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The Equity Question

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Instagram Co-Founder Kevin Systrom is confused as to how equity distributions are handled by other startups. Here he advises founders to be as fair and generous as possible, throughout the different stages of startup growth. Fellow Co-Founder Mike Krieger also articulates why equity shares should rightfully be based on the level of risk involved, when a founder or early employee decides to join the startup.

Transcript

The whole equity split always is really interesting to me with startups.. I think everyone has a different prescription for how you should split up.. I think your friend.... I can't remember his name.... is like, 'You should never have equal share.. That's terrible.' And then I hear, 'You should have equal share.' I think the startup equity split is one of these things that has always befuddled me.. I don't quite understand it.. I don't quite understand why people split it the way they do.. It turns out that if you work hard, good things happen.. And I think that that's really the basis of it..

You should just try to be as fair as possible for the stage of the company you're at and the work people have put in before or after, and make sure to treat your employees really well.. And when you bring on people and you have a large option pool, make sure to be generous, because those are the people that are going to stay with you until 4 am.. Absolutely.. I didn't hear Mike respond.. Oh.. Please respond.. To me, it's all about managing.. How much uncertainty are you dealing with with every step? Ninety-ten would be a stretch, but for example, I was still working in a job, Kevin was like, 'I am going to quit my job and raise money and live maybe on savings,' and was ready to get money from his folks back East or something if it fell through.. And that's crazy uncertainty.. What I was doing was like, 'We have some money..

We have no idea what we're building.' That's crazy uncertainty.. After we launched, 'This thing has legs, but we need to work on it for a really long time to make it successful and it could still be hurt by all these different factors.' That's still uncertainty.. You're always dealing with that.. And I think equity splits should probably be a reflection of those different factors and what kind of uncertainty and what kind of questions you're answering at every level.. I do feel, just anecdotally, like there's this weird dynamic where founders at a certain point just get orders of magnitude than the first few employees.. And that's really a function of taking money from venture and having an option pool and having to budget for hiring your first, say, 20 people.. So the way these days to make lots of money in terms of equity in a startup is to join very early on, and it really is a 'risk or reward' ratio.. Or there's a relationship there.. And I'm not sure I'm excited about that relationship.. But I think that, as you'll see, people have to raise less and less to get started, and that means early employees are getting better and better deals...