sign that they believe that person can help them. So if you see that consistently, those are your barrels. Just promote them, give them as much opportunity as you can.

The other question everybody asks about people is when do you hire somebody above somebody. And when do you mentor somebody, and when do you replace somebody? And the way to think about this is that every company has their own growth rate, and every individual has their own growth rate. So some companies that are very successful, lets say LinkedIn. LinkedIn was always a very linear company, it never went like this. So for example I joined LInkedIn 18 months after we launched and we only had 1.5 million users. Which for a social product is a very small number. And when I joined I was the twenty-seventh employee, and when I left two and a half years later they only had fifty-seven employees. In contrast, when I joined Square as the twentieth employee, two and a half years later we had two hundred fifty-three employees.

So each company has it's own velocity on this curve. So if the company is going like this, you can only keep people on the roles if their own learning curve is going like this. On the other hand, if your learning curve is like this, anyone learning faster than that, you can give them the same roles as they do. So always track the individual slope of employee and the company growth rate. Now that you have your barrels figured out, and you can identify people who can take ideas that you have in the back of your head, scope it out, run with it, ship it, and it's perfect. Where do you aim these barrels?

So I am going to argue that you need to spend a lot of time focusing on people. This is something I learned from Peter Thiel actually. He used to insist at PayPal that every single person could only do exactly one thing. And we all rebelled, every single person in the company rebelled to this idea. Because it's so unnatural, it's so different than other companies where people wanted to do multiple things, especially as you get more senior, you definitely want to do more things and you feel insulted to be asked to do just one thing.

Peter would enforce this pretty strictly. He would say, I will not talk to you about anything else besides than this one thing I assigned you. I don't want to hear about how great you are doing over here, just shut up, and Peter would run away. And then focus until you conquer this one problem. And the insight behind this is that most people will solve problems that they understand how to solve. Roughly speaking, they will solve B+ problems instead of A+ problems. A+ problems are high impact problems for your company but they are difficult. You don't wake up in the morning with a solution, so you tend to procrastinate them. So imagine you wake up in the morning and create a list of things to do today, there's usually the A+ one on the top of the list, but you never get around to it. And so you solve the second and third. Then you have a company of over a hundred people so it cascades. You have a company that is always solving B+ things which does mean you grow, which does mean you add value, but you never really create that breakthrough idea. No one is spending 100% of their time banging their head against the wall every day until they solve it. So I highly recommend some version of that. You can be less stringent, you can give people three things to work on, but I would still track the concept of what would happen if you only gave everybody one thing to prioritize.

You don't want to be making all these decisions yourself. You have to create tools that enable people to make decisions at the same level you would make them yourself. So how do you create scale and leverage? The first thing I would recommend is to build a dashboard. This is an old Square dashboard, it looks pretty presentable even today. The construct of the dashboard should be drafted by the founder. You need to simplify the value proposition in the company's metrics for success on a whiteboard. You can have other people build the dashboard, I don't care about that. But you need to draw it out. Like what does business success look to us and key inputs to those and then have someone create something that is very intuitive for every single person in the company, including customer support to use. And then, the key metric of whether you succeed is what fraction of your employees use that dashboard every day? If it's actually useful, it should be close to 100%. It's not going to be probably 100% but you want to measure that. Just like you have quality scores for your other KPI’s with users, your dashboard needs to be as intuitive as your product is for users.

Another concept is transparency. Transparency people talk a lot about, it's a goal everybody ascribes to but when push comes to shove, very few people actually adhere to it. So let me walk through a little bit of transparency and different stages of transparency. Metrics are the first step. So everyone in your company should have access to what's going on. Other things I like to do, is to take your board decks. As you get more formal, the board decks will get more complicated. And actually review every single slide with every single employee after the board meeting. You can strip out the compensation information if you really want to. But every other slide you should go through with every single employee and explain it. If you can remember some of the feedback you got from your board that is really cool to pass on.

Another thing we did at Square is when we scaled, not everybody is going to get invited to every meeting, but they are going to want to go to every meeting. The way you scale that is you create notes for every meeting and you send them to the entire company. So we created notes at least for every single meeting that involved more than two people, somebody would write notes and send it to the entire company. So everyone felt that as the company added employees, they continued to track what was interesting, what was going on. And they never felt excluded, hopefully. Another thing is, even details around conference rooms. Every conference room at Square has glass walls. Because as soon as you have regular walls, people wonder what's going on. It's amazing, if they can see who exactly is in the meeting and who is meeting with who when, they don't start to worry nearly as much as about what's going on behind those closed doors.

