HOW TO PICK A CO-FOUNDER!

How to pick a co-founder

by Venture Hacks

Formatting inspired by Edward Tufte and 37signals.

First edition

Thanks for buying this interview.

Please don't make copies.

You can buy it at http://venturehacks.com.

Yo!

CONTENTS

DISCLAIMER

This book provides information, not legal advice. Use it at your own risk.

Information is not the same as legal advice. Legal advice is the formal application of information to an individual's specific circumstances.

Although we strive to make our information accurate and useful, you should consult a lawyer before applying it to your particular situation.

We do not take responsibility for rashes, financial ruin, or any other misfortune that follows — either directly or indirectly — from applying the information in this book.

We are not lawyers. Get a lawyer.

INTRODUCTION

This is a transcript of an audio interview from Venture Hacks.

We've highlighted the salient points.

HOW TO PICK A CO-FOUNDER

Get good cofounders. You can't change who you are, at least not in a short time. And the idea doesn't matter to us as much as the people. So the best thing any individual can do is find good people to work with.

— Paul Graham

1. How many co-founders?

Nivi: This is Nivi from Venture Hacks.

Naval Ravikant: And Naval from Venture Hacks.

Nivi: We recently posted an article by Naval called "How to pick a co-founder." You probably checked it out. If you haven't, take a look.

We got a lot of questions based on the article, and I also have questions based on the article, so we're going to answer your questions. We're going to try to elaborate on what we wrote and try to give some more examples of some of the things we talked about.

So, the most common question we had was about two-founder companies. Is two founders really the only way to go? What are the pros and cons of two founders and other types of situations?

Here's some of the feedback we got:

Ram said, "As you point out, there are several advantages to having two co-founders, but I think your perception exaggerates the odds against single-founder companies. From this week's news, AdMobs is a great example of a successful single-founder company."

Gabor says, "Was Facebook really a one-founder company? Maybe I'm bad at my Facebook founding history, but it seems like there were multiple. It was one-founder in the sense that Mark Zuckerberg is both a builder and a seller, but I feel like there have to be more good examples of successful one, three, and four-founder companies. It seems like you guys dismiss anything other than two, too quickly."

And then finally, Mark Essel says, "I don't see three to four being a problem with the right group. Certain projects lend themselves to two; others can really get powered up by three to four founders. Engineer-heavy startups are common now, so doubling or tripling your development team at the outset is incredible. It depends on what other responsibilities team members have as well. Many startups are grown while folks work their day jobs, or part time to survive."

So, the first question is, are we dismissing anything but two-founder companies too quickly?

Naval: I would say that's not the case. Of course three-founder and one-founder companies can be successful, it's just that generally speaking, over mass statistics, if you look at many, many companies, especially the bigger ones, it's usually two founders that really matter.

Now, you may start with three founders or four founders, but very often the company tends to coalesce around two founders.

Or, you may start with just one founder, but that founder may have a very early and senior confidant who then ends up almost playing a founder role even though they join the company later. For example, if you look at Microsoft, Paul Allen stepped aside after a certain point in time, and Steve Ballmer really became the guy who came in and was Bill Gates' co-founder.

So, I guess the important things to point out are that it is very, very important to have a strong, day-to-day partnership element when you are going through something as difficult as doing a startup. And whether that's with a co-founder or with a very early person who joins the company and fulfills that role, the titles matter less.

The issue with three or four-founder companies is not to say they can't succeed, it's just that it is much, much harder to divide up the roles in such a way that there isn't stepping on people's feet. It's much harder to find people of roughly equal caliber.

And then as a company progresses, in the much later stage, especially for a venture-backed company, you just end up with a lot less equity to go around. And you don't want to be in a situation where 10 years down the road – and by the way, it takes 10 years to build a truly great, huge primary franchise – after your company's gone public, you've raised lots of venture capital, you may find that all of the founders, because you had so many of them, own one, two or three percent of the company, each, and there's nobody, really, who can take charge of the company and be the CEO and just drive it through thick and thin.

That persistence, that drive that's necessary in a founder, is important to the health and success of a company, not only early on, but also much later in the game. And as a company gets older and older, it becomes less likely that a four or five person company can sustain the equity stakes required.

