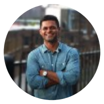
Finding Genius: Keith Rabois, Founders Fund



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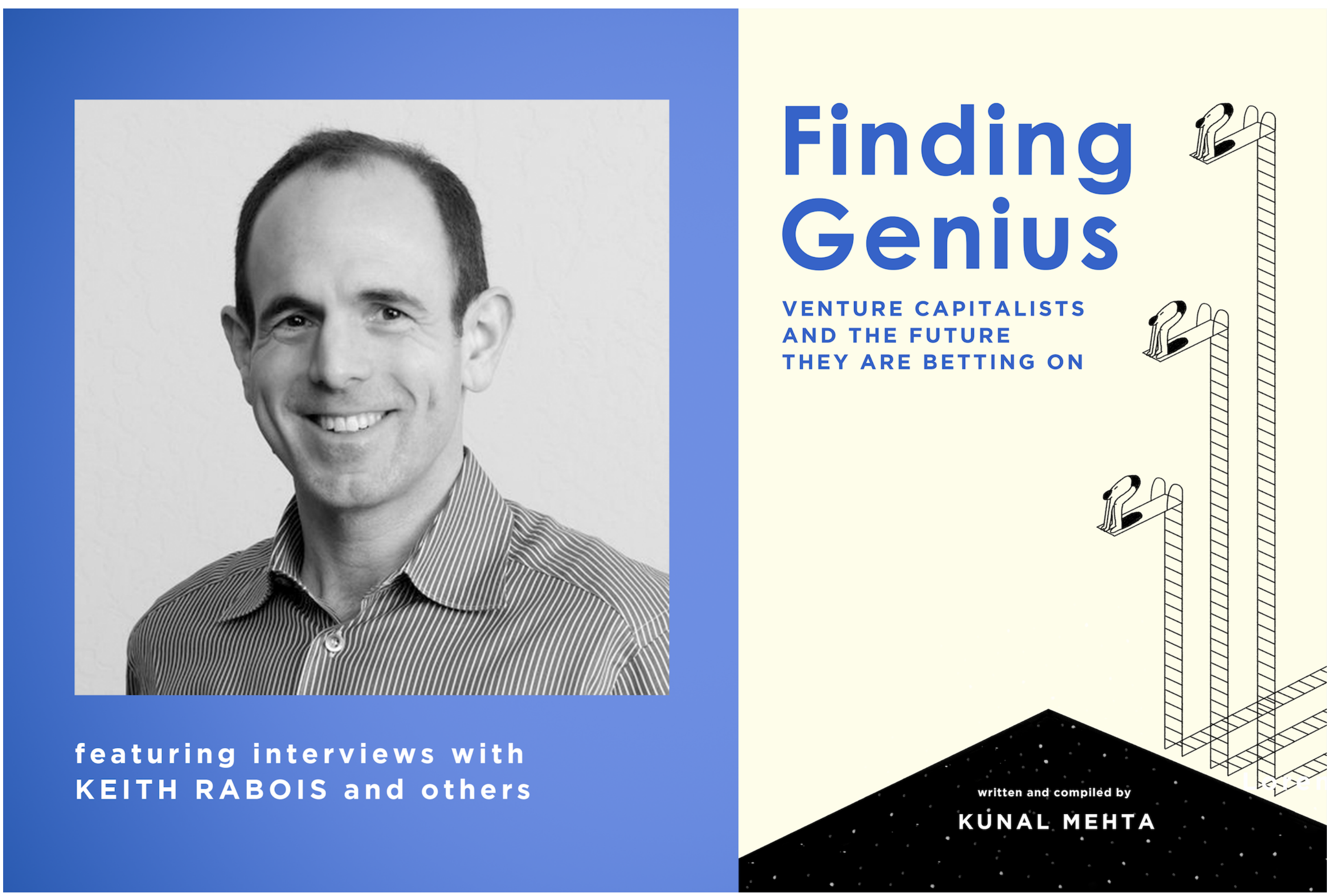
Keith Rabois is known for early investments and executive roles at PayPal, LinkedIn, Square, Yelp, and Zoom. Rabois is considered a member of the PayPal Mafia with Peter Thiel, Elon Musk, and Max Levchin, and is currently a General Partner with Founders Fund in San Francisco. In our chat for Finding Genius, Rabois shared many valuable lessons from a storied career as an operator and as an investor.