Stripe, you may have seen a blog post about, I think Patrick wrote it, about email transparency, about actually allowing everyone to have access to email. That's pretty far out there but it has certain merits to it. I would call all the tactics you hear and read about as minimal viable transparency. I actually think you could push the envelope a lot more. Steve Jobs actually tried this at Next, he actually tried transparent compensation. I actually think that even though Next didn't do extremely well, the real reason wasn't around experimenting with compensation in transparency. There is a lot of merit to that. The critique of compensation transparency is, well we want people to be teammates and work together and collaborate. And if you look in the sports world where people are teammates and collaborate, all of their compensation is actually public. In fact, any one of us can look up one of their compensations in the sports world to get it exactly accurate. And somehow it seems to work. So I am not completely bought into that you need to keep compensation non-transparent.

And finally, metrics. So you want to measure things. You want to measure outputs, not inputs. And again, you should dictate this yourself. You should draft the dashboard yourself to tie this all together. One important concept is pairing indicators. Which is, if you measure one thing and only one thing, the company tends not to optimize to that. And often at the expense of something that is important. Cost is example of payments and financial services is risk. It's really easy to give the risk team the objective and say, we want to lower our fraud rate. It sounds great. Until they start treating every user in this audience as a suspect because they want to lower the fraud rate. So they require each of you to call them up on the phone and give them more supplemental information and fax in things. Then you have the lowest fraud rate in the world, you also have the lowest level of customer satisfaction score.

What you want to measure at the same rate as your fraud rate, is your false positive rate. That forces the team to actually innovate. Similarly, you can give recruiters metrics around hiring. And guess what? You will have a lot of people come in for interviews. But if you are not tracking the quality of interviewers, you may be very unhappy about the quality of people you are hiring and giving interviews to. So you always want to create the opposite and measure both. And the people responsible for that team need to be measured on both.

Finally around metrics. One insight I have had over my career is what you, you kind of want to look for the anomalies. You don't actually want to look for the expected behavior. So a famous example was at PayPal. None of the top ten markets that the company was planning on going after included eBay. One day, someone noticed that 54 of the sellers actually handwritten into their eBay listings, please pay me with Paypal and brought this to the attention of the executive team at the time. The first reaction from the executive team was, what the hell is going on? Let's get them out of the system, that is not the focus. Fortunately, David Sacks came back the next day and said, I think we found our market. Let's actually build tools for these power sellers instead of forcing them to write into their listing, pay me with PayPal. Why don't we just have an HTML button that they can just insert? And that actually worked. Then he thought, why should we have them insert it each time? Why don't we just automatically insert it for them? They can just insert it once, then every listing they have forever will have it automagically appear there. So that became the success for PayPal. Similarly I was at LinkedIn and I saw this stat that made no sense to me. The UI of the site was a little different then. 25% of all clicks, maybe 35% of all clicks from the homepage were people going to their own profile. And that didn't make any sense whatsoever. It was in the settings, you had to go to the margin and find a link. It was 25-35% of every click at scale, so this is just invalid stuff. And it made no sense whatsoever. I had never seen UI perform that way.

I went around for weeks trying to figure this out, then someone smart, actually it was Max Levchin, said something to me and I was like, he was like, it's vanity. I was like, ah ha! People are looking at themselves in the mirror. Thats a very good answer, because they weren't editing their profile. Nobody has something to edit everyday in their profile. But they were just looking at themselves in the mirror every day because it made them feel good. Then you could test that with, if I had more content would I look at myself in the mirror more often? It turns out, you did. If you had more endorsements would you look at yourself more in the mirror? You did. So we figured out what was underneath the utilitarian product, the product the team thought they were building was actually more emotional vanity. It didn't actually translate to the best feature like the Paypal example. We couldn't exactly put a button up that said, be more vain today on the homepage. That probably would not work perfectly. So it really never really took off like the Paypal example did. But it really clarified what users of the product really wanted. And we wouldn't have found that if we hadn't looked through anomalous data.

