— CHAPTER 1 —

FROM COMMUNIST TO VENTURE CAPITALIST

"This here is all about
My wife, my kids, the life that I live
Through the night, I was his, it was right, but I did
My ups, and downs, my slips, my falls
My trials and tribulations, my heart, my balls."

—DMX, "WHO WE BE"

The other day I threw a big barbecue at my house and invited a hundred of my closest friends. These types of gatherings aren't unusual. My brother-in-law, Cartheu, and I have been barbecuing for years, and my skills have earned me the nickname from my African American friends "the Jackie Robinson of Barbecue." I crossed the color line.

At this particular barbecue, the conversation turned to the great rapper Nas. My friend Tristan Walker, a young African American entrepreneur, commented proudly that Nas was from his home project, Queensbridge, New York—one of the largest public housing projects in the United States. My seventy-three-year-old Jewish father interjected, "I've been to Queensbridge." Convinced that there was no way that my old, white father had been to Queensbridge, Tristan said, "You must mean *Queens*. Queensbridge is actually a housing project in an extremely rough neighborhood." My father insisted: No, it was Queensbridge.

I pointed out to Tristan that my father grew up in Queens, so he couldn't possibly be confused. Then I asked, "Dad, what were you doing in Queensbridge?" He replied, "I was passing out communist literature when I was eleven years old. I remember it well, because my mother got very upset that the Communist Party sent me into the projects. She thought it was too dangerous for a little kid."

My grandparents were actually card-carrying Communists. As an active member in the Communist Party, my grandfather Phil Horowitz lost his job as a schoolteacher during the McCarthy era. My father was a red-diaper baby and grew up indoctrinated in the philosophy of the left. In 1968, he moved our family west to Berkeley, California, and became editor of the famed New Left magazine *Ramparts*.

As a result, I grew up in the city affectionately known by its inhabitants as the People's Republic of Berkeley. As a young child, I was incredibly shy and terrified of adults. When my mother dropped me off at nursery school for the first time, I began to cry. The teacher told my mother to just leave, while reassuring her that crying was common among nursery school children. But when Elissa Horowitz returned three hours later, she found me soaking wet and still crying. The teacher explained that I hadn't stopped, and now my clothes were drenched as a result. I got kicked out of nursery school that day. If my mother hadn't been the most patient person in the world, I might never have gone to school. When everybody around her recommended psychiatric treatment, she was patient, willing to wait until I got comfortable with the world, no matter how long it took.

When I was five years old, we moved from a one-bedroom house on Glen Avenue, which had become far too small for a six-person family, to a larger one on Bonita Avenue. Bonita was middle-class Berkeley, which means something a bit different from what one finds in most middle-class neighborhoods. The block was a collection of hippies, crazy people, lower-class people working hard to move up, and upper-class people taking enough drugs to move down. One day, one of my older brother Jonathan's friends, Roger (not his real name), was over at our house. Roger pointed to an African American kid down the block who was riding in a red wagon. Roger dared me: "Go down the street, tell that kid to give you his wagon, and if he says anything, spit in his face and call him a nigger."

A few things require clarification here. First, we were in Berkeley, so that was not common language. In fact, I had never heard the word *nigger* before and didn't know what it meant, though I guessed it wasn't a compliment. Second, Roger wasn't racist and he wasn't raised in a bad home. His father was a Berkeley professor and both his parents were some of the nicest people in the world, but we later found out that Roger suffered from schizophrenia, and his dark side wanted to see a fight.

Roger's command put me in a difficult situation. I was terrified of Roger. I thought that he would surely give me a severe beating if I didn't follow his instructions. On the other hand, I was terrified of asking for the wagon. Hell, I was terrified of everything. I was much too scared of Roger to stay where I was, so I began walking down the block toward the other kid. The distance was probably thirty yards, but it felt like thirty miles. When I finally got there, I could barely move. I did not know what to say, so I just opened my mouth and started talking. "Can I ride in your wagon?" is what came out. Joel Clark Jr. said, "Sure." When I turned to see what Roger would do, he was gone. Apparently, his light side had taken over and he'd moved on to something else. Joel and I went on to play all day that day, and we've been best friends ever since. Eighteen years later, he would be the best man at my wedding.

Until now, I've never told that story to anyone, but it shaped my life. It taught me that being scared didn't mean I was gutless. What I did *mattered* and would determine whether I would be a hero or a coward. I have often thought back on that day, realizing that if I'd done what Roger had told me to do, I would have never met my best friend. That experience also taught me not to judge things by their surfaces. Until you make the effort to get to know someone or something, you don't know anything. There are no shortcuts to knowledge, especially knowledge gained from personal experience. Following conventional wisdom and relying on shortcuts can be worse than knowing nothing at all.

TURN YOUR SHIT IN

Over the years, I worked hard to avoid being influenced by first impressions and blindly adhering to convention. Growing up in Berkeley as an excellent student in a town that frowned upon football as being too militaristic, I wasn't expected to join the Berkeley High School football team, but that's what I did. This was a big step for me. I had not played in any of the peewee football leagues, so it was my first exposure to the sport. Nonetheless, those earlier lessons in dealing with fear helped me tremendously. In high school football, being able to handle fear is 75 percent of the game.

I will never forget the first team meeting with head coach Chico Mendoza. Coach Mendoza was a tough old guy who had played college football at Texas Christian University, home of the mighty Horned Frogs. Coach Mendoza began his opening speech, “Some of you guys will come out here and you just won’t be serious. You’ll get here and start shooting the shit, talking shit, bullshittin’, not doing shit, and just want to look good in your football shit. If you do that, then you know what? Turn your shit in.” He went on to elaborate on what was unacceptable: “Come late to practice? Turn your shit in. Don’t want to hit? Turn your shit in. Walk on the grass? Turn your shit in. Call me Chico? Turn your shit in.”

It was the most intense, hilarious, poetic speech I’d ever heard. I loved it. I couldn’t wait to get home and tell my mother. She was horrified, but I still loved it. In retrospect, it was my first lesson in leadership. Former secretary of state Colin Powell says that leadership is the ability to get someone to follow you even if only out of curiosity. I was certainly curious to see what Coach Mendoza would say next.

I was the only kid on the football team who was also on the highest academic track in math, so my teammates and I didn’t see each other in many classes. As a result, I ended up moving in multiple social circles and hanging out with kids with very different outlooks on the world. It amazed me how a diverse perspective utterly changed the meaning of every significant event in the world. For instance, when Run-D.M.C.’s *Hard Times* album came out, with its relentless bass drum, it sent an earthquake through the football team, but not even a ripple through my calculus class. Ronald Reagan’s Strategic Defense Initiative was considered an outrage among young scientists due to its questionable technical foundation, but those aspects went unnoticed at football practice.

Looking at the world through such different prisms helped me separate facts from perception. This ability would serve me incredibly well later when I became an entrepreneur and CEO. In particularly dire circumstances when the “facts” seemed to dictate a certain outcome, I learned to look for alternative narratives and explanations coming from radically different perspectives to inform my outlook. The simple existence of an alternate, plausible scenario is often all that's needed to keep hope alive among a worried workforce.

BLIND DATE

In the summer of 1986, I had finished my sophomore year of college at Columbia University, and I was staying with my father, who was now living in Los Angeles. I had been set up on a blind date by my friend and high school football teammate Claude Shaw. Claude and I got ready for the double date with his girlfriend, Jackie Williams, and my date, Felicia Wiley, by preparing an elaborate dinner. We meticulously planned and cooked all day and had the entire meal, including four perfectly presented T-bone steaks, ready at 7 p.m.—date time. But there were no dates. An hour passed, but we didn't get too worked up. Jackie was known for her tardiness, so no worries. Then two hours passed, and Claude called for a status check. I listened in shock as I looked over the now-cold gourmet meal that we'd prepared. My date, Felicia, had decided that she was "too tired" to show up for the date. Wow. How obnoxious!

I told Claude to hand me the phone. I introduced myself: "Hi, this is Ben, your blind date."

Felicia: "I am sorry, but I am tired and it is late."

Me: "Well, it is late, because you are *late*."

Felicia: "I know, but I am just too tired to come over."

At this point I decided to appeal to her sense of empathy.

Me: "Well, I understand your predicament, but the time to communicate this message would have been before we spent all day cooking dinner. At this point, anything short of getting into your car and driving here immediately would be rude and leave a permanently poor impression."

If she was totally self-centered (as she appeared to be), my plea would have no effect, and I would be better off missing the date. On the other hand, if she didn't want to go out like that, then there might be something there.

Felicia: "Okay, I'll come over."

Ninety minutes later she arrived wearing white shorts and looking as pretty as can be. In all my focus and anticipation about the date, I had completely forgotten about the fistfight I'd been in the day before. During a pickup basketball game in the San Fernando Valley, a six-foot-two-inch, crew-cut-sporting, camouflage-pants-wearing, fraternity-boy-looking player threw the ball at my brother. Jonathan was a musician, had long hair, and probably weighed about 155 pounds at the time. On the other hand, I was used to football and fighting and was ready for action. I judged the situation on my first impression, and I rushed the frat boy. A scuffle ensued. I landed some good punches but caught a right hook under my left eye, leaving a bit of a mark. It's possible that my target player was simply mad about a hard foul rather than trying to bully my brother, but that's the price of not taking the time to understand. I will never know.

Whatever the case, when I opened the door to greet our dates, Felicia's award-winning green eyes immediately fixed on the welt under my eye. Her first impression (told to me years later): "This guy is a thug. Coming here was a big mistake."

Fortunately, neither of us relied on our first impressions. We have been happily married for nearly twenty-five years and have three wonderful children.

SILICON VALLEY

During one summer in college, I got a job as an engineer at a company called Silicon Graphics (SGI). The experience blew my mind. The company invented modern computer graphics and powered a whole new class set of applications ranging from the movie *Terminator 2* to amazing flight simulators. Everybody there was so smart. The things they built were so cool. I wanted to work for Silicon Graphics for the rest of my life.

After graduating from college and graduate school in computer science, I went back to work for SGI. Being there was a dream come true and I loved it. After my first year at SGI, I met a former head of marketing for the company, Roselie Buonauro, who had a new startup. Roselie had heard about me from her daughter, who also worked with me at SGI. Roselie recruited me hard. Eventually, she got me and I went to work for her at NetLabs.

Joining NetLabs turned out to be a horrible decision for me. The company was run by Andre Schwager, a former Hewlett-Packard executive, and more important, Roselie's husband. Andre and Roselie had been brought in by the venture capitalists as the “professional management team.” Unfortunately, they understood very little about the products or the technology, and they sent the company off in one crazy direction after the next. This was the first time that I started to understand the importance of founders running their companies.

To make matters more complicated, my second daughter, Mariah, had been diagnosed with autism, which made working at a startup a terrible burden for our family, as I needed to spend more time at home.

One very hot day my father came over for a visit. We could not afford air-conditioning, and all three children were crying as my father and I sat there sweating in the 105-degree heat.

My father turned to me and said, “Son, do you know what’s cheap?”

Since I had absolutely no idea what he was talking about, I replied, “No, what?”

“Flowers. Flowers are really cheap. But do you know what’s expensive?” he asked.

Again, I replied, “No, what?”

He said, “Divorce.”

Something about that joke, which was not really a joke, made me realize that I had run out of time. Up until that point, I had not really made any serious choices. I felt like I had unlimited bandwidth and could do everything in life that I wanted to do simultaneously. But his joke made it suddenly clear that by continuing on the course I was on, I might lose my family. By doing everything, I would fail at the most important thing. It was the first time that I forced myself to look at the world through priorities that were not purely my own. I thought that I could pursue my career, all my interests, and build my family. More important, I always thought about myself first. When you are part of a family or part of a group, that kind of thinking can get you into trouble, and I was in deep trouble. In my mind, I was confident that I was a good person and not selfish, but my actions said otherwise. I had to stop being a boy and become a man. I had to put first things first. I had to consider the people who I cared about most before considering myself.

I decided to quit NetLabs the next day. I found a job at Lotus Development that would allow me to get my home life straightened out. I stopped thinking about myself and focused on what was best for my family. I started being the person that I wanted to be.

NETSCAPE

One day while working at Lotus, one of my coworkers showed me a new product called Mosaic, which was developed by some students at the University of Illinois. Mosaic was essentially a graphical interface to the Internet—a technology formerly only used by scientists and researchers. It amazed me. It was so obviously the future, and I was so obviously wasting my time working on anything but the Internet.

Several months later, I read about a company called Netscape, which had been cofounded by former Silicon Graphics founder Jim Clark and Mosaic inventor Marc Andreessen. I instantly decided that I should interview for a job there. I called a friend who worked at Netscape and asked if he could get me an interview with the company. He obliged and I was on my way.

During the first interviews, I met everyone on the product management team. I thought the meetings went well, but when I arrived home that evening Felicia was in tears. The Netscape recruiter had called me to give me some tips, and Felicia had answered. (This was before the days of pervasive cell phones.) The recruiter informed her that it would be unlikely I'd get the job, because the group was looking for candidates with Stanford or Harvard MBAs. Felicia suggested that maybe I could go back to school. Given that we had three children, she knew this was unrealistic, hence the tears. I explained that recruiters were not hiring managers, and that they might consider me despite my lack of proper business schooling.

The next day the hiring manager called back to let me know that they wanted me to interview with cofounder and Chief Technical Officer Marc Andreessen. He was twenty-two years old at the time.

In retrospect, it's easy to think both the Web browser and the Internet were inevitable, but without Marc's work, it is likely that we would be living in a very different world. At the time most people believed only scientists and researchers would use the Internet. The Internet was thought to be too arcane, insecure, and slow to meet real business needs. Even after the introduction of Mosaic, the world's first browser, almost nobody thought the Internet would be significant beyond the scientific community

—least of all the most important technology industry leaders, who were busy building proprietary alternatives. The overwhelming favorites to dominate the race to become the so-called Information Superhighway were competing proprietary technologies from industry powerhouses such as Oracle and Microsoft. Their stories captured the imagination of the business press. This was not so illogical, since most companies didn't even run TCP/IP (the software foundation for the Internet)—they ran proprietary networking protocols such as AppleTalk, NetBIOS, and SNA. As late as November 1995, Bill Gates wrote a book titled *The Road Ahead*, in which he predicted that the Information Superhighway—a network connecting all businesses and consumers in a world of frictionless commerce—would be the logical successor to the Internet and would rule the future. Gates later went back and changed references from the Information Superhighway to the Internet, but that was not his original vision.

The implications of this proprietary vision were not good for business or for consumers. In the minds of visionaries like Bill Gates and Larry Ellison, the corporations that owned the Information Superhighway would tax every transaction by charging a "vigorish," as Microsoft's then–chief technology officer, Nathan Myhrvold, referred to it.

It's difficult to overstate the momentum that the proprietary Information Superhighway carried. After Mosaic, even Marc and his cofounder, Jim Clark, originally planned a business for video distribution to run on top of the proprietary Information Superhighway, not the Internet. It wasn't until deep into the planning process that they decided that by improving the browser to make it secure, more functional, and easier to use, they could make the Internet the network of the future. And that became the mission of Netscape—a mission that they would gloriously accomplish.

Interviewing with Marc was like no other job interview I'd ever had. Gone were questions about my résumé, my career progression, and my work habits. He replaced them with a dizzying inquiry into the history of email, collaboration software, and what the future might hold. I was an expert in the topic, because I'd spent the last several years working on the leading products in the category, but I was shocked by how much a twenty-two-year-old kid knew about the history of the computer business. I'd met many really smart young people in my career, but never a young technology historian. Marc's intellect and instincts took me aback, but beyond Marc's historical knowledge, his insights about technologies such as replication were incisive and on point. After the interview, I phoned my brother and told him that I'd just interviewed with Marc Andreessen, and I thought that he might be the smartest person I'd ever met.

A week later, I got the job. I was thrilled. I didn't really care what the offer was. I knew that Marc and Netscape would change the world, and I wanted to be part of it. I could not wait to get started.

Once at Netscape, I was put in charge of their Enterprise Web Server product line. The line consisted of two products: the regular Web server, which listed for $1,200, and the secure Web server (a Web server that included the then brand-new security protocol invented by Netscape called SSL, Secure Sockets Layer) for $5,000. At the time that I joined, we had two engineers working on the Web servers: Rob McCool, who had invented the NCSA Web server, and his twin brother, Mike McCool.

By the time Netscape went public in August 1995, we had grown the Web server team to about nine engineers. The Netscape initial public offering (IPO) was both spectacular and historic. The stock initially priced at $14 per share, but a last-minute decision doubled the initial offering to $28 per share. It spiked to $75—nearly a record for a first-day gain—and closed at $58, giving Netscape a market value of nearly $3 billion on the day of the IPO. More than that, the IPO was an earthquake in the business world. As my friend and investment banker Frank Quattrone said at the time, "No one wanted to tell their grandchildren that they missed out on this one."

The deal changed everything. Microsoft had been in business for more than a decade before its IPO; we'd been alive for sixteen months. Companies began to get defined as "new economy" or as "old economy." And the new economy was winning. The *New York Times* called the Netscape IPO "world-shaking."

But there was a crack in our armor: Microsoft announced that it would be bundling its browser, Internet Explorer, with its upcoming breakthrough operating system release, Windows 95—for free. This posed a huge problem to Netscape, because nearly all of our revenue came from browser sales, and Microsoft controlled more than 90 percent of operating systems. Our answer to investors: We would make our money on Web servers.

Two months later, we got our hands on an early release of Microsoft's upcoming Web server Internet Information Server (IIS). We deconstructed IIS and found that it had every feature that we had—including the security in our high-end product—and was five times faster. Uh-oh. I figured that we had about five months before Microsoft released IIS to solve the problem or else we would be toast. In the "old economy," product cycles typically took eighteen months to complete, so this was an exceptionally short time frame even in the "new economy." So I went to see our department head, Mike Homer.

With the possible exception of Marc, Mike Homer was the most significant creative force behind Netscape. More important, the worse a situation became, the stronger Mike would get. During particularly brutal competitive attacks, most executives would run from the press. Mike, on the other hand, was always front and center. When Microsoft unveiled its famous "embrace and extend" strategy—a dramatic pivot to attack Netscape—Mike took every phone call, sometimes even talking to two reporters at once with a phone in each hand. He was the ultimate warrior.

Mike and I spent the next several months developing a comprehensive answer to Microsoft's threat. If they were going to give our products away, then we were going to offer a dirt-cheap, open alternative to the highly expensive and proprietary Microsoft BackOffice product line. To do so, we acquired two companies, which provided us with a competitive alternative to Microsoft Exchange. We then cut a landmark deal with the database company Informix to provide us unlimited relational database access through the Web for $50 a copy, which was literally hundreds of times less than Microsoft charged. Once we assembled the entire package, Mike named it Netscape SuiteSpot, as it would be the "suite" that displaced Microsoft's BackOffice. We lined everything up for a major launch on March 5, 1996, in New York.

Then, just two weeks before the launch, Marc, without telling Mike or me, revealed the entire strategy to the publication *Computer Reseller News*. I was livid. I immediately sent him a short email:

> To: Marc Andreessen
> Cc: Mike Homer
> From: Ben Horowitz

Subject : Launch

I guess we're not going to wait until the 5th to launch the strategy.

— Ben

Within fifteen minutes, I received the following reply.