Finding Genius is now available on Amazon: https://amzn.to/2m7sXyE

With the entrepreneurs you have backed over your career, have there been early traces or patterns of entrepreneurial genius that have stood out to you when you first interacted with them?

With Peter [Thiel], it was very obvious that Peter was smarter than everyone else at Stanford. He was also much odder than the average Stanford classmate. He is just a very different person than anyone else I've met. In all cases, he was thinking two steps ahead of everyone else. From an IQ standpoint, he was lightyears ahead of everyone else. But I don't think anyone you'd ask that knew him believed that his IQ would translate to business success or that he or I would be interested in business, over politics or law. It was serendipitous that most of the value of our relationship has transferred into the business realm. If you had ever asked me, if Peter back in the 80s or 90s would ever be the CEO of a company, I would have said absolutely not. He would have been far down the list of potential CEOs of Stanford classmates that I thought would-be CEOs. I was young and naive and did not understand the attributes that defined the best CEO, nor did I fully grasp what genius looked like. I perceived what the media, tv, or movies had taught me about what a CEO does versus what the reality of what a CEO does.

I do think most successful founders have extraordinarily high IQs, by any standard benchmarks, because you have to see things other people don't see. Or you have to connect dots that other people can't connect. That is a function of IQ. That's not enough though, there are other traits that are essential to entrepreneurial success or genius, as you put it. IQ alone does not yield a successful founder, but fundamentally all the best founders I've ever worked with over the past 20 years, would score very high on any standardized IQ test.

What are those other characteristics that go beyond IQ?

There are common traits, like IQ, that genius or successful founders like Max [Levchin], Peter [Thiel], or Reid [Hoffman] have, but there are differences between each of the founders based on the business they are building. There are characteristics that are fundamental to what the company is trying to accomplish, the market its competing in, the value proposition it is offering, or the key risks associated with the company. If you're going to build SpaceX, that requires a different kind of genius than the founder that is appropriate for Airbnb. If you're going to compete with Facebook or with Google, the founders will need to be different. The founders that are best for each of those markets are different. This is definitely never a situation of central casting for all companies, but there are common traits. We talked about IQ as a precursor. Another important trait I test for is resourcefulness.

Paul Graham talks extensively about being relentlessly resourceful — a modified version of tenacity — or the ability to walk through a wall, under a wall, or over a wall. These founders have this unrelenting energy and you get a feeling like they'll never be defeated. Another trait is their ability to assess other people accurately, quickly and learn from that. Because mostly what you do as a founder is hire people. The better you are in finding genius on your own team is almost more important than who you are because ultimately the team you build is the company you build. We talk a lot about technology but fundamentally, this is a people business. It's more like sports — the right people, with the right skill set, doing the right jobs and making sure they're all doing the right jobs all the time.

Can you dig into the concept of tenacity? When does that begin to appear in the founders you have backed — is it trial by fire when they're already building the company and refuse to quit or are you searching for it or fostering it in other ways?

I think people are born with tenacity but by a certain age, it's built into you. I don't know If it's when you're 12, or 14, or 16. But by the time you're 18 or 21, you're either tenacious or you're not. There are examples in your background of where you've used heroic energy and refused to lose that show up. It won't suddenly show up when you're 25 years old. You either just don't accept excuses and prevail or you accept excuses. You either choose the secure path, or you don't. You can tell fairly quickly who is who, but I don't know if it's when you're born or influenced by your parents. I expect my parents had something to do with it.