Lastly, ***I would say that any time you have three people in a room together working on something, you get politics. Then it starts mattering who says it, how they position it and whether they can get two to gang up on the third.***

One of the nice things about a two-founder company is both have to agree – at least in a well-structured two-founder company.

Nivi: OK. You went into a bit of the pros and cons, so why don't we talk a little bit more about the pros and cons. Three to four founders: what are the pros and cons? Let's catalogue them.

Naval: Well, the pros are, obviously, many hands make light work. So, if you have three or four highly incented founders, early on, and they're motivated like founders, they're just going to accomplish a whole lot. That's probably the single biggest pro.

You also have a diversity of voices and opinions, which can work both ways. It can be great when you're brainstorming and problem solving; it can be really bad when you're trying to make decisions.

One of the early problems a three or four-founder company struggles with is who's on the board. Because a lot of control and authority derives from the board, every founder wants to be on the board.

And VCs don't like that. They know it's dysfunctional when you have four founders on the board because then they can't really talk about each other or who's doing a good job and who's not.

The CEO also ends up having very diluted authority, because now he not only has to just command the respect of one person, he has to play a little bit of politics and keep everybody happy. So it ends up being a difficult management situation.

Nivi: How about pros and cons of two people?

Naval: The pros are, obviously, that you just have to establish one solid partner relationship, there's a clean division of roles and responsibilities, and there are minimal politics.

The cons are, if those two can't get along the company is effectively dead. You have no room for error or failure. If the people don't get along you're going to have massive clashing. You're going to have too much DNA and time burned up internally.

And you just don't have as many people to go around, so the two have to be extremely good at what they do, which is kind of why I made the "one builds and one sells" distinction, because although you can occasionally find the superstar who can build and sell, selling is a full-time job, building is a full-time job, so you might as well just pick the best on the planet at each.

Nivi: Right. And how about the one-founder case pros and cons?

Naval: I think it's an extremely difficult case. I would recommend the three or four-founder case over the one-founder case.

Nivi: Right.

Naval: Well, let's start with the pros. The pro is that you get to keep a lot of equity. [laughs]

The con is that you have to do all the work.

Another pro is that it is completely your vision. It's one person's monomaniacal vision, which sometimes can be great. I don't know the histories of these companies, necessarily, but it sure feels like Salesforce.com is a one-founder company, with Marc Benioff having the bully pulpit.

So, it can definitely be one person's vision and one person's drive, and so forth, but that person had better be really, really driven and really confident, because every startup goes through tough times, and you won't have a shoulder to cry on, not really. You won't have someone to pull you up.

You also won't have a diversity of opinions so you'd better be right and just able to sustain it. ***But now you've basically got a company that is just an extension of one person's personality, with all***

the ups and downs of that. I think the proper analogy might be trying to raise kids by yourself; sure it's possible, but it's a lot easier with two.

Nivi: ***I would say, whether you have a two-person, three-person, or n-person team, where n is greater than one, if you have a functioning team, don't worry about everything that we've said too much because a functioning team – an effective, well-functioning team – is basically the rarest thing in the world of startups. Markets can be put into place. Right? You can pick a product, you can pick a market, but it's hard to pick a team.***

Naval: Absolutely. The first company I started had three founders. The second one had five. So, if it works, it works; if it doesn't, it doesn't. You should not go and remove founders just because you're over two.

But, I would say if you're a one-founder company and you're finding things to be just difficult and every day is a chore, you may want to consider bringing on, even at a later stage, an early employee or late founder – someone who can be your partner. It's that partnership element that's very important.

And keep in mind; human beings are pair-bonding creatures. We're evolved that way and so we're just designed to operate that way, and operating on your own for long periods of time in sustained difficult efforts is just highly unnatural.

2. How do you create a history together?

Nivi: You suggest people find someone that they have a history with – you wouldn't marry someone you just met – and that you should date first. And you suggest going through something difficult, like a prisoner's dilemma or a zero-sum game. How would you actually do that in real life?

Naval: Basically, what you want to look for are people who are cooperators who you can get along with. So, when I say prisoner's dilemma or zero-sum game, that just means go through a tough situation with them. A tough situation can be one in which they can gain at your expense, and that's really how you know someone. So, if you're dividing up some money or if you're trying to figure out who should do the dirty job or the hard work, you want to be with someone who's going to volunteer for that kind of stuff, who's going to volunteer to do a dirty job.