To: Ben Horowitz

Cc: Mike Homer, Jim Barksdale (CEO), Jim Clark (Chairman)

From: Marc Andreessen

Subject: Re: Launch

Apparently you do not understand how serious the situation is. We are getting killed killed killed out there. Our current product is radically worse than the competition. We've had nothing to say for months. As a result, we've lost over $3B in market capitalization. We are now in danger of losing the entire company and it's all server product management's fault.

Next time do the fucking interview yourself.

Fuck you,

Marc

I received this email the same day that Marc appeared barefoot and sitting on a throne on the cover of *Time* magazine. When I first saw the cover, I felt thrilled. I had never met anyone in my life who had been on the cover of *Time*. Then I felt sick. I brought both the magazine and the email home to Felicia to get a second opinion. I was very worried. I was twenty-nine years old, had a wife and three children, and needed my job. She looked at the email and the magazine cover and said, "You need to start looking for a job right away."

In the end, I didn't get fired and over the next two years, SuiteSpot grew from nothing to a $400 million a year business. More shocking, Marc and I eventually became friends; we've been friends and business partners ever since.

People often ask me how we've managed to work effectively across three companies over eighteen years. Most business relationships either become too tense to tolerate or not tense enough to be productive after a while. Either people challenge each other to the point where they don't like each other or they become complacent about each other's feedback and no longer benefit from the relationship. With Marc and me, even after eighteen years, he upsets me almost every day by finding something wrong in my thinking, and I do the same for him. It works.

STARTING A COMPANY

At the end of 1998 and under immense pressure from Microsoft, which used the full force of its operating system monopoly to subsidize free products in every category in which Netscape competed, we sold the company to America Online (AOL). In the short term, this was a big victory for Microsoft since it had driven its biggest threat into the arms of a far less threatening competitor. In the long term, however, Netscape inflicted irreparable damage on Microsoft's stronghold on the computing industry: our work moved developers from Win32 API, Microsoft's proprietary platform, to the Internet. Someone writing new functionality for computers no longer wrote for Microsoft's proprietary platform. Instead, they wrote to the Internet and World Wide Web's standard interfaces. Once Microsoft lost its grip on developers, it became only a matter of time before it lost its monopoly on operating systems. Along the way, Netscape invented many of the foundational technologies of the modern Internet, including JavaScript, SSL, and cookies.

Once inside AOL, I was assigned to run the e-commerce platform and Marc became the chief technology officer. After a few months, it became apparent to both of us that AOL saw itself as more of a media company than a technology company. Technology enabled great new media projects, but the strategy was a media strategy and the top executive, Bob Pittman, was a genius media executive. Media companies focused on things like creating great stories whereas technology companies focused on creating a better way of doing things. We began to think about new ideas and about forming a new company.

In the process, we added two other potential cofounders to the discussion. Dr. Timothy Howes was coinventor of the Lightweight Directory Access Protocol (LDAP), a masterful simplification of its byzantine X.500 predecessor. We hired Tim into Netscape in 1996 and together we successfully made LDAP the Internet directory standard. To this day, if a program is interested in information about a person, it accesses that information via LDAP. The fourth member of our team was In Sik Rhee, who had cofounded an application server company called Kiva Systems, which Netscape had acquired. He had been acting as CTO of the e-commerce division that I ran and, in particular, worked closely with the partner companies in making sure that they could handle the AOL scale.

As we discussed ideas, In Sik complained that every time we tried to connect an AOL partner on the AOL e-commerce platform, the partner's site would crash, because it couldn't handle the traffic load. Deploying software to scale to millions of users was totally different from making it work for thousands. And it was extremely complicated.

Hmm, there ought to be a company that does all that for them.

As we expanded the idea, we landed on the concept of a computing cloud. The term *cloud* had been used previously in the telecommunications industry to describe the smart cloud that handled all the complexity of routing, billing, and the like, so that one could plug a dumb device into the smart cloud and get all the smart functionality for free. We thought the same concept was needed in computing, so that software developers wouldn't have to worry about security, scaling, and disaster recovery. And if you are going to build a cloud, it should be big and loud, and that's how Loudcloud was born. Interestingly, the most lasting remnant of Loudcloud is the name itself, as the word *cloud* hadn't been previously used to describe a computing platform.

We incorporated the company and set out to raise money. It was 1999.

— CHAPTER 5 —

TAKE CARE OF THE PEOPLE, THE PRODUCTS, AND THE PROFITS—IN THAT ORDER

"I roll with the hardest niggas, make money with the smartest niggas
I ain't got time for you fuckin artist niggas
Better shut your trap before you become a target nigga
Y'all army brats I'm the motherfuckin sergeant nigga."

—THE GAME, "SCREAM ON 'EM"

Once we pushed the Opsware stock price back above $1, the next problem was to rebuild the executive team. We had cloud services executives, but now we were a software company and needed software executives. In enterprise software companies, the two most important positions tend to be VP of sales and VP of engineering. Initially I'd attempted to take the VP of professional services from Loudcloud and make him the VP of sales. That didn't work. The next head of sales would be the fourth one hired since we had founded the company three years earlier—not a great track record. More important, the next mistake I made on a sales leader would be my last. The marketplace, not to mention Wall Street investors, did not leave me with much rope.

To better prepare for the hire this time, I decided in the interim to run sales myself. I managed the team, ran the forecast calls, and was the one person responsible for the revenue number for Opsware. I'd learned the hard way that when hiring executives, one should follow Colin Powell's instructions and hire for strength rather than lack of weakness. By running sales, I understood very clearly the strengths we needed. I made a careful list and set out to find the sales executives with the right skills and talents for Opsware.

After interviewing about two dozen candidates—none of whom had the strengths I sought—I interviewed Mark Cranney. He wasn't what I expected; he didn't fit the stereotype of a hard-charging sales executive. For starters, Mark was average height, whereas most sales executives tend to be rather tall. Next, he was a square guy—that is, he was as wide as he was tall. Not fat, just square. His square body seemed to fit rather uncomfortably into what must have been a custom-tailored suit—there is no way an off-the-rack business suit would fit a square guy like Mark.

And then I looked at his résumé. The first thing I noticed was that he went to a school that I'd never heard of, Southern Utah University. I asked him what kind of school it was. He replied, "It was the MIT of southern Utah." That was the last joke he told. Mark's seriousness was so intense that it seemed to make him uncomfortable in his own skin. He made me uncomfortable, too. Ordinarily, that vibe would rule out a candidate for me, but the strengths that I needed were so critical to the business that I was willing to overlook every weakness. One interview technique that I'd used to sort the good from the bad was to ask a series of questions about hiring, training, and managing sales reps. Typically, it would go like this:

Ben: "What do you look for in a sales rep?"

Candidate: "They need to be smart, aggressive, and competitive. They need to know how to do complex deals and navigate organizations."

Ben: "How do you test for those things in an interview?"

Candidate: "Umm, well, I hire everybody out of my network."

Ben: "Okay, once you get them on board, what do you expect from them?"

Candidate: "I expect them to understand and follow the sales process, I expect them to master the product, I expect them to be accurate in their forecasting. . . ."

Ben: "Tell me about the training program that you designed to achieve this."

Candidate: "Umm." They would then proceed to make something up as they went along.

Mark aced the profile and interview questions, and then I asked him the training question. I'll never forget the pained look that came across his face.

He looked like he wanted to get up and leave the interview right then and there. I felt like offering him an aspirin or maybe some Abilify. His reaction surprised me, because he'd done such an excellent job up to that point. I later realized that for me to ask Mark Cranney to describe the proper way to train sales reps was like a layman asking Isaac Newton to explain the laws of physics. Where to begin?

After what seemed like five minutes of silence, Mark reached into his bag and pulled out a giant training manual he had designed. He said he couldn't possibly explain what I needed to know about training in the time we had left, but if I wanted to schedule a follow-up meeting, he would explain the nuances of training salespeople to be elite across a broad set of disciplines including process, products, and organizational selling. He explained further that even with all those things, a successful sales leader still must inspire courage in the team. He sounded like General Patton. I knew I had my guy.

Unfortunately, nobody else knew that. Every member of the executive staff (with one exception) and every member of the board of directors voted thumbs-down on Mark Cranney. When I asked Bill Campbell what he thought, he said, "I won't lay down on the railroad tracks to stop you from hiring Cranney." That wasn't the ringing endorsement I was looking for. The reasons for voting "no" never referred to Mark's lack of strength, but rather to his abundance of weakness: Mark went to Southern Utah. Mark made people feel uncomfortable. Mark did not look like a head of sales.

Still, the more time I spent with him, the more I knew he was the one. In talking with him for an hour, I'd learn more about sales than I had in six months running sales. He would even call me with details about deals my sales team was competing for—deals my own sales reps didn't seem to know about. It was like he had his own sales FBI.

I decided to take a stand. I told my team and the board that I understood their concerns, but I still wanted to move forward with Mark and planned to proceed with reference checks.

When I asked Mark for his references, he surprised me again. He gave me a list of seventy-five references. He said he had more if I needed them. I called every reference on the list, and every one called me back within one hour. Mark ran a tight network. Maybe these references were the sales FBI. Then, just as I was getting ready to make the hire, another executive on my team called to say that a friend of hers knew Mark Cranney and wanted to give a negative reference.

I called the friend—I'll call him Joe—and proceeded to have the most unusual reference call of my career:

Ben: "Thanks very much for reaching out."

Joe: "My pleasure."

Ben: "How do you know Mark Cranney?"

Joe: "Mark was an area vice president when I taught sales training at my previous employer. I want to tell you that under no circumstances should you hire Mark Cranney."

Ben: "Wow, that's a strong statement. Is he a criminal?"

Joe: "No, I've never known Mark to do anything unethical."

Ben: "Is he bad at hiring?"

Joe: "No, he brought some of the best salespeople into the company."

Ben: "Can he do big deals?"

Joe: "Yes, definitely. Mark did some of the largest deals we had."

Ben: "Is he a bad manager?"

Joe: "No, he was very effective at running his team."

Ben: "Well, then why shouldn't I hire him?"

Joe: "He'll be a terrible cultural fit."

Ben: "Please explain."

Joe: "Well, when I was teaching new-hire sales training at Parametric Technology Corporation, I brought in Mark as a guest speaker to fire up the troops. We had fifty new hires and I had them all excited about selling and enthusiastic about working for the company. Mark Cranney walks up to the podium, looks at the crowd of fresh new recruits, and says, 'I don't give a fuck how well trained you are. If you don't bring me five hundred thousand dollars a quarter, I'm putting a bullet in your head.' "

Ben: "Thank you very much."

The world looks one way in peacetime but very different when you must fight for your life every day. In times of peace, one has time to care about things like appropriateness, long-term cultural consequences, and people's feelings. In times of war, killing the enemy and getting the troops safely home is all that counts. I was at war and I needed a wartime general. I needed Mark Cranney.

As a final step in making the hire, I needed to explain it to Marc Andreessen. As cofounder and chairman of the board, Marc's opinion mattered deeply to the board and Marc was still uncomfortable with Cranney. Marc trusted me enough that he would let me make the hire whether he liked the candidate or not, but it was important to me that Marc be fully on board.

I let Marc open the conversation, because despite consistently being the smartest person in the room and possibly the world, Marc is so humble that he never believes that other people think he is smart, which makes him sensitive to being ignored. He opened the conversation by listing his issues with Cranney: doesn't look or sound like a head of sales, went to a weak school, makes him uncomfortable. I listened very carefully and replied, "I agree with every single one of those issues. However, Mark Cranney is a sales savant. He has mastered sales to a level that far exceeds anybody that I have ever known. If he didn't have the things wrong with him that you enumerated, he wouldn't be willing to join a company that just traded at thirty-five cents per share; he'd be CEO of IBM."

Marc's reply came quickly: "Got it. Let's hire him!"

And that's how I took the key step in building a world-class software team out of the Loudcloud rubble. As I got to know Mark over the years, everything that I learned in the interview and the reference check proved out. He wasn't an easy cultural fit, but he was a genius. I needed his genius and worked with him on the fit. I don't know that every member of the team ever became totally comfortable with Mark, but in the end they all agreed that he was the best person possible for the job.

My old boss Jim Barksdale was fond of saying, "We take care of the people, the products, and the profits—in that order." It's a simple saying, but it's deep. "Taking care of the people" is the most difficult of the three by far and if you don't do it, the other two won't matter. Taking care of the people means that your company is a good place to work. Most workplaces are far from good. As organizations grow large, important work can go unnoticed, the hardest workers can get passed over by the best politicians, and bureaucratic processes can choke out the creativity and remove all the joy.

When everything went wrong from the dot-com crash to NASDAQ threatening to delist the company, the thing that saved us were the techniques developed in this chapter. If your company is a good place to work, you too may live long enough to find your glory.

A GOOD PLACE TO WORK

At Opsware I used to teach a management expectations course because I deeply believed in training. I made it clear that I expected every manager to meet with her people on a regular basis. I even gave instructions on how to conduct a one-on-one meeting so there could be no excuses.

Then one day, while I happily went about my job, it came to my attention that one of my managers hadn't had a one-on-one meeting with any of his employees in more than six months. While I knew to "expect what I inspect," I did not expect this. No one-on-one in more than six months? How was it possible for me to invest so much time thinking about management, preparing materials, and personally training my managers and then get no one-on-ones for six months? Wow, so much for CEO authority. If that's how the managers listen to me, then why do I even bother coming to work?

I thought that leading by example would be the sure way to get the company to do what I wanted. Lord knows the company picked up all of my bad habits, so why didn't they pick up my good habits? Had I lost the team? I recalled a conversation I'd had with my father many years ago regarding Tommy Heinsohn, the Boston Celtics basketball coach at the time. Heinsohn had been one of the most successful coaches in the world, including being named coach of the year and winning two NBA championships.

However, he had gone downhill fast and now had the worst record in the league. I asked my father what happened. He said, "The players stopped paying attention to his temper tantrums. Heinsohn used to yell at the team and they'd respond. Now they just ignore him." Was the team now ignoring me? Had I yelled at them one time too many?

The more I thought about it, the more I realized that while I had told the team "what" to do, I had not been clear about "why" I wanted them to do it. Clearly, my authority alone was not enough to get them to do what I wanted. Given the large number of things that we were trying to accomplish, managers couldn't get to everything and came up with their own priorities. Apparently, this manager didn't think that meeting with his people was all that important and I hadn't explained to him why it was so important.

So why did I force every manager through management training? Why did I demand that managers have one-on-ones with employees? After much deliberation with myself, I settled on an articulation of the core reason and I called up the offending manager's boss—I'll call him Steve—and told him that I needed to see him right away.

When Steve came into my office I asked him a question: "Steve, do you know why I came to work today?"

Steve: "What do you mean, Ben?"

Me: "Why did I bother waking up? Why did I bother coming in? If it was about the money, couldn't I sell the company tomorrow and have more money than I ever wanted? I don't want to be famous, in fact just the opposite."

Steve: "I guess."

Me: "Well, then why did I come to work?"

Steve: "I don't know."

Me: "Well, let me explain. I came to work because it's personally very important to me that Opsware be a good company. It's important to me that the people who spend twelve to sixteen hours a day here, which is most of their waking life, have a good life. It's why I come to work."

Steve: "Okay."

Me: "Do you know the difference between a good place to work and a bad place to work?"

Steve: "Umm, I think so."

Me: "What is the difference?"

Steve: "Umm, well . . ."

Me: "Let me break it down for you. In good organizations, people can focus on their work and have confidence that if they get their work done, good things will happen for both the company and them personally. It is a true pleasure to work in an organization such as this. Every person can wake up knowing that the work they do will be efficient, effective, and make a difference for the organization and themselves. These things make their jobs both motivating and fulfilling.

"In a poor organization, on the other hand, people spend much of their time fighting organizational boundaries, infighting, and broken processes. They are not even clear on what their jobs are, so there is no way to know if they are getting the job done or not. In the miracle case that they work ridiculous hours and get the job done, they have no idea what it means for the company or their careers. To make it all much worse and rub salt in the wound, when they finally work up the courage to tell management how fucked-up their situation is, management denies there is a problem, then defends the status quo, then ignores the problem."

Steve: "Okay."

Me: "Are you aware that your manager Tim has not met with any of his employees in the past six months?"

Steve: "No."

Me: "Now that you are aware, do you realize that there is no possible way for him to even be informed as to whether or not his organization is good or bad?"

Steve: "Yes."

Me: "In summary, you and Tim are preventing me from achieving my one and only goal. You have become a barrier blocking me from achieving my most important goal. As a result, if Tim doesn't meet with each one of his employees in the next twenty-four hours, I will have no choice but to fire him and to fire you. Are we clear?"

Steve: "Crystal."

WAS THAT REALLY NECESSARY?

You might argue that no matter how well managed a company is, it will fail without product/market fit. You might argue further that horribly managed companies that achieve massive product/market fit succeed just fine. And you would be right on both accounts. So was it really necessary for me to make such a dramatic speech and threaten one of my executives?

I think it was, for the following three reasons:

- Being a good company doesn't matter when things go well, but it can be the difference between life and death when things go wrong.
- Things always go wrong.
- Being a good company is an end in itself.

THE DIFFERENCE BETWEEN LIFE AND DEATH

When things go well, the reasons to stay at a company are many:

- Your career path is wide open because as the company grows lots of interesting jobs naturally open up.
- Your friends and family think you are a genius for choosing to work at the "it" company before anyone else knew it was "it."
- Your résumé gets stronger by working at a blue-chip company in its heyday.
- Oh, and you are getting rich.

When things go poorly, all those reasons become reasons to leave. In fact, the only thing that keeps an employee at a company when things go horribly wrong—other than needing a job—is that she likes her job.

THINGS ALWAYS GO WRONG

There has never been a company in the history of the world that had a monotonously increasing stock price. In bad companies, when the economics disappear, so do the employees. In technology companies, when the employees disappear, the spiral begins: The company declines in value, the best employees leave, the company declines in value, the best employees leave. Spirals are extremely difficult to reverse.

BEING A GOOD COMPANY IS AN END IN ITSELF

When I first met Bill Campbell, he was chairman of Intuit, on the board of Apple, and a mentor to many of the top CEOs in the industry. However, those things did not impress me nearly as much as his time running GO

Corporation back in 1992. The company raised more money than almost any other venture-capital-backed startup in history and lost nearly all of it before selling itself for nearly nothing to AT&T in 1994.

Now that probably doesn't sound impressive. In fact, it probably sounds like a horrible failure. But I'd met dozens of GO employees in my career, including great people like Mike Homer, Danny Shader, Frank Chen, and Stratton Sclavos. The amazing thing was that every one of those GO employees counted GO as one of the greatest work experiences of their lives. The best work experience ever despite the fact that their careers stood still, they made no money, and they were front-page failures. GO was a good place to work.

This made me realize what an amazingly effective CEO Bill was. Apparently, John Doerr thought that, too, because when Scott Cook needed a CEO for Intuit, John recommended Bill even though Bill lost a ton of John's money at GO. And for years, everyone who ever came into contact with GO employees knew what Bill was about. He was about building good companies.

If you do nothing else, be like Bill and build a good company.

WHY STARTUPS SHOULD TRAIN THEIR PEOPLE

I learned about why startups should train their people when I worked at Netscape. People at McDonald's get trained for their positions, but people with far more complicated jobs don't. It makes no sense. Would you want to stand on the line of the untrained person at McDonald's? Would you want to use the software written by the engineer who was never told how the rest of the code worked? A lot of companies think their employees are so smart that they require no training. That's silly.

