

How to Hire

Below is an excerpt from a talk I gave at the [eShares](#) Town Hall in November 2015. I hope it is helpful to other CEOs struggling with hiring.

TLDR

Hiring Principles:

1. *Hiring means we failed to execute and need help*
2. *Startup employee effectiveness follows a power law*
3. *False Positives are ok, False Negatives are not*
4. *Culture is defined by who we hire*

Hiring Heuristics:

1. *Hire for Strength vs Lack of Weakness*
 2. *Hire for Trajectory vs Experience*
 3. *Hire Doers vs Tellers*
 4. *Hire Learners vs Experts*
 5. *Hire Different vs Similar*
 6. *Always pass on ego*
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Hi everyone. As you know, I have opened 27 new headcount for department heads to fill by end of year. If they succeed our headcount will be 74 in January. *Of our 74 employees, 37% will have been at eShares less than three months and 79% less than one year.*

Many of you will be interviewing and hiring over the next couple of months. How do we hire quickly and create a better company (and culture) than we have today? That is the challenge we face now. To that end, I'd like to offer you a set of hiring principles and heuristics to guide your decisions.

Hiring Principles

1. Hiring means we failed to execute and need help

First, let me quell a misconception. Hiring is not a consequence of success. Revenue and customers are. Hiring is a consequence of our failure to create enough leverage (see [eShares 101](#)) to grow on our own.

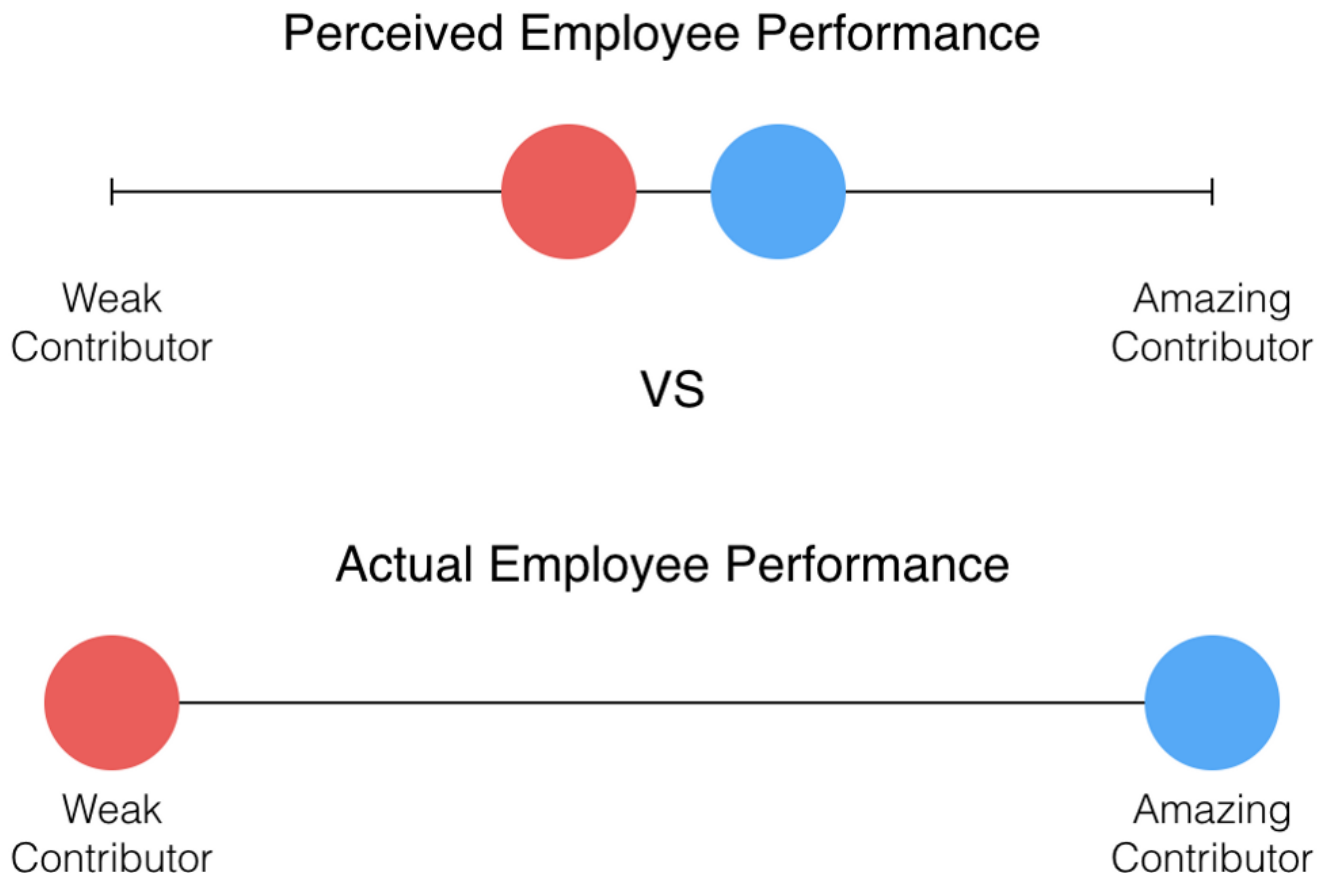
It means we need outside help. The perfect business is a computer plugged into the internet. Starting with me, every human thereafter is overhead. And we are increasing overhead by 50%.