Steven Levitt and Stephen Dubner, who wrote Freakonomics, wrote a sequel to it called SuperFreakonomics that just came out, and in the prologue they have a very interesting and kind of funny little quip where they say: We were trying to figure out how to divide up this enterprise and we both wanted 60/40. At first it didn't feel right, and then when we realized that each of us was offering to give 60 to the other guy, and wanted 40 for himself, that's how we knew it was the right partnership.

So, I think you want to try and find that spirit of cooperation, because you will go through tough times, so you need to have some way to predict how the other person is going to behave in those tough times.

Nivi: ***So, one practical way to actually play this game would be to lowball what you think should be your equity percentage in the business and see how they react to that.***

Naval: That's actually a really good test. Most people would fail that test, which is a good screen.

Nivi: Right.

Naval: But when your partner, in quotes, turns to you and says, yeah, that's great, I'll take 55, you take 45, or, I'll take 60, you take 40; now are you really going to get up and walk away?

Which is a natural segue into: how should you divide up a company amongst founders?

Nivi: Cool. Let's talk about that.

3. How should you divide up the company?

Naval: I've seen lots and lots of different examples and cases, and at the end of the day what I found is that, again, there are multiple ways to do it, but far and away the most stable configuration is one in which it's a 50/50 split. It's an inherent fairness.

Yes, not everybody is created equal, but it's very hard to measure when people's contributions are important. Some people's contributions are very important early on. Some people's contributions are important later on. It's very hard to measure how much effort someone is putting in. It's very hard to measure which crucial deal made the difference. So, I think a good rule of thumb is, start working at the same time, both work at the same salary or neither salary, and just make it 50/50.

I've seen cases where it's 55/45 or 53/47 or some unnatural number made up, and the bad blood surfaces five years down the road when you least expect it.

Nivi: And what about the case where you're basically hiring the first employee, perhaps calling him a co-founder, and giving him a large equity chunk – say 10% – but it's not a 50/50 split. Is that common or is that rare? What do you think about that?

Naval: It's not common, but it's not uncommon either. I think it's a pretty good way to go if you don't have a co-founder, or even if you do have a co-founder but it's someone who joins you early on and they just do a stupendous job – they behave like a founder. And by behaving like a founder I mean they take responsibility for the outcome of the company. They work above and beyond the call of duty repeatedly. They stick with you through thick and thin. They voluntarily sacrifice their salary or even things that might seem like it's good for them, for the betterment of the company. And if you see someone who's doing that and becomes indispensable to the company, I'm a big fan of giving them a lot of stock and treating them like a late co-founder.

Now, later in the game you can't go handing out huge chunks of the company without getting in trouble with employees and investors, but you should do the best that you can because companies take five or ten years to build. They're just the sum of the people who are involved, and if you have a superstar person early on, you need to recognize that before you lose them.

4. Who's the boss?

Nivi: So, let's say I've got two co-founders with a 50/50 split. Who's the boss? How do I figure that out? Is there going to be a CEO? And say we have one board seat. So, we raise some cash from a small, early-stage VC fund. There's one investor on the board, one founder and one independent, or just one VC and one founder. Who's on the board? Who's the CEO? And who decides when a founder can be terminated?

Naval: Traditionally, this is a very difficult question. This is why it's very important to have a tremendous trust-based relationship with each other. You have to trust that even when you're not in the room, the other founder will take care of your interests as he or she would take care of their own.

If you don't have that level of trust with someone, then you cannot answer this question. Assuming you have it, it should almost be easy.

People should be saying: "No, no, you take it! No, no, you take it; I don't want to deal with it."

The truth is that CEO in a startup is a tough job. It's not a fun job. You deal with a lot of the crud. You have to clean up a lot of the employee issues, personality disputes, keep the investors up to date. It's actually among the less fun work. Anyone who thinks that CEO is a really fun and sexy job probably shouldn't have it. I would think

that with two good founders who trust each other there should not be much of a dispute.