The final topic I want to talk about is details. And in my assigned reading there is a great book by Bill Walsh, called The Score Takes Care of Itself. And the basic point of the book is that if you get all the details right, you don't worry about how to build a billion dollar business, you don't worry about how to have a billion dollars in revenue, you don't worry about having a billion users. Thats a byproduct of what you do everyday to get the details excellent. So the topics that he talks about in the book that really resonated with me was, he took over the 49ers in 1979. They were the worse team in football, I believe they were 2 in 14 which is really bad if you don't know football. In the next ten years he transformed the team into NFL’s best, won three super bowls. And what's the first thing he did to go from the worse team to one of the best in many ways? He actually taught the receptionist to answer the phone properly. He wrote a three page memo on how to answer the phone.

And that may sound absurd but what his point was organization as a whole does everything exactly the right way. Then receivers will start running their routes at 7 yards not 8 yards. And that actually will matter. And if every person on the team executes to the same level of performance, you will have a team that is performing at the highest possible level. And at the highest performance level, the team will play at their best. So how to relate this to a company may include a lot of details that do not matter, not seem that they matter superficially. Most people would agree that details matter when faced with the user. But what the real debate it is on things that don't face the use. Steve Jobs famously in the Mac, insisted upon an immaculate circuit board, you can read about this in various books. The Mac, for those of you who don't remember the Mac. Maybe most of you here, but may have seen it. It couldn't be opened. So the circuit board couldn't be seen by any person in the world. There was no way to open the Mac except by the people that worked at Apple.

Steve insisted that it be absolutely perfect and beautiful. That is the sort of detail obsession that building this sort of company requires. Examples that may be a bit more practical for you instead of circuit boards may be, what sort of foods do you serve people? It actually matters more than you might guess. When people don't like the food you serve them, what do they do? They go gossip, they go complain to their friends, they walk over to someones desk. Then all of a sudden that lunch that they are complaining about is what they are spending most of their time gossiping and complaining instead of brainstorming. You don't have this serendipities idea matching another serendipities idea that creates a spark instead they are all wallowing and whittling around. The best thing you can do is give people the food they want or the food thats good for them that makes them more productive. So it may seem like this glorious job you thought you had is more like running around being a TaskRabbit for people. But it is to take things off their plate that is a distraction so they can be high performance machines. And if you take enough things away from people to distract them and give them the tools to be successful, all of a sudden your organization produces a lot more.

Similarly, often one that people get wrong is office space. So one natural thing is when you need an office to have an office manager of your team go out and find offices. And they will go out and come back with photos and ideas. You need to do that yourself. The office environment that people work in everyday dictates the culture that you are going to be in. And the final thing, then I am going to take some questions, is around effort.

Ultimately I don't believe you can create a company without a lot of effort and that you need to lead by example. So Bill Walsh, in the first chapter of his book, he asks this question, how do you know you are doing the job? And this is the quote that he gave everyone when asked that question. So if this is how you feel everyday then you're probably on the right track. If it doesn't sound appetizing then you shouldn't start a business truthfully. And with that I am done with the prepared part and I will see if anyone has any questions that I can try to be helpful with.

Q: So you talked about making compensation transparent. How would you do that, especially when people equate themselves to the value of how much their salary is?

A: I would do it probably in bands. You can do it, just everybody in the company gets paid the same. Or you could have all discipline, all engineers-- Or you could do it by experience. How Steve did it at Next was there was a high band and a low band. You either had a lot of experience or a low experience and that was it. So low band, now would be about $85,000 flat. Everyone flatly gets paid $85,000, if you are a supervisor with experience everybody gets paid $130,000 and that's just it. Sort of the Next translated for inflation.

Q: So the question is, besides food, what sort of details do others care about?

A: The laptops they use. This is just a default everybody has. Five years ago it was a benefit to get people high powered machines as opposed to optimizing our cost by having Dell Machines and ugly monitors, just as an example. If you think about all these people who are relentlessly resourceful and equally talented in a mass competitive ecosystem competing for talent, you learn to give people the best possible tools to do the best possible job. So rigorously asking, how do I make people more successful, what things do they not need to be working on, or distracting. And what things can I give them to make them more valuable per day? Then just break that down per day and solve that stuff yourself.

Q: When you are in a startup environment, resources are scarce. How do you optimize for those things?