I want to repeat this point. We are increasing overhead by 50% because we failed to execute. It is not something to be proud of. It is humbling to go back to the labor market, hat-in-hand, asking for help. We did this when we hired you. We asked each of you to help us. You did not need us. There are plenty of great jobs. But we needed you. And thank goodness you came. We wouldn't be here without you. But each of you was hired because the team before you failed to execute without you. And this is still true today.

2. Employee effectiveness is a power law

Much like startup performance follows a power law, so do startup employees. The most effective employees create 20x more leverage than an average employee. This is not true in an efficiency company — the best employees might work 2x faster than their peers. But in a high-leverage startup like ours, the effectiveness gap between employees can be multiple orders of magnitude.

Our minds find it easier to think in terms of efficiency and normal distributions than leverage and power law distributions. So we mentally squash the employee power law curve into a normal distribution curve. We underestimate the most effective employees and overestimate the ineffective ones.



We rationalize this behavior with “lies we tell ourselves.” Here are a few lies people use to keep an ineffective employee:

- He is trying really hard.
- She deserves another chance.
- People really like her.
- I feel bad for him.
- He’s good at other things.
- He has stuff going on in his personal life
- She is in the wrong role.

Conversely, we should dramatically expand the responsibility of 20x performers. Most don’t and rationalize limiting their most effective employees by saying:

- She’s great but not ready for a promotion
- He’s good but I’m not blown away
- She doesn’t have the right background
- He’s never done this job before
- If we promote and she doesn’t work out, what then?

In startup hiring there are few shades of grey. Most employees are great. Some are not. There are surprisingly few in between.

3. False Positives are ok, False Negatives are not

A False Positive (FP) is when we hire somebody who doesn’t work out (i.e. we falsely believed they would be great). A False Negative (FN) is when we did not hire somebody who would have been great. Hiring efficacy is measured by a low False Positive and False Negative rate. A perfect hiring team would never hire somebody that didn’t work out and never pass on somebody that would have been great.

The problem arises in measurement. It is easy to know False Positives but impossible to know False Negatives (i.e. we know if we made a bad hire but we know nothing about those we passed on). This, and a reluctance to fire, is why companies focus on reducing False Positives — it is their only measurement. The phrase “Hire slow, fire fast.” comes from this asymmetry. Companies hire slow because they fear False Positives.

We should not be afraid of False Positives. We can quickly fix a False Positive hiring decision. However, we should be afraid of False Negatives. We can never fix a False Negative mistake. And the cost is

unknown and uncapped. [Facebook passed on Brian Acton \(WhatsApp cofounder\)](#) and it cost \$8B and a board seat.

There are dozens of employees at eShares I describe as saying “I don’t know how we would have gotten here without them.” Most were controversial hires. I’ll pick on Eric — a classic 20x hire. It is hard to imagine this today, but the majority of people who interviewed him did not want to hire him. Today his nickname is the The Oracle. Eric is not unique. I can count at least a dozen more examples.

It sucks to let people go. I hope we get better at not hiring False Positives. But False Positives is the only way we learn. We learn nothing from False Negatives. And there is a huge risk we miss out on a 20x employee. The way we get better at hiring is to hire, learn, and improve. Do not be afraid of hiring False Positives. Give people chances. Be afraid of missing the 20x employee.