When I first became a manager, I had mixed feelings about training. Logically, training for high-tech companies made sense, but my personal experience with training programs at the companies where I had worked was underwhelming. The courses were taught by outside firms who didn't really understand our business and were teaching things that weren't relevant. Then I read chapter 16 of Andy Grove's management classic, *High Output Management*, titled "Why Training Is the Boss's Job," and it changed my career. Grove wrote, "Most managers seem to feel that training employees is a job that should be left to others. I, on the other hand, strongly believe that the manager should do it himself."

When I was director of product management at Netscape, I was feeling frustrated by how little value most product managers added to the business. Based on Andy's guidance, I wrote a short document called "Good Product Manager/Bad Product Manager," which I used to train the team on my basic expectations. (That document follows on page 111.) I was shocked by what happened next. The performance of my team instantly improved. Product managers whom I had almost written off as hopeless became effective. Pretty soon I was managing the highest-performing team in the company. Based on this experience, after starting Loudcloud, I heavily invested in training. I credit that investment with much of our eventual success. And the whole thing started with a simple decision to train my people and an even simpler training document. So, I will now pay forward my debt to Andy Grove and explain why, what, and how you should do the same in your company.

WHY YOU SHOULD TRAIN YOUR PEOPLE

Almost everyone who builds a technology company knows that people are the most important asset. Properly run startups place a great deal of emphasis on recruiting and the interview process in order to build their talent base. Too often the investment in people stops there. There are four core reasons why it shouldn't:

1. Productivity

I often see startups keep careful statistics of how many candidates they've screened, how many have made it to the full interview process, and how many people they've hired. All of these statistics are interesting, but the most important statistic is missing: How many fully productive employees have they added? By failing to measure progress toward the actual goal, they lose sight of the value of training. If they measured productivity, they might be horrified to find that all those investments in recruiting, hiring, and integration were going to waste. Even if they were made aware of low productivity among new employees, most CEOs think that they don't have time to invest in training. Andy Grove does the math and shows that the opposite is true:

> *Training is, quite simply, one of the highest-leverage activities a manager can perform. Consider for a moment the possibility of your putting on a series of four lectures for members of your department. Let's count on three hours preparation for each hour of course time—twelve hours of work in total. Say that you have ten students in your class.*
>
> *Next year they will work a total of about twenty thousand hours for your organization. If your training efforts result in a 1 percent improvement in your subordinates' performance, your company will gain the equivalent of two hundred hours of work as the result of the expenditure of your twelve hours.*

2. Performance management

When people interview managers, they often like to ask, Have you fired anyone? Or how many people have you fired? Or how would you go about firing someone? These are all fine questions, but often the right question is the one that isn't asked: When you fired the person, how did you know with certainty that the employee both understood the expectations of the job and was still missing them? The best answer is that the manager clearly set expectations when she trained the employee for the job. If you don't train your people, you establish no basis for performance management. As a result, performance management in your company will be sloppy and inconsistent.

3. Product quality

Often founders start companies with visions of elegant, beautiful product architectures that will solve so many of the nasty issues that they were forced to deal with in their previous jobs. Then, as their company becomes successful, they find that their beautiful product architecture has turned into a Frankenstein. How does this happen? As success drives the need to hire new engineers at a rapid rate, companies neglect to train the new engineers properly. As the engineers are assigned tasks, they figure out how to complete them as best they can. Often this means replicating existing facilities in the architecture, which leads to inconsistencies in the user experience, performance problems, and a general mess. And you thought training was expensive.

4. Employee retention

During a time of particularly high attrition at Netscape, I decided to read all of the exit interviews for the entire company to better understand why people quit high-tech companies. After putting economics aside, I found that there were two primary reasons why people quit:

- They hated their manager; generally the employees were appalled by the lack of guidance, career development, and feedback they were receiving.

- They weren't learning anything: The company wasn't investing resources in helping employees develop new skills.

An outstanding training program can address both issues head-on.

WHAT SHOULD YOU DO FIRST?

The best place to start is with the topic that is most relevant to your employees: the knowledge and skill that they need to do their job. I call this functional training. Functional training can be as simple as training a new employee on your expectations for them (see "Good Product Manager/Bad Product Manager") and as complex as a multiweek engineering boot camp to bring new recruits completely up to speed on all of the historical architectural nuances of your product. The training courses should be tailored to the specific job. If you attempt the more complex-style course, be sure to enlist the best experts on the team as well as the manager. As a happy side effect, this type of effort will do more to build a powerful, positive company culture than a hundred culture-building strategic off-site meetings.

The other essential component of a company's training program is management training. Management training is the best place to start setting expectations for your management team. Do you expect them to hold regular one-on-one meetings with their employees? Do you expect them to give performance feedback? Do you expect them to train their people? Do you expect them to agree on objectives with their team? If you do, then you'd better tell them, because the management state of the art in technology companies is extremely poor. Once you've set expectations, the next set of management courses has already been defined; they are the courses that teach your managers how to do the things you expect (how to write a performance review or how to conduct a one-on-one).

Once you have management training and functional training in place, there are other opportunities as well. One of the great things about building a tech company is the amazing people that you can hire. Take your best people and encourage them to share their most developed skills. Training in such topics as negotiating, interviewing, and finance will enhance your company's competency in those areas as well as improve employee morale.

Teaching can also become a badge of honor for employees who achieve an elite level of competence.

IMPLEMENTING YOUR TRAINING PROGRAM

Now that we understand the value of the training and what to train on, how do we get our organization to do what we want? The first thing to recognize is that no startup has time to do optional things. Therefore, training must be mandatory. The first two types of training (functional and management) can be easily enforced as follows:

- Enforce functional training by withholding new employee requisitions. As Andy Grove writes, there are only two ways for a manager to improve the output of an employee: motivation and training. Therefore, training should be the most basic requirement for all managers in your organization. An effective way to enforce this requirement is by withholding new employee requisitions from managers until they've developed a training program for the TBH, "To Be Hired."
- Enforce management training by teaching it yourself. Managing the company is the CEO's job. While you won't have time to teach all of the management courses yourself, you should teach the course on management expectations, because they are, after all, *your* expectations. Make it an honor to participate in these sessions by selecting the best managers on your team to teach the other courses. And make that mandatory, too.

Ironically, the biggest obstacle to putting a training program in place is the perception that it will take too much time. Keep in mind that there is no investment that you can make that will do more to improve productivity in your company. Therefore, being too busy to train is the moral equivalent of being too hungry to eat. Furthermore, it's not that hard to create basic training courses.

When I ran the server product management group at Netscape, I became extremely frustrated that everybody on the team I inherited had a completely unique and different interpretation of their job. Finally, I had an epiphany that nobody in the industry had ever defined the product management job. What follows was my attempt to do that and bring down my blood pressure. Amazingly, people still read it today. This taught me the importance of training.

GOOD PRODUCT MANAGER/BAD PRODUCT MANAGER

Good product managers know the market, the product, the product line, and the competition extremely well and operate from a strong basis of knowledge and confidence. A good product manager is the CEO of the product. Good product managers take full responsibility and measure themselves in terms of the success of the product.

They are responsible for right product/right time and all that entails. A good product manager knows the context going in (the company, our revenue funding, competition, etc.), and they take responsibility for devising and executing a winning plan (no excuses).

Bad product managers have lots of excuses. Not enough funding, the engineering manager is an idiot, Microsoft has ten times as many engineers working on it, I'm overworked, I don't get enough direction. Our CEO doesn't make these kinds of excuses and neither should the CEO of a product.

Good product managers don't get all of their time sucked up by the various organizations that must work together to deliver the right product at the right time. They don't take all the product team minutes; they don't project manage the various functions; they are not gofers for engineering. They are not part of the product team; they manage the product team. Engineering teams don't consider good product managers a "marketing resource." Good product managers are the marketing counterparts to the engineering manager.

Good product managers crisply define the target, the "what" (as opposed to the "how"), and manage the delivery of the "what." Bad product managers feel best about themselves when they figure out "how." Good product managers communicate crisply to engineering in writing as well as verbally. Good product managers don't give direction informally. Good product managers gather information informally.

Good product managers create collateral, FAQs, presentations, and white papers that can be leveraged by salespeople, marketing people, and executives. Bad product managers complain that they spend all day answering questions for the sales force and are swamped. Good product managers anticipate the serious product flaws and build real solutions. Bad product managers put out fires all day.

Good product managers take written positions on important issues (competitive silver bullets, tough architectural choices, tough product decisions, and markets to attack or yield). Bad product managers voice their opinions verbally and lament that the "powers that be" won't let it happen. Once bad product managers fail, they point out that they predicted they would fail.

Good product managers focus the team on revenue and customers. Bad product managers focus the team on how many features competitors are building. Good product managers define good products that can be executed with a strong effort. Bad product managers define good products that can't be executed or let engineering build whatever they want (that is, solve the hardest problem).

Good product managers think in terms of delivering superior value to the marketplace during product planning and achieving market share and revenue goals during the go-to-market phase. Bad product managers get very confused about the differences among delivering value, matching competitive features, pricing, and ubiquity. Good product managers decompose problems. Bad product managers combine all problems into one.

Good product managers think about the story they want written by the press. Bad product managers think about covering every feature and being absolutely technically accurate with the press. Good product managers ask the press questions. Bad product managers answer any press question. Good product managers assume members of the press and the analyst community are really smart. Bad product managers assume that journalists and analysts are dumb because they don't understand the subtle nuances of their particular technology.

Good product managers err on the side of clarity. Bad product managers never even explain the obvious. Good product managers define their job and their success. Bad product managers constantly want to be told what to do.

Good product managers send their status reports in on time every week, because they are disciplined. Bad product managers forget to send in their status reports on time, because they don't value discipline.

IS IT OKAY TO HIRE PEOPLE FROM YOUR FRIEND'S COMPANY?

Every good technology company needs great people. The best companies invest time, money, and sweat equity into becoming world-class recruiting machines. But how far should you take your quest to build the world's greatest team? Is it fair game to hire employees from your friend's company? Will you still be friends?

First, what do I mean by "friends"? There are two relevant categories:

- Important business partners
- Friends

For this discussion, friends and important business partners are roughly the same.

Most CEOs would never target a friend's company as a source of talent. As CEO, one generally doesn't have many true friends in business, and raiding your friend's company is a sure way to lose one. Nevertheless, almost every CEO will be faced with the decision of whether to hire an employee out of her friend's company. How does it happen? When is it okay? When will it cost you a friend?

BUT THEY WERE ALREADY LOOKING

It always starts in the same way. Your friend Cathy has a great engineer working for her named Mitchell. Mitchell happens to be friends with one of your top engineers. Your engineer brings Mitchell in for an interview, unbeknownst to you, and he naturally sails through the process. The final step is the interview with you, the CEO. You immediately notice that Mitchell currently works at your good friend Cathy's company. You check with your people to make sure that they did not approach Mitchell first, and they assure you that Mitchell was already looking and will go to another company if not yours. Now what?

At this point, you might be thinking, “If Mitchell is leaving, then logically my friend Cathy should want him to go to my company rather than to a competitor or a company with a CEO whom she doesn’t like.” Maybe Cathy will see it that way, but probably not.

People generally leave companies when things are not going well, so you should assume that Cathy is fighting for her company’s life. In this situation, nothing will cut her deeper than losing a great employee, because she knows that the other employees will see that as a leading indicator of the company’s demise. Even more damaging for Cathy is the fact that her employees will perceive your move as an act of betrayal—Cathy’s so-called friend is raiding her company. They will think, “Cathy is such an ineffective CEO that she cannot even keep her friends from hiring her people.” In this way, a logical issue quickly becomes an emotional one.

You don’t want to lose Cathy as a friend, so you assure her that Mitchell is the exception and that he came to you and that he will be the first and only one of her employees that joins your company. Generally, this explanation will work and Cathy will understand and appreciate the gesture. She will forgive, but rest assured, she will not forget.

Her memory of Mitchell will be important, because Mitchell will be just the first step in the demise of your relationship. Since Mitchell is a stellar hire, Cathy’s other strong employees will likely call Mitchell to understand why he left and where he is going. He will explain his reasoning and his reasons will be compelling. And suddenly they will want to follow Mitchell’s path and join your company, too. By the time you become aware of the situation, promises will have been made to prospective employees who approached Mitchell and offers may be out.

In each case, your employees will assure you that they were approached by Cathy’s employees and not vice versa. They will point out that the candidates have offers from other companies as well, so they will definitely leave and you might as well benefit from their restlessness. Cathy’s managers will almost certainly tell a different story. They will plead with her to get her friend to stop raiding their stable of employees or else they will never be able to meet their commitments. This will embarrass and enrage Cathy. In the end, social pressure will trump all your brilliant countervailing logic.

Here's an easy way to think about the dynamic. If your husband left you, would you want your best friend to date him? He's going to date somebody, so wouldn't you want your friend to have him? It seems logical, but this situation is far from logical and you just lost one friend.

SO WHAT SHOULD YOU DO?

First, keep in mind that the employees are either extremely good or you probably won't want them in your company anyway. So, you will either be recruiting top-notch employees from your friend's company or you will be adding mediocre people. Do not assume the people you are taking will not be missed.

A good rule of thumb is my Reflexive Principle of Employee Raiding, which states, "If you would be shocked and horrified if Company X hired several of your employees, then you should not hire any of theirs." The number of such companies should be small and may very well be zero.

In order to avoid these sticky situations, many companies employ written or unwritten policies that name companies where it is not okay to hire without CEO (or senior executive) approval. With such a policy in place, you will be able to give your friend one last chance to save their employee or to object prior to you hiring them.

With that in mind, the best way to deal with these situations is openly and transparently. Once you become aware of the conflict between hiring the superstar employee and double-crossing your valued friend, you should get the issue onto the table by informing the employee that you have an important business relationship with his existing company and you will have to complete a reference check with the CEO prior to extending the offer. Let him know that if he does not want that to happen, then you will stop the process now and keep the process to date confidential. By speaking with your friend before making the hire, you will be able to better judge the relationship impact of hiring her employee. In addition, you may avoid making a bad hire, as often candidates who do well in interviews turn out to be bad employees.

CLOSING THOUGHTS

In the classic movie *The Good, the Bad and the Ugly*, Clint Eastwood "The Good" and Eli Wallach "The Ugly" are partners in crime. Wallach, a known criminal, has a bounty on his head and the two of them run a scam to collect the reward money. Eastwood turns Wallach in and collects the reward. Then Wallach is sentenced to death by hanging. As Wallach sits on a horse, hands tied behind his back and about to be hanged with a rope around his neck, Eastwood shoots the rope from a distance and frees Wallach and they split the reward money. This scheme works brilliantly, until one day Eastwood frees Wallach but informs Wallach: "I don't think you'll ever be worth more than three thousand dollars." Wallach retorts, "What do you mean?" Eastwood informs him, "I mean, our partnership is untied. Oh no, not you. You remain tied. I'll keep the money, and you can have the rope." What follows is one of the great revenge pursuits in motion picture history.

So, when you tell your CEO friend that you don't think she'll ever be worth more than this employee, don't expect to stay friends.

WHY IT'S HARD TO BRING BIG COMPANY EXECS INTO LITTLE COMPANIES

So you've achieved product market fit and you are ready to start building the company. The board encourages you to bring in some "been there, done that" executives who will provide the right financial, sales, and marketing expertise to help you transition from a world-class product to a world-class business. You see a few candidates that you like, but the venture capitalist on the board says, "You are undershooting. This is going to be a huge company. We can attract better talent." So you aim high and bring in a super-accomplished head of sales. This guy has run huge organizations with thousands of employees. He has stellar references and even looks the part. Your VC loves him, because he has an awesome résumé.

SIX MONTHS LATER . . .

Fast-forward six months and everyone in the company is wondering why the sales (or marketing or finance or product) guy who has produced nothing got such a monster stock option package. Meanwhile, the people doing all the work have much fewer options. Even worse than not getting your money's worth, now the company is in trouble, because you've been missing the numbers as your super-expensive executive sits on his butt. What the frak just happened?

The most important thing to understand is that the job of a big company executive is very different from the job of a small company executive. When I was managing thousands of people at Hewlett-Packard after the sale of Opsware, there was an incredible number of incoming demands on my time. Everyone wanted a piece of me. Little companies wanted to partner with me or sell themselves to me, people in my organization needed approvals, other business units needed my help, customers wanted my attention, and so forth. As a result, I spent most of my time optimizing and tuning the existing business. Most of the work that I did was "incoming." In fact, most skilled big company executives will tell you that if you have more than three new initiatives in a quarter, you are trying to do too much. As a result, big company executives tend to be interrupt-driven.

In contrast, when you are a startup executive, nothing happens unless you make it happen. In the early days of a company, you have to take eight to ten new initiatives a day or the company will stand still. There is no inertia that's putting the company in motion. Without massive input from you, the company will stay at rest.

SO WHAT HAPPENS?

Once you hire one of these big company executives, there are two dangerous mismatches that you will face:

1. **Rhythm mismatch** Your executive has been conditioned to wait for the emails to come in, wait for the phone to ring, and wait for the meetings to get scheduled. In your company, he will be waiting a long time. If your new executive waits (as per his training), your other employees will become suspicious. You'll hear things like "What does that guy do all day long?" and "Why did he get so many options?"

2. **Skill set mismatch** Running a large organization requires very different skills than creating and building an organization. When you run a large organization, you tend to become very good at tasks such as complex decision-making, prioritization, organizational design, process improvement, and organizational communication. When you are building an organization, there is no organization to design, there are no processes to improve, and communicating with the organization is simple. On the other hand, you have to be very adept at running a high-quality hiring process, have terrific domain expertise (you are personally responsible for quality control), know how to create process from scratch, and be extremely creative about initiating new directions and tasks.

HOW CAN YOU STOP THINGS FROM GOING HORRIBLY WRONG?

There are two key steps to avoiding disaster:

1. Screen for devastating mismatches in the interview process.
2. Take integration as seriously as interviewing.

SCREEN FOR MISMATCHES

How do you tell if the rhythm mismatch or the skill set mismatch will be too much to overcome? Here are some interview questions that I found very helpful:

What will you do in your first month on the job?

Beware of answers that overemphasize learning. This may indicate that the candidate thinks there is more to learn about your organization than there actually is. More specifically, he may think that your organization is as complex as his current organization.

Beware of any indication that the candidate needs to be interrupt-driven rather than setting the pace personally. The interrupts will never come.

Look for candidates who come in with more new initiatives than you think are possible. This is a good sign.

How will your new job differ from your current job?

Look for self-awareness of the differences here. If they have the experience in what you need, they will be articulate on this point.

Beware of candidates who think that too much of their experience is immediately transferable. It may pay off down the line, but likely not tomorrow.

Why do you want to join a small company?

Beware of equity being the primary motivation. One percent of nothing is nothing. That’s something that big company executives sometimes have a hard time understanding.

It's much better if they want to be more creative. The most important difference between big and small companies is the amount of time running versus creating. A desire to do more creating is the right reason to want to join your company.