A: That's a good question. First of all I think you must have your own office. I don't believe ever in shared office spaces. Peter talks a little about this, that every good startup is a cult. And it's really hard to create a cult if you are sharing space with people. Because a cult means you think you are better than every other startup, you have a special way of doing things that's better than anyone else in the world. And if you are sharing physical space with others it's very hard to internalize that. So I would start there. But it is a prioritization question. Everywhere is scarce, so it's just a question of the magnitude of zeros you are paying attention to. Probably not $10 expenditure, but $100, $1000, $10,000, then $1 million starts being a rounding error.

So I would figure out is what is the most important, a quality office that creates a good vibe that allows you to recruit people. Because recruits are very savvy about this. They walk into your office and they can tell a lot about the culture instantly. I can walk into a company office and I can tell whether or not I am going to invest as soon as I walk in. Seriously, I just absolutely rule things out that I don't want to invest in as soon as I walk in. And there's times I walk in an office, like wow this is really impressive. You can tell how people work together, how hard they are working, how distracted they are. Roelof Botha at Sequoia made a point to me about YouTube. So when I invested in YouTube in the very very beginning, it wasn't obviously going to be successful. Then Roelof led this series A Investment for this client on YouTube and we were at a board meeting together and he said, I really think Youtube is going to work. I said, Why? And he said, every time I go to one of my portfolios companies half the office is watching Youtube during their lunch. I was like, really good sign. And so you pick up on these little things and you can predict a lot.

A: What do you think is the best way of getting street credit as a new manager?

Q: Oh boy. Almost all good managers in Silicon Valley are promoted because of their individual performance. In cultures that are bureaucratic the percentage is even higher. So we tried in PayPal to only promote people who were kicking ass at their discipline. Peter didn't believe in general managers. In fact I remember going for a job around campus with him my first week of PayPal. He was asking me how things were going, other kinds of CEO questions. Then we got in this debate about whether the company needed any more managers. He was like, nope. No managers. We are only going to promote people, so the VP in engineering is going to be the single best engineer. The VP of design is going to be the single best designer. The VP of product, is going to be the single best product person. And they are going to learn to manage later. The advantage of that is you don't demoralize people. Because everyone knows their boss is actually better at their job than they are. And they can learn stuff. And you can learn a little bit of the management techniques later, as opposed to promoting people who are just good people managers that don't have the discipline and skill.

That demoralizes people, so I think just being excellent at something and then being excellent at getting a bunch of people to do something is the next task. But people, some things you just have to learn by doing. Some people can’t learn to play the guitar by reading a book. You have to actually try to manage a bit and you won't do well at first. I have another set of tactics and classes on what you actually do when you transition from an individual to a manager. It's hard. One of the first things people don't get right right away is their timing allocation. Actually, what I would recommend is doing what I call a calendar audit. And track what you spend your time on in a month. How much is editing, how much is writing, etc. And optimize it over time. You can get a mentor. Find someone who’s been a manager before that will work with you. Not your boss, because your boss has a set of complicated objectives including how much are we shipping. A mentor can just focus on you and making you more successful.

Q: What are some things you can do to ensure a consistent voice in the company?

A: So I would look at every piece of copy in every department. Another part that is hardly ever, look at your recruiting website. It almost never has the same quality as your conversion funnel. I would look at customer support. Another classic area that is never up to the same quality. Treat customer support as a product so you actually have an engineering team and a design team that over time focuses on making that world class. Usually we have other executives at a scaled company. Most executives were trained differently at other companies and bring that with them. You have to crosstrain that. So if you hired a VP of engineering of Google its very different than a Design Leader from Apple. They don't actually learn anything the same way. So you are going to have to stitch that together some how. Either one or the other is going to have to learn the other style. Or you are going to have to create your own style and really teach that to your executives. So it shows up all the time. All you have to do is pick up the company's products and look for things that have a different voice and you can see it, visual voice, word choice, all over the map.

Sam Altman: Can you talk a little about the tactics of how you manage people? How often do you meet with them?

A: So the canonical advice sounds obvious but was radical back in 1982 when Andy wrote his book, is to have a one on one roughly every two weeks. Some people say every week, but I wouldn't go longer than two weeks. Every week can be ideal in many companies. The reason why there is another adage, you should only have five to seven direct reports. That actually derives on the concept of having a one on one every week. The director reports is so you can fit enough one on ones in your calendar a week and get other things done. I think one on ones once a week is ideal. I think the agenda should be crafted by the employee that reports the manager, not the manager. The one on one is mostly to benefit the employee. They should walk in with, these are the three things I want to talk about. Even bullet points in advance by email so you have time to chew on it, and you're not on the fly winging your answers. But that's probably the best structure. But if someone is really good and been doing this a long time and has internal credibility you might push out the one every week to once every two weeks. Maybe every month. I don't know that I would go beyond once a month ever.