The most obvious example is when you come home from class and you get an A- on a test, and they ask why you got an A-. The classic child response is 'well everyone got an A-' and my mom would say, well everyone in the class is not my child so you're getting an A. Those lessons compound and suddenly you wake up and decide you're always going to get an A. That might translate to other things in life but it brings out this competitive nature in you to never be less than the best.

How do you gauge for this attribute within the stories a founder is sharing with you?

They'll tell you examples from their own life — professionally or personally — if they don't have examples they don't have it. It shows up. You can call friends, family or colleagues and they should give you examples. A standard interview question is to ask someone about their last job and find out what the most challenging thing they faced in that last job. Why was it difficult? How did they solve it? People who have the tenacity or relentless resourcefulness as a character trait can walk you through examples from summer camp, to high school, to their first job, without blinking an eye because they've always put themselves in those situations.

What about the founders that have lived relatively comfortable lives — they come from family wealth or never pushed themselves and took a more structured or conservative career path?

People that are good founders have always wanted a good amount of challenge in their lives. They just don't sit still. They are impatient and unsatisfied about the world or with themselves or some market. They don't sit back and wait. They have always put themselves into challenging situations — competitive sports, academically, coding competitions, they may have competed in some extracurricular activity. They like to be uncomfortable. They thrive under stress. They want to be challenged and they've always had that since they were 8 years old till the time you meet them. You can tell when you meet someone with a significant amount of family wealth if they still sought out discomfort or rested on what their parents gave them. The more challenges and the more stress you are confronted with, you find ways to thrive. On the other side of the spectrum are people who haven't been challenged or stressed and you can't really take a leap of faith on those types.

Can you talk about your investment theses and how those have evolved since you first began investing?

I first invested with Peter at Clarium Capital in 2003. I have never bought into the notion of thesis-based investing. I never will. I invest in founders and people and they teach me about the world and what's changing and what's possible. I've almost never had a thesis in my life.

My thoughts about people haven't changed so much, though. I may have gotten better at assessing people– there is an error bar of assessing people quicker. It's easier to evaluate colleagues of yours and to be able to collect more data points. It's challenging for everyone and maybe I've improved on the error rate with false positives or negatives but the characteristic of what I'm looking for haven't altered that much.

Once you've picked the founders — how do you see your role around pushing the company forward? You've worked closely with the founders of companies like LinkedIn and PayPal and as a board member on companies like Yelp, how has your role evolved from an operator to a board member?

My role has always been the same. It is as a complement to the founder. Different founders have different skills or traits. Some are product-driven founders, some are technical driven founders, some are sales-driven founders. Some are atrocious managers of people and some are great managers of people. My role, that I've learned, is to always be the compliment to that. Figure out what the person or the founder likes to do and is good at, and provide support in other ways.

At LinkedIn my primary responsibility was to generate new revenue streams for the business. When I joined we weren't making any revenue. We didn't have the conviction that we could make revenue. Everyone was in the hangover from the 2002 bubble collapse and had no belief that consumer internet companies could make money. So we wanted to pioneer new revenue streams and it was my job to come up with ideas based on the assets we had. We had a viral loop that was working well where we were growing with high caliber professionals joining LinkedIn at an impressive rate but we didn't know what to do with it. The obvious revenue streams were job listings — Monster, Careerbuilder were the big incumbents — but those were small opportunities. How we'd compete with these large incumbents wasn't completely clear, either. That was Matt Kohler and Josh Elman's job. Identifying alternate revenue streams were my job.

LinkedIn still has multiple revenue streams to this day. Job boards and recruiting was not always the dominant thought. We invested in premium subscriptions and targeted advertising, which I came up with the idea for, and constructed the teams and products that implemented this vision.