AGGRESSIVELY INTEGRATE THE CANDIDATE ONCE ON BOARD

Perhaps the most critical step is integration. You should plan to spend a huge amount of time integrating any new executive. Here are some things to keep in mind:

- *Force them to create.* Give them monthly, weekly, and even daily objectives to make sure that they produce immediately. The rest of the company will be watching and this will be critical to their assimilation.
- *Make sure that they "get it."* Content-free executives have no value in startups. Every executive must understand the product, the technology, the customers, and the market. Force your newbie to learn these things. Consider scheduling a daily meeting with your new executive. Require them to bring a comprehensive set of questions about everything they heard that day but did not completely understand. Answer those questions in depth; start with first principles. Bring them up to speed fast. If they don't have any questions, consider firing them. If in thirty days you don't feel that they are coming up to speed, definitely fire them.
- *Put them in the mix.* Make sure that they initiate contact and interaction with their peers and other key people in the organization. Give them a list of people they need to know and learn from. Once they've done that, require a report from them on what they learned from each person.

FINAL THOUGHTS

Nothing will accelerate your company's development like hiring someone who has experience building a very similar company at larger scale.

However, doing so can be fraught with peril. Make sure to pay attention to the important leading indicators of success and failure.

HIRING EXECUTIVES: IF YOU'VE NEVER DONE THE JOB, HOW DO YOU HIRE SOMEBODY GOOD?

The biggest difference between being a great functional manager and being a great general manager—and particularly a great CEO—is that as a general manager, you must hire and manage people who are far more competent at their jobs than you would be at their jobs. In fact, often you will have to hire and manage people to do jobs that you have never done. How many CEOs have been head of HR, engineering, sales, marketing, finance, and legal? Probably none.

So, with no experience, how do you hire someone good?

STEP 1: KNOW WHAT YOU WANT

Step 1 is definitely the most important step in the process and also the one that gets skipped most often. As the great self-help coach Tony Robbins says, "If you don't know what you want, the chances that you'll get it are extremely low." If you have never done the job, how do you know what to want?

First, you must realize how ignorant you are and resist the temptation to educate yourself simply by interviewing candidates. While the interview process can be highly educational, using that as the sole information source is dangerous. Doing so will make you susceptible to the following traps:

- **Hiring on look and feel** It may seem silly to think that anyone would hire an executive based on the way they look and sound in an interview, but in my experience, look and feel are the top criteria for most executive searches. When you combine a CEO who doesn't know what she wants and a board of directors that hasn't thought much about the hire, what do you think the criteria will be?

- **Looking for someone out of central casting** If I had followed this path, I would never have hired Mark Cranney and you probably would not be reading this now. This wrongheaded approach is the moral equivalent of looking for the Platonic ideal for a head of sales. You imagine what the perfect sales executive might be like, and then you attempt to match real-world candidates to your model. This is a bad idea for several reasons. First, you are not hiring an abstract executive to work at an arbitrary company. You must hire the right person for your company at this particular point in time. The head of sales at Oracle in 2010 would likely have failed in 1989. The VP of engineering at Apple might be exactly the wrong choice for Foursquare. The details and the specifics matter. Second, your imaginary model is almost certainly wrong. What is your basis for creating this model? Finally, it will be incredibly difficult to educate an interview team on such an abstract set of criteria. As a result, everybody will be looking for something different.
- **Valuing lack of weakness rather than strength** The more experience you have, the more you realize that there is something seriously wrong with every employee in your company (including you). Nobody is perfect.

The very best way to know what you want is to act in the role. Not just in title, but in real action. In my career, I've been acting VP of HR, CFO, and VP of sales. Often CEOs resist acting in functional roles, because they worry that they lack the appropriate knowledge. This worry is precisely why you should act—to get the appropriate knowledge. Indeed, acting is really the only way to get all the knowledge that you need to make the hire, because you are looking for the right executive for your company today, not a generic executive.

In addition to acting in the role, it helps greatly to bring in domain experts. If you know a great head of sales, interview them first and learn what they think made them great. Figure out which of those strengths most directly match the needs of your company. If possible, include the domain expert in the interview process. However, be aware that the domain expert only has part of the knowledge necessary to make the hire. Specifically, she has very little knowledge of your company, how it works, and what its needs are. Therefore, you cannot defer the decision to the domain expert.

Finally, be clear in your own mind about your expectations for this person upon joining your company. What will this person do in the first thirty days? What do you expect their motivation to be for joining? Do you want them to build a large organization right away or hire only one or two people over the next year?

STEP 2. RUN A PROCESS THAT FIGURES OUT THE RIGHT MATCH

In order to find the right executive, you must now take the knowledge that you have gathered and translate it into a process that yields the right candidate. Here is the process that I like to use.

Write down the strengths you want and the weaknesses that you are willing to tolerate.

In order to ensure completeness, I find it useful to include criteria from the following subdivisions when hiring executives:

- Will the executive be world-class at running the function?
- Is the executive outstanding operationally?
- Will the executive make a major contribution to the strategic direction of the company? This is the "are they smart enough?" criterion.
- Will the executive be an effective member of the team? *Effective* is the key word. It's possible for an executive to be well liked and totally ineffective with respect to the other members of the team. It's also possible for an executive to be highly effective and profoundly influential while being totally despised. The latter is far better.

These functions do not carry equal weight for all positions. Make sure that you balance them appropriately. Generally, operational excellence is far more important for a VP of engineering or a VP of sales than for a VP of marketing or a CFO.

Develop questions that test for the criteria (see the appendix).

This effort is important even if you never ask the candidate any of the pre-prepared questions. By writing down questions that test for what you want, you will get to a level of specificity that will be extremely difficult to achieve otherwise. (See the appendix for an example of questions that I wrote for running the enterprise sales function and operational excellence.) Assemble an appropriate interview team and conduct the interviews.

Assemble the interview team.

In assembling the team, you should keep two questions in mind:

> **1.** Who will best help you figure out whether the candidate meets the criteria? These may be internal or external people. They can be board members, other executives, or just experts.
>
> **2.** Who do you need to support the decision once the executive is on board? This group is just as important as the first. No matter how great an executive is, they will have trouble succeeding if the people around them sabotage everything they do. The best way to avoid that is to understand any potential issues before the person is hired.

Clearly, some people will be in both groups one and two. The opinions of both groups will be very important: Group one will help you determine the best candidate and group two will help you gauge how easily each candidate will integrate into your company. Generally, it's best to have group two interview finalist candidates only.

Next, assign questions to interviewers based on their talents. Specifically, make sure that the interviewer who asks the questions deeply understands what a good answer will sound like.

As you conduct the interviews, be sure to discuss each interview with the interviewer. Use this time to drive to a common understanding of the criteria, so that you will get the best information possible.

Backdoor and front-door references.

For the final candidates, it's critically important that the CEO conduct the reference checks herself. The references need to be checked against the same hiring criteria that you tested for during the interview process. Backdoor reference checks (checks from people who know the candidate, but were not referred by the candidate) can be an extremely useful way to get an unbiased view. However, do not discount the front-door references. While they clearly have committed to giving a positive reference (or they wouldn't be on the list), you are not looking for positive or negative with them. You are looking for fit with your criteria. Often, the front-door references will know the candidate best and will be quite helpful in this respect.

STEP 3: MAKE A LONELY DECISION

Despite many people being involved in the process, the ultimate decision should be made solo. Only the CEO has comprehensive knowledge of the criteria, the rationale for the criteria, all of the feedback from interviewers and references, and the relative importance of the various stakeholders. Consensus decisions about executives almost always sway the process away from strength and toward lack of weakness. It's a lonely job, but somebody has to do it.

WHEN EMPLOYEES MISINTERPRET MANAGERS

Early on at Loudcloud, many people would do crazy things backed up by "Ben said." Often I didn't say any of it, but I definitely didn't say it in the way they used it. The management principles I share here are connected to many of those experiences.

When I ran Opsware, we had the nonlinear quarter problem also known affectionately as the hockey stick. The hockey stick refers to the shape of the revenue graph over the course of a quarter. Our hockey stick was so bad that one quarter, we booked 90 percent of our new bookings on the last day of the quarter. Sales patterns like this make it difficult to plan the business and are particularly harrowing when you are, as we were, a public company.

Naturally, I was determined to straighten out the hockey stick and bring some sanity to the business. I designed an incentive for salespeople to close deals in the first two months of the quarter by issuing bonuses for deals in those months. As a result, the next quarter became slightly more linear, and slightly smaller than anticipated—deals just moved from the third month to the first two of the following quarter.

When I ran a large engineering group at Netscape, I measured one of our engineering products on schedule, quality, and features. The team shipped a product with all the required features, on time and with very few bugs. Unfortunately, the product was mediocre, because none of the features were that great.

When I was at HP, we ran all the businesses by the numbers with extremely strict revenue and margin targets. Some divisions made their numbers, but did so by underfunding R&D. They dramatically weakened their long-term competitive position and set themselves up for future disaster.

In all three cases, managers got what we asked for, but not what we wanted. How did this happen? Let's take a look.

FLATTENING OUT THE HOCKEY STICK: THE WRONG GOAL

In retrospect, I should never have asked the team to flatten the quarters. If that is what I wanted, I had to be willing to—at least temporarily—accept smaller quarters. We had a fixed number of salespeople who were maximizing the size of each quarter. In order to deliver linear quarters, they had to modify their behavior and adjust their priorities. Unfortunately, I liked the old priority of maximizing revenue better.

Given the situation, I was actually pretty lucky. Sun Tzu, in his classic work *The Art of War*, warns that giving the team a task that it cannot possibly perform is called crippling the army. In my case, I did not cripple the team, but I screwed up my priorities. The right thing to do would have been to make the hard decision up front, about what was more important, maximizing each quarter or increasing predictability. The instruction only made sense if the answer was the second one.

FOCUSING TOO MUCH ON THE NUMBERS

In the second example, I managed the team to a set of numbers that did not fully capture what I wanted. I wanted a great product that customers would love with high quality and on time—in that order.

Unfortunately, the metrics that I set did not capture those priorities. At a basic level, metrics are incentives. By measuring quality, features, and schedule and discussing them at every staff meeting, my people focused intensely on those metrics to the exclusion of other goals. The metrics did not describe the real goals and I distracted the team as a result.

Interestingly, I see this same problem play out in many consumer Internet startups. I often see teams that maniacally focus on their metrics around customer acquisition and retention. This usually works well for customer acquisition, but not so well for retention. Why?

For many products, metrics often describe the customer acquisition goal in enough detail to provide sufficient management guidance. In contrast, the metrics for customer retention do not provide enough color to be a complete management tool. As a result, many young companies overemphasize retention metrics and do not spend enough time going deep enough on the actual user experience. This generally results in a frantic numbers chase that does not end in a great product. It's important to supplement a great product vision with a strong discipline around the metrics, but if you substitute metrics for product vision, you will not get what you want.

MANAGING STRICTLY BY NUMBERS IS LIKE PAINTING BY NUMBERS

Some things that you want to encourage will be quantifiable, and some will not. If you report on the quantitative goals and ignore the qualitative ones, you won't get the qualitative goals, which may be the most important ones. Management purely by numbers is sort of like painting by numbers—it's strictly for amateurs.

At HP, the company wanted high earnings now and in the future. By focusing entirely on the numbers, HP got them now by sacrificing the future.

Note that there were many numbers as well as more qualitative goals that would have helped:

- Was our competitive win rate increasing or declining?
- Was customer satisfaction rising or falling?
- What did our own engineers think of the products?

By managing the organization as though it were a black box, some divisions at HP optimized the present at the expense of their downstream competitiveness. The company rewarded managers for achieving short-term objectives in a manner that was bad for the company. It would have been better to take into account the white box. The white box goes beyond the numbers and gets into how the organization produced the numbers. It penalizes managers who sacrifice the future for the short term and rewards those who invest in the future even if that investment cannot be easily measured.

CLOSING THOUGHT

It is easy to see that there are many ways for leaders to be misinterpreted. To get things right, you must recognize that anything you measure automatically creates a set of employee behaviors. Once you determine the result you want, you need to test the description of the result against the employee behaviors that the description will likely create. Otherwise, the side-effect behaviors may be worse than the situation you were trying to fix.

MANAGEMENT DEBT

Thanks to Ward Cunningham, the computer programmer who designed the first wiki, the metaphor "technical debt" is now a well-understood concept. While you may be able to borrow time by writing quick and dirty code, you will eventually have to pay it back—with interest. Often this trade-off makes sense, but you will run into serious trouble if you fail to keep the trade-off in the front of your mind. There also exists a less understood parallel concept, which I will call *management debt*.

Like technical debt, management debt is incurred when you make an expedient, short-term management decision with an expensive, long-term consequence. Like technical debt, the trade-off sometimes makes sense, but often does not. More important, if you incur the management debt without accounting for it, then you will eventually go management bankrupt.

Like technical debt, management debt comes in too many different forms to elaborate entirely, but a few salient examples will help explain the concept. Here are three of the more popular types among startups:

1. Putting two in the box

2. Overcompensating a key employee, because she gets another job offer

3. No performance management or employee feedback process

PUTTING TWO IN THE BOX

What do you do when you have two outstanding employees who logically both fit in the same place on the organizational chart? Perhaps you have a world-class architect who is running engineering, but she does not have the experience to scale the organization to the next level. You also have an outstanding operational person who is not great technically. You want to keep both in the company, but you only have one position. So you get the bright idea to put “two in the box” and take on a little management debt. The short-term benefits are clear: you keep both employees, you don’t have to develop either because they will theoretically help each other develop, and you instantly close the skill set gap. Unfortunately, you will pay for those benefits with interest and at a very high rate.

For starters, by doing this you will make every engineer’s job more difficult. If an engineer needs a decision made, which boss should she go to? If that boss decides, will the other boss be able to override it? If it’s a complex decision that requires a meeting, does she have to schedule both heads of engineering for the meeting? Who sets the direction for the organization? Will the direction actually get set if doing so requires a series of meetings?

In addition, you have removed all accountability. If schedules slip, who is accountable? If engineering throughput becomes uncompetitive, who is responsible? If the operational head is responsible for the schedule slip and the technical head is responsible for throughput, what happens if the operational head thrashes the engineers to make the schedule and kills throughput? How would you know that she did that? The really expensive part about both of these things is that they tend to get worse over time. In the very short term you might mitigate their effects with extra meetings or by attempting to carve up the job in a clear way. However, as things get busy, those once-clear lines will fade and the organization will degenerate. Eventually, you’ll either make a lump-sum payment by making the hard decision and putting one in the box or your engineering organization will suck forever.

OVERCOMPENSATING A KEY EMPLOYEE BECAUSE SHE GETS ANOTHER JOB OFFER

An excellent engineer decides to leave the company because she gets a better offer. For various reasons, you were undercompensating her, but the offer from the other company pays more than any engineer in your company and the engineer in question is not your best engineer. Still, she is working on a critical project and you cannot afford to lose her. So you match the offer. You save the project, but you pile on the debt.

Here's how the payment will come due. You probably think that your counteroffer was confidential because you'd sworn her to secrecy. Let me explain why it was not. She has friends in the company. When she got the offer from the other company, she consulted with her friends. One of her best friends advised her to take the offer. When she decided to stay, she had to explain to him why she disregarded his advice or else lose personal credibility. So she told him and swore him to secrecy. He agreed to honor the secret but was incensed that she had to threaten to quit in order to get a proper raise. Furthermore, he was furious that you overcompensated her. So he told the story to a few of his friends, but kept her name confidential to preserve the secret. And now everyone in engineering knows that the best way to get a raise is to generate an offer from another company and then threaten to quit. It's going to take a while to pay off that debt.

NO PERFORMANCE MANAGEMENT OR EMPLOYEE FEEDBACK PROCESS

Your company now employs twenty-five people and you know that you should formalize the performance management process, but you don't want to pay the price. You worry that doing so will make it feel like a "big company." Moreover, you do not want your employees to be offended by the feedback, because you can't afford to lose anyone right now. And people are happy, so why rock the boat? Why not take on a little management debt?

The first noticeable payments will be due when somebody performs below expectations:

CEO: "He was good when we hired him; what happened?"

Manager: "He's not doing the things that we need him to do."

CEO: "Did we clearly tell him that?"

Manager: "Maybe not clearly . . ."

However, the larger payment will be a silent tax. Companies execute well when everybody is on the same page and everybody is constantly improving. In a vacuum of feedback, there is almost no chance that your company will perform optimally across either dimension. Directions with no corrections will seem fuzzy and obtuse. People rarely improve weakness they are unaware of. The ultimate price you will pay for not giving feedback: systematically crappy company performance.

IN THE END

Every really good, really experienced CEO I know shares one important characteristic: They tend to opt for the hard answer to organizational issues. If faced with giving everyone the same bonus to make things easy or with sharply rewarding performance and ruffling many feathers, they'll ruffle the feathers. If given the choice of cutting a popular project today, because it's not in the long-term plans or you're keeping it around for morale purposes and to appear consistent, they'll cut it today. Why? Because they've paid the price of management debt, and they would rather not do that again.

MANAGEMENT QUALITY ASSURANCE

Everyone in the technology industry seems to agree that people are paramount, yet nobody seems to be on the same page with what the people organization—human resources—should look like.

The problem is that when it comes to HR, most CEOs don't really know what they want. In theory, they want a well-managed company with a great culture. Instinctively they know that an HR organization probably can't deliver that. As a result, CEOs usually punt on the issue and implement something that's suboptimal, if not worthless.

Ironically one of the first things you learn when you run an engineering organization is that a good quality assurance organization cannot build a high-quality product, but it can tell you when the development team builds a low quality product. Similarly, a high quality human resources organization cannot make you a well-managed company with a great culture, but it can tell you when you and your managers are not getting the job done.

THE EMPLOYEE LIFE CYCLE

The best way to approach management quality assurance is through the lens of the employee life cycle. From hire to retire, how good is your company? Is your management team world-class in all phases? How do you know?

A great HR organization will support, measure, and help improve your management team. Some of the questions they will help you answer:

Recruiting and Hiring

- Do you sharply understand the skills and talents required to succeed in every open position?
- Are your interviewers well prepared?

- Do your managers and employees do an effective job of selling your company to prospective employees?
- Do interviewers arrive on time?
- Do managers and recruiters follow up with candidates in a timely fashion?
- Do you compete effectively for talent against the best companies?

Compensation

- Do your benefits make sense for your company demographics?
- How do your salary and stock option packages compare with the companies that you compete with for talent?
- How well do your performance rankings correspond to your compensation practices?

Training and Integration

- When you hire an employee, how long does it take them to become productive from the perspective of the employee, her peers, and her manager?
- Shortly after joining, how well does an employee understand what's expected of her?

Performance Management

- Do your managers give consistent, clear feedback to their employees?
- What is the quality of your company's written performance reviews?
- Did all of your employees receive their reviews on time?
- Do you effectively manage out poor performers?

Motivation

- Are your employees excited to come to work?
- Do your employees believe in the mission of the company?
- Do they enjoy coming to work every day?

- Do you have any employees who are actively disengaged?
- Do your employees clearly understand what's expected of them?
- Do employees stay a long time or do they quit faster than normal?
- Why do employees quit?