Q: When is it acceptable to compromise and hire someone that is ammunition instead of someone who is barrel?

A: Truthfully you are going to hire more ammunition, naturally, than barrels. So there is a ratio between the two. The question is the ratio. At some point the ratio is going to get out of whack, you will have only one barrel in the company and fifty engineers. You might as well have ten engineers because you are not going to get any work done. You are just wasting resources. You are going to frustrate engineers because everyone is going to need your approval. Your signoff. Your editing. It's just going to stack and get frustrating to people. I think roughly one, to ten, to twenty is the right range. You don't need more engineers until you have more barrels. Designers are a little different. But you are always going to be hiring more ammunition than barrels. A good barrel will have a feel for that. One way to correct for this is, there is this natural tendency to create headcount on your team. Like an empire building tendency. Like I manage twenty people and Sam only manages ten and you manage three. So I'm more important than Sam. And Sam is more important than you. Put an X here, over Y which equals the output, and specify how many things they have done successfully and then divide by the number of people on their team. And tell them this is going to be the grade for their performance review. Shockingly the Y doesn't start increasing on that team. It's amazing how this works and be explicit about it.

Q: How often, as a venture capitalist, do you meet and interact with your companies?

A: When we invest, we do do some seed companies where we invest less money, but when we invest in a series A or B round, we join the board and roughly I meet with the founder or CEO every two weeks. That's the default. Obviously there are inflection moments when things go right or wrong and then it's on an ad hoc basis. Actually right now I do a lot by text message. I even have one CEO who Snapchats me all the time. Which I would actually rather he not, but the world has changed a lot. But I try in person meetings every two weeks.

Q: ?

A: No. Being a venture capitalist to me is like being more of a psychologist. So if you come to my office we have two chairs with a table in the middle. And we sit down and it's like, Tell me your problems. My response is usually, have you thought about this? Have you talked to this person? Have you tried this? Etc. It's just asking a lot of questions and going back like that. But that's 90% of what I do.

Q: ?

A: Well it depends on where your prioritizations are. Sam talked a little about this in his lecture. So a company will move recruiting first, second, or third. Somewhere in that spectrum. If it's your number one priority then 25% is probably a good allocation. Actually I like the calendar audit more for CEOs even moreso than new managers. So when I work with CEOs that aren't thriving in that role for the first time, I actually force them to show my their calendar. Now I am going to ruin this trick. But I ask them to write them out on paper and specify whatever they are. Then I ask them to pull out their calendar and see if it matches. And it never matches. Never. Recruiting is the one that is usually the most often awry. Half the CEOs will say recruiting is their number one priority. It's almost never the biggest block of time on anyone's calendar. So that is what you are trying to do is match resources to priorities in the calendar audit. And there is no software that does this really well for you. It would be great, right now we pull up someone's Google calendar and hand count up the hours. Which is insane. But that is the best way, just ask about their priorities. Priorities are raising money, you don't want to allocate most of your time recruiting. One more question.

Q: On the surface some of this advice is contradictory. How do you harmonize those roles?

A: It's a good question. How do you harmonize when details really matter, but you've got that one thing to do, you want to only allocate time to those one, two, or three things. How do you put those things together? There is some tension even in a healthy organization. There is some tension of why are we focused on writing the script as opposed to something the user may see.

The underlying philosophy of getting the details right is pretty important to install in the very very beginning of a company. Because people will start acting that way and making decisions that way themselves. So you won't have to literally do that. If you have to actually do that then that shows the foundation isn't that solid. When you first start the company it's about getting the details right. Everyone is precise, everyone on every task is always thinking that way. And then that scales, the people you bring in will think that way, the people that think that way will tend to get hired and those who can’t wont get hired. Each team and each leader will tend to enforce that themselves. So the CEO is almost never doing it. So it's partially how do you start. And the key to culture is it's a framework for making decisions. And if it's baked into your culture, people learn how to make decisions across that culture without you ever saying anything. You never have to really do anything except watch and promote and move people around.

Cool. Well I guess that's it.

Thank you.