

URL: <https://ecorner.stanford.edu/clips/speed-versus-long-term-success-explicit/>

Bob Sutton and Huggy Rao, Stanford professors and authors of "The Friction Project," advise founders on the risks of growing as fast as they can. Sutton shares a story about Waze to illustrate the benefits of slowing down and warns against the trend of hiring as fast as possible in the growing AI industry. Rao explains research showing that an emphasis on speed leads to errors and lies.



## Transcript

- On this idea, generally, you know, 00:00:07,560 the feeling is that growth and speed are unlimited goods and venture capitalists and others, the whole notion, the definition of a startup versus a small company is speed.. It's growing at a certain exponential curve.. So what I wanna understand is what are the research takeaways on speed versus long-term success? Because it sounds like you don't want to go so fast to become a Theranos where you're breaking things, but you also don't wanna go so slow that you don't take off.. Is there an optimal growth? - So the analogy we use and it's six o'clock tonight, 00:00:37,170 we have a Wall Street Journal article coming out about when to go slow, literally six o'clock it's dropping.. So the analogy we use there and we like to use is it's the people who win Formula one or NASCAR races do not keep pedal to the metal the entire time, otherwise they would crash, die, and run out of fuel, all that sort of stuff.. They break, they do pit stops and sometimes they get in crashes and have to stop.. So I think it's sort of the same with a startup.. And there are times, and just to be a little bit academic, Huggy is more of an academic than I am now.. The research, Danny Kahneman won the Nobel Prize in economics.. When you're in a cognitive minefield and things are all screwed up and you don't know what's going on, the best thing to do is to stop and figure out what's going on..

In the example that we used, and he was a guest in your class, you should talk about, it was Noam Bardin at Waze when he got \$30 million in venture capital and people would download Waze and nobody would keep it.. What he did was he did a six week moratorium on product development and a much longer moratorium on hiring on the theory that he needed to fix things.. So Huggy, maybe wanna add a little bit to this? - Yeah.. And that's actually a great example.. 00:01:51,720 So, Noam, you know, Waze got acquired as you many of you recall by Google.. What was interesting was at that time, Noam and his other co-founders, when they got 30 million, they were under immense pressure from the founders to hire more people.. - The venture capitalists, I thought, 00:02:07,920 - Yeah, they were pushing, you know, 00:02:09,660 you got all this money you gotta hire, you gotta get to the market, yada, yada, yada.. And interestingly what Noam did was Noam and his co-founders had a meeting and then they called all their engineers in Israel and they announced a moratorium on hiring.. And some of the engineers said, "You've got all this money, why aren't you hiring people?" And Noam said, "Look, when we hire people, we like to hire smart people.. Smart people usually overflow with ideas and when they join Waze, we're in this like very narrow space where we are trying to get our product to work, right? All these new talented people are going to come and give lots of ideas..

If I hire 400 people, I've got to say no 400 times and I really don't think we need to do that." The other interesting thing that he said was, "We are hiring smart people." Smart people also in Noam's reasoning tend to be overconfident.. They think they can do the job like on day one, but we know it takes two weeks for them to even get up to speed.. And so he asked all of his employees, if it takes two weeks or three weeks, and that's actually a median estimate, if you will, for them to get ready.. He looked at me and he said, "Who am I going to spend most of my time on? All the non-performing new people or the high performers who currently exist?" He said, "I don't want to allocate my time dealing with a bunch of non-performers for like two, three weeks.. Let's actually stagger the hiring and not get people in like big chunks." - So I wanna bring this into the current AI since we know 00:03:52,140 that the money is just dumping.. It's just amazing.. So I have a friend, I will not name her, she has been CHRO of so many Silicon Valley companies.. It's crazy.. And she actually is taking a break from her last one because her CEO of course wanted her to hire and hire and hire and hire at the start of the pandemic, which she did, which is a lot of work.. And then they decided a few months ago they had 30% too many employees..

Profitable company.. So she had to lay them all off, the 30%.. And so now she's on the bench, which she's interviewing for AI jobs and she said, "They've got all this money and they want me to hire and hire and hire and hire and hire even though they don't even need the people and they don't even know what to do with them." So I think that's an argument against just-Ravi Unfettered, yeah.. 00:04:37,290 - Hiring people as a substitute for thinking 00:04:38,123 I would call that.. - Yeah, I understand that.. Yes.. 00:04:43,956 - Can I, just to extend one remark very quickly on speed, 00:04:48,030 what our research shows is speed is one side of the coin, Ravi, the other side of the coin is time poverty.. So yeah, because when you have time poverty, the moment you perceive time is limited, it's really interesting the kinds of outcomes that ensue.. We asked one of the graduate students, PhD students at GSB, hey, take a look at all the Bay Area startups, scrape all their public filings, mission statement, visions, anything they've communicated to the public, use a large language model and actually calculate the linguistic emphasis on speed.. So she came up with a number and she said, "Okay, what do I do with this?" I said, now you got this number, estimate a regression equation where your left hand side dependent variable is, what's your time to become a unicorn, Receive a \$1 billion valuation? So she does the analysis rigorously and says, "Well, the more you emphasize speed, the quicker you become a unicorn." She says, speed works..

I said, wait a minute, wait a minute.. I said, "Why don't you actually do another analysis?" And she said, What is that?" I said, "Show me the relationship between the time taken to receive a unicorn valuation and the probability of lawsuits two years down the line." What do you think happened? The faster you become a unicorn, the more likely you are to run into legal trouble because people green light bad behavior.. I gotta do this quick, I gotta get it done tomorrow.. And you cut corners and in an experiment where you give a \$10 payment for them to participate in an experiment, it's amazing to the group where you give them time pressure, it's incredible how much they lie about themselves.. So speed actually triggers self enhancement effects.. You wanna look good to the rest of the world and that's why you do bad shit...