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Following Snap's IPO, We Met with 40 Private Technology Companies to Discuss the Competition for Talent in Today's Hot Market

Hosted at Dropbox's headquarters in San Francisco, our annual meeting for pre-IPO technology firms focused on the war for talent as the IPO window opens up once again.

It's fair to say Snap, Inc.'s recent initial public offering (IPO), the largest technology IPO in the United States (US) since Alibaba in 2014, has officially snapped the IPO market out of its malaise. Market watchers already expected a far more robust IPO market in 2017, after the number of IPOs in 2016 sank to levels not seen since 2009, and Snap's success will only push companies to move faster.

Against this backdrop, Radford held its annual pre-IPO meeting at Dropbox's San Francisco headquarters earlier this month. More than 50 HR and compensation leaders at venture-backed Silicon Valley technology companies showed up to discuss the process of going public and current workforce challenges, including compensation trends, equity practices and attracting and retaining the right talent.

The War for Talent is Real, Very Real

The hiring environment in Silicon Valley is extremely competitive. Over half of our meeting attendees (64%) experienced their highest levels of employee turnover ever in the past year, and 84% said they are aggressively hiring at the same time.

Pre-IPO companies also know they're not only competing against each other for talent. They are competing with public technology companies that "promise, or at least the illusion of, more pay with more job security," according to one attendee. "We saw a change at the end of last year. Engineers in the Bay Area started to get a little more risk averse. They were going to bigger companies for more security" .

To compete in an aggressive hiring environment, some companies are beginning to enhance their benefits. One attendee said they are now offering four months of paid maternity leave, which has helped in attracting new hires. Many companies are also coming up with the cash to support short-term incentive plans and increasing their annual compensation budgets. Consider the following statistics from the meeting:

- 17% of attendees said they have a merit budget of at least 5% or more;
- 46% of attendees have an annual bonus plan in place; and

- An additional 15% of attendees are actively considering adding a bonus plan.

Amidst this fervent competition for talent, one speaker cautioned that it's important not to get swept up in paying above-market just to bring in new people to support growth. You want to be sure you're hiring the right people that fit with the culture of your company, which is so important to cultivate early. For this individual's company, that means refocusing on their diversity initiatives.

In fact, having a strong culture can be as much of an attractor for new hires as the compensation package, as one attendee pointed out. At their organization, they communicate the non-monetary benefits to prospective employees, such as being able to have face time with the CEO (regardless of your job title), having a bigger impact on the company's bottom line and helping shape the strategy.

Scaling for Growth

Our meeting also included a robust conversation on when is the right time in a pre-IPO company's lifecycle to begin implementing compensation and talent structures to support continued growth. The consensus in the room was that it's never too early, but the details of those systems will vary depending on the size and culture of the organization.

One attendee noted that when she started her current job, there were no salary structures or job levels in place. "Employees were rightfully frustrated with communication," she said. They wanted to know what the career trajectory could look like for them at the company, and how their pay was reflective of their performance. "This took years to fix as the company grew."

Another attendee remarked that job architecture may look different for certain technology startups depending on the culture. For example, her company doesn't have job titles but they do have a job levelling structure with well-documented role expectations. They also don't have performance ratings. In this case, it's crucial to arm managers with the right tools to have effective conversations with their team members around their compensation and career progression.

There's clearly no one-size-fits-all answer, but companies appear eager to put structures in place earlier and earlier to make attracting and retaining talent more manageable.

Equity vs. Cash Compensation

Naturally, a large number of questions at this year's meeting focused on equity compensation. One attendee asked how companies value their equity awards. For instance, should a company look strictly at pre-IPO company datasets or a broader comparative analysis that includes public companies? Kyle Holm, Radford's pre-IPO compensation practice leader, noted that transitioning from granting equity awards as a percentage of company ownership to a value-based approach to the company's stock price is tricky. We typically see this change happening only at mature pre-IPO companies as they reach a valuation of a $1 billion or more. At this stage, a value-based equity program is easier to compare against competitive offers employees encounter in the market and allows the company to better communicate the value proposition of its equity program.

While equity compensation still plays a very prominent role at pre-IPO companies, many of the Silicon Valley firms represented at the meeting said cash programs are starting to play a much larger role than they once did.

One company representative said they are relying more on their annual bonus plan and orienting more toward cash than they had been, partly because of employee demographics. “We have a pretty junior population that cares more about cash than equity.” Similarly, another attendee said they were at an inflection point in their equity program with adding an annual incentive plan and lowering equity guidelines. “We’re looking to differentiate a bit more in our equity by adding a performance component,” this person remarked.

It is clear that for this group of leading Silicon Valley pre-IPO companies, thinking about their equity programs in the context of changing employee demographics and job market competition will be an important task in the years ahead.

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