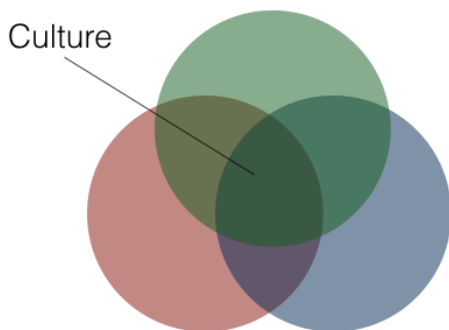
For those of you questioning the morality of fast iteration of new hires please consider the alternative: we deny people opportunity for fear they won’t succeed or we keep people in roles where they won’t be successful. This creates walls around (and within) organizations. Let’s welcome those who want to join us. Let’s give them as much as opportunity as we can. And let’s quickly tell them if they will have more opportunity elsewhere. As long as we do it helpfully and respectfully (which we always will), helping people sort themselves into and out of eShares is good for all involved.

4. Culture-contributors are better than culture-fitters

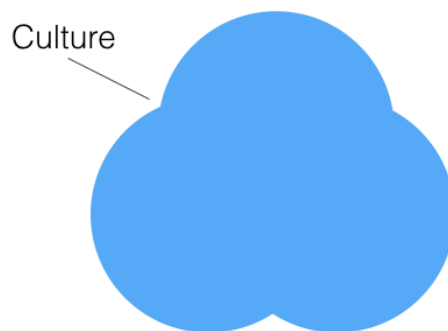
When eShares was a company of one, me, our culture was “my culture”. My culture was quickly replaced by the culture of the first ten employees. I couldn’t stop it if I tried — I was outnumbered 10 to 1. Today, the 37 of you that joined us since have vastly outnumbered the first ten. And thank goodness! Our culture today is far better than it was when we were ten and infinitely better than when it was just me.

Because of [Built to Last](#), good corporate culture is considered static and decided early in a company’s life. For these companies, hiring means selecting people who fit the existing culture and keeping out those who don’t. Hiring is gatekeeping. If culture is a Venn diagram and each circle is an employee’s contribution, then gatekeeping is preserving the intersection of those circles.

Protecting the Culture



Growing the Culture



Our culture is dynamic. It should expand like our business. We welcome its change. Just like we want people to contribute new skills and ideas, we want people to contribute new culture. Hiring culture-fitters does not make our culture better. On the contrary it makes culture worse through decay. The 47 of us in this room will soon be outnumbered by new hires. They will decide our future culture, not us. Hire culture-contributors who will make our culture better.

Hiring Heuristics

So how do we find these Helpful, 20x, Positive Positive, Culture Contributors? It is hard. Very hard. But I can offer a few interviewing and hiring tips that I hope will help:

1. Hire for Strength vs Lack of Weakness

Most companies hire by consensus and committee. In a committee of N, each positive vote is worth $1/N$ of a hiring decision. However, one negative vote will reject a candidate. No matter how strong a voter's conviction, their vote will never count more than $1/N$. Conversely, the slightest negative view will kill a hire. Consensus optimizes for employees with the fewest objections (least weaknesses). It works well to reduce False Positives but creates many False Negatives.**

For that reason, hiring at [eShares](#) is not a democracy. We do not vote. The hiring manager makes the decision. However, we have an interview team help the hiring manager triangulate a good decision. They help by looking for and discovering strengths. The single purpose of an interviewing team is to answer the question, "what is this candidate amazing at?"

We do this for two reasons. First, someone who is amazing at one thing will often become amazing at other things too. Most often the candidate hasn't been trained yet. We can train them. As an organization we are very good at that.

Second, we can hire complementary skills. For example, we can hire one candidate who is amazing at web development and another who is amazing at algorithms and make a team out of them. You may retort, "that means you need to hire two people when one person could be good at both." That is the efficiency argument. We are [a leverage company](#). Two amazing people are always better than one pretty good person. If we were in the business of buying cars we would buy trucks and Teslas — we would never buy a Prius.

