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Context to the nugget

Articulating the organizational culture is often treated as one of those fuzzy things that large organizations like GE and HUL do. But it is arguably more critical in a young and small organization where the cost of a wrong hire hits the organization much harder than when you have 10,000 people. Karthik talks about how he thinks about culture and how he hires for it.

Transcription

Deepak Jayaraman (DJ): What are the two–three elements of your culture which makes a Blume distinctive?

Karthik Reddy (KR): So, I think, clearly it's to respect what an entrepreneur is trying to do. And a lot of the times, I think, people who have capital or people who've made it are, sort of, dismissive of a point of view which is not this. You can be dismissive by saying a polite 'no,' but you don't have to be dismissive of their effort to be an entrepreneur. It feels very basic when I'm saying it this way, but it's so difficult to actually not lose sight of the fact that it's some kid or a middle-aged guy who's taking his life, trying to make something out of themselves, and you're just being dismissive of the effort because for some reason you think you are a cool VC and it's not a fundable idea and you are smarter than that other person. Those are like big, big red flags. I've actually rapped colleagues on the knuckles if I even sense it in an email. It just feels like an anathema of why we exist. So, that's one.

Second is, your own point of view and your ability to defend it. As an early-stage investor, if you're copying somebody's point of view, you might as well leave the job. It might be wrong and I am willing to pay for that learning, which is why we are so picky on managing risk. Don't ever lose too much money, because it's all learning. Don't ever say you knew this for sure, you don't. You are going to lose money, so make sure you lose as little as possible. Correct it, iterate, and bake it bigger. But if things start working, then you double down, triple down. So, driving those philosophies around risk management, I think are very important.

Not everybody comes with it in their head, but, for me, it's a guiding force, especially in venture, because nothing is set, nothing is established. Ten-fifteen things can go wrong. We've just seen, when we do 100-plus companies, their patterns, but you can't predict them in advance. It's like walking into a party and saying I know these three couples will get divorced. How can you really know? You have social banter with them. But don't they? Yeah, in 10 years, three out of 25 get divorced, they do, right? Why is it any different in a start-up environment? So, there are so many things that can go wrong and you shouldn't lose sight of the fact that you know what's going to work for sure. So, you keep hedging against that. I think, that philosophy of understanding what founder's

problems are and trying to solve for them is very, very critical process; it's not like board meeting to board meeting. And for that, you will have to gain an immense amount of trust from the entrepreneur.

I'll be honest the disclosures that an entrepreneur on average makes to Blume today, in 2017, versus when we started, in 2011, must be a scale of 3:1, 4:1. And that's just because...

DJ: A function of the trust?

KR: One is that and, of course, the brand building helps. But even then, they're just cynical. You walk into a room — you're an investor at the end of the day — first instinct of the human being is to hide all the flaws. And you actually have to have that kind of a relationship with the founders that they're exposing all the flaws. Only then can you solve for them. We've had like co-founder splits announced to us after virtually one side has served the papers to the other. That's ridiculous when you put it in context. But yeah, because you're an investor, you've been kept out of the conversation. I know I've touched upon a lot of points, but that's the DNA of our investors. You should be able to intent that kind of behaviour from a founder. So, it's a long cycle. How much ever we blog about this or we talk about this, it takes six months, a year, two years for them to eventually say I will come to you with everything as long as you have time and then you say no, no, I don't have time.

DJ: It's about creating the climate for that conversation, right?

KR: Eventually, you put your hands up and say, I can't solve anything. It's a tightrope. You want to be a partner but you have to draw lines.

DJ: Picking up on a couple of things, much nuanced points about having a point of view and having the humility, if I may, I think, it's a growth simplification of the first point you made. But how does that translate into how you hire? How do you look for these traits which are quite hard and nuanced?

KR: Very, very challenging. So, hiring has been a little serendipitous in that sense. It's been self-selected, let me say. So, if it's someone who's actually coming and literally putting a resume and saying, I think you're an interesting firm, I want to work with you that might be a good starting point, and there is no harm. That's the right way to write a mail, but it's never going to be how or the reason why it eventually materialized into a potential hire. So, all our hiring has actually been through networks, relationships built over anywhere between six months and 18 months. I think, they need to want it more than I want them, to be honest. So, they need to want to come and learn about what our motivations are. It's almost like a conversation that you are having with me right now. So, if they haven't had the curiosity to come and actually ask me why I do what I do, what's the philosophy of this firm, what are we building towards, then they're thinking it's another job.

And these things hit me like a bag of bricks about a year-and-a-half ago. We were trying to draw out a first fund, all our colleagues that's how we introduce each other in every mail; there's no designation per se, it's just a name card they were underpaid like crazy. We just had a tiny fund, very little fees. So, their motivations had to be that they're coming here for the learning literally, and I was OK with that. I couldn't afford the pay, so I said, anyone who wants to learn I will get a decent amount of work out of you, and I'm paying you a pittance anyway, so there's no debate about that. But the equations were changing dramatically in fund two. So, people were like we are tired of being underpaid. We have done the learning. Now, you need to make a judgement call on whether we are the right people for the future. These are my demands. I want to be close to market comp, I want this kind of a carry. To me, intuitively, they felt outrageous. So, I went back to the drawing board

and, for the first time, assessed what am I building, who are these guys, are they aligned with me, how do you align incentives for a venture capital firm, and realized that you can't fake it. It's the same journey that I am on. It's what they need to be on for them to be able to make a lot of money. Otherwise, they can take the learning and go.

You can start a firm. I don't know if you've noticed, there's been a little bit of a trend in VCs where lots of analysts and associates, etcetera, have actually joined start-ups or are doing start-ups themselves. So, I actually advocate the other way around for joining the firm. I almost mandate that you must have done something entrepreneurial and if you haven't, then go and join a firm which is doing something, sit there for a couple of years. You've placed a bet, I am not guaranteeing you a job. We did that for one of our guys, Rohan. We poached him back from our portfolio company. At that point, we truly did not have the ability to hire one more person, but he took on the challenge and it paid off for him. He went there, played a more generic role, biz dev, corp dev, etcetera, and those were the kind of skills we wanted back in the firm. So, I think, it's not a boilerplate set of skills and that's the biggest challenge. So, you're testing more for this...

DJ: Intrinsic, some of the inner drivers...

KR: I think, the other part can be trained and it's not about complex DCF analysis or...

DJ: And that stuff doesn't show up on the CV. That's the challenge.

KR: Yeah. And even if it did, it's not that relevant for us. And as we're growing, we're learning, so we can teach them as well. What makes a great IPO company? Learning it too. Because I checked it like 10-crore valuation. So, I'm shooting something which has grown 100 times in value. So, in that journey we are trying to chronicle our stories and teach them. So, I think, I'm only looking for the basic ingredient.

Reflections from Deepak Jayaraman

DJ: The key point that comes to mind is that in several professions there is often a power hierarchy given a context. This got triggered in the context of Karthik talking about how they would reject an entrepreneurial idea. How you deal with that can often determine how people perceive your brand over the long run. In my earlier organization, EgonZehnder, some leaders would often want to work with us because they remembered an episode from the past where they were the candidate with EgonZehnder, didn't get the job but really liked the way they were treated when they were turned down.

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End of nugget transcription

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Karthik Reddy - Nuggets

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About Deepak Jayaraman

Deepak seeks to unlock human potential of senior executive's / leadership teams by working with them as an Executive Coach / Sounding Board / Transition Advisor. You can know more about his work [here](#).

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