REQUIREMENTS TO BE GREAT AT RUNNING HR

What kind of person should you look for to comprehensively and continuously understand the quality of your management team? Here are some key requirements:

- **World-class process design skills** Much like the head of quality assurance, the head of HR must be a masterful process designer. One key to accurately measuring critical management processes is excellent process design and control.
- **A true diplomat** Nobody likes a tattletale and there is no way for an HR organization to be effective if the management team doesn't implicitly trust it. Managers must believe that HR is there to help them improve rather than police them. Great HR leaders genuinely want to help the managers and couldn't care less about getting credit for identifying problems. They will work directly with the managers to get quality up and only escalate to the CEO when necessary. If an HR leader hoards knowledge, makes power plays, or plays politics, he will be useless.
- **Industry knowledge** Compensation, benefits, best recruiting practices, etc. are all fast-moving targets. The head of HR must be deeply networked in the industry and stay abreast of all the latest developments.
- **Intellectual heft to be the CEO's trusted adviser** None of the other skills matter if the CEO does not fully back the head of HR in holding the managers to a high quality standard. In order for this to happen, the CEO must trust the HR leader's thinking and judgment.
- **Understanding things unspoken** When management quality starts to break down in a company, nobody says anything about it, but super-

perceptive people can tell that the company is slipping. You need one of those.

— CHAPTER 7 —

HOW TO LEAD EVEN WHEN YOU DON'T KNOW WHERE YOU ARE GOING

"This for every ghetto in the hood
Nas the Don, Super Cat the Don Dada, understood."

—NAS, "THE DON"

After selling the Loudcloud business to EDS, we immediately plunged into a new crisis. Our investors could not understand how selling all of our revenue and all of our customers could possibly leave us with anything worth investing in. As a result, institutional investors sold all of their Opsware shares, and our stock price fell to $0.35 per share. This turned out to be a noteworthy price, because it computed to a market capitalization equal to half of the cash we had in the bank. This signaled that investors believed that the Opsware business had no value, and they further expected us to burn up half our cash before coming to our senses and returning the cash to investors. To make matters more miserable, I received a notice from NASDAQ informing me that if I did not get our stock price above $1 within the next ninety days, they would delist us and we would trade with the penny stocks.

I brought this cheery news to the board with three options:

1. *Reverse split.* We could reverse split the stock 10:1 and have ten times fewer shares and a ten times higher stock price.
2. *Give in.* We could become a penny stock.
3. *Hit the road.* I could go on the road and try to get enough people to buy so that the stock price would triple.

The board was extremely sympathetic and open to every option. Andy Rachleff pointed out that the negative connotation with reverse splits among investors had lessened due to the sheer number of them. Marc hypothesized that being delisted in a post-newspaper economy might not matter so much.

Still, I did not want to reverse split the stock. More than anything, it felt like a capitulation and a dramatic sign of weakness. Reverse splitting would say to the market that I believed we really were worth half the cash that we had in the bank. I also didn't want the company to get delisted. I knew that Marc would be right one day, but I also knew that many institutional investors were prohibited from buying penny stocks in the current day and age. I decided to hit the road.

The first big question was "Hit the road to go see whom?" At that time, most institutional investors wouldn't invest in stocks with prices under $10, let alone under $1. So Marc and I called our networking guru, the famous angel investor Ron Conway, for advice. We told him the story, explaining that the $20 million a year EDS contract alone made the Opsware business worth something, and adding that we had a great team and huge amount of intellectual property, so there was no reason for us to trade at half of cash. Ron listened carefully and then said, "I think you should go see Herb Allen."

I had heard about Herb's investment bank, Allen & Company, but didn't really know much about him. Allen & Company was famous for running the best business conference in the world. The conference is invitation-only and consistently attracts guests whom you will never find at any other conference. People like Bill Gates, Warren Buffett, and Rupert Murdoch are regulars. Allen & Company may attract more top-tier guests than all other business conferences combined—it's that good.

Marc and I arrived at the Allen & Company office in Manhattan, located in the Coca-Cola building where Herb's father, Herbert, had served on the board of directors for many years. If a single word could describe the Allen & Company office it would be *classy*. Beautifully decorated, yet not flashy, the office was both elegant and comfortable.

Like his office, Herb himself was both unassuming and classy. He opened the meeting by complimenting Ron, saying that any referral from Ron was personally important to him. Marc and I then carefully took Herb through the story of Loudcloud—how we had sold the services business to

EDS, retaining the software and the key people, and had secured a $20 million a year software license. Beyond that, we had a totally clean balance sheet and were surely worth more than $0.35 per share. Herb listened attentively to the entire presentation and then said, “I’d like to be helpful. I’ll see what I can do.” I had no idea if he meant, as many in Silicon Valley would mean, “Screw off, I’m not buying a penny stock” or if he meant what he’d said. I soon found out.

Over the next couple of months, Allen & Company bought Opsware stock, Herb Allen personally bought Opsware stock, and several Allen & Company clients became major investors. This activity propelled the stock from $0.35 to $3 per share in a matter of months. We’d avoided delisting, rebuilt the shareholder base, and given employees hope. Everything was largely due to a single meeting with Herb Allen.

Years later I asked Herb why he believed in our company at a time when nobody else did. I pointed out that, at the time, Allen & Company wasn’t very involved in technology, let alone data center automation. Herb replied, “I didn’t understand anything about your business and I understood very little about your industry. What I saw was two guys come visit me when every other public company CEO and chairman was hiding under their desk. Not only did you come see me, but you were more determined and convinced you would succeed than guys running giant businesses. Investing in courage and determination was an easy decision for me.”

That’s how Herb Allen does business. And that’s why, if given the chance, you’d be a fool not to do business with Herb.

Perhaps the most important thing that I learned as an entrepreneur was to focus on what I needed to get right and stop worrying about all the things that I did wrong or might do wrong. This section encapsulates the various parts of those lessons and provides guidance on how to get the important things right.

THE MOST DIFFICULT CEO SKILL

By far the most difficult skill I learned as CEO was the ability to manage my own psychology. Organizational design, process design, metrics, hiring, and firing were all relatively straightforward skills to master compared with keeping my mind in check. I thought I was tough going into it, but I wasn't tough. I was soft.

Over the years, I've spoken to hundreds of CEOs, all with the same experience. Nonetheless, very few people talk about it and I have never read anything on the topic. It's like the fight club of management: The first rule of the CEO psychological meltdown is don't talk about the psychological meltdown.

At the risk of violating the sacred rule, I will attempt to describe the condition and prescribe some techniques that helped me. In the end, this is the most personal and important battle that any CEO will face.

IF I'M DOING A GOOD JOB, WHY DO I FEEL SO BAD?

Generally, someone doesn't become a CEO unless she has a high sense of purpose and cares deeply about the work she does. In addition, a CEO must be accomplished enough or smart enough that people will want to work for her. Nobody sets out to be a bad CEO, run a dysfunctional organization, or create a massive bureaucracy that grinds her company to a screeching halt. Yet no CEO ever has a smooth path to a great company. Along the way, many things go wrong and all of them could have and should have been avoided.

The first problem is that everybody learns to be a CEO by being a CEO. No training as a manager, general manager, or in any other job actually prepares you to run a company. The only thing that prepares you to run a company is running a company. This means that you will face a broad set of things that you don't know how to do that require skills you don't have.

Nevertheless, everybody will expect you to know how to do them, because, well, you are the CEO. I remember when I first became CEO, an investor asked me to send him the “cap table.” I had a vague idea of what he meant, but I didn’t actually know what the format was supposed to look like or what should be included or excluded. It was a silly little thing and I had much bigger things to worry about, but everything is hard when you don’t actually know what you are doing. I wasted quite a bit of time sweating over that stupid spreadsheet.

Even if you know what you are doing, things go wrong. Things go wrong because building a multifaceted human organization to compete and win in a dynamic, highly competitive market turns out to be really hard. If CEOs were graded on a curve, the mean on the test would be 22 out of 100. This kind of mean can be psychologically challenging for a straight-A student. It is particularly challenging because nobody tells you that the mean is 22.

If you manage a team of ten people, it’s quite possible to do so with very few mistakes or bad behaviors. If you manage an organization of one thousand people, it is quite impossible. At a certain size, your company will do things that are so bad that you never imagined that you’d be associated with that kind of incompetence. Seeing people fritter away money, waste each other’s time, and do sloppy work can make you feel bad. If you are the CEO, it may well make you sick.

And to rub salt into the wound and make matters worse, it’s your fault.

NOBODY TO BLAME

“You can’t blame Jazz musicians
or David Stern with his NBA fashion issues.”

—NAS, “HIP HOP IS DEAD”

When people in my company would complain about one thing or another being broken, such as the expense reporting process, I would joke that it was all my fault. The joke was funny, because it wasn’t really a joke. Every problem in the company was indeed my fault. As the founding CEO, every hire and every decision that the company ever made happened under my direction. Unlike a hired gun who comes in and blames all of the problems on the prior regime, there was literally nobody for me to blame.

If someone was promoted for all the wrong reasons, that was my fault. If we missed the quarterly earnings target, that was my fault. If a great engineer quit, that was my fault. If the sales team made unreasonable demands on the product organization, that was my fault. If the product had too many bugs, that was my fault. It kind of sucked to be me.

Being responsible for everything and getting a 22 on the test starts to weigh on your consciousness.

TOO MUCH BROKEN STUFF

Given this stress, CEOs often make one of the following two mistakes:

1. They take things too personally.
2. They do not take things personally enough.

In the first scenario, the CEO takes every issue incredibly seriously and personally and urgently moves to fix it. Given the volume of the issues, this motion usually results in one of two scenarios. If the CEO is outwardly focused, she ends up terrorizing the team to the point where nobody wants to work at the company anymore. If the CEO is inwardly focused, she ends up feeling so sick from all the problems that she can barely make it to work in the morning.

In the second scenario, in order to dampen the pain of the rolling disaster that is the company, the CEO takes a Pollyannaish attitude: It's not so bad. In this view, none of the problems is actually that bad and they needn't be dealt with urgently. By rationalizing away the issues, the CEO feels better about herself. The problem is that she doesn't actually fix any of the problems and the employees eventually become quite frustrated that the chief executive keeps ignoring the most basic problems and conflicts. Ultimately, the company turns to crap.

Ideally, the CEO will be urgent yet not insane. She will move aggressively and decisively without feeling emotionally culpable. If she can separate the importance of the issues from how she feels about them, she will avoid demonizing her employees or herself.

IT'S A LONELY JOB

In your darkest moments as CEO, discussing fundamental questions about the viability of your company with your employees can have obvious negative consequences. On the other hand, talking to your board and outside advisers can be fruitless. The knowledge gap between you and them is so vast that you cannot actually bring them fully up to speed in a manner that's useful in making the decision. You are all alone.

At Loudcloud, when the dot-com bubble burst and subsequently sent most of our customers into bankruptcy, it crippled our business and devastated our balance sheet. Or rather, that was one interpretation. Another interpretation, and necessarily the official story for the company, was that we still had plenty of money in the bank and were signing up traditional enterprise customers at an impressive rate. Which interpretation was closer to the truth? In the absence of someone to talk to, that's a question that I asked myself about three thousand times. (As an aside, asking oneself anything three thousand times turns out to be a bad idea.) In this case, I had two specific difficult questions:

1. What if the official interpretation was wrong? What if I was misleading everyone from investors to employees? In that case, I should be removed from my position immediately.

2. What if the official interpretation was right? What if I was grinding my brain into sawdust for no reason at all? What if I was taking the company off track by questioning my own direction? In that case, I should be removed from my position immediately.

As is usually the case, there was no way to know which interpretation was right until much later. It turned out that neither was actually right. The new customers didn't save us, but we figured out another way to survive and ultimately succeed. The key to getting to the right outcome was to keep from getting married to either the positive or the dark narrative.

My friend Jason Rosenthal took over as CEO of Ning in 2010. As soon as he became CEO, he faced a cash crisis and had to choose among three difficult choices: (1) radically reduce the size of the company, (2) sell the company, or (3) raise money in a highly dilutive way.

Think about those choices:

1. Lay off a large set of talented employees whom he worked very hard to recruit and, as a result, likely severely damage the morale of the remaining people.

2. Sell out all of the employees whom he had been working side by side with for the past several years (Jason was promoted into the position) by selling the company without giving them a chance to perform or fulfill their mission.

3. Drastically reduce the ownership position of the employees and make their hard work economically meaningless.

Choices like these cause migraine headaches. Tip to aspiring entrepreneurs: If you don't like choosing between horrible and cataclysmic, don't become CEO.

Jason sought advice from some of the best minds in the industry, but ultimately he was completely alone in the final decision. Nobody had the answer and whatever the answer, Jason was the one who had to live with the consequences. So far his decision to reduce staff by letting go of primarily the most recent hires has paid off. Revenue at Ning is soaring and team morale is high. If it had gone worse (or ultimately goes bad), it would be all Jason's fault and it would be up to Jason to find a new answer. Whenever I see Jason, I like to say, "Welcome to the show." Jason eventually sold Ning to Glam and went on to become CEO of Lytro.

At times like this, it's important to understand that nearly every company goes through life-threatening moments. My partner at Andreessen Horowitz, Scott Weiss, relayed that it's so common that there is an acronym for it, WFIO, which stands for "We're Fucked, It's Over" (it's pronounced "whiff-ee-yo"). As he describes it, every company goes through at least two and up to five of these episodes (although I'm pretty sure that I went through at least a dozen at Opsware). In all cases, WFIOs feel much worse than they are—especially for the CEO.

TECHNIQUES TO CALM YOUR NERVES

The problem with psychology is that everybody's is different. With that as a caveat, over the years I developed a few techniques for dealing with myself.

I hope you find them useful, too.

Make some friends. Although it's nearly impossible to get high-quality advice on the tough decisions that you make, it is extremely useful from a psychological perspective to talk to people who have been through similarly challenging decisions.

Get it out of your head and onto paper. When I had to explain to my board that, since we were a public company, I thought that it would be best if we sold all of our customers and all of our revenue and changed business, it was messing with my mind. In order to finalize that decision, I wrote down a detailed explanation of my logic. The process of writing that document separated me from my own psychology and enabled me to make the decision swiftly.

Focus on the road, not the wall. When someone learns to drive a race car, one of the first lessons taught is that when you are going around a curve at 200 mph, do not focus on the wall; focus on the road. If you focus on the wall, you will drive right into it. If you focus on the road, you will follow the road. Running a company is like that. There are always a thousand things that can go wrong and sink the ship. If you focus too much on them, you will drive yourself nuts and likely crash your company. Focus on where you are going rather than on what you hope to avoid.

DON'T PUNK OUT AND DON'T QUIT

As CEO, there will be many times when you feel like quitting. I have seen CEOs try to cope with the stress by drinking heavily, checking out, and even quitting. In each case, the CEO has a marvelous rationalization about why it was okay for him to punk out or quit, but none of them will ever be great CEOs.

Great CEOs face the pain. They deal with the sleepless nights, the cold sweats, and what my friend the great Alfred Chuang (legendary cofounder and CEO of BEA Systems) calls "the torture." Whenever I meet a successful CEO, I ask them how they did it. Mediocre CEOs point to their brilliant strategic moves or their intuitive business sense or a variety of other self-congratulatory explanations. The great CEOs tend to be remarkably consistent in their answers. They all say, "I didn't quit."

THE FINE LINE BETWEEN FEAR AND COURAGE

> "I tell my kids, what is the difference between a hero and a coward? What is the difference between being yellow and being brave? No difference. Only what you do. They both feel the same. They both fear dying and getting hurt. The man who is yellow refuses to face up to what he's got to face. The hero is more disciplined and he fights those feelings off and he does what he has to do. But they both feel the same, the hero and the coward. People who watch you judge you on what you do, not how you feel."
>
> **—CUS D'AMATO, LEGENDARY BOXING TRAINER**

When my partners and I meet with entrepreneurs, the two key characteristics that we look for are brilliance and courage. In my experience as CEO, I found that the most important decisions tested my courage far more than my intelligence.

The right decision is often obvious, but the pressure to make the wrong decision can be overwhelming. It starts with small things.

When founders come in to pitch our firm—one as the CEO and the other as president—the conversation often goes like this:

"Who is running the company?"

"We are," they both say.

"Who makes the final decision?"

"We do."

"How long do you expect to run that way?"

"Forever."

"So you've decided to make it more difficult for every employee to get work done so that you don't have to decide who is in charge, is that right?"

That usually results in silence.

Intellectually, it should be clear that it is easier for employees to go to one decision maker than two. It's not really very complicated at all. Unfortunately, the clear and present social pressure often overwhelms the long-term benefits of organizing the company properly. Because the founders do not have the courage to decide who is in charge, every employee suffers the inconvenience of double approval.

More important, decisions only get scarier as a company grows. When we decided to take Loudcloud public with only $2 million in revenue, it was not a hard choice intellectually—the alternative was to go bankrupt. It was nonetheless terrifying to do something that most employees, everyone in the press, and many investors thought was nuts.

WHEN MAKING THE RIGHT CHOICE REQUIRES INTELLIGENCE AND COURAGE

Sometimes the decision itself is rather complicated, which makes the courage challenge even more difficult. CEOs possess a different set of data, knowledge, and perspective than anybody else in the company. Frequently, some of the employees and board members are more experienced and more intelligent than the CEO. The only reason the CEO can make a better decision is her superior knowledge.

To make matters worse, when a CEO faces a particularly difficult decision, she may have only a slight preference for one choice over another—say 54 percent kill a product line, 46 percent keep it. If the really smart people on the board and on her staff take the other side, her courage will be severely tested. How can she kill the product when she is not even sure if she is making the right decision and everyone is against her? If she's wrong, she will have been wrong in the face of advice from her top advisers. If she is right, will anybody even know?

Recently, a large company offered to buy one of our portfolio companies. The deal was lucrative and compelling given the portfolio company's progress to date and revenue level. The founder/CEO (I'll call him Hamlet—not his real name) thought that selling did not make sense due to the giant market opportunity that he was pursuing, but he still wanted to make sure that he made the best possible choice for investors and employees. Hamlet wanted to reject the offer, but only marginally. To complicate matters, most of the management team and the board thought the opposite. It did not help that the board and the management team were far more experienced than Hamlet. As a result, Hamlet spent many sleepless nights worrying about whether he was right. He realized that it was impossible to know. This did not help him sleep. In the end, Hamlet made the best and most courageous decision he could and did not sell the company. I believe that will prove to be the defining moment of his career.

Interestingly, as soon as Hamlet made the decision, the entire board and executive team immediately embraced the choice. Why? If they wanted to sell the company enough to advise the CEO to give up his dream, how could they reverse themselves so quickly? It turns out that the most important data point driving their earlier preference for selling the company was Hamlet's initial ambivalence—the team supported the decision they *thought* the CEO wanted. Hamlet did not realize this and interpreted their desire to sell to be the result of a thorough analysis. Luckily for everybody involved, he had the courage to make the right decision.

The general problem can be seen in the social credit matrix below. The expected social rewards for making the crowd-influenced decision appear better than those for making the decision you think is right:

	You are right	**You are wrong**
You decide against the crowd.	Few remember that you made the decision, but the company succeeds.	Everybody remembers the decision and you are downgraded, ostracized, or fired.
You decide with the crowd.	Everyone who advised you remembers the decision and the company succeeds.	You receive the minimum blame possible for getting it wrong, but the company suffers.

On the surface, it appears that if the decision is a close call, it's much safer to go with the crowd. In reality, if you fall into this trap, the crowd will influence your thinking and make a 70-30 decision seem like a 51-49 decision. This is why courage is critical.