Ultimately the board is the arbiter of control in the company, and the board is elected by the shareholders. It's quite common for there to be a voting agreement that forces drag-along. I think it's pretty important that if you want to have a say in your company and control in your company, then you reserve your right to vote as a board member.

So, in the two-founder case, you should not sign any voting agreement that allows just the other founder to select a board member or names and fixes a board member forever. It should be by mutual consent and you should be able to bring it up for re-election, and that will force there to be some level of good behavior and an alignment of interests.

In terms of who fires who or how does a founder get fired, you only want a founder to be able to get fired if –
a) the other founders agree, and
b) you also have some neutral, outside independent arbiter, which could be a VC or independent board member.

5. Do you even need a CEO?

Nivi: Here's a question. You've got a team of two guys who started a company, and maybe you've hired a few employees and you've got about five people. Do you even really need a CEO beyond the guy who is on the board who is somewhat on the hook to the investors, if there are investors on the board?

Naval: ***I think you need a CEO in the sense that, on a day-to-day tactical level there has to be someone who's just making decisions so that not every decision gets caught in a situation of he said, she said; or you don't have people going to one person, and if they don't like the decision they go to another person and lobby. That's a very inefficient process.***

But at a strategic level, month-to-month you don't need a CEO in that nothing is going to happen that is huge and material for the business without both partners agreeing. So, in a five percent company, a CEO is not a guy who goes and cuts a deal or raises money without consulting his partner, but is a guy who decides on a day-to-day basis, yeah, we are going to go ahead and make that slight tweak to the side, or, yeah, tell a lawyer that that interpretation of the options contract is OK, and so forth.

Nivi: And then, in terms of getting terminated, at the very early stages where it's me and another co-founder and maybe a few employees, I basically don't want to be able to be terminated without the consent of the board. This should be a board-style decision. Like, the CEO, whoever that is who has that title, can't get rid of me while we're in less than five employees or a few employees, right?

Naval: Yeah. Like I said, you want to have a process in place, and that process should require the consent of both the other founders and some independent arbiter. It's pretty hard to fire a founder, and it should be hard to fire a founder.

That being said, all founders should be vesting because the worst-case scenario is that if you have to let go of a founder and that person owns 30% or 40% of the company, there's no vesting so they walk off with all of it. Now you have very, very early-stage company with only 60% or 70% to go around and it's just not enough to build a company around.

6. What skills do you need on the founding team?

Nivi: One thing that you mentioned earlier is that one of the guys should be a builder, at a minimum, and another guy should be a seller, at a minimum.

Naval: Yeah. The classic examples are, of course, Bill Gates and Paul Allen, and Steve Jobs and Steve Wozniak, and so on. But it's also just more of an easy way of dividing the responsibilities and realizing what's important in the company. Selling is perpetual. You're selling investors, you're selling employees, and you're selling partners. You're constantly selling, so there just has to be somebody who's naturally good at sales and enjoys doing it, and will help pull in and bring in and manage the resources around the company.

Likewise, building a product is the core, heart and soul of the company, so someone has to focus on that. Engineers, design, implementation maybe even analytical marketing and any web-driven customer service – someone has to live, breathe, eat, and think the product. And although it's possible for one person to do both or for it to be divided differently, these are the two biggest jobs in the company and they're overwhelmingly large jobs. So, it just makes sense to divide them up along that basis.

I almost think of the person who's doing the selling as being the API to the outside world for the person doing the building.

Another way to think about it is someone who's inward focusing and someone who's outward focusing, and it's very important to realize that both of these are equally important jobs. Very often, the person who's outward facing, or more sales-y, will tend to garner an inordinate amount of attention and credit, and may even think that they're more worthwhile and more valuable. And that's just not the case; without a product the company is nothing.

Nivi: Here's a question. The guy who's the seller in the startups that works, I get the sense that he also has a lot of building ability, or at least an affinity for a product even if he can't build it.

Naval: I think that's right. You can't sell a product that you can't know well, otherwise you're sort of hand waving smoke and mirrors, which is why very often – not always, but very often – the best CEOs come from strong technical backgrounds and maybe were even involved in the development of the product early on.

7. Why do you need aligned motivations?

Nivi: One thing that you mentioned was that aligned motives are required. If one founder wants to build a cool product, and another one wants to make money, and yet another one wants to be famous, it won't work. Pay close attention – true motivations are revealed, not declared.