I worked for Reid Hoffman, Jack Dorsey, Peter Thiel, Vinod Khosla, and Max Levchin, and they're all different so they all require a different complement. It's not so easy. You need to be fairly broad and have a horizontal skillset. You need to be very sharp so you can keep up with these brilliant people. They have no patience and speak succinctly. Your job is to fill in the dots to accomplish their vision. It has to be a derivative view about your role. It's not your vision, it is very much their vision. You have to have that humility that you're working to accomplish their vision. They tend to appreciate that because they can tell people that they have their own vision. They are trying to superimpose that vision on others vs implementing their vision alone. My job is to make sure the vision doesn't get screwed up because a lot can go wrong. My job was to help deliver the missing pieces. The missing pieces vary from company to company, some understand technology, some do not, some are good recruiters, some are not. To do the role well, you have to block and tackle their vision, identify the gaps from the skillset of the current team and inject yourself in the most acute areas of need

For example, with Square, the revenue model was not difficult. We did not need to innovate on the business model and did not need someone like that to do so. But at LinkedIn we needed someone who could conjure up business models and revenue models from scratch. Those are different scenarios. It depends. If you're early in your career, you need to figure out what you're excellent at. Not everyone is going to be a cutting-edge technologist or a product thinker, it's trying to think about your own abilities, figuring out where you're competitive and doubling down and leveraging those skills and abilities so you're always competing on the basis of your comparative advantage. Figure out your comparative advantage and invest in it and improve it. Magnify the opportunities where that is indispensable

How does this role change as a board member?

It evolves. There are two components of being a good board member. A bit like playing psychologist. Giving the founders and the executive team someone to talk to, to clarify their own thinking. The Law School version of this would be a Socratic dialogue. Fundamentally, it is about asking the founders and the management team questions that allow that team to understand their own thinking better by responding to questions and gut checking their vision. It's a cartoonish mirror — hold up a mirror to the company to play back what you are hearing in an exaggerated way. It works by exaggerating to the founding team what the team wants, what they don't want, and what is being lost in translation. The role of a board member is a combination of being a mirror and psychologist

You recently shared a controversial viewpoint on the Lean Startup. Can you expand on why you believe, as you said it, that the Lean Startup method is a guarantee of failure?

The Lean Startup is a dumb and bankrupt philosophy for mediocre people with mediocre vision and ambition. The methodology minimizes the challenge of short term failure but it takes away the opportunity for upside. Startups are not bottoms-up driven exercises. By that, I mean that the job of a founder is to paint a picture of a better world and then deliver that. It's not to study the world, ask people what they want in a better world, and then create that. The Lean startup suggests you run around and discover and find success versus you willing it to succeed. It's casting a movie about a vision and then delivering on that vision in a way that sells tickets. That's a completely different paradigm

Without this concept of testing and learning, how do you know if you are building towards the right end vision?

You either sell tickets or you don't. You create a trailer and people either buy tickets or they don't. If they don't, go and create a better trailer, change the price of a ticket, or re-think the entire concept of the movie. The concept of a minimum viable product (MVP) is stupid. More people need to emulate Apple. You ship a finished product. As Jack at Square says often, 'the customers are not Guinea pigs'. People who treat customers like Guinea Pigs have incredibly poor net promoter scores.

You are investing in new and emerging areas of technology every few weeks. How do you stay ahead of the knowledge curve to get smart on new areas quickly? What is your process of learning?

Most founders will lead you and teach you and all you're doing is being a smart detective to question the fidelity of the mission you're hearing. Similar to a lawyer.

The best founders will be interested in helping you learn but reading is key. I highly recommend reading books for your own knowledge, if you'd like to invest in your own learning. The best thing anyone can do is read a lot of books. It's proven to be highly correlated in my own life that the most voracious readers are the most successful. If you're intellectually curious, read a lot of well-written material as frequently as possible. Connecting the dots between multiple disciplines and fields — borrowing an idea from here and transporting it there is a skill set that is hugely valuable.