COURAGE, LIKE CHARACTER, CAN BE DEVELOPED

In all the difficult decisions that I made through the course of running Loudcloud and Opsware, I never once felt brave. In fact, I often felt scared to death. I never lost those feelings, but after much practice I learned to ignore them. That learning process might also be called the *courage development process*.

In life, everybody faces choices between doing what's popular, easy, and wrong versus doing what's lonely, difficult, and right. These decisions intensify when you run a company, because the consequences get magnified a thousandfold. As in life, the excuses for CEOs making the wrong choice are always plentiful.

Life Excuse	**CEO Excuse**
Other smart people made the same mistake.	It was a close call.
All my friends wanted to do it.	The team was against me and I couldn't go against the team.
All the cool kids are doing it.	It was industry best practice; I didn't realize it was illegal.
It wasn't perfect, so I decided not to compete.	We never achieved total product-market fit, so we never tried to sell our product.

Every time you make the hard, correct decision you become a bit more courageous and every time you make the easy, wrong decision you become a bit more cowardly. If you are CEO, these choices will lead to a courageous or cowardly company.

LAST THOUGHT

Over the past ten years, technological advances have dramatically lowered the financial bar for starting a new company, but the courage bar for building a great company remains as high as it has ever been.

ONES AND TWOS

Jim Collins, in his bestselling book *Good to Great*, demonstrates through massive research and comprehensive analysis that when it comes to CEO succession, internal candidates dramatically outperform external candidates. The core reason is knowledge. Knowledge of technology, prior decisions, culture, personnel, and more tends to be far more difficult to acquire than the skills required to manage a larger organization. Collins does not, however, explain why internal candidates sometimes fail as well. I will attempt to do so here. I will focus the discussion on two core skills for running an organization: First, knowing what to do. Second, getting the company to do what you know. While being a great CEO requires both skills, most CEOs tend to be more comfortable with one or the other. I call managers who are happier setting the direction of the company *Ones* and those who more enjoy making the company perform at the highest level *Twos*.

WHAT ONES LIKE AND DON'T LIKE

Ones like spending most of their time gathering information from a broad variety of sources, from employees to customers to competitors. Ones love making decisions. Although they prefer to have comprehensive information when they make a decision, they comfortably make decisions with very little information when necessary. Ones have great strategic minds and enjoy nothing more than a good game of eight-dimensional chess against their best competitors.

Ones sometimes get bored with many of the important execution details required to run a company, such as process design, goal setting, structured accountability, training, and performance management.

Most founding CEOs tend to be Ones. When founding CEOs fail, a significant reason is that they never invested the time to be competent enough in the Two tasks to direct those activities effectively. The resulting companies become too chaotic to reach their full potential and the CEO ends up being replaced.

WHAT TWOS LIKE AND DON'T LIKE

Twos, on the other hand, thoroughly enjoy the process of making the company run well. They insist upon super-clear goals and strongly prefer not to change goals or direction unless absolutely necessary.

Twos like to participate in strategic discussions but often have difficulty with the strategic thinking process itself. Where a One might be perfectly comfortable spending one day a week reading, studying, and thinking, doing so would make a Two very nervous, because it would not feel like work to them. A Two would get antsy at the thought of all the processes that might be improved, people who might be held accountable to achieving the standard, or sales calls that could be made while he was wasting time just thinking about strategy.

Big decisions worry Twos much more than they worry Ones. Circumstances often force both Ones and Twos to make critical decisions with insufficient data, but Ones generally feel fine about doing that and do not get overly anxious about the consequences. Twos, by contrast, can become highly agitated about such things and sometimes overcomplicate the decision-making process in order to provide a false feeling of thoroughness about the choice.

CEOs who are Twos, despite their love of action, can sometimes bring decision making in a company to a halt.

YOU NEED BOTH CHARACTERISTICS TO BE A GOOD CEO

While people tend to be Ones or Twos, with discipline and hard work natural Twos can be competent at One tasks and Ones can be competent at Two tasks. If a CEO ignores the dimension of management she doesn't like, she generally fails. Ones end up in chaos and Twos fail to pivot when necessary.

FUNCTIONAL ONES

Often Two executives act as Ones for their functions, but Twos as members of the executive team. For example, the head of sales might easily make all the decisions that are local to the sales organization but prefer to take direction with respect to the overall company plans. This is the best kind of multilayer leadership possible, because directions are clear and decisions are made rapidly with precision.

HOW ORGANIZATIONS TEND TO BE CONSTRUCTED

The primary purpose of the organizational hierarchy in a company is decision-making efficiency. It follows that most CEOs tend to be Ones. If the person at the top of the decision-making hierarchy doesn't like making extremely complex decisions, the company's processes will be slow and unwieldy.

If you're a One, it can be counterproductive to have another One on your staff, because she will want to set her own direction rather than follow yours. This kind of strategic contention can confuse the organization and send employees in opposing directions. As a result, many great One CEOs employ primarily Twos and Functional Ones on their staff.

WHAT HAPPENS AT SUCCESSION?

This brings us to the question of succession. Since most organizations are run by Ones and have a team of Twos (sometimes Functional Ones) reporting to them, replacing the CEO can be extremely tricky. Do you promote someone from the executive staff even though they are likely a Two? Microsoft did this in 2000 when they replaced Bill Gates, a prototypical One, with Steve Ballmer, literally his number two. Or do you reach deep into the organization and pull a One from a level lower where they are likely to exist? General Electric famously did this with Jack Welch in 1981. It was an incredibly bold move by GE—not only did they promote an executive two levels down in the organizational chart past all of his superiors, but in doing so they named the youngest CEO in the history of GE. It's difficult for most board members to even conceive of the possibility that there is a One deep in the organization who is more qualified to run the company than anyone on the executive staff.

Both methods can be problematic. The first approach leaves the company in the charge of a Two. As the company faces forks in the road, decision making may slow down and the company may lose its edge. In addition, the natural Ones (in Microsoft's case, stellar executives such as Paul Maritz and Brad Silverberg) will eventually leave.

In scenario two, by promoting someone past everyone on the executive team and making them CEO (as GE did), you will likely cause massive turnover of the executive staff. In fact, in very short order, almost none of the original GE executives remained under Welch. In a diversified conglomerate like GE, this kind of rough transition is possible. For companies in the highly dynamic technology business, the super-high-turnover scenario is more dangerous.

THE BIG CONCLUSION

The big conclusion will be a big disappointment for those looking for an answer. The answer is there is no easy answer. CEO transition is hard. If you bring people in from the outside, you lower your chances for success. If you promote from within, you must deal with the One-Two phenomenon. Ideally, you'll promote a One and the rest of the executive team will be glad you did. Too bad things are rarely ideal.

FOLLOW THE LEADER

There is no prototype for the perfect CEO. Radically different styles—think Steve Jobs, Bill Campbell, and Andy Grove—can all lead to great outcomes. Perhaps the most important attribute required to be a successful CEO is leadership. So what is leadership and how do we think about it in the context of the CEO job? Are great leaders born or made?

Most people define leadership in the same way that Supreme Court justice Potter Stewart famously defined pornography when he said, “I know it when I see it.” For our purposes, we can generalize this to be the measure of the quality of a leader: the quantity, quality, and diversity of people who want to follow her.

So what makes people want to follow a leader? We look for three key traits:

- The ability to articulate the vision
- The right kind of ambition
- The ability to achieve the vision

Let’s take these in order.

THE ABILITY TO ARTICULATE THE VISION: THE STEVE JOBS ATTRIBUTE

Can the leader articulate a vision that’s interesting, dynamic, and compelling? More important, can the leader do this when things fall apart? More specifically, when the company gets to a point when it does not make financial sense for any employee to continue working there, will the leader be able to articulate a vision that’s compelling enough to make people stay?

I believe Jobs’s greatest achievement as a visionary leader was in getting so many super-talented people to continue following him at NeXT, long after the company lost its patina, and in getting the employees of Apple to buy into his vision when the company was weeks away from bankruptcy. It’s difficult to imagine any other leader being so compelling that he could accomplish these goals back-to-back, and this is why we call this one the Steve Jobs attribute.

THE RIGHT KIND OF AMBITION: THE BILL CAMPBELL ATTRIBUTE

One of the biggest misperceptions in our society is that a prerequisite for becoming a CEO is to be selfish, ruthless, and callous. In fact, the opposite is true and the reason is obvious. The first thing that any successful CEO must do is get really great people to work for her. Smart people do not want to work for people who do not have their interests in mind and in heart.

Most of us have experienced this in our careers: a bright, ambitious, hardworking executive whom nobody good wants to work for and who, as a result, delivers performance far worse than one might imagine.

Truly great leaders create an environment where the employees feel that the CEO cares more about the employees than she cares about herself. In this kind of environment, an amazing thing happens: A huge number of employees believe it’s *their* company and behave accordingly. As the company grows large, these employees become quality control for the entire organization. They set the work standard that all future employees must live up to. As in, “Hey, you need to do a better job on that data sheet—you are screwing up my company.”

I call this characteristic the Bill Campbell attribute after the man who is the best I’ve ever seen at this. If you talk to people who worked in any of the many organizations that Bill has run, they refer to those organizations as “my organization” or “my company.” A huge part of why he has been so remarkably strong in this dimension of leadership is that he’s completely authentic. He would happily sacrifice his own economics, fame, glory, and rewards for his employees. When you talk to Bill, you get the feeling that he cares deeply about you and what you have to say, because he does. And all of that shows up in his actions and follow-through.

THE ABILITY TO ACHIEVE THE VISION: THE ANDY GROVE ATTRIBUTE

The final leg of our leadership stool is competence, pure and simple. If I buy into the vision and believe that the leader cares about me, do I think she can actually achieve the vision? Will I follow her into the jungle with no map forward or back and trust that she will get me out of there?

I like to refer to this as the Andy Grove attribute. Andy Grove will always be my model of CEO competence. He earned a Ph.D. in electrical engineering, wrote the best management book I've ever read (*High Output Management*), and tirelessly refined his craft. Not only did he write exceptional books on management, but he taught management classes at Intel throughout his tenure.

In his classic book *Only the Paranoid Survive*, Grove tells how he led Intel through the dramatic transition from the memory business to the microprocessor business. In making that change he walked away from nearly all his revenue. He humbly credits others in the company with coming to the strategic conclusion before he did, but the credit for swiftly and successfully leading the company through the transition goes to Dr. Grove. Changing your primary business as a sixteen-year-old large, public company raises a lot of questions.

Andy describes an incident with one of his employees: "One of them attacked me aggressively, asking, 'Does it mean that you can conceive of Intel without being in the memory business?' I swallowed hard and said, 'Yes, I guess I can.' All hell broke loose."

Despite shocking many of his best employees with this radical strategy, ultimately the company trusted Andy. They trusted him to rebuild their company around an entirely new business. That trust turned out to be very well placed.

SO, ARE GREAT LEADERS BORN OR MADE?

Let's look at this one attribute at a time:

- **Articulating the vision** There is no question that some people are much better storytellers than others. However, it is also true that anybody can greatly improve in this area through focus and hard work. All CEOs should work on the vision component of leadership.

- **Alignment of interests** I am not sure if the Bill Campbell attribute is impossible to learn, but I am pretty sure that it is impossible to teach. Of the three, this one most fits the bill "born not made."
- **Ability to achieve the vision** This attribute can absolutely be learned; perhaps this is why Andy Grove's tolerance for incompetence was legendarily low. Indeed, the enemy of competence is sometimes confidence. A CEO should never be so confident that she stops improving her skills.

In the end, some attributes of leadership can be improved more than others, but every CEO should work on all three. Furthermore, each attribute enhances all three. If people trust you, they will listen to your vision even if it is less articulate. If you are super-competent, they will trust you and listen to you. If you can paint a brilliant vision, people will be patient with you as you learn the CEO skills and give you more leeway with respect to their interests.

PEACETIME CEO/WARTIME CEO

Bill Campbell always used to say to me, "Ben, you're the best CEO that I work with." This always seemed crazy to me, because he was working with Steve Jobs, Jeff Bezos, and Eric Schmidt at the time while my company was going straight into the wall. One day I called him on it and said, "Bill, why would you say that? Do results not count?" He said, "There are lots of good peacetime CEOs and lots of good wartime CEOs, but almost no CEOs that can function in both peacetime and in wartime. You're a peacetime/wartime CEO."

By my calculation, I was a peacetime CEO for three days and wartime CEO for eight years. I still have a hard time shaking the wartime flashbacks. I'm not the only one who has experienced this. Dennis Crowley, the founder of Foursquare, told me that he thinks about this tension—between wartime and peacetime—every day. The same goes for a lot of tech companies.

For instance, when Eric Schmidt stepped down as CEO of Google and founder Larry Page took over, much of the news coverage focused on Page's ability to be the "face of Google" since Page is far more shy and introverted than the gregarious and articulate Schmidt. While an interesting issue, this analysis misses the main point. Schmidt was much more than Google's front man; as Google's *peacetime* chief executive, he led the greatest technology business expansion in the last ten years. Larry Page, in contrast, seems to have determined that Google is moving into war and he clearly intends to be a *wartime* CEO. This has been a profound change for Google and the entire high-tech industry.

DEFINITIONS AND EXAMPLES

Peacetime in business means those times when a company has a large advantage over the competition in its core market, and its market is growing. In times of peace, the company can focus on expanding the market and reinforcing the company's strengths.

In wartime, a company is fending off an imminent existential threat. Such a threat can come from a wide range of sources, including competition, dramatic macroeconomic change, market change, supply chain change, and so forth. The great wartime CEO Andy Grove marvelously describes the forces that can take a company from peacetime to wartime in his book *Only the Paranoid Survive*.

A classic peacetime mission is Google's effort to make the Internet faster. Google's position in the search market is so dominant that they determined that anything that makes the Internet faster accrues to their benefit since it enables users to do more searches. As the clear market leader, they focus more on expanding the market than dealing with their search competitors. In contrast, a classic wartime mission was Andy Grove's drive to get out of the memory business in the mid-1980s due to an irrepressible threat from the Japanese semiconductor companies. In this mission, the competitive threat—which could have bankrupted the company—was so great that Intel had to exit its core business, which employed 80 percent of its staff.

My greatest management discovery through the transition was that peacetime and wartime require radically different management styles. Interestingly, most management books describe peacetime CEO techniques and very few describe wartime. For example, a basic principle in most management books is that you should never embarrass an employee in a public setting. On the other hand, in a room filled with people, Andy Grove once said to an employee who entered the meeting late, "All I have in this world is time, and you are wasting my time." Why such different approaches to management?

In peacetime, leaders must maximize and broaden the current opportunity. As a result, peacetime leaders employ techniques to encourage broad-based creativity and contribution across a diverse set of possible objectives. In wartime, by contrast, the company typically has a single bullet in the chamber and must, at all costs, hit the target. The company's survival in wartime depends upon strict adherence and alignment to the mission.

When Steve Jobs returned to Apple, the company was weeks away from bankruptcy—a classic wartime scenario. He needed everyone to move with precision and follow his exact plan; there was no room for individual creativity outside the core mission. In stark contrast, as Google achieved dominance in the search market, Google's management fostered peacetime innovation by enabling and even requiring every employee to spend 20 percent of their time on their own new projects.

Peacetime and wartime management techniques can both be highly effective when employed in the right situations, but they are very different. The peacetime CEO does not resemble the wartime CEO.

PEACETIME CEO/WARTIME CEO

Peacetime CEO knows that proper protocol leads to winning. Wartime CEO violates protocol in order to win.

Peacetime CEO focuses on the big picture and empowers her people to make detailed decisions. Wartime CEO cares about a speck of dust on a gnat's ass if it interferes with the prime directive.

Peacetime CEO builds scalable, high-volume recruiting machines. Wartime CEO does that, but also builds HR organizations that can execute layoffs.

Peacetime CEO spends time defining the culture. Wartime CEO lets the war define the culture.

Peacetime CEO always has a contingency plan. Wartime CEO knows that sometimes you gotta roll a hard six.

Peacetime CEO knows what to do with a big advantage. Wartime CEO is paranoid.

Peacetime CEO strives not to use profanity. Wartime CEO sometimes uses profanity purposefully.

Peacetime CEO thinks of the competition as other ships in a big ocean that may never engage. Wartime CEO thinks the competition is sneaking into her house and trying to kidnap her children.

Peacetime CEO aims to expand the market. Wartime CEO aims to win the market.

Peacetime CEO strives to tolerate deviations from the plan when coupled with effort and creativity. Wartime CEO is completely intolerant.

Peacetime CEO does not raise her voice. Wartime CEO rarely speaks in a normal tone.

Peacetime CEO works to minimize conflict. Wartime CEO heightens the contradictions.

Peacetime CEO strives for broad-based buy-in. Wartime CEO neither indulges consensus building nor tolerates disagreements.

Peacetime CEO sets big, hairy, audacious goals. Wartime CEO is too busy fighting the enemy to read management books written by consultants who have never managed a fruit stand.

Peacetime CEO trains her employees to ensure satisfaction and career development. Wartime CEO trains her employees so they don't get their asses shot off in the battle.

Peacetime CEO has rules like "We're going to exit all businesses where we're not number one or two." Wartime CEO often has no businesses that are number one or two and therefore does not have the luxury of following that rule.

CAN A CEO BE BOTH?

Can a CEO build the skill sets to lead in both peacetime and wartime?

One could easily argue that I failed as a peacetime CEO but succeeded as a wartime one. John Chambers had a great run as peacetime CEO of Cisco but has struggled as Cisco has moved into war with Juniper, HP, and a range of new competitors. Steve Jobs, who employed a classical wartime management style, removed himself as CEO of Apple in the 1980s during their longest period of peace before coming back to Apple for a spectacular run more than a decade later, during their most intense war period.

I believe that the answer is yes, but it's hard. Mastering both wartime and peacetime skill sets means understanding the many rules of management and knowing when to follow them and when to violate them.

Be aware that management books tend to be written by management consultants who study successful companies during their times of peace. As a result, the resulting books describe the methods of peacetime CEOs. In fact, other than the books written by Andy Grove, I don't know of any management books that teach you how to manage in wartime like Steve Jobs or Andy Grove.

BACK TO THE BEGINNING

It turned out that a little wartime was just what the doctor ordered for Google. Page’s precise and exacting leadership has led to brilliant execution in integrating identity across Google’s broad product line, from the rise of Android to brilliant new products like Google Glass. Sometimes you need to go to war.

MAKING YOURSELF A CEO

The other day, a friend of mine asked me whether CEOs were born or made. I said, “That’s kind of like asking if Jolly Ranchers are grown or made. CEO is an unnatural job.” The surprised look on his face made me realize that perhaps it wasn’t as obvious as I’d originally thought.

Most people actually assume the opposite—CEOs are born, not made. I often listen as other venture capitalists and board members rapidly evaluate a founder and conclude that she’s not “CEO material.” I am not sure how they figure these things out so fast. It generally takes years for a founder to develop the CEO skill set and it is usually extremely difficult for me to tell whether she will make it.

In athletics, some things, like becoming a sprinter, can be learned relatively quickly because they start with a natural motion and refine it. Others, like boxing, take much longer to master because they require lots of unnatural motions and lots of specific technique. For example, as I mentioned earlier, when going backward in boxing it’s critically important to pick up your back foot first, because if you get hit while walking backward the natural way—picking up your front foot first—it often leads to getting knocked cold. Learning to make this unnatural motion feel natural takes a great deal of practice. If you do what feels most natural as a CEO, you may also get knocked cold.