Can you elaborate on that and maybe give some examples?

Naval: Yeah. I think people will say what it takes, when they're starting a company, to get funded or kind of just get along, but when I say true motives are revealed, not declared, it's back to the Freakonomics thing where you look at the data and you watch how people behave rather than what they say.

If you have a co-founder with you who says they're in it because they love the product, but really they love to stand up and give a lot of speeches all the time, then you know that their real motivation is much more about ego and getting famous, which is fine. That actually works in some businesses, and there are some very successful entrepreneurs who care more about fame than they do about money, but it's very important to know that up front, because eventually there will come a choice. In fact, you will constantly be faced with trade-offs and choice between the different sets.

Some people are very interested in being people builders. They want to build a long, sustaining enterprise in which they get to work with only the best people, and they almost care more about who they work with than what they build.

And that's a fine choice, too, but then those are different kinds of startups. You may be wedded to the original business plan or the product because you have an affinity for the product, but your partner may just have an affinity for the team, and may be very willing to tack away from this market into a different market, whereas you are not. So it's just important to know what those motivations are. And like I said, the only way to really figure them out is just to know the person – to watch them in situations, not to hear what they have to say.

Nivi: Can you give me an example of this, where misaligned motives have caused an issue?

Naval: I know most of the examples from private companies, and I don't want to air dirty laundry.

Nivi: Yeah, you don't have to mention the name of the company if you can talk about it.

Naval: Obviously, in the more public facing cases, the companies we tend to know that are public or are success stories, we know them as successes, and they wouldn't have become successes if these issues were there at the beginning. So, I don't have a clear example that I can point to in that sense.

8. Should I compromise on a co-founder?

Nivi: OK. One thing people wanted to know….

Actually, let me quote Kevin Dewalt. He says, “We know what type of person we want as a co-founder, but unfortunately we don’t have sufficiently large numbers of candidates. Given the choice of settling for a sub-optimal co-founder situation, continuing to search, going alone, or giving up, what should people do?”

So, one question people had is, when do I compromise? How do I know the difference between what you guys are proposing, which is an ideal that nobody reaches, perhaps, or is this really a set of requirements that we need to have in place?

Naval: I would say it's better to start alone and keep a slot open for the right co-founder to emerge than to pick someone and you're compromising.

I found a couple of cases where the founder started a company alone, or has maybe even started with a sub-optimal co-founder, but kept aside a large chunk of equity. And usually it's not that somebody walks in from the outside and you make them a co-founder, although that does happen. Usually it's that one of the early people you hire just steps up to fill the missing void. Because, make no mistake about it, a company needs founders, and if you don't have enough of them to fulfill all the jobs it's a void.

Hopefully, if you're lucky, someone will step up to fulfill it, and it's up to you to recognize them. If you don't recognize them, then I think you're living on borrowed time before that person walks away and starts their own company. ***It's very, very easy in Silicon Valley for a high-quality person who has demonstrated themselves, to go and start a company. So, if those people step up in your business, don't let them just walk out.***

Nivi: I think the lesson is, you're not going to wait around for a co-founder to start the company. You're going to move it forward, and the criteria that we're putting forward are really what you would apply to a person to whom you decide you're going to give a large chunk of the business.

Naval: Yeah, and it's no coincidence that most of these companies that we talk about get started out of college or out of graduate programs, because that's where you're most likely to have run across a large pool of smart, high-quality co-founder potentials who you've had a chance to actually work with and socialize with.

Nivi: One of the guys who left a comment on the post basically said it's better to go with nobody than with the wrong guy.

Naval: I would agree with that, yeah.

9. Why should I partner with a nice guy?

Nivi: OK. Let's talk a little bit about nice guys. You say, in the post, that you should avoid overly rational short-term thinkers and that you should partner with someone who's irrationally ethical or a rational believer that nice guys finish first.

Naval: What I mean by that is that there are people who tend to view these things as long-term games and people who view them as short-term games. You never want to be with a short-term optimizer, because if they think that they're only going to work with you for a little while, then make a lot of money and get out, then if it ever comes down to you versus them they'll just pick themselves rather than try to find a solution that works for both of you. So, that's an easy case.