At LinkedIn, I had borrowed an idea from Yelp by being on their board. Search indexing at reviews of restaurants led to more reviews and more users. I had this epiphany in 2005 — just like restaurants were fairly long tail searches, so they were able to create compelling content that's unique so google would treat it as such, we should be able to do that for people. Nobody had indexed peoples profiles before, so I came up with the idea that we would create a public profile for people. Through SEO, people would discover it which would lead to LinkedIn adoption or growth. 12–13 years later, a google search for anyone yields their LinkedIn profile as the first result. That's a function of that team executing the vision and really understanding SEO indexing. As a result, LinkedIn will always outcompete other successful companies like Facebook on indexing public profiles. That's led to an increase in about 25–33% of usage. We used to struggle what the value of is we seized upon this seo indexing, when people google you they It became a mainstream value proposition that didn't really exist before. We innovated by borrowing an idea from Yelp. I can take one idea and adopt it from one thing to another and the more you read the more you're able to do that.

What books do you recommend?

The Upside of Stress — professor of Stanford that argues the more stress you have the happier you'll be

High Output Management — I re-read it every year. It is the bible on how to run a startup

Why We Sleep — it explains the value of sleep, logic of sleep, in a way that changes people's lives.

On the execution side — what have you learned at Square and Linkedin as an alternative to the Lean methodology?

In all cases, it was the founder who taught me about better execution. With Square — Jack [Dorsey] had raised $10M before anything on the demo but that's because he's

Jack. It was based on the vision of the world. Opendoor we raised only on the Keynote. Forward raised more than $10M just on a Keynote deck.

Still, even with unknown founders, my favorite investments are made simply on a keynote and a team with an audacious vision to change the world. All I need is a keynote, team, right idea and I'm happy to write a big check. I can do that all day long. Right founders, right team.

What Jack was capable of doing — one of his great skills is seeing technical innovation and platform transformation before people recognize it. He understands the implementations of the technology. He saw that everyone has a phone in every pocket, which is an always-on computer in everyone's pocket, so the idea of a wired legacy business with installations of terminals made no sense. Someone was going to fix that and Jack decided it should be him.

His background at Twitter was relevant because he was selling to long-tail businesses and micro merchants. It was difficult to find those businesses and market to them. The major issue with Square was could he come up with a distribution strategy that was economically profitable. No one knew how to do it but there was a belief that Jack had some insights on customer acquisition from his time at Twitter that might be leverageable and it turned out that we were able to find highly efficient, highly effective ways of distributing Square and it wouldn't have been successful without that.

Do you believe that the venture capital markets are efficient in finding genius?

Assembling a team and maintain a team is more difficult in a hot market than it is in a down market because right now, people with talent can go and raise their own rounds to start their own companies. If you raise your own capital, it's not easy. The critical density of talent in one building is the fundamental variable that drives startup success and that's certainly true of PayPal and if too many people think it's easy to start a company, they tend to fragment and you don't end up with the density of talent that's required for outsized success.

Venture hasn't changed that much. I think that in the United States, VC is fairly damn efficient. I don't think there are too many ideas that can truly change the planet in the U.S. that can't attract capital. Outside of the U.S, it's different. There are pockets in the world with inefficiency that can be leveraged with different people and different funds. There are a ton of funds in the US chasing founders and the money is getting to where it needs to go.

I'm not particularly thesis driven or into specific markets but I am interested in innovation in healthcare and finance. I like to choose and invest in specific companies that seem the most ridiculous. I still expect to make an investment in a company that half of my friends in VC will laugh at in the moment. That's an acid test whether I'm taking enough risk; that half of my friends think it makes no sense. This was the case with a company that we announced another investment in: Fair. At first, no one liked it. Everyone thought retail was dying. Every company is like a religion and then there are companies that are counter-religion. You want to be convinced that everyone else is wrong. No one wanted to fund a company with blood tests because the Theranos hangover, despite it being good. We funded it and it is proving to be a good investment.

For this book, I'd say this. There is not much being written about investors and that's an interesting opportunity for you. All investors are assessing their best comparative advantage — Andreesen and Khosla are technology wave investors, Mike Moritz is good at assessing people, there are market based investors — If you copy another investor, it makes no sense. You stumble into or discover where you are advantaged in life. So with Finding Genius, it's less about investors copying one another but it's more about what their specific comparative advantages are and how they maximize or optimize for those.

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