Being CEO requires lots of unnatural motion. From an evolutionary standpoint, it is natural to do things that make people like you. It enhances your chances for survival. Yet to be a good CEO, in order to be liked in the long run, you must do many things that will upset people in the short run. Unnatural things.

Even the most basic CEO building blocks will feel unnatural at first. If your buddy tells you a funny story, it would feel quite weird to evaluate her performance. It would be totally unnatural to say, “Gee, I thought that story really sucked. It had potential, but you were underwhelming on the buildup and then you totally flubbed the punch line. I suggest that you go back, rework it, and present it to me again tomorrow."

Doing so would be quite bizarre, but evaluating people's performances and constantly giving feedback is precisely what a CEO must do. If she doesn't, the more complex motions such as writing reviews, taking away territory, handling politics, setting compensation, and firing people will be either impossible or handled rather poorly.

Giving feedback turns out to be the unnatural atomic building block atop which the unnatural skill set of management gets built. But how does one master the unnatural?

THE SHIT SANDWICH

A popular and sometimes effective technique for feedback beginners is something that experienced managers call the *Shit Sandwich*. The technique is marvelously described in the classic management text *The One Minute Manager*. The basic idea is that people open up to feedback far more if you start by complimenting them (slice of bread number one), then you give them the difficult message (the shit), then wrap up by reminding them how much you value their strengths (slice of bread number two). The shit sandwich also has the positive side effect of focusing the feedback on the behavior rather than the person, because you establish up front that you really value the person. This is a key concept in giving feedback.

The shit sandwich can work well with junior employees but has the following challenges:

- It tends to be overly formal. Because you have to preplan and script the sandwich to make it come out correctly, the process can feel formal and judgmental to the employee.
- After you do it a couple of times, it will lack authenticity. The employee will think, "Oh boy, she's complimenting me again. I know what's coming next, the shit."
- More senior executives will recognize the shit sandwich immediately and it will have an instant negative effect.

Early in my career, I attempted to deliver a carefully crafted shit sandwich to a senior employee and she looked at me like I was a little kid and said, “Spare me the compliment, Ben, and just tell me what I did wrong.” At that point, I thought that I was definitely not born to be a CEO.

THE KEYS

To become elite at giving feedback, you must elevate yourself beyond a basic technique like the shit sandwich. You must develop a style that matches your own personality and values. Here are the keys to being effective:

- *Be authentic.* It’s extremely important that you believe in the feedback that you give and not say anything to manipulate the recipient’s feelings. You can’t fake the funk.
- *Come from the right place.* It’s important that you give people feedback because you want them to succeed and not because you want them to fail. If you really want someone to succeed, then make her feel it. Make her feel you. If she feels you and you are in her corner, then she will listen to you.
- *Don’t get personal.* If you decide to fire somebody, fire her. Don’t prepare her to get fired. Prepare her to succeed. If she doesn’t take the feedback, that’s a different conversation.
- *Don’t clown people in front of their peers.* While it’s okay to give certain kinds of feedback in a group setting, you should strive never to embarrass someone in front of their peers. If you do so, then your feedback will have little impact other than to cause the employee to be horribly ashamed and to hate your guts.
- *Feedback is not one-size-fits-all.* Everybody is different. Some employees are extremely sensitive to feedback while others have particularly thick skin and often thick skulls. Stylistically, your tone should match the employee’s personality, not your mood.
- *Be direct, but not mean.* Don’t be obtuse. If you think somebody’s presentation sucks, don’t say, “It’s really good, but could use one more

pass to tighten up the conclusion." While it may seem harsh, it's much better to say, "I couldn't follow it and I didn't understand your point and here are the reasons why." Watered-down feedback can be worse than no feedback at all because it's deceptive and confusing to the recipient. But don't beat them up or attempt to show your superiority. Doing so will defeat your purpose because when done properly, feedback is a dialogue, not a monologue.

FEEDBACK IS A DIALOGUE, NOT A MONOLOGUE

You may be the CEO and you may be telling somebody about something that you don't like or disagree with, but that doesn't mean you're right. Your employee should know more about her function than you. She should have more data than you. You may be wrong.

As a result, your goal should be for your feedback to open up rather than close down discussion. Encourage people to challenge your judgment and argue the point to conclusion. Culturally, you want high standards thoroughly discussed. You want to apply tremendous pressure to get the highest-quality thinking yet be open enough to find out when you are wrong.

HIGH-FREQUENCY FEEDBACK

Once you've mastered the keys, you should practice what you've mastered all the time. As CEO, you should have an opinion on absolutely everything. You should have an opinion on every forecast, every product plan, every presentation, and even every comment. Let people know what you think. If you like someone's comment, give her the feedback. If you disagree, give her the feedback. Say what you think. Express yourself.

This will have two critically important positive effects:

- *Feedback won't be personal in your company.* If the CEO constantly gives feedback, then everyone she interacts with will just get used to it. Nobody will think, "Gee, what did she really mean by that comment? Does she not like me?" Everybody will naturally focus on the issues, not an implicit random performance evaluation.

- *People will become comfortable discussing bad news.* If people get comfortable talking about what *each other* are doing wrong, then it will be very easy to talk about what *the company* is doing wrong. High-quality company cultures get their cue from data networking routing protocols: Bad news travels fast and good news travels slowly. Low-quality company cultures take on the personality of the Wicked Witch of the West in *The Wiz*: “Don’t nobody bring me no bad news.”

MAKING THE CEO

Being CEO also requires a broad set of more advanced skills, but the key to reaching the advanced level and feeling like you were born to be CEO is mastering the unnatural.

If you are a founder CEO and you feel awkward or incompetent when doing some of these things and believe there is no way that you’ll be able to do it when your company is one hundred or one thousand people, welcome to the club. That’s exactly how I felt. So did every CEO I’ve ever met. This is the process. This is how you get made.

HOW TO EVALUATE CEOs

No position in a company is more important than the CEO and, as a result, no job gets more scrutiny. The job is so poorly defined that you can end up doing all kinds of nutty things (especially if you listen to some people who say things like "the CEO should be the number-one salesperson").

Sadly, little of this analysis that's been done benefits CEOs, since most of the discussions happen behind their backs. Here I want to take a step in the opposite direction. By describing how I evaluate CEOs, I am at the same time describing what I think the job of the CEO is. Here are the key questions we ask:

1. Does the CEO know what to do?

2. Can the CEO get the company to do what she knows?

3. Did the CEO achieve the desired results against an appropriate set of objectives?

1. DOES THE CEO KNOW WHAT TO DO?

One should interpret this question as broadly as possible. Does the CEO know what to do in all matters all the time? This includes matters of personnel, financing, product strategy, goal sizing, and marketing. At a macro level, does the CEO set the right strategy for the company and know its implications in every detail of the company?

I evaluate two distinct facets of knowing what to do:

- **Strategy** In good companies, the *story* and the *strategy* are the same thing. As a result, the proper output of all the strategic work is *the story*.
- **Decision making** At the detailed level, the output of *knowing what to do* is *the speed and quality of the CEO's decisions*.

The strategy and the story

The CEO must set the context within which every employee operates. The context gives meaning to the specific work that people do, aligns interests, enables decision making, and provides motivation. Well-structured goals and objectives contribute to the context, but they do not provide the whole story. More to the point, they are not *the story*. The story of the company goes beyond quarterly or annual goals and gets to the hard-core question of *why*. *Why* should I join this company? *Why* should I be excited to work here? *Why* should I buy its product? *Why* should I invest in the company? *Why* is the world better off as a result of this company's existence?

When a company clearly articulates its story, the context for everyone—employees, partners, customers, investors, and the press—becomes clear. When a company fails to tell its story, you hear phrases like

- These reporters don't get it.
- Who is responsible for the strategy in this company?
- We have great technology, but need marketing help.

The CEO doesn't have to be the creator of the vision. Nor does she have to be the creator of the story. But she must be the keeper of the vision and the story. As such, the CEO ensures that the company story is clear and compelling.

The story is not the mission statement; the story does not have to be succinct. It is the story. Companies can take as long as they need to tell it, but they must tell it and it must be compelling. A company without a story is usually a company without a strategy.

Want to see a great company story? Read Jeff Bezos's three-page letter he wrote to shareholders in 1997. In telling Amazon's story in this extended form—not as a mission statement, not as a tagline—Jeff got all the people who mattered on the same page as to what Amazon was about.

Decision making

Some employees make products, some make sales; the CEO makes decisions. Therefore, a CEO can most accurately be measured by the speed and quality of those decisions. Great decisions come from CEOs who display an elite mixture of intelligence, logic, and courage.

As already noted, courage is particularly important, because every decision that a CEO makes is based on incomplete information. At the time of any given decision, the CEO will generally have less than 10 percent of the information typically present in the post hoc Harvard Business School case study. As a result, the CEO must have the courage to bet the company on a direction even though she does not know if the direction is right. The most difficult decisions (and often the most important) are difficult precisely because they will be deeply unpopular with the CEO's most important constituencies (employees, investors, and customers).

The best decision that I made in my career—to sell the Loudcloud business to EDS and become Opsware—would have lost by a landslide had I put it to a vote with my employees, my investors, or my customers.

As CEO, there is never enough time to gather all information needed to make a decision. You must make hundreds of decisions big and small in the course of a typical week. You cannot simply stop all other activities to gather comprehensive data and do exhaustive analysis to make that single decision. Knowing this, you must continuously and systematically gather knowledge in the company's day-to-day activities so that you will have as much information as possible when the decision point arrives.

In order to prepare to make any decision, you must systematically acquire the knowledge of everything that might impact any decision that you might make. Questions such as:

- What are the competitors likely to do?
- What's possible technically and in what time frame?
- What are the true capabilities of the organization and how can you maximize them?
- How much financial risk does this imply?
- What will the issues be, given your current product architecture?

- Will the employees be energized or despondent about this promotion?

Great CEOs build exceptional strategies for gathering the required information continuously. They embed their quest for intelligence into all of their daily actions from staff meetings to customer meetings to one-on-ones. Winning strategies are built on comprehensive knowledge gathered in every interaction the CEO has with an employee, a customer, a partner, or an investor.

2. CAN THE CEO GET THE COMPANY TO DO WHAT SHE KNOWS?

If the CEO paints a compelling vision and makes fast, high-quality decisions, can she then get the company to execute her vision? The first ingredient in being able to do this is leadership, as I outlined in the section "Follow the Leader."

In addition, executing well requires a broad set of operational skills. The larger the organization, the more elaborate the requisite skill set.

In order for a company to execute a broad set of decisions and initiatives, it must:

- **Have the capacity to do so.** In other words, the company must contain the necessary talent in the right positions to execute the strategy.
- **Be a place where every employee can get things accomplished.** The employees must be motivated, communication must be strong, the amount of common knowledge must be vast, and the context must be clear.

Is the CEO building a world-class team?

The CEO is responsible for the executive team plus the fundamental interview and hiring processes for all employees. She must make sure the company sources the best candidates and the screening processes yield the candidates with the right combination of talent and skills. Ensuring the quality of the team is a core part of running the company. Great CEOs constantly assess whether they are building the best team.

The output of this capability is the quality of the team. It's important to note that team quality is tightly tied to the specific needs of the company in the challenges it faces at the point in time it faces them. As a result, it's quite possible that the executive team changes several times, but the team is high quality the entire way and there is no attrition problem.

Is it easy for employees to contribute to the mission?

The second part of the evaluation determines whether the CEO can effectively run the company. To test this, I like to ask this question: "How easy is it for any given individual contributor to get her job done?"

In well-run organizations, people can focus on their work (as opposed to politics and bureaucratic procedures) and have confidence that if they get their work done, good things will happen both for the company and for them personally. By contrast, in a poorly run organization, people spend much of their time fighting organizational boundaries and broken processes.

While it may be quite easy to describe, building a well-run organization requires a high level of skill. The skills required range from organizational design to performance management. They involve the incentive structure and the communication architecture that drive and enable every individual employee. When a CEO "fails to scale," it's usually along this dimension. In practice, very few CEOs get an A on this particular test.

Netflix's CEO, Reed Hastings, put great effort into designing a system that enables employees to be maximally effective. His presentation of this design is called Reference Guide on Our Freedom and Responsibility Culture. It walks through what Netflix values in their employees, how they screen for those values during the interview process, how they reinforce those values, and how they scale this system as the number of employees grows.

3. DID THE CEO ACHIEVE THE DESIRED RESULTS AGAINST AN APPROPRIATE SET OF OBJECTIVES?

When measuring results against objectives, start by making sure the objectives are correct. CEOs who excel at board management can “succeed” by setting objectives artificially low. Great CEOs who fail to pay attention to board management can “fail” by setting objectives too high. Early in a company’s development, objectives can be particularly misleading since nobody really knows the true size of the opportunity. Therefore, the first task in accurately measuring results is setting objectives correctly.

I also try to keep in mind that the size and nature of the opportunity varies quite a bit across companies. Hoping that a hardware company can be as capital-light as a consumer Internet company or trying to get Yelp to grow as fast as Twitter doesn’t make sense and can be quite destructive. CEOs should be evaluated against their company’s opportunity—not somebody else’s company. Let me share a funny story that illustrates a CEO really owning delivering against results. This story is from Robin Li, CEO of Baidu, China’s biggest search engine company. In a lecture he gave at Stanford University in 2009, Robin recalls that on the day of Baidu’s IPO—usually one of an entrepreneur’s most exhilarating days in his entire life—he sat at his desk terrified. Why? Listen to how Robin owned delivering results:

> *In 2004, we raised our last round of VC money led by Draper Fisher Jurvetson . . . and Google, one of our great colleagues. Then a year later, in 2005, the company went public. The ideal price was $27 [the stock’s initial offer price] and it closed on the first day at $122. It was great for many of the Baidu employees and for all of the Baidu investors. It was a very miserable thing for me because when I decided to take the company public, I was only prepared to deliver financial results that match the price of $27 or maybe a little higher, $30, $40. But I was really shocked to see that the price went to $122 on the first day. So that meant I needed to deliver real results that matched an expectation much, much higher than what I had prepared to do. But in any case, I thought I had no choice. So I put my head down and focused on operations, focused on technology, focused on the user’s experience, and I delivered.*

Once we’ve taken all of this into account, we see that the results against objectives or “black box” results are a *lagging* indicator. And as they say in the mutual fund prospectuses, “past performance is no guarantee of future results.” The white-box CEO evaluation criteria—“Does the CEO know what to do?” and “Can the CEO get the company to do it?”—will do a much better job of predicting the future.

CLOSING THOUGHT

CEO evaluation need not be a byzantine, unarticulated art. All people, including CEOs, will perform better on a test if they know the questions ahead of time.

— CHAPTER 8 —

FIRST RULE OF ENTREPRENEURSHIP: THERE ARE NO RULES

“That the that the that that don’t kill me

Can only make a me stronger

I need you to hurry up now

’Cause I can’t wait much longer

I know I got to be right now

’Cause I can’t get much wronger

Man I been waitin’ all night now

That’s how long I been on ya.”

—KANYE WEST, “STRONGER”

When we were in the process of selling Opsware, HP’s initial bid came in at $14 per share. BMC countered with $14.05. Then HP countered them with $14.25. John O’Farrell and I planned our strategy for closing the bidding process. We figured that if we executed correctly, the winning bid would come in at $15 per share or higher. Everybody was extremely excited.

Then disaster struck. Or more specifically, our auditor, Ernst & Young, nearly destroyed the deal.

During BMC’s diligence process, they discovered that we had accounted for three deals differently than they had. Specifically, each of our three deals contained something that had come to be known in the industry as the “CA clause” in honor of the infamous software company Computer Associates, or CA for short. The CA clause had come about as a result of some of CA's business practices. Apparently CA had tricked their customers by selling them maintenance contracts that gave them rights to free upgrades forever for products named "X." CA would then change the name of product "X" to product "Y" and charge their customers for an upgrade the customers thought they were entitled to for free. It was very clever, and totally dirty. To fight back, savvy customers started requiring all software vendors to include "the CA clause" in their contracts. The clause stated that if you released a new version of your software that contains all of the functionality of the previous version, plus some new features and a new name, then that product (despite the new name) would be covered under the existing contract with no additional fees due.

There were two possible ways to interpret the CA clause. You could either interpret it as it was intended, as a workaround for CA's bad behavior, or you could interpret it as a promise of future functionality. If you interpreted it as the former then you were required to recognize all the revenue up front. If you interpreted it as the latter, then you would recognize the revenue ratably over the course of the contract. In either case, cash payments would be the same.

We understood this ambiguity when we signed the three deals that contained the clause, so we had our E&Y partner, Dave Price, audit the deals and then tell us how we should account for them. Dave correctly understood the intent and recommended that we take the revenue up front in all three deals. BMC's E&Y partner concluded the opposite and they accounted for similar deals ratably. When alerted to the difference, the BMC partner escalated the issue to Ernst & Young's national office.

E&Y's national audit partner called me to report that he now disagreed with his partner's audit and required that we restate revenue guidance in the next forty-eight hours. I couldn't believe what I had just heard. Restating revenue would tank the stock price and destroy the pending sale. The accounting had no material impact on cash flows and our treatment was based on the judgment of Ernst & Young in the first place. If they had accounted for it the other way initially, the stock price would be the same as it is now. It was the restatement that would kill us.

What the hell?

I calmed down and replied carefully.

Ben: “The accounting is meant to reflect the intent of both us and our customers in the contract, correct?”

E&Y: “Correct.”

Ben: “So, why don’t we call all three customers on the phone and ask them their intent? If it’s what Dave Price reflected in our contracts, then we’ll leave them as they are. If it’s something else, we’ll restate revenue.”

E&Y: “No. That’s not good enough. You’ll need to get all three customers to amend their contracts to use new language that we’ve come up with at E&Y to clear things up.”

Ben: “But all three customers are large banks. They have risk departments. They won’t just amend their contracts quickly. To make things worse, we are in the middle of a $1.6 billion transaction. You will wreck our deal.”

E&Y: “We don’t care. That’s what you have to do.”

Ben: “But we’ve been a customer for eight years, paid you millions of dollars in fees, and your partner made this judgment to begin with. Why would you destroy our transaction if we and the customers verbally agree with the current interpretation?”

E&Y: “Either amend the contracts or restate your revenue. You have forty-eight hours.”

Dave Price looked like he was going to burst into tears.

E&Y’s national office did not care about the spirit of the law, only the letter. They refused to do what was right from an accounting or business standpoint. They were determined to do what was optimally convenient for Ernst & Young.

My CFO, Dave Conte, was pale as a ghost. Hundreds of people had worked for eight years to get to this point and it looked like all that work would be flushed down the toilet by the accounting firm that Dave handpicked. He had worked at Ernst & Young for fifteen years before joining Opsware. Normally gregarious and outgoing, he could barely speak. I was furious at everybody but I knew that nothing that I could say would help the problem or make Dave feel any worse than he already felt. I turned to Jordan Breslow, my general counsel, and said, “Do we have to disclose this to the acquirers right away?” Horrifyingly, he said, “Yes.”

We told HP and BMC about the discrepancy and that we thought we could resolve the issue by amending the contracts in the next twenty-four hours. Neither party believed us. I don't know if I believed it. How could we possibly get three large banks to amend their contracts in twenty-four hours? Both potential buyers made plans to respond to the news and update their position and possibly their bids.