There are also people who are so long-term oriented that you always trust them to make the ethical, nice-guy choice – bend over backwards. That's also an easy case.

The hard case arises because in Silicon Valley you can, in one move, make enough money that you never have to work again. So you can have people who seem like genuinely nice and rational and good people to work with, until the big loot presents itself. There's the opportunity where they can make a lot and kind of screw you in the process. That's where you've got to watch out.

And those situations are very hard to predict in advance, which is why I say "irrationally ethical" – someone who has such a strong sense of moral core beliefs and goes out of their way to do good things for other people, or at least to be fair with other people and honest with other people.

And I guess honesty and fairness is really what you're looking for, not altruism. True altruism – people are skeptical about whether it even exists, but honesty and fairness are things that you should be looking for. ***So you want to look for people who are honest and fair almost to a fault, where you almost worry about them, rather than worrying about yourself around them.***

10. How can I tell if the other guy is a good builder/seller?

Nivi: Say I'm a builder; how can I tell if the guy I'm talking to is a good seller complement to me? How do I evaluate him, given that I don't know much about it?

Naval: Builders are generally pretty bad at evaluating sellers, just like sellers are generally pretty bad at evaluating builders. The easy glib answer is, as a builder you ought to be able to sell, at least a little bit, and as a seller you ought to be able to build, at least a little bit, and that's one way to tell.

I would say to hold these people to the same high standard to which you hold yourself. Obviously, not in a domain-specific way – if you're a builder, don't check your seller on how clean and high quality his code is. But you should have a general sense that this person is as smart as you, they're as capable as you, they're at least as driven as you, and that they're at least as exceptional of a human being as you believe yourself to be.

So don't fall into the trap where you say, well, he doesn't seem as smart, but that's OK, he's a seller. He doesn't need to be as smart. Or don't say, well, he's not as hard working, but he's a really good coder, he doesn't need to be as hard working. On the general values, this person should be as exceptional as you are.

And if you're in doubt, find someone that you respect and is successful at this, and actually listen to their evaluation.

Nivi: Right. ***One thing I might say to a seller is just have the builder show you something that he has built on his own and delivered to the world. It doesn't matter if people used it or not, but that's likely to be representative of what he can build for you.*** Do you think that's a good first….[interrupted]

Naval: I think that's a good heuristic and I think an equal one is that when you're starting a business you have to sell people. You have to sell investors. You have to sell a partner.

And if you're a builder and you're deciding whether or not to get into business with this person, an early challenge that you can throw out is to ask them to do a sales job that you think is doable but that you cannot do. For example, if there is some partner to be signed up and you don't yet have a product for them, so someone has to go and sell them on the vision, set this person loose. And if this person says, well, I… I can't do that, or, I don't want to do that, or if they just go and just have a lot of coffees but come back empty handed, it's a reasonable indicator. Of course, the nuance here is giving them a doable job, but a hard one.

Nivi: Right, and as we said before, date first, no matter how much diligence you do.

Naval: Exactly.

11. How do I convince someone to partner with me?

Nivi: So most prospective co-founders, if they're really of the caliber that we're looking for, probably already have a startup they're working on an idea or they want to recruit you. How do you get them to work on your thing?

Naval: Again, this is why it's so much easier doing it out of college or graduate school, because they're likely to not already be in that situation. If they've already founded their own company… [interrupted]

Nivi: Well, let's say they have an idea.

Naval: Yeah, if they have an idea that's different. Then you have to kind of get together and see if you can have a meeting of the minds on your ideas. ***But I think it's more important that you have a shared space that you want to go into.***

Ideas change. The history of all successful companies is that their idea morphed over and over again. But you pick a market that you're interested in, or a broad space that you're interested in, and then you have to be flexible together.

If somebody's already doing your startup, then it's probably a little too late. They're the founder of a startup.

If they're working on somebody else's startup, it may be possible or easy to pull them out. And if they're not willing to come out without salary or extensive insurance and guarantees, then they're really more early-employee material than founder material.

Nivi: Yeah. One hack that I had mentioned in the blog post was to tell them: Great, you keep working on your idea. It sounds like a great idea. Why don't you spend a little of your time working on my thing, with me?

