Employee Retention

When it comes to everything that's not building a great product and getting users, most founders think fundraising is going to be their biggest challenge. And it is, until they raise money, and then it's hiring. Hiring is so hard that founders think nothing else will be harder.

But then comes a bigger challenge--employee retention. A reasonably common failure mode for startups is to do a great job recruiting the first ten or so employees and then have many of them leave after 18 months. Companies build value over very long periods of time, and it's important to have an organizational memory in place while it happens. Losing the key early employees can be unrecoverable.

If you hire great people, retention is very hard--especially because of how easy it has become to start a company. You're going to lose some people, but if you lose too many, you'll fail. So it makes sense to spend a lot of time figuring out how to keep talent around.

There are three good ways I know of to retain talent (besides generous equity grants, which I'll discuss later).

The first is a sense of mission--if employees work at your company because they believe in the importance of the mission, they are unlikely to be tempted by more money elsewhere, and they are likely to be willing to delay starting their own company. A "mission" doesn't have to be saving the world--it can also be solving a very hard technical problem (i.e. interesting work). But very often, the hard technical problems are important to the world (e.g. Google, Palantir, Facebook).

You have to really believe in the mission--if you can't convince yourself that your mission is important, think very hard about what you're doing. And you have to keep repeating it. [0]

I'd go so far as to say that a company that is not mission-oriented will have a hard time being really successful because of talent retention problem.

The second good retention strategy is rocketship growth. Growth is really fun, it means everyone is constantly exposed to new challenges (even if you're not growing fast, find a way to give everyone new challenges all the time), and it holds the promise of life-changing money through equity (salary can never be high enough for this).

The third is a great work environment. This consists of two things--cultural values and team. Cultural values are difficult to figure out, but worth the effort--it's easy to get lost as you grow, and if you set the values that the company hires for early, you can keep the culture you want for a long time. On the team side, the cliche of A players wanting to work with other A players is true, and it's an important reason to never compromise on the first ten hires. Most great people will not stay at a company long if they're not working with other great people.

The best companies combine all three of these strategies, and they are able to retain talent.

A common mistake that founders make to try retain employees is to compete in the perks arms race. This doesn't work--it can temporarily cover up the fact that people don't actually like what they're doing, but not for long, and some other startup will always come up with crazier perks than you anyway. Of course, it's good to do things that save time and encourage team cohesion--e.g., stuff like meals.

Another common mistake founders make (and one I was guilty of!) is not realizing how awful they are to work for--if you're doing all three things above and people are still leaving in droves, think very carefully about what it's like to work for you.

Compensation is really important too. The right thing to do is to be very generous with equity for early employees. For whatever reason, equity grants are currently swinging the opposite way, especially with bad companies. Founders and investors both keep making option pools smaller and smaller as a way to solve for founders' desires to have ever-rising valuations; unfortunately for them, it's the valuation at exit and not at funding that counts, and they're doing themselves a real disservice. Startups are a pass-fail course, and founders are celebrating that they've saved a few percent dilution on their way to failing.

What some founders try to do instead of being generous with equity is be extra-generous with salary--say, $250k a year for an engineer right out of college. This is bad, and although I've seen it attempted a handful of times, I've never seen it work. It attracts mercenaries who are only there for the money, and who rarely last more than a year. They generally don't believe in the company or the mission, and they poison the culture. A flat, reasonable salary for everyone seems to work much better.

The bay area has its own special challenges when it comes to retention. Many people stay at companies for only a year or two, and there is at least some coolness associated with jumping around a lot (to say nothing of the social pressure towards starting your own company). It's hard to find people that want to really dig in for many years--there is a lot of short-term focus and a massive amount of poaching between companies. And the cost of living is crazy--the higher salaries that people require create all sorts of issues for companies and leads to lower employee retention. In fact, if something causes the bay area monopoly on startups to weaken in the near term, I expect it to be around retention challenges or costs. [1]

The positive side to all of this is that most startups do such a bad job at retention that if you can do it well, you'll have a huge competitive advantage.

Thanks to Patrick Collison for reading a draft of this.

[0] PR is as important for retention as recruiting--you should try to repeat your mission as often as you can so that your employees keep hearing it and their friends keep talking about it.

[1] As valuations and investment sizes keep going up, the only people I can think of that are clearly better off are bay area real estate owners. Most of it seems to go to ever-escalating office rents or to higher salaries to pay higher apartment rents.