In the meantime, Dave, Mark Cranney, and I went to work to get the contracts amended. We sat in the finance conference room drawing lines between everybody we knew in the world and tried to figure out how to get to the right people in time to save the deal. I called every board member to see which bank he kept his money in and whether he had any influence or knew somebody with influence. Mark stayed on the phone with the sales reps and the people whom we knew at the accounts. Jordan and Dave came up with ten different ways to word the amendment. We stayed up all night working on the deal and the entire time, Dave looked as though he was having a massive heart attack. Miraculously, by 11 a.m., we got all three contracts amended, and it was in less than twenty-four hours. We would not have to restate revenue.

Not surprisingly, the entire thing spooked BMC, and they withdrew their bid. They did not believe that the issue had been put to bed. HP wasn't spooked, but they lowered their offer to $13.75 per share due to the "taint" on the deal.

That night the board met in our offices to discuss the new offer from HP and inform them that BMC had dropped out. The board was unanimous in its advice that we should take the $13.75 offer. I disagreed. I said that I would not take a nickel less than the $14.25 originally offered. Bill Campbell looked at me like I was a general who had spent too much time in the field. At that point, I had not slept and didn't know if he was right or wrong. I just knew that I had waited all night to be right and I couldn't get much wronger.

I gathered myself and restated my position: "HP offered $14.25, a price that equals sixteen times trailing twelve months revenue for one reason and one reason only. They offered it because we are the premium company, the gold standard if you will in an important market. That is the entire premise of this deal. The second that we accept a discounted offer or in any other way suggest that we are not the gold standard, this deal falls apart." John O'Farrell nodded in agreement. The board uneasily accepted my position.

I went back to HP and told them the deal would be $14.25 or nothing. After about a two-hour pause, during which time the color never returned to Dave Conte's face, they accepted. We had a deal. A deal for about $100 million less than if our so-called partner had not stabbed us in the back, but a deal nonetheless. I still hate Ernst & Young.

I am telling this story today because just when you think there are things you can count on in business, you quickly find that the sky is purple. When this happens, it usually does no good to keep arguing that the sky is blue. You just have to get on and deal with the fact that it's going to look like Barney for a while.

SOLVING THE ACCOUNTABILITY VS. CREATIVITY PARADOX

A software engineer identifies a weakness in your current product architecture that will significantly impair its ability to scale down the road. She figures out that she'll have to slip the product schedule three months to fix it. Everybody agrees that three months is an acceptable slip to correct the problem. The schedule actually slips nine months, but she was right about the problem. Do you reward her for her creativity and courage or hold her accountable for the slip?

If you become a prosecuting attorney and hold her to the letter of the law on her commitments, you will almost certainly discourage her and everybody else from taking important risks in the future. If you take this stance consistently, don't be surprised in the future if your people don't have time to solve hard problems because they will be far too busy covering their butts.

On the other hand, if you don't hold her accountable for her commitment, then the people who actually do the work to meet their commitments might feel like idiots. Why did I stay up all night making the deadline if the CEO rewards the person who missed her schedule by six months? If your hardest working, most productive employees feel like chumps and you are looking for the culprit, look in the mirror. You have failed to hold people accountable for their actions. Welcome to the Accountability vs. Creativity Paradox.

As we look to solve it, let's start with the most basic assumption. Do you assume that your employees are by and large creative, intelligent, and motivated? Or do you assume that they are lazy, conniving, and counting the minutes to quitting time? If you believe the latter, then you might as well just give up on creativity and innovation in your organization, because you will not get it. It's better to believe the former and assume that people have good intentions unless they prove otherwise. Still, you must hold people accountable to avoid the chump factor. How do you think about that?

Let's look at accountability across the following dimensions: promises, results, and effort.

ACCOUNTABILITY FOR EFFORT

This is the easy one. To be a world-class company, you need world-class effort. If somebody isn't giving it to you, they must be checked.

ACCOUNTABILITY FOR PROMISES

A lot of good-running organizations have statements like "make a commitment, keep a commitment." It's true that if you sign up for something and you don't do it, you let everyone in the organization down. This type of letdown can be contagious. Holding people accountable for their promises is a critical factor in getting things done. This changes as the degree of difficulty in fulfilling the promise increases. Promising to complete a piece of marketing collateral or send an email is different from promising to meet an engineering schedule that involves solving some fundamentally hard computer science problem. You must hold people accountable for the former; the latter is more complicated and relates to results.

ACCOUNTABILITY FOR RESULTS

This is where things get complicated. If someone fails to deliver the result she promised, as in the opening story, must you hold her accountable? Should you hold her accountable? The answer is that it depends. It depends upon:

- **Seniority of the employee** You should expect experienced people to be able to forecast their results more accurately than junior people.
- **Degree of difficulty** Some things are just plain hard. Making your sales number when your product is inferior to the competition and a recession hits midquarter is hard. Building a platform that

automatically and efficiently takes serial programs and parallelizes them, so that they can scale out, is hard. It’s hard to make a good prediction and hard to meet that prediction. When deciding the consequence of missing a result, you must take into account the degree of difficulty.

- **Amount of stupid risk** While you don’t want to punish people for taking good risks, not all risks are good. While there is no reward without risk, there is certainly risk with little or no chance of corresponding reward. Drinking a bottle of Jack Daniel’s then getting behind the wheel of a car is plenty risky, but there’s not much reward if you succeed. If someone missed a result, did she take obviously stupid risks that she just neglected to consider, or were they excellent risks that just did not pan out?

REVISITING THE OPENING PROBLEM

So looking back at the opening problem, here are some things to consider:

1. *How senior is she?* If she’s your chief architect, you’ll need her to get better at scoping her work or she’s going to trash the organization. If she is more junior, this should be more a teaching moment than a scolding moment.

2. *How hard was it?* If it was a miracle that you ever made that piece of crap scale, then you shouldn’t yell at her. In fact, you should thank her. If it was a relatively trivial project that just took too long, then you need to address that.

3. *Was the original risk the right one to take?* Would the product really have run out of scale in the short-to-medium term? If the answer is yes, then whether it took three months or nine months, it was the right risk to take and if faced with the same situation again, you probably should not change any of your actions. You shouldn’t be wringing your hands about that.

FINAL POINT

In the technology business, you rarely know everything up front. The difference between being mediocre and magical is often the difference between letting people take creative risk and holding them too tightly accountable. Accountability is important, but it’s not the only thing that’s important.

THE FREAKY FRIDAY MANAGEMENT TECHNIQUE

Many years ago, I encountered a particularly tricky management situation. Two excellent teams in the company, Customer Support and Sales Engineering, went to war with each other. The sales engineers escalated a series of blistering complaints arguing that the Customer Support team did not respond with urgency, refused to fix issues in the product, and generally inhibited sales and customer satisfaction. Meanwhile, the Customer Support group claimed that the sales engineers submitted bugs without qualification, did not listen to valid suggested fixes, and were alarmists who assigned every issue the top priority. Beyond the actual complaints, the teams genuinely did not like each other. To make matters worse, these groups had to work together constantly in order for the company to function. Both teams boasted superb personnel and outstanding managers, so there was nobody to fire or demote. I could not figure out what to do.

Around this time, I miraculously happened to watch the motion picture classic *Freaky Friday*, starring the underrated Barbara Harris and the incomparable Jodie Foster. (There is also a high-quality remake starring Jamie Lee Curtis and the troubled but talented Lindsay Lohan.) In the film, mother and daughter grow completely frustrated with each other's lack of understanding and wish that they could switch places and, through the magic of film, they do.

Through the course of the movie, by being inside each other's bodies, both characters develop an understanding of the challenges that the other faces. As a result, the two become great friends when they switch back. After watching both the original and the remake, I knew that I had found the answer: I would employ a *Freaky Friday* management technique.

The very next day I informed the head of Sales Engineering and the head of Customer Support that they would be switching jobs. I explained that, like Jodie Foster and Barbara Harris, they would keep their minds, but get new bodies. Permanently. Their initial reactions were not unlike the remake where Lindsay Lohan and Jamie Lee Curtis both scream in horror.

However, after just one week walking in the other's moccasins, both executives quickly diagnosed the core issues causing the conflict. They then swiftly acted to implement a simple set of processes that cleared up the combat and got the teams working harmoniously. From that day to the day we sold the company, the Sales Engineering and Customer Support organizations worked better together than any other major groups in the company—all thanks to *Freaky Friday*, perhaps the most insightful management training film ever made.

STAYING GREAT

As CEO, you know that you cannot build a world-class company unless you maintain a world-class team. But how do you know if an executive is world-class? Beyond that, if she was world-class when you hired her, will she stay world-class? If she doesn't, will she become world-class again?

These are complex questions and are made more complex by the courting process. Every CEO sets out to hire the very best person in the world and then recruits aggressively to get him. If he says yes, she inevitably thinks she's hit the jackpot. If I had a tattoo for every time I heard a CEO claim that she'd just hired "the best VP in the industry," I'd be Lil Wayne.

So we begin with a strong bias that whoever we hired must be world-class even before performing one day of work. To make matters worse, executives who start off world-class often deteriorate over time. If you are a sports fan, you know that world-class athletes don't stay world-class for long. One day you are Terrell Owens and the next day you are Terrell Owens. While executives don't age nearly as fast as athletes do, companies, markets, and technologies change a thousand times faster than the game of football. As a result, the executive who is spectacular in this year's hundred-person startup may be washed-up in next year's version when the company employs four hundred people and has $100 million in revenue.

THE STANDARD

The first thing to understand is that just because somebody interviewed well and reference-checked great, that does not mean she will perform superbly in your company. There are two kinds of cultures in this world: cultures where what you do matters and cultures where all that matters is who you are. You can be the former or you can suck.

You must hold your people to a high standard, but what is that standard? I discussed this in the section "Old People." In addition, keep the following in mind:

- *You did not know everything when you hired her.* While it feels awkward, it is perfectly reasonable to change and raise your standards as you learn more about what's needed and what's competitive in your industry.
- *You must get leverage.* Early on, it's natural to spend a great deal of time integrating and orienting an executive. However, if you find yourself as busy as you were with that function before you hired or promoted the executive, then she is below standard.
- *As CEO, you can do very little employee development.* One of the most depressing lessons of my career when I became CEO was that I could not develop the people who reported to me. The demands of the job made it such that the people who reported to me had to be 99 percent ready to perform. Unlike when I ran a function or was a general manager, there was no time to develop raw talent. That can and must be done elsewhere in the company, but not at the executive level. If someone needs lots of training, she is below standard.

It is possible to take the standard setting too far. As I discussed in the section "The Scale Anticipation Fallacy," it's neither necessary nor a good idea to evaluate an executive based on what her job will be two years from now. You can cross that bridge when you come to it. Evaluate her on how she performs right here and right now.

ON EXPECTATIONS AND LOYALTY

If you have a great and loyal executive, how do you communicate all this? How do you tell her that despite the massive effort and great job she is doing today, you might fire her next year if she doesn't keep up with the changes in the business?

When I used to review executives, I would tell them, "You are doing a great job at your current job, but the plan says that we will have twice as many employees next year as we have right now. Therefore, you will have a new and very different job and I will have to reevaluate you on the basis of that job. If it makes you feel better, that rule goes for everyone on the team, including me.”

In providing this kind of direction, it’s important to point out to the executive that when the company doubles in size, she has a new job. This means that doing things that made her successful in her old job will not necessarily translate to success in the new job. In fact, the number-one way that executives fail is by continuing to do their old job rather than moving on to their new job.

But, what about being loyal to the team that got you here? If your current executive team helped you grow your company tenfold, how can you dismiss them when they fall behind in running the behemoth they created? The answer is that your loyalty must go to your employees—the people who report to your executives. Your engineers, marketing people, salespeople, and finance and HR people who are doing the work. You owe them a world-class management team. That’s the priority.

SHOULD YOU SELL YOUR COMPANY?

One of the most difficult decisions that a CEO ever makes is whether to sell her company. Logically, determining whether selling a company will be better in the long term than continuing to run it stand-alone involves a huge number of factors, most of which are speculative or unknown. And if you are the founder, the logical part is the easy part.

The task would be far simpler if there were no emotion involved. But selling your company is always emotional and deeply personal.

TYPES OF ACQUISITIONS

For the purpose of this discussion, it is useful to think about technology acquisitions in three categories:

1. **Talent and/or technology,** when a company is acquired purely for its technology and/or its people. These kinds of deals typically range between $5 million and $50 million.

2. **Product,** when a company is acquired for its product, but not its business. The acquirer plans to sell the product roughly as it is, but will do so primarily with its own sales and marketing capability. These kinds of deals typically range between $25 million and $250 million.

3. **Business,** when a company is acquired for its actual business (revenue and earnings). The acquirer values the entire operation (product, sales, and marketing), not just the people, technology, or products. These deals are typically valued (at least in part) by their financial metrics and can be extremely large (such as Microsoft's $30 billion–plus offer for Yahoo).

My take on the subject is most applicable to *business* acquisitions, with some relevance to *product* acquisitions, and will be fairly useless if you are selling people and/or technology.

THE LOGICAL

When analyzing whether you should sell your company, a good basic rule of thumb is if (a) you are very early on in a very large market *and* (b) you have a good chance of being number one in that market, then you should remain stand-alone. The reason is that nobody will be able to afford to pay what you are worth, because nobody can give you that much forward credit. For an easy-to-understand example, consider Google. When they were very early, they reportedly received multiple acquisition offers for more than $1 billion. These were considered very rich offers at the time and they amounted to a gigantic multiple. However, given the size of the ultimate market, it did not make sense for Google to sell. In fact, it didn't make sense for Google to sell to any suitor at any price that the buyer could have paid. Why? Because the market that Google was pursuing was actually bigger than the markets that all of the potential buyers owned and Google had built a nearly invincible product lead that enabled them to be number one.

Contrast this situation with Pointcast. Pointcast was one of the first Internet applications to catch fire. They were the buzz of Silicon Valley and the technology industry in general. They received billion-dollar acquisition offers that they passed on. Then, due to flaws in their product architecture, their customers started to turn off their application. Overnight, their market collapsed and never returned. They were ultimately sold for a relatively tiny amount.

So, the judgment that you have to make is (a) is this market really much bigger (more than an order of magnitude) than has been exploited to date? and (b) are we going to be number one? If the answer to either (a) or (b) is no, then you should consider selling. If the answers to both are yes, then selling would mean selling yourself and your employees short.

Unfortunately, these questions are not as simple to answer as I've made them out to be. In order to get the answer right, you also have to answer the question "What is the market, really, and who are the competitors going to be?" Was Google in the search market or the portal market? In retrospect, they were in the search market, but most people thought they were in the portal market at the time. Yahoo was a tough competitor in the portal market, but not so much in the search market. If Google had really been in the portal market, then selling might have been a good idea. Pointcast thought that their market was much larger than it turned out to be. Interestingly, Pointcast's own product execution (or lack thereof) caused their market to shrink.

Let's look at the case of Opsware. Why did I sell Opsware? Another good question is why didn't I sell Opsware until I did?

At Opsware, we started in the server automation market. When we received our first inquiries and offers for the server automation company, we had fewer than fifty customers. I believed that there were at least ten thousand target customers and that we had a decent shot at being number one. In addition, although I knew the market would be redefined, I thought that we could expand to networks and storage (data center automation) faster than the competition and win that market as well. Therefore, assuming 30 percent market share, somebody would have had to pay sixty times what we were worth in forward credit to buy out our potential. You won't be surprised to find that nobody was willing to pay that.

Once we grew to several hundred customers and expanded into data center automation, we were still number one and were more valuable stand-alone than any of the prior acquisition offers. At that point both Opsware and our main competitor, BladeLogic, had developed into full-fledged companies (worldwide sales forces, built-out professional services, etc.). This was significant, because it meant that a large company could buy one of us and potentially execute successfully (big enterprise companies can't generally succeed with small acquisitions, because too much of the important intellectual property is the sales methodology, and big companies can't build that).

At this point, it became clear that BMC was going to buy either Opsware or BladeLogic. As a result, the calculus, or whether Opsware was going to be number one in the market, needed to be redefined as follows:

> **1.** We had to be number one in the systems and network management market rather than the data center automation market, because like the word processor market, the data center automation market was going to be subsumed by a larger market that contained it.

2. In order to be number one, we had to beat BMC and BladeLogic together, which was a significantly more difficult opponent than either company stand-alone.

Finally, the market itself was transforming due to an underlying technological shift: virtualization. Virtualization meant that the entire market needed to be retooled, so we were embarking on a new R&D race to build the best management for virtualized environments. This meant deferring earnings for a very long time.

Based on all these factors, it made sense for us to at least consider the possibility of acquisition and run a short process to understand the interest in the M&A market.

Through that process, eleven companies made acquisition offers of some form. This told me that we were at a local maxima in terms of the market price for Opsware. In other words, the set of potential buyers was convinced that the market was very important, and there was no extra premium that we could hope to achieve through better awareness. In the end, based on a lot of analysis and soul-searching, I determined that the current local maxima was higher than we could expect to achieve in the next three to five years and I sold the company to Hewlett-Packard for $1.65 billion. I think and hope that was the right decision.

THE EMOTIONAL

The funny thing about the emotional part of the decision is that it's so schizophrenic.

How can you ever sell your company after you've personally recruited every employee and sold them on your spectacular vision of a thriving, stand-alone business? How can you ever sell out your dream?

How can you walk away from total financial independence for yourself and every member of your close and distant family? Aren't you in business to make money? How much money does one person need?

How can you reconcile *Dr. Stay-the-Course* and *Mr. Sell-the-Thing*? Clearly they are irreconcilable, but the key is to mute them both.

A few keys on muting the emotions:

- *Get paid (a salary).* Most venture capitalists like entrepreneurs that are “all in,” meaning the entrepreneur has everything invested in the company and will have very little to show for her efforts if it does not succeed. As part of this, they prefer the founding CEO to have a very low salary. In general, this is a good idea, because the temptation to walk away when things go poorly is intense and total financial commitment helps him to keep his other commitments. However, once the company starts to become a company rather than an idea it makes sense to pay the CEO at market. More specifically, once the company has a business (as defined above) and becomes an attractive acquisition target, it makes sense to pay the CEO, so that the decision to keep or sell the company isn’t a direct response to the CEO’s personal financial situation, as in “I don’t think that we should sell the company, but I live in an eight-hundred-fifty-square-foot apartment with my husband and two kids and it’s that or divorce.”
- *Be clear with the company.* One question that every startup CEO gets from her employees is “Are you selling the company?” This is an incredibly difficult question. If she says nothing, the employee will likely interpret this to mean the company is for sale. If she says “at the right price,” the employee will wonder what that price is and may even ask. If the company ever reaches that price, the employee will assume the company will be sold. If she dodges the question with the standard “the company is not for sale,” the employee may feel betrayed if the company is ever sold. More important, the CEO may feel like she is betraying the employee and that feeling will influence her decision-making process. One way to avoid these traps is to describe the analysis in the prior section: If the company achieves product-market fit in a very large market and has an excellent chance to be number one, then the company will likely remain independent. If not, it will likely be sold. This is one good method to describe the interests of the investors in a way that’s not at odds with the interests of the employees, and it is true.

FINAL THOUGHT

When faced with the decision of whether to sell your company, there is no easy answer. However, preparing yourself intellectually and emotionally will help.