And if your thing starts to take off, they're naturally going to give up their thing and work with you.

Naval: Yeah, there's an art in founder relationships, just like there's an art in personal relationships. When you're in a personal relationship with your significant other, you eventually learn that you have to move away from I and you, and start talking about we and us. In the same way, when you're a founder, you have to start moving away from talking about my idea, and start talking about our concept or our vision or our idea.

So, it's very important, early on, to put your idea out on the table. Let the other person play with it, change it, morph it, and take ownership over it. And if they never get to do that, you will never have a happy founding relationship.

Nivi: Yeah. One little hack I think I got from Seth Godin on that is that if they add a feature to it or expand the vision in a way that you've already thought of, you never say, yeah, of course I know that and I'm going to do it. You say, great idea!

Naval: Absolutely! ***Much of this game is injecting means into other people and having them improve them and having them take credit for it. The moment they start taking credit and ownership, it's a victory for you, not a loss.***

I'll give you a simple example. Whose idea was Apple or Microsoft or Google? Does it really matter?

Nivi: Yeah, all the co-founders get credit for all of those.

Naval: Exactly.

12. What if my co-founder needs a salary?

Nivi: What if someone wants to join but they need a salary before they can join?

Naval: It's a tough case. If all the founders need a salary, and if they have the means to obtain it, then I suppose, yes, they are on equal footing. But, if one or two founders are not taking salaries, and one or two are, then it puts them on very, very unequal footing. It creates a huge strain on the business because you may not be able to do certain things now, because people need to make money. You may need to take investment earlier than otherwise.

Normally, the definition of a founder is someone who's willing to work through thick and thin, early on, without having necessarily the kind of insurance that comes from making money. But, some of the absolute best people may just be at a stage in their lives where they have that requirement. ***I think the easiest hack here is to just make sure that you're both, or all three of you or however many of you there are, are on the same page. Either you're all taking salary or none of you are taking salary.***

If there's a case where there's an inequality to the business, where someone needs to take a salary and someone else can go without, then first of all you should make sure that it's not causing unnatural behavior in the company, i.e., you don't have to raise money early or you avoid doing the right thing for the product. And if you can agree on that, then the person who's not taking salary should get a bigger chunk of the company, but it shouldn't be arbitrary. You should just assign a valuation to the amount of money you have to spend on the person's salary for, say, the first two years, and issue that in stock to the founder who is not taking salary, so it's done clean and above board and mathematically correctly.

Nivi: Right. So, in summary, if you don't have cash and someone who wants to join needs a salary, there's basically nothing you can do for them and they should feel free to work on the company part-time on their nights and weekends. Right? And that would be a good test for them.

Naval: Yeah. Perhaps they could have partial vesting while they're working part-time, and then come on with full vesting later when they can afford to do so.

Nivi: Right, and if they don't want to do that, they're not going to be a co-founder, period.

And if you do have the cash to spend on them – say you've raised a little bit of money – and you're going to give people unequal salaries because somebody needs the cash, just realize that you're putting yourself into a situation where it will be difficult not to do unnatural things with the company such as raising extra capital, chasing early sales, or whatever you need to do so that this guy can keep getting paid, as opposed to doing the right thing for the business.

Naval: It's also the case that people who are risking their own personal capital are motivated to just that extra, last iota above and beyond, and it really does matter. Cortez, when he landed in the Americas with his 25 soldiers and, apocryphally or not, he burned his ships, that was a little bit of extra motivation. He had to conquer the Incan empire and come out the other side. Even if he only had 25 guys, it didn't matter – no ships.

13. Where do I find a co-founder?

Nivi: Where do I find a co-founder?

Naval: Probably college or graduate school. If not, it might be at a company where you worked. If you have the opportunity, go to a great school. It's a good place to meet people.

If you don't have that opportunity or if it's already too long in the past, then ***go join a startup or a company where the alumni group is going to be very, very strong***. So, you could join a hot startup where you know they have very good quality control in hiring people, because you know that a few years down the other side, even if the startup itself is not successful, you will have a very high quality alumni group.

Or, you could go join a magnet company – a company that may be larger but still pulls the best and brightest. Google would be a prime example.

Nivi: Where have you found your co-founders?

