PREP TALK: GREAT PEOPLE ARE RARER THAN MONEY

From the Permanent Equity Ops Desk

Estimated Reading Time: 9 minutes

“In software the difference between the average developer and the best is 50:1; Maybe even 100:1. Very few things in life are like this... So I’ve built a lot of my success on finding these truly gifted people, and not settling for ‘B’ and ‘C’ players, but really going for the ‘A’ players.”

– STEVE JOBS

Every operator has experienced this to some degree.

We’ve all worked with that one incredible employee who produces idea after idea, or who navigates crises with a cool head and clear decisions, or whose management consistently produces incredible teammates.

And, having experienced it, you also know how rare it is.

Next level talent comes along once in a blue moon, and, let’s be honest, it visits small businesses even more infrequently.

But most of us struggle with compensating a great talent above their peers, above market, above their age bracket, or above their experience level.

We have no problem paying 3 times as much for a machine on our shop floor that can produce 5 times faster than the one we're replacing.

Why the disconnect?

"It doesn't feel fair."

This is often the biggest objection.

Paying one project manager, or supervisor, or VP a good deal more than their peers feels inequitable.

Machines don't care if you paid more for one than the other, but we're talking about people here.

We would contend that not paying someone for the value they are creating is the larger inequity. We find this objection is typically just a proxy for...

“What if someone finds out?”

This is a risk that leads to two questions:

First, what is your company's expectation around sharing compensation information?

Your company should either have a zero tolerance policy for sharing compensation information, or compensation information should be freely available to all.

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Middle ground leads to rumors and speculation.

Second: How would you respond if you were confronted by an employee about a perceived inequity?

If your decision to pay that person's peer or co-worker dramatically more is based on real data that you have observed, this conversation should be comfortable for you.

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If the case isn't clear or you'd be nervous sharing your reasons, perhaps your decision to overpay someone isn't as well-reasoned as you thought.

“They seem happy.”

This is the most dangerous trap.

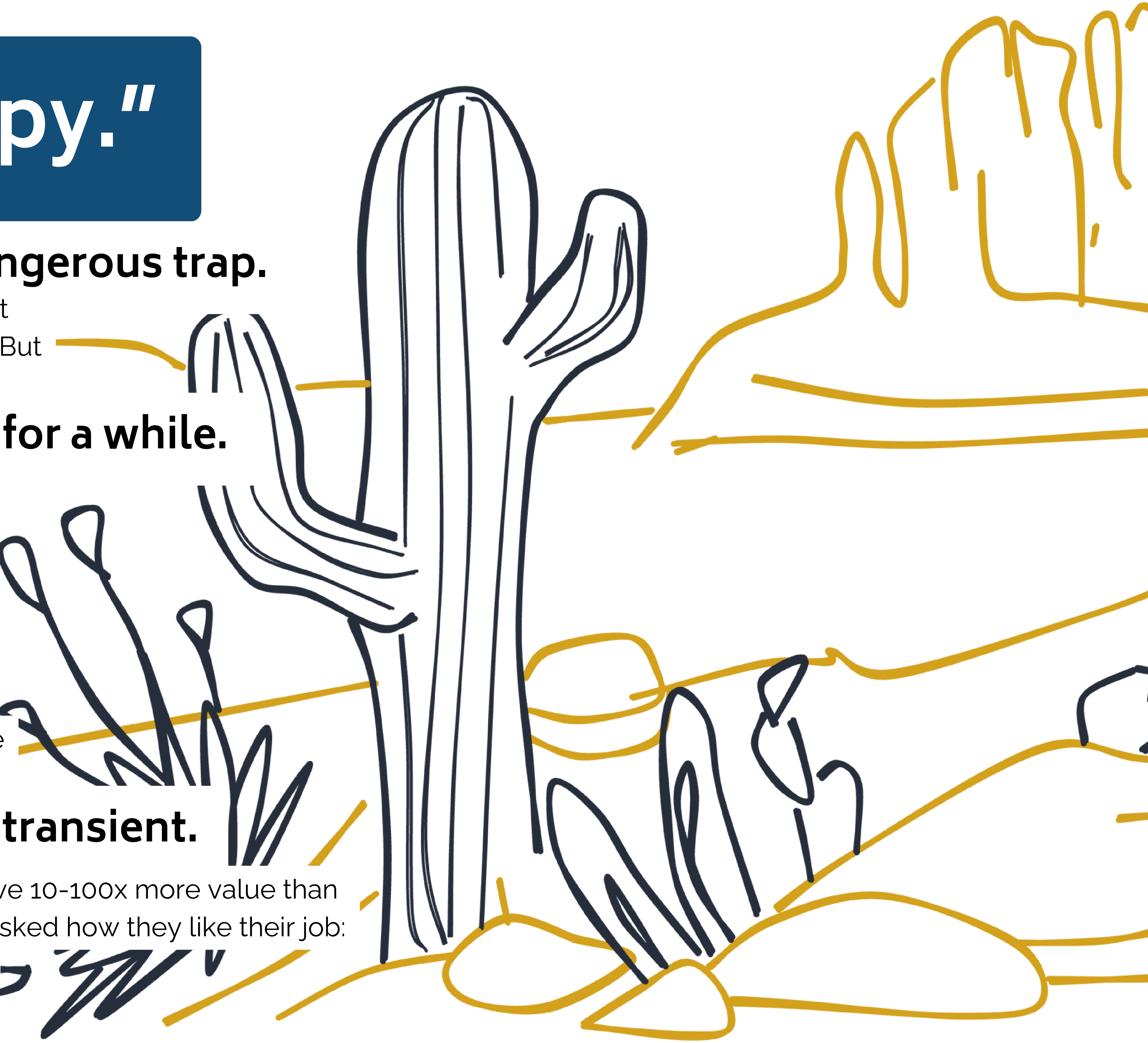
We’ve talked to countless operators whose first reaction after losing their best employee was, “But they seemed so happy!”