2. Hire for Trajectory vs Experience

It is important to note that Trajectory and Experience are not opposites. Trajectory is the first (and second) derivative of Experience. Most candidates have both and both are important. But Trajectory is far more valuable. Our job is not to hire for Experience. That's what everyone else does. Our job is to hire people whose Trajectory will explode when they join eShares, pulling us along with them.

Interviewing for experience is easy because you are discovering what someone has done. Interviewing for Trajectory is hard because you are predicting what they will do. The best indicator that someone will have high Trajectory is if they value Trajectory over Experience. The tell? They get excited talking about what they could do rather than what they have done.

3. Hire Doers vs Tellers

The best predictor of a successful new hire at eShares is if they like to get their hands dirty. Whether it is writing code, building spreadsheets, calling customers, or stocking the fridge. This is true at every level. Our senior managers are hands-on, care about details, and are not afraid to roll up their sleeves. They don't last long otherwise.

One way to find Doers is to ask a candidate how to do something and then ask them to do it. I ask engineers how they would solve a coding exercise or a sales rep how they would sell cap table software. After listening to the answer I ask them to take out their computer and write code or pretend I am a buyer and sell me software. You can quickly see who prefers doing something versus talking about doing it.

Be wary of seductive Tellers. They tend to be good interviewers. Interviewing ability has almost no correlation to employee effectiveness. The most common hiring mistake is hiring good interviewers. Don't make that mistake — hire Doers, not Tellers.

4. Hire Learners vs Experts

This doesn't mean expertise isn't important. We are a company of specialists, not generalists. Each of us is an expert, or becoming an expert, in our domain. You cannot be successful at eShares without being an expert at something.

However, the velocity of change at eShares is so high that static expertise quickly becomes obsolete. To survive and grow we must be a learning organization. And that means we need people who are awesome at learning. [As Paul Graham says, "When experts are wrong it is often because they are experts on an earlier version of the world."](#)

The clearest signal of a Learner is curiosity. Curious people, by definition, love to learn. While Experts talk about what they know, the Curious talk about what they don't know. When you interview, verify expertise by discovering strengths. And then look for Curiosity.

5. Hire Different vs Similar

In our short history, our best hires were very Different from the team that hired them. They don't seem Different now because they expanded our culture. They changed what Different looked like.

There is a deep and natural human bias to hire people "like us." Fight this bias. Hiring Similar means we value repeatability and efficiency over creativity and leverage. Hiring Different brings new skills, paradigms, and ideas which are the sparks and tinder of leverage. They expand our Venn diagram rather than contract it.

I can't stress this enough. You will naturally want to hire people you "connect" with. Fight your instincts. Hire Different.

A quick aside about diversity: This is an important topic for a broader discussion we will have in the future. But I will preview that talk by saying that diversity is fundamentally about valuing people who are different. If we view our culture as the sum of our people, and a broader group of people creates a

broader and better culture, then diversity, as defined by hiring people who are different, is competitive advantage. Notice I say nothing about race, gender, religious preference, sexual orientation, or any of the categories typically ascribed to diversity. Diversity at eShares starts with a self-awareness about personal bias and a conscious effort to recalibrate. Hire Different vs Similar.

6. Always pass on ego

For most of this talk I have talked about signals to hire. I'll conclude with a signal to not hire. Confidence and ego are opposites. Modesty and humility are traits of the strong. Ego and arrogance is a disease of the weak and insecure. The truly confident don't need people to know they are great. They are happy to know it themselves. And the truly Great use their greatness to make those around them greater.

Most companies have a no assholes rule. We do too. But there are many people who would pass the asshole test but not the ego test. And ego is the far more dangerous disease. Assholes are not contagious but ego is because it creates an arms race of competing egos. Anyone can be a victim but executives are the most susceptible making it an attack on our central nervous system. I would rather hire the humble asshole than the arrogant nice guy.

The good news is egos and assholes are highly correlated. But not always. There are nice people with huge egos. They just disguise it well. Your job as the interviewer is to figure that out.

Always pass on ego. Always.

Good luck

That's all I have. Good luck with your hiring. I'm excited to see who you bring to [eShares](#).

** I once spoke to a venture investor about this and he said the same thing about investment decisions. Their partnership doesn't vote on deals because it produces the least risky investments. They prefer seeing a partner with huge conviction over broad consensus. They think that produces the most exciting and ambitious deals.