Naval: That's a good question. I have found them mostly through other startups that I've worked in, so I would say it's more the magnet company route than any other route.

14. How do I start a business with family?

Nivi: How about starting a business with friends and family? Do you have any thoughts on that? I guess I would say more on the family side.

Naval: Yeah, family is really tough. Certain kinds of businesses do really well as family businesses. Those are trust-based businesses. In any business that involves a cash register or people taking cash in hand, you're always going to have a big trust issue, so family will be good to work with there. Any business that's a lifestyle business where you have a lot of fringe benefits, like, you might have a really nice office on the bay you hang out at might be good.

But in businesses where you have shorter time lines, more intense outside investors, and your responsibility to your investors and employees to behave rationally and ethically, it gets very hard with family. You get trapped in a double trap. ***If your family member does really well and you promote them or pull them up, then it looks like favoritism, and if they are doing well and you don't promote them, then they get annoyed at you, so you risk that relationship. So it's kind of a no-win situation.***

Startups are also so risky that you're better off – say if you have a brother or sister who is exceptionally capable – if they go do their own startup and you do your own, you can pool your equity on the side and diversify some of the risk.

15. How do I start a business with friends?

Nivi: In terms of working with friends, at least in Silicon Valley, it seems to me that actually most of the startups that get started are started by people who are friends or acquaintances or they hang out to some degree socially, on top of, perhaps, the years they've spent together at school or at Google.

Naval: A friend of mine that I work with put it pretty well. He said the great thing about capitalism is that it makes you fire your best friend. So, if things aren't working out, you have to be ready to terminate that relationship. But, what friendship going-in gives you is a lot of data points on the other person. And it also means that if you do have to end it that there's a chance you might be able to end it amicably.

However, if you have to end the friendship and the working relationship, and it's not amicable, then you get the worst of all worlds.

So generally, I wouldn't go into business with a really close friend, not someone that I spend every hour every day with and who I got to know in a social context first, because you don't pick your friends based on how brilliant they were.

But, ***if it's a work-related friend, you met them at a company or in a work context and you have a lot of respect for their work and then you became friends, that's a very good way to go because you have a***

working history with them and because your relationship was always founded upon work, it's less likely they're going to fault you for holding them to objective standards.

16. How many co-founders? (Redux)

Naval: I think probably the key feedback that I saw in the comments was just the revolt against the idea that all companies are two-founder companies. And I absolutely agree that it's not the case that all companies are two-founder companies, just as not all companies are venture-backed companies and not all companies are product companies, but we were just trying to draw some easy generalizations for people just starting out.

As Nivi put it well, earlier, if it's already working for you, don't change it, whatever your team structure is.

Nivi: ***Yeah, I think the team is really the rarest commodity, right? You can always change your market easily. That just takes half a second. You can change what you're going to build.***

Naval: Yup.

Nivi: Changing your team takes years.

Naval: Yeah, usually most companies do not survive a changing of the guard.

.

ABOUT THE AUTHORS

You can reach both of us at team@venturehacks.com.

Nivi

I like helping entrepreneurs succeed.

I've helped start companies like Songbird, Grockit, and Kovio that have been backed by firms including Sequoia, Benchmark, and Kleiner Perkins.

I've also worked at venture capital firms including Bessemer and Atlas Venture.

I have S.B., M.Eng., and "ABD" degrees from MIT in Electrical Engineering and Computer Science, with a minor in Math. I was also a National Science Foundation Graduate Research Fellow at the MIT Media Lab.

I have two patents and have published a paper in *Science*. I used to rock with *The Nitlings*. My personal blog is at nivi.com.

NAVAL RAVIKANT

I like to create improbable products that make money.

I am an entrepreneur and angel investor.

Previously I was a co-founder at Genoa Corp (acquired by Finisar), Epinions.com (IPO via Shopping.com), Hive7, Inc., and Vast.com (now one of the largest auto shopping networks online).

I studied Computer Science and Economics at Dartmouth. Now I study just about everything, with an emphasis on psychology, evolution, complex systems, human metabolism, and physics.

My personal blog is at startupboy.com.

The End

Learn more at http://venturehacks.com.

If we've learned one thing from funding so many startups, it's that they succeed or fail based on the qualities of the founders.

— Paul Graham