And they probably were, at least for a while.

But the thing about great talent is that it’s hard to hide.

Even if your teammate isn’t actively seeking other opportunities, they’re going to dinners, meeting people at church, hanging out with neighbors.

Good operators know good talent when they see it, and, like you, they aren’t shy about pursuing it.



Happy is great, but happy is transient.

Your best employees – the ones who drive 10-100x more value than others – should have one answer when asked how they like their job: “I can’t imagine working anywhere else.”

So what are your highest performers looking for in their compensation?

First, they want a line of sight between the work they do and the money they make.

Don't comp a high performer on a metric over which they have little leverage.

Find something over which they have agency (and can feel that agency) and pay them based on that.

High performers want ownership.

For positions of executive leadership that have more control over how the company performs, equity or equity-like structures may be appropriate.

For more junior talent, finding the most appropriate metric on the income statement to which to tie their incentive helps emphasize what you're asking them to drive and very clearly rewards them for results.

Second, they want unlimited upside.

That sounds scary, but their unlimited upside shouldn't be at the expense of the company.

They just want to know that their share of the value they create is uncapped.

For a majority of founders, this is why they got into business in the first place.

If you can craft a plan that paints an unlimited runway for your top performers, they will unlock tremendous value for your firm.

So…

If you have high performers on your team and you're doing it right, your payroll should look skewed.

Don't be shy about paying your high performers.

When done right, your return on that spend will be many times what you've paid.

PREP TALKS

Advice & Motivation

from Permanent Equity's Ops Desk

Leadership is hard. And it can be lonely. Big decisions, hard conversations, and ambiguous futures are day-to-day realities – particularly in small businesses. We all occasionally need a sounding board and someone cheering us on.

Here on the Permanent Equity Operations Team, we have the privilege of helping 15 businesses in different industries and geographies, with different people and skills. For us to stay helpful, we do our best to collect wisdom from our experiences so we can share it with our leaders. And now we want to share it with you.

We're collecting what we call Prep Talks (you know, a Preparatory Pep Talk) for the tough calls and conversations leaders face. Each Prep Talk is based on conversations we've had internally and with our portfolio companies. They're a bit stream of consciousness, but guess what? So is leadership. Think of them as collections of those bits of wisdom (on topics from moving into management to firing well to finding the right tech for your business) we've picked up along the way.

For more Prep Talks, visit **www.permanentequity.com/prep-talks**. We hope they're helpful!

– Co-President and COO Mark Brooks